

3Q|18

**GOVERNMENT
PENSION FUND
GLOBAL**

**QUARTERLY REPORT
/2018**

Third quarter 2018 in brief

2.1%

174 billion kroner

The Government Pension Fund Global returned **2.1** percent, or **174** billion kroner, in the third quarter of 2018.



**EQUITY
INVESTMENTS**

3.1%



**UNLISTED
REAL ESTATE
INVESTMENTS**

1.9%



**FIXED-INCOME
INVESTMENTS**

-0.3%

The fund's equity investments returned **3.1** percent.
Investments in unlisted real estate returned **1.9** percent.
Fixed-income investments returned **-0.3** percent.

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

8,478

billion kroner

The fund had a market value of **8,478** billion kroner at the end of the quarter and was invested **67.6** percent in equities, **2.7** percent in unlisted real estate and **29.7** percent in fixed income.



**EQUITY
INVESTMENTS**

67.6%



**UNLISTED
REAL ESTATE
INVESTMENTS**

2.7%



**FIXED-INCOME
INVESTMENTS**

29.7%

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

Investments

EQUITIES

Equity investments, which accounted for 67.6 percent of the fund at the end of the quarter, returned 3.1 percent. US stocks gained during the quarter, boosted by continued growth in corporate earnings. Share prices elsewhere performed less well. This mixed picture was due partly to expectations for economic growth moving differently. Uncertainty about the effects of increased trade barriers had a negative impact on growth expectations outside the US.

Strongest return in North America

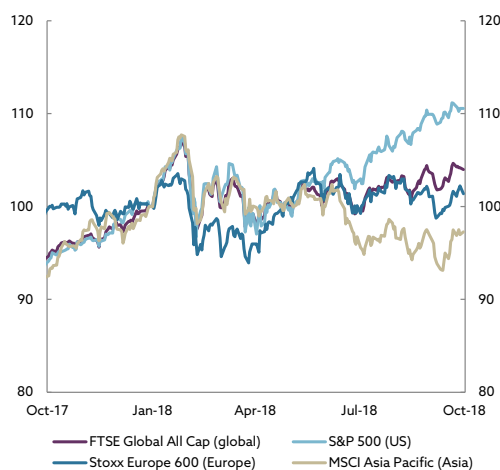
North American stocks returned 7.0 percent and amounted to 41.3 percent of the equity portfolio. US stocks, which were the fund's

single-largest market with 39.1 percent of its equity investments, returned 7.3 percent, or 6.9 percent in local currency.

European shares returned 0.7 percent and accounted for 34.3 percent of the fund's equities. The UK, which was the fund's largest European market with 9.3 percent of its equity investments, returned -1.6 percent, or -0.8 percent in local currency.

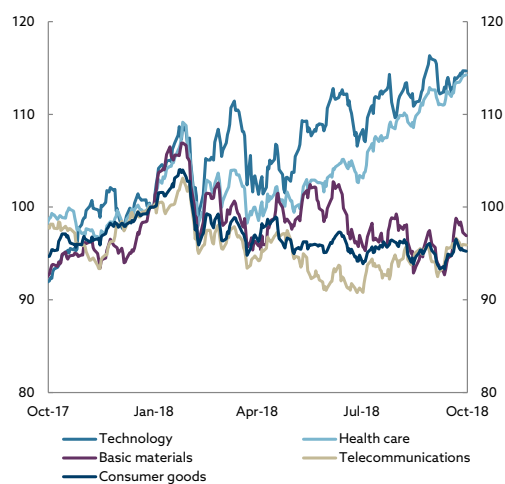
Stocks in Asia and Oceania returned 0.4 percent and made up 22.0 percent of the fund's equity investments. Japanese stocks returned 3.7 percent, or 5.8 percent in local currency, and amounted to 9.0 percent of equity investments.

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 -2.2 percent and accounted for 10.3 percent of the equity portfolio. Chinese equity investments, representing 3.6 percent of the fund's equity investments, returned -7.8 percent.

Health care performed best

Health care stocks were the strongest performers, returning 8.9 percent, on the back of stronger earnings than expected in the second quarter. News from a number of companies also contributed to the strong return.

Technology stocks returned 5.3 percent, buoyed by further strong growth in cloud solutions and expectations for the launch of new smartphone models.

Telecom companies returned 4.7 percent, driven by a strong performance from the mobile sector in North America and a growing expectation that US authorities will approve the merger of the third- and fourth-largest mobile carriers in the market.

Utilities was the weakest sector returning -0.6 percent. Higher interest rates in the global financial markets contributed negatively to the returns in the sector.

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

Sector	Return	Share of equity investments ¹
Financials	2.0	23.2
Industrials	3.4	13.5
Technology	5.3	13.1
Consumer goods	0.3	11.6
Health care	8.9	11.2
Consumer services	2.2	10.8
Oil and gas	3.5	6.4
Basic materials	0.5	5.2
Telecommunications	4.7	2.7
Utilities	-0.6	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 30 September 2018. Millions of kroner

Company	Country	Holding
Apple Inc	US	83,703
Amazon.com Inc	US	66,413
Microsoft Corp	US	65,720
Alphabet Inc	US	58,986
Royal Dutch Shell Plc	UK	52,939
Nestlé SA	Switzerland	49,947
Novartis AG	Switzerland	36,076
Roche Holding AG	Switzerland	34,013
Facebook Inc	US	30,593
Berkshire Hathaway Inc	US	30,417

Individual stocks

The investment in technology company Apple Inc made the most positive contribution to the return in the third quarter, followed by consumer services company Amazon.com Inc and technology company Microsoft Corp. The investments that made the most negative contributions were in technology companies Tencent Holdings Ltd and Facebook Inc and pharmaceutical company Bayer AG.

The fund participated in 47 initial public offerings in the quarter. The largest was at technology company China Tower Corp Ltd, followed by consumer services company Meituan Dianping and oil and gas company Viva Energy Group Ltd. The offerings in which the fund invested the most were those in China Tower Corp Ltd, consumer goods company NIO Inc and consumer services company Farfetch 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. This is known as the fund's currency basket and consisted of 35 currencies at the end of the third quarter. 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 third quarter and returned 1.9 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 in the third quarter, as did changes in the value of properties and debt, while transaction costs and currency movements had only a minor effect.

Unlisted and listed real estate investments are managed under a combined strategy for real estate. Investments in listed real estate returned 0.1 percent.

Announced acquisitions and disposals of unlisted real estate

In July, the fund announced the acquisition of a logistics property in Orange County, California, in partnership with Prologis, paying 25.4 million dollars, or around 198 million kroner, for a 45 percent stake. At the same time, the partnership announced the disposal of a logistics property in Dallas, Texas, with the fund receiving 31 million dollars, or around 251 million kroner, for its 45 percent stake.

In August, the fund invested in an office and retail property at 501 Boylston Street in Boston, Massachusetts, paying 290.9 million dollars, or around 2.5 billion kroner, for a 49.9 percent interest. The remaining 50.1 percent has been retained by the vendor, TH Real Estate.

In September, the fund acquired a 100 percent interest in an office property at 60 Holborn Viaduct in central London for 321.3 million pounds, or around 3.4 billion kroner.

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

	Return
Rental income (percentage points)	0.9
Change in value (percentage points)	0.9
Transaction costs (percentage points)	0.0
Result of currency adjustments (percentage points)	0.1
Total (percent)	1.9

Table 4 Value of real estate investments as at 30 September 2018. Millions of kroner

	Value ¹
Unlisted real estate investments	225,956
Listed real estate investments	77,498
Total	303,453

¹ Including bank deposits and other receivables

FIXED INCOME

Fixed-income investments accounted for 29.7 percent of the fund at the end of the third quarter and returned -0.3 percent. Interest rates in most developed markets rose during the quarter.

Negative return on government debt

Government bonds accounted for 56.1 percent of the fund's fixed-income investments at the end of the quarter and returned -0.9 percent. The fund's three largest holdings were of US, Japanese and German government bonds.

US Treasuries returned -0.2 percent, or -0.6 percent in local currency, and accounted for 23.5 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 raised its policy rate by 25 basis points at its meeting in September, the third increase this year. The bank also revised up its expectations for the US economy. The dollar strengthened against the fund's currency basket during the quarter.

Euro-denominated government bonds represented 11.2 percent of the fund's fixed-income holdings and returned -1.0 percent, or -0.9 percent in local currency. The European Central Bank (ECB) left its policy rate unchanged during the quarter. It announced in June that it would halve the rate of its net purchases of bonds in the fourth quarter and end them altogether at the beginning of 2019. The euro

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

Sector	Return	Share of fixed-income investments ¹
Government bonds ²	-0.9	56.1
Government-related bonds ²	0.0	12.7
Inflation-linked bonds ²	-0.8	4.5
Corporate bonds	1.0	23.9
Securitised bonds	0.0	5.5

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

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

Table 6 The fund's largest bond holdings as at 30 September 2018. Millions of kroner

Issuer	Country	Holding
United States of America	US	666,171
Japanese government	Japan	186,357
Federal Republic of Germany	Germany	103,668
UK government	UK	59,486
French Republic	France	51,502
Spanish government	Spain	41,988
Italian Republic	Italy	41,055
Mexican government	Mexico	40,570
South Korean government	South Korea	40,046
Australian government	Australia	34,237

weakened against the fund's currency basket during the quarter.

Japanese government bonds amounted to 7.3 percent of the fund's fixed-income holdings and returned -2.6 percent, or -0.6 percent in local currency. The Bank of Japan adjusted its monetary policy during the quarter to allow somewhat greater fluctuation in 10-year yields. The yen weakened against the currency basket during the quarter.

The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau (KfW), Canada Housing Trust (Canhou) and the European Investment Bank (EIB). These bonds returned 0.0 percent and

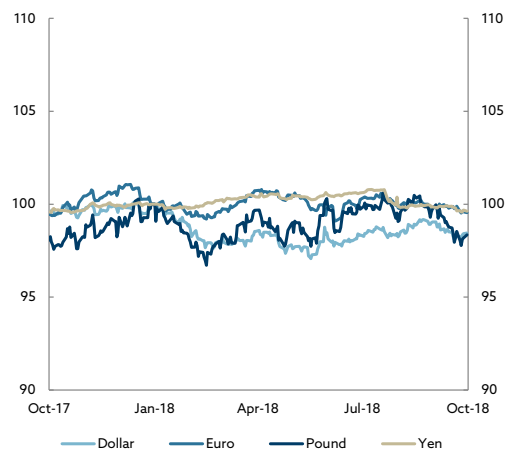
accounted for 12.7 percent of fixed-income investments.

Corporate bonds returned 1.0 percent and made up 23.9 percent of fixed-income investments at the end of the period. The credit premium changed little during the quarter.

Securitised bonds, consisting mainly of covered bonds denominated in euros, returned 0.0 percent and made up 5.5 percent of fixed-income holdings.

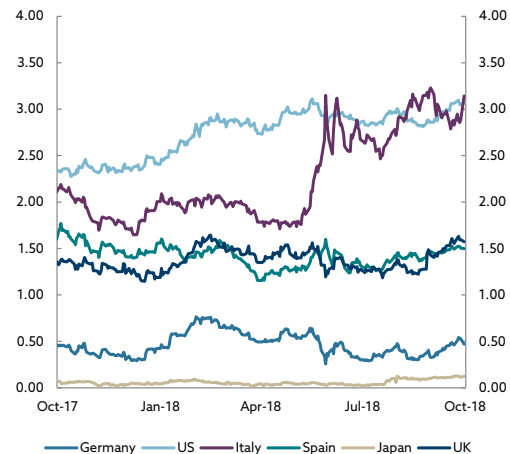
Inflation-linked bonds returned -0.8 percent and accounted for 4.5 percent of total fixed-income investments.

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

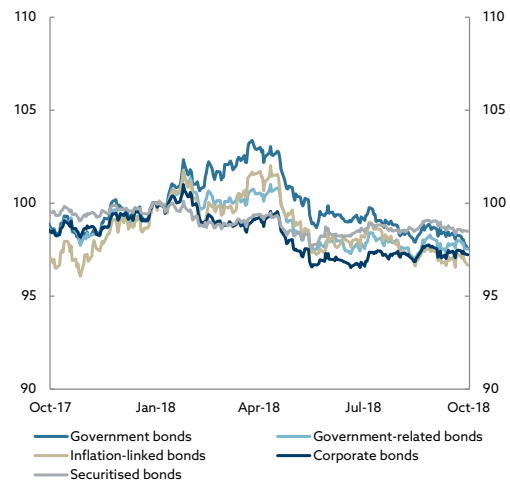
Changes in fixed-income holdings

Investments in dollars, euros, pounds and yen accounted for 83.5 percent of fixed-income investments at the end of the quarter, against 84.0 percent at the beginning of the quarter.

The market value of investments in bonds denominated in emerging market currencies fell from 7.8 to 7.6 percent of total fixed-income investments in the third quarter.

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

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 30 September 2018 based on credit ratings. Percentage of bond holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	30.3	7.0	11.6	4.0	1.8	54.6
Government-related bonds	5.5	4.8	1.7	0.4	0.1	12.4
Inflation-linked bonds	3.5	0.4	0.3	0.2	0.0	4.4
Corporate bonds	0.2	2.1	8.4	12.1	0.4	23.2
Securitised bonds	4.3	0.8	0.1	0.0	0.0	5.3
Total	43.9	15.1	22.1	16.7	2.3	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 bond subindex is based on indices from Bloomberg Barclays Indices.

The overall return on the fund in the third quarter was 0.2 percentage point lower 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. Separate 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 approach to risk management for the fund. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

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

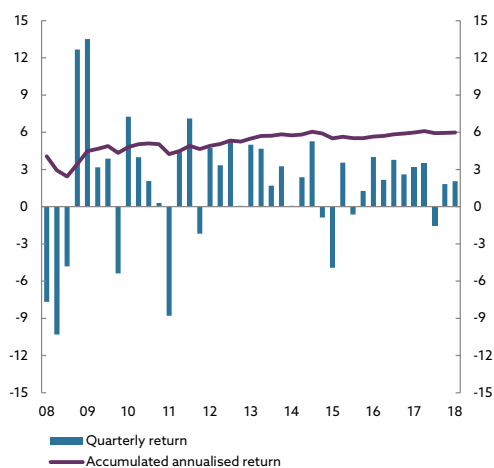
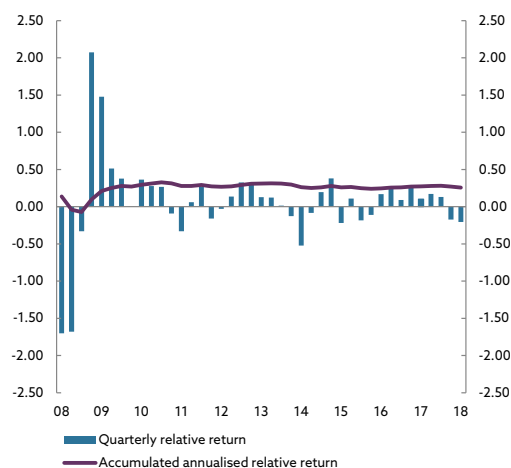


Chart 7 The fund's quarterly relative return and accumulated annualised relative return. Calculations based on aggregated equity and fixed-income investments until end of 2016. Percentage points



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

Equity management contributed -0.14 percentage point to the fund's relative return. Consumer goods, consumer services and health care were the sectors that made the most negative contributions to the relative return, while telecoms made the most positive contribution. Broken down by country, equity investments in China and the US made the most negative contributions to the relative return, and Dutch stocks the most positive. A general overweight of small companies also contributed negatively.

Fixed-income management contributed -0.08 percentage point to the fund's relative return. Weaker currencies and higher interest rates in emerging markets such as Turkey, India and Indonesia, where the fund is invested more heavily than the benchmark index, made the most negative contributions to the relative return.

Real estate management contributed 0.02 percentage point to the fund's relative return in the third quarter, measured against the equities and bonds providing financing for real estate management. It was unlisted investments that contributed to the excess return.

The relative return is also affected by an allocation effect between the management areas. This effect was insignificant in the third quarter.

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 -0.18 percentage point to the fund's relative return, fixed-income investments -0.07 percentage point and unlisted real estate investments -0.01 percentage point. The allocation effect between asset classes was 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, 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.

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

	Total
Equity management	-0.14
Fixed-income management	-0.08
Real estate management	0.02
Allocation effect	0.00
Total	-0.21

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 8.9 percent, or about 750 billion kroner, at the end of the third quarter, compared with 9.3 percent at the beginning of the quarter. The decrease was due mainly to lower volatility in both equity and bond markets.

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

Limits set by the Ministry of Finance		30.09.2018
Allocation	Equity portfolio 50 - 80 percent of fund's market value ¹	67.6
	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	30.7
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-	2.3
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)

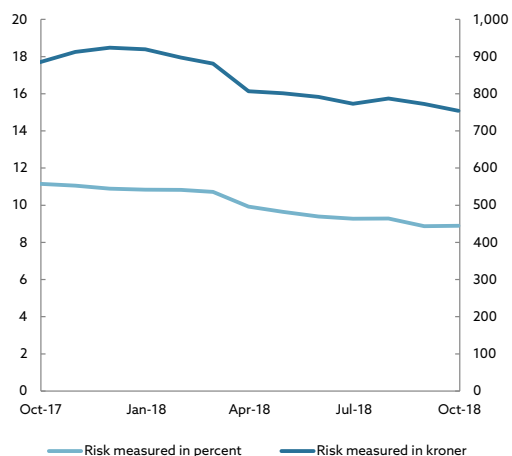
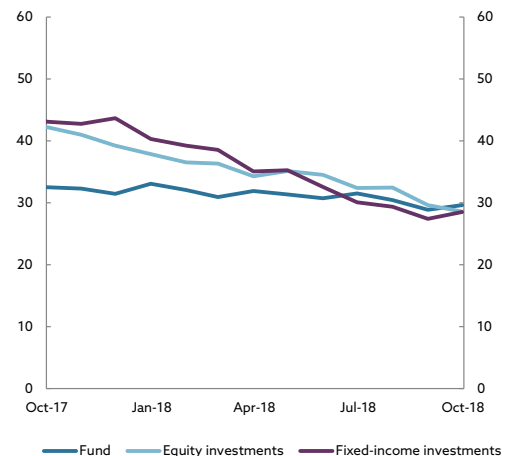


Chart 9 Expected relative volatility of the fund. Basis points



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 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 included in the calculation of expected relative volatility and measured against the fund's benchmark index, which consists of global equity and bond indices. The limit for expected relative volatility for the fund is 1.25 percentage points. The actual level was 0.30 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 1.37 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 third quarter. A total of 110 unwanted operational events were registered in the quarter, with an estimated financial impact of 18.3 million kroner.

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

RESPONSIBLE INVESTMENT

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

Standard setting

We published a new expectation document during the quarter on ocean sustainability. Many companies make use of the ocean in their operations, and some economic activity has a negative impact on ocean life. At the same time, the ocean offers companies new and sustainable business opportunities. Our expectations are aimed both at companies with activities on or in the ocean and at companies with land-based activities or value chains that are materially dependent on, or affect, the ocean. In the document, we stress how important it is for companies to integrate ocean sustainability into their strategy and risk management, disclose their priorities, and report on metrics and targets.

We participated in one public consultation during the quarter, namely CDP's consultation on two new sector questionnaires. CDP is considering a new set of questions on climate, water and deforestation for the financial sector.

We support this, but believe that the questions should reflect more closely the commercial consequences for different institutions, as they will be exposed to environmental risks in different ways. We also point out that it is important that the questionnaire does not ask for information already collected by other initiatives. CDP is also developing new questions for the mining sector on deforestation, many of which concern biodiversity. We welcome reporting in this area and consider it important to obtain feedback from the mining sector in the further development of the questionnaire.

Ownership

We voted at 1,257 general meetings in the third quarter after considering a total of 10,235 proposals. Voting is one of the most important instruments available to us for exercising our ownership rights.

Åse Aulie Michelet, Svein Rennemo and Harald Norvik were appointed to the fund's Corporate Governance Advisory Board during the quarter. The board acts as an advisory forum for the Chief Corporate Governance Officer and is to meet six times a year. The three new members bring extensive board experience from listed companies both in Norway and abroad, and will advise on corporate governance strategy, exercise of ownership rights, and principles and practices affecting listed companies in the equity portfolio.



Sustainable investment

At the beginning of the quarter, we published a new Asset Manager Perspective on the UN Sustainable Development Goals (SDGs). The paper explores the economic context of the goals and the role that institutional investors can play in achieving them. The fund's investments in more than 9,000 companies in 72 countries contribute directly and indirectly to many of the SDGs. Our most important contribution is to strengthen corporate governance, long-term value creation and sustainable business practices at the companies we invest in.

We took part in a meeting of the UN's Action Platform for Sustainable Ocean Business during the quarter. The platform aims to develop a framework that facilitates business partnerships and generates information on ocean sustainability. Our goal is to contribute to knowledge building and a global framework that can help companies in our portfolio reduce the risks and tap the opportunities associated with sustainable uses of the ocean.

Observation and exclusion

Norges Bank published decisions during the quarter to exclude four companies from the fund, place three companies under observation, and follow up one further company with active ownership.

PacifiCorp and Tri-State Generation and Transmission Association Inc were excluded on the basis of an assessment against the product-based coal criterion. Berkshire Hathaway Energy Co and MidAmerican Energy Co were placed under observation based on the same criterion.

JBS SA was excluded due to an unacceptable risk of gross corruption, and Luthai Textile Co Ltd due to an unacceptable risk of serious or systematic violations of human rights. Nien Hsing Textile Co Ltd has been placed under observation due to an unacceptable risk of serious or systematic violations of human rights.

It was also decided to follow up UPL Ltd's work on preventing child labour with active ownership over a five-year period.

Key figures

Table 10 Return figures. Measured in international currency. Percent

	3Q 2018	2Q 2018	1Q 2018	4Q 2017	3Q 2017	Year-to-date 30.09.2018
Equity part of the fund's benchmark index	3.41	2.95	-2.26	4.68	4.30	4.06
The fund's equity investments	3.15	2.70	-2.22	4.96	4.31	3.58
Fixed-income part of the fund's benchmark index	-0.12	0.11	-0.44	0.65	0.70	-0.45
The fund's fixed-income investments	-0.33	-0.02	-0.37	0.53	0.85	-0.72
The fund's unlisted real estate investments	1.89	1.85	2.50	1.97	2.68	6.38
Total return on fund	2.05	1.83	-1.53	3.49	3.15	2.33
Relative return on fund (percentage points)	-0.21	-0.17	0.13	0.17	0.10	-0.24
Management costs	0.01	0.02	0.02	0.01	0.01	0.04
Return on fund after management costs	2.04	1.82	-1.55	3.47	3.14	2.29

Table 11 Historical key figures as at 30 September 2018. Annualised data, measured in international currency

	Since 01.01.1998	Last 10 years	Last 5 years	Last 3 years	Last 12 months
Fund return (percent)	5.98	8.08	7.54	8.80	5.90
Annual price inflation (percent)	1.79	1.55	1.40	1.69	2.05
Annual management costs (percent)	0.08	0.08	0.06	0.06	0.06
Net real return on fund (percent)	4.03	6.36	6.00	6.93	3.71
The fund's actual standard deviation (percent)	7.24	8.31	5.58	5.21	4.42
Relative return on fund (percentage points) ¹	0.26	0.39	0.08	0.22	-0.08
The fund's tracking error (percentage points) ¹	0.68	0.72	0.36	0.33	0.32
The fund's information ratio (IR) ^{1,2}	0.40	0.56	0.21	0.63	-0.25

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

	3Q 2018	2Q 2018	1Q 2018	4Q 2017	3Q 2017
Market value					
Equity investments	5,732	5,566	5,376	5,653	5,242
Unlisted real estate investments	226	220	217	219	199
Fixed-income investments	2,520	2,551	2,532	2,616	2,511
Market value of fund ¹	8,478	8,337	8,124	8,488	7,952
Accrued, not paid, management fees ¹	-4	-3	-1	-5	-3
Owner's capital ¹	8,474	8,335	8,123	8,484	7,949
Changes in value since first capital inflow in 1996					
Inflow/withdrawal of capital ²	12	-2	-6	-14	-10
Paid management fees ²	0	0	-5	0	0
Return on fund	174	167	-171	337	192
Changes due to fluctuations in krone	-46	47	-183	214	-250
Total change in market value	140	213	-364	536	-68
Changes in value since first capital inflow in 1996					
Total inflow of capital ³	3,341	3,328	3,328	3,337	3,351
Return on equity investments	3,234	3,059	2,892	3,062	2,747
Return on unlisted real estate investments	66	62	58	53	49
Return on fixed-income investments	1,021	1,027	1,031	1,037	1,019
Management fees ⁴	-43	-42	-41	-39	-38
Changes due to fluctuations in krone	858	904	857	1,040	826
Market value of fund	8,478	8,337	8,124	8,488	7,952
Return on fund	4,321	4,147	3,980	4,151	3,814
Return after management costs	4,278	4,105	3,939	4,111	3,776

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

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

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

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

Financial Reporting

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Income statement

Amounts in NOK million	Note	3Q 2018	3Q 2017	Year-to-date 30.09.2018	Year-to-date 30.09.2017	2017
Profit/loss on the portfolio before foreign exchange gain/loss						
Income/expense from:						
- Equities	4	175 591	170 560	173 155	618 424	933 501
- Bonds	4	-5 543	17 613	-15 627	63 884	81 410
- Unlisted real estate	6	4 063	4 604	12 860	10 104	14 237
- Financial derivatives	4	-269	-112	1 269	571	278
- Secured lending		1 183	850	3 995	2 666	3 532
- Secured borrowing		-219	-146	-1 068	-156	-345
Tax expense		-1 259	-948	-4 443	-4 236	-4 796
Interest income/expense		8	-8	5	-20	-16
Other income/expense		-6	-	-8	-7	-11
Profit/loss on the portfolio before foreign exchange gain/loss		173 548	192 411	170 138	691 230	1 027 790
Foreign exchange gain/loss	9	-45 768	-249 903	-181 264	-199 256	14 701
Profit/loss on the portfolio		127 780	-57 491	-11 126	491 974	1 042 492
Management fee	10	-1 059	-1 008	-3 567	-3 461	-4 728
Profit/loss and total comprehensive income		126 721	-58 500	-14 693	488 512	1 037 764

Balance sheet

Amounts in NOK million	Note	30.09.2018	31.12.2017
Assets			
Deposits in banks		6 567	11 027
Secured lending		162 692	185 046
Cash collateral posted		1 196	1 894
Unsettled trades		39 996	13 389
Equities	5	5 170 570	5 250 871
Equities lent	5	570 491	411 664
Bonds	5	2 130 565	2 080 061
Bonds lent	5	458 572	591 277
Unlisted real estate	6	224 616	217 160
Financial derivatives	5	4 121	9 025
Other assets		2 985	3 219
Total assets		8 772 371	8 774 633
Liabilities and owner's capital			
Liabilities			
Secured borrowing		217 924	260 136
Cash collateral received		5 698	5 804
Unsettled trades		68 110	15 905
Financial derivatives	5	3 114	3 919
Other liabilities		24	415
Management fee payable	10	3 567	4 728
Total liabilities		298 437	290 907
Owner's capital		8 473 934	8 483 727
Total liabilities and owner's capital		8 772 371	8 774 633

Statement of cash flows

Amounts in NOK million, receipt (+) / payment (-)	Year-to-date 30.09.2018	Year-to-date 30.09.2017	2017
Operating activities			
Receipts of dividend from equities	120 176	104 764	128 293
Receipts of interest from bonds	52 842	55 262	73 575
Receipts of interest and dividend from unlisted real estate subsidiaries	3 721	2 679	3 869
Net receipts of interest and fee from secured lending and borrowing	2 829	2 295	3 426
<i>Receipts of dividend, interest and fee from holdings of equities, bonds and unlisted real estate</i>	<i>179 568</i>	<i>165 000</i>	<i>209 163</i>
Net cash flow from purchase and sale of equities	-116 346	-119 588	-141 382
Net cash flow from purchase and sale of bonds	-51 014	18 956	17 878
Net cash flow to/from investments in unlisted real estate subsidiaries	-3 004	-8 058	-17 234
Net cash flow financial derivatives	9 460	-3 126	-4 886
Net cash flow cash collateral related to derivative transactions	537	1 107	2 754
Net cash flow secured lending and borrowing	-19 088	-1 132	-21
Net payment of taxes	-3 945	-6 173	-6 786
Net cash flow related to interest on deposits in banks and bank overdraft	-7	-85	-84
Net cash flow related to other income/expense, other assets and other liabilities	43	-1 068	-857
Management fee paid to Norges Bank ¹	-4 728	-3 731	-3 731
Net cash inflow/outflow from operating activities	-8 523	42 102	54 813
Financing activities			
Inflow from the Norwegian government ²	14 055	-	-
Withdrawal by the Norwegian government ²	-9 799	-46 740	-60 837
Net cash inflow/outflow from financing activities	4 256	-46 740	-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	-4 267	-4 638	-6 024
Net foreign exchange gain/loss on cash	-193	-709	-708
Deposits in banks at end of period	6 567	12 413	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.

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	-	488 512	488 512
Withdrawal during the period ¹	-46 400	-	-46 400
30 September 2017	3 346 940	4 601 935	7 948 875
1 October 2017	3 346 940	4 601 935	7 948 875
Total comprehensive income	-	549 252	549 252
Withdrawal during the period	-14 400	-	-14 400
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	-	-14 693	-14 693
Inflow during the period ¹	14 300	-	14 300
Withdrawal during the period ¹	-9 400	-	-9 400
30 September 2018	3 337 440	5 136 494	8 473 934

¹ In the first three quarters of 2018, NOK 14.3 billion was transferred to the krone account, while NOK 14.1 billion was withdrawn from it. Of this, NOK 4.7 billion was used to pay the accrued management fee for 2017. 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.

Notes to the financial reporting

Note 1 General information

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*.

APPROVAL OF THE QUARTERLY FINANCIAL STATEMENTS

The quarterly financial statements of Norges Bank for the third quarter of 2018, which only encompass the financial reporting for the GPFG, were approved by the Executive Board on 24 October 2018.

Note 2 Accounting policies

BASIS OF PREPARATION

The regulation on the financial reporting of Norges Bank (the regulation), which has been laid down by the Ministry of Finance, requires that 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 third 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.

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

	3Q 2018	2Q 2018	1Q 2018	4Q 2017	3Q 2017	Year-to-date 30.09.2018
Returns in the fund's currency basket						
Return on equity investments (percent)	3.15	2.70	-2.22	4.96	4.31	3.58
Return on fixed-income investments (percent)	-0.33	-0.02	-0.37	0.53	0.85	-0.72
Return on unlisted real estate investments (percent)	1.89	1.85	2.50	1.97	2.68	6.38
Return on fund (percent)	2.05	1.83	-1.53	3.49	3.15	2.33
Relative return on fund (percentage points)	-0.21	-0.17	0.13	0.17	0.10	-0.24
Returns in Norwegian kroner (percent)						
Return on equity investments	2.62	3.52	-4.84	8.45	0.40	1.10
Return on fixed-income investments	-0.83	0.77	-3.03	3.87	-2.93	-3.10
Return on unlisted real estate investments	1.38	2.66	-0.24	5.36	-1.16	3.83
Return on fund	1.53	2.64	-4.16	6.92	-0.71	-0.13

For additional information on the methods used in the return calculations, 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 of Income/expense from equities

Amounts in NOK million	3Q 2018	3Q 2017	Year-to-date 30.09.2018	Year-to-date 30.09.2017	2017
Dividends	34 695	28 675	122 530	107 159	128 846
Realised gain/loss	41 219	31 416	168 851	177 542	233 652
Unrealised gain/loss	99 677	110 469	-118 226	333 723	571 003
Income/expense from equities before foreign exchange gain/loss	175 591	170 560	173 155	618 424	933 501

Table 4.2 Specification of Income/expense from bonds

Amounts in NOK million	3Q 2018	3Q 2017	Year-to-date 30.09.2018	Year-to-date 30.09.2017	2017
Interest	17 516	16 765	51 177	53 396	71 811
Realised gain/loss	-2 576	2 477	-8 287	6 101	9 283
Unrealised gain/loss	-20 483	-1 629	-58 517	4 387	316
Income/expense from bonds before foreign exchange gain/loss	-5 543	17 613	-15 627	63 884	81 410

Table 4.3 Specification of Income/expense from financial derivatives

Amounts in NOK million	3Q 2018	3Q 2017	Year-to-date 30.09.2018	Year-to-date 30.09.2017	2017
Dividends	-	54	6	127	140
Interest	185	-33	497	-1 429	-1 933
Realised gain/loss	46	275	1 085	443	128
Unrealised gain/loss	-500	-408	-319	1 430	1 943
Income/expense from financial derivatives before foreign exchange gain/loss	-269	-112	1 269	571	278

Note 5 Holdings of equities, bonds and financial derivatives

Table 5.1 Equities

Amounts in NOK million	30.09.2018		31.12.2017	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities	5 741 061	8 464	5 662 535	6 111
Total equities	5 741 061	8 464	5 662 535	6 111
<i>Of which equities lent</i>	<i>570 491</i>		<i>411 664</i>	

Table 5.2 Bonds

Amounts in NOK million	30.09.2018			31.12.2017		
	Nominal value	Fair value including accrued interest	Accrued interest	Nominal value	Fair value including accrued interest	Accrued interest
Government bonds	1 306 279	1 414 374	9 748	1 304 201	1 458 828	10 712
Government-related bonds	315 023	321 148	2 150	305 185	316 787	1 938
Inflation-linked bonds	98 982	114 549	297	112 513	131 125	375
Corporate bonds	603 227	601 418	5 302	610 017	631 957	5 960
Securitised bonds	146 538	137 648	838	139 275	132 642	1 013
Total bonds	2 470 049	2 589 137	18 334	2 471 191	2 671 338	19 999
<i>Of which bonds lent</i>		<i>458 572</i>			<i>591 277</i>	

Table 5.3 Financial derivatives

Amounts in NOK million	30.09.2018			31.12.2017		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange derivatives	263 854	2 967	2 072	252 601	770	2 687
Interest rate derivatives	37 526	1 096	1 042	34 225	1 304	1 232
Equity derivatives	265	59	-	7 379	6 951	-
Total financial derivatives	301 645	4 121	3 114	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 subsidiaries to the GPFG.

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

Table 6.1 Income/expense from unlisted real estate

Amounts in NOK million	3Q 2018	3Q 2017	Year-to-date 30.09.2018	Year-to-date 30.09.2017	2017
Dividends received	404	459	2 026	1 412	2 057
Interest received	361	462	1 695	1 267	1 812
Unrealised gain/loss	3 298	3 683	9 139	7 425	10 368
Income/expense from unlisted real estate before foreign exchange gain/loss	4 063	4 604	12 860	10 104	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	30.09.2018	31.12.2017
Unlisted real estate, opening balance for the period	217 160	188 469
Payments to new investments ¹	6 292	14 771
Payments to existing investments ¹	1 032	5 167
Payments from existing investments ¹	-4 320	-2 704
Unrealised gain/loss	9 139	10 368
Foreign currency translation effect	-4 687	1 089
Unlisted real estate, closing balance for the period	224 616	217 160

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

A further specification of *Unlisted real estate* is provided in the tables below. Table 6.3 specifies

the GPF'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 GPF'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	3Q 2018	3Q 2017	Year-to-date 30.09.2018	Year-to-date 30.09.2017	2017
Net rental income	2 402	2 167	6 895	6 301	8 579
Realised gain/loss	48	192	217	207	199
Fair value changes - properties ¹	1 940	2 809	6 770	5 364	8 375
Fair value changes - debt ¹	133	28	391	-192	-420
Fair value changes - other assets and liabilities ¹	-66	-120	-115	-277	-461
Transaction costs	-37	-112	-110	-159	-324
Interest expense external debt	-124	-145	-375	-452	-626
Tax expense payable	-37	-14	-181	-79	-140
External asset management - fixed fees ²	-132	-112	-396	-345	-482
External asset management - variable fees ²	-8	-45	-60	-121	-248
Internal asset management - fixed fees ³	-9	-7	-28	-23	-32
Operating costs within the limit from the Ministry of Finance ⁴	-25	-19	-69	-57	-97
Other costs	-23	-18	-78	-63	-88
Net income underlying real estate companies	4 063	4 604	12 860	10 104	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	30.09.2018	31.12.2017
Properties	242 709	235 507
External debt	-17 656	-17 694
Net other assets and liabilities ¹	-437	-653
Total assets and liabilities underlying real estate companies	224 616	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 estate¹

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

¹ Purchases and sales above USD 25 million are announced.

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

Note 7 Fair value measurement

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.

FAIR VALUE HIERARCHY

Table 7.1 Investments by level of valuation uncertainty

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017	30.09.2018	31.12.2017	30.09.2018	31.12.2017
Equities	5 703 508	5 616 897	28 049	34 265	9 504	11 373	5 741 061	5 662 535
Government bonds	1 373 775	1 417 376	40 599	41 452	-	-	1 414 374	1 458 828
Government-related bonds	269 370	271 415	49 272	43 151	2 506	2 221	321 148	316 787
Inflation-linked bonds	108 461	126 023	6 088	5 102	-	-	114 549	131 125
Corporate bonds	574 576	597 276	26 643	34 572	199	109	601 418	631 957
Securitised bonds	118 418	113 337	19 230	18 863	-	442	137 648	132 642
Total bonds	2 444 600	2 525 427	141 832	143 140	2 705	2 772	2 589 137	2 671 338
Financial derivatives (assets)	27	120	4 094	8 905	-	-	4 121	9 025
Financial derivatives (liabilities)	-	-	-3 114	-3 919	-	-	-3 114	-3 919
Total financial derivatives	27	120	980	4 986	-	-	1 007	5 106
Unlisted real estate	-	-	-	-	224 616	217 160	224 616	217 160
Other ¹	-	-	-78 320	-67 685	-	-	-78 320	-67 685
Total	8 148 135	8 142 444	92 541	114 706	236 825	231 305	8 477 501	8 488 454
Total (percent)	96.1	95.9	1.1	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 third 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 third quarter, 97.2 percent was classified as Level 1 or 2. Movements between levels in the fair value hierarchy are described below.

Equities

Measured as a share of total value, virtually all equities (99.3 percent) are valued based on official closing prices from stock exchanges and are classified as Level 1. A small number of equities (0.5 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 80 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 (94.4 percent) are valued based on observable quotes in active markets and are classified as Level 1. A minority of bonds (5.5 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 the value determined by external valuers does not reflect fair value so that adjustments to valuations are warranted.

MOVEMENTS BETWEEN LEVELS IN THE HIERARCHY

Reclassifications between Level 1 and Level 2

The relative share of equities and bonds 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.

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 gain/loss	30.09.2018
Equities	11 373	85	-478	12	-1 789	1 189	-509	-379	9 504
Bonds	2 773	193	-17	-116	-97	819	-796	-54	2 705
Unlisted real estate ¹	217 160	3 004	-	-	9 139	-	-	-4 687	224 616
Total	231 305	3 281	-495	-104	7 523	2 008	-1 305	-5 120	236 825

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 gain/loss	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 holdings have

increased by NOK 5 520 million from year-end 2017. This is mainly due to increase in the value of unlisted real estate.

SENSITIVITY ANALYSIS FOR LEVEL 3 HOLDINGS

Table 7.3 Additional specification of Level 3 and sensitivities

Amounts in NOK million	Specification of Level 3 holdings 30.09.2018	Sensitivities 30.09.2018		Specification of Level 3 holdings 31.12.2017	Sensitivities 31.12.2017	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities	9 504	-2 104	2 104	11 373	-2 409	2 409
Government-related bonds	2 506	-251	251	2 221	-222	222
Corporate bonds	199	-20	20	109	-11	11
Securitised bonds	-	-	-	442	-44	44
Total bonds	2 705	-271	271	2 772	-277	277
Unlisted real estate	224 616	-12 591	15 374	217 160	-12 969	14 988
Total	236 825	-14 966	17 749	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 5.6 percent or NOK 12 591 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 6.8 percent or NOK 15 374 million.

The sensitivity for equities and bonds 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

Asset class	Market value in percent by country and currency ¹				Market value in percent by asset class		Assets minus liabilities excluding management fee	
	Market	30.09.2018	Market	31.12.2017	30.09.2018	31.12.2017	30.09.2018	31.12.2017
Equities	Developed	89.5	Developed	89.0				
	US	39.0	US	35.4				
	UK	9.3	UK	9.7				
	Japan	9.0	Japan	9.1				
	Germany	5.4	Germany	6.1				
	France	5.1	France	5.1				
	Total other	21.6	Total other	23.6				
	Emerging	10.5	Emerging	11.0				
	China	3.7	China	3.6				
	Taiwan	1.6	Taiwan	1.6				
	India	1.0	India	1.2				
	Brazil	0.8	Brazil	0.9				
	South Africa	0.6	South Africa	0.7				
	Total other	2.8	Total other	3.0				
Total equities					67.61	66.60	5 731 929	5 653 440
Fixed income	Developed	92.4	Developed	90.5				
	US dollar	45.4	US dollar	44.9				
	Euro	26.6	Euro	25.8				
	Japanese yen	7.3	Japanese yen	6.7				
	British pound	4.2	British pound	4.6				
	Canadian dollar	3.2	Canadian dollar	3.2				
	Total other	5.7	Total other	5.3				
	Emerging	7.6	Emerging	9.5				
	Mexican peso	1.6	Mexican peso	1.6				
	South Korean won	1.2	South Korean won	1.4				
	Indonesian rupiah	1.1	Indonesian rupiah	0.9				
	Indian rupee	0.6	Indian rupee	0.7				
	Malaysian ringgit	0.6	Brazilian real	0.7				
	Total other	2.4	Total other	4.1				
Total fixed income					29.72	30.82	2 519 616	2 616 372
Unlisted real estate	US	47.2	US	46.2				
	UK	24.2	UK	23.5				
	France	15.4	France	16.6				
	Switzerland	3.8	Switzerland	3.9				
	Germany	3.6	Germany	3.5				
	Total other	5.8	Total other	6.3				
Total unlisted real estate					2.67	2.58	225 956	218 643

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

At the end of the third quarter, the share of equities in the fund was 67.6 percent. This is an increase from 66.6 percent at year-end 2017. The bond portfolio's share of the fund was 29.7 percent at the end of the third quarter, down from 30.8 percent at year-end 2017.

Volatility

Risk models are used to quantify the risk of value changes associated with all or parts of the portfolio. One of the risk measures is expected volatility. Tables 8.2 and 8.3 present risk both in terms of the portfolio's absolute risk and 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 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							
	30.09.2018	Min 2018	Max 2018	Average 2018	31.12.2017	Min 2017	Max 2017	Average 2017
Portfolio	8.9	8.8	11.0	9.8	10.8	10.7	11.2	11.0
Equities	11.7	11.6	13.7	12.7	13.6	13.6	14.1	14.0
Fixed income	7.2	7.2	9.4	8.2	9.4	9.4	9.8	9.7
Unlisted real estate	9.7	9.6	11.9	10.7	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							
	30.09.2018	Min 2018	Max 2018	Average 2018	31.12.2017	Min 2017	Max 2017	Average 2017
Portfolio	30	29	33	31	33	31	35	33

Risk measured in terms of expected volatility shows an expected annual change in the value of the fund of 8.9 percent, or approximately NOK 750 billion at the end of the third quarter, compared to 10.8 percent at year-end 2017. Expected volatility for the equity investments was 11.7 percent at the end of the third quarter, compared to 13.6 percent at year-end, while expected volatility for the fixed-income investments was 7.2 percent, compared to 9.4 percent at the end of 2017. The decrease in expected volatility is primarily due to 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 30 basis points at the end of the third 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 from January 2007. The time horizon used in the simulations was changed in the second quarter, from the last ten years to the period from January 2007 until the end of the current reporting period. The expected shortfall at a 97.5 percent confidence level is 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 third quarter, the expected shortfall was 1.37 percentage points, compared with 1.49 percentage points at year-end 2017.

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 Bond portfolio specified by credit rating

Amounts in NOK million, 30.09.2018	AAA	AA	A	BBB	Lower rating	Total
Government bonds	783 894	180 993	301 378	102 338	45 771	1 414 374
Government-related bonds	142 278	123 137	43 131	11 113	1 490	321 148
Inflation-linked bonds	91 450	10 880	6 758	5 119	340	114 549
Corporate bonds	5 410	54 065	218 177	312 632	11 134	601 418
Securitised bonds	112 452	21 263	2 501	1 040	392	137 648
Total bonds	1 135 484	390 338	571 945	432 242	59 127	2 589 137

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 43.9 percent at the end of the third quarter, compared to 41.1 percent at year-end 2017. The increase is primarily due to an increase in government bonds in this category. The share of bond holdings in the category *Lower rating* was reduced to 2.3 percent, from 2.5 percent at the end of 2017. The overall credit quality of the bond portfolio has improved slightly since year-end.

Counterparty risk

Counterparty risk is the risk of loss due to counterparty bankruptcy or other events leading to counterparties defaulting. The method used to calculate the counterparty risk exposure arising from derivatives and foreign

exchange contracts has been changed in 2018, from the Current Exposure Method to the new Standardised Approach for counterparty credit risk (SA-CCR). Both methods are issued by the Basel Committee on Banking Supervision. 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 has also been further developed, and stressed periods in the financial markets are to a greater extent taken into account when calculating future expected risk exposure. At the end of the third quarter, the new Standardised Approach has resulted in a somewhat higher counterparty risk exposure for the portfolio compared with the Current Exposure Method.

Table 8.5 Counterparty risk by type of position

Amounts in NOK million	Risk exposure	
	30.09.2018	31.12.2017 ¹
Securities lending	79 289	71 150
Unsecured bank deposits ² and securities ³	17 064	14 008
Derivatives including foreign exchange contracts ⁴	16 228	18 769
Settlement risk towards brokers and long-settlement transactions	11 596	2 598
Repurchase and reverse repurchase agreements	4 332	4 662
Participatory certificates ³	-	6 802
Total	128 509	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.

The counterparty exposure increased to NOK 129 billion at the end of the third quarter, compared to NOK 118 billion kroner at the end of 2017. The increase in counterparty exposure

in 2018 is primarily caused by an increase in settlement risk towards brokers and increased risk exposure from securities lending.

Note 9 Foreign exchange gain/loss

SIGNIFICANT ESTIMATE

Gains and losses on financial instruments are due to changes in the price of the instrument (before foreign exchange gain/loss) and changes in foreign exchange rates (foreign exchange gain/loss). These are presented separately in the income statement. The method of allocating total gain/loss 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.



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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 GPF's

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

Table 9.1 Specification of Foreign exchange gain/loss

Amounts in NOK million	3Q 2018	3Q 2017	Year-to-date 30.09.2018	Year-to-date 30.09.2017	2017
Foreign exchange gain/loss – USD/NOK	-2 532	-126 726	-8 957	-194 703	-126 868
Foreign exchange gain/loss – EUR/NOK	-10 051	-23 407	-56 209	48 529	111 425
Foreign exchange gain/loss – JPY/NOK	-14 919	-26 536	-7 424	-21 538	-8 367
Foreign exchange gain/loss – GBP/NOK	-7 386	-9 241	-22 809	1 729	20 745
Foreign exchange gain/loss – other	-10 879	-63 993	-85 865	-33 273	17 766
Foreign exchange gain/loss	-45 768	-249 903	-181 264	-199 256	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	3Q 2018	3Q 2017	Year-to-date		Year-to-date		2017	
			30.09.2018	Basis points	30.09.2017	Basis points		Basis points
Salary, social security and other personnel-related costs	349	322	954		947		1 325	
Custody costs	94	92	282		289		404	
IT services, systems, data and information	177	157	472		480		657	
Research, consulting and legal fees	44	61	180		146		252	
Other costs	95	67	283		183		251	
Allocated costs Norges Bank	43	43	130		128		161	
Base fees to external managers	182	219	644		649		755	
Management fee excluding performance-based fees	984	961	2 944	4.7	2 823	4.9	3 804	4.8
Performance-based fees to external managers	75	47	623		638		924	
Total management fee	1 059	1 008	3 567	5.7	3 461	6.0	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	3Q 2018	3Q 2017	Year-to-date 30.09.2018	Year-to-date 30.09.2017	2017
Salary, social security and other personnel-related costs	7	6	19	18	33
IT services, systems, data and information	11	9	31	26	42
Research, consulting and legal fees	8	3	24	13	23
Other costs	3	4	10	12	17
Total management costs, real estate subsidiaries	30	22	84	69	116
<i>Of which management costs non-consolidated subsidiaries</i>	25	19	69	57	97
<i>Of which management costs consolidated subsidiaries</i>	5	3	14	12	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.

Management costs measured against the upper limit amount to NOK 3 028 million year-to-date. This consists of management costs in Norges Bank (excluding performance-based fees to external managers) of NOK 2 944 million and management costs in subsidiaries of

NOK 84 million. This corresponds to 4.8 basis points of assets under management on an annual basis.

Total management costs including performance-based fees to external managers amount to NOK 3 651 million year-to-date. This corresponds to 5.8 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*.

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 2018, the income statement, the statement of changes in owner's capital, and 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". 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, 24 October 2018

Deloitte AS

Henrik Woxholt
State Authorised Public Accountant (Norway)

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



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