

FOREIGN EXCHANGE RESERVES

Management of Norges Bank's foreign exchange reserves

QUARTERLY REPORT

3 | 2015
OCTOBER 2015

REPORT FOR
THIRD QUARTER 2015



NORGES BANK

CONTENTS

Management of the foreign exchange reserves 3
Size and composition 4
Return..... 4
Risk management..... 6
International commitments..... 8
Key figures..... 10
Financial reporting 12
Income statement 12
Balance sheet 12
Notes 13

NORGES BANK

FOREIGN EXCHANGE RESERVES

3 | 2015

MANAGEMENT OF
NORGES BANK'S FOREIGN
EXCHANGE RESERVES

MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

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RESERVES

3 | 2015

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 10 billion, 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 3.5 billion and SDR 4.5 billion 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. Transfers from the portfolio to the GPF are normally made each month. Norges Bank primarily procures the necessary foreign exchange by purchasing foreign exchange from the State's Direct Financial Interest (SDFI). If additional foreign exchange is needed to cover the monthly transfers, Norges Bank purchases the remaining amount in the market. If foreign exchange from the SDFI exceeds the transfers to the GPF, Norges Bank sells the surplus amount in the market. Norges Bank will reduce the size of the portfolio ahead. During 2015, the portfolio will be reduced by selling foreign exchange in the market. Norges Bank aims for the portfolio to be between NOK 5 billion and NOK 10 billion at the end of each year. 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 2015 Q3

- The market value of Norges Bank's foreign exchange reserves was NOK 459.1 billion at the end of 2015 Q3, an increase of NOK 1.8 during Q3.
- The petroleum buffer portfolio was NOK 18.1 billion at the end of Q3, a reduction of NOK 21.7 billion since the end of Q2.
- Measured in international currency, the return on the foreign exchange reserves, excluding the petroleum buffer portfolio, was negative 2.25 percent. The return on equity investments was negative 8.02 percent, 1.35 percent on long-term fixed income investments and 0.03 percent on short-term fixed income investments.

Size and composition

The market value of the foreign exchange reserves was NOK 459.1 billion at the end of 2015 Q3. The long-term portfolio was NOK 391.2 billion, the money market portfolio NOK 49.8 billion and the petroleum buffer portfolio NOK 18.1 billion. In all, the value of the reserves rose by NOK 1.8 billion in Q3, of which a weaker krone in isolation contributed to an increase of NOK 33 billion, while net outflows from the petroleum buffer portfolio amounted to approximately NOK 24 billion.

Chart 1 Composition of the foreign exchange reserves at the end of 2015 Q3. In billions of NOK

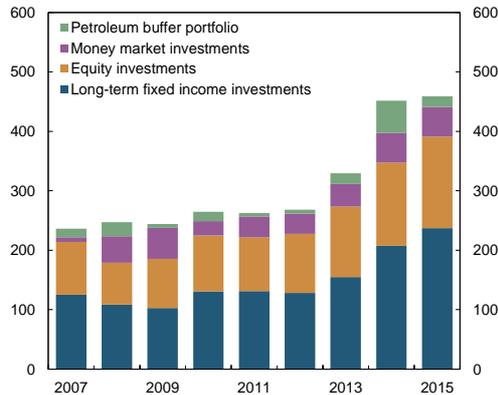


Table 1 Market value of the foreign exchange reserves at the end of 2015 Q3. In billions of NOK

	2015 Q3
Long-term fixed income investments	236.9
Equity investments	154.3
Money market investments	49.8
Petroleum buffer portfolio	18.1
Foreign exchange reserves	459.1
Total change during the quarter	1.8
Return	-6.8
Movements in the krone exchange rate	32.9
Net transfers	-24.3

Return

In 2015 Q3, the return on the foreign exchange reserves was negative 2.25 percent, compared with negative 0.64 percent in Q2. The return on equity investments was negative 8.02 percent, 1.35 percent for long-term fixed income investments, and 0.03 percent for short-term fixed income investments.

Return measured in international currency

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 currently comprise nine currencies for equity and long-term fixed income investments. For money market investments, the currency basket comprises EUR and USD. Unless otherwise specified in the text, return is measured in terms of the foreign exchange reserves' currency baskets. The petroleum buffer portfolio, which is not held for the purpose of crisis management, is excluded from return reporting.

ECONOMIC DEVELOPMENTS

The global economy has been weaker than expected so far in 2015. Consensus estimates of economic growth are constantly being revised lower, and during the year, the focus shifted from the US to China and other emerging economies. The uncertainty surrounding economic growth must be viewed in the context of weak consumer price inflation in many parts of the world. One-third of OECD countries reported negative inflation at the end of Q3, and in over 60 percent of OECD countries, inflation was lower than 0.5 percent. Nevertheless, there were also some tentative signs of improvement. Economic barometers in both the US and Europe indicate a pick-up in growth in these two regions.

LONG-TERM FIXED INCOME INVESTMENTS

In 2015 Q3, yields fell on 10-year government bonds in all major currencies. The US 10-year yield fell from 2.35 to 2.04 percent, and the corresponding German yield fell from 0.76 to 0.59 percent. The return on the fixed-income portfolio was 1.35 percent in Q3. The return on bonds in USD, which account for 45 percent of the long-term fixed income investments, was 1.60 percent. The return on bonds in EUR, which account for

35 percent of long-term fixed income investments, was 1.45 percent. Bonds in GBP and JPY account for 10 percent each. The return on JPY bonds was 2.92 percent and on GBP bonds -1.66 percent. The return on the fixed-income portfolio was equal to the benchmark index.

EQUITY INVESTMENTS

The return on equity investments was negative 8.02 percent in 2015 Q3. All regions posted negative returns, with -11.91, -8.38 and -7.03 percent for Asia, Europe and North America, respectively. All industry sectors posted declines in Q3. Companies in the materials sector posted the weakest performance, with a return of -18.60 percent. Continued declines in commodity prices, especially for copper, contributed to the weak returns in this sector. The strongest return in Q3 was in the electricity and water supply sector, -0.24 percent. Electricity and water supply companies' more predictable cash flow was regarded as safer in a volatile stock market. Financial sector equities account for the largest share of the equity portfolio. The return on financial equities was -8.18 percent. There was a negative excess return on the equity portfolio of 0.02 percent.

MONEY MARKET INVESTMENTS

The return on the money market portfolio was 3 basis points in 2015 Q3, 1 basis point more than the benchmark index. Yields on short US government securities rose in advance of the FOMC meeting in mid-September, but fell back after the decision to keep the target range for the federal funds rate unchanged. At the end of Q3, the one-year yield ended around 5 basis points higher, while shorter rates went from being marginally positive to marginally negative. This is due to a combination of ample macro liquidity and strong demand for low-risk assets. Yields on short German government securities fell steadily through the period, owing to both ample macro liquidity and increasing speculation regarding further monetary easing by the ECB.

Chart 2 Absolute return. Foreign exchange reserves. Percent

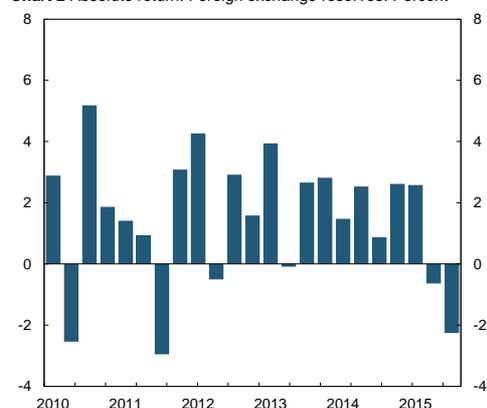


Table 2 Return measured in international currency. Percent

	2015 Q3
<i>Return:</i>	
Long-term fixed income investments	1.35
Equity investments	-8.02
Money market investments	0.03
Foreign exchange reserves¹	-2.25
<i>Return on benchmark indices:</i>	
Long-term fixed income investments	1.35
Equity investments	-8.00
Money market investments	0.02

¹ Excluding petroleum buffer portfolio.

Benchmark indices

The strategic benchmark index for equity investments is a tax-adjusted version of the FTSE All World 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 and with a residual maturity of less than 10 years. 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 currency weighting of the strategic benchmark index for the money market portfolio is 75 percent USD and 25 percent EUR. The cash portion accounts for 10 percent and comprises the Merrill Lynch Overnight Index for USD and EUR. The securities portion comprises Barclays Capital Treasury bill indices: German Bubil Index and US T-bills.

Chart 3 Absolute return. Long-term fixed income investments. Percent

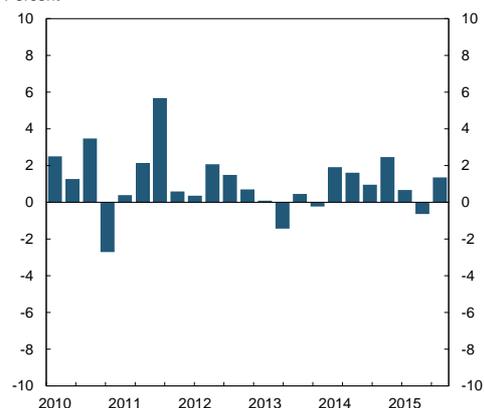


Chart 4 Relative return. Long-term fixed income investments. Percentage points

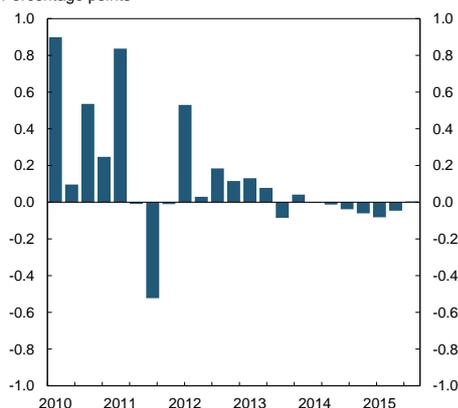


Chart 5 Absolute return. Equity investments. Percent

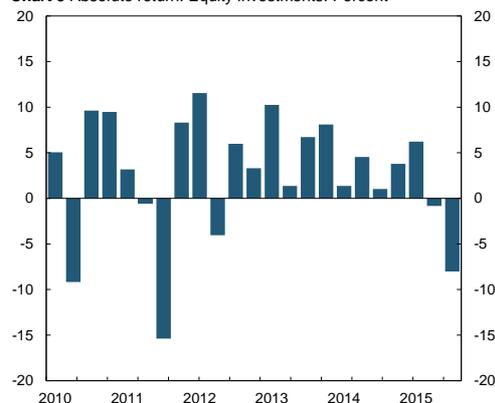


Chart 6 Relative return. Equity investments. Percentage points

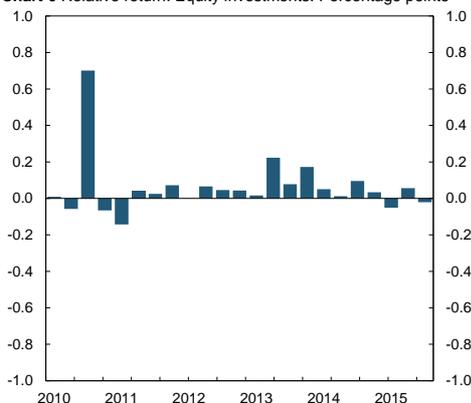


Chart 7 Absolute return. Money market investments. Basis points

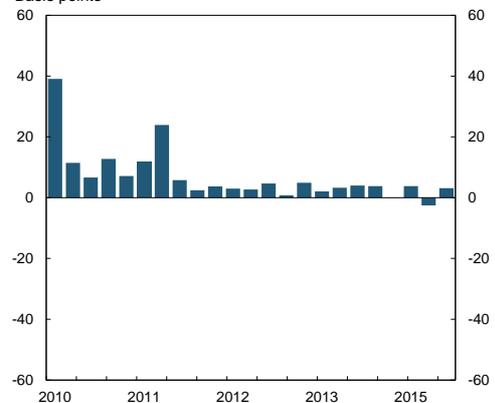
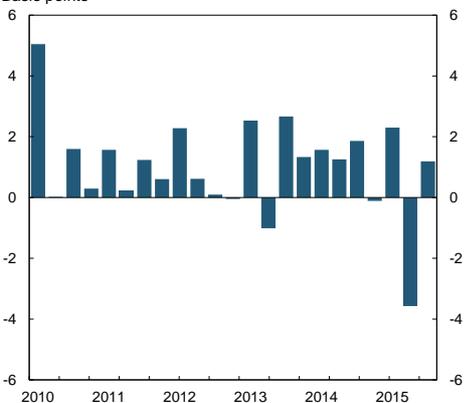


Chart 8 Relative return. Money market investments. Basis points



Risk management

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. In this report, market risk is measured by the standard deviation in the rate of return.¹ 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 long-term fixed income investments, expected absolute volatility was 11.7 percent and 1.8 percent, respectively, at the end of 2015 Q3, compared with 11.4 percent and 1.8 percent at the end of Q2. For the money market portfolio, expected absolute volatility was approximately zero.

¹ Also referred to as absolute volatility.

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.² At the end of Q3, expected relative volatility of equity and long-term fixed income investments was 0.11 percent and 0.03 percent, respectively. The expected relative volatility of the money market portfolio was 0.07 percent.

Chart 9 Expected absolute volatility excluding exchange rate movements. Foreign exchange reserves. Percent

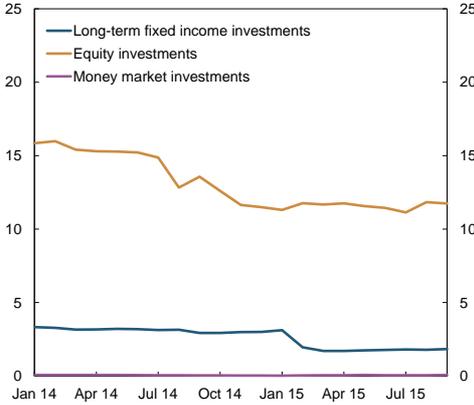
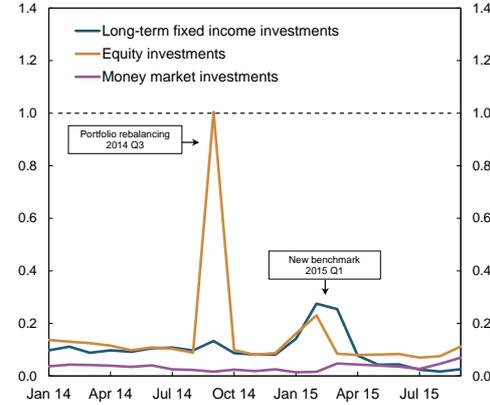


Chart 10 Expected relative volatility including exchange rate movements. Foreign exchange reserves. Percentage points



Credit and counterparty risk is defined as the risk of losses if issuers or counterparties default on payment obligations. Credit risk on the fixed income investments in the foreign exchange reserves is low. At the end of 2015 Q3, approximately 91 percent of the portfolios was invested in government securities rated AA or higher. A considerable portion of fixed-income investments, 70 percent of Treasury bills and 45 percent of sovereign bonds, is issued by the US and has a AAA rating. At the end of Q3, NOK 142 billion was invested in US and German sovereign bonds, which are considered to be highly liquid investments.

Table 3 Fixed income investments in the foreign exchange reserves by credit rating. Percent¹

	AAA	AA	A	BBB	Lower	Total
Treasury bills	8.1	0.0	0.0	0.0	0.0	8.1
Sovereign bonds	54.6	27.8	9.5	0.0	0.0	91.9
Corporate bonds	0.0	0.0	0.0	0.0	0.0	0.0
Total fixed income securities	62.7	27.8	9.5	0.0	0.0	100.0

¹Percentage of the fixed income investments in the Bank's foreign exchange reserves.

Chart 11 Treasury bills by issuer. Percent

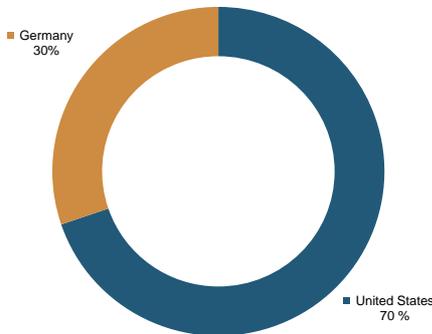
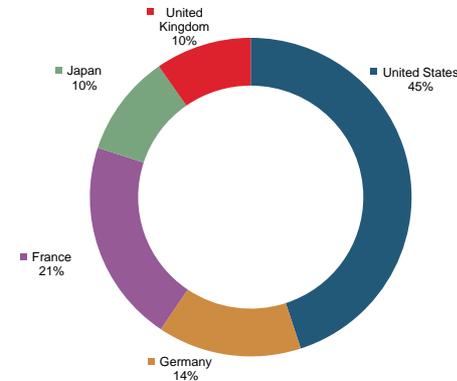


Chart 12 Sovereign bonds by issuer. Percent



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.

International commitments

The foreign exchange reserves are held for the purpose of crisis management and shall be used as part of the conduct of monetary policy with a view to promoting financial stability to meeting Norges Bank's international commitments to the International Monetary Fund (IMF) and individual countries.

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. Norges Bank's quota commitment and commitments under the various lending programmes indicate that the IMF may draw a maximum additional SDR 11.2 billion or NOK 134.5 billion, equivalent to 29 percent of the foreign exchange reserves. At 30 September 2015, NOK 288.4 billion of the foreign exchange reserves is invested in liquid financial instruments that can be sold 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. Table 4 and Chart 14 summarise amounts related to the IMF recognised in the balance sheet at the end of 2015 Q3.

NORGES BANK

FOREIGN EXCHANGE
RESERVES

3 | 2015

MANAGEMENT OF
NORGES BANK'S FOREIGN
EXCHANGE RESERVES

Table 4 Claims on and liabilities to the International Monetary Fund (IMF) at 30 September 2015. In millions of NOK

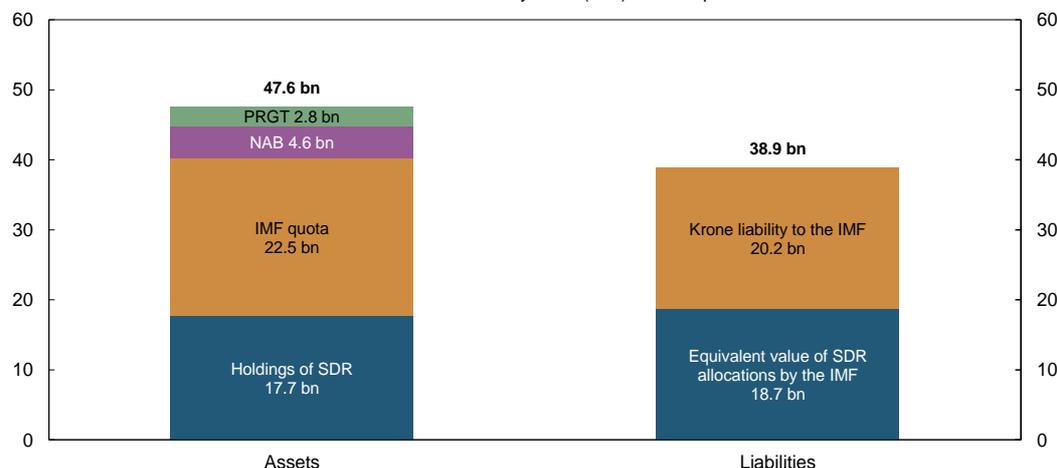
	Recognised in the balance sheet				
	Loan resource commitments ²	Lending programmes	Subscriptions ³	SDRs	Total amount recognised
<i>Financial assets</i>					
IMF quota ¹	-	-	22 518	-	22 518
Holdings of SDRs	-	-	-	17 706	17 706
Loans to the IMF, NAB	46 272	4 555	-	-	4 555
Bilateral borrowing agreement with the IMF	71 721	-	-	-	-
Loans to the IMF, PRGT	3 586	2 785	-	-	2 785
Claims on the IMF	121 579	7 340	22 518	17 706	47 565
<i>Financial liabilities</i>					
Krone liability to the IMF	-	-	20 221	-	20 221
Equivalent value of SDR allocations	-	-	-	18 686	18 686
Liabilities to the IMF	-	-	20 221	18 686	39 907
Net positions with the IMF	121 579	7 340	2 297	-980	8 658

¹ 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.

² 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.

³ 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.

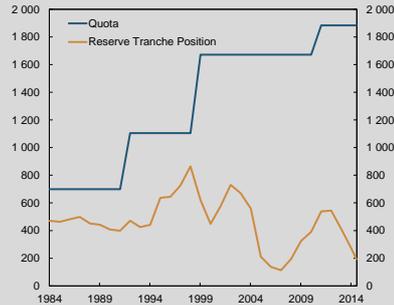
Chart 13 Claims on and liabilities to the International Monetary Fund (IMF) at 30 September 2015. In billions of NOK



IMF quota

Norway's quota has gradually increased over the past 20 years, with the last increase in March 2011 from SDR³ 1 672 million to SDR 1 884 million. Following the financial crisis, the amount drawn⁴ rose from SDR 113 million at end-2007 to SDR 545 million at end-2012. In recent years, the amount drawn has been reduced and at the end of 2015 Q3 amounted to SDR 192 million (Chart 14).

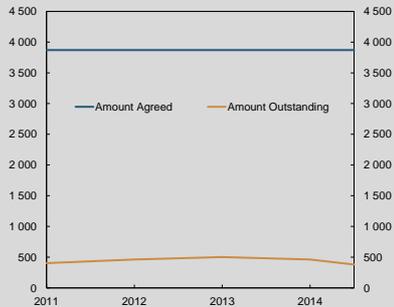
Chart 14 IMF quota and reserve position.
In millions of SDRs



NAB

An expanded NAB⁵ agreement entered into force in 2011. Norges Bank's commitments under this lending programme are SDR 3 871 million. Amounts drawn outstanding at the end of Q3 were SDR 381 million, down from SDR 463 million at end-2014.

Chart 15 NAB. In millions of SDRs



When the IMF has a need for funds, it normally draws on quota commitments and the NAB. Norges Bank's total commitments under the quota and NAB are SDR 5 755 million. At the end of 2015 Q3, the IMF had drawn SDR 573 million. A further SDR 5 181 million may therefore be drawn under these arrangements. A quota increase has been proposed, entailing a reduction in commitments under the NAB. The implementation date of the quota increase is uncertain.

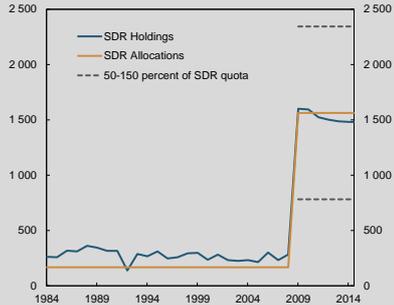
Bilateral agreements

In 2012, Norges Bank provided the IMF with a borrowing facility under a bilateral borrowing agreement of SDR 6 000 million. The IMF will draw on the facility only in very special circumstances.

PRGT

In June 2010, the Ministry of Finance and the IMF signed an agreement under which Norway will furnish SDR 300 million in loan resources to the IMF's programme for low-income countries (PRGT⁶). Norges Bank is the agent for the loan and administers the commitments. At the end of Q3, SDR 233 million had been drawn.

Chart 16 Holdings of SDRs and quota allocations.
In millions of SDRs



Holdings of SDRs

The IMF has allocated SDRs to member countries. Member countries may change their SDR holdings by using SDRs in transactions with the IMF or 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 percent of SDR allocations. In 2009, SDR allocations increased from SDR 168 million to SDR 1 683 million. Thus, if other countries wish to sell SDRs, Norges Bank may have to increase holdings of SDRs to SDR 2 345 million. 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 2015 Q3, holdings of SDRs were SDR 1 481 million SDR (Chart 16).

³ 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 four currencies: the US dollar (42 percent), euro (37 percent), Japanese yen (10 percent) and pound sterling (11 percent). At 30 September 2015, SDR 1 = NOK 11.95.

⁴ Amount drawn is equal to the reserve position.

⁵ New Arrangements to Borrow (NAB).

⁶ Poverty Reduction and Growth Trust (PRGT).

Key figures

NORGES BANK

FOREIGN EXCHANGE RESERVES

3 | 2015

MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

Market value of the foreign exchange reserves. In billions of NOK

	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3
Long-term fixed income investments	236.9	217.3	220.7	207.3	178.2
Equity investments	154.3	154.2	157.3	140.0	118.1
Money market investments	49.8	45.9	46.4	49.9	41.9
Petroleum buffer portfolio	18.1	39.8	55.4	54.3	37.3
Foreign exchange reserves	459.1	457.3	479.7	451.5	375.5
Total change during the quarter	1.8	-22.4	28.2	75.9	9.2
Return	-6.8	-3.3	12.5	15.4	3.7
Change due to movements in the NOK exchange rate	32.9	-4.3	13.9	48.5	3.3
Net transfers	-24.3	-14.9	1.8	12.0	2.2

Return measured in international currency. Percent

	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3
<i>Portfolio:</i>					
Long-term fixed income investments	1.35	-0.64	0.67	2.46	0.95
Equity investments	-8.02	-0.83	6.22	3.78	1.03
Money market investments	0.03	-0.03	0.04	0.00	0.04
Foreign exchange reserves¹	-2.25	-0.64	2.58	2.62	0.87
<i>Benchmark index:</i>					
Long-term fixed income investments	1.35	-0.59	0.75	2.52	0.99
Equity investments	-8.00	-0.88	6.27	3.75	0.93
Money market investments	0.02	0.01	0.02	0.00	0.02

¹Excluding petroleum buffer portfolio.

Return measured in NOK. Percent

	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3
<i>Portfolio:</i>					
Long-term fixed income investments	9.50	-1.63	4.37	16.61	1.85
Equity investments	-0.62	-1.82	10.12	18.11	1.92
Money market investments	8.51	-1.48	4.44	15.50	2.65
Foreign exchange reserves¹	5.65	-1.68	6.43	17.00	1.97

¹Excluding petroleum buffer portfolio.

Key figures for risk and asset allocation. Foreign exchange reserves. Percent

Risk	Limits	Actual 2015 Q3
<i>Long-term portfolio</i>		
Market risk	Expected relative volatility (percentage points)	< 1.0 percentage point
Asset allocation	Fixed income portfolio (percent)	> 50.0 percent
	Equity portfolio (percent)	< 50.0 percent
<i>Money market portfolio</i>		
Market risk	Expected relative volatility (percentage points)	< 1.0 percentage point
Asset allocation	Cash (percent)	> 10.0 percent
	Securities (percent)	< 90.0 percent

Key figures at 30 September 2015. Annualised. Measured in international currency.

	Past year	Past 3 years	Past 5 years	Past 10 years ¹
<i>Foreign exchange reserves excluding the petroleum buffer portfolio:</i>				
Gross annual return (percent)	2.23	6.10	6.72	5.23
<i>Long-term fixed income investments:</i>				
Portfolio return (percent)	3.88	2.63	3.57	4.24
Benchmark return (percent)	4.07	2.62	3.29	3.91
Excess return (percentage points)	-0.19	0.02	0.28	0.32
Realised absolute volatility (percent) ²	2.78	2.73	3.12	3.59
Realised relative volatility (percentage points) ²	0.09	0.14	0.41	1.58
Information rate (IR) ³	-2.15	0.11	0.68	0.20
<i>Equity investments:</i>				
Portfolio return (percent)	0.56	12.76	10.87	5.95
Benchmark return (percent)	0.54	12.51	10.71	5.90
Excess return (percentage points)	0.02	0.26	0.16	0.06
Realised absolute volatility (percent) ²	11.48	9.29	11.09	14.70
Realised relative volatility (percentage points) ²	0.09	0.16	0.17	0.41
Information rate (IR) ³	0.19	1.58	0.94	0.11
<i>Money market investments:</i>				
Portfolio return (percent)	0.04	0.10	0.20	-
Benchmark return (percent)	0.05	0.07	0.17	-
Excess return (percentage points)	0.00	0.03	0.03	-
Realised absolute volatility (percent) ²	0.05	0.04	0.08	-
Realised relative volatility (percentage points) ²	0.04	0.04	0.03	-
Information rate (IR) ³	-0.05	0.95	1.12	-

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).

NORGES BANK

FOREIGN EXCHANGE RESERVES

3 | 2015

MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

FINANCIAL REPORTING

NORGES BANK

FOREIGN EXCHANGE RESERVES

3 | 2015

MANAGEMENT OF
NORGES BANK'S FOREIGN
EXCHANGE RESERVES

Income statement

Amounts in millions of NOK	2015 Q3	2015 Q2	2015	2014
NET INCOME FROM FINANCIAL INSTRUMENTS				
Interest income from deposits and claims	1	3	5	7
Interest income, lending associated with reverse repurchase agreements	15	13	41	37
Net income/expenses – gains/losses from:				
Equities	-9 352	-1 427	-1 048	18 704
Bonds and other fixed income instruments	2 593	-1 921	3 457	13 658
Financial derivatives	-9	-18	-34	4
Interest expense, borrowing associated with repurchase agreements	-	0	-	-1
Tax expense	-37	17	-40	-47
Other financial income/expenses	-12	-16	-40	-7
Net income from financial instruments before foreign exchange gains/losses	-6 801	-3 350	2 341	32 355
Foreign exchange gains/losses	32 949	-4 270	42 593	57 312
Net income from financial instruments	26 148	-7 620	44 934	89 667

Balance sheet

Amounts in millions of NOK	30 Sep. 2015	30 Jun. 2015
FINANCIAL ASSETS		
Deposits in banks	14 116	22 227
Lending associated with reverse repurchase agreements	68 054	77 451
Unsettled trades	4 226	6 217
Equities	147 757	150 022
Equities lent	6 974	4 054
Bonds and other fixed income instruments	259 876	238 427
Financial derivatives	2	8
Other financial assets	21	54
Total financial assets	501 026	498 460
FINANCIAL LIABILITIES		
Short-term borrowing	-	-
Cash collateral received	946	1 175
Unsettled trades	39 981	38 569
Financial derivatives	2	5
Other financial liabilities	403	880
Total financial liabilities	41 332	40 629
Total foreign exchange reserves	459 694	457 831

Notes

NORGES BANK

FOREIGN EXCHANGE
RESERVES

3 | 2015

MANAGEMENT OF
NORGES BANK'S FOREIGN
EXCHANGE RESERVES

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 30 September 2015. 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, minor rounding differences may occur.

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 by portfolio

	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Items not incl. in foreign exchange reserves	Total foreign exchange reserves 2015 Q3	Total foreign exchange reserves 2015
Amounts in millions of NOK	2015 Q3	2015 Q3	2015 Q3	2015 Q3	2015 Q3	2015
NET INCOME FROM FINANCIAL INSTRUMENTS						
Interest income from deposits and claims	-1	1	1	-1	2	5
Interest income, lending associated with reverse repurchase agreements	-	8	6	-	14	41
Net income/expenses – gains/losses from:						
Equities	-9 352	-	-	-	9 352	1 048
Bonds and other fixed income instruments	2 585	8	-	-	-2 593	-3 457
Financial derivatives	-9	-1	-	-	-10	-34
Interest expense, borrowing associated with repurchase agreements	-	-	-	-	-	-
Tax expense	-37	-	-	-	-37	-40
Other financial income/expenses	-	-3	-9	-	-12	-40
Net income from financial instruments before foreign exchange gains/losses	-6 814	13	-2	-1	-6 802	-2 341
Foreign exchange gains/losses	26 509	3 896	2 545	110	32 839	42 600
Net income from financial instruments*	19 695	3 909	2 543	109	26 038	44 941

* For the long-term portfolio, net income from financial instruments includes outstanding balances with the GPFG.

Note 3 Specification of the balance sheet by portfolio

NORGES BANK

FOREIGN EXCHANGE RESERVES

3 | 2015

MANAGEMENT OF
NORGES BANK'S FOREIGN
EXCHANGE RESERVES

	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Items not incl. in foreign exchange reserves	Total foreign exchange reserves
Beløp i millioner kroner	30 Sep. 2015	30 Sep. 2015	30 Sep. 2015	30 Sep. 2015	30 Sep. 2015
FINANCIAL ASSETS					
Deposits in banks	359	5 397	8 360	-	14 116
Lending associated with reverse repurchase agreements	946	47 149	19 958	-	68 054
Unsettled trades	4 226	-	-	-	4 226
Equities	147 757	-	-	-	147 757
Equities lent	6 974	-	-	-	6 974
Bonds and other fixed income instruments	238 882	20 994	-	-	259 876
Financial derivatives	-	-	2	-	2
Other financial assets	21	-	-	-	21
Total financial assets	399 166	73 540	28 320	-	501 026
FINANCIAL LIABILITIES					
Short-term collateral	-	-	-	-	-
Cash collateral received	946	-	-	-	946
Unsettled trades	6 825	23 694	9 462	-	39 981
Financial derivatives	-	-	2	-	2
Other financial liabilities	188	-	215	403	-
Total financial liabilities	7 959	23 694	9 679	403	40 929
Total portfolios*	391 206	49 847	18 641	403	460 097

* For the long-term portfolio, total portfolios include outstanding balances with the GPFG.