

GOVERNMENT PENSION FUND GLOBAL **THIRD QUARTER 2012**



3Q
2012

NBIM

Norges Bank Investment Management

Third quarter 2012 in brief

- *The Government Pension Fund Global returned 4.7 percent, or 167 billion kroner, in the third quarter of 2012.*
- *Equity investments returned 6.5 percent and fixed-income investments returned 2.2 percent. The overall return was 0.03 percentage point lower than the return on the fund's benchmark indices.*
- *Investments in real estate returned 2.7 percent.*
- *The fund's market value was 3,723 billion kroner at the end of the quarter.*
- *The investments were distributed with 60.3 percent in equities, 39.4 percent in fixed income and 0.3 percent in real estate.*

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

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FUND MANAGEMENT

Stock market rally boosts results

The Government Pension Fund Global returned 4.7 percent, or 167 billion kroner, in the third quarter of 2012 as global stock markets rallied.

Equities returned 6.5 percent in the period and accounted for 60.3 percent of the fund's holdings. All stock sectors advanced after European Central Bank President Mario Draghi in July pledged to do whatever it takes to contain the region's sovereign debt crisis and save the euro. Central banks including the ECB, the US Federal Reserve and the People's Bank of China also announced measures to counter the slowest global economic growth since 2009.

The fund's financial stocks were the best-performing sector with a return of 8.1 percent in the quarter. European financial shares led gains as Draghi's pledge eased concerns over potential bank losses stemming from the turmoil. The European Commission also in the period presented plans to give the ECB power to oversee banks in Europe, paving the way for the bloc's crisis fund, the European Stability Mechanism, to issue loans directly to European banks with funding problems.

The investments in European financial stocks returned 10.8 percent, while US and Asian financial shares gained 5.2 percent and 6.7 percent, respectively. Financials were the fund's largest equity sector, accounting for 22 percent of its shareholdings at the end of the quarter.

Stocks of basic materials and industrial companies, which are particularly sensitive to swings in the global economy, rose as authorities proposed economic stimulus measures. The ECB in July lowered its key interest rate to a record 0.75 percent, while the People's Bank of China cut its rate for the second time in a month. Central banks, including the ECB, the Fed, the Bank of England and the Bank of Japan, also announced quantitative easing, or bond purchases, to keep rates down and stimulate growth. The International Monetary Fund in the same period reduced its forecast for global growth in 2012 to 3.5 percent, the slowest since 2009. The fund's investments in the basic materials sector, which includes

metal, fertiliser and chemical producers, rose 7.8 percent. Industrial stocks gained 5.9 percent.

Holdings of oil and gas shares returned 7 percent. Benchmark crude oil prices climbed 14.9 percent in London and 8.5 percent in New York, partly on expectations of lower global oil supplies because of political unrest in the Middle East. Shares of Exxon Mobil and BP gained 6.9 percent and 3.5 percent, respectively, in the quarter. The companies were among the fund's 10 largest equity holdings at the end of the period.

Investments in the utilities sector returned 1.3 percent and were the worst-performing stock sector in the quarter.

Regional performance

The fund's equity investments were distributed with 49.4 percent in Europe, 35.3 percent in the Americas, Africa and the Middle East and 15.3 percent in Asia and Oceania at the end of the quarter. Equity investments in these regions returned 7.8 percent, 5.4 percent and 4.6 percent, respectively.

Table 1-1 Return on the fund's equity investments in 3Q 2012. By sector. Percent

Sector	Return in international currency	Share of equity investments
Financials	8.1	21.5
Consumer goods	5.1	12.9
Industrials	5.9	12.8
Oil and gas	7.0	10.6
Consumer services	6.9	9.5
Healthcare	6.4	9.0
Technology	6.1	8.1
Basic materials	7.8	7.4
Telecommunications	5.9	4.3
Utilities	1.3	4.0

Returns in international currency

The fund's investments in international securities are not converted into kroner in connection with financial reporting and are not hedged against moves in the currency. Changes in the exchange rate do not affect the fund's international purchasing power. Consequently, the return is 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 35 currencies at the end of the third quarter. The krone gained 2.3 percent against the basket in the quarter. The fund had 78 percent of its investments in euros, pounds, dollars and yen at the end of the period.

Apple, the producer of the iPhone and iPad, was the fund's best-performing stock investment in the quarter, followed by US search engine company Google and German chemical company BASF. The worst-performing stock was US semiconductor manufacturer Intel, followed by UK mining company Anglo American and BG Group, a British natural-gas producer.

Globally, sales of new and existing shares at listed companies rose to 169 billion dollars in the third quarter from 123 billion dollars in the previous quarter, according to research company Dealogic. The financial sector accounted for 35 billion dollars, followed by the insurance industry with 34 billion dollars and the real estate sector with 19 billion dollars. Initial public offerings fell 36 percent in the quarter to 27 billion dollars.

Chart 1-1 Price developments in regional and global equity markets, measured in US dollars. Indexed. 31 Dec 2011 = 100

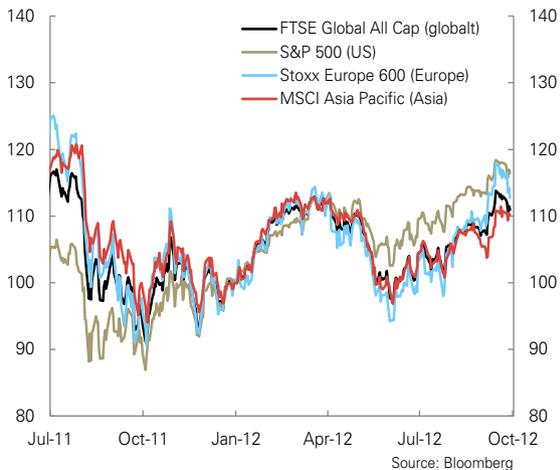
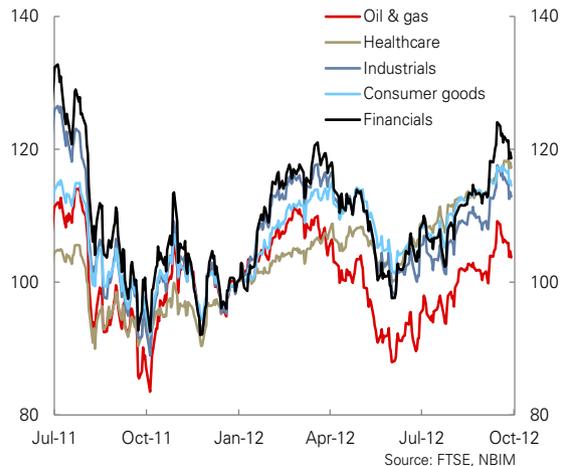


Chart 1-2 Price moves in stock sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed. 31 Dec 2011 = 100



The largest capital raising the fund participated in was a share sale by US insurer American International Group, which raised 26 billion dollars, or 154 billion kroner, in the quarter. This was followed by share sales by Japan Airlines and Russia's Sberbank for 663 billion yen and 159 billion roubles, respectively.

The fund held shares in 7,354 companies at the end of the quarter, compared with 7,803 companies three months earlier.

Fixed-income investments

The fund's fixed-income investments returned 2.2 percent and accounted for 39.4 percent of the holdings at the end of the third quarter. The bulk of the investments was in bonds, while the remainder was in short-term securities, bank deposits and derivatives.

Table 1-2 The fund's largest equity holdings as of 30 September 2012

Company	Country	Holdings in millions of kroner
Nestlé SA	Switzerland	29,916
Royal Dutch Shell Plc	UK	29,623
Apple Inc	US	25,873
HSBC Holdings Plc	UK	24,550
Novartis AG	Switzerland	21,318
Vodafone Group Plc	UK	18,708
Exxon Mobil Corp	US	18,049
BG Group Plc	UK	17,432
Roche Holding AG	Switzerland	17,418
BP Plc	UK	16,875

External management

NBIM awards investment mandates to external managers with specialist expertise in clearly defined areas. A total of 3.8 percent of the fund's assets were managed externally at the end of the third quarter, up from 3.7 percent three months earlier. External equity investments amounted to 136 billion kroner and external fixed-income investments were worth 4 billion kroner.

Yields on bonds issued by countries such as Italy and Spain fell after the ECB said it could buy government debt in the euro area to bring down interest rates and ease concern over state finances in some countries. Yields on US, German, UK and Japanese government bonds, deemed to be among the safest debt, also fell in the quarter.

The yield an investor demands to lend money through a bond will normally drop when the expected risk of default declines. The price of the bond will rise. Yields on 10-year Spanish government bonds fell to 5.9 percent at the end of the quarter from a euro-era high of 7.6 percent on 24 July. Italian 10-year yields decreased in the period to 5.1 percent from 5.8 percent, while German 10-year bond yields, a benchmark for European sovereign debt, fell to 1.4 percent from 1.6 percent.

Lowest return on government debt

Government bonds returned 1.4 percent in the quarter and were the fund's worst-performing fixed-income sector.

US treasuries returned 0.5 percent, measured in dollars, and accounted for 21 percent of the fund's fixed-income investments at the end of the quarter. Japanese and UK government bonds, which together constituted 10 percent of the fund's fixed-income holdings, gained 0.5 percent and 1.1 percent, respectively, measured in their local currencies. Euro-denominated government bonds returned 3.6 percent, measured in euros, and amounted to 14 percent of the fixed-income holdings. Government bonds accounted for 56 percent of the fixed-income investments at the end of the quarter.

The fund also holds bonds from government-related institutions such as the European Investment Bank, Kreditanstalt für Wiederaufbau and the Inter-American Development Bank. These returned 2.7 percent and comprised 11 percent of the fixed-income holdings.

Securitized debt performs best

Securitized debt, such as bonds issued by banks and backed by mortgages and other loans, was the fund's best-performing fixed-income sector in the quarter, returning 4.4 percent. Corporate bonds gained 3.4 percent and were the second-best performing sector.

Demand for bonds issued by banks and companies increased in the quarter, particularly in Europe and the US, as announcements of measures to defend the euro eased concern of defaults on European debt and boosted investors' risk appetite. The Federal Reserve also said it would buy US mortgage-backed securities for 40 billion dollars a month as part of measures to stimulate the economy.

Global issuance of investment-grade corporate bonds climbed to 667 billion dollars in the quarter from 528 billion dollars in the previous quarter, while sales of non-investment grade corporate debt rose to 125 billion dollars from 74 billion dollars, according to Dealogic.

Securitized debt and corporate bonds each constituted 13 percent of the fixed-income holdings at the end of the quarter.

Significant changes in holdings

The fund's three largest investments in new bonds other than government debt were in bonds issued by Agence Française de Développement, Münchener Hypothekenbank and Japan Bank for International Cooperation.

The fund in the quarter also boosted its investments in US and Japanese government bonds and increased its holdings of government bonds issued in the currencies of emerging economies such as South Korea, Mexico and Russia. It reduced investments in French and Spanish government debt.

Chart 1-4 Issuance of euro-denominated covered bonds and senior unsecured debt. Billions of euros

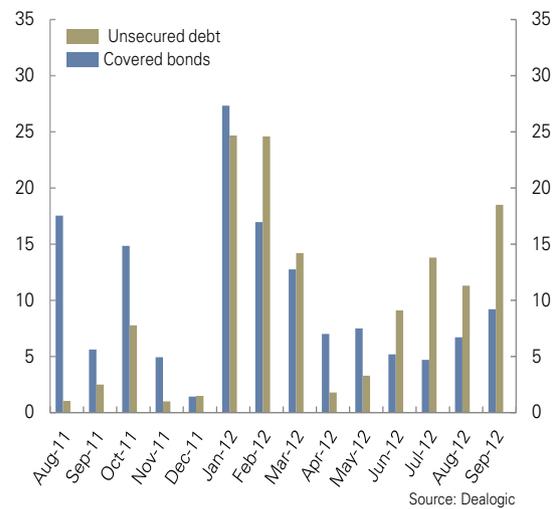


Chart 1-3 10-year government bond yields. Percent

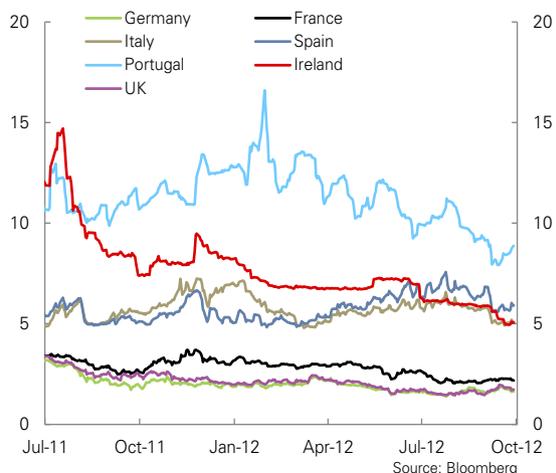
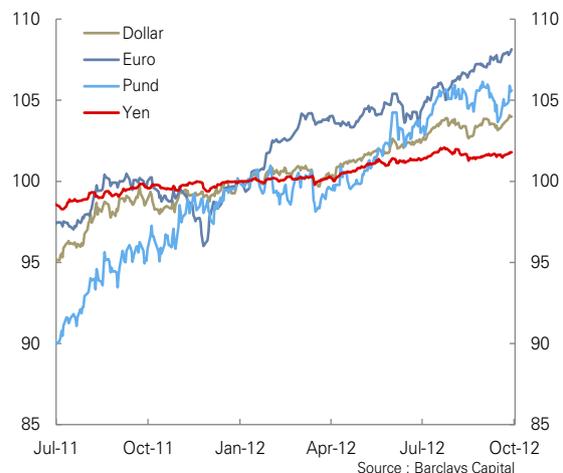


Chart 1-5 Price developments for bonds issued in dollars, euros, pounds and yen in the Barclays Global Aggregate Index, measured in local currencies. Indexed. 31 Dec 2011 = 100



The fund's bond holdings consisted of 4,149 securities from 1,200 issuers at the end of the third quarter, compared with 4,424 securities from 1,247 issuers three months earlier. The investments had an average duration of 5.6 years and a yield of 2.1 percent. Duration is the average time it takes for an investor to receive the cash-flow on a bond. The longer the duration, the more sensitive the price of the bond will be to movements in interest rates.

Real estate investments

Real estate investments amounted to 0.3 percent of the fund at the end of the third quarter. The holdings are targeted to increase gradually to as much as 5 percent of the fund through a corresponding decrease in bond holdings. New investments will generally be in well-developed markets and in office and retail properties.

The fund in the quarter agreed to buy 50 percent of five properties in Paris from Generali Group for 275 million

Table 1-3 The fund's largest bond holdings as of 30 September 2012

Issuer	Country	Holdings in millions of kroner
United States of America	US	338,431
Japanese government	Japan	94,542
UK government	UK	68,933
Federal Republic of Germany	Germany	59,962
French Republic	France	58,916
Kreditanstalt für Wiederaufbau	Germany	25,165
Italian Republic	Italy	24,781
Government of Canada	Canada	24,769
Government of the Netherlands	The Netherlands	24,373
Government of Mexico	Mexico	19,758

Chart 1-6 Currency composition of the fund's fixed-income investments. Percent

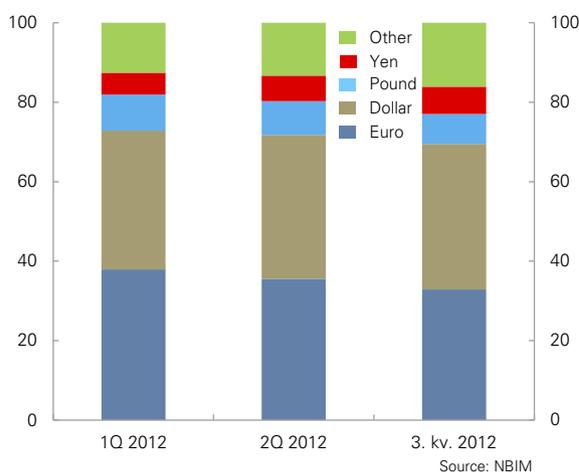


Table 1-4 The fund's bond investments as of 30 September 2012 based on credit ratings. Percentage of holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	40.7	8.4	1.7	5.5	0.4	56.8
Government-related bonds	6.7	2.7	0.7	1.2	0.2	11.5
Inflation-linked bonds	4.1	0.4	0.0	0.5	0.0	5.0
Corporate bonds	0.0	1.1	6.5	5.3	0.2	13.1
Securitised debt	8.0	1.1	3.0	1.2	0.3	13.6
Total bonds	59.5	13.8	11.9	13.7	1.2	100.0

Chart 1-7 Price developments in fixed-income sectors in the Barclays Global Aggregate Index, measured in US dollars. Indexed. 31 Dec 2011 = 100

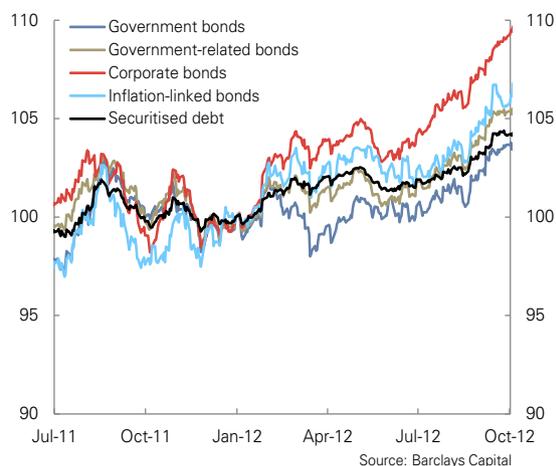


Table 1-5 Return on the fund's bond investments in 3Q 2012. By sector. Percent

Sector	Return in international currency	Share of fixed-income investments*
Government bonds**	1.4	55.9
Government-related bonds**	2.7	11.4
Inflation-linked bonds**	1.7	5.0
Corporate bonds	3.4	12.7
Securitized debt	4.4	13.4

* The individual percentages do not add up to 100 percent as the table excludes investments in short-term securities, bank deposits and derivatives.

** 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 grouped with government-related bonds. Inflation-linked bonds issued by governments are grouped with inflation-linked bonds.

euros, or about 2.1 billion kroner. The parties also agreed to form a joint venture where Generali Real Estate provides asset management services. The transaction is expected to be completed by the end of 2012.

The fund held 25 percent of a portfolio of properties on Regent Street in London and 50 percent of ten properties in and around Paris at the end of the quarter. The investments were held in partnership with The Crown Estate in London and AXA Group in Paris.

The return on the fund's real estate investments is determined by rental income, changes in property values and currency movements. Transaction costs may also impact significantly on results, particularly in the start-up phase. The fund's real estate investments returned 2.7 percent in the third quarter, helped by a rise in the market value of the properties. A strengthening of the pound against the fund's currency basket also contributed positively.

See note 6 in the financial-reporting section for more information on the fund's real estate investments.

The fund's relative return

Returns on the fund's equity and fixed-income investments are compared with returns on global benchmark indices for stocks and bonds that are set by the Ministry of Finance based on indices from FTSE Group and Barclays Capital. The overall return on equity and fixed-income investments was 0.03 percentage point lower than the return on the benchmark indices in the third quarter.

The fund's equity investments outperformed the benchmark index by 0.12 percentage point. The telecommunications and consumer goods sectors were the fund's best-performing stock sectors compared with the benchmark index, while investments in oil and gas shares and financial stocks performed the worst. Sorted by country, stockholdings in the US and Sweden performed the best against the benchmark, while equities in the UK and Germany performed the worst.

The return on the fund's fixed-income investments was 0.27 percentage point lower than the benchmark return

in the third quarter, pushed down in part because of a lower exposure than the benchmark to US corporate bonds. Holdings of euro-denominated covered bonds, a type of securitised debt, pulled in the opposite direction.

See www.nbim.no for more information on the benchmark indices.

Table 1-6 Contributions from equity and fixed-income management to the fund's relative return in 3Q 2012. Percentage points

	External management	Internal management	Total*
Equity investments	0.01	0.08	0.09
Fixed-income investments	0.01	-0.13	-0.12
Total	0.03	-0.06	-0.03

* The figures in the table do not always add up to the sub totals and total due to the rounding of decimals.

Table 1-7 Returns as of 30 September 2012

	3Q 2012	2Q 2012	1Q 2012	4Q 2011	3Q 2011	Year-to-date 30 Sep 12
Returns in international currency						
Return on equity investments (percent)	6.48	-4.57	10.99	7.36	-16.95	12.77
Return on fixed-income investments (percent)	2.16	1.52	1.58	0.74	3.65	5.35
Return on real estate investments (percent)	2.68	0.31	2.18	0.44	-0.10	5.25
Return on fund (percent)	4.74	-2.18	7.11	4.39	-8.80	9.75
Return on equity and fixed-income investments (percent)	4.75	-2.18	7.13	4.41	-8.82	9.77
Return on benchmark equity and fixed-income indices (percent)	4.78	-2.02	6.87	4.35	-8.49	9.71
Relative return on equity and fixed-income investments (percentage points)	-0.03	-0.16	0.27	0.06	-0.33	0.06
Relative return on equity investments (percentage points)	0.12	-0.17	0.33	0.12	-0.50	0.26
Relative return on fixed-income investments (percentage points)	-0.27	-0.07	0.11	-0.01		-0.23
Management costs (percentage points)	0.01	0.02	0.02	0.02	0.02	0.06
Return on fund after management costs (percent)	4.73	-2.19	7.10	4.37	-8.82	9.70
Returns in kroner (percent)						
Return on equity investments	3.98	-2.66	7.49	7.94	-12.85	8.80
Return on fixed-income investments	-0.23	3.56	-1.63	1.28	8.76	1.65
Return on real estate investments	0.28	2.33	-1.04	0.99	4.83	1.55
Return on fund	2.29	-0.21	3.74	4.96	-4.30	5.89
Return on equity and fixed-income investments	2.30	-0.22	3.76	4.97	-4.32	5.91

Chart 1-8 The fund's quarterly and accumulated annualised return. Percent

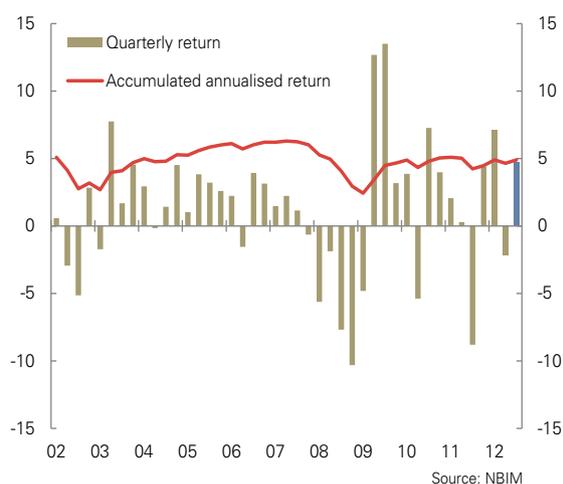


Chart 1-9 Quarterly relative return and accumulated annualised relative return on the fund, excluding real estate investments. Percentage points



Table 1-8 Historical key figures as of 30 September 2012. Annualised data, measured in the fund's international currency basket

	Last 12 months	Last 3 years	Last 5 years	Last 10 years	Since 1 Jan 1998
Return on fund (percent)	14.58	6.55	2.33	5.94	4.90
Return on equity and fixed-income investments (percent)	14.61	6.56	2.34	5.94	4.90
Return on benchmark equity and fixed-income indices (percent)	14.48	6.06	2.44	5.75	4.64
Relative return on equity and fixed-income investments (percentage points)	0.12	0.50	-0.11	0.20	0.27
Standard deviation (percent)	7.83	8.40	11.35	8.49	7.79
Tracking error for equity and fixed-income investments (percentage points)	0.37	0.40	1.21	0.89	0.78
Information ratio (IR) for equity and fixed-income investments*	0.33	1.24	-0.09	0.22	0.35
Return on fund (percent)	14.58	6.55	2.33	5.94	4.90
Annual price inflation (percent)	1.85	2.37	2.20	2.16	1.93
Annual management costs (percent)	0.07	0.10	0.10	0.10	0.09
Annual net return on fund (percent)	12.43	3.99	0.04	3.60	2.82

* 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 1-9 Key figures as of 30 September 2012

	3Q 2012	2Q 2012	1Q 2012	4Q 2011	3Q 2011
Market value (billions of kroner)*					
Market value of equity investments	2,247	2,122	2,122	1,945	1,699
Market value of fixed-income investments	1,465	1,428	1,364	1,356	1,346
Market value of real estate investments	11	11	11	11	10
Market value of fund	3,723	3,561	3,496	3,312	3,055
Inflow of new capital*					
Inflow of new capital*	80	72	60	102	78
Return on fund					
Return on fund	167	-77	234	135	-284
Change due to fluctuations in krone					
Change due to fluctuations in krone	-85	70	-110	19	150
Total change in fund	162	65	185	257	-56
Management costs (percent)					
Estimated transition costs	0,01	0,01	0,01	0,02	0,01
Annualised management costs	0,06	0,07	0,07	0,08	0,08
Changes in value since first capital inflow in 1996 (billions of kroner)					
Gross inflow of new capital	2,996	2,915	2,842	2,782	2,679
Management costs	20	20	19	19	18
Inflow of capital after management costs	2,975	2,895	2,823	2,763	2,661
Return on fund	985	817	894	660	525
Change due to fluctuations in krone	-237	-151	-221	-111	-131
Market value of fund	3,723	3,561	3,496	3,312	3,055
Return after management costs	965	798	875	641	506

* The fund's market value in this table does not take into account the management fee to NBIM from the Ministry of Finance. The market value will therefore differ slightly from the Statement of cash flows and the Statement of changes in owner's capital in the financial accounts. The inflows in this table differ slightly from those 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.

Table 1-10 Accumulated returns since first capital inflow in 1996. Billions of kroner

	3Q 2012	2Q 2012	1Q 2012	4Q 2011	3Q 2011
Return on equity investments	474	338	437	226	104
Return on fixed-income investments	510	480	457	434	421
Return on real estate investments	0	0	0	0	0
Return on fund	985	817	894	660	525

Operational reference portfolios

NBIM has constructed internal operational reference portfolios for equities and bonds. The reference portfolios shall take into account the fund's size, long-term approach and objective to achieve the best possible trade-off over time between expected risks and returns. The reference portfolios may deviate from the benchmark indices set by the Ministry of Finance within set risk limits for the fund's management.

The operational reference portfolio for equity investments returned 6.4 percent in the third quarter, 0.01 percentage point higher than the return on the benchmark index set by the ministry. The operational reference portfolio consisted of shares in 7,079 companies at the end of the quarter, compared with 7,120 companies in the ministry's benchmark index.

The operational reference portfolio for bond investments returned 2.5 percent in the third quarter, 0.02 percentage point more than the benchmark index set by the ministry. The operational reference portfolio comprised 4,231 bonds at the end of the quarter, against 9,299 bonds in the ministry's benchmark index.

Investment risk

NBIM focuses on three main types of investment risk: market, credit and counterparty. We have set up frameworks in each category for how risk is measured, checked and managed.

Market risk is determined by the composition of the fund's investments and will be influenced by movements in share prices, exchange rates, interest rates 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 tracing error, factor exposures, concentration analysis and liquidity 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 may fluctuate. The fund's expected absolute volatility was 8.5 percent, or about 300 billion kroner, at the end of the third quarter. That compares with 8 percent three months earlier.

The Ministry of Finance has set limits for how much NBIM may deviate from the benchmark indices in managing the fund's equity and fixed-income investments. Expected relative volatility (tracking error) is one of these limits and caps how much the return on these investments may be expected to deviate from the return on the benchmark indices. NBIM should aim for expected relative volatility of no more than 1 percentage point. The actual figure was 0.41 percentage point at the end of the quarter, compared with 0.38 percentage point three months earlier.

See note 8 in the financial-reporting section for more information on the fund's investment risk.

Chart 1-10 Expected absolute volatility of the fund, excluding real estate. Percent (left-hand axis) and billions of kroner (right-hand axis)

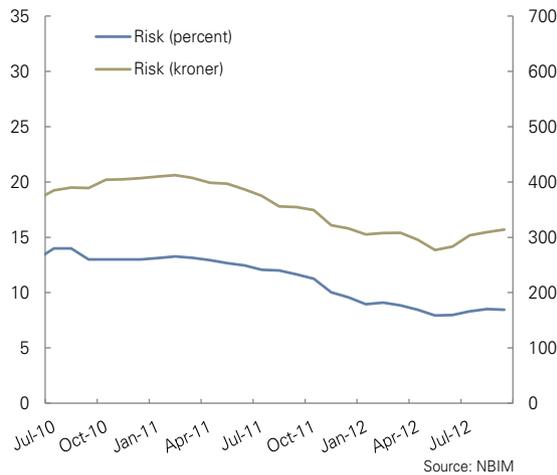


Chart 1-11 Expected relative volatility of the fund, excluding real estate. Basis points

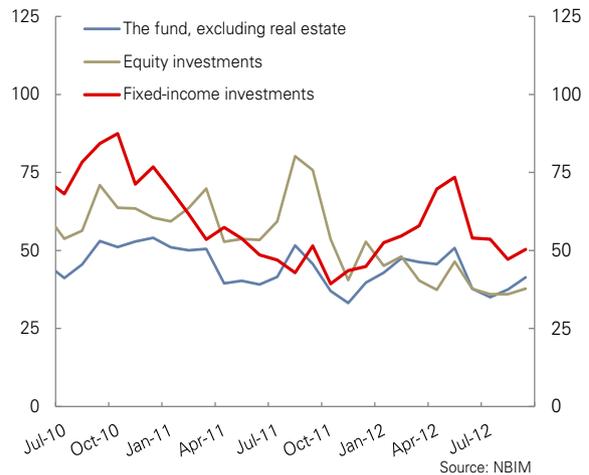


Table 1-11 Key figures for the fund's risk and exposure

Risk	Limits	Actual			
		30 Sep 2012	30 Jun 2012	31 Mar 2012	31 Dec 2011
Limits set by the Ministry of Finance and Norges Bank's Executive Board					
Net market value*	Equities 50-70% of fund's market value	60.3	59.6	60.7	58.7
	Bonds 30-50% of fund's market value	39.4	40.1	39.0	41.0
	Real estate 0-5% of fund's market value	0.3	0.3	0.3	0.3
Exposure**	Equities 50-70% of fund's market value	60.3	59.0	60.7	58.6
	Bonds 30-50% of fund's market value	38.2	38.1	37.0	39.5
	Real estate 0-7.5% of fund's market value***	0.3	0.3	0.3	0.3
Counterparty risk	Any one counterparty maximum 0.75% of fund's market value	0.2	0.2	0.2	0.2

* The net market value is the value of all securities, financial instruments and cash within each asset class.

** The exposure is calculated using the full underlying value of derivatives, but not taking into account cash balances. As a result, the actual share of each asset class may vary from the corresponding net market value. The total exposure may also amount to more or less than 100 percent depending on the use of derivatives and the fund's cash balances.

*** The exposure limit for real estate includes leverage.

Responsible investment and active ownership

A good long-term return depends on sustainable economic, environmental and social development. NBIM uses a variety of tools, including dialogue with businesses, investors and authorities, to promote such development and improve governance at companies. We vote at general meetings and file shareholder proposals. We publish documents outlining our expectations for how companies should manage social and environmental risks in their operations and supply chains.

NBIM in the third quarter updated a document outlining how we expect companies to manage risks associated with climate change. The document was revised to include tropical deforestation that causes climate change, in addition to our focus on greenhouse gas emissions caused by the burning of fossil fuels. Tropical deforestation contributes to climate change by releasing large quantities of carbon stored in rainforests into the atmosphere. We expect companies that cause deforestation through their production to take steps to reduce the scope of the deforestation or plant new growth. We also expect companies to report on measures they have taken to mitigate climate change risks that may negatively affect their profitability and, consequently, the fund's investments.

Limited access to fresh water is also a risk for many companies. NBIM in July hosted a seminar at the Singapore International Water Week on the importance of managing and reporting on water-related risks at companies in Asia and Australia. Growth in the economies and populations of this region is boosting demand for water as changes in weather patterns, pollution and regulations curb supplies. NBIM has since 2011 engaged with companies in Asia and Australia that are particularly exposed to water-related risks. Our dialogues with the businesses show three main areas for improvement. Companies need to evaluate water-related risks in their supply chains, not merely in their own operations. They need to improve reporting on quantitative targets for

water consumption and water-related risks. They also need to standardise reporting in this area.

NBIM in the quarter teamed up with Dutch pension fund PGGM to hold talks with mining and power companies in China and India. The dialogues aimed to improve the companies' reporting on water-related risks.

Operational risk management and internal control

NBIM constantly seeks to identify and mitigate operational risks that could lead to financial or reputational losses. Risk reduction measures and internal controls are monitored to ensure acceptable levels.

NBIM each quarter estimates the size of the potential losses or gains it may incur over the next year because of unwanted events related to its investment management activities. The estimate is based on past events and possible future events and represents NBIM's estimated risk exposure.

The Executive Board has decided there must be less than 20 percent probability that unwanted events will result in gains and losses of 500 million kroner or more over a 12-month period, a limit referred to as the Executive Board's operational risk tolerance. NBIM registered 35 unwanted events in the third quarter, resulting in an estimated financial loss of 0.2 million kroner. None of the events led to financial gains. NBIM's risk exposure was well within the board's bounds for risk tolerance at the end of the quarter.

The Ministry of Finance has set guidelines for the fund's management. No significant breaches of these guidelines were registered in the third quarter. NBIM in the period did not receive any notifications from supervisory authorities of any significant breaches of market rules or general legislation.

Financial Reporting

Norges Bank's interim financial statements, which only encompass the interim financial reporting for the investment portfolio of the Government Pension Fund Global, were approved by Norges Bank's Executive Board on 31 October 2012. These accounts and an excerpt from Norges Bank's accounting policies are reproduced below.

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Income Statement

<i>Amounts in NOK million</i>	Note	3Q 2012	3Q 2011	Year-to-date 30.09.2012	Year-to-date 30.09.2011	2011
Profit/loss on the portfolio excluding foreign exchange gains and losses						
Interest income from bank deposits		85	109	112	352	162
Interest income, lending associated with reverse repurchase agreements		67	323	195	810	1,004
Net income / expenses and gains/losses from:						
- Equities and units		134,311	-332,376	246,006	-294,887	-173,099
- Bonds and other fixed-income instruments		32,538	51,737	78,299	76,866	92,346
- Financial derivatives		143	-3,696	-196	-3,593	-5,693
- Financial assets real estate	6	178	50	424	-102	86
- Investment properties	6	46	-87	25	-87	-130
Share of the profit / loss in jointly controlled entities real estate	6	-1	-56	111	-56	-31
Interest expense repurchase agreements		-22	-336	-112	-910	-629
Other interest expense		0	-15	-7	-111	-286
Other expenses	3, 4	-4	85	-62	74	24
Profit / loss on the portfolio before foreign exchange gains and losses		167,341	-284,262	324,795	-221,644	-86,246
Foreign exchange gains and losses		-85,387	149,985	-125,437	29,812	49,205
Profit / loss on the portfolio		81,954	-134,277	199,358	-191,832	-37,041
Management fee	4	-413	-689	-1,539	-1,934	-2,539
Profit / loss for the period		81,541	-134,966	197,819	-193,766	-39,580

Statement of Comprehensive Income

<i>Amounts in NOK million</i>	Note	3Q 2012	3Q 2011	Year-to-date 30.09.2012	Year-to-date 30.09.2011	2011
Profit/loss for the period		81,541	-134,966	197,819	-193,766	-39,580
Translation reserve arising from consolidation of foreign subsidiaries		0	-8	6	-6	-3
Total comprehensive income		81,541	-134,974	197,825	-193,772	-39,583

Balance sheet

<i>Amounts in NOK million</i>	Note	30.09.2012	31.12.2011	30.09.2011
ASSETS				
Financial assets				
Deposits in banks		5,380	7,276	6 278
Lending associated with reverse repurchase agreements		119,439	79,820	276 942
Unsettled trades		22,853	2,272	107 746
Equities and units	5	2,107,344	1,806,798	1 509 525
Equities lent	5	136,782	137,130	205 740
Bonds and other fixed-income instruments	5	1,436,935	1,324,255	1 174 780
Bonds lent	5	6,385	3,256	173 793
Financial derivatives	5	1,037	2,227	3 078
Financial assets real estate	6	4,878	4,415	4 198
Jointly controlled entities real estate	6	2,433	2,546	2 636
Other financial assets		2,772	3,244	34 670
Total financial assets		3,846,238	3 373 239	3,499,386
Non-financial assets				
Investment properties	6	3,730	4,062	2,915
Other non-financial assets		5	6	3
Total non-financial assets		3,735	4,068	2,918
Total assets	7, 8	3,849,973	3,377,307	3,502,304
LIABILITIES AND OWNER'S CAPITAL				
Financial liabilities				
Short-term borrowing		471	11	9,897
Borrowing associated with repurchase agreements		22,015	19,280	134,232
Cash collateral received		39,587	36,926	168,893
Unsettled trades		59,349	3,310	64,996
Short-sale bonds		0	0	36,448
Financial derivatives	5	2,797	5,957	9,685
Other financial liabilities		2,282	251	23,399
Management fee payable		1,539	2,539	1,934
Total financial liabilities	7, 8	128,040	68,274	449,484
Owner's capital		3,721,933	3,309,033	3,052,820
Total liabilities and owner's capital		3,849,973	3,377,307	3,502,304

Statement of cash flows

<i>Beløp i millioner kroner, innbetaling (+) / utbetaling (-)</i>	Year-to-date 30.09.2012	Year-to-date 30.09.2011	2011
Operating activities			
Interest received on deposits in banks	154	387	179
Net cash flow in connection with reverse repurchase agreements	-20,425	-14,999	170,095
Net cash flows arising from purchase and sale of equities and units	-177,247	-135,091	-239,987
Net cash flows arising from purchase and sale of bonds and other fixed-income instruments	-115,324	-46,629	-21,094
Payments made to acquire financial assets real estate	-178	-4,379	-4,270
Payments made to acquire investment properties	-8	-3,030	-4,301
Payments made / received in connection with jointly controlled entities real estate	10	-2,692	-2,620
Net cash flows arising from financial derivatives	-2,502	-4,894	-9,147
Dividends received from investments in equities and units	50,475	40,067	49,208
Interest received on bonds and other fixed-income instruments	38,574	37,178	48,036
Income received in connection with equity and bond lending	2,003	1,774	2,230
Income received from investments in financial assets real estate	133	80	130
Dividends received from investments in jointly controlled entities real estate	69	.	-
Income received from investments in investment properties	169	.	60
Interest paid on short-term borrowing from banks	-3	-1,091	-21
Net cash flows related to repurchase agreements	3,957	-24,644	-114,347
Cash collateral received / paid related to securities lending, derivatives and reverse repurchase agreements	2,661	-3,416	-135,382
Cash flow related to other financial assets, other financial liabilities and other non-financial assets	3,986	19,012	-5,587
Payment of other expenses	-113	-112	-248
Management fee paid to Norges Bank*	-2,539	-2,959	-2,959
Net cash outflow from operating activities	-216,148	-145,438	-270,025
Financing activities			
Inflow from the Norwegian government**	213,573	138,275	274,155
Net cash inflow from financing activities	213,573	138,275	274,155
Net change in cash and cash equivalents			
Cash and cash equivalents at 1 January	7,265	3,363	3,363
Net cash payments in the period	-2,575	-7,163	4,130
Net foreign exchange gains and losses on cash and cash equivalents	220	181	-228
Cash and cash equivalents at the end of the period	4,910	-3,619	7,265
Cash and cash equivalents comprise:			
Deposits in banks	5,380	6,278	7,276
Short-term borrowing	-470	-9,897	-11
Total cash and cash equivalents at the end of the period	4,910	-3,619	7,265

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

** The inflow includes only the transfers that have 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

<i>Amounts in NOK million</i>	Inflows from owner	Retained earnings	Translation reserve foreign subsidiaries	Deposits in krone account
1 January 2011	2,504,711	569,750	.	3,074,461
Total comprehensive income	.	- 193,766	- 6	- 193,772
Inflows during the period*	172,131	.	.	172,131
30 September 2011	2,676,842	375,984	- 6	3,052,820
1 January 2012	2,778,866	530,170	-3	3,309,033
Total comprehensive income	.	197,819	6	197,825
Inflows during the period*	215,075	.	.	215,075
30 September 2012	2,993,941	727,989	3	3,721,933

* Out of the total inflows to the krone account of the Government Pension Fund Global in the first three quarters of 2012, NOK 2.5 billion was used to pay the 2011 accrued management fee to Norges Bank and NOK 212,5 billion was transferred into the investment portfolio. Comparative amounts for the first three quarters of 2011 are NOK 3.0 billion and NOK 169 billion, respectively.

Note 1 Accounting policies

1.1 Basis of Accounting

Norges Bank is Norway's central bank. The bank manages Norway's foreign exchange reserves and the Government Pension Fund Global. Norges Bank's interim financial statements, which only include the financial reporting for the investment portfolio of the Government Pension Fund Global, are prepared in accordance with International Financial reporting Standards as endorsed by the EU (IFRS). The regulation concerning the annual financial reporting for Norges Bank, which has been laid down by the Ministry of Finance, requires Norges Bank's financial statements to include the financial reporting of the investment portfolio of the Government Pension Fund Global, which shall be prepared in accordance with IFRS. As subsidiaries have been established that exclusively constitute investments as part of Norges Bank's management of the investment portfolio, consolidated financial statements are prepared for the investment portfolio of the Government Pension Fund Global.

Norges Bank prepares quarterly financial statements, which solely comprise the quarterly financial reporting of the investment portfolio of the Government Pension Fund Global, with closing dates of 31 March, 30 June and 30 September. The quarterly financial statements for Norges Bank are prepared in accordance with IAS 34 *Interim Financial Reporting*.

The financial statements are presented in Norwegian kroner (NOK), rounded to the nearest million kroner.

The quarterly financial statements are prepared using the same accounting policies and calculation methods as used for the annual financial statements as at 31 December 2011. If the implementation of new standards, or changes in standards, causes a change in the accounting policies, these changes are specifically described in section 1.2. Norges Bank's accounting policies are presented in Norges Bank's annual financial statements 2011, and an extract of the policies relevant for the investment portfolio are also presented in the Government Pension Fund Global Annual Report 2011. The quarterly financial statements should also be read in conjunction with Norges Bank's annual financial statements 2011.

1.2 New standards implemented from 1 January 2012

Norges Bank does not expect that the changes in IAS 12 *Income Taxes* will have a material effect for the investment portfolio of the Government Pension Fund Global. The amended standard is effective for annual periods beginning on or after 1 January 2012, but has not yet been endorsed by the EU. Norges Bank expects to apply the amended standard with effect as from 1 January 2012, under the assumption that it will be endorsed by the EU prior to 31 December 2012.

1.3 IASB final standards and IFRIC interpretations with application dates after 2012

There are no IFRS standards or IFRIC interpretations approved by the IASB during the first three quarters of 2012 with a material effect for the financial reporting of Norges Bank.

Note 2 Significant estimates and critical accounting judgements

The preparation of the financial statements of Norges Bank, which includes the financial reporting for the investment portfolio of the Government Pension Fund Global in accordance with the accounting policies in note 1, 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 of particularly uncertain estimates, this is described in the respective notes. For additional information on significant estimates and critical accounting judgements see note 2 in Norges Bank's annual financial statements 2011, which are also presented as an extract in the Government Pension Fund Global's Annual Report 2011.

Note 3 Other expenses

Table 3.1 Specification other expenses

<i>Amounts in NOK million</i>	3Q 2012	3Q 2011	Year-to-date 30.09.2012	Year-to-date 30.09.2011	2011
Operating expenses, real estate subsidiaries	13	6	41	7	26
Other expenses, investment portfolio excluding subsidiaries	-9	-91	21	-81	-50
Total other expenses	4	-85	62	-74	-24

Other expenses is deducted directly from Profit/loss on the portfolio before the management fee. Expenses included in Other expenses do not form part of the management fee from the Ministry of Finance. For additional information see note 4 Management costs.

Operating expenses in subsidiaries related to the management of real estate investments, shown in table 3.1, amount to NOK 13 million for the third quarter of 2012. These expenses are specified in table 4.2 in note 4 Management costs.

Other expenses, investment portfolio excluding subsidiaries specified in table 3.1 includes various costs arising from investment activities that are not incurred by the subsidiaries, and that may be related to all asset classes. These are typically transaction related expenses.

Negative expenses normally consist of reversals of previous provisions.

Note 4 Management costs

Operating costs related to the management of the Government Pension Fund Global are incurred both in Norges Bank (parent level) and in subsidiaries related to the real estate investments. Norges Bank's own operating costs related to the management are refunded by the management fee from the Ministry of Finance, and are specified in table 4.1. Operating expenses that are incurred in subsidiaries are not included in the management fee. These are specified in table 4.2.

Both of the mentioned investments are expected to be accounted for as jointly controlled entities.

Table 4.1 Specification management fee

Amounts in NOK million	3Q 2012	3Q 2011	Year to date 30.09.2012		Year to date 30.09.2011		2011	
				Percent *		Percent *		Percent *
Salary, social security and other personnel related costs	131	117	365		323		447	
IT, information and decision support systems	43	50	159		164		214	
Custody and settlement costs	85	97	256		303		406	
Outsourced IT and analysis costs	50	59	153		201		254	
Consulting and legal fees	15	17	45		52		73	
Base fees to external managers	71	84	247		296		371	
Other costs	23	22	75		70		107	
Allocated common costs Norges Bank	41	32	122		96		121	
Management fee excluding performance-based fees	459	478	1,422	0.05	1,505	0.06	1,993	0.06
Performance-based fees to external managers	-46	211	117		429		546	
Total management fee	413	689	1,539	0.06	1,934	0.08	2,539	0.08

* Percent of assets under management.

Table 4.1 shows costs incurred by Norges Bank that are reimbursed by the Ministry of Finance as the principal for the management of the investment portfolio of the Government Pension Fund Global. Fees to external managers and custody and settlement fees are invoiced directly and paid individually for each of the portfolios managed by Norges Bank. All other costs included in the basis for calculation of the management fee are costs that are common for the management of both portfolios, and are allocated to the individual portfolio using a cost allocation model based primarily on market values and asset class composition. The management fee is a function of expenses presented in the Norges Bank income statement as Total other operating expenses.

Table 4.2 Specification operating expenses, real estate subsidiaries

Amounts in NOK million	3Q 2012	3Q 2011	Year to date 30.09.2012		Year to date 30.09.2011		2011	
Salary, social security and other personnel related costs	4	0	9		0		2	
IT, information and decision support systems, outsourced administrative services	2	0	4		0		2	
Consulting and legal fees	2	5	6		1		11	
Fees related to real estate asset management (external)	5	0	14		3		6	
Other costs, subsidiaries	0	1	8		3		5	
Operating expenses, real estate subsidiaries	13	6	41		7		26	

In addition to the operating expenses that are shown in table 4.1 and that are reimbursed through the management fee from the Ministry of Finance, operating and administrative expenses are incurred in the subsidiary companies that are incorporated as a part of the management of real estate investments of the Government Pension Fund Global. These expenses are consolidated into the income statement of the investment portfolio, and are covered using funds received or earned by the portfolio. Operating expenses in subsidiaries do not form part of Norges Bank operating expenses as they are not consolidated into Norges Bank, as per the accounting regulation for Norges Bank § 2-3, paragraph 4. These expenses are presented as Other expenses in the income statement for the investment portfolio, and are deducted from Profit/loss on the portfolio. See note 3 for further information on Other expenses.

Within the real estate asset class additional costs related to property management exist, and are included in the income statement lines Net income/expenses - gains/losses on investment properties and Share of profit/loss in jointly controlled entities real estate. These costs are incurred by the company that owns the property.

Note 5 Equities and units / Bonds and other fixed-income instruments / Financial derivatives

Table 5.1 Specification of equities

Amounts in NOK million	30.09.2012			31.12.2011		
	Fair value excluding dividends	Accrued dividends	Fair value including dividends	Fair value excluding dividends	Accrued dividends	Fair value including dividends
Equities:						
Listed equities and units	2,239,938	4,188	2,244,126	1,940,789	3,139	1,943,928
Total equities and units	2,239,938	4,188	2,244,126	1,940,789	3,139	1,943,928
<i>Of which equities lent</i>			136,782			137,130

Table 5.2 Specification of bonds and other fixed income instruments

Amounts in NOK million, 30 September 2012	Nominal value*	Fair value excluding accrued interest	Accrued interest	Fair value including accrued interest
Bonds and other fixed-income instruments:				
Government bonds**	741,917	813,053	6,933	819,986
Government-related bonds	151,927	164,034	2,254	166,288
Inflation-linked bonds	52,985	72,319	299	72,618
Corporate bonds	173,960	185,692	2,779	188,471
Securitised bonds	200,763	192,749	3,208	195,957
Total bonds and other fixed-income instruments	1,321,552	1,427,847	15,473	1,443,320
<i>Of which bonds lent</i>				6,385

Amounts in NOK million, 31 December 2011	Nominal value*	Fair value excluding accrued interest	Accrued interest	Fair value including accrued interest
Bonds and other fixed-income instruments:				
Government bonds**	554,293	605,600	6,965	612,565
Government-related bonds	166,691	174,346	2,818	177,164
Inflation-linked bonds	83,105	105,175	541	105,716
Corporate bonds	183,284	184,953	3,388	188,341
Securitised bonds	292,823	238,855	4,870	243,725
Total bonds and other fixed-income instruments	1,280,196	1,308,929	18,582	1,327,511
<i>Of which bonds lent</i>				3,256

* Nominal values have been translated into NOK at the closing rate at the balance sheet date.

** Includes nominal bonds issued in the country's currency. Sovereign bonds (bonds issued by a state in a currency other than its own) are classified as government-related bonds.

The holdings of bonds issued by the governments of Italy and Spain amounted to a fair value of NOK 34.2 billion as at 30 September 2012. Bond holdings issued by the Greek government were NOK 0.44 billion. The investment portfolio had no holdings of Portuguese or Irish government debt.

Table 5.3 Specification of financial derivatives

Amounts in NOK million	Fair value 30.09.2012			Fair value 31.12.2011		
	Asset	Liability	Net	Asset	Liability	Net
Financial derivatives:						
Foreign exchange contracts	71	383	-312	1,603	964	639
Listed futures contracts	86	106	-20	5	224	-219
Swap contracts	880	2,308	-1,428	619	4,769	-4,150
Total financial derivatives	1,037	2,797	-1,760	2,227	5,957	-3,730

Note 6 Real Estate

Real estate investments in the investment portfolio of the Government Pension Fund Global consist of investments within the real estate asset class. This asset class consists of unlisted investments, classified as financial assets real estate, jointly controlled entities real estate and investment properties.

Financial assets real estate consists of the right to 25 percent of the net operating income generated from properties in and around Regent Street, in London, Great Britain. Investment properties are directly held properties. Jointly controlled entities real estate consists of an ownership share of investment properties and other assets (net) held by a jointly controlled entity.

Table 6.1 shows the profit/loss on the real estate asset class, specified on unrealised value changes for investment properties and financial assets, net operating income, and other income and expenses in the asset class. Table 6.2 specifies the changes in carrying amounts for the main balance sheet items within the real estate asset class.

Table 6.1 Income statement - real estate asset class

Amounts in NOK million	3Q 2012	3Q 2011	Year to date 30.09.2012	Year to date 30.09.2011	2011
Profit / loss on the portfolio excluding foreign exchange gains and losses, real estate asset class					
Net operating income from:					
Financial assets real estate	50	50	127	-102	-52
Investment properties	54	26	169	26	60
Jointly controlled entities real estate	21	16	94	16	40
Total net operating income, real estate	125	91	390	-61	48
Recognised fair value changes from:					
Financial assets real estate	128	.	297	.	138
Investment properties	-8	-113	-144	-113	-190
Jointly controlled entities real estate	-22	-72	17	-72	-71
Total recognised fair value changes, real estate	99	-184	171	-184	-123
Net other income and expenses*	5	10	-42	13	-4
Profit / loss on the portfolio before foreign exchange gains and losses, real estate asset class	229	-83	518	-232	-79

* Includes interest income, interest expense, operating expenses in subsidiaries and other expenses incurred in the real estate asset class.

Table 6.2 Changes in carrying amounts for the main balance sheet items within the real estate asset class

Amounts in NOK million	01.01.2012 – 30.09.2012			Total
	Financial assets real estate	Jointly controlled entities real estate	Investment properties	
Carrying amounts for the main balance sheet items within the real estate asset class as at 01.01.2012	4,415	2,546	4,062	11,023
Purchases and additions	178	19	8	206
Fair value changes	297	17	-144	171
Operating profit from investments accounted for using the equity method	.	94	.	94
Paid dividend and changes in equity capital	.	-95	.	-95
Share of other assets (net) in jointly controlled entities	.	-19	.	-19
Foreign currency translation effect	-12	-129	-197	-338
Carrying amounts for the main balance sheet items within the real estate asset class as at 30.09.2012	4,878	2,433	3,730	11,041

Amounts in NOK million	01.01.2011–31.12.2011			Total
	Financial assets real estate	Jointly controlled entities real estate	Investment properties	
Carrying amounts for the main balance sheet items within the real estate asset class as at 01.01.2011	-	-	-	-
Purchases and additions	4,088	2,620	4,301	11,009
Fair value changes	138	-71	-190	-123
Operating profit from investments accounted for using the equity method	.	40	.	40
Foreign currency translation effect	189	-43	-49	97
Carrying amounts for the main balance sheet items within the real estate asset class as at 31.12.2011	4,415	2,546	4,062	11,023

For additional information see note 7 Fair value measurement.

An agreement was entered into in October 2012 for the Government Pension Fund Global to purchase a 50 percent share of the shopping centre Meadowhall in Great Britain. At the same time a partnership has been entered into with British Land, who owns the other half of the shopping centre. The agreed price is 348 million pounds (around NOK 3.2 billion). The transaction will be completed and recognised in the balance sheet during the fourth quarter of 2012.

Later in October 2012 an agreement was entered into for the Government Pension Fund Global with AXA France Insurance Companies to purchase 2 properties in Germany together. The buildings mainly consist of office and retail space. The parties will own 50 percent each of the properties. The investment portfolio of the Government Pension Fund Global's share of the acquisition price is 392 million euro (around NOK 2.9 billion). The transaction will be completed and recognised in the balance sheet during the fourth quarter of 2012.

Note 7 Fair value measurement

All equities, bonds, financial derivatives and real estate investments have been allocated to categories reflecting assessed valuation uncertainty. Level 1 comprises investments that are valued on the basis of observable prices in active markets and are considered to have very limited valuation risk. Investments allocated to level 2 are valued using models with observable market data. These holdings have some pricing uncertainty. Holdings allocated to level 3 are priced using models with considerable use of unobservable inputs, which implies substantial uncertainty regarding the establishment of fair value. These investments, too, are valued by external professional valuers who are regarded as giving the best estimate of fair value and where the total valuation from the different providers differ only to a limited extent.

Table 7.1 divides the investments into categories of assessed pricing uncertainty as of 30 September 2012 and 31 December 2011.

Table 7.1 Specification of investments by level of valuation uncertainty

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	30.09.2012	31.12.2011	30.09.2012	31.12.2011	30.09.2012	31.12.2011	30.09.2012	31.12.2011
Equities and units	2,241,310	1,942,777	847	995	1,969	156	2,244,126	1,943,928
Total bonds	1,025,519	876,381	413,192	438,838	4,609	12,292	1,443,320	1,327,511
Government bonds	754,655	600,790	65,331	11,775	0	-	819,986	612,565
Government-related bonds	115,623	98,370	50,555	78,148	110	646	166,288	177,164
Inflation-linked bonds	71,225	98,431	1,393	7,285	0	-	72,618	105,716
Corporate bonds	3,017	3,513	185,342	184,543	112	285	188,471	188,341
Securitised bonds	80,999	75,277	110,571	157,087	4,387	11,361	195,957	243,725
Total financial derivatives	-20	-219	-1,740	-3,511	-	-	-1,760	-3,730
Assets	86	5	951	2,222	-	-	1,037	2,227
Liabilities	-106	-224	-2,691	-5,733	-	-	-2,797	-5,957
Total real estate	.	.	.	.	11,041	11,023	11,041	11,023
Financial assets real estate	.	.	.	.	4,878	4,415	4,878	4,415
Jointly controlled entities real estate	.	.	.	.	2,433	2,546	2,433	2,546
Investment Properties	.	.	.	.	3,730	4,062	3,730	4,062
Total	3,266,809	2,818,939	412,299	436,322	17,619	23,471	3,696,727	3,278,732

Valuation uncertainty is relatively unchanged since the second quarter, but overall has decreased somewhat compared with the prior year-end. The level 3 bond holdings were reduced by NOK 3.2 billion in the quarter, which is primarily due to further sales of United States securitised bonds. The increase in Government bonds classified as level 1 is primarily due to new investments, as there have been limited movements between level 1 and 2 in this segment. The equity holdings in level 3 are relatively unchanged this quarter.

External valuations are collected for the investments in the real estate asset class, and balance sheet carrying amounts are adjusted based on these. For the quarter, this resulted in a value increase for the Regent Street investment, and in total a slight value decrease for the investments in France; for additional information see note 6 Real estate. These results, albeit stable in comparison to last quarter, largely reflect the investment portfolio's assets' high quality. Continued economic uncertainty across Europe has reduced overall market activity and contributed to a general softening in relevant segments of the real estate markets.

Note 8 Risk

Market risk

Market risk is the risk of changes in the value of the portfolio due to movements in interest rates, equity prices, exchange rates and credit spreads. Norges Bank measures risk in both absolute terms and the relative market risk for holdings in the investment portfolio of the Government Pension Fund Global.

Asset class per country and currency

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

Table 8.1 Allocation by asset class, country and currency*

Asset class	Market	Market value in percent by country and currency		Market value in percent by asset class		Assets minus liabilities excluding management fee	
		30.09.2012	31.12.2011	30.09.2012	31.12.2011	30.09.2012	31.12.2011
Equities	Developed	87.5	88.5				
	United States	29.6	30.3				
	United Kingdom	16.4	16.4				
	France	6.7	7.0				
	Switzerland	6.4	6.2				
	Germany	6.2	5.8				
	Sum Other	22.1	22.8				
	Emerging	12.5	11.5				
	South Korea	1.6	1.5				
	China	1.5	1.4				
	Brazil	1.4	1.4				
	Hong Kong	1.4	1.7				
	Taiwan	1.2	1.0				
	Sum Other	5.3	4.6				
Total Equities				60.3	58.7	2,246,789	1,944,721
Fixed income	Developed	92.0	98.5				
	USD	36.6	35.0				
	EUR	32.9	39.9				
	GBP	7.5	12.1				
	JPY	6.9	5.0				
	CAD	3.0	2.1				
	Sum other	5.2	4.5				
	Emerging	8.0	1.5				
	MXN	1.3	0.5				
	KRW	1.2	0.2				
	CNY	0.8	0.2				
	RUB	0.8	0.0				
	BRL	0.7	0.1				
	Sum other	3.1	0.4				
Total Fixed Income				39.4	41.0	1,465,382	1,355,722
Real Estate	United Kingdom	43.4	40.0				
	France	56.6	60.0				
Total Real estate				0.3	0.3	11,301	11,129

* Note 8.1 has been changed to better reflect the distribution of the investments within the asset classes as a result of changes in the mandate for management of the Government Pension Fund Global, issued by the Ministry of Finance. Previously, the allocation of capital in the fixed-income and equities portfolios was managed against strategic regional weights. This approach has been changed in 2012 so that the market capitalisation is used, with an adjustment giving developed European countries a slightly increased weight relative to market capitalisation, while developed American countries are given a slightly reduced weight relative to market capitalisation.

Volatility

Norges Bank uses risk modelling to quantify the economic risk for the entire portfolio and for parts of the portfolio. One of the risk measures is expected volatility. Tables 8.2 and 8.3 present risk both in terms of the portfolio's absolute risk and in terms of the relative risk. Real estate investments are not included in the volatility calculations. This is in compliance with the investment mandates given by the Ministry of Finance and the Executive Board of Norges Bank and with the internal guidelines for investment and risk management.

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

	Expected volatility, actual portfolio							
	30.09.2012	Min 2012	Max 2012	Average 2012	31.12.2011	Min 2011	Max 2011	Average 2011
Long-term model								
Portfolio	8.5	7.9	9.9	8.6	9.6	9.5	13.4	12.1
Equity	14.2	13.9	16.6	14.8	16.4	16.4	21.2	19.9
Bonds	8.7	8.6	10.4	9.0	10.5	10.5	12.7	12.0

Table 8.3 Relative risk, expected relative volatility in basis points

	Expected relative volatility							
	30.09.2012	Min 2012	Max 2012	Average 2012	31.12.2011	Min 2011	Max 2011	Average 2011
Long-term model								
Portfolio	41	31	57	44	40	33	65	46
Equity	38	33	61	44	53	40	111	64
Bonds	50	40	77	56	45	38	76	51

The models that are used in the calculation of the above information are explained in note 24 GPF note 14 Risk in Norges Bank's annual financial statements 2011.

Risk as measured by expected volatility indicates a decrease for equities in isolation and the portfolio in total, excluding real estate investments, through 2012. This is mainly attributable to the model using three years' historical data, and the especially volatile period in the beginning of 2009 is no longer included in the data set. In addition, volatility in the equity and fixed income markets has overall decreased slightly during the first nine months of 2012. Volatility decreased in the first quarter, took an upturn during the second quarter due to renewed financial unrest in Europe, and has decreased somewhat again in the third quarter. The risk figure indicates that at the end of the quarter an annual value change of 8.5 percent, or approximately NOK 300 billion, may be expected.

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 ratings. Table 8.4 shows the portfolio's distribution on different credit rating categories.

Table 8.4: The bond portfolio specified by credit rating

Figures in NOK million, 30 September 2012	AAA	AA	A	BBB	Lower rating	Total
Government bonds	587,703	121,842	24,747	79,561	6,133	819,986
Government-related bonds	96,241	39,035	10,560	17,488	2,964	166,288
Inflation-linked bonds	58,963	6,468	81	6,829	276	72,618
Corporate bonds	388	15,660	93,097	76,470	2,857	188,471
Securitised bonds	114,847	15,902	43,709	17,021	4,478	195,957
Total bonds and other fixed-income instruments	858,142	198,906	172,194	197,369	16,708	1,443,320

(cont.)

<i>Figures in NOK million, 31 December 2011</i>	AAA	AA	A	BBB	Lower rating	Total
Government bonds	4951,62	79,563	28,235	6,248	3,357	612,565
Government-related bonds	110,336	39,658	12,868	11,352	2,950	177,164
Inflation-linked bonds	77,634	21,011	6,857	-	214	105,716
Corporate bonds	283	25,219	94,555	65,667	2,617	188,341
Securitised bonds	183,963	35,719	12,476	6,672	4,895	243,725
Total bonds and other fixed-income instruments	867,378	201,170	154,991	89,939	14,033	1,327,511

The holdings allocated to Lower rating have increased somewhat compared to year-end 2011. Furthermore the share of bond holdings rated A and BBB has increased compared to the share of holdings rated AAA and AA. This is due to a combination of the downgrading of a number of European bond issuers due to deterioration in credit quality, and the purchase of emerging market bonds.

Counterparty risk

Counterparty risk is the risk of loss related to the possible bankruptcy or other similar event leading to a counterparty not being able to fulfil its payment obligations.

In table 8.5 the counterparty risk exposure is shown per type of activity/instrument type.

Table 8.5: Counterparty risk by type of position

<i>Amounts in NOK million, 30 September 2012</i>	Carrying amount adjusted for collateral	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits	5,380	6,717	-	-	6,717
OTC derivatives including foreign exchange contracts	-1,739	3,280	426	1,734	1,119
Repurchase and reverse repurchase agreements*	129	898	54	-	844
Securities lending transactions**	-14,978	20,960	-	12,771	8,189
Bonds posted as collateral for futures trades	1,295	1,367	-	-	1,367
Total		33,221	480	14,505	18,236

<i>Amounts in NOK million, 31 December 2011</i>	Carrying amount adjusted for collateral	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits	7,276	7,691	-	-	7,691
OTC derivatives including foreign exchange contracts	-3,511	5,355	1,601	2,009	1,745
Repurchase and reverse repurchase agreements*	-2,668	1,040	181	-	858
Securities lending transactions**	-9,526	18,097	-	7,624	10,472
Bonds posted as collateral for futures trades	762	772	-	-	772
Total		32,955	1,782	9,633	21,538

* The column Carrying amount adjusted for collateral takes into account all positions in the repurchase market, including the reinvestment of cash collateral. The internal measurement and monitoring of counterparty risk for these types of instruments do not include these reinvestments.

** The column Carrying amount adjusted for collateral includes securities lent and collateral received.

Table 8.5 shows counterparty risk by type of position as at 30 September 2012. Counterparty risk is reduced some since year-end 2011.

To the Supervisory Council of Norges Bank

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

We have reviewed the consolidated 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 comprise the balance sheet as at September 30, 2012, the income statement, the statement of 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 EU.

Oslo, 31 October 2012
Deloitte AS

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



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