



NORGES BANK  
INVESTMENT MANAGEMENT

**1Q | 14**  
**GOVERNMENT  
PENSION FUND  
GLOBAL**  
QUARTERLY REPORT

## HIGHLIGHTS

# FIRST QUARTER 2014 IN BRIEF

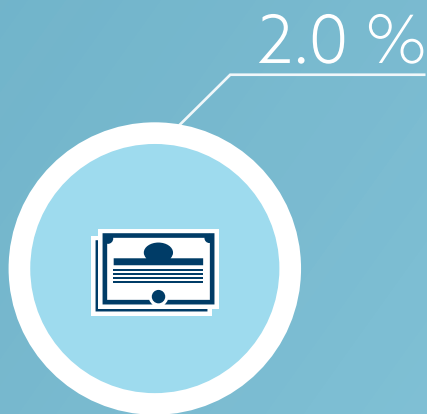
THE GOVERNMENT PENSION FUND GLOBAL RETURNED 1.7 PERCENT, OR 78 BILLION KRONER, IN THE FIRST QUARTER OF 2014.

1.7 %

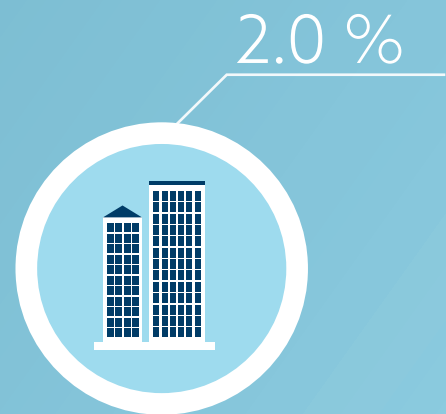
**78 Bn. KR**



**EQUITY INVESTMENTS**



**FIXED-INCOME INVESTMENTS**

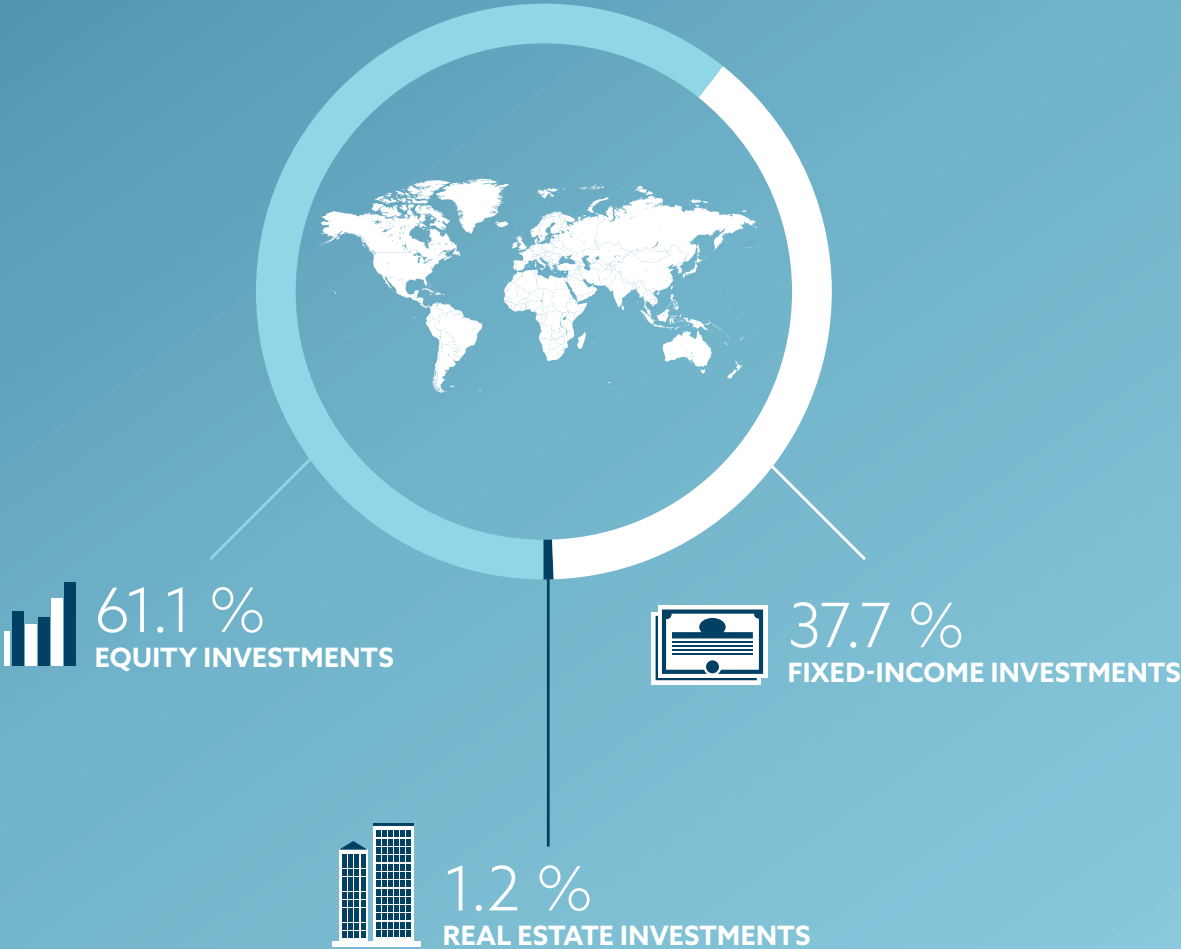


**REAL ESTATE INVESTMENTS**

EQUITY INVESTMENTS RETURNED 1.5 PERCENT, WHILE FIXED-INCOME INVESTMENTS RETURNED 2.0 PERCENT. INVESTMENTS IN REAL ESTATE RETURNED 2.0 PERCENT.

THE RETURN ON EQUITY AND FIXED-INCOME INVESTMENTS WAS 0.01 PERCENTAGE POINT HIGHER THAN THE RETURN ON THE BENCHMARK INDICES.

THE FUND HAD A MARKET VALUE OF 5,110 BILLION KRONER AT THE END OF THE QUARTER AND WAS INVESTED 61.1 PERCENT IN EQUITIES, 37.7 PERCENT IN FIXED INCOME AND 1.2 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

## EQUITY INVESTMENTS

Equity investments, which accounted for 61.1 percent of the fund at the end of the quarter, returned 1.5 percent. Asian equities produced a negative return, while European and North American stocks made a positive contribution. Increased uncertainty in the market put a damper on returns in the quarter.

### STRONGEST RETURNS IN EUROPE AND NORTH AMERICA

European shares returned 2.4 percent, measured in the fund's currency basket, and accounted for 47.6 percent of the fund's equity investments at the end of the quarter. Growth in the European economy made a positive contribution to the return. The return was held back by European companies' exposure to emerging markets.

North American stocks returned 1.7 percent and made up 31.7 percent of the fund's equity investments at the end of the quarter. Subdued economic growth and continued tapering of quantitative easing by the US Federal Reserve impacted on the return. The US was the fund's single largest market.

In Asia and Oceania, the fund returned -1.4 percent. Japanese shares returned -5.0 percent, due primarily to weaker demand and a fall in consumer confidence, and accounted for 6.6 percent of equity investments at the end of the quarter.

Emerging markets returned -0.5 percent and represented 9.7 percent of the fund's equity investments at the end of the quarter. Reduced optimism and greater uncertainty undermined growth in some markets and contributed to the negative return.

Chinese stocks returned -6.1 percent. The Chinese economy performed poorly during the quarter, with industrial production in particular turning out weaker than the market anticipated, and the authorities' actions to curb debt growth limited available credit to some extent. China accounted for 2.4 percent of the fund's equity investments and was its single largest emerging market.

**Table 1-1** Return on the fund's equity investments in first quarter 2014. By sector. Percent.

Sector	Return in international currency	Share of equity investments*
Financials	1.0	23.6
Industrials	2.0	14.3
Consumer goods	0.6	14.0
Consumer services	-1.1	9.9
Healthcare	6.0	8.9
Oil and gas	0.9	8.3
Technology	3.5	7.5
Basic materials	-0.2	6.3
Telecommunications	-3.0	3.5
Utilities	8.5	3.7

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

**Table 1-2** The fund's largest equity holdings as of 31 March 2014. Millions of kroner

Company	Country	Holdings
Nestlé SA	Switzerland	39,992
Royal Dutch Shell Plc	UK	28,561
Novartis AG	Switzerland	27,097
Roche Holding AG	Switzerland	25,396
HSBC Holdings Plc	UK	22,481
BlackRock Inc	US	22,277
Apple Inc	US	20,362
BG Group Plc	UK	19,927
Daimler AG	Germany	19,759
BP Plc	UK	19,295

## RETURNS MEASURED IN THE FUND'S CURRENCY BASKET

The fund invests in international securities. Returns are generally measured in international currencies – a weighted combination of the currencies in the fund's benchmark indices for equities and bonds. This combination is referred to as the fund's currency basket and 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.

### UTILITIES PERFORMED BEST

The best-performing sector was utilities, with a return of 8.5 percent, followed by healthcare at 6.0 percent and technology at 3.5 percent. Returns in the healthcare sector were driven mainly by expectations for new patents, while in the tech sector Internet companies delivered a good return due to higher expectations for the earnings potential of mobile advertising.

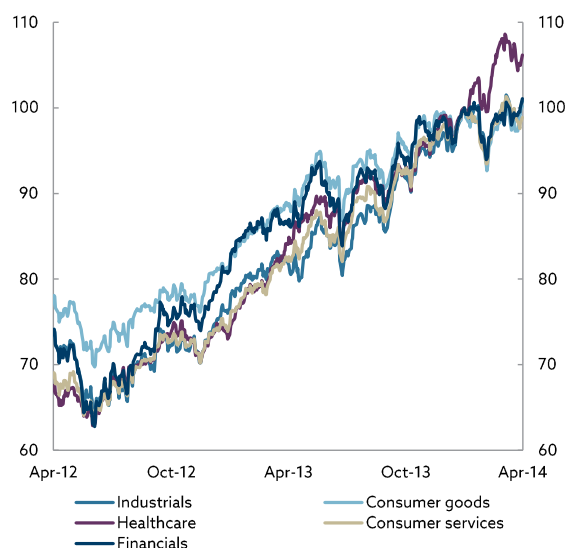
The weakest performer in the first quarter was telecommunications, where the fund's investments returned -3.0 percent, due largely to market pessimism about the potential for consolidation in the industry.

### INDIVIDUAL STOCKS

The investment in Swiss pharmaceutical company Roche Holding contributed most to the return in the first quarter, followed by Swiss and Danish drugmakers Novartis and Novo Nordisk. The biggest contributors to negative nominal equity return were UK energy company BG Group, followed by UK retailer Tesco and UK bank HSBC Holdings.

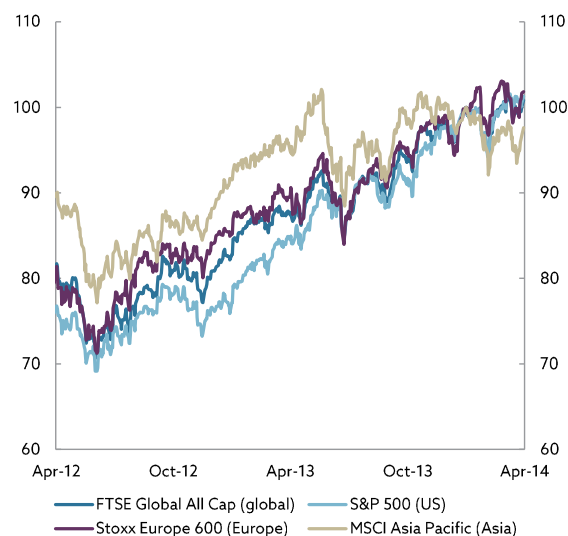
The largest initial public offerings the fund participated in were at Altice, ISS and Santander Consumer USA, where the fund purchased shares for 36.7 million euros, 32.0 million Danish kroner and 18 million dollars, equivalent to 311.2 million kroner, 35.5 million kroner and 111.0 million kroner, respectively.

**Chart 1-1** Price moves in stock sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed 31 Dec 2013 =100



Source: FTSE

**Chart 1-2** Price developments in regional and global equity markets. Measured in US dollars, except for the Stoxx Europe 600, which is measured in euros. Indexed 31 Dec 2013=100



Source: Bloomberg

## FIXED-INCOME INVESTMENTS

Fixed-income investments accounted for 37.7 percent of the fund at the end of the first quarter and returned 2.0 percent. These investments were mainly in bonds, with the remainder in short-term securities and bank deposits. Interest rates in the fund's main markets fell during the period, pushing up bond prices and so making a positive contribution to returns.

### POSITIVE RETURN ON GOVERNMENT DEBT

Government bonds returned 2.2 percent and accounted for 61.6 percent of the fund's fixed-income investments at the end of the quarter. Lower inflation than targeted by central banks may be part of the reason why interest rates fell in the fund's main markets. Some emerging markets saw uncertainty and monetary tightening, pushing up interest rates in those countries.

The Federal Reserve continued its tapering of quantitative easing during the quarter. US Treasuries returned 1.8 percent and made up 21.2 percent of fixed-income investments at the end of the quarter, making them the fund's largest holding of government debt from a single issuer.

Euro-denominated government bonds returned 3.5 percent and accounted for 12.3 percent of the

fund's fixed-income investments, while Japanese government bonds returned 2.4 percent and made up 7.4 the fund's percent of fixed-income holdings.

### INFLATION-LINKED BONDS PERFORMED BEST

Inflation-linked bonds were the fund's best-performing fixed-income sector in the first quarter, returning 2.4 percent and accounting for 1.5 percent of the fund's fixed-income investments at the end of the quarter. Corporate bonds returned 2.1 percent and represented 14.4 percent of the fund's fixed-income investments at the end of the quarter. Securitised debt, consisting mainly of covered bonds, returned 1.7 percent and made up 9.6 percent of the fund's fixed-income investments.

The fund also holds bonds from government-related institutions such as the European Investment Bank, Kreditanstalt für Wiederaufbau and the European Financial Stability Facility (EFSF). Government-related bonds returned 1.6 percent, making them the sector with the lowest return in the quarter. Such bonds accounted for 13.1 percent of fixed-income investments at the end of the period.

**Table 1-3** Return on the fund's fixed-income investments in first quarter 2014. By sector. Percent

Sector	Return in international currency	Share of fixed-income investments*
Government bonds*	2.2	61.6
Government-related bonds*	1.6	13.1
Inflation-linked bonds*	2.4	1.5
Corporate bonds	2.1	14.4
Securitised debt	1.7	9.6

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

**Table 1-4** The fund's largest bond investments as of 31 March 2014. Millions of kroner

Issuer	Country	Holdings
United States of America	US	417,368
Japanese government	Japan	141,907
Federal Republic of Germany	Germany	78,396
UK government	UK	61,720
Mexican government	Mexico	45,997
Federative Republic of Brazil	Brazil	41 374
Italian Republic	Italy	38,218
Government of the Netherlands	The Netherlands	34,739
Kreditanstalt für Wiederaufbau	Germany	34,714
French Republic	France	33,488

**Table 1-5** The fund's fixed-income investments as of 31 March 2014 based on credit ratings. Percentage of bond holdings.

	AAA	AA	A	BBB	Lower rating	Total
Government bonds*	31.5	16.1	4.3	9.4	0.1	61.4
Government-related bonds*	6.1	5.0	0.5	1.3	0.1	13.1
Inflation-linked bonds*	0.8	0.0	0.0	0.7	-	1.5
Corporate bonds	0.0	1.4	6.6	6.1	0.2	14.4
Securitised debt	6.5	0.6	1.2	1.2	0.1	9.6
<b>Total bonds</b>	<b>44.9</b>	<b>23.1</b>	<b>12.7</b>	<b>18.7</b>	<b>0.5</b>	<b>100.0</b>



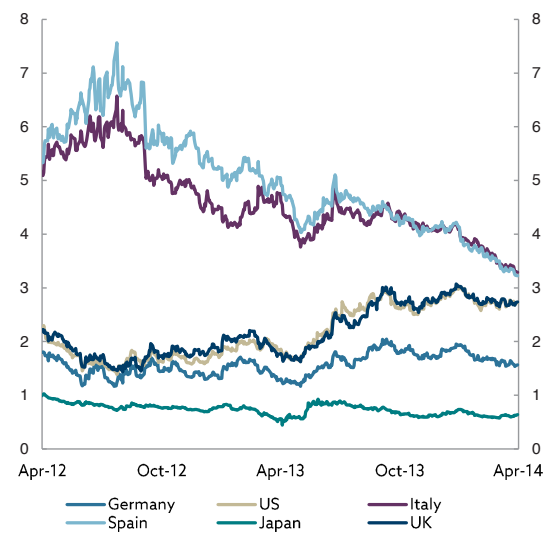
## CHANGES IN HOLDINGS

The fund increased its investments in bonds denominated in emerging market currencies. Emerging markets investments increased from 12.0 percent to 13.3 percent of fixed-income investments during the quarter. Investments in dollars, euros, pounds and yen accounted for 77.7 percent of fixed-income investments, against 78.8 percent at the end of 2013.

The biggest increases in holdings were in Brazilian, Turkish and Mexican government bonds, while the biggest decreases were in government bonds issued by the US, Germany and Sweden.

The fund had holdings of Russian government bonds worth 24.3 billion kroner at the beginning of the year. Geopolitical uncertainty led to the weakening of the rouble, and the Central Bank of Russia raised its rates in an effort to stem the decline. This resulted in a return of -9.7 percent on the fund's Russian government bonds in the first quarter. Return on the fund's fixed-income investments is compared with returns on global benchmark indices for bonds set by the Ministry of Finance on the basis of indices from Barclays. Government bonds denominated in Russian rubles and Turkish lira were included in Barclays GDP-weighted index from 31 March 2014, and as a consequence Russia and Turkey were included in the fund's strategic reference portfolio.

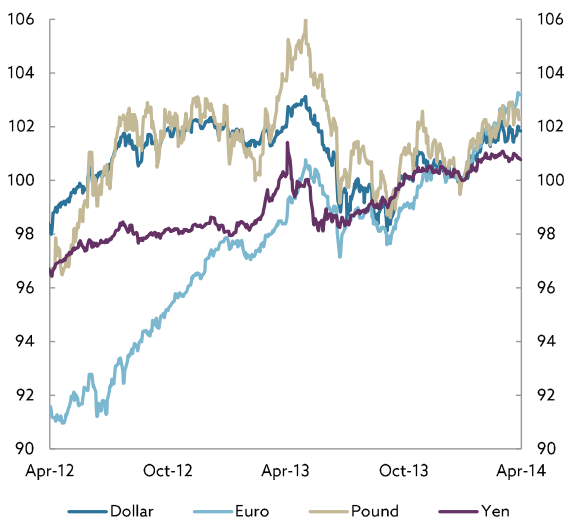
Chart 1-4 10-year government bond yields. Percent



Source: Bloomberg

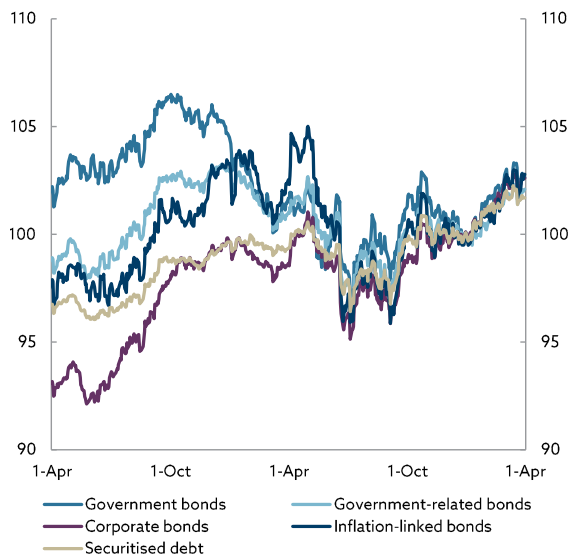
The fund's three largest participations in bond issues other than government debt were in bonds from JP Morgan Chase & Co, the European Investment Bank and Kreditanstalt für Wiederaufbau.

Chart 1-3 Price developments for bonds issued in dollars, euros, pounds and yen in the Barclays Global Aggregate Index, measured in local currencies. Indexed. 31 Dec 2013 = 100



Source: Barclays Capital

Chart 1-5 Price developments in fixed-income sectors in the Barclays Global Aggregate Index, measured in US dollars. Indexed 31 Dec 2013 = 100



Source: Barclays Capital

## REAL ESTATE INVESTMENTS

The fund's real estate investments returned 2.0 percent in the first quarter. The return on these investments depends on rental income, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases. Real estate investments amounted to 1.2 percent of the fund at the end of the quarter and are to increase gradually to as much as 5 percent of the value of the fund.

Measured in local currency, rental income contributed 1.1 percentage points of the return, the net change in the value of properties and debt 1.2 percentage points and transaction costs for property purchases -0.2 percentage point. Currency movements contributed -0.1 percentage point.

New properties were purchased in both the US and Europe during the period. The fund made two new investments in office properties in Washington DC and San Francisco, paying 480 million dollars for a 47.5 percent stake. The fund also purchased 45 percent of a portfolio of 66 logistics properties in eight US states for 450 million dollars. In Europe, the fund acquired 50 percent of a portfolio of 12 logistics properties in the Netherlands and Belgium for 100 million euros.

**Table 1-6** Return on the fund's real estate investments in first quarter 2014. Percent

	Return
Net rental income	1.1
Net change in value of properties and debt	1.2
Transaction costs for property purchases	-0.2
Foreign exchange adjustments	-0.1
Overall return	2.0

## THE FUND'S RELATIVE RETURN AND INTERNAL REFERENCE PORTFOLIOS

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 RELATIVE RETURN

The overall return on the fund's equity and fixed-income investments was 0.01 percentage point higher than the return on the benchmark indices in the first quarter.

The fund's equity investments outperformed the benchmark index by 0.1 percentage point. Industrials and consumer goods were the sectors that made the greatest contribution to this excess return, while investments in healthcare made the most negative contribution. Of the countries the fund is invested in, German and French stocks contributed most to the excess return, while investments in the US and Russia made the most negative contribution. A general overweight of environment-related stocks relative to the benchmark index made a positive contribution to the relative return in the quarter.

The return on the fund's fixed-income investments was 0.1 percentage point lower than the benchmark return. A lower weight of inflation-linked bonds made a negative contribution, as did a higher weight of Russian government bonds. Fixed-income investments attracted higher coupons than the benchmark index in the quarter.

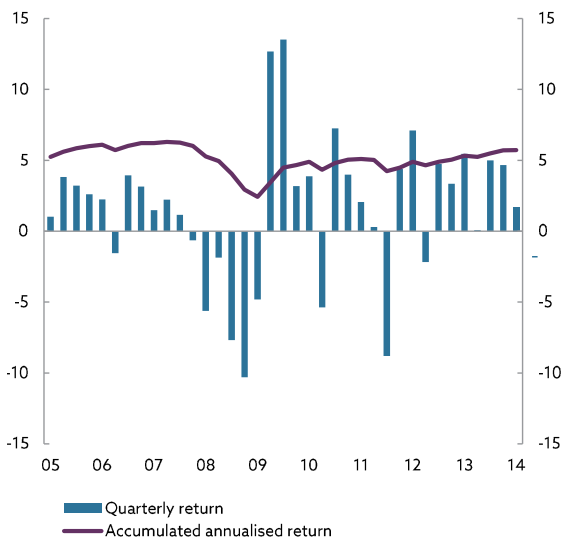
**Table 1-7** Contributions from equity and fixed-income management to the fund's relative return in first quarter 2014. Percentage points.

	Total	Attributed to external management
Equity investments	0.05	0.05
Fixed-income investments	-0.04	0.00
<b>Total</b>	<b>0.01</b>	<b>0.05</b>

## THE FUND'S INTERNAL REFERENCE PORTFOLIOS

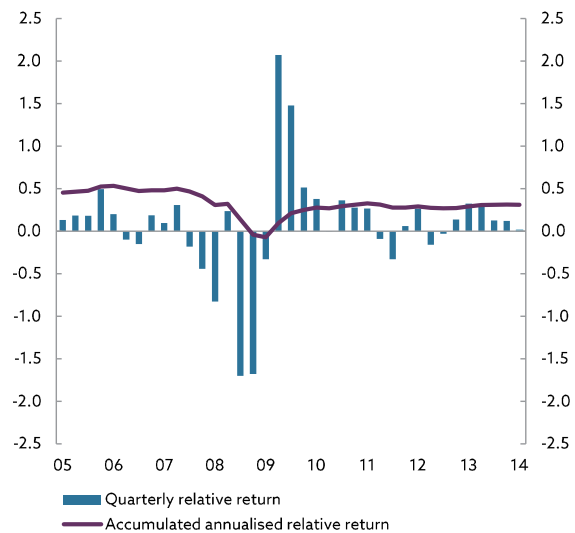
The internal reference portfolio for equity investments returned 1.5 percent in the first quarter, 0.1 percentage point higher than the benchmark index set by the Ministry of Finance. The internal reference portfolio for fixed-income investments returned 2.2 percent, which was in line with the benchmark index set by the Ministry.

**Chart 1-6** The fund's quarterly and accumulated annualised return. Percent



Source: Norges Bank Investment Management

**Chart 1-7** Quarterly relative return and accumulated annualised relative return on the fund, excluding real estate investments. Percentage points



Source: Norges Bank Investment Management

## RESPONSIBLE INVESTMENT AND ACTIVE OWNERSHIP

We seek to safeguard the fund's long-term financial value. A long-term return is believed to depend on sustainable economic, environmental and social development and well-functioning, legitimate and efficient markets. Our active ownership Strategies include company dialogue, interaction with regulators, investors and other standard setters. In addition we vote at general meetings and file shareholder proposals.

During the quarter we have been involved in work on improving industry standards for responsible mining, and we have further developed our risk analyses related to for instance conflicts and breaches of human rights in different countries and sectors.

### VOTING AND ENGAGEMENT

Norges Bank Investment Management voted at 1,343 company general meetings in the first quarter. This included considering and voting on 19 shareholder proposals on environmental and social issues in line with our principles for long-term active ownership. The bulk of the year's general meetings take place in the second quarter.

As part of our active ownership activities, we discussed, among several things, oil pollution and environmental issues in the Niger delta, as well as environmental damage from mining in Ghana.

Our Corporate Governance Advisory Board met once during the quarter to review our guidelines for responsible investment and our internal guidelines on the delegation of voting rights.

## 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 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 460 billion kroner, at the end of the first quarter, compared with 9.3 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 0.6 percentage point at the end of the quarter, unchanged from the end of the fourth quarter 2013.

### 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.

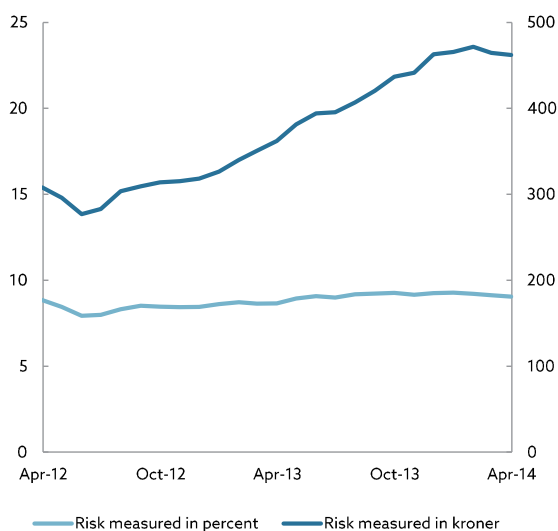
Each quarter, Norges Bank Investment Management estimates the size of the potential losses or gains it may incur over the next year because of unwanted operational events related to its investment management activities. The estimate is based on past events and possible future events, and represents the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

A total of 74 unwanted events were registered in the quarter. Most of these had no financial consequences, either because they were discovered early enough or because they only had potential reputational consequences.

Together these events resulted in a financial loss of 0.4 million kroner.

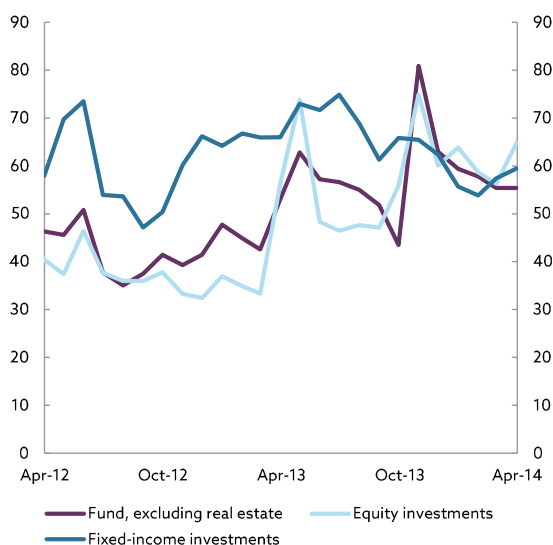
The Ministry of Finance has set guidelines for the fund's management. No significant breaches of these guidelines were registered in the first quarter, and we did not receive any notifications from local supervisory authorities of any significant breaches of market rules or general legislation.

**Chart 1-8** Expected absolute volatility of the fund. Percent (left-hand axis) and billions of kroner (right-hand axis)



Source: Norges Bank Investment Management

**Chart 1-9** Expected relative volatility of the fund, excluding real estate. Basis points



Source: Norges Bank Investment Management

**Table 1-8** Key figures for the fund's risk and exposure. Percent

Limits set by the Ministry of Finance		31.03.2014
Exposure	Equities 50-70 % of fund's market value	60.8
	Real estate 0-5 % of fund's market value	1.2
Market risk	1 percentage point expected tracking error for equity and fixed-income investments	0.6
Credit risk	Maximum 5 % of fixed-income investments may be rated below BBB-	0.5
Maximum ownership	Maximum 10 % of voting shares in a listed company	9.3

# KEY FIGURES

**Table 1-9** Quarterly return as of 31 March 2014

	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013
<b>Returns in international currency</b>					
Return on equity investments (percent)	1.47	7.41	7.64	0.89	8.25
Return on fixed-income investments (percent)	2.05	0.13	0.32	-1.40	1.06
Return on real estate investments (percent)	1.99	3.67	4.09	3.94	-0.34
Return on fund (percent)	1.70	4.66	4.99	0.06	5.45
Return on equity and fixed-income investments (percent)	<b>1.70</b>	<b>4.67</b>	<b>5.00</b>	<b>0.03</b>	<b>5.49</b>
Return on benchmark equity and fixed-income indices (percent)	1.68	4.55	4.87	-0.28	5.16
Relative return on equity and fixed-income investments (percentage points)	0.01	0.12	0.13	0.31	0.32
Relative return on equity investments (percentage points)	<b>0.07</b>	<b>0.15</b>	<b>0.27</b>	<b>0.34</b>	<b>0.32</b>
Relative return on fixed-income investments (percentage points)	-0.07	-0.02	-0.25	0.29	0.22
Management costs (percentage points)	0.02	0.02	0.02	0.02	0.01
Return on fund after management costs (percent)	1.68	4.65	4.97	0.04	5.43
<b>Returns in kroner (percent)</b>					
Return on equity investments	0.39	8.30	8.54	4.59	10.83
Return on fixed-income investments	0.96	0.96	1.15	2.22	3.46
Return on real estate investments	0.90	4.53	4.96	7.75	2.03
Return on fund	0.61	5.53	5.86	3.73	7.96
Return on equity and fixed-income investments	0.61	5.54	5.87	3.70	8.00

**Table 1-10** Historical key figures as of 31 March 2014. Annualised data, measured in the fund's currency basket

	Last 12 months	Last 3 years	Last 5 years	Last 10 years	Since 01.01.1998
<b>Return on fund (percent)</b>	11.82	8.49	13.52	6.18	5.72
Return on equity and fixed-income investments (percent)	11.80	8.51	13.53	6.18	5.72
Return on benchmark equity and fixed-income indices (percent)	11.17	8.27	12.27	5.96	5.41
Relative return on equity and fixed-income investments (percentage points)	0.63	0.24	1.26	0.22	0.31
Standard deviation (percent)	6.75	7.41	8.40	8.57	7.65
Tracking error for equity and fixed-income investments (percentage points)	0.41	0.38	0.66	0.90	0.75
Information ratio (IR)* for equity and fixed-income investments	1.54	0.63	1.91	0.24	0.42
<b>Return on fund (percent)</b>	11.82	8.49	13.52	6.18	5.72
Annual price inflation (percent)	1.23	1.79	2.07	2.12	1.89
Annual management costs (percent)	0.07	0.07	0.09	0.09	0.09
Annual net real return on fund (percent)	10.39	6.51	11.13	3.88	3.66

\* 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 1-11** Key figures as of 31 March 2014

	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013
<b>Market value (billions of kroner)*</b>					
Market value of equity investments	3,124	3,107	2,998	2,785	2,609
Market value of fixed-income investments	1,927	1,879	1,674	1,571	1,536
Market value of real estate investments	59	52	42	40	37
Market value of fund	5,110	5,038	4,714	4,397	4,182
<b>Inflow of new capital*</b>					
Inflow of new capital*	41	62	58	58	60
Return on fund	78	227	228	17	219
Changes due to fluctuations in krone	-47	35	31	139	86
Total change in fund	72	323	318	215	366
<b>Management costs (percent)</b>					
Estimated transition costs**	0.00	0.00	0.00	0.00	0.00
Annualised management costs	0.07	0.07	0.06	0.07	0.06
<b>Changes in value since first capital inflow in 1996 (billions of kroner)</b>					
Gross inflow of new capital	3,344	3,302	3,239	3,180	3,121
Management costs***	25	24	23	22	21
Inflow of new capital after management costs	3,319	3,278	3,216	3,158	3,099
Return on fund	1,877	1,799	1,572	1,344	1,327
Changes due to fluctuations in krone	-86	-39	-74	-105	-244
Market value of fund	5,110	5,038	4,714	4,397	4,182
Return after management costs	1,852	1,775	1,549	1,322	1,305

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

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

\*\*\* Management costs at subsidiaries, see Table 4.2 in the financial-reporting section, are not included in the management fee. Management costs at subsidiaries have been deducted from the fund's return before management fees.

**Table 1-12** Accumulated return since first capital inflow in 1996. Billions of kroner

	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013
Return on equity investments	1,283	1,242	1,021	805	777
Return on fixed-income investments	587	551	547	537	549
Return on real estate investments	6	5	3	2	0
<b>Total return</b>	<b>1,877</b>	<b>1,799</b>	<b>1,572</b>	<b>1,344</b>	<b>1,327</b>

# FINANCIAL REPORTING

Norges Bank's interim financial statements, which only encompass the interim financial reporting for the Government Pension Fund Global, were approved by Norges Bank's Executive Board on 23 April 2014. The financial reporting for the Government Pension Fund Global and an excerpt from Norges Bank's accounting policies and significant estimates and critical judgements are presented in the following pages.

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## INCOME STATEMENT

Amounts in NOK million	Note	1Q 2014	1Q 2013 Restated*	2013 Restated*
<b>Profit/loss on the portfolio excluding foreign exchange gains and losses</b>				
Interest income and interest expense from bank deposits		- 1	- 11	61
Interest income, lending associated with reverse repurchase agreements		48	45	150
Net income/expenses and gains/losses from:				
- Equities and units		38 260	206 451	681 787
- Bonds and other fixed-income instruments		39 766	11 508	5 897
- Real estate	6	1 216	370	3 236
- Financial derivatives		- 1 277	856	1 590
Interest expense, borrowing associated with repurchase agreements		- 24	6	- 34
Other interest income and interest expense		- 2	- 2	2
Tax expense		- 347	- 24	- 1 133
Other expenses		- 1	- 2	- 26
<b>Profit/loss on the portfolio before foreign exchange gains and losses</b>	<b>3</b>	<b>77 638</b>	<b>219 197</b>	<b>691 530</b>
Foreign exchange gains and losses		- 46 890	86 393	291 428
<b>Profit/loss on the portfolio</b>		<b>30 748</b>	<b>305 590</b>	<b>982 958</b>
Management fee	4	- 934	- 577	- 2 889
<b>Profit/loss for the period and total comprehensive income</b>	<b>1</b>	<b>29 814</b>	<b>305 013</b>	<b>980 069</b>

\* See notes 1, 2 and 9 for details regarding restated comparatives.

## BALANCE SHEET

Amounts in NOK million	Note	31.03.2014	31.12.2013 Restated*
<b>ASSETS</b>			
Deposits in banks		4 892	3 982
Lending associated with reverse repurchase agreements		104 953	89 189
Unsettled trades		36 125	1 125
Equities and units	5	2 907 681	2 972 317
Equities lent	5	228 188	161 150
Bonds and other fixed-income instruments	5	1 855 395	1 804 456
Bonds lent	5	76 132	75 807
Real estate	6	58 503	51 032
Financial derivatives	5	1 298	1 416
Other assets		2 967	3 522
<b>TOTAL ASSETS</b>	<b>7, 8, 9</b>	<b>5 276 134</b>	<b>5 163 996</b>
<b>LIABILITIES AND OWNER'S CAPITAL</b>			
<b>Liabilities</b>			
Short-term borrowing		0	29
Borrowing associated with repurchase agreements		51 565	69 147
Cash collateral received		69 792	48 064
Unsettled trades		43 040	7 654
Financial derivatives	5	1 869	972
Other liabilities		174	395
Management fee payable	4	934	2 889
<b>Total liabilities</b>		<b>167 374</b>	<b>129 150</b>
Owner's capital		5 108 760	5 034 846
<b>TOTAL LIABILITIES AND OWNER'S CAPITAL</b>	<b>7, 8, 9</b>	<b>5 276 134</b>	<b>5 163 996</b>

\* See notes 1, 2 and 9 for details regarding restated comparatives.

## STATEMENT OF CASH FLOWS

Amounts in NOK million, received (+) / paid (-)	Year-to-date 31.03.2014	Year-to-date 31.03.2013 Restated*	2013 Restated*
<b>Operating activities</b>			
Net cash flow arising from interest received from deposits in banks and interest paid on short-term borrowing from banks	- 493	22	1 396
Net cash flow in connection with repurchase agreements and reverse repurchase agreements	- 31 391	- 14 133	27 128
Net cash flows arising from purchase and sale of equities and units	- 9 006	- 46 001	- 24 851
Net cash flows arising from purchase and sale of bonds and other fixed-income instruments	- 47 070	- 8 673	- 361 384
Net cash flows arising from purchase and sale of real estate	- 6 224	- 11 035	- 22 757
Net cash flows arising from financial derivatives	- 302	429	- 285
Dividends received from investments in equities and units	17 284	9 731	72 637
Interest received on bonds and other fixed-income instruments	15 528	12 383	49 511
Income received in connection with equity and bond lending	283	433	2 620
Net cash flow arising from real estate	- 768	1 365	4 453
Cash collateral received/paid related to securities lending, derivatives and reverse repurchase agreements	21 728	16 828	15 063
Net cash flow related to other expenses, other assets and other liabilities	93	- 676	- 1 324
Net cash flow arising from tax payments and refunds	- 267	564	- 2 800
Management fee paid to Norges Bank**	- 2 889	- 41	- 2 193
<b>Net cash outflow from operating activities</b>	<b>- 43 494</b>	<b>- 38 804</b>	<b>- 242 786</b>
<b>Financing activities</b>			
Inflow from the Norwegian government***	44 712	41 600	240 934
<b>Net cash inflow from financing activities</b>	<b>44 712</b>	<b>41 600</b>	<b>240 934</b>
<b>Net change in cash and cash equivalents</b>			
Cash and cash equivalents at 1 January	3 953	5 845	5 845
Net cash payments in the period	1 218	2 796	- 1 852
Net foreign exchange gains and losses on cash and cash equivalents	- 279	144	- 40
<b>Cash and cash equivalents at end of period</b>	<b>4 892</b>	<b>8 785</b>	<b>3 953</b>
<b>Cash and cash equivalents comprise:</b>			
Bank deposits	4 892	8 810	3 982
Short-term borrowing	0	- 25	- 29
<b>Total cash and cash equivalents at end of period</b>	<b>4 892</b>	<b>8 785</b>	<b>3 953</b>

\* See notes 1, 2 and 9 for details regarding restated comparatives.

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

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

## STATEMENT OF CHANGES IN OWNER'S CAPITAL

Amounts in NOK million	Inflows from owner	Retained earnings	Translation reserve foreign subsidiaries	Deposits in krone account*
1 January 2013	3 057 740	755 844	- 8	3 813 576
Effect of changes in accounting policies	.	- 8	8	0
1 January 2013 restated**	3 057 740	755 836	.	3 813 576
Total comprehensive income restated**	.	305 013	.	305 013
Inflows during the period*	62 401	.	.	62 401
<b>31 March 2013</b>	<b>3 120 141</b>	<b>1 060 849</b>	.	<b>4 180 990</b>
1 January 2013 restated**	3 057 740	755 836	.	3 813 576
Total comprehensive income restated**	.	980 069	.	980 069
Inflows during the period*	241 201	.	.	241 201
<b>31 December 2013</b>	<b>3 298 941</b>	<b>1 735 905</b>	.	<b>5 034 846</b>
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>

\* Of the total inflows to the krone account of the Government Pension Fund Global in the first quarter of 2014, NOK 2.9 billion was used to pay the 2013 accrued management fee to Norges Bank and NOK 41.2 billion was transferred into the investment portfolio. Comparative amounts for the first quarter 2013 are NOK 2.2 billion and NOK 60.2 billion, respectively.

\*\* See notes 1, 2 and 9 for details regarding restated comparatives.

# NOTES TO THE FINANCIAL REPORTING

## NOTE 1 ACCOUNTING POLICIES

### 1 BASIS OF ACCOUNTING

#### General

Norges Bank is Norway's central bank. The bank manages Norway's foreign exchange reserves and the Government Pension Fund Global. Norges Bank's interim financial statements, which only include the financial reporting for the Government Pension Fund Global, are prepared in accordance with International Financial reporting Standards as adopted by the EU (IFRS). The regulation concerning the annual financial reporting for Norges Bank, which has been laid down by the Ministry of Finance, requires Norges Bank's financial statements to include the financial reporting for the Government Pension Fund Global, which shall be prepared in accordance with IFRS.

Norges Bank prepares quarterly financial statements, which solely comprise the quarterly financial reporting of the Government Pension Fund Global, with closing dates of 31 March, 30 June and 30 September. The quarterly financial statements for Norges Bank are prepared in accordance with IAS 34 *Interim Financial Reporting*.

The financial statements are presented in Norwegian kroner (NOK), rounded to the nearest million kroner.

The quarterly financial statements are prepared using the same accounting policies and calculation methods as used for the annual financial statements as at 31 December 2013 with the exception of changes specified in section 2. Norges Bank's accounting policies are presented in Norges Bank's annual financial statements 2013 and an extract of the policies relevant for the investment portfolio are also presented in the Government Pension Fund Global Annual Report 2013. The quarterly financial statements should also be read in conjunction with Norges Bank's annual financial statements 2013.

### 2 NEW/AMENDED STANDARDS IMPLEMENTED AS PER 1 JANUARY 2014

#### IFRS 10 Consolidated Financial Statements

As per 1 January 2014 Norges Bank has adopted IFRS 10. IFRS 10 supersedes IAS 27 *Consolidation and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*. IFRS 10 defines an investment entity and introduces a mandatory exemption from consolidation for investment entities.

An investment entity under IFRS 10 is an entity that:

- a) Obtains funds from one or multiple investors to deliver professional investment services to the investor(s)
- b) Commits itself towards investor(s) to invest funds solely for capital appreciation, investment income or both, and
- c) Measures and evaluates returns for substantially all investments based on fair value

It is concluded that the Government Pension Fund Global meets the definition of an investment entity.

This means that investments in subsidiaries are no longer consolidated, but measured at fair value through profit or loss. This is only a change in presentation and has no effect on profit or loss. An exception to this is subsidiaries providing investment related services for the Government Pension Fund Global which are not investment entities in their own right. These will continue to be consolidated, but as per 31 March 2014 there are no such subsidiaries. Subsidiaries that are measured at fair value through profit or loss are presented in the balance sheet as *Real estate*.

The change in accounting policy has been implemented retrospectively in accordance with the transitional provisions of IFRS 10

See note 2 Significant estimates and critical accounting

judgments and note 9 Effect of changes in accounting policies for more information.

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

As per 1 January 2014 Norges Bank has adopted IFRS 11 as well as the revised IAS 28 and amendments related to these standards. As the Government Pension Fund Global is considered an Investment Entity under IFRS 10, see previous section, IFRS 11 and the changes to IAS 28 have had no impact.

IFRS 12 Disclosure of Interests in Other Entities and amendments to IFRS 12

As per 1 January 2014 Norges Bank has adopted IFRS 12, inclusive of amendments. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and risks associated with interests in other entities as well as the effects of those interests on the entity's balance sheet, income and cash flows. The amendments also require detailed disclosure related to investment entities. These requirements will be included in the annual report 2014. Apart from this Norges Bank does not expect that implementation will have significant effects on the financial reporting.

IAS 32 Financial Instruments: Presentation

As per 1 January 2014 Norges Bank has adopted the amendments to IAS 32, Offsetting financial assets and financial liabilities. The amendments to IAS 32 clarify offsetting criteria and prescribe the application. In particular the definition of a legally enforceable right of off-set and when gross settlement systems are considered equivalents of net settlement. These amendments have no impact on the financial reporting.

*Currency*

As a consequence of not consolidating subsidiaries after implementation of IFRS 10, there will be no more translation differences in Total comprehensive income, these effects will be included in profit or loss.

**3 IASB FINAL STANDARDS AND IFRIC INTERPRETATIONS WITH EXPECTED EU ENDORSEMENT DATE AFTER 2014**

There are no IFRS standards or IFRIC interpretations approved by the IASB during the first quarter of 2014 with a material effect for the financial reporting of Norges Bank. For a comprehensive overview of new standards and amendments not implemented yet, reference is made to note 1 in Norges Bank's annual financial statements 2013.

**NOTE 2 SIGNIFICANT ESTIMATES AND CRITICAL ACCOUNTING JUDGEMENTS**

The preparation of the financial statements of Norges Bank, which includes the financial reporting for the Government Pension Fund Global in accordance with the accounting policies in note 1, involves the use of estimates and judgements that may affect assets, liabilities, income and expenses. Estimates and judgements are based on historical experience and expectations about future events that are considered probable at the time the financial statements are presented.

Estimates are based on best judgement; however, actual results may deviate from estimates. In cases of particularly uncertain estimates, this is described in the respective notes. For additional information on significant estimates and critical accounting judgements see note 2 in Norges Bank's annual financial statements 2013, which are also presented as an extract in the Government Pension Fund Global Annual Report 2013.

*Fair value of subsidiaries*

Subsidiaries are measured at fair value. The fair value of the entities is the sum of the fair values of all assets less liabilities measured at fair value. Substantially this comprises investment property and external debt.

Fair value of investment property is based on external valuations, or recently completed comparable transactions in comparable markets. Determining the fair value of such valuations involves the use of estimated future cash flows from the assets (based on assumptions such as occupancy, tenant profiles, future income streams, values of equipment and the property's condition) and discount rates for such assets.

*Assessment of whether the Government Pension Fund Global is an investment entity*

Norges Bank has implemented IFRS 10 in 2014, which introduces an exemption from consolidation for reporting entities that qualify as investment entities. As part of the requirements specified in Note 1 Accounting policies, an investment entity shall have a strategy that defines the time horizon for the realization of investments. The Government Pension Fund Global has a very long time horizon. After an overall assessment, it is concluded that the Government Pension Fund Global meets the criteria in the definition of an investment entity.

## NOTE 3 SPECIFICATION OF RETURNS PER ASSET CLASS

Table 3.1 Specification of returns per asset class

Amounts in percent	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013	Year-to-date 31.03.2014
<b>Returns in international currency</b>						
Return on equity investments	1.47	7.41	7.64	0.89	8.25	1.47
Return on fixed-income investments	2.05	0.13	0.32	-1.40	1.06	2.05
Return on real estate investments	1.99	3.67	4.09	3.94	-0.34	1.99
Return on fund	1.70	4.66	4.99	0.06	5.45	1.70
Return on equity and fixed-income investments	1.70	4.67	5.00	0.03	5.49	1.70
Return on benchmark equity and fixed-income indices	1.68	4.55	4.87	-0.28	5.16	1.68
Relative return on equity and fixed-income investments	0.01	0.12	0.13	0.31	0.32	0.01
Relative return on equity investments	0.07	0.15	0.27	0.34	0.32	0.07
Relative return on fixed-income investments	-0.07	-0.02	-0.25	0.29	0.22	-0.07
<b>Returns in kroner</b>						
Return on equity investments	0.39	8.30	8.54	4.59	10.83	0.39
Return on fixed-income investments	0.96	0.96	1.15	2.22	3.46	0.96
Return on real estate investments	0.90	4.53	4.96	7.75	2.03	0.90
Return on fund	0.61	5.53	5.86	3.73	7.96	0.61
Return on equity and fixed-income investments	0.61	5.54	5.87	3.70	8.00	0.61

Returns in the table above are a reproduction of return information in table 1-9 in the quarterly report chapter Key figures. For additional information on method used in the return calculation, see Government Pension Fund Global Annual Report 2013, note 3.

## NOTE 4 MANAGEMENT COST

Management costs comprise operating expenses relating to the management of the Government Pension Fund Global. Management costs incurred by Norges Bank as the asset manager are specified in table 4.1. Real estate subsidiaries will also incur administrative expenses. These expenses are charged directly to the line *Net income/expense - gains/losses from: Real Estate*, see specification in table 4.2.

Management costs are covered by the Ministry of Finance up to a certain limit. The limit for management costs is 9 basis points for 2014, and includes both mentioned elements excluding Performance-based fees to external managers. Management costs included in the limit and incurred in subsidiaries, but not charged to Norges Bank as the asset manager, are deducted from the refunded amount (Management fee).

Total management costs excluding performance-based fees, which are measured against the limit, amount to NOK 638 million for first quarter 2014. This comprises NOK 619 million in Norges Bank operating expenses excluding performance-based fees and NOK 19 million in operating expenses in subsidiaries. This corresponds to 5.0 basis points of assets under management on an annual basis.

Total management costs including performance-based fees amount to NOK 953 million for first quarter 2014, and comprise NOK 934 million in total Norges Bank operating expenses related to the management of the Government Pension Fund Global and NOK 19 million in operating costs in subsidiaries. This corresponds to 7.5 basis points of assets under management on an annual basis.

Table 4.1 gives a specification of Norges Bank's operating expenses relating to the management of the Government Pension Fund Global, which are covered by the management fee from the Ministry of Finance.

Table 4.1 Specification management fee

Amounts in NOK million	1Q 2014		1Q 2013		2013	
		Basis points		Basis points		Basis points
Salary, social security and other personnel related costs	178		161		709	
Custody and settlement costs	121		102		423	
IT-services, systems and data*	119		106		454	
Research, consulting and legal fees*	36		8		99	
Other costs	32		20		103	
Allocated common costs Norges Bank	28		25		104	
Base fees to external managers	105		94		313	
<b>Management fee excluding performance-based fees</b>	<b>619</b>	<b>4.9</b>	<b>516</b>	<b>5.3</b>	<b>2 205</b>	<b>5.0</b>
Performance-based fees to external managers	315		61		684	
<b>Total management fee</b>	<b>934</b>	<b>7.3</b>	<b>577</b>	<b>5.9</b>	<b>2 889</b>	<b>6.6</b>

\* As of third quarter 2013 Outsourced IT and analysis costs are moved and presented as respectively IT-services, systems and data and Research, consulting and legal fees. Comparative amounts for 1Q 2013 have been restated.

Fees to external managers and custody and settlement fees are invoiced directly and paid individually for each portfolio managed by Norges Bank Investment Management. All other costs included in the basis for calculation of the management fee are costs that are common to the management, and are allocated to the individual portfolio using a cost allocation model based primarily on market values and asset class composition. Performance-based fees to external managers are

covered outside of the set limit, as part of the management fee. The management fee is a function of expenses presented in Norges Bank's income statement.

Table 4.2 gives a specification of operating expenses in real estate related subsidiaries that are included in Norges Bank's limit for management fee.

Table 4.2 Specification operating expenses, real estate

Amounts in NOK million	1Q 2014	1Q 2013	2013
Salary, social security and other personnel related costs	6	4	20
IT-services, systems and data, outsourced administrative services	3	2	6
Research, consulting and legal fees	4	2	14
Fees related to real estate asset management (external)	2	3	11
Other costs, subsidiaries	4	3	10
<b>Total operating expenses, real estate subsidiaries included in Norges Bank's management fee limit</b>	<b>19</b>	<b>14</b>	<b>61</b>

The expenses specified in table 4.2 are included in *Net income/expenses – gains/losses from: Real Estate* and are paid with funds belonging to the subsidiaries, and

accounted for in the Government Pension Fund Global income statement as part of the fair value measurement of the subsidiaries.



NOTE 5 EQUITIES AND UNITS / BONDS AND OTHER FIXED INCOME INSTRUMENTS / FINANCIAL DERIVATIVES

Table 5.1 Specification equities and units

Amounts in NOK million	31.03.2014		31.12.2013	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
<b>Equities:</b>				
Listed equities and units	3 135 869	6 577	3 133 467	3 215
<b>Total equities and units</b>	<b>3 135 869</b>	<b>6 577</b>	<b>3 133 467</b>	<b>3 215</b>
<i>Of which equities lent</i>	<i>228 188</i>		<i>161 150</i>	

Table 5.2 Specification bonds and other fixed-income instruments

Amounts in NOK million	31.03.2014			31.12.2013		
	Nominal value*	Fair value incl. accrued interest	Accrued interest	Nominal value*	Fair value incl. accrued interest	Accrued interest
<b>Bonds and other fixed-income instruments:</b>						
Government bonds	1 129 874	1 186 918	10 068	1 134 335	1 180 774	9 896
Government related bonds	239 568	252 114	2 596	216 521	226 408	2 519
Inflation-linked bonds	24 555	29 141	158	25 933	30 318	154
Corporate bonds	264 870	277 756	3 115	237 584	246 288	3 170
Securitised bonds	172 772	185 598	2 632	185 049	196 475	3 161
<b>Total bonds and other fixed-income instruments</b>	<b>1 831 639</b>	<b>1 931 527</b>	<b>18 569</b>	<b>1 799 421</b>	<b>1 880 263</b>	<b>18 900</b>
<i>Of which bonds lent</i>		<i>76 132</i>			<i>75 807</i>	

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

Table 5.3 Specification financial derivatives

Amounts in NOK million	Fair value 31.03.2014			Fair value 31.12.2013*		
	Asset	Liability	Net	Asset	Liability	Net
<b>Foreign exchange contracts</b>						
Swap contracts	517	781	- 264	460	273	187
Options	283	1 088	- 805	574	699	- 125
<b>Total financial derivatives</b>	<b>498</b>	<b>0</b>	<b>498</b>	<b>382</b>	<b>-</b>	<b>382</b>
<b>Sum finansielle derivater</b>	<b>1 298</b>	<b>1 869</b>	<b>- 571</b>	<b>1 416</b>	<b>972</b>	<b>444</b>

\* From first quarter 2014 variation margin is considered settlement of exchange traded futures and equity swaps. In the comparative amounts these instruments have been reclassified from *Financial derivatives* to *Deposits in banks*. The change has no effect in the income statement.

## NOTE 6 REAL ESTATE

Real estate in the investment portfolio of the Government Pension Fund Global comprises unlisted investments. Real estate investments are held through subsidiaries of Norges Bank.

Subsidiaries are measured at fair value and presented in the balance sheet of the Government Pension Fund Global as *Real estate*. The fair value of the entities is the sum of the fair values of all assets less liabilities at fair value. Of this, the major part comprises investment property and external debt. The movement in the *Real estate* balance sheet line is specified in table 6.3.

The changes in fair value of the shares in subsidiaries are included in the profit and loss for the Government

Pension Fund Global as *Net income/expense – gains/losses from: Real estate*. The line is specified in table 6.1.

The Government Pension Fund Global's investments in *Real estate* are financed with equity, loans or a combination of the two. The cash flow to the Government Pension Fund Global is dividend and interest income, and repayments of loans and paid in capital. The cash flow is based on received rental income less operating expenses and paid taxes.

Table 6.1 specifies *Net income/expense – gains/losses from: Real estate* split on the most significant income, value change and expense elements.

Table 6.1 Net income/expense – gains/losses from: Real estate

Amounts in NOK million	1Q 2014	1Q 2013	2013
Net rental income*	848	369	2 215
Fair value changes – investment property	667	205	1 539
Fair value changes – debt	- 30	- 48	336
Transaction costs	- 93	- 68	- 201
Interest expense external debt	- 64	- 45	- 239
Tax expense payable	- 25	- 11	- 64
Change in deferred tax	- 24	- 14	- 182
Operating expenses within the limit from the Ministry of Finance**	- 19	- 14	- 61
Other expenses	- 44	- 3	- 107
<b>Net income/expenses – gains/losses from: Real estate</b>	<b>1 216</b>	<b>370</b>	<b>3 236</b>

\* Net rental income mainly comprises received and earned rental income less directly attributable operating costs.

\*\* See table 4.2 for specification of the operating expenses that are part of the management fee limit from the Ministry of Finance.

Table 6.2 shows the profit/loss on the real estate asset class that in addition to the specification in table 6.1

also includes income and expenses that arise on Government Pension Fund Global level.

Table 6.2 Income statement – real estate asset class

Amounts in NOK million	1Q 2014	1Q 2013	2013
Interest income and interest expense from bank deposits	0	0	0
Net income/expenses – gains/losses from:			
- Real estate	1 216	370	3 236
- Financial derivatives	51	24	- 23
Tax expense	- 40	-	- 39
Other expenses	- 1	-	- 2
<b>Profit/loss on the portfolio before foreign exchange gains and losses – asset class real estate</b>	<b>1 226</b>	<b>394</b>	<b>3 172</b>

Table 6.3 specifies the changes in carrying amounts for the line *Real estate*.

Table 6.3 Changes in carrying amounts Real estate

Amounts in NOK million	31.03.2014	31.12.2013
Real estate, opening balance 01.01.	51 032	25 008
Additions new investments	6 224	22 460
Improvements existing investments	197	296
Fair value changes – investment property	667	1 540
Fair value changes – debt	- 30	336
Net change paid in capital	988	- 3 004
Net change withheld capital	8	182
Foreign currency translation effect	- 583	4 214
<b>Real estate, closing balance for the period</b>	<b>58 503</b>	<b>51 032</b>

Table 6.4 shows the assets and liabilities for the real estate asset class that in addition to the specification in

table 6.3 also includes assets and liabilities on Government Pension Fund Global level.

Table 6.4 Assets and liabilities – real estate asset class

Amounts in NOK million	31.03.2014	31.12.2013
Deposits in banks	732	609
Real estate	58 503	51 032
Financial derivatives	239	190
Other assets	0	18
Other liabilities	- 84	- 54
<b>Total assets and liabilities – real estate asset class</b>	<b>59 390</b>	<b>51 794</b>

For additional information on valuation, see note 7 Fair value measurement.

## NOTE 7 FAIR VALUE MEASUREMENT

All assets and liabilities measured at fair value have been allocated to categories reflecting assessed valuation uncertainty. Level 1 comprises investments that are valued on the basis of quoted prices in active markets and are considered to have very limited valuation risk. Investments allocated to level 2 are valued using models with observable inputs. These holdings have some pricing uncertainty. Holdings allocated to level 3 are priced using models with considerable use of unobservable inputs, which implies substantial uncertainty regarding the establishment of fair value.

From the first quarter of 2014 subsidiaries are no longer consolidated. Instead investments in subsidiaries are measured at fair value through profit or loss. This value is arrived at by aggregating the fair values of all assets less liabilities measured at fair value in the subsidiaries. Any valuation uncertainty is therefore related to the underlying assets and liabilities, mainly the investment properties and external debt. See note 2 Significant estimates and critical accounting judgements for information regarding the fair value measurement of real estate subsidiaries as a result of the implementation of IFRS 10, and note 6 Real estate.

For information on the control environment and valuation techniques related to fair value measurement reference is made to note 12 in the Government Pension Fund Global Annual Report 2013.

Table 7.1 Specification of investments by level of valuation uncertainty

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Equities and units	3 132 020	3 130 980	2 224	734	1 625	1 753	3 135 869	3 133 467
Government bonds	994 757	1 021 481	192 161	159 293	-	-	1 186 918	1 180 774
Government-related bonds	203 295	173 767	48 320	52 134	499	507	252 114	226 408
Inflation-linked bonds	25 068	26 676	4 073	3 642	-	-	29 141	30 318
Corporate bonds	3 206	2 062	273 207	243 194	1 343	1 032	277 756	246 288
Securitised bonds	144 085	153 273	41 488	43 170	25	32	185 598	196 475
<b>Total bonds</b>	<b>1 370 411</b>	<b>1 377 259</b>	<b>559 249</b>	<b>501 433</b>	<b>1 867</b>	<b>1 571</b>	<b>1 931 527</b>	<b>1 880 263</b>
Financial derivatives (assets)	-	192	1 298	1 224	-	-	1 298	1 416
Financial derivatives (liabilities)	-	-	- 1 869	- 972	-	-	- 1 869	- 972
<b>Total financial derivatives</b>	<b>-</b>	<b>192</b>	<b>- 571</b>	<b>252</b>	<b>-</b>	<b>-</b>	<b>- 571</b>	<b>444</b>
<b>Real estate</b>	<b>.</b>	<b>.</b>	<b>.</b>	<b>.</b>	<b>58 503</b>	<b>51 032</b>	<b>58 503</b>	<b>51 032</b>
Deposits in banks	.	.	4 892	3 982	.	.	4 892	3 982
Lending associated with reverse repurchase agreements	.	.	104 953	89 189	.	.	104 953	89 189
Other assets	.	.	2 967	3 522	.	.	2 967	3 522
Unsettled trades (asset)	.	.	36 125	1 125	.	.	36 125	1 125
Unsettled trades (liability)	.	.	- 43 040	- 7 654	.	.	- 43 040	- 7 654
Short-term borrowing	.	.	-	- 29	.	.	-	- 29
Borrowing associated with repurchase agreements	.	.	- 51 565	- 69 147	.	.	- 51 565	- 69 147
Cash collateral received	.	.	- 69 792	- 48 064	.	.	- 69 792	- 48 064
Other liabilities	.	.	- 174	- 395	.	.	- 174	- 395
<b>Total other</b>	<b>.</b>	<b>.</b>	<b>- 15 634</b>	<b>- 27 471</b>	<b>.</b>	<b>.</b>	<b>- 15 634</b>	<b>- 27 471</b>
<b>Total</b>	<b>4 502 431</b>	<b>4 508 431</b>	<b>545 268</b>	<b>474 948</b>	<b>61 995</b>	<b>54 356</b>	<b>5 109 694</b>	<b>5 037 735</b>

Valuation uncertainty for the Government Pension Fund Global in total as per the end of the first quarter 2014 is practically unchanged compared to year-end. This holds true for the equities and fixed income asset classes. The value of Level 3 holdings within these asset classes has been stable throughout the quarter, and still constitutes approximately 0.07 percent of the total holdings. The volume of Level 2 bonds has increased with 2 percent during the quarter, which is mainly caused by a combination of purchases of treasuries in emerging markets and corporate bonds in developed markets, as well as a reclassification of bonds from Level 1 to Level 2. 89 percent of the total holdings in the equity and bond portfolios are classified as Level 1.

External valuations have been collected for properties at the end of the first quarter 2014. These properties constitute the major part of the investments in subsidiaries. All real estate investments are measured according to estimated values from external valuers, with the exception of newly acquired properties where the purchase price is considered to be the best estimate of fair value. Received valuations for the newly acquired properties differ slightly from the purchase price, however factors indicating that the value of the properties has changed materially since the transaction date have not been observed. It is therefore the management's opinion that the consideration paid in the recent transactions is the best estimate of fair value as at 31 March 2014. Valuations led to an overall increase in the value of the real estate portfolio in the first quarter. Valuation uncertainty related to real estate investments is mainly unchanged compared to year-end. For further information on real estate investments, see note 6 Real estate.

## NOTE 8 RISK

### MARKET RISK

Market risk is the risk of changes in the value of the portfolio due to movements in interest rates, equity prices, exchange rates and credit spreads. Norges Bank measures risk in both absolute terms and the relative market risk for holdings in the investment portfolio of the Government Pension Fund Global.

### Asset class per country and currency

The investment portfolio of the Government Pension Fund Global is invested across several asset classes, countries and currencies as shown in table 8.1.

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	31.03.2014	Market	31.12.2013	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Equities	<b>Developed</b>	<b>90.2</b>	<b>Developed</b>	<b>90.2</b>				
	United States	29.5	United States	29.2				
	United Kingdom	14.1	United Kingdom	14.8				
	France	6.9	Japan	6.7				
	Germany	6.8	Germany	6.7				
	Japan	6.3	France	6.7				
	Total other	26.6	Total other	26.1				
	<b>Emerging</b>	<b>9.8</b>	<b>Emerging</b>	<b>9.8</b>				
	China	2.4	China	2.5				
	Taiwan	1.4	Taiwan	1.4				
	Brazil	1.3	Brazil	1.3				
	India	0.8	Russia	0.7				
	Russia	0.6	India	0.7				
	Total other	3.2	Total other	3.1				
<b>Total Equities</b>					<b>61.1</b>	<b>61.7</b>	<b>3 123 530</b>	<b>3 106 945</b>
Fixed income	<b>Developed</b>	<b>86.7</b>	<b>Developed</b>	<b>88.0</b>				
	US Dollar	37.5	US Dollar	38.4				
	Euro	27.0	Euro	27.8				
	Japanese Yen	7.6	Japanese Yen	7.4				
	British Pound	5.6	British Pound	5.2				
	Canadian Dollar	3.3	Canadian Dollar	3.5				
	Total other	5.7	Total other	5.8				
	<b>Emerging</b>	<b>13.3</b>	<b>Emerging</b>	<b>12.0</b>				
	Mexican Peso	2.1	Mexican Peso	1.7				
	Brazilian Real	1.7	South Korean Won	1.6				
	South Korean Won	1.6	Brazilian Real	1.5				
	Russian Rouble	1.3	Russian Rouble	1.3				
	Turkish Lira	0.9	Polish Zloty	0.8				
	Total other	5.8	Total other	5.1				
<b>Total Fixed Income</b>					<b>37.7</b>	<b>37.3</b>	<b>1 926 774</b>	<b>1 878 996</b>
Real Estate	United States	26.0	United Kingdom	27.0				
	United Kingdom	24.3	France	22.5				
	France	19.6	United States	18.7				
	Switzerland	12.0	Switzerland	13.8				
	Germany	7.4	Germany	8.5				
	Total other	10.8	Total other	9.6				
<b>Total Real estate</b>					<b>1.2</b>	<b>1.0</b>	<b>59 390</b>	<b>51 794</b>

## 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 absolute volatility calculations.

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

Expected volatility, actual portfolio								
	31.03.2014	Min 2014	Max 2014	Average 2014	31.12.2013	Min 2013	Max 2013	Average 2013
Portfolio	9.0	9.0	9.3	9.2	9.3	8.5	9.4	9.0
Equities	13.8	13.8	14.4	14.2	14.2	13.7	14.4	14.1
Fixed income	8.6	8.6	8.9	8.8	8.7	8.3	8.9	8.6

Table 8.3 Relative risk, expected relative volatility, in basispoints

Expected relative volatility								
	31.03.2014	Min 2014	Max 2014	Average 2014	31.12.2013	Min 2013	Max 2013	Average 2013
Portfolio	55	55	63	59	59	32	81	53
Equities	65	55	67	60	64	33	76	51
Fixed income	59	52	63	57	56	50	75	64

The models that are used in the calculation of the above information are explained in note 13 Risk in the Government Pension Fund Global Annual Report 2013.

Risk as measured by expected volatility indicates a decrease for the portfolio in the first quarter of the year, from 9.3 at year-end to 9.0. Expected volatility for equities has fallen from 14.2 to 13.8, while expected volatility for bonds decreased slightly from 8.7 to 8.6. The risk measure indicates that at the end of the quarter

an annual value change of 9.0 percent, or approximately NOK 460 billion, could be expected.

## 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 ratings. Table 8.4 shows the bond portfolio's distribution on different credit rating categories.

Table 8.4 Bond portfolio specified by credit rating

Amounts in NOK million, 31.03.2014	AAA	AA	A	BBB	Lower rating	Total
Government bonds	609 280	310 574	83 830	180 882	2 353	1 186 918
Government related bonds	117 297	96 649	10 532	25 697	1 939	252 114
Inflation-linked bonds	15 705	74	275	13 087	-	29 141
Corporate bonds	642	27 022	127 535	117 841	4 715	277 756
Securitised bonds	125 248	11 055	24 061	24 017	1 217	185 598
<b>Total bonds and other fixed-income instruments</b>	<b>868 173</b>	<b>445 374</b>	<b>246 233</b>	<b>361 524</b>	<b>10 223</b>	<b>1 931 527</b>

Amounts in NOK million, 31.12.2013	AAA	AA	A	BBB	Lower rating	Total
Government bonds	658 742	298 019	71 283	150 360	2 369	1 180 774
Government related bonds	105 869	85 439	11 294	21 271	2 535	226 408
Inflation-linked bonds	16 180	1 431	271	12 435	-	30 318
Corporate bonds	871	23 080	109 052	108 438	4 847	246 288
Securitised bonds	126 600	11 855	26 525	30 285	1 210	196 475
<b>Total bonds and other fixed-income instruments</b>	<b>908 262</b>	<b>419 825</b>	<b>218 425</b>	<b>322 789</b>	<b>10 961</b>	<b>1 880 263</b>

The share of bond holdings categorised with a credit rating of AAA decreased to 44.9 percent at the quarter end compared to 48.3 percent at year-end 2013. This is mostly due to sales of US treasuries. The BBB category however has increased to 18.7 percent at the quarter-end compared to 17.2 percent at year-end, mainly due to purchases of treasuries issued in emerging markets. The credit quality of the bond portfolio in total declined somewhat since year-end 2013, as a result of this.

## COUNTERPARTY RISK

Counterparty risk is the risk of loss related to the possible bankruptcy or other similar event leading to a counterparty not being able to fulfil its payment obligations.

In table 8.5 the counterparty risk exposure is shown per type of activity/instrument type.

Table 8.5 Counterparty risk by type of position

Amounts in NOK million, 31.03.2014	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits*	5 878	-	-	5 878
OTC derivatives including foreign exchange contracts	3 995	2 460	58	1 477
Repurchase and reverse repurchase agreements	874	71	-	803
Securities lending transactions	46 405	-	43 690	2 715
Cash and bonds posted as collateral for derivatives trades	2 589	-	-	2 589
Settlement risk towards broker and long settlement transactions	572	-	-	572
<b>Total</b>	<b>60 313</b>	<b>2 531</b>	<b>43 748</b>	<b>14 034</b>

Amounts in NOK million, 31.12.2013	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits*	3 933	-	-	3 933
OTC derivatives including foreign exchange contracts	4 354	1 997	298	2 059
Repurchase and reverse repurchase agreements	660	86	-	575
Securities lending transactions	27 428	-	14 532	12 896
Cash and bonds posted as collateral for derivatives trades	3 344	-	-	3 344
Settlement risk towards broker and long settlement transactions	-	-	-	-
<b>Total</b>	<b>39 719</b>	<b>2 082</b>	<b>14 830</b>	<b>22 806</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 2014. Counterparty risk measured in net exposure is decreased since year-end 2013. This is mainly due to the fact that security lending agents have extended their guarantee responsibilities. Counterparty risk measured in gross exposure has

increased since year-end and is mainly due to seasonal fluctuations related to securities lending.

## NOTE 9 EFFECT OF CHANGES IN ACCOUNTING POLICIES

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

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

statement. In the same way assets and liabilities previously consolidated are presented together on the line *Real estate*.

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

Comparative amounts have been restated according to the transition provisions and the effect is presented in table 9.1-9.3. See also note 1 Accounting policies and note 2 Significant estimates and critical accounting judgements.

Table 9.1 shows the effect of changes in accounting principles on the income statement. Negative signs mean a decrease of income or increase of expenses. Positive signs mean an increase of income or decrease of expenses.

Table 9.1 Effects of changes in accounting principles – income statement

Amounts in NOK million	Change				Reported	2013 Effect of IFRS 10	Restated
	1Q 2013	2Q 2013	3Q 2013	4Q 2013			
<b>INCOME STATEMENT</b>							
Net income/expenses and gains/losses from:							
- Financial assets real estate	- 187	- 141	- 214	- 373	915	- 915	-
- Investment properties	- 66	- 377	- 112	- 152	707	- 707	-
- Jointly controlled entities and associates real estate*	- 115	- 358	- 413	- 960	1 846	- 1 846	-
- Real estate	370	909	855	1 102	.	3 236	3 236
Tax expense	20	73	18	47	- 1 291	158	- 1 133
Other interest income and interest expense*	- 39	- 129	- 157	324	2	-	2
Other expenses	17	23	23	11	- 100	74	- 26
<b>Profit/loss on the portfolio before foreign exchange gains and losses</b>	-	-	-	-	<b>691 530</b>	-	<b>691 530</b>
Foreign exchange gains and losses	180	199	- 2	3 280	287 771	3 657	291 428
<b>Profit/loss for the period</b>	<b>180</b>	<b>199</b>	<b>- 2</b>	<b>3 280</b>	<b>976 412</b>	<b>3 657</b>	<b>980 069</b>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>							
Translation reserve arising from consolidation of foreign subsidiaries that may be reclassified to the income statement	- 180	- 199	2	- 3 280	3 657	- 3 657	-
<b>Total comprehensive income</b>	-	-	-	-	<b>980 069</b>	-	<b>980 069</b>

\* Other interest income and interest expense was reclassified in 4Q 2013 to *Net income/expenses and gains/losses from: Jointly controlled entities and associates real estate*.



Table 9.2-9.3 show the effect of changes in accounting principles on the balance sheet and owner's capital. Negative signs mean a reduction of assets, liabilities or

owner's capital. Positive signs mean an increase of assets, liabilities or owner's capital.

Table 9.2 Effects of changes in accounting principles – balance sheet

Amounts in NOK million	31.12.2013		
	Reported	Effect of IFRS 10	Restated
<b>ASSETS</b>			
Total assets*	5 164 450	- 454	5 163 996
Of which			
Deposits in banks*	4 111	- 129	3 982
Financial assets real estate	7 426	- 7 426	-
Jointly controlled entities and associates real estate	32 261	- 32 261	-
Real estate	.	51 032	51 032
Other assets	.	3 522	3 522
Other financial assets	3 917	- 3 917	-
Investment properties	11 267	- 11 267	-
Other non-financial assets	8	- 8	-
<b>LIABILITIES AND OWNER'S CAPITAL</b>			
Total liabilities*	129 604	- 454	129 150
Of which			
Other liabilities	849	- 454	395
Owner's capital	5 034 846	-	5 034 846
Of which			
Retained earnings	1 732 256	3 649	1 735 905
Translation reserve foreign subsidiaries	3 649	- 3 649	-

\* From first quarter 2014 variation margin is considered settlement of exchange traded futures and equity swaps. In the column Reported these instruments have been reclassified from *Financial derivatives* to *Deposits in banks*. The change has no effect in the Income statement.

Table 9.3 Effects of changes in accounting principles – owner's capital

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

**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 comprise the balance sheet as at March 31, 2014, the income statement, the statement of 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, 23 April 2014

**Deloitte AS**

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



