

The top of the page features a blue header with a background of faint, semi-transparent graphics. On the left, the NBIM logo is visible, consisting of the letters 'NBIM' in a bold, sans-serif font, with 'Norges Bank Investment Management' written in a smaller font below it. To the right of the logo, there are several faint, semi-transparent elements: a stylized figure of a person in a white protective suit, a digital clock showing '02:50', '07:50', and '08:50', and various city names including 'New York', 'London', 'Tokyo', 'Date/Singapore', and 'Shanghai'.

NBIM

Norges Bank Investment Management

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

Fourth 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 prospect of a collapse in the global financial system receded in 2009. The global fall in prices for real estate, commodities, equities and fixed income instruments began in summer 2008 as the consequences of the crisis in the US housing market became more apparent. The collapse of investment bank Lehman Brothers in September 2008 caused panic and plummeting securities prices through to March 2009, when the equity market hit bottom. Massive government support packages then helped to stabilise the markets and reverse the negative trend. Confidence and liquidity in financial institutions returned. Both equity and bond prices rose in the fourth quarter, but considerably less far than in the two previous quarters.

The upswing in prices led to a positive return on the investment portfolio in 2009 of 21.1 percent. The return on the portfolio was 5.6 percentage points higher than the return on the benchmark portfolio defined by Norges Bank's Executive Board.

Since 1998, the portfolio has generated an annual return of 4.7 percent. The annual net real return (i.e. the nominal return less management costs and inflation) since 1998 has been 2.7 percent. The average excess return during the period has been 0.05 percentage point.

The return in the fourth quarter was 2.5 percent. The return on the equity portfolio was 4.4 percent, and the return on the fixed income portfolio was 1.0 percent. The return on the

overall portfolio was 0.7 percentage point higher than the return on the benchmark portfolio. The market value of the investment portfolio was 185 billion kroner on 31 December 2009, up from 179 billion kroner a year earlier.

Chart 1-1 Investment portfolio. Market value. In billions of NOK

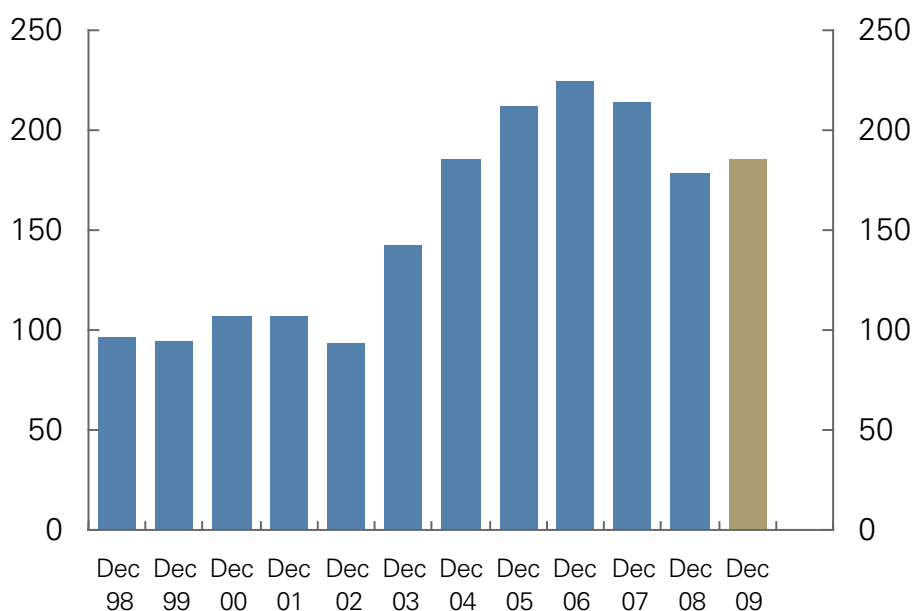


Table 1-1 Key figures to 31 December 2009. Annualised data. Measured in an international currency basket

	Past year	Past 3 years	Past 5 years	Past 10 years	Since 01.01.98
Portfolio return (percent)	21.06	1.08	3.87	4.82	4.71
Benchmark return (percent)	15.45	1.46	4.01	4.77	4.67
Excess return (percentage points)	5.60	-0.38	-0.15	0.05	0.05
Standard deviation (percent) ¹⁾	10.17	9.69	7.75	5.78	5.42
Tracking error (percentage points)	1.62	1.85	1.43	1.01	0.94
Information ratio ²⁾	3.45	-0.20	-0.10	0.23	0.05
Gross annual return (percent)	21.06	1.08	3.87	4.82	4.71
Annual price inflation (percent)	1.68	2.02	2.12	2.00	1.85
Annual management costs (percent)	0.09	0.08	0.07	0.07	0.07
Annual net real return (percent)	18.97	-1.00	1.64	2.70	2.74

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.

2 Market value and return

The investment portfolio's market value was 185.4 billion kroner at the end of the fourth quarter, an increase of 2.4 billion kroner during the quarter. A positive return on investment increased its value by 4.9 billion kroner, while a stronger krone in relation to the currencies in which the portfolio is invested reduced the value of the portfolio by 2.5 billion kroner. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power.

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

	Equities	Fixed income	Total
31 December 2008	70 552	108 340	178 892
31 March 2009	59 959	100 838	160 797
30 June 2009	71 364	106 300	177 664
30 September 2009	79 989	103 039	183 027
Inflows of new capital			0
Return			4 884
Movements in krone			- 2 468
31 December 2009	82 865	102 578	185 444

Table 2-2 Key figures. Quarterly data

	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Market value (billions of NOK)					
Fixed income portfolio	108.3	100.8	106.3	103.0	102.6
Equity portfolio	70.6	60.0	71.4	80.0	82.9
Overall portfolio	178.9	160.8	177.7	183.0	185.4
Inflows of new capital					
Inflows of new capital	-25.0	0.0	0.0	0.0	0.0
Return					
Return	-20.3	-4.2	17.6	21.3	4.9
Change due to movements in krone					
Change due to movements in krone	32.4	-13.9	-0.7	-16.0	-2.5
Return in international currency (percent)					
Equity portfolio	-20.45	-9.37	18.64	17.59	4.39
Fixed income portfolio	0.64	-0.74	5.63	7.36	1.03
Overall portfolio	-7.25	-4.14	10.48	11.51	2.51
Benchmark portfolio	-4.60	-3.77	7.79	9.28	1.86
Excess return	-2.66	-0.37	2.69	2.23	0.65
Return in NOK (percent)					
Equity portfolio	-7.93	-15.02	18.66	8.63	3.17
Fixed income portfolio	16.48	-6.92	5.64	-0.81	-0.14
Overall portfolio	7.34	-10.12	10.49	3.02	1.32
Benchmark portfolio	10.41	-9.76	7.80	0.96	0.67

The return on the investment portfolio in the fourth quarter was 2.5 percent measured in international currency. There was a return of 4.4 percent on the equity portfolio and 1.0 percent on the fixed income portfolio. At the end of the quarter, the three-year rolling annualised return for the overall portfolio was 1.1 percent.

The return achieved by NBIM on the actual portfolio is measured in relation to the return on a benchmark portfolio defined by the Executive Board. The return on the actual portfolio in the fourth quarter was 0.7 percentage point higher than the return on the benchmark portfolio.

Chart 2-1 Quarterly return and three-year rolling annualised return. Percent

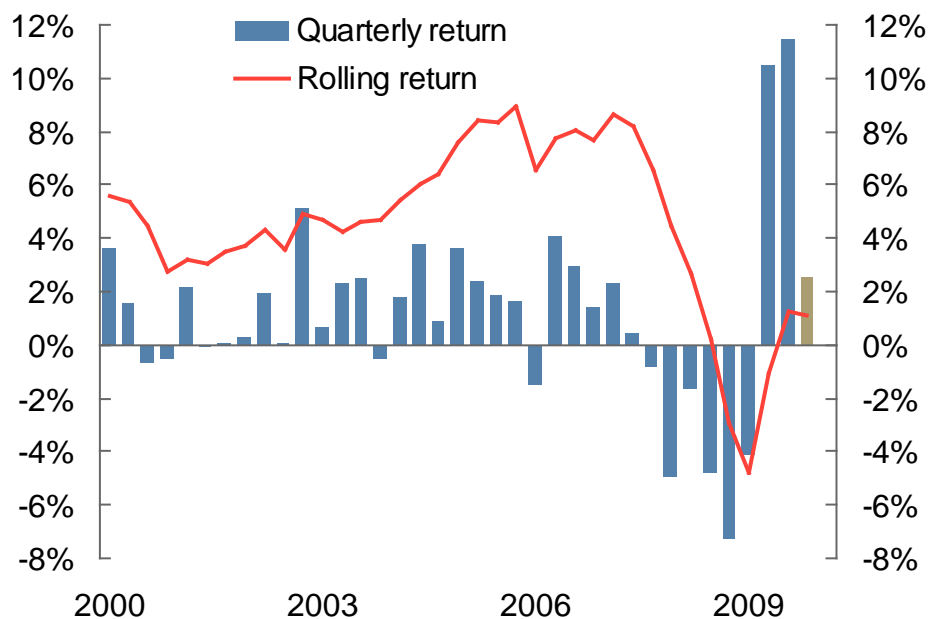
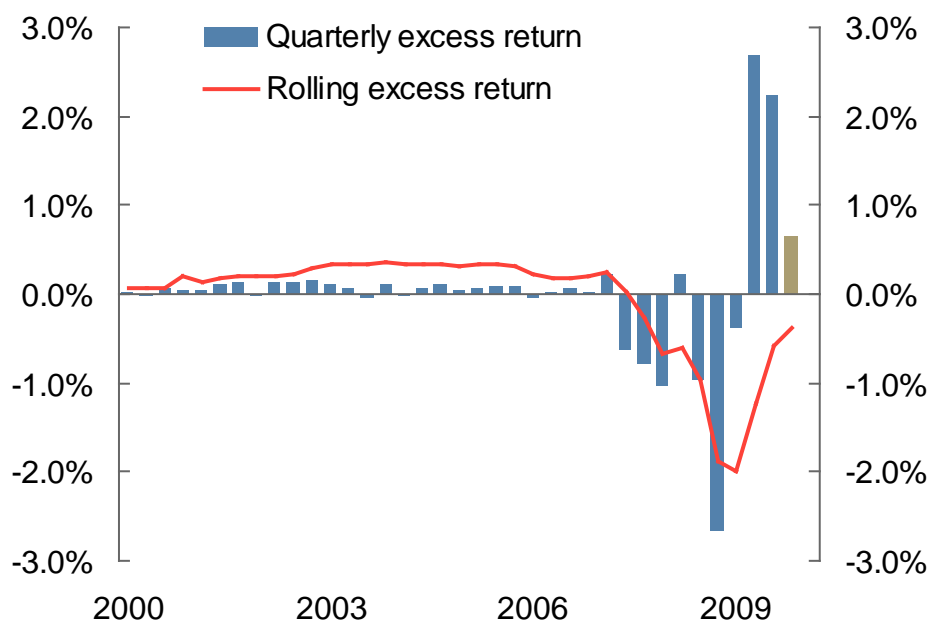


Chart 2-2 Quarterly excess return and three-year rolling annualised excess return. Percentage points



3 Market risk and management guidelines

Market risk in the investment portfolio is measured as expected tracking error. This is a statistically-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. The Executive Board has stipulated that market risk in the investment portfolio must always be less than expected tracking error of 1.5 percentage

points (150 basis points). 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 1.5 percentage points in two out of every three years.

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.

Volatility in the investment portfolio has decreased significantly since autumn 2008. Expected tracking error was 37 basis points at the beginning of the fourth quarter and 41 basis points at the end of the quarter (see Chart 3-1).

Chart 3-1 Expected tracking error. Basis points

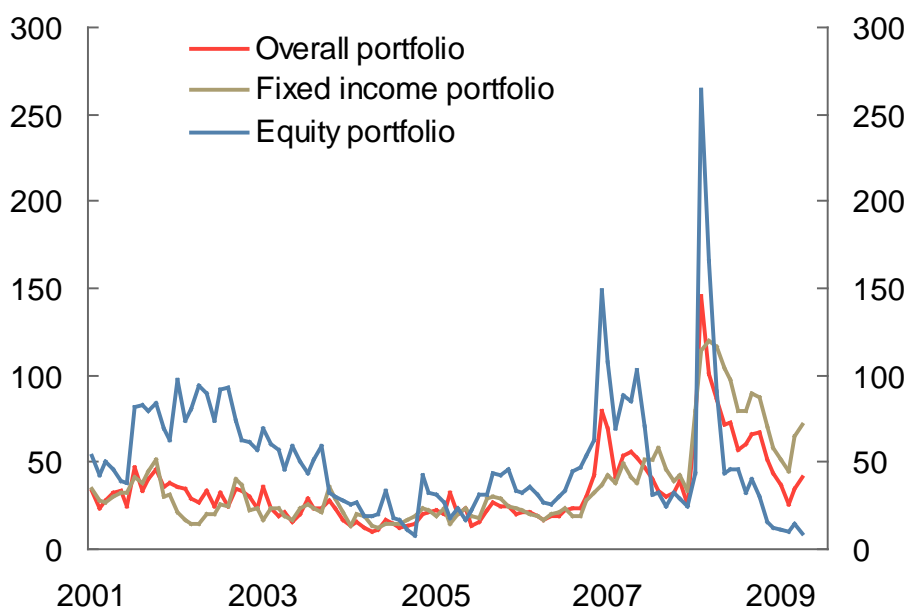


Table 3-1 breaks down the fixed income portfolio (excluding cash) by type of instrument and credit rating.

Table 3-1 Fixed income portfolio by credit rating as at 31 December 2009 ¹⁾

Percentage of fixed income portfolio	Aaa	Aa	A	Baa	Ba	Lower	No rating
Government and govt-related bonds	27.0	6.3	1.8	1.2	0.0	0.0	0.8
Inflation-linked bonds	4.4	3.0	0.2	0.0	0.0	0.0	0.1
Corporate bonds	0.4	4.1	9.5	6.2	0.5	0.2	0.0
Securitised debt	25.1	6.6	0.5	0.3	0.2	1.4	0.1
Total bonds and other fixed income instruments	56.9	20.1	12.0	7.7	0.7	1.6	1.0

¹⁾ Basert på kredittvurdering fra minst ett av kredittvurderingsbyråene Moody's, Standard & Poor's og Fitch. Kategorien "ingen vurdering" inkluderer verdipapir som ikke er vurdert av disse tre byråene. Disse verdipapirene kan være vurdert av andre, lokale byråer.

Table 3-2 provides an overview of risk and exposure in the investment portfolio.

Table 3-2 Key figures for risk and exposure

Risk	Limits	Actual			
		31.03.09	30.06.09	30.09.09	31.12.09
Market risk	Tracking error max. 1.5 percentage points	0.57	0.67	0.37	0.41
Assetmix	Fixed income portfolio	62.7	59.8	56.3	55.2
	Equity portfolio	37.3	40.2	43.7	44.8
Currency distribution, fixed income	Europe	61.0	62.1	62.0	61.9
	Americas	34.3	33.4	33.4	33.5
	Asia and Oceania	4.6	4.5	4.6	4.6
Market distribution, equities	Europe	49.3	49.7	51.4	50.5
	Americas and Africa	35.2	33.6	33.1	34.0
	Asia and Oceania	15.6	16.8	15.5	15.5
Ownership	Max. 5% of a company	0.19	0.16	0.20	0.24

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. With the exception of December, capital is normally transferred to the fund each month. A benchmark portfolio has not been defined for the buffer portfolio.

In the fourth quarter of 2009, 33.8 billion kroner was transferred to the buffer portfolio from the SDFI, and 35.9 billion kroner was transferred to the Government Pension Fund Global. As part of a planned reduction in the size of the buffer portfolio, 16 billion kroner was transferred to the foreign exchange reserves' money market portfolio during the quarter.

The return on the buffer portfolio in the fourth quarter was 3.3 percent in krone terms. The market value of the portfolio at the end of the quarter was 6.6 billion kroner. The fund is invested in short-term money market instruments, primarily in euro, US dollars and pounds sterling.

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	Transferred to money market portfolio	Market value at end of period
2008	214 992	175 764	-390 059	-957	23 727
Q1 2009	46 867	2 999	-44 179	0	27 438
Q2 2009	35 614	4 219	-40 375	0	27 037
Q3 2009	31 687	17 410	-48 930	0	24 603
Q4 2009	33 762	0	-35 928	-15 998	6 572

5 Financial reporting

Financial information for the investment and buffer portfolios is presented below. The financial reporting forms part of, and comprises excerpts from, Norges Bank's financial statements. For detailed information and notes, see the Bank's Annual Report for 2009.

Accounting policies

The accounts for the fourth 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 2009.

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 2009 contain further information on significant estimates and assumptions.

Operating expenses

NBIM's total costs associated with the management of the investment portfolio amounted to 148.7 million kroner in 2009, which corresponds to 0.09 percent of average assets under management.

Investment portfolio – profit and loss account and balance sheet

Table 5-1 Investment portfolio. Profit and loss account

	Year to date			
	Q4 2009	Q4 2008	31.12.09	31.12.08
(Figures in millions of NOK)				
<i>Profit/loss on financial assets excl. exchange rate adjustments</i>				
Interest income, deposits in foreign banks	53	13	39	50
Interest income, lending associated with reverse repurchase agreements	1	67	75	1 325
Net income/expenses and gains/losses from:				
- equities and units	3 571	-17 898	24 910	-39 627
- bonds and other fixed income instruments	1 295	727	14 798	-1 179
- financial derivatives	29	-2 082	24	-3 284
Interest expenses, borrowing associated with repurchase agreements	-14	-375	-227	-2 521
Other interest expenses	-51	-49	-3	-54
Other expenses	-11	-41	-70	-88
Profit/loss before exchange rate adjustments	4 873	-19 637	39 545	-45 379
Exchange rate adjustments	-2 468	32 370	-33 048	44 388
Profit/loss	2 406	12 733	6 496	-991

Table 5-2 Investment portfolio. Balance sheet

(Figures in millions of NOK)	31.12.09	31.12.08
FINANCIAL ASSETS		
Deposits in foreign banks	561	3 145
Lending associated with reverse repurchase agreements	12 281	20 002
Equities and units	74 618	59 309
Equities lent	8 445	10 652
Bonds and other fixed income instruments	96 909	133 459
Bonds lent	18 135	29 252
Financial derivatives	361	4 648
Unsettled trades	802	7 644
Other assets	790	98
TOTAL FINANCIAL ASSETS	212 903	268 209
FINANCIAL LIABILITIES		
Short-term borrowing	272	65
Borrowing associated with repurchase agreements	8 633	28 012
Cash collateral received	16 734	25 738
Financial derivatives	291	2 972
Unsettled trades	1 528	3 285
Other liabilities	1	16 956
TOTAL FINANCIAL LIABILITIES	27 459	77 028
NET PORTFOLIO	185 444	178 889

Buffer portfolio – profit and loss account and balance sheet**Table 5-3** Buffer portfolio. Profit and loss account

(Figures in millions of NOK)	Year to date			
	Q4 2009	Q4 2008	31.12.09	31.12.08
<i>Profit/loss on financial assets excl. exchange rate adjustments</i>				
Interest income, deposits in foreign banks	6	17	74	178
Interest income, lending associated with reverse repurchase agreements	10	129	76	505
Interest expenses, borrowing associated with repurchase agreements	0	0	0	-2
Other interest expenses	-1	-27	-11	-140
Other expenses	0	0	-1	-1
Profit/loss before exchange rate adjustments	16	119	137	540
Exchange rate adjustments	45	699	-3 536	1 748
Profit/loss	61	817	-3 399	2 288

Table 5-4 Buffer portfolio. Balance sheet

(Figures in millions of NOK)

	31.12.09	31.12.08
FINANCIAL ASSETS		
Deposits in foreign banks	13	8 404
Lending associated with reverse repurchase agreements	8 520	11 326
Financial derivatives	0	0
Other assets	2 424	0
TOTAL FINANCIAL ASSETS	10 958	19 729
FINANCIAL LIABILITIES		
TOTAL FINANCIAL LIABILITIES	0	0
Unsettled trades not recognised	-4 333	3 997
NET PORTFOLIO	6 625	23 726

Appendix

Investeringsporteføljen Referanseportefølje per 31. desember 2009. Prosent

Land for aksjereferansen Valuta for rentereferansen	Aksjer		Obligasjoner	
	Strategisk referanseportefølje	Faktisk referanseportefølje	Strategisk referanseportefølje	Faktisk referanseportefølje
Vekt aktivklassar	40,0	44,8	60,0	55,2
Belgia		0,8		
Finland		0,9		
Frankrike		8,4		
Hellas		0,4		
Irland		0,3		
Italia		2,9		
Nederland		2,4		
Portugal		0,4		
Spania		3,7		
Tyskland		6,2		
Østerrike		0,4		
<i>Euro – området (EUR)</i>		<i>26,9</i>		<i>49,6</i>
Storbritannia (GBP)		15,1		10,1
Danmark (DKK)		0,8		1,0
Sveits (CHF)		5,7		0,4
Sverige (SEK)		2,1		1,0
Sum Europa	50,0	50,6	60,0	62,1
USA (USD)		28,5		31,4
Brasil		1,6		
Canada (CAD)		2,8		2,0
Mexico		0,4		
Sør-Afrika (ZAR)		0,7		
Sum Amerika og Afrika	35,0	34,0	35,0	33,4
Australia (AUD)		3,0		0,3
Hong Kong		1,4		
Japan (JPY)		7,1		4,1
New Zealand (NZD)		0,1		0,1
Singapore (SGD)		0,6		0,2
Sør-Korea		1,7		
Taiwan		1,5		
Sum Asia / Oseania	15,0	15,4	5,0	4,6

Investeringsporteføljen Største aksjebeholdninger per 31. desember 2009

Selskap	Land	Beholdning i millioner kroner
HSBC Holdings plc	Storbritannia	1 092
Royal Dutch Shell plc	Storbritannia	1 023
BP plc	Storbritannia	1 002
Nestle SA	Sveits	949
Total SA	Frankrike	839
Banco Santander	Spania	740
Novartis AG	Sveits	672
Vodafone Group plc	Storbritannia	669
Telefonica SA	Spania	668
Roche Holding AG	Sveits	649

Investeringsporteføljen Største obligasjonsbeholdninger per 31. desember 2009

Utsteder	Land	Beholdning i millioner kroner
Amerikanske stat	USA	9 320
Britiske stat	Storbritannia	6 406
Japanske stat	Japan	4 066
Italienske stat	Italia	3 393
HBOS plc	Storbritannia	2 690
Ayt Cedulas Cajas Global	Spania	2 556
Tyske stat	Tyskland	2 533
Franske stat	Frankrike	2 531
Kredietanstalt für Wiederaufbau	Tyskland	2 450
La Caja de Ahorros y Pensiones	Spania	1 957

Investeringsporteføljen Største eierandeler per 31.
desember 2009

Selskap	Land	Eierandel (prosent)
Okabe Co Ltd	Japan	0,24
Bure Equity AB	Sverige	0,17
Yorozu Corp	Japan	0,17
NicOx SA	Frankrike	0,15
Challenger Diversified Property Group	Australia	0,15
Georg Fischer AG	Sveits	0,15
AGFA-Gevaert NV	Belgia	0,15
HOT Topic Inc	USA	0,14
Rhodia SA	Frankrike	0,14
Mediq NV	Nederland	0,14