Report on the management of Government Petroleum Insurance Fund

Fourth quarter 2008

April 2008

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The purpose of the Government Petroleum Insurance Fund is to provide a reserve for payments to cover losses and liability associated with the State's Direct Financial Interest in petroleum activities (SDFI). The Ministry of Petroleum and Energy owns the fund. Pursuant to the Act relating to the Government Petroleum Insurance Fund, Norges Bank is responsible for the operational management of the fund.

The Ministry of Petroleum and Energy has defined a strategic benchmark portfolio for the Government Petroleum Insurance Fund consisting of 50 per cent EUR, 15 per cent GBP and 35 per cent USD. The benchmark index consists of Lehman Global Aggregate treasury indices for the three currencies and a money market deposit to weight the interest rate risk as measured by modified duration in each currency to 4 (see Section 3).

During the year, the currency weights in the actual benchmark portfolio fluctuate with market developments. However, at the beginning of July each year, the actual weights are returned to the strategic currency weights. The table below shows the weights in the fund's actual and strategic benchmark portfolios at the end of the fourth quarter of 2008.

Government Petroleum Insurance Fund. Benchmark portfolio as at 31 December 2008. Per cent

Currency	Strategic benchmark portfolio	Actual benchmark portfolio
EUR	50.0	48.7
GBP	15.0	12.1
USD	35.0	39.2
Total	**100**	**100**

1 Key figures

The financial turmoil that began with problems in the US mortgage market in early 2007 and subsequently developed into a wider global confidence and liquidity crisis continued to dominate in the fourth quarter of 2008. Prices in fixed income markets rose during the quarter.

The increase in prices in international markets led to a return on the fund in the fourth quarter of 5.22 per cent in international currency. The return on the fund was 0.14 percentage point lower than the return on the benchmark portfolio defined by the Ministry of Petroleum and Energy. The market value of the portfolio at the end of the quarter was NOK 20.9 billion.

Table 1-1 Risks and returns. Annualised figures as at 31 December 2008

	Past 2 years	Past 3 years	Past 5 years	Past 7 years	Since 01.01.98
Actual return (per cent)	7.10	5.43	5.24	5.37	5.06
Benchmark return (per cent)	6.98	5.34	5.12	5.25	4.97
Excess return (percentage points)	0.12	0.09	0.13	0.13	0.09
Standard deviation (per cent)	3.02	2.76	2.14	2.50	2.49
Tracking error (percentage points)	0.20	0.16	0.11	0.12	0.16
Information ratio	0.62	0.56	1.12	1.07	0.53

Table 1-1 provides a historical overview of risks and returns for the fund, while Chart 1-1 shows movements in the fund's market value since 1999 and Chart 1-2 shows the quarterly returns on the fund since 1998.

Chart 1-1 Market value 1999-2008. In millions of NOK

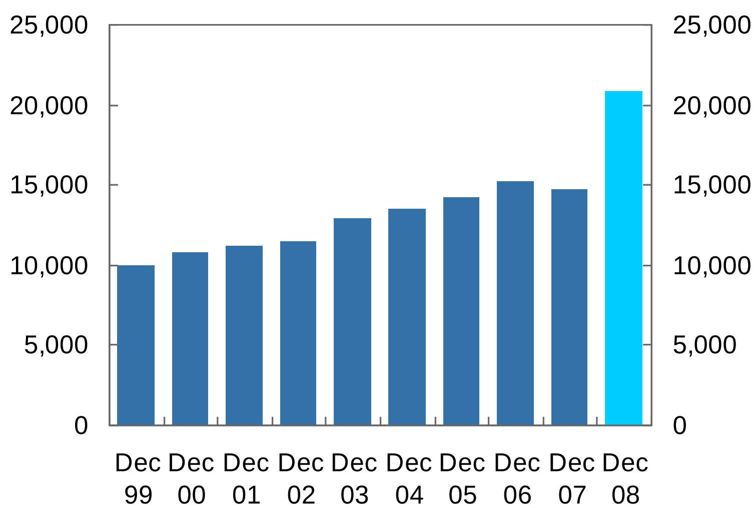
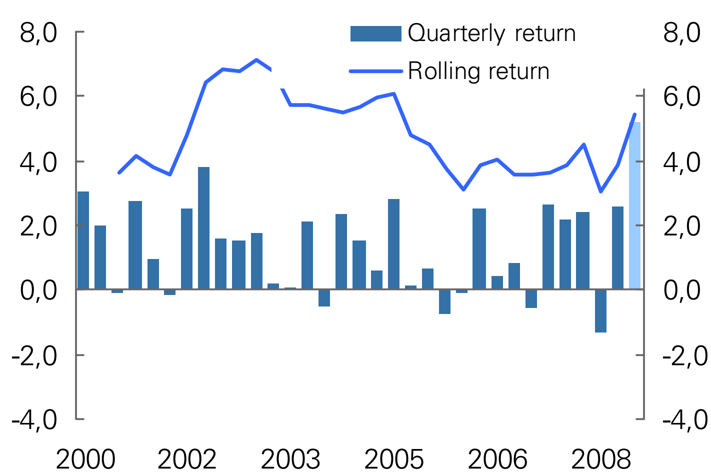


Chart 1-2 Quarterly return and three-year rolling annualised return 2000-2008. Per cent



2 Market value and return

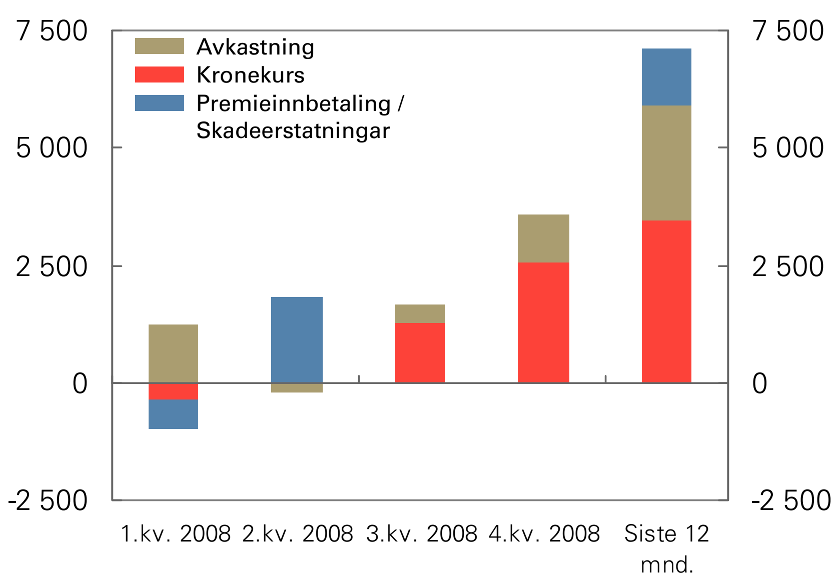
At the end of the fourth quarter of 2008, the market value of the fund's international portfolio was NOK 20.9 billion (see Table 2-1).

Table 2-1 Market value. In millions of NOK

Currency	31.12.07	30.09.08	31.12.08
EUR	7 520	8 344	10 178
GBP	2 121	2 516	2 527
USD	5 044	6 496	8 212
Total	**14 686**	**17 356**	**20 916**

This was an increase of NOK 3.6 billion during the quarter. The main reason for the increase was a weaker krone. Chart 2-1 shows developments in the fund's market risk over the past 12 months.

Figur 2-1 Endring i markedsverdi 2008. Millioner kroner



The return on the fund in the fourth quarter of 2008 was 5.22 per cent in international currency (i.e. measured in terms of a currency basket corresponding to the composition of the fund's benchmark portfolio) (see Table 2-2). In NOK terms, the return was 20.51 per cent. The difference is due to the depreciation of the krone during the quarter against the currencies included in the benchmark portfolio. The return on the fund was lower than that on the benchmark portfolio, with the result that Norges Bank generated a negative excess return of 0.14 percentage point.

Table 2-2 Return. Per cent

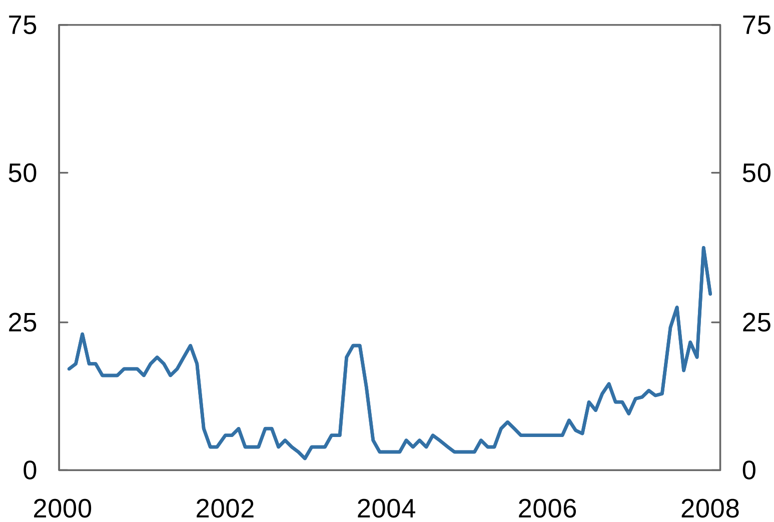
	Actual portfolio	Benchmark portfolio	Excess return
2007	5.15	4.97	0.18
Q1 2008	2.41	2.38	0.03
Q2 2008	-1.31	-1.40	0.08
Q3 2008	2.57	2.49	0.08
Q4 2008	5.22	5.36	-0.14
2008	9.08	9.01	0.07

The entire fund is managed internally by NBIM, and the aim is to generate a return very slightly higher than the return on the benchmark portfolio. The portfolio is invested primarily in government bonds and other bonds included in the benchmark portfolio's "Government-related" sub-sector. In addition, the portfolio may be invested in German bonds issued against collateral in the form of loans to the public sector (Öffentliche Pfandbriefe), in short-term money market instruments and in unlisted fixed income derivatives.

3 Market risk and management guidelines

Market risk in the fund is measured as expected tracking error. This is a statistically-derived measure of risk which says something about the amount of variation we can normally expect in the difference between the return on the benchmark portfolio and the return on the actual portfolio in which the fund is invested. The Ministry of Petroleum and Energy has decided that market risk in the fund must always be less than a tracking error of 0.75 percentage point. Chart 3-1 shows movements in market risk since 2000.

Chart 3-1 Expected tracking error 2001-2008. Basis points



The Ministry of Petroleum and Energy has also set a limit for interest rate risk in the fund as measured by modified duration. This measure says something about the expected change in the value of the fund following a change in general interest rate levels. The Ministry has decided that the fund's modified duration is to be a maximum of 5. Table 3-1 shows the fund's modified duration as at 31.12.08.

Table 3-1 Modified duration by currency as at 31 December 2008

Currency	Benchmark portfolio	Actual portfolio
EUR	3.89	3.96
GBP	3.93	4.50
USD	3.94	4.22
Total	**3.91**	**4.13**

Table 3-2 shows the composition of the bond portfolio by credit rating.

Table 3-2 Market value by credit rating.1) As at 31 December 2008

Percentage of fixed income portfolio	Aaa	Aa	A
Government and government-related bonds	73.2	22.2	3.6
Securitised debt	1.0	-	-
Total bonds and other fixed income instruments	**74.2**	**22.2**	**3.6**

1) Based on credit ratings from at least one of the following rating agencies: Moody's, Standard & Poor's and Fitch. The "No rating" category consists of securities not rated by these three agencies; these securities may, however, have been rated by other, local agencies.

Table 3-3 provides an overview of the limits for risk exposure set out in the regulation and guidelines, and shows the portfolio's actual exposure in relation to these limits at the end of each quarter. There were no breaches of the Ministry's guidelines in the fourth quarter of 2008.

Table 3-3 Key figures for risk and exposure

Risk	Limits	Actual		
		31.12.07	30.09.08	31.12.08
Market risk	Tracking error max. 0.75 percentage point	0.09	0.22	0.30
Interest rate risk	Modified duration max. 5.0	3.95	3.97	4.13

4 Financial reporting

The Government Petroleum Insurance Fund's accounts are kept by Norges Bank, but the fund is not included in the Bank's financial statements.

Operating expenses

The Management Agreement between the Ministry of Petroleum and Energy and Norges Bank establishes the principles for Norges Bank's remuneration for managing the Petroleum Insurance Fund. A fee of 0.06 per cent of the average market value of the fund was stipulated for 2008. This worked out at NOK 9.2 million for the year.

Profit and loss account and balance sheet

Table 4-1 Government Petroleum Insurance Fund. Profit and loss account

(Figures in thousands of NOK)	31.12.07	31.12.08
Profit/loss on financial assets excl. exchange rate adjustments		
Interest income, deposits in foreign banks	980	919
Interest income, lending associated with reverse repurchase agreements	152 277	103 910
Net income/expenses and gains/losses from:		
- bonds and other fixed income instruments	612 503	1 605 532
- financial derivatives	-2 813	-10 658
Interest expenses, borrowing associated with repurchase agreements	-1 349	-789
Other interest expenses	-213	-34
Profit/loss before exchange rate adjustments	**761 385**	**1 698 880**
Exchange rate adjustments	-1 221 042	3 356 665
Profit/loss	**-459 657**	**5 055 545**
Accrued management fee	-9 192	-9 243
Profit/loss after management fee	**-468 848**	**5 046 303**

Table 4-2 Government Petroleum Insurance Fund. Balance sheet

(Figures in thousands of NOK)	31.12.07	31.12.08
FINANCIAL ASSETS		
Deposits	11 856	51 089
Lending associated with reverse repurchase agreements	10 026 417	14 244 564
Bonds and other fixed income instruments	11 828 173	18 154 671
Unsettled trades	0	76 235
Other assets	2 309	3 000
TOTAL FINANCIAL ASSETS	**21 868 755**	**32 529 560**
FINANCIAL LIABILITIES		
Short-term borrowing	26 753	0
Borrowing associated with repurchase agreements	61 517	0
Cash collateral received	6 903 738	11 604 397
Financial derivatives	5 979	6 115
Unsettled trades	49 202	0
Management fee due	9 192	9 243
TOTAL FINANCIAL LIABILITIES	**7 056 381**	**11 619 755**
NET PORTFOLIO	**14 812 374**	**20 909 805**