

The top of the page features a blue header with a background of faint, semi-transparent images. On the left is the Statue of Liberty. In the center and right are digital clock displays for various cities: New York (02:50), London (07:50), Tokyo (08:50), and Shanghai (08:50). The text 'NBIM' is prominently displayed in white on the left side of the header.

NBIM

Norges Bank Investment Management

Report on the management of the Government Petroleum Insurance Fund

First quarter 2010

June 2010

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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 has defined a strategic benchmark portfolio for the fund consisting of 50 percent euro, 15 percent pounds sterling and 35 percent US dollars. The benchmark index consists of Barclays 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 first quarter of 2010.

Government Petroleum Insurance Fund. Benchmark portfolio as at 31 March 2010. Percent

Currency	Strategic benchmark portfolio	Actual benchmark portfolio
Euro	50.0	50.2
Pounds sterling	15.0	14.1
US dollars	35.0	35.8
Total	100	100

1 Key figures

The return on the fund in the first quarter of 2010 was 1.2 percent. This was 0.03 percentage point higher than the return on the benchmark portfolio defined by the Ministry of Petroleum and Energy. The market value of the fund at the end of the quarter was 18.4 billion kroner, down from 19 billion kroner at the end of 2009.

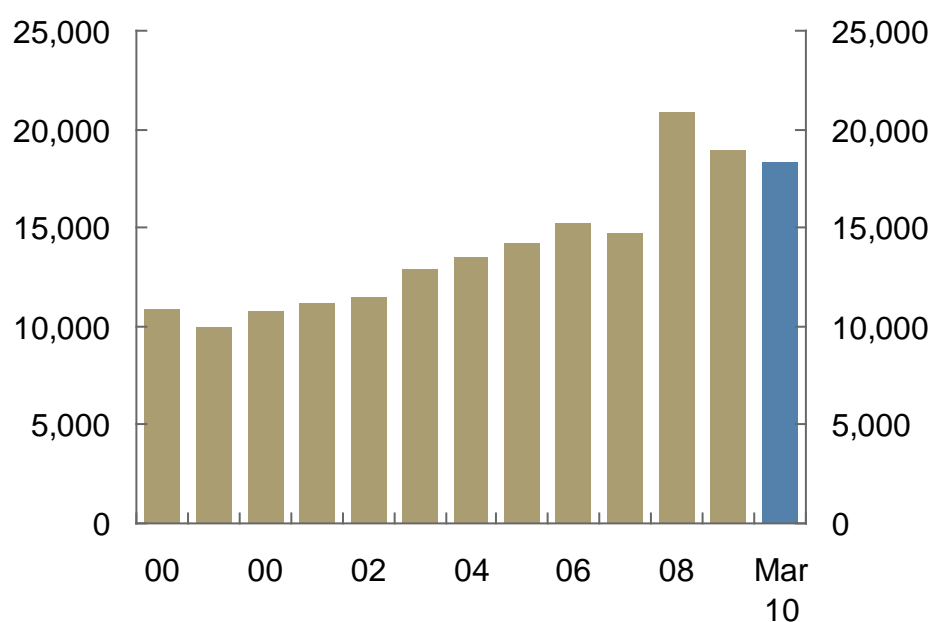
Table 1-1 provides a historical overview of risks and returns for the fund, while Chart 1-1 shows movements in the fund's market value.

Table 1-1 Risks and returns. Annualised figures as at 31 March 2010

	Past year	Past 2 years	Past 3 years	Past 5 years	Past 7 years	Past 10 years
Actual return (percent)	2.24	4.43	5.22	4.46	4.36	5.09
Benchmark return (percent)	1.71	4.06	4.92	4.24	4.16	4.89
Excess return (percentage points)	0.53	0.37	0.30	0.22	0.20	0.20
Standard deviation (percent) ¹⁾	2.06	3.26	2.95	2.62	2.52	2.48
Tracking error (percentage points)	0.18	0.22	0.20	0.16	0.14	0.13
Information ratio ²⁾	2.88	1.66	1.46	1.34	1.39	1.55

- 1) The standard deviation is a measure of variations in the return/excess return during a period. Each monthly return/excess return is compared with the mean for the period. The higher the standard deviation, the greater the variations relative to the mean and the higher the risk.
- 2) The information ratio (IR) is a measure of risk-adjusted return. It is calculated as the ratio of excess return to the actual relative market risk (as measured by tracking error) to which the portfolio has been exposed. The IR indicates how much excess return has been achieved per unit of risk.

Chart 1-1 Market value. In millions of kroner



2 Market value and return

The fund's market value decreased by 0.6 million kroner during the first quarter, due mainly to claims payments of 0.6 billion kroner. A positive return on investment measured in international currency increased the fund's market value by 0.2 billion kroner, while a stronger krone against the currencies in which the fund is invested reduced its value by 0.2 billion kroner.

Chart 2-1 shows developments in the fund's market value over the past 12 months, while Table 2-1 presents the composition of the fund by investment currency.

Chart 2-1 Change in market value. In millions of kroner

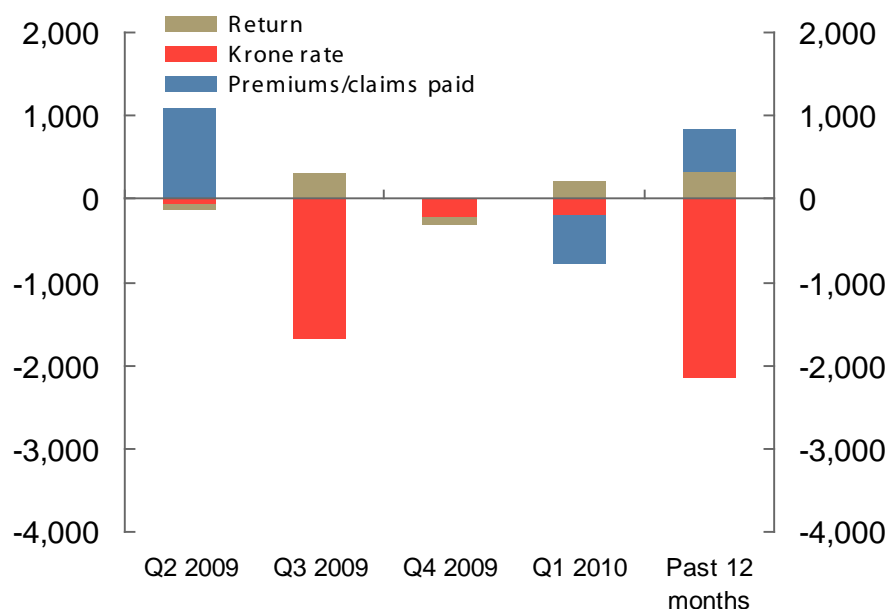


Table 2-1 Market value. Millions of kroner

Currency	30.06.09	30.09.09	31.12.09	31.03.10
Euro	10 312	9 897	9 672	9 222
Pounds sterling	3 084	2 760	2 751	2 587
US dollars	7 263	6 631	6 538	6 576
Total market value	20 659	19 288	18 962	18 385

The return on the fund in the first quarter of 2010 was 1.22 percent measured in international currency (i.e. measured in terms of a currency basket corresponding to the composition of the fund's benchmark portfolio). Measured in kroner, the return was 0.04 percent. The difference is due to the appreciation of the krone during the quarter against the currencies included in the benchmark portfolio. The actual return was 0.03 percentage point higher than the benchmark return.

Chart 2-2 Quarterly return and three-year rolling annualised return. Percent

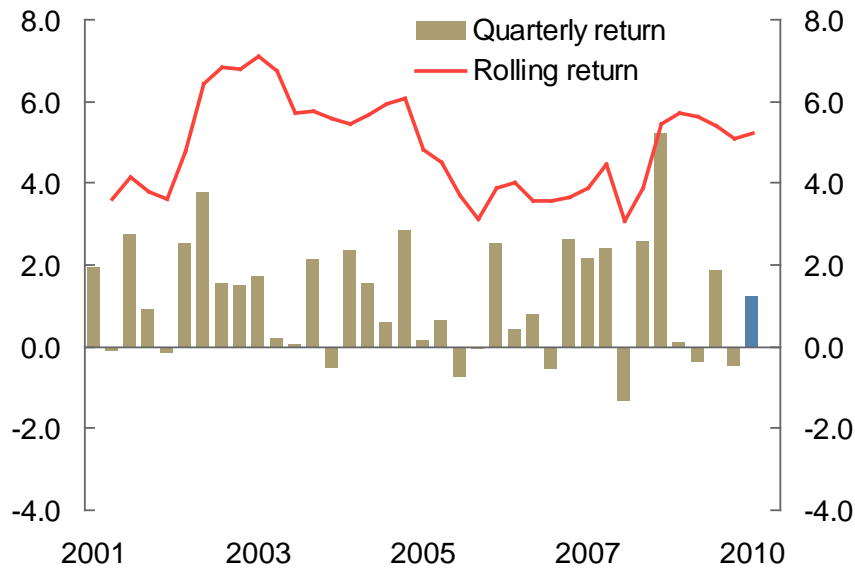
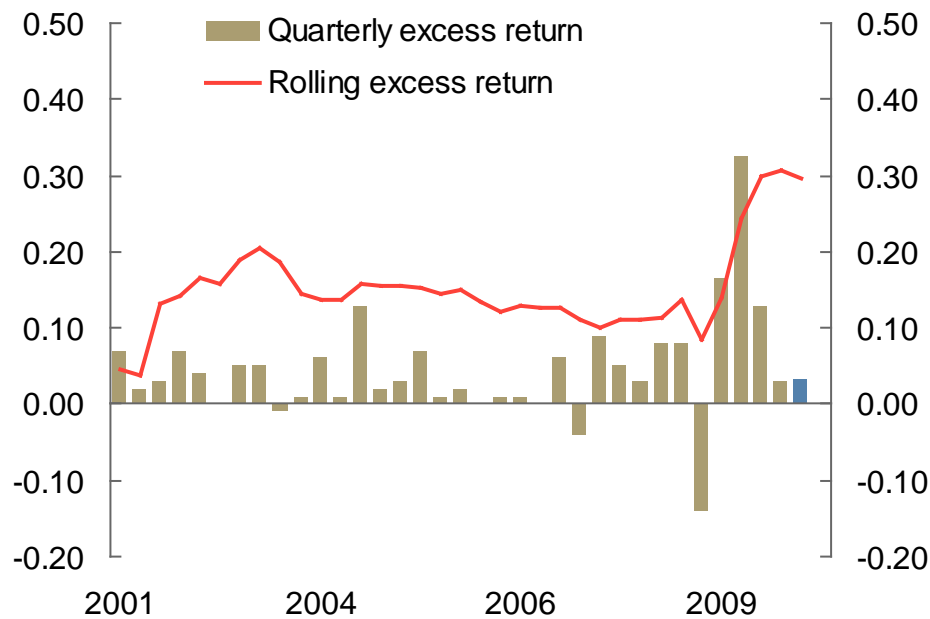


Chart 2-3 Quarterly excess return and three-year rolling annualised excess return. Percentage points

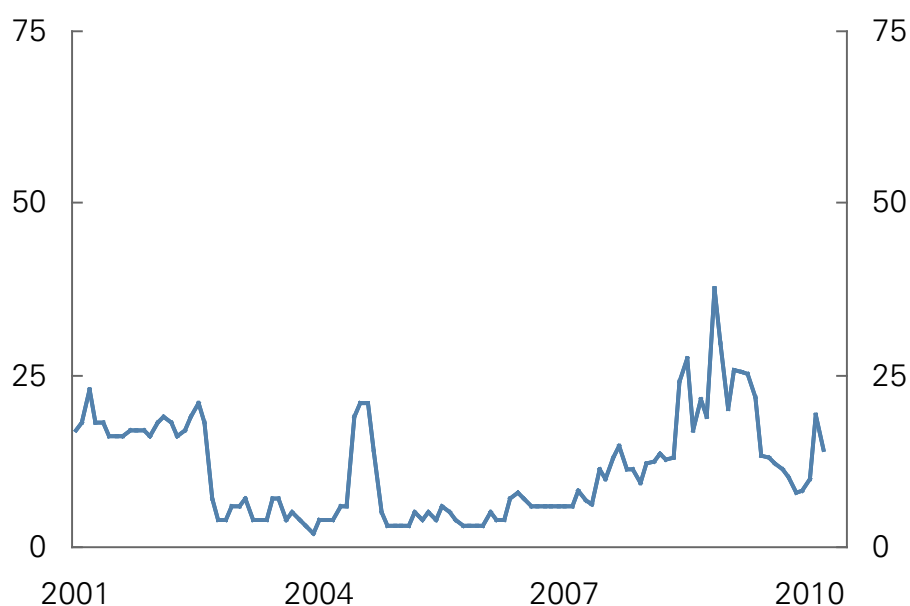


3 Market risk and management guidelines

Market risk in the fund is measured as expected tracking error. This is a statistically-defined 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. This means that, under normal market conditions, the annual return on the actual portfolio is expected to deviate from the return on the benchmark portfolio by less than 0.75 percentage point in two out of every three years. Chart 3-1 shows movements in market risk. Expected tracking error was 0.14 percentage point (14 basis points) at the end of the first quarter, up from 0.08 percentage point at the end of the fourth quarter.

Chart 3-1 Expected tracking error. 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 March 2010, while Table 3-2 shows the composition of the bond portfolio by credit rating.

Table 3-1 Modified duration by currency as at 31 March 2010

Currency	Benchmark portfolio	Actual portfolio
Euro	3.83	3.78
Pounds sterling	3.84	3.78
US dollars	3.75	3.76
Total	3.80	3.77

Table 3-2 Market value as at 31 March 2010 by credit rating ¹⁾

Percentage of fixed income portfolio	Aaa	Aa	A
Government and government-related bonds	78.9	11.7	7.7
Securitised debt	1.6	-	-
Total bonds and other fixed income instruments	80.6	11.7	7.7

¹⁾ Based on credit ratings from at least one of the following rating agencies: Moody's, Standard & Poor's and Fitch.

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 first quarter of 2010.

Table 3-3 Key figures for risk and exposure

Risks	Limits	Actual			
		30.06.09	30.09.09	31.12.09	31.03.10
Market risk	Tracking error max. 0.75 percentage point	0.13	0.11	0.08	0.14
Interest rate risk	Modified duration max. 5.0	3.89	3.91	3.83	3.77

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. For 2010, a fee of 0.06 percent of the average market value of the fund has been stipulated. A management fee of 2.8 million kroner was accrued in the first quarter.

Profit and loss account and balance sheet

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

(Figures in thousands of kroner)	Quarter		Year to date		
	Q1 2010	Q1 2009	31.03.10	31.03.09	31.12.09
<i>Profit/loss on financial assets excl. exchange rate adjustments</i>					
Interest income, lending associated with reverse repurchase agreements	3 432	7 939	3 432	7 939	21 769
Net income/expenses and gains/losses from:					
- bonds and other fixed income instruments	207 343	-48 316	207 343	-48 316	65 067
- financial derivatives	0	544	0	544	621
Interest expenses, borrowing associated with repurchase agreements	-2	-112	-2	-112	-196
Other interest expenses	0	-58	0	-58	-62
Profit/loss before exchange rate adjustments	210 773	-40 003	210 773	-40 003	87 198
Exchange rate adjustments	-195 797	-1 125 026	-195 797	-1 125 026	-3 083 940
Profit/loss	14 976	-1 165 029	14 976	-1 165 029	-2 996 742
Accrued management fee	-2 824	-3 018	-2 824	-3 018	-12 051
Profit/loss after management fee	12 151	-1 168 047	12 151	-1 168 047	-3 008 792

Table 4-2 Government Petroleum Insurance Fund. Balance sheet

(Figures in thousands of kroner)	31.03.10	31.03.09	31.12.09
FINANCIAL ASSETS			
Lending associated with reverse repurchase agreements	8 427 083	6 797 812	8 719 352
Securities and deposits	10 134 690	12 974 586	9 604 303
Bonds lent	3 141 226	3 761 112	4 854 943
Unsettled trades	16 205	148 601	0
TOTAL FINANCIAL ASSETS	21 719 204	23 682 111	23 178 599
FINANCIAL LIABILITIES			
Cash collateral received	2 481 347	3 615 350	4 071 080
Unsettled trades	852 180	358 070	145 696
Management fee due	2 824	3 018	12 051
TOTAL FINANCIAL LIABILITIES	3 336 351	3 976 437	4 228 827
NET PORTFOLIO	18 382 852	19 705 674	18 949 772