

# NBIM Quarterly Performance Report

## First quarter 2008

Government Pension Fund – Global

Norges Bank's foreign exchange reserves

- Investment portfolio
- Buffer portfolio

Government Petroleum Insurance Fund

### Norges Bank

Norges Bank is the central bank of Norway. Its primary responsibilities are price stability through monetary policy, financial stability and 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 Government Petroleum Insurance Fund on behalf of the Ministry of Petroleum and Energy, and the investment and buffer portfolios which represent the bulk of Norges Bank's foreign exchange reserves.

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# 1 Introduction and key figures

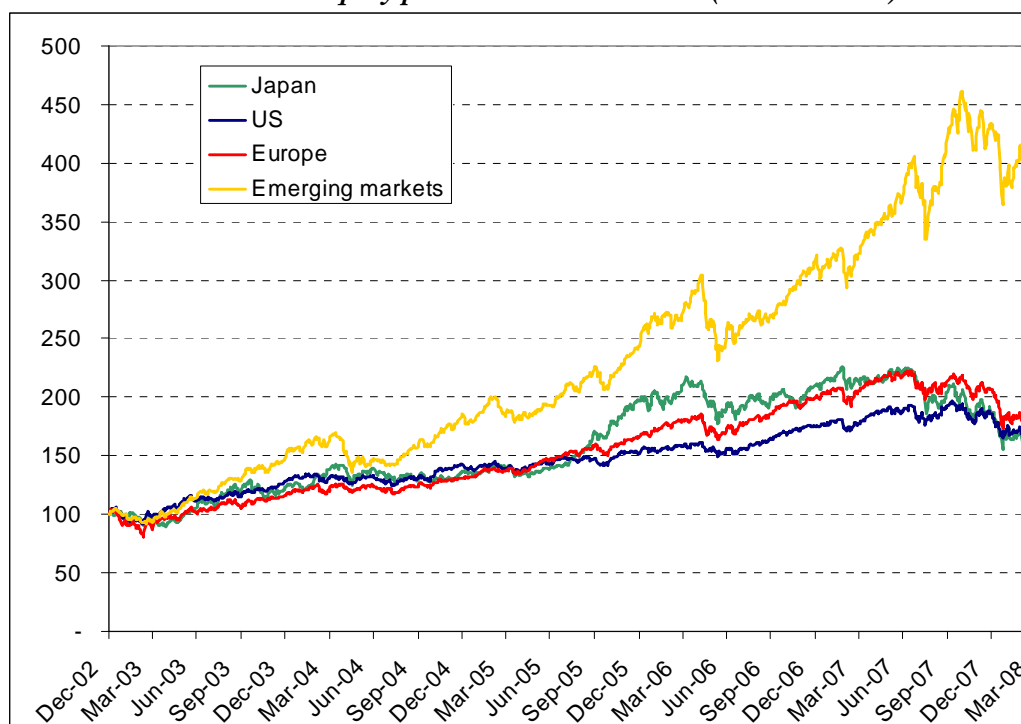
## Global financial turmoil

The first quarter of 2008 was dominated by the financial turmoil that began with problems in the US mortgage market in early 2007 and subsequently developed into a wider global confidence and liquidity crisis. Both fixed income and equity markets were affected. Although government bonds performed positively, fixed income markets in general were hit by a substantial widening of the credit spread between corporate and government bonds. Equity prices fell sharply during the quarter, especially in Japan and Europe.

The downturn in global equity markets in the first quarter of 2008 led to a negative return on the Government Pension Fund – Global and the investment portfolio in Norges Bank’s foreign exchange reserves of -5.6 and -4.9 per cent respectively measured in terms of an international currency basket. The Government Petroleum Insurance Fund, which is invested only in fixed income instruments, generated a return of 2.4 per cent.

Since the beginning of 2003, the European, US and Japanese equity markets have gained 75, 67 and 55 per cent respectively as measured by FTSE equity indices (see Chart 1-1). An index of equities in 24 emerging markets rose 386 per cent in the same period.

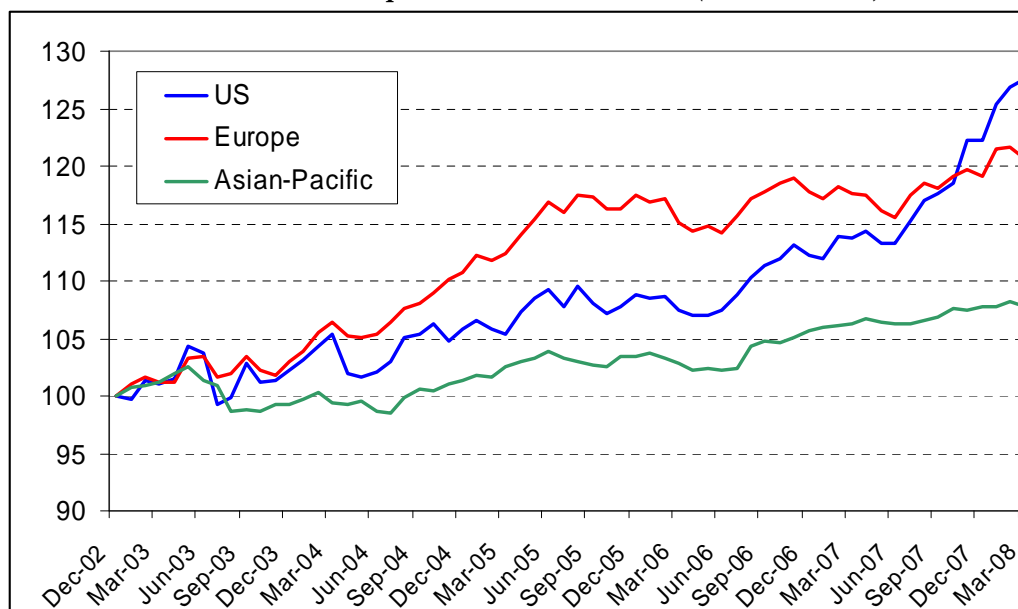
*Chart 1-1: Movements in equity prices since 2003. Index (31.12.02=100)*



The return on global bond markets was slightly positive in the first quarter of 2008. Chart 1-2 shows returns on the bond markets since 2003 measured as the change in the Lehman Global Aggregate government bond indices. The indices for Europe,

America and Asian-Pacific rose by 20.6, 27.7 and 7.7 per cent respectively during the period.

**Chart 1-2: Movements in bond prices since 2003. Index (31.12.02=100)**



Return of -5.6 per cent on the Government Pension Fund – Global

The return on the Government Pension Fund – Global in the first quarter of 2008 was -5.62 per cent in international currency.<sup>1</sup> The return on the equity portfolio was -12.67 per cent, and the return on the fixed income portfolio was 0.87 per cent. The return on the fund was 0.81 percentage point lower than the return on the benchmark portfolio defined by the Ministry of Finance. The market value of the fund at the end of the quarter was NOK 1 945.8 billion.

Return of -4.9 per cent on the investment portfolio

The return on the investment portfolio in Norges Bank’s foreign exchange reserves in the first quarter of 2008 was -4.94 per cent in international currency. The return on the equity portfolio was -12.99 per cent, and the return on the fixed income portfolio was 0.78 per cent. The return on the investment portfolio was 1.01 percentage points lower than the return on the benchmark portfolio defined by Norges Bank’s Executive Board. The market value of the portfolio at the end of the quarter was NOK 198.9 billion.

Return of 2.4 per cent on the Government Petroleum Insurance Fund

The return on the Government Petroleum Insurance Fund in the first quarter of 2008 was 2.41 per cent in international currency. The return on the fund’s portfolio was 0.03 percentage point higher than the return on the benchmark portfolio defined by the Ministry of Petroleum and Energy. The market value of the fund at the end of the quarter was NOK 14.1 billion.

<sup>1</sup> That is, measured in terms of a currency basket corresponding to the composition of the fund’s benchmark portfolio.

### Total assets under management NOK 2 169 billion

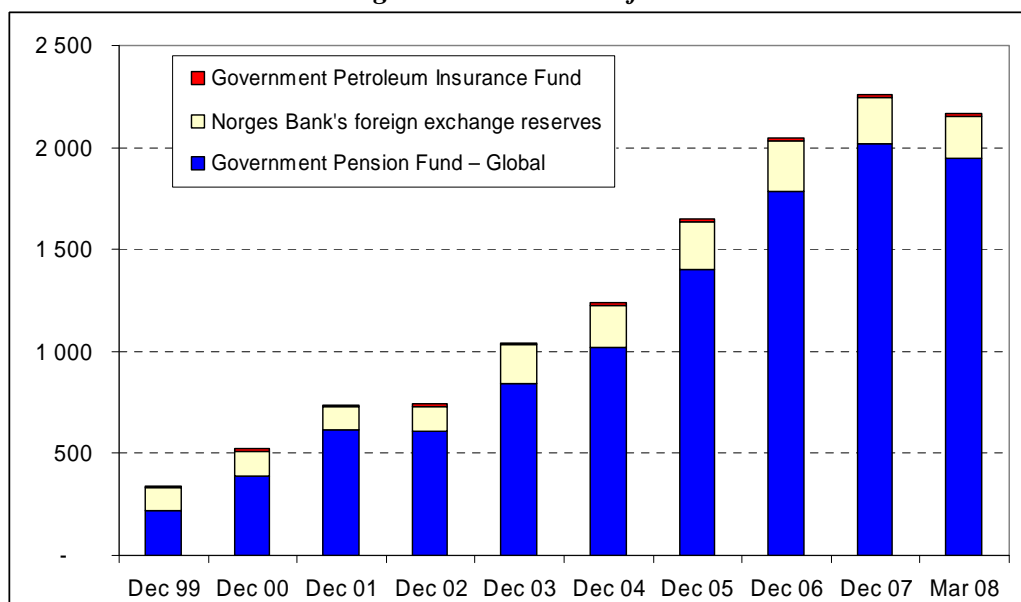
Transfers of NOK 88.1 billion were made to the Government Pension Fund – Global in the first quarter, while a negative return on investment reduced the value of the fund by NOK 114.8 billion, and a stronger krone in relation to the investment currencies reduced its market value by NOK 46.1 billion.<sup>2</sup> At the end of the first quarter of 2008, the Government Pension Fund – Global had a market value of NOK 1 946 billion, and NBIM had total assets under management of NOK 2 169 billion (see Table 1-1 and Chart 1-3).

**Table 1-1: Return in the first quarter of 2008 and market value on 31 March 2008. Per cent and in billions of NOK**

	Return in international currency		Return in NOK			Market value
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return	
Government Pension Fund – Global	-5.62	-4.79	-7.83	-7.02	-0.81	1 945.8
Investment portfolio	-4.94	-3.91	-7.06	-6.04	-1.01	198.9
Government Petroleum Insurance Fund	2.41	2.38	-0.06	-0.09	0.03	14.1
<b>Total</b>						<b>2 168.6*</b>

\* Total includes the market value of the buffer portfolio on 31 March 2008 (NOK 9.8 billion).

**Chart 1-3: Assets under management. In billions of NOK**



<sup>2</sup> When measuring returns, the exchange rate effect is calculated on the basis of the benchmark's currency composition at the beginning of each month and associated exchange rate movements. The exchange rate adjustments in the financial statements are calculated on the basis of the fund's actual composition. Revenues and expenses are translated at the exchange rate prevailing on the transaction date, and assets and liabilities are translated at the market rate prevailing at the end of the month. These adjustments will therefore differ from the estimated exchange rate effect in the return calculations.

### Negative excess return in the first quarter

NBIM's investment management performance is measured against benchmark portfolios defined by the clients. One important goal for its management is to generate a slightly higher return over time on the actual portfolios than on the benchmark portfolios. In the first quarter of 2008, there was a negative excess return of 0.81 percentage point on the Government Pension Fund – Global and 1.01 percentage points on the investment portfolio (see Table 1-1). The aggregate negative excess return on the portfolios managed by NBIM was NOK 19.1 billion.

Since the formation of NBIM in January 1998, there has been a cumulative positive excess return on the Government Pension Fund – Global of 5.0 percentage points. This corresponds to an average annual excess return of 0.30 percentage point. Chart 1-4 shows the cumulative excess return in both percentage points and NOK during this period. As assets under management have increased rapidly, later years will have a greater impact in NOK terms than earlier years. The cumulative excess return during the period was NOK 6.6 billion (area shaded yellow in the chart).

**Chart 1-4: Cumulative gross excess return on the Government Pension Fund – Global from 1 January 1998 to 31 March 2008. Percentage points (left-hand scale) and in millions of NOK (right-hand scale)**

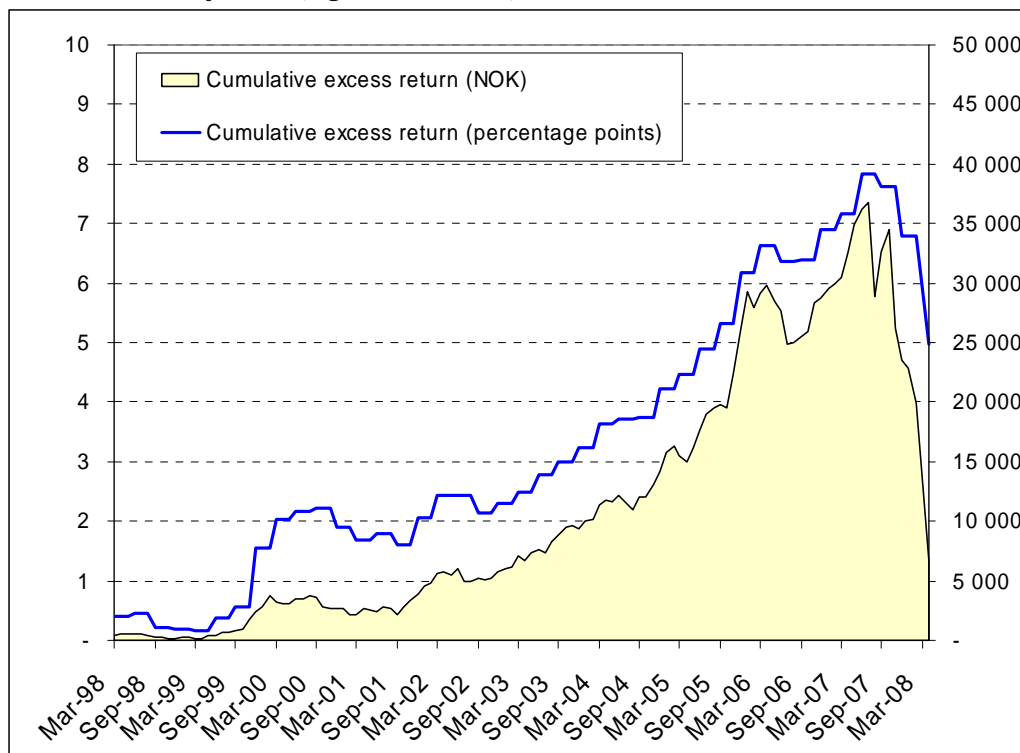


Table 1-2 provides an overview of risks and returns since 1 January 1998 for the portfolios managed by NBIM.

**Table 1-2: Return in NOK and risk as at 31 March 2008. Annualised**

	Last 2 years	Last 3 years	Last 5 years	Last 7 years	Since 01.01.98
<b>Government Pension Fund – Global</b>					
Portfolio return, per cent	-3.27	1.42	5.01	0.95	3.94
Benchmark return, per cent	-2.71	1.47	4.84	0.72	3.64
Excess return, percentage points	-0.57	-0.05	0.17	0.23	0.30
Standard deviation, per cent	8.15	7.88	8.65	8.75	8.41
Tracking error, percentage points	0.69	0.65	0.53	0.47	0.47
Information ratio	-0.82	-0.07	0.32	0.49	0.64
<b>Investment portfolio</b>					
Portfolio return, per cent	-3.29	0.66	3.18	1.28	3.74
Benchmark return, per cent	-2.21	1.31	3.47	1.39	3.80
Excess return, percentage points	-1.08	-0.65	-0.29	-0.11	-0.06
Standard deviation, per cent	8.17	7.67	8.22	7.55	7.20
Tracking error, percentage points	0.73	0.62	0.51	0.45	0.41
Information ratio	-1.49	-1.05	-0.56	-0.23	-0.14
<b>Government Petroleum Insurance Fund</b>					
Portfolio return, per cent	0.26	0.78	2.38	3.06	2.65
Benchmark return, per cent	0.15	0.67	2.26	2.93	2.56
Excess return, percentage points	0.11	0.11	0.13	0.13	0.09
Standard deviation, per cent	7.92	7.03	7.60	6.98	6.65
Tracking error, percentage points	0.11	0.09	0.09	0.09	0.15
Information ratio	1.02	1.17	1.47	1.54	0.58
<ul style="list-style-type: none"> <li>• Calculations of the returns on the actual and benchmark portfolios are based on monthly returns which are linked together using geometrical methods. The figures are percentages and have been annualised. The excess return is calculated using arithmetical methods.</li> <li>• The standard deviation is a measure of variations in the return/excess return during a period. Each monthly return/excess return is compared with the mean for the period. The higher the standard deviation, the greater the variations relative to the mean and the higher the risk.</li> <li>• Tracking error is a measure of risk in asset management. It is defined as the expected value of the standard deviation of the difference between the annual return on the actual portfolio and the return on the benchmark portfolio. When deviations from the benchmark are controlled by means of an upper limit for expected tracking error, it is highly probable that the actual return will lie within a band around the return on the benchmark. The lower the limit for tracking error, the narrower the band will be. Given an expected tracking error of 1.5 percentage points or 150 basis points, the actual return on the portfolio will probably deviate from the benchmark return by less than 1.5 percentage points in two out of three years.</li> <li>• 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.</li> </ul>					

## 2 Market developments

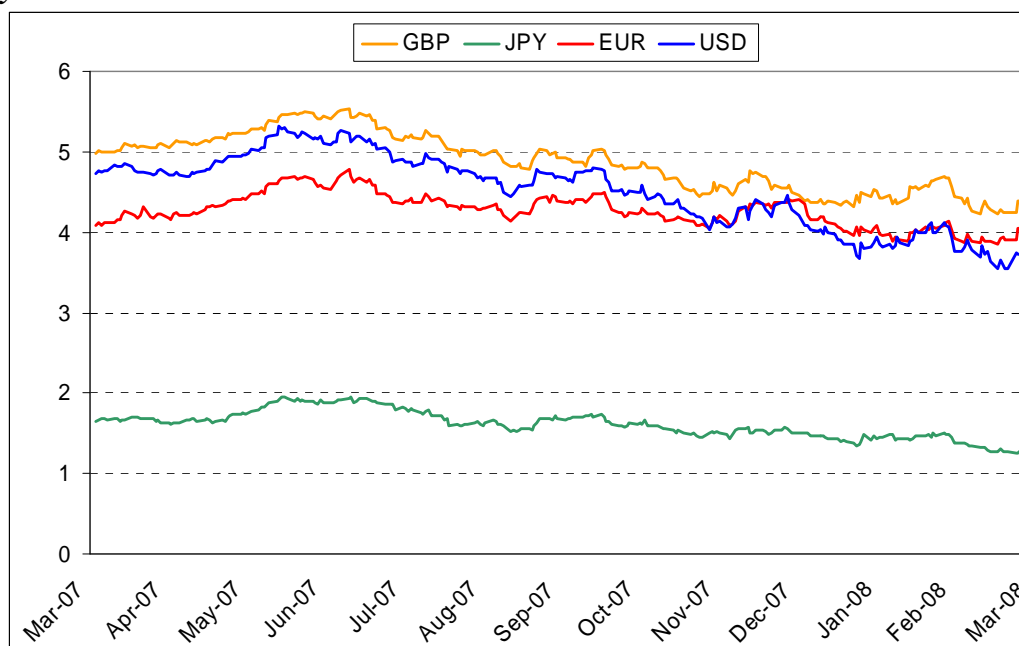
Developments in both equity and fixed income markets were dominated by the growing crisis in the financial system. Expectations for growth in the global economy fell, due particularly to the slowdown in the US. A sharp increase in the credit spread between government bonds and bonds with credit risk, together with the downward revision of earnings forecasts for many companies, led to a downturn in the equity markets.

Growth in the big emerging economies remained strong, and the markets for a number of commodities were tight. High commodity prices and rising food prices led to mounting inflation during the quarter.

### Fixed income markets

Bond yields in the main markets fell in the first quarter. Ten-year government bond yields fell by 0.52 percentage point in the US, 0.34 percentage point in the euro area and 0.22 percentage point in Japan. Yields have fallen significantly since peaking in summer 2007 (see Chart 2.1).

**Chart 2-1: Movements in the most important bond markets over the last 12 months. Yields on government bonds with approximately ten years to maturity. Per cent per year**



The big emerging economies – China, India, Russia and Brazil – have been the fastest-growing in recent years and are continuing to expand rapidly. The Chinese economy grew by 10.6 per cent in the first quarter despite slower export growth. However, there are signs of mounting inflation in all of these markets.

The financial crisis that dominated the markets in the first quarter was triggered in summer 2007 by falling house prices in the US and a sharp drop in the prices of securities backed by sub-prime mortgages. The crisis spread rapidly to a number of

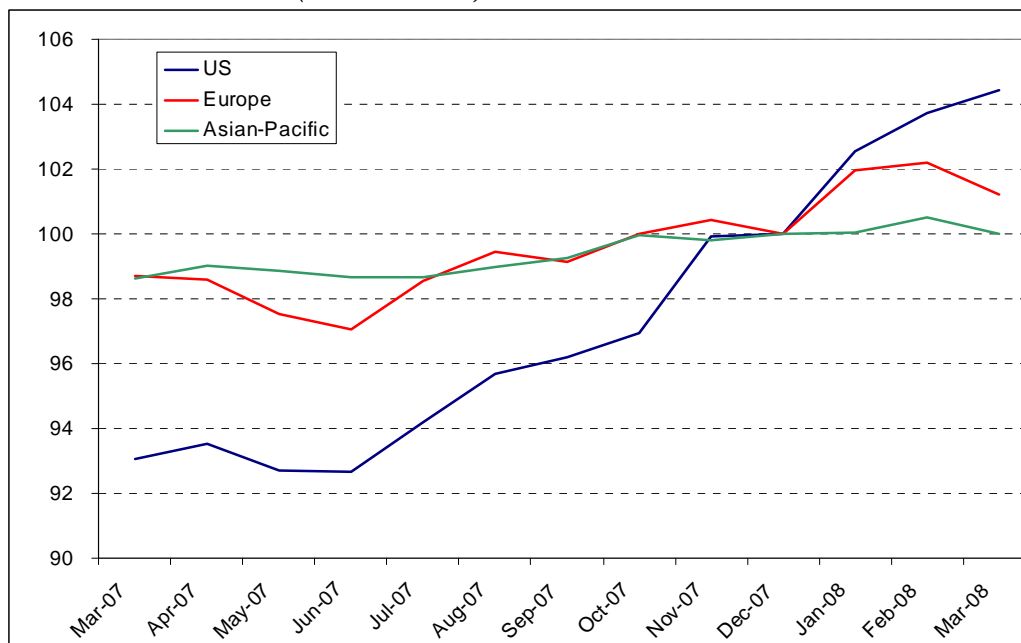
other instruments backed wholly or partially by mortgages. In the first quarter of 2008, a combination of heavy losses at many financial institutions, tighter credit conditions, reduced risk-taking and the unwinding of leveraged positions, together with tighter liquidity conditions, led to considerable volatility in the markets.

In the US, there are several signs that the economy has entered a period of very weak growth. The reduced growth expectations are due partly to banks having had to tighten their credit standards. Falling house prices, rising unemployment and waning consumer sentiment also point towards slower growth, including in industry.

In Europe, credit conditions have also tightened, due partly to several of the largest European banks having reported heavy losses in the US mortgage market. Economic developments in the first quarter painted a mixed picture. Consumption-related indicators have weakened, but there has been continued robust growth in industrial production. Tight credit markets, high oil prices and a strong EUR are putting pressure on growth expectations for the European economy.

Chart 2-2 shows movements in the Lehman Global Aggregate government bond indices in the main markets over the last 12 months. The first quarter of 2008 brought returns of 4.43 per cent in the US, 1.22 per cent in Europe and -0.01 per cent in Asia.

**Chart 2-2: Movements in the Lehman Global Aggregate government bond indices over the last 12 months (31.12.07=100)**



The largest movements during the quarter were in the corporate bond market. The spread between yields on government bonds and bonds with credit risk widened considerably. This was partly a reflection of a higher premium for corporate bonds due to the weaker economic outlook.

It is also possible that the unwinding of leveraged positions in bonds with credit risk during the quarter contributed significantly to the rapid increase in credit spreads.

Credit spreads for instruments of high credit quality hit historically high levels during the quarter (see Chart 2-3). This was probably due to a particularly high proportion of leveraged investments in this segment.

The market for short-term interbank liquidity remained strained during the first quarter. One indicator of this is the spread between interbank lending rates and yields on government paper. In the USD market, this spread has held at a very high level since the crisis began in summer 2007. The Federal Reserve has attempted to counter this by lowering its key rate from 4.25 to 2.25 per cent during the first quarter and allowing banks and investment banks to borrow from the Federal Reserve against securities of lower quality than before.

**Chart 2-3: Credit spread between bonds with credit risk\* and government bonds in the US. Basis points**



\* Corporate bonds with a credit rating of AAA from Standard & Poor's.

### Equity markets

Equity prices fell significantly in the first quarter. Measured in local currency, prices dropped by 17.4 per cent in Japan, 15.6 per cent in Europe and 9.8 per cent in the US. Thus, with the exception of emerging markets, all of the main markets have fallen over the last 12 months.

The market was affected by a number of the largest banks in both the US and Europe reporting heavy losses, and in several cases having to raise large amounts of new capital to maintain their financial strength. The crisis came to a head when Bear Stearns, the fifth-largest investment bank in the US, collapsed and was taken over by JPMorgan after receiving temporary support from the Federal Reserve.

The downturn in equity markets was nevertheless broad-based, affecting all industrial sectors. Prices fell as a result of expectations of earnings growth at many companies being revised sharply downwards.

**Chart 2-4: Movements in the FTSE equity indices for the main markets over the last 12 months (31.12.07=100). In local currency**

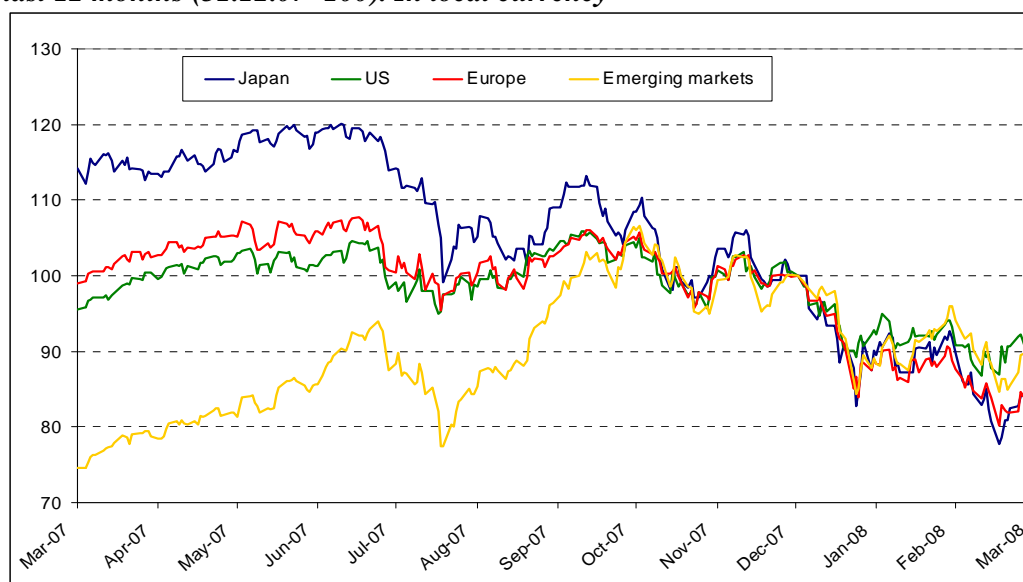


Table 2-1 shows equity price movements in the main sectors and the ten largest sub-sectors of the FTSE All-World Index in the first quarter of 2008. The Basic Materials sector fell less far than the other sectors due to a rapid rise in the prices of several commodities and strong results from many companies in the sector.

**Table 2-1: Return on the FTSE All-World Index in the first quarter of 2008 by industrial sector. Per cent**

	USD	NOK	Currency basket
<b>Oil &amp; Gas</b>	<b>-9.06</b>	<b>-14.89</b>	<b>-12.85</b>
Oil & Gas Producers	-9.47	-15.28	-13.25
<b>Basic Materials</b>	<b>-1.72</b>	<b>-8.02</b>	<b>-5.82</b>
<b>Industrials</b>	<b>-7.03</b>	<b>-12.99</b>	<b>-10.91</b>
<b>Consumer Goods</b>	<b>-5.15</b>	<b>-11.23</b>	<b>-9.10</b>
<b>Health Care</b>	<b>-7.77</b>	<b>-13.68</b>	<b>-11.61</b>
Pharmaceuticals & Biotechnology	-6.49	-12.49	-10.39
<b>Consumer Services</b>	<b>-9.44</b>	<b>-15.25</b>	<b>-13.22</b>
General Retailers	-9.00	-14.84	-12.80
Media	-10.45	-16.19	-14.19
<b>Telecommunications</b>	<b>-14.40</b>	<b>-19.88</b>	<b>-17.97</b>
Fixed Line Telecommunications	-12.99	-18.57	-16.62
<b>Utilities</b>	<b>-8.39</b>	<b>-14.26</b>	<b>-12.21</b>
<b>Financials</b>	<b>-10.19</b>	<b>-15.95</b>	<b>-13.94</b>
Banks	-10.42	-16.17	-14.16
Nonlife Insurance	-6.56	-12.55	-10.46
General Financial	-16.96	-22.28	-20.42
<b>Technology</b>	<b>-13.23</b>	<b>-18.79</b>	<b>-16.85</b>
Software & Computer Services	-12.90	-18.49	-16.54
Hardware & Equipment	-13.40	-18.96	-17.02
<b>Total*</b>	<b>-8.54</b>	<b>-14.40</b>	<b>-12.35</b>

\* The composition of the Government Pension Fund – Global’s benchmark portfolio differs from the FTSE All-World Index, and therefore the return on it will also be different.

### 3 Government Pension Fund – Global

The Government Pension Fund was established by the Norwegian Parliament by the Act of 20 December 2005. The fund has two parts: the Government Pension Fund – Global (previously the Government Petroleum Fund, established in 1990) and the Government Pension Fund – Norway (previously the National Insurance Fund, established in 1967).

The Ministry of Finance has delegated the operational management of the Government Pension Fund – Global to Norges Bank. The management mandate is stipulated in a regulation and written guidelines issued by the Ministry. A management agreement, which further regulates the relationship between the Ministry of Finance as client and Norges Bank as operational manager, has also been drawn up. According to the regulation, Norges Bank is to seek to achieve the highest possible return within the constraints set out in the regulation. The Ministry of Finance has defined a strategic benchmark portfolio for the fund (see Appendix I).

#### Key figures for the first quarter of 2008

- Market value: NOK 1 945.8 billion on 31 March
- Return for the period in international currency:<sup>3</sup>
  - Overall: -5.62 per cent
  - Equity portfolio: -12.67 per cent
  - Fixed income portfolio: 0.87 per cent
- Excess return: -0.81 percentage point
- Annualised management costs (excluding performance-based fees): 0.08 per cent of assets under management
- Transfers of new capital: NOK 88.1 billion

#### The fund's market value

The fund's market value was NOK 1 945.8 billion at the end of the first quarter, a decrease of NOK 72.8 billion during the quarter (see Table 3-1). New capital equivalent to NOK 88.1 billion was transferred to the fund from the Ministry of Finance,<sup>4</sup> while a negative return on investment reduced the value of the fund by NOK 114.8 billion, and a stronger krone in relation to the currencies in which the fund is invested decreased its value in NOK terms by NOK 46.1 billion. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power. For the accounting values, see Section 6.

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<sup>3</sup> That is, measured in terms of a currency basket corresponding to the composition of the fund's benchmark portfolio.

<sup>4</sup> After the deduction of Norges Bank's management fee for 2007 of NOK 1.8 billion.

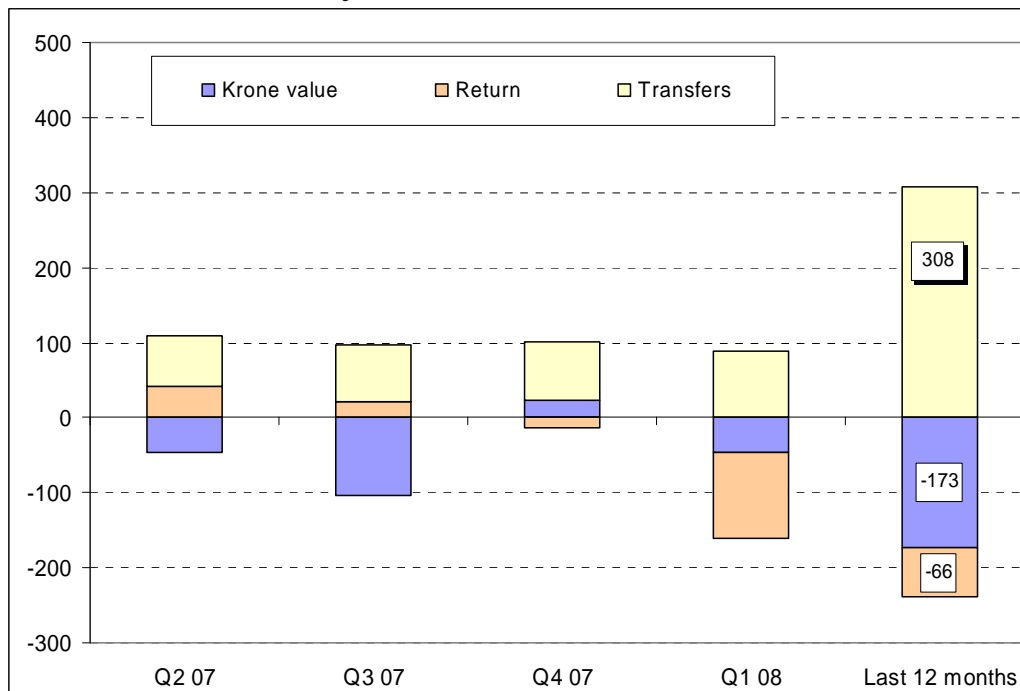
**Table 3-1: Government Pension Fund – Global. Market value and changes. In millions of NOK**

	Equities	Fixed income	Total
31 March 2007	752 636	1 123 561	1 876 197
30 June 2007	819 466	1 120 018	1 939 484
30 September 2007	878 143	1 054 135	1 932 278
<b>31 December 2007</b>	<b>957 895</b>	<b>1 060 749</b>	<b>2 018 643</b>
Transfers of new capital			88 065
Return			-114 826
Change in krone value			-46 068
<b>31 March 2008</b>	<b>934 741</b>	<b>1 011 073</b>	<b>1 945 814*</b>

\* There is a difference between the market values used in the return calculations and the accounts to 31 March 2008. This is due to different valuation methods for money market investments.

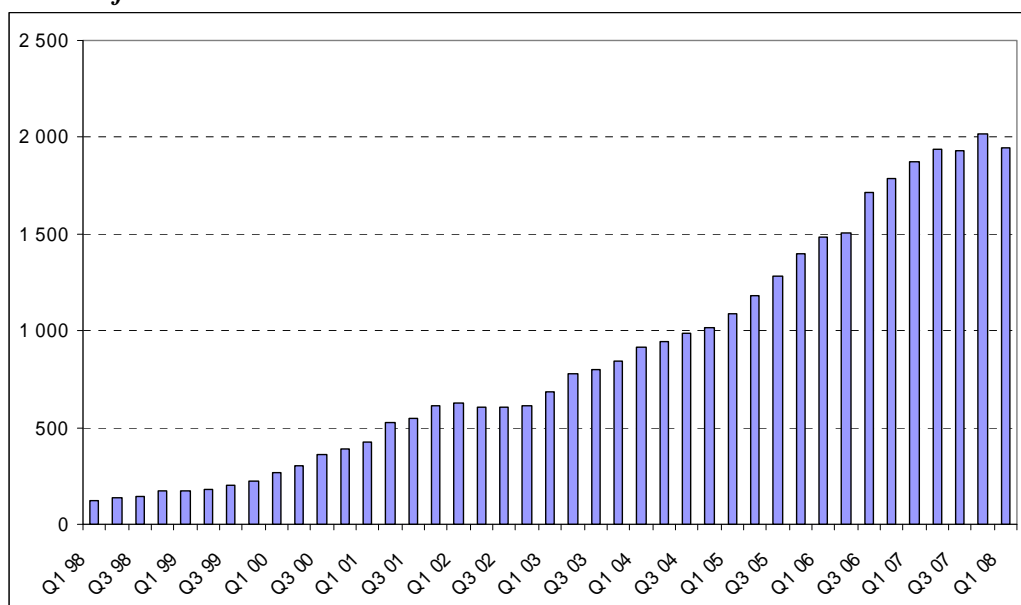
The fund's market value has grown by NOK 70 billion in the last 12 months (see Chart 3-1). NOK 308 billion has been transferred from the Ministry of Finance, while a negative return in international currency and a stronger krone have reduced the market value of the fund by NOK 66 billion and NOK 173 billion respectively.

**Chart 3-1: Government Pension Fund – Global. Change in market value over the last 12 months. In billions of NOK**



Since 1 January 1998, the fund's market value has grown by NOK 1 832 billion (see Chart 3-2). NOK 1 797 billion has been transferred to the fund during the period, the return on the fund in international currency has increased the value of the fund by NOK 390 billion, and a stronger krone in relation to the investment currencies has reduced the value of the fund by around NOK 355 billion.

**Chart 3-2: Government Pension Fund – Global. Market value 1998-2008. In billions of NOK**



**Return on the fund**

The return on the fund in the first quarter of 2008 was -5.62 per cent in international currency (see Table 3-2). There was a return of -12.67 per cent on the equity portfolio and 0.87 per cent on the fixed income portfolio. In NOK terms, the aggregate return on the portfolio was -7.83 per cent. The krone appreciated against the currencies in the benchmark portfolio during the quarter. Table 3-3 shows the return in the first quarter of 2008 measured in various currencies.

**Table 3-2: Government Pension Fund – Global. Return. Per cent**

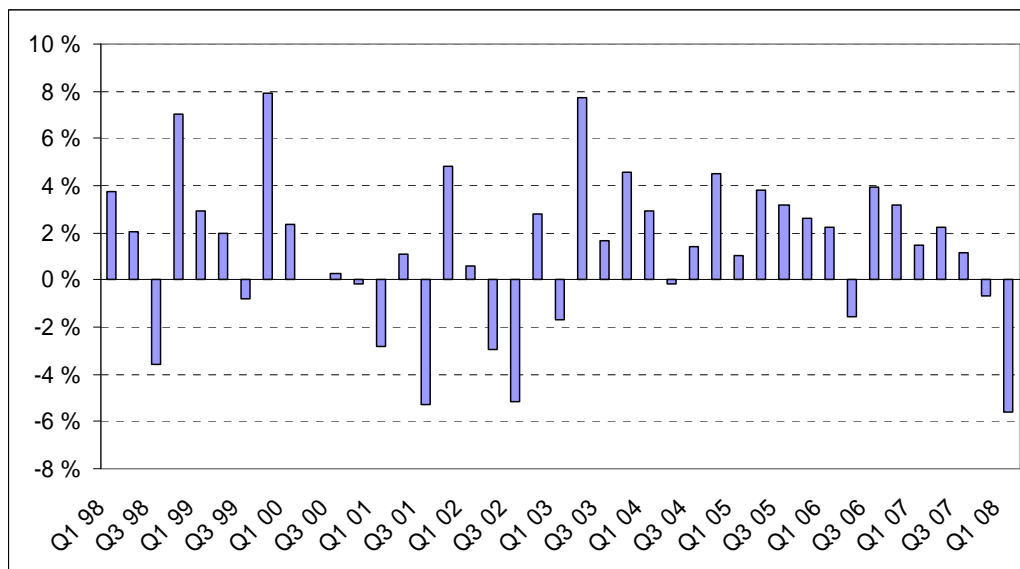
	Return in international currency		Return in NOK		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
2007	4.26	4.50	3.90	3.68	-0.22
January 2008	-3.49	-3.46	-2.47	-2.43	-0.03
February 2008	-0.30	-0.15	-3.02	-2.87	-0.15
March 2008	-1.91	-1.23	-2.55	-1.88	-0.67
<b>Q1 2008</b>	<b>-5.62</b>	<b>-4.79</b>	<b>-7.83</b>	<b>-7.02</b>	<b>-0.81</b>

**Table 3-3: Government Pension Fund – Global. Return in the first quarter of 2008 measured in various currencies. Per cent**

	Equity portfolio	Fixed income portfolio	Total
International currency	-12.67	0.87	-5.62
Import-weighted currency basket	-14.02	-0.69	-7.08
USD	-8.86	5.26	-1.51
EUR	-15.91	-2.88	-9.13
NOK	-14.71	-1.49	-7.83

Since the first equity investments were made in 1998, the average quarterly return in international currency has been 1.34 per cent (see Chart 3-3). There has been a positive return in 29 out of 41 quarters.

**Chart 3-3: Government Pension Fund – Global. Quarterly returns 1998-2008. Per cent**



Since 1997, the fund has generated an annualised annual gross return of 5.6 per cent. Once management costs and inflation are deducted, the annual net real return is 3.5 per cent. Table 3-4 shows the annualised return to the end of the first quarter of 2008 from 1 January in each of the years from 1997 to 2008.

**Table 3-4: Government Pension Fund – Global. Return in international currency. Per cent per year**

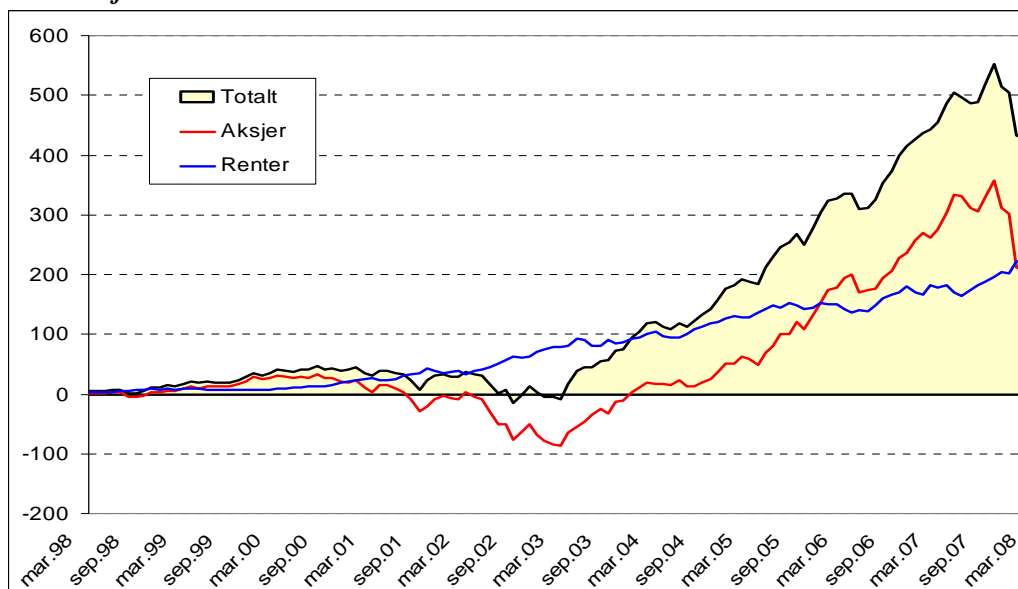
Period	Nominal annual return	Annual rate of inflation*	Management costs	Annual net real return	Annual gross excess return
Since 01.01.97	5.60	1.90	0.09	3.54	0.30
Since 01.01.98	5.27	1.91	0.09	3.20	0.31
Since 01.01.99	4.84	2.02	0.09	2.67	0.32
Since 01.01.00	3.96	2.11	0.10	1.71	0.22
Since 01.01.01	4.17	2.12	0.10	1.91	0.21
Since 01.01.02	5.27	2.28	0.10	2.83	0.22
Since 01.01.03	7.29	2.35	0.10	4.73	0.20
Since 01.01.04	6.08	2.53	0.10	3.36	0.13
Since 01.01.05	5.22	2.58	0.10	2.48	0.00
Since 01.01.06	2.71	2.69	0.10	-0.08	-0.44
Since 01.01.07	-1.28	3.13	0.09	-4.28	-0.87

\* Weighted average of consumer price inflation in the countries included in the benchmark portfolio in the years in question.

The cumulative return on the fund from 1 January 1998 until the end of the first quarter of 2008 was NOK 390 billion. This is shown by the yellow area in Chart 3-4.

Equity investments (red line in chart) accounted for 46 per cent of this return and fixed income investments (blue line) for 54 per cent.

**Chart 3-4: Government Pension Fund – Global. Cumulative return 1998-2008. In billions of NOK**



#### Contribution from Norges Bank's management

The return achieved by Norges Bank on the actual portfolio is measured in relation to the return on the benchmark portfolio defined by the Ministry of Finance. The difference between these return figures is the gross excess return achieved by Norges Bank.

In the first quarter, the return on the fund was 0.81 percentage point lower than the return on the benchmark portfolio (see Table 3-2). There was a negative excess return from both equity and fixed income management. Chart 3-5 shows monthly and cumulative excess returns for the last three years. The red line in the chart shows the three-year rolling excess return. At the end of the first quarter of 2008, the three-year rolling annualised excess return was -0.05 percentage point. The column at the far right of Table 3-4 shows that the average gross excess return has been 0.30 percentage point per year since 1 January 1997.

**Chart 3-5: Monthly and cumulative excess return over the last 36 months.  
Percentage points**

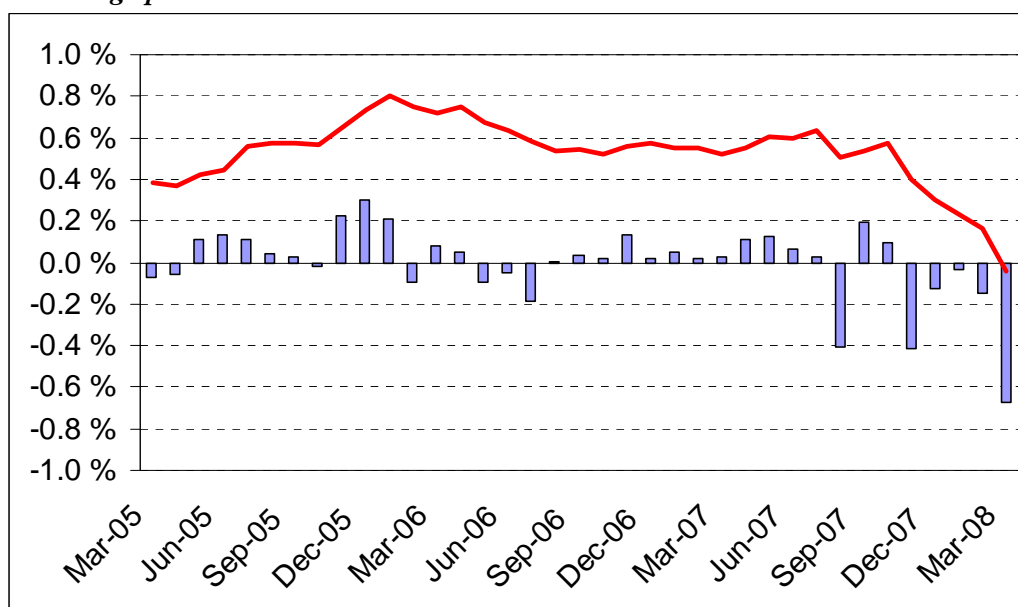


Table 3-5 shows the annualised percentage excess return for the three years to the end of the first quarter of 2008 broken down by asset class and into external and internal management.

**Table 3-5: Government Pension Fund – Global. Contribution to gross excess return over the last three years. Annualised, percentage points**

	External management	Internal management	Total	Excess return in each asset class
Equities	0.13	0.21	0.34	0.86
Fixed income	-0.18	-0.21	-0.39	-0.71
<b>Total</b>	<b>-0.05</b>	<b>0.00</b>	<b>-0.05</b>	

Table 3-6 shows the information ratio broken down by asset class and into external and internal management during the same three-year period.

**Table 3-6: Government Pension Fund – Global. Information ratio over the last three years. Annualised**

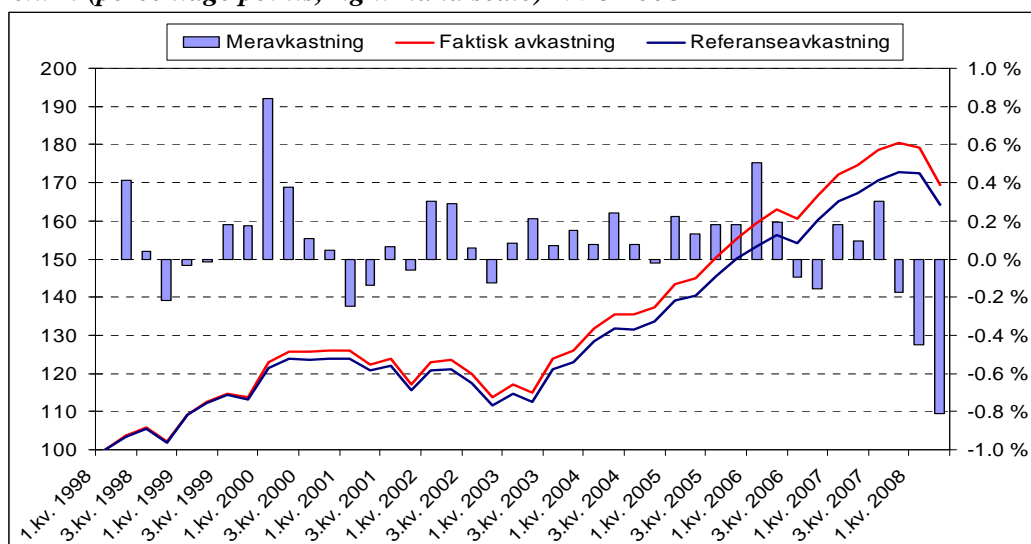
	External management	Internal management	Total
Equities	0.39	0.85	0.93
Fixed income	-1.21	-0.49	-0.97
<b>Total</b>	<b>-0.18</b>	<b>-0.05</b>	<b>-0.07</b>

Transaction costs are incurred when new capital is phased into the fund and when re-weighting the benchmark portfolio. Norges Bank has estimated the direct and indirect transaction costs associated with phasing in new capital at NOK 993 million in the first quarter of 2008. This is equivalent to 1.13 per cent of the total amount transferred (NOK 88.1 billion) and 0.05 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. This means that the excess return reported is lower than it would have been if the costs associated with phasing in new capital had been excluded. The methodology underlying the calculation of these costs has been presented in NBIM's Annual Reports.

Since 1998, the cumulative return on the fund has been 69.3 per cent, whereas the return on the benchmark portfolio has been 64.3 per cent (see Chart 3-6). The cumulative gross excess return in international currency has been 5.0 percentage points, or NOK 6.6 billion.

**Chart 3-6: Government Pension Fund – Global. Cumulative actual return and benchmark return (index, 31.12.98=100, left-hand scale) and quarterly gross excess return (percentage points, right-hand scale) 1998-2008**



#### Management in the first quarter of 2008

The results for the first quarter of 2008 show a negative excess return from both equity and fixed income management. However, the results for fixed income management were considerably weaker than those for equity management.

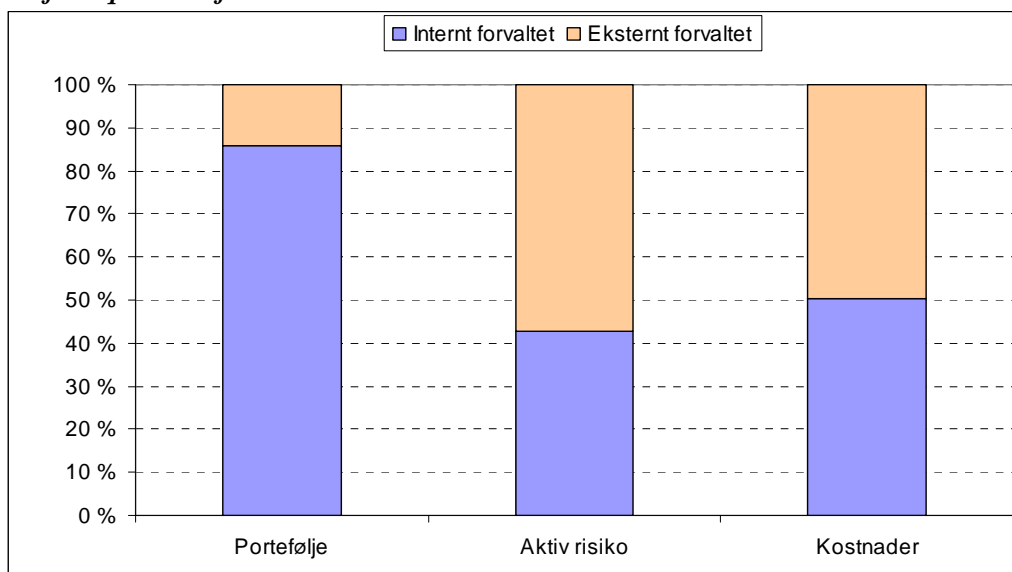
The poor results for fixed income management were dominated by external fixed income management, which is exposed to various types of securitised debt instrument, some backed by US mortgages. There were also substantial losses in that part of internal fixed income management based on exploiting differences in the relative pricing of securities with similar risk characteristics. This was due particularly to rapid widening of the credit spread between high-quality bonds with credit risk and government bonds. As mentioned earlier in this report, the turmoil in the financial system worsened, and structural factors such as tight liquidity and weaker credit quality dominated the market. In its Annual Report for 2007, NBIM gave a detailed account of how these developments impacted on the results for fixed income management up until the end of 2007. These same factors also applied during the first quarter of 2008.

At the end of the first quarter, just under 15 per cent of the fund was managed by external managers. Costs associated with external management accounted for 50 per

cent of total management costs. External management accounted for approximately 57 per cent of the overall risk associated with active management (see Chart 3-7).

Funds were allocated to four new equity mandates during the quarter: Rheos Capital Works Inc. was awarded a regional mandate, while Ecofin Ltd, Levin Capital Strategies and Wellington were awarded sector mandates.<sup>5</sup>

**Chart 3-7: Government Pension Fund – Global. Distribution of portfolio, management costs and active risk\* between internal and external management in the first quarter of 2008. Per cent**



\* There is no absolutely correct method for calculating the distribution of active risk. The distribution in the chart is based on summation of the Value-at-Risk (VaR) for internal and external mandates, disregarding the correlation between the different mandates.

The information ratio (IR) is a measure of risk-adjusted return. It is the ratio of the gross excess return for the year to the actual relative market risk to which the fund was exposed. Table 3-7 provides a historical overview of the information ratio for the fund as a whole and for each asset class.

**Table 3-7: Government Pension Fund – Global. Information ratio**

Period	Overall	Equities	Fixed income
Last 12 months	-1.15	0.61	-2.27
Last 3 years	-0.07	0.96	-0.96
Last 5 years	0.32	0.96	-0.42

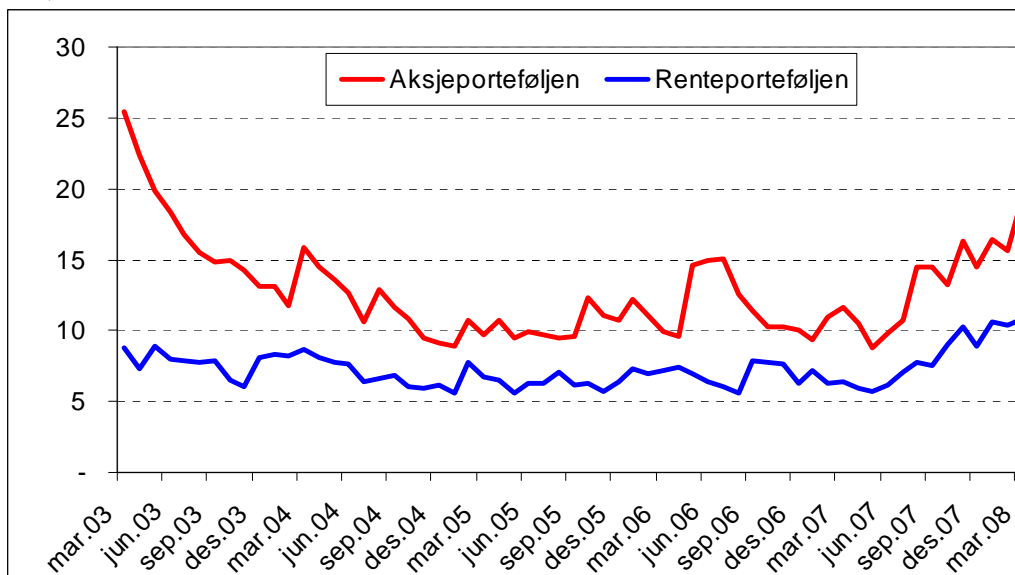
### Market risk

Fluctuations in global equity and fixed income markets lead to variations in the market value of the fund. The fund’s expected volatility is a statistical measure which estimates “normal” variations in the market value of the fund over the next year. As

<sup>5</sup> NBIM awards equity mandates to external managers specialising either in specific industrial sectors (sector mandates) or in specific geographical regions (regional mandates).

illustrated in Chart 3-8, market fluctuations as measured by absolute volatility have increased in the last year in both equity and fixed income management.

**Chart 3-8: Government Pension Fund – Global. Absolute volatility 2003-2008. Percent, measured in NOK**



The Ministry of Finance has set a limit on the extent to which the fund’s portfolio may deviate from the benchmark portfolio. This has been accomplished by setting a limit for the expected deviation between the returns on the actual portfolio and the benchmark portfolio. This limit for relative market risk in the management of the fund has been defined as 1.5 percentage point expected tracking error

Expected tracking error can vary widely even with an unchanged level of active management. This is because these measures are influenced by various market developments, such as changes in market volatility and changes in correlations between the various asset classes and securities.

The red line in Chart 3-9 shows developments in expected tracking error since December 1998. The chart shows that there has been an increase in expected tracking error since summer 2007. Expected tracking error was 65 basis points at the end of the quarter. In retrospect, we can use the variation in the difference between the returns on the actual and benchmark portfolios (i.e. the variation in excess return) as a measure of actual relative market risk in the period (the blue line in the chart). This tracking error is annualised using 12-month rolling windows. This measure of risk has also increased since summer 2007.

**Chart 3-9: Government Pension Fund – Global. Expected and actual tracking error 1998-2008. Basis points**

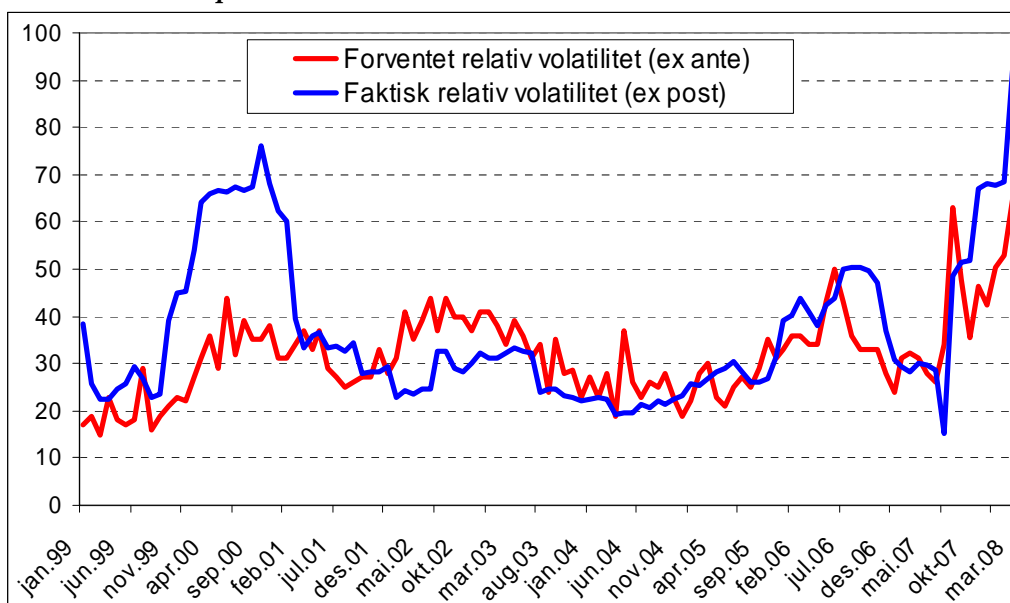
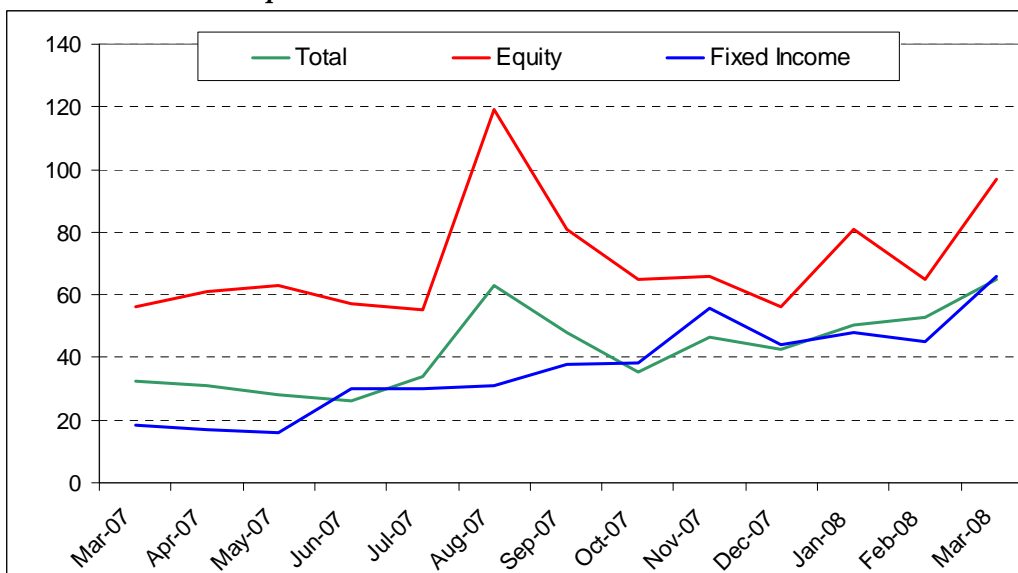


Chart 3-10 shows developments in expected tracking error in the equity and fixed income portfolios over the last 12 months. Relative market risk is higher in equity management than in fixed income management.

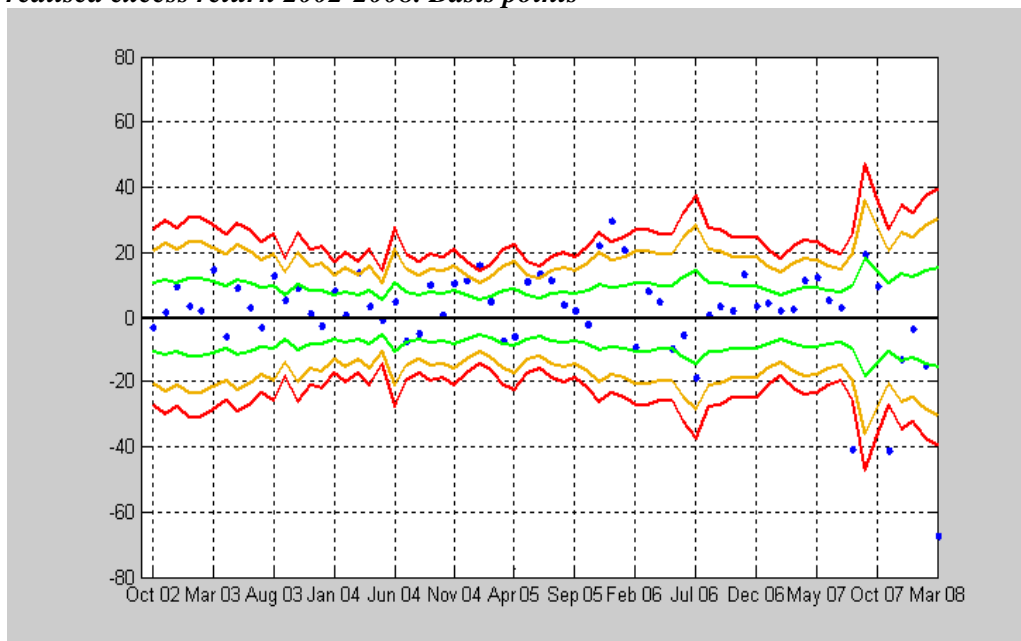
**Chart 3-10: Government Pension Fund – Global. Expected tracking error over the last 12 months. Basis points**



Norges Bank tests whether the actual excess return on the fund varies in line with what might be expected based on the risk model used. This is illustrated in Chart 3-11. The chart shows the realised monthly excess returns from October 2002 (dots) and a confidence interval given by the standard deviation. The model indicates that the actual return should be within the interval formed by the green lines in approximately

two out of three cases, and within the intervals formed by the orange and red lines in 95 and 99 per cent of cases respectively.

**Chart 3-11: Government Pension Fund – Global. Confidence interval for risk and realised excess return 2002-2008. Basis points**



Over the past year, it appears that modelled risk, expressed as estimated tracking error, has underestimated the actual risk in the portfolio. The risk model estimates the size of the variations in return that can be expected in normal periods, based on historical data. Since the middle of 2007, fixed income markets have been affected by factors that have caused volatility and correlations to depart from historical levels. It will take some time to adjust the model, and it may therefore be imprecise during periods with major changes. The model's weaknesses and strict normal market assumption in the estimation of risk are supplemented at NBIM with additional analyses.

#### Credit risk

Table 3-8 breaks down the bond portfolio (fixed income portfolio excluding cash) by type of bond and credit rating.

**Table 3-8: Government Pension Fund – Global. Market value of bond portfolio on 31 March 2008 by credit rating. Per cent**

Moody's credit rating	Aaa	Aa	A	Baa	Ba	Lower	P-1	None
Government and government-related bonds	15.1	10.1	2.8	0.7	0.1	0.1	-	3.6
Inflation-linked bonds	3.0	0.5	2.8	-	-	-	-	2.3
Corporate bonds	1.8	6.5	7.3	5.4	0.4	0.2	-	1.2
Securitised debt	29.2	1.5	0.2	0.1	0.0	0.1	-	4.9
Short-term certificates	-	-	-	-	-	-	0.2	0.0
<b>Total bonds and other fixed income instruments</b>	<b>49.1</b>	<b>18.5</b>	<b>13.1</b>	<b>6.2</b>	<b>0.5</b>	<b>0.3</b>	<b>0.2</b>	<b>12.0</b>

### Management guidelines

Through the Regulation on the Management of the Government Pension Fund – Global and supplementary guidelines for the fund, the Ministry of Finance has set limits for risk and exposure. These limits and the portfolio's actual exposure are shown in Table 3-9. There were no breaches of the investment guidelines during the quarter.

**Table 3-9: Government Pension Fund – Global. Key figures for risk and exposure**

Risk	Limits*	Actual				
		31.03.07	30.06.07	30.09.07	31.12.07	31.03.08
Market risk	Tracking error max. 1.5 percentage points	0.32	0.26	0.48	0.43	0.65
Asset mix	Fixed income 30-70%	59.9	57.7	54.6	52.6	52.0
	Equities 30-70%	40.1	42.3	45.4	47.4	48.0
Market distribution, equities	Europe 40-60%	49.7	49.7	50.1	48.8	50.3
	Americas and Africa 25-45%	35.0	35.1	34.4	36.4	34.9
	Asia and Oceania 5-25%	15.3	15.3	15.5	14.8	14.8
Currency distribution, fixed income	Europe 50-70%	59.7	60.0	59.8	59.4	59.8
	Americas 25-45%	35.0	34.6	34.7	35.1	33.4
	Asia and Oceania 0-15%	5.3	5.4	5.5	5.5	6.7
Ownership interest	Max. 5% of a company	4.50	4.99	4.99	4.99	4.99

\* Limits set by the Ministry of Finance in the Regulation on the Management of the Government Pension Fund – Global.

### Operating expenses

The Management Agreement between the Ministry of Finance and Norges Bank establishes the principles for Norges Bank's remuneration for managing the Government Pension Fund – Global. For 2008, this fee is to cover the Bank's actual costs, provided that these costs are less than 0.10 per cent of the fund's average market value. In addition, the Ministry reimburses NBIM for performance-based fees paid to external fund managers. Norges Bank has entered into agreements on performance-based fees with the majority of external active managers, in accordance with principles approved by the Ministry of Finance.

In addition to the Government Pension Fund – Global, NBIM manages the Government Petroleum Insurance Fund and the bulk of Norges Bank's foreign exchange reserves. Fees to external managers and external settlement and custodian institutions are invoiced separately for each fund. The other operating costs are overheads shared by all the funds managed by NBIM. These overheads are distributed among the three funds by means of a cost distribution key. The shared overheads also include the cost of support functions provided by other parts of Norges Bank. These latter costs are calculated in accordance with the guidelines that apply to business operations at Norges Bank.

**Table 3-10: Management costs in the first quarter of 2008. In thousands of NOK and as a percentage of the average portfolio**

	Q1 2008		Q1 2007	
	NOK 1 000	Per cent	NOK 1 000	Per cent
Internal costs, equity management	102 884		64 440	
Custody and settlement costs	30 359		22 725	
<b>Total costs, internal equity management</b>	<b>133 243</b>	<b>0.07</b>	<b>87 165</b>	<b>0.08</b>
Internal costs, fixed income management	78 085		66 211	
Custody and settlement costs	29 398		26 112	
<b>Total costs, internal fixed income management</b>	<b>107 483</b>	<b>0.05</b>	<b>92 323</b>	<b>0.04</b>
Minimum fees to external managers	121 396		125 118	
Performance-based fees to external managers	74 909		42 905	
Other costs, external management	41 605		38 660	
<b>Total costs, external management</b>	<b>237 910</b>	<b>0.31</b>	<b>206 683</b>	<b>0.21</b>
<b>Total management costs</b>	<b>478 636</b>	<b>0.10</b>	<b>386 171</b>	<b>0.09</b>
<b>Total management costs, excluding performance-based fees</b>	<b>403 727</b>	<b>0.08</b>	<b>343 266</b>	<b>0.08</b>

Annualised, costs in the first quarter of 2008 amounted to 0.10 per cent of the average market value of the fund (see Table 3-10). Excluding performance-based fees to external managers, costs amounted to 0.08 per cent of the market value of the fund. By way of comparison, costs in the first quarter of 2007 amounted to 0.08 per cent of market value. For internal equity management, there was a decrease in the ratio of costs to assets under management from the first quarter of 2007 to the first quarter of 2008. For internal fixed income management, this ratio increased from 0.04 to 0.05 per cent of market value.

External costs in relation to assets under management were higher in the first quarter of 2008 than in the first quarter of 2007, due to a substantial increase in performance-based fees payable to external managers.

Costs are distributed between internal and external management using a cost distribution key for internal costs and custodian costs. Approximately 50 per cent of costs were related to external management, whereas only about 15 per cent of the fund's assets are managed externally. The unit cost of internal management was approximately 0.06 per cent, compared with 0.31 per cent for external management.

## 4 Norges Bank's foreign exchange reserves

The foreign exchange reserves are to be available for intervention in the foreign exchange market in connection with the implementation of monetary policy or to promote financial stability. The reserves are divided into a money market portfolio and an investment portfolio. In addition, a buffer portfolio is used for the regular foreign exchange purchases for the Government Pension Fund – Global. Transfers are made to the buffer portfolio from the State's Direct Financial Interest in petroleum activities (SDFI) and from Norges Bank's foreign exchange purchases in the market. Within Norges Bank, the investment portfolio and buffer portfolio are managed by NBIM, while the money market portfolio is managed by Norges Bank Monetary Policy and reported on separately.

### Key figures for the first quarter of 2008

#### *Investment portfolio:*

- Market value: NOK 198.9 billion on 31 March
- Return for the period in international currency:
  - Overall: -4.94 per cent
  - Equity portfolio: -12.99 per cent
  - Fixed income portfolio: 0.78 per cent
- Excess return: 1.01 percentage point

#### *Buffer portfolio:*

- Transferred to Government Pension Fund – Global: NOK 88.1 billion
- Transferred from SDFI: NOK 54.5 billion
- Transferred from Norges Bank's own foreign exchange purchases: NOK 29.1 billion
- Market value: NOK 9.8 billion on 31 March 2008
- Return for the period in NOK terms: 0.14 per cent

### **Investment portfolio**

The investment portfolio has a long-term investment horizon where the aim is to generate the highest possible return within the constraints set out in the guidelines issued by Norges Bank's Executive Board. The Executive Board has defined a strategic benchmark portfolio for the investment portfolio (see Appendix I).

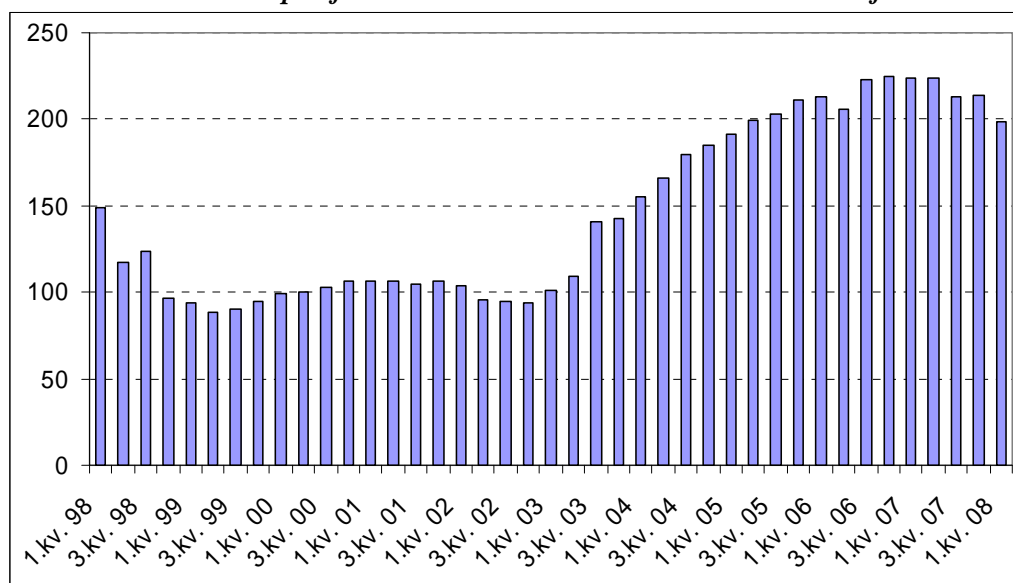
#### The portfolio's market value

The investment portfolio's market value was NOK 198.9 billion at the end of the first quarter of 2008, a decrease of NOK 15.1 billion during the quarter (see Table 4-1). A negative return on investment decreased the value of the portfolio by NOK 10.6 billion, while a stronger krone against the currencies in which the portfolio is invested reduced its value by NOK 4.5 billion. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power.

**Table 4-1: Investment portfolio. Market value and changes. In millions of NOK**

	Equities	Fixed income	Total
31 March 2007	92 860	131 408	224 268
30 June 2007	97 443	126 535	223 978
30 September 2007	90 900	122 211	213 111
<b>31 December 2007</b>	<b>88 953</b>	<b>125 033</b>	<b>213 986</b>
Transfers of new capital	-400	400	0
Return	-11 584	1 021	-10 563
Change in krone value	-1 691	-2 845	-4 536
<b>31 March 2008</b>	<b>75 278</b>	<b>123 609</b>	<b>198 887</b>

**Chart 4-1: Investment portfolio. Market value 1998-2008. In billions of NOK**



#### Return on the portfolio

The return on the investment portfolio in the first quarter of 2008 was -4.94 per cent in international currency (i.e. measured in terms of a currency basket corresponding to the composition of the portfolio's benchmark portfolio) (see Table 4-2). There was a return of -12.99 per cent on the equity portfolio and 0.78 per cent on the fixed income portfolio. In NOK terms, the aggregate return on the portfolio was -7.06 per cent. The difference is due to the appreciation of the krone during the quarter against the currencies included in the benchmark portfolio.

**Table 4-2: Investment portfolio. Return. Per cent**

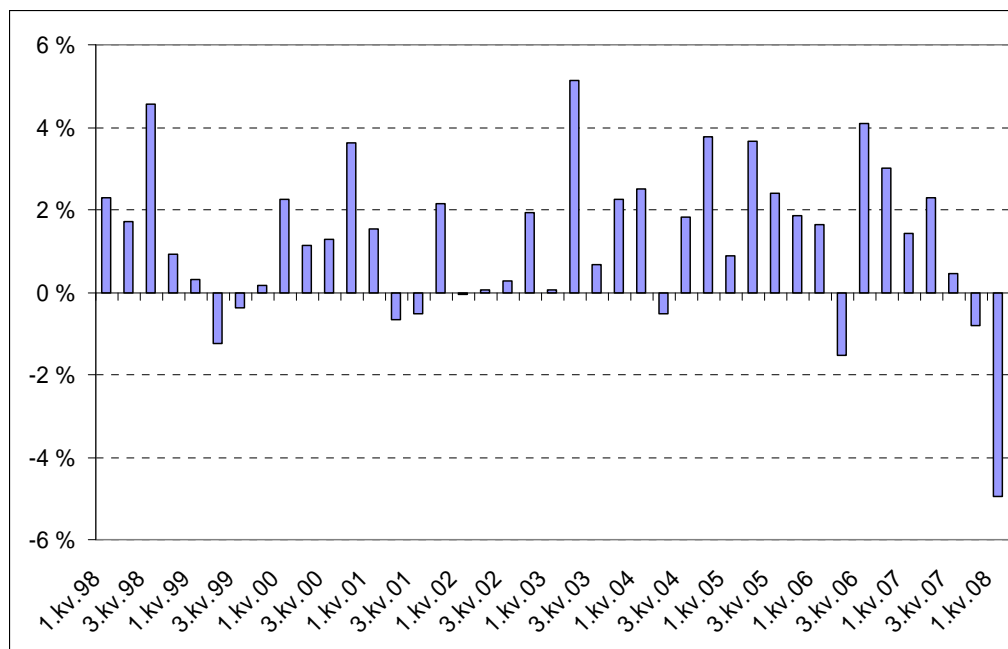
	Return in international currency		Return in NOK		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
2007	3.37	4.59	-4.69	-3.57	-1.12
January 2008	-3.05	-2.84	-2.00	-1.80	-0.21
February 2008	-0.34	-0.03	-3.05	-2.74	-0.30
March 2008	-1.62	-1.07	-2.17	-1.62	-0.55
<b>Q1 2008</b>	<b>-4.94</b>	<b>-3.91</b>	<b>-7.06</b>	<b>-6.04</b>	<b>-1.01</b>

The gross return was 1.01 percentage points lower than the return on the benchmark portfolio. There was a negative excess return from both equity and fixed income investment.

Transaction costs were incurred during the quarter due to the transfer of NOK 400 million to the fixed income portfolio from the equity portfolio. The direct and indirect transaction costs associated with this transfer are estimated at around NOK 0.7 million. This is equivalent to 0.18 per cent of the total amount transferred. The benchmark portfolio has not been adjusted for these transaction costs. This means that the excess return reported is lower than it would have been if the costs associated with the transfer had been excluded.

Since 1998, the average quarterly return in international currency has been 1.25 per cent (see Chart 4-2). There has been a positive return in 32 out of 41 quarters.

**Chart 4-2: Investment portfolio. Quarterly returns in international currency 1998-2008. Per cent**



The nominal annual return in international currency from 1 January 1998 to the end of the first quarter of 2008 was 5.03 per cent (see Table 4-3). After deductions for

inflation and management costs, the table shows an annual net real return since 1 January 1998 of 2.95 per cent. The right-hand column of the table shows the annual gross excess return, which was -0.06 percentage point during the period.

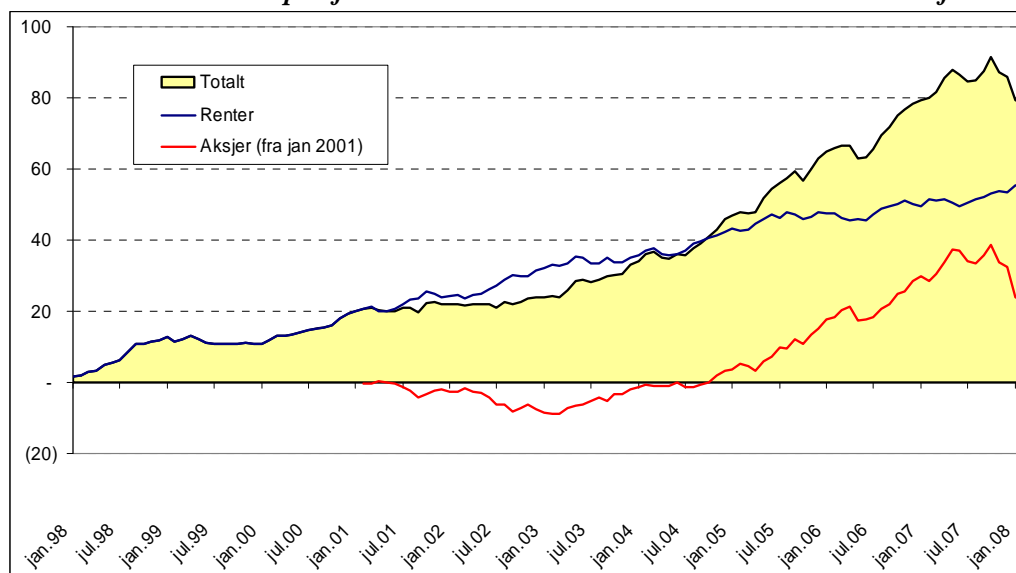
**Table 4-3: Investment portfolio. Return in international currency. Per cent per year**

Period	Nominal annual return	Annual rate of inflation*	Management costs	Annual net real return	Annual gross excess return
Since 01.01.98	5.03	1.96	0.06	2.94	-0.06
Since 01.01.99	4.53	2.07	0.06	2.34	-0.06
Since 01.01.00	5.23	2.16	0.07	2.94	-0.08
Since 01.01.01	4.79	2.17	0.06	2.50	-0.11
Since 01.01.02	5.18	2.30	0.06	2.74	-0.15
Since 01.01.03	5.76	2.36	0.06	3.26	-0.25
Since 01.01.04	5.17	2.56	0.06	2.49	-0.43
Since 01.01.05	4.40	2.60	0.06	1.68	-0.59
Since 01.01.06	2.38	2.71	0.07	-0.38	-0.98
Since 01.01.07	-1.40	3.14	0.07	-4.47	-1.80

\* Weighted average of consumer price inflation in the countries included in the benchmark portfolio in the years in question.

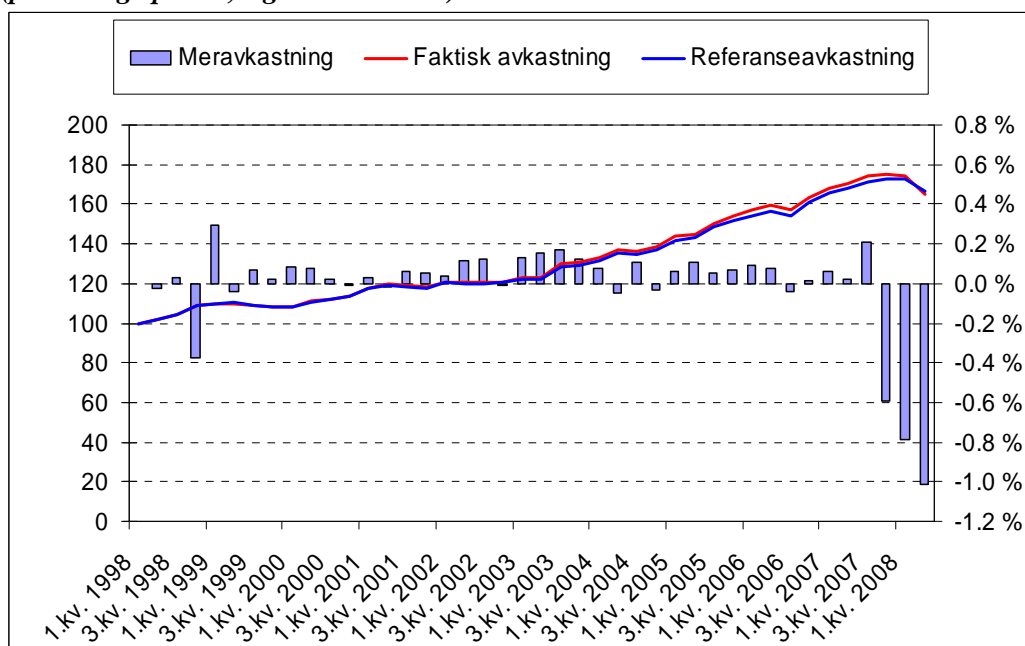
The cumulative return on the fund from 1998 until the end of the first quarter of 2008 was NOK 75 billion. This is shown by the yellow area in Chart 4-3. Since 2001, the first year with equity investments in the investment portfolio, the cumulative return has been NOK 55 billion. Equity investments account for NOK 21 billion, or 37 per cent, of the cumulative return during this period (red line in chart). The cumulative return on the fixed income portfolio since 1998 was NOK 54 billion at the end of the quarter (blue line). During the time that the investment portfolio has included both equity and fixed income investments, the cumulative return on fixed income investments has been NOK 34 billion, or 73 per cent of the portfolio's aggregate cumulative return.

**Chart 4-3: Investment portfolio. Cumulative return 1998-2008. In billions of NOK**



The cumulative return since 1 January 1998 has been 65.4 per cent for the actual portfolio and 66.3 per cent for the benchmark portfolio (see Chart 4-4). The difference between the two return figures is the gross excess return achieved through management, a total of -1.0 percentage points since 1998. In absolute terms, this negative excess return amounts to NOK 2.7 billion. The chart shows that a positive excess return has been achieved in 29 of the 41 quarters since 1 January 1998, but that the overall result for the period is dominated by the negative excess returns of the last three quarters.

**Chart 4-4: Investment portfolio. Cumulative actual return and benchmark return (index, 31.12.98=100, left-hand scale) and quarterly gross excess return (percentage points, right-hand scale) 1998-2008**



#### Management in the first quarter of 2008

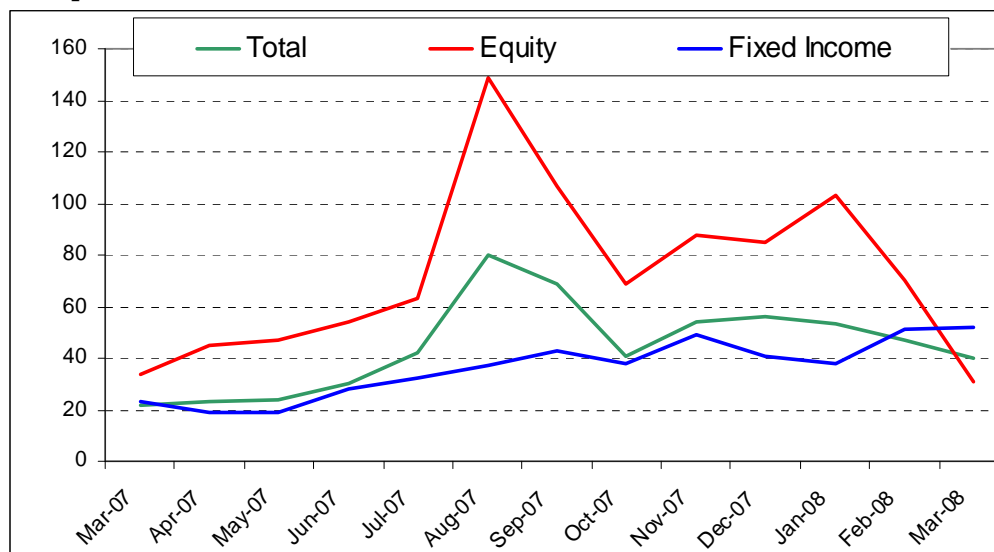
The results for the first quarter of 2008 show a negative excess return from both equity and fixed income management. However, the results for fixed income management were considerably weaker than those for equity management. The results for the investment portfolio were affected by largely the same factors that affected the results from the management of the Government Pension Fund – Global.

#### Market risk

Market risk in the portfolio is measured as expected tracking error. This is a statistically-derived measure of risk which says something about the amount of variation we can normally expect in the difference between the return on the benchmark portfolio and the return on the actual portfolio. The Executive Board's guidelines define a limit for market risk in the actual portfolio relative to the benchmark portfolio. This relative market risk must always be less than expected

tracking error of 1.5 percentage points. Chart 4-5 shows the portfolio's relative market risk over the last 12 months.

**Chart 4-5: Investment portfolio. Expected tracking error over the last 12 months. Basis points**



#### Information ratio

The information ratio (IR) is a measure of risk-adjusted return. It is the ratio of the gross excess return for the year to the actual relative market risk to which the portfolio was exposed. Table 4-4 provides a historical overview of the information ratio for the investment portfolio as a whole and for each asset class.

**Table 4-4: Investment portfolio. Information ratio**

Period	Overall	Equities	Fixed income
Last 12 months	-2.22	-1.18	-2.48
Last 3 years	-1.05	-1.02	-0.95
Last 5 years	-0.56	-1.00	-0.41

#### Credit risk

Table 4-5 breaks down the bond portfolio (fixed income portfolio excluding cash) by type of bond and credit rating.

**Table 4-5: Investment portfolio. Market value of bond portfolio on 31 March 2008 by credit rating. Per cent**

Moody's credit rating	Aaa	Aa	A	Baa	Ba	Lower	P-1	None
Government and government-related bonds	17.2	11.5	4.2	1.1	0.4	0.4	-	4.2
Inflation-linked bonds	3.3	0.4	1.8	-	-	-	-	2.2
Corporate bonds	1.2	4.5	6.1	4.2	0.4	0.1	-	0.8
Securitized debt	29.7	2.1	0.2	0.3	0.1	0.1	-	3.2
Short-term certificates	-	-	-	-	-	-	0.3	-
<b>Total bonds and other fixed income instruments</b>	<b>51.5 %</b>	<b>18.6</b>	<b>12.3</b>	<b>5.6</b>	<b>0.8</b>	<b>0.6</b>	<b>0.3</b>	<b>10.4</b>

### Management guidelines

Table 4-6 provides an overview of risk and exposure in the investment portfolio. There were no breaches of the Executive Board's investment guidelines during the first quarter of 2008.

**Table 4-6: Investment portfolio. Key figures for risk and exposure**

Risk	Limit	Actual				
		31.03.07	30.06.07	30.09.07	31.12.07	31.03.08
Market risk	Tracking error max. 1.5 percentage points	0.22	0.24	0.69	0.56	0.40
Asset mix	Fixed income portfolio	58.6	56.5	57.3	58.5	62.2
	Equity portfolio	41.4	43.5	42.7	41.5	37.9
Market distribution , equities	Europe	53.5	54.3	52.5	52.5	51.1
	Americas and Africa	33.3	32.5	33.1	33.5	34.2
	Asia and Oceania	13.3	13.3	14.5	14.0	14.7
Currency distribution , fixed income	Europe	60.2	60.7	60.1	60.6	62.2
	Americas	34.2	33.7	34.0	33.4	31.5
	Asia and Oceania	5.7	5.6	6.0	6.0	6.3
Ownership interest	Max. 5% of a company	2.29	4.53	4.94	4.62	0.96

### Costs

The costs incurred in NBIM's management activities consist partly of fees to external managers and custodian institutions, and partly of Norges Bank's internal operating costs. In the first quarter of 2008, NBIM's total costs associated with the management of the investment portfolio, including performance-based fees, amounted to NOK 36.4 million, which corresponds to 0.07 per cent of the average portfolio (annualised).

### **Buffer portfolio**

The purpose of the buffer portfolio is to ensure an appropriate supply of new capital to the Government Pension Fund – Global. The portfolio is built up continuously by means of foreign exchange transfers to Norges Bank from the State's Direct Financial Interest in petroleum activities (SDFI) and by Norges Bank's foreign exchange purchases in the market to meet the foreign exchange requirements of the Government Pension Fund – Global. A benchmark portfolio has not been defined for the buffer portfolio. With the exception of December, capital is normally transferred to the Government Pension Fund – Global each month.

In the first quarter of 2008, NOK 54.5 billion was transferred to the buffer portfolio from the SDFI, and a further NOK 29.1 billion was transferred to the portfolio through Norges Bank's purchases of foreign exchange. A total of NOK 88.1 billion was transferred to the Government Pension Fund – Global during the quarter. The return on the buffer portfolio in the first quarter of 2008 was 0.14 per cent in NOK terms. The market value of the portfolio at the end of the quarter was NOK 9.8 billion. The fund is invested in short-term money market instruments, primarily in EUR, USD and GBP.

**Table 4-7: Buffer portfolio. Transfers from the SDFI and Norges Bank, and transfers to the Government Pension Fund – Global. In millions of NOK**

<b>Period</b>	<b>Transferred from SDFI</b>	<b>Norges Bank's foreign exchange purchases</b>	<b>Transferred to Government Pension Fund – Global</b>	<b>Market value at end of period</b>
2007	151 650	152 871	313 650	14 052
January 2008	18 585	9 238	33 091	9 061
February 2008	18 202	11 996	29 508	9 718
March 2008	17 739	7 818	25 466	9 842
<b>Q1 2008</b>	<b>54 526</b>	<b>29 051</b>	<b>88 065</b>	<b>9 842</b>

## 5 Government Petroleum Insurance Fund

The purpose of the Government Petroleum Insurance Fund is to provide a reserve for payments to cover losses and liability associated with the State's Direct Financial Interest in petroleum activities (SDFI). The Ministry of Petroleum and Energy owns the fund. Pursuant to the Act relating to the Government Petroleum Insurance Fund, Norges Bank is responsible for the operational management of the fund. The Ministry of Petroleum and Energy has defined a strategic benchmark portfolio for the fund (see Appendix I).

### Key figures for the first quarter of 2008

- Market value: NOK 14.1 billion on 31 March
- Return for the period in international currency: 2.41 per cent
- Return for the period in NOK terms: -0.06 per cent
- Excess return: 0.03 percentage point
- Claims paid: NOK 630 million

### The fund's market value

At the end of the first quarter of 2008, the market value of the fund's international portfolio was NOK 14.1 billion (see Table 5-1). In addition, the fund had a working account in NOK with a balance of NOK 146 million.

**Table 5-1: Government Petroleum Insurance Fund. Market value. In millions of NOK**

	31.03.07	30.06.07	30.09.07	31.12.07	31.03.08
EUR	7 544	7 839	7 370	7 520	7 441
GBP	2 293	2 349	2 099	2 121	1 926
USD	5 246	5 492	4 968	5 044	4 684
<b>Total market value</b>	<b>15 084</b>	<b>15 680</b>	<b>14 437</b>	<b>14 686</b>	<b>14 051</b>

### Return on the fund

The return on the fund in the first quarter of 2008 was 2.41 per cent in international currency (i.e. measured in terms of a currency basket corresponding to the composition of the fund's benchmark portfolio) (see Table 5-2). In NOK terms, the return was -0.06 per cent. The difference is due to the appreciation of the krone during the quarter against the currencies included in the benchmark portfolio. The return on the fund was higher than that on the benchmark portfolio, with the result that Norges Bank generated an excess return of 0.03 percentage point.

**Table 5-2: Government Petroleum Insurance Fund. Return. Per cent**

	Return in international currency		Return in NOK		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
2007	5.15	4.97	-3.12	-3.28	0.16
January 2008	1.70	1.65	2.56	2.51	0.05
February 2008	0.56	0.59	-2.33	-2.30	-0.02
March 2008	0.13	0.13	-0.24	-0.23	0.00
<b>Q1 2008</b>	<b>2.41</b>	<b>2.38</b>	<b>-0.06</b>	<b>-0.09</b>	<b>0.03</b>

The return on the actual portfolio includes normal transaction costs for indexing the portfolio and income from securities lending. These costs and income are not taken into account when calculating the return on the benchmark portfolio.

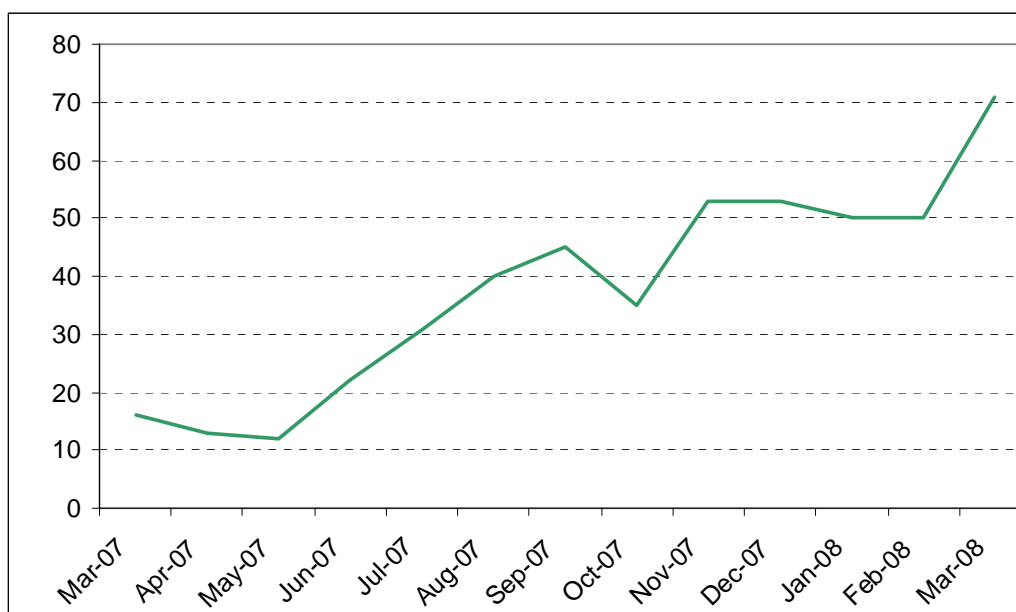
#### Management of the fund

The entire fund is managed internally by NBIM, and the aim is to generate a return very slightly higher than the return on the benchmark portfolio. The portfolio is invested primarily in government bonds and other bonds included in the benchmark portfolio's "Government-related" sub-sector. In addition, the portfolio may be invested in German bonds issued against collateral in the form of loans to the public sector (Öffentliche Pfandbriefe), in short-term money market instruments and in unlisted fixed income derivatives.

#### Risk

Market risk in the fund is measured as expected tracking error. This is a statistically-derived measure of risk which says something about the amount of variation we can normally expect in the difference between the return on the benchmark portfolio and the return on the actual portfolio in which the fund is invested. The Ministry of Petroleum and Energy has decided that market risk in the fund must always be less than a tracking error of 0.75 percentage point. Chart 5-1 shows developments in market risk over the last 12 months.

**Chart 5-1: Government Petroleum Insurance Fund. Expected tracking error over the last 12 months. Basis points**



The Ministry of Petroleum and Energy has set a limit for interest rate risk in the fund as measured by modified duration. This measure says something about the expected change in the value of the fund following a change in general interest rate levels. According to the guidelines from the Ministry, the average modified duration for each currency is to be 4 in the benchmark portfolio and no higher than 5 in the actual portfolio as a whole. Table 5-3 shows the fund's modified duration on 31 March 2008.

**Table 5-3: Government Petroleum Insurance Fund. Modified duration by currency on 31 March 2008**

Currency	Actual portfolio	Benchmark portfolio
EUR	3.81	3.85
GBP	3.98	4.19
USD	4.06	3.89
<b>Total</b>	<b>3.92</b>	<b>3.91</b>

Table 5-4 shows the composition of the bond portfolio based on credit ratings from Moody's. In the table, the agency's detailed subdivisions have been grouped together – for example, Moody's Aa includes the sub-ratings Aa1, Aa2 and Aa3. Government bonds and government-guaranteed bonds without credit ratings have been assigned the credit rating of the issuing country.

**Table 5-4: Government Petroleum Insurance Fund. Market value of bond portfolio on 31 March 2008 by credit rating. Per cent**

Moody's credit rating	Aaa	Aa	A	None
Government and government-related bonds	62.3%	22.4%	8.0%	3.3%
Securitised debt	2.8%	-	-	1.2%
<b>Total bonds and other fixed income instruments</b>	<b>65.0%</b>	<b>22.4%</b>	<b>8.0%</b>	<b>4.5%</b>

#### Management guidelines

Table 5-5 provides an overview of the limits for risk exposure set out in the regulation and guidelines, and shows the portfolio's actual exposure in relation to these limits at the end of each quarter. There were no breaches of the Ministry's guidelines in the first quarter of 2008.

**Table 5-5: Government Petroleum Insurance Fund. Limits for risk and exposure**

Risk	Limit	Actual				
		31.03.07	30.06.07	30.09.07	31.12.07	31.03.08
Market risk	Tracking error max. 0.75 percentage point	0.16	0.22	0.45	0.53	0.71
Interest rate risk	Modified duration max. 5.0	4.00	4.01	3.91	3.95	3.92

#### Costs

The management agreement between the Ministry of Petroleum and Energy and Norges Bank establishes the principles for Norges Bank's remuneration for managing the Petroleum Insurance Fund's portfolio. For 2008, a fee of 0.06 per cent of the average market value of the portfolio has been stipulated. A fee of NOK 2.2 million was accrued during the first quarter of 2008.

## 6 Financial reporting

Financial information for the portfolios managed by Norges Bank Investment Management (NBIM) is presented below. The financial reporting for the Government Pension Fund – Global and Norges Bank’s foreign exchange reserves forms part of, and comprises excerpts from, Norges Bank’s financial statements. A separate audit report for the Government Pension Fund – Global has been submitted to the Ministry of Finance. The Government Petroleum Insurance Fund’s accounts are kept by Norges Bank, but the fund is not included in the Bank’s financial statements.

### 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 2007.

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 2007.

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 2007 contain further information on significant estimates and assumptions.

### Government Pension Fund – Global

Profit and loss account (Figures in millions of NOK)	Year to date				
	Q1 2007	Q1 2008	31.12.07	31.03.07	31.03.08
<i>Profit/loss on financial assets excl. exchange rate adjustments</i>					
Interest income, deposits in foreign banks	97	100	431	97	100
Interest income, lending associated with reverse repurchase agreements	7 498	5 632	33 564	7 498	5 632
Net income/expenses and gains/losses from:					
- equities and units	18 037	-121 829	41 627	18 037	-121 829
- bonds and other fixed income instruments	6 484	7 725	19 750	6 484	7 725
- financial derivatives	1 042	-961	5 265	1 042	-961
Interest expenses, borrowing associated with repurchase agreements	-8 133	-6 412	-32 509	-8 133	-6 412
Other interest expenses	-18	-16	-118	-18	-16
Other expenses	-51	-14	-179	-51	-14
<b>Profit/loss before exchange rate adjustments</b>	<b>24 955</b>	<b>-115 776</b>	<b>67 831</b>	<b>24 955</b>	<b>-115 776</b>
Exchange rate adjustments	-25 854	-45 159	-146 412	-25 854	-45 159
<b>Profit/loss</b>	<b>-898</b>	<b>-160 935</b>	<b>-78 581</b>	<b>-898</b>	<b>-160 935</b>

Accrued management fee	-386	-479	-1 783	-386	-479
<b>Profit/loss after management fee transferred to krone account</b>	<b>-1 285</b>	<b>-161 414</b>	<b>-80 364</b>	<b>-1 285</b>	<b>-161 414</b>

<b>Balance sheet</b> (Figures in millions of NOK)	<b>31.12.07</b>	<b>31.03.07</b>	<b>31.03.08</b>
<b>ASSETS</b>			
<b>FINANCIAL ASSETS</b>			
Deposits in foreign banks	23 905	22 382	18 783
Lending associated with reverse repurchase agreements	669 607	699 614	466 204
Equities and units	945 113	738 332	920 298
Bonds and other fixed income instruments	1 120 540	1 142 388	1 158 034
Financial derivatives	2 094	0	0
Other assets	5 229	33 871	16 004
<b>TOTAL FINANCIAL ASSETS</b>	<b>2 766 488</b>	<b>2 636 586</b>	<b>2 579 322</b>
<b>LIABILITIES AND CAPITAL</b>			
<b>FINANCIAL LIABILITIES</b>			
Short-term borrowing	187	3 068	255
Borrowing associated with repurchase agreements	710 898	712 556	558 914
Financial derivatives	0	128	4 375
Unsettled trades	33 480	44 644	57 022
Other liabilities	3 185	0	12 887
Management fee due	1 783	386	479
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>749 533</b>	<b>760 783</b>	<b>633 932</b>
Capital	2 016 955	1 875 803	1 945 390
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>2 766 488</b>	<b>2 636 586</b>	<b>2 579 322</b>

### Note 1. Capital

(Figures in millions of NOK)	<b>31.12.07</b>	<b>31.03.07</b>	<b>31.03.08</b>
Deposits in krone account on 1 January	1 782 139	1 782 139	2 016 956
Transfers during the year	315 180	94 949	89 848
Profit/loss transferred to krone account	-78 581	-898	-160 935
<b>Capital before deduction of management fee</b>	<b>2 018 738</b>	<b>1 876 190</b>	<b>1 945 869</b>
Management fee to Norges Bank	-1 783	-386	-479
<b>Capital – deposits in krone account</b>	<b>2 016 955</b>	<b>1 875 803</b>	<b>1 945 390</b>

### Note 2. Securities lending

Loans of securities totalled NOK 540 999 million on 31 March 2008. Total collateral of NOK 556 549 million had been provided for these loans. Of this collateral, NOK 326 872 had been re-invested in repurchase agreements and bonds. Neither collateral nor re-investments are included in the balance sheet.

Unrealised losses on re-invested cash collateral amounted to NOK 4 624 million. Of this, NOK 1 536 million has been recorded in the profit and loss account for the first quarter of 2008 under “Net income/expenses and gains/losses from bonds and other fixed income instruments”.

### Note 3. Risk

#### **Market risk**

At the end of the first quarter of 2008, the portfolio's annualised market risk in NOK terms was 10.6 per cent, which is higher than at the beginning of the year. The reason for the increase in risk is the continued financial turbulence in the market in 2008. Besides increased volatility in both fixed income and equity markets, the risk at fund level will depend on the correlation between markets.

#### **Uncertainty in the valuation of securities**

For all securities priced on the basis of sources other than observable market prices, there is some uncertainty as to whether the price used reflects a best estimate of fair value. This uncertainty is normally very limited for the bulk of the securities in which the fund invests.

As the turmoil in financial markets has worsened since summer 2007, valuation has become particularly demanding and uncertain in the sector for securitised debt and related structured products. What began as concern about sub-prime mortgages in the US developed during the course of 2007 and the first quarter of 2008 into a more general and deeper credit and liquidity crisis. This provisionally culminated when US investment bank Bear Stearns was rescued from bankruptcy in mid-March.

Following a number of analyses and discussions with various players in the market (price providers, brokers and external managers), valuation methods have been developed to take account of this uncertainty. These methods mean that the value of some types of instrument has been revised downwards by means of an uncertainty/liquidity deduction from the value reported from the ordinary price sources. The size of this liquidity deduction depends on the estimated uncertainty about the price from the price source.

The following presents the estimation of market value for securitised debt, including asset-backed securities (ABSs), residential mortgage-backed securities (RMBSs) and commercial mortgage-backed securities (CMBSs), and structured investment vehicles (SIVs).

#### *Securitised debt (ABSs, RMBSs and CMBSs)*

Against the background of limited liquidity and associated price uncertainty for securitised debt, Norges Bank has further developed the price uncertainty method implemented at the end of 2007. Securitised debt instruments issued by US federal agencies are still excluded from the adjustment, as they are believed to have very low credit risk and so be relatively easy to price. The size of the uncertainty deduction now depends not only on credit rating but also on the type of instrument (ABS, RMBS or CMBS) and year of issue.

As at 31 March 2008, total unrealised losses of NOK 5.1 billion had been recognised in the profit and loss account under "Net income/expenses and gains/losses from bonds and other fixed income instruments", of which NOK 2.6 billion relates to the first quarter of 2008. Of this latter figure, NOK 1.0 billion is attributable to ordinary price sources and NOK 1.6 billion to the uncertainty adjustment. Of the total unrealised losses of NOK 5.1 billion, NOK 3.1 billion relates to unrealised losses on

re-invested cash collateral. Net exposure to securitised debt covered by the price uncertainty method was NOK 81.4 billion on 31 March 2008.

*Structured investment vehicles (SIVs)*

SIVs were still suffering particularly from a shortage of liquidity and valuation uncertainty at the end of the first quarter of 2008. However, a relatively large amount of new information has emerged on the degree to which the sponsors of the various SIVs will provide collateral so that the SIVs can fulfil their obligations. Through its securities lending programmes, including the re-investment of cash collateral, the fund is exposed to the senior securities of 13 different SIVs with a combined value of NOK 8.4 billion after adjustments. At the end of the first quarter of 2008, two of the SIVs to which the fund is exposed were being wound down (in enforcement mode).

Against the background of limited liquidity and associated price uncertainty, Norges Bank has developed a method for classifying SIVs according to risk. In this context, importance is attached to gearing, liquidity gap, asset mix, and the degree to which the SIV is subject to restructuring initiatives. Following this risk classification, total unrealised losses on SIVs of NOK 1.6 billion have been recognised in the profit and loss account under “Net income/expenses and gains/losses from bonds and other fixed income instruments”, of which NOK 0.4 billion is attributable to the risk classification method and NOK 1.2 billion to ordinary price sources.

The corresponding write-down at the end of 2007 was NOK 1.9 billion. In other words, NOK 0.3 billion of the previous write-down was reversed in the first quarter of 2008.

## Norges Bank's foreign exchange reserves

### Investment portfolio – profit and loss account and balance sheet

The financial reporting to 31 March 2008 is based on the accounting data used for the monthly balance sheet for March published on 14 April 2008. As a result of subsequent quality assurance of prices, the value of the bond portfolio has been written down by NOK 288 million. This write-down is based on the same principles as set out in Note 3 to the financial reporting for the Government Pension Fund – Global. This price adjustment has been taken into account in the return calculations.

Profit and loss account (Figures in millions of NOK)	Year to date				
	Q1 2007	Q1 2008	31.12.07	31.03.07	31.03.08
<i>Profit/loss on financial assets excl. exchange rate adjustments</i>					
Interest income, deposits in foreign banks	-3	-2	-104	-3	-2
Interest income, lending associated with reverse repurchase agreements	918	578	3 798	918	578
Net income/expenses and gains/losses from:					
- equities and units	1 918	-11 151	3 676	1 918	-11 151
- bonds and other fixed income instruments	857	1 810	2 572	857	1 810
- financial derivatives	447	-844	1 032	447	-844
Interest expenses, borrowing associated with repurchase agreements	-1 208	-886	-4 751	-1 208	-886
Other interest expenses	-19	-3	-21	-19	-3
Other expenses	-20	-21	-118	-20	-21
<b>Profit/loss before exchange rate adjustments</b>	<b>2 892</b>	<b>-10 519</b>	<b>6 085</b>	<b>2 892</b>	<b>-10 519</b>
Exchange rate adjustments	-3 159	-4 324	-16 678	-3 159	-4 324
<b>Profit/loss</b>	<b>-267</b>	<b>-14 843</b>	<b>-10 593</b>	<b>-267</b>	<b>-14 843</b>

Balance sheet (Figures in millions of NOK)	31.12.07	31.03.07	31.03.08
<b>FINANCIAL ASSETS</b>			
Deposits in foreign banks	1 490	1 280	1 415
Lending associated with reverse repurchase agreements	61 849	86 658	45 896
Equities and units	88 489	90 062	75 066
Bonds and other fixed income instruments	158 017	162 655	154 481
Financial derivatives	0	561	0
Other assets	61	49	36
<b>TOTAL FINANCIAL ASSETS</b>	<b>309 905</b>	<b>341 266</b>	<b>276 894</b>
<b>FINANCIAL LIABILITIES</b>			
Short-term borrowing	5	3 834	229
Borrowing associated with repurchase agreements	85 196	100 290	69 306
Financial derivatives	436	0	777
Unsettled trades	2 773	2 529	3 428
Other liabilities	7 493	10 348	3 979
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>95 903</b>	<b>117 000</b>	<b>77 719</b>
<b>NET PORTFOLIO</b>	<b>214 002</b>	<b>224 266</b>	<b>199 175</b>

Buffer portfolio – profit and loss account and balance sheet

Profit and loss account (Figures in millions of NOK)	Year to date				
	Q1 2007	Q1 2008	31.12.07	31.03.07	31.03.08
<i>Profit/loss on financial assets excl. exchange rate adjustments</i>					
Interest income, deposits in foreign banks	65	0	197	65	0
Interest income, lending associated with reverse repurchase agreements	201	149	511	201	149
Interest expenses, borrowing associated with repurchase agreements	0	0	-1	0	0
Other interest expenses	0	-25	-76	0	-25
Other expenses	-1	0	-1	-1	0
<b>Profit/loss before exchange rate adjustments</b>	<b>265</b>	<b>124</b>	<b>630</b>	<b>265</b>	<b>124</b>
Exchange rate adjustments	-544	132	-1 119	-544	132
<b>Profit/loss</b>	<b>-279</b>	<b>256</b>	<b>-489</b>	<b>-279</b>	<b>256</b>

Balance sheet (Figures in millions of NOK)	31.12.07	31.03.07	31.03.08
<b>FINANCIAL ASSETS</b>			
Deposits in foreign banks	7	1	46
Lending associated with reverse repurchase agreements	10 121	23 394	11 015
Financial derivatives	0	9	0
Other assets	2 273	0	11 678
<b>TOTAL FINANCIAL ASSETS</b>	<b>12 401</b>	<b>23 404</b>	<b>22 738</b>
<b>FINANCIAL LIABILITIES</b>			
Financial derivatives	0	0	33
Other liabilities	0	23 128	15 644
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>0</b>	<b>23 128</b>	<b>15 677</b>
Unsettled contracts not recognised	1 651	2 929	2 782
<b>NET PORTFOLIO</b>	<b>14 052</b>	<b>3 205</b>	<b>9 843</b>

## Government Petroleum Insurance Fund

### Profit and loss account and balance sheet

Profit and loss account (Figures in thousands of NOK)	Year to date				
	Q1 2007	Q1 2008	31.12.07	31.03.07	31.03.08
<i>Profit/loss on financial assets excl. exchange rate adjustments</i>					
Interest income, deposits in foreign banks	122	179	980	122	179
Interest income, lending associated with reverse repurchase agreements	34 444	32 105	152 277	34 444	32 105
Net income/expenses and gains/losses from:					
- bonds and other fixed income instruments	87 799	304 588	612 503	87 799	304 588
- financial derivatives	-1 908	2 846	-2 813	-1 908	2 846
Interest expenses, borrowing associated with repurchase agreements	-32	-297	-1 349	-32	-297
Other interest expenses	-28	-27	-213	-28	-27
Other expenses	0	0	0	0	0
<b>Profit/loss before exchange rate adjustments</b>	<b>120 396</b>	<b>339 394</b>	<b>761 385</b>	<b>120 396</b>	<b>339 394</b>
Exchange rate adjustments	-221 108	-339 700	-1 221 042	-221 108	-339 700
<b>Profit/loss</b>	<b>-100 711</b>	<b>-306</b>	<b>-459 657</b>	<b>-100 711</b>	<b>-306</b>
Accrued management fee	-2 273	-2 192	-9 192	-2 273	-2 192
<b>Profit/loss after management fee</b>	<b>-102 985</b>	<b>-2 498</b>	<b>-468 848</b>	<b>-102 985</b>	<b>-2 498</b>

Balance sheet (Figures in thousands of NOK)	31.12.07	31.03.07	31.03.08
<b>FINANCIAL ASSETS</b>			
Deposits in foreign banks	11 856	11 719	30 221
Lending associated with reverse repurchase agreements	3 122 679	3 230 844	2 573 292
Bonds and other fixed income instruments	11 828 173	12 069 604	11 610 748
Financial derivatives	0	0	0
Unsettled trades	0	0	0
Other assets	2 309	800	2 300
<b>TOTAL FINANCIAL ASSETS</b>	<b>14 965 017</b>	<b>15 312 966</b>	<b>14 216 561</b>
<b>FINANCIAL LIABILITIES</b>			
Short-term borrowing	26 753	0	0
Borrowing associated with repurchase agreements	61 517	0	0
Financial derivatives	5 979	5 352	1 484
Unsettled trades	49 202	222 286	161 550
Other liabilities	0	0	0
Management fee due	9 192	2 273	2 192
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>152 642</b>	<b>229 911</b>	<b>165 227</b>
<b>NET PORTFOLIO</b>	<b>14 812 374</b>	<b>15 083 055</b>	<b>14 051 334</b>

## Appendix

### I Benchmark portfolios

#### Government Pension Fund – Global

The Ministry of Finance has issued guidelines for the management of the Government Pension Fund – Global. These are available on Norges Bank's website ([www.norges-bank.no](http://www.norges-bank.no)).

The Ministry of Finance has defined a benchmark portfolio which reflects the strategy the fund is to pursue. This portfolio consists of specific equities and bonds selected on the basis of set criteria. The benchmark portfolio is important for the management of risk in the fund and for assessing the results of Norges Bank's management.

*Government Pension Fund – Global. Benchmark portfolio on 31 March 2008. Per cent*

Country for equity benchmark Currency for fixed income benchmark	Equities		Fixed income instruments	
	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
<b>Asset class weights</b>	<b>60.0</b>	<b>47.8</b>	<b>40.0</b>	<b>52.2</b>
Austria		0.5		
Belgium		0.9		
Finland		1.2		
France		8.3		
Germany		6.5		
Greece		0.6		
Ireland		0.5		
Italy		3.0		
Netherlands		2.3		
Portugal		0.3		
Spain		3.5		
Euro area (EUR)		27.6		49.2
UK (GBP)		15.2		9.2
Denmark (DKK)		0.8		0.6
Sweden (SEK)		2.0		1.3
Switzerland (CHF)		5.1		0.5
<b>Total Europe</b>	<b>50.0</b>	<b>50.7</b>	<b>60.0</b>	<b>60.8</b>
US (USD)		29.5		31.9
Brazil		1.2		
Canada (CAD)		2.6		2.2
Mexico		0.4		
South Africa		0.6		
<b>Total Americas and Africa</b>	<b>35.0</b>	<b>34.3</b>	<b>35.0</b>	<b>34.2</b>
Australia (AUD)		2.5		0.2
Hong Kong		1.6		
Japan (JPY)		7.3		4.6
New Zealand (NZD)		0.1		0.1
Singapore (SGD)		0.5		0.2
South Korea		1.6		
Taiwan		1.4		
<b>Total Asia and Oceania</b>	<b>15.0</b>	<b>15.0</b>	<b>5.0</b>	<b>5.1</b>

The strategic benchmark portfolio for the fund is composed of FTSE equity indices for companies in 27 countries, and of Lehman Global Aggregate and Lehman Global Real fixed income indices in the currencies of 21 countries. Equities account for 60 per cent of the fund's strategic benchmark portfolio, while fixed income instruments account for 40 per cent.<sup>6</sup> The equity portion of the benchmark consists of equities listed on stock exchanges in Europe (50 per cent), the Americas and Africa (35 per cent), and Asia and Oceania (15 per cent). The regional distribution of the fixed income benchmark is 60 per cent Europe, 35 per cent Americas and 5 per cent Asia and Oceania.

Asset classes and regional weights change continuously as a result of changes in market prices for the securities in the benchmark portfolio. Transfers of new capital to the fund are to be used to bring the asset class weights and regional weights back as close to the original weights as possible, providing this does not necessitate selling any of the existing portfolio. Thus, even after the transfer of new capital, the strategic benchmark portfolio described above may differ somewhat from the actual benchmark. The latter provides the basis for managing risk and measuring the performance of the fund.

A substantial difference between the actual benchmark and the strategic benchmark over time will trigger full rebalancing.

The weights in the strategic and actual benchmark portfolios are shown in the table above. The weights in the fixed income benchmark apply to the currency in which the securities are issued, and so the weight for each country in the euro area is not listed.

#### Norges Bank's foreign exchange reserves – investment portfolio

Norges Bank's Executive Board has issued guidelines for the management of the foreign exchange reserves. These are available on Norges Bank's website ([www.norges-bank.no](http://www.norges-bank.no)).

The Executive Board has defined a benchmark portfolio which reflects the strategy the investment portfolio is to pursue. The benchmark portfolio consists of specific equities and bonds selected on the basis of set criteria. The benchmark portfolio is important for the management of risk in the investment portfolio and for assessing the results of NBIM's management.

The strategic benchmark portfolio for the investment portfolio is composed of FTSE equity indices for companies in 27 countries and of Lehman Global Aggregate fixed income indices in 11 currencies. Equities account for 40 per cent of the strategic benchmark portfolio, while fixed income instruments account for 60 per cent. The equity portion of the benchmark consists of equities listed on regulated marketplaces in Europe (50 per cent), the Americas and Africa (35 per cent), and Asia and Oceania (15 per cent). The regional distribution of the fixed income benchmark is 60 per cent Europe, 35 per cent Americas and 5 per cent Asia and Oceania.

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<sup>6</sup> In 2007, the Ministry of Finance decided to increase the allocation to equities in the Government Pension Fund – Global from 40 to 60 per cent. Norges Bank has agreed a timetable for increasing the allocation to equities with the Ministry.

Asset classes and regional weights change continuously as a result of changes in market prices for the securities in the benchmark portfolio. This means that the actual benchmark portfolio may differ from the strategic benchmark portfolio. An excessive difference between the actual benchmark and the strategic benchmark over time will trigger full rebalancing to return the actual weights to the strategic weights. The Executive Board has issued rules covering this.

The weights in the strategic and actual benchmark portfolios are shown in the table below. The weights in the fixed income benchmark apply to the currency in which the securities are issued, and so the weight for each country in the euro area is not listed.

***Investment portfolio. Benchmark portfolio on 31 March 2008. Per cent***

	Equities		Fixed income instruments	
	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Country for equity benchmark Currency for fixed income benchmark				
<b>Asset class weights</b>	<b>40.0</b>	<b>37.6</b>	<b>60.0</b>	<b>62.4</b>
Austria		0.5		
Belgium		0.9		
Finland		1.3		
France		8.3		
Germany		6.5		
Greece		0.6		
Ireland		0.5		
Italy		3.0		
Netherlands		2.3		
Portugal		0.3		
Spain		3.5		
Euro area (EUR)		27.7		50.2
UK (GBP)		15.2		9.4
Denmark (DKK)		0.8		0.6
Sweden (SEK)		2.0		1.3
Switzerland (CHF)		5.1		0.5
<b>Total Europe</b>	<b>50.0</b>	<b>50.8</b>	<b>60.0</b>	<b>62.0</b>
US (USD)		28.9		30.5
Brazil		1.2		
Canada (CAD)		2.6		2.1
Mexico		0.4		
South Africa		0.6		
<b>Total Americas and Africa</b>	<b>35.0</b>	<b>33.6</b>	<b>35.0</b>	<b>32.6</b>
Australia (AUD)		2.7		0.2
Hong Kong		1.6		
Japan (JPY)		7.6		4.9
New Zealand (NZD)		0.1		0.1
Singapore (SGD)		0.5		0.2
South Korea		1.7		
Taiwan		1.5		
<b>Total Asia and Oceania</b>	<b>15.0</b>	<b>15.6</b>	<b>5.0</b>	<b>5.3</b>

### Government Petroleum Insurance Fund

The Ministry of Petroleum and Energy has defined a strategic benchmark portfolio for the Government Petroleum Insurance Fund consisting of 50 per cent EUR, 15 per cent GBP and 35 per cent USD. The benchmark index consists of Lehman Global Aggregate treasury indices for the three currencies and a money market deposit to weight the interest rate risk as measured by modified duration in each currency to 4.

During the year, the currency weights in the actual benchmark portfolio fluctuate with market developments. However, at the beginning of July each year, the actual weights are returned to the strategic currency weights. The table below shows the weights in the fund's actual and strategic benchmark portfolios at the end of the first quarter of 2008.

#### *Government Petroleum Insurance Fund. Benchmark portfolio on 31 March 2008. Per cent*

Currency	Strategic benchmark portfolio	Actual benchmark portfolio
EUR	5.0	52.7
GBP	15.0	13.7
USD	35.0	33.6
<b>Total</b>	<b>100</b>	<b>100</b>

## **II Companies excluded from the investment universe**

The Ministry of Finance has issued ethical guidelines for the management of the Government Pension Fund – Global. One instrument in this context is the exercise of ownership rights to safeguard the fund's financial interests. This is Norges Bank's responsibility and is presented in more detail in NBIM's Annual Report for 2007. The Ministry of Finance is responsible for the exclusion of companies from the investment universe. The table below shows which companies the Ministry had excluded from the investment universe as at 31 March 2008. The same companies have also been excluded from the investment universe for Norges Bank's foreign exchange reserves.

***Companies excluded from the investment universe by the Ministry of Finance as at 31 March 2008\****

<b>Date</b>	<b>Reason</b>	<b>Company</b>
26 April 2002	Anti-personnel landmines	Singapore Technologies, Singapore
31 August 2005	Cluster munitions	Alliant Techsystems Inc, US EADS Company N.V., Netherlands** EADS Finance B.V., Netherlands** General Dynamics Corporation, US L-3 Communications Holdings Inc., US Lockheed Martin Corporation, US Raytheon Company, US Thales SA, France
31 December 2005	Nuclear weapons	BAE Systems Plc, UK Boeing Company, US Finmeccanica SpA, Italy Honeywell International Inc., US Northrop Grumman Corp., US Safran SA, France United Technologies Corp., US
31 May 2006	Breaches of human rights	Wal-Mart Stores Inc, US Wal-Mart de Mexico SA, Mexico
31 May 2006	Environmental damage	Freeport McMoRan Copper and Gold Inc., US
30 November 2006	Cluster munitions	Poongsan Corporation, South Korea
31 March 2007	Environmental damage	DRDGOLD Limited, South Africa
31 October 2007	Environmental damage and breaches of human rights	Vedanta Resources plc, UK Sterlite Industries Ltd, India Madras Aluminium Company, India
31 December 2007	Nuclear weapons	GenCorp Inc., US Serco Group plc, UK
31 December 2007	Cluster munitions	Hanwha Corporation, South Korea

\* The company Kerr-McGee Corporation was excluded on 31 May 2005 because the company was active in Western Sahara. These activities ceased in spring 2006, and the company (subsequently merged with Anadarko Petroleum) was included again from 30 June 2006.

\*\* EADS was originally excluded on 31 August 2005 because the company was involved in the production of cluster munitions. EADS no longer produces cluster munitions. However, EADS is involved in the production of nuclear weapons, and the Ministry of Finance therefore renewed its exclusion on 10 May 2006.