

Government Pension Fund Global

Half year report

2020

Key figures

-3.4%

-188 billion kroner

The Government Pension Fund Global returned **-3.4** percent, or **-188** billion kroner, in the first half of 2020.



**Equity
investments**

—
-6.8 %



**Unlisted real estate
investments**

—
-1.6 %



**Fixed-income
investments**

—
5.1 %

The fund's equity investments returned **-6.8** percent.
Investments in unlisted real estate returned **-1.6** percent.
Fixed-income investments returned **5.1** percent.

The return on the fund's investments was **0.11** percentage point lower than the return on the benchmark index the fund is measured against.

10,400

billion kroner

The fund had a market value of **10,400** billion kroner at the end of the period and was invested **69.6** percent in equities, **2.8** percent in unlisted real estate and **27.6** percent in fixed income.



**Equity
investments**

69.6 %



**Unlisted real estate
investments**

2.8 %



**Fixed-income
investments**

27.6 %

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Norges Bank Investment Management manages the Government Pension Fund Global.

Our mission is to safeguard and build financial wealth for future generations.

Investments

The fund's equity investments returned -6.8 percent. Investments in unlisted real estate returned -1.6 percent and fixed-income investments 5.1 percent.

Equities

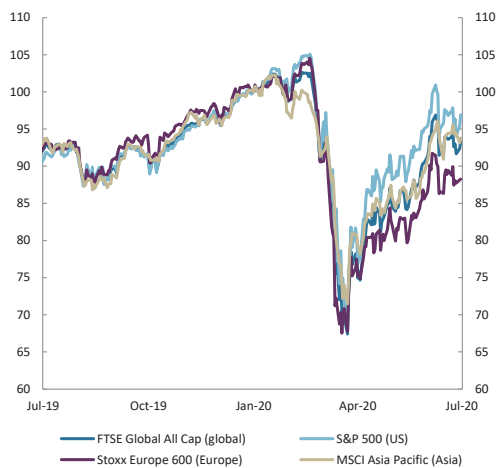
Equity investments returned -6.8 percent and made up 69.6 percent of the fund at the end of a period that saw big swings in the market. The year began optimistically, thanks partly to expectations of healthy growth in the real economy. The bull market came to an abrupt end as the coronavirus began to spread globally and countries around the world took drastic action to limit contagion. Financial markets were hit by a series of liquidity shocks due to substantial

demand for cash both in the real economy and among investors. The collapse in share prices was counteracted by a massive monetary and fiscal response. Economic support packages the world over helped allay fears of a wave of bankruptcies and a freeze in the credit markets. Together with a gradual relaxation of the lockdown measures in many developed markets, this made investors more optimistic again.

Negative returns in most markets

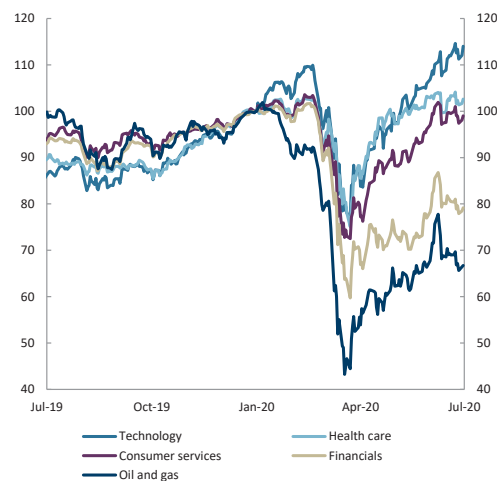
North American stocks returned -2.6 percent and amounted to 43.7 percent of the equity portfolio. US stocks, which were the fund's single-largest market with 41.7 percent of its equity investments, returned -2.1 percent, or -3.2 percent in local currency.

Chart 1 Price developments in regional equity markets. Measured in US dollars, except for the Stoxx Europe 600, which is measured in euros. Indexed total return 31.12.2019 = 100.



Source: Bloomberg

Chart 2 Price developments in equity sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed total return 31.12.2019 = 100.



Source: FTSE Russell

European stocks returned -11.7 percent and accounted for 31.6 percent of the fund's equities. The UK, which was the fund's largest European market with 6.9 percent of its equity investments, returned -24.3 percent, or -19.8 percent in local currency.

Stocks in the Asia-Pacific region returned -4.6 percent and made up 23.0 percent of the fund's equity investments. Japanese stocks returned -6.0 percent, or -7.8 percent in local currency, and amounted to 8.4 percent of equity investments.

Emerging markets returned -7.3 percent and accounted for 11.5 percent of the equity portfolio. The Chinese stock market, home to 5.2 percent of the fund's equity investments, returned 7.7 percent.

Tech stocks perform best

Technology companies were the period's strongest performers with a positive return of 14.2 percent. Strong demand for online solutions for working, education, shopping and entertainment due to the coronavirus pandemic contributed to this strong return.

Health care stocks returned 4.8 percent, as demand for medicines was not hit as hard by the pandemic as demand in more cyclical sectors. Suppliers of equipment and solutions for diagnosing and treating coronavirus produced particularly strong returns.

Oil and gas companies performed worst with a return of -33.1 percent. This was due mainly to a slide in oil prices in the first quarter as a result of both weak demand on account of the pandemic

Table 1 Return on the fund's equity investments in first half of 2020 by sector. Measured in international currency. Percent.

Sector	Return	Share of equity investments ¹
Financials	-20.8	20.3
Technology	14.2	17.9
Industrials	-7.5	13.0
Health care	4.8	12.9
Consumer goods	-6.7	11.6
Consumer services	-3.5	11.5
Basic materials	-6.5	4.1
Oil and gas	-33.1	3.4
Telecommunications	-5.9	2.8
Utilities	-5.0	2.8

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

Table 2 The fund's largest equity holdings as at 30 June 2020. Millions of kroner.

Company	Country	Holding
Microsoft Corp	US	150,747
Apple Inc	US	148,820
Amazon.com Inc	US	121,097
Alphabet Inc	US	90,310
Nestlé SA	Switzerland	82,490
Roche Holding AG	Switzerland	66,805
Alibaba Group Holding Ltd	China	59,956
Facebook Inc	US	58,594
Tencent Holdings Ltd	China	53,129
Novartis AG	Switzerland	46,452

and an increase in supply from Saudi Arabia. Low gas prices and refining margins also weighed on the sector.

Financials returned -20.8 percent, with banks performing particularly poorly. Lockdown measures to contain the coronavirus pandemic led to economic recession, lower interest rates and higher expected loan losses. Pressure from some regulators to suspend or reduce payouts to shareholders also had an adverse effect.

Individual stocks

The investment in technology company Amazon.com Inc made the most positive contribution to the return for the period, followed by technology companies Microsoft Corp and Apple Inc. The investments that made the most negative contributions were in oil company Royal Dutch Shell PLC and financial services companies HSBC Holdings PLC and JPMorgan Chase & Co.

The fund participated in 65 initial public offerings during the period. The largest were at waste management company GFL Environmental, e-commerce company JD.com Inc and technology company Netease Inc. The offerings in which the fund invested the most were those at GFL Environmental Inc, health care company PPD Inc and consumer goods company JDE Peet's B.V.

Return in international currency

The fund invests in international securities in foreign currency. The fund's returns are generally measured in international currency – a weighted combination of the currencies in the fund's benchmark indices for equities and bonds. This currency basket consisted of 36 currencies at the end of the period. Unless otherwise stated in the text, results are measured in this currency basket.

Real estate

Total real estate investments amounted to 4.1 percent of the fund at the end of the period and returned -8.7 percent. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

Unlisted real estate investments made up 68.4 percent of the overall real estate portfolio and returned -1.6 percent. The return on unlisted real estate investments depends on rental income, operating costs, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases and sales. Measured in local currency, rental income net of operating costs made a

positive contribution of 1.7 percentage points to the return for the period, while changes in the value of properties and debt contributed -3.1 percentage points, and currency movements had a neutral impact.

In March, the fund announced an agreement to acquire a 39.9 percent interest in part of the Otemachi Park Building, a large office property in Tokyo, for 79.7 billion yen, or around 6.9 billion kroner, alongside a new partner, Mitsubishi Estate.

Listed real estate made up 31.6 percent of the overall real estate portfolio at the end of the period and returned -22.1 percent.

Table 3 Value of real estate investments as at 30 June 2020. Millions of kroner.

	Value ¹
Unlisted real estate investments	295,292
Listed real estate investments	136,301
Total real estate investments	431,593

¹ Including bank deposits and other receivables.

Table 4 Return on unlisted real estate investments in the first half of 2020. Percentage points.

	Return
Rental income	1.7
Changes in value	-3.1
Transaction costs	-0.2
Result of currency adjustments	0.0
Total	-1.6

Fixed income

Fixed-income investments accounted for 27.6 percent of the fund at the end of the period and returned 5.1 percent. The coronavirus pandemic led to global monetary easing, with rate cuts and active use of central bank balance sheets.

Bond portfolio boosted by lower interest rates

Government bonds accounted for 50.3 percent of the fund's fixed-income investments at the end of the period and returned 5.2 percent. The fund's three largest holdings were of US, Japanese and German government bonds.

US Treasuries returned 10.8 percent, or 9.6 percent in local currency, and accounted for 19.5 percent of fixed-income investments, making them the fund's largest holding of government

debt from a single issuer. The Federal Reserve cut the target range for its policy rate to 0-0.25 percent in March and has also used its balance sheet in various ways to stimulate the economy and promote well-functioning bond markets.

Euro-denominated government bonds represented 11.9 percent of the fund's fixed-income holdings and returned 4.0 percent, or 2.8 percent in local currency. The most important change in the European Central Bank's monetary policy was a new 750 billion euro bond purchase programme launched in mid-March, which was then increased in June by 600 billion euros and extended through to June 2021.

Japanese government bonds amounted to 6.3 percent of the fund's fixed-income holdings and returned 1.0 percent, or -0.9 percent in local

Table 5 Return on the fund's fixed-income investments in the first half of 2020. By sector. Measured in international currency. Percent.

Sector	Return	Share of fixed-income investments ¹
Government bonds ²	5.2	50.3
Government-related bonds ²	3.1	12.6
Inflation-linked bonds ²	5.3	6.8
Corporate bonds	4.7	27.2
Securitised bonds	2.6	6.2

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

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

Table 6 The fund's largest bond holdings as at 30 June 2020. Millions of kroner.

Issuer	Country	Holding
United States of America	US	667,195
Japanese government	Japan	188,158
Federal Republic of Germany	Germany	96,547
UK government	United Kingdom	84,239
French Republic	France	78,031
South Korean government	South Korea	61,745
Spanish government	Spain	58,134
Italian Republic	Italy	42,335
Australian government	Australia	39,066
Canada Mortgage & Housing Corp	Canada	34,517

currency. The Bank of Japan continued its strategy of quantitative and qualitative easing with yield curve control during the period without any significant changes.

UK gilts accounted for 2.3 percent of the fund's fixed-income investments and returned 5.7 percent, or 12.1 percent in local currency. The Bank of England cut its policy rate to 0.1 percent and used quantitative easing to stimulate the economy.

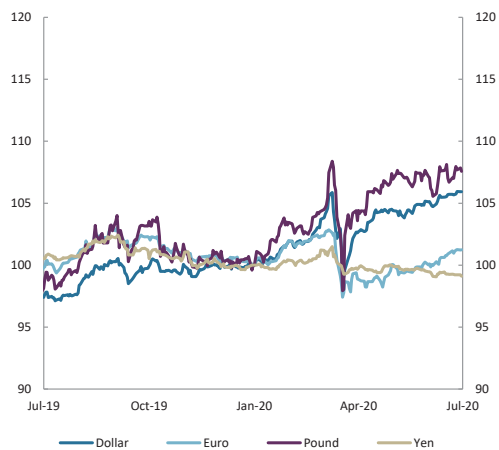
The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau, Canada Mortgage & Housing Corp and Province of Ontario. These bonds returned 3.1 percent and accounted for 12.6 percent of fixed-income investments.

Corporate bonds returned 4.7 percent and represented 27.2 percent of fixed-income investments at the end of the period. The credit premium increased sharply in late February and March, but most of the increase reversed in the second quarter.

Securitized bonds, consisting mainly of covered bonds denominated in euros, returned 2.6 percent and made up 6.2 percent of fixed-income holdings.

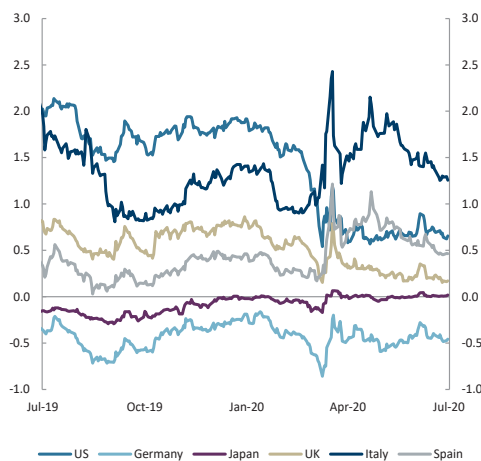
Inflation-linked bonds returned 5.3 percent and accounted for 6.8 percent of total fixed-income investments. Returns were boosted by the decline in interest rates, given these bonds' long average maturity, but were held back by lower inflation expectations.

Chart 3 Price developments for bonds issued in dollars, euros, pounds and yen. Measured in local currencies. Indexed total return 31.12.2019 = 100.



Source: Bloomberg Barclays Indices

Chart 4 10-year government bond yield development. Percent.



Source: Bloomberg

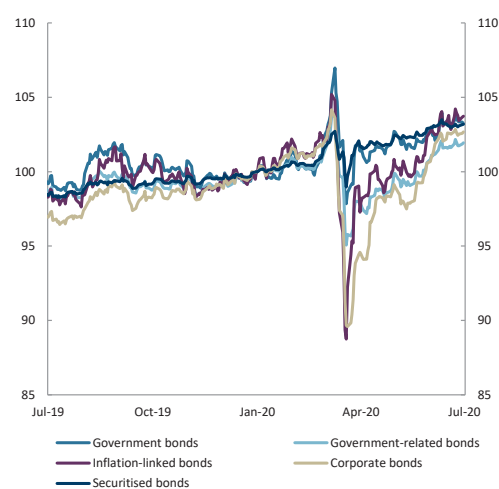
Changes in fixed-income holdings

Investments in dollars, euros, pounds and yen fell from 87.3 to 85.6 percent of fixed-income holdings during the period.

The market value of fixed-income investments denominated in emerging-market currencies fell from 8.0 to 6.4 percent of total fixed-income investments.

The fund's holdings of government bonds from the Netherlands, South Korea and the UK increased most in value during the period, while those from Japan, the US and Mexico fell furthest in value.

Chart 5 Price developments in fixed-income sectors. Measured in US dollars. Indexed total return 31.12.2019 = 100.



Source: Bloomberg Barclays Indices

Table 7 The fund's bond holdings as at 30 June 2020 based on credit ratings. Percent.

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	25.6	7.9	9.6	4.7	1.0	48.8
Government-related bonds	4.7	5.0	1.9	0.5	0.0	12.2
Inflation-linked bonds	4.6	1.3	0.3	0.4	0.0	6.6
Corporate bonds	0.2	1.7	11.2	12.9	0.4	26.4
Securitized bonds	5.0	0.9	0.1	0.0	0.0	6.0
Total	40.1	16.8	23.0	18.6	1.5	100.0

Management

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

The return on the fund is measured against a benchmark index set by the Ministry of Finance, which consists of a subindex for equities and a subindex for bonds. The benchmark index serves as a general limit for market and currency risk in the management of the fund and as a yardstick for market indices and the fund’s return. The equity subindex is based on FTSE Russell’s Global All Cap stock index, and the bond subindex on indices from Bloomberg Barclays Indices.

The overall return on the fund for the period was 0.11 percentage point lower than the return on

the benchmark index from the Ministry of Finance.

The fund invests in listed equities, bonds and unlisted real estate. When we buy real estate, we sell bonds and equities at a ratio that keeps the currency risk unchanged. Separate benchmark indices are therefore set for equity and fixed-income management that are adjusted for the bonds and equities sold to finance real estate management. This permits a comprehensive approach to risk management for the fund. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

The relative return is broken down between equity, fixed-income and real estate management, and an allocation effect between them.

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

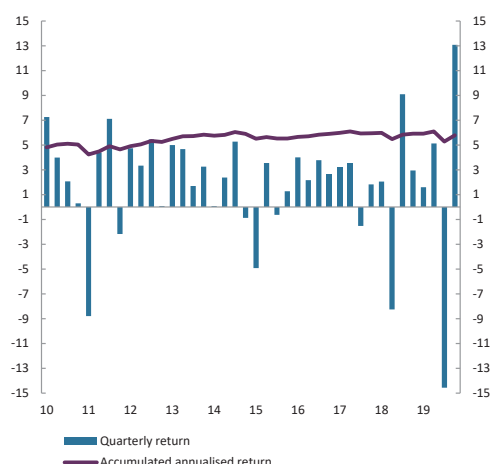
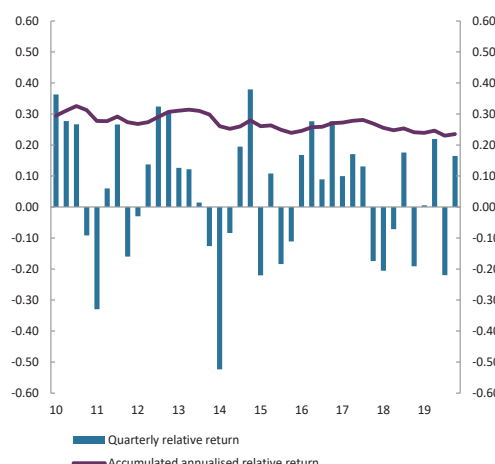


Chart 7 The fund’s quarterly relative return and accumulated annualised relative return. Calculations based on aggregated equity and fixed-income investments until end of 2016. Percentage points.



Equity management contributed 0.16 percentage point to the fund's relative return in the first half of the year. Finance and health care were the sectors that made the most positive contributions, while consumer services made the most negative. Broken down by country, equity investments in the US and China made the most positive contributions, and French stocks the most negative. A larger share in the equity management in value stocks compared to the benchmark index contributed negatively to the relative return.

Fixed-income management contributed 0.14 percentage point to the fund's relative return. The fund's underweight in corporate bonds made a positive contribution.

Real estate management contributed -0.42 percentage point to the fund's relative return, measured against the equities and bonds sold to finance real estate investments. Listed and unlisted real estate investments both made a negative contribution.

The relative return may also be affected by an allocation effect between these management areas. The contribution from this effect during the period was 0.01 percentage point.

The fund's relative return can also be broken down by asset class, with listed real estate investments included in equity investments, and unlisted real estate investments measured against the benchmark index from the Ministry of Finance. Decomposed in this way, equity investments contributed -0.06 percentage point to the fund's relative return, fixed-income investments 0.10 percentage point and unlisted real estate investments 0.03 percentage point. The allocation effect between asset classes was -0.18 percentage point.

Table 8 Contributions from management areas to the fund's relative return in the first half of 2020. Percentage points.

	Total
Equity management	0.16
Fixed-income management	0.14
Real estate management	-0.42
Allocation effect	0.01
Total	-0.11

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 property 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 gain the broadest possible picture of this risk.

The fund's expected absolute volatility, calculated using the statistical measure standard deviation, uses a three-year price history to estimate how much the annual return on the fund's investments can normally be expected to fluctuate. The fund's expected absolute volatility was 9.8 percent, or about 1,020 billion kroner, at the end of the period, compared with 7.7 percent at the beginning of the period.

We invest in real estate to create a more diversified portfolio. We expect real estate investments to have a different return profile to equities and bonds in both the short and the longer term. The relative risk that this entails will impact on calculations of the fund's expected relative volatility. As daily pricing is not available for our real estate investments, we use a model from MSCI to calculate the risk for the fund's unlisted real estate investments.

The Ministry of Finance and Norges Bank's Executive Board have set limits for how far the fund's investments may deviate from the benchmark index. One of these limits is expected relative volatility, or tracking error, which puts a ceiling on how much the return on the fund's investments can be expected to deviate from the return on the benchmark index.

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

Limits set by the Ministry of Finance		30.06.2020
Allocation	Equity portfolio 60–80 percent of fund's market value ¹	69.5
	Unlisted real estate no more than 7 percent of the fund's market value	2.8
	Fixed-income portfolio 20–40 percent of fund's market value ¹	28.3
	Unlisted infrastructure no more than 2 percent of the fund's market value	0.0
Market risk	1.25 percentage points expected relative volatility for the fund's investments	0.6
Credit risk	Maximum 5 percent of fixed-income investments may be rated below BBB-	1.5
Emerging markets	Maximum 5 percent of fixed-income investments may be in emerging markets ²	8.5
Ownership	Maximum 10 percent of voting shares in a listed company in the equity portfolio ³	9.6

¹ Derivatives are represented with their underlying economic exposure.

² The Ministry of Finance has decided on a transition plan for the phasing-out of bonds issued by emerging market countries and companies from the strategic benchmark index. The limit of 5 percent of the bond portfolio for these bonds may be deviated from until the completion of the transition plan.

³ Investments in listed and unlisted real estate companies are exempt from this restriction.

All of the fund's investments, including unlisted real estate, are included in the calculation of expected relative volatility and measured against the fund's benchmark index, which consists of global equity and bond indices. The limit for expected relative volatility for the fund is 1.25 percentage points. The actual level was 0.58 percentage point at the end of the period.

The Executive Board has also set a limit for expected shortfall for the relative return between the fund and the benchmark index. The fund is to be managed in such a way that the expected negative relative return in extreme situations does not exceed 3.75 percentage points. The actual level was 1.84 percentage points at the end of the period.

Operational risk management

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

Each quarter, Norges Bank Investment Management estimates the size of potential losses or gains arising over the next year because of unwanted operational events related to its investment management activities. The estimate is based on past events and an assessment of future risks, and represents the fund's estimated operational risk exposure.

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

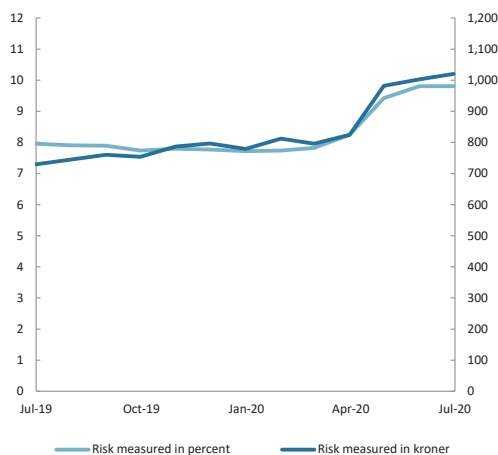
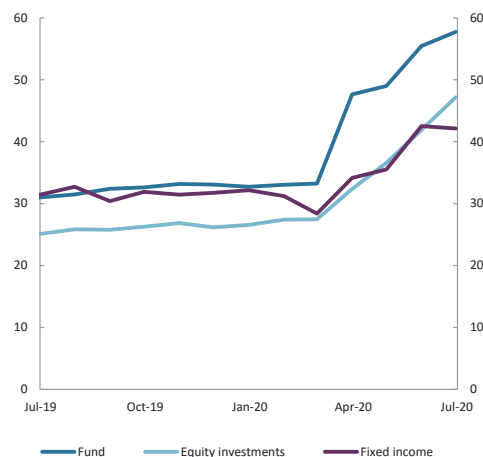


Chart 9 Expected relative volatility of the fund. Basis points.



Estimated operational risk exposure remained within the Executive Board's tolerance limit during the period. A total of 111 unwanted operational events were registered, with an estimated financial impact of around 30.3 million kroner.

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

Responsible investment

Responsible investment supports the fund's objective in two ways. First, we seek to improve the long-term economic performance of our investments. Second, we seek to reduce the financial risks associated with the environmental and social practices of companies in our portfolio. We therefore consider governance and sustainability issues that could have an impact on the fund's performance over time. We integrate these issues into our work on standard setting, our long-term ownership and our investing.

Establishing principles

We participated in nine public consultations related to responsible investment during the first half of the year.

As an investor, we depend on relevant, timely and accurate information about the companies we invest in. We also aim to understand environmental and social issues that could impact on their long-term profitability, and how they manage relevant risks and opportunities. We shared our view on corporate sustainability disclosure when responding to two consultations by the European Commission on the upcoming review of the EU's Non-Financial Reporting Directive. We also contributed to consultations by the Dutch corporate governance forum Eumedion and the Sustainable Finance Committee in Germany, as well as the OECD on country-by-country tax reporting.

To exercise our ownership rights, we need to be able to vote at shareholder meetings in all markets. Sometimes, however, we encounter obstacles in the form of manual processes, a lack of standardisation or idiosyncratic rules. We raised these problems with the European Commission in a response to the final report of the EU's High-Level Forum on capital markets union. We also shared our views on the protection of minority shareholder rights with the Hong Kong exchange when commenting on a proposal to allow weighted voting rights for corporate shareholders.

Norges Bank Investment Management was a signatory to the Principles for Responsible Investment (PRI) on their introduction and continues to support the six principles. In February, we gave PRI feedback on its proposals for a revised framework for how members report on their responsible investment activities.

In May, we published four position papers clarifying our view on board independence, multiple share classes, shareholder rights in equity issuances, and related-party transactions. These will guide our voting at shareholder meetings and ensure transparency about our voting decisions.

We also published three Asset Manager Perspectives to draw attention to topics that are important to us as a long-term investor. The first looks at the shareholder voting process, in particular what makes for an efficient voting process and what issuers, investors, service providers and regulators can do to facilitate such processes. The second considers corporate sustainability reporting and asks boards to ensure that their companies disclose relevant, quantitative and comparable information on environmental and social topics on a regular basis. We also issued a position paper on this subject. The third Asset Manager Perspective concerns shareholder proposals on sustainability issues and recommends assessing these proposals on the basis of materiality, prescriptiveness and careful consideration of the company's context.

Exercise of ownership rights

Voting is one of the most important instruments available to us for exercising our ownership rights. We voted on a total of 92,933 proposals at 8,364 shareholder meetings in the first half of the year. This is the busy season for companies' annual meetings, with more than two thirds of them taking place between April and June.

In May, we further increased transparency about how we exercise our ownership rights by providing explanations for all votes against the board's recommendation. In most cases, we will back the board. Where we do not, we will now disclose the reason the day after the meeting.

To clarify our position on matters of principle, we may publish our voting intentions ahead of a shareholder meeting. In May, we announced in advance that we would support Barclays PLC's commitment to tackling climate change. We voiced our support for the bank's ambition of net-zero emissions by 2050 and plans to align its financial services with the goals and deadlines in the Paris Agreement and report annually on progress towards this. We expect all companies in our portfolio to be open about their strategy for calculating, reporting and reducing greenhouse gas emissions in both their own operations and their value chains.

We had 1,516 meetings with companies in the first half of the year and raised governance or sustainability issues at 54.3 percent of them. Most of these issues concerned climate change, board composition and executive remuneration.

Observation and exclusion

In the first half of 2020, Norges Bank published decisions to exclude 12 companies from the fund and re-admit three. The Bank also placed four companies under observation under the product-based coal criterion.

Canadian Natural Resources Ltd, Cenovus Energy Inc, Suncor Energy Inc and Imperial Oil Ltd were excluded following an assessment against the conduct-based climate criterion. ElSewedy Electric Co and Vale SA were excluded following an assessment of the risk of contributing to severe environmental damage, and Centrais Eletricas Brasileiras SA (Eletrobras) due to an unacceptable risk of the company contributing to serious or systematic violations of human rights. The Bank also decided to exclude five companies, and place four under observation, following on assessment against the coal criterion. Sasol Ltd, RWE AG, Glencore PLC, AGL Energy Ltd and Anglo American PLC were excluded, while BHP Group Ltd/BHP Group PLC, Vistra Energy Corp, Enel SpA and Uniper SE were added to the observation list.

Meanwhile, Norges Bank decided to revoke the exclusion of AECOM Ltd, Texwinca Holdings Ltd and Drax Group PLC, which means that the fund may now invest in these companies. Where appropriate, the Ministry of Finance will set dates for when these companies' securities will be included again in the fund's benchmark index. Whether and when purchases of these securities are made is up to Norges Bank.

Key figures

Table 10 Return figures. Measured in the fund's currency basket. Percent.

	First half 2020	2Q 2020	1Q 2020	4Q 2019	3Q 2019
Equity investments	-6.75	18.14	-21.07	7.67	1.27
Unlisted real estate investments	-1.63	-2.00	0.38	2.59	1.56
Fixed-income investments	5.14	3.78	1.31	-0.90	2.36
Return on fund	-3.40	13.08	-14.57	5.12	1.59
Relative return on fund (percentage points)	-0.11	0.16	-0.22	0.22	0.01
Management costs	0.03	0.01	0.01	0.01	0.01
Return on fund after management costs	-3.42	13.07	-14.58	5.11	1.58



Table 11 Historical key figures as at 30 June 2020. Annualised data, measured in the fund's currency basket.

	Since 01.01.1998	Last 15 years	Last 10 years	Last 5 years	Last 12 months
Fund return (percent)	5.79	5.88	7.64	5.41	3.17
Annual price inflation (percent)	1.73	1.77	1.60	1.36	0.50
Annual management costs (percent)	0.08	0.08	0.06	0.05	0.05
Net real return on fund (percent)	3.90	3.96	5.88	3.95	2.60
The fund's actual standard deviation (percent)	7.89	8.84	8.10	9.27	14.76
Relative return on fund (percentage points) ¹	0.24	0.12	0.19	0.08	0.11
The fund's tracking error (percentage points) ¹	0.66	0.77	0.36	0.33	0.36
The fund's information ratio (IR) ^{1,2}	0.38	0.20	0.53	0.27	0.39

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

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

Table 12 Key figures. Billions of kroner.

	First half 2020	2Q 2020	1Q 2020	4Q 2019	3Q 2019
Market value					
Equity investments	7,234	7,234	6,559	7,145	6,729
Unlisted real estate investments	295	295	321	273	268
Fixed-income investments	2,871	2,871	3,119	2,670	2,744
Market value of fund ¹	10,400	10,400	9,998	10,088	9,742
Accrued, not paid, management fees ¹	-3	-3	-1	-4	-3
Owner's capital ¹	10,398	10,398	9,997	10,084	9,739
Inflow/withdrawal of capital ²	-167	-105	-62	10	-5
Paid management fees ²	-4	0	-4	0	0
Return on fund	-188	1,162	-1,350	461	236
Changes due to fluctuations in krone	672	-655	1,327	-124	349
Total change in market value	312	402	-90	346	580
Changes in value since first capital inflow in 1996					
Total inflow of capital ³	3,220	3,220	3,323	3,389	3,378
Return on equity investments	3,685	3,685	2,615	4,023	3,546
Return on unlisted real estate investments	81	81	85	85	80
Return on fixed-income investments	1,403	1,403	1,307	1,249	1,270
Management fees ⁴	-51	-51	-50	-48	-47
Changes due to fluctuations in krone	2,062	2,062	2,717	1,390	1,514
Market value of fund	10,400	10,400	9,998	10,088	9,742
Return on fund	5,170	5,170	4,008	5,358	4,897
Return after management costs	5,119	5,119	3,958	5,309	4,849

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

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

³ Total inflow of capital shown in this table is adjusted for accrued, not paid, management fees.

⁴ Management costs in subsidiaries, see Table 10.2 in the financial reporting section, are not included in the management fees. Management costs in subsidiaries have been deducted from the fund's return before management fees.

Financial reporting

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Income statement

Amounts in NOK million	Note	1H 2020	1H 2019	2019
Profit/loss on the portfolio before foreign exchange gain/loss				
Income/expense from:				
- Equities	4	-334 606	844 801	1 486 909
- Bonds	4	155 947	144 959	192 820
- Unlisted real estate	6	-4 409	6 862	16 175
- Financial derivatives	4	-4 239	807	353
- Secured lending		2 236	2 112	4 529
- Secured borrowing		-700	-635	-1 926
Tax expense		-2 244	-4 321	-6 827
Interest income/expense		34	38	77
Other income/expense		-5	-	-8
Profit/loss on the portfolio before foreign exchange gain/loss		-187 986	994 622	1 692 103
Foreign exchange gain/loss	9	672 144	-97 884	126 679
Profit/loss on the portfolio		484 158	896 738	1 818 782
Management fee	10	-2 733	-2 099	-4 312
Profit/loss and total comprehensive income		481 424	894 639	1 814 470

Balance sheet

Amounts in NOK million	Note	30.06.2020	31.12.2019
Assets			
Deposits in banks		11 170	14 476
Secured lending		154 887	222 946
Cash collateral posted		2 355	1 090
Unsettled trades		55 352	3 169
Equities	5	6 781 540	6 714 195
Equities lent	5	472 309	426 623
Bonds	5	2 715 143	2 316 823
Bonds lent	5	243 203	479 852
Financial derivatives	5	4 063	3 335
Unlisted real estate	6	294 309	264 538
Other assets		5 851	3 737
Total assets		10 740 183	10 450 786
Liabilities and owner's capital			
Secured borrowing		256 302	338 266
Cash collateral received		7 996	6 754
Unsettled trades		68 091	13 894
Financial derivatives	5	5 101	3 294
Other liabilities		2 235	495
Management fee payable	10	2 733	4 312
Total liabilities		342 457	367 015
Owner's capital		10 397 725	10 083 771
Total liabilities and owner's capital		10 740 183	10 450 786

Statement of cash flows

Amounts in NOK million, receipt (+) / payment (-)	Note	1H 2020	1H 2019	2019
Operating activities				
Receipts of dividend from equities		88 644	98 879	172 591
Receipts of interest from bonds		36 413	34 500	67 751
Receipts of interest and dividend from unlisted real estate	6	4 818	1 978	5 865
Net receipts of interest and fee from secured lending and borrowing		1 270	1 363	2 711
<i>Receipts of dividend, interest and fee from holdings of equities, bonds and unlisted real estate</i>		<i>131 146</i>	<i>136 720</i>	<i>248 918</i>
Net cash flow from purchase and sale of equities		-116 004	-172 432	-256 760
Net cash flow from purchase and sale of bonds		193 720	121 121	23 993
Net cash flow to/from investments in unlisted real estate	6	-16 954	-1 334	-5 300
Net cash flow financial derivatives		1 602	-1 169	-357
Net cash flow cash collateral related to derivative transactions		-523	2 619	3 556
Net cash flow secured lending and borrowing		-23 936	-87 263	-18 907
Net payment of taxes		-5 964	-6 963	-6 648
Net cash flow related to interest on deposits in banks and bank overdraft		11	24	44
Net cash flow related to other income/expense, other assets and other liabilities		176	-72	22
Management fee paid to Norges Bank ¹	10	-4 312	-4 544	-4 544
Net cash inflow/outflow from operating activities		158 961	-13 294	-15 983
Financing activities				
Inflow from the Norwegian government ²		1 459	14 282	32 051
Withdrawal by the Norwegian government ²		-165 626	-	-14 400
Net cash inflow/outflow from financing activities		-164 168	14 282	17 651
Net change deposits in banks				
Deposits in banks at 1 January		14 476	11 561	11 561
Net increase/decrease of cash in the period		-5 206	987	1 668
Net foreign exchange gain/loss on cash		1 901	-225	1 246
Deposits in banks at end of period		11 170	12 323	14 476

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

² Inflows/withdrawals included here only represent transfers that have been settled in the period. Inflows/withdrawals in the *Statement of changes in owner's capital* are based on accrued inflows/withdrawals.

Statement of changes in owner's capital

Amounts in NOK million	Inflows from owner	Retained earnings	Total owner's capital
1 January 2019	3 366 340	4 885 061	8 251 401
Profit/loss and total comprehensive income	-	894 639	894 639
Inflow during the period ¹	13 500	-	13 500
30 June 2019	3 379 840	5 779 700	9 159 540
1 July 2019	3 379 840	5 779 700	9 159 540
Profit/loss and total comprehensive income	-	919 831	919 831
Inflow during the period	18 800	-	18 800
Withdrawal during the period	-14 400	-	-14 400
31 December 2019	3 384 240	6 699 531	10 083 771
1 January 2020	3 384 240	6 699 531	10 083 771
Profit/loss and total comprehensive income	-	481 424	481 424
Inflow during the period ¹	330	-	330
Withdrawal during the period ¹	-167 800	-	-167 800
30 June 2020	3 216 770	7 180 955	10 397 725

¹ In the first half of 2020, there was an inflow to the krone account of NOK 0.3 billion, while NOK 172.1 billion was withdrawn. Of this, NOK 4.3 billion was used to pay the accrued management fee for 2019. In the first half of 2019, there was an inflow to the krone account of NOK 13.5 billion. Of this, NOK 4.5 billion was used to pay the accrued management fee for 2018 and NOK 9.0 billion was transferred to the investment portfolio.

Notes to the financial reporting

Note 1 General Information

Introduction

Norges Bank is Norway's central bank. The bank is a separate legal entity and is owned by the state. Norges Bank manages the Government Pension Fund Global (GPFG) on behalf of the Ministry of Finance, in accordance with section 3, second paragraph of the Government Pension Fund Act and the management mandate for the GPFG issued by the Ministry of Finance.

The GPFG shall support government saving to finance future 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 Executive Board of Norges Bank has delegated day-to-day management of the GPFG to 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 listed equities, bonds, real estate and infrastructure for renewable energy. The GPFG is invested in its entirety outside of Norway.

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

Approval of the interim financial statements

The interim financial statements of Norges Bank for the first half of 2020, which only encompass the financial reporting for the GPFG, were approved by the Executive Board on 12 August 2020.

Note 2 Accounting policies

Basis of preparation

The provisions on the financial reporting of Norges Bank (the provisions), which have been laid down by the Ministry of Finance, require that the financial reporting of the GPFG is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The condensed interim financial reporting for the first half of 2020 is prepared in accordance with IAS 34 *Interim Financial Reporting*, subject to the exemptions and additions specified in the provisions. The interim financial statements are presented in Norwegian kroner (NOK), rounded to the nearest million kroner. Rounding differences may occur.

The interim financial statements are prepared using the same accounting policies and calculation methods as applied and disclosed in the annual report for 2019. The condensed interim financial reporting does not include all the information and disclosures required in annual financial statements and should therefore be read in conjunction with the annual report for 2019.

Significant estimates and accounting judgements

The preparation of the interim financial statements involves the use of uncertain estimates and assumptions relating to future events that affect the reported amounts for assets, liabilities, income and expenses. Estimates are based on historical experience and reflect management's expectations about future events. Actual outcomes may deviate from estimates. The preparation of the interim financial statements also involves the use of judgement when applying accounting policies, which may have a significant impact on the financial statements.

In cases where there are particularly uncertain estimates or accounting judgements, this is described in the respective notes. There is increased uncertainty regarding fair value estimates for unlisted real estate and related sensitivities, due to the ongoing Covid-19 pandemic. This is described in note 7 *Fair value measurement*. For additional information, see the relevant notes in the annual report for 2019.

Note 3 Returns

Table 3.1 Returns

	1H 2020	1H 2019	2019
Returns measured in the fund's currency basket (percent)			
Return on equity investments	-6.75	15.57	26.02
Return on fixed-income investments	5.14	6.03	7.56
Return on unlisted real estate investments	-1.63	2.54	6.84
Return on fund	-3.40	12.32	19.95
Returns measured in Norwegian kroner (percent)			
Return on equity investments	1.20	14.07	28.20
Return on fixed-income investments	14.11	4.65	9.41
Return on unlisted real estate investments	6.76	1.20	8.68
Return on fund	4.85	10.86	22.01
Relative return on fund (percentage points)	-0.11	-0.03	0.23

For additional information on the calculation methods used when measuring returns see note 3 *Returns* in the annual report for 2019.

Note 4 Income/expense from equities, bonds and financial derivatives

Tables 4.1 to 4.3 specify the income and expense elements for equities, bonds and financial derivatives, where the line

Income/expense shows the amount recognised in profit or loss for the respective income statement line.

Table 4.1 Specification Income/expense from equities

Amounts in NOK million	1H 2020	1H 2019	2019
Dividends	89 515	101 590	173 225
Realised gain/loss	5 010	46 782	104 429
Unrealised gain/loss	-429 131	696 428	1 209 256
Income/expense from equities before foreign exchange gain/loss	-334 606	844 801	1 486 909

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	1H 2020	1H 2019	2019
Interest	35 170	32 852	67 097
Realised gain/loss	45 712	9 747	38 143
Unrealised gain/loss	75 064	102 359	87 580
Income/expense from bonds before foreign exchange gain/loss	155 947	144 959	192 820

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	1H 2020	1H 2019	2019
Interest	-222	228	1 146
Realised gain/loss	-3 019	563	-57
Unrealised gain/loss	-998	16	-735
Income/expense from financial derivatives before foreign exchange gain/loss	-4 239	807	353

Note 5 Holdings of equities, bonds and financial derivatives

Table 5.1 Equities

Amounts in NOK million	30.06.2020		31.12.2019	
	Fair value incl. accrued dividends	Accrued dividends	Fair value incl. accrued dividends	Accrued dividends
Equities	7 253 849	9 163	7 140 818	8 292
Total equities	7 253 849	9 163	7 140 818	8 292
<i>Of which equities lent</i>	472 309		426 623	

Table 5.2 Bonds

Amounts in NOK million	30.06.2020			31.12.2019		
	Nominal value	Fair value incl. accrued interest	Accrued interest	Nominal value	Fair value incl. accrued interest	Accrued interest
Government bonds	1 279 255	1 443 155	8 498	1 404 163	1 526 110	10 076
Government-related bonds	335 344	361 192	1 605	299 667	317 155	1 596
Inflation-linked bonds	167 616	194 807	461	157 821	174 406	424
Corporate bonds	726 435	781 666	5 974	595 230	629 172	5 547
Securitised bonds	182 825	177 525	710	155 564	149 833	848
Total bonds	2 691 475	2 958 346	17 247	2 612 446	2 796 675	18 490
<i>Of which bonds lent</i>		243 203			479 852	

Financial derivatives

Financial derivatives such as foreign exchange derivatives, interest rate derivatives and futures, are used to adjust the exposure in various portfolios as a cost-efficient alternative to trading in the underlying securities. Foreign exchange derivatives are also used in connection with liquidity management. Equity derivatives with an option component are often a result of

corporate actions, and can be converted into equities or sold. The GPF also uses equity swaps in combination with purchases and sales of equities. Equity swaps are not recognised in the balance sheet. See note 12 *Secured lending and borrowing* and note 13 *Collateral and offsetting* in the annual report for 2019 for more information.

Table 5.3 gives a specification of financial derivatives recognised in the balance sheet. Notional amounts are the basis for calculating any cash flows and gains/losses for derivative contracts. This provides information on the extent to which different types of financial derivatives are used.

Table 5.3 Financial derivatives

Amounts in NOK million	30.06.2020			31.12.2019		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange derivatives	205 738	3 418	2 912	330 125	2 884	2 740
Interest rate derivatives	33 327	550	2 189	21 605	291	554
Equity derivatives ¹	-	95	-	-	159	-
Exchange-traded futures contracts ²	30 647	-	-	27 287	-	-
Total financial derivatives	269 712	4 063	5 101	379 017	3 335	3 294

¹ Notional amounts are not considered relevant for equity derivatives and are therefore not included in the table.

² Exchange-traded futures contracts are settled daily with margin payments. Fair value is therefore zero at the balance sheet date.

Note 6 Unlisted real estate

Investments in unlisted real estate are made through subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG. Subsidiaries presented as *Unlisted real estate* in the balance sheet are measured at fair value through profit or loss. The fair value of unlisted real estate is determined as the sum of the GPFG's share of assets and liabilities in the underlying subsidiaries, measured at fair value. For further information, see note 2 *Accounting*

policies and note 7 *Fair value measurement* in the annual report for 2019.

Income/expense, changes in carrying amounts and cash flows related to investments in unlisted real estate are specified in the tables below. See note 6 *Unlisted real estate* in the annual report for 2019 for further information on the principles applied in the tables.

Table 6.1 Income/expense from unlisted real estate

Amounts in NOK million	1H 2020	1H 2019	2019
Payments of interest and dividend from unlisted real estate	4 818	1 978	5 865
Unrealised gain/loss	-9 227	4 884	10 311
Income/expense from unlisted real estate before foreign exchange gain/loss	-4 409	6 862	16 175

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK million	30.06.2020	31.12.2019
Unlisted real estate at 1 January	264 538	243 818
Net cash flow to/from investments in unlisted real estate	16 954	5 300
Unrealised gain/loss	-9 227	10 311
Foreign exchange gain/loss	22 043	5 109
Unlisted real estate, closing balance for the period	294 309	264 538

Table 6.3 specifies cash flows between the GPF and subsidiaries presented as *Unlisted real estate*, related to ongoing operations and other activities.

Table 6.3 Cash flow unlisted real estate

Amounts in NOK million	1H 2020	1H 2019	2019
Interest and dividend from ongoing operations	2 715	1 971	5 099
Repayments of intercompany loans from ongoing operations	662	638	1 267
<i>Cash flow from ongoing operations unlisted real estate</i>	<i>3 376</i>	<i>2 609</i>	<i>6 366</i>
Payments to new investments	-20 305	-1 728	-8 126
Payments for property development	-607	-570	-1 419
Net payments external debt	-	326	-451
Repayments of intercompany loans from sales	3 296	-	3 429
Interest and dividend from sales	2 104	7	766
<i>Cash flow to/from other activities unlisted real estate</i>	<i>-15 512</i>	<i>-1 965</i>	<i>-5 801</i>
Net cash flow unlisted real estate¹	-12 136	644	565

¹ Shown in the cash flow statement as *Receipts of interest and dividend from unlisted real estate* and *Net cash flow to/from investments in unlisted real estate*. In the first half of 2020, this amounted to NOK 4 818 million and NOK -16 954 million, respectively (NOK 1 978 million and NOK -1 334 million for the first half of 2019).

Underlying real estate companies

Real estate subsidiaries have investments in other non-consolidated, unlisted companies. For further information, see note 15 *Interests in other entities* in the annual report for 2019.

Table 6.4 specifies the GPF's share of net income generated in the underlying real estate companies, which is the basis for *Income/expense from unlisted real estate* presented in table 6.1.

Table 6.4 Income from underlying real estate companies

Amounts in NOK million	1H 2020	1H 2019	2019
Net rental income	5 924	5 036	10 478
External asset management – fixed fees	-376	-288	-576
External asset management – variable fees	-21	-3	-91
Internal asset management – fixed fees ¹	-33	-31	-63
Management costs within the limit from the Ministry of Finance ²	-32	-31	-70
Other operating costs, not within the limit from the Ministry of Finance	-65	-37	-101
Interest expense external debt	-291	-259	-525
Tax expense	-104	-81	-290
<i>Net income from ongoing operations</i>	<i>5 003</i>	<i>4 305</i>	<i>8 762</i>
Realised gain/loss	2 138	1	1 114
Unrealised gain/loss	-11 066	2 561	6 510
<i>Realised and unrealised gain/loss</i>	<i>-8 929</i>	<i>2 563</i>	<i>7 624</i>
<i>Transaction costs and fees from purchases and sales</i>	<i>-483</i>	<i>-6</i>	<i>-211</i>
Net income underlying real estate companies	-4 409	6 862	16 175

¹ Internal asset management is carried out on 100 percent owned properties by employees in a wholly-owned, consolidated subsidiary.

² See table 10.2 for specification of management costs that are measured against the upper limit from the Ministry of Finance.

Table 6.5 specifies the GPFG's share of assets and liabilities in the underlying real estate companies, which comprises the closing balance for *Unlisted real estate* presented in table 6.2.

Table 6.5 Assets and liabilities underlying real estate companies

Amounts in NOK million	30.06.2020	31.12.2019
Properties	315 437	283 191
External debt	-20 694	-18 407
Net other assets and liabilities ¹	-434	-246
Total assets and liabilities underlying real estate companies	294 309	264 538

¹ *Net other assets and liabilities* comprise cash, tax and operational receivables and liabilities.

Agreements for purchases and sales of real estate

Purchases and sales above USD 25 million are announced. Previously announced agreements for purchases and sales which are not yet completed at the end of the first half of 2020, are described in the following section.

In the second quarter of 2019, Norges Bank entered into agreements to acquire a 48 percent interest in two to-be-constructed buildings in New York, at 561 Greenwich Street and 92 Avenue of the Americas, with expected completion in the second quarter of 2022 and the fourth quarter of 2023, respectively. The buildings will be purchased and the final purchase price determined upon completed construction.

Note 7 Fair value measurement

Fair value for the majority of assets and liabilities is based on quoted market prices or observable market inputs. If the market is not active, fair value is established using standard valuation techniques. Estimating fair value can be complex and require the use of judgement, in particular

when observable inputs are not available. For an overview of valuation models and techniques, as well as definitions and the classification in the three categories in the fair value hierarchy, see note 7 *Fair value measurement* in the annual report for 2019.

Significant estimate

Level 3 investments consist of instruments measured at fair value that are not traded or quoted in active markets. Fair value is determined using valuation techniques that use models with significant use of unobservable inputs. A considerable degree of judgement is applied in determining the assumptions that market participants would use when pricing the asset or liability, when observable market data is not available.

The fair value hierarchy

Table 7.1 Categorisation of the investment portfolio by level in the fair value hierarchy

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Equities	7 210 649	7 093 963	37 115	46 039	6 085	816	7 253 849	7 140 818
Government bonds	1 355 064	1 386 488	88 091	139 622	-	-	1 443 155	1 526 110
Government-related bonds	281 166	256 537	80 026	60 618	-	-	361 192	317 155
Inflation-linked bonds	176 539	162 582	18 268	11 824	-	-	194 807	174 406
Corporate bonds	687 548	546 322	94 103	82 834	15	16	781 666	629 172
Securitised bonds	153 504	119 821	24 021	30 012	-	-	177 525	149 833
Total bonds	2 653 821	2 471 750	304 509	324 910	15	16	2 958 346	2 796 675
Financial derivatives (assets)	47	140	4 016	3 192	-	3	4 063	3 335
Financial derivatives (liabilities)	-	-	-5 101	-3 294	-	-	-5 101	-3 294
Total financial derivatives	47	140	-1 085	-102	-	3	-1 038	41
Unlisted real estate	-	-	-	-	294 309	264 538	294 309	264 538
Other (assets)¹	-	-	229 615	245 418	-	-	229 615	245 418
Other (liabilities)²	-	-	-334 624	-359 409	-	-	-334 624	-359 409
Total	9 864 517	9 565 853	235 530	256 856	300 409	265 373	10 400 458	10 088 083
Total (percent)	94.8	94.8	2.3	2.6	2.9	2.6	100.0	100.0

¹ *Other (assets)* consists of the balance sheet lines *Deposits in banks*, *Secured lending*, *Cash collateral posted*, *Unsettled trades (assets)* and *Other assets*.

² *Other (liabilities)* consists of the balance sheet lines *Secured borrowing*, *Cash collateral received*, *Unsettled trades (liabilities)* and *Other liabilities*.

The majority of the total portfolio is priced based on observable market prices. At the end of the first half, 97.1 percent of the portfolio was classified as Level 1 or 2, which is a marginal decrease compared to year-end 2019.

Equities

Measured as a share of total value, virtually all equities (99.41 percent) are valued based on official closing prices from stock exchanges and are classified as Level 1. A small share of equities (0.51 percent) are classified as Level 2. These are mainly equities for which trading has recently

been suspended, or illiquid securities that are not traded daily. For a few securities (0.08 percent) that are not listed, or where trading has been suspended over a longer period, unobservable inputs are used to a significant extent in the fair value measurement. These holdings are therefore classified as Level 3.

Bonds

The majority of bonds (89.71 percent) have observable, executable market quotes in active markets and are classified as Level 1. Bonds classified as Level 2 amount to 10.29 percent. These are securities that do not have a sufficient number of observable quotes or that are priced based on comparable liquid bonds. A negligible proportion of holdings that do not have observable quotes are classified as Level 3, since the valuation is based on significant use of unobservable inputs.

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 unobservable market inputs. All unlisted real estate investments are measured at the value determined by external valuers. Exceptions to this policy are cases of newly acquired properties where the purchase price, excluding transaction costs, is normally considered to be the best estimate of fair value, or where there are indications that external valuation reports do not reflect fair value so that adjustments to valuations are warranted.

The Covid-19 pandemic has affected the global financial markets and market activity in several sectors. The activity in the unlisted real estate market has been disrupted, with few transactions in the first half. As a consequence of the lack of

transactional evidence from comparable completed transactions, the majority of the external valuation reports received per 30 June include a "material valuation uncertainty clause". The exception is valuation reports received for logistics properties and one office property with long-dated income, which are not assessed to have increased valuation uncertainty. The clause is in accordance with market practice based on guidance from the relevant professional bodies for valuation and does not mean that the valuations cannot be relied upon. Rather, it is included to highlight the increased uncertainty due to the extraordinary circumstances. There has been no change to the valuation methodology due to the Covid-19 pandemic.

Norges Bank Investment Management has performed a detailed review of the independent external valuation reports received per 30 June. The assessment is that the external valuers have incorporated the impact of the Coronavirus in accordance with the assumptions that market participants would apply under current market conditions. The values determined by the external valuers are accordingly assessed to represent the best estimate of fair value at the end of the first half of 2020.

Financial derivatives

Some equity derivatives (rights and warrants) that are actively traded on exchanges are classified as Level 1. The majority of derivatives are classified as Level 2 as the valuation of these is based on standard models using observable market inputs. Certain derivatives are valued based on models with significant use of unobservable inputs and are classified as Level 3.

Other assets and liabilities are classified as Level 2.

Movements between the levels in the hierarchy

Reclassifications between Level 1 and Level 2

The share of equities classified as Level 1 has increased marginally by 0.07 percentage point compared to year-end 2019. Liquidity in the equity markets and the observability of inputs used in the valuation of equities have not been significantly impacted by stock market volatility in the first half. Consequently, there are no significant reclassifications of equity holdings between Level 1 and Level 2 during the first half.

Liquidity in the fixed-income markets fell in the first quarter due to high market volatility as a result of the Covid-19 pandemic. However, at the end of the first half, liquidity has largely returned to normal levels. For the bond portfolio as a whole, there has only been a minor net reclassification in absolute value from Level 1 to Level 2 in the first half. However, there have also been some reclassifications from Level 2 to Level 1 in the same period with offsetting impact, mainly within the categories government bonds and US corporate bonds.

The share of bonds classified as Level 1 has increased by 1.32 percentage points compared to year-end 2019, with a corresponding decrease in the share of Level 2 holdings. During the first half, Level 1 holdings have increased due to the purchase of government bonds and corporate bonds. Holdings classified as Level 2 have been reduced, because some Japanese government bonds that were classified as Level 2 at year-end matured during the period.

Table 7.2 Changes in Level 3 holdings

Amounts in NOK million	01.01.2020	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	30.06.2020
Equities	816	27	-1	-2	-205	5 447	-70	73	6 085
Bonds	16	-	-1	-	-2	-	-	2	15
Financial derivatives (assets)	3	-	-3	-	-	-	-	-	-
Unlisted real estate ¹	264 538	16 954	-	-	-9 227	-	-	22 043	294 309
Total	265 373	16 981	-5	-2	-9 434	5 447	-70	22 118	300 409

Amounts in NOK million	01.01.2019	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	31.12.2019
Equities	353	696	-128	-2	-90	44	-60	3	816
Bonds	453	-	-425	-	-9	-	-3	-	16
Financial derivatives (assets)	12	-	-	-	-7	-	-2	-	3
Unlisted real estate ¹	243 818	5 300	-	-	10 311	-	-	5 109	264 538
Total	244 636	5 996	-553	-2	10 205	44	-65	5 112	265 373

¹ Purchases represent the net cash flow in the period to investments in unlisted real estate as shown in the statement of cash flows.

The relative share of holdings classified as Level 3 was 2.89 percent at the end of the first half, an increase from 2.6 percent at year-end 2019. The GPF's aggregate holdings in Level 3 were NOK 300 409 million at the end of the first half, an increase of NOK 35 036 million compared to year-end 2019. The increase is mainly due to investments in unlisted real estate, which are all classified as Level 3.

The relative share of equities classified as Level 3 has increased by 0.07 percentage point compared to year-end 2019. The increase is attributable to one shareholding with a lock in period, which was received as compensation following the merger of two companies in 2016. This holding has been reclassified from Level 2 to Level 3 in the first half. The reason for the reclassification is that increased price volatility in

the underlying quoted equity has meant that the discount applied for the lack of marketability related to the remaining lock-in period comprises a larger share of the fair value measurement compared to year-end 2019. The use of unobservable inputs is assessed to be significant to the fair value measurement at 30 June and the holding is therefore classified in Level 3. At the end of the first half of 2020, this holding represented 85 percent of the total value of equity holdings classified as Level 3.

The relative share of bonds classified as Level 3 is unchanged compared to year-end.

Sensitivity analysis for Level 3 holdings

The valuation of holdings in Level 3 involves the use of judgement when determining the assumptions that market participants would use when observable market data is not available. The effect of using reasonable alternative assumptions is shown in the sensitivity analysis for Level 3 holdings.

Table 7.3 Additional specification Level 3 and sensitivities

Amounts in NOK million	Key assumptions	Change in key assumptions	Specification of Level 3 holdings 30.06.2020	Sensitivities 30.06.2020		Specification of Level 3 holdings 31.12.2019	Sensitivities 31.12.2019 ¹	
				Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities	Historical volatility ¹	10.0 percent	5 169	-131	134	-	-	-
	Suspension adjustment ²	20.0 percent	916	-180	180	816	-163	163
			6 085	-311	314	816	-163	163
Bonds	Probability of future cash flows ³	10.0 percent	15	-2	2	16	-2	2
Financial derivatives (assets)	Other		-	-	-	3	-3	-
Unlisted real estate	Yield	0.2 percentage point		-13 190	10 857		-11 954	9 720
	Market rent	2.0 percent		-5 003	5 312		-4 608	4 639
			294 309	-18 193	16 169	264 538	-16 563	14 359
Total			300 409	-18 506	16 485	265 373	-16 731	14 524

¹ The comparable amounts for equities and bonds have been restated to conform to current period presentation.

² For equities that have been suspended from trading for a prolonged period, a suspension adjustment is applied to the last traded price that reflects an assessment of company-specific factors.

³ Holdings mainly consist of defaulted bonds.

Changes in key assumptions can have a material effect on the valuation of unlisted real estate investments. A number of key assumptions are used, of which yields and growth assumptions applied to future market rents are the assumptions that have the largest impact when estimating property values. In an unfavourable outcome, an increase in the yield of 0.2 percentage point, and a reduction in future market rents of 2 percent would result in a decrease in value of the unlisted real estate portfolio of approximately NOK 18 193 million or 6.1 percent (6.3 percent at year-end 2019). In a favourable outcome, a reduction in the yield of 0.2 percentage point and an increase in future market rents of 2 percent would result in an increase in value of the unlisted real estate portfolio of approximately NOK 16 169 million or 5.6 percent (5.4 percent at year-end 2019).

For unlisted real estate, changes in yields are a more significant factor for valuation than changes in market rents. The isolated effects of changes in yields and future market rents are presented in table 7.3.

As mentioned above, the majority of the external valuation reports that form the basis for the fair value measurement of unlisted real estate per 30 June include a "material valuation uncertainty clause" due to Covid-19. The range of reasonable alternative assumptions applied in the sensitivity analysis has therefore been assessed in order to reflect the increased uncertainty in the estimates for market rents and yields. If the range used for yields is increased by an additional 0.2 percent and the range for market rents is changed by an additional 2 percent, the impact of changes in unobservable inputs would lead to a doubling of the change in both the favourable and unfavourable outcome presented in table 7.3.

Sensitivity in absolute values has increased slightly for equities compared to year-end 2019, in line with the holdings classified as Level 3. Sensitivity for bonds remains stable compared to year-end 2019.

Note 8 Investment risk

Investment risk comprises market risk, credit risk and counterparty risk. For further information on the framework for investment risk, including the main dimensions and measurement methods used to manage investment risk, see note 8 *Investment risk* in the annual report for 2019.

Market risk

Market risk is 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. Norges Bank Investment Management measures market risk both in absolute terms and relative to the benchmark.

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 ¹		Market value in percent by asset class		Assets minus liabilities excluding management fee	
		30.06.2020	Market 31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Equities	Developed	88.3	Developed	88.6			
	US	41.4	US	39.7			
	Japan	8.5	UK	8.8			
	UK	7.0	Japan	8.4			
	Switzerland	5.0	France	5.2			
	France	5.0	Germany	4.8			
	Total other	21.6	Total other	21.7			
	Emerging	11.7	Emerging	11.4			
	China	5.2	China	4.3			
	Taiwan	2.0	Taiwan	1.8			
	India	1.1	India	1.2			
	Brazil	0.6	Brazil	1.0			
	South Africa	0.5	South Africa	0.6			
	Total other	2.2	Total other	2.6			
Total equities					69.55	70.83	7 233 915
Fixed income	Developed	93.6	Developed	92.0			
	US dollar	45.2	US dollar	45.9			
	Euro	28.6	Euro	26.9			
	Japanese yen	7.1	Japanese yen	7.5			
	British pound	4.7	British pound	4.3			
	Canadian dollar	3.1	Canadian dollar	3.1			
	Total other	4.9	Total other	4.4			
	Emerging	6.4	Emerging	8.0			
	Mexican peso	1.2	Mexican peso	1.6			
	South Korean won	1.1	South Korean won	1.1			
	Indonesian rupiah	0.8	Indonesian rupiah	1.0			
	Indian rupee	0.7	Indian rupee	0.7			
	South African rand	0.5	Brazilian real	0.7			
	Total other	2.2	Total other	2.9			
Total fixed income					27.61	26.46	2 871 251
Unlisted real estate							
	US	48.3	US	48.5			
	France	18.3	UK	21.2			
	UK	18.3	France	17.9			
	Switzerland	3.8	Switzerland	3.5			
	Germany	3.8	Germany	3.4			
	Total other	7.6	Total other	5.6			
Total unlisted real estate					2.84	2.71	295 292
							7 145 463

¹ Market value in percent per country and currency includes derivatives and cash

At the end of the first half, the equity portfolio's share of the fund was 69.6 percent, compared to 70.8 percent at year-end 2019. The bond portfolio's share of the fund was 27.6 percent, compared to 26.5 percent at year-end. The unlisted real estate portfolio's share of the fund was 2.8 percent, compared to 2.7 percent at year-end.

Volatility

Risk models are used to quantify the risk of value changes associated with all or parts of the

portfolio. One of the risk measures is expected volatility. Volatility is a standard risk measure based on the statistical concept of standard deviation. Tables 8.2 and 8.3 present risk both in terms of the portfolio's absolute risk and the relative risk. All the fund's investments are included in the calculations of expected relative volatility, and are measured against the fund's benchmark index consisting of global equity and bond indices. The fund's management mandate specifies that expected relative volatility shall not exceed 1.25 percentage points.

Table 8.2 Portfolio risk, expected volatility, percent

	Expected volatility, actual portfolio							
	30.06.2020	Min 2020	Max 2020	Average 2020	31.12.2019	Min 2019	Max 2019	Average 2019
Portfolio	9.8	7.7	10.0	8.7	7.7	7.7	8.6	7.9
Equities	13.6	9.9	13.8	11.8	9.9	9.9	11.5	10.2
Fixed income	9.2	6.9	9.2	8.1	7.0	6.7	7.2	6.9
Unlisted real estate	10.4	8.7	10.4	9.6	8.7	8.7	9.4	9.0

Table 8.3 Relative risk measured against the fund's benchmark index, expected relative volatility, basis points

	Expected relative volatility							
	30.06.2020	Min 2020	Max 2020	Average 2020	31.12.2019	Min 2019	Max 2019	Average 2019
Portfolio	58	32	58	44	33	31	34	32

Risk measured as expected volatility indicates an expected annual fluctuation in the value of the fund of 9.8 percent, or approximately NOK 1 020 billion at the end of the first half, compared to 7.7 percent at year-end 2019. Expected volatility for the equity portfolio was 13.6 percent at the end of the first half, up from 9.9 percent at year-end 2019, while expected volatility for the bond portfolio was 9.2 percent, compared to 7.0 percent at year-end 2019. The increase in expected volatility for the fund in 2020 is mainly due to increased price volatility in the equity and bond markets for the last three years than was the case at the end of 2019.

The fund's expected relative volatility was 58 basis points at the end of the first half, compared to 33 basis points at year-end 2019. The increase in the fund's expected relative volatility in 2020 is primarily due to increased price volatility in the markets.

Expected shortfall is a tail risk measure that quantifies the expected loss of a portfolio in extreme market situations. Expected shortfall measured on relative returns provides an estimate of the annual expected relative underperformance versus the benchmark index

for a given confidence level. Using historical simulations, relative returns of the current portfolio compared to the benchmark index are calculated on a weekly basis over a sampling period from January 2007 until the end of the last accounting period. The expected shortfall at a 97.5 percent confidence level is then given by the annualised average relative return, measured in the currency basket for the 2.5 percent worst weeks.

The Executive Board has determined that the fund shall be managed in such a way that the annual expected shortfall measured against the benchmark index does not exceed 3.75 percentage points. At the end of the first half, expected shortfall was 1.84 percentage points, compared to 1.50 percentage points at year-end 2019.

Credit risk

Credit risk is the risk of losses resulting from issuers of bonds defaulting on their payment obligations. Credit risk for the bond portfolio is monitored, among other things, through the use of credit ratings. Fixed-income instruments in the portfolio's benchmark index are all rated investment grade by one of the major credit rating agencies.

Table 8.4 Bond portfolio specified by credit rating

Amounts in NOK million, 30.06.2020	AAA	AA	A	BBB	Lower rating	Total
Government bonds	757 298	232 922	283 444	140 282	29 209	1 443 155
Government-related bonds	139 779	148 663	56 000	15 484	1 267	361 192
Inflation-linked bonds	136 906	37 898	8 077	11 347	579	194 807
Corporate bonds	6 569	49 549	331 365	382 372	11 812	781 666
Securitised bonds	146 905	27 766	1 738	654	461	177 525
Total bonds	1 187 457	496 799	680 624	550 138	43 328	2 958 346

Amounts in NOK million, 31.12.2019	AAA	AA	A	BBB	Lower rating	Total
Government bonds	784 270	219 428	367 235	113 426	41 750	1 526 110
Government-related bonds	127 462	131 904	42 359	14 164	1 265	317 155
Inflation-linked bonds	127 523	29 901	7 433	9 549	-	174 406
Corporate bonds	5 567	39 019	260 796	317 812	5 978	629 172
Securitised bonds	122 767	24 524	1 583	526	433	149 833
Total bonds	1 167 588	444 778	679 406	455 478	49 425	2 796 675

The share of bond holdings with credit rating BBB increased to 18.6 percent at the end of the first half, from 16.3 percent at year-end 2019. The increase in the BBB category is primarily due to increased holdings of corporate bonds, but holdings of government bonds in this category also increased in the period. The share of bond holdings with credit rating AAA fell to 40.1 percent at the end of the first half, from 41.7 at year-end 2019. The share of bonds grouped under *Lower rating* was reduced to 1.5 percent

of the bond portfolio at the end of the first half, from 1.8 percent at year-end 2019. This is mainly due to reduced holdings of emerging market government bonds. Overall, the credit quality of the bond portfolio has slightly worsened since year-end.

Counterparty risk

Counterparty risk is the risk of loss due to counterparty bankruptcy or other events leading to counterparties defaulting.

Table 8.5 Counterparty risk by type of position

Amounts in NOK million	Risk exposure	
	30.06.2020	31.12.2019
Securities lending	45 463	58 488
Derivatives including foreign exchange contracts	31 521	32 611
Unsecured bank deposits ¹ and securities	22 394	18 501
Repurchase and reverse repurchase agreements	1 896	6 535
Settlement risk towards brokers and long settlement transactions	6 634	266
Total	107 909	116 401

¹ Includes bank deposits in non-consolidated subsidiaries.

Total counterparty risk exposure decreased to NOK 107.9 billion at the end of the first half, from NOK 116.4 billion at year-end 2019. The risk exposure mainly decreased as a result of lower risk exposure from securities lending and repurchase/reverse repurchase agreements. Both bonds and equities are lent through the securities lending programme.

The risk exposure for the programme fell to NOK 45.5 billion at the end of the first half, from NOK 58.5 billion at year-end 2019, mainly due to a decrease in bonds lent. Counterparty risk exposure from securities lending amounted to 42 percent of the fund's total counterparty risk exposure at the end of the first half.

Note 9 Foreign exchange gain/loss

Accounting judgement

Gains and losses on financial instruments are due to changes in the price of the instrument (before foreign exchange gain/loss) and changes in foreign exchange rates (foreign exchange gain/loss). These are presented separately in the income statement. The method used to allocate the total gain/loss in Norwegian kroner to a security element and a foreign exchange element is an estimate. Different methods may result in different allocations. For further information on the method used, see note 10 *Foreign exchange gain/loss* in the annual report for 2019.



The market value of the fund in Norwegian kroner is impacted by changes in foreign exchange rates. See table 8.1 in note 8 *Investment risk* for an overview of the allocation

of the GPFG's investments per asset class, country and currency. The change in the fund's market value due to changes in foreign exchange rates is presented in table 9.1.

Table 9.1 Specification Foreign exchange gain/loss

Amounts in NOK million	1H 2020	1H 2019	2019
Foreign exchange gain/loss – USD/NOK	312 858	-44 040	44 005
Foreign exchange gain/loss – EUR/NOK	168 765	-29 465	-5 461
Foreign exchange gain/loss – JPY/NOK	72 547	1 758	15 693
Foreign exchange gain/loss – GBP/NOK	16 493	-9 894	33 334
Foreign exchange gain/loss – other	101 480	-16 243	39 108
Foreign exchange gain/loss	672 144	-97 884	126 679

Note 10 Management costs

Management costs comprise all costs relating to the management of the fund. These are mainly incurred in Norges Bank, but management costs are also incurred in subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG's investments in unlisted real estate.

Management costs in Norges Bank

The Ministry of Finance reimburses Norges Bank for costs incurred in connection with the management of the GPFG, in the form of a management fee. The management fee is equivalent to the actual costs incurred by Norges Bank, including performance-based fees to external managers, and is expensed in the income statement line *Management fee*. Costs included in the management fee are specified in table 10.1.

Table 10.1 Management fee

Amounts in NOK million	1H 2020		1H 2019		2019	
		Basis points		Basis points		Basis points
Salary, social security and other personnel-related costs	656		669		1 448	
Custody costs	238		201		431	
IT services, systems, data and information	332		343		671	
Research, consulting and legal fees	123		144		258	
Other costs	137		213		428	
Allocated costs Norges Bank	141		92		174	
Base fees to external managers	425		356		611	
Management fee excluding performance-based fees	2 052	3.9	2 018	4.6	4 021	4.4
Performance-based fees to external managers	681		81		291	
Management fee	2 733	5.2	2 099	4.8	4 312	4.7

Management costs in subsidiaries

Management costs incurred in subsidiaries consist of costs related to the management of the unlisted real estate portfolio. These costs are expensed directly in the portfolio result and are not part of the management fee.

Management costs incurred in non-consolidated and consolidated subsidiaries are presented in the income statement as *Income/expense from unlisted real estate* and *Other income/expense*, respectively. These costs are specified in table 10.2.

Table 10.2 Management costs, unlisted real estate subsidiaries

Amounts in NOK million	1H 2020		1H 2019		2019	
		Basis points		Basis points		Basis points
Salary, social security and other personnel-related costs	13		13		34	
IT services, systems, data and information	11		10		19	
Research, consulting and legal fees	16		15		36	
Other costs	12		10		22	
Total management costs, unlisted real estate subsidiaries	52	0.1	49	0.1	111	0.1
<i>Of which management costs non-consolidated subsidiaries</i>	32		31		70	
<i>Of which management costs consolidated subsidiaries</i>	21		18		41	

Upper limit for reimbursement of management costs

Every year the Ministry of Finance establishes an upper limit for the reimbursement of management costs. Norges Bank is only reimbursed for costs incurred within this limit. Norges Bank is also reimbursed for performance-based fees to external managers. These fees are not measured against the upper limit.

For 2020, total management costs incurred in Norges Bank and its subsidiaries, excluding performance-based fees to external managers, are limited to 4 900 million kroner. However, extraordinary circumstances may cause management costs measured in kroner to exceed the upper limit. In such circumstances, the Ministry of Finance will be able to make a new assessment of the limit.

At the end of the first half, management costs measured against the upper limit amounted to NOK 2 105 million. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 2 052 million and management costs in subsidiaries of NOK 52 million. Management costs including performance-based fees to external managers amounted to NOK 2 785 million.

Costs measured as a share of assets under management

Costs are also measured in basis points, as a share of average assets under management. Average assets under management are calculated based on the market value of the portfolio in Norwegian kroner at the start of each month in the calendar year.

Management costs incurred in Norges Bank and its subsidiaries in the first half, excluding performance-based fees to external managers, corresponded to 4.0 basis points of assets under management. Management costs including performance-based fees to external managers corresponded to 5.3 basis points of assets under management.

Other operating costs in subsidiaries

In addition to the management costs presented in table 10.2, other operating costs are also incurred in subsidiaries related to the ongoing maintenance, operation and development of properties and leases. These are not costs related to investing in real estate, they are costs of operating the underlying properties once they are acquired. Therefore, they are not defined as management costs. Other operating costs are expensed directly in the portfolio result and are not part of the management fee. They are also not included in the costs measured against the upper limit.

Other operating costs incurred in non-consolidated subsidiaries are presented in the income statement line *Income/expense from unlisted real estate*. See table 6.4 in note 6 *Unlisted real estate* for further information. Other operating costs incurred in consolidated subsidiaries are expensed in the income statement line *Other income/expense*.

Report on Review of Interim Financial Information

Introduction

We have reviewed the financial reporting for the investment portfolio of the Government Pension Fund Global. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio are included in the financial reporting. The financial reporting comprises the balance sheet as at 30 June 2020, the income statement, the statement of changes in owner's capital, and the statement of cash flows for the six-month period then ended, and selected explanatory notes. The Executive Board and management are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

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

Conclusion

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

Oslo, 12 August 2020

Deloitte AS

Henrik Woxholt
State Authorised Public Accountant (Norway)

This translation from Norwegian has been prepared for information purposes only.



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