

# FOREIGN EXCHANGE RESERVES

## Management of Norges Bank's foreign exchange reserves

QUARTERLY REPORT

4 | 2014  
MARCH 2015

REPORT FOR  
FOURTH QUARTER 2014



NORGES BANK

## MAIN POINTS

- The market value of Norges Bank's foreign exchange reserves was NOK 451.5bn at the end of 2014, an increase of NOK 75.9bn in 2014 Q4 and NOK 121.9bn for 2014 as a whole. The reserves were invested in short-term fixed income instruments (23 percent), long-term fixed income instruments (46 percent) and equities (31 percent).
- During 2014 Q4, foreign exchange worth a total of NOK 13.8bn was sold in the market from the petroleum buffer portfolio.
- The return on the reserves, excluding the petroleum buffer portfolio, was 2.62 percent, measured in international currency. The return on equity and long-term fixed income investments was 3.78 percent and 2.46 percent, respectively, and approximately zero on short-term fixed income investments. In 2014, the return on the foreign exchange reserves overall was 7.69 percent.

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## MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

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MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

Norges Bank's foreign exchange reserves shall 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 a long-term portfolio, a money market portfolio and a petroleum buffer portfolio. Norges Bank Investment Management manages the long-term portfolio, while the money market portfolio and petroleum buffer portfolio are managed by Norges Bank Markets and Banking Services.

The foreign exchange reserves shall be invested so that at least SDR 10bn, including the entire money market portfolio, can be used within a single trading day without having to realise any appreciable losses. The money market portfolio shall be between SDR 3.5bn and SDR 4.5bn and be invested in short-term fixed income instruments. The benchmark index for the money market portfolio is a composite of USD and EUR overnight money market indices and Treasury bill indices for the same currencies. The long-term portfolio shall be invested in equities and fixed income instruments. The benchmark index for the long-term portfolio is a composite of global equity and bond indices. The equity allocation in the strategic benchmark index is 40 percent.

The purpose of the petroleum buffer portfolio is to ensure that the Government Pension Fund Global (GPF) is provided with an adequate supply of fresh capital. Norges Bank builds up the portfolio by regularly purchasing foreign exchange from the State's Direct Financial Interest in petroleum activities (SDFI) and by purchasing foreign exchange in the market. Transfers from the portfolio to the GPF are normally made each month. The petroleum buffer portfolio is invested in short-term fixed income instruments. No benchmark index has been set for the petroleum buffer portfolio.

# 1 Size and composition

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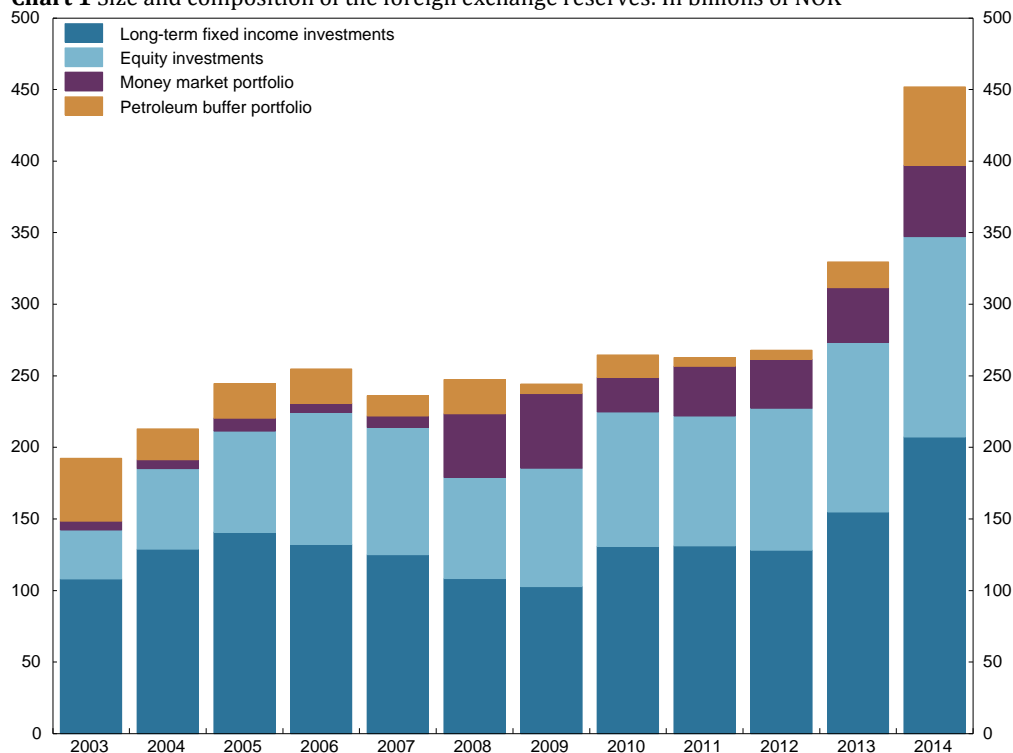
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The market value of the foreign exchange reserves was NOK 451.5bn at the end of 2014 Q4. The long-term portfolio was NOK 347.3bn, the money market portfolio NOK 49.9bn and the petroleum buffer portfolio NOK 54.3bn. The value of the reserves increased by 75.9 in 2014 Q4, of which NOK 48.5bn is attributable to a weaker krone. The increase for 2014 as a whole was NOK 121.9bn.

The market value of the petroleum buffer portfolio increased by NOK 16.9bn in 2014 Q4. NOK 49.4bn was transferred to the portfolio from Norges Bank's purchases of foreign exchange from the SDFI<sup>1</sup>. In the same period, NOK 25.1bn was transferred to the GPFG and foreign exchange worth NOK 13.8bn was sold in the market.

**Chart 1** Size and composition of the foreign exchange reserves. In billions of NOK



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

	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4
Money market investments	49.9	41.9	38.9	38.1	38.3
Long-term fixed income investments	207.3	178.2	163.1	156.1	154.8
Equity investments	140.0	118.1	127.8	118.9	118.5
Petroleum buffer portfolio	54.3	37.3	36.6	34.2	18.0
<b>Foreign exchange reserves</b>	<b>451.5</b>	<b>375.5</b>	<b>366.3</b>	<b>347.3</b>	<b>329.6</b>
<b>Total change during the quarter</b>	<b>75.9</b>	<b>9.2</b>	<b>19.1</b>	<b>17.7</b>	
Transfers	12.0	2.2	1.1	16.9	
Return	15.4	3.7	8.9	4.3	
Change due to fluctuation in NOK exchange rate	48.5	3.3	9.0	-3.5	

<sup>1</sup> The State's Direct Financial Interest in petroleum activities (SDFI).

## 2 Return

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The foreign exchange reserves are held for the purpose of crisis management. Movements in the krone exchange rate will affect Norges Bank's equity, but not the Bank's ability to meet commitments in foreign currency. Therefore, unless stated otherwise, return will henceforth be measured in international currency. The petroleum buffer portfolio, which is not held for the purpose of crisis management, is excluded from the measurement of return.

### **Return measured in terms of the foreign exchange reserves' currency baskets**

The foreign exchange reserves are invested in international financial instruments in foreign currency. The return on the foreign exchange reserves is measured primarily in international currency, i.e. weighted composites of the currencies in the portfolios' benchmark indices. These composites are referred to as the foreign exchange reserves' currency baskets, and comprised 14 currencies at the end of 2014 Q4 for equity and long-term fixed income investments. For money market investments, the currency basket comprised EUR and USD. Unless otherwise specified in the text, return is measured in terms of the foreign exchange reserves' currency baskets.

### **Absolute return**

In 2014 Q4, the return on the foreign exchange reserves was 2.62 percent, compared with 0.87 percent in 2014 Q3. The return on equity investments was 3.78 percent, on long-term fixed income investments 2.46 percent and money market investments approximately zero.

Investments in US equities made the largest contribution to the return on the equity portfolio in 2014 Q4. Consumer services was the sector that earned the highest return. The largest contribution to the return on long-term fixed income investments was made by USD bonds. In the course of 2014 Q4, the yield on the US 10-year bond fell by 30 basis points. GBP bonds also made a positive contribution in the period.

In the money market, German short-term government bond yields fell during 2014 Q4, especially in December, owing in part to higher surplus liquidity in the Eurosystem on account of the end of the year, allocations in the ECB's TLTRO<sup>2</sup> programme, and expectations of quantitative easing by the ECB. US short-term government bond yields rose somewhat in 2014 Q4. The increase was highest for bonds with maturities of over 6 months.

In NOK terms, the return in 2014 Q4 was 17 percent, primarily due to a sharp depreciation of the Norwegian krone against the currencies included in the reserves.

### **Relative return**

The return on equities and long-term fixed income investments is measured against the return on global benchmark indices compiled by FTSE Group and Barclays Capital, respectively.

In 2014 Q4, the return on equity investments was 0.03 percentage point higher than on the benchmark index for equities, while there was a negative excess return of 0.06 percentage point on long-term fixed income investments. The return on money market investments was approximately in line with the respective benchmark index.

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<sup>2</sup> Targeted Longer-Term Refinancing Operations (TLTRO).

**Benchmark indices**

The strategic benchmark index for equity investments is a tax-adjusted version of the FTSE All-Cap Developed Market Index.

The strategic benchmark index for long-term fixed income investments is based on Barclays Capital Global Aggregate Bond Index, but limited to sovereign bonds issued by the governments of France, Germany, Japan, the UK and the US. The currency weighting of the index is 35 percent EUR, 45 percent USD, 10 percent GBP and 10 percent JPY.

Fixed income securities comprise 60 percent of the strategic benchmark index for equity and long-term fixed income investments and equities comprise 40 percent.

The benchmark index for the cash portion of the money market portfolio is the Merrill Lynch Overnight Index for USD and EUR. The benchmark index for the securities portion of the portfolio comprises Barclays Capital Treasury bill indices: German Bubill Index and US T-bills. The index comprises 75 percent USD and 25 percent EUR. A minimum of 10 percent of foreign exchange holdings shall be held in cash.

**Table 2** Return measured in international currency. Percent

	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4
<i>Return:</i>					
Money market investments	0.00	0.04	0.04	0.03	0.02
Long-term fixed income investments	2.46	0.95	1.60	1.91	-0.24
Equity investments	3.78	1.03	4.54	1.37	8.11
<b>Foreign exchange reserves<sup>1</sup></b>	<b>2.62</b>	<b>0.87</b>	<b>2.53</b>	<b>1.47</b>	<b>2.82</b>
<i>Return on benchmark indices:</i>					
Money market investments	0.00	0.02	0.03	0.02	0.01
Long-term fixed income investments	2.52	0.99	1.62	1.92	-0.28
Equity investments	3.75	0.93	4.53	1.32	7.93

<sup>1</sup> Excluding petroleum buffer portfolio.

**Table 3** Return measured in NOK. Percent

	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4
Money market investments	15.50	2.65	2.37	-1.27	1.35
Long-term fixed income investments	16.61	1.85	4.48	0.83	0.60
Equity investments	18.11	1.92	7.50	0.29	9.01
<b>Foreign exchange reserves<sup>1</sup></b>	<b>17.00</b>	<b>1.97</b>	<b>5.37</b>	<b>0.36</b>	<b>3.74</b>

<sup>1</sup> Excluding petroleum buffer portfolio.

**Return over time**

The return on the foreign exchange reserves was 7.69 percent in 2014, compared with 9.61 percent in 2013. Over the past 10-year period, the annualised rate of return was 5.99 percent. Equity investments over the past three years in particular have contributed to the return. The return on equity investments has been approximately in line with the benchmark index over the past 10 years, while long-term fixed income investments have earned an annualised excess return of 0.36 percentage point. The excess return on the money market portfolio over the past three years has been 0.04 percentage point.

**Table 4** Key figures at 31 December 2014. Annualised. Measured in international currency

	2014	2013	Past 3 years	Past 5 years <sup>1</sup>	Past 10 years <sup>1</sup>
<i>Foreign exchange reserves excluding the petroleum buffer portfolio:</i>					
Gross annual return (percent)	7.69	9.61	8.58	8.17	5.99
<i>Money market investments:</i>					
Portfolio return (percent)	0.11	0.12	0.12	-	-
Benchmark return (percent)	0.07	0.07	0.07	-	-
Excess return (percentage points)	0.05	0.06	0.04	-	-
Realised absolute volatility (percent) <sup>2</sup>	0.03	0.05	0.03	-	-
Realised relative volatility (percentage points) <sup>2</sup>	0.02	0.04	0.03	-	-
Information rate (IR) <sup>3</sup>	2.25	1.25	1.51	-	-
<i>Long-term fixed income investments:</i>					
Portfolio return (percent)	7.11	-1.14	3.49	4.77	4.47
Benchmark return (percent)	7.23	-1.31	3.18	4.15	4.11
Excess return (percentage points)	-0.12	0.16	0.31	0.62	0.36
Realised absolute volatility (percent) <sup>2</sup>	2.12	3.09	2.88	3.10	3.57
Realised relative volatility (percentage points) <sup>2</sup>	0.05	0.20	0.27	0.55	1.58
Information rate (IR) <sup>3</sup>	-2.47	0.82	1.14	1.13	0.23
<i>Equity investments:</i>					
Portfolio return (percent)	11.11	28.94	18.85	12.58	7.78
Benchmark return (percent)	10.90	28.34	18.53	12.28	7.73
Excess return (percentage points)	0.21	0.60	0.32	0.30	0.05
Realised absolute volatility (percent) <sup>2</sup>	6.95	8.15	8.67	11.85	14.47
Realised relative volatility (percentage points) <sup>2</sup>	0.15	0.20	0.15	0.27	0.41
Information rate (IR) <sup>3</sup>	1.38	2.96	2.06	1.10	0.12

<sup>1</sup> Pertains only to equities and long-term fixed income investments.

<sup>2</sup> Realised volatility is a measure of the fluctuation in monthly return values, expressed here by the annualised empirical standard deviation of monthly return series. Absolute/relative volatility expresses risk related to absolute/relative return.

<sup>3</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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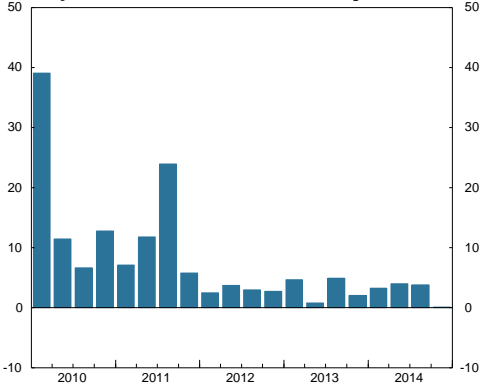
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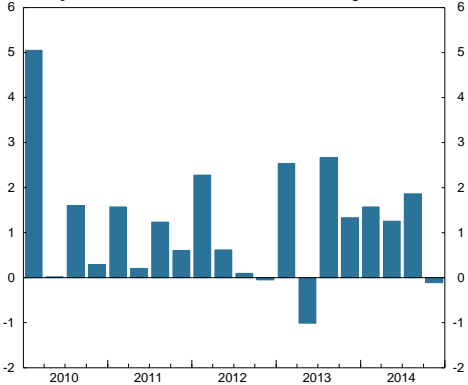
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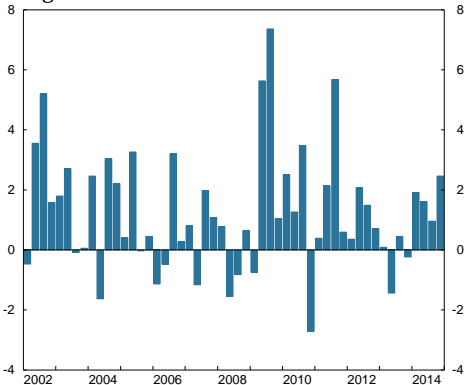
**Chart 2** Absolute return<sup>3</sup>.  
Money market investments. Basis points



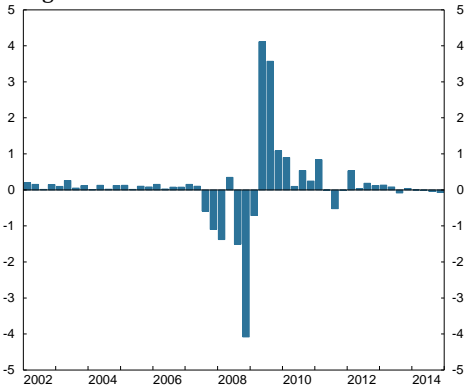
**Chart 3** Relative return<sup>3</sup>.  
Money market investments. Basis points



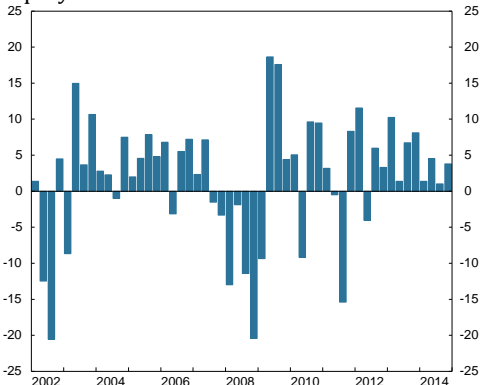
**Chart 4** Absolute return<sup>3</sup>.  
Long-term fixed income investments. Percent



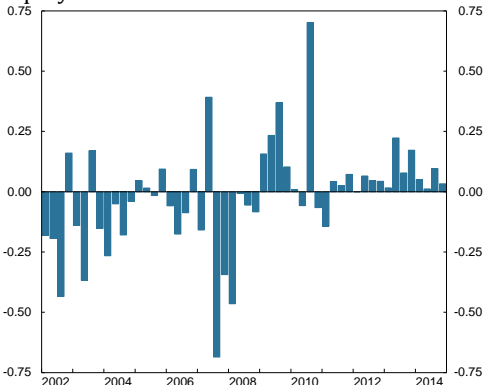
**Chart 5** Relative return<sup>3</sup>.  
Long-term fixed income investments. Percent



**Chart 6** Absolute return<sup>3</sup>.  
Equity investments. Percent



**Chart 7** Relative return<sup>3</sup>.  
Equity investments. Percent



<sup>3</sup> Measured in international currency.

### 3 Risk

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Market risk is measured by the standard deviation in the rate of return.

For equity investments, expected absolute volatility was 11.5 percent at the end of 2014 Q4. This means that the value of equity holdings, in a normal situation, is expected to fluctuate within an interval of  $\pm 11.5$  percent in two out of three years, given the current portfolio composition. In this case, the effect of movements in the krone exchange rate is excluded. For long-term fixed income investments, expected absolute volatility was 3.0 percent, while expected volatility for equity and fixed income investments overall was 4.3 percent. For money market investments, expected absolute volatility was approximately zero. Throughout 2014, there has been very little change in absolute volatility for the foreign exchange reserves overall, while there has been a slight reduction for equity investments and long-term fixed income investments in isolation.

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>4</sup> At the end of 2014, expected relative volatility for equity and long-term fixed income investments was 0.09 percent and 0.08 percent, respectively, while relative volatility for the long-term portfolio overall was 0.06 percent. For long-term fixed income investments, this is approximately at the same level as earlier in 2014, while for equity investments and the long-term portfolio together, risk was reduced somewhat through the year.

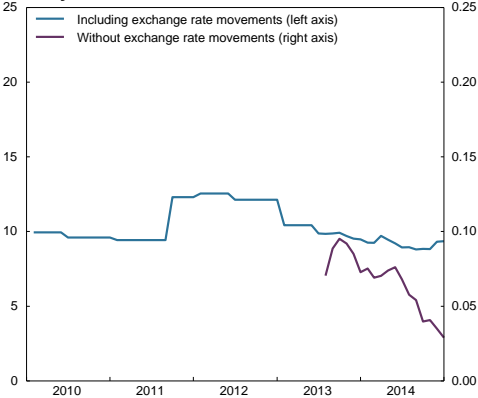
The expected relative volatility for the portfolio of money market investments was 0.03 percent at the end of 2014.

The low relative volatility indicates that the portfolios deviate little from the respective benchmark indices with regard to instrument and currency composition.

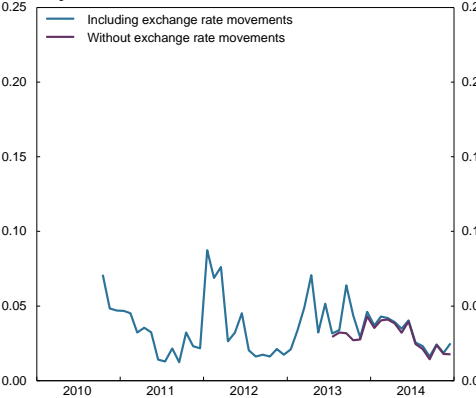
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<sup>4</sup> Under the guidelines for equities and long-term fixed income investments issued by the Governor, the aim of management is to limit expected relative volatility to no more than 1.0 percentage point (100 basis points). In the guidelines for the money market portfolio, a limit of 1.0 percentage point has been set for expected relative volatility. Relative volatility of 1 percentage point means that the excess return on the portfolio is expected to be within the interval  $\pm 1.0$  percentage point in two out of three years.

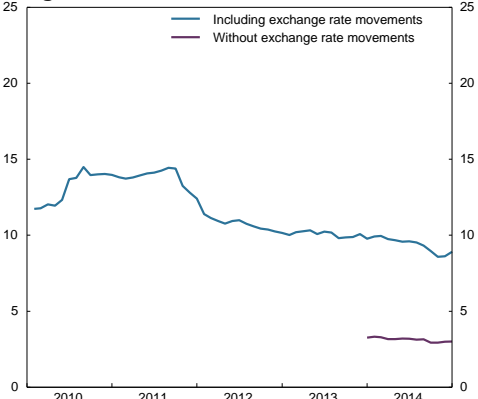
**Chart 8** Expected absolute volatility. Money market investments. Percent



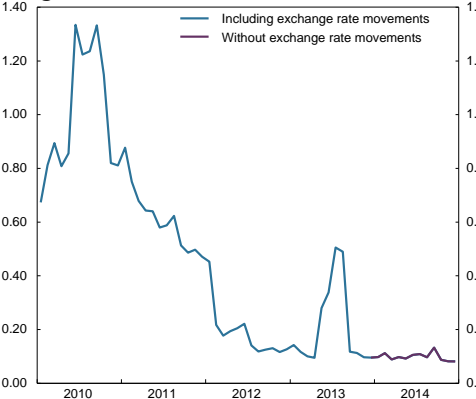
**Chart 9** Expected relative volatility. Money market investments. Percent



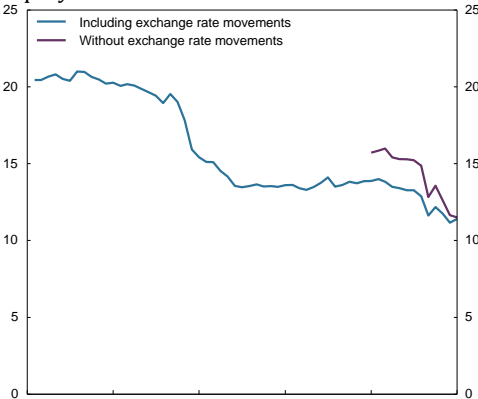
**Chart 10** Expected absolute volatility. Long-term fixed income investments. Percent



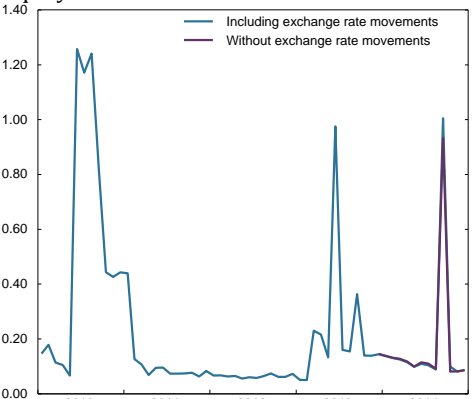
**Chart 11** Expected relative volatility. Long-term fixed income investments. Percent



**Chart 12** Expected absolute volatility. Equity investments. Percent



**Chart 13** Expected relative volatility. Equity investments. Percent



Credit risk on the Bank's fixed income investments is low. At the end of 2014 Q4, 92 percent of the portfolio was invested in government securities rated AA or higher, and only 0.01 percent was invested in corporate bonds.

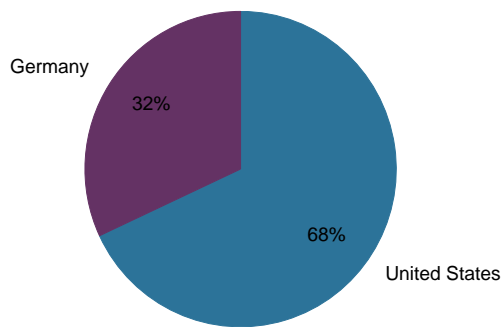
**Table 5** Foreign exchange reserves, fixed income investments, by credit. Percent<sup>1</sup>

	AAA	AA	A	BBB	Lower	Total
Treasury bills	13.5	0.0	0.0	0.0	0.0	13.5
Sovereign bonds	53.0	25.5	8.0	0.0	0.0	86.5
Corporate bonds	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total fixed income securities</b>	<b>66.5</b>	<b>25.5</b>	<b>8.0</b>	<b>0.0</b>	<b>0.0</b>	<b>100.0</b>

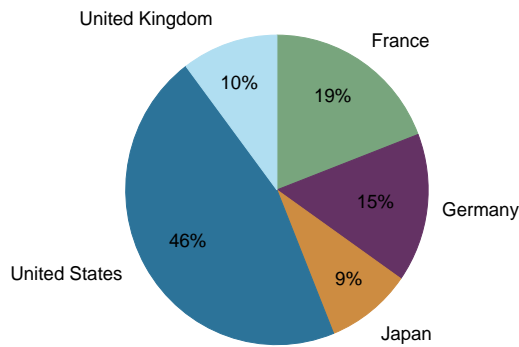
<sup>1</sup>Percentage of fixed income investments in the Bank's foreign exchange reserves.

A considerable portion of the fixed income investments are government securities issued in the US, i.e. 68 percent of Treasury bills and 46 percent of sovereign bonds.

**Chart 14** Treasury bills by issuer

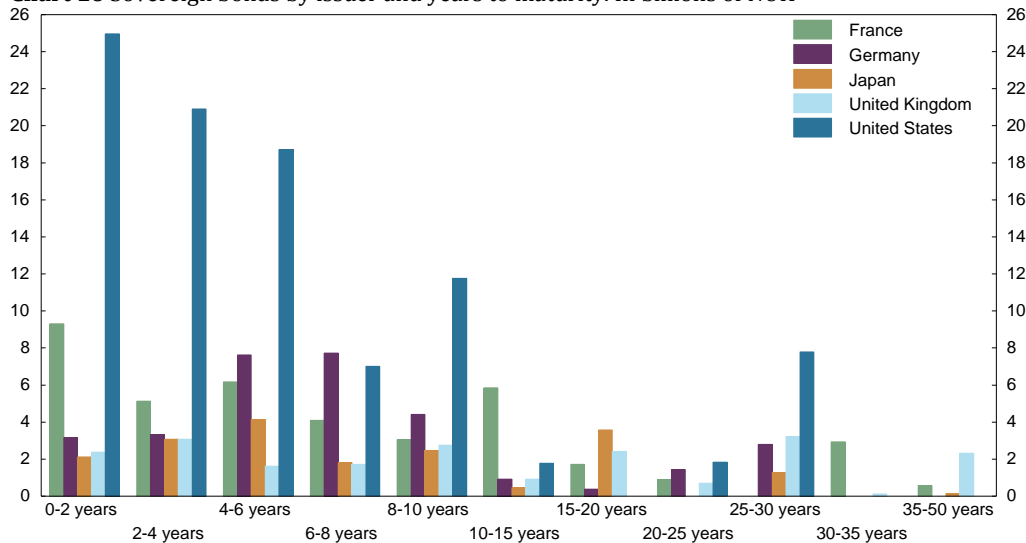


**Chart 15** Sovereign bonds by issuer



At the end of 2014, NOK 44bn was invested in sovereign bonds with maturities of more than 10 years. This accounts for 21 percent of bond investments. A further NOK 110bn is invested in US and German sovereign bonds with residual maturity of less than 10 years.

**Chart 16** Sovereign bonds by issuer and years to maturity. In billions of NOK



## 4 International commitments

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In addition to being available for foreign exchange transactions as part of the conduct of monetary policy and for promoting financial stability, the foreign exchange reserves are also used to meet Norges Bank's international commitments.

In 2014, the loan agreement between Norges Bank and Seðlabanki Íslands was terminated. The outstanding balance of EUR 199m, or NOK 1 661m, was paid on 22 July.

### **Norges Bank's rights and obligations related to the IMF**

Norges Bank has made the following commitments under various IMF programmes<sup>5</sup>:

- Loan resource commitments under the New Arrangements to Borrow (NAB) of SDR 3 871m, or NOK 41 961m<sup>6</sup>
- Borrowing facility under a bilateral borrowing arrangement of SDR 6 000m, or NOK 65 041m
- Loan resource commitments to the Poverty Reduction and Growth Trust (PRGT) of SDR 300m, or NOK 3 252m
- Purchases and sales of SDRs from/to other member countries

Norges Bank also has the following rights by virtue of Norway's quota subscriptions in the IMF:

- Voting power in the IMF
- Access to financing from the IMF if Norway experiences balance of payments problems
- Receiving SDRs under allocations by the IMF

Table 6 shows all asset and liability items related to the IMF at the end of 2014 Q4. Norges Bank's commitments to the IMF through the IMF's various lending programmes indicate that an additional NOK 103bn may be drawn, equivalent to 23 percent of the foreign exchange reserves. At 31 December 2014, NOK 212bn of the foreign exchange reserves is invested in liquid financial instruments that can be used within a single trading day without having to realise any appreciable losses. The size and liquidity of the foreign exchange reserves are assessed to be sufficient to meet Norges Bank's commitments to the IMF.

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<sup>5</sup> Norges Bank's commitments to the IMF are in SDRs; the amount in NOK varies with the exchange rate.

<sup>6</sup> Amounts in NOK have been translated at the exchange rate at the end of 2014 Q4.

**Table 6** Claims on and liabilities to the International Monetary Fund (IMF) at 31 December 2014.  
In millions of NOK

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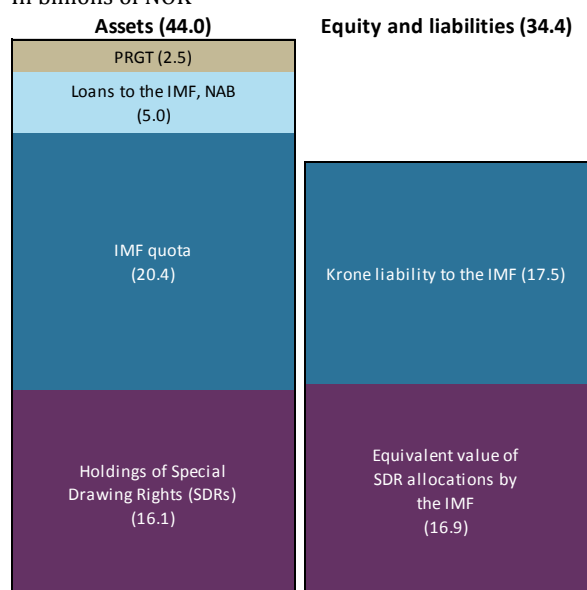
	RECOGNISED IN THE BALANCE SHEET				
	Loan resource commitments <sup>2</sup>	Lending programs	Subscriptions <sup>3</sup>	SDRs	Total amount recognised
<i>Financial assets</i>					
IMF quota <sup>1</sup>			20 421		20 421
Holdings of Special Drawing Rights (SDRs)				16 064	16 064
Loans to the IMF, New Arrangements to Borrow (NAB)	41 961	5 021			5 021
Bilateral borrowing agreement with the IMF	65 041				
Poverty Reduction and Growth Trust (PRGT)	3 252	2 535			2 535
<b>Claims on the IMF</b>	<b>110 254</b>	<b>7 556</b>	<b>20 421</b>	<b>16 064</b>	<b>44 041</b>
<i>Financial liabilities</i>					
Krone liability to the IMF			17 489		17 489
Equivalent value of SDR allocations by the IMF				16 945	16 945
<b>Liabilities to the IMF</b>			<b>17 489</b>	<b>16 945</b>	<b>34 434</b>
<b>Net positions with the IMF</b>	<b>110 254</b>	<b>7 556</b>	<b>2 932</b>	<b>-882</b>	<b>9 607</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> Net subscriptions are referred to as the Reserve Tranche Position (RTP) comprising Norway's IMF quota less Norway's krone liability to the IMF, i.e. the net amount at the bottom of the column. Norges Bank may if necessary draw up to the full amount of Norway's RTP at any time.

**Chart 17** Claims on and liabilities to the International Monetary Fund (IMF) at 31 December 2014.  
In billions of NOK



# FINANCIAL REPORTING

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<b>INCOME STATEMENT</b>		<i>Amounts in millions of NOK</i>			
	<b>Quarter</b>		<b>Year-to-date</b>		
<b>NET INCOME FROM FINANCIAL INSTRUMENTS</b>	<b>2014 Q4</b>	<b>2013 Q4</b>	<b>2014 Q4</b>	<b>2013 Q4</b>	
Interest income from deposits and claims	-	2	4	15	
Interest income, lending associated with reverse repurchase agreements	10	6	37	24	
Net income/expenses - gains/losses from:					
- Equities	9 723	9 469	18 704	30 386	
- Bonds and other fixed income instruments	5 724	-722	13 658	-2 259	
- Financial derivatives	-1	-11	4	16	
Interest expense, borrowing associated with repurchase agreements	-	-	-	-	
Tax expense	-4	30	-47	-17	
Other financial income/expenses	-5	-	-7	1	
<b>NET INCOME FROM FINANCIAL INSTRUMENTS BEFORE FOREIGN EXCHANGE GAINS/LOSSES</b>	<b>15 447</b>	<b>8 774</b>	<b>32 353</b>	<b>28 166</b>	
Foreign exchange gains/losses	48 555	2 809	57 352	25 044	
<b>NET INCOME FROM FINANCIAL INSTRUMENTS</b>	<b>64 002</b>	<b>11 583</b>	<b>89 705</b>	<b>53 210</b>	

<b>BALANCE SHEET</b>		<i>Amounts in millions of NOK</i>	
	<b>2014 Q4</b>	<b>2013 Q4</b>	
<b>FINANCIAL ASSETS</b>			
Deposits in banks	32 221	6 214	
Lending associated with reverse repurchase agreements	50 803	22 194	
Unsettled trades	719	2	
Equities	133 821	114 272	
Equities lent	6 404	4 355	
Bonds and other fixed income instruments	238 905	185 420	
Financial derivatives	27	8	
Other financial assets	65	50	
<b>TOTAL FINANCIAL ASSETS</b>	<b>462 965</b>	<b>332 515</b>	
<b>FINANCIAL LIABILITIES</b>			
Cash collateral received	762	1 365	
Unsettled trades	13 250	1 528	
Financial derivatives	1	21	
Other financial liabilities	385	1 278	
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>14 398</b>	<b>4 192</b>	
<b>TOTAL FOREIGN EXCHANGE RESERVES</b>	<b>448 567</b>	<b>328 323</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 2014. 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 2014. 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.

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 2014.

**Note 2 Specification of the income statement and balance sheet by portfolio** Amounts in millions of NOK

INCOME STATEMENT	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Items not incl. in foreign exchange reserves	Total foreign exchange reserves	Total foreign exchange reserves
	2014 Q4	2014 Q4	2014 Q4	2014 Q4	2014 Q4	2014
Interest income from deposits and claims	1	-	-	1	-	4
Interest income, lending associated with reverse repurchase agreements	-	4	6	-	10	37
Net income/expenses - gains/losses from:						
- Equities	9 723	-	-	-	9 723	18 704
- Bonds and other fixed income instruments	5 732	-8	-	-	5 724	13 658
- Financial derivatives	1	-2	-	-	-1	4
Interest expense, borrowing associated with repurchase agreements	-	-	-	-	-	-
Tax expense	-4	-	-	-	-4	-47
Other financial income/expenses	-	-	-5	-	-5	-7
<b>NET INCOME FROM FINANCIAL INSTRUMENTS BEFORE FOREIGN EXCHANGE GAINS/LOSSES</b>	<b>15 452</b>	<b>-6</b>	<b>1</b>	<b>1</b>	<b>15 447</b>	<b>32 353</b>
Foreign exchange gains/losses	35 552	6 570	6 417	-16	48 555	57 352
<b>NET INCOME FROM FINANCIAL INSTRUMENTS</b>	<b>51 004</b>	<b>6 564</b>	<b>6 418</b>	<b>-15</b>	<b>64 002</b>	<b>89 705</b>

BALANCE SHEET	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Items not incl. in foreign exchange reserves	Total foreign exchange reserves
	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014
<b>FINANCIAL ASSETS</b>					
Deposits in banks	362	5 573	26 285	-	32 220
Lending associated with reverse repurchase agreements	756	24 548	25 499	-	50 803
Unsettled trades	720	-	-	-	720
Equities	133 821	-	-	-	133 821
Equities lent	6 404	-	-	-	6 404
Bonds and other fixed income instruments	206 634	32 271	-	-	238 905
Financial derivatives	8	-	19	-	27
Other financial assets	125	-	-	60	65
<b>TOTAL FINANCIAL ASSETS</b>	<b>348 830</b>	<b>62 392</b>	<b>51 803</b>	<b>60</b>	<b>462 965</b>
<b>FINANCIAL LIABILITIES</b>					
Cash collateral received	762	-	-	-	762
Unsettled trades	755	12 495	-	-	13 250
Financial derivatives	-	1	-	-	1
Other financial liabilities	1	-	384	-	385
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>1 518</b>	<b>12 496</b>	<b>384</b>	<b>-</b>	<b>14 398</b>
<b>TOTAL FOREIGN EXCHANGE RESERVES</b>	<b>347 312</b>	<b>49 896</b>	<b>51 419</b>	<b>60</b>	<b>448 567</b>

\* For the long-term portfolio, net income from financial instruments and net portfolios include outstanding balances with the Government Pension Fund Global (GPF).  
Outstanding balances are excluded from the term foreign exchange reserves presented in Norges Bank's annual financial statements (cf. IMF definition).

**Note 3 Risk**

Norges Bank is exposed to financial risk through management of the foreign exchange reserves, including market risk and credit risk.  
The Bank's foreign exchange reserves are invested across several asset classes and currencies as shown in the table below.

Market risk

Market risk is the risk of changes in the value of the portfolio due to movements in interest rates, equity prices, foreign currency exchange rates and credit spreads.  
For the long-term portfolio, risk is measured for the actual portfolio and for investments in the portfolio, relative market risk is measured.  
For the money market portfolio, both absolute and relative market risk are measured.

Volatility

Norges Bank uses risk models to quantify the economic risk associated with all or portions of the portfolios.  
The expected relative risk associated with the portfolios is presented below.

*Key figures for risk and asset allocation*

Risk	Limits	Actual 2014 Q4
<i>Money market investments:</i>		
Market risk	1.0 percentage point expected relative volatility	0.03 %
Asset allocation	Cash	35.32 %
	Securities	64.68 %
<i>Equities and long-term fixed income investments:</i>		
Market risk	1.0 percentage point expected relative volatility	0.06 %
Asset allocation	Fixed income portfolio	59.69 %
	Equity portfolio	40.31 %

*Key figures for risk and asset allocation*

The models used to calculate the information above are explained in Note 7 in Norges Bank's annual financial statements for 2014.

Credit risk

Credit risk is the risk of losses if issuers of fixed income instruments default on their payment obligations.  
Norges Bank uses credit ratings to monitor credit risk in the bond portfolio.  
The table below shows a breakdown into credit rating categories of the long-term portfolio and money market portfolio together.

*Foreign exchange reserves, fixed income securities, by credit rating. Percent\**

	AAA	AA	A	BBB	Lower	Total
Treasury bills	13.5	0.0	0.0	0.0	0.0	13.5
Sovereign bonds	53.0	25.5	8.0	0.0	0.0	86.5
Corporate bonds	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total fixed income securities</b>	<b>66.5</b>	<b>25.5</b>	<b>8.0</b>	<b>0.0</b>	<b>0.0</b>	<b>100.0</b>

\* Percent of fixed income investments in the Bank's foreign exchange reserves.

The portion of Bank's foreign exchange reserves invested in fixed income instruments primarily consists of highly rated securities. At the end of 2014 Q4, 92 percent was invested in government securities rated AA or higher.