GOVERNMENT PENSION FUND GLOBAL **FIRST QUARTER 2012**


NBIM
Norges Bank Investment Management

# First quarter 2012 in brief

- *The Government Pension Fund Global returned 7.1 percent, or 234 billion kroner, in the first quarter of 2012, helped by rising global stock markets and gains on corporate and bank bonds.*

- *Equity investments returned 11 percent and fixed-income investments returned 1.6 percent. The overall return was 0.3 percentage point higher than the return on the benchmark indices.*

- *The fund's market value rose 185 billion kroner to 3,496 billion kroner.*

- *The fund held 60.7 percent in equities, 39 percent in fixed income and 0.3 percent in real estate at the end of the quarter.*

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# Content



*Translated from Norwegian. For information only.*

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

www.nbim.no

## The fund

# Increase in market value

The Government Pension Fund Global's market value increased 185 billion kroner to 3,496 billion kroner in the first quarter of 2012. The quarterly return of 234 billion kroner was the third largest in the fund's history.

The market value of equity investments rose 177 billion kroner to 2,122 billion kroner in the quarter and fixed-income investments increased 8 billion kroner to 1,364 billion kroner. Real estate investments were largely unchanged and had a market value of 11 billion kroner at the end of the period.

The market value is affected by investment returns, capital inflows and exchange rates. The fund returned 234 billion kroner in the quarter and received 60 billion kroner in capital from the government. A strengthening of the krone against several major currencies reduced the market value by 110 billion kroner.

The fund had 80 percent of its investments in euros, pounds, dollars and yen at the end of the quarter. The krone gained 2 percent against the euro, 4.4 percent to the dollar, 1.7 percent versus the pound and 10.6 percent against the yen in the quarter.

The fund, which is in a start-up phase in real estate investing, is mandated to hold 60 percent in equities, 35 percent in fixed income and 5 percent in real estate. Actual investments at the end of the quarter were 60.7 percent in equities, 39 percent in fixed income and 0.3 percent in real estate.

The fund generally invests its capital inflows in the worst-performing asset class. In the first quarter, 30 percent of the fund's inflows of 60 billion kroner were invested in equities and 70 percent in fixed income.

**Chart 1-1** The fund's market value per quarter. Billions of kroner

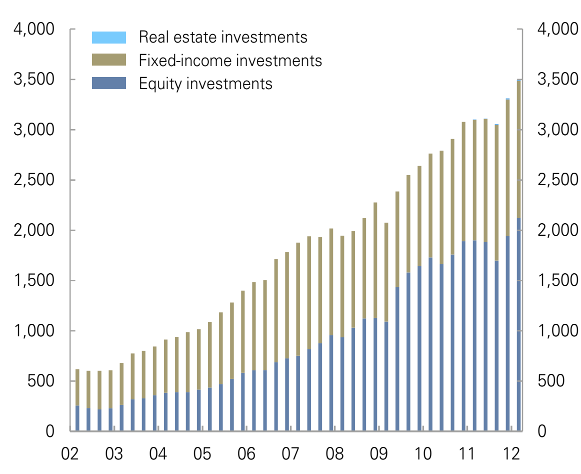



**Chart 1-2** Changes in the fund's market value. Billions of kroner

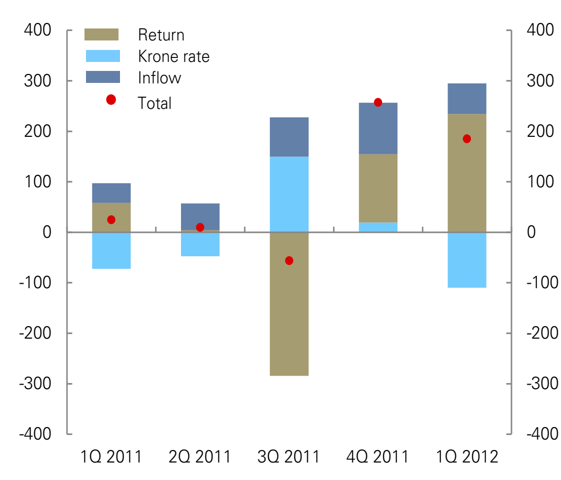


Table 1-1 Key figures as of 31 March 2012

| | 1Q 2012 | 4Q 2011 | 3Q 2011 | 2Q 2011 | 1Q 2011 |
|---|---|---|---|---|---|
| **Market value (billions of kroner)*** | | | | | |
| Market value of equity investments | 2,122 | 1,945 | 1,699 | 1,881 | 1,900 |
| Market value of fixed-income investments | 1,364 | 1,356 | 1,346 | 1,226 | 1,197 |
| Market value of real estate investments | 11 | 11 | 10 | 4 | 4 |
| Market value of fund | 3,496 | 3,312 | 3,055 | 3,111 | 3,102 |
| | | | | | |
| Inflow of new capital* | 60 | 102 | 78 | 53 | 38 |
| Return on fund | 234 | 135 | -284 | 4 | 59 |
| Change due to fluctuations in krone | -110 | 19 | 150 | -48 | -73 |
| Total change in fund | 185 | 257 | -56 | 9 | 24 |
| | | | | | |
| **Management costs** | | | | | |
| Estimated transition costs | 0.01 | 0.02 | 0.01 | 0.01 | 0.01 |
| Annualised management costs | 0.07 | 0.08 | 0.08 | 0.08 | 0.08 |
| | | | | | |
| **Changes in value since first capital inflow in 1996 (billions of kroner)** | | | | | |
| Gross inflow of new capital | 2,842 | 2,782 | 2,679 | 2,600 | 2,547 |
| Management costs | 19 | 19 | 18 | 17 | 17 |
| Inflow of capital after management costs | 2,823 | 2,763 | 2,661 | 2,583 | 2,530 |
| Return on fund | 894 | 660 | 525 | 809 | 805 |
| Change due to fluctuations in krone | -221 | -111 | -131 | -281 | -233 |
| Market value of fund | 3,496 | 3,312 | 3,055 | 3,111 | 3,102 |
| | | | | | |
| Return after management costs | 875 | 641 | 506 | 791 | 788 |

*The fund market value in this table does not take into account the management fee to NBIM from the Ministry of Finance. The market value will therefore differ slightly from the Statement of cash flows and the Statement of changes in owner's capital in the financial accounts. The inflows in this table differ slightly from those 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.

**Table 1-2** Accumulated returns since 1996. Billions of kroner

| | 1Q 2012 | 4Q 2011 | 3Q 2011 | 2Q 2011 | 1Q 2011 |
|---|---|---|---|---|---|
| Equity investments | 437 | 226 | 104 | 432 | 447 |
| Fixed-income investments | 457 | 434 | 421 | 377 | 358 |
| Real estate investments | 0 | 0 | 0 | 0 | - |
| Fund | 894 | 660 | 525 | 809 | 805 |

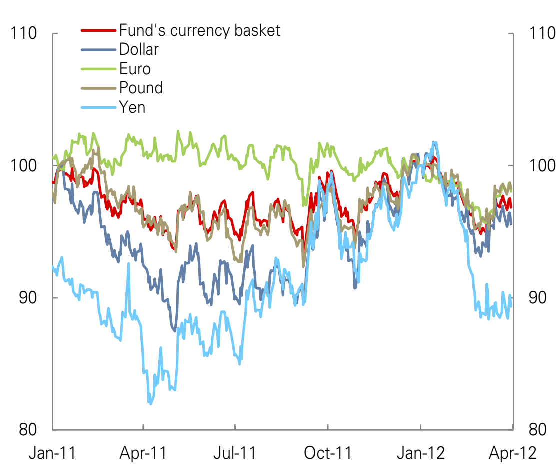
**Table 1-3** The fund's largest equity holdings as of 31 March 2012

| Company | Country | Holdings in millions of kroner |
|---|---|---|
| Royal Dutch Shell Plc | UK | 28,049 |
| Nestlé SA | Switzerland | 26,987 |
| HSBC Holdings Plc | UK | 23,305 |
| Apple Inc | US | 22,792 |
| BG Group Plc | UK | 19,234 |
| Novartis AG | Switzerland | 17,706 |
| Vodafone Group Plc | UK | 17,688 |
| BP Plc | UK | 17,328 |
| Exxon Mobil Corp | US | 16,911 |
| Roche Holding AG | Switzerland | 15,786 |

**Table 1-4** The fund's largest bond holdings as of 31 March 2012

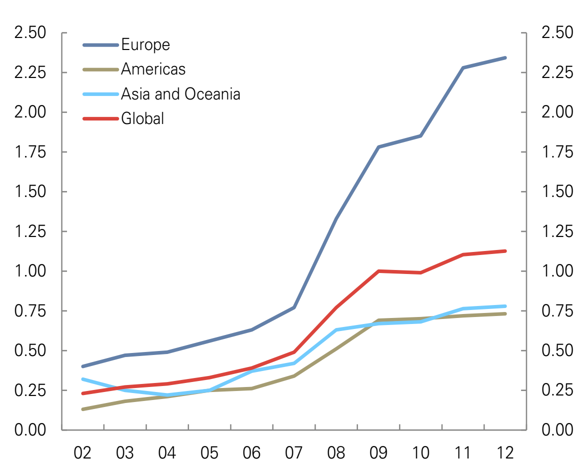
| Issuer | Country | Holdings in millions of kroner |
|---|---|---|
| United States of America | US | 274,867 |
| UK government | UK | 88,774 |
| French Republic | France | 79,875 |
| Japanese government | Japan | 65,377 |
| Federal Republic of Germany | Germany | 38,469 |
| Italian Republic | Italy | 26,628 |
| Government of Canada | Canada | 24,394 |
| European Investment Bank | Supranational | 22,634 |
| Kreditanstalt für Wiederaufbau | Germany | 20,524 |
| Government of Australia | Australia | 20,079 |

**Chart 1-3** Movements in currency exchange rates against the krone. Indexed 30 Dec 2011 = 100




Source: WM, Reuters

**Chart 1-4** The fund's holdings in equity markets. Percentage of FTSE Global All Cap Index's market capitalisation




Source: FTSE, NBIM



## Returns in international currency

The fund's investments in international securities are not converted into kroner in connection with financial reporting and are not hedged against moves in the krone. Changes in the krone exchange rate do not affect the fund's international purchasing power. Consequently, the return is generally measured in international currency – a weighted combination of the currencies in the fund's benchmark indices for equities and bonds. This is known as the fund's currency basket and consisted of 35 currencies at the end of the first quarter. The krone gained 3.2 percent against the group of currencies in the quarter.

The returns data in tables 1-1 and 1-2 were calculated using the fund's currency basket and then converted into kroner.

# Fund management

## Stock rally spurs strong quarter

The fund returned 7.1 percent in the first quarter of 2012, buoyed by rising global stock markets and gains on corporate and bank bonds.

The equity holdings returned 11 percent in the quarter, as measured in international currency. Stocks rose in Europe, the US and Asia as European authorities announced measures to ease the region's sovereign debt crisis and improve funding for banks. The US economy also showed signs of improvement.

Investments in technology shares led gains with an 18.6 percent return in the quarter as consumer demand increased amid a strengthening of the US economy. Apple, Microsoft and IBM were the fund's best-performing technology stocks in the period after gaining 48 percent, 24.3 percent and 13.5 percent, respectively .

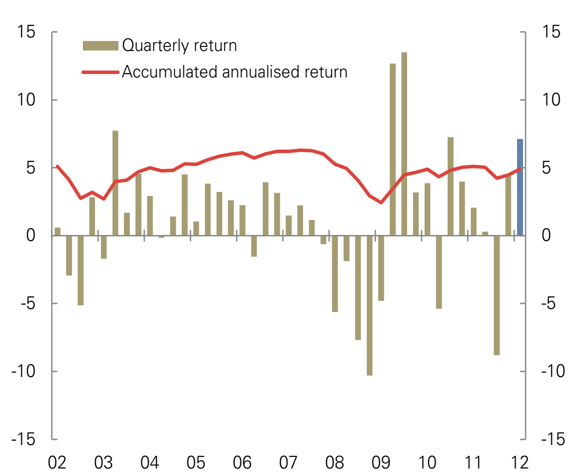
Shares in financial institutions returned 16.1 percent and were the fund's second-best performing equity sector. European financial stocks led gains after the European Central Bank in February lent 530 billion euros over three years to 800 banks in the euro area to ease a funding squeeze. This followed a round in December when the ECB lent 489 billion euros to 523 banks after concern over their exposure to European sovereign debt had reduced banks' willingness to lend to each other.

The European financial holdings returned 17.1 percent in the quarter, as measured in international currency, while US and Asian financial shares rose 16.2 percent and 12.6 percent, respectively. Financials accounted for 21 percent of the fund's stock investments at the end of March and were the largest equity sector.

The fund's holdings in industrial companies, which are particularly sensitive to economic cycles, returned 14.3 percent in the quarter. Several central banks, including the US, European, Japanese and Chinese, announced new measures to keep interest rates low and stimulate the economy. Industrials were the fund's second-largest stock sector with 13.1 percent of the holdings.

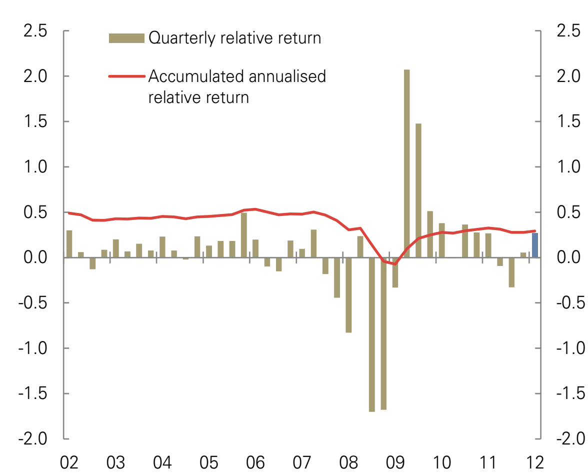
Investments in oil and gas shares returned 4 percent. Benchmark crude oil prices rose 14.4 percent in London and 4.2 percent in New York amid concern over lower oil supplies from the Middle East. EU leaders in January agreed to halt fuel imports from Iran, the region's second-largest oil producer, to pressure the regime to end its nuclear programme. Shares of Exxon Mobil and BP gained 2.3 percent and 0.5 percent, respectively, in the

**Chart 2-1** The fund's quarterly and accumulated annualised return. Percent




Source: NBIM

**Chart 2-2** Quarterly relative return and accumulated annualised relative return on the fund, excluding real estate investments. Percentage points




Source: NBIM

**Table 2-1** Returns as of 31 March 2012

| | 1Q 2012 | 4Q 2011 | 3Q 2011 | 2Q 2011 | 1Q 2011 |
|---|---|---|---|---|---|
| **Returns in international currency** | | | | | |
| Return on equity investments (percent) | 10.99 | 7.36 | -16.95 | -0.65 | 2.91 |
| Return on fixed-income investments (percent) | 1.58 | 0.74 | 3.65 | 1.78 | 0.72 |
| Return on real estate investments (percent) | 2.18 | 0.44 | -0.10 | -4.70 | - |
| Return on fund (percent) | 7.11 | 4.39 | -8.80 | 0.29 | 2.06 |
| | | | | | |
| Return on fund, excluding real estate (percent) | 7.13 | 4.41 | -8.82 | 0.30 | 2.06 |
| Return on benchmark indices, excluding real estate (percent) | 6.87 | 4.35 | -8.49 | 0.39 | 1.80 |
| Relative return on fund, excluding real estate (percentage points) | 0.27 | 0.06 | -0.33 | -0.09 | 0.27 |
| Relative return on equity investments (percentage points) | 0.33 | 0.12 | -0.50 | -0.16 | 0.13 |
| Relative return on fixed-income investments (percentage points) | 0.11 | -0.01 | 0.00 | 0.03 | 0.48 |
| | | | | | |
| Management costs (percentage points) | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |
| Return on fund after management costs (percent) | 7.10 | 4.37 | -8.82 | 0.27 | 2.04 |
| | | | | | |
| **Returns in kroner (percent)** | | | | | |
| Return on equity investments | 7.49 | 7.94 | -12.85 | -2.32 | 0.37 |
| Return on fixed-income investments | -1.63 | 1.28 | 8.76 | 0.07 | -1.76 |
| Return on real estate investments | -1.04 | 0.99 | 4.83 | -6.30 | - |
| Return on fund | 3.74 | 4.96 | -4.30 | -1.39 | -0.45 |
| Return on fund, excluding real estate | 3.76 | 4.97 | -4.32 | -1.38 | -0.45 |



**Table 2-2** Historical key figures as of 31 March 2012. Annualised data in international currency

| | Last 12 months | Last 3 years | Last 5 years | Last 10 years | Since 1 Jan 1998 |
|---|---|---|---|---|---|
| Return on fund (percent) | 2.28 | 14.73 | 2.52 | 4.82 | 4.90 |
| Return on fund, excluding real estate (percent) | 2.29 | 14.73 | 2.52 | 4.82 | 4.90 |
| Return on benchmark indices, excluding real estate (percent) | 2.44 | 12.92 | 2.57 | 4.61 | 4.61 |
| Relative return on fund, excluding real estate (percentage points) | -0.15 | 1.81 | -0.04 | 0.21 | 0.29 |
| | | | | | |
| Standard deviation (percent) | 9.55 | 9.69 | 11.18 | 8.55 | 7.82 |
| | | | | | |
| Tracking error (percentage points) | 0.44 | 0.78 | 1.23 | 0.90 | 0.79 |
| Information ratio (IR), excluding real estate* | -0.34 | 2.33 | -0.03 | 0.23 | 0.37 |
| | | | | | |
| Gross annual return on fund (percent) | 2.28 | 14.73 | 2.52 | 4.82 | 4.90 |
| Annual price inflation (percent) | 1.75 | 2.24 | 2.17 | 2.13 | 1.90 |
| Annual management costs (percent) | 0.07 | 0.10 | 0.10 | 0.10 | 0.10 |
| Annual net real return on fund (percent) | 0.45 | 12.12 | 0.25 | 2.54 | 2.85 |

*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.

quarter. The companies were among the fund's 10 largest shareholdings at the end of the period.

### Regional performance

About 50 percent of the fund's equity investments were in Europe, 35 percent in the Americas, Africa and the Middle East and 15 percent in Asia and Oceania at the end of the quarter. Equity investments in these regions returned 11 percent, 11.4 percent and 10.1 percent, respectively, as measured in international currency.

The fund held 30.3 percent of its stocks in the US, the largest share for a single country. The US Standard & Poor's 500 Index rose 12 percent in the first three months of the year, its biggest first-quarter gain since 1998, amid economic optimism. Consumer confidence rose to the highest in a year in February as unemployment dipped to a three-year low of 8.3 percent. The fund's US equities returned 13.3 percent in the quarter, as measured in local currency. Bank stocks led gains, returning 29.6 percent, followed by technology and financial-services shares with returns of 21.5 percent and 19.8 percent, respectively.

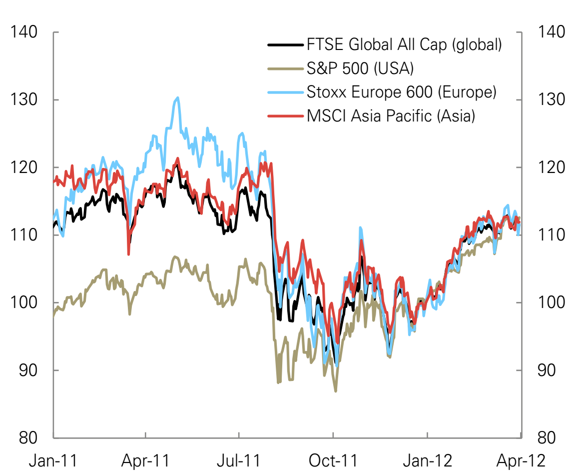
Apple, producer of the iPad and iPhone, was the fund's best-performing stock investment in the quarter, followed by the banks HSBC Holdings and JPMorgan Chase. Shares of Apple surged after the company released record earnings for the latest quarter and introduced a new version of its tablet iPad. Royal Dutch Shell, Europe's largest oil producer, was the worst-performing stock investment, followed by UK supermarket chain Tesco and Vodafone, the world's largest mobile-phone operator. Shell in February reported lower-than-estimated fourth-quarter earnings.

### Increase in stock issuances

Listed companies' sales of new and existing shares rose to 144 billion dollars globally in the first quarter from 90 billion dollars in the previous three months, according to Dealogic. The financial sector accounted for 28 billion dollars, followed by the oil and gas industry with 18 billion dollars and the real estate sector with 16 billion dollars. Initial public offerings fell to 17 billion dollars from 26 billion dollars during the quarter.

The largest capital raising the fund bought shares in was at Italian bank UniCredit, which in January sold shares for 7.5 billion euros, or about 58 billion kroner. This was followed by an offering of 46.7 billion Hong Kong dollars at AIA Group, an Asia-Pacific life insurance company, and a 6 billion-dollar sale by US insurer American International Group.

**Chart 2-3** Price developments in regional and global equity markets, measured in US dollars. Indexed. 30 Dec 2011 = 100

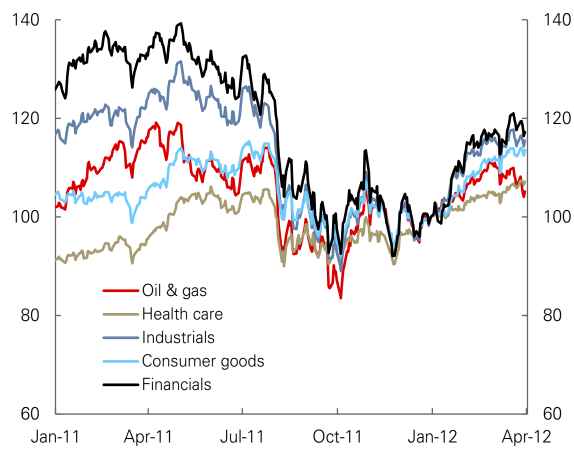


Source: Bloomberg

**Table 2-3** Return on the fund's equity investments in 1Q 2012. By sector. Percent

| Sector | Return in international currency | Share of equity investments |
|---|---|---|
| Financials | 16.1 | 20.9 |
| Industrials | 14.3 | 13.1 |
| Consumer goods | 12.8 | 12.8 |
| Oil and gas | 4.0 | 11.1 |
| Healthcare | 10.4 | 9.1 |
| Consumer services | 6.0 | 8.9 |
| Technology | 18.6 | 8.3 |
| Basic materials | 9.8 | 7.7 |
| Telecommunications | 2.6 | 4.1 |
| Utilities | 0.0 | 4.0 |

**Chart 2-4** Price moves in stock sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed. 30 Dec 2011 = 100




Source: FTSE, NBIM

The fund held shares in 7,957 listed companies at the end of the quarter, compared with 8,005 companies three months earlier.

### Debt concerns ease

The fund's fixed-income investments rose 1.6 percent in the first quarter, as measured in international currency. Rising prices of bonds issued by corporations and financial institutions outweighed a drop in prices of government bonds from countries such as the US and UK.

Yields on government bonds in some euro countries fell in the first quarter from records in the second half of 2011 after European authorities announced measures to contain the sovereign-debt crisis. In February, euro-area finance ministers agreed on a new 130 billion-euro rescue package for Greece to ease its economic plight. The authorities in March also agreed to an 800 billion-euro firewall to contain the debt crisis, while 25 of 27 EU member states signed a treaty to limit their future budget deficits. Greece also agreed with the majority of its private creditors to write off more than 100 billion euros in debt.

Portuguese 10-year government bond yields fell to 11.5 percent at the end of the quarter from 13.4 percent at the start, while Italian 10-year yields declined to 5.1 percent from 7.1 percent. In Spain, 10-year government bond yields rose to 5.4 percent from 5.1 percent after the country in March warned it would fail to reach a target to limit its budget deficit. The yield an investor demands for lending money through a bond will normally rise when the expected risk of default increases and the price of the bond will fall. Yields on 10-year German government bonds, a benchmark for European sovereign debt, were largely unchanged at 1.8 percent at the end of the quarter.

### Government bonds perform worst

Government bonds were the fund's worst-performing fixed-income sector and returned -0.6 percent in the first quarter, as measured in international currency. Growing demand for investments with higher potential returns pushed down prices of government bonds from countries such as the US and the UK, deemed to be among the safest investments.

US treasuries accounted for 18.8 percent of the fund's fixed-income investments at the end of the quarter and returned -1.6 percent, measured in local currency. UK gilts, amounting to 4.8 percent of the bondholdings, returned -3.5 percent, while euro-denominated government bonds accounted for 14.5 percent and returned 2.9 percent, as measured in local currency. Half of the fund's fixed-income investments were government bonds at the end of the quarter.

The fund also invests in bonds from government-related institutions such as the European Investment Bank, Kreditanstalt für Wiederaufbau and FMS Wertmanagement. These comprised 12 percent of the fund's fixed-income investments at the end of the quarter and returned 3.5 percent, measured in international currency.

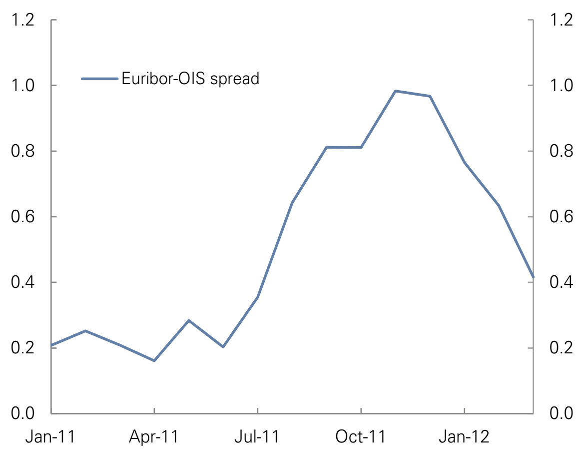
### Bank and corporate issuances increase

Securitised debt, consisting of bonds issued by banks and backed by mortgages and other loans, was the fund's best-performing fixed-income sector with a quarterly return of

5.1 percent, measured in international currency. Corporate bonds returned 3.7 percent and were the second-best sector.

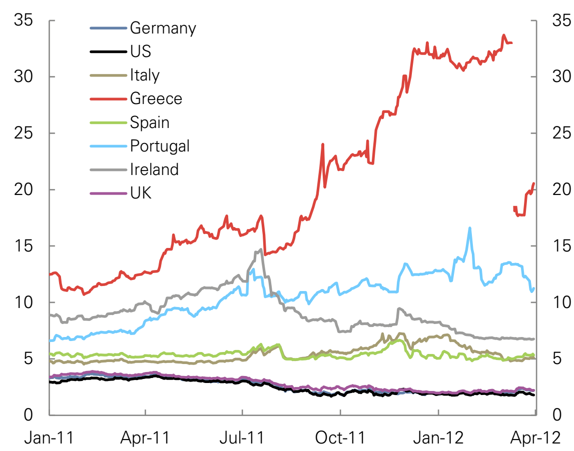
Demand for bonds issued by banks and corporations increased as the ECB's three-year loans to the financial sector eased debt concerns. Globally, bond issuance rose to 3,174 billion dollars in the first quarter from 2,436 billion dollars in the previous quarter, according to Dealogic. Financial institutions accounted for 1,174 billion dollars, up from 663 billion dollars. Issuance of investment-grade corporate bonds rose to 795 billion dollars from 470 billion dollars, while issuance of non-investment grade corporate bonds climbed to 133 billion dollars from 50 billion dollars.

**Chart 2-5** Difference between three-month euro interbank rate (Euribor) and overnight indexed swaps (OIS). Percentage points



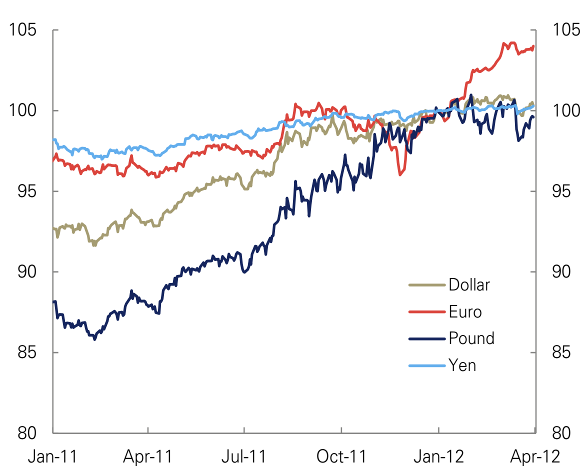

Source: Bloomberg

**Chart 2-6** 10-year government bond yields. Percent



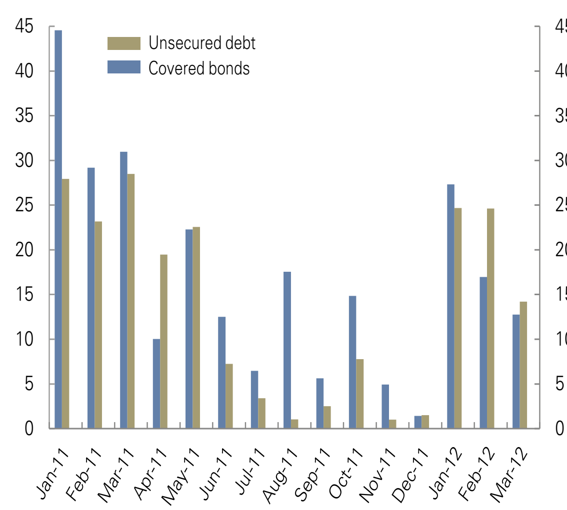

Source: Bloomberg

**Chart 2-7** Price developments for bonds issued in dollars, euros, pounds and yen in the Barclays Global Aggregate Index, measured in local currencies. Indexed. 30 Dec 2011 = 100




Source: Barclays Capital

**Chart 2-8** Issuance of euro-denominated covered bonds and senior unsecured debt. Billions of euros




Source: Dealogic

**Table 2-4** The fund's fixed-income investments as of 31 March 2012 based on credit ratings*. Percentage of holdings

| | AAA | AA | A | BBB | Higher risk | Total |
|---|---|---|---|---|---|---|
| Government bonds | 39.5 | 5.2 | 3.4 | 1.2 | 0.3 | 49.6 |
| Government-related bonds | 7.0 | 2.3 | 1.4 | 1.0 | 0.2 | 12.0 |
| Inflation-linked bonds | 5.8 | 0.9 | 0.6 | 0.0 | 0.0 | 7.2 |
| Corporate bonds | 0.0 | 1.8 | 6.9 | 5.0 | 0.2 | 13.9 |
| Securitised debt | 10.7 | 4.0 | 1.8 | 0.5 | 0.4 | 17.4 |
| **Total bonds and fixed-income securities** | **63.0** | **14.1** | **14.1** | **7.7** | **1.1** | **100.0** |

* Based on credit ratings from at least one of the following agencies: Moody's, Standard & Poor's and Fitch.

In Europe, increased demand for riskier assets fuelled a rise in issuance of unsecured bank debt to 64 billion euros from 10 billion euros during the quarter. Financial institutions' issuance of euro-denominated covered bonds, a type of securitised debt, rose to 57 billion euros from 21 billion euros. Covered bonds accounted for 17.4 percent of the fund's fixed-income investments at the end of the quarter and corporate bonds constituted 13.9 percent.

The fund's three largest investments in new bonds other than government debt were in covered bonds from UBS, Caisse centrale Desjardins and Toronto-Dominion Bank.

The fund sold all its holdings of Portuguese and Irish government bonds in the first quarter and reduced its investments in government debt from countries including Italy, Spain and the UK. It increased investments in US treasuries and bought government bonds issued in local currency in emerging markets such as Brazil, Mexico, India, South Korea and Indonesia. The fund also reduced its holdings in unsecured bank debt and US asset-backed securities.

The fund's bond holdings consisted of 4,717 securities from 1,322 issuers at the end of the first quarter, compared with 5,215 securities from 1,404 issuers three months earlier.

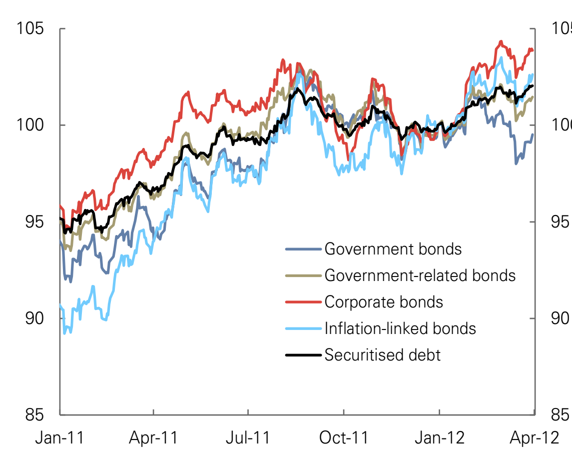


**Table 2-5** Return on the fund's fixed-income investments in 1Q 2012. By sector. Percent

| Sector | Return in international currency | Share of fixed-income investments |
|---|---|---|
| Government bonds* | -0.6 | 49.6 |
| Government-related bonds* | 3.5 | 12.0 |
| Inflation-linked bonds* | 0.2 | 7.2 |
| Corporate bonds | 3.7 | 13.9 |
| Securitised debt | 5.1 | 17.4 |

*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.

**Chart 2-9** Price developments in fixed-income sectors in the Barclays Global Aggegate Index, measured in US dollars. Indexed. 30 Dec 2011 = 100




Source: Barclays Capital

## Investments in Greek government debt

Greece in March agreed with a large majority of its private creditors to write off more than 100 billion euros of its debt. The agreement was a condition for Greece to receive further financial assistance from euro-area authorities and the International Monetary Fund (IMF).

New "collective action" clauses in the documentation for bonds issued under Greek law forced investors that initially rejected the agreement to comply. The fund was among these investors and had its existing Greek government bond holdings exchanged for new bonds issued by the Greek government and the European Financial Stability Facility (EFSF). The nominal value of the new bonds was 53.5 percent lower than the value of the original bonds.

The fund was invested in 15 Greek government bonds before the exchange. Of these, 13 were denominated in euros, one in yen and one in dollars. The euro-denominated bonds were exchanged for new bonds on 12 March, while the remaining bonds had not been swapped at the end of the first quarter.

The fund's euro-denominated bonds were replaced with 20 Greek government bonds with maturities of 11 to 30 years and a new 30-year security where the return is linked to growth in the Greek economy. The fund also received three securities issued by the EFSF with maturities of 6, 12 and 24 months, respectively.

The nominal value of the fund's investments in the 13 euro-denominated bonds was 785 million euros, or about 6 billion kroner, when the swap was announced on 9 March, while their market value was about 1.3 billion kroner. Following the exchange on 12 March, the nominal value of the fund's investments in new Greek government bonds was 247 million euros, or about 1.9 billion kroner, and the nominal value of the investments in the EFSF debt was 142 million euros, or about 1.1 billion kroner. The combined market value of the new securities was about 1.6 billion kroner when the exchange took place and fell to about 1.5 billion kroner at the end of the quarter. Euro-denominated Greek government bonds accounted for approximately 400 million kroner.

### Real estate investments

Real estate investments amounted to 0.3 percent of the fund at the end of the first quarter. This shall increase over time to as much as 5 percent through a corresponding reduction in bond holdings. The fund will initially focus on investments in well-developed markets and properties such as offices and retail premises.

At the end of the first quarter, the fund owned properties in London and Paris through partnerships with The Crown Estate in the UK and AXA Group in France. These consisted of 25 percent of a portfolio of properties on Regent Street in London and 50 percent of 10 properties in and around Paris. The UK partnership bought Jaeger House on Regent Street for 50 million pounds, or about 460 million kroner, in the first quarter.

The return on real estate investments is largely determined by rental income, changes in property values and currency movements. Transaction costs may also impact the results significantly in the start-up phase. The fund's real estate investments returned 2.2 percent in the first quarter, measured in the fund's international currency basket, helped by a strengthening of the pound and the euro against the currency basket, as well as rental income. The estimated market value of the fund's property investments was little changed in the quarter.

For more information on the fund's real estate investments, see note 6 in the financial reporting section.

## The fund's relative return

Returns on the fund's equity and fixed-income investments are compared with returns on global benchmark indices for stocks and bonds compiled for the Ministry of Finance by FTSE Group and Barclays Capital, respectively. The return on equity and fixed-income investments was 0.27 percentage point higher than the return on the benchmark indices in the quarter.

The return on the fund's equity investments exceeded the benchmark index by 0.33 percentage point. Investments in consumer goods and consumer services beat the benchmark index by the largest margin, while telecommunications and technology stocks were the biggest laggards. In terms of countries, US and UK investments performed the best relative to the benchmark index, while investments in the United Arab Emirates and the Philippines performed the worst.

The fund's fixed-income investments outperformed the benchmark index by 0.11 percentage point, particularly helped by investments in European covered bonds. Investments in US corporate bonds underperformed the benchmark.

The return on the fund's property investments shall be compared with the return on a benchmark index put together by Investment Property Databank (IPD). The benchmark index is updated at the end of each year and released the following May. The relative return on the fund's real estate investments in 2011 will be announced after the benchmark is updated in the second quarter of 2012.

**Operational benchmark portfolios**

NBIM has constructed internal operational benchmark portfolios for equities and bonds. These reflect the types of securities we believe represent a neutral and appropriate investment strategy given the fund's size, long-term approach and objective. The composition of the benchmark portfolios shall lead to a better trade-off between expected return and risk than the benchmark indices set by the Ministry of Finance. The benchmark portfolios may deviate from the benchmark indices in accordance with the fund's risk limits.

The operational benchmark portfolio for equity investments returned 10.6 percent in the first quarter, about the same as the benchmark index set by the Ministry of Finance. The operational benchmark portfolio consisted of shares in 7,221 companies at the end of the quarter, compared with 7,260 companies in the ministry's benchmark index.

The operational benchmark portfolio for bond investments returned 1.5 percent in the first quarter, exceeding the return on the benchmark index by 0.04 percentage point. The operational benchmark portfolio comprised 4,059 bonds at the end of the quarter, against 8,655 bonds in the ministry's benchmark index.

**Table 2-6** Contributions from equity and fixed-income management to the fund's relative return in 1Q 2012. Percentage points

| | External management | Internal management | Total* |
|---|---|---|---|
| Equity investment | 0.04 | 0.17 | 0.21 |
| Fixed-income investment | 0.01 | 0.04 | 0.06 |
| Total | 0.06 | 0.21 | 0.27 |

*The figures in the table do not always add up to the sub totals and total due to the rounding of decimals.

### External management

NBIM awards investment mandates to external managers with specialist expertise in clearly defined areas. A total of 4.1 percent of the fund's assets were managed externally at the end of the first quarter, down from 4.4 percent at the start of the quarter. External equity investments amounted to 139 billion kroner and external fixed-income investments were worth 5.3 billion kroner.

## Reduced market volatility

Volatility in stock and bond markets decreased in the first quarter after European authorities announced measures to contain the sovereign debt crisis and the US economy showed signs of improvement.

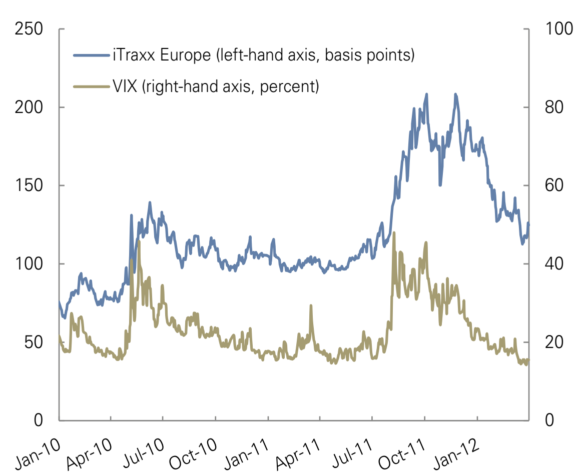
The VIX index, a measure of expected volatility in the US stock market, on 16 March fell to 13.7 percent, the lowest level since June 2007. The index ended the quarter at 15.5 percent, down from 23.4 percent at the start of the period. Europe's equivalent VStoxx index decreased 9.7 percentage points in the quarter to 22.5 percent. The iTraxx Europe index, which measures credit insurance premiums for 125 European companies with an investment-grade credit rating, fell to 1.3 percent from 1.7 percent. The index typically drops when investor confidence increases and demand for insurance decreases.

The VIX index uses the latest prices for a variety of put and call options on the S&P 500 stock index to signal expected volatility in the US stock market. The fund's expected absolute volatility, calculated using the statistical measure standard deviation, uses a three-year price history to estimate how much the return on the fund's equity and fixed-income investments will fluctuate. This makes it less sensitive to short-term market turbulence than the VIX index. The fund's expected absolute volatility was 8.8 percent, or about 310 billion kroner, at the end of the quarter, compared with 9.6 percent three months earlier.

The Ministry of Finance has set limits for how much NBIM may deviate from the benchmark indices in managing the fund's equity and fixed-income investments. Expected relative volatility (tracking error) is one of these limits and caps how much the return on these investments may be expected to deviate from the return on the benchmark indices. NBIM should aim for expected tracking error of no more than 1 percentage point. The actual figure was 0.5 percentage point at the end of the quarter, compared with 0.4 percentage point three months earlier.

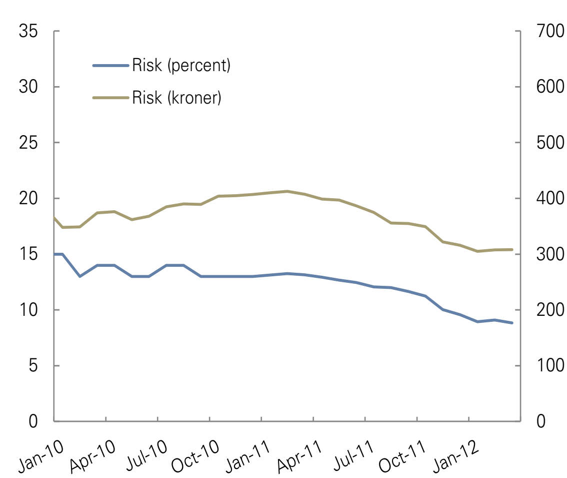
For more information on the fund's investment risk, see note 8 in the financial reporting section.

**Chart 2-10** Expected risk in stock markets (VIX index) and fixed-income markets (iTraxx index)




Source: CBOE, Markit

**Chart 2-11** Expected absolute volatility of the fund, excluding real estate. Percent (left-hand axis) and billions of kroner (right-hand axis)




Source: NBIM

**Chart 2-12** Expected relative volatility of the fund, excluding real estate. Basis points

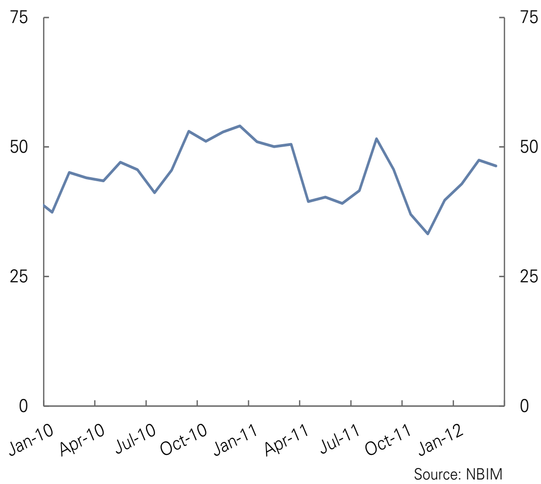



**Chart 2-13** Expected relative volatility of the fund's equity and fixed-income investments. Basis points

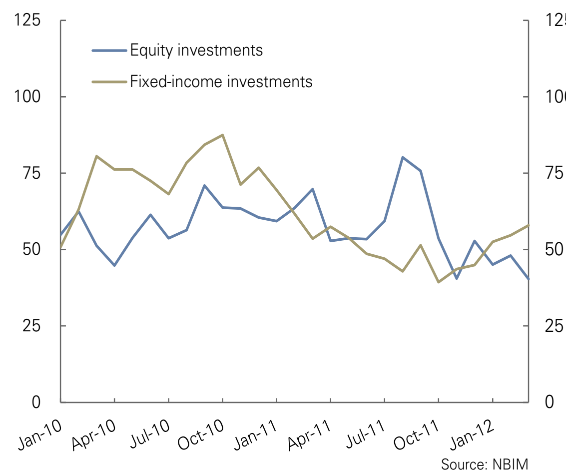





**Table 2-7** Key figures for the fund's risk and exposure

| | | Actual | | | |
|---|---|---|---|---|---|
| Risk | Limit | 31 Mar 2012 | 31 Dec 2011 | 30 Sep 2011 | 30 Jun 2011 |
| | **Limits set by the Ministry of Finance and Norges Bank's Executive Board** | | | | |
| Net market value* | Equities 50-70% of fund's market value | 60.7 | 58.7 | 55.6 | 60.5 |
| | Bonds 30-50% of fund's market value | 39.0 | 41.0 | 44.1 | 39.4 |
| | Real estate 0-5% of fund's market value | 0.3 | 0.3 | 0.3 | 0.1 |
| Exposure** | Equities 50-70% of fund's market value | 60.7 | 58.6 | 56.0 | 60.5 |
| | Bonds 30-50% of fund's market value | 37.0 | 39.5 | 44.1 | 39.4 |
| | Real estate 0-7.5% of fund's market value*** | 0.3 | 0.3 | 0.3 | 0.1 |
| Counterparty risk | Any one counterparty maximum 0.75% of fund's market value | 0.2 | 0.2 | 0.2 | 0.1 |

* The net market value is the value of all securities, financial instruments and cash within each asset class.

** The exposure is calculated using the full underlying value of derivatives, but not taking into account cash balances. As a result, the actual share of each asset class may vary from the corresponding net market value. The total exposure may also amount to more or less than 100 percent depending on the use of derivatives and the fund's cash balances.

*** The exposure limit for real estate includes leverage.

Table 2-8 Risk and exposure of the funds equity and fixed-income investments

| Risk | Limit | Actual 31 Mar 2012 | 31 Dec 2011 | 30 Sep 2011 | 30 Jun 2011 |
|---|---|---|---|---|---|
| | **Limits set by the Ministry of Finance** | | | | |
| Market risk | 1 percentage point expected tracking error for equity and fixed-income investments | 0.5 | 0.4 | 0.5 | 0.4 |
| Credit risk | Maximum 3% of fixed-income investments may be rated below Baa3/BBB- | 1.1 | 1.1 | 1.2 | 1.2 |
| Maximum ownership | Maximum 10% of voting shares in a listed company | 9.6 | 9.6 | 9.5 | 9.5 |
| | **Limits set by Norges Bank** | | | | |
| Credit risk | Maximum 1% of fixed-income investments from any one issuer may be rated below Baa3/BBB- | 0.2 | 0.1 | 0.2 | 0.3 |
| Overlap between actual holdings and benchmark indices | Equity minimum 60% | 84.9 | 84.2 | 84.5 | 83.0 |
| | Bond issuers minimum 60% | 71.0 | 76.4 | 76.9 | 79.3 |
| Liquidity | Minimum 10% of equity and fixed-income investments may be in government bonds from US, UK, Germany, France, Italy, Netherlands and Japan | 14.4 | 15.3 | 16.5 | 13.9 |
| Leverage | Maximum 5% of equity and fixed-income investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Security lending | Maximum 35% of equity and fixed-income investments | 4.4 | 4.2 | 13.8 | 16.3 |
| Issuance of options | Maximum 2.5% of equity and fixed-income investments | 0.0 | 0.0 | 0.5 | 0.5 |
| Securities borrowing through borrowing programmes | Maximum 5% of equity and fixed-income investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment in any one company | Maximum 1% of equity and fixed-income investments | 0.8 | 0.9 | 0.8 | 0.7 |
| Assets managed by any one external manager | Maximum 1% of equity and fixed-income investments | 0.5 | 0.4 | 0.6 | 0.7 |

Table 2-9 Risk and exposure of the fund's real estate investments

| Risk | Limit | Actual 31 Mar 2012 | 31 Dec 2011 | 30 Sep 2011 | 30 Jun 2011 |
|---|---|---|---|---|---|
| | **Limits set by the Ministry of Finance*** | | | | |
| Country allocation | France, Germany, United Kingdom: no limit | 100.0 | 100.0 | 100.0 | 100.0 |
| | Other countries: maximum 25% of real estate investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Sector allocation** | Office space: 0-100% of real estate investments | 65.1 | 63.2 | 51.8 | 37.0 |
| | Retail space: 0-100% of real estate investments | 34.5 | 35.4 | 46.7 | 61.0 |
| | Residential space: 0-25% of real estate investments | 0.5 | 0.4 | 0.7 | 1.0 |
| | Industrial space: 0-25% of real estate investments | 0.0 | 0.0 | 0.0 | 0.0 |
| | Other property: 0-25% of real estate investments | 0.1 | 1.0 | 0.8 | 1.0 |
| | **Limits set by Norges Bank's Executive Board*** ** | | | | |
| Investments in real estate under development | Maximum 20% of real estate investments | 3.9 | 0.9 | 1.6 | 3.7 |
| Investments in real estate that is not leased | Maximum 25% of real estate investments | 5.1 | 8.1 | 4.2 | 4.0 |
| Investments in interest-bearing securities | Maximum 20% of real estate investments, but no more than 5 billion kroner | 0.0 | 0.0 | 0.0 | 0.0 |
| Investments in listed real estate shares | Maximum 20% of real estate investments, but no more than 5 billion kroner | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt ratio | Maximum 50% of real estate investments | 0.0 | 0.0 | 0.0 | 0.0 |
| | Maximum 70% for each investment | 0.0 | 0.0 | 0.0 | 0.0 |
| Assets managed by any one external manager | Maximum 15% of real estate investments, but no more than 5 billion kroner | 0.0 | 0.0 | 0.0 | 0.0 |

* The country and sector allocations will apply until the net value of real estate investmets comprises 1 percent of the fund's market value.
** Sector allocation changes derive from changes in the real estate holdings and the underlying data delivered by independent property appraisers.
*** The Executive Board has also limited new real estate investments to as much as 2 percent of the fund per year.

## Operational risk management and internal control

NBIM constantly seeks to identify and mitigate operational risks that could lead to financial or reputational losses. The organisation takes action to reduce risk levels that exceed limits set by Norges Bank's Executive Board. Risk reduction measures and internal controls are monitored to ensure acceptable levels.

Each quarter NBIM estimates the size of the potential losses or gains it may incur because of unwanted events over the next four quarters. The estimate is based on past events and possible future events and represents NBIM's estimated risk exposure.

The Executive Board has decided there should be less than 20 percent probability of unwanted events resulting in gains and losses of 500 million kroner or more over a 12-month period. This limit defines the board's risk tolerance. NBIM registered 62 unwanted events in the first quarter, resulting in an estimated financial loss of 0.44 million kroner. None of the events led to financial gains. NBIM's risk exposure was well within the board's bounds for risk tolerance at the end of the quarter.

The Ministry of Finance has set extensive guidelines for the fund's management. There were no significant breaches of these guidelines registered in the first quarter. NBIM was also not notified by external supervisory authorities of any significant breaches of market rules or general legislation.

## Responsible investment and active ownership

A good long-term return on the fund depends on sustainable economic, environmental and social development. NBIM encourages companies to take responsibility for improving social and environmental practices that may impact their profitability and, consequently, the fund's long-term returns. We also consider risks associated with these practices, particularly when making large investments and as part of our active ownership.

We have published documents outlining how we expect companies to manage risks associated with children's rights, climate change and water scarcity in their operations and supply chains. We annually evaluate the extent to which companies in industries with high exposure to these risks meet our expectations. Our assessments are based on publicly-available information from the companies.

NBIM in the first quarter published three reports evaluating how companies reported on these risks in 2011. Only 39 of the 1,078 companies assessed received top marks for their reporting and more than a third of the companies scored zero. In general, large companies were best at reporting on these risks, while companies in the US and Europe demonstrated better reporting than Asian companies. The overall level of reporting was low, though there was some improvement in 2011 compared with 2010.

We actively use our voting rights as a shareholder in about 8,000 companies to safeguard the fund's long-term interests, and we voted at 1,425 annual general meetings in the first quarter. We also increasingly file shareholder proposals aimed at increasing board members' accountability to shareholders. In November 2011, NBIM for the first time filed proposals to give shareholders at six US companies the right to nominate board candidates on company ballots, so-called proxy access. We had dialogues in the first quarter with the companies and some of their largest shareholders. We also decided to withdraw our proposal for proxy access at one of the companies, Pioneer Natural Resources, after it decided to propose at its annual general meeting changes that will substantially improve the company's corporate governance.

# Financial reporting

Norges Bank's interim financial statements, which only encompass the interim financial reporting for the investment portfolio of the Government Pension Fund Global, were approved by Norges Bank's Executive Board on 25 April 2012. These accounts and an excerpt from Norges Bank's accounting policies are reproduced below.

## Income Statement

| *Amounts in NOK million* | Note | 1Q 2012 | 1Q 2011 | 2011 |
|---|---|---|---|---|
| Profit/loss on the portfolio excluding foreign exchange gains and losses | | | | |
| Interest income from bank deposits | | 5 | 132 | 162 |
| Interest income, lending associated with reverse repurchase agreements | | 93 | 181 | 1 004 |
| Net income/expenses and gains/losses from: | | | | |
| - Equities and units | | 212 007 | 55 950 | -173 099 |
| - Bonds and other fixed income instruments | | 21 234 | 1 628 | 92 346 |
| - Financial derivatives | | 1 000 | 945 | -5 693 |
| - Financial assets real estate | 6 | 125 | - | 86 |
| - Investment properties | 6 | -40 | - | -130 |
| Share of the profit/loss in jointly controlled entities real estate | 6 | 23 | - | -31 |
| Interest expense repurchase agreements | | -36 | -244 | -629 |
| Other interest expense | | -3 | -32 | -286 |
| Other expenses | 3 | -19 | -51 | 24 |
| **Profit/loss on the portfolio before foreign exchange gains and losses** | | **234 389** | **58 508** | **-86 246** |
| Foreign exchange gains and losses | | -109 802 | -72 608 | 49 205 |
| **Profit/loss on the portfolio** | | **124 587** | **-14 101** | **-37 041** |
| Management fee | 4 | -579 | -613 | -2 539 |
| **Profit/loss for the period** | | **124 008** | **-14 714** | **-39 580** |

## Statement of Comprehensive Income

| *Amounts in NOK million* | Note | 1Q 2012 | 1Q 2011 | 2011 |
|---|---|---|---|---|
| Profit/loss for the period | | 124 008 | -14 714 | -39 580 |
| Translation reserve arising from consolidation of foreign subsidiaries | | 0 | 0 | -3 |
| **Total comprehensive income** | | **124 008** | **-14 714** | **-39 583** |

## Balance sheet

| *Amounts in NOK million* | Note | 31.03.2012 | 31.12.2011 | 31.03.2011 |
|---|---|---|---|---|
| ASSETS | | | | |
| Financial assets | | | | |
| Deposits in banks | | 8 450 | 7 276 | 10 779 |
| Lending associated with reverse repurchase agreements | | 128 538 | 79 820 | 308 187 |
| Unsettled trades | | 25 036 | 2 272 | 36 897 |
| Equities and units | 5 | 1 983 348 | 1 806 798 | 1 690 696 |
| Equities lent | 5 | 153 317 | 137 130 | 219 659 |
| Bonds and other fixed income instruments | 5 | 1 305 373 | 1 324 255 | 1 030 063 |
| Bonds lent | 5 | - | 3 256 | 218 683 |
| Financial derivatives | 5 | 1 249 | 2 227 | 2 882 |
| Financial assets real estate | 6 | 4 562 | 4 415 | - |
| Jointly controlled entities real estate | 6 | 2 461 | 2 546 | - |
| Other financial assets | | 2 539 | 3 244 | 15 924 |
| **Total financial assets** | | **3 614 873** | **3 373 239** | **3 533 770** |
| | | | | |
| Non-financial assets | | | | |
| Investment properties | 6 | 3 880 | 4 062 | - |
| Other non-financial assets | | 6 | 6 | - |
| **Total non-financial assets** | | **3 886** | **4 068** | **-** |
| **Total assets** | **7, 8** | **3 618 759** | **3 377 307** | **3 533 770** |
| | | | | |
| LIABILITIES AND OWNER'S CAPITAL | | | | |
| Financial liabilities | | | | |
| Short-term borrowing | | 436 | 11 | 2 958 |
| Borrowing associated with repurchase agreements | | 41 907 | 19 280 | 140 547 |
| Cash collateral received | | 43 244 | 36 926 | 191 175 |
| Unsettled trades | | 29 173 | 3 310 | 70 332 |
| Financial derivatives | 5 | 3 923 | 5 957 | 8 198 |
| Other financial liabilities | | 3 635 | 251 | 18 745 |
| Management fee payable | | 579 | 2 539 | 613 |
| **Total financial liabilities** | **7, 8** | **122 897** | **68 274** | **432 568** |
| **Owner's capital** | | **3 495 862** | **3 309 033** | **3 101 202** |
| **Total liabilities and owner's capital** | | **3 618 759** | **3 377 307** | **3 533 770** |

## Statement of cash flows

| *Amounts in NOK million, cash received (+) / cash paid (-)* | Year-to-date 31.03.2012 | Year-to-date 31.03.2011 | 2011 |
|---|---|---|---|
| Operating activities | | | |
| Interest received on deposits in banks | 702 | 157 | 179 |
| Net cash flow in connection with reverse repurchase agreements | -44 635 | -44 477 | 170 095 |
| Net cash flows arising from purchase and sale of equities and units | -53 986 | -18 148 | -239 987 |
| Net cash flows arising from purchase and sale of bonds and other fixed income instruments | -13 933 | -9 660 | -21 094 |
| Payments made to acquire financial assets real estate | -137 | - | -4 270 |
| Payments made to acquire investment properties | - | - | -4 301 |
| Payments made / received in connection with jointly controlled entities real estate | 19 | - | -2 620 |
| Net cash flows arising from financial derivatives | 550 | -333 | -9 147 |
| Dividends received from investments in equities and units | 10 237 | 8 159 | 49 208 |
| Interest received on bonds and other fixed income instruments | 13 024 | 13 789 | 48 036 |
| Income received in connection with equity and bond lending | 389 | 376 | 2 230 |
| Income received from investments in financial assets real estate | 39 | - | 130 |
| Dividends received from investments in jointly controlled entities real estate | 38 | - | - |
| Income received from investments in investment properties | 63 | - | 60 |
| Interest paid on short-term borrowing from banks | -422 | -106 | -21 |
| Net cash flows related to repurchase agreements | 17 716 | -391 | -114 347 |
| Cash collateral received/paid related to securities lending, derivatives and reverse repurchase agreements | 6 317 | 18 866 | -135 382 |
| Cash flow related to other financial assets, other financial liabilities and other non-financial assets | 5 497 | 8 694 | -5 587 |
| Payment of other expenses | -31 | -46 | -248 |
| Management fee paid to Norges Bank | -2 539 | - | -2 959 |
| **Net cash outflow from operating activities** | **-61 092** | **-23 119** | **-270 025** |
| | | | |
| Financing activities | | | |
| Inflow from the Norwegian government* | 61 829 | 27 705 | 274 155 |
| **Net cash inflow from financing activities** | **61 829** | **27 705** | **274 155** |
| | | | |
| Net change in cash and cash equivalents | | | |
| Cash and cash equivalents at 1 January | 7 265 | 3 363 | 3 363 |
| Net cash payments in the period | 737 | 4 585 | 4 130 |
| Net foreign exchange gains and losses on cash and cash equivalents | 12 | -127 | -228 |
| **Cash and cash equivalents at the end of the period** | **8 014** | **7 822** | **7 265** |
| | | | |
| Cash and cash equivalents comprise: | | | |
| Deposits in banks | 8 450 | 10 779 | 7 276 |
| Short-term borrowing | -436 | -2 958 | -11 |
| **Total cash and cash equivalents at the end of the period** | 8 014 | 7 822 | 7 265 |

*The inflow includes only the transfers that have 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 2011 | 2 504 711 | 569 750 | . | 3 074 461 |
| Total comprehensive income | . | - 14 714 | 0 | - 14 714 |
| Inflows during the period* | 41 455 | . | . | 41 455 |
| **31 March 2011** | **2 546 166** | **555 036** | **0** | **3 101 202** |
| | | | | |
| 1 January 2012 | 2 778 866 | 530 170 | -3 | 3 309 033 |
| Total comprehensive income | . | 124 008 | 0 | 124 008 |
| Inflows during the period* | 62 821 | . | . | 62 821 |
| **31 March 2012** | **2 841 687** | **654 178** | **-3** | **3 495 862** |

*Out of the total inflows to the krone account of the Government Pension Fund Global in the first quarter of 2012, NOK 2.5 billion was used to pay the 2011 accrued management fee to Norges Bank and NOK 60.3 billion was transferred into the investment portfolio. Comparative amounts for the first quarter of 2011 are NOK 3.0 billion and NOK 38.4 billion, respectively.

## Note 1 Accounting policies

### 1.1 Basis of Accounting

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 investment portfolio of the Government Pension Fund Global, are prepared in accordance with International Financial reporting Standards as endorsed 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 of the investment portfolio of the Government Pension Fund Global, which shall be prepared in accordance with IFRS. As subsidiaries have been established that exclusively constitute investments as part of Norges Bank's management of the investment portfolio, consolidated financial statements are prepared for the investment portfolio of the Government Pension Fund Global.

Norges Bank prepares interim financial statements, which solely comprise the quarterly financial reporting of the investment portfolio of the Government Pension Fund Global, with closing dates of 31 March, 30 June and 30 September. The interim financial reporting for Norges Bank is 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 interim financial statements are prepared using the same accounting policies and calculation methods as used for the annual financial statements as at 31 December 2011. If the implementation of new standards, or changes in standards, causes a change in the accounting policies, these changes are specifically described in section 1.2. Norges Bank's accounting policies are presented in Norges Bank's annual financial statements 2011, and an extract of the policies relevant for the investment portfolio are also presented in the Government Pension Fund Global Annual Report 2011. The interim financial statements should also be read in conjunction with Norges Bank's annual financial statements 2011.



### 1.2 New standards implemented from 1 January 2012

Norges Bank does not expect that the changes in IAS 12 *Income Taxes* will have a material effect for the investment portfolio of the Government Pension Fund Global. The amended standard is effective for annual periods beginning on or after 1 January 2012, but has not yet been endorsed by the EU. Norges Bank expects to apply the amended standard with effect as from 1 January 2012, under the assumption that it will be endorsed by the EU prior to 31 December 2012.

### 1.3 IASB final standards and IFRIC interpretations with application dates after 2012

There are no IFRS standards or IFRIC interpretations approved by the IASB during the first quarter of 2012 with a material effect for the financial reporting of Norges Bank.

## Note 2 Significant estimates and critical accounting judgements

The preparation of the financial statements of Norges Bank, which includes the financial reporting for the investment portfolio of 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 2011, which are also presented as an extract in the Government Pension Fund Global's Annual Report 2011.

## Note 3 Other expenses

*Table 3.1 Specification other expenses*

| *Amounts in NOK million* | 1Q 2012 | 1Q 2011 | 2011 |
|---|---|---|---|
| Salary, social security and other personnel related costs | 3 | - | 2 |
| IT, information and decision support systems, outsourced administrative services | 1 | - | 2 |
| Consulting and legal fees | 2 | 4 | 11 |
| Fees related to real estate asset management (external) | 5 | - | 6 |
| Other costs, subsidiaries | 3 | - | 5 |
| **Total operating expenses, real estate subsidiaries** | **14** | **4** | **26** |
| | | | |
| Other costs, investment portfolio excluding subsidiaries | 5 | 47 | -50 |
| **Total other expenses** | **19** | **51** | **-24** |

Expenses included in the income statement line Other expenses are not included in operating costs in Norges Bank that form part of and are covered by the management fee from the Ministry of Finance. See note 4 Management fee for additional information.

Operating expenses in subsidiaries related to management of real estate investments shown in table 3.1, amount to NOK 14 million for the first quarter of 2012. Within the real estate asset class additional costs related to property management exist, and are included in the income statement lines Net income/expenses – gains/losses on investment properties and Share of profit/loss in jointly controlled entities real estate. These costs are incurred by the company that owns the real estate property.

Other costs, investment portfolio excluding subsidiaries shown in the table above includes various management costs not incurred in subsidiaries, that may be related to all asset classes. These are normally transaction related expenses.

## Note 4 Management fee

*Table 4.1 Specification management fee*

| | 1Q 2012 | | 1Q 2011 | | 2011 | |
|---|---|---|---|---|---|---|
| *Amounts in NOK million* | | Percent | | Percent | | Percent |
| Salary, social security and other personnel related costs | 123 | | 110 | | 447 | |
| IT, information and decision support systems | 49 | | 69 | | 214 | |
| Custody and settlement costs | 94 | | 109 | | 406 | |
| Outsourced IT and analysis costs | 50 | | 82 | | 254 | |
| Consulting and legal fees | 17 | | 17 | | 73 | |
| Base fees to external managers | 92 | | 123 | | 371 | |
| Other costs | 25 | | 24 | | 107 | |
| Allocated common costs Norges Bank | 41 | | 31 | | 121 | |
| **Management fee excluding performance-based fees** | **489** | 0.06 | **565** | 0.07 | **1 993** | 0.06 |
| Performance-based fees to external managers | 90 | | 48 | | 546 | |
| **Total management fee** | **579** | 0.07 | **613** | 0.08 | **2 539** | 0.08 |

The table shows costs incurred by Norges Bank that are reimbursed by the Ministry of Finance as the principal for the management of the investment portfolio of the Government Pension Fund Global. Fees to external managers and custody and settlement fees are invoiced directly and paid individually for each of the portfolios managed by Norges Bank. All other costs included in the basis for calculation of the management fee are costs that are common for the management of both portfolios, and are allocated to the individual portfolio using a cost allocation model based primarily on market values and asset class composition. The management fee is a function of expenses presented in the Norges Bank income statement as Total other operating expenses.

In addition to the operating expenses that are shown above and that are reimbursed through the management fee from the Ministry of Finance, operating and administrative expenses are incurred in the subsidiary companies that are incorporated as a part of the management of real estate investments of the Government Pension Fund Global. These expenses are consolidated into the income statement of the investment portfolio, and are paid using funds received or earned by the portfolio. Subsidiaries that are consolidated into the financial reporting for the investment portfolio are not required to be consolidated into the annual financial statements of Norges Bank, as per the accounting regulation for Norges Bank § 2.3, paragraph 4, and these expenses will therefore not be included in Norges Bank's operating expenses. These expenses will be shown as expenses in the income statement for the investment portfolio, and are deducted from Profit/loss on the portfolio. For the first quarter of 2012 these costs amounted to NOK 14 million.

## Note 5 Equities and units / Bonds and other fixed income instruments / Financial derivatives

*Tabel 5.1 Specification of equities and units*

| | 31.03.2012 | | | 31.12.2011 | | |
|---|---|---|---|---|---|---|
| *Amounts in NOK million* | **Fair value excluding dividends** | **Accrued dividends** | **Fair value including dividends** | **Fair value excluding dividends** | **Accrued dividends** | **Fair value including dividends** |
| Equities and units: | | | | | | |
| Listed equities and units | 2 131 434 | 5 231 | 2 136 665 | 1 940 789 | 3 139 | 1 943 928 |
| **Total equities and units** | **2 131 434** | **5 231** | **2 136 665** | **1 940 789** | **3 139** | **1 943 928** |
| *Of which equities lent* | | | *153 317* | | | *137 130* |

*Table 5.2 Specification of bonds and other fixed income instruments*

| *Amounts in NOK million, 31 March 2012* | **Nominal value*** | **Fair value excluding accrued interest** | **Accrued interest** | **Fair value including accrued interest** |
|---|---|---|---|---|
| Bonds and other fixed income instruments: | | | | |
| Government bonds | 587 934 | 639 717 | 7 223 | 646 940 |
| Government related bonds | 145 364 | 153 825 | 2 297 | 156 122 |
| Inflation-linked bonds | 70 638 | 93 379 | 506 | 93 885 |
| Corporate bonds | 171 599 | 178 168 | 3 104 | 181 272 |
| Securitised bonds | 231 154 | 223 395 | 3 759 | 227 154 |
| **Total bonds and other fixed income instruments** | **1 206 689** | **1 288 484** | **16 889** | **1 305 373** |
| *Of which bonds lent* | | | | - |

| *Amounts in NOK million, 31 December 2011* | **Nominal value*** | **Fair value excluding accrued interest** | **Accrued interest** | **Fair value including accrued interest** |
|---|---|---|---|---|
| Bonds and other fixed income instruments: | | | | |
| Government bonds | 554 293 | 605 600 | 6 965 | 612 565 |
| Government related bonds | 166 691 | 174 346 | 2 818 | 177 164 |
| Inflation-linked bonds | 83 105 | 105 175 | 541 | 105 716 |
| Corporate bonds | 183 284 | 184 953 | 3 388 | 188 341 |
| Securitised bonds** | 254 569 | 238 855 | 4 870 | 243 725 |
| **Total bonds and other fixed income instruments** | **1 241 942** | **1 308 929** | **18 582** | **1 327 511** |
| *Of which bonds lent* | | | | *3 256* |

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

** As of the first quarter 2012 the nominal value for Interest Only bonds is not included, as these bonds do not pay back the notional amount. Comparative figures have been restated.

The holdings of bonds issued by the sovereign states Greece, Portugal, Ireland, Spain and Italy amounted to NOK 42,7 billion as at 31 March 2012. Of this amount, bonds issued by the Greek government were NOK 0,5 billion.

*Table 5.3 Specification of financial derivatives*

| | Fair value 31.03.2012 | | | Fair value 31.12.2011 | | |
|---|---|---|---|---|---|---|
| *Amounts in NOK million* | Asset | Liability | Net | Asset | Liability | Net |
| Financial derivatives: | | | | | | |
| Foreign exchange contracts | 409 | 339 | 70 | 1 603 | 964 | 639 |
| Listed futures contracts | 239 | 26 | 213 | 5 | 224 | -219 |
| Swap contracts | 601 | 3 558 | -2 957 | 619 | 4 769 | -4 150 |
| **Total financial derivatives** | **1 249** | **3 923** | **-2 674** | **2 227** | **5 957** | **-3 730** |

## Note 6 Real Estate

Real estate investments in the investment portfolio of the Government Pension Fund Global consist of investments within the real estate asset class. This asset class consists of unlisted investments, classified as financial assets real estate, jointly controlled entities real estate and investment properties.

Financial assets real estate consists of the right to 25 percent of the net operating income generated from properties in and around Regent Street, in London, Great Britain. Investment properties are directly held real estate. Jointly controlled entities real estate consists of an ownership share of investment properties and other assets (net) held by a jointly controlled entity.

Table 6.1 shows the net result for the real estate asset class, specified on unrealised value changes for investment properties and financial assets, and net operating income. Table 6.2 specifies the changes in carrying amounts for the main balance sheet items within the real estate asset class.



*Table 6.1 Income statement – real estate asset class*

| *Amounts in NOK million* | 1Q 2012 | 1Q 2011 | 2011 |
|---|---|---|---|
| Profit/loss on the real estate asset class excluding foreign exchange gains and losses | | | |
| Net operating income from: | | | |
| Financial assets real estate* | 34 | . | -52 |
| Investment properties | 63 | . | 60 |
| Jointly controlled entities real estate | 44 | . | 40 |
| **Total net operating income, real estate** | **141** | **.** | **48** |
| Recognised fair value changes from: | | | |
| Financial assets real estate | 91 | . | 138 |
| Investment properties | -103 | . | -190 |
| Jointly controlled entities real estate | -21 | . | -71 |
| **Total recognised fair value changes, real estate** | **-33** | **.** | **-123** |
| Net other income and expenses** | -15 | -4 | -4 |
| **Profit/loss on the real estate asset class, excluding foreign exchange gains and losses** | **93** | **-4** | **-79** |

* Includes expensed transaction costs. Transaction costs amounted to NOK 5 million in the first quarter of 2012.
** Includes interest income, interest expense, operating expenses in subsidiaries and other expenses incurred in the real estate asset class.

*Table 6.2 Changes in carrying amounts for the main balance sheet items within the real estate asset class*

| | 01.01.2012 – 31.03.2012 | | | |
|---|---|---|---|---|
| *Amounts in NOK million* | **Financial assets real estate** | **Investment properties** | **Jointly controlled entities real estate** | **Total** |
| Carrying amounts for the main balance sheet items within the real estate asset class as at 01.01.2012 | 4 415 | 4 062 | 2 546 | 11 023 |
| Purchases and additions | 134 | 0 | 0 | 134 |
| Fair value changes | 91 | -103 | -21 | -33 |
| Operating profit from investments accounted for using the equity method | . | . | 44 | 44 |
| Other changes | - | - | -54 | -54 |
| Foreign currency translation effect | -78 | -79 | -53 | -210 |
| **Carrying amounts for the main balance sheet items within the real estate asset class as at 31.03.2012** | **4 562** | **3 880** | **2 461** | **10 903** |

| | 2011 | | | |
|---|---|---|---|---|
| *Amounts in NOK million* | **Financial assets real estate** | **Investment properties** | **Jointly controlled entities real estate** | **Total** |
| Carrying amounts for the main balance sheet items within the real estate asset class as at 01.01.2011 | - | - | - | - |
| Purchases and additions | 4 088 | 4 301 | 2 620 | 11 009 |
| Fair value changes | 133 | -190 | -71 | -123 |
| Operating profit from investments accounted for using the equity method | - | - | 40 | 40 |
| Foreign currency translation effect | 189 | -49 | -43 | 97 |
| **Carrying amounts for the main balance sheet items within the real estate asset class as at 31.12.2011** | **4 415** | **4 062** | **2 546** | **11 023** |

The addition shown in the column Financial assets real estate for the first quarter 2012 consists primarily of an additional investment in the Regent Street portfolio at a purchase price of NOK 114 million.

Other changes for the jointly controlled entities real estate in the first quarter of 2012 consist of a share capital reduction with repayment to the owners and paid dividends.

For additional information see note 7 Fair value measurement.

## Note 7 Fair value measurement

All equities, bonds, financial derivatives and real estate investments have been allocated to categories reflecting assessed valuation uncertainty. Level 1 comprises investments that are valued on the basis of observable prices in active markets and are considered to have very limited valuation risk. Investments allocated to level 2 are valued using models with observable market data. 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. These investments, too, are valued by external professional price providers who are regarded as giving the best estimate of fair value and where the total valuation from the different price providers differ only to a limited extent. Investment property, both when directly held by a subsidiary or indirectly owned through a jointly controlled entity, is measured at fair value and allocated to level 3.

Table 7.1 divides the investments into categories of assessed pricing uncertainty as at 31 March 2012 and 31 December 2011.

*Table 7.1 Specification of investments by level of valuation uncertainty*

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 31.03.2012 | 31.12.2011 | 31.03.2012 | 31.12.2011 | 31.03.2012 | 31.12.2011 | 31.03.2012 | 31.12.2011 |
| **Equities and units** | **2 135 446** | **1 942 777** | **740** | **995** | **479** | **156** | **2 136 665** | **1 943 928** |
| **Total bonds** | **886 556** | **876 381** | **409 373** | **438 838** | **9 444** | **12 292** | **1 305 373** | **1 327 511** |
| Government bonds | 623 812 | 600 790 | 23 128 | 11 775 | - | - | 646 940 | 612 565 |
| Government related bonds | 95 775 | 98 370 | 60 275 | 78 148 | 72 | 646 | 156 122 | 177 164 |
| Inflation-linked bonds | 93 079 | 98 431 | 806 | 7 285 | - | - | 93 885 | 105 716 |
| Corporate bonds | 3 077 | 3 513 | 178 072 | 184 543 | 123 | 285 | 181 272 | 188 341 |
| Securitised bonds | 70 813 | 75 277 | 147 092 | 157 087 | 9 249 | 11 361 | 227 154 | 243 725 |
| **Total financial derivatives** | **213** | **-219** | **-2 887** | **-3 511** | **-** | **-** | **-2 725** | **-3 730** |
| Assets | 239 | 5 | 1 010 | 2 222 | - | - | 1 249 | 2 227 |
| Liabilities | -26 | -224 | -3 897 | -5 733 | - | - | -3 923 | -5 957 |
| **Total real estate** | **.** | **.** | **.** | **.** | **10 903** | **11 023** | **10 903** | **11 023** |
| Financial assets real estate | . | . | . | . | 4 562 | 4 415 | 4 562 | 4 415 |
| Jointly controlled entities real estate | . | . | . | . | 2 461 | 2 546 | 2 461 | 2 546 |
| Investment Properties | . | . | . | . | 3 880 | 4 062 | 3 880 | 4 062 |
| **Total** | **3 022 224** | **2 818 939** | **407 164** | **436 322** | **20 826** | **23 471** | **3 450 216** | **3 278 732** |

Valuation uncertainty has been further reduced to some extent during the first quarter. The reduction in level 3 holdings during the quarter of NOK 2.9 million is primarily due to the sale of US securitised bonds. In addition, some European government related bonds have been reclassified from level 3 to level 2.

At the end of the first quarter 2012 external valuations were collected for the investments in the real estate asset class, and balance sheet carrying amounts were adjusted based on these values. This resulted in a value increase for the Regent Street investment, and a value decrease for the investment in France. For additional information see note 6 Real estate. The valuation uncertainty within the relevant segments of the real estate markets continues, with limited comparable market activity, based on the uncertain economic situation in Europe.

# 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 region*

The portfolio is invested across several asset classes and regions as shown in table 8.1.

*Table 8.1 Allocation by asset class and region*

| | | Market value in percent by region | | Market value in percent by asset class | | Assets minus liabilities excluding management fee | |
|---|---|---|---|---|---|---|---|
| | | 31.03.2012 | 31.12.2011 | 31.03.2012 | 31.12.2011 | 31.03.2012 | 31.12.2011 |
| Equities | Americas and Africa | 35.8 | 35.9 | | | | |
| | Europe | 49.4 | 49.7 | | | | |
| | Asia and Oceania | 14.8 | 14.4 | | | | |
| Total equities | | | | 60.7 | 58.7 | 2 121 816 | 1 944 721 |
| Bonds | Americas and Africa | 38.9 | 37.7 | | | | |
| | Europe | 51.0 | 56.1 | | | | |
| | Asia and Oceania | 10.1 | 6.2 | | | | |
| Total bonds | | | | 39.0 | 41.0 | 1 363 612 | 1 355 722 |
| Real Estate | Europe | 100.0 | 100.0 | | | | |
| Total Real Estate | | | | 0.3 | 0.3 | 11 013 | 11 129 |

*Volatility*

Norges Bank uses risk modelling to quantify the economic risk for the entire portfolio and for 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 not included in the volatility calculations. This is in compliance with the investment mandates given by the Ministry of Finance and the Executive Board of Norges Bank and with the internal guidelines for investment and risk management.

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

| | Expected volatility, actual portfolio | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.03.2012 | Min 2012 | Max 2012 | Average 2012 | 31.12.2011 | Min 2011 | Max 2011 | Average 2011 |
| **Long-term model** | | | | | | | | |
| Portfolio | 8.8 | 8.6 | 9.9 | 9.1 | 9.6 | 9.5 | 13.4 | 12.1 |
| Equity | 15.1 | 15.1 | 16.6 | 15.7 | 16.4 | 16.4 | 21.2 | 19.9 |
| Bonds | 9.0 | 9.0 | 10.4 | 9.3 | 10.5 | 10.5 | 12.7 | 12.0 |
| **Responsive model** | | | | | | | | |
| Portfolio | 8.8 | 7.8 | 10.3 | 8.8 | 10.1 | 6.7 | 15.2 | 9.3 |
| Equity | 11.9 | 11.7 | 17.2 | 13.3 | 17.7 | 8.8 | 26.3 | 14.8 |
| Bonds | 9.7 | 8.3 | 10.3 | 9.3 | 10.6 | 6.9 | 14.4 | 9.9 |

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

| | Expected relative volatility | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.03.2012 | Min 2012 | Max 2012 | Average 2012 | 31.12.2011 | Min 2011 | Max 2011 | Average 2011 |
| **Long-term model** | | | | | | | | |
| Portfolio | 46 | 39 | 48 | 45 | 40 | 33 | 65 | 46 |
| Equity | 40 | 40 | 61 | 49 | 53 | 40 | 111 | 64 |
| Bonds | 58 | 40 | 58 | 49 | 45 | 38 | 76 | 51 |
| **Responsive model** | | | | | | | | |
| Portfolio | 36 | 33 | 45 | 38 | 44 | 23 | 57 | 35 |
| Equity | 33 | 33 | 63 | 45 | 62 | 29 | 115 | 53 |
| Bonds | 56 | 44 | 83 | 51 | 85 | 21 | 97 | 43 |

The models that are used in the calculation of the above information are explained in note 24 GPFG note 14 Risk in Norges Bank's annual financial statements 2011.

The risk measured by the long-term risk measure shows a small reduction for equities in isolation and the portfolio in total, not including real estate investments, for the first quarter 2012. This is mainly due to the model using three years' historical data. As of the first quarter of 2012 historical data from volatile periods in 2008 and the beginning of 2009 are no longer included in the data set. In addition, the volatility in the equity and fixed income markets has decreased during the quarter. The risk figure indicates that an annual change in value of 8.8 percent or just over NOK 300 billion may be expected at the end of the quarter.



The responsive model to a larger extent captures the prior period's market dynamics. Expected volatility for the portfolio of equities and bonds at the end of first quarter 2012 was lower than at the beginning of the year. The decrease is primarily due to reduced volatility in the equity and bond markets as a result of the liquidity transfers from the European Central Bank and stronger economic growth in the United States. Following large liquidity injections in December 2011 and February 2012 interest rates, especially for Italian government debt, have fallen significantly. This has significant importance for the bond market as Italy is the third largest issuer of debt in the world, after the governments of the United States and Japan.

## Credit risk

Credit risk is the risk of loss 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 portfolio's distribution on different credit rating categories.

*Table 8.4 The bond portfolio specified by credit rating*

| *Figures in NOK million, 31 March 2012* | AAA | AA | A | BBB | Higher risk | Total |
|---|---|---|---|---|---|---|
| Government bonds | 515 457 | 67 773 | 44 905 | 15 293 | 3 511 | 646 940 |
| Government related bonds | 92 019 | 29 948 | 18 426 | 12 670 | 3 060 | 156 122 |
| Inflation-linked bonds | 75 463 | 11 106 | 7 315 | 0 | 0 | 93 885 |
| Corporate bonds | 210 | 23 284 | 89 557 | 65 490 | 2 731 | 181 272 |
| Securitised bonds | 139 680 | 52 020 | 23 319 | 7 034 | 5 102 | 227 154 |
| **Total bonds and other fixed income instruments** | **822 829** | **184 132** | **183 522** | **100 487** | **14 403** | **1 305 373** |

| *Figures in NOK million, 31 December 2011* | AAA | AA | A | BBB | Higher risk | Total |
|---|---|---|---|---|---|---|
| Government bonds | 495 162 | 79 563 | 28 235 | 6 248 | 3 357 | 612 565 |
| Government related bonds | 110 336 | 39 658 | 12 868 | 11 352 | 2 950 | 177 164 |
| Inflation-linked bonds | 77 634 | 21 011 | 6 857 | - | 214 | 105 716 |
| Corporate bonds | 283 | 25 219 | 94 555 | 65 667 | 2 617 | 188 341 |
| Securitised bonds | 183 963 | 35 719 | 12 476 | 6 672 | 4 895 | 243 725 |
| **Total bonds and other fixed income instruments** | **867 378** | **201 170** | **154 991** | **89 939** | **14 033** | **1 327 511** |

The holdings allocated to "higher risk" are unchanged compared to year-end 2011.

## 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 March 2012* | Carrying amount adjusted for collateral | Gross exposure | Effect of netting | Collateral and guarantees | Net exposure |
|---|---|---|---|---|---|
| Time deposits and unsecured bank deposits | 8 450 | 7 881 | - | - | 7 881 |
| OTC derivatives including foreign exchange contracts | -2 887 | 2 526 | 304 | 1 359 | 863 |
| Repurchase and reverse repurchase agreements* | 4 879 | 3 207 | 61 | - | 3 147 |
| Securities lending transactions** | -14 090 | 18 965 | - | 9 533 | 9 432 |
| Bonds posted as collateral for futures trades | 930 | 1 290 | - | | 1 290 |
| **Total** | | **33 869** | **365** | **10 892** | **22 613** |

| *Amounts in NOK million, 31 December 2011* | Carrying amount adjusted for collateral | Gross exposure | Effect of netting | Collateral and guarantees | Net exposure |
|---|---|---|---|---|---|
| Time deposits and unsecured bank deposits | 7 276 | 7 691 | - | - | 7 691 |
| OTC derivatives including foreign exchange contracts | -3 511 | 5 355 | 1 601 | 2 009 | 1 745 |
| Repurchase and reverse repurchase agreements* | -2 668 | 1 040 | 181 | - | 858 |
| Securities lending transactions** | -9 526 | 18 097 | - | 7 624 | 10 472 |
| Bonds posted as collateral for futures trades | 762 | 772 | - | - | 772 |
| **Total** | | **32 955** | **1 782** | **9 633** | **21 538** |

* The column Carrying amount adjusted for collateral takes into account all positions in the repurchase market, including the reinvestment of cash collateral. The internal measurement and monitoring of counterparty risk for these types of instruments do not include these reinvestments.

** The column Carrying amount adjusted for collateral includes securities lent and collateral received.

The above table shows counterparty risk by type of position as at 31 March 2012. Counterparty risk is relatively unchanged since year-end 2011.

Translation from the original Norwegian version

**To the Supervisory Council of Norges Bank**

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

We have reviewed the consolidated 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 March 31, 2012, 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. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard No. 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 condensed interim financial information is not prepared, in all material aspects, in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" as adopted by the EU.

Oslo, 25 April 2012
**Deloitte AS**

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

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