

1Q|16

**GOVERNMENT
PENSION FUND
GLOBAL**

**QUARTERLY REPORT
/2016**

HIGHLIGHTS

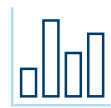
First quarter 2016 in brief

-0.6%

-85 Bn. KR

The Government Pension Fund Global returned **-0.6** percent, or **-85** billion kroner, in the first quarter of 2016.





EQUITY INVESTMENTS

—
-2.9 %



FIXED-INCOME INVESTMENTS

—
3.3 %



REAL ESTATE INVESTMENTS

—
-1.3 %

Equity investments returned **-2.9** percent, while fixed-income investments returned **3.3** percent. Investments in real estate returned **-1.3** percent.

The return on equity and fixed-income investments was **0.2** percentage point lower than the return on the benchmark indices.



7,079

The fund's market value was **7,079 billion kroner** at the end of the quarter and was invested **59.8** percent in equities, **37.0** percent in fixed income and **3.1** percent in real estate.



EQUITY INVESTMENTS

—
59.8 %



FIXED-INCOME INVESTMENTS

—
37.0 %



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

The first two months of the year brought particularly volatile markets due to fears of a Chinese slowdown, uncertainty about China's foreign exchange policy, falling commodity prices, lower inflation expectations and increased concern about a US recession. The turbulence eased considerably in March, however, after indicators suggested that Chinese growth had bottomed out and currency intervention stabilised the yuan. The Federal Reserve signalled that interest rates would go up more slowly than previously assumed.

The US economy continued to grow at a moderate rate. The labour market improved, and unemployment was stable. Household consumption increased, while business investment and export growth remained weak. After hiking interest rates in December 2015 for the first time since the financial crisis, the Federal Reserve signalled at the beginning of 2016 that rates would be raised four times throughout the year. In March, however, it revised the expectations down again to two hikes.

In the euro area, growth was still moderate and there was a return to deflation. Falling energy prices, the terrorist attacks in Brussels, the upcoming referendum on EU membership in the UK and the refugee situation, including the EU's agreement with Turkey, weighed on markets and economic expectations in the first quarter.

The European Central Bank continued to cut its rates and introduced further quantitative easing during the quarter. At its meeting in March, however, it signalled that interest rates would not be lowered further unless the economic outlook deteriorated significantly. Japan and Hungary introduced negative policy rates during the quarter, taking the total number of countries with negative rates to six.

There was considerable uncertainty about economic growth in China and the country's foreign exchange policy at the beginning of the quarter, with markets increasingly pricing in a sharp drop in economic growth and a devaluation of the yuan. This had an impact particularly on small emerging markets with close economic ties to China. Falling commodity prices led to lower earnings for commodity exporters. The weakening of emerging market currencies also contributed to a significant increase in the value of these countries' external debt in local currency. The tide turned towards the end of the quarter, with indicators suggesting that Chinese growth had bottomed out, and interventions by the central bank helped stabilise the yuan. Higher commodity prices and the prospect of fewer rate hikes in the US also had positive effects on global markets towards the end of the quarter.

EQUITY INVESTMENTS

Equity investments, which accounted for 59.8 percent of the fund at the end of the quarter, returned -2.9 percent. The year began with a decline in global equity markets, driven mainly by an ailing Chinese market.

Weak returns in Asia and Oceania

Returns were weak in all regions. Stocks in Asia and Oceania, which made up 20.9 percent of the fund's equity investments, returned -4.8 percent. Japanese shares accounted for 8.8 percent of equity investments and returned -8.6 percent.

The Chinese stock market, home to 2.8 percent of the fund's equity investments, performed poorly in the first quarter, returning -10.0 percent.

North American stocks returned -0.7 percent and made up 37.7 percent of the equity portfolio. US stocks were the fund's single largest market with 35.7 percent of its equity investments and returned -1.3 percent.

European stocks produced a return of -4.6 percent and represented 38.4 percent of the fund's equities. The UK, which is the fund's largest European market with 10.8 percent of its equity investments, returned -5.6 percent.

Emerging markets returned 0.7 percent in the first quarter and accounted for 9.3 percent of the fund's equity investments.

Utilities performed best

Half of the equity sectors delivered negative returns in the first quarter, with financials and

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

Sector	Return in international currency	Share of equity investments ¹
Financials	-8.6	22.1
Consumer goods	-2.1	14.7
Industrials	0.5	14.0
Consumer services	-1.1	11.1
Health care	-8.3	10.1
Technology	-0.3	9.3
Oil and gas	2.6	5.7
Basic materials	1.5	5.3
Telecommunications	1.8	3.6
Utilities	3.2	3.5

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 31 March 2016. Millions of kroner

Company	Country	Holding
Nestlé SA	Switzerland	51,324
Apple Inc	US	41,814
Royal Dutch Shell Plc	UK	38,647
Alphabet Inc	US	31,090
Roche Holding AG	Switzerland	30,999
Microsoft Corp	US	29,133
Novartis AG	Switzerland	26,624
BlackRock Inc	US	25,483
Exxon Mobil Corp	US	23,037
Johnson & Johnson	US	21,922

health care in particular dragging down the overall return. On the other hand, there were positive returns in some of the sectors that fared worst in 2015.

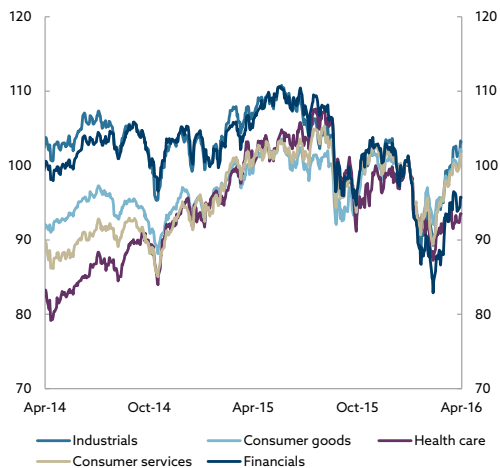
Utilities were the strongest performer with a return of 3.2 percent. These companies' stable cash flows were viewed as a safe haven in a turbulent market. The sector was also favoured by low interest rates.

Oil and gas stocks gained 2.6 percent, following a fall of 13.7 percent in 2015. Oil prices dropped further at the beginning of the year but rallied after some countries agreed to freeze oil production at January levels, and non-OPEC production showed signs of coming down.

Telecommunications stocks returned 1.8 percent, driven by strong returns in the US. A number of US telecom companies with high dividend yields delivered strong returns, while European telecoms produced weaker returns due to uncertainty about the scope for further consolidation in the market.

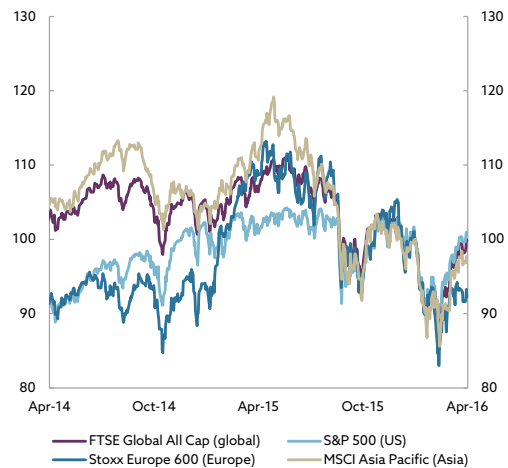
Financial stocks were the weakest performers with a return of -8.6 percent. Banks had a particularly poor quarter and made the greatest contribution to the negative return. Low interest rates led to questions about banks' future earnings potential, resulting in weak returns, especially for European and Japanese banks.

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 made the most positive contribution to the return in the first quarter, followed by telecom company Verizon Communications and retailer Tesco. The companies that made the most negative contributions were bank Credit Suisse Group, drugmaker Novartis and bank HSBC Holdings.

There were relatively few initial public offerings in the first quarter, and the fund participated in nine. The largest was at biopharma company BeiGene, followed by gaming company LeoVegas and IT company Catena Media. The offerings in which the fund invested the most were at medical services company Union Medical Healthcare, Catena Media and health insurer Humana.

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 currency basket consisted of 33 currencies at the end of the quarter. Unless otherwise stated in the text, results are measured in the fund's currency basket.

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 0.2 percentage point. Stock selection in the financial and basic materials sectors contributed adversely to the relative return in the first quarter. Broken down by country, Chinese and Swiss stocks made the most negative contributions to the relative return, while US stocks made the most positive contribution.

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 equity investments returned -2.7 percent in the first quarter, 0.02 percentage point less than the return on the benchmark index set by the Ministry of Finance.

FIXED-INCOME INVESTMENTS

Fixed-income investments accounted for 37.0 percent of the fund at the end of the first quarter and returned 3.3 percent. Falling interest rates and more expansionary monetary policy were features of almost all markets the fund was invested in, which made a positive contribution to the return. Fixed-income investments were mainly in bonds, with the remainder in short-term securities and bank deposits.

Positive return on government bonds

Government bonds accounted for 56.4 percent of the fund's fixed-income investments at the end of the quarter and returned 4.4 percent as ever lower interest rates pushed up prices.

US Treasuries returned 1.4 percent, or 3.8 percent in local currency, and accounted for 17.9 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. The Federal Reserve chose not to raise its policy rate during the quarter and also revised down its expectations for future monetary tightening, which boosted the return on the fixed-income portfolio.

Euro-denominated government bonds represented 12.7 percent of the fund's fixed-income holdings and returned 6.5 percent, or 3.9 percent in local currency. The ECB took various steps to ease monetary policy at its meeting in March, and all of its key rates were cut. This made a positive contribution to the return on the fixed-income portfolio.

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

Sector	Return in international currency	Share of fixed-income investments ¹
Government bonds ²	4.4	56.4
Government-related bonds ²	3.0	14.2
Inflation-linked bonds ²	2.7	4.4
Corporate bonds	1.9	20.9
Securitised bonds	2.4	6.1

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 31 March 2016. Millions of kroner

Issuer	Country	Holding
United States of America	US	542,423
Japanese government	Japan	179,200
Federal Republic of Germany	Germany	155,929
UK government	UK	83,560
Mexican government	Mexico	54,899
South Korean government	South Korea	47,983
Spanish government	Spain	42,086
Italian Republic	Italy	40,709
French Republic	France	40,012
Kreditanstalt für Wiederaufbau	Germany	32,580

Table 5 The fund's fixed-income investments as at 31 March 2016 based on credit ratings. Percentage of bond holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	27.3	9.6	10.6	6.8	1.1	55.3
Government-related bonds	6.0	5.6	1.1	1.1	0.2	14.0
Inflation-linked bonds	3.0	0.2	0.2	0.8	0.0	4.3
Corporate bonds	0.1	1.6	8.0	10.3	0.4	20.4
Securitised bonds	5.1	0.6	0.1	0.2	0.0	6.0
Total bonds	41.5	17.6	20.0	19.1	1.7	100.0

Japanese government bonds accounted for 6.7 percent of the fund's fixed-income holdings and returned 7.5 percent, or 2.8 percent in local currency. Japanese interest rates fell to record-low levels after the central bank introduced negative policy rates. This pushed up the return on the fund's fixed-income investments in Japan.

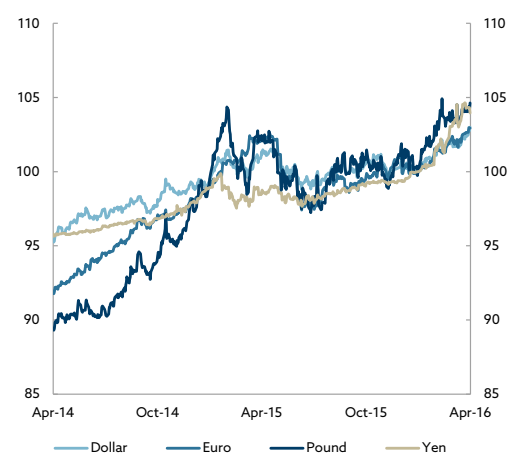
The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau, the European Investment Bank and Canada Housing Trust. These bonds returned 3.0 percent and accounted for 14.2 percent of fixed-income investments.

Corporate bonds returned 1.9 percent and represented 20.9 percent of fixed-income investments at the end of the period. Securitized bonds, consisting mainly of covered bonds denominated in euros, returned 2.4 percent and made up 6.1 percent of fixed-income holdings.

Inflation-linked bonds returned 2.7 percent and accounted for 4.4 percent of total fixed-income investments.

Changes in fixed-income holdings

The market value of investments in bonds denominated in emerging market currencies increased from 12.4 percent to 12.7 percent of total fixed-income investments during the

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

Source: Barclays

quarter. Investments in dollars, euros, pounds and yen accounted for 79.0 percent of fixed-income holdings at the end of the period, against 79.4 percent at the start of the quarter.

In the first quarter, the market value increased the most for government bonds issued by the US, Brazil and Canada. The largest reductions were in bonds from Japan, Germany and Spain.

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.

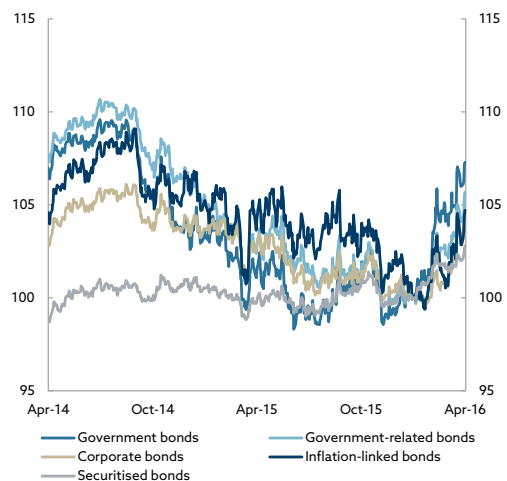
The fund's fixed-income investments underperformed the benchmark index by 0.2 percentage point in the first quarter. There was a general decrease in yields in developed markets during the period. The shorter duration of the fund's fixed-income investments relative to the benchmark made the greatest negative contribution.

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

Internal reference portfolio

We have 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 over time between expected risk and return. The internal reference portfolio for fixed-income investments returned 3.6 percent, 0.02 percentage point more than the return on the benchmark index set by the Ministry of Finance.

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

	Total	Attributed to external management
Equity investments	-0.13	-0.04
Fixed-income investments	-0.08	-0.01
Allocation between asset classes	0.03	
Total	-0.18	-0.05

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

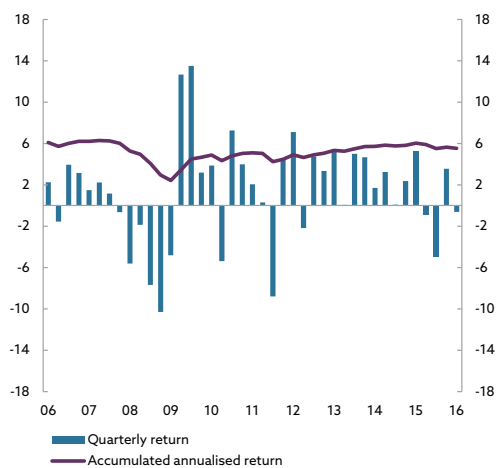
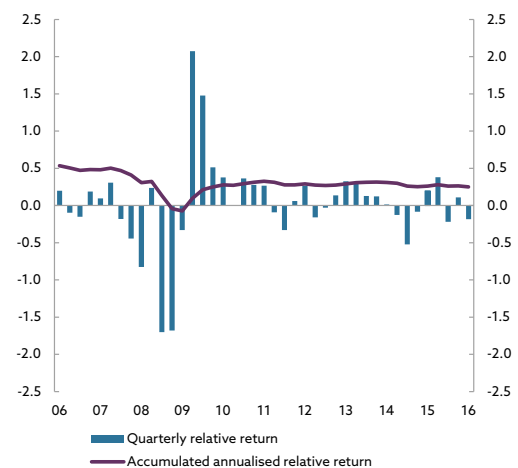


Chart 7 Quarterly relative return and accumulated annualised relative return on the fund, excluding real estate investments. Percentage points



REAL ESTATE INVESTMENTS

Real estate investments amounted to 3.1 percent of the fund at the end of the first quarter and produced a return for the period of -1.3 percent. Investments in unlisted real estate returned -1.0 percent, while investments in listed real estate returned -2.2 percent.

The return on the fund's unlisted real estate investments depends on rental income net of operating expenses, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases. Measured in local currency, 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 -0.4 percentage point and currency movements -1.5 percentage points. There were no transaction costs for property purchases during the quarter.

No new investments in the quarter

The fund made no new real estate investments in the first quarter, but sold two logistics properties in Spain in partnership with Prologis.

Table 7 Return on the fund's real estate investments in first 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	-0.4
Transaction costs for property purchases	0.0
Result of currency adjustments	-1.5
Unlisted real estate investments	-1.0
Listed property	-2.2
Total return	-1.3

Table 8 Market value of real estate investments as at 31 March 2016. Millions of kroner

	Holding
Investments in unlisted real estate	169,840
Investments in listed real estate	51,334
Bank deposits and other claims	1,582
Total	222,756

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 first quarter saw further work on standard setting and expectations for the companies we invest in. We published a new expectations document on human rights. We expect companies to integrate and address human rights in their business strategies, planning and risk management, publish strategies, report on human rights, and engage with stakeholders.

We also published updated voting guidelines during the quarter based on international standards such as the G20/OECD Principles of Corporate Governance. The goal is for our voting to be principles-based and predictable, take account of company-specific factors and support the fund's long-term strategy. We attach importance to the role of the board, shareholder rights, disclosure and sustainable business practices.

We continued to serve on the OECD's working party on responsible business conduct in the financial sector. We also contributed to the Singapore stock exchange's review of sustainability reporting at listed companies, supporting the exchange's initiative to increase its disclosure requirements and encouraging greater transparency.

During the quarter, we signed up to the Social and Labor Convergence Project, an industry initiative facilitated by the Sustainable Apparel Coalition which aims to improve working

conditions in the manufacture of clothing and footwear. The project plans to develop a standard for how companies in the industry address social and labour issues in their supply chains. Our intention in supporting the initiative is to contribute to better market practices and a more sustainable apparel industry.

We also arranged and funded an academic seminar in January led by the Department of Economics at the University of Oslo, which brought together researchers in finance, macroeconomics, environmental and resource economics and other relevant fields to explore the potential impact of climate change on financial markets and asset management.

Ownership

We voted at 1,656 general meetings in the first quarter, and we considered and voted on 257 shareholder proposals.

Norges Bank Investment Management publishes its voting intentions ahead of general meetings at selected companies, and did so on three occasions during the quarter. We announced in advance our support for German property company Vonovia's acquisition of Deutsche Wohnen and for the merger of BG Group and Royal Dutch Shell.

As part of our work on making companies aware of our expectations, we sent letters to the 500 largest companies we are invested in, informing them of our expectations in the areas of water resources, climate change, children's rights and human rights. We also shared our published voting guidelines.

We participated at the Corporate Governance Forum in Stockholm, where we discussed responsible investment and good governance. In June 2015 we published a position paper calling for individual director elections. Sweden is one of the few markets where this is not standard practice. We have therefore focused particularly on engaging with Swedish companies and investors on this issue. Several Swedish companies introduced individual director elections during the quarter or signalled an intention to do so.

Risk management

The Smith School of Enterprise and the Environment at the University of Oxford published a report during the quarter on environmental risks in the value chain for thermal coal. Commissioned by the fund, the report forms part of our work on analysing different aspects of climate risk in our portfolio and includes analysis of a number of potential future environmental risks that coal companies may be exposed to.

Observation and exclusion

The Ministry of Finance introduced new criteria for observation and exclusion, including new coal-related criteria, with effect from 1 February 2016. We began work on this in 2015 and continued to operationalise the new criteria during the first quarter. The process involves identifying relevant companies and seeking confirmation of relevant data and information.

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 10.7 percent, or about 750 billion kroner, at the end of the first quarter, compared with 10.4 percent three months earlier. The increase was due mainly to slightly higher 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 0.29

percentage point at the end of the quarter, virtually unchanged from the start 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 index. 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 0.92 percentage point at the end of the first quarter, compared to 0.95 percentage point at 31 December 2015.

Operational risk management

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

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

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

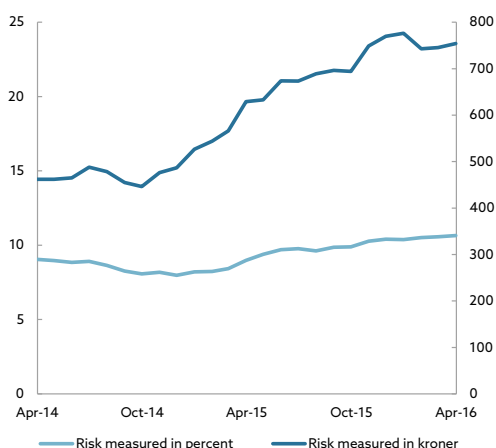
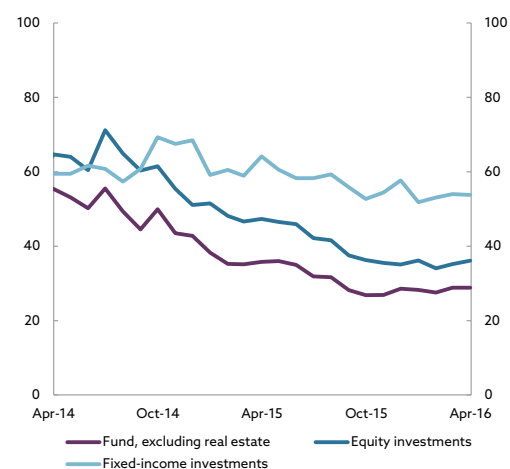


Chart 9 Expected relative volatility of the fund, excluding real estate investments. Basis points



estimate is based on past events and an assessment of future risks and represents the fund's estimated operational risk exposure. Estimated operational risk exposure remained within the Executive Board's tolerance limit in the first quarter. A total of 82 unwanted operational events were registered during the quarter, with a total financial impact of around 3.6 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	31.03.2016
Exposure	Equities 50–70 percent of fund's market value ¹	59.5
	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-	1.7
Ownership	Maximum 10 percent of voting shares in a listed company in the equity portfolio	9.4

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

Key figures

Table 10 Quarterly return as at 31 March 2016

	1Q 2016	4Q 2015	3Q 2015	2Q 2015	1Q 2015
Returns in international currency					
Return on equity investments (percent)	-2.90	5.83	-8.56	-0.23	7.53
Return on fixed-income investments (percent)	3.32	0.07	0.90	-2.22	1.63
Return on real estate investments (percent)	-1.29	1.61	2.97	1.96	3.10
Return on fund (percent)	-0.63	3.55	-4.93	-0.87	5.28
Return on equity and fixed-income investments (percent)	-0.61	3.61	-5.15	-0.95	5.33
Return on benchmark equity and fixed-income indices (percent)	-0.43	3.50	-4.93	-1.33	5.13
Relative return on equity and fixed-income investments (percentage points)	-0.18	0.11	-0.22	0.38	0.19
Relative return on equity investments (percentage points)	-0.21	0.12	-0.07	0.40	0.39
Relative return on fixed-income investments (percentage points)	-0.21	0.17	-0.64	0.34	-0.14
Management costs (percentage points)	0.01	0.01	0.01	0.01	0.01
Return on fund after management costs (percent)	-0.64	3.54	-4.95	-0.89	5.26
Returns in kroner (percent)					
Return on equity investments	-7.14	8.65	-2.29	-1.17	11.29
Return on fixed-income investments	-1.19	2.73	7.82	-3.14	5.17
Return on real estate investments	-5.60	4.32	10.03	1.00	6.70
Return on fund	-4.97	6.31	1.59	-1.81	8.95

Table 11 Historical key figures as at 31 March 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)	5.52	5.04	6.64	6.49	-3.03
Return on equity and fixed-income investments (percent)	5.51	5.03	6.60	6.40	-3.26
Return on benchmark equity and fixed-income indices (percent)	5.26	5.01	6.56	6.37	-3.32
Relative return on equity and fixed-income investments (percentage points)	0.25	0.02	0.04	0.03	0.07
Annual price inflation (percent)	1.75	1.79	1.32	0.83	0.50
Annual management costs (percent)	0.09	0.08	0.06	0.06	0.05
Annual net real return on fund (percent)	3.62	3.12	5.19	5.56	-3.56
Standard deviation (percent)	7.60	8.90	7.34	7.12	9.23
Tracking error for equity and fixed-income investments (percentage points)	0.72	0.90	0.39	0.40	0.39
Information ratio (IR) ¹ for equity and fixed-income investments	0.37	0.08	0.13	0.10	0.21

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 31 March 2016

	1Q 2016	4Q 2015	3Q 2015	2Q 2015	1Q 2015
Market value (billions of kroner)¹					
Market value of equity investments	4,234	4,572	4,191	4,330	4,380
Market value of fixed-income investments	2,622	2,668	2,620	2,382	2,474
Market value of real estate investments	223	235	208	186	158
Market value of fund	7,079	7,475	7,019	6,897	7,012
Inflow of new capital/withdrawals ¹	-25	13	12	12	5
Return on fund	-85	279	-273	-73	401
Changes due to fluctuations in krone	-286	164	382	-53	175
Total change in fund	-396	456	121	-115	581
Management costs (percent)					
Estimated transition costs ²	0.00	0.00	0.00	0.00	0.00
Management costs	0.04	0.06	0.05	0.05	0.06
Changes in value since first capital inflow in 1996 (billions of kroner)					
Gross inflow of new capital	3,475	3,499	3,485	3,472	3,459
Management costs ³	32	31	30	29	28
Inflow of new capital after management costs	3,443	3,468	3,455	3,443	3,431
Return on fund	2,591	2,676	2,397	2,670	2,743
Changes due to fluctuations in krone	1,045	1,331	1,167	785	838
Market value of fund	7,079	7,475	7,019	6,897	7,012
Return after management costs	2,559	2,645	2,367	2,641	2,716

¹ The fund's market value shown in this table does not take into account the management fee. The market value therefore differs somewhat from the *Balance sheet and the Statement of changes in owner's capital* in the financial reporting section. The inflows/withdrawals in this table differ somewhat from the financial accounts due to differences in the treatment of management fees (see *Statement of cash flows* and *Statement of changes in owner's capital*) and unsettled inflows (see *Statement of cash flows*).

² Estimated transition costs of new capital inflows. These do not include costs due to strategic changes in the fund and costs from implementing benchmark index changes, for instance when companies, issuers and bonds are added to or excluded from the benchmark indices for equities and fixed income.

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

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

	1Q 2016	4Q 2015 ¹	3Q 2015	2Q 2015	1Q 2015
Return on equity investments	1,620	1,786	1,529	1,875	1,894
Return on fixed-income investments	939	859	840	772	830
Return on real estate investments	31	31	28	22	19
Total return	2,591	2,676	2,397	2,670	2,743

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	1Q 2016	1Q 2015	2015
Profit/loss on the portfolio before foreign exchange gains and losses				
Income/expense from:				
- Equities and units	4	-166 825	349 014	284 414
- Bonds	4	84 478	51 720	36 160
- Unlisted real estate	6	854	3 000	14 537
- Financial derivatives	4	-3 782	-2 820	-1 984
- Secured lending		915	689	3 266
- Secured borrowing		18	-2	50
Tax expense		-928	-661	-2 628
Interest income/expense		-11	-14	-18
Other expenses		-11	-	-18
Profit/loss on the portfolio before foreign exchange gains and losses		-85 292	400 926	333 779
Foreign exchange gains and losses		-286 146	174 926	668 138
Profit/loss on the portfolio		-371 438	575 852	1 001 917
Management fee	9	-752	-932	-3 933
Profit/loss for the period and total comprehensive income		-372 190	574 920	997 984

Balance sheet

Amounts in NOK million	Note	31.03.2016	31.12.2015
ASSETS			
Deposits in banks		7 128	2 543
Secured lending		124 007	123 385
Cash collateral posted		5 087	2 231
Unsettled trades		42 868	18 404
Equities and units	5	3 892 652	4 287 606
Equities lent	5	375 883	312 662
Bonds	5	2 454 941	2 476 729
Bonds lent	5	219 807	241 518
Unlisted real estate	6	169 840	180 021
Financial derivatives	5	7 040	8 829
Other assets		5 605	2 265
TOTAL ASSETS	7,8	7 304 858	7 656 193
LIABILITIES AND OWNER'S CAPITAL			
Liabilities			
Secured borrowing		157 089	149 735
Cash collateral received		383	2 570
Unsettled trades		59 322	22 438
Financial derivatives	5	8 446	5 266
Other liabilities		635	1 031
Management fee payable	9	752	3 933
Total liabilities		226 627	184 973
Owner's capital		7 078 231	7 471 220
TOTAL LIABILITIES AND OWNER'S CAPITAL	7,8	7 304 858	7 656 193

Statement of cash flows

Amounts in NOK million, received (+) / paid (-)	Year-to-date 31.03.2016	Year-to-date 31.03.2015	2015
Operating activities			
Dividends received from equities and units	22 589	20 808	108 904
Interest received from bonds	18 666	18 597	75 283
Net interest and dividends received from unlisted real estate	706	625	3 532
Net interest and fees received from secured lending and borrowing	756	526	3 324
<i>Interest, dividends and fees received from holdings of equities and units, bonds and unlisted real estate</i>	<i>42 717</i>	<i>40 556</i>	<i>191 043</i>
Net cash flow arising from purchase and sale of equities and units	-19 267	-31 828	-89 916
Net cash flow arising from purchase and sale of bonds	10 230	-30 130	-140 103
Net cash flow arising from purchase and sale of unlisted real estate	-159	-6 322	-44 946
Net cash flow arising from financial derivatives	-884	-866	-3 165
Net cash flow arising from cash collateral related to derivative transactions	-4 394	-2 474	730
Net cash flow arising from interest received from deposits in banks and interest paid on bank overdraft	-8	145	-6
Net cash flow arising from secured lending and borrowing	7 325	15 554	33 708
Net cash flow arising from taxes	-779	53	-1 499
Net cash flow related to other expenses, other assets and other liabilities	-4 051	7 341	1 309
Management fee paid to Norges Bank*	-3 933	-3 202	-3 202
Net cash flow from operating activities	26 797	-11 174	-56 047
Financing activities			
Inflow from the Norwegian State**	-	9 069	45 836
Withdrawal by the Norwegian State**	-20 552	-	-
Net cash flow from financing activities	-20 552	9 069	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	6 245	-2 105	-10 211
Net foreign exchange gains and losses on cash	-1 660	-163	1 023
Deposits in banks at end of period	7 128	9 463	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	-	574 920	574 920
Net inflow/withdrawal during the period*	8 700	-	8 700
31 March 2015	3 457 641	3 553 516	7 011 157
1 April 2015	3 457 641	3 553 516	7 011 157
Total comprehensive income	-	423 064	423 064
Net inflow/withdrawal during the period*	37 000	-	37 000
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	-	-372 190	-372 190
Net inflow/withdrawal during the period*	-20 800	-	-20 800
31 March 2016	3 473 840	3 604 390	7 078 231

* In the first quarter of 2016 there was a withdrawal of NOK 24.7 billion from the krone account. Of this, NOK 3.9 billion was used to pay the accrued management fee for 2015. In the first quarter of 2015, there was an inflow to the krone account of NOK 8.7 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 (NBIM).

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

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

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 first quarter of 2016, which only encompass the financial reporting for the GPFG, were approved by Norges Bank's Executive Board on 27 April 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 GPFG, and that these shall be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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

The quarterly financial statements are prepared using the same accounting policies and calculation methods as used for the annual financial statements 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 GPFG.

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

	1Q 2016	4Q 2015*	3Q 2015	2Q 2015	1Q 2015	Year-to-date 31.03.2016
Returns in the fund's currency basket						
Return on equity investments (percent)	-2.90	5.83	-8.56	-0.23	7.53	-2.90
Return on fixed-income investments (percent)	3.32	0.07	0.90	-2.22	1.63	3.32
Return on real estate investments (percent)	-1.29	1.61	2.97	1.96	3.10	-1.29
Return on fund (percent)	-0.63	3.55	-4.93	-0.87	5.28	-0.63
Return on equity and fixed-income investments (percent)	-0.61	3.61	-5.15	-0.95	5.33	-0.61
Return on benchmark equity and fixed-income indices (percent)	-0.43	3.50	-4.93	-1.33	5.13	-0.43
Relative return on equity and fixed-income investments (percentage points)	-0.18	0.11	-0.22	0.38	0.19	-0.18
Relative return on equity investments (percentage points)	-0.21	0.12	-0.07	0.40	0.39	-0.21
Relative return on fixed-income investments (percentage points)	-0.21	0.17	-0.64	0.34	-0.14	-0.21
Returns in Norwegian kroner (percent)						
Return on equity investments	-7.14	8.65	-2.29	-1.17	11.29	-7.14
Return on fixed-income investments	-1.19	2.73	7.82	-3.14	5.17	-1.19
Return on real estate investments	-5.60	4.32	10.03	1.00	6.70	-5.60
Return on fund	-4.97	6.31	1.59	-1.81	8.95	-4.97
Return on equity and fixed-income investments	-4.95	6.37	1.35	-1.89	9.00	-4.95

* *Return 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 GPF'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	1Q 2016	1Q 2015	2015
Dividends	27 367	24 237	107 383
Realised gain/loss	8 913	38 090	132 240
Unrealised gain/loss	-203 105	286 687	44 791
Income/expense from equities and units before foreign exchange gain/loss	-166 825	349 014	284 414

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	1Q 2016	1Q 2015	2015
Interest	16 998	19 579	78 243
Realised gain/loss	6 755	11 876	21 098
Unrealised gain/loss	60 725	20 265	-63 181
Income/expense from bonds before foreign exchange gain/loss	84 478	51 720	36 160

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	1Q 2016	1Q 2015	2015
Dividends	2	-	21
Interest	-19	-312	-869
Realised gain/loss	-1 063	-1 875	-2 422
Unrealised gain/loss	-2 702	-633	1 286
Income/expense from financial derivatives before foreign exchange gain/loss	-3 782	-2 820	-1 984

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

Table 5.1 Equities and units

Amounts in NOK million	31.03.2016		31.12.2015	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities and units	4 268 535	10 268	4 600 268	5 491
Total equities and units	4 268 535	10 268	4 600 268	5 491
<i>Of which equities lent</i>	375 883		312 662	

Table 5.2 Bonds

Amounts in NOK million	Nominal value	31.03.2016		31.12.2015		
		Fair value including accrued interest	Accrued interest	Nominal value	Fair value including accrued interest	Accrued interest
Government bonds	1 352 914	1 479 779	11 635	1 326 895	1 493 128	11 803
Government-related bonds	349 761	373 317	3 326	367 675	386 829	3 274
Inflation-linked bonds	107 302	114 659	381	103 152	120 275	522
Corporate bonds	525 703	546 951	5 446	539 778	547 882	6 134
Securitised bonds	159 656	160 042	1 566	161 252	170 133	2 289
Total bonds	2 495 336	2 674 748	22 354	2 498 752	2 718 247	24 022
<i>Of which bonds lent</i>		219 807			241 518	

Table 5.3 Financial derivatives

Amounts in NOK million	Notional amount	31.03.2016		Notional amount	31.12.2015	
		Fair value Asset	Fair value Liability		Fair value Asset	Fair value Liability
Foreign exchange derivatives	256 813	3 275	2 436	351 186	4 352	1 521
Interest rate derivatives	32 420	59	6 010	37 123	553	3 745
Equity derivatives	5 733	3 706	-	4 846	3 924	-
Total financial derivatives	294 966	7 040	8 446	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	1Q 2016	1Q 2015	2015
Dividend	533	322	1 931
Interest income	173	303	1 601
Unrealised gain/loss	148	2 375	11 005
Income/expense from unlisted real estate before foreign exchange gain/loss	854	3 000	14 537

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK million	31.03.2016	31.12.2015
Unlisted real estate, opening balance for the period	180 021	106 431
Additions	159	44 946
Unrealised gain/loss	148	11 005
Foreign currency translation effect	-10 488	17 639
Unlisted real estate, closing balance for the period	169 840	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 value changes of properties and debt

Table 6.3 Income from underlying real estate companies

Amounts in NOK million	1Q 2016	1Q 2015	2015
Net rental income*	1 922	1 442	6 921
Realised gain/loss	21	-	320
Fair value changes - properties	-151	2 037	9 265
Fair value changes - debt	-332	-145	435
Transaction costs	-18	-44	-320
Interest expense external debt	-172	-139	-666
Tax expense payable	-28	-14	-100
Change in deferred tax	-84	-47	-452
Fixed fees to asset managers**	-102	-55	-308
Variable fees to asset managers**	-149	10	-343
Operating expenses within the limit from the Ministry of Finance***	-20	-21	-86
Other expenses	-33	-24	-129
Net income real estate companies	854	3 000	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 asset 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	31.03.2016	31.12.2015
Deposits in banks	2 690	2 491
Properties	185 755	197 549
External debt	-16 028	-17 432
Tax payable	-185	-215
Net deferred tax	-1 107	-1 048
Net other assets and liabilities	-1 285	-1 324
Total assets and liabilities underlying real estate companies	169 840	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 51 334 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	
	31.03.2016	31.12.2015	31.03.2016	31.12.2015	31.03.2016	31.12.2015	31.03.2016	31.12.2015
Equities and units	4 241 910	4 564 401	23 768	32 260	2 857	3 607	4 268 535	4 600 268
Government bonds	1 401 981	1 380 928	77 798	112 200	-	-	1 479 779	1 493 128
Government-related bonds	327 073	331 310	45 277	54 477	967	1 042	373 317	386 829
Inflation-linked bonds	102 872	108 484	11 787	11 791	-	-	114 659	120 275
Corporate bonds	512 628	512 577	34 074	34 824	249	481	546 951	547 882
Securitised bonds	152 272	160 797	6 808	8 128	962	1 208	160 042	170 133
Total bonds	2 496 825	2 494 096	175 745	221 420	2 178	2 731	2 674 748	2 718 247
Financial derivatives (assets)	412	359	6 628	8 470	-	-	7 040	8 829
Financial derivatives (liabilities)	-	-	-8 446	-5 266	-	-	-8 446	-5 266
Total financial derivatives	412	359	-1 818	3 204	-	-	-1 406	3 563
Unlisted real estate	-	-	-	-	169 840	180 021	169 840	180 021
Other*	-	-	-32 734	-26 946	-	-	-32 734	-26 946
Total	6 739 147	7 058 856	164 961	229 938	174 875	186 359	7 078 983	7 475 153
Total (percent)	95.2	94.4	2.3	3.1	2.5	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 first 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 first quarter, 97.5 percent was classified as Level 1 or 2, which is 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 (93.3 percent) have observable, executable market quotes and are classified as Level 1. A minority of bonds (6.6 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, with the exception of newly acquired properties where the purchase price, excluding transaction costs,

is considered to be the best estimate of fair value.

3. MOVEMENTS BETWEEN LEVELS OF VALUATION UNCERTAINTY

Reclassifications between Level 1 and Level 2.

The relative share of equities classified as Level 1 increased by 0.16 percent in the quarter. This is mainly caused by one share where the price was directly observable at the end of the first quarter.

Within bonds, a group of corporate bonds denominated in dollar were reclassified from Level 2 to Level 1 as they had observable marked quotes at quarter-end. In addition, some bonds that were classified as Level 2 at year-end matured. These two factors together constitute the decrease in Level 2.

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 exchange gains and losses	31.03.2016
Equities and units	3 607	94	-173	-	-225	915	-1 165	-196	2 857
Bonds	2 731	-	-128	-	-183	-	-93	-149	2 178
Unlisted real estate	180 021	159	-	-	148	-	-	-10 488	169 840
Total	186 359	253	-301	-	-260	915	-1 258	-10 833	174 875

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 exchange gains and losses	31.03.2015
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

There has been a marginal decrease in the share of equities and bonds classified as Level 3 in the first quarter. For equities, the decrease is caused by a few companies in China. These were suspended from trading at year-end, but trading resumed during the first quarter and as a result these were reclassified to Level 1. For

bonds, some securities were reclassified to Level 2 since the valuation was based on comparable issues with observable market inputs. Furthermore, there was a decrease for both equities and bonds in Level 3 due to lower prices and a stronger krone.

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 31.03.2016	Sensitivities 31.03.2016		Specification of Level 3 holdings 31.12.2015	Sensitivities 31.12.2015	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities and units	2 857	-971	943	3 607	-1 227	1 190
Government-related bonds	967	-97	97	1 042	-104	104
Corporate bonds	249	-25	25	481	-78	78
Securitised bonds	962	-96	96	1 208	-121	121
Total bonds	2 178	-218	218	2 731	-304	304
Unlisted real estate	169 840	-7 508	8 288	180 021	-7 801	8 637
Total	174 875	-8 697	9 449	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. In an unfavourable scenario, changing the yield by +0.2 percentage points, and future market rents by -2 percent will result in a decrease in value of the real estate portfolio of approximately 4.4 percent or NOK 7 508 million. In a favourable scenario, a similar

change in the yield of -0.2 percentage points and an increase in future market rents of 2 percent will increase the value of the real estate portfolio by 4.9 percent or NOK 8 288 million. Sensitivities in percent in the first quarter of 2016 are at the same level as year-end 2015.

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 GPF.

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		
		31.03.2016	Market	31.12.2015	31.03.2016	31.12.2015	31.03.2016	31.12.2015
Equities	Developed	90.5	Developed	91.0				
	US	36.1	US	35.5				
	UK	10.7	UK	11.3				
	Japan	8.7	Japan	9.3				
	Germany	5.6	Germany	5.7				
	Switzerland	5.3	Switzerland	5.5				
	Total other	24.1	Total other	23.7				
	Emerging	9.5	Emerging	9.0				
	China	2.8	China	2.9				
	Taiwan	1.5	Taiwan	1.4				
	India	1.0	India	1.1				
	Brazil	0.6	South Africa	0.5				
	South Africa	0.6	Brazil	0.5				
	Total other	3.0	Total other	2.6				
Total equities					59.81	61.16	4 233 940	4 571 807
Fixed-income	Developed	87.3	Developed	87.6				
	US Dollar	41.3	US Dollar	42.0				
	Euro	25.8	Euro	25.5				
	Japanese Yen	6.7	Japanese Yen	6.5				
	British Pound	5.2	British Pound	5.4				
	Canadian Dollar	3.1	Canadian Dollar	3.0				
	Total other	5.2	Total other	5.2				
	Emerging	12.7	Emerging	12.4				
	Mexican Peso	1.8	Mexican Peso	1.9				
	South Korean Won	1.5	South Korean Won	1.6				
	Turkish Lira	1.0	Turkish Lira	1.0				
	Indian Rupee	1.0	Indian Rupee	1.0				
	Brazilian Real	0.9	Chinese Yuan	0.8				
	Total other	6.5	Total other	6.1				
Total fixed-income					37.04	35.69	2 622 287	2 668 147
Real estate	US	44.4	US	44.3				
	UK	26.3	UK	27.6				
	France	11.7	France	11.1				
	Germany	8.0	Germany	7.3				
	Switzerland	4.0	Switzerland	3.8				
	Total other	5.6	Total other	5.9				
Total real estate**					3.15	3.15	222 756	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*.

Compared to year-end 2015, the share allocated to the equity asset class decreased somewhat, whilst the share allocated to fixed-income increased. Changes in the asset class allocation were mainly attributable to market returns and currency effects. The global equity market experienced a strong decline in the first half of the quarter, but recovered somewhat in the second half. Emerging markets showed a stronger return in the first quarter than developed markets, where both equity markets rose and currencies strengthened. This led to

an increase in the share of 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							
	31.03.2016	Min 2016	Max 2016	Average 2016	31.12.2015	Min 2015	Max 2015	Average 2015
Portfolio	10.7	10.3	10.7	10.6	10.4	8.1	10.4	9.5
Equities	13.8	12.9	13.8	13.5	12.9	10.9	12.9	12.0
Fixed-income	10.1	10.1	10.3	10.2	10.1	7.9	10.2	9.4

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

	Expected relative volatility							
	31.03.2016	Min 2016	Max 2016	Average 2016	31.12.2015	Min 2015	Max 2015	Average 2015
Equity and fixed-income portfolio	29	27	29	28	28	26	38	32
Equities	36	34	36	35	36	35	52	42
Fixed-income	54	51	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 indicates an increase for the portfolio in the first

quarter, from 10.4 at the start of the year, to 10.7 at the end of the quarter. The increase in volatility is largely caused by an increase in expected volatility for equities, from 12.9 percent to 13.8 percent. At the start of the quarter, the implicit volatility in the equity

markets increased for both the USA and Europe and the average volatility was somewhat higher than in the period exiting the estimation period. The risk measure indicates an expected annual value fluctuation of 10.7 percent, or approximately NOK 750 billion, at the end of the quarter. Expected relative volatility increased to 29 basis points at the end of the quarter, compared to 28 basis points at year-end 2015.

From 1 March 2016, expected shortfall was introduced as a new risk measure. The management should be organised so that

negative relative return in extreme situations is not expected to exceed 3.75 percent. At the end of the first quarter, the measure was 0.92 percent, compared to 0.95 percent 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, 31.03.2016	AAA	AA	A	BBB	Lower rating	Total
Government bonds	728 987	256 526	283 924	180 929	29 413	1 479 779
Government-related bonds	161 004	149 629	29 262	28 966	4 456	373 317
Inflation-linked bonds	80 485	6 249	4 153	22 719	1 053	114 659
Corporate bonds	3 357	43 533	214 223	274 194	11 644	546 951
Securitised bonds	136 024	15 900	3 365	4 622	131	160 042
Total bonds	1 109 857	471 837	534 927	511 430	46 697	2 674 748

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 of BBB decreased to 19.1 percent at the end of the first quarter, compared to 20.0 percent at year-end 2015.

This is largely due to a downgrade of Brazilian government bonds from the BBB category, to the category *Lower rating*. The category *Lower rating* increased therefore to 1.7 percent at the

end of the first quarter, compared to 0.7 percent at year-end. The AAA category increased to 41.5 percent of the bond holdings at the end of the first quarter, from 41.1 percent at year-end. Within this category, downgrades by credit rating agencies were offset by purchases of AAA governmental bonds and government-related bonds. The overall credit quality of the bond portfolio has declined slightly 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 31 March 2016, aggregated for the GPFG.

Table 8.5 Counterparty risk by type of position

Amounts in NOK million, 31.03.2016	Gross exposure	Effect of netting	Effect of received and posted collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits*	8 514	-	-	8 514
OTC derivatives including foreign exchange contracts	18 407	6 658	-4 632	16 381
Cleared OTC and listed derivatives**	2 443	36	-73	2 480
Repurchase and reverse repurchase agreements	2 297	295	-261	2 263
Securities lending transactions	50 587	-	1 220	49 367
Settlement risk towards broker and long settlement transactions	146	-	-	146
Participatory certificates	3 240	-	-	3 240
Total	85 634	6 989	-3 746	82 391

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 measured in terms of both gross and net risk exposure has increased since year-end 2015. The increase was mainly caused by an increase in unsecured bank deposits as well as higher settlement risk for foreign exchange contracts. There were few foreign exchange trades at year-end, whilst the activity

in foreign exchange contracts that incur settlement risk was higher at the end of the first quarter. It is mainly foreign exchange contracts in currencies related to emerging markets that lead to settlement risk. Risk exposure from the securities lending programme is relatively unchanged compared to year-end.

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	1Q 2016		1Q 2015		2015	
		Basis points		Basis points		Basis points
Salary, social security and other personnel related costs	269		273		1 134	
Custody costs	91		109		394	
IT services, systems, data and information	154		140		638	
Research, consulting and legal fees	57		56		245	
Other costs	57		40		200	
Allocated costs Norges Bank	41		31		129	
Base fees to external managers	170		179		615	
Management fee excluding performance-based fees	839	4.7	828	5.0	3 355	4.8
Performance-based fees to external managers*	-87		104		578	
Total management fee	752	4.2	932	5.7	3 933	5.7

* Performance-based fees to external managers are determined based on the cumulative excess return of the managers since inception. The income of NOK 87 million recognised in the first quarter of 2016 is due to a lower provision for fees to certain managers at the end of the first quarter compared to year-end.

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	1Q 2016	1Q 2015	2015
Salary, social security and other personnel related costs	5	5	26
IT services, systems, data and information	9	8	31
Research, consulting and legal fees	6	3	25
Other costs	4	5	13
Total management costs, real estate subsidiaries	24	21	95
<i>Of which management costs non-consolidated subsidiaries</i>	<i>20</i>	<i>21</i>	<i>86</i>
<i>Of which management costs consolidated subsidiaries</i>	<i>4</i>	<i>-</i>	<i>9</i>

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.

Total management costs that are measured against the limit amount to NOK 863 million in the first quarter of 2016. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 839 million, and management costs in real estate subsidiaries of NOK 24 million. This corresponds to 4.8 basis points of assets under management on an annual basis.

Total management costs including performance-based fees amount to NOK 776 million in the first quarter of 2016. This corresponds to 4.3 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 31 March 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 three-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, 27 April 2016

Deloitte AS

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)





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