3Q 2010

GOVERNMENT PENSION FUND GLOBAL **THIRD QUARTER 2010**

NBIM
Norges Bank Investment Management

Third quarter of 2010 in brief

- The Government Pension Fund Global returned 7.2 percent, or 199 billion kroner, in the third quarter, driven by gains in global stock and bond markets. The result exceeded the return on the fund's benchmark portfolio by 0.4 percentage point.
- The fund's equity investments returned 9.8 percent, beating the benchmark by 0.3 percentage point.
- The fund's fixed-income holdings returned 3.4 percent, surpassing the benchmark by 0.5 percentage point.
- The fund's market value rose 116 billion kroner to 2,908 billion kroner.
- The fund was invested 60.4 percent in equities and 39.6 percent in fixed-income securities at the end of the quarter.

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Content

Norges Bank is the central bank of Norway. Its aim is price stability, financial stability and to generate added value through investment management. Norges Bank Investment Management (NBIM) is responsible for investment management activities. NBIM manages the Government Pension Fund Global on behalf of the Ministry of Finance.

The Fund

Sizeable return increases market value

The market value of the Government Pension Fund Global rose 116 billion kroner to 2,908 billion kroner in the third quarter of 2010.

The fund's investments were split 60.4 percent in equities and 39.6 percent in fixed-income securities at the end of the quarter. The market value of the equity investments rose 94 billion kroner to 1,758 billion kroner, while the fixed-income investments gained 22 billion kroner to 1,150 billion kroner.

The market value is affected by returns on investments, capital inflows and exchange rates. The return was 199 billion kroner in the quarter, while capital inflows from the government were 49 billion kroner. A strengthening in the krone crimped the market value by 132 billion kroner.

The fund has large investments in U.S. dollars, euros and pounds. The dollar and the pound weakened 10 percent and 5.2 percent, respectively, against the krone in the quarter, while the euro gained 0.4 percent.

The fund's share of equities rose by 0.8 percentage point in the quarter as gains in global stock markets boosted the value of the holdings. The Ministry of Finance has set a long-term target for the fund's investments at 60 percent for equities, 35 percent to 40 percent for fixed-income securities and as much as 5 percent for real estate. About 70 percent

Chart 1-1 The fund's market value. Billions of krone

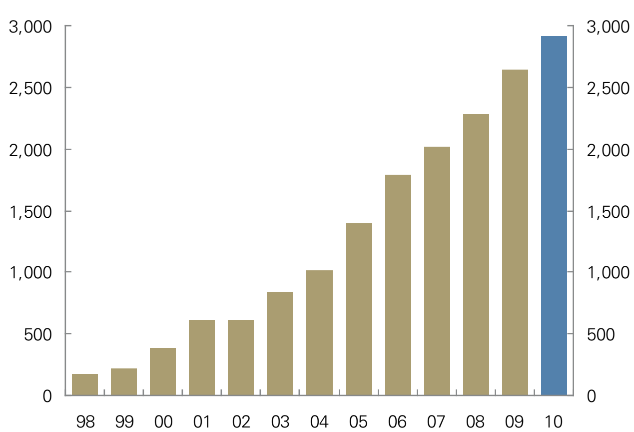
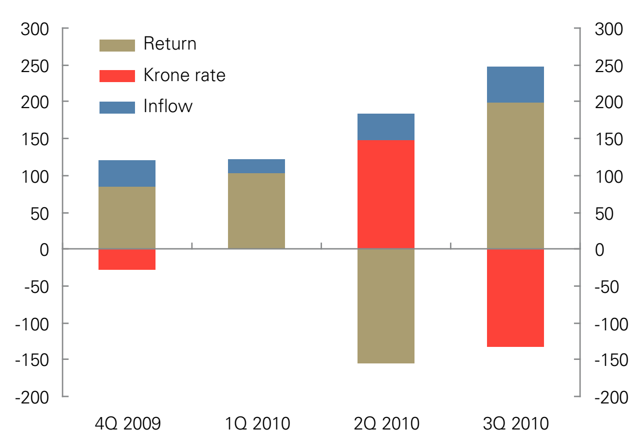


Chart 1-2 Changes to the fund's market value. Billions of krone



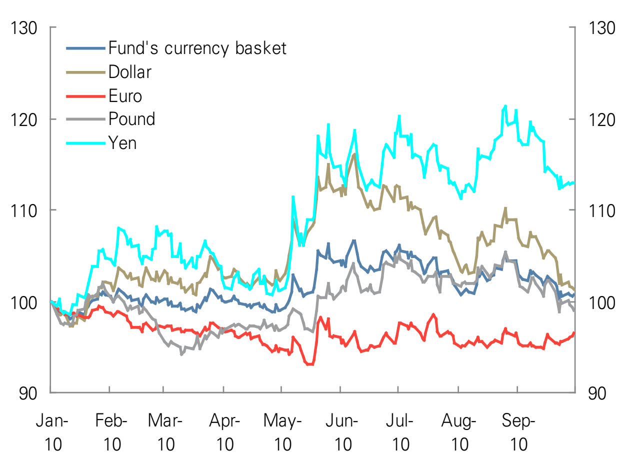
of the capital inflows went to bond purchases in the quarter and the rest to equities.

The fund got a mandate on 1 March to gradually invest in real estate by reducing fixed-income investments correspondingly. The investments shall mainly be in unlisted real estate, well-developed markets and traditional property types, initially in Europe. The fund had no property investments at the end of the third quarter.

Returns in international currency

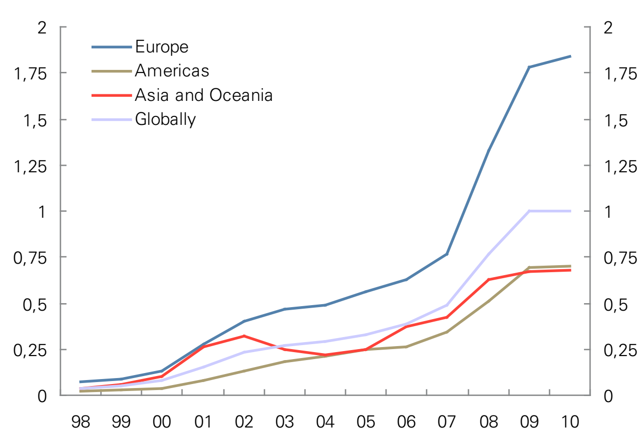
The fund invests in international securities in foreign currencies. The investments are not converted into Norwegian kroner in connection with the fund's financial reporting and are not hedged against currency fluctuations. Changes in the krone exchange rate do not impact the fund's international purchasing power. Consequently, the fund's return is usually given in international currency – that is a weighted combination of 36 currencies. This is referred to as the fund's currency basket.

Chart 1-3 Movements in currency exchange rates against the krone. Indexed. 01.01.2010 =100



Source: WM, Reuters

Chart 1-4 The fund's holdings in equity markets. Percentage of FTSE All-World Index's market capitalisation



Source: FTSE, NBIM

Table 1-1 Key figures as of 30 September 2010

	3Q 2010	2Q 2010	1Q 2010	4Q 2009	3Q 2009
Market value (billions of krone)					
Market value of equity holdings	1,758	1,664	1,730	1,644	1,581
Market value of fixed-income holdings	1,150	1,128	1,033	996	967
Market value of fund	2,908	2,792	2,763	2,640	2,549
Inflow of new capital *	49	35	19	36	49
Return	199	-155	103	84	325
Change due to movements in krone	-132	149	0	-28	-211
Total change in fund	116	29	123	92	163

* The inflows shown in this table differ slightly from those in the financial reporting (see note 3) due to differences in the treatment of management fees.

	3Q 2010	2Q 2010	1Q 2010	4Q 2009	3Q 2009
Management costs (percent)					
Estimated transition costs	0.00	0.00	0.00	0.00	0.01
Annualised management costs	0.10	0.10	0.10	0.14	0.15
Changes in value since inception (billions of krone)					
Gross inflow of new capital	2,429	2,379	2,343	2,323	2,286
Management costs	15	15	14	13	12
Inflow of capital	2,413	2,365	2,329	2,310	2,273
Return	630	430	586	482	398
Change due to movements in krone	-135	-3	-152	-152	-123
Market value of fund	2,908	2,792	2,763	2,640	2,549
Return after management costs	614	416	572	469	386

Table 1-2 The fund's largest equity holdings as of 30 September 2010

Company	Country	Holdings in millions of krone
Royal Dutch Shell PLC	UK	19,814
HSBC Holdings PLC	UK	18,982
Nestlé SA	Switzerland	18,123
Vodafone Group PLC	UK	14,781
Novartis AG	Switzerland	13,947
BP PLC	UK	13,695
Telefonica SA	Spain	11,667
Total SA	France	11,018
BHP Billiton PLC	UK	10,805
GlaxoSmithKline PLC	UK	10,562

Table 1-3 The fund's largest bond holdings as of 30 september 2010

Issuer	Country	Holdings in millions of krone
United States of America	U.S.	136,622
UK government	UK	91,768
Federal Republic of Germany	Germany	65,155
Japanese government	Japan	51,322
Italian Republic	Italy	51,226
French Republic	France	49,158
Kingdom of Spain	Spain	23,207
European Investment Bank	Supranational	23,163
Fannie Mae	U.S.	19,806
Bank of Scotland PLC	UK	18,762


SHANGHAI
Shanghai
Wangpan Yang

Fund Management

Gains in all sectors

The fund returned 7.2 percent in the third quarter, driven by gains in global stock and bond markets.

Rising share prices in the European, U.S. and Asian stock markets led to a third-quarter return of 9.8 percent on the fund's equity investments, measured in international currency.

Each of the fund's stock sectors gained in the quarter, particularly helped by better-than-expected earnings from financial, industrial and basic materials companies. Unexpectedly strong growth in Chinese industrial production in August and September also contributed to the global upswing in stock markets.

Equity investments in the basic materials sector, which includes metal, fertiliser and chemical producers, returned 18.6 percent in the quarter. This made it the fund's best-performing sector, followed by a 12.3 percent gain for oil and gas and an 11.1 percent return for telecommunications.

The financial sector gained after the Basel Committee, a group of supervisory authorities and central banks from 27 countries, on 12 September presented new capital requirements for banks that were less strict than expected. The rules, which will come into full force on 1 January 2019, also reassured investors that banks will over time have a more robust capital structure. The fund's financial sector stock holdings returned 9.4 percent in the quarter. The sector accounted for about 20 percent of the fund's stock holdings, making it the largest followed by the industrial, consumer goods and oil and gas sectors.

The third-quarter gains reversed a drop in equity markets in the previous three months that was driven by fears of slowing economic growth and concerns about sovereign debt in southern Europe. The announcement in May of an EU package of loans of as much as 750 billion euros to European countries with payment problems and the creation of a body to administer these loans in August, helped stabilise the market. Still, concerns about the economy persisted because of government austerity measures in a number of European countries and signs of weaker economic growth in the U.S.

Individual investments

The fund's equity investments are distributed with about 50 percent in Europe, 35 percent in the Americas, Africa and Middle East and 15 percent in Asia and Oceania. Stock investments in these regions returned 13.8 percent, 5.9 percent and 6.9 percent, respectively, in the third quarter, measured in international currency.

The best-performing stock investment was oil company BP, followed by Telefonica, a Spanish telecommunications company, and oil company Royal Dutch Shell. The worst performers were Wells Fargo & Co, a U.S. bank, the Swiss pharmaceutical company Roche Holding and Bank of America.

Listed companies raised about 200 billion dollars globally through the sale of new shares in the third quarter, up from just more than 120 billion dollars in the second quarter. The fund took part in the five largest transactions, which were in

Chart 2-1 The fund's quarterly return and accumulated annualised return since 1.1.1998. Percent

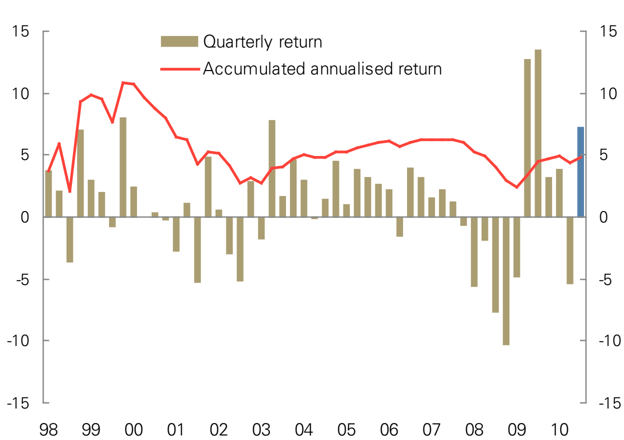
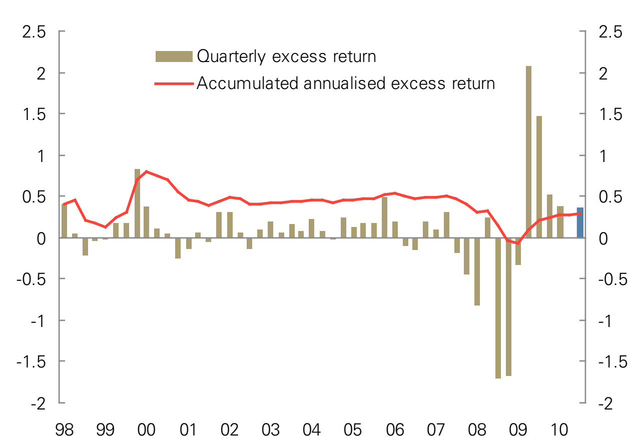


Chart 2-2 The fund's quarterly excess return and accumulated annualised excess return since 1.1.1998. Percentage points



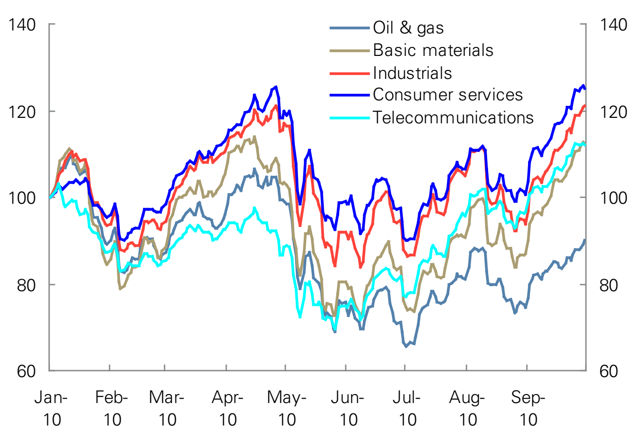
Agriculture Bank of China, Japan's Mizuho Financial Group, China Mobile, Japanese oil company Inpex and Brazilian oil producer Petróleo Brasileiro, also known as Petrobras. The fund's participation in the Petrobras offering of a record 70 billion dollars of stock in September was the largest in its history.

Bond prices rise

The fund's fixed-income investments returned 3.4 percent in the third quarter, measured in international currency, driven largely by a rise in prices of government and corporate bonds.

Prices of government bonds from European countries such as Ireland, Portugal, Spain and Greece fluctuated considerably in the quarter amid concern about these countries' deficits. Demand grew for government bonds from countries such as Germany, the U.S. and the UK, which were considered safer investments.

Chart 2-3 Price movements in different stock sectors. Indexed. 01.01.2010 = 100. U.S. dollars



Tabel 2-1 Third-quarter returns on fund's equity investments. By sector

Sector	Percent Return in international currency	Return in millions of krone
Basic materials	18.6	23,577
Oil & gas	12.3	20,339
Telecommunications	11.1	9,286
Consumer services	10.7	15,520
Industrials	10.4	22,487
Financials	9.4	34,903
Consumer Goods	8.1	16,041
Technology	5.1	7,178
Health care	4.9	7,054
Utilities	4.1	3,090

Table 2-2 Returns as of 30 September 2010

	1.1.2010–30.9.2010	3Q 2010	2Q 2010	1Q 2010	4Q 2009	3Q 2009
Return in international currency						
Equity holdings (percent)	4.57	9.81	-9.24	4.92	4.73	17.69
Fixed-income holdings (percent)	6.75	3.45	1.02	2.14	0.75	7.19
Fund (percent)	5.39	7.25	-5.39	3.87	3.18	13.51
Benchmark portfolio (percent)	4.66	6.88	-5.38	3.49	2.65	12.02
Excess return (percentage points)	0.74	0.36	0.00	0.38	0.52	1.49
Management costs (percent)	0.08	0.03	0.03	0.02	0.03	0.04
Return after management costs (percent)	5.32	7.22	-5.41	3.84	3.14	13.47
Return in krone (percent)						
Equity holdings	5.32	4.84	-4.29	4.96	3.68	8.63
Fixed-income holdings	7.51	-1.23	6.53	2.18	-0.25	-1.06
Fund	6.15	2.39	-0.23	3.90	2.15	4.76
Benchmark portfolio	5.40	2.04	-0.22	3.52	1.63	3.39

The yield, the return an investor demands for lending money through a bond, will normally rise when the potential for a default increases. In the third quarter, the yield on ten-year Irish government debt climbed to 6.57 percent from 5.50 percent, while the yield on ten-year Portuguese government bonds rose to 6.30 percent from 5.70 percent. By contrast, the yield on ten-year German government debt, often used as a benchmark for European government debt, fell to 2.28 percent from 2.58 percent.

The price of a bond will rise when its yield drops. The fund profited from rising prices on German, French, UK, U.S. and Japanese government bonds in the quarter, which outweighed a drop in prices on bonds from a number of southern European countries. The fund's overall government bond holdings returned 2.8 percent in the quarter, measured in international currency. Euro-denominated government bonds returned 2.7 percent, measured in local currency, while UK, U.S. and Japanese government bonds returned 3.8 percent, 2.9 percent and 1.2 percent, respectively.

Greek government debt was removed from the benchmark portfolio on 30 June after being downgraded by two of the three large credit rating agencies. Greek bonds remained part of the fund's investment universe and actual investments at the end of the third quarter.

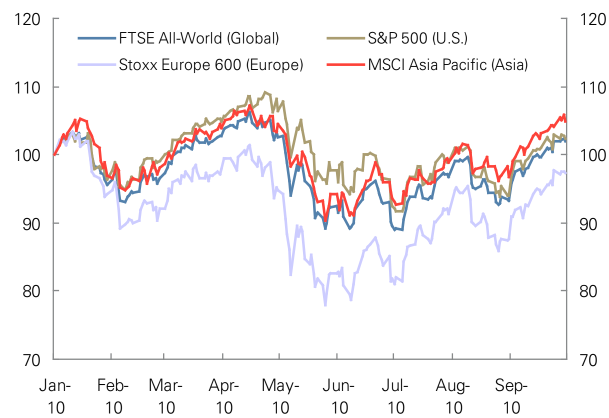
Increased activity

Government bonds accounted for about 40 percent of the fund's fixed-income investments in the third quarter, followed by corporate bonds at about 20 percent and government-related bonds at just more than 10 percent. The latter two returned 3.6 percent and 3.5 percent, respectively, measured in international currency. The fund is also invested in inflation-linked bonds and securitised debt, which returned 2.3 percent and 4.6 percent, respectively, measured in international currency.

Demand for corporate bonds grew in the quarter and more than 800 billion dollars of corporate debt was issued globally, up from 600 billion dollars in the second quarter. Investors' risk appetite increased and issuance of bonds with poor creditworthiness climbed from about 60 billion dollars in the second quarter to about 100 billion dollars in the third quarter, the most in at least three years.

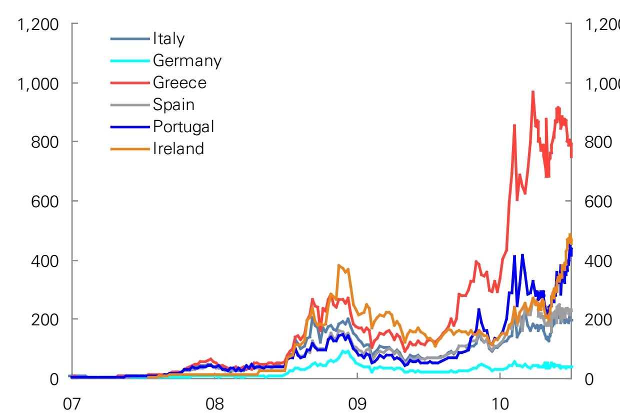
The banking sector led the way, issuing 367 billion dollars of debt. Demand for bank debt grew after the Basel Committee's capital requirements were announced. The fund's holdings of bonds from the financial sector returned 5.1 percent in the third quarter, measured in international currency.

Chart 2-4 Price development in equity markets, measured in U.S. dollars. Indexed. 01.01.2010 = 100



Source: Bloomberg

Chart 2-5 Price development of credit default insurance for government debt. Basis points



Source: Bloomberg

Annual net real return

From 1 January 1998 to 30 September 2010, the fund had an annualised gross return of 4.8 percent, measured in international currency. This gives an annual net real return of 2.9 percent after management costs and inflation are deducted.

Table 2-3 Historical key figures as of 30 September 2010. Annualised data in international currency

	Last 12 months	Past 3 years	Past 5 years	Past 10 years	Since 1.1.1998
Fund return (percent)	8.74	0.29	3.23	3.74	4.81
Benchmark return (percent)	7.43	0.53	3.20	3.55	4.52
Excess return (percentage points)	1.31	-0.24	0.03	0.19	0.29
Standard deviation (percent)	9.46	13.21	10.43	8.24	7.79
Tracking error (percentage points)	0.41	1.55	1.24	0.89	0.82
Information ratio (IR)*	3.17	-0.15	0.02	0.21	0.36
Gross annual return (percent)	8.74	0.29	3.23	3.74	4.81
Annual price inflation (percent)	1.67	1.84	1.89	1.92	1.81
Annual management costs (percent)	0.12	0.12	0.11	0.10	0.11
Annual net real return (percent)	6.84	-1.64	1.21	1.69	2.85

* 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 that the portfolio has been exposed to. The IR indicates how much excess return has been achieved per unit of risk.

Table 2-4 Fixed-income holdings as of 30 September 2010 based on credit ratings*. Percentage of portfolio

	Aaa	Aa	A	Baa	Ba	Lower	No rating
Government and government-related bonds	36.4	11.1	1.2	0.8	0.4	0.0	0.0
Inflation-linked bonds	4.5	3.6	-	-	-	-	-
Corporate bonds	0.4	3.8	7.6	6.2	0.4	0.1	0.1
Securitised debt	17.7	3.7	0.2	0.2	0.2	1.3	0.0
Share of fixed-income funds	-	-	-	-	-	-	0.0
Total bonds and other fixed-income securities	**58.9**	**22.3**	**8.9**	**7.3**	**1.0**	**1.5**	**0.2**

* Based on credit ratings from at least one of the following rating agencies. Moody's, Standard & Poor's and Finch. The "no rating" category consists of securities not rated by these three agencies. These securities may also have been rated by other agencies.

Table 2-5 Key figures for risk and exposure as of 30 September 2010. Percent and percentage points

Risk	Limits	Actual				
		30.09.2010	30.06.2010	31.03.2010	31.12.2009	30.09.2009
Market risk	Tracking error max. 1.5 percentage points	0.3	0.4	0.3	0.3	0.3
Asset mix	Equities 50–70%	60.4	59.6	62.6	62.4	62.0
	Fixed income 30–50%	39.6	40.4	37.4	37.6	38.0
	Real estate 0–5%*	0.0	0.0	0.0	-	-
Market distribution, equities	Europe 40–60%	49.0	47.2	48.5	50.3	51.1
	America and Africa 25–45%	35.8	37.1	36.5	35.3	34.4
	Asia and Oceania 5–25%	15.2	15.7	15.0	14.4	14.5
Currency distribution,	Europe 50–70%	60.0	56.3	57.7	58.6	59.8
fixed income	Americas 25–45%	34.5	37.8	36.6	36.0	35.0
	Asia and Oceania 0–15%	5.5	6.0	5.6	5.4	5.2
Ownership	Max. 10% of a listed company	9.0	8.8	8.4	7.2	9.0

*As of 1 March 2010

Better than the market return

The fund's return is measured against the return on a benchmark portfolio set up by the Ministry of Finance. The difference is referred to as the fund's excess return and was 0.4 percentage point in the third quarter.

The return on the fund's equity investments was 0.3 percentage point higher than the benchmark return in the quarter. More than two-thirds of the excess return came from internally managed equities. Among the different sectors, basic materials and consumer goods stocks made positive contributions, while technology stocks contributed negatively.

The return on the fund's fixed-income investments was 0.5 percentage point higher than the benchmark in the quarter. The fund's investments in U.S. securitised debt and European corporate bonds made a particularly positive contribution, while investments in European covered bonds reduced the overall result.

About 13 percent of the fund's assets were managed externally at the end of the quarter. External equity investments were worth 356 billion kroner, while external fixed-income investments totalled 26 billion kroner.

VIX index

The VIX index measures expected volatility in stock prices in the U.S. market over the next 30 days. The index is calculated by the Chicago Board Options Exchange using prices for a range of call and put options on the S&P 500 stock index.

The VIX index rises when volatility in the equity market is expected to increase. The index was at about 10 percent to 15 percent before the start of the financial turmoil in summer 2007, and rose to about 80 percent after the collapse of Lehman Brothers triggered large price drops in global stock markets in autumn 2008. The index stood at 24 percent at the end of the third quarter of 2010.

iTraxx index

The iTraxx index measures the price of insurance for investments in the European bond market. The index typically rises when investor confidence decreases and insurance needs increase. There are several iTraxx indices. One of the most widely used is iTraxx Europe, which consists of 125 European investment-grade companies (credit rating at least BBB-). The index shows the average equally-weighted credit insurance premium for these companies. The index stood at about 0.3 percent before the start of the financial turmoil in summer 2007 and climbed to 2.2 percent in autumn 2008. It was at 1.1 percent at the end of the third quarter of 2010.

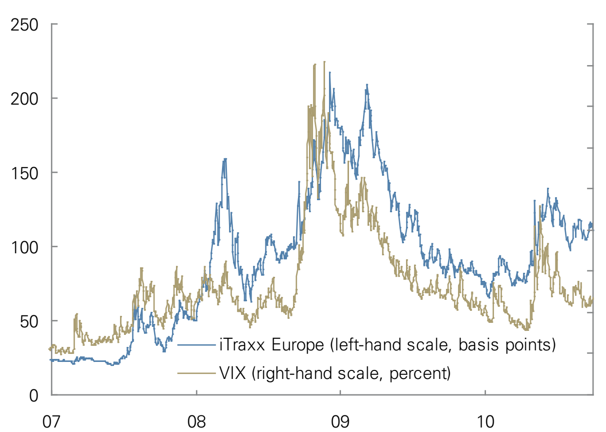
Smaller fluctuations in fund value

Volatility in equity and fixed-income markets decreased in the third quarter after better-than-expected earnings figures eased fears of slowing economic growth in Europe and the EU support package for euro area countries reduced sovereign debt concerns. The iTraxx Europe index, which measures risk in the European bond market, fell 0.2 percentage point to 1.1 percent in the quarter. The VIX index, which measures expected volatility in the U.S. stock market, fell to 24 percent at the end of the quarter from 35 percent at the start of the quarter.

Expected absolute volatility, measured by the statistical concept standard deviation, uses historical price movements in the fund's investments to estimate how much the annual return can normally be expected to vary. At the end of the third quarter, the fund's return was expected to vary 7.8 percent, or about 227 billion kroner, a year. That's down from 9 percent at the start of the quarter.

The Ministry of Finance has set limits for how much NBIM may deviate from the benchmark portfolio in its fund management. The most important limit is expressed as expected tracking error (relative volatility) and puts a ceiling on how much the return on the fund can be expected to deviate from the return on the benchmark portfolio. The expected tracking error must not exceed 1.5 percentage points. The actual figure was 0.3 percentage point at the end of the third quarter, down from 0.4 percentage point at the start of the quarter.

Chart 2-6 Risk in stock markets (VIX index) and fixed-income markets (iTraxx index)



Source: CBOE, Markit

Chart 2-7 Expected absolute volatility for the fund. Percent and billions of krone

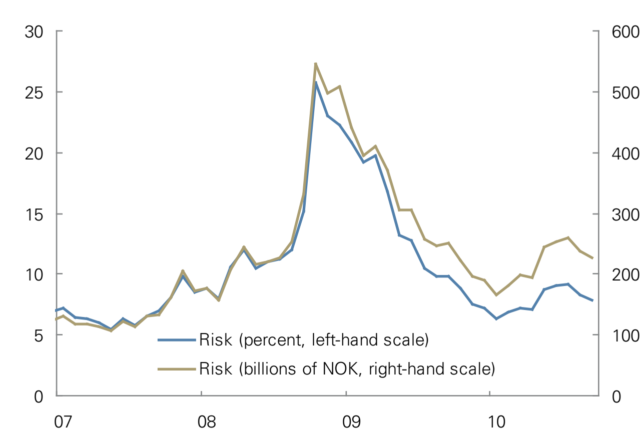
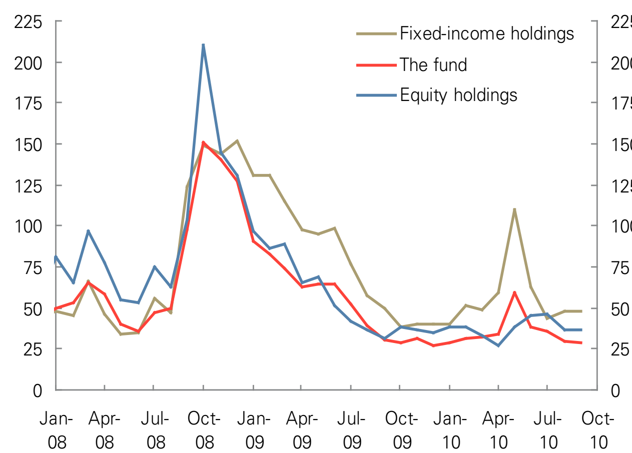


Chart 2-8 Expected relative volatility for the fund. Basis points



Active ownership

As a long-term investor in more than 8,300 companies, NBIM seeks to safeguard shareholder rights and improve social and environmental practices that may affect the value of investments.

In the third quarter, we participated in the European Commission's consultation on corporate governance in the financial sector, where proposals included special rules for financial institutions after the financial crisis exposed weaknesses in corporate governance in the sector. We recommended that financial institutions be subject to the same corporate governance requirements as companies in other sectors.

We also in July took part in the International Accounting Standards Board's consultation on financial reporting in the oil, gas and mining industries. We recommended companies be required to provide systematic information on their access to markets to give investors a better basis for assessing risks and making investments. There also needs to be adequate reporting on payments from companies to local authorities and their representatives, partly to prevent hidden transfers and corruption.

In the International Finance Corporation's review in August of its criteria for the evaluation of projects applying for financing, NBIM recommended that these better recognise children as particularly vulnerable and ensure that children's rights are respected by IFC and its clients.

On 17 September Norges Bank filed an individual claim against Citigroup in the district court of New York. We contend that Citigroup provided inaccurate and misleading information about its financial investments in 2004–2009. As the company's true exposure gradually became known, its share price fell and caused substantial losses for investors such as Norges Bank. We are suing Citigroup for losses on investments made in 2007 and 2008. The suit builds largely on an existing class action, but we believe our interests are best served by a direct action.

Operational risk management and internal control

NBIM constantly seeks to identify and mitigate operational risks that could lead to financial or reputational losses. We continuously identify events that may have resulted in a loss and take action to prevent a recurrence. Steps are also taken when risk exceeds the limits set by Norges Bank's Executive Board. Risk reduction measures are implemented to ensure acceptable risk levels.

NBIM has a moderate to high level of operational risk. The organisation has many different information systems and makes extensive use of outsourcing, adding to the complexity of operational management. Having agreements with external portfolio managers in many different markets requires a considerable amount of risk monitoring and management.

NBIM discovered two significant operational events in the third quarter. One concerned two bank accounts in Norges Bank's name at one of our custodian banks that were not included in our accounting data. The other concerned one of our custodian banks which had not obtained a tax refund owed to the fund by Dutch authorities. Neither event led to losses for the fund. Both were investigated and steps were taken to prevent a recurrence.

There were two minor breaches of regulatory reporting requirements in the third quarter. There were no breaches of the Ministry of Finance's guidelines in the period.

Financial reporting

Presentation of the financial information for the Government Pension Fund Global. The financial reporting for the Government Pension Fund Global forms part of, and comprises excerpts from, Norges Bank's financial statements and notes.

Profit and loss account

				Year to date		
Figures in NOK million	Note	3Q 2010	3Q 2009	30.09.2010	30.09.2009	31.12.2009
Profit/loss on financial assets excluding exchange rate adjustments						
Net interest income on deposits in foreign banks		105	48	203	125	462
Interest income, lending associated with reverse repurchase agreements		9	39	138	647	696
Net income/expenses and gains/losses from:						
- Equities and units		165,512	262,310	67,259	414,298	488,082
- Bonds and other fixed income instruments		36,625	66,199	86,422	108,614	118,971
- Financial derivatives		-2,829	-3,293	-6,259	7,062	7,398
Interest expense repurchase agreements		-34	-269	-218	-2,023	-2,571
Net other interest expense		-12	-4	-74	302	-60
Other expenses		-116	34	-59	-114	-193
Profit/loss before exchange rate adjustments		**199,260**	**325,064**	**147,312**	**528,911**	**612,784**
Exchange rate adjustments		-132,154	-210,844	16,949	-389,305	-417,607
Profit/loss before management fee		**67,106**	**114,220**	**164,361**	**139,606**	**195,177**
Accrued management fee	2	-713	-884	-2,117	-2,504	-3,228
Profit/loss transferred to krone account		**66,393**	**113,336**	**162,244**	**137,101**	**191,949**

Balance sheet

Figures in NOK million	Note	30.09.2010	30.09.2009	31.12.2009
ASSETS				
FINANCIAL ASSETS				
Foreign bank deposits		7,161	5,972	4,644
Lending associated with reverse repurchase agreements		216,825	135,816	191,474
Cash collateral paid		0	0	140
Equities and units	5,6	1,591,230	1,412,540	1,496,759
Equities lent	4	168,394	166,641	150,847
Bonds and other fixed income instruments	5,6	1,017,708	1,095,159	908,222
Bonds lent	4	202,390	152,709	161,990
Financial derivatives		3,658	182,869	2,263
Unsettled trades		52,468	46,380	17,572
Other assets		22,204	9,662	251
Total financial assets		**3,282,039**	**3,207,748**	**2,934,161**
LIABILITIES AND CAPITAL				
FINANCIAL LIABILITIES				
Short-term borrowing		4,964	1,402	6,238
Borrowing associated with repurchase agreements		118,932	239,138	109,536
Cash collateral received	4	168,290	152,545	154,676
Financial derivatives		13,908	199,578	8,118
Unsettled trades		53,899	54,622	11,925
Other liabilities		14,091	11,919	3,625
Management fee payable		2,117	2,504	3,228
Total financial liabilities		**376,201**	**661,708**	**297,346**
Owners' capital	3	2,905,838	2,546,040	2,636,815
Total liabilities and capital		**3,282,039**	**3,207,748**	**2,934,161**

Note 1. Accounting Policies

The financial reporting for the third quarter has 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 Norges Bank's Annual Report for 2009.

The quarterly financial report does not include all of the information presented in the annual financial report, and should therefore be read in conjunction with Norges Bank's Annual Report for 2009.

The preparation of the financial statements for Norges Bank involves the use of estimates and valuations that can affect assets, liabilities, income and expenses. The accounting policies presented in Norges Bank's Annual Report for 2009 contain further information on significant estimates and assumptions.

Note 2. Management costs

	January – September 2010		January – September 2009	
	NOK thousands	Percent	NOK thousands	Percent
Internal costs	604,556		492,663	
Custody and settlement costs	274,540		204,826	
Minimum fees to external managers	340,641		317,835	
Performance-based fees to external managers	620,546		1,240,875	
Other costs	277,087		248,184	
Total management costs	**2,117,369**	**0.10**	**2,504,383**	**0.15**
Total management costs excluding performance-based fees	**1,496,823**	**0.07**	**1,263,508**	**0.07**

Note 3. Eigars kapital

		year to date	
Figures in NOK million	30.09.2010	30.09.2009	31.12.2009
Balance in the Norwegian krone account on 1 January	2,636,815	2,273,289	2,273,289
Inflows during the period*	106,779	135,650	171,577
Profit/loss transferred to/from Norwegian krone account	164,361	139,606	195,177
Owners' capital before deduction of managment fee	**2,907,955**	**2,548,545**	**2,640,043**
Management fee payble to Norges Bank	-2,117	-2,504	-3,228
Owners' capital - deposits in the Norwegian krone account at the end of the period	**2,905,838**	**2,546,040**	**2,636,815**

*Of the inflows, 3.2 billion kroner was used to pay accrued managment fees from 2009.

Note 4. Securities lending

Loans of securities through external lending programmes totalled NOK 370.8 billion on 30 September 2010, as against NOK 319.3 billion a year earlier. These loans are secured by collateral or, in the case of one lending agent, by a guarantee agreement. As at 30 September 2010, total collateral of NOK 386.3 billion had been received for these loans. Of this collateral, NOK 168 billion was received in the form of cash and the remainder in the form of securities. Cash collateral received is reinvested in reverse repurchase agreements and bonds. The carrying amount of these reinvestments on 30 September 2010 was NOK 166.8 billion.

Note 5. Equities and units / bonds and other fixed income instruments

Figures in NOK million, 30 September 2010	Cost Price	Fair value	Accrued interest/dividends	Total fair value
Equities and units:				
Listed equities and units	1,715,796	1,756,641	2,983	1,759,623
Total equities and units	**1,715,796**	**1,756,641**	**2,983**	**1,759,623**
Hereof equities lent				168,394
Bonds and other fixed income instruments:				
Government bonds	590,854	601,600	7,369	608,969
Inflation-linked bonds	87,378	99,123	392	99,515
Corporate bonds	229,535	222,048	3,985	226,033
Securitised bonds	290,572	280,991	4,094	285,085
Units in securities funds	366	497		497
Total bonds and other fixed income instruments	**1,198,705**	**1,204,259**	**15,840**	**1,220,099**
Here of bonds lent				202,390

Note 6. Fair value measurement of financial instruments

Control environment
Norges Bank has established effective processes for daily valuation of the investment positions in the Fund related to the sourcing and verification of prices posted by the external fund accounting service provider and by Norges Bank's internal operating units. Underlying prices are subject to extensive controls at each month end to ensure adherence to established pricing routines and fair value measurement principles. An internal valuation memo and report is prepared every quarter documenting the controls employed and reasons for the valuations. Valuations and the control routines related to the valuations are reviewed every quarter prior to the release of the quarterly report by the valuation committee, which is a forum for escalating significant pricing issues and which formally approves the valuations. The committee meets at least once each quarter prior to the release of the quarterly financial reporting.

Establishing fair value
Hierarchies of independent price sources established by Norges Bank are used in the pricing process. Investments that are included in the benchmark portfolio are normally priced in accordance with the index providers' prices while the remaining equity and bond investments are priced almost exclusively by reputable independent external price providers. Prices are verified based on a comparative analysis of the applicable prices in the respective hierarchies with prices available from alternative pricing sources. When alternative pricing sources are regarded as more representative of the fair value, price adjustments are made to bring the valuation closer to expected fair value.

All equity and bond holdings in the fund have been allocated to categories of assessed pricing uncertainty. Category 1 consists of investments that are valued based on observable market prices in active markets and are regarded as having limited pricing risk. Investments in Category 2 are valued using models with observable input factors. These holdings have some pricing risk associated with them, but overall the valuation risk is viewed as being limited. Holdings allocated to Category 3 are priced using models with greater uncertainty surrounding the establishment of fair value based on significant unobservable input factors. However, a majority of these investments have been valued by external price providers regarded as giving the best estimate of fair value and where the total valuation from different price providers varies only to a limited extent.

The table below breaks down the investment portfolios into categories of price uncertainty as of 30 September 2010:

Figures in NOK million

Categories of investments by price uncertainty	Category 1 Observable market prices in active markets		Category 2 Model pricing with observable data points		Category 3 Model pricing with greater uncertainty about fair value		Total	
	30.09.2010	31.12.2009	**30.09.2010**	31.12.2009	**30.09.2010**	31.12.2009	**30.09.2010**	31.12.2009
Equities and units	**1,757,511**	1,646,147	**2,092**	1,453	**20**	5	**1,759,623**	1,647,606
Bonds	**717,794**	514,290	**471,477**	522,404	**30,828**	33,518	**1,220,099**	1,070,212
Total	**2,475,305**	2,160,437	**473,569**	523,857	**30,848**	33,523	**2,979,722**	2,717,818

The vast majority of the Fund's equity holdings are actively traded on listed stock exchanges with an official closing price, and are therefore considered to have limited risk related to pricing (category 1). Equity investments classified as category 2 holdings consist mainly of relatively illiquid equity holdings where the fair value estimate is modelled from similar but more liquid equities issued by the same company. The pricing risk here is also generally quite limited because the modelling is simple and the input factors are observable. Equities classified as Category 3 consist of a small number of equities for which the valuation is particularly uncertain because of suspension from trading based on special circumstances, for instance bankruptcy, nationalisation, or liquidation.

Compared to equity pricing, the pricing of bonds is less certain and more complex. Norges Bank carries out analyses as of the balance sheet date to obtain information on the actual transactions that have occurred in the market during the period and the degree of price transparency and liquidity in these markets for different types of bonds and for a number of specific bond holdings. The pricing for the majority of the government bonds is based on observable market prices in an active market with quoted prices and frequent transactions. Government-related and inflation-linked bonds are categorised into either category 1 or category 2 based on the Bank's analyses of liquidity and the degree of trading and price transparency in the markets.

The analysis shows a relatively high degree of liquidity for these bonds. Most corporate bonds are assessed as priced by models with observable input factors, while some especially illiquid corporate bonds belong to category 3. Securitised bonds are allocated to all three categories based on the complexity of the data factors and the degree of liquidity, actual transactions and price transparency in the markets. Covered bonds are placed in category 1 or 2 based on a relatively high observed degree of liquidity and price transparency in the markets. Some very liquid guaranteed mortgage backed securities belong to category 1 with observable market prices in active markets. Other guaranteed mortgage backed securities that are not tranched have been classified as priced by models using observable data inputs. Securitised bonds that are evaluated to be tranched such that they are associated with especially high exposure to unobservable data input factors belong to category 3. Other securitised bonds are allocated to categories 2 and 3 based on a lower observed degree of liquidity and price transparency in the markets.

The analysis performed by Norges Bank indicates that the price uncertainty outlook is relatively unchanged during the third quarter of 2010. The total exposure that is assessed as being particularly uncertain related to a correct fair value estimate was NOK 31 billion kroner as of 30 September 2010, compared to NOK 34 billion kroner as of 31 December 2009. This consists primarily of US securitised bonds not guaranteed by a federal agency, where comparisons to available price sources indicate a high degree of price uncertainty. The uncertainty concerning the fair value estimation for certain segments of the portfolio is still considered significant. However, Norges Bank is of the opinion that the result of the valuation, which is based on ordinary price sources as per the established pricing hierarchy as of 30 September 2010, gives an accurate representation of market values in accordance with the fair value principle. It was therefore not necessary to recognize any accounting provisions related to price uncertainty in the first quarter.

Note 7. Risk Developments

Risk management is a key activity at Norges Bank. Processes are in place to identify, measure and monitor the most important risks to which Norges Bank and the Government Pension Fund Global's owners are exposed through the investment activities. Norges Bank's risk management framework includes market risk, credit risk, counterparty risk and operational risk. Norges Bank follows the guidelines established by the Board of Directors, and based on the Norwegian Ministry of Finance's guidelines related to the management and measurement of risk.

Equity and bond market volatility declined through the third quarter, after better than predicted earnings figures and stronger growth than expected in China's industrial production contributed to reduce fear of an economic setback, especially in Europe. Uncertainty related to some European countries ability to service their debt was also reduced after the finalisation of the EU's economic stabilisation package. The reduction in market risk is shown in the table below.

Market risk

Norges Bank defines market risk as the risk of changes in the value of the Fund due to movements in interest rates, equity prices and/or exchange rates. Norges Bank measures risk in both absolute terms and the relative market risk for the Fund.

Expected absolute risk is estimated based on the actual portfolio at each point in time. Standard deviation is a statistical metric that indicates the magnitude of variation that can be expected in the fund's return under normal market conditions. The table below illustrates market risk, expressed as the expected annual standard deviation, given the actual Fund's portfolio both at an overall level and for the two active asset classes equities and bonds (ex ante risk).

	Risk measure	30.09.10	Minimum 2010	Maximum 2010	Average 2010	31.12.2009
Total portfolio risk	Standard deviation	7.8 %	6.2 %	9.8 %	7.8 %	7.2 %
Equity portfolio	Standard deviation	11.8 %	9.2 %	15.9 %	12.4 %	10.0 %
Fixed income portfolio	Standard deviation	9.9 %	6.3 %	13.9 %	9.7 %	10.0 %

The standard deviation as of 30 September 2010 means that, statistically, in two out of every three years, the value of the Fund can be expected to fluctuate within a band of +/- 7.8% of its total market value (one standard deviation) based on the portfolio as of quarter end and recent volatilities in market variables. Market risk, based on market developments, has been significantly reduced in both asset classes and on the overall fund level during the current quarter, but still lies somewhat above the risk level at the beginning of the year.

Market risk can also be expressed on the basis of actual fluctuations in the portfolio during 2010 (ex post risk). The standard deviation when based on actual fluctuations in the portfolio during the first nine months of 2010 was on average 7.7% (the same as at quarter end). This is significantly lower than the observed fluctuations in 2009.

There have been no material changes to the Fund's benchmark portfolio during 2010.

Credit Risk

Norges Bank defines credit risk as the risk of losses from issuers of fixed income instruments defaulting on their payment obligations. Another form of credit risk is the counterparty risk that arises in derivatives, foreign currency exchange transactions and repurchase agreements. Settlement risk, which arises in connection with the purchase and sale of securities because not all transactions take place in real time, is also deemed to be counterparty risk.

Credit risk in bond holdings can be illustrated and managed with the help of the rating given to the different issuers. The table below gives the distribution of the portfolio in the different rating categories as of the end of the third quarter.

Fixed income portfolio by credit rating as of 30 September 2010.

Figures in NOK millions	Aaa	Aa	A	Baa	Ba	Lower	No rating	Total
Government and government related bonds	443,516	135,709	14,355	9,812	5,284	113	180	608,969
Inflation linked bonds	55,009	43,918			588			99,515
Corporate bonds	4,295	46,451	92,123	76,210	4,383	1,207	1,364	226,033
Securitised debt	215,829	45,712	2,081	2,559	1,840	16,457	607	285,085
Units in securities funds							496	496
Total bonds and other fixed income securities 30.09.10	718,650	271,790	108,559	88,581	12,095	17,776	2,625	1,220,098
Total bonds and other fixed income securities 31.12.09	628,325	198,946	128,606	84,913	9,140	15,761	4,521	1,070,212

Liquidity risk

Norges Bank defines liquidity risk in relation to the management of the Government Pension Fund Global as the ability to make planned or unexpected changes in the composition of the investment portfolio due to exogenous or endogenous factors without incurring unusually high transaction costs. The management of liquidity risk is integrated throughout the Fund's control structure.

During 2007 and 2008 liquidity in fixed income markets showed extreme volatility and liquidity premiums. Volatility and risk aversion continued through 2009, albeit with significant improvements compared to the 2008 spike. In 2010 the overall improvement has continued although with periods of increased volatility and liquidity premiums. After the Euro zone sovereigns' crises spiked in the second quarter most sectors have continued to improve.

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