

# FOREIGN EXCHANGE RESERVES

## Management of Norges Bank's foreign exchange reserves

3 | 2017  
NOVEMBER 2017

REPORT FOR  
THIRD QUARTER 2017



NORGES BANK

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## Management of the foreign exchange reserves

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MANAGEMENT OF NORGES  
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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 ICT.

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 between 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 Q3

- The market value of Norges Bank's foreign exchange reserves was NOK 479.3bn at the end of 2017 Q3, a reduction of NOK 22.0bn over the quarter.
- In international currency terms, the return on the foreign exchange reserves, excluding the petroleum buffer portfolio, was 1.7%. The return was 4.3% on equity investments and 0.3% on fixed income investments. In NOK terms, the return on the foreign exchange reserves was negative 2.1%.
- The size and liquidity of the foreign exchange reserves are regarded as sufficient for meeting Norges Bank's commitments. Liquid investments amount to SDR 26.4bn.

## Foreign exchange reserves

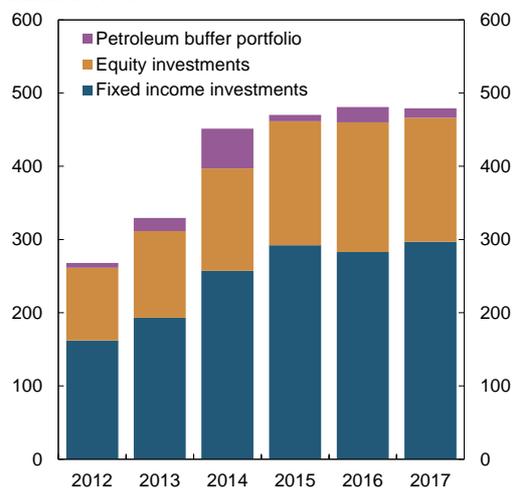
The market value of the foreign exchange reserves was NOK 479.3bn at the end of 2017 Q3, comprising NOK 297.0bn in fixed income investments, NOK 169.4bn in equity investments and NOK 12.9bn in the petroleum buffer portfolio. The total decline in market value in Q3 was NOK 22.0bn, primarily due to a stronger krone, which resulted in a decline equivalent to NOK 17.9bn. In international currency terms, the return on the reserves was 1.7%, which contributed approximately NOK 7.8bn. A net outflow reduced the petroleum buffer portfolio by NOK 11.3bn in Q3, while a net inflow added NOK 0.4bn to fixed-income investments.

The foreign exchange reserves are held for the purpose of crisis management. Movements in the krone exchange rate will affect Norges Bank's equity, but not the Bank's ability to meet commitments in foreign currency. Returns are therefore measured in international currency below, unless otherwise specified. The petroleum buffer portfolio, which is not held for crisis management purposes, is excluded from the measurement of return.

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

	2017 Q3	2017 Q2
<b>Equity and fixed income</b>	<b>466.4</b>	<b>476.1</b>
Change in market value	-9.7	
Return in NOK	-10.1	
Return in international currency	7.8	
Movements in krone exchange	-17.9	
Net transfers	0.4	
<b>Petroleum buffer portfolio</b>	<b>12.9</b>	<b>25.2</b>
Change in market value	-12.3	
Return in NOK	-1.0	
Net transfers	-11.3	
<b>Foreign exchange reserves</b>	<b>479.3</b>	<b>501.3</b>

**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 Q3 was NOK 297.0bn, a reduction of NOK 9.6bn since the end of Q2. This primarily reflects a stronger krone, which accounted for a NOK 10.9bn reduction in value. In international currency terms, return was NOK 0.9bn, and fixed income investments showed a net inflow over the quarter of NOK 0.4bn.

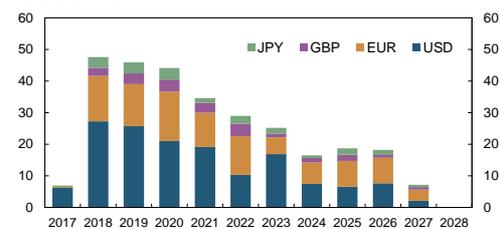
The return on fixed income investments was 0.3% during the quarter, approximately in line with the benchmark index. Investments denominated in USD accounted for about 50% of the fixed income portfolio. For the quarter as a whole, US long-term yields were approximately unchanged, while US short-term yields rose by 10 basis points. US dollar investments generated a return of 0.4% measured in USD terms, mainly as a result of current interest income. In Europe, somewhat stronger economic developments in the UK contributed to an overall rise in UK yields during Q3. There is still uncertainty

regarding Brexit negotiations with the EU, which continues to affect the UK bond market. Sterling investments accounted for approximately 8% of the fixed income portfolio, where a rise in UK yields resulted in a return of -0.3% measured in GBP terms. Euro investments accounted for approximately 34% of the fixed income portfolio. Both German and French government bond yields declined during the quarter overall, and the return on euro investments was 0.3% measured in euro terms. Yen investments accounted for approximately 8% of the fixed income portfolio where the return of 0.1% in JPY terms is attributable to marginally lower Japanese yields during the quarter.

**Table 2** Absolute amounts for fixed income investments at the end of Q3. Market value in billions of NOK

	Market value	Share	Duration	Yield
<b>Total</b>	<b>297.0</b>	<b>100.00</b>	<b>3.57</b>	<b>0.80</b>
USD	148.4	49.97	3.29	1.68
EUR	101.1	34.05	3.82	-0.26
GBP	23.7	7.99	3.72	0.70
JPY	23.8	8.00	4.03	-0.10

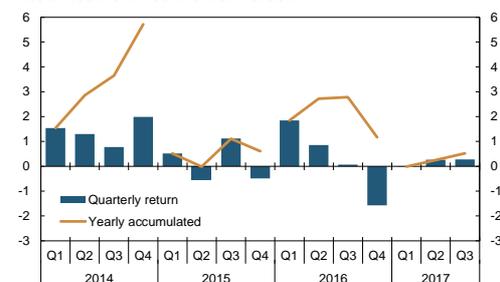
**Chart 2** Cash flows from fixed income investments. In billions of NOK



**Table 3** Absolute return on fixed income investments

	2017 Q3	2017 so far
<i>Measured in international currency terms</i>		
Return in percent	0.28	0.52
Return in millions of NOK	853	1 593
<i>Measured in NOK terms</i>		
Return in percent	-3.28	-2.39
Return in millions of NOK	-10 061	-7 390

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



**Table 4** Relative return on fixed income investments

	2017 Q3	2017 So far
<i>Measured in international currency terms</i>		
Relative return (percentage points)	0.00	-0.01
Relative return (in millions of NOK)	11	-24

**Benchmark index**

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 measured in international currency terms. Fixed income investments. Basis points.



**Equity investments**

The market value of the equity investments was NOK 169.4bn at the end of 2017 Q3, which was virtually unchanged from the end of Q2. The return in international currency increased the market value by NOK 6.9bn, while a stronger krone resulted in a corresponding reduction in the value of the portfolio.

The return on equity investments was 4.3% in 2017 Q3, measured in international currency terms, approximately 9 basis points higher than the benchmark index. At the end of 2017 Q3, 62% of the portfolio was invested in North America, 25% in Europe, and 13% in Asia. The return was driven by solid key economic figures and companies that reported stronger-than-expected earnings. Global equity markets generally reflected

low volatility, despite political uncertainty in Q3. The US economy continued to improve and there was a further fall in unemployment. In Europe, consumers became more optimistic and consumption increased. Commodity prices also increased in Q3, which contributed to solid returns for companies in oil and gas and materials sectors. European equities posted the highest return in Q3, at 5.9%, while the return on North American and Asian equity investments was 3.9% and 3.0%, respectively. The materials sector posted the highest return in Q3, at 9.1%, while the consumer services sector posted the weakest return, at 0.1%.

**Table 5** Equity investments excluding cash funds by industry at end-2017 Q3. Market value in billions of NOK

	Market value	Share
<b>Total</b>	<b>169.6</b>	<b>100.0</b>
Oil and gas	10.8	6.4
Basic Materials	7.6	4.5
Industrials	21.3	12.5
Consumer goods	20.3	11.9
Health care	20.7	12.2
Consumer services	18.1	10.7
Telecommunications	5.0	2.9
Utilities	4.5	2.7
Financials	38.2	22.5
Technology	23.1	13.7

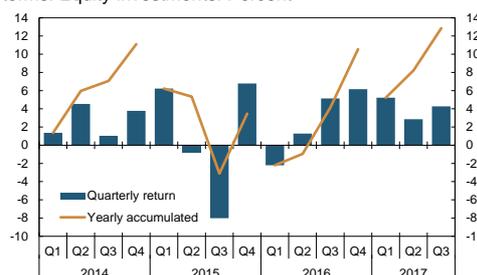
**Table 6** Equity investments excluding cash funds by currency at end-2017 Q3. Market value in billions of NOK

	Market value	Share
<b>Total</b>	<b>169.6</b>	<b>100.0</b>
USD	100.1	59.0
EUR	22.3	13.2
GBP	11.4	6.7
JPY	16.8	9.9
CAD	5.5	3.2
DKK	1.2	0.7
CHF	5.8	3.4
SEK	2.0	1.2
AUD	4.5	2.6

**Table 7** Absolute return on equity investments

	2017 Q3	2017 so far
<i>Measured in international currency terms</i>		
Return in percent	4.27	12.84
Return in millions of NOK	6 940	20 723
<i>Measured in NOK terms</i>		
Return in percent	-0.03	7.73
Return in millions of NOK	-58	13 356

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



**Table 8** Relative return on equity investments.

	2017 Q3	2017 so far
<i>Measured in international currency terms</i>		
Relative return (percentage points)	0.09	0.08
Relative return (in millions of NOK)	148	110

**Benchmark index**

The strategic benchmark index for equity investments is a tax-adjusted version of the FTSE All-World Developed Market Index, 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 Q3, the market value of the petroleum buffer portfolio was NOK 12.9bn. During the quarter, NOK 10.4bn worth of foreign exchange was transferred from the GPF. In addition, approximately NOK 29.4bn worth of foreign exchange was purchased from the State's Direct Financial Interest (SDFI). Over the quarter, Norges Bank sold approximately NOK 51.0bn worth of foreign exchange.

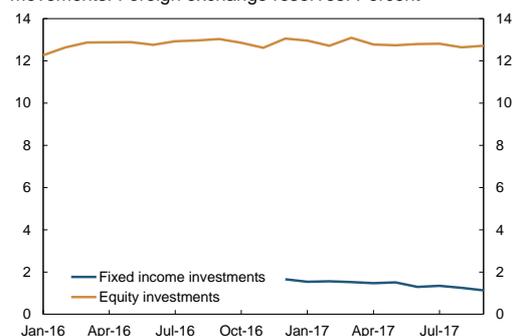
## Financial risk

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.

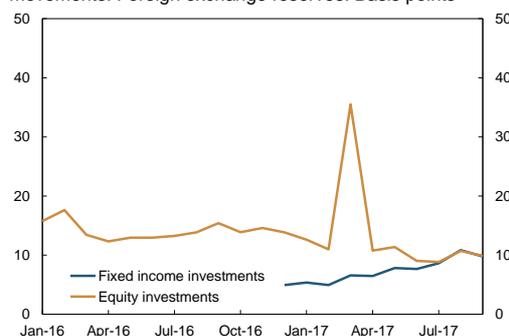
The foreign exchange reserves' market risk is determined by the composition of investments and movements in equity prices, interest rates and credit spreads. No single measure can fully capture market risk. In this report, market risk is measured by the standard deviation in the rate of return<sup>1</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 fixed income investments, expected absolute volatility at the end of 2017 Q3 excluding exchange rate movements was 12.7% and 1.1%, respectively. This corresponds to an expected annual fluctuation in value, excluding exchange rate movements, of approximately NOK 22bn and NOK 3bn, 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 index<sup>2</sup>. At the end of Q3, expected relative volatility for both equity and fixed income investments was 0.10 percentage point.

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 8** Absolute volatility. Excluding exchange rate movements. Foreign exchange reserves. Percent



**Chart 9** Absolute volatility. Excluding exchange rate movements. Foreign exchange reserves. Basis points



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

<sup>2</sup> 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  $\pm 0.5$  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 10 summarises amounts related to the IMF recognised in the balance sheet at the end of 2017 Q3. The size and liquidity of the foreign exchange reserves are assessed to be sufficient to meet Norges Bank's international commitments (see page 9).

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**Table 10** Claims on and liabilities to the International Monetary Fund at the end of 2017 Q3. In millions of NOK.

	Loan resource commitments <sup>2</sup>	Recognised in the balance sheet			Total amount
		Drawn on commitments	Subscription <sup>3</sup>	SDRs	
<i>Financial assets</i>					
IMF subscription (quota) <sup>1</sup>	-		42 292		42 292
Holdings of SDRs	-			15 958	15 958
Loans to the IMF - NAB	22 133	3 090			3 090
Loans to the IMF – Bilateral agreement	67 522				
Loans to the IMF - PRGT	6 752	2 827			2 827
<b>Claims on the IMF</b>	<b>-</b>	<b>5 918</b>	<b>42 292</b>	<b>15 958</b>	<b>64 167</b>
<i>Financial liabilities</i>					
Krone liability to the IMF	-		39 557		39 557
Equivalent value of SDR allocations	-			17 606	17 606
<b>Liabilities to the IMF</b>	<b>-</b>	<b></b>	<b>39 557</b>	<b>17 606</b>	<b>57 163</b>
<b>Net positions with the IMF</b>	<b>-</b>	<b>5 918</b>	<b>2 736</b>	<b>-1 649</b>	<b>7 004</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, 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. Norway's quota increased to SDR 3 755m<sup>3</sup>. At the end of 2017 Q3, the amount drawn<sup>4</sup> totalled SDR 243m (Chart 10).

### NAB

At the same time as the quota increase, Norway's loan resource commitments under the NAB<sup>5</sup> were reduced by approximately the same amount. Norges Bank's commitments under this lending programme were reduced to SDR 1 967m (Chart 11). Total outstanding drawings were SDR 299m at the end of 2017 Q2.

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 Q3, the IMF had drawn SDR 517m. A further SDR 5 204m 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 and was never drawn on. The Ministry of Finance has approved a new agreement between Norges Bank and the IMF on a similar facility. The agreement was signed on 21 April 2017 and applies until the end of 2019, with the possibility of a one-year extension.

### 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>6</sup>). 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 Q3, no amounts had been drawn on the new borrowing agreement.

### Holdings of SDRs

The IMF has allocated SDR's 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 Q3, holdings of SDRs were SDR 1 417m (Chart 12).

Chart 10 IMF quota and reserve tranche position. In millions of SDRs

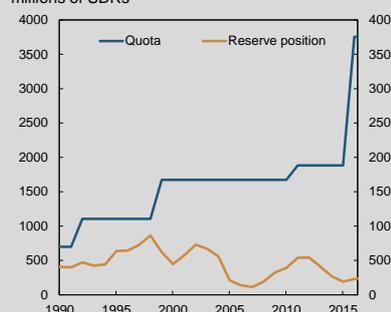


Chart 11 NAB. In millions of SDRs

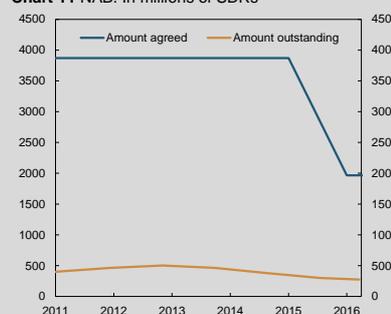
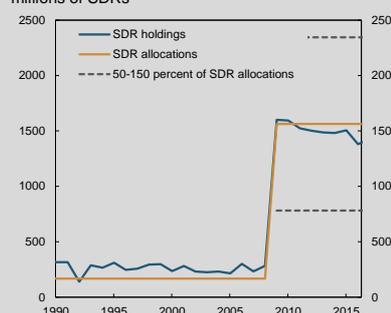


Chart 12 Holdings of SDRs and SDR allocations. In millions of SDRs



<sup>3</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 five currencies: USD (42%), EUR (31%), JPY (8%), GBP (8%) and CNY (11%). At 29 September 2017, SDR 1 = NOK 11.25.

<sup>4</sup> The amount drawn is equal to Norway's reserve position in the IMF.

<sup>5</sup> New Arrangements to Borrow (NAB).

<sup>6</sup> Poverty Reduction and Growth Trust (PRGT).

## Key figures

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**Table 11** Market value of the foreign exchange reserves. In billions of NOK

	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3
<b>Market value of fixed income and equity investments</b>	<b>466.4</b>	<b>476.1</b>	<b>473.3</b>	<b>460.2</b>	<b>437.3</b>
Change in market value	-9.7	2.8	13.1	22.9	-11.1
Return in NOK	-10.1	3.4	12.7	23.7	-11.2
<i>Return in international currency</i>	7.8	5.6	9.0	5.7	8.4
<i>Change due to movements in the krone exchange</i>	-17.9	-2.2	3.7	17.9	-19.6
Net transfers	0.4	-0.6	0.4	-0.7	0.1
<b>Market value of the petroleum buffer portfolio</b>	<b>12.9</b>	<b>25.2</b>	<b>21.8</b>	<b>20.7</b>	<b>14.1</b>
Change in market value	-12.3	3.4	1.1	6.6	-4.1
Return in NOK	-1.0	-0.2	0.1	0.2	-0.4
Net transfers	-11.3	3.6	1.0	6.4	-3.7
<i>Foreign exchange purchases from the SDFI</i>	29.4	35.8	39.1	28.9	26.2
<i>Foreign exchange purchases in the market</i>	-51.0	-48.5	-61.6	-49.5	-59.4
<i>Transfers from the GPFG</i>	10.4	16.3	23.4	27.0	29.5
<b>Market value of the foreign exchange reserves</b>	<b>479.3</b>	<b>501.3</b>	<b>495.1</b>	<b>480.9</b>	<b>451.4</b>

**Table 12** Return on the foreign exchange reserves in international currency terms. Percent

	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3
Return on fixed income investments	0.28	0.26	-0.01	-1.57	0.07
Return on equity investments	4.27	2.85	5.22	6.16	5.14
<b>Return on the foreign exchange reserves*</b>	<b>1.69</b>	<b>1.17</b>	<b>2.00</b>	<b>1.26</b>	<b>1.87</b>
Return on benchmark index for fixed income investments	0.27	0.26	0.00	-1.60	0.05
Return on benchmark index for equity investments	4.17	2.81	5.29	5.94	5.04
Relative return on fixed income investments	0.00	0.00	-0.01	0.03	0.01
Relative return on equity investments	0.09	0.04	-0.06	0.22	0.10

\* Excluding petroleum buffer portfolio.

**Table 13** Return on the foreign exchange reserves in NOK. Percent

	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3
Return on fixed income investments	-3.28	0.20	0.72	2.54	-4.23
Return on equity investments	-0.03	1.67	6.00	10.35	0.61
<b>Return on the foreign exchange reserves*</b>	<b>-2.13</b>	<b>0.72</b>	<b>2.75</b>	<b>5.41</b>	<b>-2.50</b>
Return on benchmark index for fixed income investments	-3.29	0.20	0.73	2.51	-4.24
Return on benchmark index for equity investments	-0.12	1.62	6.07	10.13	0.52
Relative return on fixed income investments	0.00	0.00	-0.01	0.03	0.01
Relative return on equity investments	0.09	0.04	-0.07	0.23	0.09

\* Excluding petroleum buffer portfolio.

**Table 14** Key figures at the end of 2017 Q3. In international currency terms. Annualised

	Past year	Past 3 years	Past 5 years	Past 10 years
Return on the foreign exchange reserves (percent)	6.26	4.61	5.99	4.53
<i>Fixed income investments:</i>				
Return on fixed income investments (percent)	-1.06	1.43	1.52	3.49
Return on benchmark index (percent)	-1.08	1.47	1.50	3.23
Relative return (percentage points)	0.02	-0.04	0.02	0.25
Realised absolute volatility (percent) <sup>1</sup>	1.68	1.89	2.00	3.24
Realised relative volatility (percentage points) <sup>1</sup>	0.05	0.06	0.09	1.55
Information rate (IR) <sup>2</sup>	0.37	-0.67	0.19	0.16
<i>Equity investments:</i>				
Return on equity investments (percent)	19.79	10.23	13.81	6.01
Return on benchmark index (percent)	19.46	10.01	13.53	5.84
Relative return (percentage points)	0.33	0.22	0.29	0.17
Realised absolute volatility (percent) <sup>1</sup>	4.22	10.04	9.19	14.86
Realised relative volatility (percentage points) <sup>1</sup>	0.13	0.15	0.16	0.37
Information rate (IR) <sup>2</sup>	2.50	1.46	1.76	0.46

<sup>1</sup> 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.

<sup>2</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).

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# Financial reporting

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## Income statement

Amounts in NOK millions	2017 Q3	2017 Q2	So far 2017	Full year 2016
<b>NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS</b>				
Net income/expenses from:				
Equities and units	4 655	4 028	18 129	14 705
Bonds	900	992	1 909	3 868
Financial derivatives	-22	-47	-92	18
Secured lending	47	57	130	120
Interest income/expense from deposits and short-term borrowing	2	2	3	-2
Tax expenses	-5	-36	-65	-76
Other financial income/expenses	-1	-4	-5	5
<b>Net income/expense from financial instruments before foreign exchange gains/losses</b>	<b>5 576</b>	<b>4 992</b>	<b>20 009</b>	<b>18 638</b>
Foreign exchange gains/losses	-16 719	-1 761	-15 160	-19 854
<b>Net income/expense from financial instruments</b>	<b>-11 143</b>	<b>3 231</b>	<b>4 849</b>	<b>-1 216</b>

## Balance sheet

Amounts in NOK millions	30 Sep. 2017	30 Jun. 2017
<b>FINANCIAL ASSETS</b>		
Deposits in banks	2 191	8 489
Secured lending	36 361	43 417
Unsettled trades	1 771	288
Equities and units	155 195	162 203
Equities lent	14 640	7 873
Bonds	290 299	298 658
Financial derivatives	5	7
Other financial assets	183	343
<b>Total financial assets</b>	<b>500 645</b>	<b>521 278</b>
<b>FINANCIAL LIABILITIES</b>		
Secured borrowing	398	419
Unsettled trades	19 909	17 824
Financial derivatives	4	1
Other financial liabilities	594	881
<b>Total financial liabilities</b>	<b>20 905</b>	<b>19 125</b>
<b>Net foreign exchange reserves</b>	<b>479 740</b>	<b>502 153</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 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  
3 | 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 Q3	2017 Q3	2017 Q3	2017 Q3
<b>NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS</b>				
Net income/expenses from:				
Equities and units	4 655	-	-	4 655
Bonds	-	900	-	900
Financial derivatives	-4	-18	-	-22
Secured lending	8	9	67	47
Interest income/expense from deposits and short-term borrowing	-	2	-	2
Tax expense	-5	-	-	-5
Other financial income/expenses	-1	-	-	-1
<b>Net income/expense from financial instruments before foreign exchange gains/losses</b>	<b>4 653</b>	<b>893</b>	<b>30</b>	<b>5 576</b>
Foreign exchange gains/losses	-4 711	-10 961	-1 047	-16 719
<b>Net income/expense from financial instruments</b>	<b>-58</b>	<b>-10 068</b>	<b>-1 017</b>	<b>-11 143</b>

#### Note 3 Balance sheet by portfolio

	Equity portfolio	Fixed income portfolio	Petroleum buffer portfolio	Total foreign exchange reserves
Amounts in NOK millions	30 Sep. 2017	30 Sep. 2017	30 Sep. 2017	30 Sep. 2017
<b>FINANCIAL ASSETS</b>				
Deposits in banks	85	2 101	5	2 191
Secured lending	398	16 788	19 175	36 361
Unsettled trades	214	1 557	-	1 771
Equities and units	155 195	-	-	155 195
Equities lent	14 640	-	-	14 640
Bonds	-	290 299	-	290 299
Financial derivatives	-	-	5	5
Other financial assets	86	-	97	183
<b>Total financial assets</b>	<b>170 618</b>	<b>310 745</b>	<b>19 282</b>	<b>500 645</b>
<b>FINANCIAL LIABILITIES</b>				
Secured borrowing	398	-	-	398
Unsettled trades	253	13 714	5 942	19 909
Financial derivatives	-	-	4	4
Other financial liabilities	594	-	-	594
<b>Total financial liabilities</b>	<b>1 245</b>	<b>13 714</b>	<b>5 946</b>	<b>20 905</b>
<b>Net foreign exchange reserves</b>	<b>169 373</b>	<b>297 031</b>	<b>13 336</b>	<b>479 740</b>