

Government Pension Fund Global

Half year report

2021

Key figures

9.4%

990 billion kroner

The Government Pension Fund Global returned **9.4** percent, or **990** billion kroner, in the first half of 2021.



Equities

13.7%



Fixed income

-2.0%



**Unlisted
real estate**

4.6%



**Unlisted renewable
energy infrastructure**

-1.9%

The fund's equity investments returned **13.7** percent, the fixed-income investments returned **-2.0** percent. Investments in unlisted real estate returned **4.6** percent, while investments in unlisted renewable energy infrastructure returned **-1.9** percent.¹

The return on the fund's investments was **0.28** percentage point higher than the return on the benchmark index the fund is measured against.

¹ First unlisted infrastructure investment were made in second quarter of 2021. The return by the end of the first half of 2021 is mainly due to changes in exchange rates. There was no change in the value of the investment at the end of the period relative to the purchase price.

11,673

billion kroner

The fund had a market value of **11,673** billion kroner at the end of the period and was invested **72.4** percent in equities, **25.1** percent in fixed income, **2.4** percent in unlisted real estate and **0.1** percent in unlisted renewable energy infrastructure.



Equities

72.4%



Fixed income

25.1%



**Unlisted
real estate**

2.4%



**Unlisted renewable
energy infrastructure**

0.1%

Contents

1 |

Investments

Equities _____	6
Fixed income _____	9
Real estate _____	12
Renewable energy infrastructure _____	13

2 |

Management

Management _____	14
Risk _____	16
Responsible investment ____	18

3 |

Key figures and financial reporting

Key figures _____	20
Financial reporting _____	22
Notes _____	28
Auditor's report _____	55

Investments

The fund's equity investments returned 13.7 percent. Fixed-income investments returned -2.0 percent, and unlisted real estate 4.6 percent. The fund also made its first investment in unlisted renewable energy infrastructure during the period.

Equities

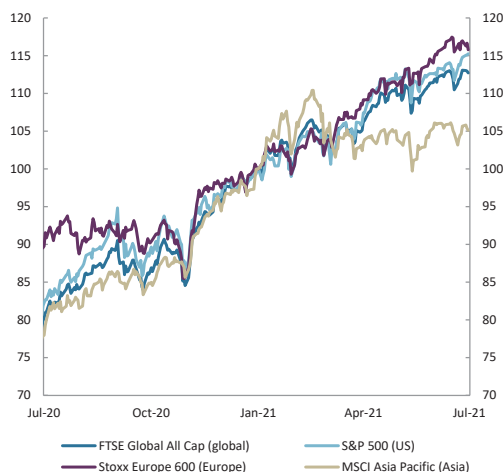
Equity investments returned 13.7 percent for the first six months of the year and made up 72.4 percent of the fund at the end of the period. The health care and technology sectors have performed well during the coronavirus pandemic and made further gains in the first half of 2021.

There were also strong returns in the energy and financial sectors, where there was a sharp downturn earlier in the pandemic. The strongest performance during the period was in sectors exposed more to inflation, such as energy, financials, materials, real estate and industrials. Similarly, the highest returns shifted from growth stocks to value stocks. The rollout of vaccination programmes in the US, the UK and Europe sparked hopes of a return to normality in the second half of the year. Towards the end of the first half, therefore, market participants attached importance to the post-pandemic economic outlook and expectations of higher inflation.

Positive returns in all markets

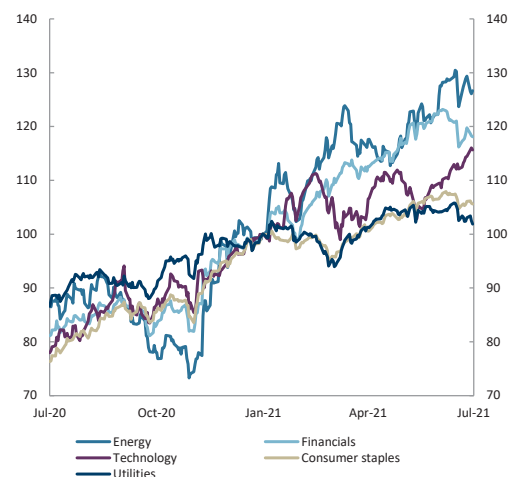
North American stocks returned 17.0 percent for the period and amounted to 45.2 percent of the equity portfolio. US stocks, which were the

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 31.12.2020 = 100.



Source: Bloomberg

Chart 2 Price developments in equity sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed total return 31.12.2020 = 100.



Source: FTSE Russell

fund's single-largest market with 43.2 percent of its equity investments, returned 16.8 percent, or 15.2 percent in local currency.

European stocks returned 13.5 percent and accounted for 30.6 percent of the fund's equity investments. The UK, which was the fund's largest European market with 7.1 percent of its equity investments, returned 13.5 percent, or 10.7 percent in local currency.

Stocks in Asia and Oceania returned 7.8 percent and made up 22.7 percent of the fund's equity investments. Japanese stocks returned 2.9 percent, or 9.1 percent in local currency, and made up 7.5 percent of the fund's equity investments.

Emerging markets returned 10.7 percent and amounted to 11.8 percent of the equity portfolio. The Chinese stock market, home to 4.9 percent of the fund's equity investments, returned 4.8 percent.

Energy companies perform best

Energy companies delivered the period's strongest return of 19.5 percent. Oil prices climbed during the first half of the year as a result of stronger global demand for oil and lower oil stocks due to OPEC+ producers restricting the supply of oil.

Financials were the second-strongest sector with a return of 18.2 percent, with banks performing especially well at 23.2 percent. The rollout of vaccination programmes and pent-up

Table 1 Return on the fund's equity investments in first half of 2021 by sector. International currency. Percent.

Sector	Return	Share of equity investments ¹
Basic materials	14.7	4.3
Consumer staples	6.8	6.1
Consumer discretionary	11.3	15.4
Financials	18.2	14.5
Health care	10.8	11.5
Industrials	15.3	13.8
Energy	19.5	3.2
Technology	16.8	19.8
Telecommunications	9.8	3.4
Utilities	0.6	2.4
Real estate	14.5	5.9

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 2021. Millions of kroner.

Company	Country	Holding
Apple Inc	US	173,676
Microsoft Corp	US	173,545
Alphabet Inc	US	126,974
Amazon.com Inc	US	126,474
Facebook Inc	US	88,729
Nestlé SA	Switzerland	79,391
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	71,229
Roche Holding AG	Switzerland	59,769
ASML Holding NV	Netherlands	54,320
Tencent Holdings Ltd	China	53,641

demand have fuelled a rapid recovery in many economies. Banks saw increased revenue and lower expected loan losses. The dividend outlook also improved as regulatory restrictions were lifted.

Technology stocks performed strongly too, returning 16.8 percent. A number of large technology companies saw an increase in digital advertising. Semiconductors also contributed to the upswing, thanks to a substantial increase in both demand and prices.

Utilities performed worst in the first half of the year, returning 0.6 percent. Rising interest rates and higher inflation expectations contributed to the weak return.

Individual stocks

The investment in technology company Alphabet Inc made the most positive contribution to the return for the period, followed by technology companies Microsoft Corp and Facebook Inc. The investment that made the most negative contribution was in pharmaceutical company Daiichi Sankyo Co Ltd, followed by power producer Iberdrola SA and real estate company Vonovia SE.

The fund participated in 223 initial public offerings during the period. The three largest were at Kuaishou Technology, the company behind the Chinese video-sharing app, Coupang Inc, South Korea's largest online marketplace, and DiDi Global, a Chinese provider of passenger transport solutions. The offerings in which the fund invested the most were those at Coupang Inc, DiDi Global and Vantage Towers AG, a German telecom company.

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.

Fixed income

Fixed-income investments accounted for 25.1 percent of the fund at the end of the period and returned -2.0 percent. The reopening of the global economy together with further expansionary fiscal and monetary policy made inflation a key theme in financial markets and led to higher global interest rates.

Higher interest rates reduce value of bond portfolio

Government bonds returned -3.1 percent for the first six months of the year and accounted for 50.5 percent of the fund's fixed-income investments at the end of the period. The fund's three largest holdings were of US, Japanese and British government bonds.

US Treasuries returned -1.6 percent, or -3.0 percent in local currency, and accounted for 23.6 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. The Federal Reserve continued its monetary policy of keeping its key interest rate close to zero and making active use of its balance sheet to stimulate the economy. At the end of June, its balance sheet was expanded by a further 750 billion dollars to around 8 trillion dollars, equivalent to 37 percent of the country's GDP. The ten-year yield nevertheless climbed 0.6 percentage point from 0.9 to 1.5 percent.

Euro-denominated government bonds represented 10.8 percent of the fund's fixed-income holdings and returned -5.3 percent, or

Table 3 Return on the fund's fixed-income investments in the first half of 2021 by sector. International currency. Percent.

Sector	Return	Share of fixed-income investments ¹
Government bonds ²	-3.1	50.5
Government-related bonds ²	-1.8	11.7
Inflation-linked bonds ²	1.5	6.1
Corporate bonds	-0.4	24.9
Securitised bonds	-2.2	5.4

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

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

Table 4 The fund's largest bond holdings as at 30 June 2021. Millions of kroner.

Issuer	Country	Holding
United States of America	US	780,735
Japanese government	Japan	221,426
UK government	United Kingdom	98,950
Federal Republic of Germany	Germany	90,467
French Republic	France	85,281
Australian government	Australia	42,896
Spanish government	Spain	42,875
Italian Republic	Italy	41,466
Canadian government	Canada	39,799
Canada Mortgage & Housing Corp	Canada	35,289

-3.7 percent in local currency. The European Central Bank extended the bond purchase programme launched in March 2020 until at least March 2022.

Japanese government bonds amounted to 7.4 percent of the fund's fixed-income holdings and returned -5.4 percent, or 0.3 percent in local currency. The Bank of Japan continued its strategy of quantitative and qualitative easing with yield curve control during the period without any significant changes.

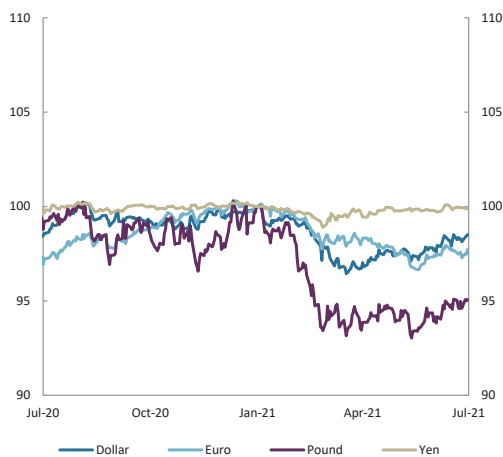
UK gilts amounted to 2.4 percent of the fund's fixed-income holdings and returned -4.3 percent, or -6.6 percent in local currency. The Bank of England kept its key rate at 0.1 percent and made continued use of quantitative easing to stimulate the economy.

The fund is also invested in bonds from government-related institutions such as Canada Mortgage & Housing Corp, the European Union and Kreditanstalt für Wiederaufbau. These bonds returned -1.8 percent and accounted for 11.7 percent of fixed-income investments.

Corporate bonds returned -0.4 percent and amounted to 24.9 percent of fixed-income investments at the end of the period. The credit premium was stable during the period and is slightly lower than at the beginning of the year.

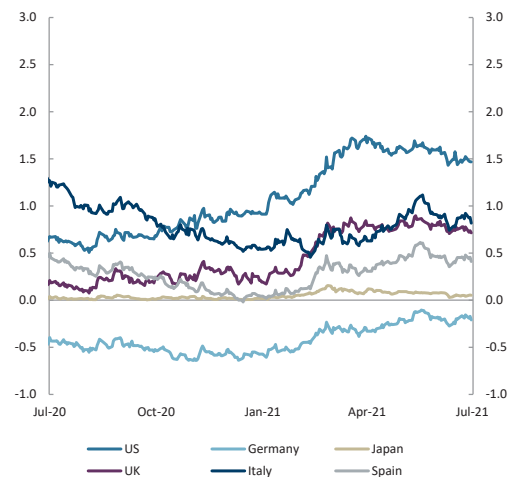
Securitised bonds, consisting mainly of covered bonds denominated in euros, returned -2.2 percent and made up 5.4 percent of fixed-income holdings.

Chart 3 Price developments for bonds issued in dollars, euros, pounds and yen. Measured in local currencies. Indexed total return 31.12.2020 = 100.



Source: Bloomberg Barclays Indices

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



Source: Bloomberg

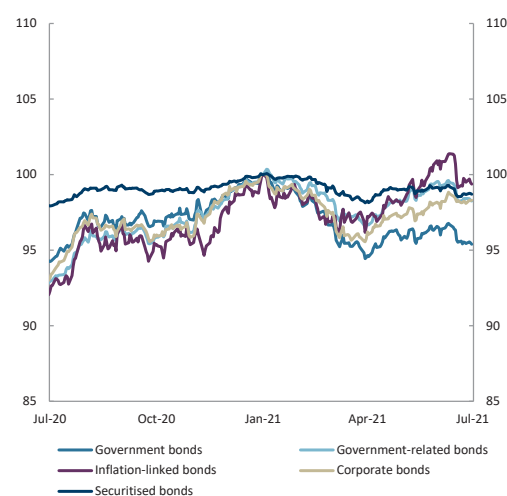
Inflation-linked bonds returned 1.5 percent and accounted for 6.1 percent of total fixed-income investments. Returns were boosted by a marked rise in the market's inflation expectations, while the increase in interest rates pulled in the other direction as these bonds have a long average maturity.

Changes in fixed-income holdings

The market value of fixed income investments in emerging-market currencies fell from 2.8 to 0.3 percent of total fixed-income investments during the period.

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

Chart 5 Price developments in fixed-income sectors. Measured in US dollars. Indexed total return 31.12.2020 = 100.



Source: Bloomberg Barclays Indices

Table 5 The fund's bond holdings as at 30 June 2021 based on credit ratings. Percentage of bond holdings.

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	31.3	6.6	10.1	2.4	0.9	51.2
Government-related bonds	5.1	4.5	1.8	0.5	0.0	11.9
Inflation-linked bonds	4.0	1.5	0.2	0.4	0.0	6.1
Corporate bonds	0.2	1.9	10.2	12.5	0.4	25.3
Securitised bonds	4.6	0.8	0.1	0.0	0.0	5.5
Total	45.3	15.3	22.4	15.7	1.4	100.0

Real estate

Total real estate investments amounted to 4.2 percent of the fund at the end of the period and returned 8.05 percent. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

Unlisted real estate investments made up 57.0 percent of the overall real estate portfolio and returned 4.6 percent. The return on unlisted real estate investments depends on rental income, operating expenses, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases and sales. Measured in local currency, rental income net of operating 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 2.6 percentage points. Transaction costs had no impact on the return for the period, while currency movements made a positive contribution of 0.2 percentage point.

There were few new transactions in the first half of the year. In April, the fund announced the acquisition of a logistics property in Daventry in the UK in partnership with Prologis, paying 27.1 million pounds, or around 319 million kroner, for a 50 percent stake.

Listed real estate made up 43.0 percent of the overall real estate portfolio at the end of the period and returned 14.0 percent.

Table 6 Value of real estate investments as at 30 June 2021. Millions of kroner.

	Value ¹
Unlisted real estate investments	280,860
Unlisted real estate investments	211,887
Listed real estate investments	492,747

¹ Including bank deposits and other receivables.

Table 7 Return on unlisted real estate investments in the first half of 2021. Percentage points.

	Return
Rental income	1.7
Changes in value	2.6
Transaction costs	0.0
Result of currency adjustments	0.2
Total	4.6

Unlisted renewable energy infrastructure

From 1 January 2020, the fund has had a mandate also to invest in unlisted renewable energy infrastructure, i.e. infrastructure for the production, transmission, distribution and storage of energy from renewable sources. The management mandate from the Ministry of Finance sets an upper limit for these investments of 2 percent of the fund's value. They are also to be made within the limit of 120 billion kroner set for the fund's environment-related investment mandates.

In April, the fund announced an agreement to purchase 50 percent of the Borssele 1 & 2 wind farm located in the Netherlands for 1,375 million euros, or around 13.9 billion kroner, and the

transaction was completed in May. This was the fund's first, and as yet only, investment in unlisted renewable energy infrastructure.

The return for the period was -1.93 percent. This was due mainly to exchange rate movements when measuring the return in the fund's currency basket. There was no change in the value of the investment at the end of the period relative to the purchase price.

Table 8 Value of Unlisted infrastructure investments as at 30 June 2021. Millions of kroner.

	Value ¹
Unlisted infrastructure investments	14,059

¹ Including bank deposits and other receivables.

Table 9 Return of Unlisted infrastructure investments as at 30 June 2021. Millions of kroner.

	Return ¹
Unlisted infrastructure investments	-1.93

¹ First unlisted infrastructure investment were made in second quarter of 2021.

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 return on the fund for the first half of the year was 0.28 percentage point higher than the return on the benchmark index from the Ministry of Finance.

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

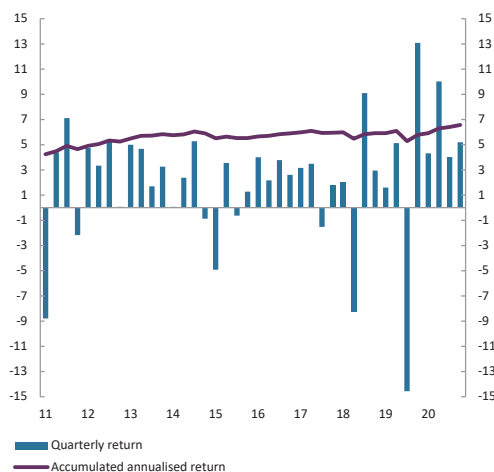
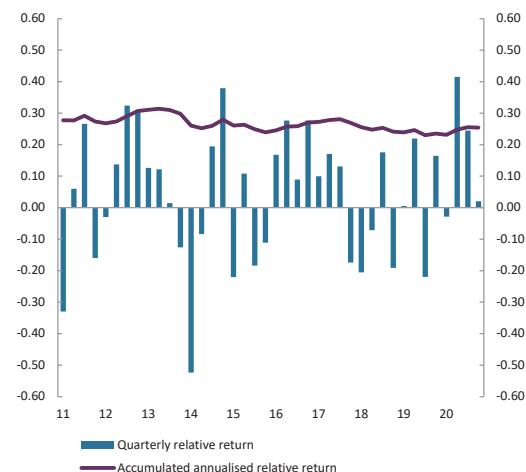


Chart 7 The fund's quarterly relative return and accumulated annualised relative return. Calculations based on aggregated equity and fixed-income investments until end of 2016. Percentage points.



The fund invests in listed equities, bonds, unlisted real estate and unlisted renewable energy infrastructure. Unlisted and listed real estate investments are managed under a combined strategy for real estate. Real estate and infrastructure investments are also referred to collectively as real assets. When we buy real assets, we sell bonds and equities at a ratio that keeps the currency risk unchanged. The ratio of bonds to equities sold is determined by the investment's risk characteristics. Separate benchmark indices are set for equity and fixed-income management that are adjusted for the bonds and equities sold to finance real asset investments. This permits a comprehensive approach to risk management for the fund.

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

Equity management contributed 0.25 percentage point to the fund's relative return in the first half of the year. Investments in the technology sector made the most positive contribution to the excess return for the period, while the energy sector made the most negative. Broken down by country, equity investments in the US and China made the most positive contributions to the relative return, and Australian stocks the most negative. An overweight of value stocks relative to the benchmark index made a positive contribution to the relative return.

Fixed-income management contributed -0.02 percentage point to the fund's relative return. A lower duration than the benchmark index made a negative contribution to the relative return for the period.

Real asset management contributed 0.09 percentage point to the fund's relative return, measured against the equities and bonds sold to finance these investments. Listed real estate investments contributed 0.07 percentage point and unlisted real estate investments 0.02 percentage point, while infrastructure made a negligible contribution to the fund's relative return for the period.

The relative return may also be affected by an allocation effect between these management areas. The contribution from this effect during the period was -0.05 percentage point.

Table 10 Contributions from management areas to the fund's relative return in the first half of 2021. Percentage points.

	Total
Equity management	0.25
Fixed-income management	-0.02
Real assets management	0.09
Allocation effect	-0.05
Total	0.28

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 the values of real assets. 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 10.6 percent, or about 1,230 billion kroner, at the end of the period, compared with 10.4 percent at the beginning of the period.

We invest in real assets to create a more diversified portfolio. We expect real assets 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. For infrastructure investments, we use generic risk factors that correspond to the investments' risk characteristics.

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. All of the fund's investments, including real assets, are included in the calculation of

Table 11 Key figures for the fund's risk and exposure.

Limits set by the Ministry of Finance		30.06.2021
Allocation	Equity portfolio 60–80 percent of fund's market value ¹	72.5
	Unlisted real estate no more than 7 percent of the fund's market value	2.4
	Fixed-income portfolio 20–40 percent of fund's market value ¹	24.4
	Unlisted renewable energy infrastructure no more than 2 percent of the fund's market value ²	0.1
Market risk	1.25 percentage points expected relative volatility for the fund's investments	0.5
Credit risk	Maximum 5 percent of fixed-income investments may be rated below BBB-	1.4
Emerging markets	Maximum 5 percent of fixed-income investments may be in emerging markets	3.7
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 Unlisted renewable energy infrastructure investments shall be made within the scope of the environment-related investment mandates.

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

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 0.46 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 1.36 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.

Estimated operational risk exposure remained within the Executive Board's tolerance limit during the period. A total of 129 unwanted operational events were registered, with an estimated financial impact of around 683 million kroner. Most of this relates to a gain of 582 million kroner caused by a manual error in the portfolio management process for listed securities that led to us being allocated more

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

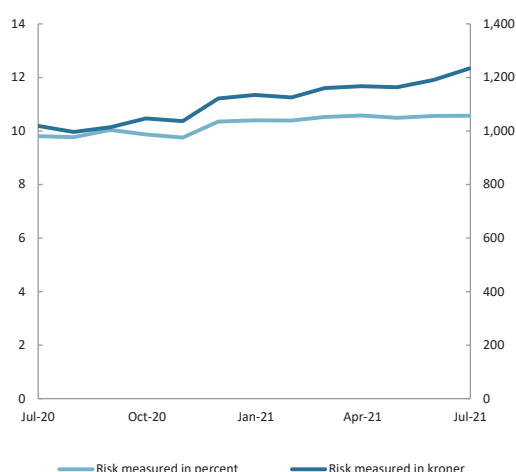
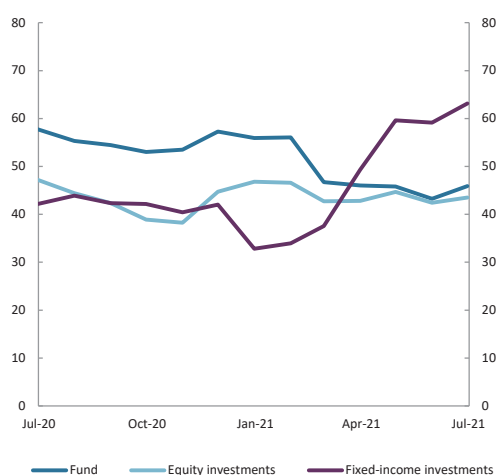


Chart 9 Expected relative volatility of the fund. Basis points.



shares in a company than planned. The market value of the securities in question moved in our favour. A number of improvements have been made to reduce the risk of similar incidents in the future.

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 principles and standards, our long-term ownership and our investing.

Establishing principles

We participated in seven 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 expressed support for a proposal from the China Securities Regulatory Commission to strengthen reporting by listed companies. Better information on board composition, protection of minority shareholders and management of sustainability

risks could help increase confidence in the Chinese stock market. We also supported a proposal from the Securities and Exchange Commission to improve climate-related disclosures by listed companies in the US.

As an investor in 70 countries, we support the development of national and international corporate governance codes. Most recommendations are not legally binding, but companies that do not comply will often need to explain why they chose a different approach. We supported revisions to Japan's Corporate Governance Code, highlighting the importance of board independence, a better gender balance, and climate reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

A number of major markets require shareholders to vote on executive remuneration and other incentives. In talks with regulators, we have emphasised the importance of a long time horizon for share-based incentives, simple incentive structures and maximum transparency. In a consultation response to the Australian Prudential Regulation Authority (APRA), we stressed that any non-financial metrics should also be relevant to value creation.

The European Commission unveiled an initiative on sustainable corporate governance and asked for input from investors. Our starting point is that the board is responsible for setting company strategy and managing the challenges associated with environmental and social issues. We expressed support for the ambition of encouraging long-term thinking and incorporating environmental and social considerations into corporate decision-making processes. We stressed how remuneration plans with a substantial equity component subject to a lengthy lock-in period contribute to long-term

value creation. We also emphasised that the fund invests for future generations and is working to promote long-term value creation and responsible business conduct. We highlighted the need for further harmonisation of rules and to remove obstacles to cross-border voting, thus helping global shareholders to look after their interests. We supported the proposal for a framework for due diligence based on international standards.

In February, we published a position paper on board diversity. Our position papers guide our voting at shareholder meetings and provide transparency on our voting decisions. Diversity brings to the board different perspectives and mindsets that can contribute to better decisions. Diversity can also increase the company's credibility. The board should have a formal nomination process to identify potential candidates who can add diversity. Boards where either gender has less than 30 percent representation should consider setting targets for gender balance and report on progress towards them.

In April, we published updated guidelines for our voting. We reinforced our expectation of gender balance on the board in developed markets by setting a minimum requirement of two representatives of each gender. We stressed that we will hold the board to account for managing climate risks, and announced that we will not support remuneration plans in the US that consist solely of options.

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 94,318 proposals at 8,498 shareholder meetings in the first half of the year. The second quarter is the busy season for voting, with more than two thirds of annual shareholder meetings taking place between April

and June. In January, we further increased transparency on how we exercise our ownership rights by beginning to announce our voting intentions five days before a shareholder meeting. We also provide our rationale for all votes against the board's recommendation. In most cases, however, we will back the board.

We had 1,394 meetings with companies in the first half of the year, raising governance and sustainability issues at 70.4 percent of them. Most of these issues related to climate change, board composition and executive remuneration.

Observation and exclusion

In the first half of 2021, Norges Bank published decisions to exclude three companies from the fund and revoke the exclusion of one. The Bank also decided to place one company under observation and follow up another through active ownership. Shapir Engineering and Industry Ltd and Mivne Real Estate KD Ltd were excluded following an assessment against the conduct-based criterion of contributing to systematic violations of individuals' rights in situations of war or conflict. Honeys Holdings Co Ltd was excluded following an assessment of the risk of contributing to human rights violations. The Bank decided to follow up ThyssenKrupp AG through active ownership following an assessment of corruption risk, and to place Kirin Holdings Ltd Co under observation due to an unacceptable risk of it contributing to serious violations of individuals' rights in situations of war or conflict.

Norges Bank also decided to revoke the exclusion of Atal SA/Poland, which means that the fund may now invest in this company. Where appropriate, the Ministry of Finance will set dates for when the company's 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 12 Return figures. Measured in the fund's currency basket. Percent.

	First half 2021	2Q 2021	1Q 2020	4Q 2020	3Q 2020
Equity investments	13.73	6.65	6.64	13.73	5.74
Fixed-income investments	-2.00	1.18	-3.15	1.14	1.06
Unlisted real estate investments	4.59	3.10	1.45	0.65	0.92
Unlisted infrastructure investments ¹	-1.93	-1.93			
Return on fund	9.42	5.19	4.02	10.02	4.31
Relativ return on fund (percentage points)	0.28	0.02	0.24	0.41	-0.03
Management costs	0.02	0.01	0.02	0.01	0.01
Return on fund after management costs	9.40	5.18	4.01	10.01	4.29

¹ First unlisted infrastructure investment were made in second quarter of 2021. The return by the end of the first half of 2021 is mainly due to changes in exchange rates. There was no change in the value of the investment at the end of the period relative to the purchase price.

Table 13 Historical key figures as at 30 June 2021. 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)	6.56	7.04	8.67	10.53	25.57
Annual price inflation (percent)	1.80	1.81	1.62	1.87	3.41
Annual management costs (percent)	0.08	0.07	0.06	0.05	0.05
Net real return on fund (percent)	4.60	5.07	6.88	8.45	21.38
The fund's actual standard deviation (percent)	8.00	9.16	8.43	9.47	9.32
Relative return on fund (percentage points) ¹	0.25	0.11	0.17	0.31	0.76
The fund's tracking error (percentage points) ¹	0.65	0.76	0.35	0.31	0.25
The fund's information ratio (IR) ^{1,2}	0.41	0.19	0.48	0.97	2.46

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 14 Key figures. Billions of kroner.

	First half 2021	2Q 2021	1Q 2021	4Q 2020	3Q 2020
Market value					
Equity investments	8,452	8,452	8,061	7,945	7,498
Fixed-income investments	2,925	2,925	2,702	2,695	2,820
Unlisted real estate investments ¹	281	281	270	273	292
Unlisted infrastructure investments ²	14	14			
Market value of fund ³	11,673	11,673	11,034	10,914	10,610
Accrued, not paid, management fees ⁴	-3	-3	-2	-5	-4
Owner's capital³	11,670	11,670	11,032	10,908	10,606
Inflow/withdrawal of capital ⁵	-147	-69	-78	-25	-105
Paid management fees ⁵	-5	0	-5	0	0
Return on fund	990	608	382	846	412
Changes due to fluctuations in krone	-79	100	-178	-517	-97
Total change in market value	759	639	120	303	210
Changes in value since first capital inflow in 1996					
Total inflow of capital ⁵	2,942	2,942	3,010	3,092	3,116
Return on equity investments	5,929	5,929	5,364	4,897	4,070
Return on fixed-income investments	1,393	1,393	1,358	1,446	1,428
Return on unlisted real estate investments ¹	96	96	87	84	83
Return on unlisted infrastructure investments ²	0	0			
Management fees ⁶	-56	-56	-55	-53	-53
Changes due to fluctuations in krone	1,369	1,369	1,269	1,448	1,965
Market value of fund	11,673	11,673	11,034	10,914	10,610
Return on fund	7,417	7,417	6,809	6,427	5,581
Return after management costs	7,361	7,361	6,754	6,374	5,529

¹ Includes listed real estate investments from 01.11.2014 to the end of 2016.² First unlisted infrastructure investment were made in second quarter of 2021.³ 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.⁴ Paid management fees are specified separately, and not included in Inflow/withdrawal of capital.⁵ Total inflow of capital shown in this table is adjusted for accrued, not paid, management fees.⁶ 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

FINANCIAL STATEMENTS

Condensed interim financial statements

Income statement _____	23
Balance sheet _____	24
Statement of cash flows _____	25
Statement of changes in owner's capital _	26

NOTES

Notes to the condensed interim financial statements

Note 1	General information _____	27
Note 2	Accounting policies _____	28
Note 3	Returns _____	29
Note 4	Income/expense from equities, bonds and financial derivatives _____	30
Note 5	Holdings of equities, bonds and financial derivatives _____	31
Note 6	Unlisted real estate _____	33
Note 7	Unlisted infrastructure for renewable energy _____	37
Note 8	Fair value measurement _____	38
Note 9	Investment risk _____	43
Note 10	Foreign exchange gain/loss ____	49
Note 11	Management costs _____	50

AUDITOR

Auditor's report _____	53
------------------------	----

Income statement

Amounts in NOK million	Note	1H 2021	1H 2020	2020
Profit/loss on the portfolio before foreign exchange gain/loss				
Income/expense from:				
- Equities	4	1 035 066	-334 606	883 788
- Bonds	4	-51 442	155 947	198 080
- Unlisted real estate	6	11 308	-4 409	-1 017
- Unlisted infrastructure	7	-	-	-
- Financial derivatives	4	-2 086	-4 239	-6 891
- Secured lending		1 843	2 236	4 028
- Secured borrowing		-19	-700	-751
Tax expense		-4 865	-2 244	-7 513
Interest income/expense		-11	34	25
Other income/expense		10	-5	-35
Profit/loss on the portfolio before foreign exchange gain/loss		989 803	-187 986	1 069 713
Foreign exchange gain/loss	10	-78 706	672 144	57 948
Profit/loss on the portfolio		911 097	484 158	1 127 661
Management fee	11	-2 668	-2 733	-5 305
Profit/loss and total comprehensive income		908 430	481 424	1 122 356

Balance sheet

Amounts in NOK million	Note	30.06.2021	31.12.2020
Assets			
Deposits in banks		21 992	18 258
Secured lending		245 519	192 526
Cash collateral posted		2 645	5 715
Unsettled trades		76 731	4 460
Equities	5	7 963 491	7 538 156
Equities lent	5	526 656	438 353
Bonds	5	2 728 257	2 343 362
Bonds lent	5	158 491	520 978
Financial derivatives	5	3 168	2 551
Unlisted real estate	6	279 970	272 507
Unlisted infrastructure	7	14 059	-
Other assets		7 025	3 574
Total assets		12 028 003	11 340 440
Liabilities and owner's capital			
Secured borrowing		215 958	390 380
Cash collateral received		7 560	6 004
Unsettled trades		122 175	20 326
Financial derivatives	5	4 701	7 619
Other liabilities		5 055	2 350
Management fee payable	11	2 668	5 305
Total liabilities		358 117	431 983
Owner's capital		11 669 886	10 908 457
Total liabilities and owner's capital		12 028 003	11 340 440

Statement of cash flows

Amounts in NOK million , receipt (+) / payment (-)	Note	1H 2021	1H 2020	2020
Operating activities				
Receipts of dividend from equities		89 780	88 644	152 788
Receipts of interest from bonds		23 714	36 413	60 255
Receipts of interest and dividend from unlisted real estate	6	2 763	4 818	8 375
Net receipts of interest and fee from secured lending and borrowing		1 782	1 270	3 053
<i>Receipts of dividend, interest and fee from holdings of equities, bonds and unlisted real estate</i>		<i>118 039</i>	<i>131 146</i>	<i>224 470</i>
Net cash flow from purchase and sale of equities		364 662	-116 004	-80 610
Net cash flow from purchase and sale of bonds		-105 099	193 720	102 085
Net cash flow to/from investments in unlisted real estate	6	-406	-16 954	-15 997
Net cash flow to/from investments in unlisted infrastructure	7	-14 023	-	-
Net cash flow financial derivatives		-1 169	1 602	-5 499
Net cash flow cash collateral related to derivative transactions		3 468	-523	-6 080
Net cash flow secured lending and borrowing		-204 237	-23 936	94 317
Net payment of taxes		-6 866	-5 964	-5 724
Net cash flow related to interest on deposits in banks and bank overdraft		-23	11	-10
Net cash flow related to other income/expense, other assets and other liabilities		401	176	-623
Management fee paid to Norges Bank ¹	11	-5 305	-4 312	-4 312
Net cash inflow/outflow from operating activities		149 442	158 961	302 018
Financing activities				
Inflow from the Norwegian government ²		227	1 459	5 032
Withdrawal by the Norwegian government ²		-146 258	-165 626	-301 800
Net cash inflow/outflow from financing activities		-146 031	-164 168	-296 768
Net change deposits in banks				
Deposits in banks at 1 January		18 258	14 476	14 476
Net increase/decrease of cash in the period		3 411	-5 206	5 250
Net foreign exchange gain/loss on cash		323	1 901	-1 467
Deposits in banks at end of period		21 992	11 170	18 258

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 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 July 2020	3 216 770	7 180 955	10 397 725
Profit/loss and total comprehensive income	-	640 932	640 932
Inflow during the period	3 800	-	3 800
Withdrawal during the period	-134 000	-	-134 000
31 December 2020	3 086 570	7 821 887	10 908 457
1 January 2021	3 086 570	7 821 887	10 908 457
Profit/loss and total comprehensive income	-	908 430	908 430
Inflow during the period ¹	-	-	-
Withdrawal during the period ¹	-147 000	-	-147 000
30 June 2021	2 939 570	8 730 317	11 669 886

¹ In the first half of 2021, NOK 152.3 billion was withdrawn from the krone account. Of this, NOK 5.3 billion was used to pay the accrued management fee for 2020. In the first half of 2020, there was an inflow to the krone account of NOK 0.3 billion, while 172.1 billion was withdrawn. Of this, NOK 4.3 billion was used to pay the accrued management fee for 2019.

Notes to the financial reporting

Note 1 General Information

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

2. Approval of the interim financial statements

The interim financial statements of Norges Bank for the first half of 2021, which only encompass the financial reporting for the GPFG, were approved by the Executive Board on 11 August 2021.

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 statements for the first half of 2021 are 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. 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 2020. 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 2020.

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.

Note 3 Returns

Table 3.1 Returns

	1H 2021	1H 2020	2020
Returns measured in the fund's currency basket (percent)			
Return on equity investments	13.73	-6.75	12.14
Return on fixed-income investments	-2.00	5.14	7.46
Return on unlisted real estate investments	4.59	-1.63	-0.08
Return on unlisted infrastructure investments	-1.93	-	-
Return on fund	9.42	-3.40	10.86
Relative return on fund (percentage points)	0.28	-0.11	0.27
Returns measured in Norwegian kroner (percent)			
Return on equity investments	12.70	1.20	12.70
Return on fixed-income investments	-2.90	14.11	8.00
Return on unlisted real estate investments	3.64	6.76	0.42
Return on unlisted infrastructure investments	0.13	-	-
Return on fund	8.42	4.85	11.41

For additional information on the calculation methods used when measuring returns, see note 3 *Returns* in the annual report for 2020.

The first investment in unlisted infrastructure for renewable energy was completed on 31 May 2021. Therefore, all return figures for the asset class apply to June.

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 2021	1H 2020	2020
Dividends	95 665	89 515	157 477
Realised gain/loss	359 173	5 010	103 946
Unrealised gain/loss	580 228	-429 131	622 365
Income/expense from equities before foreign exchange gain/loss	1 035 066	-334 606	883 788

Table 4.2 Specification Income/expense from bonds

Amounts in NOK million	1H 2021	1H 2020	2020
Interest	23 577	35 170	62 213
Realised gain/loss	-4 139	45 712	71 432
Unrealised gain/loss	-70 880	75 064	64 436
Income/expense from bonds before foreign exchange gain/loss	-51 442	155 947	198 080

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK million	1H 2021	1H 2020	2020
Interest	-425	-222	-1 186
Realised gain/loss	-231	-3 019	-5 702
Unrealised gain/loss	-1 430	-998	-3
Income/expense from financial derivatives before foreign exchange gain/loss	-2 086	-4 239	-6 891

Note 5 Holdings of equities, bonds and financial derivatives

Table 5.1 Equities

Amounts in NOK million	30.06.2021		31.12.2020	
	Fair value incl. accrued dividends	Accrued dividends	Fair value incl. accrued dividends	Accrued dividends
Equities	8 490 147	9 933	7 976 509	6 973
Total equities	8 490 147	9 933	7 976 509	6 973
<i>Of which equities lent</i>	526 656		438 353	

Table 5.2 Bonds

Amounts in NOK million	30.06.2021			31.12.2020		
	Nominal value	Fair value incl. accrued interest	Accrued interest	Nominal value	Fair value incl. accrued interest	Accrued interest
Government bonds	1 403 069	1 478 259	5 538	1 389 636	1 523 986	6 406
Government-related bonds	329 215	343 120	1 227	289 498	312 765	1 263
Inflation-linked bonds	147 866	177 481	396	141 583	169 965	350
Corporate bonds	685 889	729 590	5 089	638 741	702 216	5 485
Securitised bonds	165 311	158 298	414	160 209	155 409	657
Total bonds	2 731 350	2 886 748	12 664	2 619 667	2 864 341	14 161
<i>Of which bonds lent</i>		158 491			520 978	

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 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 2020 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	30.06.2021			31.12.2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange derivatives	273 594	2 246	2 591	359 170	1 620	6 475
Interest rate derivatives	59 243	654	2 108	37 523	725	1 144
Equity derivatives ¹	-	244	-	-	206	-
Exchange-traded futures contracts ²	35 943	24	2	28 587	-	-
Total financial derivatives	368 779	3 168	4 701	425 280	2 551	7 619

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 and fair value is normally zero at the balance sheet date, with the exception of futures contracts in certain markets where there is different timing for setting the market value for recognition in the balance sheet and daily margining.

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 2020.

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 2020 for further information on the principles applied in the tables.

Table 6.1 Income/expense from unlisted real estate

Amounts in NOK million	1H 2021	1H 2020	2020
Payments of interest and dividend from unlisted real estate	2 763	4 818	8 375
Unrealised gain/loss ¹	8 545	-9 227	-9 392
Income/expense from unlisted real estate before foreign exchange gain/loss	11 308	-4 409	-1 017

¹ Accrued interest and dividends which are not cash-settled are included in *Unrealised gain/loss*.

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK million	30.06.2021	31.12.2020
Unlisted real estate at 1 January	272 507	264 538
Net cash flow to/from investments in unlisted real estate	406	15 997
Unrealised gain/loss	8 545	-9 392
Foreign exchange gain/loss	-1 488	1 363
Unlisted real estate, closing balance for the period	279 970	272 507

Table 6.3 specifies cash flows between the GPFG 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 2021	1H 2020	2020
Interest and dividend from ongoing operations	2 712	2 715	5 976
Repayments of intercompany loans from ongoing operations	790	662	1 697
<i>Cash flow from ongoing operations unlisted real estate</i>	<i>3 502</i>	<i>3 376</i>	<i>7 673</i>
Payments for new investments	-1 626	-20 305	-20 531
Payments for property development	-462	-607	-1 109
Net payments external debt	892	-	-
Repayments of intercompany loans from sales	-	3 296	3 945
Interest and dividend from sales	51	2 104	2 399
<i>Cash flow to/from other activities unlisted real estate</i>	<i>-1 144</i>	<i>-15 512</i>	<i>-15 295</i>
Net cash flow unlisted real estate¹	2 357	-12 136	-7 622

¹ Shown in the statement of cash flows 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 2021, this amounted to NOK 2 763 million and NOK -406 million, respectively (NOK 4 818 million and NOK -16 954 million in the first half of 2020).

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 2020.

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	1H 2021	1H 2020	2020
Net rental income	5 459	5 924	11 609
External asset management – fixed fees	-369	-376	-728
External asset management – variable fees	3	-21	-71
Internal asset management – fixed fees ¹	-42	-33	-65
Operating costs in wholly-owned subsidiaries ²	-30	-32	-64
Operating costs in joint ventures	-47	-65	-110
Interest expense external debt	-308	-291	-555
Tax expense	-106	-104	-211
<i>Net income from ongoing operations</i>	<i>4 561</i>	<i>5 003</i>	<i>9 805</i>
Realised gain/loss	47	2 138	2 151
Unrealised gain/loss ³	6 761	-11 066	-12 472
<i>Realised and unrealised gain/loss</i>	<i>6 808</i>	<i>-8 929</i>	<i>-10 321</i>
Transaction costs and fees from purchases and sales	-61	-483	-500
Net income underlying real estate companies	11 308	-4 409	-1 017

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

² Operating costs in wholly-owned subsidiaries are measured against the upper limit from the Ministry of Finance, see note 11 for more information.

³ *Unrealised gain/loss* presented in table 6.1 includes net income in the underlying real estate companies which is not distributed back to the GPFG, and will therefore not correspond to *Unrealised gains/loss* presented in table 6.4.

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	30.06.2021	31.12.2020
Properties	301 276	293 408
External debt	-19 493	-18 783
Net other assets and liabilities ¹	-1 813	-2 118
Total assets and liabilities underlying real estate companies	279 970	272 507

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, are described in the following paragraph.

In April 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 first quarter of 2023 and the fourth quarter of 2024, respectively. The buildings will be purchased and the final purchase price determined upon completed construction.

Note 7 Unlisted infrastructure for renewable energy

Investments in unlisted infrastructure for renewable energy (*Unlisted infrastructure*) are made through subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG. Subsidiaries presented as *Unlisted infrastructure* in the balance sheet are measured at fair value through profit or loss. For principles on recognition and measurement of subsidiaries, see note 2 *Accounting policies* in the annual report for 2020.

Income/expense and changes in carrying amounts related to investments in unlisted infrastructure are specified in the tables below. The first agreement for investment in unlisted infrastructure was signed on 7 April 2021 and the transaction was completed on 31 May 2021.

Table 7.1 Income/expense from unlisted infrastructure

Amounts in NOK million	1H 2021	1H 2020	2020
Unrealised gain/loss	-	-	-
Income/expense from unlisted infrastructure before foreign exchange gain/loss	-	-	-

Table 7.2 Changes in carrying amounts unlisted infrastructure

Amounts in NOK million	30.06.2021	31.12.2020
Unlisted infrastructure at 1 January	-	-
Net cash flow to/from investments in unlisted infrastructure	14 023	-
Unrealised gain/loss	-	-
Foreign exchange gain/loss	36	-
Unlisted infrastructure, closing balance for the period	14 059	-

Note 8 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 2020.

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 8.1 Categorisation of the investment portfolio by level in the fair value hierarchy

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Equities	8 439 433	7 932 488	49 819	43 424	895	597	8 490 147	7 976 509
Government bonds	1 392 863	1 319 168	85 396	204 818	-	-	1 478 259	1 523 986
Government-related bonds	268 654	235 974	74 466	76 791	-	-	343 120	312 765
Inflation-linked bonds	166 919	153 784	10 562	16 181	-	-	177 481	169 965
Corporate bonds	686 262	591 372	43 304	110 816	24	28	729 590	702 216
Securitised bonds	138 981	128 141	19 317	27 268	-	-	158 298	155 409
Total bonds	2 653 679	2 428 439	233 045	435 874	24	28	2 886 748	2 864 341
Financial derivatives (assets)	158	76	3 010	2 471	-	4	3 168	2 551
Financial derivatives (liabilities)	-	-	-4 701	-7 619	-	-	-4 701	-7 619
Total financial derivatives	158	76	-1 691	-5 148	-	4	-1 533	-5 068
Unlisted real estate	-	-	-	-	279 970	272 507	279 970	272 507
Unlisted infrastructure	-	-	-	-	14 059	-	14 059	-
Other (assets)¹	-	-	353 912	224 533	-	-	353 911	224 533
Other (liabilities)²	-	-	-350 748	-419 059	-	-	-350 748	-419 059
Total	11 093 270	10 361 003	284 337	279 623	294 948	273 136	11 672 554	10 913 762
Total (percent)	95.0	94.9	2.5	2.6	2.5	2.5	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, 97.5 percent of the portfolio was classified as Level 1 or 2, which is at the same level as year-end 2020.

Equities

Measured as a share of total value, virtually all equities (99.40 percent) are valued based on

official closing prices from stock exchanges and are classified as Level 1. A small share of equities (0.59 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 (0.01 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 (91.93 percent) have observable, executable market quotes in active markets and are classified as Level 1. The share of bonds classified as Level 2 is 8.07 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 continues to affect market activity in several sectors of the unlisted real estate market, with lower transaction volumes than normal. The impact of the pandemic has not been uniform across sectors and geographical markets. The level of leasing activity and investment transactions has been high for logistics, while there has been less market activity particularly in the retail sector, but also in the office sector. While transaction volumes are not yet back to normal levels, the

external valuers have concluded that there is an adequate level of market evidence to estimate fair value in the different sectors and markets. The external valuers highlight that there continues to be elevated market uncertainty with regards to the long-term impact of the pandemic on cash flows and yield requirements.

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 pandemic 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.

Unlisted infrastructure for renewable energy

The first investment in unlisted infrastructure for renewable energy was completed on 31 May 2021. See note 7 *Unlisted infrastructure* for further information. At the end of the first half, the transaction price excluding transaction costs is considered to represent the best estimate of fair value. The investment is classified as Level 3.

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. 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 decreased marginally by 0.05 percentage point compared to year-end 2020.

The share of bonds classified as Level 1 has increased by 7.14 percentage points compared

to year-end 2020, with a corresponding decrease in the share of Level 2 holdings. During the first half, Level 1 holdings increased due to reclassifications of a number of government bonds and corporate bonds from Level 2, as well as the purchase of bonds in these two categories. Holdings classified as Level 2 also decreased because some Japanese government bonds that were classified as Level 2 at year-end matured during the period.

Table 8.2 Changes in Level 3 holdings

Amounts in NOK million	01.01.2021	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	30.06.2021
Equities	597	11	-15	-	-30	391	-60	1	895
Bonds	28	-	-	-	-4	-	-	-	24
Financial derivatives (assets)	4	-	-	-	-	-4	-	-	-
Unlisted real estate ¹	272 507	406	-	-	8 545	-	-	-1 488	279 970
Unlisted infrastructure ¹	-	14 023	-	-	-	-	-	36	14 059
Total	273 136	14 440	-15	-	8 511	387	-60	-1 451	294 948

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	31.12.2020
Equities	816	16	-18	-8	-195	75	-70	-18	597
Bonds	16	-	-1	14	-2	-	-	-	28
Financial derivatives (assets)	3	-	-3	-	4	-	-	-	4
Unlisted real estate ¹	264 538	15 997	-	-	-9 392	-	-	1 363	272 507
Total	265 373	16 013	-22	6	-9 585	75	-70	1 345	273 136

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

The relative share of holdings classified as Level 3 was 2.5 percent at the end of the first half, which is unchanged compared to year-end 2020. The GPFG's aggregate holdings in Level 3 were NOK 294 948 million at the end of the first half, an increase of NOK 21 812 million compared to year-end 2020. The increase is mainly due to investments in unlisted real estate and the new investment in unlisted infrastructure, which are all classified as Level 3.

For both equities and bonds, the relative share classified as Level 3 is unchanged compared to year-end.

Sensitivity analysis for Level 3 holdings

The valuation of Level 3 holdings involves the use of judgement when determining the assumptions that market participants would use when observable market data is not available.

Unlisted real estate investments constitute the vast majority of holdings classified as Level 3. The effect of using reasonable alternative assumptions for unlisted real estate investments is shown in the sensitivity analysis in table 8.3. For holdings of equities and bonds classified as Level 3, there are no significant changes to sensitivities compared to year-end 2020.

Table 8.3 Additional specification Level 3 and sensitivities – Unlisted real estate

Amounts in NOK million	Key assumptions	Change in key assumptions	Specification of Level 3 holdings 30.06.2021	Sensitivities 30.06.2021		Specification of Level 3 holdings 31.12.2020	Sensitivities 31.12.2020	
				Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Unlisted real estate	Yield	0.2 percentage point		-13 056	15 271		-12 708	14 864
	Market rent	2.0 percent		-4 522	4 503		-4 401	4 383
			279 970	-17 578	19 774	272 507	-17 109	19 247

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 market rents are the assumptions that have the largest impact when estimating property values. This is illustrated in the sensitivity analysis by using other reasonable assumptions for yields and market rents. In an unfavourable outcome, an increase in the yield of 0.2 percentage point, and a reduction in market rents of 2 percent would result in a decrease in value of the unlisted real estate portfolio of approximately NOK 17 578 million or

6.3 percent (6.3 percent at year-end 2020). In a favourable outcome, a reduction in the yield of 0.2 percentage point and an increase in market rents of 2 percent would result in an increase in value of the unlisted real estate portfolio of approximately NOK 19 774 million or 7.1 percent (7.1 percent at year-end 2020).

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 8.3.

Note 9 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 2020.

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 the markets for unlisted real estate and infrastructure. 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 9.1.

Table 9.1 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 ²	
		30.06.2021	Market	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Equities	Developed	88.2	Developed	88.0				
	US	42.9	US	41.7				
	Japan	7.4	Japan	8.2				
	UK	7.2	UK	7.3				
	France	4.7	France	4.8				
	Switzerland	4.4	Switzerland	4.6				
	Total other	21.5	Total other	21.4				
	Emerging	11.8	Emerging	12.0				
	China	4.9	China	5.3				
	Taiwan	2.3	Taiwan	2.1				
	India	1.5	India	1.3				
	Brazil	0.6	Brazil	0.6				
	South Africa	0.5	South Africa	0.5				
	Total other	2.0	Total other	2.2				
Total equities					72.41	72.80	8 452 493	7 945 475
Fixed income	Developed	99.7	Developed	97.2				
	US dollar	50.4	US dollar	47.7				
	Euro	27.7	Euro	28.1				
	Japanese yen	7.4	Japanese yen	7.6				
	British pound	5.3	British pound	4.9				
	Canadian dollar	3.8	Canadian dollar	3.6				
	Total other	5.1	Total other	5.2				
	Emerging	0.3	Emerging	2.8				
	Mexican peso	0.1	South Korean won	0.8				
	Colombian peso	0.1	Mexican peso	0.7				
	Indian rupee	0.1	Russian ruble	0.3				
	Brazilian real	0.0	Indonesian rupiah	0.2				
	Malaysian ringgit	0.0	Colombian peso	0.2				
	Total other	0.0	Total other	0.7				
Total fixed income					25.06	24.70	2 925 141	2 695 184
Unlisted real estate	US	47.7	US	46.8				
	France	18.4	France	19.3				
	UK	18.2	UK	18.1				
	Germany	4.2	Germany	4.0				
	Switzerland	3.8	Switzerland	3.9				
	Total other	7.7	Total other	7.9				
Total unlisted real estate					2.41	2.50	280 860	273 109
Total unlisted infrastructure					0.12	-	14 059	-

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

² At year-end 2020, a net liability of NOK 6 million related to future investments in unlisted infrastructure was not allocated to the asset classes specified in the table.

At the end of the first half, the equity portfolio's share of the fund was 72.4 percent, compared to 72.8 percent at year-end 2020. The bond portfolio's share of the fund was 25.1 percent, compared to 24.7 percent at year-end. The unlisted real estate portfolio's share of the fund was 2.4 percent, compared to 2.5 percent at year-end. The share of unlisted infrastructure in the fund was 0.1 percent at the end of the first half.

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 9.2 and 9.3 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 9.2 Portfolio risk, expected volatility, percent

	Expected volatility, actual portfolio							
	30.06.2021	Min 2021	Max 2021	Average 2021	31.12.2020	Min 2020	Max 2020	Average 2020
Portfolio	10.6	10.4	10.7	10.5	10.4	7.7	10.5	9.4
Equities	14.6	14.3	14.7	14.5	14.3	9.9	14.4	12.9
Fixed income	9.8	9.7	9.8	9.8	9.7	6.9	9.7	8.7
Unlisted real estate	10.6	10.5	10.7	10.6	10.5	8.7	10.7	10.1
Unlisted infrastructure	11.3	11.3	11.4	11.4	-	-	-	-

Table 9.3 Relative risk measured against the fund's benchmark index, expected relative volatility, basis points

	Expected relative volatility							
	30.06.2021	Min 2021	Max 2021	Average 2021	31.12.2020	Min 2020	Max 2020	Average 2020
Portfolio	46	42	56	46	56	32	58	49

Risk measured as expected volatility indicates an expected annual fluctuation in the value of the fund of 10.6 percent, or approximately NOK 1 230 billion at the end of the first half, compared to 10.4 percent at year-end 2020. Expected volatility for the equity portfolio was 14.6 percent at the end of the first half, up from 14.3 percent at year-end 2020, while expected volatility for the bond portfolio was 9.8 percent, compared to 9.7 percent at year-end 2020.

The fund's expected relative volatility was 46 basis points at the end of the first half, compared to 56 basis points at year-end 2020. The decrease in the fund's expected relative volatility in 2021 is primarily due to changes in exposures.

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 1.36 percentage points, compared to 1.80 percentage points at year-end 2020.

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 9.4 Bond portfolio specified by credit rating

Amounts in NOK million, 30.06.2021	AAA	AA	A	BBB	Lower rating	Total
Government bonds	903 337	189 931	290 688	67 936	26 368	1 478 259
Government-related bonds	147 393	129 563	50 727	14 295	1 142	343 120
Inflation-linked bonds	116 067	43 509	7 017	10 558	330	177 481
Corporate bonds	6 940	55 294	294 827	360 729	11 801	729 590
Securitised bonds	132 651	22 299	2 791	557	-	158 298
Total bonds	1 306 387	440 595	646 050	454 076	39 640	2 886 748

Amounts in NOK million, 31.12.2020	AAA	AA	A	BBB	Lower rating	Total
Government bonds	854 305	187 976	366 824	90 714	24 167	1 523 986
Government-related bonds	126 113	132 126	42 844	10 558	1 123	312 765
Inflation-linked bonds	115 868	34 692	8 332	10 749	324	169 965
Corporate bonds	6 138	49 562	287 493	349 805	9 218	702 216
Securitised bonds	131 871	21 800	1 202	81	455	155 409
Total bonds	1 234 296	426 156	706 697	461 905	35 288	2 864 341

The share of bond holdings with credit rating AAA increased to 45.3 percent at the end of the first half, from 43.1 percent at year-end 2020. The increase in the AAA category is primarily due to increased holdings of government and government-related bonds. The share of bond holdings with credit rating A fell to 22.4 percent at the end of the first half, from 24.7 percent at year-end 2020. This is mainly due to reduced holdings of Japanese government bonds. The share of bonds grouped under *Lower rating* increased to 1.4 percent at the end of the first

half, from 1.2 percent at year-end 2020. This is mainly due to a small increase in holdings of corporate bonds and government bonds in this category. Overall, the credit quality of the bond portfolio has improved slightly since year-end.

Counterparty risk

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

Table 9.5 Counterparty risk by type of position

Amounts in NOK million	Risk exposure	
	30.06.2021	31.12.2020
Securities lending	59 976	55 928
Derivatives including foreign exchange contracts	38 304	33 784
Unsecured bank deposits ¹ and securities	25 500	22 863
Repurchase and reverse repurchase agreements	2 495	4 286
Settlement risk towards brokers and long-settlement transactions	9 974	625
Total	136 250	117 487

¹ Includes bank deposits in non-consolidated subsidiaries.

Total counterparty risk exposure increased to NOK 136.3 billion at the end of the first half, from NOK 117.5 billion at year-end 2020. The risk exposure mainly increased as a result of higher risk exposure from settlement risk related to currency transactions, as well as derivatives and

securities lending. Counterparty risk exposure from securities lending amounted to 44 percent of the fund's total counterparty risk exposure at the end of the first half. Both shares and bonds are lent out through the securities lending programme.

Note 10 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 2020.

The market value of the fund in Norwegian kroner is impacted by changes in foreign exchange rates. See table 9.1 in note 9 *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 10.1.

Table 10.1 Specification Foreign exchange gain/loss

Amounts in NOK million	1H 2021	1H 2020	2020
Foreign exchange gain/loss – JPY/NOK	-46 279	72 547	18 103
Foreign exchange gain/loss – EUR/NOK	-45 439	168 765	106 910
Foreign exchange gain/loss – CHF/NOK	-10 777	29 615	15 723
Foreign exchange gain/loss – GBP/NOK	10 080	16 493	4 854
Foreign exchange gain/loss – USD/NOK	20 021	312 858	-79 242
Foreign exchange gain/loss – other	-6 311	71 865	-8 399
Foreign exchange gain/loss	-78 706	672 144	57 948

Note 11 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 and unlisted infrastructure for renewable energy.

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 11.1.

Table 11.1 Management fee

Amounts in NOK million	1H 2021		1H 2020		2020	
		Basis points		Basis points		Basis points
Salary, social security and other personnel-related costs	672		656		1 408	
Custody costs	251		238		474	
IT services, systems, data and information	291		332		650	
Research, consulting and legal fees	97		123		214	
Other costs	125		137		269	
Allocated costs Norges Bank	152		141		281	
Base fees to external managers	525		425		728	
Management fee excluding performance-based fees	2 113	3.7	2 052	3.9	4 023	3.9
Performance-based fees to external managers	554		681		1 282	
Management fee	2 668	4.6	2 733	5.2	5 305	5.1

Management costs in subsidiaries

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

Management costs incurred in non-consolidated subsidiaries are presented in the income statement within the line items *Income/expense from unlisted real estate* and *Income/expense from unlisted infrastructure*, respectively. Management costs incurred in consolidated subsidiaries are presented within the line item *Other income/expense*. These costs are specified in table 11.2.

Table 11.2 Management costs subsidiaries

Amounts in NOK million	1H 2021	1H 2020	2020
	Basis points	Basis points	Basis points
Salary, social security and other personnel-related costs	15	13	26
IT services, systems, data and information	2	11	21
Research, consulting and legal fees	16	16	31
Other costs	19	12	25
Total management costs subsidiaries	52	52	103
<i>Of which management costs non-consolidated subsidiaries¹</i>	<i>31</i>	<i>32</i>	<i>64</i>
<i>Of which management costs consolidated subsidiaries</i>	<i>22</i>	<i>21</i>	<i>40</i>

¹ The amount for the first half of 2021 consists of NOK 30 million related to investments in unlisted real estate and NOK 1 million related to investments in unlisted infrastructure for renewable energy.

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.

At the end of the first half, management costs measured against the upper limit amounted to NOK 2 165 million. This consists of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 2 113 million and management costs in subsidiaries of NOK 52 million. Management costs including performance-based fees to external managers amounted to NOK 2 720 million.

For 2021, total management costs incurred in Norges Bank and its subsidiaries, excluding performance-based fees to external managers, are limited to NOK 5 400 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 3.8 basis points of assets under management. Management costs including performance-based fees to external managers corresponded to 4.7 basis points of assets under management.

Other operating costs in wholly-owned subsidiaries

In addition to the management costs presented in table 11.2, other operating costs are also incurred in subsidiaries related to the ongoing maintenance, operation and development of the investments. These are not costs related to investing in real estate or infrastructure for renewable energy but are costs of operating the underlying investments 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 as *Income/expense from unlisted real estate* and *Income/expense from unlisted infrastructure*, respectively. 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*.

To the Supervisory Council of Norges Bank

Report on Review of Interim Financial Information

Introduction

We have reviewed the financial reporting for the investment portfolio of the Government Pension Fund Global. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio are included in the financial reporting. The financial reporting comprises the balance sheet as at 30 June 2021, 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, 11 August 2021

Deloitte AS

Henrik Woxholt
State Authorised Public Accountant (Norway)

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



NORGES BANK INVESTMENT MANAGEMENT
Bankplassen 2, Postboks 1179 Sentrum, 0107 Oslo
T: 24 07 30 00, www.nbim.no