

1Q|19

Government Pension Fund Global

Quarterly report
2019

First quarter 2019 in brief

9.1%

738 billion kroner

The Government Pension Fund Global returned **9.1** percent, or **738** billion kroner, in the first quarter of 2019.



**Equity
investments**

—
12.2%



**Unlisted real estate
investments**

—
1.7%



**Fixed-income
investments**

—
2.9%

The fund's equity investments returned **12.2** percent.
Investments in unlisted real estate returned **1.7** percent.
Fixed-income investments returned **2.9** percent.

The return on the fund's investments was **0.2** percentage point higher
than the return on the reference index the fund is measured against.

8,938

billion kroner

The fund had a market value of **8,938** billion kroner at the end of the quarter and was invested **69.2** percent in equities, **2.8** percent in unlisted real estate and **28.0** percent in fixed income.



**Equity
investments**

69.2%



**Unlisted real estate
investments**

2.8%



**Fixed-income
investments**

28.0%

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Norges Bank Investment Management manages the Government Pension Fund Global.

Our mission is to safeguard and build financial wealth for future generations.

Investments

Equities

Equity investments, which accounted for 69.2 percent of the fund at the end of the quarter, returned 12.2 percent. Equity markets recovered in the first quarter after a weak finish to 2018, with a positive return in all sectors. The prospect of a lower interest rate path than previously expected from the Federal Reserve and reduced concern about the trade conflict between China and the US contributed to this positive performance.

Strongest return in North America

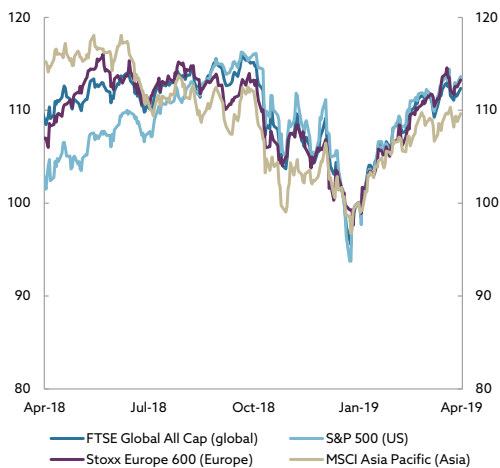
North American stocks returned 14.6 percent and amounted to 41.4 percent of the equity portfolio. US stocks, which were the fund's single-largest market with 39.2 percent of its equity investments, returned 14.5 percent, or 14.2 percent in local currency.

European shares returned 11.1 percent and accounted for 33.3 percent of the fund's equities. The UK, which was the fund's largest European market with 9.0 percent of its equity investments, returned 11.8 percent, or 8.9 percent in local currency.

Stocks in Asia and Oceania returned 10.3 percent and made up 22.3 percent of the fund's equity investments. Japanese stocks returned 7.1 percent, or 7.8 percent in local currency, and amounted to 8.5 percent of equity investments.

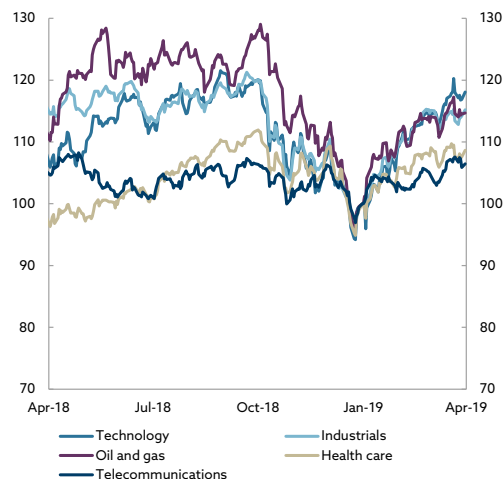
Emerging markets returned 12.3 percent and accounted for 11.3 percent of the equity portfolio. The Chinese stock market, home to 4.0 percent of the fund's equity investments, returned 20.3 percent.

Chart 1 Price developments in regional equity markets. Measured in US dollars, except for the Stoxx Europe 600, which is measured in euros. Indexed total return 31.12.2018 = 100



Source: Bloomberg

Chart 2 Price developments in equity sectors of the FTSE Global All Cap Index. Measured in US dollars. Indexed total return 31.12.2018 = 100



Source: FTSE Russell

Tech stocks perform best

Technology stocks were the strongest performers, returning 17.6 percent on the back of stronger sales growth at internet and software companies, and an expectation that semiconductor producers are nearing the end of a cyclical downturn.

Oil and gas and industrials both returned 14.1 percent. The strong performance by oil and gas stocks was boosted by higher oil prices, due partly to the prospect of production cuts from OPEC and Russia and decreased output in Venezuela due to political unrest.

The positive return on industrial stocks was driven by expectations of a resolution to the trade conflict between China and the US, and the slowdown in the global economy not worsening.

All sectors made gains in the first quarter. Telecoms were the weakest performers, returning 5.9 percent. Companies in this sector are less sensitive to cyclical variations and global trade fears than those in other sectors. European telecom stocks were hit by disappointing sales growth.

Table 1 Return on the fund's equity investments in first quarter 2019 by sector. Measured in international currency. Percent

Sector	Return	Share of equity investments ¹
Financials	10.6	23.4
Technology	17.6	13.4
Industrials	14.1	13.1
Consumer goods	11.6	12.0
Health care	9.8	11.0
Consumer services	12.2	10.7
Oil and gas	14.1	5.9
Basic materials	11.2	4.7
Telecommunications	5.9	2.8
Utilities	10.8	2.8

¹ Does not sum up to 100 percent because cash and derivatives are not included.

Table 2 The fund's largest equity holdings as at 31 March 2019. Millions of kroner

Company	Country	Holding
Apple Inc	US	76,055
Microsoft Corp	US	75,801
Alphabet Inc	US	65,883
Amazon.com Inc	US	65,194
Nestlé SA	Switzerland	63,788
Royal Dutch Shell PLC	UK	51,891
Roche Holding AG	Switzerland	44,760
Novartis AG	Switzerland	44,551
Facebook Inc	US	36,381
Berkshire Hathaway Inc	US	34,839

Individual stocks

The investment in technology company Apple Inc made the most positive contribution to the return in the first quarter, followed by technology company Microsoft Corp and consumer services company Amazon.com Inc. The investments that made the most negative contributions were in pharmaceutical firm AbbVie Inc, bank Swedbank AB and consumer services company CVS Health Corp.

The fund participated in 18 initial public offerings in the quarter. The largest was at consumer services company Lyft Inc, followed by consumer goods company Levi Strauss & Co and health care company CStone Pharmaceuticals Co Ltd. The offerings in which the fund invested the most were Lyft Inc, Levi Strauss & Co and the technology company Weimob Inc.

RETURNS MEASURED IN INTERNATIONAL CURRENCY

The fund invests in international securities in foreign currency. The fund's returns are generally measured in international currency – a weighted composition of the currencies in the fund's reference 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 2019. Unless otherwise stated in the text, results are measured in this currency basket.

Real estate

Total real estate investments amounted to 3.8 percent at the end of the first quarter and returned 4.9 percent. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

Unlisted real estate investments made up 72.8 percent of the overall real estate portfolio and returned 1.7 percent. The return on unlisted real estate investments depends on rental income, operating costs, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases and sales. Measured in local currency, rental income net of operating costs made a

positive contribution of 0.9 percentage point to the return in the first quarter, while changes in the value of properties and debt contributed 0.6 percentage point, and currency movements contributed 0.2 percentage point.

In January, the fund announced the acquisition of six logistics properties in Chicago, Nashville and Orlando in partnership with Prologis, paying 87.7 million dollars for a 45 percent stake.

Listed real estate made up 27.2 percent of the overall real estate portfolio at the end of the quarter and returned 14.5 percent.

Table 3 Value of real estate investments as at 31 March 2019. Millions of kroner

	Value ¹
Unlisted real estate investments	247,213
Listed real estate investments	92,414
Total real estate investments	339,627

¹ Including bank deposits and other receivables.

Table 4 Return on unlisted real estate investments in first quarter 2019

	Return
Rental income (percentage points)	0.9
Changes in value (percentage points)	0.6
Transaction costs (percentage points)	0.0
Result of currency adjustments (percentage points)	0.2
Total (percent)	1.7

Fixed income

Fixed-income investments accounted for 28.0 percent of the fund at the end of the first quarter and returned 2.9 percent. Bond prices were pushed up by a shift towards more dovish signals on future monetary policy from many central banks.

Strongest return on UK gilts

Government bonds accounted for 53.9 percent of the fund's fixed-income investments at the end of the quarter and returned 2.5 percent. The fund's three largest holdings were of US, Japanese and German government bonds.

US Treasuries returned 2.5 percent, or 2.2 percent in local currency, and accounted for 22.3 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. The Federal Reserve has announced that it does not plan to raise interest rates further in 2019 and intends to reduce its asset sales gradually and bring them to a close in September.

Euro-denominated government bonds represented 10.5 percent of the fund's fixed-income investments and returned 1.3 percent, or 2.8 percent in local currency. The European Central Bank has ruled out an increase in interest rates this year and will also be launching a third support package for European banks.

Table 5 Return on the fund's fixed-income investments in first quarter 2019 by sector. Measured in international currency. Percent

Sector	Return	Share of fixed-income investments ¹
Government bonds ²	2.5	53.9
Government-related bonds ²	2.5	13.6
Inflation-linked bonds ²	2.8	5.3
Corporate bonds	4.2	22.9
Securitised bonds	-0.1	5.5

¹ Does not sum up to 100 percent because cash and derivatives are not included.

² Governments may issue different types of bonds, and the fund's investments in these bonds are grouped accordingly. Bonds issued by a country's government in the country's own currency are categorised as government bonds. Bonds issued by a country's government in another country's currency are government-related bonds. Inflation-linked bonds issued by governments are grouped with inflation-linked bonds.

Table 6 The fund's largest bond holdings as at 31 March 2019. Millions of kroner

Issuer	Country	Holding
United States of America	US	644,189
Japanese government	Japan	180,401
Federal Republic of Germany	Germany	93,120
UK government	UK	54,830
French Republic	France	52,059
South Korean government	South Korea	47,636
Spanish government	Spain	42,960
Mexican government	Mexico	41,655
Italian Republic	Italy	34,123
Kreditanstalt für Wiederaufbau	Germany	30,823

UK gilts accounted for 2.2 percent of the fund's fixed-income investments and returned 6.5 percent, or 3.8 percent in local currency. The pound strengthened despite the UK's plans to leave the EU being postponed and there still being considerable uncertainty in this area at the end of the quarter.

Japanese government bonds amounted to 7.0 percent of the fund's fixed-income investments and returned 0.2 percent, or 0.8 percent in local currency. The fall in yields was less pronounced in Japan due to ten-year yields staying close to zero as part of monetary policy.

The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau, the European Investment Bank and Canada Mortgage & Housing Corp. These

bonds returned 2.5 percent and accounted for 13.6 percent of fixed-income investments.

Corporate bonds returned 4.2 percent and made up 22.9 percent of fixed-income investments at the end of the period. This strong return was due to a marked decline in the credit premium during the quarter, as well as the general decrease in yields in the government bond market.

Securitised bonds, consisting mainly of covered bonds denominated in euros, returned -0.1 percent and made up 5.5 percent of fixed-income holdings.

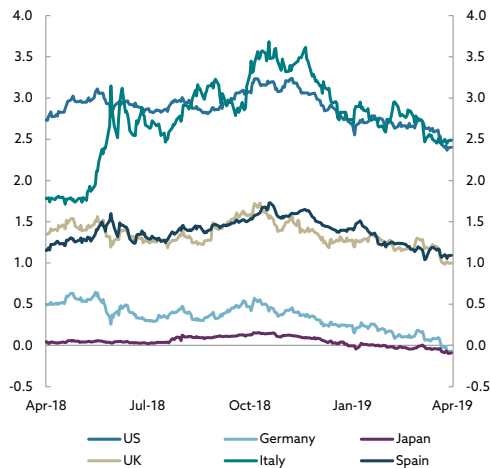
Inflation-linked bonds returned 2.8 percent and accounted for 5.3 percent of the fund's fixed-income investments.

Chart 3 Price developments for bonds issued in various currencies. Measured in local currency. Indexed total return 31.12.2018 = 100



Source: Bloomberg Barclays Indices

Chart 4 10-year government bond yield development. Percent



Source: Bloomberg

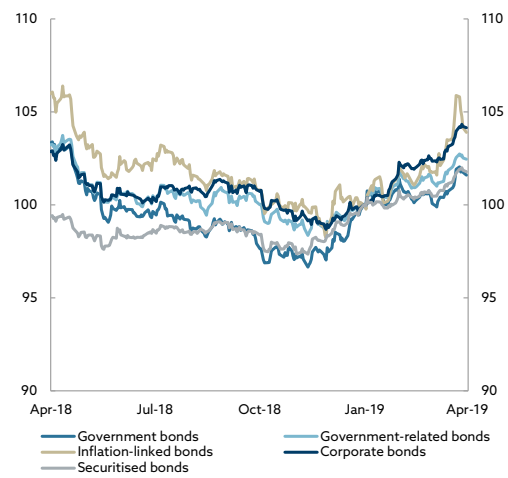
Changes in fixed-income holdings

Investments in dollars, euros, pounds and yen amounted to 82.6 percent of the fixed-income investments at the end of the quarter, unchanged from the start of the quarter.

The market value of investments in bonds denominated in emerging-market currencies fell from 8.2 to 8.1 percent of total fixed-income investments.

The biggest increases in government bond holdings in the first quarter were in US, South Korean and French bonds. The biggest decreases were in bonds from Japan, Germany and the UK.

Chart 5 Price developments in fixed-income sectors. Measured in US dollars. Indexed total return 31.12.2018 = 100



Source: Bloomberg Barclays Indices

Table 7 The fund's bond holdings as at 31 March 2019 based on credit ratings. Percent

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	28.9	7.0	11.7	4.0	1.7	53.3
Government-related bonds	5.9	5.1	1.7	0.6	0.0	13.4
Inflation-linked bonds	4.1	0.6	0.2	0.2	0.0	5.2
Corporate bonds	0.2	1.7	8.6	11.7	0.3	22.6
Securitised bonds	4.5	0.8	0.1	0.0	0.0	5.5
Total	43.7	15.3	22.3	16.6	2.1	100.0

Management

We aim to leverage the fund's long-term investment horizon and considerable size to generate high returns and secure wealth for future generations.

The return on the fund is measured against a reference index set by the Ministry of Finance, which consists of a subindex for equities and a subindex for bonds. The reference index serves as a general limit for market and currency risk in the management of the fund and as a yardstick for market indices and the fund's return. The equity subindex is based on FTSE Russell's Global All Cap stock index. The bond subindex is based on indices from Bloomberg Barclays Indices.

The overall return on the fund in the first quarter was 0.18 percentage point higher than the return on the reference index from the Ministry of Finance.

The fund invests in listed equities, bonds and unlisted real estate. When we buy real estate, we sell bonds and equities at a ratio that keeps the currency risk unchanged. Separate benchmark indices are therefore set for equity and fixed-income management that are adjusted for the bonds and equities sold to finance the real estate management. This permits a comprehensive approach to risk management for the fund. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

The relative return is broken down into equity, fixed-income and real estate management, and an allocation effect between them.

Equity management generated 0.20 percentage point of the fund's relative return. Financials and consumer goods were the sectors that made the most positive contributions to the relative return, while consumer services made the most negative contribution. Broken down by country,

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

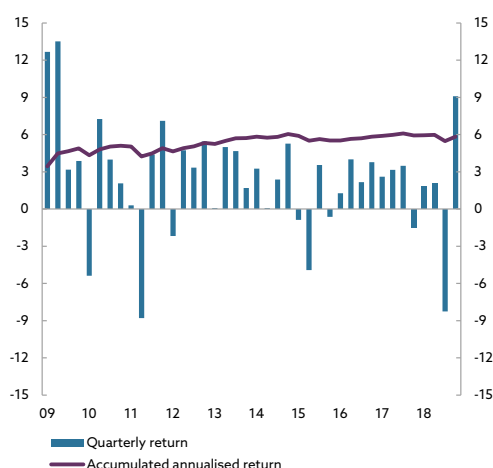
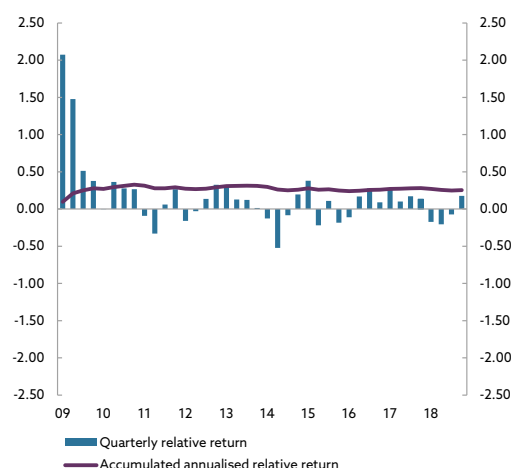


Chart 7 The fund's quarterly relative return and accumulated annualised relative return. Calculations based on aggregated equity and fixed-income investments until end of 2016. Percentage points



equity investments in China and the US made the most positive contributions to the relative return, while Australian stocks the most negative.

Fixed-income management contributed 0.02 percentage point to the fund's relative return. The fund is more heavily invested than the reference index in emerging markets such as Indonesia, Brazil and South Africa, which made a positive contribution to the relative return in the first quarter. A lower weight of corporate bonds than in the reference index made a negative contribution.

Real estate management contributed -0.06 percentage point to the fund's relative return, measured against the equities and bonds sold to finance the real estate investments. Unlisted real estate investments were responsible for the

negative relative return, while listed investments made a positive contribution.

The relative return is also affected by an allocation effect between these management areas. In the first quarter, the contribution from this effect was 0.01 percentage point.

The fund's relative return can also be broken down by asset class, with listed real estate investments included in equity investments, and unlisted real estate investments measured against the reference index from the Ministry of Finance. Decomposed in this way, equity investments contributed 0.22 percentage point to the fund's relative return, fixed-income investments 0.02 percentage point and unlisted real estate investments -0.21 percentage point. The allocation effect between asset classes was 0.15 percentage point.

Table 8 Contributions from management areas to the fund's relative return in first quarter 2019. Percentage points

	Total
Equity management	0.20
Fixed-income management	0.02
Real estate management	-0.06
Allocation effect	0.01
Total	0.18

Risk

The fund's market risk is determined by the composition of its investments and by movements in share prices, exchange rates, interest rates, credit risk premiums and property values. As no single measure or analysis can fully capture the fund's market risk, we use a variety of measures and analyses – including expected volatility, factor exposures, concentration analysis and liquidity risk – to gain the broadest possible picture of this 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 investments can normally be expected to fluctuate. The fund's expected absolute volatility was 7.9 percent, or about 710 billion kroner, at

the end of the first quarter, compared with 8.6 percent at year-end 2018. The decrease was due mainly to lower volatility in equity markets.

We invest in real estate to create a more diversified portfolio. We expect real estate investments to have a different return profile to equities and bonds in both the short and the longer term. The relative risk that this entails will impact on calculations of the fund's expected relative volatility. As daily pricing is not available for our real estate investments, we use a model from MSCI to calculate the risk for the fund's unlisted real estate investments.

The Ministry of Finance and Norges Bank's Executive Board have set limits for how far the fund's investments may deviate from the reference index. One of these limits is expected

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

Limits set by the Ministry of Finance		31.03.2019
Allocation	Equity portfolio 50–80 percent of fund's market value ¹	69.0
	Unlisted real estate no more than 7 percent of the fund's market value	2.8
	Fixed-income portfolio 20–50 percent of fund's market value ¹	28.2
Market risk	1.25 percentage points expected relative volatility for the fund's investments	0.3
Credit risk	Maximum 5 percent of fixed-income investments may be rated below BBB-	2.1
Ownership	Maximum 10 percent of voting shares in a listed company in the equity portfolio ²	9.6

¹ Derivatives are represented with their underlying economic exposure.

² Investments in listed and unlisted real estate companies are exempt from this restriction.

relative volatility, which puts a ceiling on how much the return on the fund's investments can be expected to deviate from the return on the reference index. All of the fund's investments, including unlisted real estate, are included in the calculation of expected relative volatility and measured against the fund's reference index, which consists of global equity and bond indices. The limit for expected relative volatility for the fund is 1.25 percentage points. The actual level was 0.31 percentage point at the end of the quarter.

The Executive Board has also set a limit for expected shortfall on the relative return between the fund and the reference index. The fund is to be managed in such a way that the expected negative relative return in extreme situations

does not exceed 3.75 percentage points. The actual level was 1.45 percentage points at the end of the quarter.

Operational risk management

Norges Bank's Executive Board sets limits for operational risk management and internal controls at Norges Bank Investment Management. It has decided there must be less than a 20 percent probability that operational risk factors will have a financial impact of 750 million kroner or more over a 12-month period, referred to as the Executive Board's risk tolerance.

Each quarter, Norges Bank Investment Management estimates the size of potential losses or gains arising over the next year

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

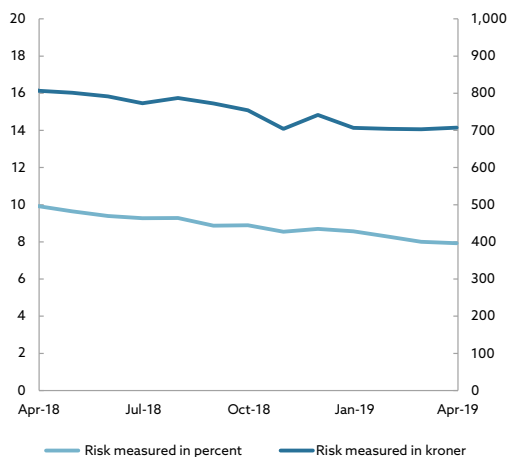
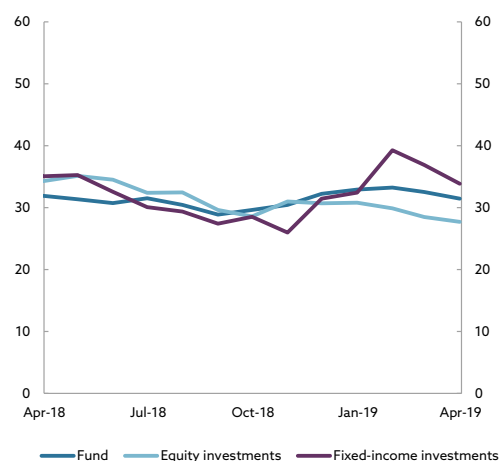


Chart 9 Expected relative volatility of the fund. Basis points



because of unwanted operational events related to its investment management activities. The estimate is based on past events and an assessment of future risks, and represents the fund's estimated operational risk exposure. Estimated operational risk exposure remained within the Executive Board's tolerance limit in the first quarter. A total of 79 unwanted operational events were registered in the quarter, with an estimated financial impact of 17.9 million kroner.

The Ministry of Finance has issued rules on the fund's management and is to be informed of any significant breaches of the specified limits. No such breaches were registered during the quarter, and we did not receive any notifications from local supervisory authorities of any significant breaches of market rules or general legislation.

Responsible investment

Responsible investment supports the fund's objective in two ways. First, we seek to improve the long-term economic performance of our investments. Second, we seek to reduce the financial risks associated with the environmental and social practices of companies in our portfolio. We therefore consider governance and sustainability issues that could have an impact on the fund's performance over time. We integrate these issues into our work on standard setting, our long-term ownership and our investing.

Setting standards

We participated in seven public consultations related to responsible investment during the quarter.

The EU and Canada held consultations on measures to ensure a more sustainable financial system. We expect companies to integrate relevant challenges and opportunities into their business and risk management. We expressed support for the European Commission's technical expert group working on the taxonomy of sustainable business. We stressed that the taxonomy should build on existing standards where appropriate and be flexible enough to accommodate technological advances.

A CEO's pay should provide an incentive to create long-term value for the company. We expressed support for the European Commission's work on standardising reporting on remuneration to make it easier for investors to understand and compare what CEOs are paid.

The OECD consulted on the taxation of the digital economy. As a global investor, we emphasised the need for solutions that bring predictability and a level playing field for companies across markets. We also responded to the Global Reporting Initiative's draft standard on the public disclosure of tax and other payments to governments. Among others, we supported the proposal for companies to publish their tax management policies.

As an investor, we attach importance to timely and accurate corporate reporting, including on governance and sustainability. In a letter to another of the European Commission's technical expert groups, we expressed support for the group's proposals for more accurate, material and comparable corporate reporting on climate risks and opportunities. Based partly on the group's proposals, the Commission held a consultation on changes to its guidelines on non-financial reporting. One change proposed by the Commission is consolidating the disclosure categories, as recommended by the expert group. We expressed our support for this simplification.

Exercising ownership

Voting is one of the most important instruments available to us for exercising our ownership rights. We voted at 1,726 general meetings in the first quarter, considering and voting on a total of 14,548 proposals.

We had 1,023 meetings with companies during the quarter and raised governance or sustainability issues at 57 percent of these meetings. The most important issues we raised were climate change, board composition and executive pay.

Observation and exclusion

Norges Bank published decisions during the quarter to exclude four companies from the Government Pension Fund Global.

Halcyon Agri Corp Ltd was excluded due to an unacceptable risk of the company being responsible for severe environmental damage, Texwinca Holdings Co due to an unacceptable risk of serious or systematic violations of human rights, and Evergy Inc and Washington H Soul Pattinson & Co Ltd on the basis of an assessment against the product-based coal criterion.

Key figures

Table 10 Return figures. Measured in the fund's currency basket. Percent

	1Q 2019	4Q 2018	3Q 2018	2Q 2018	1Q 2018
Equity investments	12.22	-12.63	3.15	2.70	-2.22
Unlisted real estate investments	1.72	1.08	1.89	1.85	2.50
Fixed-income investments	2.87	1.28	-0.33	-0.02	-0.37
Return on fund	9.10	-8.26	2.05	1.83	-1.53
Relative return on fund (percentage points)	0.18	-0.07	-0.21	-0.17	0.13
Management costs	0.01	0.01	0.01	0.01	0.02
Return on fund after management costs	9.08	-8.27	2.04	1.82	-1.55

Table 11 Historical key figures as at 31 March 2019. Annualised data, measured in the fund's currency basket

	Since 01.01.1998	Last 15 years	Last 10 years	Last 5 years	Last 12 months
Fund return (percent)	5.84	6.19	9.81	6.23	4.01
Annual price inflation (percent)	1.77	1.87	1.72	1.34	1.61
Annual management costs (percent)	0.08	0.08	0.07	0.06	0.06
Net real return on fund (percent)	3.91	4.16	7.88	4.76	2.31
The fund's actual standard deviation (percent)	7.41	7.97	7.61	6.65	9.41
Relative return on fund (percentage points) ¹	0.25	0.17	0.65	0.07	-0.30
The fund's actual tracking error (percentage points) ¹	0.68	0.76	0.55	0.35	0.32
The fund's information ratio (IR) ^{1,2}	0.40	0.26	1.11	0.19	-0.88

¹ Based on aggregated equity and fixed-income investments until end of 2016.

² The fund's information ratio (IR) is the ratio of the fund's average monthly relative return to the fund's actual tracking error. The IR indicates how much relative return has been achieved per unit of relative risk.

Table 12 Key figures. Billions of kroner

	1Q 2019	4Q 2018	3Q 2018	2Q 2018	1Q 2018
Market value					
Equity investments	6,186	5,477	5,732	5,566	5,376
Unlisted real estate investments	247	246	226	220	217
Fixed-income investments	2,505	2,533	2,520	2,551	2,532
Market value of fund ¹	8,938	8,256	8,478	8,337	8,124
Accrued, not paid, management fees ¹	-1	-5	-4	-3	-1
Owner's capital ¹	8,937	8,251	8,474	8,335	8,123
Changes in value since first capital inflow in 1996					
Inflow/withdrawal of capital ²	8	29	12	-2	-6
Paid management fees ²	-5	0	0	0	-5
Return on fund	738	-655	174	167	-171
Changes due to fluctuations in krone	-60	405	-46	47	-183
Total change in market value	682	-222	140	213	-364
Changes in value since first capital inflow in 1996					
Total inflow of capital ³	3,376	3,371	3,341	3,328	3,328
Return on equity investments	3,203	2,545	3,234	3,059	2,892
Return on unlisted real estate investments	73	69	66	62	58
Return on fixed-income investments	1,128	1,052	1,021	1,027	1,031
Management fees ⁴	-45	-44	-43	-42	-41
Changes due to fluctuations in krone	1,203	1,263	858	904	857
Market value of fund	8,938	8,256	8,478	8,337	8,124
Return on fund	4,404	3,666	4,321	4,147	3,980
Return after management costs	4,359	3,622	4,278	4,105	3,939

¹ The fund's market value shown in this table does not take into account the management fee. Owner's capital in the financial statements equals the fund's market value less accrued, not paid, management fees.

² Paid management fees are specified separately, and not included in Inflow/withdrawal of capital.

³ Total inflow of capital shown in this table is adjusted for accrued, not paid, management fees.

⁴ Management costs in subsidiaries, see Table 10.2 in the financial reporting section, are not included in the management fees. Management costs in subsidiaries have been deducted from the fund's return before management fees.

Financial reporting

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Income statement

Amounts in NOK million	Note	1Q 2019	1Q 2018	2018
Profit/loss on the portfolio before foreign exchange gain/loss				
Income/expense from:				
- Equities	4	663 685	-169 981	-517 214
- Bonds	4	71 891	-6 303	14 568
- Unlisted real estate	6	3 395	4 808	16 421
- Financial derivatives	4	774	932	2 819
- Secured lending		1 160	1 321	4 733
- Secured borrowing		-530	-404	-1 466
Tax expense		-2 040	-940	-5 050
Interest income/expense		18	2	10
Other income/expense		-	3	-13
Profit/loss on the portfolio before foreign exchange gain/loss		738 353	-170 562	-485 192
Foreign exchange gain/loss	9	-59 836	-182 666	223 611
Profit/loss on the portfolio		678 517	-353 229	-261 581
Management fee	10	-1 215	-1 370	-4 544
Profit/loss and total comprehensive income		677 303	-354 598	-266 126

Balance sheet

Amounts in NOK million	Note	31.03.2019	31.12.2018
Assets			
Deposits in banks		14 996	11 561
Secured lending		212 044	216 768
Cash collateral posted		186	1 806
Unsettled trades		55 075	13 767
Equities	5	5 601 728	5 048 647
Equities lent	5	589 175	437 651
Bonds	5	2 108 152	1 996 929
Bonds lent	5	426 703	662 920
Financial derivatives	5	4 220	3 576
Unlisted real estate	6	245 237	243 818
Other assets		3 722	3 448
Total assets		9 261 238	8 640 892
Liabilities and owner's capital			
Secured borrowing		229 716	360 105
Cash collateral received		5 856	5 017
Unsettled trades		85 232	15 565
Financial derivatives	5	2 296	4 222
Other liabilities		419	37
Management fee payable	10	1 215	4 544
Total liabilities		324 734	389 491
Owner's capital		8 936 504	8 251 401
Total liabilities and owner's capital		9 261 238	8 640 892

Statement of cash flows

Amounts in NOK million, receipt (+) / payment (-)	Note	Year-to-date 31.03.2019	Year-to-date 31.03.2018	2018
Operating activities				
Receipts of dividend from equities		32 146	25 092	146 082
Receipts of interest from bonds		17 794	17 266	70 360
Receipts of interest and dividend from unlisted real estate	6	1 162	1 048	5 822
Net receipts of interest and fee from secured lending and borrowing		379	868	3 330
<i>Receipts of dividend, interest and fee from holdings of equities, bonds and unlisted real estate</i>		<i>51 481</i>	<i>44 273</i>	<i>225 594</i>
Net cash flow from purchase and sale of equities		-106 308	-24 632	-345 478
Net cash flow from purchase and sale of bonds		159 020	-13 716	36 052
Net cash flow to investments in unlisted real estate	6	-375	493	-8 638
Net cash flow financial derivatives		-1 941	4 284	11 494
Net cash flow cash collateral related to derivative transactions		2 975	-1 656	-1 685
Net cash flow secured lending and borrowing		-102 350	2 642	59 834
Net payment of taxes		-2 610	-872	-4 343
Net cash flow related to interest on deposits in banks and bank overdraft		11	-	-14
Net cash flow related to other income/expense, other assets and other liabilities		-236	66	263
Management fee paid to Norges Bank ¹	10	-4 544	-	-4 728
Net cash inflow/outflow from operating activities		-4 878	10 882	-31 650
Financing activities				
Inflow from the Norwegian government ²		8 583	-	42 320
Withdrawal by the Norwegian government ²		-	-6 399	-9 799
Net cash inflow/outflow from financing activities		8 583	-6 399	32 520
Net change deposits in banks				
Deposits in banks at 1 January		11 561	11 027	11 027
Net increase/decrease of cash in the period		3 705	4 482	870
Net foreign exchange gain/loss on cash		-270	2 065	-336
Deposits in banks at end of period		14 996	17 574	11 561

¹ Management fee shown in the *Statement of cash flows* for a period is the settlement of the fee that was accrued and expensed in the previous year. The accrued management fee for 2018 was withdrawn from the krone account and settled in the first quarter of 2019. The accrued management fee for 2017 was withdrawn from the krone account in the first quarter of 2018, but was unsettled as at 31 March 2018.

² Inflows/withdrawals included here only represent transfers that have been settled in the period. Inflows/withdrawals in the *Statement of changes in owner's capital* are based on accrued inflows/withdrawals.

Statement of changes in owner's capital

Amounts in NOK million	Inflows from owner	Retained earnings	Total owner's capital
1 January 2018	3 332 540	5 151 187	8 483 727
Profit/loss and total comprehensive income	-	-354 598	-354 598
Withdrawal during the period ¹	-6 000	-	-6 000
31 March 2018	3 326 540	4 796 589	8 123 128
1 April 2018	3 326 540	4 796 589	8 123 128
Profit/loss and total comprehensive income	-	88 472	88 472
Inflow during the period	43 200	-	43 200
Withdrawal during the period	-3 400	-	-3 400
31 December 2018	3 366 340	4 885 061	8 251 401
1 January 2019	3 366 340	4 885 061	8 251 401
Profit/loss and total comprehensive income	-	677 303	677 303
Inflow during the period ¹	7 800	-	7 800
31 March 2019	3 374 140	5 562 364	8 936 504

¹ In the first quarter, of 2019 there was an inflow to the krone account of NOK 7.8 billion. Of this, NOK 4.5 billion was used to pay the accrued management fee for 2018 and NOK 3.3 billion was transferred to the investment portfolio. In the first quarter of 2018, there was a withdrawal from the krone account of NOK 10.7 billion. Of this, NOK 4.7 billion was used to pay the accrued management fee for 2017.

Notes to the financial reporting

Note 1 General information

Introduction

Norges Bank is Norway's central bank. Norges bank manages the Government Pension Fund Global (GPFG) on behalf of the Ministry of Finance, in accordance with section 2, second paragraph of the Government Pension Fund Act and the management mandate for the GPFG issued by the Ministry of Finance.

The GPFG shall support government saving to finance future expenditure and underpin long-term considerations relating to the use of Norway's petroleum revenues. The Norwegian Parliament has established the legal framework in the Government Pension Fund Act, and the Ministry of Finance has formal responsibility for the fund's management. The Executive Board of Norges Bank has delegated day-to-day management of the GPFG to Norges Bank Investment Management (NBIM).

The Ministry of Finance has placed funds for investment in the GPFG in the form of a Norwegian krone deposit with Norges Bank (the

krone account). Norges Bank manages the krone account in its own name by investing the funds in an investment portfolio consisting of equities, fixed-income securities and real estate. The GPFG is invested in its entirety outside of Norway.

Transfers are made to and from the krone account in accordance with the management mandate for the GPFG. When the Norwegian State's petroleum revenue exceeds the use of petroleum revenue in the fiscal budget, deposits will be made into the krone account. In the opposite situation, withdrawals will be made. Transfers to and from the krone account lead to a corresponding change in *Owner's capital*.

Approval of the quarterly financial statements

The quarterly financial statements of Norges Bank for the first quarter of 2019, which only encompass the financial reporting for the GPFG, were approved by the Executive Board on 26 April 2019.

Note 2 Accounting policies

Basis of preparation

The *regulation on the financial reporting of Norges Bank (the regulation)*, which has been laid down by the Ministry of Finance, requires that the financial reporting of the GPFG is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The condensed interim financial reporting for the first quarter of 2019 is prepared in accordance with IAS 34 *Interim Financial Reporting*, subject to the exemptions and additions specified in the regulation. The quarterly financial statements are presented in Norwegian kroner (NOK), rounded to the nearest million kroner. Rounding differences may occur.

Except as described below, the quarterly financial statements are prepared using the same accounting policies and calculation methods as applied and disclosed in the annual report for 2018. The condensed interim financial reporting does not include all the information and disclosures required in annual financial statements and should therefore be read in conjunction with the annual report for 2018.

IFRS 16 *Leases* was implemented by Norges Bank on 1 January 2019. IFRS 16 regulates the recognition of lease agreements and related note disclosures and replaced IAS 17 *Leases*. The implementation of IFRS 16 had no impact on the financial reporting for the GPFG.

Significant estimates and accounting judgements

The preparation of the financial statements involves the use of uncertain estimates and assumptions relating to future events that affect the reported amounts for assets, liabilities, income and expenses. Estimates are based on historical experience and reflect management's expectations about future events. Actual outcomes may deviate from estimates. The preparation of the financial statements also involves the use of judgement when applying accounting policies, which may have a significant impact on the financial statements.

In cases where there are particularly uncertain estimates or accounting judgements, this is described in the respective notes. For additional information, see the relevant notes in the annual report for 2018.

Note 3 Returns

Table 3.1 Returns

	1Q 2019	1Q 2018	2018
Returns measured in the fund's currency basket (percent)			
Return on equity investments	12.22	-2.22	-9.49
Return on fixed-income investments	2.87	-0.37	0.56
Return on unlisted real estate investments	1.72	2.50	7.53
Return on fund	9.10	-1.53	-6.12
Relative return on fund (percentage points)			
	0.18	0.13	-0.30
Returns measured in Norwegian kroner (percent)			
Return on equity investments	11.31	-4.84	-6.56
Return on fixed-income investments	2.04	-3.03	3.82
Return on unlisted real estate investments	0.90	-0.24	11.02
Return on fund	8.22	-4.16	-3.07

For additional information on the calculation methods used when measuring returns see note 3 *Returns* in the annual report for 2018.

Note 4 Income/expense from equities, bonds and financial derivatives

Tables 4.1 to 4.3 specify the income and expense elements for *Equities*, *Bonds* and *Financial derivatives*, where the line

Income/expense shows the amount recognised in profit or loss for the respective income statement line.

Table 4.1 Specification Income/expense from equities

Amounts in NOK million	1Q 2019	1Q 2018	2018
Dividends	39 072	30 165	147 630
Realised gain/loss	27 642	77 777	190 643
Unrealised gain/loss	596 971	-277 924	-855 488
Income/expense from equities before foreign exchange gain/loss	663 685	-169 981	-517 214

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	1Q 2019	1Q 2018	2018
Interest	16 488	16 447	69 505
Realised gain/loss	1 664	-4 021	-17 918
Unrealised gain/loss	53 739	-18 729	-37 020
Income/expense from bonds before foreign exchange gain/loss	71 891	-6 303	14 568

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	1Q 2019	1Q 2018	2018
Interest	219	262	541
Realised gain/loss ¹	576	586	2 187
Unrealised gain/loss	-21	83	91
Income/expense from financial derivatives before foreign exchange gain/loss	774	932	2 819

¹ Certain comparative amounts have been restated to conform to current period presentation.

Note 5 Holdings of equities, bonds and financial derivatives

Table 5.1 Equities

Amounts in NOK million	31.03.2019		31.12.2018	
	Fair value incl. accrued dividends	Accrued dividends	Fair value incl. accrued dividends	Accrued dividends
Equities	6 190 903	14 585	5 486 298	7 659
Total equities	6 190 903	14 585	5 486 298	7 659
<i>Of which equities lent</i>	<i>589 175</i>		<i>437 651</i>	

Table 5.2 Bonds

Amounts in NOK million	Nominal value	31.03.2019		Nominal value	31.12.2018	
		Fair value incl. accrued interest	Accrued interest		Fair value incl. accrued interest	Accrued interest
Government bonds	1 269 251	1 350 244	9 886	1 370 667	1 433 456	9 859
Government-related bonds	322 589	339 650	2 050	325 968	336 579	1 917
Inflation-linked bonds	124 259	132 280	315	135 717	139 396	398
Corporate bonds	561 083	573 714	4 810	616 264	609 314	6 031
Securitised bonds	144 818	138 966	776	138 121	141 105	938
Total bonds	2 422 000	2 534 855	17 837	2 586 737	2 659 849	19 144
<i>Of which bonds lent</i>		<i>426 703</i>			<i>662 920</i>	

Financial derivatives

Financial derivatives such as foreign exchange derivatives, interest rate derivatives and futures, are used to adjust the exposure in various portfolios, as a cost-efficient alternative to trading in the underlying securities. Foreign exchange derivatives are also used in connection with liquidity management. Equity derivatives

with an option component are often a result of corporate actions. The GPFG also uses equity swaps in combination with purchases and sales of equities. Equity swaps are not recognised in the balance sheet. See note 12 *Secured lending and borrowing* in the annual report for 2018 for more information.

Table 5.3 gives a specification of financial derivatives recognised in the balance sheet.

Table 5.3 Financial derivatives

Amounts in NOK million	31.03.2019			31.12.2018		
	Notional amount	Fair value		Notional amount ¹	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange derivatives	159 433	3 109	1 598	225 766	3 022	3 863
Interest rate derivatives	34 846	955	698	25 693	504	358
Equity derivatives ²	-	157	-	-	50	-
Exchange-traded futures contracts ³	36 972	-	-	35 861	-	-
Total financial derivatives	231 251	4 220	2 296	287 320	3 576	4 222

¹ Certain comparative amounts have been restated to conform to current period presentation.

² Equity derivatives consists of rights and warrants. Notional amounts are not considered relevant for these derivatives and are therefore not included in the table.

³ Exchange-traded futures contracts are settled daily with margin payments. Fair value is therefore zero at the balance sheet date.

Notional amounts are the basis for calculating any cash flows and gains/losses for derivative contracts. This provides information on the extent to which different types of financial derivatives are used. The method for calculating notional amounts for foreign exchange derivatives was changed in the first quarter of 2019.

The absolute value of the currency to be bought or sold under currency exchange contracts is now used as the basis for the notional value. The change in method is considered to provide more relevant information about the amount of foreign currency traded under currency exchange contracts.

Note 6 Unlisted real estate

Investments in unlisted real estate are made through subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG. Subsidiaries presented as *Unlisted real estate* in the balance sheet are measured at fair value through profit or loss. The fair value of unlisted real estate is determined as the sum of the GPFG's share of assets and liabilities in the underlying subsidiaries, measured at fair value. For further information, see note 2 *Accounting*

policies and note 7 *Fair value measurement* in the annual report for 2018.

Income/expense, changes in carrying amounts and cash flows related to investments in unlisted real estate are specified in the tables below. See note 6 *Unlisted real estate* in the annual report for 2018 for further information on the principles applied in the tables.

Table 6.1 Income/expense from unlisted real estate

Amounts in NOK million	1Q 2019	1Q 2018	2018
Payments of interest and dividend from unlisted real estate	1 162	1 048	5 822
Unrealised gain/loss	2 233	3 760	10 599
Income/expense from unlisted real estate before foreign exchange gain/loss	3 395	4 808	16 421

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK million	31.03.2019	31.12.2018
Unlisted real estate, opening balance for the period	243 818	217 160
Net cash flow to investments in unlisted real estate	375	8 638
Unrealised gain/loss	2 233	10 599
Foreign exchange gain/loss	-1 190	7 421
Unlisted real estate, closing balance for the period	245 237	243 818

Table 6.3 specifies cash flows between the GPFG and subsidiaries presented as *Unlisted real estate* as presented in the statement of cash flows.

Table 6.3 Cash flow to/from unlisted real estate subsidiaries

Amounts in NOK million	Year-to-date 31.03.2019	Year-to-date 31.03.2018	2018
Interest and dividend from ongoing operations	1 162	941	4 440
Interest and dividend from sales	-	106	1 381
Receipts of interest and dividend from unlisted real estate	1 162	1 048	5 822
Payments to new investments	-337	-3	-12 710
Repayments from sales	-	519	4 717
Payments for property development	-308	-278	-1 562
Repayments from ongoing operations	270	255	1 430
Net payments external debt	-	-	-513
Net cash flow to investments in unlisted real estate	-375	493	-8 638

Underlying real estate companies

Real estate subsidiaries have investments in other non-consolidated, unlisted companies. For further information, see note 15 *Interests in other entities* in the annual report for 2018.

Table 6.4 specifies the GPFG's share of net income generated in the underlying real estate companies, which is the basis for *Income/expense from unlisted real estate* presented in table 6.1.

Table 6.4 Income from underlying real estate companies

Amounts in NOK million	1Q 2019	1Q 2018	2018
Net rental income	2 515	2 295	9 312
External asset management - fixed fees	-145	-138	-506
External asset management - variable fees	5	-44	-88
Internal asset management - fixed fees ¹	-16	-9	-38
Management costs within the limit from the Ministry of Finance ²	-16	-19	-88
Other operating costs, not within the limit from the Ministry of Finance	-10	-31	-94
Interest expense external debt	-126	-123	-506
Tax expense payable	-35	-53	-256
<i>Net income from ongoing operations</i>	<i>2 172</i>	<i>1 878</i>	<i>7 736</i>
Realised gain/loss - properties	2	-70	1 212
Unrealised gain/loss - properties	1 443	3 180	7 807
Unrealised gain/loss - debt	-129	240	233
Unrealised gain/loss - other assets and liabilities	-92	-382	-176
<i>Realised and unrealised gain/loss</i>	<i>1 223</i>	<i>2 968</i>	<i>9 077</i>
Stamp duty and registration fees	-	-	-147
Due diligence and insurance costs	-	-39	-244
<i>Transaction costs purchases and sales</i>	<i>-</i>	<i>-39</i>	<i>-391</i>
Net income underlying real estate companies	3 395	4 808	16 421

¹ Internal asset management is carried out on 100 percent owned properties by employees in a wholly-owned, consolidated subsidiary.

² See table 10.2 for specification of management costs that are measured against the upper limit from the Ministry of Finance.

Table 6.5 specifies the GPFG's share of assets and liabilities in the underlying real estate companies, which comprises the closing balance for *Unlisted real estate* as presented in table 6.2.

Table 6.5 Assets and liabilities underlying real estate companies

Amounts in NOK million	31.03.2019	31.12.2018
Properties	264 220	262 364
External debt	-18 366	-18 361
Net other assets and liabilities ¹	-618	-185
Total assets and liabilities underlying real estate companies	245 237	243 818

¹ Net other assets and liabilities comprise cash, tax and operational receivables and liabilities.

Agreements for purchases and sales of real estate

Table 6.6 provides an overview of announced agreements for purchases and sales of properties which are not completed at the balance sheet date.

Table 6.6 Announced agreements for purchases and sales of properties¹

Type	Property address	City	Ownership percent	Currency	Price in stated currency (million) ²	Quarter announced	Expected completion
Purchase	Schützenstrasse 26	Berlin	100.0	EUR	425	3Q 2017	4Q 2019
Purchase	79 Avenue des Champs-Élysées	Paris	100.0	EUR	613	4Q 2018	4Q 2019

¹ Purchases and sales above USD 25 million are announced.

² The stated price is for the GPFG's share.

Note 7 Fair value measurement

Fair value for the majority of assets and liabilities is based on quoted market prices. If the market is not active, fair value is established using standard valuation techniques. Estimating fair value may be complex and require the use of judgement, in particular when observable inputs are not available. For an overview of valuation

models and techniques, as well as definitions and the classification in the three categories in the fair value hierarchy, see note 7 *Fair value measurement* in the annual report for 2018.

Significant estimate

Level 3 investments consist of instruments held at fair value that are not traded or quoted in active markets. Fair value is determined using valuation techniques that use models with significant use of unobservable inputs. A considerable degree of judgement is applied in determining the assumptions that market participants would use when pricing the asset or liability, when observable market data is not available.

The fair value hierarchy

Table 7.1 Categorisation of the investment portfolio by level in the fair value hierarchy

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	31.03.2019	31.12.2018	31.03.2019	31.12.2018	31.03.2019	31.12.2018	31.03.2019	31.12.2018
Equities	6 149 461	5 450 137	41 209	35 808	233	353	6 190 903	5 486 298
Government bonds	1 284 300	1 331 386	65 944	102 070	-	-	1 350 244	1 433 456
Government-related bonds	286 783	284 545	52 456	51 609	411	425	339 650	336 579
Inflation-linked bonds	125 380	131 271	6 900	8 125	-	-	132 280	139 396
Corporate bonds	529 283	519 829	44 406	89 457	24	28	573 714	609 314
Securitised bonds	119 744	126 377	19 223	14 728	-	-	138 966	141 105
Total bonds	2 345 490	2 393 408	188 929	265 989	435	453	2 534 855	2 659 849
Financial derivatives (assets)	82	20	4 135	3 544	3	12	4 220	3 576
Financial derivatives (liabilities)	-	-	-2 296	-4 222	-	-	-2 296	-4 222
Total financial derivatives	82	20	1 839	-678	3	12	1 924	-646
Unlisted real estate	-	-	-	-	245 237	243 818	245 237	243 818
Other (assets)¹	-	-	286 023	247 351	-	-	286 023	247 351
Other (liabilities)²	-	-	-321 223	-380 724	-	-	-321 223	-380 724
Total	8 495 033	7 843 565	196 777	167 746	245 908	244 636	8 937 719	8 255 945
Total (percent)	95.0	95.0	2.2	2.0	2.8	3.0	100.0	100.0

¹ *Other (assets)* consists of the balance sheet lines *Deposits in banks*, *Secured lending*, *Cash collateral posted*, *Unsettled trades (assets)* and *Other assets*.

² *Other (liabilities)* consists of the balance sheet lines *Secured borrowing*, *Cash collateral received*, *Unsettled trades (liabilities)* and *Other liabilities*.

The majority of the total portfolio is priced based on observable market prices. At the end of the first quarter of 2019, 97.2 percent of the portfolio was classified as Level 1 or 2, which is a marginal increase compared to year-end 2018.

Equities

Measured as a share of total value, virtually all equities (99.33 percent) are valued based on official closing prices from stock exchanges and are classified as Level 1. A small number of equities (0.67 percent) are classified as Level 2.

These are mainly equities for which trading has recently been suspended, or illiquid securities that are not traded daily. For a few securities (less than 0.01 percent) that are not listed, or where trading has been suspended over a longer period, unobservable inputs are used to a significant extent in the fair value measurement. These holdings are therefore classified as Level 3.

Bonds

The majority of bonds (92.53 percent) have observable, executable market quotes and are classified as Level 1. 7.45 percent of bonds are classified as Level 2. These are securities that do not have a sufficient number of observable quotes or that are priced based on comparable liquid bonds. A few bonds (0.02 percent) that do not have observable quotes, are classified as Level 3 as the valuation is based on significant use of unobservable inputs.

Unlisted real estate

All unlisted real estate investments are classified as Level 3, since models are used to value the underlying assets and liabilities with extensive use of unobservable market inputs. All unlisted real estate investments are measured at the value determined by external valuers. Exceptions to this policy are cases of newly acquired properties where the purchase price, excluding transaction costs, is normally considered to be the best estimate of fair value, or where there are indications that external valuation reports do not reflect fair value so that adjustments to valuations are warranted.

Financial derivatives

Some equity derivatives (rights and warrants) that are actively traded on exchanges are classified as Level 1. The majority of derivatives are classified as Level 2 since the valuation of these is based on standard models using observable market inputs. A few derivatives are valued based on models with significant use of unobservable inputs and are classified as Level 3.

Other assets and liabilities are classified as Level 2.

Movements between the levels in the fair value hierarchy

Reclassifications between Level 1 and Level 2

The share of equities classified as Level 1 has decreased marginally by 0.01 percentage point compared to year-end 2018.

The share of bonds classified as Level 1 has increased by 2.55 percentage points compared to year-end with a corresponding decrease in the share of Level 2 holdings. The main reason for the reclassifications from Level 2 to Level 1 is improved liquidity for bonds in emerging markets and corporate bonds denominated in US dollar. This confirms a previously observed pattern where certain bonds are less liquid at year-end compared to other quarters.

In addition to reclassifications between levels, Level 2 holdings have decreased in the first quarter due to the maturity of several government bonds in this level.

Table 7.2 Changes in Level 3 holdings

Amounts in NOK million	01.01.2019	Purchases	Sales	Settle- ments	Net gain/loss	Trans- ferred into Level 3	Trans- ferred out of Level 3	Foreign exchange gain/loss	31.03.2019
Equities	353	-	-	-	-103	30	-43	-3	233
Bonds	453	-	-	-13	1	-	-3	-2	435
Financial derivatives (assets)	12	-	-	-	-7	-	-2	-	3
Unlisted real estate ¹	243 818	375	-	-	2 233	-	-	-1 190	245 237
Total	244 636	375	-	-13	2 124	30	-48	-1 195	245 908

Amounts in NOK million	01.01.2018	Purchases	Sales	Settle- ments	Net gain/loss	Trans- ferred into Level 3	Trans- ferred out of Level 3	Foreign exchange gain/loss	31.12.2018
Equities	11 373	39	-480	-11	77	45	-10 705	15	353
Bonds	2 772	2	-17	-87	-34	-	-2 215	32	453
Financial derivatives (assets)	-	12	-	-	-	-	-	-	12
Unlisted real estate ¹	217 160	8 638	-	-	10 599	-	-	7 421	243 818
Total	231 305	8 691	-497	-98	10 642	45	-12 920	7 468	244 636

¹ Purchases represent the net cash flow in the period to investments in unlisted real estate. See table 6.3 in note 6 *Unlisted real estate*.

The relative share of holdings classified as Level 3 was 2.8 percent at the end of the first quarter, a decrease from 3.0 percent at year-end 2018. The GPF's aggregate holdings in Level 3 were NOK 245 908 million at the end of the first quarter, an increase of NOK 1 272 million compared to year-end 2018. The increase is mainly due to investments in unlisted real estate, which are all classified as Level 3.

The relative share of equities classified as Level 3 has decreased by 0.01 percentage point compared to year-end 2018. The decrease is primarily due to the lower value of equities that have been suspended from trading. For bonds, the relative share classified as Level 3 is unchanged compared to year-end 2018.

Sensitivity analysis for Level 3 holdings

The valuation of holdings in Level 3 involves the use of judgement when determining the assumptions that market participants would use when observable market data is not available. In

the sensitivity analysis for Level 3 holdings, the effect of using reasonable alternative assumptions is shown.

Table 7.3 Additional specification Level 3 and sensitivities

Amounts in NOK million	Specification of Level 3 holdings 31.03.2019	Sensitivities 31.03.2019		Specification of Level 3 holdings 31.12.2018	Sensitivities 31.12.2018	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities	233	-77	77	353	-116	116
Government-related bonds	411	-41	41	425	-43	43
Corporate bonds	24	-2	2	28	-3	3
Total bonds	435	-43	43	453	-45	45
Financial derivatives (assets)	3	-3	-	12	-1	1
Unlisted real estate	245 237	-12 563	17 662	243 818	-14 627	17 888
Total	245 908	-12 686	17 782	244 636	-14 790	18 050

Real estate values are particularly sensitive to changes in yields and assumptions influencing future revenues. In an unfavourable outcome, an increase in the yield of 0.2 percentage point, and a reduction in future market rents of 2 percent will result in a decrease in value of the real estate portfolio of approximately NOK 12 563 million or 5.1 percent (6.0 percent at year-end 2018). In a favourable outcome, a reduction in the yield of 0.2 percentage point and an increase in future

market rents of 2 percent will increase the value of the real estate portfolio by approximately NOK 17 662 million or 7.2 percent (7.3 percent at year-end 2018).

The sensitivity for equities, bonds and financial derivatives is essentially unchanged compared to year-end 2018.

Note 8 Investment risk

Investment risk comprises market risk, credit risk and counterparty risk. For further information on the framework for investment risk, including the main dimensions and measurement methods used to manage investment risk, see note 8 *Investment risk* in the annual report for 2018.

Market risk

Market risk is the risk of loss or a change in the market value of the portfolio, or parts of the portfolio, due to changes in financial market variables and real estate values. Norges Bank Investment Management measures market risk in both absolute terms for the actual portfolio, and the relative market risk for holdings in the GPFG.

Asset class by country and currency

The portfolio 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 ¹		Market value in percent by asset class		Assets minus liabilities excluding management fee		
		31.03.2019	Market	31.12.2018	31.03.2019	31.12.2018	31.03.2019	31.12.2018
Equities	Developed	88.7	Developed	89.0				
	US	39.1	US	38.4				
	UK	9.0	UK	9.4				
	Japan	8.5	Japan	8.8				
	France	5.1	France	5.1				
	Germany	4.7	Germany	4.9				
	Total other	22.3	Total other	22.5				
	Emerging	11.3	Emerging	11.0				
	China	4.0	China	3.6				
	Taiwan	1.6	Taiwan	1.7				
	India	1.2	India	1.2				
	Brazil	0.9	Brazil	1.0				
	South Africa	0.7	South Africa	0.7				
	Total other	2.8	Total other	2.8				
Total equities					69.21	66.34	6 185 962	5 477 159
Fixed income	Developed	91.9	Developed	91.8				
	US dollar	45.6	US dollar	44.6				
	Euro	25.8	Euro	26.1				
	Japanese yen	7.2	Japanese yen	7.7				
	British pound	3.9	British pound	4.2				
	Canadian dollar	3.5	Canadian dollar	3.3				
	Total other	5.8	Total other	5.9				
	Emerging	8.1	Emerging	8.2				
	Mexican peso	1.6	Mexican peso	1.7				
	South Korean won	1.2	South Korean won	1.3				
	Indonesian rupiah	1.1	Indonesian rupiah	1.1				
	Malaysian ringgit	0.7	Indian rupee	0.7				
	Brazilian real	0.7	Malaysian ringgit	0.6				
	Total other	2.8	Total other	2.9				
Total fixed income					28.02	30.68	2 504 544	2 532 774
Unlisted real estate	US	47.7	US	47.8				
	UK	23.2	UK	23.0				
	France	16.3	France	16.5				
	Switzerland	3.6	Switzerland	3.7				
	Germany	3.5	Germany	3.5				
	Total other	5.7	Total other	5.5				
Total unlisted real estate					2.77	2.98	247 213	246 013

¹ Market value in percent per country and currency includes derivatives and cash.

At the end of the first quarter the equity portfolio's share of the fund was 69.2 percent, compared with 66.3 percent at year-end 2018. The bond portfolio's share of the fund was 28.0 percent, compared to 30.7 percent at year-end 2018. The unlisted real estate portfolio's share of the fund was 2.8 percent at the end of the first quarter, compared to 3.0 percent at year-end 2018.

Volatility

Risk models are used to quantify the risk of value changes 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 the relative risk. All the fund's investments, including unlisted real estate investments, are included in the calculations of expected relative volatility, and are measured against the fund's reference index consisting of global equity and bond indices. The limit for the fund's expected relative volatility is 1.25 percentage points.

Table 8.2 Portfolio risk, expected volatility, in percent

	Expected volatility, actual portfolio							
	31.03.2019	Min 2019	Max 2019	Average 2019	31.12.2018	Min 2018	Max 2018	Average 2018
Portfolio	7.9	7.9	8.6	8.1	8.6	8.5	11.0	9.5
Equities	10.2	10.2	11.5	10.7	11.6	11.4	13.7	12.4
Fixed income	6.8	6.7	6.9	6.8	7.0	6.8	9.4	7.8
Unlisted real estate	8.8	8.7	9.4	9.0	9.3	9.2	11.9	10.4

Table 8.3 Relative risk measured against the fund's reference index, expected relative volatility, in basis points

	Expected relative volatility							
	31.03.2019	Min 2019	Max 2019	Average 2019	31.12.2018	Min 2018	Max 2018	Average 2018
Portfolio	31	31	34	33	33	29	37	31

Risk measured as expected volatility indicates an expected annual fluctuation in the value of the fund of 7.9 percent, or approximately NOK 710 billion, at the end of the first quarter of 2019, compared to 8.6 percent at year-end 2018. Expected volatility for the equity portfolio was 10.2 percent at the end of the first quarter, down from 11.6 percent at year-end 2018, while

expected volatility for the bond portfolio was 6.8 percent, compared to 7.0 percent at year-end 2018. The decrease in expected volatility for the fund in the first quarter of 2019 is mainly due to decreased price volatility in the equity markets for the last three years than was the case at the end of 2018.

The fund's expected relative volatility was 31 basis points at the end of the first quarter, compared to 33 basis points at year-end 2018.

Expected shortfall is a tail risk measure that quantifies the expected loss of a portfolio in extreme market situations. Expected shortfall measured on relative returns provides an estimate of the annual expected relative underperformance versus the reference index for a given confidence level. Using historical simulations, relative returns of the current portfolio versus the reference index are calculated on a weekly basis over a sampling period from January 2007 until the end of the last accounting period. The expected shortfall at a 97.5 percent confidence level is then given by the annualised average relative return, measured

in the currency basket for the 2.5 percent worst weeks.

The Executive Board has determined that the fund shall be managed in such a way that the annual expected shortfall measured against the reference index does not exceed 3.75 percentage points. At the end of the first quarter, the expected shortfall was 1.45 percentage points, compared to 1.37 percentage points at year-end 2018.

Credit risk

Credit risk is the risk of losses resulting from issuers of bonds defaulting on their payment obligations. Credit risk for the bond portfolio is monitored, among other things, through the use of credit ratings.

Table 8.4 Bond portfolio specified by credit rating

Amounts in NOK million, 31.03.2019	AAA	AA	A	BBB	Lower rating	Total
Government bonds	731 903	177 799	295 689	101 732	43 122	1 350 244
Government-related bonds	149 939	129 704	42 962	16 157	887	339 650
Inflation-linked bonds	104 932	15 297	6 106	5 944	-	132 280
Corporate bonds	5 914	43 736	218 941	296 917	8 205	573 714
Securitised bonds	113 863	21 175	2 412	1 108	408	138 966
Total bonds	1 106 552	387 711	566 111	421 859	52 622	2 534 855

Amounts in NOK million, 31.12.2018	AAA	AA	A	BBB	Lower rating	Total
Government bonds	739 266	186 417	358 892	101 955	46 926	1 433 456
Government-related bonds	145 988	127 414	46 766	15 274	1 136	336 579
Inflation-linked bonds	114 351	12 444	6 007	6 190	403	139 396
Corporate bonds	5 965	51 202	224 458	318 135	9 553	609 314
Securitised bonds	114 035	23 461	2 408	786	414	141 105
Total bonds	1 119 606	400 939	638 532	442 341	58 431	2 659 849

The share of bonds with credit rating A decreased to 22.3 percent at the end of the first quarter, from 24.0 percent at year-end 2018, mainly due to reduced holdings of Japanese government bonds. The share of bond holdings with credit rating AAA increased by 1.6 percentage points to 43.7 percent in the quarter. The share of bonds grouped under *Lower rating* was reduced to 2.1 percent of the bond portfolio at the end of the first quarter, from 2.2 percent

at year-end 2018. Overall, the credit quality of the bond portfolio has slightly improved since year-end.

Counterparty risk

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

Table 8.5 Counterparty risk by type of position

Amounts in NOK million	Risk exposure	
	31.03.2019	31.12.2018
Securities lending	76 479	67 110
Unsecured bank deposits ¹ and securities	27 205	23 619
Derivatives including foreign exchange contracts	18 796	22 529
Settlement risk towards brokers and long-settlement transactions	6 228	4 437
Repurchase and reverse repurchase agreements ²	3 205	4 780
Total	131 913	122 475

¹ Includes bank deposits in non-consolidated subsidiaries.

² Comparable amounts have been restated to reflect a correction in the underlying data used in the calculation.

Total counterparty risk exposure increased to NOK 131.9 billion at the end of the first quarter, from NOK 122.5 billion at year-end 2018. The main contributor was increased risk exposure from securities lending. Both bonds and equities are lent through the securities lending programme. The risk exposure for the programme increased to NOK 76.5 billion at the

end of the first quarter, from NOK 67.1 billion at year-end 2018, mainly due to more equities lent. Counterparty risk exposure from securities lending amounted to 58 percent of the fund's total counterparty risk exposure at the end of the quarter.

Note 9 Foreign exchange gain/loss

Accounting judgement

Gains and losses on financial instruments are due to changes in the price of the instrument (before foreign exchange gain/loss) and changes in foreign exchange rates (foreign exchange gain/loss). These are presented separately in the income statement. The method used to allocate the total gain/loss in Norwegian kroner to a security element and a foreign exchange element is an estimate. Different methods may result in different allocations. For further information on the method used, see note 10 *Foreign exchange gain/loss* in the annual report for 2018.



The market value of the fund in Norwegian kroner is impacted by changes in foreign exchange rates. See table 8.1 in note 8 *Investment Risk* for an overview of the allocation

of the GPFG's investments per asset class, country and currency. The change in the fund's market value due to changes in foreign exchange rates is presented in table 9.1.

Table 9.1 Specification Foreign exchange gain/loss

Amounts in NOK million	1Q 2019	1Q 2018	2018
Foreign exchange gain/loss - USD/NOK	-15 131	-104 679	163 983
Foreign exchange gain/loss - EUR/NOK	-35 663	-25 049	14 654
Foreign exchange gain/loss - JPY/NOK	-9 329	9 313	50 721
Foreign exchange gain/loss - GBP/NOK	10 108	-2 501	-1 329
Foreign exchange gain/loss - other	-9 821	-59 750	-4 418
Foreign exchange gain/loss	-59 836	-182 666	223 611

Note 10 Management costs

Management costs comprise all costs relating to the management of the fund. These are mainly incurred in Norges Bank, but management costs are also incurred in subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG's investments in unlisted real estate.

Management costs in Norges Bank

The Ministry of Finance reimburses Norges Bank for costs incurred in connection with the management of the GPFG, in the form of a management fee. The management fee is equivalent to the actual costs incurred by Norges Bank, including performance-based fees to external managers, and is expensed in the income statement line *Management fee*. Costs included in the management fee are specified in table 10.1.

Table 10.1 Management fee

Amounts in NOK million	1Q 2019		1Q 2018		2018	
		Basis points		Basis points		Basis points
Salary, social security and other personnel-related costs	390		305		1 262	
Custody costs	88		84		385	
IT services, systems, data and information	137		155		651	
Research, consulting and legal fees	56		69		282	
Other costs	103		85		400	
Allocated costs Norges Bank	46		43		167	
Base fees to external managers	183		247		724	
Management fee excluding performance-based fees	1 004	4.7	987	4.7	3 872	4.6
Performance-based fees to external managers	211		383		673	
Management fee	1 215	5.7	1 370	6.6	4 544	5.4

Management costs in subsidiaries

Management costs incurred in subsidiaries consist of costs related to the management of the unlisted real estate portfolio. These costs are expensed directly in the portfolio result and are not part of the management fee.

Management costs incurred in non-consolidated and consolidated subsidiaries are presented in the income statement as *Income/expense from unlisted real estate* and *Other income/expense*, respectively. These costs are specified in table 10.2.

Table 10.2 Management costs, unlisted real estate subsidiaries

Amounts in NOK million	1Q 2019		1Q 2018		2018	
		Basis points		Basis points		Basis points
Salary, social security and other personnel-related costs	7		7		25	
IT services, systems, data and information	5		8		41	
Research, consulting and legal fees	7		5		30	
Other costs	5		4		13	
Total management costs, unlisted real estate subsidiaries	25	0.1	24	0.1	108	0.1
<i>Of which management costs non-consolidated subsidiaries</i>	16		19		88	
<i>Of which management costs consolidated subsidiaries</i>	9		5		20	

Upper limit for reimbursement of management costs

The Ministry of Finance has established an upper limit for the reimbursement of management costs. Norges Bank is only reimbursed for costs incurred within this limit. Norges Bank is also reimbursed for performance-based fees to external managers. These fees are not measured against the upper limit.

For 2019, total management costs incurred in Norges Bank and its subsidiaries, excluding performance-based fees to external managers, are limited to 7.0 basis points of average assets under management. In accordance with guidelines from the Ministry of Finance, average assets under management is calculated based on the market value of the portfolio in Norwegian kroner at the start of each month in the calendar year.

Total management costs measured against the upper limit amounted to NOK 1 029 million in the first quarter of 2019. This consisted of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 1 004 million and management costs in subsidiaries of NOK 25 million. This corresponds to 4.8 basis points of assets under management.

Total management costs including performance-based fees to external managers amounted to NOK 1 240 million in the first quarter of 2019. This corresponds to 5.8 basis points of assets under management.

Other operating costs in subsidiaries

In addition to the management costs presented in table 10.2, other operating costs are also incurred in subsidiaries related to the ongoing maintenance, operation and development of properties and leases. These are not costs related to investing in real estate, but costs of operating the underlying properties once they are acquired. Therefore, they are not defined as management costs. Other operating costs are expensed directly in the portfolio result and are not part of the management fee. They are also not included in the costs measured against the upper limit.

Other operating costs incurred in non-consolidated subsidiaries are presented in the income statement line *Income/expense from unlisted real estate*. See table 6.4 in note 6 *Unlisted real estate* for further information. Other operating costs incurred in consolidated subsidiaries are expensed in the income statement line *Other income/expense*.

Report on Review of Interim Financial Information

Introduction

We have reviewed the financial reporting for the investment portfolio of the Government Pension Fund Global. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio are included in the financial reporting. The financial reporting comprises the balance sheet as at 31 March 2019, the income statement, the statement of changes in owner's capital, and 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 to 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 the EU.

Oslo, 26 April 2019

Deloitte AS

Henrik Woxholt
State Authorised Public Accountant (Norway)

This translation from Norwegian has been prepared for information purposes only.



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