NORGES BANK
INVESTMENT MANAGEMENT

2014
GOVERNMENT PENSION FUND GLOBAL
ANNUAL REPORT

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

CONTENTS

Translation from Norwegian. For information only

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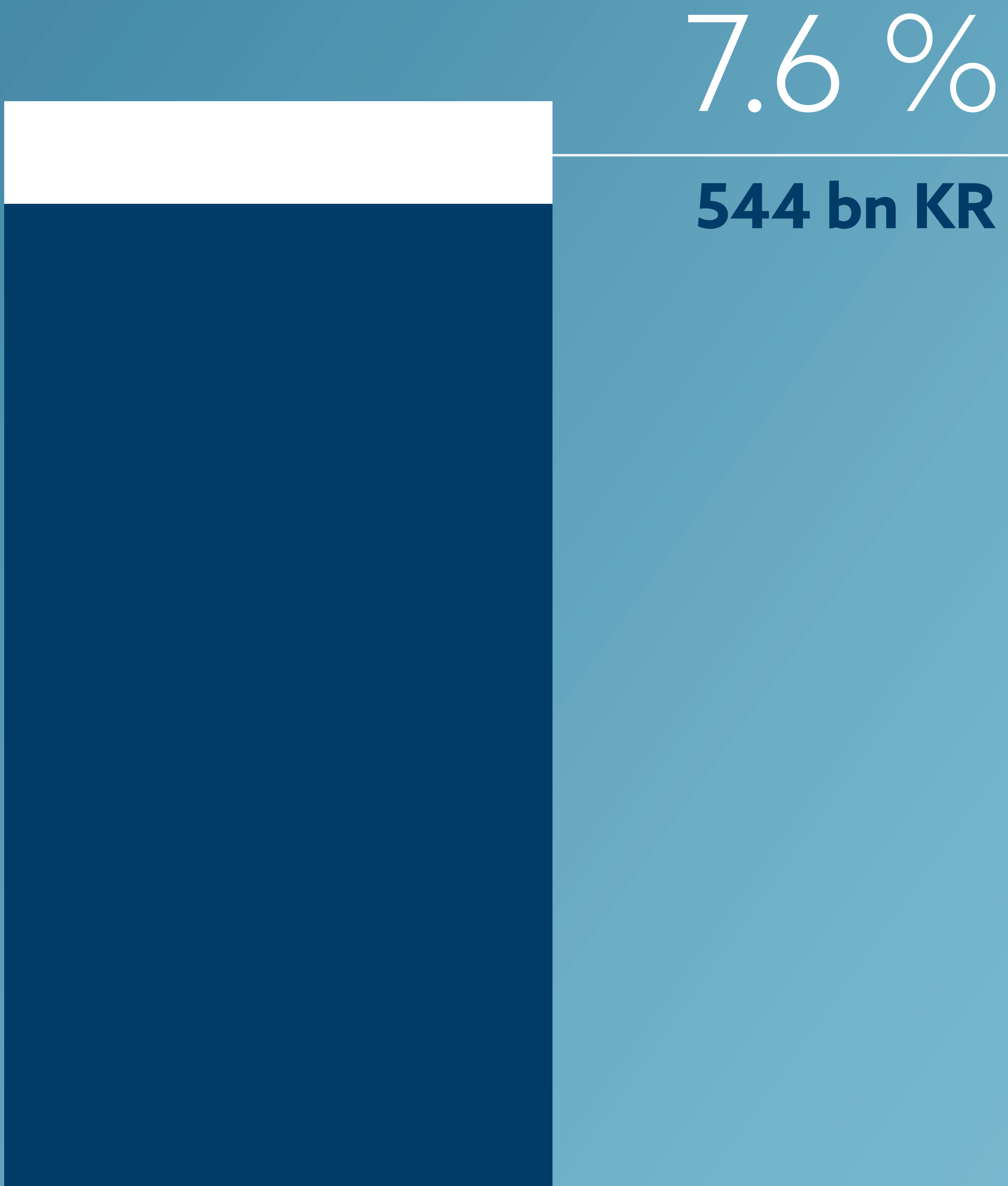
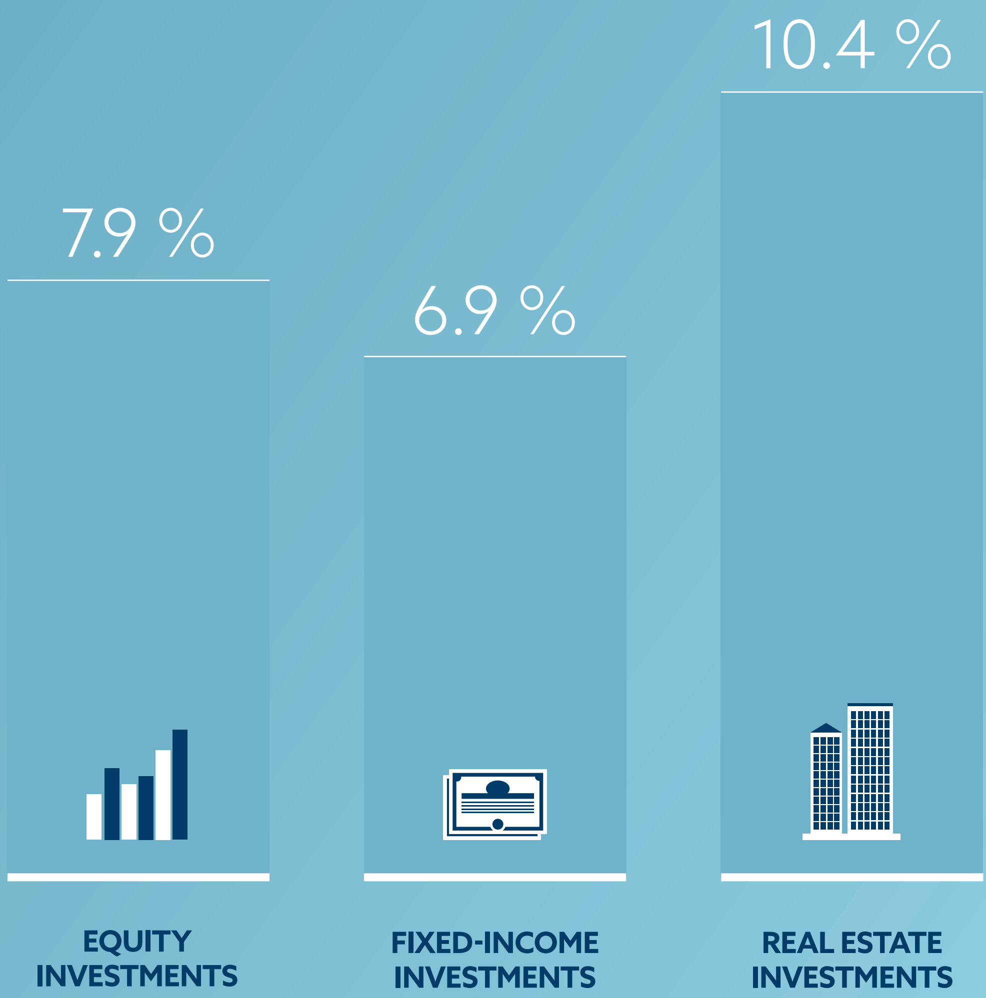
Holdings | Voting records | Composition of benchmark indices |
GIPS report | Significant external suppliers | Monthly returns | External managers

2014 IN FIGURES

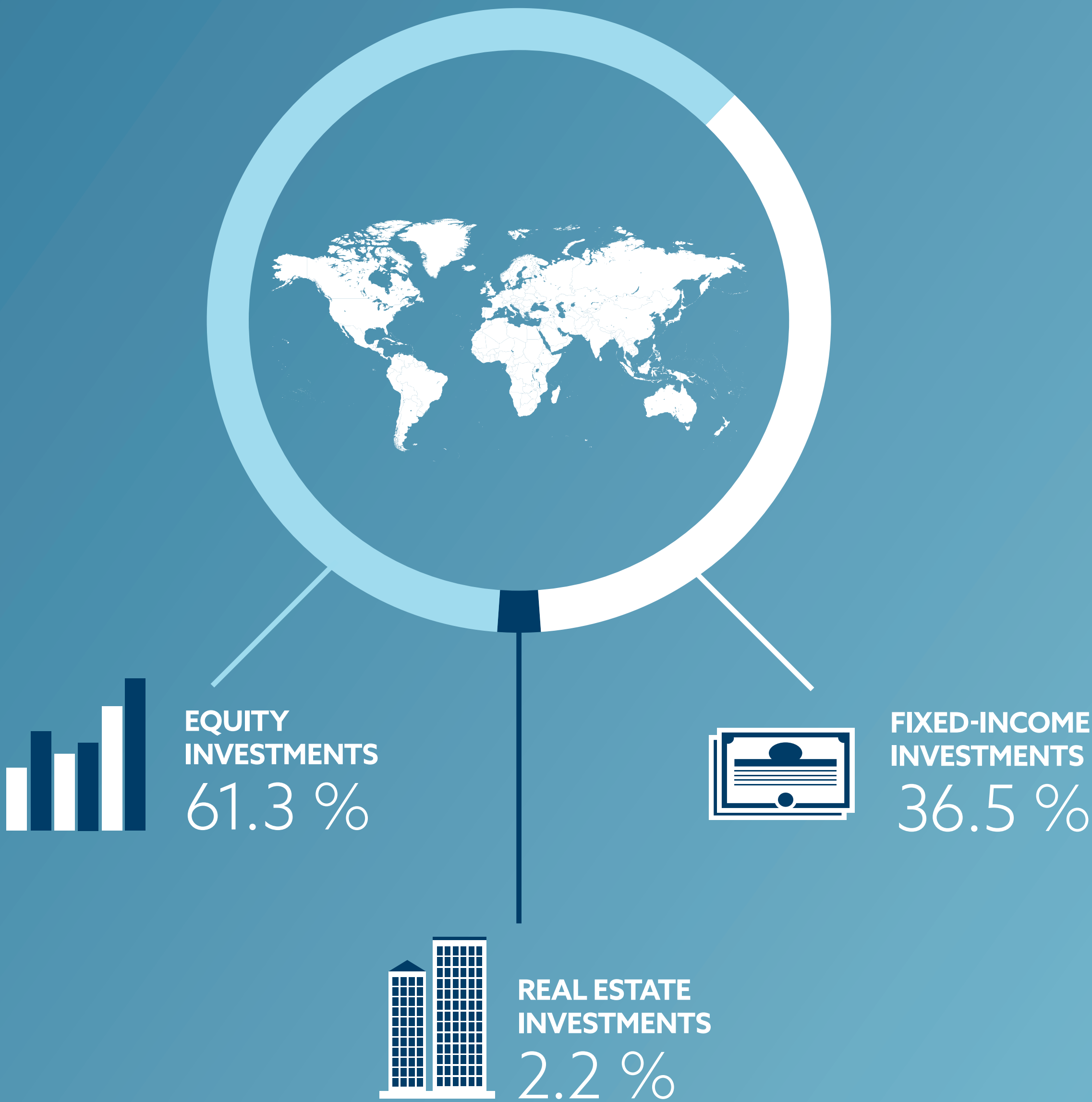
THE GOVERNMENT PENSION FUND GLOBAL RETURNED **7.6** PERCENT, OR **544** BILLION KRONER, IN 2014.



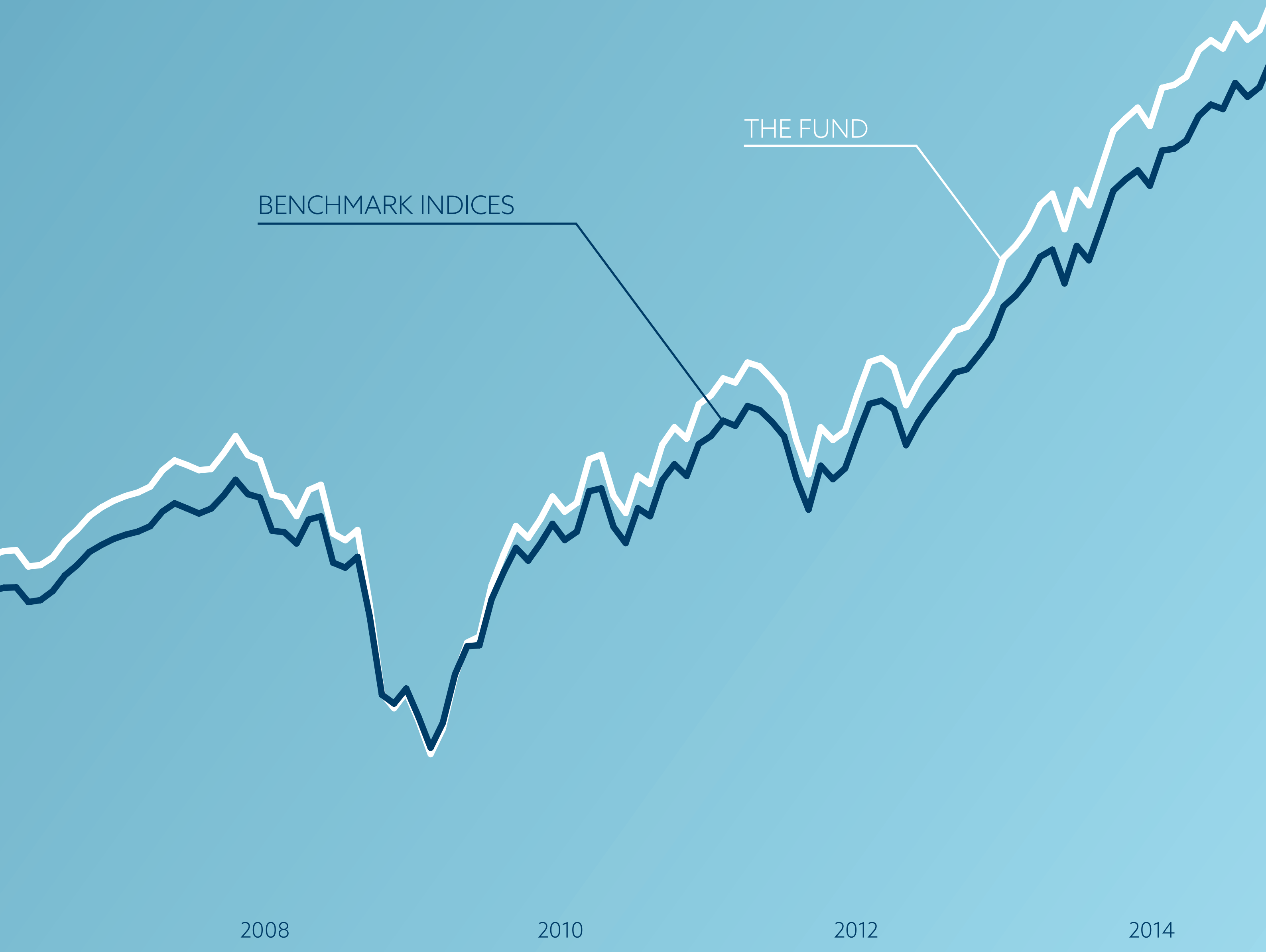


EQUITY INVESTMENTS RETURNED **7.9** PERCENT, WHILE FIXED-INCOME INVESTMENTS RETURNED **6.9** PERCENT. INVESTMENTS IN REAL ESTATE RETURNED **10.4** PERCENT.

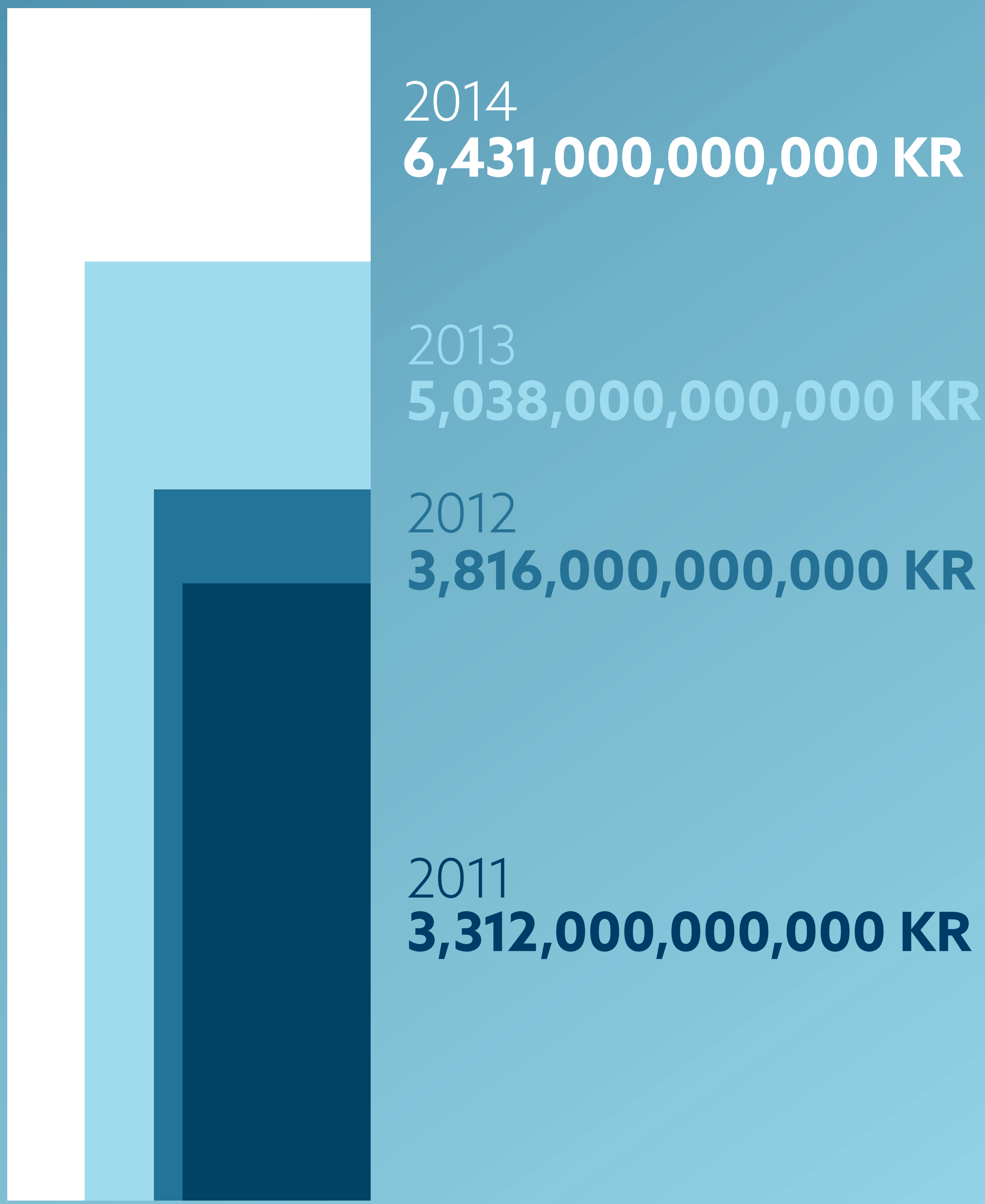
THE FUND'S ASSET ALLOCATION AT THE END OF THE YEAR WAS **61.3** PERCENT EQUITIES, **36.5** PERCENT FIXED INCOME AND **2.2** PERCENT REAL ESTATE.



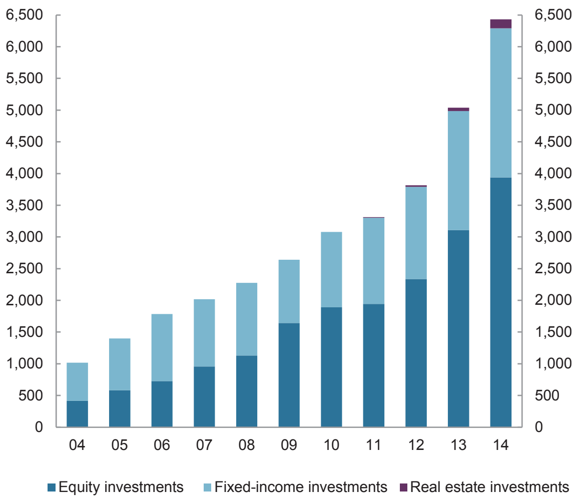
THE RETURN ON EQUITY AND FIXED-INCOME INVESTMENTS WAS **0.8** PERCENTAGE POINT LOWER THAN THE RETURN ON THE BENCHMARK INDICES THE FUND IS MEASURED AGAINST.



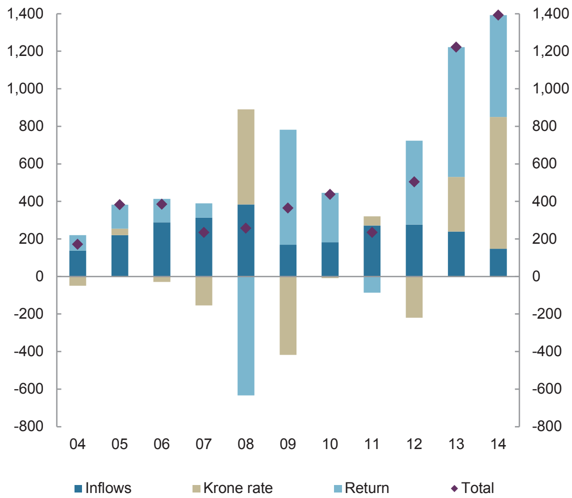
THE FUND'S MARKET VALUE WAS **6,431** BILLION KRONER AT THE END OF 2014, UP FROM **5,038** BILLION KRONER A YEAR EARLIER.



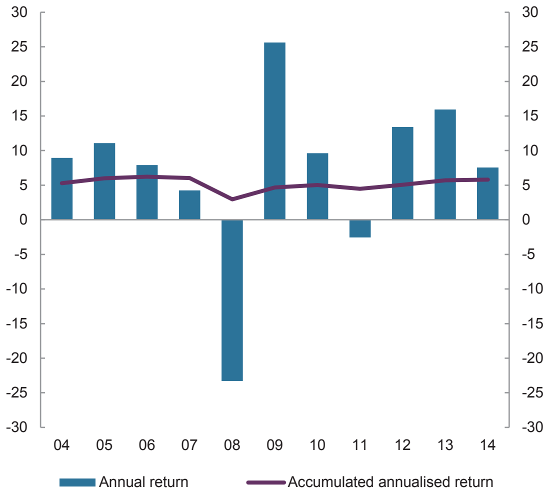
The fund's market value. Billions of kroner



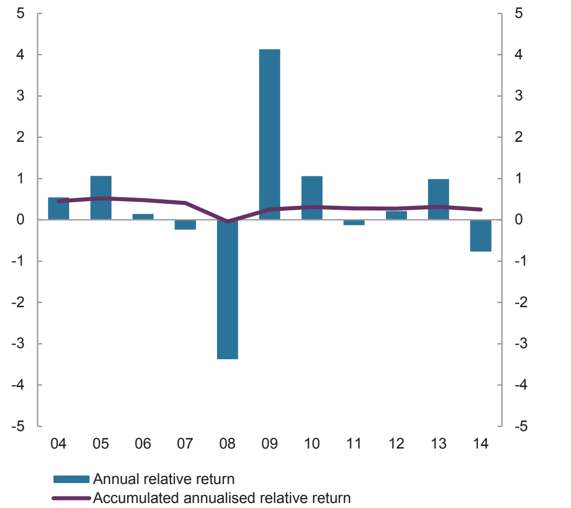
Changes in the fund's market value. Billions of kroner



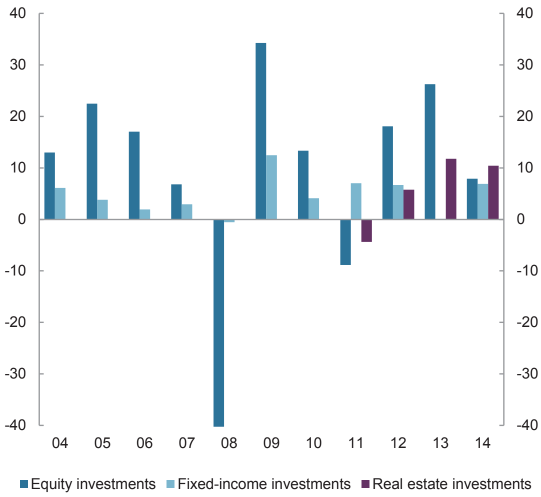
The fund's annual return and accumulated annualised return. Percent



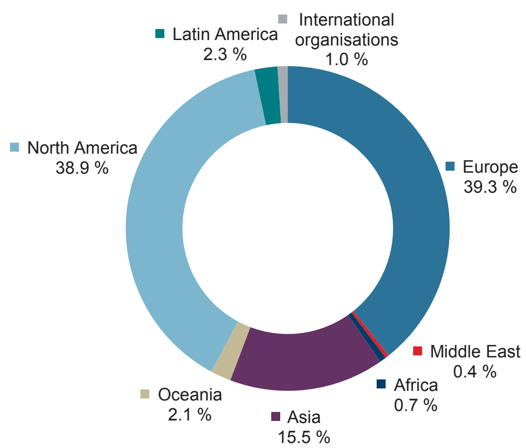
The fund's annual relative return and accumulated annualised relative return, excluding real estate investments. Percentage points



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



The fund's investments by region as at 31 December 2014. Percent



ØYSTEIN OLSEN, CHAIRMAN OF THE EXECUTIVE BOARD

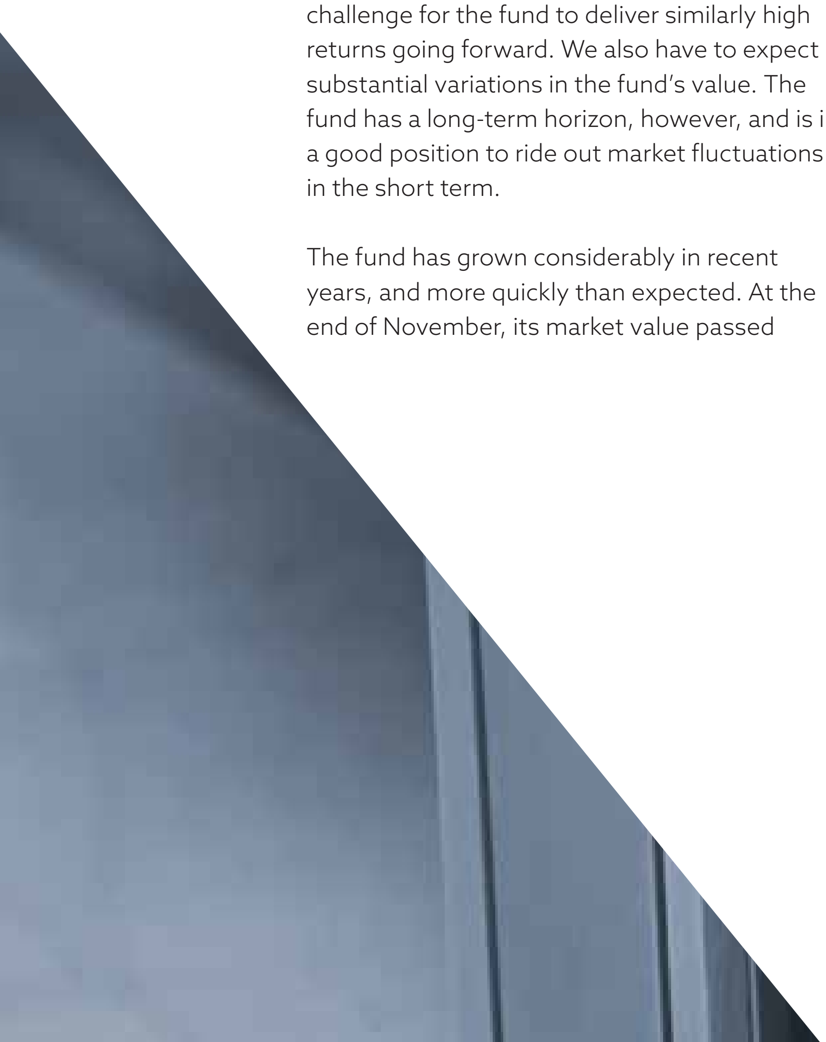
A LONG-TERM MANAGER

The Government Pension Fund Global is a savings vehicle for future generations. In 2014, the fund's market value passed 6 trillion kroner, or around 1.2 million kroner for every Norwegian.

The Government Pension Fund Global turns petroleum revenue into financial wealth. This wealth belongs to the people of Norway, and Norges Bank has been tasked by the Ministry of Finance to manage the fund on their behalf. Our role is to provide long-term and professional management of the fund so that Norway's oil wealth benefits both current and future generations. The objective for our investments is to achieve the highest possible international purchasing power over time with an acceptable level of risk.

The fund returned 7.6 percent in 2014. The return on the fund's equity investments has been very strong in recent years, and we cannot expect this to continue. Together with record-low interest rates globally, this will make it a challenge for the fund to deliver similarly high returns going forward. We also have to expect substantial variations in the fund's value. The fund has a long-term horizon, however, and is in a good position to ride out market fluctuations in the short term.

The fund has grown considerably in recent years, and more quickly than expected. At the end of November, its market value passed 6 trillion kroner, equivalent to almost 1.2 million kroner for every person in Norway. Much of the increase in the fund's market value in the latter part of 2014 was driven by the depreciation of the krone. It is the fund's international purchasing power that counts, however, and this is not affected by movements in the krone.



The fund is a long-term and responsible investor. Our investment decisions are to take account of all risks that could affect the long-term profitability of companies and so the value of the fund. From 2015, the Council on Ethics will make its recommendations directly to Norges Bank, which will now take the decision on the exclusion of companies based on guidelines from the Ministry of Finance.

> The strategy supports the objective of maximising the fund's long-term real return.

The Norwegian authorities have ambitious targets for the management of the fund. In June, Norges Bank launched a new strategy plan for the period 2014-2016 that supports the objective of maximising the fund's long-term real return. We aim to achieve this with an acceptable level of risk, as a responsible investor and through an efficient organisation. The way we manage the fund must inspire confidence, and openness about its management will contribute to this.

Oslo, 10 February 2015

ØYSTEIN OLSEN
Chairman of the Executive Board

YNGVE SLYNGSTAD, CEO OF NORGES BANK INVESTMENT MANAGEMENT

ORGANISATION STRENGTHENED

The fund returned 7.6 percent in 2014, in line with the average for the past decade. There were positive results for all of the fund's asset classes.

Equity investments returned 7.9 percent. Lower growth expectations and rising geopolitical tensions close to the euro area affected returns in European markets. Yields fell in most of the main markets, and our bond investments returned 6.9 percent. The return on the fund's equity and fixed-income investments was 0.8 percentage point lower than on the broad markets the fund is measured against. The real estate portfolio returned 10.4 percent.

We continued to purchase properties in the US and Europe, and real estate investments increased to 2.2 percent of the fund. We made more investments in real estate than in any previous year, and we will continue to expand the portfolio in the years ahead. To help achieve the targets, we created a separate leader group for real estate management in 2014 to build a separate organisation for real estate investments.

The fund's market value grew by almost 1,400 billion kroner during the year to 6,431 billion kroner. The return for the year was 544 billion kroner, while new capital of 147 billion kroner was transferred from the government. Since the fund's inception, oil revenue of 3,452 billion kroner has been transferred to it, and the cumulative return has been 2,343 billion kroner.

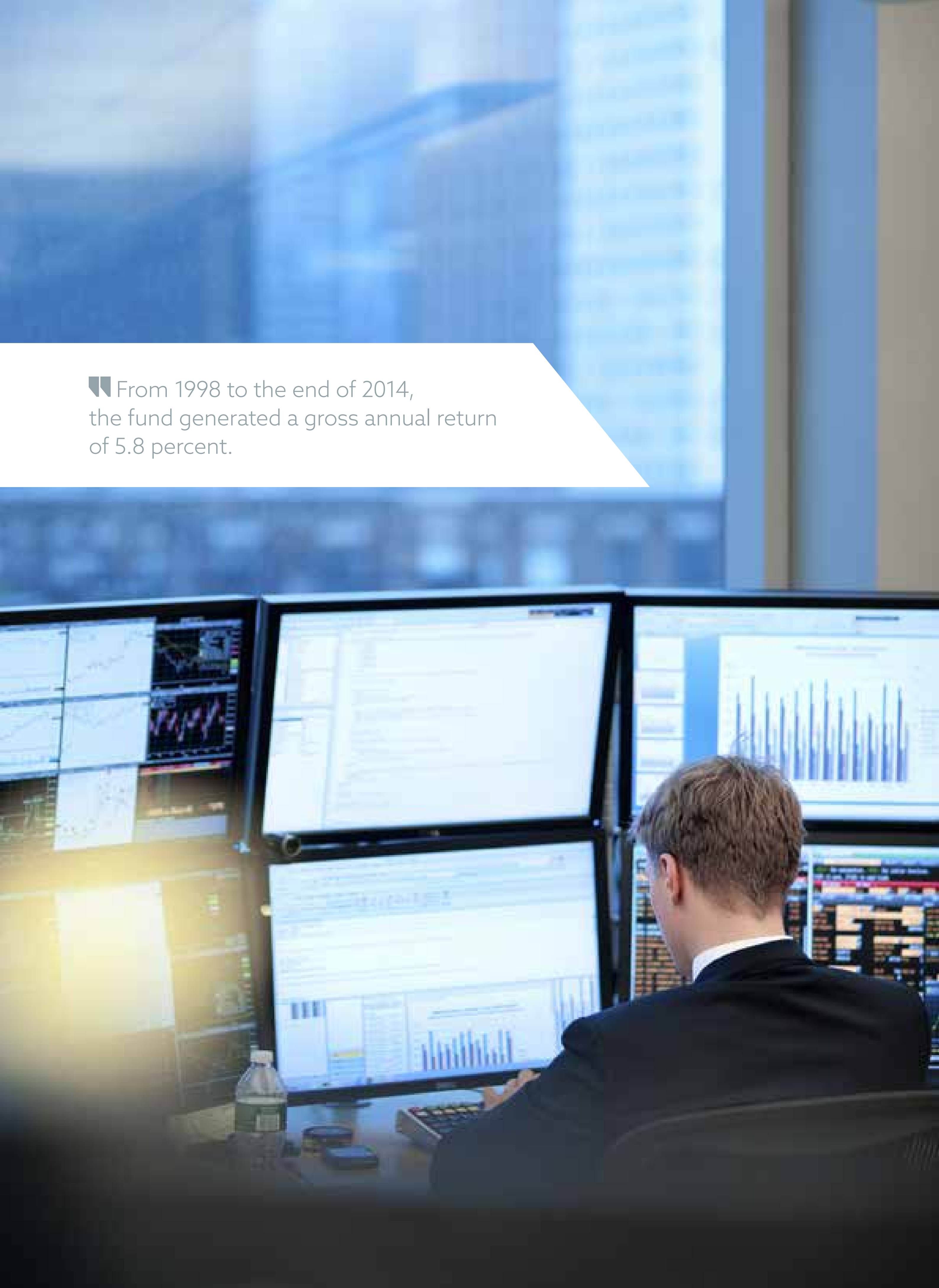
This year, for the first time, we have published a separate report on our work on responsible investment. This work builds on three main principles: we want to help improve standards of corporate governance, exercise our ownership rights responsibly, and monitor and manage the risk in the fund's investments. Our investment objective is the highest possible return with an acceptable level of risk. Our work on responsible investment supports this objective.

> We aim to manage the fund's assets responsibly and effectively.

Norges Bank Investment Management is an international investment organisation with substantial assets under management. We have a clear mandate and an unambiguous investment focus. We aim to manage the fund's assets responsibly and effectively. Our role is to think long-term and safeguard wealth for future generations.

Oslo, 10 February 2015

YNGVE SLYNGSTAD
CEO of Norges Bank Investment Management



> From 1998 to the end of 2014, the fund generated a gross annual return of 5.8 percent.

POSITIVE RESULTS FOR ALL THREE ASSET CLASSES

Strong equity markets in the first half of the year and low bond yields led to a return of 7.6 percent on the Government Pension Fund Global in 2014.

Equity investments returned 7.9 percent in 2014, fixed-income investments 6.9 percent and real estate investments 10.4 percent.

RETURN OF 544 BILLION KRONER

The Norwegian government first transferred capital to the fund in May 1996. By the end of 2014, the fund had received a total of 3,452 billion kroner and amassed a cumulative return of 2,343 billion kroner. Norges Bank Investment Management was set up on 1 January 1998 to manage the fund. Between then and the end of 2014, the fund generated a gross annual return of 5.8 percent. After management costs and inflation, the annual return was 3.8 percent.

MARKET VALUE MORE THAN 6.4 TRILLION KRONER

The fund's market value rose 1,393 billion kroner to 6,431 billion kroner in 2014. The market value is affected by investment returns, capital inflows and exchange rates. The fund returned 544 billion kroner in 2014 and received 147 billion kroner from the government. The krone weakened against several of the currencies in which the fund invests, and in isolation this increased its market value by 702 billion kroner. The fund's asset allocation was 61.3 percent equities, 36.5 percent fixed income and 2.2 percent real estate at the end of the year.

RELATIVE RETURN

Returns on the fund's equity and fixed-income investments are compared with returns on global benchmark indices for equities and bonds set by the Ministry of Finance on the basis of indices from FTSE Group and Barclays Capital. We have also constructed internal reference portfolios for equities and bonds. These portfolios take into account the fund's characteristics and objective in order to achieve the best possible trade-off over time between expected risks and returns.

The overall return on the fund's equity and fixed-income investments was 0.8 percentage point lower than the return on the benchmark indices in 2014. The results were affected by the fund having a higher weight of European stocks, a higher weight of underperforming stocks and a lower duration in its fixed-income portfolio than the benchmark. The fund has outperformed the benchmark index by 0.3 percentage point since the fund's inception and by 0.1 percentage point over the past decade.

RETURNS INTERNATIONAL CURRENCY

The fund invests in international securities. Returns are generally measured in international currency – a weighted combination of the currencies in the fund's benchmark indices for equities and bonds. The fund's currency basket consisted of 34 currencies at the end of 2014. Unless otherwise stated in the text, results are measured in the fund's currency basket.

Table 1 Return as at 31 December 2014

	2014	2013	2012	2011	2010
Returns in international currency					
Return on equity investments (percent)	7.90	26.28	18.06	-8.84	13.34
Return on fixed-income investments (percent)	6.88	0.10	6.68	7.03	4.11
Return on real estate investments (percent)	10.42	11.79	5.77	-4.37	-
Return on fund (percent)	7.58	15.95	13.42	-2.54	9.62
Return on equity and fixed-income investments (percent)	7.53	15.97	13.45	-2.55	9.62
Return on benchmark equity and fixed-income indices (percent)	8.30	14.98	13.24	-2.42	8.57
Relative return on equity and fixed-income investments (percentage points)	-0.77	0.99	0.21	-0.13	1.06
Relative return on equity investments (percentage points)	-0.82	1.28	0.52	-0.48	0.73
Relative return on fixed-income investments (percentage points)	-0.70	0.25	-0.29	0.52	1.53
Management costs (percentage points)	0.06	0.07	0.06	0.08	0.11
Return on fund after management costs (percent)	7.52	15.88	13.36	-2.63	9.52
Returns in kroner (percent)					
Return on equity investments	24.61	36.26	11.07	-7.77	13.21
Return on fixed-income investments	23.43	8.01	0.36	8.30	3.99
Return on real estate investments	27.51	20.62	-0.50	-0.79	-
Return on fund	24.23	25.11	6.70	-1.39	9.49

Table 2 Historical key figures to 31 December 2014. Annualised data, measured in the fund's currency basket

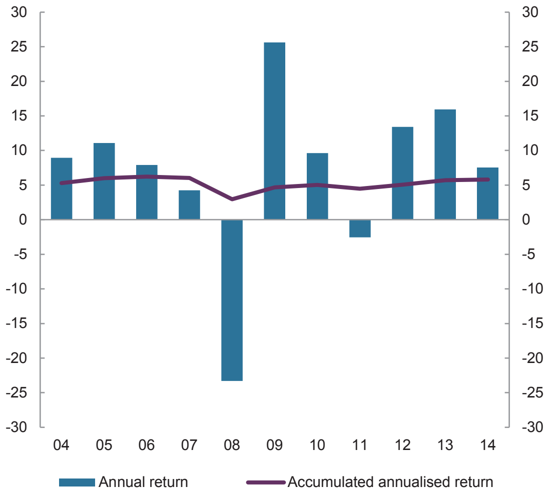
	Since 01.01.1998	Last 10 years	Last 5 years	Last 3 years	2014
Return on fund (percent)	5.81	6.17	8.61	12.26	7.58
Return on equity and fixed-income investments (percent)	5.81	6.17	8.61	12.26	7.53
Return on benchmark equity and fixed-income indices (percent)	5.56	6.06	8.36	12.14	8.30
Relative return on equity and fixed-income investments (percentage points)	0.25	0.11	0.25	0.12	-0.77
Standard deviation (percent)	7.52	8.59	7.24	5.72	4.57
Tracking error for equity and fixed-income investments (percentage points)	0.74	0.91	0.40	0.38	0.38
Information ratio (IR)* for equity and fixed-income investments	0.34	0.12	0.64	0.33	-2.01
Return on fund (percent)	5.81	6.17	8.61	12.26	7.58
Annual price inflation (percent)	1.85	2.01	1.87	1.51	1.13
Annual management costs (percent)	0.09	0.09	0.07	0.06	0.06
Annual net real return on fund (percent)	3.80	3.98	6.55	10.53	6.31

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

Table 3 Return on the fund, measured in various currencies. Percent

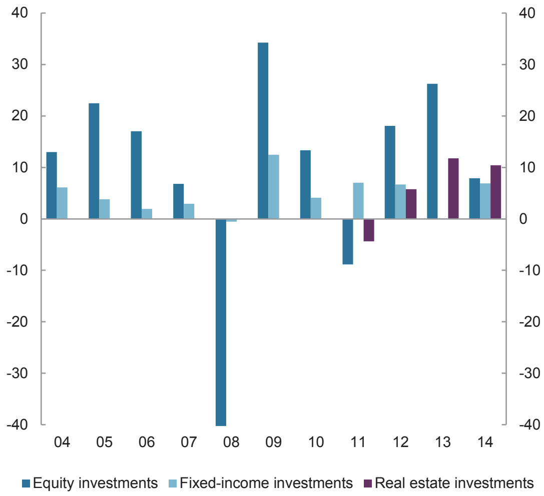
	Since 01.01.1998 Annualised	2014	2013	2012	2011	2010
USD	6.33	0.52	14.77	14.42	-3.96	8.81
EUR	5.71	14.47	9.81	12.66	-0.75	16.37
GBP	6.71	6.78	12.63	9.39	-3.25	12.23
NOK	6.48	24.23	25.11	6.70	-1.39	9.49
Currency basket	5.81	7.58	15.95	13.42	-2.54	9.62

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



Source: Norges Bank Investment Management

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

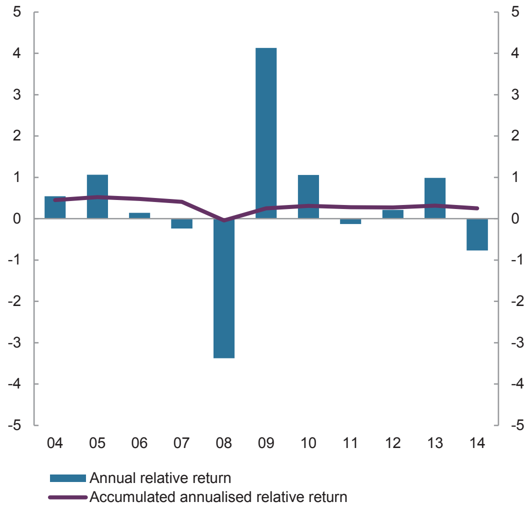


Source: Norges Bank Investment Management

Table 4 Contributions from equity and fixed-income management to the fund's relative return in 2014. Percentage points

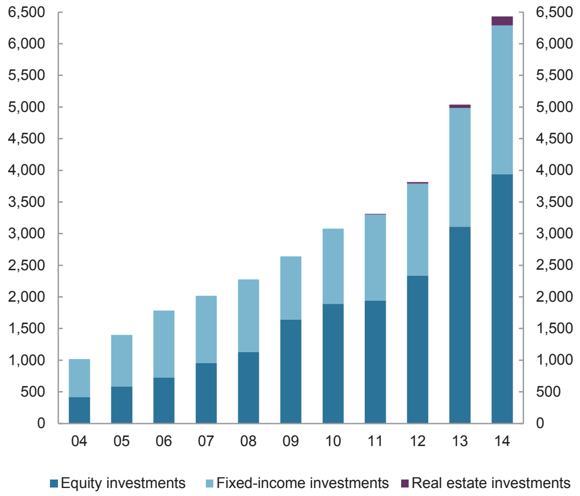
	Total	Attributed to external management
Equity investments	-0.46	0.08
Fixed-income investments	-0.31	0.02
Total	-0.77	0.10

Chart 3 The fund's annual relative return and accumulated annualised relative return, excluding real estate investments. Percentage points



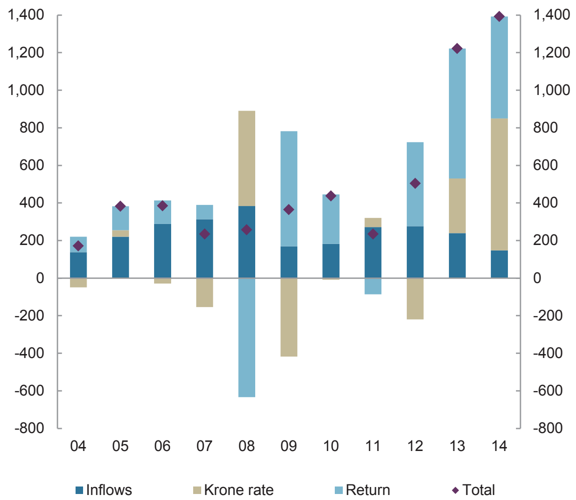
Source: Norges Bank Investment Management

Chart 4 The fund's market value. Billions of kroner



Source: Norges Bank Investment Management

Chart 5 Changes in the fund's market value. Billions of kroner



Source: Norges Bank Investment Management

Table 5 Key figures as at 31 December 2014

	2014	2013	2012	2011	2010
Market value (billions of kroner)*					
Market value of equity investments	3,940	3,107	2,336	1,945	1,891
Market value of fixed-income investments	2,350	1,879	1,455	1,356	1,186
Market value of real estate investments	141	52	25	11	-
Market value of fund	6,431	5,038	3,816	3,312	3,077
Inflow of new capital*	147	239	276	271	182
Return on fund	544	692	447	-86	264
Changes due to fluctuations in krone	702	291	-220	49	-8
Total change in fund	1,393	1,222	504	234	437
Management costs (percent)					
Estimated transition costs**	0.00	0.01	0.03	0.05	0.01
Annualised management costs	0.06	0.06	0.06	0.08	0.11
Changes in value since first capital inflow in 1996 (billions of kroner)					
Gross inflow of new capital	3,452	3,302	3,060	2,782	2,508
Management costs***	27	24	21	19	16
Inflow of new capital after management costs	3,425	3,278	3,039	2,763	2,492
Return on fund	2,343	1,799	1,107	660	746
Changes due to fluctuations in krone	663	-39	-331	-111	-160
Market value of fund	6,431	5,038	3,816	3,312	3,077
Return after management costs	2,316	1,775	1,087	641	730

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

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

*** Management costs at subsidiaries, see Table 11.2 in the financial reporting section, are not included in the management fee. Management costs at subsidiaries have been deducted from the fund's return before management fees.

Table 6 Accumulated return since first capital inflow in 1996. Billions of kroner

	2014	2013	2012	2011	2010
Return on equity investments	1,567	1,242	579	226	395
Return on fixed-income investments	761	551	528	434	351
Return on real estate investments	14	5	0	0	0
Total return	**2,343**	**1,799**	**1,107**	**660**	**746**

STORTINGET (NORWEGIAN PARLIAMENT)

Government Pension Fund Act

MINISTRY OF FINANCE

Management mandate for the Government Pension Fund Global
Guidelines for observation and exclusion

NORGES BANK EXECUTIVE BOARD

Executive Board principles
Investment mandate
Job description for CEO of Norges Bank Investment Management

NORGES BANK INVESTMENT MANAGEMENT

Policies
The CEO delegates investment mandates and job descriptions

FUND MANAGEMENT

OUR MISSION

Our mission is to safeguard and build financial wealth for future generations. Investing the fund responsibly and for the long term will help both current and future generations to benefit from Norway's oil wealth.

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

The mandate requires that the fund is invested widely outside Norway with a target asset allocation of 60 percent equities, 35-40 percent fixed income and up to 5 percent real estate. Our investment strategy entails investing the fund globally across three asset classes for a high long-term return. We aim to achieve this with an acceptable level of risk, as a responsible investor and through an efficient organisation. Our ability to invest for the long term depends on confidence in the way we manage the fund. A high degree of openness about its management will help achieve this.

Responsible investment is an important and integral part of our management task. We are an active owner, and our investment decisions are to take account of how we view companies' long-term financial, social and environmental risks.

We seek to safeguard the fund's international purchasing power through a real return in excess of growth in the global economy. The fund is to be invested in most markets, countries and currencies to achieve broad exposure to global economic growth.

Our investment strategy entails investing the fund globally across three asset classes for a high long-term return.

GLOBAL INVESTMENTS

BROADER EXPOSURE TO GLOBAL GROWTH

The fund is invested widely in most markets outside Norway. We added new markets to the portfolio during the year and will add more as soon as they satisfy our requirements for market standards.

New capital of 147 billion kroner was transferred to the fund in 2014, of which 64 percent was invested in equities and the remainder in fixed income and real estate. The proportion of new capital invested in real estate rose significantly to 47 percent. For the first time, more was invested in real estate than in fixed income. As we also sold fixed-income securities to buy more properties, the net inflow into fixed income was negative.

At the end of 2014, 39.3 percent of the fund's investments were in Europe, down from 45.2 percent a year earlier, while 38.9 percent were in North America, up from 32.8 percent, and 17.5 percent were in Asia and Oceania, up from 14.8 percent. Emerging markets accounted for 10.6 percent of the fund's investments at the end of the year, up from 10.3 percent a year earlier.

HOLDINGS IN MORE THAN 9,000 COMPANIES

The fund was invested in 9,134 companies at the end of 2014, up from 8,213 a year earlier. It had stakes of more than 2 percent in 1,205 companies, and more than 5 percent in 57 companies. The number of countries approved as marketplaces for trading in equities rose from 58 to 61 during the year with the addition of Ghana, Mauritius and Nigeria.

The fund's average holding in the world's listed companies, measured as its share of the FTSE Global All Cap stock index, was 1.3 percent at the end of 2014, unchanged from a year earlier. Ownership was highest in Europe at 2.4 percent, down from 2.5 percent at the end of 2013. Holdings in developed markets were unchanged at 1.3 percent, while emerging markets, including frontier markets, averaged 1.4 percent at the end of 2014.

The fund's fixed-income investments consisted of 4,256 securities from 1,143 issuers at the end of 2014, up from 3,803 securities from 1,060 issuers. The investments were spread across 31 currencies, unchanged from a year earlier.

The market value of investments in fixed-income securities in emerging market currencies increased somewhat in 2014. At the end of the year, 12.8 percent of fixed-income investments were in emerging markets, up from 12.3 percent a year earlier. Bonds denominated in dollars, euros, pounds and yen accounted for 78.7 percent of fixed-income investments at the end of the year, against 78.8 percent a year earlier.

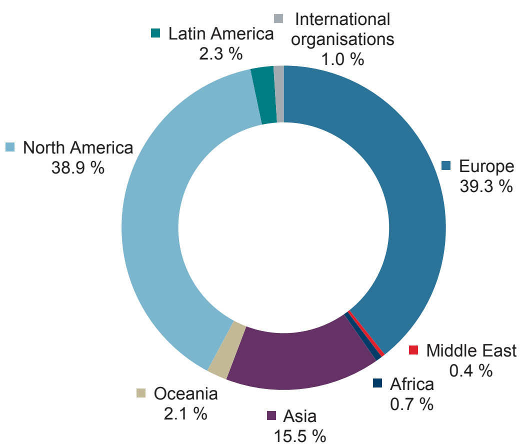
BROADER GEOGRAPHICAL DIVERSIFICATION

Investment opportunities evolve over time. New markets become available for investment, new opportunities emerge, and the risk picture changes. The fund's overall exposure to different markets and sources of risk and return needs to be constantly adjusted. We believe that the goal of the highest possible return with an acceptable level of risk is best achieved by investing broadly in the global production of goods and services. The fund is to be invested in most markets, countries and currencies to achieve broad exposure to global economic growth.

The starting point for the fund's equity investments is the FTSE Global All Cap stock index. We have then chosen to add further countries in our internal reference portfolio. In this reference portfolio, we select securities, instruments and markets from a broader universe than used for the strategic benchmark index. We do this to capture a larger share of the global market portfolio and so a larger share of global growth. The footprint for our equity investments has already been expanded to include additional emerging and frontier markets, and investments in these markets are set to grow, as will the number of currencies in the bond portfolio. At the end of the year, we had 679 billion kroner invested in equities and fixed-income securities in emerging markets, up from 530 billion a year earlier. Investments in equities and fixed-income securities in frontier markets amounted to 7.5 billion kroner, against 4.9 billion kroner at the end of 2013.

> The fund had investments related to 75 countries at the end of 2014.

Chart 6 The fund's investments by region as at 31 December 2014. Percent



Source: Norges Bank Investment Management

Table 7 The fund's ten largest country holdings as at 31 December 2014. Percent

Country	Total	Equity	Fixed income	Real estate
US	32.3	20.4	11.1	0.7
UK	10.7	7.6	2.5	0.6
Japan	7.9	4.7	3.2	0.0
Germany	6.7	3.7	2.8	0.2
France	5.2	3.6	1.3	0.3
Switzerland	4.3	3.5	0.8	0.0
Canada	3.0	1.4	1.6	0.0
Spain	2.6	1.1	1.5	0.0
China	2.2	1.8	0.4	0.0
Australia	2.2	1.3	0.9	0.0

INVESTMENTS IN EMERGING MARKETS

We make our own assessment of which countries we believe should be defined as emerging markets and frontier markets. This assessment takes account of the classifications used by index suppliers, but we do not necessarily apply their definitions. Which new markets we enter depends on which markets are available for investment, what market opportunities there are, and market standards. We will continue to add new markets to the portfolio as soon as they meet our requirements for market standards. We recognise that investments in frontier markets pose a higher risk to the fund, and we therefore attach importance to having sound risk management systems in place.

The fund had investments related to 75 countries at the end of 2014 after Slovenia, Ghana and Mauritius were added during the year. The fund was invested in 47 currencies after investing for the first time in the Ghanaian cedi, Mauritian rupee and Nigerian naira.

The fund had investments in 18 countries normally classified as frontier markets: Slovenia, Qatar, Slovakia, Vietnam, Tunisia, Romania, Bulgaria, Lithuania, Kenya, Oman, Nigeria, Bahrain, Croatia, Estonia, Mauritius, Cyprus, Jordan and Ghana. It also had investments in countries classified as frontier markets but not included in the FTSE index, Ukraine, Kuwait, Panama, Latvia, Kazakhstan and Uruguay. Some of these investments are in equities listed on exchanges in other countries.

Table 8 Investments in frontier markets. Classification according to FTSE. Millions of kroner

Country	2014
Slovenia* ***	4,820
Qatar***	2,837
Slovakia	1,963
Vietnam	1,220
Tunisia**	1,075
Romania*	965
Bulgaria***	939
Lithuania* ***	731
Kenya	630
Oman	522
Nigeria*	497
Bahrain*	366
Croatia***	343
Estonia	110
Mauritius	82
Cyprus*	49
Jordan	27
Ghana	15
Countries not included in the index	
Ukraine* **	918
Kuwait	687
Panama***	324
Latvia	251
Kazakhstan*	239
Uruguay***	225

* Including investments in stocks listed on stock exchanges in other countries
** AID bonds guaranteed by the US
*** Including bonds denominated in a currency other than the local currency

Table 9 Investments in Africa as at 31 December 2014. Millions of kroner

Country	Equity	Fixed income
South Africa	22,680	11,647
Egypt**	4,107	195*
Kenya	630	-
Morocco	525	-
Nigeria**	497	-
Mauritius	82	-
Tunisia	77	997*
Ghana	15	-
Zambia	7	-
Total	**28,620**	**12,840**
African Development Bank		1,346

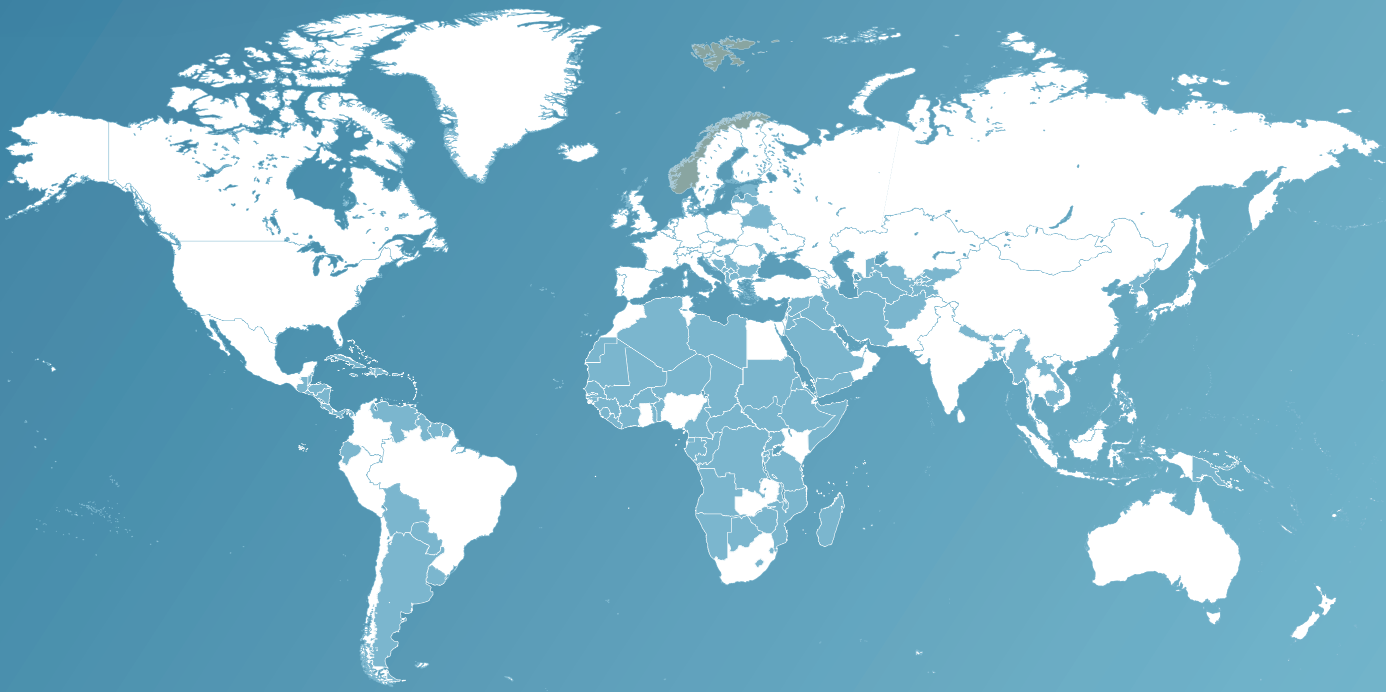
* AID bonds guaranteed by the US
** Including investments in stocks listed on stock exchanges in other countries

VIETNAM
- The fund had 1.2 billion kroner invested in Vietnam at the end of 2014.
- These investments were spread across 20 companies.

KENYA
- The fund had 630 million kroner invested in Kenya at the end of 2014.
- These investments were spread across 11 companies.

CROATIA
- The fund had 343 million kroner invested in Croatia at the end of 2014.
- These investments were spread across ten companies and one bond.

GLOBAL INVESTMENTS



COUNTRIES WHERE THE FUND IS INVESTED

EUROPE
2,058 companies
1,356 bonds from **415** issuers
53 real estate investments*

MIDDLE EAST
133 companies
38 bonds from **13** issuers

AFRICA
169 companies
22 bonds from **4** issuers

ASIA
3,712 companies
550 bonds from **87** issuers
1 real estate investment*

OCEANIA
339 companies
128 bonds from **36** issuers

NORTH AMERICA
2,429 companies
1,844 bonds from **535** issuers
43 real estate investments*

LATIN AMERICA
294 companies
211 bonds from **37** issuers

INTERNATIONAL ORGANISATIONS
107 bonds from **16** issuers

* Including investments in listed real estate companies.

EQUITY INVESTMENTS

STRONG GAINS IN THE US

The fund's equity investments returned 7.9 percent in 2014 after strong gains on the fund's US stocks.

Global economic growth was almost unchanged from 2013 to 2014. Where there was growth, however, it was fragile, varying between countries and regions and lower than anticipated at the beginning of the year. The US emerged increasingly as the growth engine despite lower activity than expected, while growth in the euro area was weak, negatively affected by nearby geopolitical tensions.

Economic growth in Japan oscillated during the year, with the market focusing on the increase in consumption tax and the government packages to stimulate the economy. In China, weaker activity in the housing market brought slower economic growth. Government action helped stabilise growth towards the end of the year, but the authorities stressed that the country is headed for lower structural growth.

Growth in emerging markets declined from 2013 to 2014 and was somewhat weaker than expected, due partly to low growth in global trade as a result of activity levels in the US and China. Lower prices for oil and other commodities also had a negative effect on some emerging markets. Analysts revised down their medium-term growth forecasts for a number of these markets.

STRONG PERFORMANCE IN NORTH AMERICA

Investments in North America accounted for 35.4 percent of the fund's equity investments. The bulk of these investments were in the US, which was the fund's single largest market with 33.1 percent of its equity investments.

European stocks returned 0.2 percent in 2014 and accounted for 41.7 percent of the fund's equity investments. The UK was the fund's second-largest single market with 12.4 percent of its equity investments.

Investments in Asia and Oceania accounted for 19.8 percent of the fund's equity investments and returned 9.3 percent, held back by a weak return of 3.0 percent in Japan. Japanese shares made up 7.6 percent of the fund's equity investments and were its third-largest single market. Chinese equities returned 20.4 percent. China accounted for 2.9 percent of the fund's equity investments and was largest emerging market, followed by Taiwan at 1.5 percent and India at 0.9 percent. The fund's investments in these last two countries returned 14.6 percent and 56.1 percent respectively. Russian equities returned -40.9 percent in 2014 and accounted for 0.4 percent of the fund's equity investments.

The fund's investments in emerging markets did well in 2014, returning 11.5 percent. The best-performing region was the Middle East, with a return of 22.5 percent, while investments in Africa returned 18.2 percent. These two regions together represented 1.1 percent of the fund's equity holdings. Emerging markets as a whole accounted for 9.7 percent of the fund's equity investments.

TECHNOLOGY THE BEST-PERFORMING SECTOR

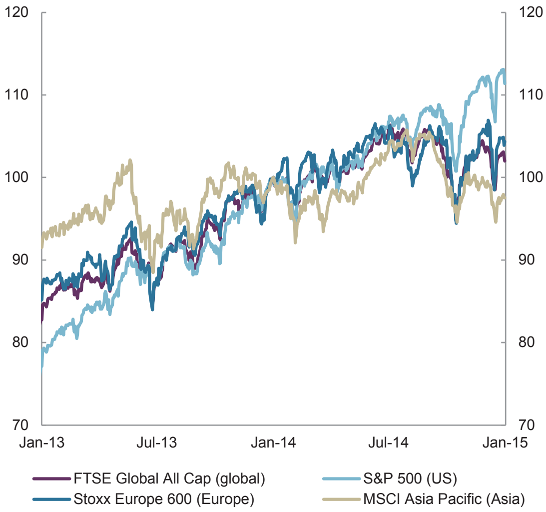
Technology companies performed best in 2014 with a return of 22.4 percent, buoyed by optimism about advances – and so earnings opportunities – in cloud technology, big data and the Internet of Things. Returns were also lifted by the launch of a number of new products.

Health care stocks returned 21.9 percent, helped by a series of mergers and acquisitions in the sector. Advances in research & development and the launch of products that were well-received by the market also boosted returns.

Utilities companies returned 17.6 percent. As a sector with relatively stable earnings, it becomes more valuable when interest rates fall.

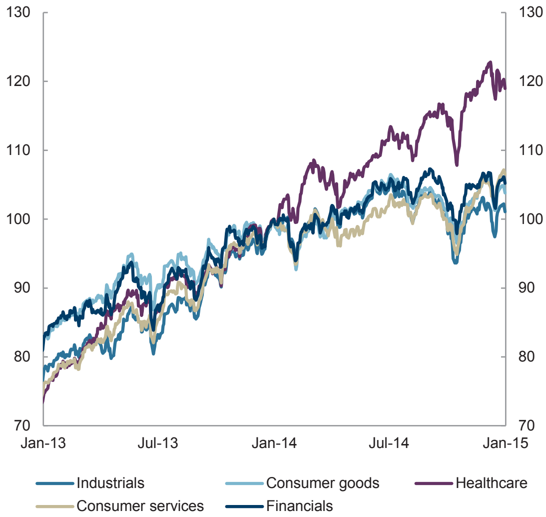
The year's weakest performers were oil and gas companies, which returned -10.5 percent after oil prices plummeted to their lowest levels for five years.

Chart 7 Price developments in regional equity markets. Measured in US dollars, except for the StoxxEurope 600, which is measured in euros. Indexed 31 Dec 2013 = 100



Source: Bloomberg

Chart 8 Price developments in stock sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed 31 Dec 2013 = 100



Source: FTSE

Table 10 Return on the fund's equity investments

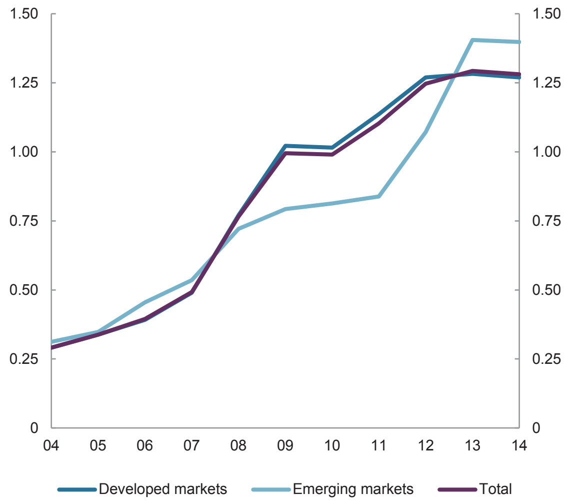
Year	Return Percent	Relative return Percentage points
2014	7.90	-0.82
2013	26.28	1.28
2012	18.06	0.52
2011	-8.84	-0.48
2010	13.34	0.73
2009	34.27	1.86
2008	-40.71	-1.15
2007	6.82	1.15
2006	17.04	-0.09
2005	22.49	2.16
2004	13.00	0.79
2003	22.84	0.51
2002	-24.39	0.07
2001	-14.60	0.06
2000	-5.82	0.49
1999	34.81	3.49

Table 11 Return on the fund's equity investments in 2014 by sector. Percent

Sector	Return in international currency	Share of equity investments*
Financials	9.9	23.7
Industrials	4.5	13.7
Consumer goods	7.3	13.9
Consumer services	8.2	10.4
Healthcare	21.9	9.6
Technology	22.4	8.4
Oil and gas	-10,5	6.9
Basic materials	-2.5	5.8
Telecommunications	-1.3	3.3
Utilities	17.6	3.7

* Does not total to 100 percent because cash and derivatives are not included.

Chart 9 The fund's holdings in equity markets. Percent of equities included in the referevce portfolio market value



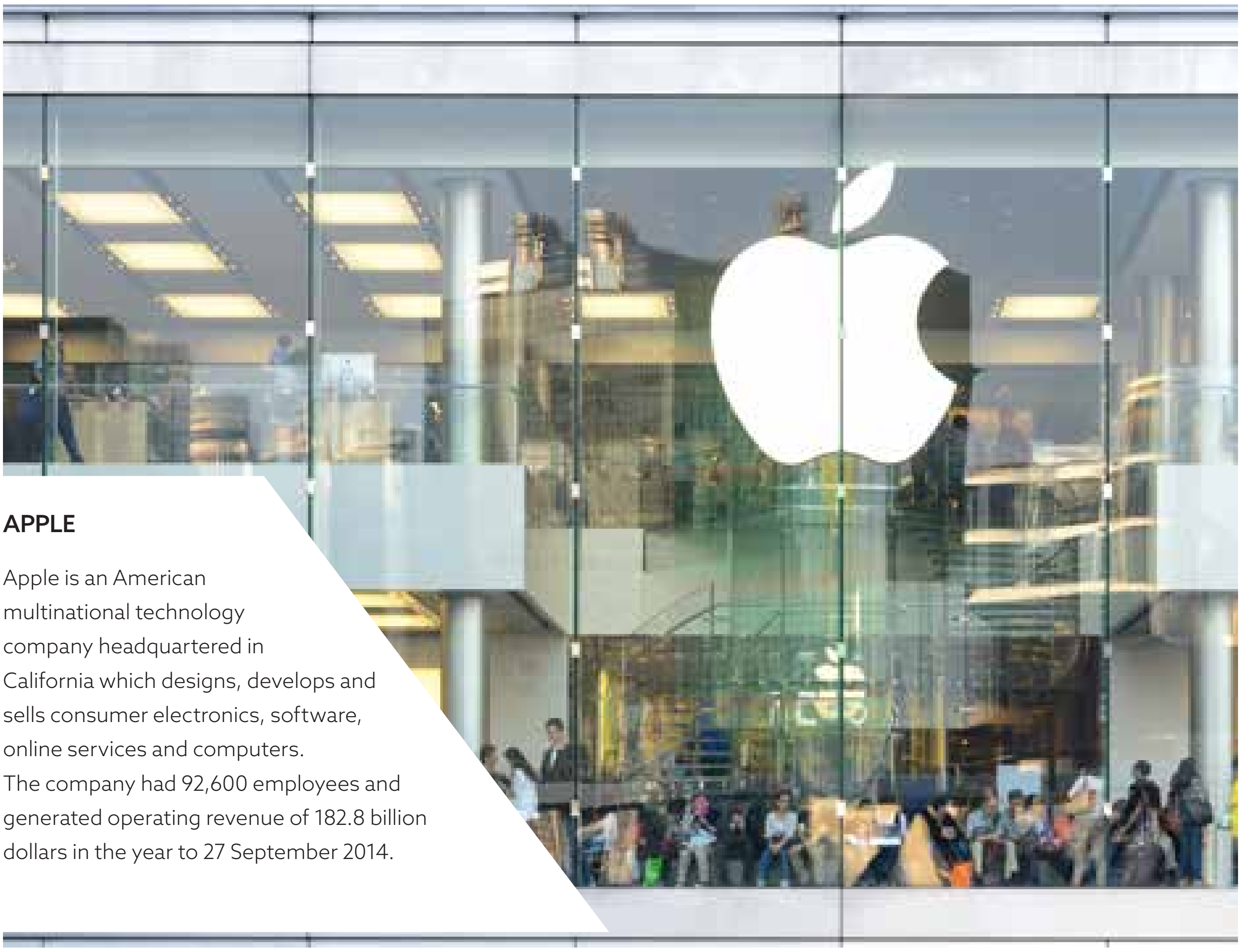
Source: FTSE, Norges Bank Investment Management

Table 12 The fund's largest equity holdings as at 31 December 2014. Millions of kroner

Company	Country	Holding
Nestlé SA	Switzerland	47,924
Novartis AG	Switzerland	36,318
Apple Inc	US	35,509
Royal Dutch Shell Plc	UK	32,501
BlackRock Inc	US	31,439
Roche Holding AG	Switzerland	28,610
HSBC Holdings Plc	UK	24,737
Daimler AG	Germany	22,699
Microsoft Corp	US	21,304
Exxon Mobil Corp	US	21,303

Table 13 The fund's largest company holdings in the equity market as at 31 December 2014. Percent

Company	Country	Ownership
Smurfit Kappa Group Plc	Ireland	9.3
Stora Enso OYJ	Finland	8.2
Monitise Plc	UK	7.9
CNinsure Inc	China	7.8
UPM-Kymmene OYJ	Finland	7.6
Tesco Plc	UK	7.2
BlackRock Inc	US	7.0
Telecity Group Plc	UK	6.8
Linde AG	Germany	6.7
Svenska Cellulosa AB SCA	Sweden	6.6



APPLE

Apple is an American multinational technology company headquartered in California which designs, develops and sells consumer electronics, software, online services and computers.
The company had 92,600 employees and generated operating revenue of 182.8 billion dollars in the year to 27 September 2014.

NOVARTIS

Novartis is a Swiss pharmaceutical company headquartered in Basel which researches, develops and markets medicinal products for humans and animals as well as producing contact lenses.
The company had more than 133,000 employees and generated operating revenue of 10.7 billion dollars in 2014.

LARGEST INVESTMENTS

The investment in US technology company Apple contributed most to the fund's return in 2014, followed by Swiss pharmaceutical company Novartis and US asset manager BlackRock. The worst-performing investment was in UK retailer Tesco, followed by UK oil and gas company BG Group and US telecom company Sprint Corp.

The largest investment in any one company was in the Swiss food company Nestlé. The fund's 2.7 percent stake had a market value of 47.9 billion kroner at the end of the year. Otherwise the fund's top ten equity holdings consisted of two financial services companies, two technology companies, two oil and gas companies, two pharmaceutical companies and one carmaker.

The largest percentage holding in any one company in the equity portfolio was in Irish industrial company Smurfit Kappa. The fund's 9.3 percent stake was worth almost 3.6 billion kroner at the end of the year. The fund may hold up to 10 percent of the voting shares in a company.

We participated in 138 initial public offerings during the year. The largest offering in which the fund participated was at Australian insurer Medibank Private, followed by Chinese power generator CNG Power Co and US bank Citizens Financial Group. The offerings in which the fund invested the most were at US real estate company Paramount Group, Russian retailer Lenta and Dutch insurer NN Group.

RELATIVE RETURN

The fund held shares in 9,134 listed companies at the end of 2014. These investments are measured against the Ministry of Finance's benchmark index, based on FTSE Global All Cap index, which consisted of 7,441 listed companies.

The return on the fund's equity investments was 0.8 percentage point lower than the return on the benchmark index. The main reason for this was that the fund had a higher weight of European stocks and a lower weight of US stocks than the benchmark during the year, which explains around 80 percent of the negative relative return on the equity portfolio. As European stocks performed less well than US stocks in 2014, this positioning made a negative contribution to the relative return. Of the countries the fund was invested in, US and UK stocks made the most negative contributions to the relative return, while investments in China and the Netherlands made the most positive contributions. The decline in the value of Tesco, BG Group and Sprint shares alone accounted for around 30 percent of the negative relative return. Other positions in the equity portfolio contributed to positive relative return.

INTERNAL REFERENCE PORTFOLIOS

The reference portfolio for equities consisted of shares in 9,209 companies at the end of 2014 and returned 8.5 percent, which was 0.2 percentage point lower than the return on the benchmark index from FTSE Group. The difference was due mainly to the reference portfolio having a higher weight of European stocks and a lower weight of US stocks than the Ministry of Finance's benchmark index.

FIXED-INCOME INVESTMENTS

LOWER YIELDS BRING POSITIVE RETURNS

The fund's fixed-income investments returned 6.9 percent, boosted by the decline in global yields.

2014 brought further low inflation, especially in the euro area where it was even weaker than expected at the beginning of the year. Tumbling oil prices brought further decreases in inflation in the second half of the year. Inflation and unexpectedly low economic growth meant that yields in the fund's main markets declined throughout the year. Ten-year government bond yields fell during the year from 3.0 percent to 2.2 percent in the US, from 1.9 percent to 0.5 percent in Germany, and from 0.7 percent to 0.3 percent in Japan. This pushed up bond prices and contributed positively to returns.

There were also big differences in monetary policy between the fund's main markets. In the US, the Federal Reserve gradually tapered its asset purchases and finally brought them to an end in October, at the same time signalling interest rate increases in 2015. In the euro area, low inflation and weak growth prompted a variety of monetary easing measures from the European Central Bank. Towards the end of the year, there were mounting expectations of further easing in the form of purchases of government securities. In Japan, the consumption tax increase in April probably had a bigger negative effect on the economy than anticipated, with consequences for inflation. In response to this, together with lower oil prices, the Bank of Japan announced further monetary easing in October. Differences between central banks' monetary policies meant that the US dollar appreciated significantly in the second half of the year, with consequences for the global market.

POSITIVE RETURN ON GOVERNMENT DEBT

The fund's government bond holdings returned 6.7 percent in 2014 and accounted for 55.2 percent of its fixed-income investments at the end of the year. US Treasuries returned 7.3 percent in local currency and 14.8 percent in the fund's currency basket, and made up 16.8 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. This strong return was due mainly to the dollar appreciating significantly against other currencies, but lower yields in the US also made a positive contribution. Euro-denominated government bonds returned 12.4 percent in local currency and 5.6 percent in the fund's currency basket, and accounted for 11.7 percent of fixed-income investments. Japanese government bonds returned 4.5 percent in local currency and -3.3 percent in the fund's currency basket, and made up 7.9 percent of fixed-income holdings. The return was affected by a weaker yen in the second half of the year.

The fund's government bond holdings returned 6.7 percent in 2014 and accounted for 55.2 percent of its fixed-income investments.

Corporate bonds were the fund's best-performing fixed-income sector in 2014, returning 11.3 percent, and represented 19.3 percent of fixed-income investments. Inflation-linked bonds returned 5.6 percent and accounted for 2.7 percent of fixed-income investments, while securitised debt, consisting mainly of covered bonds denominated in euros, returned 3.5 percent and made up 8.1 percent of fixed-income investments.

The fund also held bonds from government-related institutions such as the European Investment Bank, Kreditanstalt für Wiederaufbau and Canada Housing Trust. The fund's investments in this sector returned 5.5 percent and accounted for 14.6 percent of the fund's fixed-income investments.

CHANGES IN FIXED-INCOME HOLDINGS

The largest increases in the market value of the fund's fixed-income investments were in government bonds from Japan, Spain and the UK, while the largest decreases were in government bonds from Canada, the US and Germany. The fund's three largest investments in bond issues other than government debt were in bonds from CDP Financial Inc, JPMorgan Chase & Co and The Export-Import Bank of China.

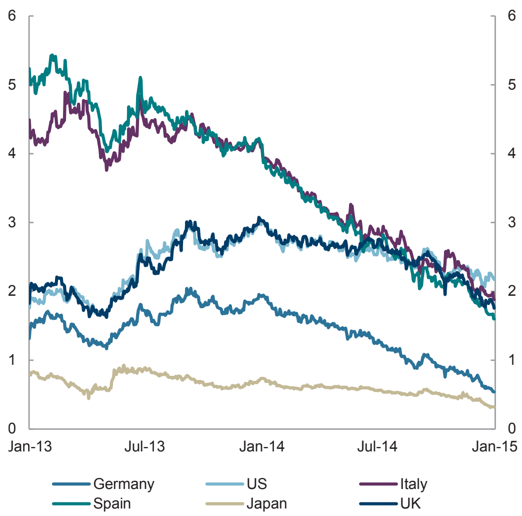
The largest holding of bonds from a single issuer was of US Treasuries, followed by Japanese and German government debt.

RELATIVE RETURN

The fund was invested in 4,256 bonds from 1,143 issuers at the end of 2014. These investments are measured against a benchmark index from the Ministry of Finance which is based on various indices from Barclays and consisted of almost 11,000 bonds from more than 1,500 issuers at the end of the year. Barclays added nominal government bonds issued in Russian roubles and Turkish lire to its GDP-weighted index from 31 March 2014, with the result that Russia and Turkey were included in the fund's strategic benchmark index. At Norges Bank's recommendation, the Ministry of Finance decided to introduce weighting factors for Russian roubles and Turkish lire of 0.25 and 0.5 respectively, so reducing the weights of Russian and Turkish bonds in the benchmark index. The return on the benchmark index in 2014 was 1.3 percent higher with these adjustments than without them.

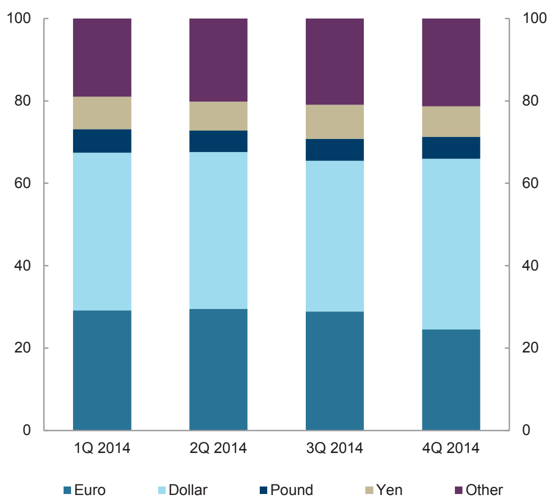
The return on the fund's fixed-income investments was 0.7 percentage point lower than the return on the benchmark index. The main reason for this was that the fund's fixed-income investments had a lower duration than the benchmark. When yields fall, fixed-income investments with a shorter duration will rise less in value than those with a longer duration. This explains around 140 percent of the negative relative return on the fixed-income portfolio. The fund's fixed-income investments had a higher weight of emerging markets than the

Chart 10 10-year government bond yields. Percent



Source: Bloomberg

Chart 11 Currency composition of the fund's fixed-income investments. Percent



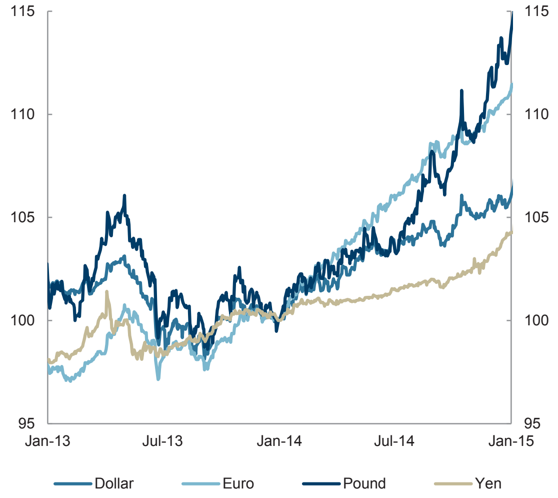
Source: Norges Bank Investment Management

benchmark in 2014. Russian government bonds are among the fund's largest holdings in emerging markets, and around 50 percent of the negative relative return on the fixed-income portfolio is explained by falling prices for Russian government bonds. The fund's fixed-income investments had higher coupons than the benchmark. This compensated for parts of the loss related to lower duration and Russian government bonds.

INTERNAL REFERENCE PORTFOLIOS

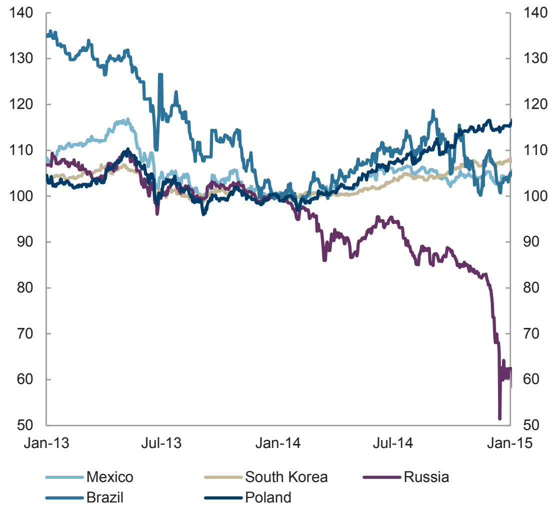
The reference portfolio for bonds contained 12,720 bonds at the end of the year and returned 7.4 percent, which was 0.2 percentage point below the return on the benchmark index from Barclays Capital. The difference was due mainly to the reference portfolio having a higher weight of government bonds from emerging markets than the Ministry of Finance's benchmark index. This higher exposure to emerging markets is part of our long-term strategy.

Chart 12 Price developments for bonds issued in dollars, euros, pounds and yen in the Barclays Global Aggregate Index, measured in local currencies. Indexed 31 Dec 2013 = 100



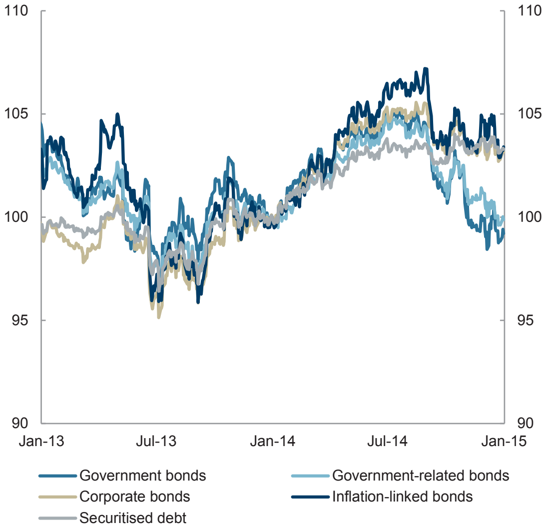
Source: Barclays Capital

Chart 13 Price developments for 10-year government bonds issued in emerging market currencies. Indexed 31 Dec 2013 = 100



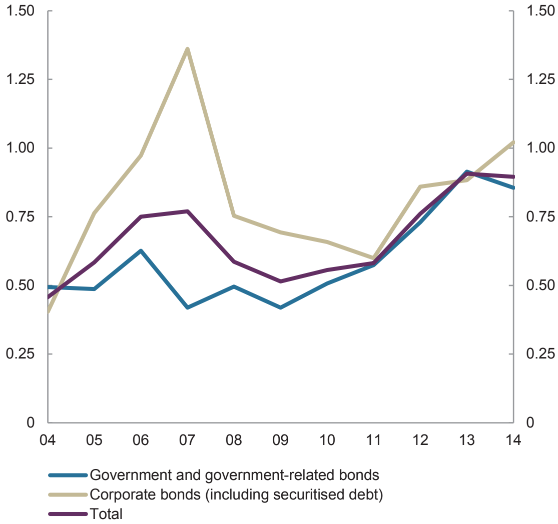
Source: Bloomberg

Chart 14 Price developments in fixed-income sectors in the Barclays Global Aggregate Index, measured in US dollars. Indexed 31 Dec 2013 =100



Source: Barclays Capital

Chart 15 The fund's holdings in fixed-income markets. Percent of the market value of bonds included in the reference portfolio



Source: Barclays Capital, Norges Bank Investment Management

Table 14 Return on the fund's fixed-income investments

Year	Return Percent	Relative return Percentage points
2014	6.88	-0.70
2013	0.10	0.25
2012	6.68	-0.29
2011	7.03	0.52
2010	4.11	1.53
2009	12.49	7.36
2008	-0.54	-6.60
2007	2.96	-1.29
2006	1.93	0.25
2005	3.82	0.36
2004	6.10	0.37
2003	5.26	0.48
2002	9.90	0.49
2001	5.04	0.08
2000	8.41	0.07
1999	-0.99	0.01

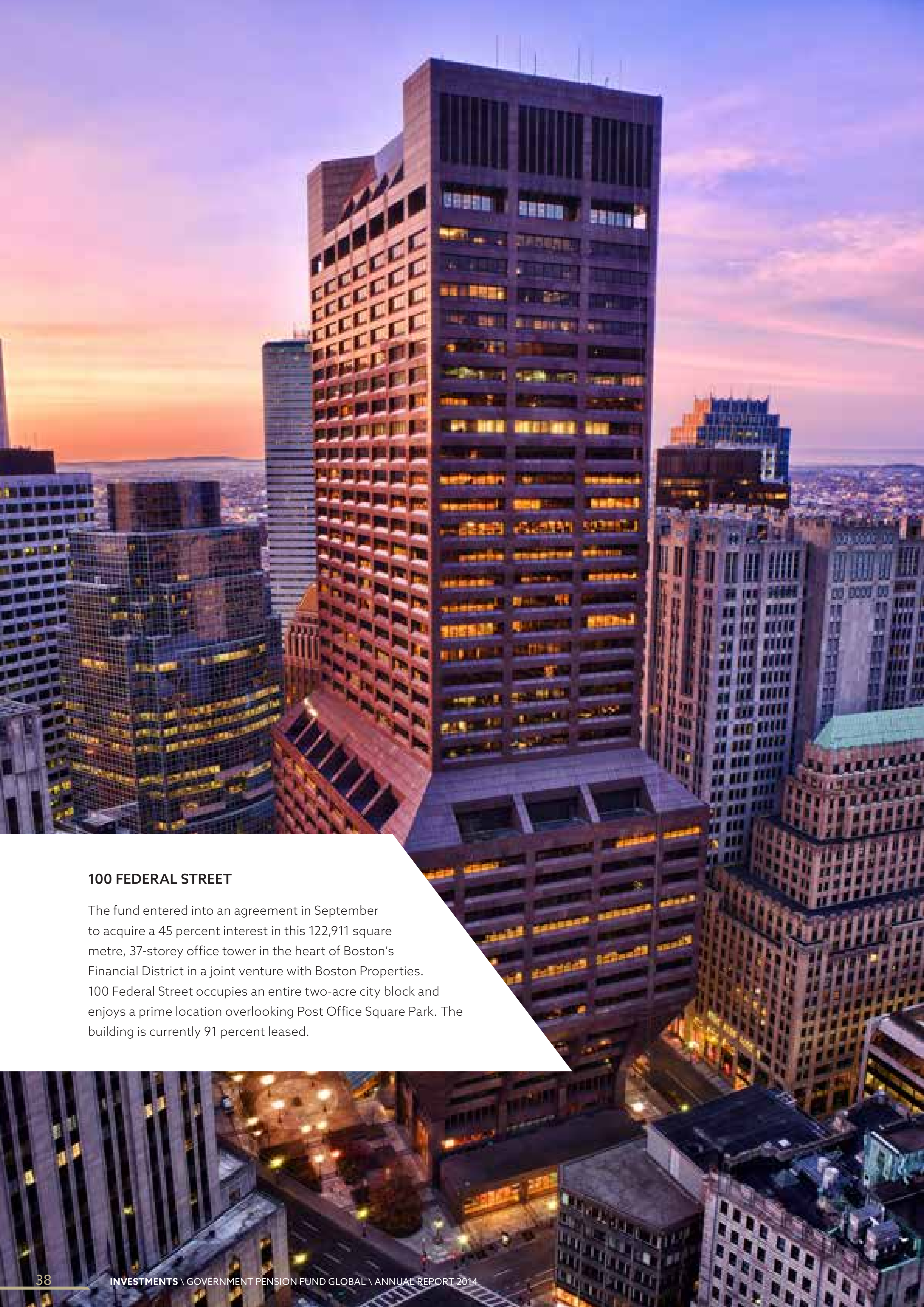
Table 15 Return on the fund's fixed-income investments in 2014 by sector. Percent

Sector	Return in international currency	Share of fixed-income investments
Government bonds*	6.7	55.2
Government-related bonds*	5.5	14.6
Inflation-linked bonds*	5.6	2.7
Corporate bonds	11.3	19.3
Securitised debt	3.5	8.1

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

Table 16 The fund's largest bond holdings as at 31 December 2014. Millions of kroner

Issuer	Country	Holding
United States of America	US	422,200
Japanese government	Japan	186,044
Federal Republic of Germany	Germany	84,021
UK government	UK	76,341
Italian Republic	Italy	52,369
Spanish government	Spain	46,731
Mexican government	Mexico	46,620
Federative Republic of Brazil	Brazil	43,505
South Korean government	South Korea	41,107
Government of the Netherlands	The Netherlands	37,121



100 FEDERAL STREET

The fund entered into an agreement in September to acquire a 45 percent interest in this 122,911 square metre, 37-storey office tower in the heart of Boston's Financial District in a joint venture with Boston Properties. 100 Federal Street occupies an entire two-acre city block and enjoys a prime location overlooking Post Office Square Park. The building is currently 91 percent leased.

REAL ESTATE INVESTMENTS

POISED FOR GROWTH

The share of the fund invested in real estate climbed to 2.2 percent at the end of 2014 after the fund made significantly more property investments than in previous years.

The fund's real estate investments returned 10.4 percent in 2014, of which investments in unlisted real estate returned 9.6 percent. The return on the fund's investments in unlisted real estate depends on net rental income, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases. Measured in local currency, net rental income made a positive contribution of 4.4 percentage points to the return, and the net change in the value of properties and debt added 7.1 percentage points. Currency movements made a negative contribution of -1.0 percentage point, and transaction costs made a negative contribution of -0.8 percentage point.

Table 17 Return on the fund's real estate investments in 2014 by country/region. Percent

	Return
Europe, excluding UK	3.7
UK	15.8
US	16.1
Other countries/regions	-10.9
Total return	**10.4**

LISTED REAL ESTATE INVESTMENTS

In many relevant markets for real estate investments, the properties the fund is interested in are owned by listed companies. Norges Bank Investment Management has built up a portfolio of listed real estate investments of this kind in recent years as part of the equity portfolio. To create a broader real estate portfolio and be able to exploit the fund's advantages within a flexible real estate mandate, we transferred parts of the fund's investments in a total of 11 listed real estate companies from the equity portfolio to the real estate portfolio with effect from 31 October 2014. At the end of the year, the average holding in these companies in the real estate portfolio was 4.8 percent, against an average of 1.7 percent in the equity portfolio. The market value of these investments was 27.3 billion kroner at the time of the transfer and climbed to 33.2 billion kroner at the end of the year.

Investments in listed real estate returned 6.0 percent in the last two months of the year.

Table 18 Return on the fund's real estate investments. Return components for unlisted investments. Percent

	2014	2013	2012
Net profit from ongoing rental income	4.4	4.6	4.2
Net change in value of properties and debt	7.1	3.8	0.4
Transaction costs for property purchases	-0.8	-0.4	-0.6
Result of currency adjustments	-1.0	3.8	1.8
Unlisted real estate investments	9.6	11.8	5.8
Listed property*	6.0	-	-
Total return	**10.4**	**11.8**	**5.8**

* From 1 November 2014

601 LEXINGTON AVENUE

The fund entered into an agreement in September to acquire a 45 percent interest in this property in New York in a joint venture with Boston Properties. Situated in the heart of Midtown Manhattan on East 53rd Street and Lexington Avenue, the property comprises a 59-storey tower and a six-storey office and retail block spanning a total of 115,055 square metres and is 99 percent let.

EXPANSION

Investments in real estate made up 2.2 percent of the fund at the end of 2014, up from 1.0 percent a year earlier, and will increase gradually to as much as 5 percent of the value of the fund. We made a large number of investments in both Europe and the US in 2014, including a first investment on the US West Coast in the first quarter. These properties are in the office, retail and logistics segments.

Our goal is to build a global, but concentrated, real estate portfolio. The strategy is to invest in a limited number of major cities in key markets. In the US, we have picked four cities to invest in: New York, Washington DC, Boston and San Francisco. In Europe, we will continue to invest in London and Paris, while also considering opportunities in a limited number of other cities. At the same time, we will continue to invest in logistics properties in both Europe and the US. We will also consider investing in cities outside Europe and the US in the coming years, primarily in Asia. We plan to continue the expansion seen in 2014 and expect to invest 1 percent of the fund in real estate in each of the next few years.

RESPONSIBLE INVESTMENT

Before we invest in a property, we conduct a thorough due diligence of the parties involved in the transaction and the property itself, spanning financial, legal, tax, structural, operational, technical and insurance matters. Environmental factors are also part of this review, and measures to improve energy and water efficiency and waste management are included in the ongoing dialogue the fund has with its partners. We often use external experts to identify any risks from materials that could harm the environment or health and so affect the financial value of the property over time.

We attach importance to our real estate investments complying with international standards for responsible investment and reporting. We have been a member of the Global Real Estate Sustainability Benchmark (GRESB) – since 2011, using this framework to promote better reporting on sustainability in the real estate sector and compare our work on responsible real estate investment with other players. We require that our partners submit information on the management of our properties to GRESB on an annual basis, and we use this information systematically when working with our partners so that we can gradually improve the properties' quality, efficiency and environmental performance.

Table 19 Market value of real estate investments as at 31 December 2014. Millions of kroner

	Value
Investments in unlisted real estate	106,431
Investments in listed real estate	33,238
Other assets	1,199
Total	**140,868**

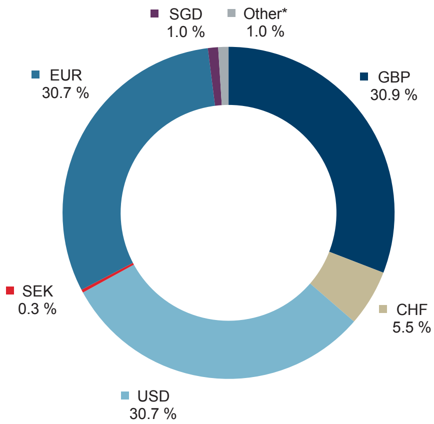
Table 20 The fund's largest unlisted real estate investments as at 31 December 2014 by city. Percent

City	Country	Market value
London	UK	20.3
Paris	France	13.3
New York	US	12.9
Boston	US	9.9
Zurich	Switzerland	7.1

BANK OF AMERICA MERRILL LYNCH FINANCIAL CENTRE

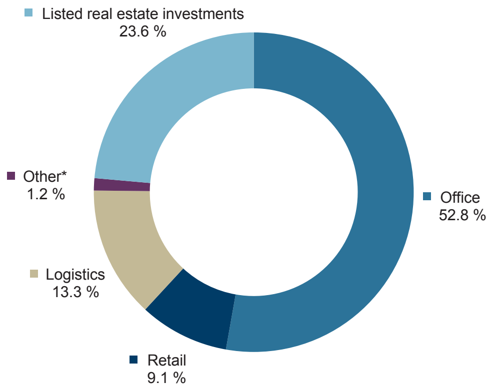
The fund acquired a 100 percent interest in the Bank of America Merrill Lynch Financial Centre, at 2 King Edward Street in London, in October. The property is a 54 348 square meters freehold office campus consisting of four independent office buildings occupying a 1.3 hectare site. The building is fully let to Bank of America Merrill Lynch, which will continue to manage the property under the terms of the lease.

Chart 16 The fund's real estate investments by currency as at 31 December 2014. Including listed real estate. Percent



* Bank deposits and other claims
Source: Norges Bank Investment Management

Chart 17 The fund's real estate investments by sector as at 31 December 2014, including listed real estate. Percent



* Other sectors, bank deposits and other claims
Source: Norges Bank Investment Management

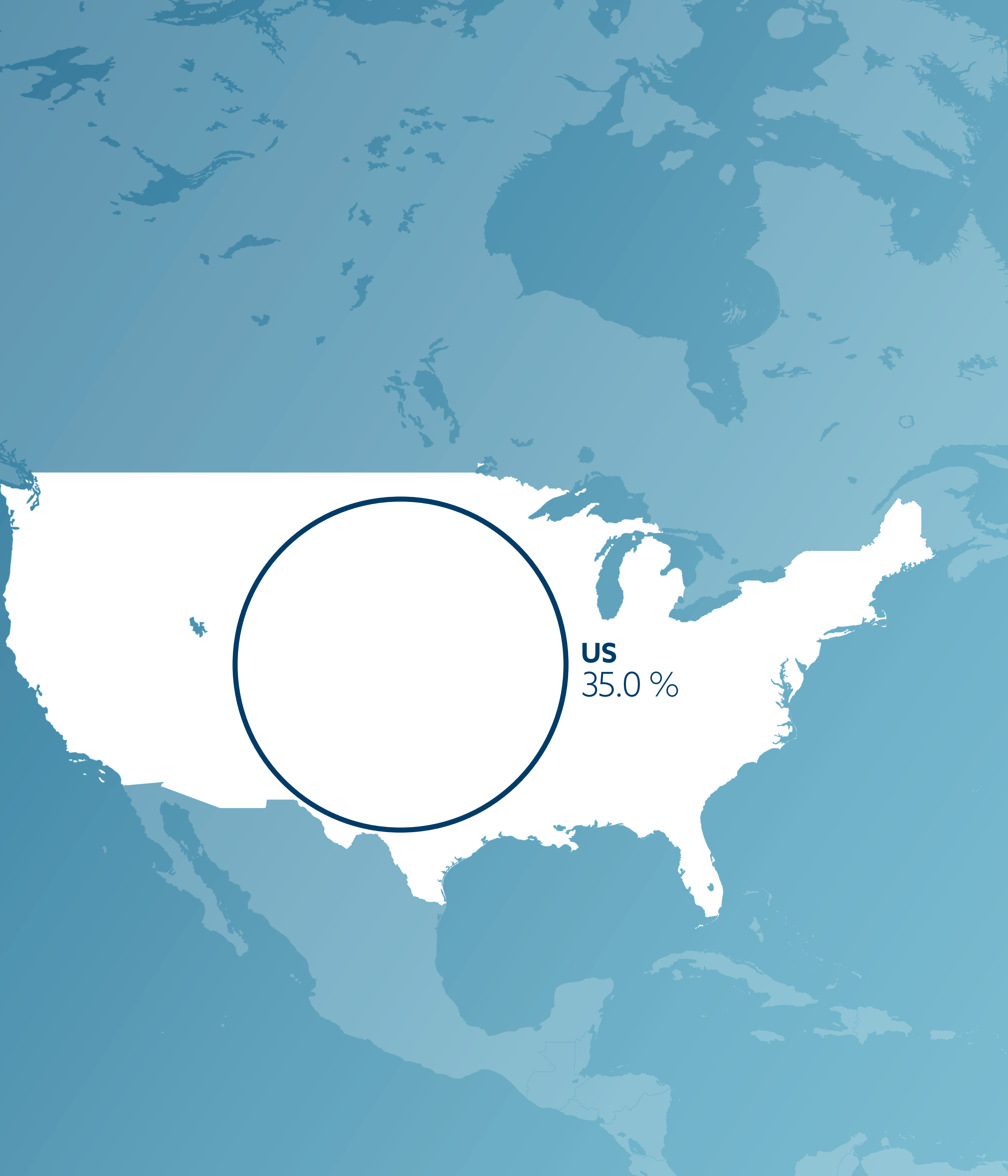
Table 21 The fund's largest holdings in listed real estate companies as at 31 December 2014.* Percent

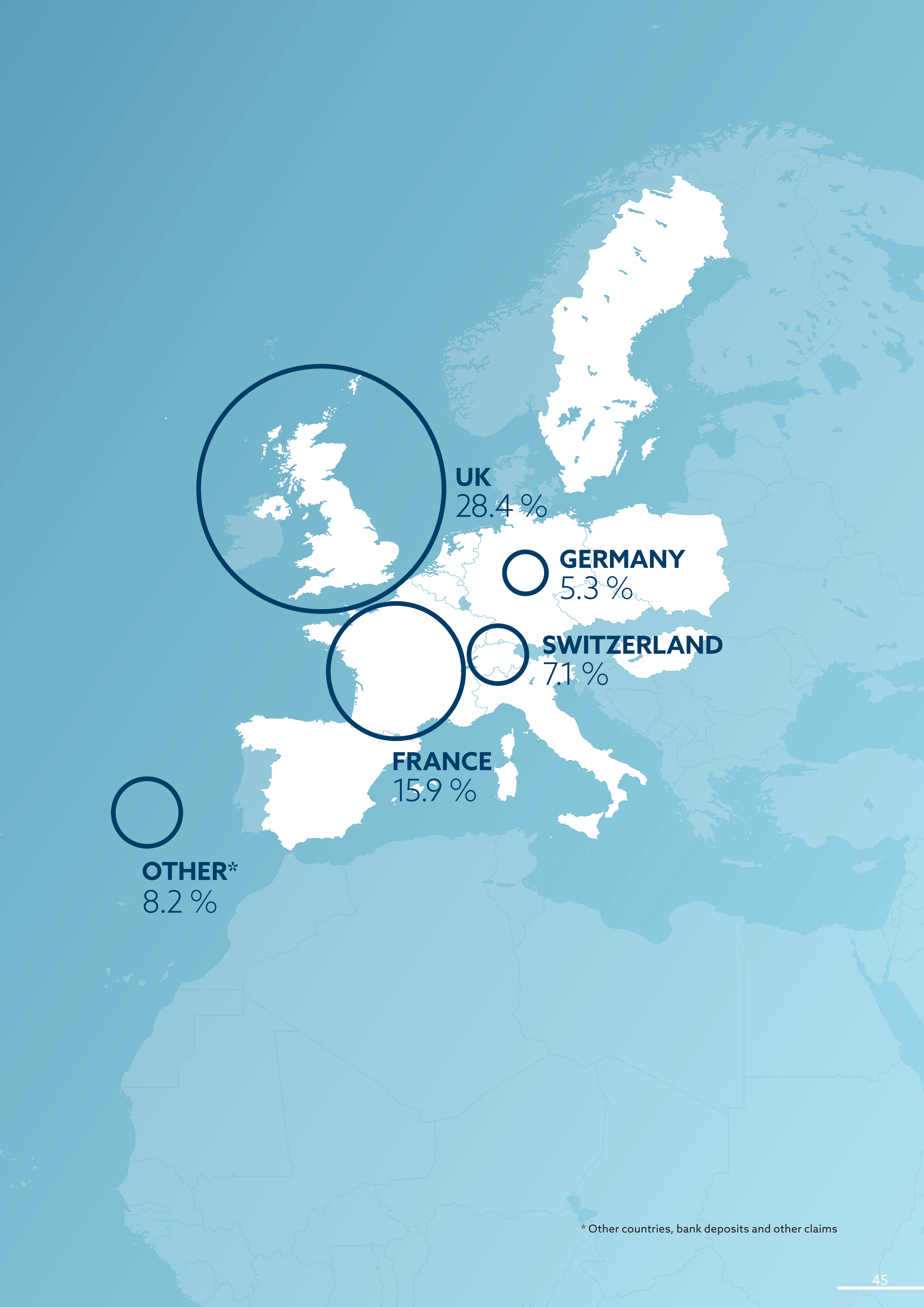
Company	Country	Holding
Gecina SA	France	9.0
Deutsche Annington Immobilien SE	Germany	7.8
Great Portland Estates Plc	UK	7.1
Shaftesbury Plc	UK	6.9
Capital & Counties Properties Plc	UK	4.7
Deutsche Wohnen AG	Germany	4.7
British Land Co Plc	UK	4.0
Land Securities Group Plc	UK	3.5
Prologis Inc	US	2.1
Global Logistic Properties Ltd	Singapore	2.1
Boston Properties Inc	US	1.4

* The main bulk of the fund's investments in listed real estate companies was transferred from the equity portfolio to the real estate portfolio 31 October 2014. Some smaller shares have been kept in the equity portfolio, so the fund's total ownership share in these companies is slightly higher than indicated in this table. In the fund's holdings list, all of the companies are listed with the fund's total ownership share under equities.

REAL ESTATE INVESTMENTS

SHARE OF MARKET VALUE. UNLISTED REAL ESTATE INVESTMENTS.





* Other countries, bank deposits and other claims

DEDICATED REPORT ON RESPONSIBLE INVESTMENT

We aim to invest the fund responsibly in order to support the fund's objective of the highest possible return with an acceptable level of risk.

Responsible investment is an important and integral part of our management task. This year we have for the first time written a special report on responsible investment.We see it as a matter of managing the nation's financial wealth responsibly and efficiently. We enhance our investments through long-term follow-up, and we aim to contribute to market practices that benefit the capital markets in the long term. Our management therefore takes account of environmental, social and governance issues that could have a significant impact on the fund's value.

Part of the fund's investment strategy is to distribute investments widely across companies, sectors and countries. With holdings in more than 9,000 companies, we cannot have an in-depth knowledge of every company. We therefore concentrate on companies where we believe there is the greatest potential to create value for the fund. Our analyses include financial company models and evaluations of economic prospects. Environmental, social and governance issues are integrated into these assessments.

As part of our responsible investment activities, we work on standard setting, ownership and risk management. The fund helps develop standards by engaging with regulators and standard setters. We expect companies to comply with applicable laws and regulations in the countries and markets they operate in. Our expectations and principles build on international standards, which place the responsibility for a company's strategy and operations in the hands of its board and management. We will enter into dialogue with a company's representatives, but have no desire to micro-manage companies.

Our active ownership can lay the foundations for long-term profitable business practices and safeguard the fund's investments. Our work is therefore dependent on a good knowledge of the companies, sectors and markets we invest in. Voting is an important instrument in exercising our ownership rights and is therefore a priority activity for us. In 2014, we voted at 10,519 general meetings. By voting, we can express support for well-functioning boards, and we can also hold boards accountable for their actions. Norges Bank aims to vote at all general meetings. The way we vote is based on the fund's voting principles but also takes account of individual companies' unique characteristics. Engaging directly with companies is a natural part of our management of the fund. In 2014, we held 2,641 meetings with companies. We prioritise ownership activities where the chances of positive effects on the portfolio are highest.

We invest extra in environmental technology through our environment-related mandates. The mandate from the Ministry of Finance requires these investments to amount to between 30 and 50 billion kroner. The portfolio of environment-related equity investments had a market value of 42 billion kroner and was invested in 220 companies at the end of the year, and returned 5 percent in 2014. Some sectors present particular environmental and social challenges. In 2014, we continued our work on deforestation, mining and greenhouse gas emissions. Based in part on these analyses, we chose to divest from 49 companies during the year where we considered there to be high levels of uncertainty about the sustainability of their business model.

See our separate report on responsible investment on our website www.nbim.no

WE HAVE FOCUS AREAS WHERE WE WORK ON SELECTED TOPICS

CHILDREN'S RIGHTS

We expect companies to protect children's rights in their operations. They should have adequate systems in place and report on their activities. We have been assessing selected companies with activities or supply chains in sectors with a high risk of child labour since 2008.

WATER MANAGEMENT

Limited supplies of water are a growing risk for many companies. We expect those in particularly high-risk industries to have a clear strategy for water management. We have been assessing companies exposed to water-related risk since 2010.

CLIMATE CHANGE

We expect companies to analyse how the challenges of climate change will impact their operations and to develop plans and targets for managing climate risk. We have been assessing selected companies exposed to climate risk since 2010.

EXPECTED FLUCTUATIONS IN FUND VALUE

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

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

> As no single measure or analysis can fully capture the fund's market risk, we use a variety of measures and analyses.

The fund's expected absolute volatility, calculated using the statistical measure standard deviation, uses a three-year price history to estimate how much the annual return on the fund's equity and fixed-income investments can normally be expected to fluctuate. Expected absolute volatility was 8.2 percent at the end of the year, or about 530 billion kroner, compared with 9.3 percent a year earlier. Simulations of the fund's investments at the end of 2014 using a 10-year pricing history reveal, however, that in a sharply falling market the fund could lose around 24 percent of its value over the course of a year.

The Ministry of Finance and Norges Bank's Executive Board have set limits for deviation from the benchmark indices in the management of the fund's equity and fixed-income investments. One of these limits is expected relative volatility, or tracking error, which puts a ceiling on how much the return on these investments can be expected to deviate from the return on the benchmark indices. The fund should aim for expected relative volatility of no more than 1 percentage point. The actual figure was 0.4 percentage point at the end of 2014, compared with 0.6 percentage point a year earlier.

Around half of the relative risk was due to Norges Bank's reference portfolios differing from the Ministry of Finance's benchmark indices. In addition, the mandate from the Ministry requires the Bank to take account of fiscal strength in its bond investments and establish environment-related equity mandates. These requirements are each estimated to have a relative volatility of 5-10 basis points to the fixed-income and equity portfolios respectively.

LARGEST RELATIVE EXPOSURES

The fund is positioned differently to its benchmark indices along several dimensions, including currencies, sectors, countries, regions, individual stocks and individual bond issuers. At the end of 2014, the fund had a higher weight of European stocks and a lower weight of US stocks than the benchmark. It also had a higher weight of stocks of above-average volatility. The fixed-income portfolio featured a higher weight of emerging markets, such as Brazil and India, and a correspondingly lower weight of euros and yen than the benchmark. It also had a lower duration than the benchmark. A lower duration means that, in general, the fund is less sensitive to changes in interest rates than the benchmark index.

> The fund is positioned differently to its benchmark indices along several dimensions

FACTOR EXPOSURES

We measure the fund's exposure to systematic risk factors, such as small companies, value stocks and credit. These are common characteristics which securities have to varying degrees over time and which contribute to both the risk and the return on investments. There are different ways of measuring exposure to these risk factors. One of the most widely used is to compare variation in the fund's relative return with variation in the return on these factors. Such an analysis of factor exposures in 2014 indicates, among other things, that the fund's equity investments were somewhat more exposed than the benchmark to companies in emerging markets during the year, and somewhat more exposed than the benchmark to general stock market developments. The analysis shows that only 2 percent of the variation in the relative return on the fund's equity investments could be explained by general market movements and exposure to value stocks, small companies and emerging markets. In addition, about 39 percent of the variation in the relative return on the fund's fixed-income investments could be explained by movements in term premiums. The results of such statistical analyses are uncertain, and we also use several other approaches to analyse the fund's factor exposures.

For more information on the fund's investment risk, see note 7 to the financial reporting.

OPERATIONAL RISK MANAGEMENT

Norges Bank's Executive Board sets limits for operational risk management and internal controls at Norges Bank Investment Management. It has decided there must be less than a 20 percent probability that operational risk factors will result in gross losses of 750 million kroner or more over a 12-month period, referred to as the Executive Board's risk tolerance. Operational risk exposure was below this limit throughout 2014.

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

UNWANTED EVENTS IN 2014

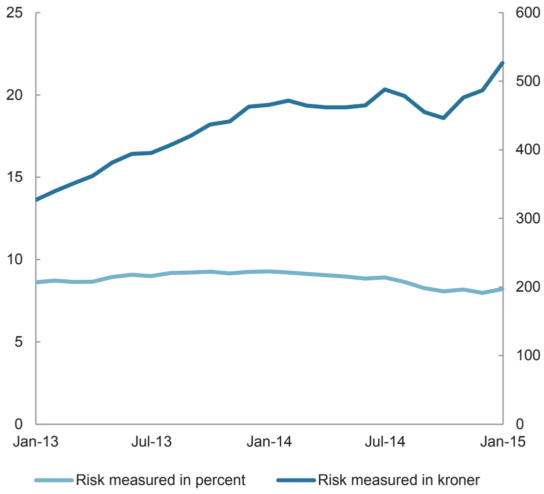
We registered 262 unwanted events in 2014, up from 193 in 2013. Most of these had no financial consequences, either because they were discovered early enough or because they had only potential reputational consequences. Eight of these events were considered significant. The estimated total financial impact of unwanted events in 2014 was a gain of 4.7 million kroner.

Two of the eight significant events had financial consequences. One concerned delays in the execution of an equity transaction and resulted in a loss of around 7.5 million kroner, while the other concerned errors in the trading of standardised derivatives and resulted in a gain of around 14.3 million kroner. The other events mainly concerned matters of information security and had no financial consequences.

COMPLIANCE WITH GUIDELINES

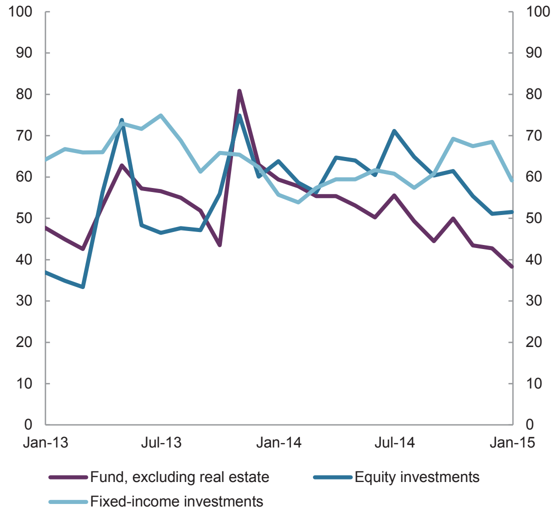
The Ministry of Finance has set guidelines for the fund's management. No significant breaches of these guidelines were registered in 2014, and we did not receive any notifications from local supervisory authorities of any significant breaches of market rules or general legislation.

Chart 18 Expected absolute volatility of the fund. Percent (left-hand axis) and billions of kroner (right-hand axis)



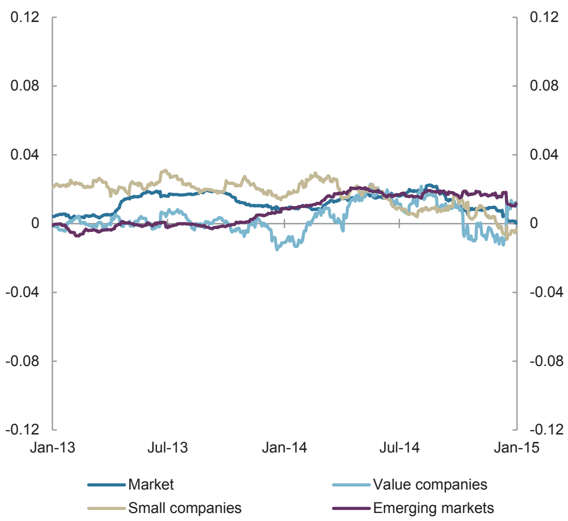
Source: Norges Bank Investment Management

Chart 19 Expected relative volatility of the fund, excluding real estate. Basis points



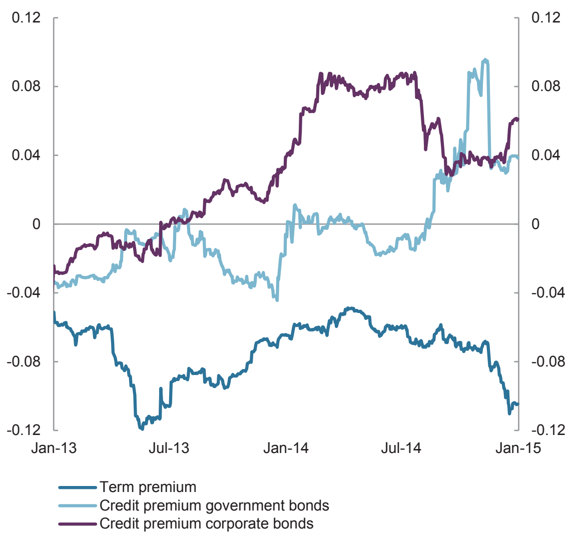
Source: Norges Bank Investment Management

Chart 20 Factor exposures of the fund's equity investments. Coefficients



Source: Norges Bank Investment Management

Chart 21 Factor exposures of the fund's fixed-income investments. Coefficients



Source: Norges Bank Investment Management

Table 22 Key figures for the fund's risk and exposure. Percent

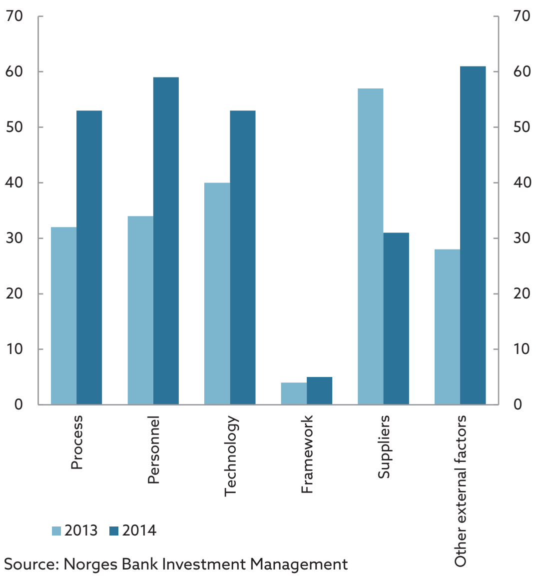
		31.12.2014
	Limits set by the Ministry of Finance	
Exposure	Equities 50–70 % of fund's market value*	60.9
	Real estate 0–5 % of fund's market value	2.2
Market risk	1 percentage point expected tracking error for equity and fixed-income investments	0.4
Credit risk	Maximum 5 % of fixed-income investments may be rated below BBB-	0.7
Maximum ownership	Maximum 10 % of voting shares in a listed company	9.7

* Equity exposure includes underlying economic exposure to equities through derivatives.

Table 23 The fund's fixed-income investments as at 31 December 2014 based on credit ratings. Percentage of bond holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	25.8	7.9	11.8	9.5	0.1	55.2
Government-related bonds	6.1	6.0	1.0	1.4	0.1	14.6
Inflation-linked bonds	1.5	0.2	0.1	0.9	-	2.7
Corporate bonds	0.1	1.6	9.4	7.9	0.4	19.3
Securitised debt	6.1	0.4	0.8	0.8	0.0	8.1
Total bonds	**39.5**	**16.2**	**23.0**	**20.6**	**0.7**	**100.0**

Chart 22 Unwanted events at Norges Bank Investment Management sorted by cause.

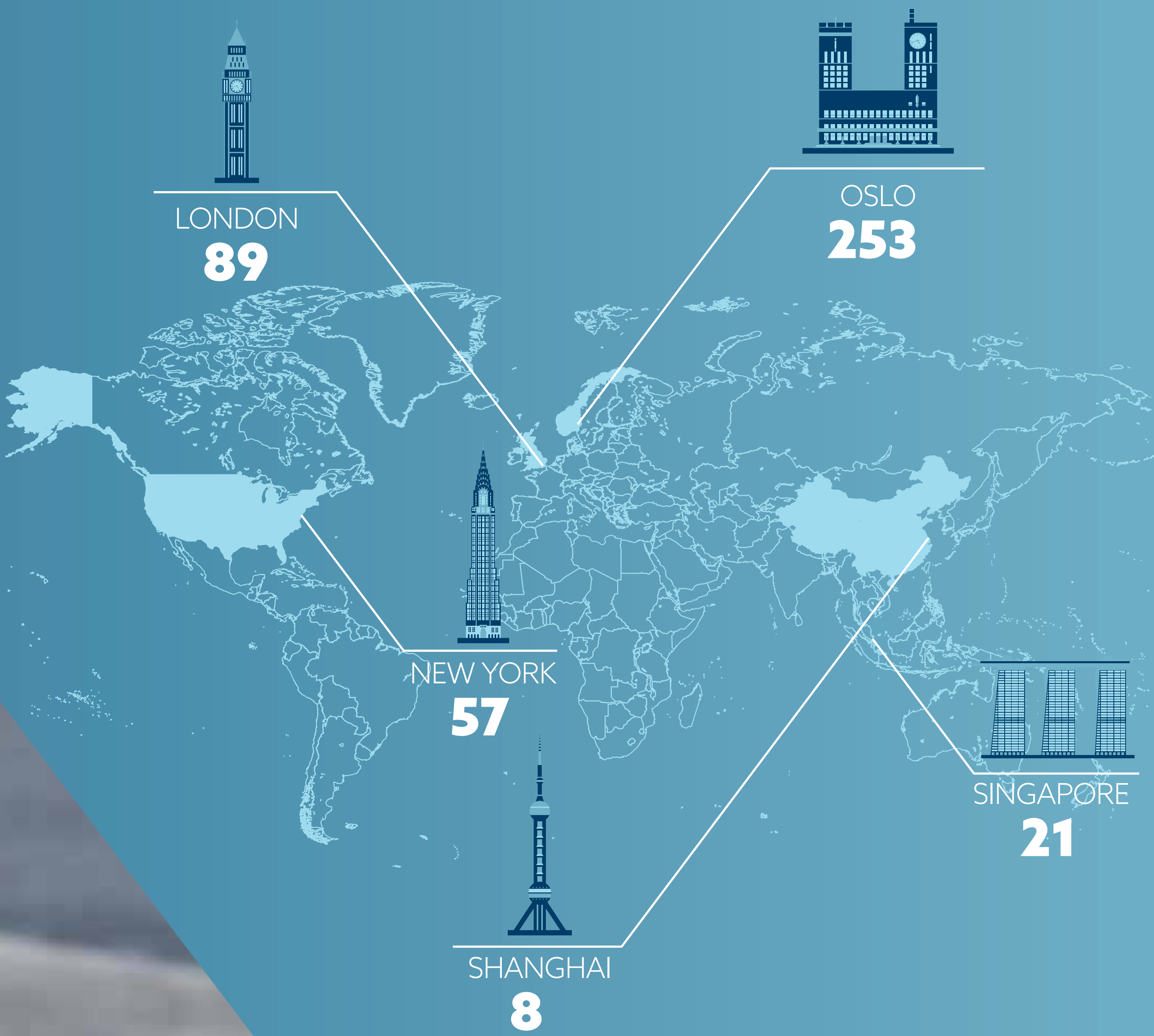


Source: Norges Bank Investment Management

ORGANISATION

428 EMPLOYEES

31 NATIONS



ORGANISATION

LEADER GROUP AND WORK-FORCE ENLARGED

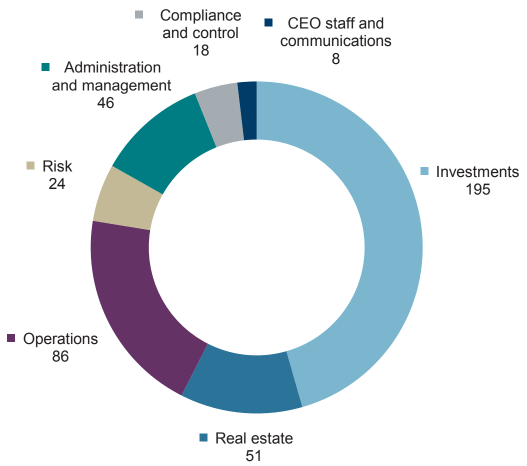
Norges Bank Investment Management expanded its workforce by 58 people to 428 in 2014. Most were hired at our offices outside Norway to increase proximity to the markets we invest in.

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

2014 saw an active drive to recruit equity, fixed-income and real estate investment managers and analysts to our overseas offices. Proximity to the markets we invest in gives us better access to investment opportunities and ensures that we can follow up the fund's investments around the clock. We hired portfolio managers and analysts in all asset classes, both to implement the strategy of diversifying investments across more markets and to continue the expansion of real estate investments. More than a third of our employees are directly involved in investment decisions.

Norges Bank Investment Management doubled the size of its leader group to 12 members from 1 October 2014. Four of these form part of a separate leader group for real estate, tasked with building and developing the real estate organisation. Our strategy plan for 2014-2016 sets out ambitious goals for real estate investments, which means that there will be a need for a substantially larger organisation going forward. We expect the number of employees in real estate management to grow to 200 during the current strategy period, and we began work last year on recruiting skilled people to these positions.

Chart 23 Number of employees by area



Source: Norges Bank Investment Management

Besides these changes on the real estate side, we reorganised the investment departments in 2014 in line with the fund's main strategies. Three chief investment officers have been given responsibility for the fund's three investment areas, allocation strategies, asset strategies and equity strategies. The CIO Allocation Strategies will lead work on improving the fund's exposure to the broad markets and different sources of return. The CIO Asset Strategies will lead work on ensuring cost-effective implementation of the fund's exposure and on balancing transaction costs, risks and returns. The CIO Equity Strategies will continue to build up specialist expertise to conduct in-depth analyses of individual companies, identify investment opportunities and exercise active ownership.

We also strengthened the risk and control functions by establishing a dedicated management position for control and compliance.

The number of permanent employees increased by 58 in 2014. 41 percent of the workforce was based at our offices in London, New York, Singapore and Shanghai at the end of the year, against 35 percent a year earlier. We had 428 employees from 31 nations at the end of the year, including 16 trainees. Our employees have the global outlook and experience needed to manage a fund that invests worldwide.

CHIEF COMPLIANCE OFFICER
Jan Thomsen

CHIEF EXECUTIVE OFFICER
Yngve Slyngstad

DEPUTY CHIEF EXECUTIVE OFFICER
Trond Grande

CEO STAFF AND COMMUNICATIONS

Øyvind Schanke | Age Bakker | Petter Johnsen | Ole Christian Bech-Moen | Jan Thomsen | Dag Huse

NORGES BANK INVESTMENT MANAGEMENT

- CHIEF INVESTMENT OFFICER, ALLOCATION STRATEGIES
  Ole Christian Bech-Moen
- CHIEF INVESTMENT OFFICER, ASSET STRATEGIES
  Øyvind Schanke
- CHIEF INVESTMENT OFFICER, EQUITY STRATEGIES
  Petter Johnsen
- CHIEF RISK OFFICER
  Dag Huse
- CHIEF OPERATING OFFICER
  Age Bakker
- CHIEF ADMINISTRATIVE OFFICER
  Trond Grande

NORGES BANK REAL ESTATE MANAGEMENT

- CHIEF INVESTMENT OFFICER
  Karsten Kallevig
- CHIEF RISK OFFICER
  Lars Dahl
- CHIEF OPERATING OFFICER
  Nina Hammerstad
- CHIEF ADMINISTRATIVE OFFICER
  Mie Holstad

Yngve Slyngstad, Trond Grande, Mie Holstad, Nina Hammerstad, Karsten Kallevig, Lars Dahl

LOW INTERNAL MANAGEMENT COSTS

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

Norges Bank receives an annual fee from the Ministry of Finance to cover the costs of managing the fund. These costs increased to 3.2 billion kroner in 2014 from 2.9 billion kroner in 2013. The rise was due primarily to a weaker krone, higher fees to external managers as a result of a larger number of mandates and more capital being managed externally, and higher custody costs as a result of the increase in assets under management. The growth in the work-force also brought higher salary and staff costs. Management costs decreased to 5.9 basis points of assets under management in 2014 from 6.6 basis points in 2013. Excluding performance-based fees to external managers, costs fell from 5.0 basis points to 4.7 basis points.

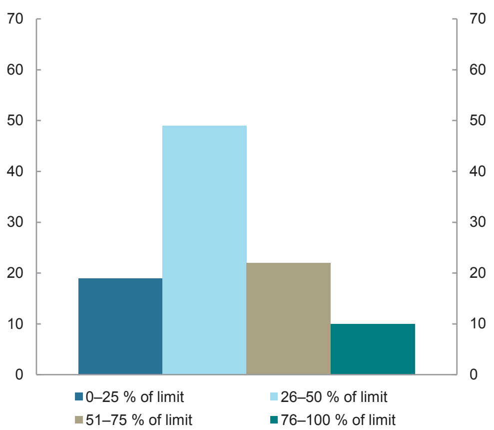
REMUNERATION SYSTEM

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

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

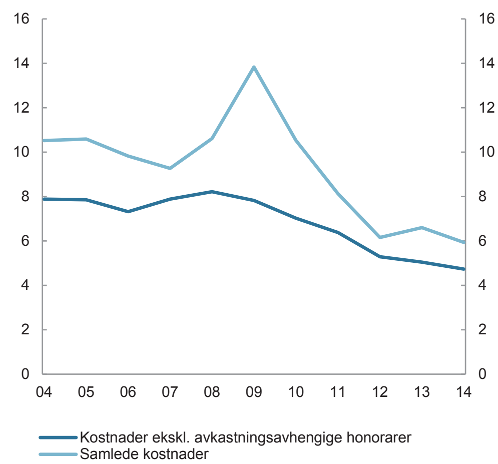
A total of 189 employees were entitled to performance-based pay in 2014. Their fixed salaries totalled 225 million kroner, while the upper limit for performance-based pay was 266 million kroner. On average, employees eligible for performance-based pay accrued 60 percent of the limit for 2014 based on multi-

Chart 24 Performance-based pay relative to upper limit in 2014. Percentage of workforce



Source: Norges Bank Investment Management

Chart 25 Management costs as a share of assets under management. Basis points

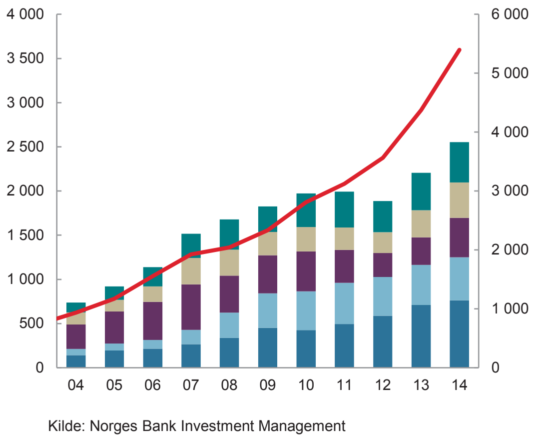


Source: Norges Bank Investment Management

year performance. For 2014 in isolation, the average amount accrued was 38 percent of the upper limit.

Members of Norges Bank Investment Management's leader group receive only a fixed salary. New members of the leader group who were previously in receipt of performance-based pay will, however, still receive any such pay that has been held back. The CEO's salary and pay bands for other members of the leader group are set by Norges Bank's Executive Board. The CEO's salary totalled 6.2 million kroner in 2014. Besides the leader group and employees in receipt of performance-based pay, 232 permanent employees worked in risk management, control, operations and support at the end of 2014. Their fixed salaries totalled 203 million kroner.

Chart 26 Development of individual cost components. Costs (millions of kroner, left-hand axis) and the fund's average market value (billions of kroner, right-hand axis)



Source: Norges Bank Investment Management

Table 24 Remuneration of senior management in 2014 in kroner

Position	Name	Paid salary	Value of other benefits	Pension benefit earned	Employee loan
Chief Executive Officer	Yngve Slyngstad	6,247,170	9,084	479,580	503,387
Deputy CEO and Chief Administrative Officer	Trond Grande	4,027,805	9,084	330,432	
Chief Compliance Officer	Jan Thomsen	3,446,715	9,084	324,387	
Chief Investment Officer, Allocation Strategies	Ole Christian Bech-Moen*	937,500	2,271	68,547	2,520,000
Chief Investment Officer, Equity Strategies	Petter Johnsen	6,884,774	87,769	688,477	
Chief Investment Officer, Asset Strategies	Øyvind Schanke*	1,062,500	2,271	123,457	
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, Real Estate	Karsten Kallevig	4,241,414	9,084	315,124	
Chief Operating Officer, Real Estate	Nina Hammerstad*	625,000	2,371	85,161	2,166,138
Chief Administrative Officer, Real Estate	Mie Holstad*	437,500	2,346	57,473	2,052,899

* Senior manager from 1 October 2014

FINANCIAL REPORTING

The financial reporting for the Government Pension Fund Global is presented in the following pages.

INCOME STATEMENT

Amounts in NOK million	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 million	Note	31.12.2014	31.12.2013 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 million	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.

NOTES TO THE FINANCIAL REPORTING

NOTE 1 GENERAL INFORMATION

1. INTRODUCTION

Norges Bank is Norway's central bank. 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 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.

The annual financial reporting for the GPFG is an excerpt from Norges Bank's financial reporting, and is included Norges Bank's annual financial statements as note 20.

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 OF 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. 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 OR INTERPRETATIONS

Accounting policies are applied consistently with those of the previous financial year, except for new standards 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 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 5 and 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.

Statement of changes in owner's capital

The statement of changes in owner's capital has 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.

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 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.

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.

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.

<u>Subsidiaries measured at fair value through profit or loss</u>

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 5 for accounting policies specific to *Real estate*.

<u>Consolidated subsidiaries</u>

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

3.3 Foreign 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 Norwegian kroner using the exchange rate at the balance sheet date. The presentation currency for financial reporting is the Norwegian krone.

In the income statement, the foreign exchange element linked to realised and unrealised gains and losses on assets and liabilities is disaggregated and presented on a separate line. Foreign exchange adjustments for the period are estimated on the basis of the cost in foreign currency and changes in exchange rates between the time of purchase, or the previous balance sheet date for financial instruments purchased in earlier periods, and the balance sheet date. 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 Norwegian kroner to a security element and a foreign exchange element is an estimate, as different methods will result in different allocations.

<u>Foreign exchange element</u>

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.

<u>Security element</u>

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 9 *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.

Due to the business models followed for all financial assets and liabilities, it is expected that these will qualify for fair value classification under IFRS 9 as at 31 December 2014.

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 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

	2014					
Amounts in NOK million	**Interest**	**Divi-dends**	**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 million	2013 Interest	Divi-dends	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	4Q 2014	3Q 2014	2Q 2014	1Q 2014
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.

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

	31.12.2014		31.12.2013	
Amounts in NOK million	**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 million	31.12.2014 Nominal value*	Fair value including accrued interest	Accrued interest	31.12.2013 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.

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 million	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 million	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 million	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 million	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 33 238 million at year-end.

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. 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

	Level 1		Level 2		Level 3		Total	
Amounts in NOK million	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
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 percent at year-end 2014 compared to 98.9 percent at year-end 2013).

Equity 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 percent) 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 percent 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 percent of the equity portfolio at year-end.

Bonds

The majority (81.9 percent) 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 percent of the bond portfolio was classified as Level 2, and only 1.1 percent 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 classified as Level 2. No government bonds are classified as Level 3. A small number of government-related bonds are classified as Level 2 and a few as 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 classified as 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 20 593 million, or 0.7 percentage points, 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 have been classified as Level 1 compared to last year-end. The total reclassification amounts to NOK 293 385 million, 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 points. 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 million	01.01.2014	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gains and losses	31.12.2014
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 million	01.01.2013	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gains and losses	31.12.2013
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 79 327 million in 2014 to an exposure of NOK 133 683 million as per year-end.

Equity and bond holdings classified as Level 3 increased by NOK 23 928 million during 2014, and amounted to NOK 27 252 million at year-end, which is equivalent to 0.4 percent 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 55 399 million in 2014 is mainly due to new investments amounting to NOK 37 711 million, 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 million	Specification of Level 3 holdings per 31.12.2014	Sensitivities 31.12.2014		Specification of Level 3 holdings per 31.12.2013	Sensitivities 31.12.2013	
		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 5 685 million to NOK 9 231 million as per year-end 2014. The sensitivity to favourable changes has increased by NOK 5 947 million to NOK 9 365 million. 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 points, and future market rents by -2 percent will result in a decrease in value of the real estate portfolio of approximately 5.2 percent or NOK 5 532 million. In a favourable scenario, a similar change in the discount rate of -0.2 percentage points and an increase in future market rents of 2 percent will increase the value of the real estate portfolio by 6.7 percent or NOK 6 071 million.

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 3 699 million. The upside is considered marginally less than the downside and is estimated to be NOK 3 294 million.

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 283 million from the previous year-end and favourable changes have increased by NOK 412 million. 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 of 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 is 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.

NOTE 7 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 given 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 counterparty credit risk, 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**	**31.12.2014**	**Market**	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Equities	Developed	90.2	Developed	90.2				
	US	33.7	US	29.2				
	UK	12.5	UK	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	UK	30.9	UK	27.0				
	US	30.7	France	22.5				
	France	15.9	US	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 government-issued 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 million	Market value 31.12.2014
US	422 200
Japan	186 044
Germany	84 021
UK	76 341
Italy	52 369
Spain	46 731
Mexico	46 620
Brazil	43 505
South Korea	41 107
Netherlands	37 121

Amounts in NOK million	Market value 31.12.2013
US	437 306
Japan	139 475
Germany	97 534
UK	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 million, 31.12.2014	Sector	Bonds	Equities	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 million, 31.12.2013	Sector	Bonds	Equities	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 141 billion as per 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 56 billion to a value of NOK 108 billion as per year-end. The increase is mainly due to a high level of investments, mainly in office buildings in the US and the UK. 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 33 billion as per year-end.

Table 7.4 shows the real estate portfolio per sector.

Table 7.4 Distribution of real estate investments per sector

Sector	Percent 31.12.2014	Percent 31.12.2013
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 percent 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 method-ology, 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							
	31.12.2014	Min 2014	Max 2014	Average 2014	31.12.2013	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							
	31.12.2014	Min 2014	Max 2014	Average 2014	31.12.2013	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 percent. This means that annual value fluctuations of approximately NOK 530 billion can be expected for the portfolio. Correspondingly, measured risk at year-end 2013 was 9.3 percent and value fluctuations of approximately NOK 470 billion 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 percent 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 Eurozone was subject to low growth in countries including Germany, France and Portugal. Bond markets were characterised by falling governmental interest rates in the Eurozone, USA, Brazil, Japan and India. Commodity markets were impacted by a strong decline in the oil price of over 50 percent. 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 million, 31.12.2014	AAA	AA	A	BBB	Lower rating	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 million, 31.12.2013	AAA	AA	A	BBB	Lower rating	Total
Government bonds	658 742	298 019	71 283	150 360	2 369	1 180 774
Government-related bonds	105 869	85 439	11 294	21 271	2 535	226 408
Inflation-linked bonds	16 180	1 431	271	12 435	-	30 318
Corporate bonds	871	23 080	109 052	108 438	4 847	246 288
Securitised bonds	126 600	11 855	26 525	30 285	1 210	196 475
Total bonds	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 Eurozone 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 occupancy 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 program that has been carried out. Conversely, economic growth in the US 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 to the A category from the AA category. Japan amounted to 8.0 percent of the bond portfolio as per year-end. Throughout the year, inflows have still been invested in government bonds in emerging markets. Such holdings accounted for 13.5 percent of the bond portfolio as per year-end, compared to 12.0 percent as per 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 percent, respectively, as per year-end 2014, compared to 48.3 and 22.3 percent as per year-end 2013. A and BBB bonds increased correspondingly to 23.0 percent and 20.6 percent as per year-end 2014, from 11.6 percent and 17.2 percent as per year-end 2013. At year-end 2014, the holdings of *Lower rating* increased to 0.7 percent of the bond portfolio, from 0.6 percent as per year-end 2013. Defaulted bonds had a market value of NOK 440 million per year-end 2014. The nominal size of defaulted bonds was NOK 13.2 billion, up from NOK 11.8 billion as per year-end 2013. Defaulted bonds are presented as *Lower rating*.

Table 7.8 Bond portfolio by credit rating and currency in percent

31.12.2014	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

31.12.2013	AAA	AA	A	BBB	Lower rating	Total
US Dollar	27.3	2.1	4.1	4.7	0.1	38.3
Euro	13.1	4.9	3.2	6.3	0.4	27.9
Japanese Yen	-	7.4	-	-	-	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 current exposure method is used. For each contract, the market value and a rate of future anticipated exposure is calculated. Netting agreements and collateral are taken into account in the calculation of net exposure. Only cash 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 10.1 billion during the year. This is partly due to higher deposits in banks per 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 15.7 billion 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 million, 31.12.2014	**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 million, 31.12.2013	Gross exposure	Effect of netting	Collateral and guarantees	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 i*n the table comprises the net market value of foreign exchange contracts (NOK 2 134 million) and interest rate swaps (NOK -4 642 million), 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 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	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
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.

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 cost efficient 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

	31.12.2014			31.12.2013		
		Fair value*			Fair value*	
Amounts in NOK million	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 timeframe.

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.

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 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

	31.12.2014		31.12.2013	
Amounts in NOK million	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Securities lending program				
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**

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 million	31.12.2014 Carrying amount	31.12.2014 Fair value	31.12.2013 Carrying amount	31.12.2013 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 program or (reverse) repurchase agreements can be sold or pledged. As per 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 million	31.12.2014 Carrying amount	31.12.2014 Fair value	31.12.2013 Carrying amount	31.12.2013 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 million	31.12.2014 Received	31.12.2014 Posted	31.12.2013 Received	31.12.2013 Posted
Related to reverse repurchase agreements (liquidity placing)	-	45 536	-	89 189
Related to repurchase agreements	13 512	-	69 147	-
Related to securities lending program*	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 26 416 million per year-end 2014. As per year-end 2013 this amounts to NOK 53 399 million, of which unsettled trades amount to NOK 5 643 million.

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 million, 31.12.2014	Amounts subject to enforceable master netting agreements					Unsettled trades and assets not subject to enforceable netting agreements	Gross financial assets recognised in the balance sheet
Description	Assets in the balance sheet subject to netting	Financial liabilities related to same counterparty	Cash collateral received (recognised as liability)	Security collateral received (not recognised)	Assets after netting and collateral		
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 million, 31.12.2014	Amounts subject to enforceable master netting agreements					Unsettled trades and liabilities not subject to enforceable netting agreements	Gross financial liabilities recognised in the balance sheet
Description	Liabilities in the balance sheet subject to netting	Financial assets related to same counterparty	Cash collateral posted (recognised as asset)	Security collateral posted (not recognised)	Liabilities after netting and collateral		
LIABILITIES							
Derivatives	7 895	4 581	1 833	-	1 482	-	7 895
Borrowing associated with repurchase agreements	13 512	-	7 883	5 630	-	-	13 512
Cash collateral received	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 million, 31.12.2013	Amounts subject to enforceable master netting agreements					Unsettled trades and assets not subject to enforceable netting agreements	Gross financial assets recognised in the balance sheet
Description	Assets in the balance sheet subject to netting	Financial liabilities related to same counterparty	Cash collateral received (recognised as liability)	Security collateral received (not recognised)	Assets after netting and collateral		
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 million, 31.12.2013	Amounts subject to enforceable master netting agreements					Unsettled trades and liabilities not subject to enforceable netting agreements	Gross financial liabilities recognised in the balance sheet
Description	Liabilities in the balance sheet subject to netting	Financial assets related to same counterparty	Cash collateral posted (recognised as asset)	Security collateral posted (not recognised)	Liabilities after netting and collateral		
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.

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 million	2014	Basis points	2013	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 million	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 2 636 million in 2014. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 2 553 million, and management costs in real estate subsidiaries of NOK 83 million. This corresponds to 4.9 basis points of assets under management on an annual basis.

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

NOTE 12 OTHER ASSETS AND OTHER LIABILITIES

Table 12.1 Other assets

Amounts in NOK million	31.12.2014	31.12.2013
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 million	31.12.2014	31.12.2013
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.

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 million	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 million	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.

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*.

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
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

Company	Business address	Property address	Ownership share and voting right in percent	Recognised from
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.

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

		2013	
Amounts in NOK million	**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

		31.12.2013	
Amounts in NOK million	**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

		01.01.2013	
Amounts in NOK million	**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*	*-*

To the Supervisory Council of Norges Bank

INDEPENDENT AUDITOR'S REPORT

We have audited the financial reporting for the investment portfolio of the Government Pension Fund Global included in Norges Bank's annual financial statements. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio are included in the financial reporting. The financial reporting comprises the balance sheet as at 31 December 2014, the profit/loss for the period and total comprehensive income, the statement of changes in owner's capital, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial reporting. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial reporting, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial reporting in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial reporting.

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

Opinion
In our opinion, the financial reporting gives a true and fair view, in all material respects, of the financial position for the investment portfolio of the Government Pension Fund Global as at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Oslo, 10 February 2015
Deloitte AS

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)

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