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# NORGES BANK'S SUPERVISORY COUNCIL REPORT FOR 2014

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Document No. 9 (2014–2015)

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## **TO THE STORTING**

Norges Bank's Supervisory Council is charged with supervising the running of the central bank and ensuring that the rules governing the Bank's activities are observed. In keeping with its guidelines from the Norwegian parliament – the Storting – the Council attaches great importance to supervising both operational management and compliance with the mandate for the management of the Government Pension Fund Global (GPFG).

In 2014, the Council paid special attention to matters concerning responsible investment and the development of the Bank's real estate investment activities. It also reviewed the framework provided by the Council and Executive Board for the establishment and supervision of subsidiaries, as well as the management frameworks for reputational risk and the taxation of the GPFG's real estate investments.

In terms of the running of the central bank, the Council focused particularly on the Bank's overall management model, its organisation of management and compliance activities and its advisory role to the central government. The Executive Board's management and control of security and contingency planning – both with respect to ICT and Norges Bank's role in maintaining financial stability – are always areas of high priority for the Council.

The Council has considered the Bank's annual report and adopted its annual financial statements for 2014. The Bank's reports on the management of the GPFG and responsible investment in 2014 have also been considered. Over the course of 2014, the value of the assets managed by the GPFG rose by almost NOK 1,400bn. For a more detailed presentation of the Bank's activities, please see the above-mentioned reports.

Norges Bank had NOK 205.5bn in equity at 31 December 2014, including NOK 89.2bn of comprehensive income for 2014. In accordance with the guidelines on provisions and allocations of the Bank's profit, a provision of NOK 10.4bn has been made for a transfer to the Treasury. The last time a transfer was made to the Treasury was in 2001.

At its meeting on 12 March 2015, the Supervisory Council approved this report on its supervision of Norges Bank in 2014. This report is hereby presented to the Storting.

Oslo, 25 March 2015

Reidar Sandal  
Chairman of Norges Bank's Supervisory Council



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## CHAPTER 1

# SUMMARY AND MAIN CONCLUSIONS

### EXECUTIVE SUMMARY OF THE REPORT

Pursuant to Section 5 of the Norges Bank Act, the Supervisory Council supervised the running of the Bank and ensured that the rules governing the Bank's operations were observed in 2014. The Council reports on the minutes of Executive Board meetings, its supervision of Norges Bank and matters submitted to it by the Executive Board.

Norges Bank holds a position of great responsibility and trust, both as Norway's central bank and as the manager of the Government Pension Fund Global (GPFG). The Norges Bank Act designates the Executive Board as the central bank's executive and advisory authority. The Board is in charge of the Bank's operations and manages its resources. The Supervisory Council oversees that the Board exercises adequate management and control of the Bank's operations and compliance with relevant legislation and guidelines. The Council also approves the Bank's annual budget and adopts its annual financial statements.

The Council's report to the Storting for 2013 (Document No. 9 (2013–2014)) set out priorities for future supervisory activities. Changes to the regulations governing the management of the GPFG and to the role of the central bank were monitored very closely, as were the Executive Board's work on regulatory compliance, adjustments to the management framework and implementation of action plans. Over the course of the year, the Council oversaw the Board's management and control of the operational areas. Internal and external reporting were discussed, with a particular emphasis on risk management, internal control and risk reduction, as well as expenditure and key events.

This report provides an overview of the Council's activities, expenditure and methodology in 2014. It also covers the supervision of the Board's overall management and control, as well as the supervision of central banking operations and investment management.

The minutes of Executive Board meetings play an important role in the Council's supervisory activities, as they provide an overview of the matters considered by the Board and a basis for requesting additional information or

clarifications. Many of the matters considered by the Board in 2014 were also presented to the Council. Reports and statements from the Office of the Supervisory Council and external auditor were also discussed.

In 2014, the Council carried out a review of Norges Bank's management model. It also reviewed Norges Bank's advisory role, and evaluated the current budget rules. High priority was given to following up work on security and contingency planning. Within investment management, activities included a review of the management framework in relation to reputational risk arising from investments, and following up work on responsible investment.

The market value of the GPFG was almost NOK 6,500bn at the end of 2014. This was NOK 1,393bn higher than in 2013, with over half of the increase being due to the weakening of the Norwegian krone. The return on the portfolio was NOK 544bn before adjusting for exchange rate fluctuations. The Council regularly monitors reporting on the management of the fund, with a particular focus on compliance with the mandate and guidelines from the Ministry of Finance. Special attention was given to matters concerning responsible investment and the development of the Bank's real estate investment activities. The Council also assessed the framework for the establishment and supervision of subsidiaries under the Norges Bank Act, and reviewed the management framework for the taxation of the GPFG's real estate investments.

The Council has approved the Executive Board's annual report and adopted the annual financial statements for Norges Bank for 2014. The financial statements show that profit for the year was NOK 89,198m. Norges Bank had NOK 205.5bn of equity at 31 December 2014. In accordance with the applicable guidelines, NOK 10.4bn of the profit for the year was allocated for transfer to the Norwegian treasury. The last time a transfer of this kind was made was in 2001.

It is important to the Council that Norges Bank is open about its activities, within set limits. This also applies to the work of the Council, and as of 2014 it has started publishing minutes of its meetings.

## THE SUPERVISORY COUNCIL'S MAIN CONCLUSIONS FOR 2014

The Supervisory Council has received all of the information it has requested.

The minutes of the Executive Board's meetings in 2014 have been reviewed by the Council. In conjunction with this, questions were raised about specific matters, and the Central Bank Governor gave satisfactory explanations. The Council made no particular remarks on the Board's minutes.

The Council considers that the Board exercised satisfactory management and control of Norges Bank's operations in 2014, acting in accordance with the Norges Bank Act, the mandate and guidelines for the management of the GPFG and the Regulation on risk management and internal control at Norges Bank.

Over the course of the year, the Board reported issues arising and expressed a need to strengthen control frameworks and risk-reduction measures. During the discussion of certain matters, the Council explicitly asked the Board to take action and provide feedback. In conjunction with the supervisory reviews of the overall management model and measures to control reputational risk in investment management, the Council made suggestions and recommendations on how to develop areas including the Board's management and control framework.

In 2014 the Council established an appropriate framework for controlling and supervising real estate investment activities in consultation with the Board. It also followed up past recommendations on setting up subsidiaries, tax management and responsible investment at the GPFG, and monitored the development of a framework for active ownership.

These supervisory activities uncovered no cause for particular remarks under the Norges Bank Act. The Board has a good record of systematically dealing with any issues raised, as well as keeping the Council up-to-date with the implementation of corrective measures.

The Council has approved the Bank's budget and adopted its annual financial statements for 2014. There were no particular remarks concerning expenditure.



Photo from the Supervisory Council's study trip in 2014. Meeting with the Federal Reserve in Washington DC. The topics discussed were the ability of central banks to deal with financial shocks, lessons learned from the financial crisis, the growth prospects of the global economy and how these areas affect the United States.

## CHAPTER 2

# THE SUPERVISORY COUNCIL'S WORK

### NORGES BANK'S MAIN ROLES

Norges Bank is Norway's central bank, and it manages considerable assets and plays an important role in society. Its functions are mainly regulated by the Norges Bank Act<sup>1</sup>, the Government Pension Fund Act and the Ministry of Finance's management mandate for the Government Pension Fund Global. Norges Bank is a separate legal entity owned by the state.<sup>2</sup> It is to conduct its operations in accordance with the economic policy guidelines drawn up by the government authorities and with Norway's international commitments. As the central bank it is responsible for setting interest rates and for keeping inflation low and stable. It is to promote an efficient payment system, act as the banks' bank and lender of last resort, and may implement any measures that customarily or naturally fall within the remit of a central bank.

The Government Pension Fund is managed by the Ministry of Finance.<sup>3</sup> The fund consists of the Government Pension Fund Global and Government Pension Fund Norway. The Government Pension Fund Global (GPF Global) consists of a krone deposit held in a separate account at Norges Bank, which then invests the funds in accordance with rules set by the Ministry of Finance.<sup>4</sup> The investment portfolio consists of equities, bonds and real estate investments.

### THE SUPERVISORY COUNCIL'S ROLES AND RESPONSIBILITIES

Section 75c of the Norwegian Constitution requires the Storting to "supervise the economic affairs of the Realm". This role is performed partly by Norges Bank's Supervisory Council, which is appointed by the Storting.

The governance and control of Norges Bank's operations are regulated by the Norges Bank Act. Pursuant to the second paragraph of Section 5 of the Act, *"executive and advisory authority is vested in the Executive Board. The Board is in charge of the Bank's operations and manages its resources. The Executive Board shall be responsible for the organisation of,*

*and for establishing satisfactory frameworks, objectives and principles for the sound operations of the Bank. The Executive Board shall ensure that the Bank's operations, including accounting and asset management, are under satisfactory governance and control. The Executive Board shall supervise the Bank's administration and other activities."*

The role of the Supervisory Council is defined in several places in the Norges Bank Act.<sup>5</sup> As Norges Bank's supervisory and control body, the Council has overall responsibility for overseeing the Bank's operations and compliance with the regulatory framework. The supervisory role is defined in the third paragraph of Section 5 of the Act, and covers all of Norges Bank's activities.

*"The Supervisory Council shall supervise the Bank's activities and ensure that the rules governing the Bank's operations are observed. The Supervisory Council shall in this respect supervise the Executive Board to ensure that the Board's management and control of the Bank's administration and operations are satisfactory and that appropriate procedures have been established so that the Bank's activities are conducted in accordance with legislation, agreements, decisions and other regulatory frameworks. The Executive Board's exercise of discretionary authority under the Act is not subject to the Supervisory Council's supervision. The Supervisory Council has the right of access with respect to all of the Bank's affairs and may conduct any investigations it deems necessary in order to fulfil its responsibilities under the Act."*

In addition to its supervisory responsibilities, the Council also has specific areas of authority under the Norges Bank Act. On the recommendation of the Executive Board, it may decide that commercial operations shall be performed by companies that are partly or wholly owned by the Bank.<sup>6</sup> The Council approves the establishment of any such companies, and is responsible for supervising them. Other areas of responsibility<sup>7</sup> include approving the annual budget, adopting the annual financial statements and selecting Norges Bank's auditor.

<sup>1</sup> Act of 24 May 1985 relating to Norges Bank and the Monetary System etc. (The Norges Bank Act), most recently revised 17 December 2010

<sup>2</sup> Norges Bank Act, Section 2, fourth paragraph

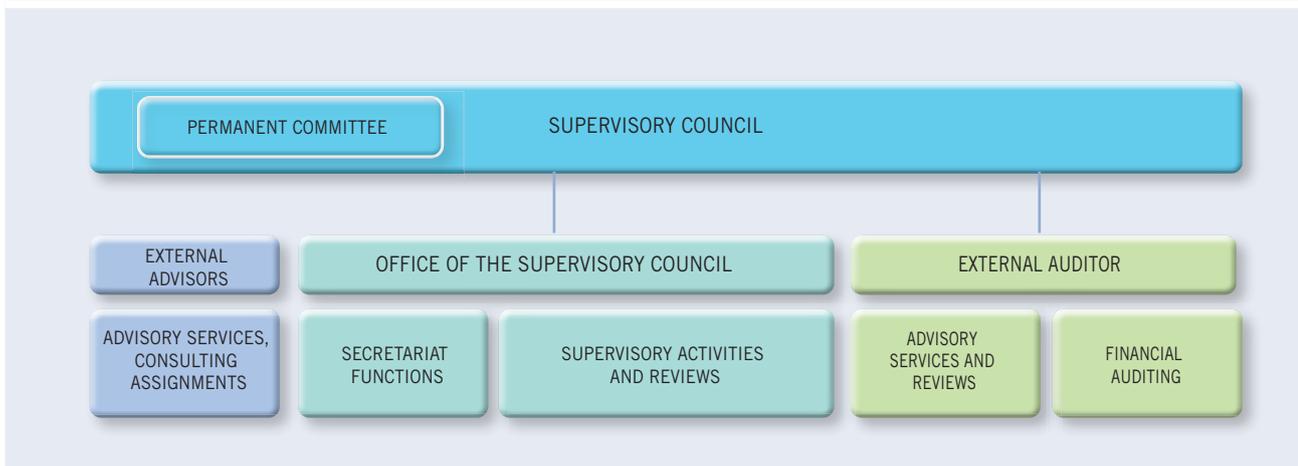
<sup>3</sup> Government Pension Fund Act, Section 2, first and second paragraphs

<sup>4</sup> Ministry of Finance guidelines and management mandate for the Government Pension Fund Global, 8 November 2010

<sup>5</sup> Sections 5, 7, 8a, 29, 30 and 30a

<sup>6</sup> Norges Bank Act, Section 8a Enterprises owned by Norges Bank

<sup>7</sup> Norges Bank Act, Sections 29, 30, first paragraphs and 5, fourth paragraph

**FIGURE 1** THE SUPERVISORY COUNCIL'S ORGANISATION STRUCTURE

The articles of association of Norges Bank's pension fund are decided by the Council.<sup>8</sup> The pension fund is a separate legal entity with its own accounts and its own board. The Council appoints the auditor for the pension fund, which comes under the supervision of the Financial Supervisory Authority of Norway.<sup>9</sup>

Under the Norges Bank Act,<sup>10</sup> the Council shall at least once a year present to the Storting its statement on the minutes of Executive Board meetings and its supervision of Norges Bank.

*“The statement concerning the supervision of the Bank shall, at the minimum, comprise the following:*

1. an account of how the supervision of the Bank has been organised,
2. an account of supervisory activities conducted and the Supervisory Council's priorities for its activities ahead,
3. an account of the Council's supervision of the Bank's investment management activities,
4. the Council's assessment of the Executive Board's management and control of the Bank's administration and operations, cf. Section 5, third paragraph, second sentence,
5. an account of the Council's work in connection with its approval of the Bank's budget and adoption of the accounts, cf. Section 5, fourth paragraph, second sentence,
6. any particular remarks arising from supervisory activities.”

This information is provided in the present report.

<sup>8</sup> Adopted 13 December 2007. Any changes to the articles of association are to be adopted by the pension fund's board, and presented to Norges Bank and any associate companies for their information. The articles of association and any subsequent changes shall be approved by the King, cf. Act on insurance companies, pension undertakings and their activities etc., Section 7-4.

<sup>9</sup> Act on the Supervision of Financial Institutions etc. (Financial Supervision Act), Section 1, first paragraph, sentence 15

<sup>10</sup> Norges Bank Act, Sections 30, fourth paragraph and 5, fourth paragraph

## THE SUPERVISORY COUNCIL'S ORGANISATION STRUCTURE

### SUPERVISORY COUNCIL

The Supervisory Council has 15 members elected by the Storting for a four-year term.<sup>11</sup> The Storting's election committee recommends members and alternates based on nominations by the parliamentary party groups. The Storting elects the chairman and deputy chairman from amongst the members for a two-year term. For the period 2014–2015, Reidar Sandal is the chairman and André Støylen is the deputy chairman.

As well as political experience, members of the Council have broad technical expertise, and experience from key areas of Norwegian society, public administration and industry. An appendix to this report gives full details of the members and alternate members of the Council for the period 2014–2015, including their terms of office. There is also a brief profile of each member's relevant experience.

The organisation behind the Supervisory Council is shown in Figure 1, and consists of the Permanent Committee, the Office of the Supervisory Council, the chosen external auditor and external advisors.

### PERMANENT COMMITTEE

The Permanent Committee is a working committee of the Council established in accordance with the Norges Bank Act.<sup>12</sup> Its mandate, which has been set by the Council, includes preparing and making recommendations on matters to be considered by the Council. The Committee has no decision-making powers.

The committee consists of the Council's chairman, deputy chairman and three other full members of the Supervisory Council, all elected for a term of two years. For the period 2014–2015, the committee members are Reidar Sandal (chairman), André Støylen (deputy chairman), Toril Hovdenak, Frank Sve and Synnøve Søndergaard.

<sup>11</sup> Cf. Norges Bank Act, Section 7

<sup>12</sup> Norges Bank Act, Section 7, fourth paragraph: “From its members the Supervisory Council may appoint committees to consider matters to be dealt with by the Supervisory Council.”

### OFFICE OF THE SUPERVISORY COUNCIL

In accordance with the Norges Bank Act, the Council has a secretariat<sup>13</sup> (the Office of the Supervisory Council) that conducts supervisory work, performs administrative tasks and arranges meetings and seminars. Its work is governed by instructions issued by the Council. The Office is professionally and administratively independent of both the Executive Board and Norges Bank's management. The Supervisory Council approves the secretariat's annual budget and expenditure.

The Council appoints the director of the Office and approves his job description and terms of employment. The director attends the Council's meetings, and acts as an advisor to it and the Permanent Committee. He is also responsible for the organisation of the Office, including recruitment, development and implementing its tasks. In 2014 the Office employed seven people in addition to the director (7.6 full-time equivalents). A new member of staff is currently being recruited to supervise investment management. Staff at the Office have broad professional experience in areas such as corporate governance, economics, finance, risk management, internal control, auditing and law.

The main goal of its technical work is to support the Council's supervision of Norges Bank's operations and regulatory compliance. Its work is performed on the basis of strategies, annual supervision plans and suggestions arising from the Council's meetings. In conjunction with the Council's meetings, the Office reviews matters presented by the Executive Board, and in some cases provides additional information or technical assessments. The director attends whenever the Board or Audit Committee are considering matters relevant to supervision.

One important task of the Office is to monitor activities and reporting at Norges Bank as part of the ongoing supervision of its operations. It also carries out reviews and investigations of selected areas. In its work, it draws on the technical expertise of the external auditor and other external advisors. The Office holds regular meetings with Norges Bank's management, the operational areas, Internal Audit and the external auditor. The supervisory process and reporting are discussed later in this report.

The Office administers the agreement with the external auditor, and serves as a coordinator between Norges Bank, the external auditor and the Office of the Auditor General. This model of collaboration is designed to help the Auditor General obtain information about, and build on, the audits and supervision performed by the external auditor and Council.

Information about supervisory activities is exchanged at regular contact meetings with the Ministry of Finance. These meetings have covered topics such as the Council's report to the Storting, annual supervision plans and supervisory activities in relation to the management of the General Pension Fund Global.

### EXTERNAL AUDITOR

The Supervisory Council has appointed Deloitte AS external auditor for Norges Bank, and the engagement agreement runs until the end of the 2015 financial year.<sup>14</sup> The agreement covers the auditing of Norges Bank's annual financial statements, Norges Bank's pension fund and other associates.<sup>15</sup> Deloitte AS also audits the GPFG's separate annual report and financial statements in conjunction with Norges Bank's annual financial reporting. In the case of the GPFG's financial statements for the first three quarters of the year, an assurance review is performed. For subsidiaries<sup>16</sup> established to invest in overseas property, the Council has adopted guidelines to ensure that Norges Bank's external auditor, currently Deloitte AS, is normally appointed auditor.

The auditor's reports on Norges Bank's annual financial statements and the annual report on the management of the GPFG, as well as the assurance review reports on the GPFG's interim financial statements, are presented to the Council. Audit and review reports relating to other financial reporting are sent by the Executive Board to the Council with the relevant reports. After all audits have been completed, an annual audit report is sent to the Board and Council.

Deloitte AS presents an annual financial audit plan for Norges Bank, including its management of the GPFG, and during the year it keeps the Council informed of material

<sup>13</sup> Cf. Section 5, third paragraph, last sentence: "The Supervisory Council shall have a secretariat."

<sup>14</sup> The agreement, signed on 22 January 2010, runs for six years from the 2010 financial year.

<sup>15</sup> Norges Banks fond til økonomisk forskning, Pensjoniststiftelsen ved Norges Banks hovedkontor and Direktør N. Ryggs fond

<sup>16</sup> Companies established pursuant to Section 8a of the Norges Bank Act and other subsidiaries requiring a statutory audit

issues that could affect the execution and scope of its auditing.

The agreement with Deloitte AS includes an option for providing any relevant assurance, auditing and advisory services to the Council or Office of the Supervisory Council. Deloitte AS has been contracted to prepare an annual assurance report on the Bank's responsibilities in relation to the management of the Central Government Group Account. It also produces an independent report<sup>17</sup> on risk management and internal control to the board of Norges Bank's pension fund. Subject to permission from the Office of the Supervisory Council, the external auditor can act as a consultant to the Bank, but this is strictly controlled, in order to avoid potential conflicts of interest.

The external auditor's work is important for the Council's supervisory activities, and there are regular technical discussions between the Office of the Supervisory Council and Deloitte AS. Collaboration and good communication on material issues that could affect auditing and supervision are given high priority. The partner at Deloitte AS responsible for Norges Bank normally attends Council meetings whenever relevant matters are under consideration.

#### **EXTERNAL EXPERTISE**

External experts both in Norway and abroad are used in the course of supervisory work, especially to resolve legal issues and complex problems relating to investment management. When planning supervisory activities, consideration is always given to the need for external experts. Good access to relevant resources has been achieved through a number of framework agreements. Other experts in specific fields are also contacted as required.

The engagement agreement with Deloitte AS provides access to broad global expertise on various aspects of supervision, particularly in areas such as corporate governance, risk assessment and internal control. A framework agreement has also been signed with the law firm Thommessen<sup>18</sup>, providing good access to legal expertise. In autumn 2014, the Office of the Supervisory Council held an open tender for an international firm to provide investment management advice. As a result, a four-year

framework agreement was signed with Oliver Wyman AB, a firm of management consultants.

External advisors give the Council access to leading specialist expertise, as well as relevant information about important developments and risk factors, particularly in relation to management of the GPF. They also contribute to supervisory reviews and investigations by providing advice based on international standards and best practice, as well as assisting with the continuing professional development of the Council and Office of the Supervisory Council.

#### **FRAMEWORK FOR THE SUPERVISORY COUNCIL'S WORK**

Based on the Norges Bank Act, the Supervisory Council has adopted rules of procedure and a mandate for the Permanent Committee. The framework for the Council's work also includes strategies, annual supervision plans, instructions for the Office of the Supervisory Council and its director and agreements with Deloitte AS and other external advisors. The Council also performs a systematic annual self-evaluation of its own work.

For some of its areas of responsibility and supervisory role there are guidelines in place that also cover the Executive Board. The "Budget rules for Norges Bank" and "Guidelines for the Supervisory Council's supervision of companies owned by Norges Bank in conjunction with the GPF's property investments" are discussed in greater detail later on in this report.

This overall framework, together with assessments of current issues and general risk assessments, provides a basis for the systematic implementation of supervisory work.

## **ACTIVITIES AND EXPENDITURE IN 2014**

#### **MEETINGS AND OTHER ACTIVITIES**

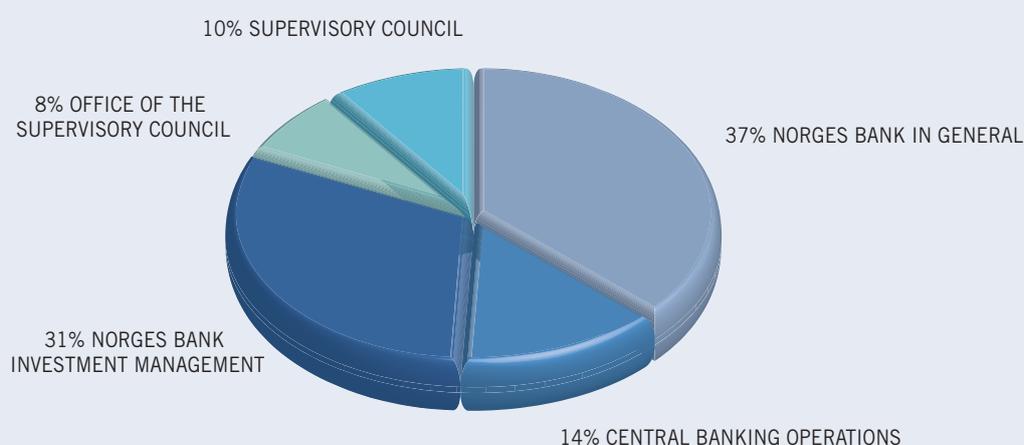
The Supervisory Council held seven ordinary meetings and one inaugural meeting in 2014. The chairman calls meetings in line with the agreed schedule, where deemed necessary or where requested by five or more of its members or by the Executive Board.<sup>19</sup> The Permanent Committee had eight ordinary meetings and one working meeting to review the draft of the annual report to the Storting.

Two of the meetings are specifically intended for reviewing the annual reports and the annual budget proposal. Over

<sup>17</sup> Pursuant to the Regulations on Risk Management and Internal Control, laid down by the Ministry of Finance on 22 September 2008

<sup>18</sup> A four-year agreement was signed on 15 June 2012.

<sup>19</sup> Norges Bank Act, Section 7, fifth paragraph

**FIGURE 2** MATTERS CONSIDERED BY THE SUPERVISORY COUNCIL IN 2014**TABLE 1** THE SUPERVISORY COUNCIL'S EXPENDITURE

THOUSANDS OF NOK	2014	2013
Supervisory Council	3 008	2 114
Office of the Supervisory Council	10 722	9 870
External expertise	4 130	6 088
Financial auditing	17 044	14 389
<b>Total</b>	<b>34 904</b>	<b>32 461</b>

**TABLE 2** FEES PAID IN 2014

FIXED ANNUAL FEES	AMOUNT PER MEMBER	SUPERVISORY COUNCIL	PERMANENT COMMITTEE
Chairman	136 000	54 000	82 000
Deputy chairman	88 000	34 000	54 000
Three other members of the Permanent Committee	80 500	26 500	54 000
Ten other members of the Supervisory Council	26 500	26 500	
Fifteen alternates	4 400	4 400	

the course of the year, minutes, reports and documentation provided by the Executive Board are discussed at meetings. Other items on the agenda include reports and discussion notes produced by the Office of the Supervisory Council and external auditor, as well as investigations based on requests arising from discussions at meetings. The Council reaches conclusions on individual matters after discussing them at its meetings. In 2014 the Council developed its procedures for its own meetings and those of the Permanent Committee. A constructive dialogue was maintained with the Executive Board throughout the year.

A total of 92 matters were discussed by the Council in 2014. It also approved the minutes of its own meetings, and received 14 information items consisting of various technical reports and other supplementary information about Norges Bank's operations outside the areas supervised by the Council.

Figure 2 shows the distribution of the matters discussed by the Council by type. Around 37 per cent of the 92 matters considered concerned the supervision of Norges Bank in general. These matters related to both central banking functions and investment management. The number of matters specifically concerning investment management was slightly higher in 2014 than in past years. This was partly due to the growth in real estate investment, which required an increase in supervisory activities. The number of matters concerning Central Banking Operations remained stable, as did those for the Council's own activities and administrative matters relating to the Office of the Supervisory Council.

In 2014 the Supervisory Council introduced an electronic system allowing simple and secure distribution of documentation and permanent information.

The Council arranges seminars, study trips and meetings with relevant organisations in order to stay up-to-date on relevant and important technical developments. In 2014 the study trip involved visiting selected institutions and enterprises in the United States. The aim was to meet international experts, and to seek advice on trends in macroeconomic conditions and capital markets in the United States and internationally. Meetings covering these topics were held with the International Monetary Fund (IMF) and Federal Reserve System. At the IMF's Independent Evaluation Office, we heard about the supervision of the IMF's organisation and work. The Council also met DNB and Blackrock, who gave presentations on topics relating to

finance and investment management in the United States. At the UN and at the Norwegian UN delegation, we were informed about work on international sustainable development and responsible investment. At Norges Bank's New York office, Norges Bank Investment Management (NBIM) told us about its activities in the American market, focusing particularly on its recent move into real estate investment.

The Supervisory Council hosts the Central Bank Governor's annual address, which is a tradition dating back to 1922. The main theme of the address is the economic outlook. The address is given to the members of the Council and invited guests from the government, the Storting, academia, industry and wider society.

#### **THE SUPERVISORY COUNCIL'S EXPENDITURE IN 2014**

The Council approves an annual budget for its activities, including the cost of the Office of the Supervisory Council, the external auditor and other external advisors. The budget and annual expenditure are included in Norges Bank's general reporting, but are considered as separate items by the Council. The Council's total expenditure in 2014 was NOK 34.9m. Approximately 80 per cent of expenditure on external expertise and auditing related to investment management. Table 1 gives a breakdown of this expenditure.

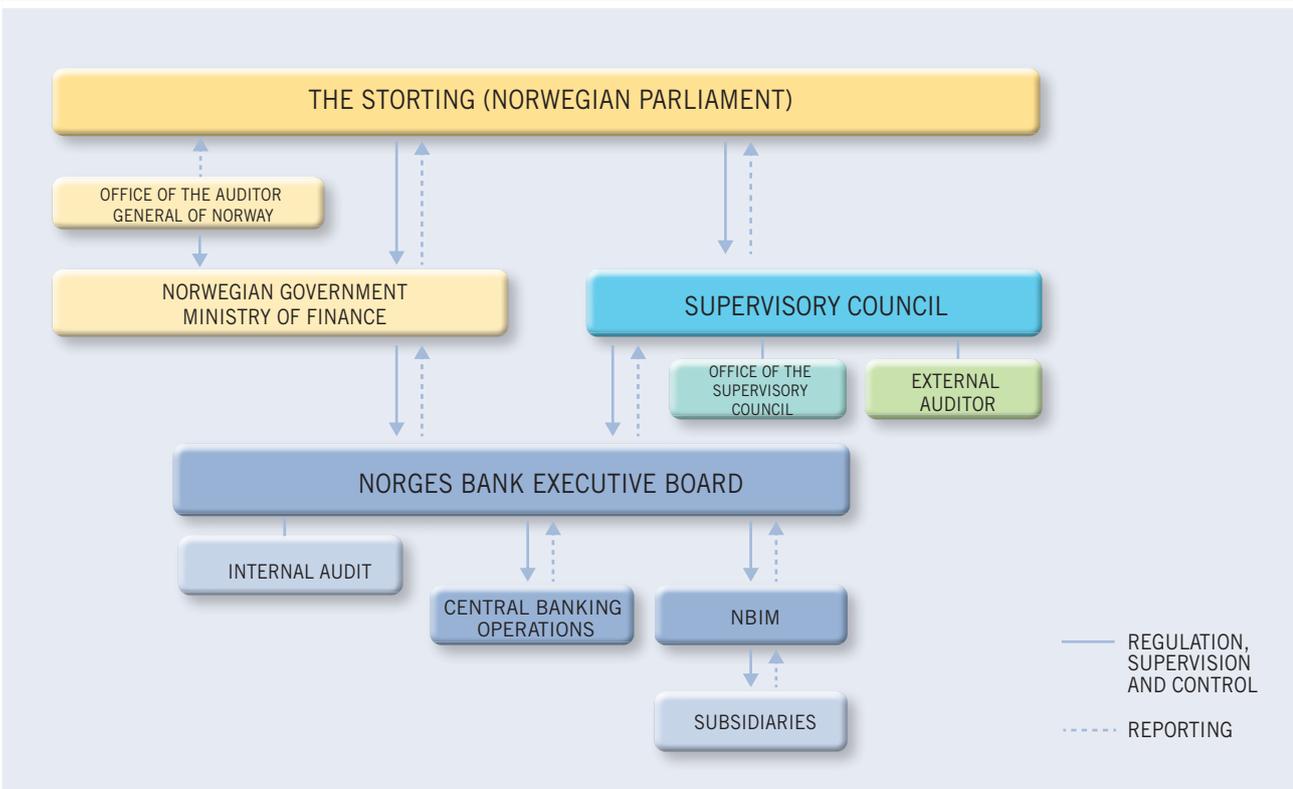
"Financial auditing" refers to Deloitte AS's work as Norges Bank's external auditor. The amount shown is the auditor's fee including VAT for auditing Norges Bank's annual financial statements and reviewing the GPF's interim reports, cf. the description of the external auditor's work earlier in this report. The cost of auditing was somewhat higher than the previous year, partly due to the growth in real estate investment and the restructuring of NBIM's accounting functions and settlement services.

The Council approves the external auditor's fees for auditing Norges Bank's annual financial statements and other agreed work. In addition to this, fees for financial audits of subsidiaries and associates are charged directly to those companies.

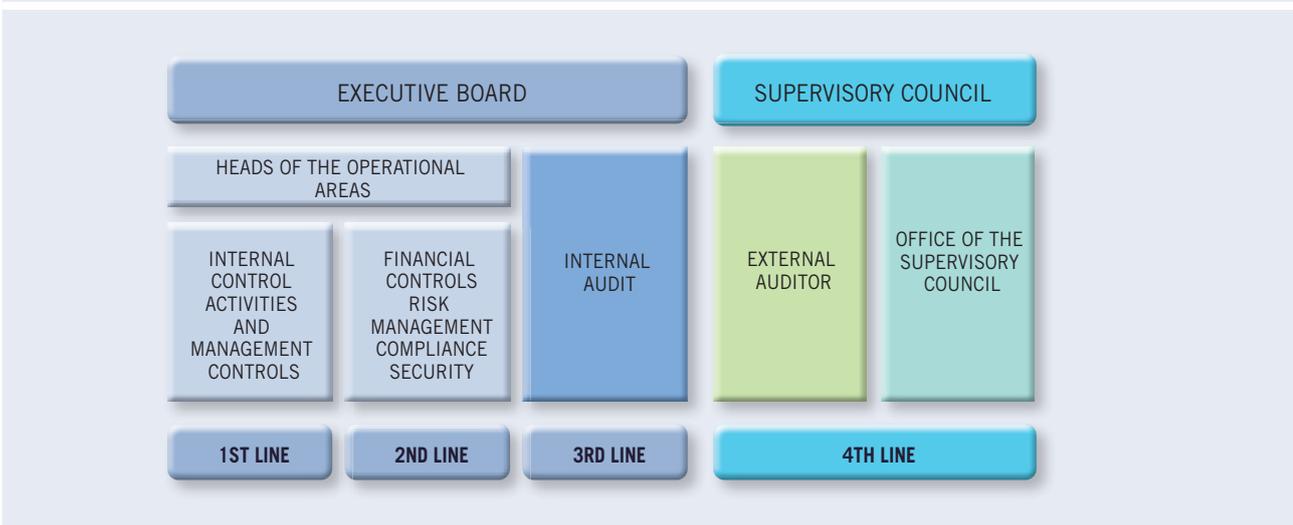
The Storting sets the fees payable to members of the Supervisory Council and the Permanent Committee.<sup>20</sup> A total of NOK 796,500 was paid out in fixed annual fees in 2014, compared with NOK 686,100 the previous year. In addi-

<sup>20</sup> The rates for fees in 2014 and 2015 were set by the Storting from 1 January 2014; cf. Recommendation 56 S (2013–2014).

**FIGURE 3** OVERSIGHT MODEL FOR NORGES BANK



**FIGURE 4** CONTROL MODEL AT NORGES BANK



tion to the fixed fees, alternates to the Supervisory Council received NOK 2,550 per meeting attended, while alternates to the Permanent Committee received NOK 3,150. Table 2 gives a breakdown of the fees paid in 2014.

The director of the Office of the Supervisory Council was paid a salary of NOK 1,795,484 in 2014, an increase of 3.5 per cent on the previous year. His pension service cost and other benefits came to NOK 444,144 and NOK 10,154 respectively. The director sets the salaries of other employees at the Office within limits approved by the Council.

## THE SUPERVISORY COUNCIL'S PROCEDURES AND APPROACH TO SUPERVISION

### ASSESSMENTS OF RISK AND MATERIALITY

The Supervisory Council's activities reflect its responsibility for supervising the Executive Board's management and control of the Bank's operations. Work is prioritised on the basis of formal rules, the Storting's expectations, wider social considerations and past experience. Annual supervision plans are also based on assessments of risk and materiality. These assessments draw on Norges Bank's reports on material risks and the main challenges that it faces.

Supervisory activities focus particularly on the Bank's complex management responsibilities and its compliance with key regulations. The Bank's key role in Norwegian society generates a risk of events that can lead to the loss of life and assets. Special attention is given to the management and control of risks and expenditure, as well as transparency in external reporting. Threat assessments and security measures taken are monitored closely as part of the supervision process. There may be a particular spotlight on Norges Bank's operations if unwanted events occur or if controls on expenditure fail. The tolerance threshold is low for the risk of irregularities or unethical behaviour.

### STRUCTURE FOR CONTROL, AUDITING AND SUPERVISION AT NORGES BANK

Norges Bank manages considerable assets and is vested with an important role in society by the Norges Bank Act and the management mandate for the Government Pension Fund Global. Confidence in the central bank depends on the quality and efficiency of its performance of this role. Norges Bank's operations are monitored by both the government and Storting, and an extensive supervision and control structure has been established, cf. Figure 3 Oversight model for Norges Bank.

Norges Bank has established a control model based on recognised standards and guidelines for governance and internal control, cf. Figure 4. Each level of the organisation has an independent responsibility for assessing risk and the need to perform controls. The control activities carried out at the previous level should be made use of wherever possible. The control model is based on the principle that the "first line of defence" has primary responsibility for performing tasks in accordance with given procedures and guidelines. There is also a "second line of defence" in the operational areas, which includes risk management and compliance functions. These carry out control activities based on their own risk assessments. Internal Audit, which is the Executive Board's control unit and "third line of defence", oversees management controls in the organisation.

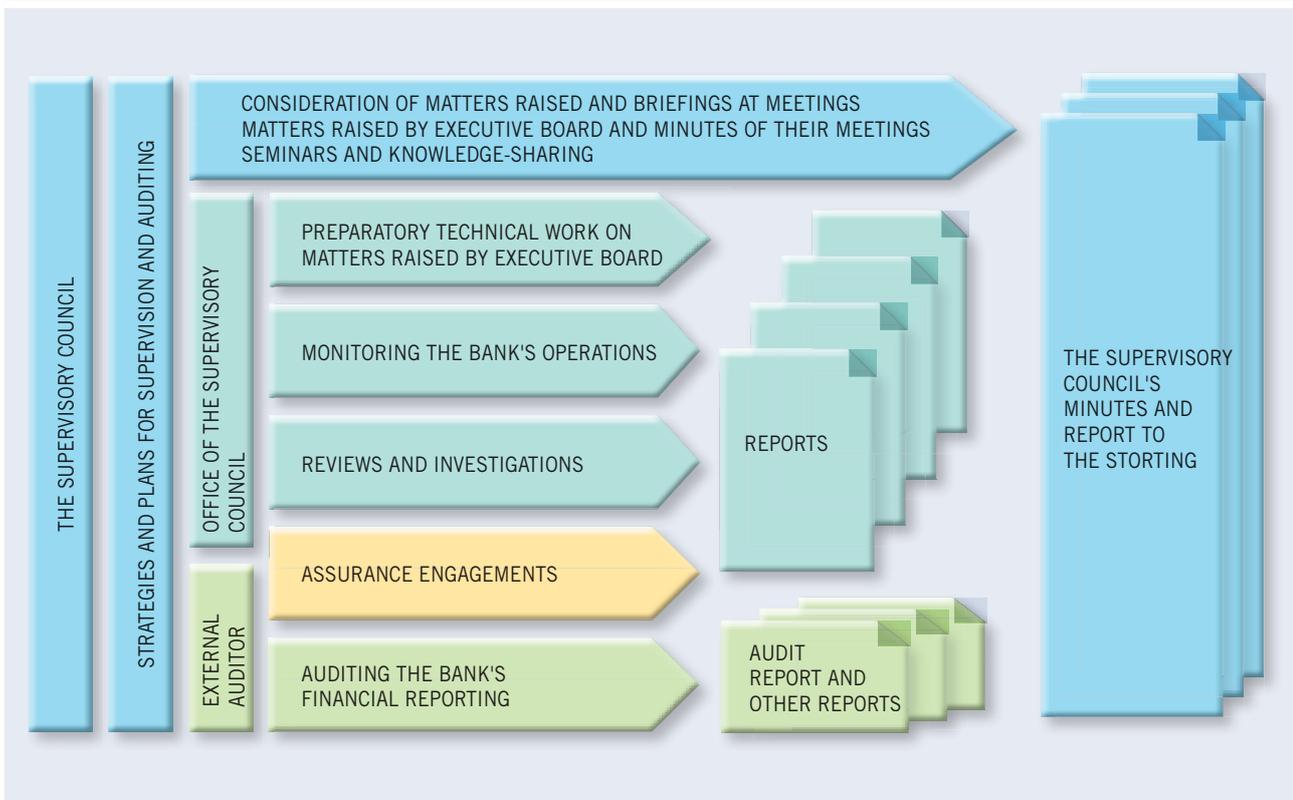
There is also an independent fourth line of defence, comprising auditing and supervision. This line of defence is particularly common in the financial and public sectors, which are normally subject to extensive supervision and regulation. Independent external control functions meet the need of the owners and society for control and supervision. As the Storting's supervisory and control body, the Supervisory Council has a special responsibility for looking at the overall structure of the control model. A balanced system of auditing and supervision for Norges Bank is ensured through dialogue and collaboration between the Office of the Supervisory Council, Internal Audit and the external auditor.

### THE SUPERVISORY COUNCIL'S PROCEDURES

The Supervisory Council's work involves reviewing the minutes of Executive Board meetings, as well as any reports and other documentation submitted to it, at a number of meetings during the year. The Central Bank Governor and Deputy Central Bank Governor are to attend these meetings unless the Council decides otherwise or they have a valid reason for not attending.<sup>21</sup> Further details about matters under consideration may be requested, and the Governor provides additional information and answers questions. He may bring experts with him where necessary. Briefings by the Governor help the Council to keep abreast of the Bank's operations. The Council has the right of access with respect to all of Norges Bank's affairs. In principle it is up to the Council to assess the need for information and the relevance of the information it receives.

<sup>21</sup> Norges Bank Act, Section 7, sixth paragraph

**FIGURE 5** THE SUPERVISORY COUNCIL'S PROCEDURES



Contact meetings have been established between the Governor and the chairman of the Supervisory Council to facilitate the mutual exchange of information and discussion of specific issues. It has become an established practice for the Council to receive an annual statement from the Audit Committee's chairman on the Committee's activities.

Figure 5 shows how supervision is based on strategies and annual supervision plans.

The Supervisory Council does not supervise the Executive Board's exercise of discretionary authority.<sup>22</sup> In key policy areas such as monetary policy and financial stability, there is only a limited basis for supervising the Board's assessments. This means that the Council does not comment on the Board's monetary policy decisions, or on the advice and consultation responses it submits. The general supervision of the Bank's operations will, however, include the organisation and processes that form the basis for the Board's exercise of discretionary authority.

The Office of the Supervisory Council's continuous presence at Norges Bank provides insight into, and knowledge of, the Bank's operations, giving a good platform for the Council's supervisory activities. This presence also helps to ensure that the Council is kept fully up-to-date on significant issues. The Council may initiate special investigations and analyses relating to current events and circumstances relevant to its supervision. Such investigations are normally performed by the Office of the Supervisory Council, sometimes working with the external auditor or other experts.

#### **TRANSPARENCY ABOUT THE SUPERVISORY COUNCIL'S WORK**

There has been increasing public interest in the role and supervisory activities of the Supervisory Council. Transparency about the Council's work is achieved within the constraints and limits laid down in the Norges Bank Act and other relevant rules on the Bank's operations. Its members are subject to the Norges Bank Act's provisions on

confidentiality.<sup>23</sup> Any increases in transparency or exemptions from the duty of confidentiality are decided on a case-by-case basis by the chairman of the Council. The Council's rules of procedure give the chairman responsibility for making public statements on behalf of the Council.

The Council's report to the Storting gives the general public a broad insight into its activities, and is designed to present a comprehensive picture of the Council's work and assessments. The minutes of the Council's meetings are sent to the Ministry of Finance and Office of the Auditor General of Norway for their information. In 2014 the Council also started publishing its minutes on Norges Bank's website. Case documentation relating to matters considered at Council meetings is exempt from access.

In 2009, the Council decided on a programme of assurance engagements to look at operational risk in the management of the GPF. A dialogue has been established with the Ministry of Finance on areas it may be appropriate for the engagements to cover.<sup>24</sup> All of the assurance engagements have been carried out by Deloitte AS in consultation with the Office of the Supervisory Council, and independent assurance reports have been submitted to the Council in line with international auditing standards<sup>25</sup>. The reports have been sent to the Ministry of Finance for information and published simultaneously. No such assurance engagements were carried out in 2014. Earlier engagements are described in the Council's reports to the Storting.

<sup>22</sup> An investigation performed for the Supervisory Council in 2013 resolved the question of supervisory responsibility for the Executive Board's exercise of discretionary authority.

<sup>23</sup> *Norges Bank Act, Section 12*: "Any and all persons rendering services to, or working for, the Bank are obliged to prevent others from gaining access to, or knowledge of, any matter that may come to their knowledge in the performance of their duties regarding the business affairs of the Bank or of other parties or the private circumstances of any person."

<sup>24</sup> *Cf. the government's report to the Storting on the management of the Government Pension Fund in 2009 (Meld. St. 10 (2009–2010))*

<sup>25</sup> *International Standards on Assurance Engagements from the International Auditing and Assurance Standards Board. The standard applied is ISAE 3000: "Assurance engagements other than audits or reviews of historical financial information."*



Reidar Sandal, who chairs the Supervisory Council, gives a welcome speech at the Central Bank Governor's annual address on 11 February 2014.

## CHAPTER 3

# SUPERVISION OF OVERALL MANAGEMENT AND CONTROL

### NORGES BANK'S OPERATIONS

The Supervisory Council's work requires a broad knowledge of Norges Bank's operations, organisation and management and control framework. There follows a general description of the Bank's organisation and responsibilities.

#### **RESPONSIBILITIES, FRAMEWORKS AND ORGANISATION**

Norges Bank's responsibilities and management structure are, as previously mentioned, primarily governed by the Norges Bank Act, which allows the Bank to implement any measures that customarily or naturally fall within the remit of a central bank. The Executive Board has the flexibility needed to adapt the Bank's operations to its responsibilities and objectives.

The Bank has advisory and executive responsibilities for monetary and foreign exchange policy. Key tasks include monitoring and analysing the stability of the financial system and managing international reserves. Norges Bank is also responsible for promoting robust and efficient payment systems and financial markets, as well as issuing Norway's banknotes and coins.

The Government Pension Fund Act and management mandate for the Government Pension Fund Global regulate the roles and responsibilities of Norges Bank and the Ministry of Finance with respect to investment management. The GPFG is managed by Norges Bank with the long-term objective of generating positive returns.

The Ministry of Finance has issued a Regulation on risk management and internal control at Norges Bank. This internal control regulation supplements the Norges Bank Act's rules on the management and control of the Bank's operations. The Bank also complies with the Regulation on the annual financial statements etc. of Norges Bank and other regulations pursuant to the Norges Bank Act. In addition, its operations are governed by general legislation covering areas such as accounting, freedom of information, public procurement, security, HR and the working environment.

These tasks are handled by two separate operational areas: Central Banking Operations and Norges Bank Investment Management (NBIM). Bank-wide functions are organised

as a separate department, while the General Secretariat reports to Central Banking Operations. Norges Bank has its headquarters in Oslo, and it also has offices in London, New York, Singapore and Shanghai. The international offices mainly perform work related to the GPFG. NBIM also operates through subsidiaries in conjunction with its real estate investments. For more detailed information see Norges Bank's annual report and financial statements and the annual report on the management of the GPFG for 2014.

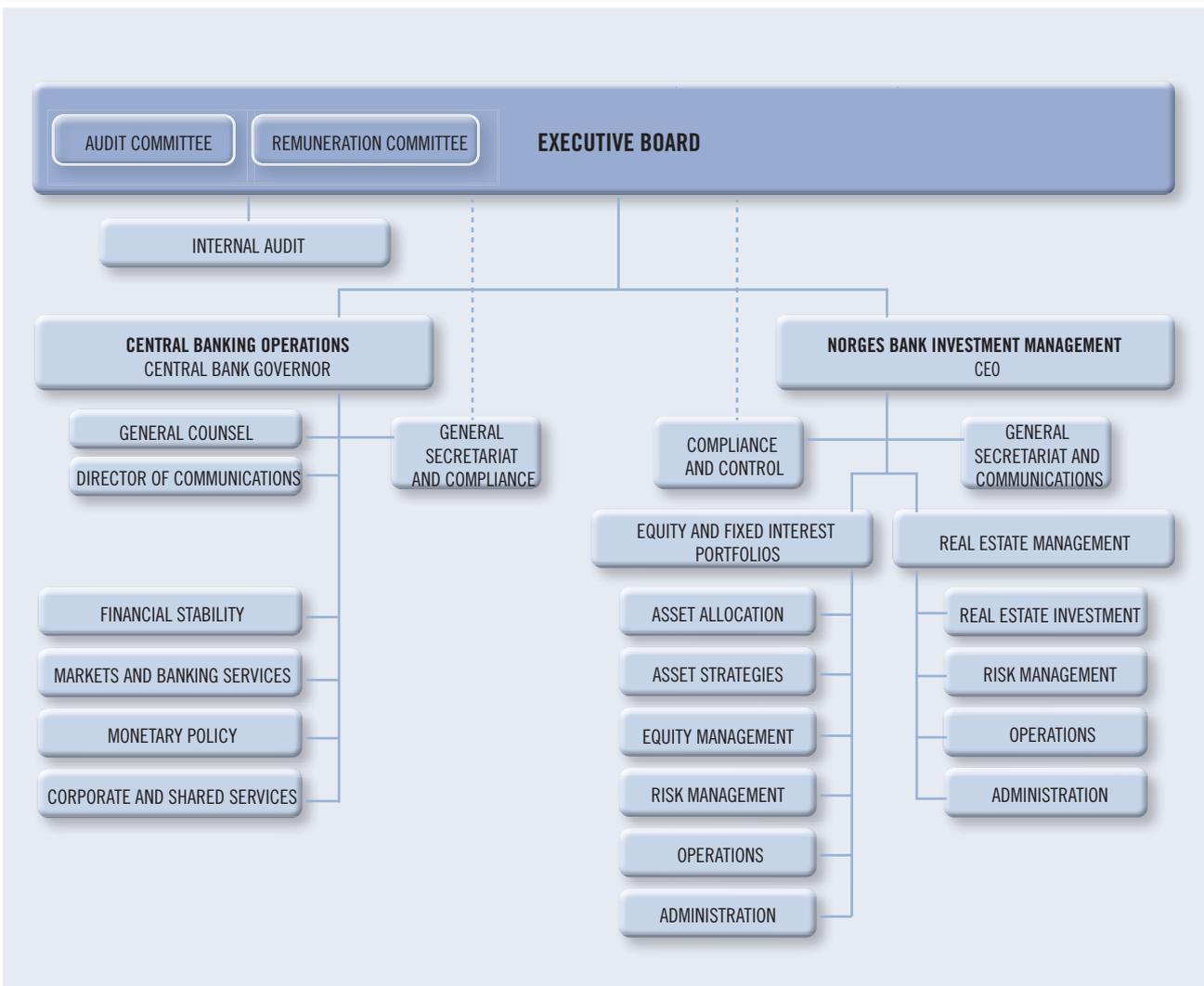
#### **THE EXECUTIVE BOARD'S MANAGEMENT AND CONTROL STRUCTURE**

The Board has seven members appointed by the King in Council. The Central Bank Governor and Deputy Governor, who are its chairman and deputy chairman respectively, are full-time employees of Norges Bank. The other five members are external. Two alternates have been selected for the external members. The alternates have a right to speak at Executive Board meetings. The Bank's employees also select two members from their ranks who join the Executive Board when it is considering internal and staff-related matters. The Governor calls meetings of the Executive Board as often as is deemed fit, or when requested to by at least three members.

Documents distributed in conjunction with meetings are exempt from access under the Freedom of Information Act, Section 14 on internal documents. Approved minutes relating to specific matters are made public, unless they are exempt from access under the exemption for confidential information or due to the nature of the document's contents. Any enhanced access to information shall be given in consultation with the management. The minutes of the Executive Board's monetary policy meetings are normally made public after 12 years.

Under the Norges Bank Act, executive and advisory authority at the Bank is vested in the Executive Board. Decisions of a strategic nature, on matters of principle or with wide-ranging implications are taken by the Board. The Executive Board issues general principles and management frameworks for the Bank's operations. Based on

**FIGURE 5** THE SUPERVISORY COUNCIL'S PROCEDURES



the Norges Bank Act<sup>26</sup>, the Executive Board can give special authority to the Governor or give other members authority to make decisions in delimited areas. Delegated authority is overseen through regular reporting.

In 2014 the Executive Board had two active sub-committees – the Remuneration Committee and the Audit Committee – whose mandates were established by the Board. Committees perform an annual self-evaluation of their own performance. In autumn 2014, a new sub-committee was created dealing with active management at the GPF. The committee is discussed in greater detail later in this report.

The Remuneration Committee consists of two of the full external members of the Board. The Committee does preparatory work and advises the Board on matters relating to the Bank's pay and remuneration arrangements. Its duties include drawing up a recommendation to the Board on the key terms and conditions of employment for managers in both operational areas. It also makes recommendations on the principles that should govern performance-related pay at Norges Bank, as well as on the total annual budget that should be made available. The Committee must make sure that there are regular assessments of compliance with frameworks and requirements concerning pay and compensation agreements.

The Audit Committee, which consists of three of the Board's full external members, has been established in accordance with the Regulation on risk management and internal control at Norges Bank. The Committee is a preparatory and advisory body which is to help increase the quality and efficiency of the Board's work on the management and oversight of financial reporting, risk management and internal control. The Committee oversees Internal Audit's plans, work and reporting. It also facilitates the necessary coordination between Internal Audit, the Office of the Supervisory Council and the external auditor, and is responsible for other important communication with the external auditor and Office within the Executive Board's mandate.

The Internal Audit unit has been set up in line with the Norges Bank Act and the Internal Control Regulation. Its role is to support the Executive Board's oversight by providing independent assessments of risk management and internal control. It performs its duties in accordance with instructions from the Board and the "International standards for professional practice of internal auditing"<sup>27</sup>. The Board approves three-year long-term plans and adopts annual audit plans. Internal Audit reports to the Board through the Audit Committee, and the head of Internal Audit reports to the Central Bank Governor. The head of Internal Audit is entitled to attend Board meetings. Internal Audit acts as secretariat to the Board's Audit Committee.

Figure 6 shows Norges Bank's organisation structure at the end of 2014.

The Central Bank Governor is in charge of Norges Bank's administration and has overall responsibility for the implementation of decisions.<sup>28</sup> The Executive Board has delegated responsibility for operational investment management to the CEO of Norges Bank Investment Management. The heads of the two operational areas are responsible for their management and organisation, and for ensuring that the necessary internal management documents are in place. Sections 4 and 5 below describe the responsibilities and management models of the two operational areas.

The Executive Board is responsible for establishing satisfactory frameworks and principles for risk management and internal control throughout the Bank's operations. In accordance with the Internal Control Regulation, general principles have been adopted to ensure a systematic and comprehensive approach. Supplementary guidelines on their implementation have been drawn up at both operational areas. Risk management is an integrated part of corporate governance, and should help ensure the right balance between goals, risk and control measures for important processes. The operational areas have

<sup>26</sup> Norges Bank Act, Section 10

<sup>27</sup> Issued by the Institute of Internal Auditors (IIA), January 2013

<sup>28</sup> Norges Bank Act, Section 5, last paragraph

established sections that coordinate and oversee risk management within their own operations.

The Executive Board has established a code of conduct for employees at Norges Bank, designed to promote a common attitude towards ethical issues. All employees have an independent responsibility for protecting Norges Bank's reputation. This involves adhering to ethical conduct, as well as refraining from illegal activities such as corruption, fraud, embezzlement or any other neglect of duty that could damage the Bank's standing. The general principles form the basis for more detailed rules and procedures within the two operational areas.

The Board has also adopted whistleblowing procedures. These are designed to enable employees to report misconduct, as well as ensure that whistleblowers will face no reprisals from the Bank. Internal Audit is the whistleblowing channel for all employees at Norges Bank.

The General Secretariat is responsible for providing secretariat services to the Executive Board, as well as for the legal framework for Norges Bank's operations and the Board's external communications. Each of the operational areas has set up a compliance function, which oversees and reports on compliance with legislation, regulations and internal rules, in accordance with the instructions issued.

## THE SUPERVISORY COUNCIL'S GENERAL ANNUAL OVERSIGHT

### THE EXECUTIVE BOARD'S OVERSIGHT

The Executive Board has adopted an overall strategy for Norges Bank for the period 2014–2016, emphasising that the Bank is to be a transparent and well-run central bank which uses resources prudently and responsibly. Work on modernising and further developing its core activities will continue. Supplementary strategies have also been drawn up for the operational areas. These strategies are implemented through annual action plans and monitored through management reporting. The strategic plans have been presented to the Supervisory Council, which will follow the progress made with the help of budgetary and planning documents, periodic management reporting and the Executive Board's annual report and financial statements.

In its supervision, the Council has emphasised that the Board should periodically and as necessary update the premises for work at the two operational areas, and systematically monitor risks, action plans and results. Work on strengthening the management structure and control environment continued in 2014, including the approach to operational risk management and compliance.

Norges Bank's reports on governance, operational risk and internal control keep the Council informed of the Board's activities in relation to risks and unwanted events. These reports also describe any breaches of laws, mandates or other rules and regulations, as well as their potential reputational and financial impacts. The Council notes that procedures are in place for regular risk assessments and for initiating risk-reduction measures. The Council responds to reports and obtains the necessary additional information in separate reports or from the Central Bank Governor during meetings. No breaches or events were reported in 2014 that required the Council to request that special measures be taken.

Corporate social responsibility activities, including those concerning health, safety and the environment, are covered by the Board's annual report. The Council also considers annual reports from the Working Environment and Works Council, as well as hearing statements about the oversight of security and contingency planning at Norges Bank.

In 2014 the code of conduct for external members of the Board was adopted as a supplement to the Ministry of Finance's regulation relating to impartiality for Norges Bank's Executive Board.<sup>29</sup> The code is based on the equivalent rules that apply to the Bank's employees, including the Central Bank Governor and Deputy Governor. It covers areas such as confidentiality, insider trading, insider information and handling conflicts of interest.

The Board's principles concerning authorised signatories were revised in 2014. The Central Bank Governor and Deputy Governor have general (unlimited) authority to sign, and can each individually make commitments on

<sup>29</sup> Regulation relating to the relationship of members of Norges Bank's executive board with other credit institutions and enterprises

behalf of the Bank. Directors who report to the Central Bank Governor, as well as the CEO of NBIM, normally have a general authority to sign within their respective areas of authority. In addition, powers of attorney can be granted as required.

The overall management framework, with a particular emphasis on risk management, internal control, risk reduction and compliance, plays an important role in the running of Norges Bank. The Council considers it good that the Board regularly reviews the framework and makes the necessary adjustments.

#### **INTERNAL AUDIT'S RESPONSIBILITIES**

Internal Audit submits an annual report to the Executive Board on risk management and internal control, in line with the Regulation on risk management and internal control at Norges Bank. Its assessments are based on audit results, reporting by the operational areas and communication with key employees.

In 2014 Internal Audit reported on NBIM's activities, focusing on responsible investment, its ICT management model and investments in unlisted companies. Internal Audit also monitored changes in how tasks are organised at NBIM, and the growing importance of real estate investment. Within central banking, audits looked at corporate governance, ICT management and financial management. Internal Audit also reviewed the design and implementation of the code of conduct, cash-in-transit security arrangements and management of foreign exchange reserves and Norges Bank's liquidity. If any shortcomings are discovered, the audit reports recommend corrective measures. The operational areas report periodically to the Executive Board on their responses and corrective measures.

The Office of the Supervisory Council has reviewed all of Internal Audit's reports that have been considered by the Audit Committee and Executive Board. The director of the Office attends the Audit Committee and Executive Board meetings when they are considering the reports. The Board has established procedures for following up measures recommended by Internal Audit. The Office of the Supervisory Council and Internal Audit meet various times during the year to discuss the most relevant reports.

Internal Audit's reports are looked at in connection with supervisory reviews.

The Supervisory Council considers Internal Audit's annual report in conjunction with the Board's annual report on internal control at Norges Bank. The Council is also informed of the work and reports of Internal Audit if it discovers any material breaches or events that could affect supervision. In 2014 no such incidents were reported.

#### **SPECIFIC MATTERS AND TOPICS FOR SUPERVISION IN 2014**

##### **COMPLIANCE WITH THE REGULATION ON RISK MANAGEMENT AND INTERNAL CONTROL AT NORGES BANK**

Reporting on the status of action plans, risk management and internal control is considered over the course of the year. Based on the Internal Control Regulation for Norges Bank, the Central Bank Governor each year assesses whether internal control at the Bank has been satisfactory, and presents an overall report on risk to the Executive Board. Based on this and Internal Audit's reports, the Board presents an annual general assessment of risks and internal control at Norges Bank to the Supervisory Council.<sup>30</sup>

In its report for 2014, the Executive Board's assessment is that internal control and risk levels are generally satisfactory. Nevertheless, it highlights the need to implement risk-reduction measures. No significant operational errors were reported during the year. This is also discussed in the Board's official annual report for 2014.

During the year, the Supervisory Council considered matters raised by the Board relating to modernising the Bank's overall management and control framework. The Central Bank Governor presented planned and implemented measures, as well as an assessment of the risks faced by the Bank. Management reporting with integrated risk assessments has improved. Overall, this promotes an understanding of both the complexity of the central bank and the basis for management and control.

<sup>30</sup> Regulation on risk management and internal control at Norges Bank, Section 8

In the opinion of the Supervisory Council, compliance with the requirements of the Internal Control Regulation was documented and achieved in 2014. The Council will keep up-to-date with the Executive Board's oversight of risk reduction measures.

#### **SECURITY AND CONTINGENCY PLANNING**

High security and good contingency planning are very important to Norges Bank, and its operations are covered by the Security Act and the Document Security Instructions. As the Bank provides a critical service,<sup>31</sup> it faces more stringent requirements for security clearance and authorisation for access to information. The security department is responsible for security guards and other security arrangements at Norges Bank's headquarters, its international offices and the central bank depots.

In 2014 the Executive Board updated its principles for security, contingency planning and crisis management at Norges Bank. For Norges Bank as a whole, there are joint rules to protect assets that are important to both Central Banking Operations and NBIM. The heads of the operational areas have been delegated responsibility for drawing up more detailed guidelines.

Norges Bank works with security experts at the Storting, in government ministries, at local authorities and at other relevant stakeholders. The National Security Authority (NSM) oversees Norges Bank and other public bodies covered by the Security Act, and there are procedures in place for reporting incidents to the NSM. Based on current potential threats, the Bank works systematically to mitigate security risks, which includes adopting a contingency plan and holding regular exercises.

Each year, the Council considers the Board's security review, which includes an analysis of potential threats and information about priority measures to enhance security and preparedness. Security is also dealt with through management reporting and the Board's plans and budget proposals. Due to external events and a raised threat level, changes have been made to the processes and control pro-

cedures used to protect Norges Bank's assets. The Council is kept up-to-date with the progress of security measures that also depend on circumstances beyond Norges Bank's control.

Security is a high priority for the Council. It has noted that thorough risk and vulnerability analyses are performed, and that the Board continuously monitors the situation in this area. Norges Bank must be able to perform critical functions essential to society, while the safety of employees and the protection of assets are also high priorities.

Resources for implementing measures are allocated through annual budgets. In exceptional circumstances, the Board can cover the cost of safeguarding lives, health and major assets without any special allocation of funds. A report must then be submitted to the Council.

#### **NORGES BANK'S ADVISORY ROLE**

Under the Norges Bank Act, the central bank is the executive and advisory body for monetary, credit and foreign exchange policy, and is to state its opinion on matters that are put before it by the King or the Ministry of Finance. The Bank also has an independent duty to provide advice whenever it deems necessary. One example of its advisory role can be seen in the advice it gives to the Ministry of Finance on the level of countercyclical capital buffers needed at banks,<sup>32</sup> after it has first prepared the evidence on which the decision is based. These assessments are presented each quarter in the "Monetary Policy Report with financial stability assessment".

The management mandate for the GPFG regulates both Norges Bank's advisory duty and right to express an opinion.<sup>33</sup> The Bank shall advise the Ministry on the investment strategy for the investment portfolio either on its own initiative or on request from the Ministry. It shall also advise the Ministry on the need for changes to the mandate, and has the right to express an opinion before any significant changes are made. Over the course of 2014

<sup>31</sup> The asset protection regulations (Norw.: objektsikkerhetsforskriften) specify conditions for the selection, classification and protection of critical assets defined as sensitive in the Security Act.

<sup>32</sup> Cf. Regulation on the countercyclical capital buffer issued by the Ministry of Finance. Came into force 15 October 2013

<sup>33</sup> Cf. Section 1-4 of the mandate

the Bank expressed a number of opinions on topics such as responsible investment and the real estate portfolio.

The Supervisory Council is kept informed of the Executive Board's opinions, but has no role in the advisory process. A supervisory review looked into problem areas with respect to the Bank's advisory role. It particularly focused on situations where Central Banking Operations and NBIM advise on the regulation of areas in which they also operate. The review covered processes for preparing advice, internal quality assurance and the Executive Board's procedures. In the cases that were assessed, the Ministry of Finance received the advice.

The evaluation criteria were based on the Norwegian government's Ethical Guidelines for the Public Service and the Public Administration Act's stipulations on disqualification and documentation requirements. It was also important to respect the allocation of roles between the Ministry of Finance and Norges Bank, as well as internal areas of responsibility. The evaluations took into account the rules in the Internal Control Regulation, the internal management framework and practical considerations.

The review showed that Central Banking Operations' advice is based on verifiable processes with clearly allocated areas of responsibility. NBIM has also established a process for coordinating its advisory activities. Contact between Norges Bank in its advisory role and the Ministry of Finance as the regulating authority takes place within clearly defined frameworks that preserve their professional integrity and independent roles. Advice to the Ministry is only presented after careful consideration by the Executive Board, which formally gives the advice. The basis for advice and other assessments are documented as part of the decision-making process.

The report on the supervisory review suggested that there may be a need to further develop the Board's documentation of the justifications for its advice in order to ensure that verification is possible. This is particularly true for the area of investment management. The Supervisory Council supported the conclusions of the report.

## COMPLIANCE MANAGEMENT

Society expects Norges Bank to have good procedures for ensuring compliance with the regulatory framework for its operations. This is also a high priority for the Bank's management and the Supervisory Council.

A supervisory review was carried out to assess whether the Executive Board's compliance management adheres to the relevant standards and best practice for organising and overseeing compliance activities. The review covered both Central Banking Operations and NBIM. The assessment was based on relevant standards and good practice for implementing compliance activities at central banks and in the field of investment management.

Entities subject to a large number of regulatory requirements, such as listed companies and financial institutions, often have a statutory requirement to establish an independent compliance function, cf. the second line in the control model shown in Figure 4 above. This is also considered best practice. In Norway there are regulatory frameworks for investment firms and collective investment funds with associated regulations based on international directives and standards that set out rules on compliance.

European central banks have to varying degrees introduced independent compliance functions, but this area is still developing. In 2005, the Basel Committee<sup>34</sup>, which sets international standards, issued 10 principles<sup>35</sup> or guidelines on managing compliance risk and establishing compliance functions at banks and credit providers. These do not specifically apply to central banks, but they were used as relevant evaluation criteria for the supervisory review of management and control of compliance at Norges Bank.

The review found that Norges Bank has organised and introduced processes for setting principles and overseeing compliance that adhere to best practice. The Bank's periodic management reporting provides details of any significant nonconformities or other events, which are then reviewed by the Executive Board. Internal Audit reports on compliance within projects, as well as in semi-annual

<sup>34</sup> Basel Committee on Banking Supervision, BIS

<sup>35</sup> "Compliance and the compliance function in banks"

and annual reports to the Board via the Audit Committee. Together, these reports provide the Board with a good basis for overseeing the Bank's compliance activities. The Board in turn gives regular summary reports to the Supervisory Council.

The compliance functions report to the person in charge of their respective operational areas. In accordance with recognised standards, the Chief Compliance Officer at NBIM has a separate line of reporting to the Board. At the time of the review, there was no equivalent separate line of reporting from Central Banking Operations to the Board. This has subsequently been changed, in line with the recommendations of the report on the supervisory review.

The Supervisory Council notes that compliance activities at Norges Bank are organised and implemented in accordance with best practice.

#### **NORGES BANK'S MANAGEMENT MODEL**

Norges Bank's management model is regulated by the Norges Bank Act. In addition to its duties as central bank, Norges Bank is also responsible for the management of the General Pension Fund Global. The nature of Norges Bank's operations means that the Executive Board has to deal with a wide range of activities. The Supervisory Council continuously monitors the Board's leadership and control of the Bank's operations.

In 2014 a supervisory review assessed the Board's management and control processes, as well as its principles for delegation, oversight and reporting. This review was carried out in collaboration with Deloitte AS. Assessments were made within the framework of the Norges Bank Act<sup>36</sup>, management mandate for the GPFG and Internal Control Regulation, and were based on relevant international corporate governance standards.<sup>37</sup>

One of the main conclusions of the review was that clear management principles have been established for the Bank.

The Executive Board's committees play an important role in implementing controls. Under the Norges Bank Act, the Central Bank Governor chairs the Executive Board and acts as Norges Bank's managing director. The Board has delegated day-to-day management responsibility for investment management to the CEO of NBIM, who is appointed by, and reports to, the Board. This creates a clear distinction between the roles and responsibilities of the Board and the CEO of NBIM, in accordance with good governance practice.

The Board documents its work through minutes, background documents and external reporting. It also makes public its strategies and descriptions of the management model. The report on the supervisory review recommended improvements to the Board's rules of procedure, minute-taking and self-evaluation process.

Large financial institutions are increasingly creating risk management committees that are supposed to prepare the board's decisions on risk appetite<sup>38</sup> and oversight of risk. The report recommended that the Board consider whether it would be appropriate for Norges Bank to have a sub-committee of this kind. This assessment should also take into account the need for a framework for the Board's oversight of the Bank's significant real estate investments.

The Supervisory Council supported the conclusions of the report. Improving the Board's minute-taking will help to provide a better foundation for the Council's supervisory work.

<sup>36</sup> *Norges Bank Act, Sections 5 Supreme authority in the Bank, 6 Executive Board, 10 Delegation of authority and committees and 30a Audit*

<sup>37</sup> *Internationally, the UK Corporate Governance Code is considered the leading standard. The IMF and Basel Committee (BIS) principles for the management of financial institutions are also relevant.*

<sup>38</sup> *The risk appetite indicates the level of risk that an organisation is willing to accept in order to achieve specific results.*

## CHAPTER 4

# SUPERVISION OF CENTRAL BANKING OPERATIONS

## MANAGEMENT MODEL, RESPONSIBILITIES AND ORGANISATION

Central Banking Operations, which is organised into the departments Markets and Banking Services, Monetary Policy and Financial Stability, performs traditional central banking functions in accordance with the Norges Bank Act<sup>39</sup>. The Corporate and Shared Services Department provides administrative support for Central Banking Operations and bank-wide functions and processes, cf. Norges Bank's organisation structure in Figure 6.

The Central Bank Governor has created an organisation and management structure with clear systems, processes, roles and responsibilities. The department directors are responsible for areas such as risk management, internal control and financial management within their respective departments, and also issue internal guidelines. A central risk management function has also been set up to support the department directors and the Central Bank Governor in their work on managing operational risk.

Within Central Banking Operations there are a number of committees that fulfil the stipulations of the Working Environment Act as well as agreements between employees and Norges Bank as the employer. The Working Environment and Works Council is a joint committee that helps to ensure a good working environment at Norges Bank and promotes communication, collaboration and joint decision-making. The Negotiation Committee is responsible for collective pay negotiations with the employee organisations. The Staff Consultation and HR Committee is a joint committee that is to help formulate clauses in basic agreements concerning information, collaboration and staff consultation.

## THE SUPERVISORY COUNCIL'S GENERAL ANNUAL OVERSIGHT

### THE EXECUTIVE BOARD'S OVERSIGHT

Based on the general principles for risk management at Norges Bank, the Executive Board has adopted risk management principles for Central Banking Operations. The Board has also considered criteria for the assessment of the level of operational risk. Risk assessments are to form part of the basis for decisions on all material changes, including changes that can impact on financial risk.

The Central Bank Governor has issued more detailed guidelines on risk management at Central Banking Operations, covering areas such as risk definitions, management of incidents, responsibilities and reporting. Risks are identified and assessed quarterly, in the event of serious incidents, and following major changes to duties, ICT systems, infrastructure or regulatory frameworks. The status of compliance is reported to the Governor every six months and immediately upon the discovery of any serious breaches of rules. Unwanted events are to be reported and addressed in a way that allows normal operations to resume.

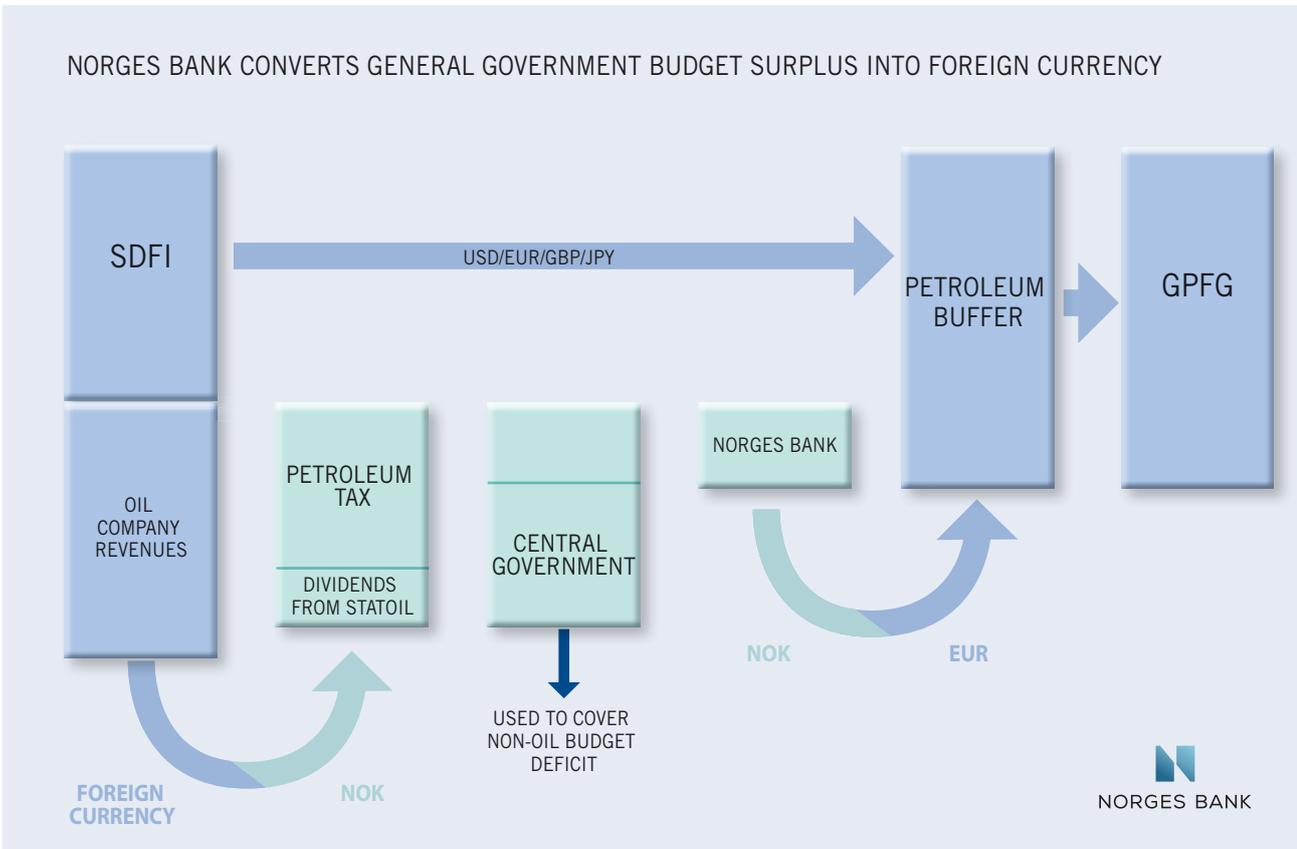
The Board also reviews general management reports for Central Banking Operations, covering the status of action plans and expenditure, operational risk, compliance and internal control. In addition, the Central Bank Governor receives a general report from the departments each quarter, as well as whenever deemed necessary during the year.

The Supervisory Council has been informed of the principles and guidelines for risk management. It is very important to the Council that there are good procedures for reporting events and implementing risk-reduction measures. The Council monitors the management of Central Banking Operations at a general level through its consideration of reports, plans and budgets.

<sup>39</sup> *Norges Bank Act, Section 1, first paragraph, second and third sentences:*

“The Bank shall be an executive and advisory body for monetary, credit and foreign exchange policy. It shall issue banknotes and coin, promote an efficient payment system domestically as well as vis-à-vis other countries, and monitor developments in the money, credit and foreign exchange markets.”

**FIGURE 7** MECHANISM FOR TRANSFERRING FUNDS TO THE GPFG



## SPECIFIC MATTERS AND TOPICS FOR SUPERVISION IN 2014

### MANAGEMENT OF INTERNATIONAL RESERVES

Norges Bank's international reserves consist of foreign exchange reserves and International Monetary Fund (IMF) reserve positions. Foreign exchange reserves can be used as a monetary policy tool for transactions in foreign exchange markets, as well as to maintain financial stability and meet Norges Bank's international commitments. In 2014 the Bank's reserves rose by NOK 120.3bn to NOK 448.6bn.

The reserves comprise a money market portfolio, a petroleum buffer portfolio and a long-term portfolio. Some of the money market portfolio acts as a liquidity reserve that can be sold within one trading day without incurring significant losses. The purpose of the petroleum buffer portfolio is to manage the flow of new funds to the General Pension Fund Global. The portfolio is built up through regular purchases of foreign exchange from SDFI, as well as by Norges Bank buying foreign exchange in the markets. The value of the portfolio was NOK 51.4bn at the end of 2014. Funds are normally transferred to the GPFG monthly, cf. Figure 7 which shows the mechanism for transferring funds to the GPFG.

The Executive Board considers an annual assessment of the strategy and framework for managing foreign exchange reserves. In 2014 the Board made some changes to its management principles<sup>40</sup> by adjusting the limits on risk exposure between the portfolios, but without increasing the overall risk level. The Central Bank Governor determines the reference portfolio and investment guidelines for the long-term portfolio managed by NBIM.

Financial risk and the management of foreign exchange reserves are overseen by the Executive Board through quarterly reports that are published on Norges Bank's website. These reports are reviewed by the Council, which notes that there have been no breaches of the guidelines. It is also satisfied with the reporting relating to

the portfolios and the oversight of the liquidity of the foreign exchange reserves.

### MONETARY POLICY AND FINANCIAL STABILITY

The operational implementation of monetary policy is a core area for Norges Bank. The Supervisory Council supervises the Executive Board's processes and oversight of the Bank's responsibilities in this area. Importance is attached to the Board being open and predictable in its interest rate decisions. The Central Bank Governor's regular briefings to the Supervisory Council include an account of Norges Bank's assessment of the current economic climate. This is also the main theme of the Governor's annual address.

Norges Bank's responsibilities include monitoring Norway's financial infrastructure, cf. the Norges Bank Act, Section 1 and the relevant international principles<sup>41</sup>. It is also part of the oversight committee for the cash settlement system CLS<sup>42</sup>, which is designed to limit the risks associated with the reconciliation and settlement of inter-bank money transfers. In addition, the Bank monitors important developments in the overall payment system, with the aim of promoting financial stability.

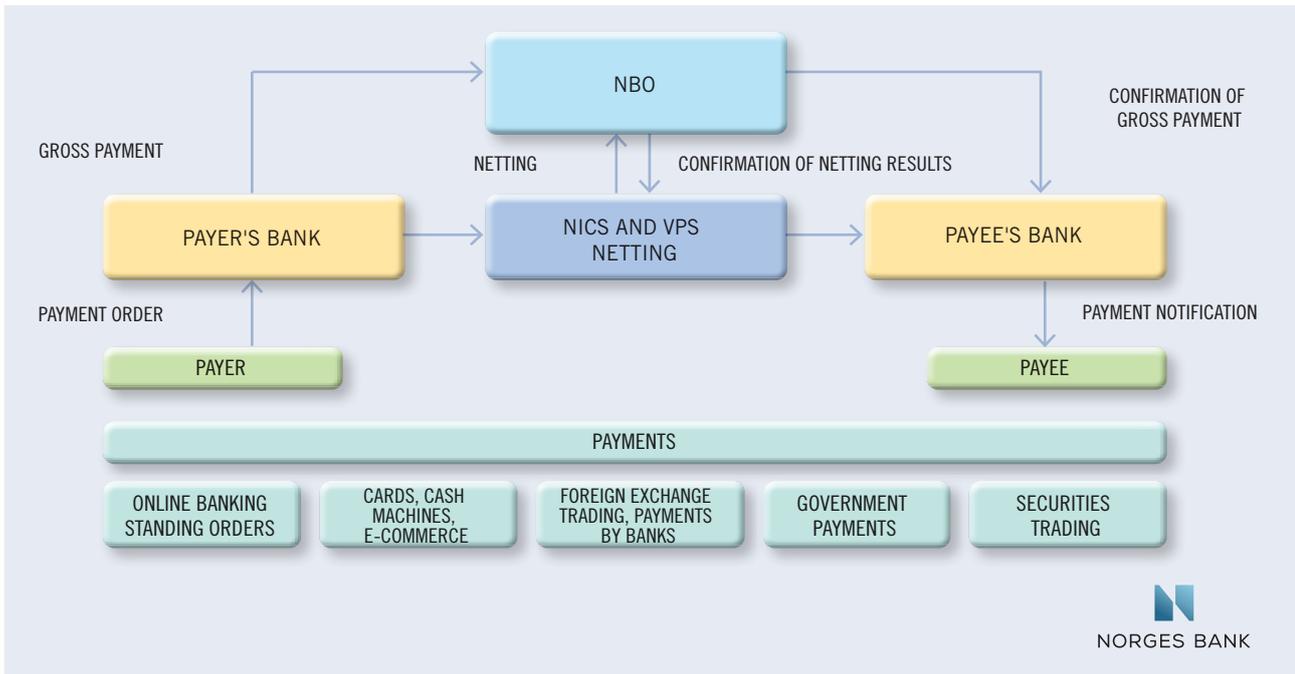
The Supervisory Council receives a monetary policy report with an assessment of financial stability, which is published four times a year. The report includes the central bank's assessment of the outlook for the key policy rate and the need for countercyclical capital buffers at banks. It also receives the Executive Board's annual report on financial stability, which looks more closely at long-term and structural trends in the banking industry that could affect financial stability. The purpose and content of the report are technically outside the Council's immediate supervisory responsibilities, but it provides important background information on the Bank's tasks and implementation of core processes within this area.

<sup>40</sup> Laid down pursuant to the Norges Bank Act, Section 10, first paragraph and Section 24

<sup>41</sup> CPSS Committee on Payment and Settlement Systems, established by BIS. IOSCO, International Organization of Security Commissions. An association of organisations that regulate securities and futures markets

<sup>42</sup> Continuous Linked Settlement. A settlement system for foreign exchange

**FIGURE 8** THE NORWEGIAN PAYMENT SYSTEM



### NORGES BANK'S SETTLEMENT SYSTEM

Norges Bank provides final settlement services for payments between banks in Norway. These services are provided through Norges Bank's settlement system (NBO), cf. Figure 8 which shows the relationships between the parties involved in the Norwegian payment system. The purpose of NBO is to promote an efficient payment system, in order to ensure quick and secure settlement between banks.

The average daily volume of payments handled by the settlement system in 2014 was NOK 213bn. The operation of NBO has been outsourced to EVRY ASA, which is a major supplier of ICT services in Norway. If NBO fails, a significant proportion of payments will not be completed. No significant interruptions in the operation of the settlement system or the availability of core systems were reported during the year. The Executive Board's annual report for 2014 states that the settlement system operated stably. The control procedures at EVRY ASA are documented in annual audit reports.<sup>43</sup>

The settlement system must comply with relevant international standards and requirements for critical infrastructure. Norges Bank is not formally covered by the Financial Supervisory Authority of Norway's ICT regulations, but it uses them as a management framework for its operation and development of ICT solutions for the settlement system. The Executive Board's annual report on the settlement system informed the Supervisory Council that NBO carried out a self-evaluation with respect to international principles for financial infrastructure. It concluded that it complied with the relevant principles. However, risk assessments are increasingly focusing on security threats, and efforts are being made to improve contingency planning.

NBO is defined as a critical service under the Security Act.<sup>44</sup> The National Security Authority (NSM) is responsible for supervision in this area. Norges Bank receives

<sup>43</sup> Assurance Reports on Controls at a Service Organization, issued by the auditor at Evry ASA in accordance with the International Standard on Assurance Engagements (ISAE) 3402

<sup>44</sup> Security Act, Section 17 and the critical asset regulations (Norw.: objektsikkerhetsforskriften)

supervision reports from the NSM, and any nonconformities are addressed and followed up through general reporting on security. Each year, the Bank programmes contingency planning exercises covering the settlement system, the collateral provided by banks and the central government group account. The exercises are carried out internally or in collaboration with external suppliers and parties involved in the payment system.

Norges Bank publishes information about the settlement system in its annual report on financial infrastructure.<sup>45</sup> The Supervisory Council has been kept informed about contingency planning and significant operational events through the annual report on NBO and general management reporting, and notes that steps are being taken to improve contingency measures. The Council is pleased to see that the settlement system achieved high levels of operational stability, as well as having good management and control procedures.

### NORGES BANK'S RESPONSIBILITIES AS ISSUER OF BANKNOTES AND COINS

Norges Bank is responsible for issuing banknotes and coins. This includes deciding on their face value and design. The Bank is also responsible for ensuring that society has access to, and the necessary confidence in, cash as a means of payment, and for promoting an efficient overall payment system. The Supervisory Council is primarily concerned with the considerable inherent risk of misconduct and external threats.

NOKAS AS operates four of the five central bank depots, while the Bank itself is responsible for the depot in Oslo. The depots perform handling services such as stock management, authenticity checks and the destruction of banknotes. Oberthur Technologies in France and Giesecke & Devrient in Germany supply the Norwegian banknotes. Meanwhile, in 2014 the Bank signed a new framework agreement with Det Norske Myntverket AS on the supply of Norwegian coins. The Council was informed about the process used to select the company to supply coins and the Bank's other supplier agreements.

<sup>45</sup> [http://static.norges-bank.no/pages/99257/Finansiell\\_Infrastruktur\\_2014\\_2.pdf](http://static.norges-bank.no/pages/99257/Finansiell_Infrastruktur_2014_2.pdf)

The supervision plan includes set annual tasks in this area. Meetings are held with Norges Bank to obtain information about risks and changes to processes, systems and the management of contractual relationships. Together with Deloitte AS, it carried out a stock check of the holdings at the central bank depot operated by Norges Bank. It also assesses Norges Bank's checks of stocks at suppliers, deliveries of new banknotes and coins, and stock management at the central bank depots.

The Council reviews the Bank's semi-annual reports on notes and coins and relevant management reporting, and is pleased to note that no nonconformities with established procedures were reported in 2014. The Council is of the opinion that the management and control procedures for roles and responsibilities in the area of banknotes and coins are adequate.

The Council has been kept informed about, and has allocated resources to, the ongoing project to develop a new banknote series. Norges Bank has decided on the security features and chosen the motifs for the notes, and the design of the new banknotes will be presented in 2016.

#### **THE CENTRAL GOVERNMENT GROUP ACCOUNT**

Central government deposits at Norges Bank totalled NOK 115.6bn at the end of 2014. An agreement has been reached between the Ministry of Finance and the Bank on the operation and management of the government's accounts, which is to be performed in accordance with the regulations on financial management in central government and the guidelines for settlement accounts in the group account system. Norges Bank is responsible for implementing and overseeing the agreement's stipulations on security, backup and contingency planning, including those performed by EVRY ASA under contract from Norges Bank.

Under the agreement, an annual assurance statement is to be issued on Norges Bank's compliance with these requirements. For 2014, Deloitte AS issued a statement including an assessment of control procedures and compliance with the security and contingency planning requirements. The statement has been considered by the Supervisory Council and forwarded to the Ministry of Finance. The Council is of the opinion that the management and control procedures for central government deposits are adequate.

## CHAPTER 5

# SUPERVISION OF INVESTMENT MANAGEMENT

### MANAGEMENT MODEL, RESPONSIBILITIES AND ORGANISATION

Norges Bank Investment Management is responsible for the operational management of the Government Pension Fund Global and the long-term portfolio in Norges Bank's foreign exchange reserves.

The management model for the GPFG is based on the Ministry of Finance and Norges Bank each having separate, clearly defined responsibilities and roles.<sup>46</sup> The organisation structure and underlying investment strategy is defined by the Storting. Norges Bank must ensure that the GPFG is managed in accordance with its mandate from the Ministry of Finance.<sup>47</sup>

The Executive Board has issued guidelines for investment management in the form of principles, an investment mandate and a job description for the CEO of NBIM, who reports directly to the Board. NBIM's activities are also covered by bank-wide principles adopted by the Board and guidelines issued by the Central Bank Governor. These include supplementary principles to the Regulation on compensation at financial institutions, investment firms and management companies for securities funds.<sup>48</sup> Any principles, guidelines and frameworks adopted by the Board that follow from the mandate for the GPFG are made public.<sup>49</sup>

Operations are run from Oslo. Investment activities are also carried out at Norges Bank's international offices. Organisation development and operations are mainly governed by three-year strategic plans, as well as by annual action plans and budgets. Investment activities are monitored through regular reports on return on investment and risk, through financial statements and through reports on compliance with mandates, operational risk and internal control.

<sup>46</sup> Cf. *Government Pension Fund Act, Section 2*

<sup>47</sup> *Section 1-2 of the mandate states that the Ministry's krone deposit shall be placed in a separate account in Norges Bank. "The Bank shall invest this krone deposit in its own name in a portfolio of financial instruments, real estate and cash deposits and other assets and financial liabilities that the Bank manages in accordance with this mandate (the investment portfolio)."*

<sup>48</sup> *Regulation no. 1507 adopted by the Ministry of Finance on 1 December 2010*

<sup>49</sup> *Follows from Section 6-2 of the management mandate for the GPFG*

### ORGANISATIONAL CHANGES IN 2014

There are three investment areas: equities, fixed income and real estate. In 2014 changes were made to how investment activities are organised. The fixed income and equities portfolios were reorganised across asset classes in accordance with the overall investment strategy.

In the fourth quarter of 2014, Norges Bank Real Estate Management was created as a department of NBIM, cf. Norges Bank's organisation structure in Figure 6. The number of employees in this part of the Bank's operations rose to 65 people including the subsidiary NBIM S.à r.l. Towards the end of 2014, the Executive Board decided in principle to establish an advisory committee for real estate investment decisions. The committee will generally provide advice to the head of real estate management. Investment decisions above defined thresholds must be cleared with the Executive Board. The Board will appoint the members of the committee.

In 2015, work will continue on the reorganisation of real estate management and on producing management documents. For further details, please see Norges Bank's reports on the management of the GPFG in 2014.

The Supervisory Council is given regular updates on the Board's decisions and the reorganisation of real estate management.

NBIM has for a long time made heavy use of outsourcing. In recent years it has been working to simplify procedures for handling transactions. In 2014, the accounting functions and settlement services for equities were brought back in-house. In early 2015, the same will be done for fixed income investments. By then there will be a joint system for transaction and settlement processes. As well as enhancing efficiency, these changes are expected to improve internal control and provide a better basis for reporting. Citibank has been chosen as the new global supplier of depot services, and all of the portfolios have been largely transferred. The Supervisory Council has been informed that the transfer proceeded as expected.

## THE SUPERVISORY COUNCIL'S GENERAL ANNUAL OVERSIGHT

### THE EXECUTIVE BOARD'S OVERSIGHT

The Executive Board has adopted risk management principles for NBIM, including a financial and a reputational tolerance level for operational risk. The principles are regularly reviewed, and the Supervisory Council is kept informed of any changes. In 2014 the Board decided to adjust the risk tolerance levels to reflect the growth of NBIM's operations and investment fund, which has increased the potential financial impacts of any individual event. The revised principles have been sent to the Ministry of Finance for its information, and have been published on NBIM's website.

Norges Bank Investment Management's strategy for 2014–2016 has been adopted by the Executive Board and made public. The strategy is anchored in the management mandate for the GPF, and builds on the work done in the previous three-year period. The Supervisory Council has particularly noted the planned growth in real estate management, resulting in a significant increase in staff numbers at the Bank.

In 2014 the Executive Board made some minor changes to its rules of procedure in order to clarify the roles of the CEO of NBIM and the Central Bank Governor in his capacity as chairman of the Board. This was in response to a recommendation in a supervisory report on Norges Bank's advisory role, as discussed earlier in this report.

In conjunction with the quarterly reports on the GPF, presentations were made about investment management, investment performance and risks. These presentations covered changes in market value, returns, the development of the investment universe and compliance with regulatory frameworks. There is considerable interest in the performance of the GPF. The method for measuring returns used in reporting is based on an internationally recognised standard. Under an agreement with the Supervisory Council, Deloitte AS checks the key return data in the external quarterly reports.

## SPECIFIC MATTERS AND TOPICS FOR SUPERVISION IN 2014

### MANAGEMENT FRAMEWORK FOR TAXATION

Norges Bank does not pay any tax on its operations in Norway. As a central bank and manager of government assets, it is also largely exempt from tax on its equity and fixed interest portfolios, as a result of bilateral tax agreements and national rules. In many countries, real estate investments have a different tax treatment from financial investments in equities and bonds.

In its report to the Storting for 2013, the Supervisory Council discussed an assurance statement by Deloitte AS on the framework for management and control of tax in the Bank's management of the GPF. In conjunction with that, the Council asked the Executive Board to issue a statement on the implementation of a management framework for tax on real estate investments.

Based on the management mandate for the GPF and the principles established by the Board, internal guidelines have been adopted to safeguard the financial interests of the GPF within the framework of local legislation, bilateral tax agreements and international standards<sup>50</sup>. External advisors are used to ensure that the Bank's tax affairs are in order.

It is important to the Supervisory Council that the Bank complies with the relevant regulations, and during the year there were discussions about tax-related issues. The Executive Board's response, including implementation of a framework for the management and control of tax, has been noted.

### RESPONSIBLE INVESTMENT

The Supervisory Council oversees that investment activities comply with the current mandate and guidelines, and in recent years there has been a particular focus on the area of responsible investment. Norges Bank has initiated a process to respond to the recommendations arising from past reports on supervisory reviews. This particularly involves management frameworks, reporting procedures and contributions to the development of international

<sup>50</sup> When structuring real estate investments, international standards issued by the OECD or other relevant international organisations are to be taken into account.

standards. Some of this work has been waiting for clarifications that will follow from changes to the management framework of the GPFG.

The Bank has started making adjustments to reflect its revised mandate for the GPFG<sup>51</sup> and the new guidelines on the observation and exclusion of companies within investment management. The guidelines apply to the Council of Ethics and the Bank, which are respectively responsible for providing advice and taking decisions based on set criteria. The changes came into force on 1 January 2015. The Council of Ethics will continue to report to the Ministry of Finance, and members are appointed on the recommendations of the Bank. The Executive Board has set out the principles that govern its recommendations. A recommendation has been made to the Ministry of Finance, which appointed new members as of 2015.

The Executive Board has set up a new sub-committee called the Ownership Committee, which will consider matters relating to exclusion, and then advise the Board. The committee is chaired by the Deputy Central Governor, and has two further members selected from the Board's external members and alternates. NBIM has also established an advisory committee made up of international experts in the field. The department of NBIM responsible for active ownership has also been reinforced.

Reporting on responsible investment is discussed in the annual report on the management of the Government Pension Fund Global. For 2014 the Bank has also issued a separate public report on responsible investment, which is discussed under social responsibility in the Executive Board's annual report for 2014, cf. Section 6 below. The Supervisory Council notes the development of a thorough reporting framework for responsible investment. It is positive that Norges Bank's strategy for NBIM expresses the aim of being a global leader in responsible investment, and puts an emphasis on contributing to the development of international standards. Work is also being done on preparing the Board's principles for responsible investment. The Council will keep itself informed about progress in this area.

<sup>51</sup> The Ministry of Finance revised the mandate based on Meld. St. 19 (2013–2014).

#### **EXTERNAL INVESTMENT MANAGERS**

NBIM has agreements with approximately 70 external investment managers. As part of the Council's regular supervisory activities, the Office of the Supervisory Council and external auditor together visited two managers in India. At the meetings, the main focus was on explaining the business model, organisation structure and procedures designed to ensure that investment management complies with the agreed mandate. Any remarks from the local supervisory authorities were reviewed. Challenges with respect to transparency and alleged corruption in capital markets were also raised, as was compliance with environmental and social responsibility standards.

The two managers visited are relatively small entities with few formal control structures. The impression is that NBIM oversees them closely through the analysis of results and risk, written reports and meetings. The information received from the managers and the assessment of NBIM's oversight did not raise any significant issues requiring further action.

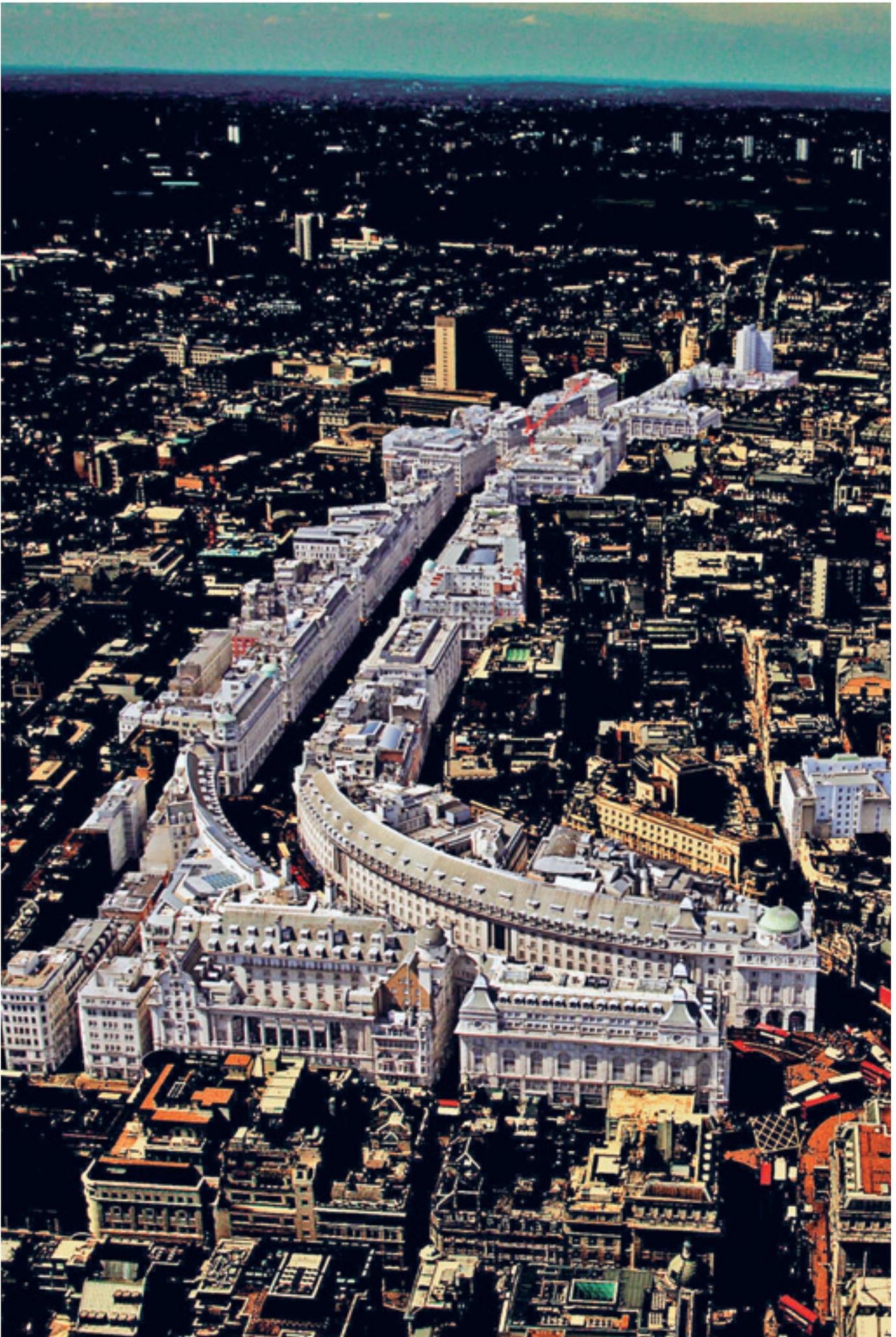
The Supervisory Council is kept informed about external investment managers at a general level through the regular reports on results, special risk factors and expenses.

#### **INVESTMENTS IN UNLISTED COMPANIES**

The mandate for equity management in the GPFG restricts investment to listed companies. However, an exception is made for unlisted companies that are in the process of being listed, known as pre-IPO<sup>52</sup> companies. In 2012 NBIM made such an investment in the unlisted company Delta Topco Limited (Formula 1). However, the IPO was delayed, and has not yet been completed.

This investment has since 2012 been reported in quarterly reports and in Norges Bank's annual reports. As a supervisory body the Council is not involved in decision-making processes, but it has been informed of the investment through ordinary internal and external reporting.

<sup>52</sup> An Initial Public Offering (IPO) is a new issue of securities and a first-time sale of shares to the general public with the aim of listing the company on a stock exchange.



The picture shows Norges Bank's real estate investments in the area around Regent Street in London.

In view of the large amount of public attention surrounding the legality of the investment in 2014<sup>53</sup>, the Supervisory Council requested an explanation from the Executive Board. The Board issued a statement on the risk factors, decision-making processes and management frameworks for this kind of investment, and argued that the investment complied with the management mandate at the time of investment.<sup>54</sup> The Council noted this statement.

The Office of the Supervisory Council also carried out an independent review of whether the investment complied with the mandate and whether the process surrounding NBIM's assessment of its own compliance with the mandate had been satisfactory. The law firm Thommessen AS and Deloitte AS assisted with this work. The Supervisory Council noted that once again the conclusion was that the investment complied with the mandate at the time of investment.

#### **MANAGEMENT AND CONTROL OF REPUTATIONAL RISK ARISING FROM INVESTMENTS BY THE GOVERNMENT PENSION FUND GLOBAL**

There are high expectations for Norges Bank's management of the GPF. The government's stated ambition, as expressed in the general government budget for 2015, for example, is for the GPF "to be the world's best managed fund". This involves "seeking to identify leading international practice in all areas of investment management and striving to match it". Moreover, an earlier white paper<sup>55</sup> pointed out that successful, long-term management of the Government Pension Fund is dependent on widespread support for, and trust in, the way in which it is managed.

<sup>53</sup> Norges Bank provided information about the investment to the Storting's finance committee during its consideration of the reporting on the Government Pension Fund in 2013.

<sup>54</sup> The mandate for the management of the Government Pension Fund Global of 8 November 2010 was in force when the investment was made. The relevant rules were set out in Section 3-6. "The Bank may invest the portfolio in financial instruments and cash deposits that are approved in accordance with section 5-10, but this is limited to:

- a) tradeable debt securities and other tradeable debt instruments (...)
- b) equities listed on a regulated and recognised market place, listed securities that are equivalent to listed equities (...)
- c) securities as mentioned in letter b in unlisted companies in which the board has expressed an intention to seek a listing on a regulated or recognised market place"

<sup>55</sup> Meld. St. 15 (2012–2013) *The management of the Government Pension Fund in 2010*

The investment mandate states that the Bank shall seek to achieve the highest possible return with moderate risk. It sets out requirements in relation to risk management, reporting and responsible investment, but there are no explicit requirements with respect to managing reputational risk. The Executive Board is responsible for establishing a management system that meets the requirements and expectations for the management of the GPF. The Supervisory Council believes that it is essential for this management system to also safeguard the good reputation of Norges Bank and the fund.

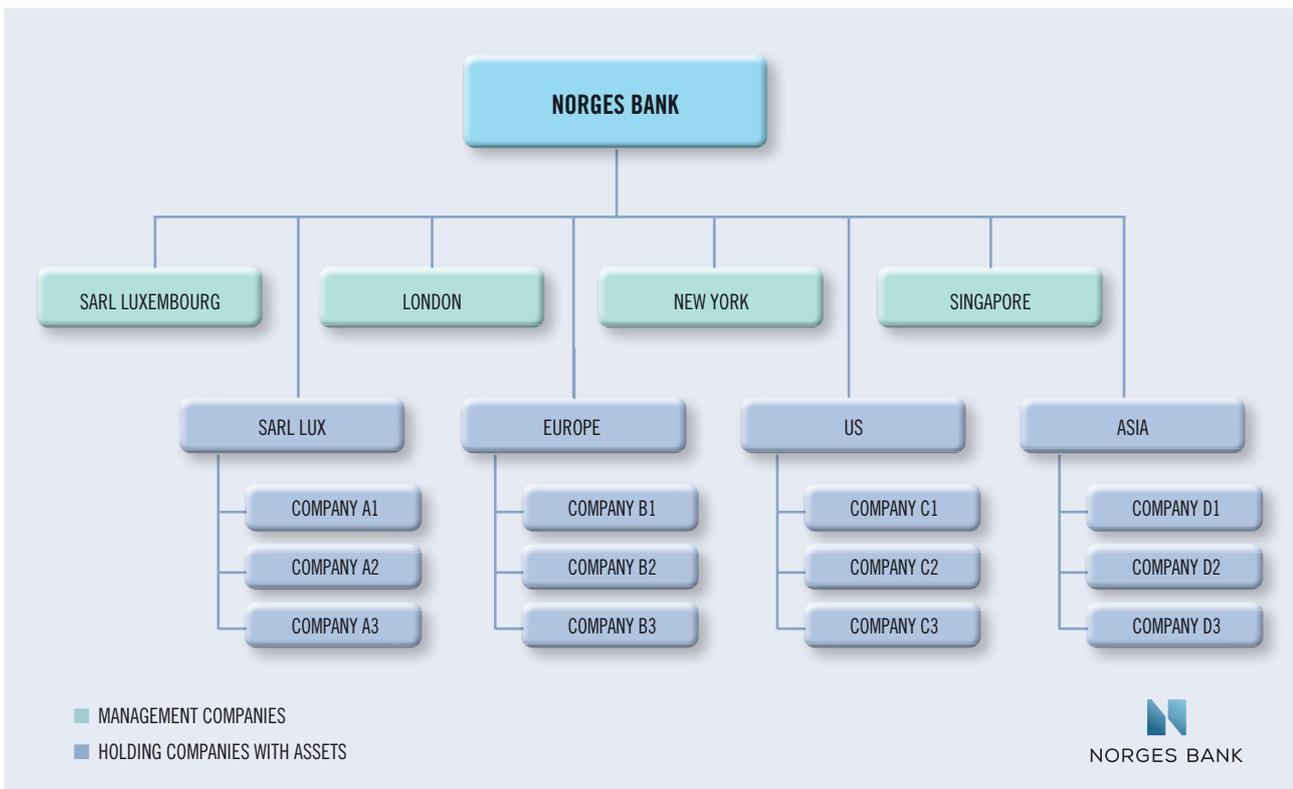
In accordance with the supervision plan for 2014, a supervisory review looked at how the Bank manages and controls reputational risk arising from its management of the GPF. The review covered the general management framework as well as areas such as investment in unlisted companies, real estate investments, expansion of the investment universe and the selection of external investment managers.

There are few established standards in these areas and practice varies. Consultants from Deloitte's international organisation helped to establish the assessment criteria for the review, and measure the results against best practice.

The review confirmed that the Executive Board gives high priority to maintaining the reputation of Norges Bank with the Norwegian people, politicians and other stakeholders, as well as to keeping their trust. General principles and tolerance limits have been adopted for the management and control of reputational risk arising from investments by the GPF. NBIM has drawn up procedures for assessing the risk of various kinds of loss of reputation. These procedures were followed in the investment processes reviewed.

The report on the supervisory review recommended that the Board should consider whether the framework for managing and controlling reputational risk could be made clearer and stronger. The Supervisory Council supports the report's conclusions, and will closely follow developments in this important area of risk for the Bank. The Board has confirmed that the recommendations in the report will be considered in conjunction with its work on overseeing investment management.

**FIGURE 9** MANAGEMENT OF SUBSIDIARIES AND HOLDING COMPANIES



### **REAL ESTATE MANAGEMENT**

The management mandate permits Norges Bank to invest up to 5 per cent of the value of the GPFG in real estate. The Bank made a significant number of new investments in property over the past year. In the fourth quarter, 11 listed real estate companies were transferred from the equity portfolio to the real estate portfolio. At the end of 2014, the real estate portfolio was valued at NOK 140.9bn, equivalent to 2.2% of the GPFG. Real estate investments are owned and operated through companies that are either wholly owned by Norges Bank, or jointly owned with partners, cf. more detailed discussion below.

The Office of the Supervisory Council holds regular meetings with NBIM, and is kept informed about recent transactions, oversight procedures and organisation development within the area of real estate management. A meeting was also held with one of the Bank's real estate management partners in the United States, with the external auditor present. The partner's business model, organisation structure and current management and control mechanisms were reviewed. Legal and regulatory issues surrounding real estate investment in the United States were also explained. Some of the partner's operations are supervised by the Federal Reserve and stock exchange.

The Supervisory Council's impression is that NBIM closely monitors its real estate portfolio in collaboration with its partners. The Council is kept informed of the latest developments in the Bank's real estate portfolio through quarterly reporting.

### **FRAMEWORK FOR THE ESTABLISHMENT OF SUBSIDIARIES FOR REAL ESTATE INVESTMENTS UNDER THE NORGES BANK ACT, SECTION 8A**

Based on the findings of a supervisory review in 2013, the Supervisory Council has refined the guidelines on the establishment and supervision of the Bank's subsidiaries. The emphasis has been on ensuring that the Council has real and effective supervisory powers. This reflects the stipulation in Section 8a of the Norges Bank Act that the Council is responsible for supervising any companies owned wholly or partly by the Bank that perform commercial activities. The Council has been given the power to decide whether to establish such companies, so that they cannot be set up without adequate guarantees of the Council's ability to supervise and control them.

The Bank has established a new structure for real estate subsidiaries, which distinguishes between operating companies with employees who perform support functions, and holding companies that merely own real estate, cf. Figure 9. The nature of the operating subsidiaries means that their establishment must be presented to the Supervisory Council for approval under Section 8a of the Norges Bank Act. The Executive Board has revised the principles governing the establishment and acquisition of subsidiaries involved in real estate investments within the GPFG. One important change is that the fund must report more fully to the governing bodies on its real estate investments.

Towards the end of 2014, the subsidiary NBIM S.à r.l. was established in Luxembourg pursuant to the Norges Bank Act, Section 8a. The Council has also approved that activities related to real estate investment can be carried out by three further regional operating companies that are currently being set up in London, New York and Singapore.

The Council believes that the new structure makes the distinction between operating and investment activities clearer, while safeguarding the Council's responsibility for supervision and its authority under Section 8a of the Norges Bank Act.

### **AUDITS AT SUBSIDIARIES**

The Supervisory Council has decided that as a general rule Norges Bank's external auditor shall also be appointed auditor to subsidiaries and associates where the Bank wields significant influence. Statutory audit requirements vary from country to country, and often depend on the type and size of company. Companies that own real estate and companies requiring a statutory audit are always audited. This also normally applies to companies covered by Section 8a of the Norges Bank Act on companies owned by the Bank.

For other subsidiaries, the Council has reassessed the audit model, with the aim of streamlining the preparation of financial statements and auditing. For companies in the United States the new model was introduced in the 2014 financial year, and it will be introduced elsewhere in 2015. When appointing the auditor for subsidiaries, the Bank consults with the Office of the Supervisory Council.



## CHAPTER 6

# NORGES BANK'S BUDGET AND FINANCIAL STATEMENTS

Under the Norges Bank Act<sup>56</sup>, the Executive Board must each year propose a budget for the coming year. The budget is adopted by the Supervisory Council and communicated to the Ministry of Finance. The Executive Board is also to produce an annual report and annual financial statements, which are adopted by the Supervisory Council. In accordance with the Norges Bank Act, the annual report, audited annual financial statements, auditor's report and Council's formal adoption of the annual financial statements are sent to the Ministry of Finance for submission to the King and are communicated to the Storting.

### BUDGETING AND ACCOUNTING PROCESSES

#### BUDGET RULES AND PROCESS FOR APPROVING THE BUDGET

The Supervisory Council has adopted budget rules for Norges Bank, while the Executive Board has adopted supplementary financial rules. In its consideration of the budget, the Supervisory Council ensures that the financial resources allocated reflect the Bank's responsibilities and operations. The budget decision covers operating income, operating expenses and investment for the two operational areas. The approved budget is based on estimates, assumptions and uncertainty factors submitted by the Board.

Investment income from the Bank's central banking operations and investment management activities is not included in the budget. This investment income is very hard to predict due to fluctuations in exchange rates and markets.

In recent years, the Bank's investment income (excluding the GPFG) has fluctuated between NOK -6.7bn in 2009 and NOK 90.2bn in 2014.

For the Bank, there is no risk associated with variations in income from the GPFG, as all such income is allocated to the central government.

The Council reaches separate decisions on proposed investments and activities that run for more than one year.

Approval may be given for funding covering the whole of the planned period until the investment or activity is finally completed.

The Ministry of Finance reimburses the Bank for the actual cost of managing the GPFG's investment portfolio, subject to an upper limit on annual management costs. The Ministry calculates this upper limit as a percentage of average assets under management. Some of the fees paid to external investment managers if they outperform reference indexes do not count towards the limit on management costs.

The current budget rules for the Bank have been in force since the 2013 budget year. In 2014 the Office of the Supervisory Council and Deloitte AS carried out a joint evaluation of the rules, and their findings were considered by the Council. The evaluation was based on discussions at the Council and the Bank's experience of the process for preparing budget proposals. It looked at whether the budget rules support the Council's process for approving the budget and its supervision of the Bank's expenditure.

The evaluation found that budget documents and the Board's reports to the Council on the Bank's results and expenditure could be better adapted to the needs of the Council.

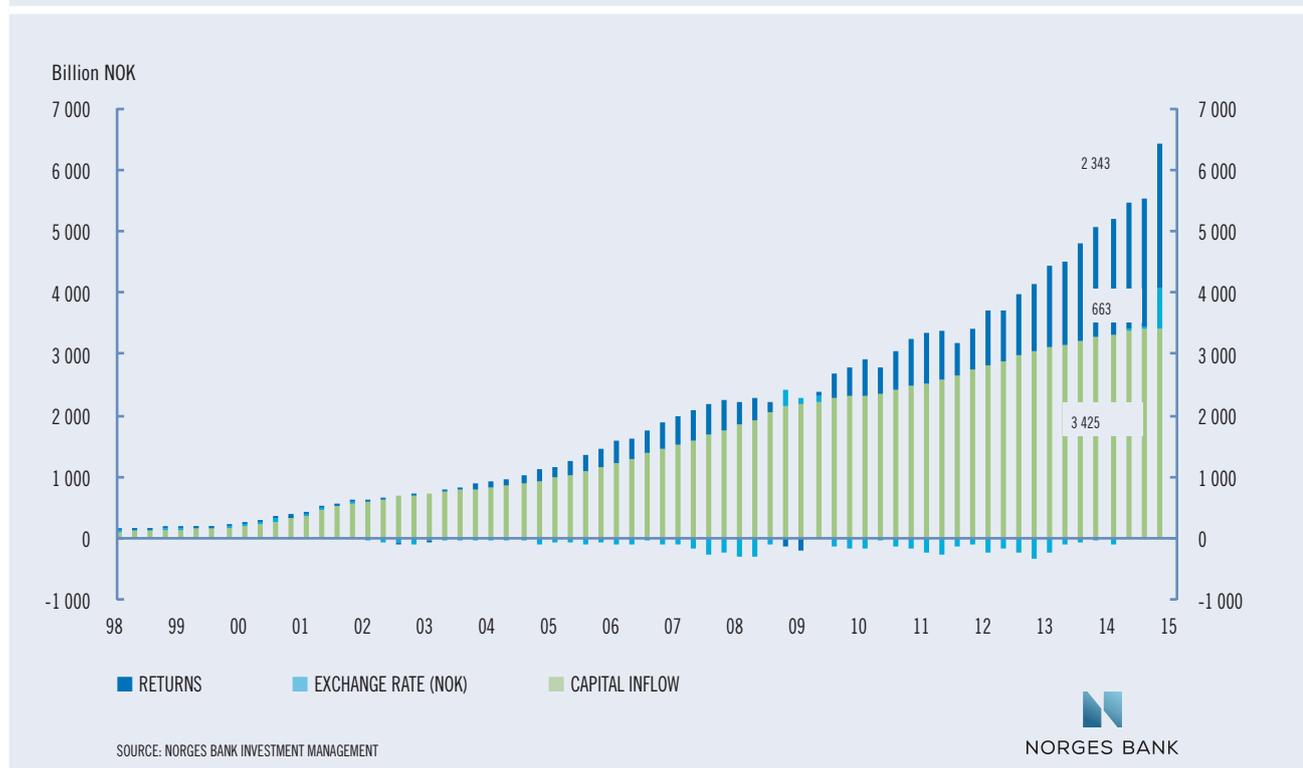
The resulting report recommended specific changes to the budget rules. These particularly related to uncertainties arising from the fact that significant expense items are sensitive to fluctuations in exchange rates, prices and volumes. Changes were also recommended to investment budget proposals. Expenses at real estate subsidiaries within the GPFG were discussed separately.

The Supervisory Council supported the conclusions of the evaluation. A proposal for changes to the budget rules will be considered in spring 2015. As a result of the changes to the budget rules, the Executive Board will need to reassess its framework for financial management.

<sup>56</sup> *Norges Bank Act, Sections 29 and 30*

**TABLE 3** CONDENSED BALANCE SHEET FOR NORGES BANK AT 31/12/2014

MILLIONS OF NOK	2014	2013
Financial assets	511 503	377 564
Investments, GPFG	6 427 537	5 034 846
Other non-financial assets	2 204	2 080
<b>Total assets</b>	<b>6 941 244</b>	<b>5 414 490</b>
Deposits from banks, etc.	77 800	74 672
Deposits from the Treasury	115 632	89 464
Banknotes and coins in circulation	53 016	54 060
Other liabilities	61 783	34 751
Deposits in krone account, GPFG	6 427 537	5 034 846
<b>Total liabilities</b>	<b>6 735 768</b>	<b>5 287 793</b>
Equity	205 476	126 697
<b>Total liabilities and equity</b>	<b>6 941 244</b>	<b>5 414 490</b>

**FIGURE 10** ACCUMULATED CHANGES IN THE GPFG'S MARKET VALUE 1998–2014

### PROCESS FOR THE ANNUAL FINANCIAL STATEMENTS AND OTHER FINANCIAL REPORTING

The Executive Board produces an annual report and annual financial statements for Norges Bank, which also incorporate financial reporting on the management of the GPFG. The proposed annual financial statements and annual report are to be adopted by the Board no later than three months after the end of the financial year. In conjunction with adopting the annual financial statements, the Council takes note of the Board's annual report. The external auditor's reports on the annual financial statements of Norges Bank and the GPFG are considered at the same time.

The annual financial statements and the Board's annual report are prepared and presented in accordance with the Accounting Act's rules for large enterprises and the Regulation on the annual financial statements etc. of Norges Bank.<sup>57</sup> These financial reports must be prepared in accordance with international accounting standards.<sup>58</sup>

Public quarterly and annual reports on investment management at the GPFG must comply with the rules set out in the management mandate. The reports should be as transparent as possible about the GPFG's investments, within the constraints of what is compatible with fulfilling the investment mandate.<sup>59</sup>

Norges Bank is very transparent about its operations and performance, and on its website it publishes its annual report and annual financial statements, quarterly reports on the management of the GPFG, and details of its foreign exchange reserves. It also publishes monthly balance sheets, but these are not reviewed by the Executive Board and Supervisory Council.

The Accounting Act's requirements in relation to social responsibility reporting apply the Bank. Given the public interest in the Bank's operations, the Council has stressed the importance of the Executive Board paying adequate

attention to reporting in this area. The Board's annual report for 2014 includes an overview of Norges Bank's work on corporate social responsibility, and Deloitte AS has confirmed in its audit report that this presentation complies with the statutory requirements.

### NORGES BANK'S ANNUAL FINANCIAL STATEMENTS FOR 2014

Norges Bank's annual report and financial statements, as well as the financial reporting on the management of the GPFG for 2014, were considered at the Supervisory Council's meeting of 12 March 2015. The Supervisory Council approved the annual financial statements and the allocation of comprehensive income for 2014 proposed by the Executive Board. Deloitte AS's audit opinions, which contained no qualifications, were noted by the Supervisory Council. The audit report for the audit of the financial statements for 2014 was also reviewed.

Norges Bank's financial statements for 2014 show a total profit of NOK 89,198m for the year (2013: NOK 53,359m). This profit mainly comprised net income from financial instruments held in the foreign exchange reserve and exchange rate fluctuations. In local currency terms, net income from shares and long-term fixed income investments came to NOK 31.5bn. The weakening of the Norwegian krone also increased the value of the foreign exchange reserves by NOK 58.7bn. The operating profit for 2014 and the Council's oversight of expenditure are discussed below.

Norges Bank's balance sheet showed total assets of NOK 6,941bn at the end of 2014, cf. Table 3.

The value of the Government Pension Fund Global's krone account was NOK 6,427bn at the end of 2014. Figure 10 shows the accumulated changes in its market value from 1998 to 2014. In 2014 it rose in value by NOK 1,393bn, made up of NOK 147bn of transfers from the government, NOK 702bn of exchange rate gains and NOK 544bn of investment income before exchange rate adjustments (2013: NOK 691.5bn). The return on investment was 7.6%, which was 0.8 percentage points lower than the reference index against which the GPFG is measured. Investment income does not have any impact on the

<sup>57</sup> Laid down by the Ministry of Finance and effective from financial years starting after 31/12/2010

<sup>58</sup> International Financial Reporting Standards (IFRS) as adopted by the EU

<sup>59</sup> Management mandate for the Government Pension Fund Global, Section 6 Public reporting

**FIGURE 11** NORGES BANK'S BALANCE SHEET EXCL. GPFG AT 31 DECEMBER 2014

central bank's profit and equity, and is recognised directly in the GPFG's krone account.

Norges Bank had NOK 205.5bn in equity at 31 December 2014, compared with NOK 126.7bn at 31 December 2013. The equity comprises the exchange equalisation reserve and transfer fund. At the end of 2014, NOK 184.6bn of this related to the exchange equalisation reserve and NOK 20.8bn to the transfer fund after a provision of NOK 10.4bn had been made for funds to be transferred to the Treasury.

Under Section 30 of the Norges Bank Act, the King lays down guidelines for provisions and allocations of the Bank's profit.<sup>60</sup> Decisions regarding transfers from Norges Bank to the government are subject to approval by the Storting. The last transfer to the Treasury was made in 2001.

The balance sheet includes assets employed in the central bank's operations and assets held by the Government Pension Fund Global. The balance sheet for central banking operations excluding the GPFG is shown in Figure 11. Total assets at 31 December 2014 amounted to NOK 513.7bn, an increase of NOK 134.1bn over 2013.

<sup>60</sup> Guidelines issued by the King in Council on 7 February 1986, most recently revised by Royal Decree of 6 December 2002. Current rules on the allocation of profit:

- Exchange equalisation reserve
  - Profit is allocated to the exchange equalisation reserve if the value of the reserve is less than 40% of net foreign exchange reserves plus 5% of domestic securities
- Transfer fund
  - Any profit over and above this is allocated to the transfer fund
  - A third of the balance of the transfer fund shall be transferred to the government when the annual financial statements are published.

The Supervisory Council has reached the following decision on the financial statements for 2014:

- The Supervisory Council takes note of the Executive Board's Annual Report for 2014.
- The Supervisory Council takes note of the auditor's report and adopts Norges Bank's financial statements for 2014.
- In accordance with the guidelines, the comprehensive income of NOK 89.2bn is to be transferred to the exchange equalisation reserve (NOK 57.9bn) and to the transfer fund (NOK 31.3bn).
- A third of the transfer fund, or NOK 10.4bn, is then to be transferred to the Treasury.

## OVERSIGHT OF EXPENDITURE IN 2014

Norges Bank's operational budget for 2014, which was adopted by the Supervisory Council on 19 December 2013, budgeted for a net loss of NOK 842m, and NOK 339m in investment. In 2014 additional funding of NOK 90m was approved for investments in three separate projects. The Bank's expenditure is discussed in its annual report and annual financial statements for 2014.

The Council oversaw the Bank's expenditure by reviewing semi-annual management reports and internal accounts. Net operating expenses totalled NOK 720m in 2014, which was significantly below budget. One of the main reasons for this was a reduction in the pension expense due to changes in the methodology used to calculate liabilities in public pension plans. Viewed in isolation, the weakening of the Norwegian krone increased operating expenses at NBIM by around NOK 330m compared with the 2014 budget, while net operating expenses were lower.

The cost of managing the GPFG was NOK 3,296m. The Ministry of Finance set an upper limit on the reimbursement of these costs of 9 basis points (0.09 per cent) of average assets under management before performance-based fees to external managers. After deducting



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NOK 649 million of performance-based fees, management costs as a percentage of the GPFG's assets fell from 5.0 basis points in 2013 to 4.7 basis points in 2014. The costs incurred in 2014 were reimbursed in their entirety by the Ministry of Finance.

Norges Bank had 755 employees at the end of the year, against 693 at the end of 2013.<sup>61</sup> Of these, 327 (2013: 323) worked at Central Banking Operations and 428 (2013: 370) at NIBM.

The Supervisory Council is satisfied that the Executive Board managed expenditure in 2014 in line with the budget rules for Norges Bank and the approved budget. It notes that the cost of managing the GPFG was well below the limit set by Ministry of Finance.

#### **THE SUPERVISORY COUNCIL'S BUDGET DECISION FOR 2015**

Norges Bank's budget for 2015 was adopted by the Supervisory Council on 11 December 2014, based on information presented by the Executive Board. Total net operating expenses are estimated to come to NOK 4,901m, and a NOK 894m operating loss has been budgeted for. In total, NOK 411m of investment has been approved for 2015.

The budgeted cost of managing the GPFG in 2015 is NOK 3,882m. The Ministry of Finance has decided to keep the limit on the reimbursement of the Bank's costs at 9 basis points of average assets under management. Although budgeted costs are slightly higher than for 2014, they are still well below this limit.

In conjunction with adopting the budget, the Council took note of the 2015 operating budgets for subsidiaries, which came to NOK 103m.

For 2015, NOK 43.2m was budgeted for the Supervisory Council, Office of the Supervisory Council and external auditor. This increase of NOK 8.3m over the actual expense in 2014 can be explained by higher staff numbers

and the use of external consultants in both Norway and the rest of the world.

<sup>61</sup> Staff at the Office of the Supervisory Council are not included in these figures. For details of the Supervisory Council's expenditure, see the relevant section earlier in the report.

## CHAPTER 7

# ASSESSMENT OF THE EXECUTIVE BOARD'S MANAGEMENT AND CONTROL

In accordance with Section 5 of the Norges Bank Act, the Supervisory Council “...issues a statement on the minutes of the meetings of the Executive Board, the supervision of the Bank and matters submitted to it by the Executive Board.”

The minutes of all of the Executive Board meetings in 2014 have been reviewed by the Council. This is an important element of the Council's supervisory activities, as it provides an overview of the matters considered by the Board and of its decisions on specific matters. The Supervisory Council made no particular remarks on the Board's minutes.

Around 45 per cent of the matters considered by the Board were presented to the Council. The Council also reviewed reports by the Office of the Supervisory Council and Deloitte AS dealing with the Board's management and control. The Central Bank Governor attended the Supervisory Council's meetings, answering all of the questions that were put to him and providing supplementary information. Some supplementary statements were made about the matters considered by the Board and its minutes. The Council received all of the information that it requested.

The Supervisory Council notes that the Board regularly updates its management framework and responds to reports on corporate governance, operational risk and internal control. During the year, a number of issues and risk-reduction measures were reported in various areas. The Executive Board and operational areas are continuously working to evaluate and improve the framework for management and control.

The management of the GPFG is regularly reviewed by the Supervisory Council. Special attention has been given to compliance with laws, mandates and guidelines issued by the Ministry of Finance. The importance of the Executive Board following up individual issues has been stressed during discussions on specific matters considered by the Board and supervisory reviews. In 2014, this applied to areas including risk management, decision-making processes and the management framework for investments in unlisted companies. The Council engaged in a constructive dialogue with the Board about

establishing a framework for controlling and supervising real estate investment activities.

The Board and the operational areas respond systematically to decisions and recommendations arising from the Council's consideration of supervision and audit reports, as well as of matters passed on to it by the Board. Past recommendations on the establishment of subsidiaries and tax management have been followed. It is very important that the Supervisory Council is kept up-to-date and is adequately involved.

The Executive Board's overall annual assessment of internal control and risk factors has been presented to the Supervisory Council. The Bank's operations were carried out in accordance with the Norges Bank Act, the management mandate for the GPFG, and the Regulation on risk management and internal control at Norges Bank. The supervision of the Bank's operations and compliance with the rules governing its activities gave no grounds for particular remarks under the Norges Bank Act. The Council is of the opinion that the Executive Board exercised satisfactory management and control of Norges Bank in 2014. It has noted the Board's assessment of internal control and risk exposure, and has asked that it be kept informed about the implementation of risk-reduction measures.

## CHAPTER 8

# PRIORITIES FOR FUTURE SUPERVISORY ACTIVITIES

The Supervisory Council performs its work in accordance with its own strategy for the period 2013–2015.<sup>62</sup> In 2015 it will work on its strategy for the next three-year period, which will be based on the Council's self-evaluation and developments in Norges Bank's operations. It will be very important to continue developing the Office of the Supervisory Council and to make effective use of external expertise, particularly in relation to the supervision of investment management.

The Executive Board's new strategy for Norges Bank stresses the importance of it being a transparent and well-run central bank which uses resources prudently and responsibly. Work on modernising and further developing its core activities will continue. In its management of the Government Pension Fund Global, Norges Bank aims to build up assets for future generations. The Supervisory Council is closely monitoring the Board's implementation of this strategy, the adjustments to the management framework and the annual action plans. There is a particular emphasis on risk management and risk reduction, responding to significant events and internal control.

The Council has adopted a supervision plan for 2015 that sets out priority areas. Supervision will be particularly important in relation to changes in Norges Bank's regulatory framework and responsibilities, including the implementation of proposals in white papers on the GPF<sup>63</sup>, and revisions to mandates. The GPF's growing investment in real estate, including the establishment of new subsidiaries and changes to NBIM's organisation, will continue to receive special attention. The Executive Board's work on security and contingency planning, secure ICT systems and the use of external suppliers are continuously monitored.

New guidelines on the observation and exclusion of companies from the GPF came into force on 1 January 2015. In conjunction with the transfer of the decision-making authority for exclusion to Norges Bank, the Council's supervisory role will be investigated. The Executive

Board's processes for responding to recommendations from the Council of Ethics will be reviewed. An investigation will be initiated into a suitable supervision and auditing model for real estate investments, including subsidiaries.

Supervisory reviews are planned for selected risk areas, and will draw on relevant external expertise. Priority areas for these reviews include overall corporate governance, management of outsourced activities, addressing money laundering and corruption risk, country risk associated with investments and the security of Norges Bank's settlement system. An assurance engagement will look at the framework for unlisted investments.

The Supervisory Council's budget rules for Norges Bank will be revised in accordance with the assessments and recommendations of a report published in 2014.

The engagement agreement with the external auditor Deloitte AS runs until the end of the 2015 financial year. In the course of 2015 the Council will carry out a process to select an external auditor for Norges Bank for a period of up to six years.

<sup>62</sup> An excerpt from the strategy was presented as Figure 1 in the Council's report to the Storting for 2013

<sup>63</sup> Including Meld. St. 19 (2013–2014). Section 5 Development of the management framework of the Government Pension Fund



# APPENDIX

## NORGES BANK'S SUPERVISORY COUNCIL 2014–2015

### SUPERVISORY COUNCIL

Full members	First elected	Current term	Alternates
Reidar Sandal, chairman	2010	(2014–2017)	Tore Nordtun
André Støylen, deputy chairman	2014	(2014–2015)	Lars Tvete
Tormod Andreassen	2008	(2012–2015)	Beate Bø Nilsen
Vidar Bjørnstad	2012	(2012–2015)	Hans Kolstad
Eva Karin Gråberg	2004	(2012–2015)	Rita Lekang
Runbjørg Bremset Hansen	2004	(2012–2015)	Camilla Bakken Øvald
Toril Hovdenak	2014	(2014–2017)	Hans Aasnæs
Peter Meidell	2014	(2014–2017)	Brage Baklien
Iver Nordseth	2014	(2014–2017)	Hanne Nora Nilssen
Morten Lund	2010	(2012–2015)	Torunn Hovde Kaasa
Frank Sve	2006	(2014–2017)	Tone T. Johansen
Synnøve Søndergaard	2010	(2014–2017)	Hilde Brørby Fivelsdal
Ingebrigt S. Sørffonn	2012	(2012–2015)	Solveig Ege Tengesdal
Paul Birger Torgnes	2014	(2014–2017)	Arne Ståpnes
Randi Øverland	2012	(2012–2015)	Anne Grethe Tevik
<b>Permanent Committee</b>			
Reidar Sandal, chairman			Morten Lund
André Støylen, deputy chairman			Iver Nordseth
Toril Hovdenak			Tormod Andreassen
Frank Sve			Peter Meidell
Synnøve Søndergaard			Eva Karin Gråberg

## PROFILES OF THE MEMBERS OF THE SUPERVISORY COUNCIL

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### **Reidar Sandal**

Chairman of Fjord1 AS and Sunnfjord Næringsutvikling AS.  
 MA from the University of Bergen.  
 Past experience as Minister of Education, Research and Church Affairs, member of the Storting and chairman of its Standing Committee on Finance and Economic Affairs, county councillor, teacher, department director at Sogn og Fjordane County Municipality, CEO of Sunnfjord Chamber of Commerce, chairman of Innovation Norway, chairman of the Ivar Aasen Centre and board member at Investinor AS.



### **André Støylen**

CEO of Sparebankstiftelsen DNB.  
 MBA from BI Norwegian Business School.  
 Past experience includes CFO at the Norwegian Red Cross, commissioner of finance for the City of Oslo, State Secretary at the Ministry of the Environment, consultant at McKinsey & Company and board member at the National Museum.



### **Tormod Andreassen**

Non-executive directorships include Lærdal Finans AS, Civita and SpareBank 1 Nord-Norge Pension Fund. MSc in Economics from the University of Oslo.  
 Past experience includes deputy CEO and chief economist at Christiania Bank, chief investment officer and chief economist at SpareBank 1 Gruppen AS, CEO of Alfred Berg Norge AS and SR-Fonds, chairman of Berg Fondsforvaltning, department director at Statistics Norway, board member at the Norwegian Commercial Banks' Guarantee Fund and member of Finance Norway's life and pensions committee.



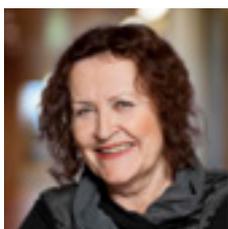
### **Vidar Bjørnstad**

Head of the international department at the Norwegian Confederation of Trade Unions (LO).  
 BA from the University of Oslo.  
 Past experience as member of the Storting, political adviser at the Ministry of Development Cooperation, deputy head of the Military Ombudsman's Committee, member of the board of the European Movement and private secretary to the president of LO.



### **Eva Karin Gråberg**

Department manager at Isfjorden Oppvekstsenter. Deputy chairwoman of Troll-Tinn AS and chairwoman of the Supervisory Council at Tøndergård School.  
 BA from the University of Oslo.  
 Past experience as deputy mayor, headmistress, board member at Nordmøre og Romsdal HF and Nordveggen AS, and board member at the Norwegian Association of Local and Regional Authorities (KS) and the Norwegian Association of Hydropower Municipalities (LVK).



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**Runbjørg Bremset Hansen**

Teacher. Member of the administrative committee in Nærøy Municipality. MA from the University of Trondheim. Past experience as county councillor, deputy mayor, board member at the Central Norway Regional Health Authority and member of the Regional Committee for Northern Norway and Nord-Trøndelag. Author of a history of Nærøy in Nord-Trøndelag.

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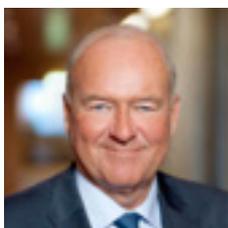


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**Toril Hovdenak**

CEO of Bussbygg AS. Board member at Gjensidige Nordmøre og Romsdal and Molde University College. MBA from Bodø Business School. Past experience as chairwoman of Molde Municipal Pension Fund, deputy mayor, board member at Sparebanken Møre, deputy chairwoman at the Central Norway Regional Health Authority and board member at Istad AS.

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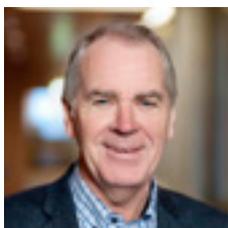


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**Peter Meidell**

Executive chairman at the hardware wholesaler P. Meidell AS. Legal adviser at Foreningen 2 Foreldre. MBA from the University of Wisconsin, Madison USA. LLM from the University of Oslo.

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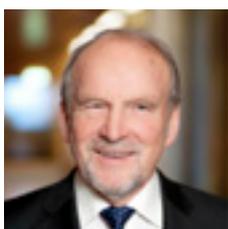


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**Iver Nordseth**

Specialist consultant/business advisor. County executive board member and leader of the Liberal Party group in the county council. Chairman of the Norwegian Association of Windpower Municipalities (LNVK) and board member at Nordmøre Chamber of Commerce and the Norwegian Association of Local and Regional Authorities in Møre og Romsdal. BA from the University of Bergen and University of Trondheim. Past experience as mayor, teacher and board member at Nordmøre Energiverk.

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**Morten Lund**

BSc in Agriculture from the Norwegian College of Agriculture and PhD from the Norwegian College of Agriculture/Norwegian Institute of Technology. Past experience in self-employment and as farmer, researcher at the Norwegian College of Agriculture and the Norwegian Labour Inspection Authority, member of the Storting and chairman of its Standing Committee on Business and Industry, political adviser to the Centre Party's parliamentary group, attending alternate member of the Board of Auditors General, mayor and chairman of Fosen Regional Council and the committee of Sør-Trøndelag Kraftselskap.

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### **Frank Sve**

County executive board member, county councillor and member of the Regional Council for Western Norway. Municipal executive committee member. Chairman of Åknes/Tafjord Beredskap IKS and director of the Local Programming Committee for the Norwegian Broadcasting Corporation in Møre og Romsdal.

Past experience as mayor, production director at Møremøbler/Stokke, and board member at St. Olavs Hospital HF and Innovation Norway Møre og Romsdal.



### **Synnøve Søndergaard**

District secretary at the Norwegian Confederation of Trade Unions (LO) office in Troms, and board member of the RDA II Programme and Innovation Norway Troms.

IT degree from Østfold University College.

Past experience as senior executive officer at the Norwegian Defence Estates Agency, assistant controller at Det Norske Veritas Rotterdam, county council cabinet member in Troms and board member at INKO.



### **Ingebrigt S. Sørffonn**

Self-employed. Chairman of the Egill Danielsen Foundation and eight Danielsen schools. Master of Management from BI Norwegian Business School.

Past experience as member of the Storting, second deputy chairman of its Standing Committee on Finance and Economic Affairs, mayor of Fitjar municipality, managerial positions at Sunnhordland Kraftlag AS and chairman of the Norwegian Inner Mission Federation.



### **Paul Birger Torgnes**

CEO of Fjord Marin Holding AS and deputy mayor. Deputy chairman of NCE Aquaculture and the University of Nordland.

Studied business at the University of Nordland and the Norwegian Fisheries College.

Past experience as CEO of Fjord Seafood ASA and NorAqua, chairman of Torghatten, secretary-general of the Norwegian Aquaculture Association and political adviser to the Minister of Fisheries.



### **Randi Øverland**

Senior advisor at the University of Agder. Chairwoman of the art museum SKMU Sørlandets Kunstmuseum.

Degree from Telemark Teaching College and further studies at the universities of Oslo and Agder.

Past experience as headmistress of Tangen Upper Secondary School, State Secretary at the Ministry of Culture and Church Affairs, State Secretary at the Minister of Education, Research and Church Affairs and municipal executive committee member.

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## DIRECTOR OF THE OFFICE OF THE SUPERVISORY COUNCIL

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### **Svenn Erik Forsstrøm**

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Director of the Supervisory Council's secretariat, the Office of the Supervisory Council.

MBA from Norwegian School of Economics, state-authorized public accountant. Past experience as central bank auditor at Norges Bank and partner at the accounting firm Coopers & Lybrand (now PwC).

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Norges Bank's Supervisory Council  
Report for 2014

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