

# FOREIGN EXCHANGE RESERVES

## Management of Norges Bank's foreign exchange reserves

4 | 2013  
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REPORT FOR FOURTH  
QUARTER 2013



NORGES BANK

## Main points

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- The market value of Norges Bank's foreign exchange reserves at the end of 2013 Q4 was NOK 329.6bn, or SDR 35bn. Reserves were invested in short-term fixed income instruments (17 percent), long-term fixed income instruments (47 percent) and equities (36 percent).
  - The return on the foreign exchange reserves, measured in international currency, was 2.8 percent in 2013 Q4. The return on equity investments was 8.1 percent, the return on long-term fixed-income investments was negative 0.2 percent, and the return on short-term fixed-income investments was approximately zero.
  - The volatility in the value of the foreign exchange reserves, including movements in the krone exchange rate, is equal to NOK 26bn in annual fluctuations. This means that the annual variation in the portfolio's market value is expected to be within the interval of +/- NOK 26bn in two out of three years. Fluctuations in the krone exchange rate will not be relevant to use of the foreign exchange reserves in a crisis situation.
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## Part I: Management

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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 for meeting Norges Bank's international commitments to the 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 (NBIM) manages the long-term portfolio, while the money market portfolio and petroleum buffer portfolio are managed by Norges Bank Markets and Banking Services.

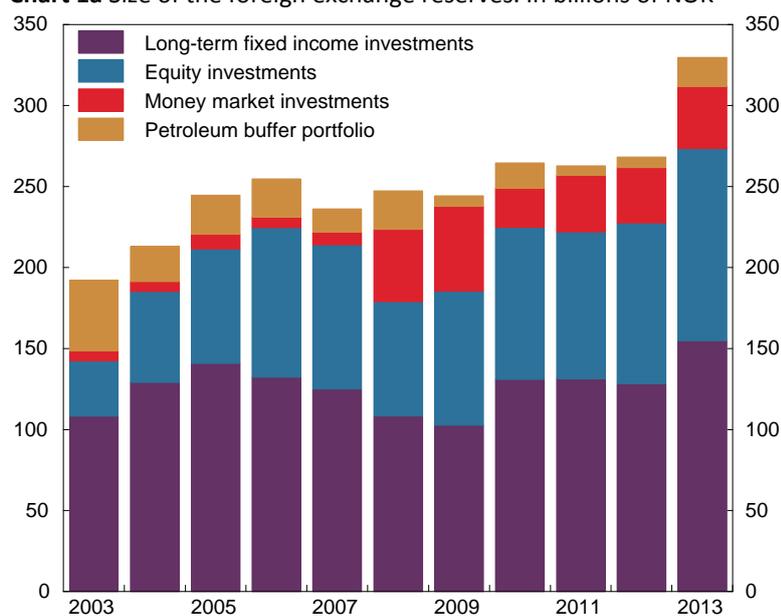
The foreign exchange reserves shall be invested so that at least SDR 10bn, including the entire money market portfolio, can be used within a single trading day without having to realise any appreciable losses. The money market portfolio shall be between SDR 3.5bn and SDR 4.5bn and be invested in short-term 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 securities. The benchmark index for the long-term portfolio is a composite of global equity and bond indices. The equity allocation in the strategic benchmark index is 40 percent.

The purpose of the petroleum buffer portfolio is to ensure that the Government Pension Fund Global (GPF) is provided with an adequate supply of fresh capital. Funds accumulate in the portfolio through transfers of foreign currencies from the State's Direct Financial Interest in petroleum activities (SDFI) and through foreign exchange purchases Norges Bank undertakes in the markets on the basis of the Ministry of Finance's monthly allocations to the GPF. Funds are normally transferred each month. No benchmark index has been set for the petroleum buffer portfolio.

## 1. Management of the foreign exchange reserves

The market value of the foreign exchange reserves was NOK 329.6bn at the end of 2013 Q4. Equities and long-term fixed income investments totalled NOK 273.3bn, while money market investments and petroleum buffer portfolio came to NOK 38.3bn and NOK 18.0bn, respectively. Total reserves were approximately at the same level as at the end of Q3. The value of equity investments increased by NOK 9.8 during Q4, while for other asset classes there were minor changes. The petroleum buffer portfolio was reduced by NOK 11bn.

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



**Table 1a** Market value. In billions of NOK

	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4
Money market investments	38.3	37.6	37.2	35.2	34.2
Long-term fixed income investments	154.8	153.9	148.6	131.5	128.2
Equity investments	118.5	108.7	104.9	112.2	99.2
Petroleum buffer portfolio	18.0	29.0	28.2	19.4	6.5
<b>Foreign exchange reserves</b>	<b>329.6</b>	<b>329.2</b>	<b>318.9</b>	<b>298.3</b>	<b>268.0</b>
<b>Total change during the quarter</b>	<b>0.4</b>	<b>10.3</b>	<b>20.6</b>	<b>30.3</b>	<b>-17.6</b>
Transfers during the quarter	-11.2	0.8	7.1	11.6	-13.7
Return during the quarter	8.8	7.7	0.5	11.2	4.4
Change owing to fluctuations in the NOK exchange rate	2.8	1.7	13.0	7.5	-8.3

## 2. Return

The return on the foreign exchange reserves, measured in international currency, was NOK 9bn, or 2.8 percent, in 2013 Q4.

The return on equities and long-term fixed income investments is compared with the return on global benchmark indices, which are based on indices from FTSE Group and Barclays Capital. The return on equity investments was 8.11 percent in 2013 Q4, which was 0.17 percentage point higher than the return on the benchmark index for equities. The return on long-term fixed income investments in the same period was negative 0.24 percent, which was 0.04 percentage point higher than the return on the benchmark index for bonds.

Money market investments earned a return in Q4 of 0.01 percent. The return is compared with the return on benchmark indices composed of USD and EUR overnight money market indices and Treasury bill indices for the same currencies. The return on money market investments was 0.01 percentage point higher than the return on the benchmark index in Q4. The low return must be viewed in the context of the liquidity requirements for the money market portfolio and to the restrictions in the portfolio's investment universe.

**Table 2a** Return measured in international currency. Percent

	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4
<i>Return:</i>					
Money market investments	0.01	0.04	0.02	0.05	0.03
Long-term fixed income investments	-0.24	0.45	-1.44	0.08	0.70
Equity investments	8.11	6.72	1.37	10.25	3.30
<b>Foreign exchange reserves<sup>1</sup></b>	<b>2.82</b>	<b>2.66</b>	<b>-0.09</b>	<b>3.95</b>	<b>1.58</b>
<i>Return on benchmark indices:</i>					
Money market investments	0.00	0.02	0.02	0.02	0.03
Long-term fixed income investments	-0.28	0.54	-1.51	-0.05	0.59
Equity investments	7.93	6.64	1.15	10.24	3.25

**Table 2b** Return measured in NOK terms. Percent

	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4
Money market investments	1.34	-0.44	4.73	4.49	-2.16
Long-term fixed income investments	0.60	0.96	2.66	2.62	-2.25
Equity investments	9.01	7.25	5.59	13.04	0.27
<b>Foreign exchange reserves<sup>1</sup></b>	<b>3.74</b>	<b>3.06</b>	<b>4.14</b>	<b>6.82</b>	<b>-1.30</b>

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

The rate of return on the foreign exchange reserves (excluding the petroleum buffer portfolio) was 9.7 percent in 2013. Over the past ten years, the annualised rate of return was 5.9 percent.

**Table 2c** Key figures as at 31 December 2013. Annualised. Measured in international currency

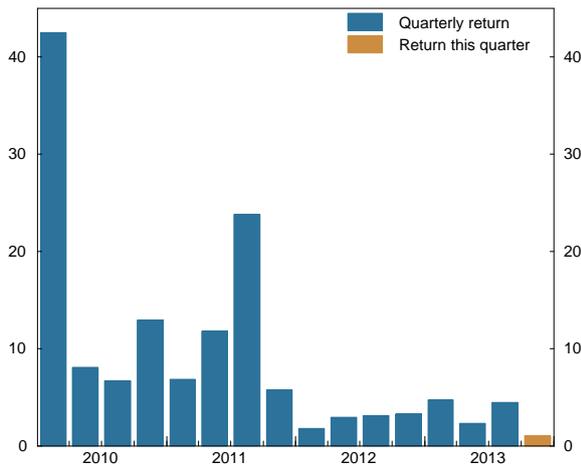
	Past year	Past 3 years	Past 5 years <sup>1</sup>	Past 10 years <sup>1</sup>
<i>Foreign exchange reserves excluding the petroleum buffer portfolio:</i>				
Gross annual return (percent)	9.67	6.86	10.50	5.89
Annual management costs (percent)	0.03	0.04	0.05	0.06
<i>Money market investments:</i>				
Portfolio return (percent)	0.13	0.24	-	-
Benchmark return (percent)	0.07	0.20	-	-
Excess return (percentage points)	0.06	0.04	-	-
Realised absolute volatility (percent) <sup>2</sup>	0.04	0.08	-	-
Realised relative volatility (percentage points) <sup>2</sup>	0.03	0.03	-	-
Information rate (IR) <sup>3</sup>	1.60	1.49	-	-
<i>Long-term fixed income investments:</i>				
Portfolio return (percent)	-1.14	4.10	6.04	4.37
Benchmark return (percent)	-1.31	3.63	3.77	3.97
Excess return (percentage points)	0.16	0.47	2.27	0.40
Realised absolute volatility (percent) <sup>2</sup>	1.64	3.52	4.95	4.18
Realised relative volatility (percentage points) <sup>2</sup>	0.18	0.66	2.41	2.40
Information rate (IR) <sup>3</sup>	0.89	0.71	0.94	0.17
<i>Equity investments:</i>				
Portfolio return (percent)	28.94	12.44	16.53	7.85
Benchmark return (percent)	28.34	12.21	16.08	7.88
Excess return (percentage points)	0.60	0.23	0.45	-0.03
Realised absolute volatility (percent) <sup>2</sup>	7.57	14.83	17.32	16.20
Realised relative volatility (percentage points) <sup>2</sup>	0.19	0.18	0.36	0.45
Information rate (IR) <sup>3</sup>	3.23	1.30	1.23	-0.06

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

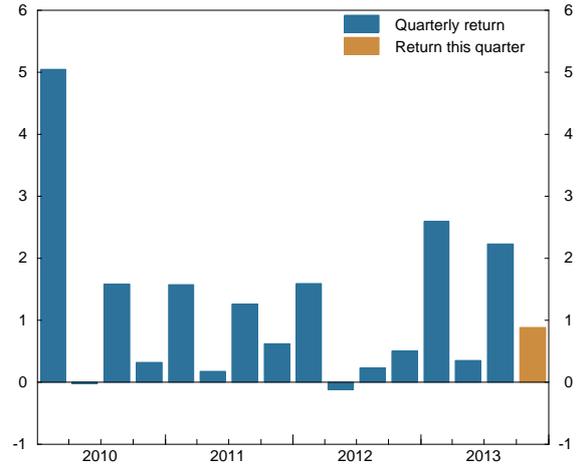
<sup>2</sup> Realised volatility is a measure of the fluctuation in monthly return values, expressed here by the annualised empirical standard deviation of monthly return series. Absolute/relative volatility expresses risk related to absolute/relative return.

<sup>3</sup> IR is a risk-adjusted return measure. IR is the ratio between excess return and the portfolio's actual relative market risk (measured by relative volatility). IR shows the level of excess return achieved for each unit of risk.

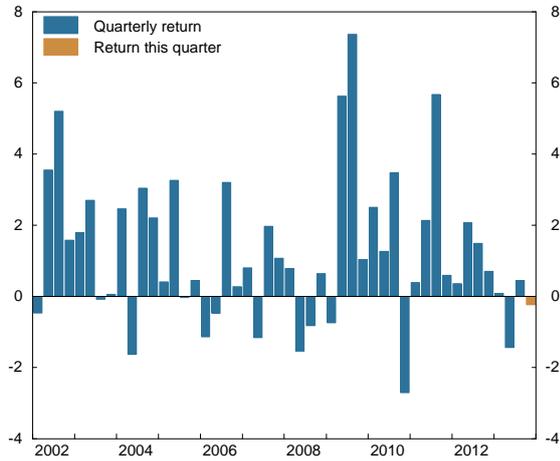
**Chart 2a Absolute return.**  
Money market investments. Basis points



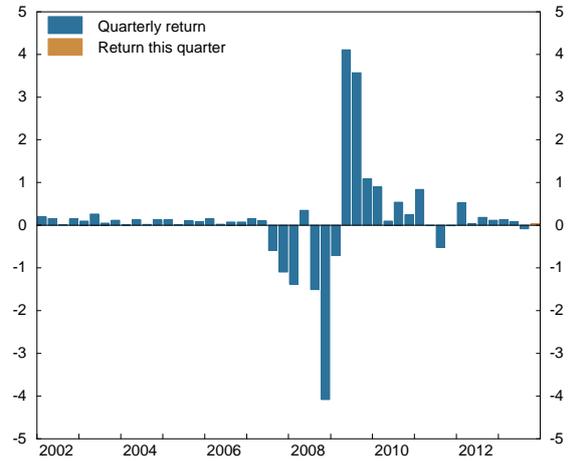
**Chart 2b Relative return.**  
Money market investments. Basis points



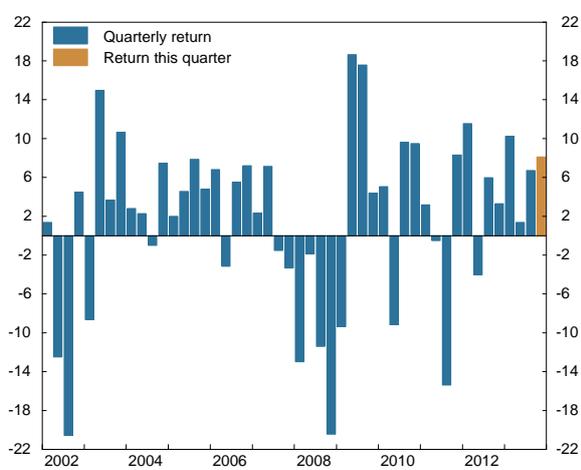
**Chart 2c Absolute return.**  
Long-term fixed income investments. Percent



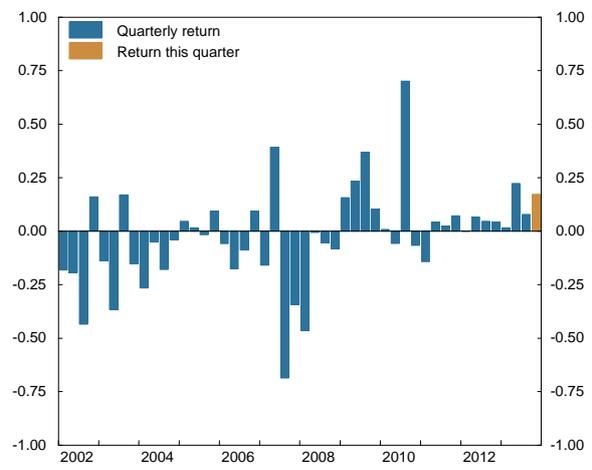
**Chart 2d Relative return.**  
Long-term fixed income investments. Percent



**Chart 2e Absolute return.**  
Equity investments. Percent



**Chart 2f Relative return.**  
Equity investments. Percent



### 3. Risk

Market risk is expressed here by a one standard deviation movement in market value. Expected absolute volatility is an indication of the amplitude of the variations in return that can be expected over a given period.

Including movements in the krone exchange rate, the expected absolute volatility was 8.0 percent for equities and long-term fixed income investments and 9.5 percent for money market investments at the end of 2013 Q4. In NOK terms, this amounts to NOK 22bn for equities and long-term fixed income investments and NOK 4bn for money market investments. This means that the annual variation in the market value of the foreign exchange reserves is expected to be within the interval of +/- NOK 26bn in two out of three years. Changes in market value owing to movements in the krone exchange rate will not be relevant to the use of the foreign exchange reserves in any crisis situation. Movements in the krone exchange rate will primarily affect Norges Bank's equity.

The foreign exchange reserves are invested in foreign financial instruments. A contributor to volatility is movements in the krone exchange rate relative to the currency invested in. Excluding the effect of movements in the krone exchange rate, and if volatility is estimated in international currency, the expected absolute volatility of equities and long-term fixed income investments would be 6.1 percent. A much larger portion of the volatility of money market investments is attributed to movements in the krone exchange rate. Excluding the effect of movements in the krone exchange rate, the volatility of money market investments is 0.1 percent.

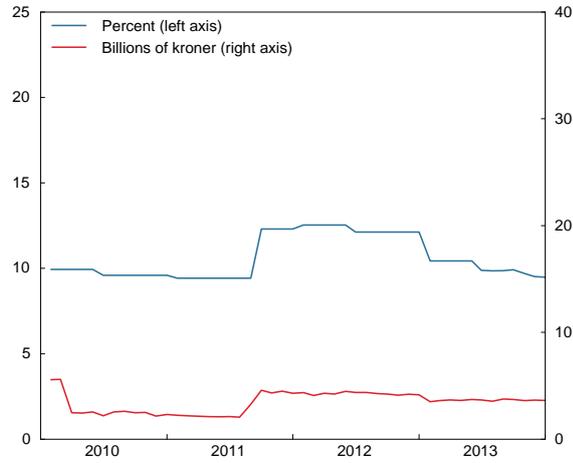
Expected relative volatility (tracking error) indicates the extent to which the return on the actual portfolio can normally be expected to deviate from the return on the benchmark portfolio.<sup>2</sup> At the end of Q4, the expected relative volatility of equities and long-term fixed income investments was 8 basis points, compared with 15 basis points at the end of Q3. The primary reason for the decline in relative volatility in Q4 is a reduction in the relative exposures in the equity portfolio. The expected relative volatility of equities was 14 basis points at the end of Q4, while the expected relative volatility of fixed income investments was 10 basis points. The expected relative volatility of money market investments was 5 basis points at the end of Q4.

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<sup>2</sup> Under the guidelines for equities and long-term fixed income investments issued by the Governor, the aim of management is to limit 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.

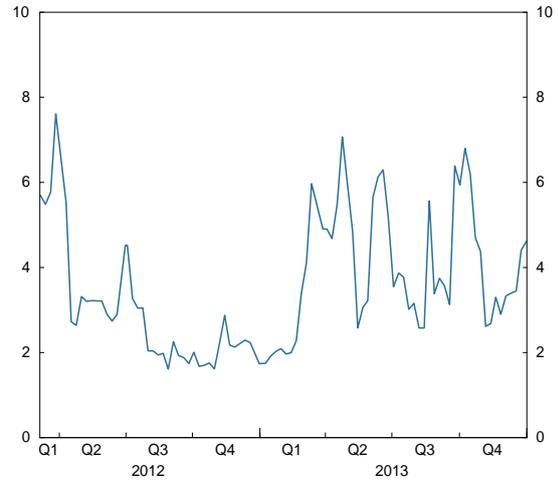
Expected absolute volatility including movements in the krone exchange rate

**Chart 3a** Money market investments

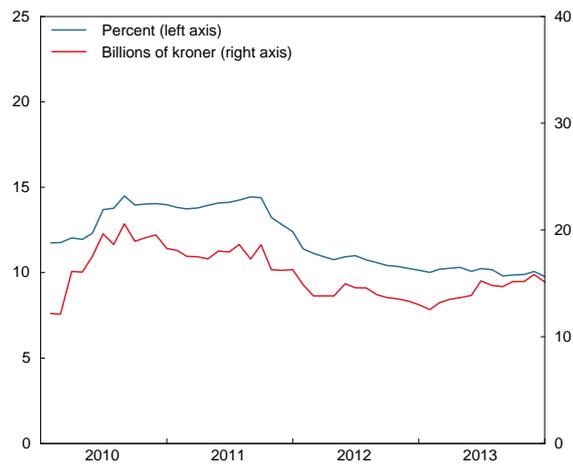


Expected relative volatility. Foreign exchange reserves. Basis points

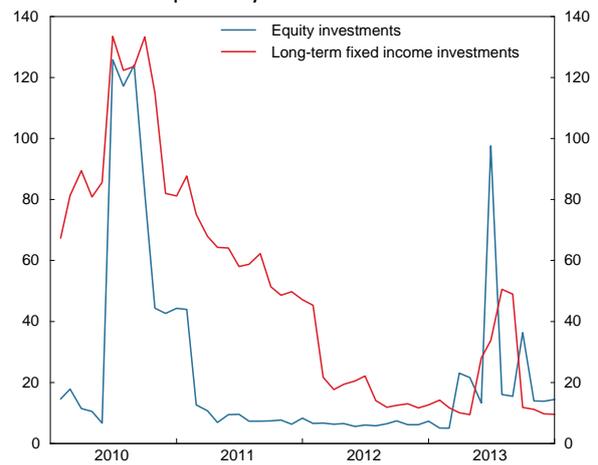
**Chart 3d** Money market investments



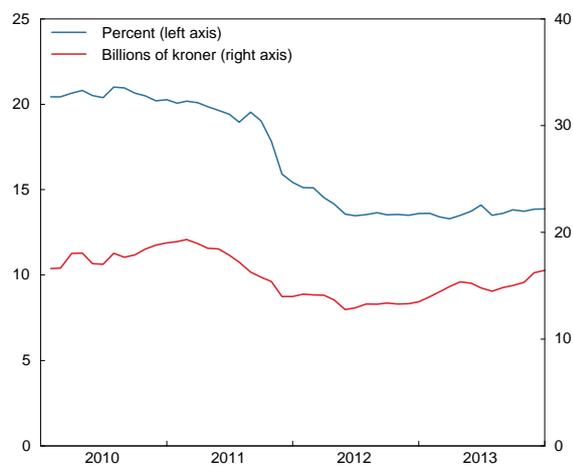
**Chart 3b** Long-term fixed income investments



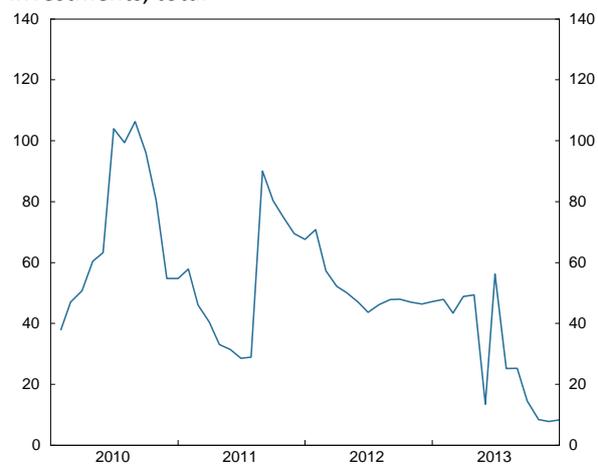
**Chart 3e** Equities and long-term fixed income investments separately



**Chart 3c** Equity investments



**Chart 3f** Equities and long-term fixed income investments, total



**Table 3a** Key figures for risk and asset allocation, foreign exchange reserves

Risk	Limits	Actual		
		2013 Q4	2013 Q3	2013 Q2
<i>Money market investments:</i>				
Market risk	1.0 percentage point expected relative volatility	0.05	0.06	0.05
Asset allocation	Cash	19.10	14.81	16.41
	Securities	80.90	85.19	83.58
<i>Equities and long-term fixed income investments:</i>				
Market risk	1.0 percentage point expected relative volatility	0.08	0.15	0.56
Asset allocation	Fixed income portfolio	56.63	58.59	58.61
	Equity portfolio	43.37	41.41	41.39

The Bank's fixed income investments are highly rated. At the end of Q3, 99.98 percent was invested in government securities rated AA or higher, and only 0.02 percent of the portfolio was invested in corporate bonds.

**Table 3b** Foreign exchange reserves, fixed income investments, by credit rating. Percent<sup>1</sup>

	AAA	AA	A	BBB	Lower	Total
Treasury bills	16.7	0.0	0.0	0.0	0.0	16.7
Sovereign bonds	50.3	33.0	0.0	0.0	0.0	83.3
Corporate bonds	0.0	0.0	0.0	0.0	0.0	0.0
Collateralised bonds	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total fixed income securities</b>	<b>67.0</b>	<b>33.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>100.0</b>

<sup>1</sup>Percent of fixed income investments in the Bank's foreign exchange reserves.

A considerable portion of fixed income investments are government securities issued in the US, 77 percent of Treasury bills and 43 percent of sovereign bonds.

## 4. International commitments

### Norges Bank's rights and obligations related to the International Monetary Fund (IMF)

Norges Bank has made the following commitments under various IMF programmes:

- Loan resource commitments under the New Arrangements to Borrow (NAB) of NOK 36 211m (SDR 3 871m)
- Borrowing facility under a bilateral borrowing agreement of NOK 56 127m (SDR 6 000m)
- Loan resource commitments to the Poverty Reduction and Growth Trust (PRGT) of NOK 2 806m (SDR 300m)
- Purchases and sales of SDRs from/to other member countries.

Furthermore, Norges Bank has the following rights by virtue of Norway's quota subscriptions in the IMF:

- Voting power in the IMF
- Access to financing from the IMF if Norway experiences balance of payments problems
- Receiving SDRs under allocations by the IMF

### Norges Bank's quota subscriptions in the IMF

The IMF obliges member countries to provide financial resources to the IMF, the amount of which reflects the member country's relative size in the world economy. These financial resources are also called a country's IMF quota. The quota determines a country's voting power in IMF decisions, how many SDRs the member is allocated and is the basis for the amount of financing a member can obtain from the IMF. 75 percent of the quota subscription is paid to the IMF in the country's own currency, while the remainder is paid in SDRs or in a widely accepted foreign currency. Norges Bank's quota subscription at 31 December 2013 was NOK 17 624m (SDR 1 883.7m).

### Norges Bank's holdings of SDRs

SDRs<sup>3</sup> have been periodically allocated to IMF members on the basis of the size of member countries' quotas, most recently in 2010. Member countries may change their SDR holdings by using SDRs in transactions with the IMF or by purchasing from or selling to members who have voluntarily agreed to be a counterparty in SDR transactions. Norges Bank has voluntarily agreed to be such a counterparty under a certain transaction limit. The IMF can also designate members with strong external positions to purchase SDRs from members with weak external positions, but IMF has never exercised this right. Norges Bank's holdings of SDRs at 31 December 2013 amounted to NOK 13 909m (SDR 1 486.7m). Norway's holdings of SDRs are lower than the amount allocated (SDR 1 563.1m).

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<sup>3</sup> The Special Drawing Right (SDR) is an international reserve asset created by the IMF in 1969. The value of the SDR is calculated on the basis of a currency basket comprising US dollars, euros, sterling and Japanese yen. The composition of the SDR is evaluated every five years and varies in accordance with changes in bilateral foreign exchange rates.

### Norges Bank's loans to the IMF

Norges Bank has made loans to the IMF or to trusts administered by the IMF under various programmes:

- Loans to the IMF under the New Arrangements to Borrow (NAB)
- Bilateral borrowing agreement with the IMF
- Loans to the Poverty Reduction and Growth Trust (PRGT)

#### *Loans to the IMF under the New Arrangements to Borrow (NAB)*

Member countries' quota subscriptions are the primary funding source for IMF loans to countries with balance of payment problems. In addition, through the NAB, the IMF can fund loans by borrowing from high-income members. 38 countries, including Norway, participate in the NAB. Norges Bank's loans to the IMF under the NAB amounted to NOK 4 706m (SDR 503.0m) at 31 December 2013. Norges Bank's total loan resource commitments to the NAB are NOK 36 211m (SDR 3 870.9m).

#### *Bilateral borrowing agreement with the IMF*

The need for IMF financing increased considerably after the financial crisis. In 2010, loans were ten times higher than they were before the onset of the financial crisis in 2008. During the sovereign debt crisis in Europe, the EU took the initiative to increase IMF loan resources. In December 2011, EU countries committed to providing up to NOK 1 500bn (EUR 200bn) to the IMF through bilateral loans, and urged other countries to make a similar contribution. Norway responded promptly, and offered to provide the IMF with loan resources that same month. The Norwegian contribution is a drawing arrangement in the amount of NOK 56.1bn (SDR 6bn). The arrangement enables the IMF to fund loans with terms of up to ten years. The IMF may draw on this facility if IMF quota resources and the NAB programme fall below a certain threshold amount. At 31 December 2013, no amount had been drawn under this agreement.

#### *Poverty Reduction and Growth Trust (PRGT)*

The Ministry of Finance and the IMF signed an agreement in June 2010 under which Norway has provided loan resource commitments of up to SDR 300m to the PRGT, a trust administered by the IMF. PRGT resources are available to low-income countries. Norges Bank is the agent for Norway's loans to the PRGT, administering these commitments pursuant to Section 25 of the Norges Bank Act. Total amount drawn at 31 December 2013 was NOK 2 191m (SDR 234m).

### The IMF's deposits with Norges Bank

The IMF has deposited its NOK holdings with Norges Bank. In the balance sheet, this is called the krone liability to the IMF. However, the amount of the liability is adjusted to eliminate any foreign exchange rate risk the IMF would have owing to changes in the exchange rate between NOK and SDRs. Thus, from Norges Bank's perspective, the deposit may be considered a liability in SDRs. 31 December 2013, the IMF's NOK deposits with Norges Bank amounted to NOK 13 789m (SDR 1 473.8m).

Norges Bank's quota subscription in the IMF less the IMF's NOK deposit with Norges Bank is referred to as the reserve tranche position in a note to the annual financial statements, in accordance with the IMF definition. If necessary, Norges Bank may request to borrow from the IMF an amount equal to Norway's reserve tranche position. At 31 December 2013, the reserve tranche position was NOK 3 835m (SDR 410m).

### SDR allocations by the IMF

In Norges Bank's balance sheet, SDR allocations by the IMF appear as a liability, and the item shows total allocations of SDRs since the arrangement came into existence. SDR allocations by the IMF amounted to NOK 14 624m (SDR 1 563.1m) at 31 December 2013.

If all the programmes are viewed together, Norges Bank has a net accounting claim on the IMF of NOK 10 017m as at 31 December 2013.

**Table 4a** Claims on and liabilities to the International Monetary Fund (IMF) at 31 December 2013. All amounts in millions of NOK.

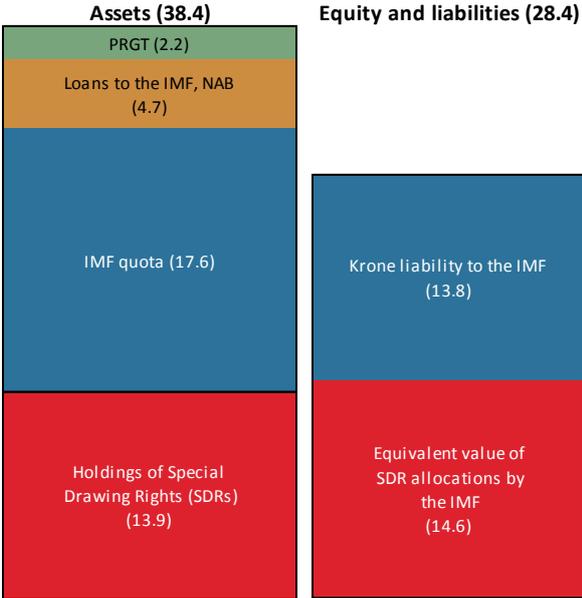
	Loan resource commitments <sup>2</sup>	RECOGNISED IN THE BALANCE SHEET			
		Amounts drawn on commitments	Subscriptions <sup>3</sup>	SDRs	Total amount recognised
<i>Financial assets</i>					
IMF quota <sup>1</sup>			17 624		17 624
Holdings of Special Drawing Rights (SDRs)				13 909	13 909
Loans to the IMF, New Arrangements to Borrow (NAB)	36 211	4 706			4 706
Bilateral borrowing agreement with the IMF	56 127	-			
Poverty Reduction and Growth Trust (PRGT)	2 806	2 191			2 191
<b>Claims on the IMF</b>	<b>95 144</b>	<b>6 897</b>	<b>17 624</b>	<b>13 909</b>	<b>38 430</b>
<i>Financial liabilities</i>					
Krone liability to the IMF			13 789		13 789
Equivalent value of SDR allocations by the IMF				14 624	14 624
<b>Liabilities to the IMF</b>	<b>-</b>	<b>-</b>	<b>13 789</b>	<b>14 624</b>	<b>28 413</b>
<b>Net positions with the IMF</b>	<b>95 144</b>	<b>6 897</b>	<b>3 835</b>	<b>-715</b>	<b>10 017</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 IM, 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.

<sup>3</sup> Net subscriptions refer to the reserve tranche position and is Norway's IMF quota less Norway's krone liability to the IMF, i.e. the net amount at the bottom of the column. If necessary, Norges Bank may without condition request to borrow from the IMF an amount equal to Norway's reserve tranche position.

**Chart 4a** Claims on and liabilities to the International Monetary Fund (IMF) at 31 December 2013 (Amounts in billions of NOK)



## Part II: Income statement and balance sheet, foreign exchange reserves

<b>INCOME STATEMENT</b>		<i>Amounts in millions of NOK</i>			
	<b>Quarter</b>		<b>Year-to-date</b>		
	2013 Q4	2012 Q4	2013 Q4	2012 Q4	
<b>NET INCOME FROM FINANCIAL INSTRUMENTS</b>					
Interest income from deposits and claims	24	3	38	19	
Interest income, lending associated with reverse repurchase agreements	6	8	24	41	
Net income/expenses and gains/losses from:					
Equities	9 469	3 687	30 386	15 598	
Bonds and other fixed income instruments	-722	679	-2 260	5 925	
Financial derivatives	-11	1	16	-43	
Interest expense, borrowing associated with repurchase agreements	-21	-1	-22	-3	
Tax expense	30	-13	-17	-13	
Other financial income/expenses	-0	-0	1	-1	
<b>NET INCOME FROM FINANCIAL INSTRUMENTS BEFORE FOREIGN EXCHANGE GAINS/LOSSES</b>	<b>8 773</b>	<b>4 363</b>	<b>28 167</b>	<b>21 523</b>	
Foreign exchange gains/losses	2 912	-8 290	25 193	-20 885	
<b>NET INCOME FROM FINANCIAL INSTRUMENTS *</b>	<b>11 685</b>	<b>-3 927</b>	<b>53 360</b>	<b>638</b>	

\* Net income from financial instruments includes profit and loss items associated with outstanding balances with the GPFG (see Note 3).

<b>BALANCE SHEET</b>		<i>Amounts in millions of NOK</i>		
	<b>2013 Q4</b>		<b>2012 Q4</b>	
	<b>FINANCIAL ASSETS</b>			
Deposits in banks			6 214	3 672
Lending associated with reverse repurchase agreements			22 194	12 388
Unsettled trades			2	1
Equities			114 272	96 520
Equities lent			4 355	2 821
Bonds and other fixed income instruments			185 420	152 735
Financial derivatives			8	6
Other financial assets			159	2 053
<b>TOTAL FINANCIAL ASSETS</b>			<b>332 624</b>	<b>270 196</b>
<b>FINANCIAL LIABILITIES</b>				
Short-term borrowing			0	0
Borrowing associated with repurchase agreements			0	0
Cash collateral received			1 365	1 160
Unsettled trades			1 528	1 450
Financial derivatives			21	4
Other financial liabilities			1 278	1 014
<b>TOTAL FINANCIAL LIABILITIES</b>			<b>4 193</b>	<b>3 629</b>
<b>TOTAL PORTFOLIOS *</b>			<b>328 431</b>	<b>266 567</b>

\* Total portfolios includes outstanding balances with the GPFG (see Note 4).

## NOTES

### Note 1 Accounting policies

Financial reporting pertains solely to Norges Bank's foreign exchange reserves including outstanding balances with the Government Pension Fund Global (GPF) as at 31 December 2013. The financial statements of Norges Banks 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 2013. 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.

### Note 2 Significant estimates and critical accounting judgements

The preparation of the financial statements of Norges Bank, which include the financial reporting for the Bank's foreign exchange reserves in accordance with the accounting policies in Note 1, involves the use of estimates and judgements that may affect assets, liabilities, income and expenses. Estimates and judgements are based on historical experience and expectations about future events that are considered probable at the time the financial statements are present

Estimates are based on best judgement; however, actual results may deviate from estimates. In cases of particularly uncertain estimates, this is described in Note 2 in Norges Bank's annual financial statements for 2013.

### Note 3 Specification of the income statement by portfolio

Amounts in millions of NOK

INCOME STATEMENT	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Eliminations	Total foreign exchange reserves
	2013 Q4	2013 Q4	2013 Q4	2013 Q4	2013 Q4
Interest income, deposits in foreign banks	23	0	1	22	2
Interest income, lending associated with reverse repurchase agreements	0	1	5	-	6
Net income/expenses and gain/losses from:					
Equities	9 469	-	-	-	9 469
Bonds and other fixed income instruments	-724	2	-	-	-722
Financial derivatives	-9	-2	-	-	-11
Interest expense, borrowing associated with repurchase agreements	-21	-	0	-21	0
Tax expense	30	-	-	-	30
Other financial income/expenses	0	0	0	-	-0
<b>NET INCOME FROM FINANCIAL INSTRUMENTS BEFORE FOREIGN EXCHANGE GAINS/LOSSES</b>	<b>8 767</b>	<b>0</b>	<b>5</b>	<b>1</b>	<b>8 773</b>
Foreign exchange gains/losses	1 958	556	398	103	2 809
<b>NET INCOME FROM FINANCIAL INSTRUMENTS *</b>	<b>10 726</b>	<b>556</b>	<b>404</b>	<b>103</b>	<b>11 582</b>

\* For the long-term portfolio, net income from financial instruments includes profit and loss items associated with outstanding balances with the GPF. These profit and loss are excluded from the term foreign exchange reserves presented in Norges Bank's annual financial statements (cf. IMF definition).

**Note 4 Specification of the balance sheet, end of quarter, by portfolio**
*Amounts in millions of NOK*

BALANCE SHEET	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Eliminations	Total foreign exchange reserves
	30 Dec. 2013	30 Dec. 2013	30 Dec. 2013	30 Dec. 2013	30 Dec. 2013
<b>FINANCIAL ASSETS</b>					
Deposits in banks	59	3 207	2 948	-	6 214
Lending associated with reverse repurchase agreements	1 365	5 628	15 201	-	22 194
Unsettled trades	2	-	-	-	2
Equities	114 272	-	-	-	114 272
Equities lent	4 355	-	-	-	4 355
Bonds and other fixed income instruments	154 467	30 953	0	-	185 420
Bonds lent	-	-	-	-	-
Financial derivatives	8	1	0	-	8
Other financial assets	159	-	-	108	51
<b>TOTAL FINANCIAL ASSETS</b>	<b>274 686</b>	<b>39 789</b>	<b>18 149</b>	<b>108</b>	<b>332 515</b>
<b>FINANCIAL LIABILITIES</b>					
Short-term borrowing	0	-	0	-	0
Borrowing associated with repurchase agreements	0	-	-	-	0
Cash collateral received	1 365	-	-	-	1 365
Unsettled trades	0	1 528	0	-	1 528
Short-sale bonds	-	-	-	-	-
Financial derivatives	12	0	9	-	21
Other liabilities	0	0	1 278	0	1 278
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>1 377</b>	<b>1 528</b>	<b>1 287</b>	<b>0</b>	<b>4 193</b>
<b>SUM PORTEFØLJER *</b>	<b>273 309</b>	<b>38 261</b>	<b>16 862</b>	<b>108</b>	<b>328 323</b>

\* For the long-term portfolio, total portfolios includes outstanding balances with the GPFG.

Outstanding balances are excluded from the term foreign exchange reserves presented in Norges Bank's annual financial statements (cf. IMF definition).

**Reconciliation between market value at the end of the period and net portfolio value for financial reporting purposes**
*Amounts in millions of NOK*

	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Total foreign exchange reserves
	30 Dec. 2013	30 Dec. 2013	30 Dec. 2013	30 Dec. 2013
Market value (end of the period)	273 309	38 262	18 015	329 586
Total portfolio	273 309	38 261	16 862	328 432
<b>Difference between market value and net portfolio</b>	<b>0</b>	<b>1</b>	<b>1 153</b>	<b>1 154</b>
Foreign exchange purchases, trade dates 30 and 31 Sep. 2013, settlement 2 and 3 Jan. 2014	-	-	-1 153	-1 153
	<b>0</b>	<b>1</b>	<b>-</b>	<b>1</b>

**Note 5 Equities, bonds and other fixed income financial instruments**
*Amounts in millions of NOK*

Table 5.1 Specification equities	30 Dec. 2013		
	Fair value excluding dividends	Accrued dividends	Fair value including dividends
Equities:			
Listed equities	118 477	149	118 626
OTC equities	0	0	0
<b>Total equities</b>	<b>118 477</b>	<b>149</b>	<b>118 626</b>
<i>Of which equities lent</i>			4 355

## Note 6 Risk

### Market risk

Market risk is the risk of changes in the value of the portfolio due to movements in interest rates, equity prices, foreign currency exchange rates and credit spread. For the long-term portfolio, Norges Bank measures risk in both absolute terms for the actual portfolio, and the relative market risk for investments in the portfolio. For the money market portfolio, the Bank measures both absolute and relative market risk.

### Asset classes and currencies

The Bank's foreign exchange reserves are invested across several asset classes and currencies as shown in the table below ..

### Volatility

Norges Bank uses risk models to quantify the economic risk associated with all or portions of the portfolios. The expected relative risk associated with the portfolios is presented below.

### Key figures for risk and asset allocation, Norges Bank's foreign exchange reserves

Risk	Limits	Actual		
		2013 Q4	2013 Q3	2013 Q2
<i>Money market investments:</i>				
Market risk	1.0 percentage point expected relative volatility	0.05	0.06	0.05
Asset allocation	Cash	0.19	14.81	16.41
	Securities	0.81	85.19	83.58
<i>Equities and long-term fixed income investments:</i>				
Market risk	1.0 percentage point expected relative volatility	0.08	0.15	0.56
Asset allocation	Fixed income portfolio	56.63	58.59	58.61
	Equity portfolio	43.37	41.41	41.39

### Key figures for risk and asset allocation

The models used to calculate the information above are explained in Note 24 Risk in Norges Bank's annual financial statements for 2013.

### Credit risk

Credit risk is the risk of losses if issuers of fixed income instruments default on their payment obligations. Norges Bank uses credit ratings to monitor credit risk in the bond portfolio. The table below shows a breakdown of the long-term portfolio and money market portfolio into credit rating categories.

### Foreign exchange reserves, fixed income securities, by credit rating. Percent <sup>1</sup>

	AAA	AA	A	BBB	Lower	Total
Treasury Bills	16.7	0	0	0	0	16.7
Sovereign bonds	50.3	33	0	0	0	83.3
Corporate bonds	0	0	0	0	0	0
Collateralised bonds	0	0	0	0	0	0
<b>Total fixed income securities</b>	<b>67</b>	<b>33</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100</b>

<sup>1</sup>Percent of fixed income investments in the Bank's foreign exchange reserves.

The portion of Bank's foreign exchange reserves invested in fixed income instruments primarily consists of highly rated securities. At the end of Q4, 99 percent was invested government securities rated AA or higher.