

FOREIGN EXCHANGE RESERVES

Management of Norges Bank's foreign exchange reserves

2 | 2017
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REPORT FOR
SECOND 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 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 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 Q2

- The market value of Norges Bank's foreign exchange reserves was NOK 501.3bn at the end of 2017 Q2, an increase of NOK 6.2bn over the quarter.
- In international currency terms, the return on the foreign exchange reserves, excluding the petroleum buffer portfolio, was 1.2%. The return was 2.8% on equity investments and 0.3% on fixed income investments. In NOK terms, the return on the foreign exchange reserves was 0.7%.
- The size and liquidity of the foreign exchange reserves are regarded as sufficient to meet Norges Bank's commitments. Liquid investments amounted to SDR 26.3bn.

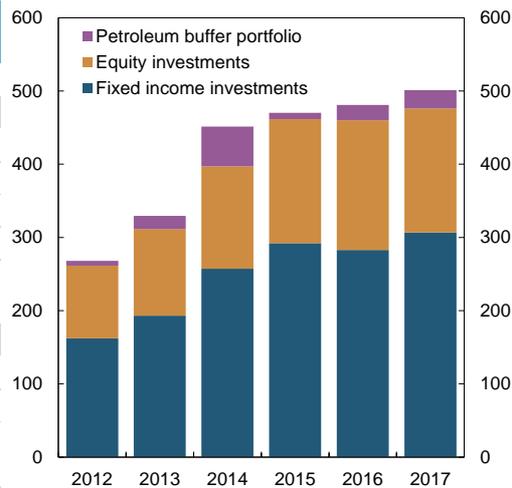
Foreign exchange reserves

The market value of the foreign exchange reserves was NOK 501.3bn at the end of 2017 Q2, comprising NOK 306.7bn in fixed income investments, NOK 169.4bn in equity investments and NOK 25.2bn in the petroleum buffer portfolio. In all, the value of the foreign exchange reserves increased by NOK 6.2bn during the quarter. In international currency terms, the return on the reserves was 1.2%, which contributed approximately NOK 5.6bn. A net inflow added approximately NOK 3.0bn over the quarter. In isolation, the value of the reserves fell by approximately NOK 2.4bn due to a stronger krone.

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

| | 2017 Q2 | 2017 Q1 |
|--|--------------|--------------|
| Equity and fixed income investments | 476.1 | 473.3 |
| Change in market value | 2.8 | |
| Return in NOK | 3.4 | |
| Return in international currency terms | 5.6 | |
| Movements in krone exchange rate | -2.2 | |
| Net transfers | -0.6 | |
| Petroleum buffer portfolio | 25.2 | 21.8 |
| Change in market value | 3.4 | |
| Return in NOK | -0.2 | |
| Net transfers | 3.6 | |
| Foreign exchange reserves | 501.3 | 495.1 |

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



Return in international currency terms

The 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, the return is measured in international currency terms.

Fixed income investments

The market value of the fixed income investments at the end of 2017 Q2 was NOK 306.7bn, approximately unchanged since the end of the previous quarter. The return in international currency terms contributed NOK 0.8bn, while a stronger krone pulled down the value in NOK terms by about NOK 0.2bn. The fixed income portfolio showed a net outflow over the quarter of NOK 0.6bn.

The return on fixed income investments was approximately 0.3% over the quarter. In April and May, political uncertainty continued to have an impact on developments in international fixed income markets. French government bond yields fell considerably in the period following the presidential election, while German yields rose on the back of reduced political uncertainty in the euro area. Towards the end of the quarter, the president of the European Central Bank expressed somewhat greater optimism about inflation developments ahead, which resulted in a broad rise in European yields. The return on the euro portfolio was 0.1% in euro terms as a result of the fall in French yields.

US long-term yields fell at the beginning of Q2. This can be attributed to increased geopolitical uncertainty, signs of weaker economic activity and reduced confidence in fiscal policy measures from Washington. Further out in the quarter, these concerns receded somewhat. The Federal Reserve continued its normalisation of monetary policy in Q2, and the policy rate was raised at the June meeting. The Fed has expressed a

positive view of the economic outlook and appears confident in its plan for a gradually less expansionary monetary policy. US short-term yields rose through Q2, while long-term yields had edged down by the end of the quarter, despite being pulled up by developments in Europe towards the end of the quarter. The return on the US dollar portfolio was 0.6% in USD terms, primarily attributable to the fall in long-term yields.

In the UK, government bond yields reflected the uncertainty generated by the effect of the UK's withdrawal from the EU and the parliamentary election in June. Combined with disappointing key figures, this uncertainty led to a fall in UK yields. The Bank of England maintained its monetary policy course at the Monetary Policy Committee (MPC) meeting in May, while at the June meeting, three of the eight MPC members voted to raise the policy rate. The surprising vote and ensuing communication by the members led to a marked rise in UK yields towards the end of the quarter. The absolute return on the sterling portfolio was 0.5% in GBP terms as a result of the rise in yields towards the end of the quarter.

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%. The return on the yen portfolio was negative 0.2% measured in JPY terms as a result of a steady rise in yields on bonds with a maturity of less than 10 years.

The return on fixed income investments was approximately in line with the benchmark index in 2017 Q2.

Table 2 Absolute amounts for fixed income investments at the end of Q2. Market value in billions of NOK

| | Market value | Share | Duration | Yield |
|--------------|--------------|---------------|-------------|-------------|
| Total | 306.7 | 100.00 | 3.55 | 0.80 |
| USD | 153.6 | 50.07 | 3.25 | 1.66 |
| EUR | 104.3 | 34.01 | 3.90 | -0.19 |
| GBP | 24.4 | 7.95 | 3.39 | 0.55 |
| JPY | 24.4 | 7.96 | 4.09 | -0.14 |

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

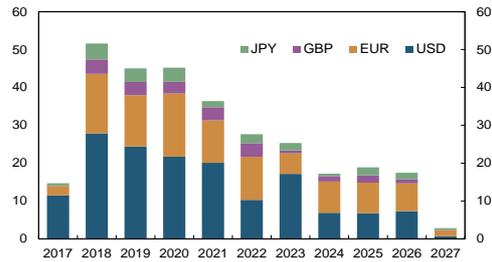


Table 3 Absolute return on fixed income investments

| | 2017 Q2 | 2017 so far |
|---|---------|-------------|
| <i>Measured in international currency terms</i> | | |
| Return in percent | 0.26 | 0.25 |
| Return in millions of NOK | 805 | 740 |
| <i>Measured in NOK</i> | | |
| Return in percent | 0.20 | 0.92 |
| Return in millions of NOK | 625 | 2 670 |

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

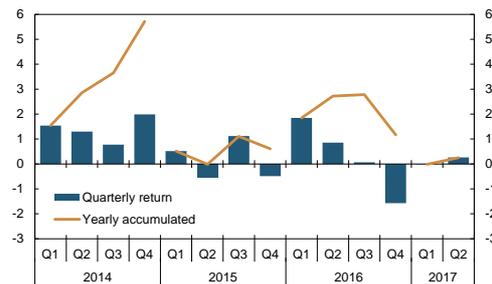


Table 4 Relative return on fixed income investments

| | 2017 Q2 | 2017 so far |
|---|---------|-------------|
| <i>Measured in international currency</i> | | |
| Relative return (percentage points) | 0.00 | -0.01 |
| Relative return (in millions of NOK) | -3 | -35 |

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 Q2, an increase of NOK 2.8bn over the quarter. The return in international currency terms increased the market value by NOK 4.7bn, while a stronger krone reduced the value of the portfolio by about NOK 2.0bn.

The return on equity investments was 2.8% in 2017 Q2 in international currency terms, driven by continued solid growth in the global economy. A number of key economic figures, particularly for the US economy, were nonetheless weaker than the market had expected.

European equities posted the highest return in Q2 at 6.4%. The return on Asian and North American equity investments was 2.3% and 1.6%, respectively. The healthcare sector posted the highest return at 5.8% and the financial sector earned a return of 3.7%. The oil and gas sector posted the weakest return in Q2 at negative 5.8%.

The portfolio earned an excess return of 4 basis points in 2017 Q2.

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Table 5 Equity investments excluding cash funds by industry at end-2017 Q2. Market value in billions of NOK

| | Market value | Share |
|--------------------|--------------|--------------|
| Total | 169.9 | 100.0 |
| Oil and gas | 10.5 | 6.2 |
| Basic materials | 7.3 | 4.3 |
| Industrials | 21.3 | 12.5 |
| Consumer goods | 20.6 | 12.1 |
| Health care | 21.0 | 12.4 |
| Consumer services | 19.0 | 11.2 |
| Telecommunications | 5.1 | 3.0 |
| Utilities | 4.5 | 2.7 |
| Financials | 38.0 | 22.3 |
| Technology | 22.7 | 13.3 |

Table 6 Equity investments excluding cash funds by currency at end-2017 Q2. Market value in billions of NOK

| | Market value | Share |
|--------------|--------------|--------------|
| Total | 169.9 | 100.0 |
| USD | 101.1 | 59.5 |
| EUR | 21.5 | 12.7 |
| GBP | 11.4 | 6.7 |
| JPY | 16.9 | 9.9 |
| CAD | 5.3 | 3.1 |
| DKK | 1.2 | 0.7 |
| CHF | 5.9 | 3.5 |
| SEK | 2.0 | 1.2 |
| AUD | 4.6 | 2.7 |

Table 7 Absolute return on equity investments

| | 2017 Q2 | 2017 so far |
|---|---------|-------------|
| <i>Measured in international currency terms</i> | | |
| Return in percent | 2.85 | 8.22 |
| Return in millions of NOK | 4 750 | 13 783 |
| <i>Measured in NOK terms</i> | | |
| Return in percent | 1.67 | 7.77 |
| Return in millions of NOK | 2 775 | 13 414 |

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



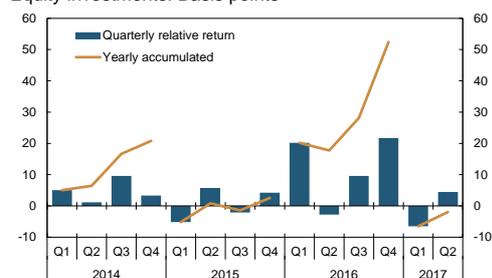
Table 8 Relative return on equity investments.

| | 2017 Q2 | 2017 so far |
|---|---------|-------------|
| <i>Measured in international currency terms</i> | | |
| Relative return (percentage points) | 0.04 | -0.02 |
| Relative return (in millions of NOK) | 74 | -38 |

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 Q2, the market value of the petroleum buffer portfolio was NOK 25.2bn. During the quarter, NOK 16.3bn worth of foreign exchange was transferred from the GPFG. In addition, approximately NOK 35.8bn worth of foreign exchange was purchased from the State's Direct Financial Interest (SDFI). Over the quarter, Norges Bank sold approximately NOK 48.5bn worth of foreign exchange.

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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 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 Q2, excluding exchange rate movements, was 12.8% and 1.3%, respectively. This corresponds to an expected annual fluctuation in value, excluding exchange rate movements, of about NOK 22bn and NOK 4bn.

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 Q2, expected relative volatility for equity and fixed income investments was 0.09 and 0.08 percentage point, respectively. Expected relative volatility for equity investments decreased from 0.36 percentage point in Q1 because the portfolio had an extraordinary negative cash holding of about NOK 5bn in connection with rebalancing at the end of Q1.

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. Foreign exchange reserves. Percent

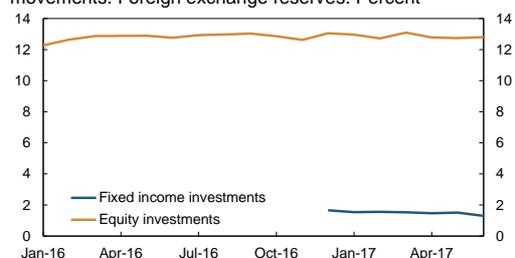
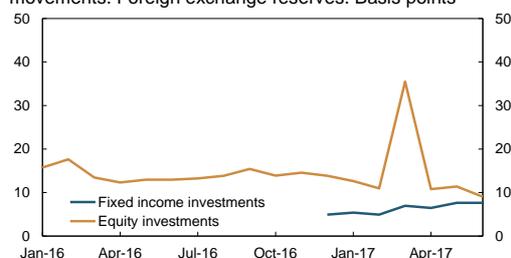


Chart 8 Relative volatility. Including exchange rate movements. Foreign exchange reserves. Basis points



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 Q2. 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 9 Claims on and liabilities to the International Monetary Fund (IMF) at the end of 2017 Q2. 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 | - | - | 43 792 | - | 43 792 |
| Holdings of SDRs | - | - | - | 16 437 | 16 437 |
| Loans to the IMF - NAB | 22 918 | 3 489 | - | - | 3 489 |
| Loans to the IMF – Bilateral agreement | 69 917 | - | - | - | - |
| Loans to the IMF - PRGT | 6 992 | 3 161 | - | - | 3 161 |
| Claims on the IMF | - | 6 650 | 43 792 | 16 437 | 66 880 |
| <i>Financial liabilities</i> | | | | | |
| Krone liability to the IMF | - | - | 41 111 | - | 41 111 |
| Equivalent value of SDR allocations | - | - | - | 18 231 | 18 231 |
| Liabilities to the IMF | - | - | 41 111 | 18 231 | 59 343 |
| Net positions with the IMF | - | 6 650 | 2 681 | -1 794 | 7 537 |

¹ The IMF allocates quotas to member countries that 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. Payment of Norway's quota increase was made on 17 February 2016, raising Norway's quota to SDR 3 755m³. At the end of 2017 Q2, the amount drawn⁴ 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 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 Q2, the IMF had drawn SDR 529m. A further SDR 5 192m 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 (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 now 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 Q2, 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 Q2, holdings of SDRs were SDR 1 409m (Chart 11).

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

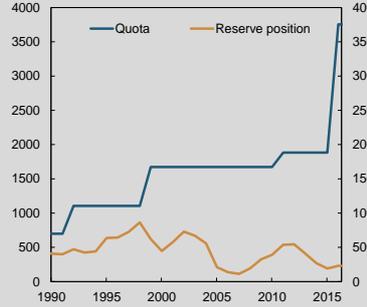


Chart 10 NAB. In millions of SDRs

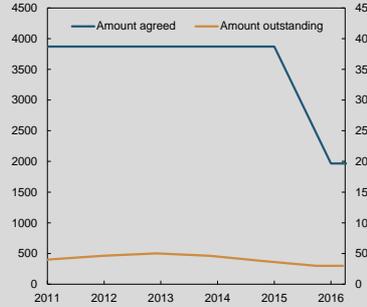
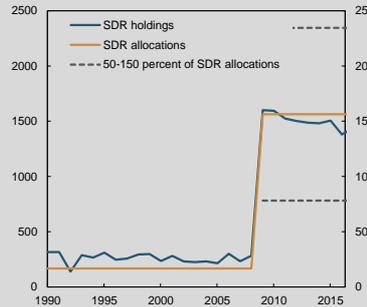


Chart 11 Holdings of SDRs and SDR allocations. In millions of SDRs



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 30 June 2017, SDR 1 = NOK 11.65.

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

⁵ New Arrangements to Borrow (NAB).

⁶ Poverty Reduction and Growth Trust (PRGT).

Key figures

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

| | 2017 Q2 | 2017 Q1 | 2016 Q4 | 2016 Q3 | 2016 Q2 |
|--|--------------|--------------|--------------|--------------|--------------|
| Market value of fixed income and equity investments | 476.1 | 473.3 | 460.2 | 437.3 | 448.4 |
| Change in market value | 2.8 | 13.1 | 22.9 | -11.1 | 7.7 |
| Return in NOK | 3.4 | 12.7 | 23.7 | -11.2 | 7.7 |
| <i>Return in international currency</i> | 5.6 | 9.0 | 5.7 | 8.4 | 4.4 |
| <i>Change due to movements in the krone exchange</i> | -2.2 | 3.7 | 17.9 | -19.6 | 3.3 |
| Net transfers | -0.6 | 0.4 | -0.7 | 0.1 | 0.1 |
| Market value of the petroleum buffer portfolio | 25.2 | 21.8 | 20.7 | 14.1 | 18.2 |
| Change in market value | 3.4 | 1.1 | 6.6 | -4.1 | -2.4 |
| Return in NOK | -0.2 | 0.1 | 0.2 | -0.4 | -0.3 |
| Net transfers | 3.6 | 1.0 | 6.4 | -3.7 | -2.1 |
| <i>Foreign exchange purchases from the SDFI</i> | 35.8 | 39.1 | 28.9 | 26.2 | 29.7 |
| <i>Foreign exchange purchases in the market</i> | -48.5 | -61.6 | -49.5 | -59.4 | -55.8 |
| <i>Transfers from the GPF</i> | 16.3 | 23.4 | 27.0 | 29.5 | 24.0 |
| Market value of the foreign exchange reserves | 501.3 | 495.1 | 480.9 | 451.4 | 466.6 |

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

| | 2017 Q2 | 2017 Q1 | 2016 Q4 | 2016 Q3 | 2016 Q2 |
|--|-------------|-------------|-------------|-------------|-------------|
| Return on fixed income investments | 0.26 | -0.01 | -1.57 | 0.07 | 0.85 |
| Return on equity investments | 2.85 | 5.22 | 6.16 | 5.14 | 1.28 |
| Return on the foreign exchange reserves* | 1.17 | 2.00 | 1.26 | 1.87 | 1.01 |
| Return on benchmark index for fixed income investments | 0.26 | 0.00 | -1.60 | 0.05 | 0.85 |
| Return on benchmark index for equity investments | 2.81 | 5.29 | 5.94 | 5.04 | 1.31 |
| Relative return on fixed income investments | 0.00 | -0.01 | 0.03 | 0.01 | 0.00 |
| Relative return on equity investments | 0.04 | -0.06 | 0.22 | 0.10 | -0.03 |

* Excluding petroleum buffer portfolio.

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

| | 2017 Q2 | 2017 Q1 | 2016 Q4 | 2016 Q3 | 2016 Q2 |
|--|-------------|-------------|-------------|--------------|-------------|
| Return on fixed income investments | 0.20 | 0.72 | 2.54 | -4.23 | 1.57 |
| Return on equity investments | 1.67 | 6.00 | 10.35 | 0.61 | 2.03 |
| Return on the foreign exchange reserves* | 0.72 | 2.75 | 5.41 | -2.50 | 1.74 |
| Return on benchmark index for fixed income investments | 0.20 | 0.73 | 2.51 | -4.24 | 1.57 |
| Return on benchmark index for equity investments | 1.62 | 6.07 | 10.13 | 0.52 | 2.06 |
| Relative return on fixed income investments | 0.00 | -0.01 | 0.03 | 0.01 | 0.00 |
| Relative return on equity investments | 0.04 | -0.07 | 0.23 | 0.09 | -0.03 |

* Excluding petroleum buffer portfolio.

Table 13 Key figures at the end of 2017 Q2. In international currency terms. Annualised.

| | Past year | Past 3 years | Past 5 years | Past 10 years |
|---|-----------|--------------|--------------|---------------|
| Return on the foreign exchange reserves (percent) | 6.45 | 4.33 | 6.25 | 4.59 |
| <i>Fixed income investments:</i> | | | | |
| Return on fixed income investments (percent) | -1.27 | 1.60 | 1.70 | 3.92 |
| Return on benchmark index (percent) | -1.29 | 1.65 | 1.65 | 3.67 |
| Relative return (percentage points) | 0.03 | -0.05 | 0.05 | 0.25 |
| Realised absolute volatility (percent) ¹ | 1.54 | 1.96 | 2.03 | 3.36 |
| Realised relative volatility (percentage points) ¹ | 0.04 | 0.05 | 0.10 | 1.58 |
| Information rate (IR) ² | 0.73 | -0.90 | 0.46 | 0.16 |
| <i>Equity investments:</i> | | | | |
| Return on equity investments (percent) | 20.79 | 9.08 | 14.19 | 5.41 |
| Return on benchmark index (percent) | 20.45 | 8.86 | 13.91 | 5.32 |
| Relative return (percentage points) | 0.34 | 0.22 | 0.28 | 0.09 |
| Realised absolute volatility (percent) ¹ | 5.09 | 10.16 | 9.18 | 14.90 |
| Realised relative volatility (percentage points) ¹ | 0.14 | 0.15 | 0.16 | 0.40 |
| Information rate (IR) ² | 2.36 | 1.43 | 1.69 | 0.22 |

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).

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Income statement

| Amounts in NOK millions | 2017 Q2 | 2017 Q1 | Full year 2017 | Full year 2016 |
|---|--------------|---------------|-------------------|-------------------|
| NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS | | | | |
| Net income/expenses from: | | | | |
| Equities and units | 4 028 | 9 445 | 13 473 | 14 705 |
| Bonds | 992 | 18 | 1 010 | 3 868 |
| Financial derivatives | -47 | -23 | -70 | 18 |
| Secured lending | 57 | 27 | 84 | 120 |
| Interest income/expense from deposits and short-term borrowing | 2 | -1 | 1 | -2 |
| Tax expenses | -36 | -24 | -60 | -76 |
| Other financial income/expenses | -4 | - | -4 | 5 |
| Net income/expense from financial instruments before foreign exchange gains/losses | 4 992 | 9 442 | 14 434 | 18 638 |
| Foreign exchange gains/losses | -1 761 | 3 319 | 1 558 | -19 854 |
| Net income/expense from financial instruments | 3 231 | 12 761 | 15 992 | -1 216 |

Balance sheet

| Amounts in NOK millions | 30 Jun. 2017 | 31 Mar. 2017 |
|--------------------------------------|----------------|----------------|
| FINANCIAL ASSETS | | |
| Deposits in banks | 8 489 | 1 694 |
| Secured lending | 43 417 | 37 074 |
| Unsettled trades | 288 | 35 895 |
| Equities and units | 162 203 | 156 428 |
| Equities lent | 7 873 | 15 850 |
| Bonds | 298 658 | 292 627 |
| Financial derivatives | 7 | 21 |
| Other financial assets | 343 | 3 999 |
| Total financial assets | 521 278 | 543 588 |
| FINANCIAL LIABILITIES | | |
| Secured borrowing | 419 | 730 |
| Unsettled trades | 17 824 | 46 931 |
| Financial derivatives | 1 | 3 |
| Other financial liabilities | 881 | - |
| Total financial liabilities | 19 125 | 47 664 |
| Net foreign exchange reserves | 502 153 | 495 924 |

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 June 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
2 | 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 Q2 | 2017 Q2 | 2017 Q2 | 2017 Q2 |
| NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS | | | | |
| Net income/expenses from: | | | | |
| Equities and units | 4 028 | - | - | 4 028 |
| Bonds | - | 992 | - | 992 |
| Financial derivatives | -37 | -10 | - | -47 |
| Secured lending | 11 | 9 | 37 | 57 |
| Interest income/expense from deposits and short-term borrowing | - | 2 | - | 2 |
| Tax expense | -36 | - | - | -36 |
| Other financial income/expenses | -4 | - | - | -4 |
| Net income/expense from financial instruments before foreign exchange gains/losses | 3 962 | 993 | 37 | 4 992 |
| Foreign exchange gains/losses | -1 187 | -335 | -239 | -1 761 |
| Net income/expense from financial instruments | 2 775 | 658 | -202 | 3 231 |

Note 3 Balance sheet by portfolio

| | Equity portfolio | Fixed income portfolio | Petroleum buffer portfolio | Total foreign exchange reserves |
|--------------------------------------|------------------|------------------------|----------------------------|---------------------------------|
| Amounts in NOK millions | 30 Jun. 2017 | 30 Jun. 2017 | 30 Jun. 2017 | 30 Jun. 2017 |
| FINANCIAL ASSETS | | | | |
| Deposits in banks | 193 | 3 549 | 4 747 | 8 489 |
| Secured lending | 419 | 15 559 | 27 439 | 43 417 |
| Unsettled trades | 288 | - | - | 288 |
| Equities and units | 162 203 | - | - | 162 203 |
| Equities lent | 7 873 | - | - | 7 873 |
| Bonds | - | 298 658 | - | 298 658 |
| Financial derivatives | 4 | - | 3 | 7 |
| Other financial assets | 92 | - | 251 | 343 |
| Total financial assets | 171 072 | 317 766 | 32 440 | 521 278 |
| FINANCIAL LIABILITIES | | | | |
| Secured borrowing | 419 | - | - | 419 |
| Unsettled trades | 341 | 11 055 | 6 428 | 17 824 |
| Financial derivatives | - | - | 1 | 1 |
| Other financial liabilities | 881 | - | - | 881 |
| Total financial liabilities | 1 641 | 11 055 | 6 429 | 19 125 |
| Net foreign exchange reserves | 169 431 | 306 711 | 26 011 | 502 153 |