

# FOREIGN EXCHANGE RESERVES

## Management of Norges Bank's foreign exchange reserves

QUARTERLY REPORT

1 | 2016  
MAY 2016

REPORT FOR  
FIRST QUARTER 2016



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.....12

NORGES BANK  
**FOREIGN EXCHANGE RESERVES**  
1 | 2016  
MANAGEMENT OF  
NORGES BANK'S FOREIGN  
EXCHANGE RESERVES

## MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

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FOREIGN EXCHANGE  
RESERVES

1 | 2016

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

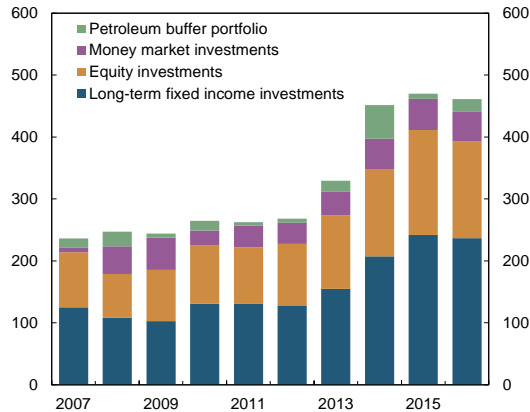
### Main points from 2016 Q1

- The market value of Norges Bank's foreign exchange reserves was NOK 461.3bn at the end of 2016 Q1, a reduction of NOK 8.8bn during the quarter.
- For the first time, foreign exchange was transferred from the GPFG to the petroleum buffer portfolio.
- In international currency terms, the return on the foreign exchange reserves, excluding the petroleum buffer portfolio, was 0.36%. The return on equity investments was negative 2.21%, 2.22% on long-term fixed income investments and 0.04% on short-term fixed income investments.
- The size and liquidity of the foreign exchange reserves are regarded as being sufficient to meet Norges Bank's commitments. Liquid investments amount to SDR 24.4bn.
- The IMF's 14th General Review of Quotas entered into force on 21 January. As a result, the quotas of member countries doubled. Norway's quota rose from NOK 22bn to NOK 43.8bn. At the same time, Norway's loan resource commitments under the New Agreements to Borrow (NAB) were reduced by the same amount.

## Size and composition

The market value of the foreign exchange reserves was NOK 461.3bn at the end of 2016 Q1. The reserves comprise the long-term portfolio, with NOK 393.4bn, the money market portfolio, with NOK 47.3bn and the petroleum buffer portfolio, with NOK 20.6bn. The value of the reserves decreased by NOK 8.8bn in Q1. A stronger krone reduced the reserves' value in NOK terms by NOK 20.3bn, while a net capital inflow increased the reserves by NOK 11.9bn. For the first time, foreign exchange was transferred from the GPFG to the petroleum buffer portfolio.

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



**Table 1** Market value of the foreign exchange reserves at the end of 2016 Q1. In billions of NOK

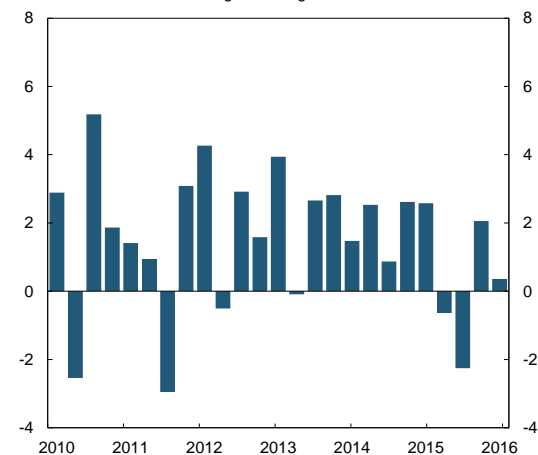
	2016 Q1
Money market investments	47.3
Long-term fixed income investments	236.8
Equity investments	156.5
Petroleum buffer portfolio	20.6
<b>Foreign exchange reserves</b>	<b>461.3</b>
<b>Total change during the period</b>	<b>-8.8</b>
Return <sup>1</sup>	-0.5
Movements in the krone exchange rate	-20.3
Net transfers	11.9

<sup>1</sup>Net income from financial instruments before foreign exchange gains/losses (see income statement on page 12).

## Return

In 2016 Q1, the return on the foreign exchange reserves was 0.36%, down from 2.06% in 2015 Q4. The return on equity investments was negative 2.21%, positive 2.22% on long-term fixed income investments and 0.04% on short-term fixed income investments.

**Chart 2** Absolute return. Foreign exchange reserves. Percent



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

	2016 Q1
<b>Return:</b>	
Money market investments	0.04
Long-term fixed income investments	2.22
Equity investments	-2.21
<b>Foreign exchange reserves<sup>1</sup></b>	<b>0.36</b>
<b>Relative return:</b>	
Money market investments	-0.01
Long-term fixed income investments	0.02
Equity investments	0.20

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

### Return in international currency terms

The foreign exchange reserves are invested in international financial instruments in foreign currency. The return on the foreign exchange reserves is measured primarily in terms of 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.

## MONEY MARKET INVESTMENTS

The return on money market investments was 4 basis points in 2016 Q1, 1 basis point lower than the benchmark index.

Yields on US Treasury bills fell somewhat in 2016 Q1. In the first half of the period, yields fell on increased market turbulence, but recovered somewhat when concerns regarding global growth lessened. In March, yields fell on “dovish” communication by the Federal Reserve, with the market pricing in some postponement of further policy rate normalisation. Yields on the shortest government securities rose somewhat owing to ongoing structural changes in US money market funds. Over the quarter, the 12-month yield was approximately unchanged, while the six-month yield fell by 11 basis points.

Yields on German Treasury bills fell in Q1. Expectations of further monetary easing by the ECB put pressure on short fixed income securities. Yields on short government securities fell further after the ECB announced a larger-than-expected stimulus package. For the quarter as a whole, the German six-month yield fell by around 7 basis points.

NORGES BANK

FOREIGN EXCHANGE RESERVES

1 | 2016

MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

Chart 3 Absolute return. Money market investments. Basis points

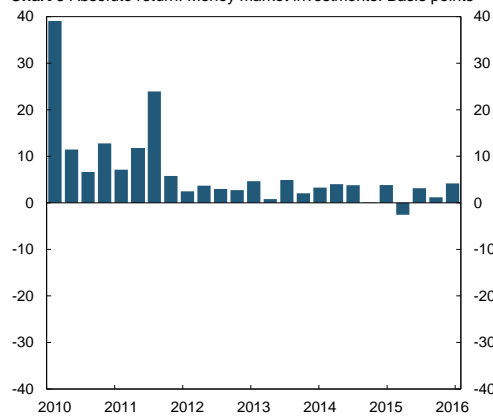
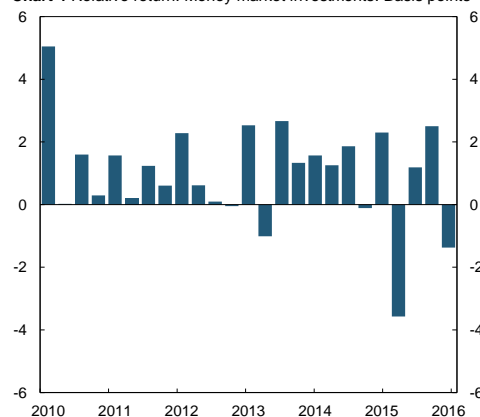


Chart 4 Relative return. Money market investments. Basis points



## LONG-TERM FIXED INCOME INVESTMENTS

The return on long-term fixed income investments was 2.22% in 2016 Q1. The return on bonds in EUR and JPY was 4.63% and 6.16%, respectively, while the return on bonds in USD and GBP was 0.33% and negative 1.74%, respectively. Compared with the benchmark index, there was an excess return on long-term fixed income investments of 2 basis points in Q1. Management of the portfolio was very close to the index.

Chart 5 Absolute return. Long-term fixed income investments. Percent

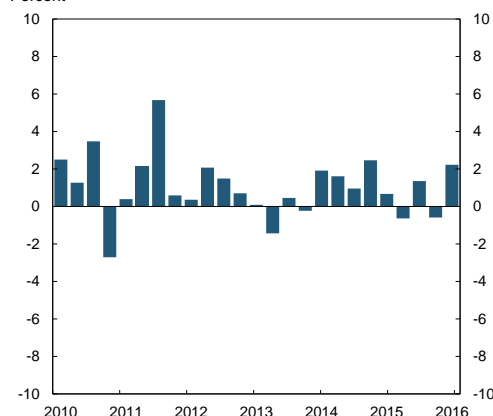
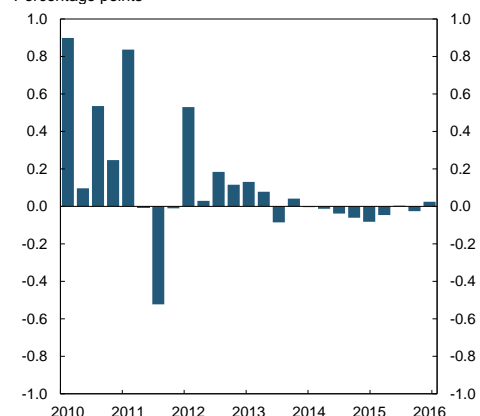


Chart 6 Relative return. Long-term fixed income investments. Percentage points



## EQUITY INVESTMENTS

The return on equity investments was negative 2.21% in 2016 Q1. All regions posted negative returns, with negative 6.60%, negative 4.48% and negative 0.38% for Asia, Europe and North America, respectively. European equities account for around one-fourth of the equity portfolio and made the largest negative contribution in Q1 with negative 1.18 percentage points. There was some variation across industry sectors in Q1. Financial sector companies posted the weakest performance, with a decrease of 8.01%. Financial sector equities account for the largest share of the portfolio, and contributed negative 1.93 percentage points to the total return. In Q1, equity investments earned an excess return of 20 basis points compared with the benchmark index.

NORGES BANK

FOREIGN EXCHANGE RESERVES

1 | 2016

MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

Chart 7 Absolute return. Equity investments. Percent

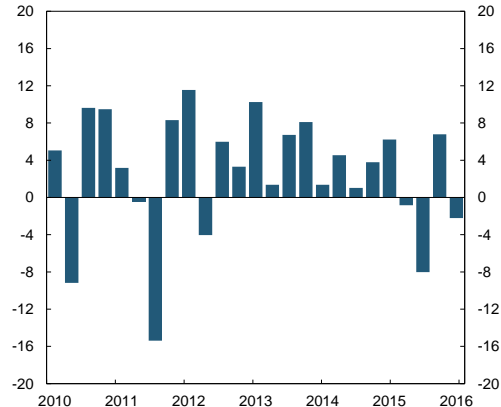
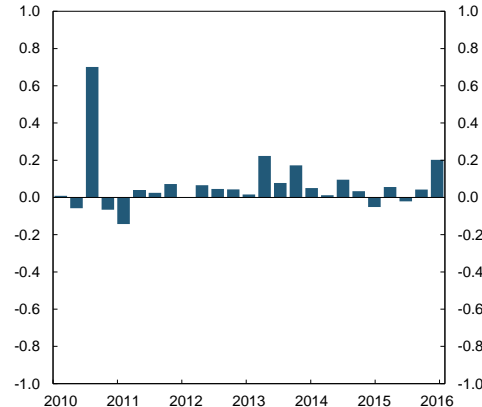


Chart 8 Relative return. Equity investments. Percentage points



### 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 Bubill Index and US T-bills.

### Risk management

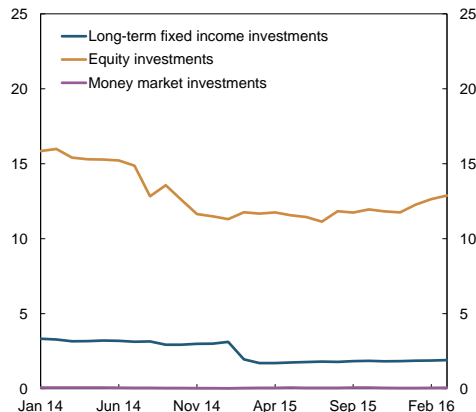
The foreign exchange reserves' market risk is determined by the composition of investments and movements in equity prices, foreign exchange rates, interest rates and credit spreads. No single measure can fully capture market risk. In this report, market risk is measured by the standard deviation in the rate of return<sup>1</sup>. 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 12.9% and 1.9%, respectively, at the end of 2016 Q1, approximately unchanged on the previous quarter. For the money market portfolio, expected absolute volatility was approximately zero. During the quarter, there was little change in absolute volatility for the foreign exchange reserves as a whole.

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

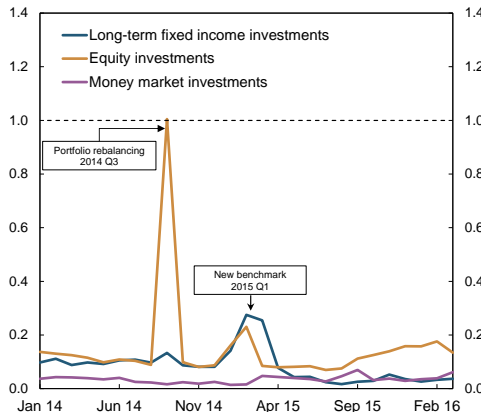
<sup>1</sup> Also referred to as absolute volatility.

portfolio's benchmark index.<sup>2</sup> At the end of Q1, expected relative volatility of equity and long-term fixed income investments was 0.13 and 0.04 percentage point, respectively. The expected relative volatility of the money market portfolio was 0.06 percentage point.

**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



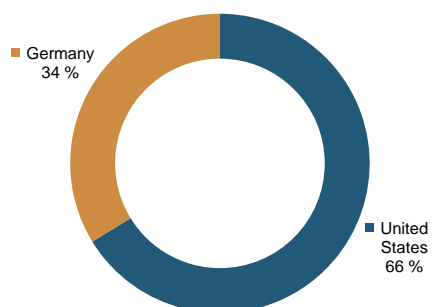
Credit and counterparty risk is defined as the risk of losses if issuers or counterparties default on payment obligations. Credit risk on the fixed income investments in the foreign exchange reserves is low. At the end of 2016 Q1, 90.6% was invested in government securities rated AA or higher. A considerable portion of fixed income investments, 66% of Treasury bills and 44% of sovereign bonds, is issued by the US and has a AAA rating. At the end of Q1, NOK 139.8bn 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. Percent<sup>1</sup>

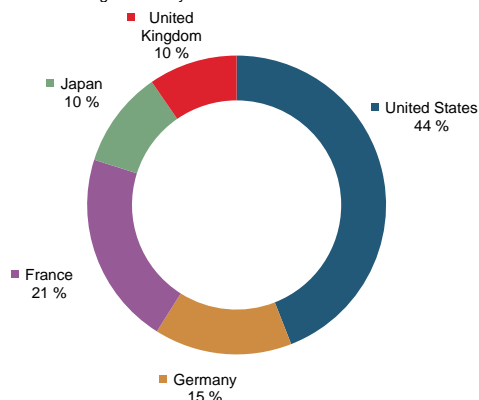
	AAA	AA	A	BBB	Lower	Total
Treasury bills	10.2	0.0	0.0	0.0	0.0	10.2
Sovereign bonds	52.9	27.4	9.4	0.0	0.0	89.8
Corporate bonds	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total fixed income instruments</b>	<b>63.2</b>	<b>27.4</b>	<b>9.4</b>	<b>0.0</b>	<b>0.0</b>	<b>100.0</b>

<sup>1</sup>Percentage of the fixed income instruments in the foreign exchange reserves.

**Chart 11** Treasury bills by issuer. Percent



**Chart 12** Sovereign bonds by issuer. Percent



<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 expected relative volatility to no more than 1.0 percentage point (100 basis points). In the guidelines for the money market portfolio, a limit of 1.0 percentage point has been set for expected relative volatility. Relative volatility of 1 percentage point means that the excess return on the portfolio is expected to be within the interval  $\pm 1.0$  percentage point in two out of three years.

## 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 and to meet 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. In 2010, the IMF approved the 14th General Review of Quotas, under which member countries' IMF subscriptions doubled. Payment of the quota increase was conditioned on the approval of the amendments to the IMF's Articles of Agreement by a sufficient number of members. The 2010 quota reform, which entered into force on 21 January 2016, increased Norway's quota from NOK 22.0bn to NOK 43.8bn<sup>3</sup>. At the same time, Norway's loan resource commitments under the New Agreements to Borrow (NAB) were reduced by the same amount. Thus, Norway's commitments to the IMF are virtually unchanged following the quota increase.

Table 4 summarises amounts related to the IMF recognised in the balance sheet at the end of 2016 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).

**Table 4** Claims on and liabilities to the International Monetary Fund (IMF) at 31 March 2016. In millions of NOK

	Loan resource commitments <sup>2</sup>	Recognised in the balance sheet			
		Drawn on commitments	Subscription <sup>3</sup>	SDRs	Total amount recognised
<i>Financial assets</i>					
IMF subscription (quota) <sup>1</sup>	-	-	43 765	-	43 765
Holdings of SDRs	-	-	-	14 825	14 825
Loans to the IMF – NAB	22 923	4 136	-	-	4 136
Loans to the IMF – Bilateral agreement	69 932	-	-	-	-
Loans to the IMF – PRGT	3 497	3 448	-	-	3 448
<b>Claims on the IMF</b>	<b>96 352</b>	<b>7 585</b>	<b>43 765</b>	<b>14 825</b>	<b>66 175</b>
<i>Financial liabilities</i>					
Krone liability to the IMF	-	-	41 085	-	41 085
Equivalent value of SDR allocations	-	-	-	18 220	18 220
<b>Liabilities to the IMF</b>	<b>-</b>	<b>-</b>	<b>41 085</b>	<b>18 220</b>	<b>59 305</b>
<b>Net positions with the IMF</b>	<b>96 352</b>	<b>7 585</b>	<b>2 680</b>	<b>-3 395</b>	<b>6 870</b>

<sup>1</sup> The IMF allocates quotas to member countries which primarily reflect member countries' relative size in the world economy. The quota provides the basis for determining the member country's voting power in the IMF, the member's financial contribution to the IMF, the amount of financing the member can access in the event of balance of payments problems and the amount of SDRs the member is allocated.

<sup>2</sup> Commitments giving the IMF a borrowing facility with Norges Bank up to an agreed amount. Only the portion drawn is recognised in the balance sheet. Norges Bank's commitments to the IMF are in SDRs; amounts have been translated into NOK.

<sup>3</sup> 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, 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.

<sup>3</sup> Official IMF amounts are stated in SDRs. Amounts in the text and table have been translated into NOK at the SDR exchange rate at 31 March 2016.



## Overview – Norges Bank's commitments to the IMF at 31 March 2016

### IMF subscription (quota)

In 2010, the IMF approved the 14th General Review of Quotas, which entailed a doubling of member countries' IMF quota subscriptions. Norway's quota increased to SDR<sup>4</sup> 3 755m (NOK 43.8bn). The payment was made on 17 February 2016 using funds from the money market portfolio and Norges Bank's holdings of SDRs and a krone deposit in the IMF's account with Norges Bank. The amount drawn<sup>5</sup> rose following the financial crisis, but in recent years has fallen again. At the end of 2016 Q1, the amount drawn totalled SDR 230m (Chart 13).

### NAB

On the same date Norges Bank paid its quota increase, Norway's loan resource commitments under the NAB<sup>6</sup> 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 14). At the end of Q1, SDR 355m had been drawn on this programme.

When the IMF has a need for funds, it normally draws on quota commitments and the NAB. Following the quota increase, owing to a reduction of commitments under the NAB in the same amount, Norges Bank's total commitments to the IMF are virtually unchanged. Commitments under the quota and NAB are SDR 5 721m. At the end of Q1, the IMF had drawn SDR 585m. A further SDR 5 137m (NOK 59.9bn) may therefore 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. 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 300m in loan resources to the IMF's programme for low income countries (PRGT<sup>7</sup>). Norges Bank is the agent for the loan and administers the commitments. At the end of Q1, SDR 296m had been drawn.

### 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 168m to SDR 1 683m. 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 Q1, holdings of SDRs were SDR 1 272m.

Chart 13 IMF quota and reserve tranche position. In millions of SDRs

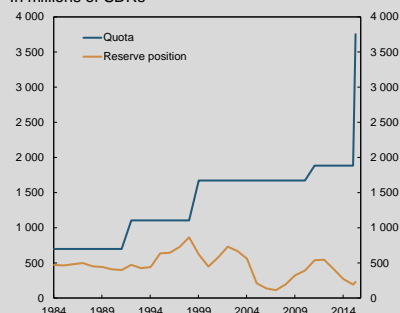


Chart 14 NAB. In millions of SDRs

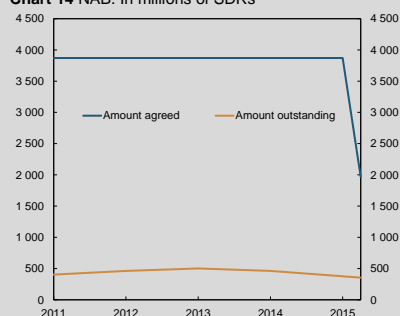
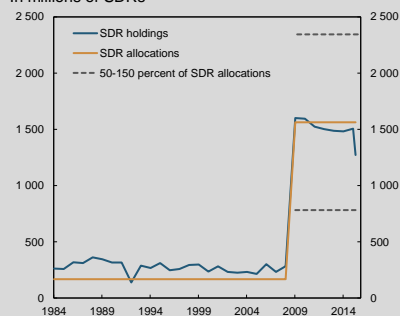


Chart 15 Holdings of SDRs and quota allocations. In millions of SDRs



<sup>4</sup> 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 31 March 2016, SDR 1 = NOK 11.66.

<sup>5</sup> Amount drawn is equal to the reserve position.

<sup>6</sup> New Arrangements to Borrow (NAB)

<sup>7</sup> Poverty Reduction and Growth Trust (PRGT)

## Key figures

NORGES BANK

### FOREIGN EXCHANGE RESERVES

1 | 2016

MANAGEMENT OF  
NORGES BANK'S FOREIGN  
EXCHANGE RESERVES

**Table 5** Market value of the foreign exchange reserves. In billions of NOK

	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1
Money market investments	47.3	50.3	49.8	45.9	46.4
Long-term fixed income investments	236.8	241.9	236.9	217.3	220.7
Equity investments	156.5	169.2	154.3	154.2	157.3
Petroleum buffer portfolio	20.6	8.7	18.1	39.8	55.4
<b>Foreign exchange reserves</b>	<b>461.3</b>	<b>470.1</b>	<b>459.1</b>	<b>457.3</b>	<b>479.7</b>
<b>Total change during the quarter</b>	<b>-8.8</b>	<b>11.0</b>	<b>1.8</b>	<b>-22.4</b>	<b>28.2</b>
Return	-0.5	10.5	-6.8	-3.3	12.5
Changes due to movements in the NOK exchange rate	-20.3	11.1	32.9	-4.3	13.9
Net transfers	11.9	-10.6	-24.3	-14.9	1.8

**Table 6** Return in international currency terms. Percent

	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1
<i>Portfolio:</i>					
Money market investments	0.04	0.01	0.03	-0.03	0.04
Long-term fixed income investments	2.22	-0.59	1.35	-0.64	0.67
Equity investments	-2.21	6.78	-8.02	-0.83	6.22
<b>Foreign exchange reserves<sup>1</sup></b>	<b>0.36</b>	<b>2.06</b>	<b>-2.25</b>	<b>-0.64</b>	<b>2.58</b>
<i>Benchmark index:</i>					
Money market investments	0.06	-0.01	0.02	0.01	0.02
Long-term fixed income investments	2.20	-0.57	1.35	-0.59	0.75
Equity investments	-2.41	6.74	-8.00	-0.88	6.27

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

**Table 7** Return in NOK terms. Percent

	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1
<i>Portfolio:</i>					
Money market investments	-5.37	3.10	8.51	-1.48	4.44
Long-term fixed income investments	-2.57	2.10	9.50	-1.63	4.37
Equity investments	-6.79	9.67	-0.62	-1.82	10.12
<b>Foreign exchange reserves<sup>1</sup></b>	<b>-4.42</b>	<b>4.86</b>	<b>5.65</b>	<b>-1.68</b>	<b>6.43</b>

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

**Table 8** Asset allocation of the foreign exchange reserves at 31 March 2016. Percent

Risk	Limits	Actual 2016 Q1
Money market portfolio	Cash (percent)	> 10.0%
	Securities (percent)	< 90.0%
Long-term portfolio	Fixed income portfolio (percent)	> 50.0%
	Equity portfolio (percent)	< 50.0%

**Table 9** Key figures at 31 March 2016. Annualised. In international currency terms

	Past year	Past 3 years	Past 5 years	Past 10 years <sup>1</sup>
<i>Foreign exchange reserves excl. petroleum buffer portfolio:</i>				
Gross annual return (percent)	-0.53	5.04	5.69	5.15
<i>Money market investments:</i>				
Portfolio return (percent)	0.06	0.10	0.17	-
Benchmark return (percent)	0.07	0.07	0.14	-
Excess return (percentage points)	-0.01	0.03	0.03	-
Realised absolute volatility (percent) <sup>2</sup>	0.04	0.04	0.07	-
Realised relative volatility (percentage points) <sup>2</sup>	0.04	0.03	0.03	-
Information rate (IR) <sup>3</sup>	-0.31	0.85	1.07	-
<i>Long-term fixed income investments:</i>				
Portfolio return (percent)	2.33	2.91	4.39	4.48
Benchmark return (percent)	2.38	2.98	4.34	4.18
Excess return (percentage points)	-0.05	-0.07	0.06	0.30
Realised absolute volatility (percent) <sup>2</sup>	1.84	2.77	2.98	3.57
Realised relative volatility (percentage points) <sup>2</sup>	0.06	0.12	0.31	1.58
Information rate (IR) <sup>3</sup>	-0.80	-0.59	0.18	0.19
<i>Equity investments:</i>				
Portfolio return (percent)	-4.74	9.55	9.14	5.21
Benchmark return (percent)	-5.01	9.23	8.89	5.15
Excess return (percentage points)	0.27	0.32	0.26	0.07
Realised absolute volatility (percent) <sup>2</sup>	14.97	10.97	11.87	15.00
Realised relative volatility (percentage points) <sup>2</sup>	0.21	0.19	0.15	0.41
Information rate (IR) <sup>3</sup>	1.28	1.66	1.66	0.16

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

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

<sup>3</sup> IR is a risk-adjusted return measure. IR is the ratio between excess return and the portfolio's realised relative market risk (measured by relative volatility).

NORGES BANK

FOREIGN EXCHANGE RESERVES

1 | 2016

MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

## FINANCIAL REPORTING

NORGES BANK

FOREIGN EXCHANGE  
RESERVES

1 | 2016

MANAGEMENT OF  
NORGES BANK'S FOREIGN  
EXCHANGE RESERVES

### Income statement

Amounts in millions of NOK	2016 Q1	2015 Q4	2016 YTD	2015 Total
<b>NET INCOME FROM FINANCIAL INSTRUMENTS</b>				
Net income/expenses – gains/losses from:				
Equities and units	-5 402	11 313	-5 402	10 221
Bonds and other fixed income instruments	4 876	-884	4 876	2 573
Financial derivatives	2	4	2	-29
Secured lending	23	11	23	69
Interest income/expense from deposits and short term borrowing	-	1	-	-8
Tax expense	-28	-2	-28	-42
Other financial income/expenses	1	1	1	1
<b>Net income from financial instruments before foreign exchange gains/losses</b>	<b>-528</b>	<b>10 444</b>	<b>-528</b>	<b>12 785</b>
Foreign exchange gains/losses	-20 329	11 107	-20 329	53 699
<b>Net income from financial instruments</b>	<b>-20 857</b>	<b>21 551</b>	<b>-20 857</b>	<b>66 484</b>

### Balance sheet

Amounts in millions of NOK	31 Mar. 2016	31 Dec. 2015
<b>FINANCIAL ASSETS</b>		
Deposits in banks	24 019	23 006
Secured lending	55 650	23 304
Unsettled trades	3 474	9
Equities and units	147 862	164 213
Equities lent	9 383	5 108
Bonds and other fixed income instruments	264 126	267 466
Financial derivatives	7	9
Other financial assets	680	828
<b>Total financial assets</b>	<b>505 201</b>	<b>483 943</b>
<b>FINANCIAL LIABILITIES</b>		
Secured borrowing	830	827
Unsettled trades	38 203	14 686
Financial derivatives	1	-
Other financial liabilities	3 839	248
<b>Total financial liabilities</b>	<b>42 873</b>	<b>15 761</b>
<b>Total foreign exchange reserves</b>	<b>462 328</b>	<b>468 182</b>

### Notes

**Note 1** Accounting policies, significant estimates and critical accounting judgements

These financial statements and notes pertain solely to Norges Bank's foreign exchange reserves at 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 2015. 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

FOREIGN EXCHANGE  
RESERVES

1 | 2016

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 2015.

**Note 2** Specification of the income statement by portfolio

	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Total foreign exchange reserves
Amounts in millions of NOK	2016 Q1	2016 Q1	2016 Q1	2016 Q1
<b>NET INCOME FROM FINANCIAL INSTRUMENTS</b>				
Net income/expenses – gains/losses from:				
Equities and units	-5 402	-	-	-5 402
Bonds and other fixed income instruments	4 849	27	-	4 876
Financial derivatives	9	-7	-	2
Secured lending	12	12	-1	23
Interest income/expense from deposits and short term borrowing	-	1	-1	-
Tax expense	-28	-	-	-28
Other financial income/expenses	1	-	-	1
<b>Net income from financial instruments before foreign exchange gains/losses</b>	<b>-559</b>	<b>33</b>	<b>-2</b>	<b>-528</b>
Foreign exchange gains/losses	-17 157	-2 717	-455	-20 329
<b>Net income from financial instruments*</b>	<b>-17 716</b>	<b>-2 684</b>	<b>-457</b>	<b>-20 857</b>

\* For the long-term portfolio, net income from financial instruments includes outstanding balances with the Government Pension Fund Global (GPF). (GPFG).

**Note 3** Specification of the balance sheet by portfolio

	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Total foreign exchange reserves
Amounts in millions of NOK	31 Mar. 2016	31 Mar. 2016	31 Mar. 2016	31 Mar. 2016
<b>FINANCIAL ASSETS</b>				
Deposits in banks	128	5 963	17 928	24 019
Secured lending	830	35 388	19 432	55 650
Unsettled trades	3 474	-	-	3 474
Equities and units	147 862	-	-	147 862
Equities lent	9 383	-	-	9 383
Bonds and other fixed income instruments	237 102	27 024	-	264 126
Financial derivatives	6	-	1	7
Other financial assets	46	-	634	680
<b>Total financial assets</b>	<b>398 831</b>	<b>68 375</b>	<b>37 995</b>	<b>505 201</b>
<b>FINANCIAL LIABILITIES</b>				
Secured borrowing	830	-	-	830
Unsettled trades	775	21 078	16 350	38 203
Financial derivatives	-	-	1	1
Other financial liabilities	3 839	-	-	3 839
<b>Total financial liabilities</b>	<b>5 444</b>	<b>21 078</b>	<b>16 351</b>	<b>42 873</b>
<b>Total portfolios*</b>	<b>393 387</b>	<b>47 297</b>	<b>21 644</b>	<b>462 328</b>

\* For the long-term portfolio, total portfolios include outstanding balances with the Government Pension Fund Global (GPFG).