



NORGES BANK  
INVESTMENT MANAGEMENT

**2Q | 15**  
**GOVERNMENT  
PENSION FUND  
GLOBAL**  
QUARTERLY REPORT

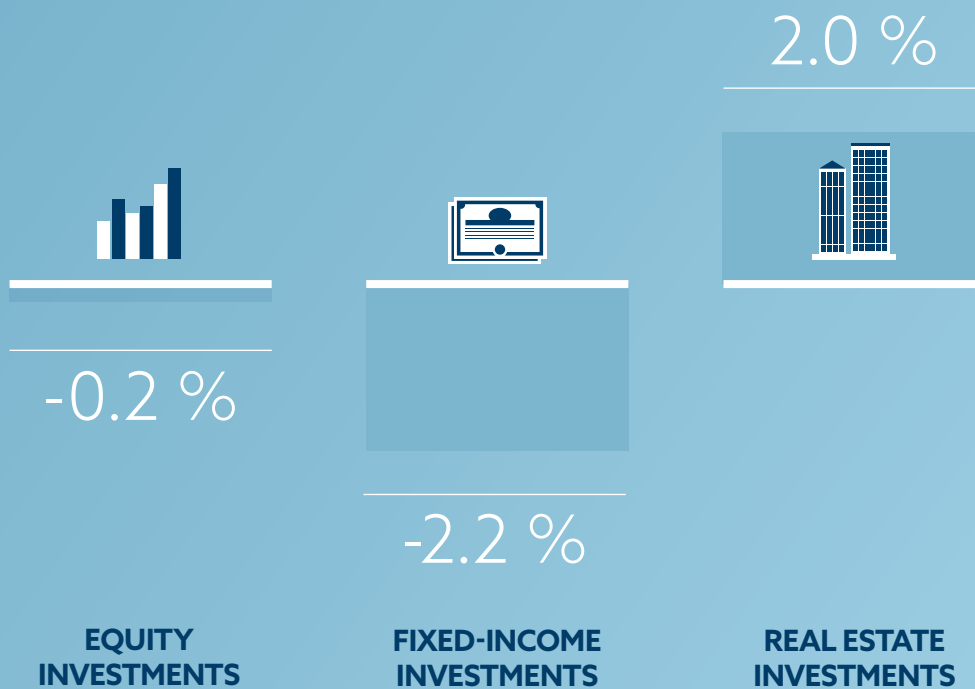
## HIGHLIGHTS

# SECOND QUARTER 2015 IN BRIEF

THE GOVERNMENT PENSION FUND GLOBAL RETURNED **-0.9** PERCENT, OR **-73** BILLION KRONER, IN THE SECOND QUARTER OF 2015.

**-0.9 %**

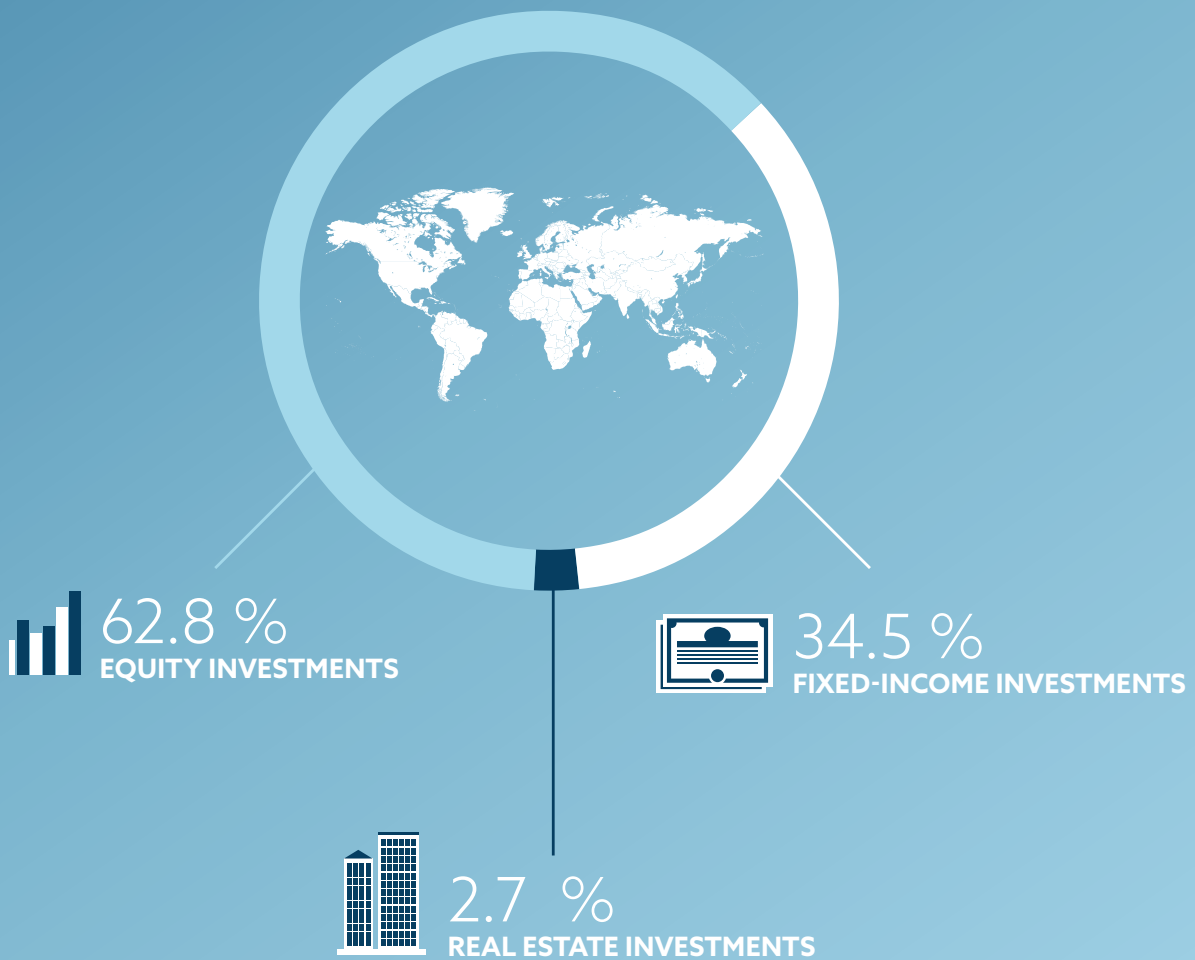
**-73 Bn. KR**



EQUITY INVESTMENTS RETURNED **-0.2** PERCENT, WHILE FIXED-INCOME INVESTMENTS RETURNED **-2.2** PERCENT. INVESTMENTS IN REAL ESTATE RETURNED **2.0** PERCENT.

THE RETURN ON EQUITY AND FIXED-INCOME INVESTMENTS WAS **0.4** PERCENTAGE POINT HIGHER THAN THE RETURN ON THE BENCHMARK INDICES.

THE FUND HAD A MARKET VALUE OF **6,897** BILLION KRONER AT THE END OF THE QUARTER AND WAS INVESTED **62.8** PERCENT IN EQUITIES, **34.5** PERCENT IN FIXED INCOME AND **2.7** PERCENT IN REAL ESTATE.



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

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# FUND MANAGEMENT

## MARKET DEVELOPMENTS

The global economy picked up somewhat in the second quarter after an unexpectedly poor start to the year. Economic data for developed markets improved slightly overall, while the growth outlook for emerging markets remained weak.

The US started the year poorly but seems to have rallied somewhat in the second quarter. Consumer spending grew faster than in the first quarter, due partly to healthy employment growth and low energy prices. Industrial production nevertheless continued to decline despite the Purchasing Managers Index (PMI) signalling a moderate rise. Coming developments in US economic data will be crucial for when the Federal Reserve decides to raise interest rates for the first time since 2006. The rate-setting meeting in June was the first since the Fed stopped signalling that rates will remain stable near zero for a long time to come, and so the first meeting since the financial crisis where a rate increase was a possibility. At the end of the second quarter, the market was pricing in a first hike in December.

The economic situation in the euro area continued to show signs of improvement. The ECB has taken drastic action to stimulate the economy, and a weaker euro and lower oil prices have also made a positive contribution. Industrial production increased, retail sales picked up, and unemployment fell. Although the economy has strengthened significantly, the ECB is signalling that its programme of quantitative easing will continue through to September 2016 without tapering.

There was great uncertainty about the economic situation in Greece during the quarter. The country made a repayment to the IMF in May but was not in a position to pay the instalments due in June, which intensified speculation that Greece might exit the euro and so fuelled uncertainty and volatility in the markets.

Economic data in a number of emerging markets continued to surprise analysts on the downside during the quarter, despite growth estimates already having been revised down sharply. The slowdown was to some extent cyclical, but structural weaknesses also played a role. Many emerging markets saw financial conditions tighten, and some were hit by low commodity prices. The Brazilian economy performed particularly poorly, with negative growth and high inflation.

The structural slowdown in China is being driven mainly by a transition away from the previous rapid credit-fuelled investment growth. The situation has worsened in the past two quarters, with both credit growth and industrial activity falling faster than expected. The effects of monetary policy measures, such as lower interest rates and lower reserve requirements for banks, have yet to show up in the macro data, although firms' financial results are showing early signs of stabilising. Also, the stock exchanges have been volatile.

## EQUITY INVESTMENTS

Equity investments, which accounted for 62.8 percent of the fund at the end of the quarter, returned -0.2 percent. This slightly negative return was due to a downturn in North American equities. European stocks produced a flat return, while Asian stocks made a positive contribution. There were relatively small differences between sector returns during the quarter, and we observed the smallest quarterly return differential between the strongest and weakest sectors in a decade.

### STRONGEST RETURNS IN ASIA

Asian stocks returned 1.0 percent and made up 21.4 percent of the fund's equity investments. Japanese shares accounted for 9.2 percent of equity investments and returned 2.3 percent.

The Chinese stock market was the strongest performer in the second quarter, returning 9.2 percent, and accounted for 3.2 percent of the fund's equity investments. The Chinese market was highly volatile, gaining strongly through to mid-June before seeing a sharp correction. Returns were driven mainly by new investors transferring capital from the banks to the stock market after the central bank cut its policy rate.

Emerging markets returned 1.5 percent and accounted for 9.6 percent of the fund's equity investments.

North American stocks returned -1.4 percent and made up 35.1 percent of the equity portfolio. US stocks were the fund's single largest market with 33.1 percent of its equity investments and returned -1.4 percent.

European stocks produced a flat return and represented 40.4 percent of the fund's equities. The UK, which accounts for 12.0 percent of the equity portfolio, stood out positively with a return of 3.3 percent. The negotiations on the Greek debt crisis affected the market during the quarter and contributed to a drop in share prices in the country, but the crisis had only a limited effect on the broad stock market during the quarter.

### TELECOMS THE BEST-PERFORMING SECTOR

Telecom companies returned 2.3 percent, with prices pushed up mainly by potential mergers and acquisitions in both Europe and the US. There was a continued focus on combining data, landline, mobile and cable services. In Europe, there was a focus on the European Commission's Digital

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

| Sector             | Return in international currency | Share of equity investments* |
|--------------------|----------------------------------|------------------------------|
| Financials         | 1.1                              | 23.6                         |
| Industrials        | -1.7                             | 13.7                         |
| Consumer goods     | -1.0                             | 14.0                         |
| Consumer services  | -0.3                             | 10.7                         |
| Health care        | 0.4                              | 10.2                         |
| Technology         | -1.7                             | 8.3                          |
| Oil and gas        | 1.1                              | 6.4                          |
| Basic materials    | -2.5                             | 5.7                          |
| Telecommunications | 2.3                              | 3.4                          |
| Utilities          | -1.8                             | 3.4                          |

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

**Table 2** The fund's largest company holdings in the equity markets as at 30 June 2015. Millions of kroner

| Company               | Country     | Holding |
|-----------------------|-------------|---------|
| Nestlé SA             | Switzerland | 47,255  |
| Apple Inc             | US          | 43,190  |
| Novartis AG           | Switzerland | 39,784  |
| Roche Holding AG      | Switzerland | 30,392  |
| Royal Dutch Shell PLC | UK          | 29,376  |
| BlackRock Inc         | US          | 26,155  |
| HSBC Holdings PLC     | UK          | 25,722  |
| Daimler AG            | Germany     | 25,563  |
| BG Group PLC          | UK          | 22,254  |
| Sanofi                | France      | 22,009  |

Single Market strategy, and the signals were largely in line with market expectations.

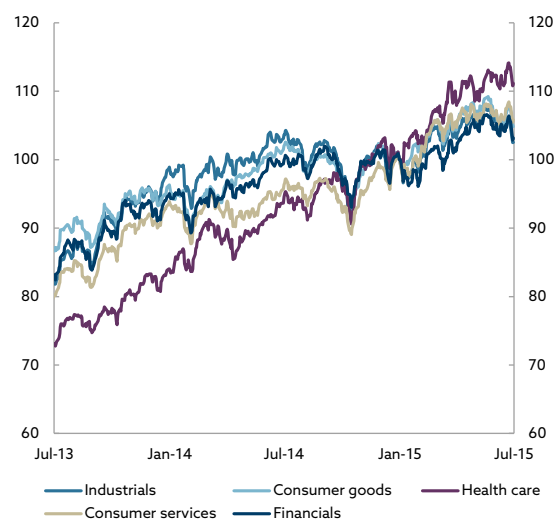
Financials returned 1.1 percent, driven by rising prices for bank stocks. Expectations of higher long-term interest rates are often positive for banks, as they signal both stronger economic growth and better deposit margins. European banks increased their lending and dividends after several years of building up their capital base to meet more stringent capital requirements. In the US, the Mortgage Bankers Association expects credit growth to hit 23 percent in 2015. A large number of mergers and acquisitions also helped push up banks' earnings and boost the return on US bank stocks.

Oil and gas stocks gained 1.1 percent. One key factor in this was the rebound in oil prices, with the price of North Sea oil around 40 percent

higher at the end of the quarter than at its lowest back in January, fuelled by expectations of reduced supply and increased demand. The return was also boosted by expectations of lower capital expenditure and so stronger cash flow ahead.

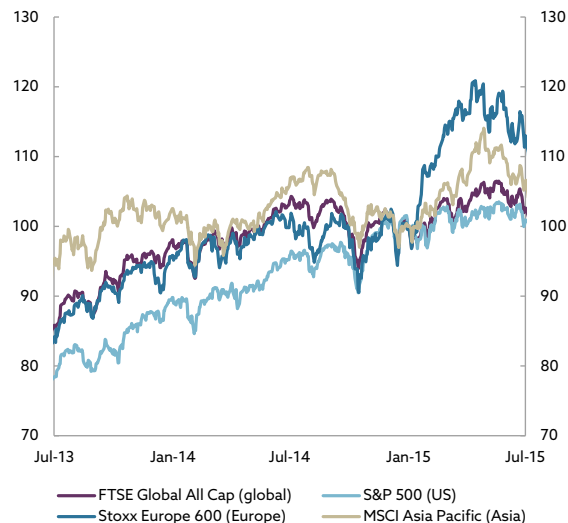
The weakest performer in the quarter was basic materials, with the fund's investments returning -2.5 percent. This poor performance was driven by low commodity prices, especially for metals. Prices for copper, aluminium, zinc and nickel were pushed down by excess supply in the market. There has been strong growth in supply in recent years, while demand for basic materials in China has declined. The mining industry continued to focus on cost-cutting in response to lower commodity prices, but a number of new mines are nearing production, and expectations that this will result in further excess supply coloured investors' pricing of the sector.

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



Source: FTSE

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



Source: Bloomberg



## **RETURN IN INTERNATIONAL CURRENCY**

The fund invests in international securities. Returns are generally measured in international currency – a weighted combination of the currencies in the fund’s benchmark indices for equities and bonds. This is known as the fund’s currency basket and consisted of 33 currencies at the end of the second quarter. Unless otherwise stated in the text, results are measured in the fund’s currency basket.

## **INDIVIDUAL STOCKS**

The investment in oil and gas company BG Group contributed most to the return for the second quarter, followed by the banks UBS Group and Lloyds Banking Group. The companies that made the most negative contributions were chemical producer BASF, carmaker BMW and food producer Nestlé.

The fund participated in 47 initial public offerings in the second quarter. The largest of these was at Spanish telecom tower operator Cellnex Telecom, followed by Italian telecom tower operator Infrastrutture Wireless Italiane and Chinese home improvement and furnishing chain Red Star Macalline. The offerings in which the fund invested the most were at Cellnex Telecom, French engineering company SPIE and Infrastrutture Wireless Italiane.

As part of our increased exposure to emerging markets, we invested for the first time in Saudi Arabian participation certificates, which are instruments issued to international investors by registered foreign institutional investors. In June, the country announced it would be opening up its stock market to investment from international investors by allocating quotas.

## **RELATIVE RETURN**

Returns on the fund’s equity investments are compared with returns on a global benchmark index for equities set by the Ministry of Finance on the basis of an index from FTSE Group. We have also constructed an internal reference portfolio for equities which takes into account the fund’s special characteristics and objective and is intended to achieve a better trade-off over time between expected risks and returns.

The fund’s equity investments outperformed the benchmark index by 0.4 percentage point in the quarter. Financials and oil and gas were the sectors that made the greatest contributions to this excess return. Of the countries the fund was invested in, Chinese and UK stocks made the most positive contributions to the relative return, while investments in Germany and the US made the most negative contributions.

## **INTERNAL REFERENCE PORTFOLIO**

The internal reference portfolio for equities returned -0.5 percent in the second quarter, 0.1 percentage point more than the benchmark index set by the Ministry of Finance.

## FIXED-INCOME INVESTMENTS

Fixed-income investments accounted for 34.5 percent of the fund at the end of the second quarter and returned -2.2 percent. These investments were mainly in bonds, with the remainder in short-term securities and bank deposits.

### NEGATIVE RETURN ON GOVERNMENT DEBT

Government bonds returned -2.9 percent and accounted for 55.5 percent of the fund's fixed-income investments at the end of the quarter. A slight increase in yields in the fund's main markets contributed negatively to the return.

US Treasuries returned -3.4 percent, or -2.0 percent in local currency, and accounted for 17.2 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer.

Euro-denominated government bonds represented 10.9 percent of the fund's fixed-income holdings and returned -4.3 percent, or -6.4 percent in local currency. German ten-year yields were close to

zero in mid-April but climbed to around 0.75 percent at the end of the quarter. In addition, uncertainty about the situation in Greece pushed up the premium for countries with weak government finances somewhat during the quarter.

Japanese government bonds made up 8.0 percent of fixed-income holdings and returned -3.5 percent, or -0.1 percent in local currency.

The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau, the European Investment Bank and Canada Housing Trust. These bonds returned -1.1 percent and accounted for 14.2 percent of fixed-income investments.

The fund's corporate bonds were the joint weakest performers in the second quarter alongside government bonds. Corporate bonds returned -2.9 percent and represented 21.2 percent of fixed-income investments at the end of the period.

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

| Sector                    | Return in international currency | Share of fixed-income investments |
|---------------------------|----------------------------------|-----------------------------------|
| Government bonds*         | -2.9                             | 55.5                              |
| Government-related bonds* | -1.1                             | 14.2                              |
| Inflation-linked bonds*   | -0.5                             | 3.7                               |
| Corporate bonds           | -2.9                             | 21.2                              |
| Securitised debt          | 0.2                              | 6.9                               |

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

**Table 4** The fund's largest bond holdings as at 30 June 2015. Millions of kroner

| Issuer                        | Country     | Holding |
|-------------------------------|-------------|---------|
| United States of America      | US          | 461,810 |
| Japanese government           | Japan       | 190,236 |
| Federal Republic of Germany   | Germany     | 98,214  |
| UK government                 | UK          | 79,822  |
| Mexican government            | Mexico      | 49,468  |
| South Korean government       | South Korea | 45,159  |
| Spanish government            | Spain       | 42,184  |
| Italian Republic              | Italy       | 37,514  |
| Federative Republic of Brazil | Brazil      | 37,496  |
| French Republic               | France      | 32,323  |

**Table 5** The fund's fixed-income investments as at 30 June 2015 based on credit ratings. Percentage of bond holdings

|                          | AAA         | AA          | A           | BBB         | Lower rating | Total        |
|--------------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Government bonds         | 25.4        | 8.9         | 11.9        | 8.4         | 0.1          | 54.7         |
| Government-related bonds | 5.3         | 6.3         | 1.0         | 1.2         | 0.1          | 14.0         |
| Inflation-linked bonds   | 2.4         | 0.3         | 0.1         | 0.9         | 0.0          | 3.6          |
| Corporate bonds          | 0.1         | 1.6         | 9.4         | 9.4         | 0.4          | 20.9         |
| Securitised debt         | 5.5         | 0.6         | 0.4         | 0.3         | 0.0          | 6.8          |
| <b>Total bonds</b>       | <b>38.6</b> | <b>17.8</b> | <b>22.7</b> | <b>20.1</b> | <b>0.7</b>   | <b>100.0</b> |

Securitised debt, consisting mainly of covered bonds denominated in euros, returned 0.2 percent and made up 6.9 percent of fixed-income holdings. Inflation-linked bonds returned -0.5 percent and accounted for 3.7 percent of total fixed-income investments.

### CHANGES IN HOLDINGS

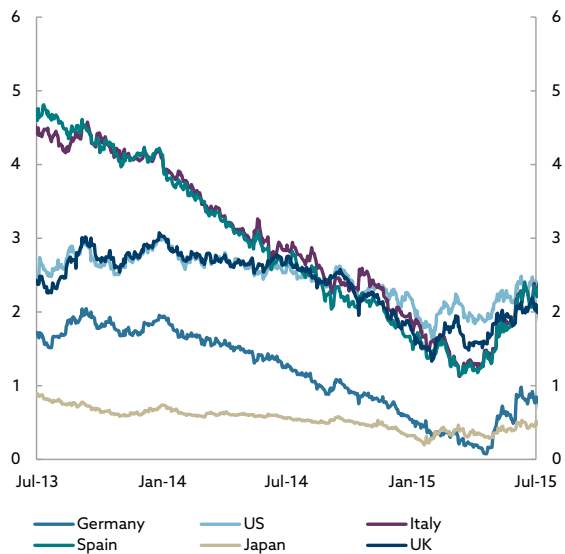
The market value of investments in bonds denominated in emerging market currencies increased slightly from 12.9 percent to 13.1 percent of fixed-income investments during the quarter. Investments in dollars, euros, pounds and yen accounted for 78.2 percent of fixed-income holdings at the end of the period, against 78.6 percent at the end of the first quarter.

The biggest increases in government bond holdings in the second quarter were in German, Chinese and Austrian bonds. The biggest decreases were in bonds from Japan, France and the UK.

### RELATIVE RETURN

Returns on the fund's fixed-income investments are compared with returns on a global benchmark index for bonds set by the Ministry of Finance on the basis of indices from Barclays. We have also constructed an internal reference portfolio for

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



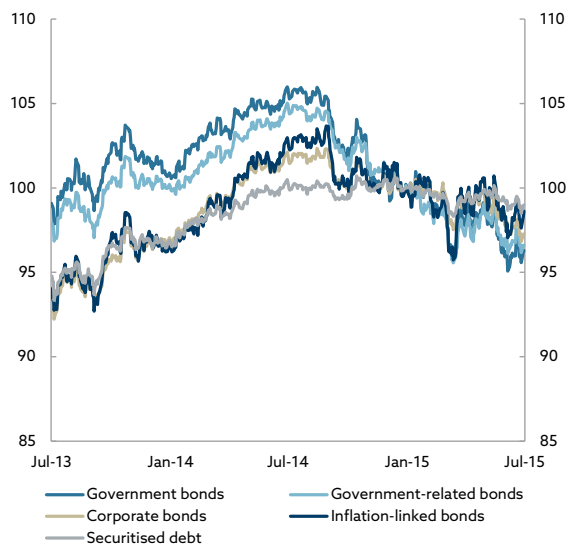
Source: Bloomberg

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



Source: Barclays

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



Source: Barclays

bonds which takes into account the fund's special characteristics and objective and is intended to achieve a better trade-off over time between expected risks and returns.

The fund's fixed-income investments outperformed the benchmark index by 0.3 percentage point in the second quarter, which saw a general increase in yields in developed markets. The lower duration of the fund's fixed-income investments relative to the benchmark made a positive contribution, rendering the fund generally less sensitive to rising yields than the benchmark. The fund had a lower weight of corporate bonds than the benchmark, which also made a positive contribution to the relative return, while the fixed-income portfolio's currency composition made a negative contribution. The fixed-income portfolio had higher yield than the benchmark in the second quarter.

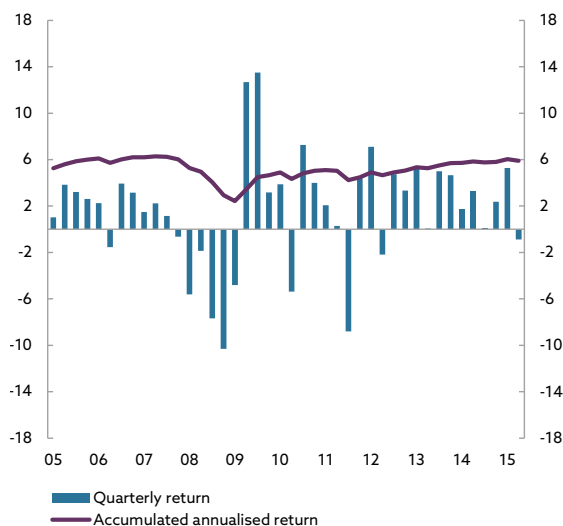
#### INTERNAL REFERENCE PORTFOLIO

The internal reference portfolio for bonds returned -2.5 percent, which was in line with the benchmark index set by the Ministry of Finance.

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

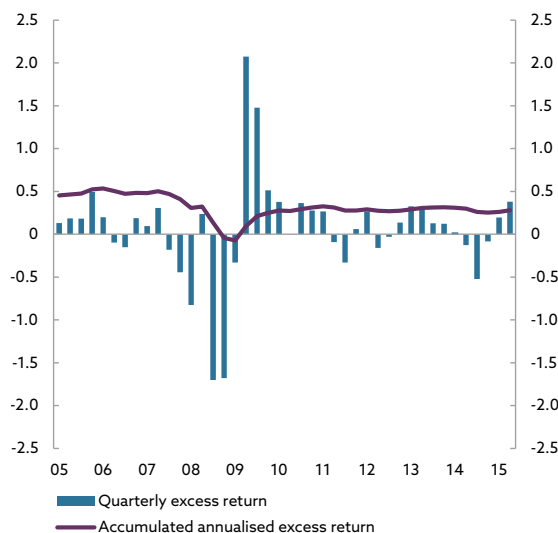
|                          | Total       | Attributed to external management |
|--------------------------|-------------|-----------------------------------|
| Equity investments       | 0.26        | 0.03                              |
| Fixed-income investments | 0.12        | 0.00                              |
| <b>Total</b>             | <b>0.38</b> | <b>0.03</b>                       |

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



Source: Norges Bank Investment Management

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



Source: Norges Bank Investment Management

## REAL ESTATE INVESTMENTS

Real estate investments amounted to 2.7 percent of the fund at the end of the second quarter and produced a return for the period of 2.0 percent. Investments in unlisted real estate returned 4.4 percent, while investments in listed real estate returned -5.5 percent.

The return on the fund's unlisted real estate investments depends on rental income net of operating expenses, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases. Measured in local currency, net rental income made a positive contribution of 0.7 percentage point to the return, and the net change in the value of properties and debt contributed 2.6 percentage points. Currency movements made a positive contribution of 1.2 percentage points, while transaction costs for property purchases had a negative effect of -0.1 percentage point.

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

### NEW INVESTMENTS IN THE QUARTER

In April, the fund signed an agreement to acquire a 45 percent interest in a portfolio of more than 300 logistics properties in the US totalling 60 million square feet, together with a portfolio of properties for development, in partnership with Prologis. The transaction was completed in May,

with the fund paying 2.3 billion dollars, or around 17.9 billion kroner, for its stake, making it the fund's single largest investment in real estate to date. In April, the fund also acquired a 45 percent interest in two logistics properties in Seattle, again in partnership with Prologis, for 28.5 million dollars, or around 232 million kroner.

**Table 7** Return on the fund's real estate investments in second quarter 2015. Return components for unlisted investments. Percent

|  | Return     |
|--|------------|
| Net profit from ongoing rental income      | 0.7        |
| Net change in value of properties and debt | 2.6        |
| Transaction costs for property purchases   | -0.1       |
| Result of currency adjustments             | 1.2        |
| Unlisted real estate investments           | 4.4        |
| Listed property                            | -5.5       |
| <b>Total return</b>                        | <b>2.0</b> |

**Table 8** Market value of real estate investments as at 30 June 2015. Millions of kroner

|                                     | Holding        |
|-------------------------------------|----------------|
| Investments in unlisted real estate | 141,909        |
| Investments in listed real estate   | 42,256         |
| Bank deposits and other claims      | 2,004          |
| <b>Total</b>                        | <b>186,169</b> |

## RESPONSIBLE INVESTMENT

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

### STANDARD SETTING

The second quarter saw further work on standard setting and expectations for the companies we invest in.

We published new Principles for Responsible Investment Management for the fund, laid down by Norges Bank's Executive Board in line with the management mandate for the fund. The aim of responsible investment is to support the fund's objective by furthering the long-term performance of its investments and reducing the financial risks associated with environmental and social issues.

We provided advice and support in the OECD's consultation on guidelines for how different stakeholders can contribute to sustainable development in the extractive industries. The fund has an interest in this work due to its highly diversified portfolio.

We published a position paper on individual vs collective voting in board elections. The aim was to present our view and invite debate on the importance of voting separately on individual candidates in safeguarding shareholders' right to choose company directors and in securing this right regardless of the way in which shareholders cast their votes. As part of this work, we contacted Swedish investors and asset managers to sound out their views and assess the possible implications for Swedish companies.

The quarter also brought an NBIM Talk seminar on effective corporate governance. The seminar focused on opportunities and challenges associated with governance and was held in conjunction with BI Norwegian Business School's Centre for Corporate Governance Research.

Through the Norwegian Finance Initiative, we supported a conference on corporate governance at BI Norwegian Business School in Oslo on 29 May where eight renowned academics presented newly published articles and discussed governance with the audience. On 7 May, we arranged an academic seminar in Oslo on equal treatment of shareholders in Europe which brought together a group of leading European and American academics in the fields of finance and corporate governance.

### OWNERSHIP

We voted at 7,084 general meetings in the second quarter, which is the quarter in which the bulk of the year's general meetings take place. We considered and voted on 1,180 shareholder proposals during the quarter, of which 49 concerned environmental and social issues relevant to our principles for long-term active ownership.

We publish all our voting decisions one day after the meeting. In the second quarter, we also began announcing our voting intentions at selected companies ahead of the meeting. We published our voting intentions and the reasoning behind them on certain matters of principle at AES Corp, BP Plc and Royal Dutch Shell Plc. We also engaged with a number of companies before voting, and sometimes we inform the company of our voting intentions and the reasoning behind them. So far this year, we have informed 51 companies of our voting intentions.

The position paper on shareholders' right to nominate candidates for election to the boards of US companies (proxy access) that we published in the first quarter was followed up in the second quarter by voting on proposals to introduce proxy access in companies' bylaws. We have supported 80 such proposals so far this year. Of these, 50 were backed by a majority of shareholders, while the remainder were backed by an average of 40 percent of shareholders. This indicates

widespread support among investors for strengthening shareholders' proxy rights in the US.

In the first quarter, we sent letters to the boards of a number of large power and mining companies concerning their strategy for the transition to a less carbon-intensive energy system and a possible move towards hiving off coal mining from other activities. This was followed up in the second quarter by holding meetings with the chairmen of some of these companies.

#### **RISK MANAGEMENT**

We worked during the quarter on developing databases of non-financial information for use in our analyses. These databases contain information of relevance to the companies and sectors we invest in, and span a variety of environmental, social and governance issues. The environmental data cover areas such as water management, mining, waste management, greenhouse gas emissions and fossil fuels, while labour standards and health and safety feature among the social data, and the governance data include information on shareholder types, board composition and individual board members. We held meetings with Norwegian investors, asset managers and companies during the quarter to discuss the fund's strategy for responsible investment. We also discussed the measurement of carbon intensity at company and portfolio level.

## **RISK MANAGEMENT**

The fund's market risk is determined by the composition of its investments and by movements in share prices, exchange rates, interest rates, property prices and credit risk premiums. As no single measure or analysis can fully capture the fund's market risk, we use a variety of measures and analyses – including expected tracking error, factor exposures, concentration analysis and liquidity risk – to gain the broadest possible picture of the fund's market risk.

The fund's expected absolute volatility, calculated using the statistical measure standard deviation, uses a three-year price history to estimate how much the annual return on the fund's equity and fixed-income investments can normally be expected to fluctuate. The fund's expected absolute volatility was 9.8 percent, or about 670 billion kroner, at the end of the second quarter, compared with 9.0 percent three months earlier.

The Ministry of Finance and Norges Bank's Executive Board have set limits for deviation from the benchmark indices in the management of the fund's equity and fixed-income investments. One of these limits is expected relative volatility, or tracking error, which puts a ceiling on how much the return on these investments can be expected to deviate from the return on the benchmark indices. The fund should aim for expected relative volatility of no more than 1.0 percentage point. The actual figure was 0.3 percentage point at the end of the quarter, down from 0.4 percentage point at the end of the first quarter.

On our website [www.nbim.no](http://www.nbim.no) we have published additional key figures for risk, risk-adjusted return, monthly return figures and factor analyses. All figures are updated as at end of second quarter.

#### **OPERATIONAL RISK MANAGEMENT**

Norges Bank's Executive Board sets limits for operational risk management and internal controls at Norges Bank Investment Management. It has decided there must be less than 20 percent

probability that operational risk factors will result in gross losses of 750 million kroner or more over a 12-month period, referred to as the Executive Board's risk tolerance.

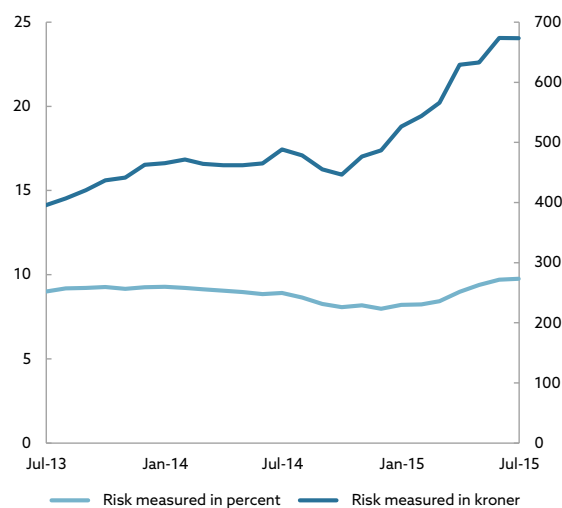
Each quarter, Norges Bank Investment Management estimates the size of the potential losses or gains it may incur over the next year because of unwanted operational events related to its investment management activities. The estimate is based on past events and an assessment of future risks and represents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

risk exposure remained within the Executive Board's tolerance limit in the second quarter.

A total of 86 unwanted operational events were registered in the second quarter, with a total financial impact of 9.8 million kroner.

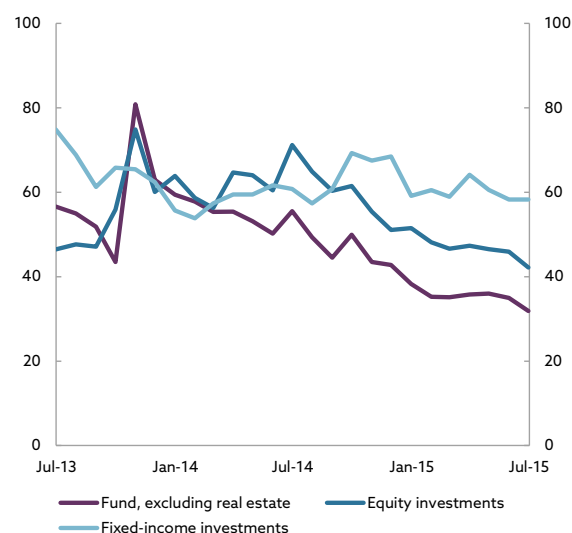
The Ministry of Finance has set guidelines for the fund's management and is to be informed about significant breaches of these guidelines. No such breaches were registered in the second quarter, and we did not receive any notifications from local supervisory authorities of any significant breaches of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

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



Source: Norges Bank Investment Management

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



Source: Norges Bank Investment Management

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

|                   | Limits set by the Ministry of Finance  | 30.06.2015 |
|-------------------|--|------------|
| Exposure          | Equities 50–70% of fund's market value*  | 62.3       |
|                   | Real estate 0–5% of fund's market value  | 2.7        |
| Market risk       | 1 percentage point expected tracking error for equity and fixed-income investments | 0.3        |
| Credit risk       | Maximum 5% of fixed-income investments may be rated below BBB-                     | 0.7        |
| Maximum ownership | Maximum 10% of voting shares in a listed company                                   | 9.5        |

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



# KEY FIGURES

**Table 10** Quarterly return as at 30 June 2015

|  | 2Q 2015 | 1Q 2015 | 4Q 2014 | 3Q 2014 | 2Q 2014 | Year-to-date<br>30.06.2015 |
|--|---------|---------|---------|---------|---------|----------------------------|
| <b>Returns in international currency</b>                                   |         |         |         |         |         |                            |
| Return on equity investments (percent)                                     | -0.23   | 7.53    | 2.74    | -0.49   | 4.01    | 7.29                       |
| Return on fixed-income investments (percent)                               | -2.22   | 1.63    | 1.68    | 0.95    | 2.04    | -0.63                      |
| Return on real estate investments (percent)                                | 1.96    | 3.10    | 3.53    | 1.48    | 3.04    | 5.13                       |
| Return on fund (percent)   | -0.87   | 5.28    | 2.37    | 0.07    | 3.25    | 4.36                       |
| Return on equity and fixed-income investments (percent)                    | -0.95   | 5.33    | 2.35    | 0.06    | 3.26    | 4.32                       |
| Return on benchmark equity and fixed-income indices (percent)              | -1.33   | 5.13    | 2.43    | 0.58    | 3.38    | 3.73                       |
| Relative return on equity and fixed-income investments (percentage points) | 0.38    | 0.19    | -0.08   | -0.52   | -0.13   | 0.59                       |
| Relative return on equity investments (percentage points)                  | 0.40    | 0.39    | 0.09    | -0.76   | -0.17   | 0.81                       |
| Relative return on fixed-income investments (percentage points)            | 0.34    | -0.14   | -0.39   | -0.14   | -0.07   | 0.22                       |
| Management costs (percentage points)                                       | 0.01    | 0.01    | 0.01    | 0.01    | 0.01    | 0.03                       |
| Return on fund after management costs (percent)                            | -0.89   | 5.26    | 2.36    | 0.06    | 3.24    | 4.33                       |
| <b>Returns in kroner (percent)</b>   |         |         |         |         |         |                            |
| Return on equity investments   | -1.17   | 11.29   | 16.14   | -0.20   | 7.09    | 9.99                       |
| Return on fixed-income investments   | -3.14   | 5.17    | 14.94   | 1.24    | 5.06    | 1.87                       |
| Return on real estate investments  | 1.00    | 6.70    | 17.04   | 1.78    | 6.09    | 7.77                       |
| Return on fund   | -1.81   | 8.95    | 15.72   | 0.36    | 6.31    | 6.98                       |

**Table 11** Historical key figures as at 30 June 2015. Annualised data, measured in international currency

|  | Since<br>01.01.1998 | Last<br>10 years | Last<br>5 years | Last<br>3 years | Last<br>12 months |
|--|---------------------|------------------|-----------------|-----------------|-------------------|
| <b>Return on fund (percent)</b>  | 5.90                | 6.12             | 9.92            | 12.10           | 6.91              |
| Return on equity and fixed-income investments (percent)                    | 5.89                | 6.11             | 9.91            | 12.09           | 6.83              |
| Return on benchmark equity and fixed-income indices (percent)              | 5.61                | 5.97             | 9.61            | 11.79           | 6.87              |
| Relative return on equity and fixed-income investments (percentage points) | 0.28                | 0.14             | 0.30            | 0.31            | -0.04             |
| Annual price inflation (percent)   | 1.83                | 1.97             | 1.82            | 1.32            | 0.35              |
| Annual management costs (percent)  | 0.09                | 0.09             | 0.07            | 0.06            | 0.06              |
| Annual net real return on fund (percent)                                   | 3.90                | 3.98             | 7.89            | 10.59           | 6.48              |
| Standard deviation (percent)   | 7.47                | 8.65             | 6.76            | 5.13            | 5.30              |
| Tracking error for equity and fixed-income investments (percentage points) | 0.73                | 0.91             | 0.39            | 0.39            | 0.45              |
| Information ratio (IR)* for equity and fixed-income investments            | 0.38                | 0.16             | 0.78            | 0.79            | -0.08             |

\* The information ratio (IR) is a measure of risk-adjusted return. It is calculated as the ratio of relative return to the relative market risk that the fund has been exposed to. The IR indicates how much relative return has been achieved per unit of risk.

**Table 12** Key figures as at 30 June 2015

|   | 2Q 2015 | 1Q 2015 | 4Q 2014 | 3Q 2014 | 2Q 2014 |
|---|---------|---------|---------|---------|---------|
| <b>Market value (billions of kroner)*</b>                                       |         |         |         |         |         |
| Market value of equity investments  | 4,330   | 4,380   | 3,940   | 3,396   | 3,357   |
| Market value of fixed-income investments  | 2,382   | 2,474   | 2,350   | 2,064   | 2,058   |
| Market value of real estate investments   | 186     | 158     | 141     | 74      | 63      |
| Market value of fund  | 6,897   | 7,012   | 6,431   | 5,534   | 5,478   |
| Inflow of new capital*  | 12      | 5       | 25      | 36      | 44      |
| Return on fund  | -73     | 401     | 259     | 15      | 192     |
| Changes due to fluctuations in krone  | -53     | 175     | 613     | 5       | 132     |
| Total change in fund  | -115    | 581     | 896     | 56      | 368     |
| <b>Management costs (percent)</b>   |         |         |         |         |         |
| Estimated transition costs**  | 0.00    | 0.00    | 0.00    | 0.00    | 0.00    |
| Management costs  | 0.05    | 0.06    | 0.06    | 0.05    | 0.05    |
| <b>Changes in value since first capital inflow in 1996 (billions of kroner)</b> |         |         |         |         |         |
| Gross inflow of new capital   | 3,472   | 3,459   | 3,452   | 3,426   | 3,389   |
| Management costs***   | 29      | 28      | 27      | 26      | 25      |
| Inflow of new capital after management costs                                    | 3,443   | 3,431   | 3,425   | 3,400   | 3,364   |
| Return on fund  | 2,670   | 2,743   | 2,343   | 2,084   | 2,069   |
| Changes due to fluctuations in krone  | 785     | 838     | 663     | 50      | 45      |
| Market value of fund  | 6,897   | 7,012   | 6,431   | 5,534   | 5,478   |
| Return after management costs   | 2,641   | 2,716   | 2,316   | 2,058   | 2,044   |

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

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

\*\*\* Management costs at subsidiaries, see Table 9.2 in the financial reporting section, are not included in the management fee. Management costs at subsidiaries have been deducted from the fund's return before management fees.

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

|                                    | 2Q 2015 | 1Q 2015 | 4Q 2014 | 3Q 2014 | 2Q 2014 |
|------------------------------------|---------|---------|---------|---------|---------|
| Return on equity investments       | 1,875   | 1,894   | 1,567   | 1,409   | 1,421   |
| Return on fixed-income investments | 772     | 830     | 761     | 665     | 639     |
| Return on real estate investments  | 22      | 19      | 14      | 9       | 8       |
| Total return                       | 2,670   | 2,743   | 2,343   | 2,084   | 2,069   |

# FINANCIAL REPORTING

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

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## INCOME STATEMENT

| Amounts in NOK million   | Note | 2Q 2015         | 2Q 2014        | Year-to-date<br>30.06.2015 | Year-to-date<br>30.06.2014 | 2014             |
|--|------|-----------------|----------------|----------------------------|----------------------------|------------------|
| <b>Profit/loss on the portfolio excluding foreign exchange gain/loss</b>           |      |                 |                |                            |                            |                  |
| Interest income and expense from deposits in banks and short-term borrowing        |      | -7              | 12             | -21                        | 11                         | 48               |
| Interest income and expense, lending associated with reverse repurchase agreements |      | -11             | 50             | -4                         | 97                         | 159              |
| Income/expense from:   |      |                 |                |                            |                            |                  |
| - Equities and units   | 4    | -31 269         | 147 668        | 318 409                    | 185 930                    | 388 521          |
| - Bonds  | 4    | -50 087         | 43 767         | 1 650                      | 83 533                     | 158 027          |
| - Real estate  | 6    | 4 382           | 1 883          | 7 382                      | 3 099                      | 7 160            |
| - Financial derivatives  | 4    | 4 296           | -570           | 1 476                      | -1 847                     | -8 208           |
| Interest expense and income, borrowing associated with repurchase agreements       |      | 15              | -10            | 14                         | -34                        | -35              |
| Other interest income and interest expense   |      | -               | -1             | -                          | -3                         | -9               |
| Tax expense  |      | -692            | -526           | -1 353                     | -874                       | -2 026           |
| Other expenses   |      | -               | -              | -                          | -1                         | -3               |
| <b>Profit/loss on the portfolio before foreign exchange gain/loss</b>              |      | <b>-73 373</b>  | <b>192 273</b> | <b>327 553</b>             | <b>269 911</b>             | <b>543 634</b>   |
| Foreign exchange gain/loss   |      | -53 242         | 131 589        | 121 683                    | 84 698                     | 702 259          |
| <b>Profit/loss on the portfolio</b>  |      | <b>-126 615</b> | <b>323 862</b> | <b>449 236</b>             | <b>354 609</b>             | <b>1 245 893</b> |
| Management fee   | 9    | -807            | -435           | -1 738                     | -1 369                     | -3 202           |
| <b>Profit/loss for the period and total comprehensive income</b>                   |      | <b>-127 422</b> | <b>323 427</b> | <b>447 498</b>             | <b>353 240</b>             | <b>1 242 691</b> |

## BALANCE SHEET

| Amounts in NOK million                                | Note        | 30.06.2015       | 31.12.2014       |
|---|-------------|------------------|------------------|
| <b>ASSETS</b>   |             |                  |                  |
| Deposits in banks                                     |             | 14 176           | 11 731           |
| Lending associated with reverse repurchase agreements |             | 80 217           | 45 536           |
| Cash collateral posted                                |             | 980              | 1 289            |
| Unsettled trades                                      |             | 53 287           | 1 376            |
| Equities and units                                    | 5           | 4 095 366        | 3 790 853        |
| Equities lent   | 5           | 255 033          | 166 842          |
| Bonds   | 5           | 2 329 920        | 2 324 626        |
| Bonds lent  | 5           | 89 227           | 25 163           |
| Real estate   | 6           | 141 909          | 106 431          |
| Financial derivatives                                 | 5           | 7 662            | 5 777            |
| Other assets  |             | 3 993            | 3 847            |
| <b>TOTAL ASSETS</b>                                   | <b>7, 8</b> | <b>7 071 770</b> | <b>6 483 471</b> |
| <b>LIABILITIES AND OWNER'S CAPITAL</b>                |             |                  |                  |
| <b>Liabilities</b>                                    |             |                  |                  |
| Short-term borrowing                                  |             | 15               | -                |
| Borrowing associated with repurchase agreements       |             | 64 538           | 13 512           |
| Cash collateral received                              |             | 33 977           | 27 006           |
| Unsettled trades                                      |             | 71 633           | 4 001            |
| Financial derivatives                                 | 5           | 4 060            | 7 895            |
| Other liabilities                                     |             | 74               | 318              |
| Management fee payable                                | 9           | 1 738            | 3 202            |
| <b>Total liabilities</b>                              |             | <b>176 035</b>   | <b>55 934</b>    |
| Owner's capital                                       |             | 6 895 735        | 6 427 537        |
| <b>TOTAL LIABILITIES AND OWNER'S CAPITAL</b>          | <b>7, 8</b> | <b>7 071 770</b> | <b>6 483 471</b> |

## STATEMENT OF CASH FLOWS

| Amounts in NOK million, received (+) / paid (-)  | Year-to-date<br>30.06.2015 | Year-to-date<br>30.06.2014 | 2014            |
|--|----------------------------|----------------------------|-----------------|
| <b>Operating activities</b>  |                            |                            |                 |
| Net cash flow arising from interest received from deposits in banks and interest paid on short-term borrowing from banks | 790                        | -938                       | -1 718          |
| Net cash flow in connection with repurchase agreements and reverse repurchase agreements                                 | 12 810                     | -41 424                    | -18 744         |
| Net cash flow arising from purchase and sale of equities and units   | -57 616                    | -32 848                    | -144 448        |
| Net cash flow arising from purchase and sale of bonds  | -52 816                    | -88 795                    | -62 878         |
| Net cash flow arising from purchase and sale of real estate  | -26 134                    | -7 632                     | -37 711         |
| Net cash flow arising from financial derivatives   | -2 399                     | -1 553                     | -1 204          |
| Dividends received from investments in equities and units  | 62 084                     | 49 448                     | 82 623          |
| Interest received on bonds   | 37 265                     | 31 290                     | 63 309          |
| Income received in connection with equity and bond lending   | 1 902                      | 1 607                      | 2 550           |
| Net cash flow arising from real estate operations  | 1 494                      | 889                        | 1 966           |
| Cash collateral received/paid related to securities lending, derivatives and reverse repurchase agreements               | 5 857                      | 6 200                      | -21 058         |
| Net cash flow related to other expenses, other assets and other liabilities  | 1 129                      | 770                        | -2 625          |
| Net cash flow arising from tax payments and refunds  | -717                       | -1 300                     | -2 740          |
| Management fee paid to Norges Bank*  | -3 202                     | -2 889                     | -2 889          |
| <b>Net cash outflow from operating activities</b>  | <b>-19 553</b>             | <b>-87 175</b>             | <b>-145 567</b> |
| <b>Financing activities</b>  |                            |                            |                 |
| Inflow from the Norwegian government**   | 20 904                     | 88 966                     | 150 894         |
| <b>Net cash inflow from financing activities</b>   | <b>20 904</b>              | <b>88 966</b>              | <b>150 894</b>  |
| <b>Net change in cash and cash equivalents</b>   |                            |                            |                 |
| Cash and cash equivalents at 1 January   | 11 731                     | 3 953                      | 3 953           |
| Net cash receipts/payments in the period   | 1 351                      | 1 791                      | 5 327           |
| Net foreign exchange gain/loss on cash and cash equivalents  | 1 079                      | 95                         | 2 451           |
| <b>Cash and cash equivalents at end of period</b>  | <b>14 161</b>              | <b>5 839</b>               | <b>11 731</b>   |
| <b>Cash and cash equivalents comprise:</b>   |                            |                            |                 |
| Deposits in banks  | 14 176                     | 5 866                      | 11 731          |
| Short-term borrowing   | -15                        | -27                        | -               |
| <b>Total cash and cash equivalents at end of period</b>  | <b>14 161</b>              | <b>5 839</b>               | <b>11 731</b>   |

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

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

## STATEMENT OF CHANGES IN OWNER'S CAPITAL

| Amounts in NOK million     | Inflows from owner | Retained earnings | Total owner's capital* |
|----------------------------|--------------------|-------------------|------------------------|
| 1 January 2014             | 3 298 941          | 1 735 905         | 5 034 846              |
| Total comprehensive income | -                  | 353 240           | 353 240                |
| Inflows during the period  | 88 400             | -                 | 88 400                 |
| <b>30 June 2014</b>        | <b>3 387 341</b>   | <b>2 089 145</b>  | <b>5 476 486</b>       |
| 1 July 2014                | 3 387 341          | 2 089 145         | 5 476 486              |
| Total comprehensive income | -                  | 889 451           | 889 451                |
| Inflows during the period  | 61 600             | -                 | 61 600                 |
| <b>31 December 2014</b>    | <b>3 448 941</b>   | <b>2 978 596</b>  | <b>6 427 537</b>       |
| 1 January 2015             | 3 448 941          | 2 978 596         | 6 427 537              |
| Total comprehensive income | -                  | 447 498           | 447 498                |
| Inflows during the period* | 20 700             | -                 | 20 700                 |
| <b>30 June 2015</b>        | <b>3 469 641</b>   | <b>3 426 094</b>  | <b>6 895 735</b>       |

\* *Total owner's capital* corresponds to the Ministry of Finance's krone account in Norges Bank. Of the total inflows to the krone account of the Government Pension Fund Global in the first two quarters of 2015, NOK 3.2 billion was used to pay the accrued management fee for 2014 and NOK 17.5 billion was transferred into the investment portfolio. Comparative amounts for the second quarter of 2014 were NOK 2.9 billion and NOK 85.5 billion, respectively.

# NOTES TO THE FINANCIAL REPORTING

## NOTE 1 GENERAL INFORMATION

### 1. INTRODUCTION

Norges Bank is Norway's central bank. The bank manages Norway's foreign exchange reserves and the Government Pension Fund Global (GPFG).

The GPFG shall support saving to finance future government expenditure and underpin long-term considerations relating to the use of Norway's petroleum revenues. The Norwegian Parliament has established the legal framework in the Government Pension Fund Act, and the Ministry of Finance has formal responsibility for the fund's management. The GPFG is managed by Norges Bank on behalf of the Ministry of Finance, in accordance with section 2, second paragraph of the Government Pension Fund Act and the management mandate for the GPFG issued by the Ministry of Finance. The Executive Board of Norges Bank has delegated day-to-day management of the GPFG to the Bank's asset management area, Norges Bank Investment Management (NBIM).

The Ministry of Finance has placed funds for investment in the GPFG in the form of a Norwegian krone deposit with Norges Bank (the krone account). Norges Bank manages the krone account in its own name by investing the funds in an investment portfolio consisting of equities, fixed-income securities and real estate. The GPFG is invested in its entirety outside of Norway.

### 2. APPROVAL OF QUARTERLY FINANCIAL STATEMENTS

Norges Bank's quarterly financial statements for the second quarter of 2015, which only encompass the financial reporting for the GPFG, were approved by Norges Bank's Executive Board on 12 August 2015.

## NOTE 2 ACCOUNTING POLICIES

### 1. BASIS OF PREPARATION

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

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

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

### 2. SIGNIFICANT ESTIMATES AND ACCOUNTING JUDGEMENTS

The preparation of the financial statements involves the use of estimates and judgements that may affect assets, liabilities, income and expenses. Estimates and judgements are based on historical experience and expectations about future events that are considered probable at the time the financial statements are presented. Estimates are based on best judgement. However, actual results may deviate from estimates.

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



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

No new or amended standards are implemented from 1 January 2015.

expected that the standard will be applied once it has been endorsed by the EU. It is not expected that implementation of IFRS 9 will result in material changes in classification, recognition or measurement for the financial reporting on the transition date.

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

#### IFRS 9 Financial instruments

The effective date of IFRS 9 has been set by the IASB for periods starting on or after 1 January 2018. It is

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

## NOTE 3 RETURNS PER ASSET CLASS

Table 3.1 Returns per asset class

|  | 2Q 2015 | 1Q 2015 | 4Q 2014 | 3Q 2014 | 2Q 2014 | Year-to-date<br>30.06.2015 |
|--|---------|---------|---------|---------|---------|----------------------------|
| <b>Returns in international currency</b>                                   |         |         |         |         |         |                            |
| Return on equity investments (percent)                                     | -0.23   | 7.53    | 2.74    | -0.49   | 4.01    | 7.29                       |
| Return on fixed-income investments (percent)                               | -2.22   | 1.63    | 1.68    | 0.95    | 2.04    | -0.63                      |
| Return on real estate investments (percent)                                | 1.96    | 3.10    | 3.53    | 1.48    | 3.04    | 5.13                       |
| Return on fund (percent)   | -0.87   | 5.28    | 2.37    | 0.07    | 3.25    | 4.36                       |
| Return on equity and fixed-income investments (percent)                    | -0.95   | 5.33    | 2.35    | 0.06    | 3.26    | 4.32                       |
| Return on benchmark equity and fixed-income indices (percent)              | -1.33   | 5.13    | 2.43    | 0.58    | 3.38    | 3.73                       |
| Relative return on equity and fixed-income investments (percentage points) | 0.38    | 0.19    | -0.08   | -0.52   | -0.13   | 0.59                       |
| Relative return on equity investments (percentage points)                  | 0.40    | 0.39    | 0.09    | -0.76   | -0.17   | 0.81                       |
| Relative return on fixed-income investments (percentage points)            | 0.34    | -0.14   | -0.39   | -0.14   | -0.07   | 0.22                       |
| <b>Returns in kroner (percent)</b>   |         |         |         |         |         |                            |
| Return on equity investments   | -1.17   | 11.29   | 16.14   | -0.20   | 7.09    | 9.99                       |
| Return on fixed-income investments   | -3.14   | 5.17    | 14.94   | 1.24    | 5.06    | 1.87                       |
| Return on real estate investments  | 1.00    | 6.70    | 17.04   | 1.78    | 6.09    | 7.77                       |
| Return on fund   | -1.81   | 8.95    | 15.72   | 0.36    | 6.31    | 6.98                       |
| Return on equity and fixed-income investments                              | -1.89   | 9.00    | 15.70   | 0.35    | 6.31    | 6.95                       |

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

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

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

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

Table 4.1 Specification Income/expense from equities and units

| Amounts in NOK million  | 2Q 2015        | 2Q 2014        | Year-to-date<br>30.06.2015 | Year-to-date<br>30.06.2014 | 2014           |
|---|----------------|----------------|----------------------------|----------------------------|----------------|
| Dividends   | 40 148         | 32 545         | 64 385                     | 53 045                     | 87 962         |
| Income from securities lending  | 1 234          | 1 110          | 1 898                      | 1 671                      | 2 578          |
| Realised gain/loss  | 40 197         | 25 216         | 78 287                     | 47 518                     | 75 832         |
| Unrealised gain/loss  | -112 848       | 88 797         | 173 839                    | 83 696                     | 222 149        |
| <b>Income/expense from equities and units<br/>before foreign exchange gain/loss</b> | <b>-31 269</b> | <b>147 668</b> | <b>318 409</b>             | <b>185 930</b>             | <b>388 521</b> |

Table 4.2 Specification Income/expense from bonds

| Amounts in NOK million  | 2Q 2015        | 2Q 2014       | Year-to-date<br>30.06.2015 | Year-to-date<br>30.06.2014 | 2014           |
|---|----------------|---------------|----------------------------|----------------------------|----------------|
| Interest  | 18 115         | 15 640        | 37 694                     | 30 838                     | 65 472         |
| Income from securities lending  | 27             | 4             | 45                         | 12                         | 21             |
| Realised gain/loss  | 6 064          | 4 023         | 17 940                     | 5 117                      | 14 831         |
| Unrealised gain/loss  | -74 293        | 24 100        | -54 029                    | 47 566                     | 77 703         |
| <b>Income/expense from equities and units<br/>before foreign exchange gain/loss</b> | <b>-50 087</b> | <b>43 767</b> | <b>1 650</b>               | <b>83 533</b>              | <b>158 027</b> |

Table 4.3 Specification Income/expense from financial derivatives

| Amounts in NOK million   | 2Q 2015      | 2Q 2014     | Year-to-date<br>30.06.2015 | Year-to-date<br>30.06.2014 | 2014          |
|--|--------------|-------------|----------------------------|----------------------------|---------------|
| Interest   | -175         | -128        | -487                       | -80                        | -285          |
| Realised gain/loss   | 861          | -1 294      | -1 014                     | -2 792                     | -4 226        |
| Unrealised gain/loss   | 3 610        | 852         | 2 977                      | 1 025                      | -3 697        |
| <b>Income/expense from financial derivatives<br/>before foreign exchange gain/loss</b> | <b>4 296</b> | <b>-570</b> | <b>1 476</b>               | <b>-1 847</b>              | <b>-8 208</b> |

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

Table 5.1 Equities and units

| Amounts in NOK million          | 30.06.2015                     |                   | 31.12.2014                     |                   |
|---------------------------------|--------------------------------|-------------------|--------------------------------|-------------------|
|                                 | Fair value including dividends | Accrued dividends | Fair value including dividends | Accrued dividends |
| Listed equities and units       | 4 350 399                      | 7 268             | 3 957 695                      | 7 012             |
| <b>Total equities and units</b> | <b>4 350 399</b>               | <b>7 268</b>      | <b>3 957 695</b>               | <b>7 012</b>      |
| <i>Of which equities lent</i>   | <i>255 033</i>                 |                   | <i>166 842</i>                 |                   |

Table 5.2 Bonds

| Amounts in NOK million     | 30.06.2015       |                                       |                  | 31.12.2014       |                                       |                  |
|----------------------------|------------------|---------------------------------------|------------------|------------------|---------------------------------------|------------------|
|                            | Nominal value    | Fair value including accrued interest | Accrued interest | Nominal value    | Fair value including accrued interest | Accrued interest |
| Government bonds           | 1 159 422        | 1 322 681                             | 11 247           | 1 095 771        | 1 296 796                             | 9 832            |
| Government-related bonds   | 320 550          | 339 318                               | 2 928            | 316 496          | 343 771                               | 3 308            |
| Inflation-linked bonds     | 71 399           | 87 605                                | 413              | 52 788           | 63 715                                | 222              |
| Corporate bonds            | 489 871          | 504 686                               | 5 311            | 430 017          | 454 559                               | 4 933            |
| Securitised bonds          | 164 481          | 164 857                               | 1 804            | 176 199          | 190 948                               | 2 767            |
| <b>Total bonds</b>         | <b>2 205 723</b> | <b>2 419 147</b>                      | <b>21 703</b>    | <b>2 071 271</b> | <b>2 349 789</b>                      | <b>21 062</b>    |
| <i>Of which bonds lent</i> |                  | <i>89 227</i>                         |                  |                  | <i>25 163</i>                         |                  |

Table 5.3 Financial derivatives

| Amounts in NOK million             | 30.06.2015      |                  |                      | 31.12.2014      |                  |                      |
|------------------------------------|-----------------|------------------|----------------------|-----------------|------------------|----------------------|
|                                    | Notional amount | Fair value Asset | Fair value Liability | Notional amount | Fair value Asset | Fair value Liability |
| Foreign exchange derivatives       | 339 515         | 2 993            | 519                  | 204 179         | 5 275            | 3 141                |
| Interest rate derivatives          | 43 155          | 1 150            | 3 541                | 37 194          | 112              | 4 754                |
| Equity derivatives*                | 6 891           | 3 519            | -                    | 1 596           | 390              | -                    |
| <b>Total financial derivatives</b> | <b>389 561</b>  | <b>7 662</b>     | <b>4 060</b>         | <b>242 969</b>  | <b>5 777</b>     | <b>7 895</b>         |

\* Equity derivatives include rights and warrants (previously presented as options), and participatory certificates.

## NOTE 6 REAL ESTATE

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

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

Table 6.1 Income/expense from Real estate

| Amounts in NOK million   | 2Q 2015      | 2Q 2014      | Year-to-date<br>30.06.2015 | Year-to-date<br>30.06.2014 | 2014         |
|--|--------------|--------------|----------------------------|----------------------------|--------------|
| Dividend   | 388          | 171          | 710                        | 226                        | 598          |
| Interest income  | 450          | 316          | 753                        | 654                        | 1 368        |
| Unrealised gain/loss   | 3 544        | 1 396        | 5 919                      | 2 219                      | 5 194        |
| <b>Income/expense from Real estate before foreign exchange gain/loss</b> | <b>4 382</b> | <b>1 883</b> | <b>7 382</b>               | <b>3 099</b>               | <b>7 160</b> |

Table 6.2 Changes in carrying amounts Real estate

| Amounts in NOK million                             | 30.06.2015     | 31.12.2014     |
|--|----------------|----------------|
| Real estate, opening balance 1 January             | 106 431        | 51 032         |
| Additions new investments                          | 26 134         | 37 711         |
| Unrealised gain/loss                               | 5 919          | 5 194          |
| Foreign currency translation effect                | 3 425          | 12 494         |
| <b>Real estate, closing balance for the period</b> | <b>141 909</b> | <b>106 431</b> |

### UNDERLYING REAL ESTATE COMPANIES

Real estate subsidiaries have investments in other non-consolidated, unlisted companies. These companies in turn invest in real estate assets, primarily properties. The fair value of *Real estate* is considered to be the sum of all underlying assets and liabilities measured at fair value, adjusted for the GPFG's ownership share. Assets and liabilities are specified in table 6.4. For further information on fair value measurement of real estate assets and liabilities, see note 7 *Fair value measurement*.

Table 6.3 provides a specification of the GPFG's share of income generated in the underlying real estate companies. Income generated through rental income, after deduction of expenses, can be distributed to the GPFG in the form of interest and dividends as specified

in table 6.1. Unrealised gain/loss presented in table 6.1 includes undistributed profits and will therefore not reconcile with fair value changes in table 6.3, which solely comprise fair values changes of properties and debt.

Table 6.3 Income from underlying real estate companies

| Amounts in NOK million   | 2Q 2015      | 2Q 2014      | Year-to-date<br>30.06.2015 | Year-to-date<br>30.06.2014 | 2014         |
|--|--------------|--------------|----------------------------|----------------------------|--------------|
| Net rental income*   | 1 539        | 732          | 2 981                      | 1 582                      | 3 747        |
| Fair value changes - buildings                                     | 3 407        | 1 486        | 5 444                      | 2 153                      | 5 464        |
| Fair value changes - debt  | 398          | -121         | 253                        | -151                       | -395         |
| Transaction costs  | -134         | -2           | -178                       | -95                        | -586         |
| Interest expense external debt                                     | -155         | -68          | -294                       | -133                       | -354         |
| Tax expense payable  | -28          | -18          | -42                        | -43                        | -81          |
| Change in deferred tax   | -189         | -57          | -236                       | -81                        | -292         |
| Operating expenses within the limit from the Ministry of Finance** | -20          | -19          | -41                        | -38                        | -83          |
| Other expenses***  | -436         | -50          | -505                       | -95                        | -261         |
| <b>Net income real estate companies</b>                            | <b>4 382</b> | <b>1 883</b> | <b>7 382</b>               | <b>3 099</b>               | <b>7 160</b> |

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

\*\* See table 9.2 for specification of the operating expenses that are included in the management fee limit from the Ministry of Finance.

\*\*\* Other expenses comprise fees to external managers for management of the properties, as well as other costs not included in the management fee limit from the Ministry of Finance.

Table 6.4 provides a specification of the GPFG's share of assets and liabilities included in the underlying real estate companies.

Table 6.4 Specification assets and liabilities real estate companies

| Amounts in NOK million                                    | 30.06.2015     | 31.12.2014     |
|---|----------------|----------------|
| Deposits in banks   | 2 245          | 1 170          |
| Properties  | 158 567        | 118 515        |
| External debt   | -16 917        | -11 985        |
| Tax payable   | -175           | -98            |
| Net deferred tax  | -766           | -520           |
| Net other assets and liabilities                          | -1 045         | -651           |
| <b>Total assets and liabilities real estate companies</b> | <b>141 909</b> | <b>106 431</b> |

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

presented in the balance sheet as *Equities and units*, and amount to NOK 42 256 million at the quarter-end, compared to NOK 33 238 million at year-end 2014.

## NOTE 7 FAIR VALUE MEASUREMENT

### 1. INTRODUCTION

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

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

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

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

#### SIGNIFICANT ESTIMATE

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

### 2. FAIR VALUE HIERARCHY

Table 7.1 Investments by level of valuation uncertainty

| Amounts in NOK million              | Level 1          |                  | Level 2        |                | Level 3        |                | Total            |                  |
|-------------------------------------|------------------|------------------|----------------|----------------|----------------|----------------|------------------|------------------|
|                                     | 30.06.2015       | 31.12.2014       | 30.06.2015     | 31.12.2014     | 30.06.2015     | 31.12.2014     | 30.06.2015       | 31.12.2014       |
| Equities and units                  | 4 309 653        | 3 925 476        | 36 250         | 30 236         | 4 496          | 1 983          | 4 350 399        | 3 957 695        |
| Government bonds                    | 1 191 466        | 1 141 268        | 131 215        | 155 528        | -              | -              | 1 322 681        | 1 296 796        |
| Government-related bonds            | 299 993          | 308 397          | 38 359         | 27 424         | 966            | 7 950          | 339 318          | 343 771          |
| Inflation-linked bonds              | 75 067           | 55 613           | 12 538         | 8 102          | -              | -              | 87 605           | 63 715           |
| Corporate bonds                     | 477 488          | 246 887          | 26 468         | 192 266        | 730            | 15 406         | 504 686          | 454 559          |
| Securitised bonds                   | 154 331          | 172 332          | 9 000          | 16 703         | 1 526          | 1 913          | 164 857          | 190 948          |
| <b>Total bonds</b>                  | <b>2 198 345</b> | <b>1 924 497</b> | <b>217 580</b> | <b>400 023</b> | <b>3 222</b>   | <b>25 269</b>  | <b>2 419 147</b> | <b>2 349 789</b> |
| Financial derivatives (assets)      | 460              | -                | 7 202          | 5 777          | -              | -              | 7 662            | 5 777            |
| Financial derivatives (liabilities) | -                | -                | -4 060         | -7 895         | -              | -              | -4 060           | -7 895           |
| <b>Total financial derivatives</b>  | <b>460</b>       | <b>-</b>         | <b>3 142</b>   | <b>-2 118</b>  | <b>-</b>       | <b>-</b>       | <b>3 602</b>     | <b>-2 118</b>    |
| Real estate                         | -                | -                | -              | -              | 141 909        | 106 431        | 141 909          | 106 431          |
| Other*                              | -                | -                | -17 584        | 18 942         | -              | -              | -17 584          | 18 942           |
| <b>Total</b>                        | <b>6 508 458</b> | <b>5 849 973</b> | <b>239 388</b> | <b>447 083</b> | <b>149 627</b> | <b>133 683</b> | <b>6 897 473</b> | <b>6 430 739</b> |
| <b>Total (percent)</b>              | <b>94.3</b>      | <b>91.0</b>      | <b>3.5</b>     | <b>6.9</b>     | <b>2.2</b>     | <b>2.1</b>     | <b>100.0</b>     | <b>100.0</b>     |

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

Valuation uncertainty for the GPF as a whole at the end of the second quarter of 2015 was essentially unchanged compared to the end of 2014. The majority of the total portfolio has low valuation uncertainty and is classified as Level 1 or 2 (97.8 percent at the end of

the second quarter of 2015, compared to 97.9 percent at year-end 2014). However, there have been movements between Level 1 and Level 2 in the first half of 2015. These are described further in section 3 of this note.

### Equities and units

Valuation uncertainty for equities and units is largely unchanged during the quarter. Measured as a share of total value, virtually all equities and units (99.1 percent) are valued on the basis of official closing prices from stock exchanges and are classified as Level 1. A few equities and units (0.8 percent) are classified as Level 2. These include equities that have recently been suspended or illiquid equities that are not traded daily. Some holdings (0.1 percent) that are not listed, or where trading has been suspended over a longer period, have high valuation uncertainty related to fair value and are classified as Level 3.

### Bonds

The majority of bonds (90.9 percent) are classified as Level 1 at the end of the second quarter. Bonds in this level have observable, executable market quotes. A minority of bonds (9.0 percent) are classified as Level 2. These securities do not have a sufficient amount of executable quotes or they are priced based on comparable but liquid bonds. A few bonds and fixed-income securities (0.1 percent) that do not have observable quotes are classified as Level 3.

### Real estate

All real estate investments are classified as Level 3, since models are used to value the underlying assets and liabilities with extensive use of non-observable market inputs. All real estate investments are measured at the value determined by external valuers, with the exception of newly acquired properties where the purchase price, excluding transaction costs, is considered to be the best estimate of fair value.

## 3. MOVEMENTS BETWEEN LEVELS OF VALUATION UNCERTAINTY

### Reclassifications between Level 1 and Level 2

There have not been any significant changes between levels within equities and units compared to year-end. Equities in Greek companies and some Chinese companies that have recently been suspended from trading, have been moved from Level 1 to Level 2 during the second quarter. Other equities that were previously suspended, but where trading has resumed during the quarter, are reclassified to Level 1. Measured as a share of total value, the allocation between levels remains virtually unchanged.

In the second quarter, the share of bonds allocated to Level 1 or Level 2 is almost unchanged. A few bonds that did not have a sufficient amount of observable quotes at the quarter-end have been reclassified from Level 1 to Level 2.

Compared to year-end 2014, there is no significant change in actual valuation uncertainty for bonds. However, during the first quarter a significant proportion of bonds were reclassified from Level 2 to Level 1. The main reason for this reclassification was use of a broader data foundation, providing increased marked transparency and insight into liquidity through further access to detailed market information, including trading volumes in the market over a longer period.

Table 7.2 Specification of changes in Level 3 holdings

| Amounts in NOK million | 01.01.2015     | Purchases     | Sales       | Settlements | Net gain/loss | Transferred into Level 3 | Transferred out of Level 3 | Foreign exchange gain/loss | 30.06.2015     |
|------------------------|----------------|---------------|-------------|-------------|---------------|--------------------------|----------------------------|----------------------------|----------------|
| Equities and units     | 1 983          | 394           | -129        | 16          | -231          | 2 612                    | -175                       | 26                         | 4 496          |
| Bonds                  | 25 269         | 2 859         | -505        | -243        | -372          | 117                      | -24 188                    | 285                        | 3 222          |
| Real estate            | 106 431        | 26 134        | -           | -           | 5 919         | -                        | -                          | 3 425                      | 141 909        |
| <b>Total</b>           | <b>133 683</b> | <b>29 387</b> | <b>-634</b> | <b>-227</b> | <b>5 316</b>  | <b>2 729</b>             | <b>-24 363</b>             | <b>3 736</b>               | <b>149 627</b> |

| Amounts in NOK million | 01.01.2014    | Purchases     | Sales       | Settlements | Net gain/loss | Transferred into Level 3 | Transferred out of Level 3 | Foreign exchange gain/loss | 31.12.2014     |
|------------------------|---------------|---------------|-------------|-------------|---------------|--------------------------|----------------------------|----------------------------|----------------|
| Equities and units     | 1 753         | 180           | -138        | 19          | -548          | 417                      | -67                        | 367                        | 1 983          |
| Bonds                  | 1 571         | 9 247         | -173        | -230        | 68            | 10 455                   | -96                        | 4 427                      | 25 269         |
| Real estate            | 51 032        | 37 711        | -           | -           | 5 194         | -                        | -                          | 12 494                     | 106 431        |
| <b>Total</b>           | <b>54 356</b> | <b>47 138</b> | <b>-311</b> | <b>-211</b> | <b>4 714</b>  | <b>10 872</b>            | <b>-163</b>                | <b>17 288</b>              | <b>133 683</b> |

Equities and units in Level 3 have increased compared to the end of 2014. This is due to individual equities that have been suspended from trading over a longer period.

The relative share of bonds in Level 3 has decreased significantly compared to year-end 2014. This is largely

due to reclassifications in the first quarter. The reason for these reclassifications is described above. Additionally, several bond holdings have been reclassified to a higher level in the second quarter. These bonds are mainly priced based on comparable issues and have thus lower uncertainty regarding the determination of fair value.

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

Table 7.3 Additional specification Level 3 and sensitivities

| Amounts in NOK million   | Specification of Level 3 holdings 30.06.2015 | Sensitivities 30.06.2015 |                    | Specification of Level 3 holdings 31.12.2014 | Sensitivities 31.12.2014 |                    |
|--------------------------|--|--------------------------|--------------------|--|--------------------------|--------------------|
|                          |  | Unfavourable changes     | Favourable changes |  | Unfavourable changes     | Favourable changes |
| Equities and units       | 4 496  | -3 372                   | 836                | 1 983  | -843                     | 587                |
| Government-related bonds | 966  | -509                     | 32                 | 7 950  | -781                     | 780                |
| Corporate bonds          | 730  | -125                     | 177                | 15 406                                       | -1 884                   | 1 640              |
| Securitised bonds        | 1 526  | -153                     | 153                | 1 913  | -191                     | 287                |
| <b>Total bonds</b>       | <b>3 222</b>                                 | <b>-787</b>              | <b>362</b>         | <b>25 269</b>                                | <b>-2 856</b>            | <b>2 707</b>       |
| Real estate              | 141 909                                      | -7 377                   | 8 095              | 106 431                                      | -5 532                   | 6 071              |
| <b>Total</b>             | <b>149 627</b>                               | <b>-11 536</b>           | <b>9 293</b>       | <b>133 683</b>                               | <b>-9 231</b>            | <b>9 365</b>       |

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

Uncertainty associated with the determination of fair value for real estate investments is essentially unchanged from last year-end, however the total valuation uncertainty measured in kroner has increased in line with the growth in the portfolio. Property values are particularly sensitive to changes in the rate of return (discount rate) and assumptions influencing future revenues. In an unfavourable scenario, changing the discount rate by +0.2 percentage points, and future market rents by -2 percent will result in a decrease in value of the real estate portfolio of approximately 5.2

percent or NOK 7 377 million. In a favourable scenario, a similar change in the discount rate of -0.2 percentage points and an increase in future market rents of 2 percent will increase the value of the real estate portfolio by 5.7 percent or NOK 8 095 million.

The relative valuation uncertainty for equities has increased somewhat compared to year-end. This is because the composition of companies allocated to Level 3 has changed, while there has also been an increase in values in this level. The relative spread in the sensitivity analysis for bonds is virtually unchanged compared to year-end. However, the up- and downside potential, measured in kroner, is lower since the bond values in Level 3 have decreased.

#### NOTE 8 RISK

##### MARKET RISK

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

##### Asset class per country and currency

An important dimension within market risk is concentration risk. Table 8.1 provides a picture of how the GPFG is invested across the three asset classes, grouped by countries for equities and real estate, and by currency for fixed-income investments. The table shows that equity investments as a percentage of the GPFG have increased from 61.3 percent at year-end 2014 to 62.8 percent at the end of the second quarter.



Table 8.1 Allocation by asset class, country and currency

| Asset class                | Market value in percent by country and currency* |             |                  |             | Market value in percent by asset class |             | Assets minus liabilities excluding management fee |                  |
|----------------------------|--|-------------|------------------|-------------|--|-------------|---|------------------|
|                            | Market   | 30.06.2015  | Market           | 31.12.2014  | 30.06.2015                             | 31.12.2014  | 30.06.2015  | 31.12.2014       |
| Equities                   | <b>Developed</b>                                 | <b>90.1</b> | <b>Developed</b> | <b>90.2</b> |  |             |   |                  |
|                            | US   | 33.5        | US               | 33.7        |  |             |   |                  |
|                            | UK   | 12.1        | UK               | 12.5        |  |             |   |                  |
|                            | Japan  | 9.1         | Japan            | 7.4         |  |             |   |                  |
|                            | Germany  | 5.9         | Germany          | 6.1         |  |             |   |                  |
|                            | France   | 5.5         | France           | 5.8         |  |             |   |                  |
|                            | Total other                                      | 24.0        | Total other      | 24.7        |  |             |   |                  |
|                            | <b>Emerging</b>                                  | <b>9.9</b>  | <b>Emerging</b>  | <b>9.8</b>  |  |             |   |                  |
|                            | China  | 3.4         | China            | 2.9         |  |             |   |                  |
|                            | Taiwan   | 1.5         | Taiwan           | 1.5         |  |             |   |                  |
|                            | India  | 1.0         | India            | 1.0         |  |             |   |                  |
|                            | Brazil   | 0.7         | Brazil           | 0.9         |  |             |   |                  |
|                            | South Africa                                     | 0.6         | South Africa     | 0.6         |  |             |   |                  |
|                            | Total other                                      | 2.7         | Total other      | 2.9         |  |             |   |                  |
| <b>Total equities</b>      |  |             |                  |             | <b>62.8</b>                            | <b>61.3</b> | <b>4 329 763</b>                                  | <b>3 939 923</b> |
| Fixed income               | <b>Developed</b>                                 | <b>86.9</b> | <b>Developed</b> | <b>87.2</b> |  |             |   |                  |
|                            | US Dollar  | 42.4        | US Dollar        | 41.4        |  |             |   |                  |
|                            | Euro   | 23.3        | Euro             | 24.5        |  |             |   |                  |
|                            | Japanese Yen                                     | 7.2         | Japanese Yen     | 7.4         |  |             |   |                  |
|                            | British Pound                                    | 5.3         | British Pound    | 5.3         |  |             |   |                  |
|                            | Canadian Dollar                                  | 3.3         | Canadian Dollar  | 3.3         |  |             |   |                  |
|                            | Total other                                      | 5.4         | Total other      | 5.3         |  |             |   |                  |
|                            | <b>Emerging</b>                                  | <b>13.1</b> | <b>Emerging</b>  | <b>12.8</b> |  |             |   |                  |
|                            | Mexican Peso                                     | 1.8         | Mexican Peso     | 1.8         |  |             |   |                  |
|                            | South Korean Won                                 | 1.6         | Brazilian Real   | 1.5         |  |             |   |                  |
|                            | Brazilian Real                                   | 1.2         | South Korean Won | 1.5         |  |             |   |                  |
|                            | Turkish Lira                                     | 1.1         | Turkish Lira     | 1.1         |  |             |   |                  |
|                            | Indian Rupee                                     | 1.0         | Indian Rupee     | 1.0         |  |             |   |                  |
|                            | Total other                                      | 6.4         | Total other      | 5.9         |  |             |   |                  |
| <b>Total fixed income</b>  |  |             |                  |             | <b>34.5</b>                            | <b>36.5</b> | <b>2 381 540</b>                                  | <b>2 349 948</b> |
| Real estate                | US   | 40.1        | UK               | 30.9        |  |             |   |                  |
|                            | UK   | 29.4        | US               | 30.7        |  |             |   |                  |
|                            | France   | 12.3        | France           | 15.9        |  |             |   |                  |
|                            | Germany  | 7.4         | Germany          | 9.7         |  |             |   |                  |
|                            | Switzerland                                      | 4.6         | Switzerland      | 5.5         |  |             |   |                  |
|                            | Total other                                      | 6.2         | Total other      | 7.3         |  |             |   |                  |
| <b>Total real estate**</b> |  |             |                  |             | <b>2.7</b>                             | <b>2.2</b>  | <b>186 169</b>                                    | <b>140 868</b>   |

\* Market value per country and currency includes derivatives and cash.

\*\* Total real estate includes listed real estate investments. These are presented in the balance sheet as *Equities and units*.

### Volatility

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

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

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

|           | Expected volatility, actual portfolio |          |          |              |            |          |          |              |
|-----------|---------------------------------------|----------|----------|--------------|------------|----------|----------|--------------|
|           | 30.06.2015                            | Min 2015 | Max 2015 | Average 2015 | 31.12.2014 | Min 2014 | Max 2014 | Average 2014 |
| Portfolio | 9.8                                   | 8.1      | 9.8      | 8.9          | 8.2        | 7.9      | 9.3      | 8.7          |
| Equities  | 12.2                                  | 10.9     | 12.2     | 11.5         | 11.1       | 11.0     | 14.4     | 13.0         |
| Bonds     | 9.4                                   | 7.9      | 9.5      | 8.8          | 7.9        | 7.5      | 8.9      | 8.3          |

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

|           | Expected relative volatility |          |          |              |            |          |          |              |
|-----------|------------------------------|----------|----------|--------------|------------|----------|----------|--------------|
|           | 30.06.2015                   | Min 2015 | Max 2015 | Average 2015 | 31.12.2014 | Min 2014 | Max 2014 | Average 2014 |
| Portfolio | 32                           | 32       | 38       | 35           | 38         | 38       | 63       | 51           |
| Equities  | 42                           | 42       | 52       | 47           | 52         | 49       | 71       | 60           |
| Bonds     | 58                           | 55       | 64       | 59           | 59         | 52       | 69       | 60           |

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

Risk measured in terms of expected volatility indicates an increase for the portfolio in the second quarter, from 8.2 at the start of the year, to 9.8. Expected volatility for equities has increased from 11.1 to 12.2, while expected volatility for bonds has increased from 7.9 to 9.4. The increase in volatility is primarily due to greater fluctuations in currency markets. The risk measure indicates

an expected annual value fluctuation of 9.8 percent, or approximately NOK 670 billion, at the end of the quarter.

### CREDIT RISK

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

Table 8.4 Bond portfolio specified by credit rating

| Amounts in NOK million, 30.06.2015 | AAA            | AA             | A              | BBB            | Lower rating  | Total            |
|------------------------------------|----------------|----------------|----------------|----------------|---------------|------------------|
| Government bonds                   | 613 509        | 215 520        | 287 479        | 202 924        | 3 249         | 1 322 681        |
| Government-related bonds           | 129 368        | 153 396        | 24 387         | 29 542         | 2 625         | 339 318          |
| Inflation-linked bonds             | 56 873         | 7 148          | 1 307          | 22 277         | -             | 87 605           |
| Corporate bonds                    | 2 029          | 39 305         | 226 772        | 226 523        | 10 057        | 504 686          |
| Securitised bonds                  | 132 723        | 15 602         | 10 219         | 6 187          | 126           | 164 857          |
| <b>Total bonds</b>                 | <b>934 502</b> | <b>430 971</b> | <b>550 164</b> | <b>487 453</b> | <b>16 057</b> | <b>2 419 147</b> |

| Amounts in NOK million, 31.12.2014 | AAA            | AA             | A              | BBB            | Lower rating  | Total            |
|------------------------------------|----------------|----------------|----------------|----------------|---------------|------------------|
| Government bonds                   | 606 852        | 186 044        | 277 444        | 223 334        | 3 122         | 1 296 796        |
| Government-related bonds           | 142 390        | 142 134        | 23 671         | 32 777         | 2 799         | 343 771          |
| Inflation-linked bonds             | 34 971         | 5 421          | 1 566          | 21 757         | -             | 63 715           |
| Corporate bonds                    | 1 574          | 37 266         | 219 892        | 186 376        | 9 451         | 454 559          |
| Securitised bonds                  | 143 441        | 9 858          | 17 824         | 18 786         | 1 039         | 190 948          |
| <b>Total bonds</b>                 | <b>929 228</b> | <b>380 723</b> | <b>540 397</b> | <b>483 030</b> | <b>16 411</b> | <b>2 349 789</b> |

The proportion of bond holdings categorised with a credit rating of AAA decreased to 38.6 percent at the end of the second quarter, compared to 39.5 percent at year-end 2014. This is largely due to a downgrade of Austrian government bonds from category AAA to category AA, and a reduction in holdings of securitised bonds in category AAA. The BBB category decreased to 20.1 percent from 20.6 percent at the end of the second quarter compared with year-end 2014. Within this category, the proportion of corporate bonds increased by 1.4 percentage points while government

bonds fell by 1.1 percentage point at the end of the second quarter compared with the year-end 2014. The category *Lower rating* was stable at 0.7 percent at the end of the second quarter, compared to year-end 2014. The overall credit quality of the bond portfolio has not changed significantly since year-end 2014.

#### COUNTERPARTY RISK

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

Table 8.5 Counterparty risk by type of position

| Amounts in NOK million, 30.06.2015                              | Gross exposure | Effect of netting | Collateral and guarantees | Net exposure  |
|---|----------------|-------------------|---------------------------|---------------|
| Time deposits and unsecured bank deposits*                      | 16 029         | -                 | -                         | 16 029        |
| OTC derivatives including foreign exchange contracts            | 21 756         | 6 743             | 913                       | 14 100        |
| Cleared OTC and listed derivatives**                            | 6 839          | -                 | -                         | 6 839         |
| Repurchase and reverse repurchase agreements                    | 3 416          | 247               | 263                       | 2 906         |
| Securities lending transactions                                 | 32 557         | -                 | 29 498                    | 3 059         |
| Settlement risk towards broker and long settlement transactions | 281            | -                 | -                         | 281           |
| Participatory certificates                                      | 2 824          | -                 | -                         | 2 824         |
| <b>Total</b>  | <b>83 702</b>  | <b>6 990</b>      | <b>30 674</b>             | <b>46 038</b> |

| Amounts in NOK million, 31.12.2014                              | Gross exposure | Effect of netting | Collateral and guarantees | Net exposure  |
|---|----------------|-------------------|---------------------------|---------------|
| Time deposits and unsecured bank deposits*                      | 13 268         | -                 | -                         | 13 268        |
| OTC derivatives including foreign exchange contracts            | 10 162         | 5 254             | -1 658                    | 6 566         |
| Cleared OTC and listed derivatives**                            | 5 603          | -                 | -                         | 5 603         |
| Repurchase and reverse repurchase agreements                    | 989            | -                 | -                         | 989           |
| Securities lending transactions                                 | 16 480         | -                 | 15 345                    | 1 135         |
| Settlement risk towards broker and long settlement transactions | 15             | -                 | -                         | 15            |
| Participatory certificates                                      | -              | -                 | -                         | -             |
| <b>Total</b>  | <b>46 517</b>  | <b>5 254</b>      | <b>13 687</b>             | <b>27 576</b> |

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

\*\* Relates to futures trades and interest rate swaps cleared by a central clearing counterparty.

Table 8.5 shows counterparty risk by type of position as at 30 June 2015, aggregated for the GPFG.

Counterparty risk measured in terms of both gross and net exposure has increased since year-end 2014 for all types of positions. The increase in gross risk exposure is mainly due to an increase in securities lending and higher settlement risk from foreign exchange contracts at the end of the second quarter compared with year-end 2014. There were few foreign exchange contracts at year-end, while activity in foreign exchange contracts was higher at the end of the second quarter, especially for foreign exchange contracts that generate settlement risk. Settlement risk is mainly generated by foreign

exchange contracts in foreign currencies related to emerging markets. The net risk exposure increased by around 70 percent at the end of the second quarter compared to year-end 2014. This is mainly due to higher counterparty risk associated with foreign exchange contracts, the use of participatory certificates, higher bank deposits and higher volumes of repurchase and reverse repurchase agreements. Net exposure from securities lending transactions is low, since the agent for lending guarantees large parts of the securities lending programme. Participatory certificates are instruments that give exposure to the price performance of equities, while at the same time giving counterparty risk exposure against the issuer of the certificate.

## NOTE 9 MANAGEMENT COSTS

The GPFG is managed by Norges Bank. Costs relating to the management of the fund are mainly incurred in Norges Bank. Management costs are also incurred in real estate subsidiaries.

### MANAGEMENT COSTS IN NORGES BANK

The Ministry of Finance reimburses Norges Bank for costs incurred in connection with the management of

the GPFG, in the form of a management fee. The management fee is equivalent to the actual costs incurred by Norges Bank, including performance-based fees to external managers, and is expensed in the income statement line *Management fee*. Costs included in the management fee are specified in table 9.1.

Table 9.1 Management fee

| Amounts in NOK million                                    | 2Q 2015    | 2Q 2014    | Year-to-date |              | Year-to-date |              | 2014         | Basis points |
|---|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   |            |            | 30.06.2015   | Basis points | 30.06.2014   | Basis points |              |              |
| Salary, social security and other personnel-related costs | 234        | 172        | 507          |              | 350          |              | 763          |              |
| Custody costs   | 87         | 108        | 195          |              | 229          |              | 457          |              |
| IT services, systems and data                             | 158        | 114        | 298          |              | 233          |              | 488          |              |
| Research, consulting and legal fees                       | 55         | 36         | 111          |              | 72           |              | 169          |              |
| Other costs   | 42         | 32         | 82           |              | 63           |              | 119          |              |
| Allocated common costs Norges Bank                        | 31         | 28         | 62           |              | 57           |              | 112          |              |
| Base fees to external managers                            | 187        | 133        | 366          |              | 237          |              | 445          |              |
| <b>Management fee excluding performance-based fees</b>    | <b>794</b> | <b>623</b> | <b>1 621</b> | <b>4.8</b>   | <b>1 241</b> | <b>4.8</b>   | <b>2 553</b> | <b>4.7</b>   |
| Performance-based fees to external managers               | 13         | -188       | 117          |              | 128          |              | 649          |              |
| <b>Total management fee</b>                               | <b>807</b> | <b>435</b> | <b>1 738</b> | <b>5.2</b>   | <b>1 369</b> | <b>5.3</b>   | <b>3 202</b> | <b>5.9</b>   |

## MANAGEMENT COSTS IN REAL ESTATE SUBSIDIARIES

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

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

Table 9.2 Management costs, real estate subsidiaries

| Amounts in NOK million                                    | 2Q 2015   | 2Q 2014   | Year-to-date<br>30.06.2015 | Year-to-date<br>30.06.2014 | 2014      |
|---|-----------|-----------|----------------------------|----------------------------|-----------|
| Salary, social security and other personnel-related costs | 6         | 7         | 11                         | 13                         | 25        |
| IT services, systems and data                             | 4         | 3         | 9                          | 6                          | 14        |
| Research, consulting and legal fees                       | 4         | 4         | 8                          | 8                          | 22        |
| Fees related to real estate asset management (external)   | 2         | 1         | 5                          | 3                          | 7         |
| Other costs, subsidiaries                                 | 4         | 4         | 8                          | 8                          | 15        |
| <b>Total management costs, real estate subsidiaries</b>   | <b>20</b> | <b>19</b> | <b>41</b>                  | <b>38</b>                  | <b>83</b> |

Operating expenses are also incurred in real estate subsidiaries related to the ongoing maintenance and operation of properties and leases. These are not defined as management costs, since they are directly related to the underlying properties, and are not part of the management of the real estate portfolio. Management costs and operating expenses are also incurred in partly-owned real estate companies.

Both management costs and operating expenses that are incurred in fully and partly-owned real estate companies are expensed directly in the portfolio result in the income statement line *Income/expense from Real estate*. See table 6.3 in note 6 *Real estate* for further information.

## UPPER LIMIT FOR REIMBURSEMENT OF MANAGEMENT COSTS

The Ministry of Finance has established an upper limit for the reimbursement of management costs. For 2015, the sum of total management costs incurred in Norges Bank and real estate subsidiaries, excluding performance-

based fees to external managers, is limited to 9 basis points of average assets under management. Other operating expenses that are incurred in real estate subsidiaries, as well as costs incurred in partly-owned real estate companies, are not included in the costs that are measured against this limit.

Total management costs that are measured against the limit amount to NOK 814 million in the second quarter of 2015. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 794 million, and management costs in real estate subsidiaries of NOK 20 million. This corresponds to 4.9 basis points of assets under management on an annual basis.

Performance-based fees to external managers amount to NOK 13 million in the second quarter of 2015, and total management costs including performance-based fees amount to NOK 827 million. This corresponds to 5.3 basis points of assets under management on an annual basis.

**To the Supervisory Council of Norges Bank**

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

We have reviewed the financial reporting of the Government Pension Fund Global. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio of the Government Pension Fund Global are included in the financial reporting. The financial reporting comprises the balance sheet as at 30 June 2015, profit/loss for the period and total comprehensive income, the statement of changes in owner's capital, the statement of cash flows for the six-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, 12 August 2015

**Deloitte AS**

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



