NORGES BANK
INVESTMENT MANAGEMENT

1Q|18

GOVERNMENT PENSION FUND GLOBAL

QUARTERLY REPORT /2018

HIGHLIGHTS

First quarter 2018 in brief

-1.5%

-171 billion kroner

The Government Pension Fund Global returned **-1.5** percent, or **-171** billion kroner, in the first quarter of 2018.

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EQUITY INVESTMENTS

-2.2%

UNLISTED REAL ESTATE INVESTMENTS

2.5%

FIXED-INCOME INVESTMENTS

-0.4%

Equity investments returned **-2.2** percent.
Investments in unlisted real estate returned **2.5** percent.
Fixed-income investments returned **-0.4** percent.

The return on the fund's investments was **0.1** percentage point higher than the return on the benchmark index the fund is measured against.

8,124

billion kroner

The fund had a market value of **8,124** billion kroner at the end of the quarter and was invested **66.2** percent in equities, **2.7** percent in unlisted real estate and **31.2** percent in fixed income.

EQUITY INVESTMENTS

66.2%

UNLISTED REAL ESTATE INVESTMENTS

2.7%

FIXED-INCOME INVESTMENTS

31.2%

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Investments

EQUITIES

Equity investments, which accounted for 66.2 percent of the fund at the end of the quarter, returned -2.2 percent. Returns in the quarter were coloured by growing uncertainty and increased volatility in global stock markets. Stronger US wage growth pushed up inflation, and there were expectations of more rapidly rising interest rates. The end of the period brought concerns about increased protectionism, and a strong return on technology stocks earlier in the quarter partly reversed.

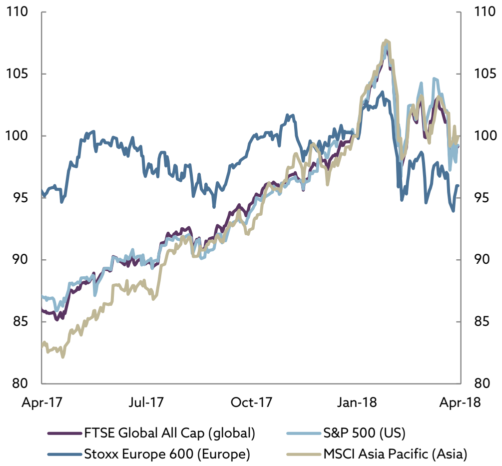
Negative returns in the main markets

North American stocks returned -2.3 percent and amounted to 38.3 percent of the equity portfolio. US stocks, which were the fund's single-largest market with 36.1 percent of its equity investments, returned -2.0 percent, or -0.6 percent in local currency.

European shares returned -3.0 percent and accounted for 35.8 percent of the fund's equities at the end of the quarter. The UK, which was the fund's largest European market with 9.4 percent of its equity investments, returned -4.0 percent, or -6.1 percent in local currency.

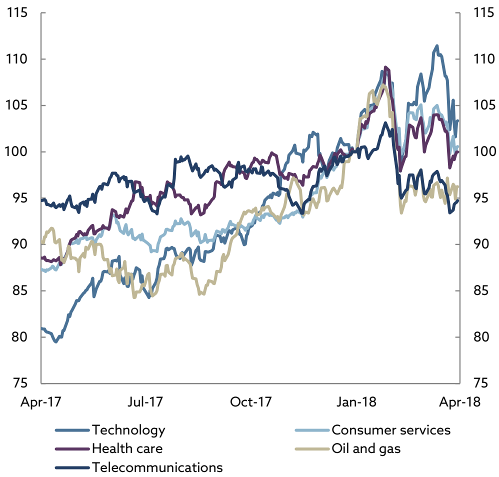
Stocks in Asia and Oceania, which made up 23.1 percent of the fund's equity investments, returned -1.4 percent. Japanese stocks returned -0.9 percent, or -5.1 percent in local currency, and amounted to 9.2 percent of equity investments.

Chart 1 Price developments in regional equity markets. Measured in US dollars, except for the Stoxx Europe 600, which is measured in euros. Indexed total return 31.12.2017 = 100



Source: Bloomberg

Chart 2 Price developments in various equity sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed total return 31.12.2017 = 100



Source: FTSE

Emerging markets returned 0.6 percent and accounted for 11.5 percent of the equity portfolio. The Chinese stock market, home to 3.9 percent of the fund's equity investments, returned 0.3 percent.

Tech stocks perform best

Technology companies delivered the best performance in the first quarter, returning 1.4 percent, driven by expectations of higher earnings at software and semiconductor producers. Growing regulatory risk undermined returns on Internet companies, however, making a negative contribution to the sector's overall return.

Health care stocks returned -1.1 percent. Merger announcements had a positive effect, while growing debate about the pricing of medicines put pressure on the sector and had a negative impact on returns.

Consumer services companies returned -1.3 percent. Strong returns at some of the largest companies in the sector contributed positively, but media stocks made a negative contribution, with the market concerned about the structural changes facing the traditional media groups.

Telecoms were the weakest performers, returning -6.4 percent. Higher interest rates had a negative effect on this capital-intensive

Table 1 Return on the fund's equity investments in first quarter 2018 by sector. Measured in international currency. Percent

Sector	Return	Share of equity investments[1]
Financials	-2.3	24.4
Industrials	-2.9	14.0
Consumer goods	-3.1	13.2
Technology	1.4	11.8
Consumer services	-1.3	10.4
Health care	-1.1	9.7
Basic materials	-4.7	5.7
Oil and gas	-4.3	5.5
Telecommunications	-6.4	2.7
Utilities	-1.9	2.5

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

Table 2 The fund's largest equity holdings as at 31 March 2018. Millions of kroner

Company	Country	Holding
Apple Inc	US	61,206
Microsoft Corp	US	49,474
Nestlé SA	Switzerland	46,001
Alphabet Inc	US	45,914
Royal Dutch Shell Plc	UK	45,793
Amazon.com Inc	US	45,091
Tencent Holdings Ltd	China	34,978
Novartis AG	Switzerland	31,940
Roche Holding AG	Switzerland	30,037
Samsung Electronics Co Ltd	South Korea	27,768

sector, and earnings expectations in the sector deteriorated due to stiffer competition and stricter regulation.

Individual stocks

The investment in consumer services company Amazon.com Inc made the most positive contribution to the return in the first quarter, followed by technology company Microsoft Corp and consumer services company Netflix Inc. The investments that made the most negative contributions were in consumer goods company Nestlé SA, technology company Facebook Inc and financial services company Wells Fargo & Co.

The fund participated in 40 initial public offerings in the quarter. The largest was at health care company Siemens Healthineers AG, followed by consumer services company iQIYI Inc and industrial company PagSeguro Digital Ltd. The offerings in which the fund invested the most were those in Siemens Healthineers AG, industrial company ADT Inc and PagSeguro Digital Ltd.

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. The fund's currency basket consisted of 34 currencies at the end of the first quarter of 2018. Unless otherwise stated in the text, results are measured in this currency basket.

REAL ESTATE

Unlisted real estate investments amounted to 2.7 percent of the fund at the end of the first quarter and returned 2.5 percent.

The return on unlisted real estate investments depends on rental income, operating expenses, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property acquisitions and disposals. Measured in local currency, rental income net of operating expenses made a positive contribution of 0.9 percentage point to the return, changes in the value of properties and debt 1.4 percentage points, and currency movements 0.2 percentage point.

At an operational level, unlisted and listed real estate investments are managed under a combined strategy for real estate. Investments in listed real estate returned -5.4 percent.

Acquisitions and disposals of unlisted real estate

In January, the fund acquired a new logistics property in San Francisco, paying 29.1 million dollars, or around 243 million kroner, for a 45 percent stake.

Also in January, the fund sold 27 logistics properties in the Chicago area, Florida and New Jersey, receiving 110.1 million dollars, or around 909 million kroner, for its 45 percent stake.

In February, the fund signed an agreement to sell an office property at 31-33 rue de Verdun in Paris. The fund received 63.3 million euros, or around 614.5 million kroner, for its 50 percent interest.

The same month, an agreement was signed to sell the SZ Tower at Hultschiner Strasse 8 in Munich. The fund will receive 122.1 million euros, or around 1.2 billion kroner, for its 50 percent interest in this office property once the deal is completed at the end of April 2018.

In March, the fund agreed to sell the Meudon Campus office property at 2-14 rue de la Verrerie in Paris. The fund will receive 128 million euros, or around 1.2 billion kroner, for its 50 percent stake on completion at the end of May 2018.

Table 3 Return on unlisted real estate investments in first quarter 2018

	Return
Rental income (percentage points)	0.9
Change in value (percentage points)	1.4
Transaction costs (percentage points)	0.0
Result of currency adjustments (percentage points)	0.2
Total (percent)	2.5

Table 4 Value of real estate investments as at 31 March 2018. Millions of kroner

	Value[1]
Unlisted real estate investments	216,549
Listed real estate investments	73,398
Total	**289,947**

[1] Including bank deposits and other receivables

FIXED INCOME

Fixed-income investments accounted for 31.2 percent of the fund at the end of the first quarter and returned -0.4 percent. Global interest rates increased somewhat during the quarter, with the US leading the way.

Varying returns on government bonds

Government bonds accounted for 55.7 percent of the fund's fixed-income investments at the end of the quarter and returned 0.6 percent. The fund's three largest holdings were of US, Japanese and German government bonds.

US Treasuries returned -2.7 percent, or -1.4 percent in local currency, and accounted for 20.7 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. The Federal Reserve raised its key rate by 25 basis points in March, in line with market expectations, and incoming chairman Jerome H. Powell signalled two to three further increases this year. The dollar weakened against the fund's currency basket during the quarter.

Euro-denominated government bonds represented 12.4 percent of the fund's fixed-income holdings and returned 2.3 percent, or 1.3 percent in local currency. The European Central Bank has scaled back its bond purchases to 30 billion euros net a month, and the market expects them to be phased out altogether by the end of the year. The euro strengthened slightly against the fund's currency basket during the quarter.

Table 5 Return on the fund's fixed-income investments in first quarter 2018 by sector. Measured in international currency. Percent

Sector	Return	Share of fixed-income investments[1]
Government bonds[2]	0.6	55.7
Government-related bonds[2]	-0.8	12.6
Inflation-linked bonds[2]	-1.5	4.9
Corporate bonds	-2.1	24.0
Securitised bonds	0.1	5.2

[1] Does not sum up to 100 percent because cash and derivatives are not included.
[2] Governments may issue different types of bonds, and the fund's investments in these bonds are grouped accordingly. Bonds issued by a country's government in the country's own currency are categorised as government bonds. Bonds issued by a country's government in another country's currency are government-related bonds. Inflation-linked bonds issued by governments are grouped with inflation-linked bonds.

Table 6 The fund's largest bond holdings as at 31 March 2018. Millions of kroner

Issuer	Country	Holding
United States of America	US	608,725
Japanese government	Japan	184,922
Federal Republic of Germany	Germany	115,349
UK government	UK	69,928
French Republic	France	60,285
Italian Republic	Italy	46,244
Spanish government	Spain	45,409
Mexican government	Mexico	39,958
South Korean government	South Korea	35,264
Australian government	Australia	35,216

Japanese government bonds amounted to 7.2 percent of the fund's fixed-income holdings and returned 4.7 percent, or 0.2 percent in local currency. The Bank of Japan is keeping ten-year yields close to zero percent as part of its monetary policy. The yen strengthened against the currency basket during the quarter.

The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau (KfW), the European Investment Bank (EIB) and Canada Housing Trust (Canhou). These bonds returned -0.8 percent and accounted for 12.6 percent of fixed-income investments.

The fund's corporate bonds returned -2.1 percent and represented 24.0 percent of fixed-income investments at the end of the period. After falling in January, the credit premium increased slightly over the quarter as a whole due to a change of sentiment in the market.

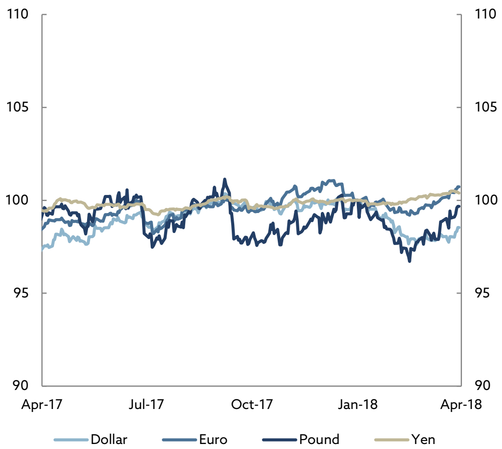
Securitised debt, consisting mainly of covered bonds denominated in euros, returned 0.1 percent and made up 5.2 percent of fixed-income holdings.

Inflation-linked bonds returned -1.5 percent and accounted for 4.9 percent of total fixed-income investments.

Changes in fixed-income holdings

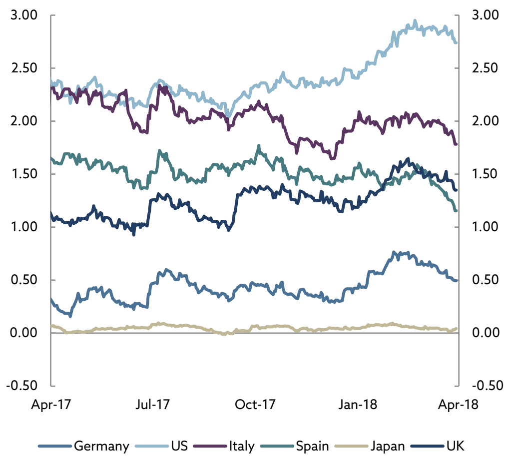
Investments in dollars, euros, pounds and yen increased from 82.0 to 83.2 percent of fixed-income holdings during the quarter.

Chart 3 Price developments for bonds issued in various currencies. Measured in local currencies. Indexed total return 31.12.2017 = 100



Source: Bloomberg Barclays Indices

Chart 4 10-year government bond yields. Percent

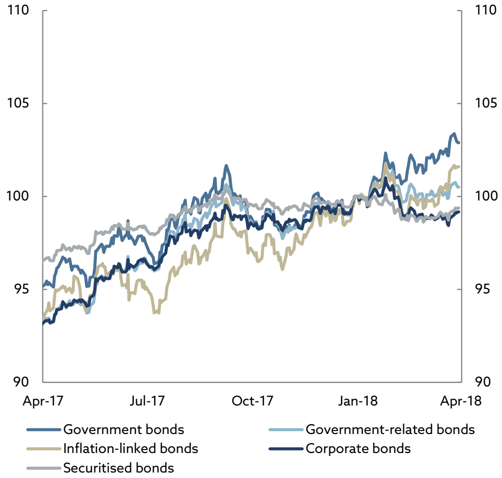


Source: Bloomberg

The market value of investments in bonds denominated in emerging-market currencies fell from 9.5 to 8.4 percent of total fixed-income investments.

The biggest increases in government bond holdings in the first quarter were in Italian, Brazilian and Indian bonds. The biggest decreases were in bonds from Poland, South Korea and Mexico.

Chart 5 Price developments for fixed-income sectors. Measured in US dollars. Indexed total return 31.12.2017 = 100



Source: Bloomberg Barclays Indices

Table 7 The fund's fixed-income investments as at 31 March 2018 based on credit ratings. Percentage of bond holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	27.9	7.7	11.7	4.8	2.2	54.4
Government-related bonds	5.7	4.4	1.7	0.4	0.0	12.3
Inflation-linked bonds	4.0	0.3	0.2	0.2	0.0	4.8
Corporate bonds	0.2	2.1	8.7	11.8	0.6	23.4
Securitised bonds	4.2	0.7	0.1	0.1	0.0	5.1
Total	42.1	15.3	22.5	17.3	2.9	100.0

Management

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

The return on the fund is measured against a benchmark index set by the Ministry of Finance, which consists of a subindex for equities and a subindex for bonds. The benchmark index serves as a general limit for market and currency risk in the management of the fund and as a yardstick for market indices and the fund's return. The equity subindex is based on FTSE Group's Global All Cap stock index. The return on the equity part of the fund's benchmark index was in line with the FTSE Global All Cap (excluding Norway) in the first quarter. A higher weight of European stocks than in the FTSE index made a negative contribution, while a lower weight of Canadian stocks contributed positively. The bond subindex is based on indices from Bloomberg Barclays Indices. The bond part of the fund's benchmark index returned less than the Bloomberg Barclays Global Aggregate (excluding Norwegian kroner), due mainly to the benchmark index having a lower weight of Japanese stocks.

The overall return on the fund in the first quarter was 0.13 percentage point higher than the return on the benchmark index from the Ministry of Finance.

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

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

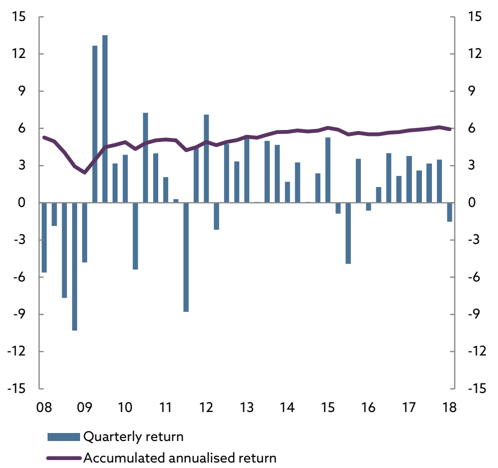
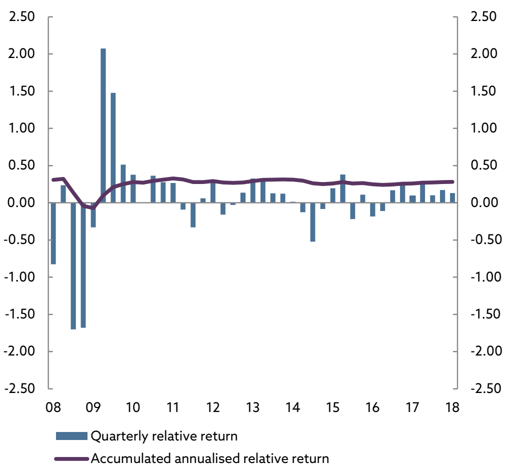


Chart 7 The fund's quarterly relative return and accumulated annualised relative return. Calculations based on aggregated equity and fixed-income investments until end of 2016. Percentage points



approach to risk management for the fund. At an operational level, unlisted and listed real estate investments are managed under a combined strategy for real estate.

The relative return is broken down between equity, fixed-income and real estate management, and an allocation effect between them. All three management areas contributed positively to the excess return in the first quarter.

Equity management contributed 0.04 percentage point to the fund's relative return. The contribution from external management was 0.05 percentage point. The industrials and health care sectors contributed the most to the outperformance, while the technology sector contributed most negatively. Broken down by country, equity investments in the UK and Australia made the most positive contributions to the relative return, and Japanese stocks the most negative.

Fixed-income management contributed 0.03 percentage point to the fund's relative return. A higher weight of emerging markets and a lower duration for investments in developed markets than in the fund's benchmark index contributed positively, while weaker currencies in a number of emerging markets contributed negatively.

Real estate management contributed 0.06 percentage point to the fund's relative return in the first quarter, measured against the equities and bonds providing financing for real estate management. It was the unlisted real estate investments that contributed to the outperformance, while the listed real estate investments, especially in the US, made a negative contribution.

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

The fund's relative return can also be broken down by asset class, with listed real estate investments included in equity investments, and unlisted real estate investments measured against the benchmark from the Ministry of Finance. Decomposed in this way, equity investments contributed 0.03 percentage point to the fund's relative return, fixed-income investments 0.02 percentage point and unlisted real estate investments 0.11 percentage point. The allocation effect was -0.02 percentage point.

Table 8 Contributions from management areas to the fund's relative return in first quarter 2018. Percentage points

	Total
Equity management	0.04
Fixed-income management	0.03
Real estate management	0.06
Allocation effect	0.01
Total	0.13

RISK

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

The fund's expected absolute volatility, calculated using the statistical measure standard deviation, uses a three-year price history to estimate how much the annual return

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

	Limits set by the Ministry of Finance	31.03.2018
Allocation	Equity portfolio 50–80 percent of fund's market value[1]	66.1
	Unlisted real estate no more than 7 percent of fund's market value	2.7
	Fixed-income portfolio 20–50 percent of fund's market value[1]	32.0
Market risk	1.25 percentage points expected relative volatility for the fund's investments	0.3
Credit risk	Maximum 5 percent of fixed-income investments may be rated below BBB-	2.9
Ownership	Maximum 10 percent of voting shares in a listed company in the equity portfolio[2]	9.6

[1] Derivatives are represented with their underlying economic exposure.
[2] Equity investments in listed and unlisted real estate companies are exempt from this restriction.

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

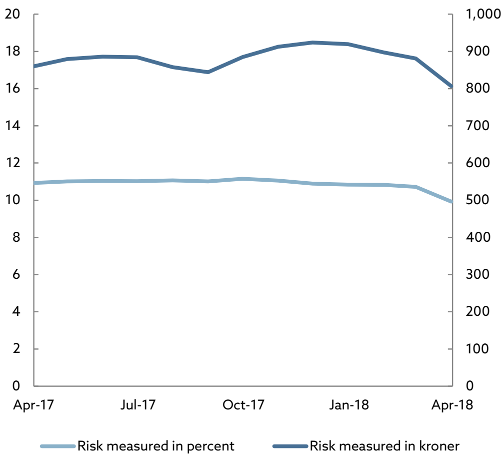
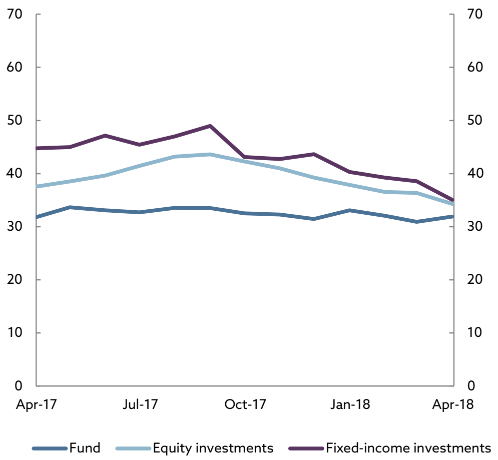


Chart 9 Expected relative volatility of the fund. Basis points



on the fund's investments can normally be expected to fluctuate. The fund's expected absolute volatility was 9.9 percent, or about 810 billion kroner, at the end of the first quarter, compared with 10.8 percent three months earlier. The decrease was due mainly to a lower weight of equities in the portfolio and lower market volatility over the past three years than was the case at the end of 2017.

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

The Ministry of Finance and Norges Bank's Executive Board have set limits for how far the fund's investments may deviate from the benchmark index. One of these limits is expected relative volatility, or tracking error, which puts a ceiling on how much the return on the fund's investments can be expected to deviate from the return on the benchmark index. All of the fund's investments, including unlisted real estate, are now included in the calculation of expected relative volatility and measured against the fund's benchmark index, which consists solely of global equity and bond indices. The limit for expected relative volatility for the fund is 1.25 percentage points. The actual level, including unlisted real estate, was 0.32 percentage point at the end of the quarter.

The Executive Board has also set a limit for expected shortfall between the return on the fund and the benchmark index. The fund is to be managed in such a way that the expected negative relative return in extreme situations does not exceed 3.75 percentage points. The actual level was 1.40 percentage points at the end of the quarter.

Operational risk management

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

Each quarter, Norges Bank Investment Management estimates the size of potential losses or gains arising over the next year because of unwanted operational events related to its investment management activities. The estimate is based on past events and an assessment of future risks and represents the fund's estimated operational risk exposure. Estimated operational risk exposure remained within the Executive Board's tolerance limit in the first quarter. A total of 111 unwanted operational events were registered in the quarter, with an estimated financial impact of 5.9 million kroner.

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

RESPONSIBLE INVESTMENT

Responsible investment is an integral part of our management of the fund and supports the fund's objective in two ways. First, we aim to promote long-term economic development for our investments. Second, we aim to reduce the financial risk associated with the environmental and social behaviour of the companies we invest in. We do this by considering governance and sustainability issues that could impact on the fund's long-term return. We integrate these issues into our work on standard setting, ownership and sustainable investment.

Standard setting

We published a new expectations document on corruption during the quarter. Our expectations are primarily directed at company boards and intended to serve as a starting point for our interaction with multinationals on the topic of corruption. Boards should ensure that companies have clear anti-corruption policies and integrate appropriate measures into their strategy, risk management and reporting.

We participated in a consultation on the review of the UK Corporate Governance Code during the quarter. The UK code sets high standards and influences guidelines in other markets. We support the proposed restructuring of the recommendations, which will make its approach more principles-based.

We also participated in a consultation on listing requirements on the Hong Kong exchange. We expressed concern that the introduction of a new dual-class share structure, where one class carries more votes than the other, could undermine the rights of minority shareholders. We called for these rights to be enhanced, for example by limiting weighted voting rights to specific individuals at a company.

The Norwegian Finance Initiative (NFI) awarded research funding to Columbia University during the quarter for a study of the effects of technological and regulatory change on market structures and transparency in US and European equity and bond markets.

Ownership

We voted at 1,678 general meetings in the first quarter. Voting is one of the most important instruments available to us for exercising our ownership rights. We considered and voted on a total of 13,723 proposals during the quarter.

Sustainable investment

We entered into a partnership with the UN and eight other investors during the quarter on climate disclosure. The group will work together on guidelines for climate-related reporting by investors in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). It will focus particularly on developing the analytical tools and indicators needed to assess and report on exposure to the risks and opportunities associated with climate change.

Some data suppliers have developed solutions that enable companies to be ranked on the basis of exposure to environmental, social and governance risks. We have begun to develop our own ranking methodology by identifying the factors that are most relevant for the sectors the fund is invested in. In time, this will put us in a better position to assess governance and sustainability risks at both sector and company level.

Observation and exclusion
Norges Bank published decisions to exclude nine companies from the fund and place one under observation during the quarter.

Evergreen Marine Corp Taiwan Ltd, Korea Line Corp, Precious Shipping PCL and Thoresen Thai Agencies PCL were excluded following an assessment of the risk of severe environmental damage and serious or systematic violations of human rights. Pan Ocean Co Ltd was placed under observation based on the same criteria. Atal SA/Poland was excluded due to unacceptable risk of serious or systematic violations of human rights.

In addition, AECOM, BAE Systems Plc, Fluor Corp and Huntington Ingalls Industries Inc were excluded for their production of key components of nuclear weapons. The exclusion of Honeywell International Inc was upheld on the same grounds.

Key figures

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

	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017
FTSE Global All Cap index[1]	-2.23	5.33	3.92	2.16	5.34
Equity part of the fund's benchmark index	-2.26	4.68	4.30	2.99	5.55
The fund's equity investments	-2.22	4.96	4.31	3.37	5.53
Bloomberg Barclays Global Aggregate index[1]	-0.04	0.52	0.46	0.51	0.29
Fixed-income part of the fund's benchmark index	-0.44	0.65	0.70	1.09	0.41
The fund's fixed-income investments	-0.37	0.53	0.85	1.12	0.77
The fund's unlisted real estate investments	2.50	1.97	2.68	2.05	0.62
Total return on fund	-1.53	3.49	3.15	2.60	3.78
Relative return on fund (percentage points)	0.13	0.17	0.10	0.28	0.09
Management costs	0.02	0.01	0.01	0.02	0.02
Return on fund after management costs	-1.55	3.47	3.14	2.59	3.76

1 Excluding Norway and Norwegian kroner. Indices forming the basis for subindices from the Ministry of Finance.

Table 11 Historical key figures as at 31 March 2018. Annualised data, measured in the fund's currency basket

	Since 01.01.1998	Last 10 years	Last 5 years	Last 3 years	Last 12 months
Fund return (percent)	**5.93**	**6.61**	**7.78**	**5.31**	**7.85**
Annual price inflation (percent)	1.78	1.64	1.31	1.51	1.89
Annual management costs (percent)	0.08	0.08	0.06	0.06	0.06
Net real return on fund (percent)	3.99	4.81	6.33	3.68	5.79
The fund's actual standard deviation (percent)	7.32	8.96	6.04	6.33	4.37
Relative return on fund (percentage points)[1]	0.28	0.26	0.25	0.40	0.71
The fund's tracking error (percentage points)[1]	0.69	0.86	0.37	0.33	0.27
The fund's information ratio (IR)[1,2]	0.43	0.34	0.65	1.16	2.44

1 Based on aggregated equity and fixed-income investments until end of 2016.
2 The fund's information ratio (IR) is the ratio of the fund's average monthly relative return to the fund's tracking error. The IR indicates how much relative return has been achieved per unit of relative risk.

Table 12 Key figures. Billions of kroner

	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017
Market value					
Equity investments	5,376	5,653	5,242	5,225	5,082
Unlisted real estate investments	217	219	199	199	194
Fixed-income investments	2,532	2,616	2,511	2,597	2,592
Market value of fund[1]	8,124	8,488	7,952	8,020	7,867
Accrued, not paid, management fees[1]	-1	-5	-3	-2	-1
Owner's capital[1]	8,123	8,484	7,949	8,018	7,866
Inflow/withdrawal of capital[2]	-6	-14	-10	-16	-20
Paid management fees[2]	-5	0	0	0	-4
Return on fund	-171	337	192	202	297
Changes due to fluctuations in krone	-183	214	-250	-32	83
Total change in market value	**-364**	**536**	**-68**	**153**	**357**
Changes in value since first capital inflow in 1996					
Total inflow of capital[3]	3,328	3,337	3,351	3,360	3,375
Return on equity investments	2,892	3,062	2,747	2,576	2,404
Return on unlisted real estate investments	58	53	49	44	41
Return on fixed-income investments	1,031	1,037	1,019	1,001	975
Management fees[4]	-41	-39	-38	-37	-36
Changes due to fluctuations in krone	857	1,040	826	1,076	1,108
Market value of fund	**8,124**	**8,488**	**7,952**	**8,020**	**7,867**
Return on fund	**3,980**	**4,151**	**3,814**	**3,622**	**3,420**
Return after management costs	**3,939**	**4,111**	**3,776**	**3,585**	**3,384**

[1] The fund's market value shown in this table does not take into account the management fee. Owner's capital in the financial statements equals the fund's market value less accrued, not paid, management fees.
[2] Paid management fees are specified separately, and not included in Inflow/withdrawal of capital. The accrued management fee for 2017 of 4.7 billion kroner was withdrawn from the krone account in the first quarter of 2018, but was unsettled per 31 March 2018 and will be cash-settled in the second quarter.
[3] Total inflow of capital shown in this table is adjusted for accrued, not paid, management fees.
[4] Management costs in subsidiaries, see Table 10.2 in the financial reporting section, are not included in the management fees. Management costs in subsidiaries have been deducted from the fund's return before management fees.

Financial reporting

Financial statements

Notes

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Income statement

Amounts in NOK million	Note	1Q 2018	1Q 2017	2017
Profit/loss on the portfolio before foreign exchange gains and losses				
Income/expense from:				
- Equities	4	-169 981	274 164	933 501
- Bonds	4	-6 303	19 582	81 410
- Unlisted real estate	6	4 808	2 675	14 237
- Financial derivatives	4	932	930	278
- Secured lending		1 321	866	3 532
- Secured borrowing		-404	45	-345
Tax expense		-940	-1 027	-4 796
Interest income/expense		2	-10	-16
Other income/expense		3	-3	-11
Profit/loss on the portfolio before foreign exchange gains and losses		-170 562	297 222	1 027 790
Foreign exchange gains and losses	9	-182 666	83 004	14 701
Profit/loss on the portfolio		-353 229	380 226	1 042 492
Management fee	10	-1 370	-1 177	-4 728
Profit/loss and total comprehensive income		-354 598	379 049	1 037 764

Balance sheet

Amounts in NOK million	Note	31.03.2018	31.12.2017
Assets			
Deposits in banks		17 574	11 027
Secured lending		198 169	185 046
Cash collateral posted		1 646	1 894
Unsettled trades		35 476	13 389
Equities	5	4 834 245	5 250 871
Equities lent	5	555 113	411 664
Bonds	5	1 969 253	2 080 061
Bonds lent	5	623 765	591 277
Unlisted real estate	6	215 105	217 160
Financial derivatives	5	2 248	9 025
Other assets		3 173	3 219
Total assets		8 455 767	8 774 633
Liabilities and owner's capital			
Liabilities			
Secured borrowing		276 008	260 136
Cash collateral received		4 129	5 804
Unsettled trades		43 894	15 905
Financial derivatives	5	2 481	3 919
Other liabilities		4 757	415
Management fee payable	10	1 370	4 728
Total liabilities		332 639	290 907
Owner's capital		8 123 128	8 483 727
Total liabilities and owner's capital		8 455 767	8 774 633

Statement of cash flows

Amounts in NOK million, receipt (+) / payment (-)	Year-to-date 31.03.2018	Year-to-date 31.03.2017	2017
Operating activities			
Receipts of dividend from equities	25 092	22 993	128 293
Receipts of interest from bonds	17 266	19 214	73 575
Receipts of interest and dividend from unlisted real estate subsidiaries	1 048	747	3 869
Net receipts of interest and fee from secured lending and borrowing	868	841	3 426
Receipts of dividend, interest and fee from holdings of equities, bonds and unlisted real estate	*44 273*	*43 795*	*209 163*
Net cash flow from purchase and sale of equities	-24 632	-31 562	-141 382
Net cash flow from purchase and sale of bonds	-13 716	20 530	17 878
Net cash flow to/from investments in unlisted real estate subsidiaries	493	-735	-17 234
Net cash flow financial derivatives	4 284	-1 145	-4 886
Net cash flow cash collateral related to derivative transactions	-1 656	-114	2 754
Net cash flow secured lending and borrowing	2 642	-5 384	-21
Net payment of taxes	-872	-2 239	-6 786
Net cash flow related to interest on deposits in banks and bank overdraft	-	-66	-84
Net cash flow related to other income/expense, other assets and other liabilities	66	3 089	-857
Management fee paid to Norges Bank[1]	-	-3 731	-3 731
Net cash inflow/outflow from operating activities	10 882	22 438	54 813
Financing activities			
Inflow from the Norwegian government[2]	-	-	-
Withdrawal by the Norwegian government[2]	-6 399	-19 669	-60 837
Net cash inflow/outflow from financing activities	-6 399	-19 669	-60 837
Net change in cash			
Deposits in banks at 1 January	11 027	17 759	17 759
Net increase/decrease of cash in the period	4 482	2 769	-6 024
Net foreign exchange gains and losses on cash	2 065	210	-708
Deposits in banks at end of period	17 574	20 738	11 027

[1] Management fee shown in the *Statement of cash flows* for a period is the settlement of the fee that was accrued and expensed in the previous year. The accrued management fee for 2017 of 4.7 billion kroner was withdrawn from the krone account in the first quarter of 2018, but was unsettled per 31 March 2018 and will be cash-settled in the second quarter. The unsettled management fee for 2017 is presented as *Other liabilities* in the balance sheet.

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

Statement of changes in owner's capital

Amounts in NOK million	Inflows from owner	Retained earnings	Total owner's capital
1 January 2017	3 393 340	4 113 423	7 506 763
Total comprehensive income	-	379 049	379 049
Net inflow/withdrawal during the period[1]	-19 700	-	-19 700
31 March 2017	**3 373 640**	**4 492 472**	**7 866 112**
1 April 2017	3 373 640	4 492 472	7 866 112
Total comprehensive income	-	658 715	658 715
Net inflow/withdrawal during the period	-41 100	-	-41 100
31 December 2017	**3 332 540**	**5 151 187**	**8 483 727**
1 January 2018	3 332 540	5 151 187	8 483 727
Total comprehensive income	-	-354 598	-354 598
Net inflow/withdrawal during the period[1]	-6 000	-	-6 000
31 March 2018	**3 326 540**	**4 796 589**	**8 123 128**

[1] In the first quarter of 2018 there was a withdrawal from the krone account of NOK 10.7 billion. Of this, NOK 4.7 billion was used to pay the accrued management fee for 2017. In the first quarter of 2017, there was a withdrawal from the krone account of NOK 23.4 billion. Of this, NOK 3.7 billion was used to pay the accrued management fee for 2016.

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.

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

2. APPROVAL OF THE QUARTERLY FINANCIAL STATEMENTS
The quarterly financial statements of Norges Bank for the first quarter of 2018, which only encompass the financial reporting for the GPFG, were approved by the Executive Board on 25 April 2018.

Note 2 Accounting policies

1. BASIS OF PREPARATION
The regulation on the financial reporting of 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.

The condensed interim financial reporting for the first quarter of 2018 is prepared in accordance with IAS 34 *Interim Financial Reporting,* subject to the exemptions and additions specified in the regulation. It is presented in Norwegian kroner and rounded to the nearest million kroner. Rounding differences may occur.

Except as described below, the quarterly financial statements are prepared using the same accounting policies and calculation methods as applied and disclosed in the annual report for 2017. The condensed interim financial reporting does not include all the information and disclosures required in annual financial statements and should therefore be read in conjunction with the annual report for 2017.

IFRS 9 *Financial Instruments* was implemented on 1 January 2018 and replaced IAS 39 *Financial Instruments: Recognition and Measurement*. Under IFRS 9, financial assets are classified based on the business model used for managing the assets and their contractual cash flow characteristics. The investment portfolio of the GPFG is managed in accordance with the management mandate issued by the Ministry of Finance, the investment mandate issued by the Executive Board in Norges Bank and investment strategies established by the management of Norges Bank Investment Management. These mandates and strategies, including the risk management strategies, entail that financial assets are managed and evaluated based on fair values. All financial assets are therefore measured at fair value through profit or loss. This is in accordance with how financial assets were accounted for under IAS 39. The principles for classification and measurement of financial liabilities under IFRS 9 are the same as under IAS 39. Financial liabilities that are managed and evaluated on a fair value basis are designated at fair value through profit or loss. Financial derivatives are mandatorily accounted for at fair value through profit or loss, the same as under IAS 39. The implementation of IFRS 9 did not therefore have any impact on how financial instruments are accounted for.

2. USE OF ESTIMATES AND JUDGEMENT
The preparation of the financial statements involves the use of estimates and judgement that may affect reported amounts for assets, liabilities, income and expenses. Estimates and judgement are based on historical experience and expectations about future events that are considered probable at the time the quarterly financial statements are presented. Estimates are based on best judgement. However, actual outcomes 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 for 2017.

Note 3 Returns per asset class

Table 3.1 Returns per asset class

	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017	Year-to-date 31.03.2018
Returns in the fund's currency basket						
Return on equity investments (percent)	-2.22	4.96	4.31	3.37	5.53	-2.22
Return on fixed-income investments (percent)	-0.37	0.53	0.85	1.12	0.77	-0.37
Return on unlisted real estate (percent)	2.50	1.97	2.68	2.05	0.62	2.50
Return on fund (percent)	-1.53	3.49	3.15	2.60	3.78	-1.53
Relative return on fund (percentage points)	0.13	0.17	0.10	0.28	0.09	0.13
Returns in Norwegian kroner (percent)						
Return on equity investments	-4.84	8.45	0.40	2.92	6.85	-4.84
Return on fixed-income investments	-3.03	3.87	-2.93	0.68	2.03	-3.03
Return on unlisted real estate	-0.24	5.36	-1.16	1.61	1.88	-0.24
Return on fund	-4.16	6.92	-0.71	2.15	5.08	-4.16

For additional information on the method used in the return calculation, see note 3 *Returns per asset class* in the annual report for 2017.

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

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

Table 4.1 Specification Income/expense from equities

Amounts in NOK million	1Q 2018	1Q 2017	2017
Dividends	30 165	28 710	128 846
Realised gain/loss	77 777	68 741	233 652
Unrealised gain/loss	-277 924	176 713	571 003
Income/expense from equities before foreign exchange gain/loss	-169 981	274 164	933 501

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	1Q 2018	1Q 2017	2017
Interest	16 447	18 344	71 811
Realised gain/loss	-4 021	249	9 283
Unrealised gain/loss	-18 729	989	316
Income/expense from bonds before foreign exchange gain/loss	-6 303	19 582	81 410

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	1Q 2018	1Q 2017	2017
Dividends	6	20	140
Interest	262	-1 345	-1 933
Realised gain/loss	580	-23	128
Unrealised gain/loss	83	2 278	1 943
Income/expense from financial derivatives before foreign exchange gain/loss	932	930	278

Note 5 Holdings of equities, bonds and financial derivatives

Table 5.1 Equities

Amounts in NOK million	31.03.2018 Fair value including dividends	31.03.2018 Accrued dividends	31.12.2017 Fair value including dividends	31.12.2017 Accrued dividends
Equities	5 389 358	11 184	5 662 535	6 111
Total equities	5 389 358	11 184	5 662 535	6 111
Of which equities lent	*555 113*		*411 664*	

Table 5.2 Bonds

Amounts in NOK million	31.03.2018 Nominal value	31.03.2018 Fair value including accrued interest	31.03.2018 Accrued interest	31.12.2017 Nominal value	31.12.2017 Fair value including accrued interest	31.12.2017 Accrued interest
Government bonds	1 267 901	1 411 095	10 610	1 304 201	1 458 828	10 712
Government-related bonds	309 840	319 054	2 081	305 185	316 787	1 938
Inflation-linked bonds	107 261	123 690	313	112 513	131 125	375
Corporate bonds	601 160	607 962	5 343	610 017	631 957	5 960
Securitised bonds	138 360	131 217	834	139 275	132 642	1 013
Total bonds	2 424 522	2 593 018	19 181	2 471 191	2 671 338	19 999
Of which bonds lent		*623 765*			*591 277*	

Table 5.3 Financial derivatives

Amounts in NOK million	31.03.2018 Notional amount	31.03.2018 Fair value Asset	31.03.2018 Fair value Liability	31.12.2017 Notional amount	31.12.2017 Fair value Asset	31.12.2017 Fair value Liability
Foreign exchange derivatives	291 112	1 082	1 641	252 601	770	2 687
Interest rate derivatives	46 672	958	840	34 225	1 304	1 232
Equity derivatives	728	208	-	7 379	6 951	-
Total financial derivatives	338 512	2 248	2 481	294 205	9 025	3 919

Note 6 Unlisted real estate

Investments in unlisted real estate are made through subsidiaries of Norges Bank, which exclusively constitute investments as part of the management of the GPFG. Subsidiaries presented in the balance sheet as *Unlisted real estate* are measured at fair value through profit or loss. Changes in fair value are recognised in the income statement and are presented as *Income/expense from unlisted real estate*.

The fair value of unlisted real estate is determined as the sum of the GPFG's share of the assets and liabilities in the underlying subsidiaries, measured at fair value. For further information, see note 7 *Fair value measurement*.

Subsidiaries are financed through equity and long-term debt. Net income generated in the real estate subsidiaries may be distributed to the GPFG in the form of interest and dividends, as well as repayment of equity and loan financing provided from the GPFG to the subsidiary. There are no significant restrictions on distribution of dividends and interest from the subsidiaries to the GPFG.

Table 6.1 provides a specification of the income statement line *Income/expense from unlisted real estate*, before foreign exchange gains and losses.

Table 6.1 Income/expense from unlisted real estate

Amounts in NOK million	1Q 2018	1Q 2017	2017
Dividends received	799	387	2 057
Interest received	249	360	1 812
Unrealised gain/loss	3 760	1 928	10 368
Income/expense from unlisted real estate before foreign exchange gain/loss	4 808	2 675	14 237

The change in the period for the balance sheet line *Unlisted real estate* is specified in table 6.2.

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK million	31.03.2018	31.12.2017
Unlisted real estate, opening balance for the period	**217 160**	**188 469**
Payments to new investments[1]	-	14 771
Payments to existing investments[1]	281	5 167
Payments from existing investments[1]	-774	-2 704
Unrealised gain/loss	3 760	10 368
Foreign currency translation effect	-5 323	1 089
Unlisted real estate, closing balance for the period	**215 105**	**217 160**

1 This represents the net cash flows between the GPFG and subsidiaries presented as *Unlisted real estate*. The GPFG makes cash contributions to the subsidiaries in the form of equity and long-term loan financing, to fund investments in real estate assets, primarily properties. Net income generated in the subsidiaries may be distributed to the GPFG in the form of repayment of equity and long-term loan financing.

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.

A further specification of *Unlisted real estate* is provided in the tables below. Table 6.3 specifies the GPFG's share of net income generated in the underlying real estate companies, which is the basis for *Income/expense from unlisted real estate* presented in table 6.1. Table 6.4 specifies the GPFG's share of assets and liabilities in the underlying real estate companies which comprise the closing balance for *Unlisted real estate* as presented in table 6.2.

Table 6.3 Net income from underlying real estate companies

Amounts in NOK million	1Q 2018	1Q 2017	2017
Net rental income	2 295	2 013	8 579
Realised gain/loss	-70	8	199
Fair value changes – properties[1]	3 180	1 322	8 375
Fair value changes – debt[1]	240	-188	-420
Fair value changes – other assets and liabilities[1]	-382	-57	-461
Transaction costs	-39	-16	-324
Interest expense external debt	-123	-161	-626
Tax expense payable	-53	-12	-140
External asset management – fixed fees[2]	-138	-119	-482
External asset management – variable fees[2]	-44	-70	-248
Internal asset management – fixed fees[3]	-9	-8	-32
Operating costs within the limit from the Ministry of Finance[4]	-19	-16	-97
Other costs	-31	-21	-88
Net income underlying real estate companies	**4 808**	**2 675**	**14 237**

1 Comprises solely fair value changes of properties, debt, other assets and liabilities, and will therefore not reconcile with *Unrealised gain/loss* presented in table 6.1 which includes undistributed profits.
2 Fixed and variable asset management fees are directly related to the underlying properties and are primarily linked to the operation and development of properties and leases. Variable fees to external managers are based on achieved performance over time.
3 Internal asset management is carried out on 100 percent owned properties by employees in a wholly-owned, consolidated subsidiary.
4 See table 10.2 for specification of operating costs that are measured against the management fee limit from the Ministry of Finance.

Table 6.4 Assets and liabilities underlying real estate companies

Amounts in NOK million	31.03.2018	31.12.2017
Properties	232 566	235 507
External debt	-17 066	-17 694
Net other assets and liabilities[1]	-394	-653
Total assets and liabilities underlying real estate companies	**215 105**	**217 160**

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

AGREEMENTS FOR PURCHASES AND SALES OF REAL ESTATE

When purchasing and selling property, there will normally be a time period between entering into the agreement and completion of the transaction. Properties are recognised or derecognised in the underlying real estate companies upon transfer of control. This will normally be the date the consideration is transferred and the transaction is completed. Transactions are normally announced when the agreement is entered into.

Table 6.5 provides an overview of announced agreements for purchases and sales of real estate which are not completed at the balance sheet date.

Table 6.5 Announced agreements for purchases and sales of real estate[1]

Type	Property address	City	Ownership percent	Currency	Price in stated currency (million)[2]	Quarter announced	Expected completion
Purchase	Schützenstrasse 26	Berlin	100.0	EUR	425	3Q 2017	4Q 2019
Sale	Hultschiner Strasse 8	Munich	50.0	EUR	122	1Q 2018	2Q 2018
Sale	2-14 rue de la Verrerie	Meudon	50.0	EUR	128	1Q 2018	2Q 2018

[1] Purchases and sales above 25 million US Dollars are announced.
[2] The stated price is for the GPFG's share.

Note 7 Fair value measurement

1. INTRODUCTION
The fair value of the majority of assets and liabilities is based on quoted prices. If the market for a security or other assets and liabilities is not active, fair value is estimated by using standard valuation techniques.

Assets and liabilities are categorised in the fair value hierarchy in table 7.1 based on the level of valuation uncertainty. For an overview of valuation models and techniques, together with definitions and application of the categories of valuation uncertainty, see note 7 *Fair value measurement* in the annual report for 2017.

SIGNIFICANT ESTIMATE
Level 3 investments consist of instruments measured 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 estimation 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	
	31.03.2018	31.12.2017	31.03.2018	31.12.2017	31.03.2018	31.12.2017	31.03.2018	31.12.2017
Equities	**5 347 437**	**5 616 897**	**31 364**	**34 265**	**10 557**	**11 373**	**5 389 358**	**5 662 535**
Government bonds	1 386 875	1 417 376	24 220	41 452	-	-	1 411 095	1 458 828
Government-related bonds	269 534	271 415	48 064	43 151	1 456	2 221	319 054	316 787
Inflation-linked bonds	117 349	126 023	6 341	5 102	-	-	123 690	131 125
Corporate bonds	582 940	597 276	24 839	34 572	183	109	607 962	631 957
Securitised bonds	112 020	113 337	18 763	18 863	434	442	131 217	132 642
Total bonds	**2 468 718**	**2 525 427**	**122 227**	**143 140**	**2 073**	**2 772**	**2 593 018**	**2 671 338**
Financial derivatives (assets)	200	120	2 048	8 905	-	-	2 248	9 025
Financial derivatives (liabilities)	-	-	-2 481	-3 919	-	-	-2 481	-3 919
Total financial derivatives	**200**	**120**	**-433**	**4 986**	**-**	**-**	**-233**	**5 106**
Unlisted real estate	**-**	**-**	**-**	**-**	**215 105**	**217 160**	**215 105**	**217 160**
Other[1]	**-**	**-**	**-72 750**	**-67 685**		**-**	**-72 750**	**-67 685**
Total	**7 816 355**	**8 142 444**	**80 408**	**114 706**	**227 735**	**231 305**	**8 124 498**	**8 488 454**
Total (percent)	**96.2**	**95.9**	**1.0**	**1.4**	**2.8**	**2.7**	**100.0**	**100.0**

[1] *Other* consists of secured lending and borrowing positions, deposits in banks, unsettled trades, posted and received cash collateral and other assets and liabilities.

Valuation uncertainty for the GPFG as a whole at the end of the first quarter of 2018 is virtually unchanged compared to the end of 2017. The majority of the total portfolio has low valuation uncertainty. At the end of the first quarter, 97.2 percent was classified as Level 1 or 2. Movements between levels in the fair value hierarchy are described in section 3 of this note.

Equities

Measured as a share of total value, virtually all equities (99.2 percent) are valued based on official closing prices from stock exchanges and are classified as Level 1. A small number of equities (0.6 percent) are classified as Level 2. These are mainly equities for which trading has recently been suspended or illiquid securities that are not traded daily. A few securities (0.2 percent) that are not listed, or where trading has been suspended over a longer period, have high uncertainty related to fair value and are classified as Level 3. Over 90 percent of the value of equities classified as Level 3 is attributable to one shareholding with a lock-in period, which was received as compensation following the merger of two companies in 2016. Due to the lock-in period, there has been significant use of unobservable inputs in the valuation of these shares, resulting in Level 3 classification.

Bonds
The majority of bonds (95.2 percent) are valued based on observable quotes in active markets and are classified as Level 1. A minority of bonds (4.7 percent) are valued based on other observable input than quotes included in Level 1 and are therefore classified as Level 2. These securities do not have a sufficient number of observable quotes or they are priced based on comparable liquid bonds. A few bonds (0.1 percent), that do not have observable quotes, are classified as Level 3.

Unlisted real estate
All unlisted real estate investments are classified as Level 3, since models are used to value the underlying assets and liabilities with extensive use of non-observable market inputs.

All unlisted real estate investments are measured at the value determined by external valuers. Exceptions to this policy are cases of newly acquired properties where the purchase price, excluding transaction costs, is normally considered to be the best estimate of fair value, or where there are indications that external valuation reports do not reflect fair value so that adjustments to valuations are warranted.

3. MOVEMENTS BETWEEN LEVELS IN THE HIERARCHY

Reclassifications between Level 1 and Level 2
The relative share of equities classified as Level 1 or 2 has remained essentially unchanged compared to year-end 2017.

In the first quarter of 2018 the fund's holdings of Saudi Arabian participatory certificates were converted to shares in companies listed on the Saudi Arabian stock exchange, Tadawul. Participatory certificates were previously classified as Level 2 derivatives, while the shares received are classified as Level 1 equities. At year-end 2017, the participatory certificates had a carrying value of NOK 6 802 million.

There has been a decrease in valuation uncertainty for bonds compared to year-end 2017. The majority of new purchases during the quarter have been within Level 1 and a number of Level 2 securities have matured or been sold.

Table 7.2 Changes in Level 3 holdings

Amounts in NOK million	01.01.2018	Purchases	Sales	Settle-ments	Net gain/loss	Trans-ferred into Level 3	Trans-ferred out of Level 3	Foreign exchange gains and losses	31.03.2018
Equities	11 373	1	-319	-2	-397	509	-422	-186	10 557
Bonds	2 772	-	-17	-	-10	373	-990	-55	2 073
Unlisted real estate[1]	217 160	-493	-	-	3 760	-	-	-5 323	215 105
Total	231 305	-492	-336	-2	3 353	882	-1 412	-5 564	227 735

Amounts in NOK million	01.01.2017	Purchases	Sales	Settle-ments	Net gain/loss	Trans-ferred into Level 3	Trans-ferred out of Level 3	Foreign exchange gains and losses	31.12.2017
Equities	11 863	97	-1 534	-48	-632	1 099	-258	786	11 373
Bonds	1 390	406	-327	-71	-33	1 457	-6	-44	2 772
Unlisted real estate[1]	188 469	17 234	-	-	10 368	-	-	1 089	217 160
Total	201 722	17 737	-1 861	-119	9 703	2 556	-264	1 831	231 305

[1] *Purchases* represent the net cash flow in the period between the GPFG and subsidiaries presented as *Unlisted real estate*.

The relative share of holdings classified as Level 3 is virtually unchanged from year-end 2017. In absolute terms, Level 3 equity holdings have decreased by NOK 816 million. This is mainly due to price changes and the sale of some equities previously classified as Level 3. The value of bonds classified as Level 3 has decreased by NOK 699 million as some bonds have been reclassified to Level 2 and Level 1, due to reduced price uncertainty.

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 31.03.2018	Sensitivities 31.03.2018		Specification of Level 3 holdings 31.12.2017	Sensitivities 31.12.2017	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities	10 557	-2 246	2 246	11 373	-2 409	2 409
Government-related bonds	1 456	-146	146	2 221	-222	222
Corporate bonds	183	-18	18	109	-11	11
Securitised bonds	434	-43	43	442	-44	44
Total bonds	2 073	-207	207	2 772	-277	277
Unlisted real estate	215 105	-11 858	14 358	217 160	-12 969	14 988
Total	227 735	-14 311	16 811	231 305	-15 655	17 674

There is significant uncertainty associated with the fair value of holdings classified as Level 3, due to the use of unobservable inputs in the valuation. In the sensitivity analysis presented in table 7.3, reasonably possible alternative assumptions for the key unobservable inputs have been applied. The alternative fair value estimates, given for a favourable and unfavourable outcome, illustrate the sensitivity of the fair value estimates to changes in the key unobservable inputs.

Estimates for unlisted real estate values are particularly sensitive to changes in yields and assumptions influencing future revenues. In an unfavourable outcome, an increase in the yield of 0.2 percentage point and a reduction in future market rents of 2 percent will result in a decrease in value of the unlisted real estate portfolio of approximately 5.5 percent or NOK 11 858 million. In a favourable outcome, a decrease in the yield of 0.2 percentage point and an increase in future market rents of 2 percent will increase the value of the unlisted real estate portfolio by 6.7 percent or NOK 14 358 million.

The sensitivity for bonds and equities classified as Level 3 is essentially unchanged compared to year-end 2017.

Note 8 Risk

MARKET RISK

Market risk is the risk of loss or a change in the market value of the portfolio, or parts of the portfolio, due to movements in equity prices, interest rates, real estate values, exchange rates and credit spreads. Norges Bank Investment Management measures market risk both for the actual portfolio and the relative market risk for the holdings in the GPFG.

Asset class per country and currency

The portfolio is invested across several asset classes, countries and currencies as shown in table 8.1.

Table 8.1 Allocation by asset class, country and currency

	Market value in percent by country and currency[1]				Market value in percent by asset class		Assets minus liabilities excluding management fee	
Asset class	Market	31.03.2018	Market	31.12.2017	31.03.2018	31.12.2017	31.03.2018	31.12.2017
Equities	**Developed**	**88.4**	**Developed**	**89.0**				
	US	35.9	US	35.4				
	UK	9.5	UK	9.7				
	Japan	9.2	Japan	9.1				
	Germany	5.8	Germany	6.1				
	France	5.1	France	5.1				
	Total other	23.0	Total other	23.6				
	Emerging	**11.6**	**Emerging**	**11.0**				
	China	3.9	China	3.6				
	Taiwan	1.7	Taiwan	1.6				
	India	1.1	India	1.2				
	Brazil	1.0	Brazil	0.9				
	South Africa	0.7	South Africa	0.7				
	Total other	3.1	Total other	3.0				
Total equities					**66.18**	**66.60**	**5 376 391**	**5 653 440**
Fixed income	**Developed**	**91.6**	**Developed**	**90.5**				
	US Dollar	43.8	US Dollar	44.9				
	Euro	27.4	Euro	25.8				
	Japanese Yen	7.3	Japanese Yen	6.7				
	British Pound	4.7	British Pound	4.6				
	Canadian Dollar	2.8	Canadian Dollar	3.2				
	Total other	5.6	Total other	5.3				
	Emerging	**8.4**	**Emerging**	**9.5**				
	Mexican Peso	1.6	Mexican Peso	1.6				
	South Korean Won	1.1	South Korean Won	1.4				
	Brazilian Real	0.8	Indonesian Rupee	0.9				
	Indonesian Rupee	0.8	Indian Rupee	0.7				
	Indian Rupee	0.8	Brazilian Real	0.7				
	Total other	3.2	Total other	4.1				
Total fixed income					**31.16**	**30.82**	**2 531 557**	**2 616 372**
Unlisted real estate	US	45.3	US	46.2				
	UK	24.1	UK	23.5				
	France	16.6	France	16.6				
	Germany	3.9	Switzerland	3.9				
	Switzerland	3.9	Germany	3.5				
	Total other	6.2	Total other	6.3				
Total unlisted real estate					**2.67**	**2.58**	**216 549**	**218 643**

[1] *Market value in percent by country and currency* includes derivatives and cash.

At the end of the first quarter, the share of equities in the fund was 66.2 percent. This is a decrease from 66.6 percent at year-end 2017. The bond portfolio's share of the fund increased to 31.2 percent in the first quarter, from 30.8 percent at year-end 2017. The change in asset class allocation in the first quarter is mainly due to stronger returns for bonds than equities.

Volatility

Risk models are used 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 fund's relative risk measured against its benchmark index.

All the fund's investments, including investments in unlisted real estate, are included in the calculation of expected relative volatility, and measured against the fund's benchmark index consisting of global equity and bond indices. The limit for the fund's expected relative volatility, including unlisted real estate, is 1.25 percentage points.

The Barra Private Real Estate 2 (PRE2) model from MSCI is used to calculate market risk for the fund's unlisted real estate investments. The model consolidates information from global listed and unlisted real estate markets to compose a risk profile for unlisted real estate investments, based on location and type of real estate.

The overall method applied in the calculations of expected absolute and relative volatility is explained in note 8 *Risk* in the annual report for 2017. This method is also applied to investments in unlisted real estate.

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

	Expected volatility, actual portfolio							
	31.03.2018	Min 2018	Max 2018	Average 2018	31.12.2017	Min 2017	Max 2017	Average 2017
Portfolio	9.9	9.9	11.0	10.7	10.8	10.7	11.2	11.0
Equities	13.0	13.0	13.7	13.5	13.6	13.6	14.1	14.0
Fixed income	8.4	8.4	9.4	9.1	9.4	9.4	9.8	9.7
Unlisted real estate	11.0	11.0	11.9	11.7	12.0	11.9	12.7	12.5

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

	Expected relative volatility							
	31.03.2018	Min 2018	Max 2018	Average 2018	31.12.2017	Min 2017	Max 2017	Average 2017
Portfolio	32	31	33	32	33	31	35	33

Risk measured in terms of expected volatility shows an expected annual change in the value of the fund of 9.9 percent, or approximately NOK 810 billion at the end of the first quarter, compared to 10.8 percent at year-end 2017. The expected volatility for the equity investments was 13.0 percent at the end of the first quarter, compared to 13.6 percent at year-end, while the expected volatility for the fixed-income investments was 8.4 percent, compared to 9.4 percent at the end of 2017. The decrease in expected volatility is primarily due to the decreased share of equities in the portfolio and smaller price fluctuations in the markets for the last three years than was the case at the end of 2017.

The fund's expected relative volatility, including unlisted real estate, was 32 basis points at the end of the first quarter, compared to 33 basis points at year-end 2017.

Expected shortfall is a tail risk measure that measures the expected loss in extreme market situations. The expected shortfall measure provides an estimate of the annualised expected loss for a given confidence level. Using historical simulations, relative returns of the current portfolio and benchmark are calculated on a weekly basis over a sampling period of the last ten years. The expected shortfall at a 97.5 percent confidence level is then given by the annualised average relative return, measured in the currency basket, for the 2.5 percent worst weeks.

The Executive Board has determined that the fund shall be managed in such a way that the annual expected shortfall does not exceed 3.75 percentage points. At the end of the first quarter, the annual expected shortfall was 1.40 percentage points.

CREDIT RISK

Credit risk is the risk of losses from issuers of bonds defaulting on their payment obligations. Credit risk for the bond portfolio is monitored, among other things, through the use of credit ratings. Table 8.4 shows the distribution of the bond portfolio across different credit rating categories.

Table 8.4 Bond portfolio specified by credit rating

Amounts in NOK million, 31.03.2018	AAA	AA	A	BBB	Lower rating	Total
Government bonds	724 354	200 574	303 896	125 697	56 574	1 411 095
Government-related bonds	148 884	114 805	44 149	9 960	1 255	319 054
Inflation-linked bonds	104 742	9 052	4 720	5 175	-	123 690
Corporate bonds	6 186	54 124	226 371	305 138	16 143	607 962
Securitised bonds	108 120	18 502	3 024	1 571	-	131 217
Total bonds	**1 092 287**	**397 057**	**582 159**	**447 541**	**73 972**	**2 593 018**

Amounts in NOK million, 31.12.2017	AAA	AA	A	BBB	Lower rating	Total
Government bonds	724 614	214 529	292 828	174 394	52 463	1 458 828
Government-related bonds	141 463	119 116	44 171	10 719	1 318	316 787
Inflation-linked bonds	112 634	8 131	3 038	7 322	-	131 125
Corporate bonds	5 988	54 763	241 644	316 896	12 666	631 957
Securitised bonds	112 106	15 977	2 961	1 598	-	132 642
Total bonds	**1 096 805**	**412 516**	**584 642**	**510 929**	**66 447**	**2 671 338**

The proportion of bond holdings categorised with credit rating AAA increased to 42.1 percent at the end of the first quarter, compared to 41.1 percent at year-end 2017. The increase is primarily due to an increase in government bonds and government-related bonds in this category. The share of bond holdings in the category *Lower rating* increased to 2.9 percent from 2.5 percent at the end of 2017. The overall credit quality of the bond portfolio has declined slightly since year-end.

Counterparty risk

Counterparty risk is the risk of loss due to counterparty bankruptcy or other events leading to counterparties defaulting. At the end of the first quarter, the method used to calculate the counterparty risk exposure arising from derivatives and currency contracts was changed from the Current Exposure Method to the new Standardised Approach for counter-party risk (SA-CCR). Both methods are issued by the Basel Committee on Banking Supervision, where the Current Exposure Method will be replaced by the new Standardised Approach for counterparty exposure from derivatives and currency contracts. The new Standardised Approach seeks to improve the Current Exposure Method by considering collateral received and netting arrangements to a larger extent when calculating counterparty risk. The treatment of collateral is also further developed and stressed periods in the financial markets are to a greater extent taken into account when calculating future expected risk exposure. The new Standardised Approach results in a somewhat higher counterparty risk exposure for the portfolio at the end of the first quarter. Table 8.5 shows counterparty risk by type of position.

Table 8.5 Counterparty risk by type of position

	Risk exposure	
Amounts in NOK million	**31.03.2018**	**31.12.2017[1]**
Securities lending	79 871	71 150
Unsecured bank deposits[2] and securities[3]	27 416	14 008
Derivatives including foreign exchange contracts[4]	20 700	18 769
Settlement risk towards broker and long-settlement transactions	6 497	2 598
Repurchase and reverse repurchase agreements	4 002	4 662
Participatory certificates[3]	-	6 802
Total	138 487	117 989

1 Certain comparative amounts have been restated to conform to current period presentation.
2 Includes bank deposits in non-consolidated real estate subsidiaries.
3 In the first quarter of 2018, the fund's holdings of Saudi Arabian participatory certificates were converted to shares in companies listed on the Saudi Arabian stock exchange. Counterparty risk arises from these listed equities as they are considered to be unsecured.
4 Comparative amounts are based on the methodology used at year-end 2017.

Counterparty risk has increased to NOK 138.5 billion at the end of the first quarter, from NOK 118.0 billion at year-end 2017. Securities lending and unsecured bank deposits contributed most to the increase in counterparty risk exposure in the first quarter.

Note 9 Foreign exchange gains and losses

SIGNIFICANT ESTIMATE
Gains and losses on securities and financial derivatives are based on changes in the price of the security/instrument (before foreign exchange gains and losses) and changes in foreign exchange rates (foreign exchange gains and losses). These are presented separately in the income statement. The method of allocating total gains and losses in Norwegian kroner to a security element and a foreign exchange element is an estimate, as different methods will result in different allocations. For further information on the method used, see note 10 *Foreign exchange gains and losses* in the annual report for 2017.

The market value of the fund in Norwegian kroner is impacted by changes in foreign exchange rates. See table 8.1 in note 8 *Risk* for an overview of the allocation of the GPFG's investments per asset class, country and currency. The change in the market value of the fund due to changes in foreign exchange rates is presented in table 9.1.

Table 9.1 Specification foreign exchange gains and losses

Amounts in NOK million	1Q 2018	1Q 2017	2017
Foreign exchange gains and losses – USD/NOK	-104 679	-4 085	-126 868
Foreign exchange gains and losses – EUR/NOK	-25 049	15 926	111 425
Foreign exchange gains and losses – JPY/NOK	9 313	22 322	-8 367
Foreign exchange gains and losses – GBP/NOK	-2 501	4 665	20 745
Foreign exchange gains and losses – other	-59 750	44 176	17 766
Foreign exchange gains and losses	**-182 666**	**83 004**	**14 701**

Note 10 Management costs

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

MANAGEMENT COSTS IN NORGES BANK

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

Table 10.1 Management fee

Amounts in NOK million	1Q 2018	Basis points	1Q 2017	Basis points	2017	Basis points
Salary, social security and other personnel-related costs	305		333		1 325	
Custody costs	84		99		404	
IT services, systems, data and information	155		154		657	
Research, consulting and legal fees	69		32		252	
Other costs	85		64		251	
Allocated costs Norges Bank	43		43		161	
Base fees to external managers	247		209		755	
Management fee excluding performance-based fees	**987**	**4.7**	**934**	**5.0**	**3 804**	**4.8**
Performance-based fees to external managers	383		243		924	
Total management fee	**1 370**	**6.6**	**1 177**	**6.3**	**4 728**	**6.0**

MANAGEMENT COSTS IN SUBSIDIARIES

Management costs incurred in subsidiaries consist of operating costs related to the management of the unlisted real estate portfolio. These costs are expensed directly in the portfolio result and are not part of the management fee. Management costs incurred in non-consolidated and consolidated subsidiaries are presented in the income statement as *Income/expense from unlisted real estate* and *Other income/expense*, respectively. These costs are specified in table 10.2.

Table 10.2 Management costs, real estate subsidiaries

Amounts in NOK million	1Q 2018	1Q 2017	2017
Salary, social security and other personnel-related costs	7	6	33
IT services, systems, data and information	8	8	42
Research, consulting and legal fees	5	3	23
Other costs	4	4	17
Total management costs, real estate subsidiaries	**24**	**21**	**116**
Of which management costs non-consolidated subsidiaries	*19*	*16*	*97*
Of which management costs consolidated subsidiaries	*5*	*5*	*19*

UPPER LIMIT FOR REIMBURSEMENT OF MANAGEMENT COSTS

The Ministry of Finance has established an upper limit for the reimbursement of management costs and Norges Bank is only reimbursed for costs incurred within this limit. Performance-based fees to external managers are reimbursed in addition to this limit.

For 2018, the sum of total management costs incurred in Norges Bank and its subsidiaries, excluding performance-based fees to external managers, is limited to 7 basis points of average assets under management. In accordance with guidelines from the Ministry of Finance, average assets under management is calculated based on the market value of the portfolio in Norwegian kroner at the start of each month in the calendar year.

Total management costs measured against the upper limit amount to NOK 1 011 million in the first quarter of 2018. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 987 million and management costs in subsidiaries of NOK 24 million. This corresponds to 4.9 basis points of assets under management on an annual basis.

Total management costs including performance-based fees to external managers amount to NOK 1 394 million in the first quarter of 2018. This corresponds to 6.7 basis points of assets under management on an annual basis.

OTHER OPERATING COSTS IN SUBSIDIARIES

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

Other operating costs incurred in non-consolidated companies are presented in the income statement line *Income/expense from unlisted real estate*. See table 6.3 in note 6 *Unlisted real estate* for further information. Other operating costs incurred in consolidated subsidiaries are expensed in the income statement line *Other income/expense*.

To the Supervisory Council of Norges Bank

Report on review of interim financial information

Introduction
We have reviewed the financial reporting for the investment portfolio of the Government Pension Fund Global. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio are included in the financial reporting. The financial reporting comprises the balance sheet as at 31 March 2018, the income statement, the statement of changes in owner's capital and the statement of cash flows for the three months period then ended, and selected explanatory notes. The Executive Board and management are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with international standards on auditing, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the EU.

Oslo, 25 April 2018

Deloitte AS

Henrik Woxholt
State Authorised Public Accountant (Norway)

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