

1Q|17

**GOVERNMENT
PENSION FUND
GLOBAL**

**QUARTERLY REPORT
/2017**

HIGHLIGHTS

First quarter 2017 in brief

3.8%

297 Bn. KR

The Government Pension Fund Global returned **3.8** percent, or **297** billion kroner, in the first quarter of 2017.





**EQUITY
INVESTMENTS**

5.5%



**FIXED-INCOME
INVESTMENTS**

0.8%



**UNLISTED
REAL ESTATE
INVESTMENTS**

0.6%

Equity investments returned **5.5** percent, while fixed-income investments returned **0.8** percent. Investments in unlisted real estate returned **0.6** percent.

The return on the fund's investments was **0.1** percentage point higher than the return on the benchmark index the fund is measured against.



7 867

Bn. KR

The fund had a market value of **7,867** billion kroner at the end of the quarter and was invested **64.6** percent in equities, **32.9** percent in fixed income and **2.5** percent in unlisted real estate.



**EQUITY
INVESTMENTS**

64.6%



**FIXED-INCOME
INVESTMENTS**

32.9%



**UNLISTED
REAL ESTATE
INVESTMENTS**

2.5%

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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.

Investments

EQUITY INVESTMENTS

Equity investments returned 5.5 percent and made up 64.6 percent of the fund at the end of the quarter. The return was driven by upbeat expectations in both developed and emerging markets. The US stock market began the year strongly, with the new administration promising deregulation and measures to stimulate growth in the economy. Growth expectations in Europe were positive, and markets in the region rallied. A brighter growth outlook was also a key factor behind returns in emerging markets, which had the strongest returns in the quarter. Commodity prices were stable, and there were positive developments in key markets such as China, India and Brazil.

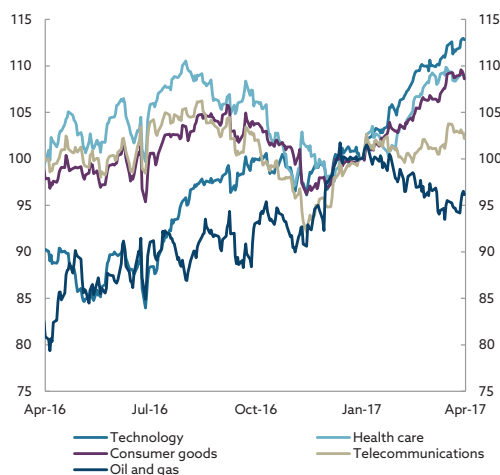
Strongest return in Asia and Oceania

Stocks in Asia and Oceania returned 7.8 percent and made up 21.8 percent of the fund's equity investments at the end of the quarter. Japanese stocks returned 3.7 percent, or 0.6 percent in local currency, and amounted to 8.8 percent of equity investments.

European stocks produced a return of 5.8 percent and accounted for 35.8 percent of the fund's equities. The UK, which is the fund's largest European market with 9.6 percent of its equity investments, returned 3.2 percent, or 3.5 percent in local currency.

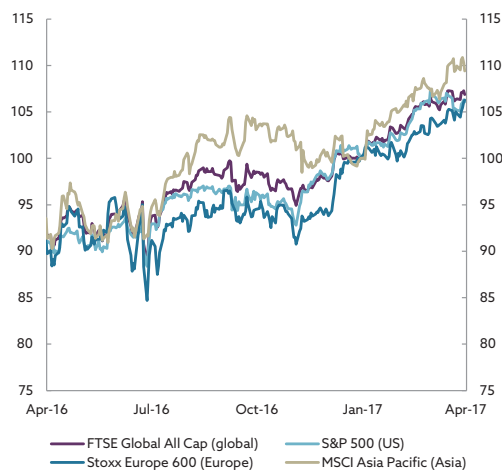
North American stocks returned 4.0 percent and made up 39.3 percent of the equity

Chart 1 Price developments in stock sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed total return 31.12.2016 = 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 total return 31.12.2016 = 100



Source: Bloomberg

portfolio. US stocks, which were the fund's single-largest market with 37.2 percent of its equity investments, returned 4.1 percent, or 5.6 percent in local currency.

The Chinese stock market, home to 2.9 percent of the fund's equity investments, returned 9.4 percent. Emerging markets as a whole accounted for 9.8 percent of the equity portfolio and returned 9.1 percent.

Tech stocks perform best

Technology companies produced the highest return in the first quarter at 11.1 percent, with a strong performance in all subsectors. Key drivers included increased demand for

semiconductors from the automotive and manufacturing sectors and further growth in e-commerce, digital marketing and cloud services.

Basic materials stocks returned 7.0 percent, driven mainly by stable commodity prices and investor optimism. A more positive outlook for global growth and infrastructure improvements in both the US and China boosted expectations of higher future revenue in the sector.

Industrials returned 7.0 percent, due to strong returns in engineering, especially industrial robotics and production equipment. Stronger economic data from Japan and Europe and an

Table 1 Return on the fund's equity investments in first quarter 2017 by sector. Percent

| Sector | Return in international currency | Share of equity investments ¹ |
|--------------------|----------------------------------|--|
| Financials | 4.3 | 23.8 |
| Industrials | 7.0 | 14.1 |
| Consumer goods | 6.8 | 13.3 |
| Health care | 6.9 | 10.3 |
| Technology | 11.1 | 10.2 |
| Consumer services | 4.1 | 10.1 |
| Oil and gas | -4.4 | 5.8 |
| Basic materials | 7.0 | 5.8 |
| Telecommunications | 2.4 | 3.2 |
| Utilities | 6.6 | 2.9 |

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

Table 2 The fund's largest equity holdings as at 31 March 2017. Millions of kroner

| Company | Country | Holding |
|-----------------------|-------------|---------|
| Apple Inc | US | 59,602 |
| Nestlé SA | Switzerland | 50,012 |
| Royal Dutch Shell Plc | UK | 41,760 |
| Alphabet Inc | US | 40,848 |
| Microsoft Corp | US | 38,547 |
| Roche Holding AG | Switzerland | 37,207 |
| Novartis AG | Switzerland | 33,717 |
| Johnson & Johnson | US | 27,176 |
| Amazon.com Inc | US | 27,116 |
| BlackRock Inc | US | 26,513 |

expectation of increased investment fuelled investor optimism in the sector. Suppliers to the technology sector also had strong returns.

Oil and gas stocks were the weakest performers, returning -4.4 percent. Despite OPEC's efforts to limit the supply of oil and keep prices stable around 50 dollars per barrel, the quarter saw US shale oil producers adjusting to permanently lower oil prices through increased efficiency and cost cutting.

Individual stocks

The investment in technology company Apple Inc had the strongest positive contribution to the return in the first quarter, followed by

technology company Samsung Electronics Co Ltd and health care company Roche Holding AG. The companies that had the most negative contributions were the oil companies Exxon Mobil Corp, Royal Dutch Shell Plc and Chevron Corp.

The fund participated in 24 initial public offerings in the quarter. The largest was in real estate company Invitation Homes Inc, followed by consumer goods company Beclé SAB de CV and real estate company Neinor Homes SA. The offerings in which the fund invested the most were those in Invitation Homes Inc, Beclé SAB de CV and consumer services company Sushiro Global Holdings Ltd.

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 34 currencies at the end of the quarter. Unless otherwise stated in the text, results are measured in this currency basket.

FIXED-INCOME INVESTMENTS

Fixed-income investments returned 0.8 percent and accounted for 32.9 percent of the fund at the end of the first quarter. Global yields were relatively stable during the period.

Positive return on government bonds

Government bonds returned 1.4 percent and made up 56.2 percent of the fund's fixed-income investments at the end of the quarter.

US Treasuries returned -0.6 percent, or 0.8 percent in local currency, and accounted for 18.8 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. The Federal Reserve raised its policy rate in March, but this had already been priced into the market

and so had a limited impact on the return. The dollar weakened somewhat against the fund's currency basket during the quarter.

Euro-denominated government bonds represented 11.9 percent of the fund's fixed-income holdings and returned -1.2 percent, or -1.1 percent in local currency. As the market expected, the European Central Bank (ECB) left its policy rate unchanged during the quarter. The announcement in December of a reduction in the ECB's monthly bond purchases from 80 to 60 billion euros from April, along with uncertainty about the outcome of the presidential and parliamentary elections in France in the second quarter, led to wider yield spreads between countries in the euro area.

Table 3 Return on the fund's fixed-income investments in first quarter 2017 by sector. Percent

| Sector | Return in international currency | Share of fixed-income investments ¹ |
|---------------------------------------|----------------------------------|--|
| Government bonds ² | 1.4 | 56.2 |
| Government-related bonds ² | 0.5 | 13.1 |
| Inflation-linked bonds ² | -0.4 | 5.0 |
| Corporate bonds | 0.0 | 24.0 |
| Securitised bonds | -0.1 | 5.2 |

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 2017

| Issuer | Country | Holding Millions of kroner |
|-----------------------------|-------------|----------------------------|
| United States of America | US | 569,123 |
| Japanese government | Japan | 187,618 |
| Federal Republic of Germany | Germany | 112,509 |
| Mexican government | Mexico | 64,284 |
| UK government | UK | 57,886 |
| French Republic | France | 56,109 |
| Italian Republic | Italy | 48,281 |
| South Korean government | South Korea | 47,945 |
| Spanish government | Spain | 32,023 |
| Government of India | India | 31,736 |

Japanese government bonds amounted to 7.1 percent of the fund's fixed-income holdings and returned 3.0 percent, or -0.2 percent in local currency. The yen strengthened somewhat against the fund's currency basket during the quarter.

Government bonds in emerging markets had the strongest return in the quarter. Especially Mexican government bonds had a good quarter and returned 12.1 percent, or 4.0 percent in local currency.

The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau, the European Investment Bank and Canada Housing Trust No. 1. These bonds returned 0.5 percent and accounted for 13.1 percent of fixed-income investments.

Corporate bonds returned 0.0 percent and made up 24.0 percent of fixed-income investments at the end of the period. The credit spread on corporate bonds was stable during the quarter. As a large proportion of these bonds are denominated in dollars, the weakening of the dollar pulled down the return measured in the currency basket.

Securitized bonds, consisting mainly of covered bonds denominated in euros, returned -0.1 percent and made up 5.2 percent of fixed-income holdings.

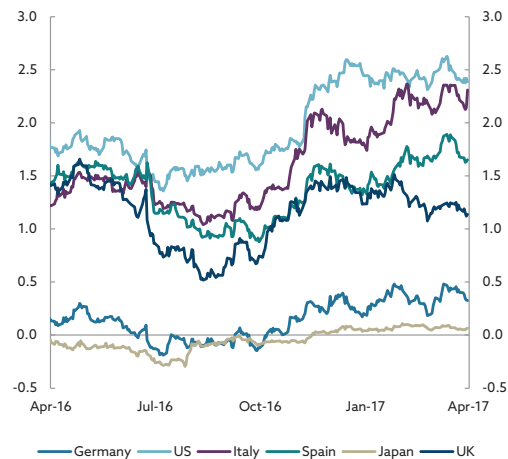
Inflation-linked bonds returned -0.4 percent and accounted for 5.0 percent of total fixed-income investments.

Chart 3 Price developments for bonds issued in dollars, euros, pounds and yen. Measured in local currencies. Indexed total return 31.12.2016 = 100



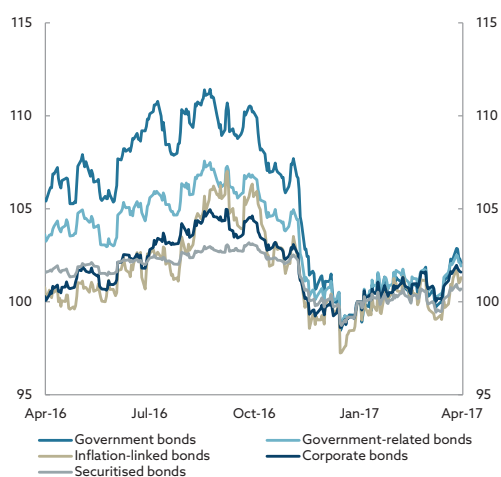
Source: Bloomberg Barclays Indices

Chart 4 10-year government bond yields. Percent



Source: Bloomberg

Chart 5 Price developments in fixed-income sectors. Measured in US dollars. Indexed total return 31.12.2016 = 100



Source: Bloomberg Barclays Indices

Changes in fixed-income holdings

The market value of investments in bonds denominated in emerging market currencies climbed from 12.4 to 12.8 percent of total fixed-income investments during the quarter, due mainly to an increase in the market value of Mexican bonds as a result of the peso strengthening against the fund's currency basket.

Investments in dollars, euros, pounds and yen fell from 79.5 to 79.2 percent of fixed-income holdings during the quarter.

The biggest increases in government bond holdings in the first quarter were in Japanese, Mexican and French bonds. The biggest decreases were in bonds from the UK, Germany and the US.

Table 5 The fund's fixed-income investments as at 31 March 2017 based on credit ratings. Percentage of bond holdings

| | AAA | AA | A | BBB | Lower rating | Total |
|--------------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Government bonds | 25.8 | 8.4 | 11.7 | 6.8 | 1.5 | 54.3 |
| Government-related bonds | 5.3 | 5.2 | 1.5 | 0.6 | 0.1 | 12.6 |
| Inflation-linked bonds | 3.8 | 0.4 | 0.1 | 0.4 | 0.1 | 4.9 |
| Corporate bonds | 0.2 | 2.4 | 8.3 | 11.9 | 0.4 | 23.2 |
| Securitized bonds | 4.4 | 0.5 | 0.1 | 0.1 | 0.0 | 5.0 |
| Total bonds | 39.5 | 17.0 | 21.6 | 19.8 | 2.1 | 100.0 |

REAL ESTATE INVESTMENTS

Unlisted real estate investments returned 0.6 percent and amounted to 2.5 percent of the fund at the end of the quarter.

The return on unlisted real estate investments depends on rental income, operating expenses, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases and sales. Measured in local currency, rental income net of operating expenses made a positive contribution of 0.9 percentage point to the return, and changes in the value of properties and debt contributed 0.5 percentage point, while currency movements made a contribution of -0.8 percentage point.

The management mandate for the fund was amended with effect from 1 January 2017. The fund's real estate investments no longer form part of the strategic benchmark index, which now consists exclusively of equities and bonds. The fund may still invest in real estate, but it is up to Norges Bank to determine the scope and mix of real estate investments within the

general limits in the mandate. The changes to the mandate ensure a holistic approach to managing a portfolio that includes both listed and unlisted investments.

At an operational level, unlisted and listed real estate investments are managed under a combined strategy for real estate. Investments in listed real estate returned -0.7 percent.

Purchases and sales of unlisted real estate announced during the quarter

In January, the fund expanded its Regent Street partnership with The Crown Estate. The partnership acquired a 100 percent leasehold interest in 10 Piccadilly, a 98,660 square foot office and retail property in central London. The fund paid 32.2 million pounds, or 334 million kroner, for its 25 percent stake.

Also in January, it was announced that the partnership between Norges Bank Real Estate Management and Prologis Inc had sold three logistics properties in the San Francisco Bay Area. The fund received 38.3 million dollars, or 318.9 million kroner, for its 45 percent stake.

Table 6 Return on the fund's real estate investments in first quarter 2017

| | Return |
|---|------------|
| Rental income (percentage points) | 0.9 |
| Change in value (percentage points) | 0.5 |
| Transaction costs (percentage points) | 0.0 |
| Result of currency adjustments (percentage points) | -0.8 |
| Unlisted real estate investments (percent) | 0.6 |
| Listed real estate investments (percent) | -0.7 |
| Aggregated real estate investments (percent) | 0.3 |

Table 7 Market value of real estate investments as at 31 March 2017. Millions of kroner

| | Holding ¹ |
|---|----------------------|
| Unlisted real estate investments | 193,546 |
| Listed real estate investments | 55,087 |
| Aggregated real estate investments | 248,633 |

¹ Including bank deposits and other receivables

Management

MANAGEMENT

We aim to leverage the fund's long-term outlook and considerable size to generate high returns and safeguard wealth for future generations.

The investment mandate issued by the Ministry of Finance was amended with effect from 1 January 2017. The return on all of the fund's investments, including real estate, is now measured against a benchmark index from the Ministry of Finance composed of a global equity index based on FTSE Group's Global All Cap stock index and a global bond index based on various bond indices from Bloomberg Barclays Indices. The benchmark index serves as a general limit for market and currency risk in the management of the fund.

With this new model, it is up to Norges Bank to decide how much to invest in real estate and

what types of property to invest in. Purchases are financed through the sale of equities and bonds, which means that the proportion of the fund invested in equities and bonds will differ from the benchmark index. At an operational level, unlisted and listed real estate investments are managed under a combined strategy for real estate.

The overall return on the fund was 0.1 percentage point higher than the return on the benchmark index in the first quarter, due mainly to a positive relative return on fixed-income investments.

The return on the fund's equity investments, including listed real estate, was in line with the benchmark, making a contribution of -0.01 percentage point to the fund's relative return. Excluding listed real estate, the equity portfolio made a positive contribution to the fund's

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

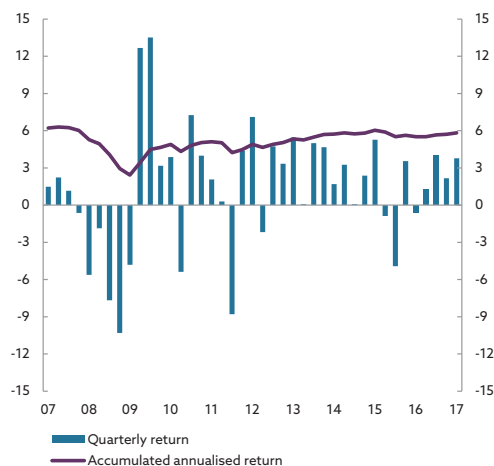


Chart 7 The fund's quarterly relative return and accumulated annualised relative return. Calculations based on aggregated equity and fixed-income investments until end of 2016. Percentage points

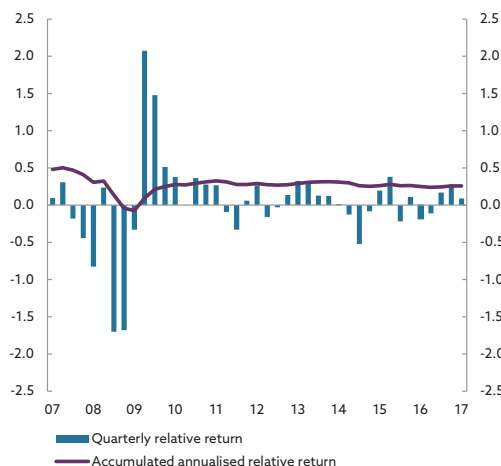


Table 8 Contributions from asset classes to the fund's relative return in first quarter 2017. Percentage points

| | Total | Attributed to external management |
|----------------------------------|-------------|-----------------------------------|
| Equity investments | -0.01 | 0.03 |
| Fixed-income investments | 0.13 | 0.00 |
| Unlisted real estate investments | -0.08 | |
| Cross-asset allocation | 0.05 | |
| Total | 0.09 | 0.03 |

relative return. Investments in the industrial and the oil and gas sectors made the most positive contributions to the relative return in the first quarter, while health care and financial stocks made the most negative contributions. Broken down by country, Swedish stocks made the most positive contribution to the relative return, while US and Australian stocks made the most negative contributions.

The fund's fixed-income investments outperformed the benchmark index for bonds by 0.4 percentage point, making a contribution of 0.13 percentage point to the fund's relative return. The fund's investments had a higher weight of emerging markets than the benchmark. Falling yields and stronger currencies in emerging markets contributed to the positive relative return. Fixed-income investments had a slightly higher yield than the benchmark in the first quarter.

Unlisted real estate underperformed the fund's benchmark index, making a contribution to the fund's relative return of -0.08 percentage point.

We sell specific parts of the equity- and fixed-income portfolios to finance our real estate

investments. Unlisted real estate also underperformed the equities and bonds sold to finance the properties. In addition, the relative result is influenced by an effect from the allocation between asset classes. In the first quarter, this result effect from the allocation between asset classes contributed positively to the fund's relative return with 0.05 percentage point.

INVESTMENT RISK

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 volatility, factor exposures, concentration analysis and liquidity risk – to gain the broadest possible picture of this risk.

The fund's expected absolute volatility, calculated using the statistical measure standard deviation, uses a three-year price history to estimate how much the annual return on the fund's investments can normally be expected to fluctuate. Expected absolute volatility was 10.9 percent at the end of the first quarter, or about 860 billion kroner, compared with 10.6 percent at the end of 2016. The increase is due mainly to a higher weight of equities in the portfolio.

We invest in real estate to improve the diversification of the overall portfolio. We expect real estate investments to have a different return profile than equities and bonds, both in the short and in the longer term. The relative risk that this entails will impact on calculations of the fund's expected relative volatility. As daily pricing is not available for our

real estate investments, we use a model from MSCI to calculate the risk for the fund's unlisted real estate investments.

The Ministry of Finance and Norges Bank's Executive Board have set limits for deviation from the benchmark index in the management of the fund. One of these limits is expected relative volatility, which puts a ceiling on how

much the return on the fund's investments can be expected to deviate from the return on the benchmark index.

The management mandate for the fund was amended with effect from 1 January 2017. All the fund's investments, including unlisted real estate investments, are now included in the calculation of expected relative volatility, and

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

| Limits set by the Ministry of Finance | | 31.03.2017 |
|---------------------------------------|--|------------|
| Allocation | Equity portfolio 50 - 70 percent of fund's market value ¹ | 64.3 |
| | Fixed-income portfolio 30 - 50 percent of fund's market value ¹ | 34.0 |
| | Unlisted real estate no more than 7 percent of fund's market value | 2.5 |
| Market risk | 1.25 percentage points expected relative volatility for the fund's investments | 0.3 |
| Credit risk | Maximum 5 percent of fixed-income investments may be rated below BBB- | 2.1 |
| Ownership | Maximum 10 percent of voting shares in a listed company in the equity portfolio ² | 9.1 |

¹ Derivatives are represented with their underlying economic exposure.

² Equity investments in listed and unlisted real estate companies are exempt from this restriction.

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

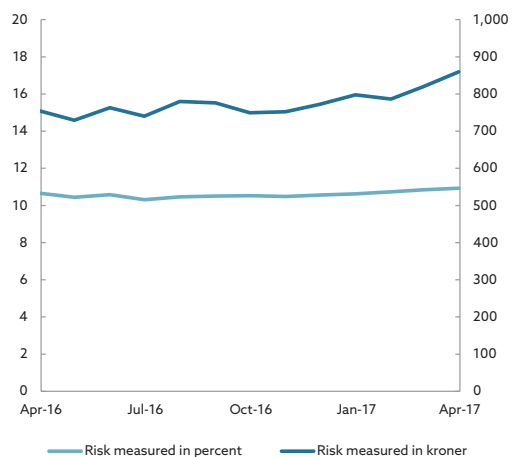
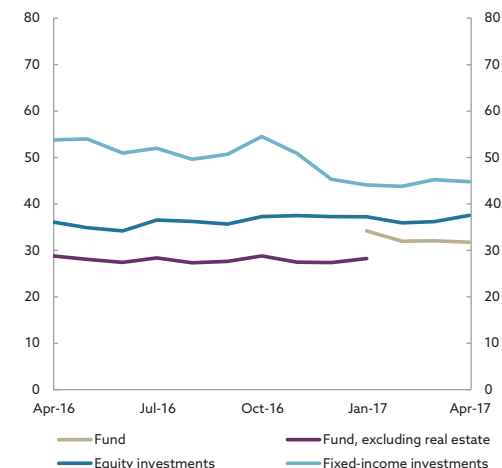


Chart 9 Expected relative volatility of the fund. Basis points



measured against the fund's benchmark index, which consists exclusively of equities and bonds indices. The fund's limit for expected relative volatility, including unlisted real estate, is still at 1.25 percentage points. The actual level, including unlisted real estate, was 0.32 percentage point at the end of the quarter.

The Executive Board has also set a limit for expected shortfall between the return on the fund and the benchmark index. The fund is to be managed in such a way that the expected negative relative return in extreme situations does not exceed 3.75 percentage points. Investments in unlisted real estate is also included in the calculation of expected shortfall for the fund with effect from 1 January 2017. The actual level was 1.36 percentage points at the end of the first quarter.

INVESTMENT AND OWNERSHIP

Responsible investment is an integral part of our management of the fund. We have structured this work into three areas: standard setting, ownership and risk management. In the first quarter, we invited NGOs in Norway for a meeting where we presented our work on responsible investment in 2016. Representatives from 26 organisations attended.

Standard setting

We submitted a consultation response to the OECD during the quarter on the draft practical guidance for its Guidelines for Multinational Enterprises. The guidance recommends that enterprises conduct due diligence to identify, prevent and mitigate actual and potential adverse impacts from their operations. We expressed our support for the guidance and the companion as useful tools for companies, but also called for greater clarity and closer co-

ordination with other international standards and guidelines in some areas.

We also submitted comments to the Task Force on Climate-related Financial Disclosures set up by the G20-sponsored Financial Stability Board. The development of a general framework for reporting and assessing climate risk is a priority for investors. In December 2016, the task force released its second report with recommendations (Phase II), and we mostly expressed our support for the recommendations in the public consultation. We proposed that the task force considers whether an overarching comply-or-explain principle might help make the framework more universally applicable.

We have been analysing greenhouse gas emissions at portfolio companies since 2014. One challenge in this work is a lack of standardised and comparable data. We therefore stressed that climate-related disclosure in the financial sector, as proposed by the task force, is heavily reliant on adequate reporting in other sectors. We welcome the task force's recommendations, as they have the potential to result in homogeneous, appropriate and consistent reporting across jurisdictions and, where relevant, across sectors and asset classes.

Ownership

We voted at 1,616 general meetings in the first quarter, considering and voting on a total of 13,677 proposals. We aim for regular contact with the boards of our largest holdings and accordingly held 45 meetings with chairmen or other board members on key topics relating to our ownership.

Risk management

We continued to work during the quarter on improving our databases of non-financial data on climate change, water management and deforestation. We improved our risk framework for environmental, social and governance issues with updated calculation methods, additional data sources for subsectors, and the introduction of a new parameter at country level. We also began work on integrating assessments of corporate governance and greenhouse gas emissions in the fund's portfolio of corporate bonds.

Observation and exclusion

In March, Norges Bank published its decision to exclude a further 10 companies following assessment against the product-based coal criterion in the guidelines for observation and exclusion. A further two companies were placed under observation. All in all, Norges Bank has excluded 69 companies and placed 13 under observation on the basis of this criterion.

Norges Bank also announced the Executive Board's decision, in line with a recommendation from the Council on Ethics, to revoke the exclusion of Raytheon Co after the company confirmed to the Council that it is no longer engaged in the production of cluster weapons. The company was excluded from the fund in 2005.

OPERATIONAL RISK

Norges Bank's Executive Board sets limits for operational risk management and internal controls at Norges Bank Investment Management. The Executive Board 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 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 135 unwanted operational events were registered in the quarter, with an estimated financial impact of 10.3 million kroner.

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

Key figures

Table 10 Quarterly return

| | 1Q 2017 | 4Q 2016 | 3Q 2016 | 2Q 2016 | 1Q 2016 |
|--|---------|---------|---------|---------|---------|
| Returns in international currency | | | | | |
| Return on equity investments (percent) | 5.53 | 4.91 | 6.03 | 0.66 | -2.90 |
| Return on fixed-income investments (percent) | 0.77 | -2.35 | 0.89 | 2.49 | 3.32 |
| Return on real estate investments (percent) ¹ | 0.62 | 1.25 | 2.29 | -1.42 | -1.29 |
| Return on fund (percent) | 3.78 | 2.17 | 4.00 | 1.27 | -0.63 |
| Relative return on fund² (percentage points) | | | | | |
| Relative return on fund ² (percentage points) | 0.09 | 0.28 | 0.17 | -0.11 | -0.18 |
| Management costs (percent) | | | | | |
| Management costs (percent) | 0.02 | 0.01 | 0.01 | 0.01 | 0.01 |
| Return on fund after management costs (percent) | 3.76 | 2.15 | 3.98 | 1.26 | -0.64 |
| Returns in kroner (percent) | | | | | |
| Return on equity investments | 6.85 | 8.74 | 1.54 | 1.11 | -7.14 |
| Return on fixed-income investments | 2.03 | 1.21 | -3.39 | 2.95 | -1.19 |
| Return on real estate investments ¹ | 1.88 | 4.95 | -2.04 | -0.98 | -5.60 |
| Return on fund | 5.08 | 5.90 | -0.41 | 1.72 | -4.97 |

¹ Return on real estate investments includes exclusively unlisted real estate investments from 2017.

² Relative return on fund includes real estate investments from 01.01.2017. Relative return prior to 2017 is calculated on the aggregated equity and fixed-income investments.

Table 11 Accumulated return since first capital inflow in 1996. Billions of kroner

| | 1Q 2017 | 4Q 2016 | 3Q 2016 | 2Q 2016 | 1Q 2016 |
|--|--------------|--------------|--------------|--------------|--------------|
| Return on equity investments | 2,404 | 2,129 | 1,866 | 1,650 | 1,620 |
| Return on fixed-income investments | 975 | 955 | 1,022 | 1,004 | 939 |
| Return on real estate investments ¹ | 41 | 38 | 37 | 31 | 31 |
| Total return | 3,420 | 3,123 | 2,925 | 2,685 | 2,591 |

¹ Includes exclusively unlisted real estate investments from 2017.

Table 12 Historical key figures as at 31 March 2017. 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 |
|--|---------------------|------------------|-----------------|-----------------|-------------------|
| Fund return (percent) | 5.83 | 5.48 | 8.53 | 6.44 | 11.66 |
| Relative return on fund ¹ (percentage points) | 0.26 | 0.06 | 0.16 | -0.02 | 0.46 |
| Annual price inflation (percent) | 1.77 | 1.78 | 1.23 | 1.05 | 1.88 |
| Annual management costs (percent) | 0.09 | 0.08 | 0.06 | 0.06 | 0.06 |
| Net real return on fund (percent) | 3.90 | 3.55 | 7.15 | 5.27 | 9.54 |
| The fund's actual standard deviation (percent) | 7.45 | 9.06 | 6.28 | 6.37 | 3.73 |
| The fund's tracking error ¹ (percentage points) | 0.70 | 0.91 | 0.37 | 0.37 | 0.33 |
| The fund's information ratio (IR) ^{1,2} | 0.39 | 0.12 | 0.43 | -0.04 | 1.23 |

¹ Based on aggregated equity and fixed-income investments until end of 2016.

² The fund's information ratio (IR) is the ratio of the fund's average monthly relative return to the fund's tracking error. The IR indicates how much relative return has been achieved per unit of relative risk.

Table 13 Key figures. Billions of kroner

| | 1Q 2017 | 4Q 2016 | 3Q 2016 | 2Q 2016 | 1Q 2016 |
|--|--------------|--------------|--------------|--------------|--------------|
| Market value | | | | | |
| Market value of equity investments | 5,082 | 4,692 | 4,317 | 4,275 | 4,234 |
| Market value of fixed-income investments | 2,592 | 2,577 | 2,584 | 2,681 | 2,622 |
| Market value of real estate investments ¹ | 194 | 242 | 218 | 221 | 223 |
| Market value of fund ² | 7,867 | 7,510 | 7,118 | 7,177 | 7,079 |
| Accrued, not paid, management fees ² | -1 | -4 | -3 | -2 | -1 |
| Owner's capital ² | 7,866 | 7,507 | 7,116 | 7,175 | 7,078 |
| Changes in value since first capital inflow in 1996 | | | | | |
| Inflow/withdrawal of capital ³ | -20 | -27 | -30 | -24 | -21 |
| Paid management fees ³ | -4 | 0 | 0 | 0 | -4 |
| Return on fund | 297 | 198 | 240 | 94 | -85 |
| Changes due to fluctuations in krone | 83 | 221 | -269 | 28 | -286 |
| Total change in market value | 357 | 392 | -58 | 98 | -396 |
| Changes in value since first capital inflow in 1996 | | | | | |
| Total inflow of capital | 3,375 | 3,397 | 3,423 | 3,452 | 3,475 |
| Return on fund | 3,420 | 3,123 | 2,925 | 2,685 | 2,591 |
| Management fees ⁴ | -36 | -35 | -34 | -33 | -32 |
| Changes due to fluctuations in krone | 1,108 | 1,025 | 804 | 1,073 | 1,045 |
| Market value of fund | 7,867 | 7,510 | 7,118 | 7,177 | 7,079 |
| Return after management costs | 3,384 | 3,088 | 2,891 | 2,652 | 2,559 |

¹ Includes exclusively unlisted real estate investments from 2017.

² 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.

³ Paid management fees are specified separately, and not included in Inflow/withdrawal of capital.

⁴ Management costs in subsidiaries, see Table 9.2 in the financial reporting section, are not included in the management fees. Management costs in subsidiaries have been deducted from the fund's return before management fees.

Financial reporting

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Income statement

| Amounts in NOK million | Note | 1Q 2017 | 1Q 2016 | 2016 |
|--|------|----------------|-----------------|----------------|
| Profit/loss on the portfolio before foreign exchange gains and losses | | | | |
| Income/expense from: | | | | |
| - Equities and units | 4 | 274 164 | -166 825 | 342 813 |
| - Bonds | 4 | 19 582 | 84 478 | 100 250 |
| - Unlisted real estate | 6 | 2 675 | 854 | 6 942 |
| - Financial derivatives | 4 | 930 | -3 782 | -3 213 |
| - Secured lending | | 866 | 915 | 4 013 |
| - Secured borrowing | | 45 | 18 | 23 |
| Tax expense | | -1 027 | -928 | -4 061 |
| Interest income/expense | | -10 | -11 | -54 |
| Other costs | | -3 | -11 | -40 |
| Profit/loss on the portfolio before foreign exchange gains and losses | | 297 222 | -85 292 | 446 673 |
| Foreign exchange gains and losses | | 83 004 | -286 146 | -306 099 |
| Profit/loss on the portfolio | | 380 226 | -371 438 | 140 574 |
| Management fee | 9 | -1 177 | -752 | -3 731 |
| Profit/loss for the period and total comprehensive income | | 379 049 | -372 190 | 136 843 |

Balance sheet

| Amounts in NOK million | Note | 31.03.2017 | 31.12.2016 |
|--|------|------------------|------------------|
| ASSETS | | | |
| Deposits in banks | | 20 738 | 17 759 |
| Secured lending | | 187 116 | 134 338 |
| Cash collateral posted | | 1 015 | 2 320 |
| Unsettled trades | | 51 593 | 13 196 |
| Equities and units | 5 | 4 614 509 | 4 373 042 |
| Equities lent | 5 | 444 371 | 340 865 |
| Bonds | 5 | 2 190 730 | 2 220 286 |
| Bonds lent | 5 | 490 192 | 454 735 |
| Unlisted real estate | 6 | 192 028 | 188 469 |
| Financial derivatives | 5 | 8 327 | 9 366 |
| Other assets | | 2 189 | 1 966 |
| TOTAL ASSETS | | 8 202 808 | 7 756 342 |
| LIABILITIES AND OWNER'S CAPITAL | | | |
| Liabilities | | | |
| Secured borrowing | | 253 378 | 213 520 |
| Cash collateral received | | 2 283 | 3 688 |
| Unsettled trades | | 72 318 | 22 195 |
| Financial derivatives | 5 | 3 589 | 4 501 |
| Other liabilities | | 3 951 | 1 944 |
| Management fee payable | 9 | 1 177 | 3 731 |
| Total liabilities | | 336 696 | 249 579 |
| Owner's capital | | 7 866 112 | 7 506 763 |
| TOTAL LIABILITIES AND OWNER'S CAPITAL | | 8 202 808 | 7 756 342 |

Statement of cash flows

| Amounts in NOK million, receipt (+) / payment (-) | Year-to-date 31.03.2017 | Year-to-date 31.03.2016 | 2016 |
|---|----------------------------|----------------------------|-----------------|
| Operating activities | | | |
| Receipts of dividend from equities and units | 22 993 | 22 589 | 118 517 |
| Receipts of interest from bonds | 19 214 | 18 666 | 74 832 |
| Receipts of interest and dividend from unlisted real estate subsidiaries | 747 | 706 | 3 657 |
| Net receipts of interest and fee from secured lending and borrowing | 841 | 756 | 4 097 |
| <i>Receipts of interest, dividend and fee from holdings of equities and units, bonds and unlisted real estate</i> | <i>43 795</i> | <i>42 717</i> | <i>201 103</i> |
| Net cash flow from purchase and sale of equities and units | -31 562 | -19 267 | -72 588 |
| Net cash flow from purchase and sale of bonds | 20 530 | 10 230 | -38 151 |
| Net cash flow to/from investments in unlisted real estate subsidiaries | -735 | -159 | -17 269 |
| Net cash flow financial derivatives | -1 145 | -884 | 84 |
| Net cash flow cash collateral related to derivative transactions | -114 | -4 394 | 983 |
| Net cash flow secured lending and borrowing | -5 384 | 7 325 | 50 236 |
| Net payment of taxes | -2 239 | -779 | -3 116 |
| Net cash flow related to interest on deposits in banks and bank overdraft | -66 | -8 | - |
| Net cash flow related to other expenses, other assets and other liabilities | 3 089 | -4 051 | -430 |
| Management fee paid to Norges Bank ¹ | -3 731 | -3 933 | -3 933 |
| Net cash inflow/outflow from operating activities | 22 438 | 26 797 | 116 919 |
| Financing activities | | | |
| Inflow from the Norwegian government ² | - | - | - |
| Withdrawal by the Norwegian government ² | -19 669 | -20 552 | -100 616 |
| Net cash inflow/outflow from financing activities | -19 669 | -20 552 | -100 616 |
| Net change in cash | | | |
| Deposits in banks at 1 January | 17 759 | 2 543 | 2 543 |
| Net increase/decrease of cash in the period | 2 769 | 6 245 | 16 303 |
| Net foreign exchange gains and losses on cash | 210 | -1 660 | -1 087 |
| Deposits in banks at end of period | 20 738 | 7 128 | 17 759 |

¹ Management fee shown in the *Statement of cash flows* for a period is the settlement of the fee that was accrued and expensed in the previous year.

² *Inflows/withdrawals* included here only represent transfers that have been settled in the period (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 |
|--|--------------------|-------------------|------------------------------------|
| 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 ¹ | -20 800 | - | -20 800 |
| 31 March 2016 | 3 473 840 | 3 604 390 | 7 078 231 |
| 1 April 2016 | 3 473 840 | 3 604 390 | 7 078 231 |
| Total comprehensive income | - | 509 033 | 509 033 |
| Net inflow/withdrawal during the period ¹ | -80 500 | - | -80 500 |
| 31 December 2016 | 3 393 340 | 4 113 423 | 7 506 763 |
| 1 January 2017 | 3 393 340 | 4 113 423 | 7 506 763 |
| Total comprehensive income | - | 379 049 | 379 049 |
| Net inflow/withdrawal during the period ¹ | -19 700 | - | -19 700 |
| 31 March 2017 | 3 373 640 | 4 492 472 | 7 866 112 |

¹ In the first quarter of 2017 there was a withdrawal from the krone account of NOK 23.4 billion. Of this, NOK 3.7 billion was used to pay the accrued management fee for 2016. In the first quarter of 2016, there was a withdrawal from the krone account of NOK 24.7 billion. Of this, NOK 3.9 billion was used to pay the accrued management fee for 2015.

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 will 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

The quarterly financial statements of Norges Bank for the first quarter of 2017, which only encompass the financial reporting for the GPFG, were approved by the Executive Board on 26 April 2017.

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 2016. Accounting policies are described in the annual report 2016, 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 2017.

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 2016.

Note 3 Returns per asset class

Table 3.1 Returns per asset class

| | 1Q 2017 | 4Q 2016 | 3Q 2016 | 2Q 2016 | 1Q 2016 | Year-to-date 31.03.2017 |
|--|---------|---------|---------|---------|---------|----------------------------|
| Returns in the fund's currency basket | | | | | | |
| Return on equity investments (percent) | 5.53 | 4.91 | 6.03 | 0.66 | -2.90 | 5.53 |
| Return on fixed-income investments (percent) | 0.77 | -2.35 | 0.89 | 2.49 | 3.32 | 0.77 |
| Return on real estate investments ¹ (percent) | 0.62 | 1.25 | 2.29 | -1.42 | -1.29 | 0.62 |
| Return on fund (percent) | 3.78 | 2.17 | 4.00 | 1.27 | -0.63 | 3.78 |
| Relative return on fund ² (percentage points) | 0.09 | 0.28 | 0.17 | -0.11 | -0.18 | 0.09 |
| Returns in Norwegian kroner (percent) | | | | | | |
| Return on equity investments | 6.85 | 8.74 | 1.54 | 1.11 | -7.14 | 6.85 |
| Return on fixed-income investments | 2.03 | 1.21 | -3.39 | 2.95 | -1.19 | 2.03 |
| Return on real estate investments ¹ | 1.88 | 4.95 | -2.04 | -0.98 | -5.60 | 1.88 |
| Return on fund | 5.08 | 5.90 | -0.41 | 1.72 | -4.97 | 5.08 |

¹ Return on real estate investments includes exclusively unlisted real estate investments from 2017.

² Relative return on fund includes real estate investments from 01.01.2017. Relative return on fund prior to 2017 is calculated on the aggregated equity and fixed-income investments.

For additional information on the method used in the return calculation, see note 3 *Returns per asset class* in the annual report 2016.

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 2017 | 1Q 2016 | 2016 |
|--|---------|----------|---------|
| Dividends | 28 710 | 27 367 | 118 584 |
| Realised gain/loss | 68 741 | 8 913 | 107 005 |
| Unrealised gain/loss | 176 713 | -203 105 | 117 224 |
| Income/expense from equities and units before foreign exchange gain/loss | 274 164 | -166 825 | 342 813 |

Table 4.2 Specification Income/expense from bonds

| Amounts in NOK million | 1Q 2017 | 1Q 2016 | 2016 |
|---|---------|---------|---------|
| Interest | 18 344 | 16 998 | 72 573 |
| Realised gain/loss | 249 | 6 755 | 30 861 |
| Unrealised gain/loss | 989 | 60 725 | -3 184 |
| Income/expense from bonds before foreign exchange gain/loss | 19 582 | 84 478 | 100 250 |

Table 4.3 Specification Income/expense from financial derivatives

| Amounts in NOK million | 1Q 2017 | 1Q 2016 | 2016 |
|---|---------|---------|--------|
| Dividends | 20 | 2 | 102 |
| Interest | -1 345 | -19 | -2 113 |
| Realised gain/loss | -23 | -1 063 | -3 251 |
| Unrealised gain/loss | 2 278 | -2 702 | 2 049 |
| Income/expense from financial derivatives before foreign exchange gain/loss | 930 | -3 782 | -3 213 |

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

Table 5.1 Equities and units

| Amounts in NOK million | 31.03.2017 | | 31.12.2016 | |
|---------------------------------|--------------------------------|-------------------|--------------------------------|-------------------|
| | Fair value including dividends | Accrued dividends | Fair value including dividends | Accrued dividends |
| Equities and units | 5 058 880 | 11 275 | 4 713 907 | 5 557 |
| Total equities and units | 5 058 880 | 11 275 | 4 713 907 | 5 557 |
| <i>Of which equities lent</i> | <i>444 371</i> | | <i>340 865</i> | |

Table 5.2 Bonds

| Amounts in NOK million | Nominal value | 31.03.2017 | | Nominal value | 31.12.2016 | |
|----------------------------|------------------|---------------------------------------|------------------|------------------|---------------------------------------|------------------|
| | | Fair value including accrued interest | Accrued interest | | Fair value including accrued interest | Accrued interest |
| Government bonds | 1 283 617 | 1 455 508 | 11 256 | 1 290 977 | 1 461 360 | 11 356 |
| Government-related bonds | 324 867 | 338 745 | 2 508 | 319 602 | 334 137 | 2 390 |
| Inflation-linked bonds | 107 108 | 130 064 | 393 | 114 916 | 140 814 | 547 |
| Corporate bonds | 603 242 | 621 687 | 5 642 | 573 749 | 591 146 | 5 992 |
| Securitised bonds | 140 700 | 134 918 | 1 094 | 141 566 | 147 564 | 1 478 |
| Total bonds | 2 459 534 | 2 680 922 | 20 893 | 2 440 810 | 2 675 021 | 21 763 |
| <i>Of which bonds lent</i> | | <i>490 192</i> | | | <i>454 735</i> | |

Table 5.3 Financial derivatives

| Amounts in NOK million | Notional amount | 31.03.2017 | | Notional amount | 31.12.2016 | |
|------------------------------------|-----------------|------------------|----------------------|-----------------|------------------|----------------------|
| | | Fair value Asset | Fair value Liability | | Fair value Asset | Fair value Liability |
| Foreign exchange derivatives | 291 206 | 1 663 | 2 337 | 321 580 | 4 586 | 1 995 |
| Interest rate derivatives | 29 416 | 1 065 | 1 252 | 31 284 | 528 | 2 506 |
| Equity derivatives | 8 052 | 5 599 | - | 6 645 | 4 252 | - |
| Total financial derivatives | 328 674 | 8 327 | 3 589 | 359 509 | 9 366 | 4 501 |

Note 6 Unlisted real estate

Investments in unlisted real estate are made through subsidiaries of Norges Bank, which exclusively constitute investments as part of the management of the GPFG. Subsidiaries presented as *Unlisted real estate* are designated upon initial recognition as financial instruments at *fair value through profit or loss*. Changes in fair value for the period are recognised in the income statement and are presented as *Income/expense from unlisted real estate*.

The fair value of unlisted real estate is determined as the sum of the GPFG's share of the assets and liabilities in the underlying

subsidiaries, measured at fair value. For further information on fair value measurement of unlisted real estate investments, see note 7 *Fair value measurement*.

Subsidiaries are financed through equity and long-term debt. Income generated in the real estate subsidiaries may be distributed to the GPFG in the form of interest and dividends as well as repayment of equity and loan financing provided from the GPFG to the subsidiary. There are no significant restrictions on distribution of dividends and interest from the subsidiaries to the GPFG.

Table 6.1 provides a specification of the income statement line *Income/Expense from unlisted real estate*, before foreign exchange gains and losses.

Table 6.1 Income/expense from unlisted real estate

| Amounts in NOK million | 1Q 2017 | 1Q 2016 | 2016 |
|---|--------------|------------|--------------|
| Dividends received | 387 | 533 | 2 167 |
| Interest received | 360 | 173 | 1 490 |
| Unrealised gain/loss | 1 928 | 148 | 3 285 |
| Income/expense from unlisted real estate before foreign exchange gain/loss | 2 675 | 854 | 6 942 |

The change in the period for the balance sheet line *Unlisted real estate* is specified in table 6.2.

Table 6.2 Changes in carrying amounts unlisted real estate

| Amounts in NOK million | 31.03.2017 | 31.12.2016 |
|---|----------------|----------------|
| Unlisted real estate, opening balance for the period | 188 469 | 180 021 |
| Payments to new investments ¹ | 335 | 19 147 |
| Payments to existing investments ¹ | 688 | 2 808 |
| Payments from existing investments ¹ | -287 | -4 686 |
| Unrealised gain/loss | 1 928 | 3 285 |
| Foreign currency translation effect | 895 | -12 106 |
| Unlisted real estate, closing balance for the period | 192 028 | 188 469 |

¹ This represents the net cash flows between the GPF and subsidiaries presented as *Unlisted real estate*. The GPF makes cash contributions to the subsidiaries in the form of equity and long-term loan financing to fund investments in real estate assets, primarily properties. Net income generated in the subsidiaries may be distributed to the GPF in the form of repayment of equity and long-term loan financing.

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.

In the tables below, a further specification of *Unlisted real estate* is provided. Table 6.3 specifies the GPF's share of the net income generated in the underlying real estate companies, which is the basis for *Income/expense from unlisted real estate* presented in

table 6.1. Table 6.4 specifies the GPF's share of assets and liabilities in the underlying real estate companies which comprise the closing balance for *Unlisted real estate* as presented in table 6.2.

Table 6.3 Income from underlying real estate companies

| Amounts in NOK million | 1Q 2017 | 1Q 2016 | 2016 |
|--|--------------|------------|--------------|
| Net rental income ¹ | 2 013 | 1 922 | 7 645 |
| Realised gain/loss | 8 | 21 | 109 |
| Fair value changes - properties ² | 1 322 | -151 | 1 416 |
| Fair value changes - debt ² | -188 | -332 | -191 |
| Transaction costs | -16 | -18 | -411 |
| Interest expense external debt | -161 | -172 | -622 |
| Tax expense payable | -12 | -28 | -151 |
| Change in deferred tax | -57 | -84 | -174 |
| Asset management - fixed fees ³ | -127 | -102 | -454 |
| Asset management - variable fees ³ | -70 | -149 | -39 |
| Operating costs within the limit from the Ministry of Finance ⁴ | -16 | -20 | -81 |
| Other operating costs | -21 | -33 | -105 |
| Net income underlying real estate companies | 2 675 | 854 | 6 942 |

¹ *Net rental income* mainly comprises received and earned rental income, less costs relating to the operation and maintenance of properties.

² Comprises solely fair value changes of properties and debt and will therefore not reconcile with unrealised gain/loss presented in table 6.1, which includes undistributed profits.

³ Fixed and variable fees to asset managers are directly related to the underlying properties and are primarily linked to the operation and development of properties and leases. Variable fees to external managers are based on achieved performance over time.

⁴ See table 9.2 for specification of the operating costs that are measured against the management fee limit from the Ministry of Finance.

Table 6.4 Assets and liabilities underlying real estate companies

| Amounts in NOK million | 31.03.2017 | 31.12.2016 |
|--|----------------|----------------|
| Deposits in banks | 3 113 | 2 272 |
| Properties | 207 632 | 204 635 |
| External debt | -15 889 | -15 727 |
| Tax payable | -106 | -204 |
| Net deferred tax | -1 223 | -1 153 |
| Net other assets and liabilities | -1 499 | -1 354 |
| Total assets and liabilities underlying real estate companies | 192 028 | 188 469 |

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 2016.

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 | |
|-------------------------------------|------------------|------------------|----------------|----------------|----------------|----------------|------------------|------------------|
| | 31.03.2017 | 31.12.2016 | 31.03.2017 | 31.12.2016 | 31.03.2017 | 31.12.2016 | 31.03.2017 | 31.12.2016 |
| Equities and units | 5 015 031 | 4 673 199 | 31 592 | 28 845 | 12 257 | 11 863 | 5 058 880 | 4 713 907 |
| Government bonds | 1 372 170 | 1 369 188 | 83 199 | 92 172 | 139 | - | 1 455 508 | 1 461 360 |
| Government-related bonds | 290 210 | 279 772 | 47 676 | 53 463 | 859 | 902 | 338 745 | 334 137 |
| Inflation-linked bonds | 121 171 | 124 646 | 8 893 | 16 168 | - | - | 130 064 | 140 814 |
| Corporate bonds | 595 040 | 538 692 | 26 295 | 52 293 | 352 | 161 | 621 687 | 591 146 |
| Securitised bonds | 123 291 | 136 088 | 11 338 | 11 149 | 289 | 327 | 134 918 | 147 564 |
| Total bonds | 2 501 882 | 2 448 386 | 177 401 | 225 245 | 1 639 | 1 390 | 2 680 922 | 2 675 021 |
| Financial derivatives (assets) | 1 044 | 291 | 7 283 | 9 075 | - | - | 8 327 | 9 366 |
| Financial derivatives (liabilities) | - | - | -3 589 | -4 501 | - | - | -3 589 | -4 501 |
| Total financial derivatives | 1 044 | 291 | 3 694 | 4 574 | - | - | 4 738 | 4 865 |
| Unlisted real estate | - | - | - | - | 192 028 | 188 469 | 192 028 | 188 469 |
| Other ¹ | - | - | -69 279 | -71 768 | - | - | -69 279 | -71 768 |
| Total | 7 517 957 | 7 121 876 | 143 408 | 186 896 | 205 924 | 201 722 | 7 867 289 | 7 510 494 |
| Total (percent) | 95.6 | 94.8 | 1.8 | 2.5 | 2.6 | 2.7 | 100.0 | 100.0 |

¹ 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 2017 is virtually unchanged compared to the end of 2016. The majority of the total portfolio has low valuation uncertainty. At the end of the first quarter, 97.4 percent was classified as Level 1 or 2, which is essentially unchanged compared to year-end 2016. 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 (99.2 percent) are valued based on official closing prices from stock exchanges and are classified as Level 1. A few equities and units (0.6 percent) are classified as Level 2. These include equities for which trading has recently been suspended or illiquid securities that are not traded daily. Some holdings (0.2 percent) that are not listed, are illiquid due to lock-in periods, or where trading has been suspended over a prolonged 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. Exceptions to this policy are cases of newly acquired properties where the purchase price, excluding transaction costs, is normally

considered to be the best estimate of fair value, or where there are indications that external valuation reports do not reflect fair value so that adjustments to valuations are warranted.

3. MOVEMENTS BETWEEN LEVELS OF VALUATION UNCERTAINTY

Reclassifications between Level 1 and Level 2

There has been no change in the relative share of equities classified as Level 1 or Level 2 during the quarter.

There has been a small decrease in valuation uncertainty for bonds. This is primarily driven by certain corporate bonds denominated in USD being reclassified from Level 2 to Level 1 due to a sufficient amount of observable quotes being available at the end of the first quarter. This confirms a pattern previously observed, whereby some bonds tend to have less liquidity at year-end compared to other quarters.

Table 7.2 Changes in Level 3 holdings

| Amounts in NOK million | 01.01.2017 | Purchases | Sales | Settle-ments | Net gain/loss | Trans-ferred into Level 3 | Trans-ferred out of Level 3 | Foreign exchange gains and losses | 31.03.2017 |
|-----------------------------------|----------------|--------------|---------------|--------------|---------------|---------------------------|-----------------------------|-----------------------------------|----------------|
| Equities and units | 11 863 | 1 548 | -1 507 | 20 | 320 | 93 | -197 | 117 | 12 257 |
| Bonds | 1 390 | 317 | - | -55 | -10 | - | - | -3 | 1 639 |
| Unlisted real estate ¹ | 188 469 | 736 | - | - | 1 928 | - | - | 895 | 192 028 |
| Total | 201 722 | 2 601 | -1 507 | -35 | 2 238 | 93 | -197 | 1 009 | 205 924 |

| 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 | 31.12.2016 |
|-----------------------------------|----------------|---------------|---------------|--------------|---------------|---------------------------|-----------------------------|-----------------------------------|----------------|
| Equities and units | 3 607 | 9 956 | -455 | -41 | -533 | 257 | -842 | -86 | 11 863 |
| Bonds | 2 731 | - | -1 011 | -163 | -33 | 6 | -91 | -49 | 1 390 |
| Unlisted real estate ¹ | 180 021 | 17 269 | - | - | 3 285 | - | - | -12 106 | 188 469 |
| Total | 186 359 | 27 225 | -1 466 | -204 | 2 719 | 263 | -933 | -12 241 | 201 722 |

¹ Purchases represent the net cash flow in the period from the GPF to subsidiaries presented as *Unlisted real estate*.

The relative amount of holdings classified as Level 3 is virtually unchanged from year-end 2016. In absolute terms, bond holdings classified as Level 3 have increased by NOK 249 million. This is mainly due to the purchase of a government bond and a bond received as compensation in an acquisition. Both of these

bonds have been classified as Level 3 since the valuation is based on models with considerable use of unobservable inputs. Equities classified as Level 3 have increased by NOK 394 million, mainly due to price appreciation of an equity within this category.

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 31.03.2017 | Sensitivities 31.03.2017 | | Specification of Level 3 holdings 31.12.2016 | Sensitivities 31.12.2016 | |
|--------------------------|--|--------------------------|--------------------|--|--------------------------|--------------------|
| | | Unfavourable changes | Favourable changes | | Unfavourable changes | Favourable changes |
| Equities and units | 12 257 | -2 447 | 2 447 | 11 863 | -2 638 | 2 606 |
| Government bonds | 139 | -14 | 14 | - | - | - |
| Government-related bonds | 859 | -86 | 86 | 902 | -90 | 90 |
| Corporate bonds | 352 | -35 | 35 | 161 | -16 | 16 |
| Securitised bonds | 289 | -29 | 29 | 327 | -33 | 33 |
| Total bonds | 1 639 | -164 | 164 | 1 390 | -139 | 139 |
| Unlisted real estate | 192 028 | -9 861 | 10 913 | 188 469 | -9 678 | 10 711 |
| Total | 205 924 | -12 472 | 13 524 | 201 722 | -12 455 | 13 456 |

There is uncertainty associated with the fair value of holdings classified as Level 3 due to the use of unobservable inputs in the valuation. In the sensitivity analysis presented in table 7.3, reasonably possible alternative assumptions for the key unobservable inputs have been applied. The alternative fair value estimates, given for a favourable and unfavourable outcome, illustrate the sensitivity of the fair value estimates to changes in the key unobservable inputs.

Real estate values are particularly sensitive to changes in yields and assumptions influencing future revenues. In an unfavourable outcome, it is calculated that an increase in the yield of 0.2

percentage point, and a reduction in future market rents of 2 percent will result in a decrease in value of the real estate portfolio of approximately 5.1 percent or NOK 9 861 million. In a favourable outcome, a decrease in the yield of 0.2 percentage point and an increase in future market rents of 2 percent will increase the value of the real estate portfolio by 5.7 percent or NOK 10 913 million.

The sensitivity for bonds classified as Level 3 is essentially unchanged compared to year-end, while the sensitivity for equities classified as Level 3 is slightly reduced.

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 Investment Management measures market risk both for the actual portfolio and the relative market risk for the 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 ¹ | | Market value in percent by asset class | | Assets minus liabilities excluding management fee | |
|---|-------------------|--|-------------------|--|--------------|---|----------------------------|
| | | 31.03.2017 | Market 31.12.2016 | 31.03.2017 | 31.12.2016 | 31.03.2017 | 31.12.2016 |
| Equities | Developed | 90.1 | Developed | 90.5 | | | |
| | US | 37.2 | US | 37.6 | | | |
| | UK | 9.5 | UK | 9.8 | | | |
| | Japan | 8.9 | Japan | 9.0 | | | |
| | Germany | 5.4 | Germany | 5.4 | | | |
| | France | 5.1 | France | 5.2 | | | |
| | Total other | 24.0 | Total other | 23.5 | | | |
| | Emerging | 9.9 | Emerging | 9.5 | | | |
| | China | 2.9 | China | 2.7 | | | |
| | Taiwan | 1.7 | Taiwan | 1.5 | | | |
| | India | 1.1 | India | 1.0 | | | |
| | Brazil | 0.8 | Brazil | 0.8 | | | |
| | South Africa | 0.6 | South Africa | 0.6 | | | |
| | Total other | 2.8 | Total other | 2.9 | | | |
| Total equities | | | | | 64.59 | 62.47 | 5 081 795 4 691 863 |
| Fixed-income | Developed | 87.2 | Developed | 87.6 | | | |
| | US Dollar | 43.2 | US Dollar | 43.7 | | | |
| | Euro | 25.6 | Euro | 25.3 | | | |
| | Japanese Yen | 6.5 | Japanese Yen | 5.9 | | | |
| | British Pound | 3.9 | British Pound | 4.6 | | | |
| | Canadian Dollar | 3.0 | Canadian Dollar | 3.0 | | | |
| | Total other | 5.0 | Total other | 5.1 | | | |
| | Emerging | 12.8 | Emerging | 12.4 | | | |
| | Mexican Peso | 2.3 | Mexican Peso | 1.9 | | | |
| | South Korean Won | 1.8 | South Korean Won | 1.7 | | | |
| | Indian Rupee | 0.9 | Indian Rupee | 0.9 | | | |
| | Polish Zloty | 0.9 | Polish Zloty | 0.8 | | | |
| | Indonesian Rupiah | 0.9 | Brazilian Real | 0.8 | | | |
| | Total other | 6.0 | Total other | 6.3 | | | |
| Total fixed-income | | | | | 32.95 | 34.31 | 2 591 948 2 576 875 |
| Unlisted real estate | US | 49.6 | US | 46.0 | | | |
| | UK | 22.9 | UK | 23.0 | | | |
| | France | 14.9 | France | 14.6 | | | |
| | Switzerland | 4.5 | Germany | 7.6 | | | |
| | Germany | 3.3 | Switzerland | 3.6 | | | |
| | Total other | 4.8 | Total other | 5.2 | | | |
| Total unlisted real estate² | | | | | 2.46 | 3.22 | 193 546 241 756 |

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

² Listed real estate investments are presented as *Equities* from 01.01.2017. These were previously included in the asset class *Real estate*. Comparatives have not been restated.

At the end of the first quarter, the share of equities in the fund was 64.6 percent. This is an increase from 62.5 percent at year-end 2016. The bond portfolio's share of the fund decreased to 32.9 percent in the first quarter, from 34.3 percent at year-end. The year-to-date change in asset class allocation was mainly a result of stronger returns for equities than bonds, as well as the transfer of the listed real estate to the equity portfolio at the start of the year as a result of a mandate change. Emerging markets had a stronger year-to-date return than developed markets, as both equity markets increased and currencies strengthened. This has led to an increase in the share of both equities and bonds invested in emerging markets.

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.

The mandate set by the Ministry of Finance was amended with effect from 1 January 2017. All the fund's investments, including unlisted real estate, are now included in the calculation of expected relative volatility, and measured against the fund's benchmark index which comprises global equity and bond indices. The limit for expected relative volatility for the fund, now including unlisted real estate, is still 1.25 percentage points.

MSCI's Barra Private Real Estate 2 (PRE2) model is used to calculate risk for the fund's unlisted real estate investments. The model consolidates information from global listed and unlisted real estate markets to compose a risk profile for unlisted real estate investments, based on location and type of real estate.

The overall method applied in the calculations of expected absolute and relative volatility is explained in note 8 *Risk* in the annual report 2016. This method is also applied to investments in unlisted real estate.

Table 8.2 Portfolio, expected volatility, in percent

| | Expected volatility, actual portfolio | | | | | | | |
|-----------------------------------|---------------------------------------|----------|----------|--------------|------------|----------|----------|--------------|
| | 31.03.2017 | Min 2017 | Max 2017 | Average 2017 | 31.12.2016 | Min 2016 | Max 2016 | Average 2016 |
| Portfolio | 10.9 | 10.7 | 10.9 | 10.8 | 10.6 | 10.2 | 10.7 | 10.5 |
| Equities | 14.0 | 13.9 | 14.0 | 14.0 | 14.0 | 12.9 | 14.1 | 13.7 |
| Fixed-income | 9.7 | 9.7 | 9.8 | 9.7 | 9.7 | 9.6 | 10.3 | 10.0 |
| Unlisted real estate ¹ | 12.6 | 12.6 | 12.7 | 12.6 | | | | |

¹ The risk for the fund's unlisted real estate investments has been calculated separately from 2017.

Table 8.3 Relative risk measured against the benchmark indices of the fund and asset classes, expected relative volatility, in basis points

| | Expected relative volatility | | | | | | | |
|--|------------------------------|----------|----------|--------------|------------|----------|----------|--------------|
| | 31.03.2017 | Min 2017 | Max 2017 | Average 2017 | 31.12.2016 | Min 2016 | Max 2016 | Average 2016 |
| Portfolio ¹ | 32 | 31 | 35 | 32 | 34 | - | - | - |
| Equity and fixed-income portfolio ¹ | - | - | - | - | 28 | 26 | 29 | 28 |
| Equities | 38 | 36 | 40 | 37 | 37 | 34 | 38 | 36 |
| Fixed-income | 45 | 41 | 45 | 43 | 44 | 41 | 55 | 51 |

¹ In the new investment management mandate, effective from 2017, real estate is included in the framework for relative volatility. Prior to 2017, the framework in the investment management mandate was based on the aggregated equity- and fixed-income portfolio.

Risk measured in terms of expected volatility shows an expected annual change in value in the fund of 10.9 percent, or approximately NOK 860 billion at the end of the quarter, compared to 10.6 percent at year-end 2016. Expected volatility for both the equity portfolio and the bond portfolio is unchanged since year-end, at 14.0 percent and 9.7 percent, respectively. The increase in the fund's expected volatility in the first quarter is mainly due to an increased weight of equities in the portfolio.

The fund's expected relative volatility, including unlisted real estate, was 32 basis points at the end of the first quarter, compared to 34 basis points at year-end 2016.

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 January 2017, investments in unlisted real estate are also included in the calculation of expected shortfall for the fund. The Executive Board has determined that the annual shortfall shall not exceed 3.75 percentage points. At the end of the first quarter, the measure was 1.36 percentage points.

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, 31.03.2017 | AAA | AA | A | BBB | Lower rating | Total |
|---------------------------------------|------------------|----------------|----------------|----------------|-----------------|------------------|
| Government bonds | 692 185 | 226 085 | 312 902 | 183 423 | 40 913 | 1 455 508 |
| Government-related bonds | 142 620 | 140 219 | 38 974 | 15 105 | 1 827 | 338 745 |
| Inflation-linked bonds | 100 649 | 11 176 | 3 611 | 10 890 | 3 738 | 130 064 |
| Corporate bonds | 6 303 | 65 130 | 221 186 | 318 715 | 10 353 | 621 687 |
| Securitised bonds | 118 199 | 13 543 | 1 542 | 1 634 | - | 134 918 |
| Total bonds | 1 059 956 | 456 153 | 578 215 | 529 767 | 56 831 | 2 680 922 |

| Amounts in NOK million, 31.12.2016 | AAA | AA | A | BBB | Lower rating | Total |
|---------------------------------------|------------------|----------------|----------------|----------------|-----------------|------------------|
| Government bonds | 716 767 | 260 859 | 271 238 | 173 321 | 39 176 | 1 461 360 |
| Government-related bonds | 143 279 | 136 550 | 36 316 | 15 579 | 2 413 | 334 137 |
| Inflation-linked bonds | 109 025 | 9 493 | 3 662 | 12 459 | 6 175 | 140 814 |
| Corporate bonds | 5 290 | 59 469 | 219 333 | 297 198 | 9 856 | 591 146 |
| Securitised bonds | 126 001 | 16 054 | 2 010 | 3 499 | - | 147 564 |
| Total bonds | 1 100 361 | 482 424 | 532 559 | 502 058 | 57 620 | 2 675 021 |

The proportion of bond holdings categorised with a credit rating A increased to 21.6 percent at the end of the first quarter, compared to 19.9 percent at year-end 2016. This is largely caused by an increase in Japanese government bonds. Further, bonds with credit rating AAA were reduced to 39.5 percent of the portfolio at the end of the first quarter, from 41.1 percent at year-end, mainly as a result of reduced

exposure in government bonds in this category. The overall credit quality of the bond portfolio has slightly 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 31 March 2017, aggregated for the GPFG.

Table 8.5 Counterparty risk by type of position

| Amounts in NOK million, 31.03.2017 | Gross exposure | Effect of netting | Collateral and guarantees | Net exposure |
|---|----------------|-------------------|---------------------------|----------------|
| Securities lending | 70 106 | - | 1 141 | 68 965 |
| Unsecured bank deposits ¹ | 18 839 | - | - | 18 839 |
| OTC derivatives including foreign exchange contracts | 16 871 | 4 783 | 215 | 11 873 |
| Cleared OTC and listed derivatives ² | 8 893 | 1 463 | -104 | 7 534 |
| Participatory certificates | 4 553 | - | - | 4 553 |
| Repurchase and reverse repurchase agreements | 5 189 | 696 | -96 | 4 589 |
| Settlement risk towards broker and long settlement transactions | 368 | - | - | 368 |
| Total | 124 819 | 6 942 | 1 156 | 116 721 |

| Amounts in NOK million, 31.12.2016 | Gross exposure | Effect of netting | Collateral and guarantees | Net exposure |
|---|----------------|-------------------|---------------------------|----------------|
| Securities lending | 64 908 | - | 868 | 64 040 |
| Unsecured bank deposits ¹ | 20 570 | - | - | 20 570 |
| OTC derivatives including foreign exchange contracts | 19 347 | 3 667 | 2 608 | 13 071 |
| Cleared OTC and listed derivatives ² | 8 003 | 1 183 | -1 685 | 8 505 |
| Participatory certificates | 3 934 | - | - | 3 934 |
| Repurchase and reverse repurchase agreements | 3 523 | 492 | 149 | 2 882 |
| Settlement risk towards broker and long settlement transactions | 50 | - | - | 50 |
| Total | 120 335 | 5 342 | 1 940 | 113 054 |

¹ Includes bank deposits in non-consolidated real estate subsidiaries.

² Relates to futures 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 2016. The net exposure was NOK 116.7 billion at the end of the first quarter, compared with NOK 113.1 billion kroner at year-

end. The increase is largely due to greater risk exposure from securities lending and repurchase and reverse repurchase agreements.

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 subsidiaries of Norges Bank exclusively established as part of the management of the GPFG's investments in unlisted real estate.

MANAGEMENT COSTS IN NORGES BANK

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

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Table 9.1 Management fee

| Amounts in NOK million | 1Q 2017 | Basis points | 1Q 2016 | Basis points | 2016 | Basis points |
|---|--------------|--------------|------------|--------------|--------------|--------------|
| Salary, social security and other personnel related costs | 333 | | 269 | | 1 177 | |
| Custody costs | 99 | | 91 | | 379 | |
| IT services, systems, data and information | 154 | | 154 | | 649 | |
| Research, consulting and legal fees | 32 | | 57 | | 261 | |
| Other costs | 64 | | 57 | | 244 | |
| Allocated costs Norges Bank | 43 | | 41 | | 161 | |
| Base fees to external managers | 209 | | 170 | | 638 | |
| Management fee excluding performance-based fees | 934 | 5.0 | 839 | 4.7 | 3 509 | 4.9 |
| Performance-based fees to external managers | 243 | | -87 | | 222 | |
| Total management fee | 1 177 | 6.3 | 752 | 4.2 | 3 731 | 5.2 |

MANAGEMENT COSTS IN SUBSIDIARIES

Management costs incurred in subsidiaries consist of operating costs related to the management of the unlisted real estate portfolio. Management costs incurred in non-

consolidated and consolidated subsidiaries are presented in the income statement as *Income/expense from unlisted real estate* and *Other costs*, respectively. These costs are specified in table 9.2.

Table 9.2 Management costs, real estate subsidiaries

| Amounts in NOK million | 1Q 2017 | 1Q 2016 | 2016 |
|--|-----------|-----------|------------|
| Salary, social security and other personnel related costs | 6 | 5 | 27 |
| IT services, systems, data and information | 8 | 9 | 36 |
| Research, consulting and legal fees | 3 | 6 | 19 |
| Other costs | 4 | 4 | 18 |
| Total management costs, real estate subsidiaries | 21 | 24 | 100 |
| <i>Of which management costs non-consolidated subsidiaries</i> | <i>16</i> | <i>20</i> | <i>81</i> |
| <i>Of which management costs consolidated subsidiaries</i> | <i>5</i> | <i>4</i> | <i>19</i> |

In addition to the management costs presented in table 9.2, operating costs are also incurred in 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 costs incurred in non-consolidated companies are expensed directly in the portfolio result and are presented in the income statement line *Income/expense from unlisted real estate*. See table 6.3 in note 6 *Unlisted real estate* for further information. Other operating costs incurred in consolidated subsidiaries are expensed in the income statement line *Other costs*.

UPPER LIMIT FOR REIMBURSEMENT OF MANAGEMENT COSTS

The Ministry of Finance has established an upper limit for the reimbursement of management costs. For 2017, the sum of total management costs incurred in Norges Bank and its subsidiaries, excluding performance-based fees to external managers, is limited to

7.5 basis points of average assets under management. In accordance with guidelines from the Ministry of Finance, the calculation of average assets under management is based on the market value of the portfolio in Norwegian kroner at the start of each month in the calendar year. Other operating costs incurred in 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 955 million in the first quarter of 2017. This consists of management costs of NOK 934 million in Norges Bank, excluding performance-based fees to external managers, and management costs of NOK 21 million in subsidiaries. This corresponds to 5.1 basis points of assets under management on an annual basis.

Total management costs including performance-based fees amount to NOK 1 198 million in the first quarter of 2017. This corresponds to 6.4 basis points of assets under management on an annual basis.

To the Supervisory Council of Norges Bank

Report on review of interim financial information

Introduction

We have reviewed the financial reporting for the investment portfolio of the Government Pension Fund Global. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio are included in the financial reporting. The financial reporting comprises the balance sheet as at 31 March 2017, the income statement, 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 to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with international standards on auditing, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Oslo, 26 April 2017

Deloitte AS

Henrik Woxholt

State Authorised Public Accountant (Norway)



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