

2Q|19

Government Pension Fund Global

Quarterly report
2019

Key figures

3.0%

256 billion kroner

The Government Pension Fund Global returned **3.0** percent, or **256** billion kroner, in the second quarter of 2019.



**Equity
investments**

3.0%



**Unlisted real estate
investments**

0.8%



**Fixed-income
investments**

3.1%

The fund's equity investments returned **3.0** percent.
Investments in unlisted real estate returned **0.8** percent.
Fixed-income investments returned **3.1** percent.

The return on the fund's investments was **0.2** percentage point lower than the return on the reference index the fund is measured against.

9,162

billion kroner

The fund had a market value of **9,162** billion kroner at the end of the quarter and was invested **69.3** percent in equities, **2.7** percent in unlisted real estate and **28.0** percent in fixed income.



**Equity
investments**

69.3%



**Unlisted real estate
investments**

2.7%



**Fixed-income
investments**

28.0%

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Investments

Equities

Equity investments, which accounted for 69.3 percent of the fund at the end of the quarter, returned 3.0 percent. Equity markets delivered a positive return in a volatile quarter.

Developments in the trade talks between the US and China and a decline in industrial indicators led to lower returns in emerging markets. Global equity markets then rallied towards the end of the quarter, driven partly by the prospect of more expansionary monetary policy in developed markets.

Positive returns in the main markets

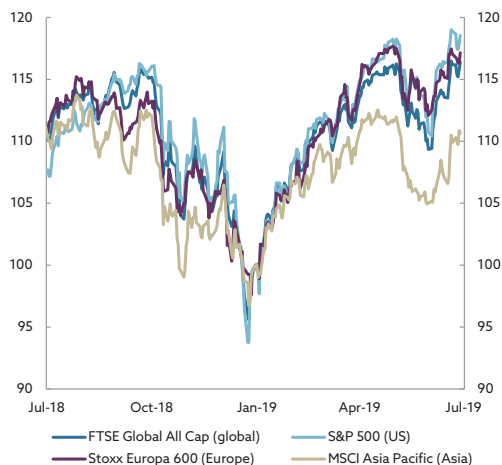
North American stocks returned 3.6 percent and amounted to 41.8 percent of the equity portfolio. US stocks, which were the fund's

single-largest market with 39.6 percent of its equity investments, returned 3.6 percent, or 4.1 percent in local currency.

European shares returned 4.1 percent and accounted for 33.4 percent of the fund's equities. The UK, which was the fund's largest European market with 8.7 percent of its equity investments, returned 0.9 percent, or 3.8 percent in local currency.

Stocks in Asia and Oceania returned -0.1 percent and made up 21.9 percent of the fund's equity investments. Japanese stocks returned 0.0 percent, or -2.2 percent in local currency, and amounted to 8.3 percent of equity investments.

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 31.12.2018 = 100



Source: Bloomberg

Chart 2 Price developments in equity sectors of the FTSE Global All Cap Index. Measured in US dollars. Indexed total return 31.12.2018 = 100



Source: FTSE Russell

Emerging markets returned 0.6 percent and accounted for 11.1 percent of the equity portfolio. The Chinese stock market, home to 3.8 percent of the fund's equity investments, returned -4.0 percent.

Industrial companies performed best

Industrials were the strongest performers in the quarter, returning 4.5 percent, thanks to strong earnings at companies in the sector.

Consumer goods stocks returned 4.4 percent on the back of further brisk demand for consumer goods. Unexpectedly strong demand for luxury goods in China also boosted the sector's performance.

Utilities returned 3.9 percent, with lower long-term interest rates in global financial markets – especially in Europe and the US – contributing positively to the return in the sector.

All sectors made gains except for oil and gas, which returned -1.0 percent, pulled down by a combination of falling oil prices and price volatility. The price of oil fell sharply from mid-April to mid-June, driven by higher stocks and uncertainty about demand.

Table 1 Return on the fund's equity investments in second quarter 2019 by sector. Measured in international currency. Percent

Sector	Return	Share of equity investments ¹
Financials	3.5	23.5
Technology	3.3	13.5
Industrials	4.5	13.4
Consumer goods	4.4	12.0
Health care	0.9	10.9
Consumer services	2.8	10.6
Oil and gas	-1.0	5.7
Basic materials	1.3	4.6
Telecommunications	2.0	2.8
Utilities	3.9	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 2019. Millions of kroner

Company	Country	Holding
Microsoft Corp	US	85,370
Apple Inc	US	79,226
Amazon.com Inc	US	69,178
Nestlé SA	Switzerland	69,138
Alphabet Inc	US	60,297
Royal Dutch Shell Plc	UK	54,828
Roche Holding AG	Switzerland	46,271
Novartis AG	Switzerland	42,815
Facebook Inc	US	42,530
Berkshire Hathaway Inc	US	37,175

Individual stocks

The investment in technology company Microsoft Corp made the most positive contribution to the return in the second quarter, followed by consumer goods company Nestlé SA and technology company Facebook Inc. The investments that made the most negative contributions were in technology company Alphabet Inc, real estate company Deutsche Wohnen SE and technology company Intel Corp.

The fund participated in 68 initial public offerings in the quarter. The largest was at consumer services company Uber Technologies Inc, health care company Avantor Inc and tech company Pinterest Inc. The offerings in which the fund invested the most were those in Uber Technologies Inc, Avantor Inc and financial company Tradeweb Markets Inc.

Real estate

Total real estate investments amounted to 3.7 percent of the fund at the end of the second quarter and returned -1.2 percent. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

Unlisted real estate investments made up 72.3 percent of the overall real estate portfolio and returned 0.8 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 0.9 percentage point to the return in the second quarter, while changes

RETURNS MEASURED IN INTERNATIONAL CURRENCY

The fund invests in international securities in foreign currency. The fund's returns are generally measured in international currency – a weighted composition of the currencies in the fund's reference indices for equities and bonds. This is known as the fund's currency basket and consisted of 36 currencies at the end of the second quarter 2019. Unless otherwise stated in the text, results are measured in this currency basket.

in the value of properties and debt contributed 0.4 percentage point, and currency movements -0.5 percentage point.

In April, Norges Bank Investment Management and its partners Trinity Church Wall Street and Hines extended the remaining 72-year lease on the Hudson Square portfolio in New York to 99 years, with the fund paying 98 million dollars, equivalent to 831 million kroner, for its share. As part of the transaction, the fund also agreed to acquire a 48 percent stake in two new properties once they are completed.

Also in April, the fund announced the acquisition of seven logistics properties in the US, Spain and the Netherlands alongside its partner Prologis,

paying 55.6 million dollars, or around 481 million kroner, for a 45 percent stake in the US property, and 69.1 million euros, equivalent to around 669 million kroner, for a 50 percent stake in the six buildings in Spain and the Netherlands.

In June, the fund announced the sale of the Die Welle office property in Frankfurt, originally purchased in partnership with AXA France in 2013. The fund will receive 310 million euros, or around 3.0 billion kroner, for its 50 percent interest.

Listed real estate made up 27.7 percent of the overall real estate portfolio at the end of the quarter and returned -6.1 percent.

Table 3 Value of real estate investments as at 30 June 2019. Millions of kroner

	Value ¹
Unlisted real estate investments	246,880
Listed real estate investments	94,567
Total real estate investments	341,447

¹ Including bank deposits and other receivables.

Table 4 Return on unlisted real estate investments in second quarter 2019. Percentage points

	Return
Rental income	0.9
Changes in value	0.4
Transaction costs	0.0
Result of currency adjustments	-0.5
Total	0.8

Fixed income

Fixed-income investments accounted for 28.0 percent of the fund at the end of the second quarter and returned 3.1 percent. The lower yields of the first quarter continued into the second. Extensive monetary easing was priced into most markets where the fund is invested. Most models for estimating term premiums now show negative term premiums for fixed-income instruments with long maturities.

Strongest return on euro-denominated government bonds

Government bonds accounted for 53.4 percent of the fund's fixed-income investments at the end of the quarter and returned 3.1 percent. The fund's three largest holdings were of US, Japanese and German government bonds.

US Treasuries returned 2.7 percent, or 3.2 percent in local currency, and accounted for 21.6 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. At the end of the quarter, the market was pricing in cuts in the Federal Reserve's key policy rate both this year and next.

Euro-denominated government bonds represented 10.8 percent of the fund's fixed-income holdings and returned 4.6 percent, or 3.7 percent in local currency. The European Central Bank has signalled a willingness both to lower interest rates further from current levels and to expand the use of its own balance sheet to achieve its inflation target of close to 2 percent in the euro area.

Table 5 Return on the fund's fixed-income investments in second quarter 2019 by sector. Measured in international currency. Percent

Sector	Return	Share of fixed-income investments ¹
Government bonds ²	3.1	53.4
Government-related bonds ²	2.7	13.6
Inflation-linked bonds ²	2.6	5.7
Corporate bonds	3.4	23.6
Securitised bonds	1.8	6.1

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 2019. Millions of kroner

Issuer	Country	Holding
United States of America	US	650,308
Japanese government	Japan	185,108
Federal Republic of Germany	Germany	91,036
UK government	UK	62,875
Spanish government	Spain	56,086
French Republic	France	55,721
South Korean government	South Korea	42,676
Mexican government	Mexico	41,167
Italian Republic	Italy	35,662
Kreditanstalt für Wiederaufbau	Germany	34,575

UK gilts accounted for 2.4 percent of the fund's fixed-income investments and returned -1.5 percent, or 1.4 percent in local currency. Continued uncertainty about Brexit led the market to price in a high probability of monetary easing in the UK.

Japanese government bonds amounted to 7.0 percent of the fund's fixed-income holdings and returned 2.8 percent, or 0.6 percent in local currency. The Bank of Japan is holding ten-year yields close to zero as part of its monetary policy, and so the decline in yields was less pronounced than in other markets.

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 2.7 percent and accounted for 13.6 percent of fixed-income investments.

Corporate bonds returned 3.4 percent and made up 23.6 percent of fixed-income investments at the end of the period. Lower yields and a moderate decline in the credit premium contributed to this return.

Securitised bonds, consisting mainly of covered bonds denominated in euros, returned 1.8 percent and made up 6.1 percent of fixed-income holdings.

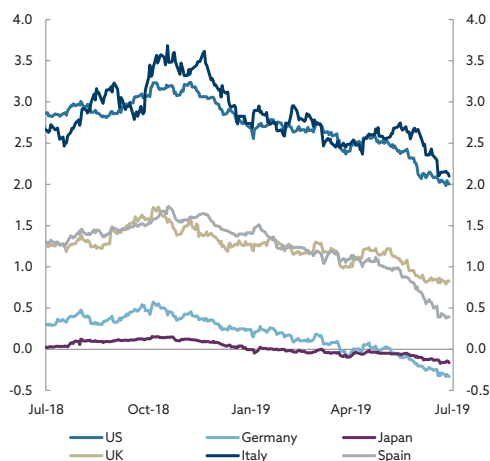
Inflation-linked bonds returned 2.6 percent and accounted for 5.7 percent of total fixed-income investments. The gap between real and nominal yields narrowed during the quarter, which may be a sign of lower inflation expectations.

Chart 3 Price developments for bonds issued in various currencies. Measured in local currency. Indexed total return 31.12.2018 = 100



Source: Bloomberg Barclays Indices

Chart 4 10-year government bond yield development. Percent



Source: Bloomberg

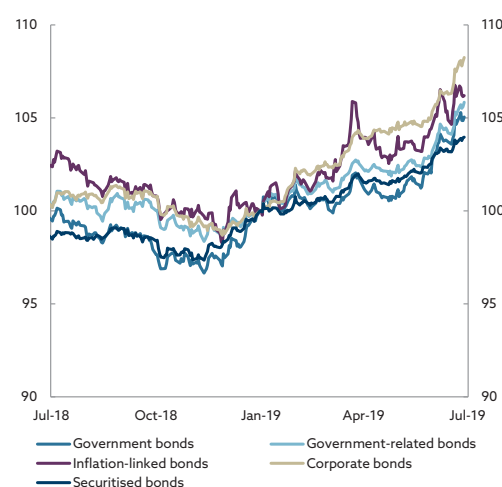
Changes in fixed-income holdings

Investments in dollars, euros, pounds and yen amounted to 82.7 percent of fixed-income holdings at the end of the quarter, unchanged from the start of the quarter.

The market value of investments in bonds denominated in emerging-market currencies fell from 8.1 to 7.9 percent of total fixed-income investments.

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

Chart 5 Price developments in fixed-income sectors. Measured in US dollars. Indexed total return 31.12.2018 = 100



Source: Bloomberg Barclays Indices

Table 7 The fund's bond holdings as at 30 June 2019 based on credit ratings. Percent

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	27.8	6.9	11.9	4.1	1.6	52.2
Government-related bonds	5.6	5.4	1.7	0.6	0.0	13.3
Inflation-linked bonds	4.4	0.7	0.2	0.2	0.0	5.6
Corporate bonds	0.3	1.5	9.2	11.9	0.3	23.0
Securitised bonds	4.8	0.9	0.1	0.1	0.0	5.9
Total	42.8	15.4	23.1	16.8	2.0	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 reference index set by the Ministry of Finance, which consists of a subindex for equities and a subindex for bonds. The reference 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. The bond subindex is based on indices from Bloomberg Barclays Indices.

The overall return on the fund in the second quarter was 0.19 percentage point lower than the return on the reference 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

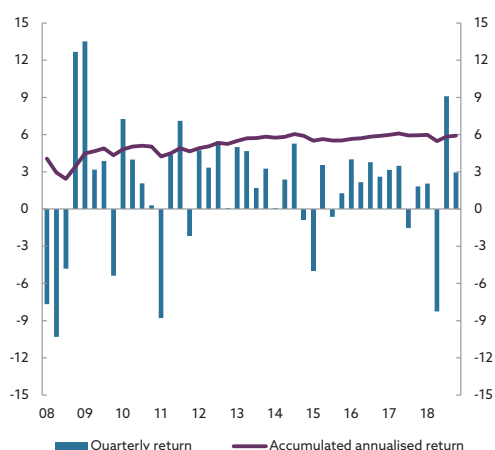
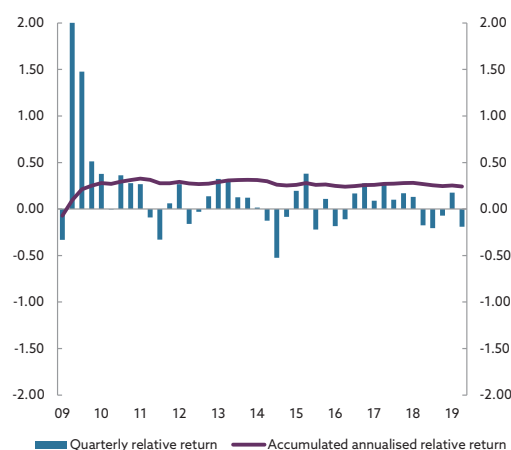


Chart 7 The fund's quarterly relative return and accumulated annualised relative return. Calculations based on aggregated equity and fixed-income investments until end of 2016. Percentage points



Equity management contributed -0.05 percentage point to the fund's relative return. Industrials and consumer goods were the sectors that made the most negative contributions to the relative return, while utilities made the most positive contribution. Broken down by country, equity investments in Switzerland and Australia made the most negative contributions to the relative return, and UK stocks the most positive. A general overweight in value and small-cap stocks contributed negatively.

Fixed-income management contributed 0.02 percentage point to the fund's relative return. The fund is more heavily invested than the reference index in emerging markets such as Indonesia, Brazil and South Africa, which made a positive contribution to the relative return in the second quarter.

Table 8 Contributions from management areas to the fund's relative return in second quarter 2019. Percentage points

	Total
Equity management	-0.05
Fixed-income management	0.02
Real estate management	-0.16
Allocation effect	0.00
Total	-0.19

Real estate management contributed -0.16 percentage point to the fund's relative return, measured against the equities and bonds sold to finance real estate investments. Both unlisted and listed real estate investments contributed to the negative relative return.

The relative return is also affected by an allocation effect between these management areas. In the second quarter, the contribution from this effect was insignificant.

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 reference index from the Ministry of Finance. Decomposed in this way, equity investments contributed -0.17 percentage point to the fund's relative return, fixed-income investments 0.03 percentage point and unlisted real estate investments -0.06 percentage point. The allocation effect between asset classes was 0.01 percentage point.

Risk

The fund's market risk is determined by the composition of its investments and by movements in share prices, exchange rates, interest rates, 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 8.0 percent, or about 730 billion kroner, at

the end of the second quarter, compared with 7.9 percent at the beginning of the quarter.

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 reference index. One of these limits is expected relative volatility, or tracking error, which puts a

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

	Limits set by the Ministry of Finance	30.06.2019
Allocation	Equity portfolio 60 - 80 percent of fund's market value ¹	69.1
	Unlisted real estate no more than 7 percent of the fund's market value	2.7
	Fixed-income portfolio 20 - 40 percent of fund's market value ¹	28.6
Market risk	1.25 percentage points expected relative volatility for the fund's investments	0.3
Credit risk	Maximum 5 percent of fixed-income investments may be rated below BBB-	2.0
Ownership	Maximum 10 percent of voting shares in a listed company in the equity portfolio ²	9.6

¹ Derivatives are represented with their underlying economic exposure.

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

ceiling on how much the return on the fund's investments can be expected to deviate from the return on the reference index. 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 reference 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 0.31 percentage point at the end of the quarter.

The Executive Board has also set a limit for expected shortfall for the relative return between the fund and the reference 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 1.41 percentage points at the end of the quarter.

Operational risk management

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

Each quarter, Norges Bank Investment Management estimates the size of 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. This risk exposure remained within the Executive

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

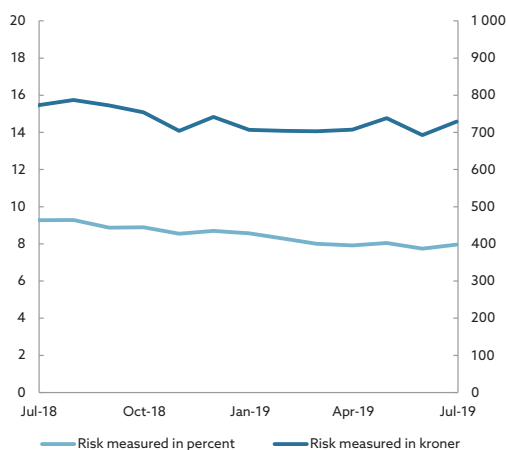
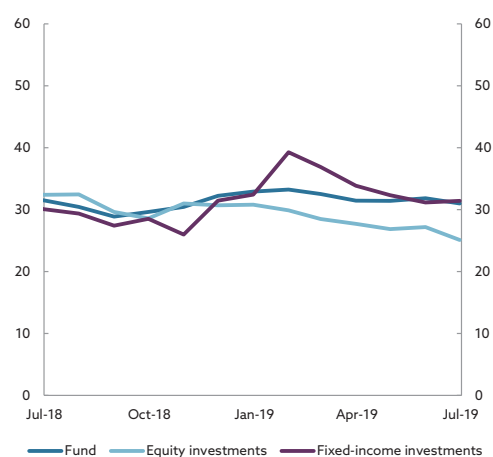


Chart 9 Expected relative volatility of the fund. Basis points



Board's tolerance limit in the second quarter. A total of 86 unwanted operational events were registered in the quarter, with an estimated financial impact of 12.5 million kroner.

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

Responsible investment

Responsible investment 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 three public consultations related to responsible investment during the quarter.

As an investor, we attach importance to timely and accurate corporate reporting, including on governance and sustainability. In a letter to the PRI Association, we provided feedback on our

experience of its reporting framework. We have backed the six Principles for Responsible Investment since they were launched. In our letter, we expressed support for moves to simplify and improve reporting by members. We also expressed some reservations about also expecting members to report on the social and environmental outcomes to which their investment activities contribute. We believe that such a general premise for reporting is not in keeping with the PRI and would be difficult to implement.

We also wrote to The Corporate Reporting Dialogue emphasising the need for more standardised disclosure of financially relevant sustainability information. The initiative is working on harmonising leading standards and so easing the reporting burden on companies.

As an investor, we have clear expectations of companies when it comes to tax and transparency. We contributed to the Financial Accounting Standard Board's consultation on income taxes during the quarter, expressing our support for proposed changes to the disclosure requirements for income taxes in companies' annual financial statements. We pointed out the importance to us as an investor of having open disclosure of how much tax companies pay to different tax authorities, and stressed that this type of reporting should be integrated into their annual financial statements. We also underlined the importance of information on changes to tax laws.

Exercising ownership

Voting is one of the most important instruments available to us for exercising our ownership rights. We voted at 6,918 meetings in the second quarter, considering and voting on a total of 81,237 proposals. The second quarter is the peak season for voting, with around two-thirds of annual shareholder meetings taking place during the period.

To clarify our position on matters of principle, we may publish our voting intentions ahead of a company's shareholder meeting. We vote on around 45,000 board candidates each year. In April, we announced advance support for a shareholder proposal for annual election of directors at Kellogg Company. If the board is to be held to account, shareholders need to be able to vote on board members at regular intervals. This position is an important element of our voting guidelines. We also published our voting intentions at Grupo Mexico SAB de CV, stating that we would vote against the proposal on the election of board members because the names of the candidates had not been published and because shareholders were unable to vote for them individually. To vote in effective boards, we need to know who the candidates are and be able to assess and vote on them individually.

Also in April, we lent advance support to the shareholder proposal at Pilgrim's Pride Corporation asking the company to report on its response to increased regulatory, public and competitive pressure to reduce water pollution

from both the company's own facilities and those of its suppliers. We believe that companies should disclose their strategies on water management and related challenges and opportunities, and identify and monitor water-related risks. They should also set relevant targets for water consumption and discharge quality and report on their performance against these targets. This position is set out in our expectations on water management.

We had 868 meetings with companies during the quarter and raised governance or sustainability issues at 50.1 percent of these meetings. The most important issues we raised concerned climate change, board composition and executive pay.

Observation and exclusion

Norges Bank published decisions during the quarter to end the exclusion of Grupo Carso SAB de CV, General Dynamics Corp, Nutrien Ltd, Rio Tinto Ltd, Rio Tinto Plc, Walmart Inc and Wal-Mart de Mexico SAB de CV from the Government Pension Fund Global.

This means that the fund may now invest in those companies. The Ministry of Finance will set dates for the re-inclusion of their securities in the fund's reference index. Whether and when purchases of these securities will be made is for Norges Bank to decide.

Key figures

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

	2Q 2019	1Q 2019	4Q 2018	3Q 2018	2Q 2018
Equity investments	2.99	12.22	-12.63	3.15	2.70
Unlisted real estate investments	0.80	1.72	1.08	1.89	1.85
Fixed-income investments	3.07	2.87	1.28	-0.33	-0.02
Return on fund	2.95	9.10	-8.26	2.05	1.83
Relative return on fund (percentage points)	-0.19	0.18	-0.07	-0.21	-0.17
Management costs	0.01	0.01	0.01	0.01	0.01
Return on fund after management costs	2.94	9.08	-8.27	2.04	1.82

Table 11 Historical key figures as at 30 June 2019. 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)	5.91	6.41	8.83	6.17	5.16
Annual price inflation (percent)	1.79	1.87	1.73	1.35	1.58
Annual management costs (percent)	0.08	0.08	0.07	0.05	0.05
Net real return on fund (percent)	3.97	4.38	6.91	4.69	3.48
The fund's actual standard deviation (percent)	7.47	8.09	7.46	7.11	11.08
Relative return on fund (percentage points) ¹	0.24	0.15	0.42	0.05	-0.32
The fund's tracking error (percentage points) ¹	0.67	0.76	0.44	0.35	0.29
The fund's information ratio (IR) ^{1,2}	0.38	0.23	0.91	0.16	-1.00

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

	2Q 2019	1Q 2019	4Q 2018	3Q 2018	2Q 2018
Market value					
Equity investments	6,348	6,186	5,477	5,732	5,566
Unlisted real estate investments	247	247	246	226	220
Fixed-income investments	2,567	2,505	2,533	2,520	2,551
Market value of fund ¹	9,162	8,938	8,256	8,478	8,337
Accrued, not paid, management fees ¹	-2	-1	-5	-4	-3
Owner's capital ¹	9,160	8,937	8,251	8,474	8,335
Inflow/withdrawal of capital ²	6	8	29	12	-2
Paid management fees ²	0	-5	0	0	0
Return on fund	256	738	-655	174	167
Changes due to fluctuations in krone	-38	-60	405	-46	47
Total change in market value	224	682	-222	140	213
Changes in value since first capital inflow in 1996					
Total inflow of capital ³	3,382	3,376	3,371	3,341	3,328
Return on equity investments	3,383	3,203	2,545	3,234	3,059
Return on unlisted real estate investments	76	73	69	66	62
Return on fixed-income investments	1,202	1,128	1,052	1,021	1,027
Management fees ⁴	-46	-45	-44	-43	-42
Changes due to fluctuations in krone	1,165	1,203	1,263	858	904
Market value of fund	9,162	8,938	8,256	8,478	8,337
Return on fund	4,660	4,404	3,666	4,321	4,147
Return after management costs	4,614	4,359	3,622	4,278	4,105

¹ The fund's market value shown in this table does not take into account the management fee. Owner's capital in the financial reporting 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	2Q 2019	2Q 2018	Year-to-date 30.06.2019	Year-to-date 30.06.2018	2018
Profit/loss on the portfolio before foreign exchange gain/loss						
Income/expense from:						
- Equities	4	181 116	167 545	844 801	-2 436	-517 214
- Bonds	4	73 067	-3 781	144 959	-10 084	14 568
- Unlisted real estate	6	3 467	3 989	6 862	8 797	16 421
- Financial derivatives	4	34	607	807	1 538	2 819
- Secured lending		951	1 491	2 112	2 812	4 733
- Secured borrowing		-105	-445	-635	-849	-1 466
Tax expense		-2 281	-2 245	-4 321	-3 184	-5 050
Interest income/expense		20	-5	38	-3	10
Other income/expense		-	-5	-	-2	-13
Profit/loss on the portfolio before foreign exchange gain/loss		256 268	167 152	994 622	-3 410	-485 192
Foreign exchange gain/loss	9	-38 048	47 171	-97 884	-135 496	223 611
Profit/loss on the portfolio		218 220	214 323	896 738	-138 906	-261 581
Management fee	10	-884	-1 138	-2 099	-2 508	-4 544
Profit/loss and total comprehensive income		217 336	213 184	894 639	-141 414	-266 126

Balance sheet

Amounts in NOK million	Note	30.06.2019	31.12.2018
Assets			
Deposits in banks		12 323	11 561
Secured lending		195 205	216 768
Cash collateral posted		503	1 806
Unsettled trades		33 306	13 767
Equities	5	5 882 001	5 048 647
Equities lent	5	464 409	437 651
Bonds	5	2 264 038	1 996 929
Bonds lent	5	361 446	662 920
Financial derivatives	5	3 248	3 576
Unlisted real estate	6	246 162	243 818
Other assets		5 368	3 448
Total assets		9 468 010	8 640 892
Liabilities and owner's capital			
Secured borrowing		217 370	360 105
Cash collateral received		5 909	5 017
Unsettled trades		80 713	15 565
Financial derivatives	5	2 067	4 222
Other liabilities		313	37
Management fee payable	10	2 099	4 544
Total liabilities		308 470	389 491
Owner's capital		9 159 540	8 251 401
Total liabilities and owner's capital		9 468 010	8 640 892

Statement of cash flows

Amounts in NOK million, receipt (+) / payment (-)	Note	Year-to-date 30.06.2019	Year-to-date 30.06.2018	2018
Operating activities				
Receipts of dividend from equities		98 879	85 010	146 082
Receipts of interest from bonds		34 500	34 879	70 360
Receipts of interest and dividend from unlisted real estate	6	1 978	2 956	5 822
Net receipts of interest and fee from secured lending and borrowing		1 363	1 846	3 330
<i>Receipts of dividend, interest and fee from holdings of equities, bonds and unlisted real estate</i>		<i>136 720</i>	<i>124 691</i>	<i>225 594</i>
Net cash flow from purchase and sale of equities		-172 432	-75 425	-345 478
Net cash flow from purchase and sale of bonds		121 121	-43 242	36 052
Net cash flow to/from investments in unlisted real estate	6	-1 334	1 569	-8 638
Net cash flow financial derivatives		-1 169	7 551	11 494
Net cash flow cash collateral related to derivative transactions		2 619	1 390	-1 685
Net cash flow secured lending and borrowing		-87 263	1 657	59 834
Net payment of taxes		-6 963	-4 487	-4 343
Net cash flow related to interest on deposits in banks and bank overdraft		24	-9	-14
Net cash flow related to other income/expense, other assets and other liabilities		-72	-207	263
Management fee paid to Norges Bank ¹	10	-4 544	-4 728	-4 728
Net cash inflow/outflow from operating activities		-13 294	8 760	-31 650
Financing activities				
Inflow from the Norwegian government ²		14 282	1 762	42 320
Withdrawal by the Norwegian government ²		-	-9 799	-9 799
Net cash inflow/outflow from financing activities		14 282	-8 037	32 520
Net change deposits in banks				
Deposits in banks at 1 January		11 561	11 027	11 027
Net increase/decrease of cash in the period		987	723	870
Net foreign exchange gain/loss on cash		-225	1 271	-336
Deposits in banks at end of period		12 323	13 021	11 561

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 2018	3 332 540	5 151 187	8 483 727
Profit/loss and total comprehensive income	-	-141 414	-141 414
Inflow during the period ¹	1 850	-	1 850
Withdrawal during the period ¹	-9 400	-	-9 400
30 June 2018	3 324 990	5 009 773	8 334 763
1 July 2018	3 324 990	5 009 773	8 334 763
Profit/loss and total comprehensive income	-	-124 712	-124 712
Inflow during the period	41 350	-	41 350
31 December 2018	3 366 340	4 885 061	8 251 401
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 In the first two quarters 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. In the first two quarters of 2018, there was a net withdrawal from the krone account of NOK 12.3 billion. Of this, NOK 4.7 billion was used to pay the accrued management fee for 2017.

Notes to the financial reporting

Note 1 General Information

Introduction

Norges Bank is Norway's central bank. Norges bank manages the Government Pension Fund Global (GPFG) 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 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 equities, fixed-income securities and real estate. 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 quarterly financial statements

The quarterly financial statements of Norges Bank for the second quarter of 2019, which only encompass the financial reporting for the GPFG, were approved by the Executive Board on 14 August 2019.

Note 2 Accounting policies

Basis of preparation

The *regulation on the financial reporting of Norges Bank (the regulation)*, which has been laid down by the Ministry of Finance, requires 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 second quarter of 2019 is prepared in accordance with IAS 34 *Interim Financial Reporting*, subject to the exemptions and additions specified in the regulation. The quarterly financial statements are presented in Norwegian kroner (NOK), rounded to the nearest million kroner. Rounding differences may occur.

Except as described below, the quarterly financial statements are prepared using the same accounting policies and calculation methods as applied and disclosed in the annual report for 2018. 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 2018.

IFRS 16 *Leases* was implemented by Norges Bank on 1 January 2019. IFRS 16 regulates the recognition of lease agreements and related note disclosures and replaced IAS 17 *Leases*. The implementation of IFRS 16 had no impact on the financial reporting for the GPFG.

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Significant estimates and accounting judgements

The preparation of the 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 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. For additional information, see the relevant notes in the annual report for 2018.

Note 3 Returns

Table 3.1 Returns

	2Q 2019	2Q 2018	Year-to-date 30.06.2019	Year-to-date 30.06.2018	2018
Returns measured in the fund's currency basket (percent)					
Return on equity investments	2.99	2.70	15.57	0.42	-9.49
Return on fixed-income investments	3.07	-0.02	6.03	-0.39	0.56
Return on unlisted real estate investments	0.80	1.85	2.54	4.40	7.53
Return on fund	2.95	1.83	12.32	0.27	-6.12
Relative return on fund (percentage points)	-0.19	-0.17	-0.03	-0.04	-0.30
Returns measured in Norwegian kroner (percent)					
Return on equity investments	2.48	3.52	14.07	-1.49	-6.56
Return on fixed-income investments	2.56	0.77	4.65	-2.29	3.82
Return on unlisted real estate investments	0.30	2.66	1.20	2.42	11.02
Return on fund	2.44	2.64	10.86	-1.63	-3.07

For additional information on the calculation methods used when measuring returns see note 3 *Returns* in the annual report for 2018.

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	2Q 2019	2Q 2018	Year-to-date 30.06.2019	Year-to-date 30.06.2018	2018
Dividends	62 518	57 669	101 590	87 835	147 630
Realised gain/loss	19 140	49 855	46 782	127 633	190 643
Unrealised gain/loss	99 457	60 021	696 428	-217 904	-855 488
Income/expense from equities before foreign exchange gain/loss	181 116	167 545	844 801	-2 436	-517 214

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	2Q 2019	2Q 2018	Year-to-date 30.06.2019	Year-to-date 30.06.2018	2018
Interest	16 365	17 215	32 852	33 661	69 505
Realised gain/loss	8 083	-1 691	9 747	-5 711	-17 918
Unrealised gain/loss	48 619	-19 305	102 359	-38 034	-37 020
Income/expense from bonds before foreign exchange gain/loss	73 067	-3 781	144 959	-10 084	14 568

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	2Q 2019	2Q 2018	Year-to-date 30.06.2019	Year-to-date 30.06.2018	2018
Interest	9	49	228	311	541
Realised gain/loss ¹	-11	459	563	1 045	2 187
Unrealised gain/loss	36	99	16	182	91
Income/expense from financial derivatives before foreign exchange gain/loss	34	607	807	1 538	2 819

¹ Certain comparative amounts have been restated to conform to current period presentation.

Note 5 Holdings of equities, bonds and financial derivatives

Table 5.1 Equities

Amounts in NOK million	30.06.2019		31.12.2018	
	Fair value incl. accrued dividends	Accrued dividends	Fair value incl. accrued dividends	Accrued dividends
Equities	6 346 410	10 370	5 486 298	7 659
Total equities	6 346 410	10 370	5 486 298	7 659
<i>Of which equities lent</i>	<i>464 409</i>		<i>437 651</i>	

Table 5.2 Bonds

Amounts in NOK million	Nominal value	30.06.2019		Nominal value	31.12.2018	
		Fair value incl. accrued interest	Accrued interest		Fair value incl. accrued interest	Accrued interest
Government bonds	1 258 844	1 369 698	9 329	1 370 667	1 433 456	9 859
Government-related bonds	327 609	349 090	1 839	325 968	336 579	1 917
Inflation-linked bonds	135 997	146 060	434	135 717	139 396	398
Corporate bonds	576 782	604 587	5 175	616 264	609 314	6 031
Securitised bonds	159 744	156 050	719	138 121	141 105	938
Total bonds	2 458 975	2 625 484	17 497	2 586 737	2 659 849	19 144
<i>Of which bonds lent</i>		<i>361 446</i>			<i>662 920</i>	

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. The GPFG 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* in the annual report for 2018 for more information.

Table 5.3 gives a specification of financial derivatives recognised in the balance sheet.

Table 5.3 Financial derivatives

Amounts in NOK million	30.06.2019			31.12.2018		
	Notional amount	Fair value		Notional amount ¹	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange derivatives	192 288	2 178	1 459	225 766	3 022	3 863
Interest rate derivatives	27 204	981	607	25 693	504	358
Equity derivatives ²	-	89	-	-	50	-
Exchange-traded futures contracts ³	15 183	-	-	35 861	-	-
Total financial derivatives	234 675	3 248	2 067	287 320	3 576	4 222

¹ Certain comparative amounts have been restated to conform to current period presentation.

² Equity derivatives consists of rights and warrants. Notional amounts are not considered relevant for these derivatives and are therefore not included in the table.

³ Exchange-traded futures contracts are settled daily with margin payments. Fair value is therefore zero at the balance sheet date.

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. The method for calculating notional amounts for foreign exchange derivatives was changed in the first quarter of 2019.

The absolute value of the currency to be bought or sold under currency exchange contracts is now used as the basis for the notional value. The change in method is considered to provide more relevant information about the amount of foreign currency traded under currency exchange contracts.

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 2018.

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 2018 for further information on the principles applied in the tables.

Table 6.1 Income/expense from unlisted real estate

Amounts in NOK million	2Q 2019	2Q 2018	Year-to-date 30.06.2019	Year-to-date 30.06.2018	2018
Payments of interest and dividend from unlisted real estate	815	1 908	1 978	2 956	5 822
Unrealised gain/loss	2 651	2 081	4 884	5 841	10 599
Income/expense from unlisted real estate before foreign exchange gain/loss	3 467	3 989	6 862	8 797	16 421

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK million	30.06.2019	31.12.2018
Unlisted real estate at 1 January	243 818	217 160
Net cash flow to/from investments in unlisted real estate	1 334	8 638
Unrealised gain/loss	4 884	10 599
Foreign exchange gain/loss	-3 874	7 421
Unlisted real estate, closing balance for the period	246 162	243 818

Table 6.3 specifies cash flows between the GPFG and subsidiaries presented as *Unlisted real estate* as presented in the statement of cash flows.

Table 6.3 Cash flow to/from unlisted real estate subsidiaries

Amounts in NOK million	Year-to-date 30.06.2019	Year-to-date 30.06.2018	2018
Interest and dividend from ongoing operations	1 971	2 197	4 440
Interest and dividend from sales	7	759	1 381
Receipts of interest and dividend from unlisted real estate	1 978	2 956	5 822
Payments to new investments	-1 728	-478	-12 710
Repayments from sales	-	1 988	4 717
Payments for property development	-570	-548	-1 562
Repayments from ongoing operations	638	607	1 430
Net payments external debt	326	-	-513
Net cash flow to/from investments in unlisted real estate	-1 334	1 569	-8 638

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 2018.

Table 6.4 specifies the GPFG'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	2Q 2019	2Q 2018	Year-to-date 30.06.2019	Year-to-date 30.06.2018	2018
Net rental income	2 521	2 197	5 036	4 492	9 312
External asset management - fixed fees	-143	-127	-288	-264	-506
External asset management - variable fees	-8	-8	-3	-52	-88
Internal asset management - fixed fees ¹	-15	-9	-31	-19	-38
Management costs within the limit from the Ministry of Finance ²	-15	-25	-31	-44	-88
Other operating costs, not within the limit from the Ministry of Finance	-27	-25	-37	-55	-94
Interest expense external debt	-134	-128	-259	-251	-506
Tax expense payable	-47	-91	-81	-144	-256
<i>Net income from ordinary operations</i>	<i>2 132</i>	<i>1 784</i>	<i>4 305</i>	<i>3 663</i>	<i>7 736</i>
Realised gain/loss - properties	-	239	1	169	1 212
Unrealised gain/loss - properties	1 679	1 649	3 122	4 830	7 807
Unrealised gain/loss - debt	-51	18	-181	258	233
Unrealised gain/loss - other assets and liabilities	-288	333	-381	-49	-176
<i>Realised and unrealised gain/loss</i>	<i>1 340</i>	<i>2 239</i>	<i>2 563</i>	<i>5 208</i>	<i>9 077</i>
Stamp duty and registration fees	-	-19	-1	-19	-147
Due diligence and insurance costs	-5	-16	-4	-55	-244
<i>Transaction costs purchases and sales</i>	<i>-5</i>	<i>-34</i>	<i>-6</i>	<i>-74</i>	<i>-391</i>
Net income underlying real estate companies	3 467	3 989	6 862	8 797	16 421

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

Table 6.5 Assets and liabilities underlying real estate companies

Amounts in NOK million	30.06.2019	31.12.2018
Properties	265 749	262 364
External debt	-18 483	-18 361
Net other assets and liabilities ¹	-1 104	-185
Total assets and liabilities underlying real estate companies	246 162	243 818

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

Agreements for purchases and sales of real estate

Table 6.6 provides an overview of announced agreements for purchases and sales of properties which are not completed at the balance sheet date.

Table 6.6 Announced agreements for purchases and sales of properties¹

Type	Property address	City	Ownership percent	Currency	Price in stated currency (million) ²	Quarter announced	Expected completion
Purchase	Schützenstrasse 26	Berlin	100.0	EUR	425	3Q 2017	4Q 2019
Purchase	79 Avenue des Champs-Élysées	Paris	100.0	EUR	613	4Q 2018	4Q 2019
Sale	An der Welle 3-7 and 2-10	Frankfurt	50.0	EUR	310	2Q 2019	4Q 2019

¹ Purchases and sales above USD 25 million are announced.

² The stated price is for the GPF's share.

Norges Bank has also 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. If the market is not active, fair value is established using standard valuation techniques. Estimating fair value may 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 2018.

Significant estimate

Level 3 investments consist of instruments held at fair value that are not traded or quoted in active markets. Fair value is determined using valuation techniques that use models with 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	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Equities	6 301 958	5 450 137	44 251	35 808	200	353	6 346 410	5 486 298
Government bonds	1 302 168	1 331 386	67 530	102 070	-	-	1 369 698	1 433 456
Government-related bonds	295 872	284 545	52 802	51 609	416	425	349 090	336 579
Inflation-linked bonds	136 125	131 271	9 935	8 125	-	-	146 060	139 396
Corporate bonds	555 406	519 829	49 160	89 457	21	28	604 587	609 314
Securitised bonds	134 613	126 377	21 436	14 728	-	-	156 050	141 105
Total bonds	2 424 184	2 393 408	200 863	265 989	437	453	2 625 484	2 659 849
Financial derivatives (assets)	57	20	3 188	3 544	3	12	3 248	3 576
Financial derivatives (liabilities)	-	-	-2 067	-4 222	-	-	-2 067	-4 222
Total financial derivatives	57	20	1 121	-678	3	12	1 181	-646
Unlisted real estate	-	-	-	-	246 162	243 818	246 162	243 818
Other (assets)¹	-	-	246 705	247 351	-	-	246 705	247 351
Other (liabilities)²	-	-	-304 304	-380 724	-	-	-304 304	-380 724
Total	8 726 199	7 843 565	188 636	167 746	246 802	244 636	9 161 639	8 255 945
Total (percent)	95.2	95.0	2.1	2.0	2.7	3.0	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 second quarter of 2019, 97.3 percent of the portfolio was classified as Level 1 or 2, which is a marginal increase compared to year-end 2018.

Equities

Measured as a share of total value, virtually all equities (99.30 percent) are valued based on official closing prices from stock exchanges and are classified as Level 1. A small share of equities (0.70 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 (less than 0.01 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 (92.33 percent) have observable, executable market quotes and are classified as Level 1. 7.65 percent of bonds are classified as Level 2. These are securities that do not have a sufficient number of observable quotes or that are priced based on comparable liquid bonds. A few bonds (0.02 percent) 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.

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 since the valuation of these is based on standard models using observable market inputs. A few 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 decreased marginally by 0.04 percentage point compared to year-end 2018.

The share of bonds classified as Level 1 has increased by 2.35 percentage points compared to year-end, with a corresponding decrease in the share of Level 2 holdings. The main reason for the reclassifications from Level 2 to Level 1 is improved liquidity for corporate bonds denominated in US dollar and government bonds in emerging markets.

In addition to reclassifications between levels, Level 2 holdings have decreased in the first half of 2019 due to the maturity of several government bonds that were classified as Level 2 at year-end.

Table 7.2 Changes in Level 3 holdings

Amounts in NOK million	01.01.2019	Purchases	Sales	Settle- ments	Net gain/ loss	Trans- ferred into Level 3	Trans- ferred out of Level 3	Foreign exchange gain/loss	30.06.2019
Equities	353	46	-116	-	-84	36	-32	-3	200
Bonds	453	-	-	-26	21	-	-3	-7	437
Financial derivatives (assets)	12	-	-	-	-7	-	-2	-	3
Unlisted real estate ¹	243 818	1 334	-	-	4 884	-	-	-3 874	246 162
Total	244 636	1 380	-116	-26	4 814	36	-37	-3 884	246 802

Amounts in NOK million	01.01.2018	Purchases	Sales	Settle- ments	Net gain/ loss	Trans- ferred into Level 3	Trans- ferred out of Level 3	Foreign exchange gain/loss	31.12.2018
Equities	11 373	39	-480	-11	77	45	-10 705	15	353
Bonds	2 772	2	-17	-87	-34	-	-2 215	32	453
Financial derivatives (assets)	-	12	-	-	-	-	-	-	12
Unlisted real estate ¹	217 160	8 638	-	-	10 599	-	-	7 421	243 818
Total	231 305	8 691	-497	-98	10 642	45	-12 920	7 468	244 636

¹ Purchases represent the net cash flow in the period to investments in unlisted real estate. See table 6.3 in note 6 *Unlisted real estate*.

The relative share of holdings classified as Level 3 was 2.7 percent at the end of the second quarter, a decrease from 3.0 percent at year-end 2018. The GPF's aggregate holdings in Level 3 were NOK 246 802 million at the end of the second quarter, an increase of NOK 2 166 million compared to year-end. 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 decreased by 0.01 percentage point compared to year-end 2018. The decrease is primarily due to the lower value of equities that have been suspended from trading. 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	Specification of Level 3 holdings 30.06.2019	Sensitivities 30.06.2019		Specification of Level 3 holdings 31.12.2018	Sensitivities 31.12.2018	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities	200	-66	66	353	-116	116
Government-related bonds	416	-41	41	425	-43	43
Corporate bonds	21	-2	2	28	-3	3
Total bonds	437	-43	43	453	-45	45
Financial derivatives (assets)	3	-	-	12	-1	1
Unlisted real estate	246 162	-15 116	17 243	243 818	-14 627	17 888
Total	246 802	-15 225	17 352	244 636	-14 790	18 050

Real estate values are particularly sensitive to changes in yields and assumptions influencing future revenues. In an unfavourable outcome, an increase in the yield of 0.2 percentage point, and a reduction in future market rents of 2 percent will result in a decrease in value of the real estate portfolio of approximately NOK 15 116 million or 6.1 percent (6.0 percent at year-end 2018). In a favourable outcome, a reduction in the yield of 0.2 percentage point and an increase in future market rents of 2 percent will increase the value

of the real estate portfolio by approximately NOK 17 243 million or 7.0 percent (7.3 percent at year-end 2018).

Sensitivity in absolute terms has decreased slightly for equities compared to year-end 2018, in line with the holdings classified as Level 3. Sensitivity for bonds and financial derivatives is essentially unchanged compared to year-end 2018.

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 2018.

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 in both absolute terms for the actual portfolio, and the relative market risk for 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 ¹		Market value in percent by asset class		Assets minus liabilities excluding management fee	
		30.06.2019	Market 31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Equities	Developed	88.8	Developed	89.0			
	US	39.4	US	38.4			
	UK	8.8	UK	9.4			
	Japan	8.3	Japan	8.8			
	France	5.1	France	5.1			
	Switzerland	4.8	Germany	4.9			
	Total other	22.4	Total other	22.5			
	Emerging	11.2	Emerging	11.0			
	China	3.8	China	3.6			
	Taiwan	1.6	Taiwan	1.7			
	India	1.3	India	1.2			
	Brazil	1.0	Brazil	1.0			
	South Africa	0.7	South Africa	0.7			
	Total other	2.8	Total other	2.8			
Total equities				69.29	66.34	6 347 987	5 477 159
Fixed income	Developed	92.1	Developed	91.8			
	US dollar	44.9	US dollar	44.6			
	Euro	26.3	Euro	26.1			
	Japanese yen	7.4	Japanese yen	7.7			
	British pound	4.1	British pound	4.2			
	Canadian dollar	3.6	Canadian dollar	3.3			
	Total other	5.9	Total other	5.9			
	Emerging	7.9	Emerging	8.2			
	Mexican peso	1.5	Mexican peso	1.7			
	South Korean won	1.3	South Korean won	1.3			
	Indonesian rupiah	1.0	Indonesian rupiah	1.1			
	Indian rupee	0.7	Indian rupee	0.7			
	Brazilian real	0.7	Malaysian ringgit	0.6			
	Total other	2.7	Total other	2.9			
Total fixed income				28.02	30.68	2 566 772	2 532 774
Unlisted real estate	US	47.8	US	47.8			
	UK	22.0	UK	23.0			
	France	16.6	France	16.5			
	Germany	4.0	Switzerland	3.7			
	Switzerland	3.6	Germany	3.5			
	Total other	5.9	Total other	5.5			
Total unlisted real estate				2.69	2.98	246 880	246 013

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

At the end of the second quarter the equity portfolio's share of the fund was 69.3 percent, compared with 66.3 percent at year-end 2018. The bond portfolio's share of the fund was 28.0 percent, compared to 30.7 percent at year-end. The unlisted real estate portfolio's share of the fund was 2.7 percent, compared to 3.0 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. 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, including unlisted real estate investments, are included in the calculations of expected relative volatility, and are measured against the fund's reference index consisting of global equity and bond indices. The limit for the fund's expected relative volatility is 1.25 percentage points.

Table 8.2 Portfolio risk, expected volatility, in percent

	Expected volatility, actual portfolio							
	30.06.2019	Min 2019	Max 2019	Average 2019	31.12.2018	Min 2018	Max 2018	Average 2018
Portfolio	8.0	7.7	8.6	8.0	8.6	8.5	11.0	9.5
Equities	10.1	10.0	11.5	10.4	11.6	11.4	13.7	12.4
Fixed income	6.9	6.7	6.9	6.8	7.0	6.8	9.4	7.8
Unlisted real estate	9.1	8.7	9.4	8.9	9.3	9.2	11.9	10.4

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

	Expected relative volatility							
	30.06.2019	Min 2019	Max 2019	Average 2019	31.12.2018	Min 2018	Max 2018	Average 2018
Portfolio	31	31	34	32	33	29	37	31

Risk measured as expected volatility indicates an expected annual fluctuation in the value of the fund of 8.0 percent, or approximately NOK 730 billion at the end of the second quarter of 2019, compared to 8.6 percent at year-end 2018. Expected volatility for the equity portfolio was 10.1 percent at the end of the quarter, down from 11.6 percent at year-end 2018, while

expected volatility for the bond portfolio was 6.9 percent, compared to 7.0 percent at year-end 2018. The decrease in expected volatility for the fund in the first half of 2019 is mainly due to decreased price volatility in the equity markets for the last three years than was the case at the end of 2018.

The fund's expected relative volatility was 31 basis points at the end of the second quarter, compared to 33 basis points at year-end 2018.

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 reference index for a given confidence level. Using historical simulations, relative returns of the current portfolio versus the reference 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 reference index does not exceed 3.75 percentage points. At the end of the second quarter, the expected shortfall was 1.41 percentage points, compared to 1.37 percentage points at year-end 2018.

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.

Table 8.4 Bond portfolio specified by credit rating

Amounts in NOK million, 30.06.2019	AAA	AA	A	BBB	Lower rating	Total
Government bonds	729 099	180 029	311 299	106 544	42 727	1 369 698
Government-related bonds	146 891	142 039	44 686	14 624	850	349 090
Inflation-linked bonds	115 080	18 767	6 145	6 070	-	146 060
Corporate bonds	6 860	38 522	240 891	311 366	6 948	604 587
Securitised bonds	125 795	24 158	3 013	1 850	1 234	156 050
Total bonds	1 123 724	403 515	606 033	440 454	51 759	2 625 484

Amounts in NOK million, 31.12.2018	AAA	AA	A	BBB	Lower rating	Total
Government bonds	739 266	186 417	358 892	101 955	46 926	1 433 456
Government-related bonds	145 988	127 414	46 766	15 274	1 136	336 579
Inflation-linked bonds	114 351	12 444	6 007	6 190	403	139 396
Corporate bonds	5 965	51 202	224 458	318 135	9 553	609 314
Securitised bonds	114 035	23 461	2 408	786	414	141 105
Total bonds	1 119 606	400 939	638 532	442 341	58 431	2 659 849

The share of bonds with credit rating AAA increased to 42.8 percent at the end of the second quarter, from 42.1 percent at year-end 2018. The share of bond holdings with credit rating A fell to 23.1 percent at the end of the second quarter, from 24.0 percent at year-end 2018, mainly due to reduced holdings of Japanese government bonds. The share of bonds grouped under *Lower rating* was reduced

to 2.0 percent of the bond portfolio at the end of the second quarter, from 2.2 percent at year-end 2018. Overall, the credit quality of the bond portfolio has slightly improved 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	
	30.06.2019	31.12.2018
Securities lending	55 131	67 110
Unsecured bank deposits ¹ and securities	20 760	23 619
Derivatives including foreign exchange contracts	20 563	22 529
Settlement risk towards brokers and long-settlement transactions	3 991	4 437
Repurchase and reverse repurchase agreements ²	2 930	4 780
Total	103 375	122 475

¹ Includes bank deposits in non-consolidated subsidiaries.

² Comparable amounts have been restated to reflect a correction in the underlying data used in the calculation.

Total counterparty risk exposure dropped to NOK 103.4 billion at the end of the second quarter, from NOK 122.5 billion at year-end 2018. The main contributor was reduced risk exposure from securities lending. Both bonds and equities are lent through the securities lending programme. The risk exposure for the

programme decreased to NOK 55.1 billion at the end of the second quarter, from NOK 67.1 billion at year-end 2018, mainly due to a reduction in bonds lent. Counterparty risk exposure from securities lending amounted to 53 percent of the fund's total counterparty risk exposure at the end of the quarter.

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 2018.

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 GPF'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	2Q 2019	2Q 2018	Year-to-date 30.06.2019	Year-to-date 30.06.2018	2018
Foreign exchange gain/loss - USD/NOK	-28 936	98 255	-44 040	-6 425	163 983
Foreign exchange gain/loss - EUR/NOK	6 197	-21 108	-29 465	-46 157	14 654
Foreign exchange gain/loss - JPY/NOK	11 086	-1 760	1 758	7 553	50 721
Foreign exchange gain/loss - GBP/NOK	-20 002	-12 922	-9 894	-15 423	-1 329
Foreign exchange gain/loss - other	-6 393	-15 294	-16 243	-75 044	-4 418
Foreign exchange gain/loss	-38 048	47 171	-97 884	-135 496	223 611

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	2Q 2019	2Q 2018	Year-to-date		Year-to-date		2018	
			30.06.2019	Basis points	30.06.2018	Basis points		Basis points
Salary, social security and other personnel-related costs	279	301	669		605		1 262	
Custody costs	113	104	201		188		385	
IT services, systems, data and information	206	140	343		295		651	
Research, consulting and legal fees	88	67	144		136		282	
Other costs	110	103	213		188		400	
Allocated costs Norges Bank	46	43	92		86		167	
Base fees to external managers	173	215	356		462		724	
Management fee excluding performance-based fees	1 014	973	2 018	4.6	1 960	4.7	3 872	4.6
Performance-based fees to external managers ¹	-130	165	81		548		673	
Management fee	884	1 138	2 099	4.8	2 508	6.0	4 544	5.4

¹ Performance-based fees to external managers are determined based on the cumulative excess return of the managers since inception. Net income of NOK 130 million in the second quarter of 2019 is due to a lower provision for fees to certain managers at the end of the quarter compared to the first quarter of 2019.

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	2Q 2019	2Q 2018	Year-to-date		Year-to-date		2018	
			30.06.2019	Basis points	30.06.2018	Basis points		Basis points
Salary, social security and other personnel-related costs	6	5	13		12		25	
IT services, systems, data and information	5	11	10		19		41	
Research, consulting and legal fees	8	11	15		16		30	
Other costs	5	3	10		7		13	
Total management costs, unlisted real estate subsidiaries	24	30	49	0.1	54	0.1	108	0.1
<i>Of which management costs non-consolidated subsidiaries</i>	<i>15</i>	<i>25</i>	<i>31</i>		<i>44</i>		<i>88</i>	
<i>Of which management costs consolidated subsidiaries</i>	<i>9</i>	<i>5</i>	<i>18</i>		<i>10</i>		<i>20</i>	

Upper limit for reimbursement of management costs

The Ministry of Finance has established 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 2019, total management costs incurred in Norges Bank and its subsidiaries, excluding performance-based fees to external managers, are limited to 7.0 basis points of average assets under management. In accordance with guidelines from the Ministry of Finance, average assets under management is calculated based on the market value of the portfolio in Norwegian kroner at the start of each month in the calendar year.

Total year-to-date management costs measured against the upper limit amount to NOK 2 067 million. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 2 018 million and management costs in subsidiaries of NOK 49 million. This corresponds to 4.7 basis points of assets under management.

Total year-to-date management costs including performance-based fees to external managers amount to NOK 2 148 million. This corresponds to 4.9 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 2019, 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, 14 August 2019

Deloitte AS

Henrik Woxholt
State Authorised Public Accountant (Norway)

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



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