

3Q|19

Government Pension Fund Global

Quarterly report
2019

Key figures

1.6%

236 billion kroner

The Government Pension Fund Global returned **1.6** percent, or **236** billion kroner, in the third quarter of 2019.



**Equity
investments**

1.3%



**Unlisted real estate
investments**

1.6%



**Fixed-income
investments**

2.4%

The fund's equity investments returned **1.3** percent.
Investments in unlisted real estate returned **1.6** percent.
Fixed-income investments returned **2.4** percent.

The return on the fund's investments was in line with the return on the benchmark index the fund is measured against.

9,742

billion kroner

The fund had a market value of **9,742** billion kroner at the end of the quarter and was invested **69.1** percent in equities, **2.8** percent in unlisted real estate and **28.2** percent in fixed income.



**Equity
investments**

69.1%



**Unlisted real estate
investments**

2.8%



**Fixed-income
investments**

28.2%

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Investments

Equities

Equity investments, which accounted for 69.1 percent of the fund at the end of the quarter, returned 1.3 percent. Equity returns were positive despite relatively weak data for global industrial activity during the quarter. Actual and expected monetary easing in the US and the euro area, as well as a substantial drop in long-term interest rates, probably boosted global equity prices. There was also uncertainty about the US-China trade talks and the UK's departure from the EU.

Positive returns in the main markets

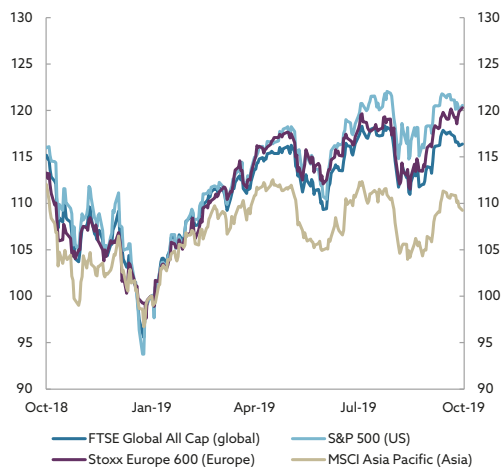
North American stocks returned 2.9 percent and amounted to 42.3 percent of the equity

portfolio. US stocks, which were the fund's single-largest market with 40.0 percent of its equity investments, returned 2.9 percent, or 1.2 percent in local currency.

European shares produced a flat return and accounted for 33.0 percent of the fund's equities. The UK, which was the fund's largest European market with 8.5 percent of its equity investments, returned -0.2 percent, or 1.3 percent in local currency.

Stocks in Asia and Oceania returned 0.8 percent and made up 22.0 percent of the fund's equity investments. Japanese stocks returned

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 31.12.2018 = 100



Source: Bloomberg

Chart 2 Price developments in equity sectors of the FTSE Global All Cap Index. Measured in US dollars. Indexed total return 31.12.2018 = 100



Source: FTSE Russell

4.9 percent, or 3.4 percent in local currency, and amounted to 8.6 percent of equity investments.

Emerging markets returned -1.3 percent and accounted for 10.9 percent of the equity portfolio. The Chinese stock market, home to 3.9 percent of the fund's equity investments, returned -2.1 percent.

Utilities performed best

Utilities was the strongest-performing sector in the third quarter with a return of 6.2 percent. Lower long-term interest rates in global financial markets – especially in Europe and the US – contributed positively to the return in the sector.

Telecommunications stocks returned 4.0 percent, buoyed by market rotation in favour of companies with stable cash flows. Returns were particularly strong for the large US telecom companies.

Technology stocks returned 3.9 percent, boosted by an increase in prices for semi-conductor producers due to expectations of a better balance between supply and demand.

Oil and gas companies returned -4.0 percent, on the back of lower oil and gas prices. An increase in production contributed to the drop in gas prices, while expectations of decreased demand due to weaker global growth led to lower oil prices.

Table 1 Return on the fund's equity investments in third quarter 2019 by sector. Measured in international currency. Percent

Sector	Return	Share of equity investments ¹
Financials	1.2	23.5
Technology	3.9	13.9
Industrials	0.1	13.2
Consumer goods	2.8	12.1
Health care	0.9	10.9
Consumer services	1.6	10.7
Oil and gas	-4.0	5.3
Basic materials	-3.9	4.4
Utilities	6.2	2.9
Telecommunications	4.0	2.9

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 2019. Millions of kroner

Company	Country	Holding
Microsoft Corp	US	94,908
Apple Inc	US	93,229
Nestlé SA	Switzerland	75,342
Alphabet Inc	US	74,333
Amazon.com Inc	US	66,545
Royal Dutch Shell PLC	UK	52,971
Roche Holding AG	Switzerland	50,838
Novartis AG	Switzerland	43,099
Facebook Inc	US	41,927
Berkshire Hathaway Inc	US	38,256

Individual stocks

The investment in technology company Apple Inc made the most positive contribution to the return in the third quarter, followed by technology company Alphabet Inc and consumer goods company Nestlé SA. The investments that made the most negative contributions were in consumer services company Amazon.com Inc, oil company Royal Dutch Shell Plc and technology company SAP SE.

The fund participated in 39 initial public offerings in the quarter. The largest were at consumer goods company Budweiser Brewing Company APAC Ltd, technology company TeamViewer AG and health care company SmileDirectClub Inc. The offerings in which the fund invested the most were those in Budweiser Brewing Company APAC Ltd, financial company EQT AB and consumer services company Peloton Interactive Inc.

RETURN IN INTERNATIONAL CURRENCY

The fund invests in international securities in foreign currency. The fund's 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 36 currencies at the end of the third quarter 2019. Unless otherwise stated in the text, results are measured in this currency basket.

Real estate

Total real estate investments amounted to 3.9 percent of the fund at the end of the third quarter and returned 3.1 percent. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

Unlisted real estate investments made up 70.0 percent of the overall real estate portfolio and returned 1.6 percent. The return on unlisted real estate investments depends on rental income, operating costs, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases and sales. Measured in local currency, rental income net of operating costs made a

positive contribution of 1.0 percentage point to the return in the third quarter, while changes in the value of properties and debt contributed 0.8 percentage point, and currency movements -0.2 percentage point.

In July, the fund announced the sale of the Prelude building in the Boulogne-Billancourt suburb of Paris. The fund will receive 49 million euros, or around 479 million kroner, for its 50 percent interest. The property was acquired in 2011 in partnership with AXA France.

Listed real estate made up 30.0 percent of the overall real estate portfolio at the end of the quarter and returned 7.1 percent.

Table 3 Value of real estate investments as at 30 September 2019. Millions of kroner

	Value ¹
Unlisted real estate investments	268,459
Listed real estate investments	115,133
Total real estate investments	383,592

¹ Including bank deposits and other receivables.

Table 4 Return on unlisted real estate investments in third quarter 2019. Percentage points

	Return
Rental income	1.0
Changes in value	0.8
Transaction costs	0.0
Result of currency adjustments	-0.2
Total	1.6

Fixed income

Fixed-income investments accounted for 28.2 percent of the fund at the end of the third quarter and returned 2.4 percent.

The lower yields of the first half of the year continued into the third quarter. Monetary policy was eased in most markets, and there were expectations of further measures from central banks.

Strongest return on UK gilts

Government bonds accounted for 53.1 percent of the fund's fixed-income investments at the end of the quarter and returned 2.8 percent. The fund's three largest holdings were of US, Japanese and German government bonds.

US Treasuries returned 4.6 percent, or 2.8 percent in local currency, and accounted for 21.1 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. The Federal Reserve cut its policy rate twice during the quarter, both times by 25 basis points. At the end of the quarter, the market was pricing in further cuts in the fourth quarter and next year.

Euro-denominated government bonds represented 10.7 percent of the fund's fixed-income holdings and returned 0.8 percent, or 3.4 percent in local currency. The European Central Bank decided on a new stimulus package in September, which included cutting its deposit facility rate by 10 basis points to -0.5 percent and restarting its quantitative easing programme.

Table 5 Return on the fund's fixed-income investments in third quarter 2019 by sector. Measured in international currency. Percent

Sector	Return	Share of fixed-income investments ¹
Government bonds ²	2.8	53.1
Government-related bonds ²	0.5	12.8
Inflation-linked bonds ²	2.1	5.7
Corporate bonds	3.0	24.3
Securitised bonds	-1.0	5.7

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 2019. Millions of kroner

Issuer	Country	Holding
United States of America	US	685,370
Japanese government	Japan	199,878
Federal Republic of Germany	Germany	80,846
French Republic	France	76,304
UK government	UK	69,757
Spanish government	Spain	51,717
South Korean government	South Korea	48,022
Mexican government	Mexico	44,009
Italian Republic	Italy	42,813
Kreditanstalt für Wiederaufbau	Germany	34,659

UK gilts accounted for 2.5 percent of the fund's fixed-income investments and returned 5.5 percent, or 7.0 percent in local currency. Continued uncertainty about Brexit led the market to price in a high probability of monetary easing in the UK.

Japanese government bonds amounted to 7.1 percent of the fund's fixed-income holdings and returned 1.7 percent, or 0.3 percent in local currency. The Bank of Japan made no changes to its monetary policy during the quarter but signalled that it may be eased in the fourth quarter.

The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau, Canada Mortgage & Housing Corp and Province of Ontario. These bonds

returned 0.5 percent and accounted for 12.8 percent of fixed-income investments.

Corporate bonds returned 3.0 percent and made up 24.3 percent of fixed-income investments at the end of the period. There were only minor movements in the credit premium during the quarter.

Securitised bonds, consisting mainly of covered bonds denominated in euros, made up 5.7 percent of fixed-income holdings and returned -1.0 percent due to the weaker euro.

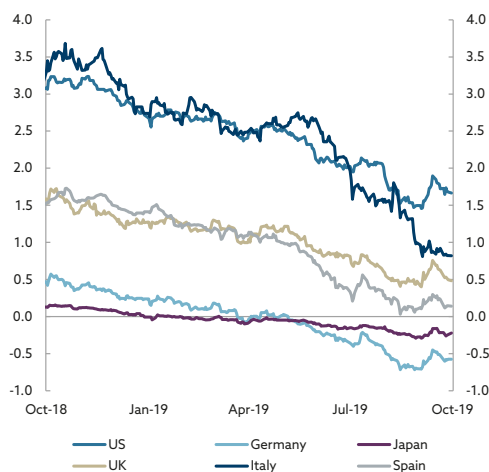
Inflation-linked bonds returned 2.1 percent and accounted for 5.7 percent of total fixed-income investments. Expectations for future inflation, measured as the difference between nominal and real interest rates, are at low levels in most markets.

Chart 3 Price developments for bonds issued in various currencies. Measured in local currency. Indexed total return 31.12.2018 = 100



Source: Bloomberg Barclays Indices

Chart 4 10-year government bond yield development. Percent



Source: Bloomberg

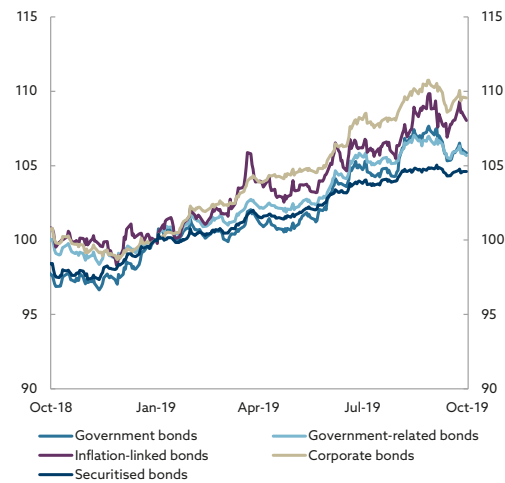
Changes in fixed-income holdings

Investments in dollars, euros, pounds and yen increased from 82.7 to 83.1 percent of fixed-income holdings.

The market value of investments in bonds denominated in emerging-market currencies fell from 7.9 to 7.7 percent of total fixed-income investments.

The biggest increases in government bond holdings in the third quarter were in US, French and Japanese bonds. The biggest decreases were in bonds from Germany, Brazil and Spain.

Chart 5 Price developments in fixed-income sectors. Measured in US dollars. Indexed total return 31.12.2018 = 100



Source: Bloomberg Barclays Indices

Table 7 The fund's bond holdings as at 30 September 2019 based on credit ratings. Percent

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	27.4	7.7	11.6	4.2	1.3	52.3
Government-related bonds	5.1	5.3	1.6	0.6	0.1	12.6
Inflation-linked bonds	4.5	0.6	0.3	0.3	0.0	5.7
Corporate bonds	0.2	1.5	9.5	12.4	0.2	23.9
Securitized bonds	4.6	0.9	0.1	0.0	0.0	5.6
Total	41.8	16.0	23.1	17.5	1.6	100.0

Management

We aim to leverage the fund’s long-term investment horizon 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 Russell’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 0.01 percentage point higher than the return on the benchmark index from the Ministry of Finance.

The fund invests in listed equities, bonds and unlisted real estate. When we buy real estate, we sell bonds and equities at a ratio that keeps the currency risk unchanged. Separate benchmark indices are therefore 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

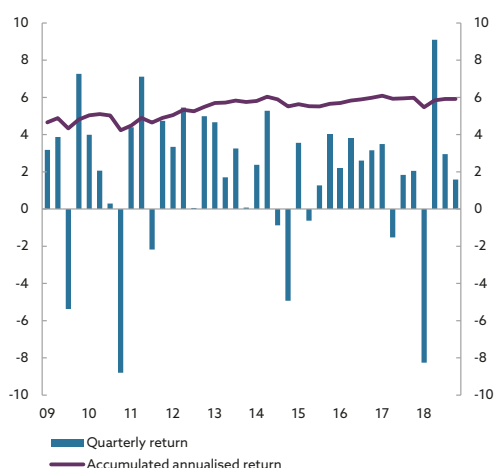
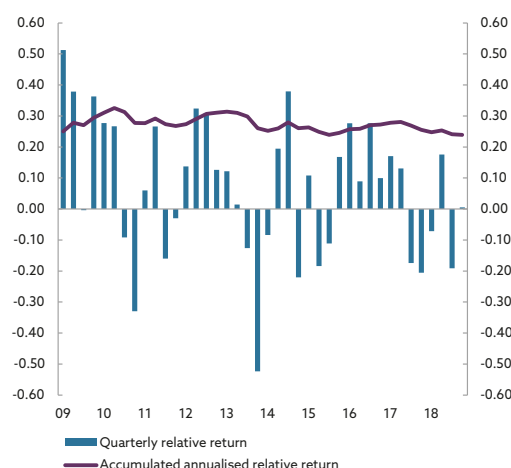


Chart 7 The fund’s quarterly relative return and accumulated annualised relative return. Calculations based on aggregated equity and fixed-income investments until end of 2016. Percentage points



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

Equity management contributed 0.02 percentage point to the fund's relative return. Technology and telecommunications were the sectors that made the most positive contributions to the relative return, while health care made the most negative contribution. Broken down by country, equity investments in China made the most positive contribution to the relative return, and US stocks the most negative.

Fixed-income management contributed -0.04 percentage point to the fund's relative return. The fund's investments in emerging markets made a negative contribution to the relative return in the third quarter.

Real estate management contributed 0.03 percentage point to the fund's relative return, measured against the equities and bonds sold to finance real estate investments. Listed real estate investments made a positive contribution to the relative return, while unlisted real estate investments made a negative contribution.

The relative return may also be affected by an allocation effect between these 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 index from the Ministry of Finance. Decomposed in this way, equity investments contributed 0.07 percentage point

Table 8 Contributions from management areas to the fund's relative return in third quarter 2019. Percentage points

	Total
Equity management	0.02
Fixed-income management	-0.04
Real estate management	0.03
Allocation effect	0.00
Total	0.01

to the fund's relative return, fixed-income investments -0.05 percentage point and unlisted real estate investments 0.00 percentage point. The allocation effect between asset classes was -0.02 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.

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 7.7 percent, or about 750 billion kroner, at the end of the third quarter, compared with 8.0 percent at the beginning of the quarter.

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.

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

	Limits set by the Ministry of Finance	30.09.2019
Allocation	Equity portfolio 60–80 percent of fund's market value ¹	69.0
	Unlisted real estate no more than 7 percent of the fund's market value	2.8
	Fixed-income portfolio 20–40 percent of fund's market value ¹	28.5
Market risk	1.25 percentage points expected relative volatility for the fund's investments	0.3
Credit risk	Maximum 5 percent of fixed-income investments may be rated below BBB-	1.6
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 Investments in listed and unlisted real estate companies are exempt from this restriction.

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 0.33 percentage point at the end of the quarter.

The Executive Board has also set a limit for expected shortfall for the relative return between 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 1.48 percentage points at the end of the quarter.

Operational risk management

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

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

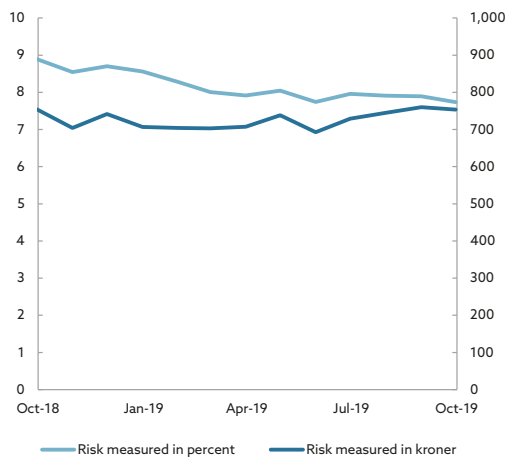
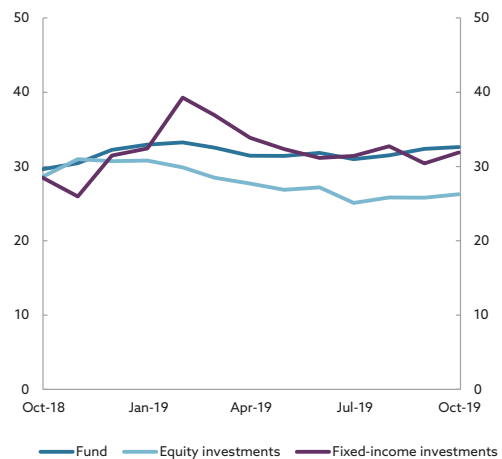


Chart 9 Expected relative volatility of the fund. Basis points



Each quarter, Norges Bank Investment Management estimates the size of potential losses or gains arising over the next year because of unwanted operational events related to its investment management activities. The estimate is based on past events and an assessment of future risks, and represents the fund's estimated operational risk exposure. This risk exposure remained within the Executive Board's tolerance limit in the third quarter. A total of 62 unwanted operational events were registered in the quarter, with an estimated financial impact of 26.3 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 seek to improve the long-term economic performance of our investments. Second, we seek to reduce the financial risks associated with the environmental and social practices of companies in our portfolio. We therefore consider governance and sustainability issues that could have an impact on the fund's performance over time. We integrate these issues into our work on standard setting, our long-term ownership and our investing.

Establishing principles

We participated in two public consultations related to responsible investment during the quarter.

As an investor, we attach importance to timely and accurate corporate reporting, including on governance and sustainability. The European Corporate Reporting Lab was set up by the European Financial Reporting Advisory Group to stimulate innovation in corporate reporting by sharing good practices. Responding to a consultation on its future projects, we advocated a focus on reporting on human rights in the value chain. We see a need for better metrics for companies' exposure to risks in this area. We also supported the proposal to look at the linkage between non-financial reporting and companies' business models.

We also wrote to Hong Kong Exchanges, backing its proposal to introduce mandatory ESG reporting. We stressed how important it is to investors that companies address and report on material sustainability issues. We welcomed the focus on the board's responsibilities and referred to our expectations of companies when it comes to climate change strategy and anti-corruption.

Exercising ownership

Voting is one of the most important instruments available to us for exercising our ownership rights. We voted at 1,332 general meetings in the third quarter, considering and voting on a total of 11,040 proposals.

We had 704 meetings with companies during the quarter and raised governance or sustainability issues at half of these meetings. The most important issues we raised concerned corporate governance, climate change and other environmental issues, social issues, board composition and executive pay.

We also updated our expectations document on anti-corruption with clearer expectations for companies' work against money laundering, stressing that companies exposed to the risk of money laundering should have policies and procedures to mitigate this risk.

Key figures

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

	3Q 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018
Equity investments	1.27	2.99	12.22	-12.63	3.15
Unlisted real estate investments	1.56	0.80	1.72	1.08	1.89
Fixed-income investments	2.36	3.07	2.87	1.28	-0.33
Return on fund	1.59	2.95	9.10	-8.26	2.05
Relative return on fund (percentage points)	0.01	-0.19	0.18	-0.07	-0.21
Management costs	0.01	0.01	0.01	0.01	0.01
Return on fund after management costs	1.58	2.94	9.08	-8.27	2.04

Table 11 Historical key figures as at 30 September 2019. Annualised data, measured in the fund's currency basket

	Since 01.01.1998	Last 15 years	Last 10 years	Last 5 years	Last 12 months
Fund return (percent)	5.92	6.42	7.63	6.49	4.68
Annual price inflation (percent)	1.78	1.87	1.73	1.38	1.39
Annual management costs (percent)	0.08	0.08	0.07	0.06	0.05
Net real return on fund (percent)	3.99	4.39	5.72	4.98	3.20
The fund's actual standard deviation (percent)	7.44	8.10	7.17	7.08	11.17
Relative return on fund (percentage points) ¹	0.24	0.15	0.27	0.17	-0.10
The fund's tracking error (percentage points) ¹	0.67	0.77	0.38	0.33	0.35
The fund's information ratio (IR) ^{1,2}	0.38	0.24	0.71	0.49	-0.23

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 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018
Market value					
Equity investments	6,729	6,348	6,186	5,477	5,732
Unlisted real estate investments	268	247	247	246	226
Fixed-income investments	2,744	2,567	2,505	2,533	2,520
Market value of fund ¹	9,742	9,162	8,938	8,256	8,478
Accrued, not paid, management fees ¹	-3	-2	-1	-5	-4
Owner's capital ¹	9,739	9,160	8,937	8,251	8,474
Changes in value since first capital inflow in 1996					
Inflow/withdrawal of capital ²	-5	6	8	29	12
Paid management fees ²	0	0	-5	0	0
Return on fund	236	256	738	-655	174
Changes due to fluctuations in krone	349	-38	-60	405	-46
Total change in market value	580	224	682	-222	140
Changes in value since first capital inflow in 1996					
Total inflow of capital ³	3,378	3,382	3,376	3,371	3,341
Return on equity investments	3,546	3,383	3,203	2,545	3,234
Return on unlisted real estate investments	80	76	73	69	66
Return on fixed-income investments	1,270	1,202	1,128	1,052	1,021
Management fees ⁴	-47	-46	-45	-44	-43
Changes due to fluctuations in krone	1,514	1,165	1,203	1,263	858
Market value of fund	9,742	9,162	8,938	8,256	8,478
Return on fund	4,897	4,660	4,404	3,666	4,321
Return after management costs	4,849	4,614	4,359	3,622	4,278

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 included in the management fees. Management costs in subsidiaries have been deducted from the fund's return before management fees.

Financial reporting

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Income statement

Amounts in NOK million	Note	3Q 2019	3Q 2018	Year-to-date 30.09.2019	Year-to-date 30.09.2018	2018
Profit/loss on the portfolio before foreign exchange gain/loss						
Income/expense from:						
- Equities	4	163 582	175 591	1 008 382	173 155	-517 214
- Bonds	4	69 242	-5 543	214 200	-15 627	14 568
- Unlisted real estate	6	4 355	4 063	11 217	12 860	16 421
- Financial derivatives	4	-264	-269	543	1 269	2 819
- Secured lending		843	1 183	2 955	3 995	4 733
- Secured borrowing		-188	-219	-823	-1 068	-1 466
Tax expense		-1 145	-1 259	-5 466	-4 443	-5 050
Interest income/expense		15	8	53	5	10
Other income/expense		-	-6	-	-8	-13
Profit/loss on the portfolio before foreign exchange gain/loss		236 439	173 548	1 231 061	170 138	-485 192
Foreign exchange gain/loss	9	348 997	-45 768	251 113	-181 264	223 611
Profit/loss on the portfolio		585 436	127 780	1 482 174	-11 126	-261 581
Management fee	10	-1 200	-1 059	-3 299	-3 567	-4 544
Profit/loss and total comprehensive income		584 237	126 721	1 478 875	-14 693	-266 126

Balance sheet

Amounts in NOK million	Note	30.09.2019	31.12.2018
Assets			
Deposits in banks		10 121	11 561
Secured lending		145 845	216 768
Cash collateral posted		1 287	1 806
Unsettled trades		39 785	13 767
Equities	5	6 177 958	5 048 647
Equities lent	5	552 513	437 651
Bonds	5	2 470 305	1 996 929
Bonds lent	5	319 015	662 920
Financial derivatives	5	4 070	3 576
Unlisted real estate	6	267 111	243 818
Other assets		3 176	3 448
Total assets		9 991 186	8 640 892
Liabilities and owner's capital			
Secured borrowing		190 984	360 105
Cash collateral received		6 940	5 017
Unsettled trades		48 470	15 565
Financial derivatives	5	2 694	4 222
Other liabilities		224	37
Management fee payable	10	3 299	4 544
Total liabilities		252 610	389 491
Owner's capital		9 738 576	8 251 401
Total liabilities and owner's capital		9 991 186	8 640 892

Statement of cash flows

Amounts in NOK million, receipt (+) / payment (-)	Note	Year-to-date 30.09.2019	Year-to-date 30.09.2018	2018
Operating activities				
Receipts of dividend from equities		139 651	120 176	146 082
Receipts of interest from bonds		51 672	52 842	70 360
Receipts of interest and dividend from unlisted real estate	6	3 711	3 721	5 822
Net receipts of interest and fee from secured lending and borrowing		2 017	2 829	3 330
<i>Receipts of dividend, interest and fee from holdings of equities, bonds and unlisted real estate</i>		<i>197 052</i>	<i>179 568</i>	<i>225 594</i>
Net cash flow from purchase and sale of equities		-221 817	-116 346	-345 478
Net cash flow from purchase and sale of bonds		124 357	-51 014	36 052
Net cash flow to/from investments in unlisted real estate	6	-8 377	-3 004	-8 638
Net cash flow financial derivatives		219	9 460	11 494
Net cash flow cash collateral related to derivative transactions		2 930	537	-1 685
Net cash flow secured lending and borrowing		-95 122	-19 088	59 834
Net payment of taxes		-6 292	-3 945	-4 343
Net cash flow related to interest on deposits in banks and bank overdraft		30	-7	-14
Net cash flow related to other income/expense, other assets and other liabilities		256	43	263
Management fee paid to Norges Bank ¹	10	-4 544	-4 728	-4 728
Net cash inflow/outflow from operating activities		-11 310	-8 523	-31 650
Financing activities				
Inflow from the Norwegian government ²		16 380	14 055	42 320
Withdrawal by the Norwegian government ²		-7 017	-9 799	-9 799
Net cash inflow/outflow from financing activities		9 363	4 256	32 520
Net change deposits in banks				
Deposits in banks at 1 January		11 561	11 027	11 027
Net increase/decrease of cash in the period		-1 947	-4 267	870
Net foreign exchange gain/loss on cash		507	-193	-336
Deposits in banks at end of period		10 121	6 567	11 561

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. 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 2018	3 332 540	5 151 187	8 483 727
Profit/loss and 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 October 2018	3 337 440	5 136 494	8 473 934
Profit/loss and total comprehensive income	-	-251 433	-251 433
Inflow during the period	28 900	-	28 900
31 December 2018	3 366 340	4 885 061	8 251 401
1 January 2019	3 366 340	4 885 061	8 251 401
Profit/loss and total comprehensive income	-	1 478 875	1 478 875
Inflow during the period ¹	15 500	-	15 500
Withdrawal during the period ¹	-7 200	-	-7 200
30 September 2019	3 374 640	6 363 936	9 738 576

¹ In the first three quarters of 2019, there was an inflow to the krone account of NOK 15.5 billion, while 11.7 billion was withdrawn. Of this, NOK 4.5 billion was used to pay the accrued management fee for 2018 and net NOK 7.2 billion was transferred to the investment portfolio. In the first three quarters of 2018, there was an inflow to the krone account of NOK 14.3 billion, while NOK 14.1 billion was withdrawn. Of this, NOK 4.7 billion was used to pay the accrued management fee for 2017.

Notes to the financial reporting

Note 1 General Information

Introduction

Norges Bank is Norway's central bank. Norges bank manages the Government Pension Fund Global (GPFG) 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 GPFG shall support government saving to finance future 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 Executive Board of Norges Bank has delegated day-to-day management of the GPFG to 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.

Transfers are made to and from the krone account in accordance with the management mandate for the GPFG. 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 2019, which only encompass the financial reporting for the GPFG, were approved by the Executive Board on 23 October 2019.

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 the financial reporting of the GPFG is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The condensed interim financial reporting for the third quarter of 2019 is prepared in accordance with IAS 34 *Interim Financial Reporting*, subject to the exemptions and additions specified in the regulation. The quarterly financial statements are presented in Norwegian kroner (NOK), 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 2018. 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 2018.

IFRS 16 *Leases* was implemented by Norges Bank on 1 January 2019. IFRS 16 regulates the recognition of lease agreements and related note disclosures and replaced IAS 17 *Leases*. The implementation of IFRS 16 had no impact on the financial reporting for the GPFG.

Significant estimates and accounting judgements

The preparation of the financial statements involves the use of uncertain estimates and assumptions relating to future events that affect the reported amounts for assets, liabilities, income and expenses. Estimates are based on historical experience and reflect management's expectations about future events. Actual outcomes may deviate from estimates. The preparation of the financial statements also involves the use of judgement when applying accounting policies, which may have a significant impact on the financial statements.

In cases where there are particularly uncertain estimates or accounting judgements, this is described in the respective notes. For additional information, see the relevant notes in the annual report for 2018.

Note 3 Returns

Table 3.1 Returns

	3Q 2019	3Q 2018	Year-to-date 30.09.2019	Year-to-date 30.09.2018	2018
Returns measured in the fund's currency basket (percent)					
Return on equity investments	1.27	3.15	17.04	3.58	-9.49
Return on fixed-income investments	2.36	-0.33	8.53	-0.72	0.56
Return on unlisted real estate investments	1.56	1.89	4.14	6.38	7.53
Return on fund	1.59	2.05	14.10	2.33	-6.12
Relative return on fund (percentage points)	0.01	-0.21	-0.02	-0.24	-0.30
Returns measured in Norwegian kroner (percent)					
Return on equity investments	6.06	2.62	20.98	1.10	-6.56
Return on fixed-income investments	7.20	-0.83	12.18	-3.10	3.82
Return on unlisted real estate investments	6.36	1.38	7.64	3.83	11.02
Return on fund	6.39	1.53	17.94	-0.13	-3.07

For additional information on the calculation methods used when measuring returns see note 3 *Returns* in the annual report for 2018.

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

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

expense shows the amount recognised in profit or loss for the respective income statement line.

Table 4.1 Specification Income/expense from equities

Amounts in NOK million	3Q 2019	3Q 2018	Year-to-date 30.09.2019	Year-to-date 30.09.2018	2018
Dividends	41 809	34 695	143 399	122 530	147 630
Realised gain/loss	23 742	41 219	70 524	168 851	190 643
Unrealised gain/loss	98 031	99 677	794 459	-118 226	-855 488
Income/expense from equities before foreign exchange gain/loss	163 582	175 591	1 008 382	173 155	-517 214

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	3Q 2019	3Q 2018	Year-to-date 30.09.2019	Year-to-date 30.09.2018	2018
Interest	17 522	17 516	50 374	51 177	69 505
Realised gain/loss	19 522	-2 576	29 269	-8 287	-17 918
Unrealised gain/loss	32 198	-20 483	134 557	-58 517	-37 020
Income/expense from bonds before foreign exchange gain/loss	69 242	-5 543	214 200	-15 627	14 568

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	3Q 2019	3Q 2018	Year-to-date 30.09.2019	Year-to-date 30.09.2018	2018
Interest	1 023	185	1 250	497	541
Realised gain/loss ¹	-284	46	281	1 091	2 187
Unrealised gain/loss	-1 003	-500	-989	-319	91
Income/expense from financial derivatives before foreign exchange gain/loss	-264	-269	543	1 269	2 819

¹ Certain comparative amounts have been restated to conform to current period presentation.

Note 5 Holdings of equities, bonds and financial derivatives

Table 5.1 Equities

Amounts in NOK million	30.09.2019		31.12.2018	
	Fair value incl. accrued dividends	Accrued dividends	Fair value incl. accrued dividends	Accrued dividends
Equities	6 730 471	11 407	5 486 298	7 659
Total equities	6 730 471		5 486 298	7 659
<i>Of which equities lent</i>	552 513		437 651	

Table 5.2 Bonds

Amounts in NOK million	Nominal value	30.09.2019		Nominal value	31.12.2018	
		Fair value incl. accrued interest	Accrued interest		Fair value incl. accrued interest	Accrued interest
Government bonds	1 307 785	1 458 449	9 465	1 370 667	1 433 456	9 859
Government-related bonds	326 589	350 817	1 922	325 968	336 579	1 917
Inflation-linked bonds	146 097	157 662	335	135 717	139 396	398
Corporate bonds	628 310	665 464	5 284	616 264	609 314	6 031
Securitised bonds	160 843	156 929	839	138 121	141 105	938
Total bonds	2 569 624	2 789 320	17 846	2 586 737	2 659 849	19 144
<i>Of which bonds lent</i>		319 015			662 920	

Financial derivatives

Financial derivatives such as foreign exchange derivatives, interest rate derivatives and futures, are used to adjust the exposure in various portfolios as a cost-efficient alternative to trading in the underlying securities. Foreign exchange derivatives are also used in connection with liquidity management. Equity derivatives

with an option component are often a result of corporate actions. The GPFG also uses equity swaps in combination with purchases and sales of equities. Equity swaps are not recognised in the balance sheet, see note 12 *Secured lending and borrowing* in the annual report for 2018 for more information.

Table 5.3 gives a specification of financial derivatives recognised in the balance sheet.

Table 5.3 Financial derivatives

Amounts in NOK million	30.09.2019			31.12.2018		
	Notional amount	Fair value		Notional amount ¹	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange derivatives	191 066	3 701	1 725	225 766	3 022	3 863
Interest rate derivatives	17 521	283	969	25 693	504	358
Equity derivatives ²	-	86	-	-	50	-
Exchange-traded futures contracts ³	23 062	-	-	35 861	-	-
Total financial derivatives	231 650	4 070	2 694	287 320	3 576	4 222

¹ Certain comparative amounts have been restated to conform to current period presentation.

² Equity derivatives consists of rights and warrants. Notional amounts are not considered relevant for these derivatives and are therefore not included in the table.

³ Exchange-traded futures contracts are settled daily with margin payments. Fair value is therefore zero at the balance sheet date.

Notional amounts are the basis for calculating any cash flows and gains/losses for derivative contracts. This provides information on the extent to which different types of financial derivatives are used. The method for calculating notional amounts for foreign exchange derivatives was changed in the first quarter of

2019. The absolute value of the currency to be bought or sold under currency exchange contracts is now used as the basis for the notional value. The change in method is considered to provide more relevant information about the amount of foreign currency traded under currency exchange contracts.

Note 6 Unlisted real estate

Investments in unlisted real estate are made through subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG. Subsidiaries presented as *Unlisted real estate* in the balance sheet are measured at fair value through profit or loss. The fair value of unlisted real estate is determined as the sum of the GPFG's share of assets and liabilities in the underlying subsidiaries, measured at fair value. For further information, see note 2 *Accounting*

policies and note 7 *Fair value measurement* in the annual report for 2018.

Income/expense, changes in carrying amounts and cash flows related to investments in unlisted real estate are specified in the tables below. See note 6 *Unlisted real estate* in the annual report for 2018 for further information on the principles applied in the tables.

Table 6.1 Income/expense from unlisted real estate

Amounts in NOK million	3Q 2019	3Q 2018	Year-to-date 30.09.2019	Year-to-date 30.09.2018	2018
Payments of interest and dividend from unlisted real estate	1 734	765	3 711	3 721	5 822
Unrealised gain/loss	2 622	3 298	7 506	9 139	10 599
Income/expense from unlisted real estate before foreign exchange gain/loss	4 355	4 063	11 217	12 860	16 421

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK million	30.09.2019	31.12.2018
Unlisted real estate at 1 January	243 818	217 160
Net cash flow to/from investments in unlisted real estate	8 377	8 638
Unrealised gain/loss	7 506	10 599
Foreign exchange gain/loss	7 409	7 421
Unlisted real estate, closing balance for the period	267 111	243 818

Table 6.3 specifies cash flows between the GPF and subsidiaries presented as *Unlisted real estate* as presented in the statement of cash flows.

Table 6.3 Cash flow to/from unlisted real estate subsidiaries

Amounts in NOK million	Year-to-date 30.09.2019	Year-to-date 30.09.2018	2018
Interest and dividend from ongoing operations	3 653	2 957	4 440
Interest and dividend from sales	58	764	1 381
Receipts of interest and dividend from unlisted real estate	3 711	3 721	5 822
Payments to new investments	-7 924	-6 292	-12 710
Repayments from sales	212	3 300	4 717
Payments for property development	-1 130	-986	-1 562
Repayments from ongoing operations	893	1 020	1 430
Net payments external debt	-429	-45	-513
Net cash flow to/from investments in unlisted real estate	-8 377	-3 004	-8 638

Underlying real estate companies

Real estate subsidiaries have investments in other non-consolidated, unlisted companies. For further information, see note 15 *Interests in other entities* in the annual report for 2018.

Table 6.4 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 Income from underlying real estate companies

Amounts in NOK million	3Q 2019	3Q 2018	Year-to-date 30.09.2019	Year-to-date 30.09.2018	2018
Net rental income	2 873	2 402	7 909	6 895	9 312
External asset management – fixed fees	-136	-132	-425	-396	-506
External asset management – variable fees	-3	-8	-6	-60	-88
Internal asset management – fixed fees ¹	-16	-9	-47	-28	-38
Management costs within the limit from the Ministry of Finance ²	-15	-25	-47	-69	-88
Other operating costs, not within the limit from the Ministry of Finance	-34	-23	-72	-78	-94
Interest expense external debt	-129	-124	-389	-375	-506
Tax expense payable	-48	-37	-129	-181	-256
<i>Net income from ordinary operations</i>	<i>2 491</i>	<i>2 044</i>	<i>6 796</i>	<i>5 707</i>	<i>7 736</i>
Realised gain/loss – properties	57	48	58	217	1 212
Unrealised gain/loss – properties	2 195	1 940	5 318	6 770	7 807
Unrealised gain/loss – debt	-162	133	-343	391	233
Unrealised gain/loss – other assets and liabilities	-141	-66	-522	-115	-176
<i>Realised and unrealised gain/loss</i>	<i>1 948</i>	<i>2 055</i>	<i>4 511</i>	<i>7 263</i>	<i>9 077</i>
Stamp duty and registration fees	-40	-7	-41	-26	-147
Due diligence and insurance costs	-44	-30	-48	-85	-244
<i>Transaction costs purchases and sales</i>	<i>-84</i>	<i>-37</i>	<i>-90</i>	<i>-110</i>	<i>-391</i>
Net income underlying real estate companies	4 355	4 063	11 217	12 860	16 421

¹ Internal asset management is carried out on 100 percent owned properties by employees in a wholly-owned, consolidated subsidiary.

² See table 10.2 for specification of management costs that are measured against the upper limit from the Ministry of Finance.

Table 6.5 specifies the GPFG's share of assets and liabilities in the underlying real estate companies, which comprises the closing balance for *Unlisted real estate* as presented in table 6.2.

Table 6.5 Assets and liabilities underlying real estate companies

Amounts in NOK million	30.09.2019	31.12.2018
Properties	280 852	262 364
External debt	-18 885	-18 361
Net other assets and liabilities ¹	5 144	-185
Total assets and liabilities underlying real estate companies	267 111	243 818

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

Agreements for purchases and sales of real estate

Table 6.6 provides an overview of announced agreements for purchases and sales of properties which are not completed at the balance sheet date.

Table 6.6 Announced agreements for purchases and sales of properties¹

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
Purchase	79 Avenue des Champs-Élysées ³	Paris	100.0	EUR	613	4Q 2018	4Q 2019
Sale	An der Welle 3-7 and 2-10 ³	Frankfurt	50.0	EUR	310	2Q 2019	4Q 2019
Sale	27 Avenue du Général Leclerc ³	Boulogne-Billancourt	50.0	EUR	49	3Q 2019	4Q 2019

¹ Purchases and sales above USD 25 million are announced.

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

³ Purchase and sale completed early October 2019.

In the second quarter of 2019, Norges Bank entered into agreements to acquire a 48 percent interest in two to-be-constructed buildings in New York at 561 Greenwich Street and 92 Avenue of the Americas, with expected

completion in the second quarter of 2022 and the fourth quarter of 2023, respectively. The buildings will be purchased and the final purchase price determined upon completed construction.

Note 7 Fair value measurement

Fair value for the majority of assets and liabilities is based on quoted market prices. If the market is not active, fair value is established using standard valuation techniques. Estimating fair value may be complex and require the use of judgement, in particular when observable inputs

are not available. For an overview of valuation models and techniques, as well as definitions and the classification in the three categories in the fair value hierarchy, see note 7 *Fair value measurement* in the annual report for 2018.



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 significant use of unobservable inputs. A considerable degree of judgement is applied in determining the assumptions that market participants would use when pricing the asset or liability, when observable market data is not available.

The fair value hierarchy

Table 7.1 Categorisation of the investment portfolio by level in the fair value hierarchy

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	30.09.2019	31.12.2018	30.09.2019	31.12.2018	30.09.2019	31.12.2018	30.09.2019	31.12.2018
Equities	6 682 583	5 450 137	47 696	35 808	192	353	6 730 471	5 486 298
Government bonds	1 391 370	1 331 386	67 079	102 070	-	-	1 458 449	1 433 456
Government-related bonds	292 210	284 545	58 170	51 609	437	425	350 817	336 579
Inflation-linked bonds	148 995	131 271	8 667	8 125	-	-	157 662	139 396
Corporate bonds	620 155	519 829	45 290	89 457	19	28	665 464	609 314
Securitised bonds	134 270	126 377	22 658	14 728	-	-	156 929	141 105
Total bonds	2 587 000	2 393 408	201 864	265 989	456	453	2 789 320	2 659 849
Financial derivatives (assets)	15	20	4 052	3 544	3	12	4 070	3 576
Financial derivatives (liabilities)	-	-	-2 694	-4 222	-	-	-2 694	-4 222
Total financial derivatives	15	20	1 358	-678	3	12	1 376	-646
Unlisted real estate	-	-	-	-	267 111	243 818	267 111	243 818
Other (assets)¹	-	-	200 214	247 351	-	-	200 214	247 351
Other (liabilities)²	-	-	-246 618	-380 724	-	-	-246 618	-380 724
Total	9 269 598	7 843 565	204 514	167 746	267 762	244 636	9 741 875	8 255 945
Total (percent)	95.2	95.0	2.1	2.0	2.7	3.0	100.0	100.0

¹ *Other (assets)* consists of the balance sheet lines *Deposits in banks*, *Secured lending*, *Cash collateral posted*, *Unsettled trades (assets)* and *Other assets*.

² *Other (liabilities)* consists of the balance sheet lines *Secured borrowing*, *Cash collateral received*, *Unsettled trades (liabilities)* and *Other liabilities*.

The majority of the total portfolio is priced based on observable market prices. At the end of the third quarter of 2019, 97.3 percent of the portfolio was classified as Level 1 or 2, which is a marginal increase compared to year-end 2018.

Equities

Measured as a share of total value, virtually all equities (99.29 percent) are valued based on official closing prices from stock exchanges and are classified as Level 1. A small share of equities (0.71 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. For a negligible number of securities that are not listed, or where trading has been suspended over a longer period, unobservable inputs are used to a significant extent in the fair value measurement. These holdings are therefore classified as Level 3.

Bonds

The majority of bonds (92.75 percent) have observable, executable market quotes and are classified as Level 1. 7.24 percent of bonds are classified as Level 2. These are securities that do not have a sufficient number of observable quotes or that are priced based on comparable liquid bonds. A few bonds (0.02 percent) that do not have observable quotes, are classified as Level 3 since the valuation is based on significant use of unobservable inputs.

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

Financial derivatives

Some equity derivatives (rights and warrants) that are actively traded on exchanges are classified as Level 1. The majority of derivatives are classified as Level 2 since the valuation of these is based on standard models using observable market inputs. A few derivatives are valued based on models with significant use of unobservable inputs and are classified as Level 3.

Other assets and liabilities are classified as Level 2.

Movements between the levels in the hierarchy

Reclassifications between Level 1 and Level 2

The share of equities classified as Level 1 has decreased marginally by 0.05 percentage point compared to year-end 2018.

The share of bonds classified as Level 1 has increased by 2.76 percentage points compared to year-end, with a corresponding decrease in the share of Level 2 holdings. The main reason for the reclassifications from Level 2 to Level 1 is improved liquidity for corporate bonds denominated in US dollar and government bonds in emerging markets.

In addition to reclassifications between levels, Level 1 holdings have increased as a result of purchases and changes in value. At the same time, Level 2 holdings have decreased during the year due to the maturity of several government bonds that were classified as Level 2 at year-end.

Table 7.2 Changes in Level 3 holdings

Amounts in NOK million	01.01.2019	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	30.09.2019
Equities	353	61	-128	-6	-87	39	-48	8	192
Bonds	453	-	-	-43	27	-	-3	22	456
Financial derivatives (assets)	12	-	-	-	-8	-	-2	1	3
Unlisted real estate ¹	243 818	8 377	-	-	7 506	-	-	7 409	267 111
Total	244 636	8 438	-128	-49	7 438	39	-53	7 440	267 762

Amounts in NOK million	01.01.2018	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	31.12.2018
Equities	11 373	39	-480	-11	77	45	-10 705	15	353
Bonds	2 772	2	-17	-87	-34	-	-2 215	32	453
Financial derivatives (assets)	-	12	-	-	-	-	-	-	12
Unlisted real estate ¹	217 160	8 638	-	-	10 599	-	-	7 421	243 818
Total	231 305	8 691	-497	-98	10 642	45	-12 920	7 468	244 636

¹ Purchases represent the net cash flow in the period to investments in unlisted real estate. See table 6.3 in note 6 Unlisted real estate.

The relative share of holdings classified as Level 3 was 2.7 percent at the end of the third quarter, a decrease from 3.0 percent at year-end 2018. The GPFG's aggregate holdings in Level 3 were NOK 267 762 million at the end of the third quarter, an increase of NOK 23 126 million compared to year-end. The increase is mainly due to investments in unlisted real estate, which are all classified as Level 3.

The relative share of equities classified as Level 3 has decreased marginally compared to year-end 2018. The decrease of holdings is primarily due to the lower value of equities that have been suspended from trading. The relative share of bonds classified as Level 3 is unchanged compared to year-end.

Sensitivity analysis for Level 3 holdings

The valuation of holdings in Level 3 involves the use of judgement when determining the assumptions that market participants would use

when observable market data is not available.

The effect of using reasonable alternative assumptions is shown in the sensitivity analysis for Level 3 holdings.

Table 7.3 Additional specification Level 3 and sensitivities

Amounts in NOK million	Specification of Level 3 holdings 30.09.2019	Sensitivities 30.09.2019		Specification of Level 3 holdings 31.12.2018	Sensitivities 31.12.2018	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities	192	-63	63	353	-116	116
Government-related bonds	437	-44	44	425	-43	43
Corporate bonds	19	-2	2	28	-3	3
Total bonds	456	-46	46	453	-45	45
Financial derivatives (assets)	3	-3	-	12	-1	1
Unlisted real estate	267 111	-16 881	19 028	243 818	-14 627	17 888
Total	267 762	-16 993	19 137	244 636	-14 790	18 050

Estimates for 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 real estate portfolio of approximately NOK 16 881 million or 6.3 percent (6.0 percent at year-end 2018). In a favourable outcome, a reduction in the yield of 0.2 percentage point and an increase in future

market rents of 2 percent will increase the value of the real estate portfolio by approximately NOK 19 028 million or 7.1 percent (7.3 percent at year-end 2018).

Sensitivity in absolute terms has decreased slightly for equities compared to year-end 2018, in line with the holdings classified as Level 3. Sensitivity for bonds and financial derivatives is essentially unchanged compared to year-end 2018.

Note 8 Investment risk

Investment risk comprises market risk, credit risk and counterparty risk. For further information on the framework for investment risk, including the main dimensions and measurement methods used to manage investment risk, see note 8 *Investment risk* in the annual report for 2018.

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 changes in financial market variables and real estate values. Norges Bank Investment Management measures market risk in both absolute terms for the actual portfolio, and the relative market risk for holdings in the GPFG.

Asset class by country and currency

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

Table 8.1 Allocation by asset class, country and currency

Asset class	Market	Market value in percent by country and currency ¹		Market value in percent by asset class		Assets minus liabilities excluding management fee		
		30.09.2019	Market	31.12.2018	30.09.2019	31.12.2018	30.09.2019	31.12.2018
Equities	Developed	88.9	Developed	89.0				
	US	39.8	US	38.4				
	Japan	8.6	UK	9.4				
	UK	8.6	Japan	8.8				
	France	5.1	France	5.1				
	Switzerland	4.7	Germany	4.9				
	Total other	22.1	Total other	22.5				
	Emerging	11.1	Emerging	11.0				
	China	4.0	China	3.6				
	Taiwan	1.7	Taiwan	1.7				
	India	1.2	India	1.2				
	Brazil	1.0	Brazil	1.0				
	South Africa	0.6	South Africa	0.7				
	Total other	2.7	Total other	2.8				
Total equities					69.08	66.34	6 729 381	5 477 159
Fixed income	Developed	92.3	Developed	91.8				
	US dollar	46.0	US dollar	44.6				
	Euro	25.7	Euro	26.1				
	Japanese yen	7.2	Japanese yen	7.7				
	British pound	4.2	British pound	4.2				
	Canadian dollar	3.6	Canadian dollar	3.3				
	Total other	5.7	Total other	5.9				
	Emerging	7.7	Emerging	8.2				
	Mexican peso	1.5	Mexican peso	1.7				
	South Korean won	1.1	South Korean won	1.3				
	Indonesian rupiah	1.0	Indonesian rupiah	1.1				
	Indian rupee	0.7	Indian rupee	0.7				
	Russian ruble	0.7	Malaysian ringgit	0.6				
	Total other	2.6	Total other	2.9				
Total fixed income					28.17	30.68	2 744 035	2 532 774
Unlisted real estate	US	47.5	US	47.8				
	UK	20.9	UK	23.0				
	France	18.3	France	16.5				
	Germany	4.0	Switzerland	3.7				
	Switzerland	3.5	Germany	3.5				
	Total other	5.7	Total other	5.5				
Total unlisted real estate					2.76	2.98	268 459	246 013

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

At the end of the third quarter the equity portfolio's share of the fund was 69.1 percent, compared to 66.3 percent at year-end 2018. The bond portfolio's share of the fund was 28.2 percent, compared to 30.7 percent at year-end. The unlisted real estate portfolio's share of the fund was 2.8 percent, compared to 3.0 percent at year-end.

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

Table 8.2 Portfolio risk, expected volatility, in percent

	Expected volatility, actual portfolio							
	30.09.2019	Min 2019	Max 2019	Average 2019	31.12.2018	Min 2018	Max 2018	Average 2018
Portfolio	7.7	7.7	8.6	8.0	8.6	8.5	11.0	9.5
Equities	9.9	9.9	11.5	10.3	11.6	11.4	13.7	12.4
Fixed income	7.1	6.7	7.2	6.9	7.0	6.8	9.4	7.8
Unlisted real estate	9.1	8.7	9.4	9.0	9.3	9.2	11.9	10.4

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

	Expected relative volatility							
	30.09.2019	Min 2019	Max 2019	Average 2019	31.12.2018	Min 2018	Max 2018	Average 2018
Portfolio	33	31	34	32	33	29	37	31

Risk measured as expected volatility indicates an expected annual fluctuation in the value of the fund of 7.7 percent, or approximately NOK 750 billion at the end of the third quarter of 2019, compared to 8.6 percent at year-end 2018. Expected volatility for the equity portfolio was 9.9 percent at the end of the quarter, down from

11.6 percent at year-end 2018, while expected volatility for the bond portfolio was 7.1 percent, compared to 7.0 percent at year-end 2018. The decrease in expected volatility for the fund in 2019 is mainly due to decreased price volatility in the equity markets for the last three years compared to the end of 2018.

The fund's expected relative volatility was 33 basis points at the end of the third quarter, which is in line with year-end 2018.

Expected shortfall is a tail risk measure that quantifies the expected loss of a portfolio in extreme market situations. Expected shortfall measured on relative returns provides an estimate of the annual expected relative underperformance versus the reference index for a given confidence level. Using historical simulations, relative returns of the current portfolio versus the reference index are calculated on a weekly basis over a sampling period from January 2007 until the end of the last accounting period. The expected shortfall at a 97.5 percent confidence level is then given by the annualised average relative return, measured

in the currency basket for the 2.5 percent worst weeks.

The Executive Board has determined that the fund shall be managed in such a way that the annual expected shortfall measured against the reference index does not exceed 3.75 percentage points. At the end of the third quarter, the expected shortfall was 1.48 percentage points, compared to 1.37 percentage points at year-end 2018.

Credit risk

Credit risk is the risk of losses resulting 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, 30.09.2019	AAA	AA	A	BBB	Lower rating	Total
Government bonds	764 573	216 104	324 716	117 489	35 567	1 458 449
Government-related bonds	141 621	146 741	44 597	16 122	1 735	350 817
Inflation-linked bonds	125 600	17 308	7 509	7 246	-	157 662
Corporate bonds	5 745	42 153	265 250	346 630	5 686	665 464
Securitised bonds	129 607	24 081	1 618	1 191	431	156 929
Total bonds	1 167 146	446 387	643 689	488 679	43 419	2 789 320

Amounts in NOK million, 31.12.2018	AAA	AA	A	BBB	Lower rating	Total
Government bonds	739 266	186 417	358 892	101 955	46 926	1 433 456
Government-related bonds	145 988	127 414	46 766	15 274	1 136	336 579
Inflation-linked bonds	114 351	12 444	6 007	6 190	403	139 396
Corporate bonds	5 965	51 202	224 458	318 135	9 553	609 314
Securitised bonds	114 035	23 461	2 408	786	414	141 105
Total bonds	1 119 606	400 939	638 532	442 341	58 431	2 659 849

The share of bond holdings with credit rating AA increased to 16.0 percent at the end of the third quarter, from 15.1 percent at year-end 2018. The share of bond holdings with credit rating A fell to 23.1 percent at the end of the third quarter, from 24.0 percent at year-end 2018, mainly due to reduced holdings of Japanese government bonds. The share of bonds grouped under *Lower rating* was reduced to 1.6 percent of the bond portfolio at the end of the third quarter, from

2.2 percent at year-end 2018. This is mainly due to reduced holdings of emerging market government bonds within this category. Overall, the credit quality of the bond portfolio has slightly improved since year-end.

Counterparty risk

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

Table 8.5 Counterparty risk by type of position

Amounts in NOK million	Risk exposure	
	30.09.2019	31.12.2018
Securities lending	71 829	67 110
Unsecured bank deposits ¹ and securities	19 197	23 619
Derivatives including foreign exchange contracts	19 936	22 529
Settlement risk towards brokers and long-settlement transactions	13 057	4 437
Repurchase and reverse repurchase agreements ²	2 400	4 780
Total	126 418	122 475

¹ Includes bank deposits in non-consolidated subsidiaries.

² Comparable amounts have been restated to reflect a correction in the underlying data used in the calculation.

Total counterparty risk exposure increased to NOK 126.4 billion at the end of the third quarter, from NOK 122.5 billion at year-end 2018. The risk exposure increased as a result of higher risk exposure from settlement of FX contracts, as well as from securities lending. Both bonds and equities are lent through the securities lending programme. The risk exposure for the

programme increased to NOK 71.8 billion at the end of the third quarter, from NOK 67.1 billion at year-end 2018, mainly due to an increase in equities lent. Counterparty risk exposure from securities lending amounted to 57 percent of the fund's total counterparty risk exposure at the end of the quarter.

Note 9 Foreign exchange gain/loss

Accounting judgement

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 used to allocate the total gain/loss in Norwegian kroner to a security element and a foreign exchange element is an estimate. Different methods may result in different allocations. For further information on the method used, see note 10 *Foreign exchange gain/loss* in the annual report for 2018.



The market value of the fund in Norwegian kroner is impacted by changes in foreign exchange rates. See table 8.1 in note 8 *Investment risk* for an overview of the allocation

of the GPFG'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 Foreign exchange gain/loss

Amounts in NOK million	3Q 2019	3Q 2018	Year-to-date 30.09.2019	Year-to-date 30.09.2018	2018
Foreign exchange gain/loss - USD/NOK	193 379	-2 532	149 339	-8 957	163 983
Foreign exchange gain/loss - EUR/NOK	31 738	-10 051	2 273	-56 209	14 654
Foreign exchange gain/loss - JPY/NOK	40 710	-14 919	42 468	-7 424	50 721
Foreign exchange gain/loss - GBP/NOK	18 891	-7 386	8 997	-22 809	-1 329
Foreign exchange gain/loss - other	64 279	-10 879	48 036	-85 865	-4 418
Foreign exchange gain/loss	348 997	-45 768	251 113	-181 264	223 611

Note 10 Management costs

Management costs comprise all costs relating to the management of the fund. These are mainly incurred in Norges Bank, but management costs are also incurred 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 2019	3Q 2018	Year-to-date		Year-to-date		2018	
			30.09.2019	Basis points	30.09.2018	Basis points	Basis points	Basis points
Salary, social security and other personnel-related costs	354	349	1 023		954		1 262	
Custody costs	113	94	314		282		385	
IT services, systems, data and information	157	177	500		472		651	
Research, consulting and legal fees	72	44	216		180		282	
Other costs	107	95	320		283		400	
Allocated costs Norges Bank	46	43	138		130		167	
Base fees to external managers	187	182	543		644		724	
Management fee excluding performance-based fees	1 036	984	3 054	4.5	2 944	4.7	3 872	4.6
Performance-based fees to external managers	163	75	244		623		673	
Management fee	1 200	1 059	3 299	4.9	3 567	5.7	4 544	5.4

Management costs in subsidiaries

Management costs incurred in subsidiaries consist of 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, unlisted real estate subsidiaries

Amounts in NOK million	3Q 2019	3Q 2018	Year-to-date		Year-to-date		2018	
			30.09.2019	Basis points	30.09.2018	Basis points	Basis points	
Salary, social security and other personnel-related costs	7	7	21		19		25	
IT services, systems, data and information	4	11	15		31		41	
Research, consulting and legal fees	8	8	23		24		30	
Other costs	5	3	16		10		13	
Total management costs, unlisted real estate subsidiaries	25	30	74	0.1	84	0.1	108	0.1
<i>Of which management costs non-consolidated subsidiaries</i>	15	25	47		69		88	
<i>Of which management costs consolidated subsidiaries</i>	9	5	27		14		20	

Upper limit for reimbursement of management costs

The Ministry of Finance has established an upper limit for the reimbursement of management costs. Norges Bank is only reimbursed for costs incurred within this limit. Norges Bank is also reimbursed for performance-based fees to external managers. These fees are not measured against the upper limit.

For 2019, total management costs incurred in Norges Bank and its subsidiaries, excluding performance-based fees to external managers, are limited to 7.0 basis points of average assets under management. In accordance with guidelines from the Ministry of Finance, average assets under management is calculated based on the market value of the portfolio in Norwegian kroner at the start of each month in the calendar year.

Total year-to-date management costs measured against the upper limit amount to NOK 3 128 million. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 3 054 million and management costs in subsidiaries of NOK 74 million. This corresponds to 4.6 basis points of assets under management.

Total year-to-date management costs including performance-based fees to external managers amount to NOK 3 373 million. This corresponds to 5.0 basis points of assets under management.

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 limit.

Other operating costs incurred in non-consolidated subsidiaries are presented in the income statement line *Income/expense from unlisted real estate*. See table 6.4 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 2019, 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, 23 October 2019

Deloitte AS

Henrik Woxholt
State Authorised Public Accountant (Norway)

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



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