
NORGES BANK'S SUPERVISORY COUNCIL REPORT FOR 2020

Document No. 9 (2020–2021)



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TO THE STORTING

Norges Bank's Supervisory Council has a statutory duty to submit a statement to the Storting at least once a year on its supervision of the Bank.

The Council has noted the remark made by the Standing Committee on Finance and Economic Affairs in Recommendation 352 S (2019–2020), where the Council is asked to assess whether the form and content of its Report to the Storting lives up to expectations in terms of relevance and reader-friendliness. To address this, the structure of this year's Report has been changed slightly from previous years.

The Council is to supervise the operation of Norges Bank and monitor its compliance with the provisions governing its activities. The Council's duties and responsibilities are regulated in the new Central Bank Act, which came into force from 1 January 2020. Its supervision also covers the management of the Government Pension Fund Global (GPF), which is a substantial task for the Bank and is to be carried out in accordance with a mandate issued by the Ministry of Finance.

Norges Bank's budget for 2021 as proposed by the Executive Board was approved by the Supervisory Council at its meeting of 10 December 2020 and forwarded to the Ministry of Finance.

The Council has considered the Executive Board's annual report for Norges Bank and adopted the annual financial statements for 2020. Norges Bank's equity on 31 December 2020 was NOK 276.8bn, compared with NOK 263.2bn on 31 December 2019. In accordance with the guidelines on provisions and allocations of the Bank's profit, NOK 15bn will be transferred to the Treasury. The annual report on the management of the GPF in 2020 has also been considered.

The Council presents its assessment of the Executive Board's governance and control of Norges Bank in 2020 in this Report. The Report covers the areas specified in the Central Bank Act. The priorities for supervision in 2020 were presented in a separate chapter of Document No. 9 (2019–2020).

Under the Central Bank Act, Norges Bank is to fulfil two key roles in society: to serve as the country's central bank and to manage the GPF. Chapter 1 of this report presents the supervision conducted in 2020, with the topics structured according to the central bank's organisation.

These roles in society are organised into two separate operational areas. The Governor heads Norges Bank Central Banking Operations (NBCBO) and Norges Bank

Administration (NBA), while the Executive Board has delegated the implementation of investment management to the CEO of Norges Bank Investment Management (NBIM).

The Supervisory Council is appointed by the Storting to carry out the supervision of Norges Bank. One important part of this work is to review the Executive Board's minutes during the course of the year. In this context, members of the Council have expressed the view that the Board's minutes could contain more information on important discussions. Questions have been asked on topics such as developments in an extraordinary market situation and challenges for the management of the foreign exchange reserves, contingency plans relating to the Covid-19 pandemic, co-ordination of support functions at Norges Bank, organisational changes, remuneration arrangements for investment management, and costs for IT services. The Governor has provided further information on these issues on behalf of the Executive Board.

The Executive Board's appointment of a new CEO of NBIM, Nicolai Tangen, attracted considerable public interest and was closely monitored by the Supervisory Council. In discussions at meetings and in letters, the Council asked questions about the process leading to the appointment and the employment contract. Potential conflicts of interest between Norges Bank, the management of the GPF and the CEO's previous activities and holdings were specifically discussed.

The Council also asked questions about the potential repurchase of assets transferred to AKO Foundation. In its reply to the Council, the Board stated that AKO Foundation – as the owner of interests in AKO Capital LLP – has given an undertaking not to sell these assets back to Nicolai Tangen. This undertaking applies indefinitely and does not expire on Tangen's departure from Norges Bank. The employment contract and the two deeds of undertaking from Tangen and AKO Foundation respectively dated 1 December 2020 will be revised so that the wording of the parties' undertakings is made identical on this point.

On behalf of the Executive Board, the Governor has provided information on the procedures and controls in place for future follow-up of the employment contract. The Council will monitor the Board's employment contract with the CEO of NBIM and the established control procedures through its ordinary supervision.

The Board has launched a process to update the governance framework, partly in the light of the new Central Bank Act and changes to the management mandate for the GPF, and large parts of this have been completed

and forwarded to the Council. The Board's ethical principles for employees have been updated, and the Council was given a detailed run-through with support from legal experts.

The Council considered reports from four supervisory reviews during the year. The topics were:

- Investments in unlisted real estate – holding structures and governance models
- The Executive Board's frameworks for and organisation of governance and control
- Compliance with rules to combat money laundering and terrorist financing
- Norges Bank's exchange of currency for NOK

The Council also considered two assurance statements, one on the confirmation of internal control procedures in the management of central government debt, and one on the implementation of amendments to the mandate for the GPFG. In addition, Deloitte AS submitted its two regular annual assurance statements on the Bank's management of central government debt and the government's accounts at the Bank.

Supervisory reports and assurance statements are sent to the Executive Board, which provides its response and comments in letters to the Council with information on how the recommendations and assessments will be followed up. These reviews, and the assessments and recommendations therein, together with the Executive Board's response, are presented in this Report. Some topics will continue to be considered in the Council's supervision.

The Council attaches importance to cost efficiency and has followed up the budget process and reporting on costs during the year.

Due to the Covid-19 pandemic, the authorities and Norges Bank have imposed tight restrictions on working in the Bank's offices. This has led to widespread use of digital platforms for holding meetings, and employees worked from home for much of the year. The Governor provided information on security and contingency planning during the year. The Council is of the opinion that, despite these challenges, Norges Bank discharged its duties and responsibilities well.

The GPFG had a market value of NOK 10,914bn at the end of 2020, an increase of NOK 826bn during the year. The market value is affected by investment returns, capital inflows and withdrawals, and exchange rate movements. The return for the year was NOK 1,070bn. Withdrawals by the government came to NOK 298bn after the payment of

management fees. The net income from investment management is credited directly to the krone account for the GPFG at Norges Bank. The Executive Board has stated that it is satisfied that the return both in 2020 and over a longer period has been good and higher than the return on the Ministry of Finance's benchmark index.

Deloitte AS has issued an assurance statement on Norges Bank's reporting on corporate social responsibility, which is presented in the Bank's annual report and financial statements for 2020.

In its future supervisory work, the Council will prioritise topics such as personnel and organisational development, security and contingency planning (including crisis management), and Norges Bank's risk framework for operational risk management.

THE SUPERVISORY COUNCIL'S CONCLUSION FROM ITS SUPERVISION FOR 2020

The Council has received all of the information requested. Its supervision did not merit any particular comments as set out in the Central Bank Act. In the Council's opinion, the Executive Board exercised governance and control of Norges Bank's activities in accordance with the requirements of the Central Bank Act, the Regulation on Risk Management and Internal Control at Norges Bank, and the Management Mandate for the Government Pension Fund Global. Appropriate procedures have been established to ensure that these activities are conducted in accordance with statutes, agreements, decisions and other regulatory provisions.

The Council paid special attention in 2020 to the Executive Board's appointment of, and employment contract with, a new CEO of NBIM. A letter was sent to the Storting on 11 June 2020 and treated as Document No. 9:1 (2019–2020) at a hearing of the Standing Committee on Finance and Economic Affairs on 10 August. The Storting considered the Standing Committee's recommendation on 5 November 2020. Norges Bank has established procedures and control measures for future follow-up of the employment contract, and the Council will conduct ordinary supervision of the Executive Board's work and reporting.

This Report to the Storting was approved at the Council's meeting of 18 March 2021.

Oslo, 8 April 2021

Julie Brodtkorb
Chair of Norges Bank's Supervisory Council

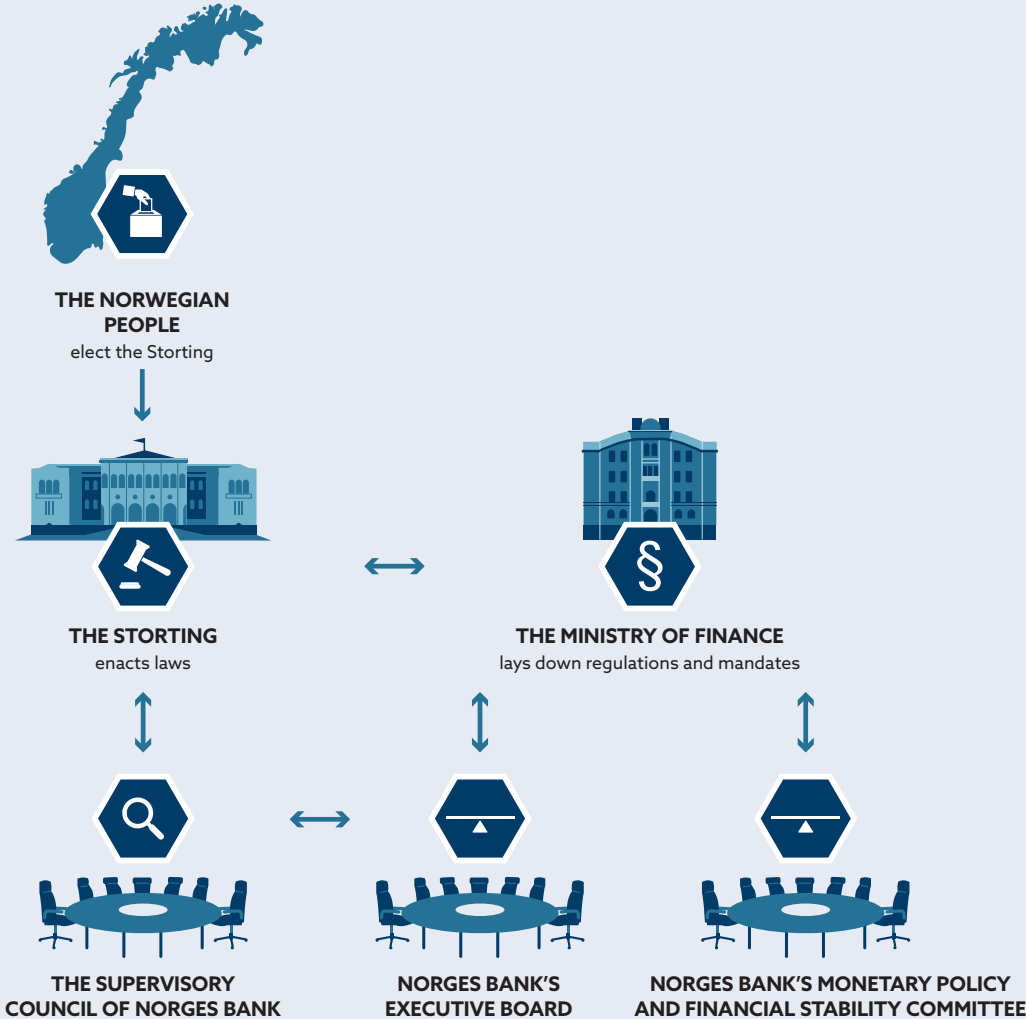
CONTENTS

1	Supervision of Norges Bank in 2020	6
1.1	Supervisory role, mandate and implementation	7
1.2	Supervision of Norges Bank as a whole	9
1.3	Supervision of Norges Bank Central Banking Operations (NBCBO) and Norges Bank Administration (NBA)	17
1.4	Supervision of Norges Bank Investment Management (NBIM)	23
1.5	Follow-up of the employment contract between the Executive Board and the CEO of NBIM	31
2	Norges Bank's annual financial statements and budget	36
2.1	Adoption of Norges Bank's annual financial statements and report on the management of the Government Pension Fund Global for 2020	37
2.2	Auditor's statements on Norges Bank's financial reporting	39
2.3	Reporting on social responsibility	40
2.4	Budget rules for Norges Bank	41
2.5	Norges Bank's expenditure – follow-up of the budget for 2020	41
2.6	Resolution on Norges Bank's budget for 2021	42
3	Priorities for future work	46
	Appendix 1 The Supervisory Council's composition, organisation and expenditure	50
1.1	Composition and profiles of members	51
1.2	Organisation of supervision – activities in 2020	56
1.3	The Supervisory Council's expenditure	61
	Appendix 2 Internal rules for Norges Bank issued by the Supervisory Council	64
2.1	Budget rules for Norges Bank	65
2.2	Rules for loans to employees of Norges Bank	68
2.3	Guidelines for the Supervisory Council's supervision of companies owned by Norges Bank in connection with investments in the Government Pension Fund Global	70

CHAPTER 1

SUPERVISION OF NORGES BANK IN 2020

NORGES BANK'S GOVERNANCE STRUCTURE



1.1 SUPERVISORY ROLE, MANDATE AND IMPLEMENTATION

FRAMEWORK FOR SUPERVISION

Norges Bank's Supervisory Council has been appointed by the Storting – the Norwegian parliament – to conduct supervision of Norges Bank and perform various other duties set out in the Central Bank Act. The Council's working methods and the implementation of its supervision have evolved significantly over time. The new Central Bank Act strengthened the Council's independent role.

The Supervisory Council is independent of both the Executive Board and Norges Bank's administration. A key requirement to carry out a trustworthy supervision is set out in the Act: *"The Supervisory Council shall be entitled to access all information relating to the affairs of Norges Bank and may conduct such enquiries as it deems necessary for the performance of its duties under the Act."*¹ The Council's supervision of the Bank's activities builds on its own assessments of risk and materiality.

The Executive Board is responsible for running the Bank and for setting the Bank's strategy, targets and risk tolerance. It is important to draw a clear line between the responsibilities of the Board and the role of the Supervisory Council. Through its supervision, the Council is to help ensure that the Board establishes sound processes. One key objective is to ensure that resolutions passed by the Council in keeping with its role are considered and assessed by the Board.

The Supervisory Council neither considers nor comments on the minutes and decisions of Norges Bank's Monetary

Policy and Financial Stability Committee.² Nor does the Council's supervision extend to Norges Bank's exercise of discretionary powers with regard to economic policy. The supervision of the Bank's operations will, however, cover processes and documents at Norges Bank that form the basis for such advice and exercise of discretionary powers. The Council is kept informed about the Bank's work in these areas.

RISK-BASED SUPERVISION

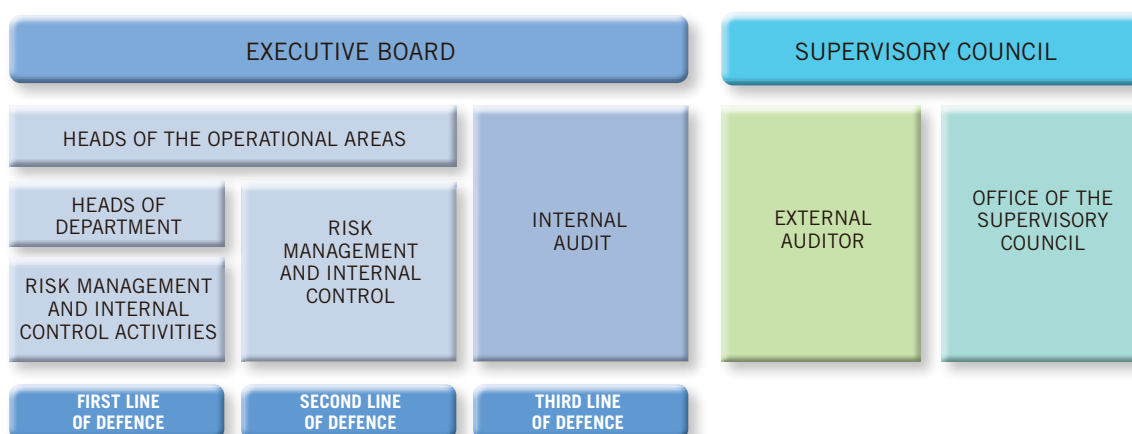
The Supervisory Council's supervision covers all minutes, reports and other discussion documents put before the Executive Board, reports from supervisory reviews, and assurance statements.

In the preparatory work on the Central Bank Act, the Ministry of Finance stressed how important it is that *"Norges Bank undergoes good, risk-based supervision where the supervision is scaled according to material risks."*³

Supervision is conducted based on assessments of risk and materiality concerning the Executive Board's governance and control, running of the operational areas, appropriate and efficient use of resources, and reliability of external reporting on the Bank's activities. It is the Council's own assessment of risk and materiality that underlies its supervision. The Council's supervision attaches importance to Norges Bank's activities being conducted in accordance with the rules thereon set out in laws, regulations, provisions and mandates.

Norges Bank has established a control structure in keeping with other financial institutions, cf. Figure 1. The Supervisory Council uses this control model as a basis for

FIGURE 1 NORGES BANK'S CONTROL MODEL (LINES OF DEFENCE)



its supervisory work. The Council's supervision and the external auditor's work are independent of the internal control structure.

The Council's supervision considers governance, internal controls, working processes and Norges Bank's organisation closely related to compliance with its statutory tasks. The Council must be given a good insight into the governance and control mechanisms that the central bank has established, including the scope and quality of policy documents and the work of the various compliance functions and Internal Audit.

In its white paper on the new Central Bank Act, the Ministry of Finance wrote: *"In its supervisory work, the Supervisory Council should attach importance to both reputational and financial risk if the Bank's operations are not conducted in accordance with applicable laws and rules. The assessment of the financial risk associated with potential breaches of rules should include both the risk to the Bank's own income statement and the financial risk that could burden the Ministry of Finance via the krone account for the GPFG."*⁴

The Council approves annual plans for the work of its secretariat – the Office of the Supervisory Council. The work on a risk-based plan follows the steps presented in Figure 2 below.

FIGURE 2 PREPARATION OF SUPERVISION PLAN



FIGURE 3 SUPERVISORY PROCESSES AND REPORTING



Based on the approved annual supervision plan, the Office performs ongoing supervision, investigations and supervisory reviews in specific areas. During the course of the year, the Council may also approve additional assurance engagements conducted in accordance with international standards⁵ and launch special inquiries where relevant. Figure 3 shows the model for the different forms of supervision, process flows and reporting.

Each of the sections below describes the supervision performed based on the approach illustrated in Figure 3, with ongoing supervision, investigations, supervisory reviews and assurance engagements where relevant.⁶

1.2 SUPERVISION OF NORGES BANK AS A WHOLE

ONGOING SUPERVISION

GENERAL INFORMATION ON THE REVIEW OF THE EXECUTIVE BOARD'S MINUTES

As required by the Central Bank Act, all minutes of Executive Board meetings are submitted to the Supervisory Council.⁷ Consideration of the Board's minutes and the items and reports submitted at its meetings is an important element of the Council's supervision of the Bank, providing an overview of the matters considered by the Board and the decisions reached on specific matters. The Governor and Deputy Governors attend Council meetings and provide information on the items considered by the Board and on its minutes.

During the discussions, questions are asked about developments in risks and the status of measures taken, and the Governor provides answers.

The Supervisory Council was informed about Norges Bank's assessment of execution in the 2017–2019 strategy period. The Council requested a description of areas for improvement and more mention of the Executive Board's own assessments. The Bank's management stated that it had taken note of the Council's request and would take it into account in the next strategy evaluation. On 11 September 2019, the Executive Board approved the document "Strategy 2022 – One Bank".⁸ Strategy documents and action plans were appended to the budget proposal for Norges Bank for 2021 for the Council's consideration.

EXTERNAL COMMUNICATION, TRANSPARENCY AND REPUTATION

The Supervisory Council considers it important for Norges Bank to have a good reputation. Responding to questions

from the Council, the Bank's management provided additional information on the results of a reputation survey for Norges Bank that was presented to the Executive Board in October 2020.⁹ Around 70 percent of respondents stated that they had a relatively or very good overall impression of Norges Bank as a whole. This was a slight decrease from the previous year. The results were weakest for transparency and information, while Norges Bank was considered to score highly on social responsibility and expertise.

In a supervisory review of Norges Bank's periodic public reports in 2019, the Council recommended that the Executive Board should clarify the Bank's target groups in its communication principles. It also recommended that systematic surveys be conducted to test whether the external public reports contain relevant information for the defined target groups.

Responding to the supervisory review, the Board wrote that, in the light of the new Central Bank Act entering into force on 1 January 2020, it would be natural to review its general communication principles. The Board would in this context assess whether it was appropriate to formalise the definitions of the Bank's target groups in the general communication principles, or whether the Bank should continue the practice of defining the target groups at an operational level.

On 25 November 2020, the Board approved updated "Principles for external communication at Norges Bank". These state: "Our main target groups are the general public, the Storting, other political authorities, industry, NGOs, the education sector, academia, other central banks, other funds and investors, foreign authorities, investee companies and global industry."

The Supervisory Council is satisfied that the Executive Board has clarified Norges Bank's target groups in the revised communication principles, and has noted for information the new principles for external communication.

NEW LANGUAGE ACT

The Storting will consider the recommendation of the Standing Committee on Family and Cultural Affairs on a new Language Act¹⁰ on 25 March 2021. Norges Bank will be covered by the new act unless a specific exemption is granted in a regulation. Reports and documents published by the Bank that are intended for the Norwegian public must be made available in Norwegian. Under the propos-

als, at least 25 percent of public documents published in Norwegian are to be in the *nynorsk* form of Norwegian. This also applies if reports are published in English for an international audience. At present, the Bank does not fully comply with these targets.

The Supervisory Council carried out a review of the government's proposals for a new Language Act¹¹ and its implications for Norges Bank during the year. The proposals were summarised in a letter from the Office of the Supervisory Council. If the draft legislation is passed, Sections 18-20 of the act will empower the Language Council of Norway to conduct supervision of compliance with the act.

The Supervisory Council passed the following resolution:

The Supervisory Council notes for information the letter on a new Language Act. Follow-up of a new Language Act will form part of the supervision of Norges Bank's legislative and regulatory compliance.

REPORTING ON RISK MANAGEMENT AND INTERNAL CONTROL

The framework for risk management and internal control at Norges Bank is based partly on the Internal Control Regulation issued pursuant to the previous Norges Bank Act.¹² The regulation requires the Executive Board to "determine the objectives and strategy of Norges Bank and principal guidelines for the Bank's operations." The Bank is to conduct a systematic evaluation of material risks in all its areas of operation. The established internal control is to address the risks identified appropriately. The Board has laid down principles for risk management at Norges Bank both at a general level and specifically for NBCBO and NBIM. The rules are submitted routinely to the Supervisory Council for information.

The Supervisory Council considered quarterly and semi-annual reports from the Executive Board on governance, compliance and control in investment management and central banking during the year. These reports provide an overview of operational risk and internal control activities during the year.

Responding to questions from the Council, information was provided on the extent to which the Bank has been affected by both the extraordinary market situation in the wake of the Covid-19 pandemic and the process of appointing a new CEO of NBIM. Information was also given on the work on unlisted infrastructure, work on responsible investment and the increased funding for

external managers. The Bank's management provided information on the process for organisational changes, including involvement of the trade unions and staff meetings to inform about the plans.

The Executive Board is to submit a risk assessment report for Norges Bank's operations to the Supervisory Council at least once a year. This is a requirement of the Internal Control Regulation: "A summary with conclusions on the risk situation and whether there is a need for action is to be provided for each operational area. The Governor is to conduct an overall review of the risk situation at least once a year. The assessment is to be submitted to the Executive Board for consideration. The head of Norges Bank Investment Management may also present his or her own assessment."¹³

The Council attaches considerable importance to the Board's follow-up and assessment of risk management and internal control. The Board's overall assessment for 2020 was considered by the Council, which passed the following resolution:

The Supervisory Council has taken note of the overall assessment of risk and internal control at Norges Bank for 2020 and is of the opinion that the processes and reporting in place satisfy the requirements of the Central Bank Act and the Internal Control Regulation.

The Central Bank Act requires the Executive Board to have an Audit Committee. The committee is to help strengthen and increase the efficiency of the Board's work on monitoring, oversight and control of financial reporting, operational risk, compliance and systems for risk management and internal control.¹⁴ Among other duties, the Audit Committee is to prepare matters concerning Internal Audit's plans and reporting. Reports from audit projects are discussed in full by the Audit Committee. The Committee sends a recommendation on a decision to the Executive Board along with a summary of the discussion. The implementation of actions resulting from these recommendations is followed up as part of standard line management reporting. The Audit Committee discusses internal Audit's annual report.

The Supervisory Council meets the chair of the Audit Committee annually. Information is provided on the committee's work and view of risk management and internal control at Norges Bank and on the Executive Board's audit plan for Internal Audit. These meetings give the Council a

good insight into the Board’s overall work on risk management and internal control.

Internal Audit performs audits based on a set audit plan. In 2020, the Board considered 13 audit projects: six concerned investment management, three concerned central banking, and four covered both operational areas. In addition, Internal Audit verified that the implementation of remuneration arrangements for employees of NBIM and NBCBO in 2020 complied with the Board’s remuneration policy.

The Supervisory Council does not consider reports from Internal Audit, but they are reviewed by the Office of the Supervisory Council as part of its ongoing supervision and supervisory reviews of relevant topics.

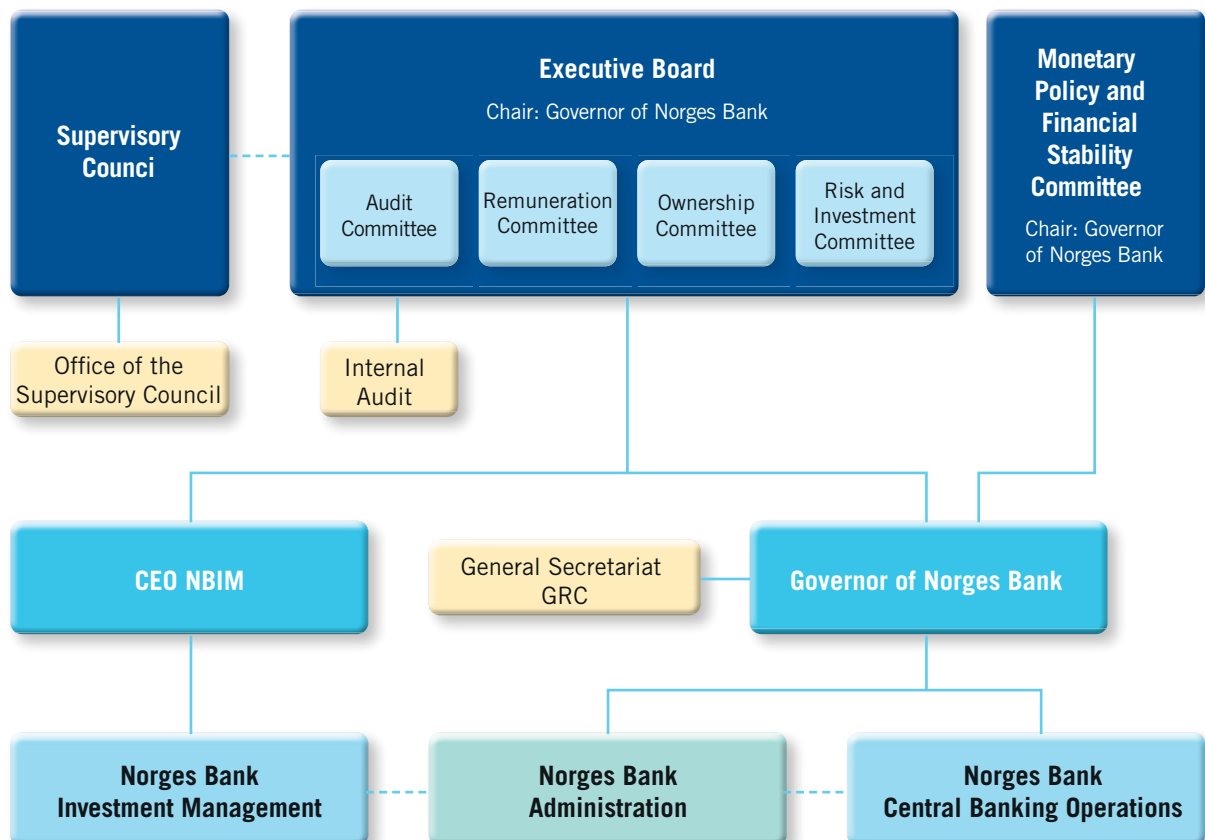
NORGES BANK’S ORGANISATION AND MANAGEMENT

Against the background of the entry into force of the new Central Bank Act on 1 January 2020, new rules of procedure for the Executive Board, rules of procedure for the

Monetary Policy and Financial Stability Committee and new principles on the division of responsibilities between the Executive Board and the Monetary Policy and Financial Stability Committee were adopted. The Supervisory Council noted these three documents for information on 26 February 2020. The Executive Board has updated the mandates for all four of its subcommittees. The Council received all of these mandates and noted them for information. The Board also provided information on appointments to the committees.

A number of policy documents have had to be updated because they did not fully meet the requirements of the new Central Bank Act, the new Security Act entering into force from 1 January 2019, or the current division of roles and responsibilities internally within Norges Bank. Responding to a supervisory review in 2018 on crisis management, the Executive Board responded: *“There may be reason to look more closely at whether there should be more detailed common regulation of risk management and internal control.”*¹⁵ Work on updating the governance

FIGURE 4 ORGANISATION CHART FOR NORGES BANK



model and associated policy documents is ongoing, and the Supervisory Council has received and noted for information the following general principles:

- The Executive Board's principles for risk management and internal control at Norges Bank, adopted by the Board on 24 June 2020
- The Executive Board's principles for security, adopted by the Board on 30 September 2020
- The Executive Board's principles for contingency planning and crisis management, adopted by the Board on 30 September 2020
- The Executive Board's principles for external communication at Norges Bank, adopted by the Board on 25 November 2020

In addition, the Council has discussed and taken note of the Executive Board's ethical principles for employees of Norges Bank. The Council engaged specialist legal assistance for its consideration of these principles.¹⁶ See the separate discussion of the ethical framework below.

The Executive Board adopts general rules for the whole of Norges Bank's activities and for each individual operational area, but may also delegate some general rules to the Governor. The Governor issues guidelines for NBCBO and NBA, and the CEO of NBIM issues guidelines for NBIM.

The Supervisory Council has issued guidelines for Norges Bank's activities in three areas:

- Budget rules for Norges Bank
- Rules on loans to employees of Norges Bank
- Guidelines for the Supervisory Council's supervision of companies owned by Norges Bank in connection with investments in the Government Pension Fund Global

These relate directly to the Council's duties under the Central Bank Act. The Council supervises compliance in these areas. The guidelines have also been updated in line with the new Central Bank Act and Management Mandate for the Government Pension Fund Global.¹⁷ The guidelines are reproduced in full in Appendix 2 to this report.

ETHICAL FRAMEWORK

Pursuant to the Central Bank Act, the Ministry of Finance issued "Supplementary provisions on conflicts of interest etc. for members of Norges Bank's Executive Board and Monetary Policy and Financial Stability Committee" on 20 December 2019. Following consideration by the Monetary Policy and Financial Stability Committee, the Executive

Board adopted "Ethical principles for the external members of Norges Bank's Executive Board and Monetary Policy and Financial Stability Committee" on 24 March 2020. The new principles build on the previous ones but have been tailored to the governance model in the new Central Bank Act and the above rules on conflicts of interest. The Supervisory Council was kept informed both through the Executive Board's minutes and at meetings.

The Executive Board's "Ethical principles for employees of Norges Bank" have also been revised to reflect the organisational changes made in autumn 2019 and the new Central Bank Act, and the new version was approved by the Board on 24 June 2020 and entered into force from 15 August 2020. Following their adoption by the Board, the principles were sent to the Supervisory Council in connection with the review of the appointment of the new CEO of NBIM. At the following meeting of the Council, the Governor responded to questions from the Council on, for example, which types of position require prior approval and what is to be considered a business contact. Information was also provided on how the ethical principles are to be understood where they state that the risk of corruption in Norges Bank is primarily associated with a person using their position at the Bank as an employee, external consultant, contractor or subcontractor to require, receive or accept undue advantage. The Council was also informed that the heads of the operational areas have formulated more detailed ethical guidelines based on these principles.

After extensive consideration, the Supervisory Council took note of the Executive Board's ethical principles for employees of Norges Bank.

JOB DESCRIPTIONS FOR NORGES BANK'S MANAGEMENT

Section 2-4 of the Central Bank Act states: "*The Executive Board shall lay down instructions on the day-to-day management of central banking activities and Norges Bank's management of the Government Pension Fund Global.*"

New job descriptions for the Governor as general manager of NBCBO and for the CEO of NBIM were adopted on 24 March and 29 April 2020 respectively. Updates were needed as a result of the new Central Bank Act and changes to the mandate for the GPF. G.

In this context, the Executive Board informed the Supervisory Council that responsibility for administrative functions etc. that do not come under the CEO of NBIM will be part of the Governor's line of responsibility as general manager of Norges Bank.¹⁸ A job description for the "general management of central banking" covers the Gov-

ernor's overall line of responsibility as general manager, i.e. NBCBO, the General Secretariat and the joint administrative functions etc. now organised under NBA.

The job description for the Governor does not include his role as chair of the Executive Board and of the Monetary Policy and Financial Stability Committee. That responsibility comes under the Central Bank Act and the rules of procedure and other decisions of the Board and the Committee.

The Board's job description for the CEO of NBIM has been updated to tie in with the job description for the general manager of NBCBO. Changes have also been made to the Board's investment mandate for the CEO of NBIM to permit and limit investments in renewable energy. These changes to the rules for the CEO of NBIM were made independently of, and ahead of, the employment contract for the newly recruited CEO. See further discussion in Section 1.5 below: Follow-up of the employment contract between the Executive Board and the CEO of NBIM.

Both job descriptions and the new investment mandate for the CEO of NBIM were submitted to the Supervisory Council, which noted them for information.

Under the Central Bank Act, the two Deputy Governors are members of the Executive Board and of the Monetary Policy and Financial Stability Committee. Section 6-2 of the Executive Board's rules of procedure states: *"The Deputy Governors are the Governor's deputies in the day-to-day management of Norges Bank, cf. Section 6-1[37]. The Deputy Governors are also the first and second deputy chairs respectively of the Executive Board, cf. Section 2-1, second paragraph. They take the place of the Governor in the Governor's absence and where otherwise decided by the Executive Board or by the Governor, and then exercise the Governor's authority."*

The Executive Board has not issued separate job descriptions for the Deputy Governors, but has considered a memo on "The division of duties and responsibilities between the Governor and the Deputy Governors". The Council was informed of this through minutes from the Board.

DEPARTURE OF DEPUTY GOVERNOR

Jon Nicolaisen stepped down as Deputy Governor on 4 December 2020. The Supervisory Council was informed that the background for his departure was a notification from the Norwegian Civil Security Clearance Authority that his security clearance had not been renewed. When

he was appointed on 1 April 2020, the Ministry of Finance made it a condition that the Deputy Governor had a security clearance. Norges Bank does not have the right to appeal such a decision under the Security Act, as the right to appeal rests with the person affected by the decision.

The Supervisory Council was informed that, under Norges Bank's procedures, a person who lacks the necessary clearance will be denied access to systems and information flows that require clearance. It was explained that the Deputy Governor had not had access to matters requiring clearance in the period following the expiry of the necessary security clearance.

The Deputy Governor returned to a different position in NBCBO but decided to leave Norges Bank from 1 January 2021.

The Governor took over all of the duties and responsibilities of the Deputy Governor with special responsibility for investment management until such time as the government appoints a new Deputy Governor. The Executive Board has given its approval to the Governor chairing both the Risk and Investment Committee and the Ownership Committee from 1 January 2021 until a new Deputy Governor with special responsibility for the GPFG begins. The Executive has delegated authority to the Governor to make decisions on behalf of the Board on matters where the CEO of NBIM is considered to have a conflict of interests. This authority applies until such time as a new Deputy Governor begins.

The Supervisory Council was informed about the follow-up of security-cleared and authorised personnel at Norges Bank and the provisional organisational arrangements.

EMPLOYER OF THE BANK'S MANAGEMENT

In connection with the Deputy Governor's departure, the press put questions to both the Bank's administration and the Supervisory Council about who was to be considered the employer of Norges Bank's management – the Governor and two Deputy Governors. The Council forwards enquiries of this kind to Norges Bank's administration.

The Council was informed about Norges Bank's press statement on the matter. Employer liability and key employer functions for the Governor and Deputy Governors are considered to rest with the government as represented by the Ministry of Finance. Under the Central Bank Act, the most important employer decisions, such as appointment and dismissal, are a matter for the govern-

ment, while other decisions are delegated to the Ministry of Finance (remuneration, pension and other terms of employment).

The Supervisory Council therefore considers the matter of employer liability to be resolved.

PERSONNEL, WORKING ENVIRONMENT AND GENDER BALANCE

The Working Environment Committee is to promote a good working environment and ensure compliance with the requirements of the Working Environment Act. The Committee's composition, work and reporting comply with the Act. The chair and deputy chair of the council are elected in alternate years from management and employee representatives. The Bank's occupational health unit attends its meetings.

The Working Environment Committee is to report to the Executive Board on its activities each year and forward this annual report to the Supervisory Council for information. The Committee's report for the year has been submitted to the Supervisory Council. There were no occupational accidents that needed to be reported to the Norwegian Labour Inspection Authority.

The Council was informed about a survey of the psychosocial working environment in autumn 2020 covering all staff at the Bank. The results were appended to the Working Environment Committee's annual report to the Bank's governing bodies.

The Executive Board also reports on the working environment in its annual report. This annual report contains a detailed description of the situation during the Covid-19 pandemic. The Supervisory Council notes that relevant laws and agreements concerning the working environment have been observed and reported on. The annual report from the Working Environment Committee has been noted for information.

The Executive Board has set a long-term target of at least 40 percent of the Bank's overall workforce being women. This is taken into account in work on strategies and action plans, and is prioritised in the planning and implementation of recruitment processes. The share of women among the Bank's permanent employees at the end of 2020 was 33 percent, which is below the target. The Council considers it important for Norges Bank to set goals for gender balance and will follow the Board's work on achieving them.

THE COVID-19 PANDEMIC

The Governor provided regular assessments during the year on the Covid-19 situation and how the handling of the pandemic impacted on operations. Through ordinary reporting, the Supervisory Council was informed that measures to protect employees' health, safety and working environment and ensure that the central bank could fulfil its key role in society, worked well.

Extensive working from home was introduced for employees at the Bank's headquarters in Oslo from 12 March 2020. Selected critical functions were performed from headquarters, while other critical functions and other duties were carried out from employees' homes. The same applied to the offices outside Norway, which also observed local guidelines and had introduced working from home earlier. The choice of solutions has been based on risk assessments and has functioned satisfactorily. The Bank's headquarters were closed to external guests and thus also for the exchange of expired banknotes at reception. The home-working solution and extensive use of videoconferencing meant that vulnerability to ICT security incidents increased somewhat. Reference should be made here to the information provided in the Annual Report of the Executive Board.

Through reporting, the Supervisory Council was informed that a project has been launched to prepare for changes in the way people work, looking at flexibility, working hours and remote management. A separate account of the management of the GPFG in the light of the pandemic is discussed later in this Report.

NORGES BANK'S PENSION FUND AND PENSION SCHEME

Norges Bank's Pension Fund is an independent legal entity and prepares its own accounts and annual financial statements. Its assets and liabilities are separate from Norges Bank. The Bank guarantees its share of the fund's premium reserve. The fund's purpose is to provide retirement benefits for former employees of Norges Bank and their survivors. The pension scheme complies with the National Insurance Scheme and is aligned with the rules for the Norwegian Public Service Pension Fund.

The Supervisory Council originally laid down the fund's articles of association. Changes to the articles are to be approved by the fund's board and forwarded to Norges Bank's governing bodies for information. The fund's operations are supervised by the Financial Supervisory Authority of Norway (Finanstilsynet). Finanstilsynet must also approve changes to the articles.

The Pension Fund is headed by its own board. Norges Bank's Executive Board appoints four of the six full members and two alternates, and at least one full member must be external with no connection to the pension fund, the central bank or member companies. Two full members and their alternates are appointed by employee organisations.

The Supervisory Council considers it important for the fund to have good financial strength and generate good returns on its assets in order to reduce pension costs for the Bank. The Council is kept updated about the Executive Board's appointment of members of the fund's board and receives the fund's annual report, annual financial statements and auditor's report for information.

The Supervisory Council has appointed Deloitte AS as the fund's auditor, and a separate engagement agreement has been entered into between the auditor and the board of the fund. The external auditor submitted a standard report without remarks on the annual financial statements for 2020.

The pension fund in 2020 made changes to the spouse's pension in the pension scheme based on the same principles and from the same date as for the Norwegian Public Service Pension Fund.

The Supervisory Council had no comments on the Executive Board's approval of the changes to the spouse's pension from 1 January 2021 and took note of the Board's letter about the pension fund.

SUPERVISORY REVIEWS

COMPLIANCE WITH RULES TO COMBAT MONEY LAUNDERING AND TERRORIST FINANCING

This supervisory review of Norges Bank's compliance with rules to combat money laundering and terrorist financing followed up the review in 2019 of the Supervisory Council's supervisory responsibilities, in particular its responsibility for supervising Norges Bank's compliance with the Anti-Money Laundering Act. In parallel with this supervisory review, Norges Bank worked on developing its anti-money laundering (AML) work, which included formulating new guidelines on compliance with the AML rules when it comes to exchanging and replacing banknotes.

The main conclusion of the report is that Norges Bank is covered by the AML rules, but that the risk – which is assessed largely according to type of customer, customer relationship, product or transaction – is considered to be

low. It is important that actions taken are commensurate with risks faced. For Norges Bank as a whole, this means that it may be sufficient to meet the minimum requirements in the act, seen in the context of the guidance from Finanstilsynet. In areas where the risk is considered to be somewhat higher, additional measures may be considered.

The Supervisory Council endorsed the assessments in the supervisory report. It was decided to forward the report to the Executive Board with two recommendations to which the Council requested a response.

No general risk assessment has been produced for Norges Bank documenting how it identified the areas considered most exposed to the risk of money laundering.

- It is therefore recommended that Norges Bank prepares a general risk assessment, which clarifies the process and considerations for arriving at the most relevant areas of risk for Norges Bank when it comes to money laundering and terrorist financing. With this in place, the most critical areas of risk should be incorporated into the integrated reporting.

Finanstilsynet's guidance can be viewed as giving Norges Bank's AML compliance officer more specific and direct responsibility than is set out in the Executive Board's principles and the General Counsel's job description.

- It is recommended that the Executive Board reviews Finanstilsynet's guidance on the rules concerning the role and responsibility of the AML compliance officer, and that internal principles and guidelines are adjusted accordingly.

As part of the main conclusion of the report, it was noted that Norges Bank should consider highlighting the importance of AML work on its website. Consideration should also be given to providing more information in the annual report on what is being done to combat money laundering internally, beyond information on follow-up as part of governance work at NBIM.

In its response to the first recommendation in the supervisory review, the Executive Board writes: *“work on risks associated with money laundering and terrorist financing at Norges Bank has been carried out in accordance with the internal principles, guidelines and frameworks that apply to risk management at the Bank. Over time, a number of areas have emerged where money-laundering risks have been identified. These have been addressed,*

action has been taken, and reporting on these risks has been carried out in the same way as for other risks.

“The Executive Board will have a general risk assessment carried out in 2021 in line with the recommendation from the Supervisory Council. The annual reporting on risk management and internal control to the Executive Board for 2020 has already been expanded with more information on the assessment and management of AML risks. This has been done against the background of the proposals in Internal Audit’s report Project 2002 NB Anti-Money Laundering (which the Executive Board considered on 30 September 2020) and the recommendations in this supervisory review.”

On the second recommendation, the Executive Board writes that it has *“adopted principles for compliance with the AML rules. These give the Governor the authority to appoint an ‘AML compliance officer’. The Governor has given the General Counsel this role, and this is documented in his job description.*

“In the course of 2021, the Executive Board will review the principles for following up the AML rules, and this will include the role and responsibility of the ‘AML compliance officer’ in line with the recommendation from the Supervisory Council.”

The Supervisory Council considered the Board’s response and passed the following resolution:

The Supervisory Council takes note of the Executive Board’s response to the recommendations in the supervisory review on compliance with anti-money laundering rules. Norges Bank’s work on compliance with anti-money laundering rules will in future be integrated into the Council’s ongoing supervision.

THE EXECUTIVE BOARD’S FRAMEWORKS FOR AND ORGANISATION OF GOVERNANCE AND CONTROL

The Supervisory Council attaches importance to the new Central Bank Act and its implementation having brought some clarifications of the Executive Board’s responsibilities. Changes to the management mandate for the GPFG have singled out a number of tasks and responsibilities that the Executive Board may not delegate. The Board has specific duties as well as a general responsibility for governance and control as the governing body for Norges Bank’s combined operations.

The review of the frameworks for and organisation of governance and control at Norges Bank was based on assessments of established internal frameworks and powers delegated by the Executive Board and the Bank’s management, minutes of meetings and reports to the Board. In its review, the Council was also given a presentation of the governance and control model, key processes and an overview of policy documents. Attention centred on how governance is organised internally within the Executive Board, and on how the Board and the Bank’s management organise, govern and monitor the central bank’s activities.

Relevant external frameworks for comparison were the Financial Institutions Act and the Norwegian Code of Practice for Corporate Governance. Finanstilsynet has published a module for overall governance and control that is used as a tool to map and assess the quality of risk management and control at the institutions it supervises. In this context, it has also published a template for self-evaluation of overall governance and control for banking/financial groups. The template was used as an aid in the review, adapted to Norges Bank.

Topics considered were the development of governance frameworks, job descriptions at senior management level, principles for outsourced activities, the Board’s subcommittees, members’ individual and collective liability, employee representation, and self-evaluation processes for both the Board and the subcommittees. In addition, the review looked at how the Board and the Bank’s management have organised controls and reporting through the Bank’s control model and the frameworks established for the three lines of defence.

The review’s conclusion is that the Executive Board has established a model for risk management and internal control that takes account of the Bank’s risk profile and risk limits and covers its entire operations. The overall governance system and established frameworks are consistent, transparent and well documented. The model for risk management, control and compliance with three lines of defence (cf. Figure 1 above) conforms to recommended standards for good corporate governance.

Within the Executive Board’s own organisation, recognised board practices are followed, with four subcommittees with their own mandates. The members of the subcommittees are largely appointed from among the external board members, which enhances independence in the Executive Board’s assessments.

The Supervisory Council recommended previously based on a report from a supervisory review that the Executive Board should formalise and document its self-evaluations. Board evaluations are now performed annually with completion of a questionnaire and subsequent discussion, and covers both the Board and the subcommittees. Annual evaluations are in line with good board practice.

The report has two findings:

- A review of board members' liability and insurance cover has not been conducted in recent years. One recommendation for the Executive Board is that the terms of the Board's liability are at all times made known to its members, either by regularly submitting items for information or by addressing this in the Board's rules of procedure.
- Part of the Supervisory Council's mandate under the Central Bank Act¹⁹ is to monitor the agreement on the procedure for appointing employee-elected members of the Executive Board. In the absence of any agreement, the election procedure is to be decided by the Council. The Board has approved a temporary election procedure and initiated a process to establish a more permanent procedure for appointing its employee-elected members. It is expected that the Board will inform the Council of future decisions.

The Supervisory Council considered the report and passed the following resolution:

The Supervisory Council endorses the assessments in the report on the Executive Board's frameworks for and organisation of governance and control.

The report will be forwarded to the Executive Board. The Council asks for the Board's feedback on the recommendation and the expectation in the report.

A letter enclosing the report was sent to the Board on 25 February 2021.

The Board responded as follows in a letter dated 25 March 2021:

- *"It is recommended that the terms of the Board's liability are at all times made known to its members, either by regularly submitting items for information or by addressing this in the Board's rules of procedure."*

"The Board concurs with this recommendation and will follow it up, such that the terms of the Board's liability are always known to its members through information items or in some other way."

- *"The Board will inform the Supervisory Council about further decisions on the election procedure for employee-elected members of the Board once this has been resolved."*

This response from the Board will be considered at the Supervisory Council's meeting of 10 June 2021.

1.3 SUPERVISION OF NORGES BANK CENTRAL BANKING OPERATIONS (NBCBO) AND NORGES BANK ADMINISTRATION (NBA)

ONGOING SUPERVISION

FORMATION OF NORGES BANK ADMINISTRATION

NBA was formed on 10 December 2019 to streamline administrative functions. NBA is to provide central administrative services for the whole of Norges Bank, including support functions for NBCBO and NBIM. The operationalisation and structuring of NBA were ongoing throughout 2020 and will continue into 2021. NBA forms part of the Governor's area of responsibility.

The organisation and integration of administrative functions is complete, and work is under way on establishing consistent practices and realising economies of scale. Work on efficiency improvements is an ongoing process that will continue over time. The IT platform and consolidation of technical applications for NBA is important for achieving the planned efficiency gains. It can be a challenge to provide centralised functions across multiple systems, and it presents an increased risk of duplication and errors.

The Supervisory Council has been kept abreast of the status of the implementation of NBA through ordinary reporting from the Executive Board and the operational areas, and looks positively on the structuring and implementation of these changes.

MANAGEMENT OF SECURITY

Norges Bank states that the Executive Board's new principles for security and principles for contingency planning and crisis management clarify the responsibilities of the Governor and the CEO of NBIM in their respective areas, and that the organisation of work on contingencies and

crises reflects Norway's general security principles of responsibility, consistency, proximity and collaboration.

The crisis organisation has proved adaptable in dealing with the pandemic. A number of meetings have been held to co-ordinate the control of infection and continued operation, and employees have been kept well informed through intranet messages. The Council sees from reporting that the Ministry of Finance has also been given regular status reports.

The Supervisory Council has been informed that a preliminary evaluation was conducted in the first half of 2020 showing room for improvement in collaborative processes, status reporting and the use of information systems.

The Executive Board's principles for contingency planning and crisis management have been updated, and the description of the central bank's crisis organisation will be reviewed in the light of this, drawing on experience from crisis management in 2020.

The year also saw the introduction of closer follow-up of employees at Norges Bank's offices outside Norway, and security inspections were carried out at a number of suppliers to verify compliance with Norges Bank's security requirements.

The Supervisory Council will continue to monitor the operationalisation and implementation of new principles and guidelines.

GOVERNANCE AND CONTROL OF IT DEVELOPMENT AND IT SECURITY

The Executive Board's updated principles for security also include general guidance on information security that will be operationalised further in the operational areas. The Supervisory Council considers it important that the governance framework is clear and based on standards for the management of IT security.

During the year, the Council considered reports and information provided to the Executive Board by the operational areas on the management of work on developing the IT area and IT security.

Through the Board's reporting, the Council received information on increased vulnerabilities due to extensive working from home and videoconferencing, but also that security systems had been set up and the necessary training provided to address this. More than 900 employees at

Norges Bank have worked from home without any security breaches or internal control failures being detected.

A project is under way at NBCBO to modernise its IT platform and switch service provider. All contracts in the project have now been signed, and the project is due to be completed in 2022. IT risk levels, which have over time come to be considered substantial, will be reduced on its completion.

The Council has been informed that there is a risk of the end of the contract with the current service provider leading to operational disruption and lower service quality. To reduce the personnel risk, the central bank has recruited staff with a background at the current supplier.

Responding to questions from the Supervisory Council, the Bank's management provided information on the content of the budget for IT services. The Council also received information via reporting on IT security in the management of the GPFG. For both operational areas, phishing is considered to be one of the greatest threats, and employees are given regular training in identifying phishing attacks. When it comes to investment management, the Council has been informed that security measures are subject to independent evaluation. This type of benchmarking is conducted at regular intervals, most recently in 2017 and next in 2022. It is important to the Council that the Bank learns lessons, including from external events, such that similar incidents at Norges Bank can be reduced.

MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

Norges Bank's international reserves consist of foreign exchange reserves and International Monetary Fund (IMF) reserve positions. The reserves are to be available to fulfil the purpose of central banking activities and meet international obligations.²⁰ Considerable importance is attached to investing the foreign exchange reserves in liquid instruments. Within these constraints, the aim is for the reserves to be managed cost-effectively and with a positive relative return. Specific rules and guidelines for the management of the reserves have been issued which differ clearly from the management of the GPFG. The Executive Board performs an annual assessment of the strategy and framework for the management of the foreign exchange reserves.

The reserves make up around 90 percent of the Bank's assets excluding the GPFG. They had a market value of NOK 598.4bn at the end of 2020, compared with NOK 546.3bn at the end of 2019. The foreign exchange

reserves comprise a fixed-income portfolio, an equity portfolio and a petroleum buffer portfolio. The aim of the buffer portfolio is to ensure appropriate management of the government's need to convert between foreign currency and NOK, and to make transfers to and from the GPFG. The Executive Board has issued principles for the management of the foreign exchange reserves. The Governor issues supplementary guidelines for the management of the reserves and has the power to depart from the Board's principles in emergencies.²¹ The guidelines set out the equities in which the reserves may be invested on regulated and recognised markets.

Responsibility for managing the reserves rests with NBCBO, but NBIM handles the operational management of the equity portfolio under an agreement. The strategic allocation to equities is up to 20 percent.

Quarterly reports on financial risk and the management of the foreign exchange reserves are sent to the Supervisory Council, which takes note of these reports. The reports are published by Norges Bank.

At a meeting, the Bank's management provided information on how the Bank has handled the impact of the Covid-19 situation on the management of the reserves. The briefing included the increased need for currency transactions on behalf of the Treasury and actions taken in respect of monetary policy and financial stability. Responding to questions from the Council about Norges Bank's signals to the market about possible interventions and the purpose of intervention, the Governor provided information on the background to the Bank considering it appropriate to publish a press release stating that it was considering the need to intervene in the market by purchasing NOK. The Governor also responded to questions about the division of duties between Norges Bank and the Government Bond Fund.

Through ordinary reporting, the Council was informed about developments in the foreign exchange reserves. Instruments used were the offer of extraordinary F-loans to the banking system, intervention in the currency market through purchases of NOK, and the purchase and sale of bonds to adjust central government liquidity to the necessity of emergency measures.

The Supervisory Council is aware that the Governor was authorised to depart from the Executive Board's principles for a period in 2020. In such cases, the Board is to be informed in retrospect, but it was stated that the Governor did not use this authority during the period. Respond-

ing to questions from the Council, the Bank's management provided information on whether the actions taken in 2020 presented special challenges for the management of the foreign exchange reserves. The central bank considered the size and liquidity of the reserves to have been sufficient to meet Norges Bank's commitments throughout the year.

See also the discussion below of the supervisory review of Norges Bank's exchange of currency for NOK.

MONETARY POLICY AND FINANCIAL STABILITY

The Covid-19 pandemic has had huge effects on financial markets and the Norwegian economy. The Supervisory Council has been informed that internal processes and coordination/communication with the financial sector have functioned satisfactorily. The Executive Board considers the process risk to be unchanged. The Monetary Policy and Financial Stability Committee held a number of meetings, and the process functioned satisfactorily even under the prevailing circumstances.

The Council has learned through ordinary reporting that work is under way on a new platform that will reduce risk and increase the robustness of monetary policy models and forecasts. The platform is due to be ready in late 2021. The Council has also been informed of measures to reduce the risk of market-sensitive information being available internally to persons other than those who need it for their work.

NORGES BANK'S SETTLEMENT SYSTEM (NBO)

Norges Bank is the top-level settlement bank for inter-bank payments in Norway. The average daily volume of payments settled through NBO in 2020 was NOK 421bn. This is a substantial increase on previous years, a result of extraordinary liquidity policy measures (F-loans and F-deposits) introduced in March in response to the Covid-19 pandemic. The Supervisory Council is aware that the Bank has implemented a new system for F-auctions.²² The system will increase the quality of the Bank's processes for market operations and reduce the risk of operational delays or errors. This will increase the robustness of the Bank's market operations.

Norges Bank's settlement system and the overall payment system in Norway are highly dependent on IT and external suppliers for their operation. The payment system and financial infrastructure provide a critical function for society and are subject to stringent security requirements. NBO is classified as a "sensitive object".

This role derives from the provisions of the Central Bank Act on promoting an efficient payment system domestically as well as vis-à-vis other countries, and banks' right to open accounts with, and borrow from, Norges Bank. At the end of 2020, banks had sight and reserve deposits at Norges Bank totalling NOK 40.6bn.

The Executive Board reports that it is satisfied that the operation of NBO in 2020 was stable and free from material disruption of settlement or collateralisation.

The Council monitors reporting on operational stability and the management of security, risk and contingency planning through ordinary management reporting and the internal annual report on financial risk and the management of the foreign exchange reserves. Information was provided on two potentially critical incidents relating to bank settlements in 2020. Both were addressed and corrected.

The Supervisory Council has also been informed that Norges Bank and Finanstilsynet will present proposals in a joint project for the Norwegian implementation of the European Central Bank's framework for testing cybersecurity (TIBER-EU). The proposals are due to be sent out for consultation in spring 2021. The aim of this work is to strengthen cybersecurity in the financial sector and promote financial stability.

BANKNOTES AND COINS – NORGES BANK'S ROLE AS ISSUER AND INVENTORY MANAGEMENT

Norges Bank has a sovereign right to issue Norwegian banknotes and coins as part of an efficient and secure payment system. The central bank decides on their face value and design. Norges Bank's notes and coins are legal tender in Norway. The central bank is responsible for ensuring that the public has the necessary access to cash. High levels of security have been established, with internal control processes and oversight by the external auditor and the Office of the Supervisory Council. The guidelines on physical security at the Bank include requirements for security standards in vaults and premises that also apply to central bank depots and suppliers' warehouses

All denominations of the new series VIII banknotes are now in circulation following the release of the new NOK 1,000 note in November 2019. Work on withdrawing old banknotes is under way, and there has been an increase in the exchange of banknotes and exposure to the general public. In relation to this exchange of banknotes, detailed investigations were carried out under the anti-money

laundering rules, and a number of cases were routinely reported to the National Authority for Investigation and Prosecution of Economic and Environmental Crime due to suspected money laundering.

The Council is aware, via both internal reports and a supervisory review of compliance with rules to combat money laundering and terrorist financing, that the frameworks and systems for ensuring compliance with these rules in the exchange of banknotes have been updated. Because of the Covid-19 pandemic, it has not been possible to exchange banknotes physically at Norges Bank.

The cost of the banknote project has been reviewed when considering budgets and as part of auditing. Notes and coins in circulation amounted to NOK 41bn at the end of 2020, which is on a par with a year earlier. The Council considers the Bank's annual reports on notes and coins and relevant management reporting. The external auditor carries out various checks on the correct registration of inventories. No weaknesses in internal control in this area have been detected. This work is described in the presentation of key audit matters in the auditor's report on the Bank's annual financial statements.

SUPERVISORY REVIEW

NORGES BANK'S EXCHANGE OF CURRENCY FOR NOK

The Office of the Supervisory Council mapped and described Norges Bank's transactions in the currency market, and the Council considered the report from the review. Transactions in the currency market have two purposes: to contribute to efficient currency exchange for the GPFG and to stabilise the market through support purchases of NOK.

Currency exchange for the government takes place when phasing money into the GPFG. Inflows into the GPFG stem from the government's NOK revenue from petroleum tax and dividends from Equinor, and revenue in foreign currency from the government's own petroleum activities via the State's Direct Financial Interest (SDFI). In addition, the government has substantial revenue from interest and dividends in the GPFG. Since the capital in the GPFG is invested exclusively in foreign currency, the return on the GPFG is also in foreign currency.

Support purchases or interventions in the money market are made at very rare intervals. Depending on market conditions, this may take the form of market making or interventions to influence the exchange rate. In March 2020, the currency market was functioning poorly, and Norges Bank made purchases of NOK totalling NOK 3.5bn.

It is nearly 20 years since the Bank last made support purchases of NOK.

Norges Bank's services for the government do not have the purpose of influencing the NOK exchange rate. When exchanging currency, it is important for Norges Bank that communication with the market around the transactions is clear and consistent.

Three assessment criteria were considered in the review:

Has the Executive Board issued principles and mandates addressing the objectives of currency transactions?

Internal Audit delivered a report in autumn 2020 – “Governance and control of the foreign exchange reserves” – which found no material weaknesses in compliance and concludes: *“There is a clear thread from the Executive Board’s principles, down through guidelines from the Governor for the various portfolios, to the individual mandates. This helps ensure that the reserves are managed in line with the portfolio’s objectives.”* The Office of the Supervisory Council believes that the conclusion of the report from Internal Audit is sound and establishes satisfactorily that procedures are in place, which confirm compliance.

How is the market informed about Norges Bank’s currency transactions?

It is important that Norges Bank’s communication is systematic and consistent. Standard formulations in press releases and other statements to the market contribute to clarity. It is positive that the Bank describes and explains its use of instruments following periods of extraordinary market conditions. In the view of the Office of the Supervisory Council, information was made available to market actors in the period examined, and additional information and statistical data can be found on the Bank’s website. The Bank also gives various speeches and presentations, which contribute to transparency.

How does the Executive Board gain an overview of levels and risks?

In the event of major movements in the market, the Executive Board is informed at its next meeting.

The internal quarterly report on financial risk in Norges Bank’s balance sheet and the management of the foreign exchange reserves provides a detailed overview of steps taken to deal with the crisis in the second quarter of 2020.

Norges Bank announced in March 2020 that it would consider the need to intervene in the market by purchasing NOK in light of the extraordinary market conditions. The report provides an overview of developments in fixed income and equities in the past quarter. It also covers the petroleum buffer portfolio and the government’s currency exchange needs.

The Executive Board receives confirmation that the management guidelines have been complied with. The quarterly report covers a number of financial risks and also describes the various schemes (loan programmes and drawing facilities established between central banks and the IMF). Finally, the Board is given an insight into how developments in the foreign exchange reserves are affecting the Bank’s equity.

An edited version of the quarterly report dealing only with the foreign exchange reserves is published on Norges Bank’s website.

The Board is also given an insight into the details and gains assurance that established processes are functioning through reporting from Internal Audit.

In the opinion of the Office of the Supervisory Council, the Executive Board receives good information on the management of foreign exchange through the established reporting. The supervisory review contained no observations that led to recommendations for Norges Bank.

The Supervisory Council took note of the supervisory report on Norges Bank’s transactions in the currency market.

The report was forwarded to the Executive Board for information.

ASSURANCE ENGAGEMENTS

Deloitte AS has been engaged to issue two annual assurance statements in accordance with engagement agreements with the Supervisory Council and at the request of the Ministry of Finance. The statements cover two main tasks that the central bank performs for the government under the Central Bank Act. *“Norges Bank shall provide services relating to sovereign debt issuance and debt management, and the treasury single account system. The Bank shall also, to the extent stipulated by the Ministry, provide financial services to the central government as well as to separate legal entities that are wholly owned by the central government.”*²³ Both statements for 2020 had

a positive conclusion. This means that no non-conformances were identified that present risks or a need for follow-up action.

GOVERNMENT ACCOUNTS AT NORGES BANK IN 2020

Norges Bank has various duties relating to central government payments, cash management and debt. These duties have their legal basis in the Central Bank Act and are regulated in more detail in an agreement with, and mandate from, the Ministry of Finance. Through the treasury single account system, all central government money is gathered in an account at Norges Bank each day. At the end of 2020, deposits from central government bodies amounted to NOK 313bn. This makes up the largest liability item in the Bank's balance sheet other than the deposit account for the GPF. Government deposits will, however, vary considerably during the year due to large payments to and from the government's current accounts.

The Bank is responsible for implementing and overseeing agreed stipulations on security, backups and emergency procedures, including tasks performed by external suppliers of operational and account management services. This work is to be performed in accordance with the regulations on financial management in central government and the guidelines for settlement accounts in the treasury single account system. Deloitte AS issues an assurance statement on Norges Bank's documentation of compliance with the requirements of the agreement, including the requirements for security in the management of these accounts.

The Supervisory Council has taken note of the assurance statement on the government's accounts at Norges Bank for 2020. The statement has been forwarded to the Ministry of Finance.

ACCOUNTING AND PAYMENTS IN THE MANAGEMENT OF GOVERNMENT DEBT

In line with the Central Bank Act, the Ministry of Finance has issued a mandate for the management of central government debt along with supplementary provisions and powers for Norges Bank.²⁴ Under this mandate, Norges Bank has operational responsibility for the management of government debt. Following a change to the mandate, the central bank is to cover the cost of managing this debt.

The regulations on financial management in central government are to be followed in the management of the loan portfolio. Quarterly reports and an annual report are submitted to the Ministry of Finance and published by

Norges Bank. Lending strategies and loan programmes are to be published by the central bank. At the request of the Ministry of Finance, Deloitte AS submits an independent assurance statement each year on the governance and control of accounting and payments in the management of government debt.

The Supervisory Council has taken note of the assurance statement on accounting and payments in the management of government debt for 2020. The statement has been forwarded to the Ministry of Finance. The Office of the Auditor General also received a report from Deloitte AS in 2020 on agreed-upon procedures relating to the accounting for government debt management.

DESIGN AND IMPLEMENTATION OF NORGES BANK'S FRAMEWORK FOR RISK MANAGEMENT AND CONTROL RELATING TO THE EXECUTION OF BORROWING IN THE MANAGEMENT OF GOVERNMENT DEBT

The Supervisory Council approved an assurance engagement in 2020 to review the central bank's internal control relating to its duties in the planning and execution of borrowing, and its work on financial and operational risk management and control (front and mid-office).

The assurance engagement was conducted for the 2020 financial year alone and not as part of the annual assurance of accounting and payments in the management of government debt. The work was carried out after an engagement agreement was entered into with Deloitte AS.

Deloitte AS concludes in its assurance statement that the framework for risk management and control relating to borrowing, and work on financial and operational risk management and control, have essentially been designed in accordance with the measurement criteria for the review.

The report does, however, identify a number of issues that should be addressed in this area in future. Norges Bank's policy documents do not explicitly state how conflicts of interest between the management of the loan portfolio and the central bank's other activities can be avoided. There is a recommendation to formalise the approval process for new instruments with requirements for minimum documentation. Another recommendation is that Norges Bank extends its external reporting on compliance to cover all of the provisions in the mandate from the Ministry of Finance.

The following resolution was passed:

The Supervisory Council has taken note of the assurance statement. The report has been forwarded to the Executive Board with a request for a response on the recommendations in the report. The statement will be made public on its submission to the Ministry of Finance.

The assurance statement was submitted to the Ministry of Finance and published on the Council's website.²⁵ The report was also sent to the Executive Board for feedback.

The Executive Board responded in a letter to the Council, stating that it is pleased with the conclusion of the assurance review and that it will be possible to improve the policy documents along the lines set out in the letter. At the same time, the Board identifies areas where it will be less appropriate to incorporate fixed rules in the practical management of government debt as proposed by Deloitte AS.

The Supervisory Council has taken note of the response from the Executive Board concerning the assurance report on the framework for risk management and control relating to the execution of borrowing in the management of government debt. The Executive Board's response will be forwarded to the Ministry of Finance.

1.4 SUPERVISION OF NORGES BANK INVESTMENT MANAGEMENT (NBIM)

ONGOING SUPERVISION

ORGANISATIONAL DEVELOPMENTS

In spring 2020, responding to questions from the Supervisory Council, the Bank's management presented realised and planned cost reductions from the reintegration of Norges Bank Real Estate Management (NBREM) into NBIM.

Following the appointment of a new CEO from autumn 2020, NBIM has carried out a reorganisation to increase efficiency and diversity. The leader group has been cut from 12 to nine members.

The strategy plan for NBIM for 2020–2022 assumes an increase in the share of employees outside Norway. Following the recruitment of the new CEO, it was announced that the strategy has changed, and that the plan is to help build up the Norwegian investment industry from head-

quarters in Oslo. This is justified with the potential to perform investment management at lower cost and with greater diversity in the organisation.

Responding to questions from the Supervisory Council, both the CEO of NBIM and the employee representatives on the Executive Board stated that the process has been sound and that communication between the parties concerned has been good. The share of employees at NBIM's offices outside Norway has increased as a result of fewer staff in administrative functions (due to employees in Oslo being transferred to NBA).

The Council has been informed about developments and given updates at its meetings, including on the involvement of trade unions and staff meetings to provide information on plans for the future. It has also been informed that a new draft strategy will be available in the first quarter of 2021.

EXECUTIVE BOARD AND CEO OF NBIM – FOLLOW-UP THROUGH GOVERNANCE FRAMEWORK

The Council has been kept abreast of how Norges Bank's work has been affected by the extraordinary market situation due to the Covid-19 pandemic. In addition, the Bank's management has provided information on the situation for the GPF, including increased outflows to the central government budget, liquidity and pricing in the corporate bond market, and counterparty risks relating to rental income from unlisted real estate.

The Council asked questions and was briefed on how the recruitment of the new CEO of NBIM affected operations. Information was also provided on work on unlisted infrastructure, work on responsible investment, and the expansion of external management mandates.

The Council has requested more detailed information on NBIM's advisory boards. Five have been set up and can have both internal and external members. They do not take decisions themselves but provide assessments and input for decisions taken by the responsible line managers at NBIM, in line with the powers delegated via job descriptions and investment mandates. On request, the Council received an overview of fees paid to members of the advisory boards. This overview was noted for information.

MANAGEMENT OF THE FUND IN THE LIGHT OF THE COVID-19 PANDEMIC

The Supervisory Council has been informed that the Ministry of Finance asked Norges Bank to report on its

experience of the operational management of the fund since the outbreak of the virus. The Bank was also asked to assess the need for analysis and research related to the fund's investment strategy and to present any plans for this.

The Council received for information a copy of Norges Bank's response, where it presents market developments and its investment results. The letter describes the operational management of the fund in the period since the outbreak, and presents experience from the different investment areas and the closure of NBIM's offices. Norges Bank sums up its experience as positive. The Bank has been able to carry out its management assignment and manage the fund in line with the strategies set by the Executive Board at all times. Against the background of the principles underlying the fund's investment strategy, the letter also identifies a number of areas, which Norges Bank plans to analyse in greater depth in the time ahead.

ACTIVE OWNERSHIP AND RESPONSIBLE INVESTMENT

The Executive Board has updated its principles for the responsible investment of the fund in the light of amendments to the mandate for the GPFG made by the Ministry of Finance from 30 November 2019. The changes to the mandate mean, among other things, that the Executive Board is to establish guidelines for Norges Bank's contribution to the development of international standards, including any membership of, or corresponding affiliation with, organisations or groups, and for contact with government bodies in other countries. These are to be presented to the Ministry at least three weeks prior to their adoption. This requirement has been met with concrete guidelines for contributions to the development of international standards. In addition, a number of minor changes have been made to the mandate concerning adjustments to the job description for the CEO of NBIM, and to reflect the fact that unlisted investments now include renewable energy infrastructure as well as real estate.

The Supervisory Council has been informed of the Executive Board's decisions on the exclusion and observation of companies via the Board's minutes. It has also been informed about revocations of exclusions following a decision of the Board and on the recommendation of the Council on Ethics for the Government Pension Fund Global (GPFG). In cases where the Board reaches a different decision to the recommendation from the Council on Ethics, importance is attached to communication on these matters being sufficient to enable understanding of the reasons for the Board's decision. Through ordinary reporting, the Supervisory Council is aware of the new practice

of publishing NBIM's voting intentions at least five days before a shareholder meeting in order to provide more transparency. The Council has also learned of other work on responsible investment through quarterly reports, responsible investment reports, and the annual report on the GPFG.

A further 15 companies were excluded in the course of 2020, while three exclusions were revoked, and four new companies were placed under observation. Norges Bank reports internally on active ownership and responsible investment quarterly and annually. The Supervisory Council monitors the Board's processes for considering recommendations from the Council on Ethics. Over the years, the Executive Board has published seven expectation documents setting out how Norges Bank expects the companies in which the GPFG invests to approach global challenges. In addition, NBIM publishes position papers to address concrete corporate governance issues and form a basis for voting. 2020 saw the publication of position papers on topics such as corporate sustainability reporting and board independence. So far, in 2021, a further paper on board diversity has been issued.

SINGLE-COMPANY EXPOSURES

The Executive Board informed the Supervisory Council at a meeting that it decided in autumn 2020 that the limit for exposure to individual companies of 1.5 percent of the value of the GPFG should be removed from the investment mandate for the CEO of NBIM. The change was submitted to the Ministry of Finance and made public.

The management mandate for the GPFG states: *"The Bank shall not hold more than 10 percent of the voting shares of any one company. Holdings in listed and unlisted real estate companies and unlisted renewable energy infrastructure companies are exempted from this."*²⁶

Responding to questions from the Council about this change, the Bank's management stated that this limit, introduced in 2010, was no longer meaningful in today's market. The Board had already granted exemptions from the limit so that the fund could follow the benchmark index, and now found it appropriate to remove this limit altogether.

EXTERNAL PORTFOLIO MANAGEMENT

At the end of 2020, NBIM had a total of 97 external investment mandates across 88 different investment managers covering around 4.7 percent of the GPFG's portfolio. These mandates are divided between emerging markets and developed markets. NBIM has established set proce-

dures for selecting, overseeing and terminating agreements with external managers.

The process for selecting a new manager normally takes up to nine months, but may take longer. The management agreement can be terminated the same day the decision is made. A separate unit at NBIM is responsible for selecting external managers and monitoring them during the year. Despite the Covid-19 situation, 2020 was an active year, with 19 mandates phased in and six terminated. External managers' environmental, social and governance (ESG) activities and approach are an integral part of the process for selecting managers and the monitoring during the year.

In a conversation with NBIM, it was confirmed to the Office of the Supervisory Council that the monitoring of external managers was carried out in depth in 2020 using electronic platforms.

The Office has developed a model for selecting external managers for supervisory visits. The reason for these visits is to observe how NBIM follows up external managers and to analyse governance and control issues at each individual manager. The model helps select managers in countries with high ESG risks. Information on corruption, environmental issues, human rights, minority shareholder rights and national regulatory conditions are compared with other countries in this model.

Ahead of visits to external managers, the Office also obtains updated information on governance, economic developments and cultural matters in the relevant country, partly through contact with the Norwegian Ministry of Foreign Affairs and the relevant Norwegian Embassy. Meetings are held with the unit at NBIM that monitors external managers, and documentation from the approval process and annual monitoring reports are received. In recent years, visits have been made to asset managers in Mexico City, Johannesburg, Cape Town, Istanbul, Mumbai, Moscow and Warsaw.

The Office did not make any physical visits in 2020 due to the Covid-19 pandemic, but the model was used in its work on analysing the fund's management.

INVESTMENTS IN RENEWABLE ENERGY INFRASTRUCTURE

The size of investments in unlisted renewable energy infrastructure is regulated in the mandate for the GPF. They are limited to 2 percent of the fund and also count towards the portfolio of environment-related investments, which are to be in the interval of NOK 30–120

billion. The Council asked questions about whether the mandate's limits are appropriate given the pricing of infrastructure projects, whether NBIM assumes that this situation will persist, and also what consequences this might have for building up a portfolio of unlisted renewable energy infrastructure.

The Bank's management responded that Norges Bank is working based on the mandate from the Ministry of Finance. In a letter to the Ministry, the Bank explained how investments in unlisted renewable energy infrastructure can be made within the limits for the environment-related mandates. At the Ministry's request, Norges Bank gave advice on permitting unlisted infrastructure investments in the mandate. This is still a new area, and the Executive Board states in the strategy plan for NBIM for 2020–2022 that it expects to build up the portfolio gradually and to adjust the strategy over time as the Bank gains experience.

Responding to questions from the Council about how the bidding process for investments of this kind works, the Council was told that this is a market with many different players jockeying for position. It is a traditional process where the highest bid normally wins. The Executive Board has issued guidelines on its involvement in the decision-making process for bidding. In line with the mandate from the Ministry, the Board is to approve individual investments above a certain threshold when it comes to both unlisted real estate and unlisted infrastructure. It has also been decided that the first investments in unlisted renewable energy infrastructure will require a decision from the Board.

SUPERVISORY REVIEW

INVESTMENTS IN UNLISTED REAL ESTATE – HOLDING STRUCTURES AND GOVERNANCE MODELS

The Supervisory Council has considered a report from its Office on investments in unlisted real estate. The focus of the review was on risks specific to ownership of unlisted equities, in particular ownership of real estate. The Council has previously looked at risks to life and health from ownership of unlisted real estate. The report from the previous review was approved by the Council in May 2019 and was discussed in its Report to the Storting. Later, in November 2019, and in accordance with the recommendations of that supervisory review, Section 3-10 (4) of the management mandate for the GPF was amended to include a requirement for a thorough due diligence review of such risks before purchasing unlisted real estate.

The holding structures that Norges Bank establishes for unlisted real estate vary according to both property type and jurisdiction. The Office chose to look at ownership in the UK, where Norges Bank owns the most properties (ignoring investments in global logistics properties). The Bank owns all or part of 154 properties in the UK, of which 153 are in London and one is in Sheffield. There are also different structures within the UK, depending on whether the property is wholly owned or held through a joint venture (JV) structure.

For good risk management, protection of the fund's assets and tax reasons (state ownership is exempt from income and capital gains taxes in the UK), a holding structure has been established for the ownership of these properties. Around 40 percent of the portfolio in the UK is leasehold. This gives the Bank the rights to rental income from the property, but not to the actual property. The alternative, known as freehold, means that title to the building and the land is wholly or partly owned by the Bank. Where Norges Bank has the freehold, it also owns the land on which the building stands.

The framework for purchases of properties has been carefully considered and based on requirements set out in the mandate for the GPFG and issued by the Executive Board. NBIM has built up extensive experience of purchasing processes since the first real estate portfolio was acquired in 2011. Considerable internal and external resources are put into ensuring that the due diligence process picks up all relevant risks. The requirements in the mandate for the GPFG are extensive, and NBIM is obliged to assess and document a wide range of risks before a purchase is made.²⁷

NBIM makes extensive use of external asset and property managers to manage the actual properties. The JV partner is often also the asset manager. The Bank states that this has a number of benefits. The JV partner knows the properties well and has local knowledge. Property management is resource-intensive, and using external partners means that NBIM does not need to tie up too many staff with this. At the same time, it is important to build up and maintain the right skills in-house. NBIM itself has mentioned that the management of residential properties is particularly resource-intensive due to the large numbers of tenants and short tenancies.

For some of the wholly owned properties, NBIM itself is the asset manager. NBIM's liability with these properties is more clear-cut. NBIM writes in its report on compliance and control for the third quarter of 2020 that asset man-

agement of wholly owned properties exposes NBIM more directly to potential undesirable incidents.

It was stated during the supervisory review that the holding structure for unlisted real estate in the UK was chosen partly for tax reasons. As a foreign sovereign investor, Norges Bank qualifies for significant tax exemptions. A structure has therefore been established with holding companies for each individual property that are similar to a Norwegian limited partnership. NBIM states that this model is common among participants in the market and is tried and tested. NBIM also says that this holding structure may appear more complicated than in some other countries, but it is not as complex as to represent an increased risk. At the same time, NBIM states that it is constantly looking to simplify this structure. The Office of the Supervisory Council considers it important for there to be sufficient specialist legal expertise internally within NBIM to attend to this holding structure. Its complexity may be a risk in itself, and it is important that NBIM ensure that there are always sufficient resources and skills to manage this risk appropriately.

The supervisory review found that the Bank has an adequate framework for addressing key governance issues and risks associated with owning and managing unlisted real estate.

Investments in unlisted real estate are complex and resource-intensive, but observations during the review were that there is an awareness of these challenges.

The Executive Board decided in February 2019 to alter its strategy for real estate investments. It nevertheless stressed that *"real estate will remain an important part of the Bank's investment strategy for the GPFG, and NBIM will be a major player in real estate markets in the years ahead."* Although a shift towards listed real estate was signalled, unlisted real estate continues to account for a substantial part of the portfolio. As the review showed, both resources and skills are needed to ensure that both transaction processes and management are executed appropriately and with acceptable risk.

The recommendation from the supervisory review was therefore that the Executive Board conducts an assessment of how necessary resources and relevant skills can be ensured for investments in unlisted real estate in a period when the strategy has been altered, but the scope of these investments is unchanged.

At the Supervisory Council's meeting, there was discussion of whether the Bank's exemption from income and capital gains taxes for its investments in unlisted real estate in the UK might present a reputational risk.

The Council's resolution on the report was:

The Supervisory Council endorses the assessments in the supervisory review of investments in unlisted real estate. The report will be forwarded to the Executive Board. The Council asks for the Board's feedback on the recommendation from the review.

The Council also asks the Board to assess whether the organisation of subsidiaries for unlisted real estate, partly to gain tax advantages, presents a risk to the Bank's reputation or to the Bank in other ways.

On the report's recommendation on assessment of necessary resources and skills, the Board replies:

"The Executive Board notes the main conclusion in the summary.

The future strategy for the fund's real estate investments is set out in the Executive Board's strategy plan for NBIM for 2020–2022. The aim is a portfolio of listed and unlisted real estate investments amounting to 5 percent of the fund.

The Board is currently reviewing the Bank's strategy plan for the period 2020–2022. As part of this, work has also begun on a review of the real estate strategy. Assessment of future requirements for resources and skills is an important part of this work."

On the additional question in the minutes concerning the organisation of subsidiaries, the Board replied in a letter of 25 March:

"The Executive Board's assessment

The Executive Board emphasises that the Bank is a financial investor in the real estate market. Had the fund's real estate investments been made using a different type of structure and approach to tax to those used by other actors, this would represent a departure from market practice and from the behaviour of a commercial actor. The use of well-known ownership structures and a tax practice that corresponds to that used by comparable institutional investors is well suited to protecting the fund's reputation.

The fund's organisation of subsidiaries for unlisted real estate complies with the Ministry of Finance's established framework for real estate investments, local rules and applicable market practice. The Board is also of the opinion that the Bank's and the fund's overall framework for risk management, and the requirements imposed and followed up when buying, managing and selling properties, are well suited to protecting the fund's reputation."

The response from the Board will be considered at the Council's meeting of 10 June 2021.

The Council has also asked the Board to provide a more detailed briefing on tax and transparency at the same meeting.

ASSURANCE ENGAGEMENTS

NORGES BANK'S RISK MANAGEMENT AND CONTROL FRAMEWORK FOR DEFINING AND IMPLEMENTING THE REFERENCE PORTFOLIO AND INTERNAL REFERENCE INDICES

The benchmark index for the GPF set by the Ministry of Finance is composed of an equity index and a bond index. Besides equities and bonds, Norges Bank may also invest in unlisted real estate. The Bank employs a variety of strategies in its management of the fund. As part of this, the Bank defines its own, internal reference portfolios, which are used as a yardstick for return and risk for these strategies. The internal reference portfolios are also used to determine performance-based fees for internal and external managers. For real estate investments, the Bank uses an internal reference portfolio, which consists of selected equities and bonds from the benchmark index set by the Ministry.

The Supervisory Council approved an assurance engagement to review the risk management and control framework in place for defining and implementing the reference portfolio and internal reference indices. The work was carried out after an engagement agreement was entered into with Deloitte AS.

The review examined the processes, governance structure and independent responsibility for defining the reference portfolios. Performance measurement for these portfolios, the management, measurement and control of the risk associated with the use of these portfolios, and the Bank's reporting on the portfolios were also assessed.

Deloitte AS's overall conclusion in its assurance statement was: *"In our opinion, risk management and control concerning the definition and implementation of the reference portfolio and internal reference indices have essentially*

been designed and implemented in accordance with the established measurement criteria.

Our review did, however, identify a number of points that may be of significance for work on further developing risk management and control concerning the reference portfolio and internal reference indices.”

The points and recommendations set out by Deloitte AS in its review were:

- *“There is no specific guidance from Norges Bank’s Executive Board to NBIM, or from the CEO of NBIM, on the design of processes for giving advice. Guidance normally helps clarify expectations for a process. We recommend that clearer requirements are made for the design of the process for giving advice. For example, it should be a requirement that consideration is given to whether changes in the reference portfolio warrant the Bank advising the Ministry of Finance on its own initiative to amend the mandate.”*
- *“The mandate for the Investment Risk Committee does not contain a provision on how many members must be present for a meeting to be held, which is something that should, in our opinion, be considered.”*
- *“The Chief Risk Officer (CRO) has the responsibility, where warranted, for conducting an assessment of risk, operational feasibility and plans for the implementation of a change. The guideline setting out the requirement for this has been issued by the CRO, and there is no formal guidance on what is meant by ‘where warranted’. We have been given information on the practice that has been established. We recommend clarification of the types of cases in which these assessments are to be conducted.”*
- *“We recommend that the minutes of the meetings of the Investment Risk Committee are made more detailed so that they show, for example, how the proposed change and the various risk factors were evaluated.”*
- *“We have been informed that the Global Head of Risk Measurement is to assess compliance with the guidelines for the internal reference indices prior to a decision on approval. We recommend that this too is specified in the guidelines.”*

The assurance statement was considered by the Council at its meeting of 25 March 2020 with the following resolution:

The Council takes note of the assessments in the assurance report on the design and implementation of Norges Bank’s risk management and control framework for defining and implementing the reference portfolio and internal reference indices. The report will be forwarded to the Executive Board for comment and made publicly available when sent to the Ministry of Finance.

Following the Council’s consideration, the statement was submitted to the Ministry of Finance in the usual manner and published.²⁸ The report was forwarded to the Board, which responded to the Council in a letter dated 28 May 2020.

Excerpts from the Board’s response are reproduced below:

- On the recommendation about processes for advising the Ministry of Finance, the Board replied:

“At its meeting of 24 March, the Executive Board approved a number of changes to the administrative procedure for advising the Ministry. For example, a number of amendments were made to the mandate for the Executive Board’s Risk and Investment Committee to clarify its role in work on advising the Ministry. It was also decided that, if the Board decides in special cases that an advisory matter needs to be given renewed consideration at a subsequent meeting, work on preparing the revised draft is to be led by the Deputy Governor with special responsibility for overseeing the management of the GPFG. A requirement was also added to the job description for the CEO of the Bank’s management of the GPFG that this work is to be organised such that the requirement in Section 1-4 of the Management Mandate for the Government Pension Fund Global is met.

The reference portfolio has been constructed with a view to striking the best possible trade-off between return and risk in the long term by exposing the fund to investment opportunities which, for various reasons, are not part of the benchmark index. Examples of this are systematic factor strategies in the equity market, government bonds from emerging markets, unlisted real estate and unlisted renewable energy infrastructure. These are exposures which the Ministry has stated in its reports to the Storting are not to be included in the benchmark index from the Ministry but are to be part of the universe for the operational management of the fund.

At the same time, the Executive Board attaches importance to making use of NBIM's proximity to the actual portfolio, and of the Bank's experience from the operational management of the fund, in its work on advising the Ministry. This proximity means that advising on changes to the benchmark index could be considered in the context of future changes to the reference portfolio."

- On the other recommendations from Deloitte AS, the Board replied:

"The report from Deloitte AS also contains recommendations for further formalisation of internal administrative procedures at NBIM. The report recommends that a provision is included in the mandate for NBIM's internal Investment Risk Committee on how many members need to be present for a meeting to be held. The report also recommends that the minutes of the committee's meetings are made more detailed.

"NBIM's Investment Risk Committee is an advisory forum for decisions taken by NBIM's CEO, where the decisions are based on a discussion document prepared by the responsible line manager. The aim of the committee process is to ensure that items put before NBIM's CEO for a decision have been subjected to broad professional evaluation, with all affected areas at NBIM having an opportunity to contribute their views. This is achieved through the preparatory process and the design of the case documentation from the responsible unit. The case documentation is made available to all members of the committee ahead of the meeting.

The necessary level of attendance for the consideration of a specific item has to do with the presence of the necessary technical expertise to explore the matters being considered. A requirement for all of the committees is that NBIM's CEO or Deputy CEO, CCO and CRO must attend in addition to the person presenting the item. The CCO, CRO and the person responsible for the item may send a deputy.

The minutes of meetings of NBIM's internal committees state who was present and provide brief information on what the items concerned and the decisions taken. The actual basis for the decisions will be clear from the case documents for the individual item and from the recommendation from the responsible line manager. One important part of this is an assessment of the risk factors for decisions on the fund's investment strategy and reference indices. Where the decision means that the proposal is

adopted and there are no further comments on the matter, the minuting will reflect this.

In addition, the assurance report contains two recommendations for NBIM on clarifying its internal guidelines for the risk unit's assessment of risk, feasibility and implementation of proposed changes. Clarification of the guidelines on these points will be considered by NBIM as part of the periodic updates of its internal rules, including the need to clarify the requirements for attendance at NBIM's internal committee meetings and the minuting of decisions where the final decision differs from the initial recommendation."

The Council considered the Board's reply on 11 June 2020 with the following resolution:

The Supervisory Council takes note of the Executive Board's letter responding to the assurance engagement on defining and implementing the reference portfolio.

NORGES BANK'S RISK MANAGEMENT AND CONTROL FRAMEWORK FOR IMPLEMENTING AND COMPLYING WITH THE MANAGEMENT MANDATE FOR THE GOVERNMENT PENSION FUND GLOBAL

The management mandate for the GPFG contains both quantitative and qualitative constraints on the management of the fund. The Ministry of Finance also provides guidance and expresses expectations in letters on how Norges Bank is to carry out its management assignment. It is the Bank's responsibility to ensure that the GPFG is managed with a view to achieving the fund's objectives that the concrete provisions of the mandate are implemented in the day-to-day management of the fund, and that guidance and expectations relating to the mandate are followed up.

The Council approved an assurance engagement for a review of the Bank's framework, systems and processes for ensuring implementation of and compliance with the concrete provisions of the mandate, and of the Bank's follow-up of the guidance and expectations in letters from the Ministry of Finance in connection with mandate amendments. The work was carried out after an engagement agreement was entered into with Deloitte AS.

The main conclusion in the assurance statement from Deloitte AS is: *"In our opinion, risk management and control concerning the implementation of and compliance with the mandate have essentially been designed in accordance with the measurement criteria for this review."*

Deloitte AS nevertheless identified a number of points that may be significant for work on further developing risk management and control concerning the implementation of and compliance with the mandate. Some excerpts:

– **Interpretation of the qualitative provisions in the mandate**

The governance documents issued by the CEO of NBIM do not state how the qualitative provisions in the investment mandate are to be understood, or what compliance is to be measured against, for all of the qualitative provisions of the mandate. It is recommended that the assessments that have been made of how the qualitative provisions are to be understood, and what compliance is to be measured against, are included in the governance documents with clearer reference to the respective provisions in the mandate. How the qualitative provisions in the mandate are to be understood, and what compliance is to be measured against, may change over time, and there may therefore be a need to update these assessments. It is recommended that processes to address this are clarified.

– **Implementation of mandate amendments**

The amendments to the mandate with effect from 30 November 2019 included new qualitative provisions. No documented assessment of how the individual provisions were to be understood was appended in this context. It was, however, clear from the case documents for the meeting of the Executive Board which provisions were new or amended. To ensure documentation of discussions and the assessments made of the consequences for Norges Bank, it is recommended that assessments of all amendments to the mandate are verified.

– **Compliance with mandate provisions**

The reports to the Executive Board from the CEO of NBIM and the head of Governance & Compliance confirm that the provisions of the mandate have been complied with. However, there are no guidelines or other written guidance on assessing compliance with a qualitative provision, and it is recommended that such guidance is prepared. To ensure a clear description of how the qualitative provisions are understood, and what compliance is measured against, it is recommended that the reporting from the CEO of NBIM and the Head of Governance & Compliance is extended.

The Council considered the assurance report at its meeting of 24 February 2021 and passed the following resolution:

The Supervisory Council takes note of the assessments in the assurance report on Norges Bank's risk management and control framework for implementing and complying with the Management Mandate for the Government Pension Fund Global.

The Council asks the Executive Board to consider the recommendations from the report and would particularly emphasise the recommendation on how the qualitative provisions in the mandate are to be understood, and what compliance with these is to be measured against.

The report will be forwarded to the Executive Board for comment and made publicly available when sent to the Ministry of Finance.

The assurance statement was submitted to the Ministry of Finance and published on the Council's website.²⁹ The report was also forwarded to the Board for feedback, and the Council received a reply from the Board concerning the recommendations in the report on 5 March 2021.

Excerpts from the Board's response:

"The Executive Board notes the main conclusion of the report that the Bank's risk management and control concerning the implementation of and compliance with the management mandate for the GPFG have essentially been designed in accordance with the measurement criteria for the review. The Board is satisfied with the conclusion of the assurance review.

"Deloitte has, however, identified a number of points that may be significant for work on further developing the Bank's risk management and control in the area in question. Subject to the constraints set out in the comments below, the Executive Board will further develop its risk management and control framework on the basis of these recommendations."

– **On the interpretation of qualitative provisions in the mandate**

"The Board is of the opinion that the aforementioned processes, reporting and exchange of information help limit the risk of differing interpretations of how the qualitative provisions in the mandate are to be understood. Nor is it a given that it would be appropriate for

the governance documents to contain precise and measurable definitions of the qualitative requirements in the mandate. The interpretation of such requirements will normally be developed through ongoing governance. For example, it is natural for the requirement of cost efficiency to take concrete shape in the annual budget processes. The Board will nevertheless undertake a fresh review of the governance documentation to ensure that the qualitative mandate provisions are adequately captured in the relevant governance documents.”

- **On the implementation of mandate amendments**
“At its meeting of 24 March 2020, the Executive Board approved a process for how work on advising the Ministry of Finance on investment strategy for the GPFPG is to be organised. This process is described in the mandate for the Risk and Investment Committee and also applies to work on amendments to the mandate for the GPFPG. The Board will assess whether there is a need for further specification of the process for work on advising the Ministry in its next review of the mandate for the Risk and Investment Committee.

“The management mandate for the GPFPG was extensively updated in November 2019. Deloitte has assessed the documentation prepared in this context and writes: ‘For some of these provisions, there was no documented assessment of how the provision was to be understood.’ Deloitte therefore recommends that the assessment of all amendments to the mandate should be documented. The Board will ask management to ensure that the case documentation presented to the Board on such matters in future provides a more detailed presentation of mandate amendments and how these are reflected in the Bank’s internal control framework.”

- **On compliance with mandate provisions**
“The Board will ask management to review the reporting to ensure that it presents appropriately how the qualitative provisions in the mandate have been followed up. Compliance with the provisions in the Ministry of Finance’s mandate are followed up through established processes and systems for risk management, internal control and compliance at NBIM. The Board believes that it would not be appropriate to prepare separate written guidance beyond this established framework for assessing compliance with the qualitative provisions in the Ministry’s mandate. The governance documents are reviewed and updated annually. This periodic review will take account of the

fact that understanding of qualitative provisions in the mandate may evolve over time.”

The Council considered the Board’s response at its meeting of 18 March 2021 and passed the following resolution:

The Supervisory Council takes note of the response from the Executive Board concerning the assurance report on Norges Bank’s risk management and control framework for implementing and complying with the Management Mandate for the Government Pension Fund Global. The Board’s response will be forwarded to the Ministry of Finance.

1.5 FOLLOW-UP OF THE EMPLOYMENT CONTRACT BETWEEN THE EXECUTIVE BOARD AND THE CEO OF NBIM

The Executive Board’s appointment of a new CEO of NBIM and the content of his employment contract were an important topic for the Supervisory Council in 2020. The Council’s letter to the Storting dated 11 June 2020 was treated as Document 9:1 (2019–2020) in an open hearing of the Standing Committee on Finance and Economic Affairs on 10 August 2020 where the Council’s chair provided background to the letter. At the time of the letter, not all of the agreements had been finalised, and the Council found that adequate internal control measures had still to be established.

The Standing Committee submitted its recommendation on the matter to the Storting on 21 August 2020.³⁰ It was concluded that the following matters needed to be clarified before the new CEO took office:

- *“The CEO of NBIM cannot have holdings or interests that could create or appear to create conflicts of interest that are liable to weaken the trust and reputation of Norges Bank, pursuant to the Bank’s own ethical principles for employees.*
- *The CEO of NBIM cannot have holdings or interests that weaken or could weaken the GPFPG’s work on tax and transparency.”*

The Storting passed a resolution on 5 November in line with this recommendation.

At its meeting of 10 September, the Supervisory Council considered the amended deed of undertaking of 24 August 2020 between Norges Bank and Nicolai Tangen

relating to the agreement of 27 May 2020. This deed of undertaking states that Nicolai Tangen's holding and dividend rights in AKO Capital LLP "are to be transferred with final and irrevocable effect" to the charitable entity AKO Foundation. Tangen's investments in funds and shares were to be liquidated, and the proceeds invested in bank deposits.

At its meeting of 12 November 2020, the Council considered a letter from the Executive Board dated 2 November 2020. In this letter, the Board describes the changes made to the employment contract with the CEO of NBIM since 24 August 2020. The employment contract was signed on 27 May 2020 but had subsequently been revised regarding the sale of investments in funds and the requirement that the proceeds be invested in bank deposits etc. The letter describes amendments to Nicolai Tangen's investment management agreement with Gabler Investments AS and the associated written deed of undertaking. Tangen is not to have any influence over individual investments under the investment mandate, but may add and withdraw funds from the investment portfolio as necessary. Gabler's undertaking to Norges Bank was amended accordingly.

The changes to the agreements provided an opportunity to readjust the management of Tangen's assets. The revision accepted by the Executive Board on 30 September 2020 means that, in addition to cash deposits in banks, funds may be invested in other financial assets such as approved fixed-income securities, i.e. Norwegian or foreign government bonds with an original maturity of up to 12 months, or the equivalent issued by public authorities.

At the same meeting, the Council also considered a memo from Norges Bank's legal adviser on AKO Foundation and its subsidiaries.

The Council had two follow-up points for the Board after considering the letter on the revised employment contract and control measures. The minutes from 12 November 2020 read:

"The Council notes that the CEO of NBIM may, on the termination of his employment with Norges Bank, lawfully buy back the assets transferred to AKO Foundation through the formation of AKO Subsidiary. The Council asks the Board to return to the Council with information on how the Board will and can ensure that this does not happen.

"The Council also notes that AKO Foundation, of which the CEO of NBIM was the founder, has awarded large sums to various educational institutions. The Council asks the Board to return to the Council with information on how it will ensure that impartiality will be ensured in the use of the educational institutions in question for evaluation assignments where AKO Foundation has awarded considerable sums, during the time that the founder of AKO Foundation is CEO of NBIM."

In a press release on 2 December 2020, Norges Bank announced that the transfer of Nicolai Tangen's holding and dividend rights in AKO Capital LLP to AKO Foundation was complete and that Tangen no longer had any ownership interests in AKO Capital LLP. At the following meeting of the Supervisory Council, the Governor stated that the final employment contract with Nicolai Tangen was entered into and signed on 1 December 2020 by the Governor based on powers granted, and previous consideration, by the Executive Board. He also stated that all of the undertakings and terms had been finalised and that the transfer of Tangen's ownership interests in AKO Capital to AKO Foundation had been implemented with final and irrevocable effect and confirmed by legal advisers.

At its meeting of 24 February 2021, the Supervisory Council considered the final employment contract with the CEO of NBIM dated 1 December 2020 and the associated control measures, along with the reply from the Executive Board to the Council's two questions in the minutes of the meeting of 12 November 2020. The Council also considered the minutes of the Executive Board's meetings of 25 November and 18 December 2020. These minutes show that the Board took note of a briefing on the follow-up of the employment contract at its meeting of 25 November, and took note of the final employment contract with the CEO of NBIM at its meeting of 18 December. Updated control measures relating to the employment contract were also considered at the latter meeting.

On the question of the possible repurchase of assets transferred to AKO Foundation, the Board responded:

"The Executive Board refers to the amended deed of undertaking of 24 August 2020 entered into with Nicolai Tangen on, among other things, the transfer of his holding in AKO Capital LLP to AKO Foundation 'with final and irrevocable effect', cf. the letter to the Ministry of Finance of the same day copied to the Supervisory Council. The Board confirms that it has always been clear between the parties

that this is to be understood such that this obligation applies 'in perpetuity', i.e. including after Tangen leaves his position at Norges Bank. Tangen has also confirmed this understanding in writing on 28 August and several times subsequently."

"Regarding the subsequent repurchase of the donated stake in AKO Capital LLP from AKO Foundation, reference is made to the amended undertaking (Amended and Restated Deed of Undertaking of 1 December 2020) given by AKO Foundation (also applying to the Subsidiary) to Norges Bank. This states that AKO Foundation's holding in AKO Capital LLP may not be sold back to Tangen (or his close family). Section 3.6 of the deed reads:

'The Contracting Entity undertakes that it (a) will not sell, assign or otherwise dispose of or transfer ("Sell" or "Sale") to NT or to any NT Affiliate any legal or beneficial interest in any AKO Subsidiary, and (b) will procure that no AKO Subsidiary will Sell to NT or to any NT Affiliate any legal or beneficial interest in AKO Capital or in any affiliate of AKO Capital.'

The obligation for AKO Foundation not to sell any ownership interests in AKO Capital back to Nicolai Tangen applies indefinitely and does not therefore come to an end upon Tangen's departure from Norges Bank, cf. Section 2.1 of the deed of undertaking. It was clarified by the Bank's English lawyers in a separate document 'Advice on enforceability' of 18 November 2020 that these provisions could be enforced under English law, including through the use of a temporary injunction, a demand for the reversal of a transaction, or a claim for damages.

Correspondingly, it follows from Section 3.1 (a) of Nicolai Tangen's amended undertaking of 1 December 2020 that 'NT undertakes that without Norges Bank's prior consent neither he nor any NT Affiliate will:

- a) acquire any direct or indirect legal or beneficial interest in AKO Capital LLP (including without limitation any dividend rights) from AKO Foundation, including without limitation any such interest held through an AKO Subsidiary.'

This undertaking is not time-limited."

"To ensure follow-up of these obligations, there is a requirement for both AKO Foundation and Nicolai Tangen to notify Norges Bank should they become aware of any proposed sale or transfer ('to any person') of ownership interests in AKO Capital by AKO Subsidiary, or of ownership

interests in AKO Subsidiary from AKO Foundation. These notification obligations have an agreed duration of 15 years from the expiry of any gardening leave period after Tangen leaves NBIM."

The Executive Board also refers to the established control measures for following up the employment contract.

In the wake of the revised employment contract, a fresh assessment was made of which undertakings and control measures should be retained. NBIM has updated guidelines for controls relating to the framework established for Nicolai Tangen's personal investments.

To avoid situations that could be perceived externally as presenting potential conflicts of interest, a number of restrictions have been retained concerning the use of AKO Capital as an external manager, as well as restrictions on trading and loan agreements directly with AKO etc. NBIM has made changes to its guidelines.

Regarding the issue of how impartiality is ensured in the use of the educational institutions in question, there is a brief presentation of contact with academics and academic institutions, and processes for the award of research funding. In addition, the Board replies:

"Concerning the decisions taken by the CEO of NBIM, reference is made to the general impartiality rules that apply to the CEO of NBIM, cf. in particular Section 6, second paragraph, of the Public Administration Act stating that no public official may make a decision on a matter 'if there are any other special circumstances which are apt to impair confidence in his impartiality; due regard shall inter alia be paid to whether the decision in the case may entail any special advantage, loss or inconvenience for him personally or for anyone with whom he has a close personal association'.

"Should this become relevant due to decisions at NBIM to enter into an agreement with a research institution that has received support from AKO Foundation, reference is made to the general decision reached by the Executive Board on 24 June 2020: 'The Executive Board delegates to the Deputy Governor with special responsibility for the GPF the authority to make decisions on behalf of the Board on matters where the CEO of NBIM is considered to be disqualified.'"

"Nicolai Tangen sits on the Board of Overseers of the Wharton School of the University of Pennsylvania (Wharton). An academic institution such as Wharton could

be a counterparty to agreements that NBIM enters into to support various research projects. Were it to be proposed that NBIM should enter into an agreement with Wharton, or award grants to students studying or due to study at Wharton, Nicolai Tangen will not participate in such a decision. The decision will be taken by the Deputy Governor, cf. the Board's decision."

Following its consideration on 24 February 2021 of the Executive Board's response to the Council's minuted questions, the Council passed the following resolution:

"a) The Supervisory Council refers to the letter of 8 February 2021 from the Executive Board to which the revised employment contract with Nicolai Tangen is appended. The Council notes that the matters pointed out in the Council's minutes of 12 November 2020 have subsequently been included in the employment contract signed on 1 December 2020 with two appendices.

The Council asks the Board to explain and justify why the employment contract permits Nicolai Tangen, following his departure as CEO of NBIM, with Norges Bank's approval, to take over a "direct or indirect legal or beneficial interest in AKO Capital LLP" from AKO Foundation or AKO Foundation's subsidiary.

Against the background of the way this appointment has proceeded, the Council requests a description of the process for this type of approval.

b) The Supervisory Council refers to the Executive Board's statement that NBIM's research projects differ from the type of enquiry or evaluation that the Ministry of Finance periodically has carried out, and that the choice of academics and academic institutions for such assignments is made by the Ministry. The Council recommends that the Board ensures that the Ministry receives information on which academics and academic institutions receive support or contributions from AKO Foundation."

The Executive Board responded to these two requests in the minutes of 24 February in a letter to the Council dated 25 March 2021:

"Re question a) on the wording of Nicolai Tangen's undertaking to Norges Bank

(1) The formulation in question is referred to in the Bank's letter to the Supervisory Council of 8 February 2021 and is found in Tangen's amended deed of undertaking of 1 December 2020. Section 3.1 (a) states that 'NT under-

takes that without Norges Bank's prior consent' he will not acquire beneficial interests in AKO Capital LLP. This undertaking applies indefinitely.

The reference to 'without ... prior consent' is a standard legal formulation which applies generally to all of his undertakings under Section 3.1 of the deed. The formulation stems from Section 3 of his original deed of undertaking of 28 May 2020 where it again applies to various undertakings that Tangen made to Norges Bank.

On 24 August 2020, the Bank and Nicolai Tangen agreed that he would end his ownership of AKO Capital LLP and transfer his holding to AKO Foundation with final and irrevocable effect. This was carried out with effect from 1 December 2020, and the amended employment contract and deed of undertaking were signed the same day to reflect this new reality. This included the provision that Tangen waived all rights to buy back interests in AKO Capital.

The changes from 1 December 2020 meant that the new restriction preventing a repurchase was incorporated into Section 3.1 of the deed of undertaking, and was thus covered by the introductory formulation 'without Norges Bank's prior consent' in line with the other restrictions imposed by this provision.

It is clear, however, that neither party intended that this would lead to any exemptions from the restriction preventing a repurchase.

There is reason to stress a number of matters when it comes to the real and legal significance of the formulation in Tangen's undertaking.

AKO Foundation – as the owner of interests in AKO Capital LLP – agreed in its revised undertaking to Norges Bank of 1 December 2020 (Section 3.6) that the holding may not be sold back to Tangen (or close relatives). This undertaking applies indefinitely and does not expire on Nicolai Tangen's departure from Norges Bank. In the case of this undertaking, there is no mention of possible 'prior consent' from the Bank. Thus the text of the deed does not permit Norges Bank to approve such a sale to Nicolai Tangen 'regardless'.

It should also be noted that, even without such formulations, the two parties to an agreement will be able to make exemptions or amendments should they subsequently agree to do so.

The key point is that any such permission has never been an issue, either for the Bank's management and Executive Board or for Tangen.

To avoid any doubt arising about the agreement's intentions, the Executive Board has considered the wording of the two deeds of undertaking from Tangen and AKO Foundation and concluded that they can be made identical on the point in question. As mentioned above, this has no legal significance, and in the light of the above it is therefore recommended that Tangen's undertaking also omits the formulation 'without Norges Bank's prior consent' in connection with the restriction preventing a repurchase of his holding in AKO Capital.

(2) On the Supervisory Council's request for a 'description of the process for this type of approval'

In the light of the above, the Executive Board would point out that the approval referred to is only hypothetical and not relevant in this case, and so the Board has not seen a need to consider such a process further.

Re question b) on information for the Ministry of Finance

The Supervisory Council's minutes state: 'The Council recommends that the Board ensures that the Ministry receives information on which academics and academic institutions receive support or contributions from AKO Foundation.'

The Executive Board can advise that the Bank will inform the Ministry about the issue raised by the Council concerning information for the Ministry on 'which academics and academic institutions receive support or contributions from AKO Foundation'. The Bank will clarify any desired exchange of information with the Ministry."

This response from the Board will be considered at the Council's meeting of 10 June 2021.

The Council aims to conduct ordinary supervision of the Executive Board's follow-up of the employment contract.

- 1 Central Bank Act, Section 4-1 (2).
- 2 Central Bank Act, Section 4-1 (1), final sentence: "Its supervision shall not extend to the exercise of discretionary powers by the Executive Board or the Monetary Policy and Financial Stability Committee." The Committee was established from 2020.
- 3 Bill 97 L (2018–2019), 6.5.2 The Supervisory Council's appointment, composition, duties, procedures, etc., 6.5.2.1.4 The Ministry's assessments.
- 4 Report to the Storting No. 7 (2018–2019), The Ministry's assessments, 3.5.2.6 Lines of governance and responsibility and supervision of activities with particular emphasis on the management of the GPFG.
- 5 International Standard on Assurance Engagements (ISAE) 3000: "Assurance engagements other than audits or reviews of historical financial information".
- 6 Sources for the descriptions of supervision are the Council's minutes, the minutes of the meetings of the Permanent Committee, discussion points at these meetings, memos, supervisory reviews, assurance engagements, investigations and the annual reports for 2019 and 2018.
- 7 Central Bank Act, Section 4-3 (4).
- 8 https://www.norges-bank.no/contentassets/394bf651f90b4e7b8595ae81ae76fe6c/nb_strategi_2022_no.pdf
- 9 Ipsos reputation survey of Norwegian public bodies for 2020.
- 10 Recommendation 253 L (2020–2021) submitted by the Standing Committee on Family and Cultural Affairs on 25 February 2021.
- 11 Bill 108 L (2019–2020).
- 12 The Regulation on Risk Management and Internal Control at Norges Bank, laid down by the Ministry of Finance on 17 December 2009 pursuant to Act No. 28 of 24 May 1985 on Norges Bank and the monetary system etc. (Norges Bank Act), Section 30a, third paragraph.
- 13 Internal Control Regulation, Section 8.
- 14 Regulated in the mandate from the Executive Board.
- 15 Discussed in the Report to the Storting for 2019.
- 16 The Supervisory Council engaged Else Bugge Fougner from the law firm Hjort.
- 17 Laid down by the Ministry of Finance and last amended with effect from 30 November 2019.
- 18 Central Bank Act, Section 2-11.
- 19 Central Bank Act, Section 2-3 (2).
- 20 Central Bank Act, Section 3-2.
- 21 Principles for the management of Norges Bank's foreign exchange reserves, the Executive Board 10 february 2020.
- 22 Norges Bank uses market operations to guide banks' reserves towards the desired level. This is done primarily with F-loans and F-deposits. Most of Norges Bank's market operations are announced and carried out as auctions on the same day that they are settled. An auction calendar is published.
- 23 Central Bank Act, Section 3-7 "Banker to the central government".
- 24 Central Bank Act, Section 3-7.
- 25 https://www.norges-bank.no/contentassets/c80274266a8f496cbebad44b2045cd04/2021-02-18-attestasjonsoppdrag_statsgjeldforvaltningen.pdf
- 26 Management Mandate for the Government Pension Fund Global, Section 2-4 (12).
- 27 Management Mandate for the Government Pension Fund Global, Section 3-10 (4).
- 28 https://www.norges-bank.no/contentassets/c80274266a8f496cbebad44b2045cd04/repskapet_attestasjonsoppdrag_referanseportefolje_2019.pdf
- 29 https://www.norges-bank.no/contentassets/c80274266a8f496cbebad44b2045cd04/2021-02-18-attestasjonsoppdrag_mandatimplementering_og_etterlevelse.pdf
- 30 Recommendation 398 S (2019–2020) Recommendation from the Standing Committee on Finance and Economic Affairs on the Letter to the Storting from Norges Bank's Supervisory Council on the appointment of a new CEO of Norges Bank Investment Management (NBIM).

CHAPTER 2

NORGES BANK'S ANNUAL
FINANCIAL STATEMENTS AND
BUDGET

2.1 ADOPTION OF NORGES BANK'S ANNUAL FINANCIAL STATEMENTS AND REPORT ON THE MANAGEMENT OF THE GOVERNMENT PENSION FUND GLOBAL FOR 2020

The Supervisory Council's resolution to adopt the annual financial statements for 2020 is included in Norges Bank's annual report and financial statements and reads as follows:

Norges Bank's Supervisory Council passed the following resolution at its meeting of 24 February 2021:

- The Supervisory Council takes note of the Annual Report of the Executive Board for 2020.
- The Supervisory Council takes note of the auditor's report and assurance statement on responsible investment and adopts Norges Bank's annual financial statements for 2020.
- In accordance with the guidelines, the total comprehensive income of NOK 28.8bn is to be transferred as follows: NOK 22.7bn to the Adjustment Fund and NOK 6.1bn to the Transfer Fund. From the Transfer Fund, one third, or NOK 15.2bn, will be transferred to the Treasury.

The resolution on the annual financial statements includes the allocation of the profit for the year, which has effects on Norges Bank's equity. The King in Council has laid down guidelines on reserves and on the allocation of the profit for the year.³¹ The resolution on the allocation of the profit for the year conforms to these guidelines.

Norges Bank's annual report and accounts for 2020, the annual report on the management of the GPF for 2020 and the responsible investment report for 2020 were all published on 25 February 2021.³²

The GPF's deposit in a krone account³³ at Norges Bank had a value of NOK 10,908bn on 31 December 2020. The financial reporting on the fund forms part of Norges Bank's annual financial statements and is presented in detail in Note 20.

The management fee from the Ministry of Finance is discussed in Note 13: *"Total operating costs at Norges Bank incurred in connection with the management of the GPF are reimbursed by the Ministry of Finance as the client. The management fee is equivalent to the actual costs*

incurred by Norges Bank, excluding administration fees invoiced separately to Norges Bank's subsidiaries in Norway, but including performance-based fees to external managers. The management fee came to NOK 5,305m in 2020 and NOK 4,312m in 2019."

Under the management mandate for the GPF³⁴, the Executive Board is to evaluate its work and its competence each year in relation to managing the fund in accordance with the provisions of the mandate. The Board's self-evaluation is to be sent to the Ministry.

The Supervisory Council has received a copy of the letter to the Ministry. The evaluation states: *"The external members' combined and varied experience and expertise complement the skills of the internal members well."*

THE CENTRAL BANK'S EQUITY

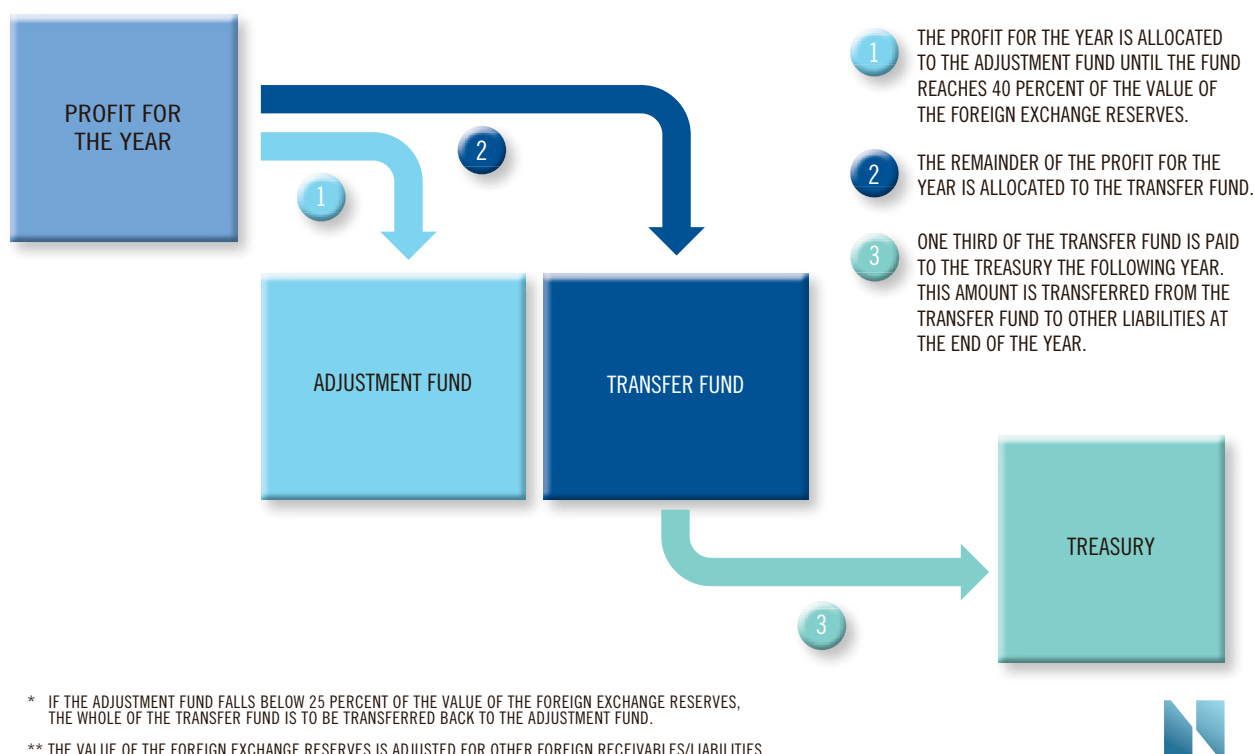
Requirements for Norges Bank's equity can be found in the Central Bank Act, and the question of how much equity it should have was discussed in the preparatory work on the act: *"The composition of the balance sheet determines the bulk of the profit for the year. Central banks will normally generate a profit. The profit for the year and the allocation of this profit determine how much equity central banks build up."*³⁵

Norges Bank manages the foreign exchange reserves and can influence the size of these reserves and other assets. It is a statutory requirement that Norges Bank has *"sufficient equity to fulfil the Bank's purpose."*³⁶ This purpose is *"to maintain monetary stability and to promote the stability of the financial system and an efficient and secure payment system. The central bank shall contribute to high and stable output and employment."*³⁷

The Supervisory Council noted that some members of the Standing Committee on Finance and Economic Affairs suggested in its recommendation on last year's Report to the Storting that *"it would be natural to initiate a process to explore what might be defined as sufficient equity for the central bank. In the view of these members, this is a task that can be assigned to the Supervisory Council."*³⁸

The Bank's management provided information on the assessments made in 2020 and on its assessments of the size of the Bank's equity. There has been no definition or quantification of what is to be considered sufficient equity. The Bank's equity consists of an Adjustment Fund and a Transfer Fund. The annual change in the Bank's equity depends on the allocation of its profit, which follows set guidelines, cf. the resolution on the allocation

FIGURE 5 THE EQUITY MECHANISM



of the profit for the year above. Since 2014, a total of NOK 119bn has been transferred to the central government.

Figure 5 shows the allocation of Norges Bank's profit, the impact on its equity, and transfers to the Treasury.

The foreign exchange reserves consist of equities, fixed-income securities and exchange rate movements. The reserves are to be available for transactions in the foreign exchange market in the conduct of monetary policy or to promote financial stability and meet the Bank's international commitments. A discretionary assessment known as stress-testing is performed to measure their adequacy in relation to estimated liquidity needs in an emergency. New economic/financial decisions in the future could affect the Bank's balance sheet and equity.

Under the Central Bank Act, Norges Bank is to fulfil the obligations that follow from Norway's membership of the International Monetary Fund (IMF). This membership involves a standing commitment to make currency available for the IMF's loans to other member states.³⁹

In 2021, the Supervisory Council will consider how the supervision of Norges Bank's equity can be conducted.

The Annual Report of the Executive Board for 2020 states:

"Norges Bank's equity at 31 December 2020 was NOK 276.8bn, compared with NOK 263.2bn at 31 December 2019. The Adjustment Fund and the Transfer Fund comprise the Bank's equity. At year-end 2020, the Adjustment Fund stood at NOK 246.5bn and the Transfer Fund at NOK 30.3bn. Norges Bank's equity was 35.9% of the balance sheet total, excluding the GPF, compared with 40.9% in 2019. The Executive Board deems that equity is sufficient to fulfil the Bank's purpose (cf. Section 3-11, Sub-section 1, of the Central Bank Act)."

The Supervisory Council recommends that the Executive Board specify its assessment of Norges Bank's equity relative to the new provision in Section 3-11 (1) of the Central Bank Act. Understanding of the new provision could be supported by a more detailed analysis, which would be most natural for the Executive Board to initiate, given the division of responsibilities at Norges Bank.

The Council will follow the Board's annual assessments in the financial reporting and the process for meeting statutory requirements based on the Bank's purpose.

As background to the work on establishing follow-up in the supervision of the Bank, the question of central banks' equity requirements has been examined in a Master's thesis at NHH Norwegian School of Economics initiated by the Office of the Supervisory Council. Based on analyses and an assessment of risks relating to the loss of a central bank's liquidity, independence and credibility, a general model has been developed covering tasks and areas of responsibility, contents of the balance sheet, additional agreements with the central government and the outside world. The level of risk to which a central bank is exposed determines how much equity it should have to handle these risks. The analysis and the model have been presented to the Supervisory Council and provide a solid background from which to establish supervisory procedures in this area.

2.2 AUDITOR'S STATEMENTS ON NORGES BANK'S FINANCIAL REPORTING

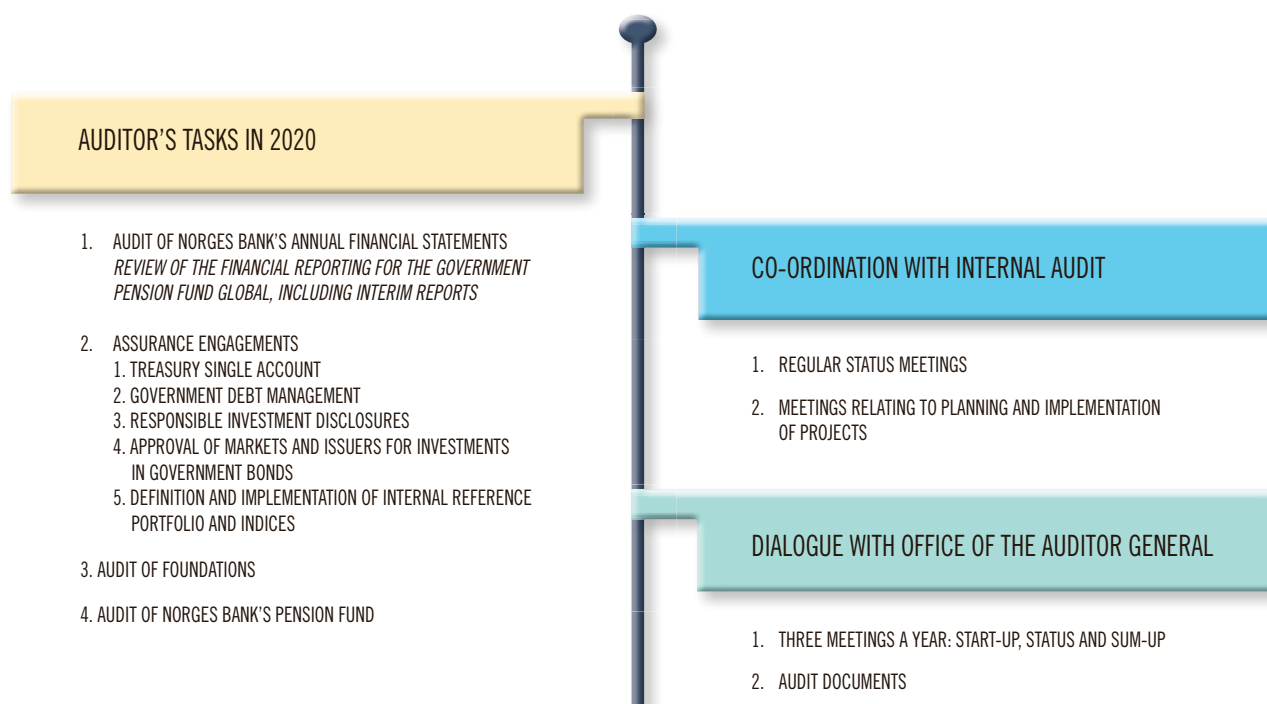
When the Supervisory Council considered the Bank's annual financial statements and reporting on the management of the GPFG for 2020, Deloitte AS provided information on the audit procedures carried out.

The external auditor's tasks are presented in Figure 6.

Two auditor's reports addressed to the Council have been submitted for 2020, one on Norges Bank's annual financial statements and one on the financial reporting for the GPFG's investment portfolio. The reports were unqualified in both cases and are included in the respective annual reports from Norges Bank.

The auditor's report on Norges Bank's annual report also includes a statement on other statutory requirements, including reporting on corporate social responsibility. The auditor concludes that: *"the information in the Annual Report of the Executive Board and in the reporting on corporate social responsibility concerning the financial statements and the proposed allocation of profit are consistent with the annual financial statements and*

FIGURE 6 THE EXTERNAL AUDITOR'S TASKS IN NORGES BANK



comply with laws, regulations and the guidelines for Norges Bank.”

In the auditor's reports, the key audit matters that, in the auditor's opinion, were most important for the audit of the annual financial statements for 2020, are described, and risks assessed.

These key audit matters were addressed during the conduct of the audit and formed the basis for the auditor's opinion on the annual financial statements as a whole.

Four matters in particular are discussed:

- Management of the equity and fixed-income portfolios in the foreign exchange reserves and the GPFG
- Notes and coins in circulation
- Valuation of investments using models that make significant use of non-observable input data for the GPFG
- Information in the notes on the return for the GPFG

The auditor also submitted a report on its review of the financial reporting for the GPFG for the first half of 2020, dated 12 August 2020. This review was based on the international standard on the review of interim financial information.⁴⁰ Deloitte AS concluded positively that the reporting complied with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the EU.

The Council has taken note of the auditor's reports and the report on the review of the interim reporting for the GPFG from Deloitte AS. All statements are included in full in Norges Bank's annual report and financial statements and the reporting on the management of the GPFG for 2020.

In line with established practice, Deloitte AS also prepared a management letter providing information on the audit performed and on items that may be significant for the financial reporting. It also contains information on the auditor's relationship with management and the auditor's independence.

The Supervisory Council has taken note of the management letter from the auditor and forwarded it to the Executive Board for consideration.

Where subsidiaries in real estate management for the GPFG have appointed their own auditor, the independent auditor's report is submitted directly to the board of each company. These reports are not considered by the Council.

2.3 REPORTING ON SOCIAL RESPONSIBILITY

Norges Bank complies with the requirements of the Accounting Act⁴¹ for reporting on corporate social responsibility and sustainability. Norges Bank's annual report and financial statements for 2020⁴² provide information on how the Bank has addressed its social obligations:

- *Norges Bank's most important social responsibility is to promote economic stability in Norway and ensure effective efficient and credible investment management.*
- *It is also through its responsible investment activities that the Bank has its most significant impact on human rights, labour rights and social issues, the external environment and anti-corruption.*
- *Norges Bank's social responsibility also means open and clear communication, research and knowledge sharing, ethical business conduct, and promoting gender balance and a good working environment.*

The Council engaged Deloitte AS to conduct an independent assurance review of the information in the chapter “Responsible management of the Government Pension Fund Global” in the annual report. In its conclusion, Deloitte AS states:

“We have not become aware through our work of any matters that give us reason not to assume that Norges Bank has established procedures for identifying, collecting, compiling, documenting and quality-assuring information for 2020 for use in the chapter ‘Responsible management of the Government Pension Fund Global (GPFG).’”

The Supervisory Council has taken note of the assurance statement.

The statement is included in full in Norges Bank's annual report and financial statements for 2020.⁴³

Norges Bank has also published a separate report on responsible investment of the GPFG for 2020, which the Council has noted for information.

2.4 BUDGET RULES FOR NORGES BANK

Norges Bank is a separate legal entity owned by the central government.⁴⁴ Norges Bank sets its own budget, which is not included in the Storting's consideration of the central government budget. The Supervisory Council's budgetary powers are regulated in Section 4-2 of the Central Bank Act: *"The Supervisory Council shall adopt Norges Bank's budget on the basis of a proposal from the Executive Board. The approved budget shall be communicated to the Ministry."*

This kind of budgetary independence is common to many central banks. Economic and political independence helps ensure an independent role in the conduct of monetary policy and promotion of financial stability. Norges Bank's freedom of action under this arrangement brings expectations of strict budget discipline and close monitoring of expenditure. Great importance was given to these matters in the preparatory work on the new Central Bank Act entering into force on 1 January 2020.

The Council has issued budget rules with general principles for financial management. These rules are included as Appendix 3-1 to this Report. The Executive Board has issued supplementary financial rules with general principles for financial management and the budget process.

In the light of the new Central Bank Act and organisational changes, the budget rules were updated in 2020. One of the most important changes is that the budget proposal is to include a forecast for the budget year and the following two years for personnel expenses, other operating expenses and capital expenditure. Another is that the Supervisory Council is to be notified without undue delay of major strategic changes. This will give the Council greater insight into, and opportunities to ask questions about, the Bank's financial management.

The Council is also to approve a budget for operating expenses at operating companies within real estate management and, from 2020, the management of unlisted renewable energy infrastructure in the GPFPG.

2.5 NORGES BANK'S EXPENDITURE – FOLLOW-UP OF THE BUDGET FOR 2020

In addition to sending a letter to the Ministry of Finance each year on the budget resolution for Norges Bank, the Supervisory Council believes it important for the Storting to receive information directly on financial management

and expenditure at the central bank through this Report to the Storting.

The Council has considered a letter from the Executive Board dated 10 February 2021 with its budget reporting for 2020. This reporting includes a status report on the budget for the Bank's overall operating revenue, operating expenses and capital expenditure, and information on significant variations. There is also brief information on the status of action plans and performance against targets, with the main focus on measures with significant budgetary consequences.

The Supervisory Council took note of the budget status report for 2020 and considers the reporting to be in line with the budget rules. The Council asks the Executive Board to continue to focus on cost efficiency and economies of scale.

The operating loss for the year was NOK 1,010m, excluding costs for the Supervisory Council and the Office of the Supervisory Council. This was within the budget approved for 2020.

Operating expenses totalled NOK 6.4bn, of which NOK 5.3bn related to the management of the GPFPG. Operating expenses excluding fees to external managers for the GPFPG were NOK 112m lower than budgeted. External management costs were higher than budgeted, which was due to strong returns for the year. These costs were covered by an increase in the management fee from the Ministry of Finance.

Total operating revenue, including the management fee for the GPFPG, was NOK 5,426m.

The accumulated budget for capital expenditure was NOK 73m, breaking down into NOK 29m at NBCBO and NOK 44m at NBA. The budget includes both new investments approved for 2020 and projects approved in previous budgets. There was no capital expenditure budget for NBIM in 2020, and no expenses were recognised for investment projects there during the year.

2020 saw actual capital expenditure of NOK 39m, which is within the approved budget. Of this, approximately NOK 22m related to maintenance and upgrading of the Bank's headquarters at Bankplassen 2 in Oslo.

2.6 RESOLUTION ON NORGES BANK'S BUDGET FOR 2021

The Supervisory Council's budget resolution approves Norges Bank's total expected expenditure in the coming year. The Council ensures that the Executive Board has presented clear overviews showing reasonable financial budgets for the Bank's tasks and operation. The annual budget resolution covers the whole of Norges Bank's activities, including the management of the GPF. At an overarching level, the criteria and assumptions for budgeting are to be consistent across the whole of the Bank.

REMUNERATION ARRANGEMENTS

The Council attaches importance to cost efficiency and has previously received reports from the Executive Board on the Bank's remuneration arrangements. Salary and other personnel expenses make up a substantial proportion of the Bank's operating expenses. In 2020, they accounted for 40 percent of operating expenses before performance-based fees to external managers.

Where employees have variable pay at NBIM, the general rule is that this must not exceed 100 percent of fixed annual salary. For staff outside Norway, variable pay must not exceed 200 percent of fixed salary. The Board sets a ceiling each year for how many employees may be offered variable remuneration up to 200 percent, and 44 employees were eligible for such pay in 2020. By way of comparison, the Council has noted that variable pay at the Government Pension Fund Norway (Folketrygdfondet) is limited to 50 percent of fixed salary (six months' salary).

The Council believes that it is very important that the Bank's practice does not seem unreasonable in relation to peer organisations. Transparent, comprehensible and objective rules are also important criteria for a functioning system of variable remuneration.

When considering the Bank's budget proposal for 2021, the Council asked the Board to come back with additional information on the background to the current remuneration system and on how performance-based pay is calculated. The Council requested a presentation of the remuneration system and a briefing on how the Bank can comply with the criteria for the system to the greatest possible extent in the future. The Board's response was considered on 24 February 2021, and the chair of the Remuneration Committee⁴⁵ presented information on the system for variable remuneration at NBIM and on the considerations behind these payments. The Council took note of this information.

BUDGET RESOLUTION FOR 2021

In accordance with the Central Bank Act and the budget rules for Norges Bank, the Supervisory Council has considered the Executive Board's budget proposal for Norges Bank.

The Board's budget proposal for 2021 covers the Bank's entire operations and includes detailed information on the underlying budgets for NBCBO, NBIM and NBA. Appendices present uncertain and variable costs, benchmarking with other central banks and investment managers, and strategy documents. The budget assumes 938 permanent employees at Norges Bank at the end of 2021, which is more than a year earlier.

In preparation for the Council's consideration of the budget, assessments were made of whether the budget rules had been followed. Norges Bank has followed up comments from the budget approval process in 2020 relating to the organisation of administrative functions, cost levels in the management of the GPF, and reductions in staff numbers. In addition, the Executive Board has addressed the Council's comment on the use of updated forecasting and accounting data. The budget rules attach importance to the use of relevant cost benchmarking.

The Ministry of Finance's letter to Norges Bank dated 23 December 2020 on the limit for the reimbursement of management costs for the GPF for 2021 was available when the Council considered the budget. The Council attaches importance to management costs for the GPF not exceeding the limit set by the Ministry. Any overshoot must be covered by Norges Bank. It is also of great importance that the Ministry's requirements for cost management are observed.

The Ministry writes:

"The Ministry considers it important that the limit for management costs provides an incentive for good control and management of costs, and cost-effective investment management. The safety margin between the cost limit and the budget should not therefore be excessive. At the same time, the Ministry agrees that there are circumstances outside the Bank's control that may mean that the cost limit should be set with a sufficient safety margin. These include uncertainty around movements in exchange rates, the fund's market value and returns."

For a second year, the limit has been stated in NOK rather than basis points as was the previous practice. The Ministry of Finance has set a maximum limit for management

costs for 2021 of NOK 5.4bn, including costs at subsidiaries covered by the limit.

Responding to questions from the Council, the Bank's management provided information on work on the

strategy for investment management as a result of organisational changes such as the new CEO, new leader group and reorganisation of NBIM, and on systems and forecasts for payments of performance-based variable pay.

The budget resolution for 2021 reads as follows:

In accordance with the Central Bank Act and the budget rules for Norges Bank, the Supervisory Council has considered the Executive Board's proposed budget for the Bank for 2021 (figures in millions of NOK):

	BUDGET 2021
Management fee, GPFG	5 583
Other operating revenue	121
Total operating revenue, Norges Bank	5 704
Personnel expenses, NBCBO	-388
Other operating expenses, NBCBO	-497
Depreciation, amortisation and impairment losses, NBCBO	-47
Personnel expenses, NBIM	-1 486
Other operating expenses, NBIM	-2 102
Depreciation, amortisation and impairment losses, NBIM	-53
Fees to external managers, NBIM	-2 012
Personnel expenses, NBA	-283
Other operating expenses, NBA	-190
Depreciation, amortisation and impairment losses	-95
Elimination of shared costs*	375
Elimination of shared costs passed on by NBCBO to SC/OSC	8
Total operating expenses, Norges Bank	-6 769
Operating loss, Norges Bank	-1 065

* Comprises shared costs passed on to NBIM, including NOK 31m from NBCBO, NOK 308m from NBA and NOK 36m from the Supervisory Council and the Office of the Supervisory Council.

Proposed new investments amount to a total of NOK 127m, breaking down into NOK 21m for Norges Bank Central Banking Operations (NBCBO), NOK 45m for Norges Bank Investment Management (NBIM) and NOK 61m for Norges Bank Administration (NBA). The estimate of previously approved and ongoing investments is NOK 31m.

In accordance with the Supervisory Council's budget rules, the Council also approves a budget for 2021 of NOK 150m for operating expenses at operating companies in the Government Pension Fund Global's real estate management.

The Council set a budget for supervision and audit costs in a separate resolution at its meeting of 10 December 2020.

The approved overall budget for Norges Bank will be submitted to the Ministry of Finance in accordance with Section 4-2 of the Central Bank Act.

TABLE 1 CAPITAL EXPENDITURE BUDGET

CAPITAL EXPENDITURE BUDGET (NOKM)				
PLANNED INVESTMENTS	PREVIOUSLY APPROVED AND ONGOING INVESTMENTS	NEW INVESTMENTS APPROVED FROM 2021	TOTAL AMOUNT AVAILABLE	FORECAST FOR 2021
NBCBO	13	21	35	35
NBIM	0	45	45	45
NBA	18	61	78	71
Total	31	127	158	151

CAPITALISED INVESTMENT PROJECTS

New investments of NOK 127m are budgeted for 2021. International Financial Reporting Standards (IFRS) define what can be classified as an investment project.

The total budget for capital expenditure at Norges Bank is NOK 158m, including both these new investments and amounts brought forward for ongoing, previously approved investment projects that will continue in 2021. Table 1 presents an overview of investments continuing in 2021, the overall budget for new and ongoing investments, and the forecast for 2021:

BUDGET FOR SUBSIDIARIES IN THE GPFG'S REAL ESTATE MANAGEMENT

Under the budget rules, a budget for investment management costs at subsidiaries that are part of the management of the GPFG's real estate investments is to be submitted to the Council. Total operating expenses at wholly owned operating subsidiaries are budgeted at NOK 150m for 2021. The boards of these companies pass budget resolutions based on plans for their operations. The cost limit from the Ministry of Finance also includes these management costs.

BUDGET RESOLUTION FOR THE COUNCIL'S OWN ACTIVITIES

At its meeting of 10 December 2020, the Council also approved a budget for the Supervisory Council itself, the Office of the Supervisory Council and the external auditor, totalling NOK 47.5m. This budget resolution is discussed in Appendix 1 to this Report.

³¹ Laid down by Royal Decree on 13 December 2019 pursuant to the Norges Bank Act, Section 311, second paragraph.

³² www.norges-bank.no and www.nbim.no/no/publikasjoner/rapporter/

³³ Section 3 (2) of the Government Pension Fund Act: "The Government Pension Fund Global is deposited in an account with Norges Bank. The countervalue is managed under provisions laid down by the Ministry, cf. Section 10."

³⁴ Section 3-1 (1).

³⁵ *NOU 2017 No. 13, Section 22.5: Norges Bank's balance sheet management (p. 339).*

³⁶ Cf. Central Bank Act, Section 3-11.

³⁷ Cf. Central Bank Act, Section 1-2.

³⁸ Recommendation 352 S (2019-2020).

³⁹ A discussion of the management of the foreign exchange reserves and commitments to the IMF was published on 25 February in Norges Bank's report for the fourth quarter of 2020.

⁴⁰ ISRE 2410 "Review of interim financial information performed by the independent auditor of the entity".

⁴¹ Accounting Act, Section 3-3.

⁴² Presented on pages 110-114.

⁴³ Presented on pages 249-250.

⁴⁴ Central Bank Act, Section 1-1 (2).

⁴⁵ The Remuneration Committee is to contribute to thorough and independent consideration of matters concerning the Bank's pay and remuneration arrangements. The committee has three members chosen from among the Executive Board's external members and one member chosen from the employee representatives on the Executive Board.



CHAPTER 3

PRIORITIES FOR FUTURE WORK

SUPERVISION PLAN WITH RISK-BASED APPROACH

It is important in the supervision of the Bank to have a long-term and holistic perspective, but also a high degree of flexibility in order to address unforeseen and relevant issues and topics arising from the Supervisory Council's discussions.

The themes for the annual supervision plan are decided in the light of the Council's discussions. These discussions are based on a holistic approach and the risks facing Norges Bank's activities. Key elements in this assessment include the inquiries that have been carried out previously, and any changes to the Bank's organisation and processes.

Norges Bank is a dynamic organisation that is constantly evolving, and there can also be sudden changes in the outside world that warrant changes to the Bank's operations, and legislative changes that impact on the Bank. Against this background, it is important that the Council and the Office have sufficient flexibility to conduct investigations and inquiries at short notice.

SUPERVISION PLAN FOR 2021

The Council has approved a supervision plan for 2021. As a basis for planning its supervision, the Council has issued two documents: "Framework for risk-based supervision" and "Risk assessment 2021–2025 – basis for planning and implementing supervision".

Key factors to be taken into account in the planning and implementation of supervision:

- Supervision must be independent and performed freely based on the Council's judgement and assessment of risk.
- There is to be a connection between risk assessments and topics for the implementation of supervision in the form of ongoing supervision, supervisory reviews, investigations and the submission of memos and reports.
- The Council's supervision is also to be conducted in areas where the regulatory backdrop changes during the year or where changes are made to the Bank's organisation and/or systems, even if Norges Bank's principal duties (execution of core tasks) are unchanged.

Materiality, risk management and internal control at Norges Bank are given particular priority for supervision. General risks that are emphasised relate to whether

Norges Bank is run efficiently and effectively with good financial management and internal control, whether laws and other rules are complied with, and whether reporting is reliable and complete.

External factors affecting the risks facing Norges Bank in 2021 may include:

- The Covid-19 pandemic
- Changes in the mandate for the GPF, market conditions for equity management, and new investments in unlisted assets
- Threats, both national and specific to the Bank's activities
 - › Cyber risk
 - › Climate risk

Ongoing internal processes at Norges Bank include:

- Crisis management of the Covid-19 pandemic and associated HR and security challenges
- Further development of Norges Bank Administration
- Development of IT solutions with new systems, Cloud solutions and agreements with suppliers, completion of major IT projects with insourcing of services
- Further investment in IT security and further development of the IT security operations centre

It is the Council's duty to follow up whether Norges Bank addresses and manages areas of risk relevant to society in general that could impact on the Bank's operations and performance. One such area is technological advances with increased digitalisation, a trend that is bringing both new opportunities and new vulnerabilities.

It is also important that the Bank has a system to capture new requirements and changes, and that responsibility for following up this area is defined. The Council pays constant attention to changes in the regulatory framework for Norges Bank and the management of the GPF, and how new and different rules, such as in the mandate, are approached and implemented.

The Council considers it important to monitor whether reported information is timely and of good quality. The right quality of reported information is crucial for good governance, both for Norges Bank and for the Ministry of Finance. Reporting is important in allowing the Council to carry out its duties in terms of retrospective control and supervision.

The Supervisory Council will continue to pay particular attention to the Executive Board's cost management.

The Executive Board and the new CEO of NBIM have expressed aims and ambitions that will affect the implementation of the management of the GPFG and expenditure. Good returns, communication and talent development are priorities. The Council monitors Norges Bank's work on strategy.

APPROVED THEMES FOR SUPERVISION

In the plans for supervision in 2021, three main themes have been singled out for particular attention:

a) Human resources and organisational development

This area is subject to ongoing change due to the restructuring at NBIM and NBA. This makes it less suited for a supervisory review, but well suited to follow-up through ongoing supervision. Topics to be covered by supervision include the effects of co-ordinating tasks, the development of NBA, the new leader group and strategy at NBIM, cost management, the HR area, guidelines applying to all employees, follow-up of employment contracts, data protection, gender balance and whistleblowing.

b) Security and contingency planning – crisis management

This theme includes work on preventive security at Norges Bank, including management of threats and reopening after the countermeasures during the Covid-19 pandemic.

c) Risk framework for operational risk management

It is relevant to conduct a holistic risk assessment of how operational risk management has been established, and of the framework used by the Executive Board as a basis for its work and performance measurement. Topics covered will be assessment of internal control, follow-up of external services, reporting and transparency, and market risks.

Within these last two areas, specific evaluations are planned in the form of investigations, supervisory reviews or assurance engagements concluding in reports to the Council.

TWO AREAS WILL COMMAND PARTICULAR ATTENTION IN 2021:

- *The employment contract between the CEO of NBIM and Norges Bank's Executive Board*

The Council will monitor whether the employment contract and control measures in place are reported on and considered satisfactorily by the Executive Board.

- *Process for appointing the auditor for Norges Bank etc.*

The engagement agreement with Deloitte AS as Norges Bank's external auditor expires on the completion of the audit of the annual financial statements for 2021. The agreement will have run for six years. A process has been initiated for the appointment of the auditor for future years.

The Council aims to sign an engagement agreement by 1 January 2022.



1. Hoveusædet i Kristiania

a. **Direktøren**

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APPENDIX 1

THE SUPERVISORY COUNCIL'S
COMPOSITION, ORGANISATION
AND EXPENDITURE

1.1 COMPOSITION AND PROFILES OF MEMBERS

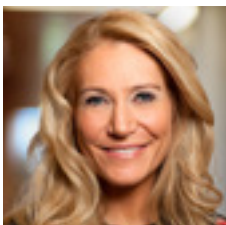
NORGES BANK'S SUPERVISORY COUNCIL 2020–2021

Full members	First elected	Current term
Julie Brodtkorb, chair	2018	2018–2021
Reidar Sandal, deputy chair	2010	2018–2021
Harald Espedal	2020	2020–2023
Pål Farstad	2018	2018–2021
Ingrid Fiskaa	2016	2020–2023
Gjermund Hagesæter	2018	2018–2021
Line Henriette Holten	2020	2020–2023
Kari Anne Sand	2020	2020–2023
Eirin Sund	2020	2020–2023
Morten Sjøberg	2018	2018–2021
Ib Thomsen	2018	2018–2021
Paul Birger Torgnes	2014	2018–2021
Lars Tvete	2016	2020–2023
Truls Wickholm	2020	2020–2023
Marianne Aasen	2020	2020–2023

PERMANENT COMMITTEE

Full members	Personal alternates
Julie Brodtkorb, chair	Line Henriette Holten
Reidar Sandal, deputy chair	Ingrid Fiskaa
Gjermund Hagesæter	Pål Farstad
Paul Birger Torgnes	Harald Espedal
Marianne Aasen	Kari Anne Sand

PROFILES OF COUNCIL MEMBERS



Julie Brodtkorb, chair

- CEO of the Norwegian Association of Heavy Equipment Contractors
- Chair of the Norwegian Broadcasting Council
- Past experience includes secretary of state and chief of staff at the Office of the Prime Minister, member of Oslo City Council, adviser on business and finance policy, deputy chair and communications director of the Conservative Party parliamentary group's secretariat, communications director at Utfors AS, CEO of JKL Group and consultant at Geelmuyden Kiese
- MBA from the Norwegian School of Economics



Reidar Sandal, deputy chair

- Consultant
- Executive chair of Kystvegen Måløy – Florø AS and board member of Helse Førde HF
- Past experience includes 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, director of education at Sogn og Fjordane County Municipality, adviser to Botnaneset Industriselskap AS, CEO of Sunnfjord Chamber of Commerce, chairman of Fjord1 AS, Nynorsk kultursentrum, Sunnfjord Næringsutvikling AS and Innovation Norway, and board member at Investinor AS
- MA from the University of Bergen



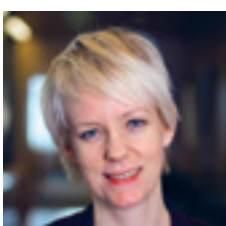
Harald Espedal

- Owner of investment firm Espedal & Co and investment manager Salt Capital
- Chair of Lyse Energi AS, Sandnes Sparebank and Solstad Offshore, deputy chair of Stavanger Concert Hall, and board member of Aspelin Ramm
- Past experience includes CEO of SKAGEN Fondene, deputy chair and board member at Oslo Børs VPS, Oslo Børs and the Norwegian Opera and Ballet
- MBA from the Norwegian School of Economics, State-Authorised Public Accountant



Pål Farstad

- Local politician and adviser
- Board member of Tingvoll Økopark Eiendom AS and Molde University College
- Past experience includes member of the Storting and its Standing Committee on Business and Industry, member of Møre og Romsdal County Council, member of Kristiansund City Council, CEO of Nordmøre Fiskebåt and Nordmøre Fiskarlag, and chairman of the Kristiansund district chamber of commerce
- Degree, teaching qualification from the University of Trondheim



Ingrid Fiskaa

- Teacher at Sandnes Upper Secondary School
- Municipal councillor and municipal executive committee member in Time
- Past experience includes secretary of state at the Ministry of Foreign Affairs, central committee member of the Socialist Left Party, board member at Noregs Mållag and Attac Norge, and member of the High Level Panel on Illicit Financial Flows from Africa
- MA in History from the University of Oslo



Gjermund Hagesæter

- Municipal chief executive in Fedje
- Past experience includes member of the Storting and its Standing Committees on Local Government and Public Administration and Finance and Economic Affairs, secretary of state at the Ministry of Justice, county and municipal councillor, officer in the Armed Forces, assistant head of health and social services, deputy chair of Haukeland Hospital, member of the board of Nordhordland Kraftlag, member of the transport committee in Hordaland, and member of the board of the European Movement
- Law degree from the University of Bergen and economics degree from the Norwegian School of Economics



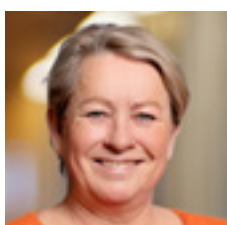
Line Henriette Holten

- Secretary-general of the Norwegian Society of Graduate Technical and Scientific Professionals
- Deputy chair of the Norwegian Institute of Bioeconomy Research, chair of Det Norske Skogselskap, and board member of Dignio
- Past experience includes member of the Storting and its Standing Committees on Energy and the Environment, Health and Social Affairs, and Business and Industry, fifth vice president of the Storting, political adviser at the Ministry of Health and Ministry of Labour and Social Affairs, chair of parliamentary commission NOU 2019:20 on strengthening family services, member of Askim Town Council, and director of social policy at the Norwegian Society of Graduate Technical and Scientific Professionals
- MA in theology from the Norwegian Faculty of Theology



Kari Anne Sand

- Mayor of Kongsberg and acting county director of the Norwegian Association of Local and Regional Authorities (KS) for Viken
- Upper secondary school teacher
- Past experience includes member of Buskerud County Council, research assistant at Skogforsk, project manager at the Norwegian Agrarian Association, specialist at Landbrukshelsen and lower secondary school teacher
- MA in Norwegian



Eirin Sund

- Regional director at LO Norway
- Board member of Rogalandsforskning
- Past experience includes member of the Storting and its Standing Committees on Finance and Economic Affairs, Energy and the Environment, Local Government and Public Administration, and Transport and Communications, secretary of state at the Ministry of Transport and Communications, political adviser at the Ministry of Environmental Protection, municipal councillor, county executive committee member, deputy mayor, chair and member of various boards and committees, vice president of the Norwegian Football Federation, nursery employee and general manager of volunteer centre
- FHS Armed Forces College management programme



Morten Sjøberg

- Head of public relations at SpareBank 1 Gruppen
- Board member of Oslo Nye Sparebanks Fond
- Past experience includes secretary of state at the Ministry of Finance and researcher in Statistics Norway's research division
- Doctorate in economics from the University of Oslo and BSc in philosophy and economics from the London School of Economics



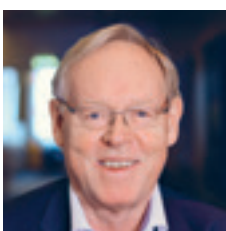
Ib Thomsen

- Director of Thon Hotel Triaden
- Past experience includes member of the Storting and its Standing Committees on Local Government and Public Administration, and Family and Cultural Affairs, manager, municipal executive committee member in Nittedal, chairman of Nittedal Energiverk, board member at Thon Gruppen Shopping Centres and area manager for the Norwegian Home Guard
- Management training in the Armed Forces and at BI Norwegian Business School



Paul Birger Torgnes

- CEO of Fjord Marin Holding AS
- Chair of the Norwegian Seafood Federation and Norsk Havbrukssenter
- Previous experience includes mayor and municipal executive committee member, CEO of Fjord Seafood ASA and NorAqua AS, chairman of Torghatten ASA, political adviser to the fisheries minister and secretary-general of the Norwegian Aquaculture Association
- MSc in fisheries economics from Bodø University College and the Norwegian Fisheries College



Lars Tvete

- Chairman and owner of LBT Holding AS
- Member of Trøndelag County Council, board member at Thomas Angells Stiftelser, and supervisory board member at SpareBank 1 SMN
- Past experience includes first deputy member of the Storting, member of Trondheim City Council, leader of Sør-Trøndelag Conservatives, CEO of Basale Eiendomsforvaltning AS, board member at BN kreditt, chair of Trondheim Municipal Pension Fund, and adviser to and board member of various large real estate companies
- Alternate member of Norges Bank's Supervisory Council 2016–2019
- Economics degree from Trondheim Business College



Truls Wickholm

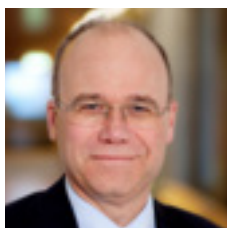
- Mayor and municipal executive committee member in Nesodden
- Past experience includes member of the Storting and its Standing Committees on Finance and Economic Affairs, Transport and Communications, and Education, Research and Church Affairs, board member of EL & IT Oslo, Utøya A/S and Oslo Labour Party, and member of Labour Youth's national committee, electrician at Hafslund
- Certified electrician



Marianne Aasen

- Director of Simula School of Research and Innovation (SSRI)
- Board member of Nedre Romerike brann og redningsvesen IKS, Simula UiB AS and NHO Viken Oslo, and municipal councillor in Asker
- Past experience includes member of the Storting and its Standing Committees on Finance and Economic Affairs, and Education, Research and Church Affairs, political adviser at the Ministry of Local Government, head of information at the European Movement and journalist
- MA in history, economics and politics from the University of Oslo

OFFICE OF THE SUPERVISORY COUNCIL



Jan Frode Jakobsen

- Director of the Office of the Supervisory Council
- Past experience includes CEO of pension fund Helseforetakenes Pensjonskasse, director of Oslo City Council's secretariat, economic adviser and head of secretariat for the Parliamentary Labour Party, secretary to the Standing Committee on Finance and Economic Affairs, adviser at the Ministry of Finance and inspector at the Financial Supervisory Authority of Norway (Finanstilsynet)
- MBA from the Norwegian School of Economics and MSc from the London School of Economics

THE OFFICE'S OTHER EMPLOYEES

Randi Ingun Almås	Deputy director
Peter Hideo Grutle	Senior adviser
Berit Langelo	Senior adviser
Kristian Magnus Langseth	Special adviser
Anne Gullhagen Larsen	Special adviser
Mats Leonhard Pedersen	Special adviser
Lise Taylor	Administrative co-ordinator
Sivert Mogstad Eri	Student placement

1.2 ORGANISATION OF SUPERVISION – ACTIVITIES IN 2020

THE SUPERVISORY COUNCIL

The Supervisory Council is one of three governing bodies at Norges Bank, cf. Section 2-1 of the Central Bank Act: *“Norges Bank shall have an Executive Board, a Monetary Policy and Financial Stability Committee and a Supervisory Council.”*

The Supervisory Council has 15 members elected by the Storting.⁴⁶ The Council's chair and deputy chair in 2020 were Julie Brodtkorb and Reidar Sandal respectively, appointed by the Storting for the period 2020–2021.

Members of the Council collectively have broad expertise and experience from the Storting, government work, as well as key areas of Norwegian society, public administration and industry. Geographically, they reside in seven different counties. Six of the 15 members, or 40 per cent, are women.

The Council's principal role is to carry out supervision and control of Norges Bank. Its duties are set out in Section 2-17 of the Central Bank Act: *“The Supervisory Council shall supervise in accordance with Section 4-1, approve budgets pursuant to Section 4-2, adopt financial statements pursuant to Section 4-3, appoint the auditor pursuant to Section 4-4 and determine the method of appointment, if applicable, of employee representatives on the Executive Board pursuant to Section 2-3, Sub-section 2, third sentence.”* Within its area of responsibility, the Council can issue rules for Norges Bank's activities. Three such sets of rules have been issued, and these are reproduced in Appendix 2 to this Report.

The Council's rules of procedure⁴⁷ were updated on 15 December 2019 to reflect the new Central Bank Act from 1 January 2020. The Council's members are covered by the duty of confidentiality set out in Section 5-2 of the Central Bank Act. Under the rules of procedure, it is the chair – or a person nominated by the chair – who makes public statements on behalf of the Council.

The Auditor General and the chair of the Supervisory Council signed guidelines for the exchange of information and co-ordination of auditing and supervision between the Office of the Auditor General and Norges Bank's Supervisory Council with regard to the GPFG in 2010.

On the organisation of the Council's work, the following is stipulated in the Central Bank Act: *“From its members the*

*Supervisory Council may appoint committees to consider matters to be dealt with by the Supervisory Council.”*⁴⁸ *“The Supervisory Council shall have a secretariat. In matters pertaining to the employees of the secretariat, the Supervisory Council shall represent Norges Bank as employer.”*⁴⁹

THE PERMANENT COMMITTEE

The Permanent Committee is a working committee that prepares and submits recommendations for decisions on matters to be considered by the Council. The Permanent Committee is led by the Council's chair and deputy chair. The other three members and five personal alternates were elected for a term of two years at the Council's inaugural meeting of 16 January 2020.

The Permanent Committee is provided for in the rules of procedure and works to a mandate issued by the Supervisory Council. The chair of the Permanent Committee calls meetings as often as is required, or when at least two members so request. As a rule, a meeting is held a week in advance of meetings of the Supervisory Council. The Permanent Committee has no powers to take decisions on behalf of the Council, but as a committee of the Council it does have the right of access to all of the Bank's affairs.

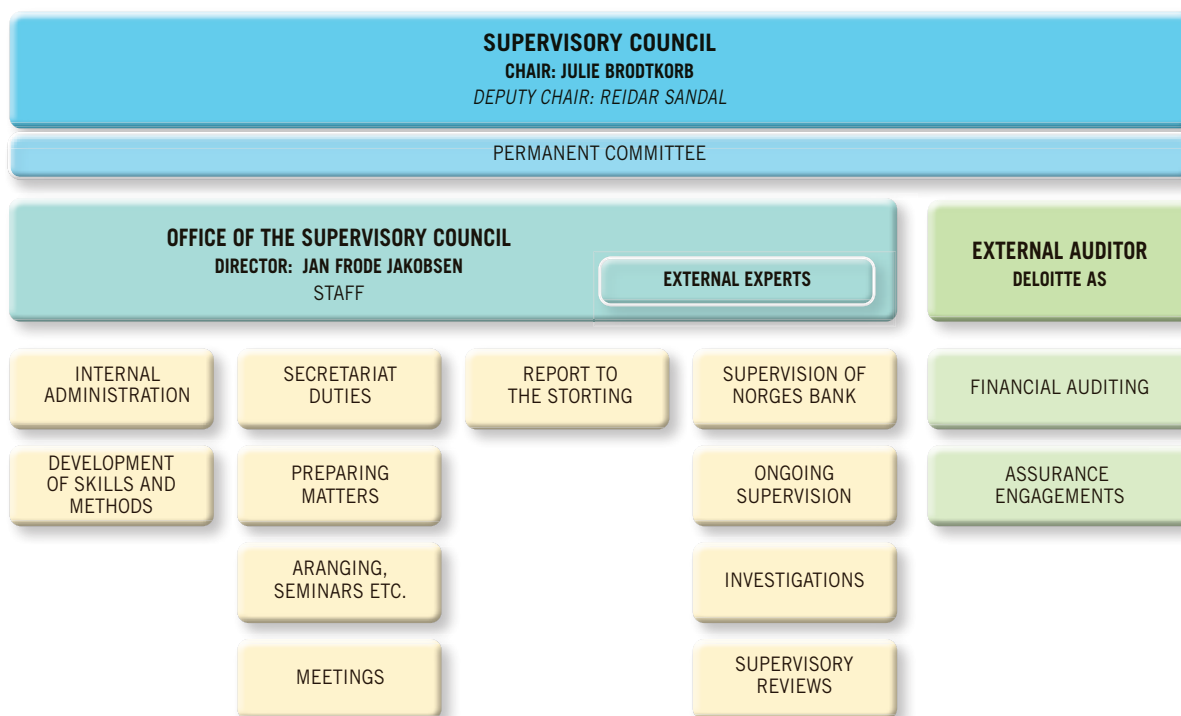
Upcoming meetings of the Council are planned with support from the Office of the Supervisory Council. This includes setting the agenda, reviewing the discussion documents submitted, submitting requests for introductions or briefings from Norges Bank, and formulating proposed resolutions. The minutes of the Permanent Committee's meetings are circulated with the discussion documents and present significant discussions and statements.

The Governor may be asked to attend meetings of the Permanent Committee. The Executive Board or Governor may raise matters and present their assessments for consideration by the Council before the Permanent Committee makes its recommendation on a resolution.

OFFICE OF THE SUPERVISORY COUNCIL

The work of the Office of the Supervisory Council – the Council's secretariat – is regulated in Section 17 of the rules of procedure and in separate standing instructions issued by the Council. Following the recruitment of a further member of staff from 1 March 2021, the Office has seven permanent employees headed by a Director. From autumn 2020, there has also been a six-month student placement, which has added additional analytical resources.

FIGURE 7 ORGANISATION AND DUTIES OF THE SUPERVISORY COUNCIL AND THE OFFICE OF THE SUPERVISORY COUNCIL



The Director is mandated to recruit and dismiss staff, and set salaries and terms of employment within the constraints laid down by the Council. The Council decides on the Director's employment contract, remuneration and other terms of employment.

The Office of the Supervisory Council is to:

- carry out supervisory tasks on behalf of the Supervisory Council
- contribute to the Council's review of Norges Bank's budget and annual financial statements
- manage the agreement with the external auditor
- co-ordinate contact with government authorities and the Office of the Auditor General
- prepare and provide assistance with items for the Supervisory Council
- serve as an advisory and investigational body for the Council
- perform secretariat duties

The Office reports to the Council, independently of both the Executive Board and the Bank's management. The

Director participates in meetings of the Supervisory Council and the Permanent Committee, and may bring along experts, who may be employees of the Office, representatives of the external auditor, or others. The Office's employees have a right to attend meetings of the Supervisory Council when it is considering administrative matters concerning the Office.

The Office arranges the Council's meetings, seminars and professional activities. The Office's activities and administrative affairs are regulated by supervision plans and budgets issued by the Council. The Office is to be appropriately staffed with adequate and relevant multidisciplinary expertise. Its staff have a strong insight into areas such as accountancy, law, finance, investment management, corporate governance, risk management and internal control. Considerable importance is attached to understanding of the Office's role, integrity, objectivity and due care in the conduct of duties. The Director may additionally hire external experts within the plans and budgets approved by the Council.

The Office of the Supervisory Council emphasises a strong professional environment characterised by Norges Bank's values: team spirit, integrity, innovation and excellence. Skills development is important in order to understand and assess important trends. Development opportunities come from strong professional networks, access to specialist resources and regular contact with the Bank's management and operational areas, and are important for retaining and developing skilled staff. Besides participating in relevant courses and conferences, the Office hosts regular meetings and technical seminars on its own account. Speakers are sourced from various centres of expertise, via international contacts and from the Bank's operational areas. This skills building is very important both for supervisory reviews and for preparations for the Supervisory Council's work.

The Office handles ongoing contact with the external auditor and management of the engagement agreement. The Office contributes to the exchange of information with the Office of the Auditor General on the auditing and supervision of the GPFG.⁵⁹ The Office also holds meetings with the Ministry of Finance to exchange information relevant to the supervision of the management of the GPFG. These meetings include giving briefings on annual supervision plans and the supervisory and audit procedures performed. There has also been an exchange of views on changes to the rules for Norges Bank in the light of the new Central Bank Act.

PLANS FOR FUTURE WORK

The Supervisory Council has issued a planning document for its own work in the period 2019–2021. The Bank's role in society and duties remain broadly unchanged over time but may be adjusted through changes to the Central Bank Act or otherwise in the mandate from the Storting. In the current period, the Council will prioritise a number of areas in addition to its regular and ongoing tasks. These are:

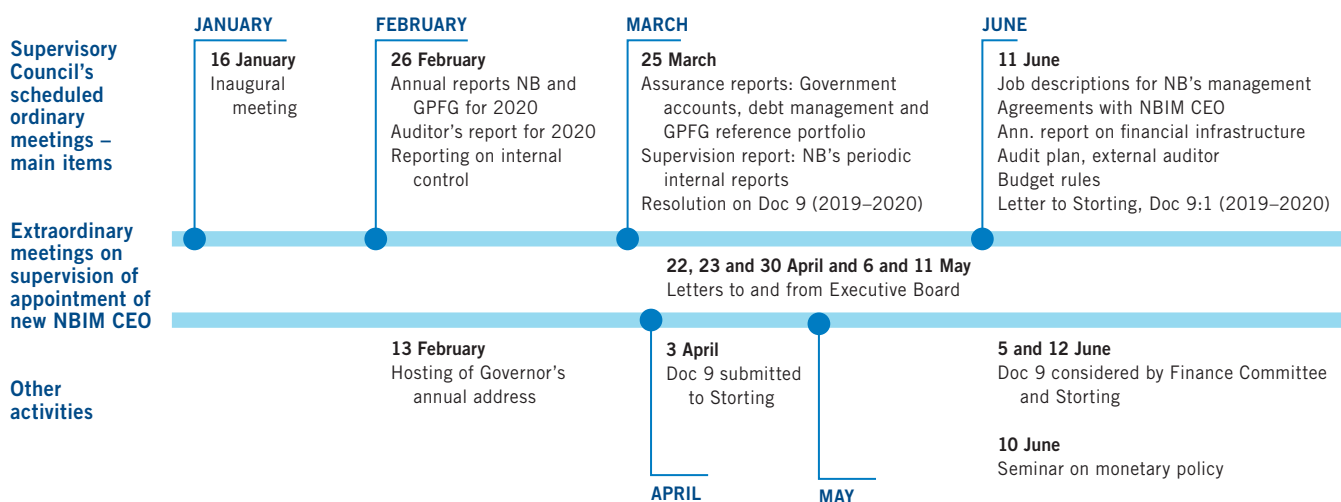
- Further development of control and supervision work
- Profile and communication
- Competence

These areas are evaluated annually, and changes may be made. An annual action plan is also prepared, setting out concrete tasks with activities, responsibilities and deadlines for the coming year.

For the work of the Office of the Supervisory Council, an annual supervision plan is approved, which covers ongoing supervision, supervisory reviews and active investigations of topical issues. The plan results in reports from supervisory reviews, letters or memos submitted at meetings, and status reports.

The meeting schedule is decided in advance of each calendar year. The timing and content are based on deadlines for reporting at Norges Bank and within the Council's areas of responsibility, such as this Report to the Storting, the adoption of the Bank's annual financial statements, and the approval of the Bank's budget. Figure 8 presents a

FIGURE 8 TIMELINE FOR MEETINGS AND ACTIVITIES IN 2020



timeline with a brief overview of meetings and other activities in 2020.

MEETINGS AND ITEMS CONSIDERED

The Council held seven scheduled meetings in 2020, including its inaugural meeting. The Permanent Committee had six ordinary meetings.

A total of 116 items were minuted during the year, including 29 concerning the Council's own administration and approval of its minutes. 39 items concerned the Executive Board's minutes and general matters affecting Norges Bank as a whole. Reporting on central banking accounted for 15 items, while 33 related to reporting on the management of the GPFG and the appointment of the new CEO of NBIM.

In addition, the Council held five extraordinary meetings in 2020, and the Permanent Committee six, as part of its consideration of the Executive Board's process for the appointment of the new CEO of NBIM and his employment contract. This process included five letters to and from the Executive Board which were minuted and published, and led to a separate letter to the Storting on 11 June – Document No. 9:1 (2019–2020).

MEETINGS AND WORK DURING THE COVID-19 PANDEMIC

Meetings during the year were held either wholly or partly online from mid-March. The Council and the Office complied with Norges Bank's implementation of national measures to combat infections and the temporary additional restrictions in Oslo. The Covid-19 pandemic led to

extensive use of videoconferencing and working from home, and Norges Bank provided systems with high levels of security.

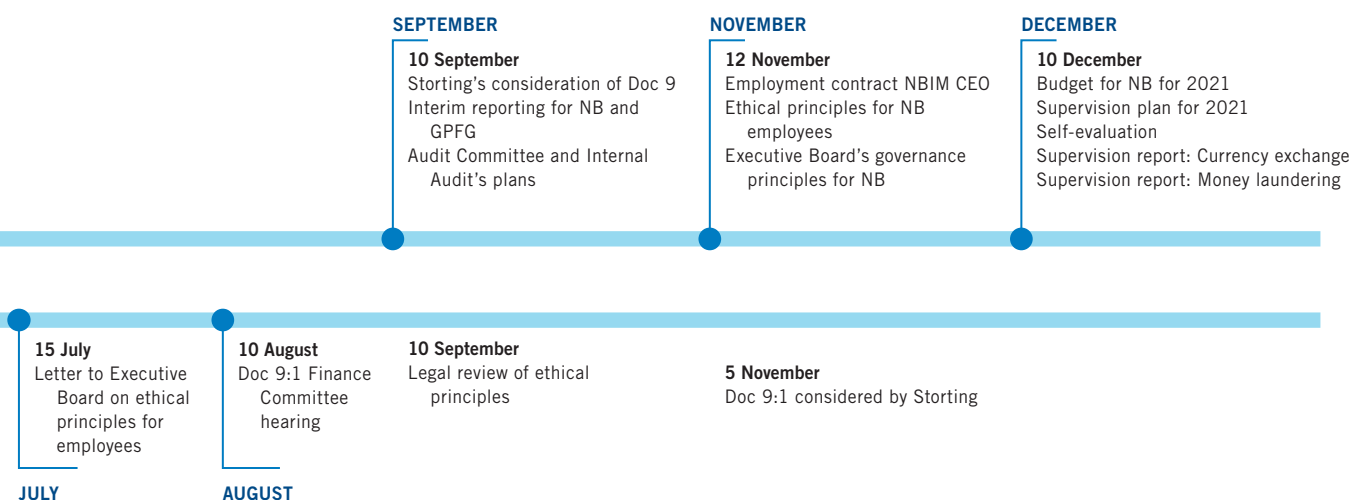
SKILLS DEVELOPMENT

One goal for the Supervisory Council and the Office is to maintain and develop knowledge about Norges Bank's activities, including relevant risks.

A training programme was provided for the Council's members in connection with the inaugural meeting. The topics were the management of the GPFG and the foreign exchange reserves, and a meeting with the head of the Council on Ethics for the Government Pension Fund Global.

There was also a technical seminar on monetary policy and financial stability on the topics "Zero policy rate in Norway – what now?" and "What happens when the central bank intervenes?". The Deputy Governor provided briefings and answered questions.

Opportunities for physical attendance of seminars and courses were limited in 2020, but the Office's staff undertook professional development provided online. Topics included new audit legislation, operational risk management, compliance, corporate culture, money laundering, IT security, physical security, and sustainable financial analysis. Regulatory changes and other information from institutions such as the IMF, the BIS, Finanstilsynet, the Norwegian Data Protection Authority and the Norwegian National Security Authority are also monitored.



In preparation for meetings of the Permanent Committee and the Supervisory Council, there was a need for a number of investigations, and there was close contact with legal experts. Topics included the rules for foundations and ethical rules. An investigation of central banks' equity requirements was carried out by two students at NHH Norwegian School of Economics as a Master's thesis, with the Office providing technical support.

TRANSPARENCY AND MEDIA COVERAGE

The Supervisory Council has noted considerable public interest in Norges Bank's operations and supervision. Transparency about the Council's work is achieved within the constraints and limits laid down in the Central Bank Act, the Freedom of Information Act and other relevant rules for the Bank's activities.

All of the approved minutes of the Council's meetings are published on its website. The minutes present resolutions and any questions and comments on risks, together with responses and statements from the Governor. Remarks during the year, the Executive Board's follow-up of comments from supervision, and any unresolved matters subject to further follow-up are presented. The Council's discussions and questions put to the Bank's management also contribute to transparency about Norges Bank.

The Supervisory Council's rules of procedure, the planning document for its work and other policy documents are also available at www.norges-bank.no. Assurance statements submitted under the international standard for assurance engagements ISAE 3000 are made public in their entirety when submitted to the Ministry of Finance. Letters between the Council and the Ministry are also published. The Report to the Storting – Document No. 9 – each year is designed to paint a complete picture of the Council's duties, assessments of Norges Bank's control structure, and supervisory work performed.

In 2020, there was considerable interest from the media and society as a whole in the Executive Board's appointment of a new CEO of NBIM. The Council's chair provided information on its supervision of the process in response to questions from the media. On 11 June, the Council sent a letter to the Storting – Document No. 9-1 (2019–2020) – and the chair participated in a hearing of the Standing Committee on Finance and Economic Affairs on 10 August. The letter and the hearing attracted considerable public attention, and the chair helped provide transparency on the matter. The document and all correspondence between the Executive Board and the Supervisory Council have been made public.

The chair and deputy chair of the Council met the Standing Committee on Finance and Economic Affairs on 14 January 2020 to discuss how the Supervisory Council can best report to the Storting and develop this document in the future. The Director of the Office of the Supervisory Council also participated in the meeting, which helped clarify expectations between the Standing Committee and the Council.

THE GOVERNOR'S ANNUAL ADDRESS

The Council attends the Governor's annual address, since 1986 entitled "Economic perspectives". This tradition dates right back to 1922. The Governor aims to cover a broad range of topics that are important for the Norwegian economy and Norges Bank's choices.

The chair of the Council welcomes guests on behalf of Norges Bank. In the introduction to the address in February 2021, it was noted that the prevailing circumstances, with restrictions and social distancing due to the pandemic, required an online event with no guests. At the same time, it was noted that making the address available to all online *"increases democracy. We will reach more people, and in this digital age the address will be preserved in perpetuity."*

The address attracts considerable media interest and makes a useful contribution to the Bank's transparency and fulfilment of its role in providing advice and informing the public.

EVALUATION OF THE COUNCIL'S WORK

Members of the Supervisory Council perform an annual self-evaluation of their work. The aim of this is to identify areas with room for improvement and to strengthen the Council's supervision and other work. Based on an anonymous questionnaire, the overall results are discussed at a meeting, and any proposed measures are followed up by the chair of the Council and the Office. The Bank's management attend the summing up.

In 2020, the self-evaluation included the Council's working procedures, the discussions at its meetings, and relations with the Office, external auditor and advisers. It emerged that the preparation of items from the Executive Board and the preparation for oral and written responses from the Bank's management have room for improvement. A wish was also expressed for more training in Norges Bank's activities. An evaluation of the technical seminars and study trip emphasised that preparations in the form of information materials and meetings increase the bene-

fits. Meetings with institutions comparable with Norges Bank are useful in the implementation of supervision. These matters will be followed up in the planning and implementation of future meetings and seminars.

The annual planning document is also subject to evaluation and status updates. The plan for 2020 was achieved subject to the limitations imposed on physical meetings due to the Covid-19 pandemic.

1.3 THE SUPERVISORY COUNCIL'S EXPENDITURE

REMUNERATION OF MEMBERS

The Storting sets the Supervisory Council's remuneration as an annual fee for the role.⁵¹ The rates for 2020 are set out in Table 2.⁵² Fixed fees amounted to NOK 904,000, compared with NOK 915,100 in 2019. The change was due to the end of the practice of having two attending alternate members, while on the other hand there was an increase in the fees paid to full members. No fees were paid to alternate members for attending meetings of the Permanent Committee in 2020, compared with NOK 7,200 in 2019.

The members of the Supervisory Council may also be reimbursed for loss of income due to attending meetings of the Council, on top of the fee set by the Storting. Employers may be reimbursed at actual hourly rates according to the central government tariff for enterprises where employees' time is billed out. The Council has issued criteria. This reimbursement totalled NOK 213,331 in 2020, compared with NOK 174,000 in 2019.

Total fees paid in 2020 therefore amounted to NOK 1,117,331, compared with NOK 1,096,300 in 2019.

OTHER COSTS

Annual expenditure is reconciled against the budget adopted by the Supervisory Council. Total costs for the Council's activities in 2020 were NOK 42.9m. These costs are broken down in Table 3, including the Office of the Supervisory Council, the external auditor and the use of external advisers. This expenditure is included in Norges Bank's overall annual financial statements.

Total running costs for the Council's organisation came in NOK 7m below budget in 2020. This was due partly to

TABLE 2 FIXED FEES IN 2020

FIXED FEES IN NOK	SUPERVISORY COUNCIL	PERMANENT COMMITTEE	TOTAL PER MEMBER	TOTAL FIXED FEES
Chair	66 100	99 100	165 200	165 200
Deputy chair	44 100	66 100	110 200	110 200
Three other members of the Permanent Committee	33 100	66 100	99 200	297 600
Ten other members of the Supervisory Council	33 100		33 100	331 000
Total fixed fees paid				904 000

TABLE 3 THE SUPERVISORY COUNCIL'S OVERALL EXPENDITURE

THOUSANDS OF NOK	BUDGET	ACTUAL	BUDGET	ACTUAL	ACTUAL
	2021	2020	2020	2019	2018
Supervisory Council	4 434	2 459	4 204	3 201	3 849
Office of the Supervisory Council	24 901	23 602	26 835	21 507	25 451
Assurance engagements	3 000	2 179	2 800	2 585	1 021
Statutory audit	15 200	14 638	16 100	15 455	15 046
Total	47 535	42 878	49 939	42 748	45 367

much lower costs for travelling to meetings, the absence of a study trip, and the absence of physical courses and skills development. Use was made of both Norwegian and international consultants, partly for investigations into legal matters concerning the supervision of the appointment of the new CEO of NBIM.

The Council and the Office receive administrative services as required from Norges Bank under a service agreement. This agreement includes rent and a proportion of shared costs, and covers the use of offices and other premises, security and contingency planning, archiving, use of IT hardware, payroll and personnel services, payment of fees, and canteen and conference facilities. It also covers meeting arrangements, travel security, agreements with travel agents, etc.

In addition to ordinary activities in 2020, technical support in the form of HR expertise was provided regarding the recruitment process. During the Covid-19 pandemic, hardware and services have been provided in connection with working from home. Provision has been made for secure online meetings. The independent position of the Office and the Council in relation to Norges Bank is assured through this service agreement.

The Director of the Office of the Supervisory Council was paid a salary of NOK 2,118,270 in 2020, compared with NOK 2,016,472 in 2019. Pension contributions amounted to NOK 326,465, and other benefits (electronic communication, insurance and other payments in kind) came to NOK 7,476.

The external auditor's fees are based on the fixed price in the engagement agreement, adjusted in line with the agreed price index, and are paid once approved by the Council. The fee for the statutory audit came to NOK 14.6m in 2020, compared with NOK 15.5m in 2019. In addition, NOK 0.2m was paid for consulting services

covered by the Office of the Supervisory Council. Deloitte AS received a fee of NOK 4.4m for assurance statements concerning the government's accounts at Norges Bank and the management of government debt, and for assurance engagements relating to supervision under separate agreements. Overall, it is estimated that supervisory and auditing services relating to investment management account for 85 percent of the auditor's time consumption.

Fees for auditing subsidiaries formed by Norges Bank for use exclusively in the management of the GPFG are not included in the Council's costs but charged to the companies directly and paid to the respective audit firms. These fees amounted to NOK 8.1m in 2020.

BUDGET FOR 2021

The Council considered its own budget for 2021 at its meeting of 10 December 2020. The approved overall budget for the Council, the Office and the external auditor is NOK 47.5m, cf. Table 3. The budget for the Council's own activities is NOK 4.4m. This budget covers all fees, meeting costs, seminars and study trips with travel expenditure based on the meeting schedule set for 2021.

The budget for the Office of the Supervisory Council is based on eight FTEs. Its budget of NOK 24.9m covers salary, personnel and pension costs and external training amounting to NOK 13.2m. Rent and shared costs under the service agreement with Norges Bank are passed on. Based on the supervision plan for 2021, NOK 3.0m has been budgeted for purchases of specialist services from external experts.

An audit fee of NOK 15.2m has been budgeted for Deloitte AS's financial audit of Norges Bank's financial statements and the financial reporting for the GPFG.

A total of NOK 3.0m has been budgeted for possible assurance engagements in 2021.

46 Central Bank Act, Section 2-16 (1).

47 The rules of procedure have been published: <https://www.norges-bank.no/tema/Om-Norges-Bank/Organisering-styring/Representantskapet/Forretningsorden/>

48 Central Bank Act, Section 2-16 (6), second sentence.

49 Central Bank Act, Section 2-16 (5).

50 Guidelines for the exchange of information and co-ordination of auditing and supervision between the Office of the Auditor General and Norges Bank's Supervisory Council in relation to the Government Pension Fund Global.

51 Central Bank Act, Section 2-16 (4).

52 The rates for the Supervisory Council's fees in 2020 and 2021 were laid down by the Storting on 28 November 2019 in line with Recommendation 54 S (2019-2020).



APPENDIX 2

INTERNAL RULES FOR
NORGES BANK ISSUED BY THE
SUPERVISORY COUNCIL

2.1 BUDGET RULES FOR NORGES BANK

ISSUED BY NORGES BANK'S SUPERVISORY COUNCIL ON 11 JUNE 2020

1. INTRODUCTORY PROVISIONS

1.1 Background and legal basis

The Supervisory Council adopts the annual financial statements and approves the annual budget for Norges Bank. [1] The responsibilities of the Supervisory Council and the Executive Board for the governance and control of expenditure are regulated in the Central Bank Act.

Norges Bank is a separate legal entity owned by the central government. [2] The Bank's budget and annual financial statements are not included in the central government budget or central government accounts. The King in Council lays down guidelines on reserves and on the allocation of the Bank's profit. [3]

1.2 Roles and responsibilities of Norges Bank's governing bodies

The Supervisory Council ensures that the Executive Board's governance and control of the Bank's management and activities are adequate. The Council issues budget rules for Norges Bank.

The Executive Board issues general principles for financial management and the budget process which take account of the budget rules and comply with relevant standards and recognised practice. An appropriate framework is established for the deployment of approved operating budgets and investment limits which also includes the management of investment projects.

The Executive Board is in charge of the Bank's operations and manages its resources within the set budget. It prepares a budget proposal for the coming operating year for submission to the Council. The Board is responsible for monitoring expenditure and reporting on this to the Council.

The Supervisory Council's budget decision covers control and approval of the Bank's overall expenditure. The Council ensures that the Executive Board has presented a reasonable financial framework for the Bank's tasks and operations. In its deliberations, the Council may demand reductions to the budget, but it may not require the Board to increase expenditure. The Council sets a separate budget for its own activities. The Council communi-

cates the approved overall budget for Norges Bank to the Ministry of Finance. [4]

Costs for the Supervisory Council are included in Norges Bank's annual financial statements.

1.3 Purpose and scope

The purpose of the Supervisory Council's budget rules for Norges Bank is to establish general guidelines for the Executive Board's presentation of budgets and operating accounts, the Council's budget decisions, and monitoring of the Bank's expenditure. The rules include provisions on the basis for budget proposals, budget decisions, budget deployment and reporting.

1.4 Exemptions from the provisions in the budget rules

Exemptions from the provisions in these rules require a decision of the Supervisory Council in each case.

2. GENERAL GUIDELINES

Norges Bank's budget is a high-level policy document for the year's expenditure and operations. The budget must normally follow the same principles as in applicable accounting rules laid down in the Regulation on the Financial Reporting of Norges Bank. [5] At a general level, the criteria and assumptions for budgeting are to be consistent across the Bank's operations.

The budget is to be approved for the calendar year and provide a realistic picture of expected operating revenue, operating expenses and capital expenditure. Expenditure is to be cost-effective and ensure that the Bank's operations and management of assets are conducted responsibly.

The Ministry of Finance's decision on the limit for the reimbursement of the coming year's costs for the management of the investment portfolio in the Government Pension Fund Global (GPF) must normally be available by the time of the budget decision for Norges Bank.

The Executive Board adopts Norges Bank's long-term strategies and action plans and presents their expected financial consequences to the Supervisory Council. The Board is responsible for execution in such a way that set targets are met within the financial limits underlying the budget decision and the Ministry of Finance's approved limit for reimbursement.

Sales of real estate that are not part of investment management require the Supervisory Council's prior approval.

3. THE EXECUTIVE BOARD'S BUDGET PROPOSAL

3.1 General criteria and assumptions

The Executive Board's budget proposal is to contain information that gives the Supervisory Council an adequate basis for approving the budget and monitoring expenditure.

The budget proposal is to be submitted no later than two weeks before the Council's December meeting.

The budget proposal is to cover the operations of Norges Bank including subsidiaries. Returns and interest [7] resulting from the Bank's central banking and investment management activities are not budgeted.

A budget for investment management costs at subsidiaries that are part of the Bank's management of unlisted real estate investments and investments in renewable energy infrastructure in the GPFG is to be submitted to the Supervisory Council. Other operating expenses at wholly and partly owned real estate companies for the GPFG related to ordinary maintenance and the operation of buildings and leases are not covered.

Information is to be provided on the key features of the activities and investments that are planned for the budget year and subsequent years. Cost levels are to be commented on in the light of established strategies and targets and available external comparisons. Information is to be provided on the main cost drivers and risk factors. In the case of changes to personnel expenses, the reasons for changes to pay levels and employee numbers are to be explained together with the underlying assumptions. For personnel expenses, there must also be an overview showing the breakdown between fixed salary, variable remuneration and other personnel expenses. The principles for pricing material services and supplies must be described. The budget is to be based on realistic estimates and projections for revenue and expenses with supporting information and assumptions. Forecasts for the current year and relevant comparative data from the previous financial year are to be presented. The forecasts are to be as up-to-date as possible, and uncertainty in the forecast must be described. Significant variable and uncertain assumptions that are beyond Norges Bank's control are to be described in the budget proposal. Information is to be provided on sources of uncertainty, the considerations given priority, and the potential effects of changes in assumptions.

A long-term forecast for operating expenses over the next three years (the budget year and the following two years)

at a general level is to be presented together with the budget proposal. This is to show operating expenses split between personnel expenses and other operating expenses for each of the operational areas and for the Bank as a whole. A corresponding forecast for planned capital expenditure is also to be provided. For each budget year, the long-term forecast is to roll forwards three years regardless of the strategy period.

In special cases, the Supervisory Council may approve changes to the approved budget during the year at the proposal of the Executive Board. Such changes should normally be submitted in connection with the semi-annual reporting on the Bank's operations. In the event of major strategic changes during the budget year that have not previously been put before the Supervisory Council, the Council must receive a report without undue delay.

3.2 Operating budget

The operating budget consists of operating revenue and operating expenses broken down between the Bank's operational areas. The main items in the budget proposal are to be supported with specifications showing natural cost components.

Depreciation, amortisation, impairment losses, and gains and losses on the sale of assets are to be included in the operating budget's lines for other operating expenses and other operating revenue as appropriate.

3.3 Capital expenditure

The capital expenditure budget is to be considered an overall limit based on plans and estimates for individual investments in the respective operational areas. The capital expenditure budget consists of expected costs during the budget year for new and ongoing investments. The budget for new investments is to be supported with best estimates for significant individual investments or groups of investments, together with cost/benefit and risk assessments. Where investments span more than one year, the entire investment is to be presented, with an estimated breakdown between the individual years. Approved investments running over more than one year do not require renewed approval, but spending and plans for further outlays are to be documented annually in connection with the budget proposal.

Any changes to the assumptions for, or progress of, ongoing investment projects are to be commented on.

4. BUDGET STRUCTURE AND DECISION

The Supervisory Council's budget decision covers the operating budget and the capital expenditure budget for Norges Bank's total operations and is based on the budget assumptions submitted by the Executive Board.

As a minimum, the budget decision is to provide the following breakdown:

Management fee, GPFG
Other operating revenue
<u>Total operating revenue, Norges Bank</u>
Personnel expenses, central banking
Other operating expenses, central banking
Personnel expenses, investment management
Other operating expenses, investment management
<u>Total operating expenses, Norges Bank</u>
Operating profit/loss, Norges Bank
Capital expenditure, central banking
Capital expenditure, investment management
<u>Total capital expenditure, Norges Bank</u>

The Supervisory Council approves a budget for operating expenses at operating companies within real estate management and the management of unlisted renewable energy infrastructure in the GPFG.

The Council may formulate conditions and authorities as part of the budget decision.

5. THE EXECUTIVE BOARD'S BUDGET DEPLOYMENT

The Executive Board is authorised to deploy the budget ahead of the Supervisory Council's decision. Unless otherwise stated in the budget decision or the budget rules, the budget may not normally be exceeded, with the following exceptions:

- In extraordinary situations, the Board may cover the cost of safeguarding lives, health and major assets without any special allocation of funds, but a report must then be submitted to the Council.
- Budgeted operating expenses may be exceeded if this is due to material variable and uncertain factors beyond Norges Bank's control, cf. Section 3.1.

Budgeted funds may not be reallocated between the two operational areas unless related to the reorganisation of activities.

The Executive Board has the right to reallocate funds from operations to capital expenditure. It is not, however, permitted to reallocate funds from capital expenditure to operations unless the accounting framework provides for this. Where the budget proposal or the Supervisory Council's decision make an expense or investment clearly conditional on specific circumstances, the allocation may not be deployed if these circumstances change significantly or do not materialise.

6. REPORTING

The Executive Board is, as a minimum, to report to the Supervisory Council on Norges Bank's operations as a whole, with the specified information for the operational areas, as at 30 June and the end of the budget year. This reporting is to include a status report on performance against the approved budget for the Bank's operating revenue, operating expenses and capital expenditure, and show any significant reallocations and variations. As at 30 June, there is to be a status report against the accrued budget. There must also be an account of the results achieved relative to the assumptions in the budget proposal, and of the status of the execution of action plans and performance against targets, with an assessment of the risk outlook.

Forecasts for the year are to be presented with the semi-annual reporting. Where investments run for more than one year, an overview of costs and forecasts for the full implementation period are to be provided, broken down between the individual years.

This reporting is to include the subsidiaries mentioned in Section 3.1.

7. ENTRY INTO FORCE

These budget rules for Norges Bank replace the previous budget rules issued by the Supervisory Council on 5 November 2015 and apply from the date of issue.

FOOTNOTES

- [1] Central Bank Act, Section 4-3 (2) on financial reporting and Section 4-2 on budgets
- [2] Central Bank Act, Section 1-1 (2)
- [3] Central Bank Act, Section 3-11 (2)
- [4] Central Bank Act, Section 4-2
- [5] FOR-2019-12-19-2032
- [6] Management Mandate for the Government Pension Fund Global, Section 5-1 (2)
- [7] Presented as "Net income/expense from financial instruments" in Norges Bank's annual financial statements <https://www.norges-bank.no/tema/Om-Norges-Bank/Organisering-styring/Representantskapet/Budsjettreglement-for-Norges-Bank/>

2.2 RULES FOR LOANS TO EMPLOYEES OF NORGES BANK

Issued by Norges Bank's Supervisory Council on 29 May 2013. Last amended on 12 December 2019.

1. BACKGROUND AND LEGAL BASIS

Norges Bank may to a limited extent issue home loans and small personal loans to the Bank's employees as part of its personnel policy.

The Supervisory Council is to lay down more detailed rules on the Bank's loans to employees based on a proposal from the Executive Board.⁵³

2. PURPOSE

Norges Bank may issue home loans to the Bank's employees for the purpose of financing home ownership for these employees and their closest family.

Norges Bank may issue small personal loans to the Bank's employees in the form of advances on salary as an interest-bearing consumer loan.

3. LENDER

Loans are to be issued in their entirety from Norges Bank at its headquarters in Oslo.

4. BORROWER

Home and consumer loans may be issued to permanent employees of Norges Bank in at least a 50 percent position with an employment contract in Norway. Loans may be granted only after completion of the probationary period.

5. HOME LOANS

Upper limit

The Governor is to set an upper limit for home loans annually with effect from 1 March.

Interest

The interest rate is to be the standard interest rate for employee loans in Norway. Changes to the interest rate are subject to six weeks' notice.

Security

Home loans may be issued only where secured against housing in Norway.

If the borrower's spouse/partner/cohabitant has all or part of the title to the property, the spouse/partner/cohabitant must also be bound as a co-borrower under the loan agreement and charge documents. The same applies if the spouse/partner/cohabitant's income is included in the credit assessment.

Additional conditions and rules for home loans

Additional conditions or rules for home loans beyond those set out in these rules must comply with the rules that apply from time to time to home loans for members of the Norwegian Public Service Pension Fund. Employees working for Norges Bank abroad are subject to an equivalent exemption from the condition of residence to that for employees in the foreign service.

6. CONSUMER LOANS

Upper limit

The upper limit for consumer loans is four times gross monthly salary, subject to a ceiling set by the Governor.

Interest

The interest rate is to be the standard interest rate for employee loans in Norway. Changes to the interest rate are subject to six weeks' notice.

Repayment period

The repayment period is to be a maximum of five years. Consumer loans are to be repaid in full before the time a retirement pension becomes payable.

Security

As security for a consumer loan, the borrower must sign a negotiable debt instrument in favour of the Bank and permit deductions from salary, holiday pay and other benefits.

Other terms

A consumer loan must normally be redeemed before another may be granted. In order for an existing loan to be redeemed in connection with the granting of a new loan, half of the term of the existing loan must have passed. It is a condition that the scheme is not used for financial investments. Consumer loans will not normally be granted for amounts below NOK 10,000.

7. TERMINATION OF LOANS

Early redemption of a loan may be demanded if:

The borrower leaves his or her position at Norges Bank, except where retiring with a pension (old age, early retirement or disability pension), but subject to six months' notice from the lender.

The security is sold or transferred in any other way.

The loan is defaulted on, or in other cases where the criteria in Section 52 of the Financial Contracts Act are met.

8. RIGHT TO TRANSFER AND RETAIN EXISTING LOANS

The loan may be transferred or retained even if early redemption could be demanded under Section 7, in the following cases:

If the borrower dies, the existing loan may be transferred to dependents entitled to a spouse's pension or children's pension from Norges Bank's Pension Fund.

If the borrower dies, the existing loan may be transferred to a co-borrower.

Loans that are transferred to pensioners (old age, early retirement, disability and spouse's/children's pensions) and co-borrowers may be retained even if the security is sold or transferred in some other way, provided that a charge against a new home in Norway is available to replace the existing security.

9. AUTHORISATION OF THE GOVERNOR

The Governor or a person authorised by the Governor may make exceptions from these rules in special cases, including deciding on postponement of payments of principal or interest, extensions or other changes to the repayment plan, or temporary interest holidays/reductions. To the same end, when other measures are not deemed appropriate or sufficient, the Governor may in very special cases decide on the partial waiving of consumer loans.

10. ENTRY INTO FORCE

These rules for loans to employees of Norges Bank enter into force on 12 December 2019.

The rules replace the previous guidelines for home loans at Norges Bank issued by the Supervisory Council on 13 December 2001 and last amended on 29 May 2013, and the guidelines for consumer loans issued by the Council and last amended on 17 June 2004.

Financial Contracts Act, Section 52: Lender's demand for early redemption

(1) The lender may demand redemption of the loan before maturity where

- a) the borrower is in material breach of the loan contract
- b) bankruptcy or debt settlement proceedings are instituted against the borrower pursuant to the rules of the Bankruptcy Act
- c) the borrower dies and satisfactory security for performance has not come to hand within a reasonable period and has not been furnished after notification
- d) the borrower has furnished a mortgage as security for the money demanded, and the conditions of the Mortgage Act section 1-9 or the Maritime Act section 44 are met.

(2) Where, based on the borrower's conduct or a serious reduction in the borrower's ability to pay, it is clear that the loan will be materially defaulted, the borrower may demand that satisfactory security be furnished for the loan or for timely payment without undue delay. If such security is not furnished, the lender may demand redemption of the loan by making a claim for payment. The provision of this paragraph does not apply to loans that are already satisfactorily secured.

(3) Claims and demands pursuant to this section shall be presented in writing and grounds shall be given. A credit customer who is a consumer must be given two weeks in the demand to rectify the situation.

(4) In the event of a demand for early redemption pursuant to this section, section 53 second paragraph and section 54 first paragraph apply correspondingly.

2.3 GUIDELINES FOR THE SUPERVISORY COUNCIL'S SUPERVISION OF COMPANIES OWNED BY NORGES BANK IN CONNECTION WITH INVESTMENTS IN THE GOVERNMENT PENSION FUND GLOBAL

ISSUED BY THE SUPERVISORY COUNCIL ON 15 MARCH 2012. LAST AMENDED ON 26 FEBRUARY 2020.

1. GENERAL

These guidelines concern the Supervisory Council's supervision and control of companies that the Bank owns in connection with unlisted investments in the Government Pension Fund Global (GPFG). This includes subsidiaries and other companies where the Bank has a controlling influence, including joint ventures.

The Executive Board and management of Norges Bank have overall responsibility for establishing adequate governance and control of activities carried out by companies. The Supervisory Council conducts supervision of this. The rights of Norges Bank and the Supervisory Council at foreign companies are to be secured through provisions in corporate documents and any agreements with co-owners. These guidelines concern the regulation of the Council's rights and opportunities for supervision.

2. THE SUPERVISORY COUNCIL'S OPPORTUNITIES FOR SUPERVISION AT ALL COMPANIES

2.1 The Supervisory Council is to be afforded real and effective opportunities for supervision in accordance with Section 4-1 of the Central Bank Act at all companies wholly or partly owned by Norges Bank in connection with the GPFG's investments.

The Council's right of access is to be regulated through formal policy and corporate documents at the individual companies.

2.2 The Council must at all times be assured of the right to obtain information directly from the chief executive officer, board and auditor in addition to making enquiries directly into the companies itself.

Should local rules prevent access to specific information that may be relevant to supervision, the Executive Board must ensure an alternative arrangement that satisfies the Council's supervisory needs.

2.3 Norges Bank's external auditor should normally be appointed auditor at companies where the Bank has control over the appointment. If a different auditor is chosen, it must be ensured that the auditor is well reputed and that the auditing of the company is of high quality.

In cases where the Bank's auditor is not chosen, the Bank must seek to ensure that the Bank's auditor is able to obtain information and documentation directly from the company's auditor.

The Council will in other respects consider which audit models are appropriate and effective.

2.4 Norges Bank is also to ensure adequate control and opportunities for supervision at partly-owned companies.

3. DECISIONS OF THE EXECUTIVE BOARD ON THE PERFORMANCE OF INVESTMENT MANAGEMENT BY COMPANIES

3.1 Under Section 2-4 (7) of the Central Bank Act, the Executive Board may decide that activities forming part of the management of the GPFG are to be carried out by separate companies. This applies whether these companies are formed or acquired (in whole or in part) by Norges Bank.

3.2 It is a condition that, when deciding that activities relating to the management of the GPFG should be carried out by foreign companies, the Executive Board is to ensure that the Supervisory Council is afforded real and effective opportunities for direct supervision of the company as set out in Section 4-1 (3) of the Central Bank Act through formal policy and corporate documents.

4. REPORTING

There is to be regular reporting to the Supervisory Council on investments and holding structures.

5. ENTRY INTO FORCE

Issued by the Supervisory Council on 15 March 2012 and last amended on 26 February 2020.

<https://www.norges-bank.no/tema/Om-Norges-Bank/Organisering-styring/Representantskapet/Retningslinjer-untoterte-investeringer/>

53 Bill 97 L (2018-2019), 9.4.4 and 6.5.3.4. The preparatory work on the new Central Bank Act included discussion of whether the Bank should be permitted to extend loans to employees as part of human resources policy. The Ministry shared the Central Bank Law Commission's view that there was no need to regulate this in the Act. The Commission found it natural for the body with budgetary competence to issue the guidelines for the loan scheme.

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