

The top of the page features a blue header with the NBIM logo on the left. The logo consists of the letters 'NBIM' in a bold, sans-serif font, with 'Norges Bank Investment Management' written in a smaller font below it. The background of the header is a light blue gradient with faint, semi-transparent graphics of a hand holding a coin, a clock face, and various city names and times. The city names visible are 'New York', 'London', 'Tokyo', and 'Date/Time'. The times shown are '02:50', '07:50', and '08:50'.

NBIM

Norges Bank Investment Management

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

First quarter 2010

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

Fourth quarter 2010

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.

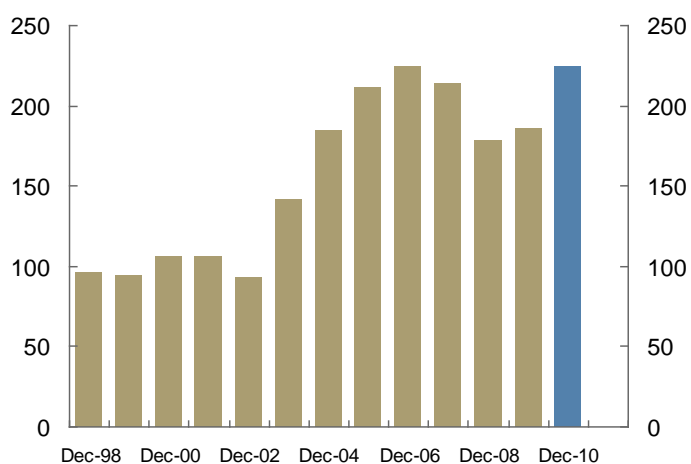
The investment portfolio has a long-term investment horizon where the aim is to generate the highest possible return within the constraints set out in the guidelines issued by Norges Bank's Executive Board. The portfolio has a strategic allocation to equities of 40 percent and a strategic allocation to bonds of 60 percent. The Executive Board has defined a strategic benchmark portfolio for the investment portfolio. On 3 February 2010 the Executive Board adopted new guidelines for the investment of the foreign exchange reserves. See the report for the second quarter of 2010 for a presentation of the changes.

1 Key figures

Global financial markets in 2010 were bolstered by a maturing economic upswing following the financial crisis in 2008, moderated by fresh fears about government debt and deficits in a number of euro countries. This created a favourable climate with solid returns in most markets. At the same time, uncertainty about some European countries' government finances and fears of an economic downturn in Europe and the US led to substantial swings in prices during the year.

The portfolio returned 8.68 percent in 2010, which was 1.32 percentage points 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 NOK



Since 1998, the portfolio has generated an annual nominal return of 5.01 percent. The annual net real return (i.e. the nominal return less management costs and inflation) since 1998 has been 3.05 percent. The average excess return during the period has been 0.15 percentage point.

The return in the fourth quarter was 2.03 percent, which was 0.13 percentage point higher than the return on the benchmark portfolio. The market value of the investment portfolio was 224.7 billion kroner on 31 December 2010, up from 185.4 billion kroner a year earlier.

Table 1-1 Key figures to 31 December 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)	8.68	2.78	3.79	4.84	5.01
Benchmark return (percent)	7.36	2.34	3.74	4.68	4.87
Excess return (percentage points)	1.32	0.45	0.05	0.17	0.15
Standard deviation (percent) ¹⁾	6.15	10.10	8.09	6.07	5.47
Tracking error (percentage points)	0.63	1.82	1.46	1.04	0.92
Information ratio ²⁾	2.10	0.25	0.03	0.17	0.16
Gross annual return (percent)	8.68	2.78	3.79	4.84	5.01
Annual price inflation (percent)	1.60	1.50	2.00	2.00	1.80
Annual management costs (percent)	0.05	0.07	0.07	0.07	0.07
Annual net real return (percent)	6.90	1.16	1.71	2.77	3.05

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 224.7 billion kroner at the end of the fourth quarter, an increase of 2.7 billion kroner during the quarter. A positive return on investment increased its value by 9.1 billion kroner, while 4.7 billion kroner was transferred to the money market portfolio, and a stronger krone in relation to the currencies in which the portfolio is invested reduced its value by 1.7 billion kroner.

The return on the investment portfolio in the fourth quarter was 2.03 percent measured in international currency. There was a return of 9.48 percent on the equity portfolio and -2.71 percent on the fixed-income portfolio. The annualised return for the overall portfolio over the past ten years was 4.84 per cent.

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 was 0.13 percentage point higher than the return on the benchmark portfolio in the fourth quarter of 2010, and 0.17 percentage point higher over the past ten years.

Chart 2-1 Quarterly and accumulated annualised return since 1 January 1998. Percent

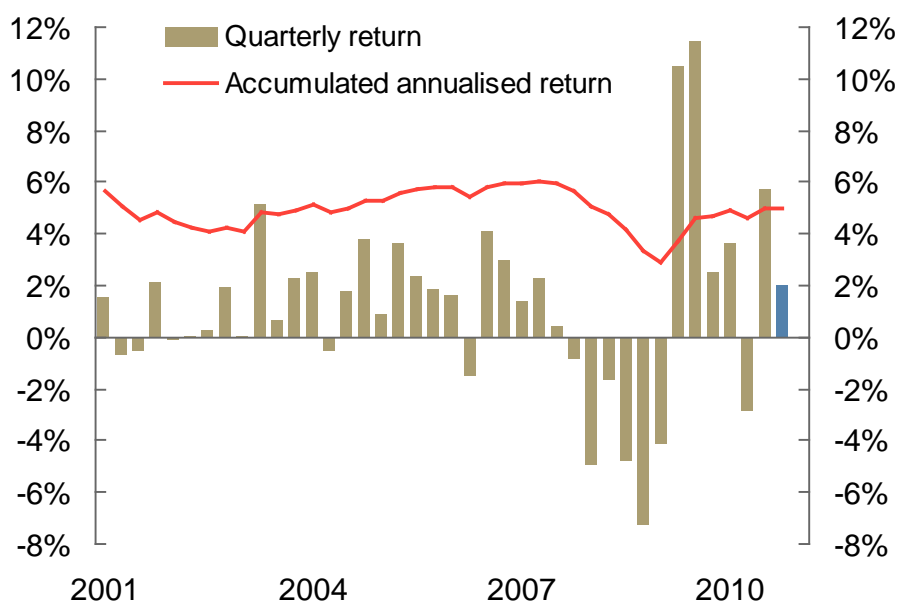


Chart 2-2 Quarterly and accumulated annualised excess return since 1 January 1998.

Percentage points

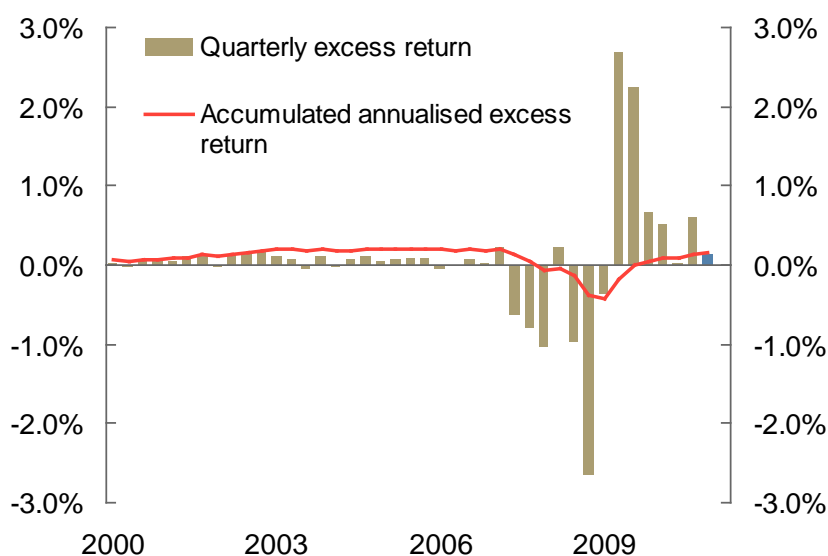


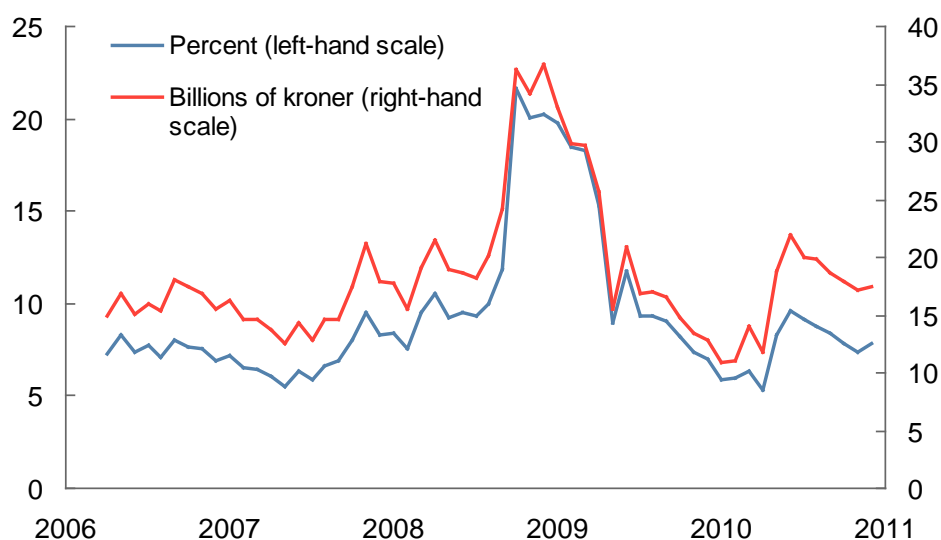
Table 2-1 Key figures. Quarterly data

	4Q 2010	3Q 2010	2Q 2010	1Q 2010	4Q 2009
Market value (billions of kroner)					
Fixed-income portfolio	130.9	135.7	143.7	135.4	102.6
Equity portfolio	93.8	86.3	83.4	87.2	82.9
Overall portfolio	224.7	222.0	227.1	222.6	185.4
Inflows of new capital					
	0.0	-4.7	0.0	31.0	0.0
Return					
	4.4	13.6	-7.1	6.7	4.9
Change due to movements in krone					
	-1.7	-14.0	11.6	-0.5	-2.5
Return in international currency (percent)					
Equity portfolio	9.48	9.63	-9.17	5.06	4.39
Fixed-income portfolio	-2.71	3.48	1.27	2.50	1.03
Overall portfolio	2.03	5.75	-2.84	3.66	2.51
Benchmark portfolio*	1.90	5.16	-2.87	3.16	1.86
Excess return (percentage points)	0.13	0.60	0.03	0.50	0.65
Return in kroner (percent)					
Equity portfolio	8.63	3.46	-4.62	4.71	3.17
Fixed-income portfolio	-3.47	-2.35	6.35	2.17	-0.14
Overall portfolio	1.24	-0.20	2.04	3.32	1.32
Benchmark portfolio	1.11	-0.76	2.01	2.82	0.67

3 Market risk and management guidelines

The level of absolute risk in the portfolio varied during the year, peaking in the second quarter (see Chart 3-1), but was lower than in 2009. Volatility in both equity and fixed-income markets increased in the second quarter due to uncertainty in the market for European government securities, funding challenges for banks and fears of an economic downturn.

Chart 3-1 Expected absolute volatility. Percent and billions of kroner

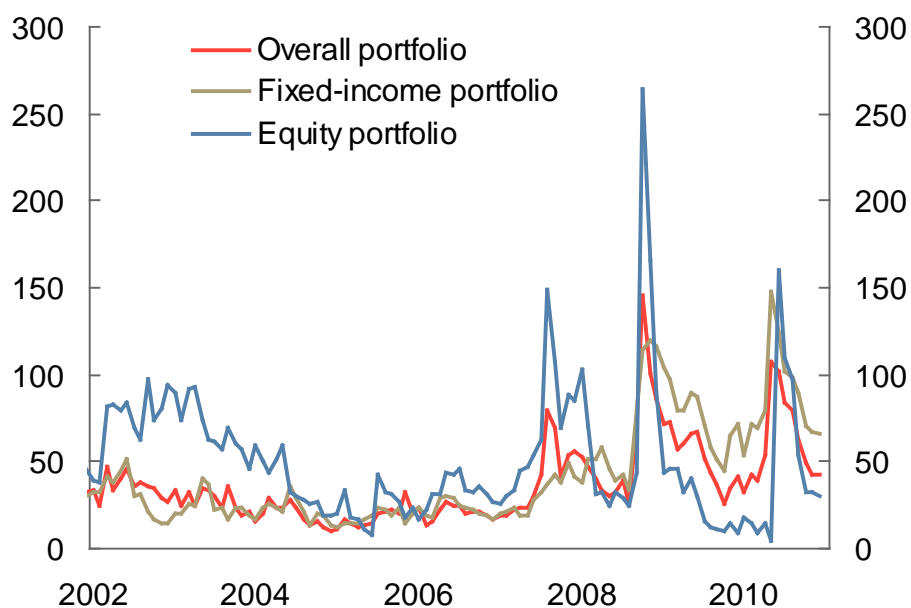


Market risk in the investment portfolio is measured partly by expected tracking error (relative volatility). This is a statistically-defined measure of risk which says something about the amount of variation we can normally expect between the return on the benchmark portfolio and the return on the actual portfolio.

The new guidelines for the foreign exchange reserves (see the report on the second quarter) introduced an expected level of active risk in the management of the portfolio of 1 percentage point (100 basis points) expected tracking error under normal market conditions, replacing the previous maximum limit of 1.5 percentage points under any market conditions. 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 percentage point in two out of every three years.

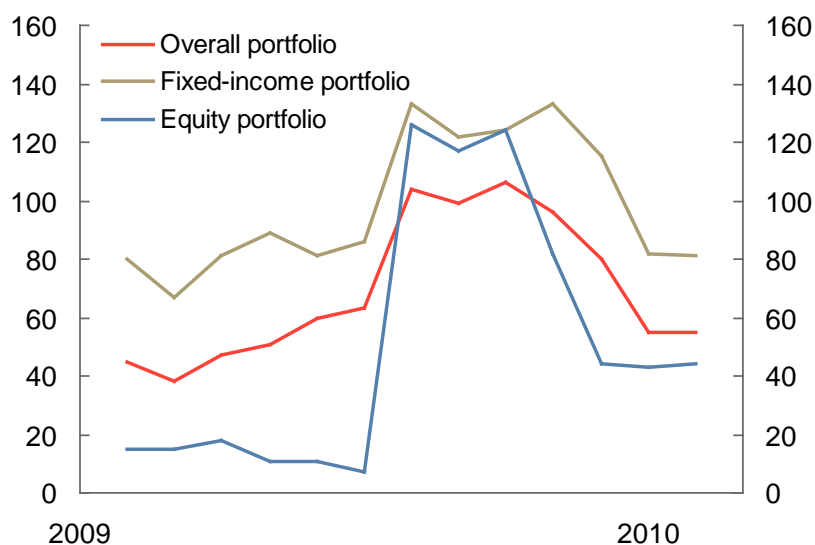
The portfolio's expected tracking error varied considerably in 2010 and was up at 115 basis points at the end of the second quarter (see Chart 3-2). This high level of expected tracking error was due partly to high levels of volatility in the market and partly to increased market exposures following a change in the portfolio's benchmark index (see the report on the second quarter).

Chart 3-2 Expected tracking error. Basis points



When calculating expected volatility, both absolute and relative, historical price observations in the market are used to estimate volatilities and correlations for positions in the portfolio. Chart 3-2 has been produced using a short dataset with considerable weight given to the latest daily observations in the market. This means that the portfolio's expected tracking error reacts quickly and strongly to short-term changes in market conditions. An alternative way of calculating expected tracking error is used in Chart 3-3, where the calculations are based on equally weighted weekly price observations over the past three years. This is the same method as used for the Government Pension Fund Global from 1 January 2011. With this method, movements in expected tracking error will be due more to changes in portfolio composition than to short-term market fluctuations.

Chart 3-3 Expected tracking error. New calculation method¹. Basis points



¹ Volatility estimated on the basis of equally weighted weekly price observations over the past three years. Data since December 2009.

Chart 3-4 shows the overlap between the actual portfolio and the benchmark portfolio for equities and fixed-income instruments.

Chart 3-4 *Overlap with benchmark portfolio. Percent*

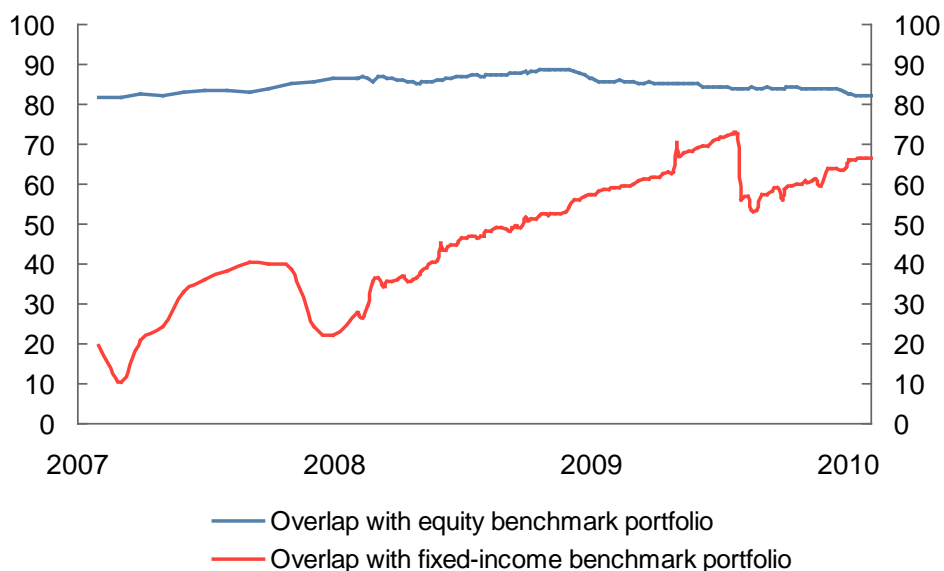


Table 3-1 breaks down the fixed-income portfolio (excluding cash) by type of instrument and credit rating.

Table 3-1 Fixed-income portfolio by credit rating as at 31 December 2010 ¹⁾

Percentage of fixed-income portfolio	Aaa	Aa	A	Baa	Lower	Total
Government bonds	53.3	10.1	0.1	0.2	0.3	64
Government-related bonds	5.8	0.7	0.3	0.4	0.1	7.2
Inflation-linked bonds	0.0	2.5	0.0	0.0	0.0	2.5
Corporate bonds	0.2	1.8	3.5	3.1	0.3	8.9
Securitised bonds	12.0	4.0	0.1	0.1	1.2	17.4
Total bonds and other fixed-income instruments	71.2	19.0	4.1	3.7	2.0	100

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

Table 3-2 provides an overview of risk and exposure in the investment portfolio. There was a breach of one of the Executive Board's guidelines in the fourth quarter of 2010. This breach needs to be seen in the light of the introduction of the new guidelines earlier in the year along with a new benchmark portfolio (see the report on the second quarter).

Table 3-2 Key figures for risk and exposure

Risk	Limits	Actual		
		30.06.2010	30.09.2010	31.12.2010
Market risk	Expected level of 1.0 percentage point expected tracking error ¹⁾	1.02	0.63	0.43
Asset mix	Fixed-income portfolio	62.0	61.1	58.2
	Equity portfolio	38.0	38.9	41.8
Ownership	Max. 5% of a company	0.42	0.24	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 2010, 40.9 billion kroner was transferred to the buffer portfolio from the SDFI, Norges Bank made foreign exchange purchases of 13.3 billion kroner, and 58.6 billion kroner was transferred from the buffer portfolio to the Government Pension Fund Global.

The return on the buffer portfolio in the fourth quarter was -3.44 percent measured in kroner. The market value of the portfolio at the end of the quarter was 15.5 billion kroner. The portfolio is invested in short-term money market instruments, primarily in euro, US dollars and pounds sterling. The return for 2010 was -2.34 percent measured in kroner.

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

Period	Transferred from SDFI	Norges Bank's foreign exchange purchases	Transferred to GPFG	Transferred to money market portfolio	Market value at end of period
1Q 2010	25 325	0	-19 338	-4 019	8 751
2Q 2010	31 060	0	-35 481	0	5 389
3Q 2010	33 863	13 306	-48 733	0	3 024
4Q 2010	40 944	30 191	-58 613	0	15 543

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 2010.

Accounting policies

The accounts for the fourth 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 2010.

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 2010 contain further information on significant estimates and assumptions.

Operating expenses

NBIM's total costs associated with the management of the investment portfolio amounted to 110.9 million kroner in 2010, which corresponds to 0.05 percent 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 kroner)	Quarter		Year to date	
	4Q 2010	4Q 2009	31.12.2010	31.12.2009
Interest income, deposits in foreign banks	8	53	10	39
Interest income, lending associated with reverse repurchase agreements	18	1	28	75
Net income/expenses and gains/losses from:				
- equities and units	7 607	3 571	10 153	24 910
- bonds and other fixed-income instruments	-3 205	1 295	6 908	14 798
- financial derivatives	1	29	-377	24
Interest expenses, borrowing associated with repurchase agreements	-21	-14	-36	-227
Other interest expenses	1	-51	-4	-3
Other expenses	0	-11	-27	-70
Profit/loss before exchange rate adjustments	4 408	4 873	16 653	39 545
Exchange rate adjustments	-1 660	-2 468	-3 718	-33 048
Profit/loss	2 748	2 406	12 935	6 496

Table 5-2 Investment portfolio. Balance sheet

(Figures in millions of kroner)

	31.12.2010	31.12.2009	31.12.2010
FINANCIAL ASSETS			
Deposits in foreign banks	422	561	422
Lending associated with reverse repurchase agreements	28 231	12 281	28 231
Equities and units	92 324	74 618	92 324
Equities lent	1 566	8 445	1 566
Bonds and other fixed-income instruments	108 919	96 909	108 919
Bonds lent	24 830	18 135	24 830
Financial derivatives	21	361	21
Unsettled trades	1 972	802	1 972
Other assets	-540	791	-540
TOTAL FINANCIAL ASSETS	257 746	212 903	257 746
FINANCIAL LIABILITIES			
Short-term borrowing	0	272	0
Borrowing associated with repurchase agreements	14 432	8 633	14 432
Cash collateral received	17 893	16 734	17 893
Financial derivatives	212	291	212
Unsettled trades	470	1 528	470
Other liabilities	2	1	2
TOTAL FINANCIAL LIABILITIES	33 009	27 459	33 009
NET PORTFOLIO	224 737	185 444	224 737

Buffer portfolio – profit and loss account and balance sheet

Table 5-3 Buffer portfolio. Profit and loss account

(Figures in millions of kroner)	Quarter		Year to date	
	4Q 2010	4Q 2009	31.12.2010	31.12.2009
Interest income, deposits in foreign banks	8	6	11	74
Interest income, lending associated with reverse repurchase agreements	8	10	29	76
Other interest expenses	-2	0	-2	0
Other expenses	0	-1	0	-11
Profit/loss before exchange rate adjustments	0	0	-1	-1
Exchange rate adjustments	15	16	38	137
Profit/loss	-14	45	354	-3 536

Table 5-4 Buffer portfolio. Balance sheet

(Figures in millions of kroner)	30.9.2010	31.12.2009
FINANCIAL ASSETS		
Deposits in foreign banks	12	13
Lending associated with reverse repurchase agreements	8 720	8 520
Other assets	4 934	2 424
TOTAL FINANCIAL ASSETS	13 665	10 958
Financial derivatives	0	0
Other liabilities	0	0
Unsettled trades not recognised	1 878	-4 386
NET PORTFOLIO	15 543	6 572

Appendix

Investment portfolio Benchmark portfolio as at 31 December 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	41.8	60.0	58.2
Belgium		0.5		
Finland		0.6		
France		4.3		
Greece		0.1		
Ireland		0.1		
Italy		1.3		
Netherlands		1.3		
Portugal		0.2		
Spain		1.6		
Germany		3.6		
Austria		0.2		
<i>Euro area (euro)</i>		13.8		36.4
UK (pounds)		8.6		10.1
Denmark (kroner)		0.6		
Switzerland (francs)		3.5		
Sweden (kronor)		1.5		
Total Europe		27.9		46.5
US (dollars)		48.2		43.0
Canada (dollars)		5.1		
Israel (shekels)		0.3		
Total Americas and Africa/Middle East		52.4		43.0
Australia (dollars)		3.8		
Hong Kong		2.1		
Japan (yen)		9.3		10.4
New Zealand (dollars)		0.1		
Singapore (dollars)		0.8		
South Korea		2.4		
Total Asia and Oceania		18.5		10.4

Investment portfolio Largest equity holdings per 31 december 2010

Company	Country	Holdings in million NOK
Exxon Mobil Corp	US	1 172
Apple Inc	US	940
Royal Dutch Shell PLC	UK	788
Microsoft Corp	US	758
Nestle SA	Switzerland	698
HSBC Holdings PLC	UK	677
General Electric Co	US	618
Chevron Corp	US	580
International Business Machines Corp	US	579
Procter & Gamble Co/The	US	572

Investment portfolio Largest bond holdings per 31 December 2010

Issuer	Country	Holdings in million NOK
Government of United States of America	US	42 905
Government of Japan	Japan	11 871
United Kingdom Government	UK	9 710
Government of Germany	Germany	9 224
French Republic	France	5 615
Government of Spain	Spain	3 002
European Investment Bank	International organizations	2 646
Bank of Scotland PLC	UK	2 452
La Caja de Ahorros y Pensiones de Barcelona	Spain	1 952
Ayt Cedula Cajas Global	Spain	1 946

Investment portfolio Largest ownership interest per 31 December 2010

Company	Country	Interest (percent)
Okabe Co Ltd	Japan	0.24
Zappallas	Japan	0.23
Gulf Island Fabrication Inc	US	0.21
Extreme Networks	US	0.20
Matrix Service Co	US	0.20
Yorozu Corp	Japan	0.17
Aiful Corp	Japan	0.17
Challenger Diversified Property Group	Australia	0.16
Spartan Stores Inc	US	0.16
NicOx SA	France	0.15