Provisions on the management of the Government Pension Fund

As of 1 January 2011

Unofficial translation from Norwegian. For information purposes only.

Government Pension Fund Act (no. 123 of 21 December 2005)

Section 1 The Government Pension Fund shall support government saving to finance the National Insurance Scheme's expenditure on pensions and support long-term considerations in the use of petroleum revenues.

Section 2 The Government Pension Fund is managed by the Ministry of Finance. The Fund comprises the Government Pension Fund Global and the Government Pension Fund Norway.
The Government Pension Fund Global is deposited in an account at Norges Bank. The countervalue is managed under rules laid down by the Ministry, see section 7.
The Government Pension Fund Norway is deposited with Folketrygdfondet. The countervalue is managed under rules laid down by the Ministry, see section 7.

Section 3 Income to the Government Pension Fund Global consists of the net cash flow from petroleum activities, which is transferred from the central government budget, the net results of financial transactions associated with petroleum activities and the return on the Fund's capital.
The net cash flow from petroleum activities consists of the gross revenues in the third paragraph minus the expenses in the fourth paragraph.

The following gross revenues are part of the cash flow from petroleum activities:

1. total tax revenues and royalties deriving from petroleum activities collected pursuant to the Petroleum Taxation Act (no. 35 of 13 June 1975) and the Petroleum Activities Act (no. 72 of 29 November 1996),
2. revenues deriving from tax on CO2 emissions due to petroleum activities on the continental shelf pursuant to Act relating to CO2 tax in the petroleum activity on the continental shelf (no. 72 of 21 December 1990),
3. revenues deriving from tax on NOx emissions due to petroleum activities on the continental shelf,
4. operating income and other revenues deriving from the State's direct financial interest in petroleum activities,
5. Gcentral government revenues from net surplus agreements associated with certain production licences,
6. dividends from Statoil ASA,
7. transfers from the Petroleum Insurance Fund,
8. government revenues deriving from the removal or alternative use of installations on the continental shelf,

9. any government sale of stakes representing the State’s direct financial interest in petroleum activities,

The following expenses shall be deducted from the gross revenues in the third paragraph:
1. government’s direct investments in commercial petroleum activities (the State’s direct financial interest),
2. operating costs and other costs directly related to the State’s direct financial interest,
3. government expenses in connection with the Petroleum Insurance Fund,
4. government expenses in connection with the removal or alternative use of installations on the continental shelf,
5. any government purchase of stakes as part of the State’s direct financial interest in petroleum activities.

Net results of financial transactions associated with petroleum activities are gross revenues from government sale of shares in Statoil ASA less government purchase of shares in Statoil ASA, defined as the market price paid by the government for the shares, and less government capital contributions to Statoil ASA and companies attending to government interests in petroleum activities, as well as financial transactions connected to companies in the petroleum sector in which the Government has ownership.

Section 4 Income to the Government Pension Fund Norway consists of the return on the capital under management.

Section 5 The capital of the Government Pension Fund may only be used for transfers to the central government budget pursuant to a resolution by the Storting (Norwegian parliament).

Section 6 The Government Pension Fund itself has no rights or obligations vis-à-vis private-sector entities or public authorities and may not institute legal proceedings or be subjected to legal proceedings.

Section 7 The Ministry may issue supplementary provisions to implement this Act.

Section 8 The Act enters into force at such time as the King decides. The King may bring the individual provisions into force at different times. The Ministry may make transitional rules.

Section 9 The following amendments to other Acts become effective as from the entry into force of this Act:

1. Repeal of the Government Petroleum Fund Act (no. 36 of 22 June 1990).

Management mandate for the Government Pension Fund Global

Index:

Management mandate for the Government Pension Fund Global

Laid down by the Ministry of Finance 8 November 2010 pursuant to Act no. 123 of 21 December 2005 on the Government Pension Fund, section 2, second paragraph, and section 7.

Chapter 1. General provisions

Section 1-1 Norges Bank's management assignment

(1) The Ministry places the Government Pension Fund Global (GPFG) in the form of a Norwegian krone deposit with Norges Bank (the Bank) in accordance with Act no. 123 of 21 December 2005 on the Government Pension Fund, section 2, second

paragraph. The Bank shall manage this deposit in accordance with the provisions of this mandate and the provisions issued pursuant to sections 3-5, fifth and sixth paragraph, 4-4, fifth paragraph, 9-1, and 9-3, third paragraph.

(2) The Bank shall seek to achieve the highest possible return after management costs measured in the currency basket of the actual benchmark index.

(3) The Bank shall make investment decisions independently of the Ministry.

Section 1-2 Investment of the Fund

(1) The Ministry's krone deposits (the Fund's capital) shall be placed in a separate account in the Bank. The Bank shall invest this capital in its own name in a portfolio of financial instruments, real estate and cash deposits denominated in foreign currency.

(2) The value of GPFG's krone account shall be equivalent to the value of the portfolio of financial instruments, real estate and cash deposits. The portfolio's book return less the Bank's management costs and adjusted in accordance with the accounting regulations for Norges Bank shall be added to GPFG's krone account.

Section 1-3 Strategic plan for the Bank's management of GPFG

(1) The Bank shall have a strategic plan for how it will perform its management assignment. This plan shall be updated regularly and in the event of significant changes.

(2) The Bank shall regularly evaluate the extent to which the goals in the strategic plan have been achieved.

Section 1-4 External managers and service providers (outsourcing)

(1) The Bank may use external managers and outsource operational functions, cf. section 5 of regulations no. 1630 of 17 December 2009 on risk management and internal control in Norges Bank.

(2) The Bank shall have guidelines for when outsourcing can be used.

(3) The Bank shall establish a limit for how large a part of the Fund's capital a single external manager may manage.

(4) The fee structure in agreements with external managers shall be designed to safeguard the GPFG's financial interests, taking into account the time horizon of the relevant investment strategies. The individual agreements with managers on performance-based fees shall be structured so that the Fund retains a major proportion of the positive excess return, including provisions for caps on fees.

Section 1-5 Bank's advisory duty and right to express an opinion

(1) The Bank shall advise the Ministry on the investment strategy for the GPFG. Advice may be provided on the initiative of the Bank or on request from the Ministry.

(2) The Bank shall advise the Ministry on the need for changes in the mandate for the management of GPFG. Such advice may be provided on the initiative of the Bank or on request from the Ministry.

(3) The Bank shall have the opportunity to express its opinion before significant changes are introduced in the mandate for the management of the GPFG and shall be given notice in reasonable time to allow any changes to be made in the portfolio.

Chapter 2. Responsible investment

Section 2-1 The Bank's work with responsible management

(1) The management of the Fund's capital shall be based on the goal of achieving the highest possible return, cf. section 1-1, second paragraph. A good return in the long term is regarded as being dependent upon sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and effective markets.

(2) The Bank shall have internal guidelines for integrating considerations of good corporate governance and environmental and social issues in investment activities, in line with internationally recognised principles for responsible investment. The integration of these considerations shall occur in respect of the GPFG's investment strategy and role as financial manager. In executing its management assignment, the Bank shall give priority to a long-term horizon for investments and the investments being broadly placed in the markets included in the investment universe.

(3) In its management of the real estate portfolio, the Bank shall in the area of environmental protection give priority to i.e. considerations of energy efficiency, water consumption and waste management.

Section 2-2 Active ownership

(1) The Bank's primary goal in its active ownership is to safeguard GPFG's financial interests.

(2) Active ownership shall be based on the UN Global Compact, the OECD Guidelines on Corporate Governance and the OECD Guidelines for Multinational Enterprises. The Bank shall have internal guidelines for its exercise of ownership rights that indicate how these principles are integrated.

(3) Major amendments to the Bank's priorities in its active ownership shall be sent to the Ministry for comment before a final decision is made. The Bank's plans shall be subject to public consultation before being submitted to the Ministry.

Section 2-3 Contribution to the development of good international standards for responsible investment

The Bank shall actively contribute to the development of good international standards in the area of responsible investment and active ownership.

Chapter 3. Management of the equity and fixed income portfolios

Section 3-1 Introductory provisions

The provisions in this chapter apply to investments in GPFG's equities and fixed income portfolios, including investments in listed property companies and property funds included in the GPFG's equity portfolio. Separate provisions apply to investments that are to be included in the real estate portfolio, cf. chapter 4.

Section 3-2 Strategic benchmark index

(1) The strategic benchmark index consists of two asset class indices: an equity index and a fixed income index. The equity index constitutes 60 per cent of GPFG's strategic benchmark index. The fixed income index constitutes 40 per cent of the value of GPFG's strategic benchmark index, less the share of the value of GPFG invested in the real estate portfolio. The value of the real estate investments is calculated as a net value, cf. section 4-2, second paragraph.

(2) Each asset class index consists of three strategic regional indices: Europe, America & Africa, and Asia & Oceania. The three regional indices in the two asset classes constitute a total of six sub-indices.

(3) Within each of the six sub-indices the composition of the index is determined by the market capitalisation weights.

(4) Securities that the Ministry has excluded from the investment universe shall not be included in the strategic benchmark index. When a company is excluded from the equity index, the remaining companies in the regional index in question shall be weighted up. When fixed income instruments are excluded from the fixed income index, the remaining fixed income instruments in the regional index in question shall be weighted up. If the issuer has issued fixed income instruments in several currencies that belong to different regional indices, the weighting-up rule shall be applied to each regional index.

Section 3-3 Strategic fixed income index

(1) The strategic fixed income index has the following composition:

a) 60 per cent consists of the financial instruments included in Barclays Capital Global Aggregate Bond Index (BCGA) and Barclays Capital Global Inflation-Linked Index (BCGI) Europe, with the exception of instruments denominated in Norwegian kroner (NOK). This part of the strategic fixed income index shall consist of instruments issued in euro, pounds sterling, Swiss francs, Swedish kroner and Danish kroner. For fixed income instruments issued in Swiss francs, the benchmark index shall consist of domestic government fixed income bonds.

b) 35 per cent consists of the financial instruments included in the indices BCGA and BCGI US and Canada, with sector weights adjusted in accordance with Table 1. This part of the strategic fixed income index shall consist of instruments issued in US and Canadian dollars. The variable x in Table 1 shall be decided by the Bank each month such that the combined market value of instruments issued in US dollars does not change as a result of the adjusted weights.

Table 1. Factors for adjusting the weights of the indices in BCGA and BCGI USA and Canada

	Currency	**Sector**	**Region**	**Factor**
NB CAD ABS	CAD	Securitised	AMERICA	1.0
NB CAD Agency	CAD	Government Related	AMERICA	1.0
NB CAD CMBS	CAD	Securitised	AMERICA	1.0
NB CAD Covered Bonds	CAD	Securitised	AMERICA	1.0
NB CAD Financial	CAD	Corporate	AMERICA	1.0
Global Inflation-Linked: Canada	CAD	ILB	AMERICA	1.0
NB CAD INDS SR	CAD	Corporate	AMERICA	1.0
NB CAD Local Authority	CAD	Government Related	AMERICA	1.0
NB CAD MBS	CAD	Securitised	AMERICA	1.0
NB CAD Sovereign	CAD	Government Related	AMERICA	1.0
NB CAD Supranational	CAD	Government Related	AMERICA	1.0
NB CAD Treasury	CAD	Treasury	AMERICA	1.0
NB CAD Utility	CAD	Corporate	AMERICA	1.0
NB USD ABS	USD	Securitised	AMERICA	0.5
NB USD Agency	USD	Government Related	AMERICA	0.5
NB USD CMBS	USD	Securitised	AMERICA	0.5
NB USD Covered Bonds	USD	Securitised	AMERICA	0.5
NB USD Financial	USD	Corporate	AMERICA	1+x
Global Inflation-Linked: U.S. TIPS	USD	ILB	AMERICA	1+x
NB USD INDS SR	USD	Corporate	AMERICA	1+x

NB USD Local Authority	USD	Government Related	AMERICA	1+x
NB USD MBS	USD	Securitised	AMERICA	0,5
NB USD Sovereign	USD	Government Related	AMERICA	1+x
NB USD Supranational	USD	Government Related	AMERICA	1+x
NB USD Treasury	USD	Treasury	AMERICA	1+x
NB USD Utility	USD	Corporate	AMERICA	1+x

c) 5 per cent shall consist of government bonds from developed markets in BCGA and BCGI Asia & Oceania (Japan, Australia, New Zealand and Singapore). This part of the strategic fixed income index shall consist of instruments issued in Japanese yen, Australian dollars, New Zealand dollars and Singapore dollars.

(2) The composition of the strategic fixed income index shall be adjusted in accordance with changes in the composition implemented by the index provider.

Section 3-4 Strategic equity index

(1) The strategic equity index consists of FTSE All-Cap indices, adjusted for the Bank's tax position, for the categories Developed, Advanced Emerging and Secondary Emerging markets. The regions shall have the following weights:

- 50 per cent FTSE All-Cap Europe, excluding Norway

- 35 per cent FTSE All-Cap Americas / FTSE All-Cap Middle East and Africa

- 15 per cent FTSE All-Cap Asia & Oceania

(2) Specification of the countries and companies in the strategic equity index follows the rules for the FTSE index, adjusted for changes as a result of section 3-2, fourth paragraph.

(3) The share allocated to the various markets and companies within a region is determined daily. This allocation shall be based on the development of the market values for the companies included in the various countries within each region

Section 3-5 Actual benchmark index

(1) The composition of the actual benchmark index is based on the strategic benchmark index and consists of the same sub-indices as the strategic benchmark index, cf. sections 3-2 to 3-4.

(2) Specification of the countries and companies in the sub-indices of the actual equity index follows the index rules of the index provider, adjusted for changes as a result of section 3-2, fourth paragraph.

(3) The composition of the sub-indices of the actual strategic fixed income index shall be changed in accordance with changes in the composition implemented by the index provider, and the weights shall be adjusted as mentioned in section 3-3, first paragraph, letter b.

(4) The relative share of each sub-index in the actual benchmark index shall be adjusted on a daily basis in accordance with the total rate of return for the securities included in the indices.

(5) The Ministry will provide more detailed provisions on the transfer of new capital to GPFG.

(6) The Ministry will provide more detailed provisions on the rebalancing of the actual benchmark index.

Section 3-6 Approved instruments

(1) The Bank may invest the portfolio in financial instruments and cash deposits that are approved in accordance with section 5-10, but this is limited to:

a) tradable debt securities and other tradable debt instruments, and depository receipts for such fixed income instruments

b) equities listed on a regulated and recognised market place, listed securities that are equivalent to listed equities, and depository receipts for such equities

c) securities as mentioned in letter b in unlisted companies in which the board has expressed an intention to seek a listing on a regulated or recognised market place

d) financial derivatives and fund units that are naturally linked to equities, fixed income instruments or commodities

(2) The Bank can own financial instruments and derivatives that are received by the portfolio as a result of corporate actions.

Section 3-7 Management restrictions

(1) The Bank shall organise the management with the aim of the annualised standard deviation for the excess return between the actual portfolio and actual benchmark index not exceeding 1 per cent on an ex ante basis (expected tracking error) . The Bank determines a method for the calculation of the expected tracking error that must be approved by the Ministry.

(2) A credit rating is required for all investments in fixed income instruments. The Bank shall make an internal credit rating assessment when there is no external credit rating. All internal credit rating assessments shall be documented. The Bank shall organise the management with the aim that high yield bonds (credit rating lower than investment grade) shall not exceed 3 per cent of the market value of the fixed income portfolio.

(3) Net exposure to equities in the portfolio shall be in the range of 50 – 70 per cent. Net exposure shall be calculated in relation to the Net Asset Value (NAV).

(4) The Bank shall seek to ensure that the return on active positions on an ex ante basis is exposed to several different systematic risk factors.

(5) The Bank shall set supplementary limits for risks that, based on experience, are not captured well by the expected tracking error limit, cf. first paragraph above, including:

a) Limits for the minimum overlap between the portfolio and actual benchmark index

b) Credit risk limits at the individual issuer and portfolio levels

c) Liquidity risk limits

d) Counterparty risk limits. The limits shall include limits for the minimum credit rating of counterparties for non-secured deposits, OTC derivative transactions and other types of contracts that expose the Bank to counterparty risk

e) Leverage limits, including limits for the gross exposure to the various asset classes. Leverage may be used with a view to performing a management task in an effective manner, but not with a view to increasing GPFG's financial exposure to risky assets

f) Limits for the reinvestment of cash collateral received. Reinvestment shall not take place with a view to increasing GPFG's financial exposure to risky assets

(6) The limits stated in the fifth paragraph shall be presented to the Ministry at least four weeks prior to their planned implementation. Subsequent expansion of the limits shall be presented to the Ministry at least four weeks prior to their planned implementation, unless special circumstances indicate a shorter time limit.

(7) Within the equity portfolio the Bank may not acquire more than 10 per cent of the voting shares in an individual company.

(8) The Fund's capital may not be invested in securities issued by Norwegian enterprises and securities denominated in Norwegian kroner. "Norwegian enterprises" means enterprises whose head office is in Norway.

(9) The Fund's capital shall not be invested in securities that the Ministry has excluded from the investment universe, cf. section 8 of the guidelines of 1 March 2010 for observation and exclusion of companies for the GPFG.

(10) The Fund's capital shall not be invested in fixed income instruments issued by governments or government-linked issuers in exceptional cases where the Ministry has barred such investments based on large-scale international initiatives that Norway supports and that are aimed at specific countries.

Chapter 4. Management of the real estate portfolio

Section 4-1 Introductory provisions

The Bank shall place up to 5 per cent of the Fund's capital in a designated portfolio of real estate investments (real estate portfolio) in accordance with the provisions in this chapter.

Section 4-2 Definitions

(1) In this chapter, gross value means the value of the real estate portfolio before deductions for GPFG's share of liabilities related to the investments.

(2) In this chapter, net value means the value of the real estate portfolio less GPFG's share of liabilities related to the investments.

(3) The net return of the real estate portfolio shall be calculated after deduction of all costs, such as operating, transaction, tax, management and custody costs.

(4) Real estate in this chapter means rights to land and any buildings that are found upon it. Real estate does not include infrastructure such as roads, railways, harbours, airports and other fundamental infrastructure.

Section 4-3 General limits and constraints for investments in real estate

(1) The real estate portfolio can be invested in real estate or in equity and interest-bearing instruments issued by listed or non-listed companies, fund structures and other legal entities whose primary business is the acquisition, development and management or financing of real estate.

(2) The real estate portfolio may be invested in derivatives that are naturally linked to real estate instruments. For the purpose of calculating country composition and the percentage of listed investments, derivatives shall be depicted with the underlying economic exposure.

(3) The Bank may make investments in the real estate portfolio through Norwegian or other legal entities.

(4) Investments in equity instruments shall be listed on regulated and recognised markets. Unlisted companies and fund structures shall be established in OECD countries, countries with which Norway has tax agreements or other countries from which the Norwegian Government may demand tax information pursuant to other international legal agreements.

(5) The Bank may not invest in real estate located in Norway or in real estate companies, real estate funds or similar structures where the primary purpose is to invest in Norway.

(6) The Fund's capital in the real estate portfolio shall not be invested in securities issued by enterprises that the Ministry has excluded from the investment universe, cf. section 8 of the guidelines of 1 March 2010 for reviewing cases concerning the exclusion or observation of companies for the GPFG.

(7) The Bank shall have internal guidelines for valuation of instruments in connection with internal transactions between the real estate portfolio and the equity and fixed income portfolios.

Section 4-4 Strategic country and sector allocation

(1) The real estate portfolio's strategic country allocation shall correspond to the country weightings in the European part of the IPD Global Property Benchmark, excluding Norway.

(2) Investments in a single country shall not exceed 25 per cent of the value of the real estate portfolio. This limitation does not apply to France, UK and Germany.

(3) The real estate portfolio shall be diversified in accordance with the following sector allocation of the portfolio's gross value:

a) Office 0 — 100 per cent

b) Retail 0 — 100 per cent

c) Residential 0 — 25 per cent

d) Industrial 0 — 25 per cent

e) Other property 0 — 25 per cent

(4) The country and sector allocation applies until the net value of the real estate portfolio accounts for 1 per cent of the Fund's market value. Norges Bank shall submit a proposal for possible changes to the country and sector allocation and the associated deviation limits no later than two months after this point in time.

(5) On request from the Ministry, the Bank shall propose a strategic country and sector allocation and the associated deviation limits for the gross value of the real estate portfolio's investments. The allocation and limits are set by the Ministry.

Section 4-5 Return objective

(1) The Bank shall seek to achieve a net return on the real estate portfolio that at least corresponds to the Investment Property Databank (IPD) Global Property Benchmark for the Government Pension Fund Global (IPD GPFG). The return of IPD GPFG is equal to IPD's Global Property Benchmark, weighted with the strategic country allocation, cf. section 4-4, and adjusted for the effect of any actual leverage and estimates for the normal management and tax costs.

(2) The real estate portfolio's return and return objective are calculated as an annualised five year average of annual time-weighted return, measured in the currency basket that corresponds to the return objective's currency composition.

Section 4-6 Diversification requirements

(1) The real estate portfolio shall be well diversified in geography, and over sectors, properties and instruments.

(2) The Bank shall limit risk in the real estate portfolio by means of restrictions for

a) investment in emerging markets

b) investment in real estate under development

c) investments in vacant real estate

d) investment in a single year (vintage)

e) investment in interest-bearing instruments

f) investment in listed real estate companies

Section 4-7 Leverage

(1) Debt financing may be used in fund structures and by other legal entities with the aim to implement the management assignment in an effective manner, but such leverage may not be with the aim to increase GPFG's financial exposure to risky assets.

(2) The Bank shall establish limits for the real estate portfolio's total debt ratio and the maximum debt ratio for individual investments.

Section 4-8 Due diligence

(1) The Bank shall establish guidelines that ensure a due diligence for each individual investment prior to an investment in real estate covered by the provisions in this chapter.

(2) The due diligence process shall include assessments of the various risk aspects connected to the investment, including market risk, liquidity risk, credit risk, counterparty risk, operational risk, legal, tax and any technical and environmental risk. The review shall be documented.

Section 4-9 Phasing in of real estate portfolio into GPFG

(1) Allocation of capital to the real estate portfolio shall result in a corresponding reduction in the benchmark index for fixed income instruments.

(2) The Bank's advice on the composition of the theoretical transfer portfolio shall only include the benchmark indices for equity instruments and fixed income instruments. When calculating the theoretical transfer portfolio the latest market value available for the real estate portfolio shall be used to calculate the value of GPFG's total benchmark index.

(3) The Bank shall seek to spread the transition over several years and over relevant risk factors, cf. section 4-6, first paragraph.

(4) The pace of the transition shall be determined on the basis of the Bank's long-term expectations of return and risk in the real estate market and GPFG's possible investments in other markets.

Chapter 5. Valuation, performance measurement, and risk management, measurement and control of risk

Section 5-1 Introductory provisions

(1) The Bank shall establish principles for valuation, performance measurement, and risk management, measurement and control that, as a minimum, adhere to internationally recognised standards and methods. The Bank shall evaluate its work and competence related to the Bank's risk management and internal control at least once a year, cf. section 3, subsection 7 of regulations no. 1630 of 17 December 2009 on risk management and internal control in Norges Bank.

(2) The Bank shall have routines for reporting risk and exposure in the areas covered in this chapter. The measurement methods shall complement each other.

Section 5-2 Valuation and measurement of return

(1) The return on the equity and fixed income portfolio shall be measured in the currency composition of the actual benchmark index (currency basket), cf. section 3-5. The return on the real estate portfolio shall be measured in the currency composition of the return objective, cf. section 4-5.

(2) The rate of return calculations shall be compiled in compliance with the Global Investment Performance Standards (GIPS) methodology.

(3) The Bank shall establish principles for valuation and return measurement on the financial instruments included in the portfolio.

(4) The method used to establish the value of financial instruments shall be verifiable and shall indicate with reasonable assurance the true value of the assets at the time of measurement.

(5) At least once a year, preferably as of 31 December, the Bank shall obtain an external, independent valuation of the unlisted real estate investments.

Section 5-3 Measurement and management of market risk

(1) The Bank shall establish principles for the measurement and management of market risk, including relevant sources of systematic risk, cf. 3-7. The measurements shall strive to identify all relevant market risk associated with the financial instruments in use. The risk shall be estimated by means of several different methods. Stress tests shall be performed, based, for example, on historical events and scenarios for the future development of systematic risk factors.

(2) Analysis of extreme event risk shall be an integral part of GPFG's risk management.

Section 5-4 Measurement and management of credit risk

The Bank shall establish principles for the measurement and management of credit risk, cf. section 3-7. Measurements of credit risk shall strive to identify all relevant credit risk linked to the financial instruments in use.

Section 5-5 Measurement and management of counterparty exposure

(1) The Bank shall establish principles for measurement and management of counterparty exposure, cf. section 3-7.

(2) The Bank shall have satisfactory routines and systems for selecting and evaluating counterparties. The Bank shall establish upper limits for exposure, minimum requirements for credit rating and standards for provision of collateral, collateral management and netting arrangements. Overall exposure to counterparties shall be measured using internationally recognised methods.

Section 5-6 Measurement and management of leverage

The Bank shall establish principles for measurement and management of portfolio leverage, cf. section 3-7. The principles shall cover implicit leverage achieved through the use of derivatives and reinvestment of cash collateral provided in connection with securities lending or repurchase agreements.

Section 5-7 Security lending and borrowing and short selling of

(1) The Bank shall establish guidelines for security lending and borrowing, and for short selling of securities.

(2) Short selling is only permitted if the Bank has access to the securities through an established borrowing arrangement.

Section 5-8 Reinvestment of cash collateral received

The Bank shall establish guidelines for reinvestment of cash collateral received, cf. section 3-7.

Section 5-9 Measurement and management of operational risk

(1) The Bank shall define in more detail what is meant by the term operational risk.

(2) Operational risk factors shall be identified, assessed in terms of probability and impact, monitored and managed.

Section 5-10 Approval of instruments

(1) Before the Fund's capital is invested, the Bank shall approve all the financial instruments that are used in the management and all the markets in which the Fund’s capital is invested.

(2) The Bank’s approval shall depend on whether an instrument contributes to effective execution of the management assignment and that the Bank can ensure comprehensive management, control and monitoring of all the relevant investment and operational risks.

(3) The approval shall be documented.

Chapter 6. Management costs

Section 6-1 Upper limit

(1) By 1 December each year, the Bank shall send the Ministry a substantiated proposal for a limit on management costs for the management of GPFG based on estimates of the next year’s management costs.

(2) The Ministry will approve a limit for management costs as a percentage of the assets under management. The Bank will only be reimbursed for actual costs within the approved limit. Costs in excess of the approved limit will not be covered. The part of the external manager fees that are based on the excess return achieved will be covered outside the approved limit for management costs.

(3) The total actual costs may be drawn directly from the Ministry’s separate account, before the net return is transferred to the krone account, cf. section 1-2, second paragraph. The Bank shall submit its calculation of the total management costs as early as possible, and no later than one week prior to the final statement of accounts.

Section 6-2 Guidelines and framework for a remuneration system

(1) The Executive Board shall establish guidelines and framework for a remuneration system. The remuneration system shall include special provisions for executives, for other employees and employee representatives with assignments of significance for the company's risk exposure and for other employees and employee representatives with corresponding remuneration, and for other employees and employee representatives with control assignments.

(2) The remuneration system shall contribute to the promotion of and create incentives for good management and control of the risks involved in management, counteract excessive risk exposure and help prevent conflicts of interest.

(3) Regulation 1 December 2010 No. 1507 with subsequent amendments regarding remuneration schemes in financial institutions, investment firms and management companies for securities funds applies, with necessary adaptations.

Addition, re. resolution passed on 21 December 2010 (came into effect on 1 January 2011).

Chapter 7. Public reporting

Section 7-1 Public reports on the management of the Fund

(1) The Bank shall publish quarterly and annual reports on the management of the Fund. The reports shall be based on the greatest possible degree of transparency within the limits defined by a sound execution of the management assignment.

(2) The reports shall consist of a descriptive part and extracts from the Bank's accounts concerning the management of the Fund in accordance with the current accounting regulations for Norges Bank.

(3) The descriptive part shall include a true and fair summary of the performance of the Fund, management costs, investment management strategies, creation of value in the investment management and relevant risk in the investment management, including utilisation of the limits defined in this mandate. In addition, an account shall be given of the organisation of the investment management in the Bank.

(4) The descriptive part of the annual report shall include a separate account of the management of the real estate portfolio.

(5) The descriptive part of the annual report shall also contain a separate account of the Bank's work related to active ownership and integration of good corporate governance and environmental and social issues, including an account of separate environment-related investments. The account of the environment-related investments shall include, for example, the scope, strategy, asset type, description and evaluation of how they fulfil the intention of the environmental programme.

(6) If the calculation methods on which the reporting of performance and risk have changed since the last published report, then an account shall be given of why the methods have changed and information shall be provided on any effects of the changes. In addition, pro-forma figures shall be provided in accordance with the previous calculation methods in four subsequent reports.

(7) The annual report shall be published no later than three months after the end of the financial year. The main points in the reports shall be made available in print. Other data may be reported electronically.

Section 7-2 Publication of the Executive Board's guidelines

The principles, guidelines and limits laid down by the Bank's Executive Board as a result of this mandate shall be made public.

Section 7-3 Reporting to IPD

(1) The Bank shall submit property specific data to IPD in accordance with their standards for unlisted property investments wherever possible.

(2) The data submitted shall facilitate the calculation of the real estate portfolio's leverage, cf. section 4-5.

Chapter 8. Relationship between the Ministry and the Bank

Section 8-1 Duty to inform

(1) The Bank shall submit the strategic plan to the Ministry, cf. section 1-3.

(2) The Bank shall inform the Ministry if GPFG's values change significantly and about other significant changes with respect to the management.

(3) The Bank shall provide the Ministry with any information that the Ministry requests, including information to companies that assist the Ministry in evaluating the Bank's management of GPFG. The data shall be submitted in machine-readable form.

(4) The Ministry shall be informed without undue delay of incidents that trigger the duty to inform.

Section 8-2 The Bank's duties in the event of limits and constraints being exceeded

(1) In the event that the limits and constraints defined in sections 3-7, 4-3 and 4-4 are breached, the Bank shall without undue delay assess how its management can be brought back within the limits in an appropriate and cost-effective manner.

(2) The Ministry shall be informed of any essential breaches to the limits mentioned in the first paragraph.

Section 8-3 Quarterly meetings

(1) The Ministry and the Bank shall meet at least once per quarter. The meetings shall be convened by the Ministry. The Ministry will specify in more detail which data shall be submitted to the Ministry as a basis for its preparations for the quarterly meetings and the format and deadline for submission.

(2) The following business shall be discussed at the quarterly meetings:

a) performance during the last quarter

b) the main aspects of the exercise of ownership during the last quarter

c) other matters that the Ministry or the Bank have put on the agenda

Chapter 9. Deviation from the provisions, transitional provisions and entry into force

Section 9-1 Right to deviate from the provisions

In special circumstances, the Ministry may allow the Bank to deviate from the provisions in this mandate.

Section 9-2. Transitional provisions

(1) The Bank shall submit to the Ministry no later than 1 December 2010 the limits mentioned in section 3-7 with a planned entry into force on 1 January 2011.

Section 9-3. Entry into force

(1) Chapter 6 and section 9-2 come into force immediately. Other provisions come into force on 1 January 2011.

(2) The regulations no. 1725 of 22 December 2005 on the management of the Government Pension Fund Global, guidelines for management of the Government Pension Fund Global (supplementary provisions pursuant to the Government Pension Fund Act and the regulations on the management of the Government Pension Fund Global), regulations of 24 February 2010 concerning management of the real estate portfolio in the Government Pension Fund Global and the guidelines of 1 Mars 2010 for Norges Bank's work on responsible management and active ownership of Government Pension Fund Global will be repealed on 1 January 2011. The management agreement of 12 February 2001 and subsequent amendments between the Ministry and the Bank will be terminated from the same date.

(3) The Ministry may issue special transitional provisions.