



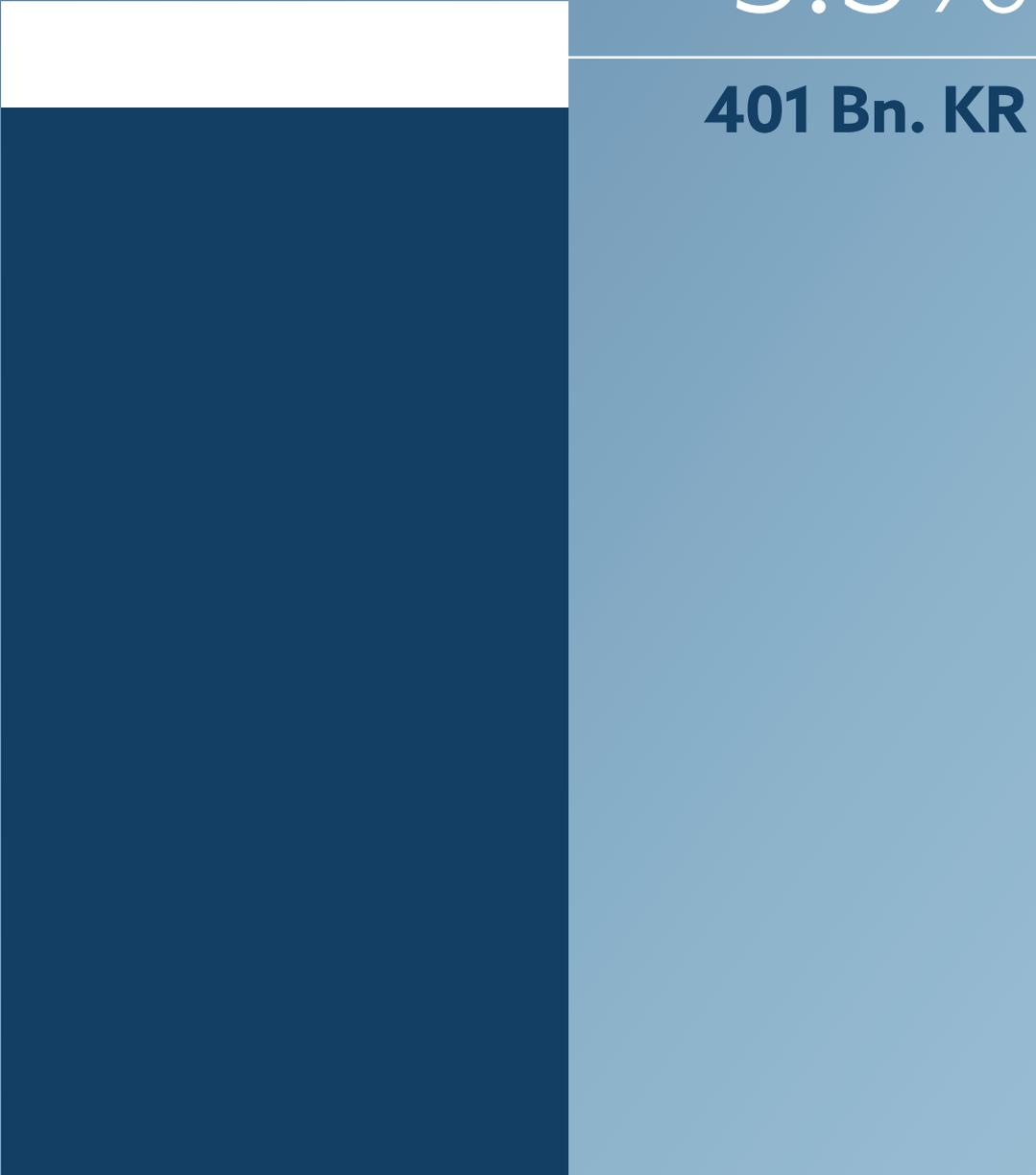
NORGES BANK  
INVESTMENT MANAGEMENT

**1Q | 15**  
**GOVERNMENT  
PENSION FUND  
GLOBAL**  
QUARTERLY REPORT

## HIGHLIGHTS

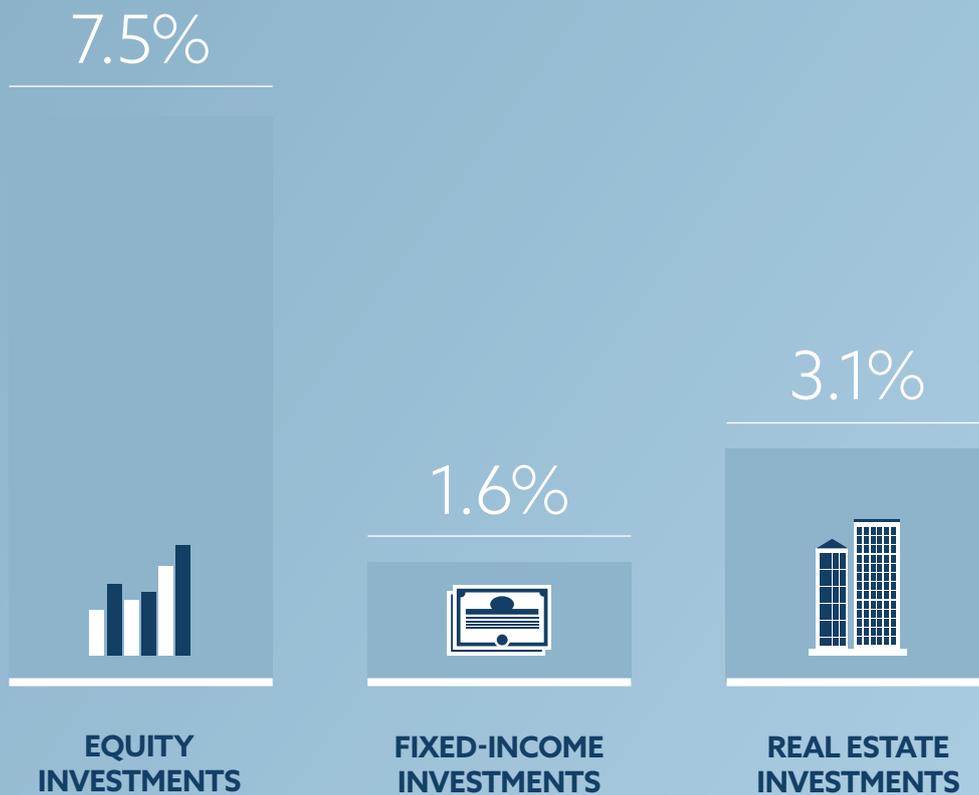
# FIRST QUARTER 2015 IN BRIEF

THE GOVERNMENT PENSION FUND GLOBAL RETURNED **5.3** PERCENT, OR **401** BILLION KRONER, IN THE FIRST QUARTER OF 2015.



5.3%

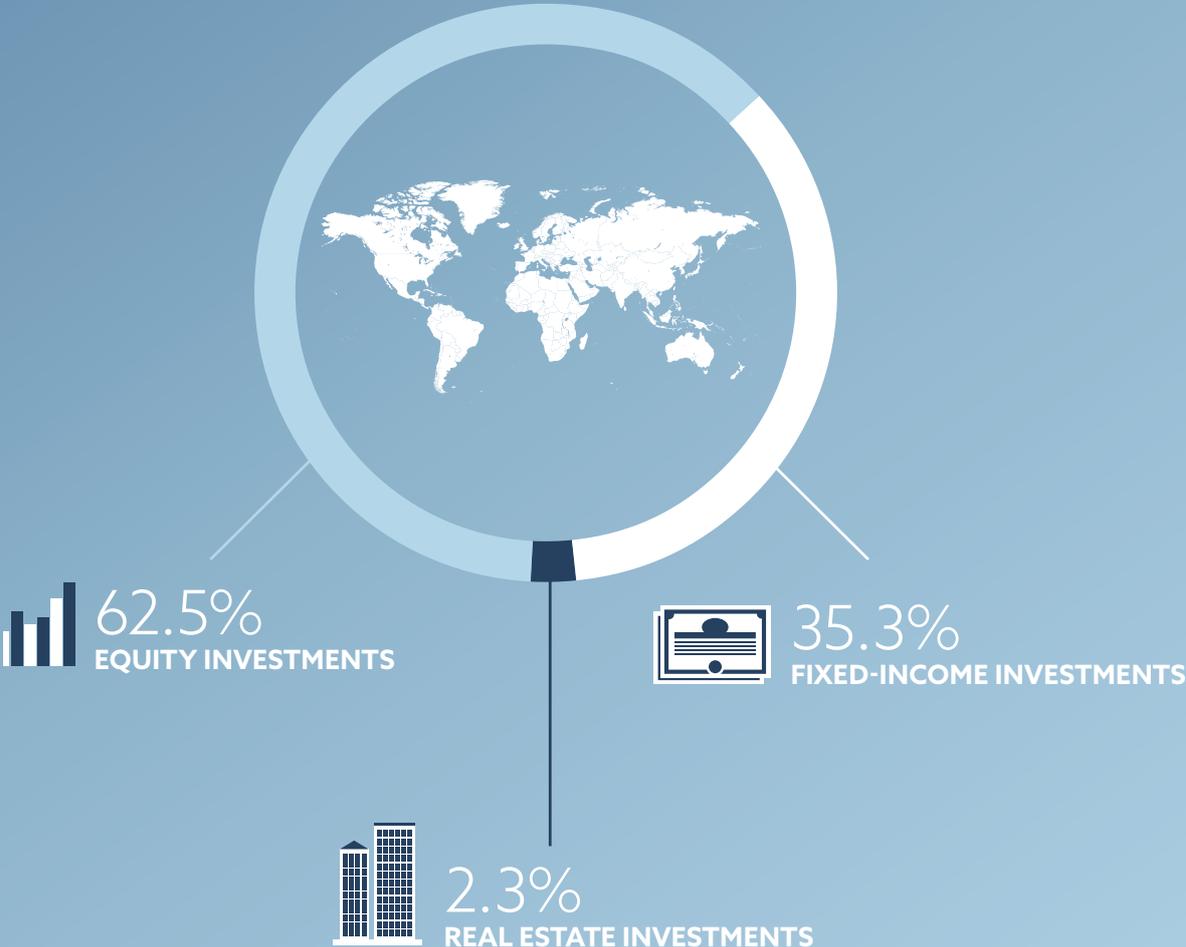
**401 Bn. KR**



EQUITY INVESTMENTS RETURNED **7.5** PERCENT, WHILE FIXED-INCOME INVESTMENTS RETURNED **1.6** PERCENT. INVESTMENTS IN REAL ESTATE RETURNED **3.1** PERCENT.

THE RETURN ON EQUITY AND FIXED-INCOME INVESTMENTS WAS **0.2** PERCENTAGE POINT HIGHER THAN THE RETURN ON THE BENCHMARK INDICES.

THE FUND HAD A MARKET VALUE OF **7,012** BILLION KRONER AT THE END OF THE QUARTER AND WAS INVESTED **62.5** PERCENT IN EQUITIES, **35.3** PERCENT IN FIXED INCOME AND **2.3** PERCENT IN REAL ESTATE.



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Norges Bank Investment Management manages the Government Pension Fund Global. Our mission is to safeguard and build financial wealth for future generations.

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# FUND MANAGEMENT

## MARKET DEVELOPMENTS

Global economic growth slowed towards the end of 2014, and economic data for the first quarter of 2015 were mixed. PMIs for the manufacturing sector were somewhat weaker than in the fourth quarter, while those for the service sector improved. There were also variations both within and between developed and emerging markets. Analysts revised down their growth forecasts for the main emerging markets in 2015, but revised up their forecasts for the large developed economies.

US economic data fell short of analysts' expectations in the first quarter. Activity in the construction and export sectors slowed, but most labour market indicators improved further. Wage and price inflation remained subdued. Expectations of interest-rate increases by the Federal Reserve in the near future declined during the quarter, but the dollar strengthened against many currencies.

The prospect of higher interest rates in the US led the market to focus on fundamental weaknesses in a number of emerging markets. In March, the IMF warned of risks in financial markets and unstable capital flows. Lower commodity prices also had a negative effect on some emerging markets. Analysts revised down their growth forecasts for Russia and Brazil. In China, economic growth slowed further, house prices continued to fall, and inflation remained low. The Chinese central bank lowered its reserve requirement for banks in February and cut its policy rate for the second time in four months.

Economic data in Japan and the euro area picked up in the first quarter. Both benefited from a combination of low energy prices, a weak currency and significant monetary easing. To counter persistently weak inflation, the ECB announced purchases of government securities. At the same time that this quantitative easing was boosting European asset prices, developments in Greece pulled in the opposite direction. Negotiations between the new Greek government and the euro countries on a fresh rescue package led to only a temporary deal, but the contagion effects on other markets were limited.

A number of central banks in both developed and emerging markets eased their monetary policy during the quarter. Many rate cuts came unexpectedly in the wake of low commodity prices, persistently low inflation and substantial currency pressure. Several European central banks introduced negative interest rates during the quarter. Monetary policy divergence between the US and other central banks served to strengthen the dollar further. There was also greater volatility in financial markets, especially the currency markets.

In January, the Swiss National Bank decided to abandon its currency floor against the euro. The decision surprised markets and caused a sharp appreciation of the Swiss franc. Volatility in currency markets increased broadly after the announcement.

## EQUITY INVESTMENTS

Equity investments, which accounted for 62.5 percent of the fund at the end of the quarter, returned 7.5 percent. There was a broad rise in the world's stock markets during the period.

### HIGHEST RETURNS IN JAPAN

Asia and Oceania returned 11.0 percent and accounted for 20.7 percent of the fund's equity investments. Japanese shares returned 14.5 percent, and made up 8.6 percent of equity investments. Chinese stocks returned 12.6 percent, and accounted for 3.0 percent of the total, making China the fund's single largest emerging market.

European stocks produced a return of 8.5 percent and represented 41.2 percent of the fund's equity investments. Germany stood out with a return of 13.2 percent and accounted for 6.3 percent of the equity portfolio.

North American stocks returned 5.3 percent and made up 35.4 percent of the fund's equity investments. US stocks returned 5.8 percent and were the fund's single largest market.

Emerging market stocks returned 5.9 percent and accounted for 9.5 percent of the fund's equity investments.

### HEALTH CARE THE BEST-PERFORMING SECTOR

Health care stocks produced the strongest return in the first quarter, gaining 12.8 percent after several major acquisitions were announced.

Consumer goods producers returned 10.3 percent, due partly to falling commodity prices giving consumers more money to spend.

Basic materials stocks returned 8.8 percent, with chemicals companies delivering a particularly strong return on the back of generally lower commodity prices.

The weakest performer in the first quarter was utilities, where the fund's investments returned -1.5 percent, due primarily to lower power prices.

### INDIVIDUAL STOCKS

The investment in technology company Apple contributed most to the return for the first quarter, followed by drugmaker Novartis and carmaker Daimler. The companies that made the most negative contributions were oil company Shell, technology company Microsoft and Bank of America.

**Table 1** Return on the fund's equity investments in first quarter 2015. By sector. Percent

Sector	Return in international currency	Share of equity investments*
Financials	6.4	23.3
Industrials	8.3	13.8
Consumer goods	10.3	14.2
Consumer services	8.9	10.7
Health care	12.8	10.1
Technology	6.6	8.5
Oil and gas	0.8	6.4
Basic materials	8.8	5.8
Telecommunications	7.1	3.3
Utilities	-1.5	3.4

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

**Table 2** The fund's largest company holdings in the equity markets as at 31 March 2015. Millions of kroner

Company	Country	Holding
Nestlé SA	Switzerland	51 585
Apple Inc	US	43 977
Novartis AG	Switzerland	42 152
Royal Dutch Shell plc	UK	32 340
Roche Holding AG	Switzerland	31 317
BlackRock Inc	US	29 766
Daimler AG	Germany	27 935
BASF SE	Germany	24 726
HSBC Holdings Plc	UK	23 860
Sanofi	France	22 769

## RETURN IN 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 the first quarter. Unless otherwise stated in the text, results are measured in the fund’s currency basket.

The fund participated in 25 initial public offerings in the first quarter. The largest of these was at Spanish airport operator Aena, followed by Chinese bank GF Securities and Swiss telecom Sunrise Communications. The offerings in which the fund invested the most were at Aena, Sunrise Communications and German cable TV company Tele Columbus.

The fund’s equity investments outperformed the benchmark index by 0.4 percentage point in the quarter. Consumer goods and industrials were the sectors that made the most positive contributions to the relative return, while Germany and France were the countries that contributed most. Investments in the US and Japan made the most negative contributions.

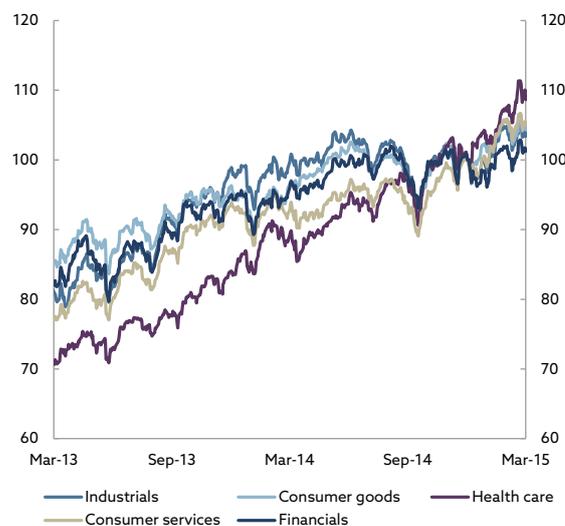
## RELATIVE RETURN

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. We have also constructed internal reference portfolios for equities and bonds that take into account the fund’s special characteristics and objective and are intended to achieve a better trade-off over time between expected risks and returns.

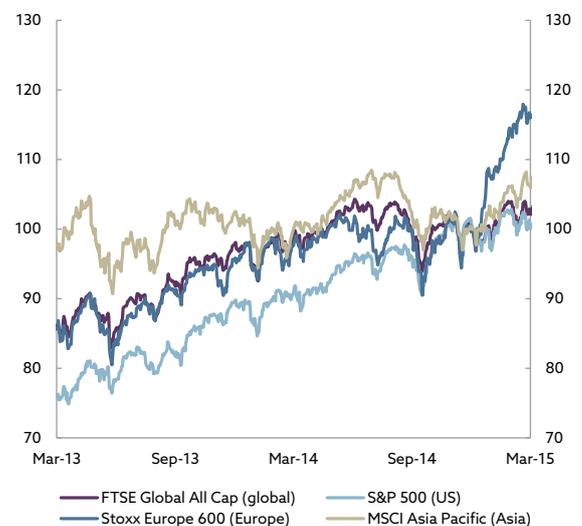
## INTERNAL REFERENCE PORTFOLIO

The internal reference portfolio for equity investments returned 7.3 percent in the first quarter, 0.1 percentage point more than the benchmark index set by the Ministry of Finance.

**Chart 1** Price developments in stock sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed 31 Dec 2014 = 100



**Chart 2** Price developments in regional equity markets. Measured in US dollars, except for the Stoxx Europe 600, which is measured in euros. Indexed 31 Dec 2014 = 100



## FIXED-INCOME INVESTMENTS

Fixed-income investments accounted for 35.3 percent of the fund at the end of the first quarter and returned 1.6 percent. These investments were mainly in bonds, with the remainder in short-term securities and bank deposits.

### POSITIVE RETURN ON GOVERNMENT BONDS

Government bonds returned 2.0 percent and accounted for 54.9 percent of the fund's fixed-income investments at the end of the quarter.

The dollar strengthened, and US Treasuries returned 6.0 percent. Measured in local currency, the return was 2.1 percent. US Treasuries accounted for 16.4 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer.

Euro-denominated government bonds represented 11.2 percent of the fund's fixed-income holdings and returned -4.1 percent. The euro weakened significantly during the quarter, and yields fell. In local currency, the return was 4.1 percent.

Japanese government bonds returned 3.4 percent and made up 8.0 percent of fixed-income holdings. The return in local currency was -0.4 percent.

### CORPORATE BONDS PERFORM BEST

Corporate bonds were the fund's best-performing fixed-income sector in the first quarter, returning 4.0 percent and representing 20.6 percent of fixed-income investments at the end of the

**Table 3** Return on the fund's fixed-income investments in first quarter 2015. By sector. Percent

Sector	Return in international currency	Share of fixed-income investments
Government bonds*	2.0	54.9
Government-related bonds*	-0.7	14.0
Inflation-linked bonds*	0.6	4.0
Corporate bonds	4.0	20.6
Securitised debt	-2.3	7.1

\* 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 4** The fund's largest bond holdings as at 31 March 2015. Millions of kroner

Issuer	Country	Holding
United States of America	US	465 557
Japanese government	Japan	200 198
Federal Republic of Germany	Germany	92 252
UK government	UK	86 452
Mexican government	Mexico	52 205
Spanish government	Spain	46 027
South Korean government	South Korea	45 985
Italian Republic	Italy	42 247
French Republic	France	39 760
Federative Republic of Brazil	Brazil	36 763

**Table 5** The fund's fixed-income investments as at 31 March 2015 based on credit ratings. Percentage of bond holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	24.6	9.2	12.1	8.6	0.1	54.5
Government-related bonds	5.4	6.0	1.0	1.3	0.2	13.9
Inflation-linked bonds	2.6	0.3	0.1	0.9	-	4.0
Corporate bonds	0.1	1.6	9.4	8.9	0.5	20.5
Securitised debt	5.5	0.5	0.5	0.5	0.0	7.1
<b>Total bonds</b>	<b>38.2</b>	<b>17.6</b>	<b>23.1</b>	<b>20.2</b>	<b>0.9</b>	<b>100.0</b>

period. Securitised debt, consisting mainly of covered bonds denominated in euros, returned -2.3 percent and made up 7.1 percent of fixed-income investments. Inflation-linked bonds returned 0.6 percent and accounted for 4.0 percent of total fixed-income investments.

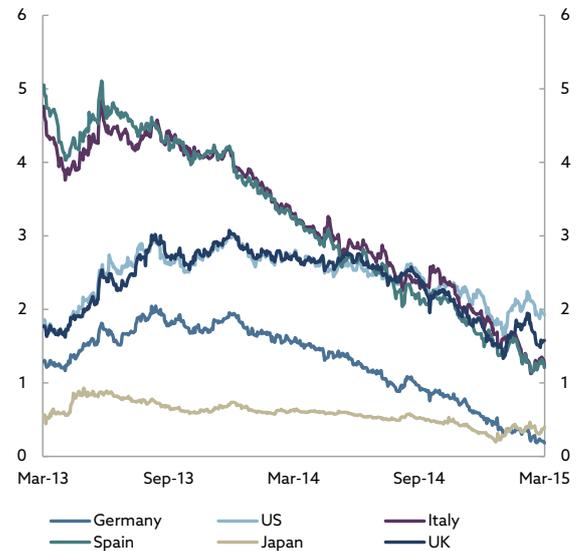
The fund also holds bonds from government-related institutions such as the European Investment Bank, Kreditanstalt für Wiederaufbau and Canada Housing Trust. These bonds returned -0.7 percent and accounted for 14.0 percent of fixed-income investments.

### CHANGES IN HOLDINGS

The market value of investments in bonds denominated in emerging market currencies increased slightly from the fourth quarter. Emerging markets accounted for 12.9 percent of fixed-income investments at the end of the period, up from 12.8 percent three months earlier. Investments in dollars, euros, pounds and yen accounted for 78.6 percent of fixed-income holdings at the end of the period, against 78.7 percent at the end of the fourth quarter.

The biggest increases in government bond holdings in the first quarter were in US, French and Japanese bonds. The biggest decreases were in bonds from the Netherlands, Italy and Brazil.

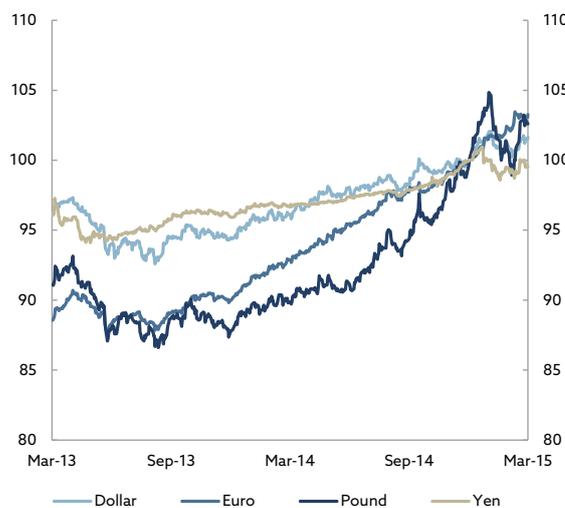
**Chart 4** 10-year government bond yields. Percent



Source: Bloomberg

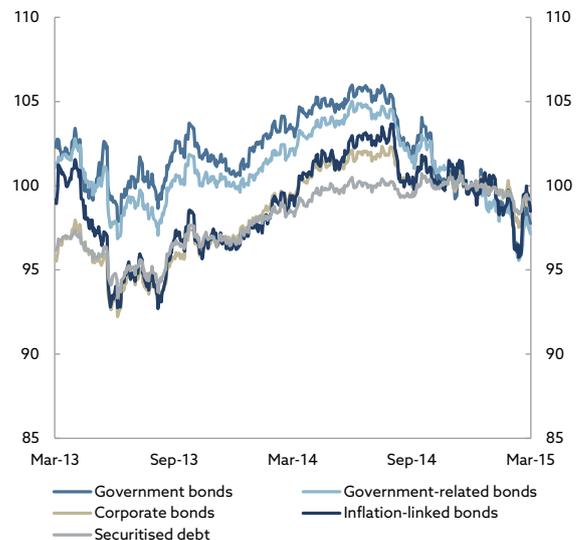
The fund's three largest participations in issues of new bonds other than government debt were in bonds from Salmon River Export, JPMorgan Chase & Co. and Deposit Insurance Corporation of Japan.

**Chart 3** Price developments for bonds issued in dollars, euros, pounds and yen. Measured in local currencies. Indexed 31 Dec 2014 = 100



Source: Barclays

**Chart 5** Price developments in fixed-income sectors. Measured in US dollars. Indexed 31 Dec 2014 = 100



Source: Barclays

## 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. We have also constructed internal reference portfolios for equities and bonds which take into account the fund's special characteristics and objective and are intended to achieve a better trade-off over time between expected risks and returns.

The fund's fixed-income investments underperformed the benchmark index by 0.1 percentage point in the first quarter. There was a general decrease in yields in developed markets during the period. The lower duration of the fund's fixed-income investments relative to the benchmark made a negative contribution, making the fund generally less sensitive to falling yields than the benchmark. The fund's fixed-income investments had a higher weight of emerging markets than the benchmark. Brazilian government bonds are among the fund's largest holdings in emerging markets, and the return on investments in Brazil was weak due to rising yields and a weaker currency.

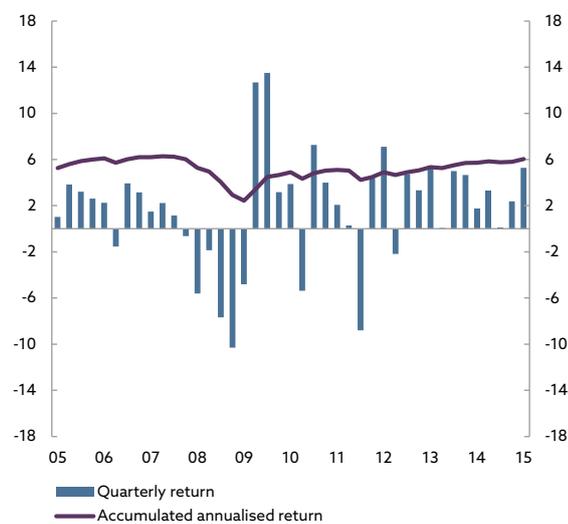
## INTERNAL REFERENCE PORTFOLIO

The internal reference portfolio for fixed-income investments returned 1.6 percent, 0.2 percentage point less than the benchmark index set by the Ministry of Finance.

**Table 6** Contributions from equity and fixed-income management to the fund's relative return in first quarter 2015. Percentage points

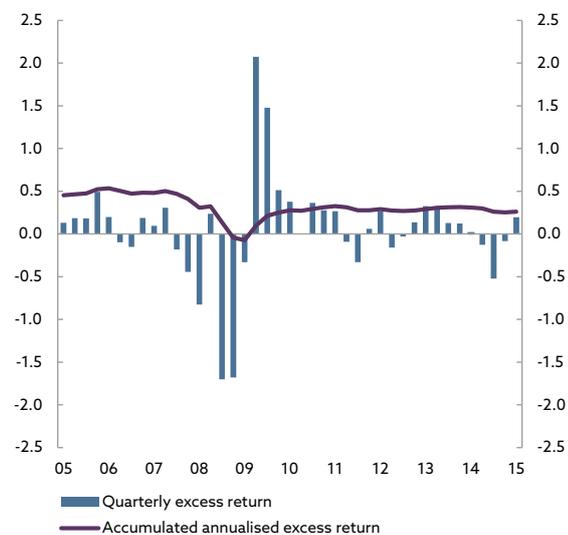
	Total	Attributed to external management
Equity investments	0.25	-0.03
Fixed-income investments	-0.06	0.00
<b>Total</b>	<b>0.19</b>	<b>-0.03</b>

**Chart 6** The fund's quarterly and accumulated annualised return. Percent



Source: Norges Bank Investment Management

**Chart 7** Quarterly relative return and accumulated annualised relative return on the fund, excluding real estate investments. Percentage points



Source: Norges Bank Investment Management

## REAL ESTATE INVESTMENTS

Real estate investments amounted to 2.3 percent of the fund at the end of the first quarter and produced a return for the period of 3.1 percent. Investments in unlisted real estate returned 1.6 percent, while investments in listed real estate returned 8.1 percent.

The return on the fund's unlisted real estate investments 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 1.0 percentage points to the return, and the net change in the value of properties and debt contributed 1.6 percentage points, while currency movements made a negative contribution of -1.0 percentage point. Transaction costs for property purchases had no material effect on the return for the quarter.

It is planned that real estate will eventually account for up to 5 percent of the value of the fund. Our goal is to build a global, but concentrated, real estate portfolio. We aim to increase the proportion of the fund invested in real estate by 1 percentage point per year over the next few years.

### NEW INVESTMENTS IN THE QUARTER

New investments were made in both the US and Europe during the period. In January, the fund paid 190.6 million pounds for a 100 percent interest in Queensberry House at 3-9 Old Burlington Street in London. In February, the

fund acquired a 45 percent stake in 11 Times Square in New York for 401.9 million dollars alongside Prudential Real Estate Investors and SJP Properties. In March, the fund paid 60.8 million dollars for a 49.9 percent interest in 25 Massachusetts Avenue NW, an office property in Washington D.C., in partnership with TIAA-CREF.

**Table 7** Return on the fund's real estate investments. Return components for unlisted investments. Percent

	Return
Net profit from ongoing rental income	1.0
Net change in value of properties and debt	1.6
Transaction costs for property purchases	-0.0
Result of currency adjustments	-1.0
Unlisted real estate investments	1.6
Listed property	8.1
<b>Total return</b>	<b>3.1</b>

**Table 8** Market value of real estate investments as at 31 March 2015. Millions of kroner

	Holding
Investments in unlisted real estate	117 923
Investments in listed real estate	38 936
Bank deposits and other claims	1 250
<b>Total</b>	<b>158 109</b>

## RESPONSIBLE INVESTMENT

Responsible investment is an important and integral part of our management task. As part of our responsible investment activities, we work on standard setting, ownership and risk management.

The first quarter saw further work on standard setting and expectations for the companies we invest in. We invited companies, standard setters, academics and NGOs to contribute to the development of a new expectations document concerning companies' management of climate risks. Published during the quarter, the new document focuses more on companies' investments, risk management, reporting and transparency in areas such as interaction with the authorities. The document sets out expectations for all of the companies we are invested in, but focuses particularly on companies with activities that generate extensive carbon emissions.

We also published our first position paper in the field of responsible investment during the quarter. The paper presents our views on shareholders' right to nominate candidates for election to the boards of US companies (proxy access) and will form the basis for our voting at a number of US companies.

We also submitted consultation responses to the Financial Services Agency in Japan on the development of corporate governance at Japanese companies, to the European Securities and Markets Authority (ESMA) on regulation and implementation of technical standards in European financial markets, and to the World Resources Institute on the calculation and reporting of potential greenhouse gas emissions from fossil fuel reserves.

### OWNERSHIP

Norges Bank Investment Management voted at 1,652 company general meetings in the first quarter. We considered and voted on 10 shareholder proposals on environmental and social issues in the light of our principles for long-term active ownership. Voting is our most important formal right as a shareholder in terms of influencing decisions at companies in which we have holdings.

We are keen to make boards accountable and had a particular focus during the quarter on proxy access in the US. We engaged in dialogue with various companies to encourage them to introduce proxy access in their bylaws, and we published a position paper to support this work. A number of US companies introduced proxy access during the quarter. In Europe, we gave priority to work on the equal treatment of shareholders. In France, we engaged with a number of companies on new rules doubling the voting rights for long-term shareholders. All companies have given shareholders an opportunity to vote on the issue at general meetings in the second quarter.

We wrote to the boards of a number of large power companies in the first quarter concerning their strategy for the transition to a less carbon-intensive energy system. As a long-term shareholder, we are keen to sound out companies' intentions. In addition, we wrote to some of the major mining conglomerates asking them for their views on a possible move in the industry towards hiving off coal mining from their other activities.

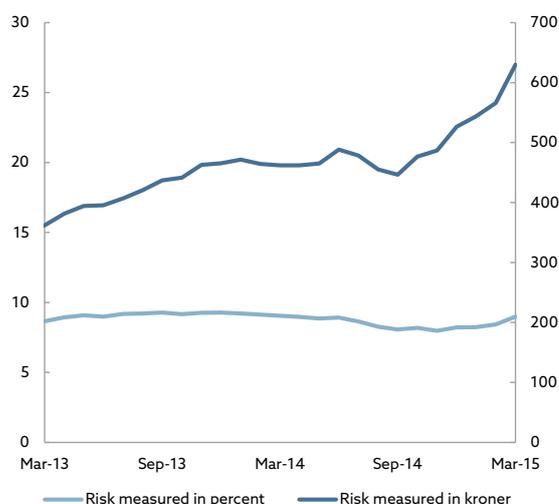
## RISK MANAGEMENT

We continued to work on monitoring risk at country, sector and company level in the first quarter. For example, we assessed risks relating to workers' rights in connection with our entry into Bangladesh, conducted analyses of the mining industry and performed a number of analyses of individual companies. We also continued our work on collecting and collating

data for a better overview of potential environmental and social issues.

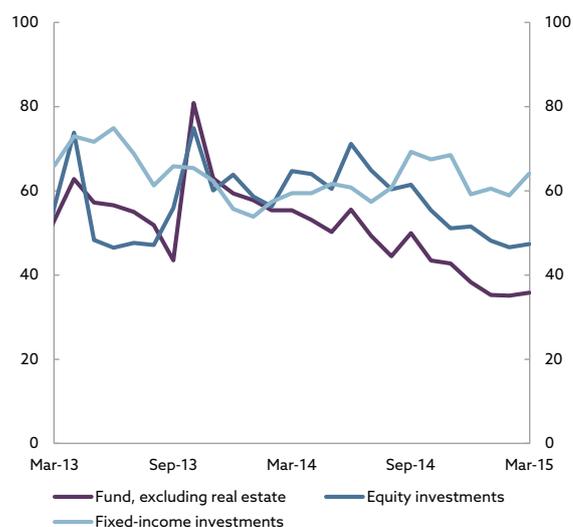
We arranged an NBIM Talk seminar during the quarter where we presented our investments in environment-related technologies and companies. The emphasis was on investment strategies and opportunities to be found in the transition to a less carbon-intensive economy.

**Chart 8** Expected absolute volatility of the fund. Percent (left-hand axis) and billions of kroner (right-hand axis)



Source: Norges Bank Investment Management

**Chart 9** Expected relative volatility of the fund, excluding real estate investments. Basis points



Source: Norges Bank Investment Management

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

	Limits set by the Ministry of Finance	31.03.2015
Exposure	Equities 50–70% of fund's market value*	62.2
	Real estate 0–5% of fund's market value	2.3
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-	0.9
Maximum ownership	Maximum 10% of voting shares in a listed company	9.6

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

## RISK MANAGEMENT

The fund's market risk is determined by the composition of its investments and by movements in share prices, exchange rates, interest rates, real estate values 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 gain the broadest possible picture of the fund's market risk.

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. The fund's expected absolute volatility was 9.0 percent, or about 630 billion kroner, at the end of the first quarter, compared with 8.2 percent three months earlier.

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 the quarter, unchanged from the end of the fourth quarter.

### 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 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.

Each quarter, Norges Bank Investment Management estimates the size of the potential losses or gains it may incur over the next year because of unwanted operational events related to its investment management activities. The estimate is based on past events and an assessment of future risks and represents the fund's estimated operational risk exposure. Estimated operational risk exposure remained within the Executive Board's tolerance limit in the first quarter.

A total of 82 unwanted operational events were registered in the first quarter, with a total financial impact of 11.5 million kroner.

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

# KEY FIGURES

**Table 10** Quarterly return as at 31 March 2015

	1Q 2015	4Q 2014	3Q 2014	2Q 2014	1Q 2014
<b>Returns in international currency</b>					
Return on equity investments (percent)	7.53	2.74	-0.49	4.01	1.47
Return on fixed-income investments (percent)	1.63	1.68	0.95	2.04	2.05
Return on real estate investments (percent)	3.10	3.53	1.48	3.04	1.99
Return on fund (percent)	5.28	2.37	0.07	3.25	1.70
Return on equity and fixed-income investments (percent)	5.33	2.35	0.06	3.26	1.70
Return on benchmark equity and fixed-income indices (percent)	5.13	2.43	0.58	3.38	1.68
Relative return on equity and fixed-income investments (percentage points)	0.19	-0.08	-0.52	-0.13	0.01
Relative return on equity investments (percentage points)	0.39	0.09	-0.76	-0.17	0.07
Relative return on fixed-income investments (percentage points)	-0.14	-0.39	-0.14	-0.07	-0.07
Management costs (percentage points)	0.01	0.01	0.01	0.01	0.02
Return on fund after management costs (percent)	5.26	2.36	0.06	3.24	1.68
<b>Returns in kroner (percent)</b>					
Return on equity investments	11.29	16.14	-0.20	7.09	0.39
Return on fixed-income investments	5.17	14.94	1.24	5.06	0.96
Return on real estate investments	6.70	17.04	1.78	6.09	0.90
Return on fund	8.95	15.72	0.36	6.31	0.61

**Table 11** Historical key figures as at 31 March 2015. Annualised data, measured in international currency

	Since 01.01.1998	Last 10 years	Last 5 years	Last 3 years	Last 12 months
<b>Return on fund (percent)</b>	6.04	6.61	8.90	11.61	11.36
Return on equity and fixed-income investments (percent)	6.04	6.61	8.91	11.63	11.37
Return on benchmark equity and fixed-income indices (percent)	5.78	6.50	8.70	11.53	11.97
Relative return on equity and fixed-income investments (percentage points)	0.26	0.12	0.21	0.10	-0.60
Standard deviation (percent)	7.49	8.63	7.06	5.55	4.34
Tracking error for equity and fixed-income investments (percentage points)	0.73	0.91	0.39	0.37	0.37
Information ratio (IR)* for equity and fixed-income investments	0.36	0.13	0.56	0.27	-1.62
<b>Return on fund (percent)</b>	6.04	6.61	8.90	11.61	11.36
Annual price inflation (percent)	1.81	1.93	1.73	1.07	0.20
Annual management costs (percent)	0.09	0.09	0.07	0.06	0.06
Annual net real return on fund (percent)	4.07	4.50	6.98	10.37	11.08

\* 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 12** Key figures as at 31 March 2015

	1Q 2015	4Q 2014	3Q 2014	2Q 2014	1Q 2014
<b>Market value (billions of kroner)*</b>					
Market value of equity investments	4 380	3 940	3 396	3 357	3 124
Market value of fixed-income investments	2 474	2 350	2 064	2 058	1 927
Market value of real estate investments	158	141	74	63	59
Market value of fund	7 012	6 431	5 534	5 478	5 110
Inflow of new capital*	5	25	36	44	41
Return on fund	401	259	15	192	78
Changes due to fluctuations in krone	175	613	5	132	-47
Total change in fund	581	896	56	368	72
<b>Management costs (percent)</b>					
Estimated transition costs**	0.00	0.00	0.00	0.00	0.00
Management costs	0.06	0.06	0.05	0.05	0.07
<b>Changes in value since first capital inflow in 1996 (billions of kroner)</b>					
Gross inflow of new capital	3 459	3 452	3 426	3 389	3 344
Management costs***	28	27	26	25	25
Inflow of new capital after management costs	3 431	3 425	3 400	3 364	3 319
Return on fund	2 743	2 343	2 084	2 069	1 877
Changes due to fluctuations in krone	838	663	50	45	-86
Market value of fund	7 012	6 431	5 534	5 478	5 110
Return after management costs	2 716	2 316	2 058	2 044	1 852

\* 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 9.2 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 13** Accumulated return since first capital inflow in 1996. Billions of kroner

	1Q 2015	4Q 2014	3Q 2014	2Q 2014	1Q 2014
Return on equity investments	1 894	1 567	1 409	1 421	1 283
Return on fixed-income investments	830	761	665	639	587
Return on real estate investments	19	14	9	8	6
Total return	2 743	2 343	2 084	2 069	1 877

# FINANCIAL REPORTING

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

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## INCOME STATEMENT

Amounts in NOK million	Note	1Q 2015	1Q 2014	2014
<b>Profit/loss on the portfolio excluding foreign exchange gain/loss</b>				
Interest income and expense from deposits in banks and short-term borrowing		-14	-1	48
Interest income, lending associated with reverse repurchase agreements		7	48	159
Income/expense from:				
- Equities and units	4	349 678	38 260	388 521
- Bonds	4	51 738	39 766	158 027
- Real estate	6	3 000	1 216	7 160
- Financial derivatives	4	-2 820	-1 277	-8 208
Interest expense, borrowing associated with repurchase agreements		-2	-24	-35
Other interest income and interest expense		-	-2	-9
Tax expense		-661	-347	-2 026
Other expenses		-	-1	-3
<b>Profit/loss on the portfolio before foreign exchange gain/loss</b>		<b>400 926</b>	<b>77 638</b>	<b>543 634</b>
Foreign exchange gain/loss		174 926	-46 890	702 259
<b>Profit/loss on the portfolio</b>		<b>575 852</b>	<b>30 748</b>	<b>1 245 893</b>
Management fee	9	-932	-934	-3 202
<b>Profit/loss for the period and total comprehensive income</b>		<b>574 920</b>	<b>29 814</b>	<b>1 242 691</b>

## BALANCE SHEET

Amounts in NOK million	Note	31.03.2015	31.12.2014
<b>ASSETS</b>			
Deposits in banks		9 480	11 731
Lending associated with reverse repurchase agreements		59 764	45 536
Cash collateral posted		3 135	1 289
Unsettled trades		30 936	1 376
Equities and units	5	4 061 111	3 790 853
Equities lent	5	351 305	166 842
Bonds	5	2 436 859	2 324 626
Bonds lent	5	51 229	25 163
Real estate	6	117 923	106 431
Financial derivatives	5	4 271	5 777
Other assets		2 389	3 847
<b>TOTAL ASSETS</b>	<b>7, 8</b>	<b>7 128 402</b>	<b>6 483 471</b>
<b>LIABILITIES AND OWNER'S CAPITAL</b>			
<b>Liabilities</b>			
Short-term borrowing		17	-
Borrowing associated with repurchase agreements		30 826	13 512
Cash collateral received		37 398	27 006
Unsettled trades		35 760	4 001
Financial derivatives	5	6 665	7 895
Other liabilities		5 647	318
Management fee payable	9	932	3 202
<b>Total liabilities</b>		<b>117 245</b>	<b>55 934</b>
Owner's capital		7 011 157	6 427 537
<b>TOTAL LIABILITIES AND OWNER'S CAPITAL</b>	<b>7, 8</b>	<b>7 128 402</b>	<b>6 483 471</b>

## STATEMENT OF CASH FLOWS

Amounts in NOK million, received (+) / paid (-)	Year-to-date 31.03.2015	Year-to-date 31.03.2014	2014
<b>Operating activities</b>			
Net cash flow arising from interest received from deposits in banks and interest paid on short-term borrowing from banks	755	-493	-1 718
Net cash flow in connection with repurchase agreements and reverse repurchase agreements	5 363	-31 391	-18 744
Net cash flow arising from purchase and sale of equities and units	-34 535	-9 006	-144 448
Net cash flow arising from purchase and sale of bonds	-26 883	-47 070	-62 878
Net cash flow arising from purchase and sale of real estate	-6 322	-7 385	-37 711
Net cash flow arising from financial derivatives	-866	-302	-1 204
Dividends received from investments in equities and units	20 148	17 284	82 623
Interest received on bonds	18 717	15 528	63 309
Income received in connection with equity and bond lending	518	283	2 550
Net cash flow arising from real estate operations	625	393	1 966
Cash collateral received/paid related to securities lending, derivatives and reverse repurchase agreements	7 114	21 728	-21 058
Net cash flow related to other expenses, other assets and other liabilities	7 341	93	-2 625
Net cash flow arising from tax payments and refunds	53	-267	-2 740
Management fee paid to Norges Bank*	-3 202	-2 889	-2 889
<b>Net cash outflow from operating activities</b>	<b>-11 174</b>	<b>-43 494</b>	<b>-145 567</b>
<b>Financing activities</b>			
Inflow from the Norwegian government**	9 069	44 712	150 894
<b>Net cash inflow from financing activities</b>	<b>9 069</b>	<b>44 712</b>	<b>150 894</b>
<b>Net change in cash and cash equivalents</b>			
Cash and cash equivalents at 1 January	11 731	3 953	3 953
Net cash receipts/payments in the period	-2 105	1 218	5 327
Net foreign exchange gain/loss on cash and cash equivalents	-163	-279	2 451
<b>Cash and cash equivalents at end of period</b>	<b>9 463</b>	<b>4 892</b>	<b>11 731</b>
<b>Cash and cash equivalents comprise:</b>			
Deposits in banks	9 480	4 892	11 731
Short-term borrowing	-17	-	-
<b>Total cash and cash equivalents at end of period</b>	<b>9 463</b>	<b>4 892</b>	<b>11 731</b>

\* 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	Total owner's capital*
1 January 2014	3 298 941	1 735 905	5 034 846
Total comprehensive income	-	29 814	29 814
Inflows during the period	44 100	-	44 100
<b>31 March 2014</b>	<b>3 343 041</b>	<b>1 765 719</b>	<b>5 108 760</b>
1 April 2014	3 343 041	1 765 719	5 108 760
Total comprehensive income	-	1 212 877	1 212 877
Inflows during the period	105 900	-	105 900
<b>31 December 2014</b>	<b>3 448 941</b>	<b>2 978 596</b>	<b>6 427 537</b>
1 January 2015	3 448 941	2 978 596	6 427 537
Total comprehensive income	-	574 920	574 920
Inflows during the period*	8 700	-	8 700
<b>31 March 2015</b>	<b>3 457 641</b>	<b>3 553 516</b>	<b>7 011 157</b>

\* 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 the first quarter of 2015, NOK 3.2 billion was used to pay the accrued management fee for 2014 and NOK 5.5 billion was transferred into the investment portfolio. Comparative amounts for 2014 were NOK 2.9 billion and NOK 147.1 billion, respectively.

# 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.

### 2. APPROVAL OF QUARTERLY FINANCIAL STATEMENTS

Norges Bank's quarterly financial statements for the first quarter of 2015, which only encompass the financial reporting for the GPFG, were approved by Norges Bank's Executive Board on 22 April 2015.

## NOTE 2 ACCOUNTING POLICIES

### 1. BASIS OF PREPARATION

The regulation concerning the annual financial reporting for Norges Bank, which has been laid down by the Ministry of Finance, requires that Norges Bank's financial statements shall include the financial reporting for the GPFG, and that these shall be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Norges Bank prepares quarterly financial statements for the GPFG, with closing dates of 31 March, 30 June and 30 September. The quarterly financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting*.

The quarterly financial statements are prepared using the same accounting policies and calculation methods as used for the annual financial statements 2014, see also section 3. Accounting policies are described in the annual report 2014, and the quarterly financial statements should therefore be read in conjunction with this.

### 2. SIGNIFICANT ESTIMATES AND 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.

In cases where there are particularly uncertain estimates, this is described in the respective notes. For additional information on significant estimates and critical accounting judgements, see the relevant notes in the annual report 2014.

### 3. NEW/AMENDED STANDARDS IMPLEMENTED AS AT 1 JANUARY 2015

No new or amended standards are implemented as at 1 January 2015.

### 4. RELEVANT FINAL STANDARDS AND INTERPRETATIONS WITH EXPECTED EU ENDORSEMENT AFTER 2015

#### IFRS 9 Financial instruments

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. It is not expected that implementation of IFRS 9 will result in material changes in classification, recognition or measurement for the financial reporting on the transition date.

For more information regarding IFRS 9, see note 2 *Accounting policies* in the annual report 2014.

## NOTE 3 RETURNS PER ASSET CLASS

Table 3.1 Returns per asset class

	1Q 2015	4Q 2014	3Q 2014	2Q 2014	1Q 2014	Year-to-date 31.03.2015
<b>Returns in international currency</b>						
Return on equity investments (percent)	7.53	2.74	-0.49	4.01	1.47	7.53
Return on fixed-income investments (percent)	1.63	1.68	0.95	2.04	2.05	1.63
Return on real estate investments (percent)	3.10	3.53	1.48	3.04	1.99	3.10
Return on fund (percent)	5.28	2.37	0.07	3.25	1.70	5.28
Return on equity and fixed-income investments (percent)	5.33	2.35	0.06	3.26	1.70	5.33
Return on benchmark equity and fixed-income indices (percent)	5.13	2.43	0.58	3.38	1.68	5.13
Relative return on equity and fixed-income investments (percentage points)	0.19	-0.08	-0.52	-0.13	0.01	0.19
Relative return on equity investments (percentage points)	0.39	0.09	-0.76	-0.17	0.07	0.39
Relative return on fixed-income investments (percentage points)	-0.14	-0.39	-0.14	-0.07	-0.07	-0.14
<b>Returns in kroner (percent)</b>						
Return on equity investments	11.29	16.14	-0.20	7.09	0.39	11.29
Return on fixed-income investments	5.17	14.94	1.24	5.06	0.96	5.17
Return on real estate investments	6.70	17.04	1.78	6.09	0.90	6.70
Return on fund	8.95	15.72	0.36	6.31	0.61	8.95
Return on equity and fixed-income investments	9.00	15.70	0.35	6.31	0.61	9.00

For additional information on the method used in the return calculation, see note 3 *Profit/loss on the portfolio*

*before foreign exchange gains and losses and returns per asset class* in the annual report 2014.

## NOTE 4 INCOME/EXPENSE FROM EQUITIES AND UNITS, BONDS AND FINANCIAL DERIVATIVES

Tables 4.1 to 4.3 specify income and expense elements for *Equities and units*, *Bonds* and *Financial derivatives*, where the line *Income/expense* shows the amount recognised in the respective income statement line.

Table 4.1 Specification Income/expense from equities and units

Amounts in NOK million	1Q 2015	1Q 2014	2014
Dividends	24 237	20 500	87 962
Income from securities lending	664	561	2 578
Realised gain/loss	38 090	22 301	75 832
Unrealised gain/loss	286 687	-5 103	222 149
<b>Income/expense from equities and units before foreign exchange gain/loss</b>	<b>349 678</b>	<b>38 260</b>	<b>388 521</b>

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	1Q 2015	1Q 2014	2014
Interest	19 579	15 197	65 472
Income from securities lending	18	7	21
Realised gain/loss	11 876	1 095	14 831
Unrealised gain/loss	20 265	23 467	77 703
<b>Income/expense from equities and units before foreign exchange gain/loss</b>	<b>51 738</b>	<b>39 766</b>	<b>158 027</b>

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	1Q 2015	1Q 2014	2014
Interest	-312	48	-285
Realised gain/loss	-1 875	-1 498	-4 226
Unrealised gain/loss	-633	173	-3 697
<b>Income/expense from financial derivatives before foreign exchange gain/loss</b>	<b>-2 820</b>	<b>-1 277</b>	<b>-8 208</b>

## NOTE 5 HOLDINGS OF EQUITIES AND UNITS, BONDS AND FINANCIAL DERIVATIVES

Table 5.1 Equities and units

Amounts in NOK million	31.03.2015		31.12.2014	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Listed equities and units	4 412 416	10 441	3 957 695	7 012
<b>Total equities and units</b>	<b>4 412 416</b>	<b>10 441</b>	<b>3 957 695</b>	<b>7 012</b>
<i>Of which equities lent</i>	<i>351 305</i>		<i>166 842</i>	

Table 5.2 Bonds

Amounts in NOK million	31.03.2015			31.12.2014		
	Nominal value*	Fair value including accrued interest	Accrued interest	Nominal value*	Fair value including accrued interest	Accrued interest
Government bonds	1 152 301	1 357 115	11 557	1 095 771	1 296 796	9 832
Government-related bonds	319 740	346 617	3 165	316 496	343 771	3 308
Inflation-linked bonds	82 438	99 391	326	52 788	63 715	222
Corporate bonds	477 912	509 219	4 947	430 017	454 559	4 933
Securitised bonds	171 648	175 747	2 050	176 199	190 948	2 767
<b>Total bonds</b>	<b>2 204 039</b>	<b>2 488 089</b>	<b>22 045</b>	<b>2 071 271</b>	<b>2 349 789</b>	<b>21 062</b>
<i>Of which bonds lent</i>		<i>51 229</i>			<i>25 163</i>	

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

Table 5.3 Financial derivatives

Amounts in NOK million	31.03.2015			31.12.2014		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts	238 687	3 184	710	204 179	5 275	3 141
Interest rate swaps	36 565	139	5 954	37 194	112	4 754
Options	3 348	948	-	1 596	390	-
<b>Total financial derivatives</b>	<b>278 600</b>	<b>4 271</b>	<b>6 665</b>	<b>242 969</b>	<b>5 777</b>	<b>7 895</b>

## NOTE 6 REAL ESTATE

Investments in real estate presented in the balance sheet line *Real estate* comprise unlisted investments. The various real estate investments are owned through subsidiaries. These subsidiaries are measured at fair value through profit or loss, and changes in fair value are recognised in the income statement.

Table 6.1 provides a specification of the income statement line *Income/expense from Real estate*, before foreign exchange gains and losses. Table 6.2 shows the change for the period in the balance sheet line *Real estate*.

Table 6.1 Income/expense from Real estate

Amounts in NOK million	1Q 2015	1Q 2014	2014
Dividend	322	55	598
Interest income	303	338	1 368
Unrealised gain/loss	2 375	823	5 194
<b>Income/expense from Real estate before foreign exchange gain/loss</b>	<b>3 000</b>	<b>1 216</b>	<b>7 160</b>

Table 6.2 Changes in carrying amounts Real estate

Amounts in NOK million	31.03.2015	31.12.2014
Real estate, opening balance 1 January	106 431	51 032
Additions new investments	6 322	37 711
Unrealised gain/loss	2 375	5 194
Foreign currency translation effect	2 795	12 494
<b>Real estate, closing balance for the period</b>	<b>117 923</b>	<b>106 431</b>

### UNDERLYING REAL ESTATE COMPANIES

Real estate subsidiaries have investments in other non-consolidated, unlisted companies. These companies 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 and liabilities measured at fair value, adjusted for the GPFG's ownership share. Assets and liabilities are specified in table 6.4. For further information on fair value measurement of real estate assets and liabilities, see note 7 *Fair value measurement*.

Table 6.3 provides a specification of the GPFG's share of income generated in the underlying real estate companies. 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 6.1. Unrealised gain/loss presented in table 6.1

includes undistributed profits and will therefore not reconcile with fair value changes in table 6.3, which solely comprise fair values changes of properties and debt.

Table 6.3 Income from underlying real estate companies

Amounts in NOK million	1Q 2015	1Q 2014	2014
Net rental income*	1 442	848	3 747
Fair value changes – buildings	2 037	667	5 464
Fair value changes – debt	-145	-30	-395
Transaction costs	-44	-93	-586
Interest expense external debt	-139	-64	-354
Tax expense payable	-14	-25	-81
Change in deferred tax	-47	-24	-292
Operating expenses within the limit from the Ministry of Finance**	-21	-19	-83
Other expenses***	-69	-44	-261
<b>Net income real estate companies</b>	<b>3 000</b>	<b>1 216</b>	<b>7 160</b>

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

\*\* See table 9.2 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 6.4 provides a specification of assets and liabilities included in the underlying real estate companies.

Table 6.4 Specification assets and liabilities real estate companies

Amounts in NOK million	31.03.2015	31.12.2014
Deposits in banks	1 598	1 170
Properties	132 459	118 515
External debt	-14 733	-11 985
Tax payable	-83	-98
Net deferred tax	-569	-520
Net other assets and liabilities	-749	-651
<b>Total assets and liabilities real estate companies</b>	<b>117 923</b>	<b>106 431</b>

In addition to the unlisted real estate investments presented in the balance sheet line *Real estate*, listed real estate investments are included in the real estate asset class. Listed real estate investments are

presented in the balance sheet as *Equities and units*, and amount to NOK 38 936 million at the quarter-end, compared to NOK 33 238 million at year-end 2014.

## NOTE 7 FAIR VALUE MEASUREMENT

### 1. INTRODUCTION

The fair value of the majority of assets and liabilities is based on official closing prices or observable market quotes. If the market for a security or an asset is not active, fair value is established by using standard valuation techniques.

All assets and liabilities measured at fair value are categorised in the three categories in the fair value

hierarchy presented in table 7.1. The level of valuation uncertainty determines the categorisation.

For an overview of valuation techniques and models, together with definitions and application of the categories of valuation uncertainty, see note 6 *Fair value measurement* in the annual report 2014.

#### SIGNIFICANT ESTIMATE

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

## 2. FAIR VALUE HIERARCHY

Table 7.1 Investments by level of valuation uncertainty

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	31.03.2015	31.12.2014	31.03.2015	31.12.2014	31.03.2015	31.12.2014	31.03.2015	31.12.2013
<b>Equities and units</b>	<b>4 374 767</b>	<b>3 925 476</b>	<b>35 801</b>	<b>30 236</b>	<b>1 848</b>	<b>1 983</b>	<b>4 412 416</b>	<b>3 957 695</b>
Government bonds	1 222 513	1 141 268	134 602	155 528	-	-	1 357 115	1 296 796
Government-related bonds	306 420	308 397	35 778	27 424	4 419	7 950	346 617	343 771
Inflation-linked bonds	86 375	55 613	13 016	8 102	-	-	99 391	63 715
Corporate bonds	487 719	246 887	19 292	192 266	2 208	15 406	509 219	454 559
Securitised bonds	169 672	172 332	4 343	16 703	1 732	1 913	175 747	190 948
<b>Total bonds</b>	<b>2 272 699</b>	<b>1 924 497</b>	<b>207 031</b>	<b>400 023</b>	<b>8 359</b>	<b>25 269</b>	<b>2 488 089</b>	<b>2 349 789</b>
Financial derivatives (assets)	777	-	3 494	5 777	-	-	4 271	5 777
Financial derivatives (liabilities)	-	-	-6 665	-7 895	-	-	-6 665	-7 895
<b>Total financial derivatives</b>	<b>777</b>	<b>-</b>	<b>-3 171</b>	<b>-2 118</b>	<b>-</b>	<b>-</b>	<b>-2 394</b>	<b>-2 118</b>
Real estate	-	-	-	-	117 923	106 431	117 923	106 431
Other*	-	-	-3 945	18 942	-	-	-3 945	18 942
<b>Total</b>	<b>6 648 243</b>	<b>5 849 973</b>	<b>235 716</b>	<b>447 083</b>	<b>128 130</b>	<b>133 683</b>	<b>7 012 089</b>	<b>6 430 739</b>
<b>Total (percent)</b>	<b>94.8</b>	<b>91.0</b>	<b>3.4</b>	<b>6.9</b>	<b>1.8</b>	<b>2.1</b>	<b>100.0</b>	<b>100.0</b>

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

Valuation uncertainty for the GPFG at the end of the first quarter of 2015 was essentially unchanged compared to the end of 2014. The majority of the total portfolio has low valuation uncertainty and is classified as Level 1 or 2 (98.2 percent at the end of the first quarter of 2015, compared to 97.9 percent at year-end 2014).

However, the share of the bond portfolio where uncertainty regarding fair value is lowest, i.e. holdings classified as Level 1, has increased during the quarter. This movement is described further in section 3 in this note.

### Equities and units

Valuation uncertainty for equities and units is largely unchanged during the quarter. Measured as a share of total value, virtually all equities and units (99.2 percent) are valued on the basis of official closing prices from stock exchanges. These are thus observable market prices and are classified as Level 1. A few equities and units (0.8 percent) are considered to have a lower degree of observable market prices and are classified as Level 2. Some holdings (0.04 percent) that are not listed or have been suspended over a longer period are classified as Level 3.

### Bonds

The majority of bonds (91.4 percent) are classified as Level 1 at the end of first quarter. Bonds in this level have observable, executable market quotes. A minority of bonds (8.3 percent) are classified as Level 2. These securities do not have a sufficient amount of executable quotes or they are priced based on comparable but liquid bonds. A few bonds (0.3 percent) that do not have observable quotes are classified as Level 3.

### Real estate

All real estate investments are classified as Level 3, since 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.

### 3. MOVEMENTS BETWEEN LEVELS OF VALUATION UNCERTAINTY

#### Reclassifications between Level 1 and Level 2

There have not been significant change between levels within equities and units. A few equities that have recently been suspended are moved from Level 1 to Level 2. Other equities that were previously suspended, but where trading has resumed during the quarter, are reclassified to Level 1. Measured as a share of total value, the allocation between levels remains unchanged.

A significant proportion of bonds have been reclassified from Level 2 to Level 1. The main reason for this reclassification is that a broader data foundation has been used, providing increased marked transparency and insight into liquidity through further access to detailed market information, including trading volumes over a longer period. There is no significant change in actual valuation uncertainty from year-end 2014 to the end of the first quarter of 2015.

Table 7.2 Specification of changes in Level 3 holdings

Amounts in NOK million	01.01.2015	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	31.03.2015
Equities and units	1 983	-	-39	14	-87	-	-150	127	1 848
Bonds	25 269	2 859	-478	-245	-92	-	-19 310	356	8 359
Real estate	106 431	6 322	-	-	2 375	-	-	2 795	117 923
<b>Total</b>	<b>133 683</b>	<b>9 181</b>	<b>-517</b>	<b>-231</b>	<b>2 196</b>	<b>-</b>	<b>-19 460</b>	<b>3 278</b>	<b>128 130</b>

Amounts in NOK million	01.01.2014	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	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
<b>Total</b>	<b>54 356</b>	<b>47 138</b>	<b>-311</b>	<b>-211</b>	<b>4 714</b>	<b>10 872</b>	<b>-163</b>	<b>17 288</b>	<b>133 683</b>

Equities and units with high uncertainty regarding fair value, i.e. classified as Level 3, have decreased marginally compared to the end of 2014. This is due to equities that have previously been suspended, but where trading has resumed during the quarter.

There is lower pricing uncertainty for the bond portfolio at the end of the first quarter, and the level with high uncertainty is thus reduced. This is because several bond holdings have been reclassified to a higher level. These holdings consist of bonds with observable market quotes at quarter-end. The reason for this reclassification is described above.

#### 4. SENSITIVITY ANALYSIS FOR LEVEL 3 HOLDINGS

Table 7.3 Additional specification Level 3 and sensitivities

Amounts in NOK million	Specifi- cation of Level 3 holdings 31.03.2015	Sensitivities 31.03.2015		Specifi- cation of Level 3 holdings 31.12.2014	Sensitivities 31.12.2014	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities and units	1 848	-683	582	1 983	-843	587
Government-related bonds	4 419	-484	567	7 950	-781	780
Corporate bonds	2 208	-523	109	15 406	-1 884	1 640
Securitised bonds	1 732	-173	173	1 913	-191	287
<b>Total bonds</b>	<b>8 359</b>	<b>-1 180</b>	<b>849</b>	<b>25 269</b>	<b>-2 856</b>	<b>2 707</b>
Real estate	117 923	-6 130	6 727	106 431	-5 532	6 071
<b>Total</b>	<b>128 130</b>	<b>-7 993</b>	<b>8 158</b>	<b>133 683</b>	<b>-9 231</b>	<b>9 365</b>

There is uncertainty associated with the fair value of holdings classified as Level 3. This is illustrated through the sensitivity analysis in table 7.3.

Uncertainty associated with the determination of fair value for real estate investments is essentially unchanged from last year-end, however the total valuation uncertainty measured in kroner has increased in line with the growth in the portfolio. Property values are particularly sensitive to changes in the rate of return (discount rate) and assumptions influencing 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 6 130 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 5.7 percent or NOK 6 727 million.

The relative valuation uncertainty for equities and bonds is virtually unchanged during the quarter. However, because the value of bond holdings in Level 3 is lower at quarter-end compared to year-end 2014, the spread measured in kroner is lower.

#### NOTE 8 RISK

##### MARKET RISK

Market risk is the risk of changes in the value of the portfolio due to movements in equity prices, interest rates, real estate values, exchange rates and credit spreads. Norges Bank measures market risk both in terms of absolute risk and relative risk compared to the benchmark index for holdings in the GPFG.

##### *Asset class per country and currency*

An important dimension within market risk is concentration risk. Table 8.1 provides a picture of how the GPFG is invested across the three asset classes, grouped by countries for equities and real estate, and by currency for fixed-income investments. The table shows that equity investments as a percentage of the GPFG have increased from 61.3 percent to 62.5 percent during the quarter.

Table 8.1 Allocation by asset class, country and currency

Asset class	Market value in percent by country and currency*				Market value in percent by asset class		Assets minus liabilities excluding management fee	
	Market	31.03.2015	Market	31.12.2014	31.03.2015	31.12.2014	31.03.2015	31.12.2014
Equities	<b>Developed</b>	<b>90.4</b>	<b>Developed</b>	<b>90.2</b>				
	US	33.6	US	33.7				
	UK	11.9	UK	12.5				
	Japan	8.3	Japan	7.4				
	Germany	6.3	Germany	6.1				
	France	5.8	France	5.8				
	Total other	24.5	Total other	24.7				
	<b>Emerging</b>	<b>9.6</b>	<b>Emerging</b>	<b>9.8</b>				
	China	3.0	China	2.9				
	Taiwan	1.5	Taiwan	1.5				
	India	1.0	India	1.0				
	Brazil	0.7	Brazil	0.9				
	South Africa	0.6	South Africa	0.6				
	Total other	2.8	Total other	2.9				
<b>Total equities</b>					<b>62.46</b>	<b>61.27</b>	<b>4 379 764</b>	<b>3 939 923</b>
Fixed income	<b>Developed</b>	<b>87.1</b>	<b>Developed</b>	<b>87.2</b>				
	US Dollar	43.8	US Dollar	41.4				
	Euro	22.5	Euro	24.5				
	Japanese Yen	7.2	Japanese Yen	7.4				
	British Pound	5.1	British Pound	5.3				
	Canadian Dollar	3.3	Canadian Dollar	3.3				
	Total other	5.2	Total other	5.3				
	<b>Emerging</b>	<b>12.9</b>	<b>Emerging</b>	<b>12.8</b>				
	Mexican Peso	1.8	Mexican Peso	1.8				
	South Korean Won	1.6	Brazilian Real	1.5				
	Brazilian Real	1.2	South Korean Won	1.5				
	Turkish Lira	1.0	Turkish Lira	1.1				
	Indian Rupee	1.0	Indian Rupee	1.0				
	Total other	6.3	Total other	5.9				
<b>Total fixed income</b>					<b>35.28</b>	<b>36.54</b>	<b>2 474 215</b>	<b>2 349 948</b>
Real estate	US	32.6	UK	30.9				
	UK	31.2	US	30.7				
	France	14.4	France	15.9				
	Germany	9.7	Germany	9.7				
	Switzerland	5.3	Switzerland	5.5				
	Total other	6.8	Total other	7.3				
<b>Total real estate**</b>					<b>2.26</b>	<b>2.19</b>	<b>158 109</b>	<b>140 868</b>

\* 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*.

### Volatility

Norges Bank uses risk modelling to quantify the risk of changes in values associated with all or parts of the portfolio. One of the risk measures is expected volatility.

Tables 8.2 and 8.3 present risk both in terms of the portfolio's absolute risk and in terms of the relative risk. Real estate investments are only included in the absolute volatility calculations.

Table 8.2 Portfolio risk in terms of expected volatility, in percent

	Expected volatility, actual portfolio							
	31.03.2015	Min 2015	Max 2015	Average 2015	31.12.2014	Min 2014	Max 2014	Average 2014
Portfolio	9.0	8.1	9.0	8.4	8.2	7.9	9.3	8.7
Equities	11.5	10.9	11.5	11.2	11.1	11.0	14.4	13.0
Bonds	9.0	7.9	9.0	8.3	7.9	7.5	8.9	8.3

Table 8.3 Relative risk, expected relative volatility, in basis points

	Expected relative volatility							
	31.03.2015	Min 2015	Max 2015	Average 2015	31.12.2014	Min 2014	Max 2014	Average 2014
Portfolio	36	33	38	35	38	38	63	51
Equities	47	46	52	48	52	49	71	60
Bonds	64	55	64	58	59	52	69	60

The models used in the calculation of the above information are explained in note 7 *Risk* in the annual report 2014.

in currency markets. The risk measure indicates an expected annual value fluctuation of 9.0 percent, or approximately NOK 630 billion, at the end of the quarter.

Risk as measured in terms of expected volatility indicates an increase for the portfolio in the first quarter of the year, from 8.2 at the start of the year, to 9.0. Expected volatility for equities has increased from 11.1 to 11.5, while expected volatility for bonds has increased from 7.9 to 9.0. The increase in volatility is primarily due to increased exposure to equities and greater fluctuations

### CREDIT RISK

Credit risk is the risk of losses from issuers of fixed-income instruments defaulting on their payment obligations. Credit risk in the bond portfolio is monitored among other things through the use of credit ratings. Table 8.4 shows the bond portfolio's distribution across different credit rating categories.

Table 8.4 Bond portfolio specified by credit rating

Amounts in NOK million, 31.03.2015	AAA	AA	A	BBB	Lower rating	Total
Government bonds	611 898	227 836	301 122	212 889	3 370	1 357 115
Government-related bonds	135 599	149 028	25 188	32 914	3 888	346 617
Inflation-linked bonds	65 562	8 451	3 492	21 886	-	99 391
Corporate bonds	2 008	39 099	233 805	221 422	12 885	509 219
Securitised bonds	136 123	13 376	12 282	12 767	1 199	175 747
<b>Total bonds</b>	<b>951 190</b>	<b>437 790</b>	<b>575 889</b>	<b>501 878</b>	<b>21 342</b>	<b>2 488 089</b>

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
<b>Total bonds</b>	<b>929 228</b>	<b>380 723</b>	<b>540 397</b>	<b>483 030</b>	<b>16 411</b>	<b>2 349 789</b>

The proportion of bond holdings categorised with a credit rating of AAA decreased to 38.2 percent at the end of the first quarter, compared to 39.5 percent at year-end 2014. This is largely due to a downgrade of Austrian treasuries from category AAA to category AA, and a reduction in holdings of securitised bonds in category AAA. The category *Lower rating* also increased to 0.9 percent at the end of the first quarter, compared to 0.7 percent at year-end 2014. This was a result of the downgrading of corporate bonds and Russian government-related bonds from category BBB

to BB. In addition, bonds with lower credit ratings were purchased during the quarter. As a result, the overall credit quality of the bond portfolio has declined somewhat since year-end 2014.

#### COUNTERPARTY RISK

Counterparty risk is the risk of loss due to counterparty bankruptcy or other events leading to counterparties defaulting.

Table 8.5 Counterparty risk by type of position

Amounts in NOK million, 31.03.2015	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits*	10 569	-	-	10 569
OTC derivatives including foreign exchange contracts	19 835	6 715	-2 398	15 519
Repurchase and reverse repurchase agreements	552	27	57	468
Securities lending transactions	34 177	-	32 159	2 018
Cash and bonds posted as collateral for futures trades	4 463	-	-	4 463
Settlement risk towards broker and long settlement transactions	557	-	-	557
<b>Total</b>	<b>70 154</b>	<b>6 742</b>	<b>29 818</b>	<b>33 594</b>

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
<b>Total</b>	<b>46 517</b>	<b>5 254</b>	<b>13 687</b>	<b>27 576</b>

\* The amount includes bank deposits in real estate subsidiaries that are not consolidated.

Table 8.5 shows counterparty risk by type of position as at 31 March 2015, aggregated for the GPF. G.

Counterparty risk measured in terms of both gross and net exposure has increased since year-end 2014. The increase in gross exposure is mainly due to an increase in securities lending transactions and higher settlement

risk in connection with currency contracts at the end of the first quarter compared with year-end 2014. The increase in net exposure is mainly due to higher counterparty risk associated with foreign exchange contracts. Net exposure from securities lending transactions is low, since the agent for lending guarantees large parts of the securities lending programme.

## NOTE 9 MANAGEMENT COSTS

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 9.1.

Table 9.1 Management fee

Amounts in NOK million	1Q 2015		1Q 2014		2014	
		Basis points		Basis points		Basis points
Salary, social security and other personnel related costs	273		178		763	
Custody costs	109		121		457	
IT-services, systems and data	140		119		488	
Research, consulting and legal fees	56		36		169	
Other costs	40		32		119	
Allocated common costs Norges Bank	31		28		112	
Base fees to external managers	179		105		445	
<b>Management fee excluding performance-based fees</b>	<b>828</b>	<b>5.0</b>	<b>619</b>	<b>4.9</b>	<b>2 553</b>	<b>4.7</b>
Performance-based fees to external managers	104		315		649	
<b>Total management fee</b>	<b>932</b>	<b>5.7</b>	<b>934</b>	<b>7.3</b>	<b>3 202</b>	<b>5.9</b>

### MANAGEMENT COSTS IN REAL ESTATE SUBSIDIARIES

Management costs incurred in real estate subsidiaries consist of operating expenses related to the manage-

ment of the real estate portfolio. These costs are specified in table 9.2.

Table 9.2 Management costs, real estate subsidiaries

Amounts in NOK million	1Q 2015	1Q 2014	2014
Salary, social security and other personnel related costs	5	6	25
IT-services, systems and data	5	3	14
Research, consulting and legal fees	3	4	22
Fees related to real estate asset management (external)	3	2	7
Other costs, subsidiaries	5	4	15
<b>Total management costs, real estate subsidiaries</b>	<b>21</b>	<b>19</b>	<b>83</b>

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 companies.

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 *Income/expense from Real estate*. See table 6.3 in note 6 *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 2015, 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 companies, are not included in the costs that are measured against this limit.

Total management costs that are measured against the limit amount to NOK 849 million in the first quarter of 2015. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 828 million, and management costs in real estate subsidiaries of NOK 21 million. This corresponds to 5.2 basis points of assets under management on an annual basis.

Performance-based fees to external managers amount to NOK 104 million in the first quarter of 2015, and total management costs including performance-based fees amount to NOK 953 million. This corresponds to 5.8 basis points of assets under management on an annual basis.

**To the Supervisory Council of Norges Bank**

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

We have reviewed the financial reporting of the Government Pension Fund Global. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio of the Government Pension Fund Global are included in the financial reporting. The financial reporting comprises the balance sheet as at 31 March 2015, profit/loss for the period and total comprehensive income, the statement of changes in owner's capital, the statement of cash flows for the three-month period then ended and selected explanatory notes. The Executive Board and management are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

## *Scope of review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with international standards on auditing, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by EU.

Oslo, 22 April 2015

**Deloitte AS**

Aase Aa. Lundgaard (signed)  
State Authorized Public Accountant (Norway)





