

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 clock face showing '02:50', '07:50', and '08:50', and the names of cities 'New York', 'London', 'Tokyo', and 'Date/Time'. The background also includes a faint image of a hand holding a coin and a stylized globe.

NBIM

Norges Bank Investment Management

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

Second quarter 2010

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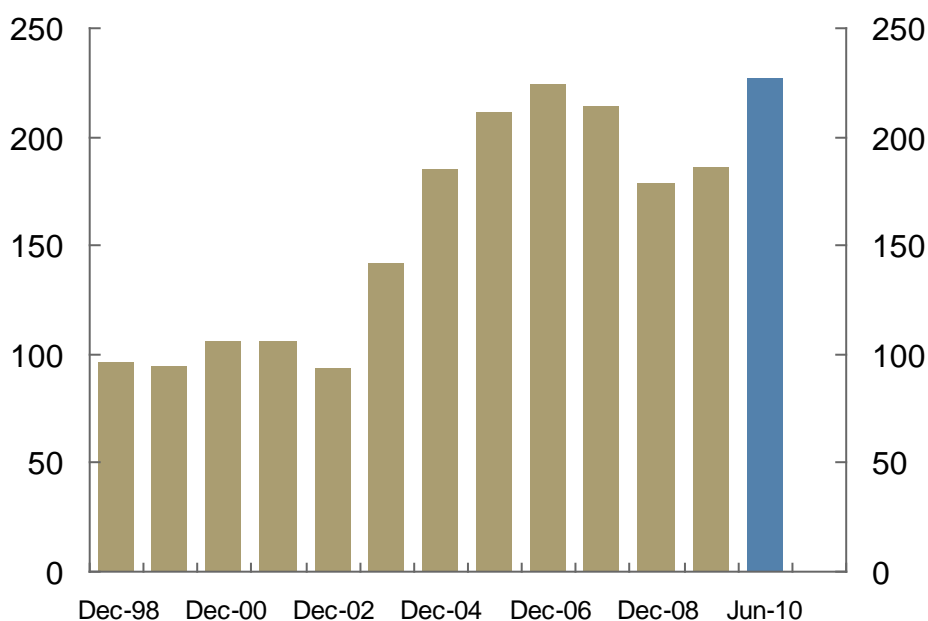
The foreign exchange reserves are to be available for intervention in the foreign exchange market in connection with the implementation of monetary policy or to promote financial stability. The reserves are divided into a money market portfolio and an investment portfolio. In addition, a buffer portfolio 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 227 billion kroner on 30 June 2010. The return in the second quarter was -2.8 percent, which was 0.03 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 nominal return of 4.6 percent. The annual net real return (i.e. the nominal return less management costs and inflation) since 1998 has been 2.6 percent. The average excess return during the period has been 0.09 percentage point

Table 1-1 Key figures to 30 June 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)	15.14	0.09	3.09	4.55	4.58
Benchmark return (percent)	11.50	0.36	3.15	4.45	4.49
Excess return (percentage points)	3.64	-0.27	-0.06	0.10	0.09
Standard deviation (percent) ¹⁾	7.62	9.97	7.96	5.97	5.46
Tracking error (percentage points)	1.06	1.87	1.44	1.02	0.93
Information ratio ²⁾	3.44	-0.14	-0.04	0.10	0.10
Gross annual return (percent)	15.14	0.09	3.09	4.55	4.58
Annual price inflation (percent)	1.47	1.73	2.04	1.96	1.84
Annual management costs (percent)	0.07	0.08	0.07	0.07	0.07
Annual net real return (percent)	13.40	-1.69	0.96	2.47	2.62

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 Changes to the guidelines

On 3 February 2010 the Executive Board adopted new guidelines for the investment of the foreign exchange reserves. Experience from the global financial crisis showed that the need for foreign currency in the performance of Norges Bank's traditional central banking activities was greater than previously assumed. It was therefore necessary to improve the liquidity of the foreign exchange reserves. The main changes for the investment portfolio are as follows:

- The corporate bond, securitised debt and inflation-linked bond sectors have been removed from the benchmark portfolio for bonds, and the number of currencies has been reduced. Following the changes, the benchmark portfolio for bonds will contain only government securities and securities issued by international organisations of the highest credit quality, and denominated in four currencies (US dollars, Japanese yen, euro and pounds sterling).

- The allocation to equities is unchanged at 40 percent, but emerging equity markets have been removed from the benchmark portfolio for equities, and global market weights have replaced the previous regional weights.
- The rebalancing principle has been retained, but rebalancing will be performed only at asset class level in future and not by both asset class and geographical region as before.
- Introduction of an expected level of active risk in the management of the investment portfolio of 100 basis points expected tracking error, rather than a maximum limit of 150 basis points.

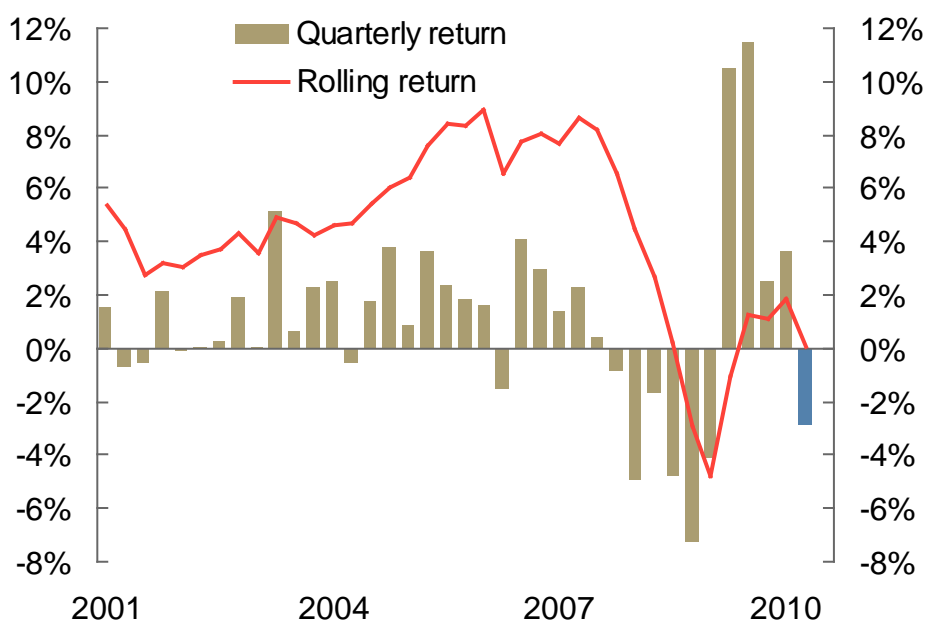
The new benchmark portfolio will apply from 30 June, while the changes in the actual portfolio will be implemented gradually over a period of time.

3 Market value and return

The investment portfolio's market value rose by 4.5 billion kroner during the second quarter of 2010. A negative return on investment reduced its value by 7.1 billion kroner, while a weaker krone against the currencies in which the portfolio is invested increased its value by 11.6 billion.

The return on the investment portfolio in the second quarter was -2.8 percent measured in international currency. There was a return of -9.2 percent on the equity portfolio and 1.3 percent on the fixed-income portfolio. At the end of the quarter, the three-year rolling annualised return for the overall portfolio was 0.1 percent.

Chart 3-1 Quarterly return and three-year rolling annualised return. Percent



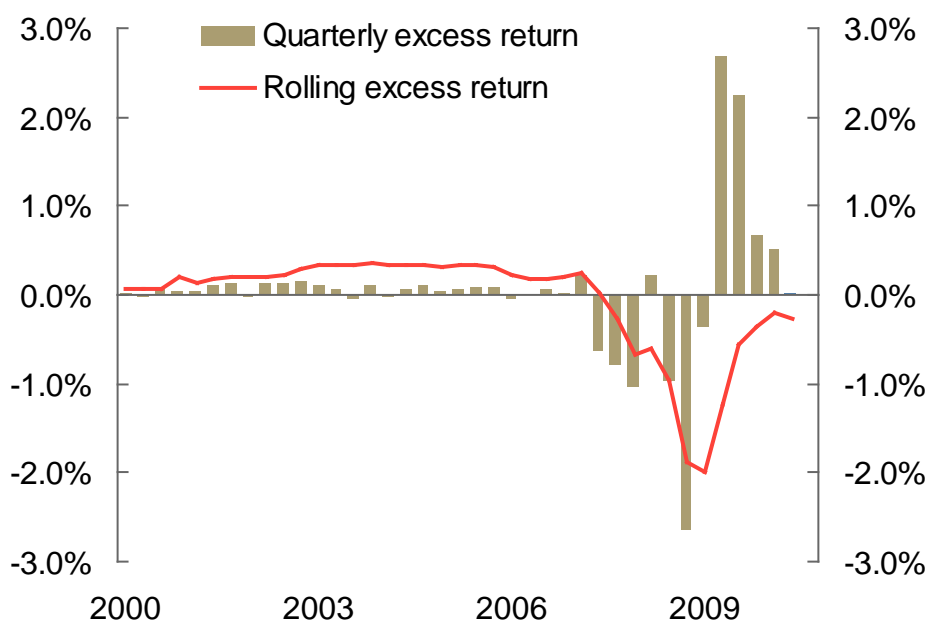
The return achieved by NBIM on the actual portfolio is measured in relation to the return on a benchmark portfolio defined by the Executive Board. The return on the actual portfolio in the second quarter was 0.03 percentage point higher than the return on the benchmark portfolio.

Table 3-1 Key figures. Quarterly data

	2Q 2010	1Q 2010	4Q 2009	3Q 2009	2Q 2009
Market value (billions of kroner)					
Fixed-income portfolio	143.7	135.4	102.6	103.0	106.3
Equity portfolio	83.4	87.2	82.9	80.0	71.4
Overall portfolio	227.1	222.6	185.4	183.0	177.7
Inflows of new capital					
Inflows of new capital	0.0	31.0	0.0	0.0	0.0
Return					
Return	-7.1	6.7	4.9	21.3	17.6
Change due to movements in krone					
Change due to movements in krone	11.6	-0.5	-2.5	-16.0	-0.7
Return in international currency (percent)					
Equity portfolio	-9.17	5.06	4.39	17.59	18.64
Fixed-income portfolio	1.27	2.50	1.03	7.36	5.63
Overall portfolio	-2.84	3.66	2.51	11.51	10.48
Benchmark portfolio*	-2.87	3.16	1.86	9.28	7.79
Excess return	0.03	0.50	0.65	2.23	2.69
Return in kroner (percent)					
Equity portfolio	-4.62	4.71	3.17	8.63	18.66
Fixed-income portfolio	6.35	2.17	-0.14	-0.81	5.64
Overall portfolio	2.04	3.32	1.32	3.02	10.49
Benchmark portfolio*	2.01	2.82	0.67	0.96	7.80

*Following an evaluation of the tax rates on dividends on shares in the investment portfolio's benchmark portfolio, historical return data for the benchmark portfolio have been revised. As a result, the annualised return on the benchmark portfolio is 1 basis point lower than previously calculated from 2006 to April 2010.

Chart 3-2 Quarterly excess return and three-year rolling annualised excess return. Percentage points



4 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 second quarter of 2010 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. As discussed in Section 2 above, these rules were revised with effect from 30 June, with the maximum limit being replaced with a target of 1 percentage point expected tracking error.

The increase in the investment portfolio's expected tracking error in the second quarter of 2010 needs to be seen in the light of the introduction of the new guidelines (see Chart 4-1).

Chart 4-1 Expected tracking error. Basis points

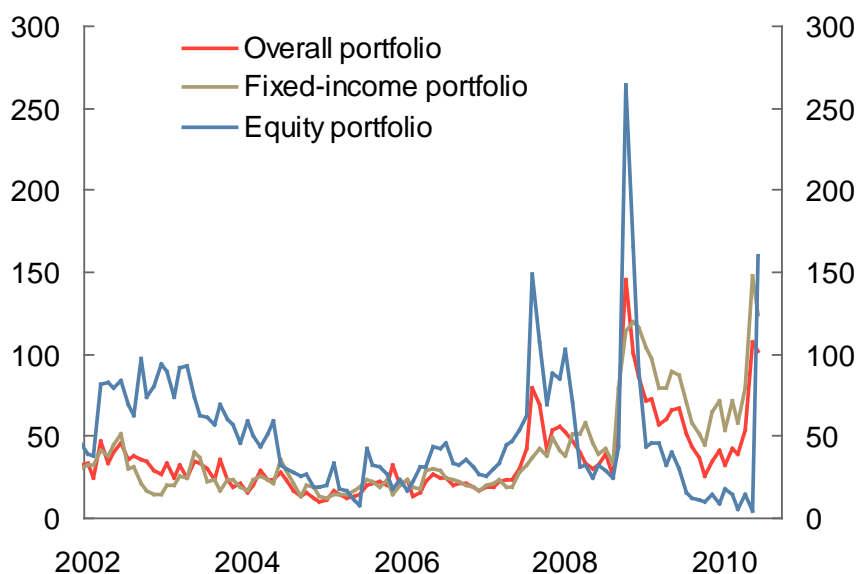


Table 4-1 breaks down the fixed-income portfolio (excluding cash) by type of instrument and credit rating.

Table 4-1 Fixed-income portfolio by credit rating as at 30 June 2010 ¹⁾

Percentage of fixed-income portfolio	Aaa	Aa	A	Baa	Ba	Lower	No rating
Government and govt-related bonds	54.0	4.4	1.5	0.8	0.4	0.0	0.3
Inflation-linked bonds	1.7	2.4	-	-	-	-	-
Corporate bonds	0.4	2.6	5.6	4.5	0.3	0.1	0.0
Securitised debt	14.8	4.4	0.2	0.1	0.1	1.3	0.0
Total bonds and other fixed-income instruments	70.9	13.8	7.3	5.5	0.7	1.4	0.4

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 4-2 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 second quarter. This needs to be

seen in the light of the phasing in of a new benchmark portfolio, as discussed in Section 2 above.

Table 4-2 Key figures for risk and exposure

Risk	Limits	Actual			
		30.09.2009	31.12.2009	31.03.2010	30.06.2010
Market risk	Tracking error max. 1.5 percentage points ¹⁾	0.37	0.41	0.39	1.02
Asset mix	Fixed-income portfolio	56.3	55.2	60.7	63.5
	Equity portfolio	43.7	44.8	39.3	36.5
Currency distribution, fixed-income	Europe	62.0	61.9	60.8	45.2
	Americas	33.4	33.5	34.6	45.0
	Asia and Oceania	4.6	4.6	4.6	9.9
Market distribution, equities	Europe	51.4	50.5	48.7	35.4
	Americas and Africa	33.1	34.0	35.2	47.0
	Asia and Oceania	15.5	15.5	16.1	17.6
Ownership	Max. 5% of a company	0.20	0.24	0.42	0.42

¹⁾With effect from 30 June 2010, this has been replaced with a target for expected tracking error of 1 percentage point under normal market conditions.

5 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 2010, 31.1 billion kroner was transferred to the buffer portfolio from the SDFI, and 35.5 billion kroner was transferred from the buffer portfolio to the Government Pension Fund Global.

The return on the buffer portfolio in the second quarter was 8.5 per cent measured in kroner. The market value of the portfolio at the end of the quarter was 5.4 billion kroner. The portfolio is invested in short-term money market instruments, primarily in euro, US dollars and pounds sterling.

Tabell 5-1 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
1Q 2010	25 325	0	- 19 338	- 4 019	8 751
2Q2010	31 060	0	-35 481	0	5 389

6 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 second 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 60.4 million kroner in the first half of 2010, which corresponds to 0.06 percent of average assets under management.

Investment portfolio – profit and loss account and balance sheet

Table 6-1 Investment portfolio. Profit and loss account

	Quarter		Year to date		
	2Q 2010	2Q 2009	30.06.2010	30.06.2009	31.12.2009
(Figures in millions of kroner)					
Interest income, deposits in foreign banks	2	-17	2	-14	39
Interest income, lending associated with reverse repurchase agreements	4	54	6	72	75
Net income/expenses and gains/losses from:					
- equities and units	-9 698	11 046	-5 941	6 899	24 910
- bonds and other fixed-income instruments	2 752	6 296	5 845	6 421	14 798
- financial derivatives	-147	252	-308	139	24
Interest expenses, borrowing associated with repurchase agreements	-6	-58	-12	-189	-227
Other interest expenses	0	16	0	48	-3
Other expenses	-12	-16	-21	-33	-70
Profit/loss before exchange rate adjustments	-7 103	17 572	-429	13 342	39 545
Exchange rate adjustments	11 632	-717	11 112	-14 598	-33 048
Profit/loss	4 529	16 856	10 683	-1 256	6 496

Table 6-2 Investment portfolio. Balance sheet

(Figures in millions of kroner)	30.06.2010	30.06.2009	31.12.2009
FINANCIAL ASSETS			
Deposits in foreign banks	830	1 123	561
Lending associated with reverse repurchase agreements	19 212	10 395	12 281
Equities and units	76 426	61 867	74 618
Equities lent	6 816	9 363	8 445
Bonds and other fixed-income instruments	120 955	127 081	96 909
Bonds lent	26 340	17 957	18 135
Financial derivatives	510	816	361
Unsettled trades	23 243	4 416	802
Other assets	4 103	98	790
TOTAL FINANCIAL ASSETS	278 436	233 116	212 903
FINANCIAL LIABILITIES			
Short-term borrowing	103	399	272
Borrowing associated with repurchase agreements	9 365	19 739	8 633
Cash collateral received	20 282	18 000	16 734
Financial derivatives	628	1 477	291
Unsettled trades	20 909	7 878	1 528
Other liabilities	1	7 958	1
TOTAL FINANCIAL LIABILITIES	51 289	55 451	27 459
NET PORTFOLIO	227 147	177 665	185 444

Buffer portfolio – profit and loss account and balance sheet

Tabell 6-3 Resultatregnskap Bufferporteføljen

(tall i millioner kroner)	Kvartal			Hittil i år	
	2.kv. 2010	2.kv. 2009	30.6.2010	30.6.2009	31.12.2009
Renteinntekter innskudd i utenlandske banker	0	37	1	46	74
Renteinntekter utlån knyttet til gjensalgsvtaler	9	9	13	60	76
Andre rentekostnader	0	-4	0	-8	-11
Andre kostnader	0	0	0	0	-1
Sum resultat fra forvaltning før valutakursreguleringer	8	42	14	98	137
Valutakursreguleringer	1 029	193	1 182	-982	-3 536
Sum resultat	1 038	235	1 196	-884	-3 399

Investment portfolio Benchmark portfolio as at 30 June 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	36.7	60.0	63.3
Belgium		0.5		
Finland		0.5		
France		4.3		
Greece		0.1		
Ireland		0.2		
Italy		1.4		
Netherlands		1.3		
Portugal		0.2		
Spain		1.6		
Germany		3.4		
Austria		0.2		
<i>Euro area (euro)</i>		<i>13.8</i>		<i>35.0</i>
UK (pounds)		8.5		10.0
Denmark (kroner)		0.5		
Switzerland (francs)		3.5		
Sweden (kronor)		1.3		
Total Europe		27.7		45.0
US (dollars)		48.8		45.0
Canada (dollars)		4.8		
Israel (shekels)		0.4		
Total Americas and Africa		53.9		45.0
Australia (dollars)		3.6		
Hong Kong		2.0		
Japan (yen)		9.7		10.0
New Zealand (dollars)		0.1		
Singapore (dollars)		0.8		
South Korea		2.3		
Total Asia and Oceania		18.4		10.0

Appendix

Investment portfolio Benchmark portfolio as at 30 June 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	36.7	60.0	63.3
Belgium		0.5		
Finland		0.5		
France		4.3		
Greece		0.1		
Ireland		0.2		
Italy		1.4		
Netherlands		1.3		
Portugal		0.2		
Spain		1.6		
Germany		3.4		
Austria		0.2		
<i>Euro area (euro)</i>		<i>13.8</i>		<i>35.0</i>
UK (pounds)		8.5		10.0
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Switzerland (francs)		3.5		
Sweden (kronor)		1.3		
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Australia (dollars)		3.6		
Hong Kong		2.0		
Japan (yen)		9.7		10.0
New Zealand (dollars)		0.1		
Singapore (dollars)		0.8		
South Korea		2.3		
Total Asia and Oceania		18.4		10.0