NORGES BANK

2014 ANNUAL REPORT

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Norges Bank Oslo 2015

Head office:	Bankplassen 2
Postal address:	P.O. Box 1179 Sentrum, N-0107 Oslo, Norway
Telephone	+47 22 31 60 00
Telefax:	+47 22 41 31 05
Registration no.:	0629/7
E-mail:	central.bank@norges-bank.no
Website:	http://www.norges-bank.no
Governor:	Øystein Olsen
Deputy Governor:	Jon Nicolaisen

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HIGHLIGHTS IN 2014

Norges Bank's key policy rate was lowered from 1.50% to 1.25% in December 2014.

Inflation was stable through 2014. The consumer price index (CPI) rose by 2.0% between 2013 and 2014, while the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) rose by 2.4%.

On the basis of Norges Bank's advice, the Ministry of Finance kept the countercyclical capital buffer requirement for banks unchanged at 1%.

Norges Bank's foreign exchange reserves increased by NOK 120bn in the course of 2014 to NOK 449bn.

Norges Bank decided on the security elements and motifs on which further work on the new banknote series will be based.

The market value of the Government Pension Fund Global (GPFG) investment portfolio was NOK 6 431bn at the end of 2014, an increase of more than NOK 1 393bn on the previous year.

Strong equity markets in the first half of the year and low interest rate levels contributed to a return of 7.6% on the GPFG in 2014 measured in foreign currency.

The share of the GPFG invested in real estate rose to 2.2% at the end of 2014. The number of real estate investments was considerably higher in 2014 than in previous years.

ANNUAL REPORT OF THE EXECUTIVE BOARD 2014

Karen Helene Ulltveit-Moe, Gøril Bjerkhol Havro, Jon Nicolaisen, Hilde Myrberg, Øystein Olsen, Egil Matsen, Liselott Kilaas, Jan Erik Martinsen and Kjetil Storesletten

NORGES BANK'S EXECUTIVE BOARD

The composition of the Executive Board was changed in 2014. Hilde Myrberg, Kjetil Storesletten and Karen Helene Ulltveit-Moe were appointed new members as from 1 January 2014 and Hege Sjo was appointed alternate member, replacing Brit Rugland, Eirik Wærness, Ida Helliesen and Gøril Bjerkan (alternate). Jon Nicolaisen was appointed deputy governor of Norges Bank and deputy chair of the Board on 1 April, replacing Jan F. Qvigstad.

In 2014, 14 Executive Board meetings were held, dealing with a total of 180 matters. The Audit Committee held five meetings and the Remuneration Committee four meetings.

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

Jon Nicolaisen
Appointed deputy governor of Norges Bank as from 1 April 2014 for a term of up to six years. Nicolaisen holds a postgraduate degree in economics (Cand. oecon.) from the University of Oslo. Work experience includes positions held at the Ministry of Finance and the OECD and as executive director of Norges Bank Monetary Policy.

Liselott Kilaas
Appointed for the period 1 January 2004–31 December 2007. Reappointed for the period 1 January 2008–31 December 2011 and 1 January 2012–31 December 2015. Kilaas holds an MSc in Statistics from the University of Oslo and an MBA from the International Institute for Management Development (IMD) in Lausanne. Kilaas is group managing director of Aleris Norge. She has board experience from Telenor and other companies and has extensive experience in the business sector.

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

Hilde Myrberg
Appointed for the period 1 January 2014–31 December 2017. Myrberg holds a degree in law from the University of Oslo and an MBA from INSEAD. Myrberg is self-employed and holds several board positions, including as deputy chair of the board of Petoro AS. She has extensive experience in the business sector and has held a number of positions including group managing director of Orkla.

Kjetil Storesletten
Appointed for the period 1 January 2014–31 December 2017. Professor Storesletten has a business economics degree from the Norwegian School of Economics and a PhD in economics from Carnegie Mellon University. He holds the position of professor at the Department of Economics, University of Oslo. Professor Storesletten is also current editor of the Scandinavian Journal of Economics and chairman of the board of the Review of Economic Studies. Professor Storesletten was previously affiliated with Stockholm University and the Federal Reserve Bank of Minneapolis.

Karen Helene Ulltveit-Moe
Appointed for the period 1 January 2014–31 December 2017. Professor Ulltveit-Moe has a business economics degree from the University of Mannheim and a PhD in economics from the Norwegian School of Economics. She holds the position of professor at the Department of Economics, University of Oslo. Professor Ulltveit-Moe has been a board member at a number of Norwegian companies and has chaired various government-appointed committees. She was previously affiliated with the Norwegian School of Economics and also has experience from Norges Bank.

ALTERNATES:

Espen R. Moen (1st alternate)
Appointed for the period 1 January 2012–31 December 2015. Professor Moen holds a postgraduate degree in economics (Cand. oecon.) from the University of Oslo and a PhD in economics from the London School of Economics (LSE). Professor Moen is a fellow of the European Economic Association and the Centre for Economic Policy Research. He holds the position of professor at the Department of Economics, University of Oslo. Professor Moen was previously affiliated with BI Norwegian Business School, the Frisch Centre and the LSE.

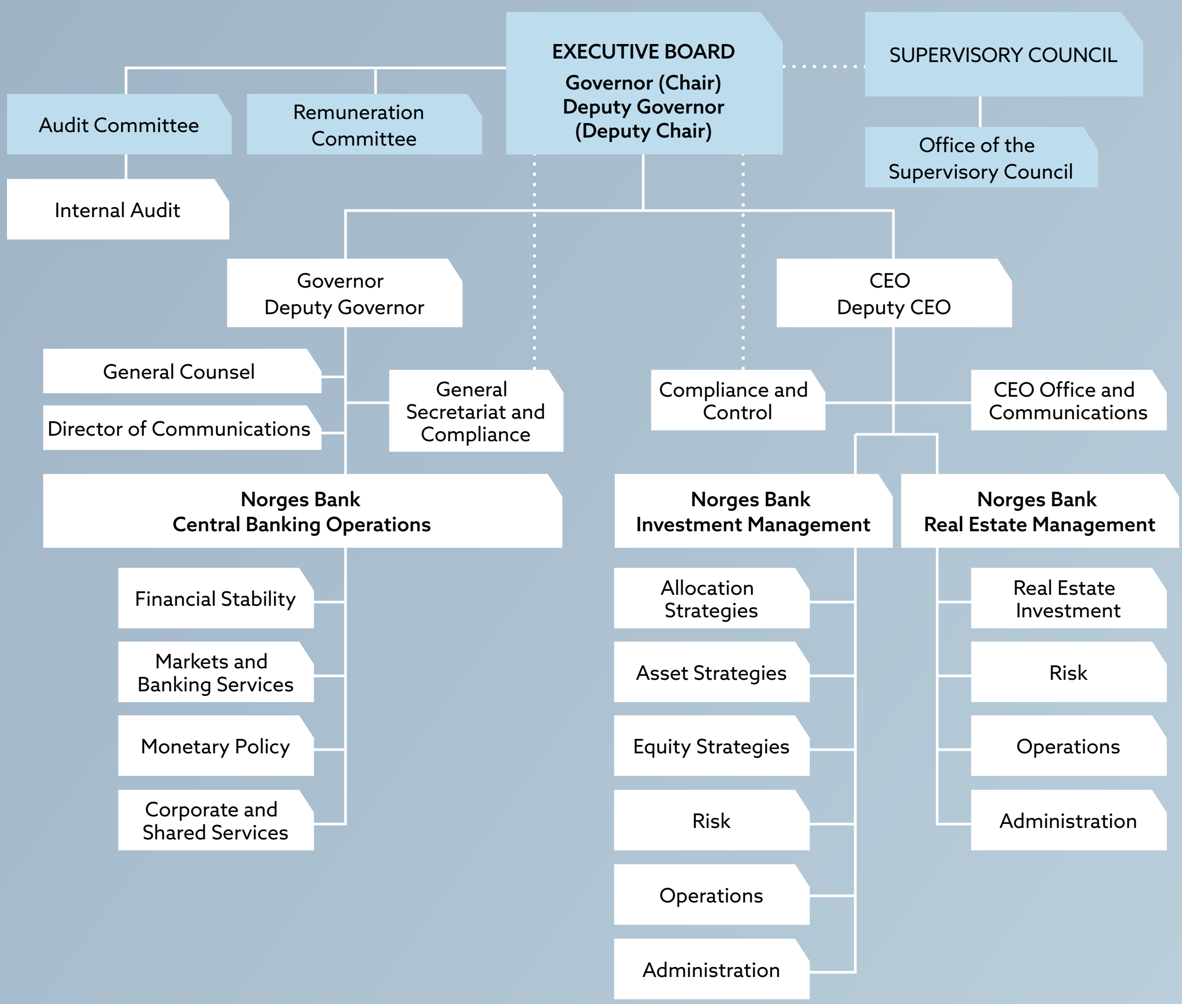
Hege Sjo (2nd alternate)
Appointed for the period 1 January 2014–31 December 2017. Sjo holds a business economics degree from Stirling University, Scotland and a postgraduate qualification in finance from the Norwegian School of Economics. Sjo has held the position of senior advisor at Hermes Fund Management Ltd.

Hege Sjo took up the position of departmental director at the Ministry of Trade, Industry and Fisheries on 2 February 2015 and was therefore relieved of her duties as alternate member of Norges Bank's Executive Board as from 1 February 2015.

EMPLOYEE REPRESENTATIVES:

Jan Erik Martinsen
Appointed for the period 1 January 2001-31 December 2015. Represents Norges Bank's employees. Employee of Norges Bank since 1975. Chief safety delegate in the period 1 January 1994–31 December 2000. Chair of Norges Bank's Staff Association since 1 January 2007.

Gøril Bjerkhol Havro
Appointed for the period 1 January 2011-31 December 2016. Represents Norges Bank's employees. Employee of Norges Bank since 2008. Gøril Bjerkhol Havro has a BA from the University of Oxford, a master's degree in development studies from Nelson Mandela Metropolitan University in South Africa and a business economics degree from HEC Paris.


EXECUTIVE BOARD
Governor (Chair)
Deputy Governor
(Deputy Chair)
SUPERVISORY COUNCIL
Office of the Supervisory Council
Audit Committee
Remuneration Committee
Internal Audit
Governor
Deputy Governor
CEO
Deputy CEO
General Counsel
Director of Communications
General Secretariat and Compliance
Compliance and Control
CEO Office and Communications
Norges Bank
Central Banking Operations
Norges Bank
Investment Management
Norges Bank
Real Estate Management
Financial Stability
Markets and Banking Services
Monetary Policy
Corporate and Shared Services
Allocation Strategies
Asset Strategies
Equity Strategies
Risk
Operations
Administration
Real Estate Investment
Risk
Operations
Administration

RESPONSIBILITIES AND ORGANISATION

Norges Bank's activities are regulated by the Act of 24 May 1985 relating to Norges Bank and the Monetary System etc. (the Norges Bank Act). The Act states that Norges Bank shall be an executive and advisory body for monetary, credit and foreign exchange policy. The government has defined an inflation target for monetary policy in a regulation issued pursuant to the Norges Bank Act. According to the regulation, the operational target of monetary policy shall be annual consumer price inflation of close to 2.5 percent over time. The Bank shall issue banknotes and coins, promote an efficient payment system domestically and vis-à-vis other countries, and monitor developments in the money, credit and foreign exchange markets. Pursuant to the regulation of 4 October 2013, Norges Bank has also been assigned the responsibility of preparing a decision basis for and advising the Ministry of Finance on the level of the countercyclical capital buffer for banks on a quarterly basis.

Norges Bank's management of the Government Pension Fund Global (GPFG) is regulated by the Government Pension Fund Act and the management mandate for the GPFG issued by the Ministry of Finance.

The highest decision-making bodies of Norges Bank are the Executive Board and the Supervisory Council. Executive and advisory authority is vested in the Executive Board, which manages the Bank's resources. The Executive Board comprises seven members, all appointed by the Council of State. The governor and deputy governor of Norges Bank are chairman and deputy chairman, respectively, of the Executive Board. The other five members are not employees of the Bank. There are also two appointed alternates for the external members, who attend and have the right to speak at Executive Board meetings. Two employee representatives attend Executive Board meetings when matters concerning the Bank's internal operations and conditions for the staff are discussed.

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

Norges Bank's Supervisory Council comprises 15 members appointed by the Storting (the Norwegian parliament). The Council's mandate is to provide assurance to the Storting through its activities and reports that Norges Bank operates in a prudent and appropriate manner and in compliance with legislation and other standards, including in the management of the GPFG. The Supervisory Council approves Norges Bank's budget on the basis of the Executive Board's draft and adopts the Bank's annual accounts.

Pursuant to the Norges Bank Act, the governor is responsible for the day-to-day management of the Bank. The deputy governor acts for the governor in his absence. In the case of Norges Bank Investment Management, the Executive Board has delegated decision-making authority directly to the chief executive officer of Norges Bank Investment Management via the job description for the position. Norges Bank Investment Management manages the GPFG and Norway's long-term foreign exchange reserves.

ANNUAL REPORT OF THE EXECUTIVE BOARD 2014

STRATEGY 2014–2016

Norges Bank performs important public tasks and manages substantial assets on behalf of the nation. The aim of central banking operations is to promote stability in the economy. As an investment manager, Norges Bank aims to achieve the highest possible return on the Government Pension Fund Global (GPFG) within the framework established by the political authorities.

The Executive Board works to realise the Bank's objectives and values. The Executive Board is also responsible for establishing satisfactory frameworks and principles for the Bank's operations and for satisfactory risk management and internal control in all areas of the Bank's activities. The Executive Board issues three-year strategic plans that describe the Bank's current status and its challenges and priorities. Along with statutory requirements and internal guidelines, the strategy constitutes a framework for the Bank's activities.

According to the strategy for 2014–2016, Norges Bank will, over the next three years, update and develop work on its core tasks. The Bank aims to contribute to setting the international standard for the conduct of monetary policy, the oversight and analysis of financial stability and for global investment management.

Norges Bank will promote efficient financial markets and a robust and well-run payment system. The Bank will promote improvements in the efficiency of the Norwegian money market, provide settlement services in the payment system and issue notes and coins in accordance with best international practice.

Norges Bank will be a transparent and well-run central bank. The Bank will communicate transparently, reliably and consistently and will make prudent and responsible use of resources commensurate with the Bank's tasks. The Bank will foster a culture of performance and teamwork. The Bank will encourage employees to develop their skills and share their knowledge and will stimulate change and adaptation and the recruitment of staff from leading institutions.

MONETARY POLICY, FINANCIAL STABILITY AND PAYMENT SYSTEMS

The moderate recovery in the global economy continued in 2014, but there was considerable uncertainty regarding developments ahead, particularly in the euro area. Inflation slowed from 2013 to 2014 and was considerably lower than expected for many of Norway's trading partners.

International long-term interest rates fell through 2014 and were in historical terms very low at year-end. Policy rates were lowered or were close to zero in many countries. The expected upward shift in key rates was pushed further out. In Japan and the euro area, central banks decided to increase their securities purchases. In the US however, the Federal Reserve continued to taper its net purchases of securities. Long-term yields in Norway tracked the global decline. At year-end, the yield on the 10-year Norwegian government bond was 1.6%.

Oil prices dropped markedly in the final months of 2014 to below USD 60 per barrel at the end of December. Futures prices for oil also fell. The fall in oil prices contributed to a considerable depreciation of the krone. As measured by the import-weighted krone exchange rate (I-44), the krone was 9% weaker at the end of 2014 than at the same time in 2013.

Growth in the mainland economy was moderate and broadly at the same level as in 2013. There was growth in most sectors, but activity in the oil service industry decreased. After several years of strong growth, petroleum investment levelled off in 2014. Growth in exports of traditional goods and services picked up through 2014, partly reflecting improved competitiveness owing to a weaker krone. In the construction sector, growth picked up from low levels through 2014. Mainland business investment was approximately unchanged between 2013 and 2014.

Growth in household consumption was moderate, and saving rose further from already high levels. After weak developments in the housing market in autumn 2013, house prices and housing market turnover picked up again through 2014. Household debt growth slowed slightly, but debt continued to rise faster than household income. Employment growth remained high, while unemployment increased somewhat from low levels. Capacity utilisation fell back through the year to somewhat below a normal level at the end of 2014. Wage growth declined between 2013 and 2014.

Inflation has been low and stable for a long period. Viewed over several years, inflation has been somewhat below, but fairly close to, 2.5%. In 2014, the annual rate of increase in the consumer price index (CPI) was 2.0%, while the annual increase in the CPI adjusted for tax changes and excluding energy products (CPI-ATE) was 2.4%. Inflation was stable through 2014.

The growth outlook for the Norwegian economy weakened through 2014, especially towards year-end. In the period to summer, it was clear that petroleum investment ahead would be considerably lower than previously assumed. The fall in oil prices through autumn amplified the decline in the petroleum sector. The decline will have ripple effects on the mainland economy and will probably push up the level of unemployment. There were prospects that growth in private consumption and business investment would be lower than previously expected. Projections for wage growth over the next couple of years were also revised down. At the same time, the depreciation of the krone might contribute to underpinning inflation through higher price increases for imported consumer goods. There were prospects that inflation would remain close to 2.5%. Owing to prospects for considerably lower growth in the Norwegian economy, the projected interest rate path was revised down in both June and December. At the monetary policy meeting in December, the Executive Board decided to lower the key policy rate by 0.25 percentage point to 1.25%.

In its conduct of monetary policy, Norges Bank manages banks' total central bank deposits to ensure that short-term money market rates remain close to the key policy rate. This is achieved through market operations, whereby the central bank either supplies reserves to or withdraws reserves from the banking system. The interest rate on unsecured overnight lending in the interbank market (NOWA rate) in 2014 was on average one basis point lower than Norges Bank's key policy rate. The daily reported volume of overnight interbank lending averaged NOK 12.5bn through the year.

Bank's residential mortgage lending rates were lowered through the year. The spread between lending rates and money market rates narrowed somewhat, after having widened over the previous years.

Profitability in the banking sector was high in 2014. This enabled banks to increase their capital ratios by retaining profits. All Norwegian banks satisfied the required CET1 ratio of 10% in force as from 1 July 2014 by an ample margin. Banks are now well positioned to meet the increase in capital requirements in the coming years. More capital strengthens banks' resilience to a future downturn.

Pursuant to the regulation of 4 October 2013, Norges Bank has prepared a decision basis for and provided advice to the Ministry of Finance on the level of the countercyclical capital buffer for banks on a quarterly basis. The decision basis is presented in the *Monetary Policy Report with financial stability assessment*. In December 2013, the countercyclical capital buffer rate was set at 1% with effect from 30 June 2015. Norges Bank's assessment is based on the premise that banks should build and hold a countercyclical capital buffer when imbalances are building up or have built up over a period. In view of developments in credit and property prices, it was the Executive Board's assessment that financial imbalances did not build up further in 2014. On the basis of advice from Norges Bank, the Ministry of Finance decided to keep the buffer rate unchanged. House prices rose sharply through autumn. The Executive Board's assessment was that if house prices continued to rise markedly faster than household income, with a further build-up in financial imbalances, it would be appropriate to recommend a higher countercyclical capital buffer.

Norwegian banks have had ample access to wholesale funding on favourable terms. Although banks have improved their funding structures and reduced liquidity risk since the financial crisis, maturities on funding fell somewhat in 2014. A new liquidity standard for banks, the Liquidity Coverage Ratio (LCR), will be phased in across the EU from 2015. The requirement will also be made applicable to Norwegian banks. The stock of high-quality liquid assets in NOK is limited and the regulation of bank liquidity must therefore be adjusted to Norwegian conditions. The Executive Board was of the opinion that it would not be appropriate to set up a new borrowing facility to enable banks to meet the LCR requirement.

Instead, banks can hold more high-quality liquid assets in foreign currency.

The financial infrastructure in Norway is in general robust and efficient. There were few disruptions in interbank systems and securities settlement systems in 2014. In Norges Bank's opinion, Norwegian payment and settlement systems are in line with most of the international principles for such systems.

The operation of Norges Bank's settlement system was stable in 2014. Payments totalling on average NOK 213bn per day were settled in the settlement system, compared with NOK 203bn in 2013. At year-end 2014, banks' sight deposits and reserve deposits at Norges Bank totalled NOK 34.3bn.

Norges Bank has now decided on the security elements and motifs to be used as the basis for further work on the new banknote series. In spring 2014, a competition was held for the design of motifs. The purpose of the competition was to arrive at a proposal that could be the artistic basis for the design of the new banknote series and communicate the theme of "The Sea" in an appropriate manner. The new banknotes will be issued at the earliest in 2017 Q2.

INVESTMENT MANAGEMENT AT NORGES BANK

INTERNATIONAL RESERVES

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

Norges Bank's foreign exchange reserves constituted 92.32% of total international reserves of NOK 485.8bn at the end of 2014.

The foreign exchange reserves are to be available for transactions in the foreign exchange market as part of the conduct of monetary policy or in the interest of promoting financial stability and to meet Norges Bank's international commitments.

The market value of the foreign exchange reserves was NOK 448.6bn at the end of 2014 Q4. Equities and long-term fixed income investments totalled NOK 347.3bn, while money market investments and the petroleum buffer portfolio came to NOK 49.9bn and NOK 51.4bn, respectively. The reserves increased by NOK 120.3bn through 2014. Returns in foreign currency increased the reserves by around NOK 32.4bn and a weaker krone exchange rate increased the value by NOK 57.4bn. The krone exchange rate does not otherwise affect the international purchasing power of the reserves.

Measured in foreign currency, the return on the foreign exchange reserves, excluding the petroleum buffer portfolio, was 7.69% in 2014.

GOVERNMENT PENSION FUND GLOBAL

Norges Bank manages the Government Pension Fund Global (GPFG) on behalf of the Ministry of Finance. The market value of the investment portfolio of the GPFG was NOK 6 431bn at the end of 2014, an increase of more than NOK 1 393bn compared with 2013.

Strong equity markets in the first half of the year and low interest rates contributed to a return of 7.6% for 2014, measured in foreign currency. The results are in line with the average returns over the past ten years. The GPFG's equity investments earned a return of 7.9%, while fixed income investments earned a return of 6.9%. The return on real estate investments was 10.4%.

The return on the GPFG's equity and fixed income investments are compared with returns on global benchmark equity and bond indices. The GPFG's benchmark index is determined by the Ministry of Finance on the basis of indices from FTSE Group and Barclays Capital. The Ministry of Finance and Norges Bank's Executive Board have set limits for how far the GPFG can deviate from the benchmark indices in the management of equity and fixed income investments.

The GPFG's overall exposure to various markets, sources of risk and return must be adjusted on an ongoing basis. The objective of securing the highest possible return at an acceptable level of risk can best be achieved by broad investment in the global production of goods and services. The GPFG is invested in most markets, countries and currencies in order to achieve broad exposure to global economic growth.

In 2014, the GPFG's total return on equity and fixed income investments was 0.8 percentage point lower than the return on the benchmark indices. The primary reasons for the negative result was that the GPFG had a higher weight of European equities, a higher weight of equities in poorly performing individual companies and a lower duration on fixed income investments compared with the benchmark index. The GPFG's relative return since its inception has been 0.3 percentage point higher than the benchmark index and it has been 0.1 percentage point higher over the past 10 years.

The GPFG received its first capital transfer from the Norwegian government in May 1996. By the end of 2014, total transfers since start-up amounted to NOK 3 452bn, while the total return on the GPFG was NOK 2 343bn. Norges Bank Investment Management was established on 1 January 1998 to manage GPFG assets. From start-up and up until the end of 2014, the GPFG has earned an annual return of 5.8%. After deducting management costs and adjusting for inflation, the return has been 3.8%.

The market value of the GPFG is affected by the return on the GPFG, capital transfers and changes in foreign exchange rates. In 2014, transfers from the government amounted to NOK 147bn, while the non-exchange rate adjusted return on the portfolio amounted to NOK 544bn. Gains and losses as a result of changes in the krone exchange rate do not affect the GPFG's international purchasing power.

The krone exchange rate depreciated through 2014 against several of the GPFG's investee currencies, which in isolation increased the market value by NOK 702bn. At year-end, the breakdown of the GPFG's investments was 61.3% equities, 36.5% fixed income investments and 2.2% real estate.

In March 2010, Norges Bank received a mandate to gradually invest up to 5% of the portfolio assets in real estate. In 2014, the Bank made a considerable number of new real estate investments. Investments in terms of the number of countries, currencies and companies rose to 2.2% of the value of the GPFG in 2014. In October, Norges Bank Investment Management established a separate real estate leader group tasked with building up and further developing the GPFG's real estate organisation.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

Corporate governance, including risk management and internal control, is based on the management model describing the Bank's organisational structure and management principles and the roles and responsibilities of the Bank's executive management. Management models have been established for Norges Bank Investment Management and Norges Bank Central Banking Operations, respectively, with more detailed management policies for the two operational areas.

The Ministry of Finance has issued a regulation on risk management and internal control at Norges Bank, corresponding to a similar regulation (Regulations on Risk Management and Internal Control) issued by Finanstilsynet (Financial Supervisory Authority of Norway).

The Executive Board has issued general risk management policies for Norges Bank and detailed risk management policies for Norges Bank Central Banking Operations and Norges Bank Investment Management, respectively. The

RETURN MEASURED IN TERMS OF THE GPFG'S CURRENCY BASKET

The GPFG invests in international securities in foreign currency. The return on the GPFG is measured primarily in foreign currency, i.e. a weighted composite of the currencies in the GPFG's benchmark indices for equities and bonds. This composite is referred to as the GPFG's currency basket and comprised 34 currencies at the end of 2014 Q4. Unless otherwise stated in the text, results have been measured in terms of the GPFG's currency basket.

two operational areas have each established a unit for coordinating and following up risk management in their respective areas. In addition, they each have a compliance function for ensuring compliance with legislation and internal rules.

The Audit Committee is a preparatory body for the Executive Board, primarily related to the Board's supervisory functions and its responsibility for risk management, internal control and financial reporting. The Audit Committee comprises three of the Executive Board's external members.

Reporting of operational risk is an integral part of corporate governance. Norges Bank Central Banking Operations reports risk assessments to the Executive Board twice a year, while Norges Bank Investment Management reports four times a year. Each year, the governor of Norges Bank assesses whether internal control was implemented in a satisfactory manner. Independent and effective auditing is intended to contribute to appropriate corporate governance, risk management and internal control and to reliable financial reporting. Pursuant to Section 30a of the Norges Bank Act, Norges Bank shall have an internal audit unit that reports to the Executive Board. Internal Audit operates under instructions from the Executive Board, which also approves Internal Audit's annual plans and budgets. Internal Audit submits an annual independent report on internal control at the Bank.

On the basis of reporting from the administration and Internal Audit, the Executive Board submits to the Supervisory Council an annual assessment of the risk situation at the Bank.

The Executive Board regards the control environment and control systems at Norges Bank as satisfactory, and no material operational deficiencies have been identified.

BALANCE SHEET COMPOSITION AND FINANCIAL RISK

Norges Bank's total assets at the end of 2014 amounted to NOK 6 941.2bn, including the investment portfolio of the GPFG of NOK 6 427.5bn. The Ministry of Finance has deposited funds for investment in the GPFG as capital contributions in an account at Norges Bank (krone account). The Bank reinvests the krone account in its own name in an investment portfolio consisting of equities, fixed income securities and real estate. The net value of the investment portfolio is presented on a separate line as an asset in Norges Bank's balance sheet, and the krone account is presented as a liability in the same amount to the Ministry of Finance. These two balance sheet items are at all times identical in size and return. Norges Bank bears no financial risk associated with the management of the GPFG. For more details about the GPFG, reference is made to the notes to the financial statements.

Excluding the GPFG, the Bank's foreign exchange reserves are the largest balance sheet asset. The foreign exchange reserves primarily consist of equities, government bonds and government short-term paper. In addition, financial derivatives are used in risk management. The foreign exchange reserves are reported on and followed up as a whole. The Executive Board receives a quarterly report on the management of the foreign exchange reserves, and a summarised version of this report is published.

The largest balance sheet liability is deposits from the government. At 31 December 2014, this amounted to NOK 115.6bn, compared with NOK 89.5bn in 2013. This item fluctuates considerably through the year owing to incoming and outgoing payments over the government's accounts, such as incoming tax payments, outgoing payments of wages and benefits and purchases of goods and services. Notes and coins in circulation and deposits from Norwegian banks are other large items. In recent years, notes and coins in circulation have remained relatively stable at around NOK 50bn. Bank reserves, which comprise sight deposits and reserve deposits, are managed by Norges Bank through its liquidity policy, which normally aims for a level of NOK 35bn. At 31 December 2014, bank reserves amounted to NOK 34.3bn, compared with NOK 37.3bn in 2013.

The Bank's assets are primarily invested in foreign currency, whereas its liabilities are primarily in NOK. This gives rise to a currency risk that requires sufficient equity. Several aspects of the composition of the balance sheet contribute to an expected long-term positive return:

- Interest is paid on the government's deposits and banks' deposits with Norges Bank. Foreign exchange reserves are invested in bonds and equities. Bonds are expected to provide a higher return over time than interest on deposits. Equities, in turn, are expected to provide a higher long-term return than bonds.
- Issuance of banknotes and coins is one of Norges Bank's primary tasks. This means that the Bank will always have liabilities that are not interest-bearing. Offsetting entries will be the Bank's interest-bearing claims on other parties. The monopoly on issuing banknotes will thus normally result in a profit in the financial statements (owing to seigniorage).

Norges Bank attaches considerable weight to managing and controlling risk and has laid down principles for measuring and managing the various types of risk. The composition of the foreign exchange reserves portfolios and the associated risk are primarily determined by the principles, benchmark index and guidelines laid down by the Executive Board and the governor of Norges Bank.

Valuation, measurement of returns, management and control of risk in portfolio management comply with internationally recognised standards and methods. In its management of the foreign exchange reserves, Norges Bank is primarily exposed to various types of financial risk: market risk, credit risk and counterparty risk. In addition, the Bank is exposed to credit risk associated with lending to banks. Norges Bank is not exposed to liquidity risk.

FINANCIAL STATEMENT HIGHLIGHTS

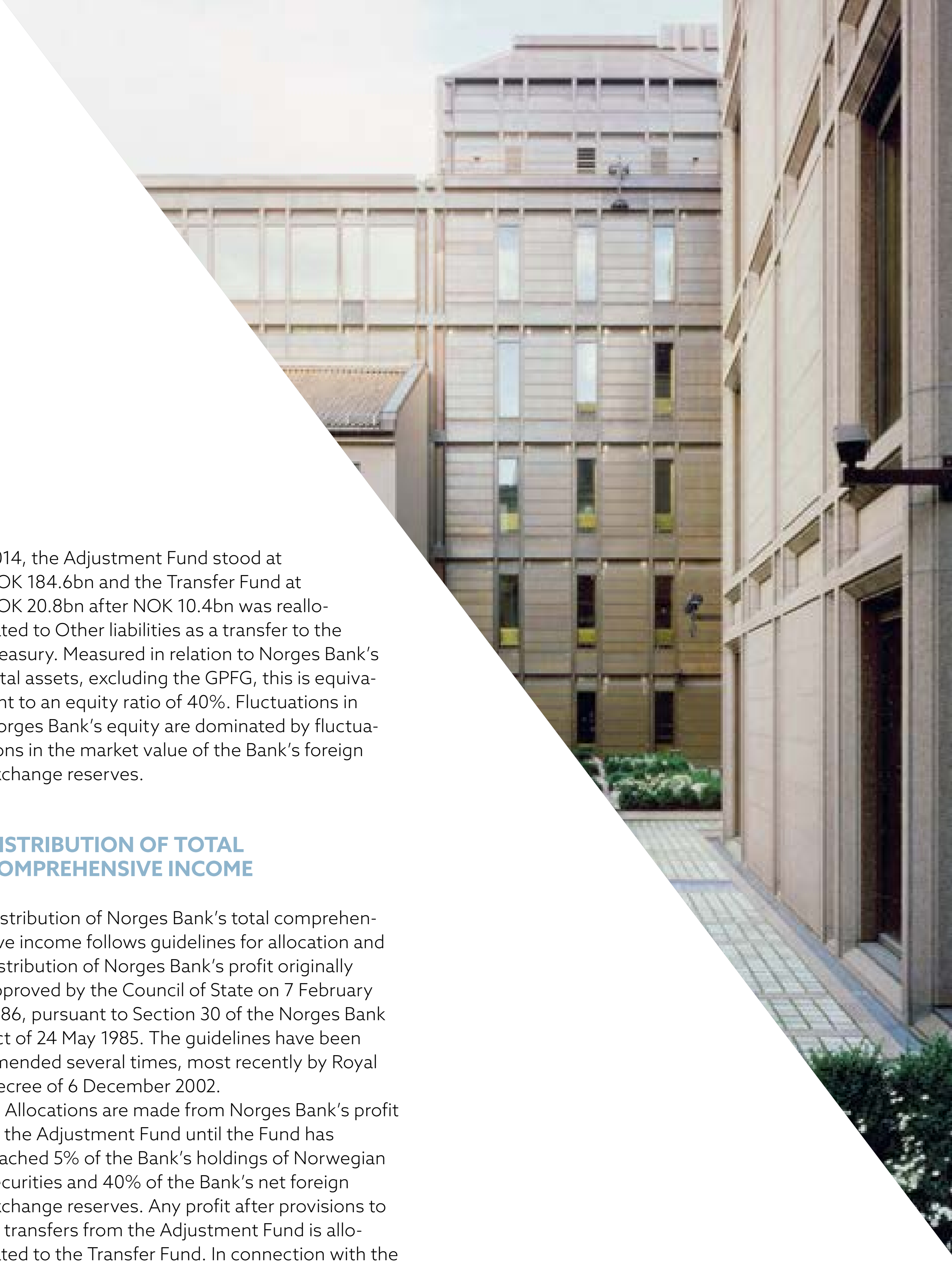
Cash flows at Norges Bank are primarily of an operational nature. Norges Bank's income mainly comprises net income from financial instruments from the Bank's own investment management, primarily the foreign exchange reserves. Gains and losses arise from changes in exchange rates, changes in equity prices and changes in interest rates that affect bond prices. This income is uncertain and unpredictable. Norges Bank's results depend on developments in these parameters, which can cause substantial annual fluctuations in net income. The profit or loss for the year is dominated entirely by the Bank's income from its own investment management.

Norges Bank's net profit for 2014 was NOK 89.6bn, compared with a net profit of NOK 53.5bn in 2013. Net income from financial instruments in global securities markets related to the Bank's foreign exchange reserves was a gain of NOK 89.7bn in 2014, compared with NOK 53.2bn in 2013. The reason for this increase in net income is the depreciation of the krone against most of the principal currencies in the foreign exchange reserves, which resulted, when translated into NOK, in a foreign exchange gain of NOK 57.4bn in 2014. In 2013, the depreciation of the krone against most of the principal currencies in the foreign exchange reserves resulted in a foreign exchange gain of NOK 25bn for the foreign exchange reserves. Gains and losses arising from changes in the krone exchange rate have no effect on the international purchasing power of the foreign exchange reserves.

Other income comprises remuneration from the Ministry of Finance for management of the GPFG, services for banks and the government and rent from external tenants. Other income amounted to NOK 3.3bn in 2014, compared with NOK 3.0bn in 2013. In accordance with Section 5-1 of the mandate for the management of the GPFG, Norges Bank shall be remunerated for its expenses related to management of the GPFG up to a limit and will have this amount reimbursed as income from the Ministry of Finance. The management fee for the GPFG was NOK 3.2bn in 2014, amounting to 5.9 basis points calculated as a share of average capital under management.

Total comprehensive income in the GPFG of NOK 1 242.7bn comprises the profit on the portfolio of NOK 1 245.9bn less management expenses of NOK 3.2bn. Total comprehensive income was added to the government's capital contributions to the GPFG at 31 December 2014. The return on the portfolio, after fees to Norges Bank are deducted, is transferred in its entirety to the krone account and does not affect total comprehensive income or equity in Norges Bank.

Norges Bank' equity at 31 December 2014 was NOK 205.5bn, compared with NOK 126.7bn at 31 December 2013. Equity comprises the Adjustment Fund and the Transfer Fund. At the end of



2014, the Adjustment Fund stood at NOK 184.6bn and the Transfer Fund at NOK 20.8bn after NOK 10.4bn was reallocated to Other liabilities as a transfer to the Treasury. Measured in relation to Norges Bank's total assets, excluding the GPFG, this is equivalent to an equity ratio of 40%. Fluctuations in Norges Bank's equity are dominated by fluctuations in the market value of the Bank's foreign exchange reserves.

DISTRIBUTION OF TOTAL COMPREHENSIVE INCOME

Distribution of Norges Bank's total comprehensive income follows guidelines for allocation and distribution of Norges Bank's profit originally approved by the Council of State on 7 February 1986, pursuant to Section 30 of the Norges Bank Act of 24 May 1985. The guidelines have been amended several times, most recently by Royal Decree of 6 December 2002.

Allocations are made from Norges Bank's profit to the Adjustment Fund until the Fund has reached 5% of the Bank's holdings of Norwegian securities and 40% of the Bank's net foreign exchange reserves. Any profit after provisions to or transfers from the Adjustment Fund is allocated to the Transfer Fund. In connection with the closing of the books each year, an amount equal to one third of the capital in the Transfer Fund is transferred to the Treasury.

In accordance with the guidelines, the following transfers and allocations will be made:

Norges Bank's total comprehensive income of NOK 89.2bn is to be transferred, with NOK 57.9bn to the Adjustment Fund and NOK 31.3bn to the Transfer Fund. A third of the funds in the Transfer Fund, NOK 10.4bn, is to be transferred to the Treasury and reallocated from Equity to Other liabilities.

CORPORATE SOCIAL RESPONSIBILITY

Norges Bank's performs important public tasks, and the Bank fulfils its corporate social responsibility through its work on these tasks: the 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 the Government Pension Fund Global (GPFG) on behalf of the government.

Norges Bank maintains high ethical standards, respects human rights, and complies with current laws and regulations. Norges Bank does not accept any form of discrimination or corruption.

The management of the GPFG takes account of internationally recognised principles. These principles encompass human rights, labour rights and social conditions, the environment and anti-corruption.

The Executive Board governs and follows up the Bank's tasks through objectives, strategies and internal policy documents. The Bank performs its tasks in line with international best practice and in accordance with the ethical and management principles approved by the Executive Board. Norges Bank's use of resources is to be commensurate with the tasks assigned to the Bank.

A TRANSPARENT AND WELL-RUN CENTRAL BANK

Norges Bank's objective is to promote economic stability. The Bank is tasked with the implementation of monetary policy and with contributing to robust and efficient payment systems and financial markets.
In its conduct of monetary policy, Norges Bank's task is to keep inflation low and stable while contributing to stability in output and employment.

Norges Bank promotes the robustness of the financial system by overseeing the system and advising the authorities on measures to counteract the build-up of systemic risk and by contributing to the formulation of framework conditions for the financial system. The Bank's settlement system contributes to ensuring that interbank payment settlements are executed promptly and securely. The Bank also ensures that society has access to and the necessary confidence in cash as a payment instrument.

Research at Norges Bank focuses on topics related to the Bank's core areas and current economic issues.

The Bank's work on its core tasks entails participating in international cooperation via several channels. Norges Bank thereby contributes to further developing international standards for the execution of central bank tasks. As requested by the Ministry of Finance, Norges Bank contributes to financing schemes for heavily indebted countries and surveillance of the global financial system, which is conducted by the International Monetary Fund (IMF).

Norges Bank is concerned to ensure that communication of the Bank's use of instruments is transparent, is understood and is predictable for households, enterprises and financial market participants. Norges Bank publishes its analyses and the basis for the Bank's decisions and advice. The Bank communicates in the form of publications, reports, speeches and lectures, press conferences and seminars. The Executive Board's assessments are presented in the Bank's reports, including the monetary policy and financial stability reports.

The Executive Board decided in 2014 that a new visitors' centre will be opened in Norges Bank in 2016, the Bank's bicentenary year. The centre will be open to school pupils and other guests, providing an opportunity for the Bank to strengthen and further develop the communication of its tasks and how they are executed.

The Norges Bank building in the Kvadraturen district of central Oslo is an important monumental structure of high cultural value. The Bank works with public authorities and other landowners to promote and develop a safe and attractive urban space in the immediate vicinity of the Bank.

RESPONSIBLE INVESTMENT

To enable both current and future generations to benefit from Norway's oil wealth, Norges Bank is mandated to manage the GPFG as a long-term and responsible investment manager. The goal of Norges Bank's investment management is to achieve the highest possible return at an acceptable level of risk, as laid down in the management mandate issued by the Ministry of Finance. The work on responsible investment supports this goal.

The GPFG is owned by the Norwegian people. Norges Bank's task is to safeguard and develop financial assets for future generations. The aim is to exploit the GPFG's combination of distinguishing characteristics. The GPFG is a large global investor with a long-term investment horizon and is invested in most markets, sectors and countries in order to participate in global value creation and as far as possible spread risk.

Transparency is important to instil confidence in the GPFG among its owners and the companies and markets in its investment universe. Transparency bolsters the GPFG's legitimacy as a financial investor.

Responsible investment activities are an important and integral part of the management task, which is to manage the financial assets of the owner in a responsible and sound manner. Assets are managed as part of a long-term strategy, with the aim of fostering market practices that will have a positive impact on capital markets in the long term. Investment management therefore includes assessing corporate governance and environmental and social conditions that could have a considerable impact on the GPFG's assets.

Responsible investment activities thus include work on standard-setting, ownership and risk management.

Responsible investment activities are based on the promotion of good corporate governance and regard for the environment and social conditions in line with internationally recognised principles and standards such as the UN Global Compact, the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Companies.

As a long-term investor, the GPFG stands to benefit from sound market practices. Norges Bank contributes to the development of standards through its contact with regulatory authorities and standard-setters. The Bank expects companies in the investment universe to comply with current legislation and the board of directors and management of a company to be responsible for strategy and operations. It is considered important to maintain a dialogue with company representatives without aiming to micro-manage the company.

The GPFG's investment strategy involves broad diversification, and it has ownership stakes in more than 9 000 companies worldwide, primarily companies where the potential to generate value added for the GPFG is greatest. Norges Bank's analyses include financial models and companies' financial prospects. Corporate governance and environmental and social conditions are an integral part of these assessments.

Norges Bank engages in active ownership as a basis for long-term profitable business activity and to safeguard the GPFG's investments. Active ownership requires detailed knowledge about the companies, sectors and markets in which the GPFG is invested. Voting is an important instrument in the exercise of ownership rights and is therefore a prioritised activity. In 2014, Norges Bank voted at 10 519 annual general meetings (AGMs). Voting can be used to express support for a well-functioning board or hold a board accountable for its actions. Norges Bank's goal is to vote at all companies' AGMs. Voting is based on the GPFG voting principles and takes account of company-specific characteristics. Maintaining contact with companies is a natural part of investment management. Norges Bank held 2 641 meetings with companies in 2014. Norges Bank gives priority to ownership activities that are most likely to result in positive effects on the portfolio.

Corporate governance and environmental and social considerations are integrated into the investment process and risk management. This can result in portfolio adjustments and decisions to divest or refrain from buying specific securities.

To gain a better understanding of portfolio companies' greenhouse gas emission intensity, the Bank conducts an analysis of emissions from these companies. This analysis provides valuable information that can be used in active ownership and risk management.

The scope of investment in environmental technology is being increased through the environment-related mandates. In line with the mandate issued by the Ministry of Finance, these investments are to be increased to between NOK 30bn and NOK 50bn. At the end of 2014, the total market value of the portfolio of environment-related equity investments was NOK 42bn, invested in 220 companies. The environmentrelated mandates achieved a total return of 5% in 2014. Some risk-based divestments have also been made in recent years. Some sectors pose a particular challenge in terms of environmental and social issues. Work related to tropical deforestation, mining and greenhouse gas emissions has continued. Based on these analyses and other factors, Norges Bank decided in 2014 to divest from 49 companies where uncertainty related to business model sustainability was assessed to be high.

The Ministry of Finance has laid down guidelines for observation and exclusion of companies from the GPFG. According to the criteria for exclusion, which are product-based, the GPFG is not to be invested in companies that themselves, or through entities they control, produce weapons that violate fundamental humanitarian principles through their normal use, produce tobacco or sell weapons or military materiel to selected states. Companies may also be excluded if there is an unacceptable risk of behaviour considered to be grossly unethical. The Executive Board has also decided that Norges Bank's foreign exchange reserves cannot be invested in securities that have been excluded from the GPFG's investment universe.

The Ministry of Finance established the Council on Ethics as an independent body to provide advice on observation and exclusion of companies from the GPFG portfolio. Norges Bank has been assigned responsibility for decisions regarding observation or exclusion of companies based on recommendations from the Council on Ethics as from 1 January 2015. The Bank also considers the possibility of using other active ownership instruments in these cases. The goal is to establish a chain of instruments for responsible investment.

Norges Bank is a responsible real estate investor. Before a real estate investment is undertaken, Norges Bank conducts due diligence, i.e. a thorough investigation of the parties involved in the transaction and of the property itself. Financial, legal, tax-related, structural, operational, technical, environmental and insurance-related aspects are all included in this process. Emphasis is given to complying with international standards for responsible investment and reporting in real estate investment. Norges Bank Investment Management has been a member of the Global Real Estate Sustainability Benchmark (GRESB) since 2011. Norges Bank uses this framework systematically in collaboration with partners to gradually improve the quality, operational efficiency and environmental status of its properties.

ETHICS AND PROFESSIONAL BEHAVIOUR

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

The principles serve as a basis for further rules and procedures laid down by the executive management of Norges Bank Central Banking Operations and Norges Bank Investment Management, respectively. These rules pertain to employees' personal trading, activities outside the Bank, gifts and loyalty to the Bank in general. Norges Bank's anti-corruption work is anchored in internal rules.

Norges Bank places considerable emphasis on training staff and fostering awareness in relation to the most important areas of ethical risk. All new employees attend a training programme to ensure that they know and understand the rules. Using e-learning tools, all employees take a compulsory annual test to ensure that they have the necessary knowledge of the rules. In completing the test, each employee also confirms that he or she has read and understood the rules and is aware of the consequences of noncompliance. Compliance with the rules is monitored and noncompliance is reported.

The need to amend the rules is evaluated on a regular basis. The ethical rules for employees in Norges Bank Central Banking Operations were revised in 2014. In connection with this update, new rules were introduced specifically for contractors with access to the Bank's premises and systems.

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

The Ministry of Finance has laid down a regulation concerning impartiality and conflicts of interest for Norges Bank's Executive Board. An administrative procedure has been put in place to assist members in complying with the regulation. Ethical rules for the Executive Board's external members were laid down in 2014.

The Executive Board has also laid down general principles for internal disclosure of wrongdoing (whistleblowing) at Norges Bank. Norges Bank has established a whistleblowing procedure whereby an employee can report concerns about unethical or illegal behaviour. The treatment of disclosures received is based on fundamental principles of fairness, objectivity and independence. The whistleblowing procedure must safeguard the confidentiality of both the whistleblower and the person or persons to whom the disclosure refers and, in the case of anonymous disclosure, the anonymity of the whistleblower.

EXTERNAL ENVIRONMENT

Norges Bank's direct impact on greenhouse gas emissions and its environmental load are limited. The Bank's direct climate and environmental impact is primarily related to energy consumption, official travel and office waste.

According to the management strategy for the Bank's premises in Kvadraturen in central Oslo, management cost levels are to be in line with those for comparable buildings. Efforts are made on an ongoing basis to find more environmentally friendly ways of operating the premises, including reducing electricity consumption, by upgrading equipment and through more efficient control of lighting and ventilation systems. The Bank uses renewable energy to a considerable extent, in the form of remote heating, and employs sorting systems for office waste. There is extensive re-use of interior non-structural elements and office furniture.

In 2015, the Bank's premises in Kvadraturen will be classified under an environmental classification system that determines the environmental footprint of commercial properties based on an overall assessment (i.e. both the inherent environmental quality of the building and how it is operated and used).

CONTRACTORS

By adhering to current regulations and using economies of scale, Norges Bank conducts cost-efficient procurement of goods and services. Norges Bank complies with public procurement legislation, and the Bank's contractors must meet the corporate social responsibility standards contained therein. New contracts require contractor employees performing services for Norges Bank to adhere to the rules laid down by the Bank. This requirement is limited to persons with access to the Bank's premises or systems.

New ethical rules specifically for contractors with access to the Bank's premises and systems were introduced by Norges Bank Central Banking Operations in 2014. The rules cover themes such as human rights, labour rights, corruption, discrimination and gifts.

Norges Bank also attaches importance to ensuring high ethical standards and promoting anti-corruption in relation to its contractual counterparties. Cooperation founded on high ethical standards where all forms of corruption are unacceptable is fundamental to all contractual relationships. Norges Bank Investment Management maintains contact with major contractual partners and contractors to ensure that the ethical rules are followed up and complied with.

HUMAN RESOURCES AND WORKING ENVIRONMENT

Employees and expertise

Norges Bank's aim is to be a transparent and well-run central bank. The Bank is a complex knowledge enterprise with a global reach. Core tasks are to be performed in accordance with international best practice through the prudent and proper use of resources. This places considerable demands on the way in which the Bank works and interacts: operations must have a healthy balance of regular operational tasks and major development projects that combine to maintain a high level of quality in all the Bank's operations.

The Bank works systematically to develop the skills of employees and provide for internal mobility, international trainee- and internships and further education.

The Bank's ambition is to recruit top candidates from leading specialist environments nationally and internationally. In 2014, efforts were focused on introducing the Bank to new target groups in other countries. Visits were made to selected educational institutions abroad and presentations of Norges Bank were held for groups of students. The Bank continues to build its reputation as a preferred employer in Norway. The objective is to attract the best executive and professional talent in all areas of the Bank's activities.

At year-end 2014, there were 763 permanent employees at Norges Bank, compared with 701 at year-end 2013. Of these, 428 were employed by Norges Bank Investment Management, compared with 370 the previous year. The increase in this part of the Bank's operations will continue in 2015.

Gender equality and diversity

Norges Bank's recruitment guidelines specify that the best qualified candidate will be hired, regardless of gender, age, ethnicity or disability, and that employees will have the same opportunities for promotion and professional and personal development. Norges Bank is an international organisation with employees from a total of 35 nations.

Norges Bank has a gender equality and diversity action plan, and the Executive Board monitors the progress of these efforts through annual reports from the administration. In 2014, the gender breakdown was 65% men and 35% women – unchanged from 2013.

Targets have been set for the proportion of women on the staff of Norges Bank. For Norges Bank Central Banking Operations, the target is 40% in all job categories. For Norges Bank Investment Management, the targets are 25% for positions at director level and 33% for other job categories. The Executive Board aims to increase the share of women in Norges Bank Investment Management over time. New targets and measures will be assessed in 2015.

PERCENTAGE OF WOMEN ON THE PERMANENT STAFF OF NORGES BANK AT YEAR-END 2014, 2013 AND 2012:

	2014		2013		2012	
Level	**NBCBO**	**NBIM**	**NBCBO**	**NBIM**	**NBCBO**	**NBIM**
Executive	36 %	16 %	36 %	13 %	36 %	12 %
Non-executive	47 %	29 %	44 %	31 %	44 %	33 %
Sum	**44 %**	**27 %**	**42 %**	**28 %**	**42 %**	**29 %**

PAY LEVEL FOR WOMEN AS A PERCENTAGE OF PAY LEVEL FOR MEN AT YEAR-END 2014, 2013 AND 2012:

	2014		2013		2012	
Level	**NBCBO**	**NBIM**	**NBCBO**	**NBIM**	**NBCBO**	**NBIM**
Executive*	97 %	85 %	97 %	102 %	101 %	103 %
Non-executive	91 %	84 %	92 %	86 %	92 %	85 %
Sum	**89 %**	**77 %**	**90 %**	**85 %**	**91 %**	**81 %**

* For Norges Bank Investment Management, the "Executive" group in the table above refers to the categories Global Heads and Heads. For staff in the Norges Bank Investment Management leader group, wages and remunerations are specified in a note in the financial statements.

For the "Non-executive" group, pay for women and men is approximately equal in each of the job categories in this group. Average pay for women as a whole is nevertheless lower than in each of the job categories because of a lower percentage of women in job categories with the highest pay.

At the end of 2014, 5% of staff at Norges Bank worked part-time; 81% of part-time staff were women and 19% men.

In 2014, 929 weeks of parental leave were taken, of which women accounted for 69%.

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

Norges Bank employs a number of measures to boost the percentage of women on the staff. The Bank actively encourages internal and external women candidates to apply for vacant management positions and assume responsibility for important projects and reports.

Norges Bank takes the needs of employees in all phases of life into account by offering employees the opportunity to reduce their working hours or work from home if necessary.

Employees over the age of 62 years are entitled to five extra paid vacation days per year.

Health, safety and the environment
Norges Bank's priority is protecting the lives and health of all those working in the Bank. At end-2014, eight workplace accidents or injuries directly relating to work for Norges Bank had been recorded. There were no accidents or injuries of a serious nature in connection with travelling on Bank business. No occupational injuries or accidents were reported to the Norwegian Labour Inspection Authority in 2014.

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

Sickness absence and an inclusive workplace
Sickness absence at the Bank remained stable at a low level in 2014. In 2014, sickness absence was 2.2%, compared with 2.8% in 2013. As an inclusive workplace enterprise, the Bank is committed to working systematically and with a long-term perspective to maintain sickness absence at a low level, accommodating employees needing special adaptations and enabling older employees to extend their professional careers in line with national objectives.

Oslo, 12 February 2015

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

NORGES BANK'S ANNUAL FINANCIAL STATEMENTS 2014

ANNUAL FINANCIAL STATEMENTS 2014

INCOME STATEMENT

Amounts in NOK millions

	Note	2014	2013
NET INCOME FINANCIAL INSTRUMENTS			
Interest income from deposits and claims	3	7	39
Interest income from lending to banks	3	80	243
Interest income, lending associated with reverse repurchase agreements	3	37	26
Net income/expenses and gain/losses from:			
- Equities and units	3,17	18 721	30 411
- Bonds and other fixed income securities	3	13 659	-2 260
- Financial derivatives	3	4	16
Interest expense, borrowing associated with repurchase agreements	3	-1	-22
Interest expense paid on deposits from banks and the Treasury	3	-949	-656
Net interest income from claims on/liabilities to the International Monetary Fund (IMF)	3,16	11	11
Tax expenses	3	-47	-17
Other financial income/expenses	3,15	4	132
Net income from financial instruments before foreign exchange gains/losses		**31 526**	**27 923**
Foreign exchange gains/losses		58 766	26 309
Net income from financial instruments		**90 292**	**54 232**
MANAGEMENT OF THE INVESTMENT PORTFOLIO OF THE GOVERNMENT PENSION FUND GLOBAL (GPFG)			
Total comprehensive income, investment portfolio, GPFG	20	1 242 691	980 069
Withdrawn from/Transferred to the krone account of the GPFG	20	-1 242 691	-980 069
Of which management fees, GPFG	10	3 202	2 889
Management of the investment portfolio of the GPFG		**3 202**	**2 889**
OTHER OPERATING INCOME			
Other operating income	14	128	125
Total other operating income		**128**	**125**
OTHER OPERATING EXPENSES			
Personnel expenses	12	-1 151	-1 209
Other operating expenses	14	-2 776	-2 483
Depreciation, amortisation and impairment losses	13	-123	-97
Total other operating expenses		**-4 050**	**-3 789**
Profit/loss for the period		**89 572**	**53 457**
STATEMENT OF COMPREHENSIVE INCOME			
Profit/loss for the period		89 572	53 457
Change in actuarial gains/losses	11	-374	-98
Total comprehensive income		**89 198**	**53 359**

BALANCE SHEET

Amounts in NOK millions

Assets	Note	31 Dec. 2014	31 Dec. 2013
FINANCIAL ASSETS			
Deposits in banks		32 325	6 294
Lending associated with reverse repurchase agreements	9	50 803	22 970
Unsettled trades		720	2
Equities and units	4,17	134 021	114 472
Equities lent	4,8,9	6 404	4 355
Bonds and other fixed income instruments	4	238 905	185 420
Financial derivatives		27	8
Claims on the IMF	16	44 041	38 430
Lending to banks	18	1	-
Other financial assets		4 256	5 613
Total financial assets		**511 503**	**377 564**
INVESTMENTS, GPFG			
Investments, GPFG	20	6 427 537	5 034 846
Total investments, GPFG		**6 427 537**	**5 034 846**
NON-FINANCIAL ASSETS			
Other non-financial assets	13	2 204	2 080
Total non-financial assets		**2 204**	**2 080**
TOTAL ASSETS		6 941 244	5 414 490

Amounts in NOK millions

Liabilities and equity	Note	31 Dec. 2014	31 Dec. 2013
FINANCIAL LIABILITIES			
Short-term borrowing		19	-
Cash collateral received	8,9	762	1 365
Unsettled trades		13 250	1 528
Financial derivatives		1	21
Other financial liabilities		1 568	2 441
Liabilities to the IMF	16	34 434	28 413
Deposits from banks, etc.	3,18	77 800	74 672
Deposits from the Treasury	3	115 632	89 464
Notes and coins in circulation	15	53 016	54 060
Total financial liabilities		**296 482**	**251 964**
DEPOSITS IN KRONE ACCOUNT, GPFG			
Deposits in krone account, GPFG	20	6 427 537	5 034 846
Total deposits in krone account, GPFG		**6 427 537**	**5 034 846**
OTHER LIABILITIES			
Pensions	11	577	367
Other liabilities		11 172	616
Total other liabilities		**11 749**	**983**
Total liabilities		6 735 768	5 287 793
EQUITY			
Equity		205 476	126 697
Total equity		205 476	126 697
TOTAL LIABILITIES AND EQUITY		6 941 244	5 414 490

Oslo, 10 February 2015

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

STATEMENT OF CASH FLOWS

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

	2014	2013
Operating activities		
Net cash flows arising from purchase and sales of equities and units	8 201	14 413
Net cash flows arising from purchase and sales of bonds and other fixed income instruments	-12 787	-22 791
Net cash flows arising from financial derivatives	450	567
Net cash flows received in connection with reverse repurchase agreements	-7 433	-8 631
Dividends received from investments in equities and units	2 926	2 631
Interest received on bonds and other fixed income instruments	4 790	4 142
Fees received in connection with equity and bond lending	62	70
Cash collateral received/paid related to securities lending, derivatives and repurchase agreements	-603	205
Cash flows related to other financial assets and financial liabilities	757	3 168
Net cash flows from the Treasury	26 168	-41 318
Of which inflows from the Treasury to GPFG	*-150 894*	*-240 934*
Management fee received from the GPFG	2 889	2 193
Net cash flows related to deposits from banks	3 134	39 293
Net cash flows arising from lending to banks	-1	12 000
Net cash flow related to other expenses, other assets and other liabilities	-4 089	-3 611
Net cash outflows from operating activities	**24 464**	**2 331**
Investing activities		
Net cash flows related to non-financial assets and liabilities	-250	-228
Net cash flows from investing activities	**-250**	**-228**
Net change in cash and cash equivalents		
Cash and cash equivalents at 1 January	**6 294**	**3 749**
Net cash payments in the period	24 214	2 103
Foreign exchange gains/losses on cash and cash equivalents	1 799	442
Cash and cash equivalents at 31 December	32 307	6 294

STATEMENT OF CHANGES IN EQUITY

Amounts in NOK millions

	Adjustment Fund	Transfer Fund*	Total equity
1 January 2013	73 338	-	73 338
Total comprehensive income	53 359	-	53 359
31 December 2013	126 697	-	126 697
1 January 2014	126 697	-	126 697
Total comprehensive income	**57 940**	**31 258**	**89 198**
Transferred to other liabilites		-10 419	-10 419
31 December 2014	184 637	20 839	205 476

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

NOTES

NOTE 1 GENERAL INFORMATION

1. INTRODUCTION

Norges Bank is Norway's central bank. Norges Bank performs important public tasks and manages substantial assets on behalf of the nation. The aim of central banking operations is to promote stability in the economy. Norges Bank has executive and advisory responsibilities in the area of monetary, credit and foreign exchange policy and is responsible for promoting robust and efficient payment systems and financial markets. The Bank manages Norway's foreign exchange reserves and the Government Pension Fund Global (GPFG).

The GPFG shall support saving to finance future government expenditure and underpin long-term considerations relating to the use of Norway's petroleum revenues. The Storting (Norwegian Parliament) has established the legal framework in the Government Pension Fund Act, and the Ministry of Finance has formal responsibility for the fund's management. The GPFG is managed by Norges Bank on behalf of the Ministry of Finance, in accordance with Section 2, second paragraph, of the Government Pension Fund Act and the management mandate for the GPFG issued by the Ministry of Finance. The Executive Board of Norges Bank has delegated day-to-day management of the GPFG to the Bank's asset management area, Norges Bank Investment Management (NBIM).

The Ministry of Finance has placed funds for investment in the GPFG in the form of a Norwegian krone deposit with Norges Bank (the krone account). Norges Bank manages the krone account in its own name by investing the funds in an investment portfolio consisting of equities, fixed income securities and real estate. The GPFG is invested in its entirety outside of Norway.

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

2. APPROVAL OF THE FINANCIAL STATEMENTS

The annual financial statements of Norges Bank for 2014, which include the financial reporting for the GPFG, were approved by the Executive Board on 10 February 2015 and adopted by the Supervisory Council on 12 March 2015.

NOTE 2 ACCOUNTING POLICIES

REFERENCES TO ACCOUNTING POLICIES, SIGNIFICANT ESTIMATES AND CRITICAL ACCOUNTING JUDGEMENTS
This section describes significant accounting policies, significant estimates and critical accounting judgements that are relevant to the financial statements as a whole. Additional accounting policies, significant estimates or critical accounting judgements are included in the respective notes.

EXPLANATION OF SIGNIFICANT ESTIMATES AND CRITICAL ACCOUNTING JUDGEMENTS
The preparation of the financial statements 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.

1. BASIS FOR PREPARATION

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 GPFG and subsidiaries. Norges Bank's financial statements include the financial reporting for the GPFG, which is presented in its entirety in Note 20 *GPFG*.

The annual financial statements are prepared with a closing date of 31 December, and are presented in Norwegian kroner (NOK), rounded to the nearest million kroner.

2. CHANGES IN ACCOUNTING POLICIES AND IMPLEMENTATION OF NEW AND/OR AMENDED STANDARDS AND INTERPRETATIONS

The accounting policies applied are consistent with those of the previous financial year, except for new standards and interpretations and/or amendments to IFRS effective for accounting periods starting 1 January 2014. The new and/or amended standards are as follows:

IFRS 10 Consolidated Financial Statements

IFRS 10 supersedes IAS 27 *Consolidation and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 defines an investment entity and introduces a mandatory exemption from consolidation for investment entities. It is concluded that the GPFG meets the definition of an investment entity.

As a result of implementing IFRS 10, investments in subsidiaries (including their investments in *Jointly controlled entities and associates real estate*, *Financial assets real estate* and *Investment properties*, previously presented separately in the balance sheet) are no longer consolidated. These are measured at fair value through profit or loss, and are presented in the balance sheet as *Real estate*. This is only a change in presentation in the income statement and balance sheet, and has had no impact on profit or loss. The change in accounting policy has been implemented retrospectively in accordance with the transitional provisions of IFRS 10. See Note 20.16 *Effects of changes in accounting policies* for further information.

For current accounting policies, including related critical accounting judgements regarding consolidation, see Section 3.2 *Subsidiaries*.

IFRS 11 Joint Arrangements and IAS 28 Associates and Joint Ventures (revised 2011) and related amendments

Since the GPFG is an investment entity under IFRS 10, IFRS 11 and the changes to IAS 28 have had no impact on the financial reporting.

IFRS 12 Disclosure of Interests in Other Entities and amendments to IFRS 12
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 statement and cash flows. The amendments have led to increased disclosure requirements for the GPFG, which are reflected in Notes 20.5 and 20.15. Apart from this, the implementation has not had a significant impact on the financial reporting.

IAS 32 Financial Instruments: Presentation
The amendments to IAS 32 clarify offsetting criteria and prescribe the application, in particular the definition of a legally enforceable right of off-set and when gross settlement systems are considered equivalents of net settlement. These amendments have had no impact on the financial reporting.

3. ACCOUNTING POLICIES FOR THE FINANCIAL STATEMENTS AS A WHOLE

3.1 Presentation of financial statements

Income statement and balance sheet
The income statement and the balance sheet have been prepared in accordance with IAS 1 *Presentation of Financial Statements*. The liquidity presentation format is used for the balance sheet.

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 activities and the management fee to Norges Bank that is charged to the GPFG are defined as operating activities. Cash and cash equivalents comprise *Deposits in banks* and *Short-term borrowing*.

Cash transfers to the GPFG, in the form of inflows from the Norwegian government, are classified as a financing activity in the statement of cash flows of the GPFG. In Norges Bank's financial statements, transfers are classified as operating activities, since Norges Bank is the manager of the GPFG.

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

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

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

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

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

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

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

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

3.2 Subsidiaries

Subsidiaries are established that exclusively constitute investments as part of the management of the GPFG. These subsidiaries are entities over which the GPFG has control. Principle subsidiaries are listed in Note 20.15 *Interests in other entities*.

IFRS 10 *Consolidated Financial Statements* has been applied. IFRS 10 defines an investment entity and introduces a mandatory exemption from consolidation for investment entities.

! ACCOUNTING JUDGEMENT

It has been concluded that the GPFG is an investment entity on the basis that:

a) It obtains funds from the Norwegian government, a related party and its sole owner, and delivers professional investment services, being the management of the fund, to the Norwegian government,

b) It commits to the Norwegian government that its business purpose is to invest solely for capital appreciation and investment income,

c) It measures and evaluates returns for all its investments exclusively based on fair value.

An investment entity shall have a strategy that defines the time horizon for the realisation of investments. The GPFG has a very long time horizon. After an overall assessment, it has been concluded that the GPFG meets the criteria in the definition of an investment entity.

As a result of being an investment entity, the GPFG applies the exemption to consolidate subsidiaries. Only subsidiaries that provide investment related services for the GPFG, and that are not investment entities in their own right, shall be consolidated in the financial statements of the GPFG.

Subsidiaries measured at fair value through profit or loss

Subsidiaries measured at fair value through profit and loss are presented in the balance sheet as *Real estate*. Subsidiaries invest, through other entities, exclusively in real estate. For further information on accounting policies for financial assets that are applied to subsidiaries measured at fair value through profit or loss, see Section 3.4.

See Note 20.5 for accounting policies specific to *Real estate*.

Consolidated subsidiaries

Intra-group transactions and intercompany balances are eliminated on consolidation. As at 31 December 2014, no subsidiaries are consolidated.

3.3 CURRENCY

The 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 NOK using the exchange rate at the balance sheet date. The presentation currency for the financial statements 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. Upon realisation, the exchange rate at the transaction date is used.

! SIGNIFICANT ESTIMATE

Gains and losses on securities and financial derivatives are based on changes in the price of the security/instrument (before foreign exchange gains and losses) and changes in foreign exchange rates (foreign exchange gains and losses). These are presented separately in the income statement. The method of allocating total gains and losses in NOK to a security element and a foreign exchange element is an estimate, as different methods will result in different estimates.

Foreign exchange element

Unrealised gains and losses due to changes in foreign exchange rates are calculated based on the cost of the holding in local currency 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. 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.

3.4 Financial assets and liabilities

Recognition and derecognition

Financial assets or liabilities are recognised in the balance sheet upon becoming a party to the instrument's contractual provisions, 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. See Note 8 *Transferred financial assets* for details on transferred assets that are not derecognised.

Financial liabilities are derecognised when the obligation has been settled, extinguished or cancelled.

Classification
Financial assets and liabilities are initially recognised at fair value. On initial recognition, all financial assets and liabilities are classified depending on the type of instrument, the contractual terms and the purpose of the investment in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

Fair value through profit or loss (fair value option)
Financial assets or liabilities that are managed and whose performance is evaluated on a fair value basis in accordance with a documented risk management and investment strategy are designated at *fair value through profit or loss* on initial recognition. This implies that a fair value business model is used for the portfolios comprising these financial assets and/or liabilities and that the primary objective is to achieve gains over the longer term connected to changes in fair value. The vast majority of all financial assets and liabilities are classified as at fair value through profit or loss.

Held for trading
Financial assets and liabilities that are derivatives are classified as *held for trading* on initial recognition.

Loans and receivables
Financial assets and liabilities other than those classified as either at fair value through profit or loss or as held for trading are classified as loans and receivables on initial recognition.

Specific accounting policies with regards to classification and measurement for the various types of instruments are included in the relevant notes.

4. NEW STANDARDS WITH EFFECT FROM 2015 OR LATER

IASB final standards and IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations with application dates after 2014:

IFRS 9 Financial Instruments
IFRS 9 includes requirements for recognition, measurement, impairment and derecognition of financial instruments, and replaces 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.

Nearly all financial assets and liabilities are held in accordance with a business model that is expected to qualify for fail value measurement under IFRS 9 as at 31 December 2014. The exceptions are certain items measured at amortised cost in the balance sheet. However, implementation of IFRS 9 is not at this time expected to entail material changes to these items.

The effective date of IFRS 9 has been set by the IASB for periods starting on or after 1 January 2018. It is expected that the standard will be applied once it has been endorsed by the EU. Application of IFRS 9 is not expected to result in material changes in classification, recognition or measurement for the financial reporting on the transition date.

NOTE 3 NET INCOME FROM FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Table 3.1 specifies the income and expense elements, where the *Total* column shows the amount recognised in profit or loss for the respective income statement line item. The following accounting policies relate to the respective income and expense elements:

Interest income is recognised in profit or loss when the interest is earned. *Interest expense* is recognised in profit or loss as incurred.

Dividends are recognised as income for investments in *Equities and units* and *Real estate* when the dividends are formally approved by the shareholders' meeting or comparable responsible party.

Net income/expense for Equities and units as well as *Bonds* constitutes net income from securities lending. This income comprises securities lending fees, expenses related to cash collateral received, reinvestment income and the deduction of the security lending agent's fees related to the handling of the transaction. Tax expenses are presented separately as net income/expense. Accounting policies for taxation are further detailed in Note 20.13 *Tax expense*.

Realised gain/loss represents amounts realised when assets or liabilities have been derecognised. Realised gains/losses include transaction costs, which are expensed as incurred. Transaction costs are defined as all costs directly attributable to the completed transaction. For investments in *Equities and units* and *Bonds,* these normally include commission fees and stamp duties.

Unrealised gain/loss represents changes in fair value for the period for the related balance sheet line item that are not attributable to the aforementioned categories.

For items measured at amortised cost, the effective interest is recognised in profit or loss. The effective interest rate is determined as the rate that discounts contractual cash flows within the agreed maturity to the recognised amount. The cash flows include directly attributable transaction costs.

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

Amounts in NOK millions

	Interest income/ expense	Dividends	Net income/ expense	Realised gains/ losses	Unrealised gains/ losses	2014 Total
Interest income from deposits and claims	7	-	-	-	-	7
Interest income from lending to banks	80	-	-	-	-	80
Interest income from lending associated with reverse repurchase agreements	37	-	-	-	-	37
Net income/expense and gains/losses from:						
- Equities and units*	-	3 045	54	3 761	11 861	18 721
- Bonds and other fixed income securities	5 090	-	-	-691	9 260	13 659
- Financial derivatives	-	-	-	17	-13	4
Interest expense, borrowing associated with repurchase agreements	-1	-	-	-	-	-1
Interest expense on banks' and Treasury deposits:						
- Of which interest expense paid on sight deposits from banks	-511	-	-	-	-	-511
- Of which interest expenses paid on F-deposits from banks	-422	-	-	-	-	-422
- Of which interest expenses paid on depots operated by banks	-16	-	-	-	-	-16
Net interest income, from claims on/liabilities to the IMF	11	-	-	-	-	11
Tax expense	-	-	-47	-	-	-47
Other financial income/expenses	46	-	-42	-	-	4
Net income from financial instruments before foreign exchanges gains/losses	**4 321**	**3 045**	**-35**	**3 087**	**21 108**	**31 526**

Amounts in NOK millions

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

* Net income/expense from equities is associated with securities lending.

Interest terms for loans to banks

Fixed-rate loans (F-loans) are the instrument primarily used to supply liquidity to the banking system. They are issued at a fixed rate and specified maturity against collateral in the form of securities. The maturity on F-loans is determined by Norges Bank and varies depending on the projection of structural liquidity. Average maturity on F-loans to banks was 0.2 month both in 2014 and 2013.

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

Interest terms for deposits from banks

Sight deposits: Banks can deposit unlimited reserves in Norges Bank via the standing deposit facility. The interest rate on deposits less than or equal to a bank's quota is equal to the key policy rate (sight deposit rate). Sight deposits in excess of this quota are remunerated at a lower rate, the reserve rate. In 2014 and 2013, the reserve rate was 100 basis points lower than the key policy rate.

Fixed-rate deposits: Norges Bank reduces the quantity of reserves in the banking system by providing banks with fixed-rate deposits (F-deposits). As in the case of F-loans, the interest rate is normally determined by multi-price auction. The maturity on F-deposits is determined by Norges Bank and varies depending on the projection of structural liquidity. Norges Bank can provide F-deposits at a floating rate, i.e. the interest rate on the F-deposits depends on the benchmark rate in the money market. Average maturity for F-deposits from banks was 0.2 month in both 2014 and 2013.

Interest terms for deposits from the Treasury

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

Interest on Treasury deposits was paid at an annual rate of 0% during all of 2014 and 2013.

Tax expense

Tax expense comprises taxes in accordance with IAS 12 *Income Taxes* and comprises income tax that will not be refunded under local tax rules or tax treaties to Norges Bank. This pertains to withholding tax on dividends, which gives rise to tax expenses related to the foreign exchange reserves (see specification in Table 3.2).

Table 3.2 Tax expense, Foreign Exchange reserves

Amounts in NOK millions

	Dividend equities - withholding tax			
		2014		2013
Gross income before taxes		3 027		2 669
Income taxes deducted	*-86*		*-57*	
Income taxes refunded	*39*		*40*	
Tax expense		-47		-17
Net income after taxes		**2 980**		**2 652**

NOTE 4 EQUITIES, BONDS AND OTHER FIXED INCOME INSTRUMENTS

ACCOUNTING POLICY

Investments in equities, units and bonds are designated upon initial recognition as at fair value through profit or loss and are carried in the balance sheet at fair value.

Earned and accrued dividends and interest are presented in the balance sheet on the same line as the respective financial asset and are specified in Tables 4.1 and 4.2.

Lent equities, units and bonds are presented separately. For more information on lent securities, see Note 8 *Transferred financial assets*.

For further information on fair value measurement of equities, units and bonds, see Note 6 *Fair value measurement*.

Changes in fair value for the period are recognised in the income statement and specified in Note 3 *Net income from financial instruments*.

Table 4.1 Equities and units

Amounts in NOK millions

	31 Dec. 2014		31 Dec. 2013	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Listed equities and units	139 759	260	118 627	149
OTC equities and units	666	-	200	-
Total equities	**140 425**	**260**	**118 827**	**149**
Of which equities lent	*6 404*	-	*4 355*	-

Table 4.2 Bonds and other fixed income instruments

Amounts in NOK millions

	31 Dec. 2014			31 Dec. 2013		
	Nominal value*	Fair value including accrued interest	Accrued interest	Nominal value*	Fair value including accrued interest	Accrued interest
Government bonds	215 697	236 986	1 999	173 155	183 255	1 700
Corporate bonds	321	35	-	284	43	-
Securitised bonds	194	-	-	4	-	-
Treasury bills	1 884	1 884	-	2 123	2 122	-
Total bonds and other fixed income instruments	**218 096**	**238 905**	**1 999**	**175 566**	**185 420**	**1 700**
Of which bonds lent	-	-	-	-	-	-

* Nominal values have been translated into NOK at the closing rate at the balance sheet date.

NOTE 5 FOREIGN EXCHANGE RESERVES

FRAMEWORK FOR THE MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

Norges Bank's foreign exchange reserves shall be available for use as part of the conduct of monetary policy with a view to promoting financial stability and to meet Norges Bank's international commitments to the IMF and individual countries. The reserves are divided into a long-term portfolio, a money market portfolio and a petroleum buffer portfolio. Norges Bank Investment Management manages the long-term portfolio, while the money market portfolio and petroleum buffer portfolio are managed by Norges Bank Markets and Banking Services.

The foreign exchange reserves shall be invested so that at least SDR 10bn, including the entire money market portfolio, can be used within a single trading day without having to realise any appreciable losses. The money market portfolio shall be between SDR 3.5bn and SDR 4.5bn and be invested in short-term fixed income instruments. The benchmark index for the money market portfolio is a composite of USD and EUR overnight money market indices and Treasury bill indices for the same currencies. The long-term portfolio shall be invested in equities and fixed income instruments. The benchmark index for the long-term portfolio is a composite of global equity and bond indices. The equity allocation in the strategic benchmark index is 40%.

The purpose of the petroleum buffer portfolio is to ensure that the Government Pension Fund Global (GPFG) is provided with an adequate supply of fresh capital. Norges Bank builds up the portfolio by regularly purchasing foreign exchange from the State's Direct Financial Interest in petroleum activities (SDFI) and by purchasing foreign exchange in the market. Transfers from the portfolio to the GPFG are normally made each month. The petroleum buffer portfolio is invested in short-term fixed income instruments. No benchmark index has been set for the petroleum buffer portfolio.

Tables 5.1 and 5.2 show income statements and balance sheets, respectively, for the foreign exchange reserves by portfolio as described above.

Table 5.1 Foreign exchange reserves by portfolio

Amounts in NOK millions

					2014
	PORTFOLIOS				
Income statement	**Long-term**	**Money market**	**Petroleum buffer**	**Not included in exchange reserves**	**Total exchange reserves**
Interest income, deposits and claims	3	-	3	2	4
Interest income, lending associated with reverse repurchase agreements	-	9	28	-	37
Net income/expenses - gains/losses from:					-
- Equities and units	18 704	-	-	-	18 704
- Bonds and other fixed income instruments	13 634	24	-	-	13 658
- Financial derivatives	4	-	-	-	4
Interest expense, borrowing associated with repurchase agreements	-1	-	-	-1	-
Tax expense	-47	-	-	-	-47
Other financial income/expenses	-	-1	-6		-7
Net income from financial instruments before foreign exchange gains/losses	32 297	32	25	1	32 353
Foreign exchange gains/losses	41 705	8 013	7 595	-39	57 352
Net income from financial instruments*	74 002	8 045	7 620	-38	89 705

Amounts in NOK millions

Income statement	PORTFOLIOS Long-term	 Money market	 Petroleum buffer	 Not included in exchange reserves	2013 Total exchange reserves
Interest income, deposits and claims	37	1	1	24	15
Interest income, lending associated with reverse repurchase agreements	-	3	21	-	24
Net income/expenses - gains/losses from:	-	-	-	-	-
- Equities	30 386	-	-		30 386
- Bonds and other fixed income instruments	-2 293	34	-	-	-2 259
- Financial derivatives	11	5	-	-	16
Interest expense, borrowing associated with repurchase agreements	-22	-	-	-22	-
Tax expense	-17	-	-	-	-17
Other financial income/expenses	1	-			1
Net income from financial instruments before foreign exchange gains/losses	**28 103**	**43**	**22**	**2**	**28 166**
Foreign exchange gains/losses	17 822	3 472	3 898	148	25 044
Net income from financial instruments*	**45 925**	**3 515**	**3 920**	**150**	**53 210**

* For the long-term portfolio, Net income from financial instruments includes profit and loss items associated with outstanding balances with the GPFG. These profit and loss items are excluded from the term foreign exchange reserves presented in Norges Bank's annual financial statements (cf. IMF definition).

Table 5.2 Foreign exchange reserves by portfolio

Amounts in NOK millions

	PORTFOLIOS				31 Dec. 2014
Balance sheet	**Long-term**	**Money market**	**Petroleum buffer**	**Not included in exchange reserves**	**Total exchange reserves**
FINANCIAL ASSETS					
Deposits in banks	362	5 573	26 285	-	32 220
Lending associated with reverse repurchase agreements	756	24 548	25 499	-	50 803
Unsettled trades	720	-	-	-	720
Equities and units	133 821	-	-	-	133 821
Equities lent	6 404	-	-	-	6 404
Bonds and other fixed income instruments	206 634	32 271	-	-	238 905
Financial derivatives	8	-	19	-	27
Other financial assets	125	-	-	60	65
Total financial assets	348 830	62 392	51 803	60	462 965
FINANCIAL LIABILITIES					
Cash collateral received	762	-	-	-	762
Unsettled trades	755	12 495	-	-	13 250
Financial derivatives	-	1	-	-	1
Other financial liabilities	1	-	384	-	385
Total financial liabilities	1 518	12 496	384	-	14 398
Net foreign exchange reserves*	347 312	49 896	51 419	60	448 567

Amounts in NOK millions

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

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

Table 5.3 shows the foreign exchange reserves broken down by the currencies most used during the year.

Table 5.3 Foreign exchange reserves by currency

Amounts in NOK millions

								31 Dec. 2014
	USD	CAD	EUR	GBP	CHF	JPY	Other	TOTAL
FINANCIAL ASSETS								
Deposits in banks	7 862	93	24 062	6	-	119	78	32 220
Lending associated with reverse repurchase agreements	44 918	-	5 885	-	-	-	-	50 803
Unsettled trades	654	-	36	30	-	-	-	720
Equities	78 443	5 192	14 487	10 785	4 574	9 816	10 524	133 821
Equities lent	2 515	32	657	10	47	2 193	950	6 404
Bonds and other fixed income instruments	116 716	-	81 863	21 254	-	19 072	-	238 905
Financial derivatives	16	-	10	-	-	-	1	27
Other financial assets	6	-	17	9	33	-	-	65
Total financial assets	**251 130**	**5 317**	**127 017**	**32 093**	**4 654**	**31 200**	**11 554**	**462 965**
FINANCIAL LIABILITIES								
Cash collateral received	756	-	-	6	-	-	-	762
Unsettled trades	11 355	-21	1 844	42	-	18	12	13 250
Financial derivatives	-	-	1	-	-	-	-	1
Other financial liabilities	384	-	-	1	-	-	-	385
Total financial liabilities	**12 495**	**-21**	**1 845**	**49**	**-**	**18**	**12**	**14 398**
Net foreign exchange reserves	**238 635**	**5 338**	**125 172**	**32 044**	**4 654**	**31 182**	**11 542**	**448 567**

Amounts in NOK millions

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

NOTE 6 FAIR VALUE MEASUREMENT

ACCOUNTING POLICY

All assets and liabilities presented as equities, bonds, real estate, derivatives, as well as short term positions in repurchase and reverse repurchase agreements, deposits/liabilities in the money market and cash collateral are held at fair value in the balance sheet. Fair value, as defined by IFRS 13 *Fair Value Measurement*, 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.

1. INTRODUCTION

The fair value of the vast majority of assets and liabilities is based on quoted market prices. 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. Estimating fair value introduces valuation uncertainty, mostly due to the use of unobservable inputs in valuation models.

2. VALUATION UNCERTAINTY AND THE FAIR VALUE HIERARCHY

All securities in the foreign exchange reserves have been allocated to categories reflecting assessed valuation uncertainty, presented in Table 6.1. The allocation is based on assessed valuation uncertainty and is as follows:

- *Level 1* comprises investments that are valued on the basis of unadjusted market prices in active markets and are considered to have very limited valuation risk.

- *Level 2* investments are valued using models with observable inputs. Inputs are considered observable if they can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. There is some pricing uncertainty regarding investments allocated to Level 2.

- *Level 3* investments are valued using models with considerable use of unobservable inputs. This implies a high degree of 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 valuation providers varies only to a limited extent. An overview of models and valuation techniques with their respective observable and unobservable inputs, categorised by type of instrument, is described in Section 5 of this note.

! SIGNIFICANT ESTIMATE

Level 3 investments consist of instruments held at fair value that are not traded or quoted in active markets. Fair value is established using valuation techniques that use models with unobservable inputs. This implies a high degree of uncertainty regarding the establishment of fair value.

Table 6.1 allocates investments into levels of assessed valuation uncertainty and includes all balance sheet elements measured at fair value.

Table 6.1 Specification of investments by level of valuation uncertainty

Amounts in NOK millions

	Level 1		Level 2		Level 3		Total	
	31. Dec. 2014	31. Dec. 2013	31. Dec. 2014	31. Dec. 2013	31. Dec. 2014	31. Dec. 2013	31. Dec. 2014	31. Dec. 2013
Equities*	**139 759**	**118 603**	**460**	**23**	**6**	**1**	**140 225**	**118 627**
Government bonds	236 986	183 255	-	-	-	-	236 986	183 255
Corporate bonds	7	-	-	-	28	43	35	43
Treasury bills	1 884	2 122	-	-	-	-	1 884	2 122
Total bonds	**238 877**	**185 377**	**-**	**-**	**28**	**43**	**238 905**	**185 420**
Financial derivatives (assets)	27	8	-	-	-	-	27	8
Financial derivatives (liabilities)	-1	-9	-	-12	-	-	-1	-21
Total financial derivatives	**26**	**-1**	**-**	**-12**	**-**	**-**	**26**	**-13**
Deposits in banks	-	-	32 221	6 214	-	-	32 221	6 214
Lending associated with reverse repurchase agreements	-	-	50 803	22 194	-	-	50 803	22 194
Other financial assets	-	-	65	50	-	-	65	50
Unsettled trades (assets)	-	-	720	2	-	-	720	2
Unsettled trades (liabilities)	-	-	-13 250	-1 528	-	-	-13 250	-1 528
Cash collateral received	-	-	-762	-1 365	-	-	-762	-1 365
Other financial liabilities	-	-	-385	-1 278	-	-	-385	-1 278
Total other	**-**	**-**	**69 412**	**24 397**	**-**	**-**	**69 412**	**24 397**
Total	**378 662**	**303 979**	**69 872**	**24 300**	**34**	**44**	**448 568**	**328 323**
Total (percentage)	**84.4**	**92.6**	**15.6**	**7.4**	**0.0**	**0.0**	**100.0**	**100.0**

* Equities include only equity holdings in the foreign exchange reserves.

At year-end 2014, the valuation uncertainty for the foreign exchange reserves overall was generally unchanged compared with year-end 2013. The majority of the total portfolio is associated with low valuation risk and is classified as Level 1. Almost all equity holdings (99.7%) are classified as Level 1. Valuation of bonds is more uncertain and complex than valuation of equities. Norges Bank carries out analyses at each reporting date to identify the extent to which there have been transactions and price transparency with related market liquidity for different types of bonds as well as for a number of individual holdings. All government bonds have been allocated to Level 1 and valuation is thus almost entirely based on quoted market prices. Likewise, Treasury bills are classified as Level 1.

3. MOVEMENTS BETWEEN LEVELS IN THE HIERARCHY

Level 3 analysis

Table 6.2 shows a reconciliation of changes in carrying amounts for all Level 3 holdings.

Table 6.2 Specification of changes in Level 3 holdings

Amounts in NOK millions

	1 Jan. 2014	Net gain/ losses	Pur- chases	Sales	Settled	Trans- ferred to Level 3	Trans- ferred from Level 3	Foreign exchange gains/ losses	31 Dec. 2014
Equities	1	-	5	-1	-	1	-	-	6
Bonds	43	-31	-	-	-16	-	-9	41	28
Total	44	-31	5	-1	-16	1	-9	41	34

Amounts in NOK millions

	1 Jan. 2013	Net gain/ losses	Pur- chases	Sales	Settled	Trans- ferred to Level 3	Trans- ferred from Level 3	Foreign exchange gains/ losses	31 Dec. 2013
Equities	4	-17	1	-	-5	4	-	14	1
Bonds	38	1	-	-	-27	9	-	22	43
Total	42	-16	1	-	-32	13	-	36	44

Holdings allocated to Level 3 in the fair value hierarchy decreased by NOK 10m during 2014, which is unchanged relative to the size of the portfolio. The main reason for the reduction was a net loss on bonds and bonds that matured or were redeemed. Offsetting the reduction was a foreign exchange gain.

4. SENSITIVITY ANALYSIS FOR LEVEL 3 HOLDINGS

Table 6.3 Additional specification of Level 3 sensitivities

Amounts in NOK millions

			2014
	Specification of Level 3 at 31 Dec 2014	Unfavourable changes	Favourable changes
Equities	6	-1	1
Bonds	28	-4	3
Total	34	-5	4

Amounts in NOK millions

			2013
	Specification of Level 3 at 31 Dec 2013	Unfavourable changes	Favourable changes
Equities	1	-1	1
Bonds	43	-6	6
Total	44	-7	7

Norges Bank's analyses indicate that valuation risk relating to Level 3 investments had been marginally reduced during 2014. Holdings declined somewhat, with a corresponding reduction in the potential outcome. However, the proportion of investments classified as Level 3 is relatively small, compared with total foreign exchange reserves.

5. VALUATION TECHNIQUES

Norges Bank has defined hierarchies for which price sources are to be used for valuation. Holdings of bonds and notes are normally priced in accordance with the index providers' prices, while the remaining holdings of equities and bonds are priced almost exclusively by other reputable independent external price providers. Prices are verified based on comparative analyses of prices in accordance with the established hierarchies with prices from available alternative price sources. When alternative price sources are considered to be more representative of fair value, prices are adjusted to bring the valuation closer to expected fair value.

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

- *Bond and note prices* – prices based on price quotes and relevant market activity.
- *Credit spreads* – obtained from the credit derivative market and from trades in more liquid bonds.
- *Yield curves* – benchmark yield curves are often the foundation of the valuation matrix and are obtained from 1. Interbank rates at the short end, 2. The first eight settlement dates for money market futures, 3. Swap market rates.
- *Money market futures* – official closing prices from exchanges are obtained via clearing brokers.
- *Foreign exchange rates* – WMFX rates at 16.00 GMT obtained from Reuters for use in determining spot prices and translating amounts into NOK.

6. CONTROL ENVIRONMENT

The control environment for fair value measurement in Norges Bank Investment Management and Central Banking Operations is organised around a formalised and documented accounting and valuation policy and guidelines which are supported by work and control procedures. The Norges Bank Investment Management policy document lays down valuation policies and outlines procedures for Norges Bank Investment Management's valuation committee. The portfolios managed by Central Banking Operations contain only short-dated financial instruments, where valuation risk is very low. Therefore, Central Banking Operations does not have its own valuation committee, but any questions are discussed by a separate management 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. These processes are scalable with regard to market changes and are based on internal and external data solutions.

All holdings and investments are generally valued by external, independent valuation providers. They have been chosen on the basis of analyses performed by the Norges Bank units responsible for valuation.

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

In Norges Bank Investment Management, 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 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.

NOTE 7 RISK

FRAMEWORK FOR INVESTMENT RISK

The Executive Board has established principles for risk management. These are detailed further through policies and guidelines. The composition of the foreign exchange reserves' portfolios and the associated risk are determined primarily by the benchmark index defined by the governor. In the investment mandate for the portfolios, there are a number of limits and restrictions within the combined equity and bond asset class, and within each asset class. The restrictions regulate the degree of active management, in addition to the rule-based capital allocation. The portfolios primarily contain equities, government bonds and Treasury bills, but may also contain forward exchange contracts, futures contracts, interest rate swaps and repurchase/reverse repurchase agreements.

Through management of the foreign exchange reserves, Norges Bank is exposed to various types of financial risk, including market risk, credit risk and counterparty risk. The Bank is also exposed to credit risk associated with lending to banks.

Risk management is defined as management of market risk, credit risk, counterparty risk, liquidity risk and operational risk. The first four items listed are defined as investment risk. In Norges Bank Investment Management and in Central Banking Operations, 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 portfolios, asset classes and other levels within the portfolios that reflect the investment process.

Norges Bank uses the following definitions of the various forms of investment risk:

- *Market risk* is the risk of a loss or a change in market value as a result of changes in financial market variables. Market risk for the portfolios in the foreign exchange reserves is measured along the following dimensions: absolute and relative exposure as compared to the benchmark, volatility and correlation risk. Market risk is actively taken to generate investment returns in line with the objectives of the investment mandates.
- *Credit risk* is the risk of loss due to an issuer being unable to meet its payment obligations.
- *Counterparty risk* is the risk of loss related to the possible bankruptcy of a counterparty or other similar event leading to counterparties defaulting. Counterparty risk can be classified 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 employs several measurement methodologies, processes and systems to control financial 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 portfolio.

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

Asset class by region

The foreign exchange reserves are invested across several asset classes and regions, as shown in Table 7.1 below.

Table 7.1 Allocation by asset class and region

Amounts in NOK millions

				31 Dec. 2014
		Market value in percentage by region	Market value in percentage by asset class	Assets minus liabilities
LONG-TERM PORTFOLIO				
Equities	Americas	61.7		
	Europe	23.4		
	Asia and Oceania	14.9		
Total equities			40.3	139 984
Bonds	Americas	45.9		
	Europe	44.7		
	Asia and Oceania	9.4		
Total bonds			59.7	207 326
MONEY MARKET PORTFOLIO				
Securities	Americas	68.0		
	Europe	32.0		
Total securities			64.7	32 271
Deposits	Americas	88.6		
	Europe	11.4		
Total deposits			35.3	17 626
PETROLEUM BUFFER PORTFOLIO				
Deposits	Americas	49.8		
	Europe	50.2		
Total deposits			100.0	51 419

Amounts in NOK millions

		Market value in percentage by region	Market value in percentage by asset class	31 Dec. 2013 Assets minus liabilities
LONG-TERM PORTFOLIO				
Equities	Americas	57.9		
	Europe	26.2		
	Asia and Oceania	15.9		
Total equities			43.4	118 532
Bonds	Americas	43.0		
	Europe	46.9		
	Asia and Oceania	10.1		
Total bonds			56.6	154 777
MONEY MARKET PORTFOLIO				
Securities	Americas	77.4		
	Europe	22.6		
Total securities			80.9	30 953
Deposits	Americas	64.4		
	Europe	35.6		
Total deposits			19.1	7 308
PETROLEUM BUFFER PORTFOLIO				
Deposits	Americas	56.2		
	Europe	43.8		
Total deposits			100.0	16 862

Concentration risk

The foreign exchange reserves contain substantial investments in fixed income instruments issued by sovereigns. The reserves are also invested private companies that issue equities.

Table 7.2 shows exposures to fixed income securities issued by sovereigns, which include nominal government bonds and Treasury bills issued in local currency or in foreign currency, and inflation-linked bonds in local currency.

Table 7.2 Holdings within the segment government bonds

Amounts in NOK millions

		Market value
	31 Dec. 2014	31 Dec. 2013
US	116 721	90 334
France	39 749	29 377
Germany	42 109	33 990
UK	21 254	16 119
Japan	19 072	15 600

Table 7.3 shows the foreign exchange reserves' largest holdings of non-government bond and equity holdings by issuer. Covered bonds issued by financial institutions are included in the bonds column.

Table 7.3 Largest holdings excluding sovereigns

Amounts in NOK millions

				31 Dec. 2014
	Sector	**Bonds**	**Equities**	**Total market value**
Apple Inc	Technology	-	2 440	2 440
Exxon Mobil Corp	Oil & Gas	-	1 478	1 478
Microsoft Corp	Technology	-	1 294	1 294
Google Inc	Technology	-	1 112	1 112
Johnson & Johnson	Healthcare	-	1 082	1 082
Wells Fargo & Co	Financials	-	1 069	1 069
Berkshire Hathaway Inc	Financials	-	1 041	1 041
General Electric Co	Manufacturing	-	953	953
Procter & Gamble Co/The	Consumer goods	-	923	923
Nestlé SA	Consumer goods	-	909	909

Amounts in NOK millions

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

Volatility and correlation risk

Norges Bank uses models to quantify the risk of value changes associated with all or parts of the foreign exchange reserves. Volatility is a standard risk measurement technique based on the statistical concept of standard deviation, which takes into account correlations between different instruments in the portfolio. This risk measure provides an estimate of how much one can expect the portfolio value to change or fluctuate, based on market 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 past three years and a parametric calculation methodology. The model is tailored to the investment horizon for the foreign exchange reserves, which is shorter than for the GPFG. The same model is used for both portfolio risk and relative volatility.

Table 7.4 presents risk both in terms of the portfolio's absolute risk and the relative risk.

Table 7.4 Expected volatility, in percent

	Expected volatility, in percent							
	31 Dec. 14	Min 2014	Max 2014	Avg. 2014	31 Dec. 13	Min 2013	Max 2013	Avg. 2013
Long-term portfolio	7.7	7.2	8.1	7.7	8.0	7.1	8.2	7.6
Equities	*11.4*	*11.2*	*14.0*	*12.7*	*13.9*	*12.9*	*14.1*	*13.6*
Bonds	*8.9*	*8.5*	*10.0*	*9.4*	*9.8*	*9.8*	*10.4*	*10.1*
Money market portfolio	0.03	0.03	0.09	0.06	0.07	0.09	0.10	0.10

	Expected relative volatility, basispoints							
	31 Dec. 14	Min 2014	Max 2014	Avg. 2014	31 Dec. 13	Min 2013	Max 2013	Avg. 2013
Long-term portfolio	6	5	40	7	8	8	56	28
Equities	*9*	*8*	*101*	*12*	*14*	*5*	*98*	*18*
Bonds	*8*	*6*	*13*	*9*	*10*	*9*	*54*	*23*
Money market portfolio	3	2	7	3	5	2	8	4

In 2014, risk measured by the risk model showed a decrease for the portfolios as a whole, as well as for the asset classes comprising fixed income instruments and equities. For the long-term portfolio, risk measured at year-end was 7.7%. This means that for the portfolio, yearly value fluctuations on the order of NOK 27bn can be expected. The portfolio's expected relative volatility at year-end 2014 was 6 basis points, compared with 8 basis points at year-end 2013.

Except on the day of the full rebalancing of the long-term portfolio in September, relative volatility has been low for all asset classes during 2014.

At year-end, the money market portfolio had a measured risk of 3 basis points, which was a decrease from 5 basis points from 2013.

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.

The model-based risk estimates are based on historical relationships and will provide reliable forecast in markets without significant changes in volatility. Estimates will be less reliable in periods marked by significant changes in volatility and correlation. Calculated volatility gives a point estimate of risk and provides little information about the total risk profile and any tail risk. Annualisation means that it is assumed that volatility and portfolio composition are consistent over time. To compensate for these shortcomings, complementary models and methods are employed, such as stress tests, and analyses of concentration risk and realised return.

Verification of models

Regular testing of the models is performed to validate the model's ability to estimate risk.

CREDIT RISK

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 7.5 is a breakdown of the bond portfolio by credit rating.

Table 7.5 Bond portfolio specified by credit rating

Amounts in NOK millions

						31 Dec. 2014
	AAA	AA	A	BBB	Lower rating	Total
Government bonds	156 642	61 208	19 136	-	-	236 986
Corporate bonds	-	-	-	-	35	35
Treasury bills	1 884	-	-	-	-	1 884
Total bonds and other fixed income instruments	**158 526**	**61 208**	**19 136**	**-**	**35**	**238 905**

Amounts in NOK millions

						31 Dec. 2013
	AAA	AA	A	BBB	Lower rating	Total
Government bonds	122 160	61 095	-	-	-	183 255
Corporate bonds	-	-	-	-	43	43
Treasury bills	2 122	-	-	-	-	2 122
Total bonds and other fixed income instruments	**124 282**	**61 095**	**-**	**-**	**43**	**185 420**

The bond portfolio's credit quality was somewhat reduced during 2014. Table 7.6 shows that the share of the actual portfolio of AAA bonds decreased to 66.5% at year-end 2014 from 67.0% at year-end 2013. The share of AA bonds was reduced to 25.5% at year-end 2014 from 32.9% at year-end 2013. The reason was a downgrade of bonds issued by government bodies in Japan to A from AA. At year-end 2014, there were no holdings in the BBB category or the category "Lower rating" than BBB.

Table 7.6 is a breakdown of the bond portfolio by credit rating and currency.

Table 7.6 Bond portfolio by credit rating and currency, in percent

						31. Dec. 2014
	AAA	AA	A	BBB	Lower rating	Total
US dollar	48.8	-	-	-	-	48.8
Euro	17.6	16.6	-	-	-	34.3
British pound	-	8.9	-	-	-	8.9
Japanese yen	-	-	8.0	-	-	8.0
Swiss franc	-	-	-	-	-	-
Total	**66.5**	**25.5**	**8.0**	**-**	**-**	**100.0**

						31. Dec. 2013
	AAA	AA	A	BBB	Lower rating	Total
US dollar	48.7	-	-	-	-	48.7
Euro	18.3	15.8	-	-	-	34.2
British pound	-	8.7	-	-	-	8.7
Japanese yen	-	8.4	-	-	-	8.4
Swiss franc	-	-	-	-	-	-
Total	**67.0**	**32.9**	**-**	**-**	**-**	**100.0**

Credit risk in the portfolio may be managed by the use of credit derivatives. At year-end 2014, there were no credit derivatives in the portfolio.

In addition to the credit ratings from credit rating agencies, measurement of credit risk is complimented with credit risk models, one of which 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 fixed income portfolio.

COUNTERPARTY RISK

Counterparties are required to ensure efficient liquidity management and efficient trading and management of market and credit risk. Exposure to counterparty risk is related to trading 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. Such counterparty risk also arises in connection with day-to-day liquidity management.

Furthermore, there is exposure 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.

Various counterparties are used to reduce concentration risk and there are strict requirements for counterparty credit rating. Credit rating requirements are generally higher for counterparties to unsecured deposits in banks than in situations where collateral is received. 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. Further reduction of counterparty risk is achieved through collateral requirements for counterparty net positions with a 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 counterparties approved for these types of trades.

Counterparty risk is also reduced by setting exposure limits for individual counterparties. Exposure per counterparty is measured daily against set limits. The methods used to calculate counterparty risk are in accordance with internationally recognised standards. For OTC derivatives and currency contracts, the market value 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 is received as collateral for these contracts.

Exposure to counterparty risk is related to counterparties in the settlement and custody systems, both in currency trades and in purchase and sale of securities. Settlement risk for most currency trades is low. The settlement risk is reduced through the use of currency settlement system CLS (Continues Linked Settlement) or by trading directly with settlement banks. In a few currencies, Norges Bank is exposed to settlement risk when the sold currency is delivered to the counterparty before the receipt of currency is confirmed. This type of exposure is included on the line *OTC derivatives including currency contracts* in Table 7.7

Towards the end of year, Norges Bank Investment Management changed its settlement bank and agent for securities lending. With this shift, counterparty risk has been reduced somewhat, in that the settlement bank takes more responsibility in connection with securities lending and.

In Table 7.7, exposure is broken down by type of activity/instrument associated with counterparty risk.

Table 7.7 Counterparty risk by type of position

Amounts in NOK millions

				31 Dec. 2014
	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time depostits and unsecured bank deposits	322	-	-	322
OTC derivatives including foreign exchange contracts	-	-	-	-
Repurchase and reverse repurchase agreements	-	-	-	-
Security lending transactions	594	-	552	42
Cash and bonds posted as collateral for derivative trades	291	-	-	291
Total	1 207	-	552	655

Amounts in NOK millions

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

Counterparty risk measured by both gross and net exposure increased during 2014. Exposure increased primarily on account of increased cash holdings at year-end. At the same time, guarantee responsibilities for securities lending agents were extended during the year. The effect was a reduction in net exposure, such that it increased less than gross exposure. This is because agents' guarantee responsibilities are included only in the calculation of net exposure.

Norges Bank's counterparties have a credit rating from independent credit rating agencies. An internal credit evaluation can only be used as the basis for counterparty approval in instances when the counterparty risk is considered very low. Credit ratings of the Bank's counterparties are monitored and complemented by alternative credit risk indicators. Table 7.8 shows Norges Bank's counterparties (number) classified according to credit rating category.

Table 7.8 Counterparties* by credit rating

	Norges Bank's counterparties (excluding brokers)		Brokers	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
AAA	-	-	-	-
AA	22	21	23	23
A	56	55	72	65
BBB	3	3	28	30
BB	-	1	3	5
B	-	-	13	9
Total	81	80	139	132

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

OTHER RISK

Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations at the agreed time. As a central bank, Norges Bank is not exposed to this type of liquidity risk in local currency.

Credit risk associated with lending to banks

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

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

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

At 31 December 2014, there was no such lending to banks of significance.

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

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

NOTE 8 TRANSFERRED FINANCIAL ASSETS

ACCOUNTING POLICY

Securities lending

Securities lent through lending programmes are not derecognised from the balance sheet, as the derecognition criteria are not met. 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, as *Equities lent* and *Bonds lent*. During the lending period, the accounting for the underlying securities is in accordance with accounting policies for the relevant securities.

Repurchase agreements

In connection with positions in repurchase agreements, the security (bond) is not derecognised when the agreement is entered into as the derecognition criteria are not met. 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 in the balance sheet as *Bonds lent*. During the contract period, the accounting for the underlying securities is in accordance with accounting policies for the relevant securities.

SECURITIES LENDING

For the long-term portfolio, 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 requirements. Both equities and bonds are lent. The purpose of the lending activity is to generate additional returns for Norges Bank from its securities holdings. Norges Bank earns a net income based on these securities lending programmes. Net income comprises the 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 the consideration for carrying out the transactions, is also deducted.

Net income related to equities lending within the long-term portfolio amounted to NOK 54m in 2014, while the corresponding income for bonds was NOK 0. Corresponding amounts for 2013 were NOK 69m and NOK 0, respectively. See Note 3 *Net income from financial instruments*.

REPURCHASE AGREEMENTS

Norges Bank uses the market for repurchase agreements to support its financing activities. At any time, some of Norges Bank's holdings in bonds will be lent out through repurchase agreements, in exchange for received cash (repos and sell buy backs). This may be a form of financing asset management (borrowing of cash), or securities lending with the purpose of reinvesting received cash at a higher return and thus creating additional income.

Table 8.1 shows the total of bonds transferred through repurchase agreements and associated liabilities. Total exposure on these contracts is shown in Table 9.4 in Note 9 *Collateral and netting*.

Carrying amounts are at fair value.

Table 8.1 Transferred financial assets

Amounts in NOK millions

	31 Dec. 2014 Fair value	31 Dec. 2013 Fair value
SECURITIES LENDING PROGRAMMES		
Equities	6 404	4 355
Total transferred financial assets still recognised in the balance sheet	6 404	4 355
ASSOCIATED LIABILITIES		
Cash collateral received associated with securities lending programmes	762	1 365
Total associated liabilities	762	1 365

NOTE 9 COLLATERAL AND OFFSETTING

ACCOUNTING POLICY:

Norges Bank receives collateral in securities lending transactions, repurchase and reverse repurchase agreement transactions and financial derivative transactions.

Cash collateral

Cash collateral received in connection with securities lending transactions or OTC derivative transactions is recognised as *Deposits in banks* together with a corresponding liability, *Cash collateral received.* Cash collateral received in connection with repurchase agreement transactions is recognised as *Deposits in banks* with a corresponding short-term financial liability, *Borrowing associated with repurchase agreements*. Both short-term liabilities, *Cash collateral received* and *Borrowing associated with repurchase agreements,* are designated at initial recognition as financial liabilities measured at fair value through profit or loss. 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.

Cash transferred to counterparties in reverse repurchase agreement transactions, or cash collateral posted in OTC derivative transactions is derecognised. A corresponding receivable reflecting the cash amount that will be returned, is recognised as an asset as *Lending associated with reverse repurchase agreements* or cash collateral posted (as part of *Other assets*), respectively. Financial assets *Lending associated with reverse repurchase agreements* and cash collateral posted are designated as at fair value through profit or loss.

Securities collateral

Collateral received in the form of securities through securities lending transactions is not recognised in the balance sheet unless reinvested. In connection with reverse repurchase agreements, the received underlying security is not reinvested and is therefore not recognised in the balance sheet.

COLLATERAL

Different types of transactions are entered into whereby collateral is received or posted. This includes securities lending transactions, derivative transactions and repurchase and reverse repurchase agreements (see Tables 9.1 to 9.3) and Note 8 *Transferred financial assets*. For details on monitoring counterparty risk in connection with collateral, see Note 7 *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 the lender. 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.

Financial derivatives

Cash collateral is posted or received in accordance with positions in foreign exchange contracts and unlisted (OTC) financial derivative contracts (interest rate swaps, credit default swaps and equity swaps).

Repurchase and reverse repurchase agreements

Through repurchase and reverse repurchase agreements, Norges Bank receives or posts collateral in securities in return for cash. Norges Bank is a party to reverse repurchase agreements, where the counterparty has transferred bonds or equities to the Bank, and 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 a party to repurchase agreements (see Note 8 *Transferred financial assets*).

Tables 9.1 to 9.3 show an overview of securities received and posted as collateral, together with received or posted cash collateral.

Table 9.1 Securities received as collateral

Amounts in NOK millions

	31 Dec. 2014		31 Dec. 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Equities received as collateral under securities lending programmes	-	5 522	-	2 904
Bonds received as collateral under securities lending programmes	-	779	-	468
Equities received as collateral under reverse repurchase agreements	-	520	-	911
Bonds received as collateral under reverse repurchase agreements	-	39 480	-	22 088
Total securities received as collateral	**-**	**46 301**	**-**	**26 371**

Securities received in connection with securities lending or reverse repurchase agreements may be sold or pledged. At 31 December 2014 and 31 December 2013, no securities had been sold or pledged.

Table 9.2 Securities transferred or posted as collateral

Amounts in NOK millions

	31 Dec. 2014		31 Dec. 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Equities transferred under securities lending programmes	6 404	6 404	4 355	4 355
Bond posted as collateral in futures contracts (initial margin)	261	261	203	203
Total securities transferred or posted as collateral	6 665	6 665	4 558	4 558

Table 9.3 Cash received/posted as collateral

Amounts in NOK millions

	31 Dec. 2014		31 Dec. .2013	
	Received	Posted	Received	Posted
Related to repurchase agreements	-	50 803	-	22 970
Related to securities lending programmes*	762	-	1 365	-
Related to derivative transactions	-	-	-	99
Total cash collateral	762	50 803	1 365	23 069

* Collateral received is reinvested in its entirety in reverse repurchase agreements.

ACCOUNTING POLICY

Financial assets and liabilities are only offset, and presented net in the balance sheet, if Norges Bank has a legally enforceable right to set off the recognised amounts and the intention to settle on a net basis, or to realise the asset and settle the liability simultaneously, in accordance with IAS 32 ***Financial Instruments: Presentation.*** **The aforementioned criteria are not met for any financial assets and liabilities, hence no amounts are offset and presented net in the balance sheet. For this reason, Table 9.4 does not include a column for amounts offset/netted in the balance sheet.**

OFFSETTING

Table 9.4 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 the column *Assets/Liabilities after netting and collateral*.

For various counterparties and transaction types, cash collateral will be both posted to and received from the same counterparty. Therefore, received cash collateral can be netted against posted cash collateral and vice-versa.

Some netting agreements have been found to be potentially unenforceable. Transactions under such contracts are shown together with unsettled trades in the 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.

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 GPFG or Norway's foreign exchange reserves. Such cross nettings will be settled between these portfolios and are therefore not adjusted for in the table.

Table 9.4 Assets and liabilities subject to netting agreements

Amounts in NOK millions

ASSETS	Amounts subject to enforceable netting agreements						31 Dec. 2014
Description	Assets in the balance sheet subject to netting	Financial liabilities related to same counterparty	Cash collateral received (recognised as liability)	Security collateral received (not recognised)	Assets after netting and collateral	Unsetteled trades and assets not subject to enforceable netting agreements	Gross financial assets as recognised in the balance sheet
Derivatives	-	-	-	-	-	27	27
Lending associated with reverse repurchase agreements	38 307	-	384	37 923	-	12 496	50 803
Total	38 307	-	384	37 923	-	12 523	50 830

Amounts in NOK millions

LIABILITIES	Amounts subject to enforceable netting agreements						31 Dec. 2014
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	Unsetteled trades and liabilities not subject to enforceable netting agreements	Gross financial liabilities as recognised in the balance sheet
Derivatives	-	-	-	-	-	1	1
Cash collateral received	762	-	384	378	-	-	762
Total	762	-	384	378	-	1	763

Amounts in NOK millions

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

Amounts in NOK millions

LIABILITIES	Amounts subject to enforceable netting agreements						31 Dec. 2013
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	Unsetteled trades and liabilities not subject to enforceable netting agreements	Gross financial liabilities as recognised in the balance sheet
Derivatives	12	-	11	-	1	9	21
Cash collateral received	1 365	-	747	614	4	-	1 365
Total	1 377	-	758	614	5	9	1 386

NOTE 10 MANAGEMENT FEE, GPFG

ACCOUNTING POLICY

The management fee accrues during the financial year, but is cash-settled in the following year. Management fee receivable is classified as a financial asset and measured at amortised cost.

Norges Bank's total operating expenses related to the management of the GPFG are reimbursed by the Ministry of Finance as principal. The management fee corresponds to actual costs incurred by Norges Bank, including performance-based fees to external managers. The management fee is recognised in the income statement of the GPFG as an expense, and is recognised in Norges Bank's income statement as income, on the line *Management fee, GPFG*. The management fee was NOK 3 202m in 2014 and NOK 2 889m in 2013. See Note 20.11 *Management costs* for a specification and detailed description of the management fee.

NOTE 11 PENSION BENEFIT OBLIGATION

ACCOUNTING POLICY

Accounting treatment of pension and other benefit obligations is in accordance with revised IAS 19 *Employee Benefits*. Calculations for fund-based plans through Norges Bank's pension fund are based on actuarial assumptions regarding life expectancy, expected wage growth and adjustment of the National Insurance basic amount (G). The net benefit obligation is the difference between the present value of the benefit obligation and the fair value of plan assets.

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

SIGNIFICANT ESTIMATE

Measurement of the present value of Norges Bank's pension benefit obligation requires determination of a number of economic and actuarial assumptions. Changes in these assumptions may affect the pension expense and the pension benefit obligation recognised in the balance sheet. Norges Bank follows Norwegian Accounting Standards Board (NASB) guidelines in determining assumptions, where the guideline assumptions are assessed against actual conditions at Norges Bank before a decision is made to apply them.

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

Norges Bank's funded pension benefit obligations are covered by Norges Bank's own pension fund, which is organised as a separate legal entity. Retirement benefits are equal to 2/3 of the employee's salary at the time of retirement. The period of service for full benefits is 30 years. Employees contribute 2% of their gross annual salary into the pension fund. Norges Bank's contribution for 2014 was covered by cash payments and the premium fund. Benefits from the pension fund are coordinated with benefits from the National Insurance scheme.

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

At 31 December 2014, the Bank's funded pension plan covers 2 365 persons, of whom 959 are drawing retirement benefits, 662 are active members (including all those affected by restructuring) and 744 are members who have left the Bank with vested rights. At 31 December 2013, the plan covered 2 312 persons, of whom 962 were drawing retirement benefits, 658 were active members and 692 were members who have left the Bank with vested rights.

NORGES BANK'S BENEFIT OBLIGATIONS

Norges Bank has funded pension plans associated with membership in Norges Bank's pension fund. In addition, the Bank has unfunded plans funded out of current income. These are special and allocated pensions, the unfunded portions of pensions for employees with salaries higher than 12G earned after 1 January 2007, contractual early retirement pensions calculated on the basis of an expected 15% take-up rate and early retirement pensions and redundancy pay agreements related to restructuring. The benefit obligation related to restructuring is the present value of all agreements, including agreements with disbursements in 2015 or later.

Table 11.1 Economic and demographic assumptions

	31 Dec. 2014	31 Dec. 2013
Discount rate	2.30%	4.00%
Interest rate on assets	2.30%	4.00%
Rate of compensation increase	2.75%	3.75%
Rate of pension increase	1.75%	2.75%
Increase in social security base amount (G)	2.50%	3.50%
Expected annual attrition	2% up to age 50, then 0	2% up to age 50, then 0
Payroll tax/social security tax	14.10%	14.10%
Mortality table	K2013 FT	K2013 FT
Disability table	KU	KU

Table 11.2 Reconciliation of net liability (assets) recognised in the balance sheet

Amounts in NOK millions

	31 Dec. 2014	31 Dec. 2013
CHANGE IN DEFINED BENEFIT OBLIGATION (DBO) INCL. PAYROLL TAX		
DBO at beginning of year	3 789	3 417
Service cost	124	119
Interest cost	144	134
Curtailment/settlement	-	-
Plan amendments	-179	-
Acquisition (disposal)	-	-
Payroll tax on employer contribution	-15	-25
Benefits paid	-152	-155
Remeasurement loss (gain)	476	299
DBO at year-end	**4 187**	**3 789**
CHANGE IN PLAN ASSETS		
Fair value of assets at beginning of year	3 423	3 088
Interest income	115	91
Settlement	-	-
Acquisition (disposal)	-	-
Employer contribution incl. payroll tax	123	203
Payroll tax on employer contribution	-15	-25
Benefits paid	-136	-134
Remeasurement (loss) gain	101	200
Fair value of assets at year- end	**3 611**	**3 423**
Pension scheme not recognised in the actuarial calculation	1	1
Net amount recognised in the balance sheet	**-577**	**-367**

Table 11.3 Specification of funded and unfunded plans

Amounts in NOK millions

	31 Dec. 2014			31 Dec. 2013		
	Funded plan	Unfunded plans	Total	Funded plan	Unfunded plans	Total
Accrued benefit obligations	4 001	187	4 188	3 618	172	3 790
Plan assets	-3 611	-	-3 611	-3 423	-	-3 423
Net benfit obligation/(-) plan assets	**390**	**187**	**577**	**195**	**172**	**367**

Table 11.4 Allocation of plan assets for funded (defined-benefit) plan

Amounts in NOK millions

	31 Dec. 2014	31 Dec. 2013
Bonds	2 149	2 303
Equities	1 098	925
Real estate	364	195
Total	3 611	3 423

PENSION EXPENSE FOR EMPLOYEES IN NORWAY

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

The change in special and allocated benefits is included in the Bank's overall pension expense. Pension expense is shown in Table 11.5.

Table 11.5 Pension expense

Amounts in NOK millions

		2014		2013
Service cost and cost of benefit changes		**-51**		**150**
Service cost incl. interest and payroll tax	124		119	
Administration cost incl. payroll tax	4		31	
Effect of plan amendments incl. payroll tax	-179			
Financial cost (income)		**27**		**12**
Net interest cost (income) incl. payroll tax	7		12	
Investment management cost incl. payroll tax	20		-	
Net periodic pension cost (income)*		**-24**		**162**

* In 2009, the Storting approved a number of changes to public sector pension plans, including life expectancy adjustments of pensions. Following new guidelines from the Norwegian Accounting Standards Board, an assessment was made of the accounting treatment of the life expectancy adjustment. The effect is therefore stated in the accounts as a plan amendment in 2014, with appurtenant recognition in the income statement. Such accounting treatment is one of the alternatives presented in the guidelines.

Amounts in NOK millions

	2014	2013
Other comprehensive income (OCI) in the period		
Remeasurement loss (gain) - change in discount rate	1 667	-49
Remeasurement loss (gain) - change in other economic assumptions	-1 065	518
Remeasurement loss (gain) - change in mortality table	-	185
Remeasurement loss (gain) - change in other demographic assumptions	-	-
Remeasurement loss (gain) - experience adjustments, DBO	-127	-356
Remeasurement loss (gain) - experience adjustments, assets	-118	-200
Investment management cost	17	-
OCI losses (gains) in the period*	**374**	**98**

PENSION PLANS FOR LOCALLY EMPLOYED STAFF OF FOREIGN OFFICES

Locally employed staff at Norges Bank's offices in London and New York have a defined-contribution pension plan in accordance with local provisions in addition to what has been established by the authorities. As employer, Norges Bank contributes up to 8% of fixed salary for employees in New York and up to 10% of fixed salary for employees in London to the plans in line with market practice. The plans are managed externally, within rules determined by Norges Bank. Recognised expenses for the plans in London and New York amounted to NOK 12.5m in 2014 and NOK 7.9m in 2013. Locally employed staff at Norges Bank's offices in Singapore and Shanghai have no pension plan beyond what has been established by the authorities, which is in line with market practice.

SENSITIVITY ANALYSIS

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

Table 11.6 Sensitivity analysis

Amounts in NOK millions

				31 Dec. 2014
	Discount rate	Rate of compensation increase	ABO pensioners / DBO other	Change*
Assumptions at 31 Dec. 2014	2.30%	2.75%	4 116	I/A
Discount rate - 0.5%	1.80%	2.75%	4 338	5.39%
Discount rate + 0.5%	2.80%	2.75%	3 641	-11.54%
Rate of compensation increase + 0.5%	2.30%	3.25%	4 194	1.90%
Rate of compensation increase - 0.5%	2.30%	2.25%	3 948	-4.08%

* Percentage change in the pension benefit obligation.

NOTE 12 PERSONNEL EXPENSES

Table 12.1 Personnel expenses

Amounts in NOK millions

	2014	2013
Salary and fees	875	803
Employer's social security contributions	112	110
Pension expense/(income), see Note 11	-24	162
Other personnel expenses	188	134
Personnel expenses	**1 151**	**1 209**

In 2011, a variable salary scheme was established under the provisions of Regulation No. 1507 of 1 December 2010 relating to remuneration schemes in financial institutions, investment firms and management companies for securities funds.

Table 12.2 Number of employees/FTEs

	2014	2013
Number of employees at 31 Dec.	763	701
Number of FTEs at 31 Dec.	755	694

BENEFITS TO GOVERNING BODIES AND SENIOR MANAGEMENT

Supervisory Council

Expenses for Norges Bank's Supervisory Council and the Office of the Supervisory Council amounted to NOK 14 288 686 in 2014, compared with NOK 12 772 960 in 2013. With regard to remuneration to members of the Supervisory Council and the director of the Office of the Supervisory Council, see the Supervisory Council's report to the Storting for 2014.

Table 12.3 Remuneration to the Supervisory Council

Amounts in NOK

Annual remuneration in 2014	Total remuneration	Supervisory Council	The Permanent Committee
Chair of the Supervisory Council	136 000	54 000	82 000
Deputy chair	88 000	34 000	54 000
Three members of the Permanent Committee	80 500	26 500	54 000
10 members of the Supervisory Council	26 500	26 500	-
15 Alternates*	4 400	4 400	-

* Alternates to the Supervisory Council received NOK 2 550 for each meeting attended and alternates to the Permanent Committee NOK 3 150.

Amounts in NOK

Annual remuneration in 2013	Total remuneration	Supervisory Council	The Permanent Committee
Chair of the Supervisory Council	96 800	48 400	48 400
Deputy chair	78 800	30 400	48 400
Three members of the Permanent Committee	72 000	23 600	48 400
10 members of the Supervisory Council	23 600	23 600	-
15 Alternates*	3 900	3 900	-

* Alternates to the Supervisory Council received NOK 2 250 for each meeting attended and alternates to the Permanent Committee NOK 2 800.

Total remuneration paid in 2014 was NOK 832 000, of which fixed remuneration was NOK 796 500 and remuneration for alternates for meetings attended was NOK 35 700. Total remuneration paid in 2013 was NOK 705 200.

Executive Board – external members

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

Table 12.4 Remuneration to the Executive Board

Amounts in NOK

Name	Total remuneration	Executive Board	Audit Committee	2014 Remuneration Committee*
Liselott Kilaas	264 000	205 000	59 000	-
Egil Matsen	275 000	205 000	70 000	-
Hilde Myrberg	226 600	205 000	-	21 600
Karen Helene Ulltveit-Moe	264 000	205 000	59 000	-
Kjetil Storesletten	226 600	205 000	-	21 600

* Remuneration is NOK 5 400 for each meeting attended.

Amounts in NOK

Name	Total remuneration	Executive Board	Audit Committee	2013 Remuneration Committee*
Liselott Kilaas	255 000	198 000	57 000	-
Egil Matsen	255 000	198 000	57 000	-
Ida Helliesen	266 000	198 000	68 000	-
Eirik Wærness	218 800	198 000	-	20 800
Brit Rugland	218 800	198 000	-	20 800

* Remuneration is NOK 5 200 for each meeting attended.

The Executive Board's two alternates, Espen R. Moen and Hege Sjo, received a fixed annual remuneration of NOK 135 000. Total remuneration to members and alternates of the Executive Board, Audit Committee and Remuneration Committee was NOK 1 493 800 in 2014, compared with NOK 1 442 400 in 2013.

Governor and deputy governor

The salaries of the governor and deputy governor of Norges Bank are determined by the Ministry of Finance. In addition, they have a free telephone, free newspaper subscription and insurance covered by their employer. The governor has a company car at his disposal. The governor and deputy governor are members of Norges Bank's pension fund. The terms and conditions of the retirement benefits are the terms and conditions for the pension fund in force on the date in question. The deputy governor has entitlements retained from previous employment at Norges Bank. Neither the governor nor the deputy governor receives any performance-based or other variable remuneration.

Table 12.5 Remuneration to the governor and deputy governor

Amounts in NOK

Executive	Name	Gross salary	Value of other benefits	Pension benefits earned	2014 Employee loan
Governor	Øystein Olsen	2 131 355	146 157	397 514	-
Deputy governor	Jon Nicolaisen*	1 329 281	6 813	274 883	100 000
Deputy governor	Jan F. Qvigstad**	429 330	30 089	400 811	1 640 000

* Jon Nicolaisen became deputy governor on 1 April 2014. Remuneration is shown as from the date the appointment became effective.

** Jan F. Qvigstad retired from the position of deputy governor on 31 March 2014. Remuneration is shown up until his retirement date.

Amounts in NOK

Executive	Name	Gross salary	Value of other benefits	Pension benefits earned	2013 Employee loan
Governor	Øystein Olsen	2 032 715	158 126	482 304	-
Deputy governor	Jan F. Qvigstad	1 690 919	128 644	1 412 219	1 555 000

SALARIES AND RETIREMENT BENEFITS FOR OTHER SENIOR EXECUTIVES AT NORGES BANK

Senior executives are entitled to the same retirement benefits and have the same borrowing rights as the Bank's other employees. Pension plans are discussed in Note 11 *Pension benefit obligation* and loans to employees are discussed in a separate section in this note.

Benefits to senior executives in Norges Bank's Central Banking Operations

The Executive Board sets a salary interval for area directors in Central Banking Operations. The governor determines annual salary within this interval. Senior executives in Central Banking Operations do not receive any performance-based or other variable remuneration.

Table 12.6 Remuneration to senior executives

Amounts in NOK

	Name	Gross salary	Value of other benefits	Pension benefits earned	2014 Employee loan
Executive director, Financial Stability	Amund Holmsen	1 514 729	9 084	251 694	2 665 000
Executive director, Monetary Policy	Birger Vikøren	1 536 252	11 263	289 830	968 542
Executive director, Markets and Banking Services	Kristin Gulbrandsen	1 558 532	7 044	364 262	1 984 635
Executive director, Corporate and Shared Services	Jannecke Ebbesen	1 499 485	10 875	321 491	2 500 000
Executive director, General Secretariat	Jon Nicolaisen*	337 500	2 271	91 628	-
Director, Internal Audit	Ingunn Valvatne	1 532 534	14 230	366 804	1 120 129
Director, Communications and External Relations	Hilde Singsaas	1 295 269	9 084	429 451	-
General counsel	Marius Ryel	1 565 217	14 751	362 645	-

* Jon Nicolaisen became deputy governor on 1 April 2014. Nicolaisen functions as the Executive Director of the General Secretariat. Remuneration is shown until the date he assumed the position of deputy governor.

Amounts in NOK

	Name	Gross salary	Value of other benefits	Pension benefits earned	2013 Employee loan
Executive director, Financial Stability	Amund Holmsen	1 440 642	11 134	212 431	2 740 000
Executive director, Monetary Policy	Birger Vikøren	1 473 752	14 189	248 468	1 031 030
Executive director, Markets and Banking Services	Kristin Gulbrandsen	1 497 782	8 563	328 705	2 058 029
Executive director, Corporate and Shared Services	Jannecke Ebbesen	1 443 446	14 240	262 062	2 500 000
Executive director, General Secretariat	Jon Nicolaisen	1 510 624	13 301	318 794	100 000
Director, Internal Audit	Ingunn Valvatne	1 478 005	15 250	316 618	1 176 000
Director, Communications and External Relations	Siv Meisingseth*	894 012	10 176	212 154	2 009 854
Director, Communications and External Relations	Hilde Singsaas**	178 571	1 836	60 747	-
General counsel	Marius Ryel	1 514 519	18 282	328 282	-

* Siv Meisingseth resigned from the position of Director of Communications and External Relations on 31 August 2013. Remuneration is shown until the date her resignation became effective.

** Hilde Singsaas became Director of Communications and External Relations on 11 November 2013. Remuneration is shown as from the date her appointment became effective.

Remuneration to senior executives in Norges Bank Investment Management

The Executive Board sets a salary interval for the chief executive officer (CEO) of Norges Bank Investment Management and for other members of the Norges Bank Investment Management leader group. The governor determines annual salary for the CEO within this interval. Salaries for other members of the Norges Bank Investment Management leader group are determined by the CEO in within the interval and limits set by the Executive Board. Stated remuneration pertains to the period during which the employee was a member of the leader group. Senior executives in Norges Bank Investment Management do not earn performance-based or other variable remuneration. Senior executives who previously held positions entitling them to performance-based pay will not earn additional entitlements, but will be paid remaining performance-based pay in accordance with the Norges Bank Investment Management Long-term Performance Plan.

Table 12.7 Remuneration to senior executives in Norges Bank Investment Management

Amounts in NOK

					2014
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Chief Executive Officer	Yngve Slyngstad	6 247 170	9 084	479 580	503 387
Deputy CEO and CAO	Trond Grande	4 027 805	9 084	330 432	-
Chief Compliance Officer	Jan Thomsen	3 446 715	9 084	324 387	-
Chief Investment Officer	Petter Johnsen	6 884 774	87 769	688 477	-
Chief Investment Officer	Øyvind Gjærevoll Schanke*	1 062 500	2 271	123 457	-
Chief Investment Officer	Ole Christian Bech-Moen*	937 500	2 271	68 547	2 520 000
Chief Risk Officer	Dag Huse*	1 062 500	2 271	123 473	-
Chief Operating Officer	Age Bakker	3 182 418	9 137	370 546	-
Chief Investment Officer	Karsten Kallevig	4 241 414	9 084	315 124	-
Chief Administrative Officer	Mie Holstad*	437 500	2 346	57 473	2 052 899
Chief Operating Officer	Nina Hammerstad*	625 000	2 371	85 161	2 166 138

* Began in this position on 1 October 2014. Remuneration is shown as from the date the appointment became effective.

Amounts in NOK

					2013
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Chief Executive Officer	Yngve Slyngstad	5 930 377	9 016	398 954	603 995
Deputy CEO og Chief of Staff	Trond Grande	3 801 524	9 016	287 735	-
CIO Equities	Petter Johnsen	5 748 000	63 136	574 800	-
CIO Real Estate	Karsten Kallevig	4 073 061	9 016	272 135	-
Chief Treasurer	Jessica Irschick*	1 609 440	55 791	160 944	-
Chief Risk Officer	Jan Thomsen	3 446 715	9 016	293 484	-
Chief Operating Officer	Age Bakker	3 091 906	9 016	337 748	-

* Jessica Irschick resigned from the position of Chief Treasurer on 30 April 2013. Remuneration is shown up until the date her resignation became effective.

Loans to employees

The Bank's loan scheme for its employees comprises residential mortgages and consumer loans. Mortgages are provided in accordance with guidelines from the Supervisory Council within 80% of assessed value, limited to NOK 2 590 000 and a maximum term of 30 years. Consumer loans are limited to a maximum of four times the employee's monthly salary, though not exceeding NOK 350 000. The loan schemes apply to all employees. The interest rate is linked to the norm rate (the norm rate for loans on favourable terms from an employer). The Ministry of Finance sets the norm rate up to six times a year. In 2014, the interest rate was 2.25% for January and February, 2.75% for March through October and 2.50% for November and December. In 2013, the interest rate was 2.25% for the entire year.

Total loans to employees in 2014 were NOK 763m, compared with NOK 729m in 2013.

NOTE 13 OTHER NON-FINANCIAL ASSETS

ACCOUNTING POLICY

Non-current assets are recognised at cost, less accumulated straight-line depreciation or amortisation over their expected useful life.

Gold:

Norges Bank has holdings of gold coins and gold bars as part of the Bank's historical collections. The holdings were measured at fair value on the date the gold was reclassified from international reserves to non-current assets.

Art and numismatic collections:

Norges Bank has a collection of art and numismatic objects such as medals, banknotes and coins. The collection was recognised at estimated cost on the basis of an appraisal in 2005.

Impairment testing:

An impairment test is performed if there is an indication that an asset is impaired. If the carrying amount exceeds fair value, the carrying amount will be reduced to fair value. In the event the metallic value of gold rises, the holdings of gold are not revalued.

Table 13.1 Other non-financial assets

Amounts in NOK millions

	31 Dec. 2014	31 Dec. 2013
Non-current assets	1 787	1 661
Gold	291	291
Art and numismatic collections	83	82
Other assets	43	46
Other non-financial assets	**2 204**	**2 080**

NON-CURRENT ASSETS

Table 13.2 shows a specification of non-current assets broken down into intangible assets and property, plant and equipment for 2014 and 2013.

Table 13.2 Non-current assets

Amounts in NOK millions

						2014
	Intangible assets	Property, plant and equipment				
	Software	Buildings	Land	Other	Plant under construction	Total
Cost at 1 Jan.	268	2 583	60	177	175	3 263
+ Additions	138	76	-	24	12	250
- Disposals	5	-	-	13	-	18
-/+ Adjustments	-	-	-	-	-	-
Cost at 31 Dec.	**401**	**2 659**	**60**	**188**	**187**	**3 495**
- Accumulated depreciation and impairment	230	1 363	-	115	-	1 708
Carrying amount at 31 Dec.	**171**	**1 296**	**60**	**73**	**187**	**1 787**
Depreciation for the year	**43**	**54**	**-**	**26**	**-**	**123**
Impairment for the year	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation schedule, no. of years	3–6	5–75	none	4–10	none	

Amounts in NOK millions

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

BUILDINGS

Bankplassen 4 is being leased to the government for 80 years, beginning in November 1986. The building is fully depreciated and its carrying amount at 31 December 2014 is NOK 0.

NOTE 14 OTHER OPERATING EXPENSES AND OPERATING INCOME

OTHER OPERATING EXPENSES

Table 14.1 Other operating expenses

Amounts in NOK millions

	2014	2013
Custody and settlement costs	480	452
IT services, systems and data	673	625
Research, consulting and legal fees	264	194
Other costs	265	215
Base fees to external managers	445	313
Performance-based fees to external managers	649	684
Total other operating expenses	2 776	2 483

Table 14.2 Fees, external auditor

Amounts in NOK thousands, inclusive VAT

	Norges Bank		Subsidiaries*	
	2014	2013	2014	2013
Statutory audit	17 044	14 780	3 731	2 302
Other assurance services**	3 572	5 376	-	-
Tax advice	123	333	157	71
Other services	-	212	185	211
Total fees, external auditor	20 739	20 701	4 073	2 584

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

** The elected auditor has during 2014 assisted the Office of the Supervisory Council with several supervisory assignments. Fees related to this are shown as *Other assurance services*.

OTHER OPERATING INCOME

Table 14.3 Other operating income

Amounts in NOK millions

	2014	2013
Services, banks	59	59
Services, government (see Note 9 *Related parties*)	37	35
Rent (see Note 9 *Related parties*)	26	23
Other income	8	8
Other operating income	128	125

Services for banks

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

NOTE 15 NOTES AND COINS IN CIRCULATION

ACCOUNTING POLICY

Notes and coins in circulation are recognised in the balance sheet at face value when they are placed into circulation and derecognised when they are withdrawn from circulation and no later than the expiry of the ten-year deadline for redemption, in accordance with Section 15 of the Norges Bank Act. Notes and coins not redeemed by the ten-year deadline are recognised as income in profit or loss as *Other financial income/expenses*. After the ten-year deadline, notes and coins may be redeemed upon application and are then recognised on the same line as an expense in profit or loss. Expenses for the production of notes and coins are recognised in profit or loss as incurred in *Other expenses*.

No invalidated notes and coins were recognised as income in 2014 or 2013. In 2014, invalidated notes and coins were redeemed in the amount of NOK 12.9m, compared with NOK 17.3m in 2013.

NOTE 16 INTERNATIONAL MONETARY FUND (IMF) AND INTERNATIONAL RESERVES

ACCOUNTING POLICY

Allocated Special Drawing Rights (SDRs):

SDRs are recognised as an asset in the balance sheet. The value of SDRs is calculated on the basis of a currency basket comprising USD, EUR, GBP and JPY. The currency code for this supplementary asset and unit of account is XDR. However, it is customary to use SDR instead, and Norges Bank has chosen to follow this practice in the financial statements. The equivalent value of SDR allocations by the IMF shows Norges Bank's total allocations of SDRs and is recognised as a liability. Norges Bank's holdings of SDRs are measured at amortised cost.

Reserve tranche position:

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

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

Are recognised in the balance sheet at fair value at initial recognition. Subsequent measurement is at amortised cost.

Pursuant to Section 25 of the Norges Bank Act, Norges Bank administers Norway's financial rights and fulfils the obligations ensuing from participation in the International Monetary Fund (IMF)

The IMF works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty around the world. The IMF gives advice to member countries and provides temporary funding in the event of balance of payments problems.

Table 16.1 Claims on and liabilities to the IMF

Amounts in NOK millions

						31 Dec. 2014
	Loan resource commitments*	**Amounts drawn on commitments**	**Subscriptions****	**SDRs**	**Total amount recognised**	**International reserves associated with the IMF**
FINANCIAL ASSETS						
IMF qouta	-	-	20 421	-	20 421	20 421
Holdings of Special Drawing Rights (SDRs)	-	-	-	16 064	16 064	16 064
Loans to the IMF, New Arrangements to Borrow (NAB)	*41 961*	5 021	-	-	5 021	5 021
Bilateral borrowing agreement with the IMF	*65 041*	-	-	-	-	-
Loans to the IMF's arrangements to low-income countries, Poverty Reduction and Growth Trust (PRGT)	*3 252*	2 535	-	-	2 535	-
Claims on the IMF	***110 254***	**7 556**	**20 421**	**16 064**	**44 041**	**41 506**
FINANCIAL LIABILITIES						
Krone liability to the IMF	-	-	17 489	-	17 489	17 489
Equivalent value of SDR allocations	-	-	-	16 945	16 945	-
Liabilities to the IMF	**-**	**-**	**17 489**	**16 945**	**34 434**	**17 489**
Net positions with the IMF	***110 254***	**7 556**	**2 932**	**-881**	**9 607**	**24 017**

Amounts in NOK millions

	*Loan resource commit-ments**	Amounts drawn on commit-ments	Sub-scrip-tions**	SDRs	Total amount recog-nised	31 Dec. 2013 International reserves associated with the IMF
FINANCIAL ASSETS						
IMF qouta	-	-	17 624	-	17 624	17 624
Holdings of Special Drawing Rights (SDRs)	-	-	-	13 909	13 909	13 909
Loans to the IMF, New Arrangements to Borrow (NAB)	*36 211*	4 706	-	-	4 706	4 706
Bilateral borrowing agreement with the IMF	*56 127*	-	-	-	-	-
Loans to the IMF's arrangements to low-income countries, Poverty Reduction and Growth Trust (PRGT)	*2 806*	2 191	-	-	2 191	-
Claims on the IMF	95 144	6 897	17 624	13 909	38 430	36 239
FINANCIAL LIABILITIES						
Krone liability to the IMF	-	-	13 789	-	13 789	13 789
Equivalent value of SDR allocations	-	-	-	14 624	14 624	-
Liabilities to the IMF	-	-	13 789	14 624	28 413	13 789
Net positions with the IMF	95 144	6 897	3 835	-715	10 017	22 450

* Commitments giving the IMF a borrowing facility with Norges Bank up to an agreed amount. Only the portion drawn is recognised in the balance sheet. The change in loan resource commitments is in its entirety related to changes in foreign exchange rates.

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

IMF quota

The IMF allocates quotas that determine the member country's voting strength in the IMF, the member's financial contribution to the IMF, the amount of financing the member can access in the event of balance of payments problems and the amount of SDRs the member is allocated. Norway's quota at 31 December 2014 was SDR 1 883.7m, unchanged from 2013.

When the 14th General Review of Quotas, approved in 2010 by IMF, comes into effect quotas will approximately double. Norway's quota will increase from SDR 1 883.7m to SDR 3 754.7m. On the same date that Norway pays in the quota increase, Norway's commitment to furnish funds for the NAB will be reduced from SDR 3 871m to SDR 1 967m.

Holdings of Special Drawing Rights and Equivalent value of SDR allocations

The Special Drawing Right (SDR) is an international reserve asset created by the IMF. The composition of the SDR is evaluated every five years. SDRs are periodically allocated to IMF member countries, most recently in 2010, on the basis of the size of member countries' quotas. *Equivalent value of SDR allocations* shows total allocations of SDRs since the scheme entered into force. As at 31 December 2014, a total of SDR 1 563.1m had been allocated to Norway. Allocated SDRs are unchanged from 2013. Holdings amounted to SDR 1 481.8m, compared with SDR 1 486.7m at end-2013.

After being allocated SDRs, IMF members may use SDRs to pay in quota increases, for other transactions with the IMF or for purchase or sale of SDR from or to other IMF members through voluntary arrangements. SDRs cannot be used for direct purchases of goods and services. Net purchases and sales of SDRs in the period result in changes in the item *Holdings of Special Drawing Rights*, which shows the actual holdings of SDRs.

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

The New Arrangements to Borrow (NAB) programme is used for loans if the IMF has a need for funds in excess of quota resources. Loans to the IMF under the NAB at 31 December 2014 totalled SDR 463.1m, or NOK 5 021m. The corresponding amount for end-2013 was SDR 503m or NOK 4 706m. Total loan resource commitments to the NAB are SDR 3 871m.

Bilateral borrowing agreement with the IMF, 2012 Borrowing Agreements.
IMF and Norges Bank have signed a bilateral borrowing agreement under which the IMF will be provided with a borrowing facility in the form of a drawing arrangement of up to SDR 6bn. The agreement is part of a broader international effort to ensure the IMF sufficient resources to meet the borrowing requirements of member countries in times of crisis.

Loans to the IMF's Poverty Reduction and Growth Trust (PRGT)
The Poverty Reduction and Growth Trust (PRGT) is a separate programme aimed at boosting the IMF's lending capacity to low-income countries. Loans to the PRGT at 31 December 2014 totalled SDR 234m or NOK 2 532m. The corresponding amount for end-2013 was SDR 234m, or NOK 2 191m. Total loan resource commitments to the PRGT are SDR 300m.

Krone liability to the IMF
The IMF has deposited its NOK holdings with Norges Bank. At 31 December 2014, the krone liability to the IMF was SDR 1 613.2m compared with SDR 1 473.8m at end-2013.

NET INTEREST INCOME ON CLAIMS ON/LIABILITIES TO THE IMF

Table 16.2 Net interest income, claims on/liabilities to the IMF

Amounts in NOK millions

				2014
	Withdrawal on loan resource commitments	Capital	SDR	Total
Interest income, IMF	10	14	12	36
Interest expenses, IMF	-	-12	-13	-25
Net interest income, claims on/liabilities to the IMF	**10**	**2**	**-1**	**11**

Amounts in NOK millions

				2013
	Withdrawal on loan resource commitments	Capital	SDR	Total
Interest income, IMF	8	13	11	32
Interest expenses, IMF	-	-10	-11	-21
Net interest income, claims on/liabilities to the IMF	**8**	**3**	**-**	**11**

Interest on Special Drawing Rights and Interest on equivalent value of SDR allocations
Norges Bank earns interest income from the IMF on its holdings of SDRs, and is charged for interest expenses by the IMF on the equivalent value of SDR allocations. Interest is calculated monthly and netted quarterly. The interest rate is updated weekly by the IMF.

Interest on the quota in the IMF and Interest on the krone liability to the IMF
Interest on the reserve tranche position (as defined in the footnote to Table 16.1) is calculated by the IMF. Interest is calculated net by the IMF, but presented gross in Norges Bank's financial statements as *Interest on the quota in the IMF* and *Interest on NOK liability to the IMF*. Interest is calculated monthly and netted quarterly. The interest rate is updated weekly by the IMF.

INTERNATIONAL RESERVES

Norges Bank regularly reports international reserves to Statistics Norway and the IMF. This reporting activity is a special requirement for central banks, and has no effect on Norges Bank's financial position for 2014 or 2013.

International reserves are defined by IMF and consist of:

Table 16.3 International reserves

Amounts in NOK millions

	2014	2013
Foreign exchange reserves	448 567	328 323
Net financial items adjustments*	13 213	2 853
Net positions with the IMF**	24 017	22 450
Total international reserves	**485 797**	**353 626**

* Items adjusted in accordance with the IMF definition. Adjustment pertains primarily to unsettled trades and cash collateral received recognised in the balance sheet.

** See specification of claims on and liabilities to the IMF in Table 16.1.

NOTE 17 BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

ACCOUNTING POLICY

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

The BIS acts as a bank for central banks, and its mission is to serve central banks in their pursuit of monetary and financial stability by fostering international cooperation in those areas.

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

Table 17.1 Shares in the BIS

Amounts in NOK millions

	31 Dec. 2014	31 Dec. 2013
Shares in the BIS	200	200
Share capital in the BIS not paid, not recognised	348	300
Dividend received from the BIS	18	25

NOTE 18 LENDING TO AND DEPOSITS FROM BANKS, ETC.

ACCOUNTING POLICY

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

Table 18.1 Lending to banks

Amounts in NOK millions

	31 Dec. 2014	31 Dec. 2013
D-loans to banks	1	-
F-loans to banks	-	-
Total lending to banks	**1**	**-**

See Note 3 *Net income from financial instruments* for a description of D-loans and F-loans to banks, with associated interest rate terms. See also Note 7 *Risk* for a discussion of credit risk associated with lending.

Table 18.2 Deposits from banks etc.

Amounts in NOK millions

	31 Dec. 2014	31 Dec. 2013
Sight deposits from banks	34 271	37 213
Fixed-rate deposits from banks	43 391	37 315
Other deposits	138	144
Total deposits from banks etc.	**77 800**	**74 672**

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

NOTE 19 RELATED PARTIES

ACCOUNTING POLICY

Norges Bank is owned by the Norwegian government and under IAS 24.25 is exempt from the disclosure requirements pertaining to related party transactions and outstanding balances, including commitments, with the government. This includes transactions with other entities that are related parties because the Norwegian government has control of, joint control of, or significant influence over both Norges Bank and the other entities.

Norges Bank, including the GPFG, is a separate legal entity that is wholly owned by the government through the Ministry of Finance. See Note 1 *General Information* for information regarding the relationship between the Ministry of Finance, Norges Bank and the GPFG. Norges Bank carries out all transactions in its own name and at market prices.

For information regarding transactions with governing bodies and senior executives of Norges Bank, see Note 12 *Personnel expenses*.

MANAGEMENT OF THE GPFG

The Ministry of Finance places funds for asset management by the GPFG as a krone deposit in a special account with Norges Bank. GPFG assets are invested further in an investment portfolio comprising equities, fixed income instruments and real estate. See information regarding inflows during the period in Note 20 GPFG *Statement of changes in owner's capital*.

Norges Bank charges the Ministry of Finance a management fee relating to management of the GPFG, which amounted to NOK 3 202m in 2014 and NOK 2 889m in 2013. For further information, see Note 20.11 *Management costs*.

TRANSACTIONS BETWEEN NORGES BANK AND THE GPFG

Internal trades in the form of money market lending or borrowing and reverse repurchase agreements between the GPFG and Norges Bank's long-term portfolio are presented as a net balance between the two reporting entities, on the balance sheet line *Other assets* and *Other liabilities*. Associated income and expense items are presented gross in the respective income statement as either interest income or interest expense. All transactions are carried out at market prices.

OTHER TRANSACTIONS WITH THE GOVERNMENT

Under agreements with the Ministry of Finance, Norges Bank performs tasks in connection with:

- Government debt management
- Administering the central government's group account
- Administering the swap arrangement (terminated in June 2014)
- Managing commemorative coins

The Ministry of Finance covers Norges Bank's costs related to these tasks, which amounted to NOK 37m for 2014 and NOK 35m for 2013.

TRANSACTIONS WITH OTHER RELATED PARTIES

Norges Bank has transactions with other government agencies and bodies. These transactions are primarily related to leasing of buildings, and amounted to NOK 25m in 2014, compared with NOK 23m in 2013.

NOTE 20 GPFG

INCOME STATEMENT

Amounts in NOK millions

	Note	2014	2013 Restated*
Profit/loss on the portfolio excluding foreign exchange gains and losses			
Interest income and expense from deposits in banks and short-term borrowing		48	61
Interest income, lending associated with reverse repurchase agreements		159	150
Net income/expense – gain/loss from:			
- Equities and units		388 521	681 787
- Bonds		158 027	5 897
- Real estate	5	7 160	3 236
- Financial derivatives		- 8 208	1 590
Interest expense, borrowing associated with repurchase agreements		- 35	- 34
Other interest income and interest expense		- 9	2
Tax expense	13	- 2 026	- 1 133
Other expenses		- 3	- 26
Profit/loss on the portfolio before foreign exchange gains and losses	3	**543 634**	**691 530**
Foreign exchange gains and losses		702 259	291 428
Profit/loss on the portfolio		**1 245 893**	**982 958**
Management fee	11	- 3 202	- 2 889
Profit/loss for the period and total comprehensive income		**1 242 691**	**980 069**

* See Notes 2 and 16 for details regarding restated comparatives.

BALANCE SHEET

Amounts in NOK millions

	Note	31 Dec. 2014	31 Dec. 2013 Restated*
ASSETS			
Deposits in banks		11 731	3 982
Lending associated with reverse repurchase agreements	10	45 536	89 189
Unsettled trades		1 376	1 125
Equities and units	4	3 790 853	2 972 317
Equities lent	4, 9	166 842	161 150
Bonds	4	2 324 626	1 804 456
Bonds lent	4, 9	25 163	75 807
Real estate	5	106 431	51 032
Financial derivatives	8	5 777	1 416
Other assets	12	5 136	3 522
TOTAL ASSETS	6, 7	**6 483 471**	**5 163 996**
LIABILITIES AND OWNER'S CAPITAL			
Liabilities			
Short-term borrowing		-	29
Borrowing associated with repurchase agreements	9, 10	13 512	69 147
Cash collateral received	10	27 006	48 064
Unsettled trades		4 001	7 654
Financial derivatives	8	7 895	972
Other liabilities	12	318	395
Management fee payable	11	3 202	2 889
Total liabilities		**55 934**	**129 150**
Owner's capital		6 427 537	5 034 846
TOTAL LIABILITIES AND OWNER'S CAPITAL	6, 7	**6 483 471**	**5 163 996**

* See Notes 2 and 16 for details regarding restated comparatives.

STATEMENT OF CASH FLOWS

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

	2014	2013 Restated*
Operating activities		
Net cash flow arising from interest received from deposits in banks and interest paid on short-term borrowing from banks	- 1 718	1 396
Net cash flow in connection with repurchase agreements and reverse repurchase agreements	- 18 744	27 128
Net cash flow arising from purchase and sale of equities and units	- 144 448	- 24 851
Net cash flow arising from purchase and sale of bonds	- 62 878	- 361 384
Net cash flow arising from purchase and sale of real estate	- 37 711	- 19 307
Net cash flow arising from financial derivatives	- 1 204	- 285
Dividends received from investments in equities and units	82 623	72 637
Interest received on bonds	63 309	49 511
Income received in connection with equity and bond lending	2 550	2 620
Net cash flow arising from real estate operations	1 966	1 008
Cash collateral received/paid related to securities lending, derivatives and reverse repurchase agreements	- 21 058	15 063
Net cash flow related to other expenses, other assets and other liabilities	- 2 625	- 1 329
Net cash flow arising from tax payments and refunds	- 2 740	- 2 800
Management fee paid to Norges Bank**	- 2 889	- 2 193
Net cash outflow from operating activities	**- 145 567**	**- 242 786**
Financing activities		
Inflow from the Norwegian government***	150 894	240 934
Net cash inflow from financing activities	**150 894**	**240 934**
Net change in cash and cash equivalents		
Cash and cash equivalents at 1 January	3 953	5 845
Net cash receipts/payments in the period	5 327	- 1 852
Net foreign exchange gains and losses on cash and cash equivalents	2 451	- 40
Cash and cash equivalents at end of period	**11 731**	**3 953**
Cash and cash equivalents comprise:		
Deposits in banks	11 731	3 982
Short-term borrowing	-	- 29
Total cash and cash equivalents at end of period	**11 731**	**3 953**

* See Notes 2 and 16 for details regarding restated comparatives.

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

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

STATEMENT OF CHANGES IN OWNER'S CAPITAL

Amounts in NOK millions

	Inflows from owner	Retained earnings	Translation reserve foreign subsidiaries	Total owner's capital*
1 January 2013	3 057 740	755 844	-8	3 813 576
Effect of changes in accounting policies	-	- 8	8	-
1 January 2013 restated**	3 057 740	755 836	-	3 813 576
Total comprehensive income restated**	-	980 069	-	980 069
Inflows during the period*	241 201	-	-	241 201
31 December 2013	**3 298 941**	**1 735 905**	**-**	**5 034 846**
1 January 2014	3 298 941	1 735 905	-	5 034 846
Total comprehensive income	-	1 242 691	-	1 242 691
Inflows during the period*	150 000	-	-	150 000
31 December 2014	**3 448 941**	**2 978 596**	**-**	**6 427 537**

* *Total owner's capital* corresponds to the Ministry of Finance's krone account in Norges Bank. Of the total inflows to the krone account of the Government Pension Fund Global in 2014, NOK 2.9 billion was used to pay the 2013 accrued management fee to Norges Bank and NOK 147.1 billion was transferred into the investment portfolio. Comparative amounts for 2013 were NOK 2.2 billion and NOK 239 billion, respectively.

** See Notes 2 and 16 for details regarding restated comparatives.

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 given:

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

GPFG NOTE 1 GENERAL INFORMATION

General information relating to the GPFG appears in Note 1 *General information*.

GPFG NOTE 2 ACCOUNTING POLICIES

The accounting policies for the financial reporting of the GPFG appear in Note 2 *Accounting policies*.

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

ACCOUNTING POLICY

Table 3.1 specifies the income and expense elements, where the *Total* column shows the amount recognised in profit or loss for the respective income statement line item. The following accounting policies relate to the respective income and expense elements:

Interest income is recognised in profit or loss when the interest is earned. *Interest expense* is recognised in profit or loss as incurred.

Dividends are recognised as income for investments in *Equities and units* and *Real estate* when the dividends are formally approved by the shareholders' meeting or comparable responsible party.

Net income/expense for *Equities and units* as well as *Bonds* constitutes net income from securities lending. This income comprises securities lending fees, expenses related to cash collateral received, reinvestment income and the deduction of the security lending agent's fees related to the handling of the transaction. Tax expenses are presented separately as *Net income/expense*. Accounting policies for taxation are further detailed in Note 13 *Tax expense*.

Realised gain/loss represents amounts realised when assets or liabilities have been derecognised. Realised gains/losses include transaction costs, which are expensed as incurred. Transaction costs are defined as all costs directly attributable to the completed transaction. For investments in *Equities and units* and *Bonds*, these normally include commission fees and stamp duties.

Unrealised gain/loss represents changes in fair value for the period for the related balance sheet line item that are not attributable to the aforementioned categories.

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

Amounts in NOK millions

						2014
	Interest	Dividends	Net income/ expense	Realised gain/loss	Unrealised gain/loss	Total
Interest income and expense from deposits in banks and short-term borrowing	48	-	-	-	-	48
Interest income, lending associated with reverse repurchase agreements	159	-	-	-	-	159
Net income/expense and gain/loss from:						
- Equities and units	-	87 962	2 578	75 832	222 149	388 521
- Bonds	65 472	-	21	14 831	77 703	158 027
- Real estate	1 368	598	-	-	5 194	7 160
- Financial derivatives	-285	-	-11	-4 215	-3 697	-8 208
Interest expense, borrowing associated with repurchase agreements	-35	-	-	-	-	-35
Other interest income and interest expense	-9	-	-	-	-	-9
Tax expense	-	-	-2 026	-	-	-2 026
Other expenses	-	-	-3	-	-	-3
Profit/loss on the portfolio before foreign exchange gains and losses	66 718	88 560	559	86 448	301 349	543 634

Amounts in NOK millions

						2013
	Interest	Dividends	Net income/ expense	Realised gain/loss	Unrealised gain/loss	Total
Interest income and expense from deposits in banks and short-term borrowing	61	-	-	-	-	61
Interest income, lending associated with reverse repurchase agreements	150	-	-	-	-	150
Net income/expense and gain/loss from:						
- Equities and units	-	73 329	2 564	87 490	518 404	681 787
- Bonds	52 279	-	51	9 537	-55 970	5 897
- Real estate	749	259	-	-	2 228	3 236
- Financial derivatives	-232	-	-	2 070	-248	1 590
Interest expense, borrowing associated with repurchase agreements	-34	-	-	-	-	-34
Other interest income and interest expense	2	-	-	-	-	2
Tax expense	-	-	-1 133	-	-	-1 133
Other expenses	-	-	-26	-	-	-26
Profit/loss on the portfolio before foreign exchange gains and losses	52 975	73 588	1 456	99 097	464 414	691 530

Table 3.2 Returns per asset class

	2014	2013	2014 4Q	2014 3Q	2014 2Q	2014 1Q
Returns in international currency						
Return on equity investments (percent)	7.90	26.28	2.74	-0.49	4.01	1.47
Return on fixed-income investments (percent)	6.88	0.10	1.68	0.95	2.04	2.05
Return on real estate investments (percent)	10.42	11.79	3.53	1.48	3.04	1.99
Return on fund (percent)	7.58	15.95	2.37	0.07	3.25	1.70
Return on equity and fixed-income investments (percent)	7.53	15.97	2.35	0.06	3.26	1.70
Return on benchmark equity and fixed-income indices (percent)	8.30	14.98	2.43	0.58	3.38	1.68
Relative return on equity and fixed-income investments (percentage points)	-0.77	0.99	-0.08	-0.52	-0.13	0.01
Relative return on equity investments (percentage points)	-0.82	1.28	0.09	-0.76	-0.17	0.07
Relative return on fixed-income investments (percentage points)	-0.70	0.25	-0.39	-0.14	-0.07	-0.07
Returns in Norwegian kroner (percent)						
Return on equity investments	24.61	36.26	16.14	-0.20	7.09	0.39
Return on fixed-income investments	23.43	8.01	14.94	1.24	5.06	0.96
Return on real estate investments	27.51	20.62	17.04	1.78	6.09	0.90
Return on fund	24.23	25.11	15.72	0.36	6.31	0.61
Return on equity and fixed-income investments	24.18	25.14	15.70	0.35	6.31	0.61

Returns in Table 3.2 are a reproduction of return information in Table 1 in the annual report chapter *Results for 2014*. A time-weighted monthly rate of return methodology is applied in the return calculations. The fair value of holdings is determined at the time of cash flows into and out of the asset classes, and interim returns are geometrically linked. 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 recognised when accrued. Performance is reported in the fund's currency basket, as well as in Norwegian kroner, where the currency basket is weighted based on the currency composition of the benchmark indices for equities and fixed income. Returns measured in the fund's currency basket 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 market capitalisation weights for the month.

GPFG NOTE 4 EQUITIES, UNITS AND BONDS

ACCOUNTING POLICY

Investments in equities, units and bonds are designated upon initial recognition as at fair value through profit or loss and are carried in the balance sheet at fair value.

Earned and accrued dividends and interest are presented in the balance sheet on the same line as the respective financial asset and are specified in Tables 4.1 and 4.2.

Lent equities, units and bonds are presented separately. For more information on lent securities, see Note 9 *Transferred financial assets*.

For further information on fair value measurement of equities, units and bonds, see Note 6 *Fair value measurement*. Changes in fair value for the period are recognised in the income statement and specified in Note 3 *Profit/loss on the portfolio before foreign exchange gains and losses and returns per asset class*.

Table 4.1 Equities and units

Amounts in NOK millions

	31 Dec. 2014		31 Dec. 2013	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities and units				
Listed equities and units	3 957 695	7 012	3 133 467	3 215
Total equities and units	3 957 695	7 012	3 133 467	3 215
Of which equities lent	*166 842*		*161 150*	

Table 4.2 Bonds

Amounts in NOK millions

	31 Dec. 2014			31 Dec. 2013		
	Nominal value*	Fair value including accrued interest	Accrued interest	Nominal value*	Fair value including accrued interest	Accrued interest
Government bonds						
Government bonds issued in the government's local currency	1 095 771	1 296 796	9 832	1 134 335	1 180 774	9 896
Total government bonds	1 095 771	1 296 796	9 832	1 134 335	1 180 774	9 896
Government-related bonds						
Sovereign bonds	19 094	20 867	359	11 294	12 264	253
Bonds issued by local authorities	71 470	82 793	721	53 721	56 214	610
Bonds issued by supranational bodies	59 365	64 904	680	45 842	47 865	526
Bonds issued by federal agencies	166 567	175 207	1 548	105 664	110 065	1 130
Total government-related bonds	316 496	343 771	3 308	216 521	226 408	2 519
Inflation-linked bonds						
Inflation-linked bonds issued by government authorities	52 788	63 715	222	25 933	30 318	154
Total inflation-linked bonds	52 788	63 715	222	25 933	30 318	154
Corporate bonds						
Bonds issued by utilities	32 421	35 994	443	29 644	31 901	462
Bonds issued by financial institutions	144 974	149 846	1 743	53 953	53 684	930
Bonds issued by industrial companies	252 622	268 718	2 747	153 987	160 703	1 778
Total corporate bonds	430 017	454 559	4 933	237 584	246 288	3 170
Securitised bonds						
Covered bonds	173 114	189 208	2 760	182 985	194 334	3 152
Mortgage-backed securities	711	-	-	3	-	-
Asset-backed securities	209	-	-	61	-	-
Commercial mortgage-backed securities	2 165	1 740	7	2 000	2 141	9
Total securitised bonds	176 199	190 948	2 767	185 049	196 475	3 161
Total bonds	2 071 271	2 349 789	21 062	1 799 421	1 880 263	18 900
Of which bonds lent		*25 163*			*75 807*	

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

GPFG NOTE 5 REAL ESTATE

ACCOUNTING POLICY

Real estate investments are made through subsidiaries which exclusively constitute investments as part of the management of the GPFG. These subsidiaries are not consolidated in the financial statements of the GPFG, because the GPFG is an investment entity. See Note 2 *Accounting policies* for more information. The investments in subsidiaries, comprising equity and long-term loan financing, are included in the balance sheet of the GPFG as *Real estate*. The subsidiaries are designated upon initial recognition as at fair value through profit or loss. Changes in fair value for the period are recognised in the income statement and are specified in Note 3 *Profit/loss on the portfolio before foreign exchange gains and losses and returns per asset class*.

Table 5.1 provides a specification of the income statement line *Net income/expense and gain/loss from Real Estate,* before foreign exchange gains and losses. Table 5.2 shows the change for the period in the balance sheet line *Real estate*.

Table 5.1 Net income/expense – gain/loss from Real estate

Amounts in NOK millions

	2014	2013
Dividend	598	259
Interest income	1 368	749
Unrealised gain/loss	5 194	2 228
Net income/expense – gain/loss from Real estate	7 160	3 236

Table 5.2 Changes in carrying amounts Real estate

Amounts in NOK millions

	2014	2013
Real estate, opening balance for the period	51 032	25 008
Additions new investments	37 711	19 307
Unrealised gain/loss	5 194	2 228
Foreign currency translation effect	12 494	4 489
Real estate, closing balance for the period	106 431	51 032

UNDERLYING REAL ESTATE ENTITIES

Real estate subsidiaries have investments in other non-consolidated, unlisted entities. These can be subsidiaries, joint ventures and associates. For a list of principle entities, see Note 15 *Interests in other entities*. These entities in turn invest in real estate assets, primarily properties. The fair value of real estate is considered to be the sum of all underlying assets, less liabilities at fair value, adjusted for the GPFG's ownership share. Assets and liabilities are presented in Table 5.4. For further information on fair value measurement of real estate assets and liabilities, see Note 6 *Fair value measurement.*

Rental income is recognised as income on a straight-line basis over the lease term, taking into account any incentive schemes. Transaction costs include fees to advisors, such as lawyers and valuation experts, and stamp duty. Transaction costs are expensed as incurred. Accounting policies for other income and expense elements not specific to underlying real estate entities are presented in Note 3.

Table 5.3 provides a specification of the GPFG's share of income generated in the underlying real estate entities. Income generated through rental income, after deduction of expenses, can be distributed to the GPFG in the form of interest and dividends as specified in Table 5.1. Unrealised gain/loss presented in Table 5.1 includes undistributed profits and will therefore not reconcile with fair value changes in Table 5.3, which solely comprise fair values changes of properties and debt.

Table 5.3 Income from underlying real estate entities

Amounts in NOK millions

	2014	2013
Net rental income*	3 747	2 215
Fair value changes – buildings	5 464	1 539
Fair value changes – debt	- 395	336
Transaction costs	- 586	- 201
Interest expense external debt	- 354	- 239
Tax expense payable	- 81	- 64
Change in deferred tax	- 292	- 182
Operating expenses within the limit from the Ministry of Finance**	- 83	- 61
Other expenses***	- 261	- 107
Net income real estate entities	**7 160**	**3 236**

* Net rental income mainly comprises received and earned rental income, less costs relating to the operation and maintenance of properties.

** See Table 11.2 for specification of the operating expenses that are included in the management fee limit from the Ministry of Finance.

*** Other expenses comprise fees to external managers for management of the properties, as well as other costs not included in the management fee limit from the Ministry of Finance.

Table 5.4 provides a specification of assets and liabilities included in the underlying real estate entities.

Table 5.4 Net assets real estate entities

Amounts in NOK millions

	2014	2013
Deposits in banks	1 170	695
Properties	118 515	57 329
External debt	- 11 985	- 6 307
Tax payable	- 98	- 30
Net deferred tax	- 520	- 230
Net other assets and liabilities	- 651	- 424
Net assets real estate entities	**106 431**	**51 032**

In addition to the direct real estate investments presented in the line *Real estate,* listed real estate investments are included in the real estate asset class. Listed real estate investments are presented in the line *Equities and units,* and amount to NOK 33 238m at year-end.

GPFG NOTE 6 FAIR VALUE MEASUREMENT

ACCOUNTING POLICY

All assets and liabilities presented as equities, bonds, real estate, derivatives, as well as short term positions in repurchase and reverse repurchase agreements, deposits/liabilities in the money market and cash collateral are held at fair value in the balance sheet.

Fair value, as defined by IFRS 13 *Fair Value Measurement*, 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.

1. INTRODUCTION

The fair value of the vast majority of assets and liabilities is based on quoted market prices. 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. Estimating fair value introduces valuation uncertainty, mostly due to the use of unobservable inputs used in valuation models. This valuation risk is addressed by the control environment in Norges Bank Investment Management, which governs fair value measurement, and is presented in Section 6 of this note.

2. VALUATION UNCERTAINTY AND THE FAIR VALUE HIERARCHY

All balance sheet items measured at fair value are categorised in three categories in the fair value hierarchy presented in Table 6.1. The level of valuation uncertainty determines the categorisation:

- Level 1 comprises investments that are valued on the basis of unadjusted quoted prices in active markets and are considered to have very limited valuation uncertainty.
- Assets or liabilities allocated to Level 2 are valued using models with observable inputs. Inputs are considered observable if they can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Holdings in Level 2 have some valuation uncertainty.
- Holdings allocated to Level 3 are valued using models with considerable use of unobservable inputs leading to a high degree of valuation uncertainty.

An overview of models and valuation techniques with their respective observable and unobservable inputs, categorised per type of instrument, is provided in Section 5 of this note.

SIGNIFICANT ESTIMATE

Level 3 investments consist of instruments held at fair value that are not traded or quoted in active markets. The fair values are therefore determined using valuation techniques that use models with unobservable inputs. The resulting values are particularly uncertain estimates, due to the significant use of unobservable inputs.

Table 6.1 allocates investments by level of valuation uncertainty into the fair value hierarchy and includes all balance sheet items measured at fair value.

Table 6.1 Investments by level of valuation uncertainty

Amounts in NOK millions

	Level 1		Level 2		Level 3		Total	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Equities and units	**3 925 476**	**3 130 980**	**30 236**	**734**	**1 983**	**1 753**	**3 957 695**	**3 133 467**
Government bonds	1 141 268	1 021 481	155 528	159 293	-	-	1 296 796	1 180 774
Government-related bonds	308 397	173 767	27 424	52 134	7 950	507	343 771	226 408
Inflation-linked bonds	55 613	26 676	8 102	3 642	-	-	63 715	30 318
Corporate bonds	246 887	2 062	192 266	243 194	15 406	1 032	454 559	246 288
Securitised bonds	172 332	153 273	16 703	43 170	1 913	32	190 948	196 475
Total bonds	**1 924 497**	**1 377 259**	**400 023**	**501 433**	**25 269**	**1 571**	**2 349 789**	**1 880 263**
Financial derivatives (assets)	-	192	5 777	1 224	-	-	5 777	1 416
Financial derivatives (liabilities)	-	-	-7 895	-972	-	-	-7 895	-972
Total financial derivatives	**-**	**192**	**-2 118**	**252**	**-**	**-**	**-2 118**	**444**
Real estate	**-**	**-**	**-**	**-**	**106 431**	**51 032**	**106 431**	**51 032**
Other*	**-**	**-**	**18 942**	**-27 471**	**-**	**-**	**18 942**	**-27 471**
Total	**5 849 973**	**4 508 431**	**447 083**	**474 948**	**133 683**	**54 356**	**6 430 739**	**5 037 735**
Total (percent)	**91.0**	**89.5**	**6.9**	**9.4**	**2.1**	**1.1**	**100.0**	**100.0**

* *Other* consists of non-investment assets and liabilities limited to money-market instruments such as positions in (reverse) repurchase agreements, deposits in banks, short-term borrowing, unsettled trades, received cash collateral and other assets and liabilities.

The total valuation uncertainty for the GPFG at the end of 2014 was essentially unchanged compared to the end of 2013. The majority of the total portfolio has low valuation uncertainty and is classified as Level 1 or 2 (97.9% at year-end 2014 compared to 98.9% at year-end 2013).

Equities and units

The pricing uncertainty for equities and units has generally not changed throughout the year, and equities and units are valued almost exclusively (99.2%) on the basis of official closing prices from stock exchanges or last traded exchange prices. These are thus quoted market prices and are classified as Level 1. Equities classified as Level 2 amount to 0.7% of the equity portfolio, and mainly comprise relatively illiquid holdings. The changes in Level 2 are described in more detail in Section 3 in this note. 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, suspended companies and unlisted equities of companies whose board of directors have stated an intention to make an initial public offering of shares. These securities amounted to 0.1% of the equity portfolio at year-end.

Bonds

The majority (81.9%) of the holdings in bonds are valued using observable quoted prices from active markets and are classified as Level 1. This includes most of the government bonds, government-related bonds, inflation-linked bonds and securitised bonds. In total, 17.0% of the bond portfolio was classified as Level 2, and only 1.1% was classified as Level 3 at year-end 2014.

Some emerging market government bonds and bonds issued by a small number of European sovereigns with unresolved debt issues are allocated to Level 2. No government bonds are allocated to Level 3. A small number of government-related bonds are allocated to Level 2 and a few to Level 3. A common denominator for these is that they are either issued in less liquid currencies or that the issuer is situated in one of the emerging markets.

No inflation-linked bonds are assigned to Level 3 and the minority that are classified as Level 2 originate from emerging markets. A small proportion of securitised bonds are classified as Level 2 or 3. These have a low degree of observable market prices and some of these instruments are priced using models. Half of the corporate bonds are considered liquid with observable market prices and are classified as Level 1. The remaining corporate bonds are mainly classified as Level 2. These bonds consist of less liquid bonds issued in USD with a larger degree of uncertainty surrounding fair value. Some corporate bonds are illiquid, with a price that is difficult to verify, and they are accordingly classified as Level 3.

Real estate

All real estate investments are classified as Level 3, as models are used to value the underlying assets and liabilities with extensive use of non-observable market inputs. All real estate investments are measured at the value determined by external valuers, with the exception of newly acquired properties where the purchase price, excluding transaction costs, is considered to be the best estimate of fair value. Valuation uncertainty related to real estate investments is in general considered to be unchanged from last year-end. The increase in real estate classified as Level 3 is mainly the result of fair value changes as described in Note 5 *Real estate*.

Financial derivatives

All derivatives have been classified as Level 2 investments, as their valuation is based on standard models making use of observable market inputs. The majority of derivatives on the asset side of the balance sheet are OTC foreign exchange contracts with positive market values. On the liability side, foreign exchange contracts with negative market values account for somewhat over one third of the total value, with interest rate swaps making up the remaining two thirds.

Other assets and liabilities are classified as Level 2.

3. MOVEMENTS BETWEEN LEVELS OF VALUATION UNCERTAINTY

Reclassifications between Level 1 and Level 2

There have not been significant changes between levels in the equity portfolio since last year-end, but just under 10 percentage points of the bond portfolio has been reclassified.

Equity holdings with a net market value of NOK 20 593m, or 0.7 percentage point, have been moved from Level 1 to Level 2. This reclassification mainly consists of Russian equities, where uncertainty surrounding fair value has increased in line with the financial developments. However, a share of Chinese equities have been reclassified from Level 2 to Level 1 which has had an offsetting effect on the reclassification of Russian equities.

Within bonds, a larger share of government and corporate bonds has been classified as Level 1 compared to last year-end. The total reclassification amounts to NOK 293 385m, which increased Level 1 by 8.7 percentage points. Level 2 has been reduced by 9.7 percentage points, and Level 3 has consequently increased by 1.0 percentage point. The main reason for this is the implementation of a new tool with additional liquidity data, which increases the information base and provides more market transparency.

Table 6.2 Specification of changes in Level 3 holdings

Amounts in NOK millions

	1 Jan. 2014	Purchases	Sales	Settle-ments	Net gain/ loss	Trans-ferred into Level 3	Trans-ferred out of Level 3	Foreign exchange gains and losses	31 Dec. 2014
Equities and units	1 753	180	-138	19	-548	417	-67	367	1 983
Bonds	1 571	9 247	-173	-230	68	10 455	-96	4 427	25 269
Real estate	51 032	37 711	-	-	5 194	-	-	12 494	106 431
Total	54 356	47 138	-311	-211	4 714	10 872	-163	17 288	133 683

Amounts in NOK millions

	1 Jan. 2013	Purchases	Sales	Settle-ments	Net gain/ loss	Trans-ferred into Level 3	Trans-ferred out of Level 3	Foreign exchange gains and losses	31 Dec. 2013
Equities and units	1 623	100	-54	-161	-774	579	-24	464	1 753
Bonds	5 002	237	-4 587	-92	118	638	-467	722	1 571
Real estate	25 008	19 307	-	-	2 228	-	-	4 489	51 032
Total	31 633	19 644	-4 641	-253	1 572	1 217	-491	5 675	54 356

The GPFG's aggregated exposure that is considered particularly uncertain with respect to valuation (Level 3) increased by NOK 79 327m in 2014 to an exposure of NOK 133 683m at year-end.

Equity and bond holdings classified as Level 3 increased by NOK 23 928m during 2014, and amounted to NOK 27 252m at year-end, which is equivalent to 0.4% of the total equity and bond portfolio. The increase in value for equities comprises companies that have been suspended, delisted or are not traded for other reasons. These have been moved to Level 3 from both Levels 1 and 2. The increase in the bond portfolio is primarily caused by reclassifications of corporate bonds from Level 2 to Level 3. The main reason for this is the implementation of a new tool with advanced liquidity data that increases the information base and provides more market transparency.

All real estate investments are classified as Level 3, and the increase of NOK 55 399m in 2014 is mainly due to new investments amounting to NOK 37 711m, as well as fair value increases and currency translation effects.

4. SENSITIVITY ANALYSIS FOR LEVEL 3 HOLDINGS

Table 6.3 Additional specification Level 3 and sensitivities

Amounts in NOK millions

	Specification of Level 3 holdings at 31 Dec. 2014	Sensitivities 31 Dec. 2014		Specification of Level 3 holdings at 31 Dec. 2013	Sensitivities 31 Dec. 2013	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities and units	1 983	-843	587	1 753	-560	175
Government-related bonds	7 950	- 781	780	507	- 44	29
Corporate bonds	15 406	-1 884	1 640	1 032	-107	118
Securitised bonds	1 913	- 191	287	32	- 5	3
Total bonds	25 269	-2 856	2 707	1 571	-156	150
Real estate	106 431	-5 532	6 071	51 032	- 2 830	3 093
Total	133 683	-9 231	9 365	54 356	-3 546	3 418

There is uncertainty associated with the fair value of investments classified as Level 3. The total sensitivity to unfavourable changes has increased by NOK 5 685m to NOK 9 231m at year-end 2014. The sensitivity to favourable changes has increased by NOK 5 947m to NOK 9 365m. The increases are mainly due to investments in real estate and increases in the values of holdings in bonds allocated to Level 3.

The total valuation uncertainty for Level 3 holdings is expected to be lower than this, as the valuation of all holdings will not move in the same direction on the basis of a change in a single unobservable input parameter. For example, early repayments of underlying loans will have a positive impact on the valuation of some bonds held, while it will have a negative impact on the value of other bonds, and these will offset one another in the total valuation of the portfolio.

Uncertainty related to the determination of fair value for real estate investments is essentially unchanged from last year-end, however the total valuation uncertainty has increased as a result of the increase in the real estate portfolio. Property values are particularly sensitive to changes in the rate of returns (discount rate) and assumptions impacting future revenues. In an unfavourable scenario, changing the discount rate by +0.2 percentage point, and future market rents by -2% will result in a decrease in value of the real estate portfolio of approximately 5.2% or NOK 5 532m. In a favourable scenario, a similar change in the discount rate of -0.2 percentage point and an increase in future market rents of 2% will increase the value of the real estate portfolio by 6.7% or NOK 6 071m.

Uncertainty surrounding valuation of the equity and bond portfolios as a whole has decreased. However, a value increase in Level 3 compared to 2013 is observable on a stand-alone basis, together with an increase in sensitivities, both relative and absolute. On the estimated downside, the potential outcome will be NOK 3 699m. The upside is considered marginally less than the downside and is estimated to be NOK 3 294m.

The uncertainty for equities is somewhat higher than for bonds, as model prices are more sensitive to variations in assumptions. Unfavourable changes have increased by NOK 283m from the previous year-end and favourable changes have increased by NOK 412m. The increases are partly caused by the general increase in holding values, but are mainly the result of increased valuation uncertainty. Furthermore, there is more uncertainty connected to unfavourable changes since this level includes some companies which are potentially worth less.

The increase in bond holding values within Level 3 has resulted in a larger spread of favourable and unfavourable changes compared with the previous year-end. The level allocation is based on what sector the bond belongs to, as well as availability, reliability and variation in prices. There is marginally less uncertainty related to government bonds and securitised bonds. For corporate bonds, there is a larger downward potential relating to bonds that have defaulted. For securitised bonds, the uncertainty surrounding favourable changes is greater than for unfavourable changes.

5. VALUATION TECHNIQUES

Norges Bank Investment Management has defined hierarchies for which price sources to 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 using prices from other reputable external price providers.

Equities and units (Level 2 and Level 3)

Comprising listed and unlisted equities, where relatively illiquid holdings are priced on the basis of either similar more liquid shares issued by the same company, or on price indications from counterparties. Observable inputs are:

- Equity prices – obtained from exchanges or standard data sources.

Bonds (Level 2 and Level 3)

Comprising government and government-related bonds, inflation-linked bonds, corporate bonds and securitised bonds such as covered bond and (commercial) mortgage-backed securities.

The valuation 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. Observable inputs to the models are:

- 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
- 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, and are obtained from various market sources
- Default and recovery estimates – assumptions regarding expected default and loss on default are important inputs in the models that price structured instruments. Data sources are the same as for prepayment rates
- Option-adjusted discounted cash flow models for convertible bonds
- Discount margins for floating-rate bonds
- 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
- 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.

Real estate (Level 3)

The fair value of real estate is determined as the sum of the underlying assets and liabilities as presented in Note 5 *Real estate*. Assets and liabilities consist mainly of buildings and external debt. Buildings are valued each reporting date by external independent valuation specialists using discounted cash-flow techniques or the income method. These independently established fair values are used unless it is deemed that a recent transaction price is a better estimate of fair value. Valuations of buildings are inherently predisposed to significant forward-looking judgements. These include key assumptions and estimates with respect to each individual property type, location, future revenue streams and the condition of the property. Estimates used generally reflect recent comparable market transactions of properties with a similar location and condition, and are based on local market conditions. Observable and unobservable inputs used in the models are:

- Expected future cash flows (such as lease contracts) adjusted for expected vacancies, lease incentives and refurbishment expenses

- Estimated terminal values (net cash flow at the end of the projection period)
- Market yields
- Risk adjusted market discount rates (rate of return).

Financial derivatives (Level 2)
Comprising OTC forward foreign exchange contracts, interest rate swaps and option-like instruments such as warrants. Valuation models are market standard. Observable inputs to the models are:

- Foreign exchange rates – obtained from exchanges and trading markets for use in the valuation of spot, forward and futures contracts
- Implicit yield curves
- Credit spreads
- Volatility – the extent to which the price of a security fluctuates is a key parameter in the valuation of options. 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, due to the existence of netting agreements and the use of collateral.

6. CONTROL ENVIRONMENT

The control environment for fair value measurement of financial instruments and real estate investments 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 procedures for the Norges Bank Investment Management 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.

All holdings and investments are generally valued by external, independent valuation providers. These have been selected on the basis of thorough analyses performed by the department responsible for valuation.

Valuation providers are monitored 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 not sufficiently liquid for valuation to be based on quoted prices, widely accepted models are used. Observable inputs are used where 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 the valuation department 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, 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 Norges Bank Investment Management's leader group, meets every quarter prior to the publication of the financial reporting. The committee reviews the valuation documentation, discusses major pricing issues and approves the valuation.

GPFG NOTE7 RISK

INVESTMENT MANDATE FOR THE GPFG

See Note 1 for a description of the framework for management of the GPFG

The GPFG shall seek to obtain the highest possible return after expenses measured in the currency basket of the benchmark. The strategic benchmark index set by the Ministry of Finance is divided into asset classes. The benchmark for equities is constructed based on market capitalisation for equities in the countries included in the benchmark, where selected companies are excluded from the investment universe. The benchmark for bonds 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, while bonds in the benchmark for corporate bonds are weighted according to market capitalisation. The currency distribution is a result of these weighting principles. The GPFG may not invest in securities issued by Norwegian entities or issued in Norwegian kroner. These securities are also excluded from the benchmark.

NORGES BANK'S GOVERNANCE STRUCTURE

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

The CEO of Norges Bank Investment Management is authorised through a job description and an investment mandate. The Executive Board has issued principles for risk management, principles for organisation and management, and principles for compensation to Norges Bank Investment Management employees. The organisation 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 carried out monthly, and more extensively on a quarterly basis. The governor of Norges Bank and the Executive Board should be notified immediately in the event of particular events or significant matters.

GOVERNANCE STRUCTURE

Investment responsibilities within Norges Bank Investment Management are further delegated through investment mandates. Responsibility for processes and personnel is delegated through job descriptions, while process requirements are described 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 set by Norges Bank Investment Management's CEO through job descriptions in the respective risk area. Reporting to the CEO is carried out on a daily, weekly and monthly basis. The CEO shall be notified immediately of any special events or serious breaches of the investment mandate.

FRAMEWORK FOR INVESTMENT RISK

In the investment mandate for the GPFG, there are a number of limits and restrictions within the combined equity and bond asset class, as well as within the individual asset classes. The investment mandate contains a separate management framework for real estate investments. The framework underpins how to establish an asset class with a diversified exposure to global real estate markets.

Clear roles and responsibilities are a cornerstone of process design at Norges Bank Investment Management. Changes 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 further described through policies and guidelines. 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. Within Norges Bank Investment Management, the investment area has the responsibility for managing risk in the portfolio and in individual mandates, 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 loss or a change in the market value of the portfolio, or parts of the portfolio, as a result of changes in financial market variables. Market risk for the equity and bond 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. Real estate is measured based on absolute exposure, gearing, the share of real estate under construction and vacant real estate. 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. Credit risk is measured both related to single issuers, where the probability of default and loss due to default are taken into account, and portfolio credit risk, where credit risk takes into account the correlation of credit losses between instruments and 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 due to counterparty bankruptcy or other events leading to counterparties defaulting. Counterparty risk can be classified into credit risk associated with the bankruptcy of a counterparty, settlement risk and custodian risk. Counterparty risk arises in connection with the management of the equity and bond portfolios, as well as the real estate portfolio. Counterparty risk is controlled and mitigated to the greatest extent possible, given the investment strategy.

Risk management process

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

MARKET RISK

Norges Bank Investment Management measures market risk in both absolute terms for the actual portfolio, and the relative market risk for holdings in the GPFG.

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 GPFG.

Asset class by country and currency

The portfolio is invested across several asset classes, countries and currencies as shown in Table 7.1.

Table 7.1 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 Dec. 2014	Market	31 Dec. 2013	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014
Equities	Developed	90.2	Developed	90.2				
	United States	33.7	United States	29.2				
	United Kingdom	12.5	United Kingdom	14.8				
	Japan	7.4	Japan	6.7				
	Germany	6.1	Germany	6.7				
	France	5.8	France	6.7				
	Total other	24.7	Total other	26.1				
	Emerging	9.8	Emerging	9.8				
	China	2.9	China	2.5				
	Taiwan	1.5	Taiwan	1.4				
	India	1.0	Brazil	1.3				
	Brazil	0.9	Russia	0.7				
	South Africa	0.6	India	0.7				
	Total other	2.9	Total other	3.1				
Total equities					61.3	61.7	3 939 923	3 106 945
Fixed income	Developed	87.2	Developed	88.0				
	US dollar	41.4	US dollar	38.4				
	Euro	24.5	Euro	27.8				
	Japanese yen	7.4	Japanese yen	7.4				
	British pound	5.3	British pound	5.2				
	Canadian dollar	3.3	Canadian dollar	3.5				
	Total other	5.3	Total other	5.8				
	Emerging	12.8	Emerging	12.0				
	Mexican peso	1.8	Mexican peso	1.7				
	Brazilian real	1.5	South Korean won	1.6				
	South Korean won	1.5	Brazilian real	1.5				
	Turkish lira	1.1	Russian rouble	1.3				
	Indian rupee	1.0	Polish zloty	0.8				
	Total other	5.9	Total other	5.1				
Total fixed income					36.5	37.3	2 349 948	1 878 996
Real estate	United Kingdom	30.9	United Kingdom	27.0				
	United States	30.7	France	22.5				
	France	15.9	United States	18.7				
	Germany	9.7	Switzerland	13.8				
	Switzerland	5.5	Germany	8.5				
	Total other	7.3	Total other	9.6				
Total real estate**					2.2	1.0	140 868	51 794

* Market value per country and currency includes derivatives and cash.

** *Total real estate* includes listed real estate investments. These are presented in the balance sheet as *Equities and units*.

Concentration risk

The GPFG has substantial investments in governmentissued bonds. The portfolio also has investments in private companies that issue both bonds and equities.

Table 7.2 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 7.2 Largest holdings within the segment government bonds

Amounts in NOK millions

	Market value 31 Dec. 2014
United States	422 200
Japan	186 044
Germany	84 021
United Kingdom	76 341
Italy	52 369
Spain	46 731
Mexico	46 620
Brazil	43 505
South Korea	41 107
Netherlands	37 121

Amounts in NOK millions

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

Table 7.3 shows the portfolio's largest holdings of non-government issuers, including both bond and equity holdings. Covered bonds issued by financial institutions and debt issued by other underlying companies are included in the bonds column.

Table 7.3 Largest holdings excluding sovereigns, both bonds and equities

Amounts in NOK millions

	Sector	Bonds	Equities	31 Dec. 2014 Total
Nestlé SA	Consumer goods	669	47 924	48 593
Novartis AG	Healthcare	1 709	36 318	38 027
Apple Inc	Technology	2 482	35 509	37 991
Kreditanstalt für Wiederaufbau	Government-related	35 924	-	35 924
Royal Dutch Shell PLC	Oil & gas	1 991	32 501	34 492
BlackRock Inc	Finance	1 072	31 439	32 511
Bank of America Corp	Finance	20 743	10 814	31 558
Lloyds Banking Group PLC	Finance	17 953	12 395	30 348
HSBC Holdings PLC	Finance	5 260	24 737	29 997
Roche Holding AG	Healthcare	1 246	28 610	29 856

Amounts in NOK millions

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

The value of the real estate portfolio was NOK 141bn at year-end. The real estate portfolio consists of direct real estate investments and exchange-listed real estate. During 2014, the value of direct real estate investments increased by NOK 56bn to a value of NOK 108bn at year-end. The increase is mainly due to a high level of investments, mainly in office buildings in the United States and the United Kingdom. Investments in exchange-listed real estate have been included in this asset class from November 2014. The value of exchange-listed real estate was NOK 33bn at year-end.

Table 7.4 shows the real estate portfolio per sector.

Table 7.4 Distribution of real estate investments per sector

Sector	Percent 31 Dec. 2014	Percent 31 Dec. 2013
Office buildings	52.8	62.4
Retail	11.8	17.1
Industrial	13.1	18.7
Other	0.5	1.7
Total direct real estate investments*	**78.2**	**100.0**
Listed real estate investments*	21.8	-
Total	**100.0**	**100.0**

* Direct real estate investments are presented in the balance sheet as Real estate. Listed real estate investments are presented in the balance sheet as *Equities and units*.

Volatility and correlation risk

Norges Bank Investment Management uses models to quantify the risk of value changes associated with all or parts of the portfolio. Volatility is a standard risk measurement technique based on the statistical concept of standard deviation, which takes into account the correlation between different investments in the portfolio. This risk measure provides an estimate of how much one can expect the portfolio value to change or fluctuate, based on market conditions over the past three years. The expectation is based on a standard deviation equal to approximately 68% of the outcomes. Expected volatility can be expressed in terms of the portfolio's absolute risk or relative risk. The model weights weekly return data equally over the last three years, uses a parametric calculation methodology, and is tailored to the long-term investment horizon of the GPFG's investments. The same model is used for both portfolio risk and relative volatility. In addition to this model, other models are employed that capture the market dynamics of recent periods to a greater extent. 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 7.5 and 7.6 present risk both in terms of the portfolio's absolute risk and the relative risk.

Table 7.5 Portfolio risk in terms of expected volatility, in percent

	Expected volatility, actual portfolio							
	31 Dec. 2014	Min 2014	Max 2014	Average 2014	31 Dec. 2013	Min 2013	Max 2013	Average 2013
Portfolio	8.2	7.9	9.3	8.7	9.3	8.5	9.4	9.0
Equities	11.1	11.0	14.4	13.0	14.2	13.7	14.4	14.1
Bonds	7.9	7.5	8.9	8.3	8.7	8.3	8.9	8.6

Table 7.6 Relative risk, expected relative volatility, in basis points

	Expected relative volatility							
	31 Dec. 2014	Min 2014	Max 2014	Average 2014	31 Dec. 2013	Min 2013	Max 2013	Average 2013
Portfolio	38	38	63	51	59	32	81	53
Equities	52	49	71	60	64	33	76	51
Bonds	59	52	69	60	56	50	75	64

Measured risk decreased somewhat both for the portfolio as a whole and the asset classes comprising equities and bonds. At year-end, the portfolio as a whole had a measured risk of 8.2%. This means that annual value fluctuations of approximately NOK 530bn can be expected for the portfolio. Correspondingly, measured risk at year-end 2013 was 9.3% and value fluctuations of approximately NOK 470bn could be expected. Since the model uses 3 years of historical data, the risk change can be explained by the fact that the volatile period of autumn 2011 is no longer included in the calculation period.

The mandate for the GPFG outlines that expected relative volatility shall not exceed a limit of 100 basis points. Measurement of risk and follow-up of compliance with the limit is monitored based on the risk model described above. Expected relative volatility has been within the limit in 2014 and was 0.4% at year-end, which is a decrease from the end of 2013.

The global stock market was characterised by healthy growth in the US. The euro area was subject to low growth in countries including Germany, France and Portugal. Bond markets were characterised by falling governmental interest rates in the euro area, USA, Brazil, Japan and India. Commodity markets were impacted by a strong decline in the oil price of over 50%. Volatility in the currency markets increased, as the US dollar strengthened against currencies in the currency basket, whilst the Russian rouble depreciated significantly.

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.

The model-based risk estimates are based on historical relationships and will provide reliable forecasts in markets without significant changes in volatility. Estimates will be less reliable in periods marked by significant changes in volatility and correlation. Calculated volatility gives a point estimate of risk and provides little information on the total risk profile and any tail risk. Annualisation means that it is assumed that volatility and the composition of the portfolio are consistent over time. To compensate for these shortcomings, complementary models and methods are employed, such as stress tests and analyses of concentration risk and realised return.

Verification of models

Regular testing of the models is performed, to validate the model's ability to estimate risk. The risk model's calculation methodology and the verification of its results take into account the GPFG's long-term investment horizon.

CREDIT RISK

Credit risk is the risk of losses resulting from issuers of bonds defaulting on their payment obligations. Bonds in the portfolio's benchmark index 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 7.7 Bond portfolio specified by credit rating

Amounts in NOK millions

	AAA	AA	A	BBB	Lower rating	31 Dec. 2014 Total
Government bonds	606 852	186 044	277 444	223 334	3 122	1 296 796
Government-related bonds	142 390	142 134	23 671	32 777	2 799	343 771
Inflation-linked bonds	34 971	5 421	1 566	21 757	-	63 715
Corporate bonds	1 574	37 266	219 892	186 376	9 451	454 559
Securitised bonds	143 441	9 858	17 824	18 786	1 039	190 948
Total bonds	929 228	380 723	540 397	483 030	16 411	2 349 789

Amounts in NOK millions

	AAA	AA	A	BBB	Lower rating	31 Dec. 2013 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	908 262	419 825	218 425	322 789	10 961	1 880 263

Growth estimates for large parts of the world have been adjusted downwards through 2014. It has become more evident that it takes time for growth in the euro area to pick up. In addition, Chinese growth has been weaker than expected. As a result of Russia's annexation of the Crimea peninsula and the occupation situation in east-Ukraine, international economic sanctions have been introduced against Russia. This gradually weakened growth in Russia as well as countries with significant exports to Russia. In Japan, there was also uncertainty related to the outcome of the large quantitative easing programme that has been carried out. Conversely, economic growth in the United States has pertained and unemployment rates showed a positive trend, with more people in employment. Based on the positive developments, the Federal Reserve signalled an earlier interest rate increase than originally expected. In the second half of the year, there was a large drop in oil prices. This has been negative for oil producing countries such as Russia, Brazil and Mexico. For Russia, a falling oil price, international sanctions and reduced confidence from market participants led to a significant currency devaluation. The credit premium on Russian governmental bonds increased to 476 basis points at the end of 2014 compared to 165 basis points at year-end 2013.

During 2014, the share of holdings in securitised bonds, as well as American and some European government bonds decreased. Simultaneously, the share of corporate bonds and government-related bonds increased. There was also a predominance of downgrades by credit rating agencies of countries and companies in the bond portfolio, particularly in the fourth quarter. This was partly caused by weaker economic prospects in a number of markets, as described above. For example, Moody's downgraded Japan in this quarter, which resulted in a move for Japanese government bonds from the A category to the AA category. Japan amounted to 8.0% of the bond portfolio at year-end. Throughout the year, inflows have still been invested in government bonds in emerging markets. Such holdings accounted for 13.5% of the bond portfolio at year-end, compared to 12.0% at year-end 2013. Overall, this resulted in a decrease of the bond portfolio's credit quality in the year.

The composition of the bond portfolio has therefore changed, with the share of AAA and AA bonds being reduced and the share of A and BBB bonds being increased. Holdings of AAA and AA bonds as a percentage of the bond portfolio decreased to 39.5% and 16.2%, respectively, at year-end 2014, compared to 48.3 and 22.3% at year-end 2013. A and BBB bonds increased correspondingly to 23.0% and 20.6% at year-end 2014, from 11.6% and 17.2% at year-end 2013. At year-end 2014, the holdings of *Lower rating* increased to 0.7% of the bond portfolio, from 0.6% at year-end 2013. Defaulted bonds had a market value of NOK 440m at year-end 2014. The nominal size of defaulted bonds was NOK 13.2bn, up from NOK 11.8bn at year-end 2013. Defaulted bonds are presented as *Lower rating*.

Table 7.8 Bond portfolio by credit rating and currency in percent

						31 Dec. 2014
	AAA	AA	A	BBB	Lower rating	Total
US dollar	21.8	2.8	7.9	7.2	0.2	39.9
Euro	11.2	4.4	2.5	6.3	0.3	24.7
Japanese yen	-	-	8.0	-	-	8.0
British pound	0.8	3.9	0.4	0.6	-	5.7
Canadian dollar	1.6	1.1	0.4	0.3	-	3.3
Other currencies	4.2	4.1	3.9	6.2	0.1	18.4
Total	**39.5**	**16.2**	**23.0**	**20.6**	**0.7**	**100.0**

	AAA	AA	A	BBB	Lower rating	31 Dec. 2013 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	-	-	-	7.4
British pound	0.8	3.4	0.5	0.6	-	5.2
Canadian dollar	2.2	0.7	0.2	0.3	-	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**

At year-end 2014 there were no credit default swaps in the portfolio (see Note 8 *Financial derivatives*).

In addition to the credit ratings from credit rating agencies, measurement of credit risk is complemented 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 trading and management of market and credit risk. Exposure to counterparty risk is related to trading 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 having counterparty risk. Such counterparty risk arises partly in connection with the daily liquidity management of the fund and in connection with purchases and sales of real estate. Furthermore, there is exposure to counterparty risk related to counterparties in international settlement and custody systems where transactions settle. This can occur both for currency trades and for the purchase and sale of securities. Settlement risk and exposure from trades with long maturities are also defined as counterparty risk.

Various counterparties are used to reduce concentration risk and there are strict requirements for counterparty credit rating. Credit rating requirements are generally higher for counterparties to unsecured deposits in banks than in situations where collateral is received. Changes in counterparty 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. Further reduction of counterparty risk is achieved through collateral requirements for counterparty net positions with a 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 approved counterparties for these types of trades. There are also requirements governing the way real estate transactions are conducted. Counterparty risk that arises is analysed in advance of the transaction and requires approval from the CRO.

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 market value 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 is received as collateral for these contracts.

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

Exposure to counterparty risk is related to counterparties in the settlement and custody systems, both in currency trades and in purchase and sale of securities. Settlement risk for most currency trades is low. The settlement risk is reduced through the use of the currency settlement system CLS (Continues Linked Settlement), or by trading directly with settlement banks. In a few currencies, Norges Bank is exposed to settlement risk when the sold currency is delivered to the counterparty before the receipt of currency is confirmed. This type of exposure is included on the line *OTC derivatives including currency contracts* in Table 7.9.

Towards the end of the year, Norges Bank Investment Management changed its settlement bank and agent for securities lending. With this shift, counterparty risk has been reduced somewhat, in that the settlement bank takes more responsibility in connection with securities lending and settlement.

In Table 7.9, exposure is broken down by type of activity/instrument associated with counterparty risk.

Total counterparty risk measured in terms of net exposure has increased by NOK 10.1bn during the year. This is partly due to higher deposits in banks at year-end 2014 compared to year-end 2013. Simultaneously, the net exposure from OTC derivatives including currency contracts, and cash and bonds posted as collateral for futures trades increased, while net exposure from securities lending transactions was significantly reduced during the year. The latter was due to extended guarantee responsibilities for securities lending agents. The majority of securities lending transactions are currently guaranteed by agents, which explains the low net exposure (see the column *Collateral and guarantees* for guarantee effects).

Total counterparty risk measured by gross exposure increased by NOK 15.7bn during 2014. The increase is mainly explained by the same drivers as the increase in net exposure. The increase in gross exposure from securities lending transactions is larger than the increase in net exposure from securities lending transactions, due to the fact that guarantees from agents are only included in the calculation for net exposure.

Table 7.9 Counterparty risk by type of position

Amounts in NOK millions

				31 Dec. 2014
	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits*	13 268	-	-	13 268
OTC derivatives including foreign exchange contracts	10 162	5 254	-1 658	6 566
Repurchase and reverse repurchase agreements	989	-	-	989
Securities lending transactions	16 480	-	15 345	1 135
Cash and bonds posted as collateral for futures trades	5 603	-	-	5 603
Settlement risk towards broker and long settlement transactions	15	-	-	15
Total	**46 517**	**5 254**	**13 687**	**27 576**

Amounts in NOK millions

	Gross exposure	Effect of netting	Collateral and guarantees	31 Dec. 2013 Net exposure
Time deposits and unsecured bank deposits*	3 933	-	-	3 933
OTC derivatives including foreign exchange contracts**	4 652	1 948	298	2 406
Repurchase and reverse repurchase agreements	660	86	-	574
Securities lending transactions**	18 542	-	11 008	7 534
Cash and bonds posted as collateral for futures trades**	2 997	-	-	2 997
Settlement risk towards broker and long settlement transactions	-	-	-	-
Total	30 784	2 034	11 306	17 444

* The amount includes bank deposits in real estate subsidiaries that are not consolidated.
** The methodology for calculation of counterparty exposure for securities lending transactions and contract for difference transactions is adjusted. Cash pledged as collateral for contract for difference transactions is now presented in the line *OTC derivatives including foreign exchange contracts*. Comparatives for 2013 are restated.

The line *OTC derivatives including foreign exchange contracts* in the table comprises the net market value of foreign exchange contracts (NOK 2 134m) and interest rate swaps (NOK -4 642m) (see Note 8 *Financial derivatives*). Counterparty risk for derivative positions is followed up on a net basis.

Norges Bank's counterparties have a credit rating from independent credit rating agencies. An internal credit evaluation can only be used as the basis for counterparty approval in instances, when the counterparty risk is considered very low. Credit ratings for counterparties are monitored and complemented by alternative credit risk indicators. Table 7.10 shows counterparties classified according to their credit rating category.

Table 7.10 Counterparties by credit rating*

	Norges Bank's counterparties (excluding brokers)		Brokers	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
AAA	-	-	-	-
AA	22	21	23	23
A	56	55	72	65
BBB	3	3	28	30
BB	-	1	3	5
B	-	-	13	9
Total	81	80	139	132

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

Leverage may be used to ensure effective management of the investments, but 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 and in the investment mandate issued by the Executive Board of Norges Bank to Norges Bank Investment Management. Leverage is the difference between total net exposure and market value of 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 GPFG did not have any leverage at the quarter ends throughout 2014 in the aggregated 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 carried out if there are established borrowing agreements to cover a negative position. Such transactions are very rarely undertaken, and at year-end 2014, no securities had been sold in this manner.

GPFG NOTE 8 FINANCIAL DERIVATIVES

ACCOUNTING POLICY

Financial derivatives are classified as *held for trading* and are carried in the balance sheet at fair value.

From 2014, variation margin for exchange traded futures and equity swaps is considered settlement, and amounts are therefore now presented in the balance sheet as *Deposits in banks* and not as *Financial derivatives.*

Norges Bank does not engage in hedge accounting, and therefore none of the derivatives are designated as hedging instruments for accounting purposes. For further information on fair value measurement of financial derivatives, see Note 6 *Fair value measurement*. Changes in fair value for the period are recognised in the income statement and are specified in Note 3 *Profit/loss on the portfolio before foreign exchange gains and losses and returns per asset class.*

Financial derivatives are used in asset management to adjust the exposure in various portfolios, as a costefficient alternative to trading in the underlying securities. This may be to adjust the exposure to equities or bonds and the fixed-income market.

Table 8.1 gives a specification of financial derivative holdings. Notional amounts (the nominal values of the underlying) are the basis for the calculation of any cash flows and gains/losses for the contracts. Notional amounts are presented gross, being the sum of the long and short positions, which provides information about the extent to which different types of financial derivatives are used.

Table 8.1 Financial derivatives

Amounts in NOK millions

	31 Dec. 2014			31 Dec. 2013		
		Fair value*			Fair value*	
	Notional amount	Asset	Liability	Notional amount	Asset	Liability
Foreign exchange contracts	204 179	5 275	3 141	46 504	460	273
Interest rate swaps	37 194	112	4 754	18 656	574	699
Options	6 150	390	-	6 803	382	-
Total financial derivatives	**247 523**	**5 777**	**7 895**	**71 963**	**1 416**	**972**

* As a result of a change in accounting policy for variation margin, exchange traded futures and equity swaps are reclassified from *Financial derivatives* to *Deposits in banks*, and comparative amounts have been restated. The change has had no impact on the income statement.

OVER-THE-COUNTER (OTC) FINANCIAL DERIVATIVES

Foreign exchange contracts

This item consists of foreign currency exchange contracts (forwards) which are agreements to buy or sell a specified quantity of foreign currency on an agreed future date.

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.

Options

Options are agreements where the buyer of an option pays for the right to buy or sell an asset at an agreed price or within a certain time frame in the future, while the seller has the obligation to buy or sell the asset at the agreed price and time. Options include warrants which grant the buyer the right to purchase an equity at an agreed price within a certain time frame.

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, on an on-going basis, the buyer and the seller 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.

EXCHANGE-TRADED FUTURES CONTRACTS

Futures contracts are listed contracts to buy or sell a specified asset (security, index, interest rate or other) at an agreed price at a future point in time. Settlement is normally made in cash, with initial and daily margin settlement of gains and losses.

GPFG NOTE 9 TRANSFERRED FINANCIAL ASSETS

ACCOUNTING POLICY

Securities lending

Securities lent are not derecognised from the balance sheet, as the derecognition criteria are not met. 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, as *Equities lent* and *Bonds lent*. During the lending period, the accounting for the underlying securities is in accordance with accounting policies for the relevant securities.

Repurchase agreements

In connection with positions in repurchase agreements, the security is not derecognised when the agreement is entered into as the derecognition criteria are not met. 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 in the balance sheet as *Bonds lent*. During the contract period, the accounting for the underlying securities is in accordance with accounting policies for the relevant securities.

SECURITIES LENDING

Agreements are entered into with external agents regarding securities lending, giving these agents the right to lend securities held by Norges Bank to other market participants with borrowing requirements. Both equities and bonds are lent. The purpose of the lending activity is to generate additional returns for the GPFG from its securities holdings. The GPFG earns a net income based on these securities lending programmes. Net income comprises the 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 the 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 9.1 shows the total of lent securities and associated liabilities in the form of cash collateral.

REPURCHASE AGREEMENTS

The market for repurchase agreements is used to support financing activities. At any time, some of the holdings in bonds will be lent out through repurchase agreements, in exchange for received cash (repos and sell buy backs). This may be a form of financing asset management (borrowing of cash), or securities lending with the purpose of reinvesting received cash at a higher return and thus creating additional income.

Table 9.1 shows the total of bonds transferred through repurchase agreements and associated liabilities. Total exposure on these contracts is shown in Table 10.4 in Note 10 *Collateral and offsetting*.

Table 9.1 Transferred financial assets

Amounts in NOK millions

	31 Dec. 2014		31 Dec. 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Securities lending programmes				
Equities	166 842	166 842	161 150	161 150
Bonds	11 823	11 823	7 124	7 124
Repurchase agreements				
Bonds	13 340	13 340	68 682	68 682
Additional collateral related to repurchase agreements	-	-	1	1
Total transferred assets not derecognised	192 005	192 005	236 956	236 956
Associated liabilities				
Cash collateral received in connection with securities lending	26 463	26 463	47 766	47 766
Borrowing associated with repurchase agreements	13 512	13 512	69 147	69 147
Total associated liabilities	39 975	39 975	116 913	116 913

GPFG NOTE 10 COLLATERAL AND OFFSETTING

ACCOUNTING POLICY

Collateral is received in securities lending transactions, repurchase and reverse repurchase agreement transactions and financial derivative transactions.

Cash collateral

Cash collateral received in connection with securities lending transactions or OTC derivative transactions is recognised as *Deposits in banks* together with a corresponding liability, *Cash collateral received.* Cash collateral received in connection with repurchase agreement transactions is recognised as *Deposits in banks* with a corresponding short-term financial liability, *Borrowing associated with repurchase agreements*. Both short-term liabilities, *Cash collateral received* and *Borrowing associated with repurchase agreements,* are designated at initial recognition as financial liabilities measured at fair value through profit or loss. 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.

Cash transferred to counterparties in reverse repurchase agreement transactions, or cash collateral posted in OTC derivative transactions is derecognised. A corresponding receivable reflecting the cash amount that will be returned, is recognised as an asset as *Lending associated with reverse repurchase agreements* or Cash collateral posted (as part of *Other assets*), respectively. Financial assets *Lending associated with reverse repurchase agreements* and cash collateral posted are designated as at fair value through profit or loss.

Securities collateral

Collateral received in the form of securities through securities lending transactions is not recognised in the balance sheet unless reinvested. In connection with reverse repurchase agreements, the received underlying security is not reinvested and is therefore not recognised in the balance sheet.

COLLATERAL

Different types of transactions are entered into whereby collateral is received or posted. This includes securities lending transactions, derivative transactions and repurchase and reverse repurchase agreements (see Tables 10.1 to 10.3, Note 9 *Transferred financial assets* and Note 8 *Financial derivatives*). For details on monitoring counterparty risk in connection with collateral, see Note 7 *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 the lender. 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 GPFG bears this risk itself in cases where collateral has been received in the form of equities.

FINANCIAL DERIVATIVES

Cash collateral is posted or received in accordance with positions in foreign exchange contracts and unlisted (OTC) financial derivative contracts (interest rate swaps, credit default swaps and equity swaps), and futures contracts.

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Through repurchase and reverse repurchase agreements, the GPFG receives or posts collateral in securities in return for cash. Reverse repurchase agreements are entered into, where the counterparty has transferred bonds or equities to the Bank, and 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. Repurchase agreements are also entered into (see Note 9 *Transferred financial assets*)

Tables 10.1 to 10.3 show an overview of securities received and posted as collateral, together with received or posted cash collateral.

Table 10.1 Securities received as collateral

Amounts in NOK millions

	31 Dec. 2014		31 Dec. 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Equities received as collateral in connection with securities lending	-	137 567	-	97 746
Bonds received as collateral in connection with securities lending	-	27 408	-	30 275
Equities received as collateral in connection with reverse repurchase agreements	-	19 686	-	28 793
Bonds received as collateral in connection with reverse repurchase agreements	-	27 797	-	57 552
Additional collateral related to repurchase and reverse repurchase agreements	-	-	-	8
Total securities received as collateral	-	**212 458**	-	**214 375**

Securities received in connection with the securities lending programmes or (reverse) repurchase agreements can be sold or pledged. At year-end 2014 and year-end 2013, no such securities are sold or pledged.

Table 10.2 Securities lent or posted as collateral

Amounts in NOK millions

	31 Dec. 2014		31 Dec. 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Equities lent in connection with securities lending	166 842	166 842	161 150	161 150
Bonds lent in connection with securities lending	11 823	11 823	7 124	7 124
Bonds lent in connection with repurchase agreements	13 340	13 340	68 682	68 682
Bonds posted as collateral for futures contracts (initial margin)	3 840	3 840	1 926	1 926
Additional collateral related to repurchase agreements	-	-	1	1
Total securities lent or posted as collateral	195 845	195 845	238 883	238 883

Table 10.3 Cash posted or received as collateral

Amounts in NOK millions

	31 Dec. 2014		31 Dec. 2013	
	Received	Posted	Received	Posted
Related to reverse repurchase agreements (liquidity placing)	-	45 536	-	89 189
Related to repurchase agreements	13 512	-	69 147	-
Related to securities lending programmes*	26 463	-	47 766	-
Related to derivative transactions	543	1 833	298	1 681
Total cash collateral	40 519	47 369	117 211	90 870

* Received cash collateral related to securities lending which is reinvested in reverse repurchase agreements amounts to NOK 26 416m at year-end 2014. At year-end 2013 this amounts to NOK 53 399m, of which unsettled trades amount to NOK 5 643m.

ACCOUNTING POLICY

Financial assets and liabilities are only offset, and presented net in the balance sheet, if there is a legally enforceable right to set off the recognised amounts and the intention to settle on a net basis, or to realise the asset and settle the liability simultaneously, in accordance with IAS 32 *Financial Instruments: Presentation*. The aforementioned criteria are not met for any financial assets and liabilities, hence no amounts are offset and presented net in the balance sheet. For this reason, Table 10.4 does not include a column for amounts offset/netted in the balance sheet.

OFFSETTING

Table 10.4 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 the column *Assets/Liabilities after netting and collateral.*

For various counterparties and transaction types, cash collateral will be both posted to and received from the same counterparty. Therefore, received cash collateral can be netted against posted cash collateral and vice-versa.

Some netting agreements have been found not to be legally enforceable. Transactions under such contracts are shown together with unsettled trades in the 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.

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 GPFG or Norway's foreign exchange reserves. Such cross nettings will be settled between these portfolios and are therefore not adjusted for in the table.

Table 10.4 Assets and liabilities subject to netting agreements

Amounts in NOK millions

	Amounts subject to enforceable master netting agreements						31 Dec. 2014
Description	**Assets in the balance sheet subject to netting**	**Financial liabilities related to same counterparty**	**Cash collateral received (recognised as liability)**	**Security collateral received (not recognised))**	**Assets after netting and collateral**	**Unsettled trades and assets not subject to enforceable netting agreements**	**Gross financial assets recognised in the balance sheet**
ASSETS							
Derivatives	5 387	4 581	807	-	-	390	5 777
Lending associated with reverse repurchase agreements	45 536	-	22 093	23 428	15	-	45 536
Posted cash collateral*	1 833	1 833	-	-	-	-	1 833
Total	52 756	6 414	22 900	23 428	15	390	53 146

Amounts in NOK millions

	Amounts subject to enforceable master netting agreements						31 Dec. 2014
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 recognised)**	**Liabilities after netting and collateral**	**Unsettled trades and liabilities not subject to enforceable netting agreements**	**Gross financial liabilities recognised in the balance sheet**
ASSETS							
Derivatives	7 895	4 581	1 833	-	1 482	-	7 895
Lending associated with reverse repurchase agreements	13 512	-	7 883	5 630	-	-	13 512
Posted cash collateral*	27 006	135	14 210	12 204	457	-	27 006
Total	48 413	4 716	23 926	17 834	1 939	-	48 413

* Posted cash collateral is classified as *Other assets*.

Amounts in NOK millions

Description	Amounts subject to enforceable master netting agreements						31 Dec. 2013
	Assets in the balance sheet subject to netting	Financial liabilities related to same counter-party	Cash collateral received (recog-nised as liability)	Security collateral re-ceived (not recognised)	Assets after netting and collateral	Unsettled trades and assets not subject to enforcea-ble netting agreements	Gross finan-cial assets recognised in the bal-ance sheet
ASSETS							
Derivatives*	1 033	672	162	-	**199**	382	1 416
Lending associated with reverse repurchase agreements	72 089	-	44 062	28 014	**13**	17 100	89 189
Total	73 122	672	44 224	28 014	212	17 482	90 605

Amounts in NOK millions

Description	Amounts subject to enforceable master netting agreements						31 Dec. 2013
	Liabilities in the balance sheet subject to netting	Financial assets related to same counter-party	Cash collat-eral posted (recognised as asset)	Security collateral posted (not recognised)	Liabili-ties after netting and collateral	Unsettled trades and liabilities not subject to enforce-able netting agreements	Gross finan-cial liabilities recognised in the bal-ance sheet
LIABILITIES							
Derivatives*	972	672	-	-	**300**	-	972
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	102 547	834	44 062	57 116	535	15 636	118 183

* As from 2014, variation margin is considered settlement for exchange traded futures and equity swaps. Comparatives for derivatives are therefore restated.

GPFG NOTE 11 MANAGEMENT COSTS

ACCOUNTING POLICY

Management fee is recognised in the income statement of the GPFG as an expense. The management fee accrues during the financial year, but is cash-settled in the following year. Management fee payable is a financial liability classified as a loan and measured at amortised cost.

The GPFG is managed by Norges Bank. Costs relating to the management of the fund are mainly incurred in Norges Bank. Management costs are also incurred in real estate subsidiaries.

MANAGEMENT COSTS IN NORGES BANK

The Ministry of Finance reimburses Norges Bank for costs incurred in connection with the management of the GPFG, in the form of a management fee. The management fee is equivalent to the actual costs incurred by Norges Bank, including performance-based fees to external managers, and is expensed in the income statement line *Management fee*. Costs included in the management fee are specified in Table 11.1.

Table 11.1 Management fee

Amounts in NOK millions

	2014		2013	
		Basis points		Basis points
Salary, social security and other personnel related costs	763		709	
Custody and settlement costs	457		423	
IT-services, systems and data	488		454	
Research, consulting and legal fees	169		99	
Other costs	119		103	
Allocated common costs Norges Bank	112		104	
Base fees to external managers	445		313	
Management fee excluding performance-based fees	2 553	4.7	2 205	5.0
Performance-based fees to external managers	649		684	
Total management fee	3 202	5.9	2 889	6.6

MANAGEMENT COSTS IN REAL ESTATE SUBSIDIARIES

Management costs incurred in real estate subsidiaries consist of operating expenses related to the management of the real estate portfolio. These costs are specified in Table 11.2.

Table 11.2 Management costs, real estate subsidiaries

Amounts in NOK millions

	2014	2013
Salary, social security and other personnel related costs	25	20
IT-services, systems and data	14	6
Research, consulting and legal fees	22	14
Fees related to real estate asset management (external)	7	11
Other costs, subsidiaries	15	10
Total management costs, real estate subsidiaries	83	61

Operating expenses are also incurred in real estate subsidiaries related to the ongoing maintenance and operation of properties and leases. These are not defined as management costs, since they are directly related to the underlying properties, and are not part of the management of the real estate portfolio. Management costs and operating expenses are also incurred in partly-owned real estate entities.

Both management costs and operating expenses that are incurred in fully and partly-owned real estate companies are expensed directly in the portfolio result in the income statement line *Net income/expense – gain/loss from Real estate*. See Table 5.3 in Note 5 *Real estate* for further information.

UPPER LIMIT FOR REIMBURSEMENT OF MANAGEMENT COSTS

The Ministry of Finance has established an upper limit for the reimbursement of management costs. For 2014, the sum of total management costs incurred in Norges Bank and real estate subsidiaries, excluding performance-based fees to external managers, is limited to 9 basis points of average assets under management. Other operating expenses that are incurred in real estate subsidiaries, as well as costs incurred in partly-owned real estate entities, are not included in the costs that are measured against this limit.

Total management costs that are measured against the limit amount to NOK 2 636m in 2014. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 2 553m, and management costs in real estate subsidiaries of NOK 83m. This corresponds to 4.9 basis points of assets under management on an annual basis.

Performance-based fees to external managers amount to NOK 649m in 2014, and total management costs including performance-based fees amount to NOK 3 285m. This corresponds to 6.1 basis points of assets under management on an annual basis.

GPFG NOTE 12 OTHER ASSETS AND OTHER LIABILITIES

Table 12.1 Other assets

Amounts in NOK millions

	31 Dec. 2014	31 Dec. 2013
Withholding tax	2 744	2 100
Accrued income from external agency securities lending	176	128
Other receivables	2 216	1 294
Total other assets	5 136	3 522

Table 12.2 Other liabilities

Amounts in NOK millions

	31 Dec. 2014	31 Dec. 2013
Other liabilities abroad	190	144
Liabilities to other portfolios under common management*	60	112
Accrued tax	68	139
Total other liabilities	318	395

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

GPFG NOTE 13 TAX EXPENSE

ACCOUNTING POLICY

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 assets*. For further information (see Note 12 *Other assets and other liabilities*). If, upon 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 are classified as *Tax expense* in the income statement. Taxes are recognised at the same time as dividend income (see the accounting policies in Note 3 *Profit/loss on the portfolio before foreign exchange gains and losses and returns per asset class*). 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.

Norges Bank is not taxable for its operations in Norway, and is subject to taxes in some foreign markets, in the form of withholding tax on dividends, interest income and capital gains. Taxes consist of income tax and deferred tax that are not reimbursed through local tax regulations or treaties to Norges Bank on behalf of the GPFG.

Table 13.1 Tax expense per asset class and type of investment

Amounts in NOK millions

							2014
	Gross income before taxes	**Income taxes deducted**	**Income taxes refunded**	**Accrued tax***	**Net change deferred tax**	**Tax expense**	**Net income after taxes**
Dividends from equities – withholding tax	87 962	-3 643	1 712	-	-	**-1 931**	86 031
Realised/unrealised gains/losses from equities – capital gains tax	297 981	-161	-	72	-	**-89**	297 892
Interest income from bonds – withholding tax	65 472	-244	199	-	-	**-45**	65 427
Realised/unrealised gains/losses from bonds – capital gains tax	92 534	-	-	-	-	**-**	92 534
Change in deferred tax – unrealised fair value change real estate**	-140	-	-	-	39	**39**	-101
Total tax expense		-4 048	1 911	72	39	-2 026	

Amounts in NOK millions

							2013
	Gross income before taxes	Income taxes deducted	Income taxes refunded	Accrued tax*	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 – withholding tax	52 279	-148	143	-	-	-5	52 274
Realised/unrealised gains/losses from bonds – capital gains tax	-46 433	-	-	-	-	-	-46 433
Change in deferred tax – unrealised fair value change real estate***	140	-	-	-	-39	-39	101
Total tax expense		-2 832	1 777	-39	-39	-1 133	

* Positive figure relates to the release of a provision recognised in 2013.
** *Change in deferred tax – unrealised fair value change real estate* relates to the release of a provision recognised in 2013.
*** Due to the implementation of IFRS 10, comparable amounts for the tax expense related to real estate investments have been restated. See Notes 2 and 16 for details.

Companies included within *Real estate* in the GPFG are subject to income tax and recognise deferred tax. These tax costs are included in the income statement line *Net income/expense – gain/loss from Real estate*, and are specified in Note 5 *Real estate*, Table 5.3. Taxes payable and deferred tax are specified in Note 5 *Real estate*, Table 5.4.

GPFG NOTE 14 RELATED PARTIES

ACCOUNTING POLICY

Norges Bank is owned by the Norwegian government and under IAS 24.25 is exempt from the disclosure requirements pertaining to related party transactions and outstanding balances, including commitments, with the Norwegian government. This includes transactions with other entities that are related parties because the Norwegian government has control of, joint control of, or significant influence over both Norges Bank and the other entities.

Norges Bank, including the GPFG, is a separate legal entity that is wholly state-owned through the Ministry of Finance. See Note 1 *General information* for information regarding the relationship between the Ministry of Finance, Norges Bank and the GPFG. The GPFG conducts all transactions at arm's length, i.e. at market conditions.

INFLOWS FROM THE GOVERNMENT

Norges Bank receives inflows from the Ministry of Finance in the form of a krone deposit in an account in Norges Bank. The krone deposit is subsequently placed with Norges Bank Investment Management for investment. See additional information regarding the inflow for the period in the *Statement of changes in owner's capital*.

TRANSACTIONS WITH NORGES BANK

Management fee for the GPFG is deducted from the amount transferred from the Ministry of Finance. For further information on management costs (see Note 11 *Management costs*).

Internal trades in the form of money market lending or borrowing and repurchase agreements between the GPFG and Norges Bank's long-term reserves are presented in the balance sheet as a net balance between the two reporting entities as *Other assets* and *Other liabilities*. Associated income and expense items are presented gross in the respective income statements as either interest income or interest expense.

TRANSACTIONS WITH SUBSIDIARIES

Subsidiaries are financed through equity and long-term loans. Cash generated in subsidiaries is distributed in the form of dividends and interest. For more information regarding transactions with subsidiaries, see Note 5 *Real estate*.

GPFG NOTE 15 INTERESTS IN OTHER ENTITIES

Real estate investments are made through subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG. These subsidiaries invest, through holding companies, in entities that operate and invest in properties. Table 15.1 shows the principal entities that operate and own the properties.

Table 15.1 Real estate entities

Company	Business address	Property address	Ownership share and voting right in percent	Recognised from
United Kingdom				
NBIM George Partners LP	London	London	100.00	2011
MSC Property Intermediate Holdings Limited	London	Sheffield	50.00	2012
NBIM Charlotte Partners LP	London	London	57.75	2014
NBIM Edward BT	London	London	100.00	2014
Luxembourg				
NBIM S.à r.l.	Luxembourg		100.00	2011
NBIM Monte S.à r.l.	Luxembourg		100.00	2013
France				
NBIM Louis SAS	Paris	Paris	100.00	2011
SCI 16 Matignon	Paris	Paris	50.00	2011
Champs Elysées Rond-Point SCI	Paris	Paris	50.00	2011
SCI PB 12	Paris	Paris	50.00	2011
SCI Malesherbes	Paris	Paris	50.00	2012
SCI 15 Scribe	Paris	Paris	50.00	2012
SAS 100 CE	Paris	Paris	50.00	2012
SCI Daumesnil	Paris	Paris	50.00	2012
SCI 9 Messine	Paris	Paris	50.00	2012
SCI Pasquier	Paris	Paris	50.00	2013
NBIM Marcel SPPICAV	Paris	Paris	100.00	2014

Company	Business address	Property address	Ownership share and voting right in percent	Recognised from
Germany				
Die Welle 1 Frankfurt Immobilien GmbH & Co. KG	Cologne	Frankfurt	50.00	2012
Die Welle 3 Frankfurt Immobilien GmbH & Co. KG	Cologne	Frankfurt	50.00	2012
NKE Neues Kranzler Eck Berlin Immobilien GmbH & Co. KG	Cologne	Berlin	50.00	2012
Tower SZ Munich GmbH & Co. KG	Hamburg	Munich	50.00	2013
NBIM Karl LBG1 S.C.S	Luxembourg	Munich	94.90	2014
NBIM Karl LBG2 S.C.S	Luxembourg	Munich	94.90	2014
Switzerland				
NBIM Antoine CHF S.à r.l.	Luxembourg	Zürich	100.00	2012
Europe				
Prologis European Logistics Partners S.à r.l.	Luxembourg	Multiple European cities	50.00	2013
United States				
T-C 1101 Pennsylvania Venture LLC	Wilmington, DE	Washington	49.90	2013
T-C Franklin Square Venture LLC	Wilmington, DE	Washington	49.90	2013
T-C 33 Arch Street Venture LLC	Wilmington, DE	Boston	49.90	2013
T-C 470 Park Avenue South Venture LLC	Wilmington, DE	New York	49.90	2013
T-C 475 Fifth Avenue Venture LLC	Wilmington, DE	New York	49.90	2013
No. 1 Times Square Development LLC	Wilmington, DE	New York	45.00	2013
OFC Boston LLC	Wilmington, DE	Boston	47.50	2013
425 MKT LLC	Wilmington, DE	San Francisco	47.50	2013
555 12th LLC	Wilmington, DE	Washington	47.50	2013
Prologis U.S. Logistics Venture LLC	Wilmington, DE	Multiple American cities	46.30	2014
OBS Boston LLC	Wilmington, DE	Boston	47.50	2014
100 Federal JV LLC	Wilmington, DE	Boston	45.00	2014
Atlantic Wharf JV LLC	Wilmington, DE	Boston	45.00	2014
BP/CGCenter MM LLC	Wilmington, DE	New York	45.00	2014
T-C 2 Herald Square Venture LLC	Wilmington, DE	New York	49.90	2014
T-C 800 17th Street Venture NW LLC	Wilmington, DE	Washington	49.90	2014
T-C Foundry Sq II Venture LLC	Wilmington, DE	San Francisco	49.90	2014
T-C Hall of States Venture LLC	Wilmington, DE	Washington	49.90	2014

In addition to the entities shown in Table 15.1, Norges Bank has wholly-owned holding companies as part of the real estate structure. These holding companies do not engage in any operations and do not own any properties directly. The holding companies have their business address in the same country as the properties, or in relation to NBIM S.à r.l. in Luxembourg.

GPFG NOTE 16 EFFECTS OF CHANGES IN ACCOUNTING POLICES

As a consequence of the implementation of IFRS 10, there has been a change in the accounting policies related to subsidiaries exclusively established as a part of the management of the GPFG. Subsidiaries previously consolidated are now measured at fair value through profit or loss and presented on one balance sheet line as *Real estate*. The change has been implemented retrospectively. Quantitative information is presented for the financial year immediately preceding the date of implementation, i.e. the financial year 2013. Additionally, the effect on *Owner's capital* is specified as at 1 January 2013.

In the income statement, revenues and expenses that were previously consolidated are now presented together on the line *Net income/expense – gain/loss from Real estate*. In addition, the translation reserve arising from consolidation of foreign subsidiaries is reclassified from comprehensive income to *Foreign exchange gains and losses* in the income statement. Similarly, assets and liabilities previously consolidated are presented together on the balance sheet line *Real estate*.

In *Owner's capital,* the accumulated translation reserve from consolidation of foreign subsidiaries is reclassified to retained earnings.

Comparative amounts have been restated according to the transition provisions and the effect is presented in Tables 16.1-16.3. See also Note 2 *Accounting policies*.

Table 16.1 shows the effect of changes in accounting policies on the income statement. Negative signs mean a decrease of income or increase of expenses. Positive signs mean an increase of income or decrease of expenses.

Table 16.1 Effects of changes in accounting policies – income statement

Amounts in NOK millions

			2013
	Reported	Effect of IFRS 10	Restated
INCOME STATEMENT			
Net income/expense – gain/loss from:			
- Financial assets real estate	915	- 915	-
- Investment properties	707	- 707	-
- Jointly controlled entities and associates real estate	1 846	- 1 846	-
- Real estate	-	3 236	3 236
Tax expense	- 1 291	158	- 1 133
Other interest income and interest expense	2	-	2
Other expenses	- 100	74	- 26
Profit/loss on the portfolio before foreign exchange gains and losses	**691 530**	**-**	**691 530**
Foreign exchange gains and losses	287 771	3 657	291 428
Profit/loss for the period	**976 412**	**3 657**	**980 069**
STATEMENT OF COMPREHENSIVE INCOME			
Translation reserve arising from consolidation of foreign subsidiaries that may be reclassified to the income statement	3 657	- 3 657	-
Total comprehensive income	**980 069**	**-**	**980 069**

Tables 16.2 and 16.3 show the effect of changes in accounting principles on the balance sheet and statement of changes in owner's capital. Negative signs mean a reduction of assets, liabilities or owner's capital. Positive signs mean an increase of assets, liabilities or owner's capital.

Table 16.2 Effects of changes in accounting policies – balance sheet

Amounts in NOK millions

			31 Dec. 2013
	Reported	Effect of IFRS 10	Restated
ASSETS			
Total assets*	5 164 450	- 454	5 163 996
Of which			
*Deposits in banks**	*4 111*	*- 129*	*3 982*
Financial assets real estate	*7 426*	*- 7 426*	*-*
Jointly controlled entities and associates real estate	*32 261*	*- 32 261*	*-*
Real estate	*-*	*51 032*	*51 032*
Other assets	*-*	*3 522*	*3 522*
Other financial assets	*3 917*	*- 3 917*	*-*
Investment properties	*11 267*	*- 11 267*	*-*
Other non-financial assets	*8*	*- 8*	*-*
LIABILITES AND OWNER'S CAPITAL			
Total liabilities*	129 604	- 454	129 150
Of which			
Other liabilities	*849*	*- 454*	*395*
Owner's capital	5 034 846	-	5 034 846
Of which			
Retained earnings	*1 732 256*	*3 649*	*1 735 905*
Translation reserve foreign subsidiaries	*3 649*	*- 3 649*	*-*

* From 2014, variation margin is considered to be settlement of exchange traded futures and equity swaps. In the column *Reported* these instruments have therefore been reclassified from *Financial derivatives to Deposits in banks*. The change has had no impact on the income statement.

Table 16.3 Effects of changes in accounting policies – owner's capital

Amounts in NOK millions

			01.01.2013
	Reported	Effect of IFRS 10	Restated
Owner's capital	3 057 740	-	3 057 740
Of which			
Retained earnings	*755 844*	*- 8*	*755 836*
Translation reserve foreign subsidiaries	*- 8*	*8*	*-*

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Council of Norges Bank

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Norges Bank, which comprise the balance sheet as at 31 December 2014, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norges Bank as at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Act and the Regulation concerning annual financial reporting for Norges Bank. The regulation requires Norges Bank financial statements to be prepared in accordance with International Financial Reporting Standards as endorsed by the EU, but sets certain specific presentation requirements for the investment portfolio of the Government Pension Fund Global, including investments in subsidiaries being part of the investment portfolio.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

OPINION ON REGISTRATION AND DOCUMENTATION

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

Oslo, 10 February 2015
Deloitte AS

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)

[English translation – For information purposes only]

RESOLUTION OF THE SUPERVISORY COUNCIL ON THE FINANCIAL STATEMENTS FOR 2014

Norges Bank's Supervisory Council adopted the following decision at its meeting on 12 March 2015:

- The Supervisory Council takes note of the Annual Report of the Executive Board for 2014.

- The Supervisory Council takes note of the auditor's report for Norges Bank for 2014 and adopts Norges Bank's financial statements for 2014.

- In accordance with the guidelines, the profit after other allocations of NOK 89.2bn is to be transferred, with NOK 57.9bn to the Adjustment Fund and NOK 31.3bn to the Transfer Fund. A third of the funds in the Transfer Fund, NOK 10.4bn, is to be transferred to the Treasury.

THE SUPERVISORY COUNCIL'S STATEMENT ON THE MINUTES OF THE MEETINGS OF THE EXECUTIVE BOARD AND ITS SUPERVISION OF THE BANK IN 2014

Under the Norges Bank Act, the Supervisory Council submits a separate report to the Storting concerning the minutes of the meetings of the Executive Board and its supervision of the Bank.

The report for 2014 will be adopted by the Supervisory Council on 12 March 2015 and published upon submission to the Storting.

NORGES BANK'S ACTIVITIES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NORGES

CHAPTER 1

MONETARY POLICY

Norges Bank has executive and advisory responsibilities in the area of monetary policy. The operational implementation of monetary policy is oriented towards low and stable inflation, with an operational target of annual consumer price inflation of close to 2.5% over time. Monetary policy shall also contribute to smoothing out fluctuations in output and employment (see box on monetary policy in Norway).

The consumer price index (CPI) rose by 2.0% between 2013 and 2014, while consumer prices adjusted for tax changes and excluding energy products (CPI-ATE) rose by 2.4% in the same period. Inflation was stable through 2014. Growth in the Norwegian economy was moderate and unemployment increased somewhat from low levels. Capacity utilisation edged down and was estimated to be somewhat below a normal level at the end of the year. The outlook for the Norwegian economy weakened in 2014. The interest rate forecast was revised down in June and December. At the December monetary policy meeting the key policy rate was reduced by 0.25 percentage point to 1.25%.

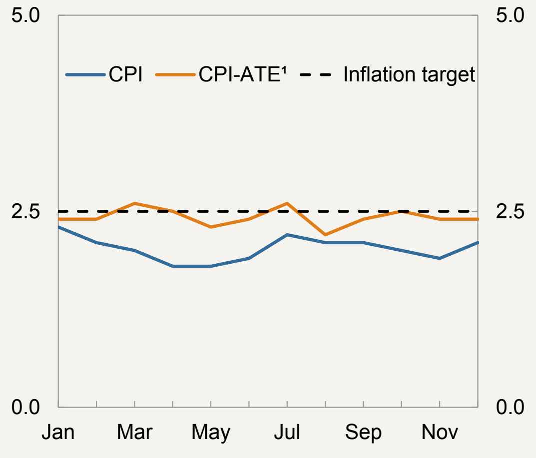
MINOR CHANGES IN OUTLOOK IN THE PERIOD TO THE MARCH MONETARY POLICY MEETING

In early 2014, growth was on its way up in the US, the UK, Sweden and the euro area. Growth in advanced economies as a whole appeared set to continue and be somewhat higher than projected in the December 2013 *Monetary Policy Report*. In emerging economies, growth had slowed and been slightly lower than expected. Consumer price inflation had fallen in many advanced economies, but long-term inflation expectations appeared to be firmly anchored. Policy rates remained close to zero in many countries and there were prospects that foreign policy rates would be kept low for a long time. Market expectations concerning foreign policy rates had edged down.

Oil prices had fallen slightly since the end of 2013, and futures prices indicated some decline in oil prices ahead. It still seemed likely that oil prices would remain above USD 100 per barrel. After depreciating markedly through 2013, the krone continued to depreciate until February 2014, but appreciated somewhat thereafter.

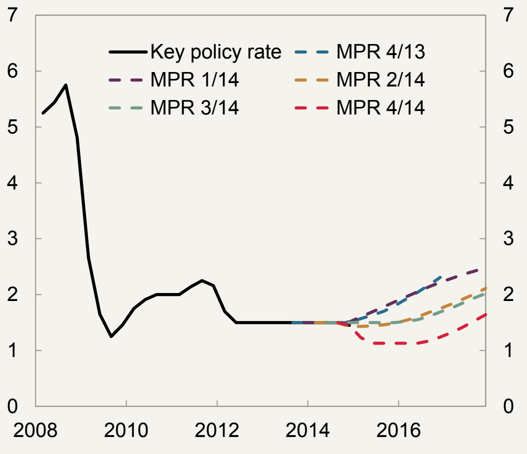
Developments in the Norwegian economy were broadly as had been expected in December 2013. It still appeared that petroleum investment would remain at a high level, but that growth in petroleum investment could be slightly lower than expected. Housing investment also showed weaker developments than previously expected. Unemployment had remained approximately unchanged and capacity utilisation was estimated to be close to a normal level. House prices had edged up after falling in autumn 2013 and were somewhat higher than anticipated. Household debt growth had slowed somewhat, but was still higher than household income. Growth in household consumption was moderate and the saving ratio had increased from an already high level. Reported wage growth in 2013 was higher than

CHART 1.1 Consumer prices. Twelve-month change. Percent. 2014



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

CHART 1.2 Projections for the key policy rate in various monetary policy reports. Percent. 2008 Q1–2017 Q4



Source: Norges Bank

projected and consumer price inflation had also been marginally higher than projected. Annual CPI-ATE inflation had risen to 2.4% in January and February (see Chart 1.1), up from 2.0% in 2013 Q4.

At the monetary policy meeting in March, the Executive Board noted that growth in the Norwegian economy had been broadly in line with projections in the December 2013 *Report*, but that the outlook for growth had weakened slightly. There were also prospects that consumer price inflation would be slightly higher than previously projected, as a result of the depreciation of the krone and somewhat higher wage growth than anticipated. The key policy rate was therefore kept unchanged at 1.5%. The analysis in the March 2014 *Report* implied that the key policy rate would be kept unchanged in the period to summer 2015, followed by a gradual increase. The forecast was broadly unchanged from the December 2013 *Report* (see Chart 1.2).

DEVELOPMENTS APPROXIMATELY AS EXPECTED IN THE PERIOD TO THE MAY MONETARY POLICY MEETING

In the period to the monetary policy meeting in May, economic developments both at home and abroad had been approximately in line with the projections in the March 2014 *Report*. Growth among Norway's main trading partners was still moderate, and it appeared that it could take even longer for policy rates abroad to increase. The krone had appreciated slightly, approximately as projected in the March *Report*. Banks had reduced their lending and deposit rates somewhat. Growth in the Norwegian economy appeared to be in line with expectations and unemployment had been fairly stable. House prices had risen to a slightly higher level than projected in March. Wage increases negotiated in the wage settlement appeared to be in line with the projections in the March *Report*. The rise in consumer prices had also been in line with projections and the forces driving inflation were assessed to be little changed.

At the monetary policy meeting in May, the Executive Board noted that banks had reduced their lending rates and that house prices had risen somewhat more than expected. On the other hand, expected foreign policy rates had fallen. Economic developments both in Norway and abroad had otherwise been approximately as projected in March. The Board decided to keep the key policy rate unchanged at 1.5%, in line with the interest rate forecast in the March 2014 *Report*.

SOMEWHAT WEAKER GROWTH OUTLOOK IN THE PERIOD TO THE JUNE MONETARY POLICY MEETING

Growth among Norway's trading partners remained moderate in the period to summer. Growth had slowed in emerging economies, while many advanced economies had shown signs of gradual improvement. The outlook for growth abroad was little changed from March. Nonetheless, market expectations regarding foreign policy rates had fallen further, primarily as a result of weaker inflation prospects in Europe. The European Central Bank (ECB) had cut its policy rate by 0.10 percentage point to 0.15% at the beginning of June, and there were expectations of a policy rate cut in Sweden in July. Oil prices were around USD 110 per barrel, about USD 5 higher than in March. Futures prices, however, indicated some decline in oil prices ahead.

The krone had continued to appreciate and had been slightly stronger than assumed in the March *Report*. Banks had reduced lending and deposit rates and there were prospects that the average lending rate could be slightly lower than previously expected in the quarters ahead. Retail lending rates, however, were still considerably higher than the key policy rate.

Growth in the Norwegian economy was moderate and approximately in line with assumptions in March. The enterprises in Norges Bank's regional network had reported in May that growth had increased somewhat from February, particularly in the export industry, domestically oriented manufacturing and retail trade. Growth had slowed in oil-related activities oriented towards the Norwegian continental shelf. Household confidence indicators had risen and it appeared that growth in household consumption would be higher than previously assumed. On the other hand, new information, such as Statistics Norway's petroleum investment survey for Q2, indicated that growth in petroleum investment could be considerably lower than previously projected. The projection for petroleum investment in 2015 was revised down from a rise of ¾% to a fall of 10%. Growth in business investment also appeared to be somewhat weaker than expected. Registered unemployment had risen slightly, but was still close to an average for the past 15 years. Mainland capacity utilisation had probably decreased, but was still estimated to be close to a normal level.

House price inflation had picked up and been somewhat higher than anticipated in March. Consumer prices had risen somewhat more than expected. As measured by the CPI-ATE, year-on-year consumer price inflation averaged 2.5% in the period from March to May. However, there were still prospects that inflation would slow gradually through autumn.

At the monetary policy meeting in June, the Executive Board noted that economic developments at home and abroad had been broadly in line with expectations. The key policy rate was therefore kept unchanged at 1.5%. There were prospects that growth in the Norwegian economy ahead could be somewhat lower than previously projected. The expected increase in foreign policy rates had also been deferred further out. The analyses in the June 2014 *Report* implied therefore that the key policy rate could be kept low for longer than previously assumed. There were prospects that the key policy rate would be about 1.5% to end-2015 and that it could be increased gradually thereafter. The Board emphasised that in the event the outlook for the Norwegian economy weakened further, it could be appropriate to lower the key policy rate.

INFLATION AND GROWTH IN NORWAY SLIGHTLY HIGHER THAN EXPECTED IN THE PERIOD TO THE SEPTEMBER MONETARY POLICY MEETING

Through summer and autumn, there were signs that the moderate recovery in advanced economies as a whole was continuing, but uncertainty regarding developments in Europe had increased. Growth had picked up in the US and the UK, while activity in the euro area had stagnated in the second quarter. Growth in Sweden had also been lower than expected. Among Norway's trading partners as a whole, growth had been slightly lower than anticipated and growth prospects had also been revised down somewhat. Inflation had been low in most advanced economies, particularly in the euro area and Sweden. Long-term inflation expectations had also declined somewhat in the euro area, while remaining stable in the US and the UK.

Oil prices had fallen from USD 110 per barrel in June to just under USD 100 per barrel in September. Futures prices held up, however, indicating oil prices of around USD 100 per barrel ahead. Long-term international interest rates had continued to fall, probably driven by weaker growth prospects, heightened geopolitical uncertainty and expectations of continued very expansionary monetary policy. Key policy rates remained close to zero in many countries and both the ECB and the Riksbank had cut their policy rates since June. The ECB had also announced that further monetary policy measures would be implemented. Market expectations implied that the increase in policy rates abroad had again been deferred further out.

The krone had depreciated markedly after the publication of the June *Report*, but appreciated somewhat after summer. The krone depreciated again through September and was weaker than had been expected in June. Banks' retail lending rates had fallen somewhat, as expected.

Growth in the Norwegian economy had been higher than expected in the second quarter, but it appeared that the pickup was largely due to temporary factors, such as particularly high production in the electric power and fishing industries. Enterprises in the Bank's regional network reported in August that output was still showing moderate growth. Registered unemployment had remained relatively stable and was slightly lower than expected in June. Capacity utilisation in the Norwegian economy was still estimated to be close to a normal level and had probably decreased slightly less than previously anticipated. House prices had continued to rise approximately as expected. Household debt growth had slowed somewhat more than expected in the June *Report*.

Consumer price inflation remained higher than expected through summer. The year-on-year rise in the CPI-ATE averaged 2.4% in the three-month period from June to August. The rise in prices for domestically produced goods and services in particular had been higher than projected. New methods of measuring prices for food and non-alcoholic beverages and house rents applied by Statistics Norway may have changed the seasonal pattern in the CPI-ATE, resulting in higher measured inflation.

At the monetary policy meeting in September, the Executive Board noted that the outlook for the Norwegian economy was little changed from June. Inflation had nonetheless been slightly higher than projected and capacity utilisation was estimated to have declined slightly less than expected. It was also noted that the expected increase in foreign policy rates had again been deferred further out, while the krone had been weaker than assumed. The key policy rate was kept unchanged at 1.5%. The forecast for the key policy rate in the September *Report* implied that the key policy rate would remain at the same level to end-2015 and be raised gradually thereafter.

FALLING OIL PRICES AND INCREASED UNCERTAINTY IN THE PERIOD TO THE OCTOBER MONETARY POLICY MEETING

In the period to the October monetary policy meeting, oil prices fell further to around USD 85 per barrel. Oil prices had then fallen to levels that according to earlier regional network surveys could have relatively substantial effects on the Norwegian economy. The krone had depreciated further and was weaker than assumed in the September *Report*. The krone depreciation could be related to the fall in oil prices. Banks had lowered residential mortgage lending rates.

Developments in the Norwegian economy appeared to be in line with the projections in the September *Report*. Registered unemployment remained stable. House prices had risen slightly more than projected, while household debt growth had been in line with projections. The National Budget for 2015 included an increase in the structural non-oil deficit from 2014 to 2015 that was somewhat higher than assumed in September. Consumer price inflation had been slightly lower than projected.

Growth among Norway's trading partners was broadly in line with projections, but the outlook ahead had weakened somewhat. Uncertainty with regard to developments ahead had risen, particularly in the euro area. The expected increase in foreign policy rates had again been deferred further out.

At the monetary policy meeting in October, the Executive Board noted that new information as a whole indicated that developments in inflation and growth in the Norwegian economy were approximately in line with the September projec-

tions. Prospects for growth abroad were somewhat weaker, and the expected increase in foreign policy rates had again been deferred further out. On the other hand, the krone had depreciated and banks had reduced residential mortgage rates. The key policy rate was therefore kept unchanged at 1.5%, in line with the September forecast. At the same time, the Board noted that developments abroad and the fall in oil prices had increased uncertainty regarding the prospects for the Norwegian economy.

SHARP FALL IN OIL PRICES AND WEAKER GROWTH OUTLOOK IN THE PERIOD TO THE DECEMBER MONETARY POLICY MEETING

In the period to the December monetary policy meeting, oil prices had fallen markedly and were around USD 70 per barrel at the beginning of December, which was about 35% lower than the average for the first half of 2014. Futures prices had also fallen sharply. Inflation was low in most advanced economies, and the fall in oil prices had pushed down inflation projections for 2014 and 2015. Growth prospects for Norway's trading partners appeared to be virtually unchanged, but there was still considerable uncertainty regarding developments ahead. Policy rates for many of our trading partners remained close to zero, and in Sweden the Riksbank had lowered its policy rate to 0% in October. Market expectations implied that the increase in foreign policy rates had again been deferred further out.

The krone had depreciated markedly and was at the beginning of December more than 7% weaker than at the time of publication of the September *Report*. The depreciation partly reflected the fall in oil prices. Market participants appeared to become more uncertain about growth prospects for the Norwegian economy after the marked fall in oil prices.

Developments in the Norwegian economy had so far been in line with the projections in the September *Report*, but growth prospects had weakened. Activity in the oil service industry declined and these developments would probably be amplified ahead by the sharp fall in oil prices, generating possible ripple effects on the wider economy. Household consumption had been lower than expected and household confidence indicators had fallen. Although employment growth had remained firm so far, prospects had weakened. Mainland capacity utilisation had probably decreased approximately as expected.

Bank lending rates were slightly lower than assumed in September. House prices had continued to rise through autumn and were higher than previously projected. Household debt growth remained stable. Consumer price inflation had been in line with the projections in September. The year-on-year rise in the CPI-ATE was 2.5% in October.

At the monetary policy meeting in December, the Executive Board noted that the outlook for the Norwegian economy had weakened since September. It appeared that activity in the petroleum sector would be lower than previously assumed. It also appeared that growth in household consumption and business investment would be lower than expected. At the same time, the krone depreciation would contribute to underpinning inflation and curbing the effects of lower oil prices on the Norwegian economy. The objective of stable developments in inflation and output implied a lower key policy rate. A lower rate could in isolation contribute to house prices and debt continuing to rise more rapidly than household income. On the other hand, oil prices had fallen considerably and prospects for the Norwegian economy had weakened. The Executive Board gave weight to counteracting the risk of a pronounced downturn in the Norwegian economy. The key policy rate was reduced by 0.25 percentage point to 1.25%.

The analysis in the December 2014 *Report* implied a key policy rate of 1¼% or somewhat lower to the end of 2016. With such a path for the key policy rate, the analysis implied that inflation would be close to 2.5% in the coming years. Mainland capacity utilisation would initially edge down, but would thereafter increase again towards the end of the projection period.

MONETARY POLICY IN NORWAY

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

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

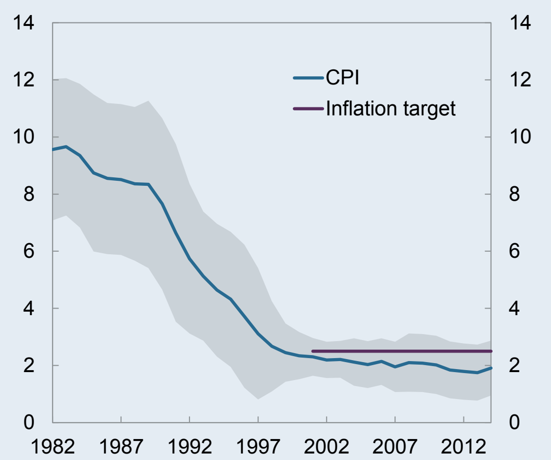
"Monetary policy shall be aimed at stability in the Norwegian krone's national and international value, contributing to stable expectations concerning exchange rate developments. At the same time, monetary policy shall underpin fiscal policy by contributing to stable developments in output and employment.

Norges Bank is responsible for the implementation of monetary policy.

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

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

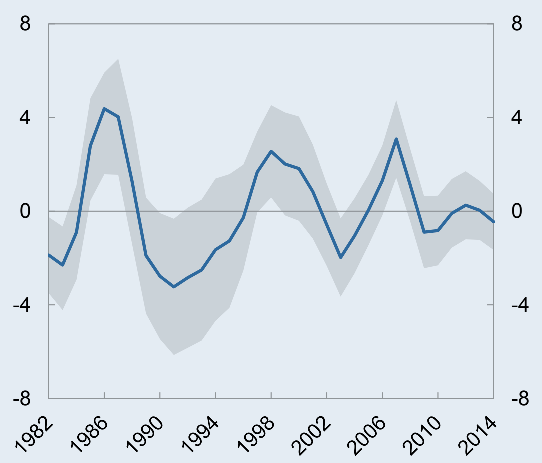
CHART 1.3 Inflation. 10-year moving average[1] and variation[2] in CPI. Percent. 1982–2014



1 The moving average is calculated 10 years back.
2 The band around the CPI is the variation in the CPI in the average period, measured by +/− one standard deviation.

Sources: Statistics Norway and Norges Bank

CHART 1.4 Estimated output gap[1]. Level and variation[2]. Percent. 1982–2014



1 The output gap measures the percentage difference between actual mainland GDP and projected potential mainland GDP.
2 The band shows the variation in the output gap measured by +/- one standard deviation. The standard deviations are calculated over a 10-year period.

Source: Norges Bank

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

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

Decisions concerning changes in the key policy rate are normally taken at the Executive Board's announced monetary policy meetings. In 2014, there were six monetary policy meetings. The *Monetary Policy Report with financial stability assessment* was published four times on the same date as the interest rate decision was announced. On the basis of the analysis in the *Report*, the Executive Board adopted the monetary policy strategy in the form of an interval for the key policy rate for the period up to the next *Report*. Projections for the key policy rate for the coming years are also published in the *Report* (see also the boxes on the criteria for an appropriate interest rate path and on changes in the interest rate forecast through 2014).

Norges Bank's monetary policy communication primarily aims to stabilise inflation expectations by providing an account of and explaining interest rate setting. The aim of publishing the Bank's interest rate forecasts and monetary policy strategy is to make it easier for others to anticipate and evaluate monetary policy. When market participants understand the central bank's response pattern, market rates can react with a stabilising effect to new information on economic developments.

Confidence in achieving the inflation target is a precondition for the stabilising effect of monetary policy on developments in output and employment. Inflation will not be at target at all times, but if there is confidence in monetary policy, expected inflation will be close to the inflation target over time, which in itself helps to stabilise inflation.

Experience of flexible inflation targeting in Norway has been favourable. Chart 1.3 shows the 10-year moving average for annual consumer price inflation (CPI). Over the past 10 years, inflation has averaged somewhat below, but close to, 2.5% (see blue line). The deviation from the inflation target may reflect a number of favourable supply-side characteristics, such as solid productivity growth, high labour immigration and low price rises for imported consumer goods. The grey band in the chart shows the variability in annual inflation. Over a longer time horizon, variability has narrowed.

Under a flexible inflation targeting regime, weight is also given to stabilising developments in output and employment in the conduct of monetary policy. Chart 1.4 shows the movements in the output gap since 1982, where the output gap is measured as the difference between the actual level and the estimated normal level of mainland GDP. By this measure, fluctuations in the economy have, on average, been reduced over time. In the wake of the financial crisis, growth in the Norwegian economy slowed, but has since been close to a normal level. Unemployment has remained low over the past decade.

CRITERIA FOR AN APPROPRIATE INTEREST RATE PATH

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

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

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

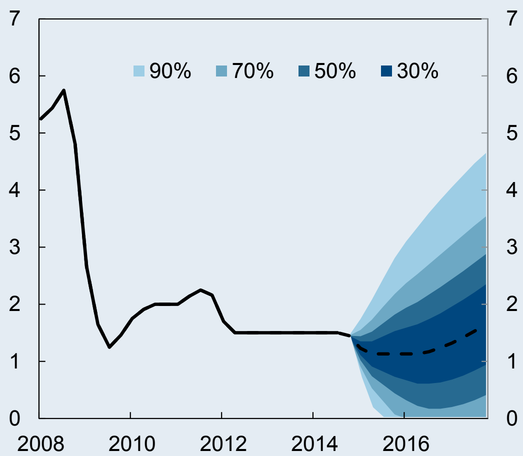
2. The inflation targeting regime is flexible
The interest rate path should provide a reasonable balance between the path for inflation and the path for overall capacity utilisation in the economy.

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

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

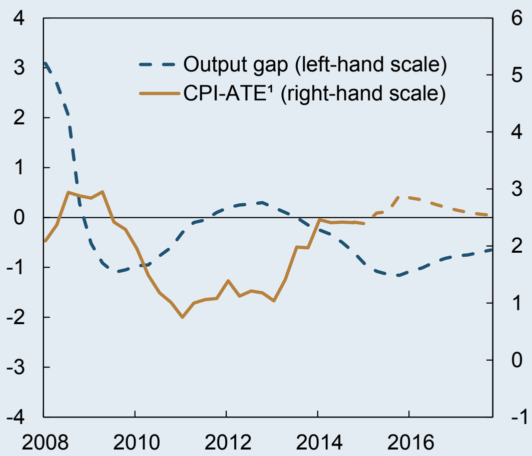
Forecasts of the key policy rate and other economic variables are based on incomplete information concerning the economic situation and the functioning of the economy. Should developments in the economy differ from assumptions or should the central bank change its view of the functioning of the economy,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

CHART 1.5 Projected key policy rate in the baseline scenario with fan chart. Percent. 2008 Q1–2017 Q4[1]



1 Projections for 2014 Q4 – 2017 Q4 (broken line).
Source: Norges Bank

CHART 1.6 Inflation and output gap in the baseline scenario in MPR 4/14. Percent. 2008 Q1–2017 Q4



1 CPI adjusted for tax changes and excluding energy products.
Sources: Statistics Norway and Norges Bank

CHANGES IN THE INTEREST RATE FORECAST THROUGH 2014

The interest rate forecast for the years ahead was revised down through 2014 (see Chart 1.2). Chart 1.7 shows changes in the key policy rate forecast from the end of 2013 (*Monetary Policy Report* 4/13) to the end of 2014 (*Monetary Policy Report* 4/14). The overall change in the interest rate forecast is shown by the black line, while the bars provide a technical illustration of how the various factors in isolation affected changes in the forecast.

Compared with the forecast in *Monetary Policy Report* 4/13, the projections for the key policy rate in 2015 and 2016 were ½ percentage point and 1 percentage point lower, respectively, in *Monetary Policy Report* 4/14. Weaker growth prospects in Norway and lower foreign interest rates were the factors that contributed most to the downward revision of the interest rate forecast, while the depreciation of the krone and lower margins on bank lending contributed in the opposite direction.

Policy rates were close to zero for many of Norway's trading partners in 2014. Both the ECB and the Riksbank lowered their policy rates in the course of the year. Market expectations regarding trading partners' policy rates ahead, especially in the euro area and Sweden, were revised down considerably through the year. Lower foreign interest rates abroad suggested that the key policy rate would also be kept low for a longer period (see green bars). Somewhat weaker growth prospects abroad also contributed to a downward revision of the interest rate forecast in Norway through 2014 (see blue bars).

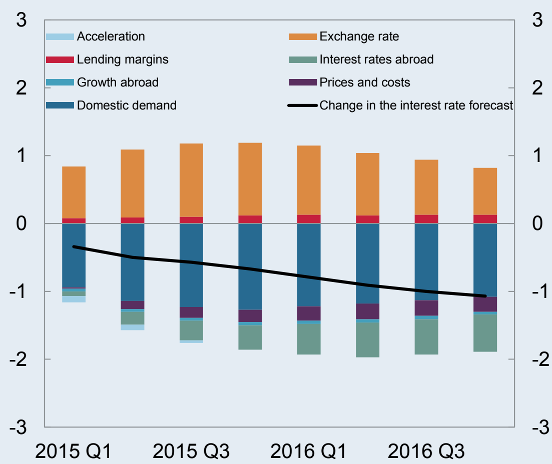
The growth outlook for the Norwegian economy weakened through 2014, particularly towards the end of the year, when oil prices dropped markedly. Activity in the Norwegian petroleum sector appeared to slow to a further extent than expected, and the outlook for oil service industry exports was also revised down. Employment growth was likely to slow, and unemployment was expected to rise. Household consumption and business investment could also be dampened by heightened uncertainty surrounding economic developments. Prospects for lower demand pulled the interest rate forecast down markedly through 2014 (see dark blue bars). To reduce the uncertainty and counteract the risk of a pronounced downturn in the Norwegian economy, the reduction in interest rates was brought forward somewhat (see light blue bars).

Projections for wage growth in the coming years were revised down in *Monetary Policy Report* 4/14, contributing to a downward revision of the interest rate forecast. On the other hand, consumer prices adjusted for tax changes and excluding energy products rose somewhat more than expected in 2014. This contributed in isolation to a slight upward revision of the interest rate path. Overall, developments in prices and costs contributed to a slight downward revision of the interest rate forecast through 2014 (see purple bars).

The krone was considerably weaker than projected, particularly towards year-end, reflecting in part the fall in oil prices. In isolation, a weaker krone pushes up inflation and curbs the effects of lower oil prices on the Norwegian economy. The krone depreciation therefore pointed towards a higher key policy rate (see orange bars).

Banks lowered lending rates to households and enterprises through 2014. At the same time, there were prospects that bank lending margins, defined as the spread between lending rates and money market rates, would remain slightly lower than previously expected. Lower lending margins contributed in isolation to a slight upward revision of the interest rate path (see red bars).

CHART 1.7 Factors behind changes in the interest rate forecast between MPR 4/13 and MPR 4/14. Percentage points. 2015 Q1–2016 Q4



Source: Norges Bank

CHAPTER 2

FINANCIAL STABILITY

Financial stability is one of Norges Bank's primary objectives in its work on promoting economic stability. Norges Bank has a particular responsibility for fostering robust and efficient financial markets and payment systems. A stable financial system is also important for ensuring funding and the distribution of risk in the economy.

Norwegian banks had ample access to wholesale funding at favourable conditions in 2014. Profitability in the banking sector was solid, enabling banks to increase capital ratios by retaining profits. All Norwegian banks satisfied the 10% Common Equity Tier 1 (CET1) capital requirement effective from 1 July 2014 by an ample margin. New liquidity requirements are being phased in across the EU and in Norway. More capital and liquidity will improve banks' resilience. Banks are required to hold a countercyclical capital buffer of 1%, effective from 30 June 2015. The buffer rate was kept unchanged through 2014, in line with Norges Bank's advice.

SOLID EARNINGS AND INCREASE IN CAPITAL RATIOS

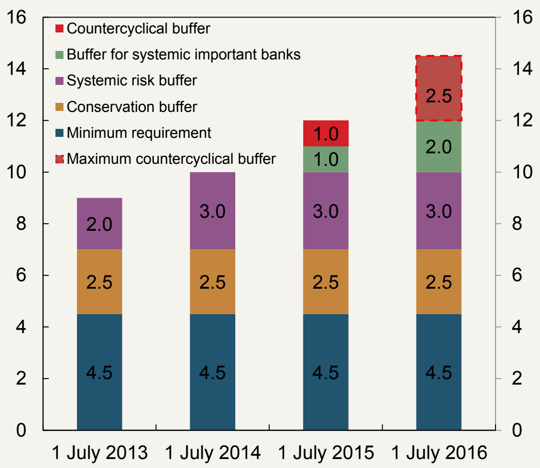
Risk premiums on banks' wholesale funding have fallen for several years, both abroad and in Norway. Risk premiums increased somewhat for European banks in early 2014, partly as a result of the uncertain situation in Ukraine, but fell again through spring and into summer. In June, the European Central Bank (ECB) cut its policy rate and announced a number of monetary policy measures, including purchases of covered bonds from European banks. Even though Norwegian bonds are not subject to the measures, risk premiums also fell on Norwegian covered bonds (OMFs). Falling oil prices, increased geopolitical unrest and uncertainty with regard to the global outlook for growth resulted in a slight rise in risk premiums on bonds issued by high-yield enterprises and subordinated debt in the banking sector in the second half of 2014. Banks in Norges Bank's liquidity survey also reported that funding conditions had become slightly less favourable towards the end of the year.

Banks generated solid earnings and equity returns in 2014. Losses were low. Lower funding costs pushed down bank lending and deposit rates in the course of the year. The spread between lending rates and money market rates also decreased somewhat through the year after showing an increase in the preceding years.

Sound profitability over several years has enabled banks to satisfy increased capital requirements by retaining profits. Banks continued to increase their capital ratios in 2014. At the end of the year, it appeared that most banks would have a CET1 ratio of more than 12%, which is well above the minimum requirement of 10% effective as from 1 July 2014. Banks' CET1 capital as a percentage of total assets is higher in Norway than in many other countries, albeit not higher than at the end of the 1990s.

The EU bank capital framework (CRD IV/CRR) entered into force on 1 January 2014. The capital and buffer requirements entered into force in Norway on 1 July 2013. The framework will eventually be implemented in Norway in its entirety through the EEA Agreement

CHART 2.1 Common Equity Tier 1 capital requirements in The new regulatory framework. Percent. 1 July 2013–1 July 2016



Sources: Ministry of Finance and Norges Bank

A number of aspects of the capital adequacy framework as it applies to Norwegian banks were clarified in 2014. In May, the Ministry of Finance designated DNB ASA, Nordea Bank Norge ASA and Kommunalbanken AS as systemically important banks. These banks are subject to an additional CET1 requirement of 1% as from 1 July 2015, rising to 2% as from 1 July 2016. The total CET1 requirement for systemically important banks will be 13% as from 1 July 2016, including a countercyclical capital buffer of 1% (see Chart 2.1).

New rules have been introduced for the calculation of residential mortgage risk weights. According to Finanstilsynet (Financial Supervisory Authority of Norway), residential mortgage risk weights for banks using the Internal Ratings-Based approach (IRB) will rise from 10%-15% at the end of 2013 to 20%-25%. This is in line with Norges Bank's calculations of optimal residential mortgage weights. The changes will be reflected in banks' reported capital ratios for 2015 Q1.

The 2014 *Financial Stability Report* included a stress test of the largest Norwegian banks. The test showed that Norwegian banks could face high loan losses in the event of a pronounced downturn in the Norwegian economy. Bank behaviour could amplify the downturn. The stress test showed that capital buffers could reduce the need to tighten lending and contribute to a milder downturn.

Household debt in Norway increased considerably in the 2000s. Debt has grown substantially across all age groups. Household assets are dominated by housing and are vulnerable to a fall in house prices. Bank losses on loans to households have historically been very low. The analyses in the 2014 *Financial Stability Report* indicate that the risk of a pronounced increase in household defaults is moderate, even in the event of major shocks. An abrupt slowdown in household demand for goods and services could increase banks' losses on loans to the corporate sector.

NEW LIQUIDITY REQUIREMENTS

One of the main tasks performed by banks is to convert short-term deposits into longer-term loans. This maturity transformation exposes banks to liquidity risk. Banks must replace deposits that are withdrawn, or roll over funding that matures, before loans are repaid. One bank's refinancing problems can spread to other banks and lead to turbulence in the financial system, as became clear in 2008. Even though banks have improved funding structures and reduced liquidity risk since the financial crisis, funding maturities edged down in 2014.

Short-term foreign currency funding accounts for a large share of Norwegian banks' wholesale funding. USD funding is largely sourced from US money market funds. High concentration increases refinancing risk. In the 2014 *Financial Stability Report* Norges Bank recommended that banks should disclose more information about their funding structures and liquidity positions.

New international liquidity and funding requirements for banks will be introduced over the next few years. The Liquidity Coverage Ratio (LCR) requirement is to be phased in across the EU as from 2015, while the net stable funding ratio (NSFR) requirement is expected to be introduced by 2018. Finanstilsynet will present proposals for the introduction of the LCR in Norway by the end of May 2015.

Holding liquidity buffers improves banks' resilience to periods of market stress. The liquidity standard requires banks to be able to cover total net cash outflows in NOK and foreign currency for a period of 30 days.

Norges Bank considers that the current stock of high-quality liquid assets in NOK is not sufficient for banks to be able to meet a 100% LCR for NOK in practice. A high LCR ratio for NOK would likely result in a substantial increase in the percentage of covered bonds in banks' liquidity buffers and increase systemic risk. In the 2014 *Financial Stability Report,* Norges Bank therefore recommended that the LCR ratio for NOK should be set at 60%.[1] The remaining liquidity required to comply with the all-currency LCR ratio can be in the form of high-quality liquid assets in foreign currency.

Norges Bank's scope for supporting banks by supplying liquidity in foreign currency is limited. It is therefore particularly important that banks hold liquid assets in the foreign currencies in which they have liquidity needs. Norges Bank therefore recommended that banks with significant liquidity risk in foreign currencies should be directed to meet the LCR requirement in full for each of these currencies as well as the all-currency LCR requirement.

The proposed Net Stable Funding Ratio (NSFR) standard requires banks' illiquid assets to be financed by stable funding. Loans to customers and encumbered assets are examples of illiquid assets. Stable funding will include regulatory capital, bond funding with a residual maturity of more than one year, and several types of customer deposit. The final standard for the NSFR has been issued by the Basel Committee[2], but the detailed specification of the requirement for the EU has not yet been finalised. As measured by the NSFR, Norwegian banks' have reduced their liquidity risk somewhat in recent years, but still have some way to go before illiquid assets are fully financed by stable funding.

ADVICE ON THE COUNTERCYCLICAL CAPITAL BUFFER

In line with the regulation of 4 October 2013, Norges Bank has drawn up a decision basis and provided advice to the Ministry of Finance regarding the level of the countercyclical capital buffer for banks on a quarterly basis. The decision basis is presented in the *Monetary Policy Report with financial stability assessment*. In December 2013, the countercyclical capital buffer rate was set at 1%, effective from 30 June 2015.

The premise for Norges Bank's assessment is that banks should build and hold a countercyclical capital buffer when financial imbalances are building up or have built up.

Norges Bank's assessment of financial imbalances is based on the deviation of the credit-to-GDP ratio from its long-term trend. In addition, developments in house prices, commercial property prices and banks' shares of wholesale funding are analysed. These four indicators rose sharply in the years prior to the financial crisis.

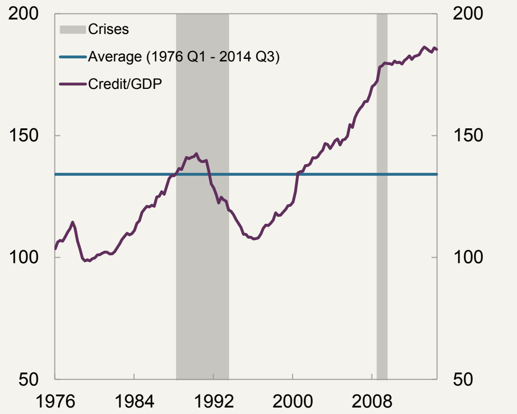
From the mid-1990s to 2008, overall household and corporate credit in the mainland economy increased markedly faster than GDP (see Chart 2.2, credit indicator). Credit growth declined after the financial crisis and the credit indicator has been fairly stable in recent years. Household debt still rose somewhat faster than household income in 2014, and there were signs that banks were easing credit standards slightly for households. Corporate debt growth decreased through 2014 and was more moderate. House prices and housing market turnover picked up through 2014 after falling in 2013. The house price indicator was still lower in 2014 Q3 than at the same time the previous year (see Chart 2.3). The commercial property indicator has varied somewhat in recent years and rose through 2014 (see Chart 2.4). Banks' shares of wholesale funding have remained fairly stable.

Based on developments in credit and property prices, the Executive Board's assessment was that financial imbalances did not build up further in 2014. On Norges Bank's advice, the Ministry of Finance decided to keep the buffer rate unchanged at 1% in 2014.

House price inflation was high through autumn. In its assessment, the Executive Board concluded that should house prices continue to rise markedly faster than household income, resulting in an increase in financial imbalances, it would be appropriate to advise the Ministry to raise the level of the countercyclical capital buffer.

1 When fully implemented.
2 The Basel Committee on Banking Supervision (BCBS) is an international body for central banks and supervisory authorities under the Bank for International Settlements (BIS).

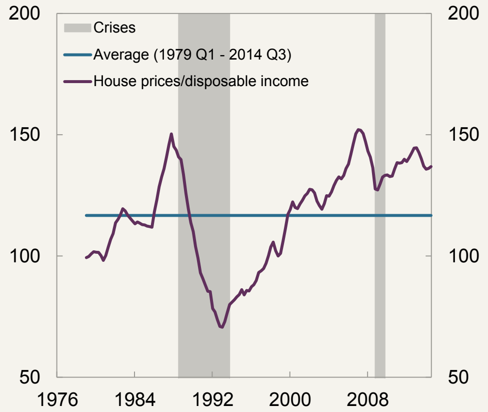
CHART 2.2 Total credit[1] mainland Norway as a percentage of mainland GDP. Percent. 1976 Q1–2013 Q3



1 The sum of C2 households and C3 non-financial enterprises in mainland Norway (total economy pre-1995).

Sources: Statistics Norway, IMF and Norges Bank

CHART 2.3 House prices[1] relative to disposable income[2]. Indexed. 1998 Q4 = 100. 1979 Q1–2014 Q3

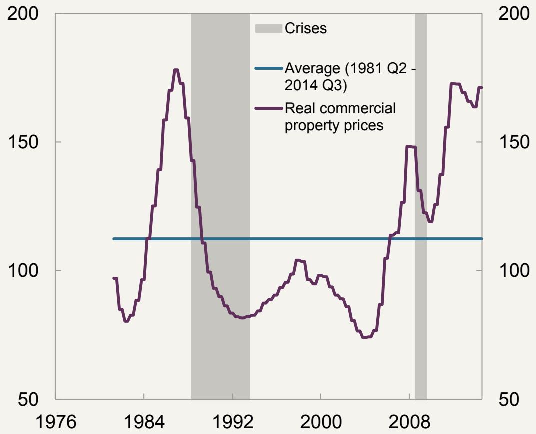


1 Quarterly figures pre-1990 are calculated by linear interpolation of annual figures.

2 Adjusted for estimated reinvested dividend income for 2000–2005 and redemption/reduction of equity capital for 2006 Q1–2012 Q3.

Sources: Statistics Norway, Norwegian Association of Real Estate Agents (NEF), Eiendomsmeglerforetakenes forening (EFF), Finn.no, Eiendomsverdi and Norges Bank

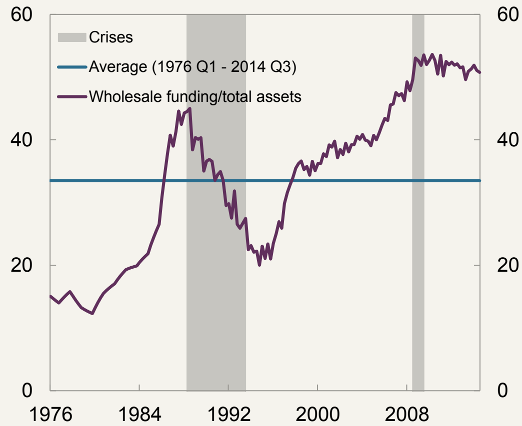
CHART 2.4 Real commercial property prices.[1] Indexed. 1998 = 100. 1981 Q2–2014 Q3



1 Estimated market prices for office premises in Oslo deflated by the GDP deflator for mainland Norway.

Sources: Dagens Næringsliv, OPAK, Statistics Norway and Norges Bank

CHART 2.5 Banks'[1] wholesale funding as a percentage of total assets.[2] Percent. 1976 Q1–2014 Q3



1 All banks and covered bond mortgage companies excluding branches and subsidiaries of foreign banks in Norway.

2 Quarterly figures pre-1989 are calculated by linear interpolation of annual figures.

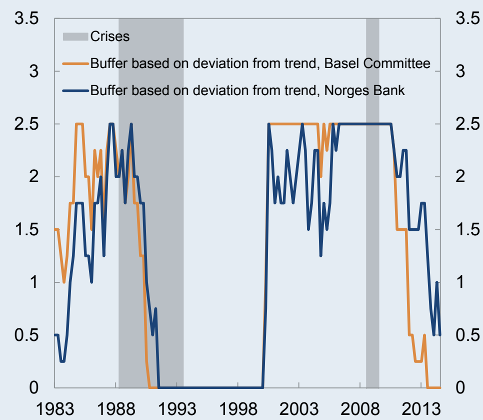
Source: Norges Bank

CALCULATION OF REFERENCE RATE AS GUIDE FOR SETTING COUNTERCYCLICAL CAPITAL BUFFER

The European Systemic Risk Board (ESRB) recommends the calculation of a reference rate as a guide for setting the countercyclical capital buffer. The Basel Committee has suggested a simple rule for the calculation of the reference rate based on the credit indicator relative to a long-term trend. The reference rate takes the value 0 when the credit gap is below 2% and the value 2.5 when the credit indicator is higher than 10%. When the credit gap is between these two levels, there will be a linear relationship between the reference rate and the credit gap. The long-term trend can be calculated in different ways.[1] Applying the method of trend calculation proposed by the Basel Committee, the reference rate was 0% in 2014 Q3. An alternative calculation method, which has been shown to provide a better leading indicator of crises, yielded a reference rate for the buffer of 0.5% (see Chart 2.6).

1 See Norges Bank *Staff Memo* 13/2013 for a more detailed description of trend calculation.

CHART 2.6 Reference rates for the countercyclical capital buffer under alternative trend estimates. Percent. 1983 Q1–2014 Q3



Source: Norges Bank

NORGES BANK'S RESPONSIBILITIES WITH REGARD TO FINANCIAL STABILITY

Maintaining financial stability is one of Norges Bank's primary objectives, as laid down in the Norges Bank Act. Section 1 of the Act states that the Bank "shall issue banknotes and coins, promote an efficient payment system, domestically as well as vis-à-vis other countries, and monitor developments in the money, credit and foreign exchange markets". Section 3 states that the Bank "shall inform the ministry when, in the opinion of the Bank, there is a need for measures to be taken by others than the Bank in the field of monetary, credit or foreign exchange policy" and "inform the public about the monetary, credit and foreign exchange situation". Four other sections in the Act are also relevant: Section 13 gives Norges bank the sole right to issue Norwegian banknotes and coins. Section 17 requires Norges Bank to carry out banking transactions for the government. Under Section 19, Norges Bank may extend credit to and make deposits with commercial and savings banks, while Section 20 states that Norges Bank accepts deposits from these banks. It follows from the Act that Norges Bank has a particular responsibility for ensuring that the banking system functions as it should. Under the Payment Systems Act, Norges Bank is the licensing and supervisory authority for interbank clearing and settlement systems.

Under the regulation on the countercyclical capital buffer, Norges Bank is required to draw up a decision basis and provide advice to the Ministry of Finance regarding the level of the countercyclical capital buffer for banks on a quarterly basis.

Norges Bank manages banking sector liquidity on a daily basis by supplying credit or accepting deposits. This gives Norges Bank a special responsibility for monitoring liquidity risk in the banking system. As lender of last resort, Norges Bank has a key role in managing crises in the financial system.

CRITERIA FOR AN APPROPRIATE COUNTERCYCLICAL CAPITAL BUFFER[1]

The countercyclical capital buffer requirement should satisfy the following criteria:

1. Banks should become more resilient during an upturn
2. The size of the buffer should be viewed in the light of other requirements applying to banks
3. Stress in the financial system should be alleviated

The countercyclical capital buffer should be increased when financial imbalances are building up or have built up. Norges Bank's advice to increase the countercyclical capital buffer will primarily be based on four key indicators: i) the ratio of total credit (C2 households and C3 mainland non-financial enterprises) to mainland GDP, ii) the ratio of house prices to household disposable income, iii) commercial property prices[2] and iv) the wholesale funding ratio of Norwegian credit institutions.

As part of the basis for advice on the countercyclical capital buffer, Norges Bank will analyse developments in the key indicators and compare the current situation with historical trends. Norges Bank's advice will also build on recommendations from the European Systemic Risk Board (ESRB).

There will not be a mechanical relationship between the indicators, the gaps or recommendations from the ESRB[3] and Norges Bank's advice on the countercyclical capital buffer. The advice will be based on the Bank's professional judgement, which will also take into account other factors. Other requirements applying to banks will be a part of the assessment, particularly when new requirements are introduced.

The countercyclical capital buffer is not an instrument for fine-tuning the economy. The buffer rate should not be reduced automatically even if there are signs that financial imbalances are receding. In long periods of low loan losses, rising asset prices and credit growth, banks should normally hold a countercyclical buffer.

The buffer rate can be reduced in the event of an economic downturn and large bank losses. If the buffer functions as intended, banks will tighten lending to a lesser extent in a downturn than would otherwise be the case. This may mitigate the procyclical effects of tighter bank lending. The buffer rate will not be reduced to alleviate isolated problems in individual banks.

The key indicators are not well suited to signalling whether the buffer rate should be reduced. Other information, such as market turbulence and loss prospects for the banking sector, will then be more relevant.

1 See also "Criteria for an appropriate countercyclical capital buffer", *Norges Bank Papers* 1/2013.
2 The indicator is based on OPAK's estimated selling prices for office property in Oslo. Estimates are based on rental prices in *Dagens Næringsliv*'s property index.
3 *ESRB Recommendation on guidance for setting countercyclical buffer rates* was published on 30 June 2014.

Regulatory area		Progress
Tools for banking crisis resolution	Financial Stability Board (FSB) – banking crisis resolution	On 10 November 2014, the FSB presented a proposal for an international standard on a minimum requirement for total loss absorbing capacity (TLAC) at global systemically important banks (GSIBs). The plan is to adopt an international standard for TLAC at the G-20 meeting at end-2015.
	EU – Bank Recovery and Resolution Directive (BRRD)	The BRRD was adopted on 6 May 2014 and will apply in the EU as from 1 January 2015. The bail-in as a crisis management tool will enter into force as from 1 January 2016. The Banking Law Commission will prepare for incorporation into Norwegian law.
	EU – deposit protection	The EU has adopted a deposit coverage level of EUR 100 000 per depositor. The Norwegian deposit guarantee of NOK 2 million may be continued for a transitional period until 31 December 2018.
Requirements relating to banks' capital adequacy, risk management and liquidity	Basel Committee	Proposed revisions to the standardised approach for credit, market and operational risk and capital floors for IRB banks have been circulated for comment. The deadline is 27 March 2015.
	Implementation of EU CRR and CRD IV framework in Norway	Much of the EU bank capital framework (CRD IV/CRR) was incorporated into Norwegian law with effect from 1 July 2013 with attendant regulations. The regulations set out stricter requirements with regard to the quality of regulatory capital and new rules for the calculation of risk-weighted assets. In addition, the Ministry of Finance decided not to implement the EU regulations on reduced capital requirements for small- and medium-sized enterprises. The Ministry of Finance also decided that the systemic risk buffer requirement will remain unchanged when the buffer for systemically important banks becomes effective on 1 July 2015.
	Risk weights for residential mortgages	Finanstilsynet published new requirements for the calibration of residential mortgage IRB models on 1 July 2014. The recalibration includes an increase in the minimum probability-of-default (PD) requirement to 0.2% per loan and an increase in the level of the long-run average of the PD (LRPD). The Danish and Swedish supervisory authorities have confirmed that similar residential mortgage requirements will be imposed in Denmark and Sweden as those applying to Danish and Swedish branches in Norway.
	Requirements applying to systemically important banks	The Ministry of Finance has issued regulations on the identification of systemically important institutions and has designated DNB ASA, Nordea Bank Norge ASA and Kommunalbanken AS as systemically important. This will be reassessed on an annual basis. Institutions with total assets of at least 10% of mainland GDP or a market share of at least 5% of the Norwegian retail lending market will normally be designated as systemically important.
	Countercyclical capital buffer	On 12 December 2013, the Ministry of Finance set the countercyclical capital buffer rate at 1% on the advice of Norges Bank. The Ministry of Finance decided at the same time that the 1% level would not be effective until 30 June 2015. This level has been kept unchanged in the subsequent quarterly decisions.
	Quantitative liquidity standards	The European Commission published a detailed regulation (Delegated Act) and the Liquidity Coverage Ratio (LCR) requirement on 10 October 2014. The LCR will be phased in from 1 October 2015 and is to be fully effective as from 1 January 2018. Finanstilsynet is to prepare draft Norwegian regulations relating to liquidity regulation by the end of May 2015. The Basel Committee published the final Net Stable Funding Ratio (NSFR) standard in October 2014. By end-2016, the European Commission is to submit a legislative proposal to introduce the NSFR by 2018.
Supervisory structure	New EU supervisory structure	A new system of financial supervision was adopted by EU institutions in November 2010 and established on 1 January 2011 with three European supervisory authorities: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA). On 14 October 2014, the EU and the EFTA/EEA member states reached agreement on the incorporation of the EU Regulations establishing the European Supervisory Authorities into the EEA Agreement. The solution is subject to the endorsement of the Storting.
	EU Banking Union	The Single Supervisory Mechanism (SSM), which transfers much of the supervisory responsibility in the euro area to the ECB, began to function in practice in November 2014. A common crisis resolution mechanism, the Single Resolution Mechanism (SRM), and the associated stability fund, the Single Resolution Fund, were adopted in April and May 2014, respectively. Crisis resolution under the SRM will comply with the principles and rules set out in the BRRD.

CHAPTER 3

MARKETS AND INVESTMENT MANAGEMENT

MANAGING LIQUIDITY IN THE BANKING SYSTEM

In its conduct of monetary policy, Norges Bank manages bank reserves, i.e. banks' sight deposits with the central bank, to ensure that the level of short-term money market rates is close to the key policy rate as set by the Executive Board. To achieve this, various forms of market operations are performed whereby reserves are either supplied to or drained from the banking system by the central bank. Chart 3.1 shows developments in Norges Bank's interest rates, the overnight rate (NOWA) and the three-month money market rate.

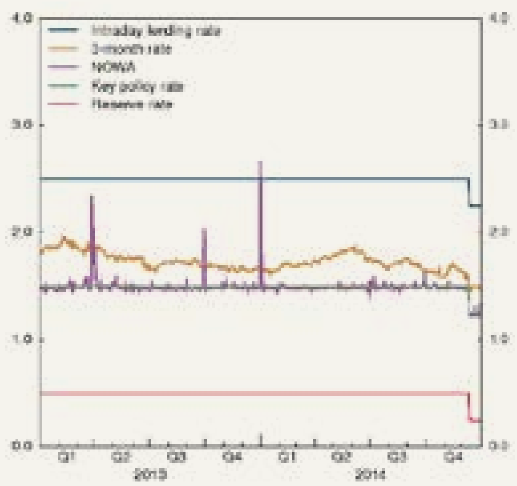
In order to steer reserves towards the desired level, Norges Bank prepares forecasts of structural liquidity in the banking system. Structural liquidity refers to the total reserves banks hold on account at Norges Bank before the supply or withdrawal of reserves through market operations. Structural liquidity is influenced by current incoming and outgoing payments over the government's account in Norges Bank, government borrowing transactions, Norges Bank's transactions in the foreign exchange and government securities markets and changes in the volume of notes and coins in circulation. Norges Bank uses market operations to ensure that total reserves in the banking system remain stable at the desired level.

In 2014, Norges Bank sought to maintain bank reserves at an average NOK 35bn with a target range of ±5bn around this level. When structural liquidity rises above the target range, Norges Bank offers banks F-deposits to reduce reserves to the desired level. Similarly, when structural liquidity falls below the target range, banks are offered F-loans (against collateral in the form of approved securities). F-loans and F-deposits are loans and deposits that cannot be repaid or drawn on prior to maturity and are extended to banks established in Norway. The interest rate is usually determined by multi-price auction. Maturities vary from one day to several weeks and depend on the liquidity situation.

In October 2011, Norges Bank introduced a new system for managing bank reserves. While banks previously received interest on all deposits at the key policy rate (the sight deposit rate), quotas were introduced in October 2011 restricting the level of a bank's reserves that would be remunerated at the key policy rate. The interest rate on deposits in excess of the quota is called the reserve rate, which has so far been one percentage point lower than the key policy rate. The purpose of changing to a quota-based system was to limit bank demand for central bank reserves and to provide a stronger incentive for banks to redistribute liquidity in the interbank market.

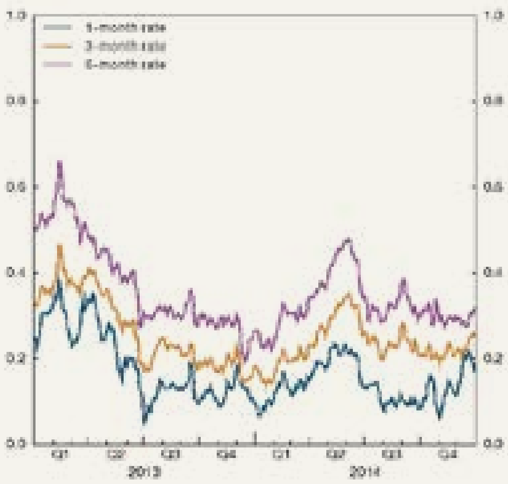
In 2014, banks were invited to provide feedback after three years' experience of the new liquidity management system. On the positive side, banks

CHART 3.1 Norges Bank's interest rates and short-term money market rates (1-day and 3-month money market rates). Nominal rates. Percent. 1 January 2013–31 December 2014



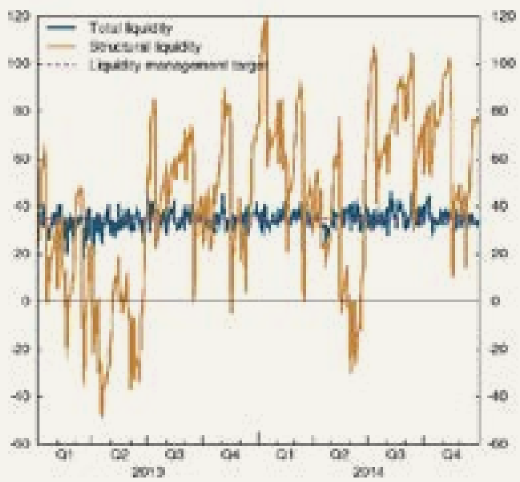
Sources: Norges Bank and Bloomberg

CHART 3.2 Spread between money market rates and expected key policy rate. Percentage points. 5-day moving average. 1 January 2013–31 December 2014



Source: Bloomberg

CHART 3.3 Structural liquidity and total market liquidity. In billions of NOK. 1 January 2013–31 December 2014



Source: Norges Bank

noted that the overnight rate in the money market has become more stable. Banks also reported that interbank trading in reserves has increased and that they have expanded their contact networks. Banks also pointed to some areas where they see a need for changes, particularly the distribution of quotas and the less efficient functioning of the interbank market at some quarter- and year-ends.

The total quota for bank reserves in 2014 was NOK 45bn. The quotas are calculated on the basis of banks' total assets. The banks are divided into three groups with all the banks in a group allocated the same quota, with the exception of settlement banks, which receive a larger quota. The quotas are reviewed twice a year, and Norges Bank made only minor adjustments to individual quota levels in 2014.

BANKS' KRONE LIQUIDITY AND NORGES BANK'S MARKET OPERATIONS IN 2014

In 2014, structural liquidity averaged NOK 58.6bn and varied between negative NOK 30.7 and positive NOK 118.5bn (see Chart 3.3). A total of 22 F-loan auctions and 73 F-deposit auctions were held. Total liquidity, i.e. structural liquidity plus Norges Bank's market operations, averaged NOK 35.0bn in 2014.

MONEY MARKET PREMIUMS

Norwegian money market premiums[3], like international premiums, were low and stable in 2014. Premiums varied somewhat through the year in pace with structural liquidity. Premiums were especially low at the beginning of the year owing to a high level of structural liquidity.

Since autumn 2011, Norges Bank has calculated and published a new overnight rate, the NOWA rate[4]. NOWA is defined as a weighted average of interest rates on concluded agreements between Norwegian banks for unsecured overnight loans, which are paid out the same day with repayment the following banking day. The average spread between NOWA and Norges Bank's key policy rate was one basis point in 2014. The average daily reported volume of transactions for overnight interbank loans was NOK 12.5bn in 2014.

CONSULTATION RESPONSE ON REGULATION OF NIBOR SETTING

In response to the manipulation of European reference interest rates, the European Commission presented a proposal for a regulation on financial

3 Money market rates minus expected key policy rate over the same horizon.
4 Norwegian Overnight Weighted Average.

benchmark indices in autumn 2013. Under the proposal, the benchmark-setting process and compliance by financial institutions should be subject to supervision by one or more competent authorities.

In August 2013, the Ministry of Finance requested Finanstilsynet (Financial Supervisory Authority of Norway) to assess the need for a statutory regulatory framework for the setting of the Norwegian interest rate benchmark, NIBOR. A Norwegian statutory framework for setting commonly used interest rate benchmarks will be in line with the objective of the proposed EU regulation and conform to the new principles for interest rate benchmarks issued by IOSCO and EBA/ESMA.

In April 2014, a consultative document with draft legislative amendments concerning the regulation on the setting of commonly used interest rate benchmarks was circulated for comment. Norges Bank submitted its response to the Ministry of Finance in August. In the response, the question was raised of whether Norges Bank should by statute be assigned a formal role in approving and supervising the benchmark-setting process, while Finanstilsynet ensures that individual banks comply with the rules. As the central bank, and by virtue of its market expertise and market operations, Norges Bank is well-positioned to assess the setting of NIBOR rates.

In a letter to Finanstilsynet in May 2014, Norges Bank presented an analysis of the rate-setting process for NIBOR between 2010 and 2013 and set out necessary changes to the NIBOR rules. Finance Norway, which is responsible for NIBOR, has implemented changes that bring the rules for setting NIBOR more closely into line with international recommendations. Nevertheless, in the opinion of Norges Bank, the guidelines for NIBOR still have clear weaknesses. NIBOR is constructed so that a foreign interest rate is converted into a NOK rate via the foreign exchange swap market. This construction reduces the transparency of NIBOR and may undermine confidence in the rate as a benchmark. In the opinion of Norges Bank, NIBOR should be based on an estimate of the NOK interest rate required for interbank lending. The foreign exchange swap market could be one of several indicators used for determining this interest rate. With this approach, the panel could be more easily enlarged to include major Norwegian savings banks. In its letter, Norges Bank also pointed out that the definition of NIBOR could and should be made more precise. These changes will bring NIBOR more into line with the benchmark-setting process in Sweden and Denmark.

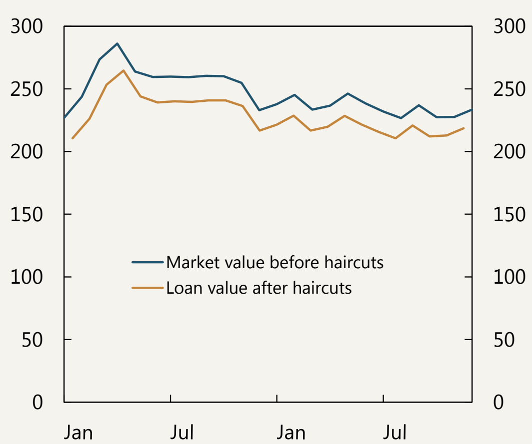
COLLATERAL FOR LOANS FROM NORGES BANK

Norges Bank extends loans to banks against collateral in the form of securities. Such loans contribute to the effective implementation of monetary policy and payment settlement. In order to be used as collateral, securities must satisfy a number of requirements. Access to borrowing facilities and collateral requirements are described in regulations and guidelines issued by Norges Bank.

At end-2014, banks had a total stock of securities as collateral for loans from Norges Bank of NOK 218bn after haircuts, compared with NOK 217bn in 2013. The number of securities approved as collateral at Norges Bank was 455 at end-2014, compared with 621 in 2013. Chart 3.4 shows banks' collateral for loans from Norges Bank in recent years.

The total loan value of collateral after haircuts was on average NOK 19bn lower in 2014 than in 2013. The loan value was lower towards the end of the year than at the beginning. Haircuts, i.e. the

CHART 3.4 Collateral for loans from Norges Bank 2013-2014. In billions of NOK



Source: Norges Bank

difference between the market value and loan value of collateral, averaged 6.2% of the market value. This is about one percentage point lower than in 2013.

Norges Bank accepts collateral registered in the Central Securities Depository (VPS) and the following central securities depositories abroad: Euroclear, Clearstream, Euroclear Sweden and VP Securities in Denmark. For the use of central securities depositories in the three Scandinavian countries, the central banks have an agreement whereby banks can pledge securities as collateral for loans from one of the other central banks. Three banks availed themselves of this right in 2014. At end-2014, no securities had been pledged as collateral under this arrangement.

In addition to ordinary borrowing facilities, the central banks of Denmark, Sweden and Norway allow banks to pledge deposits in one central bank as collateral for loans in one of the other central banks. This arrangement, called the Scandinavian Cash Pool (SCP), may only be used for intraday liquidity. Thus, the five banks that participate in the arrangement are better able to manage their liquidity across national borders. An average of approximately NOK 3bn was borrowed intraday from Norges Bank through the SCP in 2014, the same as in 2013. Banks only occasionally used deposits with Norges Bank as collateral for loans in another Scandinavian central bank.

In 2014, Norges Bank concluded an agreement with a supplier for a new ICT solution for calculating and managing the loan value of banks' collateral for loans. Introduction of the new system will continue in 2015.

INVESTMENT MANAGEMENT

At the end of 2014, Norges Bank managed assets amounting to a total of NOK 6 877bn in international capital markets. The assets primarily comprise the GPFG, which is managed on behalf of the Ministry of Finance. The Bank also manages its own international reserves. Performance reports are published on Norges Bank's website.

FOREIGN EXCHANGE RESERVES

Norges Bank's international reserves comprise foreign exchange reserves and claims on the International Monetary Fund (IMF). The foreign exchange reserves amounted to 92% of total international reserves at end-2014.

Norges Bank's foreign exchange reserves are required to be available for use as part of the implementation of monetary policy, to promote financial stability and to fulfil Norway's international commitments vis-à-vis the IMF or individual countries. Norges Bank's Executive Board issues guidelines for the management of the foreign exchange reserves and has delegated responsibility for issuing supplementary guidelines to the governor of Norges Bank. The reserves are divided into a long-term portfolio, a money market portfolio and a petroleum buffer portfolio. The long-term portfolio is managed by Norges Bank Investment Management (NBIM), while the money market portfolio and the petroleum buffer portfolio are managed by Norges Bank Markets and Banking Services (NBMB).

The foreign exchange reserves are invested in such a way that at least SDR 10bn, including all of the money market portfolio, can be used for transactions in the foreign exchange market within one trading day without having to realise any sizeable losses. The money market portfolio is between SDR 3.5bn and SDR 4.5bn and is invested in short-term fixed income instruments. The benchmark index for the money market portfolio is a composite of USD and EUR overnight money market indices and Treasury bill indices for the same currencies. The long-term portfolio is invested in equities and fixed income instruments. The benchmark index for the long-term portfolio is a composite of global equity and bond indices. The equity allocation in the strategic benchmark index is 40 percent.

The petroleum buffer portfolio is a mechanism for the supply of fresh capital to the Government Pension Fund Global (GPFG). Norges Bank builds up the portfolio by regularly purchasing foreign exchange from the State's Direct Financial Interest in petroleum activities (SDFI) and by purchasing or selling foreign exchange in the market. Transfers from the portfolio to the GPFG are normally made each month. The petroleum buffer portfolio is invested in short-term fixed income instruments. No benchmark index has been set for the petroleum buffer portfolio.

The market value of the foreign exchange reserves was NOK 448.6bn at the end of 2014. Equities and long-term fixed income investments totalled NOK 347.3bn, while money market investments came to NOK 49.9 and the petroleum buffer portfolio to NOK 51.4bn. The value of the reserves increased by NOK 120.3bn through the year, primarily as the result of returns and the depreciation of the krone. The return in foreign currency increased the value of the reserves by approximately NOK 32.4bn, and the depreciation of the krone increased the value by NOK 57.4bn.

The petroleum buffer portfolio was established by Norges Bank to facilitate a cost-efficient transfer of capital to the GPFG and is not part of the foreign exchange reserves that are held for crisis management purposes. The portfolio increased by NOK 34.6bn through 2014, mainly as a result of foreign exchange purchases from the SDFI that were larger than the transfers to the GPFG and owing to the depreciation of the krone.

The foreign exchange reserves are held for crisis management purposes. Changes in value in NOK terms are thus of secondary importance. Movements in the krone exchange rate will primarily affect Norges Bank's equity and not its ability to meet foreign currency commitments. Returns are therefore measured in foreign currency in the sections below, unless otherwise specified. The petroleum buffer portfolio, which is not held for crisis management purposes, is excluded from the measurement of return.

The overall return on the foreign exchange reserves was 7.69% in 2014. The return on equity investments was 11.11% and the return on long-term fixed income investments was 7.11%. The return on money market investments was 0.11%.

Equity investments outperformed the benchmark index by 0.21 percentage point, while the return on fixed income investments was 0.12 percentage point lower than the benchmark return in the period. Money market investments outperformed the benchmark by 0.05 percentage point in the period.

Over the past 10 years, the annualised return on the foreign exchange reserves has been 5.99%. Equity investments have made the largest contribution, but realised volatility has been considerably more pronounced than for fixed income investments.

CLAIMS ON THE IMF

The IMF requires contributions from member countries according to the member country's relative size in the global economy. The contribution is also called a quota. The quota determines a member's voting power in the IMF, the member's share in allocations of SDRs and the amount of financing the member can obtain from the IMF. Up to 25 percent must be paid in SDRs or widely accepted currencies, while the rest is paid in the member's own currency. Norway´s quota at 31 December 2014 was NOK 20 421m (SDR 1 884m).

SDRs[5] have been allocated to member countries based on the size of their IMF quotas on several occasions, most recently in 2009. Member countries can change their SDR holdings through transactions with the IMF or by buying from or selling to member countries willing to be counterparties in SDR transactions. Norges Bank has volunteered to be such a counterparty up to a limited amount. In addition, members with strong external positions can be designated by the IMF to buy SDRs from members with weak external positions, although the IMF has never made use of this mechanism. Norges Bank's SDR holdings amounted to NOK 16 064m (SDR 1 482m) at 31 December 2014, which is lower than Norway's allocation (SDR 1 563m).

Norges Bank has provided funds to the IMF or to trusts managed by the IMF through the following facilities:

- loans under the New Arrangements to Borrow (NAB)
- bilateral loans to the IMF
- loans to the Poverty Reduction and Growth Trust (PRGT)

The primary source of funding for the IMF's loans to countries experiencing payment problems is member countries' quotas. In addition, the IMF finances its lending by borrowing from wealthy member countries through the NAB. A total of 38 countries, including Norway, participate in the NAB. Norges Bank's loans to the IMF through the NAB totalled NOK 5 021m (SDR 463m) at 31 December 2014. Norway has pledged a total of

5 Special Drawing Rights - SDR - is an international reserve asset, created by the IMF in 1969. Its value is based on a basket of four key international currencies, the US dollar, euro, pound sterling and Japanese yen. The weights of the currencies in the SDR basket are reviewed every five years.

SDR 3 871m, equivalent to NOK 41 961m at 31. December 2014, through the NAB.

The need for financial support from the IMF increased considerably after the financial crisis. In 2010, IMF lending was 10 times higher than prior to the onset of the financial crisis in 2008. During the sovereign debt crisis in Europe, the EU took the initiative for providing additional resources to the IMF. In December 2011, EU countries committed to providing up to EUR 200bn in the form of bilateral loans to the IMF and urged other countries to make a similar contribution. Norway responded promptly and offered to provide the IMF with loan resources that same month, in the form of a drawing arrangement of up to SDR 6bn, which is equivalent to NOK 65bn at 31 December 2014. The arrangement enables the IMF to finance loans with a maturity of up to 10 years. The IMF can draw on these loan resources if quota resources and the NAB fall below a given threshold. As at 31 December 2014, the IMF had not drawn funds under this arrangement.

The Ministry of Finance and the IMF signed an agreement in June 2010 under which Norway has pledged loans of up to SDR 300m to the Poverty Reduction and Growth Trust (PRGT), which is managed by the IMF. The PRGT is used for lending to low-income countries. Norges Bank acts as agent for Norway's loans to the PRGT and fulfils Norway's obligations pursuant to Section 25 of the Norges Bank Act. At 31 December 2014, the IMF had drawn a total of NOK 2 535m (SDR 234m) under this agreement.

GOVERNMENT PENSION FUND GLOBAL

Norges Bank is responsible for the operational management of the Government Pension Fund Global (GPFG) on behalf of the Ministry of Finance. At end-2014, the market value of the GPFG was NOK 6 431bn before deduction of Norges Bank's management fee. The Ministry of Finance transferred a total of NOK 147bn to the GPFG in 2014.

Investment management is conducted pursuant to the regulation "Mandate for the management of the Government Pension Fund Global". The Ministry of Finance has established a strategic benchmark index with a 60% allocation to equities and 40% to fixed income instruments, less the portion of the investment portfolio invested in real estate. The benchmark index reflects the Ministry's investment strategy for the GPFG and is an important basis for managing the risk associated with the operational management of the GPFG and for evaluating Norges Bank's management performance. The Ministry of Finance has set limits on the extent to which the actual portfolio may deviate from the benchmark portfolio.

In 2014, the GPFG posted a return of 7.6%, measured in terms of the benchmark portfolio's currency basket. This measure of return gives the best indication of the GPFG's international purchasing power. Measured in foreign currency, the equity portfolio returned 7.9%, while the fixed income portfolio returned 6.9%.

The return in 2014 was 0.8 percentage point lower than the return on the benchmark indices. The equity portfolio showed a negative excess return of 0.8 percentage point, while the fixed income portfolio underperformed the benchmark by 0.7 percentage point.

Since 1998 the annual nominal return has been 5.8%, measured in foreign currency. Net of management costs and adjusted for inflation, the annual real return has been 3.8%.

For a more detailed presentation of investment management in 2014, see the *Government Pension Fund Global Annual Report* for 2014.

TASKS PERFORMED ON BEHALF OF THE GOVERNMENT

GOVERNMENT DEBT IN 2014

Under an agreement between the Ministry of Finance and Norges Bank, the Bank shall provide services as adviser, facilitator and payment agent in connection with raising and managing domestic government loans. The Ministry of Finance pays for bank-related services provided by Norges Bank to the Ministry in connection with government debt and liquidity management and for variable costs incurred by Norges Bank in its capacity as provider of services to the Ministry of Finance.

The government's schedule for the issue of short- and long-term securities in 2014 was published in an auction calendar in December 2013. A total of 20 auctions of government bonds and 13 auctions of short-term government paper (Treasury bills) were held in 2014. An ad hoc auction was held in May (this auction was announced in the circular "Auction calendar and plan for government bonds and Treasury bills in 2014 Q2" on 28 March). The total volume issued, excluding the government's own purchases in the primary market, amounted to NOK 64bn in government bonds and NOK 67bn in Treasury bills.

The strategy for long-term government borrowing is based on maintaining a yield curve for government bonds with maturities of up to approximately 10 years. A new 10-year bond was issued in March 2014. No bonds matured in 2014.

According to the issue programme for short-term government securities, new Treasury bills are issued on IMM dates[6], and mature on the IMM date one year later. The loans are increased through subsequent auctions.

The government securities auctions are held using the Oslo Børs trading system. The bid-to-cover ratio, which is the volume of bids in relation to the volume allocated in the auction, averaged 2.73 for government bonds and 2.32 for Treasury bills.

Norges Bank enters into agreements with primary dealers, which are under an obligation to furnish binding bid and offer prices for agreed minimum amounts of government bonds and Treasury bills on Oslo Børs. In 2014, Norges Bank entered into nine agreements with primary dealers, five for government bonds and four for Treasury bills. In return for furnishing these binding bid and offer prices, primary dealers may borrow government securities for a limited period. The lending limit for bonds was NOK 8bn for each loan. For Treasury bills, the lending limit was NOK 6bn for each loan. In addition, primarily dealers have the exclusive right to participate in auctions of government securities.

The government has used interest rate swaps in its domestic debt management since June 2005. An interest rate swap is an agreement between two parties to exchange future interest payments associated with a given principal. Use of interest rate swaps gives the government the flexibility to change the average time to re-fixing of the debt portfolio without changing its borrowing strategy. The Ministry of Finance has entered into framework agreements with several counterparties. Norges Bank performs the operational functions in connection with entry into interest rate swap agreements on behalf of the Ministry of Finance. The commercial decisions are made by the Ministry. At end-2014, the average time to re-fixing for government debt (excluding the government's own stock) was 4.09 years. If existing interest rate swaps are taken into account, the time to re-fixing was 2.95 years.

Total government domestic debt securities registered in the Central Securities Depository (VPS) at end-2014 amounted to NOK 427.7bn, calculated at face value (including the government's own stock). Foreign investors hold approximately 51%, while life insurance companies and private pension funds hold approximately 11% of total government debt securities. For government bonds, the proportion of holdings is 60% for foreign investors and 9% for life insurance companies and private pension funds.

On 2 October 2014, the Ministry of Finance laid down a new mandate for the management of government debt. Under the mandate, Norges Bank shall issue government debt and enter into financial contracts in the area of government debt management in the name of the Ministry of Finance. The objective of government debt management is to meet the government's borrowing requirement at the lowest possible cost. The Bank shall take into account the government's interest rate risk and seek to maintain a liquid yield curve for government securities with a maturity of up to 10 years. Each year, the Ministry shall set an upper limit for gross borrowing volume and a minimum time to refixing. Within this framework, the Bank shall issue an annual borrowing programme divided into bills and bonds and containing a calendar for debt issues. The Bank shall lay down principles for measuring and managing counterparty exposure and operational risk. Norges Bank shall regularly prepare analyses of profitability and risk associated with government debt management and performance assessments for submission to the Ministry. Both the analyses and the evaluation shall be published. The mandate entered into force on 1 January 2015.

A swap arrangement was established in 2008 to ensure banks' access to longer-term funding, under which banks could obtain Treasury bills from the government in exchange for covered bonds (OMF). Banks utilised a total of NOK 230bn.

6 International Monetary Market dates: the third Wednesday in March, June, September and December.

At the beginning of 2014, agreements outstanding under the arrangement totalled approximately NOK 78bn. NOK 46bn fell due in March, while the last agreements terminated in June.

ACCOUNT MANAGEMENT FOR THE GOVERNMENT

Norges Bank performs account management tasks relating to the management of the central government's liquid assets and debt in NOK. The legal basis for these responsibilities is provided for in the Norges Bank Act and they are regulated by means of agreements between Norges Bank and the Ministry of Finance. A primary function is to amass government liquidity each day in the government's sight deposit account with Norges Bank. At end-2014, government agencies had a total of 975 accounts with Norges Bank. The sum of the amounts in these accounts constitutes the balance of the government's sight deposit account. The government receives interest on these funds. The Ministry of Finance also sets internal interest rates for certain government-owned funds and deposits. The government represented by the Ministry of Finance pays an annual fee to cover the costs of the banking services provided to the government by Norges Bank.

Norges Bank has contracted with EVRY ASA to provide ICT services for the account system. Account management services for the government at Norges Bank continued to be stable in 2014.

In 2014, Norges Bank invited interested parties to participate in a public tender process for the provision of services for the account system beginning in 2016. The work to conclude a new agreement for these services will continue in 2015.

Actual payment services for the government are performed by banks by agreement with the Norwegian Government Agency for Financial Management (DFØ). In 2014, DFØ concluded new agreements for payment and account services with DNB Bank ASA, Nordea Bank Norge ASA and the SpareBank 1 Alliance. Norges Bank has agreements with these banks specifying how government funds are to be transferred daily between the banks and Norges Bank.

FOREIGN EXCHANGE TRANSACTIONS

The transfers to the Government Pension Fund Global (GPFG) are conducted by Norges Bank on behalf of the government. The transfers are conducted on a monthly basis in foreign currency and primarily comprise revenues in foreign currency from the State's Direct Financial Interest (SDFI). Any additional foreign exchange required to cover the monthly transfers is purchased in the foreign exchange market. Norges Bank did not make foreign exchange purchases in the market in 2014. If foreign exchange from the SDFI exceeds the transfers to the GPFG, Norges Bank sells the surplus amount in the market. Norges Bank started selling foreign exchange in the market in October 2014. The daily foreign exchange sales/purchases are fixed for a month at a time and are announced on the final working day of the previous month. Norges Bank's foreign exchange sales/purchases may vary somewhat from month to month.

In the period from October to December 2014, Norges Bank's foreign exchange sales in the market totalled NOK 13.75bn. Transfers from the SDFI amounted to the equivalent of NOK 189.5 bn.

CHAPTER 4

PAYMENT SYSTEMS, BANKNOTES AND COINS

Stable payment system operations are of crucial importance to society. All payments between banks and between customers of different banks are cleared and settled in these systems. Norway's payment systems and other financial infrastructure functioned effectively in 2014.

NORGES BANK'S RESPONSIBILITY

Norges Bank settles interbank payments in banks' accounts at Norges Bank and supplies society with banknotes and coins in a manner that promotes payment system efficiency. Norges Bank also oversees the payment systems and securities settlement systems, which together constitute the financial infrastructure. The aim is to strengthen financial stability by promoting the robustness and efficiency of payment and settlement systems.

OVERSIGHT OF FINANCIAL INFRASTRUCTURE

Two interbank systems are licensed by Norges Bank under the Payment Systems Act: the Norwegian Interbank Clearing System (NICS) and the interbank system operated by the private settlement bank DNB Bank ASA. The system operated by the private settlement bank SpareBank 1 SMN is exempt from the licensing requirement. Clearings from NICS are settled in Norges Bank for banks with settlement at the central bank. Once settlement has been carried out at Norges Bank, DNB Bank ASA and SpareBank 1 SMN perform settlement with their participant banks. The basis for Norges Bank's supervision of licensed interbank systems includes reporting requirements and supervisory meetings.

Norges Bank also oversees the securities settlement system and the system operated by Oslo Clearing ASA, which is a central counterparty for trades on Oslo Børs. In this context, the Bank cooperates with Finanstilsynet (Financial Supervisory Authority of Norway), which supervises Verdipapirsentralen ASA (Norwegian central securities depository) and Oslo Clearing ASA. In 2014, Oslo Clearing ASA was acquired by the Swiss company SIX x-clear. Norges Bank is also a member of the oversight group for CLS Bank (Continuous Linked Settlement), an international bank specialised in the settlement of foreign exchange transactions. The group is chaired by the US Federal Reserve.

In Norges Bank's assessment, the financial infrastructure in Norway is on the whole robust and efficient. There were few disruptions in interbank systems and securities settlement systems in 2014.

In the 2014 *Financial Infrastructure Report*, Norges Bank evaluated each Norwegian system against new international principles from the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO). The evaluations were based on owners' self-assessments. The evaluation of the securities settlement systems was conducted by Norges Bank in collaboration with Finanstilsynet. In Norges Bank's view, the Norwegian payment and settlement systems are in line with most of the principles from CPMI-IOSCO. There were some deficiencies with regard to the principles concerning governance, framework for risk management, operational risk and indirect participation. Owners' measures to correct these deficiencies are followed up by Norges Bank.

In the 2014 *Financial Infrastructure Report*, Norges Bank also discusses developments in the financial infrastructure and the Bank's oversight of individual systems. A new article in the *Norges Bank Papers* series, "Developments in retail payment services – 2013", contains statistical data on developments in this area.

In 2014, Norges Bank published the results of a survey of the social costs of payments in Norway. The Bank estimates the costs of payments at

NOK 14.5bn in 2013, equivalent to 0.63% of mainland GDP. Relative to GDP, payment costs have fallen since the previous survey in 2007. Comparisons with other countries show that the costs involved in the Norwegian payment system are low. Banks perform payment services more efficiently than previously. Nevertheless, banks continue to make losses on payment services. Income covers only three-quarters of the costs. There are considerable differences in the costs connected with various types of payment. Payments using international cards cost society more than four times as much as payments using the national debit card BankAxept.

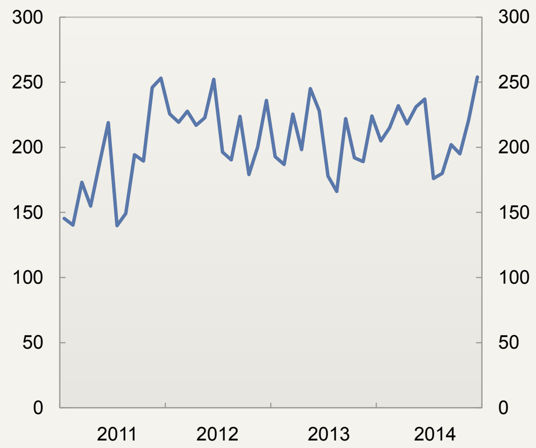
NORGES BANK'S SETTLEMENT SYSTEM

Norges Bank is the ultimate settlement bank for interbank payments in Norway. This task is related to Norges Bank's responsibility under the Norges Bank Act to promote an efficient payment system in Norway and vis-à-vis other countries, and to banks' right to hold accounts and raise loans at Norges Bank. Because the central bank issues money, central bank deposits do not involve credit or liquidity risk for banks. The interest rate on central bank deposits therefore provides a basis for interest rate formation throughout the economy.

All banks in Norway are entitled to have an account with Norges Bank. At the end of 2014, 131 banks had such an account, against 128 in 2013. Of these, 22 banks participated directly in the net payment settlements in Norges Bank's settlement system (NBO). The other banks used their account for payments primarily related to loans and deposits at Norges Bank. CLS Bank (Continuous Linked Settlement) has an account that is used for daily settlement of the krone leg of foreign exchange trades within the international system for settlement of such trades. Oslo Clearing ASA is a central counterparty in trades in financial instruments, and has an account with NBO for daily settlement of interbank positions. Two central banks and the Bank for International Settlements (BIS) also have accounts with NBO. Three banks had agreements for contingency accounts that can be used if a bank needs to utilise Norges Bank as a settlement bank.

In 2014, an average of NOK 213bn per day was settled in Norges Bank's settlement system, compared with NOK 203bn in 2013. At the end of 2014, banks had sight deposits and reserve deposits totalling NOK 34.3bn. Chart 4.1 shows turnover in Norges Bank's settlement system in recent years.

CHART 4.1. Turnover in Norges Bank's settlement system (NBO) 2011–2014. Daily average per month. In billions of NOK



Source: Norges Bank

Norges Bank has contracted with EVRY ASA for the provision of ICT operating services for the settlement system. There were no material interruptions in the settlement system in 2014.

Banks pay for the settlement services provided by Norges Bank, and prices are set to cover the relevant costs of providing the services. There was no change in prices between 2013 and 2014.

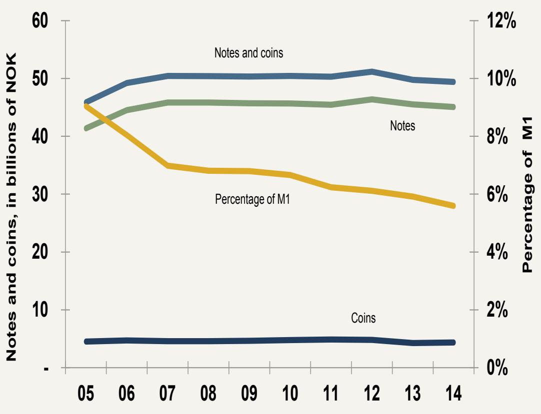
Along with the central banks of Denmark, Iceland and Sweden, Norges Bank participates in a Nordic forum for the exchange of experience concerning settlement systems and solutions for banks' collateral for loans from central banks. As from 2014, Norges Bank also participates in a newly launched international collaboration with a number of central banks and other key participants to promote robust contingency solutions in systemically important payment and settlement systems.

BANKNOTES AND COINS

CASH IN CIRCULATION

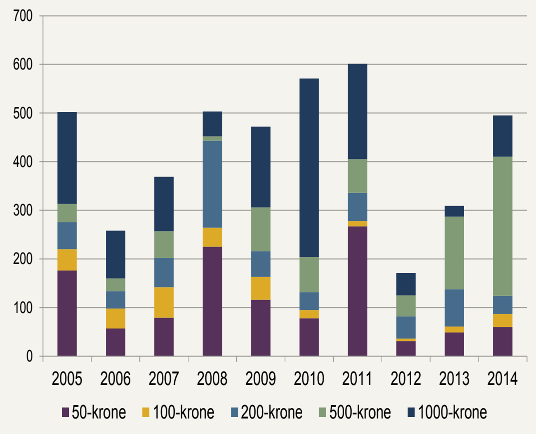
The value of banknotes and coins in circulation has remained at the same level over an extended period, but now shows a slight decline. The

CHART 4.2 Cash in circulation 2005–2014



Source: Norges Bank

CHART 4.3 Counterfeit Norwegian banknotes 2005-2014



Source: Kripos

annual average for 2014 was about NOK 49.4bn, NOK 0.4bn lower than in 2013 (see Chart 4.2). The value of notes and coins in circulation as a proportion of the total value of means of payment used by the public (M1) continues to decline.

The value of notes in circulation averaged NOK 45bn, i.e. a decrease of NOK 0.5bn on the previous year. The value of coins in circulation averaged NOK 4.4bn in 2014, approximately unchanged since 2013.

COUNTERFEIT NORWEGIAN BANKNOTES

The number of counterfeit banknotes seized in Norway is low (see Chart 4.3). In 2014, 495 notes were seized, corresponding to approximately 3.9 counterfeit notes per million notes in circulation. This figure is very low compared with other countries. The corresponding figure for euro area countries is around 52 per million[7]. The quality of most counterfeits is poor, making them easy to recognise.

ORGANISATION OF CASH DISTRIBUTION

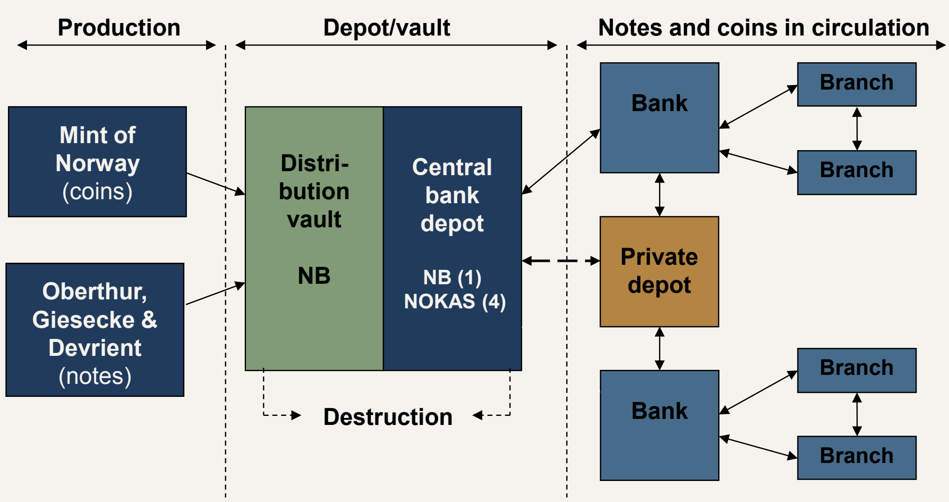
Under the Norges Bank Act, Norges Bank is responsible for issuing banknotes and coins. This involves both ensuring the production of sufficient volumes to meet the general public's cash requirements and making these means of payment available. Norges Bank supplies banks with cash from five central bank depots and the banks are responsible for further distribution to the general public. The central bank is also responsible for the quality of banknotes and coins in circulation and facilitates the withdrawal and destruction of worn and damaged notes and coins.

One of the objectives of Norges Bank's cash handling activities is to promote the efficiency of cash distribution and of the payment system as a whole. Various measures have been implemented over time to ensure the optimal division of responsibilities and duties between participants and a clearer distinction between different types of services.

The Norges Bank Act grants Norges Bank the exclusive right to issue banknotes and coins. Norges Bank must function as debtor for these means of payment. Although production, destruction and distribution may be performed by others, Norges Bank must ensure that these operations are carried out in accordance with its requirements. To facilitate interbank distribution of notes and coins, an arrangement has been introduced whereby, on certain conditions, banks receive interest compensation for cash holdings in private depots. At the end of 2014, there were a total of 13 private depots in Norway. The depots are operated by NOKAS Kontanthåndtering AS (NOKAS) and Loomis Norge AS. Thus, Norges Bank now has a wholesaler role and banks are responsible for the interbank distribution of cash.

7 Source: ECB press release published on 23 January 2015.

CHART 4.4: *The note and coin lifecycle at 31 December 2014*



Norges Bank has outsourced a number of operations in the area of cash handling (see Chart 4.4). Banknotes and coins are produced by external suppliers. The operation of Norges Bank's central bank depots in Stavanger, Bergen, Trondheim and Tromsø has been outsourced to NOKAS, which also destroys worn-out notes on behalf of Norges Bank. Norges Bank is responsible for the operation of the central bank depot in Oslo. The Bank also organises destruction and other control functions relating to the receipt and despatch of banknotes and coins.

Following a competitive tender in spring 2014, Norges Bank signed a framework agreement with Mint of Norway in August 2014 on the delivery of Norwegian coins for an additional four years beginning in 2015. In accordance with the Public Procurements Act, the competition was announced internationally. Three mints submitted tenders.

COMMEMORATIVE COIN ISSUES

Norges Bank issues commemorative coins in gold and silver pursuant to Section 16 of the Norges Bank Act and special edition circulation coins pursuant to Section 13 of the Norges Bank Act, which is the general legal basis for issuing coins. The Norges Bank Act confers the power to issue coins upon the Council of State under Section 16 of the Act. Since 2011, this power has been delegated to the Ministry of Finance (cf. Royal Decree No. 560 of 27 May 2011). In a letter of 13 October 2014, the Ministry of Finance further delegated its decision-making authority pursuant to Section 16 of the Norges Bank Act to Norges Bank. In 2014, Norges Bank issued a special edition 20-krone coin and a 200-krone silver coin to mark the bicentenary of the Norwegian Constitution.

The obverse motif is Christian Frederik's seal of state featuring the Norwegian lion, first used on 19 May 1814, when he accepted election as King. The lion with a halberd was used on Norwegian coins through Carl Johan's reign. The last issue year was 1844. The motif was designed by Ingrid Austlid Rise, designer at Mint of Norway.

The anniversary motif on the 200-krone special edition silver coin's reverse was designed by Esther Maria Bjørneboe. The motif features Christian Magnus Falsen, in profile.


09 - 18
(09 - 15)

NEW BANKNOTE SERIES

Norges Bank began work to develop a new banknote series in early 2013. The reason is the need to enhance the security of Norwegian banknotes so that they will be difficult to counterfeit also in the future. This will be done by incorporating new security elements, both for visual authentication and automated authentication by vending machines, etc.

In spring 2014, a competition was held for the design of motifs to be used on the new banknote series. The purpose of the competition was to arrive at a proposal that can be the artistic basis for the design of the new banknote series and communicate the theme "The Sea" in an appropriate manner. Seventy applications were received in the prequalification round. On the advice of an expert group, eight were chosen to participate in the final round.

Norges Bank had decided on certain criteria and considerations that should be addressed in the design of the competition proposals. The proposals were to serve as a "calling card" for Norway and be relevant for many years. Each denomination should also have its own identity, while at the same time there should be a connection between the obverse and reverse sides. The motifs of each of the five denominations should cover the following sub-themes:

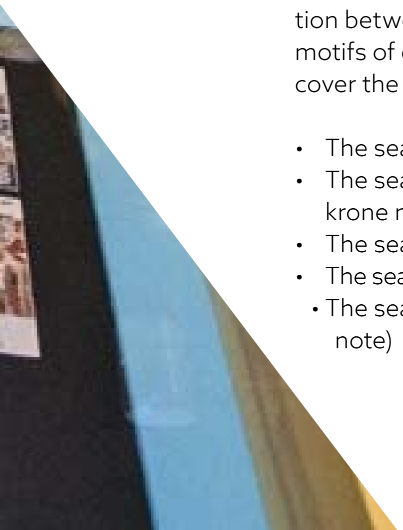
- The sea that binds us together (50-krone note)
- The sea that takes us out into the world (100-krone note)
- The sea that feeds us (200-krone note)
- The sea that gives us prosperity (500-krone note)
- The sea that carries us forward (1000-krone note)

A jury of five external experts and one member from Norges Bank evaluated all the proposals and selected a winner of the competition. Then Norges Bank's Executive Board decided independently on the motifs to be used on the new banknote series. The obverse side of the notes will be developed on the basis of the proposal from The Metric System, *Norwegian Living Space*. The basis of the reverse side will be the pixel motifs submitted by Snøhetta Design, *The Beauty of Boundaries*.

The obverse sides in the proposal chosen are very well suited to the incorporation of necessary security elements. The expression is open and typically Nordic. Using the pixel motifs from Snøhetta Design as the reverse will give the notes both a traditional and a modern expression. The wave pattern that repeats itself in the pixel motifs provides an appropriate allusion to the main theme "The Sea". In addition, the colour signal of each denomination is clearly apparent when the two proposals are combined. This makes it easier to distinguish denominations, especially for the visually impaired.

All the competition proposals were exhibited in the premises of Grafill, the Norwegian organisation for visual communication, from 7 to 26 October 2014. The title of the exhibition was "Norway's New Banknote Series: The Sea".

Norges Bank is now working further on motifs and designs to enable visible security elements intended for the public and machine-readable security elements to be designed and incorporated into the notes. For that reason, the finished notes will differ somewhat from the competition proposals. Before the banknotes can go into full production, original tools need to be developed and extensive testing needs to be done, to ensure that the banknotes function in vending machines, for example. The first of the new banknotes will be issued in the second quarter of 2017 at the earliest.



CHAPTER 5

INTERNATIONAL COOPERATION

Norges Bank participates in international cooperation through several channels, such as the Bank's active participation in financing schemes and agreements with the International Monetary Fund (IMF) and its shares in the Bank for International Settlements (BIS). The Bank has extensive contact with central banks in other countries and with international organisations.

FUNDING THE IMF

The main source of funding for the IMF's lending activities is quota subscriptions paid by member countries. The IMF can also, as needed, supplement its quota resources by borrowing from member countries. The IMF has standing borrowing arrangements known as "New Arrangements to Borrow" (NAB), which has 38 participant countries, including Norway. In the event of further funding needs, the IMF can also enter into supplementary bilateral loan agreements with individual member countries.

In the period following the financial crisis, which started in 2008, the IMF has substantially strengthened its lending capacity. In 2010, member countries agreed to double the IMF's quota resources. Since member countries must ratify the increase in quotas and the US has not yet done so, the majority required to implement the change has not yet been reached.

The NAB has been expanded tenfold. The volume of the arrangement will be reduced by an amount corresponding to the increase in quotas when the increase becomes effective. The Ministry of Finance acts as contracting party in the NAB, while Norges Bank administers Norway's participation and provides foreign exchange reserves under Section 25 of the Norges Bank Act. Norway's participation in the NAB totals SDR 3870.9m, and at 31 December 2014, the IMF had drawn SDR 463m.

The IMF also has provisional drawing arrangements with 32 member countries, including Norway. In October 2012, Norges Bank granted the IMF a drawing arrangement of SDR 6bn, or just over NOK 65bn (exchange rate at 30 December 2014). Initially, the loan had a drawing period of two years, but in 2014 the period was extended by one year to October 2015. At 31 December 2014, the IMF had not drawn on this loan. The loan is to be drawn only if resources from the quotas and the NAB fall below a given threshold.

In June 2010, the Ministry of Finance entered into an agreement with the IMF to pledge up to SDR 300m in loan resources to the IMF's borrowing facilities for low-income countries. Pursuant to Section 25 of the Norges Bank Act, the Ministry of Finance requested that Norges Bank meet Norway's commitments under the agreement by making funds available through transfers of foreign exchange reserves. As at 31 December 2014, the IMF had drawn SDR 234m under the agreement.

Norway's total commitments to the IMF at 31 December 2014 were SDR 12bn (around NOK 130bn), approximately 4% of Norway's GDP. In SDR terms, these commitments were unchanged from the previous year, but the lower krone exchange rate resulted in a substantial increase in NOK terms.

However, the risk associated with loans to the IMF is very low, among other reasons because of the conditionality in the IMF's adjustment and stabilisation programmes. In addition, IMF claims have precedence over claims from other creditors. The IMF has never realised a loss on loans under its general lending programmes. Since all claims are against the IMF, Norway has no credit exposure to third countries in connection with these loans.

LOAN AGREEMENT WITH SEÐLABANKI ÍSLANDS

On 19 November 2008, the IMF authorised a loan to Iceland of USD 2bn under a stand-by arrangement which expired in 2011. In addition, loan agreements between Iceland and the other Nordic countries were signed in July 2009. The Ministry of Finance approved a EUR 480m loan from Norges Bank to the Icelandic central bank and provided a government guarantee for the loan. The Icelandic government guaranteed repayment of the loan to Norges Bank. Seðlabanki Íslands made an early repayment of EUR 281m in 2012. The outstanding loan balance was repaid in full in July 2014. Similar repayments were made to all of the Nordic creditors.

REGULAR CONTACT AND COOPERATION WITH OTHER CENTRAL BANKS AND INTERNATIONAL ORGANISATIONS

Norges Bank has shares in the Bank for International Settlements (BIS), whose task is to foster cooperation between central banks. In addition to providing banking services to central banks, the BIS is also a research body and discussion forum for its member banks. The governor of Norges Bank regularly attends meetings of the BIS.

Pursuant to section 25 of the Norges Bank Act, Norges Bank shall administer Norway's financial rights and meet the commitments ensuing from membership of the IMF. Norges Bank has been tasked by the Ministry of Finance to be responsible for day-to-day IMF work in Norway. Norway's position on matters to be brought before the IMF Executive Board is decided by the Ministry of Finance on the advice of Norges Bank. A chapter of the Financial Markets Report (White Paper) contains an account of important matters and events relating to IMF activities, with emphasis on the past 12–18 months.

The highest decision-making body of the IMF is the Board of Governors. In 2014, Norway was represented by Governor of Norges Bank Øystein Olsen, with Secretary General of the Ministry of Finance Svein Gjedrem as his alternate. The Board normally meets once a year at the Annual Meeting of the IMF. Apart from this meeting, voting by the Board of Governors takes place by ballot. An Executive Board consisting of 24 executive directors is responsible for day-to-day business. The five Nordic and three Baltic countries comprise a single constituency with a joint representative on the Board. The post of executive director is rotated among the Nordic and Baltic countries. Norway holds this position for the period 2013-2015.

The countries in the Nordic-Baltic Constituency (NBC) coordinate their views to arrive at a consensus position, which the board member representing the Constituency then presents to the IMF Executive Board. In its period as executive director, Norway is responsible for the daily coordination of the views of the NBC on matters to be brought before the IMF Executive Board. The Nordic-Baltic Monetary and Financial Committee (NBMFC) provides policy guidance for the work of the NBC. The Norwegian members are the secretary general of the Ministry of Finance and the deputy governor of Norges Bank. The other countries are represented at a comparable level. The NBMFC normally meets twice a year.

The International Monetary and Financial Committee (IMFC) has a key function as an advisory body to the Executive Board of the IMF. The IMFC meets twice a year. The Committee provides policy guidelines for the activities of the IMF. The IMFC's members are ministers or central bank governors who represent either a country or a multi-country constituency. Finland represented the Nordic-Baltic Constituency at the IMFC meetings in April and October 2014.

An important part of the IMF's activities involves monitoring economic developments in member countries, with particular emphasis on macroeconomic conditions and financial stability. Bilateral surveillance is mainly conducted through Article IV consultations, which take place annually for most countries. The report from the Article IV consultation with Norway in 2014 was discussed by the Executive Board of the IMF on 28 August 2014. The report and the conclusions of the Executive Board's discussions were published on the following day.

The IMF has for many years conducted comprehensive assessments of the financial sector in member countries, known as Financial Sector Assessment Programs (FSAP). An FSAP was conducted for Norway in 2005. In December 2013, the IMF decided that FSAP assessments would be conducted every five years, including for countries such as Norway, which was assesssed to have a systemically important financial sector. Since summer 2014, the IMF has been working on a new FSAP assessment of Norway's financial sector. Publication of the assessment is planned for summer 2015 together with the report from the Article IV consultation.

In connection with the IMF's assessment of Norway's financial sector as systemically important in a global context, the IMF began in 2014 to conduct annual Article IV consultations with

Norway. Previously, consultations with Norway have taken place every two years, while the IMF has conducted a simplified consultation, without a written report to the IMF Executive Board, in the intervening years.

Norges Bank cooperates extensively with the other Nordic central banks. The annual meeting of Nordic central banks in 2014 was organised by the Swedish central bank. Staff from various central bank departments meet at regular intervals to discuss issues relating to economic analysis, monetary policy, financial stability, payment systems, legal matters concerning central banks, human resource policy, etc. Norges Bank also has regular contact with the European Central Bank (ECB) and other central banks in EU member states.

With regard to the issuing of banknotes and coins, Norges Bank has close contact with the Eurosystem and other central banks. The Bank also participates to a considerable extent internationally in organisations such as the European Banknote Conference (EBC) and the Central Bank Counterfeit Deterrence Group (CBCDG). With more than 20 central banks as members, the EBC aims to improve the security and quality of banknotes and of all the stages of production and supply of banknotes. Norges Bank serves as the secretary of the EBC and participates in a group tasked with reporting on and proposing conference topics. The CBCDG is an international collaboration of 34 central banks whose aim is to develop systems to prevent the photocopying, scanning and image processing of banknotes to reduce the risk of counterfeiting. Norges Bank will chair the Executive Committee in the period 2013–2017.

Following the most recent financial crisis, the EU strengthened its monitoring of potential threats to financial stability by establishing a new system for supervision of the financial sector, the European System of Financial Supervision (ESFS). Three separate supervisory authorities, for microprudential supervision of banks, securities markets and insurance and occupational pensions, and the European Systemic Risk Board (ESRB) were established. The regulations establishing the ESFS have not been incorporated into the EEA Agreement. The microprudential supervisory authorities have the power to take decisions that are binding on national supervisory authorities or that can apply directly to private agents. Both the Constitution of Norway and the two-pillar structure of the EEA Agreement place restrictions on the incorporation of such regulations into the EEA Agreement.

In 2014, EEA/EFTA and EU member states reached agreement on limited cooperation that can resolve these challenges. The solution entails granting

the EFTA Surveillance Authority (ESA) power to issue legally binding decisions on national supervisory authorities and individual institutions in Norway, Liechtenstein and Iceland. Furthermore, the ESA and the national supervisory authorities in the EEA/EFTA countries will be non-voting participants in the EU's three financial supervisory authorities. At the same time, the EU's financial supervisory authorities will be non-voting participants in the ESA's work in this area. This solution will be incorporated into the EEA Agreement and is pending approval by the Storting.

Norway is an informal observer in the ESFS by virtue of Finanstilsynet's status as Norwegian observer in the microprudential supervisory agencies. Norges Bank has also taken part in European Banking Authority (EBA) meetings and in an EBA working group on new crisis resolution tools.

As regards macroprudential oversight, Norges Bank and Finanstilsynet were invited in 2012 to take part as observers at the meetings of the Advisory Technical Committee (ATC), a subgroup operating under the ESRB that provides advice and assistance on issues within the ESRB's remit. The Bank has taken part in meetings held by the ATC and by several subgroups of the ATC in 2014.

The governor of Norges Bank attends meetings of the Financial Stability Board Regional Consultative Group for Europe, along with the director general of Finanstilsynet and the secretary general of the Ministry of Finance. Norges Bank takes part in a number of meetings with the other Nordic countries and the Baltic countries to discuss macroprudential oversight and regulation and issues related to financial infrastructure. Even though Norway is not represented on the Basel Committee, Norges Bank participates in the work of a subcommittee, the Research Task Force.

Norges Bank has established an arrangement with the ECB, the Bank of England and other central banks that affords employees the opportunity to work at these institutions for periods of up to 12 months.

TECHNICAL ASSISTANCE TO CENTRAL BANKS IN DEVELOPING COUNTRIES

For many years, Norges Bank has provided technical assistance to central banks in developing countries. In 2011, Norges Bank assumed responsibility for the IMF's technical assistance to the Bank of Zambia. Norges Bank's assistance is administered by the IMF, but funded by the Norwegian Ministry of Foreign Affairs.

A broad range of internal and external central bank activities have been covered. Norges Bank places 1.5 FTEs per year at the disposal of the Bank of Zambia. Of this, 1 FTE is for an on-site adviser and 0.5 FTE is used for experts on short-term assignments. Special Adviser Gunnvald Grønvik held the post of on-site adviser until 3 June 2014. As from 10 August 2014, Senior Adviser Steinar Selnes has held the post. Phase I of Norges Bank's technical assistance to the Bank of Zambia was concluded in 2012, and after an evaluation of the project, it was decided to extend the project to the end of August 2015. The project will then have run for a total of four years.

In 2014, a total of nine short-term visits, most of two weeks' duration and one of them involving two experts, were completed. The visits covered a broad range of the Bank of Zambia's external and internal central bank tasks, including monetary policy, financial stability, payment services, cash handling and organisational development. On two occasions, Bank of Zambia staff have visited Norges Bank to learn more about how the Bank functions in their area of expertise. The Governor of the Bank of Zambia participated in one of the visits.

Norges Bank had a similar project in Malawi between 2006 and 2012. This is documented in Norges Bank's Occasional Papers No. 40, "Central Bank Modernization". In December 2013, an agreement was concluded between the IMF and the Norwegian embassy in Malawi on a limited follow-up project. Norges Bank had undertaken to provide experts to the project. This follow-up project is not yet underway.

CHAPTER 6

RESEARCH IN 2014

Research at Norges Bank forms part of the basis for the Bank's decisions. Research activities focus on monetary policy and financial stability and are anchored in the international and Norwegian research community. The quality of research at the Bank meets the required standards for publication in peer-reviewed, recognised international or national journals.

PUBLISHED RESEARCH

In 2014, 25 articles and book chapters were accepted for publication in peer-reviewed journals and books. This is the highest number since the establishment of a separate research unit at Norges Bank. In the second-best year, 2013, the number of publications was 23, and 2014 must therefore be considered a very good year. The publications cover a wide range of areas, such as monetary policy, forecasts, the residential property market, the foreign exchange market and countercyclical capital requirements and how they affect the macroeconomy. An overview of accepted and published articles is provided on the Bank's website. The Research Council of Norway divides peer-reviewed journals into two levels, "Level 1" and "Level 2", with "Level 2" as the highest. Of the articles by Bank economists accepted in 2014, 35% were published in Level 2 journals. This is higher than the target of 25% set in 2007, but lower than the share in 2013, which was 52%.

Current research activity is documented in the Norges Bank *Working Papers* series. Eighteen papers were published in this series in 2014, while the average for the past three years is 19 papers. As the number of publications in the *Working Papers* series is often a good indicator of future publications in international journals, it appears that Norges Bank will continue to publish at approximately the same level as in 2014 in the year ahead. *Working Papers* are published on the Bank's website and the Internet portals Research Papers in Economics (RePEc) and Social Sciences Research Network (SSRN). In 2014, Norges Bank's *Working Papers* were downloaded 1 984 times from RePEc.

CONFERENCES, WORKSHOPS AND SEMINARS

Several conferences were arranged by Norges Bank in 2014. In collaboration with BI Norwegian Business School, the Bank's Research Unit arranged the "20th International Conference in Computing in Economics and Finance". There were around 300 participants from all over the world and a total of 600 articles were submitted for consideration. This is the highest number ever

for this conference (which has been held for 20 years), and means that the rejection rate was 50%, a guarantee of very high quality. In addition, the conference "Of the Uses of Central Banks: Lessons from History" was held as part of the project to mark Norges Bank's bicentenary. Finally, two conferences were arranged in collaboration with HEC Montreal with the following titles: "New developments in business cycle analysis: The role of labor markets and international linkages" and "Research meeting on dynamic macroeconomics".

One workshop was held in 2014 aimed at the Bank's staff, which included participants from academic institutions in Norway and PhD students at Nordic universities. The workshop focused on financial frictions in dynamic stochastic general equilibrium models, with one of the world's leading researchers in this area, Professor Lawrence Christiano of Northwestern University in the US as instructor.

In 2014, Bank researchers also had extensive contact with colleagues at universities and other central banks as part of their day-to-day activities through joint projects, by presenting work in progress at Norwegian and international conferences and seminars and at research seminars held at Norges Bank each week. This contact helps to disseminate research findings within the Bank and to bolster the Bank's professional reputation in academia and among research and policy institutions. In 2014, Norges Bank arranged 35 seminars with invited lecturers who presented their research and participated in meetings and discussions with Bank staff. A complete list of invited lecturers is published on Norges Bank's website.

In addition to giving presentations at Norges Bank, Bank researchers gave presentations at 65 international conferences and seminars in 2014. A number of the Bank's researchers also hold seminars and deliver guest lectures at Norwegian universities and university colleges and serve as referees for international journals.

SUPPORT FOR ECONOMIC RESEARCH AND STUDIES

The endowed chair established by Norges Bank at the University of Oslo fosters greater awareness about macroeconomics and monetary policy issues.

In 2012, Norges Bank established its PhD scholarship programme to motivate the best young Norwegian economics students to pursue doctoral studies at a top-ranked international research institution. The programme comprises a financial scholarship, which is awarded to students admitted to an approved institution, and support during the application process in the form of a one-year internship in the Bank's Research Unit. During the 2013/2014 academic year, there were two such interns at the Bank, and both were admitted to a top-ranked institution (Brown University and the University of Pennsylvania), which qualified them for a financial scholarship award.

Norges Bank's Economic Research Fund provides financial support for researchers studying abroad or attending international conferences to present their own work and for research conferences in Norway.

NORGES BANK'S BICENTENARY PROJECT

BOOK PROJECT TO MARK NORGES BANK'S BICENTENARY IN 2016

Norges Bank's bicentenary book project is a joint project with contributions from both Norwegian and international research communities. The steering committee comprises the international experts Professor Michael Bordo of Rutgers University, New Jersey, Professor Marc Flandreau of the Graduate Institute in Geneva, Director Jan F. Qvigstad and Director Øyvind Eitrheim.

The four books have the following working titles:

- The History of Norges Bank 1816–2016
- The Monetary History of Norway 1816–2016
- Of the Uses of Central Banks: Lessons from History
- Norges Bank: A History in Pictures

The project will serve to highlight the role of Norges Bank as a public institution from a historical perspective. The three first books are intended to meet the standards of an internationally recognised academic publisher. The pictorial history is aimed at a broad readership and will be suitable as a gift book.

The Bank has appointed Professor Einar Lie, University of Oslo, and Professor Jan Tore Klovland, Norwegian School of Economics (in collaboration with Øyvind Eitrheim of Norges Bank), as project coordinators for the first two books. The third book will contain contributions from the conference "Of the Uses of Central Banks: Lessons from History", held at Norges Bank from 5 to 6 June 2014.

In 2014, researchers at Norges Bank, the Norwegian School of Economics, Vestfold University College and the University of Oslo conducted research into various aspects of the history of Norges Bank. The Bank provided funding for a three-year doctoral project on the initial decades of the history of Norges Bank in collaboration with the 1814-project at the University of Oslo. The thesis was approved in 2014. The University of Oslo also approved a doctoral thesis on monetary and fiscal policy during and immediately after the First World War. Both theses will be published in Norges Bank's *Occasional Papers* series.

Two research papers were published in 2014 on the Bank's website in connection with the Bank's bicentenary project, one as part of the Norges Bank *Working Papers* series and one as a Norges Bank *Staff Memo*.

COLLABORATION WITH THE MUSEUM OF CULTURAL HISTORY ON THE EXHIBITION "FOR THE LOVE OF FREEDOM" TO MARK THE BICENTENARY OF THE NORWEGIAN CONSTITUTION

In connection with the bicentenary of the Norwegian Constitution, Norges Bank contributed to the exhibition "For the Love of Freedom" at the Museum of Cultural History in Oslo. The Bank loaned gold coins to the exhibition and provided necessary measures to ensure the coins' safety. It was the first large-scale public showing of these coins, which accompanied the famous gold transport out of Norway after the German invasion on 9 April 1940. The space where the coins were exhibited is called "Norges Bank-salen". Bank staff also assisted in planning and designing the exhibition, and two articles were written for the book Ja, vi elsker frihet [For the Love of Freedom], edited by Professor Svein H. Gullbekk, University of Oslo, which was published in connection with the exhibition. Under the agreement with the Museum of Cultural History, the Bank will be able to use the space for an exhibition commemorating the bicentenary in 2016.

COLLABORATION WITH THE NATIONAL ARCHIVES OF NORWAY TO TRANSCRIBE THE 1816 SILVER TAX LISTS

Norges Bank was established in 1816 with equity capital in the form of two million silver speciedalers. This capital was raised through a compulsory silver tax on wealth. To collect the silver tax, silver tax lists were compiled for the entire country in autumn 1816. Since 2011, these silver tax lists have been available on the National Archives of Norway's website after the original documents were digitised as part of a joint project between Norges Bank and the National Archives of Norway. In 2014, Norges Bank funded a transcription project to make the silver tax lists more easily accessible from spreadsheets on the National Archives of Norway's website.

CHAPTER 7

COMMUNICATIONS ACTIVITIES

Transparency and good communication are essential in enabling the Bank to execute its core tasks in a sound manner. They are vital to the effectiveness of monetary policy and for ensuring confidence that the GPFG is being managed appropriately.

Norges Bank's communication must be correct, predictable, open and responsible. The Bank fulfils this obligation through active communication in the form of press conferences, speeches and lectures, publications and meetings with different groups. All essential information is published on the Bank's website.

PRESS CONFERENCES

Media coverage can be a decisive factor in ensuring that the Bank's communication reaches the public. Press conferences are an important channel for communicating the Bank's work and the assessments of the Executive Board. All press conferences are streamed live on the Bank's website. Norges Bank held a total of 10 press conferences in 2014.

Norges Bank also holds a number of press seminars each year to enlighten journalists and provide them with more detailed information regarding the Bank's operations. Three press seminars were held in 2014: one in connection with the 2014 *Financial Infrastructure Report*, one on the strategic plan for the management of the GPFG and one relating to the 2014 *Financial Stability Report*.

SPEECHES AND LECTURES

Speeches and lectures are another important channel for informing the public about the Bank's operations. They are intended to reach a wide audience and present the Bank's core activities. An aim is to ensure a balanced geographical spread of speaking venues.

In 2014, the governor and deputy governor of Norges Bank Central Banking Operations and the chief executive officer of Norges Bank Investment Management gave a total of 28 published speeches and lectures, of which three were given abroad, 10 in Norway outside Oslo and 14 in Oslo. In addition, a number of unpublished speeches were given. Audiences included economics experts, political representatives, academia, students, business sector representatives, interest organisations, the social partners, journalists and diplomats. Speech and lecture topics varied widely, and included monetary policy, financial stability, management of the GPFG, economic history and general economic issues.

The governor's annual address, "Economic Perspectives", was attended by a political representative, business leaders, public sector representatives, journalists and academia. Other important speeches included speeches to Norges Bank's regional network and the annual hearing before the Storting's Standing Committee on Finance and Economic Affairs. Governor Olsen also gave a lecture at Columbia University, and CEO Yngve Slyngstad gave a presentation at the Sustainable Finance Summit at the University of Geneva. In addi-

tion, both gave speeches at conferences arranged by Norges Bank.

The *Monetary Policy Report* was presented to the financial sector and market participants in London after each publication. In addition, Norges Bank staff spoke regularly on topics related to the Bank's operations.

NORGES BANK'S WEBSITE AND SOCIAL MEDIA

Norges Bank's website is the Bank's primary channel of communication, enabling the Bank to provide open and easily accessible information. The website contains news and information on the Bank's activities, as well as background material relating to the Bank's analyses and decisions. In 2014, the Bank launched a new visual identity and a new responsive website with accessibility from mobile devices.

Norges Bank makes active use of social media channels such as Twitter, YouTube, Flickr and LinkedIn. The Bank has also created two Facebook pages, one for recruitment and the other on the new banknote series. Using these channels allows the Bank to reach a greater number and a wider range of target groups than through traditional channels.

PUBLICATIONS

Norges Bank issued the following publications in 2014 (in Norwegian and English unless otherwise specified):

- Norges Bank's Annual Report
- Government Pension Fund Global Annual Report
- Monetary Policy Report with financial stability assessment (4)
- Government Pension Fund Global Quarterly Report
- Financial Stability Report (1)
- Financial Infrastructure Report (1)
- Årsrapport om oppgjerssystemet til Noregs Bank
  [Annual report on Norges Bank's settlement system] (Norwegian only)
- Årsrapport om setlar og myntar
- [Annual report on banknotes and coins] (Norwegian only)
- Norges Bank's Survey of Bank Lending (quarterly)
- Norges Bank's pengemarkedsundersøkelse (1)
- [Norges Bank's money market report] (Norwegian only)
- Regional network report (quarterly, English
- version includes national summary only)
- Månadsrapportar om Noregs Banks oppgjerssystem og tryggleik for lån
  [Monthly reports on Norges Bank's settlement system and collateral for loans] (Norwegian only)
- Quarterly report, Norges Bank's foreign exchange reserves
- Norges Bank Papers (5)
- Staff Memo (19)
- Working Papers (18)
- Economic Commentaries (10)
- NBIM Discussion Notes (6)

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APPENDIX

GOVERNING BODIES, MANAGEMENT AND ORGANISATION

EXECUTIVE BOARD

Øystein Olsen, Chair
Appointed governor of Norges Bank from 1 January 2011 for a term of up to six years.

Jan F. Qvigstad, Deputy Chair until 31 March 2014. Appointed deputy governor of Norges Bank as from 1 April 2008 for a term of up to six years.

Jon Nicolaisen, Deputy Chair as from 1 April 2014 Appointed deputy governor of Norges Bank as from 1 April 2014 for a term of up to six years.

Liselott Kilaas
Appointed 1 January 2004–31 December 2007. Reappointed 1 January 2008–31 December 2011 and 1 January 2012–31 December 2015.

Egil Matsen
Appointed 1 January 2012–31 December 2015.

Hilde Myrberg
Appointed 1 January 2014–31 December 2017.

Kjetil Storesletten
Appointed 1 January 2014–31 December 2017.

Karen Helene Ulltveit-Moe
Appointed 1 January 2014–31 December 2017.

Alternates

Espen R. Moen
Appointed 1 January 2012–31 December 2015.

Hege Sjo
Appointed 1 Januar 2014–31 December 2017.

EMPLOYEE REPRESENTATIVES

Jan Erik Martinsen
Appointed 1 January 2001-31 December 2015.
Petter Nordal (alternate)

Gøril Bjerkhol Havro
Appointed 1 January 2011-31 December 2016.
Berit Moen (alternate until 31 December 2014)
Henrik Borchgrevink (alternate as from 1 January 2015)

SUPERVISORY COUNCIL

Reidar Sandal, 2010–2013, 2014–2017, Chair
Alternate: **Tore Nordtun**, 2014–2017

André Støylen, 2012–2015, Deputy Chair
Alternate: **Lars Tvete**, 2012–2015

Frank Sve, 2006–2009, 2010-2013, 2014–2017
Alternate: **Tone T. Johansen**, 2010-2013, 2014–2017

Eva Karin Gråberg, 2004–2007, 2008-2011, 2012–2015
Alternate: **Rita Lekang**, 2012–2015

Runbjørg Bremset Hansen, 2004–2007, 2008-2011, 2012–2015
Alternate: **Camilla Bakken** Øvald, 2012–2015

Tormod Andreassen, 2008-2011, 2012–2015
Alternate: **Beate Bø Nilsen**, 2012–2015

Morten Lund, 20010–2011, 2012–2015
Alternate: **Torunn Hovde Kaasa**, 2012–2015

Synnøve Søndergaard, 2010–2013, 2014–2017
Alternate: **Hilde Brørby Fivelsdal**, 2014–2017

Randi Øverland, 2012–2015
Alternate: **Anne Grethe Tevik**, 2012–2015

Vidar Bjørnstad, 2012–2015
Alternate: **Hans Kolstad**, 2012–2015

Ingebrigt S. Sørfonn, 2012–2015
Alternate: **Solveig Ege Tengesdal**, 2012–2015

Paul Birger Torgnes, 2014–2017
Alternate: **Arne Stapnes**, 2014–2017

Toril Hovdenak, 2014–2017
Alternate: **Hans Aasnes**, 2014–2017

Peter Meidell, 2014–2017
Alternate: **Brage Baklien**, 2014–2017

Iver Nordseth, 2014–2017
Alternate: **Hanne Nora Nilssen**, 2014–2017

OFFICE OF THE SUPERVISORY COUNCIL

Svenn Erik Forsstrøm, Director

INTERNAL AUDIT
Ingunn Valvatne, Head of Internal Audit

NORGES BANK CENTRAL BANKING OPERATIONS
Governor Øystein Olsen
Deputy Governor Jon Nicolaisen

General Secretariat
Executive Director Jon Nicolaisen

Director of Communications and External Relations
Communications Director Hilde Singsaas

General Counsel
Executive Director Marius Ryel

Financial Stability
Executive Director Amund Holmsen until 31 December 2014
Executive Director Birger Vikøren as from 10 February 2015

Markets and Banking Services
Executive Director Kristin Gulbrandsen

Monetary Policy
Executive Director Birger Vikøren

Corporate and Shared Services
Executive Director Jannecke Ebbesen

NORGES BANK INVESTMENT MANAGEMENT
Chief Executive Officer Yngve Slyngstad
Deputy Chief Executive Officer Trond Grande

Compliance and control
Chief Compliance Officer Jan Thomsen

CEO Office and Communications
Chief Administrative Officer Trond Grande

Allocation strategies
Chief Investment Officer Ole Christian Bech-Moen

Asset strategies
Chief Investment Officer Øyvind Schanke

Equity strategies
Chief Investment Officer Petter Johnsen

Risk
Chief Risk Officer Dag Huse

Operations
Chief Operating Officer Age Bakker

Administration
Chief Administrative Officer Trond Grande

NORGES BANK REAL ESTATE MANAGEMENT

Real estate investment
Chief Investment Officer Karsten Kallevig

Risk
Chief Risk Officer Lars Dahl

Operations
Chief Operating Officer Nina Hammerstad

Administration
Chief Administrative Officer Mie Holstad

NORGES BANK
Bankplassen 2, P.O. Box 1179 Sentrum, NO-0107 Oslo, Norway
www.norges-bank.no