Quarterly Report

Government Pension Fund – Global First quarter 2009

NBIM
Norges Bank Investment Management

Contents

- The return on the Government Pension Fund – Global in the first quarter was -4.81 per cent measured in international currency.
- The excess return from NBIM's management relative to the benchmark portfolio was -0.35 percentage point due to a continued decline in the value of illiquid fixed income positions.
- Equity management generated a positive excess return of 0.30 percentage point, and fixed income management a negative excess return of 0.92 percentage point.
- Inflows into the fund during the quarter totalled NOK 44 billion, the lowest since 2004.
- Markets remained volatile, the equity market hitting a provisional low on 9 March.
- Ownership of European equity markets rose to 1.58 per cent from 1.33 per cent during the quarter.
- The allocation to equities climbed to 52.6 per cent from 49.6 per cent during the quarter.

Key figures

The market value of the Government Pension Fund – Global at the end of the first quarter was NOK 2 076 billion. This was a decrease of NOK 199 billion since the end of 2008, due primarily to a stronger krone.

The return on the fund was -4.8 per cent measured in an international currency basket, due mainly to a decline in equity prices. The return in the first quarter was 0.35 percentage point lower than the return on the benchmark portfolio. The annualised excess return over the past three years has been -1.55 percentage points.

New capital of NOK 44 billion was transferred to the fund during the first quarter. This was the lowest quarterly inflow since the fourth quarter of 2004 and well below the figure of NOK 77 billion recorded in the fourth quarter of 2008.

There was a negative return of NOK 66 billion in the first quarter, and a stronger krone reduced the value of the fund by NOK 177 billion. Taken together with the inflow of NOK 44 billion, this decreased the market value of the fund by NOK 199 billion to NOK 2 076 billion.

Chart 2-1 Market value 1999-2009. Billions of NOK

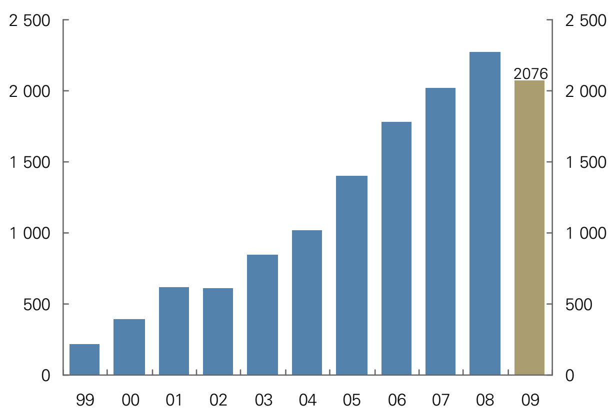


Chart 2-2 Quarterly return and three-year rolling annualised return 2001-2009. Per cent

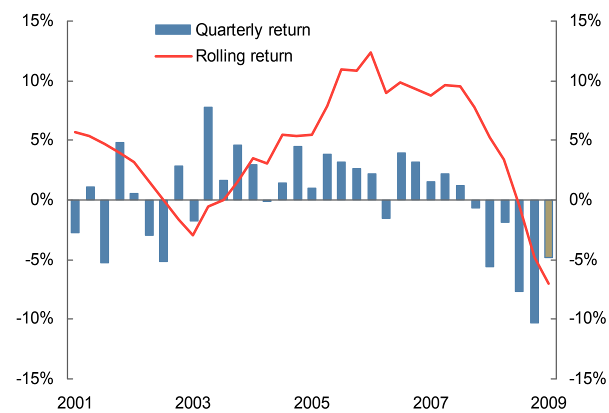


Chart 2-3 Quarterly excess return and three-year rolling annualised excess return 2001-2009. Percentage points

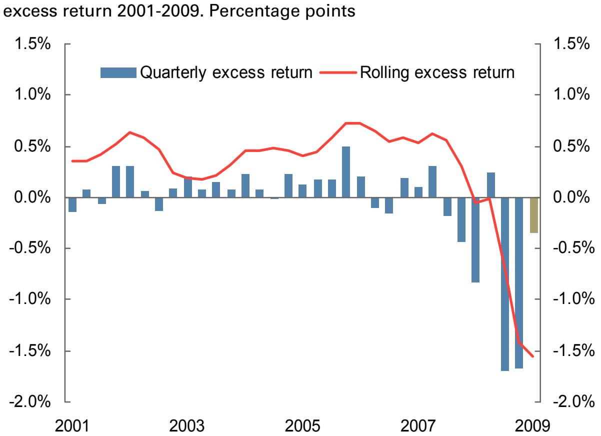
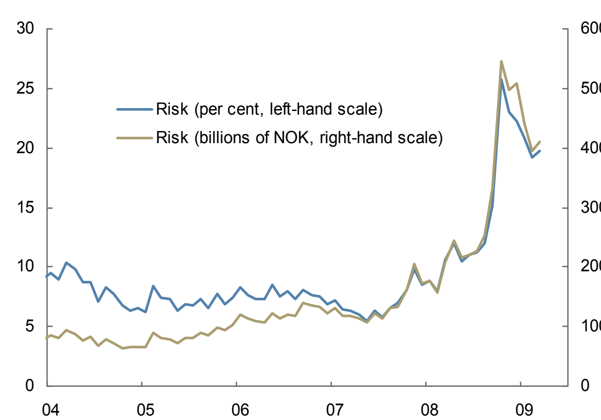


Chart 2-4 Absolute volatility 2004-2009. Per cent and billions of NOK



The markets

The effects of the financial crisis were increasingly marked in all parts of the world during the first quarter. The economic downturn led to greater uncertainty about corporate earnings. The crisis in the financial sector worsened, with falling share prices and higher credit premiums. National authorities used unconventional means to stabilise the situation.

The financial crisis entered a phase during the first quarter where the effects on economic activity became increasingly marked. In the US and a number of other countries, falling property and equity values and a dwindling supply of credit led to sharply eroded confidence in the economic outlook and a drop in demand for goods and services. This triggered a further fall in employment. In the US employment fell more quickly than in any other quarter in the past 60 years.

Decreasing demand for goods and services led to reduced investment and lower production. Manufacturing output in the industrialised countries fell sharply in the first quarter. Japan, with an export-oriented economy experienced a dramatic downturn (see Chart 3–2).

This decline in economic activity prompted increased fears of further heavy losses at banks and fresh uncertainty about the stability of the financial sector. In the equity market, this sector produced markedly lower returns than, for example, the technology sector, which generally features low levels of debt. More problematic for the sector was a steep increase in credit spreads over government bonds, while spreads for other types of borrowers narrowed. The authorities in both the UK and the US embarked on a fresh round of bank recapitalisation.

Fixed income markets

Central banks in a number of countries turned to unconventional monetary policy means in the form of quantitative easing as the potential for further rate reductions was exhausted. In its most active form, a policy of this kind means that central banks increase the money supply by purchasing securities in the market. One direct effect of this policy is strong growth in central banks' balance sheets (see Chart 3–5). The policy is also considered by market participants to increase uncertainty about future inflation.

Yields on German, UK and Japanese government bonds with ten years to maturity were around 0.1 – 0.2 percentage point higher at the end of March than at the beginning of the quarter. US Treasury yields climbed more than 0.5 percentage point during the quarter despite an almost equally sharp fall on 18 March when the Federal Reserve surprised the market by announcing program for the repurchase of Treasury securities.

The financial crisis and official measures to stabilise the economy will put considerable pressure on central government finances in a number of countries in the time ahead. The market premium for investments in government securities issued in the highest-risk countries increased considerably during the quarter. Yields on Irish government securities with ten years to maturity were 0.4 percentage point higher than German yields at the end of the first quarter of 2008; 12 months later, the spread had widened to 2.4 percentage points.

In the Barclays Global Aggregate index, which is the basis for the fund's fixed income benchmark, the return on government bonds was lower than on corporate bonds and securitised debt in the first quarter.

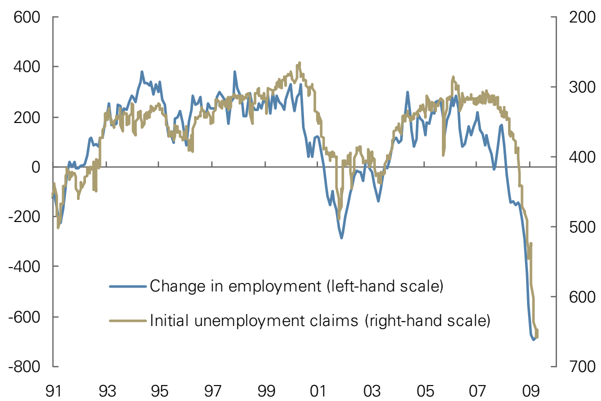
Equities

The economic downturn is gradually bringing about a decrease in corporate earnings. One measure of this comes from the 12-month change in analysts' expectations of future earnings (see Chart 3–9). The expectations are falling sharply, and the uncertainty associated with these estimates is rising, resulting in a substantially wider spread than previously observed.

The broad FTSE All-World index fell by 8.2 per cent in the first quarter, measured in USD. However, the equity market has rallied strongly since mid-March. The reasons for this may be that expectations of corporate earnings have already fallen sharply, and that there are signs of stabilisation in a number of indicators monitored by market participants, such as new orders, consumer expectations, home-building activity and house prices, and prices for commodities such as oil and copper.

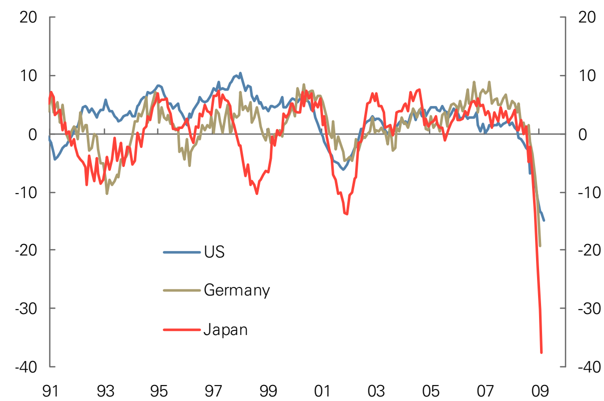
Emerging markets produced a slight positive return in the first quarter and led the upswing in the equity market in the second half of March. Europe generated the weakest regional return in the world's equity markets in both the first quarter and the 12 months to 31 March.

Chart 3-1 Initial unemployment claims and change in employment in the US. Thousands



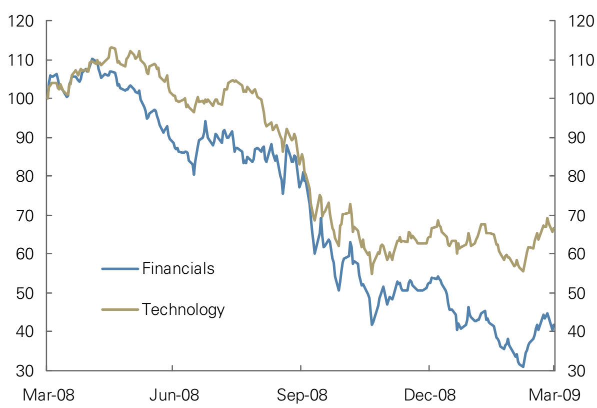
Source: U.S. Department of Labor

Chart 3-2 Growth in industrial production. Annual rate



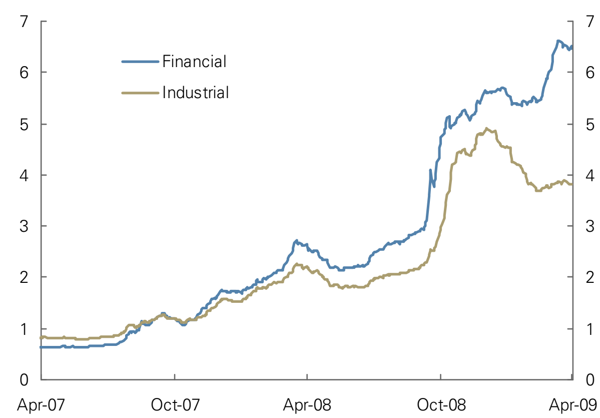
Source: Federal Reserve, Conference Board

Chart 3-3 Indexed return on investments in the technology and financial services sectors



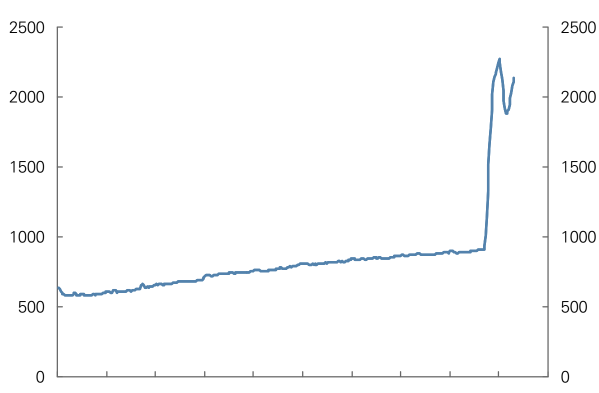
Source: FTSE World Index

Chart 3-4 Credit spread over government bonds for different types of corporate bond. Percentage points



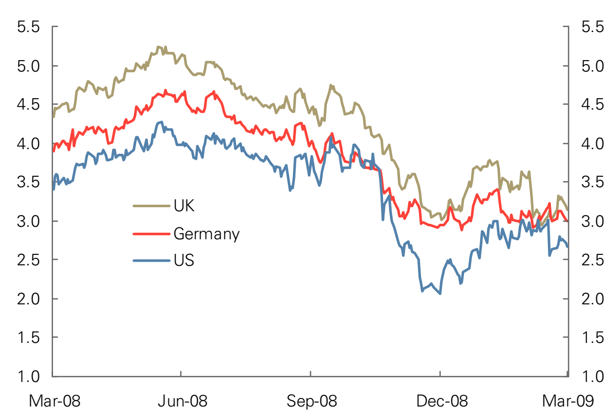
Source: Barclays Global Aggregate

Chart 3-5 Federal Reserve's balance sheet. Billions of USD



Source: Federal Reserve

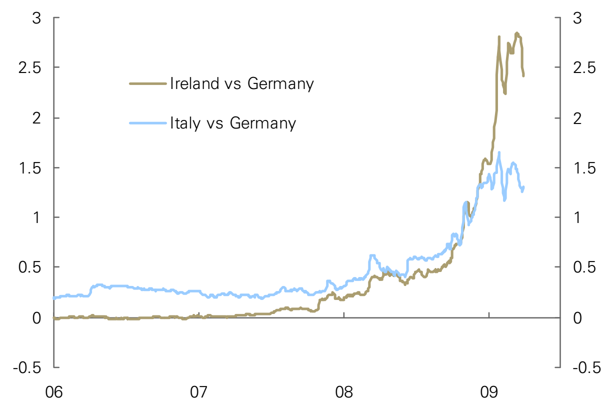
Chart 3-6 Yield on government bonds with ten years to maturity. Per cent



Source: EcoWin

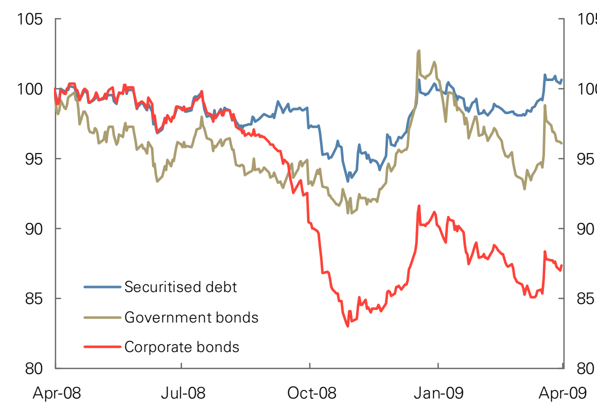

NORWAY
SWEDEN
FINLAND
ICELAND
FAEROE IS.
UNITED KINGDOM
NORTH SEA
IRELAND
Dublin
Glasgow
DENMARK
POLAND
Warsaw
BELARUS
Minsk
UKRAINE
Kiev
Moscow
ROMANIA
BLACK SEA
TURKEY
FRANCE
Paris
SPAIN
Madrid
Barcelona
Lisbon
BAY OF BISCAY
Bordeaux
Marseille
NORTH ATLANTIC CURRENT
NEWFOUNDLAND
AZORES
TUNISIA
Tripoli
Algiers

Chart 3-7 Yield spreads over German government bonds. Percentage points



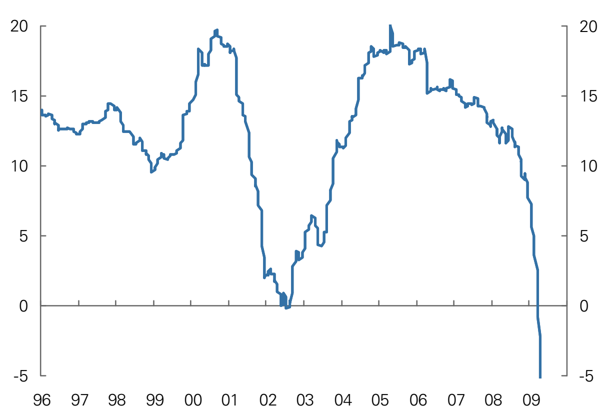
Source:Factset

Chart 3-8 Returns on broad groups of bonds. Index



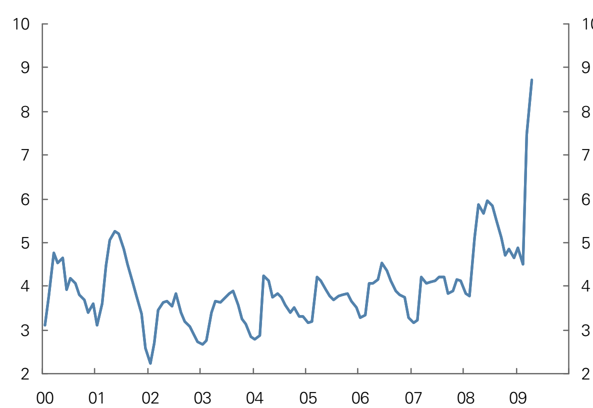
Source: Barclays Global Aggregate

Chart 3-9 Estimated earnings growth for FTSE World past 12 months. Weighted median. Per cent



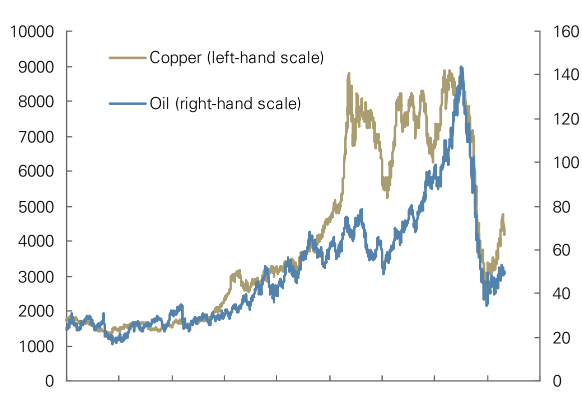
Source: IBES, FTSE, NBIM

Chart 3-10 Spread in analysts' estimates of corporate earnings. Per cent



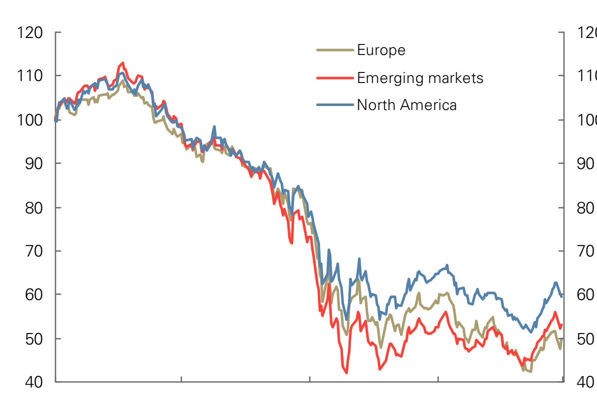
Source: IBES, FTSE World, NBIM

Chart 3-11 Spot prices for crude oil and copper. USD



Source: EcoWin

Chart 3-12 Regional equity market returns measured in USD. Index



Source: FTSE All-World

The portfolio

The allocation to equities was 52.6 per cent at the end of the first quarter, up from 49.6 per cent at the end of 2008. A decision was taken in summer 2007 to increase the strategic allocation to equities from 40 to 60 per cent, and this is an ongoing process

The increase in the allocation to equities and inflows of new capital into the fund mean that the fund's ownership of equity markets is continuing to climb. At the end of the first quarter, the fund's average holding was 0.86 per cent globally and 1.58 per cent in Europe, up from 0.77 and 1.33 per cent respectively at the end of 2008.

NBIM uses external management organisations to manage parts of the equity and fixed income portfolios. We award mandates to managers with specialist expertise in clearly defined investment strategies. The combined value of externally managed portfolios was just under NOK 350 billion at the end of the quarter, a net increase of NOK 43 billion since the end of 2008. External equity management increased by NOK 50 billion, while external fixed income management decreased by NOK 7 billion. Altogether, external management accounted for around 17 per cent of the fund's assets at the end of the quarter, up from 13 per cent at the end of 2008.

Performance-based fees to external managers increased markedly from NOK 74.9 million in the first quarter of 2008 to NOK 414.5 million in the first quarter of 2009. This was due primarily to a change in accounting policy concerning when these fees are recognised. The result of this change is an increase in performance-based fees of NOK 275 million. This change affects only the accrual of the costs and not the size of the fees paid. In addition, many new mandates were added during the course of 2008, and a high proportion of external equity managers produced good results in the first quarter of 2009.

In both the equity and fixed income portfolios, the fund has a strategic overweight of European investments relative to the size of the markets. This means that there will be a tendency for large European companies and bond issuers to dominate the list of the fund's largest investments.

Chart 4-1 Breakdown by asset class 2005-2009. Per cent

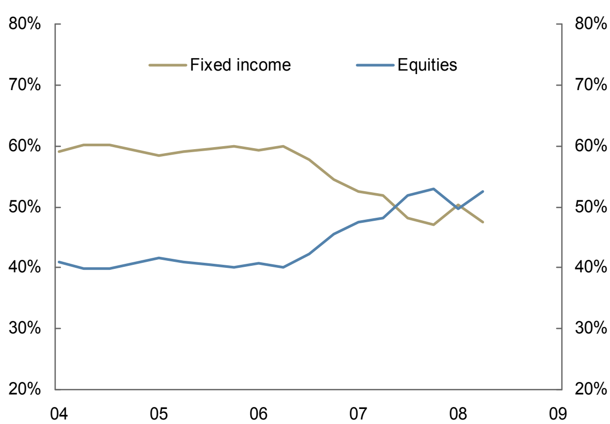
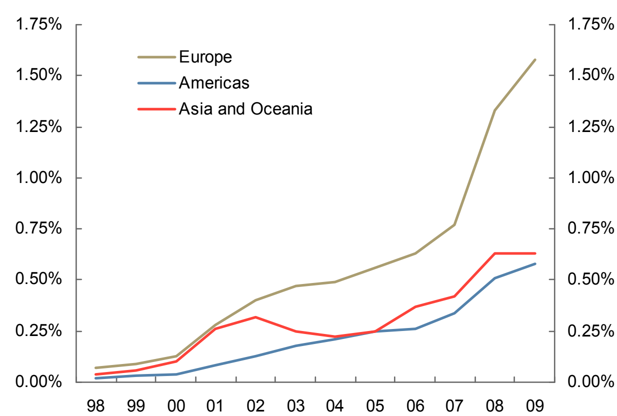
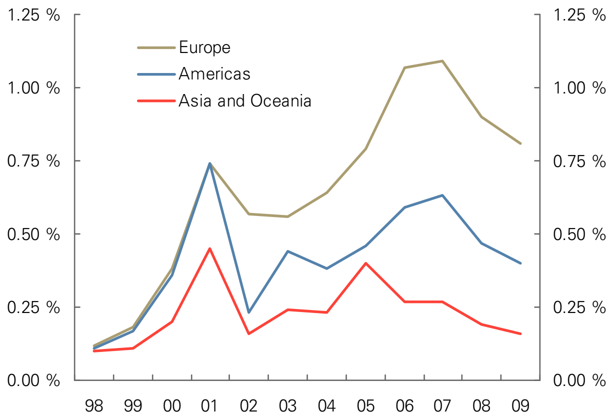


Chart 4-2 Ownership of equity markets 1998-2009. Per cent



Percentage of FTSE index's market capitalisation.
Source: FTSE, NBIM

Chart 4-3 Ownership of fixed income markets 1998-2009. Per cent



Percentage of Barclays index's market capitalisation.
Source: Barclays, NBIM

Chart 4-4 External management 1998-2009. Billions of NOK and per cent

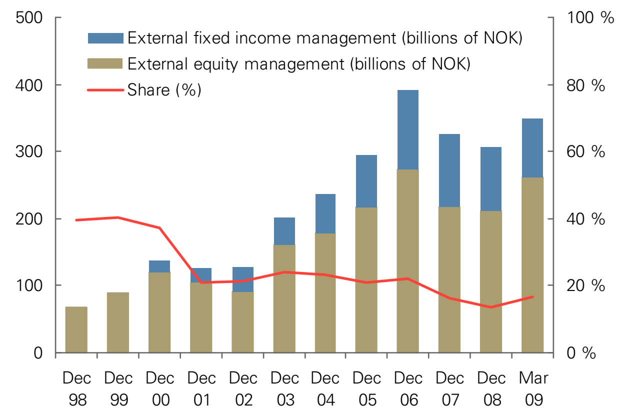


Chart 4-5 Regional breakdown of the equity portfolio on 31 March 2009. Per cent

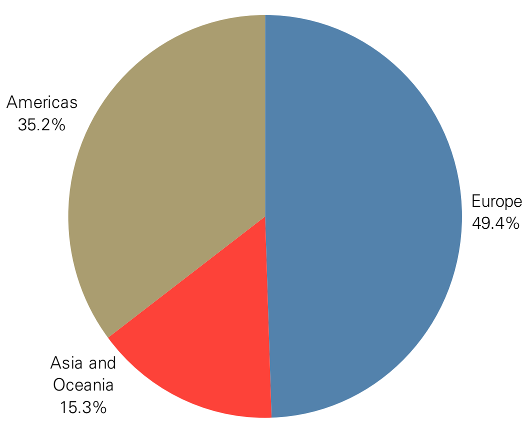


Chart 4-6 Regional breakdown of the fixed income portfolio on 31 March 2009. Per cent

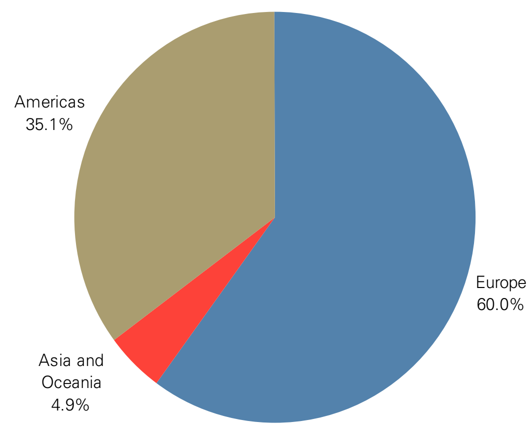


Table 4-1 Largest equity holdings on 31 March 2009

Company	Country	Holding in millions of NOK
Royal Dutch Shell plc	UK	14 550
Nestlé SA	Switzerland	14 043
BP plc	UK	13 221
Total SA	France	11 874
Exxon Mobil Corporation	US	11 057
Roche Holding AG	Switzerland	10 470
Vodafone Group plc	UK	10 375
Telefonica SA	Spain	9 550
Novartis AG	Switzerland	8 961
GlaxoSmithKline plc	UK	8 265

Table 4-2 Largest bond holdings on 31 March 2009

Issuer	Country	Holding in millions of NOK
United States of America	US	85 083
Federal Republic of Germany	Germany	81 251
UK Government	UK	78 770
Fannie Mae	US	75 961
Italian Republic	Italy	72 046
French Republic	France	48 161
Japanese Government	Japan	45 723
European Investment Bank	Supranational	43 417
Kreditanstalt für Wiederaufbau	Germany	31 279
Bank of Scotland plc	UK	23 505

Market value, risk and return

The market value of the fund at the end of the first quarter was NOK 2 076 billion. The return on the fund during the quarter was -4.81 per cent, while the excess return relative to the benchmark portfolio was -0.35 percentage point. The negative excess return was due to a continued decline in the value of existing fixed income positions.

New capital of NOK 44 billion was transferred to the fund during the first quarter. This was considerably less than in the preceding quarters and the smallest inflow since the fourth quarter of 2004. In isolation, the negative return on the fund reduced its value by NOK 66 billion. A stronger krone against the currencies in which the fund is invested reduced the fund's value in NOK terms by NOK 177 billion during the quarter. Changes in the krone exchange rate have no effect, however, on the fund's international purchasing power.

The return on the fund in the first quarter was -4.81 per cent measured in international currency. There was a return of -8.84 per cent on the equity portfolio and -0.88 per cent on the fixed income portfolio.

The return generated by Norges Bank on the actual portfolio is measured against the return on the benchmark portfolio defined by the Ministry of Finance. The difference between these return figures is NBIM's contribution to the fund's performance. The return on the fund was 0.35 percentage point lower than the return on the benchmark portfolio in the first quarter. The weak result was attributable to fixed income management, which produced a negative excess return of 0.92 percentage point. Equity management, on the other hand, generated a positive excess return of 0.30 percentage point.

Within fixed income management, it was especially bonds issued by banks and financial institutions that contributed to the negative result. Bonds with the status of core and supplementary capital fell substantially in value during the quarter as the market asked questions about the capital position of most banks. These positions were established before the financial crisis began in 2007 and are currently illiquid.

Equity management produced a clear positive result in the first quarter. The greatest contribution came from externally managed equity portfolios, with both sector and regional mandates generating positive returns. Our internal equity managers also delivered positive results.

Norges Bank has estimated the direct and indirect transaction costs related to phasing in new capital and rebalancing the benchmark portfolio at NOK 1.4 billion in the first quarter. This is equivalent to 0.06 per cent of the market value of the fund at the beginning of the quarter. The benchmark portfolio has not been adjusted for these transaction costs.

Chart 5-1 Changes in market value Q2 2008 to Q1 2009. In billions of NOK

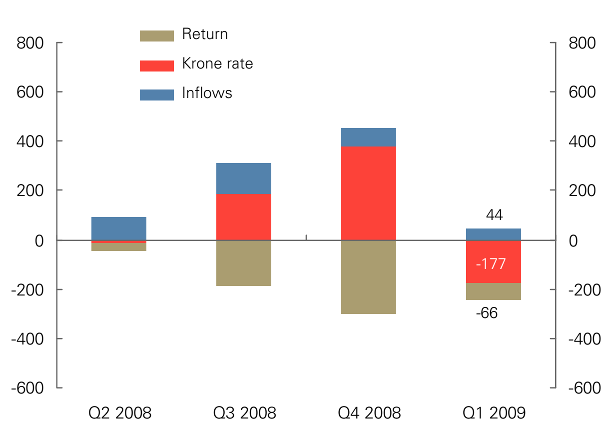


Chart 5-2 Absolute volatility 2004-2009 measured in NOK. Per cent

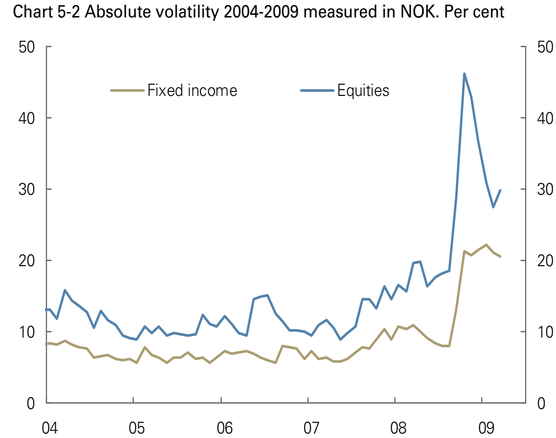


Table 5-1 Key figures on 31 March 2009. Quarterly data

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Market value (billions of NOK)						
Fixed income portfolio		1 011	961	997	1 146	985
Equity portfolio		935	1 031	1 123	1 129	1 091
Fund		1 946	1 991	2 120	2 275	2 076
Inflows of new capital *)		88	91	128	77	44
Return		-116	-32	-186	-300	-66
Change due to movements in krone		-45	-13	186	379	-177

*) 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.

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Return in international currency (per cent)						
Equity portfolio	-2.77	-12.67	-1.60	-13.12	-20.58	-8.84
Fixed income portfolio	1.30	0.87	-1.72	-1.19	1.55	-0.88
Fund	-0.64	-5.62	-1.87	-7.68	-10.30	-4.81
Benchmark portfolio	-0.20	-4.79	-2.10	-5.98	-8.62	-4.46
Excess return	-0.44	-0.83	0.24	-1.69	-1.67	-0.35
Return in NOK (per cent)						
Equity portfolio	-1.59	-14.71	-1.90	-5.84	-8.41	-14.46
Fixed income portfolio	2.53	-1.49	-2.02	7.08	17.12	-6.99
Fund	0.56	-7.83	-2.17	0.06	3.45	-10.67
Benchmark portfolio	1.01	-7.02	-2.41	1.89	5.38	-10.35
Management costs (per cent)						
Estimated transition costs	0.04	0.05	0.03	0.08	0.10	0.06
Annualised management costs	0.09	0.10	0.10	0.09	0.11	0.13
Changes in value since start-up (billions of NOK)						
Inflows of capital	1 756	1 844	1 935	2 063	2 140	2 184
Return	503	387	355	169	-131	-197
Change due to movements in krone	-240	-285	-298	-112	266	89
Market value of fund	2 019	1 946	1 991	2 120	2 275	2 076

The value of the fund continues to fluctuate widely. Chart 5–2 shows market fluctuations as measured by expected absolute volatility for the equity and fixed income portfolios.

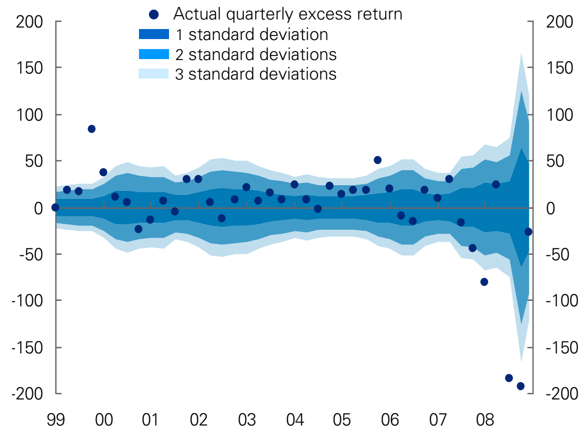
The turmoil in global financial markets continued in the first quarter. Although the equity market fell sharply during the period, average daily volatility was lower than in the fourth quarter of 2008. The fixed income market remained turbulent and the high volatility levels of the fourth quarter persisted in the first quarter. At the end of the first quarter expected absolute volatility for the fund in NOK terms was around NOK 410 billion, or 20 percentage points (see chart 2–4).

Chart 5–3 shows the relationship between model-based and subsequently observed volatility with the associated confidence interval. In periods with abnormally large market fluctuations, the assumptions behind the model will be undermined and its accuracy reduced. This was particularly evident in the turbulent markets of the second half of 2008.

In 2009, expected tracking error (relative volatility) fell sharply from 1.27 percentage points at the end of 2008 to 0.78 percentage point at the end of the first quarter. Expected tracking error increased substantially in 2008 despite a reduction in the level of active management on the fixed income side. The size of active positions in the fixed income portfolio was further reduced in the first quarter of 2009. Together with reduced volatility in the equity market and in the correlations between the different investment strategies, this explains the decrease in expected tracking error.

Through the Regulation on the Management of the Government Pension Fund – Global and supplementary guidelines for the fund, the Ministry of Finance has set additional limits for exposure. These limits and the actual levels in the portfolio at the end of the quarter are shown in Table 5–4. There were no breaches of the guidelines during the quarter.

Chart 5-3 Standard deviation for risk and realised excess return 1999-2009. Basis points



Source: NBIM. RiskMetrics

Chart 5-4 Expected and actual tracking error 1999-2009. Basis points

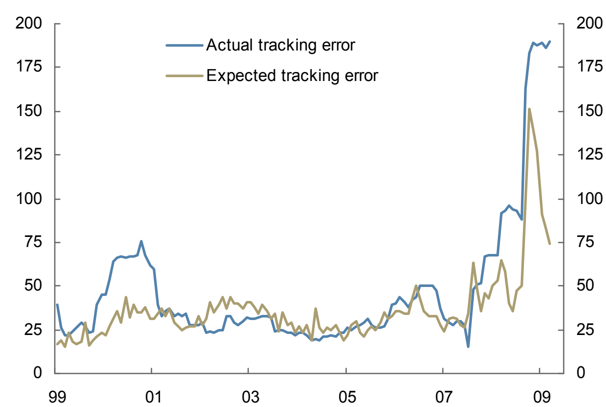


Chart 5-5 Expected tracking error 2008-2009. Basis points

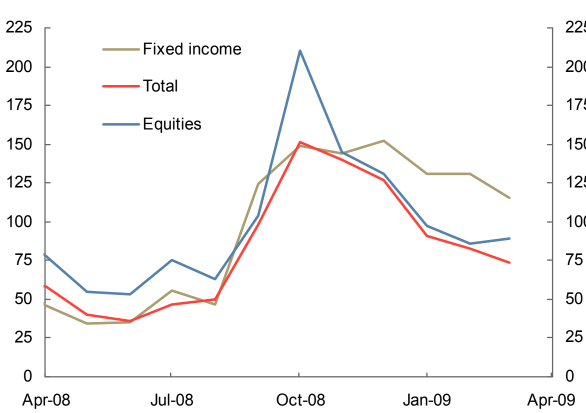


Table 5-2 Key figures on 31 March 2009. Annualised data

(Measured in an international currency basket)	Past year	Past 3 years	Past 5 years	Past 10 years	Since 01.01.1998
Portfolio return (per cent)	-22.64	-7.03	-0.69	1.53	2.43
Benchmark return (per cent)	-19.65	-5.48	0.01	1.63	2.50
Excess return (percentage points)	-2.99	-1.55	-0.70	-0.10	-0.07
Standard deviation (per cent)	15.34	10.08	8.37	7.21	7.12
Tracking error (percentage points)	1.84	1.24	1.03	0.80	0.76
Information ratio	-1.63	-1.25	-0.68	-0.12	-0.10
Gross annual return (per cent)	-22.64	-7.03	-0.69	1.53	2.43
Annual price inflation (per cent)	0.61	2.04	2.13	1.93	1.80
Annual management costs (per cent)	0.13	0.11	0.11	0.10	0.10
Annual net real return (per cent)	-23.24	-9.01	-2.88	-0.49	0.52

Table 5-3 Fixed income portfolio on 31 March 2009 by credit rating

Percentage of fixed income portfolio	Aaa	Aa	A	Baa	Ba	Lower	No rating
Government and government-related bonds	32.7	9.3	2.1	0.6	0.1	0.0	0.2
Inflation-linked bonds	4.2	2.4	0.6	-	-	-	-
Corporate bonds	0.5	3.5	7.5	5.4	0.4	0.2	0.1
Securitised debt	27.5	0.9	0.6	0.2	0.2	0.6	0.2
Total bonds and other fixed income instruments	**64.9**	**16.1**	**10.9**	**6.1**	**0.7**	**0.8**	**0.5**

Based on credit ratings from at least one of the following rating agencies: Moody's, Standard & Poor's and Fitch. The "No rating" category consists of securities not rated by these three agencies; these securities may, however, have been rated by other, local agencies.

Table 5-4 Key figures for risk and exposure

Risk	Limits	Actual		
		30.09.2008	31.12.2008	31.03.2009
Market risk	Tracking error max. 1.5 percentage points	0.98	1.27	0.74
Asset mix	Fixed income portfolio 30-70%	47.0	50.4	47.4
	Equity portfolio 30-70%	53.0	49.6	52.6
Currency distribution, fixed income	Europe 50-70%	59.4	59.9	60.0
	Americas 25-45%	35.3	34.3	35.1
	Asia and Oceania 0-15%	5.3	5.8	4.9
Market distribution, equities	Europe 40-60%	48.8	48.6	49.4
	Americas and Africa 25-45%	36.3	35.2	35.2
	Asia and Oceania 5-25%	14.9	16.2	15.3
Ownership	Max. 10% of a company	5.96	8.71	9.47

Active ownership

The aim of active ownership is to promote long-term financial returns through practices such as voting at general meetings, engagement with companies, and collaboration with other investors

Corporate governance

This year's annual general meeting season will be dominated by the financial crisis, with assessments of how companies and their boards coped when structures and processes were put to the test. The majority of companies in the portfolio have seen their share prices fall sharply and remain volatile due to the general uncertainty in the markets.

Shareholders in financial institutions are looking at the question of whether their boards performed adequate risk management and oversight of executive management. The role of the board when the credit and liquidity problems emerged is being carefully examined by shareholders. Another theme is whether boards acted in shareholders' best interests in connection with capital raisings and corporate transactions in high-pressure situations.

As a significant shareholder NBIM will also take part in dialogues concerning director elections, executive remuneration and board reforms. Growing awareness in the market of NBIM's ownership activities, together with a growing number of companies in which NBIM is among the largest shareholders, means that we are being contacted increasingly often by companies wishing to discuss governance issues.

One of the most important roles of a company's board is to appoint, and potentially dismiss, the CEO.The board should contribute to long-term strategy and value creation, and monitor a company's activities and risk-taking. NBIM believes that having a chairman independent of the company's management is a fundamental principle of good corporate governance. Thus one and the same person cannot serve as both CEO and chairman.

In its active ownership work in 2009, NBIM is shining the spotlight on the issue of independent chairmen, especially in markets where this is not standard practice, such as the US, Japan and France. In our voting, we will not support the election of a chairman who is also CEO. There are almost 1 500 companies in the fund – most of them in the US – where we may come to exercise our voting rights in this way. We also plan to step up our dialogue with companies on this issue. In the US, shareholder proposals were filed at the general meetings of 35 companies in the first quarter calling for the CEO not also to be chairman. This resulted, for example, in the resignation of the chairman of Bank of America after encountering strong opposition at the general meeting at the end of April.

We have supported proposals of this kind for many years and will now consider filing them ourselves. We will also be promoting this important principle in our communication and taking various steps to influence this process, partly through contact with regulators and collaboration with other investors and academic environments. Recent research in the US, partly at the Yale School of Management, has also highlighted this issue. For example, there has been analysis of developments in chairmanship and board independence in North America in recent years. It is claimed that an independent chairman will help to prevent conflicts of interest, improve risk oversight and promote communication both between board and management and with shareholders.

Children's rights

In 2008, NBIM drew up the document *NBIM Investor Expectations on Children's Rights*, which sets out the expectations that a long-term investor such as NBIM has of companies when it comes to children's rights and efforts to combat child labour.

In March 2009 we published our first sector compliance report looking at how well companies in the highest-risk sectors live up to these expectations. The report is broken down by sector and is the result of an analysis of 430 of our investee companies in sectors and markets where there is a high risk of child labour. The analysis is based solely on publicly available information and will be performed annually. The aim is to provide an up-to-date overview of how high-risk companies handle children's rights and child labour.

Photo: Steve Allanho

The 430 companies analysed were chosen on the basis of their sector and market value and the size of NBIM's holding.

- Cocoa: 20 companies
- Mining: 84 companies
- Steel: 107 companies
- Textiles: 208 companies

These companies were analysed on the basis of the ten key criteria in the expectations document. These criteria cover the worst forms of child labour; compliance with standard minimum age requirements; supervision systems; measures to safeguard child health and welfare; and companies' governance structures and reporting on these issues. The analysis will be used first and foremost to identify companies where NBIM is to engage or follow up existing engagement processes. It also provides an overview of high-risk sectors and markets. In addition to this report, we are producing individual overviews of how well each particular company meets our expectations. These reports at company level will be used only in our direct dialogue with the company in question. The next analysis of the above sectors in NBIM's portfolio will be performed in autumn 2009.

The report reveals generally poor results in all sectors. Fewer than 30 per cent of companies have explicit policies on child labour. Hardly any companies report on systems for preventing violations of children's rights in their operations. During the course of 2008 and 2009, 156 companies have been contacted on the basis of these analyses and the report, in most cases because they do not have policies concerning child labour. We hope to see improvements at every level in 2009, with companies at the very least having publicly available policies on child labour. NBIM will continue to follow up this work through both analyses and direct dialogue with companies.

Financial reporting

Financial information for the Government Pension Fund – Global is presented below. The financial reporting for the fund forms part of, and comprises excerpts from, Norges Bank's financial statements.

Profit and loss account and balance sheet

Profit and loss account				Year to date		
(Figures in millions of NOK)	Note	Q1 2009	Q1 2008	31.03.2009	31.03.2008	31.12.2008
Profit/loss on financial assets excl. exchange rate adjustments						
Interest income, deposits in foreign banks		140	100	140	100	494
Interest income, lending associated with reverse repurchase agreements		446	5 632	446	5 632	14 189
Net income/expenses and gains/losses from:						
- equities and units		-62 397	-121 829	-62 397	-121 829	-595 304
- bonds and other fixed income instruments		-7 047	7 725	-7 047	7 725	-686
- financial derivatives		4 086	-961	4 086	-961	-31 210
Interest expenses, borrowing associated with repurchase agreements		-1 208	-6 412	-1 208	-6 412	-20 124
Other interest expenses		3	-16	3	-16	-613
Other expenses		-48	-14	-48	-14	44
Profit/loss before exchange rate adjustments		-66 025	-115 776	-66 025	-115 776	-633 209
Exchange rate adjustments		-177 128	-45 159	-177 128	-45 159	506 163
Profit/loss before management fee		-243 153	-160 935	-243 153	-160 935	-127 046
Accrued management fee	2	-858	-479	-858	-479	-2 165
Profit/loss transferred to krone account		-244 011	-161 414	-244 011	-161 414	-129 211

Balance sheet

(Figures in millions of NOK)	Note	31.03.2009	31.03.2008	31.12.2008
ASSETS				
FINANCIAL ASSETS				
Bank deposits		28 209	21 402	18 111
Lending associated with reverse repurchase agreements		158 662	720 983	274 132
Cash collateral paid		8	0	114
Equities and units	5,6	1 074 884	920 298	1 126 760
Bonds and other fixed income instruments	5,6	1 438 832	1 234 750	1 612 236
Unsettled trades		0	0	0
Other assets		3 564	16 004	17 164
TOTAL FINANCIAL ASSETS		2 704 159	2 913 436	3 048 517
LIABILITIES AND CAPITAL				
FINANCIAL LIABILITIES				
Short-term borrowing		2 660	255	133
Borrowing associated with repurchase agreements		372 199	558 914	514 395
Cash collateral received	4	158 991	334 114	188 608
Financial derivatives		27 892	4 375	36 320
Unsettled trades		55 811	57 022	30 144
Other liabilities		10 126	12 887	3 463
Management fee due		858	479	2 165
TOTAL FINANCIAL LIABILITIES		628 537	968 046	775 228
Capital	3	2 075 622	1 945 389	2 273 289
TOTAL LIABILITIES AND CAPITAL		2 704 159	2 913 436	3 048 517

With effect from 31 December 2008, cash collateral received and re-investments of this collateral are recognised in the balance sheet. The comparative figures for 31 March 2008 have been restated accordingly.

Note 1. Accounting policies

The interim accounts for the first quarter have 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 the Annual Report for 2008.

The interim accounts do not include all of the information required in a full set of annual financial statements and should be read in conjunction with the Annual Report for 2008.

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 2008 contain further information on significant estimates and assumptions.

Note 2 Management costs

	Q1 2009		Q1 2008	
	Thousands of NOK	Per cent	Thousands of NOK	Per cent
Internal costs	168 404		152 077	
Custody and settlement costs	82 409		70 292	
Minimum fees to external managers	121 941		121 396	
Performance-based fees to external managers	414 501		74 909	
Other costs	71 143		59 962	
Total management costs	858 398	0.16	478 636	0.10
Total management costs excluding performance-based fees	443 897	0.08	403 727	0.08

The method used to calculate performance-based fees to external managers was changed in the first quarter of 2009, such that management fees are now to a higher degree recognised in the same period as the management results on which they are based. The result of this change is an increase in performance-based fees of NOK 275 million in the first quarter of 2009 relative to the previous method. This change affects only the accrual of the costs and not the size of the fees paid.

Note 3 Capital

(Figures in millions of NOK)	Note	31.03.2009	31.03.2008	31.12.2008
Deposits in krone account at beginning of period		2 273 289	2 016 955	2 016 955
Inflows during the period		46 344	89 848	385 545
Profit/loss transferred to krone account		-243 153	-160 935	-127 046
Capital before deduction of management fee		2 076 480	1 945 868	2 275 454
Management fee to Norges Bank		-858	-479	-2 165
Capital – deposits in krone account at end of period		2 075 622	1 945 389	2 273 289

Note 4. Securities lending

Loans of securities through external lending programmes totalled NOK 334.8 billion on 31 March 2009, as against NOK 540.9 billion a year earlier. These loans are secured through the receipt of collateral or, in the case of one lending agent, through a guarantee agreement. As at 31 March 2009, total collateral of NOK 333.8 billion had been received for these loans. Of this collateral, NOK 158.9 billion was received in the form of cash and the remainder in the form of securities. With effect from the 2008 financial year, cash collateral has been recognised in the balance sheet. Cash collateral received is re-invested in reverse repurchase agreements and bonds. The carrying amount of these re-investments on 31 March 2009 was NOK 150.8 billion.

Total provisions for unrealised losses on re-invested cash collateral amounted to NOK 7.9 billion on 31 March 2009. These losses are calculated on the basis of the market value of the re-investments. Of these losses, NOK 6.9 billion relates to unrealised losses based on valuations using ordinary price sources (breaking down into NOK 4.4 billion on securitised debt, NOK 1.1 billion on corporate bonds, and NOK 1.4 billion on structured investment vehicles), while NOK 1 billion is a liquidity deduction resulting from the price adjustment method (see Note 6). An unrealised gain on these re-investments of NOK 1 billion has been recognised for the first three months of the year as a reversal of previous unrealised losses on these investments under "Net income/expenses and gains/losses from bonds and other fixed income instruments". This part of the re-investment programme was frozen a year ago, and these investments will decrease as the bonds mature.

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

(Figures in millions of NOK)	Cost	Fair value of securities	Accrued dividends	Carrying amount
Equities and units				
Listed equities and units	1 447 807	1 071 257	3 089	1 074 346
Units in unlisted fixed income and equity funds	781	538		538
Total equities and units	**1 448 588**	**1 071 795**	**3 089**	**1 074 884**
Government and government-related bonds	593 862	642 182	10 432	652 614
Inflation-linked bonds	95 487	105 287	621	105 908
Corporate bonds	307 036	248 290	5 731	254 021
Securitised debt	426 526	420 075	5 627	425 702
Short-term certificates	610	587	0	587
Total bonds and other fixed income instruments	**1 423 521**	**1 416 421**	**22 411**	**1 438 832**

Note 6. Fair value measurement

Establishing fair value

Pricing risk is still considered to be limited for the majority of instruments in which the fund is invested. Equity investments are considered relatively easy to value, as there are official market prices based on an active transaction market for almost all positions in the portfolio. When it comes to holdings of bonds, the price uncertainty picture is somewhat more complex. The pricing of government bonds and liquid government-guaranteed bonds is based on observable market prices in an active market with quotes and frequent transactions. Corporate bonds, covered bonds, securitised debt guaranteed by US federal credit institutions and some government-guaranteed and government-related bonds, however, are priced using models with observable data points. The majority of these are considered to be associated with relatively limited pricing risk, as the data points in the models are largely observable.

Exposure considered particularly uncertain in terms of pricing totalled NOK 64 billion at the end of the first quarter. This consisted almost exclusively of securitised debt not guaranteed by US federal credit institutions. This represented a decrease in exposure of NOK 10 billion from NOK 74 billion at the end of 2008. The decrease was due primarily to exchange rate movements, but repayments of principal and slightly negative price movements also played a role.

The table below breaks down the fund's investments into categories of price uncertainty.
(Figures in millions of NOK)

Categorisation of investments by price uncertainty	Observable market prices in active markets	Model pricing with observable data points	Model pricing with greater uncertainty about fair value	Total
Equities and units	1 068 827	5 404	653	1 074 884
Bonds	668 993	706 176	63 663	1 438 832
Total	**1 737 820**	**711 580**	**64 316**	**2 513 715**

Following a number of analyses and discussions with various players in the market, valuation methods have been developed to take account of this additional uncertainty. These methods mean that the value of some types of instrument has been revised downwards by means of a liquidity deduction from the value reported from the ordinary price sources. This adjustment for the first quarter encompasses all securities categorised in the group "Model pricing with greater uncertainty about fair value". The size of this liquidity adjustment depends on the estimated uncertainty related to the price from the price source. The liquidity adjustment for accounting purposes over and above the prices from ordinary sources totalled NOK 3 567 million at the end of the first quarter, as against NOK 3 424 million at the end of 2008. Of this figure, NOK 935 million relates to cash collateral re-invested in bonds (see Note 4).