

# FOREIGN EXCHANGE RESERVES

## Management of Norges Bank's foreign exchange reserves

**1 | 2014**  
**MAY 2014**

REPORT FOR FIRST  
QUARTER 2014

## Main points

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- The market value of Norges Bank's foreign exchange reserves at the end of 2014 Q1 was NOK 347.3bn, or SDR 38bn. The reserves were invested in short-term fixed income instruments (21 percent), long-term fixed income instruments (45 percent) and equities (34 percent).
- The return on the foreign exchange reserves, measured in international currency, was 1.5 percent in 2014 Q1. The return on equity investments was 1.4 percent, the return on long-term fixed income investments was 1.9 percent, and the return on short-term fixed income investments was approximately zero.
- Expected annual volatility in the value of the foreign exchange reserves – measured in international currency – was 6.1 percent for the equities and long-term fixed income investment portfolio and 0.1 percent for money market instruments. Changes in market value owing to fluctuations in the krone exchange rate will not be relevant to the use of the foreign exchange reserves in a crisis situation but will have an impact on Norges Bank's equity.

## Part I: Management

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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 for meeting 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. No benchmark index has been set for the petroleum buffer portfolio.

## 1. Management of the foreign exchange reserves

The market value of the foreign exchange reserves was 347.3bn at the end of 2014 Q1. Equities and long-term fixed income investments totalled NOK 274.9bn, while money market investments and the petroleum buffer portfolio came to NOK 38.1 and NOK 34.2bn, respectively. The value of the reserves increased by NOK 17.7bn, primarily as the result of transfers. The return in international currency increased the value of the reserves by NOK 4.2bn, while appreciation of the krone reduced the value by NOK 3.4bn.

**Chart 1a** Size of the foreign exchange reserves. In billions of NOK<sup>1</sup>



<sup>1</sup> 2014 at end of Q1.

**Table 1a** Market value. In billions of NOK

	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1
Money market investments	38.1	38.3	37.6	37.2	35.2
Long-term fixed income investments	156.1	154.8	153.9	148.6	131.5
Equity investments	118.9	118.5	108.7	104.9	112.2
Petroleum buffer portfolio	34.2	18.0	29.0	28.2	19.4
<b>Foreign exchange reserves</b>	<b>347.3</b>	<b>329.6</b>	<b>329.2</b>	<b>318.9</b>	<b>298.3</b>
<b>Total change during the quarter</b>	<b>17.7</b>	<b>0.4</b>	<b>10.3</b>	<b>20.6</b>	<b>30.3</b>
Transfers during the quarter	16.9	-11.2	0.8	7.1	11.6
Return during the quarter	4.2	8.8	7.7	0.5	11.2
Change due to fluctuations in NOK exchange rate	-3.4	2.8	1.7	13.0	7.5

## 2. Return

The return on the foreign exchange reserves measured in international currency was 1.47 percent, or NOK 4.2bn, in 2014 Q1.

The return on equities and long-term fixed income investments is compared with the return on global benchmark indices, which are based on indices from FTSE Group and Barclays Capital respectively. The return on equity investments was 1.37 percent in 2014 Q1, which was 0.05 percentage point higher than the return on the benchmark index for equities. The return on European and North American investments was 2.59 percent and 1.7 percent, respectively, and the return on Asia Pacific investments fell by 2.18 percent.

The return on long-term fixed income investments in the same period was 1.91 percent, which was 0.01 percentage point lower than the return on the benchmark index for bonds. The largest contribution to the return was made by EUR bonds, in particular long-dated bonds.

Money market investments earned a return in Q1 of 0.03 percent. The return is compared with the return on benchmark indices composed of USD and EUR overnight money market indices and Treasury bill indices for the same currencies. The return on money market investments was 0.01 percentage point higher than the return on the benchmark index in Q1.

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

	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1
<i>Return:</i>					
Money market investments	0.03	0.01	0.04	0.02	0.05
Long-term fixed income investments	1.91	-0.24	0.45	-1.44	0.08
Equity investments	1.37	8.11	6.72	1.37	10.25
<b>Foreign exchange reserves<sup>1</sup></b>	<b>1.47</b>	<b>2.82</b>	<b>2.66</b>	<b>-0.09</b>	<b>3.95</b>
<i>Return on benchmark indices:</i>					
Money market investments	0.02	0.00	0.02	0.02	0.02
Long-term fixed income investments	1.92	-0.28	0.54	-1.51	-0.05
Equity investments	1.32	7.93	6.64	1.15	10.24

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

**Table 2b** Return measured in NOK. Percent

	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1
Money market investments	-1.27	1.34	-0.44	4.73	4.49
Long-term fixed income investments	0.83	0.60	0.96	2.66	2.62
Equity investments	0.29	9.01	7.25	5.59	13.04
<b>Foreign exchange reserves<sup>1</sup></b>	<b>0.37</b>	<b>3.74</b>	<b>3.06</b>	<b>4.14</b>	<b>6.82</b>

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

The rate of return on the foreign exchange reserves (excluding the petroleum buffer portfolio) was 7.0 percent over the past 12 months. Over the past ten years, the annualised rate of return was 5.8 percent.

**Table 2c** Key figures as at 31 March 2014. Annualised. Measured in international currency

	Past year	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)	7.01	6.79	11.81	5.81
<i>Money market investments:</i>				
Portfolio return (percent)	0.11	0.23	-	-
Benchmark return (percent)	0.06	0.19	-	-
Excess return (percentage points)	0.05	0.04	-	-
Realised absolute volatility (percent) <sup>2</sup>	0.04	0.08	-	-
Realised relative volatility (percentage points) <sup>2</sup>	0.03	0.02	-	-
Information rate (IR) <sup>3</sup>	1.50	1.62	-	-
<i>Long-term fixed income investments:</i>				
Portfolio return (percent)	0.66	4.62	6.60	4.32
Benchmark return (percent)	0.63	4.44	4.17	3.92
Excess return (percentage points)	0.03	0.18	2.43	0.40
Realised absolute volatility (percent) <sup>2</sup>	3.36	3.33	3.61	3.63
Realised relative volatility (percentage points) <sup>2</sup>	0.18	0.40	1.42	1.58
Information rate (IR) <sup>3</sup>	0.18	0.44	1.71	0.25
<i>Equity investments:</i>				
Portfolio return (percent)	18.55	11.78	19.17	7.70
Benchmark return (percent)	17.95	11.48	18.74	7.69
Excess return (percentage points)	0.59	0.30	0.43	0.01
Realised absolute volatility (percent) <sup>2</sup>	9.30	12.07	13.63	14.49
Realised relative volatility (percentage points) <sup>2</sup>	0.23	0.15	0.29	0.41
Information rate (IR) <sup>3</sup>	2.55	2.01	1.50	0.02

<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 actual relative market risk (measured by relative volatility).



### 3. Risk

Market risk is expressed here by a standard deviation movement in market values. Expected absolute volatility is an indication of the expected variation in market value over a given period.

Including movements in the krone exchange rate, expected absolute volatility was 8.0 percent for equities and long-term fixed income investments and 9.7 percent for money market investments at the end of 2014 Q1. This amounts to NOK 21.9bn for equities and long-term fixed income investments and NOK 3.7bn for money market investments. The high absolute volatility of money market investments is primarily due to exchange rate fluctuations. Movements in the krone exchange rate will primarily affect Norges Bank's equity, but will be less relevant to the use of the foreign exchange reserves in a crisis situation.

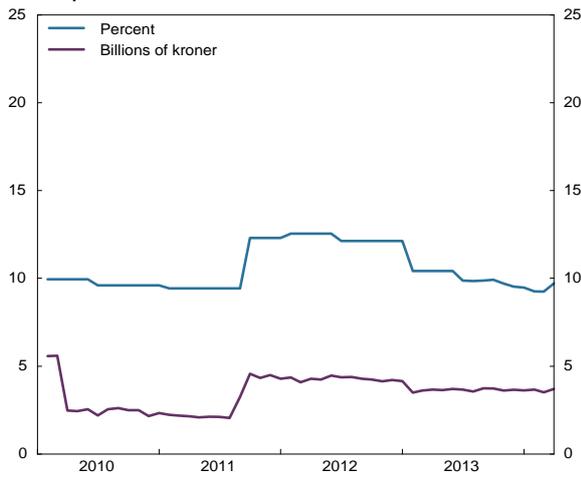
The foreign exchange reserves are invested in foreign financial instruments. Excluding the effect of movements in the krone exchange rate, the expected absolute volatility of equities and long-term fixed income investments would be 6.1 percent and the volatility of money market investments is 0.1 percent.

Expected relative volatility (tracking error) indicates the extent to which the return on the actual portfolio can be expected to deviate from the return on the benchmark portfolio.<sup>2</sup> At the end of Q1, expected relative volatility for the equity and long-term fixed income investment portfolio was 7 basis points, compared with 8 basis points at the end of Q4. There was a decline in the relative volatility of both the equity and fixed income investment portfolios in Q1. Expected relative volatility for the equity portfolio was 12 basis points at the end of Q1, while the expected relative volatility of the fixed income investment portfolio was 9 basis points. The expected relative volatility of the money market portfolio was 4 basis points at the end of Q1.

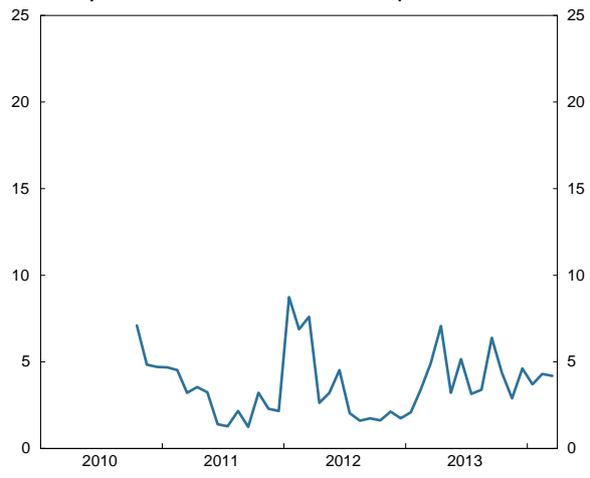
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<sup>2</sup> Under the guidelines for equities and long-term fixed income investments issued by the Governor, the aim of management is to limit relative volatility to no more than 1.0 percentage point (100 basis points). In the guidelines for the money 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.

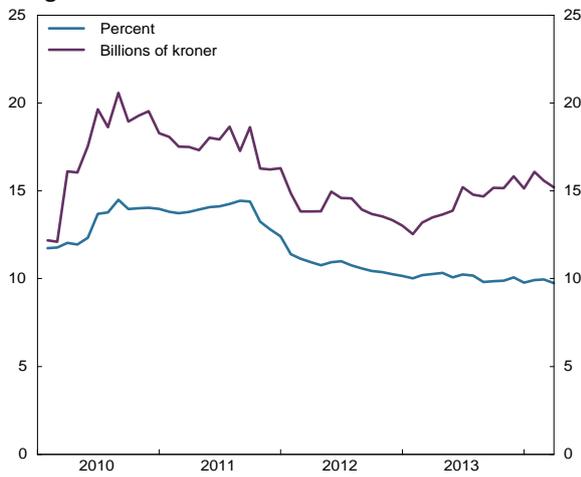
**Chart 3a** Expected absolute volatility<sup>3</sup>.  
Money market investments



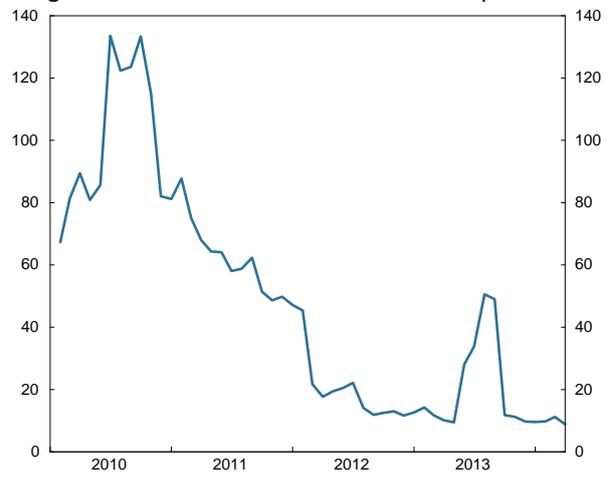
**Chart 3b** Expected relative volatility<sup>3</sup>.  
Money market investments. Basis points



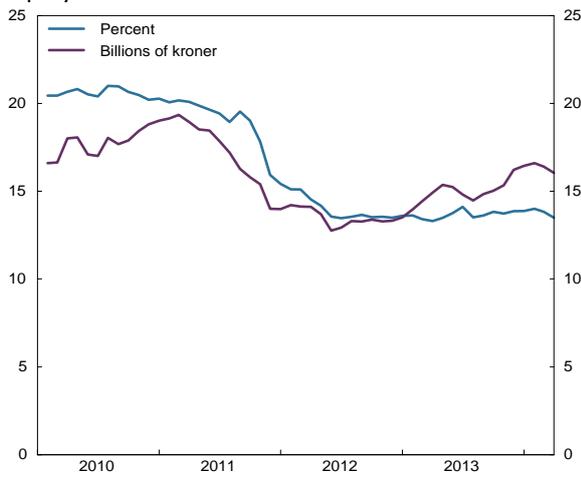
**Chart 3c** Expected absolute volatility<sup>3</sup>.  
Long-term fixed income investments



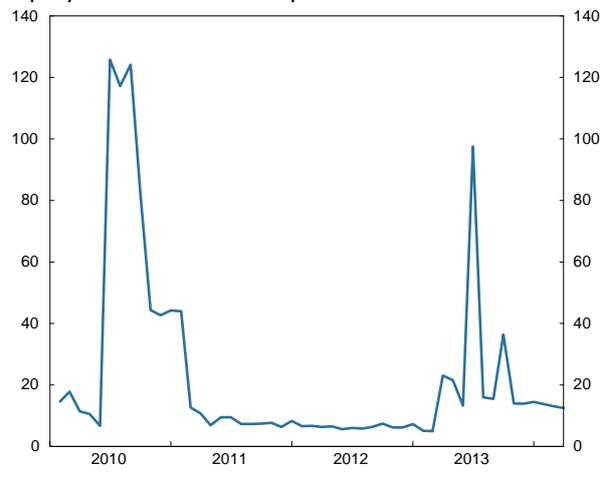
**Chart 3d** Expected relative volatility<sup>3</sup>.  
Long-term fixed income investments. Basis points



**Chart 3e** Expected absolute volatility<sup>3</sup>.  
Equity investments



**Chart 3f** Expected relative volatility<sup>3</sup>.  
Equity investments. Basis points



<sup>3</sup> Including movements in the krone exchange rate.

**Table 3a** Key figures for risk and asset allocation, foreign exchange reserves

Risk	Limits	Actual		
		2014 Q1	2013 Q4	2013 Q3
<i>Money market investments:</i>				
Market risk	1.0 percentage point expected relative volatility	0.04	0.05	0.06
Asset allocation	Cash	17.93	19.10	14.81
	Securities	82.07	80.90	85.19
<i>Equities and long-term fixed income investments:</i>				
Market risk	1.0 percentage point expected relative volatility	0.07	0.08	0.15
Asset allocation	Fixed income portfolio	56.76	56.63	58.59
	Equity portfolio	43.24	43.37	41.41

Credit risk on the Bank's fixed income investments is low. At the end of 2014 Q1, 99.98 percent was invested in government securities rated AA or higher and only 0.02 percent of the portfolio was invested in corporate bonds.

**Table 3b** Foreign exchange reserves, fixed income investments, by credit rating. Percent<sup>1</sup>

	AAA	AA	A	BBB	Lower	Total
Treasury bills	16.7	0.0	0.0	0.0	0.0	16.7
Sovereign bonds	50.6	32.7	0.0	0.0	0.0	83.3
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
<b>Total fixed income securities</b>	<b>67.3</b>	<b>32.7</b>	<b>0.0</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. 77 percent of Treasury bills and 44 percent of sovereign bonds.

## 4. International commitments

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

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

- Loan resource commitments under the New Arrangements to Borrow (NAB) of NOK 35 817m (SDR 3 871m)
- Borrowing facility under a bilateral borrowing agreement of NOK 55 517m (SDR 6 000m)
- Loan resource commitments to the Poverty Reduction and Growth Trust (PRGT) of NOK 2 776m (SDR 300m)
- 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

### Norges Bank's quota subscriptions in the IMF

Pursuant to Section 25 of 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. Norway's total quota subscription was NOK 17 433m (SDR 1 884m) at the end of 2014 Q1.

As a result of the Fourteenth General Review of Quotas, Norway's quota subscriptions will nearly double to SDR 3 755m (NOK 34 748m). Twenty-five percent of the quota subscription will be paid in foreign currency. The remainder will be paid in NOK. The quota adjustments are subject to approval from the other member countries.

The table below shows all asset and liability items related to the IMF at the end of 2014 Q1. Reference is made to the financial risk report for 2013 Q4 for a detailed account of the various balance sheet items.

Norges Bank's loan commitments to the IMF through the IMF's various lending programmes indicate that an additional NOK 87bn may be drawn, equivalent to 28 percent of total foreign exchange reserves. At 31 March 2014, NOK 163bn 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.

**Table 4a** Claims on and liabilities to the International Monetary Fund (IMF) at 31 March 2014. All amounts in millions of NOK.

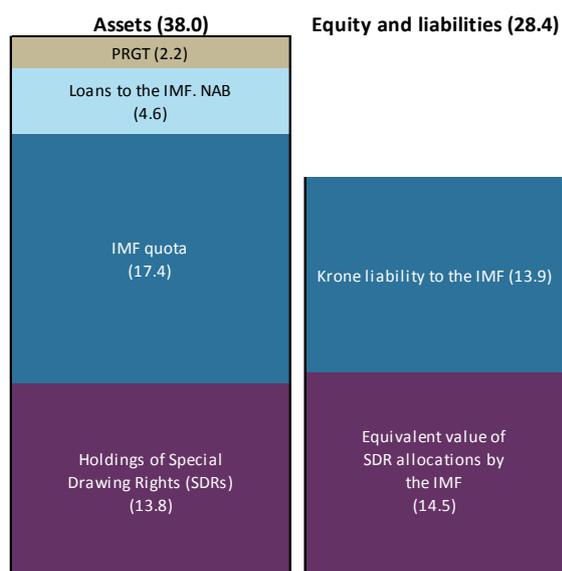
	RECOGNISED IN THE BALANCE SHEET				
	Loan resource commitments <sup>2</sup>	Lending programmes	Subscriptions <sup>3</sup>	SDRs	Total amount recognised
<i>Financial assets</i>					
IMF quota <sup>1</sup>			17 433		17 433
Holdings of Special Drawing Rights (SDRs)				13 760	13 760
Loans to the IMF, New Arrangements to Borrow (NAB)	35 817	4 592			4 592
Bilateral borrowing agreement with the IMF	55 517	-			
Poverty Reduction and Growth Trust (PRGT)	2 776	2 166			2 166
<b>Claims on the IMF</b>	<b>94 110</b>	<b>6 758</b>	<b>17 433</b>	<b>13 760</b>	<b>37 951</b>
<i>Financial liabilities</i>					
Krone liability to the IMF			13 933		13 933
Equivalent value of SDR allocations by the IMF				14 466	14 466
<b>Liabilities to the IMF</b>	<b>-</b>	<b>-</b>	<b>13 933</b>	<b>14 463</b>	<b>28 398</b>
<b>Net positions with the IMF</b>	<b>94 110</b>	<b>6 758</b>	<b>3 500</b>	<b>-705</b>	<b>9 553</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.

<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 4a** Claims on and liabilities to the International Monetary Fund (IMF) at 31 March 2014. (Amounts in billions of NOK)



## Part II: Income statement and balance sheet, foreign exchange reserves

<b>INCOME STATEMENT</b>					
<i>Amounts in millions of NOK</i>					
	Quarter		Year-to-date		
	2014 Q1	2013 Q1	2014 Q1	2013 Q1	2013 Q4
<b>NET INCOME FROM FINANCIAL INSTRUMENTS</b>					
Interest income from deposits and claims	2	2	2	2	38
Interest income, lending associated with reverse repurchase agreements	9	6	9	6	24
Net income/expenses and gains/losses from:					
Equities	1 321	10 626	1 321	10 626	30 386
Bonds and other fixed income instruments	2 943	532	2 943	532	-2 260
Financial derivatives	2	5	2	5	16
Interest expense, borrowing associated with repurchase agreements	-0	-1	-0	-1	-22
Tax expense	-18	-9	-18	-9	-17
Other financial income/expenses	-1	-0	-1	-0	1
<b>NET INCOME FROM FINANCIAL INSTRUMENTS BEFORE FOREIGN EXCHANGE GAINS/LOSSES</b>	<b>4 258</b>	<b>11 162</b>	<b>4 258</b>	<b>11 162</b>	<b>28 167</b>
Foreign exchange gains/losses	-3 462	7 547	-3 462	7 547	25 193
<b>NET INCOME FROM FINANCIAL INSTRUMENTS *</b>	<b>796</b>	<b>18 709</b>	<b>796</b>	<b>18 709</b>	<b>53 360</b>

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

<b>BALANCE SHEET</b>			
<i>Amounts in millions of NOK</i>			
	2014 Q1	2013 Q4	2013 Q1
<b>FINANCIAL ASSETS</b>			
Deposits in banks	9 772	6 214	1 615
Lending associated with reverse repurchase agreements	37 795	22 194	57 621
Unsettled trades	2 420	2	3 456
Equities	113 244	114 272	107 208
Equities lent	5 925	4 355	5 006
Bonds and other fixed income instruments	189 398	185 420	159 817
Financial derivatives	12	8	9
Other financial assets	67	159	1 146
<b>TOTAL FINANCIAL ASSETS</b>	<b>358 634</b>	<b>332 624</b>	<b>335 878</b>
<b>FINANCIAL LIABILITIES</b>			
Short-term borrowing	0	0	0
Borrowing associated with repurchase agreements	0	0	0
Cash collateral received	1 984	1 365	1 826
Unsettled trades	9 254	1 528	20 210
Financial derivatives	0	21	16
Other financial liabilities	667	1 278	18 609
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>11 905</b>	<b>4 193</b>	<b>40 661</b>
<b>TOTAL PORTFOLIOS *</b>	<b>346 729</b>	<b>328 431</b>	<b>295 217</b>

\* Total portfolios includes outstanding balances with the GPFG (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 31 March 2014. The financial statements of Norges Bank 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.

**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***Amounts in millions of NOK*

INCOME STATEMENT	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Eliminations	Total foreign exchange reserves
	2014 Q1	2014 Q1	2014 Q1	2014 Q1	2014 Q1
Interest income, deposits in foreign banks	1	0	2	1	2
Interest income, lending associated with reverse repurchase agreements	-	1	7	-	9
Net income/expenses - gains/losses from:					
- Equities	1 321	-	-	-	1 321
- Bonds and other fixed-income instruments	2 929	13	0	-	2 943
- Financial derivatives	3	0	-	-	2
Interest expense, borrowing associated with repurchase agreements	0	-	0	0	0
Tax expense	-18	-	-	-	-18
Other financial income/expenses	0	0	-1	-	-1
<b>NET INCOME FROM FINANCIAL INSTRUMENTS BEFORE FOREIGN EXCHANGE GAINS/LOSSES</b>	<b>4 236</b>	<b>14</b>	<b>9</b>	<b>0</b>	<b>4 258</b>
Foreign exchange gains/losses	-2 611	-502	-362	-13	-3 462
<b>NET INCOME FROM FINANCIAL INSTRUMENTS *</b>	<b>1 625</b>	<b>-488</b>	<b>-354</b>	<b>-13</b>	<b>796</b>

\* 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**

Amounts in millions of NOK

BALANCE SHEET	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Eliminations	Total foreign exchange reserves
	31. Mar. 2014	31. Mar. 2014	31. Mar. 2014	31. Mar. 2014	31. Mar. 2014
<b>FINANCIAL ASSETS</b>					
Deposits in banks	125	1 264	8 382	-	9 772
Lending associated with reverse repurchase agreements	1 984	11 150	24 661	-	37 795
Unsettled trades	2 420	-	-	-	2 420
Equities	113 244	-	-	-	113 244
Equities lent	5 925	-	-	-	5 925
Bonds and other fixed income instruments	156 293	31 309	1 796	-	189 398
Bonds lent	-	-	-	-	-
Financial derivatives	11	0	1	-	12
Other financial assets	67	-	-	0	67
<b>TOTAL FINANCIAL ASSETS</b>	<b>280 070</b>	<b>43 723</b>	<b>34 840</b>	<b>0</b>	<b>358 634</b>
<b>FINANCIAL LIABILITIES</b>					
Short-term borrowing	0	-	-	-	0
Borrowing associated with repurchase agreements	0	-	-	-	0
Cash collateral received	1 984	-	-	-	1 984
Unsettled trades	2 561	5 575	1 119	-	9 254
Short-sale bonds	0	-	-	-	0
Financial derivatives	0	0	-	-	0
Other liabilities	592	-	667	592	667
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>5 137</b>	<b>5 575</b>	<b>1 785</b>	<b>592</b>	<b>11 905</b>
<b>TOTAL PORTFOLIOS *</b>	<b>274 934</b>	<b>38 148</b>	<b>33 055</b>	<b>-592</b>	<b>346 729</b>

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

Outstanding balances are excluded from the term foreign exchange reserves presented in Norges Bank's annual financial statements (cf. IMF definition).

Reconciliation between market value at the end of the period and net portfolio value for financial reporting purposes

Amounts in millions of NOK

	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Total foreign exchange reserves
	31. Mar. 2014	31. Mar. 2014	31. Mar. 2014	31. Mar. 2014
Market value (end of period)	274 934	38 150	34 172	347 256
Total portfolio	274 934	38 148	33 055	346 137
<b>Difference between market value and net portfolio</b>	<b>0</b>	<b>2</b>	<b>1 117</b>	<b>1 119</b>
Foreign exchange purchases, trade dates 28 March with settlement 1 April 2014	-	-	-1 118	-1 118
<b>Rounding difference</b>	<b>0</b>	<b>2</b>	<b>-1</b>	<b>1</b>

**Note 5 Equities, bonds and other fixed income financial instruments**

Amounts in millions of NOK

Table 5.1 Specification equities	31. Mar. 2014		
	Fair value excl. dividends	Accrued dividends	Fair value incl. dividends
Equities:			
Listed equities	118 514	269	118 783
OTC equities	386	0	386
<b>Total equities</b>	<b>118 900</b>	<b>269</b>	<b>119 169</b>
<i>Of which equities lent</i>	5 925	-	5 925

## 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. For the long-term portfolio, Norges Bank measures risk in both absolute terms for the actual portfolio and the relative market risk for investments in the portfolio. For the money market portfolio, the Bank measures both absolute and relative market risk.

### 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 Q1	2013 Q4	2013 Q3
<i>Money market investments:</i>				
Market risk	1.0 percentage point expected relative volatility	0.04	0.05	0.06
Asset allocation	Cash	17.93	19.1	14.81
	Securities	82.07	80.9	85.19
<i>Equities and long-term fixed income investments:</i>				
Market risk	1.0 percentage point expected relative volatility	0.07	0.08	0.15
Asset allocation	Fixed income portfolio	56.76	56.63	58.59
	Equity portfolio	43.24	43.37	41.41

#### 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<sup>1</sup>

	AAA	AA	A	BBB	Lower	Total
Treasury bills	16.7	0	0	0	0	16.7
Sovereign bonds	50.6	32.7	0	0	0	83.3
Corporate bonds	0	0	0	0	0	0
Collateralised bonds	0	0	0	0	0	0
<b>Total fixed income securities</b>	<b>67.3</b>	<b>32.7</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100</b>

<sup>1</sup> 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 Q4, 99.98 percent was invested in government securities rated AA or higher and only 0.02 percent of the portfolio was invested in corporate bonds.