

3Q|16

**GOVERNMENT
PENSION FUND
GLOBAL**

**QUARTERLY REPORT
/2016**

HIGHLIGHTS

Third quarter 2016 in brief

4.0%

240 Bn. KR

The Government Pension Fund Global returned **4.0** percent, or **240** billion kroner, in the third quarter of 2016.





EQUITY INVESTMENTS

6.0%



FIXED-INCOME INVESTMENTS

0.9%



REAL ESTATE INVESTMENTS

2.3%

Equity investments returned **6.0** percent, while fixed-income investments returned **0.9** percent. Investments in real estate returned **2.3** percent.

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



7,118 Bn. KR

The fund had a market value of **7,118** billion kroner at the end of the quarter and was invested **60.6** percent in equities, **36.3** percent in fixed income and **3.1** percent in real estate.



EQUITY INVESTMENTS

60.6%



FIXED-INCOME INVESTMENTS

36.3%



REAL ESTATE INVESTMENTS

3.1%



Content

1

FUND MANAGEMENT

Market developments _____	6
Equity investments _____	7
Fixed-income investments _____	10
Real estate investments _____	14
Responsible investment _____	15
Risk management _____	16

2

KEY FIGURES

Key figures _____	19
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3

ACCOUNTING

Financial reporting _____	23
Notes to the financial reporting _____	28
Auditor's report _____	49

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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

Most markets had positive returns this quarter despite political developments such as the attempted coup in Turkey and increased uncertainty following the UK referendum on EU membership. Emerging markets performed particularly well. Strong equity returns in cyclical sectors suggested reduced uncertainty in financial markets about global growth.

In the US, economic data continued to point to gradual improvement. Unemployment was stable around 5 percent and monthly job growth averaged almost 200,000. Continued improvement in the labour market and accommodative monetary policy led to relatively stable domestic demand during the quarter. In line with market expectations, the Federal Reserve opted to leave the federal funds rate unchanged during the quarter. Inflation was moderate, and the central bank noted that the neutral real interest rate is currently very low. The Fed signalled that a rate increase is likely towards the end of the year.

In Europe, markets were affected by political developments in the third quarter. Uncertainties surrounding the financial strength of Italian banks affected markets somewhat, and uncertainty following the UK vote to leave the EU attracted considerable attention. The pound depreciated around 4 percent against the UK's main trading partners, and gilt yields fell at the beginning of the quarter. Economic data surprised on the upside, supported by the

weaker currency and expectations of further action from the central bank. In August, the Bank of England lowered the bank rate and expanded its quantitative easing programme.

In Japan, markets performed well with positive stock returns. The central bank changed the operational target for monetary policy towards the end of the quarter from a quantity target to a price target for its quantitative easing. The aim is to keep the ten-year bond yield close to zero. The Bank of Japan also made a commitment to increase the money supply until inflation overshoots 2 percent.

Economic data in many emerging markets showed signs of improvement and positive market development in the third quarter.

EQUITY INVESTMENTS

Equity investments, which accounted for 60.6 percent of the fund at the end of the quarter, returned 6.0 percent. The return was fuelled by an upturn in global stock markets, especially in emerging markets and Japan.

Strongest return in Asia and Oceania

There were positive returns in all regions. Stocks in Asia and Oceania, which made up 21.7 percent of the fund's equity investments, returned 8.7 percent. Japanese shares amounted to 9.3 percent of equity investments and returned 8.6 percent.

European stocks accounted for 37.0 percent of the fund's equities and produced a return of 6.2 percent. The UK, which is the fund's largest

European market with 10.3 percent of its equity investments, returned 4.6 percent.

North American stocks made up 38.2 percent of the equity portfolio and returned 4.6 percent. US stocks were the fund's single largest market, with 36.1 percent of its equity investments, and gained 4.7 percent.

The Chinese stock market, home to 2.8 percent of the fund's equity investments, returned 10.6 percent. Emerging markets accounted for 9.5 percent of the equity portfolio and returned 8.3 percent.

Technology stocks perform best

Technology companies were the strongest performers in the third quarter, returning 13.5

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

Sector	Return in international currency	Share of equity investments ¹
Financials	8.0	21.8
Consumer goods	5.4	14.5
Industrials	8.9	14.2
Health care	0.1	10.6
Consumer services	4.0	10.5
Technology	13.5	9.7
Oil and gas	2.0	6.0
Basic materials	11.6	5.4
Utilities	-1.0	3.4
Telecommunications	-0.8	3.3

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

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

Company	Country	Holding
Nestle SA	Switzerland	52,969
Apple Inc	US	42,991
Royal Dutch Shell Plc	UK	37,136
Alphabet Inc	US	33,969
Roche Holding AG	Switzerland	32,267
Novartis AG	Switzerland	31,758
Microsoft Corp	US	29,352
BlackRock Inc	US	24,895
Johnson & Johnson	US	23,884
Exxon Mobil Corp	US	23,278

percent. Consumers are spending more time on their smartphones, and the sector was boosted by strong growth in e-commerce and digital advertising. In the business segment, there was further growth in new cloud-based IT services as well as increased investment in traditional hardware and software.

Basic materials returned 11.6 percent on the back of commodity prices' development.

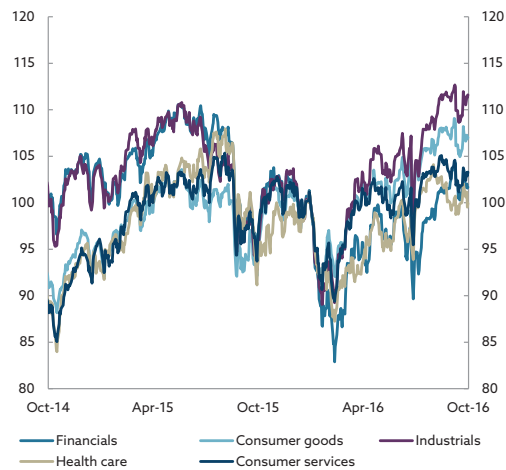
Industrials returned 8.9 percent, buoyed by a brighter outlook. The main drivers were higher and more stable commodity prices, low interest rates and improvements in the Chinese market.

Utilities were the weakest performers, returning -1.0 percent, due mainly to expectations of higher interest rates.

Individual stocks

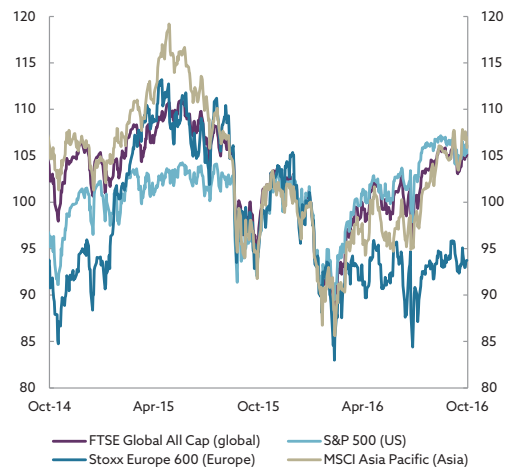
The investment in technology company Apple Inc made the most positive contribution to the return in the third quarter, followed by financial services company HSBC Holdings Plc and technology company Alphabet Inc. The companies that made the most negative contributions were pharmaceutical company Novo Nordisk A/S, oil company Royal Dutch Shell Plc and pharmaceutical company Bristol-Myers Squibb Co.

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

The fund participated in 31 initial public offerings in the quarter. The largest was at technology company Nets A/S, followed by technology company LINE Corporation and financial services company China Merchants Securities Co Ltd. The offerings in which the fund invested the most were those at Nets A/S, LINE Corporation and financial services company First Hawaiian Inc.

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.

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. The fund's currency basket consisted of 34 currencies at the end of the third quarter. Unless otherwise stated in the text, results are measured in the fund's currency basket.

The fund's equity investments outperformed the benchmark index by 0.3 percentage point in the quarter. Stocks in the industrial and consumer goods sectors made the greatest contributions to the relative return. Broken down by country, US and German stocks made the most positive contributions to the relative return, while Australian stocks made the most negative 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 equities returned 5.8 percent in the third quarter, 0.1 percentage point more than the benchmark index set by the Ministry of Finance.

FIXED-INCOME INVESTMENTS

Fixed-income investments accounted for 36.3 percent of the fund at the end of the quarter and returned 0.9 percent. Returns varied across the fund's main markets. There was a slight rise in yields in the US and Japan, while UK yields fell to record-low levels.

Positive return on fixed-income investments

Government bonds made up 56.9 percent of the fund's fixed-income investments at the end of the quarter and returned 0.7 percent.

US Treasuries returned -0.5 percent, or -0.3 percent in local currency, and accounted for 17.8 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. The Federal Reserve made no changes to its

monetary policy during the quarter, but market pricing indicated an increased probability of a rate hike in the fourth quarter.

Euro-denominated government bonds represented 13.1 percent of the fund's fixed-income holdings and returned 1.6 percent, or 0.7 percent in local currency. The European Central Bank concentrated on implementing previously announced monetary measures and did not alter its interest rates during the period.

UK gilts accounted for 3.5 percent of the fund's fixed-income investments and returned -0.3 percent, or 2.8 percent in local currency. The Bank of England approved a broad package of measures at its meeting in August: the bank rate was cut by 0.25 percentage point and a new programme of government and corporate

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

Sector	Return in international currency	Share of fixed-income investments ¹
Government bonds ²	0.7	56.9
Government-related bonds ²	0.9	13.1
Inflation-linked bonds ²	0.7	4.7
Corporate bonds	1.4	22.3
Securitised bonds	0.8	5.5

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

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

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

Issuer	Country	Holding
United States of America	US	538,107
Japanese government	Japan	177,152
Federal Republic of Germany	Germany	150,546
UK government	UK	90,918
South Korean government	South Korea	47,607
French Republic	France	47,152
Mexican government	Mexico	46,329
Spanish government	Spain	46,201
Italian Republic	Italy	36,756
Kreditanstalt für Wiederaufbau	Germany	33,402

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

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	26.8	9.8	10.5	6.8	1.6	55.5
Government-related bonds	5.5	5.2	1.3	0.7	0.1	12.7
Inflation-linked bonds	3.3	0.3	0.2	0.5	0.4	4.6
Corporate bonds	0.2	2.2	8.1	11.0	0.4	21.8
Securitised bonds	4.6	0.6	0.0	0.2	0.0	5.4
Total bonds	40.4	18.1	20.0	19.1	2.4	100.0

bond purchases was announced along with a funding scheme to support bank lending.

Japanese government bonds amounted to 6.7 percent of the fund's fixed-income holdings and returned -0.3 percent, or -1.3 percent in local currency. The Bank of Japan signalled in September that its monetary policy will now be geared towards achieving its price stability target, in other words that monetary policy will not be tightened until inflation is stable above 2 percent. The central bank also introduced a new instrument called interest curve control whereby ten-year yields are to be kept close to zero, which was roughly their level before the meeting. The announcement was followed by a slight rise in ten-year yields but did not spark any major market movements.

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 0.9 percent and accounted for 13.1 percent of fixed-income investments.

Corporate bonds returned 1.4 percent and made up 22.3 percent of fixed-income

investments at the end of the period. The credit spread on corporate bonds decreased during the quarter.

Securitised debt, consisting mainly of covered bonds denominated in euros, returned

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

Source: Bloomberg Barclays Indices

0.8 percent and made up 5.5 percent of fixed-income holdings.

Inflation-linked bonds returned 0.7 percent and accounted for 4.7 percent of total fixed-income investments.

Changes in fixed-income holdings

The market value of investments in bonds denominated in emerging market currencies fell from 12.7 to 12.6 percent of total fixed-income investments during the quarter. As a result of Moody's downgrading Turkey's credit rating in September, Turkish government bonds dropped out of the Ministry of Finance's benchmark index at the end of the quarter. The fund's

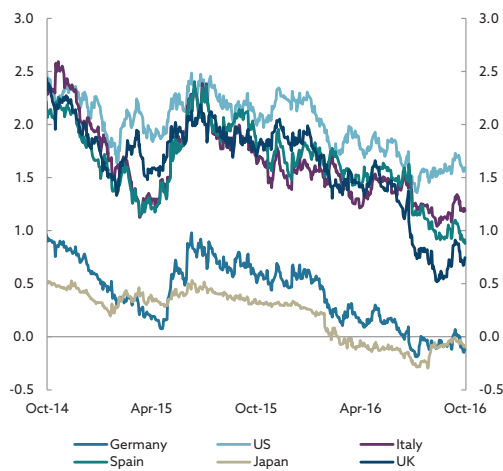
investments in Turkish bonds made up 0.8 percent of its fixed-income investments at that point. Investments in dollars, euros, pounds and yen increased from 79.2 to 79.3 percent of fixed-income holdings during the quarter.

The biggest increases in the market value of the fund's government bond holdings in the third quarter were in UK, French and South African bonds. The biggest decreases were in bonds from the US, Japan and Turkey.

Relative return

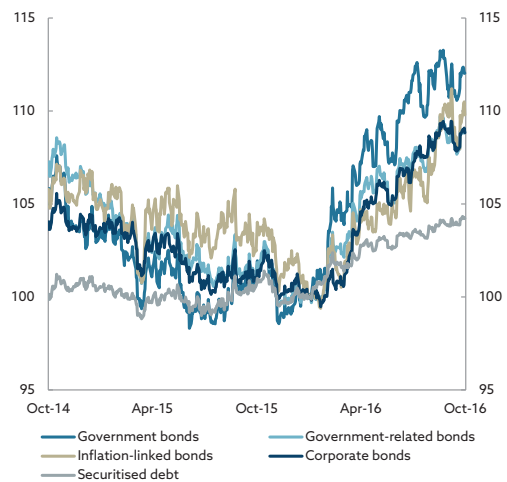
Returns on the fund's fixed-income investments are compared with returns on a global benchmark index for bonds set by the Ministry

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: Bloomberg Barclays Indices

of Finance on the basis of indices from Bloomberg Barclays Indices. The return on the fund's fixed-income investments matched the return on the benchmark index in the third quarter.

Internal reference portfolio

We have also constructed an internal reference portfolio for bonds which takes account of the fund's special characteristics and objective in order to achieve the best possible trade-off over time between expected risk and return. The operational reference portfolio for bond investments returned 0.8 percent in the third quarter, the same as 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 third quarter 2016. Percentage points

	Total	Attributed to external management
Equity investments	0.17	0.03
Fixed-income investments	0.01	0.00
Allocation between asset classes	-0.01	
Total	0.17	0.03

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

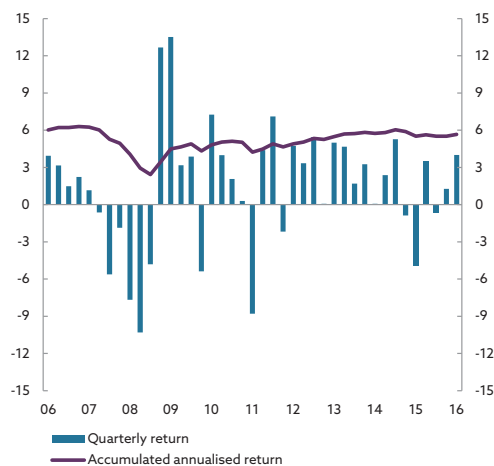
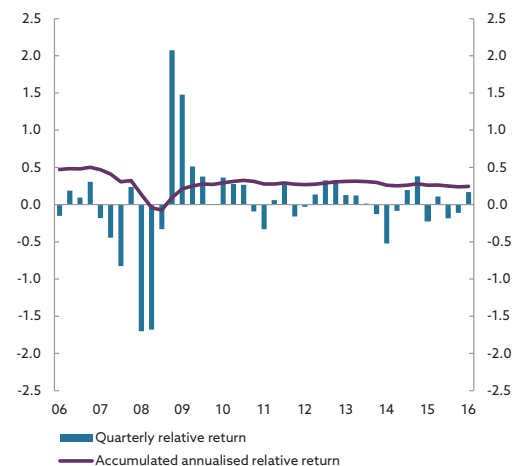


Chart 7 Quarterly relative return and accumulated annualised relative return on the fund, excluding real estate investments. Percentage points



REAL ESTATE INVESTMENTS

Real estate investments amounted to 3.1 percent of the fund at the end of the third quarter and produced a return for the period of 2.3 percent. Investments in unlisted real estate returned 1.9 percent, while investments in listed real estate returned 3.5 percent.

The return on the fund's unlisted real estate investments depends on net rental income, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases. Measured in local currency, rental income net of operating expenses made a positive contribution of 0.9 percentage point to the return, while the net change in the value of properties and debt contributed 1.6 percentage points, currency movements -0.6 percentage point and transaction costs -0.1 percentage point.

The real estate portfolio is valued by external valuers on a quarterly basis. In the second quarter, we were informed by the external valuers that, due to a shortage of data, they had not taken account of the possible effects of the Brexit vote. We therefore chose to adjust down the external valuations of investments in the UK by 5 percent in the second quarter. In the third quarter, the normal valuation process for the fund's property investments in the UK was resumed.

New transactions announced during the quarter

In July, the fund invested in a 59,000 square foot office and retail property at 355-361 Oxford Street in London, paying 124 million pounds, or 1.4 billion kroner, for a 100 percent stake. In August, the fund signed an agreement to acquire a 44 percent interest in two office

Table 7 Return on the fund's real estate investments in third 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	1.6
Transaction costs for property purchases	-0.1
Result of currency adjustments	-0.6
Unlisted real estate investments	1.9
Listed property	3.5
Total return	2.3

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

	Holding
Investments in unlisted real estate	166,634
Investments in listed real estate	49,844
Bank deposits and other claims	1,188
Total	217,665

buildings in San Francisco from Kilroy Realty for 452.9 million dollars, or 3.8 billion kroner. In September, the fund purchased a 47.5 percent interest in Constitution Square, an office property in Washington, D.C., in a joint venture with MetLife for an initial 71.3 million dollars, or 590 million kroner, and a commitment to an estimated total investment of 200.4 million dollars, or 1.7 billion kroner.

The quarter also saw the sale of a logistics property in New Jersey and another near Boston through the partnership with Prologis, with the fund receiving 43.8 million dollars, or 364 million kroner, and 47.5 million dollars, or 387 million kroner, respectively for its 45 percent interest.

RESPONSIBLE INVESTMENT

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

Standard setting

We contributed during the quarter to World Water Week in Stockholm, the largest international water conference in Europe and a forum for discussing ways to tackle the world's growing water-related challenges.

The fund is also funding a project at Columbia University examining water-related environmental and regulatory risks in the mining industry. Our sector experts contributed to a seminar during the quarter as part of the research project on environmental and social risks in the mining industry.

We submitted a consultation response to the Securities and Exchange Commission (SEC) during the quarter on sustainability reporting. We called for a principles-based framework where companies report on financial risks associated with key sustainability challenges and stressed that the board of directors should have overall responsibility for this type of risk within the company.

We also contributed to the Principles for Responsible Investment (PRI) secretariat's

consultation on a sustainable financial system. We expressed support for its ambition to contribute to research into the financial aspects of sustainability issues and stressed that these issues can be important for long-term investors because they have a particular financial interest in the achievement of the UN's sustainability development goals.

We sent a letter to the Financial Stability Board (FSB) expressing support for its work on evaluating the introduction of the G20/OECD Principles of Corporate Governance at financial institutions, highlighting the board's role in corporate governance.

Ownership

We voted at 1,369 general meetings in the third quarter. We considered and voted on a total of 11,214 proposals, of which 227 were shareholder proposals.

The majority of the year's general meetings take place in the first half of the year, making the third quarter a natural starting point for our annual review of our voting guidelines in light of recent developments and experience.

As part of our ongoing dialogue with companies, we held a number of meetings during the quarter with chairmen and other directors at the largest companies we have investments in. The discussions were tailored to each company and covered topics such as management changes, strategy, sustainability, remuneration, board composition and succession planning.

Risk management

We carried out a field analysis of the palm oil industry in Indonesia during the quarter, holding

meetings with selected producers, representatives of the authorities and NGOs working to make the industry more sustainable. Insights from the analysis will be used in our review of the sector.

Observation and exclusion

Norges Bank's Executive Board decided during the quarter, in line with a recommendation from the Council on Ethics, to exclude Duke Energy Corp and its wholly-owned subsidiaries Duke Energy Carolinas LLC, Duke Energy Progress LLC and Progress Energy Inc from the fund's investment universe following an assessment of the risk of serious environmental harm.

Norges Bank also announced the Executive Board's decision, in line with a recommendation from the Council on Ethics, to revoke the exclusion of Singapore Technologies Engineering Ltd after the company confirmed to the Council that it is no longer engaged in the production of either antipersonnel landmines or cluster weapons. The company was excluded from the fund in 2002.

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 volatility, 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 10.5 percent, or about 750 billion kroner, at the end of the third quarter, compared with 10.3 percent at the beginning of the quarter. The increase was due mainly to slightly higher expected 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, up slightly from the beginning of the quarter.

With effect from 1 March 2016, the Executive Board has introduced a limit for expected shortfall between the return on equity and fixed-income investments and the relevant benchmark indices. The fund is to be managed in such a way that the negative relative return in extreme situations is not expected to exceed 3.75 percentage points. The actual figure was 0.85 percentage point at the end of the third quarter, compared with 0.83 percentage point at the beginning of the quarter.

Operational risk management

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

Each quarter, Norges Bank Investment Management estimates the size of the potential losses or gains it may incur over the next year because of unwanted operational events related to its investment management activities. The estimate is based on past events and an assessment of future risks and represents the fund’s estimated operational risk exposure. This estimated operational risk exposure remained within the Executive Board’s tolerance limit in the third quarter. A total of 71 unwanted

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

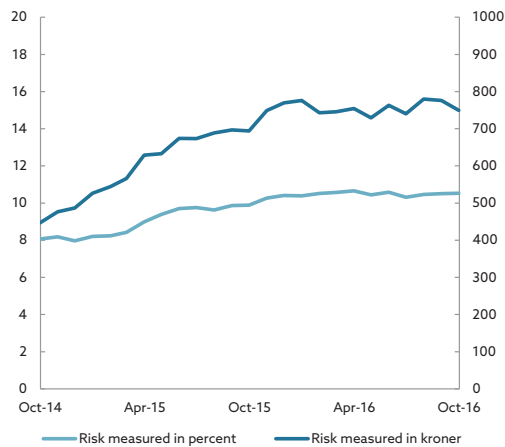
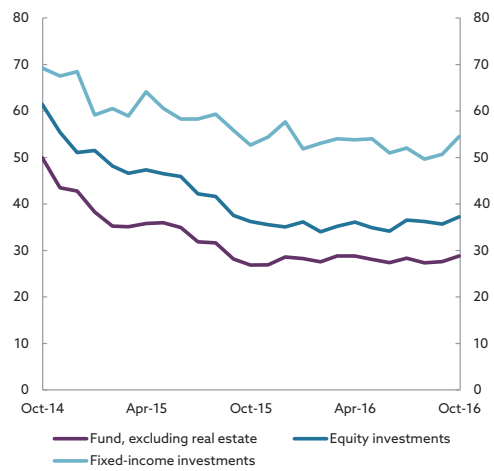


Chart 9 Expected relative volatility of the fund, excluding real estate investments. Basis points



operational events were registered in the quarter, with a total financial impact of 34.4 million kroner.

The Ministry of Finance has set guidelines for the fund's management and is to be informed

of any significant breaches of the specified limits. No such breaches were registered during the quarter, and we did not receive any notifications from local supervisory authorities of any significant breaches of market rules or general legislation.



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

Limits set by the Ministry of Finance		30.09.2016
Exposure	Equities 50 - 70 percent of fund's market value ¹	60.3
	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-	2.4
Ownership	Maximum 10 percent of voting shares in a listed company in the equity portfolio	9.6

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

Key figures

Table 10 Quarterly return as at 30 September 2016

	3Q 2016	2Q 2016	1Q 2016	4Q 2015	3Q 2015	Year-to-date 30.09.2016
Returns in international currency						
Return on equity investments (percent)	6.03	0.66	-2.90	5.83	-8.56	3.64
Return on fixed-income investments (percent)	0.89	2.49	3.32	0.07	0.90	6.83
Return on real estate investments (percent)	2.29	-1.42	-1.29	1.61	2.97	-0.46
Return on fund (percent)	4.00	1.27	-0.63	3.55	-4.93	4.65
Return on equity and fixed-income investments (percent)	4.05	1.36	-0.61	3.61	-5.15	4.82
Return on benchmark equity and fixed-income index (percent)	3.88	1.47	-0.43	3.50	-4.93	4.96
Relative return on equity and fixed-income investments (percentage points)	0.17	-0.11	-0.18	0.11	-0.22	-0.14
Relative return on equity investments (percentage points)	0.27	-0.15	-0.21	0.12	-0.07	-0.11
Relative return on fixed-income investments (percentage points)	0.04	-0.06	-0.21	0.17	-0.64	-0.24
Management costs (percentage points)	0.01	0.01	0.01	0.01	0.01	0.04
Return on fund after management costs (percent)	3.98	1.26	-0.64	3.54	-4.95	4.62
Returns in kroner (percent)						
Return on equity investments	1.54	1.11	-7.14	8.65	-2.29	-4.66
Return on fixed-income investments	-3.39	2.95	-1.19	2.73	7.82	-1.72
Return on real estate investments	-2.04	-0.98	-5.60	4.32	10.03	-8.43
Return on fund	-0.41	1.72	-4.97	6.31	1.59	-3.73

Table 11 Historical key figures as at 30 September 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)	5.66	5.35	9.69	6.58	8.37
Return on equity and fixed-income investments (percent)	5.66	5.34	9.68	6.55	8.61
Return on benchmark equity and fixed-income index (percent)	5.41	5.29	9.53	6.65	8.64
Relative return on equity and fixed-income investments (percentage points)	0.25	0.05	0.15	-0.10	-0.03
Annual price inflation (percent)	1.76	1.76	1.27	0.94	0.90
Annual management costs (percent)	0.09	0.08	0.06	0.06	0.06
Annual net real return on fund (percent)	3.75	3.44	8.25	5.53	7.35
Standard deviation (percent)	7.53	9.03	6.72	6.60	7.62
Tracking error for equity and fixed-income investments (percentage points)	0.71	0.90	0.38	0.37	0.35
Information ratio (IR) ¹ for equity and fixed-income investments	0.37	0.11	0.39	-0.24	-0.04

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

Table 12 Key figures as at 30 September 2016

	3Q 2016	2Q 2016	1Q 2016	4Q 2015	3Q 2015
Market value (billions of kroner)					
Market value of equity investments	4,317	4,275	4,234	4,572	4,191
Market value of fixed-income investments	2,584	2,681	2,622	2,668	2,620
Market value of real estate investments	218	221	223	235	208
Market value of fund¹	7,118	7,177	7,079	7,475	7,019
Accrued, not paid, management fees ¹	-3	-2	-1	-4	-3
Owner's capital ¹	7,116	7,175	7,078	7,471	7,016
Inflow/withdrawal of capital²					
Inflow/withdrawal of capital ²	-30	-24	-21	13	12
Paid management fees ²	0	0	-4	0	0
Return on fund	240	94	-85	279	-273
Changes due to fluctuations in krone	-269	28	-286	164	382
Total change in market value	-58	98	-396	456	121
Management costs (percent)					
Management costs	0.05	0.05	0.04	0.06	0.05
Changes in value since first capital inflow in 1996 (billions of kroner)					
Total inflow of capital	3,423	3,452	3,475	3,499	3,485
Return on fund	2,925	2,685	2,591	2,676	2,397
Management fees³	-34	-33	-32	-31	-30
Changes due to fluctuations in krone	804	1,073	1,045	1,331	1,167
Market value of fund	7,118	7,177	7,079	7,475	7,019
Return after management costs	2,891	2,652	2,559	2,645	2,367

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

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

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

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

	3Q 2016	2Q 2016	1Q 2016	4Q 2015 ¹	3Q 2015
Return on equity investments	1,866	1,650	1,620	1,786	1,529
Return on fixed-income investments	1,022	1,004	939	859	840
Return on real estate investments	37	31	31	31	28
Total return	2,925	2,685	2,591	2,676	2,397

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.

FINANCIAL STATEMENTS

Income statement _____	24
Balance sheet _____	25
Statement of cash flows _____	26
Statement of changes in owner's capital _____	27

NOTES TO THE FINANCIAL REPORTING

Note 1	General information _____	28
Note 2	Accounting policies _____	29
Note 3	Returns per asset class _____	30
Note 4	Income/expense from Equities and units, Bonds and Financial derivatives _____	31
Note 5	Holdings of Equities and units, Bonds and Financial derivatives _____	32
Note 6	Unlisted real estate _____	33
Note 7	Fair value measurement _____	36
Note 8	Risk _____	41
Note 9	Management costs _____	47

AUDITOR

Auditor's report _____	49
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Income statement

Amounts in NOK million	Note	3Q 2016	3Q 2015	Year-to-date 30.09.2016	Year-to-date 30.09.2015	2015
Profit/loss on the portfolio before foreign exchange gains and losses						
Income/expense from:						
- Equities and units	4	218 761	-306 059	81 661	10 452	284 414
- Bonds	4	18 201	32 929	169 993	34 536	36 160
- Unlisted real estate	6	4 047	3 449	4 827	10 831	14 537
- Financial derivatives	4	-728	-3 036	-7 208	-1 560	-1 984
- Secured lending		891	593	2 982	2 531	3 266
- Secured borrowing		82	65	20	78	50
Tax expense		-1 188	-910	-3 582	-2 263	-2 628
Interest income/expense		-16	3	-50	-18	-18
Other expenses		-8	-11	-35	-11	-18
Profit/loss on the portfolio before foreign exchange gains and losses		240 042	-272 977	248 608	54 576	333 779
Foreign exchange gains and losses		-268 839	382 435	-527 072	504 119	668 138
Profit/loss on the portfolio		-28 797	109 458	-278 464	558 695	1 001 917
Management fee	9	-1 096	-1 074	-2 906	-2 813	-3 933
Profit/loss for the period and total comprehensive income		-29 893	108 384	-281 370	555 882	997 984

Balance sheet

Amounts in NOK million	Note	30.09.2016	31.12.2015
ASSETS			
Deposits in banks		12 349	2 543
Secured lending		142 352	123 385
Cash collateral posted		5 699	2 231
Unsettled trades		44 350	18 404
Equities and units	5	3 963 336	4 287 606
Equities lent	5	381 607	312 662
Bonds	5	2 229 084	2 476 729
Bonds lent	5	418 131	241 518
Unlisted real estate	6	166 634	180 021
Financial derivatives	5	4 512	8 829
Other assets		1 894	2 265
TOTAL ASSETS		7 369 948	7 656 193
LIABILITIES AND OWNER'S CAPITAL			
Liabilities			
Secured borrowing		193 776	149 735
Cash collateral received		419	2 570
Unsettled trades		47 923	22 438
Financial derivatives	5	8 487	5 266
Other liabilities		887	1 031
Management fee payable	9	2 906	3 933
Total liabilities		254 398	184 973
Owner's capital		7 115 550	7 471 220
TOTAL LIABILITIES AND OWNER'S CAPITAL		7 369 948	7 656 193

Statement of cash flows

Amounts in NOK million, received (+) / paid (-)	Year-to-date 30.09.2016	Year-to-date 30.09.2015	2015
Operating activities			
Dividends received from equities and units	98 182	88 508	108 904
Interest received from bonds	56 582	56 144	75 283
Net interest and dividends received from unlisted real estate	2 652	2 651	3 532
Net interest and fees received from secured lending and borrowing	3 078	2 567	3 324
<i>Interest, dividends and fees received from holdings of equities and units, bonds and unlisted real estate</i>	<i>160 494</i>	<i>149 870</i>	<i>191 043</i>
Net cash flow arising from purchase and sale of equities and units	-57 934	-56 330	-89 916
Net cash flow arising from purchase and sale of bonds	-16 524	-115 269	-140 103
Net cash flow arising from purchase and sale of unlisted real estate	-4 880	-30 655	-44 946
Net cash flow arising from financial derivatives	-3 618	-2 453	-3 165
Net cash flow arising from cash collateral related to derivative transactions	-5 770	-229	730
Net cash flow arising from secured lending and borrowing	20 502	15 071	33 708
Net cash flow arising from taxes	-3 608	-2 113	-1 499
Net cash flow arising from interest on deposits in banks and bank overdraft	-45	310	-6
Net cash flow related to other expenses, other assets and other liabilities	-316	1 584	1 309
Management fee paid to Norges Bank*	-3 933	-3 202	-3 202
Net cash inflow/outflow from operating activities	84 368	-43 416	-56 047
Financing activities			
Inflow from the Norwegian government**	-	32 869	45 836
Withdrawal by the Norwegian government**	-74 052	-	-
Net cash inflow/outflow from financing activities	-74 052	32 869	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	10 316	-10 547	-10 211
Net foreign exchange gains and losses on cash	-510	1 528	1 023
Deposits in banks at end of period	12 349	2 712	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	-	555 882	555 882
Net inflow/withdrawal during the period*	32 700	-	32 700
30 September 2015	3 481 641	3 534 478	7 016 119
1 October 2015	3 481 641	3 534 478	7 016 119
Total comprehensive income	-	442 102	442 102
Net inflow/withdrawal during the period*	13 000	-	13 000
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	-	-281 370	-281 370
Net inflow/withdrawal during the period*	-74 300	-	-74 300
30 September 2016	3 420 340	3 695 210	7 115 550

* In the first three quarters of 2016 there was a withdrawal of NOK 78.2 billion from the krone account. Of this, NOK 3.9 billion was used to pay the accrued management fee for 2015. In the first three quarters of 2015, there was an inflow to the krone account of NOK 32.7 billion. Of this, NOK 3.2 billion was used to pay the accrued management fee for 2014.

Notes to the financial reporting

Note 1 General Information

1. INTRODUCTION

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

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

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

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

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

2. APPROVAL OF THE QUARTERLY FINANCIAL STATEMENTS

Norges Bank's quarterly financial statements for the third quarter of 2016, which only encompass the financial reporting for the GPFG, were approved by Norges Bank's Executive Board on 26 October 2016.

Note 2 Accounting policies

1. BASIS OF PREPARATION

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

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

The quarterly financial statements are prepared using the same accounting policies and calculation methods as used for the annual financial statements 2015. Accounting policies are described in the annual report 2015, and the quarterly financial statements should therefore be read in conjunction with this. No new or amended standards with a significant impact on the financial reporting have been implemented

from 1 January 2016. There are also no final standards issued by the IASB with expected EU endorsement after 2016 that are expected to have a significant impact on the financial reporting of the GPF.

2. SIGNIFICANT ESTIMATES AND ACCOUNTING JUDGEMENTS

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

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

Note 3 Returns per asset class

Table 3.1 Avkastning per aktivaklasse

	3Q 2016	2Q 2016	1Q 2016	4Q 2015*	3Q 2015	Year-to-date 30.09.2016
Returns in the fund's currency basket						
Return on equity investments (percent)	6.03	0.66	-2.90	5.83	-8.56	3.64
Return on fixed-income investments (percent)	0.89	2.49	3.32	0.07	0.90	6.83
Return on real estate investments (percent)	2.29	-1.42	-1.29	1.61	2.97	-0.46
Return on fund (percent)	4.00	1.27	-0.63	3.55	-4.93	4.65
Return on equity and fixed-income investments (percent)	4.05	1.36	-0.61	3.61	-5.15	4.82
Return on benchmark equity and fixed-income index (percent)	3.88	1.47	-0.43	3.50	-4.93	4.96
Relative return on equity and fixed-income investments (percentage points)	0.17	-0.11	-0.18	0.11	-0.22	-0.14
Relative return on equity investments (percentage points)	0.27	-0.15	-0.21	0.12	-0.07	-0.11
Relative return on fixed-income investments (percentage points)	0.04	-0.06	-0.21	0.17	-0.64	-0.24
Returns in Norwegian kroner (percent)						
Return on equity investments	1.54	1.11	-7.14	8.65	-2.29	-4.66
Return on fixed-income investments	-3.39	2.95	-1.19	2.73	7.82	-1.72
Return on real estate investments	-2.04	-0.98	-5.60	4.32	10.03	-8.43
Return on fund	-0.41	1.72	-4.97	6.31	1.59	-3.73
Return on equity and fixed-income investments	-0.36	1.81	-4.95	6.37	1.35	-3.57

* *Returns on equity investments (percent), Return on fund (percent) and Return on benchmark equity and fixed-income index (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	3Q 2016	3Q 2015	Year-to-date 30.09.2016	Year-to-date 30.09.2015	2015
Dividends	25 805	24 586	99 884	88 971	107 383
Realised gain/loss	30 847	31 930	63 878	110 217	132 240
Unrealised gain/loss	162 109	-362 575	-82 101	-188 736	44 791
Income/expense from equities and units before foreign exchange gain/loss	218 761	-306 059	81 661	10 452	284 414

Table 4.2 Specification income/expense from bonds

Amounts in NOK million	3Q 2016	3Q 2015	Year-to-date 30.09.2016	Year-to-date 30.09.2015	2015
Interest	17 793	20 621	53 373	58 315	78 243
Realised gain/loss	12 277	-116	28 453	17 824	21 098
Unrealised gain/loss	-11 869	12 424	88 167	-41 603	-63 181
Income/expense from bonds before foreign exchange gain/loss	18 201	32 929	169 993	34 536	36 160

Table 4.3 Specification income/expense from financial derivatives

Amounts in NOK million	3Q 2016	3Q 2015	Year-to-date 30.09.2016	Year-to-date 30.09.2015	2015
Dividends	28	8	91	8	21
Interest	-1 310	-218	-1 674	-705	-869
Realised gain/loss	-2 346	-632	-3 608	-1 646	-2 422
Unrealised gain/loss	2 900	-2 194	-2 017	783	1 286
Income/expense from financial derivatives before foreign exchange gain/loss	-728	-3 036	-7 208	-1 560	-1 984

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

Table 5.1 Equities and units

Amounts in NOK million	30.09.2016		31.12.2015	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities and units	4 344 943	7 193	4 600 268	5 491
Total equities and units	4 344 943	7 193	4 600 268	5 491
<i>Of which equities lent</i>	381 607		312 662	

Table 5.2 Bonds

Amounts in NOK million	Nominal value	30.09.2016		31.12.2015		
		Fair value including accrued interest	Accrued interest	Nominal value	Fair value including accrued interest	Accrued interest
Government bonds	1 258 463	1 469 429	10 983	1 326 895	1 493 128	11 803
Government-related bonds	314 066	337 283	2 717	367 675	386 829	3 274
Inflation-linked bonds	99 164	121 448	362	103 152	120 275	522
Corporate bonds	543 523	576 647	5 380	539 778	547 882	6 134
Securitised bonds	144 425	142 408	1 372	161 252	170 133	2 289
Total bonds	2 359 641	2 647 215	20 814	2 498 752	2 718 247	24 022
<i>Of which bonds lent</i>		418 131			241 518	

Table 5.3 Financial derivatives

Amounts in NOK million	Notional amount	30.09.2016		Notional amount	31.12.2015	
		Fair value Asset	Fair value Liability		Fair value Asset	Fair value Liability
Foreign exchange derivatives	259 253	972	2 831	351 186	4 352	1 521
Interest rate derivatives	30 177	435	5 656	37 123	553	3 745
Equity derivatives	4 098	3 105	-	4 846	3 924	-
Total financial derivatives	293 528	4 512	8 487	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 GPF. 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	3Q 2016	3Q 2015	Year-to-date 30.09.2016	Year-to-date 30.09.2015	2015
Dividend	358	776	1 605	1 486	1 931
Interest income	396	412	1 047	1 165	1 601
Unrealised gain/loss	3 293	2 261	2 175	8 180	11 005
Income/expense from unlisted real estate before foreign exchange gain/loss	4 047	3 449	4 827	10 831	14 537

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK million	30.09.2016	31.12.2015
Unlisted real estate, opening balance for the period	180 021	106 431
Additions	4 880	44 946
Unrealised gain/loss	2 175	11 005
Foreign currency translation effect	-20 442	17 639
Unlisted real estate, closing balance for the period	166 634	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	3Q 2016	3Q 2015	Year-to-date 30.09.2016	Year-to-date 30.09.2015	2015
Net rental income*	1 949	1 909	5 778	4 890	6 921
Realised gain/loss	57	279	110	279	320
Fair value changes - properties	2 589	1 856	999	7 300	9 265
Fair value changes - debt	-72	-24	-584	229	435
Transaction costs	-103	-63	-134	-241	-320
Interest expense external debt	-145	-189	-480	-483	-666
Tax expense payable	-77	-23	-127	-65	-100
Change in deferred tax	-36	-123	-176	-359	-452
Fixed fees to property managers**	-114	-110	-368	-231	-308
Variable fees to property managers**	68	-1	-17	-336	-343
Operating expenses within the limit from the Ministry of Finance***	-19	-25	-59	-66	-86
Other expenses	-50	-37	-115	-86	-129
Net income real estate companies	4 047	3 449	4 827	10 831	14 537

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

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

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

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

Table 6.4 Assets and liabilities underlying real estate companies

Amounts in NOK million	30.09.2016	31.12.2015
Deposits in banks	2 203	2 491
Properties	180 750	197 549
External debt	-13 971	-17 432
Tax payable	-257	-215
Net deferred tax	-1 140	-1 048
Net other assets and liabilities	-951	-1 324
Total assets and liabilities underlying real estate companies	166 634	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 49 844 million at quarter-end compared to NOK 54 134 million at year-end 2015.

Note 7 Fair value measurement

INTRODUCTION

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

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

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

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



SIGNIFICANT ESTIMATE

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

2. FAIR VALUE HIERARCHY

Table 7.1 Investments by level of valuation uncertainty

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	30.09.2016	31.12.2015	30.09.2016	31.12.2015	30.09.2016	31.12.2015	30.09.2016	31.12.2015
Equities and units	4 316 786	4 564 401	25 046	32 260	3 111	3 607	4 344 943	4 600 268
Government bonds	1 394 312	1 380 928	75 117	112 200	-	-	1 469 429	1 493 128
Government-related bonds	298 922	331 310	37 465	54 477	896	1 042	337 283	386 829
Inflation-linked bonds	114 948	108 484	6 500	11 791	-	-	121 448	120 275
Corporate bonds	546 292	512 577	30 090	34 824	265	481	576 647	547 882
Securitised bonds	136 408	160 797	5 658	8 128	342	1 208	142 408	170 133
Total bonds	2 490 882	2 494 096	154 830	221 420	1 503	2 731	2 647 215	2 718 247
Financial derivatives (assets)	216	359	4 296	8 470	-	-	4 512	8 829
Financial derivatives (liabilities)	-	-	-8 487	-5 266	-	-	-8 487	-5 266
Total financial derivatives	216	359	-4 191	3 204	-	-	-3 975	3 563
Unlisted real estate	-	-	-	-	166 634	180 021	166 634	180 021
Other*	-	-	-36 361	-26 946	-	-	-36 361	-26 946
Total	6 807 884	7 058 856	139 324	229 938	171 248	186 359	7 118 456	7 475 153
Total (percent)	95.6	94.4	2.0	3.1	2.4	2.5	100.0	100.0

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

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

Equities and units

Measured as a share of total value, virtually all equities and units (99.3 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 (0.1 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 (94.1 percent) have observable, executable market quotes and are classified as Level 1. 5.8 percent of the bond holdings 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.

In the second quarter, the fair value estimates in independent valuation reports for the real estate portfolio in the UK did not take into account the outcome of the referendum on the UK's EU membership. Caveats were included in the valuation reports indicating that less reliance could be placed on the estimates. Based on a reasoned judgement, management concluded to reduce the fair value estimates received from the external valuers for the real estate portfolio in the UK by 5 percent in the second quarter.

In the third quarter, the external valuers have reflected the outcome of the referendum in the

fair value estimates, and standard valuation reports have been issued for the UK portfolio. The caveats that were included in the valuation reports at the end of the second quarter are not included in the third quarter valuation reports. However, some external valuers for specific submarkets still point to the lack of transactional evidence and therefore that a somewhat greater degree of judgement is reflected in the valuation reports. In spite of a slightly higher level of uncertainty than usual, management has concluded that the fair value estimates from external valuers reflect the best estimate of fair value. Accordingly, investments in unlisted real estate are measured at the value determined by external valuers at the end of the third quarter.

3. MOVEMENTS BETWEEN LEVELS OF VALUATION UNCERTAINTY

Reclassifications between Level 1 and Level 2

The relative share of equities classified as Level 1 is virtually unchanged during the quarter. Positive value changes and currency gains were offset by securities sold during the period. The relative share of equities classified as Level 1 has increased marginally by 0.1 percentage points compared with year-end 2015.

Level 1 bonds decreased by 1.2 percentage points in the quarter. This is mainly due to price and currency losses as well as securities that have been reclassified to Level 2. The reclassified bonds consist mainly of corporate bonds denominated in US dollar and government bonds in emerging markets. This development is a partial reversal of the movement in the two previous quarters, and the total movement of bonds in Level 1 in comparison with year-end 2015 is thus an increase of 2.3 percentage points.

Table 7.2 Changes in Level 3 holdings

Amounts in NOK million	01.01.2016	Purchases	Sales	Settle-ments	Net gain/loss	Trans-ferred into Level 3	Trans-ferred out of Level 3	Foreign ex-change gains and losses	30.09.2016
Equities and units	3 607	129	-490	-	-133	2 382	-2 052	-332	3 111
Bonds	2 731	-	-666	-296	-109	881	-775	-263	1 503
Unlisted real estate	180 021	4 880	-	-	2 175	-	-	-20 442	166 634
Total	186 359	5 009	-1 156	-296	1 933	3 263	-2 827	-21 037	171 248

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

The value of Level 3 holdings is virtually unchanged from the last quarter. The marginal increase in equities, mainly caused by the suspension of some securities during the quarter, is offset by the sale, liquidation and

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

4. SENSITIVITY ANALYSIS FOR LEVEL 3 HOLDINGS

Table 7.3 Additional specification Level 3 and sensitivities

Amounts in NOK million	Specification of Level 3 holdings 30.09.2016	Sensitivities 30.09.2016		Specification of Level 3 holdings 31.12.2015	Sensitivities 31.12.2015	
		Unfavour-able changes	Favour-able changes		Unfavour-able changes	Favour-able changes
Equities and units	3 111	-1 058	1 027	3 607	-1 227	1 190
Government-related bonds	896	-90	90	1 042	-104	104
Corporate bonds	265	-26	26	481	-78	78
Securitised bonds	342	-34	34	1 208	-121	121
Total bonds	1 503	-150	150	2 731	-304	304
Unlisted real estate	166 634	-8 017	8 659	180 021	-7 801	8 637
Total	171 248	-9 225	9 836	186 359	-9 332	10 131

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.

Property values are particularly sensitive to changes in the valuation yields/capitalisation rates and assumptions influencing future revenues. In an unfavourable outcome, it is calculated that an increase in the yield of

0.2 percentage points, and a reduction in future market rents of 2 percent will result in a decrease in value of the real estate portfolio of approximately 4.8 percent or NOK 8 017 million. In a favourable outcome, a decrease 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 5.2 percent or NOK 8 659 million.

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

Note 8 Risk

MARKET RISK

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

Asset class per country and currency

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

Table 8.1 Allocation by asset class, country and currency

Asset class	Market	Market value in percent by country and currency*		Market value in percent by asset class		Assets minus liabilities excluding management fee	
		30.09.2016	Market 31.12.2015	30.09.2016	31.12.2015	30.09.2016	31.12.2015
Equities	Developed	90.3	Developed	91.0			
	US	36.4	US	35.5			
	UK	10.2	UK	11.3			
	Japan	9.1	Japan	9.3			
	Switzerland	5.3	Germany	5.7			
	Germany	5.3	Switzerland	5.5			
	Total other	24.0	Total other	23.7			
	Emerging	9.7	Emerging	9.0			
	China	2.8	China	2.9			
	Taiwan	1.6	Taiwan	1.4			
	India	1.0	India	1.1			
	Brazil	0.8	South Africa	0.5			
	South Africa	0.6	Brazil	0.5			
	Total other	2.9	Total other	2.6			
Total equities					60.64	61.16	4 316 542 4 571 807
Fixed-income	Developed	87.4	Developed	87.6			
	US Dollar	41.7	US Dollar	42.0			
	Euro	25.8	Euro	25.5			
	Japanese Yen	6.8	Japanese Yen	6.5			
	British Pound	5.1	British Pound	5.4			
	Canadian Dollar	3.0	Canadian Dollar	3.0			
	Total other	5.0	Total other	5.2			
	Emerging	12.6	Emerging	12.4			
	Mexican Peso	1.6	Mexican Peso	1.9			
	South Korean Won	1.6	South Korean Won	1.6			
	Indian Rupee	1.0	Turkish Lira	1.0			
	Brazilian Real	0.9	Indian Rupee	1.0			
	Indonesian Rupiah	0.8	Chinese Yuan	0.8			
	Total other	6.7	Total other	6.1			
Total fixed-income					36.30	35.69	2 584 249 2 668 147
Real estate	US	46.4	US	44.3			
	UK	23.2	UK	27.6			
	France	11.9	France	11.1			
	Germany	8.5	Germany	7.3			
	Switzerland	3.9	Switzerland	3.8			
	Total other	6.1	Total other	5.9			
Total real estate**					3.06	3.15	217 665 235 199

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

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

The fund's allocation to equities was 60.6 percent at the end of the third quarter. This is a decrease of 0.5 percentage points compared with year-end 2015, when it was 61.2 percent. The fixed-income portfolio's share of the fund increased to 36.3 percent in the third quarter, from 35.7 percent at year-end. This change in asset class allocation on a year-to-date basis was primarily caused by stronger investment returns for bonds than equities. Emerging markets have had a stronger year-to-date return than developed markets, where both equity markets rose and currencies strengthened. This

has led to an increase in the proportion invested in emerging markets for both equities and bonds.

Volatility

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

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

	Expected volatility, actual portfolio							
	30.09.2016	Min 2016	Max 2016	Average 2016	31.12.2015	Min 2015	Max 2015	Average 2015
Portfolio	10.5	10.2	10.7	10.5	10.4	8.1	10.4	9.5
Equities	13.9	12.9	13.9	13.6	12.9	10.9	12.9	12.0
Fixed-income	9.8	9.7	10.3	10.1	10.1	7.9	10.2	9.4

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

	Expected relative volatility							
	30.09.2016	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	37	34	38	35	36	35	52	42
Fixed-income	55	47	55	52	52	52	64	57

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

Risk measured in terms of expected volatility shows a slight increase year-to-date, from 10.4 percent at the start of the year to 10.5 percent at the end of the quarter. The expected volatility for equities has increased from 12.9 percent to 13.9 percent year-to-date, while the volatility for bonds has fallen from 10.1 percent to 9.8 percent. The risk measure indicates an annual expected value fluctuation for the fund of 10.5 percent, or approximately NOK 750 billion, at the end of the third quarter. Expected relative volatility remained relatively stable so far this year and is 29 basis points at the end of the quarter, an increase of one basis point compared to year-end 2015.

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

2.5 percent worst weeks is then annualised, giving the expected shortfall measured at a 97.5 percent confidence level.

With effect from 1 March 2016, the Executive Board has introduced a limit for expected shortfall for the aggregated equity and fixed-income investments and the associated benchmark index. Norges Bank Investment Management shall organise the management with the aim that the annualised expected shortfall does not exceed 3.75 percentage points. At the end of the third quarter, the measure was 0.85 percentage points, compared to 0.95 percentage points at year-end 2015.

CREDIT RISK

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

Table 8.4 Bond portfolio specified by credit rating

Amounts in NOK million, 30.09.2016	AAA	AA	A	BBB	Lower rating	Total
Government bonds	709 601	259 808	277 412	181 125	41 483	1 469 429
Government-related bonds	144 649	138 145	33 524	17 889	3 076	337 283
Inflation-linked bonds	86 172	8 395	4 696	12 907	9 278	121 448
Corporate bonds	4 919	57 047	214 115	290 879	9 687	576 647
Securitised bonds	122 975	14 754	500	4 053	126	142 408
Total bonds	1 068 316	478 149	530 247	506 853	63 650	2 647 215

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

The proportion of bond holdings categorised with a credit rating lower than BBB has increased to 2.4 percent at the end of the third quarter, compared to 0.7 percent at year-end 2015. This was primarily due to the downgrade of Turkish government bonds from the BBB category to the *Lower rating* category during the third quarter as well as the downgrade of Brazilian government bonds from the BBB category to the *Lower rating* category during the first quarter. Furthermore, bond holdings

with a credit rating of AAA have decreased to 40.4 percent of the portfolio at the end of the third quarter, from 41.1 percent at year-end. 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 30 September 2016, aggregated for the GPFG.

Table 8.5 Counterparty risk by type of position

Amounts in NOK million, 30.09.2016	Gross exposure	Effect of netting	Effect of received and posted collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits*	13 936	-	-	13 936
OTC derivatives including foreign exchange contracts	15 869	5 808	-587	10 648
Cleared OTC and listed derivatives**	6 555	717	-5 031	10 869
Repurchase and reverse repurchase agreements	2 362	435	358	1 569
Securities lending	59 105	-	789	58 316
Settlement risk towards broker and long settlement transactions	87	-	-	87
Participatory certificates	2 737	-	-	2 737
Total	100 651	6 960	-4 471	98 162

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	51 551	-	1 390	50 161
Settlement risk towards broker and long settlement transactions	60	-	-	60
Participatory certificates	3 475	-	-	3 475
Total	80 886	7 817	1 285	71 784

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

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

Counterparty risk as measured both in terms of gross and net risk exposure has increased since year-end 2015. The net exposure was NOK 98.2 billion at the end of the third quarter, compared with NOK 71.8 billion kroner at year-end. The

increase is largely due to greater risk exposure from securities lending, larger unsecured bank deposits as well as increased risk exposure from interest rate swaps cleared by a central clearing counterparty.

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	3Q 2016	3Q 2015	Year-to-date		Year-to-date		2015	Basis points
			30.09.2016	Basis points	30.09.2015	Basis points		
Salary, social security and other personnel related costs	304	270	860		777		1 134	
Custody costs	102	94	286		290		394	
IT services, systems, data and information	173	178	478		476		638	
Research, consulting and legal fees	54	65	176		176		245	
Other costs	59	52	177		134		200	
Allocated costs Norges Bank	41	33	124		95		129	
Base fees to external managers	192	173	552		539		615	
Management fee excluding performance-based fees	925	865	2 653	4.9	2 487	4.8	3 355	4.8
Performance-based fees to external managers	171	209	253		326		578	
Total management fee	1 096	1 074	2 906	5.4	2 813	5.5	3 933	5.7

MANAGEMENT COSTS IN REAL ESTATE SUBSIDIARIES

Management costs incurred in real estate subsidiaries consist of operating expenses

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

Table 9.2 Management costs, real estate subsidiaries

Amounts in NOK million	3Q 2016	3Q 2015	Year-to-date 30.09.2016	Year-to-date 30.09.2015	2015
Salary, social security and other personnel related costs	6	4	17	15	26
IT services, systems, data and information	9	10	26	24	31
Research, consulting and legal fees	4	11	16	19	25
Other costs	5	-	14	8	13
Total management costs, real estate subsidiaries	24	25	73	66	95
<i>Of which management costs non-consolidated subsidiaries</i>	19	25	59	66	86
<i>Of which management costs consolidated subsidiaries</i>	5	-	14	-	9



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

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

UPPER LIMIT FOR REIMBURSEMENT OF MANAGEMENT COSTS

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

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

Year-to-date management costs that are measured against the limit amount to NOK 2 726 million at the end of the third quarter. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 2 653 million, and management costs in real estate subsidiaries of NOK 73 million. This corresponds to 5.0 basis points of assets under management on an annual basis.

Year-to-date management costs including performance-based fees amount to NOK 2 979 million. This corresponds to 5.5 basis points of assets under management on an annual basis.

To the Supervisory Council of Norges Bank

Report on review of interim financial information

We have reviewed the financial reporting of the Government Pension Fund Global. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio of the Government Pension Fund Global are included in the financial reporting. The financial reporting comprises the balance sheet as at 30 September 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 nine-month period then ended and selected explanatory notes. The Executive Board and management are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

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

Conclusion

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

Oslo, 26 October 2016

Deloitte AS

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)





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