2Q 2010

GOVERNMENT PENSION FUND GLOBAL **SECOND QUARTER 2010**

NBIM
Norges Bank Investment Management

Second quarter of 2010 in brief

- The Government Pension Fund Global returned -5.4 percent in the second quarter of 2010, pulled down by a decline in global equity markets. The result was in line with the return on the fund's benchmark portfolio.

- The fund's equity investments returned -9.2 percent, lagging the return on the benchmark portfolio by 0.03 percentage point.

- Fixed-income investments returned 1 percent, exceeding the benchmark by 0.06 percentage point.

- The market value of the fund rose 29 billion kroner to 2,792 billion kroner.

- Inflows of new capital to the fund totalled 35 billion kroner. Most of the capital went to fixed-income purchases.

- The fund's investments consisted of 59.6 percent equities and 40.4 percent fixed-income securities at the end of the quarter.

Published on 13 August 2010
08/250
ISSN 1890-8837 (printed)
ISSN 1890-8845 (online)

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

Weaker krone boosts market value

The market value of the Government Pension Fund Global rose 29 billion kroner to 2,792 billion kroner in the second quarter of 2010.

The fund's investments consisted of 59.6 percent equities and 40.4 percent fixed-income securities at the end of the quarter. The market value of equity investments fell 66 billion kroner to 1,664 billion kroner in the quarter, while fixed-income investments rose 95 billion kroner to 1,128 billion kroner.

The market value is affected by returns, capital inflows and exchange rates. The fund returned -155 billion kroner in the second quarter, while capital inflows from the government totalled 35 billion kroner. A decline in the krone exchange rate added 149 billion kroner to the market value.

The fund has large investments in U.S. dollars, euros and pounds. The dollar and the pound gained 9.6 percent and 8.1 percent, respectively, against the krone in the second quarter, while the euro fell 0.8 percent.

The fund's share of equities decreased by 3 percentage points in the quarter as a widespread drop in international

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

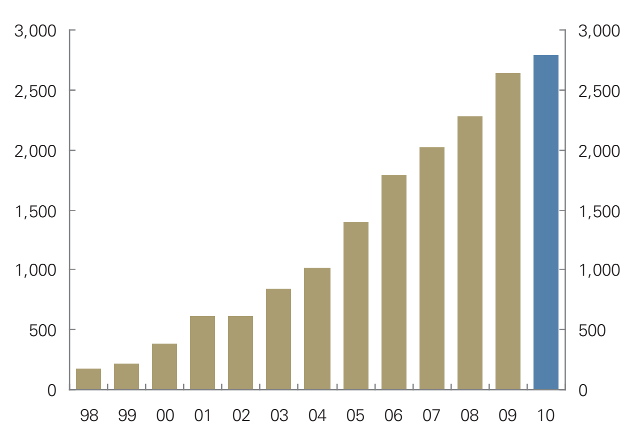
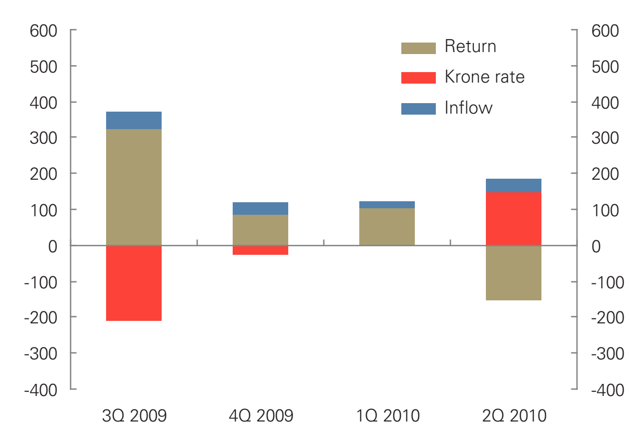


Chart 1-2 Change in the fund's market value. Billions of NOK



stock markets reduced the value of the equity holdings and most of the fund's capital inflows went to bond purchases. This brought the fund's composition back to the long-term target set by the Ministry of Finance for 60 percent equities, 35–40 percent fixed-income securities and as much as 5 percent real estate.

The fund got a mandate on 1 March to gradually invest in real estate by reducing fixed-income investments correspondingly. Real estate investments shall be spread over time in different types of sectors, properties and securities. The investments will mainly be in unlisted real estate, well-developed property markets and traditional property types, initially in Europe. The fund had no property investments at the end of the second quarter.

Returns in international currency

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

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

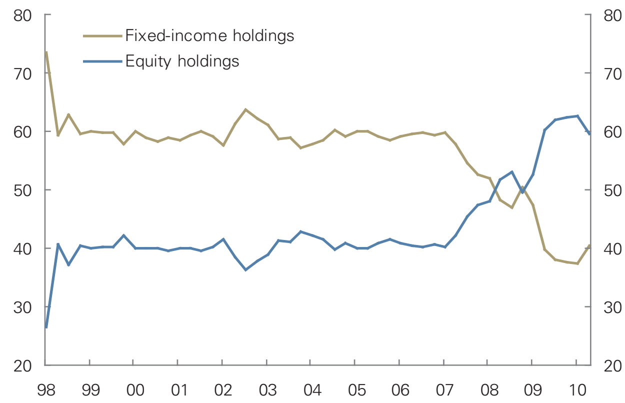
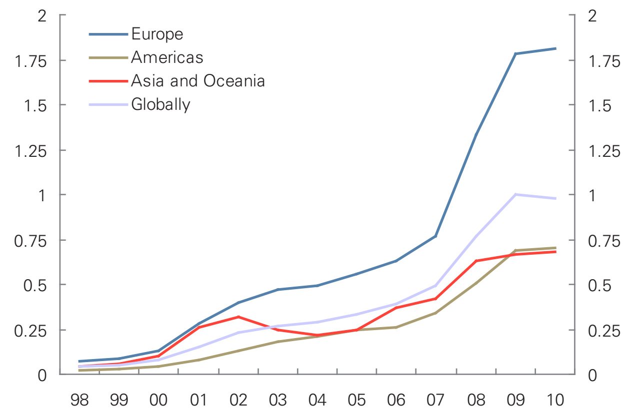


Chart 1-4 The fund's holdings in equity markets. Percentage of FTSE All-World Index's market capitalisation



Source: FTSE, NBIM

Table 1-1 Key figures as of 30 June 2010

	2Q 2010	1Q 2010	4Q 2009	3Q 2009	2Q 2009
Market value (billions of NOK)					
Market value of equity holdings	1,664	1 ,730	1 ,644	1 ,581	1 ,438
Market value of fixed-income holdings	1,128	1 ,033	996	967	948
Market value of fund	2 ,792	2 ,763	2 ,640	2 ,549	2 ,385
Inflow of new capital *	35	19	36	49	40
Return	-155	103	84	325	270
Change due to movements in krone	149	0	-28	-211	-1
Total change in fund	29	123	92	163	309

* 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.

	2Q 2010	1Q 2010	4Q 2009	3Q 2009	2Q 2009
Management costs (percent)					
Estimated transition costs	0.00	0.00	0.00	0.01	0.02
Annualised management costs	0.10	0.10	0.14	0.15	0.15
Changes in value since inception (billions of NOK)					
Gross inflow of new capital	2,379	2,343	2,323	2,286	2,236
Management costs	15	14	13	12	12
Inflow of capital	2,365	2,329	2,310	2,273	2,224
Return	430	586	482	398	73
Change due to movements in krone	-3	-152	-152	-123	88
Market value of fund	2,792	2,763	2 640	2 549	2,385
Return after management costs	416	572	469	386	62

Table 1-2 The fund’s largest equity holdings as of 30 June 2010

Company	Country	Holdings in millions of NOK
Nestlé SA	Switzerland	19,206
HSBC Holdings PLC	UK	19,001
Royal Dutch Shell PLC	UK	17,138
Vodafone Group PLC	UK	13,534
Novartis AG	UK	12,886
Roche Holding AG	UK	11,691
Total SA	France	11,505
Exxon Mobil Corp	U.S.	11,415
BP PLC	UK	10,559
GlaxoSmithKline PLC	UK	10,087

Table 1-3 The fund’s largest bond holdings as of 30 June 2010

Company	Country	Holdings in millions of NOK
United States of America	U.S.	141,613
UK government	UK	85,908
Federal Republic of Germany	Germany	57,699
Japanese government	Japan	52,625
French Republic	France	45,689
Italian Republic	Italy	42,647
European Investment Bank	Supranational	23,643
Bank of Scotland PLC	UK	21,478
Fannie Mae	U.S.	20,453
Kreditanstalt für Wiederaufbau	Germany	18,330

NBIM opened a new office in Singapore in June as an addition to its offices in London, New York, Shanghai and Oslo.

Fund management

Widespread drop in equity markets

The fund returned -5.4 percent in the second quarter, pulled down by a decline in global equity markets.

A widespread drop in European, American and Asian stock markets gave the fund's equity investments a second-quarter return of -9.2 percent, measured in international currency.

The decline was steepest in Europe, where growing concern about the ability to repay government debt in countries such as Greece, Spain and Portugal damped investors' risk appetite. Share prices of European banks, some of the largest sovereign debt investors, fell on uncertainty about the banks' exposure to government debt and losses from potential defaults. Fears about counterparty risk also hampered banks' ability to raise funds. The fund's financial stocks returned -11 percent in the quarter and were among the weakest performers.

Stock markets stabilised somewhat after the European Union, supported by the International Monetary Fund, on 9 and 10 May announced a 750 billion-euro support package aimed at stabilising European financial markets and preventing the spread of sovereign debt problems. At the same time, uncertainty prevailed on concern government austerity measures would cause an economic slowdown in Europe.

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

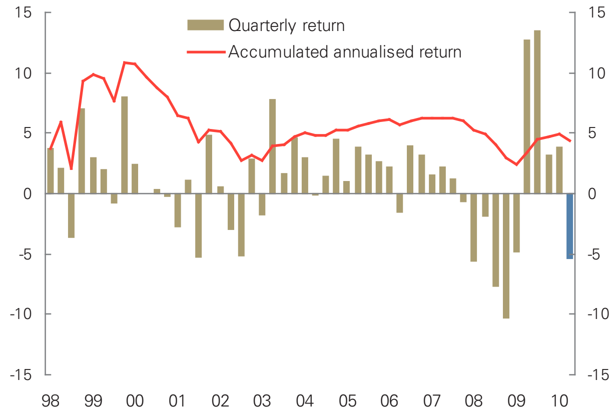
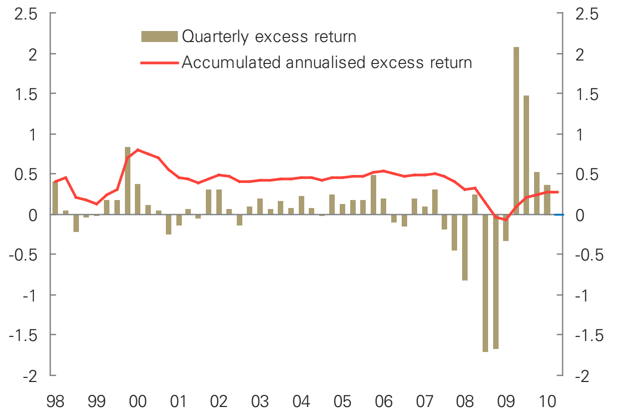


Chart 2-2 The fund's quarterly exess return and accumulated annualised excess return since 1.1.1998. Percentage points



European exposure

The fund's equity investments are distributed with about 50 percent in Europe, 35 percent in the Americas, Africa and Middle East, and 15 percent in Asia and Oceania. The regions returned -12.3 percent, -7.5 percent and -3.5 percent respectively in the second quarter, measured in international currency.

The best-performing investments were carmaker Daimler, pharmaceutical company Novo Nordisk and information technology company Apple. The worst performers were mobile-phone maker Nokia, information technology company Microsoft and oil producer BP. The oil spill following the explosion on BP's Deepwater Horizon drilling rig on April 20 is the largest in U.S. history and the company's cleanup and compensation costs are expected to be considerable. BP's share price halved during the quarter, making it the fund's single worst performer. The fund's oil and gas stocks returned -14.9 percent in the period. Oil and gas was the sector that fell most in the quarter, followed by basic materials, financials and technology. There were no sectors with gains among the fund's equity investments.

Table 2-1 Quarterly returns as of 30 June 2010

	2Q 2010	1Q 2010	4Q 2009	3Q 2009	2Q 2009
Return in international currency					
Equity holdings (percent)	-9.24	4.92	4.73	17.69	19.49
Fixed-income holdings (percent)	1.02	2.14	0.75	7.19	5.07
Fund (percent)	-5.39	3.87	3.18	13.51	12.67
Benchmark portfolio (percent)	-5.38	3.49	2.65	12.02	10.59
Excess return (percentage points)	0.00	0.38	0.52	1.49	2.08
Management costs (percent)	0.03	0.02	0.03	0.04	0.04
Return after management costs (percent)	-5.41	3.84	3.14	13.47	12.63
Return in NOK (percent)					
Equity holdings	-4.29	4.96	3.68	8.63	19.69
Fixed-income holdings	6.53	2.18	-0.25	-1.06	5.25
Fund	-0.23	3.90	2.15	4.76	12.86
Benchmark portfolio*	-0.22	3.52	1.63	3.39	10.78

* Historical returns for the benchmark portfolio have been amended because of an adjustment of tax rates the FTSE Group uses to calculate the benchmark portfolio's returns. Following the adjustment, the annualised return on the benchmark portfolio is 0.5 basis point lower than previously estimated for the period 2004 to April 2010. NBIM provides the tax rates used by FTSE.

Fixed-income gains

The fund's fixed-income investments returned 1 percent in the second quarter, measured in international currency. Fixed-income securities in dollars, yen and pounds rose in value, while the value of euro-denominated bonds fell.

Fears of sovereign debt default in Europe affected the bond market and contributed to a decline in the value of the fund's European bonds, which account for about 60 percent of the overall fixed-income holdings. The fund's European fixed-income investments returned -3.4 percent in the second quarter, measured in international currency. By contrast, fixed-income investments in the Americas returned 6.8 percent, while Asian and Oceanian bonds returned 9.6 percent. The fund invests in government bonds, government-related bonds, inflation-linked bonds, corporate bonds and securitised debt.

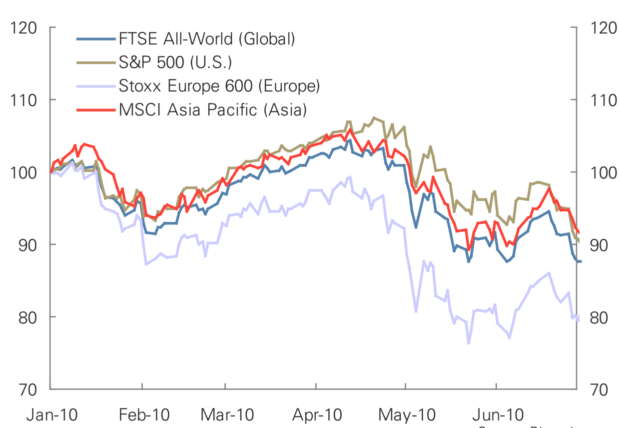
Investors pulled out of European bonds with increased credit uncertainty, such as corporate bonds, covered bonds and government bonds from countries with weak credit ratings. This helped boost demand for sovereign debt from countries such as the U.S., Germany, France and the UK, which were considered safer investments. Prices of government bonds from these countries rose in the second quarter, while prices of Greek, Spanish, Italian and Portuguese sovereign debt fell.

The yield, which is the return an investor gets for lending money through a bond, will normally rise when the expected risk of default increases. The yield on five-year Greek government bonds almost doubled during the quarter to 10.9 from 6.1 percent, while the yield on five-year U.S. government bonds decreased to 1.8 percent from 2.5 percent. Yields on German and French government debt also fell.

The fund's euro-denominated government bonds returned 0.4 percent in the second quarter, measured in euros, as declines in the value of sovereign debt from Greece, Spain, Italy and Portugal were more than offset by gains on German and French government bonds. Investments in UK, Japanese and U.S. sovereign debt returned 4.7 percent, 2.1 percent and 4.4 percent, respectively, measured in their local currencies.

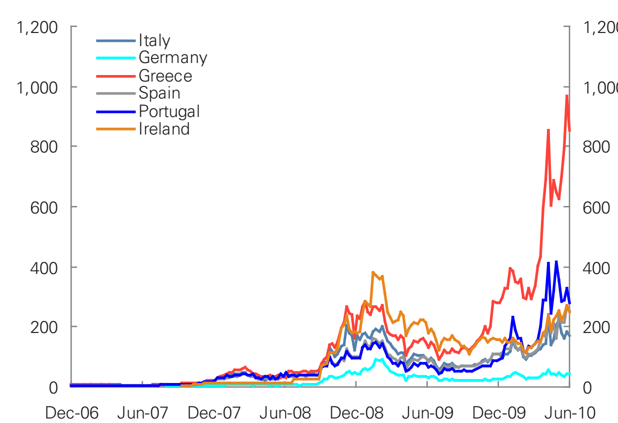
Greek government debt was downgraded from low to high risk in the quarter by Moody's and Standard & Poor's, two of the three large credit rating agencies. Following the rules for the fund's benchmark portfolio, Greek government debt was removed from the benchmark portfolio at the end of June because of the downgrades. Although the fund's investments shall largely reflect the benchmark portfolio's composition, the fund will not necessarily follow the benchmark portfolio and sell Greek government debt. Typically many investors have to sell the bonds at the same following such a downgrade, which may push prices down.

Chart 2-3 Developments in equity markets, in USD. Indexed. 01.01.2010 = 100



Source: Bloomberg

Chart 2-4 Price development of credit default insurance for government debt. Basis points



Source: Bloomberg

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

	Past year	Past 3 years	Past 5 years	Past 10 years	Since 1.1.1998
Fund return (percent)	15.09	-1.65	2.44	3.05	4.33
Benchmark return (percent)	12.60	-1.24	2.45	2.89	4.06
Excess return (percentage points)	2.49	-0.40	-0.01	0.16	0.27
Standard deviation (percent)	10.43	12.81	10.17	8.10	7.72
Tracking error (percentage points)	0.70	1.56	1.23	0.89	0.83
Information ratio (IR)*	3.58	-0.26	-0.01	0.18	0.33
Gross annual return (percent)	15.09	-1.65	2.44	3.05	4.33
Annual price inflation (percent)	1.56	1.75	2.03	1.92	1.77
Annual management costs (percent)	0.12	0.12	0.11	0.10	0.11
Annual net real return (percent)	13.21	-3.45	0.29	1.00	2.40

* The information ratio (IR) is a measure of risk-adjusted return. It is calculated as the ratio of excess return to the actual relative market risk that the portfolio has been exposed to. The IR indicates how much excess return has been achieved per unit of risk.

Tabell 2-3 Fixed-income holdings as of 30 June 2010 based on credit ratings*. Percentage of portfolio

	Aaa	Aa	A	Baa	Ba	Lower	No rating
Government and government-related bonds	37.7	6.6	1.9	0.7	0.4	0.0	0.1
Inflation-linked bonds	4.1	3.5	0.1	0.0	0.0	0.0	0.0
Corporate bonds	2.3	4.5	8.1	6.4	0.4	0.1	0.1
Securitised debt	17.4	3.4	0.2	0.2	0.2	1.4	0.0
Share of fixed-income funds	-	-	-	-	-	-	0.1
Total bonds and other fixed-income instruments	**61.2**	**18.0**	**10.4**	**7.4**	**1.0**	**1.6**	**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 agencie. These securities may also have been rated by other agencies.

Table 2-4 Key figures for risk and exposure as of 30 June 2010. Percent and percentage points

Risk	Limits	Actual			
		30.06.2010	31.03.2010	31.12.2009	30.09.2009
Market risk	Tracking error max. 1.5 percentage points	0.38	0.32	0.27	0.30
Asset mix	Equities 50-70%	59.6	62.6	62.4	62.0
	Fixed income 30-50%	40.4	37.4	37.6	38.0
	Real estate 0-5%*	0.0	0.0	0.0	0.0
Market distribution, equities	Europe 40–60%	47.2	48.5	50.3	51.1
	America and Africa 25–45%	37.1	36.5	35.3	34.4
	Asia and Oceania 5–25%	15.7	15.0	14.4	14.5
Currency distribution,	Europe 50-70%	56.3	57.7	58.6	59.8
fixed income	Americas 25-45%	37.8	36.6	36.0	35.0
	Asia and Oceania 0-15%	6.0	5.6	5.4	5.2
Ownership	Max. 10% of a listed company	8.81	8.43	7.23	9.00

*As of 1 March 2010

In line with the market

The fund's return is measured against the return on a benchmark portfolio set up by the Ministry of Finance. The difference is referred to as the fund's relative return. There was no significant difference between the two in the second quarter.

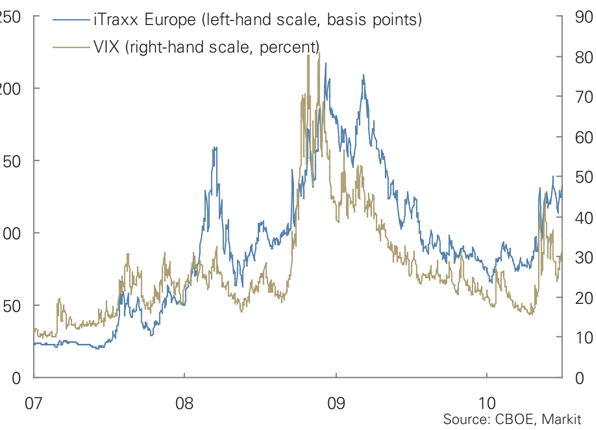
The return on the fund's equity investments was 0.03 percentage point lower than the benchmark return in the quarter. The fund's internally managed equity investments contributed negatively to the relative return, while external equity management made a slight positive contribution. Among the different regions, U.S. equities contributed negatively, while European and Asian stocks made a positive contribution. At sector level, financial and technology stocks in particular pushed the relative return down, while telecom and oil stocks contributed positively to the result.

The return on the fund's fixed-income investments was 0.06 percentage point higher than the benchmark return in the quarter. Investments in U.S. securitised debt contributed positively to the relative return, which also benefited from the fund having a lower portion of European government bonds than the benchmark portfolio. The fund's holdings of European covered bonds and Japanese inflation-linked bonds contributed negatively to the relative return, as did investments in European bank bonds.

About 13 percent of the fund's assets were managed by external institutions at the end of the quarter. External equity investments were worth 330 billion kroner, while external fixed-income investments totalled 29 billion kroner.

From 1 January 1998 to 30 June 2010, the fund had an annualised gross return of 4.3 percent, measured in international currency. This gives an annual net real return of 2.4 percent after management costs and inflation are deducted.

Chart 2-5 Expected risk in stock markets (VIX Index) and in fixed-income markets (iTraxx Index)



Source: CBOE, Markit

Chart 2-6 Absolute volatility for the fund. Percent and billions of NOK

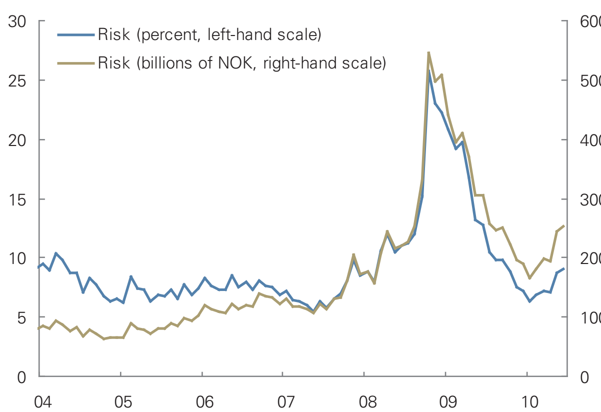
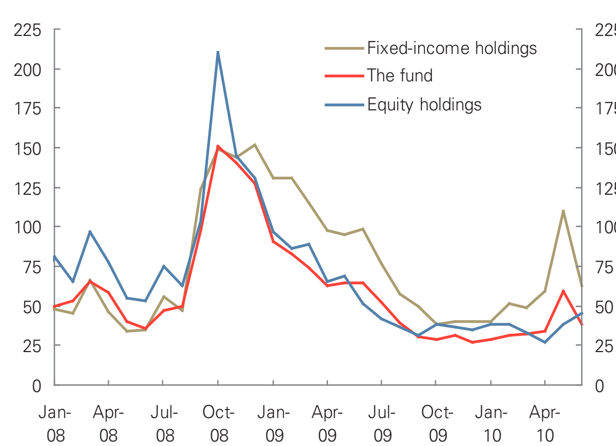


Chart 2-7 Expected relative volatility for the fund. Basis points



Bigger fluctuations in fund value

Volatility in equity and fixed-income markets increased in the second quarter because of uncertainty about European government debt, funding challenges for banks and fears of an economic slowdown, particularly in Europe. The VIX index, which measures expected volatility in the U.S. stock market, doubled during the quarter to levels seen at the end of the financial crisis in spring 2009. The iTraxx Europe index, which measures risk in the European bond market, rose by 50 basis points to 129 basis points.

Expected absolute volatility, measured by the statistical concept standard deviation, uses historical price movements in the fund's investments to estimate how much the fund's annual return can be expected to vary in normal periods. At the end of the second quarter, the fund's return was expected to vary 9 percent, or 250 billion kroner, per year. That compares with 7.2 percent at the start of the quarter.

The Ministry of Finance has set limits for how much NBIM may deviate from the benchmark portfolio in its fund management. The most important limit is expressed as expected tracking error (relative volatility) and puts a ceiling on how much the return on the fund can be expected to deviate from the return on the benchmark portfolio. Expected tracking error must not exceed 1.5 percentage points (150 basis points). The actual figure was 0.38 percentage point at the end of the second quarter, up from 0.32 percentage point at the start of the quarter. The increase was mainly due to higher risk associated with government debt and covered bonds.

In addition to limiting risk in the fund, the Ministry of Finance has set other guidelines for the fund's management. There was one minor breach of these guidelines in the second quarter.

VIX index

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

The VIX index rises when volatility in the equity market is expected to increase. The index was at about 10-15 percent before the start of the financial turmoil in summer 2007. It rose to about 80 percent after the collapse of Lehman Brothers in September 2008 triggered large price drops and uncertainty in global stock markets. The index stood at 35 percent at the end of the second quarter of 2010.

iTraxx index

The iTraxx index measures the price of insurance for investments in the European bond market. The index typically rises when investor confidence decreases and insurance needs grow. There are several iTraxx indices. One of the most widely used is iTraxx Europe, which consists of 125 European investment-grade companies (credit rating at least BBB-). The index shows the average equally-weighted credit insurance premium for these companies. The index stood at about 25 basis points before the start of the financial turmoil in summer 2007 and climbed to 220 basis points in autumn 2008. It was at 129 basis points at the end of the second quarter of 2010.

Ownership strategies

As a long-term investor in more than 8,300 companies, NBIM seeks to safeguard shareholder rights and improve social and environmental issues that may impact businesses.

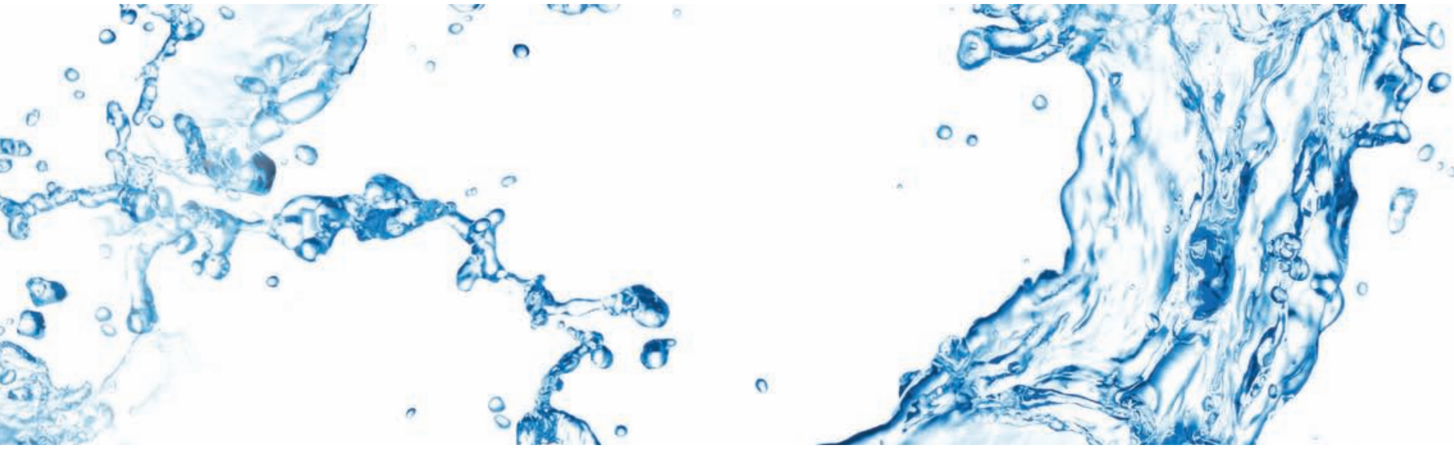
We filed shareholder proposals at five U.S. companies in the second quarter, to prevent the same person from holding both the position of chairman and CEO of a company. An independent chairman is a prerequisite for the board to satisfactorily oversee a company's management. NBIM first submitted such a proposal in 2009.

We also backed the Financial Reporting Council's proposal, which was passed in May, to change UK regulation so board members are elected annually instead of the typical practice of every three years. Frequent elections will make directors more accountable for their actions and strengthen shareholder rights.

The majority of the companies we invest in held annual general shareholder meetings by the end of June. Continuing a trend from the previous year, shareholders proposed improvements in companies' human rights and labour rights practices. Shareholders also called for businesses to form strategies to cut greenhouse gas emissions and manage risks from declining water resources, two focus areas for NBIM's ownership activities.

Energy company BP's oil spill in the Gulf of Mexico in April put the spotlight on safety standards in the petroleum industry. We support the board of BP's commitment to ensure that safe and reliable operations top the company's set of priorities. We also seek a wider industry effort to improve safety and environmental standards. The capital-intensive nature of the oil and gas industry means we depend on companies with the largest resources, including BP, to lead these efforts.

NBIM voted at more than 6,500 shareholder meetings in the second quarter. Our votes were cast through a third-party agent following specific voting instructions. Some of this



proxy voting failed to follow our guidelines between 26 March and 21 April because of an error on the part of the agent. This affected our vote on 164 resolutions at 134 companies, mainly on the issue of independent chairman. We and the agent have taken steps to prevent a reoccurrence.

Climate change report
NBIM expects companies to manage risk associated with climate change, declining water resources and child labour. Failure to do this may hurt companies' operations and performance, putting the fund's investments at risk. We regularly assess how companies comply with our expectations, which are outlined in our NBIM Investor Expectations documents.

Our first report on compliance with our expectations for climate change management was published in the second quarter. The report, based on publicly available information in 2009, assessed 476 companies in six sectors at risk from climate change. These areas were basic resources, building materials, chemicals, transport, power generation, as well as the oil and gas industry. Companies in each sector were measured against nine indicators for climate change management.

The results showed a low level of compliance with our expectations. Only 30 percent of the companies reported that they continuously assess risk associated with climate change, while 18 percent showed they consider the potential impact of climate change as part of their strategic business planning. The highest compliance at 38 percent was for disclosure of greenhouse gas emissions. The lowest was for mitigation of climate change risk in the supply chain, with only 9 percent of companies reporting activity.

The power generation and oil and gas industries scored highest on most indicators for climate change management. The transport and chemicals sectors showed the lowest compliance.

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**	**2Q 2010**	**2Q 2009**	**30.06.2010**	**30.06.2009**	**31.12.2009**
Profit/loss on financial assets excluding exchange rate adjustments						
Net interest income on deposits in foreign banks		54	-63	98	77	462
Interest income, lending associated with reverse repurchase agreements		64	162	128	608	696
Net income/expenses and gains/losses from:						
- Equities and units		-174,874	214,417	-98,253	151,988	488,082
- Bonds and other fixed income instruments		21,816	49,430	49,797	42,414	118,971
- Financial derivatives		-2,293	6,269	-3,430	10,355	7,398
Interest expense repurchase agreements		-83	-545	-185	-1,753	-2,571
Net other interest expense		-18	303	-62	307	-60
Other expenses		47	-100	57	-148	-193
Profit/loss before exchange rate adjustments		**-155,285**	**269,872**	**-51,848**	**203,848**	**612,784**
Exchange rate adjustments		148,924	-1,333	149,103	-178,461	-417,607
Profit/loss before management fee		**-6,361**	**268,539**	**97,255**	**25,387**	**195,177**
Accrued management fee	2	-762	-762	-1,404	-1,621	-3,228
Profit/loss transferred to krone account		**-7,123**	**267,777**	**95,851**	**23,766**	**191,949**

Balance sheet

Figures in NOK million	Note	30.06.2010	30.06.2009	31.12.2009
ASSETS				
FINANCIAL ASSETS				
Foreign bank deposits		10,243	8,981	4,644
Lending associated with reverse repurchase agreements		224,022	136,824	191,474
Cash collateral paid		0	9	140
Equities and units	5,6	1,509,812	1,263,505	1,496,759
Equities lent	4	160,425	160,164	150,847
Bonds and other fixed income instruments	5,6	992,471	1,189,958	908,222
Bonds lent	4	206,915	139,394	161,990
Financial derivatives		4,020	6,675	2,263
Unsettled trades		49,979	73,845	17,572
Other assets		15,296	8,671	251
TOTAL FINANCIAL ASSETS		3,173,182	2,988,026	2,934,161
LIABILITIES AND CAPITAL				
FINANCIAL LIABILITIES				
Short-term borrowing		961	2,059	6,238
Borrowing associated with repurchase agreements		132,254	309,971	109,536
Cash collateral received	4	156,141	142,138	154,676
Financial derivatives		10,969	22,375	8,118
Unsettled trades		73,448	105,464	11,925
Other liabilities		7,293	20,625	3,625
Management fee payable		1,404	1,621	3,228
TOTAL FINANCIAL LIABILITIES		382,470	604,253	297,346
Owners' capital	3	2,790,712	2,383,773	2,636,815
TOTAL LIABILITIES AND CAPITAL		3,173,182	2,988,026	2,934,161

Note 1. Accounting Policies

The financial reporting for the second quarter was 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 - June 2010		January - June 2009	
	NOK thousands	Percent	NOK thousands	Percent
Internal costs	353,427		310,914	
Custody and settlement costs	190,501		139,331	
Minimum fees to external managers	241,333		227,261	
Performance-based fees to external managers	427,973		771,313	
Other costs	191,002		171,754	
Total management costs	**1,404,236**	**0.10**	**1,620,572**	**0.15**
Total management costs excluding performance-based fees	**976,264**	**0.07**	**849,259**	**0.08**

Note 3. Owners' capital

Figures in NOK million	**30.06.2010**	**30.06.2009**	**31.12.2009**
Balance in the Norwegian krone account on 1 January	2,636,815	2,273,289	2,273,289
Inflows during the period*	58,046	86,719	171,577
Profit/loss transferred to/from Norwegian krone account	97,255	25,386	195,177
Owners' capital before deduction of managment fee	**2,792,116**	**2,385,394**	**2,640,043**
Management fee payble to Norges Bank	-1,404	-1,621	-3,228
Owners' capital - deposits in the Norwegian krone account at end of period	**2,790,712**	**2,383,773**	**2,636,815**

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

Note 4. Securities lending

Loans of securities through external lending programmes totalled NOK 367.3 billion on 30 June 2010, compared with NOK 299.6 billion a year earlier. These loans are secured by collateral or, in the case of one lending agent, by a guarantee agreement. As of 30 June 2010, total collateral of NOK 383.1 billion had been received for these loans. Of this collateral, NOK 155.9 billion was received in the form of cash and the remainder in the form of securities. Cash collateral received is reinvested in reverse repurchase agreements and bonds. The carrying amount of these reinvestments on 30 June 2010 was NOK 154 billion.

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

Figures in NOK million, 31 March 2010	**Cost Price**	**Fair value**	**Accrued interest/ dividends**	**Total fair value**
Equities and units:				
Listed equities and units	1,692,367	1,666,763	3,474	1,670,237
Total equities and units	**1,692,367**	**1,666,763**	**3,474**	**1,670,237**
Hereof equities lent				160,425
Bonds and other fixed income instruments:				
Government bonds	537,691	561,838	7,101	568,939
Inflation-linked bonds	77,738	91,987	463	92,450
Corporate bonds	260,036	258,337	4,513	262,850
Securitised bonds	276,644	271,223	3,263	274,486
Units in securities funds	490	661	0	661
Total bonds and other fixed income instruments	**1,152,599**	**1,184,046**	**15,340**	**1,199,386**
Hereof bonds lent				206,915

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 30 June 2010:

Figures in NOK million

Categories of investments by price uncertainty	Category 1 Observable market prices in active markets		Category 2 Model pricing with observable data points		Category 3 Model pricing with greater uncertainty about fair value		Total	
	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Equities and units	1,668,606	1,646,147	1,630	1,453	1	5	1,670,237	1,647,606
Bonds	638,283	514,290	527,987	522,404	33,116	33,518	1,199,386	1,070,212
Total	2,306,890	2,160,437	529,617	523,857	33,117	33,523	2,869,623	2,717,818

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

Compared to equity pricing, the pricing of bonds is less certain and more complex. Norges Bank carries out analyses 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 for the majority of the government bonds is based on observable market prices in an active market with quoted prices and frequent transactions. Government-related and inflation-linked bonds are categorised into either category 1 or category 2 based on the Bank's analyses of liquidity and the degree of trading and price transparency in the markets. The analysis shows a relatively high degree of liquidity for these bonds. Most corporate bonds are assessed as priced by models with observable input factors, while some especially illiquid corporate bonds belong to category 3. Securitised bonds are allocated to all three categories based on the complexity of the data factors and the degree of liquidity, actual transactions and price transparency in the markets. Covered bonds are placed in category 1 or 2 based on a relatively high observed degree of liquidity and price transparency in the markets. Some very liquid guaranteed mortgage backed securities belong to category 1 with observable market prices in active markets. Other guaranteed mortgage backed securities that are not tranched have been classified as priced by models using observable data inputs. Securitised bonds that are evaluated to be tranched such that they are associated with especially high exposure to unobservable data input factors belong to category 3. Other securitised bonds are allocated to categories 2 and 3 based on a lower observed degree of liquidity and price transparency in the markets.

The analysis performed by Norges Bank indicates that the price uncertainty outlook is relatively unchanged during the second quarter of 2010. The total exposure that is assessed as being particularly uncertain related to a correct fair value estimate was NOK 33 billion kroner as of 30 June 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 30 June 2010, gives an accurate representation of market values in accordance with the fair value principle. It was therefore not necessary to recognize any accounting provisions related to price uncertainty in the first quarter.

Note 7 Risk Developments

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

In 2010 capital markets have been driven by concerns related to sovereign credit risk. The initial concern was related to Greece but spread to other Euro zone sovereigns due to what many considered to be unsustainable budget deficits and debt levels. Market volatility spiked in May as the European Central Bank started to purchase Euro zone treasury bonds, while at the same time several European governments announced austerity measures and European finance ministers in a joint effort with the International Monetary Fund approved a package to stabilise markets. In spite of these measures Euro zone treasury spreads remain at historically elevated levels in comparison to their historical benchmarks.

Euro zone austerity measures, concerns about the United States deficit and changes to the regulatory environment have impacted expectations related to the strength of the global economic recovery. This is reflected in the weak returns and high volatility in the equity markets during the second quarter of 2010.

Market risk

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

Absolute risk is estimated based on the actual portfolio as the standard deviation in the return. Standard deviation is a statistical metric that indicates the magnitude of variation. The table below illustrates market risk, expressed as the expected annual standard deviation, given the actual Fund's portfolio both at an overall level and for the two asset classes (ex ante risk).

	Risk measure	30.06.10	Minimum First half 2010	Maximum First half 2010	Average First half 2010	31.12.2010
Total portfolio risk	Standard deviation	9.0 %	6.2 %	9.6 %	7.5 %	7.2 %
Equity portfolio	Standard deviation	15.0 %	9.2 %	15.9 %	11.8 %	10.0 %
Fixed income portfolio	Standard deviation	12.7 %	6.3 %	13.9 %	9.1 %	10.0 %

The standard deviation as of 30 June 2010 means that, statistically, in two out of every three years, the value of the Fund can be expected to fluctuate within a band of +/- 9.0% of its total market value (one standard deviation) based on the portfolio as of quarter end and recent volatilities in market variables. Market risk has increased substantially in 2010 and in particular in the second quarter.

Market risk can also be expressed on the basis of actual fluctuations in the portfolio during 2010 (ex post risk). The standard deviation when based on actual fluctuations in the portfolio during the first half of 2010 was on average 7.3% and 9.3% at quarter end . This is significantly lower than the observed fluctuations in 2009.

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

Credit Risk

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

Credit risk in bond holdings can be illustrated by the rating given to the issuer. The table shows how the rating distribution of the portfolio in spite of the recent market stress and downturn has been fairly stable.

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

Figures in NOK million	Aaa	Aa	A	Baa	Ba	Lower	No rating	Total
Government and government related bonds	451,641	78,888	23,247	8,492	5,259	96,	1,316	568,939
Inflation linked bonds	49,208	41,619	1,397	-	227	--	-	92,450
Corporate bonds	27,039	53,988	97,349	77,165	4,728	1,394	1,187	262,850
Securitised debt	208,220	40,834	2,272	2,902	2,315	17,344	599	274,486
Units in securities funds	-	-	-	-	-	-	661	661
Total bonds and other fixed income securities, as at 30.06.10	736,108	215,329	124,264	88,559	12,529	18,835	3,763	1,199,386
Total bonds and other fixed income securities, as at 31.12.09	628,325	198,946	128,606	84,913	9,140	15,761	4,521	1,070,212

Liquidity risk

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

Liquidity during 2010 improved in the first quarter, worsening marginally in the second quarter. This deterioration was mainly due to the unstable market situation. The Fund's ability to implement changes in the composition of the equity portfolio is good and the equivalent for the fixed income portfolio is clearly better than in 2008 and 2009. Liquidity in the fixed income market is, however, still poor compared with levels prior to the onset of the economic crisis.

08/250
ISSN 1890-8837 (printed)
ISSN 1890-8845 (online)
Design and illustration: Burson-Marsteller v/ Erik Sand
Photo: iStockphoto.com

Paper: Galerie Art Matt 250/150
Production: 07 Lobo Media AS

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