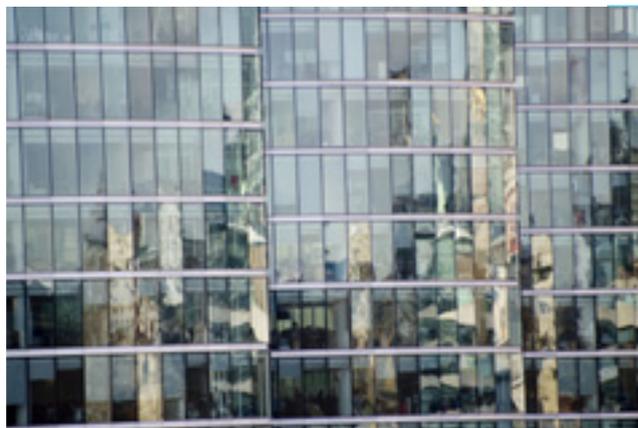


GOVERNMENT PENSION FUND GLOBAL  
QUARTERLY REPORT



1 Quarter  
2013



**NBIM**

Norges Bank Investment Management

# FIRST QUARTER 2013 IN BRIEF

- The Government Pension Fund Global returned 5.45 percent, or 219 billion kroner, in the first quarter of 2013.
- Equity investments returned 8.3 percent, while fixed-income investments returned 1.1 percent. The overall return was 0.3 percentage point higher than the return on the fund's benchmark indices.
- Investments in real estate returned -0.3 percent.
- The fund's market value was 4,182 billion kroner at the end of the quarter, distributed with 62.4 percent in equities, 36.7 percent in fixed income and 0.9 percent in real estate.

# CONTENT

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TRANSLATION FROM THE ORIGINAL NORWEGIAN VERSION. 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](http://www.nbim.no)

## EQUITY INVESTMENTS

Equity investments, which accounted for 62.4 percent of the fund at the end of the quarter, returned 8.3 percent in the period. The performance was driven by rising share prices in developed markets, in which the fund returned 9.0 percent. The biggest gains were made at the beginning of the quarter.

### Strongest gains in the US

US stocks returned 14.0 percent in the quarter, boosted by signals of further expansionary monetary policy. US stocks accounted for 30.1 percent of the fund's equity investments at the end of the quarter.

The turbulence in the euro area continued in the first quarter. The outcome of the Italian parliamentary elections in late February contributed to a fall in share prices. Uncertainty about the rescue package for Cypriot banks led to turmoil towards the end of the quarter. European stocks returned 5.6 percent in the quarter and accounted for 47.4 percent of the fund's equity investments.

Japanese stocks soared 14.0 percent in the quarter, due to an expectation that monetary policy under the Japanese central bank's new mandate and governor will provide a better basis for economic growth. A weaker yen also contributed to the surge in share prices. Asian stocks

returned 7.3 percent and accounted for 14.8 percent of the fund's equity investments.

Equities in emerging markets returned 2.1 percent in the quarter, lagging behind developed markets. Figures for economic growth in these markets disappointed investors, and central banks in Brazil and elsewhere underlined the dangers of inflation, prompting expectations of imminent rate increases. In addition, companies in developed markets overall reported better results than those in emerging markets.

### Healthcare performs best

Most industry sectors saw gains in the first quarter. The strongest performers were Healthcare, Consumer Services and Consumer Goods, returning 16.1, 12.1 and 11.0 percent respectively. The weakest sector was Basic Materials, returning -3.0 percent, reflecting falling prices for many commodities, such as iron ore and copper. Utilities also underperformed, especially in Europe, due partly to weaker demand.

### Individual stocks

Asset manager BlackRock contributed most to the return for the quarter, followed by food producer Nestlé and drug maker Novartis. The worst-performing investment

**Table 1-1** Return on the fund's equity investments in first quarter 2013. By sector. Percent

Sector	Return	Share of equity investments
Financials	8.0	22.8
Consumer goods	11.0	13.9
Industrials	9.3	13.5
Oil and gas	4.3	9.4
Consumer services	12.1	9.7
Healthcare	16.1	9.1
Technology	7.2	7.3
Basic materials	-3.0	6.7
Telecommunications	7.1	3.9
Utilities	4.7	3.7

**Table 1-2** The fund's largest equity holding as of 31 March 2013. Millions of kroner

Company	Country	Holdings
Nestlé SA	Switzerland	36,832
HSBC Holdings Plc	UK	28,952
Royal Dutch Shell Plc	UK	28,520
Novartis AG	Switzerland	24,885
Roche Holding AG	Switzerland	21,946
Vodafone Group Plc	UK	19,541
BlackRock Inc	US	19,393
Sanofi	France	18,844
Apple Inc	US	18,186
Exxon Mobil Corp	US	17,580

## RETURNS MEASURED IN THE FUND'S CURRENCY BASKET

The fund invests in international securities. The return is generally measured in international currency – a weighted combination of the currencies in the fund's benchmark indices for equities

and bonds. The fund's currency basket consisted of 35 currencies at the end of the first quarter of 2013.

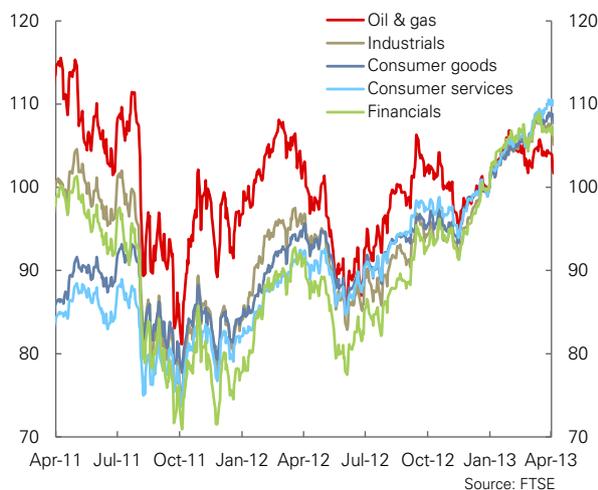
was IT company Apple, followed by financial services provider Banco Santander and miner BHP Billiton.

### Changes in holdings

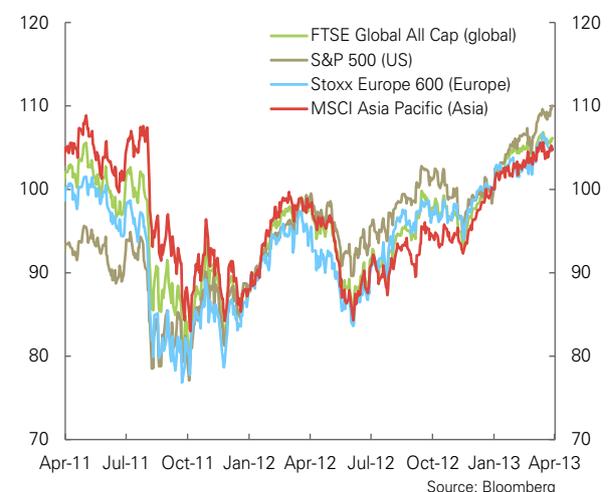
Globally, public offerings of new and existing shares climbed to 166 billion dollars in the first quarter from 157 billion dollars in the previous quarter, according to data from Dealogic. The real estate sector accounted for 34 billion dollars of the public offerings, the financial sector 22 billion dollars and the oil and gas sector 15 billion dollars.

The largest public offering the fund participated in was real estate company American Capital Agency Corp., in which the fund invested 15.8 million dollars, or 90.1 million kroner. This was followed by purchases of shares in steel producer ArcelorMittal and hospital company HCA Holdings, in which the fund invested 7.6 and 3.6 million dollars respectively.

**Chart 1-1** Price moves in stock sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed. 31 Dec 2012 = 100



**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 2012 = 100



## FIXED-INCOME INVESTMENTS

Fixed-income investments accounted for 36.7 percent of the fund at the end of the first quarter and returned 1.1 percent. The investments were mainly in bonds, with the remainder in short-term securities and bank deposits.

### Low return on government debt

Government bonds made up 59.7 percent of the fund's fixed-income investments at the end of the quarter and were the fund's largest and worst-performing fixed-income sector, returning 0.6 percent.

US Treasuries returned 2.1 percent and accounted for 21.7 percent of fixed-income investments at the end of the quarter. Japanese and British government bonds together constituted 10 percent of the fund's fixed-income holdings and returned -3.9 and -4.1 percent, respectively. Euro-denominated government bonds returned -0.2 percent and amounted to 12.4 percent of fixed-income holdings.

The fund also holds bonds from government-related institutions such as the European Investment Bank, Kreditanstalt für Wiederaufbau and FMS Wertmanagement. These returned 1.1 percent and accounted for 10.8 percent of the fund's fixed-income investments at the end of the quarter.

### Securitised debt and corporate bonds perform best

Securitized debt and corporate bonds were the fund's best-performing fixed-income sectors in the first quarter. Securitized debt – bonds issued by banks and backed by mortgages and other loans – returned 2.0 percent, while corporate bonds returned 1.5 percent. Together, these sectors accounted for 26 percent of the fund's fixed-income investments at the end of the quarter.

Low interest rates and lower credit premiums encouraged companies to issue bonds. Global issuance of new investment-grade corporate bonds was 2,635 billion dollars in the first quarter, up from 2,372 billion dollars in

**Table 1-3** Return on the fund's bond investments in first quarter 2013. By sector. Percent

Sector	Return	Share of fixed-income investments*
Government bonds**	0.6	59.7
Government-related bonds**	1.1	10.8
Inflation-linked bonds**	-0.1	1.7
Corporate bonds	1.5	13.4
Securitized debt	2.0	12.6

\* The individual percentages do not add up to 100 percent as the table excludes investments in short-term securities, bank deposits and derivatives.

\*\* 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 holdings as of 31 March 2013. Millions of kroner

Issuer	Country	Holdings
United States of America	US	341 817
Japanese government	Japan	99 016
Federal Republic of Germany	Germany	73 784
UK government	UK	58 120
French Republic	France	39 591
Government of the Netherlands	The Netherlands	33 722
Italian Republic	Italy	26 681
Mexican government	Mexico	26 247
Kreditanstalt für Wiederaufbau	Germany	26 136
Canadian government	Canada	24 151

the previous quarter, according to data from Dealogic. Issuance of non-investment-grade corporate debt grew to 179 billion dollars from 167 billion dollars in the period.

### Changes in holdings

The fund increased its investments in government bonds from the US, the Netherlands and Germany during the quarter and reduced its investments in government debt from Japan, Austria and France.

The fund's largest investments in new bonds other than government debt were in bonds issued by the European Investment Bank, Commonwealth Bank Australia and National Australia Bank.

Around 80 percent of fixed-income investments at the end of the quarter were denominated in one of the four major currencies (dollars, euros, yen and sterling), down from more than 90 percent a year earlier.

On average, fixed-income investments had a duration of 5 years and a yield of 1.8 percent. Duration is the average time it takes for us to receive the cash flow on a bond.

Chart 1-3 10-year government bond yields. Percent

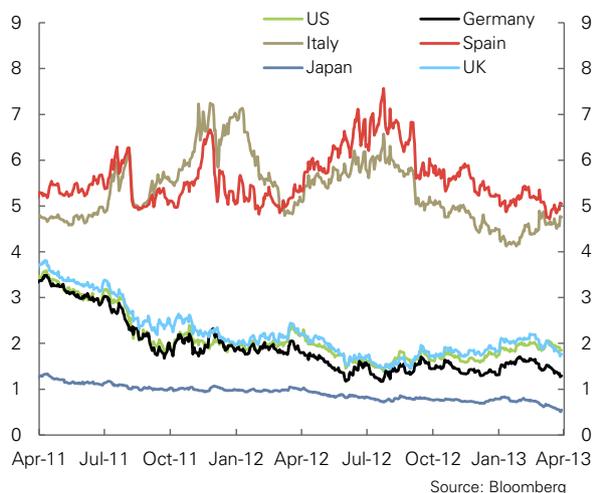
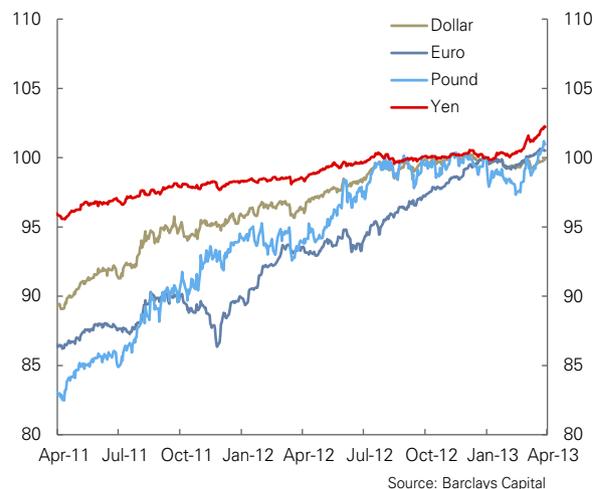
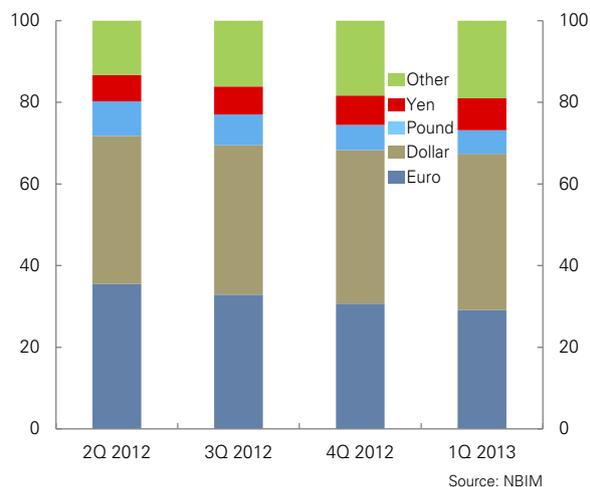


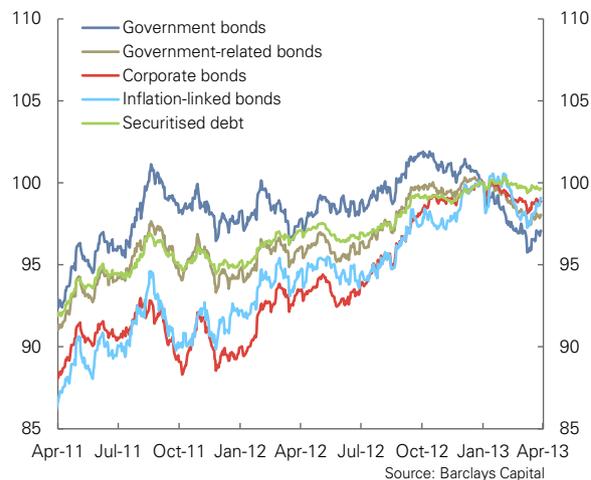
Chart 1-4 Price developments for bonds issued in dollars, euros, pounds and yen in the Barclays Global Aggregate Index, measured in local currencies. Indexed. 31 Dec 2012 = 100



**Chart 1-5** Currency composition of the fund's fixed-income investments. Percent



**Chart 1-6** Price developments in fixed-income sectors in the Barclays Global Aggregate Index, measured in US dollars. Indexed 31 Dec 2012 = 100



**Table 1-5** The fund's bond investments as of 31 March 2013 based on credit ratings. Percentage of holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	38.7	12.2	1.9	7.9	0.0	60.8
Government-related bonds	6.0	3.0	0.7	1.2	0.2	11.0
Inflation-linked bonds	1.1	0.1	0.0	0.5	0.0	1.7
Corporate bonds	0.0	1.1	6.7	5.6	0.2	13.6
Securitized debt	7.9	0.6	2.8	1.4	0.2	12.8
<b>Total bonds</b>	<b>53.7</b>	<b>17.1</b>	<b>12.1</b>	<b>16.5</b>	<b>0.6</b>	<b>100.0</b>

## EXTERNAL MANAGEMENT

NBIM awards investment mandates to external managers with specialist expertise in clearly defined areas. Some 3.9 percent of the fund was managed externally, the same as three months

earlier. External equity investments amounted to 162 billion kroner, and external fixed-income investments were worth 2 billion kroner.

## REAL ESTATE INVESTMENT

Real estate investments accounted for 0.9 percent of the fund at the end of the first quarter and are to increase gradually to as much as 5 percent of the value of the fund through a corresponding decrease in bond holdings. New investments will generally be in well-developed markets and in office and retail properties.

The mandate to invest in real estate was broadened from 1 January 2013 to include countries outside Europe, and the fund went on to make its first property investment in the US in the quarter. An agreement was concluded on the purchase of a 49.9 percent stake in five properties in New York, Washington and Boston for 606 million dollars, or around 3.3 billion kroner, from TIAA-CREF, a major US pension and life insurance company. A partnership was formed whereby TIAA-CREF will provide management services for the properties in question.

The fund completed the purchase of 50 percent of a portfolio of 195 logistics properties in 11 European countries for 1.2 billion euros, or 8.9 billion kroner, from Prologis, an owner, operator and developer of industrial real estate in America, Europe and Asia. The agreement was signed in the fourth quarter of 2012. A partnership was formed whereby Prologis will provide management services for the properties.

The fund also invested in German real estate during the quarter, after signing an agreement in October 2012 to purchase two buildings in Berlin and Frankfurt from the Royal Bank of Scotland for 400 million euros, or 3.2 billion kroner. The investment was made through the joint venture with AXA France formed in 2011 in connection with the fund's first investments in France. A partnership was formed whereby AXA Real Estate will provide management services for the properties.

The return on the fund's real estate investments is determined by rental income, changes in property values and currency movements. Transaction costs may also impact significantly on results, particularly in the start-up phase.

The fund's real estate investments returned -0.3 percent in the first quarter. Rental income and change in value of properties contributed positively to the results with a return of 1.5 percent, while foreign exchange adjustments contributed most negatively with -1.6 percent.

In addition, transaction costs for the new properties in the US and Germany and the European logistics portfolio were recognised during the period, weakening the return.

**Table 1-6** Return on the fund's real estate investments first quarter 2013. Percent

	Return
Net rental income	1.0
Net change in value of properties and debt	0.5
Transaction costs for property purchases	-0.2
Foreign exchange adjustments	-1.6
<b>Overall return</b>	<b>-0.3</b>

## OPERATIONAL REFERENCE PORTEFOLIOS AND THE FUND'S RELATIVE RETURN

NBIM has constructed internal operational reference portfolios for equities and bonds. The reference portfolios shall take into account the fund's size, long-term approach and objective to achieve the best possible trade-off over time between expected risks and returns. The reference portfolios may deviate from the benchmark indices set by the Ministry of Finance within set risk limits for the fund's management.

The operational reference portfolio for equity investments returned 7.9 percent in the first quarter, 0.02 percentage point below the return on the benchmark index set by the ministry.

The operational reference portfolio for bond investments returned 0.8 percent in the first quarter, 0.06 percentage point lower than the benchmark index set by the ministry.

### 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 that are set by the Ministry of Finance based on indices from FTSE Group and Barclays Capital. The overall return on equity and fixed-income investments was 0.3 percentage point higher than the return on the benchmark indices in the first quarter.

The financials and industrials sectors were the fund's best-performing stock sectors compared with the benchmark index among the different sectors the fund invests in. Investments in health care performed the worst. Sorted by country, stock-holdings in the US and South Africa performed best against the benchmark, while equities in Switzerland and Finland performed worst.

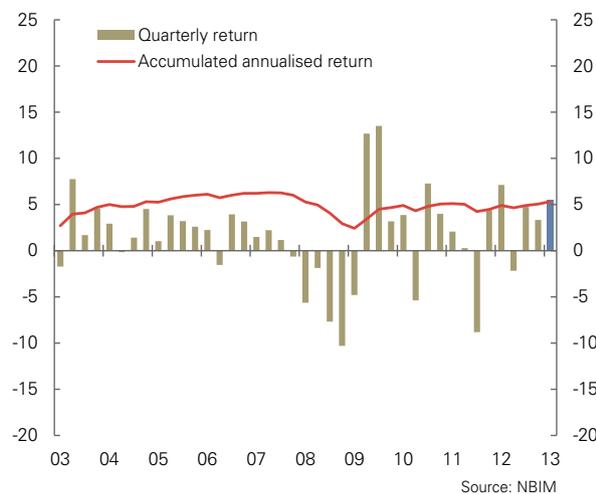
The return on the fund's fixed-income investments was 0.2 percentage point higher than the benchmark return in the first quarter. A positive currency result, mainly due to an overweight in Brazilian real, as well as an overweight in euro-denominated covered bonds, contributed positively to the fixed-income results.

**Table 1-7** Contributions from equity and fixed-income management to the fund's relative return in first quarter 2013. Percentage points

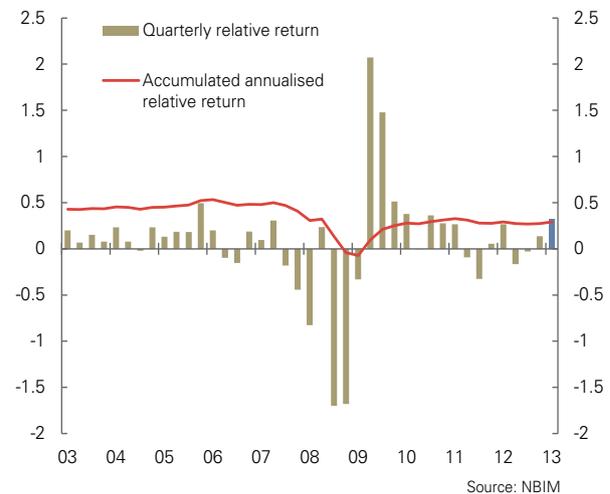
	Total	Attributed to external management
Equity investments	0.26	0.04
Fixed-income investments	0.07	0.01
Total	0.32	0.05

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

**Chart 1-7** The fund's quarterly and accumulated annualised return. Percent



**Chart 1-8** Quarterly relative return and accumulated annualised relative return on the fund, excluding real estate investments. Percentage points



**Table 1-8** Quarterly returns as of 31 March 2013

	1Q 2013	4Q 2012	3Q 2012	2Q 2012	1Q 2012	Year-to-date 31 March 2013
<b>Returns in international currency</b>						
Return on equity investments (percent)	8.25	4.69	6.48	-4.57	10.99	8.25
Return on fixed-income investments (percent)	1.06	1.26	2.16	1.52	1.58	1.06
Return on real estate investments (percent)	-0.34	0.49	2.68	0.31	2.18	-0.34
Return on fund (percent)	5.45	3.34	4.74	-2.18	7.11	5.45
Return on equity and fixed-income investments (percent)	5.49	3.35	4.75	-2.18	7.13	5.49
Return on benchmark equity and fixed-income indices (percent)	5.16	3.22	4.78	-2.02	6.87	5.16
Relative return on equity and fixed-income investments (percentage points)	0.32	0.14	-0.02	-0.17	0.27	0.32
Relative return on equity investments (percentage points)	0.32	0.21	0.12	-0.17	0.33	0.32
Relative return on fixed-income investments (percentage points)	0.22	-0.05	-0.27	-0.07	0.11	0.22
Management costs (percentage points)	0.01	0.02	0.01	0.02	0.02	0.01
Return on fund after management costs (percent)	5.43	3.32	4.73	-2.19	7.10	5.43
<b>Returns in kroner (percent)</b>						
Return on equity investments	10.83	2.08	3.98	-2.66	7.49	10.83
Return on fixed-income investments	3.46	-1.26	-0.23	3.56	-1.63	3.46
Return on real estate investments	2.03	-2.01	0.28	2.33	-1.04	2.03
Return on fund	7.96	0.76	2.29	-0.21	3.74	7.96
Return on equity and fixed-income investments	8.00	0.78	2.30	-0.22	3.76	8.00

**Table 1-9** Historical key figures as of 31 March 2013. Annualised data, measured in the fund's currency basket

	Last 12 months	Last 3 years	Last 5 years	Last 10 years	Since 1 Jan 1998
Return on fund (percent)	11.65	7.15	5.46	6.74	5.33
Return on equity and fixed-income investments (percent)	11.71	7.17	5.47	6.75	5.33
Return on benchmark equity and fixed-income indices (percent)	11.43	6.83	5.21	6.53	5.04
Relative return on equity and fixed-income investments (percentage points)	0.28	0.34	0.26	0.22	0.29
Standard deviation (percent)	5.82	7.96	11.20	8.45	7.71
Tracking error for equity and fixed-income investments (percentage points)	0.28	0.37	1.20	0.90	0.76
Information ratio (IR) for equity and fixed-income investments*	0.97	0.94	0.22	0.24	0.38
Return on fund (percent)	11.65	7.15	5.46	6.74	5.33
Annual price inflation (percent)	1.54	2.33	1.97	2.13	1.93
Annual management costs (percent)	0.06	0.08	0.09	0.10	0.09
Annual net real return on fund (percent)	9.90	4.63	3.33	4.42	3.24

\* 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 1-10** Key figures as of 31 March 2013

	1Q 2013	4Q 2012	3Q 2012	2Q 2012	1Q 2012
<b>Market value (billions of kroner)*</b>					
Market value of equity investments	2,609	2,336	2,247	2,122	2,122
Market value of fixed-income investments	1,536	1,455	1,465	1,428	1,364
Market value of real estate investments	37	25	11	11	11
Market value of fund	4,182	3,816	3,723	3,561	3,496
<b>Inflow of new capital*</b>					
Inflow of new capital*	60	64	80	72	60
Return on fund	219	123	167	-77	234
Changes due to fluctuations in krone	86	-94	-85	70	-110
Total change in fund	366	92	162	65	185
<b>Management costs (percent)</b>					
Estimated transition costs**	0.00	0.00	0.01	0.01	0.01
Annualised management costs	0.06	0.06	0.06	0.07	0.07
<b>Changes in value since first capital inflow in 1996 (billions of kroner)</b>					
Gross inflow of new capital	3,121	3,060	2,996	2,915	2,842
Management costs***	21	21	20	20	19
Inflow of new capital after management costs	3,099	3,039	2,975	2,895	2,823
Return on fund	1,327	1,107	985	817	894
Changes due to fluctuations in krone	-244	-331	-237	-151	-221
Market value of fund	4,182	3,816	3,723	3,561	3,496
Return after management costs	1,305	1,087	965	798	875

\* 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 3.2 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 1-11** Accumulated returns since first capital inflow in 1996. Billions of kroner

	1Q 2013	4Q 2012	3Q 2012	2Q 2012	1Q 2012
Return on equity investments	777	579	474	338	437
Return on fixed-income investments	549	528	510	480	457
Return on real estate investments	0	0	0	0	0
Total return	1,327	1,107	985	817	894

## RESPONSIBLE INVESTMENTS AND ACTIVE OWNERSHIP

A good long-term return on the fund depends on a sustainable economic, environmental and social development. NBIM uses a variety of tools, such as dialogue with companies, other investors and authorities, to encourage companies to move in this direction and improve standards of corporate governance. We vote at general meetings and file shareholder proposals. We also publish documents presenting our expectations for how companies should deal with social and environmental risks in both their own operations and their supply chains.

NBIM is a key shareholder in the companies in which we invest. We held meetings during the quarter with the chairmen of various companies in which the fund has a substantial share of the voting rights, to present our expectations in terms of corporate governance and managing for the long term. NBIM also filed shareholder proposals to improve board accountability at several companies in the US. These will be put to the vote during the second quarter.

In the first quarter of 2013, NBIM exercised its right to nominate a representative on Volvo AB's Election Committee. This is the first time the fund has exercised its right to sit on a company's nomination committee and reflects our long-term goal of closer contact with companies' boards to safeguard the fund's values. NBIM's CEO Yngve Slyngstad will represent the fund on the committee.

In January, we arranged two seminars in New Delhi and Hong Kong where investors, authorities and companies gathered to explore how best to improve the reporting of risks relating to the management of water resources. There were also discussions of the challenges companies may face when measuring and reporting this type of risk, and of investors' information needs.

## RISK MANAGEMENT

NBIM focuses on three main types of investment risk: market, credit and counterparty. We work constantly to identify and reduce operational risks that may cause financial or reputational loss. We have set up frameworks in each category for how risk is measured, checked and managed.

As no single measure or analysis can fully capture the fund's market risk, we use a variety of measures and analysis, including expected tracking error, factor exposures, concentration analysis and liquidity 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 may fluctuate. The fund's expected absolute volatility was 8.7 percent, or about 360 billion kroner, at the end of the first quarter compared with 8.6 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 relative volatility of no more than 1 percentage point. The actual figure was 0.53 percentage point at the end of the quarter, compared with 0.48 percentage point three months earlier. The rise in expected relative volatility is a result of an increase in the relative risk of the equity portfolio.

NBIM each quarter estimates the size of the potential losses or gains it may incur over the next year because of unwanted events related to its investment management activities. The estimate is based on past events and possible future events and represents NBIM's estimated risk exposure.

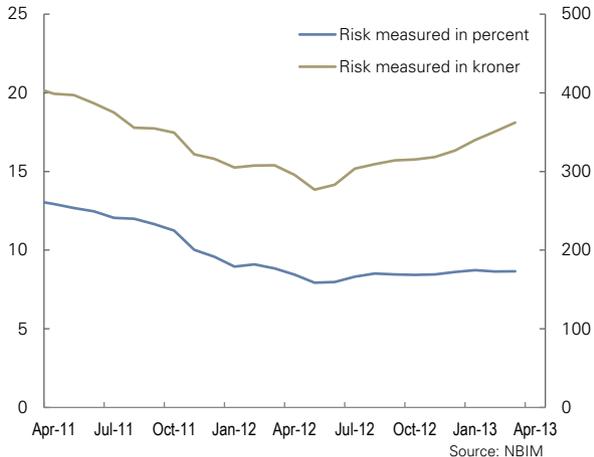
NBIM registered 52 unwanted events in the first quarter,

resulting in an estimated financial loss of 5 million kroner. None of the events led to financial gains. NBIM's risk exposure was within the board's bounds for risk tolerance at the end of the quarter.

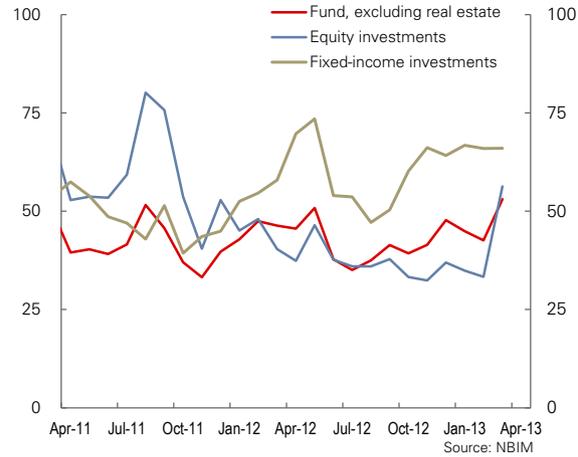
The Ministry of Finance has set guidelines for the fund's

management. No significant breaches of these guidelines were registered in the first quarter. NBIM in the period did not receive any notifications from supervisory authorities of any significant breaches of market rules or general legislation.

**Chart 1-9** Expected absolute volatility of the fund. Percent (left-hand axis) and billions of kroner (right-hand axis)



**Chart 1-10** Expected relative volatility of the fund, excluding real estate. Basis points



**Table 1-12** Key figures for the fund's risk and exposure

		31.03.2013
<b>Limits set by the Ministry of Finance</b>		
Exposure	Equities 50-70 % of fund's market value	62.5
	Real estate 0-5 % of fund's market value	0.9
Market risk	1 percentage point expected tracking error for equity and fixed-income investments	0.5
Credit risk	Maximum 5 % of fixed-income investments may be rated below BBB-	0.6
Maximum ownership	Maximum 10 % of voting shares in a listed company	9.5

# 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 24 April 2013. This financial reporting and an excerpt from Norges Bank's accounting policies and significant estimates and critical judgements are presented in the following pages.

<b>INCOME STATEMENT</b>	<b>16</b>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>	<b>16</b>
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## INCOME STATEMENT

<i>Amounts in NOK million</i>	Note	1Q 2013	1Q 2012	2012
<b>Profit/loss on the portfolio excluding foreign exchange gains and losses</b>				
Interest income and interest expense from bank deposits		-11	5	102
Interest income, lending associated with reverse repurchase agreements		45	93	219
Net income/expenses and gains/losses from:				
- Equities and units		206 451	212 094	349 779
- Bonds and other fixed-income instruments		11 508	21 234	98 337
- Financial derivatives		856	1 000	-269
- Financial assets real estate	6	187	125	514
- Investment properties	6	66	-40	67
Share of the profit/loss in jointly controlled entities and associates real estate	6	115	23	-250
Interest expense, borrowing associated with repurchase agreements		6	-36	-130
Other interest income and interest expense		37	-3	1
Tax expense		-44	-87	-864
Other expenses	3, 4	-19	-19	-80
<b>Profit/loss on the portfolio before foreign exchange gains and losses</b>		<b>219 197</b>	<b>234 389</b>	<b>447 426</b>
Foreign exchange gains and losses		86 213	-109 802	- 219 559
<b>Profit/loss on the portfolio</b>		<b>305 410</b>	<b>124 587</b>	<b>227 867</b>
Management fee	3	-577	-579	- 2 193
<b>Profit/loss for the period</b>		<b>304 833</b>	<b>124 008</b>	<b>225 674</b>

## STATEMENT OF COMPREHENSIVE INCOME

<i>Amounts in NOK million</i>	1Q 2013	1Q 2012	2012
Profit/loss for the period	304 833	124 008	225 674
Translation reserve arising from consolidation of foreign subsidiaries	180	0	-5
<b>Total comprehensive income</b>	<b>305 013</b>	<b>124 008</b>	<b>225 669</b>

## BALANCE SHEET

<i>Amounts in NOK million</i>	Note	31.03.2013	31.12.2012	31.03.2012
<b>ASSETS</b>				
<b>Financial assets</b>				
Deposits in banks		8 759	5 864	8 450
Lending associated with reverse repurchase agreements		119 673	61 440	128 538
Unsettled trades		17 061	1 677	25 036
Equities and units	5	2 451 338	2 212 951	1 983 348
Equities lent	5	167 621	115 041	153 317
Bonds and other fixed-income instruments	5	1 501 224	1 447 182	1 305 373
Bonds lent	5	6 631	5 325	-
Financial derivatives	5	1 323	1 447	1 249
Financial assets real estate	6	4 930	4 841	4 562
Jointly controlled entities and associates real estate	6	21 607	7 431	2 461
Other financial assets		19 951	4 411	2 539
<b>Total financial assets</b>		<b>4 320 118</b>	<b>3 867 610</b>	<b>3 614 873</b>
<b>Non-financial assets</b>				
Investment properties	6	9 882	9 777	3 880
Other non-financial assets		6	5	6
<b>Total non-financial assets</b>		<b>9 888</b>	<b>9 782</b>	<b>3 886</b>
<b>TOTAL ASSETS</b>	<b>7, 8</b>	<b>4 330 006</b>	<b>3 877 392</b>	<b>3 618 759</b>
<b>LIABILITIES AND OWNER'S CAPITAL</b>				
<b>Financial liabilities</b>				
Short-term borrowing		25	202	436
Borrowing associated with repurchase agreements		39 023	19 013	41 907
Cash collateral received		50 009	33 001	43 244
Unsettled trades		55 530	4 442	29 173
Financial derivatives	5	2 177	2 600	3 923
Other financial liabilities		1 675	2 365	3 635
Management fee payable		577	2 193	579
<b>Total financial liabilities</b>	<b>7, 8</b>	<b>149 016</b>	<b>63 816</b>	<b>122 897</b>
<b>Owner's capital</b>		<b>4 180 990</b>	<b>3 813 576</b>	<b>3 495 862</b>
<b>TOTAL LIABILITIES AND OWNER'S CAPITAL</b>		<b>4 330 006</b>	<b>3 877 392</b>	<b>3 618 759</b>

## STATEMENT OF CASH FLOWS

<i>Amounts in NOK million</i>	<b>Year-to-date 31.03.2013</b>	<b>Year-to-date 31.03.2012</b>	<b>2012</b>
<b>Operating activities</b>			
Interest received on deposits in banks	-12	702	99
Net cash flow in connection with reverse repurchase agreements	-31 141	-44 635	17 111
Net cash flows arising from purchase and sale of equities and units	-46 001	-53 986	-229 436
Net cash flows arising from purchase and sale of bonds and other fixed-income instruments	-8 673	-13 933	-166 501
Payments made to acquire financial assets real estate	-46	-137	-205
Payments made to acquire investment properties	-4	0	-6 102
Payments made to acquire jointly controlled entities and associates real estate	-10 985	19	-5 404
Net cash flows arising from financial derivatives	545	550	-3 090
Dividends received from investments in equities and units	9 731	10 136	63 373
Interest received on bonds and other fixed-income instruments	12 383	13 015	49 047
Income received in connection with equity and bond lending	433	389	2 424
Income received from investments in financial assets real estate	43	39	177
Dividends received from investments in jointly controlled entities and associates real estate	49	38	84
Income received from investments in investment properties	121	63	244
Interest paid on short-term borrowing from banks	34	-422	-4
Net cash flows related to repurchase agreements	16 828	17 716	2 878
Cash collateral received/paid related to securities lending, derivatives and reverse repurchase agreements	17 008	6 317	-3 926
Net cash flow related to other financial assets, other financial liabilities and other non-financial assets	484	5 497	1 161
Net cash flows arising from tax payments and reclaims	571	110	1 044
Payment of other expenses	-41	-31	-163
Management fee paid to Norges Bank*	0	-2 539	-2 539
<b>Net cash outflow from operating activities</b>	<b>-38 673</b>	<b>-61 092</b>	<b>-279 727</b>
<b>Financing activities</b>			
Inflow from the Norwegian government**	41 600	61 829	277 862
<b>Net cash inflow from financing activities</b>	<b>41 600</b>	<b>61 829</b>	<b>277 862</b>
<b>Net change in cash and cash equivalents</b>			
Cash and cash equivalents at 1 January	5 662	7 265	7 265
Net cash payments in the period	2 928	737	-1 865
Net foreign exchange gains and losses on cash and cash equivalents	144	12	262
<b>Cash and cash equivalents at end of period</b>	<b>8 734</b>	<b>8 014</b>	<b>5 662</b>
<b>Cash and cash equivalents comprise:</b>			
Bank deposits	8 759	8 450	5 864
Short-term borrowing	-25	-436	-202
<b>Total cash and cash equivalents at end of period</b>	<b>8 734</b>	<b>8 014</b>	<b>5 662</b>

\* Management fee shown in the cash flow statement for a period is the settled payment 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

<i>Amounts in NOK million</i>	<b>Inflows from owner</b>	<b>Retained earnings</b>	<b>Translation reserve foreign subsidiaries</b>	<b>Deposits in krone account</b>
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
<b>31 March 2012</b>	<b>2 841 687</b>	<b>654 178</b>	<b>- 3</b>	<b>3 495 862</b>
1 January 2013	3 057 741	755 844	-9	3 813 576
Total comprehensive income	.	304 833	180	305 013
Inflows during the period*	62 401	.	.	62 401
<b>31 March 2013</b>	<b>3 120 142</b>	<b>1 060 677</b>	<b>171</b>	<b>4 180 990</b>

\* Of the total inflows to the krone account of the Government Pension Fund Global in the first quarter of 2013, NOK 2.2 billion was used to pay the 2012 accrued management fee to Norges Bank and NOK 60.2 billion was transferred into the investment portfolio. Comparative amounts for the first quarter 2012 are NOK 2.5 billion and NOK 60.3 billion, respectively.

### Norges Bank's Executive Board

Oslo, 24 April 2013

Øystein Olsen  
Chairman

Jan Fredrik Qvigstad  
Deputy Chairman

Brit K. Rugland

Liselott Kilaas

Gøril Bjerkan

Ida Helliesen

Eirik Wærness



## 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 2012, which are also presented as an extract in the Government Pension Fund Global's Annual Report 2012.

## NOTE 3 MANAGEMENT COSTS

Management costs comprise operating expenses related to the management of the investment portfolio of the Government Pension Fund Global. The majority of these are incurred in Norges Bank as asset manager, and are refunded by the management fee from the Ministry of Finance, see specification in table 3.1. Costs are also incurred in real estate subsidiaries related to their administration, which are charged directly to the profit/loss on the portfolio, see specification in table 3.2.

Table 3.1 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 3.1 Specification management fee**

<i>Amounts in NOK million</i>	1Q 2013		1Q 2012		2012	
		Basis points		Basis points		Basis points
Salary, social security and other personnel related costs*	160		140		587	
IT, information and decision support systems	56		49		222	
Custody and settlement costs	102		94		351	
Outsourced IT and analysis costs	55		50		218	
Consulting and legal fees	4		17		56	
Base fees to external managers	94		92		272	
Other costs*	20		24		90	
Allocated common costs Norges Bank*	25		25		90	
<b>Management fee excluding performance-based fees</b>	<b>516</b>	<b>5.3</b>	<b>489</b>	<b>5.8</b>	<b>1 886</b>	<b>5.3</b>
Performance-based fees to external managers	61		90		307	
<b>Total management fee</b>	<b>577</b>	<b>5.9</b>	<b>579</b>	<b>6.9</b>	<b>2 193</b>	<b>6.2</b>

\* Pension expenses that have previously been presented as part of Allocated common costs Norges Bank are starting from the annual financial statements 2012 presented on the line Salary, social security and other personnel related costs. Furthermore costs related to training and recruitment have been moved from the line Other costs to Salary, social security and other personnel related costs. Comparative amounts for 2012 have been restated.

Table 3.1 shows Norges Bank's total operating expenses 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 the investment portfolio and the long term FX reserves, 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*.

Total management costs excluding performance-based fees (management fee excluding performance-based fees table 3.1 and operating expenses real estate subsidiaries table 3.2) amount to NOK 530 million for Q1. This corresponds to 5.4 basis points on an annual basis. The frame is set at 9 basis points by the Ministry of Finance for 2013, and comprises from 2013 also operating expenses in subsidiaries.

Table 3.2 specifies operating expenses in real estate subsidiaries.

**Table 3.2 Specification operating expenses, real estate subsidiaries**

Amounts in NOK million	1Q 2013	1Q 2012	2012
Salary, social security and other personnel related costs	4	3	11
IT, information and decision support systems, outsourced administrative services	2	1	6
Consulting and legal fees	2	2	9
Fees related to administration of subsidiaries (external)*	3	3	10
Other costs, subsidiaries	3	3	9
<b>Operating expenses, real estate subsidiaries</b>	<b>14</b>	<b>12</b>	<b>45</b>

\* Fees related to property management paid by subsidiaries are from the annual report 2012 on not included in Fees related to administration of subsidiaries in table 3.2. These are presented as Property management expenses in subsidiaries in table 4.1, see note 4 Other expenses. Comparative amounts for 1Q 2012 have been restated.

Table 3.2 shows expenses incurred by subsidiaries that are established as a part of the investment portfolio of the Government Pension Fund Global, related to the administration of these companies. These expenses are consolidated into the income statement of the investment portfolio, and are paid using funds belonging to the portfolio. Operating expenses in subsidiaries do not form part of Norges Bank operating expenses as they are excluded from consolidation into Norges Bank, as per the accounting regulation for Norges Bank § 2-3, paragraph 4. These expenses are presented as *Other expenses* in the income statement for the investment portfolio, and are charged directly to Profit/loss on the portfolio. See note 4 Other expenses for further information.

Within the real estate asset class there are additional costs related to property management, which are included in the income statement lines *Net income/expenses – gains/losses on investment properties* and *Share of profit/loss in jointly controlled entities and associates real estate*. These costs are incurred by the company that owns the property, and are considered to be expenses linked directly to the income from and management of the properties. In some cases such expenses, in the form of fees related to property management, will be incurred by subsidiaries and be presented as *Other expenses*, see note 4.

## NOTE 4 OTHER EXPENSES

**Table 4.1 Specification other expenses**

Amounts in NOK million	Q1 2013	Q1 2012	2012
Operating expenses, real estate subsidiaries	14	12	45
Property management expenses in subsidiaries	2	2	9
Other expenses, investment portfolio	3	5	26
<b>Total other expenses</b>	<b>19</b>	<b>19</b>	<b>80</b>

*Other expenses* comprise operating expenses in subsidiaries, expenses in subsidiaries related to property management and other expenses related to the asset management. Expenses relating to the administration of subsidiaries are specified in table 3.2 in Note 3 Management costs. Expenses relating to property management comprise expenses directly related to income from and management of properties, as incurred by subsidiaries. *Other expenses* are paid using funds belonging to the investment portfolio of the Government Pension Fund Global, and are charged directly to the *Profit/loss on the portfolio*, before the management fee.

Other expenses, investment portfolio in Table 4.1 mainly include transaction related expenses incurred in the asset management, and can be related to all asset classes.

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

Table 5.1 Specification equities and units

Amounts in NOK million	31.03.2013			31.12.2012		
	Fair value excluding dividends	Accrued dividends	Fair value including dividends	Fair value excluding dividends	Accrued dividends	Fair value including dividends
<b>Equities:</b>						
Listed equities and units	2 613 333	5 625	2 618 958	2 325 469	2 523	2 327 992
<b>Total equities and units</b>	<b>2 613 333</b>	<b>5 625</b>	<b>2 618 958</b>	<b>2 325 469</b>	<b>2 523</b>	<b>2 327 992</b>
<i>Of which equities lent</i>			167 621			115 041

Table 5.2 Specification bonds and other fixed-income instruments

Amounts in NOK million, 31 March 2013	Nominal value*	Fair value excluding accrued interest	Accrued interest	Fair value including accrued interest
<b>Bonds and other fixed-income instruments:</b>				
Government bonds**	834 088	908 201	8 143	916 344
Government related bonds	154 519	164 377	2 030	166 407
Inflation-linked bonds	20 509	25 980	140	26 120
Corporate bonds	191 142	202 707	2 749	205 456
Securitised bonds	190 116	190 653	2 875	193 528
<b>Total bonds and other fixed-income instruments</b>	<b>1 390 374</b>	<b>1 491 918</b>	<b>15 936</b>	<b>1 507 855</b>
<i>Of which bonds lent</i>				6 631

Amounts in NOK million, 31 December 2012	Nominal value*	Fair value excluding accrued interest	Accrued interest	Fair value including accrued interest
<b>Bonds and other fixed-income instruments:</b>				
Government bonds**	771 983	846 538	7 338	853 876
Government related bonds	152 891	164 230	2 187	166 418
Inflation-linked bonds	30 642	41 520	235	41 755
Corporate bonds	180 941	193 611	2 829	196 440
Securitised bonds	193 054	190 475	3 543	194 018
<b>Total bonds and other fixed-income instruments</b>	<b>1 329 511</b>	<b>1 436 374</b>	<b>16 132</b>	<b>1 452 507</b>
<i>Of which bonds lent</i>				5 325

\* Nominal values have been translated into NOK using the exchange rate on the balance sheet date.

\*\* Includes nominal bonds issued in the country's currency – treasuries. Sovereign bonds (bonds issued by a state in a currency other than its own) are classified as government related bonds.

Table 5.3 Specification financial derivatives

Amounts in NOK million	Fair value 31.03.2013			Fair value 31.12.2012		
	Asset	Liability	Net	Asset	Liability	Net
Foreign exchange contracts	160	97	63	88	145	-57
Listed futures contracts	82	71	11	221	91	130
Options	228		228			
Swap contracts	853	2 009	-1 156	1 138	2 364	-1 226
<b>Total financial derivatives</b>	<b>1 323</b>	<b>2 177</b>	<b>-854</b>	<b>1 447</b>	<b>2 600</b>	<b>-1 153</b>

## NOTE 6 REAL ESTATE

Real estate investments in the investment portfolio of the Government Pension Fund Global consist of unlisted investments, classified as financial assets real estate, jointly controlled entities and associates 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 properties. Jointly controlled entities and associates real estate consists of an ownership share of investment properties and other assets (net) held by a jointly controlled entity or associate.

Table 6.1 shows the profit/loss on the real estate asset class, specified on net operating income and unrealised value changes for investment properties, financial assets and debt, and other income and expenses in the asset class. 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	Q1 2013	Q1 2012	2012
<b>Profit/loss on the portfolio excluding foreign exchange gains and losses, real estate asset class</b>			
Net operating income from:			
Financial assets real estate	43	34	170
Investment properties	121	63	244
Jointly controlled entities and associates real estate	115	44	167
<b>Total net operating income, real estate</b>	<b>279</b>	<b>141</b>	<b>581</b>
Recognised fair value changes from:			
Financial assets real estate	144	91	344
Investment properties	-56	-103	-177
Jointly controlled entities and associates real estate – properties	48	-21	-90
Jointly controlled entities and associates real estate – financial liability	-48	.	-327
<b>Total recognised fair value changes, real estate</b>	<b>88</b>	<b>-33</b>	<b>-250</b>
Net other income and expenses*	26	-15	-35
<b>Profit/loss on the portfolio before foreign exchange gains and losses, real estate asset class</b>	<b>394</b>	<b>93</b>	<b>296</b>

\* Includes interest income, net income/expenses and gains/losses from financial derivatives, interest expense, tax 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

Amounts in NOK million	01.01.2013 – 31.03.2013			Total
	Financial assets real estate	Jointly controlled entities and associates real estate	Investment properties	
Carrying amounts for the main balance sheet items within the real estate asset class as at 01.01.2013	4 841	7 431	9 777	22 049
Additions and improvements	46	13 830	4	13 880
Fair value changes – properties/financial asset real estate	144	48	-56	137
Fair value changes – financial liability	.	-48	.	-48
Operating profit from investments accounted for under the equity method	.	115	.	115
Paid dividend and changes in equity capital	.	15	.	15
Other assets (net) in jointly controlled entities and associates	.	0	.	0
Foreign currency translation effect	-101	216	156	271
Carrying amounts for the main balance sheet items within the real estate asset class as at 31.03.2013	4 930	21 607	9 882	36 419

Amounts in NOK million	01.01.2012 – 31.12.2012			Total
	Financial assets real estate	Jointly controlled entities and associates real estate	Investment properties	
Carrying amounts for the main balance sheet items within the real estate asset class as at 01.01.2012	4 415	2 546	4 062	11 023
Additions and improvements	199	5 404	6 102	11 705
Fair value changes – properties/financial asset real estate	344	-90	-177	77
Fair value changes – financial liability	.	-327	.	-327
Operating profit from investments accounted for under the equity method	.	167	.	167
Paid dividend and changes in equity capital	.	-103	.	-103
Other assets (net) in jointly controlled entities and associates	.	-18	.	-18
Foreign currency translation effect	-117	-149	-210	-476
Carrying amounts for the main balance sheet items within the real estate asset class as at 31.12.2012	4 841	7 431	9 777	22 049

For additional information see note 7 Fair value measurement.

Additions and improvements are the main reasons for changes in carrying amounts in the quarter. New investments (additions) and improvements amounting to NOK 13.880 million kroner have been completed during the first quarter of 2013. Of this new investments amounted to NOK 13.830 million. The new investments comprised investments in Germany and the United States as well as the acquisition of a portfolio of logistics properties in Europe. The investments are classified as jointly controlled entities and associates.

## 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 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.

For information on the control environment and valuation techniques related to fair value measurement reference is made to note 14 in the Government Pension Fund Global Annual Report 2012.

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

<i>Amounts in NOK million</i>	Level 1		Level 2		Level 3		Total	
	31.03.2013	31.12.2012	31.03.2013	31.12.2012	31.03.2013	31.12.2012	31.03.2013	31.12.2012
<b>Equities and units</b>	<b>2 615 992</b>	<b>2 325 185</b>	<b>811</b>	<b>1 184</b>	<b>2 156</b>	<b>1 623</b>	<b>2 618 958</b>	<b>2 327 992</b>
Government bonds	804 646	759 914	111 698	93 962	0	-	916 344	853 876
Government-related bonds	127 782	122 187	37 995	43 652	630	579	166 407	166 418
Inflation-linked bonds	23 785	40 050	2 335	1 705	0	-	26 120	41 755
Corporate bonds	4 671	5 239	199 368	190 764	1 417	437	205 456	196 440
Securitised bonds	143 096	113 739	48 409	76 293	2 023	3 986	193 528	194 018
<b>Total bonds</b>	<b>1 103 980</b>	<b>1 041 129</b>	<b>399 805</b>	<b>406 376</b>	<b>4 070</b>	<b>5 002</b>	<b>1 507 855</b>	<b>1 452 507</b>
Financial derivatives (assets)	82	221	1 241	1 226	-	-	1 323	1 447
Financial derivatives (liabilities)	-71	-91	-2 105	-2 509	-	-	-2 176	-2 600
<b>Total financial derivatives</b>	<b>11</b>	<b>130</b>	<b>-864</b>	<b>-1 283</b>	<b>-</b>	<b>-</b>	<b>-853</b>	<b>-1 153</b>
Financial assets real estate	.	.	.	.	4 930	4 841	4 930	4 841
Jointly controlled entities and associates real estate	.	.	.	.	21 607	7 431	21 607	7 431
Investment properties	.	.	.	.	9 882	9 777	9 882	9 777
<b>Total real estate</b>	<b>.</b>	<b>.</b>	<b>.</b>	<b>.</b>	<b>36 419</b>	<b>22 049</b>	<b>36 419</b>	<b>22 049</b>
<b>Total</b>	<b>3 719 983</b>	<b>3 366 444</b>	<b>399 752</b>	<b>406 277</b>	<b>42 645</b>	<b>28 674</b>	<b>4 162 379</b>	<b>3 801 395</b>

Valuation uncertainty for the investment portfolio in total is somewhat higher at the end of the first quarter 2013 than at year-end because of significant new real estate investments. In the equities and fixed income asset classes valuation uncertainty is assessed as somewhat lower at the end of the quarter compared to at year-end. The level 3 bond holdings were reduced by NOK 1 billion in the quarter, which is due to sales of United States securitised bonds. This decrease of level 3 bond holdings was partly offset by an increase of level 3 equity holdings of approximately NOK 0.5 billion, which was due to value increases as well as suspended equities that have transferred to level 3 in the quarter.

External valuations are collected for the investments in the real estate asset class, and balance sheet carrying amounts are adjusted based on these, unless it is deemed that a recent transaction price is a better estimate of fair value. For all investments that were recognised in the balance sheet during the 4th quarter 2012 and 1st quarter 2013 the purchase price has been used as the best estimate of fair value as per the quarter-end. Valuations led on a total level to a small increase in value in the first quarter 2013 for investments where fair value has been adjusted. Valuation uncertainty is assessed to be mainly unchanged in the quarter. For additional 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	Market value in percent by country and currency		Market value in percent by asset class		Assets minus liabilities excluding management fee	
		31.03.2013	Market 31.12.2012	31.03.2013	31.12.2012	31.03.2013	31.12.2012
<b>Equities</b>	<b>Developed</b>	<b>90.0</b>	<b>Developed</b>	<b>90.1</b>			
	United States	30.0	United States	28.5			
	United Kingdom	15.4	United Kingdom	16.0			
	Switzerland	6.6	France	6.9			
	France	6.5	Switzerland	6.5			
	Germany	6.1	Germany	6.3			
	Total Other	25.3	Total Other	25.9			
	<b>Emerging</b>	<b>10.0</b>	<b>Emerging</b>	<b>9.9</b>			
	China	2.0	China	1.7			
	Brazil	1.4	Brazil	1.5			
	Taiwan	1.3	Taiwan	1.3			
	Russia	1.0	Russia	1.1			
	India	0.7	South Africa	0.7			
	Total Other	3.7	Total Other	3.6			
<b>Total Equities</b>					<b>62.4</b>	<b>61.2</b>	<b>2 609 102</b>
<b>Fixed income</b>	<b>Developed</b>	<b>89.4</b>	<b>Developed</b>	<b>98.5</b>			
	USD	38.3	USD	37.6			
	EUR	29.1	EUR	30.7			
	JPY	7.9	JPY	7.2			
	GBP	5.8	GBP	6.2			
	CAD	3.1	CAD	3.0			
	Total Other	5.3	Total Other	5.2			
	<b>Emerging</b>	<b>10.6</b>	<b>Emerging</b>	<b>10.2</b>			
	MXN	1.6	MXN	1.5			
	KRW	1.5	KRW	1.4			
	RUB	1.1	RUB	1.1			
	BRL	1.1	BRL	1.0			
	PLN	0.7	PLN	0.7			
	Sum andre	4.6	Total Other	4.4			
<b>Total Fixed Income</b>					<b>36.7</b>	<b>38.1</b>	<b>1 535 757</b>
<b>Real Estate</b>	<b>France</b>	<b>28.7</b>	<b>France</b>	<b>32.9</b>			
	United Kingdom	25.9	United Kingdom	31.7			
	Switzerland	17.4	Switzerland	24.2			
	United States	9.6					
	Germany	9.0					
	Total Other	9.4	Total Other	11.2			
<b>Total Real estate</b>					<b>0.9</b>	<b>0.7</b>	<b>36 708</b>
							<b>25 123</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							
	31.03.2013	Min 2013	Max 2013	Average 2013	31.12.2012	Min 2012	Max 2012	Average 2012
Portfolio	8,7	8,6	8,8	8,7	8,6	7,9	9,9	8,6
Equities	13,8	13,8	14,4	14,2	14,3	13,9	16,6	14,6
Fixed-income	8,8	8,5	8,8	8,6	8,6	8,6	10,4	8,9

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

	Expected relative volatility, basis points							
	31.03.2013	Min 2013	Max 2013	Average 2013	31.12.2012	Min 2012	Max 2012	Average 2012
Portfolio	53	43	54	47	48	31	57	43
Equities	56	33	56	39	37	32	61	41
Fixed-income	66	62	70	65	64	40	77	58

The models that are used in the calculation of the above information are explained in note 15 Risk in the 2012 annual report for the Government Pension Fund Global.

Risk as measured by expected volatility indicates a marginal increase for the portfolio in total year-to-date in 2013. Expected volatility for fixed income has increased somewhat while expected volatility for equities has decreased to 13.8 from 14.3 percent during the first quarter in 2013. This is mainly attributable to the model using three years' historical data, and based on low volatility in equity markets in the first quarter of 2013. The risk measure indicates that at the end of the quarter an annual value change of 8.7 percent, or approximately NOK 360 billion, may 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 portfolio's distribution on different credit rating categories.

**Table 8.4: The bond portfolio specified by credit rating**

Figures in NOK million, 31 March 2013	AAA	AA	A	BBB	Lower rating	Total
Government bonds	583 679	184 673	29 309	118 655	29	916 344
Government related bonds	89 970	45 262	9 839	18 304	3 032	166 407
Inflation-linked bonds	17 299	1 602	164	7 055		26 120
Corporate bonds	423	16 760	101 130	84 106	3 037	205 456
Securitised bonds	118 735	9 101	42 481	20 547	2 664	193 528
<b>Total bonds and other fixed income instruments</b>	<b>810 106</b>	<b>257 397</b>	<b>182 923</b>	<b>248 666</b>	<b>8 762</b>	<b>1 507 855</b>

<i>Figures in NOK million, 31 December 2012</i>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Lower rating</b>	<b>Total</b>
Government bonds	533 495	187 356	35 158	97 841	25	853 876
Government related bonds	88 803	46 689	9 740	18 082	3 103	166 418
Inflation-linked bonds	29 743	4 508	229	7 275	-	41 755
Corporate bonds	404	16 258	94 819	82 143	2 816	196 440
Securitised bonds	111 639	15 922	42 763	19 030	4 665	194 018
<b>Total bonds and other fixed income instruments</b>	<b>764 084</b>	<b>270 733</b>	<b>182 709</b>	<b>224 372</b>	<b>10 609</b>	<b>1 452 507</b>

Holdings of bonds categorised as BBB increased somewhat compared to year-end 2012. This is largely due to a combination of purchases of bonds in emerging markets together with the downgrading of government bonds issued by authorities in South-Africa from A to BBB. At the same time holdings of AAA government bonds increased somewhat so that the credit quality of the bond portfolio is relatively unchanged since year-end.

### 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**

<i>Amounts in NOK million, 31 March 2013</i>	<b>Carrying amount adjusted for collateral</b>	<b>Gross exposure</b>	<b>Effect of netting</b>	<b>Collateral and guarantees</b>	<b>Net exposure</b>
Time deposits and unsecured bank deposits	8 759	5 329	-	-	5 329
OTC derivatives including foreign exchange contracts	-1 092	3 283	333	1 747	1 203
Repurchase and reverse repurchase agreements*	-1 610	843	71	-	771
Securities lending transactions**	-13 764	26 105	-	15 788	10 316
Bonds posted as collateral for futures trades	1 396	1 466	-	-	1 466
<b>Total</b>		<b>37 027</b>	<b>404</b>	<b>17 536</b>	<b>19 087</b>

<i>Amounts in NOK million, 31 December 2012</i>	<b>Carrying amount adjusted for collateral</b>	<b>Gross exposure</b>	<b>Effect of netting</b>	<b>Collateral and guarantees</b>	<b>Net exposure</b>
Time deposits and unsecured bank deposits	5 864	5 754	-	-	5 754
OTC derivatives including foreign exchange contracts	-1 283	3 407	626	1 517	1 264
Repurchase and reverse repurchase agreements*	-89	927	5	-	923
Securities lending transactions**	-6 255	16 285	-	8 834	7 450
Bonds posted as collateral for futures trades	1 301	1 386	-	-	1 386
<b>Total</b>		<b>27 759</b>	<b>631</b>	<b>10 351</b>	<b>16 777</b>

\* The column Carrying amount adjusted for collateral takes into account all positions in the repo 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.

Table 8.5 shows counterparty risk by type of position as at 31 March 2013. Counterparty risk has increased some since year-end 2012, mainly as a result of increased securities lending. This is because of seasonal fluctuations.

## NOTE 9 RETURNS PER ASSET CLASS

<i>All figures in percentages</i>	<b>1Q 2013</b>	<b>1Q 2012</b>
<b>Returns in international currency</b>		
Return on equity investments	8.25	10.99
Return on fixed-income investments	1.06	1.58
Return on real estate investments	-0.34	2.18
Return on fund	5.45	7.11
Return on equity and fixed-income investments	5.49	7.13
Return on benchmark equity and fixed-income indices	5.16	6.87
Relative return on equity and fixed-income investments	0.32	0.27
Relative return on equity investments	0.32	0.33
Relative return on fixed-income investments	0.22	0.11
<b>Returns measured in kroner</b>		
Return on equity investments	10.83	7.49
Return on fixed-income investments	3.46	-1.63
Return on real estate investments	2.03	-1.04
Return on fund	7.96	3.74
Return on equity and fixed-income investments	8.00	3.76

Returns in the table above are a reproduction of return information in table 1-8 in the quarterly report chapter Fund Management. Norges Bank uses a time-weighted monthly rate of return methodology in the return calculations. The fair value of holdings is determined on the day of cash-flows into and out of the asset classes and interim returns are geometrically linked. All returns are calculated net of non-reclaimable withholding taxes on dividends, interest and capital gains. Withholding taxes are recognised when incurred. Interest income and dividends are recognized when accrued. Performance is reported in terms of an international currency basket following from the investment portfolio's benchmark index, as well as in Norwegian kroner, where the currency basket is weighted based on the currency composition of the equities and fixed income benchmark indices. Returns on the benchmark indices for equities and fixed income are calculated as the geometrical difference between the fund's returns measured in Norwegian kroner and the return of the currency basket. Returns on the benchmark indices for equities and fixed income are calculated by weighting the monthly returns of the benchmark portfolio for equities and fixed income respectively with actual ingoing markets capitalization weights for the month.

**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 comprise the balance sheet as at March 31, 2013, 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, 24 April 2013

**Deloitte AS**

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

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