1Q 2010

GOVERNMENT PENSION FUND GLOBAL **FIRST QUARTER 2010**

NBIM
Norges Bank Investment Management

First quarter 2010 in brief

- The Government Pension Fund Global returned 3.9 percent in the first quarter of 2010, driven by gains in global equity and fixed-income markets. The result was 0.4 percentage point higher than the return on the fund's benchmark portfolio.

- The fund's equity investments returned 4.9 percent, while fixed-income investments returned 2.1 percent measured in international currency.

- The fund's market value rose 123 billion kroner to 2,763 billion kroner.

- Inflows of new capital to the fund were 19 billion kroner, the lowest since the fourth quarter of 2003.

- The fund had 62.6 percent of its investments in equities and 37.4 percent in fixed-income securities at the end of the first quarter.

- Norges Bank on March 1 got a mandate to invest as much as 5 percent of the fund in real estate, by reducing fixed-income investments correspondingly.

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

Lowest inflows in more than six years

The Government Pension Fund Global's market value rose 123 billion kroner to 2,763 billion kroner in the first quarter of 2010. Inflows of new capital were 19 billion kroner, the lowest since 2003.

The fund had 62.6 percent of its investments in equities and 37.4 percent in fixed-income securities at the end of the quarter. Equity investments rose 86 billion kroner to 1,730 billion kroner and fixed-income investments increased 37 billion kroner to 1,033 billion kroner.

The fund's market value is affected by capital inflows, returns and exchange rates. Inflows of government petroleum revenue to the fund totalled 19 billion kroner in the first quarter, the lowest since the fourth quarter of 2003. The fund returned 103 billion kroner. Fluctuations in the krone exchange rate had little impact on market value in the quarter.

Stocks, bonds and real estate

The Ministry of Finance on March 1 gave the fund a mandate to gradually invest in real estate through a corresponding decrease in fixed-income investments. Following this decision, the fund shall consist of 60 percent equities, 35–40

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

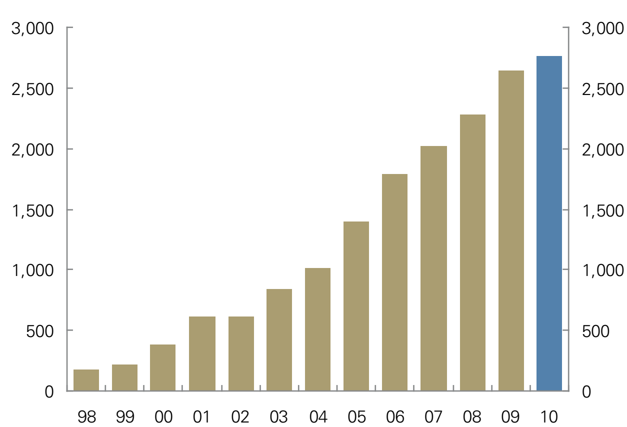
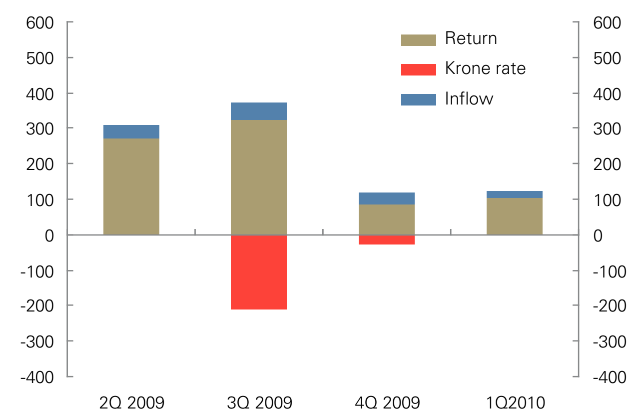


Chart 1-2 Change in the fund's market value. Billions of NOK



percent fixed-income securities and as much as 5 percent real estate.

The fund exceeded the long-term goal of 60 percent equities in 2009 because its equity holdings gained more in value than its fixed-income investments. To allow for different price movements between asset classes, the equity investments may move between 50 and 70 percent, while fixed-income and real estate investments combined may move between 30 and 50 percent. The fund follows rules for how the equity share shall be returned to the long-term target.

All inflows of new capital went to the fixed-income portfolio in the first quarter. The fund's average holding in the world's listed companies was unchanged at 1 percent.

Transaction costs

Investing new capital and rebalancing the fund's benchmark portfolio incur transaction costs. Direct and indirect transaction costs were 37 million kroner in the first quarter, equal to 0.19 percent of the 19 billion kroner transferred to the fund.

Chart 1-3 Breakdown by asset class. Percent of the fund

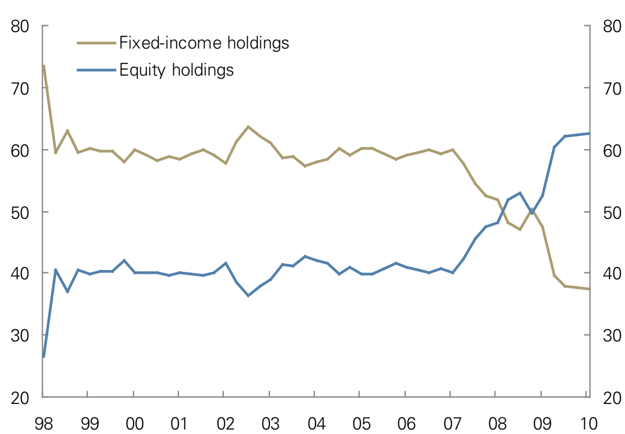
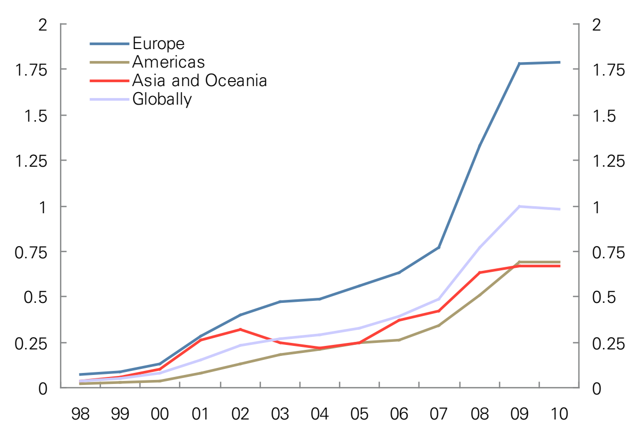


Chart 1-4 The fund's ownership in equity markets. Percentage of FTSE All-World Index's market capitalisation



Source: FTSE, NBIM

Table 1-1 Key figures as of 31 March 2010

	1Q 2010	4Q 2009	3Q 2009	2Q 2009	1Q 2009
Market value (billions of NOK)					
Market value of fixed-income investments	1 033	996	967	948	985
Market value of equity investments	1 730	1 644	1 581	1 438	1 091
Market value of fund	2 763	2 640	2 549	2 385	2 076
Inflow of new capital *)	19	36	49	40	44
Return	103	84	325	270	-66
Change due to movements in krone	0	-28	-211	-1	-177
Total change in fund	123	92	163	309	-199

*) 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.

	1Q 2010	4Q 2009	3Q 2009	2Q 2009	1Q 2009
Management costs (percent)					
Estimated transition costs	0,00	0,00	0,01	0,02	0,06
Annualised management costs	0,10	0,14	0,15	0,15	0,16
Changes in value since inception (billions of NOK)					
Gross inflow of new capital	2 343	2 323	2 286	2 236	2 195
Management costs	14	13	12	12	11
Inflow of capital	2 329	2 310	2 273	2 224	2 184
Return	586	482	398	73	-197
Change due to movements in krone	-152	-152	-123	88	89
Market value of fund	2 763	2 640	2 549	2 385	2 076
Return after management costs	572	469	386	62	-207

Table 1-2 The fund's largest equity holdings as of 31 March 2010

Company	Country	Holdings in millions of NOK
Nestlé SA	Switzerland	19 476
HSBC Holdings PLC	UK	19 368
BP PLC	UK	18 885
Royal Dutch Shell PLC	UK	18 747
Vodafone Group PLC	UK	14 052
Total SA	France	13 929
Novartis AG	Switzerland	12 722
Roche Holding AG	Switzerland	12 335
Exxon Mobil Corp	USA	11 978
BHP Billiton PLC	UK	11 789

Table 1-3 The fund's largest bond holdings as of 31 March 2010

Company	Country	Holdings in millions of NOK
United States of America	USA	119 121
UK government	UK	66 863
Federal Republic of Germany	Germany	48 532
Japanese government	Japan	43 995
French Republic	France	41 075
Italian Republic	Italy	39 686
European Investment Bank	Supranational	21 925
Bank of Scotland PLC	UK	20 525
Fannie Mae	USA	17 287
Kreditanstalt für Wiederaufbau	Germany	16 600


WAY
DEPT. OF TRANSPORTATION
SOHO-CAST IRON HISTORIC DISTRICT
BROADWAY

Management

Strong contribution from fixed income

The fund returned 3.9 percent in the first quarter, driven by gains in global equity and fixed-income markets. The result was 0.4 percentage point higher than the return on the fund's benchmark portfolio.

The fund's equity investments returned 4.9 percent in the quarter, while fixed-income investments returned 2.1 percent measured in international currency.

The equity investments tracked global stock markets higher in February and March after a weak start to the year. The broad FTSE All-World stock index gained 2.7 percent in the first quarter, measured in US dollars, as better-than-expected company earnings and positive economic data fuelled investors' appetite.

The fund's equity investments are spread with about 50 percent in Europe, 35 percent in the Americas, Middle East and Africa, and 15 percent in Asia and Oceania. Stock markets in North America, Africa, the Middle East, Asia and Oceania were among the best performers in the first quarter. The European market was weaker because of concern over high government debt in countries such as Greece, Portugal, Italy and Spain. The fund had 12.6 percent of its European stock investments in these countries at the start of the quarter.

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

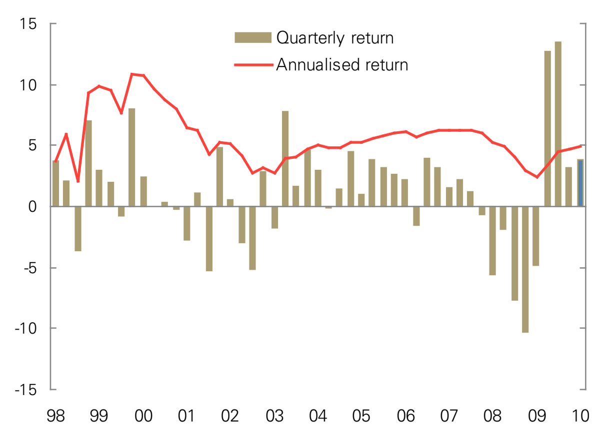
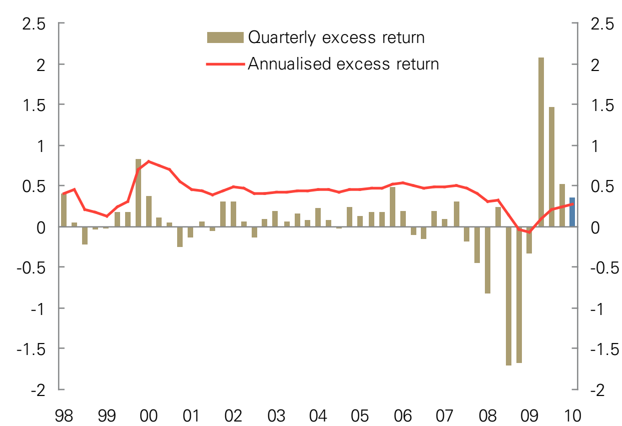


Chart 2-2 The fund's quarterly and annualised excess return since inception. Percentage points



Concern over government debt also affected the fixed-income market. The price of credit default insurance for Greek government debt rose to a record in January and climbed through the quarter. The fund held government bonds from several heavily-indebted European countries at the start of the year. These investments were notably smaller than their corresponding weights in the benchmark portfolio the fund follows.

Liquidity in the fixed-income market has gradually returned to normal from extremely low levels during the financial crisis. This has led to lower risk premiums and higher prices for fixed-income securities, particularly bank bonds, corporate bonds and securitised debt. The fund benefited from these developments in the first quarter.

Table 2-1 Key figures as of 31 March 2010

	1Q 2010	4Q 2009	3Q 2009	2Q 2009	1Q 2009
Return in international currency					
Equity portfolio (percent)	4.92	4.73	17.69	19.49	-8.84
Fixed-income portfolio (percent)	2.14	0.75	7.19	5.07	-0.88
Fund (percent)	3.87	3.18	13.51	12.67	-4.81
Benchmark portfolio (percent)	3.51	2.67	12.03	10.60	-4.48
Excess return (percentage points)	0.36	0.51	1.48	2.07	-0.33
Management costs (percent)	0.02	0.03	0.04	0.04	0.04
Return after management costs (percent)	3.84	3.14	13.47	12.63	-4.85
Return in NOK (percent)					
Equity portfolio	4.96	3.68	8.63	19.69	-14.46
Fixed-income portfolio	2.18	-0.25	-1.06	5.25	-6.99
Fund	3.90	2.15	4.76	12.86	-10.67
Benchmark portfolio	3.54	1.64	3.40	10.78	-10.36

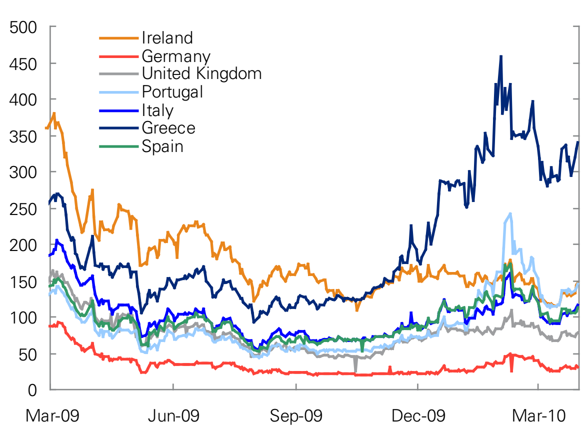
Excess return

The fund's return is measured against the return on a benchmark portfolio set up by the Norwegian Ministry of Finance. The difference, also called the excess return, was 0.4 percentage point in the first quarter. About 80 percent of the excess return came from fixed income. Equity investments accounted for the rest.

The fund's fixed-income holdings had an excess return of 0.8 percentage point in the quarter. About half of this came from investments made before 2007 that became illiquid during the financial crisis. These benefited from an improvement in liquidity and prices of bonds, a development that started in the second half of 2009 and continued in the first quarter. US securitised debt and European subordinated bank debt made a particular contribution. The remainder of the fixed-income portfolio's excess return came from positions distributed relatively evenly in different parts of the market. Through its benchmark portfolio, the fund is exposed to government bonds, government-related bonds, inflation-linked bonds, corporate bonds and securitised debt. NBIM took advantage of the improvement in liquidity and prices to reduce investments in corporate bonds in the financial sector.

The fund's equity investments had an excess return of 0.1 percentage point in the quarter, with internally managed investments accounting for most of the result, particularly in commodity-based sectors and financial stocks. Externally managed equity investments made a minor contribution to the result.

Chart 2-3 Price development of credit default insurance for government debt. Basis points



Source: Bloomberg

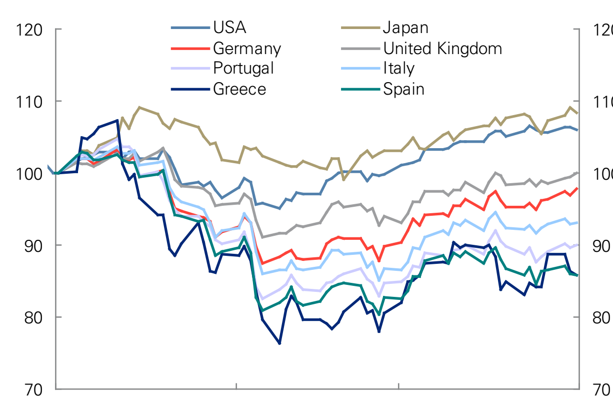
About 13 percent of the fund's assets were managed by external institutions at the end of the quarter. External equity mandates amounted to 321 billion kroner and external fixed-income mandates totalled 29 billion kroner.

From NBIM's start on 1 January 1998 to 31 March 2010, the fund has had an annualised gross return of 4.9 percent, measured in international currency. After management costs and inflation, this gives an annual net real return of 2.9 percent.

Chart 2-4 Sovereign debt to GDP in the G-7. Percent

Source:IMF, World Economic Outlook database.

Chart 2-5. Developments in equity markets. Indexed. 01.01.2010 = 100.
.



Source: FTSE

Table 2-2 Key figures as of 31 March 2010. Annualised data in international currency

	Past year	Past 3 years	Past 5 years	Past 10 years	Since inception (1.1.1998)
Portfolio return (percent)	37.06	0.93	4.37	3.62	4.89
Benchmark return (percent)	31.67	1.26	4.35	3.46	4.62
Excess return (percentage points)	5.39	-0.33	0.02	0.16	0.28
Standard deviation (percent)	9.41	12.59	9.99	7.97	7.67
Tracking error (percentage points)	0.85	1.56	1.23	0.89	0.83
Information ratio (IR)*	6.36	-0.21	0.02	0.19	0.33
Gross annual return (percent)	37.06	0.93	4.37	3.62	4.89
Annual price inflation (percent)	1.84	1.93	2.06	1.93	1.80
Annual management costs (percent)	0.12	0.11	0.11	0.10	0.11
Annual net real return (percent)	34.46	-1.10	2.16	1.56	2.93

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

Table 2-3 Fixed-income portfolio credit rating* as of 31 March 2010. Percentage of portfolio

	Aaa	Aa	A	Baa	Ba	Lower	No rating
Government and government-related bonds	34.6	6.6	3.2	0.8	0.1	0.0	0.1
Inflation-linked bonds	4.3	3.6	0.1	-	-	-	-
Corporate bonds	0.5	3.5	9.0	6.7	0.5	0.1	0.1
Securitised debt	20.3	3.6	0.3	0.3	0.2	1.4	0.1
Share of fixed-income funds	-	-	-	-	-	-	0.1
Total bonds and other fixed-income instruments	**59.7**	**17.4**	**12.6**	**7.8**	**0.7**	**1.5**	**0.3**

*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, however, have been rated by other, local agencies.

Table 2-4 Key figures for risk. Percent and percentage points

Risk	Limits	Actual			
		31.03.2010	31.12.2009	30.09.2009	30.06.2009
Market risk	Tracking error max. 1.5 percentage points	0.32	0.27	0.30	0.65
Asset mix	Equities 50-70%	62.6	62.4	62.0	60.3
	Fixed income 30-50%	37.4	37.6	38.0	39.7
	Real estate 0-5%*	0	0	0	0
Currency distribution,	Europe 50-70%	57.7	58.6	59.8	60.1
fixed income	Americas 25-45%	36.6	36.0	35.0	34.8
	Asia and Oceania 0-15%	5.6	5.4	5.2	5.0
Market distribution, equities	Europe 40–60%	48.5	50.3	51.1	49.8
	America and Africa 25–45%	36.5	35.3	34.4	35.1
	Asia and Oceania 5–25%	15.0	14.4	14.5	15.1
Ownership	Max. 10% of a listed company	8.4	7.2	9.0	9.5

*As of 1 March 2010

Market risk

Investments in stock and bond markets entail risk and the fund's results may vary considerably from year to year, as in 2008 and 2009. Market risk is primarily determined by the composition of the benchmark portfolio. The most important factors impacting risk are changes in equity prices, exchange rates, interest rates and credit risk in the fixed-income portfolio.

Market risk has fallen over the past three quarters from extreme levels during the financial crisis. Expected fluctuations in the equity market, measured by the VIX index, fell in the first quarter to levels seen before the start of the financial turmoil in summer 2007. Risk in fixed-income markets, measured by the iTraxx index, also decreased but was still higher than before the financial crisis.

Expected absolute volatility, measured by the statistical concept standard deviation, describes how much the fund's annual return can be expected to vary in normal periods. Day-to-day fluctuations in capital markets were relatively small in the first quarter. The fund's expected volatility was unchanged at about 7.2 percent, or 198 billion kroner, at the end 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. Expected tracking error must not exceed 1.5 percentage points (150 basis points). The actual figure was 32 basis points at the end of the first quarter, up from 27 basis points at the start of the quarter. The increase is primarily due to more estimated risk in the fixed-income portfolio.

The ministry has also set limits for how the fund's investments shall be spread over different regions and currencies, while capping the fund's holding in a listed company at 10 percent. There were two minor breaches of the fund's guidelines in the first quarter.

Chart 2-7 Absolute volatility for the fund. Percent and billions of NOK

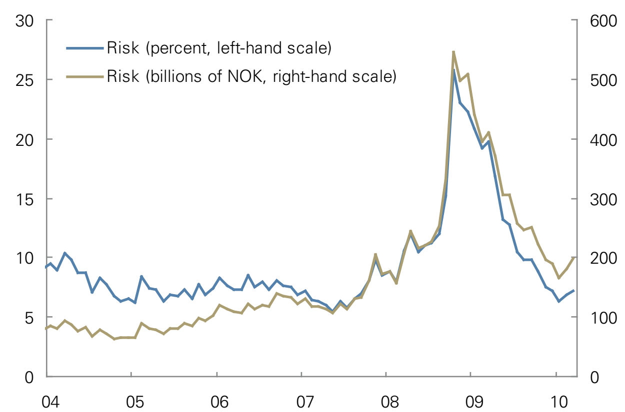
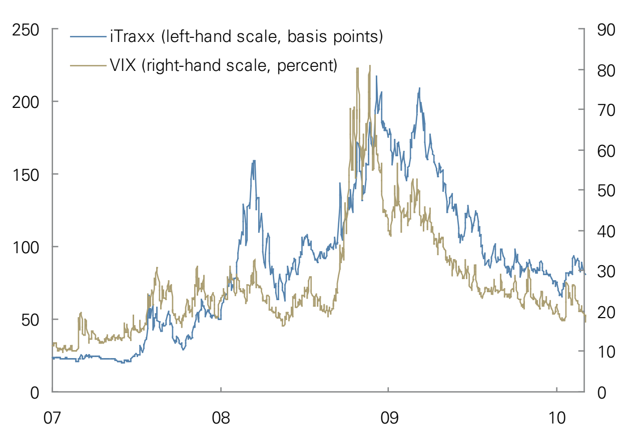
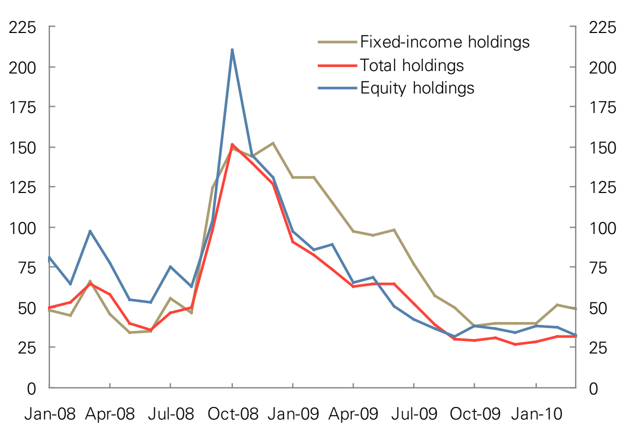


Chart 2-6 Expected risk in stock markets (VIX Index) and in fixed-income markets (iTraxx Index)



Source: CBOE, Markit

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



Ownership strategies

As an investor in more than 8,300 companies worldwide, NBIM seeks to strengthen shareholder rights at businesses and regulatory bodies. We also aim to improve social and environmental issues that affect companies in our portfolio, helping to protect the fund's long-term investments.

We spent the first quarter preparing to vote in annual general shareholder meetings. An increasing number of companies contact us to discuss how we plan to vote at their shareholder meetings. We used this dialogue to promote our views on good corporate governance in the quarter.

Norges Bank's executive board sets the strategy and principles for the fund's ownership activities. Based on these, NBIM revised the fund's voting guidelines in the quarter, emphasising the need for companies to have chairmen who are independent of management. This is essential for the board to satisfactorily supervise a company's management. NBIM routinely votes against board candidates seeking to be chairman of a company where they are CEO.

The new voting guidelines also highlight our view that the board of a company should be responsible for remuneration terms for senior management, a policy that is coming under pressure from shareholders who want more say on pay at companies. The remuneration systems at the companies we invest in are varied, complex and constantly evolving. The board's in-depth knowledge of a company and its management makes it more qualified than shareholders to set pay terms. It is also a fundamental part of the board's responsibilities to hire and oversee management and, consequently, executive pay. NBIM therefore votes against proposals to introduce shareholder votes on executive pay. The best way to control remuneration is to elect board members who are capable of representing our interests and to hold them accountable for unacceptable practices.

Children's rights report

NBIM expects companies to manage risk associated with children's rights, climate change and declining water resources. Failure to do this may negatively impact the operations of companies we invest in, hurting the fund's interests. We systematically assess how companies in our portfolio meet our expectations and publish our findings in annual compliance reports. We published our second compliance report on children's rights in the first quarter of 2010. The report was based on publicly available information and assessed companies' compliance in 2009.

The report looked at 440 companies in seven sectors where the risk of using child labour and violating children's rights is high. These sectors were mining, steel, apparel retail and cocoa -- also assessed in our previous report on children's rights -- as well as the toy, seed production and technology hardware and equipment sectors.

The analysis found that, compared with 2008, an increasing number of companies across all sectors reported that they took measures to monitor and manage the risk of child labour in their operations and supply chains. The mining and apparel sectors in particular reported an increased use of risk analysis. The report also showed large differences between the different sectors' level of compliance with our expectations, as outlined in the document NBIM Investor Expectations on Children's Rights.

We used the findings to contact 327 companies in the study. Each company got a copy of the report, a scorecard for how they met our expectations and a letter commenting on the findings. Our goal is to encourage companies to develop policies and systems for managing risk associated with child labour and children's rights and to increase transparency on this issue.

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**	**1Q 2010**	**1Q 2009**	**31.03.2010**	**31.03.2009**	**31.12.2009**
Profit/loss on financial assets excluding exchange rate adjustments						
Interest income on deposits in foreign banks		43	140	43	140	462
Interest income, lending associated with reverse repurchase agreements		64	446	64	446	696
Net income/expenses and gains/losses from:						
- Equities and units		76 621	-62 429	76 621	-62 429	488 082
- Bonds and other fixed income instruments		27 981	-7 015	27 981	-7 015	118 971
- Financial derivatives		-1 137	4 086	-1 137	4 086	7 398
Interest expense repurchase agreements		-101	-1 208	-101	-1 208	-2 571
Other interest expense		-43	3	-43	3	-60
Other expenses		10	-48	10	-48	-193
Profit/loss before exchange rate adjustments		**103 437**	**-66 025**	**103 437**	**-66 025**	**612 785**
Exchange rate adjustments		179	-177 128	179	-177 128	-417 607
Profit/loss before management fee		**103 617**	**-243 153**	**103 617**	**-243 153**	**195 178**
Accrued management fee	2	-643	-858	-643	-858	-3 228
Profit/loss for the year		**102 974**	**-244 011**	**102 974**	**-244 011**	**191 950**

Balance sheet

Figures in NOK million	Note	31.03.2010	31.03.2009	31.12.2009
ASSETS				
FINANCIAL ASSETS				
Foreign bank deposits		5 960	28 209	4 644
Lending associated with reverse repurchase agreements		183 716	158 662	191 473
Cash collateral paid		33	8	140
Equities and units	5,6	1 544 878	885 105	1 496 759
Equities lent	5,6	186 794	189 241	150 847
Bonds and other fixed income instruments		911 378	1 293 848	908 222
Bonds lent		199 003	145 521	161 990
Financial derivatives		2 979	25 758	2 263
Unsettled trades		21 462	133 465	17 572
Other assets		7 666	3 564	251
TOTAL FINANCIAL ASSETS		3 063 870	2 863 382	2 934 161
LIABILITIES AND CAPITAL				
FINANCIAL LIABILITIES				
Short-term borrowing		1 677	2 660	6 238
Borrowing associated with repurchase agreements		92 923	372 199	109 536
Cash collateral received	4	163 219	158 990	154 676
Financial derivatives		8 842	53 650	8 118
Unsettled trades		31 398	189 277	11 925
Other liabilities		2 814	10 125	3 625
Management fee payable		643	858	3 228
TOTAL FINANCIAL LIABILITIES		301 515	787 760	297 346
Owners' capital	3	2 762 354	2 075 622	2 636 815
TOTAL LIABILITIES AND OWNERS' CAPITAL		3 063 870	2 863 382	2 934 161

Note 1. Accounting Policies

The financial reporting for the first 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 reporting does not include all of the information presented in the annual financial reporting, 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 – March 2010		January – March 2009	
	NOK thousands	Percent	NOK thousands	Percent
Internal costs	168 280	.	168 404	.
Custody and settlement costs	84 857	.	82 409	.
Minimum fees to external managers	107 990	.	121 941	.
Performance based fees to external managers	184 733	.	414 501	.
Other costs	96 932	.	71 143	.
Total management cost	**642 792**		**858 398**	**0.16**
Total management cost excluding performance based fees	**458 059**	**0.07**	**443 897**	**0.08**

Note 3. Owners' capital

Figures in NOK million	31.03.2010	31.03.2009	31.12.2009
Deposits in krone account at beginning of year	2 636 815	2 273 289	2 273 289
Inflows during period	22 565*	46 344	171 577
Profit/loss transferred to krone account	103 617	-243 153	195 177
Owners' capital before deduction of management fee	**2 762 997**	**2 076 480**	**2 640 043**
Management fee to Norges Bank	-643	-858	-3 228
Owners' capital - deposits in krone account at end of period	**2 762 354**	**2 075 622**	**2 636 815**

*Of the inflows in the first quarter, 3.2 billion kroner was used to pay accrued management fees from 2009, while 19.3 billion kroner was invested by the fund.

Note 4. Securities lending

Loans of securities through external lending programmes totalled NOK 385.8 billion on 31 March 2010, as compared to NOK 334.8 billion a year earlier. These loans are secured by collateral or, in the case of one lending agent, by a guarantee agreement. As of 31 March 2010, total collateral of NOK 404.2 billion had been received for these loans. Of this collateral, NOK 163.2 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 31 March 2010 was NOK 161.4 billion.

Provisions for unrealised losses on reinvested cash collateral totalled NOK 1.7 billion on 31 March 2010. These losses are calculated on the basis of mark-to-market pricing on the reinvestment portfolio. NOK 1.0 billion relates to securitised bonds, NOK 0.6 billion to structured investment vehicles and NOK 0.1 billion to corporate bonds.

An unrealised gain on these reinvestments of NOK 0.6 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 reinvestment programme was frozen during the last half of 2007 and these investments will decrease as the bonds mature.

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

Figures in NOK million, 31 March 2010	Cost Price	Fair value	Accrued interest / dividends	Total fair value
Equities and units:				
Listed equities and units	1 625 461	1 728 357	3 316	1 731 673
Total equities and units	**1 625 461**	**1 728 357**	**3 316**	**1 731 673**
Hereof equities lent				186 794
Bonds and other fixed-income instruments:				
Government bonds	514 179	524 892	6 406	531 298
Inflation-linked bonds	52 185	52 433	196	52 629
Corporate bonds	236 275	237 180	4 595	241 775
Securitised bonds	285 263	279 923	4 043	283 966
Units in securities funds	537	713	0	713
Total bonds and other fixed-income instruments	**1 088 439**	**1 095 141**	**15 240**	**1 110 381**
Hereof bonds lent				199 003

Note 6. Fair value measurement of financial instruments

Control environment

An effective process for daily valuation of the investment positions in the Fund has been established involving the sourcing and verification of prices at both the external fund accounting service provider and Norges Bank's 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.

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 an 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 31 March 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	
	31.03.2010	31.12.2009	**31.03.2010**	31.12.2009	**31.03.2010**	31.12.2009	**31.03.2010**	31.12.2009
Equities and units	**1 729 771**	1 646 147	**1 897**	1 453	**5**	5	**1 731 673**	1 647 606
Bonds	**605 293**	514 290	**475 266**	522 404	**29 822**	33 518	**1 110 381**	1 070 212
Total	**2 335 064**	2 160 437	**477 163**	523 857	**29 827**	33 523	**2 842 054**	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 more liquid equities issued by the same company. The pricing risk is generally also quite limited here 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 on balance sheet dates to obtain information on the degree of actual transactions, price transparency and liquidity in the markets, for different types of bonds and for a large amount of specific bond holdings. The pricing of most of the Fund's 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 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 there is continued improvement related to price uncertainty and liquidity during the first quarter of 2010. The total exposure that is assessed as being particularly uncertain related to a correct fair value estimate was NOK 30 billion kroner as of 31 March 2010, compared to NOK 34 billion kroner as of 31 December 2009. This consisted mainly of US securitised bonds not guaranteed by a federal agency, where comparisons to available price sources indicates 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 31 March 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.

ISSN 1890-8535
Design og illustrasjon: Burson-Marsteller v/ Erik Sand
Foto: iStockphoto.com

Papir: Galerie Art Matt 250/150
Produksjon: 07 Lobo Media AS

Norges Bank Investment Management (NBIM)
Bankplassen 2
Postboks 1179 Sentrum
N-0107 Oslo

Tel.: +47 24 07 30 00
www.nbim.no