

FOREIGN EXCHANGE RESERVES

Management of Norges Bank's foreign exchange reserves

3 | 2016
NOVEMBER 2016

REPORT FOR
THIRD QUARTER 2016



NORGES BANK

CONTENTS

Management of the foreign exchange reserves 3
Size and composition.....3
Return.....4
Risk management6
International commitments.....8

Key figures 10

Financial reporting..... 12
Financial statements12
Notes.....12

NORGES BANK

QUARTERLY REPORT

3 | 2016

MANAGEMENT OF
NORGES BANK'S FOREIGN
EXCHANGE RESERVES

MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

NORGES BANK

QUARTERLY REPORT

3 | 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 in foreign currency and manage any transfers to and from the Government Pension Fund Global (GPF). 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 Q3

- The market value of Norges Bank's foreign exchange reserves was NOK 451.4bn at the end of 2016 Q3, a reduction of NOK 15.3bn during the quarter.
- In international currency terms, the return on the foreign exchange reserves, excluding the petroleum buffer portfolio, was 1.87%. The return was 5.14% on equity investments and 0.07% on both long-term and short-term fixed income investments.
- The size and liquidity of the foreign exchange reserves are regarded as being sufficient for meeting Norges Bank's commitments. Liquid investments amount to SDR 24.8bn.

Size and composition

The market value of the foreign exchange reserves was NOK 451.4bn at the end of 2016 Q3. The reserves comprise the long-term portfolio, with NOK 391.5bn, the money market portfolio, with NOK 45.8bn and the petroleum buffer portfolio, with NOK 14.1bn. The value of the reserves decreased by NOK 15.3bn during the quarter. A stronger krone and a net capital outflow reduced the reserves by NOK 17.9bn and NOK 3.6bn, respectively, while the return in international currency in isolation contributed an increase of approximately NOK 6.3bn.

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

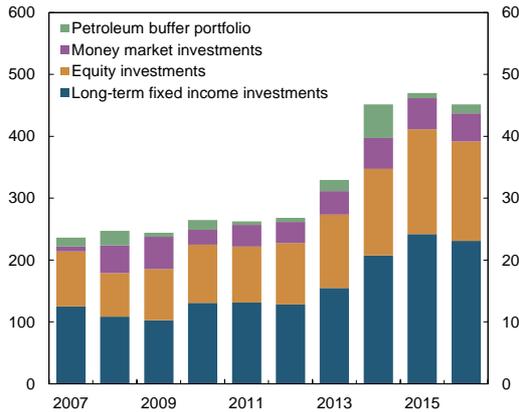


Table 1 Market value of the foreign exchange reserves at the end of 2016 Q3. In billions of NOK

| | 2016 Q3 |
|---------------------------------------|--------------|
| Money market investments | 45.8 |
| Long-term fixed income investments | 230.9 |
| Equity investments | 160.6 |
| Petroleum buffer portfolio | 14.1 |
| Foreign exchange reserves | 451.4 |
| Total change during the period | -15.3 |
| Return* | 6.3 |
| Movements in the krone exchange rate | -17.9 |
| Net transfers | -3.6 |

*Net income from financial instruments before foreign exchange gains/losses (see note 2 for Q3 returns on page 13).

Return

In 2016 Q3, the return on the foreign exchange reserves was 1.87%, up from 1.01% in Q2. The return was 5.14% on equity investments and 0.07% on both long-term and short-term fixed income investments.

Chart 2 Absolute return. Foreign exchange reserves. Percent

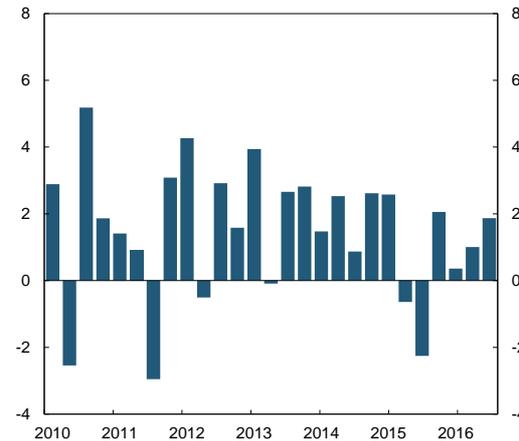


Table 2 Return in international currency terms. Percent

| | 2016 Q3 |
|------------------------------------|-------------|
| <i>Return:</i> | |
| Money market investments | 0.07 |
| Long-term fixed income investments | 0.07 |
| Equity investments | 5.14 |
| Foreign exchange reserves* | 1.87 |
| <i>Relative return:</i> | |
| Money market investments | 0.03 |
| Long-term fixed income investments | 0.01 |
| Equity investments | 0.10 |

*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, ie 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 7 basis points in 2016 Q3, 3 basis points higher than the benchmark index.

Yields on US Treasury bills rose over the course of Q3, and the yield curve for maturities up to one year steepened. While short-term Treasury bill yields ended the quarter approximately unchanged, yields with maturities of approximately one year rose by 14 basis points. This was to a large degree a reversal of the movements surrounding the UK referendum, with interest rates returning to levels prevailing at the beginning of the year. During Q3, solid US key data increased market expectations of an increase in

policy rates by the Federal Reserve, which may explain some of the rise in yields. The money market fund reform in the US has also contributed and may have influenced the slope of the curve.

Despite ECB's unchanged monetary policy stance and market expectations of further reductions in the deposit facility rate pushed further out in time, yields on German Treasury bills fell in Q3. The effects of the ECB's asset purchase programme have continued to keep euro area yields low and the shortage of German Treasury bills ensured that yields were low at the end of the period. Shorter yields fell more than the longest yields, which fell by 5 basis points.

Chart 3 Absolute return. Money market investments. Basis points

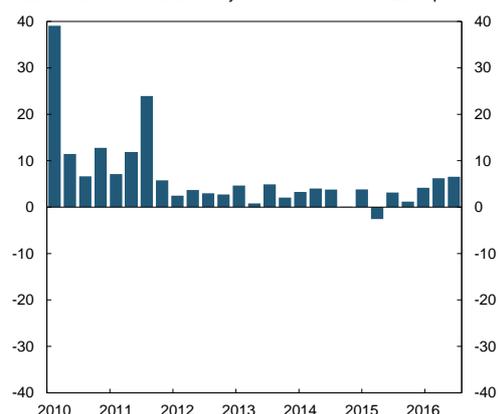
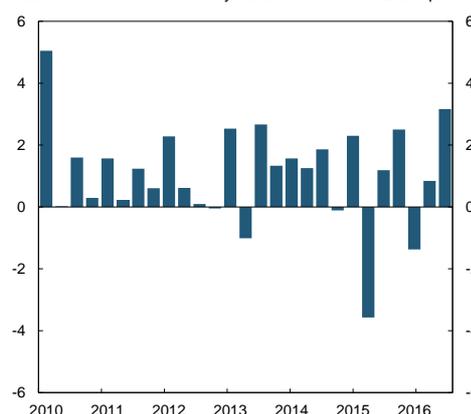


Chart 4 Relative return. Money market investments. Basis points



LONG-TERM FIXED INCOME INVESTMENTS

The return on long-term fixed income investments was 0.07% in 2016 Q3. Returns were positive on bonds in EUR and JPY, which were 1.22% and 0.65%, respectively. On the negative side, returns on securities in USD and GBP were -0.45% and -2.28%, respectively. The portfolio outperformed its benchmark index by 1 basis point for Q3.

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

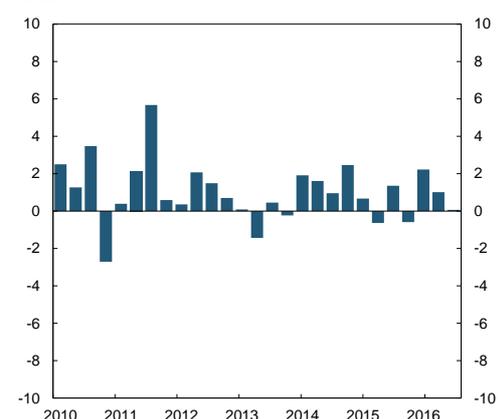
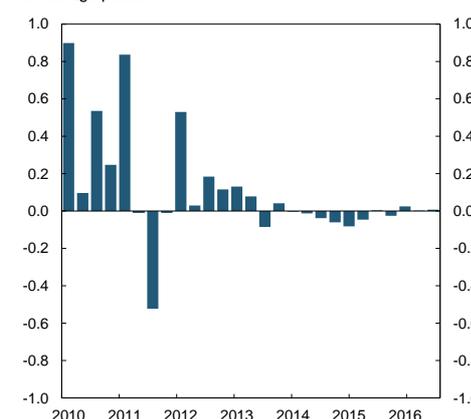


Chart 6 Relative return. Long-term fixed income investments. Percentage points



EQUITY INVESTMENTS

The return on equity investments was 5.14% in 2015 Q3. Asian equities posted the highest return in Q3, 8.68%, while European and US equities posted returns of 5.66% and 4.26%, respectively. Technology and finance were the sectors with the highest returns for the quarter, with 13.40% and 7.01%, respectively.

The equity portfolio earned an excess return of 10 basis points in Q3 compared to its benchmark index. The excess return was distributed over a number of sectors. Manufacturing and consumer goods, with 3 and 2 basis points, respectively, made the

largest contributions. Management of the equity portfolio continues to remain close to the index with some use of enhanced indexing strategies. These strategies made a positive contribution.

Chart 7 Absolute return. Equity investments. Percent

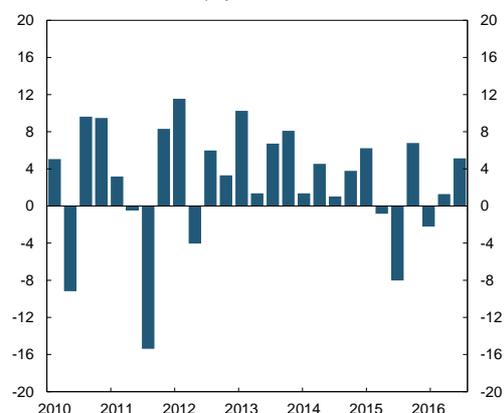
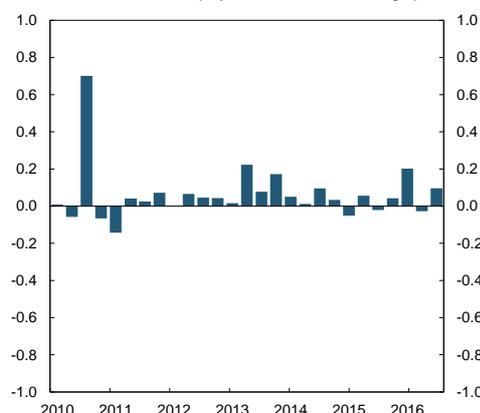


Chart 8 Relative return. Equity investments. Percentage points



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% EUR, 45% USD, 10% GBP and 10% JPY. Fixed income securities comprise 60% of the strategic benchmark index for equity and long-term fixed income investments and equities comprise 40%.

The currency weighting of the strategic benchmark index for the money market portfolio is 75% USD and 25% EUR. The cash portion accounts for 10% 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 in international currency terms¹. 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 13.0% and 1.9%, respectively, at the end of 2016 Q3, 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 portfolio's benchmark index.² At the end of Q3, expected relative volatility of equity and long-term fixed income investments was 0.15 and 0.03 percentage point,

¹ Also referred to as absolute volatility.

² 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 ± 1.0 percentage point in two out of three years.

respectively. The expected relative volatility of the money market portfolio was 0.07 percentage point.

Chart 9 Expected absolute volatility excluding exchange rate movements. Foreign exchange reserves. Percent

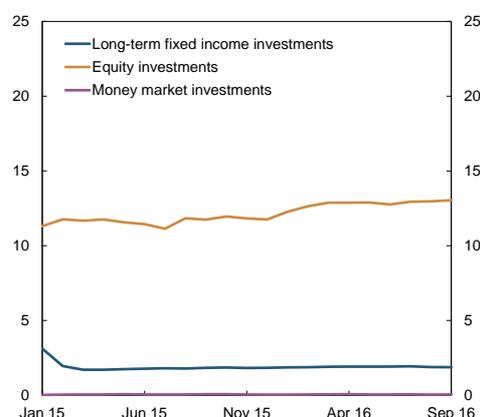
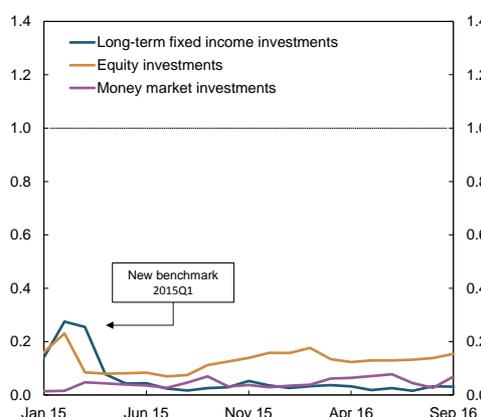


Chart 10 Expected relative volatility including exchange rate movements. Foreign exchange reserves. Percentage points



Another measure of market risk is duration, which measures a portfolio's price-sensitivity to interest rate changes. At the end of Q3, the durations of long-term fixed-income investments and the money market portfolio were 4.23 and 0.13 years, respectively, whereas they were 4.36 and 0.18 years, respectively, at the end of Q2.

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 Q3, 91% was invested in government securities rated AA or higher. A considerable portion of fixed income investments, 67% of Treasury bills and 45% of sovereign bonds, is issued by the US and has a AAA rating.

Table 3 Fixed income investments in the foreign exchange reserves at the end of Q3 by credit rating. Percent

| | AAA | AA | A | BBB | Lower | Total |
|---------------------------------------|-------------|-------------|------------|------------|------------|--------------|
| Treasury bills | 7.4 | 0.0 | 0.0 | 0.0 | 0.0 | 7.4 |
| Sovereign bonds | 55.7 | 27.5 | 9.4 | 0.0 | 0.0 | 92.6 |
| Corporate bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total fixed income instruments | 63.1 | 27.5 | 9.4 | 0.0 | 0.0 | 100.0 |

At the end of Q3, NOK 140bn was invested in US and German sovereign bonds, which are considered to be highly liquid investments.

Chart 11 Treasury bills by issuer. Percent

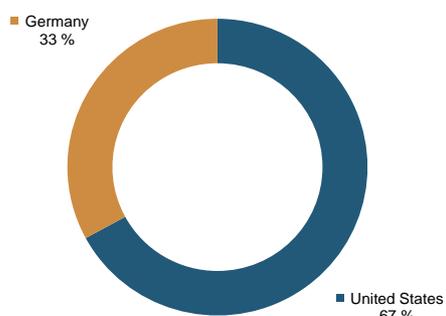
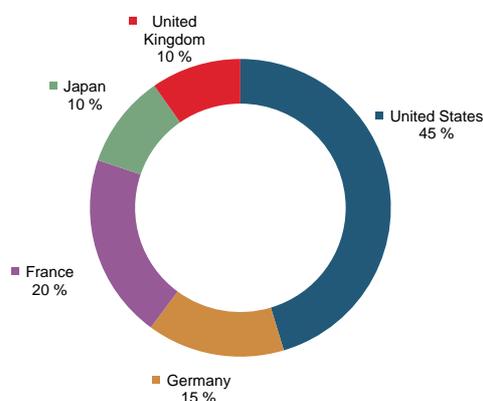


Chart 12 Sovereign bonds by issuer. Percent



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

Table 4 Claims on and liabilities to the International Monetary Fund (IMF) at 30 September 2016. In millions of NOK

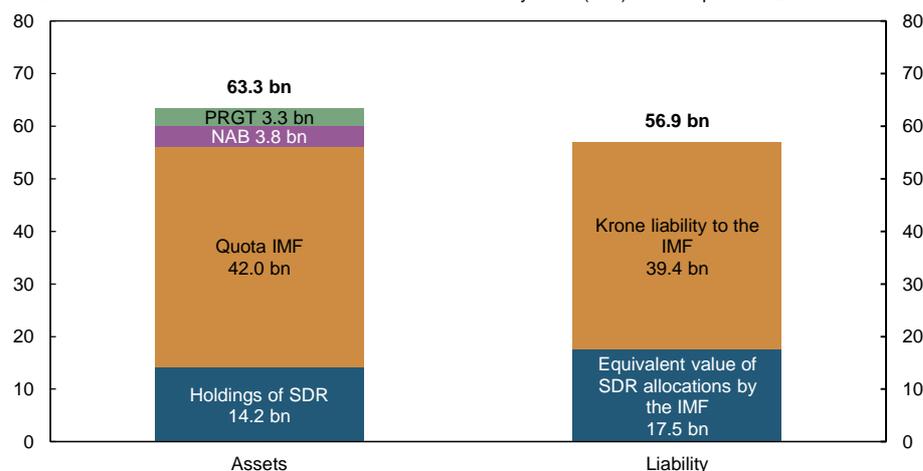
| | Loan resource commitments** | Recognised in the balance sheet | | | Total amount recognised |
|--|-----------------------------|---------------------------------|-----------------|---------------|-------------------------|
| | | Drawn on commitmen | Subscription*** | SDRs | |
| <i>Financial assets</i> | | | | | |
| IMF subscription (quota)* | - | - | 41 988 | - | 41 988 |
| Holdings of SDRs | - | - | - | 14 223 | 14 223 |
| Loans to the IMF – NAB | 21 991 | 3 845 | - | - | 3 845 |
| Loans to the IMF – Bilateral agreement | 67 092 | - | - | - | - |
| Loans to the IMF – PRGT | 3 355 | 3 265 | - | - | 3 265 |
| Claims on the IMF | | 7 110 | 41 988 | 14 223 | 63 321 |
| <i>Financial liabilities</i> | | | | | |
| Krone liability to the IMF | - | - | 39 417 | - | 39 417 |
| Equivalent value of SDR allocations | - | - | - | 17 480 | 17 480 |
| Liabilities to the IMF | | - | 39 417 | 17 480 | 56 897 |
| Net positions with the IMF | | 7 110 | 2 571 | -3 257 | 6 425 |

* 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.

** 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.

*** 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.

Chart 13 Claims on and liabilities to the International Monetary Fund (IMF) at 30 September 2016. In billions of NOK



Overview – Norges Bank's commitments to the IMF at 30 September 2016

Quota

In 2010, the IMF approved the 14th General Review of Quotas, which entailed a doubling of member countries' IMF quota subscriptions. The payment was made on 17 February 2016, increasing Norway's quota to SDR³ 3 755m.

The amount drawn⁴ rose following the financial crisis, but in recent years has fallen again. At the end of 2016 Q3, the amount drawn totalled SDR 230m (Chart 14).

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 15). Total outstanding drawings were SDR 344m at the end of 2016 Q3.

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 722m. At the end of Q3, the IMF had drawn SDR 574m. A further SDR 5 148m 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. 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 (PRGT⁶). Norges Bank is the agent for the loan and administers the commitments. At the end of 2016 Q3, SDR 292m had been drawn (Chart 16).

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 Q3, holdings of SDRs were SDR 1 272m (Chart 17).

Chart 14 IMF quota and reserve tranche position. In millions of SDRs

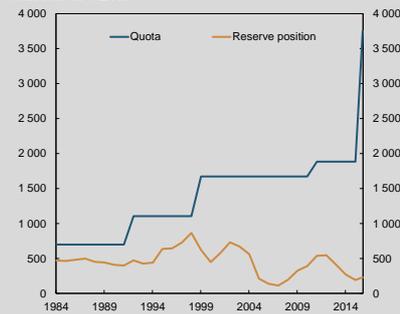


Chart 15 NAB. In millions of SDRs

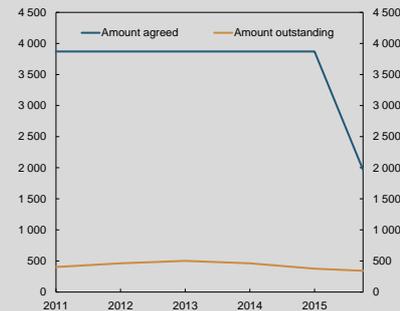
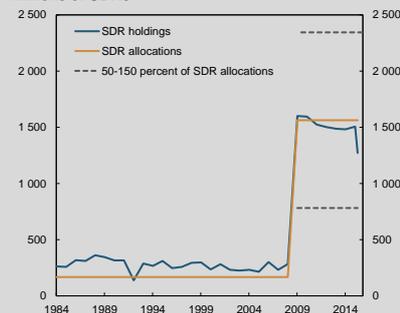


Chart 16 PRGT. In millions of SDRs



Chart 17 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 four currencies: the US dollar (42%), euro (37%), Japanese yen (10%) and pound sterling (11%). At 30 September 2016, SDR 1 = NOK 11.18.

⁴ Amount drawn is equal to the reserve tranche position.

⁵ New Arrangements to Borrow (NAB).

⁶ Poverty Reduction and Growth Trust (PRGT).

KEY FIGURES

NORGES BANK

QUARTERLY REPORT

3 | 2016

MANAGEMENT OF
NORGES BANK'S FOREIGN
EXCHANGE RESERVES

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

| | 2016 Q3 | 2016 Q2 | 2016 Q1 | 2015 Q4 | 2015 Q3 |
|---|--------------|--------------|--------------|--------------|--------------|
| Money market investments | 45.8 | 47.7 | 47.3 | 50.3 | 49.8 |
| Long-term fixed income investments | 230.9 | 241.1 | 236.8 | 241.9 | 236.9 |
| Equity investments | 160.6 | 159.7 | 156.5 | 169.2 | 154.3 |
| Petroleum buffer portfolio | 14.1 | 18.2 | 20.6 | 8.7 | 18.1 |
| Foreign exchange reserves | 451.4 | 466.6 | 461.3 | 470.1 | 459.1 |
| Total change during the quarter | -15.3 | 5.4 | -8.8 | 11.0 | 1.8 |
| Return | 6.3 | 4.7 | -0.5 | 10.5 | -6.8 |
| Changes due to movements in the NOK exchange rate | -17.9 | 2.6 | -20.3 | 11.1 | 32.9 |
| Net transfers | -3.6 | -2.0 | 11.9 | -10.6 | -24.3 |

Return in international currency terms. Percent

| | 2016 Q3 | 2016 Q2 | 2016 Q1 | 2015 Q4 | 2015 Q3 |
|------------------------------------|-------------|-------------|-------------|-------------|--------------|
| <i>Portfolio:</i> | | | | | |
| Money market investments | 0.07 | 0.06 | 0.05 | 0.01 | 0.03 |
| Long-term fixed income investments | 0.07 | 1.01 | 2.22 | -0.59 | 1.35 |
| Equity investments | 5.14 | 1.28 | -2.21 | 6.78 | -8.02 |
| Foreign exchange reserves* | 1.87 | 1.01 | 0.36 | 2.06 | -2.25 |
| <i>Benchmark index:</i> | | | | | |
| Money market investments | 0.03 | 0.05 | 0.06 | -0.01 | 0.02 |
| Long-term fixed income investments | 0.06 | 1.01 | 2.20 | -0.57 | 1.35 |
| Equity investments | 5.04 | 1.31 | -2.41 | 6.74 | -8.00 |

* Excluding petroleum buffer portfolio.

Return in NOK terms. Percent

| | 2016 Q3 | 2016 Q2 | 2016 Q1 | 2015 Q4 | 2015 Q3 |
|------------------------------------|--------------|-------------|--------------|-------------|-------------|
| <i>Portfolio:</i> | | | | | |
| Money market investments | -4.15 | 0.60 | -5.37 | 3.10 | 8.51 |
| Long-term fixed income investments | -4.24 | 1.76 | -2.57 | 2.10 | 9.50 |
| Equity investments | 0.61 | 2.03 | -6.79 | 9.67 | -0.62 |
| Foreign exchange reserves* | -2.50 | 1.74 | -4.42 | 4.86 | 5.65 |

* Excluding petroleum buffer portfolio.

Key figures for asset allocation. Foreign exchange reserves. Percent

| Risk | Limits | 30 September 2016 | |
|-------------------------------|------------------------|----------------------|-------|
| <i>Money market portfolio</i> | Cash | > 10.0% | 59.41 |
| | Securities | < 90.0% | 40.59 |
| <i>Long-term portfolio</i> | Fixed income portfolio | > 50.0% | 58.98 |
| | Equity portfolio | < 50.0% | 41.02 |

Key figures at 30 September 2016. Annualised. In international currency terms

| | Past year | Past 3 years | Past 5 years | Past 10 years* |
|--|-----------|--------------|--------------|----------------|
| <i>Foreign exchange reserves excl. petroleum buffer portfolio:</i> | | | | |
| Gross annual return (percent) | 5.39 | 5.15 | 6.74 | 5.22 |
| <i>Money market investments:</i> | | | | |
| Portfolio return (percent) | 0.19 | 0.12 | 0.13 | - |
| Benchmark return (percent) | 0.13 | 0.08 | 0.09 | - |
| Excess return (percentage points) | 0.06 | 0.04 | 0.04 | - |
| Realised absolute volatility (percent)** | 0.03 | 0.04 | 0.04 | - |
| Realised relative volatility (percentage points)** | 0.05 | 0.04 | 0.04 | - |
| Information rate (IR)*** | 1.14 | 1.01 | 1.10 | - |
| <i>Long-term fixed income investments:</i> | | | | |
| Portfolio return (percent) | 2.71 | 3.62 | 3.03 | 4.31 |
| Benchmark return (percent) | 2.70 | 3.69 | 2.87 | 4.02 |
| Excess return (percentage points) | 0.01 | -0.06 | 0.16 | 0.29 |
| Realised absolute volatility (percent)** | 1.89 | 2.36 | 2.70 | 3.54 |
| Realised relative volatility (percentage points)** | 0.03 | 0.08 | 0.27 | 1.58 |
| Information rate (IR)*** | 0.29 | -0.86 | 0.59 | 0.18 |
| <i>Equity investments:</i> | | | | |
| Portfolio return (percent) | 11.19 | 8.97 | 14.40 | 5.65 |
| Benchmark return (percent) | 10.85 | 8.74 | 14.13 | 5.55 |
| Excess return (percentage points) | 0.34 | 0.23 | 0.27 | 0.10 |
| Realised absolute volatility (percent)** | 12.56 | 10.53 | 10.71 | 14.96 |
| Realised relative volatility (percentage points)** | 0.21 | 0.16 | 0.16 | 0.41 |
| Information rate (IR)*** | 1.65 | 1.43 | 1.69 | 0.25 |

* Pertains only to equities and long-term fixed income investments.

** 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.

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

NORGES BANK

QUARTERLY REPORT

3 | 2016

MANAGEMENT OF
NORGES BANK'S FOREIGN
EXCHANGE RESERVES

Income statement

| Amounts in millions of NOK | 2016 Q3 | 2016 Q2 | 2016 so far | 2015 total |
|---|----------------|--------------|----------------|---------------|
| NET INCOME FROM FINANCIAL INSTRUMENTS | | | | |
| Net income/expenses – gains/losses from: | | | | |
| Equities and units | 6 475 | 1 842 | 2 914 | 10 221 |
| Bonds and other fixed income instruments | -197 | 2 892 | 7 570 | 2 573 |
| Financial derivatives | 10 | -8 | 5 | -29 |
| Secured lending | 35 | 37 | 94 | 69 |
| Interest income/expense from deposits/short-term borrowing | 1 | - | 2 | -8 |
| Tax expense | -27 | -17 | -72 | -42 |
| Other financial income/expenses | 1 | 4 | 6 | 1 |
| Net income from financial instruments before foreign exchange gains/losses | 6 298 | 4 750 | 10 519 | 12 785 |
| Foreign exchange gains/losses | -17 903 | 2 648 | -35 584 | 53 699 |
| Net income from financial instruments | -11 605 | 7 398 | -25 065 | 66 484 |

Balance sheet

| Amounts in millions of NOK | 30 Sep. 2016 | 30 Jun. 2016 |
|--|----------------|----------------|
| FINANCIAL ASSETS | | |
| Deposits in banks | 15 784 | 18 533 |
| Secured lending | 59 071 | 61 110 |
| Unsettled trades | 1 258 | 2 374 |
| Equities and units | 147 592 | 155 112 |
| Equities lent | 13 060 | 4 786 |
| Bonds and other fixed income instruments | 250 548 | 261 178 |
| Financial derivatives | 11 | 7 |
| Other financial assets | 929 | 2 464 |
| Total financial assets | 488 253 | 505 564 |
| FINANCIAL LIABILITIES | | |
| Secured borrowing | 1 135 | 927 |
| Unsettled trades | 34 384 | 36 565 |
| Financial derivatives | 4 | - |
| Other financial liabilities | - | - |
| Total financial liabilities | 35 523 | 37 492 |
| Total foreign exchange reserves | 452 730 | 468 072 |

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 2016. 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

QUARTERLY REPORT
3 | 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 reserves |
|---|---------------------|------------------------|----------------------------|------------------------|
| Amounts in millions of NOK | 2016 Q3 | 2016 Q3 | 2016 Q3 | 2016 Q3 |
| NET INCOME FROM FINANCIAL INSTRUMENTS | | | | |
| Net income/expenses – gains/losses from: | | | | |
| Equities and units | 6 475 | - | - | 6 475 |
| Bonds and other fixed income instruments | -202 | 5 | - | -197 |
| Financial derivatives | 6 | 4 | - | 10 |
| Secured lending | 13 | 21 | 1 | 35 |
| Interest income/expense from deposits/short-term borrowing | - | 1 | - | 1 |
| Tax expense | -27 | - | - | -27 |
| Other financial income/expenses | 1 | - | - | 1 |
| Net income from financial instruments before foreign exchange gains/losses | 6 266 | 31 | 1 | 6 298 |
| Foreign exchange gains/losses | -15 507 | -2 013 | -383 | -17 903 |
| Net income from financial instruments* | -9 241 | -1 982 | -382 | -11 605 |

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

Note 3 Specification of the balance sheet by portfolio

| | Long-term portfolio | Money market portfolio | Petroleum buffer portfolio | Total foreign reserves |
|--|---------------------|------------------------|----------------------------|------------------------|
| Amounts in millions of NOK | 30 Sep 2016 | 30 Sep 2016 | 30 Sep 2016 | 30 Sep 2016 |
| FINANCIAL ASSETS | | | | |
| Deposits in banks | -22 | 6 198 | 9 608 | 15 784 |
| Secured lending | 1 135 | 45 959 | 11 977 | 59 071 |
| Unsettled trades | 1 258 | - | - | 1 258 |
| Equities and units | 147 592 | - | - | 147 592 |
| Equities lent | 13 060 | - | - | 13 060 |
| Bonds and other fixed income instruments | 231 952 | 18 596 | - | 250 548 |
| Financial derivatives | 5 | - | 6 | 11 |
| Other financial assets | 235 | - | 694 | 929 |
| Total financial assets | 395 215 | 70 753 | 22 285 | 488 253 |
| FINANCIAL LIABILITIES | | | | |
| Secured borrowing | 1 135 | - | - | 1 135 |
| Unsettled trades | 2 572 | 24 956 | 6 856 | 34 384 |
| Financial derivatives | - | - | 4 | 4 |
| Other financial liabilities | - | - | - | - |
| Total financial liabilities | 3 707 | 24 956 | 6 860 | 35 323 |
| Total foreign exchange reserves* | 391 508 | 45 797 | 15 425 | 452 730 |

* For the long-term portfolio, total portfolios include outstanding balances with the GPF.