



NORGES BANK  
INVESTMENT MANAGEMENT

**3Q | 15**  
**GOVERNMENT  
PENSION FUND  
GLOBAL**  
QUARTERLY REPORT

## HIGHLIGHTS

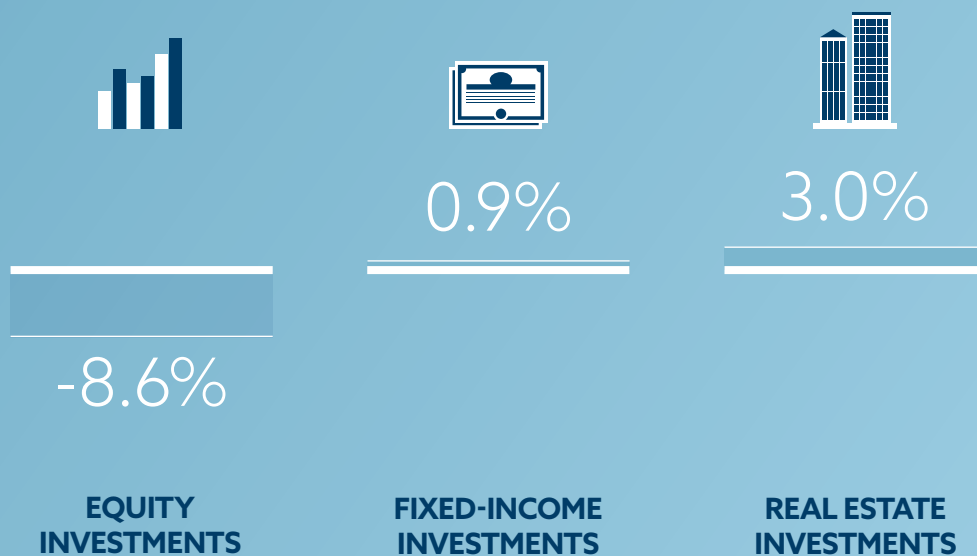
# THIRD QUARTER 2015 IN BRIEF

THE GOVERNMENT PENSION FUND GLOBAL RETURNED **-4.9** PERCENT, OR **-273** BILLION KRONER, IN THE THIRD QUARTER OF 2015.



-4.9%

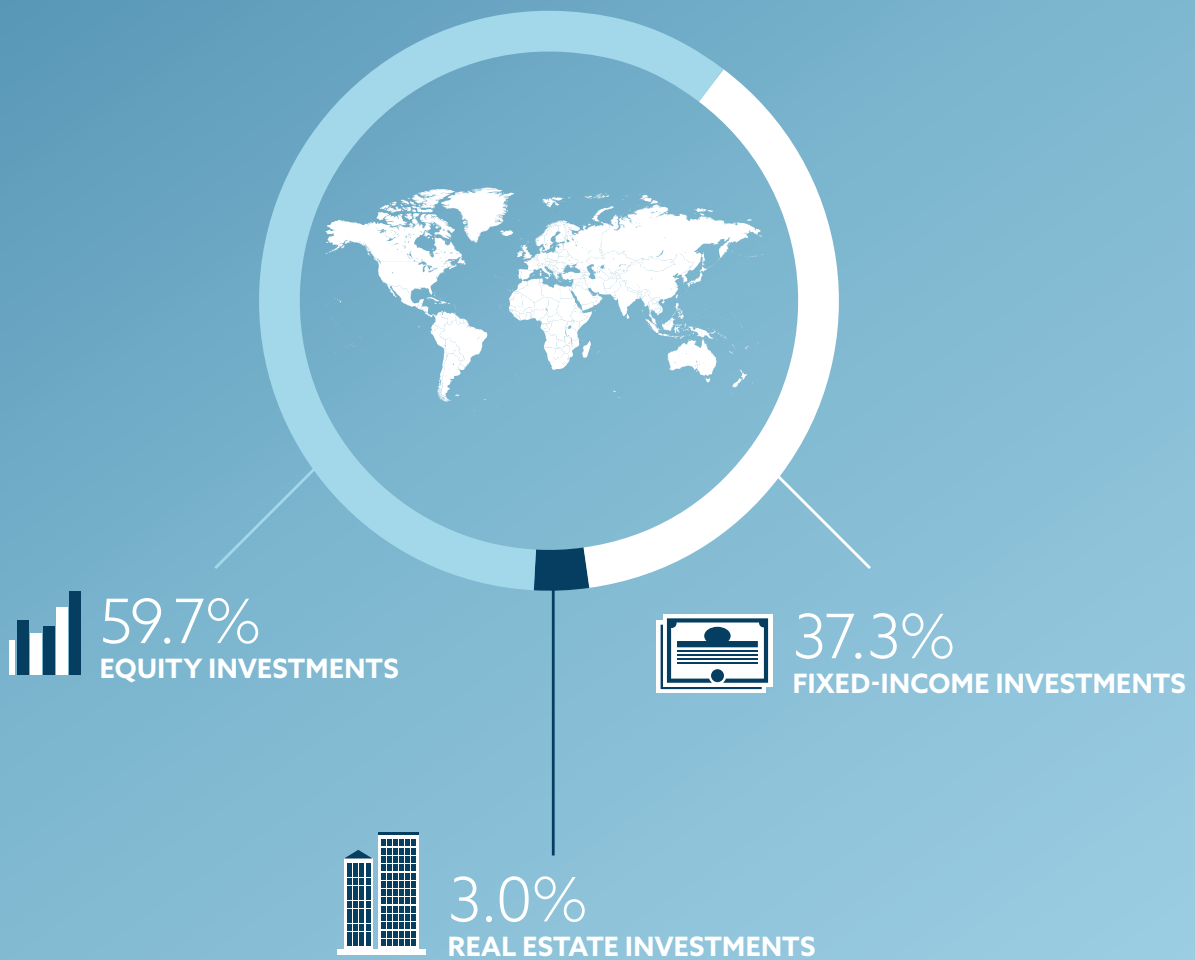
**-273 Bn. KR**



EQUITY INVESTMENTS RETURNED **-8.6** PERCENT, WHILE FIXED-INCOME INVESTMENTS RETURNED **0.9** PERCENT. INVESTMENTS IN REAL ESTATE RETURNED **3.0** PERCENT.

THE RETURN ON EQUITY AND FIXED-INCOME INVESTMENTS WAS **0.2** PERCENTAGE POINT LOWER THAN THE RETURN ON THE BENCHMARK INDICES.

THE FUND HAD A MARKET VALUE OF **7,019** BILLION KRONER AT THE END OF THE QUARTER AND WAS INVESTED **59.7** PERCENT IN EQUITIES, **37.3** PERCENT IN FIXED INCOME AND **3.0** PERCENT IN REAL ESTATE.



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

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# FUND MANAGEMENT

## MARKET DEVELOPMENTS

The global economy has performed less well than expected so far this year, and consensus forecasts of economic growth have fallen lower and lower. The uncertainty about growth should be seen in the light of weak consumer price inflation across much of the world. However, there were also some signs of improvement, with confidence indicators pointing to stronger growth in both the US and Europe.

In the US, economic growth continued to pick up slowly in the third quarter. Consumer spending increased, and employment climbed further. Growth expectations have nevertheless declined somewhat recently. The drop in oil prices has had a particularly negative effect on investment, although the isolated effect on consumption has been positive. The question of if, and when, the Federal Reserve would raise interest rates was again important in the third quarter. Many anticipated a first hike in September, but increased uncertainty about global developments led the central bank to keep it unchanged.

In Europe and Japan, inflation and inflation expectations remained well below the central banks' preferred levels, and so it could still be a long time before they raise their policy rates. Inflation in both regions was negatively affected by oil prices, but core inflation was also very low.

Both central banks are endeavouring to prevent this low inflation from becoming self-perpetuating. There was therefore talk of further easing of monetary policy through expansion of the banks' bond purchase programmes.

Markets were particularly concerned about the economic slowdown in China, which has mainly affected the manufacturing sector to date. The Chinese stock market continued to tumble during the quarter, and the currency was devalued in August. Weaker growth in China and falling commodity prices hit many other commodity-producing emerging markets and led to a significant decline in their currencies. In September, credit rating agency Standard & Poor's downgraded Brazil's foreign-currency debt to non-investment grade, reflecting reduced confidence in the country's ability to service its debt. However, most emerging markets are now better equipped to deal with pressure on their currencies than during the Asian crisis of the late 1990s, when many of the region's currencies plummeted in value. Today most countries use floating exchange rates and have more robust currency reserves.

## EQUITY INVESTMENTS

Equity investments, which accounted for 59.7 percent of the fund at the end of the quarter, returned -8.6 percent. The slowdown in the global economy and sharp correction in the Chinese stock market affected returns for the quarter.

### WEAKEST RETURNS IN ASIA AND OCEANIA

Returns were weak in all regions. Stocks in Asia and Oceania, which made up 20.7 percent of the fund's equity investments, returned -12.9 percent. Japanese shares accounted for 9.2 percent of equity investments and returned -10.0 percent on the back of weaker-than-expected economic data.

The Chinese stock market, home to 2.8 percent of the fund's equity investments, was the weakest performer in the third quarter, returning -21.3 percent. The market has been highly volatile this year, with the weak third quarter following a strong second quarter. The market made strong gains until mid-June, when there was a sharp correction following the Chinese regulator's introduction of a cap on margin financing of stock purchases. Returns over the first nine months of the year were negative.

Emerging markets returned -16.6 percent in the third quarter and accounted for 9.0 percent of the fund's equity investments. Concerns about the Chinese economy and weak commodity prices contributed to this poor performance.

North American stocks returned -7.1 percent and made up 36.5 percent of the equity portfolio. US stocks were the fund's single largest market with 34.5 percent of its equity investments and returned -6.8 percent.

European stocks produced a return of -7.2 percent and represented 40.1 percent of the fund's equities. The UK, which is the fund's largest European market with 12.0 percent of its equity investments, returned -8.6 percent.

### BASIC MATERIALS THE WORST-PERFORMING SECTOR

All sectors delivered negative returns in the third quarter. Basic materials stocks were the weakest performers with a return of -16.9 percent. The continued decline in commodity prices, especially for copper, contributed to this poor return. Markets focused on these companies' financial strength and need for new capital.

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

Sector	Return in international currency	Share of equity investments*
Financials	-9.2	23.5
Industrials	-10.6	13.5
Consumer goods	-5.8	14.3
Consumer services	-4.9	11.0
Health care	-6.6	10.5
Technology	-6.0	8.7
Oil and gas	-16.8	5.8
Basic materials	-16.9	5.2
Telecommunications	-8.7	3.4
Utilities	-2.9	3.5

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

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

Company	Country	Holding
Nestlé SA	Switzerland	50,443
Apple Inc	US	41,703
Novartis AG	Switzerland	37,044
Roche Holding AG	Switzerland	30,870
Royal Dutch Shell Plc	UK	25,567
HSBC Holdings Plc	UK	24,549
BlackRock Inc	US	24,176
Microsoft Corp	US	23,683
Google Inc	US	23,567
Sanofi	France	21,961

Oil and gas stocks had another weak quarter, returning -16.8 percent. This poor return was due partly to a further drop in oil prices of around 20 percent during the period, on the back of expectations of a further increase in supply after the lifting of sanctions against Iran, weaker economic growth in China and reduced demand in the Chinese market.

Industrials returned -10.6 percent in the third quarter. Companies supplying capital goods and equipment to the energy and basic materials sectors fared worst. A stronger yen contributed to weak returns for export-oriented Japanese manufacturers.

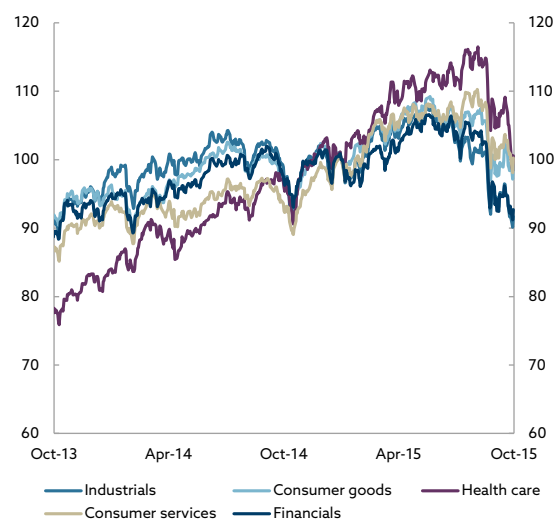
The best-performing sector was utilities, with the fund's investments returning -2.9 percent. These companies' stable cash flows were viewed as a

safe haven in a turbulent market. The sector was also favoured by low interest rates.

Consumer services stocks returned -4.9 percent, with stronger earnings at North American retailers helping strengthen the sector relative to others. Online retailer Amazon boosted returns in the sector after releasing accounting data for its cloud services for the first time, which proved far better than the market expected.

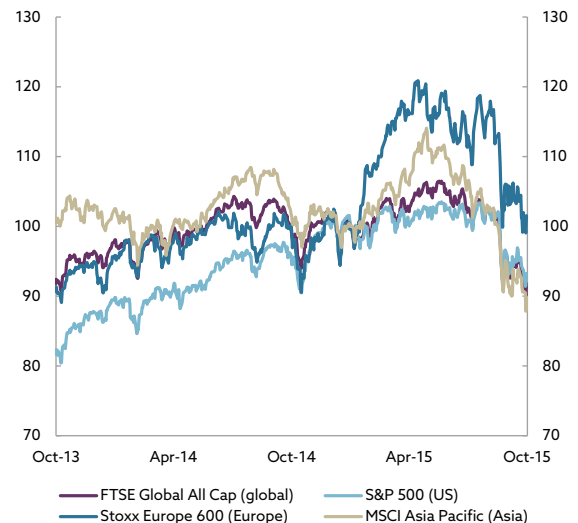
Consumer goods stocks returned -5.8 percent, making this sector the third-best performer in the quarter. Suppliers of essential goods are considered less exposed to variations in the economy, and this contributed to the sector falling somewhat less far than the market as a whole. The sector was negatively affected, however, by a drop in prices for European

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



Source: FTSE

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



Source: Bloomberg



## **RETURN IN INTERNATIONAL CURRENCY**

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

carmakers following revelations that Volkswagen had misled regulators about emissions from its diesel cars.

### **INDIVIDUAL STOCKS**

The investment in IT company Google made the most positive contribution to the return in the third quarter, followed by food producer Nestlé and brewer SABMiller. The companies that made the most negative contributions were carmaker Volkswagen, mining company Glencore and carmaker Daimler AG.

The fund participated in 25 initial public offerings in the third quarter. The largest of these was at German digital marketing company Scout24, followed by US renewable energy company TerraForm Global and Japanese electronics producer Daxerials Corporation. The offerings in which the fund invested the most were at Australian fruit and vegetable producer Costa Group Holdings, Daxerials Corporation and German real estate company ADO Properties.

### **RELATIVE RETURN**

Returns on the fund’s equity investments are compared with returns on a global benchmark index for equities set by the Ministry of Finance on the basis of an index from FTSE Group.

The fund’s equity investments underperformed the benchmark index by 0.1 percentage point. Consumer services and industrials were the sectors that made the most negative contributions to the relative return. Of the countries the fund was invested in, US and German stocks made the most negative contributions to the relative return, while investments in Spain and Brazil made the most positive contributions.

### **INTERNAL REFERENCE PORTFOLIO**

We have constructed an internal reference portfolio for equities which takes into account the fund’s special characteristics and objective and is intended to achieve a better trade-off over time between expected risks and returns.

The internal reference portfolio for equities returned -8.6 percent in the third quarter, 0.1 percentage point less than the benchmark index set by the Ministry of Finance.

## FIXED-INCOME INVESTMENTS

Fixed-income investments accounted for 37.3 percent of the fund at the end of the third quarter and returned 0.9 percent. These investments were mainly in bonds, with the remainder in short-term securities and bank deposits.

### POSITIVE RETURN ON GOVERNMENT DEBT

Government bonds returned 1.0 percent and accounted for 55.2 percent of the fund's fixed-income investments at the end of the quarter. A slight fall in yields in the fund's main markets contributed positively to the return.

US Treasuries returned 3.4 percent, or 1.9 percent in local currency, and accounted for 17.4 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. The Federal Reserve's decision not to raise its policy rate in September, together with the uncertainty in equity markets during the period, had a positive effect on the bond market.

Euro-denominated government bonds represented 11.5 percent of the fund's fixed-income holdings and returned 4.3 percent, or 2.6 percent in local currency. Expectations of further easing of monetary policy by the ECB mounted during the quarter.

Japanese government bonds made up 8.7 percent of fixed-income holdings and returned 4.2 percent, or 0.5 percent in local currency.

The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau, the European Investment Bank and Canada Housing Trust. These bonds returned -0.2 percent and accounted for 14.4 percent of fixed-income investments.

The fund's corporate bonds were the strongest performers in the third quarter, returning 1.5 percent, and represented 21.3 percent of fixed-income investments at the end of the period.

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

Sector	Return in international currency	Share of fixed-income investments*
Government bonds**	1.0	55.2
Government-related bonds*	-0.2	14.4
Inflation-linked bonds*	0.7	4.3
Corporate bonds	1.5	21.3
Securitised debt	1.4	6.4

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

\*\* 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 2015. Millions of kroner

Issuer	Country	Holding
United States of America	US	532,162
Japanese government	Japan	228,392
Federal Republic of Germany	Germany	124,854
UK government	UK	76,690
Mexican government	Mexico	53,398
Spanish government	Spain	50,352
South Korean government	South Korea	46,094
French Republic	France	40,130
Italian Republic	Italy	39,862
Kreditanstalt für Wiederaufbau	Germany	33,788

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

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	25.7	8.7	12.4	7.4	0.1	54.4
Government-related bonds	5.6	6.2	1.1	1.2	0.1	14.1
Inflation-linked bonds	3.1	0.3	0.0	0.8	0.0	4.2
Corporate bonds	0.1	1.6	9.3	9.6	0.4	21.0
Securitised debt	5.0	0.7	0.3	0.2	0.0	6.3
<b>Total bonds</b>	<b>39.5</b>	<b>17.5</b>	<b>23.2</b>	<b>19.2</b>	<b>0.7</b>	<b>100.0</b>

Securitised debt, consisting mainly of covered bonds denominated in euros, returned 1.4 percent and made up 6.4 percent of fixed-income holdings.

Inflation-linked bonds returned 0.7 percent and accounted for 4.3 percent of total fixed-income investments.

**CHANGES IN HOLDINGS**

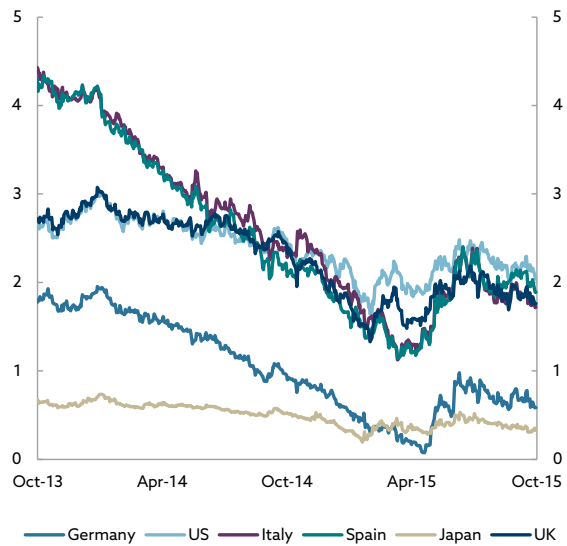
The market value of investments in bonds denominated in emerging market currencies fell from 13.1 percent to 11.9 percent of fixed-income investments during the quarter. Investments in dollars, euros, pounds and yen accounted for 79.9 percent of fixed-income holdings at the end of the period, against 78.2 percent at the end of the second quarter.

The biggest increases in government bond holdings in the third quarter were in US, Japanese and German bonds. The biggest decreases were in bonds from Brazil, Finland and the UK.

**RELATIVE RETURN**

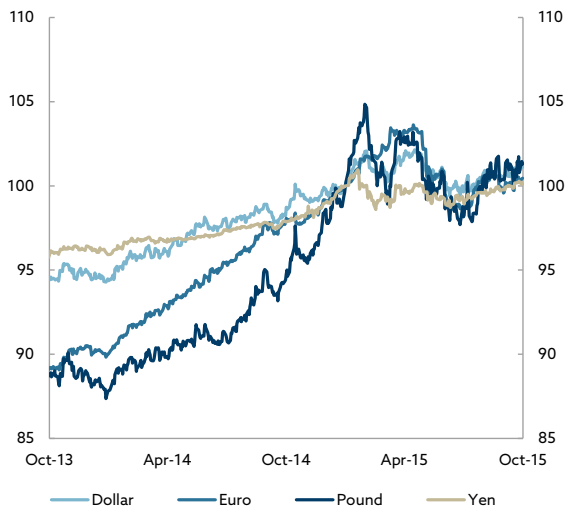
Returns on the fund's fixed-income investments are compared with returns on a global benchmark

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



Source: Bloomberg

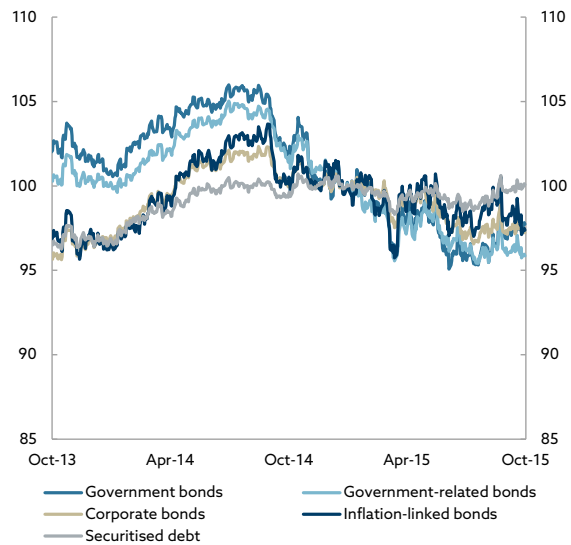
**Chart 3** Price developments for bonds issued in dollars, euros, pounds and yen. Measured in local currencies. Indexed 31 Dec 2014 = 100



Source: Barclays

index for bonds set by the Ministry of Finance on the basis of indices from Barclays.

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



Source: Barclays

The fund's fixed-income investments underperformed the benchmark index by 0.6 percentage point in the third quarter. There was a general decrease in yields in developed markets during the period. The shorter duration of the fund's fixed-income investments relative to the benchmark made a negative contribution, as it makes the fund generally less sensitive to falling yields than the benchmark. The fund's fixed-income investments also had a higher weight of emerging markets than the benchmark. Brazilian government bonds was among the fund's largest holdings in emerging markets in the quarter, and the return on investments in Brazil was weak due to rising yields and a weaker real. The fund's fixed-income investments had a higher yield than the benchmark in the third quarter.

#### INTERNAL REFERENCE PORTFOLIO

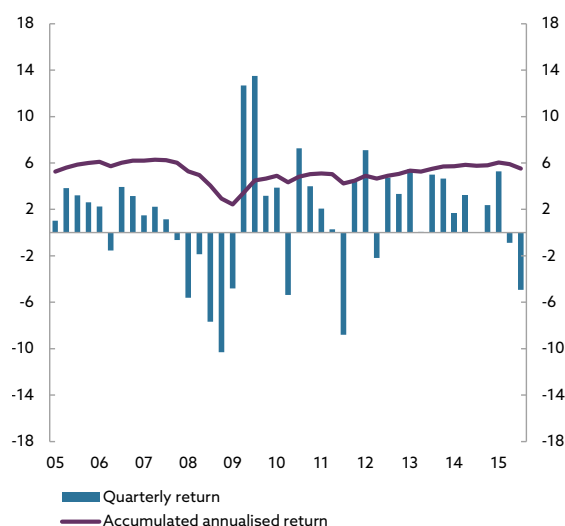
We have constructed an internal reference portfolio for bonds which takes into account the fund's special characteristics and objective and is intended to achieve a better trade-off over time between expected risks and returns.

The internal reference portfolio for fixed-income investments returned 1.1 percent, 0.4 percentage point less than the benchmark index set by the Ministry of Finance.

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

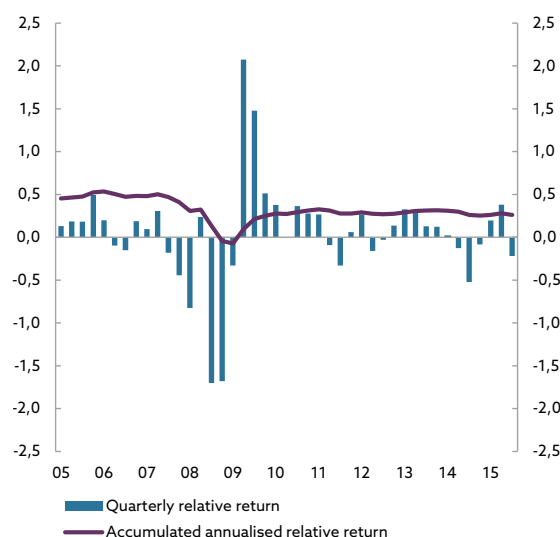
	Total	Attributed to external management
Equity investments	-0.02	0.03
Fixed-income investments	-0.20	0.00
<b>Total</b>	<b>-0.22</b>	<b>0.03</b>

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



Source: Norges Bank Investment Management

**Chart 7** The fund quarterly relative return and accumulated annualised relative return, excluding real estate investments. Percentage points



Source: Norges Bank Investment Management

## REAL ESTATE INVESTMENTS

Real estate investments amounted to 3.0 percent of the fund at the end of the third quarter and produced a return for the period of 3.0 percent. Investments in unlisted real estate returned 2.6 percent, while investments in listed real estate returned 4.2 percent.

The return on the fund's unlisted real estate investments depends on rental income net of operating expenses, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases. Measured in local currency, net rental income made a positive contribution of 1.0 percentage point to the return, and the net change in the value of properties and debt contributed 1.3 percentage points. Currency movements also made a positive contribution of 0.3 percentage point, while transaction costs for property purchases had no significant effect on the return for the quarter.

It is planned that real estate will eventually account for up to 5 percent of the value of the fund. Our goal is to build a global, but concentrated, real estate portfolio.

### NEW INVESTMENTS ANNOUNCED IN THE QUARTER

In July, the fund announced that it had acquired 50 percent of a portfolio of eight logistics properties in the UK, Poland and France in partnership with Prologis, paying 155 million euros. In September, the fund acquired 49.9 percent of an office building in San Francisco in

partnership with TIAA-CREF, paying 153.2 million dollars, and 100 percent of West One Shopping Centre together with the rest of the building at 75 Davies Street above London's Bond Street underground station, paying 240 million pounds for a 95-year lease.

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

	Return
Net profit from ongoing rental income	1.0
Net change in value of properties and debt	1.3
Transaction costs for property purchases	0.0
Result of currency adjustments	0.3
Unlisted real estate investments	2.6
Listed property	4.2
<b>Total return</b>	<b>3.0</b>

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

	Holding
Investments in unlisted real estate	159 092
Investments in listed real estate	46 887
Bank deposits and other claims	2 156
<b>Total</b>	<b>208 136</b>

## RESPONSIBLE INVESTMENT

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

### STANDARD SETTING

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

We provided input on the updating of the corporate governance codes in Sweden and Brazil, as guidelines of this kind are important for well-functioning markets and effective governance. We submitted consultation responses to the Hong Kong Stock Exchange on the revision of its guidelines for environmental, social and governance reporting, to the US Securities and Exchange Commission on possible changes to audit committee disclosures, and to the European Securities and Markets Authority (ESMA) on best practice principles for suppliers of voting advisory services.

We joined a working group led by the OECD on guidelines for responsible business conduct in the financial sector. The group includes representatives of authorities, institutional investors and banks.

We held meetings with, and obtained input from, standard setters, academic institutions, companies, employer organisations and voluntary organisations as part of the work on updating our expectations documents for water management and children's rights.

We were the main sponsor and a participant in the first global conference on stranded assets at the University of Oxford on 24-25 September. The conference focused on financial risk in certain sectors and the danger of assets becoming stranded.

### OWNERSHIP

We voted at 1,371 general meetings in the third quarter, and we considered and voted on 254 shareholder proposals.

We arranged meetings with the chairmen of nine large companies to discuss topics such as strategy, board composition and succession planning. The topics were tailored to each specific company, and several of the meetings followed up the letters we sent to power and coal-mining companies in the first quarter.

The Swedish Corporate Governance Board is currently updating its corporate governance code. We had a dialogue with the board on the revisions and submitted our comments on the code. We are keen to increase shareholder involvement in the Swedish governance model and therefore proposed including a recommendation in the code that directors are elected individually, in line with our position paper on the topic published in May. We also followed up the position paper by writing to 35 Swedish companies urging them to introduce individual director elections. In addition, we engaged in dialogue with a number of boards and investor groups.

The Tokyo Stock Exchange introduced a new corporate governance code on 1 June 2015. In the first quarter, we submitted comments on the draft code, which forms part of the prime minister's national growth strategy. In the third quarter, we shared information on our voting practices and engaged in dialogue with companies to explain our practices and priorities. We arranged a meeting for 180 Japanese companies in Tokyo where we shared our views on the new code and our priorities.

Swiss legislation sets out an obligation for a shareholder acquiring a third of a company's voting rights to make an offer for the remaining shares, but also gives companies the right to opt

out of this rule. The resulting opt-out clauses create a risk of minority shareholders losing out when control changes. We contacted six Swiss companies to obtain a better understanding of these clauses and obtain assurance that minority shareholders will not be discriminated against.

### **RISK MANAGEMENT**

We submitted a letter to the Ministry of Finance during the quarter on investments in, and policy tools for, coal companies. The letter looked particularly at terminology and the operationalisation of coal-based exclusion from the fund, the division of responsibility between the Council on Ethics and Norges Bank, and the financial consequences of these exclusions.

Together with the Smith School of Enterprise and the Environment at the University of Oxford, we have embarked on a risk analysis of companies in the portfolio whose involvement in coal extraction, coal power generation or coal-based energy conversion represents a significant part of their business.

## **RISK MANAGEMENT**

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

The fund's expected absolute volatility, calculated using the statistical measure standard deviation, uses a three-year price history to estimate how much the annual return on the fund's equity and fixed-income investments can normally be expected to fluctuate. The fund's expected absolute volatility was 9.9 percent, or about 690 billion kroner, at the end of the third quarter, compared with 9.8 percent three months earlier. Increased uncertainty about growth in China and emerging markets led to greater volatility in global equity markets and considerable variation in the fund's market value in the third quarter.

The Ministry of Finance and Norges Bank's Executive Board have set limits for deviation from the benchmark indices in the management of the fund's equity and fixed-income investments. One of these limits is expected relative volatility, or tracking error, which puts a ceiling on how much the return on these investments can be expected to deviate from the return on the benchmark indices. The fund should aim for expected relative volatility of no more than 1 percentage point. The actual figure was 0.3 percentage point at the end of the quarter, unchanged from the end of the second quarter.

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

## OPERATIONAL RISK MANAGEMENT

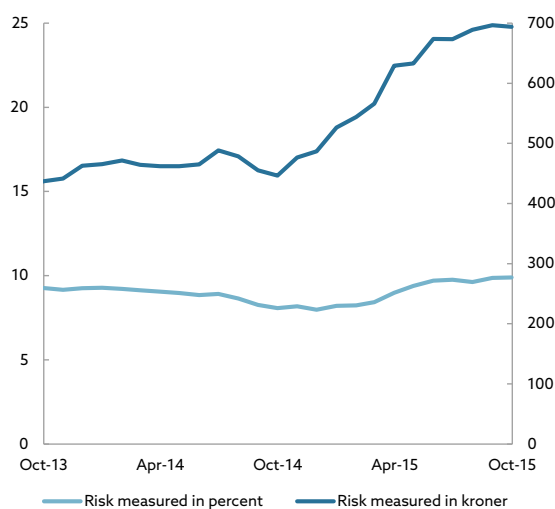
Norges Bank's Executive Board sets limits for operational risk management and internal controls at Norges Bank Investment Management. It has decided there must be less than 20 percent probability that operational risk factors will result in gross losses of 750 million kroner or more over a 12-month period,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

Each quarter, Norges Bank Investment Management estimates the size of the potential losses or gains it may incur over the next year because of unwanted operational events related to its investment management activities. The estimate is based on past events and an

assessment of future risks and represents the fund's estimated operational risk exposure. Estimated operational risk exposure remained within the Executive Board's tolerance limit in the third quarter. A total of 66 unwanted operational events were registered during the quarter, with a total financial impact of around 39 million kroner.

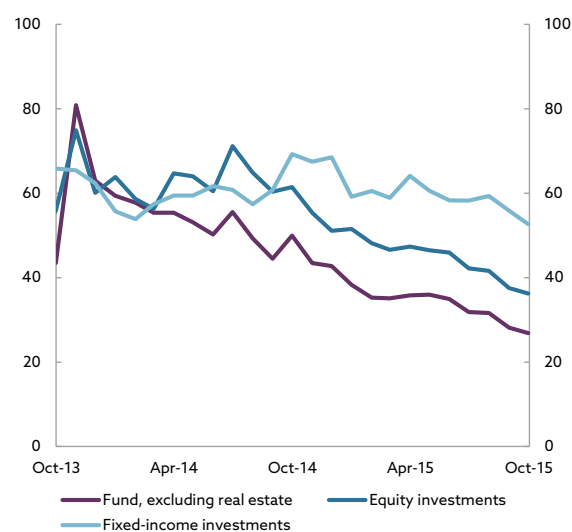
The Ministry of Finance has set guidelines for the fund's management and is to be informed of any significant breaches of the specified limits. No such breaches were registered in the third quarter, and we did not receive any notifications from local supervisory authorities of any significant breaches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

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



Source: Norges Bank Investment Management

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



Source: Norges Bank Investment Management

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

	Limits set by the Ministry of Finance	30.09.2015
Exposure	Equities 50–70% of fund's market value*	59.4
	Real estate 0–5% of fund's market value	3.0
Market risk	1 percentage point expected tracking error for equity and fixed-income investments	0.3
Credit risk	Maximum 5% of fixed-income investments may be rated below BBB-	0.7
Maximum ownership	Maximum 10% of voting shares in a listed company in the equity portfolio	9.6

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



# KEY FIGURES

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

	3Q 2015	2Q 2015	1Q 2015	4Q 2014	3Q 2014	Year-to-date 30.09.2015
<b>Returns in international currency</b>						
Return on equity investments (percent)	-8.56	-0.23	7.53	2.74	-0.49	-1.90
Return on fixed-income investments (percent)	0.90	-2.22	1.63	1.68	0.95	0.26
Return on real estate investments (percent)	2.97	1.96	3.10	3.53	1.48	8.25
Return on fund (percent)	-4.93	-0.87	5.28	2.37	0.07	-0.79
Return on equity and fixed-income investments (percent)	-5.15	-0.95	5.33	2.35	0.06	-1.05
Return on benchmark equity and fixed-income indices (percent)	-4.93	-1.33	5.13	2.43	0.58	-1.38
Relative return on equity and fixed-income investments (percentage points)	-0.22	0.38	0.19	-0.08	-0.52	0.33
Relative return on equity investments (percentage points)	-0.07	0.40	0.39	0.09	-0.76	0.67
Relative return on fixed-income investments (percentage points)	-0.64	0.34	-0.14	-0.39	-0.14	-0.41
Management costs (percentage points)	0.01	0.01	0.01	0.01	0.01	0.04
Return on fund after management costs (percent)	-4.95	-0.89	5.26	2.36	0.06	-0.83
<b>Returns in kroner (percent)</b>						
Return on equity investments	-2.29	-1.17	11.29	16.14	-0.20	7.47
Return on fixed-income investments	7.82	-3.14	5.17	14.94	1.24	9.83
Return on real estate investments	10.03	1.00	6.70	17.04	1.78	18.58
Return on fund	1.59	-1.81	8.95	15.72	0.36	8.68

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

	Since 01.01.1998	Last 10 years	Last 5 years	Last 3 years	Last 12 months
<b>Return on fund (percent)</b>	5.51	5.25	7.30	8.54	1.56
Return on equity and fixed-income investments (percent)	5.49	5.22	7.25	8.44	1.27
Return on benchmark equity and fixed-income indices (percent)	5.23	5.12	7.07	8.22	1.01
Relative return on equity and fixed-income investments (percentage points)	0.26	0.10	0.17	0.22	0.26
Annual price inflation (percent)	1.81	1.85	1.78	1.10	0.30
Annual management costs (percent)	0.09	0.09	0.07	0.06	0.06
Annual net real return on fund (percent)	3.55	3.25	5.35	7.30	1.20
Standard deviation (percent)	7.54	8.82	6.90	6.16	7.38
Tracking error for equity and fixed-income investments (percentage points)	0.73	0.91	0.38	0.40	0.34
Information ratio (IR)* for equity and fixed-income investments	0.36	0.11	0.45	0.55	0.76

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

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

	3Q 2015	2Q 2015	1Q 2015	4Q 2014	3Q 2014
<b>Market value (billions of kroner)*</b>					
Market value of equity investments	4 191	4 330	4 380	3 940	3 396
Market value of fixed-income investments	2 620	2 382	2 474	2 350	2 064
Market value of real estate investments	208	186	158	141	74
Market value of fund	7 019	6 897	7 012	6 431	5 534
Inflow of new capital*	12	12	5	25	36
Return on fund	-273	-73	401	259	15
Changes due to fluctuations in krone	382	-53	175	613	5
Total change in fund	121	-115	581	896	56
<b>Management costs (percent)</b>					
Estimated transition costs**	0.00	0.00	0.00	0.00	0.00
Management costs	0.05	0.05	0.06	0.06	0.05
<b>Changes in value since first capital inflow in 1996 (billions of kroner)</b>					
Gross inflow of new capital	3 485	3 472	3 459	3 452	3 426
Management costs***	30	29	28	27	26
Inflow of new capital after management costs	3 455	3 443	3 431	3 425	3 400
Return on fund	2 397	2 670	2 743	2 343	2 084
Changes due to fluctuations in krone	1 167	785	838	663	50
Market value of fund	7 019	6 897	7 012	6 431	5 534
Return after management costs	2 367	2 641	2 716	2 316	2 058

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

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

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

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

	3Q 2015	2Q 2015	1Q 2015	4Q 2014	3Q 2014
Return on equity investments	1 529	1 875	1 894	1 567	1 409
Return on fixed-income investments	840	772	830	761	665
Return on real estate investments	28	22	19	14	9
Total return	2 397	2 670	2 743	2 343	2 084

# FINANCIAL REPORTING

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

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## INCOME STATEMENT

Amounts in NOK million	Note	3Q 2015	3Q 2014	Year-to-date 30.09.2015	Year-to-date 30.09.2014	2014
<b>Profit/loss on the portfolio excluding foreign exchange gain/loss</b>						
Interest income and expense from deposits in banks and short-term borrowing		3	1	-18	13	48
Interest income and expense, lending associated with reverse repurchase agreements		-54	14	-58	111	159
Income/expense from:						
- Equities and units	4	-305 450	-4 909	12 959	181 020	388 521
- Bonds	4	32 967	20 801	34 618	104 334	158 027
- Real estate	6	3 449	1 913	10 831	5 012	7 160
- Financial derivatives	4	-3 036	-1 750	-1 560	-3 597	-8 208
Interest expense and income, borrowing associated with repurchase agreements		65	-26	78	-59	-35
Other interest income and interest expense		-	-2	-	-5	-9
Tax expense		-910	-1 098	-2 263	-1 971	-2 026
Other expenses		-11	-1	-11	-2	-3
<b>Profit/loss on the portfolio before foreign exchange gain/loss</b>		<b>-272 977</b>	<b>14 943</b>	<b>54 576</b>	<b>284 856</b>	<b>543 634</b>
Foreign exchange gain/loss		382 435	4 977	504 119	89 675	702 259
<b>Profit/loss on the portfolio</b>		<b>109 458</b>	<b>19 920</b>	<b>558 695</b>	<b>374 531</b>	<b>1 245 893</b>
Management fee	9	-1 074	-741	-2 813	-2 110	-3 202
<b>Profit/loss for the period and total comprehensive income</b>		<b>108 384</b>	<b>19 179</b>	<b>555 882</b>	<b>372 421</b>	<b>1 242 691</b>

## BALANCE SHEET

Amounts in NOK million	Note	30.09.2015	31.12.2014
<b>ASSETS</b>			
Deposits in banks		2 712	11 731
Lending associated with reverse repurchase agreements		134 221	45 536
Cash collateral posted		1 900	1 289
Unsettled trades		43 476	1 376
Equities and units	5	3 889 188	3 790 853
Equities lent	5	332 481	166 842
Bonds	5	2 515 540	2 324 626
Bonds lent	5	145 575	25 163
Real estate	6	159 092	106 431
Financial derivatives	5	8 299	5 777
Other assets		3 256	3 847
<b>TOTAL ASSETS</b>	<b>7, 8</b>	<b>7 235 740</b>	<b>6 483 471</b>
<b>LIABILITIES AND OWNER'S CAPITAL</b>			
<b>Liabilities</b>			
Short-term borrowing		-	-
Borrowing associated with repurchase agreements		103 072	13 512
Cash collateral received		37 991	27 006
Unsettled trades		69 408	4 001
Financial derivatives	5	6 236	7 895
Other liabilities		101	318
Management fee payable	9	2 813	3 202
<b>Total liabilities</b>		<b>219 621</b>	<b>55 934</b>
Owner's capital		7 016 119	6 427 537
<b>TOTAL LIABILITIES AND OWNER'S CAPITAL</b>	<b>7, 8</b>	<b>7 235 740</b>	<b>6 483 471</b>

## STATEMENT OF CASH FLOWS

Amounts in NOK million, received (+) / paid (-)	Year-to-date 30.09.2015	Year-to-date 30.09.2014	2014
<b>Operating activities</b>			
Net cash flow arising from interest received from deposits in banks and interest paid on short-term borrowing from banks	893	-871	-1 718
Net cash flow in connection with repurchase agreements and reverse repurchase agreements	5 410	-47 161	-18 744
Net cash flow arising from purchase and sale of equities and units	-54 473	-82 403	-144 448
Net cash flow arising from purchase and sale of bonds	-115 688	-79 628	-62 878
Net cash flow arising from purchase and sale of real estate	-30 655	-19 125	-37 711
Net cash flow arising from financial derivatives	-2 453	-1 370	-1 204
Dividends received from investments in equities and units	86 651	69 565	82 623
Interest received on bonds	56 563	47 665	63 309
Income received in connection with equity and bond lending	2 544	2 090	2 550
Net cash flow arising from real estate operations	2 651	1 573	1 966
Cash collateral received/paid related to securities lending, derivatives and reverse repurchase agreements	8 872	-9 378	-21 058
Net cash flow related to other expenses, other assets and other liabilities	1 584	1 570	-2 625
Net cash flow arising from tax payments and refunds	-2 113	-2 206	-2 740
Management fee paid to Norges Bank*	-3 202	-2 889	-2 889
<b>Net cash outflow from operating activities</b>	<b>-43 416</b>	<b>-122 568</b>	<b>-145 567</b>
<b>Financing activities</b>			
Inflow from the Norwegian government**	32 869	125 821	150 894
<b>Net cash inflow from financing activities</b>	<b>32 869</b>	<b>125 821</b>	<b>150 894</b>
<b>Net change in cash and cash equivalents</b>			
Cash and cash equivalents at 1 January	11 731	3 953	3 953
Net cash receipts/payments in the period	-10 547	3 253	5 327
Net foreign exchange gain/loss on cash and cash equivalents	1 528	750	2 451
<b>Cash and cash equivalents at end of period</b>	<b>2 712</b>	<b>7 956</b>	<b>11 731</b>
<b>Cash and cash equivalents comprise:</b>			
Deposits in banks	2 712	7 986	11 731
Short-term borrowing	-	-30	-
<b>Total cash and cash equivalents at end of period</b>	<b>2 712</b>	<b>7 956</b>	<b>11 731</b>

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

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

## STATEMENT OF CHANGES IN OWNER'S CAPITAL

Amounts in NOK million	Inflows from owner	Retained earnings	Total owner's capital*
1 January 2014	3 298 941	1 735 905	5 034 846
Total comprehensive income	-	372 421	372 421
Inflows during the period	124 899	-	124 899
<b>30 September 2014</b>	<b>3 423 840</b>	<b>2 108 326</b>	<b>5 532 166</b>
1 October 2014	3 423 840	2 108 326	5 532 166
Total comprehensive income	-	870 270	870 270
Inflows during the period	25 101	-	25 101
<b>31 December 2014</b>	<b>3 448 941</b>	<b>2 978 596</b>	<b>6 427 537</b>
1 January 2015	3 448 941	2 978 596	6 427 537
Total comprehensive income		555 882	555 882
Inflows during the period*	32 700	-	32 700
<b>30 September 2015</b>	<b>3 481 641</b>	<b>3 534 478</b>	<b>7 016 119</b>

\* *Total owner's capital* corresponds to the Ministry of Finance's krone account in Norges Bank. Of the total inflows to the krone account of the Government Pension Fund Global in the first three quarters of 2015, NOK 3.2 billion was used to pay the accrued management fee for 2014 and NOK 29.5 billion was transferred into the investment portfolio. Comparative amounts for the third quarter of 2014 were NOK 2.9 billion and NOK 122 billion, respectively.

# NOTES TO THE FINANCIAL REPORTING

## NOTE 1 GENERAL INFORMATION

### 1. INTRODUCTION

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

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

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

### 2. APPROVAL OF QUARTERLY FINANCIAL STATEMENTS

Norges Bank's quarterly financial statements for the third quarter of 2015, which only encompass the financial reporting for the GPFG, were approved by Norges Bank's Executive Board on 21 October 2015.

## NOTE 2 ACCOUNTING POLICIES

### 1. BASIS OF PREPARATION

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

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

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

### 2. SIGNIFICANT ESTIMATES AND ACCOUNTING JUDGEMENTS

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

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

### 3. NEW/AMENDED STANDARDS IMPLEMENTED FROM 1 JANUARY 2015

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



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

##### *IFRS 9 Financial instruments*

The effective date of IFRS 9 has been set by the IASB for periods starting on or after 1 January 2018. It is expected that the standard will be applied once it has

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

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

#### NOTE 3 RETURNS PER ASSET CLASS

Table 3.1 Returns per asset class

	3Q 2015	2Q 2015	1Q 2015	4Q 2014	3Q 2014	Year-to-date 30.09.2015
<b>Returns in international currency</b>						
Return on equity investments (percent)	-8.56	-0.23	7.53	2.74	-0.49	-1.90
Return on fixed-income investments (percent)	0.90	-2.22	1.63	1.68	0.95	0.26
Return on real estate investments (percent)	2.97	1.96	3.10	3.53	1.48	8.25
Return on fund (percent)	-4.93	-0.87	5.28	2.37	0.07	-0.79
Return on equity and fixed-income investments (percent)	-5.15	-0.95	5.33	2.35	0.06	-1.05
Return on benchmark equity and fixed-income indices (percent)	-4.93	-1.33	5.13	2.43	0.58	-1.38
Relative return on equity and fixed-income investments (percentage points)	-0.22	0.38	0.19	-0.08	-0.52	0.33
Relative return on equity investments (percentage points)	-0.07	0.40	0.39	0.09	-0.76	0.67
Relative return on fixed-income investments (percentage points)	-0.64	0.34	-0.14	-0.39	-0.14	-0.41
<b>Returns in kroner (percent)</b>						
Return on equity investments	-2.29	-1.17	11.29	16.14	-0.20	7.47
Return on fixed-income investments	7.82	-3.14	5.17	14.94	1.24	9.83
Return on real estate investments	10.03	1.00	6.70	17.04	1.78	18.58
Return on fund	1.59	-1.81	8.95	15.72	0.36	8.68
Return on equity and fixed-income investments	1.35	-1.89	9.00	15.70	0.35	8.40

For additional information on the method used in the return calculation, see note 3 *Profit/loss on the portfolio before foreign exchange gains and losses and returns per asset class* in the annual report 2014.

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

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

Table 4.1 Specification Income/expense from equities and units

Amounts in NOK million	3Q 2015	3Q 2014	Year-to-date 30.09.2015	Year-to-date 30.09.2014	2014
Dividends	24 586	19 896	88 971	72 941	87 962
Income from securities lending	609	430	2 507	2 101	2 578
Realised gain/loss	31 930	18 965	110 217	66 482	75 832
Unrealised gain/loss	-362 575	-44 200	-188 736	39 496	222 149
<b>Income/expense from equities and units before foreign exchange gain/loss</b>	<b>-305 450</b>	<b>-4 909</b>	<b>12 959</b>	<b>181 020</b>	<b>388 521</b>

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	3Q 2015	3Q 2014	Year-to-date 30.09.2015	Year-to-date 30.09.2014	2014
Interest	20 621	16 422	58 315	47 260	65 472
Income from securities lending	37	4	82	16	21
Realised gain/loss	-116	6 112	17 824	11 229	14 831
Unrealised gain/loss	12 425	-1 737	-41 603	45 829	77 703
<b>Income/expense from bonds before foreign exchange gain/loss</b>	<b>32 967</b>	<b>20 801</b>	<b>34 618</b>	<b>104 334</b>	<b>158 027</b>

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	3Q 2015	3Q 2014	Year-to-date 30.09.2015	Year-to-date 30.09.2014	2014
Dividends	8	-	8	-	-
Interest	-218	-106	-705	-187	-285
Realised gain/loss	-632	128	-1 646	-2 664	-4 226
Unrealised gain/loss	-2 194	-1 772	783	-746	-3 697
<b>Income/expense from financial derivatives before foreign exchange gain/loss</b>	<b>-3 036</b>	<b>-1 750</b>	<b>-1 560</b>	<b>-3 597</b>	<b>-8 208</b>

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

Table 5.1 Equities and units

Amounts in NOK million	30.09.2015		31.12.2014	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Listed equities and units	4 221 669	7 484	3 957 695	7 012
<b>Total equities and units</b>	<b>4 221 669</b>	<b>7 484</b>	<b>3 957 695</b>	<b>7 012</b>
<i>Of which equities lent</i>	<i>332 481</i>		<i>166 842</i>	

Table 5.2 Bonds

Amounts in NOK million	30.09.2015			31.12.2014		
	Nominal value	Fair value including accrued interest	Accrued interest	Nominal value	Fair value including accrued interest	Accrued interest
Government bonds	1 274 600	1 446 450	11 633	1 095 771	1 296 796	9 832
Government-related bonds	356 713	376 537	3 291	316 496	343 771	3 308
Inflation-linked bonds	95 310	112 139	364	52 788	63 715	222
Corporate bonds	544 864	559 229	5 804	430 017	454 559	4 933
Securitised bonds	167 305	166 760	2 141	176 199	190 948	2 767
<b>Total bonds</b>	<b>2 438 792</b>	<b>2 661 115</b>	<b>23 233</b>	<b>2 071 271</b>	<b>2 349 789</b>	<b>21 062</b>
<i>Of which bonds lent</i>		<i>145 575</i>			<i>25 163</i>	

Table 5.3 Financial derivatives

Amounts in NOK million	30.09.2015			31.12.2014		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange derivatives	284 447	4 113	1 876	204 179	5 275	3 141
Interest rate derivatives	40 562	553	4 360	37 194	112	4 754
Equity derivatives*	5 796	3 633	-	1 596	390	-
<b>Total financial derivatives</b>	<b>330 805</b>	<b>8 299</b>	<b>6 236</b>	<b>242 969</b>	<b>5 777</b>	<b>7 895</b>

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

## NOTE 6 REAL ESTATE

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

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

Table 6.1 Income/expense from Real estate

Amounts in NOK million	3Q 2015	3Q 2014	Year-to-date 30.09.2015	Year-to-date 30.09.2014	2014
Dividend	776	126	1 486	352	598
Interest income	412	303	1 165	957	1 368
Unrealised gain/loss	2 261	1 484	8 180	3 703	5 194
<b>Income/expense from Real estate before foreign exchange gain/loss</b>	<b>3 449</b>	<b>1 913</b>	<b>10 831</b>	<b>5 012</b>	<b>7 160</b>

Table 6.2 Changes in carrying amounts Real estate

Amounts in NOK million	30.09.2015	31.12.2014
Real estate, opening balance 1 January	106 431	51 032
Additions new investments	30 655	37 711
Unrealised gain/loss	8 180	5 194
Foreign currency translation effect	13 826	12 494
<b>Real estate, closing balance for the period</b>	<b>159 092</b>	<b>106 431</b>

### UNDERLYING REAL ESTATE COMPANIES

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

Table 6.3 provides a specification of the GPF's share of income generated in the underlying real estate companies. Income generated through rental income and any divestments of assets, after deduction of expenses, can be distributed to the GPF in the form of

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

Table 6.3 Income from underlying real estate companies

Amounts in NOK million	3Q 2015	3Q 2014	Year-to-date 30.09.2015	Year-to-date 30.09.2014	2014
Net rental income*	1 909	923	4 890	2 504	3 747
Realised gain/loss	279	-	279	-	-
Fair value changes - buildings	1 856	1 707	7 300	3 860	5 464
Fair value changes - debt	-24	-49	229	-199	-395
Transaction costs	-63	-385	-241	-480	-586
Interest expense external debt	-189	-86	-483	-219	-354
Tax expense payable	-23	-19	-65	-62	-81
Change in deferred tax	-123	-85	-359	-166	-292
Operating expenses within the limit from the Ministry of Finance**	-25	-21	-66	-58	-83
Other expenses***	-148	-72	-653	-168	-261
<b>Net income real estate companies</b>	<b>3 449</b>	<b>1 913</b>	<b>10 831</b>	<b>5 012</b>	<b>7 160</b>

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

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

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

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

Table 6.4 Specification assets and liabilities real estate companies

Amounts in NOK million	30.09.2015	31.12.2014
Deposits in banks	1 928	1 170
Properties	177 400	118 515
External debt	-18 051	-11 985
Tax payable	-249	-98
Net deferred tax	-943	-520
Net other assets and liabilities	-993	-651
<b>Total assets and liabilities real estate companies</b>	<b>159 092</b>	<b>106 431</b>

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

presented in the balance sheet as *Equities and units*, and amount to NOK 46 887 million at the quarter-end, compared to NOK 33 238 million at year-end 2014.

## NOTE 7 FAIR VALUE MEASUREMENT

### 1. INTRODUCTION

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

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

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

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

#### SIGNIFICANT ESTIMATE

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

### 2. FAIR VALUE HIERARCHY

Table 7.1 Investments by level of valuation uncertainty

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	30.09.2015	31.12.2014	30.09.2015	31.12.2014	30.09.2015	31.12.2014	30.09.2015	31.12.2014
<b>Equities and units</b>	<b>4 193 463</b>	<b>3 925 476</b>	<b>23 119</b>	<b>30 236</b>	<b>5 087</b>	<b>1 983</b>	<b>4 221 669</b>	<b>3 957 695</b>
Government bonds	1 335 856	1 141 268	110 594	155 528	-	-	1 446 450	1 296 796
Government-related bonds	326 728	308 397	48 871	27 424	938	7 950	376 537	343 771
Inflation-linked bonds	100 805	55 613	11 334	8 102	-	-	112 139	63 715
Corporate bonds	534 044	246 887	24 656	192 266	529	15 406	559 229	454 559
Securitised bonds	156 839	172 332	8 505	16 703	1 416	1 913	166 760	190 948
<b>Total bonds</b>	<b>2 454 272</b>	<b>1 924 497</b>	<b>203 960</b>	<b>400 023</b>	<b>2 883</b>	<b>25 269</b>	<b>2 661 115</b>	<b>2 349 789</b>
Financial derivatives (assets)	238	-	8 061	5 777	-	-	8 299	5 777
Financial derivatives (liabilities)	-	-	-6 236	-7 895	-	-	-6 236	-7 895
<b>Total financial derivatives</b>	<b>238</b>	<b>-</b>	<b>1 825</b>	<b>-2 118</b>	<b>-</b>	<b>-</b>	<b>2 063</b>	<b>-2 118</b>
Real estate	-	-	-	-	159 092	106 431	159 092	106 431
Other*	-	-	-25 008	18 942	-	-	-25 008	18 942
<b>Total</b>	<b>6 647 973</b>	<b>5 849 973</b>	<b>203 896</b>	<b>447 083</b>	<b>167 062</b>	<b>133 683</b>	<b>7 018 931</b>	<b>6 430 739</b>
<b>Total (percent)</b>	<b>94.8</b>	<b>91.0</b>	<b>2.8</b>	<b>6.9</b>	<b>2.4</b>	<b>2.1</b>	<b>100.0</b>	<b>100.0</b>

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

Valuation uncertainty for the GPFG as a whole at the end of the third quarter of 2015 is essentially unchanged compared to the end of 2014. The majority of the total portfolio has low valuation uncertainty and is classified as Level 1 or 2 (97.6 percent at the end of the third quarter of 2015, compared to 97.9 percent at year-end 2014). However, there were large movements between Level 1 and Level 2 during the first quarter of 2015. These are described further in section 3 of this note.

#### Equities and units

Valuation uncertainty for equities and units is largely unchanged during the quarter. Measured as a share of total value, virtually all equities and units (99.3 percent) are valued on the basis of official closing prices from stock exchanges and are classified as Level 1. A few equities and units (0.6 percent) are classified as Level 2. These include equities for which trading has recently been suspended or illiquid equities that are not traded daily. Some holdings (0.1 percent) that are not listed, or where trading has been suspended over a longer period, have high valuation uncertainty related to fair value and are classified as Level 3.

### Bonds

Valuation uncertainty for bonds is largely unchanged during the quarter. The majority of bonds (92.2 percent) are classified as Level 1 at the end of the third quarter. Bonds in this level have observable, executable market quotes. A minority of bonds (7.7 percent) are classified as Level 2. These securities do not have a sufficient amount of executable quotes or they are priced based on comparable but liquid bonds. A few bonds (0.1 percent) that do not have observable quotes are classified as Level 3.

### Real estate

Unlisted real estate investments are diversified across thirteen countries and various sectors. A range of factors are considered in the valuation process.

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 real estate investments are measured at the value determined by external valuers, with the exception of newly acquired properties where the purchase price, excluding transaction costs, is considered to be the best estimate of fair value.

Whilst the absolute level of valuation uncertainty, measured in kroner, has increased in line with the portfolio growth, the uncertainty associated with the determination of fair value has not significantly changed compared to year-end 2014.

### 3. MOVEMENTS BETWEEN LEVELS OF VALUATION UNCERTAINTY

There have not been any significant changes between levels within equities and units compared to the previous quarter. Equities in Greek companies and certain other companies that were previously suspended from trading, but where trading has resumed during the quarter, have been reclassified to Level 1 during the quarter. Some holdings in Russian companies have been moved from Level 2 to Level 1 during the quarter, as the prices are based on directly observable quotes. Some Chinese equities that have been suspended from trading have been moved from Level 1 to Level 2 during the third quarter. Throughout the year, the composition of levels within equities and units is virtually unchanged.

The proportion of bonds allocated to Level 1 or Level 2 is almost unchanged in the third quarter. However, a few bonds have been reclassified from Level 2 to Level 1. These bonds had a sufficient amount of observable and tradable quotes in the third quarter.

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

Table 7.2 Specification of changes in Level 3 holdings

Amounts in NOK million	01.01.2015	Purchases	Sales	Settle-ments	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	30.09.2015
Equities and units	1 983	777	-251	16	-573	3 936	-1 174	373	5 087
Bonds	25 269	2 859	-591	-243	-600	117	-24 437	509	2 883
Real estate	106 431	30 655	-	-	8 180	-	-	13 826	159 092
<b>Total</b>	<b>133 683</b>	<b>34 291</b>	<b>-842</b>	<b>-227</b>	<b>7 007</b>	<b>4 053</b>	<b>-25 611</b>	<b>14 708</b>	<b>167 062</b>

Amounts in NOK million	01.01.2014	Purchases	Sales	Settle-ments	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	30.09.2014
Equities and units	1 753	180	-138	19	-548	417	-67	367	1 983
Bonds	1 571	9 247	-173	-230	68	10 455	-96	4 427	25 269
Real estate	51 032	37 711	-	-	5 194	-	-	12 494	106 431
<b>Total</b>	<b>54 356</b>	<b>47 138</b>	<b>-311</b>	<b>-211</b>	<b>4 714</b>	<b>10 872</b>	<b>-163</b>	<b>17 288</b>	<b>133 683</b>

There are no significant changes in Level 3 compared to the previous quarter for equities and bonds.

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

The relative share of bonds in Level 3 has decreased significantly compared to year-end 2014. This is largely due to reclassifications in the first quarter. The reason for these reclassifications is described above. Additionally, several bond holdings have been reclassified to Level 2 in the second and third quarters. These bonds are mainly priced based on comparable

issues and have thus lower uncertainty regarding the determination of fair value.

All real estate investments are classified as Level 3 and the increase in the period is mainly due to new investments, increase in fair value and currency effects.

#### 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 30.09.2015	Sensitivities 30.09.2015		Specification of Level 3 holdings 30.09.2014	Sensitivities 31.12.2014	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities and units	5 087	-2 254	2 610	1 983	-843	587
Government-related bonds	938	-94	94	7 950	-781	780
Corporate bonds	529	-368	18	15 406	-1 884	1 640
Securitised bonds	1 416	-142	142	1 913	-191	287
<b>Total bonds</b>	<b>2 883</b>	<b>-604</b>	<b>254</b>	<b>25 269</b>	<b>-2 856</b>	<b>2 707</b>
Real estate	159 092	-8 270	9 075	106 431	-5 532	6 071
<b>Total</b>	<b>167 062</b>	<b>-11 128</b>	<b>11 939</b>	<b>133 683</b>	<b>-9 231</b>	<b>9 365</b>

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

percent will increase the value of the real estate portfolio by 5.7 percent or NOK 9 075 million.

Property values are particularly sensitive to changes in the valuation yields/capitalisation rates and assumptions influencing future revenues. In an unfavourable scenario, changing the yield by +0.2 percentage points, and future market rents by -2 percent will result in a decrease in value of the real estate portfolio of approximately 5.2 percent or NOK 8 270 million. In a favourable scenario, a similar change in the yield of -0.2 percentage points and an increase in future market rents of 2

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

#### NOTE 8 RISK

##### MARKET RISK

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

##### *Asset class per country and currency*

An important dimension within market risk is concentration risk. Table 8.1 provides a picture of how the GPFG is invested across the three asset classes, grouped by countries for equities and real estate, and by currency for fixed-income investments. The table shows that equity investments as a percentage of the GPFG have decreased from 61.3 percent at year-end 2014 to 59.7 percent at the end of the third quarter.



Table 8.1 Allocation by asset class, country and currency

Asset class	Market value in percent by country and currency*				Market value in percent by asset class		Assets minus liabilities excluding management fee	
	Market	30.09.2015	Market	31.12.2014	30.09.2015	31.12.2014	30.09.2015	31.12.2014
Equities	<b>Developed</b>	<b>90.9</b>	<b>Developed</b>	<b>90.2</b>				
	US	35.0	US	33.7				
	UK	11.8	UK	12.5				
	Japan	9.1	Japan	7.4				
	Switzerland	5.6	Germany	6.1				
	Germany	5.6	France	5.8				
	Total other	23.8	Total other	24.7				
	<b>Emerging</b>	<b>9.1</b>	<b>Emerging</b>	<b>9.8</b>				
	China	2.8	China	2.9				
	Taiwan	1.4	Taiwan	1.5				
	India	1.1	India	1.0				
	Brazil	0.5	Brazil	0.9				
	South Africa	0.5	South Africa	0.6				
	Total other	2.8	Total other	2.9				
<b>Total equities</b>					<b>59.7</b>	<b>61.3</b>	<b>4 190 651</b>	<b>3 939 923</b>
Fixed income	<b>Developed</b>	<b>88.1</b>	<b>Developed</b>	<b>87.2</b>				
	US Dollar	42.3	US Dollar	41.4				
	Euro	24.7	Euro	24.5				
	Japanese Yen	7.5	Japanese Yen	7.4				
	British Pound	5.5	British Pound	5.3				
	Canadian Dollar	3.0	Canadian Dollar	3.3				
	Total other	5.1	Total other	5.3				
	<b>Emerging</b>	<b>11.9</b>	<b>Emerging</b>	<b>12.8</b>				
	Mexican Peso	1.8	Mexican Peso	1.8				
	South Korean Won	1.5	Brazilian Real	1.5				
	Indian Rupee	1.0	South Korean Won	1.5				
	Turkish Lira	0.9	Turkish Lira	1.1				
	Chinese Yuan	0.8	Indian Rupee	1.0				
	Total other	5.9	Total other	5.9				
<b>Total fixed income</b>					<b>37.3</b>	<b>36.5</b>	<b>2 620 144</b>	<b>2 349 948</b>
Real estate	US	39.5	UK	30.9				
	UK	30.3	US	30.7				
	France	12.1	France	15.9				
	Germany	7.9	Germany	9.7				
	Switzerland	4.3	Switzerland	5.5				
	Total other	5.9	Total other	7.3				
<b>Total real estate**</b>					<b>3.0</b>	<b>2.2</b>	<b>208 136</b>	<b>140 868</b>

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

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

### Volatility

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

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

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

	Expected volatility, actual portfolio							
	30.09.2015	Min 2015	Max 2015	Average 2015	31.12.2014	Min 2014	Max 2014	Average 2014
Portfolio	9.9	8.1	9.9	9.2	8.2	7.9	9.3	8.7
Equities	12.5	10.9	12.5	11.7	11.1	11.0	14.4	13.0
Bonds	10.0	7.9	10.0	9.1	7.9	7.5	8.9	8.3

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

	Expected relative volatility							
	30.09.2015	Min 2015	Max 2015	Average 2015	31.12.2014	Min 2014	Max 2014	Average 2014
Portfolio	27	27	38	33	38	38	63	51
Equities	36	36	52	45	52	49	71	60
Bonds	53	52	64	58	59	52	69	60

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

Risk measured in terms of expected volatility indicates an increase for the portfolio in the third quarter, from 8.2 at the start of the year, to 9.9. Expected volatility for equities has increased from 11.1 to 12.5, while expected volatility for bonds has increased from 7.9 to 10.0. The increase in volatility is primarily due to greater fluctuations in currency markets. In the third quarter, increased uncertainty around growth in China and emerging markets led to higher volatility in the global equity markets and large

fluctuations in the market value of the fund. The risk measure indicates an expected annual value fluctuation of 9.9 percent, or approximately NOK 690 billion, at the end of the quarter.

#### CREDIT RISK

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

Table 8.4 Bond portfolio specified by credit rating

Amounts in NOK million, 30.09.2015	AAA	AA	A	BBB	Lower rating	Total
Government bonds	684 422	230 490	331 172	196 912	3 454	1 446 450
Government-related bonds	147 938	164 638	29 802	30 748	3 411	376 537
Inflation-linked bonds	81 439	7 505	963	22 232	-	112 139
Corporate bonds	2 771	42 998	246 514	256 058	10 888	559 229
Securitised bonds	133 947	19 265	8 596	4 815	137	166 760
<b>Total bonds</b>	<b>1 050 517</b>	<b>464 896</b>	<b>617 047</b>	<b>510 765</b>	<b>17 890</b>	<b>2 661 115</b>

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

The proportion of bond holdings categorised with a credit rating of BBB decreased to 19.2 percent at the end of the third quarter, compared to 20.6 percent at year-end 2014. This is largely due to reduced holdings of government bonds in emerging markets and securitised bonds in the BBB category. The AAA category was stable compared to year-end 2014, with 39.5 percent of bond holdings at the end of the third quarter. Within this category, downgrades by credit agencies were offset by new purchases of AAA

government bonds. The category *Lower rating* was stable compared to year-end 2014, with 0.7 percent at the end of the third quarter. The overall credit quality of the bond portfolio is slightly improved since year-end 2014.

#### COUNTERPARTY RISK

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

Table 8.5 Counterparty risk by type of position

Amounts in NOK million, 30.09.2015	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits*	5 105	-	-	5 105
OTC derivatives including foreign exchange contracts	19 982	6 924	-56	13 114
Cleared OTC and listed derivatives**	3 007	-	-	3 007
Repurchase and reverse repurchase agreements	2 557	293	203	2 061
Securities lending transactions	41 907	-	1 160	40 747
Settlement risk towards broker and long settlement transactions	447	-	-	447
Participatory certificates	3 329	-	-	3 329
<b>Total</b>	<b>76 334</b>	<b>7 217</b>	<b>1 307</b>	<b>67 810</b>

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

\* Includes bank deposits in real estate subsidiaries that are not consolidated.

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

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

Counterparty risk measured in terms of both gross and net risk exposure has increased since year-end 2014. There was a significant increase in net risk exposure at the end of the third quarter compared to year-end 2014. The increase is mainly due to the lending agent reducing its guarantee responsibility for the securities lending programme at the end of the third quarter, combined with higher exposure from the securities lending programme during 2015. Bank deposits and exposure from cleared unlisted and listed derivatives have been reduced since year-end 2014. The increase in gross exposure is mainly due to an increase in securities lending and higher settlement risk associated with foreign exchange contracts at the end of the third

quarter compared to year-end 2014. There were few foreign exchange contracts at year-end, while activity in foreign exchange contracts generating settlement risk was higher at the end of the third quarter. Settlement risk is mainly generated by foreign exchange contracts in foreign currencies related to emerging markets. Participatory certificates are instruments that give exposure to the price performance of equities, while at the same time giving counterparty risk exposure against the issuer of the certificate.

## NOTE 9 MANAGEMENT COSTS

The 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 real estate subsidiaries.

### MANAGEMENT COSTS IN NORGES BANK

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

the 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 2015	3Q 2014	Year-to-date		Year-to-date		2014	Basis points
			30.09.2015	Basis points	30.09.2014	Basis points		
Salary, social security and other personnel-related costs	270	200	777		550		763	
Custody costs	94	116	290		345		457	
IT services, systems and data	178	116	476		349		488	
Research, consulting and legal fees	65	42	176		114		169	
Other costs	52	21	134		84		119	
Allocated common costs Norges Bank	33	28	95		85		112	
Base fees to external managers	173	140	539		377		445	
<b>Management fee excluding performance-based fees</b>	<b>865</b>	<b>663</b>	<b>2 487</b>	<b>4.8</b>	<b>1 904</b>	<b>4.8</b>	<b>2 553</b>	<b>4.7</b>
Performance-based fees to external managers	209	78	326		206		649	
<b>Total management fee</b>	<b>1 074</b>	<b>741</b>	<b>2 813</b>	<b>5.5</b>	<b>2 110</b>	<b>5.4</b>	<b>3 202</b>	<b>5.9</b>

## MANAGEMENT COSTS IN REAL ESTATE SUBSIDIARIES

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

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

Table 9.2 Management costs, real estate subsidiaries

Amounts in NOK million	3Q 2015	3Q 2014	Year-to-date 30.09.2015	Year-to-date 30.09.2014	2014
Salary, social security and other personnel-related costs	4	6	15	19	25
IT services, systems and data	8	3	17	9	14
Research, consulting and legal fees	11	6	19	13	22
Fees related to real estate asset management (external)	2	2	7	6	7
Other costs, subsidiaries	-	4	8	11	15
<b>Total management costs, real estate subsidiaries</b>	<b>25</b>	<b>21</b>	<b>66</b>	<b>58</b>	<b>83</b>

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

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

## UPPER LIMIT FOR REIMBURSEMENT OF MANAGEMENT COSTS

The Ministry of Finance has established an upper limit for the reimbursement of management costs. For 2015, the sum of total management costs incurred in Norges Bank and real estate subsidiaries, excluding performance-based fees to external managers, is limited to 9 basis

points of average assets under management. Other operating expenses that are incurred in real estate subsidiaries, as well as costs incurred in partly-owned real estate companies, are not included in the costs that are measured against this limit.

Year-to-date management costs that are measured against the limit amount to NOK 2 553 million at the end of the third quarter of 2015. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 2 487 million, and management costs in real estate subsidiaries of NOK 66 million. This corresponds to 5.0 basis points of assets under management on an annual basis.

Year-to-date performance-based fees to external managers amount to NOK 326 million at the end of the third quarter of 2015, and total management costs including performance-based fees amount to NOK 2 879 million. This corresponds to 5.6 basis points of assets under management on an annual basis.

**To the Supervisory Council of Norges Bank**

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

We have reviewed the financial reporting of the Government Pension Fund Global. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio of the Government Pension Fund Global are included in the financial reporting. The financial reporting comprises the balance sheet as at 30 September 2015, profit/loss for the period and total comprehensive income, the statement of changes in owner's capital, the statement of cash flows for the 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 of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with international standards on auditing, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## *Conclusion*

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

Oslo, 21 October 2015

**Deloitte AS**

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



