Report on the management of Norges Bank's foreign exchange reserves
Third quarter 2011

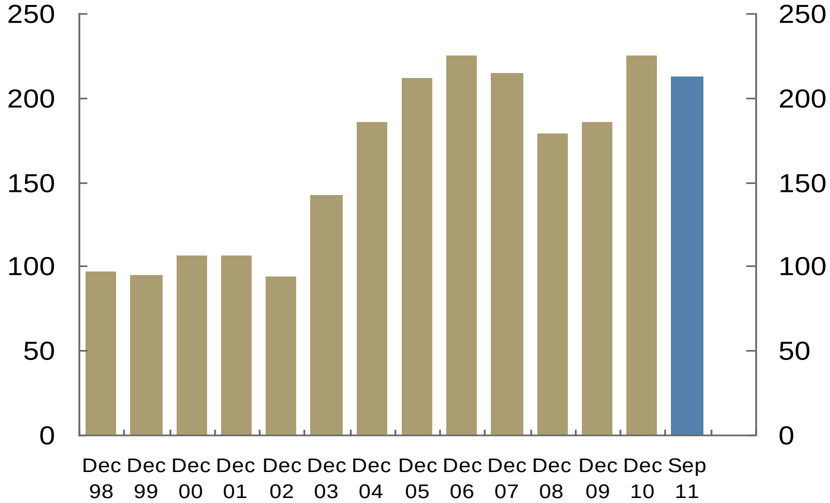
The foreign exchange reserves are to be available for intervention in the foreign exchange market in connection with the implementation of monetary policy or to promote financial stability. The reserves are divided into a money market portfolio and a long-term portfolio. In addition, a buffer portfolio 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 long-term 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 long-term 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. In March 2011 the Executive Board made a number of changes to the guidelines for the investment of the foreign exchange reserves. The main aim of these changes, which entered into force on 1 April 2011, was to further strengthen the liquidity requirement.

1 Key figures

The market value of the long-term portfolio was 212 billion kroner on 30 September 2011. The portfolio returned -3.36 percent in the third quarter, which was 0.48 percentage point lower than the return on the benchmark portfolio defined by Norges Bank's Executive Board.

Chart 1-1 *Long-term portfolio. Market value. Billions of kroner*



Since 1998, the long-term portfolio has generated an annual return of 4.67 percent. The annual net real return (i.e. the nominal return less management costs and inflation) since 1998 has been 2.64 percent. The return that NBIM generates on the actual portfolio is measured against the return on a benchmark portfolio defined by the Executive Board. The average annual excess return during the period has been 0.13 percentage point.

Table 1-1 Key figures as of 30 September 2011. Annualised data in international currency

	Past year	Past 3 years	Past 5 years	Past 10 years	Since 01.01.98
Portfolio return (percent)	1.14	6.55	2.76	4.72	4.67
Benchmark return (percent)	1.07	5.45	2.73	4.56	4.53
Excess return (percentage points)	0.07	1.10	0.03	0.16	0.13
Standard deviation (percent) 1)	4.29	9.02	8.15	6.15	5.41
Actual tracking error (percentage points)	0.54	1.72	1.48	1.05	0.90
Information ratio 2)	0.13	0.64	0.02	0.15	0.15
Gross annual return (percent)	1.14	6.55	2.76	4.72	4.67
Annual price inflation (percent)	2.9	1.4	2.1	2.0	1.9
Annual management costs (percent)	0.05	0.06	0.07	0.06	0.07
Annual net real return (percent)	-1.80	5.06	0.62	2.56	2.64
Annual gross excess return (percentage points)	0.07	1.10	0.03	0.16	0.13

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 andthe 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 long-term portfolio's market value was 212 billion kroner at the end of the third quarter, a decrease of 6.8 billion kroner during the quarter. A negative return on investment decreased its value by 7.6 billion kroner, while a weaker krone against the currencies in which the portfolio is invested increased its value by 13.7 billion kroner, and 12.9 billion kroner was transferred to the money market portfolio.

The long-term portfolio returned -3.36 percent in the third quarter, measured in international currency. There was a return of -15.39 percent on the equity portfolio and 5.67 percent on the fixed-income portfolio. The annualised return for the overall portfolio over the past ten years was 4.72 percent.

The return on the actual portfolio was 0.48 percentage point lower than the return on the benchmark portfolio in the third quarter of 2011, and 0.16 percentage point higher over the past ten years.

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

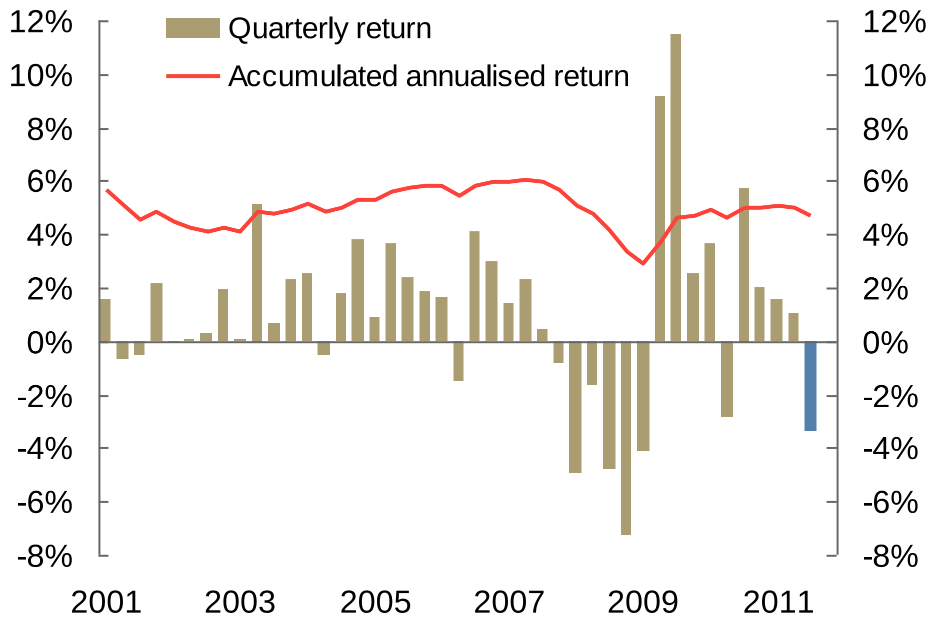


Chart 2-2 *Quarterly and accumulated annualised excess return since 1 January 1998. Percentage points*

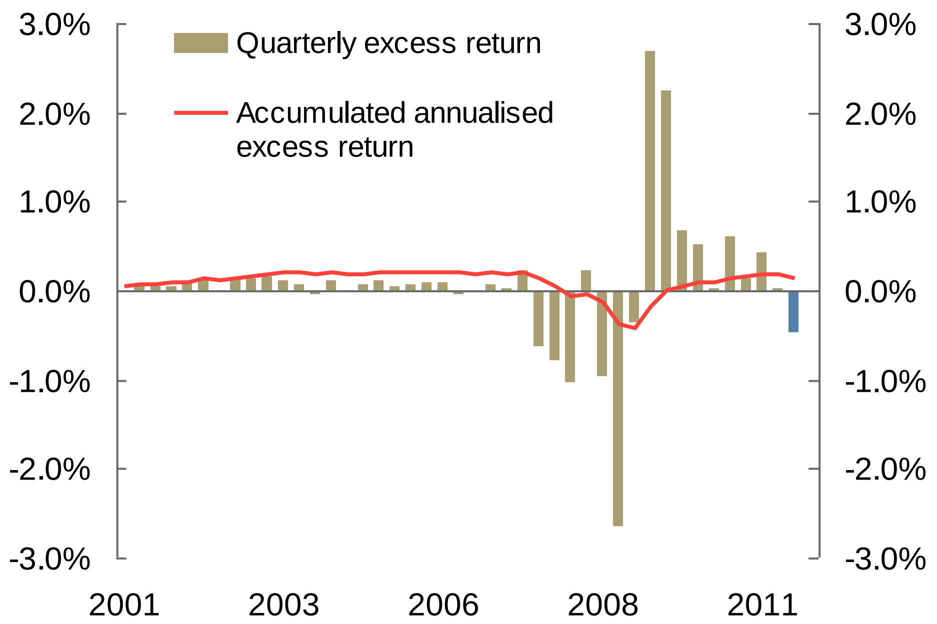


Table 2-1 Key figures. Quarterly data

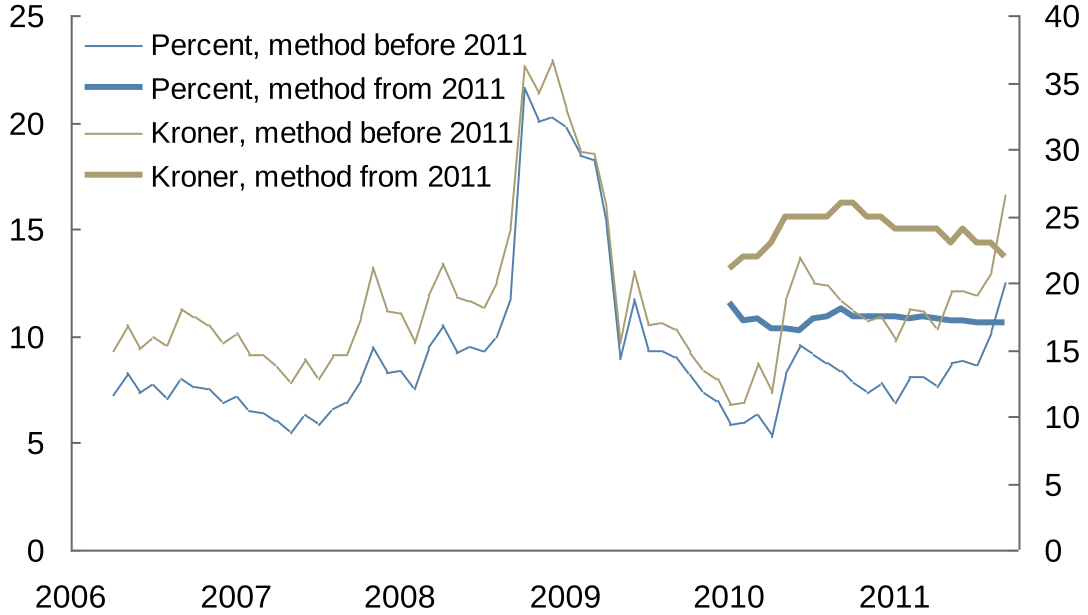
	3Q 2011	2Q 2011	1Q 2011	4Q 2010	3Q 2010
Market value (billions of kroner)					
Fixed-income portfolio	129.2	127.0	126.8	130.9	135.7
Equity portfolio	83.0	92.0	94.3	93.8	86.3
Overall portfolio	212.3	219.0	221.1	224.7	222.0
Inflows of new capital	-12.9	0.0	0.0	0.0	-4.7
Return	-7.6	2.0	3.5	4.4	13.6
Change due to movements in krone	13.7	-4.1	-7.1	-1.7	-14.0
Return in international currency (percent)					
Equity portfolio	-15.39	-0.51	3.18	9.48	9.63
Fixed-income portfolio	5.67	2.13	0.39	-2.71	3.48
Overall portfolio	-3.36	1.01	1.55	2.03	5.75
Benchmark portfolio	-2.88	0.99	1.13	1.90	5.16
Excess return (percentage points)	-0.48	0.02	0.42	0.13	0.60
Return in kroner (percent)					
Equity portfolio	-9.74	-2.43	-0.03	8.63	3.46
Fixed-income portfolio	12.72	0.16	-2.73	-3.47	-2.35
Overall portfolio	3.08	-0.95	-1.60	1.24	-0.20
Benchmark portfolio	3.59	-0.96	-2.02	1.11	-0.76

3 Market risk and management guidelines

Expected fluctuations in the value of the portfolio’s investments are measured using the statistical measure expected volatility. The calculations use historical prices to estimate how much annual returns can be expected to vary. As can be seen from Chart 3-1, expected absolute volatility was 10.6 percent throughout the quarter.

Chart 3-1 also shows expected absolute volatility calculated with the method used prior to 2011, which is based on a shorter dataset and is therefore more sensitive to short-term changes in market conditions.

Chart 3-1 *Expected absolute volatility[1]. Percent (left-hand scale) and billions of kroner (right-hand scale)*



Relative market risk is measured partly as expected relative volatility (tracking error). 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 guidelines for the long-term portfolio issued by Norges Bank's Executive Board require the portfolio to be managed with the aim that expected tracking error does not exceed 1 percentage point (100 basis points). At this limit, the annual return on the actual portfolio under normal market conditions can be expected to deviate from the return on the benchmark portfolio by less than 1 percentage point in two out of every three years. As can be seen from Chart 3-2, expected tracking error varied little in each asset class in the third quarter but increased significantly for the portfolio as a whole. This was due to changes in asset allocation during the quarter, with the portfolio now containing a higher percentage of equities than the actual benchmark portfolio. Expected tracking error was estimated at 80 basis points at the end of the quarter.

As with absolute volatility above, tracking error is presented using two different datasets (see Charts 3-2 and 3-3). The method in Chart 3-2 is the one used for the Government Pension Fund Global from 2011.

[1] Volatility estimated using the new method from 2011, which is based on equally weighted weekly price observations over the past three years. Data since December 2009.

Chart 3-2 *Expected tracking error[2]. Basis points*

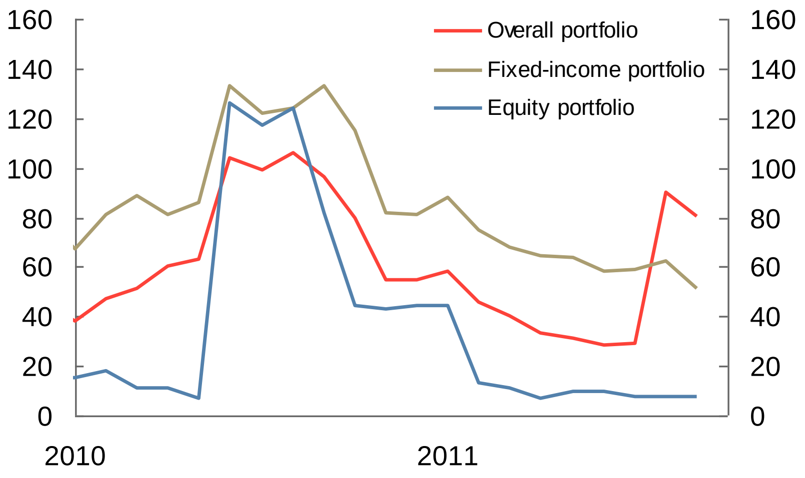


Chart 3-3 *Expected tracking error. Method used prior to 2011. Basis points*

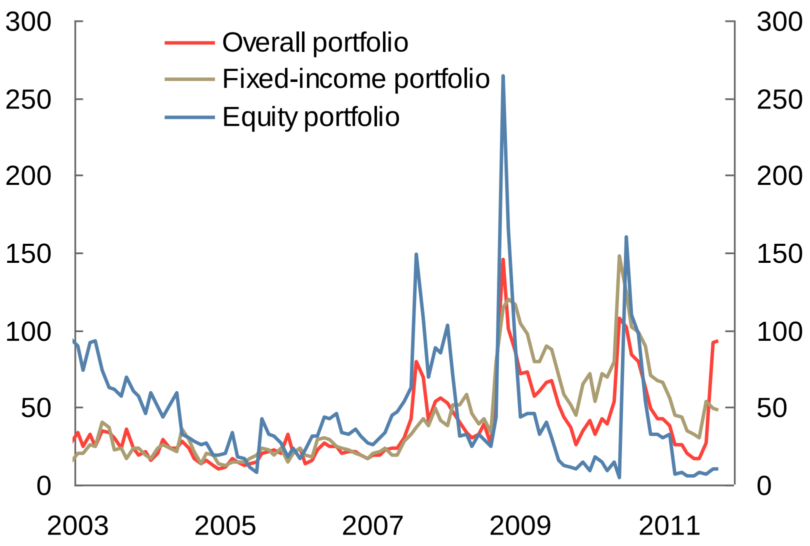


Table 3-1 breaks down the fixed-income portfolio (excluding cash) by type of instrument and credit rating.

Table 3-1 Fixed-income portfolio by credit rating as of 30 September 2011

(Percentage of fixed-income portfolio)	AAA	AA	A	BBB	Lower	Total
Government bonds	73.37	10.53	-	-	0.13	84.03
Government-related bonds	0.76	0.01	0.06	0.07	0.08	0.98
Corporate bonds	-	0.07	0.25	0.31	0.21	0.84
Securitised debt	9.53	4.09	0.17	0.37	-	14.16
Total fixed-income securities	83.66	14.70	0.47	0.75	0.42	100.00

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

Table 3-2 provides an overview of risk and exposure in the long-term portfolio. There were no breaches of the Executive Board's guidelines in the third quarter of 2011.

Table 3-2 Key figures for risk and exposure

Risk	Limits	Actual		
		30.09.11	**30.06.2011**	**31.03.11**
Market risk	1.0 percentage point expected tracking error	0.80	0.29	0.40
Asset mix	Fixed-income portfolio	60.9	58.0	57.3
	Equity portfolio	39.1	42.0	42.7
Ownership	Max. 10% of a company	0.54	0.27	0.27

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 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 third quarter of 2011, 41 billion kroner was transferred to the buffer portfolio from the SDFI, and 77.8 billion kroner was transferred from the buffer portfolio to the Government Pension Fund Global.

The return on the buffer portfolio in the third quarter was 6.24 percent, measured in kroner. The market value of the portfolio at the end of the quarter was 15.8 billion kroner. The portfolio is invested in short-term money market instruments, primarily in euros, 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
4Q 2010	40 944	30 191	- 58 613	0	15 543
1Q 2011	40 914	0	- 38 495	0	17 117
2Q 2011	44 618	14 298	- 52 891	0	22 169
3Q 2011	**41 052**	**28 599**	**- 77 786**	**0**	**15 777**

5 Financial reporting

Financial information for the buffer and long-term portfolios in Norges Bank's foreign exchange reserves is presented below. The financial reporting forms part of, and comprises excerpts from, Norges Bank's financial statements.

Accounting policies

The accounting information for the third quarter of 2011 includes profit and loss accounts and balance sheets prepared in accordance with the classification, measurement and presentation policies for Norges Bank, but without notes. A presentation of the accounting policies applied in the preparation of the accounting information can be found in Norges Bank's interim accounts for the third quarter of 2011, which consist solely of the financial reporting for the investment portfolio of the Government Pension Fund Global.

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 interim accounts for Norges Bank for the third quarter of 2011 contain further information on significant estimates and assumptions.

Operating expenses

NBIM's total costs associated with the management of the long-term portfolio amounted to 79.4 million kroner in the third quarter of 2011, which corresponds to 0.05 percent of average assets under management.

Long-term portfolio – profit and loss account and balance sheet

Table 5-1 Long-term portfolio – profit and loss account

(Figures in millions of kroner)	Quarter 3Q2011	Quarter 3Q2010	Year to date 30.09.11	Year to date 30.09.10	Year to date 31.12.10
Interest income, deposits in foreign banks	-11	0	15	2	10
Interest income, lending associated with reverse repurchase agreements	3	3	26	9	28
Net income/expenses and gains/losses from:					
- equities and units	-15 194	8 486	-12 587	2 546	10 153
- bonds and other fixed-income securities	7 476	4 268	10 306	10 113	6 908
- financial derivatives	131	-70	165	-378	-377
Interest expenses, borrowing associated with repurchase agreements	-6	-2	-29	-15	-36
Other interest expenses	0	-5	-1	-5	-4
Other expenses	-5	-6	-17	-27	-27
Profit/loss before exchange rate adjustments	**-7 605**	**12 675**	**-2 120**	**12 245**	**16 653**
Exchange rate adjustments	13 747	-13 170	2 549	-2 058	-3 718
Profit/loss	**6 143**	**-496**	**429**	**10 187**	**12 935**

Table 5-2 Long-term portfolio – balance sheet

(Figures in millions of kroner)	30.09.11	30.09.10	31.12.10
FINANCIAL ASSETS			
Deposits in foreign banks	185	404	422
Lending associated with reverse repurchase agreements	5 769	25 405	28 231
Equities and units	77 901	78 171	92 324
Equities lent	5 351	8 501	1 566
Bonds and other fixed-income securities	127 227	117 333	110 410
Bonds lent	1 611	23 059	24 830
Financial derivatives	18	551	21
Unsettled trades	366	3 985	1 972
Other assets	700	1 243	-540
TOTAL FINANCIAL ASSETS	**219 130**	**258 652**	**259 238**
FINANCIAL LIABILITIES			
Short-term borrowing	0	385	0
Borrowing associated with repurchase agreements	2 888	11 355	14 432
Cash collateral received	1 694	19 725	17 893
Bonds and other fixed-income securities	0	149	1 492
Financial derivatives	1	1 385	212
Unsettled trades	2 267	3 662	470
Other liabilities	4	2	2
TOTAL FINANCIAL LIABILITIES	**6 853**	**36 663**	**34 501**
NET PORTFOLIO	**212 277**	**221 989**	**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		
	3Q 2011	3Q 2010	30.09.11	30.09.10	31.12.10
Interest income, deposits in foreign banks	36	1	82	3	11
Interest income, lending associated with reverse repurchase agreements	7	7	21	21	29
Interest expenses, borrowing associated with repurchase agreements	0	0	0	0	-2
Other expenses	0	0	0	-1	-1
Profit/loss before exchange rate adjustments	**43**	**9**	**102**	**23**	**38**
Exchange rate adjustments	1 686	-814	-173	368	354
Profit/loss	**1 729**	**-805**	**-71**	**391**	**392**

Table 5-4 Buffer portfolio – balance sheet

(Figures in millions of kroner)	30.09.11	30.09.10	31.12.10
FINANCIAL ASSETS			
Deposits in foreign banks	1	5	12
Lending associated with reverse repurchase agreements	25 224	9 710	8 720
Other assets	22 468	12 505	4 934
TOTAL FINANCIAL ASSETS	**47 693**	**22 221**	**13 665**
Other liabilities	33 858	20 870	0
TOTAL FINANCIAL LIABILITIES	**33 858**	**20 870**	**0**
Unsettled contracts not recognised	1 941	1 674	1 878
NET PORTFOLIO	**15 777**	**3 024**	**15 543**

Appendices

Long-term portfolio Benchmark portfolio as of 30 September 2011. Percent

	Equities		Fixed-income securities	
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**	**36.6**	**60.0**	**63.4**
Belgium		0.4		
Finland		0.4		
France		4.1		
Greece		0.1		
Ireland		0.2		
Italy		1.2		
Netherlands		1.1		
Portugal		0.1		
Spain		1.6		
Germany		3.3		
Austria		0.2		
Euro area (euros)		*12.6*		*36.1*
UK (pounds)		8.7		10.3
Denmark (kroner)		0.5		
Switzerland (francs)		3.6		
Sweden (kronor)		1.3		
Total Europe		**26.6**		**46.4**
US (dollars)		49.6		43.2
Canada (dollars)		4.9		
Israel (shekels)		0.3		
Total Americas and Africa/Middle East		**54.8**		**43.2**
Australia (dollars)		3.6		
Hong Kong		2.0		
Japan (yen)		9.7		10.3
New Zealand (dollars)		0.1		
Singapore (dollars)		0.8		
South Korea		2.4		
Total Asia and Oceania		**18.6**		**10.3**