

FOREIGN EXCHANGE RESERVES

Management of Norges Bank's foreign exchange reserves

1 | 2017
MAY 2017

REPORT FOR
FIRST QUARTER 2017



NORGES BANK

Contents

NORGES BANK

QUARTERLY REPORT

1 | 2017

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

- Management of the foreign exchange reserves 3**
 - Foreign exchange reserves4
 - Fixed income investments4
 - Equity investments6
 - Petroleum buffer portfolio7
 - Risk.....7
 - International commitments8

- Key figures 10**

- Financial reporting – foreign exchange reserves..... 12**
 - Income statement.....12
 - Balance sheet.....12
 - Notes.....12

Management of the foreign exchange reserves

NORGES BANK

QUARTERLY REPORT
1 | 2017

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

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

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

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

Main points from 2017 Q1

- The market value of Norges Bank's foreign exchange reserves was NOK 495.1bn at the end of 2017 Q1, an increase of NOK 14.2bn during the quarter.
- In international currency terms, the return on the foreign exchange reserves, excluding the petroleum buffer portfolio, was 2.0%. The return was 5.2% on equity investments and approximately zero on fixed income investments. In NOK terms, the return on the foreign exchange reserves was 2.8%.
- The size and liquidity of the foreign exchange reserves are regarded as being sufficient for meeting Norges Bank's commitments. Liquid investments amounted to SDR 26.3bn.
- As a consequence of the foreign exchange reserves' portfolio rebalancing regime, foreign exchange corresponding to NOK 21.2bn was transferred from the equity portfolio to the fixed income portfolio on 31 March.

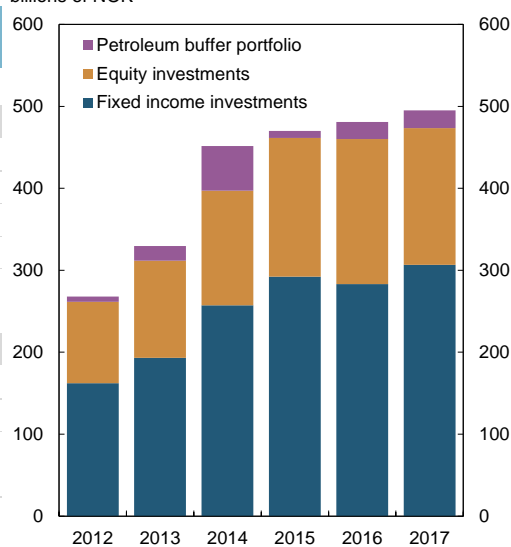
Foreign exchange reserves

The market value of the foreign exchange reserves was NOK 495.1bn at the end of 2017 Q1, comprising NOK 306.7bn in fixed income investments, NOK 166.7bn in equity investments and NOK 21.8bn in the petroleum buffer portfolio. In all, the value of the foreign exchange reserves increased by NOK 14.2bn during the quarter. In international currency terms, the return on the reserves was 2.0%, which contributed approximately NOK 9.0bn. A net inflow added approximately NOK 1.4bn, while the remaining change in the value of the reserves is due to a weaker krone. As a consequence of rebalancing back to the strategic weighting for equities of 35%, foreign exchange corresponding to NOK 21.2bn was transferred from the equity portfolio to the fixed income portfolio at the end of the quarter.

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

	2017 Q1	2016 Q4
Equity and fixed income investments	473.3	460.3
Change in market value	13.1	
Return in NOK	12.7	
Return in international currency terms	9.0	
Movements in the krone exchange rate	3.7	
Net transfers	0.4	
Petroleum buffer portfolio	21.8	20.7
Change in market value	1.1	
Return in NOK	0.1	
Net transfers	1.0	
Foreign exchange reserves	495.1	480.9

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



Return in international currency terms

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

Fixed income investments

The market value of the fixed income investments at the end of 2017 Q1 was NOK 306.7bn, an increase of NOK 23.7bn during the quarter. This was primarily the result of transfers from the equity portfolio to the fixed income portfolio on the last day of the quarter. The remainder of the change was due to a weaker krone.

The return on fixed income investments was close to zero during the quarter. In 2017 Q1, developments in international fixed income markets were marked by political uncertainty. Interest rate movements in European markets may be largely attributable to the French election, which in addition to solid key economic figures and signals from the ECB of reduced deflation risk pulled German and French yields up in Q1. Bond yields in France rose markedly more than in Germany, and the return on the euro portfolio ended at negative 0.8% in EUR terms.

Economic developments in the UK were surprisingly strong in a period of uncertainty regarding the effects of the UK's withdrawal from the EU on the growth outlook. While higher international interest rates pulled up short-term yields somewhat, the longest

yields fell due to Brexit-related “safe haven” flows. The absolute return on the sterling portfolio was 0.4% in GBP terms.

Uncertainty related to the implementation of fiscal policy plans pulled US long-term yields down somewhat in 2017 Q1. However, US short-term yields rose owing to solid key figures and signals from the Federal Reserve that further monetary policy normalisation is expected in the form of three policy rate increases in 2017. The decline in US long-term interest rates is the primary reason why the return on the US dollar portfolio was 0.5% in USD terms.

In Japan, the Bank of Japan has continued its accommodative monetary policy and yield curve control strategy, which aims at keeping the 10-year yield at around 0%. A virtually unchanged Japanese yield curve may explain the near zero return measured in JPY terms.

The portfolio earned a negative excess return of 1 basis point in 2017 Q1.

Table 2 Absolute amounts in the fixed income investments at the end of Q1. Market value in billions of NOK

	Market value	Share	Duration	Yield
Total	306.7	100.00	3.57	0.75
USD	153.6	50.07	3.29	1.62
EUR	104.3	33.99	3.90	-0.23
GBP	24.4	7.97	3.69	0.40
JPY	24.4	7.97	3.84	-0.15

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

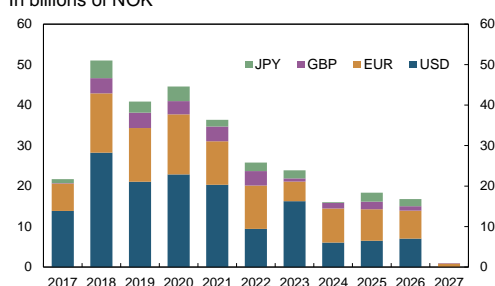


Table 3 Absolute return on fixed income investments

	2017 Q1	2016
<i>In international currency terms</i>		
Return in percent	-0.01	1.17
Return in millions of NOK	-60	3 617
<i>In NOK terms</i>		
Return in percent	0.72	-3.29
Return in millions of NOK	2 050	-9 585

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

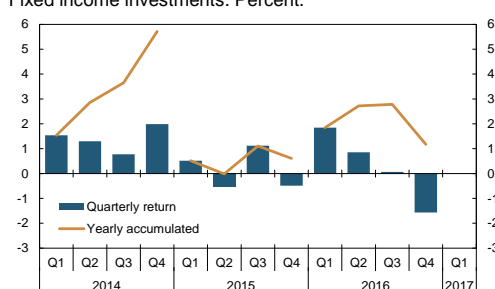
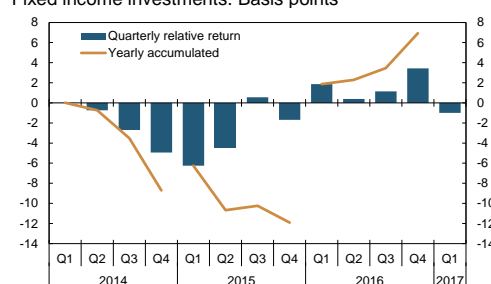


Table 4 Relative return on fixed income investments.

	2017 Q1	2016
<i>In international currency terms</i>		
Relative return in percentage points	-0.01	0.07
Relative return in millions of NOK	-28	196
<i>Benchmark index</i>		
The strategic benchmark index for fixed income investments is provided by Bloomberg and is a market-weighted index of all sovereign bonds with a residual maturity of between one month and 10 years issued by France, Germany, Japan, the UK and the US. The currency weighting in the fixed income index is 50% USD, 34% EUR, 8% GBP and 8% JPY.		

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



Equity investments

The market value of the equity investments was NOK 166.7bn at the end of 2017 Q1, a decline of NOK 10.6bn during the quarter. The return in international currency terms increased the market value by NOK 9.0bn and a weaker krone increased the value of the portfolio by a further NOK 1.6bn. At the end of the quarter, NOK 21.2bn was transferred to the fixed income portfolio.

The return on equity investments was 5.2% in 2017 Q1 in international currency terms. European equities posted the highest return in Q1, 6.2%. The return on Asian and North American equity investments was 5.4% and 4.8%, respectively. Technology was the sector posting the highest return in Q1, 11.7%, and the healthcare sector posted a return of 7.5%. The oil and gas sector posted the weakest return, negative 5.6%.

The portfolio earned a negative excess return of 6 basis points in 2017 Q1.

NORGES BANK

QUARTERLY REPORT
1 | 2017

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

Table 5 Equity investments by currency at the end of 2017 Q1. Market value in billions of NOK excluding cash

	Market value	Share
Total	171.9	100.0
USD	103.6	60.3
EUR	21.0	12.2
GBP	11.3	6.6
JPY	16.8	9.8
CAD	5.3	3.1
DKK	1.1	0.6
CHF	6.1	3.6
SEK	2.0	1.1
AUD	4.7	2.8

Table 6 Equity investments by sector at the end of 2017 Q1. Market value in billions of NOK

	Market value	Share
Oil & gas	11.5	6.7
Materials	7.8	4.5
Manufacturing	21.2	12.3
Consumer goods	20.6	12.0
Healthcare	21.0	12.2
Consumer services	19.2	11.1
Telecommunications	5.2	3.0
Power	4.6	2.7
Finance	38.1	22.2
Technology	22.7	13.2

Table 7 Absolute return on equity investments.

	2017 Q1	2016
<i>In international currency terms</i>		
Return in percent	5.22	10.54
Return in millions of NOK	9 034	16 480
<i>In NOK terms</i>		
Return in percent	6.00	5.59
Return in millions of NOK	10 639	9 294

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

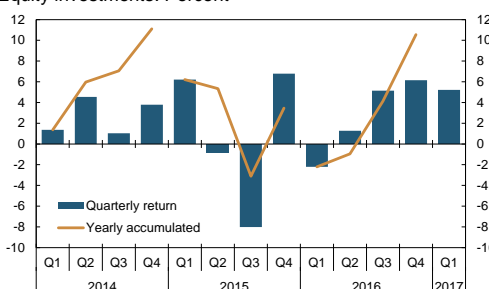


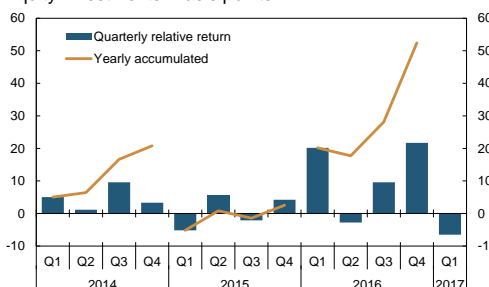
Table 8 Relative return on the equity investments.

	2017 Q1	2016
<i>In international currency terms</i>		
Relative return in percentage points	-0.06	0.52
Relative return in millions of NOK	-112	773

Benchmark index

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

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



Petroleum buffer portfolio

At the end of 2017 Q1, the market value of the petroleum buffer portfolio was NOK 21.8bn. During the quarter, NOK 23.4bn worth of foreign exchange was transferred from the GPFG, which included remuneration of NOK 3.7bn for the management of the GPFG in 2016. In addition, NOK 39.1bn worth of foreign exchange was purchased from the State's Direct Financial Interest (SDFI). During the quarter, Norges Bank sold approximately NOK 61.6bn worth of foreign exchange.

NORGES BANK

QUARTERLY REPORT
1 | 2017

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

Risk

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

The foreign exchange reserves' market risk is determined by the composition of investments and movements in equity prices, interest rates and credit spreads. No single measure can fully capture market risk. In this report, market risk is measured by the standard deviation in the rate of return¹. This risk measure provides an estimate of how much the value of the portfolio can be expected to change in the course of a year. For equity and fixed income investments, expected absolute volatility at the end of 2017 Q1 excluding exchange rate movements was 13.1% and 1.5%, respectively. This corresponds to an expected annual fluctuation in value, excluding exchange rate movements, of NOK 21.8bn and NOK 4.7bn, respectively.

While absolute volatility provides an indication of how much the foreign exchange reserves are expected to fluctuate in value, relative volatility provides an indication of how much the portfolios can be expected to fluctuate in value compared with the portfolio's benchmark index². At the end of Q1, expected relative volatility of equity and fixed income investments was 0.36 and 0.07 percentage point, respectively.

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

Chart 7 Absolute volatility. Excluding exchange rate movements. Percent. Fixed income investments from Dec. 2016 due to change in management

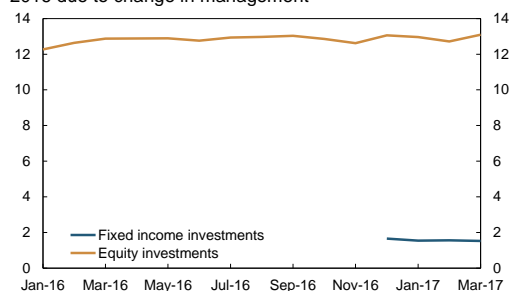
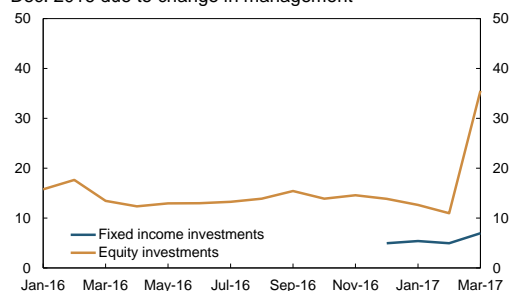


Chart 8 Relative volatility. Including exchange rate movements. Basis points. Fixed income investments from Dec. 2016 due to change in management



¹ Also referred to as absolute volatility.

² Under the guidelines for equities and fixed income investments issued by the governor, maximum expected relative volatility is set at 0.5 percentage point. Relative volatility of 50 basis points means that the excess return on the portfolio is expected to be within the interval ± 0.5 percentage point in two out of three years.

International commitments

Pursuant to the Norges Bank Act, Norges Bank is obliged to meet the commitments ensuing from membership of the IMF. This membership entails a standing commitment to furnish foreign exchange for IMF loans to other member countries. Table 9 summarises amounts related to the IMF recognised in the balance sheet at the end of 2017 Q1. The size and liquidity of the foreign exchange reserves are assessed to be sufficient to meet Norges Bank's international commitments (see page 9).

NORGES BANK

QUARTERLY REPORT
1 | 2017

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

Table 9 Claims on and liabilities to the International Monetary Fund (IMF) at the end of 2017 Q1. In millions of NOK

	Loan resource commitments ²	Recognised in the balance sheet			Total amount recognised
		Drawn on commitments	Subscription ³	SDRs	
<i>Financial assets</i>					
IMF subscription (quota) ¹	-	-	43 830	-	43 830
Holdings of SDRs	-	-	-	16 118	16 118
Loans to the IMF - NAB	22 946	3 326	-	-	3 326
Loans to the IMF – Bilateral agreement	-	-	-	-	-
Loans to the IMF - PRGT	7 000	3 170	-	-	3 170
Claims on the IMF	-	6 496	43 830	16 118	66 444
<i>Financial liabilities</i>					
Krone liability to the IMF	-	-	41 147	-	41 147
Equivalent value of SDR allocations	-	-	-	18 247	18 247
Liabilities to the IMF	-	-	41 147	18 247	59 394
Net positions with the IMF	-	6 496	2 684	-2 128	7 051

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

Overview – Norges Bank's commitments to the IMF

Quota

In 2010, the IMF approved the 14th General Review of Quotas, which entailed a doubling of member countries' IMF quota subscriptions. The payment was made on 17 February 2016, increasing Norway's quota to SDR 3 755m³. The amount drawn⁴ rose following the financial crisis, but in recent years has fallen again. At the end of 2017 Q1, the amount drawn totalled SDR 230m (Chart 9).

NAB

On the same date Norges Bank paid its quota increase, Norway's loan resource commitments under the NAB⁵ were reduced by approximately the same amount. This did not involve any transactions. Norges Bank's commitments under this lending programme were reduced to SDR 1 967m (Chart 10). Total outstanding drawings were SDR 285m at the end of 2017 Q1.

When the IMF has a need for funds, it normally draws on quota commitments and the NAB. Commitments under the quota and NAB are SDR 5 721m. At the end of Q1, the IMF had drawn SDR 515m. A further SDR 5 207m may thus be drawn under these arrangements. Following the quota increase, the NAB plays a more traditional role as support for quota-based financing.

Bilateral agreements

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

PRGT

In June 2010, the Ministry of Finance and the IMF signed an agreement under which Norway will furnish SDR 300m in loan resources to the IMF's programme for low income countries (PRGT⁶). Norges Bank is the agent for the loan and administers the commitments. This facility is now fully drawn, and under the agreement from 2010, only repayments will be made. In November 2016, a new borrowing agreement was signed under which Norway will provide the PRGT with an additional SDR 300m. At the end of 2017 Q1, no amounts had been drawn on the new borrowing agreement.

Holdings of SDRs

The IMF has allocated SDRs to member countries. Member countries may change their SDR holdings by purchasing from or selling to members who have voluntarily agreed to be a counterparty in SDR transactions. In 2009, Norges Bank entered into a new agreement with the IMF on the voluntary purchase and sale of SDRs, as long as holdings remain within 50%-150% of SDR allocations. In 2009, SDR allocations increased from SDR 168m to SDR 1 563m. Thus, if other countries wish to sell SDRs, Norges Bank may have to increase holdings of SDRs to SDR 2 345m. Purchases of SDRs are charged to the foreign exchange reserves. The agreement also gives Norges Bank the right to sell SDRs. At the end of 2017 Q1, holdings of SDRs were SDR 1 381 (Chart 11).

Chart 9 IMF quota and reserve tranche position. In millions of SDRs

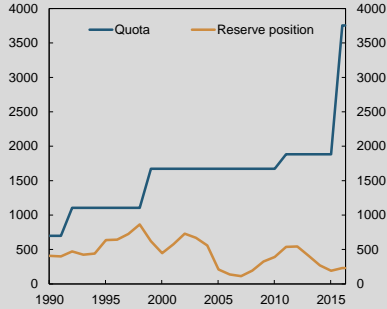


Chart 10 NAB. In millions of SDRs

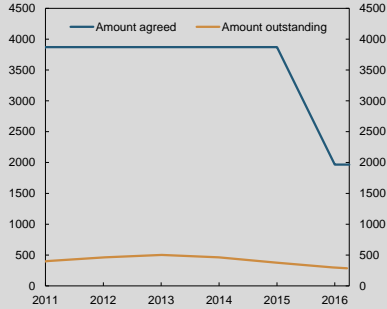
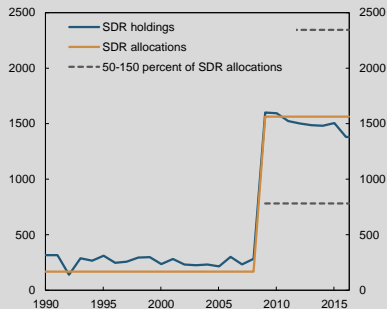


Chart 11 Holdings of SDRs and SDR allocations. In millions of SDRs



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 five currencies: USD (42%), EUR (31%), JPY (8%), GBP (8%) and CNY (11%). At 31 March 2017, SDR 1 = NOK 11.67.

⁴ Amount drawn is equal to the reserve tranche position.

⁵ New Arrangements to Borrow (NAB).

⁶ Poverty Reduction and Growth Trust (PRGT).

Key figures

NORGES BANK

QUARTERLY REPORT

1 | 2017

MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

Table 10 Market value of the foreign exchange reserves. In billions of NOK

	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1
Market value of fixed income and equity investments	473.3	460.3	437.3	448.4	440.7
Change in market value	13.1	22.9	-11.1	7.7	-20.7
Return in NOK	12.7	23.7	-11.2	7.7	-20.4
<i>Return in international currency</i>	<i>9.0</i>	<i>5.8</i>	<i>8.4</i>	<i>4.4</i>	<i>1.6</i>
<i>Change due to movements in the krone exchange rate</i>	<i>3.7</i>	<i>17.9</i>	<i>-19.6</i>	<i>3.3</i>	<i>-22.0</i>
Net transfers	0.4	-0.7	0.1	0.1	-0.3
Market value of the petroleum buffer portfolio	21.8	20.7	14.1	18.2	20.6
Change in market value	1.1	6.6	-4.1	-2.4	11.9
Return in NOK	0.1	0.2	-0.4	-0.3	-0.4
Net transfers	1.0	6.4	-3.7	-2.1	12.3
<i>Foreign exchange purchases from the SDFI</i>	<i>39.1</i>	<i>28.9</i>	<i>26.2</i>	<i>29.7</i>	<i>33.6</i>
<i>Foreign exchange purchases in the market</i>	<i>-61.6</i>	<i>-49.5</i>	<i>-59.4</i>	<i>-55.8</i>	<i>-46.0</i>
<i>Transfers from the GPF</i>	<i>23.4</i>	<i>27.0</i>	<i>29.5</i>	<i>24.0</i>	<i>24.7</i>
Market value of the foreign exchange reserves	495.1	480.9	451.4	466.6	461.3

Table 11 Return on the foreign exchange reserves in international currency terms. Percent

	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1
Return on fixed income investments	-0.01	-1.57	0.07	0.85	1.85
Return on equity investments	5.22	6.16	5.14	1.28	-2.21
Return on the foreign exchange reserves*	2.00	1.26	1.87	1.01	0.36
Return on benchmark index for fixed income investments	0.00	-1.60	0.05	0.85	1.83
Return on benchmark index for equity investments	5.29	5.94	5.04	1.31	-2.41
Relative return on fixed income investments	-0.01	0.03	0.01	0.00	0.02
Relative return on equity investments	-0.06	0.22	0.10	-0.03	0.20

* Excluding petroleum buffer portfolio.

Table 12 Return on the foreign exchange reserves in NOK. Percent

	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1
Return on fixed income investments	0.72	2.55	-4.23	1.57	-3.05
Return on equity investments	6.00	10.35	0.61	2.03	-6.79
Return on the foreign exchange reserves*	2.75	5.41	-2.50	1.74	-4.42
Return on benchmark index for fixed income investments	0.73	2.51	-4.24	1.57	-3.07
Return on benchmark index for equity investments	6.07	10.13	0.52	2.06	-6.99
Relative return on fixed income investments	-0.01	0.04	0.01	0.00	0.02
Relative return on equity investments	-0.07	0.23	0.09	-0.03	0.19

* Excluding petroleum buffer portfolio.

Table 13 Key figures at the end of 2017 Q1. In international currency terms. Annualised.

	Past year	Past 3 years	Past 5 years	Past 10 years
Return on the foreign exchange reserves (percent)	6.29	4.80	5.89	4.70
<i>Fixed income investments:</i>				
Return on fixed income investments (percent)	-0.67	1.95	1.98	3.77
Return on benchmark index (percent)	-0.71	2.00	1.93	3.51
Relative return (percentage points)	0.04	-0.05	0.05	0.26
Realised absolute volatility (percent) ¹	1.72	1.96	2.20	3.38
Realised relative volatility (percentage points) ¹	0.04	0.06	0.10	1.58
Information rate (IR) ²	1.12	-0.88	0.51	0.16
<i>Equity investments:</i>				
Return on equity investments (percent)	18.94	9.67	12.61	5.84
Return on benchmark index (percent)	18.70	9.46	12.33	5.71
Relative return (percentage points)	0.25	0.21	0.28	0.12
Realised absolute volatility (percent) ¹	5.90	10.20	9.93	14.96
Realised relative volatility (percentage points) ¹	0.15	0.16	0.16	0.41
Information rate (IR) ²	1.60	1.33	1.70	0.30

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

² 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

QUARTERLY REPORT
1 | 2017

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

Financial reporting – foreign exchange reserves

NORGES BANK

QUARTERLY REPORT
1 | 2017

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

Income statement

Beløp i millioner kroner	2017 Q1	2016 Q4	Full year 2017	Full year 2016
NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS				
Net income/expenses from:				
Equities and units	9 445	11 790	9 445	14 705
Bonds	18	-3 702	18	3 868
Financial derivatives	-23	13	-23	18
Secured lending	27	25	27	120
Interest income/expense from deposits and short-term borrowing	-1	-4	-1	-2
Tax expenses	-24	-4	-24	-76
Other financial income/expenses	-	-	-	5
Net income/expense from financial instruments before foreign exchange gains/losses	9 442	8 118	9 442	18 638
Foreign exchange gains/losses	3 319	15 730	3 319	-19 854
Net income/expense from financial instruments	12 761	23 848	12 761	-1 216

Balance sheet

Amounts in NOK millions	31 Mar. 2017	31 Dec. 2016
FINANCIAL ASSETS		
Deposits in banks	1 694	22 596
Secured lending	37 074	26 774
Unsettled trades	35 895	250
Equities and units	156 428	166 758
Equities lent	15 850	10 437
Bonds	292 627	272 321
Financial derivatives	21	2
Other financial assets	3 999	1 956
Total financial assets	543 588	501 094
FINANCIAL LIABILITIES		
Secured borrowing	730	2 412
Unsettled trades	46 931	18 542
Financial derivatives	3	-
Total financial liabilities	47 664	20 954
Net foreign exchange reserves	495 924	480 140

Notes

Note 1 Accounting policies, significant estimates and critical accounting judgements

These financial statements and notes pertain solely to Norges Bank's foreign exchange reserves at 31 March 2017. Pursuant to Section 30, second paragraph, of the Norges Bank Act, the financial statements of Norges Bank have been prepared in accordance with the Accounting Act and the Regulation concerning annual financial reporting for Norges Bank, which has been laid

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

NORGES BANK

QUARTERLY REPORT
1 | 2017

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

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

Note 2 Income statement by portfolio

	Equity portfolio	Fixed income portfolio	Petroleum buffer portfolio	Total foreign exchange reserves
Amounts in NOK millions	2017 Q1	2017 Q1	2017 Q1	2017 Q1
NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS				
Net income/expenses from:				
Equities and units	9 445	-	-	9 445
Bonds	-	18	-	18
Financial derivatives	22	-45	-	-23
Secured lending	12	5	10	27
Interest income/expense from deposits and short-term borrowing	-	1	-2	-1
Tax expense	-24	-	-	-24
Other financial income/expenses	-	-	-	-
Net income/expense from financial instruments before foreign exchange gains/losses	9 455	-21	8	9 442
Foreign exchange gains/losses	1 184	2 038	97	3 319
Net income/expense from financial instruments	10 639	2 017	105	12 761

Note 3 Balance sheet by portfolio

	Equity portfolio	Fixed income portfolio	Petroleum buffer portfolio	Total foreign exchange reserves
Amounts in NOK millions	31 Mar. 2017	31 Mar. 2017	31 Mar. 2017	31 Mar. 2017
FINANCIAL ASSETS				
Deposits in banks	121	1 519	54	1 694
Secured lending	730	4 919	31 425	37 074
Unsettled trades	11 650	24 245	-	35 895
Equities and units	156 428	-	-	156 428
Equities lent	15 850	-	-	15 850
Bonds	-	292 627	-	292 627
Financial derivatives	20	-	1	21
Other financial assets	3 530	-	469	3 999
Total financial assets	188 329	323 310	31 949	543 588
FINANCIAL LIABILITIES				
Secured borrowing	730	-	-	730
Unsettled trades	20 943	16 688	9 300	46 931
Financial derivatives	-	-	3	3
Total financial liabilities	21 673	16 688	9 303	47 664
Net foreign exchange reserves	166 656	306 622	22 646	495 924