

The top of the page features a blue header with a background of faint, semi-transparent graphics. On the left, there is a stylized image of the Statue of Liberty. In the center and right, there are digital-style displays showing city names and times: 'New York 02:50', 'London 07:50', 'Tokyo', '08:50', and 'Date/Time'.

NBIM

Norges Bank Investment Management

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

First quarter 2010

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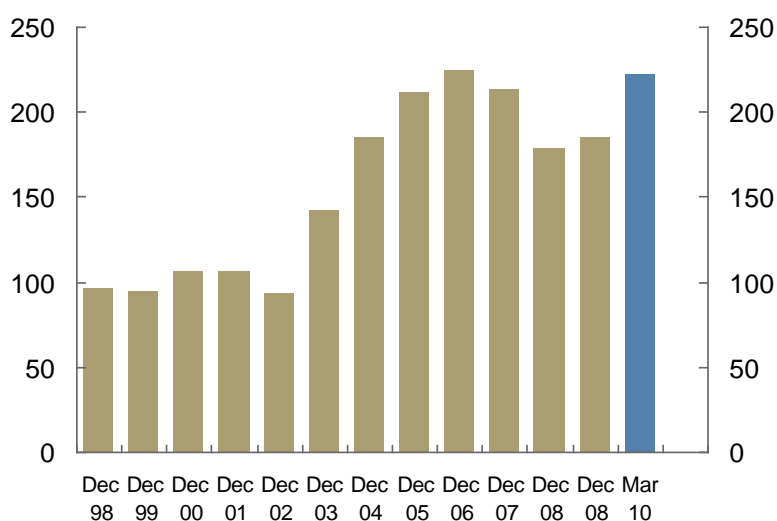
The foreign exchange reserves are to be available for intervention in the foreign exchange market in connection with the implementation of monetary policy or to promote financial stability. The reserves are divided into a money market portfolio and an investment portfolio. In addition, a buffer portfolio 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 market value of the investment portfolio was 223 billion kroner on 31 March 2010. The return in the first quarter was 3.7 percent, which was 0.5 percentage point higher than the return on the benchmark portfolio defined by Norges Bank's Executive Board.

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



Since 1998, the portfolio has generated an annual return of 4.9 percent. The annual net real return (i.e. the nominal return less management costs and inflation) since 1998 has been 2.95 percent. The average excess return during the period has been 0.09 percentage point.

Table 1-1 Key figures to 31 March 2010. 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)	30.92	1.82	4.43	4.96	4.92
Benchmark return (percent)	23.77	2.04	4.50	4.87	4.83
Excess return (percentage points)	7.14	-0.23	-0.07	0.10	0.09
Standard deviation (percent) ¹⁾	7.02	9.90	7.89	5.89	5.45
Tracking error (percentage points)	1.23	1.86	1.44	1.02	0.93
Information ratio ²⁾	5.79	-0.12	-0.05	0.09	0.09
Gross annual return (percent)	30.92	1.82	4.43	4.96	4.92
Annual price inflation (percent)	1.82	1.94	2.08	1.98	1.85
Annual management costs (percent)	0.07	0.08	0.07	0.07	0.07
Annual net real return (percent)	28.50	-0.20	2.24	2.86	2.95

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 increased by 37 billion kroner during the first quarter of 2010, due mainly to the transfer of 31 billion kroner from the money market portfolio. A positive return on investment increased its value by 6.7 billion kroner, while a stronger krone in relation to the currencies in which the portfolio is invested reduced the value of the portfolio by 0.5 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 kroner

	Equities	Fixed income	Total
31 December 2009	82 865	102 578	185 444
Inflows Q1 2010			31 000
Return Q1 2010			6 683
Change in krone value Q1 2010			- 520
31 March 2010	87 232	135 375	222 607

Table 2-2 Key figures. Quarterly data

	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Market value (billions of kroner)					
Fixed income portfolio	135.4	102.6	103.0	106.3	100.8
Equity portfolio	87.2	82.9	80.0	71.4	60.0
Overall portfolio	222.6	185.4	183.0	177.7	160.8
Inflows of new capital	31.0	0.0	0.0	0.0	0.0
Return	6.7	4.9	21.3	17.6	-4.2
Change due to movements in krone	-0.5	-2.5	-16.0	-0.7	-13.9
Return in international currency (percent)					
Equity portfolio	5.06	4.39	17.59	18.64	-9.37
Fixed income portfolio	2.50	1.03	7.36	5.63	-0.74
Overall portfolio	3.66	2.51	11.51	10.48	-4.14
Benchmark portfolio	3.16	1.86	9.28	7.79	-3.77
Excess return	0.50	0.65	2.23	2.69	-0.37
Return in kroner (percent)					
Equity portfolio	4.71	3.17	8.63	18.66	-15.02
Fixed income portfolio	2.17	-0.14	-0.81	5.64	-6.92
Overall portfolio	3.32	1.32	3.02	10.49	-10.12
Benchmark portfolio	2.82	0.67	0.96	7.80	-9.76

The return on the investment portfolio in the first quarter was 3.7 percent measured in international currency. There was a return of 5.1 percent on the equity portfolio and 2.5 percent on the fixed income portfolio. At the end of the quarter, the three-year rolling annualised return for the overall portfolio was 1.8 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 first quarter was 0.5 percentage point higher than the return on the benchmark portfolio.

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

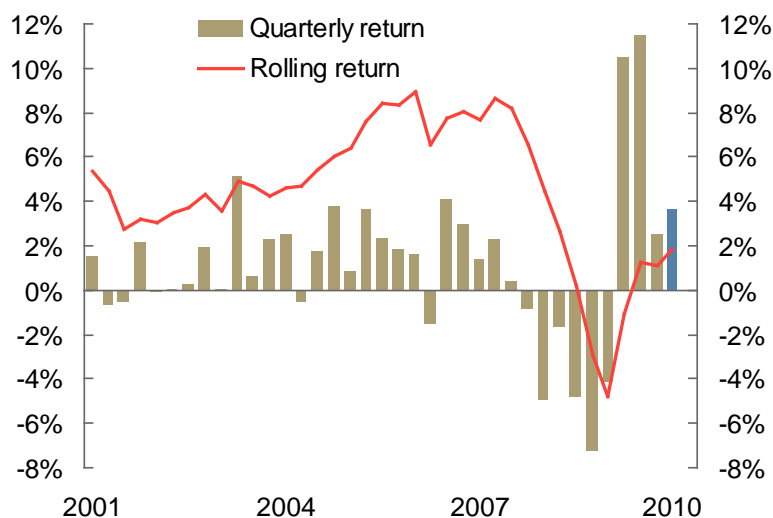
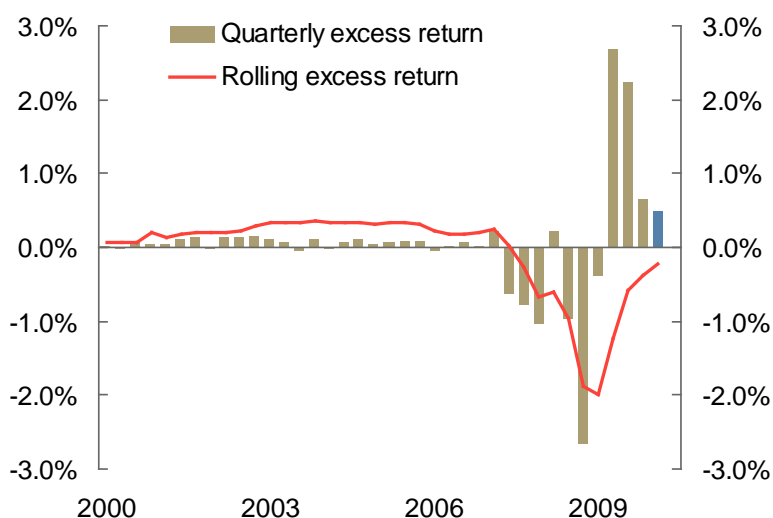


Chart 2-2 Quarterly excess return and three-year rolling annualised excess return. Percentage points



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 guidelines from the Executive Board that applied during the first quarter of 2010 stipulate 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.

Volatility in the investment portfolio has decreased significantly since autumn 2008. Expected tracking error was 41 basis points at the beginning of the first quarter and 39 basis points at the end of the quarter (see Chart 3-1).

Chart 3-1 Expected tracking error. Basis points

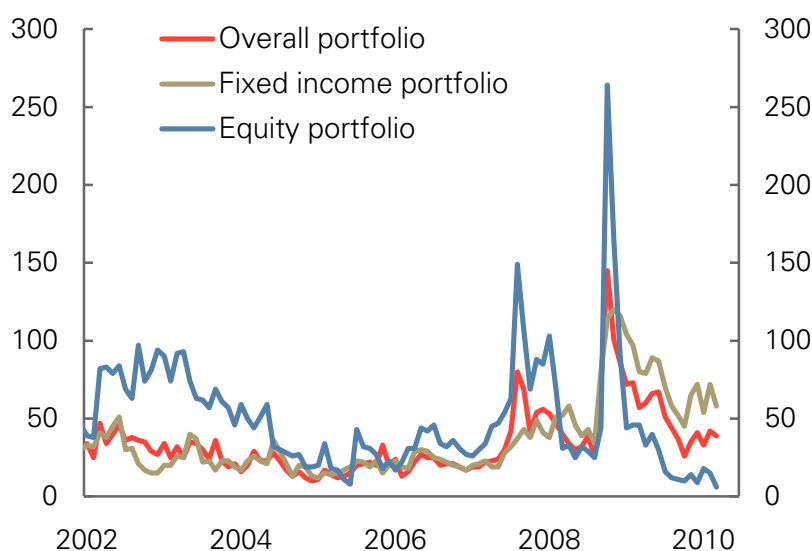


Table 3-1 breaks down the fixed income portfolio (excluding cash) by type of instrument and credit rating.

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	44.2	4.3	2.2	0.9	0.0	0.0	0.3
Inflation-linked bonds	3.7	2.5	0.1	-	-	-	-
Corporate bonds	0.4	3.2	6.7	5.1	0.4	0.1	0.0
Securitised debt	19.0	5.0	0.4	0.1	0.1	1.3	0.0
Total bonds and other fixed income instruments	87.2	14.9	9.4	6.1	0.5	1.4	0.4

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 two minor breaches of the Executive Board's guidelines in the first quarter.

Table 3-2 Key figures for risk and exposure

Risk	Limits	Actual			
		30.06.09	30.09.09	31.12.09	31.03.10
Market risk	Tracking error max. 1.5 percentage points	0.67	0.37	0.41	0.39
Asset mix	Fixed income portfolio	59.8	56.3	55.2	60.8
	Equity portfolio	40.2	43.7	44.8	39.2
Currency distribution, fixed income	Europe	62.1	62.0	61.9	60.8
	Americas	33.4	33.4	33.5	34.6
	Asia and Oceania	4.5	4.6	4.6	4.6
Market distribution, equities	Europe	49.7	51.4	50.5	48.7
	Americas and Africa	33.6	33.1	34.0	35.2
	Asia and Oceania	16.8	15.5	15.5	16.1
Ownership	Max. 5% of a company	0.16	0.20	0.24	0.42

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 first quarter of 2010, 25.3 billion kroner was transferred to the buffer portfolio from the SDFI, and 19,3 billion kroner was transferred to the Government Pension Fund Global. As part of a planned reduction in the size of the buffer portfolio, 4 billion kroner was transferred to the foreign exchange reserves' money market portfolio during the quarter.

The return on the buffer portfolio in the first quarter was 1.7 per cent measured in kroner. The market value of the portfolio at the end of the quarter was 8.8 billion kroner. The portfolio 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 kroner

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
2009	147 929	24 628	- 169 412	- 16 955	6 572
Q1 2010	25 325	2 999	- 19 338	- 4 019	8 751

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 first quarter of 2010 have been prepared in accordance with the accounting policies for Norges Bank. 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 27.4 million kroner in the first quarter of 2010, which corresponds to 0.06 percent of average assets under management.

Buffer portfolio – profit and loss account and balance sheet

Table 5-1 Profit and loss account

(Figures in millions of kroner)	Quarter		Year to date		
	31.03.10	31.03.09	31.03.10	31.03.09	31.12.09
<i>Profit/loss on financial assets excl. exchange rate adjustments</i>					
Interest income, deposits in foreign banks	0	3	0	3	39
Interest income, lending associated with reverse repurchase agreements	2	18	2	18	75
Net income/expenses and gains/losses from:					
- equities and units	3 757	-4 147	3 757	-4 147	24 910
- bonds and other fixed income instruments	3 093	125	3 093	125	14 798
- financial derivatives	-161	-114	-161	-114	24
Interest expenses, borrowing associated with repurchase agreements	-7	-131	-7	-131	-227
Other interest expenses	0	33	0	33	-3
Other expenses	-9	-17	-9	-17	-70
Profit/loss before exchange rate adjustments	6 674	-4 230	6 674	-4 230	39 545
Exchange rate adjustments	-520	13 881	-520	13 881	-33 048
Profit/loss	6 154	-18 111	6 154	-18 111	6 496

Table 5-2 Balance sheet

(Figures in millions of kroner)

	31.03.10	31.03.09	31.12.09
FINANCIAL ASSETS			
Deposits in foreign banks	200	2 267	561
Lending associated with reverse repurchase agreements	13 365	12 363	12 281
Equities and units	80 007	46 555	74 618
Equities lent	7 388	12 977	8 445
Bonds and other fixed income instruments	120 842	127 429	96 909
Bonds lent	18 981	19 595	18 135
Financial derivatives	323	4 131	361
Unsettled trades	5 717	11 113	802
Other assets	1 304	90	790
TOTAL FINANCIAL ASSETS	248 128	236 521	212 903
FINANCIAL LIABILITIES			
Short-term borrowing	214	64	272
Borrowing associated with repurchase agreements	8 045	22 128	8 633
Cash collateral received	15 307	18 980	16 734
Financial derivatives	377	5 919	291
Unsettled trades	19 667	17 513	1 528
Other liabilities	1	11 121	1
TOTAL FINANCIAL LIABILITIES	43 611	75 726	27 459
NET PORTFOLIO	204 517	160 794	185 444

Table 5-3 Buffer portfolio. Profit and loss account

(Figures in millions of kroner)	Quarter		Year to date		
	31.03.10	31.03.09	31.03.10	31.03.09	31.12.09
<i>Profit/loss on financial assets excl. exchange rate adjustments</i>					
Interest income, deposits in foreign banks	1	10	1	10	74
Interest income, lending associated with reverse repurchase agreements	5	52	5	52	76
Interest expenses, borrowing associated with repurchase agreements	0	0	0	0	0
Other interest expenses	0	-5	0	-5	-11
Other expenses	0	0	0	0	-1
Profit/loss before exchange rate adjustments	6	56	6	56	137
Exchange rate adjustments	152	-1 176	152	-1 176	-3 536
Profit/loss	158	-1 119	158	-1 119	-3 399

Table 5-4 Buffer portfolio. Balance sheet

(Figures in millions of kroner)	31.03.10	31.03.09	31.12.09
FINANCIAL ASSETS			
Deposits in foreign banks	1	0	13
Lending associated with reverse repurchase agreements	22 591	10 851	8 520
Financial derivatives	25	2 067	0
Other assets	1 156	17 419	2 424
TOTAL FINANCIAL ASSETS	23 772	30 338	10 958
FINANCIAL LIABILITIES			
Financial derivatives	34	2 059	0
Other liabilities	7 096	2 770	0
Unsettled trades	11 711	0	0
TOTAL FINANCIAL LIABILITIES	18 841	4 829	0
Unsettled trades not recognised	3 820	1 930	-4 333
NET PORTFOLIO	8 751	27 439	6 625

Appendix

Investment portfolio Benchmark portfolio as at 31 March 2010. Percent

	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	39.2	60.0	60.8
Belgium		0.8		
Finland		1.0		
France		8.0		
Greece		0.4		
Ireland		0.3		
Italy		2.7		
Netherlands		2.3		
Portugal		0.3		
Spain		3.1		
Germany		5.9		
Austria		0.4		
<i>Euro area (euro)</i>		<i>25.3</i>		<i>48.9</i>
UK (pounds)		14.6		9.7
Denmark (kroner)		0.9		0.8
Switzerland (francs)		5.8		0.4
Sweden (kronor)		2.2		1.1
Total Europe	50.0	48.8	60.0	60.9
US (dollars)		29.6		32.4
Brazil		1.5		
Canada (dollars)		2.9		2.1
Mexico		0.4		
South Africa (rand)		0.7		
Total Americas and Africa	35.0	35.2	35.0	34.5
Australia (dollars)		3.1		0.3
Hong Kong		1.5		
Japan (yen)		7.6		4.1
New Zealand (dollars)		0.1		0.1
Singapore (dollars)		0.6		0.1
South Korea		1.7		
Taiwan		1.5		
Total Asia and Oceania	15.0	16.1	5.0	4.6