

2Q|17

**GOVERNMENT
PENSION FUND
GLOBAL**

**QUARTERLY REPORT
/2017**

HIGHLIGHTS

Second quarter 2017 in brief

2.6%

202 Bn. KR

The Government Pension Fund Global returned **2.6** percent, or **202** billion kroner, in the second quarter of 2017.





**EQUITY
INVESTMENTS**

—
3.4%



**FIXED-INCOME
INVESTMENTS**

—
1.1%




**UNLISTED
REAL ESTATE
INVESTMENTS**

—
2.1%

Equity investments returned **3.4** percent, while fixed-income investments returned **1.1** percent. Investments in unlisted real estate returned **2.1** percent.

The return on the fund's investments was **0.3** percentage point higher than the return on the benchmark index the fund is measured against.



8,020

Bn. KR

The fund had a market value of **8,020** billion kroner at the end of the quarter and was invested **65.1** percent in equities, **32.4** percent in fixed income and **2.5** percent in unlisted real estate.



**EQUITY
INVESTMENTS**

65.1%



**FIXED-INCOME
INVESTMENTS**

32.4%



**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

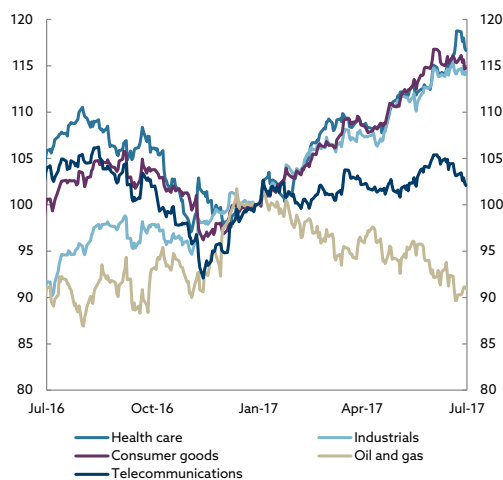
Equity investments returned 3.4 percent and made up 65.1 percent of the fund at the end of the quarter. The return was driven by further healthy growth in the global economy. Some macroeconomic data, especially for the US economy, were nevertheless weaker than the market had anticipated. Growth expectations for emerging markets were largely unchanged from the previous quarter, while those for developed markets improved, fuelled by greater optimism in the euro area. There was little volatility in global equity markets during the quarter. Towards its end, however, signals of tighter monetary policy from a number of central banks contributed to increased volatility, higher long-term yields and lower equity prices.

Strongest return in Europe

European stocks returned 6.3 percent and accounted for 36.6 percent of the fund's equities at the end of the quarter. The UK, which was the fund's largest European market with 9.7 percent of its equity investments, returned 3.3 percent, or 1.5 percent in local currency.

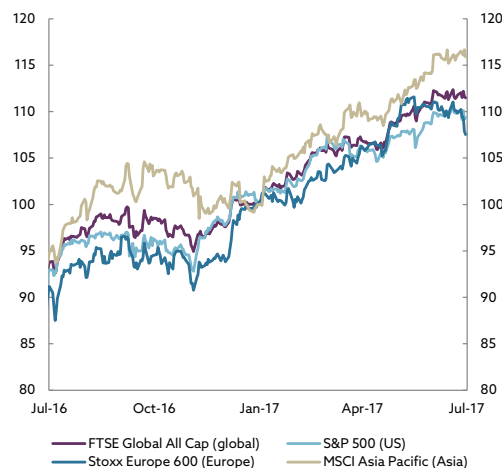
North American stocks returned 0.7 percent and amounted to 38.6 percent of the equity portfolio. US stocks, which were the fund's single largest market with 36.4 percent of its equity investments, returned 0.8 percent, or 2.9 percent in local currency.

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 StoxxEurope 600, which is measured in euros. Indexed total return 31.12.2016 = 100



Source: Bloomberg

Stocks in Asia and Oceania, which made up 22.0 percent of the fund's equity investments, returned 3.9 percent. Japanese stocks returned 3.4 percent, or 6.4 percent in local currency, and amounted to 9.0 percent of equity investments.

Emerging markets accounted for 9.9 percent of the equity portfolio and returned 3.4 percent. The Chinese stock market, home to 2.9 percent of the fund's equity investments, returned 7.7 percent.

Health care performs best

Health care stocks delivered the best return in the second quarter at 5.7 percent and have produced a substantial return in the year to

date, driven by market expectations of stronger earnings in the sector. Proposals to overhaul the regulatory framework for health care in the US have yet to result in any actual changes, which the market is interpreting as a continuation of stable operating conditions.

Industrials returned 4.9 percent on the back of the improved outlook for economic growth, especially in Europe and emerging markets. PMIs in both the US and Europe were strong throughout the quarter. Returns were strong in the industrial machinery sector, driven by increased demand for construction machinery and more stable demand for capital goods in the commodity industry.

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

Sector	Return in international currency	Share of equity investments ¹
Financials	4.3	24.3
Industrials	4.9	14.4
Consumer goods	4.4	13.5
Health care	5.7	10.5
Technology	3.9	10.4
Consumer services	2.0	10.0
Basic materials	1.9	5.5
Oil and gas	-6.1	5.3
Telecommunications	-0.1	3.0
Utilities	3.2	2.8

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 30 June 2017. Millions of kroner

Company	Country	Holding
Apple Inc	US	58,219
Nestlé SA	Switzerland	50,699
Alphabet Inc	US	42,705
Royal Dutch Shell Plc	UK	40,145
Microsoft Corp	US	39,251
Novartis AG	Switzerland	37,375
Roche Holding AG	Switzerland	35,640
Amazon.com Inc	US	29,705
HSBC Holdings Plc	UK	28,500
Johnson & Johnson	US	26,912

Consumer goods companies returned 4.4 percent, due partly to returns in the European food and beverage industry. Luxury goods also made a positive contribution, while the automobile industry made the most negative contribution.

Oil and gas stocks were the weakest performers, returning -6.1 percent. Oil prices continued to fall during the quarter despite the OPEC cartel's efforts to limit the supply of oil and keep prices stable around 50 dollars per barrel.

Individual stocks

The investment in consumer goods company Nestlé SA made the most positive contribution to the return in the second quarter, followed by technology company Tencent Holding Ltd and

health care company Novartis AG. The companies that made the most negative contributions were industrial company General Electric Co, telecommunications company AT&T Inc and technology company International Business Machines Corp.

The fund participated in 41 initial public offerings in the quarter. The largest was at financial company Allied Irish Banks Plc, followed by consumer services company Altice USA Inc and health care company Galenica Santé AG. The offerings in which the fund invested the most were those in Allied Irish Banks Plc, industrial company ALD Automotive SA and Altice USA Inc.

RETURN IN INTERNATIONAL CURRENCY

The fund invests in international securities. Returns are generally measured in international currency – a weighted combination of the currencies in the fund's benchmark indices for equities and bonds. This is known as the fund's currency basket and consisted of 34 currencies at the end of the second quarter. Unless otherwise stated in the text, results are measured in this currency basket.

FIXED-INCOME INVESTMENTS

Fixed-income investments returned 1.1 percent and accounted for 32.4 percent of the fund at the end of the quarter. Global yields changed little during the quarter.

Positive return on fixed-income investments

Government bonds returned 0.7 percent and made up 55.9 percent of the fund's fixed-income investments at the end of the quarter.

US Treasuries returned -0.6 percent, or 1.5 percent in local currency, and accounted for 19.5 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 by 0.25 percentage point in June, which was in line with

market expectations. 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 4.8 percent, or 0.3 percent in local currency. The European Central Bank (ECB) left its policy rate unchanged during the quarter. The market expects the ECB to scale down its quantitative easing in 2018 once the current bond repurchase programme draws to a close at the end of this year. The euro strengthened against the fund's currency basket during the quarter.

Japanese government bonds amounted to 6.4 percent of the fund's fixed-income holdings and

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

Sector	Return in international currency	Share of fixed-income investments ¹
Government bonds ²	0.7	55.9
Government-related bonds ²	1.8	13.1
Inflation-linked bonds ²	-0.9	5.0
Corporate bonds	1.2	24.9
Securitised bonds	2.9	5.4

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

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

Table 4 The fund's largest bond holdings as at 30 June 2017. Millions of kroner

Issuer	Country	Holding
United States of America	US	591,333
Japanese government	Japan	169,090
Federal Republic of Germany	Germany	104,571
Mexican government	Mexico	63,269
UK government	UK	62,241
French Republic	France	58,006
South Korean government	South Korea	52,516
Italian Republic	Italy	42,971
Spanish government	Spain	41,903
Kreditanstalt für Wiederaufbau	Germany	33,451

returned -3.0 percent, or -0.1 percent in local currency. The Bank of Japan made no changes to monetary policy during the quarter, leaving its key rate unchanged. The yen was relatively stable against the dollar during the quarter and so weakened somewhat against the fund's currency basket.

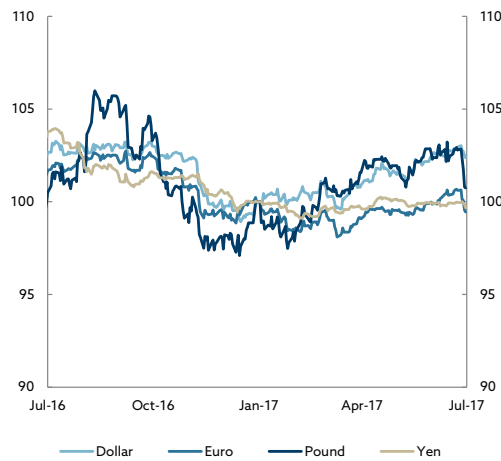
The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau (KfW), the European Investment Bank (EIB) and Canada Housing Trust (Canhou). These bonds returned 1.8 percent and accounted for 13.1 percent of fixed-income investments.

Corporate bonds returned 1.2 percent and made up 24.9 percent of fixed-income investments at the end of the period. Credit premiums declined during the quarter and are approaching the levels of before the financial crisis.

Securitized debt, consisting mainly of covered bonds denominated in euros, returned 2.9 percent and made up 5.4 percent of fixed-income holdings.

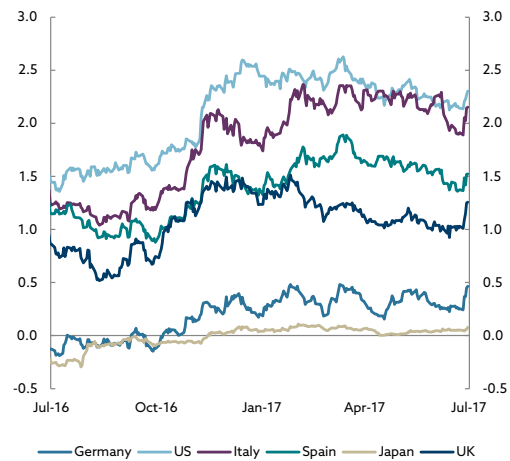
Inflation-linked bonds returned -0.9 percent and accounted for 5.0 percent of total fixed-income investments.

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



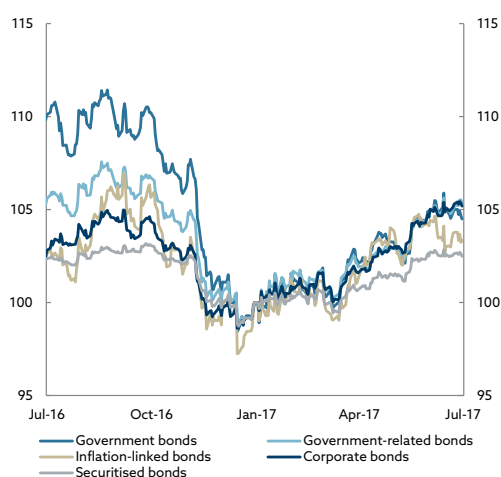
Source: Bloomberg Barclays Indices

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 fell from 12.8 to 12.3 percent of total fixed-income investments during the quarter.

Investments in dollars, euros, pounds and yen accounted for 79.6 percent of fixed-income holdings at the end of the quarter, against 79.2 percent at its start.

The biggest increases in the market value of the fund's government bond holdings in the second quarter were in US, Spanish and UK bonds. The biggest decreases were in bonds from Japan, Germany and Italy.

Table 5 The fund's fixed-income investments as at 30 June 2017 based on credit ratings. Percentage of bond holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	25.7	8.0	11.6	6.7	1.5	53.6
Government-related bonds	5.5	4.9	1.6	0.5	0.1	12.6
Inflation-linked bonds	3.9	0.4	0.1	0.3	0.1	4.8
Corporate bonds	0.2	2.5	8.7	12.1	0.3	23.9
Securitized bonds	4.5	0.5	0.1	0.1	0.0	5.1
Total bonds	39.9	16.3	22.1	19.7	2.0	100.0

REAL ESTATE INVESTMENTS

Unlisted real estate investments returned 2.1 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 0.6 percentage point. Currency movements added a further 0.6 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.

Unlisted and listed real estate investments are managed under a combined strategy for real estate. Investments in listed real estate returned 3.6 percent.

Purchases and sales of unlisted real estate

The fund further expanded its Regent Street partnership with The Crown Estate in May, with the partners acquiring three properties totalling 54,000 square feet. The fund paid 30.0 million pounds, or 331.0 million kroner, for its 25 percent stake.

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

	Return
Rental income (percentage points)	0.9
Change in value (percentage points)	0.6
Transaction costs (percentage points)	0.0
Result of currency adjustments (percentage points)	0.6
Unlisted real estate investments (percent)	2.1
Listed real estate investments (percent)	3.6
Aggregated real estate investments (percent)	2.4

Table 7 Market value of real estate investments as at 30 June 2017. Millions of kroner

	Holding ¹
Unlisted real estate investments	198,707
Listed real estate investments	57,033
Aggregated real estate investments	255,740

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 management 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 consisting solely of global equity and bond indices. This benchmark index comprises an equity index based on FTSE Group's Global All Cap stock index and a 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 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. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

The overall return on the fund was 0.3 percentage point higher than the return on the benchmark index in the second quarter, due mainly to a positive relative return on equity investments.

The fund's equity investments outperformed the benchmark index for equities by 0.4 percentage point in the quarter, making a contribution of 0.25 percentage point to the fund's relative return. Investments in financials,

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

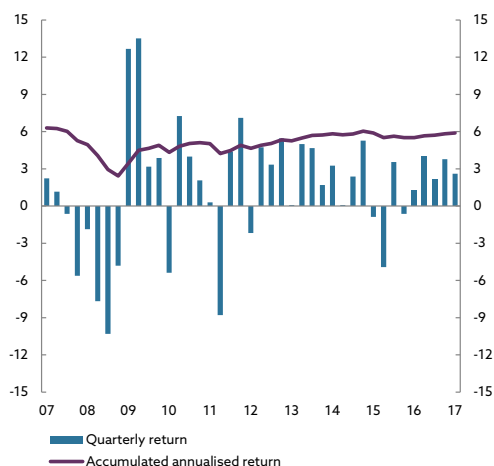


Chart 7 The fund's quarterly relative return and accumulated annualised relative return. Calculations based on aggregated equity and fixed-income investments until end of 2016. Percentage points

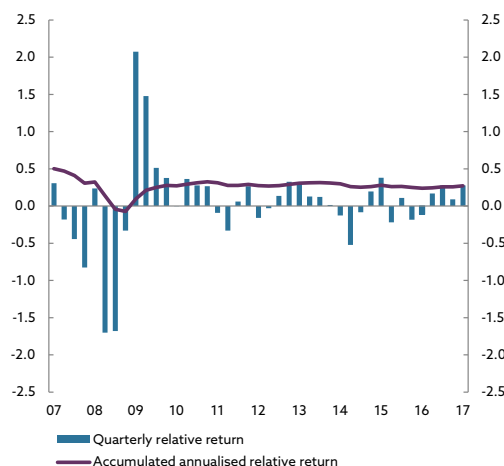


Table 8 Contributions from asset classes to the fund's relative return in second quarter 2017. Percentage points

	Total	Attributed to external management
Equity investments	0.25	0.08
Fixed-income investments	0.01	0.00
Unlisted real estate investments	-0.01	
Cross-asset allocation	0.03	
Total	0.28	0.08

industrials and basic materials made the most positive contributions to the relative return in the second quarter. The return on investments in listed real estate was in line with the benchmark index for equities. Broken down by country, equity investments in China, Germany and France made the most positive contributions to the relative return, while UK stocks made the most negative contribution.

The return on the fund's fixed-income investments was on a par with the return on the benchmark index for bonds, making a contribution of 0.01 percentage point to the fund's relative return. In the second quarter, the fund's fixed-income investments had a higher weight of emerging markets and a lower weight of developed markets than the benchmark. This made a positive contribution from higher yields, but a much stronger euro and a weaker Brazilian real cancelled out most of the positive contribution.

Unlisted real estate underperformed the fund's benchmark index, making a contribution of -0.01 percentage point to the fund's relative return. These investments did, however,

outperform the actual equities and bonds sold to finance the properties.

The fund's relative performance is also affected by the allocation between asset classes. In the second quarter, this allocation effect made a positive contribution of 0.03 percentage point.

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. The fund's expected absolute volatility was 11.0 percent, or about 880 billion kroner, at the end of the second quarter, compared with 10.9 percent at the start of the quarter. The increase was due mainly to a higher weight of equities in the portfolio.

We invest in real estate to create a more diversified portfolio. We expect real estate investments to have a different return profile to equities and bonds in both the short and 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 how far the fund's investments may deviate from the benchmark index. 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 index.

The mandate from the Ministry of Finance was amended with effect from 1 January 2017. All of the fund's investments, including unlisted real estate, are now included in the calculation of

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

Limits set by the Ministry of Finance		30.06.2017
Allocation	Equity portfolio 50–80 percent of fund's market value ¹	64.8
	Fixed-income portfolio 20–50 percent of fund's market value ¹	33.7
	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-	2.0
Ownership	Maximum 10 percent of voting shares in a listed company in the equity portfolio ²	8.3

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)

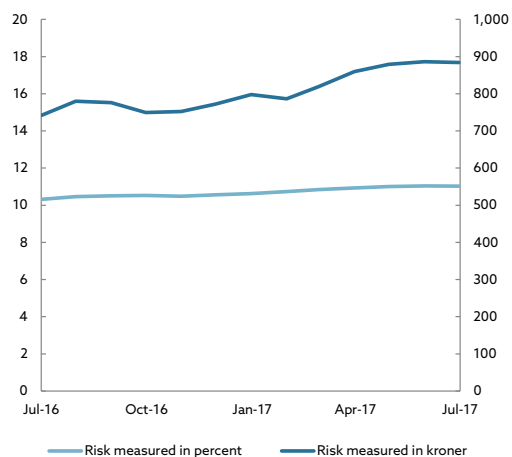
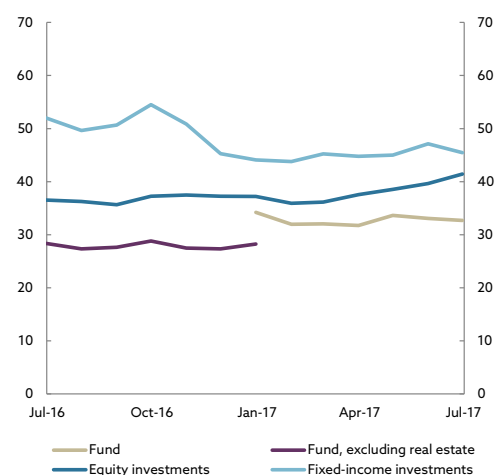


Chart 9 Expected relative volatility of the fund. Basis points



expected relative volatility and measured against the fund's benchmark index. The limit for expected relative volatility, including unlisted real estate, is 1.25 percentage points. The actual level, including unlisted real estate, was 0.33 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. With effect from 1 January 2017, investments in unlisted real estate have also been included in the calculation of expected shortfall for the fund. The actual level was 1.44 percentage points at the end 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 have a financial impact 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 second quarter. A total of 136 unwanted

operational events were registered in the quarter, with an estimated financial impact of 15.2 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.

RESPONSIBLE INVESTMENT

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. We held a meeting with Norwegian NGOs during the quarter to secure dialogue and provide information on our work on responsible investment.

Standard setting

We published a new expectations document on tax and transparency during the quarter. Aimed at the boards of the companies we invest in, the expectations are based on international principles. The purpose of the expectations is to express how Norges Bank Investment Management as a financial investor expects multinational enterprises to exhibit appropriate, prudent and transparent tax behaviour.

We also participated in two separate consultation processes organised by index providers S&P Dow Jones Indices and FTSE Russell, where we advocated the use of voting rights as a criterion for the inclusion of companies in their indices.

In 2016, Norges Bank Investment Management commissioned professor George Serafeim at Harvard Business School to look into the relationship between sustainability disclosure and corporate performance. This research was based on the fund's own data on companies' reporting. A report summarising the results was published during the quarter.

As part of our work on improving sustainability disclosure, Norges Bank Investment Management submitted a consultation response and hosted a meeting between investors, companies and CDP in connection with CDP's ongoing project to update its questionnaires for companies on climate change, water and deforestation.

Ownership

We voted at 6,818 general meetings in the second quarter, which sees the bulk of the year's meetings, considering and voting on a total of 79,876 proposals.

We also published a position paper on CEO remuneration during the quarter. The board is responsible for ensuring that the CEO is rewarded in a way that promotes long-term value creation for the company and its shareholders. The board should develop pay practices that are simple and do not put undue strain on corporate governance, provide transparency on total remuneration to avoid unacceptable outcomes, and ensure that all benefits have a clear business rationale. We announced our support during the quarter for the board's remuneration proposals at Royal Bank of Scotland and for changes to executive remuneration at Credit Suisse.

Risk management

Norges Bank Investment Management worked on an internal analysis of climate risk in the portfolio during the quarter. The analysis focused on sectors with particularly high risk exposure and was based on non-financial data.

In addition, the Norwegian Finance Initiative (NFI) awarded grants for two separate research projects at Columbia University and New York University to increase understanding of the relationship between climate change and financial economics.

Observation and exclusion

Norges Bank published a number of decisions on exclusion, observation and active ownership during the quarter.

Bharat Heavy Electricals Ltd was excluded based on an assessment of the risk of severe environmental damage.

PetroChina Co Ltd and Leonardo SpA were placed under observation based on an unacceptable risk that they contribute to, or are responsible for, gross corruption. Hansae Yes24 Holdings Co Ltd and Hansae Co Ltd were placed under observation due to an unacceptable risk that they are responsible for systematic human rights violations.

The Executive Board also decided that Norges Bank Investment Management should follow up the risk of gross corruption with Eni SpA and Saipem SpA through active ownership.

Key figures

Table 10 Quarterly return

	2Q 2017	1Q 2017	4Q 2016	3Q 2016	2Q 2016	Year-to-date 30.06.2017
Returns in international currency						
Return on equity investments (percent)	3.37	5.53	4.91	6.03	0.66	9.09
Return on fixed-income investments (percent)	1.12	0.77	-2.35	0.89	2.49	1.90
Return on real estate investments (percent) ¹	2.05	0.62	1.25	2.29	-1.42	2.69
Return on fund (percent)	2.60	3.78	2.17	4.00	1.27	6.48
Relative return on fund (percentage points)²						
Relative return on fund (percentage points) ²	0.28	0.09	0.28	0.17	-0.11	0.38
Management costs (percent)						
Management costs (percent)	0.02	0.02	0.01	0.01	0.01	0.03
Return on fund after management costs (percent)						
Return on fund after management costs (percent)	2.59	3.76	2.15	3.98	1.26	6.45
Returns in kroner (percent)						
Return on equity investments	2.92	6.85	8.74	1.54	1.11	9.97
Return on fixed-income investments	0.68	2.03	1.21	-3.39	2.95	2.73
Return on real estate investments ¹	1.61	1.88	4.95	-2.04	-0.98	3.52
Return on fund	2.15	5.08	5.90	-0.41	1.72	7.34

¹ From 2017, the return on real estate investments includes exclusively unlisted real estate investments.

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

	2Q 2017	1Q 2017	4Q 2016	3Q 2016	2Q 2016
Return on equity investments	2,576	2,404	2,129	1,866	1,650
Return on fixed-income investments	1,001	975	955	1,022	1,004
Return on real estate investments ¹	44	41	38	37	31
Total return	3,622	3,420	3,123	2,925	2,685

¹ From 2017, the return on real estate investments includes exclusively unlisted real estate investments.

Table 12 Historical key figures as at 30 June 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)	5.89	5.52	9.57	6.21	13.13
Relative return on fund (percentage points) ¹	0.27	0.05	0.26	0.12	0.89
Annual price inflation (percent)	1.75	1.73	1.30	0.96	1.58
Annual management costs (percent)	0.09	0.08	0.06	0.06	0.06
Net real return on fund (percent)	3.98	3.65	8.10	5.14	11.32
The fund's actual standard deviation (percent)	7.41	9.05	5.92	6.36	3.47
The fund's tracking error (percentage points) ¹	0.70	0.91	0.37	0.38	0.26
The fund's information ratio (IR) ^{1,2}	0.41	0.11	0.66	0.30	3.02

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

	2Q 2017	1Q 2017	4Q 2016	3Q 2016	2Q 2016
Market value					
Market value of equity investments	5,225	5,082	4,692	4,317	4,275
Market value of fixed-income investments	2,597	2,592	2,577	2,584	2,681
Market value of real estate investments ¹	199	194	242	218	221
Market value of fund ²	8,020	7,867	7,510	7,118	7,177
Accrued, not paid, management fees ²	-2	-1	-4	-3	-2
Owner's capital ²	8,018	7,866	7,507	7,116	7,175
Inflow/withdrawal of capital ³	-16	-20	-27	-30	-24
Paid management fees ³	0	-4	0	0	0
Return on fund	202	297	198	240	94
Changes due to fluctuations in krone	-32	83	221	-269	28
Total change in market value	153	357	392	-58	98
Changes in value since first capital inflow in 1996					
Total inflow of capital ⁴	3,360	3,375	3,397	3,423	3,452
Return on fund	3,622	3,420	3,123	2,925	2,685
Management fees ⁵	-37	-36	-35	-34	-33
Changes due to fluctuations in krone	1,076	1,108	1,025	804	1,073
Market value of fund	8,020	7,867	7,510	7,118	7,177
Return after management costs	3,585	3,384	3,088	2,891	2,652

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 Total inflow of capital shown in this table is adjusted for accrued, not paid, management fees.

⁵ 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.

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Income statement

Amounts in NOK million	Note	2Q 2017	2Q 2016	Year-to-date 30.06.2017	Year-to-date 30.06.2016	2016
Profit/loss on the portfolio before foreign exchange gains and losses						
Income/expense from:						
- Equities and units	4	173 700	29 725	447 864	-137 100	342 813
- Bonds	4	26 689	67 314	46 271	151 792	100 250
- Unlisted real estate	6	2 825	-74	5 500	780	6 942
- Financial derivatives	4	-247	-2 697	683	-6 479	-3 213
- Secured lending		951	1 176	1 816	2 091	4 013
- Secured borrowing		-55	-81	-11	-63	23
Tax expense		-2 261	-1 466	-3 288	-2 394	-4 061
Interest income/expense		-2	-23	-11	-34	-54
Other costs		-3	-15	-6	-26	-40
Profit/loss on the portfolio before foreign exchange gains and losses		201 597	93 859	498 818	8 567	446 673
Foreign exchange gains and losses		-32 358	27 913	50 647	-258 233	-306 099
Profit/loss on the portfolio		169 239	121 772	549 465	-249 666	140 574
Management fee	9	-1 276	-1 058	-2 453	-1 810	-3 731
Profit/loss for the period and total comprehensive income		167 963	120 714	547 012	-251 476	136 843

Balance sheet

Amounts in NOK million	Note	30.06.2017	31.12.2016
ASSETS			
Deposits in banks		16 273	17 759
Secured lending		152 532	134 338
Cash collateral posted		1 604	2 320
Unsettled trades		60 791	13 196
Equities and units	5	4 832 476	4 373 042
Equities lent	5	372 621	340 865
Bonds	5	2 241 326	2 220 286
Bonds lent	5	467 431	454 735
Unlisted real estate	6	197 784	188 469
Financial derivatives	5	8 636	9 366
Other assets		4 017	1 966
TOTAL ASSETS		8 355 491	7 756 342
LIABILITIES AND OWNER'S CAPITAL			
Liabilities			
Secured borrowing		250 321	213 520
Cash collateral received		3 411	3 688
Unsettled trades		78 427	22 195
Financial derivatives	5	2 839	4 501
Other liabilities		265	1 944
Management fee payable	9	2 453	3 731
Total liabilities		337 716	249 579
Owner's capital		8 017 775	7 506 763
TOTAL LIABILITIES AND OWNER'S CAPITAL		8 355 491	7 756 342

Statement of cash flows

Amounts in NOK million, receipt (+) / payment (-)	Year-to-date 30.06.2017	Year-to-date 30.06.2016	2016
Operating activities			
Receipts of dividend from equities and units	75 091	71 456	118 517
Receipts of interest from bonds	38 471	37 582	74 832
Receipts of interest and dividend from unlisted real estate subsidiaries	1 758	1 898	3 657
Net receipts of interest and fee from secured lending and borrowing	1 635	1 828	4 097
<i>Receipts of interest, dividend and fee from holdings of equities and units, bonds and unlisted real estate</i>	<i>116 955</i>	<i>112 764</i>	<i>201 103</i>
Net cash flow from purchase and sale of equities and units	-91 488	-59 217	-72 588
Net cash flow from purchase and sale of bonds	9 767	-19 366	-38 151
Net cash flow to/from investments in unlisted real estate subsidiaries	-4 383	-1 379	-17 269
Net cash flow financial derivatives	-3 047	-1 891	84
Net cash flow cash collateral related to derivative transactions	225	-7 086	983
Net cash flow secured lending and borrowing	17 927	39 049	50 236
Net payment of taxes	-5 486	-4 052	-3 116
Net cash flow related to interest on deposits in banks and bank overdraft	-73	6	-
Net cash flow related to other expenses, other assets and other liabilities	-1 490	1 482	-430
Management fee paid to Norges Bank ¹	-3 731	-3 933	-3 933
Net cash inflow/outflow from operating activities	35 176	56 377	116 919
Financing activities			
Inflow from the Norwegian government ²	-	-	-
Withdrawal by the Norwegian government ²	-36 185	-44 552	-100 616
Net cash inflow/outflow from financing activities	-36 185	-44 552	-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	-1 009	11 825	16 303
Net foreign exchange gains and losses on cash	-477	-1 239	-1 087
Deposits in banks at end of period	16 273	13 129	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	-	-251 476	-251 476
Net inflow/withdrawal during the period ¹	-44 800	-	-44 800
30 June 2016	3 449 840	3 725 104	7 174 944
1 July 2016	3 449 840	3 725 104	7 174 944
Total comprehensive income	-	388 319	388 319
Net inflow/withdrawal during the period	-56 500	-	-56 500
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	-	547 012	547 012
Net inflow/withdrawal during the period ¹	-36 000	-	-36 000
30 June 2017	3 357 340	4 660 435	8 017 775

¹ In the first two quarters of 2017 there was a withdrawal from the krone account of NOK 39.7 billion. Of this, NOK 3.7 billion was used to pay the accrued management fee for 2016. In the first two quarters of 2016, there was a withdrawal from the krone account of NOK 48.7 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 second quarter of 2017, which only encompass the financial reporting for the GPFG, were approved by the Executive Board on 16 August 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 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 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 in the first half of 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

	2Q 2017	1Q 2017	4Q 2016	3Q 2016	2Q 2016	Year-to-date 30.06.2017
Returns in the fund's currency basket						
Return on equity investments (percent)	3.37	5.53	4.91	6.03	0.66	9.09
Return on fixed-income investments (percent)	1.12	0.77	-2.35	0.89	2.49	1.90
Return on real estate investments ¹ (percent)	2.05	0.62	1.25	2.29	-1.42	2.69
Return on fund (percent)	2.60	3.78	2.17	4.00	1.27	6.48
Relative return on fund ² (percentage points)	0.28	0.09	0.28	0.17	-0.11	0.38
Returns in Norwegian kroner (percent)						
Return on equity investments	2.92	6.85	8.74	1.54	1.11	9.97
Return on fixed-income investments	0.68	2.03	1.21	-3.39	2.95	2.73
Return on real estate investments ¹	1.61	1.88	4.95	-2.04	-0.98	3.52
Return on fund	2.15	5.08	5.90	-0.41	1.72	7.34

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	2Q 2017	2Q 2016	Year-to-date 30.06.2017	Year-to-date 30.06.2016	2016
Dividends	49 774	46 712	78 484	74 079	118 584
Realised gain/loss	77 386	24 118	146 127	33 031	107 005
Unrealised gain/loss	46 540	-41 105	223 253	-244 210	117 224
Income/expense from equities and units before foreign exchange gain/loss	173 700	29 725	447 864	-137 100	342 813

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	2Q 2017	2Q 2016	Year-to-date 30.06.2017	Year-to-date 30.06.2016	2016
Interest	18 287	18 584	36 631	35 582	72 573
Realised gain/loss	3 375	9 419	3 624	16 174	30 861
Unrealised gain/loss	5 027	39 311	6 016	100 036	-3 184
Income/expense from bonds before foreign exchange gain/loss	26 689	67 314	46 271	151 792	100 250

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	2Q 2017	2Q 2016	Year-to-date 30.06.2017	Year-to-date 30.06.2016	2016
Dividends	52	61	72	63	102
Interest	-51	-345	-1 396	-364	-2 113
Realised gain/loss	191	-198	168	-1 261	-3 251
Unrealised gain/loss	-439	-2 215	1 839	-4 917	2 049
Income/expense from financial derivatives before foreign exchange gain/loss	-247	-2 697	683	-6 479	-3 213

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

Table 5.1 Equities and units

Amounts in NOK million	30.06.2017		31.12.2016	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities and units	5 205 097	8 951	4 713 907	5 557
Total equities and units	5 205 097	8 951	4 713 907	5 557
<i>Of which equities lent</i>	372 621		340 865	

Table 5.2 Bonds

Amounts in NOK million	30.06.2017			31.12.2016		
	Nominal value	Fair value including accrued interest	Accrued interest	Nominal value	Fair value including accrued interest	Accrued interest
Government bonds	1 280 403	1 450 608	10 773	1 290 977	1 461 360	11 356
Government-related bonds	328 221	341 118	2 122	319 602	334 137	2 390
Inflation-linked bonds	111 454	130 875	426	114 916	140 814	547
Corporate bonds	624 000	647 143	5 772	573 749	591 146	5 992
Securitised bonds	145 470	139 013	830	141 566	147 564	1 478
Total bonds	2 489 548	2 708 757	19 923	2 440 810	2 675 021	21 763
<i>Of which bonds lent</i>		467 431			454 735	

Table 5.3 Financial derivatives

Amounts in NOK million	30.06.2017			31.12.2016		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange derivatives	231 632	1 464	1 457	321 580	4 586	1 995
Interest rate derivatives	35 381	932	1 382	31 284	528	2 506
Equity derivatives	6 611	6 240	-	6 645	4 252	-
Total financial derivatives	273 624	8 636	2 839	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 in the balance sheet as *Unlisted real estate* are designated upon initial recognition as financial instruments at *fair value through profit or loss*. Changes in fair value 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	2Q 2017	2Q 2016	Year-to-date 30.06.2017	Year-to-date 30.06.2016	2016
Dividends received	566	714	953	1 247	2 167
Interest received	445	478	805	651	1 490
Unrealised gain/loss	1 814	-1 266	3 742	-1 118	3 285
Income/expense from unlisted real estate before foreign exchange gain/loss	2 825	-74	5 500	780	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	30.06.2017	31.12.2016
Unlisted real estate, opening balance for the period	188 469	180 021
Payments to new investments ¹	2 959	19 147
Payments to existing investments ¹	2 341	2 808
Payments from existing investments ¹	-917	-4 686
Unrealised gain/loss	3 742	3 285
Foreign currency translation effect	1 190	-12 106
Unlisted real estate, closing balance for the period	197 784	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	2Q 2017	2Q 2016	Year-to-date 30.06.2017	Year-to-date 30.06.2016	2016
Net rental income ¹	2 121	1 907	4 134	3 829	7 645
Realised gain/loss	7	31	15	53	109
Fair value changes – properties ²	1 233	-1 440	2 555	-1 590	1 416
Fair value changes – debt ²	-32	-179	-220	-511	-191
Transaction costs	-31	-13	-47	-32	-411
Interest expense external debt	-146	-163	-307	-335	-622
Tax expense payable	-53	-22	-65	-50	-151
Change in deferred tax	-100	-56	-157	-140	-174
Asset management – fixed fees ³	-122	-151	-249	-254	-454
Asset management – variable fees ³	-6	64	-76	-85	-39
Operating costs within the limit from the Ministry of Finance ⁴	-22	-20	-38	-40	-81
Other costs	-24	-32	-45	-65	-105
Net income underlying real estate companies	2 825	-74	5 500	780	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 asset management fees 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	30.06.2017	31.12.2016
Deposits in banks	2 527	2 272
Properties	210 731	204 635
External debt	-14 103	-15 727
Tax payable	-82	-204
Net deferred tax	-1 363	-1 153
Net other assets and liabilities	74	-1 354
Total assets and liabilities underlying real estate companies	197 784	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	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Equities and units	5 162 133	4 673 199	32 258	28 845	10 706	11 863	5 205 097	4 713 907
Government bonds	1 388 559	1 369 188	62 049	92 172	-	-	1 450 608	1 461 360
Government-related bonds	291 498	279 772	48 451	53 463	1 169	902	341 118	334 137
Inflation-linked bonds	121 847	124 646	9 028	16 168	-	-	130 875	140 814
Corporate bonds	616 298	538 692	30 582	52 293	263	161	647 143	591 146
Securitised bonds	130 352	136 088	8 498	11 149	163	327	139 013	147 564
Total bonds	2 548 554	2 448 386	158 608	225 245	1 595	1 390	2 708 757	2 675 021
Financial derivatives (assets)	117	291	8 519	9 075	-	-	8 636	9 366
Financial derivatives (liabilities)	-	-	-2 839	-4 501	-	-	-2 839	-4 501
Total financial derivatives	117	291	5 680	4 574	-	-	5 797	4 865
Unlisted real estate	-	-	-	-	197 784	188 469	197 784	188 469
Other ¹	-	-	-97 207	-71 768	-	-	-97 207	-71 768
Total	7 710 804	7 121 876	99 339	186 896	210 085	201 722	8 020 228	7 510 494
Total (percent)	96.1	94.8	1.2	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 second 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 second quarter, 97.3 percent was classified as Level 1 or 2. 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 valued based on other observable inputs than quoted prices included in Level 1 and 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), for example equities that are not

listed, are illiquid due to lock-in periods, or where trading has been suspended over a prolonged period, are measured at fair value with considerable use of non-observable market inputs. These holdings 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. A minority of bonds (5.8 percent) are classified as Level 2. These are valued using observable market inputs such as quoted prices in markets that are not considered active, or 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 properties 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

The relative share of equities classified as Level 1 or 2 has essentially remained unchanged during the quarter and compared to year-end 2016.

There has been a decrease in valuation uncertainty for bonds in the first half of 2017. The year-to-date decrease is due to the majority of new purchases in the second quarter being within Level 1, and further that a significant share of Level 2 securities have matured or been sold. In the first quarter, there was a decrease in valuation uncertainty as certain US corporate bonds were reclassified from Level 2 to Level 1 due to a sufficient amount of observable quotes being available at the end of the quarter. This confirms a pattern previously observed, where 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	30.06.2017
Equities and units	11 863	13	-1 508	-199	-92	289	-165	505	10 706
Bonds	1 390	-	-	-193	-7	436	-	-31	1 595
Unlisted real estate ¹	188 469	4 383	-	-	3 742	-	-	1 190	197 784
Total	201 722	4 396	-1 508	-392	3 643	725	-165	1 664	210 085

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, Level 3 equity holdings have decreased by NOK 1.2 billion. This is mainly due to the sale of some equities previously classified as Level 3. The value of

bonds classified as Level 3 has increased by NOK 205 million, mainly due to two corporate bonds denominated in US dollar that have been reclassified to Level 3 as there was no observable market data for these two bonds.

4. SENSITIVITY ANALYSIS FOR LEVEL 3 HOLDINGS

Table 7.3 Additional specification Level 3 and sensitivities

Amounts in NOK million	Specification of Level 3 holdings 30.06.2017	Sensitivities 30.06.2017		Specification of Level 3 holdings 31.12.2016	Sensitivities 31.12.2016	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities and units	10 706	-2 222	2 222	11 863	-2 638	2 606
Government-related bonds	1 169	-117	117	902	-90	90
Corporate bonds	263	-26	26	161	-16	16
Securitised bonds	163	-16	16	327	-33	33
Total bonds	1 595	-159	159	1 390	-139	139
Unlisted real estate	197 784	-9 537	10 708	188 469	-9 678	10 711
Total	210 085	-11 918	13 089	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 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 9 537 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 5.4 percent or NOK 10 708 million.

The sensitivity for bonds classified as Level 3 is essentially unchanged compared to year-end, however in absolute terms the sensitivity is higher due to the increased holdings of bonds classified as Level 3. The sensitivity for equities classified as Level 3 is slightly reduced mainly due to reduced holdings of equities classified as Level 3.

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	
		30.06.2017	Market 31.12.2016	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Equities	Developed	90.0	Developed	90.5			
	US	36.3	US	37.6			
	UK	9.7	UK	9.8			
	Japan	9.0	Japan	9.0			
	Germany	5.6	Germany	5.4			
	France	5.3	France	5.2			
	Total other	24.1	Total other	23.5			
	Emerging	10.0	Emerging	9.5			
	China	2.9	China	2.7			
	Taiwan	1.7	Taiwan	1.5			
	India	1.1	India	1.0			
	Brazil	0.7	Brazil	0.8			
	South Africa	0.6	South Africa	0.6			
	Total other	3.0	Total other	2.9			
Total equities					65.14	62.47	5 224 545 4 691 863
Fixed income	Developed	87.7	Developed	87.6			
	US Dollar	43.0	US Dollar	43.7			
	Euro	26.4	Euro	25.3			
	Japanese Yen	6.1	Japanese Yen	5.9			
	British Pound	4.0	British Pound	4.6			
	Canadian Dollar	3.1	Canadian Dollar	3.0			
	Total other	5.1	Total other	5.1			
	Emerging	12.3	Emerging	12.4			
	Mexican Peso	2.3	Mexican Peso	1.9			
	South Korean Won	1.8	South Korean Won	1.7			
	Polish Zloty	1.0	Indian Rupee	0.9			
	Indian Rupee	0.9	Polish Zloty	0.8			
	Indonesian Rupiah	0.9	Brazilian Real	0.8			
	Total other	5.4	Total other	6.3			
Total fixed income					32.38	34.31	2 596 976 2 576 875
Unlisted real estate	US	49.1	US	46.0			
	UK	22.9	UK	23.0			
	France	15.2	France	14.6			
	Switzerland	4.5	Germany	7.6			
	Germany	3.5	Switzerland	3.6			
	Total other	4.8	Total other	5.2			
Total unlisted real estate²					2.48	3.22	198 707 241 756

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 second quarter, the share of equities in the fund was 65.1 percent. This is an increase from 62.5 percent at year-end 2016. The bond portfolio's share of the fund decreased to 32.4 percent in the second quarter, from 34.3 percent at year-end. The year-to-date change in asset class allocation is mainly due to stronger returns for equities than bonds, as well as the transfer of listed real estate to the equity portfolio at the start of the year, following a change in the investment mandate issued by the Ministry of Finance. Emerging equity markets have had a stronger year-to-date return than developed equity markets. This has led to an increase in the share of equities 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 changed 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							
	30.06.2017	Min 2017	Max 2017	Average 2017	31.12.2016	Min 2016	Max 2016	Average 2016
Portfolio	11.0	10.7	11.1	10.9	10.6	10.2	10.7	10.5
Equities	14.1	13.9	14.1	14.0	14.0	12.9	14.1	13.7
Fixed income	9.7	9.6	9.8	9.7	9.7	9.6	10.3	10.0
Unlisted real estate ¹	12.5	12.3	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							
	30.06.2017	Min 2017	Max 2017	Average 2017	31.12.2016	Min 2016	Max 2016	Average 2016
Portfolio ¹	33	31	35	32	34	-	-	-
Equity and fixed-income portfolio ¹	-	-	-	-	28	26	29	28
Equities	41	36	43	38	37	34	38	36
Fixed income	45	41	49	44	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 11.0 percent, or approximately NOK 880 billion at the end of the second quarter, compared to 10.6 percent at year-end 2016. The year-to-date increase in expected volatility is mainly due to an increased weight of equities in the portfolio. Expected volatility for the equity portfolio has increased by 0.1 percentage point since the end of 2016, to 14.1 percent at the end of the second quarter, while expected volatility for the bond portfolio is unchanged so far this year at 9.7 percent.

The fund's expected relative volatility, including unlisted real estate, was 33 basis points at the end of the second quarter, compared to 34 basis points at year-end 2016.

Expected shortfall is a tail risk measure that measures the expected loss 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 expected shortfall shall not exceed 3.75 percentage points. At the end of the second quarter, the measure was 1.44 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 distribution of the bond portfolio across different credit rating categories.

Table 8.4 Bond portfolio specified by credit rating

Amounts in NOK million, 30.06.2017	AAA	AA	A	BBB	Lower rating	Total
Government bonds	696 977	216 776	313 927	182 529	40 399	1 450 608
Government-related bonds	149 458	132 292	43 942	13 545	1 881	341 118
Inflation-linked bonds	105 720	10 662	2 910	8 915	2 668	130 875
Corporate bonds	5 809	67 935	236 246	327 821	9 332	647 143
Securitised bonds	121 725	13 374	2 368	1 546	-	139 013
Total bonds	1 079 689	441 039	599 393	534 356	54 280	2 708 757

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 22.1 percent at the end of the second quarter, compared to 19.9 percent at year-end 2016. The majority of the increase was in government bonds. Chinese government and government-related bonds were downgraded from AA- to A+ in the second quarter. This contributed to an increase in the A category and a decrease in the AA category. Bonds with AAA credit ratings were reduced to 39.9 percent of the portfolio at the end of the

second quarter, from 41.1 percent at year-end 2016, mainly as a result of a reduction in government bond holdings 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 30 June 2017, aggregated for the GPFG.

Table 8.5 Counterparty risk by type of position

Amounts in NOK million, 30.06.2017	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Securities lending	63 448	-	815	62 633
Unsecured bank deposits ¹	18 810	-	-	18 810
OTC derivatives including foreign exchange contracts	20 208	3 760	211	16 237
Cleared OTC and listed derivatives ²	9 014	1 609	-425	7 830
Participatory certificates	6 037	-	-	6 037
Repurchase and reverse repurchase agreements	2 321	509	-499	2 311
Settlement risk towards broker and long settlement transactions	170	-	-	170
Total	120 008	5 878	102	114 028

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 measured as net risk exposure has increased slightly compared to year-end 2016. The net exposure was NOK 114.0 billion at the end of the second quarter, compared to NOK 113.1 billion kroner at year-end. Risk

exposure from OTC derivatives and participatory certificates has increased slightly since year-end, while risk exposure from most other instrument groups has been reduced.

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	2Q 2017	2Q 2016	Year-to-date		Year-to-date		2016	Basis points
			30.06.2017	Basis points	30.06.2016	Basis points		
Salary, social security and other personnel related costs	291	287	624		556		1 177	
Custody costs	98	93	197		184		379	
IT services, systems, data and information	169	151	323		305		649	
Research, consulting and legal fees	53	65	86		122		261	
Other costs	53	60	117		117		244	
Allocated costs Norges Bank	43	42	85		83		161	
Base fees to external managers	221	191	430		361		638	
Management fee excluding performance-based fees	928	889	1 862	4.8	1 728	4.8	3 509	4.9
Performance-based fees to external managers	348	169	591		82		222	
Total management fee	1 276	1 058	2 453	6.4	1 810	5.1	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	2Q 2017	2Q 2016	Year-to-date 30.06.2017	Year-to-date 30.06.2016	2016
Salary, social security and other personnel related costs	6	6	12	11	27
IT services, systems, data and information	9	8	17	17	36
Research, consulting and legal fees	7	6	10	12	19
Other costs	4	5	8	9	18
Total management costs, real estate subsidiaries	26	25	47	49	100
<i>Of which management costs non-consolidated subsidiaries</i>	22	20	38	40	81
<i>Of which management costs consolidated subsidiaries</i>	4	5	9	9	19

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. Year-to-date management costs that are measured against the limit amount to NOK 1 909 million at the end of the second quarter of 2017. This consists of management costs of NOK 1 862 million in Norges Bank, excluding performance-based fees to external managers, and management costs of NOK 47 million in subsidiaries. This corresponds to 4.9 basis points of assets under management on an annual basis.

Year-to-date management costs including performance-based fees amount to NOK 2 500 million. This corresponds to 6.5 basis points of assets under management on an annual basis.

To the Supervisory Council of Norges Bank

Report on review of interim financial information

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 30 June 2017, the income statement, the statement of changes in owner's capital, the statement of cash flows for the six-month period then ended and selected explanatory notes. The Executive Board and management are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily 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, 16 August 2017

Deloitte AS

Henrik Woxholt
State Authorised Public Accountant (Norway)



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