NORGES BANK
INVESTMENT MANAGEMENT

GOVERNMENT PENSION FUND GLOBAL

ANNUAL REPORT /2015

No. 18

Our mission

is to safeguard and build financial wealth for future generations

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2015

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Translation from Norwegian. For information only

PUBLISHED ON WWW.NBIM.NO Holdings, voting records, composition of benchmark indices, GIPS report, significant external suppliers, monthly returns, external managers

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HIGHLIGHTS

2015 in figures

2.7%

334 BN. KR

The Government Pension Fund Global returned **2.7** percent, or **334** billion kroner, in 2015.

EQUITY INVESTMENTS

3.8%

FIXED-INCOME INVESTMENTS

0.3%

REAL ESTATE INVESTMENTS

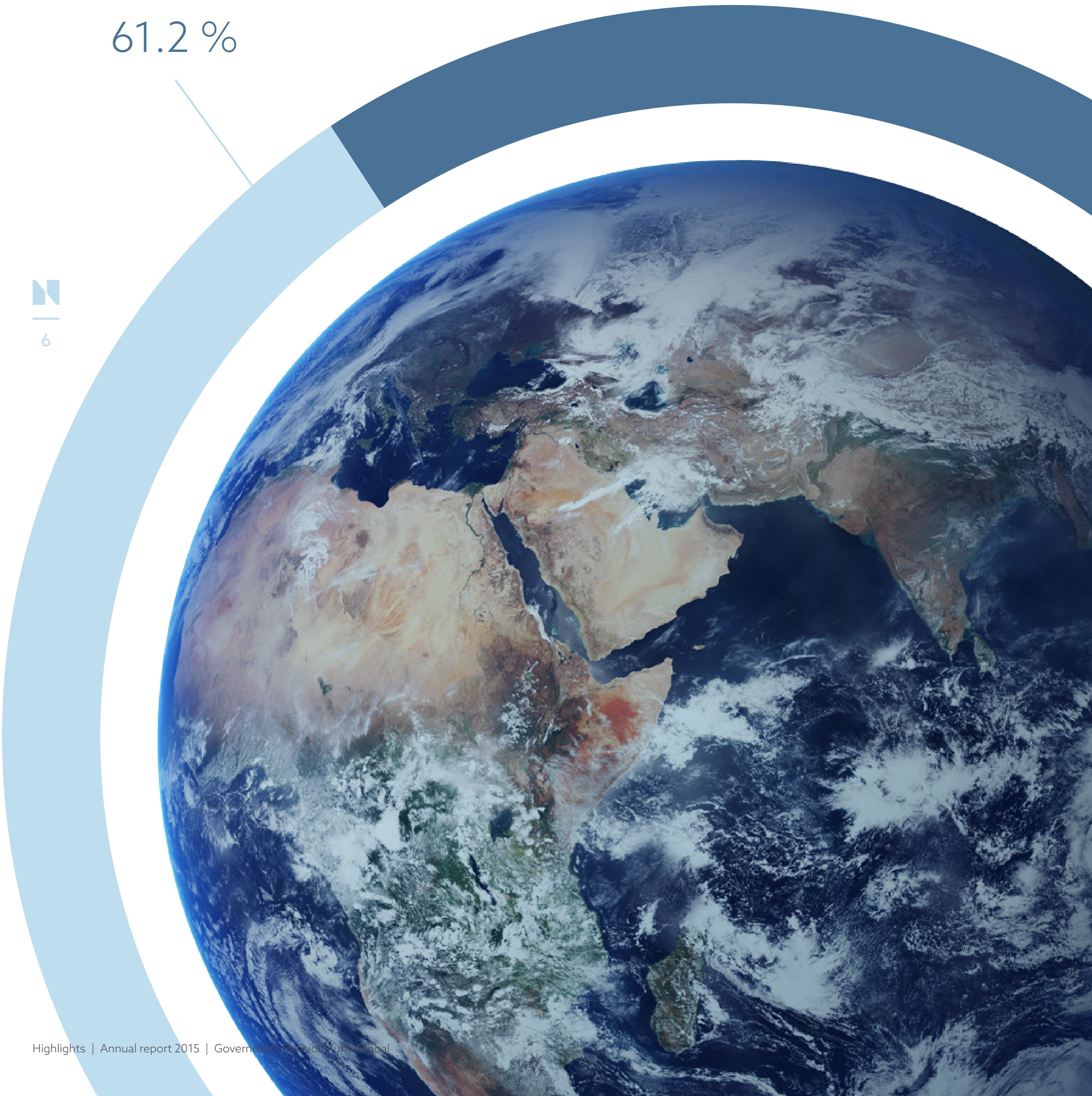
10.0%

Equity investments returned **3.8** percent,
while fixed-income investments returned **0.3** percent.
Investments in real estate returned **10.0** percent.

The fund's asset allocation at the end of the year was
61.2 percent equities,
35.7 percent fixed income and
3.1 percent real estate.

EQUITY INVESTMENTS

61.2 %



FIXED-INCOME INVESTMENTS

35.7 %

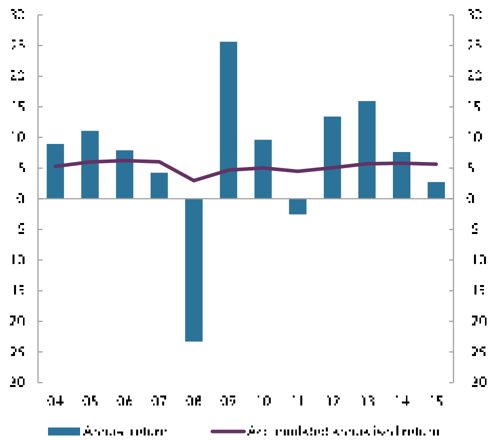
0.5

The return on equity and fixed-income investments was **0.5** percentage point higher than the return on the benchmark indices the fund is measured against.

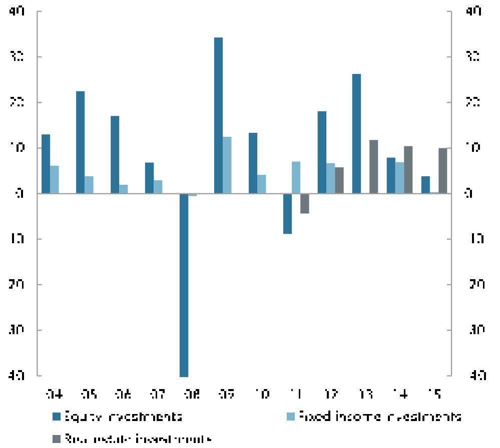
REAL ESTATE INVESTMENTS

3.1 %

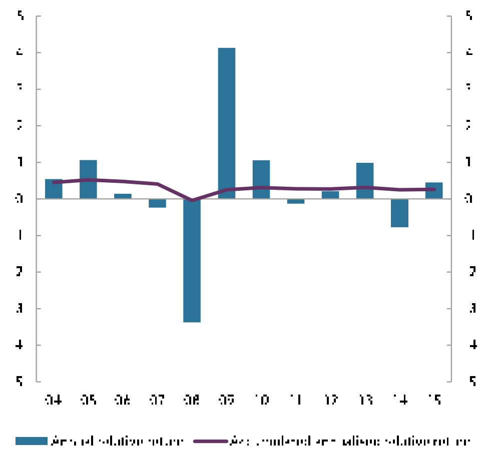
The fund's annual return and accumulated annualised return. Percent



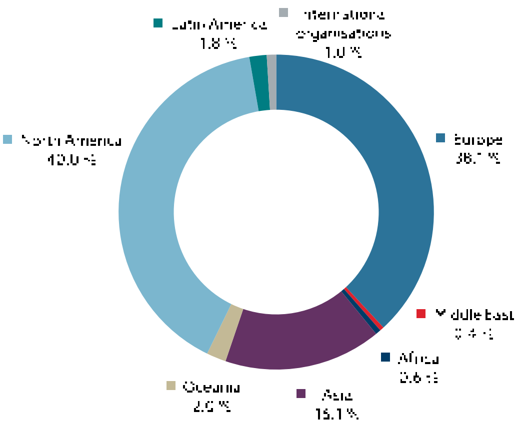
Annual returns for equity, fixed-income and real estate investments. Percent



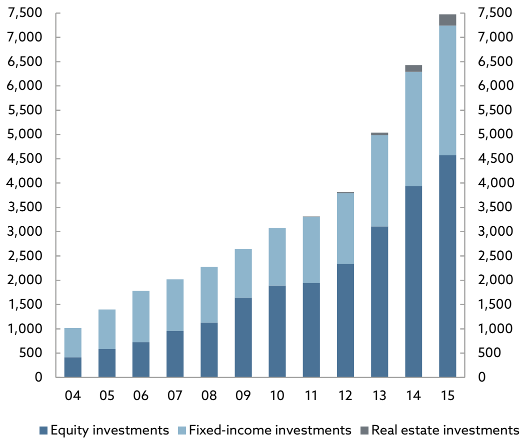
The fund's annual relative return and accumulated annualised relative return, excluding real estate investments. Percentage points



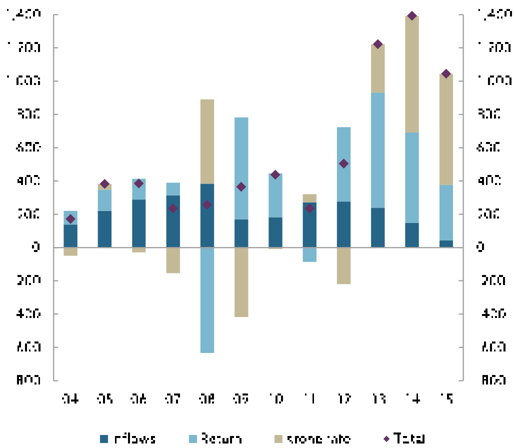
The fund's investments by region as at 31 December 2015

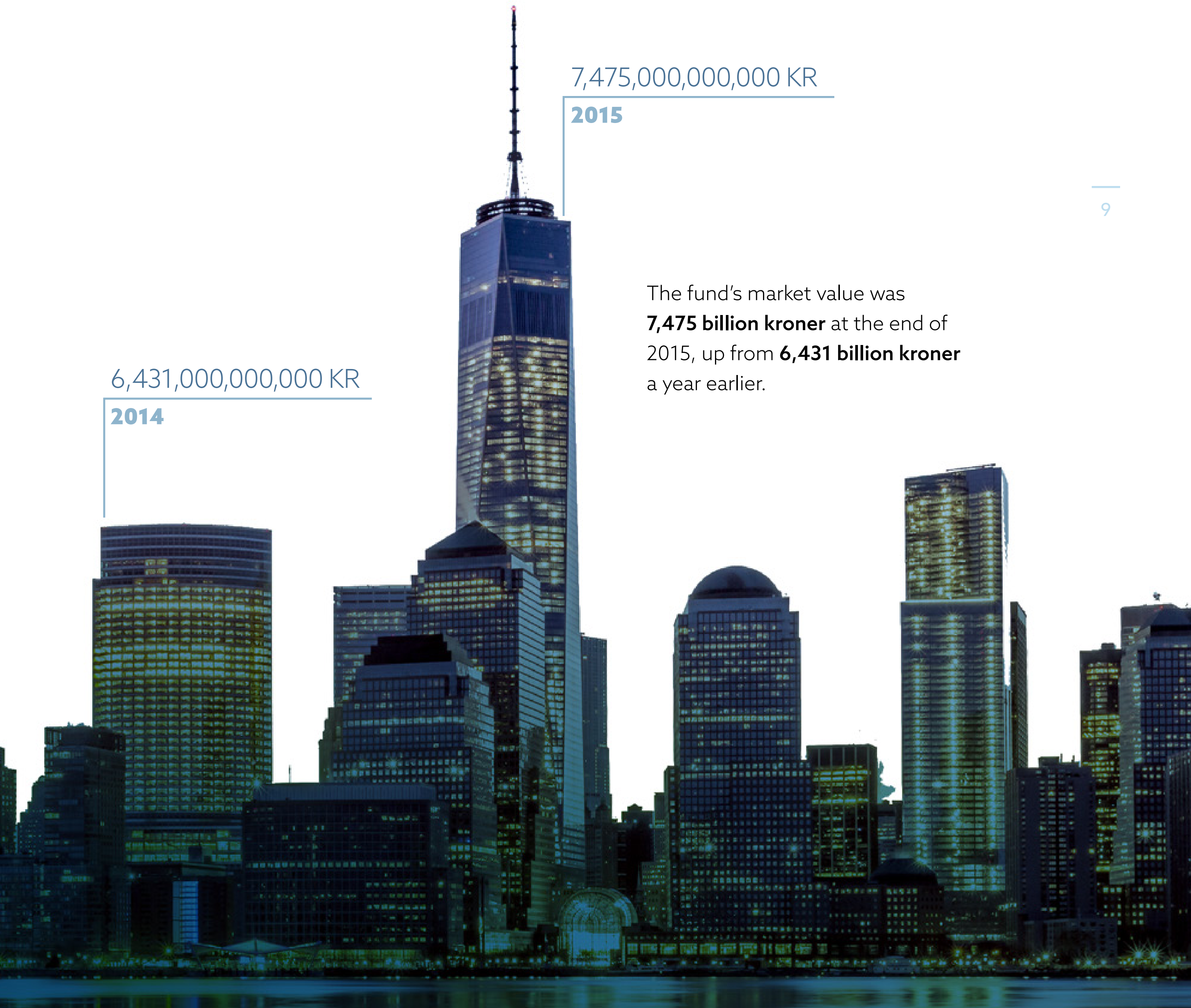


The fund's market value. Billions of kroner



Changes in the fund's market value. Billions of kroner





7,475,000,000,000 KR

2015

The fund's market value was **7,475 billion kroner** at the end of 2015, up from **6,431 billion kroner** a year earlier.

6,431,000,000,000 KR

2014


Øystein Olsen
Chairman of
the Executive Board

Investing for the long term

The Government Pension Fund Global is a savings vehicle for future generations. Its market value has increased rapidly in recent years. With a fund this large, we have to expect considerable fluctuations in value.

The Government Pension Fund Global turns petroleum revenue into financial wealth. This wealth belongs to the people of Norway, and Norges Bank has been tasked by the Ministry of Finance to manage the fund on their behalf. Our role is to provide long-term and professional management of the fund so that Norway's oil wealth benefits both current and future generations. The objective for our investments is to achieve the highest possible international purchasing power over time with an acceptable level of risk.

The fund returned 2.7 percent in 2015. Since 1998, the average annual return has been 5.6 percent, which is 0.26 percentage point more than the return on the benchmark.

> The fund has a substantial capacity to bear short-term risk.

To make a return, we have to take risks, and we have to expect substantial variations in the fund's value. The fund has a particularly long investment horizon and therefore capacity to bear short-term risk. This is behind the choice of a relatively high allocation to equities.

In 2015, Norges Bank advised the Ministry of Finance on the further development of the investment strategy for the fund. We believe that a broader investment universe could help improve the trade-off between risk and return. In 2015, Norges Bank issued advice on the investment strategy of the fund. The bank recommended to increase the limits for deviations from the benchmark index, rebalancing of the equity share and investments in and policy tools for coal companies.

The Bank attaches great importance to transparency about the fund's management and results. The annual report is now being supplemented with extensive reports in areas where we consider it important for the public to have more insight. There is also much information on the fund's website. We are very keen for our reporting and disclosures to provide a broad picture of how we fulfil our management mandate.

Oslo, 9 March 2016

Øystein Olsen
Chairman of the Executive Board


Yngve Slyngstad
Chief Executive Officer of Norges Bank Investment Management

A volatile year

The fund returned 2.7 percent in 2015 after a volatile year in financial markets. There were positive results for all of the fund's asset classes.

2015 was a year of currency turmoil, negative interest rates, falling oil prices and weaker growth expectations for emerging markets. A strong first quarter was followed by two quarters with negative returns on equity investments before markets rallied again towards the end of the year, taking the return on equity investments to 3.8 percent for the year as a whole. Fixed-income investments returned 0.3 percent, and real estate investments 10.0 percent.

The fund's market value grew by 1,044 billion kroner during the year to 7,475 billion kroner. The return for the year was 334 billion kroner, while the net inflow of new capital was 42 billion kroner – substantially less than the average over the past decade of 231 billion kroner a year. A weaker krone added 668 billion kroner to the value of the fund, but this has no bearing on the fund's international purchasing power. Since its inception, inflow of 3,499 billion kroner has been transferred to the fund, and the cumulative return has been 2,676 billion kroner.

We opened real estate offices in Tokyo and Singapore, but have not yet made any investments in the Asian market. We continued to acquire properties in the US and Europe in 2015. Real estate investments increased to 3.1 percent of the fund, or 235 billion kroner. The real estate operation has been reorganised as a separate unit with its own leader group, and consists of more than 100 people.

In addition to this annual report, we will this year publish separate reports on responsible investment and real estate management, as well as an extended report on performance and risk. The aim of these reports is to increase transparency in every aspect of the fund's management. Through five submissions to the Ministry of Finance, we have given advice on the development of the investment strategy. We have published Discussion Notes on key issues related to the investment strategy, accompanying this advice. We have also published revised Expectation Documents, which serve as a starting point for our dialogue with companies. The Asset Manager Perspective series presents our views on the financial markets.

We publish separate reports on responsible investment and real estate management, and an extended report on performance and risk.

The fund manages substantial assets, and the organisation is growing. Norges Bank Investment Management is an international investment organisation with 518 employees of 35 nationalities. Our task is to manage the Norwegian people's financial wealth responsibly, efficiently and transparently.

Oslo, 9 March 2016

Yngve Slyngstad
Chief Executive Officer of Norges Bank Investment Management

Good investment results

2015 saw considerable quarterly variations, but strong stock markets in the first and fourth quarters led to a return of 2.7 percent for the Government Pension Fund Global.

Equity investments returned 3.8 percent in 2015, fixed-income investments 0.3 percent and real estate investments 10.0 percent.

RETURN OF 334 BILLION KRONER

The Norwegian government first transferred capital to the fund in May 1996. By the end of 2015, the fund had received a total of 3,499 billion kroner and amassed a cumulative return of 2,676 billion kroner. Norges Bank Investment Management was set up on 1 January 1998 to manage the fund on behalf of the Ministry of Finance. Between then and the end of 2015, the fund generated an annual return of 5.6 percent. After inflation and management costs, the annual return has been 3.7 percent.

> Since 1998 the fund has generated an annual return of 5.6 percent.

MARKET VALUE MORE THAN 7,400 BILLION KRONER

The fund's market value rose 1,044 billion kroner to 7,475 billion kroner in 2015. The market value is affected by investment returns, capital inflows and exchange rate movements. The fund returned 334 billion kroner in 2015 and received 42 billion kroner of net inflow from the government. The krone weakened against many of the currencies in which the fund invests, and in isolation this increased its market value by 668 billion kroner, but this has no bearing on the fund's international purchasing power. The fund's asset allocation was 61.2 percent equities, 35.7 percent fixed income and 3.1 percent real estate at the end of the year.

BENCHMARK INDEX
Returns on the fund's equity and fixed-income investments are compared with returns on global benchmark indices for equities and bonds set by the Ministry of Finance on the basis of indices from FTSE Group and Barclays. We have also constructed internal reference portfolios for equities and bonds. These portfolios take into account the fund's special characteristics and objective in order to achieve the best possible trade-off over time between expected risks and returns.

The overall return on the fund's equity and fixed-income investments was 0.5 percentage point higher than the return on the benchmark indices in 2015. A high relative return on equity investments was offset to some extent by a negative relative return on fixed-income investments.

The fund has outperformed the benchmark index by 0.26 percentage point since 1998 and by 0.06 percentage point over the past decade.

RETURNS IN INTERNATIONAL CURRENCY
The fund is invested 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 33 currencies at the end of 2015. Unless otherwise stated in the text, results are measured in the fund's currency basket.

Table 1 Return as at 31 December 2015

	2015	2014	2013	2012	2011
Returns in international currency					
Return on equity investments (percent)	3.83	7.90	26.28	18.06	-8.84
Return on fixed-income investments (percent)	0.33	6.88	0.10	6.68	7.03
Return on real estate investments (percent)	10.00	10.42	11.79	5.77	-4.37
Return on fund (percent)	2.74	7.58	15.95	13.42	-2.54
Return on equity and fixed-income investments (percent)	2.52	7.53	15.97	13.45	-2.55
Return on benchmark equity and fixed-income indices (percent)	2.07	8.30	14.98	13.24	-2.42
Relative return on equity and fixed-income investments (percentage points)	0.45	-0.77	0.99	0.21	-0.13
Relative return on equity investments (percentage points)	0.83	-0.82	1.28	0.52	-0.48
Relative return on fixed-income investments (percentage points)	-0.24	-0.70	0.25	-0.29	0.52
Management costs (percentage points)	0.06	0.06	0.07	0.06	0.08
Return on fund after management costs (percent)	2.68	7.52	15.88	13.36	-2.63
Returns in kroner (percent)					
Return on equity investments	16.77	24.61	36.26	11.07	-7.77
Return on fixed-income investments	12.83	23.43	8.01	0.36	8.30
Return on real estate investments	23.71	27.51	20.62	-0.50	-0.79
Return on fund	15.54	24.23	25.11	6.70	-1.39

Table 2 Historical key figures as at 31 December 2015. Annualised data, measured in the fund's currency basket

	Since 01.01.1998	Last 10 years	Last 5 years	Last 3 years	2015
Return on fund (percent)	5.64	5.34	7.21	8.62	2.74
Return on equity and fixed-income investments (percent)	5.62	5.32	7.17	8.53	2.52
Return on benchmark equity and fixed-income indices (percent)	5.36	5.27	7.03	8.32	2.07
Relative return on equity and fixed-income investments (percentage points)	0.26	0.06	0.14	0.21	0.45
Annual price inflation (percent)	1.78	1.84	1.60	1.06	0.86
Annual management costs (percent)	0.09	0.09	0.06	0.06	0.06
Annual net real return on fund (percent)	3.70	3.35	5.46	7.42	1.80
Standard deviation (percent)	7.56	8.90	7.03	6.68	8.67
Tracking error for equity and fixed-income investments (percentage points)	0.72	0.90	0.38	0.40	0.32
Information ratio (IR)[1] for equity and fixed-income investments	0.39	0.12	0.37	0.51	1.39

[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 3 Return on the fund as at 31 December 2015, measured in various currencies. Percent

	Since 01.01.1998 Annualised figures	2015	2014	2013	2012	2011
USD	5.84	-2.13	0.52	14.77	14.42	-3.96
EUR[1]	5.91	9.02	14.47	9.81	12.66	-0.75
GBP	6.53	3.54	6.78	12.63	9.39	-3.25
NOK	6.96	15.54	24.23	25.11	6.70	-1.39
Currency basket	5.64	2.74	7.58	15.95	13.42	-2.54

[1] Euro was introduced as currency 01.01.1999. WMReuters' euro rate is used as an estimate for 31.12.1997.

Table 4 Return on the fund's equity investments

Year	Return Percent	Relative return Percentage points
2015	3.83	0.83
2014	7.90	-0.82
2013	26.28	1.28
2012	18.06	0.52
2011	-8.84	-0.48
2010	13.34	0.73
2009	34.27	1.86
2008	-40.71	-1.15
2007	6.82	1.15
2006	17.04	-0.09
2005	22.49	2.16
2004	13.00	0.79
2003	22.84	0.51
2002	-24.39	0.07
2001	-14.60	0.06
2000	-5.82	0.49
1999	34.81	3.49

Table 5 Return on the fund's fixed-income investments

Year	Return Percent	Relative return Percentage points
2015	0.33	-0.24
2014	6.88	-0.70
2013	0.10	0.25
2012	6.68	-0.29
2011	7.03	0.52
2010	4.11	1.53
2009	12.49	7.36
2008	-0.54	-6.60
2007	2.96	-1.29
2006	1.93	0.25
2005	3.82	0.36
2004	6.10	0.37
2003	5.26	0.48
2002	9.90	0.49
2001	5.04	0.08
2000	8.41	0.07
1999	-0.99	0.01

Table 6 Accumulated return since first capital inflow in 1996. Billions of kroner

	2015	2014	2013	2012	2011
Return on equity investments	1,816	1,567	1,242	579	226
Return on fixed-income investments	829	761	551	528	434
Return on real estate investments	31	14	5	0	0
Total return	2,676	2,343	1,799	1,107	660

Chart 1 The fund's annual return and accumulated annualised return. Percent

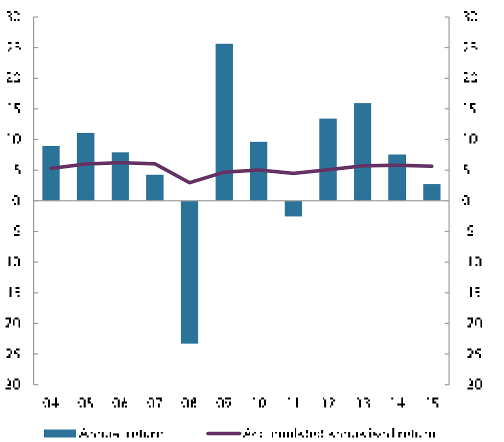


Chart 2 Annual returns for equity, fixed-income and real estate investments. Percent

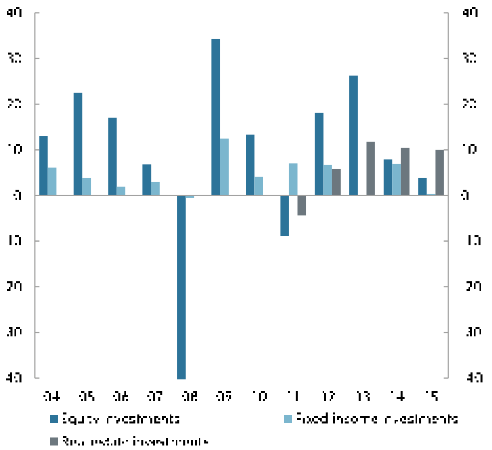


Table 7 Contributions from equity and fixed-income management to the fund's relative return in 2015. Percentage points

	Total
Equity investments	0.52
Fixed-income investments	-0.10
Allocation between asset classes	0.02
Total	**0.45**

Chart 3 The fund's annual relative return and accumulated annualised relative return, excluding real estate investments. Percentage points

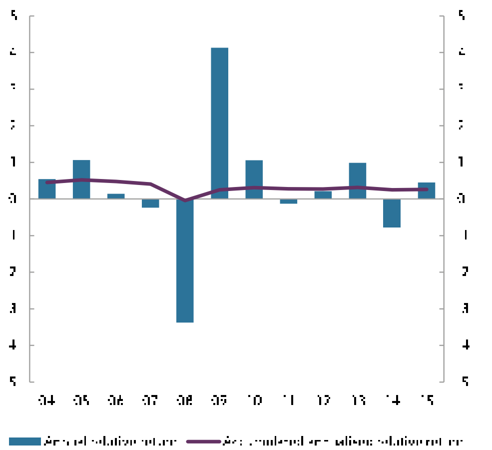


Chart 4 The fund's market value. Billions of kroner

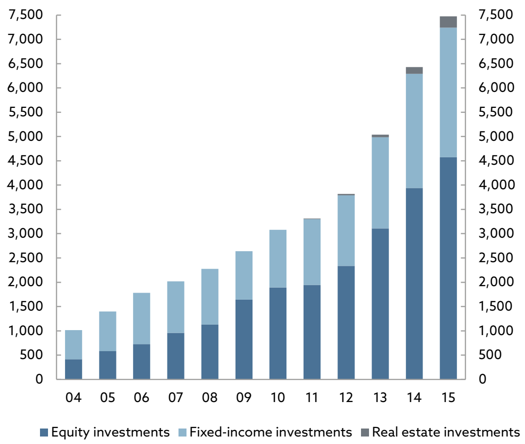


Chart 5 Changes in the fund's market value. Billions of kroner

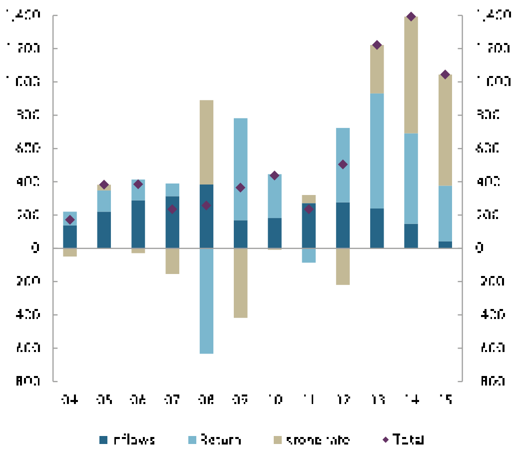


Table 8 Key figures as at 31 December 2015

	2015	2014	2013	2012	2011
Market value (billions of kroner)[1]					
Market value of equity investments	4,572	3,940	3,107	2,336	1,945
Market value of fixed-income investments	2,668	2,350	1,879	1,455	1,356
Market value of real estate investments	235	141	52	25	11
Market value of fund	7,475	6,431	5,038	3,816	3,312
Inflow of new capital[1]	42	147	239	276	271
Return on fund	334	544	692	447	-86
Changes due to fluctuations in krone	668	702	291	-220	49
Total change in fund	1,044	1,393	1,222	504	234
Management costs (percent)					
Estimated transition costs[2]	0.00	0.00	0.01	0.03	0.05
Management costs	0.06	0.06	0.06	0.06	0.08
Changes in value since first capital inflow in 1996 (billions of kroner)					
Gross inflow of new capital	3,499	3,452	3,302	3,060	2,782
Management costs[3]	31	27	24	21	19
Inflow of new capital after management costs	3,468	3,425	3,278	3,039	2,763
Return on fund	2,676	2,343	1,799	1,107	660
Changes due to fluctuations in krone	1,331	663	-39	-331	-111
Market value of fund	7,475	6,431	5,038	3,816	3,312
Return after management costs	2,645	2,316	1,775	1,087	641

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

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

3 Management costs at subsidiaries, see Table 10.2 in the financial reporting section, are not included in the management fee. Management costs at subsidiaries have been deducted from the fund's return before management fees.


STORTINGET
(NORWEGIAN PARLIAMENT)
Government Pension Fund Act
MINISTRY OF FINANCE
Management mandate for the Government Pension Fund Global
Guidelines for observation and exclusion
NORGES BANK
Executive Board principles
Investment mandate
Job description for CEO of Norges Bank Investment Management
NORGES BANK INVESTMENT MANAGEMENT
Policies
The CEO delegates investment mandates and job descriptions

4.1 INVESTMENT STRATEGY

Our mission

Our mission is to safeguard and build financial wealth for future generations. Investing the fund responsibly and for the long term will help future generations also to benefit from Norway's oil wealth.

The formal framework for the fund has been laid down by the Storting – the Norwegian parliament – in the Government Pension Fund Act. The Ministry of Finance has overall responsibility for the fund's management and has issued guidelines for its management in the Management Mandate for the Government Pension Fund Global. Norges Bank has been tasked with the management of the fund, and its Executive Board has delegated the operational management of the fund to Norges Bank Investment Management.

The fund is invested globally across three asset classes. The management mandate requires the fund to be invested widely outside Norway with a target asset allocation of 60 percent equities, 35-40 percent fixed income and up to 5 percent real estate. We seek to safeguard the fund's international purchasing power by generating a real return over time that exceeds growth in the global economy. The fund is to be invested in most markets, countries and currencies to achieve broad exposure to global economic growth.

Our investments are to produce a high long-term return. We aim to achieve this with an acceptable level of risk, as a responsible investor and through an efficient organisation. Our ability to invest for the long term depends on confidence in the way we manage the fund. A high degree of openness about its management will help achieve this.

> We aim to produce a high long-term return, with acceptable risk, as a responsible investor and an efficient organisation.

Responsible investment is an important and integral part of our management task. We are an active owner, and our investment decisions are to take account of how we view companies' long-term financial, social and environmental risks.

Major regional variations

The global economy featured increasing regional divergence in 2015. Economic developments were largely positive in the developed markets, but growth in emerging markets slowed sharply in the wake of weaker Chinese growth and falling commodity prices.

In the US, the economy continued to move in the right direction, although growth was slightly slower than the Federal Reserve had anticipated at the beginning of the year. The Fed talked about raising interest rates in the summer, but weaker economic growth both globally and domestically meant that the first hike did not come until December. It was considered particularly important to get confirmation that inflation and employment were on the right track before raising interest rates. The Fed signalled at the end of the year that rates would rise more slowly than in previous periods of monetary tightening. Positive economic developments and expectations of higher interest rates helped the dollar to appreciate against almost all other currencies during the year.

In China, economic growth slowed in 2015, with excess capacity in the economy leading to reduced cost pressure. The Chinese central bank cut interest rates five times during the year by a total of 1.25 percentage points and lowered the reserve requirement for banks by a total of 2.5 percentage points. At the same time, the Chinese authorities announced further liberalisation of the exchange rate and financial markets. They also published a new preferred currency basket for the yuan. The yuan depreciated sharply against the dollar during the year, while it was relatively stable measured against the currency basket. Markets were increasingly concerned about the slowdown in China. This, combined with uncertainty about the central bank's foreign exchange strategy, sparked considerable volatility in the Chinese stock market and increased pressure on the yuan.

The deceleration of demand from China led to dwindling exports and weaker economic growth in many smaller emerging markets. The weakness in the yuan also spread globally through lower imported inflation among China's trading partners. Commodity prices, including oil, fell significantly during the year. This explains part of the slowdown in commodity-producing countries, but commodity importers also saw weaker growth. This may be linked to the fact that trading volumes globally fell in relation to aggregate value added. In addition, most of the global slowdown was in the manufacturing sector, where international trade is greatest. The service sector performed relatively better.

In the euro area, economic growth remained moderate. The European central bank lowered its deposit rate to -0.3 percent, and introduced a programme of quantitative easing. The low interest rates in the euro area also led to the central banks in Switzerland and Sweden introducing negative key rates. The Swiss franc came under considerable pressure, and the currency was released from its previous floor of 1.2 against the euro in January 2015.

> Switzerland and Sweden introduced negative key rates.

More new markets

The fund is invested widely in most markets outside Norway. We added new markets to the portfolio during the year and will add more as soon as they satisfy our requirements for market standards.

The fund received a net transfer of 42 billion kroner in new capital in 2015. A total of 15.7 billion kroner was allocated to fixed-income investments and 54.2 billion kroner to investments in the real estate portfolio. Equities worth 27.3 billion kroner were sold to fund investments in fixed income and real estate.

At the end of 2015, 38.1 percent of the fund's investments were in Europe, down from 39.3 percent a year earlier, while 40.0 percent were in North America, up from 38.9 percent. 18.1 percent were in Asia and Oceania, up from 17.5 percent. Emerging markets accounted for 9.8 percent of the fund's investments at the end of the year, down from 10.6 percent a year earlier due to a decrease in the value of our investments and to currency effects.

HOLDINGS IN MORE THAN 9,000 COMPANIES

The fund was invested in 9,050 companies at the end of 2015, down from 9,134 a year earlier. It had stakes of more than 2 percent in 1,074 companies, and more than 5 percent in 29 companies. The number of countries approved as marketplaces for trading in equities rose from 61 to 67 during the year with the addition of Bangladesh, Botswana, Estonia, Latvia, Lithuania and Sri Lanka.

The fund's average holding in the world's listed companies, measured as its share of the FTSE Global All Cap stock index, was 1.3 percent at the end of 2015, unchanged from a year earlier. Ownership was highest in Europe at 2.3 percent, down from 2.4 percent at the end of 2014. Holdings in developed markets averaged 1.3 percent, while holdings in emerging markets (including frontier markets) averaged 1.4 percent.

The fund's fixed-income investments consisted of 4,824 securities from 1,278 issuers at the end of 2015, up from 4,256 securities from 1,143 issuers. These investments were spread across 32 currencies, against 31 a year earlier.

The market value of investments in fixed-income securities in emerging market currencies fell somewhat in 2015. At the end of the year, 12.4 percent of fixed-income investments were in emerging markets, down from 12.8 percent a year earlier. Fixed-income investments denominated in dollars, euros, pounds and yen increased from 78.7 percent to 79.4 percent of fixed-income investments during the year due to market developments and a reduced allocation to emerging markets.

BROADER GEOGRAPHICAL DIVERSIFICATION

Investment opportunities evolve over time. New markets become available for investment, new opportunities emerge, and the risk picture changes. The fund's overall exposure to different markets and sources of risk and return needs to be constantly adjusted. The fund is to be invested in most markets, countries and currencies to achieve broad exposure to global economic growth.

The starting point for the fund's equity investments is the FTSE Global All Cap stock index. We have then chosen to add further countries in our internal reference portfolio. In this reference portfolio, we select securities, instruments and markets from a broader universe than used for the strategic benchmark index. We do this to capture a larger share of the global market portfolio and so a larger share of global growth. Our equity investments have already been expanded to include additional emerging and frontier markets.

At the end of the year, we had 736 billion kroner invested in equities and fixed-income securities in emerging markets, up from 679 billion a year earlier. Investments in equities and fixed-income securities in frontier markets amounted to 13.0 billion kroner, against 7.5 billion kroner at the end of 2014.

INVESTMENTS IN EMERGING MARKETS

Which new markets we enter depends on which markets are available for investment, what market opportunities there are, and the quality of market standards. We will continue to add new markets to the portfolio as soon as they meet our requirements for market standards. We recognise that investments in frontier markets pose a risk to the fund, and we therefore attach importance to having sound risk management systems in place. We make our own assessment of which countries we believe should be defined as emerging markets and frontier markets. This assessment takes account of the classifications used by index suppliers, but we do not necessarily apply their definitions.

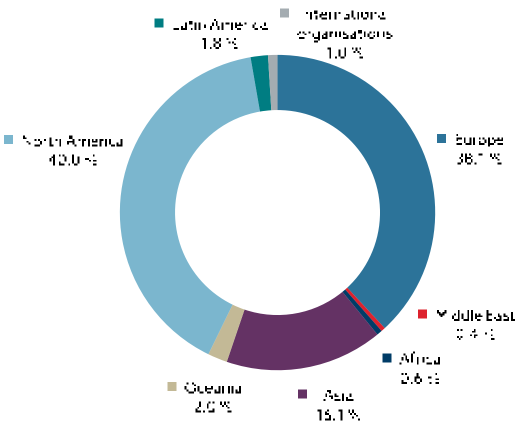
The fund had investments related to 78 countries at the end of 2015 after Bangladesh, Botswana, Saudi Arabia, Sri Lanka, Tanzania and Uganda were added during the year. The fund was invested in 51 currencies after investing for the first time in the Bangladeshi taka, Botswana pula and Sri Lankan rupee.

The fund had investments related to 22 countries normally classified as frontier markets. Such markets are not included in the benchmark index from the Ministry of Finance. The countries were Bahrain, Bangladesh,

Table 9 The fund's ten largest country holdings as at 31 December 2015. Percent

Country	Total	Equity	Fixed income	Real estate
US	34.5	21.5	11.8	1.2
UK	10.2	7.1	2.5	0.6
Japan	8.9	5.8	3.1	0.0
Germany	7.2	3.6	3.5	0.1
France	4.9	3.2	1.5	0.2
Switzerland	3.9	3.3	0.6	0.0
Canada	2.5	1.1	1.4	0.0
China	2.2	1.8	0.4	0.0
Australia	2.1	1.2	0.8	0.0
Sweden	2.1	1.2	0.8	0.0

Chart 6 The fund's investments by region as at 31 December 2015



PERU

The fund had 682.6 million kroner invested in Peru at the end of 2015. The investments were spread across 25 companies.

BANGLADESH

The fund had 166.2 million kroner invested in Bangladesh at the end of 2015. The investments were spread across 16 companies.

SRI LANKA

The fund had 274.4 million kroner invested in Sri Lanka at the end of 2015. The investments were spread across 12 companies.

Botswana, Bulgaria, Estonia, Croatia, Cyprus, Ghana, Jordan, Kenya, Lithuania, Mauritius, Morocco, Nigeria, Oman, Qatar, Romania, Slovakia, Slovenia, Sri Lanka, Tunisia and Vietnam. The fund also had investments in countries classified as frontier markets but not included in the FTSE index: Bahamas, Kazakhstan, Kuwait, Latvia, Panama, Saudi Arabia, Tanzania, Uganda, Ukraine and Uruguay. Some of these investments are in equities listed on exchanges in other countries.

Table 10 Investments in frontier markets. Classification according to FTSE. Millions of kroner

Country	2015
Jordan[2]	7,000
Slovenia[1,3]	5,428
Lithuania[1,3]	1,671
Slovakia	1,527
Vietnam	1,457
Qatar[3]	1,450
Romania[1,3]	1,402
Nigeria[1]	1,237
Tunisia[2]	1,230
Kenya	1,183
Bulgaria[3]	561
Bahrain[1,3]	486
Morocco	456
Oman	421
Croatia	319
Sri Lanka	274
Bangladesh	166
Botswana[1]	148
Mauritius	148
Estonia	115
Ghana	76
Cyprus[1]	0.1
Countries not included in the index	
Saudi Arabia[4]	3,474
Ukraine[1,2]	1,967
Latvia	1,150
Kuwait	850
Panama[3]	640
Uruguay[3]	257
Bahamas[3]	178
Kazakhstan[1]	109
Uganda[1]	20
Tanzania[1]	2

[1] Including investments in stocks listed on stock exchanges in other countries
[2] Including AID bonds guaranteed by the US
[3] Including bonds denominated in a currency other than the local currency
[4] Participatory certificates

Global investments

NORTH AMERICA

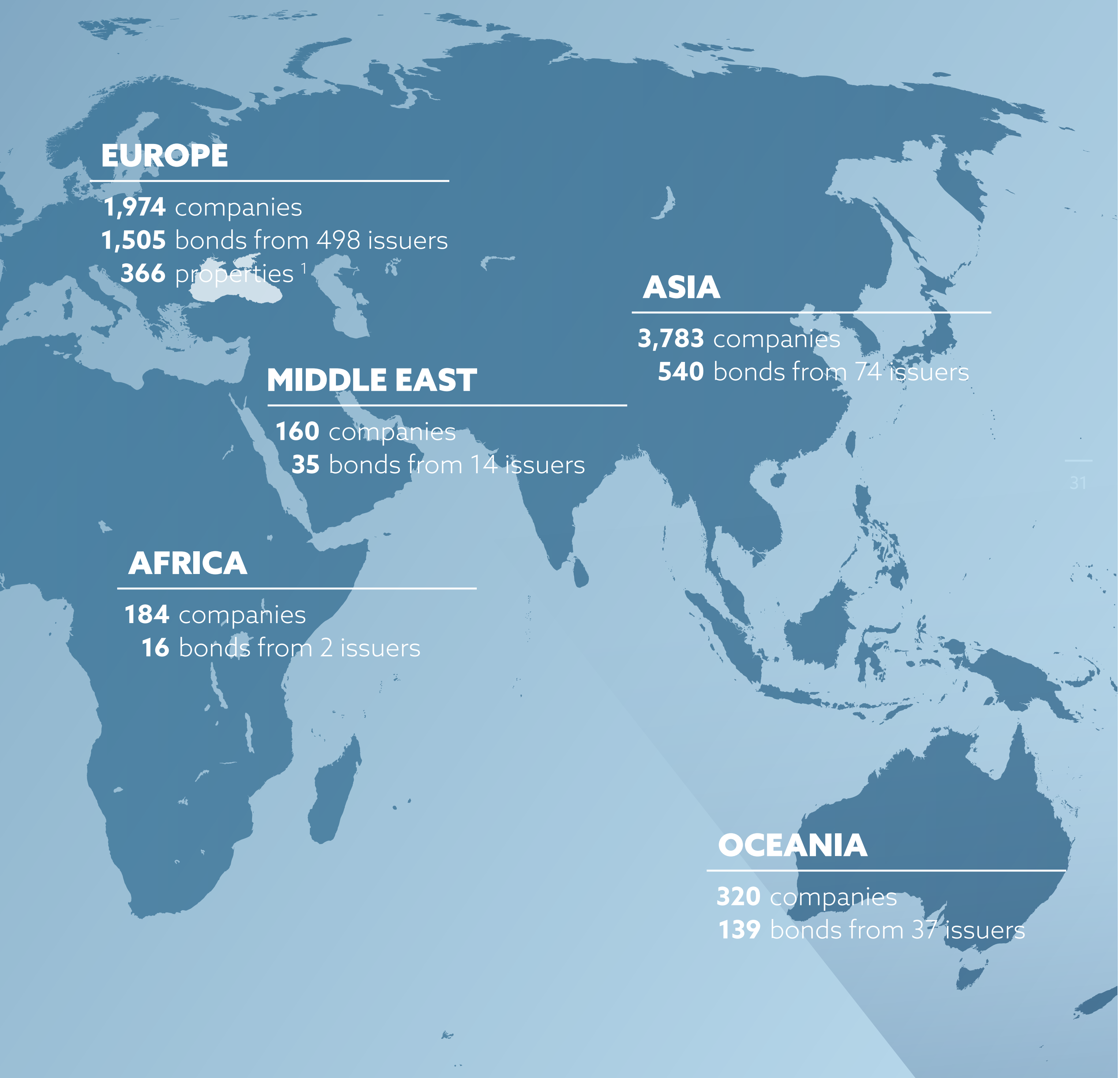
2,352 companies
2,257 bonds from 599 issuers
431 properties [1]

LATIN AMERICA

277 companies
210 bonds from 37 issuers

INTERNATIONAL ORGANISATIONS

122 bonds from 17 issuers



[1] Investments in unlisted real estate. A property can consist of several buildings

4.4 EQUITY INVESTMENTS

Main markets performed best

The fund's equity investments returned 3.8 percent in 2015 after gains on European and US stocks.

There were considerable regional variations in 2015. The fund's investments in developed markets returned 4.9 percent, while investments in emerging markets returned -7.0 percent. The weak return in emerging markets was due to both falling prices and currency effects. Emerging markets, including frontier markets, accounted for 8.9 percent of the fund's equity investments.

Investments in North America made up 36.7 percent of the fund's equity investments and returned 2.8 percent. The bulk of these investments were in the US, which was the fund's single largest market. US stocks returned 4.3 percent, or 0.7 percent in dollars, and accounted for 34.9 percent of the fund's equity holdings.

European stocks returned 4.9 percent and amounted to 39.1 percent of the fund's equity investments. The UK was the fund's second-largest single market with 11.5 percent of its equity investments and returned 0.3 percent, or 1.0 percent in pounds.

Investments in Asia and Oceania made up 21.3 percent of the fund's equity investments and returned 6.1 percent. Japanese stocks were the main driver behind returns in the region, returning 16.4 percent, or 11.2 percent in yen. Japan was the fund's third-largest single market with 9.5 percent of its equity holdings. Excluding Japan, the region returned -1.0 percent.

Emerging markets as a whole produced a negative return in 2015, but with major variations between the main markets. Chinese equities returned 6.0 percent, or 5.7 percent in Chinese yuan. China accounted for 2.9 percent of the fund's equity investments and was its single largest emerging market, followed by Taiwan at 1.4 percent and India at 1.1 percent. The fund's investments in these last two countries returned -7.0 percent and 1.9 percent respectively, or -7.9 percent and 1.8 percent in local currency.

Latin American stocks performed worst in 2015, returning -26.9 percent, due mainly to a return of -38.2 percent in the Brazilian stock market. Latin America accounted for 1.0 percent of the fund's equity investments, and Brazil for 0.5 percent.

Russian shares returned 8.7 percent, or 26.1 percent in Russian rouble, after falling -40.9 percent in 2014 and made up 0.3 percent of the fund's equity investments.

HEALTH CARE PERFORMED BEST

Health care companies performed best in 2015 with a return of 14.1 percent after a record-high number of mergers and acquisitions in the sector. The merger of Pfizer and Allergan was the single largest ever in the pharmaceutical industry, and there were no fewer than 12 transactions during the year with a value in

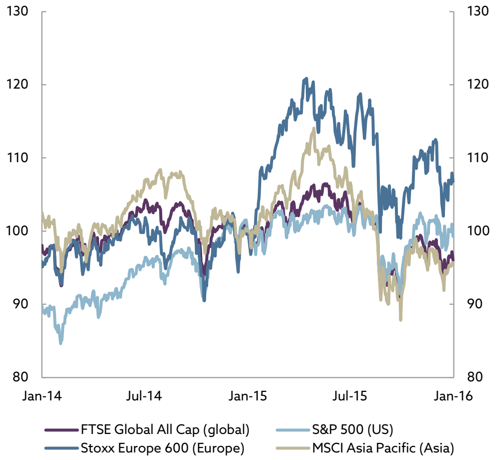
excess of 10 billion dollars. This led to strong gains at many large US and European health care companies, pushing up returns in the sector as a whole.

Consumer goods producers returned 10.8 percent, boosted by declining unemployment in Europe and the US and stronger consumer confidence. Falling commodity prices were another contributing factor, leaving consumers with more money in their pockets. Also in this sector, high merger and acquisition activity contributed to higher prices. Food, beverages and household items were the strongest segments, while weak economic growth in many of the main emerging markets put a damper on returns in luxury goods.

Technology stocks returned 8.0 percent, with US and European companies delivering good returns on the back of strong revenue growth, merger and acquisition activity and innovative new products and services. Strong cash flow at many companies, together with low interest rates, led to a number of mergers in the sector. A focus on digitisation, cloud services, big data and new products such as 3D printers fuelled strong growth expectations in the sector.

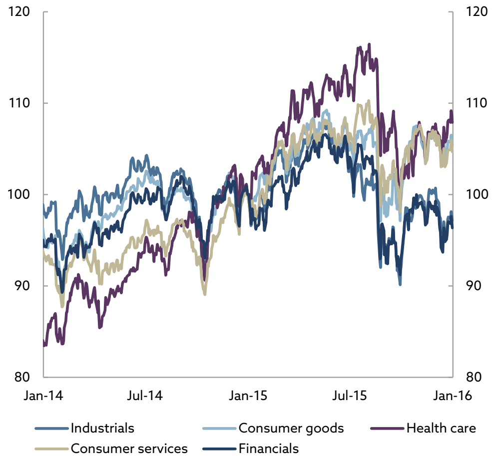
Oil and gas companies were the year's weakest performers, returning -13.7 percent after oil prices fell further to their lowest for six years. Oil production increased during the year, which contributed to supply outstripping demand. The large oil-producing countries also chose to maintain levels of output. On the demand side, weaker-than-expected growth in China and other emerging markets brought a decline in demand, further reducing global demand for oil.

Chart 7 Price developments in regional equity markets. Measured in US dollars, except for the StoxxEurope 600, which is measured in euros. Indexed 31 Dec 2014 = 100



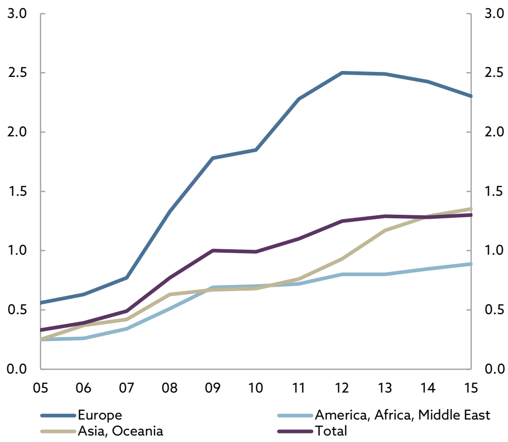
Source: Bloomberg

Chart 8 Price developments in stock sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed 31 Dec 2014 = 100



Source: FTSE

Chart 9 The fund's holdings in equity markets. Percent of market value of equities included in the reference index for equities



Source: FTSE, Norges Bank Investment Management

Chart 10 The fund's holdings in equity markets. Percent of market value of equities included in the reference index for equities

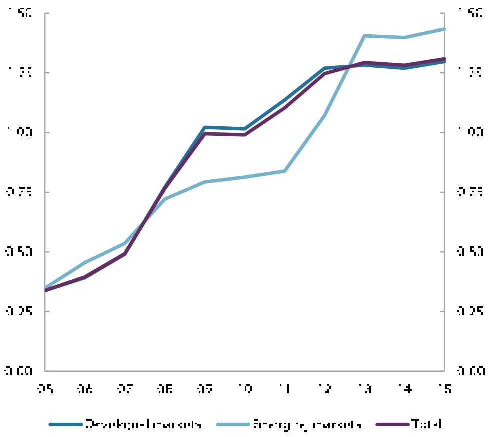


Table 11 Return on the fund's equity investments in 2015 by sector. Percent

Sector	Return in international currency	Share of equity investments[1]
Financials	2.3	23.4
Consumer goods	10.8	14.5
Industrials	1.5	13.6
Consumer services	7.7	11.0
Health care	14.1	10.7
Technology	8.0	9.0
Oil and gas	-13.7	5.4
Basic materials	-8.4	5.1
Telecommunications	5.2	3.4
Utilities	-3.7	3.3

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

Table 12 Return on the fund's largest equity investments in 2015 by country. Percent

Country	Return in international currency	Share of equity investments
US	4.3	34.9
UK	0.3	11.5
Japan	16.4	9.5
Germany	3.5	5.7
Switzerland	7.9	5.4
France	7.1	5.1
China	6.0	2.9
Sweden	8.9	2.1
Australia	-3.7	2.0
Canada	-18.8	1.8

Table 13 The fund's largest equity holdings as at 31 December 2015. Millions of kroner

Company[1]	Country	Holding
Nestlé SA	Switzerland	51,056
Apple Inc	US	41,599
Roche Holding AG	Switzerland	34,980
Novartis AG	Switzerland	33,935
Alphabet Inc	US	30,499
Microsoft Corp	US	30,448
BlackRock Inc	US	27,984
HSBC Holdings Plc	UK	27,242
Royal Dutch Shell Plc	UK	26,121
Prudential Plc	UK	25,109
Exxon Mobil Corp	US	22,502
Wells Fargo & Co	US	22,343
Johnson & Johnson	US	21,109
Daimler AG	Germany	20,516
UBS Group AG	Switzerland	20,437
Anheuser-Busch InBev SA/NV	Belgium	19,760
BASF SE	Germany	19,685
Sanofi	France	19,528
Toyota Motor Corp	Japan	18,723
Credit Suisse Group AG	Switzerland	18,538

[1] Excluding listed real estate companies

Table 14 The fund's largest company holdings in the equity markets as at 31 December 2015. Percent

Company[1]	Country	Ownership
Smurfit Kappa Group Plc	Ireland	9.2
UPM-Kymmene OYJ	Finland	7.7
CNinsure Inc	China	6.8
Linde AG	Germany	6.7
Delta Lloyd NV	Netherlands	6.5
Telecity Group Plc	UK	6.3
Aflac Inc	US	6.3
Tesco Plc	UK	6.2
Boliden AB	Sweden	6.0
Cherkizovo Group PJSC	Russia	5.7
Svenska Cellulosa AB SCA	Sweden	5.7
BlackRock Inc	US	5.6
Balfour Beatty Plc	UK	5.5
China Singyes Solar Technologies Holdings Ltd	China	5.3
Volvo AB	Sweden	5.3
Tocalo Co Ltd	Japan	5.3
BSD Crown Ltd	Israel	5.1
Elemental Holding SA	Poland	5.1
Equatorial Energia SA	Brazil	5.0
Balrampur Chini Mills Ltd	India	5.0

[1] Excluding listed real estate companies

ALPHABET

Alphabet is a US multinational conglomerate formed in 2015 as the parent company for Google and various other companies previously owned by or tied to Google. The companies in the group include Google, Calico and Google Ventures and operate in a variety of sectors, such as technology, biotechnology, investment and research. Alphabet had almost 60,000 employees and generated operating revenue of 60.6 billion dollars in 2015.

IBERDROLA

Iberdrola is a Spanish multinational energy company founded in 1992 and specialising in renewable energy. As well as hydroelectric plants, the company is building up a global portfolio of wind and solar energy. Iberdrola had 27,000 employees and generated operating revenue of 31.4 billion dollars in 2015.

LARGEST INVESTMENTS

The investment in US technology company Alphabet (Google's parent company) contributed most to the fund's return in 2015, followed by US online retailer Amazon.com and US technology company Microsoft. The worst-performing investment was in Anglo-Dutch oil company Royal Dutch Shell, followed by Anglo-Swiss commodity trading and mining company Glencore and Spanish bank Banco Santander.

The largest investment in any one company was in Swiss food company Nestlé. The fund's 2.4 percent stake had a market value of 51.1 billion kroner at the end of the year. Otherwise the fund's top ten equity holdings consisted of three financial services companies, three technology companies, two pharmaceutical companies and one oil and gas company.

The largest percentage holding in any one company was in Irish packaging producer Smurfit Kappa Group. The fund's 9.2 percent stake was worth almost 4.9 billion kroner. The fund may hold up to 10 percent of the voting shares in a company.

We participated in 144 initial public offerings during the year. The largest of these IPOs was at Japanese conglomerate Japan Post Holdings, followed by Japanese bank Japan Post Bank and Spanish airport operator Aena. The offerings in which the fund invested the most were at Dutch bank ABN AMRO, US payment solutions company First Data Corporation and Chinese food and beverage producer Dali Foods Group Company.

INTERNAL REFERENCE PORTFOLIOS

We have constructed an internal reference portfolio for equities which takes into account the fund's special characteristics and objective and is intended to achieve a better trade-off over time between expected risks and returns. The internal reference portfolio for equities consisted of shares in 9,455 companies at the end of 2015 and returned 3.1 percent, which was 0.1 percentage point higher than the return on the benchmark index from FTSE Group. The reference portfolio includes a broad allocation to Chinese stocks, which contributed positively to the relative return. An overweight of European stocks also made a positive contribution, whereas an overweight of value stocks contributed negatively.

The equity portfolio was invested in shares in 9,050 listed companies at the end of 2015. These investments are measured against the Ministry of Finance's benchmark index based on the FTSE Global All Cap index, which consisted of 7,575 listed companies. The return on the fund's equity investments was 0.8 percentage point higher than the return on the benchmark index, and was a result of allocation decisions and stock selection.

Financials and oil and gas were the sectors that made the greatest positive contributions to the relative return, while consumer services made the greatest negative contribution. Of the countries the fund was invested in, China and Spain made the most positive contributions to the relative return, while the US made the most negative contribution.

Flat return from weak bond markets

The fund's fixed-income investments returned 0.3 percent in 2015. The year saw record-low interest rates and weak growth in emerging markets.

Fixed-income investments accounted for 35.7 percent of the fund at the end of the year. These investments were mainly in bonds, with the remainder in short-term securities and bank deposits.

WEAK RETURN ON GOVERNMENT BONDS

The fund's government bond holdings accounted for 56.0 percent of its fixed-income investments and returned 0.2 percent in 2015. US Treasuries returned 5.9 percent, or 0.9 percent in local currency, and amounted to 17.0 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. The positive return was due mainly to the dollar appreciating substantially against other currencies.

Euro-denominated government bonds returned -5.8 percent, a flat return in local currency, and made up 12.9 percent of fixed-income investments. The euro weakened during the year, which explains the weak return measured in the currency basket. Japanese government bonds returned 5.3 percent in the currency basket, or 0.6 percent in local currency, and accounted for 7.5 percent of fixed-income holdings.

Government bonds in emerging markets, which made up 12.2 percent of the portfolio, generally did less well than those in developed markets, returning -4.9 percent. Brazil performed particularly poorly with a return of -27.4 percent measured in the fund's currency basket, due to rising interest rates and a weaker real. In local currency, however, the return was 2.9 percent. Brazilian government bonds made up 0.8 percent of the portfolio in 2015. Bonds in developed markets accounted for 43.8 percent of the portfolio and returned 1.6 percent.

Inflation-linked bonds, which are mainly issued by governments, returned 2.7 percent and amounted to 4.5 percent of fixed-income investments.

The fund also held bonds from government-related institutions such as the Kreditanstalt für Wiederaufbau, European Investment Bank and Canada Housing Trust. These returned -2.2 percent and accounted for 14.5 percent of the fund's fixed-income investments at the end of the year.

GOOD RETURN ON CORPORATE BONDS

Corporate bonds returned 2.7 percent and represented 20.5 percent of fixed-income investments.

Securitised debt, consisting mainly of covered bonds denominated in euros, returned -2.0 percent, due mainly to the euro weakening during the year. Securitised debt made up 6.4 percent of fixed-income holdings.

CHANGES IN FIXED-INCOME HOLDINGS

The largest increases in the market value of the fund's fixed-income investments were in government bonds from the US, Germany and Japan, while the largest decreases were in government bonds from Brazil, Italy and the Netherlands.

The largest holding of bonds from a single issuer was of US Treasuries, followed by Japanese and German government debt.

INTERNAL REFERENCE PORTFOLIOS

We have constructed an internal reference portfolio for bonds which takes into account the fund's special characteristics and objective and is intended to achieve a better trade-off over time between expected risks and returns. The internal reference portfolio returned 0.1 percent in 2015, which was 0.5 percentage point less than the benchmark index set by the Ministry of Finance.

The internal reference portfolio was overweight emerging markets, most notably Brazil, and this made a negative contribution on account of the weak return on Brazilian government bonds. The internal reference portfolio was also underweight inflation-linked bonds, which made a positive contribution to the relative return.

The fund was invested in 4,824 bonds from 1,278 issuers at the end of 2015. Returns on fixed-income investments are compared with returns on a global benchmark index for bonds set by the Ministry of Finance on the basis of indices from Barclays, and consisted of 11,764 bonds from 2,134 different issuers at the end of 2015.

The return on the fund's fixed-income investments was 0.2 percentage point lower than the return on the benchmark index. The fund's fixed-income investments had a higher weight of emerging markets than the benchmark in 2015. Brazilian government bonds are among the fund's largest holdings in emerging markets, and the return on investments in Brazil was weak due to rising interest rates and a weaker currency. The fund's fixed-income investments had a higher yield than the benchmark in 2015.

Table 15 Return on the fund's fixed-income investments in 2015 by sector. Percent

Sector	Return in international currency	Share of fixed-income investments[1]
Government bonds[2]	0.2	56.0
Government-related bonds[2]	-2.2	14.5
Inflation-linked bonds[2]	2.7	4.5
Corporate bonds	2.7	20.5
Securitised debt	-2.0	6.4

[1] Does not total 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 16 The fund's largest bond holdings as at 31 December 2015. Millions of kroner

Issuer	Country	Holding
United States of America	US	532,806
Japanese government	Japan	203,895
Federal Republic of Germany	Germany	163,019
UK government	UK	84,952
Mexican government	Mexico	56,678
South Korean government	South Korea	50,318
Spanish government	Spain	45,175
French Republic	France	41,870
Italian Republic	Italy	41,018
Kreditanstalt fur Wieder-aufbau	Germany	33,187
Indian government	India	32,888
Turkish government	Turkey	27,484
European Investment Bank	International organisation	26,241
Government of the Netherlands	Netherlands	25,941
Polish government	Poland	24,252
Australian government	Australia	23,995
Brazilian government	Brazil	22,922
Chinese government	China	21,544
Bank of America Corp	US	21,151
Canada Mortgage & Housing Corp	Canada	19,469

Chart 11 10-year government bond yields. Percent

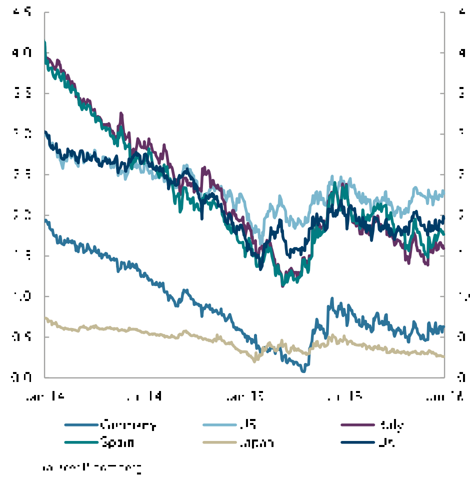


Chart 12 Currency composition of the fund's fixed-income investments. Percent

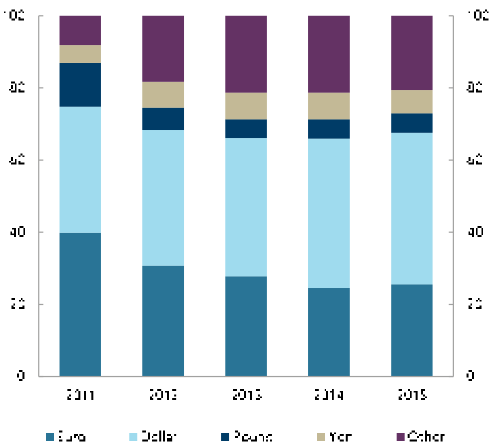


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Chart 13 Price developments for bonds issued in dollars, euros, pounds and yen. Measured in local currencies. Indexed 31 Dec 2014 = 100

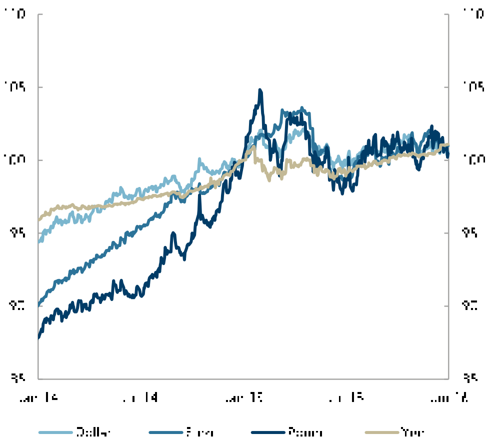


Chart 14 Price developments in fixed-income sectors. Measured in US dollars. Indexed 31 Dec 2014 = 100

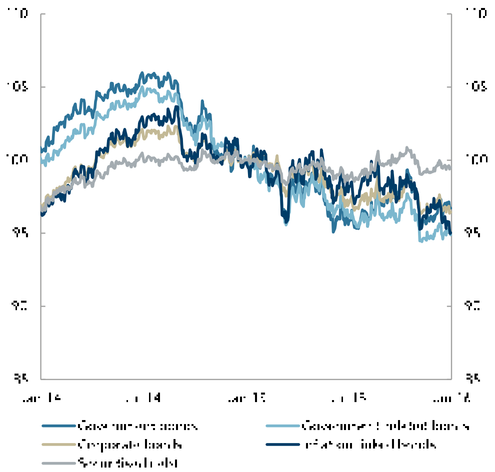
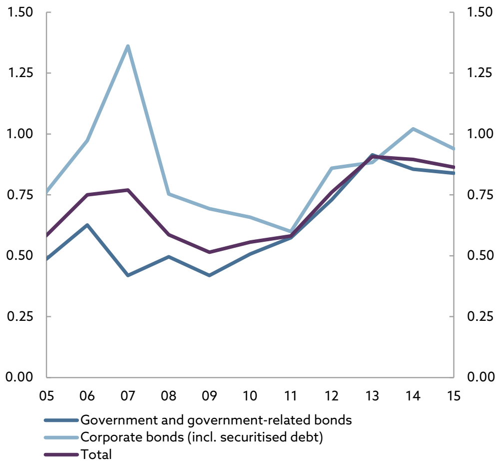


Chart 15 Price developments for 10-year government bonds issued in emerging market currencies. Measured in local currencies. Indexed 31 Dec 2014 = 100

Source: Bloomberg

Chart 16 The fund's holdings in fixed-income markets. Percent of the market value of bonds in the reference index for bonds



Source: Barclays, Norges Bank Investment Management

4.6 REAL ESTATE INVESTMENTS

Large real estate investments

The share of the fund invested in real estate climbed to 3.1 percent at the end of 2015. We are building up the portfolio gradually as we find good investment opportunities.

The fund's real estate investments consist of listed and unlisted real estate investments. In 2015, the investments returned 10.0 percent in total.

LISTED REAL ESTATE

In many relevant markets for real estate investments, the properties the fund is interested in are owned by listed companies. Investments in listed real estate returned 7.8 percent in 2015 and had a market value of 54.1 billion kroner at the end of the year.

Listed real estate accounted for 0.7 percent of the fund and 23.0 percent of the real estate portfolio at the end of the year.

Table 17 The fund's largest holdings in listed real estate companies as at 31 December 2015.[1] Percent

Company	Country	Holding
Great Portland Estates Plc	UK	9.6
Gecina SA	France	9.5
Shaftesbury Plc	UK	9.4
Vonovia SE	Germany	7.8
Capital & Counties Properties Plc	UK	7.6
Deutsche Wohnen AG	Germany	6.9
Land Securities Group Plc	UK	6.5
British Land Co Plc/The	UK	6.2
Derwent London Plc	UK	5.9
Paramount Group Inc	US	4.9
Boston Properties Inc	US	1.4

[1] A part of the fund's investments in listed real estate companies was transferred from the equity portfolio to the real estate portfolio on 31 October 2014. Some smaller shares have been kept in the equity portfolio, so the fund's total ownership share in these companies is slightly higher than indicated in this table. In the fund's holdings list, all of the companies are listed with the fund's total ownership share under equities.

UNLISTED REAL ESTATE

Investments in unlisted real estate returned 10.8 percent in 2015 and had a market value of 180 billion kroner at the end of the year.

The return on the fund's 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. Measured in local currency, rental income net of operating expenses made a positive contribution of 4.1 percentage points to the return, and the change in the value of properties and debt contributed 6.7 percentage points. Currency movements made a positive contribution of 0.1 percentage point, while transaction costs made a negative contribution of -0.2 percentage point.

Net rental income is expected to be relatively stable over time, generating a steady cash flow for the fund. Movements in the value of properties and debt can vary widely from year to year and are based on external valuations. Transaction costs will depend on investment activity.

Unlisted real estate accounted for 2.4 percent of the fund and 77.0 percent of the real estate portfolio at the end of the year.

LARGE INVESTMENTS

Investments in real estate made up 3.1 percent of the fund at the end of 2015, up from 2.2 percent a year earlier, and are to increase gradually towards a maximum of 5 percent of the value of the fund. We made a number of investments in both Europe and the US during the year, spanning offices, retail and logistics.

During the year we made two large single investments that combined accounted for 71.9 percent of new investments in unlisted real estate in 2015.

April brought the single largest real estate investment to date, with the fund paying

Table 19 The fund's largest unlisted real estate investments as at 31 December 2015 by city. Percent

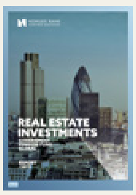
City	Country	Market value
New York	US	20.4
London	UK	19.3
Paris	France	9.1
Boston	US	7.4

Table 18 Return on the fund's real estate investments. Return components for unlisted investments. Percent

	2015	2014	2013
Net profit from ongoing rental income	4.1	4.4	4.6
Net change in value of properties and debt	6.7	7.1	3.8
Transaction costs for property purchases	-0.2	-0.8	-0.4
Result of currency adjustments	0.1	-1.0	3.8
Unlisted real estate investments	10.8	9.6	11.8
Listed property[1]	7.8	6.0	-
Total return	**10.0**	**10.4**	**11.8**

[1] From 1 November 2014

Hudson Square, New York
In November, the fund partnered with Trinity Wall Street and paid 1.56 billion dollars, or around 13.43 billion kroner, for a 44 percent interest in a portfolio of 11 office properties in New York. The properties total more than 4.9 million square feet and are all located in the Hudson Square area of Lower Manhattan.



EXTENDED REPORT ON UNLISTED REAL ESTATE INVESTMENTS
A separate report on our unlisted real estate investments will be published in April.

2.3 billion dollars, approximately 17.9 billion kroner, for a 45 percent stake in a portfolio of logistics properties across 17 US states. The investment was made together with Prologis. In November, the fund partnered with Trinity Wall Street and made another major investment in the US, paying 1.56 billion dollars, approximately 13.43 billion kroner, for a 44 percent interest in a portfolio of 11 office properties in New York.

We plan to expand the real estate portfolio into Asia and have decided to begin in Tokyo and Singapore. We opened a separate real estate office in Tokyo in October to give us a local presence and help build the best possible property portfolio in this market.

In 2015, we invested 44.2 billion kroner in unlisted real estate, up from 36.7 billion kroner in 2014.

Our goal is to build a global, but concentrated, real estate portfolio. The strategy is to invest in a limited number of major cities in key markets while also seizing opportunities in the global logistics market.

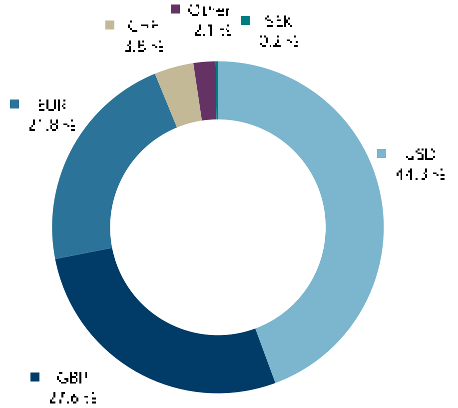
Table 20 Return on the fund's real estate investments in 2015 by country/region. Percent

	Return
Europe, excluding UK	5.9
UK	14.9
US	11.5
Other countries/regions	-19.1
Total return	**10.0**

Table 21 Market value of real estate investments as at 31 December 2015. Millions of kroner

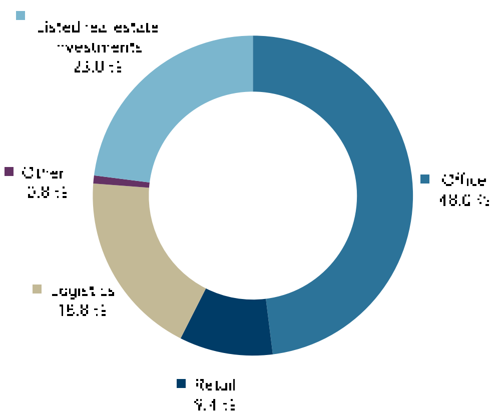
	Holding
Investments in unlisted real estate	180,021
Investments in listed real estate	54,134
Bank deposits and other claims	1,044
Total	**235,199**

Chart 17 The fund's real estate investments by currency as at 31 December 2015. Including listed real estate. Percent



Bank deposits and other claims

Chart 18 The fund's real estate investments by sector as at 31 December 2015. Including listed real estate. Percent



Other sectors, bank deposits and other claims

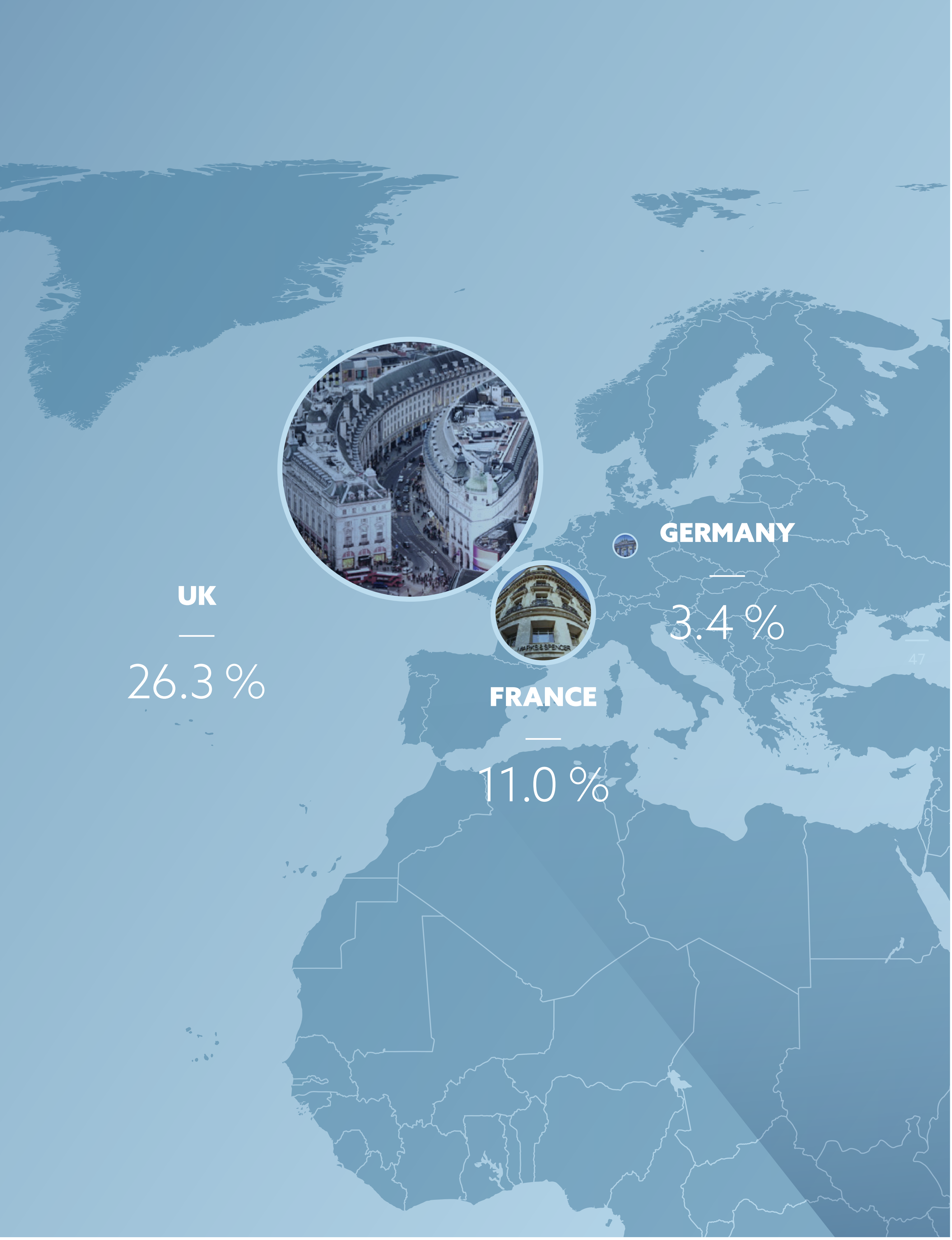
Real estate investments

Share of market value[1]

US

48.9 %

[1] Unlisted real estate investments


UK
26.3 %
GERMANY
3.4 %
FRANCE
11.0 %

Expected fluctuations in fund value

The value of the fund may fluctuate considerably from year to year. We use a variety of measures and risk analyses to obtain the broadest possible picture of the fund's market risk.

The fund's market risk is determined by the composition of its investments and by movements in share prices, exchange rates, interest rates, credit risk premiums and real estate values. 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 obtain 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. Expected absolute volatility was 10.4 percent at the end of the year, or about 780 billion kroner, compared with 8.2 percent a year earlier. Simulations of the fund's investments at the end of 2015 using a 10-year pricing history reveal, however, that in a sharply falling market the fund could lose around 24 percent of its value over the course of a year.

No single measure or analysis can fully capture the fund's market risk.

The Ministry of Finance and Norges Bank's Executive Board have set limits for deviation from

Table 22 The fund's risk and exposure. Percent

	Limits set by the Ministry of Finance	31 December 2015
Exposure	Equities 50 - 70 percent of fund's market value[1]	60.8
	Real estate 0 - 5 percent of fund's market value	3.1
Market risk	1 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-	0.7
Ownership	Maximum 10 percent of voting shares in a listed company in the equity portfolio	9.2

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

Table 23 The fund's fixed-income investments as at 31 December 2015 based on credit ratings. Percentage of bond holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	26.8	9.2	11.4	7.4	0.1	54.9
Government-related bonds	6.0	5.7	1.2	1.2	0.2	14.2
Inflation-linked bonds	3.2	0.3	0.1	0.9	-	4.4
Corporate bonds	0.1	1.6	7.7	10.4	0.4	20.2
Securitised debt	5.0	0.8	0.2	0.2	0.0	6.3
Total bonds	**41.1**	**17.5**	**20.6**	**20.0**	**0.7**	**100.0**

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 investments can be expected to deviate from the return on the benchmark indices. The fund should aim for expected relative volatility of no more than 1 percentage point. The actual figure was 0.3 percentage point at the end of 2015, compared with 0.4 percentage point a year earlier.

LARGEST RELATIVE EXPOSURES

The fund is positioned differently to its benchmark indices along several dimensions, including currencies, sectors, countries, regions, individual stocks and individual bond issuers. At the end of 2015, the fund had a higher weight of stocks of somewhat greater volatility than the average in the benchmark and a higher weight of small companies than the benchmark. The equity portfolio also had an allocation to countries outside the benchmark's universe, such as China and various frontier markets. The fixed-income portfolio featured a higher weight of emerging markets, such as India and China, and a correspondingly lower weight of bonds denominated in euros and Swiss francs than the benchmark. It also had a lower duration than the benchmark. A lower duration means that, in general, the fund is less sensitive to changes in interest rates than the benchmark index.

FACTOR EXPOSURES

We measure the fund's exposure to systematic risk factors, such as small companies, value stocks and credit. These are common characteristics which securities share over time and which contribute to both the risk and the return on investments. There are different ways of measuring exposure to these risk factors. One of the most widely used is to compare variation in the fund's relative return with variation in the return on the factors. Such an analysis of factor exposures in 2015, based on daily observations, indicates among other things that the fund's equity investments were somewhat more exposed than the benchmark to companies in emerging markets and to small

Chart 19 Expected absolute volatility of the fund. Percent (left-hand axis) and billions of kroner (right-hand axis)

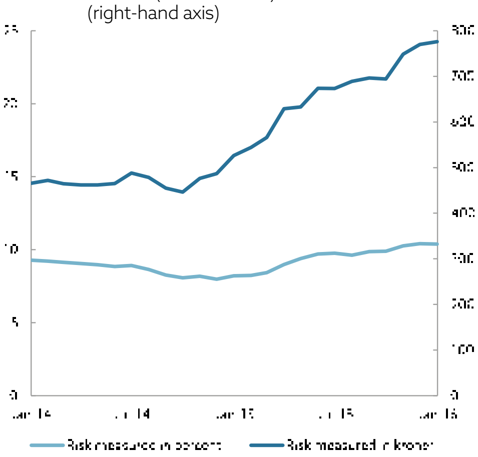
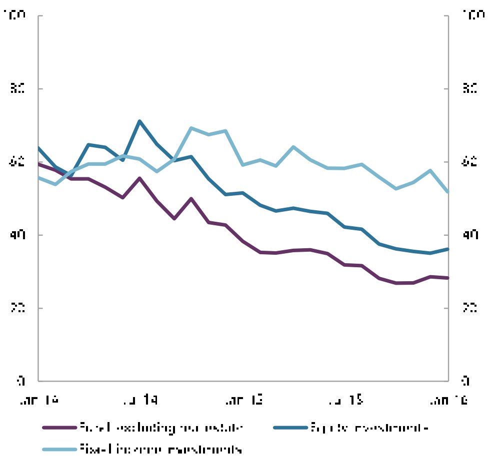


Chart 20 Expected relative volatility of the fund, excluding real estate investments. Basis points



companies. The analysis shows that 16.0 percent of the variation in the relative return on the fund's equity investments could be explained by general market movements and exposure to value stocks, small companies and emerging markets. In addition, the fund's fixed-income investments were slightly less exposed to term premiums and more exposed to credit premiums for corporate bonds than the benchmark index in 2015. About 49.0 percent of the variation in the relative return on the fund's fixed-income investments could be explained by movements in term and credit premiums.

The results of such statistical analyses are uncertain, and we also use several other approaches to analyse the fund's factor exposures. For more information on the fund's investment risk, see note 8 to the financial reporting.

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. Operational risk exposure was below this limit throughout 2015. We work systematically to identify unwanted events and constantly improve processes to prevent such incidents. Reporting and following up on these incidents are an important part of efforts to improve operations and internal controls.

Chart 21 Factor exposures of the fund's equity investments. Coefficients

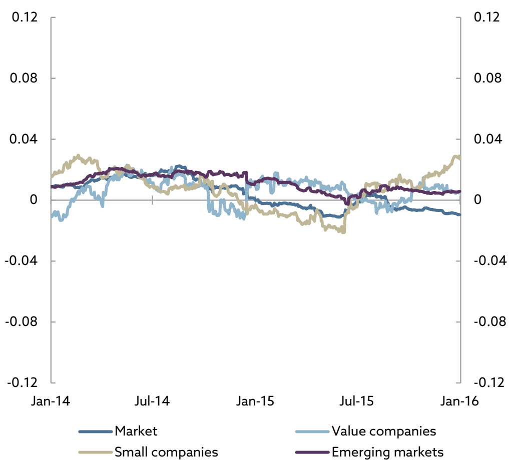
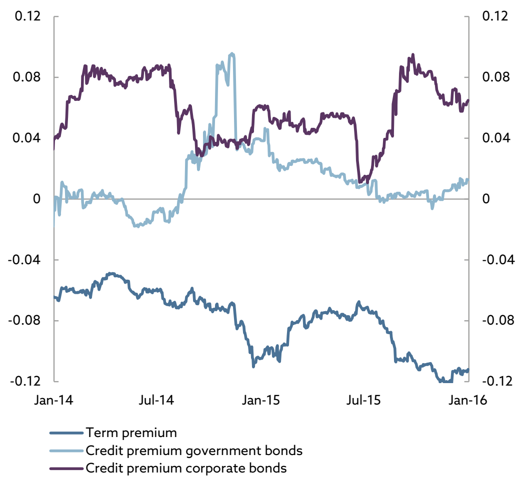


Chart 22 Factor exposures of the fund's fixed-income investments. Coefficients



UNWANTED EVENTS IN 2015

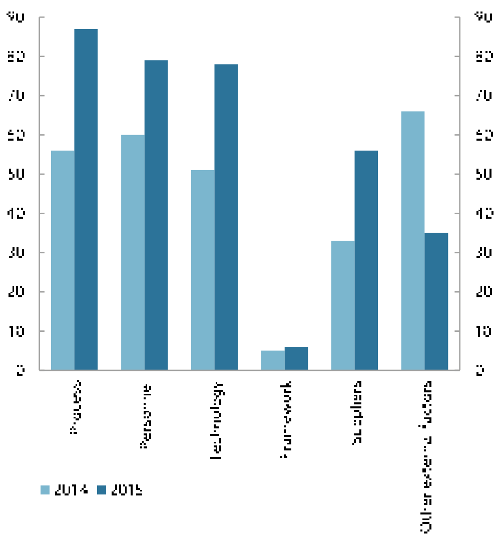
We registered 340 unwanted events in 2015, up from 270 in 2014. Most of these had no financial consequences, either because they were discovered early enough or because they had only non-financial consequences. Only 12 of these events were considered significant. The estimated total financial impact of unwanted events in 2015 was 67.8 million kroner.

Three of the 12 significant events had financial consequences. One concerned an error in the funding of a portfolio and resulted in a loss when the error was rectified. It accounted for more than half of the total financial impact of unwanted events in 2015. The second was an unintentional overinvestment in Korean stocks, which led to a gain of around 10.2 million kroner, while the third was an error in rebalancing at the end of a month, which produced a loss of around 5.4 million kroner. The other significant events mainly concerned matters of information technology and security and had no direct financial consequences.

COMPLIANCE WITH GUIDELINES

The Ministry of Finance has set guidelines for the fund's management. No significant breaches of these guidelines were registered in 2015, and we did not receive any notifications from local supervisory authorities of any significant breaches of market rules or general legislation.

Chart 23 Unwanted events at Norges Bank Investment Management sorted by cause



EXTENDED REPORT ON PERFORMANCE AND RISK

A separate report on performance and risk will be published in first quarter 2016.

4.8 RESPONSIBLE INVESTMENT

Safeguarding the fund's long-term interests

We invest the fund responsibly in order to support the fund's objective of the highest possible return with an acceptable level of risk. Responsible investment is therefore an integral part of the investment process.

Norges Bank Investment Management manages the fund with the objective to achieve the highest possible return within the constraints set out in the management mandate. The aim of responsible investment is to support the fund's objective by maximising the long-term return on our investments and reducing the financial risks associated with environmental, social and governance issues at the companies we invest in.

The fund is owned by the people of Norway. Our mission is to safeguard and build financial wealth for future generations. We are a large, global investor with a long-term investment horizon and we look to take advantage of the fund's strengths. The fund is invested in most markets, sectors and countries in order to capture global value creation and diversify risk as best possible.

Our management mandate requires us to integrate responsible investment activities into the management of the fund. We see it as a matter of managing the nation's financial wealth responsibly and efficiently. We have prioritised our work on the basis of three pillars: standard setting, ownership and risk management. Through this work, we aim to promote good corporate governance and well-functioning, legitimate and efficient markets.

We work with international organisations on standards and principles and communicate our expectations to companies. We support academic research to improve the theoretical and empirical foundations for our work. We vote at general meetings and engage directly with companies and their boards. We also monitor and manage various types of risk in our portfolio.

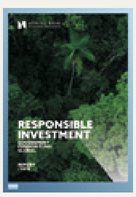
With holdings in more than 9,000 companies, we vote at almost all general meetings, but cannot have an in-depth knowledge of every single company. We therefore attach importance to good corporate governance and the role of the board. Our ownership work concentrates on the issues and companies where we believe there to be the greatest potential to create value for the fund. Our analyses include financial company models and evaluations of companies' financial prospects. Environmental, social and governance factors are incorporated into these assessments. We voted at 11,562 general meetings and held 3,250 meetings with companies in 2015.

Addressing environmental, social and governance risks is an important part of managing our investments. We take a systematic approach to risk monitoring that involves making general assessments before looking in more detail at specific issues. We rely on data on environmental, social and governance matters in this work, and hence the development of databases of this type of information is a priority.

In terms of sustainability, we have chosen to focus on three areas: children's rights, climate change and water management. We have been working on these topics for some time. Many companies have well-developed strategies and practices in these areas. Our goal is to use the means at our disposal to promote good market practices and express clear expectations towards companies.

We invest extra in environmental technology through our environment-related mandates, which returned 1.1 percent in 2015. The investments had a market value of 53.8 billion kroner at the end of the year and were spread across 224 companies. Over the past couple of years, we have divested from a number of companies based on an assessment of environmental, social and governance risks. In 2015, we divested from 73 companies following such risk assessments.

We invest responsibly in real estate. Our view is that properties that are built and operated sustainably bring lower costs, lower financial risks and potentially higher rental income. An environmental due diligence is performed ahead of each investment, and sustainability is an important aspect of our property management.



EXTENDED REPORT ON RESPONSIBLE INVESTMENT

We published a separate report on responsible investment in February 2016. The report is available on our website www.nbim.no

WE UPDATED OUR EXPECTATIONS DOCUMENTS IN 2015

CHILDREN'S RIGHTS

The long-term legitimacy of sectors and markets may be dependent on operations and products that are ethically acceptable. We publish expectations, analyse and engage with companies. We expect companies to respect children's rights in line with the United Nations Guiding Principles and incorporate children's rights in strategic planning, risk management and reporting. We have been assessing selected companies with activities or supply chains in sectors with a high risk of child labour since 2008.

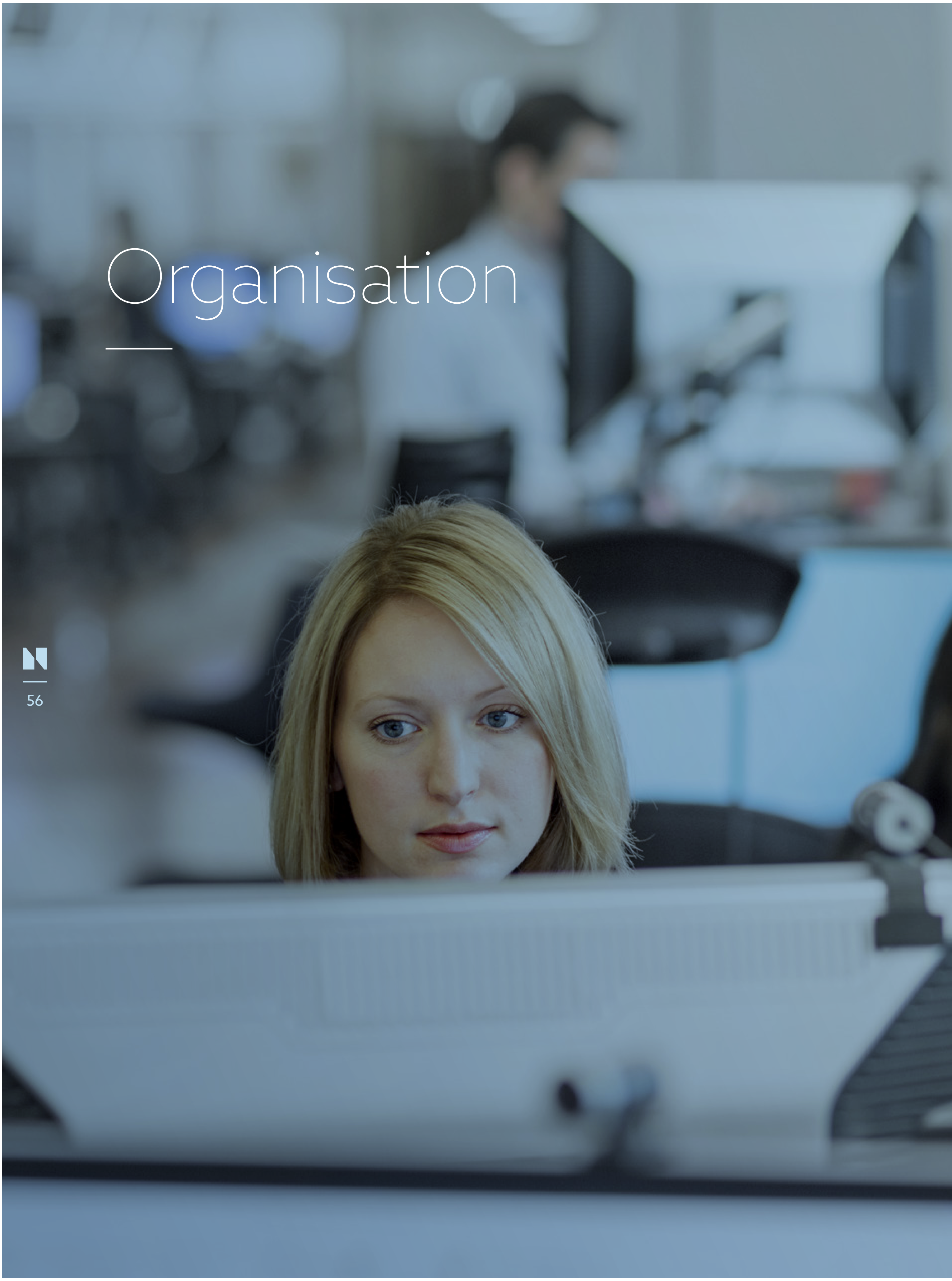
WATER MANAGEMENT

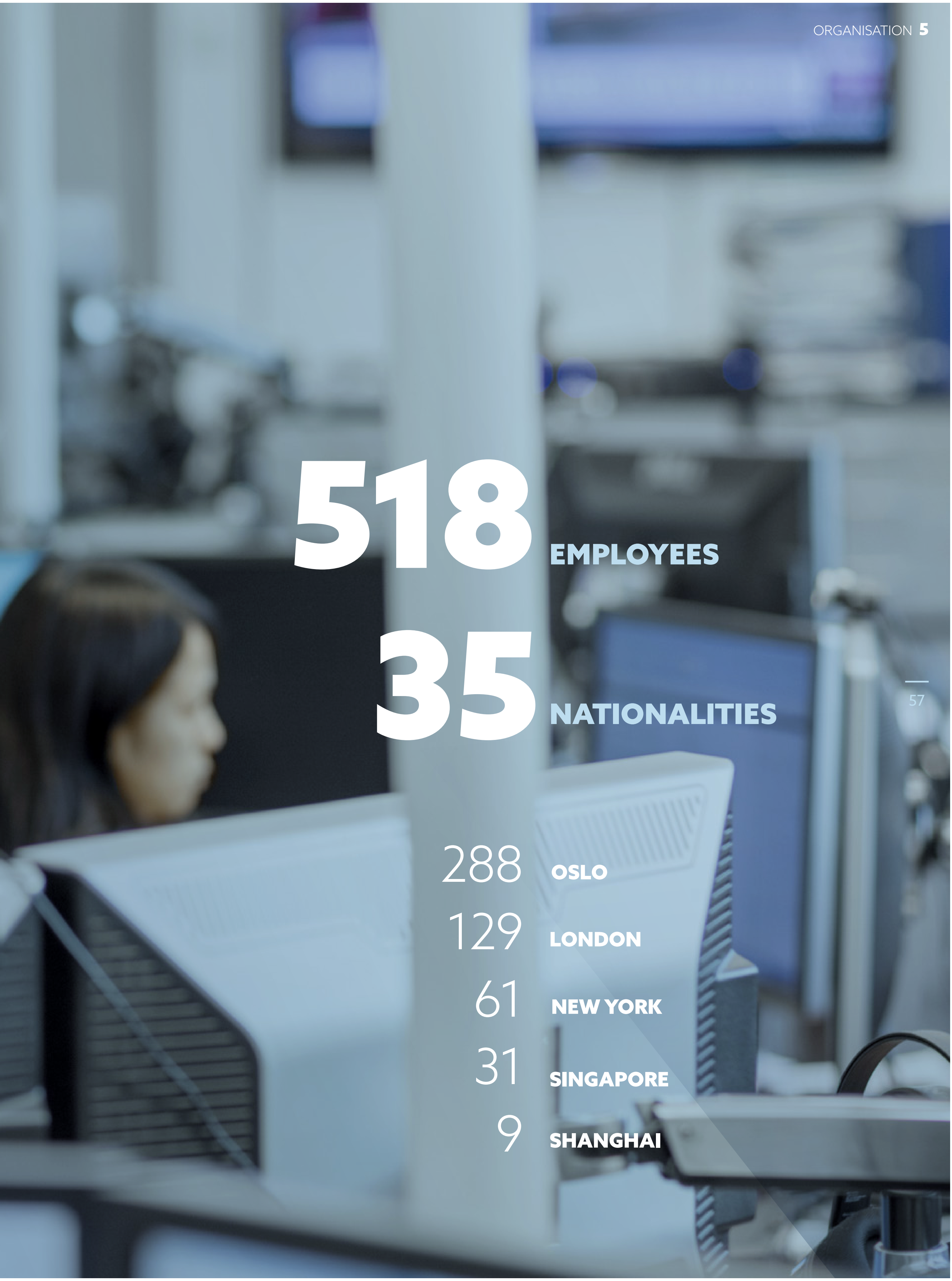
How companies manage water risks and capitalise on opportunities, may drive long-term returns. Externalities from unsustainable water use may in itself present a risk to the portfolio's long-term value. We publish expectations, analyse and engage with companies. We expect companies to incorporate potential water risks in strategic planning, risk management and reporting. We have been assessing companies exposed to water-related risk since 2010.

CLIMATE CHANGE

Climate outcomes may affect company and portfolio returns over time. Climate change may also give rise to business opportunities. We publish expectations, analyse and engage with companies. We expect companies to plan for relevant climate scenarios, and incorporate potential climate risks in strategic planning, risk management and reporting. We have been assessing companies exposed to climate risk since 2010.

Organisation





518 EMPLOYEES

35 NATIONALITIES

288 OSLO

129 LONDON

61 NEW YORK

31 SINGAPORE

9 SHANGHAI

Efficient organisation

Norges Bank Investment Management expanded its workforce by 90 people to 518 in 2015. Most were hired at our offices outside Norway to increase proximity to the markets we invest in.

We are working systematically on building an international investment organisation that can safeguard the value of the fund for future generations. The organisation is result-oriented and fast-paced, and we demand high standards of accuracy and quality. Our employees have the global outlook and experience needed to manage a fund that invests worldwide.

2015 saw further work to recruit equity, fixed-income and real estate portfolio managers and analysts, mainly to our overseas offices. Proximity to the markets we invest in gives us better access to investment opportunities and ensures that we can follow up the fund's investments around the clock. We hired portfolio managers and analysts in all asset classes, both to implement the strategy of diversifying investments across more markets and to continue the expansion of real estate investments. More than a third of our employees are directly involved in investment decisions.

The number of permanent employees increased by 90 in 2015. A total of 44.4 percent of the workforce was based at our offices in London, New York, Singapore and Shanghai at the end of the year, against 41.0 percent a year earlier. We had 518 employees at the end of the year, including 24 on our trainee programme. As a result of the growth in the organisation, several of our overseas offices were extended in 2015.

Employees from 35 different nations bring considerable diversity to the organisation. We also have a general aim of increasing the proportion of women. A group has been appointed to work on this, with the focus on attracting, developing and retaining female talent.

The development of Norges Bank Real Estate Management continued in 2015 after its reorganisation as a separate unit with its own leader group in 2014. The leader group was expanded in 2015 to include a separate CEO and a separate Chief Control and Compliance Officer. The CEO of Norges Bank Real Estate Management has overall day-to-day responsibility for the entire real estate organisation.

In our strategy plan for 2014-2016, we set ambitious targets for real estate management, requiring us to build a robust and global organisation that grows in step with the size and complexity of the portfolio. We expect the number of staff in the real estate operation to increase to 200 during the period. At the end of 2015, Norges Bank Real Estate Management had 104 employees of 17 nationalities, up from 51 employees a year earlier. We are building up the organisation gradually to ensure cost-effective management of the real estate portfolio. To help realise the fund's plans for real estate investments in Asia, we opened separate real estate offices in Singapore and Tokyo in 2015.

Given the fund's size and importance, there is considerable public interest in its management both in Norway and abroad. A high degree of transparency is a key element of our strategy. We strive continuously to increase knowledge about the fund and provide clear and relevant information on all aspects of its management. In 2015, for example, we launched an improved digital holdings solution and arranged four external breakfast seminars on topics relating to the management of the fund.

A high degree of transparency is a key element of our strategy.

Chart 24 Number of employees by area. Norges Bank Investment Management.

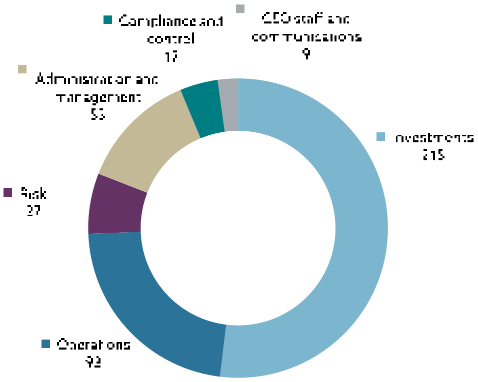
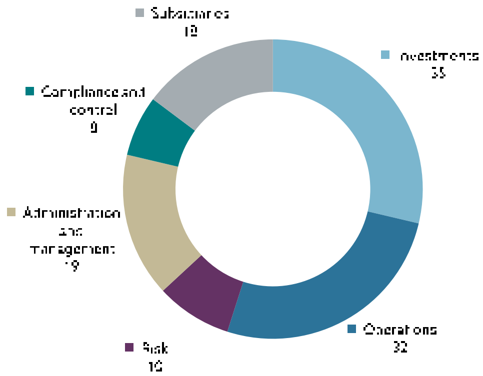
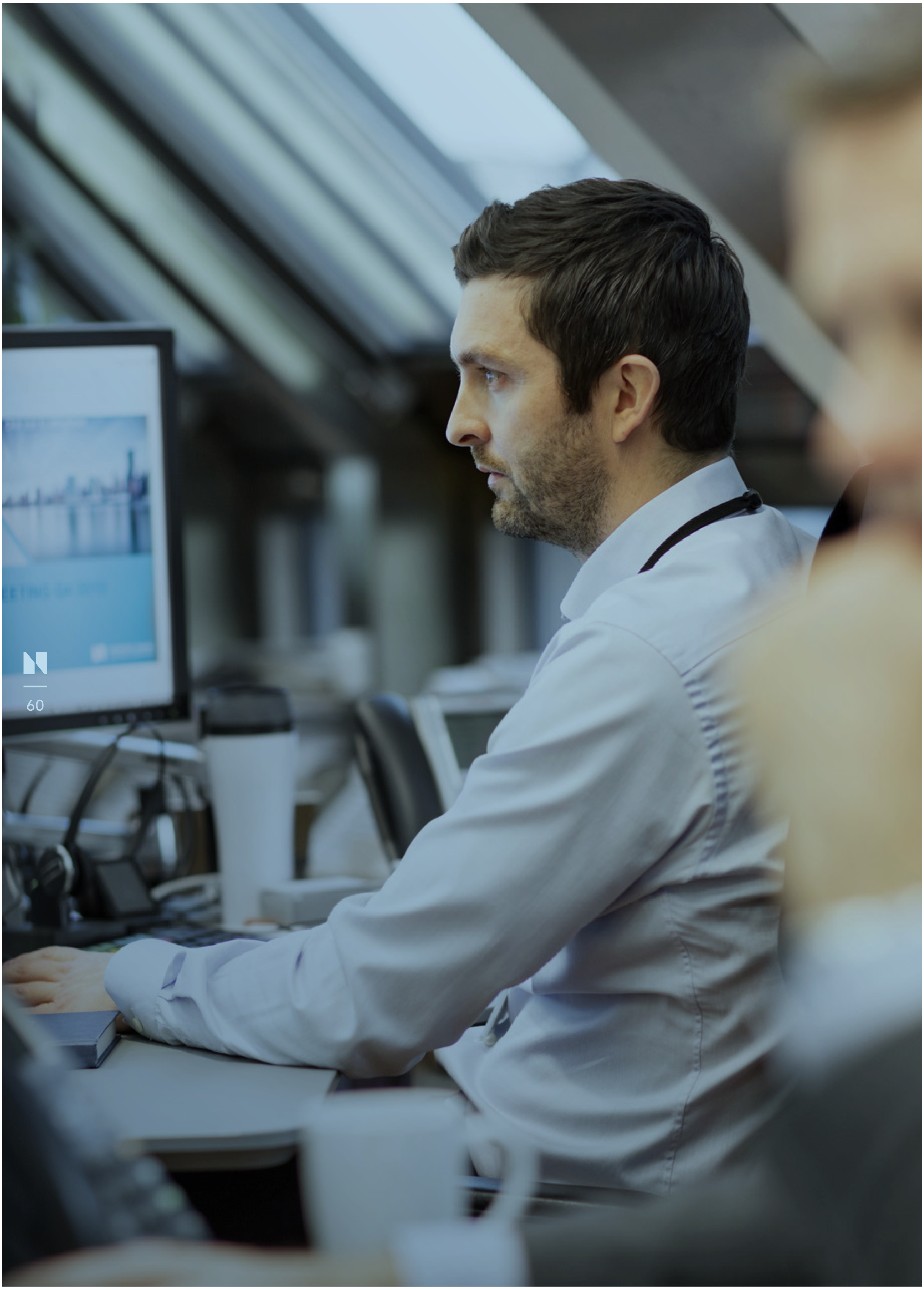


Chart 25 Number of employees by area. Norges Bank Real Estate Management, including subsidiaries.





MANAGEMENT COSTS

We aim to maximise the fund's long-term return after costs. We maintain a high level of cost awareness in the organisation and realise economies of scale where possible. Total management costs measured in basis points show a downward trend. We attach importance to upholding high standards of quality in the fund's management and ensuring good risk management and control. Norges Bank receives an annual fee from the Ministry of Finance to cover the costs of managing the fund.

The costs associated with managing the fund are incurred primarily by Norges Bank. These costs increased to 3.9 billion kroner in 2015 from 3.2 billion kroner in 2014. The rise was due primarily to a weaker krone, an increase in the number of employees, and higher fees to external managers as a result of more mandates and capital being managed externally. The growth in the workforce led to higher salary and personnel costs and higher costs due to increased office capacity. There was also a slight rise in costs for IT services, data and analysis as a result of the expansion of the organisation. Custody costs decreased despite an increase in assets under management, due to renegotiation of the contract. Management costs amounted to 5.7 basis points of average assets under management in 2015, down from 5.9 basis points in 2014. Excluding performance-based fees to external managers, costs increased marginally from 4.7 to 4.8 basis points.

Management costs are also incurred by real estate subsidiaries in the form of operating costs for the management of the real estate portfolio. These are not included in the reimbursement of management costs since

Chart 26 Management costs as a share of assets under management. Basis points

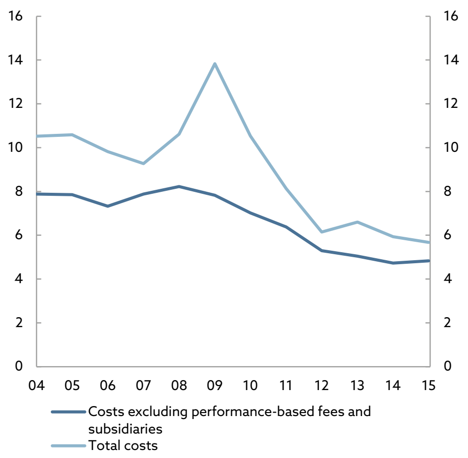
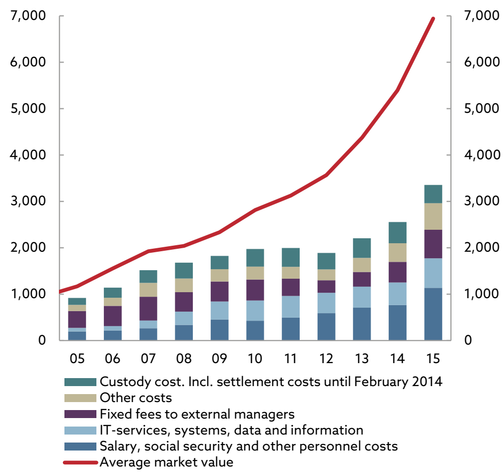


Chart 27 Development of individual cost components. Costs[1] (millions of kroner, left-hand axis) and average market value (billions of kroner, right-hand axis)



[1] Excluding performance-based fees and subsidiaries

they are expensed directly in the investment portfolio. These costs increased to 0.1 billion kroner in 2015 from 0.08 billion kroner in 2014. This does not include operating costs in subsidiaries for the 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 not to the management of the real estate portfolio.

Total management costs climbed to 4.0 billion kroner in 2015, from 3.3 billion kroner in 2014, which corresponds to 5.8 basis points of assets under management, down from 6.1 basis points in 2014.

REMUNERATION SYSTEM

Norges Bank's Executive Board establishes the principles for the remuneration system at Norges Bank Investment Management. In addition to a fixed salary, those working directly on investment decisions and various other employees may also be entitled to performance-based pay. Performance-based pay is calculated on the basis of the performance of the fund, group and individual measured against set targets, and is paid over a number of years. Half is paid the year after it is accrued, while half is held back and paid over the following three years. The amount held back is adjusted in line with the return on the fund.

A total of 219 employees were entitled to performance-based pay in 2015. Their fixed salaries totalled 283.5 million kroner, while the upper limit for performance-based pay was 319.8 million kroner. On average, employees eligible for performance-based pay accrued 59 percent of the limit for 2015 based on multi-year performance. For 2015 in isolation, the average amount accrued was 70 percent of the upper limit.

The fund's leader group receives only a fixed salary. New members of the leader group who were previously in receipt of performance-based pay will, however, still receive any such pay that has been held back. The CEO's salary and pay bands for other members of the leader group are set by Norges Bank's Executive Board. The CEO's salary totalled 6.29 million kroner in 2015. Besides the leader group and employees in receipt of performance-based pay, 280 permanent employees worked in risk management, compliance and control, operations and support at the end of 2015. Their fixed salaries totalled 249.4 million kroner.

Chart 28 Performance-based pay relative to upper limit in 2015. Percentage of workforce

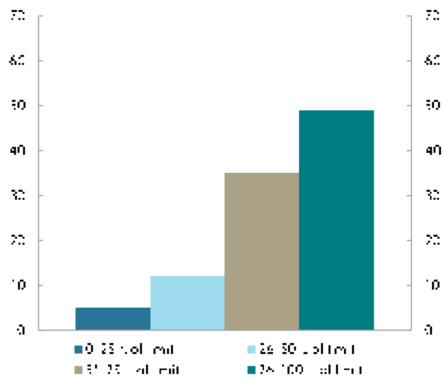


Table 24 Remuneration of senior management in 2015

Position	Name	Paid salary	Performance-based pay[1]	Value of other benefits	Pension benefit earned	Employee loan
Norges Bank Investment Management						
Chief Executive Officer	Yngve Slyngstad	6 285 184		7 860	528 943	402 709
Deputy Chief Executive Officer and Chief Administrative Officer	Trond Grande	4 281 238		7 599	369 071	0
Chief Compliance and Control Officer	Stephen A. Hirsch[2]	283 333		655	22 037	0
Chief Investment Officer Equity Strategies	Petter Johnsen[3]	8 424 354		94 904	842 435	0
Chief Investment Officer Asset Strategies	Øyvind Gjærevoll Schanke	4 655 131	1 157 664	177 741	578 934	0
Chief Investment Officer Allocation Strategies	Ole Christian Bech-Moen	4 044 819	959 224	179 870	312 798	2 520 000
Chief Risk Officer	Dag Huse	4 298 316	1 318 655	7 860	565 898	0
Chief Operating Officer	Age Bakker	3 283 862		7 599	402 712	0
Norges Bank Real Estate Management						
Chief Investment Officer	Karsten Kallevig	4 257 705		7 860	356 189	0
Chief Administrative Officer	Mie Caroline Holstad	1 711 938		7 860	271 409	1 983 914
Chief Operating Officer	Nina Kathrine Hammerstad	2 514 702		7 860	376 992	2 108 986
Chief Risk Officer	Lars Oswald Dahl	3 075 042		7 860	331 987	0
Chief Compliance and Control Officer	Jan Thomsen	3 446 713		7 860	352 581	0

[1] Members of Norges Bank Investment Management's leader group receive only a fixed salary. New members of the leader group who were previously in receipt of performance-based pay will, however, still receive any such pay that has been held back.
[2] Senior manager from 01.12.2015. Remuneration from start of contract.
[3] Receives pay in pounds. The figure includes currency effect from conversion to kroner.

Leader group

NORGES BANK INVESTMENT MANAGEMENT

Chief Executive Officer

Yngve Slyngstad

Deputy Chief Executive Officer and Chief Administrative Officer

Trond Grande

Chief Investment Officer, Equity Strategies

Petter Johnsen

Chief Investment Officer, Asset Strategies

Øyvind Gjærevoll Schanke

Chief Investment Officer, Allocation Strategies

Ole Christian Bech-Moen

Chief Risk Officer

Dag Huse

Chief Operating Officer

Age Bakker

Chief Compliance and Control Officer

Stephen A. Hirsch

NORGES BANK REAL ESTATE MANAGEMENT

Chief Executive Officer

Karsten Kallevig

Chief Risk Officer

Lars Oswald Dahl

Chief Operating Officer

Nina Kathrine Hammerstad

Chief Administrative Officer

Mie Caroline Holstad

Chief Compliance and Control Officer

Jan Thomsen

6.1

Financial reporting

The annual financial statements for Norges Bank for 2015, which include the financial reporting for the Government Pension Fund Global, were approved by the Executive Board on 10 February 2016 and adopted by the Supervisory Council on 3 March 2016.

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AUDITOR

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Income statement

Amounts in NOK million	Note	2015	2014
Profit/loss on the portfolio excluding foreign exchange gains and losses			
Income/expense from:			
- Equities and units*	4	284 414	385 943
- Bonds*	4	36 160	158 006
- Unlisted real estate	6	14 537	7 160
- Financial derivatives	4	-1 984	-8 208
- Secured lending*	11	3 266	2 758
- Secured borrowing	11	50	-35
Tax expense	9	-2 628	-2 026
Interest income/expense		-18	39
Other expenses		-18	-3
Profit/loss on the portfolio before foreign exchange gains and losses		**333 779**	**543 634**
Foreign exchange gains and losses		668 138	702 259
Profit/loss on the portfolio		**1 001 917**	**1 245 893**
Management fee	10	-3 933	-3 202
Profit/loss for the period and total comprehensive income		**997 984**	**1 242 691**

* *Secured lending* includes net income/expense from reverse repurchase agreements as well as income from agency securities lending. Income from agency securities lending has previously been presented within *Income/expense from: Equities and units* and *Bonds*. Comparatives for 2014 have been restated.

Balance sheet

Amounts in NOK million	Note	31.12.2015	31.12.2014*
ASSETS			
Deposits in banks		2 543	11 731
Secured lending	11,12	123 385	45 536
Cash collateral posted	12	2 231	1 289
Unsettled trades		18 404	1 376
Equities and units	5	4 287 606	3 790 853
Equities lent	5,11	312 662	166 842
Bonds	5	2 476 729	2 324 626
Bonds lent	5,11	241 518	25 163
Unlisted real estate	6	180 021	106 431
Financial derivatives	5,12	8 829	5 777
Other assets	13	2 265	3 847
TOTAL ASSETS	7,8	7 656 193	6 483 471
LIABILITIES AND OWNER'S CAPITAL			
Liabilities			
Secured borrowing	11,12	149 735	39 975
Cash collateral received	12	2 570	543
Unsettled trades		22 438	4 001
Financial derivatives	5,12	5 266	7 895
Other liabilities	13	1 031	318
Management fee payable	10	3 933	3 202
Total liabilities		**184 973**	**55 934**
Owner's capital		7 471 220	6 427 537
TOTAL LIABILITIES AND OWNER'S CAPITAL	7,8	7 656 193	6 483 471

* *Cash collateral posted* is presented on a separate line in the balance sheet from 2015. This was previously included in *Other assets*. *Secured borrowing* includes cash collateral received under agency securities lending, previously presented as *Cash collateral received*. Comparatives for 2014 have been restated.

ACCOUNTING POLICY

The statement of cash flows is prepared in accordance with the direct method. Major classes of cash receipts and cash payments are presented separately. Specific categories of cash flows, primarily arising from the purchase and sale of financial instruments, are shown on a net basis. All investment activities and the management fee to Norges Bank that is charged to the GPFG are defined as operating activities. Cash comprises *Deposits in banks*.

Cash transfers to the GPFG in the form of inflows from the Norwegian government are classified as financing activities. These transfers have been settled in the period (cash principle). Inflows in the *Statement of changes in owner's capital* are based on accrued inflows.

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.

Statement of cash flows

Amounts in NOK million, received (+) / paid (-)	2015	2014
Operating activities		
Dividends received from investments in equities and units	108 904	82 623
Interest received from investments in bonds	75 283	63 309
Interest and dividends received from unlisted real estate	3 532	1 966
Net interest and fees received from secured lending and borrowing	3 324	2 515
Interest, dividends and fees received from holdings of equities and units, bonds and unlisted real estate	*191 043*	*150 413*
Net cash flow arising from purchase and sale of equities and units	-89 916	-144 448
Net cash flow arising from purchase and sale of bonds	-140 103	-62 878
Net cash flow arising from purchase and sale of unlisted real estate	-44 946	-37 711
Net cash flow arising from financial derivatives	-3 165	-1 204
Net cash flow arising from cash collateral related to derivative transactions	730	-336
Net cash flow arising from interest received from deposits in banks and interest paid on bank overdraft	-6	-1 137
Net cash flow arising from secured lending and borrowing	33 708	-40 012
Net tax payments	-1 499	-2 740
Net cash flow related to other expenses, other assets and other liabilities	1 309	-2 625
Management fee paid to Norges Bank	-3 202	-2 889
Net cash outflow from operating activities	-56 047	-145 567
Financing activities		
Inflow from the Norwegian government	45 836	150 894
Net cash inflow from financing activities	45 836	150 894
Net change in cash		
Deposits in banks at 1 January	11 731	3 953
Net cash receipts/payments in the period	-10 211	5 327
Net foreign exchange gains and losses on cash	1 023	2 451
Deposits in banks at end of period	2 543	11 731

ACCOUNTING POLICY

Owner's capital for the GPFG comprises contributed capital in the form of inflows from the Norwegian government and retained earnings in the form of total comprehensive income. *Total owner's capital* corresponds to the Ministry of Finance's krone account in Norges Bank.

Statement of changes in owner's capital

Amounts in NOK million	Inflows from owner	Retained earnings	Total owner's capital*
1 January 2014	3 298 941	1 735 905	5 034 846
Total comprehensive income	-	1 242 691	1 242 691
Inflows during the period*	150 000	-	150 000
31 December 2014	**3 448 941**	**2 978 596**	**6 427 537**
1 January 2015	3 448 941	2 978 596	6 427 537
Total comprehensive income	-	997 984	997 984
Inflows during the period*	45 700	-	45 700
31 December 2015	**3 494 640**	**3 976 580**	**7 471 220**

* Of the total inflows to the krone account of the Government Pension Fund Global in 2015, NOK 3.2 billion was used to pay the 2014 accrued management fee to Norges Bank and NOK 42.5 billion was transferred into the investment portfolio. Comparative amounts for 2014 were NOK 2.9 billion and NOK 147.1 billion, respectively.

Notes to the financial reporting

Note 1 General Information

1. INTRODUCTION

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

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

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

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

The annual financial reporting for the GPFG is an excerpt from Norges Bank's financial reporting, and is included in Norges Bank's annual financial statements as note 20.

2. APPROVAL OF THE FINANCIAL STATEMENTS

The annual financial statements of Norges Bank for 2015, which include the financial reporting for the GPFG, were approved by the Executive Board on 10 February 2016 and adopted by the Supervisory Council on 3 March 2016.

Note 2 Accounting policies

REFERENCES TO ACCOUNTING POLICIES, SIGNIFICANT ESTIMATES AND CRITICAL ACCOUNTING JUDGEMENTS

This note describes significant accounting policies, significant estimates and critical accounting judgements that are relevant to the financial statements as a whole. Additional accounting policies, significant estimates or critical accounting judgements are included in the respective statements and notes.

EXPLANATION OF SIGNIFICANT ESTIMATES AND CRITICAL 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.

1. BASIS OF PREPARATION

In accordance with the regulation concerning the annual financial statements of Norges Bank, the financial reporting of the GPFG shall be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The annual financial statements are prepared with a closing date of 31 December, and are presented in Norwegian kroner (NOK), rounded to the nearest million kroner.

2. CHANGES IN ACCOUNTING POLICIES AND IMPLEMENTATION OF NEW AND/OR AMENDED STANDARDS OR INTERPRETATIONS

Accounting policies are applied consistently with those of the previous financial year. There are no new or amended IFRS standards and interpretations that have become effective for the financial year starting 1 January 2015, that have had a material impact on the financial statements.

3. ACCOUNTING POLICIES FOR THE FINANCIAL STATEMENTS AS A WHOLE

3.1 Subsidiaries

Subsidiaries are established that exclusively constitute investments as part of the management of the GPFG. These subsidiaries are entities over which the GPFG has control. Principle subsidiaries are listed in note 15 *Interests in other entities*.

IFRS 10 *Consolidated financial statements* has been applied. IFRS 10 defines an investment entity and introduces a mandatory exemption from consolidation for investment entities.

Subsidiaries that provide investment-related services for the GPFG, and that are not investment entities, are consolidated in the financial statements of the GPFG. Other subsidiaries are measured at fair value through profit or loss in line with the exemption for consolidation for investment entities.

<u>Subsidiaries measured at fair value through profit or loss</u>

Subsidiaries measured at fair value through profit or loss are presented in the balance sheet as *Unlisted real estate*. Subsidiaries invest, through other entities, exclusively in real estate. For further information on accounting policies for financial assets, that are applied to subsidiaries measured at fair value through profit or loss, see section 3.3. See note 6 for accounting policies specific to unlisted real estate.

<u>Consolidated subsidiaries</u>

Consolidated subsidiaries provide investment-related services for the GPFG in connection with the asset management of unlisted real estate investments. These companies do not own, directly or indirectly, investments in real estate. Intra-group transactions and intercompany balances are eliminated on consolidation.

ACCOUNTING JUDGEMENT

The GPFG is an investment entity based on the following:

a) It obtains funds from the Norwegian government, a related party and its sole owner, and delivers professional investment services, being the management of the fund, to the Norwegian government,
b) It commits itself towards the Norwegian government to invest solely for capital appreciation and investment income,
c) It measures and evaluates returns for all its investments exclusively based on fair value.

An investment entity shall have a strategy that defines the time horizon for the realisation of investments. The GPFG has a very long time horizon. After an overall assessment, it has been concluded that the GPFG meets the criteria in the definition of an investment entity.

3.2 Foreign currency

The functional currency is the Norwegian krone (NOK). Transactions in foreign currency are recognised in the financial statements at the exchange rate prevailing on the transaction date. Assets and liabilities in foreign currencies are translated into Norwegian kroner using the exchange rate at the balance sheet date. The financial statements are presented in Norwegian krone.

In the income statement, the foreign exchange element linked to realised and unrealised gains and losses on assets and liabilities is disaggregated and presented on a separate line. Foreign exchange adjustments for the period are estimated on the basis of the cost in foreign currency and changes in exchange rates between the time of purchase, or the previous balance sheet date for financial instruments purchased in earlier periods, and the balance sheet date. Upon realisation, the exchange rate at the transaction date is used.

SIGNIFICANT ESTIMATE

Gains and losses on securities and financial derivatives are based on changes in the price of the security/instrument (before foreign exchange gains and losses) and changes in foreign exchange rates (foreign exchange gains and losses). These are presented separately in the income statement. The method of allocating total gains and losses in Norwegian kroner to a security element and a foreign exchange element is an estimate, as different methods will result in different allocations.

Foreign exchange element

Unrealised gains and losses due to changes in foreign exchange rates are calculated based on the cost of the holding in local currency and the change in the foreign exchange rate from the time of purchase until the balance sheet date. If the holding has been purchased in a previous period, gains and losses from previous periods that have already been recognised in profit or loss are deducted to arrive at the gain or loss for the current period. Accordingly, for realised gains or losses, the foreign exchange rate on the date of sale is used instead of the closing rate at the end of the reporting period, and previously recognised unrealised gains or losses for the holding are reversed in the current period.

Security element

Unrealised gains and losses from changes in the security price are calculated based on the change in the security price from the purchase date to the balance sheet date and the closing exchange rate at the balance sheet date. Gains and losses recognised in the income statement in previous periods are deducted to arrive at the gain or loss from security prices for the current period. Realised gains and losses from changes in security prices are based on the selling price as opposed to the price on the balance sheet date, and previously recognised unrealised gains or losses for the holding are reversed in the current period.

3.3 Financial assets and liabilities

Recognition and derecognition

Financial assets or liabilities are recognised in the balance sheet upon becoming a party to the instrument's contractual provisions, or when the risks and rewards of ownership are transferred, if this occurs at a different point in time. The transaction is recognised at trade date, where the purchase or sale of the instrument involves settlement under normal market conditions.

Financial assets are derecognised when the contractual rights to the cash flows expire, or when the financial asset and substantially all the risks and rewards of ownership are transferred. Average acquisition cost is used upon derecognition. See note 11 *Secured lending and borrowing* for details of transferred assets that are not derecognised.

Financial liabilities are derecognised when the obligation has been settled, extinguished or cancelled.

Classification

Financial assets and liabilities are initially recognised at fair value. On initial recognition, all financial assets and liabilities are classified depending on the type of instrument, the contractual terms and the purpose of the investment in accordance with IAS 39 *Financial instruments: Recognition and measurement.*

Fair value through profit or loss (fair value option)

Financial assets or liabilities that are managed and whose performance is evaluated on a fair value basis in accordance with a documented risk management and investment strategy are designated at *fair value through profit or loss* on initial recognition. This implies that a fair value business model is used for the portfolios comprising these financial assets and/or liabilities and that the primary objective is to achieve gains over the longer term connected to changes in fair value. The vast majority of financial assets and liabilities are classified as at *fair value through profit or loss*.

Held for trading
Financial assets and liabilities that are derivatives are classified as *held for trading* on initial recognition.

Loans and receivables
Financial assets and liabilities other than those classified as either at *fair value through profit or loss* or as *held for trading* are classified as *loans and receivables* on initial recognition.

4. NEW STANDARDS WITH EFFECT FROM 2015 OR LATER

IASB final standards and IFRIC interpretations with application dates from 2016 or later:

IFRS 9 Financial Instruments
IFRS 9 includes requirements for recognition, measurement, impairment and derecognition of financial instruments, and replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

Under IFRS 9, financial assets with basic loan features shall be carried at amortised cost, unless the business model indicates that they should be carried at fair value. All other financial assets shall be carried at fair value.

Classification and measurement of financial liabilities under IFRS 9 is a continuation of IAS 39, with the exception of financial liabilities designated as at *fair value through profit or loss* (fair value option), where changes in fair value relating to own credit risk shall be separated and presented in other comprehensive income.

It is expected that financial assets and liabilities will qualify for fair value classification under IFRS 9 as at 31 December 2015.

The effective date of IFRS 9 has been set by the IASB for periods starting on or after 1 January 2018. It is expected that the standard will be applied once it has been endorsed by the EU. Application of IFRS 9 is not expected to result in material changes in classification, recognition or measurement for the financial reporting on the transition date.

Note 3 Returns per asset class

Table 3.1 Returns per asset class

	2015	2014	4Q 2015	3Q 2015	2Q 2015	1Q 2015
Returns in the fund's currency basket						
Return on equity investments (percent)	3.83	7.90	5.84	-8.56	-0.23	7.53
Return on fixed-income investments (percent)	0.33	6.88	0.07	0.90	-2.22	1.63
Return on real estate investments (percent)	10.00	10.42	1.61	2.97	1.96	3.10
Return on fund (percent)	2.74	7.58	3.56	-4.93	-0.87	5.28
Return on equity and fixed-income investments (percent)	2.52	7.53	3.61	-5.15	-0.95	5.33
Return on benchmark equity and fixed-income indices (percent)	2.07	8.30	3.51	-4.93	-1.33	5.13
Relative return on equity and fixed-income investments (percentage points)	0.45	-0.77	0.11	-0.22	0.38	0.19
Relative return on equity investments (percentage points)	0.83	-0.82	0.12	-0.07	0.40	0.39
Relative return on fixed-income investments (percentage points)	-0.24	-0.70	0.17	-0.64	0.34	-0.14
Returns in Norwegian kroner (percent)						
Return on equity investments	16.77	24.61	8.65	-2.29	-1.17	11.29
Return on fixed-income investments	12.83	23.43	2.73	7.82	-3.14	5.17
Return on real estate investments	23.71	27.51	4.32	10.03	1.00	6.70
Return on fund	15.54	24.23	6.31	1.59	-1.81	8.95
Return on equity and fixed-income investments	15.30	24.18	6.37	1.35	-1.89	9.00

Returns in table 3.1 are a reproduction of return information in table 1 in the annual report chapter *Results for 2015*. A time-weighted monthly rate of return methodology is applied in the return calculations. The fair value of holdings is determined at the time of cash flows into and out of the asset classes, and interim returns are geometrically linked. Returns are calculated net of non-reclaimable withholding taxes on dividends, interest and capital gains. Performance is reported in the fund's currency basket, as well as in Norwegian kroner, where the currency basket is weighted based on the currency composition of the benchmark indices for equity and fixed-income investments. Returns measured in the fund's currency basket are calculated as the geometrical difference between the fund's returns measured in Norwegian kroner and the return of the currency basket. Returns on the benchmark indices for equity and fixed-income investments are calculated by weighting the monthly returns of the benchmark portfolio for equities and fixed-income respectively, with actual ingoing market capitalisation weights at the beginning of the month. Return on real estate investments includes the return on investments in listed and unlisted real estate.

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

ACCOUNTING POLICY

The following accounting policies relate to the respective income and expense elements:

Interest income is recognised when the interest is earned. *Interest expense* is recognised as incurred.

Dividends are recognised as income when the dividends are formally approved by the shareholders' meeting or comparable responsible party.

Realised gain/loss represents amounts realised when assets or liabilities have been derecognised. Realised gain/loss includes transaction costs, which are expensed as incurred. Transaction costs are defined as all costs directly attributable to the completed transaction. For investments in *Equities and units* and *Bonds,* these normally include commission fees and stamp duties.

Unrealised gain/loss represents changes in fair value for the period for the related balance sheet line item, that are not attributable to the aforementioned categories.

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 the respective income statement line.

Table 4.1 Specification Income/expense from equities and units

Amounts in NOK million	2015	2014
Dividends	107 383	87 962
Realised gain/loss	132 240	75 832
Unrealised gain/loss	44 791	222 149
Income/expense from equities and units before foreign exchange gain/loss	284 414	385 943

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	2015	2014
Interest	78 243	65 472
Realised gain/loss	21 098	14 831
Unrealised gain/loss	-63 181	77 703
Income/expense from bonds before foreign exchange gain/loss	36 160	158 006

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	2015	2014
Dividends	21	-
Interest	-869	-285
Realised gain/loss	-2 422	-4 226
Unrealised gain/loss	1 286	-3 697
Income/expense from financial derivatives before foreign exchange gain/loss	-1 984	-8 208

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

ACCOUNTING POLICY

Investments in equities, units and bonds are designated upon initial recognition as at *fair value through profit or loss* and are carried in the balance sheet at fair value. Earned and accrued dividends and interest are presented in the balance sheet on the same line as the respective financial asset and liability and are specified in tables 5.1 and 5.2 for *Equities and units* and *Bonds*. Lent equities, units and bonds are presented separately. For more information on lent securities, see note 11 *Secured lending and borrowing*.

Financial derivatives are classified as *held for trading* and are carried in the balance sheet at fair value. Variation margin for exchange traded futures and equity swaps is considered to be settlement, and amounts are presented as *Deposits in banks*. Norges Bank does not engage in hedge accounting, and therefore none of the financial instruments are designated as hedging instruments for accounting purposes.

For further information on fair value measurement of *Equities and units*, *Bonds* and *Financial derivatives*, see note 7 *Fair value measurement*. Changes in fair value for the period are recognised in the income statement and specified in note 4 *Income/Expense from Equities and units, Bonds and Financial derivatives*.

Table 5.1 Equities and units

	31.12.2015		31.12.2014	
Amounts in NOK million	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities and units	4 600 268	5 491	3 957 695	7 012
Total equities and units	4 600 268	5 491	3 957 695	7 012
Of which equities lent	*312 662*		*166 842*	

Table 5.2 Bonds

Amounts in NOK million	31.12.2015 Nominal value*	31.12.2015 Fair value including accrued interest	31.12.2015 Accrued interest	31.12.2014 Nominal value*	31.12.2014 Fair value including accrued interest	31.12.2014 Accrued interest
Government bonds						
Government bonds issued in the government's local currency	1 326 895	1 493 128	11 803	1 095 771	1 296 796	9 832
Total government bonds	1 326 895	1 493 128	11 803	1 095 771	1 296 796	9 832
Government-related bonds						
Sovereign bonds	21 935	23 045	385	19 094	20 867	359
Bonds issued by local authorities	89 363	96 508	743	71 470	82 793	721
Bonds issued by supranational bodies	66 665	72 351	737	59 365	64 904	680
Bonds issued by federal agencies	189 712	194 925	1 409	166 567	175 207	1 548
Total government-related bonds	367 675	386 829	3 274	316 496	343 771	3 308
Inflation-linked bonds						
Inflation-linked bonds issued by government authorities	103 152	120 275	522	52 788	63 715	222
Total inflation-linked bonds	103 152	120 275	522	52 788	63 715	222
Corporate bonds						
Bonds issued by utilities	40 639	42 951	545	32 421	35 994	443
Bonds issued by financial institutions	200 160	202 030	2 203	144 974	149 846	1 743
Bonds issued by industrial companies	298 979	302 901	3 386	252 622	268 718	2 747
Total corporate bonds	539 778	547 882	6 134	430 017	454 559	4 933
Securitised bonds						
Covered bonds	158 708	168 925	2 284	173 114	189 208	2 760
Commercial mortgage backed securities	2 544	1 208	5	2 165	1 740	7
Total securitised bonds	161 252	170 133	2 289	175 279	190 948	2 767
Total bonds	2 498 752	2 718 247	24 022	2 070 351	2 349 789	21 062
Of which bonds lent		*241 518*			*25 163*	

* *Nominal value* comprises the principal translated into NOK at the exchange rate on the balance sheet date.

Financial derivatives are used in asset management to adjust the exposure in various portfolios, as a cost efficient alternative to trading in the underlying securities. This may be to adjust the exposure to equities or bonds and the fixed-income market.

Table 5.3 gives a specification of financial derivative holdings. Notional amounts (the nominal values of the underlying) are the basis for the calculation of any cash flows and gains/losses for the contracts. Notional amounts are presented gross, being the sum of the long and short positions, which provides information about the extent to which different types of financial derivatives are used.

Table 5.3 Financial derivatives

	31.12.2015			31.12.2014		
		Fair value			Fair value	
Amounts in NOK million	Notional amount	Asset	Liability	Notional amount	Asset	Liability
Foreign exchange derivatives	351 186	4 352	1 521	204 179	5 275	3 141
Interest rate derivatives	37 123	553	3 745	37 194	112	4 754
Equity derivatives*	4 846	3 924	-	1 596	390	-
Total financial derivatives	393 155	8 829	5 266	242 969	5 777	7 895

* *Equity derivatives* include rights and warrants (previously presented as options) and participatory certificates.

OVER-THE-COUNTER (OTC) FINANCIAL DERIVATIVES

Foreign exchange contracts

This item consists of foreign currency exchange contracts (forwards) which are agreements to buy or sell a specified quantity of foreign currency on an agreed future date.

Interest rate swaps

Interest rate swaps are agreements between two parties to exchange interest payment streams based on different interest rate calculation methods. Typically, one party pays a floating rate of interest and the other pays a fixed rate.

Equity derivatives

Equity derivatives are derivatives with exposure to an underlying equity. Equity derivatives include instruments with an option component such as warrants and rights. These instruments grant the owner the right to purchase an equity at an agreed price within a certain time frame. Equity derivatives also include participatory certificates which is an instrument that provides exposure to an underlying equity.

EXCHANGE-TRADED FUTURES CONTRACTS

Futures contracts are listed contracts to buy or sell a specified asset (security, index, interest rate, etc.) at an agreed price at a future point in time. Settlement is normally made in cash, with initial and daily margin settlement of gains and losses.

Note 6 Unlisted real estate

ACCOUNTING POLICY

Real estate investments are made through subsidiaries which exclusively constitute investments as part of the management of the GPFG. These subsidiaries are not consolidated in the financial statements of the GPFG, because the GPFG is an investment entity. See note 2 *Accounting policies* for more information. The investments in subsidiaries, comprising equity and long-term loan financing, are included in the balance sheet of the GPFG as *Unlisted real estate*. The subsidiaries are designated upon initial recognition as at *fair value through profit or loss*. Changes in fair value for the period are recognised in the income statement.

The following accounting polices apply to the respective income and expense elements:

Dividends are recognised as income when the dividends are formally approved by the shareholder's meeting, comparable responsible party or as a consequence of the company's articles of association.

Interest income is recognised when the interest is earned. *Interest expense* is recognised as incurred.

Unrealised gain/loss represents changes in fair value for the period for the related balance sheet item, that are not attributable to the aforementioned categories.

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	2015	2014
Dividend	1 931	598
Interest income	1 601	1 368
Unrealised gain/loss	11 005	5 194
Income/expense from unlisted real estate before foreign exchange gain/loss	14 537	7 160

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK million	31.12.2015	31.12.2014
Unlisted real estate, opening balance for the period	106 431	51 032
Additions new investments	44 946	37 711
Unrealised gain/loss	11 005	5 194
Foreign currency translation effect	17 639	12 494
Unlisted real estate, closing balance for the period	180 021	106 431

UNDERLYING REAL ESTATE COMPANIES

Real estate subsidiaries have investments in other non-consolidated, unlisted companies. For a list of principle entities, see note 15 *Interests in other entities*. These companies in turn invest in real estate assets, primarily properties. The fair value of real estate is considered to be the sum of all underlying assets, less liabilities at fair value, adjusted for the GPFG's ownership share. Assets and liabilities are presented in table 6.4. For further information on fair value measurement of real estate assets and liabilities, see note 7 *Fair value measurement*.

Specific accounting policies for the real estate subsidiaries, not mentioned before, are as follows:

Rental income is recognised as income on a straight-line basis over the lease term, taking into account any incentive schemes.

Transaction costs are incurred as a one-time cost when purchasing or selling properties. Transaction costs include stamp duty, registration fees, due diligence costs (fees to advisors, such as lawyers and valuation experts etc.) and insurance. Transaction costs are expensed as incurred.

Table 6.3 provides a specification of the GPFG's share of income generated in the underlying real estate companies. Income generated through rental income, after deduction of expenses, can be distributed to the GPFG in the form of interest and dividends as specified in table 6.1. Unrealised gain/loss presented in table 6.1 includes undistributed profits and will therefore not reconcile with fair value changes in table 6.3, which solely comprise fair values changes of properties and debt.

Table 6.3 Income from underlying real estate companies

Amounts in NOK million	2015	2014
Net rental income*	6 921	3 747
Realised gain/loss	320	-
Fair value changes - properties	9 265	5 464
Fair value changes - debt	435	-395
Transaction costs	-320	-586
Interest expense external debt	-666	-354
Tax expense payable	-100	-81
Change in deferred tax	-452	-292
Fixed fees to property managers**	-308	-165
Variable fees to property managers**	-343	-16
Operating expenses within the limit from the Ministry of Finance***	-86	-83
Other expenses	-129	-79
Net income real estate companies	14 537	7 160

* *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.

*** See table 10.2 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 Specification assets and liabilities real estate companies

Amounts in NOK million	31.12.2015	31.12.2014
Deposits in banks	2 491	1 170
Properties	197 549	118 515
External debt	-17 432	-11 985
Tax payable	-215	-98
Net deferred tax	-1 048	-520
Net other assets and liabilities	-1 324	-651
Total assets and liabilities real estate companies	180 021	106 431

In addition to the direct real estate investments presented in the 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 as *Equities and units*, and amount to NOK 54 134 million at year-end compared to NOK 33 238 million at year-end 2014.

Note 7 Fair value measurement

ACCOUNTING POLICY

All assets and liabilities presented as *Equities and units, Bonds, Unlisted real estate, Financial derivatives, Secured lending and borrowing, Deposits in banks* and *Cash collateral posted* and *received* are held at fair value in the balance sheet.

Fair value, as defined by IFRS 13 *Fair value measurement*, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

1. INTRODUCTION

The fair value of the vast majority of assets and liabilities is based on quoted market prices. If the market for a security or an asset is not active, fair value is established by using standard valuation techniques. Estimating fair value introduces valuation uncertainty, mostly due to the use of unobservable inputs used in valuation models. This valuation risk is addressed by the control environment in Norges Bank Investment Management, which governs fair value measurement, and is described in section 6 of this note.

2. VALUATION UNCERTAINTY AND THE FAIR VALUE HIERARCHY

All balance sheet items 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:

- Level 1 comprises assets that are valued on the basis of unadjusted quoted prices in active markets and are considered to have very limited valuation uncertainty.
- Assets and liabilities classified as Level 2 are valued using models with observable inputs. Inputs are considered observable if they can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Holdings classified as Level 2 have some valuation uncertainty.
- Assets classified as Level 3 are valued using models with considerable use of unobservable inputs, leading to a high degree of valuation uncertainty.

An overview of models and valuation techniques with their respective observable and unobservable inputs, categorised per type of instrument, is provided in section 4 of this note.

SIGNIFICANT ESTIMATE

Level 3 investments consist of instruments held at fair value that are not traded or quoted in active markets. The fair values are therefore determined using valuation techniques that use models with unobservable inputs. The resulting values are particularly uncertain estimates, due to the significant use of unobservable inputs.

Table 7.1 classifies investments by level of valuation uncertainty into the fair value hierarchy and includes all balance sheet items measured at fair value.

Table 7.1 Investments by level of valuation uncertainty

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Equities and units	4 564 401	3 925 476	32 260	30 236	3 607	1 983	4 600 268	3 957 695
Government bonds	1 380 928	1 141 268	112 200	155 528	-	-	1 493 128	1 296 796
Government-related bonds	331 310	308 397	54 477	27 424	1 042	7 950	386 829	343 771
Inflation-linked bonds	108 484	55 613	11 791	8 102	-	-	120 275	63 715
Corporate bonds	512 577	246 887	34 824	192 266	481	15 406	547 882	454 559
Securitised bonds	160 797	172 332	8 128	16 703	1 208	1 913	170 133	190 948
Total bonds	2 494 096	1 924 497	221 420	400 023	2 731	25 269	2 718 247	2 349 789
Financial derivatives (assets)	359	-	8 470	5 777	-	-	8 829	5 777
Financial derivatives (liabilities)	-	-	-5 266	-7 895	-	-	-5 266	-7 895
Total financial derivatives	359	-	3 204	-2 118	-	-	3 563	-2 118
Unlisted real estate	-	-	-	-	180 021	106 431	180 021	106 431
Other*	-	-	-26 946	18 942	-	-	-26 946	18 942
Total	7 058 856	5 849 973	229 938	447 083	186 359	133 683	7 475 153	6 430 739
Total (percent)	94.4	91.0	3.1	6.9	2.5	2.1	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

The total valuation uncertainty for the GPFG at the end of 2015 is essentially unchanged compared to the end of 2014. The majority of the total portfolio has low valuation uncertainty and is classified as Level 1 or 2 (97.5 percent at year-end 2015 compared to 97.9 percent at year-end 2014).

Equities and units

The pricing uncertainty for equities and units has generally not changed throughout the year, and equities and units are valued almost exclusively (99.2 percent) on the basis of official closing prices from stock exchanges or last traded exchange prices. These are thus quoted market prices and are classified as Level 1. Equities classified as Level 2 amount to 0.7 percent of the total equity portfolio, and mainly comprise relatively illiquid holdings. The changes in Level 2 are described in more detail in section 3 of this note. Equities classified as Level 3 comprise a small number of holdings for which the valuation is particularly uncertain due to a lack of market activity, suspended companies and unlisted equities of companies whose board of directors have stated an intention to make an initial public offering of shares. These securities amounted to 0.1 percent of the equity portfolio at year-end.

Bonds

Valuation uncertainty for bonds has decreased compared with the previous year-end. Movements between levels are described in more detail below. The majority (91.8 percent) of the holdings in bonds are valued using observable quoted prices from active markets and are classified as Level 1. This applies to all categories of bonds. In total, 8.1 percent of the bond portfolio was classified as Level 2, and 0.1 percent was classified as Level 3 at year-end 2015.

Some government bonds and a few government-related bonds, mainly issued in emerging markets, are classified as Level 2. No government bonds are classified as Level 3. Certain government-related bonds are classified as Level 3.

No inflation-linked bonds are classified as Level 3 and the minority that are classified as Level 2 originate from emerging markets. A small proportion of securitised bonds are classified as Level 2 and a few as Level 3. These have a low degree of observable market prices and some of these instruments are priced using models.

The majority of corporate bonds are considered liquid at year-end, with observable market prices and are therefore classified as Level 1. The remaining corporate bonds are mainly classified as Level 2. These bonds consist of less liquid bonds issued in USD with some degree of fair value uncertainty. Some corporate bonds are illiquid, with a price that is difficult to verify, and they are therefore 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 unlisted real estate investments are measured at the value determined by external valuers, with the exception of newly acquired properties where the purchase price, excluding transaction costs, is considered to be the best estimate of fair value. Valuation uncertainty related to unlisted real estate investments is in general considered to be unchanged from last year-end.

Financial derivatives
Some equity derivatives (rights and warrants) that are actively traded on exchanges are classified as Level 1. Other derivatives have been classified as Level 2, as their valuation is based on standard models using observable market inputs. The majority of derivatives on the asset side of the balance sheet are OTC foreign exchange contracts with positive market values. On the liability side, foreign exchange contracts with negative market values account for slightly over one third of the total value, with interest rate swaps making up the remaining two thirds.

Other assets and liabilities are classified as Level 2.

3. MOVEMENTS BETWEEN LEVELS OF VALUATION UNCERTAINTY

Reclassifications between Level 1 and Level 2
There have not been significant changes between levels in the equity portfolio since last year-end. During the year there have been small movements between Level 1 and 2, particularly related to Russian and Chinese equities. For the former market, most equities have been reclassified from Level 2 to Level 1 in line with the stabilisation of the Russian market and due to the fact that equity prices could be based directly on observable quotes. Some Chinese equities, which have recently been suspended from trading have been reclassified from Level 1 to Level 2. In addition, the proportion of illiquid shares, received in the form of stock dividends, was slightly higher at the end of 2015. Holdings classified as Level 2 are therefore marginally higher compared to year-end 2014.

Valuation uncertainty has decreased for all categories of bonds, except for government-related bonds, and 10 percentage points of the bond portfolio has been reclassified. During the first quarter of 2015, a significant portion of bonds were reclassified from Level 2 to Level 1. The main reason for this reclassification was use of a broader data foundation, providing increased marked transparency and insight into liquidity through further access to detailed market information, including trading volumes in the market over a longer period. The reason for the increase in government-related bonds classified as Level 2 is that the fund acquired a significant investment in two illiquid bonds at the end of the year. These have been valued based on more liquid comparable bonds and have therefore somewhat higher valuation uncertainty.

Table 7.2 Specification of changes in Level 3 holdings

Amounts in NOK million	01.01.2015	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange 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

Amounts in NOK million	01.01.2014	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gains and losses	31.12.2014
Equities and units	1 753	180	-138	19	-548	417	-67	367	1 983
Bonds	1 571	9 247	-173	-230	68	10 455	-96	4 427	25 269
Unlisted real estate	51 032	37 711	-	-	5 194	-	-	12 494	106 431
Total	54 356	47 138	-311	-211	4 714	10 872	-163	17 288	133 683

The GPFG's total exposure that is considered particularly uncertain with respect to valuation (Level 3) increased by NOK 52 676 million in 2015 to an exposure of NOK 186 359 million at year-end.

Equity and bond holdings classified as Level 3 decreased by NOK 20 914 million during 2015. At the end of 2015, this level amounted to NOK 6 338 million, or 0.1 percent of the total equity and bond portfolio. Equity holdings with the largest degree of valuation uncertainty increased by NOK 1 624 million, primarily due to Chinese equities that have been suspended from trading for a longer period. Holdings of bonds classified as Level 3 were reduced by NOK 22 538 million during 2015. During the year, holdings in corporate bonds and government-related bonds have been reclassified to higher levels. This was mainly due to reclassifications in the first quarter. The reason for this reclassification is discussed above.

All unlisted real estate investments are classified as Level 3, and the increase of NOK 73 590 million in 2015 is primarily due to new investments of NOK 44 946 million, as well as increases in fair value and currency effects.

4. VALUATION TECHNIQUES

Norges Bank Investment Management has defined hierarchies for which price sources to be used for valuation. Holdings that are included in the benchmark index are normally valued in accordance with the index providers' prices, while the remaining holdings of equities and bonds are valued almost exclusively using prices from other reputable external price providers. The next section sets out the main valuation techniques for those instruments included in Level 2 and Level 3 of the fair value hierarchy. Furthermore, it highlights the most significant observable and unobservable inputs to the valuation models and their interaction with sensitivity testing for instruments included in Level 3.

Unlisted real estate (Level 3)

The fair value of unlisted real estate is determined as the sum of the underlying assets and liabilities as presented in note 6 *Unlisted real estate*. Assets and liabilities consist mainly of properties and external debt. Properties are valued each reporting date by external independent valuation specialists using valuation models. Valuation of properties is inherently predisposed to significant forward-looking judgements. These include key assumptions and estimates with respect to each individual property type, location, future revenue streams and relevant discount rates. These assumptions represent mainly unobservable inputs and *Unlisted real estate* is therefore classified as Level 3 in the fair value hierarchy. Estimates used generally reflect recent comparable market transactions of properties with a similar location, condition and quality, and are based on local market conditions. Valuations reflect the best estimate of market value at the valuation date and are sensitive to fluctuations in the input factors. Changes in key assumptions can have a material effect on the valuation of the real estate portfolio.

Valuation of commercial real estate in the European and American markets is based on variations of discounted cash flow models.

Yields and assumptions regarding growth in future market rent levels used in the estimates of future cash flows are the most important variables that affect sensitivity in changes in fair value. There are also a range of other assumptions that impact sensitivity in the development of fair value. These assumptions include, but are not limited to:

- Expected inflation (market, consumer price index, costs, etc.)
- Factors that affect expected cash flows (for example renewal probabilities, expected vacant floor space and development costs)
- Expected vacancies and credit losses, either at a portfolio level or per individual tenant
- Changes in credit spreads and discount rates for commercial real estate loans.

The sensitivity analysis for unlisted real estate investments is limited to changes in yields and changes in growth assumptions for market rents. The sensitivity analysis is based on a statistically relevant sample, representative for the real estate portfolio. An upside and downside scenario is used to reflect both favourable and unfavourable changes.

Equities and units (Level 2 and 3)

Equities and units that are valued based on models with observable inputs provided by vendors according to the pricing hierarchy, are classified as Level 2. These holdings are often illiquid securities that are not traded daily, or securities of suspended companies. The valuation models take into account various observable market inputs such as comparable equity quotes, last traded date, volumes and reasons for suspension.

Unlisted equities and units are valued based on discounted cash flow techniques with unobservable inputs including estimated future earnings and discount rates. Other Level 3 equities and units, such as illiquid holdings and securities suspended for a prolonged period, are mainly valued based on the last market price using regression analysis or based on comparable companies.

Fair value of equities classified as Level 3 is sensitive to whether trading is resumed and how markets have moved from the time the trading was suspended, as well as specific factors related to the individual company such as the financial situation and future income potential.

Bonds (Level 2 and 3)
Bonds that are valued based on indicative quotes, or liquid comparable issues with executable quotes for those that are less liquid, are classified as Level 2. These holdings usually consist of less liquid bonds than those actively traded on the market.

Bonds that are valued by external price vendors, based on models making use of significant unobservable inputs, such as probability of expected cash flows, outdated indirect quotes on comparable issues and spreads to reference curves, are classified as Level 3. These holdings include defaulted and highly illiquid bonds.

The fair value of bonds classified as Level 3 is sensitive to changes in risk premiums and liquidity discounts, as well as the future recovery, in the event of defaults. In some instances, sensitivity analyses are carried out on the underlying discount rate or spread against the discount curve.

Financial derivatives (Level 2)
Foreign exchange derivatives, consisting mainly of foreign exchange forward contracts, are valued using industry standard models with predominantly observable market data inputs such as forward rate yields.

Interest rate derivatives consist of interest rate swaps, and are valued using industry standard models with predominantly observable market data inputs such as interest from traded interest rate swaps.

Equity derivatives, such as rights and warrants, are mainly valued based on prices provided by vendors according to the pricing hierarchy. In some cases where an equity derivative is not traded, observable inputs such as conversion factors, subscription price and strike price are utilised to value the instruments. Participatory certificates are valued using the underlying price of the quoted equity, adjusted for observable inputs related to credit and liquidity risk.

5. SENSITIVITY ANALYSIS FOR LEVEL 3 HOLDINGS

Table 7.3 Additional specification Level 3 and sensitivities

Amounts in NOK million	Specification of Level 3 holdings 31.12.2015	Sensitivities 31.12.2015		Specification of Level 3 holdings 31.12.2014	Sensitivities 31.12.2014	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities and units	3 607	-1 227	1 190	1 983	-843	587
Government-related bonds	1 042	-104	104	7 950	-781	780
Corporate bonds	481	-78	78	15 406	-1 884	1 640
Securitised bonds	1 208	-121	121	1 913	-191	287
Total bonds	2 731	-304	304	25 269	-2 856	2 707
Unlisted real estate	180 021	-7 801	8 637	106 431	-5 532	6 071
Total	186 359	-9 332	10 131	133 683	-9 231	9 365

There is uncertainty associated with the fair value of investments classified as Level 3 and the total sensitivity to unfavourable changes has increased by NOK 101 million to NOK 9 332 million at year-end 2015. The sensitivity to favourable changes has increased by NOK 766 million to NOK 10 131 million. The increases are mainly due to investments in real estate, partly offset by a reduction in the values of holdings in government-related and corporate bonds in Level 3.

Real estate values are particularly sensitive to changes in yields and assumptions influencing future revenues. In an unfavourable scenario, changing the discount rate by +0.2 percentage points, and future market rents by -2 percent will result in a decrease in value of the real estate portfolio of approximately 4.3 percent (5.2 percent in 2014) or NOK 7 801 million. In a favourable scenario, a similar change in the discount rate of -0.2 percentage points and an increase in future market rents of 2 percent will increase the value of the real estate portfolio by 4.8 percent (5.7 percent in 2014) or NOK 8 637 million. Sensitivity of fair values for unlisted real estate investments is mainly reduced compared to last year-end, but absolute values in Level 3 have increased as a result of new real estate investments. The reason for the decrease in sensitivity is compounded, but mainly attributable to changes in the actual portfolio composition, reflected in the sample that the sensitivity analysis is based on. The main cause is that logistics properties are now included in the sample and these have relatively lower sensitivities to the main parameters yield and changes in growth assumptions for market rents. Furthermore, there are large changes in the composition of the American portfolio, which also results in lower sensitivity.

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

6. CONTROL ENVIRONMENT

The control environment for fair value measurement of financial instruments and investments in unlisted real estate is organised around a formalised and documented accounting and valuation policy and guidelines, which are supported by work and control procedures. The policy document lays down valuation policies and outlines procedures for the Norges Bank Investment Management valuation committee.

The valuation environment has been adapted in accordance with market standards and established practices for valuation. This is implemented in practice through daily valuation of all holdings, except for unlisted real estate investments where valuations are performed on a quarterly basis. These processes are scalable with regard to market changes and are based on internal and external data solutions.

All holdings and investments are generally valued by external, independent valuation providers. These have been selected on the basis of thorough analyses performed by the departments responsible for valuation.

Valuation providers are monitored on an ongoing basis through regular discussions, controls and price challenges for individual securities. For a large portion of holdings, prices from independent price providers are based on quoted market prices. For holdings that are not sufficiently liquid for valuation to be based on quoted prices, widely accepted models are used. Observable inputs are used where possible, but in some cases, owing to illiquid markets, unobservable inputs are used.

The valuation process is subject on a daily basis to numerous controls by the valuation departments. The controls are based on defined thresholds and sensitivities, which are monitored and adjusted in accordance with prevailing market conditions. At each month-end for financial instruments and at the end of each quarter for unlisted real estate investments, more extensive controls are performed to ensure valuation is in accordance with fair value. As part of this review, particular attention is paid to illiquid financial instruments and unlisted real estate investments, i.e. investments deemed to pose valuation challenges. Illiquid instruments are identified using sector and currency classifications, credit rating indicators, bid/ask spreads, and activity in the market.

A valuation memo and report are prepared at each quarter-end, documenting the results of the controls performed and the most important sources of uncertainties in the valuations.

The valuation committee, which comprises Norges Bank Investment Management's leader group, meets every quarter prior to the publication of the financial reporting. The committee reviews the valuation documentation, discusses major pricing issues and approves the valuation.

Note 8 Risk

INVESTMENT MANDATE FOR THE GPFG

See note 1 for a description of the framework for management of the GPFG.

The GPFG shall seek to obtain the highest possible return after expenses measured in the currency basket of the benchmark, within the set management limits. The strategic benchmark index set by the Ministry of Finance is divided into three asset classes with an allocation of 60 percent to equities, up to 5 percent to real estate and the remainder to bonds. The benchmark for equities is constructed based on market capitalisation for equities in the countries included in the benchmark. The benchmark for bonds specifies a defined allocation between government bonds and corporate bonds. The currency distribution is a result of these weighting principles. The GPFG may not invest in securities issued by Norwegian entities or issued in Norwegian kroner. These securities are also excluded from the benchmark. The GPFG can also not invest in real estate located in Norway.

NORGES BANK'S GOVERNANCE STRUCTURE

The Executive Board of Norges Bank has delegated the responsibility for the management of the GPFG to the Chief Executive Officer (CEO) of Norges Bank Investment Management.

The CEO of Norges Bank Investment Management is authorised through a job description and an investment mandate. The Executive Board has issued principles for risk management, responsible investment and compensation to Norges Bank Investment Management employees. The organisation must adhere to internationally recognised standards in the areas of valuation, performance measurement and management, measurement and control of risk. Reporting to the Executive Board is carried out monthly, and more extensively on a quarterly basis. The Governor of Norges Bank and the Executive Board are notified immediately in the event of special events or significant matters.

GOVERNANCE STRUCTURE

Investment responsibilities within Norges Bank Investment Management are further delegated through investment mandates. Responsibility for processes and personnel is delegated through job descriptions, while process requirements are described in policies and guidelines. The composition of the leader group and the delegation of authority shall ensure segregation of duties between investment management, treasury and trading, operations, risk management and compliance. Real estate is structured as a separate unit with its own leader group, and the CEO for Real estate reports to the CEO of Norges Bank Investment Management.

The investment risk committee complements the delegation of responsibility by advising on investment risk management, and the investment universe committee advises on the portfolio's investment universe.

Internal risk reporting requirements are set by Norges Bank Investment Management's CEO through job descriptions in the risk area. Reporting to the CEO is carried out on a daily, weekly and monthly basis. The CEO shall be notified immediately of any special events or serious breaches of the investment mandate. Equivalent reporting requirements are embedded in the real estate organisation.

FRAMEWORK FOR INVESTMENT RISK

In the investment mandate for the GPFG, there are a number of limits and restrictions within the combined equity and bond asset class, as well as within the individual asset classes. The investment mandate contains a separate management framework for real estate investments. The framework underpins how a diversified exposure to global real estate markets shall be established and managed.

Clear roles and responsibilities are a cornerstone of process design at Norges Bank Investment Management. Changes to existing investment mandates, the portfolio hierarchy or new counterparties are monitored and require approval by the Chief Risk Officer (CRO), or a person authorised by the CRO.

The Executive Board's principles for risk management are further described through policies and guidelines. Responsibility for effective processes related to risk management is delegated to the CRO and Chief Compliance Officer (CCO). Risk management related to unlisted real estate investments is delegated to the CRO and CCO in Real estate.

Risk management is defined as management of market risk, credit risk, counterparty risk, operational risk and risk related to environmental, social and governance factors. The first three items listed are defined as investment risk. Within Norges Bank Investment Management, the investment area is responsible for managing risk in the portfolio and in individual mandates, while the risk management areas independently measure, manage and report investment risk across the portfolio, asset classes and other levels within the portfolio that reflect the investment process. In Real estate, independent risk analyses are required in advance of new unlisted investments.

Investment risk - market risk
Norges Bank Investment Management defines market risk as the risk of loss or a change in the market value of the portfolio, or parts of the portfolio, due to changes in financial market variables and real estate values. Market risk for the GPFG is measured along the dimensions concentration (absolute and relative to the benchmark), volatility and correlation risk, systematic factor risk and liquidity risk. For real estate, this involves measurement of the share of real estate under construction, vacancy and tenant concentration. Market risk is actively taken to generate investment returns in line with the objectives of the investment mandates.

Investment risk – credit risk
Norges Bank Investment Management defines credit risk as the risk of loss due to an issuer being unable to meet its payment obligations. Credit risk is measured both in relation to single issuers, where the probability of default and loss given default are taken into account, and portfolio credit risk, where credit risk takes into account the correlation of credit losses between instruments and issuers. Credit risk is related to interest bonds and is actively taken to generate investment returns in line with the objectives of the investment mandates.

Investment risk – counterparty risk
Norges Bank Investment Management defines counterparty risk as the risk of loss due to counterparty bankruptcy or other events leading to counterparties defaulting. Counterparties are necessary to ensure effective liquidity management and effective trading and management of market and credit risk. Counterparty risk also arises in connection with securities lending and with the management of the equity and bond portfolios, as well as the real estate portfolio. Counterparty risk is controlled and limited to the greatest extent possible, given the investment strategy.

Risk management process
Norges Bank Investment Management employs several measurement methodologies, processes and systems to control investment risk. Robust and widely accepted risk management systems and processes are complemented by internally developed measurement methodologies and processes.

MARKET RISK

Norges Bank Investment Management measures market risk in both absolute terms for the actual portfolio, and the relative market risk for holdings in the GPFG.

Continuous monitoring, measurement and assessment of market risk are performed along multiple risk dimensions, employing a number of methodologies and approaches. Combining different and complementary risk measures provides a better insight into the risk profile of the holdings in the GPFG.

Asset class by 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* 31.12.2015	Market	31.12.2014	Market value in percent by asset class 31.12.2015	31.12.2014	Assets minus liabilities excluding management fee 31.12.2015	31.12.2014
Equities	**Developed**	**91.0**	**Developed**	**90.2**				
	US	35.5	US	33.7				
	UK	11.3	UK	12.5				
	Japan	9.3	Japan	7.4				
	Germany	5.7	Germany	6.1				
	Switzerland	5.5	France	5.8				
	Total other	23.7	Total other	24.7				
	Emerging	**9.0**	**Emerging**	**9.8**				
	China	2.9	China	2.9				
	Taiwan	1.4	Taiwan	1.5				
	India	1.1	India	1.0				
	South Africa	0.5	Brazil	0.9				
	Brazil	0.5	South Africa	0.6				
	Total other	2.6	Total other	2.9				
Total equities					61.2	61.3	4 571 807	3 939 923
Fixed-income	**Developed**	**87.6**	**Developed**	**87.2**				
	US Dollar	42.0	US Dollar	41.4				
	Euro	25.5	Euro	24.5				
	Japanese Yen	6.5	Japanese Yen	7.4				
	British Pound	5.4	British Pound	5.3				
	Canadian Dollar	3.0	Canadian Dollar	3.3				
	Total other	5.2	Total other	5.3				
	Emerging	**12.4**	**Emerging**	**12.8**				
	Mexican Peso	1.9	Mexican Peso	1.8				
	South Korean Won	1.6	Brazilian Real	1.5				
	Turkish Lira	1.0	South Korean Won	1.5				
	Indian Rupee	1.0	Turkish Lira	1.1				
	Chinese Yuan	0.8	Indian Rupee	1.0				
	Total other	6.1	Total other	5.9				
Total fixed-income					35.7	36.5	2 668 147	2 349 948
Real estate	US	44.3	UK	30.9				
	UK	27.6	US	30.7				
	France	11.1	France	15.9				
	Germany	7.3	Germany	9.7				
	Switzerland	3.8	Switzerland	5.5				
	Total other	5.9	Total other	7.3				
Total real estate**					3.1	2.2	235 199	140 868

* *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*.

Concentration risk
The GPFG has substantial investments in government-issued bonds. The portfolio also has investments in private companies that issue both bonds and equities.

Compared to year-end 2014, the share allocated to the fixed-income asset class decreased somewhat, whilst the share allocated to equities was at the same level as the previous year. The share of the total market value in developed markets increased slightly for both equities and fixed income. Within equities, there was a higher share in the US and Japan, while the UK had a lower share compared to year-end 2014. In the emerging markets, the allocation to Brazil and Russia was lower at the end of 2015. This was mostly due to market returns and currency movements. In 2015, the market value of the real estate asset class increased from NOK 141 billion to NOK 235 billion. The increase was mainly attributable to purchases in the US and the UK. In addition to new purchases, the change in the portfolio composition was affected by value changes and currency effects.

Table 8.2 shows the largest holdings in bonds issued by governments, including government bonds issued in local currency, sovereign bonds and inflation-linked bonds issued in local currency.

Table 8.2 Largest holdings within the segment government bonds

Amounts in NOK million	Market value 31.12.2015
US	532 806
Japan	203 895
Germany	163 019
UK	84 952
Mexico	56 678
South Korea	50 318
Spain	45 175
France	41 870
Italy	41 018
India	32 888

Amounts in NOK million	Market value 31.12.2014
US	422 200
Japan	186 044
Germany	84 021
UK	76 341
Italy	52 369
Spain	46 731
Mexico	46 620
Brazil	43 505
South Korea	41 107
Netherlands	37 121

Table 8.3 shows the portfolio's largest holdings of non-government issuers, including both bond and equity holdings. Covered bonds issued by financial institutions and debt issued by other underlying companies are included in the bonds column.

Table 8.3 Largest holdings excluding sovereigns, both bonds and equities

Amounts in NOK million, 31.12.2015	Sector	Bonds	Equities	Total
Nestlé SA	Consumer goods	737	51 056	51 793
Apple Inc	Technology	2 864	41 599	44 463
Roche Holding AG	Healthcare	2 322	34 980	37 302
Novartis AG	Healthcare	3 066	33 935	37 001
Lloyds Banking Group Plc	Finance	18 516	17 412	35 928
Bank of America Corp	Finance	21 151	12 358	33 509
HSBC Holdings Plc	Finance	5 973	27 242	33 215
Kreditanstalt für Wiederaufbau	Government-related	33 187	-	33 187
Microsoft Corp	Technology	2 532	30 448	32 980
JPMorgan Chase & Co	Finance	15 074	17 583	32 657

Amounts in NOK million, 31.12.2014	Sector	Bonds	Equities	Total
Nestlé SA	Consumer goods	669	47 924	48 593
Novartis AG	Healthcare	1 709	36 318	38 027
Apple Inc	Technology	2 482	35 509	37 991
Kreditanstalt für Wiederaufbau	Government-related	35 924	-	35 924
Royal Dutch Shell Plc	Oil & gas	1 991	32 501	34 492
BlackRock Inc	Finance	1 072	31 439	32 511
Bank of America Corp	Finance	20 743	10 814	31 558
Lloyds Banking Group Plc	Finance	17 953	12 395	30 348
HSBC Holdings Plc	Finance	5 260	24 737	29 997
Roche Holding AG	Healthcare	1 246	28 610	29 856

The value of the real estate portfolio was NOK 235 billion at year-end. The real estate portfolio consists of listed and unlisted real estate investments. During 2015, the value of unlisted real estate investments increased to NOK 181 billion (of which NOK 1 billion is cash). The increase is mainly due to a high level of investments, particularly in the US and the UK. In addition, the portfolio had a positive value increase as well as currency translation gains against the Norwegian kroner. The value of listed real estate was NOK 54 billion at the end of the year.

Table 8.4 Distribution of real estate investments per sector

Sector	Percent 31.12.2015	Percent 31.12.2014**
Office buildings	48.0	52.8
Retail	9.4	9.1
Logistics	18.8	13.3
Other	0.8	1.2
Total unlisted real estate investments*	**77.0**	**76.4**
Listed real estate investments*	23.0	23.6
Total	**100.0**	**100.0**

* Unlisted real estate investments are presented in the balance sheet as *Unlisted real estate*. Listed real estate investments are presented in the balance sheet as *Equities and units*.

** Allocation between sectors and allocation between listed and unlisted is based on net asset values in 2015 compared to gross asset values in 2014. Comparable amounts for 2014 have been restated.

Volatility and correlation risk

Norges Bank Investment Management uses models to quantify the risk of value changes associated with all or parts of the portfolio. Volatility is a standard risk measurement based on the statistical concept of standard deviation, which takes into account the correlation between different investments in the portfolio. This risk measure provides an estimate of how much one can expect the portfolio value to change or fluctuate, based on market conditions over the past three years. In two of three years, the portfolio return is expected to be lower than the estimated volatility and higher than the negative value of the estimated volatility. Expected volatility can be expressed in terms of the portfolio's absolute risk or relative risk. The model weights weekly return data equally over the last three years, uses a parametric calculation methodology, and is tailored to the long-term investment horizon of the GPFG's investments. The same model is used for both portfolio risk and relative volatility. In addition to this model, other models are employed that capture the market dynamics of recent periods to a greater extent as well as the risk measure that measures so-called tail risk. Real estate investments are not included in the relative volatility calculations. This is consistent with the investment mandate issued by the Ministry of Finance and the Executive Board of Norges Bank, in addition to internal guidelines for investment and risk management.

Tables 8.5 and 8.6 present risk both in terms of the portfolio's absolute risk and the relative risk.

Table 8.5 Portfolio risk in terms of expected volatility, in percent

	Expected volatility, actual portfolio							
	31.12.2015	Min 2015	Max 2015	Average 2015	31.12.2014	Min 2014	Max 2014	Average 2014
Portfolio	10.4	8.1	10.4	9.5	8.2	7.9	9.3	8.7
Equities	12.9	10.9	12.9	12.0	11.1	11.0	14.4	13.0
Fixed-income	10.1	7.9	10.2	9.4	7.9	7.5	8.9	8.3

Table 8.6 Relative risk, expected relative volatility, in basis points

	Expected relative volatility							
	31.12.2015	Min 2015	Max 2015	Average 2015	31.12.2014	Min 2014	Max 2014	Average 2014
Equity and fixed-income portfolio	28	26	38	32	38	38	63	51
Equities	36	35	52	42	52	49	71	60
Fixed-income	52	52	64	57	59	52	69	60

Expected volatility for the portfolio as a whole, as well as the asset classes comprising equities and bonds, increased somewhat in 2015. At year-end, the portfolio as a whole had a measured risk of 10.4 percent. This means that annual value fluctuations of approximately NOK 780 billion can be expected for the portfolio. Correspondingly, measured risk at year-end 2014 was 8.2 percent and value fluctuations of approximately NOK 530 billion could be expected. Since the model uses three years of historical data, the risk change can be explained by the fact that the more volatile period of autumn 2015 is included in the calculation period, compared to the period in 2012.

The mandate for the GPFG outlines that expected relative volatility for the aggregated equity and bond portfolio shall not exceed a limit of 100 basis points. Measurement of risk and follow-up of compliance with the limit is monitored based on the risk model described above. Expected relative volatility has been within the limit in 2015 and was 0.3 percentage points at year-end, which is a decrease from 0.4 percentage points at the end of 2014. This decline is mainly caused by reductions in deviations from the benchmark during 2015.

The economic situation was characterised by an improvement in growth and the economy in the USA, while emerging markets, in particular China, were subject to greater uncertainty regarding future growth. There was a positive trend in the Japanese equity markets, as well as recovery in certain European countries. Currency markets displayed a trend for increased volatility and depreciation of currencies in emerging markets, including the severely weakened Brazilian Real and the devalued Chinese Yuan. The US dollar strengthened against most currencies in the currency basket. Commodity markets were characterised by further declines in oil prices, which affected the economies of oil-producing countries. In fixed-income markets, there was a slight increase in long-term government bond yields in developed markets, while there was a greater impact in emerging markets where Brazil and Turkey had a significant increase in long-term government bond yields.

Strengths and weaknesses

The strength of these types of risk models is that one can estimate the risk in a portfolio across different asset classes, markets, currencies, securities and derivatives and express this risk as a single numerical value, which takes into account the correlation between different asset classes, securities and risk factors.

The model-based risk estimates are based on historical relationships and will provide reliable forecasts in markets without significant changes in volatility. Estimates will be less reliable in periods marked by significant changes in volatility and correlation. Calculated volatility gives a point estimate of risk and provides little information on the total risk profile and any tail risk. Annualisation means that it is assumed that volatility and the composition of the portfolio are consistent over time. To compensate for these shortcomings, complementary models and methods are employed, such as stress tests and analyses of concentration risk and realised return.

CREDIT RISK

Credit risk is the risk of losses resulting from issuers of bonds defaulting on their payment obligations. Bonds in the portfolio's benchmark index are all rated investment grade by one of the major credit rating agencies. Investments in bonds are made based on internal assessments of expected return and risk profile.

Table 8.7 Bond portfolio specified by credit rating

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

Amounts in NOK million, 31.12.2014	AAA	AA	A	BBB	Lower rating	Total
Government bonds	606 852	186 044	277 444	223 334	3 122	1 296 796
Government-related bonds	142 390	142 134	23 671	32 777	2 799	343 771
Inflation-linked bonds	34 971	5 421	1 566	21 757	-	63 715
Corporate bonds	1 574	37 266	219 892	186 376	9 451	454 559
Securitised bonds	143 441	9 858	17 824	18 786	1 039	190 948
Total bonds	929 228	380 723	540 397	483 030	16 411	2 349 789

The economic growth in the Eurozone continued to be moderate in 2015. The European Central Bank lowered the interest rate on the main refinancing operations to around zero and the deposit facility interest rate to -0.3 percent and expanded the programme for quantitative easing. Economic development in the US continued in a positive direction, despite the growth being somewhat weaker in 2015 than the American central bank, the Federal Reserve, had expected at the beginning of the year. The US currency strengthened against most currencies and the long-awaited interest rate increase finally came in December. Economic growth in China slowed down in 2015. Overcapacity in the economy contributed to downwards pressure on costs. The Chinese central bank lowered interest rates five times during the year by 1.25 percentage points in total. The slowdown in demand from China contributed to a decline in exports and weaker economic growth for many other emerging economies. Additionally, the weakening of the Chinese Yuan spread internationally through lower imported inflation for China's trade partners. Commodity prices, including oil prices, fell significantly throughout the year. The fall in commodity prices may explain some of the slowdown in commodity-producing emerging economies, but these economies also had weaker growth. The Brazilian economy had weakened state funding and negative growth for the second consecutive year, which contributed to a significant drop in the exchange rate and the downgrading of government debt from credit rating agencies in 2015. Credit spreads on Brazilian government bonds increased to 495 basis points at the end of 2015, compared to 200 basis points at year-end 2014.

During 2015, the proportion of holdings in securitised bonds was reduced, while the share of European and US corporate bonds and inflation-linked bonds issued by the US government was increased. Investments in government bonds in emerging markets were reduced throughout the year, mainly as a result of the decrease in market value but also because the investment level slowed somewhat. These holdings amounted to 12.7 percent of the bond portfolio, compared to 13.5 percent at year-end 2014. Holdings of government bonds issued by Germany, the US and France increased during 2015, however, which contributed to an increase in holdings of AAA and AA government bonds of 2.3 percentage points. At the same time, there was an overweight of downgrades from credit rating agencies of countries and companies in the bond portfolio throughout the year. This was due to weaker economic outlooks in a range of markets, as described above. Many companies in the A category were downgraded to the BBB category. All eight system-critical American holding companies in the banking sector were for example downgraded by S&P in the fourth quarter, of which three of these to the BBB category. This was due to reduced likelihood of government support in a default situation. Despite more downgrades than upgrades, the credit quality of the overall bond portfolio improved slightly during the year. This was a result of adjustments to the portfolio and a general increase in market values in the AAA and AA categories compared to the A and BBB categories.

Holdings of AAA and AA bonds increased to 41.1 and 17.5 percent of the bond portfolio, respectively, at year-end 2015, compared to 39.5 and 16.2 percent at year-end 2014. A and BBB bonds were correspondingly reduced to 20.6 and 20.0 percent at year-end 2015, from 23.0 percent and 20.6 percent at year-end 2014. The share of bonds in the *Lower rating* category was stable at 0.7 percent of the bond portfolio at year-end 2015. Defaulted bonds had a market value of NOK 869 million at year-end 2015, up from NOK 440 million at year-end 2014. The nominal size of defaulted bonds was NOK 16.6 billion at the end of 2015, compared to NOK 13.2 billion at the end of 2014. Defaulted bonds are categorised under *Lower rating*. The increase in market and nominal value is, to a large extent, caused by currency changes.

Table 8.8 Bond portfolio by credit rating and currency in percent

Amounts in NOK million, 31.12.2015	AAA	AA	A	BBB	Lower rating	Total
US Dollar	22.7	2.6	6.2	9.0	0.3	40.8
Euro	12.1	5.5	2.0	5.1	0.2	24.9
Japanese Yen	-	-	7.8	0.0	-	7.8
British Pound	0.5	4.0	0.5	0.7	-	5.7
Canadian Dollar	1.5	1.1	0.3	0.3	-	3.1
Other currencies	4.4	4.4	3.9	5.0	0.1	17.8
Total	**41.1**	**17.5**	**20.6**	**20.0**	**0.7**	**100.0**

Amounts in NOK million, 31.12.2014	AAA	AA	A	BBB	Lower rating	Total
US Dollar	21.8	2.8	7.9	7.2	0.2	39.9
Euro	11.2	4.4	2.5	6.3	0.3	24.7
Japanese Yen	-	-	8.0	-	-	8.0
British Pound	0.8	3.9	0.4	0.6	-	5.7
Canadian Dollar	1.6	1.1	0.4	0.3	-	3.3
Other currencies	4.2	4.1	3.9	6.2	0.1	18.4
Total	**39.5**	**16.2**	**23.0**	**20.6**	**0.7**	**100.0**

At year-end 2015 there were no credit default swaps in the portfolio, see note 5 *Holdings of Equities and units*, *Bonds and Financial derivatives*.

In addition to the credit ratings from credit rating agencies, measurement of credit risk is complemented with credit risk models, of which one is based on credit ratings and the other is based on observable credit premiums. Both these methods also take into account correlation and expected value of bonds in a bankruptcy situation. The models are used for risk measurement and monitoring of credit risk in the bond portfolio.

COUNTERPARTY RISK

Counterparties are required to ensure efficient liquidity management and efficient trading and management of market and credit risk. Exposure to counterparty risk is related to trading in OTC derivatives and currency contracts, repurchase and reverse repurchase agreements, securities lending, participatory certificates and securities posted as collateral in derivative trades. Unsecured deposits in banks are also defined as having counterparty risk. Such counterparty risk arises partly in connection with the daily cash management of the fund and in connection with purchases and sales of real estate. Furthermore, there is exposure to counterparty risk related to counterparties in the international settlement and custody systems where transactions settle. This can occur both for currency trades and for the purchase and sale of securities. Settlement risk and exposure from trades with long maturities are also defined as counterparty risk.

Various counterparties are used to reduce concentration risk and there are strict requirements for counterparty credit rating. Credit rating requirements are generally higher for counterparties to unsecured deposits in banks than in situations where collateral is received. Changes in counterparty credit ratings are monitored continuously.

Netting agreements are in place for trades in OTC derivatives, currency contracts and repurchase and reverse repurchase agreements, in order to reduce counterparty risk. Further reduction of counterparty risk is achieved through requirements for collateral for counterparty net positions with a positive market value. For instruments where collateral is used, minimum requirements have been set, relating to the credit quality, time to maturity and concentration of the collateral. Netting and collateral agreements are entered into for all approved counterparties for these types of trades.

There are also requirements governing the way real estate transactions are conducted. Counterparty risk that arises is analysed in advance of the transaction and requires approval from the CRO. In 2015, 19 transactions were approved by the CRO through this process.

Counterparty risk is also reduced by setting exposure limits for individual counterparties. Exposure per counterparty is measured daily against limits set by the Executive Board and the CEO of Norges Bank Investment Management.

The methods used to calculate counterparty risk are in accordance with internationally recognised standards. In essence, it is the Basel regulations for banks that are used for measuring counterparty risk, with certain adjustments based on internal analyses. The risk models calculate the expected counterparty exposure in the event of a counterparty default. For OTC derivatives and currency contracts, the Current Exposure Method in the Basel regulations is applied. For each contract, the market value and an amount for potential future exposure is calculated. Netting agreements and collateral are taken into account in the calculation of net exposure. Norges Bank Investment Management started settlement of interest rate swaps with a central clearing counterparty during 2015.

For repurchase agreements, securities lending transactions executed through an external agent and securities posted as collateral in derivatives trades, a method is used that adds a premium to the market value to reflect the position's volatility. These positions are also adjusted for netting and actual collateral received and posted when determining net exposure.

Exposure to counterparty risk is related to counterparties in the settlement and custody systems, both for currency trades and for the purchase and sale of securities. Settlement risk for most currency trades is low. Settlement risk is reduced using the currency settlement system CLS (Continuous Linked Settlement), or by trading directly with custodians. In a few currencies, Norges Bank is exposed to settlement risk when the sold currency is delivered to the counterparty before the receipt of currency is confirmed. This type of exposure is included on the line *OTC derivatives including foreign exchange contracts* in table 8.9.

During the year, Norges Bank Investment Management started to invest in Saudi Arabian participatory certificates, which are instruments issued by registered foreign institutional investors to international investors. This instrument causes counterparty risk against the issuer of the note.

In table 8.9, exposure is broken down by type of activity/instrument associated with counterparty risk.

Total counterparty risk measured in terms of gross and net exposure has increased in 2015. Gross risk exposure increased by NOK 34.4 billion to NOK 80.9 billion, whilst net exposure increased by NOK 44.2 billion to NOK 71.8 billion.

The increase in both net and gross risk exposure is mainly related to securities lending. At year-end 2014, securities lending transactions were relatively low due to the change of custodian and agent for securities lending. During 2015, there was an increase in securities lending activities, both for lending of equities and bonds. Gross exposure from securities lending transactions increased to NOK 51.6 billion at year-end 2015, from NOK 16.5 billion at year-end 2014. At the end of the third quarter of 2015, the lending agent's guarantee responsibilities were reduced, which led to a significant increase in the net risk exposure, see the column *Collateral and guarantees* for effects of the guarantee. Net risk exposure from securities lending increased to NOK 50.2 billion at year-end 2015, from NOK 1.1 billion at year-end 2014.

Net and gross risk exposure from OTC derivatives, including foreign exchange contracts and participatory certificates, increased during the year, whilst net and gross risk exposure from unsecured bank deposits were reduced compared to year-end 2014.

Table 8.9 Counterparty risk by type of position

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

Amounts in NOK million, 31.12.2014	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits*	13 268	-	-	13 268
OTC derivatives including foreign exchange contracts	10 162	5 254	-1 658	6 566
Cleared OTC and listed derivatives**	5 603	-	-	5 603
Repurchase and reverse repurchase agreements	989	-	-	989
Securities lending transactions	16 480	-	15 345	1 135
Settlement risk towards broker and long settlement transactions	15	-	-	15
Participatory certificates	-	-	-	-
Total	46 517	5 254	13 687	27 576

* Includes bank deposits in non-consolidated real estate subsidiaries.
** Relates to futures trades and interest rate swaps cleared by a central clearing counterparty.

The line *OTC derivatives including foreign exchange contracts* in the table comprises the net market value of foreign exchange derivatives (NOK 2 831 million) and interest rate swaps (NOK -3 192 million), see note 5 *Holdings of Equities and units, Bonds and Financial derivatives*. Counterparty risk for positions in derivatives is followed up on a net basis.

Norges Bank's counterparties have a credit rating from independent credit rating agencies. An internal credit evaluation can only be used as the basis for counterparty approval in instances when the counterparty risk is considered low. Credit ratings for counterparties are monitored and complemented by alternative credit risk indicators.

Table 8.10 shows approved counterparties classified according to their credit rating category at year-end 2015. The table also includes brokers that are used when purchasing and selling securities.

Table 8.10 Counterparties by credit rating*

	Norges Bank's counterparties (excluding brokers)		Brokers	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
AAA	-	-	-	-
AA	28	22	28	23
A	62	56	70	72
BBB	16	3	24	28
BB	-	-	5	3
B	-	-	15	13
Total	106	81	142	139

* As counterparties are counted per legal entity, several counterparties may be included per corporate group.

The number of counterparties has increased during the year to 106, from 81 at year-end 2014. This is mainly due to counterparties for bank deposits in connection with real estate investments and counterparties in the securities lending programme.

Verification of models

Risk models used in estimating and controlling investment risk are continuously evaluated and verified for their ability to estimate risk. The special nature of the investment portfolio and the investment universe, as well as the GPFG's long-term investment horizon are taken into account when evaluating the models.

Leverage

Leverage may be used to ensure effective management of the investments, but not with the aim of increasing the economic exposure to risky assets. The use of leverage is regulated both in the management mandate issued by the Ministry of Finance and in the investment mandate issued by the Executive Board of Norges Bank to Norges Bank Investment Management. Leverage is the difference between total net exposure and market value of the portfolio. Net exposure is determined by including the market value of securities, and positions in derivatives are converted to underlying exposure. When exposure is greater than market value, the portfolio is leveraged.

The GPFG did not have any substantial leverage in 2015 and had a leverage of 0.1 percent at the end of 2015 for the aggregated equity and bond portfolio. For the real estate portfolio, there are set requirements in the investment mandate from the Executive Board in Norges Bank limiting the maximum leverage of the portfolio to 35 percent. The real estate portfolio had a leverage of 8.8 percent at the end of 2015.

SALE OF SECURITIES NORGES BANK DOES NOT OWN

Sale of securities not owned by Norges Bank (short sales) can only be carried out if there are established borrowing agreements to cover a negative position. Such transactions are very rarely undertaken, and no securities had been sold in this manner at year-end 2015.

Note 9 Tax

ACCOUNTING POLICY

Norges Bank is tax exempt from income tax on its operations in Norway, but is subject to taxes in a number of foreign jurisdictions. *Tax expense* included in the income statement represents income taxes that are not reimbursed through local tax laws or treaties, and consists of taxes on dividends, interest income and capital gains related to investments in *Equities and units* and *Bonds*. The majority of these taxes are collected at source.

Withholding taxes, net of deductions for refundable amounts, are recognised at the same time as the related dividend or interest income. See the accounting policy in note 4 *Income/expense from Equities and units, Bonds and Financial derivatives*. Refundable withholding taxes are recognised in the balance sheet as withholding tax receivable within *Other assets*.

Other income tax, not collected at source, is recognised in the income statement in the period the related income or gains arise and is presented in the balance sheet as tax payable within *Other liabilities,* until the liability has been settled.

Current and deferred income taxes incurred within companies included in *Unlisted real estate* are recognised in the income statement as *Income/expense from unlisted real estate*, and are specified in note 6 *Unlisted real estate,* table 6.3. Tax payable and deferred tax balances are specified in table 6.4 in the same note.

All uncertain tax positions, such as disputed refundable amounts for withholding taxes as well as tax payable positions in a limited number of jurisdictions, are assessed each reporting period. The best estimate of the probable amount for collection or payment is recognised in the balance sheet.

Table 9.1 shows tax expenses per type of investment and type of tax.

Table 9.1 Specification tax expense

Amounts in NOK million, 2015	Gross income before taxes	Income tax on dividend and interest	Capital gains tax	Other	Tax expense	Net income after taxes
Income/expense from:						
Equities and units	284 414	-2 543	-5	-	-2 548	281 866
Bonds	36 160	-62	-17	-	-79	36 081
Unlisted real estate*	14 537	-	-	-	-	14 537
Other	-	-	-	-1	-1	-
Tax expense		-2 605	-22	-1	-2 628	

Amounts in NOK million, 2014	Gross income before taxes	Income tax on dividend and interest	Capital gains tax	Other	Tax expense	Net income after taxes
Income/expense from:						
Equities and units	385 943	-1 931	-89	-	-2 020	383 923
Bonds	158 006	-45	-	-	-45	157 961
Unlisted real estate*	7 160	-	-	39	39	7 199
Other	-	-	-	-	-	-
Tax expense		-1 976	- 89	39	-2 026	

* For tax incurred in companies included in the balance sheet line *Unlisted real estate*, see note 6 *Unlisted real estate*. *Other* for *Unlisted real estate* in 2014 relates to the release of a provision recognised in 2013 relating to deferred tax.

Note 10 Management costs

ACCOUNTING POLICY

Management fee is recognised in the income statement of the GPFG as an expense. The management fee accrues during the financial year, but is cash-settled in the following year. Management fee payable is a financial liability classified as a loan and measured at amortised cost.

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 10.1.

Table 10.1 Management fee

Amounts in NOK million	2015	2015 Basis points	2014	2014 Basis points
Salary, social security and other personnel related costs	1 134		763	
Custody costs	394		457	
IT services, systems, data and information	638		488	
Research, consulting and legal fees	245		169	
Other costs	200		119	
Allocated common costs Norges Bank	129		112	
Base fees to external managers	615		445	
Management fee excluding performance-based fees	3 355	4.8	2 553	4.7
Performance-based fees to external managers	578		649	
Total management fee	3 933	5.7	3 202	5.9

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 10.2.

Table 10.2 Management costs, real estate subsidiaries

Amounts in NOK million	2015	2014
Salary, social security and other personnel related costs	26	25
IT services, systems, data and information	31	21
Research, consulting and legal fees	25	22
Other costs	13	15
Total management costs, real estate subsidiaries	95	83
Of which management costs non-consolidated subsidiaries	*86*	*83*
Of which management costs consolidated subsidiaries	*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 costs presented in table 10.2, 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 2015, the sum of total management costs incurred in Norges Bank and real estate subsidiaries, excluding performance-based fees to external managers, is limited to 9 basis points of average assets under management. Other operating expenses that are incurred in real estate subsidiaries, as well as costs incurred in partly-owned real estate entities, are not included in the costs that are measured against this limit.

Total management costs that are measured against the limit amount to NOK 3 450 million in 2015. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 3 355 million, and management costs in real estate subsidiaries of NOK 95 million. This corresponds to 5.0 basis points of assets under management on an annual basis.

Performance-based fees to external managers amount to NOK 578 million in 2015, and total management costs including performance-based fees amount to NOK 4 028 million. This corresponds to 5.8 basis points of assets under management on an annual basis.

Note 11 Secured lending and borrowing

The GPFG engages in (reverse-) repurchase agreements and equivalent transactions, as well as agency securities lending. These collateralised transactions are collectively known as *Secured lending and borrowing*.

(REVERSE-) REPURCHASE AGREEMENTS

Reverse repurchase agreements are entered into, in connection with liquidity placement. The counterparty transfers bonds or equities to the GPFG, and the GPFG posts cash collateral to the counterparty. Cash collateral obtained from agency securities lending is reinvested in reverse repurchase agreements with the purpose of realising a higher return and thus creating additional income.

The market for repurchase agreements is used to support financing activities. At any time, some of the holdings in bonds will be lent out through repurchase agreements, in exchange for received cash collateral. This borrowing is a form of financing for asset management.

AGENCY SECURITIES LENDING

An agreement is entered into with an external agent regarding securities lending, giving this agent the right to lend securities held by the GPFG to other market participants with securities borrowing requirements. Both equities and bonds are lent. The purpose of the lending activity is to generate additional returns from security holdings. A net income is earned from the securities lending programme.

The agent acts on behalf of, and in the interest of the GPFG. The GPFG is exposed to counterparty risk from securities lending. Collateral is used to mitigate losses in case of a borrower default. When a security is lent, the borrower transfers collateral to the agent in the form of cash or securities. The collateral includes a margin and is held on behalf of the lender. In the event of a borrower default, the borrower will not return the lent securities. The GPFG will be exposed to losses in the event a borrower defaults and the collateral received is insufficient to buy back the lent securities in the market.

ACCOUNTING POLICY

Income and expense recognition of secured lending and borrowing transactions

Net income from agency securities lending comprises the securities lending fee, expenses related to cash collateral received, reinvestment income and the deduction of the agent's fees relating to handling of the transaction. The net income is recognised on a straight-line basis over the term of the security loan and is presented in the income statement as *Income/expense from secured lending*.

Net income/expense from repurchase agreements and reverse repurchase agreements represents the change in fair value for the period of the balance sheet line items, which is mostly attributable to the interest income/expense of the agreement. Income/expense from repurchase agreements and reverse repurchase agreements are presented in the income statement as *Net income/expense from secured borrowing* and *Net income/expense from secured lending*, respectively.

Table 11.1 specifies income and expense for *Secured lending* and *Secured borrowing*.

Table 11.1 Income/expense from secured lending and borrowing

Amounts in NOK million	2015	2014
Income/expense from secured lending	3 266	2 758
Income/expense from secured borrowing	50	-35
Net income/expense from secured lending and borrowing	3 316	2 723

ACCOUNTING POLICY

Transferred financial assets

Securities lent to counterparties in connection with secured lending and borrowing are not derecognised when the agreement is entered into, as the derecognition criteria are not met. As the counterparty has the right to sell or pledge the security, the security is considered transferred. Lent securities are presented on separate lines in the balance sheet, as *Equities lent* and *Bonds lent*. During the lending period, the accounting for the underlying securities is in accordance with accounting policies for the relevant securities.

Secured lending

Cash collateral posted to counterparties in secured lending transactions is derecognised. A corresponding receivable reflecting the cash amount that will be returned is recognised as a financial asset, *Secured lending*. This asset is designated at initial recognition as a financial asset measured at *fair value through profit or loss*.

Secured borrowing

Cash collateral received in connection with secured borrowing transactions is recognised as *Deposits in banks* together with a corresponding financial liability, *Secured borrowing*. This liability is designated at initial recognition as a financial liability measured at *fair value through profit or loss*.

Collateral received in the form of securities

Collateral in the form of securities, received through *Secured lending and borrowing* transactions, where the GPFG has the right to sell or pledge the security, is not recognised in the balance sheet, unless reinvested.

Table 11.2 presents *Secured lending* as well as associated collateral received in the form of securities.

Table 11.2 Secured lending

Amounts in NOK million	31.12.2015	31.12.2014
Secured lending	123 385	45 536
Of which unsettled trades (liability)	-20 120	-
Secured lending excluding unsettled trades	**103 264**	**45 536**
Associated collateral in the form of securities (off balance sheet)		
Equities received as collateral	28 603	19 686
Bonds received as collateral	78 912	27 797
Total security collateral received related to lending	**107 516**	**47 483**

Table 11.3 presents securities transferred with the associated liability in the form of *Secured borrowing*, as well as collateral received in the form of securities.

Table 11.3 Transferred financial assets and secured borrowing

Amounts in NOK million	31.12.2015	31.12.2014
Transferred financial assets		
Equities lent	312 662	166 842
Bonds lent	241 518	25 163
Total transferred financial assets	**554 180**	**192 005**
Associated cash collateral, recognised as liability		
Secured borrowing	149 735	39 975
Of which unsettled trades (asset)	-15 520	-
Secured borrowing excluding unsettled trades	**134 215**	**39 975**
Associated collateral in the form of securities (off balance sheet)		
Equities received as collateral	290 529	137 567
Bonds received as collateral	146 803	27 408
Total security collateral received related to transferred financial assets	**437 332**	**164 975**

None of the collateral received in the form of securities has been reinvested per year-end 2015 or 2014. Therefore, these securities are not recognised in the balance sheet.

Note 12 Collateral and offsetting

ACCOUNTING POLICY

Cash collateral

Cash collateral posted in connection with OTC derivative transactions is derecognised. A corresponding receivable reflecting the cash amount that will be returned is recognised as an asset as *Cash collateral posted*. Cash collateral received in connection with OTC derivative transactions is recognised as *Deposits in banks* together with a corresponding liability, *Cash collateral received.* Both *Cash collateral posted* and *Cash collateral received* are designated at initial recognition as financial assets/liabilities measured at *fair value through profit or loss.*

Offsetting

Financial assets and liabilities are only offset and presented net in the balance sheet if there is a legally enforceable right to set off the recognised amounts and the intention to settle on a net basis, or to realise the asset and settle the liability simultaneously, in accordance with IAS 32 *Financial instruments: Presentation*. The aforementioned criteria are not met for any financial assets and liabilities, hence no amounts are offset and presented net in the balance sheet. For this reason, table 12.1 does not include a column for amounts offset/netted in the balance sheet.

COLLATERAL

For various counterparties and transaction types, cash collateral will both be posted to and received from the same counterparty. Therefore, received cash collateral can be netted against posted cash collateral and vice-versa as shown in table 12.1. *Cash collateral posted* and *Cash collateral received* are related exclusively to OTC derivative transactions.

OFFSETTING

Table 12.1 shows an overview of financial assets and liabilities, the effects of legally enforceable netting agreements and related collateral to reduce credit risk. The column *Assets/Liabilities in the balance sheet subject to netting* shows the carrying amounts of financial assets and liabilities that are subject to legally enforceable netting agreements. These amounts are adjusted for effects of potential netting with the same counterparty of recognised financial assets and liabilities, together with posted or received cash collateral that results in a net exposure in the column *Assets/Liabilities after netting and collateral.*

Some netting agreements have been found not to be legally enforceable. Transactions under such contracts are shown together with unsettled trades in the column *Unsettled trades and assets/liabilities not subject to enforceable netting agreements*. Unsettled trades can be cancelled if the counterparty defaults before assets involved in the trade are transferred.

In the event of counterparty default, a collective settlement between Norges Bank and the bankruptcy estate could be performed for certain groups of instruments, irrespective of whether the instruments belong to the GPFG or Norges Bank's foreign exchange reserves. Such cross nettings will be settled between these portfolios and are therefore not adjusted for in the table.

Table 12.1 Assets and liabilities subject to netting agreements

Amounts in NOK million, 31.12.2015	Amounts subject to enforceable master netting agreements						
Description	Assets in the balance sheet subject to netting	Financial liabilities related to same counter-party	Cash collateral received (recognised as liability)	Security collateral received (not recognised)	Assets after netting and collateral	Unsettled trades and assets not subject to enforceable netting agreements	Gross financial assets recognised in the balance sheet
ASSETS							
Secured lending	102 486	-	74 972	27 514	-	20 899	123 385
Cash collateral posted	2 231	2 227	-	-	4	-	2 231
Financial derivatives	5 535	2 918	2 528	-	89	3 294	8 829
Total	110 252	5 145	77 500	27 514	93	24 193	134 445

Amounts in NOK million, 31.12.2015	Amounts subject to enforceable master netting agreements						
Description	Liabilities in the balance sheet subject to netting	Financial assets related to same counter-party	Cash collateral posted (recognised as asset)	Security collateral posted (not de-recognised)	Liabilities after netting and collateral	Unsettled trades and liabilities not subject to enforceable netting agreements	Gross financial liabilities recognised in the balance sheet
LIABILITIES							
Secured borrowing	131 499	-	74 972	56 450	77	18 236	149 735
Cash collateral received	2 570	2 528	-	-	42	-	2 570
Financial derivatives	5 400	2 918	2 229	-	253	-134	5 266
Total	139 469	5 446	77 201	56 450	372	18 102	157 571

Amounts in NOK million, 31.12.2014	Amounts subject to enforceable master netting agreements						
Description	Assets in the balance sheet subject to netting	Financial liabilities related to same counter-party	Cash collateral received (recognised as liability)	Security collateral received (not recognised)	Assets after netting and collateral	Unsettled trades and assets not subject to enforceable netting agreements	Gross financial assets recognised in the balance sheet
ASSETS							
Secured lending	45 536	-	22 093	23 428	15	-	45 536
Cash collateral posted	1 289	1 289	-	-	-	-	1 289
Financial derivatives	5 387	4 581	807	-	-	390	5 777
Total	52 212	5 870	22 900	23 428	15	390	52 602

Amounts in NOK million, 31.12.2014	Amounts subject to enforceable master netting agreements						
Description	Liabilities in the balance sheet subject to netting	Financial assets related to same counter-party	Cash collateral posted (recognised as asset)	Security collateral posted (not de-recognised)	Liabilities after netting and collateral	Unsettled trades and liabilities not subject to enforceable netting agreements	Gross financial liabilities recognised in the balance sheet
LIABILITIES							
Secured borrowing	39 975	-	22 093	17 834	48	-	39 975
Cash collateral received	543	135	-	-	409	-	543
Financial derivatives	7 895	4 581	1 289	-	2 025	-	7 895
Total	48 413	4 716	23 382	17 834	2 482	-	48 413

Note 13 Other assets and other liabilities

Table 13.1 Other assets

Amounts in NOK million	31.12.2015	31.12.2014
Withholding tax receivable	1 546	2 744
Accrued income/expense from secured lending	235	176
Other	484	926
Total other assets	2 265	3 847

Table 13.2 Other liabilities

Amounts in NOK million	31.12.2015	31.12.2014
Liabilities to other portfolios under common management*	810	60
Tax payable	1	68
Other	220	190
Total other liabilities	1 031	318

* *Liabilities to other portfolios under common management* comprises the net value of deposits and repurchase and reverse repurchase agreements against other portfolios managed by Norges Bank. These related party transactions were conducted at market terms.

Note 14 Related parties

ACCOUNTING POLICY

Norges Bank is owned by the Norwegian government and under IAS 24.25 is exempt from the disclosure requirements pertaining to related party transactions and outstanding balances, including commitments, with the Norwegian government. This includes transactions with other entities that are related parties because the Norwegian government has control of, joint control of, or significant influence over both Norges Bank and the other entities.

Norges Bank, including the GPFG, is a separate legal entity that is wholly state-owned through the Ministry of Finance. See note 1 *General information* for information regarding the relationship between the Ministry of Finance, Norges Bank and the GPFG. The GPFG conducts all transactions at market terms.

INFLOWS FROM THE GOVERNMENT

Norges Bank receives inflows from the Ministry of Finance in the form of a krone deposit in an account in Norges Bank. The krone deposit is subsequently placed with Norges Bank Investment Management for investment. See additional information regarding the inflow for the period in the *Statement of changes in owner's capital.*

TRANSACTIONS WITH NORGES BANK

Management fee for the GPFG is deducted from the Ministry of Finance's krone account in Norges Bank.

For further information on management costs, see note 10 *Management costs.*

Internal trades in the form of money market lending or borrowing and repurchase agreements between the GPFG and Norges Bank's long-term reserves are presented in the balance sheet as a net balance between the two reporting entities as *Other assets* and *Other liabilities.* Associated income and expense items are presented net in the income statement as *Interest income/expense*.

TRANSACTIONS WITH SUBSIDIARIES

Subsidiaries are financed through equity and long-term loans. Cash generated in subsidiaries is distributed in the form of dividends and interest. For more information regarding transactions with subsidiaries, see note 6 *Unlisted real estate.*

Note 15 Interests in other entities

Investments in unlisted real estate are made through subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG. These subsidiaries invest, through holding companies, in entities that invest in properties. These entities may be subsidiaries or joint ventures.

The overall objective of the ownership structure used for unlisted real estate investments is to safeguard the financial wealth under management and to ensure the highest possible net return after costs, in accordance with the mandate from the Ministry of Finance. The key criteria when deciding the ownership structure are legal protection, governance and operational efficiency. Tax expense may represent a significant cost for the unlisted real estate investments. The expected tax costs for the fund are therefore among the factors considered when determining the ownership structure.

The legal structures do not impose significant restrictions on distributions in the form of dividends or interest to the GPFG.

Table 15.1 shows the principal companies that own and manage the properties as well as the consolidated companies.

Table 15.1 Real estate companies

Company	Business address	Property address	Ownership share and voting right in percent	Recognised from
Non-consolidated companies				
United Kingdom				
NBIM George Partners LP	London	London	100.00	2011
MSC Property Intermediate Holdings Limited	London	Sheffield	50.00	2012
NBIM Charlotte Partners LP	London	London	57.75	2014
NBIM Edward BT	London	London	100.00	2014
NBIM Caroline Partners LP	London	London	100.00	2015
NBIM James Partners LP	London	London	100.00	2015
Luxembourg				
NBIM S.à r.l.	Luxembourg	N/A	100.00	2011
NBIM Monte S.à r.l.	Luxembourg	N/A	100.00	2013
France				
NBIM Louis SAS	Paris	Paris	100.00	2011
SCI 16 Matignon	Paris	Paris	50.00	2011
Champs Elysées Rond-Point SCI	Paris	Paris	50.00	2011
SCI PB 12	Paris	Paris	50.00	2011
SCI Malesherbes	Paris	Paris	50.00	2012
SCI 15 Scribe	Paris	Paris	50.00	2012
SAS 100 CE	Paris	Paris	50.00	2012
SCI Daumesnil	Paris	Paris	50.00	2012
SCI 9 Messine	Paris	Paris	50.00	2012
SCI Pasquier	Paris	Paris	50.00	2013
NBIM Marcel SPPICAV	Paris	Paris	100.00	2014

Company	Business address	Property address	Ownership share and voting right in percent	Recognised from
Germany				
Die Welle 1 Frankfurt Immobilien GmbH & Co. KG	Cologne	Frankfurt	50.00	2012
Die Welle 3 Frankfurt Immobilien GmbH & Co. KG	Cologne	Frankfurt	50.00	2012
NKE Neues Kranzler Eck Berlin Immobilien GmbH & Co. KG	Cologne	Berlin	50.00	2012
Tower SZ Munich GmbH & Co. KG	Hamburg	Munich	50.00	2013
STEG LBG 2 S.C.S	Luxembourg	Munich	94.90	2014
STEG LBG 3 S.C.S	Luxembourg	Munich	94.90	2014
Switzerland				
NBIM Antoine CHF S.à r.l.	Luxembourg	Zürich	100.00	2012
Europe				
Prologis European Logistics Partners S.à r.l.	Luxembourg	Multiple European cities	50.00	2013
USA				
T-C 1101 Pennsylvania Venture LLC	Wilmington, DE	Washington	49.90	2013
T-C Franklin Square Venture LLC	Wilmington, DE	Washington	49.90	2013
T-C 33 Arch Street Venture LLC	Wilmington, DE	Boston	49.90	2013
T-C 470 Park Avenue South Venture LLC	Wilmington, DE	New York	49.90	2013
T-C 475 Fifth Avenue Venture LLC	Wilmington, DE	New York	49.90	2013
No. 1 Times Square Development LLC	Wilmington, DE	New York	45.00	2013
OFC Boston LLC	Wilmington, DE	Boston	47.50	2013
425 MKT LLC	Wilmington, DE	San Francisco	47.50	2013
555 12th LLC	Wilmington, DE	Washington	47.50	2013
Prologis U.S. Logistics Venture LLC	Wilmington, DE	Multiple American cities	46.30	2014
OBS Boston LLC	Wilmington, DE	Boston	47.50	2014
100 Federal JV LLC	Wilmington, DE	Boston	45.00	2014
Atlantic Wharf JV LLC	Wilmington, DE	Boston	45.00	2014
BP/CGCenter MM LLC	Wilmington, DE	New York	45.00	2014
T-C 2 Herald Square Venture LLC	Wilmington, DE	New York	49.90	2014
T-C 800 17th Street Venture NW LLC	Wilmington, DE	Washington	49.90	2014
T-C Foundry Sq II Venture LLC	Wilmington, DE	San Francisco	49.90	2014
T-C Hall of States Venture LLC	Wilmington, DE	Washington	49.90	2014
SJP TS JV, LLC	Wilmington, DE	New York	45.00	2015
T-C Republic Square Venture LLC	Wilmington, DE	Washington	49.90	2015
T-C 888 Brannan Venture LLC	Wilmington, DE	San Francisco	49.90	2015
Hudson Square Properties, LLC	Wilmington, DE	New York	44.00	2015
Consolidated companies				
Singapore				
NBRE Management Singapore Pte. Ltd.	Singapore	N/A	100.00	2015
Japan				
NBRE Management Japan Advisors K.K.	Tokyo	N/A	100.00	2015

The activity in the consolidated companies consist of providing investment-related services to the GPFG. The activity is presented in the income statement as *Other expenses* and within the balance sheet lines *Other assets* and *Other liabilities*.

In addition to the companies shown in table 15.1, Norges Bank has wholly-owned holding companies as part of *Unlisted real estate*. These holding companies do not engage in any operations and do not own any properties directly. The holding companies have their business address in the same country as the properties, or in relation to NBIM S.à r.l. in Luxembourg.

Translation from the original Norwegian version

To the Supervisory Council of Norges Bank

Independent auditor's report

We have audited the financial reporting for the investment portfolio of the Government Pension Fund Global included in Norges Bank's annual financial statements. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio are included in the financial reporting. The financial reporting comprises the balance sheet as at 31 December 2015, the profit/loss for the period and total comprehensive income, the statement of changes in owner's capital, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial reporting
Management is responsible for the preparation and fair presentation of the financial reporting in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of financial reporting that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on the financial reporting based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial reporting is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial reporting. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial reporting, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial reporting in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial reporting.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial reporting gives a true and fair view, in all material respects, of the financial position for the investment portfolio of the Government Pension Fund Global as at 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Oslo, 10 February 2016
Deloitte AS

Aase Aa. Lundgaard
State Authorised Public Accountant

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