

2Q|16

**GOVERNMENT
PENSION FUND
GLOBAL**

**QUARTERLY REPORT
/2016**

HIGHLIGHTS

Second quarter 2016 in brief

1.3%

94 Bn. KR

The Government Pension Fund Global returned **1.3** percent, or **94** billion kroner, in the second quarter of 2016.





EQUITY INVESTMENTS

—
0.7 %



FIXED-INCOME INVESTMENTS

—
2.5 %



REAL ESTATE INVESTMENTS

—
-1.4 %

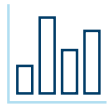
Equity investments returned **0.7** percent, while fixed-income investments returned **2.5** percent. Investments in real estate returned **-1.4** percent.

The return on equity and fixed-income investments was **0.1** percentage point lower than the return on the benchmark indices.



7,177 Bn. KR

The fund had a market value of **7,177** billion kroner at the end of the quarter and was invested **59.6** percent in equities, **37.4** percent in fixed income and **3.1** percent in real estate.



EQUITY INVESTMENTS

—
59.6 %



FIXED-INCOME INVESTMENTS

—
37.4 %



REAL ESTATE INVESTMENTS

—
3.1 %



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

Fund management

MARKET DEVELOPMENTS

Markets were heavily influenced by political developments during the quarter, most notably the referendum in the UK on EU membership. After a period of relatively stable markets at the beginning of the quarter, there was a flight to safety after the British voted to leave the EU. The yen strengthened markedly, while the dollar was relatively stable. Demand for fixed-income instruments and non-cyclical stocks increased sharply.

Economic data showed moderate improvements in the US, but not at the rate the authorities had anticipated. Weak growth and political uncertainty internationally put a damper on the economic expansion, and the Federal Reserve left its key rates unchanged. Interest rates were raised in December 2015 for the first time since the financial crisis, but signals from the Federal Reserve during the quarter suggested that it had become somewhat less inclined to raise them further.

In Europe, economic performance was mixed, with political developments continuing to affect markets. The referendum in the UK attracted considerable attention during the quarter, and markets reacted strongly to the result. The pound fell sharply. Demand for government bonds increased, and an increasing share of the world's fixed-income securities traded at negative yields. Migration pressures eased considerably relative to last autumn's predictions,

but continued political uncertainty in a number of countries affected market sentiment. The ECB left its key rates unchanged at record-low levels throughout the quarter.

In China, the renminbi depreciated further. The economy continued to grow in line with the government's target, but there was increased concern about the country's high debt levels. In Brazil, markets were more stable in the second quarter after a turbulent period, and the real appreciated further throughout the quarter. Markets saw the change of government in May as a step in the right direction in terms of bringing about the necessary economic reforms.

EQUITY INVESTMENTS

Equity investments, which accounted for 59.6 percent of the fund at the end of the quarter, returned 0.7 percent. Stimulus measures from the Chinese authorities buoyed markets at the beginning of the quarter, while the Brexit referendum dominated at the end of the quarter. The British decision to leave the EU sparked a sharp decline in European markets, with the UK bank and construction sectors hit particularly hard. Markets recovered relatively quickly, but with major variations between sectors. Financials, for example, performed weakly with a return of -2.5 percent for the quarter.

Negative return in Europe

European stocks accounted for 37.2 percent of the fund's equities and produced a return of -3.0 percent. The UK, which is the fund's largest European market with 10.6 percent of its equity investments, returned -3.4 percent.

North American stocks made up 38.7 percent of the equity portfolio and returned 3.3 percent. US stocks were the fund's single largest market, with 36.6 percent of its equity investments, and gained 3.2 percent.

Stocks in Asia and Oceania, which made up 21.1 percent of the fund's equity investments, returned 1.8 percent. Japanese shares amounted to 9.0 percent of equity investments and returned 2.2 percent.

Emerging markets accounted for 9.3 percent of the equity portfolio and returned 3.1 percent. The Chinese stock market, home to 2.7 percent of the fund's equity investments, picked up in the second quarter, returning 1.5 percent.

Oil and gas performs best

Oil and gas companies were the strongest performers in the second quarter, returning 10.0 percent, and have now gained in two

Table 1 Return on the fund's equity investments in second quarter 2016. By sector. Percent

Sector	Return in international currency	Share of equity investments ¹
Financials	-2.5	21.3
Consumer goods	-0.2	14.5
Industrials	0.1	13.8
Health care	6.6	11.1
Consumer services	-2.6	10.8
Technology	-1.6	9.1
Oil and gas	10.0	6.2
Basic materials	2.1	5.2
Utilities	5.8	3.7
Telecommunications	2.1	3.6

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

Table 2 The fund's largest company holdings in the equity markets as at 30 June 2016. Millions of kroner

Company	Country	Holding
Nestlé SA	Switzerland	54,712
Royal Dutch Shell Plc	UK	41,024
Apple Inc	US	38,894
Roche Holding AG	Switzerland	34,963
Novartis AG	Switzerland	34,358
Alphabet Inc	US	30,354
Microsoft Corp	US	27,380
Exxon Mobil Corp	US	26,202
Johnson & Johnson	US	25,523
BlackRock Inc	US	24,656

successive quarters after falling 13.7 percent last year. Oil prices rose during the quarter as a result of supply interruptions, including forest fires in Canada and lower-than-expected exports from Nigeria.

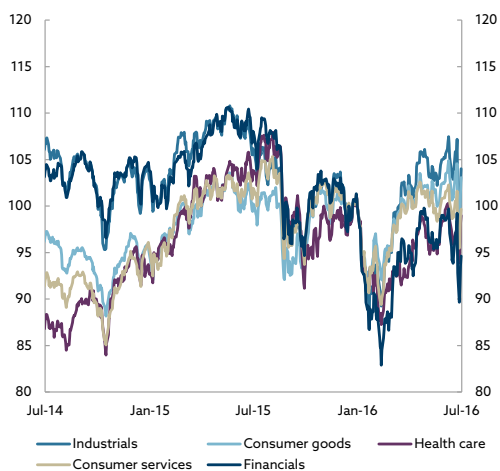
Health care stocks returned 6.6 percent. The sector has benefited from the largest players investing again in research and development, and from specialisation through the sale of entire business areas.

Utilities returned 5.8 percent in the second quarter. This sector offers relatively stable

earnings and predictable dividends, and is often seen as a safe haven in times of trouble.

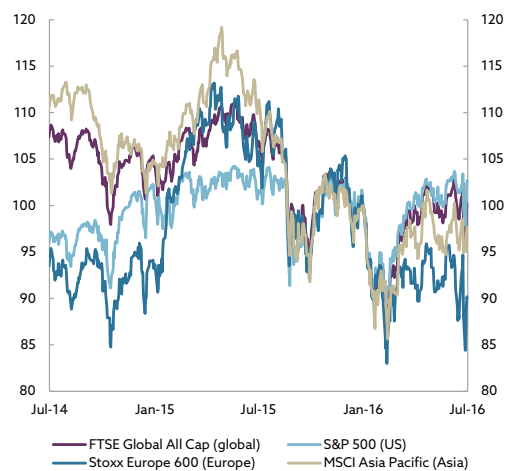
Consumer services and financials were the weakest performers, returning -2.6 percent and -2.5 percent respectively. Within consumer services, travel and leisure had a poor quarter with a return of -5.2 percent due to a downturn in airline stocks on the back of higher oil prices and lower growth expectations. Retailers also produced a weak return of -1.7 percent due to fierce competition and pressure on margins in a number of countries. In the financial sector, banks in particular performed poorly, returning -5.0 percent.

Chart 1 Price developments in stock sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed 31.12.2015 = 100



Source: FTSE

Chart 2 Price developments in regional equity markets. Measured in US dollars, except for the Stoxx Europe 600, which is measured in euros. Indexed 31.12.2015 = 100



Source: Bloomberg

Individual stocks

The investment in oil company Royal Dutch Shell Plc made the most positive contribution to the return in the second quarter, followed by drugmaker Novartis AG and oil company Exxon Mobil Corp. The companies that made the most negative contributions were technology company Apple Inc, finance company Lloyds Banking Group Plc and carmaker Daimler AG.

The fund participated in 25 initial public offerings in the quarter. The largest was at energy company Dong Energy A/S, followed by insurer ASR Nederland and food distributor US Foods Holding Corp. The offerings in which the fund

invested the most were at Dong Energy A/S, ASR Nederland and lighting producer Philips Lighting NV.

Relative return

Returns on the fund's equity investments are compared with returns on a global benchmark index for equities set by the Ministry of Finance on the basis of FTSE Group's Global All Cap index.

The fund's equity investments underperformed the benchmark index by 0.1 percentage point. Stocks in the consumer goods sector made the greatest negative contribution to the relative return. Broken down by country, German and UK stocks made the most negative contributions to the relative return, while Spanish and Japanese stocks made the most positive contributions.

RETURN IN INTERNATIONAL CURRENCY

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

Internal reference portfolio

We have also constructed an internal reference portfolio for equities which takes account of the fund's special characteristics and objective and is intended to achieve a better trade-off over time between expected risk and return. The internal reference portfolio for equities returned 0.7 percent in the second quarter, 0.1 percentage point less than the benchmark index set by the Ministry of Finance.

FIXED-INCOME INVESTMENTS

Fixed-income investments accounted for 37.4 percent of the fund at the end of the quarter and returned 2.5 percent.

Positive return on government debt

Government bonds made up 57.2 percent of the fund's fixed-income investments at the end of the quarter and returned 3.3 percent. Interest rates in developed markets fell during the quarter, especially after the Brexit vote in the UK.

US Treasuries returned 3.4 percent, or 2.7 percent in local currency. The Federal Reserve made no changes to its monetary policy during the quarter, and expectations of future tightening waned. US Treasuries accounted for 18.0 percent of fixed-income investments,

making them the fund's largest holding of government debt from any one issuer.

Euro-denominated government bonds represented 12.8 percent of the fund's fixed-income holdings and returned 0.6 percent, or 2.4 percent in local currency. German 10-year yields fell below zero at the end of the quarter. The European Central Bank began implementing the measures announced in March, launching a new corporate bond purchase programme and carrying out the first of four new long-term refinancing operations for banks.

UK government bonds accounted for 3.2 percent of the fund's fixed-income investments and returned -0.6 percent, or 6.1 percent in local

Table 3 Return on the fund's fixed-income investments in second quarter 2016. By sector. Percent

Sector	Return in international currency	Share of fixed-income investments ¹
Government bonds ²	3.3	57.2
Government-related bonds ²	0.9	13.7
Inflation-linked bonds ²	2.1	4.8
Corporate bonds	2.8	21.7
Securitised bonds	-0.6	5.8

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

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

Table 4 The fund's largest bond holdings as at 30 June 2016. Millions of kroner

Issuer	Country	Holding
United States of America	US	564,912
Japanese government	Japan	201,707
Federal Republic of Germany	Germany	151,142
UK government	UK	87,336
Mexican government	Mexico	49,377
South Korean government	South Korea	48,436
French Republic	France	45,543
Spanish government	Spain	45,507
Italian Republic	Italy	41,099
Kreditanstalt für Wiederaufbau	Germany	34,365

Table 5 The fund's fixed-income investments as at 30 June 2016 based on credit ratings. Percentage of bond holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	26.6	9.6	11.0	6.9	1.3	55.4
Government-related bonds	5.8	5.4	1.2	0.7	0.1	13.3
Inflation-linked bonds	3.3	0.3	0.2	0.9	0.0	4.7
Corporate bonds	0.2	1.8	8.0	10.6	0.4	21.0
Securitised bonds	4.8	0.6	0.0	0.2	0.0	5.6
Total bonds	40.7	17.7	20.4	19.3	1.8	100.0

currency. Expectations of monetary easing to prop up the economy dragged down yields, while the pound fell to its lowest level against the dollar for more than 30 years.

Japanese government bonds amounted to 7.4 percent of the fund's fixed-income holdings and returned 12.4 percent, or 1.8 percent in local currency. Expansionary and unconventional monetary policy led to record-low yields in Japan during the quarter. Despite this policy, the yen reaffirmed its status as a safe haven and strengthened considerably.

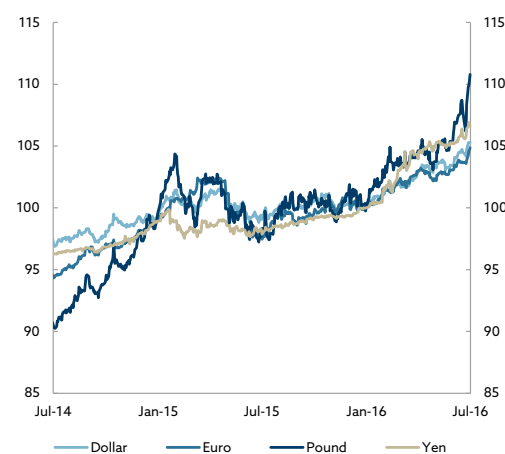
The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau, the European Investment Bank and Canada Housing Trust. These bonds returned 0.9 percent and accounted for 13.7 percent of fixed-income investments.

Corporate bonds returned 2.8 percent and made up 21.7 percent of fixed-income investments at the end of the period. Securitised debt, consisting mainly of covered bonds denominated in euros, returned -0.6 percent and made up 5.8 percent of fixed-income holdings.

Inflation-linked bonds returned 2.1 percent and accounted for 4.8 percent of total fixed-income investments.

Changes in fixed-income holdings

The market value of investments in bonds denominated in emerging market currencies

Chart 3 Price developments for bonds issued in dollars, euros, pounds and yen. Measured in local currencies. Indexed 31.12.2015 = 100

Source: Barclays

was unchanged from the first quarter at 12.7 percent of total fixed-income investments.

Investments in dollars, euros, pounds and yen accounted for 79.2 percent of fixed-income holdings at the end of the quarter, against 79.0 percent at its start.

The biggest increases in the market value of the fund's government bond holdings in the second quarter were in Japanese, US and French bonds. The biggest decreases were in bonds from Mexico, Germany and Poland.

Relative return

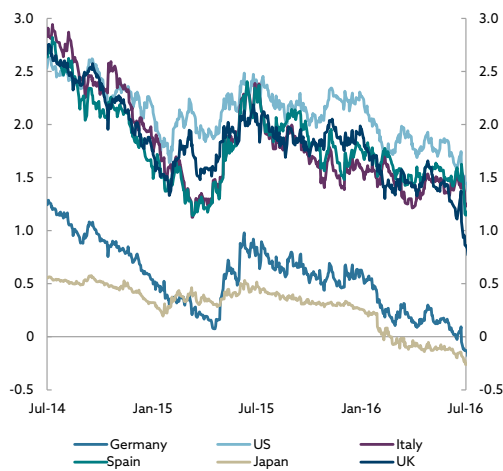
Returns on the fund's fixed-income investments are compared with returns on a global

benchmark index for bonds set by the Ministry of Finance on the basis of indices from Barclays. The fund's fixed-income investments underperformed the benchmark index by 0.1 percentage point in the second quarter. Fixed-income securities increased in value during the quarter due to falling yields in developed markets, but the shorter duration of the fund's fixed-income investments relative to the benchmark limited the portfolio's exposure to this increase in value.

Internal reference portfolio

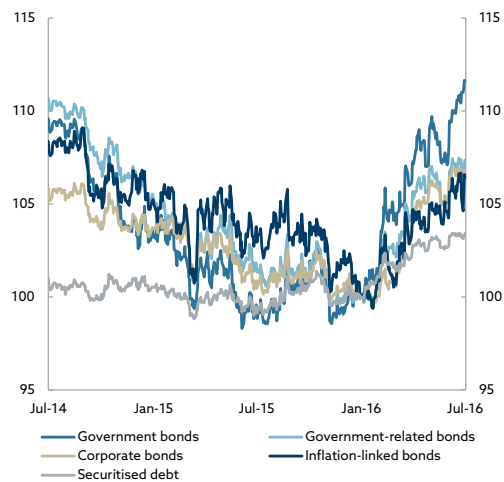
We have also constructed an internal reference portfolio for bonds which takes account of the fund's special characteristics and objective in order to achieve the best possible trade-off

Chart 4 10-year government bond yields. Percent



Source: Bloomberg

Chart 5 Price developments in fixed-income sectors. Measured in US dollars. Indexed 31.12.2015 = 100



Source: Barclays

over time between expected risk and return. The operational reference portfolio for bond investments returned 2.6 percent in the second quarter, 0.1 percentage point more than the benchmark index set by the Ministry of Finance. This excess return was due to a higher allocation to emerging markets, in particular Brazilian government bonds.

Table 6 Contributions from equity and fixed-income management to the fund's relative return in second quarter 2016. Percentage points

	Total	Attributed to external management
Equity investments	-0.09	0.05
Fixed-income investments	-0.02	0.00
Allocation between asset classes	0.00	
Total	-0.11	0.04

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

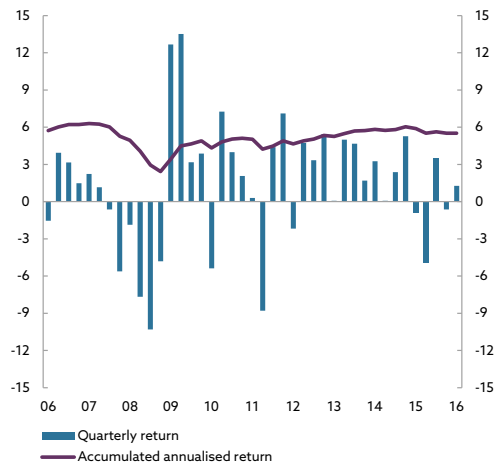
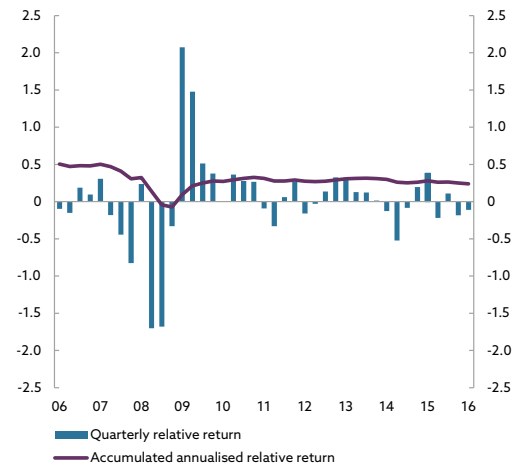


Chart 7 Quarterly relative return and accumulated annualised relative return on the fund, excluding real estate investments. Percentage points



REAL ESTATE INVESTMENTS

Real estate investments amounted to 3.1 percent of the fund at the end of the second quarter and produced a return for the period of -1.4 percent. Investments in unlisted real estate returned -1.6 percent, while investments in listed real estate returned -0.9 percent.

The return on the fund's unlisted real estate investments depends on net rental income, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases. Measured in local currency, rental income net of operating expenses made a positive contribution of 0.9 percentage point to the return, while the net change in the value of properties and debt contributed -0.9 percentage point and currency movements -1.5 percentage points. Transaction costs for property purchases had no effect on the return for the quarter.

The UK vote to leave the EU on 23 June triggered significant movements in financial markets and considerable uncertainty. It has therefore been a challenge to value unlisted properties in the UK market. The external valuers used by the fund have stated that, due to a shortage of data, they have not adjusted values in the second quarter to take account of the possible effects of the Brexit vote. The valuation of the UK real estate portfolio is therefore subject to greater uncertainty than usual. The increased volatility and uncertainty in the market are assumed to have a negative effect on property values. The fund has therefore decided to adjust down the estimated value of property investments in the UK from external valuers by 5 percent as at 30 June.

Table 7 Return on the fund's real estate investments in second quarter 2016. Return components for unlisted investments. Percent

	Return
Net profit from ongoing rental income	0.9
Net change in value of properties and debt	-0.9
Transaction costs for property purchases	0.0
Result of currency adjustments	-1.5
Unlisted real estate investments	-1.6
Listed property	-0.9
Total return	-1.4

Table 8 Market value of real estate investments as at 30 June 2016. Millions of kroner

	Holding
Investments in unlisted real estate	167,991
Investments in listed real estate	50,616
Bank deposits and other claims	1,965
Total	220,572

Low investment activity during the quarter

The fund acquired a further 4 percent of the Hudson Square portfolio in New York held in partnership with Trinity Church Wall Street, taking its total holding to 48 percent. The partners also awarded a management contract to real estate firm Hines, as part of which Hines acquired a 1 percent minority stake.

RESPONSIBLE INVESTMENT

Responsible investment is an important and integral part of our management task. We have structured this work into three areas: standard setting, ownership and risk management.

Standard setting

The quarter saw the launch of a new research project in collaboration with Harvard Business School looking at corporate sustainability reporting and earnings. The analyses will be based partly on Norges Bank Investment Management's own databases. The work is being led by professor George Serafeim.

The fund is also funding a project at Columbia University examining water-related environmental and regulatory risks in the mining industry. Several articles on the theoretical and methodological basis for risk analyses were published during the quarter.

We submitted a consultation response to the Financial Stability Board (FSB) and its task force on climate-related financial disclosures, expressing support for its work on a framework for reporting this type of information.

We also provided input for the Financial Services Authority in Japan on how the dialogue between companies and investors can be improved, thus continuing to support the development of better corporate governance there.

We continued to work with the industry initiative on human rights and working conditions in the apparel industry. Chief Investment Officer Equity Strategies at Norges Bank Investment Management, Petter Johnsen, gave the opening address at the annual

conference of the Sustainable Apparel Coalition in Copenhagen, stressing our expectations of companies in terms of human rights and explaining how the fund can work with companies and industry initiatives to make the sector more sustainable.

Ownership

We voted at 6,920 general meetings in the second quarter, which sees the bulk of the year's meetings. We considered and voted on 78,633 proposals, of which 2,061 were shareholder proposals.

Norges Bank Investment Management publishes its voting intentions ahead of general meetings at selected companies. In the second quarter, we announced in advance how we would vote – and why – at the general meetings of both Exxon Mobil Corp and Chevron Corp. We urged these companies to review their long-term strategy and profitability in light of the direct and regulatory consequences of climate change. We were among the 62 percent of shareholders at Exxon Mobil who supported a proposal to give shareholders the right to propose alternative board candidates. Some 37 percent of companies in the S&P 500 stock index have now introduced proxy access.

As part of our dialogue with companies, we held a number of meetings with the chairpersons of portfolio companies, raising matters of strategy, sustainability, succession planning for board and management, executive remuneration and directors' other directorships.

We have spent the past year pushing for individual director elections in Sweden, one of few markets where this is not standard practice.

So far this year, 30 companies, representing more than half the value of our portfolio of Swedish equities, have introduced, or signalled an intention to introduce, individual voting in director elections. We see this as positive and will continue to pursue this issue with companies.

Risk management

We commissioned a report during the quarter on human rights and key social issues in the apparel industry. It will look at environmental, social and governance risk factors and provide a geographical overview of the industry. The report will have a particular focus on Southeast Asia and will be used in our internal sector analysis.

Observation and exclusion

A first list of 52 coal companies that have been excluded under the fund's new criteria for observation and exclusion was published during the quarter. The second round of company analyses also began, and we have sent letters to a number of companies to obtain confirmation of their coal-related exposure.

Norges Bank's Executive Board decided during the quarter to exclude Cairn Energy Plc and Kosmos Energy Ltd from the fund's investment universe following an assessment of the risk of particularly serious violations of fundamental ethical norms.

RISK MANAGEMENT

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

The fund's expected absolute volatility, calculated using the statistical measure standard deviation, uses a three-year price history to estimate how much the annual return on the fund's equity and fixed-income investments can normally be expected to fluctuate. The fund's expected absolute volatility was 10.3 percent, or about 740 billion kroner, at the end of the second quarter, compared with 10.7 percent at its start. The decrease was due mainly to slightly lower volatility in the equity portfolio.

The Ministry of Finance and Norges Bank's Executive Board have set limits for deviation from the benchmark indices in the management of the fund's equity and fixed-income investments. One of these limits is expected relative volatility, or tracking error, which puts a ceiling on how much the return on these investments can be expected to deviate from the return on the benchmark indices. With effect from 1 February 2016, the fund is to aim for expected relative volatility of no more than 1.25 percentage points. The limit was previously 1 percentage point. The actual figure was 0.28 percentage point at the end of the quarter, down slightly from the beginning of the quarter.

With effect from 1 March 2016, the Executive Board has introduced a limit for expected shortfall between the return on equity and fixed-income investments and the relevant benchmark indices. The fund is to be managed in such a way that the negative relative return in extreme situations is not expected to exceed 3.75 percentage points. The actual figure was 0.83 percentage point at the end of the second quarter, compared with 0.92 percentage point at the beginning of the quarter.

Operational risk management

Norges Bank’s Executive Board sets limits for operational risk management and internal

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

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

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

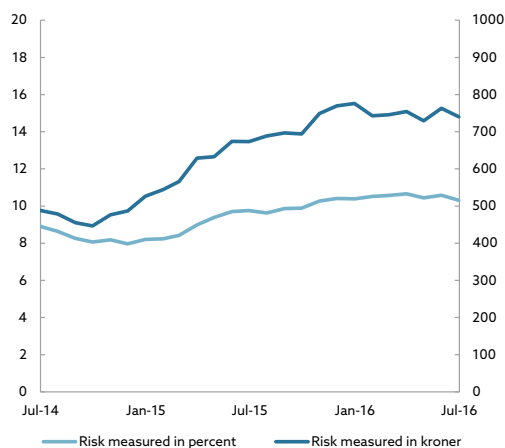
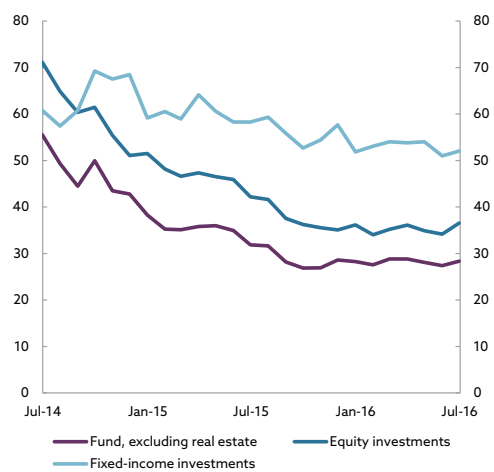


Chart 9 Expected relative volatility of the fund, excluding real estate investments. Basis points



represents the fund's estimated operational risk exposure. This estimated operational risk exposure remained within the Executive Board's tolerance limit in the second quarter. A total of 106 unwanted operational events were registered in the quarter, with a total financial impact of around 37.4 million kroner.

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



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

	Limits set by the Ministry of Finance	30.06.2016
Exposure	Equities 50–70 percent of fund's market value ¹	59.2
	Real estate 0–5 percent of fund's market value	3.1
Market risk	1.25 percentage point expected tracking error for equity and fixed-income investments	0.3
Credit risk	Maximum 5 percent of fixed-income investments may be rated below BBB-	1.8
Ownership	Maximum 10 percent of voting shares in a listed company in the equity portfolio	9.5

¹ Equity exposure includes underlying economic exposure to equities through derivatives.

Key figures

Table 10 Quarterly return as at 30 June 2016

	2Q 2016	1Q 2016	4Q 2015	3Q 2015	2Q 2015	Year-to-date 30.06.2016
Returns in international currency						
Return on equity investments (percent)	0.66	-2.90	5.83	-8.56	-0.23	-2.26
Return on fixed-income investments (percent)	2.49	3.32	0.07	0.90	-2.22	5.89
Return on real estate investments (percent)	-1.42	-1.29	1.61	2.97	1.96	-2.69
Return on fund (percent)	1.27	-0.63	3.55	-4.93	-0.87	0.63
Return on equity and fixed-income investments (percent)	1.36	-0.61	3.61	-5.15	-0.95	0.74
Return on benchmark equity and fixed-income indices (percent)	1.47	-0.43	3.50	-4.93	-1.33	1.04
Relative return on equity and fixed-income investments (percentage points)	-0.11	-0.18	0.11	-0.22	0.38	-0.30
Relative return on equity investments (percentage points)	-0.15	-0.21	0.12	-0.07	0.40	-0.36
Relative return on fixed-income investments (percentage points)	-0.06	-0.21	0.17	-0.64	0.34	-0.28
Management costs (percentage points)	0.01	0.01	0.01	0.01	0.01	0.02
Return on fund after management costs (percent)	1.26	-0.64	3.54	-4.95	-0.89	0.61
Returns in kroner (percent)						
Return on equity investments	1.11	-7.14	8.65	-2.29	-1.17	-6.11
Return on fixed-income investments	2.95	-1.19	2.73	7.82	-3.14	1.72
Return on real estate investments	-0.98	-5.60	4.32	10.03	1.00	-6.52
Return on fund	1.72	-4.97	6.31	1.59	-1.81	-3.33

Table 11 Historical key figures as at 30 June 2016. Annualised data, measured in the fund's currency basket

	Since 01.01.1998	Last 10 years	Last 5 years	Last 3 years	Last 12 months
Return on fund (percent)	5.51	5.34	6.85	6.92	-0.93
Return on equity and fixed-income investments (percent)	5.51	5.33	6.82	6.87	-1.00
Return on benchmark equity and fixed-income indices (percent)	5.27	5.31	6.79	6.99	-0.58
Relative return on equity and fixed-income investments (percentage points)	0.24	0.02	0.04	-0.12	-0.42
Annual price inflation (percent)	1.78	1.77	1.36	1.02	0.72
Annual management costs (percent)	0.09	0.08	0.06	0.06	0.05
Annual net real return on fund (percent)	3.58	3.43	5.35	5.78	-1.70
Standard deviation (percent)	7.55	9.01	7.29	6.84	8.99
Tracking error for equity and fixed-income investments (percentage points)	0.71	0.91	0.40	0.38	0.36
Information ratio (IR) ¹ for equity and fixed-income investments	0.36	0.08	0.12	-0.26	-1.14

¹ The information ratio (IR) is a measure of risk-adjusted return. It is calculated as the ratio of average monthly relative return to the relative market risk that the fund has been exposed to. The IR indicates how much relative return has been achieved per unit of risk.

Table 12 Key figures as at 30 June 2016

	2Q 2016	1Q 2016	4Q 2015	3Q 2015	2Q 2015
Market value (billions of kroner)					
Market value of equity investments	4,275	4,234	4,572	4,191	4,330
Market value of fixed-income investments	2,681	2,622	2,668	2,620	2,382
Market value of real estate investments	221	223	235	208	186
Market value of fund¹	7,177	7,079	7,475	7,019	6,897
Accrued, not paid, management fees ¹	-2	-1	-4	-3	-2
Owner's capital ¹	7,175	7,078	7,471	7,016	6,896
Inflow/withdrawal of capital ²	-24	-21	13	12	12
Paid management fees ²	0	-4	0	0	0
Return on fund	94	-85	279	-273	-73
Changes due to fluctuations in krone	28	-286	164	382	-53
Total change in market value	98	-396	456	121	-115
Management costs (percent)					
Management costs	0.05	0.04	0.06	0.05	0.05
Changes in value since first capital inflow in 1996 (billions of kroner)					
Total inflow of capital	3,452	3,475	3,499	3,485	3,472
Return on fund	2,685	2,591	2,676	2,397	2,670
Management fees ³	-33	-32	-31	-30	-29
Changes due to fluctuations in krone	1,073	1,045	1,331	1,167	785
Market value of fund	7,177	7,079	7,475	7,019	6,897
Return after management costs	2,652	2,559	2,645	2,367	2,641

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

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

³ Management costs at subsidiaries, see Table 9.2 in the financial reporting section, are not included in the management fees. Management costs at subsidiaries have been deducted from the fund's return before management fees.

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

	2Q 2016	1Q 2016	4Q 2015 ¹	3Q 2015	2Q 2015
Return on equity investments	1,650	1,620	1,786	1,529	1,875
Return on fixed-income investments	1,004	939	859	840	772
Return on real estate investments	31	31	31	28	22
Total return	2,685	2,591	2,676	2,397	2,670

¹ The distribution between returns on equity and fixed-income investments has been corrected and therefore differs from previously reported figures.

Financial reporting

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

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Income statement

Amounts in NOK million	Note	2Q 2016	2Q 2015	Year-to-date 30.06.2016	Year-to-date 30.06.2015	2015
Profit/loss on the portfolio before foreign exchange gains and losses						
Income/expense from:						
- Equities and units	4	29 725	-32 503	-137 100	316 511	284 414
- Bonds	4	67 314	-50 114	151 792	1 605	36 160
- Unlisted real estate	6	-74	4 382	780	7 382	14 537
- Financial derivatives	4	-2 697	4 296	-6 479	1 476	-1 984
- Secured lending		1 176	1 250	2 091	1 939	3 266
- Secured borrowing		-81	15	-63	14	50
Tax expense		-1 466	-692	-2 394	-1 353	-2 628
Interest income/expense		-23	-7	-34	-21	-18
Other expenses		-15	-	-26	-	-18
Profit/loss on the portfolio before foreign exchange gains and losses		93 859	-73 373	8 567	327 553	333 779
Foreign exchange gains and losses		27 913	-53 242	-258 233	121 683	668 138
Profit/loss on the portfolio		121 772	-126 615	-249 666	449 236	1 001 917
Management fee	9	-1 058	-807	-1 810	-1 738	-3 933
Profit/loss for the period and total comprehensive income		120 714	-127 422	-251 476	447 498	997 984

Balance sheet

Amounts in NOK million	Note	30.06.2016	31.12.2015
ASSETS			
Deposits in banks		13 129	2 543
Secured lending		143 755	123 385
Cash collateral posted		8 662	2 231
Unsettled trades		37 359	18 404
Equities and units	5	4 000 459	4 287 606
Equities lent	5	304 395	312 662
Bonds	5	2 386 332	2 476 729
Bonds lent	5	379 807	241 518
Unlisted real estate	6	167 991	180 021
Financial derivatives	5	6 251	8 829
Other assets		3 523	2 265
TOTAL ASSETS	7,8	7 451 663	7 656 193
LIABILITIES AND OWNER'S CAPITAL			
Liabilities			
Secured borrowing		210 146	149 735
Cash collateral received		1 323	2 570
Unsettled trades		49 693	22 438
Financial derivatives	5	11 370	5 266
Other liabilities		2 377	1 031
Management fee payable	9	1 810	3 933
Total liabilities		276 719	184 973
Owner's capital		7 174 944	7 471 220
TOTAL LIABILITIES AND OWNER'S CAPITAL	7,8	7 451 663	7 656 193

Statement of cash flows

Amounts in NOK million, received (+) / paid (-)	Year-to-date 30.06.2016	Year-to-date 30.06.2015	2015
Operating activities			
Dividends received from equities and units	71 456	63 345	108 904
Interest received from bonds	37 582	37 054	75 283
Net interest and dividends received from unlisted real estate	1 898	1 494	3 532
Net interest and fees received from secured lending and borrowing	1 828	1 915	3 324
<i>Interest, dividends and fees received from holdings of equities and units, bonds and unlisted real estate</i>	<i>112 764</i>	<i>103 808</i>	<i>191 043</i>
Net cash flow arising from purchase and sale of equities and units	-59 217	-58 877	-89 916
Net cash flow arising from purchase and sale of bonds	-19 366	-52 606	-140 103
Net cash flow arising from purchase and sale of unlisted real estate	-1 379	-26 134	-44 946
Net cash flow arising from financial derivatives	-1 891	-2 399	-3 165
Net cash flow arising from cash collateral related to derivative transactions	-7 086	1 035	730
Net cash flow arising from secured lending and borrowing	39 049	18 420	33 708
Net cash flow arising from taxes	-4 052	-717	-1 499
Net cash flow arising from interest on deposits in banks and bank overdraft	6	-10	-6
Net cash flow related to other expenses, other assets and other liabilities	1 482	1 129	1 309
Management fee paid to Norges Bank*	-3 933	-3 202	-3 202
Net cash outflow from operating activities	56 377	-19 553	-56 047
Financing activities			
Inflow from the Norwegian government**	-	20 904	45 836
Withdrawal by the Norwegian government**	-44 552	-	-
Net cash inflow/outflow from financing activities	-44 552	20 904	45 836
Net change in cash			
Deposits in banks at 1 January	2 543	11 731	11 731
Net cash receipts/payments in the period	11 825	1 351	-10 211
Net foreign exchange gains and losses on cash	-1 239	1 079	1 023
Deposits in banks at end of period	13 129	14 161	2 543

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

** *Inflows/withdrawals* included here only represent transfers that have been settled in the period (cash principle). *Inflows/withdrawals* in the *Statement of changes in owner's capital* are based on accrued inflows/withdrawals.

Statement of changes in owner's capital

Amounts in NOK million	Inflows from owner	Retained earnings	Total owner's capital*
1 January 2015	3 448 941	2 978 596	6 427 537
Total comprehensive income	-	447 498	447 498
Net inflow/withdrawal during the period*	20 700	-	20 700
30 June 2015	3 469 641	3 426 094	6 895 735
1 July 2015	3 469 641	3 426 094	6 895 735
Total comprehensive income	-	550 486	550 486
Net inflow/withdrawal during the period*	25 000	-	25 000
31 December 2015	3 494 640	3 976 580	7 471 220
1 January 2016	3 494 640	3 976 580	7 471 220
Total comprehensive income	-	-251 476	-251 476
Net inflow/withdrawal during the period*	-44 800	-	-44 800
30 June 2016	3 449 840	3 725 104	7 174 944

* In the first two quarters of 2016 there was a withdrawal of NOK 48.7 billion from the krone account. Of this, NOK 3.9 billion was used to pay the accrued management fee for 2015. In the first two quarters of 2015, there was an inflow to the krone account of NOK 20.7 billion. Of this, NOK 3.2 billion was used to pay the accrued management fee for 2014.

Notes to the financial reporting

Note 1 General Information

1. INTRODUCTION

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

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

The Ministry of Finance has placed funds for investment in the GPFG in the form of a

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

In accordance with the management mandate for the GPFG, transfers are made to and from the krone account. When the Norwegian State's petroleum revenue exceeds the use of petroleum revenue in the fiscal budget, deposits will be made into the krone account. In the opposite situation, withdrawals may be made. Transfers to and from the krone account lead to a corresponding change in *Owner's Capital*.

2. APPROVAL OF THE QUARTERLY FINANCIAL STATEMENTS

Norges Bank's quarterly financial statements for the second quarter of 2016, which only encompass the financial reporting for the GPFG, were approved by Norges Bank's Executive Board on 10 August 2016.

Note 2 Accounting policies

1. BASIS OF PREPARATION

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

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

The quarterly financial statements are prepared using the same accounting policies and calculation methods as used for the annual financial statements 2015. Accounting policies are described in the annual report 2015, and the quarterly financial statements should therefore be read in conjunction with this. No new or amended standards with a significant impact on the financial reporting have been implemented from 1 January 2016. There are also no final standards issued by the IASB with expected EU endorsement after 2016 that are expected to have a significant impact on the financial reporting of the GPF.

2. SIGNIFICANT ESTIMATES AND ACCOUNTING JUDGEMENTS

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

In cases where there are particularly uncertain estimates, this is described in the respective notes. For additional information on significant estimates and critical accounting judgements, see the relevant notes in the annual report 2015.

Note 3 Returns per asset class

Table 3.1 Returns per asset class

	2Q 2016	1Q 2016	4Q 2015*	3Q 2015	2Q 2015	Year-to-date 30.06.2016
Returns in the fund's currency basket						
Return on equity investments (percent)	0.66	-2.90	5.83	-8.56	-0.23	-2.26
Return on fixed-income investments (percent)	2.49	3.32	0.07	0.90	-2.22	5.89
Return on real estate investments (percent)	-1.42	-1.29	1.61	2.97	1.96	-2.69
Return on fund (percent)	1.27	-0.63	3.55	-4.93	-0.87	0.63
Return on equity and fixed-income investments (percent)	1.36	-0.61	3.61	-5.15	-0.95	0.74
Return on benchmark equity and fixed-income indices (percent)	1.47	-0.43	3.50	-4.93	-1.33	1.04
Relative return on equity and fixed-income investments (percentage points)	-0.11	-0.18	0.11	-0.22	0.38	-0.30
Relative return on equity investments (percentage points)	-0.15	-0.21	0.12	-0.07	0.40	-0.36
Relative return on fixed-income investments (percentage points)	-0.06	-0.21	0.17	-0.64	0.34	-0.28
Returns in Norwegian kroner (percent)						
Return on equity investments	1.11	-7.14	8.65	-2.29	-1.17	-6.11
Return on fixed-income investments	2.95	-1.19	2.73	7.82	-3.14	1.72
Return on real estate investments	-0.98	-5.60	4.32	10.03	1.00	-6.52
Return on fund	1.72	-4.97	6.31	1.59	-1.81	-3.33
Return on equity and fixed-income investments	1.81	-4.95	6.37	1.35	-1.89	-3.23

* *Returns on equity investments (percent), Return on fund (percent) and Return on benchmark equity and fixed-income indices (percent)* measured in the fund's currency basket have been adjusted downwards for the fourth quarter of 2015 by 0.001 percentage points. This is due to an error caused by the use of an incorrect Thai Baht rate in December 2015 to measure returns in the fund's currency basket. This correction has no impact on the GPFG's income statement or balance sheet for 2015.

For additional information on the method used in the return calculation, see note 3 *Returns per asset class* in the annual report 2015.

Note 4 Income/expense from Equities and units, Bonds and Financial derivatives

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

Income/expense shows the amount recognised in profit and loss for the respective income statement line.

Table 4.1 Specification Income/expense from equities and units

Amounts in NOK million	2Q 2016	2Q 2015	Year-to-date 30.06.2016	Year-to-date 30.06.2015	2015
Dividends	46 712	40 148	74 079	64 385	107 383
Realised gain/loss	24 118	40 197	33 031	78 287	132 240
Unrealised gain/loss	-41 105	-112 848	-244 210	173 839	44 791
Income/expense from equities and units before foreign exchange gain/loss	29 725	-32 503	-137 100	316 511	284 414

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	2Q 2016	2Q 2015	Year-to-date 30.06.2016	Year-to-date 30.06.2015	2015
Interest	18 584	18 115	35 582	37 694	78 243
Realised gain/loss	9 419	6 064	16 174	17 940	21 098
Unrealised gain/loss	39 311	-74 293	100 036	-54 029	-63 181
Income/expense from bonds before foreign exchange gain/loss	67 314	-50 114	151 792	1 605	36 160

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	2Q 2016	2Q 2015	Year-to-date 30.06.2016	Year-to-date 30.06.2015	2015
Dividends	61	-	63	-	21
Interest	-345	-175	-364	-487	-869
Realised gain/loss	-198	861	-1 261	-1 014	-2 422
Unrealised gain/loss	-2 215	3 610	-4 917	2 977	1 286
Income/expense from financial derivatives before foreign exchange gain/loss	-2 697	4 296	-6 479	1 476	-1 984

Note 5 Holdings of Equities and units, Bonds and Financial derivatives

Table 5.1 Equities and units

Amounts in NOK million	30.06.2016		31.12.2015	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities and units	4 304 854	8 114	4 600 268	5 491
Total equities and units	4 304 854	8 114	4 600 268	5 491
<i>Of which equities lent</i>	304 395		312 662	

Table 5.2 Bonds

Amounts in NOK million	Nominal value	30.06.2016		Nominal value	31.12.2015	
		Fair value including accrued interest	Accrued interest		Fair value including accrued interest	Accrued interest
Government bonds	1 306 522	1 533 461	11 855	1 326 895	1 493 128	11 803
Government-related bonds	342 661	367 520	2 708	367 675	386 829	3 274
Inflation-linked bonds	104 640	129 302	543	103 152	120 275	522
Corporate bonds	548 979	580 719	5 652	539 778	547 882	6 134
Securitised bonds	157 294	155 137	1 264	161 252	170 133	2 289
Total bonds	2 460 096	2 766 139	22 022	2 498 752	2 718 247	24 022
<i>Of which bonds lent</i>	379 807		241 518			

Table 5.3 Financial derivatives

Amounts in NOK million	Notional amount	30.06.2016		Notional amount	31.12.2015	
		Fair value Asset	Fair value Liability		Fair value Asset	Fair value Liability
Foreign exchange derivatives	333 158	2 973	3 465	351 186	4 352	1 521
Interest rate derivatives	32 339	76	7 905	37 123	553	3 745
Equity derivatives	4 701	3 202	-	4 846	3 924	-
Total financial derivatives	370 198	6 251	11 370	393 155	8 829	5 266



Note 6 Unlisted real estate

Investments in unlisted real estate are made through subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG. These subsidiaries are designated upon initial recognition as at fair value through profit or loss and are presented in the balance sheet as *Unlisted real estate*. Changes in fair value for the period are recognised in the income statement and are presented as *Income/expense from unlisted real estate*. For further

information on fair value measurement of unlisted real estate investments, see note 7 *Fair value measurement*.

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

Table 6.1 Income/expense from unlisted real estate

Amounts in NOK million	2Q 2016	2Q 2015	Year-to-date 30.06.2016	Year-to-date 30.06.2015	2015
Dividend	714	388	1 247	710	1 931
Interest income	478	450	651	753	1 601
Unrealised gain/loss	-1 266	3 544	-1 118	5 919	11 005
Income/expense from unlisted real estate before foreign exchange gain/loss	-74	4 382	780	7 382	14 537

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK million	30.06.2016	31.12.2015
Unlisted real estate, opening balance for the period	180 021	106 431
Additions	1 379	44 946
Unrealised gain/loss	-1 118	11 005
Foreign currency translation effect	-12 291	17 639
Unlisted real estate, closing balance for the period	167 991	180 021

UNDERLYING REAL ESTATE COMPANIES

Real estate subsidiaries have investments in other non-consolidated, unlisted companies. These companies in turn invest in real estate assets, primarily properties. The fair value of unlisted real estate is considered to be the sum of all underlying assets, less liabilities at fair value, adjusted for the GPFG's ownership share.

Table 6.3 provides a specification of the GPFG's share of income generated in the underlying real estate companies. Income generated through rental income, after deduction of expenses, can be distributed to the GPFG in the form of interest and dividends as specified in

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

Table 6.3 Income from underlying real estate companies

Amounts in NOK million	2Q 2016	2Q 2015	Year-to-date 30.06.2016	Year-to-date 30.06.2015	2015
Net rental income*	1 907	1 539	3 829	2 981	6 921
Realised gain/loss	31	-	53	-	320
Fair value changes - properties	-1 440	3 407	-1 590	5 444	9 265
Fair value changes - debt	-179	398	-511	253	435
Transaction costs	-13	-134	-32	-178	-320
Interest expense external debt	-163	-155	-335	-294	-666
Tax expense payable	-22	-28	-50	-42	-100
Change in deferred tax	-56	-189	-140	-236	-452
Fixed fees to property managers**	-151	-65	-254	-120	-308
Variable fees to property managers**	64	-345	-85	-335	-343
Operating expenses within the limit from the Ministry of Finance***	-20	-20	-40	-41	-86
Other expenses	-32	-26	-65	-50	-129
Net income real estate companies	-74	4 382	780	7 382	14 537

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

** Fixed and variable fees to external property managers are directly related to the underlying properties and are primarily linked to the operation and development of properties and leases. Variable fees are based on achieved performance over time.

*** See table 9.2 for specification of the operating expenses that are measured against the management fee limit from the Ministry of Finance.

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

Table 6.4 Assets and liabilities underlying real estate companies

Amounts in NOK million	30.06.2016	31.12.2015
Deposits in banks	2 106	2 491
Properties	183 120	197 549
External debt	-14 759	-17 432
Tax payable	-201	-215
Net deferred tax	-1 145	-1 048
Net other assets and liabilities	-1 130	-1 324
Total assets and liabilities underlying real estate companies	167 991	180 021

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

balance sheet line *Equities and units*, and amount to NOK 50 616 million at quarter-end compared to NOK 54 134 million at year-end 2015.

Note 7 Fair value measurement

1. INTRODUCTION

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

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

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

For an overview of valuation techniques and models, together with definitions and application of the categories of valuation uncertainty, see note 7 *Fair value measurement* in the annual report 2015.



SIGNIFICANT ESTIMATE

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

2. FAIR VALUE HIERARCHY

Table 7.1 Investments by level of valuation uncertainty

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Equities and units	4 278 365	4 564 401	24 003	32 260	2 486	3 607	4 304 854	4 600 268
Government bonds	1 476 820	1 380 928	56 641	112 200	-	-	1 533 461	1 493 128
Government-related bonds	329 546	331 310	36 796	54 477	1 178	1 042	367 520	386 829
Inflation-linked bonds	122 769	108 484	6 533	11 791	-	-	129 302	120 275
Corporate bonds	558 788	512 577	21 329	34 824	602	481	580 719	547 882
Securitised bonds	149 585	160 797	4 885	8 128	667	1 208	155 137	170 133
Total bonds	2 637 508	2 494 096	126 184	221 420	2 447	2 731	2 766 139	2 718 247
Financial derivatives (assets)	186	359	6 065	8 470	-	-	6 251	8 829
Financial derivatives (liabilities)	-	-	-11 370	-5 266	-	-	-11 370	-5 266
Total financial derivatives	186	359	-5 305	3 204	-	-	-5 119	3 563
Unlisted real estate	-	-	-	-	167 991	180 021	167 991	180 021
Other*	-	-	-57 111	-26 946	-	-	-57 111	-26 946
Total	6 916 059	7 058 856	87 771	229 938	172 924	186 359	7 176 754	7 475 153
Total (percent)	96.4	94.4	1.2	3.1	2.4	2.5	100.0	100.0

* Other consists of non-investment assets and liabilities limited to money-market instruments such as secured lending and borrowing positions, deposits in banks, unsettled trades, posted and received cash collateral and other assets and liabilities.

Valuation uncertainty for the GPF as a whole at the end of the second quarter of 2016 is essentially unchanged compared to the end of 2015. The majority of the total portfolio has low valuation uncertainty. At the end of the second quarter, 97.6 percent was classified as Level 1 or 2, which is essentially unchanged compared to year-end 2015. Movements between levels in the fair value hierarchy are described in section 3 of this note.

Equities and units

Measured as a share of total value, virtually all equities and units (99.4 percent) are valued based on official closing prices from stock exchanges and are classified as Level 1. A few equities and units (0.5 percent) are classified as Level 2. These include equities for which trading has recently been suspended or illiquid equities that are not traded daily. Some holdings (0.1 percent) that are not listed, or where trading has been suspended over a longer period, have high uncertainty related to fair value and are classified as Level 3.

Bonds

The majority of bonds (95.3 percent) have observable, executable market quotes and are classified as Level 1. A minority of bonds (4.6 percent) are classified as Level 2. These securities do not have a sufficient amount of executable quotes or they are priced based on comparable but liquid bonds. A few bonds (0.1 percent) that do not have observable quotes are classified as Level 3.

Unlisted real estate

All unlisted real estate investments are classified as Level 3, since models are used to value the underlying assets and liabilities with extensive use of non-observable market inputs. All real estate investments are measured at the value determined by external valuers. Exceptions to this policy are cases of newly acquired properties where the purchase price, excluding transaction costs, is considered to be the best estimate of fair value or where there are indications that external valuation reports do not reflect fair value so that adjustments to valuations are warranted.

The fair value estimates in independent valuation reports for the real estate portfolio in the UK did not take into account the outcome of the referendum on 23 June regarding the UK's EU membership. The reports included caveats indicating that less reliance can be

placed on the estimates. Management has analysed available market information in order to conclude on the best estimate for fair value at the balance sheet date. Based on this analysis, a reasoned judgement has been made to reduce the fair value estimates from the external valuers for the real estate portfolio in the UK by 5 percent.

3. MOVEMENTS BETWEEN LEVELS OF VALUATION UNCERTAINTY

Reclassifications between Level 1 and Level 2.

The relative share of equities classified as Level 1 is unchanged during the quarter. Positive value changes and currency gains were offset by securities sold during the period. The relative share of equities classified as Level 1 has increased marginally by 0.2 percentage points compared with year-end 2015.

Level 1 bonds increased with 2.0 percentage points in the quarter. This is mainly caused by price and currency gains as well as securities that have been reclassified from Level 2. The reclassified bonds consist mainly of corporate bonds denominated in US dollar and government bonds in emerging markets. This development is a continuation of the movement in the first quarter, so that the total increase of bonds in Level 1 in comparison with year-end 2015 is 3.6 percentage points.

Table 7.2 Changes in Level 3 holdings

Amounts in NOK million	01.01.2016	Purchases	Sales	Settle-ments	Net gain/loss	Trans-ferred into Level 3	Trans-ferred out of Level 3	Foreign ex-change gains and losses	30.06.2016
Equities and units	3 607	97	-318	-	-511	1 596	-1 802	-183	2 486
Bonds	2 731	-	-455	-	-149	704	-263	-121	2 447
Unlisted real estate	180 021	1 379	-	-	-1 118	-	-	-12 291	167 991
Total	186 359	1 476	-773	-	-1 778	2 300	-2 065	-12 595	172 924

Amounts in NOK million	01.01.2015	Purchases	Sales	Settle-ments	Net gain/loss	Trans-ferred into Level 3	Trans-ferred out of Level 3	Foreign ex-change gains and losses	31.12.2015
Equities and units	1 983	418	-298	16	-397	3 021	-1 231	95	3 607
Bonds	25 269	2 859	-971	-243	-1 003	418	-24 188	589	2 731
Unlisted real estate	106 431	44 946	-	-	11 005	-	-	17 639	180 021
Total	133 683	48 223	-1 269	-227	9 605	3 439	-25 419	18 323	186 359

The value of Level 3 holdings is virtually unchanged from the last quarter. The marginal reduction in equities is mainly caused by price reductions during the quarter. Compared with

year-end, the reclassifications of equities and bonds in the first quarter to higher levels is the main reason for the decrease in Level 3.

4. SENSITIVITY ANALYSIS FOR LEVEL 3 HOLDINGS

Table 7.3 Additional specification Level 3 and sensitivities

Amounts in NOK million	Specification of Level 3 holdings 30.06.2016	Sensitivities 30.06.2016		Specification of Level 3 holdings 31.12.2015	Sensitivities 31.12.2015	
		Unfavour-able changes	Favour-able changes		Unfavour-able changes	Favour-able changes
Equities and units	2 486	-845	820	3 607	-1 227	1 190
Government-related bonds	1 178	-118	118	1 042	-104	104
Corporate bonds	602	-60	60	481	-78	78
Securitised bonds	667	-67	67	1 208	-121	121
Total bonds	2 447	-245	245	2 731	-304	304
Unlisted real estate	167 991	-9 112	10 442	180 021	-7 801	8 637
Total	172 924	-10 202	11 507	186 359	-9 332	10 131

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

Property values are particularly sensitive to changes in the valuation yields/capitalisation rates and assumptions influencing future revenues. The scenarios for sensitivity testing for the real estate portfolio in the UK have been adjusted as described below, to take into account the increased valuation uncertainty as a result of the outcome of the British referendum.

In an unfavourable scenario, it is calculated that a change in the yield of +0.2 percentage points (UK +0.3 percentage points), and a reduction in future market rents of 2 percent (UK 3 percent)

will result in a decrease in value of the real estate portfolio of approximately 5.4 percent or NOK 9 112 million. In a favourable scenario, a similar change in the yield of -0.2 percentage points (UK -0.3 percentage points) and an increase in future market rents of 2 percent (UK 3 percent) will increase the value of the real estate portfolio by 6.2 percent or NOK 10 442 million.

Sensitivity in absolute values for the equity and bond portfolios has decreased in line with the holdings classified as Level 3. The sensitivity in fair value for bonds is somewhat lower than for equities, particularly for bonds with shorter maturities.

Note 8 Risk

MARKET RISK

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

Asset class per country and currency

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	
		30.06.2016	Market 31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Equities	Developed	90.5	Developed	91.0			
	US	36.8	US	35.5			
	UK	10.4	UK	11.3			
	Japan	8.9	Japan	9.3			
	Switzerland	5.5	Germany	5.7			
	Germany	5.2	Switzerland	5.5			
	Total other	23.7	Total other	23.7			
	Emerging	9.5	Emerging	9.0			
	China	2.7	China	2.9			
	Taiwan	1.5	Taiwan	1.4			
	India	1.1	India	1.1			
	Brazil	0.7	South Africa	0.5			
	South Africa	0.6	Brazil	0.5			
	Total other	2.9	Total other	2.6			
Total equities					59.57	61.16	4 274 772 4 571 807
Fixed-income	Developed	87.3	Developed	87.6			
	US Dollar	41.7	US Dollar	42.0			
	Euro	25.4	Euro	25.5			
	Japanese Yen	7.4	Japanese Yen	6.5			
	British Pound	4.8	British Pound	5.4			
	Canadian Dollar	3.0	Canadian Dollar	3.0			
	Total other	5.0	Total other	5.2			
	Emerging	12.7	Emerging	12.4			
	Mexican Peso	1.7	Mexican Peso	1.9			
	South Korean Won	1.5	South Korean Won	1.6			
	Brazilian Real	1.1	Turkish Lira	1.0			
	Turkish Lira	1.0	Indian Rupee	1.0			
	Indian Rupee	0.9	Chinese Yuan	0.8			
	Total other	6.5	Total other	6.1			
Total fixed-income					37.36	35.69	2 681 410 2 668 147
Real estate	US	46.7	US	44.3			
	UK	22.9	UK	27.6			
	France	11.7	France	11.1			
	Germany	8.4	Germany	7.3			
	Switzerland	4.0	Switzerland	3.8			
	Total other	6.3	Total other	5.9			
Total real estate**					3.07	3.15	220 572 235 199

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

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

The fund's allocation to equities was 59.6 percent at the end of the second quarter. This is a decrease of 1.6 percentage points compared with year-end 2015, when it was 61.2 percent. The fixed-income portfolio's share of the fund increased to 37.4 percent in the second quarter, from 35.7 percent at year-end. This change in asset class allocation in the first half of 2016 was primarily caused by stronger year-to-date investment returns for bonds than equities. Emerging markets have had a stronger return than developed markets in the first half year, where both equity markets rose and currencies

strengthened. This has led to an increase in the allocation to emerging markets for both equities and bonds.

Volatility

Risk models are used to quantify the risk of changes in values associated with all or parts of the portfolio. One of the risk measures is expected volatility. Tables 8.2 and 8.3 present risk both in terms of the portfolio's absolute risk and in terms of the relative risk. Real estate investments are only included in the absolute volatility calculations.

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

	Expected volatility, actual portfolio							
	30.06.2016	Min 2016	Max 2016	Average 2016	31.12.2015	Min 2015	Max 2015	Average 2015
Portfolio	10.3	10.2	10.7	10.5	10.4	8.1	10.4	9.5
Equities	13.6	12.9	13.9	13.6	12.9	10.9	12.9	12.0
Fixed-income	10.0	9.9	10.3	10.1	10.1	7.9	10.2	9.4

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

	Expected relative volatility							
	30.06.2016	Min 2016	Max 2016	Average 2016	31.12.2015	Min 2015	Max 2015	Average 2015
Equity and fixed-income portfolio	28	27	29	28	28	26	38	32
Equities	37	34	37	35	36	35	52	42
Fixed-income	52	50	54	52	52	52	64	57

The models that are used in the calculation of the above information are explained in note 8 *Risk* in the annual report 2015.

Risk measured in terms of expected volatility shows a slight decrease in the first half of the year, from 10.4 percent at the start of the year to 10.3 percent at the end of the quarter.

Despite the increase in expected volatility for equities from 12.9 percent to 13.6 percent so far this year, the fund's overall expected volatility has fallen due to increased diversification and a lower allocation to equities. The risk measure indicates an annual expected value fluctuation for the fund of 10.3 percent, or approximately NOK 740 billion, at the end of the second quarter. Expected relative volatility remained stable at 28 basis points at the end of the quarter, which is unchanged compared to year-end 2015.

Expected shortfall is a tail risk measure that measures the expected loss of a portfolio in extreme market situations. The expected shortfall measure provides an estimate of the annualised expected loss for a given confidence level. By means of historical simulations, relative returns of the current portfolio and benchmark are calculated on a weekly basis over the last ten years.

The average relative return measured in the currency basket for the 2.5 percent worst weeks is then annualised, giving the expected shortfall measured at a 97.5 percent confidence level.

With effect from 1 March 2016, the Executive board has introduced a limit for expected shortfall for the aggregated equity and fixed-income investments and the associated benchmark index. Norges Bank Investment Management shall organise the management with the aim that the annualised expected shortfall does not exceed 3.75 percentage points. At the end of the second quarter, the measure was 0.83 percentage point, compared to 0.95 percentage point at year-end 2015.

CREDIT RISK

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

Table 8.4 Bond portfolio specified by credit rating

Amounts in NOK million, 30.06.2016	AAA	AA	A	BBB	Lower rating	Total
Government bonds	737 039	266 116	304 058	191 452	34 796	1 533 461
Government-related bonds	161 033	149 235	33 003	20 743	3 506	367 520
Inflation-linked bonds	90 545	7 753	4 531	25 247	1 226	129 302
Corporate bonds	4 312	50 319	221 317	293 296	11 475	580 719
Securitised bonds	133 808	15 518	1 333	4 348	130	155 137
Total bonds	1 126 737	488 941	564 242	535 086	51 133	2 766 139

Amounts in NOK million, 31.12.2015	AAA	AA	A	BBB	Lower rating	Total
Government bonds	729 752	250 061	310 491	199 943	2 883	1 493 128
Government-related bonds	164 106	154 183	31 908	32 097	4 534	386 829
Inflation-linked bonds	86 119	6 897	3 095	24 164	-	120 275
Corporate bonds	3 216	43 196	208 613	281 665	11 193	547 882
Securitised bonds	134 834	21 973	6 626	6 566	134	170 133
Total bonds	1 118 027	476 310	560 733	544 435	18 744	2 718 247

The proportion of bond holdings categorised with a credit rating lower than BBB has increased to 1.8 percent at the end of the second quarter, compared to 0.7 percent as at year-end 2015. This was primarily due to the downgrade of Brazilian government bonds from the BBB category to the *Lower rating* category during the first quarter. Furthermore, bond holdings with a credit rating of AAA have decreased to 40.7 percent of the portfolio at

the end of the second quarter, from 41.1 percent at year-end. The overall credit quality of the bond portfolio has declined since year-end.

COUNTERPARTY RISK

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

Table 8.5 shows counterparty risk by type of position as at 30 June 2016, aggregated for the GPFG.

Table 8.5 Counterparty risk by type of position

Amounts in NOK million, 30.06.2016	Gross exposure	Effect of netting	Effect of received and posted collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits*	13 978	-	-	13 978
OTC derivatives including foreign exchange contracts	21 123	7 431	-1 326	15 018
Cleared OTC and listed derivatives**	6 749	231	-6 327	12 845
Repurchase and reverse repurchase agreements	3 705	401	- 148	3 452
Securities lending transactions	57 413	-	3 914	53 499
Settlement risk towards broker and long settlement transactions	604	-	-	604
Participatory certificates	2 982	-	-	2 982
Total	106 554	8 063	-3 887	102 378

Amounts in NOK million, 31.12.2015	Gross exposure	Effect of netting	Effect of received and posted collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits*	5 084	-	-	5 084
OTC derivatives including foreign exchange contracts	17 003	7 068	340	9 595
Cleared OTC and listed derivatives**	2 327	21	-1	2 307
Repurchase and reverse repurchase agreements	1 386	728	- 444	1 102
Securities lending transactions	51 551	-	1 390	50 161
Settlement risk towards broker and long settlement transactions	60	-	-	60
Participatory certificates	3 475	-	-	3 475
Total	80 886	7 817	1 285	71 784

* Includes bank deposits in non-consolidated real estate subsidiaries.

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

Counterparty risk as measured both in terms of gross and net risk exposure has increased since year-end 2015. The net exposure was NOK 102.4 billion at the end of the second quarter, compared with NOK 71.8 billion kroner at year-end. The increase is largely due to

greater risk exposure from interest rate swaps cleared by a central clearing counterparty, larger unsecured bank deposits as well as increased risk exposure related to the settlement of foreign exchange contracts.

Note 9 Management costs

The GPFG is managed by Norges Bank. Costs relating to the management of the fund are mainly incurred in Norges Bank. Management costs are also incurred in real estate subsidiaries.

MANAGEMENT COSTS IN NORGES BANK

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

management of the GPFG, in the form of a management fee. The management fee is equivalent to the actual costs incurred by Norges Bank, including performance-based fees to external managers, and is expensed in the income statement line *Management fee*. Costs included in the management fee are specified in table 9.1.

Table 9.1 Management fee

Amounts in NOK million			Year-to-date		Year-to-date			
	2Q 2016	2Q 2015	30.06.2016	Basis points	30.06.2015	Basis points	2015	Basis points
Salary, social security and other personnel related costs	287	234	556		507		1 134	
Custody costs	93	87	184		195		394	
IT services, systems, data and information	151	158	305		298		638	
Research, consulting and legal fees	65	55	122		111		245	
Other costs	60	42	117		82		200	
Allocated costs Norges Bank	42	31	83		62		129	
Base fees to external managers	191	187	361		366		615	
Management fee excluding performance-based fees	889	794	1 728	4.8	1 621	4.8	3 355	4.8
Performance-based fees to external managers	169	13	82		117		578	
Total management fee	1 058	807	1 810	5.1	1 738	5.2	3 933	5.7

MANAGEMENT COSTS IN REAL ESTATE SUBSIDIARIES

Management costs incurred in real estate subsidiaries consist of operating expenses

related to the management of the unlisted real estate portfolio. These costs are specified in table 9.2.

Table 9.2 Management costs, real estate subsidiaries

Amounts in NOK million	2Q 2016	2Q 2015	Year-to-date 30.06.2016	Year-to-date 30.06.2015	2015
Salary, social security and other personnel related costs	6	6	11	11	26
IT services, systems, data and information	8	6	17	14	31
Research, consulting and legal fees	6	4	12	8	25
Other costs	5	4	9	8	13
Total management costs, real estate subsidiaries	25	20	49	41	95
<i>Of which management costs non-consolidated subsidiaries</i>	20	20	40	41	86
<i>Of which management costs consolidated subsidiaries</i>	5	-	9	-	9

Management costs incurred in non-consolidated and consolidated real estate subsidiaries are presented in the income statement as *Income/expense from unlisted real estate* and *Other expenses*, respectively.

In addition to the management costs presented in table 9.2, operating expenses are also incurred in real estate subsidiaries related to the ongoing maintenance, operation and development of properties and leases. These costs are not defined as management costs, since they are directly related to the underlying properties, and are not part of the management of the real estate portfolio. Other operating expenses are expensed directly in the portfolio result in the income statement line *Income/expense from unlisted real estate*. See table 6.3 in note 6 *Unlisted real estate* for further information.

UPPER LIMIT FOR REIMBURSEMENT OF MANAGEMENT COSTS

The Ministry of Finance has established an upper limit for the reimbursement of management costs. For 2016, the sum of total

management costs incurred in Norges Bank and real estate subsidiaries, excluding performance-based fees to external managers, is limited to 8 basis points of average assets under management. Other operating expenses that are incurred in real estate subsidiaries, as well as costs incurred in partly-owned real estate entities, are not included in the costs that are measured against this limit.

Year-to-date management costs that are measured against the limit amount to NOK 1 777 million at the end of the second quarter of 2016. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 1 728 million, and management costs in real estate subsidiaries of NOK 49 million. This corresponds to 5.0 basis points of assets under management on an annual basis.

Year-to-date management costs including performance-based fees amount to NOK 1 859 million. This corresponds to 5.2 basis points of assets under management on an annual basis.



To the Supervisory Council of Norges Bank

Report on review of interim financial information

We have reviewed the financial reporting of the Government Pension Fund Global. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio of the Government Pension Fund Global are included in the financial reporting. The financial reporting comprises the balance sheet as at 30 June 2016, profit/loss for the period and total comprehensive income, the statement of changes in owner's capital, the statement of cash flows for the six-month period then ended and selected explanatory notes. The Executive Board and management are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with international standards on auditing, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Oslo, 10 August 2016

Deloitte AS

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)





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