

FOREIGN EXCHANGE RESERVES

Management of Norges Bank's foreign exchange reserves

QUARTERLY REPORT

3 | 2014
OCTOBER 2014

REPORT FOR
THIRD QUARTER 2014



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Main points

- The market value of Norges Bank's foreign exchange reserves was NOK 375.5bn, or SDR 39bn, at the end of 2014 Q3. The reserves were invested in short-term fixed income instruments (21 percent), long-term fixed income instruments (47 percent) and equities (31 percent).
- The return on the foreign exchange reserves, measured in international currency, was 0.9 percent in 2014 Q3. The return on equity and long-term fixed income investments was 1.0 percent, and approximately zero on short-term fixed income investments.
- A full rebalancing of the long-term portfolio was carried out at the end of the quarter, which resulted in a capital transfer of NOK 12.1bn from equities to bonds.
- In July, Iceland repaid the outstanding loan balance of EUR 199m, which was a part of the loan agreement between Norges Bank and Seðlabanki Íslands from 2009.

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Part I: Management

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 of the foreign exchange reserves

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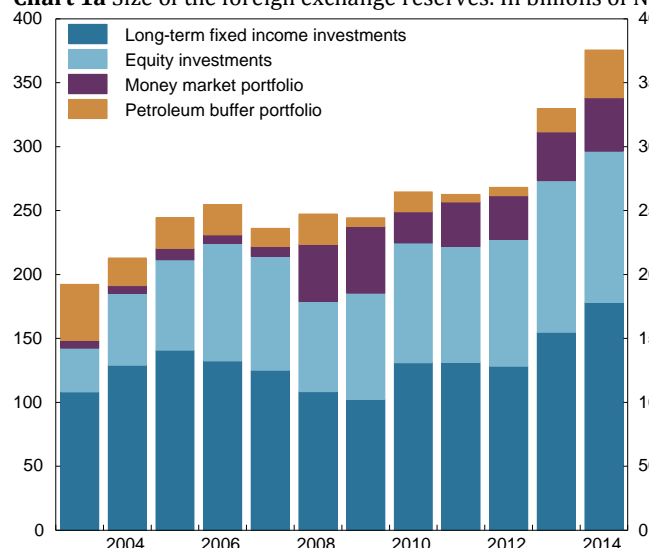
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MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

The market value of the foreign exchange reserves was NOK 375.5bn at the end of 2014 Q3. Equities and long-term fixed income investments totalled NOK 296.3bn, while money market investments and the petroleum buffer portfolio came to NOK 41.9bn and NOK 37.3bn, respectively. The value of the reserves increased by NOK 9.2bn in the quarter, primarily as the result of returns and the depreciation of the krone. The return in international currency increased the value of the reserves by approximately NOK 3.7bn, and the depreciation of the krone increased the value by NOK 3.3bn. At the end of September, NOK 12.1bn was transferred from equities to long-term fixed income investments as a consequence of the foreign exchange reserves' rebalancing regime.

The market value of money market investments increased by approximately NOK 3.0bn in 2014 Q3. This is the largest quarterly change in the market value of the money market portfolio since 2011 and is primarily due to Seðlabanki Íslands's repayment of the outstanding balance of EUR 199m, or NOK 1.7bn, under the loan agreement with Norges Bank from 2009. A depreciation of the krone contributed to an increase in market value of approximately NOK 1.1bn.

Chart 1a Size of the foreign exchange reserves. In billions of NOK¹



¹ 2014 at the end of Q3.

Table 1a Market value. In billions of NOK

	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3
Money market investments	41.9	38.9	38.1	38.3	37.6
Long-term fixed income investments	178.2	163.1	156.1	154.8	153.9
Equity investments	118.1	127.8	118.9	118.5	108.7
Petroleum buffer portfolio	37.3	36.6	34.2	18.0	29.0
Foreign exchange reserves	375.5	366.3	347.3	329.6	329.2
Total change during the quarter	9.2	19.1	17.7	0.4	10.3
Transfers during the quarter	2.2	1.1	16.9	-11.2	0.8
Return during the quarter	3.7	8.9	4.3	8.7	7.8
Change due to fluctuations in NOK exchange rate	3.3	9.0	-3.5	2.9	1.7

2. Return

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The foreign exchange reserves are held for the purpose of crisis management. Changes in value in NOK terms are thus of secondary importance. Movements in the krone exchange rate will primarily affect Norges Bank's equity, and not its 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 as discussed above, 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 Q3 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.

2.1 Absolute return

Overall, the return on the foreign exchange reserves was 0.87 percent in 2014 Q3. The return on equity investments was 1.03 percent and the return on long-term fixed income investments was 0.95 percent. As they represent 35 percent and 53 percent of overall foreign exchange reserves, respectively, these portfolios have the greatest impact on the total return on the foreign exchange reserves.

The largest contribution to the return on the equity portfolio came from North America. From a sector perspective, the highest return in 2014 Q3 was on equities in the health care industry. The largest contribution to the return on long-term fixed income investments was made by USD bonds. GBP bonds also made a positive contribution in the period.

Money market investments, which account for the remaining 12 percent of the foreign exchange reserves, earned a return of 0.04 percent. Holdings of both German and US government securities earned a positive return. German short-term government bond yields fell through much of the period, primarily owing to measures by the ECB. The main contribution to the return came from US government securities. US government bond yields at maturities up to 12 months have shown a falling trend. New regulations for US money market funds have likely resulted in increased demand for short-term US government bonds and are thus an additional element that is keeping short-term rates at low levels.

2.2 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.

The return on equity investments was 0.10 percentage point higher than the return on the benchmark index for equities, while the return on long-term fixed income investments was 0.04 percentage point lower than the return on the benchmark index for bonds in the period. A slight overweighting in North American equities and an

equity selection in which the largest contribution came from Asian equities contributed to the excess return in the equity portfolio.

Money market investments earned a return in the period that was 0.02 percentage point higher than the return on the benchmark index in 2014 Q3.

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 2-2a Return measured in international currency. Percent

	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3
<i>Return:</i>					
Money market investments	0.04	0.04	0.03	0.02	0.05
Long-term fixed income investments	0.95	1.60	1.91	-0.24	0.45
Equity investments	1.03	4.54	1.37	8.11	6.72
Foreign exchange reserves¹	0.87	2.53	1.47	2.82	2.66
<i>Return on benchmark indices:</i>					
Money market investments	0.02	0.03	0.02	0.01	0.02
Long-term fixed income investments	0.99	1.62	1.92	-0.28	0.54
Equity investments	0.93	4.53	1.32	7.93	6.64

¹ Excluding petroleum buffer portfolio.

Table 2-2b Return measured in NOK. Percent

	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3
Money market investments	2.65	2.37	-1.27	1.35	-0.44
Long-term fixed income investments	1.85	4.48	0.83	0.60	0.96
Equity investments	1.92	7.50	0.29	9.01	7.25
Foreign exchange reserves¹	1.97	5.37	0.36	3.74	3.05

¹ Excluding petroleum buffer portfolio.

2.3 Return over the past ten years

Over the past four quarters, the return on the foreign exchange reserves was 7.90 percent. Over the past ten-year period, the annualised rate of return was 6.07 percent. Equity investments in particular have contributed to the return, but the realised fluctuations have been substantially higher than for fixed income investments.

The return on equity investments has been approximately in line with the benchmark index over the past ten years, while long-term fixed income investments have earned an annualised excess return of 0.38 percentage point. The excess return for the money market portfolio for the past three years has been 0.05 percentage point.

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Table 2-3a Key figures at 30 September 2014. Annualised. Measured in international currency

	Past year	Past 3 years	Past 5 years ¹	Past 10 years ¹
<i>Foreign exchange reserves excluding the petroleum buffer portfolio:</i>				
Gross annual return (percent)	7.90	8.75	8.07	6.07
<i>Money market investments:</i>				
Portfolio return (percent)	0.13	0.14	-	-
Benchmark return (percent)	0.07	0.09	-	-
Excess return (percentage points)	0.06	0.05	-	-
Realised absolute volatility (percent) ²	0.03	0.03	-	-
Realised relative volatility (percentage points) ²	0.02	0.03	-	-
Information rate (IR) ³	3.21	1.68	-	-
<i>Long-term fixed income investments:</i>				
Portfolio return (percent)	4.29	2.86	4.48	4.44
Benchmark return (percent)	4.30	2.53	3.62	4.06
Excess return (percentage points)	-0.01	0.33	0.86	0.38
Realised absolute volatility (percent) ²	2.50	2.94	3.13	3.57
Realised relative volatility (percentage points) ²	0.09	0.34	0.63	1.58
Information rate (IR) ³	-0.15	0.95	1.36	0.24
<i>Equity investments:</i>				
Portfolio return (percent)	15.74	20.56	12.72	8.16
Benchmark return (percent)	15.37	20.22	12.40	8.11
Excess return (percentage points)	0.36	0.34	0.32	0.04
Realised absolute volatility (percent) ²	7.34	9.75	12.05	14.49
Realised relative volatility (percentage points) ²	0.17	0.16	0.27	0.41
Information rate (IR) ³	2.16	2.18	1.15	0.11

¹ Pertains only to equities and long-term fixed income investments.

² 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.

³ 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).

Chart 2-3a Absolute return¹.
Money market investments. Basis points

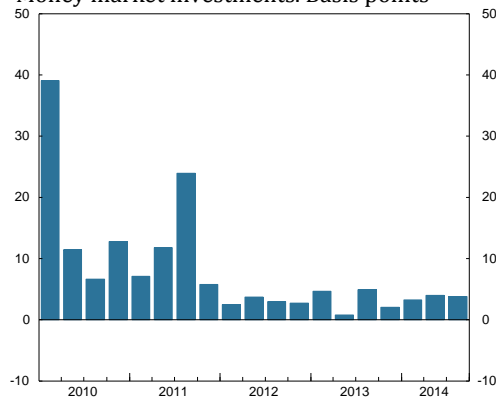


Chart 2-3b Relative return¹.
Money market investments. Basis points

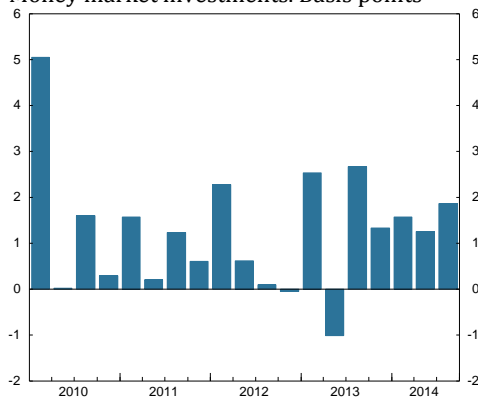


Chart 2-3c Absolute return¹.
Long-term fixed income investments. Percent

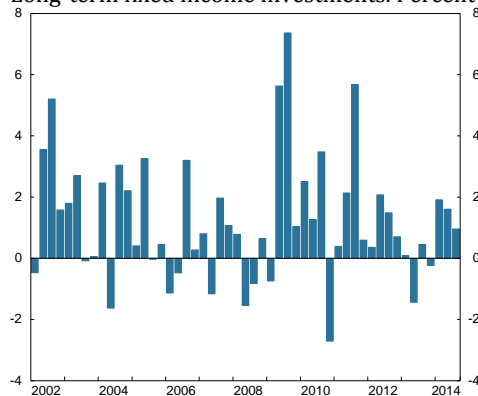


Chart 2-3d Relative return¹.
Long-term fixed income investments. Percent

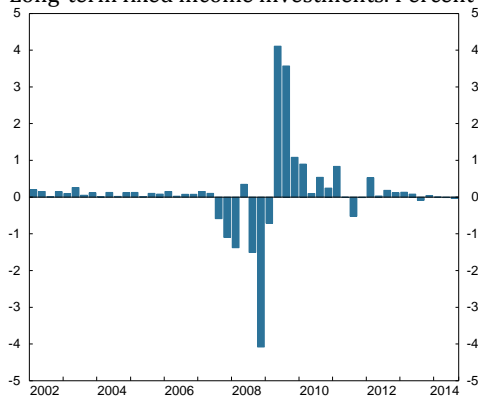


Chart 2-3e Absolute return¹.
Equity investments. Percent

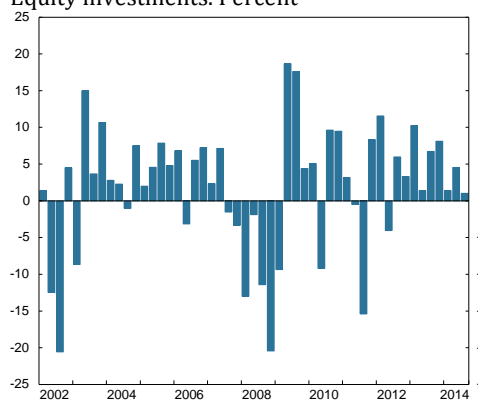
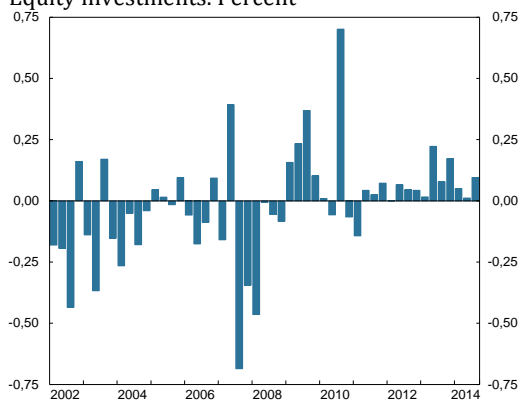


Chart 2-3f Relative return¹.
Equity investments. Percent



¹ Measured in international currency.

3. Risk

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Market risk is expressed here by a standard deviation movement in market values.

For equity investments, expected absolute volatility was 13.6 percent at the end of 2014 Q3. This means that the value of equity holdings, in a normal situation, is expected to fluctuate within an interval of ± 13.6 percent in the course of a year, 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 2.9 percent, while expected volatility for equity and fixed income investments overall was 5.0 percent. For money market investments, expected absolute volatility was approximately zero.

While absolute risk provides an indication of how much the foreign exchange reserves are expected to fluctuate in value, relative risk provides an indication of how much the portfolios can be expected to fluctuate in value compared with the portfolio's benchmark index². At the end of 2014 Q3, expected relative volatility for the equity portfolio was 0.9 percent, an increase of 0.8 percentage point from the previous quarter. Expected relative volatility for long-term fixed income investments was 0.1 percent, while relative volatility for long-term portfolio overall was 0.4 percent. For long-term fixed income investments, this is approximately unchanged compared with the end of 2014 Q2, while for the long-term portfolio overall there was an increase of 0.3 percentage point.

As a consequence of the foreign exchange reserves' rebalancing regime, a full rebalancing of the long-term portfolio was undertaken at the end of 2014 Q3. The rebalancing of the portfolio proceeded over a few days around the time of the rebalancing of the benchmark index. Deviations for short periods may thus arise. Relative volatility for the long-term portfolio was down to 0.1 percent on 1 October.

The expected relative volatility of money market investments was 0.02 percent at the end of 2014 Q3.

² 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 ± 1.0 percentage point in two out of three years.

Chart 3a Expected absolute volatility. Money market investments. Percent

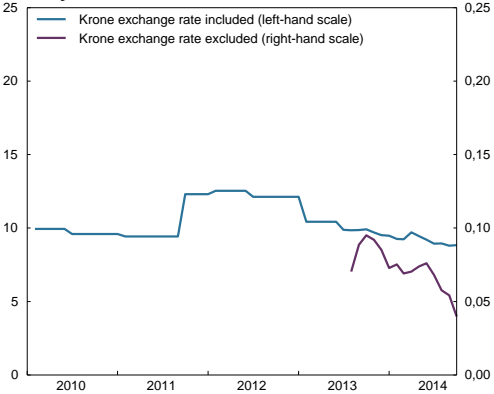


Chart 3b Expected relative volatility. Money market investments. Percent

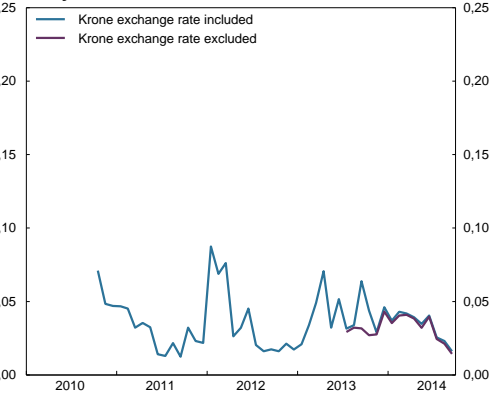


Chart 3c Expected absolute volatility. Long-term fixed income investments. Percent

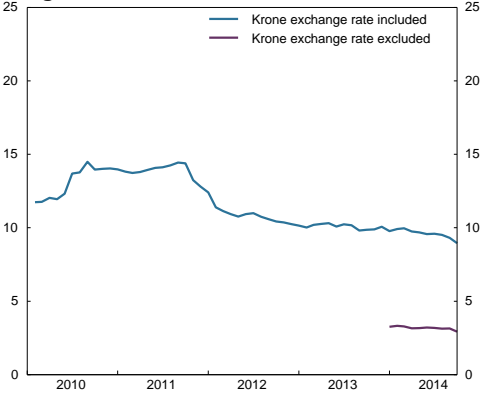


Chart 3d Expected relative volatility. Long-term fixed income investments. Percent

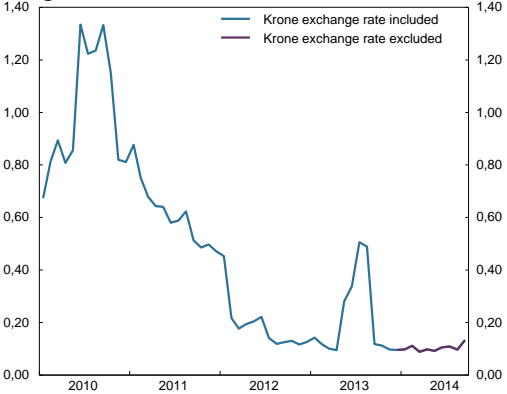


Chart 3e Expected absolute volatility. Equity investments. Percent

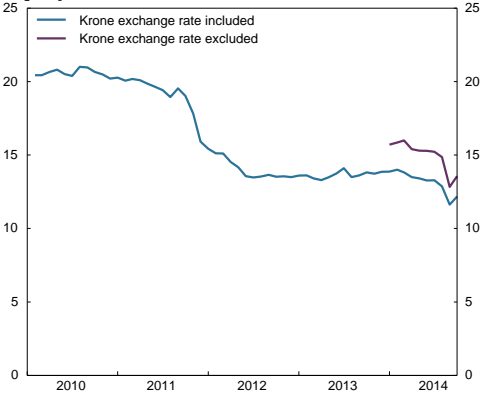
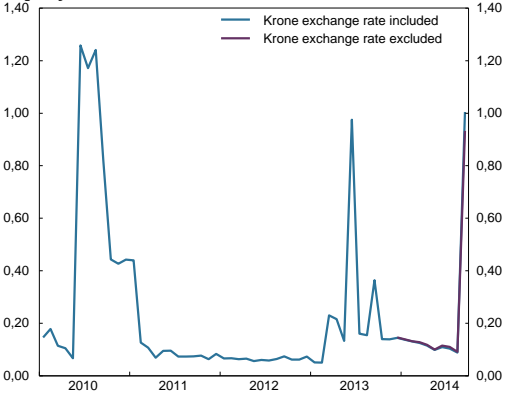


Chart 3f Expected relative volatility. Equity investments. Percent



Credit risk on the Bank's fixed income investments is low. At the end of 2014 Q3, 99.98 percent of the portfolio was invested in government securities rated AA or higher and only 0.02 percent was invested in corporate bonds.

Table 3a Foreign exchange reserves, fixed income investments, by credit rating. Percent¹

	AAA	AA	A	BBB	Lower	Total
Treasury bills	14.7	0.0	0.0	0.0	0.0	14.7
Sovereign bonds	52.1	33.2	0.0	0.0	0.0	85.2
Corporate bonds	0.0	0.0	0.0	0.0	0.0	0.0
Collateralised bonds	0.0	0.0	0.0	0.0	0.0	0.0
Total fixed income securities	66.8	33.2	0.0	0.0	0.0	100.0

¹Percentage 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. 70 percent of Treasury bills and 45 percent of sovereign bonds.

Chart 3g Treasury bills by issuer

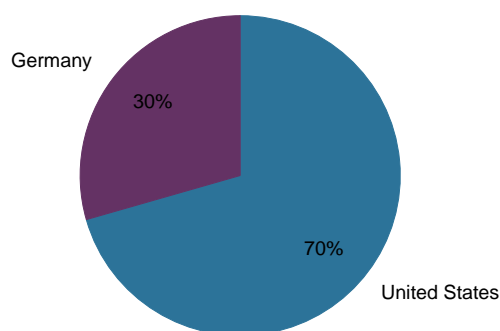
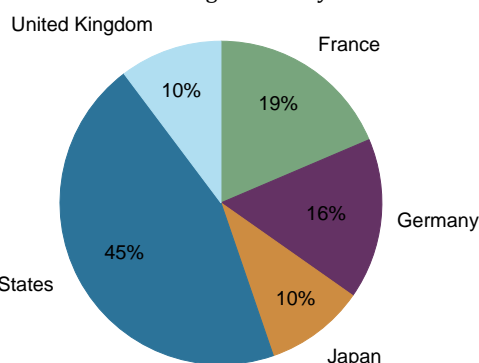
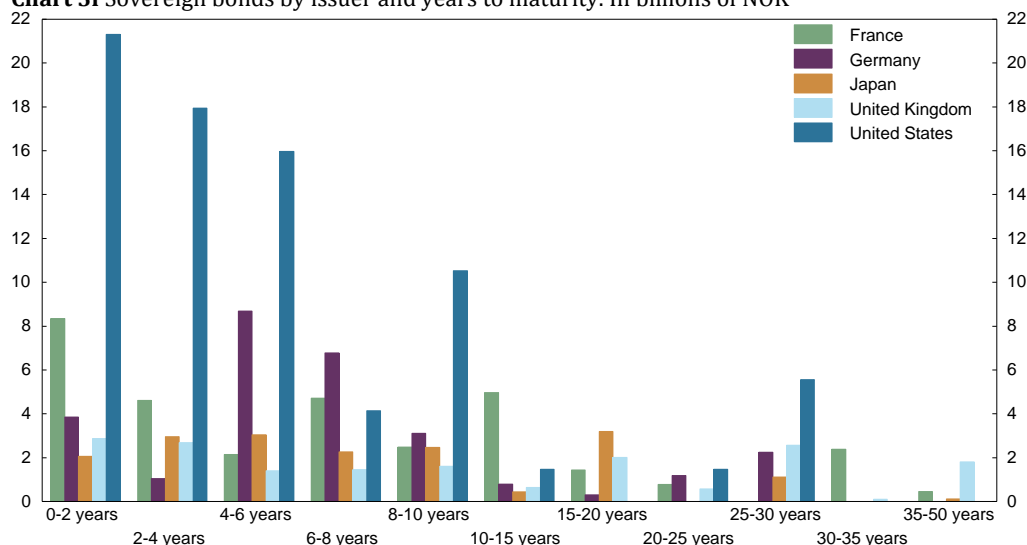


Chart 3h Sovereign bonds by issuer



In all, NOK 93bn is invested in US and German sovereign bonds with residual maturity of less than 10 years.

Chart 3i 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.

The international agreements under which Norges Bank is committed may entail economic risk in the form of liquidity risk and credit risk.

4.1 Loan agreement with Seðlabanki Íslands – repayment and termination of the agreement

In July, Seðlabanki Íslands submitted a request to repay the outstanding balance under the loan agreement from 2009 with Norges Bank. The outstanding balance of EUR 199m, or NOK 1 661m, was paid on 22 July.

4.2 Norges Bank's rights and obligations related to the International Monetary Fund (IMF)

Norges Bank has made the following commitments under various IMF programmes³:

- Loan resource commitments under the New Arrangements to Borrow (NAB) of SDR 3 871m, or NOK 36 922m⁴
- Borrowing facility under a bilateral borrowing arrangement of SDR 6 000m, or NOK 57 214m
- Loan resource commitments to the Poverty Reduction and Growth Trust (PRGT) of SDR 300m, or NOK 2 860m
- 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

³ Norges Bank's commitments to the IMF are in SDRs; the amount in NOK varies with the exchange rate.

⁴ Amounts in NOK have been translated at the exchange rate at the end of 2014 Q3.

The table below shows all asset and liability items related to the IMF at the end of 2014 Q3.

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Table 4-2a Claims on and liabilities to the International Monetary Fund (IMF) at 30 September 2014. In millions of NOK

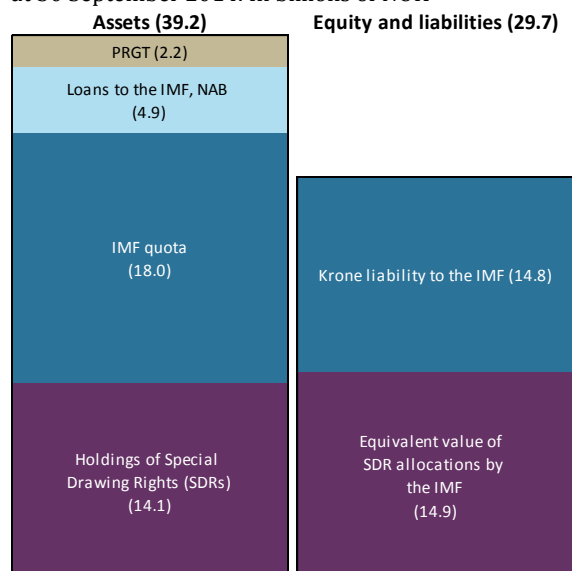
	RECOGNISED IN THE BALANCE SHEET				
	Loan resource commitments ²	Lending programs	Subscriptions ³	SDRs	Total amount recognised
<i>Financial assets</i>					
IMF quota ¹			17 964		17 964
Holdings of Special Drawing Rights (SDRs)				14 136	14 136
Loans to the IMF, New Arrangements to Borrow (NAB)	36 922	4 899			4 899
Bilateral borrowing agreement with the IMF	57 214				
Poverty Reduction and Growth Trust (PRGT)	2 860	2 232			2 232
Claims on the IMF	96 996	7 131	17 964	14 136	39 231
<i>Financial liabilities</i>					
Krone liability to the IMF			14 794		14 794
Equivalent value of SDR allocations by the IMF				14 906	14 906
Liabilities to the IMF			14 794	14 906	29 700
Net positions with the IMF	96 996	7 131	3 171	-771	9 531

¹The 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.

²Commitments 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.

³Net 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 4-2a Claims on and liabilities to the International Monetary Fund (IMF) at 30 September 2014. In billions of NOK



4.2.1 Risk

Norges Bank's loan commitments to the IMF through the IMF's various lending programmes indicate that an additional NOK 90bn may be drawn, equivalent to 27 percent of total foreign exchange reserves. At 30 September 2014, NOK 180bn 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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Part II: Income statement and balance sheet, foreign exchange reserves

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INCOME STATEMENT					
<i>Amounts in millions of NOK</i>					
	Quarter		Year-to-date		
	2014 Q3	2013 Q3	2014 Q3	2013 Q3	2013 Q4
NET INCOME FROM FINANCIAL INSTRUMENTS					
Interest income from deposits and claims	1	3	5	15	38
Interest income, lending associated with reverse repurchase agreements	7	6	28	18	24
Net income/expenses - gains/losses from:					
Equities	1 542	7 283	8 981	20 917	30 386
Bonds and other fixed income instruments	2 171	451	7 934	-1 537	-2 260
Financial derivatives	5	-6	5	28	16
Interest expense, borrowing associated with repurchase agreements	-	-1	-1	-1	-22
Tax expense	-17	-9	-42	-47	-17
Other financial income/expenses	-1	-	-2	1	1
NET INCOME FROM FINANCIAL INSTRUMENTS BEFORE FOREIGN EXCHANGE GAINS/LOSSES	3 709	7 726	16 908	19 394	28 167
Foreign exchange gains/losses	3 259	1 716	8 773	22 281	25 193
NET INCOME FROM FINANCIAL INSTRUMENTS *	6 968	9 442	25 681	41 675	53 360

* Net income from financial instruments includes profit and loss items associated with outstanding balances with the GPF (see Note 3).

BALANCE SHEET			
<i>Amounts in millions of NOK</i>			
	2014 Q3	2013 Q4	2013 Q3
FINANCIAL ASSETS			
Deposits in banks	8 639	6 214	7 672
Lending associated with reverse repurchase agreements	67 608	22 194	35 630
Unsettled trades	4 787	2	14 898
Equities	114 341	114 272	103 314
Equities lent	12 733	4 355	8 710
Bonds and other fixed income instruments	204 945	185 420	182 006
Financial derivatives	10	8	7
Other financial assets	1 618	159	1 417
TOTAL FINANCIAL ASSETS	414 679	332 624	353 654
FINANCIAL LIABILITIES			
Short-term borrowing	-	-	2 399
Cash collateral received	3 158	1 365	1 824
Unsettled trades	36 022	1 528	20 736
Financial derivatives	7	21	11
Other financial liabilities	357	1 278	942
TOTAL FINANCIAL LIABILITIES	39 544	4 193	25 912
TOTAL PORTFOLIOS *	375 135	328 431	327 742

* Total portfolios includes outstanding balances with the GPF (see Note 4).

NOTES

Note 1 Accounting policies

Financial reporting pertains solely to Norges Bank's foreign exchange reserves including outstanding balances with the Government Pension Fund Global (GPF) as at 30 September 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 2013. 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.

Note 2 Significant estimates and critical accounting judgements

The preparation of the financial statements of Norges Bank, which include the financial reporting for the Bank's foreign exchange reserves in accordance with the accounting policies in Note 1, involves the use of estimates and judgements that may affect assets, liabilities, income and expenses. Estimates and judgements are based on historical experience and expectations about future events that are considered probable at the time the financial statements are presented. 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 Note 2 in Norges Bank's annual financial statements for 2013.

Note 3 Specification of the income statement, by portfolio

INCOME STATEMENT	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Items not incl. in foreign exchange reserves	Total foreign exchange reserves
	2014 Q3	2014 Q3	2014 Q3	2014 Q3	2014 Q3
Interest income, deposits in foreign banks	1	-	1	-	1
Interest income, lending associated with reverse repurchase agreements	-	2	-	5	7
Net income/expenses - gains/losses from:					
- Equities	1 542	-	-	-	1 542
- Bonds and other fixed-income instruments	2 163	8	-	-	2 171
- Financial derivatives	3	3	-	-	5
Tax expense	-17	-	-	-	-17
NET INCOME FROM FINANCIAL INSTRUMENTS BEFORE FOREIGN EXCHANGE GAINS/LOSSES	3 691	12	5	-	3 709
Foreign exchange gains/losses	1 777	1 056	426	-16	3 275
NET INCOME FROM FINANCIAL INSTRUMENTS *	5 468	1 068	431	-16	6 984

* For the long-term portfolio, net income from financial instruments includes profit and loss items associated with outstanding balances with the GPF. These profit and loss items are excluded from the term foreign exchange reserves presented in Norges Bank's annual financial statements (cf. IMF definition).

Note 4 Specification of the balance sheet, end of quarter, by portfolio

BALANCE SHEET	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Items not incl. in foreign exchange reserves	Total foreign exchange reserves
	30 Sep. 2014	30 Sep. 2014	30 Sep. 2014	30 Sep. 2014	30 Sep. 2014
FINANCIAL ASSETS					
Deposits in banks	52	1 207	7 380	-	8 639
Lending associated with reverse repurchase agreements	3 158	20 694	43 757	-	67 608
Unsettled trades	4 787	-	-	-	4 787
Equities	114 341	-	-	-	114 341
Equities lent	12 733	-	-	-	12 733
Bonds and other fixed income instruments	174 156	30 789	-	-	204 945
Financial derivatives	9	-	-	-	10
Other financial assets	1 618	-	-	1 559	58
TOTAL FINANCIAL ASSETS	310 853	52 689	51 136	1 559	413 120
FINANCIAL LIABILITIES					
Cash collateral received	3 158	-	-	-	3 158
Unsettled trades	11 388	10 553	14 080	-	36 022
Financial derivatives	-	-	7	-	7
Other liabilities	-	-	357	-	357
TOTAL FINANCIAL LIABILITIES	14 547	10 554	14 444	-	39 544
TOTAL PORTFOLIOS *	296 307	42 136	36 693	-1 559	373 576

* For the long-term portfolio, total portfolios includes outstanding balances with the GPF. Outstanding balances are excluded from the term foreign exchange reserves presented in Norges Bank's annual financial statements (cf. IMF definition).

Note 5 Equities, bonds and other fixed income financial instruments

Table 5.1 Specification equities	30 Sep. 2014		
	Fair value excl. dividends	Accrued dividends	Fair value incl. dividends
Equities:			
Listed equities	127 570	180	127 750
OTC equities	399	-	399
Total equities	127 969	180	128 148
<i>Of which equities lent</i>			9 673

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Note 6 Risiko**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, expressed here by a standard deviation movement in market values. 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 portfolio can be expected to fluctuate in value compared with the portfolio's benchmark index.

Asset classes and currencies

The Bank's foreign exchange reserves are invested across several asset classes and currencies as shown in the table below.

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, Norges Bank's foreign exchange reserves

Risk	Limits	Actual 2014 Q3
<i>Money market investments:</i>		
Market risk	1.0 percentage point expected relative volatility	0.02
Asset allocation	Cash	26.46
	Securities	73.54
<i>Equities and long-term fixed income investments:</i>		
Market risk	1.0 percentage point expected relative volatility	0.40
Asset allocation	Fixed income portfolio	60.13
	Equity portfolio	39.87

Key figures for risk and asset allocation

The models used to calculate the information above are explained in Note 24 Risk in Norges Bank's annual financial statements for 2013.

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 of the long-term portfolio and money market portfolio into credit rating categories.

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

	AAA	AA	A	BBB	Lower	Total
Treasury bills	14.7	0.0	0.0	0.0	0.0	14.7
Sovereign bonds	52.1	33.2	0.0	0.0	0.0	85.2
Corporate bonds	0	0.0	0.0	0.0	0.0	0.0
Collateralised bonds	0	0.0	0.0	0.0	0.0	0.0
Total fixed income securities	66.8	33.2	0.0	0.0	0.0	100.0

* 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 Q3, 99.98 percent was invested in government securities rated AA or higher.

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