Quarterly Report

Government Pension Fund – Global Third quarter 2009

NBIM
Norges Bank Investment Management

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.

Oslo, 10 November 2009
11/300
ISSN 1890-8837 (printed)
ISSN 1890-8845 (online)

Contents

- The return on the Government Pension Fund – Global was 13.5 percent in the third quarter, the best quarterly result ever.
- The third-quarter return exceeded the return on the benchmark portfolio by 1.5 percentage points.
- The return amounted to NOK 325 billion in the third quarter and NOK 529 billion in the first nine months of the year.
- The value of the fund increased to NOK 2 549 billion.
- Uncertainty in financial markets decreased further and equity markets climbed sharply.

Key figures

The market value of the Government Pension Fund – Global rose by NOK 163 billion to NOK 2 549 billion in the third quarter. The increase primarily reflects positive market returns.

The overall return measured in an international currency basket was 13.5 percent in the third quarter of 2009 (chart 1-2). This record-high quarterly return can largely be attributed to a 17.7 percent return on the equity portfolio. The overall return was 21.8 percent in the first nine months of the year.

The return exceeded the return on the benchmark portfolio by 1.5 percentage points in the third quarter and by 3.4 percentage points in the first nine months of the year (chart 1-3). It amounted to NOK 325 billion in the third quarter and NOK 529 billion in the first nine months of 2009.

The fund received NOK 49 billion in new capital in the third quarter. That is somewhat higher than in the first and second quarters but considerably lower than in previous years. Inflows of new capital amounted to NOK 133 billion in the first nine months of 2009, compared with NOK 384 billion for the whole of 2008.

Market volatility continued to decrease in the quarter. Absolute volatility measured in percent at the end of September was not significantly higher than before the financial turmoil started in mid-2007 (chart 1-4).

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

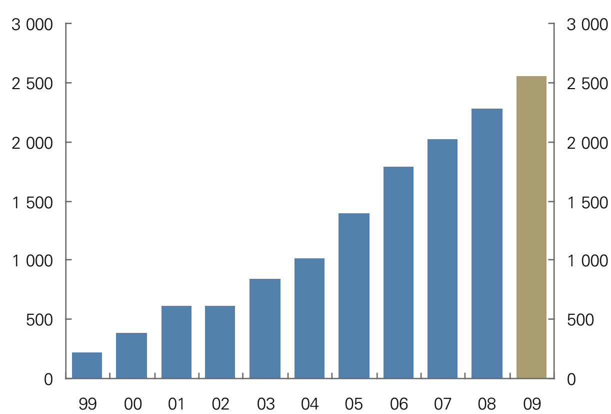


Chart 1–2 Quarterly return and three-year rolling annualised return 2001-2009. Percent

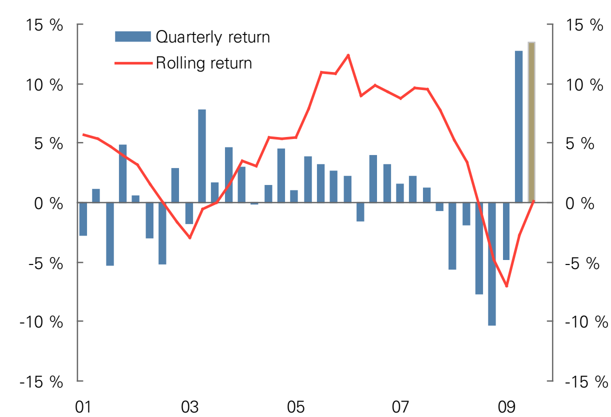


Chart1-3 Quarterly and three-year rolling annualised excess return 2001–2009. Percentage points

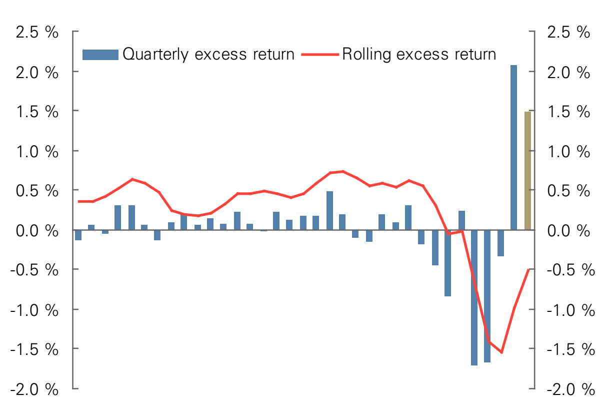
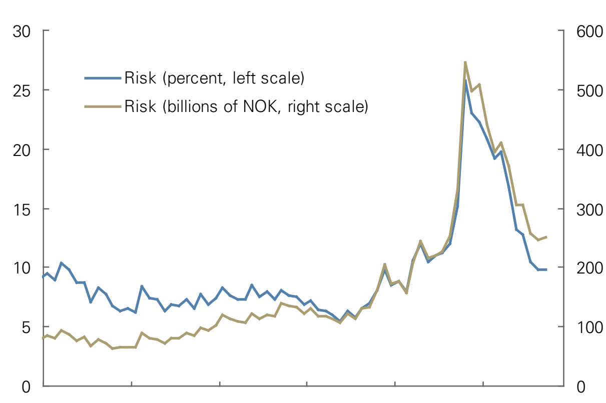


Chart 1–4 Absolute volatility 2004-2009. Percent and billions of NOK



The markets

The market trends observed in the second quarter continued in the third quarter. Equity prices climbed sharply, credit spreads between corporate and government bonds narrowed further and uncertainty continued to decrease.

Key financial risk indicators fell further in the third quarter after peaking at extreme levels during the financial crisis. A key indicator in the money market is the spread between treasury bill yields and interbank lending rates (chart 2-1), which narrowed further in the third quarter to levels seen before the start of the financial turmoil in mid-2007. The liquidity crisis therefore seems to be over.

Banks continued to bolster equity in the third quarter and raised almost USD 70 billion globally, mainly from private sources. Measures taken to combat the crisis in the financial sector seem to have been effective.

Credit premiums fell in the third quarter and expected volatility in equity markets also declined (chart 2-2).

The global economic downturn that followed the financial crisis is still not over. In the US, the starting point of the crisis, unemployment climbed from 9.5 percent in June to 9.8 percent in September (chart 2-3). That is the highest level since 1983. The strong recovery in equity and credit markets primarily reflects expectations that the authorities will continue to pursue a policy of supplying liquidity to the markets, keeping interest rates low and stimulating economic growth.

Fixed income markets

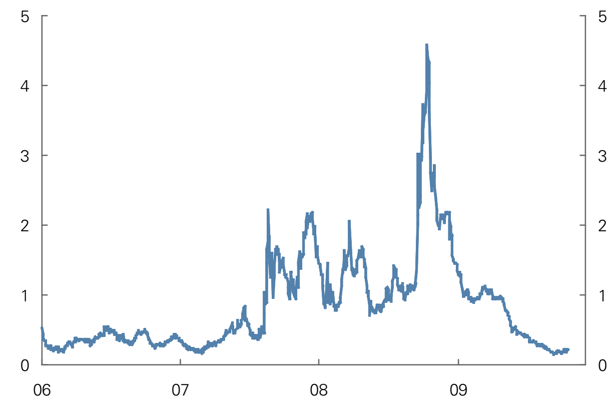
Major central banks continued to supply liquidity in the third quarter to stabilise financial markets. In the US, the Federal Reserve purchased bonds from public and private issuers, as well as mortgage-backed securities and debt issued by the large housing mortgage agencies, and said the measures will run for an extended period. In the UK, the Bank of England expanded a programme to purchase various types of bonds by GBP 50 billion to GBP 175 billion.

The European Central Bank began to buy euro-denominated covered bonds, boosting new issues in this asset class (chart 2-4). Activity in the secondary market also increased and the liquidity premium for covered bonds fell sharply. It is important for mortgage funding in Europe that price formation in this segment starts to function again.

Credit spreads between corporate and government bonds narrowed further during the third quarter, continuing a trend from the previous quarter. The return on corporate bonds was consequently much higher than for government bonds (chart 2-5). Yields on bonds issued by financial institutions fell more than in other sectors. This tendency was also seen in the preceding quarter (chart 2-6).

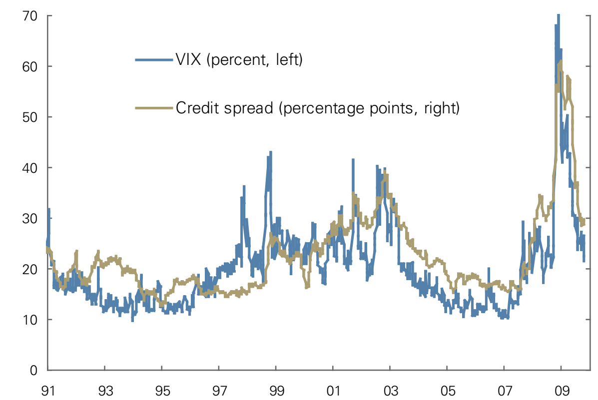
Ten-year government bond yields in the US fell by 0.2 percentage point during the third quarter, while yields in Europe fell by around 0.1 percentage point.

Chart 2-1 Spread between interbank lending rates in the money market and US treasury bill yields. Percentage points



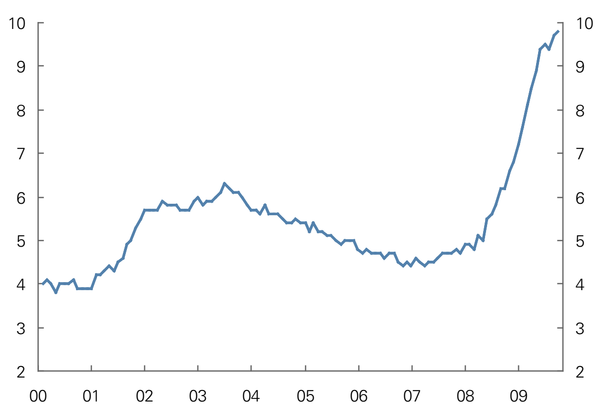
Source: Ecowin

Chart 2-2 Expected volatility in the US equity market (VIX index) and the credit spread between US corporate and government bonds (credit premium). Percent



Sources: CBOE, Moodys BBB

Chart 2-3 US unemployment rate. Percent

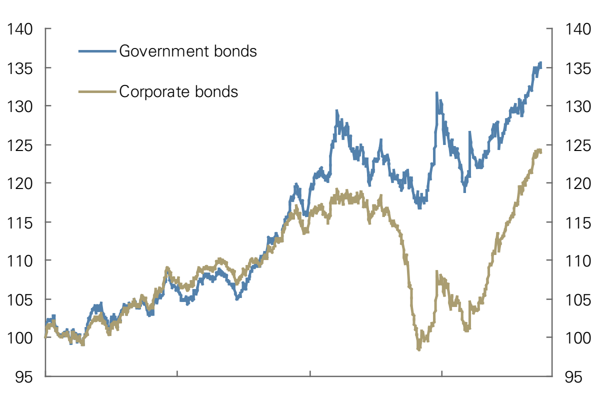


Source: Ecowin

Chart 2-4 European market for covered bonds. Percent

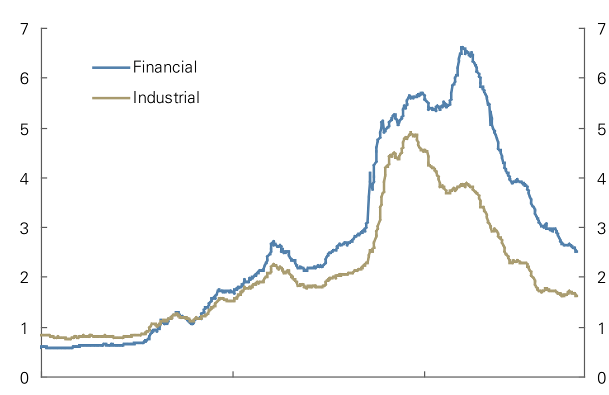
Source: Unicredit CoveredBond Research

Chart 2-5 Return on broad group of bonds. Index



Source: Barclays Global Aggregate

Chart 2-6 Credit spread between different corporate sector bonds and government bonds. Percentage points



Source: Barclays Global Aggregate

Equity market

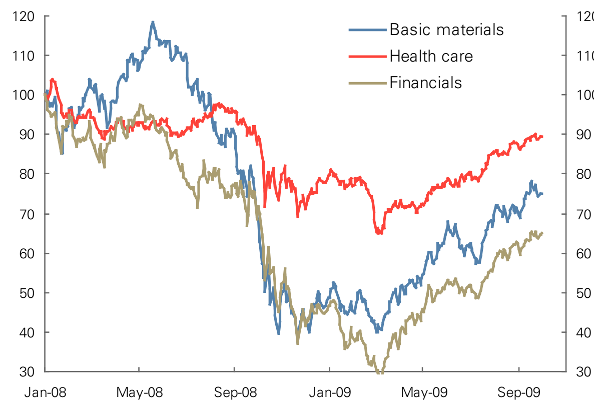
The broad FTSE All-World Index gained 17.5 percent in the third quarter. As in the second quarter, cyclically sensitive sectors, such as basic materials, significantly outperformed sectors with more stable earnings, such as health care (chart 2-7).

Expectations for second-quarter corporate earnings were highly pessimistic before results were published in the third quarter. Actual earnings were better than analysts had anticipated, mainly because companies managed to maintain margins through cost cuts. The strong earnings contributed to an increase in share prices.

Bank and financial equities continued to advance in the third quarter, helped by surprisingly strong earnings at some companies and reduced uncertainty in the sector (chart 2-7).

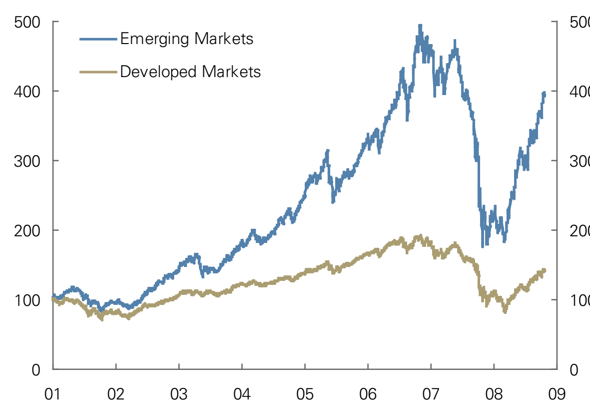
Equity returns have been significantly higher in emerging markets than in industrialised countries this decade. After a sharp slide in prices in emerging markets last year, this trend was re-established in recent quarters (chart 2-8).

Chart 2-7 Return on investments in select business sectors. Index



Source: FTSE World Index

Chart 2-8 Return on investments in emerging and developed markets. Index



Source: FTSE All-World

The portfolio

The fund's share of equity investments rose to 62 percent at the end of the third quarter from 60 percent at the end of the second quarter. The increase was due to solid returns in equity markets.

The Ministry of Finance has decided that the fund's investment portfolio shall track a long-term strategic portfolio consisting of 60 percent equities and 40 percent fixed income assets. Movements in the market may affect the weighting of the benchmark portfolio, and the share of equities may rise to above 60 percent when stock markets increase in value. This occurred in the third quarter. The ministry has set rules for how the benchmark shall be readjusted to the long-term goal of 60 percent equities.

The fund owned an average 1 percent of the world's listed companies at the end of the third quarter, with holdings averaging 1.8 percent in Europe and 0.7 percent in the rest of the world (chart 3-2).

Assets under external management fell by NOK 45 billion in the quarter to just over NOK 332 billion. External equity management accounted for NOK 25 billion of the decrease, while external fixed income management represented NOK 19 billion. External fixed income management is now at its lowest level since 2003. This is related to last year's decision to phase out mandates for investments in securitised debt, particularly in the US, as explained in the Annual Report for 2008. External management accounted for about 13 percent of the fund's assets at the end of the third quarter (chart 3-3).

NBIM has awarded 14 new specialist mandates for external management so far this year, of which eight are in emerging markets. NBIM had locally based managers in countries such as Poland, Russia, Turkey, China, India, Indonesia, Malaysia, Thailand, Brazil and South Africa at the end of September.

Performance based fees to external managers rose to NOK 1 241 million in the first nine months of 2009 from NOK 260 million in the same period last year. The increase partly reflects sustained solid performance among external equity managers, not least for the first nine months of this year. Additionally, a number of new mandates have been awarded in 2008 and 2009.

Performance based fees are not calculated on the basis of market movements, but on how well the manager outperforms the market over time. These fees are also based on long-term performance, typically over a rolling 36-month period. This means that the quarterly provisions for performance based fees usually will not reflect the excess returns generated during that quarter.

Chart 3-1 Breakdown by asset class 2004-2009. Percent

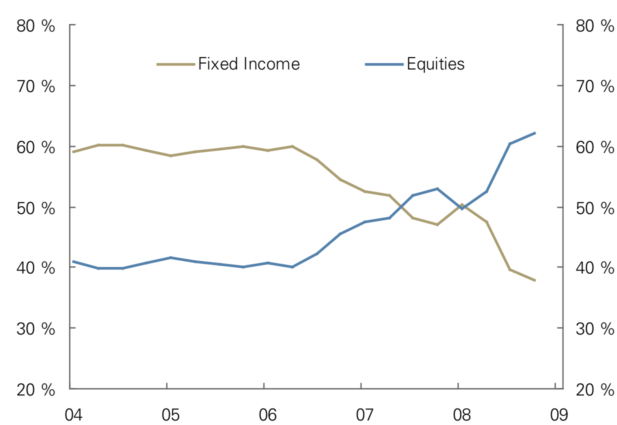


Chart 3-2 Ownership in equity markets 1998-2009. Percentage of FTSE index's market capitalisation

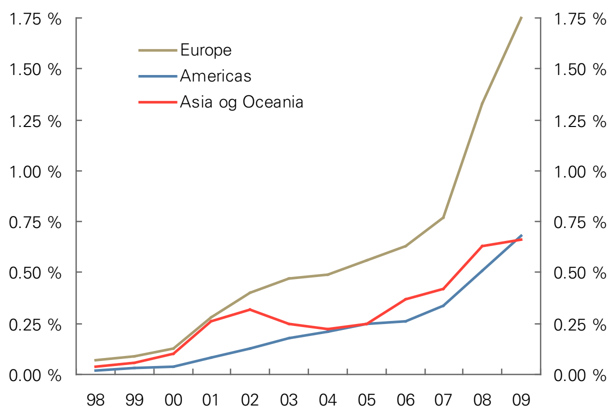
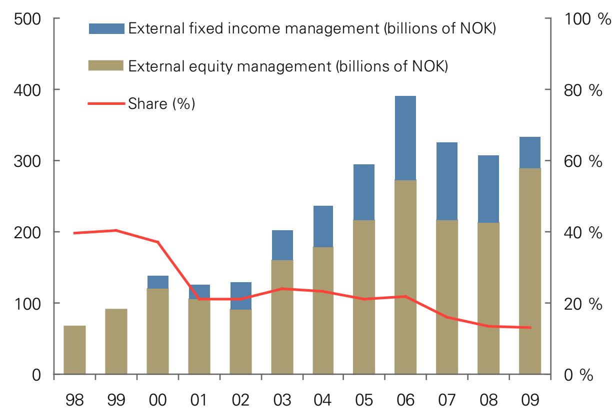


Chart 3-3 External management 1998-2009. Billions of NOK and percent



Sources: FTSE, NBIM

Table 3-1 Largest equity holdings on 30 September 2009

Company	Country	Holding in millions of NOK
HSBC Holdings PLC	UK	21 469
Royal Dutch Shell PLC	UK	18 344
Nestle SA	Switzerland	17 060
BP PLC	UK	16 827
Total SA	France	14 036
Banco Santander SA	Spain	12 174
Telefonica SA	Spain	11 947
Vodafone Group PLC	UK	11 894
Exxon Mobil Corp	US	11 625
Roche Holding AG	Switzerland	11 445

Table 3-2 Largest bond holdings on 30 September 2009

Issuer	Country	Holding in millions of NOK
United States of America	US	88 592
Federal Republic of Germany	Germany	74 960
UK Government	UK	74 837
Japanese Government	Japan	44 619
Italian Republic	Italy	40 685
French Republic	France	38 782
Fannie Mae	US	30 947
European Investment Bank	Supranational	28 835
Kreditanstalt für Wiederaufbau	Germany	25 677
Bank of Scotland plc	UK	23 446

Market value, risk and return

The return on the Government Pension Fund – Global was 13.5 percent in the third quarter. This was 1.5 percentage points higher than the return on the benchmark portfolio.

The fund's value rose by NOK 163 billion in the third quarter to NOK 2 549 billion, helped by NOK 49 billion in new capital. Returns on investments added NOK 325 billion, while a stronger krone reduced the value by NOK 211 billion (chart 4-1). Changes in the krone exchange rate have no effect on the fund's international purchasing power.

The fund's value rose by NOK 273 billion in the first nine months of the year. Capital inflows contributed NOK 133 billion, while positive returns measured in international currency added NOK 529 billion. A stronger krone reduced the value by NOK 389 billion in the period.

The third-quarter return was 13.5 percent measured in international currency (table 4-1). The return was 17.7 percent for the equity portfolio and 7.2 percent for fixed income investments. The fund generated an average annual return of 4.5 percent between 1 January 1998 and 30 September 2009 (table 4-2). Excluding management costs and adjusted for inflation, the average annual return since 1 January 1998 was 2.5 percent at the end of September, up from 1 percent at the end of 2008.

The fund's return is measured against the return on the benchmark portfolio established by the Ministry of Finance. The difference between the two is referred to as the fund's relative or excess return.

The excess return was 1.5 percentage points in the third quarter (table 4-1). Fixed income management contributed the most with an excess return of 3.3 percentage points. Equity management had an excess return of 0.2 percentage point.

Excess return measurement is based in foreign currency (the currency basket). The calculated excess return is lower when using Norwegian kroner as the base currency, due to the appreciation of the krone in the third quarter. It is the excess return measured in foreign currency that is relevant, because the fund's investments are not converted into kroner each quarter. The excess return measured in foreign currency is also the best measurement of the fund's active management, because managers do not hedge against fluctuations in the Norwegian krone.

Fixed income markets continued to normalise in the third quarter, a process that began in the preceding quarter. Several types of securities approached price levels seen before the financial turmoil began in 2007. The liquidity in the fixed income market was still markedly lower than two years ago.

The third-quarter excess return from fixed income management was largely due to illiquid positions established before the financial turmoil began. Positions in securitised debt had a particularly positive impact, while corporate bonds also contributed positively. Several banks bought back subordinated debt instruments, taking advantage of low market prices.

The third-quarter excess return from equity management can be attributed to positive results from internally managed equity portfolios. The contribution from external equity management was marginally negative. In a quarter when equity markets rapidly advanced, the different strategies for our active equity management had dissimilar and non-systematic exposure to underlying market movements.

The fund generated a 21.8 percent return in the first nine months of the year, exceeding the benchmark portfolio by 3.4 percentage points. Fixed income positions had a parti-

Chart 4-1 Change in market value fourth quarter 2008 – third quarter 2009. Billions of NOK

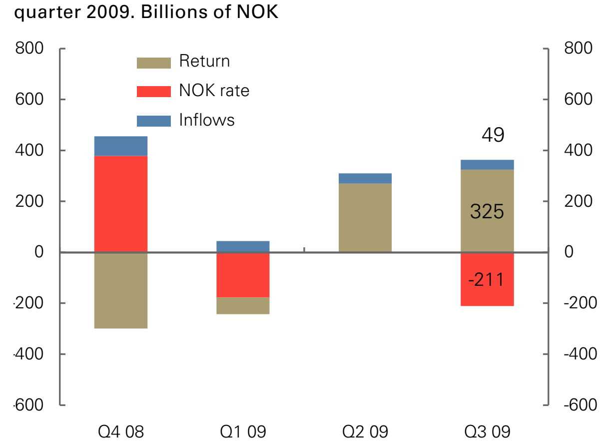


Table 4-1 Key figures on 30 September 2009. Quarterly data

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009
Market value. Billions of NOK							
Fixed income portfolio	1 011	961	997	1 146	985	948	967
Equity portfolio	935	1 031	1 123	1 129	1 091	1 438	1 581
Fund	1 946	1 991	2 120	2 275	2 076	2 385	2 549
Inflows of new capital *)	88	91	128	77	44	40	49
Return	-116	-32	-186	-300	-66	270	325
Change due to krone fluctuations	-45	-13	186	379	-177	-1	-211
Total change	-73	46	128	156	-199	309	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.

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009
Return in international currency. Percent							
Equity portfolio	-12.67	-1.60	-13.12	-20.58	-8.84	19.49	17.69
Fixed income portfolio	0,87	-1.72	-1.19	1.55	-0.88	5.07	7.19
Fund	-5.62	-1.87	-7.68	-10.30	-4.81	12.67	13.51
Benchmark portfolio	-4.79	-2.10	-5.97	-8.62	-4.48	10.60	12.03
Excess return	-0.83	0.24	-1.70	-1.68	-0.33	2.07	1.48
Quarterly management costs	0.02	0.02	0.02	0.03	0.04	0.04	0.04
Return after management costs	-5.64	-1.89	-7.70	-10.32	-4.85	12.63	13.47
Excess return after management costs	-0.85	0.21	-1.72	-1.71	-0.37	2.04	1.44
Return in NOK. Percent							
Equity portfolio	-14.71	-1.90	-5.84	-8.41	-14.46	19.69	8.63
Fixed income portfolio	-1.49	-2.02	7.08	17.12	-6.99	5.25	-1.06
Fund	-7.83	-2.17	0.06	3.45	-10.67	12.86	4.76
Benchmark portfolio	-7.02	-2.41	1.90	5.38	-10.36	10.78	3.40
Management costs. Percent							
Estimated transition costs	0.05	0.03	0.08	0.10	0.06	0.02	0.01
Annualised management costs	0.10	0.10	0.09	0.11	0.16	0.15	0.15
Changes in value since start-up. Billions of NOK							
Gross inflows of new capital	1 852	1 943	2 072	2 150	2 195	2 236	2 286
Management costs	8	9	9	10	11	12	12
Inflows of new capital after management costs	1 844	1 935	2 063	2 140	2 184	2 224	2 273
Return	387	355	169	-131	-197	73	398
Change due to krone fluctuations	-285	-298	-112	266	89	88	-123
Market value	1 946	1 991	2 120	2 275	2 076	2 385	2 549
Return after management costs	379	346	160	-140	-207	62	386

Chart 4-2 Absolute volatility 2004-2009. Percent

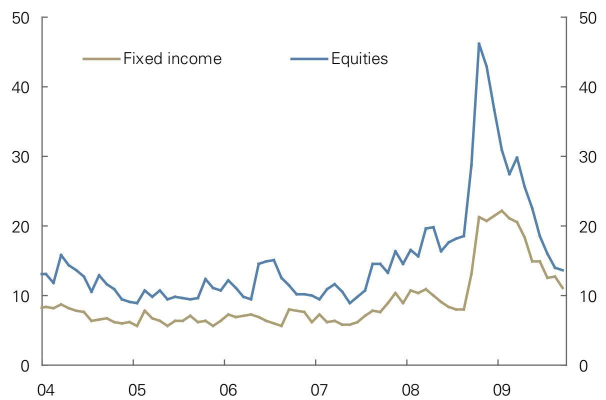
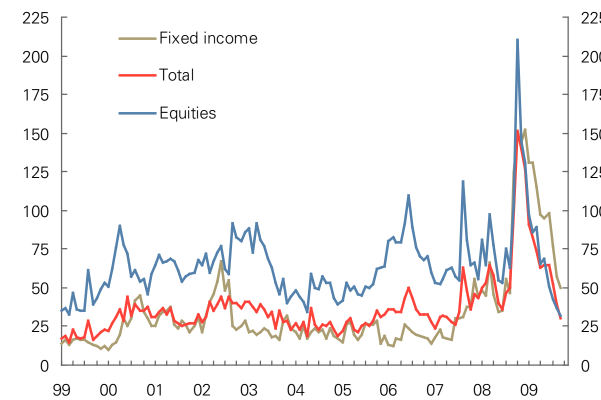


Chart 4-3 Expected relative volatility (tracking error)1999-2009. Basis points



cularly positive effect on the excess return, mainly because of the normalisation of the markets. Equity management also contributed positively, helped by a variety of sectors and regions.

Liquidity in fixed income markets was abnormally low at the beginning of 2009 but improved somewhat during the year. Combined with a lower risk of collapse in the financial system, this led to an upswing in prices and more normal price levels for fixed income securities in the third quarter. The effect of this normalisation will be limited going forward.

Transaction costs are incurred when new capital is phased into the fund and when the benchmark portfolio is rebalanced. NBIM has estimated the direct and indirect transaction costs associated with phasing in new capital and rebalancing at NOK 122 million in the third quarter, or 0.25 percent of the NOK 49 billion transferred to the fund during the quarter.

Chart 4-2 shows market fluctuations (absolute volatility) for the equity and fixed income portfolios. The markets normalised during the first nine months of 2009. Volatility in equity markets at the end of the third quarter was at the same levels as before the financial turmoil began in mid-2007, while volatility in fixed income markets was slightly above the levels prevailing before the financial turmoil.

A model based on historical movements is used to calculate expected volatility. At the end of the third quarter, the fund's expected absolute annual volatility was NOK 250 billion, or 9.8 percentage points (chart 1-4). This means that the value of the fund is expected to fluctuate within a band of +/- NOK 250 billion in two out of three years as a result of changes in market returns.

In periods of unusually large market fluctuations, the model assumptions weaken and accuracy is reduced. This was particularly evident in the market turbulence in the second half of 2008.

Chart 4-3 shows movements in expected relative volatility, or tracking error, for the fund as a whole and for the fixed income and equity portfolios. Expected tracking error, which measures how much the fund's return is expected to deviate from the benchmark portfolio's return, fell further in the third quarter after a marked decline in the first half of the year. The decrease can be largely attributed to a general reduction in the size of the fund's investments and decreased market volatility. Most fixed income positions that were highly illiquid at the beginning of 2008 are still held by the fund.

Table 4-2 Key figures on 30 September 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 (percent)	9.21	0.14	4.06	3.94	4.49
Benchmark return (percent)	8.16	0.66	4.14	3.74	4.28
Excess return (percentage points)	1.05	-0.51	-0.08	0.19	0.21
Standard deviation (percent)	17.77	12.16	9.72	7.94	7.66
Tracking error (percentage points)	2.03	1.54	1.22	0.91	0.85
Information ratio	0.52	-0.32	-0.07	0.21	0.25
Gross annual return (percent)	9.21	0.14	4.06	3.94	4.49
Annual price inflation (percent)	-0.5	1.9	2.1	1.9	1.8
Annual management costs (percent)	0.13	0.11	0.11	0.10	0.10
Annual net real return (percent)	9.63	-1.87	1.79	1.87	2.54

Table 4-3 Fixed income portfolio on 30 September 2009 by credit rating

Percentage of fixed income portfolio	Aaa	Aa	A	Baa	Ba	Lower	No rating
Government and government-related bonds	33.1	7.1	2.2	0.8	0.0	0.0	0.1
Inflation-linked bonds	4.1	3.4	0.1	0.0	0.0	0.0	0.0
Corporate bonds	0.4	4.4	8.7	6.2	0.6	0.2	0.1
Securitised debt	24.5	2.1	0.2	0.3	0.2	1.1	0.1
Total bonds and other fixed income instruments	62.1	17.0	11.3	7.3	0.8	1.3	0.3

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 4-4 Key figures for risk and exposure

Risk	Limits	Actual			
		31.12.2008	31.03.2009	30.06.2009	30.09.2009
Market risk	Tracking error max. 1.5 percentage points	1.27	0.74	0.65	0.30
Asset mix *)	Fixed income portfolio 30-50 percent	50.4	47.4	39.7	38.0
	Equity portfolio 50-70 percent	49.6	52.6	60.3	62.0
Currency distribution, fixed income	Europa 50-70 percent	59,9	60,0	60,1	59,8
	Americas 25-45 percent	34.3	35.1	34.8	35.0
	Asia and Oceania 0-15 percent	5.8	4.9	5.0	5.2
Market distribution, equities	Europe 40-60 percent	48.6	49.4	49.8	51.1
	Americas and Africa 25-45 percent	35.2	35.2	35.1	34.4
	Asia and Oceania 5-25 percent	16.2	15.3	15.1	14.5
Ownership	Max. 10 percent of a company	8.71	9.47	9.50	9.00

*) The limits for the asset mix were changed in the third quarter, after completion of the increase to 60 percent in equity share.

Active ownership

NBIM continues to employ new instruments in the exercise of its ownership rights. We filed our first shareholder proposals and participated in consultations on corporate governance and shareholder rights in the third quarter. We also published our expectations for how companies should meet climate change challenges.

NBIM files shareholder proposals

NBIM submitted proposals to five US companies to change their bylaws so that the positions of chairman and CEO cannot be held by the same person. This is the first time NBIM has filed shareholder proposals.

The proposals were published in September in the notices for general meetings in the fourth quarter at four of the companies. We also discussed the matter with the companies and other investors. Following talks with NBIM, one of the companies decided to amend its guidelines so that a new independent chairman will be elected when the current CEO steps down.

We have this year voted against all candidates seeking election to boards of companies of which they are CEO. The roles of chairman and CEO are very different. An independent chairman is essential for the board to satisfactorily oversee a company's management. We seek to promote this kind of independence in markets where it is not standard practice, most notably in the US, Japan and France.

Better market standards

Our goal is to achieve results at individual companies that can contribute to better market standards for good corporate governance. We also work with authorities and standard setters towards this purpose. NBIM took part in consultations on corporate governance and shareholder rights in the UK, the Netherlands and the US during the third quarter.

We participated in a UK review that recommended introducing new rules specifically for the financial sector. NBIM's view is that corporate governance rules should, as far as possible, apply to all companies regardless of sector.

In the Netherlands, NBIM and other institutional investors cautioned against proposed legislative changes that could undermine shareholder rights and increase investor risk. The proposals could entail a three-year loss of shareholder voting rights in the event of unsatisfactory disclosure of ownership data by custodian banks. NBIM also supports the introduction of disclosure rules for cash-settled call options, to prevent non-transparent positions in a company.

In the US, we backed a proposal from the Securities and Exchange Commission (SEC) that companies must present shareholders' alternative board candidates in the standard documentation issued ahead of a general meeting (proxy access). NBIM suggested ways to make it simpler for shareholders to use this new instrument and more difficult for companies to block competition for board positions. In a separate submission, we backed a SEC proposal that companies must explain why they choose to have an independent chairman or not.

NBIM this year led an initiative to strengthen funding in the European mortgage market. NBIM and other large investors have set up the investor coalition Covered Bond Investor Council (CBIC) to improve liquidity and transparency in the market for covered bonds. A well-functioning covered bond market is essential for banks' long-term funding capacity.

At its first meeting in July, CBIC set up two groups to work on market liquidity and transparency. CBIC also engaged in dialogue with credit rating agencies in the third quarter and commented on proposed changes for covered bonds. At the request of the UK Financial Services Authority, NBIM and other key CBIC participants proposed ways to improve the UK market for covered bonds.

Environment

In the third quarter, NBIM published a set of expectations concerning climate change (NBIM Investor Expectations: Climate Change Management).

A set of expectations for the new focus area of water management (NBIM Investor Expectations: Water Management) was also released for public consultation.

Financial reporting

Financial information for the Government Pension Fund – Global is presented below. The financial reporting of the fund is integrated into, 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	Q3 2009	Q3 2008	30.09.2009	30.09.2008	31.12.2008
Profit/loss on financial assets excl. exchange rate adjustments						
Net interest income, deposits in foreign banks		48	113	125	335	494
Interest income, lending associated with reverse repurchase agreements		39	3 390	647	12 636	14 189
Income/expenses and gains/losses from:						
- equities and units		262 424	-162 980	414 540	-299 477	-595 304
- bonds and other fixed income instruments		66 085	-11 775	108 371	-24 290	-686
- financial derivatives		-3 293	-9 165	7 062	-6 003	-31 210
Interest expenses, borrowing associated with repurchase agreements		-269	-5 179	-2 023	-16 469	-20 124
Other interest expenses		-4	-38	302	-279	-613
Other expenses		34	6	-114	93	44
Profit/loss before exchange rate adjustments		325 064	-185 628	528 911	-333 455	-633 209
Exchange rate adjustments		-210 844	185 712	-389 305	127 643	506 163
Profit/loss before management fee		114 220	83	139 606	-205 811	-127 046
Accrued management fee	2	-884	-408	-2 504	-1 370	-2 165
Profit/loss transferred to krone account		113 336	-325	137 101	-207 181	-129 211

Balance sheet

(Figures in millions of NOK)	Note	30.09.2009	30.09.2008	31.12.2008
ASSETS				
FINANCIAL ASSETS				
Bank deposits		5 972	15 165	18 111
Lending associated with reverse repurchase agreements		135 816	521 885	274 132
Cash collateral paid		0	0	114
Equities and units	5,6	1 579 873	1 115 383	1 126 760
Bonds and other fixed income instruments	5,6	1 247 176	1 286 950	1 612 236
Other assets		9 662	62 922	17 164
TOTAL FINANCIAL ASSETS		2 978 498	3 002 305	3 048 517
LIABILITIES AND CAPITAL				
FINANCIAL LIABILITIES				
Short-term borrowing		1 402	573	133
Borrowing associated with repurchase agreements		239 138	623 318	514 395
Cash collateral received	4	152 545	208 182	188 608
Financial derivatives		16 709	12 090	36 320
Unsettled trades		8 242	30 820	30 144
Other liabilities		11 919	7 373	3 463
Management fee due		2 504	1 370	2 165
TOTAL FINANCIAL LIABILITIES		432 459	883 725	775 228
Capital	3	2 546 040	2 118 580	2 273 289
TOTAL LIABILITIES AND CAPITAL		2 978 498	3 002 305	3 048 517

Note 1. Accounting policies

The interim accounts for the third 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 Norges Bank's 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

	January - September 2009		January – September 2008	
	Thousands of NOK	Percent	Thousands of NOK	Percent
Internal costs	492 663		495 637	
Custody and settlement costs	204 826		215 967	
Minimum fees to external managers	317 835		262 695	
Performance based fees to external managers	1 240 875		259 721	
Other costs	248 184		135 771	
Total management costs	2 504 383	0.15	1 369 791	0.09
Total management costs excluding performance based fees	1 263 508	0.07	1 110 070	0.07

Note 3. Capital

(Figures in millions of NOK)	30.09.2009	30.09.2008	31.12.2008
Deposits in krone account at beginning of year	2 273 289	2 016 955	2 016 955
Inflows during period	135 650	308 806	385 545
Profit/loss transferred to krone account	139 606	-205 811	-127 046
Capital before deduction of management fee	2 548 545	2 119 950	2 275 454
Management fee to Norges Bank	-2 504	-1 370	-2 165
Capital - deposits in krone account at end of period	2 546 040	2 118 580	2 273 289

Note 4. Securities lending

Loans of securities through external lending programmes totalled NOK 319.4 billion on 30 September 2009, as against NOK 435.1 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 2009, total collateral of NOK 336.3 billion had been received for these loans. Of this collateral, NOK 152.5 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 30 September 2009 was NOK 148.9 billion.

Provisions for unrealised losses on re-invested cash collateral totalled NOK 3.6 billion on 30 September 2009. These losses are calculated on the basis of the market value of the re-investments. Of these losses, NOK 3.2 billion relates to unrealised losses based on valuations using ordinary price sources (breaking down into NOK 2.0 billion on securitised debt, NOK 0.3 billion on corporate bonds, and NOK 0.9 billion on structured investment vehicles), while NOK 0.4 billion is a liquidity deduction resulting from the price adjustment method (see Note 6). An unrealised gain on these re-investments of NOK 5.1 billion has been recognised for the first nine 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 eighteen months ago, and these investments will decrease as the bonds mature.

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

	Cost	Market value of securities	Accrued dividends/ interest	Carrying amount
Listed equities and units	1 620 804	1 576 740	2 441	1 579 181
Units in unlisted fixed income and equity funds	663	692	-	692
Total equities and units	**1 621 467**	**1 577 432**	**2 441**	**1 579 873**
Government and government-related bonds	528 600	533 385	8 324	541 709
Inflation-linked bonds	87 108	93 699	397	94 096
Corporate bonds	279 988	253 382	4 925	258 307
Securitised debt	360 946	347 907	5 157	353 064
Total bonds and other fixed income instruments	**1 256 642**	**1 228 373**	**18 803**	**1 247 176**

Note 6. Fair value measurement

Establishing fair value

Pricing risk is 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. The pricing of bond holdings is 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 nevertheless considered to be associated with relatively limited pricing risk, as the data points in the models are, to a relatively large extent, observable.

Exposure considered particularly uncertain in terms of correct pricing totalled NOK 59 billion at the end of the third quarter, and consisted almost exclusively of securitised debt non-guaranteed by US federal credit institutions. The exposure decreased by NOK 4 billion from NOK 63 billion at the end of the second quarter.

The table below breaks down investments into categories of price uncertainty as of 30 September 2009:
(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	1 567 130	11 784	960	1 579 873
Bonds	575 914	613 684	57 578	1 247 176
Total	2 143 043	625 468	58 538	2 827 049

Following a number of analyses and discussions with various market participants (price providers, brokers and external managers), valuation methods have been developed to take account of the additional uncertainty. These methods mean that the value of some types of instruments have been revised downwards by means of a liquidity deduction from the value reported from the ordinary price sources. The size of this adjustment depends on the estimated uncertainty related to the price from the price source. The liquidity adjustment for accounting purposes fell from NOK 1 922 million at the end of the second quarter to NOK 1 664 million at the end of the third. Of this figure, NOK 373 million relates to cash collateral re-invested in bonds (see Note 4).

Norges Bank Investment Management (NBIM)
Bankplassen 2
P.O. Box 1179, Sentrum
N–0107 Oslo
Tel.: +47 24 07 30 00
contact@nbim.no
www.nbim.no