

The top of the page features a blue-tinted background image. On the left, a person is shown in profile, resting their chin on their hand in a thoughtful pose. Overlaid on this image are several city names and digital-style times: 'New York 02:50', 'London 03:50', 'Tokyo 08:50', and 'Date/Time'. The NBIM logo is positioned in the lower-left corner of this header area.

NBIM

Norges Bank Investment Management

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

Second 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 second quarter of 2009 brought a marked improvement in financial markets after the turmoil of recent years. There were signs of renewed economic stability. Uncertainty about the stability of the financial sector subsided, equity markets rose sharply, and the credit spread between corporate and government bonds narrowed.

The upswing in prices led to a positive return on the investment portfolio in the second quarter of 10.5 per cent in international currency (i.e. measured in terms of a currency basket corresponding to the composition of the portfolio's benchmark portfolio). The return on the equity portfolio was 18.6 per cent, and the return on the fixed income portfolio was 5.6 per cent. The return on the investment portfolio was 2.7 percentage points higher than the return on the benchmark portfolio defined by the Executive Board of Norges Bank. The market value of the investment portfolio was NOK 178 billion on 30 June 2009.

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

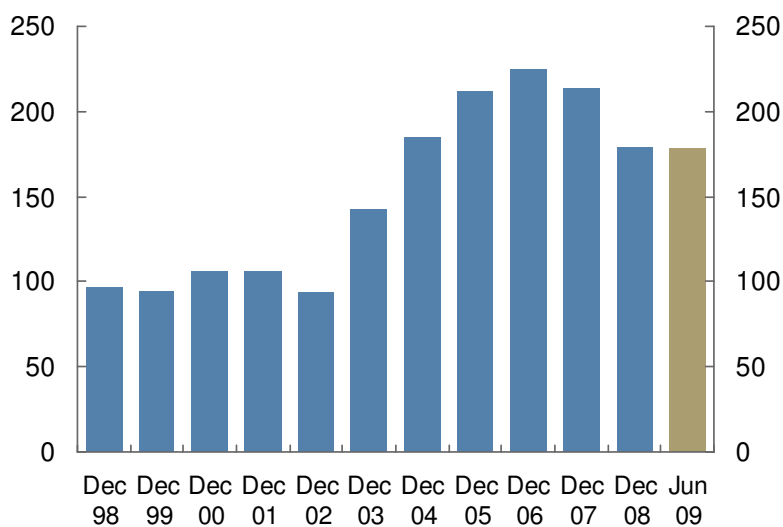


Table 1-1 Investment portfolio. Key figures to 30 June 2009. Annualised data. Measured in an international currency basket

	Past year	Past 3 years	Past 5 years	Past 10 years	Since 01.01.98
Portfolio return (per cent)	-6.50	-1.05	2.24	3.41	3.71
Benchmark return (per cent)	-4.85	0.18	2.93	3.62	3.90
Excess return (percentage points)	-1.66	-1.23	-0.68	-0.21	-0.19
Standard deviation (per cent)	13.81	8.94	7.22	5.45	5.20
Tracking error (percentage points)	2.73	1.65	1.29	0.92	0.87
Information ratio	-0.61	-0.75	-0.53	-0.23	-0.22
Gross annual return (per cent)	-6.50	-1.05	2.24	3.41	3.71
Annual price inflation (per cent)	-0.3	1.9	2.1	2.0	1.9
Annual management costs (per cent)	0.08	0.07	0.07	0.07	0.07
Annual net real return (per cent)	-6.29	-2.97	0.05	1.31	1.75

2 Market value and return

The investment portfolio's market value was NOK 177.7 billion at the end of the second quarter, an increase of NOK 16.9 billion during the quarter. The main reason for this was a positive return on investment of NOK 17.6 billion, while a stronger krone in relation to the currencies in which the portfolio is invested reduced the value of the portfolio by NOK 0.7 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
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
31 March 2009	59 959	100 838	160 797
Inflows of new capital			0
Return			17 584
Movements in krone			-717
30 June 2009	71 364	106 300	177 664

The return on the investment portfolio in the second quarter was 10.5 per cent measured in international currency. There was a return of 18.64 per cent on the equity portfolio and 5.63 per cent on the fixed income portfolio. At the end of the quarter, the three-year rolling annualised return for the overall portfolio was -1.05 per cent.

Measured in NOK, the overall return in the second quarter was 10.5 per cent. There was no material difference between the return in international currency and the return in NOK because the value of the krone against the currencies included in the benchmark portfolio changed little during the quarter.

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 second quarter was 2.69 percentage points higher than the return on the benchmark portfolio.

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

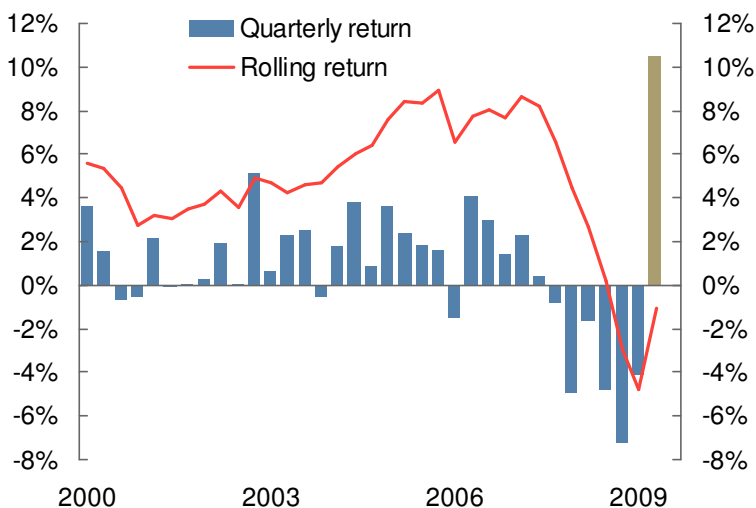


Chart 2-2 Investment portfolio. Quarterly excess return and three-year rolling annualised excess return. Percentage points

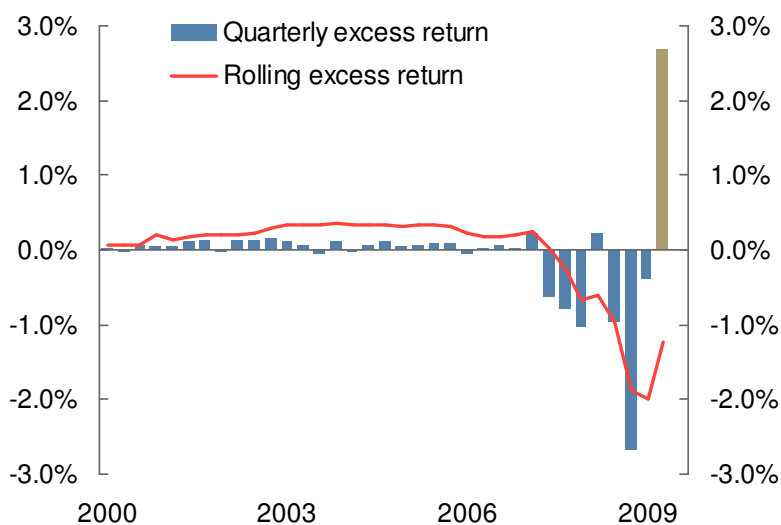


Table 2-2 Investment portfolio. Key figures. Quarterly data

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Market value (billions of NOK)						
Fixed income portfolio	123.6	121.6	124.7	108.3	100.8	106.3
Equity portfolio	75.3	73.3	67.1	70.6	60.0	71.4
Overall portfolio	198.9	194.9	191.9	178.9	160.8	177.7
Inflows of new capital						
Inflows of new capital	0.0	0.0	-8.9	-25.0	0.0	0.0
Return						
Return	-10.8	-3.2	-11.3	-20.3	-4.2	17.6
Change due to movements in krone						
Change due to movements in krone	-4.3	-0.8	17.1	32.4	-13.9	-0.7
Return in international currency (per cent)						
Equity portfolio	-12.99	-1.88	-11.41	-20.45	-9.37	18.64
Fixed income portfolio	0.78	-1.54	-0.82	0.64	-0.74	5.63
Overall portfolio	-4.94	-1.66	-4.80	-7.25	-4.14	10.48
Benchmark portfolio	-3.91	-1.88	-3.84	-4.60	-3.77	7.79
Excess return	-1.04	0.22	-0.96	-2.66	-0.37	2.69
Return in NOK (per cent)						
Equity portfolio	-14.92	-2.21	-4.16	-7.93	-15.02	18.66
Fixed income portfolio	-1.46	-1.88	7.30	16.48	-6.92	5.64
Overall portfolio	-7.06	-2.00	2.99	7.34	-10.12	10.49
Benchmark portfolio	-6.04	-2.22	4.03	10.41	-9.76	7.80

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 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 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.

Although markets remain turbulent, volatility has eased somewhat since autumn 2008. Expected tracking error for the investment portfolio was 57 basis points at the beginning of the second quarter and 67 basis points at the end of the quarter.

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

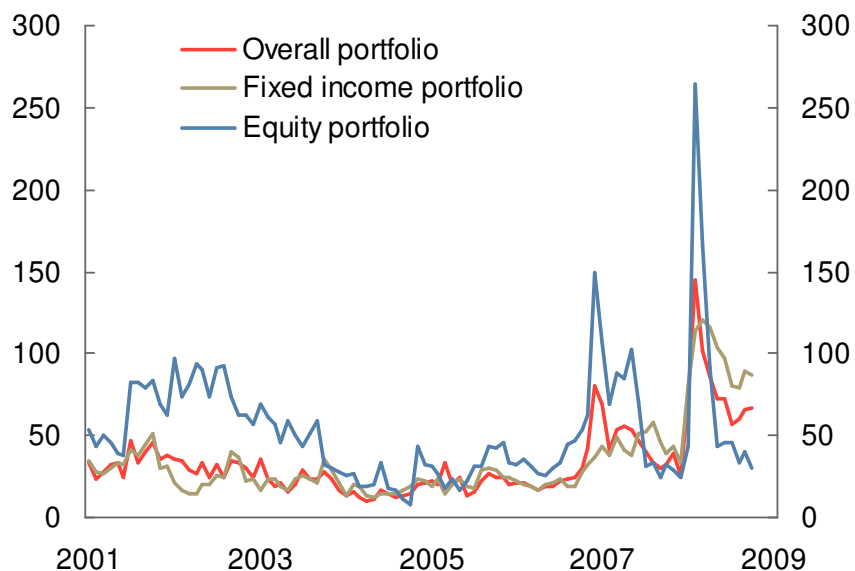


Table 3-1 breaks down the fixed income portfolio (excluding cash) by type of instrument and credit rating.

Table 3-1 Investment portfolio. Fixed income portfolio by credit rating on 30 June 2009 ¹⁾

Percentage of fixed income portfolio	Aaa	Aa	A	Baa	Ba	Lower	No rating
Government and gov't-related bonds	26.1	9.3	2.1	0.9	0.3	0.2	1.4
Inflation-linked bonds	3.8	2.5	0.1	0.0	0.0	0.0	0.0
Corporate bonds	0.3	3.5	8.3	5.6	0.3	0.2	0.0
Securitised debt	30.4	3.0	0.3	0.1	0.2	0.9	0.1
Total bonds and other fixed income instruments	60.6	18.4	10.7	6.7	0.8	1.3	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 3-2 provides an overview of risk and exposure in the investment portfolio. There were no breaches of the Executive Board's investment guidelines in the second quarter of 2009.

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

Risk	Limits	Actual			
		30.09.2008	31.12.2008	31.03.2009	30.06.2009
Market risk	Tracking error max. 1.5 percentage points	0.72	0.86	0.57	0.67
Asset mix	Fixed income portfolio	65.0	60.6	62.7	59.8
	Equity portfolio	35.0	39.4	37.3	40.2
Currency distribution, fixed income	Europe	60.4	61.6	61.0	62.1
	Americas	34.1	33.2	34.3	33.4
	Asia and Oceania	5.5	5.2	4.6	4.5
Market distribution, equities	Europe	48.0	51.2	49.3	49.7
	Americas and Africa	37.6	34.0	35.2	33.6
	Asia and Oceania	14.4	14.8	15.6	16.8
Ownership	Max. 5% of a company	0.18	0.19	0.19	0.16

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 second quarter of 2009, NOK 35.6 billion was transferred to the buffer portfolio from the SDFI, and a further NOK 4.2 billion was transferred to the portfolio through Norges Bank’s purchases of foreign exchange. A total of NOK 40.4 billion was transferred to the Government Pension Fund – Global during the quarter. The return on the buffer portfolio in the second quarter of 2009 was 0.77 per cent in NOK terms. The market value of the portfolio at the end of the quarter was NOK 27.0 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
Q2 2009	35 614	4 219	40 375	27 037

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 second 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 to external managers, amounted to NOK 73.4 million in the second 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				
	30.06.2009	30.06.2008	30.06.2009	30.06.2008	31.12.2008
<i>Profit/loss on financial assets excl. exchange rate adjustments</i>					
Interest income, deposits in foreign banks	-17	9	-14	8	50
Interest income, lending associated with reverse repurchase agreements	54	381	72	958	1 325
Net income/expenses and gains/losses from:					
- equities and units	11 046	-1 209	6 899	-12 360	-39 627
- bonds and other fixed income instruments	6 296	-3 276	6 421	- 1466	-1 179
- financial derivatives	252	1 306	139	462	-3 284
Interest expenses, borrowing associated with repurchase agreements	-58	-684	-189	-1 571	-2 521
Other interest expenses	16	2	48	-1	-54
Other expenses	-16	-19	-33	-40	-88
Profit/loss before exchange rate adjustments	17 572	-3 490	13 342	-14 010	-45 379
Exchange rate adjustments	-717	-788	-14 598	-5 112	44 388
Profit/loss	16 856	-4 279	-1 256	-19 122	-991

Table 5-2 Investment portfolio. Balance sheet

(Figures in millions of NOK)	30.06.2009	30.06.2008	31.12.2008
FINANCIAL ASSETS			
Deposits in foreign banks	1 123	1 382	3 145
Lending associated with reverse repurchase agreements	10 395	62 413	20 002
Equities and units	71 230	72 564	69 962
Bonds and other fixed income instruments	145 038	159 430	162 711
Financial derivatives	0	33	0
Other assets	98	64	98
TOTAL FINANCIAL ASSETS	227 884	295 886	255 917
FINANCIAL LIABILITIES			
Short-term borrowing	399	95	65
Borrowing associated with repurchase agreements	19 739	44 393	28 012
Cash collateral received	18 000	41 122	25 738
Financial derivatives	661	0	2 972
Unsettled trades	3 462	3 517	3 285
Other liabilities	7 958	11 846	16 956
TOTAL FINANCIAL LIABILITIES	50 219	100 974	77 028
NET PORTFOLIO	177 665	194 912	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				
	30.06.2009	30.06.2008	30.06.2009	30.06.2008	31.12.2008
<i>Profit/loss on financial assets excl. exchange rate adjustments</i>					
Interest income, deposits in foreign banks	37	63	46	63	178
Interest income, lending associated with reverse repurchase agreements	9	103	60	252	505
Interest expenses, borrowing associated with repurchase agreements	0	-2	0	-2	-2
Other interest expenses	-4	-39	-8	-64	-140
Other expenses	0	0	0	-1	-1
Profit/loss before exchange rate adjustments	42	125	98	249	540
Exchange rate adjustments	193	-186	-982	-54	1 748
Profit/loss	235	-60	-884	196	2 288

Table 5-4 Buffer portfolio. Balance sheet

(Figures in millions of NOK)	30.06.2009	30.06.2008	31.12.2008
FINANCIAL ASSETS			
Deposits in foreign banks	0	2	8 404
Lending associated with reverse repurchase agreements	4 098	4 928	11 326
Other assets	28 295	16 716	0
TOTAL FINANCIAL ASSETS	32 394	21 646	19 729
FINANCIAL LIABILITIES			
Financial derivatives	3	16	0
Other liabilities	7 216	14 397	0
TOTAL FINANCIAL LIABILITIES	7 219	14 413	0
Unsettled trades not recognised	1 862	3 066	3 997
NET PORTFOLIO	27 037	10 299	23 726

Investeringsporteføljen Referanseportefølje per 30. juni 2009. Prosent

Land for aksjereferansen Valuta for rentereferansen	Aksjer		Renteinstrumenter	
	Strategisk referanseportefølje	Faktisk referanseportefølje	Strategisk referanseportefølje	Faktisk referanseportefølje
Vekt aktivaklassar	40,0	40,8	60,0	59,2
Belgia		0,8		
Finland		1,0		
Frankrike		7,9		
Hellas		0,5		
Irland		0,3		
Italia		2,9		
Nederland		2,1		
Portugal		0,3		
Spania		3,7		
Tyskland		5,9		
Østerrike		0,4		
<i>Euro – området (EUR)</i>		25,7		50,0
Storbritannia (GBP)		15,6		9,9
Danmark (DKK)		0,8		0,7
Sveits (CHF)		5,5		0,4
Sverige (SEK)		1,9		0,9
Sum Europa	50,0	49,7	60,0	61,9
USA (USD)		28,7		31,7
Brasil		1,3		
Canada (CAD)		2,5		1,8
Mexico		0,4		
Sør-Afrika (ZAR)		0,7		
Sum Amerika og Afrika	35,0	33,6	35,0	33,6
Australia (AUD)		2,7		0,2
Hong Kong		1,9		
Japan (JPY)		8,5		4,1
New Zealand (NZD)		0,1		0,1
Singapore (SGD)		0,6		0,2
Sør-Korea		1,5		
Taiwan		1,4		
Sum Asia / Oseania	15,0	16,8	5,0	4,6