

FOREIGN EXCHANGE RESERVES

Management of Norges Bank's foreign exchange reserves

QUARTERLY REPORT

1 | 2015
APRIL 2015

REPORT FOR
FIRST QUARTER 2015



NORGES BANK

MAIN POINTS

NORGES BANK

FOREIGN EXCHANGE
RESERVES

1 | 2015

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

- The market value of Norges Bank's foreign exchange reserves was NOK 479.7 billion at the end of 2015 Q1, an increase of NOK 28.2 billion since the end of 2014. The reserves were invested in short-term fixed income instruments (21 percent), long-term fixed income instruments (46 percent) and equities (33 percent).
- The benchmark index for the long-term portfolio was changed at the end of February. From now on, fixed income instruments in the index will have a maximum maturity of 10 years. At the same time, the number of currencies in the equity portfolio was reduced and small cap companies were removed from the benchmark index. The equity and fixed income portfolio was rebalanced in accordance with the new benchmark indices.
- The return on the reserves, excluding the petroleum buffer portfolio, was 2.58 percent in 2015 Q1, measured in international currency. The return on equity and long-term fixed income investments was 6.22 percent and 0.67 percent, respectively, and approximately zero on short-term fixed income investments.

CONTENTS

Management of the foreign exchange reserves4

1 Size and composition.....5

2 Return6

3 Risk.....10

4 International commitments13

Financial reporting.....15

Income statement.....15

Balance sheet.....15

Notes.....16

NORGES BANK

FOREIGN EXCHANGE RESERVES

1 | 2015

MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

NORGES BANK

FOREIGN EXCHANGE
RESERVES

1 | 2015

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 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 10 billion, 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 3.5 billion and SDR 4.5 billion 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 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. Norges Bank builds up the portfolio by regularly purchasing foreign exchange from the State's Direct Financial Interest in petroleum activities (SDFI) and by selling foreign exchange in the market. Transfers from the portfolio to the GPF are normally made each month. The petroleum buffer portfolio is invested in short-term fixed income instruments. No benchmark index has been set for the petroleum buffer portfolio.

1 Size and composition

NORGES BANK

FOREIGN EXCHANGE RESERVES

1 | 2015

MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

The market value of the foreign exchange reserves was NOK 479.7 billion at the end of 2015 Q1. The long-term portfolio was NOK 378.0 billion, the money market portfolio NOK 46.4 billion and the petroleum buffer portfolio NOK 55.4 billion. In all, the value of the reserves increased by NOK 28.2 billion in 2015 Q1, of which NOK 12.5 billion is attributable to return in international currency and NOK 13.9 billion to a weaker krone.

The market value of the petroleum buffer portfolio increased by NOK 1.1 billion in 2015 Q1. NOK 45.6 billion was transferred to the portfolio from Norges Bank's purchases of foreign exchange from the SDFI¹. In the same period, NOK 5.5 billion was transferred to the GPFG and foreign exchange worth NOK 39.9 billion was sold in the market.

Chart 1 Composition of the foreign exchange reserves at the end of 2015 Q1. In billions of NOK

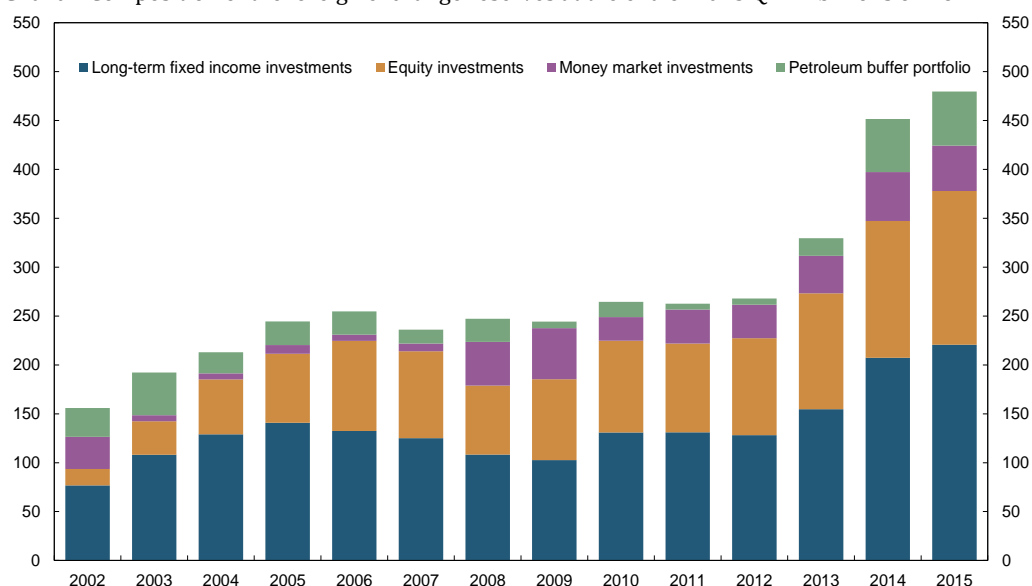


Table 1 Market value of the foreign exchange reserves. In billions of NOK

	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Money market investments	46.4	49.9	41.9	38.9	38.1
Long-term fixed income investments	220.7	207.3	178.2	163.1	156.1
Equity investments	157.3	140.0	118.1	127.8	118.9
Petroleum buffer portfolio	55.4	54.3	37.3	36.6	34.2
Foreign exchange reserves	479.7	451.5	375.5	366.3	347.3
Total change during the quarter	28.2	75.9	9.2	19.1	17.7
Net transfers	1.8	12.0	2.2	1.1	16.9
Return	12.5	15.4	3.7	8.9	4.3
Change due to fluctuation in NOK exchange rate	13.9	48.5	3.3	9.0	-3.5

¹ The State's Direct Financial Interest in petroleum activities (SDFI).

2 Return

NORGES BANK

FOREIGN EXCHANGE
RESERVES

1 | 2015

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

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

Return measured in international currency

The foreign exchange reserves are invested in international financial instruments in foreign currency. The return on the foreign exchange reserves is measured primarily in international currency, i.e. weighted composites of the currencies in the portfolios' benchmark indices. These composites are referred to as the foreign exchange reserves' currency baskets, and comprised nine currencies at the end of 2015 Q1 for equity and long-term fixed income investments. For money market investments, the currency basket comprised EUR and USD. Unless otherwise specified in the text, return is measured in terms of the foreign exchange reserves' currency baskets.

In 2015 Q1, the return on the foreign exchange reserves was 2.58 percent, compared with 2.62 percent in 2014 Q4. The return on equity investments was 6.22 percent, on long-term fixed income investments 0.67 percent and on money market investments 0.04 percent.

Investments in North America made the largest contribution to the return on the equity portfolio. Technology was the sector that earned the highest return. In the fixed income portfolio, the main contribution was made by USD bonds. In the course of 2015 Q1, the yield on the US 10-year bond fell by 24 basis points. JPY bonds also made a positive contribution in the period.

In 2015 Q1, yields fell on German government bonds with maturities of up to one year, which made a positive contribution to the return on money market investments. The decline in yields is largely due to the ECB's monetary accommodation. A slight overweighting of USD against EUR in the money market portfolio also made a positive contribution in 2015 Q1.

The return on equities and long-term fixed income investments is measured against the return on global benchmark indices compiled by FTSE Group and Barclays Capital, respectively. At the end of February, the index was changed and the portfolio rebalanced. For equities, small cap companies were removed and the number of currencies was reduced from 14 to nine, and for long-term fixed income investments, fixed income instruments with residual maturity of more than 10 years were removed. The change was made to increase liquidity and reduce the portfolio's operational complexity.

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. The currency weighting of the index is 35 percent EUR, 45 percent USD, 10 percent GBP and 10 percent JPY.

Fixed income securities comprise 60 percent of the strategic benchmark index for equity and long-term fixed income investments and equities comprise 40 percent.

The benchmark index for the cash portion of the money market portfolio is the Merrill Lynch Overnight Index for USD and EUR. The benchmark index for the securities portion of the portfolio comprises Barclays Capital Treasury bill indices: German Bubill Index and US T-bills. The index comprises 75 percent USD and 25 percent EUR. A minimum of 10 percent of foreign exchange holdings shall be held in cash.

In 2015 Q1, the return on equity investments was 5 basis points lower and on long-term fixed income investments 8 basis points lower than on the respective benchmark indices. The return on money market investments was approximately 2 basis points above the respective benchmark index.

Table 2 Return measured in international currency. Percent

	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
<i>Return:</i>					
Money market investments	0.04	0.00	0.04	0.04	0.03
Long-term fixed income investments	0.67	2.46	0.95	1.60	1.91
Equity investments	6.22	3.78	1.03	4.54	1.37
Foreign exchange reserves¹	2.58	2.62	0.87	2.53	1.47
<i>Return on benchmark indices:</i>					
Money market investments	0.02	0.00	0.02	0.03	0.02
Long-term fixed income investments	0.75	2.52	0.99	1.62	1.92
Equity investments	6.27	3.75	0.93	4.53	1.32

¹ Excluding petroleum buffer portfolio.

Table 3 Return measured in NOK. Percent

	2015 Q1	2014 Q4	2014 Q3	2014 Q4	2014 Q1
Money market investments	4.44	15.50	2.65	2.37	-1.27
Long-term fixed income investments	4.37	16.61	1.85	4.48	0.83
Equity investments	10.12	18.11	1.92	7.50	0.29
Foreign exchange reserves¹	6.43	17.00	1.97	5.37	0.36

¹ Excluding petroleum buffer portfolio.

The return on the foreign exchange reserves over the past 12 months was 8.86 percent. Over the past 10-year period, the annualised rate of return was 6.20 percent, to which equity investments over the past three years have contributed in particular. The return on equity investments has been approximately in line with the benchmark index over the past 10 years, while long-term fixed income investments have earned an annualised excess return of 0.34 percentage point. The excess return on the money market portfolio over the past three years has been 0.04 percentage point on an annualised basis.

Table 4 Key figures at 31 March 2015. Annualised. Measured in international currency

	Past year	Past 3 years	Past 5 years ¹	Past 10 years ¹
<i>Foreign exchange reserves excluding the petroleum buffer portfolio:</i>				
Gross annual return (percent)	8.86	7.99	8.01	6.20
<i>Money market investments:</i>				
Portfolio return (percent)	0.12	0.12	-	-
Benchmark return (percent)	0.06	0.08	-	-
Excess return (percentage points)	0.05	0.04	-	-
Realised absolute volatility (percent) ²	0.03	0.04	-	-
Realised relative volatility (percentage points) ²	0.02	0.03	-	-
Information rate (IR) ³	2.51	1.51	-	-
<i>Long-term fixed income investments:</i>				
Portfolio return (percent)	5.77	3.60	4.40	4.49
Benchmark return (percent)	5.98	3.50	3.97	4.16
Excess return (percentage points)	-0.21	0.10	0.42	0.34
Realised absolute volatility (percent) ²	2.85	3.12	3.23	3.63
Realised relative volatility (percentage points) ²	0.08	0.16	0.49	1.58
Information rate (IR) ³	-2.79	0.63	0.86	0.21
<i>Equity investments:</i>				
Portfolio return (percent)	16.86	16.93	12.83	8.22
Benchmark return (percent)	16.63	16.63	12.54	8.18
Excess return (percentage points)	0.24	0.30	0.29	0.04
Realised absolute volatility (percent) ²	6.63	8.68	11.58	14.54
Realised relative volatility (percentage points) ²	0.14	0.16	0.27	0.41
Information rate (IR) ³	1.65	1.88	1.05	0.10

¹ Pertains only to equities and long-term fixed income investments.

² 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.

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

NORGES BANK

FOREIGN EXCHANGE RESERVES

1 | 2015

MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

Chart 2 Absolute return².
Money market investments. Basis points

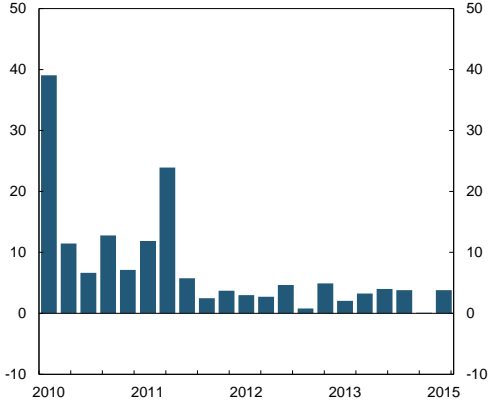


Chart 3 Relative return².
Money market investments. Basis points

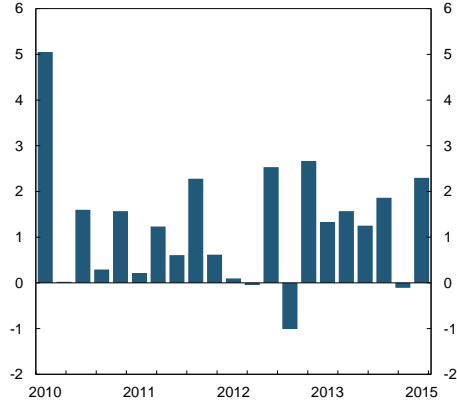


Chart 4 Absolute return².
Long-term fixed income investments. Percent

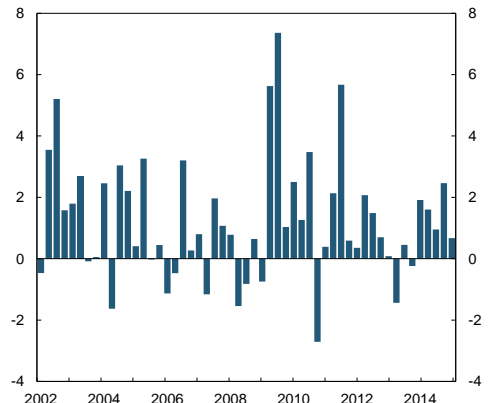


Chart 5 Relative return².
Long-term fixed income investments. Percent

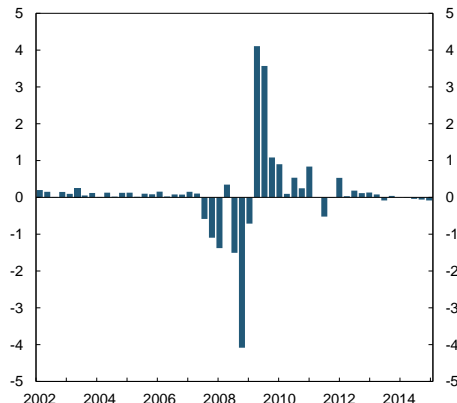


Chart 6 Absolute return².
Equity investments. Percent

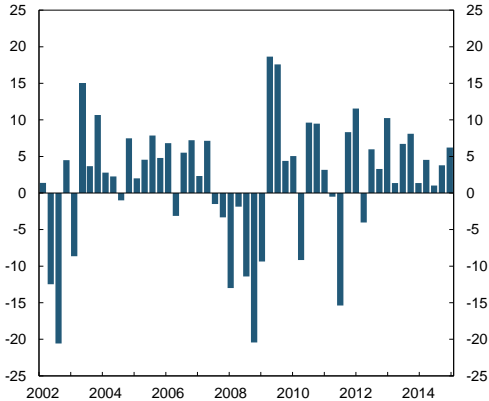
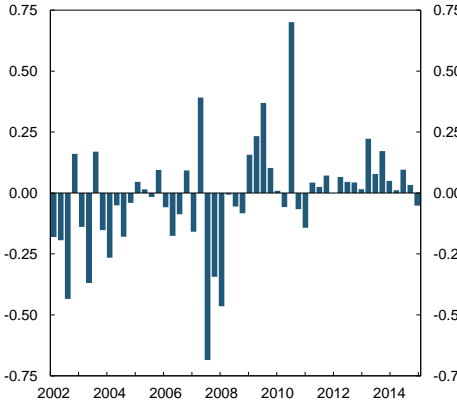


Chart 7 Relative return².
Equity investments. Percent



² Measured in international currency.

3 Risk

NORGES BANK

FOREIGN EXCHANGE
RESERVES

1 | 2015

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

Market risk is measured by the standard deviation in the rate of return. 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 investments, expected absolute volatility was 11.7 percent at the end of 2015 Q1, compared with 11.5 percent in 2014 Q4. For long-term fixed income investments, expected absolute volatility was 1.7 percent, compared with 3.0 percent at the end of 2014 Q4. This is primarily due to lower duration in the fixed income portfolio owing to a change in the benchmark index. Expected volatility for equity and fixed income investments overall was 4.6 percent. For money market investments, expected absolute volatility was approximately zero. In 2015 Q1, there was little change in absolute volatility for the foreign exchange reserves overall.

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 index³. At the end of 2015 Q1, expected relative volatility for equity and long-term fixed income investments was 0.08 percent and 0.12 percent, respectively, while relative volatility for the long-term portfolio overall was 0.07 percent. The expected relative volatility for the portfolio of money market investments was 0.05 percent at the end of 2015 Q1.

³ 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.

Chart 8 Expected absolute volatility. Money market investments. Percent

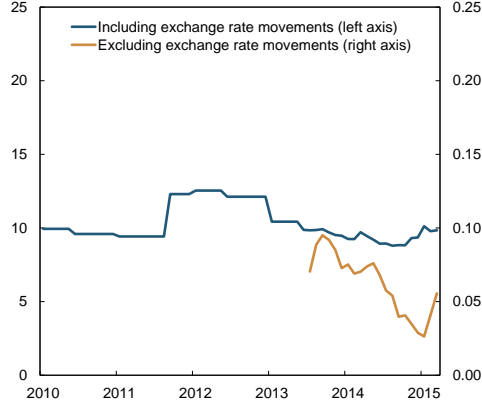


Chart 9 Expected relative volatility. Money market investments. Percent

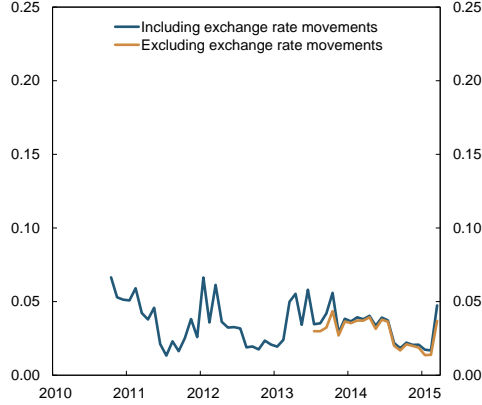


Chart 10 Expected absolute volatility. Long-term fixed income investments. Percent

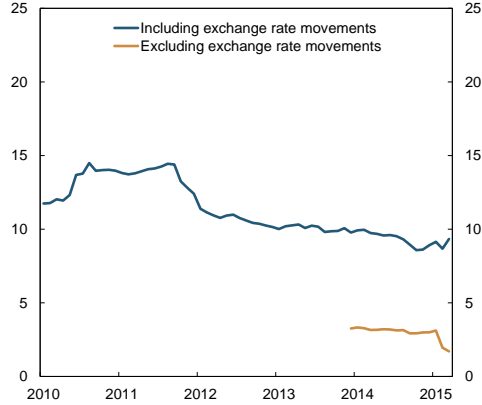


Chart 11 Expected relative volatility. Long-term fixed income investments. Percent

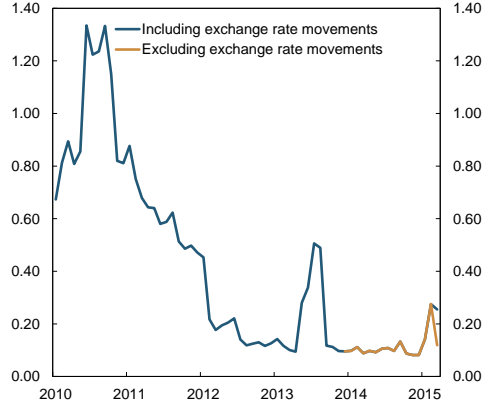


Chart 12 Expected absolute volatility. Equity investments. Percent

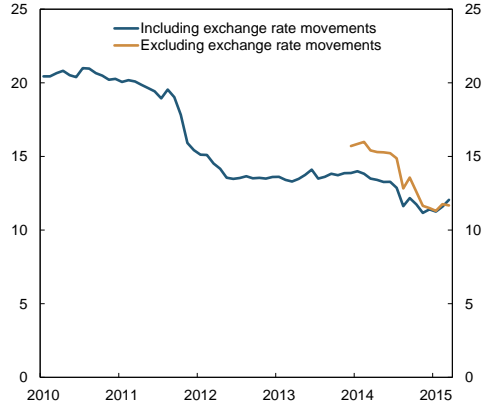
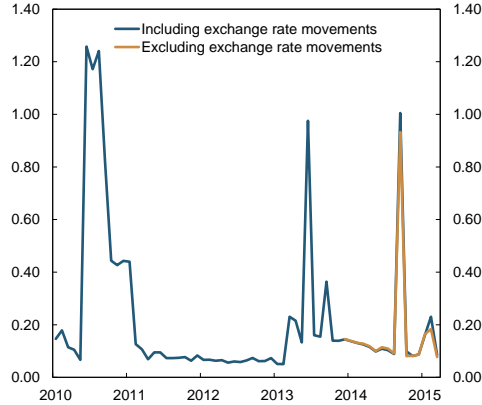


Chart 13 Expected relative volatility. Equity investments. Percent



Credit risk on the fixed income investments in the foreign exchange reserves is low. At the end of 2015 Q1, 92.0 percent of the portfolio was invested in government securities rated AA or higher, and only 0.02 percent was invested in corporate bonds.

Table 5 Fixed income investments in the foreign exchange reserves by credit rating. Percent¹

	AAA	AA	A	BBB	Lower	Total
Treasury bills	10.9	0.0	0.0	0.0	0.0	10.9
Sovereign bonds	57.9	23.2	8.0	0.0	0.0	89.1
Corporate bonds	0.0	0.0	0.0	0.0	0.0	0.02
Total fixed income securities	68.8	23.2	8.0	0.0	0.0	100.0

¹Percentage of the fixed income investments in the Bank's foreign exchange reserves.

A considerable portion of the fixed income investments, 68 percent of the Treasury bills and 48 percent of the sovereign bonds, are government securities issued in the US.

Chart 14 Treasury bills by issuer

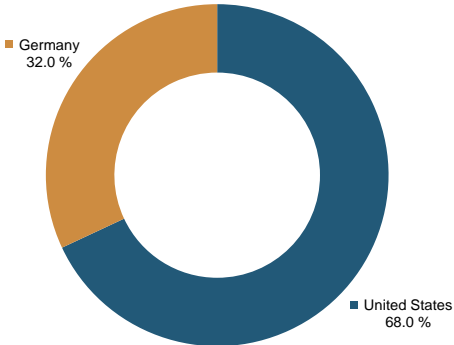
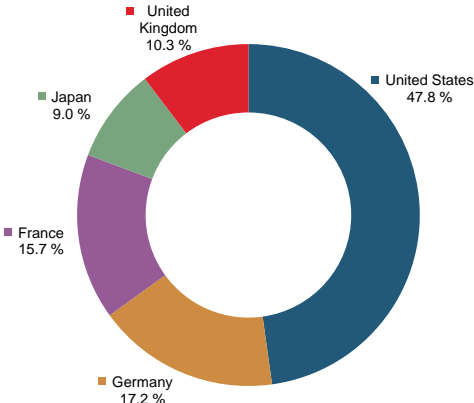
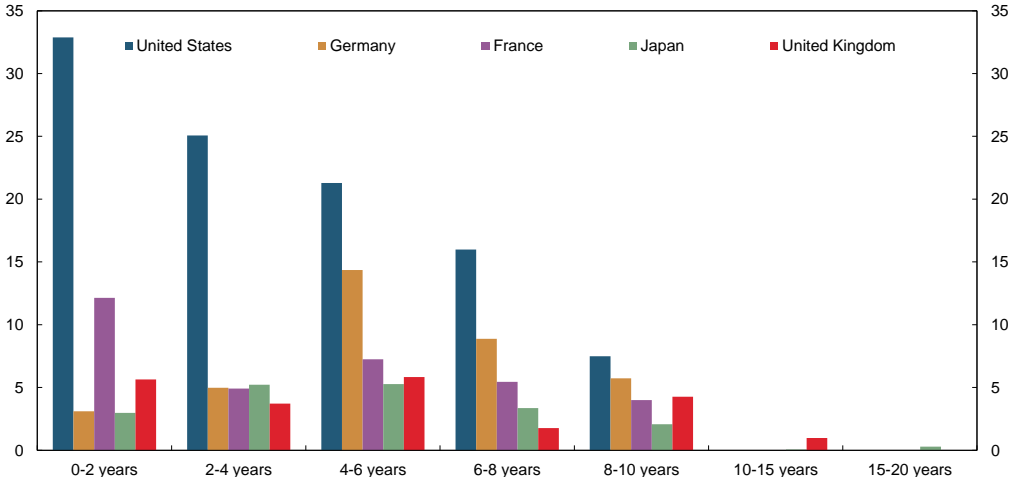


Chart 15 Sovereign bonds by issuer



At the end of 2015 Q1, only NOK 1.3 billion was invested in sovereign bonds with maturities of more than 10 years, compared with NOK 44 billion at the end of 2014. This is because sovereign bonds with residual maturity of more than 10 years have been removed from the benchmark index. A further NOK 140 billion is invested in US and German sovereign bonds with residual maturities of less than 10 years. These are considered to be highly liquid investments.

Chart 16 Sovereign bonds by issuer and years to maturity. In billions of NOK



4 International commitments

NORGES BANK

FOREIGN EXCHANGE
RESERVES

1 | 2015

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

In addition to being available for foreign exchange transactions as part of the conduct of monetary policy and for promoting financial stability, the foreign exchange reserves are also used to meet Norges Bank's international commitments.

Norges Bank's rights and commitments related to the IMF

Norges Bank has made the following commitments under various IMF programmes⁴:

- Loan resources under NAB⁵ of SDR 3 871 million (NOK 43 051 million)
- Bilateral borrowing arrangement of SDR 6 000 million (NOK 66 728 million).
- Loan resources to the PRGT⁶ of SDR 300 million (NOK 3 336 million)
- Purchases and sales of SDRs from/to other member countries

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

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

Table 6 Claims on and liabilities to the International Monetary Fund (IMF) at 31 March 2015. In millions of NOK

	RECOGNISED IN THE BALANCE SHEET				
	Loan resource commitments ²	Lending programs	Subscriptions ³	SDRs	Total amount recognised
<i>Financial assets</i>					
IMF quota ¹			20 951		20 951
Holdings of SDRs				16 475	16 475
Loans to the IMF, NAB	43 051	4 373			4 373
Bilateral borrowing agreement with the IMF	66 728				
Loans to the IMF, PRGT	3 336	2 599			2 599
Claims on the IMF	113 115	6 972	20 951	16 475	44 398
<i>Financial liabilities</i>					
Krone liability to the IMF			18 747		18 747
Equivalent value of SDR allocations				17 385	17 385
Liabilities to the IMF			18 747	17 385	36 132
Net positions with the IMF	113 115	6 972	2 204	-910	8 266

¹ 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.

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 Net subscriptions are referred to as the Reserve Tranche Position (RTP) comprising Norway's IMF quota less Norway's krone liability to the IMF, i.e. the net amount at the bottom of the column. Norges Bank may if necessary draw up to the full amount of Norway's RTP at any time.

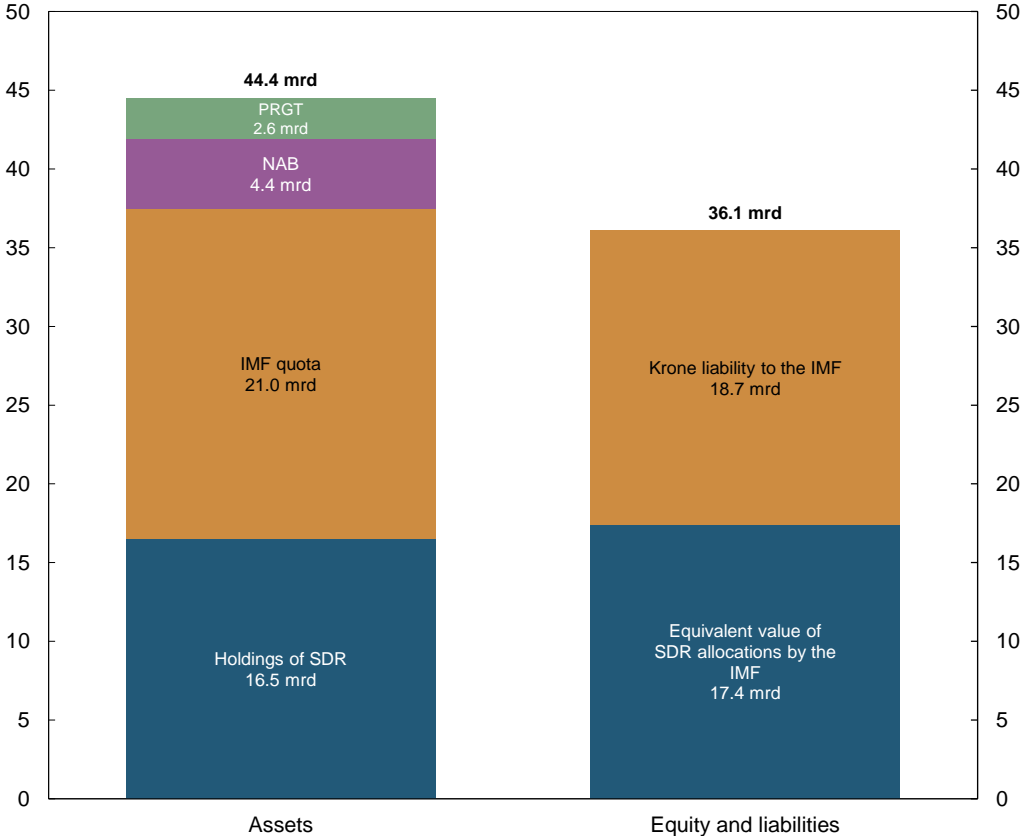
⁴ Norges Bank's commitments to the IMF are in SDRs; the amount in NOK varies with the exchange rate. Amounts in NOK have been translated at the exchange rate at the end of 2015 Q1.

⁵ New Arrangements to Borrow (NAB).

⁶ Poverty Reduction and Growth Trust (PRGT).

Table 6 shows all asset and liability items related to the IMF at the end of 2015 Q1. Norges Bank's commitments to the IMF through the IMF's various lending programmes indicate that an additional NOK 106 billion may be drawn, equivalent to 22 percent of the foreign exchange reserves. At 31 March 2015, NOK 260 billion of the foreign exchange reserves is invested in liquid financial instruments that can be used within a single trading day without having to realise any appreciable losses. The size and liquidity of the foreign exchange reserves are assessed to be sufficient to meet Norges Bank's commitments to the IMF.

Chart 17 Claims and liabilities to the International Monetary Fund (IMF) at 31 March 2015. In billions of NOK



FINANCIAL REPORTING

NORGES BANK

FOREIGN EXCHANGE
RESERVES

1 | 2015

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

Income statement

Amounts in millions of NOK	2015 Q1	2014 Q1	2014
NET INCOME FROM FINANCIAL INSTRUMENTS			
Interest income from deposits and claims	1	3	4
Interest income, lending associated with reverse repurchase agreements	13	9	37
Net income/expenses – gains/losses from:			
- Equities	9 730	1 321	18 704
- Bonds and other fixed income instruments	2 786	2 943	13 658
- Financial derivatives	-6	2	4
Interest expense, borrowing associated with repurchase agreements	-	-	-
Tax expense	-20	-18	-47
Other financial income/expenses	-12	-1	-7
NET INCOME FROM FINANCIAL INSTRUMENTS BEFORE FOREIGN EXCHANGE GAINS/LOSSES	12 492	4 258	32 353
Foreign exchange gains/losses	13 905	-3 462	57 352
NET INCOME FROM FINANCIAL INSTRUMENTS	26 397	796	89 705

Balance sheet

Amounts in millions of NOK	31 Mar. 2015	31 Dec. 2014
FINANCIAL ASSETS		
Deposits in banks	50 534	32 220
Lending associated with reverse repurchase agreements	57 692	50 803
Unsettled trades	127	720
Equities	149 149	133 821
Equities lent	8 170	6 404
Bonds and other fixed income instruments	241 857	238 905
Financial derivatives	16	27
Other financial assets	93	65
TOTAL FINANCIAL ASSETS	507 638	462 965
FINANCIAL LIABILITIES		
Borrowing associated with repurchase agreements	1	-
Cash collateral received	1 376	762
Unsettled trades	33 445	13 250
Financial derivatives	7	1
Other financial liabilities	15	385
TOTAL FINANCIAL LIABILITIES	34 845	14 398
TOTAL FOREIGN EXCHANGE RESERVES	472 793	448 567

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 31 March 2015. Pursuant to Section 30, second paragraph, of the Norges Bank Act, the financial statements of Norges Bank have been prepared in accordance with the Accounting Act and the Regulation concerning annual financial reporting for Norges Bank, which has been laid down by the Ministry of Finance. The regulation requires that Norges Bank's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU. For a description of accounting policies and methods of computation, see Norges Bank's annual financial statements for 2014. 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.

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 2014.

Note 2 Specification of the income statement and balance sheet by portfolio

NORGES BANK

FOREIGN EXCHANGE RESERVES

1 | 2015

MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

Income statement

Amounts in millions of NOK	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Items not incl. in foreign exchange reserves	Total foreign exchange reserves	Total foreign exchange reserves
	2015 Q1	2015 Q1	2015 Q1	2015 Q1	2015 Q1	2015
NET INCOME FROM FINANCIAL INSTRUMENTS						
Interest income from deposits and claims	-	1	-	-	1	1
Interest income, lending associated with reverse repurchase agreements	-	6	8	-	13	13
Net income/expenses – gains/losses from:						
- Equities	9 730	-	-	-	9 730	9 730
- Bonds and other fixed income instruments	2 783	3	-	-	2 786	2 786
- Financial derivatives	-6	-	-	-	-6	-6
Interest expense, borrowing associated with repurchase agreements	-	-	-	-	-	-
Tax expense	-20	-	-	-	-20	-20
Other financial income/expenses	-	-1	-11	-	-12	-12
NET INCOME FROM FINANCIAL INSTRUMENTS BEFORE FOREIGN EXCHANGE GAINS/LOSSES	12 487	8	-3	-	12 492	12 492
Foreign exchange gains/losses	11 033	2 020	860	8	13 905	13 905
NET INCOME FROM FINANCIAL INSTRUMENTS*	23 520	2 028	857	8	26 397	26 397

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

Balance sheet

Amounts in millions of NOK	Long-term portfolio	Money market portfolio	Petroleum buffer portfolio	Items not incl. in foreign exchange reserves	Total foreign exchange reserves
	31 Mar. 2015	31 Mar. 2015	31 Mar. 2015	31 Mar. 2015	31 Mar. 2015
FINANCIAL ASSETS					
Deposits in banks	176	5 465	44 893	-	50 534
Lending associated with reverse repurchase agreements	1 376	30 387	25 929	-	57 692
Unsettled trades	127	-	-	-	127
Equities	149 149	-	-	-	149 149
Equities lent	8 170	-	-	-	8 170
Bonds and other fixed income instruments	214 927	26 929	-	-	241 857
Financial derivatives	12	-	4	-	16
Other financial assets	5 673	-	-	5 580	93
TOTAL FINANCIAL ASSETS	379 610	62 781	70 826	5 580	507 638
FINANCIAL LIABILITIES					
Borrowing associated with repurchase agreements	1	-	-	-	1
Cash collateral received	1 376	-	-	-	1 376
Unsettled trades	276	16 398	16 771	-	33 445
Financial derivatives	-	-	7	-	7
Other financial liabilities	-	-	15	-	15
TOTAL FINANCIAL LIABILITIES	1 653	16 398	16 792	-	34 844
TOTAL FOREIGN EXCHANGE RESERVES*	377 957	46 383	54 034	5 580	472 795

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

Note 3 Risk

NORGES BANK

FOREIGN EXCHANGE
RESERVES

1 | 2015

MANAGEMENT OF NORGES
BANK'S FOREIGN
EXCHANGE RESERVES

Norges Bank is exposed to financial risk through management of the foreign exchange reserves, including market risk and credit 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 spreads. For the long-term portfolio and the money market portfolio, risk is measured for the actual portfolio and for investments in the portfolio, relative market risk is measured.

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 in the table below.

Key figures for risk and asset allocation. Percent

Risk	Limits	Actual 2015 Q1
<i>Money market investments</i>		
Market risk	1.0 percentage point expected relative volatility	0.05
Asset allocation	Cash	41.96
	Securities	58.06
<i>Equities and long-term fixed investments</i>		
Market risk	1.0 percentage point expected relative volatility	0.07
Asset allocation	Fixed income portfolio	58.39
	Equity portfolio	41.61

The models used to calculate the information above are explained in Note 7 in Norges Bank's annual financial statements for 2014.

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 into credit rating categories of the long-term portfolio and money market portfolio together.

Fixed income investments in the foreign exchange reserves by credit rating. Percent

	AAA	AA	A	BBB	Lavere	Total
Treasury bills	10.9	0.0	0.0	0.0	0.0	10.9
Sovereign bonds	57.9	23.2	8.0	0.0	0.0	89.1
Corporate bonds	0.0	0.0	0.0	0.0	0.0	0.02
Total fixed income securities	68.8	23.2	8.0	0.0	0.0	100.0

The portion of Bank's foreign exchange reserves invested in fixed income instruments primarily consists of highly rated securities. At the end of 2015 Q1, 92 percent was invested in government securities rated AA or higher.