

ANNUAL REPORT OF THE EXECUTIVE BOARD 2013

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

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

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

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

The Executive Board is supported by two committees, the Audit Committee and the Remuneration Committee. The Audit Committee comprises three of the external members of the Executive Board, and advises the Executive Board and prepares matters for its consideration. The Committee's task is to strengthen and streamline the Executive Board's management and follow-up

work related to financial reporting, risk management and internal control. Internal Audit provides independent assessments of risk management and internal control for submission to the Executive Board. Internal Audit reports to the Audit Committee. The Remuneration Committee comprises two of the external members of the Executive Board. It is a preparatory and advisory body, responsible for matters concerning pay and remuneration arrangements at the Bank.

MONETARY POLICY, FINANCIAL STABILITY AND PAYMENT SYSTEMS

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

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

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

Growth in the Norwegian economy slowed in 2013. Growth declined in most sectors, but the slowdown was most pronounced in the construction and oil supplier industries, where activity had

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

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

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

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

were paying an interest rate on bank loans of around 4.5%.

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

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

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

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

other capital requirements. The Ministry of Finance decided that the requirement will apply as from 30 June 2015.

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

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

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

INVESTMENT MANAGEMENT

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

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

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

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

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

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

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

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

RESPONSIBLE INVESTMENT

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

The premise of the Ministry's mandate for managing the GPFG is that solid long-term returns for the GPFG depend on sustainable economic, environmental and social developments. As opera-

tional manager of the GPFG, Norges Bank exercises its shareholder rights to promote such developments and to raise corporate governance standards. Important elements of this work are dialogue with companies, investors, the authorities and other participants who set financial market standards. In this way and through participation in consultations, Norges Bank plays a role in shaping standards that may lead to better rules for corporate governance and management and for the measurement and reporting of environmental and social risk. Furthermore, the Bank votes at general meetings, submits shareholder proposals and communicates its expectations of how companies the GPFG is invested in should manage social and environmental risk in their activities.

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

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

Norges Bank has a principled approach to questions regarding equal treatment of shareholders and the role and responsibilities of boards of directors. For three of its strategic focus areas, the Bank has published its expectations of the manner in which companies should report their management of risk relating to children's rights, climate change and water resources. The Bank's activities include measurement of risk and

reporting and communicating by letter with selected companies. Furthermore, Norges Bank cooperates with key standard setters such as UNICEF and the Carbon Disclosure Project (CDP) and has been a sponsor of CDP Water since its launch in 2009.

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

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

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

ETHICS AND ANTICORRUPTION WORK

It is important to the Executive Board that the Bank's employees in all respects conduct themselves with the necessary ethical awareness and that they are loyal to Norges Bank as their employer. The Executive Board has laid down ethical principles for employees. These ethical principles are intended to generate a common approach to ethical issues among all employees of Norges Bank. Under these principles, the Bank

must maintain high ethical standards, respect human rights, act in a socially responsible manner and comply with current laws and regulations. Norges Bank does not accept any form of discrimination or corruption.

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

Norges Bank's anticorruption work is anchored in internal rules. Anticorruption rules for central banking operations will be reviewed again in 2014.

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

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

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

OPEN COMMUNICATION

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

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

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

EXTERNAL ENVIRONMENT

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

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

CONTRACTORS

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

HUMAN RESOURCES

Norges Bank's aim is to be a transparent and well run central bank. The Bank is a complex knowledge enterprise with a global reach. Activities are performed in accordance with international good

practices. Achieving this ambition requires the prudent and proper use of resources. It places considerable demands on the way in which the Bank works and interacts, and means that operations must have a healthy balance of ongoing operational tasks and innovation projects that combine to maintain a high level of quality in all the Bank's operations.

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

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

GENDER EQUALITY AND DIVERSITY

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

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

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

Central banking operations

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

Norges Bank Investment Management

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

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

Central banking operations

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

Norges Bank Investment Management

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

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

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

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

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

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

HEALTH, SAFETY AND ENVIRONMENT

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

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

SICKNESS ABSENCE AND AN INCLUSIVE WORKPLACE

Sickness absence at the Bank remained stable at a low level in 2013. In 2013, sickness absence accounted for 2.8% of the total number of working days, compared with 2.5% in 2012. As an inclusive workplace enterprise, the Bank is com-

mitted to working to maintain sickness absence at a low level, accommodating employees needing special adaptations and enabling older employees to extend their professional careers in line with national objectives.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

Risk management and internal control in Norges Bank are based on the management model describing the Bank's organisational structure and management principles and the roles and responsibilities of the Bank's executive management. Management models have been established for investment management and central banking operations, respectively, with more detailed management policies for the two operational areas. The Executive Board has laid down new principles for risk management in central banking operations. Reporting of risk assessments is an integral part of corporate governance. Central banking operations report their risk assessments three times a year, and investment management four times a year. Each year, Norges Bank's governor and the chief executive officer of NBIM assess whether internal control was implemented in a satisfactory manner. Internal Audit submits an annual independent report on internal control at the Bank. On the basis of reporting

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

MORE ABOUT FINANCIAL RISK

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

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

Norges Bank's market risk is the risk of changes in the value of the portfolios due to movements in interest rates and equity prices. Norges Bank's credit risk is the risk of losses if an issuer of fixed income instruments or a bank defaults on its payment obligations to Norges Bank. Norges Bank performs credit assessments of interest-bearing securities and counterparties. Loans to banks are provided against collateral in the form of approved securities. Norges Bank's counterparty risk is the risk of losses if the counterparty is declared bankrupt or cannot otherwise perform its contractual obligations. Counterparty risk includes risk associated with the bankruptcy of a counterparty, settlement risk and custody risk. Norges Bank's currency risk is the risk of changes in exchange rates. Norges Bank is not hedged against exchange rate fluctuations. As the central bank, Norges Bank is not exposed to

liquidity risk. Norges Bank has no exposure to financial risk in the management of the GPFG. For more details, see Note 1, Section 2, in Part II.

REPORT ON THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

DISTRIBUTION OF TOTAL COMPREHENSIVE INCOME

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

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

exceeds the levels specified in point 1, first paragraph, the surplus shall be reversed to profit or loss.

- 2. If the Adjustment Fund falls below 25% of the Bank's net foreign exchange reserves excluding the immunisation portfolio and capital managed by the Government Petroleum Fund and other claims/liabilities abroad at the end of the year, available capital shall be reversed from the Transfer Fund to Norges Bank's financial statements until the Adjustment Fund reaches full size according to point 1.*
- 3. Any profit after provisions to or transfers from the Adjustment Fund shall be allocated to the Transfer Fund.*
- 4. Any loss following the allocations described in point 2 shall be covered by transfers from the Adjustment Fund.*
- 5. In connection with the closing of the books each year, an amount equal to one third of the capital in the Transfer Fund shall be transferred to the Treasury.*

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

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

Oslo, 12 February 2014

Øystein Olsen
(Chair)

Jan Fredrik Qvigstad
(Deputy Chair)

Liselott Kilaas

Egil Matsen

Hilde Myrberg

Kjetil Storesletten

Karen Helene Ulltveit-Moe

Jan Erik Martinsen
(Employee representative)

Gøril Havro
(Employee representative)

INCOME STATEMENT

Amounts in NOK millions

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

BALANCE SHEET

Amounts in NOK millions

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

Amounts in NOK millions

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

Oslo, 12 February 2014

Øystein Olsen
(Chair)

Jan Fredrik Qvigstad
(Deputy Chair)

Liselott Kilaas

Egil Matsen

Hilde Myrberg

Kjetil Storesletten

Karen Helene Ulltveit-Moe

Jan Erik Martinsen
(Employee representative)

Gøril Havro
(Employee representative)

STATEMENT OF CASH FLOWS

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

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

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

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

STATEMENT OF CHANGES IN EQUITY

Amounts in NOK millions

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