

**3Q|17**

**GOVERNMENT  
PENSION FUND  
GLOBAL**

**QUARTERLY REPORT  
/2017**

HIGHLIGHTS

# Third quarter 2017 in brief

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# 3.2%

## 192 Bn. KR

The Government Pension Fund Global returned **3.2** percent, or **192** billion kroner, in the third quarter of 2017.





**EQUITY  
INVESTMENTS**

4.3%



**FIXED-INCOME  
INVESTMENTS**

0.8%



**UNLISTED  
REAL ESTATE  
INVESTMENTS**

2.7%

Equity investments returned **4.3** percent, while fixed-income investments returned **0.8** percent. Investments in unlisted real estate returned 2.7 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.



# 7,952

Bn. KR

The fund had a market value of **7,952** billion kroner at the end of the quarter and was invested **65.9** percent in equities, **31.6** percent in fixed income and **2.5** percent in unlisted real estate.



**EQUITY  
INVESTMENTS**

65.9%



**FIXED-INCOME  
INVESTMENTS**

31.6%



**UNLISTED  
REAL ESTATE  
INVESTMENTS**

2.5%



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

# Investments

## EQUITY INVESTMENTS

Equity investments returned 4.3 percent and made up 65.9 percent of the fund at the end of the quarter. Returns were driven by good macroeconomic data and higher corporate earnings than expected. Global equity markets generally exhibited little volatility despite political uncertainty. The US economy continued to strengthen, with unemployment falling further. In Europe, consumers were more optimistic and increased their spending. Commodity prices also climbed during the quarter, contributing to good returns in oil and gas and the basic materials sector.

## Strongest return in emerging markets

North American stocks returned 3.4 percent and amounted to 38.2 percent of the equity portfolio. US stocks, which were the fund's single largest market with 35.9 percent of its equity investments, returned 3.2 percent, or 4.6 percent in local currency.

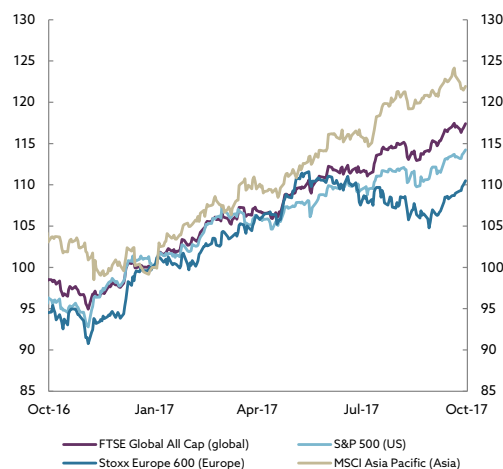
European stocks returned 5.5 percent and accounted for 37.0 percent of the fund's equities at the end of the quarter. The UK, which was the fund's largest European market with 9.7 percent of its equity investments, returned 4.9 percent, or 2.9 percent in local currency.

**Chart 1** Price developments in stock sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed total return 31.12.2016 = 100



Source: FTSE

**Chart 2** Price developments in regional equity markets. Measured in US dollars, except for the Stoxx Europe 600, which is measured in euros. Indexed total return 31.12.2016 = 100



Source: Bloomberg

Stocks in Asia and Oceania, which made up 21.8 percent of the fund's equity investments, returned 3.7 percent. Japanese stocks returned 3.7 percent, or 5.3 percent in local currency, and amounted to 8.9 percent of equity investments.

Emerging markets returned 6.4 percent and accounted for 10.2 percent of the equity portfolio. The Chinese stock market, home to 3.2 percent of the fund's equity investments, returned 10.4 percent.

### Oil and gas performs best

Oil and gas companies delivered the best return in the third quarter at 8.7 percent, due to higher oil prices in the wake of increased demand for oil, a normalisation of global oil stocks, OPEC's quota discipline, and lower production of shale oil in the US.

Basic materials returned 8.4 percent, driven by higher prices for metals and chemicals on the back of increased demand and supply problems.

**Table 1** Return on the fund's equity investments in third quarter 2017 by sector. Percent

Sector	Return in international currency	Share of equity investments <sup>1</sup>
Financials	4.4	24.2
Industrials	5.1	14.4
Consumer goods	3.8	13.4
Technology	6.5	10.8
Health care	1.4	10.1
Consumer services	1.1	9.7
Basic materials	8.4	5.8
Oil and gas	8.7	5.5
Telecommunications	1.2	2.9
Utilities	4.0	2.8

<sup>1</sup> Does not sum up to 100 percent because cash and derivatives are not included.

**Table 2** The fund's largest equity holdings as at 30 September 2017. Millions of kroner

Company	Country	Holding
Apple Inc	US	59,074
Nestlé SA	Switzerland	46,517
Royal Dutch Shell Plc	UK	43,831
Alphabet Inc	US	42,645
Microsoft Corp	US	40,403
Novartis AG	Switzerland	36,314
Roche Holding AG	Switzerland	33,906
HSBC Holdings Plc	UK	28,666
Amazon.com Inc	US	28,313
Facebook Inc	US	28,279

Technology stocks returned 6.5 percent, with long-term trends continuing to fuel expectations for future earnings and returns in the sector. Semiconductor producers in particular contributed to the return, boosted by strong demand and limited supply.

Consumer services stocks were the weakest performers, returning 1.1 percent. Media companies in particular made a negative contribution due to falling advertising revenue and growing concern about how traditional TV can compete with new alternatives.

#### **Individual stocks**

The investment in oil company Royal Dutch Shell Plc made the most positive contribution to the return in the third quarter, followed by technology companies Tencent Holding Ltd and Apple Inc. The investments that made the most negative contributions were in consumer goods company Nestlé SA, health care company Teva Pharmaceutical Industries Ltd and industrial company General Electric Co.

The fund participated in 45 initial public offerings in the quarter. The largest were at consumer goods company Pirelli & C SpA, industrial company Landis+Gyr Group AG and technology company Netlink NBN Trust. The offerings in which the fund invested the most were those in Pirelli & C SpA, Landis+Gyr Group AG and telecommunications company Play Communications SA.

#### **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 third quarter of 2017. Unless otherwise stated in the text, results are measured in this currency basket.



### FIXED-INCOME INVESTMENTS

Fixed-income investments returned 0.8 percent and accounted for 31.6 percent of the fund at the end of the quarter. There was little movement in yields in the main markets during the quarter.

#### Highest return on euro-denominated government bonds

Government bonds returned 0.6 percent and made up 54.9 percent of the fund's fixed-income investments at the end of the quarter.

US Treasuries returned -0.9 percent, or 0.4 percent in local currency, and accounted for 19.2 percent of fixed-income investments, making them the fund's largest holding of

government debt from a single issuer. In line with market expectations, the Federal Reserve decided to unwind its holdings of securities from October onwards. The dollar weakened somewhat against the fund's currency basket during the quarter.

Euro-denominated government bonds represented 11.8 percent of the fund's fixed-income holdings and returned 3.1 percent, or 0.7 percent in local currency. Economic data in the euro area have surprised to the upside this year, and the euro has gained against the fund's currency basket. The market expects the European Central Bank (ECB) to scale back its bond purchase programme next year.

**Table 3** Return on the fund's fixed-income investments in third quarter 2017 by sector. Percent

Sector	Return in international currency	Share of fixed-income investments <sup>1</sup>
Government bonds <sup>2</sup>	0.6	54.9
Government-related bonds <sup>2</sup>	1.3	12.7
Inflation-linked bonds <sup>2</sup>	0.3	5.1
Corporate bonds	0.9	25.1
Securitised bonds	1.9	5.4

<sup>1</sup> Does not sum up to 100 percent because cash and derivatives are not included.

<sup>2</sup> 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 September 2017. Millions of kroner

Issuer	Country	Holding
United States of America	US	569,729
Japanese government	Japan	162,354
Federal Republic of Germany	Germany	96,349
French Republic	France	63,168
UK government	UK	61,891
Mexican government	Mexico	55,882
South Korean government	South Korea	46,549
Italian Republic	Italy	42,157
Spanish government	Spain	41,514
Kreditanstalt für Wiederaufbau	Germany	31,572

Japanese government bonds amounted to 6.4 percent of the fund's fixed-income holdings and returned -1.3 percent, or 0.1 percent in local currency. The Bank of Japan kept ten-year yields stable around zero percent as part of its monetary policy.

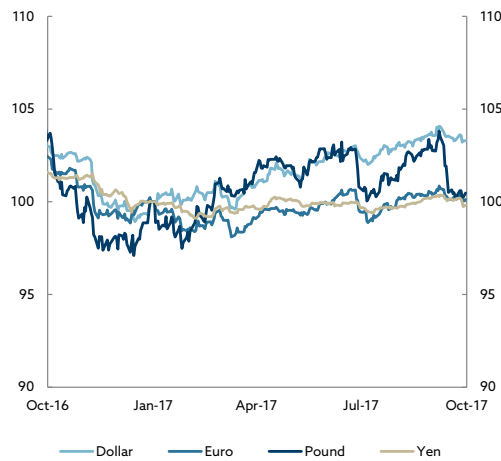
The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau (KfW), the European Investment Bank (EIB) and Canada Housing Trust (Canhou). These bonds returned 1.3 percent and accounted for 12.7 percent of fixed-income investments.

Corporate bonds returned 0.9 percent and made up 25.1 percent of fixed-income investments at the end of the quarter. Overall, there was little change in the credit premium during the quarter.

Securitized debt, consisting mainly of covered bonds denominated in euros, returned 1.9 percent and made up 5.4 percent of fixed-income holdings.

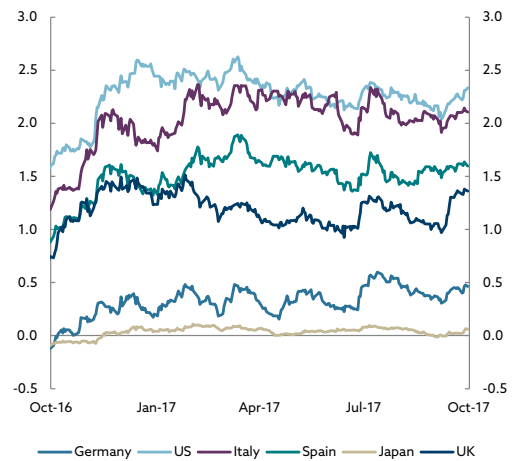
Inflation-linked bonds returned 0.3 percent and accounted for 5.1 percent of total fixed-income investments.

**Chart 3** Price developments for bonds issued in dollars, euros, pounds and yen. Measured in local currencies. Indexed total return 31.12.2016 = 100



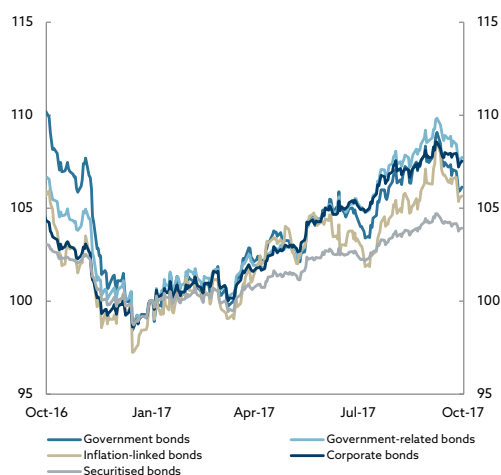
Source: Bloomberg Barclays Indices

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



Source: Bloomberg

**Chart 5** Price developments in fixed-income sectors. Measured in US dollars. Indexed total return 31.12.2016 = 100



Source: Bloomberg Barclays Indices

### Changes in fixed-income holdings

The market value of investments in bonds denominated in emerging market currencies fell from 12.3 to 11.4 percent of total fixed-income investments during the quarter.

Investments in dollars, euros, pounds and yen, meanwhile, increased from 79.6 to 80.1 percent of fixed-income holdings.

The biggest increases in government bond holdings in the quarter were in Finnish, French and Canadian bonds. The biggest decreases were in bonds from the US, Germany and Austria.

**Table 5** The fund's fixed-income investments as at 30 September 2017 based on credit ratings. Percentage of bond holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	25.6	8.2	11.0	6.9	1.6	53.2
Government-related bonds	5.6	4.6	1.6	0.4	0.1	12.3
Inflation-linked bonds	4.2	0.3	0.1	0.3	0.1	5.0
Corporate bonds	0.2	2.4	8.6	12.8	0.4	24.3
Securitised bonds	4.5	0.6	0.1	0.1	0.0	5.2
<b>Total bonds</b>	<b>40.0</b>	<b>16.0</b>	<b>21.4</b>	<b>20.5</b>	<b>2.1</b>	<b>100.0</b>

### REAL ESTATE INVESTMENTS

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

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 purchases and sales. Measured in local currency, rental income net of operating expenses made a positive contribution of 1.0 percentage point to the return, and changes in the value of properties and debt contributed 1.5 percentage points. Currency movements contributed 0.3 percentage point, and transaction costs for property purchases -0.1 percentage point.

The management mandate was amended with effect from 1 January 2017. The fund's real estate investments no longer form part of the strategic benchmark index, which now consists exclusively of equities and bonds. The fund may still be invested in real estate, but it is up to Norges Bank to determine the scope and mix of real estate investments within the general limits in the mandate. The changes to the mandate ensure a holistic approach to managing a portfolio that includes both listed and unlisted investments.

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 1.1 percent.

**Table 6** Return on the fund's real estate investments in third quarter 2017

	Return
Rental income (percentage points)	1.0
Change in value (percentage points)	1.5
Transaction costs (percentage points)	-0.1
Result of currency adjustments (percentage points)	0.3
Unlisted real estate investments (percent)	2.7
Listed real estate investments (percent)	1.1
<b>Aggregated real estate investments (percent)</b>	<b>2.3</b>

**Table 7** Market value of real estate investments as at 30 September 2017. Millions of kroner

	Holding <sup>1</sup>
Unlisted real estate investments	199,343
Listed real estate investments	58,114
<b>Aggregated real estate investments</b>	<b>257,457</b>

<sup>1</sup> Including bank deposits and other receivables

**Purchases and sales of unlisted real estate**

The fund acquired a new property at 900 16th Street in Washington, D.C. through a new partnership with Oxford Properties Group. The investment was announced in July. The fund paid 74.0 million dollars, or 624.7 million kroner, for its 49 percent stake. In July, the fund also purchased a property at 1101 New York Avenue NW in Washington, D.C., again in partnership with Oxford Properties Group, paying 190.8 million dollars, or 1.6 billion kroner, for its 49 percent stake.

In the middle of July, the fund acquired 100 percent of an office property on the corner of Axel-Springer-Strasse and Zimmerstrasse in Berlin, agreeing to pay 425 million euros, or 4.0 billion kroner, once the building is complete, which is scheduled for December 2019.

At the end of July, the fund also signed an agreement to purchase 100 percent of the property 6-8 Boulevard Haussmann in the centre of Paris for 462.2 million euros, or 4.3 billion kroner.

In August, the fund acquired a 48 percent interest in 375 Hudson Street in New York City alongside Trinity Church Wall Street and Hines, paying 223 million dollars, or 1.8 billion kroner, for its stake. The property is located between King Street and West Houston Street, the same area as the portfolio of 11 properties that the partnership has held since December 2015.

In September, the fund bought a further 25 percent interest in 20 Air Street in central London for 112.5 million pounds, or 1.1 billion kroner, taking its stake to 50 percent. The remaining interest is held by The Crown Estate.

# Management

## MANAGEMENT

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

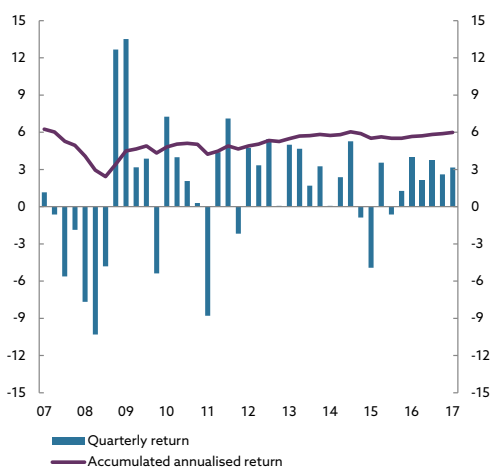
The investment mandate issued by the Ministry of Finance was amended with effect from 1 January 2017. The return on all of the fund's investments, including real estate, is now measured against a benchmark index from the Ministry of Finance consisting solely of global equity and bond indices. This benchmark index comprises an equity index based on FTSE Group's Global All Cap stock index and a bond index based on various bond indices from Bloomberg Barclays Indices. The benchmark index serves as a general limit for market and currency risk in the management of the fund.

With this model, it is up to Norges Bank to decide how much to invest in real estate and what types of property to invest in. Purchases are financed through the sale of equities and bonds, which means that the proportion of the fund invested in equities and bonds will differ from the benchmark index. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

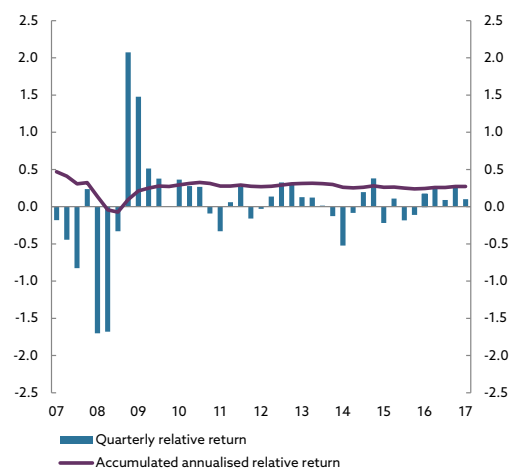
The overall return on the fund was 0.1 percentage point higher than the return on the benchmark index in the third quarter, due to a positive relative return on fixed-income investments and the allocation effect between asset classes.

The return on the fund's equity investments was in line with that on the benchmark index for equities and contributed 0.01 percentage point

**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





**Table 8** Contributions from asset classes to the fund's relative return in third quarter 2017. Percentage points

	Total	Attributed to external management
Equity investments	0.01	0.03
Fixed-income investments	0.05	
Unlisted real estate investments	-0.01	
Cross-asset allocation	0.05	
<b>Total</b>	<b>0.10</b>	<b>0.03</b>

of the relative return for the fund as a whole. Investments in the industrial and consumer goods sectors made the most positive contributions to the relative return in the third quarter, while oil and gas stocks made the most negative contribution. Investments in listed real estate produced a weak return and made a negative contribution to the equity portfolio's relative return. Broken down by country, equity investments in Japan and China made the most positive contributions to the relative return, while Spanish stocks made the most negative contribution.

The fund's fixed-income investments outperformed the benchmark index for bonds by 0.1 percentage point and made a contribution of 0.05 percentage point to the fund's overall relative return. The fund's investments had a higher weight of emerging markets and thus a lower weight of developed markets than the benchmark. This resulted in a positive contribution from yields. Weaker currencies in a number of emerging markets made a negative contribution to the relative return.

Unlisted real estate underperformed the fund's benchmark index, making a contribution of -0.01 percentage point to the fund's relative return. These investments did, however, outperform the actual equities and bonds sold to finance the properties.

The fund's relative performance is also affected by the allocation between asset classes. In the third quarter, this allocation effect made a positive contribution of 0.05 percentage point.

#### RISK

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 volatility, factor exposures, concentration analysis and liquidity risk – to gain the broadest possible picture of this risk.

The fund's expected absolute volatility, calculated using the statistical measure standard deviation, uses a three-year price history to estimate how much the annual return on the fund's investments can normally be expected to fluctuate. The fund's expected absolute volatility was 11.1 percent, or about 890 billion kroner, at the end of the third quarter, compared with 11.0 percent at its start. The increase was due mainly to a higher weight of equities in the portfolio.

We invest in real estate to create a more diversified portfolio. We expect real estate investments to have a different return profile to equities and bonds in both the short and the longer term. The relative risk that this entails

will impact on calculations of the fund's expected relative volatility. As daily pricing is not available for our real estate investments, we use a model from MSCI to calculate the risk for the fund's unlisted real estate investments.

The Ministry of Finance and Norges Bank's Executive Board have set limits for how far the fund's investments may deviate from the

benchmark index. 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 index.

The mandate from the Ministry of Finance was amended with effect from 1 January 2017. All of the fund's investments, including unlisted real

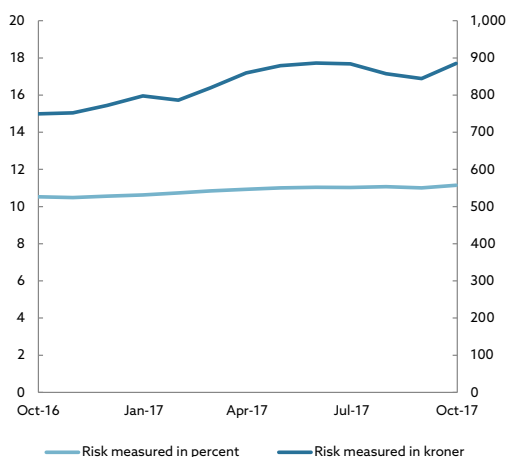
**Table 9** Key figures for the fund's risk and exposure

Limits set by the Ministry of Finance		30.09.2017
Allocation	Equity portfolio 50–80 percent of fund's market value <sup>1</sup>	65.6
	Fixed-income portfolio 20–50 percent of fund's market value <sup>1</sup>	32.6
	Unlisted real estate no more than 7 percent of fund's market value	2.5
Market risk	1.25 percentage points expected relative volatility for the fund's investments	0.3
Credit risk	Maximum 5 percent of fixed-income investments may be rated below BBB-	2.1
Ownership	Maximum 10 percent of voting shares in a listed company in the equity portfolio <sup>2</sup>	9.6

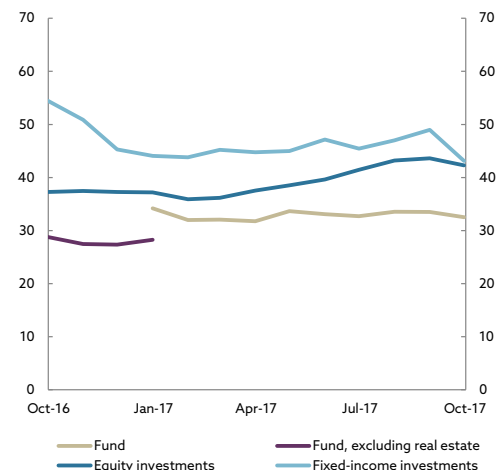
<sup>1</sup> Derivatives are represented with their underlying economic exposure.

<sup>2</sup> 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



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, including unlisted real estate, is 1.25 percentage points. The actual level, including unlisted real estate, was 0.33 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. With effect from 1 January 2017, investments in unlisted real estate have also been included in the calculation of expected shortfall for the fund. The actual level was 1.48 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. This estimated operational risk exposure remained within the Executive Board's tolerance limit in the third quarter. A total of 90 unwanted operational events were registered in the quarter, with an estimated financial impact of 3.6 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. We have structured this work into three areas: standard setting, ownership and risk management.

##### **Standard setting**

We took part in two consultations from the UN's Principles for Responsible Investment (PRI) initiative during the quarter. In one, we provided input on proposals to incorporate the FSB Task Force's recommendations on climate-related financial disclosure into the PRI's reporting framework. In the other, we supported the PRI's objective of strengthening fundamental obligations and expectations for signatories' implementation of the principles.

We also participated in a consultation on non-voting shares organised by index supplier MSCI, where we advocated the use of voting rights as

a criterion for including companies in its indices. We have previously taken part in two separate consultations organised by S&P Dow Jones Indices and FTSE Russell on the same issue.

We responded to a proposal from Hong Kong Exchanges and Clearing Ltd to create a new listing board for equities in Hong Kong that is open to share structures with weighted voting rights. The exchange plays an important role as regulator in the stock market, and it is important that it ensures the equitable treatment of all shareholders. We therefore oppose the proposal for weighted voting rights, which will lead to differential treatment of shareholders.

As part of our work on improving sustainability disclosure, we submitted our second consultation response this year to CDP on its ongoing project to update its questionnaires for companies on climate change, water and deforestation. We also took part in Natural Capital Coalition's consultation on developing a framework for how investors can obtain better information about companies and natural capital – an umbrella term for natural services and resources used by society and the economy.

In a letter to the EU's High-Level Expert Group on Sustainable Finance, we emphasised our interest in market solutions that support sustainable development and underlined the importance of the business sector improving sustainability disclosure.

### **Ownership**

We voted at 1,277 general meetings in the third quarter, considering and voting on a total of 10,462 proposals.

We also published our intention to support the merger of Praxair and Linde. We believe that the transaction is in the long-term interests of shareholders in both companies.

As a financial investor, Norges Bank Investment Management expects multinational enterprises to exhibit appropriate, prudent and transparent tax behaviour. We therefore sent our new expectations document on tax and transparency to the 500 largest companies in the portfolio during the quarter.

### **Observation and exclusion**

Norges Bank Investment Management is responsible for advising on the product-based coal criterion. Norges Bank has placed 13 companies under observation on the basis of this criterion. Observation is chosen "when there is doubt as to whether the conditions for exclusion are met or as to future developments, or where observation is deemed appropriate for other reasons". These companies will be reviewed annually, and work on this began in the third quarter.

Norges Bank published no new decisions on exclusion, observation and active ownership during the quarter.

# Key figures

**Table 10** Quarterly return. Percent

	3Q 2017	2Q 2017	1Q 2017	4Q 2016	3Q 2016	Year-to-date 30.09.2017
<b>Returns in international currency</b>						
Return on equity investments	4.31	3.37	5.53	4.91	6.03	13.79
Return on fixed-income investments	0.85	1.12	0.77	-2.35	0.89	2.77
Return on real estate investments <sup>1</sup>	2.68	2.05	0.62	1.25	2.29	5.44
Return on fund	3.15	2.60	3.78	2.17	4.00	9.83
<b>Relative return on fund (percentage points)<sup>2</sup></b>						
Relative return on fund (percentage points) <sup>2</sup>	0.10	0.28	0.09	0.28	0.17	0.50
<b>Management costs</b>						
Management costs	0.01	0.02	0.02	0.01	0.01	0.04
Return on fund after management costs	3.14	2.59	3.76	2.15	3.98	9.79
<b>Returns in kroner</b>						
Return on equity investments	0.40	2.92	6.85	8.74	1.54	10.41
Return on fixed-income investments	-2.93	0.68	2.03	1.21	-3.39	-0.29
Return on real estate investments <sup>1</sup>	-1.16	1.61	1.88	4.95	-2.04	2.31
Return on fund	-0.71	2.15	5.08	5.90	-0.41	6.57

<sup>1</sup> From 2017, the return on real estate investments includes exclusively unlisted real estate investments.

<sup>2</sup> Relative return on fund includes real estate investments from 01.01.2017. Relative return prior to 2017 is calculated on the aggregated equity and fixed-income investments.

**Table 11** Accumulated return since first capital inflow in 1996. Billions of kroner

	3Q 2017	2Q 2017	1Q 2017	4Q 2016	3Q 2016
Return on equity investments	2,747	2,576	2,404	2,129	1,866
Return on fixed-income investments	1,019	1,001	975	955	1,022
Return on real estate investments <sup>1</sup>	49	44	41	38	37
<b>Total return</b>	<b>3,814</b>	<b>3,622</b>	<b>3,420</b>	<b>3,123</b>	<b>2,925</b>

<sup>1</sup> From 2017, the return on real estate investments includes exclusively unlisted real estate investments.

**Table 12** Historical key figures as at 30 September 2017. 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)	5.98	5.73	9.23	7.29	12.21
Relative return on fund (percentage points) <sup>1</sup>	0.27	0.08	0.29	0.34	0.81
Annual price inflation (percent)	1.76	1.73	1.21	1.02	1.68
Annual management costs (percent)	0.09	0.08	0.06	0.06	0.06
Net real return on fund (percent)	4.06	3.85	7.86	6.15	10.30
The fund's actual standard deviation (percent)	7.36	9.05	5.90	6.25	2.68
The fund's tracking error (percentage points) <sup>1</sup>	0.70	0.90	0.37	0.33	0.29
The fund's information ratio (IR) <sup>1,2</sup>	0.41	0.15	0.72	0.97	2.49

<sup>1</sup> Based on aggregated equity and fixed-income investments until end of 2016.

<sup>2</sup> 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 13** Key figures. Billions of kroner

	3Q 2017	2Q 2017	1Q 2017	4Q 2016	3Q 2016
<b>Market value</b>					
Market value of equity investments	5,242	5,225	5,082	4,692	4,317
Market value of fixed-income investments	2,511	2,597	2,592	2,577	2,584
Market value of real estate investments <sup>1</sup>	199	199	194	242	218
Market value of fund <sup>2</sup>	7,952	8,020	7,867	7,510	7,118
Accrued, not paid, management fees <sup>2</sup>	-3	-2	-1	-4	-3
Owner's capital <sup>2</sup>	7,949	8,018	7,866	7,507	7,116
Inflow/withdrawal of capital <sup>3</sup>	-10	-16	-20	-27	-30
Paid management fees <sup>3</sup>	0	0	-4	0	0
Return on fund	192	202	297	198	240
Changes due to fluctuations in krone	-250	-32	83	221	-269
<b>Total change in market value</b>	<b>-68</b>	<b>153</b>	<b>357</b>	<b>392</b>	<b>-58</b>
<b>Changes in value since first capital inflow in 1996</b>					
Total inflow of capital <sup>4</sup>	3,351	3,360	3,375	3,397	3,423
Return on fund	3,814	3,622	3,420	3,123	2,925
Management fees <sup>5</sup>	-38	-37	-36	-35	-34
Changes due to fluctuations in krone	826	1,076	1,108	1,025	804
<b>Market value of fund</b>	<b>7,952</b>	<b>8,020</b>	<b>7,867</b>	<b>7,510</b>	<b>7,118</b>
Return after management costs	3,776	3,585	3,384	3,088	2,891

<sup>1</sup> Includes exclusively unlisted real estate investments from 2017.

<sup>2</sup> 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.

<sup>3</sup> Paid management fees are specified separately, and not included in Inflow/withdrawal of capital.

<sup>4</sup> Total inflow of capital shown in this table is adjusted for accrued, not paid, management fees.

<sup>5</sup> Management costs in subsidiaries, see Table 9.2 in the financial reporting section, are not included in the management fees. Management costs in subsidiaries have been deducted from the fund's return before management fees.

# Financial reporting

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## Income statement

Amounts in NOK million	Note	3Q 2017	3Q 2016	Year-to-date 30.09.2017	Year-to-date 30.09.2016	2016
<b>Profit/loss on the portfolio before foreign exchange gains and losses</b>						
Income/expense from:						
- Equities and units	4	170 560	218 761	618 424	81 661	342 813
- Bonds	4	17 613	18 201	63 884	169 993	100 250
- Unlisted real estate	6	4 604	4 047	10 104	4 827	6 942
- Financial derivatives	4	-112	-728	571	-7 208	-3 213
- Secured lending		850	891	2 666	2 982	4 013
- Secured borrowing		-146	82	-156	20	23
Tax expense		-948	-1 188	-4 236	-3 582	-4 061
Interest income/expense		-8	-16	-20	-50	-54
Other costs		-	-8	-7	-35	-40
<b>Profit/loss on the portfolio before foreign exchange gains and losses</b>		<b>192 411</b>	<b>240 042</b>	<b>691 230</b>	<b>248 608</b>	<b>446 673</b>
Foreign exchange gains and losses		-249 903	-268 839	-199 256	-527 072	-306 099
<b>Profit/loss on the portfolio</b>		<b>-57 491</b>	<b>-28 797</b>	<b>491 974</b>	<b>-278 464</b>	<b>140 574</b>
Management fee	9	-1 008	-1 096	-3 461	-2 906	-3 731
<b>Profit/loss for the period and total comprehensive income</b>		<b>-58 500</b>	<b>-29 893</b>	<b>488 512</b>	<b>-281 370</b>	<b>136 843</b>

## Balance sheet

Amounts in NOK million	Note	30.09.2017	31.12.2016
<b>ASSETS</b>			
Deposits in banks		12 413	17 759
Secured lending		179 489	134 338
Cash collateral posted		1 386	2 320
Unsettled trades		44 505	13 196
Equities and units	5	4 767 259	4 373 042
Equities lent	5	457 077	340 865
Bonds	5	2 217 903	2 220 286
Bonds lent	5	371 894	454 735
Unlisted real estate	6	198 341	188 469
Financial derivatives	5	7 426	9 366
Other assets		3 420	1 966
<b>TOTAL ASSETS</b>		<b>8 261 112</b>	<b>7 756 342</b>
<b>LIABILITIES AND OWNER'S CAPITAL</b>			
<b>Liabilities</b>			
Secured borrowing		235 968	213 520
Cash collateral received		3 996	3 688
Unsettled trades		65 809	22 195
Financial derivatives	5	2 893	4 501
Other liabilities		111	1 944
Management fee payable	9	3 461	3 731
<b>Total liabilities</b>		<b>312 237</b>	<b>249 579</b>
Owner's capital		7 948 875	7 506 763
<b>TOTAL LIABILITIES AND OWNER'S CAPITAL</b>		<b>8 261 112</b>	<b>7 756 342</b>

## Statement of cash flows

Amounts in NOK million, receipt (+) / payment (-)	Year-to-date 30.09.2017	Year-to-date 30.09.2016	2016
<b>Operating activities</b>			
Receipts of dividend from equities and units	104 764	98 182	118 517
Receipts of interest from bonds	55 262	56 582	74 832
Receipts of interest and dividend from unlisted real estate subsidiaries	2 679	2 652	3 657
Net receipts of interest and fee from secured lending and borrowing	2 295	3 078	4 097
<i>Receipts of interest, dividend and fee from holdings of equities and units, bonds and unlisted real estate</i>	<i>165 000</i>	<i>160 494</i>	<i>201 103</i>
Net cash flow from purchase and sale of equities and units	-119 588	-57 934	-72 588
Net cash flow from purchase and sale of bonds	18 956	-16 524	-38 151
Net cash flow to/from investments in unlisted real estate subsidiaries	-8 058	-4 880	-17 269
Net cash flow financial derivatives	-3 126	-3 618	84
Net cash flow cash collateral related to derivative transactions	1 107	-5 770	983
Net cash flow secured lending and borrowing	-1 132	20 502	50 236
Net payment of taxes	-6 173	-3 608	-3 116
Net cash flow related to interest on deposits in banks and bank overdraft	-85	-45	-
Net cash flow related to other expenses, other assets and other liabilities	-1 068	-316	-430
Management fee paid to Norges Bank <sup>1</sup>	-3 731	-3 933	-3 933
<b>Net cash inflow/outflow from operating activities</b>	<b>42 102</b>	<b>84 368</b>	<b>116 919</b>
<b>Financing activities</b>			
Inflow from the Norwegian government <sup>2</sup>	-	-	-
Withdrawal by the Norwegian government <sup>2</sup>	-46 740	-74 052	-100 616
<b>Net cash inflow/outflow from financing activities</b>	<b>-46 740</b>	<b>-74 052</b>	<b>-100 616</b>
<b>Net change in cash</b>			
Deposits in banks at 1 January	17 759	2 543	2 543
Net increase/decrease of cash in the period	-4 638	10 316	16 303
Net foreign exchange gains and losses on cash	-709	-510	-1 087
<b>Deposits in banks at end of period</b>	<b>12 413</b>	<b>12 349</b>	<b>17 759</b>

<sup>1</sup> 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.

<sup>2</sup> 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 2016	3 494 640	3 976 580	7 471 220
Total comprehensive income	-	-281 370	-281 370
Net inflow/withdrawal during the period <sup>1</sup>	-74 300	-	-74 300
<b>30 September 2016</b>	<b>3 420 340</b>	<b>3 695 210</b>	<b>7 115 550</b>
1 October 2016	3 420 340	3 695 210	7 115 550
Total comprehensive income	-	418 213	418 213
Net inflow/withdrawal during the period	-27 000	-	-27 000
<b>31 December 2016</b>	<b>3 393 340</b>	<b>4 113 423</b>	<b>7 506 763</b>
1 January 2017	3 393 340	4 113 423	7 506 763
Total comprehensive income	-	488 512	488 512
Net inflow/withdrawal during the period <sup>1</sup>	-46 400	-	-46 400
<b>30 September 2017</b>	<b>3 346 940</b>	<b>4 601 935</b>	<b>7 948 875</b>

<sup>1</sup> In the first three quarters of 2017 there was a withdrawal from the krone account of NOK 50.1 billion. Of this, NOK 3.7 billion was used to pay the accrued management fee for 2016. In the first three quarters of 2016, there was a withdrawal from the krone account of NOK 78.2 billion. Of this, NOK 3.9 billion was used to pay the accrued management fee for 2015.



# 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 third quarter of 2017, which only encompass the financial reporting for the GPFG, were approved by the Executive Board on 25 October 2017.

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## 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*. They are presented in Norwegian kroner, rounded to the nearest million kroner. Rounding differences may occur.

The quarterly financial statements are prepared using the same accounting policies and calculation methods as used for 2016. Accounting policies are described in the annual report 2016, and the quarterly financial statements should therefore be read in conjunction with this. No new or amended standards with a significant impact on the financial reporting have been implemented in the first three quarters of 2017.

### 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 2016.



## Note 3 Returns per asset class

Table 3.1 Returns per asset class

	3Q 2017	2Q 2017	1Q 2017	4Q 2016	3Q 2016	Year-to-date 30.09.2017
<b>Returns in the fund's currency basket</b>						
Return on equity investments (percent)	4.31	3.37	5.53	4.91	6.03	13.79
Return on fixed-income investments (percent)	0.85	1.12	0.77	-2.35	0.89	2.77
Return on real estate investments <sup>1</sup> (percent)	2.68	2.05	0.62	1.25	2.29	5.44
Return on fund (percent)	3.15	2.60	3.78	2.17	4.00	9.83
Relative return on fund <sup>2</sup> (percentage points)	0.10	0.28	0.09	0.28	0.17	0.50
<b>Returns in Norwegian kroner (percent)</b>						
Return on equity investments	0.40	2.92	6.85	8.74	1.54	10.41
Return on fixed-income investments	-2.93	0.68	2.03	1.21	-3.39	-0.29
Return on real estate investments <sup>1</sup>	-1.16	1.61	1.88	4.95	-2.04	2.31
Return on fund	-0.71	2.15	5.08	5.90	-0.41	6.57

<sup>1</sup> Return on real estate investments includes exclusively unlisted real estate investments from 2017.

<sup>2</sup> Relative return on fund includes real estate investments from 01.01.2017. Relative return on fund prior to 2017 is calculated on the aggregated equity and fixed-income investments.

For additional information on the method used in the return calculation, see note 3 Returns per asset class in the annual report 2016.

## Note 4 Income/expense from Equities and units, Bonds and Financial derivatives

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

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

**Table 4.1** Specification Income/expense from equities and units

Amounts in NOK million	3Q 2017	3Q 2016	Year-to-date 30.09.2017	Year-to-date 30.09.2016	2016
Dividends	28 675	25 805	107 159	99 884	118 584
Realised gain/loss	31 416	30 847	177 542	63 878	107 005
Unrealised gain/loss	110 469	162 109	333 723	-82 101	117 224
<b>Income/expense from equities and units before foreign exchange gain/loss</b>	<b>170 560</b>	<b>218 761</b>	<b>618 424</b>	<b>81 661</b>	<b>342 813</b>

**Table 4.2** Specification Income/expense from bonds

Amounts in NOK million	3Q 2017	3Q 2016	Year-to-date 30.09.2017	Year-to-date 30.09.2016	2016
Interest	16 765	17 793	53 396	53 373	72 573
Realised gain/loss	2 477	12 277	6 101	28 453	30 861
Unrealised gain/loss	-1 629	-11 869	4 387	88 167	-3 184
<b>Income/expense from bonds before foreign exchange gain/loss</b>	<b>17 613</b>	<b>18 201</b>	<b>63 884</b>	<b>169 993</b>	<b>100 250</b>

**Table 4.3** Specification Income/expense from financial derivatives

Amounts in NOK million	3Q 2017	3Q 2016	Year-to-date 30.09.2017	Year-to-date 30.09.2016	2016
Dividends	54	28	127	91	102
Interest	-33	-1 310	-1 429	-1 674	-2 113
Realised gain/loss	275	-2 346	443	-3 608	-3 251
Unrealised gain/loss	-408	2 900	1 430	-2 017	2 049
<b>Income/expense from financial derivatives before foreign exchange gain/loss</b>	<b>-112</b>	<b>-728</b>	<b>571</b>	<b>-7 208</b>	<b>-3 213</b>

## Note 5 Holdings of Equities and units, Bonds and Financial derivatives

Table 5.1 Equities and units

Amounts in NOK million	30.09.2017		31.12.2016	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities and units	5 224 336	7 953	4 713 907	5 557
<b>Total equities and units</b>	<b>5 224 336</b>	<b>7 953</b>	<b>4 713 907</b>	<b>5 557</b>
<i>Of which equities lent</i>	<i>457 077</i>		<i>340 865</i>	

Table 5.2 Bonds

Amounts in NOK million	Nominal value	30.09.2017		Nominal value	31.12.2016	
		Fair value including accrued interest	Accrued interest		Fair value including accrued interest	Accrued interest
Government bonds	1 221 937	1 377 730	10 654	1 290 977	1 461 360	11 356
Government-related bonds	299 711	317 840	2 190	319 602	334 137	2 390
Inflation-linked bonds	110 927	128 748	332	114 916	140 814	547
Corporate bonds	600 666	630 048	5 703	573 749	591 146	5 992
Securitised bonds	137 052	135 431	1 008	141 566	147 564	1 478
<b>Total bonds</b>	<b>2 370 293</b>	<b>2 589 797</b>	<b>19 887</b>	<b>2 440 810</b>	<b>2 675 021</b>	<b>21 763</b>
<i>Of which bonds lent</i>		<i>371 894</i>			<i>454 735</i>	

Table 5.3 Financial derivatives

Amounts in NOK million	Notional amount	30.09.2017		Notional amount	31.12.2016	
		Fair value Asset	Fair value Liability		Fair value Asset	Fair value Liability
Foreign exchange derivatives	253 695	1 029	1 650	321 580	4 586	1 995
Interest rate derivatives	29 272	888	1 243	31 284	528	2 506
Equity derivatives	6 156	5 509	-	6 645	4 252	-
<b>Total financial derivatives</b>	<b>289 123</b>	<b>7 426</b>	<b>2 893</b>	<b>359 509</b>	<b>9 366</b>	<b>4 501</b>

## 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 designated upon initial recognition as financial instruments 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 on fair value measurement of unlisted real estate investments, see note 7 *Fair value measurement*.

Subsidiaries are financed through equity and long-term debt. 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	3Q 2017	3Q 2016	Year-to-date 30.09.2017	Year-to-date 30.09.2016	2016
Dividends received	459	358	1 412	1 605	2 167
Interest received	462	396	1 267	1 047	1 490
Unrealised gain/loss	3 683	3 293	7 425	2 175	3 285
<b>Income/expense from unlisted real estate before foreign exchange gain/loss</b>	<b>4 604</b>	<b>4 047</b>	<b>10 104</b>	<b>4 827</b>	<b>6 942</b>

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	30.09.2017	31.12.2016
Unlisted real estate, opening balance for the period	188 469	180 021
Payments to new investments <sup>1</sup>	6 422	19 147
Payments to existing investments <sup>1</sup>	3 530	2 808
Payments from existing investments <sup>1</sup>	-1 894	-4 686
Unrealised gain/loss	7 425	3 285
Foreign currency translation effect	-5 611	-12 106
<b>Unlisted real estate, closing balance for the period</b>	<b>198 341</b>	<b>188 469</b>

<sup>1</sup> 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.

In the tables below, a further specification of *Unlisted real estate* is provided. Table 6.3 specifies the GPFG's share of the 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** Income from underlying real estate companies

Amounts in NOK million	3Q 2017	3Q 2016	Year-to-date 30.09.2017	Year-to-date 30.09.2016	2016
Net rental income <sup>1</sup>	2 167	1 949	6 301	5 778	7 645
Realised gain/loss	192	57	207	110	109
Fair value changes – properties <sup>2</sup>	2 809	2 589	5 364	999	1 416
Fair value changes – debt <sup>2</sup>	28	-72	-192	-584	-191
Transaction costs	-112	-103	-159	-134	-411
Interest expense external debt	-145	-145	-452	-480	-622
Tax expense payable	-14	-77	-79	-127	-151
Change in deferred tax	-120	-36	-277	-176	-174
Asset management – fixed fees <sup>3</sup>	-119	-114	-368	-368	-454
Asset management – variable fees <sup>3</sup>	-45	68	-121	-17	-39
Operating costs within the limit from the Ministry of Finance <sup>4</sup>	-19	-19	-57	-59	-81
Other costs	-18	-50	-63	-115	-105
<b>Net income underlying real estate companies</b>	<b>4 604</b>	<b>4 047</b>	<b>10 104</b>	<b>4 827</b>	<b>6 942</b>

<sup>1</sup> *Net rental income* mainly comprises received and earned rental income, less costs relating to the operation and maintenance of properties.

<sup>2</sup> Comprises solely fair value changes of properties and debt and will therefore not reconcile with unrealised gain/loss presented in table 6.1 which includes undistributed profits.

<sup>3</sup> 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.

<sup>4</sup> See table 9.2 for specification of the 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	30.09.2017	31.12.2016
Deposits in banks	3 238	2 272
Properties	213 216	204 635
External debt	-15 757	-15 727
Tax payable	-111	-204
Net deferred tax	-1 448	-1 153
Net other assets and liabilities	-797	-1 354
<b>Total assets and liabilities underlying real estate companies</b>	<b>198 341</b>	<b>188 469</b>



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## 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 7 *Fair value measurement* in the annual report 2016.

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### 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	
	30.09.2017	31.12.2016	30.09.2017	31.12.2016	30.09.2017	31.12.2016	30.09.2017	31.12.2016
<b>Equities and units</b>	<b>5 179 693</b>	<b>4 673 199</b>	<b>33 651</b>	<b>28 845</b>	<b>10 992</b>	<b>11 863</b>	<b>5 224 336</b>	<b>4 713 907</b>
Government bonds	1 326 719	1 369 188	51 011	92 172	-	-	1 377 730	1 461 360
Government-related bonds	268 805	279 772	47 917	53 463	1 118	902	317 840	334 137
Inflation-linked bonds	121 489	124 646	7 259	16 168	-	-	128 748	140 814
Corporate bonds	604 038	538 692	25 860	52 293	150	161	630 048	591 146
Securitised bonds	123 676	136 088	11 729	11 149	26	327	135 431	147 564
<b>Total bonds</b>	<b>2 444 727</b>	<b>2 448 386</b>	<b>143 776</b>	<b>225 245</b>	<b>1 294</b>	<b>1 390</b>	<b>2 589 797</b>	<b>2 675 021</b>
Financial derivatives (assets)	40	291	7 386	9 075	-	-	7 426	9 366
Financial derivatives (liabilities)	-	-	-2 893	-4 501	-	-	-2 893	-4 501
<b>Total financial derivatives</b>	<b>40</b>	<b>291</b>	<b>4 493</b>	<b>4 574</b>	<b>-</b>	<b>-</b>	<b>4 533</b>	<b>4 865</b>
Unlisted real estate	-	-	-	-	198 341	188 469	198 341	188 469
Other <sup>1</sup>	-	-	-64 671	-71 768	-	-	-64 671	-71 768
<b>Total</b>	<b>7 624 460</b>	<b>7 121 876</b>	<b>117 249</b>	<b>186 896</b>	<b>210 627</b>	<b>201 722</b>	<b>7 952 336</b>	<b>7 510 494</b>
<b>Total (percent)</b>	<b>95.9</b>	<b>94.8</b>	<b>1.5</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Other consists of non-investment assets and liabilities limited to money-market instruments such as 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 third quarter of 2017 is virtually unchanged compared to the end of 2016. The majority of the total portfolio has low valuation uncertainty. At the end of the third quarter, 97.4 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 and units*

Measured as a share of total value, virtually all equities and units (99.1 percent) are valued based on official closing prices from stock exchanges and are classified as Level 1. A few equities and units (0.6 percent) are valued based on observable inputs other than quoted prices included in Level 1, and are classified as Level 2.

These include equities for which trading has recently been suspended or illiquid securities that are not traded daily. Some holdings (0.3 percent), for example equities that are not listed, are illiquid due to lock-in periods, or where trading has been suspended over a prolonged period, are measured at fair value with considerable use of non-observable market inputs. These holdings have high uncertainty related to fair value and are classified as Level 3.

#### *Bonds*

The majority of bonds (94.4 percent) have observable, executable market quotes and are classified as Level 1. A minority of bonds (5.5 percent) are classified as Level 2. These are valued using observable market inputs such as quoted prices in markets that are not considered active, or priced based on liquid comparable instruments. 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 properties 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 OF VALUATION UNCERTAINTY**

#### *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 2016.

There has been a decrease in valuation uncertainty for bonds compared to year-end 2016. The year-to-date decrease is primarily due to certain US corporate bonds being reclassified from Level 2 to Level 1 due to a sufficient amount of comparable quotes being available at the end of the period. This confirms a pattern previously observed, where some bonds tend to have less liquidity at year-end compared to other quarters. Further, the majority of new purchases during the year have been within Level 1 and a significant share of Level 2 securities have matured or been sold.

**Table 7.2** Changes in Level 3 holdings

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	30.09.2017
Equities and units	11 863	96	-1 514	-185	448	210	-259	333	10 992
Bonds	1 390	-	-122	-215	10	324	-6	-87	1 294
Unlisted real estate <sup>1</sup>	188 469	8 058	-	-	7 425	-	-	-5 611	198 341
<b>Total</b>	<b>201 722</b>	<b>8 154</b>	<b>-1 636</b>	<b>-400</b>	<b>7 883</b>	<b>534</b>	<b>-265</b>	<b>-5 365</b>	<b>210 627</b>

Amounts in NOK million	01.01.2016	Purchases	Sales	Settle-ments	Net gain/loss	Trans-ferred into Level 3	Trans-ferred out of Level 3	Foreign exchange gains and losses	31.12.2016
Equities and units	3 607	9 956	-455	-41	-533	257	-842	-86	11 863
Bonds	2 731	-	-1 011	-163	-33	6	-91	-49	1 390
Unlisted real estate <sup>1</sup>	180 021	17 269	-	-	3 285	-	-	-12 106	188 469
<b>Total</b>	<b>186 359</b>	<b>27 225</b>	<b>-1 466</b>	<b>-204</b>	<b>2 719</b>	<b>263</b>	<b>-933</b>	<b>-12 241</b>	<b>201 722</b>

<sup>1</sup> Purchases represent the net cash flow in the period from the GPF to subsidiaries presented as *Unlisted real estate*.

The relative share of holdings classified as Level 3 is virtually unchanged from year-end 2016. In absolute terms, Level 3 equity holdings have decreased by NOK 871 million. This is

mainly due to the sale of some equities previously classified as Level 3. The value of bonds classified as Level 3 has decreased by NOK 96 million.

## 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 30.09.2017	Sensitivities 30.09.2017		Specification of Level 3 holdings 31.12.2016	Sensitivities 31.12.2016	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities and units	10 992	-2 275	2 275	11 863	-2 638	2 606
Government-related bonds	1 118	-112	112	902	-90	90
Corporate bonds	150	-15	15	161	-16	16
Securitised bonds	26	-3	3	327	-33	33
<b>Total bonds</b>	<b>1 294</b>	<b>-130</b>	<b>130</b>	<b>1 390</b>	<b>-139</b>	<b>139</b>
<b>Unlisted real estate</b>	<b>198 341</b>	<b>-12 736</b>	<b>14 593</b>	<b>188 469</b>	<b>-9 678</b>	<b>10 711</b>
<b>Total</b>	<b>210 627</b>	<b>-15 141</b>	<b>16 998</b>	<b>201 722</b>	<b>-12 455</b>	<b>13 456</b>

There is 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.

Real estate values are particularly sensitive to changes in yields and assumptions influencing future revenues. In an unfavourable outcome, it is calculated that an increase in the yield of 0.2 percentage points, and a reduction in future market rents of 2 percent will result in a

decrease in value of the real estate portfolio of approximately 6.4 percent or NOK 12 736 million. In a favourable outcome, a decrease in the yield 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 7.4 percent or NOK 14 593 million. The increase in sensitivity compared to year-end is mainly due to increased size and changes in the composition of the unlisted real estate portfolio.

The sensitivity for bonds classified as Level 3 is essentially unchanged compared to year-end. The sensitivity for equities classified as Level 3 is slightly reduced, mainly due to reduced holdings of equities classified as Level 3.

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## 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 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

Asset class	Market	Market value in percent by country and currency <sup>1</sup>		Market value in percent by asset class		Assets minus liabilities excluding management fee	
		30.09.2017	Market 31.12.2016	30.09.2017	31.12.2016	30.09.2017	31.12.2016
Equities	<b>Developed</b>	<b>89.7</b>	<b>Developed</b>	<b>90.5</b>			
	US	35.9	US	37.6			
	UK	9.7	UK	9.8			
	Japan	8.9	Japan	9.0			
	Germany	5.9	Germany	5.4			
	France	5.3	France	5.2			
	Total other	24.0	Total other	23.5			
	<b>Emerging</b>	<b>10.3</b>	<b>Emerging</b>	<b>9.5</b>			
	China	3.2	China	2.7			
	Taiwan	1.6	Taiwan	1.5			
	India	1.1	India	1.0			
	Brazil	0.9	Brazil	0.8			
	South Africa	0.6	South Africa	0.6			
	Total other	2.9	Total other	2.9			
<b>Total equities</b>					<b>65.92</b>	<b>62.47</b>	<b>5 242 161 4 691 863</b>
Fixed income	<b>Developed</b>	<b>88.6</b>	<b>Developed</b>	<b>87.6</b>			
	US Dollar	42.7	US Dollar	43.7			
	Euro	27.0	Euro	25.3			
	Japanese Yen	6.2	Japanese Yen	5.9			
	British Pound	4.2	British Pound	4.6			
	Canadian Dollar	3.3	Canadian Dollar	3.0			
	Total other	5.2	Total other	5.1			
	<b>Emerging</b>	<b>11.4</b>	<b>Emerging</b>	<b>12.4</b>			
	Mexican Peso	2.1	Mexican Peso	1.9			
	South Korean Won	1.7	South Korean Won	1.7			
	Polish Zloty	0.9	Indian Rupee	0.9			
	Indonesian Rupiah	0.9	Polish Zloty	0.8			
	Indian Rupee	0.9	Brazilian Real	0.8			
	Total other	4.9	Total other	6.3			
<b>Total fixed income</b>					<b>31.57</b>	<b>34.31</b>	<b>2 510 832 2 576 875</b>
Unlisted real estate	US	48.4	US	46.0			
	UK	23.8	UK	23.0			
	France	15.3	France	14.6			
	Switzerland	4.2	Germany	7.6			
	Germany	3.5	Switzerland	3.6			
	Total other	4.8	Total other	5.2			
<b>Total unlisted real estate<sup>2</sup></b>					<b>2.51</b>	<b>3.22</b>	<b>199 343 241 756</b>

<sup>1</sup> Market value in percent by country and currency includes derivatives and cash.

<sup>2</sup> Listed real estate investments are presented as *Equities* from 01.01.2017. These were previously included in the asset class *Real estate*. Comparatives have not been restated.

At the end of the third quarter, the share of equities in the fund was 65.9 percent. This is an increase from 62.5 percent at year-end 2016. The bond portfolio's share of the fund decreased to 31.6 percent in the third quarter, from 34.3 percent at year-end. The year-to-date change in asset class allocation is mainly due to stronger returns for equities than bonds, as well as the transfer of listed real estate to the equity portfolio at the start of the year, following a change in the investment mandate issued by the Ministry of Finance.

#### 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 relative risk.

The mandate set by the Ministry of Finance was changed with effect from 1 January 2017. All 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 comprises global equity and bond indices. The limit for expected relative volatility for the fund, now including unlisted real estate, is still 1.25 percentage points.

MSCI's Barra Private Real Estate 2 (PRE2) model is used to calculate 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 2016. This method is also applied to investments in unlisted real estate.

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

	Expected volatility, actual portfolio							
	30.09.2017	Min 2017	Max 2017	Average 2017	31.12.2016	Min 2016	Max 2016	Average 2016
Portfolio	11.1	10.7	11.1	11.0	10.6	10.2	10.7	10.5
Equities	14.1	13.9	14.1	14.0	14.0	12.9	14.1	13.7
Fixed-income	9.7	9.6	9.8	9.7	9.7	9.6	10.3	10.0
Unlisted real estate <sup>1</sup>	12.6	12.5	12.7	12.6				

<sup>1</sup> The risk for the fund's unlisted real estate investments has been calculated separately from 2017.



**Table 8.3** Relative risk measured against the benchmark indices of the fund and asset classes, expected relative volatility, in basis points

	Expected relative volatility							
	30.09.2017	Min 2017	Max 2017	Average 2017	31.12.2016	Min 2016	Max 2016	Average 2016
Portfolio <sup>1</sup>	33	31	35	33	34	-	-	-
Equity and fixed-income portfolio <sup>1</sup>	-	-	-	-	28	26	29	28
Equities	42	36	44	40	37	34	38	36
Fixed income	43	41	50	45	44	41	55	51

<sup>1</sup> In the new investment management mandate, effective from 2017, real estate is included in the framework for relative volatility. Prior to 2017, the framework in the investment management mandate was based on the aggregated equity and fixed-income portfolio.

Risk measured in terms of expected volatility shows an expected annual change in value in the fund of 11.1 percent, or approximately NOK 890 billion at the end of the third quarter, compared to 10.6 percent at year-end 2016. The expected volatility for the equity portfolio has increased to 14.1 percent from 14.0 percent, while the expected volatility for the fixed income portfolio is unchanged since year-end 2016, at 9.7 percent. The year-to-date increase in expected volatility is primarily due to the increased share of equities in the portfolio.

The fund's expected relative volatility, including unlisted real estate, was 33 basis points at the end of the third quarter, compared to 34 basis points at year-end 2016.

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. By means of historical simulations, relative returns of the

current portfolio and benchmark are calculated on a weekly basis over the last ten years. The average relative return measured in the currency basket for the 2.5 percent worst weeks is then annualised, giving the expected shortfall measured at a 97.5 percent confidence level.

With effect from 1 January 2017, investments in unlisted real estate are also included in the calculation of expected shortfall for the fund. The Executive Board has determined that the annual expected shortfall shall not exceed 3.75 percentage points. At the end of the third quarter, the measure was 1.48 percentage points.

#### 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 distribution of the bond portfolio across different credit rating categories.

**Table 8.4** Bond portfolio specified by credit rating

Amounts in NOK million, 30.09.2017	AAA	AA	A	BBB	Lower rating	Total
Government bonds	661 886	211 384	285 288	177 779	41 393	1 377 730
Government-related bonds	145 890	118 254	41 295	11 077	1 324	317 840
Inflation-linked bonds	108 335	7 927	2 754	8 208	1 524	128 748
Corporate bonds	4 326	62 102	222 968	331 048	9 604	630 048
Securitised bonds	115 685	14 840	3 141	1 765	-	135 431
<b>Total bonds</b>	<b>1 036 122</b>	<b>414 507</b>	<b>555 446</b>	<b>529 877</b>	<b>53 845</b>	<b>2 589 797</b>

Amounts in NOK million, 31.12.2016	AAA	AA	A	BBB	Lower rating	Total
Government bonds	716 767	260 859	271 238	173 321	39 176	1 461 360
Government-related bonds	143 279	136 550	36 316	15 579	2 413	334 137
Inflation-linked bonds	109 025	9 493	3 662	12 459	6 175	140 814
Corporate bonds	5 290	59 469	219 333	297 198	9 856	591 146
Securitised bonds	126 001	16 054	2 010	3 499	-	147 564
<b>Total bonds</b>	<b>1 100 361</b>	<b>482 424</b>	<b>532 559</b>	<b>502 058</b>	<b>57 620</b>	<b>2 675 021</b>

The proportion of bond holdings categorised with credit rating AAA and AA was reduced at the end of the third quarter compared to year-end 2016, while the share of bond holdings with A and BBB credit ratings increased in the period. This is primarily due to a reduction in government bonds in the AAA and AA categories to 33.7 percent of the bond portfolio, from 36.5 at year-end 2016, partly due to sales of government bonds in these categories. The share of corporate bonds in the A and BBB

categories increased to 21.4 percent of the bond portfolio from 19.3 percent at year-end 2016. The overall credit quality of the bond portfolio has slightly declined since year-end.

#### COUNTERPARTY RISK

Counterparty risk is the risk of loss due to counterparty bankruptcy or other events leading to counterparties defaulting. Table 8.5 shows counterparty risk by type of position.

**Table 8.5** Counterparty risk by type of position

Amounts in NOK million, 30.09.2017	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Securities lending	64 595	-	737	63 859
Unsecured bank deposits <sup>1</sup>	16 696	-	-	16 696
OTC derivatives including foreign exchange contracts	29 049	5 062	-380	24 367
Cleared OTC and listed derivatives <sup>2</sup>	8 942	1 465	-283	7 761
Participatory certificates	5 439	-	-	5 439
Repurchase and reverse repurchase agreements	2 856	449	-688	3 094
Settlement risk towards broker and long settlement transactions	562	-	-	562
<b>Total</b>	<b>128 139</b>	<b>6 976</b>	<b>-615</b>	<b>121 778</b>

Amounts in NOK million, 31.12.2016	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Securities lending	64 908	-	868	64 040
Unsecured bank deposits <sup>1</sup>	20 570	-	-	20 570
OTC derivatives including foreign exchange contracts	19 347	3 667	2 608	13 071
Cleared OTC and listed derivatives <sup>2</sup>	8 003	1 183	-1 685	8 505
Participatory certificates	3 934	-	-	3 934
Repurchase and reverse repurchase agreements	3 523	492	149	2 882
Settlement risk towards broker and long settlement transactions	50	-	-	50
<b>Total</b>	<b>120 335</b>	<b>5 342</b>	<b>1 940</b>	<b>113 054</b>

<sup>1</sup> Includes bank deposits in non-consolidated real estate subsidiaries.

<sup>2</sup> Relates to futures trades and interest rate swaps cleared by a central clearing counterparty.

Counterparty risk measured as net risk exposure has increased compared to year-end 2016. The net exposure was NOK 121.8 billion at the end of the third quarter, compared to NOK 113.1 billion at year-end 2016. The increase

is mainly due to increased risk exposure from OTC derivatives, as a result of high counterparty exposure from settlement of FX contracts at the end of the third quarter.

## Note 9 Management costs

The GPF 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 subsidiaries of Norges Bank exclusively established as part of the management of the GPF'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 GPF, 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	3Q 2017	3Q 2016	Year-to-date		Year-to-date		2016	Basis points
			30.09.2017	Basis points	30.09.2016	Basis points		
Salary, social security and other personnel-related costs	322	304	947		860		1 177	
Custody costs	92	102	289		286		379	
IT services, systems, data and information	157	173	480		478		649	
Research, consulting and legal fees	61	54	146		176		261	
Other costs	67	59	183		177		244	
Allocated costs Norges Bank	43	41	128		124		161	
Base fees to external managers	219	192	649		552		638	
<b>Management fee excluding performance-based fees</b>	<b>961</b>	<b>925</b>	<b>2 823</b>	<b>4.9</b>	<b>2 653</b>	<b>4.9</b>	<b>3 509</b>	<b>4.9</b>
Performance-based fees to external managers	47	171	638		253		222	
<b>Total management fee</b>	<b>1 008</b>	<b>1 096</b>	<b>3 461</b>	<b>6.0</b>	<b>2 906</b>	<b>5.4</b>	<b>3 731</b>	<b>5.2</b>

**MANAGEMENT COSTS IN SUBSIDIARIES**

Management costs incurred in subsidiaries consist of operating costs related to the management of the unlisted real estate portfolio. Management costs incurred in non-

consolidated and consolidated subsidiaries are presented in the income statement as *Income/expense from unlisted real estate* and *Other costs*, respectively. These costs are specified in table 9.2.

**Table 9.2** Management costs, real estate subsidiaries

Amounts in NOK million	3Q 2017	3Q 2016	Year-to-date 30.09.2017	Year-to-date 30.09.2016	2016
Salary, social security and other personnel-related costs	6	6	18	17	27
IT services, systems, data and information	9	9	26	26	36
Research, consulting and legal fees	3	4	13	16	19
Other costs	4	5	12	14	18
<b>Total management costs, real estate subsidiaries</b>	<b>22</b>	<b>24</b>	<b>69</b>	<b>73</b>	<b>100</b>
<i>Of which management costs non-consolidated subsidiaries</i>	19	19	57	59	81
<i>Of which management costs consolidated subsidiaries</i>	3	5	12	14	19

In addition to the management costs presented in table 9.2, operating costs are also incurred in subsidiaries related to the ongoing maintenance, operation and development of properties and leases. These costs 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. Other operating costs incurred

in non-consolidated companies are expensed directly in the portfolio result and 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 costs*.

### UPPER LIMIT FOR REIMBURSEMENT OF MANAGEMENT COSTS

The Ministry of Finance has established an upper limit for the reimbursement of management costs. For 2017, the sum of total management costs incurred in Norges Bank and its subsidiaries, excluding performance-based fees to external managers, is limited to 7.5 basis points of average assets under management. In accordance with guidelines from the Ministry of Finance, the calculation of average assets under management is based on the market value of the portfolio in Norwegian kroner at the start of each month in the calendar year. Other operating costs incurred in subsidiaries, as well as costs incurred in partly-owned real estate entities, are

not included in the costs that are measured against this limit. Year-to-date management costs that are measured against the limit amount to NOK 2 892 million. This consists of management costs of NOK 2 823 million in Norges Bank, excluding performance-based fees to external managers, and management costs of NOK 69 million in subsidiaries. This corresponds to 5.0 basis points of assets under management on an annual basis.

Year-to-date management costs, including performance-based fees, amount to NOK 3 530 million. This corresponds to 6.1 basis points of assets under management on an annual basis.



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 30 September 2017, the income statement, the statement of changes in owner's capital, the statement of cash flows for the nine-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".

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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 October 2017

**Deloitte AS**

Henrik Woxholt  
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