

# FOREIGN EXCHANGE RESERVES

## Management of Norges Bank's foreign exchange reserves

4 | 2016  
FEBRUARY 2017

REPORT FOR  
FOURTH QUARTER 2016



NORGES BANK

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## Management of the foreign exchange reserves

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Norges Bank's foreign exchange reserves are to be available for use as part of the conduct of monetary policy with a view to promoting financial stability and to meet Norges Bank's international commitments to the IMF and individual countries. The reserves are divided into an equity portfolio, a fixed income portfolio and a petroleum buffer portfolio. Norges Bank Investment Management manages the equity portfolio, while the fixed income portfolio and petroleum buffer portfolio are managed by Norges Bank Markets and Banking Services.

The foreign exchange reserves are to be invested so that at least SDR 10bn can be used within a single trading day without having to realise any appreciable losses. The foreign exchange reserves may be invested in cash deposits, money market instruments, bonds, short-term paper and equities listed on a regulated exchange. The fixed income portfolio's benchmark index is a market-weighted index of all sovereign bonds with a residual maturity of between one month and 10 years issued by France, Germany, Japan, the UK and the US. The equity portfolio's benchmark index is a global equity index for mid- and large-cap companies limited to nine currencies. The maximum exposure in the equity portfolio shall be 45% of the total exposure in the equity and fixed income portfolios.

The petroleum buffer portfolio is intended to receive the government's cash flow from petroleum activities and any transfers from the Government Pension Fund Global (GPFG). The purpose of the portfolio is to provide for an appropriate management of the government's need for converting foreign currency and NOK. The petroleum buffer portfolio is invested in short-term fixed income instruments. No benchmark index has been set for the petroleum buffer portfolio.

### Main points from 2016 Q4

- The market value of Norges Bank's foreign exchange reserves was NOK 480.9bn at the end of 2016 Q4, an increase of NOK 29.5bn during the quarter.
- In international currency terms, the return on the foreign exchange reserves, excluding the petroleum buffer portfolio, was 1.26%. The return was 6.16% on equity investments and negative 1.57% on fixed income investments. In NOK terms, the return on the foreign exchange reserves was 5.41%.
- The size and liquidity of the foreign exchange reserves are regarded as being sufficient for meeting Norges Bank's commitments. Liquid investments amount to SDR 24.5bn.
- At the beginning of December, management of the long-term fixed income investments was merged with the money market investments. The benchmark index for fixed income investments comprises sovereign bonds issued by France, Germany, the UK, Japan and the US with a residual maturity of between one month and 10 years.

## The foreign exchange reserves

The market value of the foreign exchange reserves was NOK 480.9bn at the end of 2016 Q4, comprising NOK 283.0bn in fixed income investments, NOK 177.2bn in equity investments and NOK 20.7bn in the petroleum buffer portfolio. In all, the value of the foreign exchange reserves increased by NOK 29.5bn during the quarter. In international currency terms, the return on the reserves was 1.26%, which contributed approximately NOK 5.8bn. A net inflow added approximately NOK 5.7bn, while the remaining change in the value of the reserves is due to a weaker krone.

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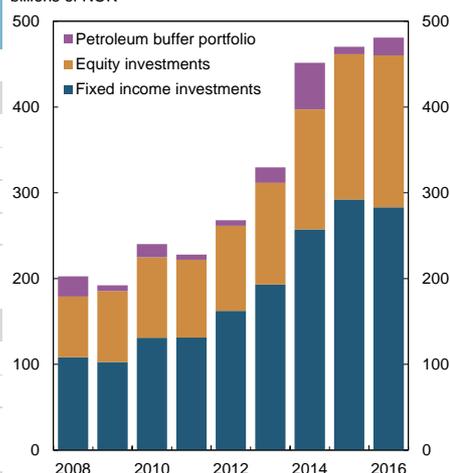
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**Table 1** Market value of the foreign exchange reserves. In billions of NOK

	2016 Q4	2016	2015
<b>Equity and fixed income investments</b>		<b>460.3</b>	<b>461.4</b>
Change in market value	22.9	-1.2	64.2
Return in NOK	23.7	-0.3	63.5
Return in international currency terms	5.8	20.1	6.7
Movements in the krone exchange rate	17.9	-20.4	56.7
Net transfers	-0.8	-0.9	0.8
<b>Petroleum buffer portfolio</b>		<b>20.7</b>	<b>8.7</b>
Change in market value	6.6	12.0	-45.6
Return in NOK terms	0.2	-0.9	3.1
Net transfers	6.4	12.9	-48.7
<b>Foreign exchange reserves</b>		<b>480.9</b>	<b>470.1</b>

**Chart 1** Composition of the foreign exchange reserves. In billions of NOK



### Return in international currency terms

Return on the foreign exchange reserves is measured primarily in terms of international currency, a weighted composite of the currencies in the portfolios' benchmark indexes. These composites are referred to as the foreign exchange reserves' currency baskets, and comprise nine currencies for equity and four currencies for fixed income investments. Unless otherwise specified, return is measured in international currency terms.

## Fixed income investments

At the beginning of December, management of long-term fixed income investments was transferred from Norges Bank Investment Management to Norges Bank Markets and Banking Services. These investments were merged with the money market portfolio and as a consequence, long-term and short-term fixed income investments will only be referred to as fixed income investments. The new benchmark index for fixed income investments are sovereign bonds issued by France, Germany, the UK, Japan and the US with a residual maturity of between one month and 10 years.

### COMPOSITION AND RETURN

The market value of the fixed income investments at year-end was NOK 283.0bn, an increase of NOK 6.3bn during the quarter. At year-end, the duration<sup>1</sup> of the portfolio was 3.68, compared with 3.55 at the end of 2015. Chart 2 shows that cash flows from NOK 80bn in bond investments are due over the next two years. This includes both coupon payments and principal redemptions.

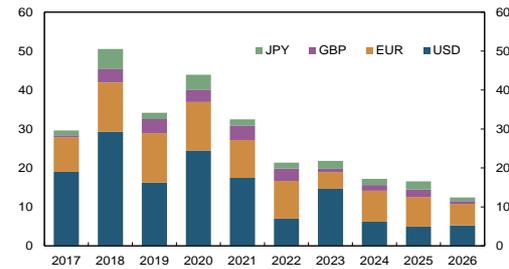
In international currency terms, the return on fixed income investments was negative 1.57%, in 2016 Q4. The negative return primarily reflects the broad-based rise in yields over the quarter. In Q4, the 10-year yield rose by 85 basis points in the US, by 50 basis points in the UK and by 33 basis points in Germany, while there was a substantially less pronounced rise in short-term government bond yields.

<sup>1</sup> Modified duration, which measures the portfolio's price sensitivity to interest rate movements.

**Table 2** Absolute amounts in the fixed income investments at the end of Q4. Market value in billions of NOK

	Market value	Share	Duration	Yield
<b>Total</b>	<b>283.0</b>	<b>100.00</b>	<b>3.68</b>	<b>0.64</b>
USD	141.6	50.03	3.27	1.61
EUR	96.1	33.96	4.07	-0.57
GBP	22.6	8.00	4.11	0.45
JPY	22.7	8.00	4.15	-0.13

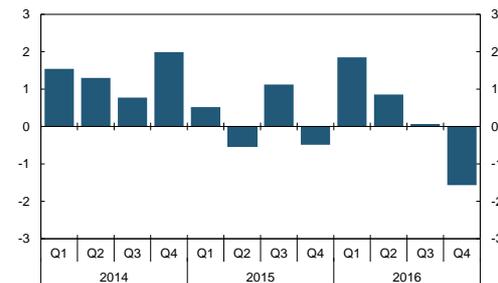
**Chart 2** Cash flows from fixed income investments. In billions of NOK



**Table 3** Absolute return on fixed income investments

	2016 Q4	2016
<i>In international currency terms</i>		
Return in percent	-1.57	1.17
Return in billions of NOK	-4.37	3.62
<i>In NOK terms</i>		
Return in percent	2.55	-3.29
Return in billions of NOK	7.05	-9.58

**Chart 3** Absolute return in international currency terms. Fixed income investments. Percent



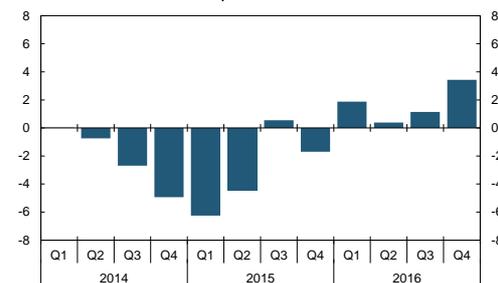
**Table 4** Relative return on fixed income investments

	2016 Q4	2016
<i>In international currency terms</i>		
Relative return in percentage points	0.03	0.07
Relative return in NOK millions	98.1	195.8

**Benchmark index**

The strategic benchmark index for fixed income investments is provided by Bloomberg and is a market-weighted index of all sovereign bonds with a residual maturity of between one month and 10 years issued by France, Germany, Japan, the UK and the US. The currency weighting in the fixed income index is 50% USD, 34% EUR, 8% GBP and 8% JPY.

**Chart 4** Relative return in international currency terms. Fixed income investments. Basis points



**RELATIVE TO THE BENCHMARK INDEX**

At year-end, the allocation of the fixed income investments was approximately equal to the benchmark index's currency weightings. The duration was somewhat lower than the benchmark index, where USD and EUR showed the most pronounced divergence on the last day of the year. The excess return on the fixed income investments was 0.03 percentage point in Q4, with the excess return for the full year 2016 ending at 0.07 percentage point.

**Equity investments**

**COMPOSITION AND RETURN**

At year-end 2016, the market value of the equity investments was NOK 177.2bn. North American equities accounted for 63.6%, European equities 23.7% and Asian equities 12.7%. During the quarter, equity investments increased by NOK 16.6bn. At year-end, the largest sectors in the equity investments were finance, technology and manufacturing, with 22%, 13% and 12%, respectively. The two largest equity investments were Apple Inc and Microsoft Corp, with 2.0% and 1.5%, respectively, of the investments.

In international currency terms, the return on the equity investments was 6.16% in 2016 Q4. North American equities posted the highest return in the quarter, 7.46%. The high return for the quarter came primarily from cyclical sectors and sectors exposed to the US domestic market. Asian equities posted a return of 4.71% in the quarter, and European equities posted a return of 3.58%. The lower return on European equities reflects continued pressure on the European banking sector and political uncertainty relating to the UK Brexit vote, the constitutional referendum in Italy and elections in several European countries.

**Table 5** Equity investments by currency at year-end 2016. Market value in billions of NOK excluding cash

	Market value	Share
<b>Total</b>	<b>177.0</b>	<b>100.0</b>
USD	106.6	60.2
EUR	21.0	11.9
GBP	11.8	6.6
JPY	17.6	9.9
CHF	6.1	3.5
CAD	5.9	3.3
AUD	4.9	2.8
SEK	1.9	1.1
DKK	1.1	0.6

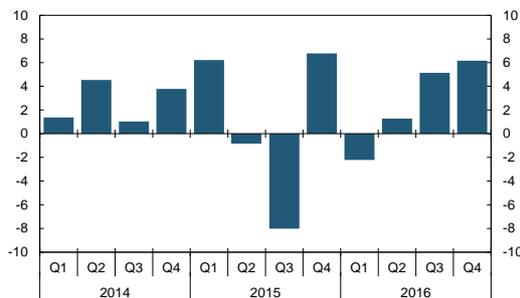
**Table 6** Equity investments by sector at year-end 2016. Market value in billions of NOK

	Market value	Share
Oil & gas	13.2	7.4
Materials	7.9	4.5
Manufacturing	21.6	12.2
Consumer goods	21.1	11.9
Healthcare	21.1	11.9
Consumer services	20.0	11.3
Telecommunications	5.9	3.3
Power	4.6	2.6
Finance	39.5	22.3
Technology	22.1	12.5

**Table 7** Absolute return on equity investments.

	2016 Q4	2016
<i>In international currency terms</i>		
Return in percent	6.16	10.54
Return in billions of NOK	10.13	16.48
<i>In NOK terms</i>		
Return in percent	10.35	5.59
Return in billions of NOK	16.63	9.29

**Chart 5** Absolute return in international currency terms. Equity investments. Percent



**RELATIVE TO THE BENCHMARK INDEX**

Compared with the benchmark index, the equity investments were overweighted in the sectors consumer services and materials by 11 and 9 basis points, respectively. In relative terms, the equity investments were overweighted in EUR by 24 basis points and underweighted in GBP by 15 basis points.

The excess return on the equity investments was 0.22 percentage point in Q4, with the excess return for the full year 2016 ending at 0.52 percentage point. Around half of the excess return in Q4 was the result of various indexing strategies. Timing of portfolio changes relative to changes in the benchmark index was a strategy that had the most positive effect. The other half of the excess return came from a dynamic adjustment to various risk factors. Here the most important contribution was from an overweighting of value equities relative to growth equities within each sector. Furthermore, an emphasis on companies with solid earnings over time made a positive contribution.

**Table 8** Currency deviation from the benchmark index at year-end 2016. Percentage points

	Currency deviation
<b>Total</b>	<b>0.00</b>
USD	0.04
EUR	0.24
GBP	-0.15
JPY	0.05
CHF	0.03
AUD	-0.13
CAD	-0.07
SEK	-0.01
DKK	0.01

**Table 9** Sector deviation from the benchmark index at year-end 2016. Percentage points

	Sector deviation
Oil & gas	0.00
Materials	0.09
Manufacturing	0.04
Consumer goods	-0.04
Healthcare	-0.03
Consumer services	0.11
Telecommunications	0.00
Power	-0.06
Finance	-0.07
Technology	-0.04

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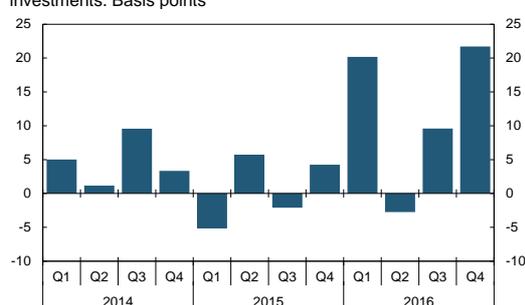
**Table 10** Relative return on the equity investments.

	2016 Q4	2016
<i>In international currency terms</i>		
Relative return (percentage points)	0.22	0.52
Relative return (in billions of NOK)	340.1	773.4

**Benchmark index**

The strategic benchmark index for equity investments is a tax-adjusted version of the FTSE All-World, limited to euro area countries, the US, the UK, Japan, Canada, Australia, Switzerland, Sweden and Denmark.

**Chart 6** Relative return in international currency terms. Equity investments. Basis points



## Petroleum buffer portfolio

At year-end 2016, the market value of the petroleum buffer portfolio was NOK 20.7bn. During the quarter, NOK 27.0bn worth of foreign exchange was transferred from the GPFG. In addition, approximately NOK 28.9bn worth of foreign exchange was purchased from the State's Direct Financial Interest (SDFI). During the quarter, Norges Bank sold approximately NOK 49.5bn worth of foreign exchange.

**Table 11** Change in the market value of the petroleum buffer portfolio. In billions of NOK

	2016 Q4	2016
<b>Petroleum buffer portfolio</b>		<b>20.7</b>
Change in market value	6.6	12.0
Return in NOK	0.2	-0.9
Net transfers	6.4	12.9
<i>FX purchases from the SDFI</i>	28.9	118.4
<i>FX purchases in the market</i>	-49.5	-210.7
<i>Transfers from the GPFG</i>	27.0	105.2

## Risk management

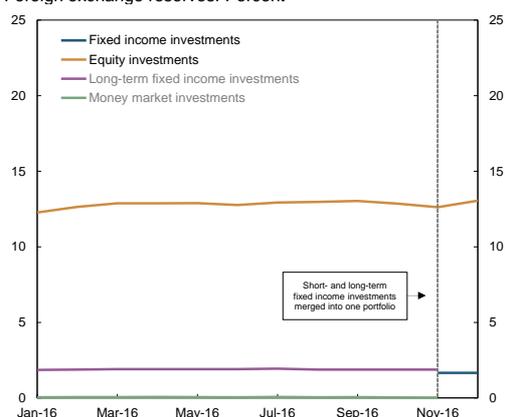
The foreign exchange reserves are invested in foreign currency, while Norges Bank's liabilities are mainly denominated in NOK. This means that movements in the krone exchange rate will have a major impact on Norges Bank's earnings in NOK terms. A stronger krone will reduce the krone value of the foreign exchange reserves, while a weaker krone will increase the krone value. For the purpose of crisis management, however, the krone value of the foreign exchange reserves will be of secondary importance. Excluding changes in the krone value, the financial risk associated with the foreign exchange reserves comprises market, credit and counterparty risk.

The foreign exchange reserves' market risk is determined by the composition of investments and movements in equity prices, foreign exchange rates, interest rates and credit spreads. No single measure can fully capture market risk. In this report, market risk is measured by the standard deviation in the rate of return in international currency terms<sup>2</sup>. This risk measure provides an estimate of how much the value of the portfolio can be expected to change in the course of a year. For equity and fixed income investments, expected absolute volatility at the end of 2016 Q4 was 13.1% and 1.6%, respectively. This corresponds to an expected annual fluctuation in value, excluding exchange rate movements, of NOK 23bn and NOK 5bn, respectively.

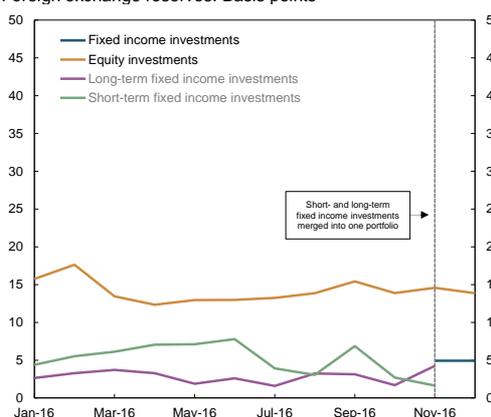
While absolute volatility provides an indication of how much the foreign exchange reserves are expected to fluctuate in value, relative volatility provides an indication of how much the portfolios can be expected to fluctuate in value compared with the portfolio's benchmark index.<sup>3</sup> At the end of Q4, the expected relative volatility of equity and fixed income investments was 0.14 and 0.05 percentage point, respectively.

Credit and counterparty risk is defined as the risk of losses if issuers or counterparties default on payment obligations. The credit risk on bond and Treasury bill investments in the foreign exchange reserves is low. The US and German governments are rated AAA, the UK and French governments are rated AA, and the Japanese government is rated A.

**Chart 8** Absolute volatility. Excluding exchange rate movements. Foreign exchange reserves. Percent



**Chart 9** Relative volatility. Including exchange rate movements. Foreign exchange reserves. Basis points



<sup>2</sup> Also referred to as absolute volatility.

<sup>3</sup> Under the guidelines for equities and fixed income investments issued by the governor, the aim of management is to limit expected relative volatility to no more than 0.5 percentage point (50 basis points). Relative volatility of half a percentage point means that the excess return on the portfolio is expected to be within the interval  $\pm 0.5$  percentage point in two out of three years.

## International commitments

Pursuant to the Norges Bank Act, Norges Bank shall meet the commitments ensuing from membership of the IMF. This membership entails a standing commitment to furnish foreign exchange for IMF loans to other member countries. Table 12 summarises amounts related to the IMF recognised in the balance sheet at the end of 2016 Q4. The size and liquidity of the foreign exchange reserves are assessed to be sufficient to meet Norges Bank's international commitments.

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**Table 12** Claims on and liabilities to the International Monetary Fund (IMF) at the end of 2016. In millions of NOK

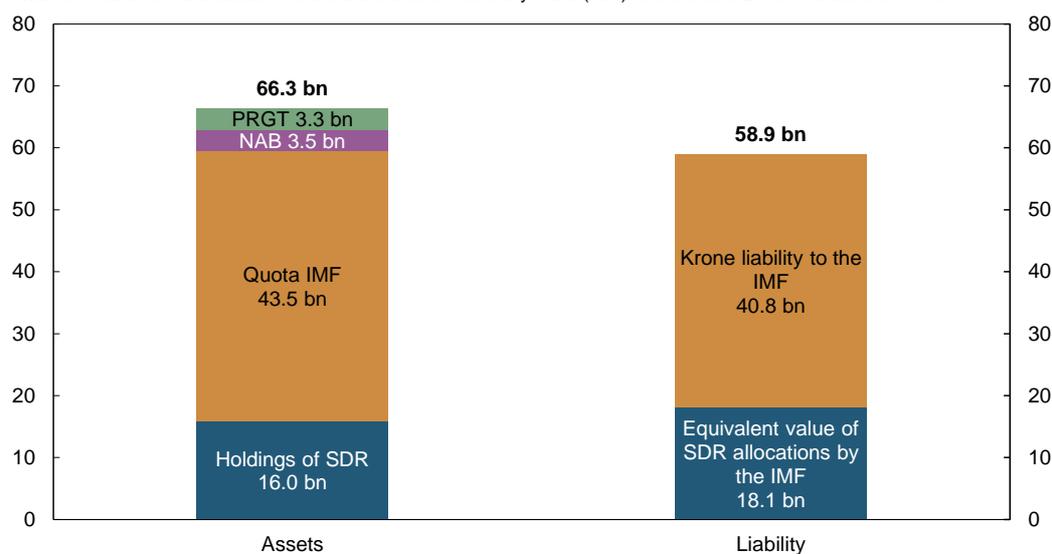
	Loan resource commitments <sup>2</sup>	Recognised in the balance sheet			Total amount recognised
		Drawn on commitments	Subscription <sup>3</sup>	SDRs	
<i>Financial assets</i>					
IMF subscription (quota) <sup>1</sup>	-	-	43 476	-	43 476
Holdings of SDRs	-	-	-	15 986	15 986
Loans to the IMF – NAB	22 764	3 481	-	-	3 481
Loans to the IMF – Bilateral agreement	-	-	-	-	-
Loans to the IMF – PRGT	6 846	3 373	-	-	3 373
<b>Claims on the IMF</b>		<b>6 854</b>	<b>43 476</b>	<b>15 986</b>	<b>66 315</b>
<i>Financial liabilities</i>					
Krone liability to the IMF	-	-	40 814	-	40 814
Equivalent value of SDR allocations	-	-	-	18 099	18 099
<b>Liabilities to the IMF</b>		<b>-</b>	<b>40 814</b>	<b>18 099</b>	<b>58 912</b>
<b>Net positions with the IMF</b>		<b>6 854</b>	<b>2 662</b>	<b>-2 113</b>	<b>7 403</b>

<sup>1</sup> The IMF allocates quotas to member countries which primarily reflect member countries' relative size in the world economy. The quota provides the basis for determining the member country's voting power in the IMF, the member's financial contribution to the IMF, the amount of financing the member can access in the event of balance of payments problems and the amount of SDRs the member is allocated.

<sup>2</sup> Commitments giving the IMF a borrowing facility with Norges Bank up to an agreed amount. Only the portion drawn is recognised in the balance sheet. Norges Bank's commitments to the IMF are in SDRs; amounts have been translated into NOK.

<sup>3</sup> The net subscription is referred to as the reserve tranche position (RTP) comprising Norway's IMF quota less Norway's krone liability to the IMF, ie the net amount at the bottom of the column.

**Chart 10** Claims on and liabilities to the International Monetary Fund (IMF) at the end of 2016. In billions of NOK



## Overview – Norges Bank's commitments to the IMF

### Quota

In 2010, the IMF approved the 14th General Review of Quotas, which entailed a doubling of member countries' IMF quota subscriptions. The payment was made on 17 February 2016, increasing Norway's quota to SDR<sup>4</sup> 3 755m. The amount drawn<sup>5</sup> rose following the financial crisis, but in recent years has fallen again. At the end of 2016 Q4, the amount drawn totalled SDR 230m (Chart 11).

### NAB

On the same date Norges Bank paid its quota increase, Norway's loan resource commitments under the NAB<sup>6</sup> were reduced by approximately the same amount. This did not involve any transactions. Norges Bank's commitments under this lending programme were reduced to SDR 1 967m (Chart 12). Total outstanding drawings were SDR 301m at the end of 2016 Q4.

When the IMF has a need for funds, it normally draws on quota commitments and the NAB. Commitments under the quota and NAB are SDR 5 723m. At the end of Q4, the IMF had drawn SDR 531m. A further SDR 5 192m may thus be drawn under these arrangements. Following the quota increase, the NAB plays a more traditional role as support for quota-based financing.

### Bilateral agreements

In 2012, Norges Bank provided the IMF with a borrowing facility under a bilateral borrowing agreement of SDR 6 000m, to be drawn on only in very special circumstances. This agreement expired in November 2016. In December, the Government asked the Storting to approve a new agreement between Norges Bank and the IMF on a similar facility for the period to end-2019.

### PRGT

In June 2010, the Ministry of Finance and the IMF signed an agreement under which Norway will furnish SDR 300m in loan resources to the IMF's programme for low income countries (PRGT<sup>7</sup>). Norges Bank is the agent for the loan and administers the commitments. This facility is now fully drawn, and under the agreement from 2010, only repayments will be made. In November 2016, a new borrowing agreement was signed under which Norway will provide the PRGT with an additional SDR 300m. At year-end 2016, no amounts had been drawn on the new borrowing agreement.

### Holdings of SDRs

The IMF has allocated SDRs to member countries. Member countries may change their SDR holdings by purchasing from or selling to members who have voluntarily agreed to be a counterparty in SDR transactions. In 2009, Norges Bank entered into a new agreement with the IMF on the voluntary purchase and sale of SDRs, as long as holdings remain within 50%-150% of SDR allocations. In 2009, SDR allocations increased from SDR 168m to SDR 1 563m. Thus, if other countries wish to sell SDRs, Norges Bank may have to increase holdings of SDRs to SDR 2 345m. Purchases of SDRs are charged to the foreign exchange reserves. The agreement also gives Norges Bank the right to sell SDRs. At the end of 2016 Q4, holdings of SDRs were SDR 1 381m (Chart 13).

Chart 11 IMF quota and reserve tranche position. In millions of SDRs

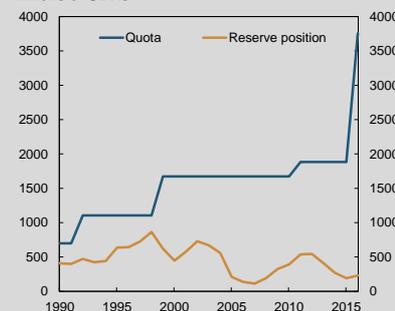


Chart 12 NAB. In millions of SDRs

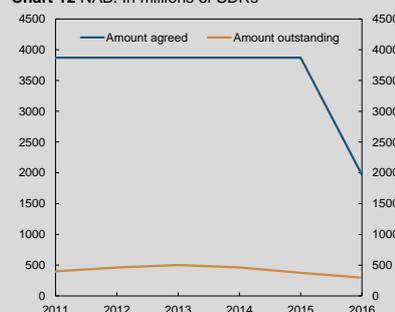
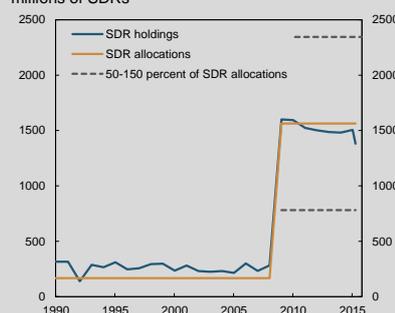


Chart 13 Holdings of SDRs and SDR allocations. In millions of SDRs



<sup>4</sup> Special Drawing Right (SDR). The SDR is an instrument the IMF can use to allocate international liquidity. The value of the SDR is based on a basket of five currencies: USD (42%), EUR (31%), JPY (8%), GBP (8%) and CNY (11%). At 30 December 2016 var SDR 1 = NOK 11.57.

<sup>5</sup> Amount drawn is equal to the reserve tranche position.

<sup>6</sup> New Arrangements to Borrow (NAB).

<sup>7</sup> Poverty Reduction and Growth Trust (PRGT).

## Key figures

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**Table 13** Market value of the foreign exchange reserves. In billions of NOK

	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2016 Full year
<b>Market value of fixed income and equity investments</b>	<b>460.3</b>	<b>437.3</b>	<b>448.4</b>	<b>440.7</b>	-
Change in market value	22.9	-11.1	7.7	-20.7	-1.2
Return in NOK	23.7	-11.2	7.7	-20.4	-0.3
<i>Return in international currency</i>	5.8	8.4	4.4	1.6	20.1
<i>Change due to movements in the krone exchange rate</i>	17.9	-19.6	3.3	22.0	-20.4
Net transfers	-0.8	0.1	0.1	-0.3	-0.9
<b>Market value of the petroleum buffer portfolio</b>	<b>20.7</b>	<b>14.1</b>	<b>18.2</b>	<b>20.6</b>	-
Change in market value	6.6	-4.1	-2.4	11.9	12.0
Return in NOK	0.2	-0.4	-0.3	-0.4	-0.9
Net transfers	6.4	-3.7	-2.1	12.3	12.9
<i>Foreign exchange purchases from the SDFI</i>	28.9	26.2	29.7	33.6	118.4
<i>Foreign exchange purchases in the market</i>	-49.5	-59.4	-55.8	-46.0	-210.7
<i>Transfers from the GPF</i>	27.0	29.5	24.0	24.7	105.2
<b>Market value of the foreign exchange reserves</b>	<b>480.9</b>	<b>451.4</b>	<b>466.6</b>	<b>461.3</b>	-

**Table 14** Return on the foreign exchange reserves in international currency terms. Percent

	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2016 Full year
Return on fixed income investments	-1.57	0.07	0.85	1.85	1.17
Return on equity investments	6.16	5.14	1.28	-2.21	10.54
<b>Return on the foreign exchange reserves*</b>	<b>1.26</b>	<b>1.87</b>	<b>1.01</b>	<b>0.36</b>	<b>4.58</b>
Return on benchmark index for fixed income investments	-1.60	0.05	0.85	1.83	1.11
Return on benchmark index for equity investments	5.94	5.04	1.31	-2.41	10.02
Relative return on fixed income investments	0.03	0.01	0.00	0.02	0.07
Relative return on equity investments	0.22	0.10	-0.03	0.20	0.52

\* Excluding petroleum buffer portfolio.

**Table 15** Return on the foreign exchange reserves in NOK. Percent

	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2016 Full year
Return on fixed income investments	2.55	-4.23	1.57	-3.05	-3.29
Return on equity investments	10.35	0.61	2.03	-6.79	5.59
<b>Return on the foreign exchange reserves*</b>	<b>5.41</b>	<b>-2.50</b>	<b>1.74</b>	<b>-4.42</b>	<b>-0.06</b>
Return on benchmark index for fixed income investments	2.51	-4.24	1.57	-3.07	-3.35
Return on benchmark index for equity investments	10.13	0.52	2.06	-6.99	5.09
Relative return on fixed income investments	0.04	0.01	0.00	0.02	0.07
Relative return on equity investments	0.23	0.09	-0.03	0.19	0.50

\* Excluding petroleum buffer portfolio.

**Table 16** Key figures at 30 December 2016. In international currency terms. Annualised.

	Past year	Past 3 years	Past 5 years	Past 10 years
<i>Foreign exchange reserves:</i>				
Return on the foreign exchange reserves (percent)	4.58	4.62	6.43	4.64
<i>Fixed income investments:</i>				
Return on fixed income investments (percent)	1.17	2.47	2.07	3.85
Return on benchmark index (percent)	1.11	2.52	1.91	3.58
Relative return (percentage points)	0.07	-0.05	0.16	0.28
Realised absolute volatility (percent) <sup>1</sup>	2.09	2.03	2.21	3.40
Realised relative volatility (percentage points) <sup>1</sup>	0.03	0.06	0.20	1.58
Information rate (IR) <sup>2</sup>	2.10	-0.82	-0.77	0.17
<i>Equity investments:</i>				
Return on equity investments (percent)	10.54	8.31	13.94	5.54
Return on benchmark index (percent)	10.02	8.07	13.64	5.43
Relative return (percentage points)	0.52	0.25	0.30	0.11
Realised absolute volatility (percent) <sup>1</sup>	10.03	10.52	10.17	14.96
Realised relative volatility (percentage points) <sup>1</sup>	0.22	0.17	0.16	0.41
Information rate (IR) <sup>2</sup>	2.40	1.49	1.84	0.28

<sup>1</sup> Realised volatility is a measure of the fluctuation in monthly return values, expressed here by the annualised empirical standard deviation. Absolute/relative volatility expresses risk related to absolute/relative return.

<sup>2</sup> IR is a risk-adjusted return measure. IR is the ratio between excess return and the portfolio's realised relative market risk (measured by relative volatility).

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# Financial reporting

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## Income statement

Amounts in NOK millions	2016 Q4	2016 Q3	Full year 2016	Full year 2015
<b>NET INCOME/EXPENSES FROM FINANCIAL INSTRUMENTS</b>				
Net income/expenses from:				
Equities and units	11 790	6 475	14 705	10 221
Bonds	-3 702	-197	3 868	2 573
Financial derivatives	13	10	18	-29
Secured lending	25	35	120	69
Interest income/expense from deposits and short-term borrowing	-4	1	-2	-8
Tax expense	-4	-27	-76	-42
Other financial income/expenses	-	1	5	1
<b>Net income from financial instruments before foreign exchange gains/losses</b>	<b>8 118</b>	<b>6298</b>	<b>18 638</b>	<b>12 785</b>
Foreign exchange gains/losses	15 730	-17 903	-19 854	53 699
<b>Net income/expenses from financial instruments</b>	<b>23 848</b>	<b>-11 605</b>	<b>-1 216</b>	<b>66 484</b>

## Balance sheet

Amounts in NOK millions	31 Dec. 2016	30 Sep. 2016
<b>FINANCIAL ASSETS</b>		
Deposits in banks	22 596	15 784
Secured lending	26 774	59 071
Unsettled trades	250	1 258
Equities and units	166 758	147 592
Equities lent	10 437	13 060
Bonds	272 321	250 548
Financial derivatives	2	11
Other financial assets	1 956	929
<b>Total financial assets</b>	<b>501 094</b>	<b>488 253</b>
<b>FINANCIAL LIABILITIES</b>		
Secured borrowing	2 412	1135
Unsettled trades	18 542	34 384
Financial derivatives	-	4
<b>Total financial liabilities</b>	<b>20 954</b>	<b>35 523</b>
<b>Total foreign exchange reserves</b>	<b>480 140</b>	<b>452 730</b>

## Notes

**Note 1** Accounting policies, significant estimates and critical accounting judgements

These financial statements and notes pertain solely to Norges Bank's foreign exchange reserves at 31 December 2016. Pursuant to Section 30, second paragraph, of the Norges Bank Act, the financial statements of Norges Bank have been prepared in accordance with the Accounting Act and the Regulation concerning annual financial reporting for Norges Bank, which has been laid down by the Ministry of Finance. The regulation requires that Norges Bank's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS)

as endorsed by the EU. For a description of accounting policies and methods of computation, see Norges Bank's annual financial statements for 2016. Financial reporting for Norges Bank's foreign exchange reserves does not include a statement of cash flows and a statement of changes in equity and is thus not fully compliant with IFRS. Amounts in the financial statements are in Norwegian kroner (NOK) and are rounded off to the nearest million, minor rounding differences may occur.

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The preparation of the financial reporting for the Bank's foreign exchange reserves involves the use of estimates and judgements that may affect assets, liabilities, income and expenses. Estimates are based on best judgement; however, actual results may deviate from the estimates. For further information on significant estimates and critical accounting judgements, see Norges Bank's annual financial statements for 2016.

#### Note 2 Income statement by portfolio\*

	Equity portfolio	Fixed income portfolio	Petroleum buffer portfolio	Total foreign exchange reserves
Amounts in NOK millions	2016 Q4	2016 Q4	2016 Q4	2016 Q4
<b>NET INCOME/EXPENSES FROM FINANCIAL INSTRUMENTS</b>				
Net income/expenses from:				
Equities and units	11 790	-	-	11 790
Bonds	-	-3 702	-	-3 702
Financial derivatives	8	5	-	13
Secured lending	9	15	1	25
Interest income/expense from deposits and short-term borrowing	1	1	-6	-4
Tax expense	-4	-	-	-4
Other financial income/expenses	-	-	-	-
<b>Net income from financial instruments before foreign exchange gains/losses</b>	<b>11 804</b>	<b>-3 681</b>	<b>-5</b>	<b>8 118</b>
Foreign exchange gains/losses	4 824	10 719	187	15 730
<b>Net income/expenses from financial instruments</b>	<b>16 628</b>	<b>7 038</b>	<b>182</b>	<b>23 848</b>

\* The portfolio structure changed as of 1 Dec. 2016. The fixed income portfolio consists of the long-term fixed income instruments from the former long-term portfolio and the former money market portfolio. The equity portfolio consists of the equity instruments from the former long-term portfolio. The petroleum buffer portfolio remains unchanged.

#### Note 3 Balance sheet by portfolio\*

	Equity portfolio	Fixed income portfolio	Petroleum buffer portfolio	Total foreign exchange reserves
Amounts in NOK millions	31 Dec. 2016	31 Dec. 2016	31 Dec. 2016	31 Dec. 2016
<b>FINANCIAL ASSETS</b>				
Deposits in banks	265	3 359	18 972	22 596
Secured lending	596	16 788	9 390	26 774
Unsettled trades	52	198	-	250
Equities and units	166 758	-	-	166 758
Equities lent	10 437	-	-	10 437
Bonds	-	272 321	-	272 321
Financial derivatives	2	-	-	2
Other financial assets	1 519	-	437	1 956
<b>Total financial assets</b>	<b>179 629</b>	<b>292 666</b>	<b>28 799</b>	<b>501 094</b>
<b>FINANCIAL LIABILITIES</b>				
Secured borrowing	2 412	-	-	2 412
Unsettled trades	-	9 664	8 878	18 542
<b>Total financial liabilities</b>	<b>2 412</b>	<b>9 664</b>	<b>8 878</b>	<b>20 954</b>
<b>Total foreign exchange reserves</b>	<b>177 217</b>	<b>283 002</b>	<b>19 921</b>	<b>480 140</b>

\* The portfolio structure changed as of 1 Dec. 2016. The fixed income portfolio consists of the long-term fixed income instruments from the former long-term portfolio and the former money market portfolio. The equity portfolio consists of the equity instruments from the former long-term portfolio. The petroleum buffer portfolio remains unchanged.