

The top of the page features a blue header with a background image of a person in a white lab coat holding a magnifying glass over a digital display. The display shows various city names and times: New York 02:50, London 07:50, Tokyo 08:50, and Date/Singapore. The NBIM logo is in the bottom left of this header.

NBIM

Norges Bank Investment Management

Report on the management of Norges Bank's foreign exchange reserves

First quarter 2009

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The foreign exchange reserves are to be available for intervention in the foreign exchange market in connection with the implementation of monetary policy or to promote financial stability. The reserves are divided into a money market portfolio and an investment portfolio. In addition, a buffer portfolio is used for the regular foreign exchange purchases for the Government Pension Fund – Global. Transfers are made to the buffer portfolio from the State's Direct Financial Interest in petroleum activities (SDFI) and from Norges Bank's foreign exchange purchases in the market. Within Norges Bank, the investment portfolio and buffer portfolio are managed by Norges Bank Investment Management (NBIM), while the money market portfolio is managed by Norges Bank Monetary Policy and reported on separately.

The investment portfolio has a long-term investment horizon where the aim is to generate the highest possible return within the constraints set out in the guidelines issued by Norges Bank's Executive Board. The Executive Board has defined a strategic benchmark portfolio for the investment portfolio.

1 Key figures

The first quarter of 2009 was dominated by 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. There was a substantial downturn in equity markets.

This resulted in a negative return on the investment portfolio for the quarter of -4.1 per cent in international currency. The return on the equity portfolio was -9.4 per cent, and the return on the fixed income portfolio was -0.7 per cent. The return on the investment portfolio was 0.38 percentage points lower than the return on the benchmark portfolio defined by Norges Bank's Executive Board. The market value of the portfolio at the end of the quarter was NOK 161 billion.

Chart 1-1 Investment portfolio. Market value. Billions of NOK

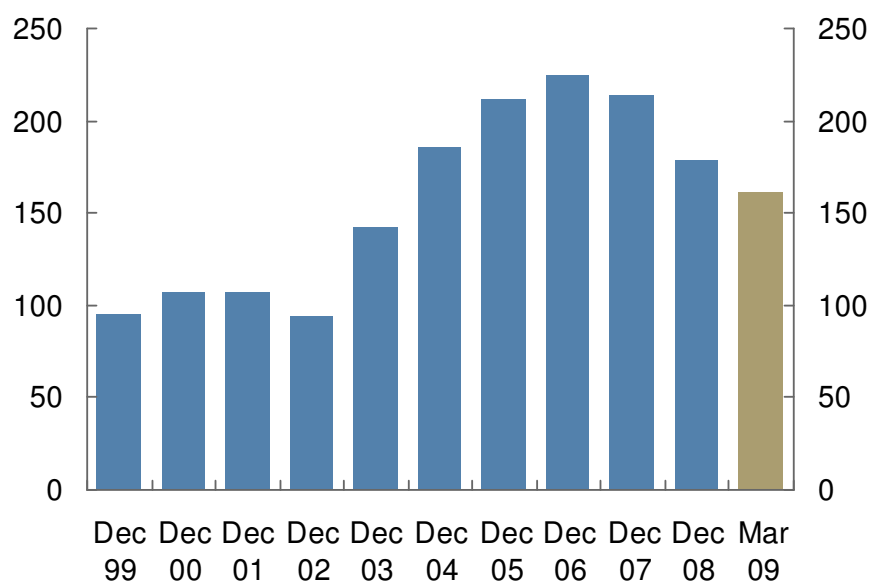


Table 1-1 Key figures to 31 March 2009. Annualised data

| (Measured in an international currency basket) | Past year | Past 3 years | Past 5 years | Past 10 years | Since 01.01.98 |
|--|-----------|--------------|--------------|---------------|----------------|
| Portfolio return (per cent) | -16.77 | -4.78 | 0.12 | 2.26 | 2.88 |
| Benchmark return (per cent) | -13.38 | -2.78 | 1.27 | 2.71 | 3.30 |
| Excess return (percentage points) | -3.39 | -2.00 | -1.15 | -0.46 | -0.42 |
| Standard deviation (per cent) | 11.77 | 8.00 | 6.63 | 5.10 | 4.92 |
| Tracking error (percentage points) | 1.97 | 1.31 | 1.06 | 0.78 | 0.75 |
| Information ratio | -1.72 | -1.53 | -1.08 | -0.58 | -0.56 |
| Gross annual return (per cent) | -16.77 | -4.78 | 0.12 | 2.26 | 2.88 |
| Annual price inflation (per cent) | 0.6 | 2.0 | 2.1 | 2.0 | 1.8 |
| Annual management costs (per cent) | 0.08 | 0.07 | 0.07 | 0.07 | 0.07 |
| Annual net real return (per cent) | -17.32 | -6.75 | -2.05 | 0.21 | 0.95 |

2 Market value and return

The investment portfolio's market value was NOK 160.8 billion at the end of the first quarter, a decrease of NOK 18 billion during the quarter. A negative return on investment reduced the value of the portfolio by NOK 4.2 billion, while a stronger krone in relation to the currencies in which the portfolio is invested reduced the value of the portfolio by NOK 13.9 billion. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power.

Table 2-1 Investment portfolio. Movements in market value. Millions of NOK

| | Equities | Fixed income | Total |
|------------------------|----------|--------------|----------|
| 31 March 2008 | 75 278 | 123 609 | 198 887 |
| 30 June 2008 | 73 335 | 121 580 | 194 914 |
| 30 September 2008 | 67 143 | 124 722 | 191 865 |
| 31 December 2008 | 70 552 | 108 340 | 178 892 |
| Inflows of new capital | | | 0 |
| Return | | | - 4 214 |
| Movements in krone | | | - 13 881 |
| 31 March 2009 | 59 959 | 100 838 | 160 797 |

The return on the investment portfolio in the first quarter was -4.14 per cent in international currency (i.e. measured in terms of a currency basket corresponding to the composition of the portfolio's benchmark portfolio). There was a return of -9.37 per cent on the equity portfolio and -0.74 per cent on the fixed income portfolio. At the end of the quarter, the three-year rolling annualised return for the overall portfolio was -4.78 per cent.

Measured in NOK, the overall return in the first quarter was -10.12 per cent. The difference between the return in international currency and the return in NOK was due to the appreciation of the krone during the quarter against the currencies included in the benchmark portfolio.

The return achieved by NBIM on the actual portfolio is measured in relation to the return on the benchmark portfolio defined by the Executive Board. The return on the actual portfolio in the first quarter was 0.38 percentage points lower than the return on the benchmark portfolio.

Table 2-2 Key figures. Quarterly data

| | Q4 2007 | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2009 |
|--|------------|------------|------------|------------|------------|------------|
| Market value (billions of NOK) | | | | | | |
| Fixed income portfolio | 125.0 | 123.6 | 121.6 | 124.7 | 108.3 | 100.8 |
| Equity portfolio | 89.0 | 75.3 | 73.3 | 67.1 | 70.6 | 60.0 |
| Overall portfolio | 214.0 | 198.9 | 194.9 | 191.9 | 178.9 | 160.8 |
| Inflows of new capital | 0.0 | 0.0 | 0.0 | -8.9 | -25.0 | 0.0 |
| Return | -1.9 | -10.8 | -3.2 | -11.3 | -20.3 | -4.2 |
| Change due to movements in krone | 2.8 | -4.3 | -0.8 | 17.1 | 32.4 | -13.9 |
| Return in international currency (per cent) | | | | | | |
| Equity portfolio | -3.33 | -12.99 | -1.88 | -11.41 | -20.45 | -9.37 |
| Fixed income portfolio | 1.07 | 0.78 | -1.54 | -0.82 | 0.64 | -0.74 |
| Overall portfolio | -0.80 | -4.94 | -1.66 | -4.80 | -7.25 | -4.14 |
| Benchmark portfolio | -0.03 | -3.91 | -1.88 | -3.84 | -4.60 | -3.77 |
| Excess return | -0.78 | -1.04 | 0.22 | -0.96 | -2.65 | -0.38 |
| Return in NOK (per cent) | | | | | | |
| Equity portfolio | -2.14 | -14.92 | -2.21 | -4.16 | -7.93 | -15.02 |
| Fixed income portfolio | 2.31 | -1.46 | -1.88 | 7.30 | 16.48 | -6.92 |
| Overall portfolio | 0.41 | -7.06 | -2.00 | 2.99 | 7.34 | -10.12 |
| Benchmark portfolio | 1.20 | -6.04 | -2.22 | 4.03 | 10.41 | -9.76 |

Chart 2-1 Investment portfolio. Quarterly return and three-year rolling annualised return. Per cent

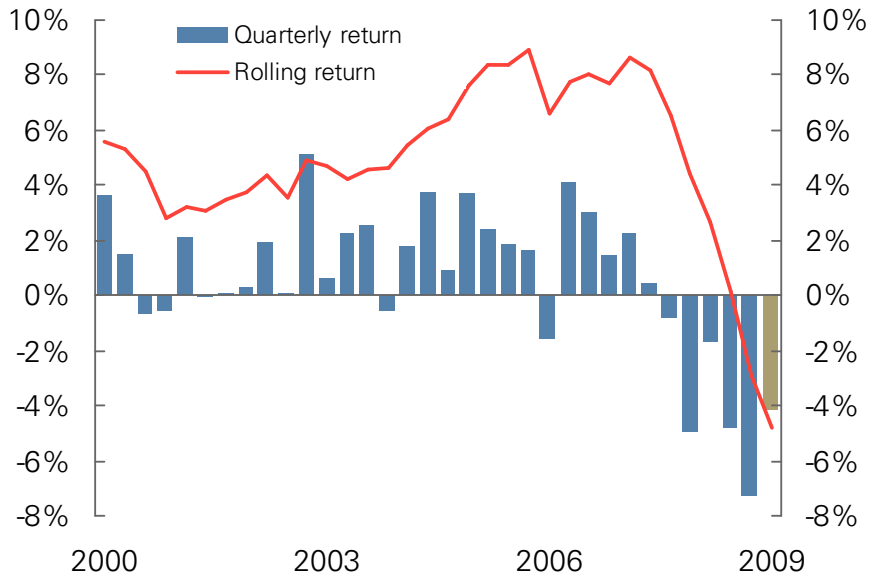
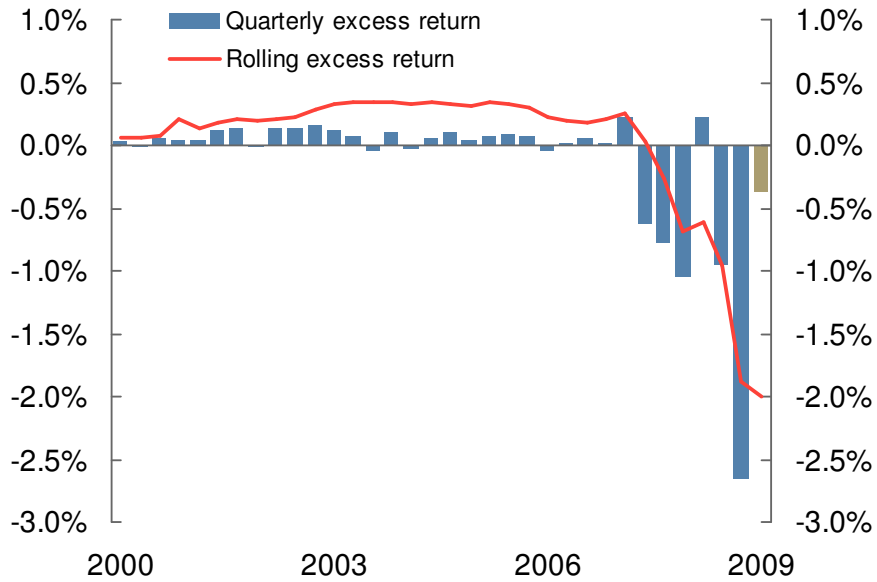


Chart 2-2 Investment portfolio. Quarterly excess return and three-year rolling annualised excess return. Percentage points



3 Market risk and management guidelines

Market risk in the investment portfolio 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. The Executive Board's guidelines set a limit for market risk in the actual portfolio relative to the benchmark portfolio. This relative market risk must always be less than expected tracking error of 1.5 percentage points.

Expected tracking error can vary widely even with an unchanged level of active management. This is because these measures are influenced by various market developments, such as changes in market volatility and changes in correlations between the various asset classes and securities.

Although markets remain turbulent, volatility has eased somewhat since autumn 2008. Expected tracking error for the investment portfolio fell from 86 basis points at the beginning of the first quarter to 57 basis points at the end of the quarter.

In retrospect, we can use the variation in the difference between the returns on the actual and benchmark portfolios (i.e. the variation in excess return) as a measure of actual relative market risk (the blue line in Chart 3-1). This tracking error is annualised using 12-month rolling windows.

Chart 3-1 Investment portfolio. Expected and actual tracking error. Basis points

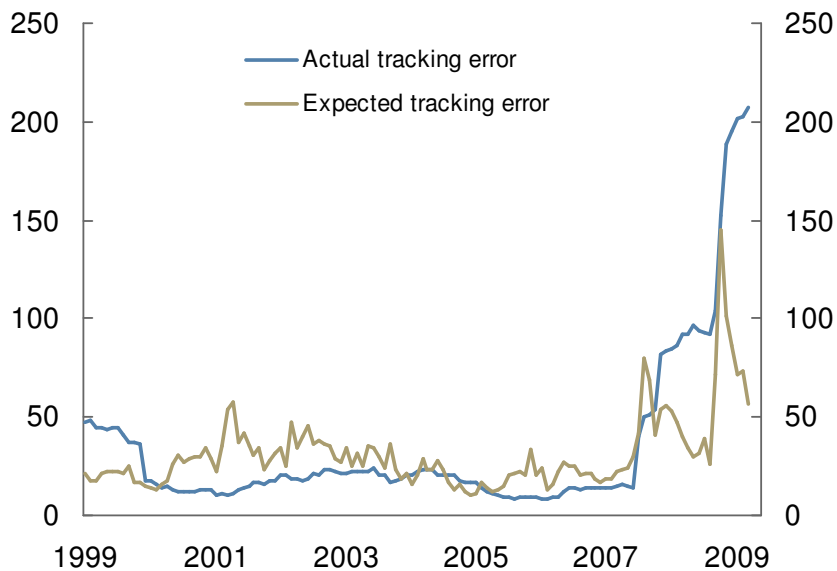


Chart 3-2 shows developments in expected tracking error in the equity and fixed income portfolios since 2002.

Chart 3-2 Investment portfolio. Expected tracking error. Basis points

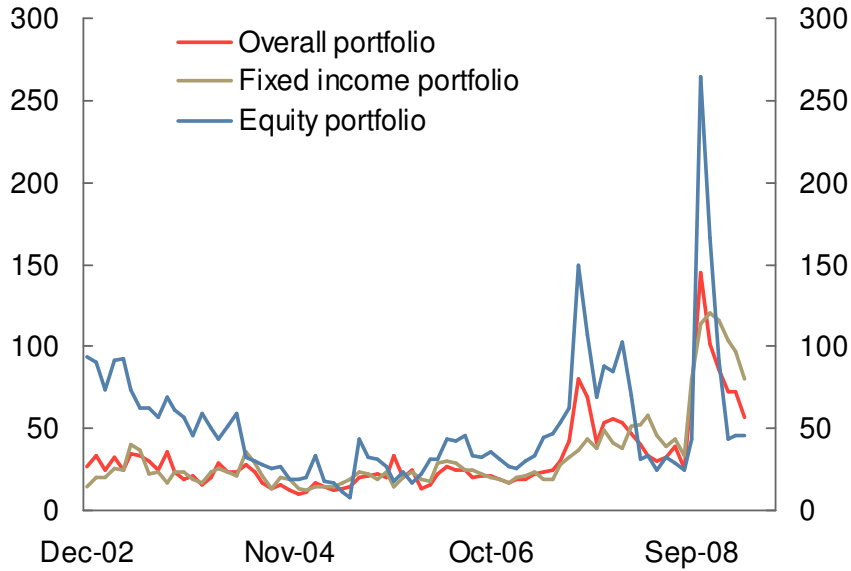


Table 3-1 Investment portfolio. Fixed income portfolio by credit rating on 31 March 2009 ¹⁾

| Percentage of fixed income portfolio | Aaa | Aa | A | Baa | Ba | Lower | No rating |
|---|-------------|-------------|-------------|------------|------------|------------|------------|
| Government and govt-related bonds | 26.0 | 9.5 | 1.7 | 0.9 | 0.4 | 0.4 | 1.3 |
| Inflation-linked bonds | 3.6 | 2.0 | 0.5 | - | - | - | - |
| Corporate bonds | 0.4 | 2.9 | 7.6 | 4.7 | 0.4 | 0.1 | 0.1 |
| Securitised debt | 34.8 | 0.8 | 0.8 | 0.2 | 0.1 | 0.7 | 0.1 |
| Total bonds and other fixed income instruments | 64.8 | 15.2 | 10.6 | 5.8 | 0.9 | 1.2 | 1.5 |

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 3-1 breaks down the fixed income portfolio (excluding cash) by type of instrument and credit rating.

Table 3-2 provides an overview of risk and exposure in the investment portfolio. There were no breaches of the Executive Board's investment guidelines during the first quarter of 2009.

Table 3-2 Investment portfolio. Key figures for risk and exposure

| Risk | Limits | Actual | | | |
|-------------------------------------|---|------------|------------|------------|------------|
| | | 30.06.2008 | 30.09.2008 | 31.12.2008 | 31.03.2009 |
| Market risk | Tracking error max. 1.5 percentage points | 0.32 | 0.72 | 0.86 | 0.57 |
| Asset mix | Fixed income portfolio | 62.4 | 65.2 | 60.9 | 62.7 |
| | Equity portfolio | 37.6 | 34.8 | 39.1 | 37.3 |
| Currency distribution, fixed income | Europe | 61.5 | 60.4 | 61.6 | 61.0 |
| | Americas | 33.3 | 34.1 | 33.2 | 34.3 |
| | Asia and Oceania | 5.2 | 5.5 | 5.2 | 4.6 |
| Market distribution, equities | Europe | 49.8 | 48.0 | 51.2 | 49.3 |
| | Americas and Africa | 34.6 | 37.6 | 34.0 | 35.2 |
| | Asia and Oceania | 15.6 | 14.4 | 14.8 | 15.6 |
| Ownership | Max. 5% of a company | 0.19 | 0.18 | 0.19 | |

4 Buffer portfolio

The purpose of the buffer portfolio is to ensure an appropriate supply of new capital to the Government Pension Fund – Global. The portfolio is built up continuously by means of foreign exchange transfers to Norges Bank from the State's Direct Financial Interest in petroleum activities (SDFI) and by Norges Bank's foreign exchange purchases in the market to meet the foreign exchange requirements of the Government Pension Fund – Global. A benchmark portfolio has not been defined for the buffer portfolio. With the exception of December, capital is normally transferred to the Government Pension Fund – Global each month.

In the first quarter of 2009, NOK 46.9 billion was transferred to the buffer portfolio from the SDFI, and a further NOK 2.0 billion was transferred to the portfolio through Norges Bank's purchases of foreign exchange. A total of NOK 44.2 billion was transferred to the Government Pension Fund – Global during the quarter. The return on the buffer portfolio in the first quarter was -3.65 per cent in NOK terms. The market value of the portfolio at the end of the quarter was NOK 27.4 billion. The fund is invested in short-term money market instruments, primarily in EUR, USD and GBP.

Table 4-1 Buffer portfolio. Movements in market value. Millions of NOK

| Period | Transferred from SDFI | Norges Bank's foreign exchange purchases | Transferred to Government Pension Fund – Global | Market value at end of period |
|----------------|-----------------------|--|---|-------------------------------|
| 2008 | 214 992 | 175 764 | 390 059 | 23 727 |
| Q1 2009 | 46 867 | 2 042 | 44 179 | 27 438 |

5 Financial reporting

Financial information for the investment and buffer portfolios is presented below. The financial reporting for Norges Bank's foreign exchange reserves forms part of, and comprises excerpts from, Norges Bank's financial statements.

Accounting policies

The interim accounts for the first quarter have been prepared in accordance with the accounting policies for Norges Bank approved by the Supervisory Council on 13 December 2007. A presentation of the accounting policies applied in the preparation of the accounts can be found in the Annual Report for 2008. The interim accounts do not include all of the information required in a full set of annual financial statements and should be read in conjunction with the Annual Report for 2008.

The preparation of the financial reporting for Norges Bank involves the use of estimates and judgements which can affect assets, liabilities, income and expenses. The accounting policies presented in the Annual Report for 2008 contain further information on significant estimates and assumptions.

Operating expenses

The costs incurred in NBIM's management activities consist partly of Norges Bank's internal operating costs and partly of fees to external managers and custodian institutions. NBIM's total costs associated with the management of the investment portfolio, including performance-based fees, amounted to NOK 37 million in the first quarter of 2009, or 0.08 per cent of average assets under management.

Investment portfolio – profit and loss account and balance sheet

Table 5-1 Investment portfolio. Profit and loss account

| (Figures in millions of NOK) | Year to date | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | Q1 2009 | Q1 2008 | 31.03.2009 | 31.03.2008 | 31.12.2008 |
| <i>Profit/loss on financial assets excl. exchange rate adjustments</i> | | | | | |
| Interest income, deposits in foreign banks | 3 | -2 | 3 | -2 | 50 |
| Interest income, lending associated with reverse repurchase agreements | 18 | 578 | 18 | 578 | 1 325 |
| Net income/expenses and gains/losses from: | | | | | |
| - equities and units | -4 147 | -11 151 | -4 147 | -11 151 | -39 627 |
| - bonds and other fixed income instruments | 125 | 1 810 | 125 | 1 810 | -1 179 |
| - financial derivatives | -114 | -844 | -114 | -844 | -3 284 |
| Interest expenses, borrowing associated with repurchase agreements | -131 | -886 | -131 | -886 | -2 521 |
| Other interest expenses | 33 | -3 | 33 | -3 | -54 |
| Other expenses | -17 | -21 | -17 | -21 | -88 |
| Profit/loss before exchange rate adjustments | -4 230 | -10 519 | -4 230 | -10 519 | -45 379 |
| Exchange rate adjustments | -13 881 | -4 324 | -13 881 | -4 324 | 44 388 |
| Profit/loss | -18 111 | -14 843 | -18 111 | -14 843 | -991 |

Table 5-2 Investment portfolio. Balance sheet ¹⁾

| (Figures in millions of NOK) | 31.03.2009 | 31.03.2008 | 31.12.2008 |
|---|----------------|----------------|----------------|
| FINANCIAL ASSETS | | | |
| Deposits in foreign banks | 2 267 | 1 798 | 3 145 |
| Lending associated with reverse repurchase agreements | 12 363 | 81 033 | 20 002 |
| Equities and units | 59 532 | 75 066 | 69 962 |
| Bonds and other fixed income instruments | 147 024 | 166 937 | 162 711 |
| Other assets | 90 | 36 | 98 |
| TOTAL FINANCIAL ASSETS | 221 276 | 324 870 | 255 917 |
| FINANCIAL LIABILITIES | | | |
| Short-term borrowing | 64 | 229 | 65 |
| Borrowing associated with repurchase agreements | 22 128 | 69 306 | 28 012 |
| Cash collateral received | 18 980 | 47 975 | 25 738 |
| Financial derivatives | 1 788 | 777 | 2 972 |
| Unsettled trades | 6 400 | 3 428 | 3 285 |
| Other liabilities | 11 121 | 3 979 | 16 956 |
| TOTAL FINANCIAL LIABILITIES | 60 483 | 125 695 | 77 028 |
| NET PORTFOLIO | 160 793 | 199 175 | 178 889 |

1) Cash collateral received and re-investments of this collateral have been recognised in the balance sheet with effect from 31 December 2008. The comparative figures for 31 March 2008 have been restated accordingly.

Buffer portfolio – profit and loss account and balance sheet

Table 5-3 Buffer portfolio. Profit and loss account

| (Figures in millions of NOK) | Q1 2009 | Q1 2008 | Year to date | | |
|--|---------------|------------|---------------|------------|--------------|
| | 31.03.2009 | 31.03.2008 | 31.03.2009 | 31.03.2008 | 31.12.2008 |
| <i>Profit/loss on financial assets excl. exchange rate adjustments</i> | | | | | |
| Interest income, deposits in foreign banks | 10 | 0 | 10 | 0 | 178 |
| Interest income, lending associated with reverse repurchase agreements | 52 | 149 | 52 | 149 | 505 |
| Interest expenses, borrowing associated with repurchase agreements | 0 | 0 | 0 | 0 | -2 |
| Other interest expenses | -5 | -25 | -5 | -25 | -140 |
| Other expenses | 0 | 0 | 0 | 0 | -1 |
| Profit/loss before exchange rate adjustments | 56 | 124 | 56 | 124 | 540 |
| Exchange rate adjustments | -1 176 | 132 | -1 176 | 132 | 1 748 |
| Profit/loss | -1 119 | 256 | -1 119 | 256 | 2 288 |

Table 5-4 Buffer portfolio. Balance sheet

(Figures in millions of NOK)

| | 31.03.2009 | 31.03.2008 | 31.12.2008 |
|---|-------------------|-------------------|-------------------|
| FINANCIAL ASSETS | | | |
| Deposits in foreign banks | 0 | 46 | 8 404 |
| Lending associated with reverse repurchase agreements | 10 851 | 11 015 | 11 326 |
| Financial derivatives | 8 | 0 | 0 |
| Other assets | 17 419 | 11 678 | 0 |
| TOTAL FINANCIAL ASSETS | 28 279 | 22 738 | 19 729 |
| FINANCIAL LIABILITIES | | | |
| Financial derivatives | 0 | 33 | 0 |
| Other liabilities | 2 770 | 15 644 | 0 |
| TOTAL FINANCIAL LIABILITIES | 2 770 | 15 677 | 0 |
| Unsettled trades not recognised | 1 930 | 2 782 | 3 997 |
| NET PORTFOLIO | 27 439 | 9 843 | 23 726 |

Appendices (Internet only)

Investment portfolio Benchmark portfolio on 31 March 2009. Per cent

| | Equities | | Fixed income instruments | |
|--|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|
| Country for equity benchmark Currency for fixed income benchmark | Strategic benchmark portfolio | Actual benchmark portfolio | Strategic benchmark portfolio | Actual benchmark portfolio |
| Asset class weights | 40.0 | 37.1 | 60.0 | 62.9 |
| Belgium | | 0.8 | | |
| Finland | | 1.0 | | |
| France | | 8.2 | | |
| Greece | | 0.4 | | |
| Ireland | | 0.3 | | |
| Italy | | 2.7 | | |
| Netherlands | | 2.0 | | |
| Portugal | | 0.3 | | |
| Spain | | 3.6 | | |
| Germany | | 5.9 | | |
| Austria | | 0.3 | | |
| <i>Euro area (EUR)</i> | | 25.6 | | 49.3 |
| UK (GBP) | | 15.1 | | 9.1 |
| Denmark (DKK) | | 0.8 | | 0.7 |
| Switzerland (CHF) | | 5.8 | | 0.5 |
| Sweden (SEK) | | 1.8 | | 1.0 |
| Total Europe | 50.0 | 49.1 | 60.0 | 60.4 |
| USA (USD) | | 30.2 | | 33.0 |
| Brazil | | 1.1 | | |
| Canada (CAD) | | 2.4 | | 1.8 |
| Mexico | | 0.3 | | |
| South Africa (ZAR) | | 0.6 | | |
| Total Americas and Africa | 35.0 | 34.7 | 35.0 | 34.9 |
| Australia (AUD) | | 2.5 | | 0.2 |
| Hong Kong | | 1.7 | | |
| Japan (JPY) | | 8.6 | | 4.3 |
| New Zealand (NZD) | | 0.1 | | 0.1 |
| Singapore (SGD) | | 0.5 | | 0.2 |
| South Korea | | 1.5 | | |
| Taiwan | | 1.4 | | |
| Total Asia and Oceania | 15.0 | 16.2 | 5.0 | 4.7 |