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# NORGES BANK'S SUPERVISORY COUNCIL REPORT FOR 2013

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Document No. 9 (2013–2014)

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### **TO THE STORTING**

Norges Bank's Supervisory Council is elected by the Norwegian parliament – the Storting – and charged with supervising the running of the Central Bank and ensuring that the rules governing the Bank's activities are observed, including the management of the Government Pension Fund Global.

In 2013, the Council paid considerable attention to management systems and a comprehensive structure for control, auditing and supervision having been established at Norges Bank.

In keeping with guidance from the Storting, the Council attached great importance to monitoring investment management, in terms of both operational management and compliance with the mandate. The year saw an increase of more than NOK 1,200bn in the Government Pension Fund Global and an increase of NOK 62bn in Norges Bank's foreign exchange reserves. Particularly positive results were achieved in equity management. The Council kept a particular eye on reporting on responsible investment, and on the framework for, and management of, the real estate portfolio.

Otherwise, in terms of the running of the central bank, the Council was especially interested in security and contingency planning, including ICT and Norges Bank's role in maintaining financial stability.

The Council has considered Norges Bank's annual report and adopted its annual financial statements for 2013. The Bank's report on the management of the Government Pension Fund Global in 2013 has also been considered. Reference is made to these reports for a more detailed presentation of the operations of the central bank.

Alterations to the composition of the Supervisory Council may be made every second year, as set out in the Norges Bank Act. With effect from 1 January 2014, five new members were appointed and five of the members from 2013 stepped down.

The Council adopted this report on the supervision of Norges Bank in 2013 at its meeting of 20 March 2014, and it is hereby presented to the Storting.

Oslo, 3 April 2014

Reidar Sandal  
Chairman of Norges Bank's Supervisory Council



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## SECTION 1

# SUMMARY AND OVERALL CONCLUSION

### EXECUTIVE SUMMARY OF THE REPORT

Pursuant to section 5 of the Norges Bank Act, the Supervisory Council supervised the running of the Bank and ensured that the rules governing the Bank's operations were observed in 2013.

The Act requires the Council to issue a statement on the minutes of the meetings of the Executive Board, the supervision of the Bank and matters submitted to it by the Executive Board.

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

The Council's report to the Storting for 2012 (Document No. 9 (2012–2013)) set out a number of priorities for future supervisory work. The Standing Committee on Finance and Economic Affairs' recommendation<sup>1</sup> to the Storting drew particular attention to certain areas for supervision, such as transparency in external reporting, the management framework for the GPFG's real estate investments, and responsible investment. These topics are addressed in this year's report.

The report provides an overview of the Council's activities, expenditure and methodological approach. It also presents the supervision of the Executive Board's overall management and control, and the supervision of central banking operations and investment management. There has been a special focus on compliance with the regulatory framework for Norges Bank.

The minutes of the Executive Board's meetings are an important element of the Council's supervision of the Bank, providing an overview of the matters considered by the Board and a basis for requesting additional information or statements. Many of the matters considered by the Board in 2013 were also forwarded to the Council for consideration or for information. Reports and statements from the Office of the Supervisory Council and the external auditor were also considered.

2013 saw particular interest in further developing comprehensive management reporting at Norges Bank, including on operational risk management. High priority was given to following up work on ethics, security and contingency planning. The same applied to security in the use of information and communication technology (ICT). The Council monitored developments in Norges Bank's role in the regulation of countercyclical capital buffers at banks, as well as the central bank's publication of a new combined report on monetary policy and financial stability.

The market value of the Government Pension Fund Global passed NOK 5,000bn in 2013. The value of the fund's investments increased by NOK 980bn, due mainly to strong returns from equity management and foreign exchange gains. The Council regularly monitors reporting on the management of the fund, with a particular focus on compliance with the mandate and guidelines from the Ministry of Finance. Special attention was paid to matters concerning responsible investment and the build-up of real estate management. The framework for the formation and supervision of subsidiaries under the Norges Bank Act was assessed, and the Council reviewed the management framework for the taxation of the GPFG's real estate investments.

The Council has approved the Executive Board's annual report and adopted the annual financial statements for Norges Bank for 2013. The financial statements show total comprehensive income for the year of NOK 53,359 million. In accordance with the applicable guidelines, this income will be transferred to the Adjustment Fund.

<sup>1</sup> Recommendation of the Standing Committee on Finance and Economic Affairs on the Report from Norges Bank's Supervisory Council for 2012 (Recommendation No. 439 S (2012–2013), cf. Document No. 9 (2012–2013).



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It is important to the Supervisory Council that Norges Bank is open about its activities, within set limits. The same applies to the work of the Council, and it has decided that the minutes of its meetings will be published in future.

### OVERALL CONCLUSION FOR 2013

The Council has received all of the information it has asked for.

The Council has reviewed the Executive Board's minutes for 2013. Questions were raised about specific matters, and the Central Bank Governor gave satisfactory explanations. No special remarks on the Board's minutes were minuted.

The Council is of the opinion that the Executive Board exercised satisfactory management and control of Norges Bank's operations in 2013 in accordance with the Norges Bank Act, the mandate and guidelines for the management of the Government Pension Fund Global and the regulation on risk management and internal control at Norges Bank.

The Executive Board reported issues and a need for a stronger control framework and risk reduction measures in a number of areas during the year. The Council has positive experience of this being followed up systematically. After a number of supervisory reviews, the Council has explicitly requested follow-up and feedback from the Board. In 2013, such areas included responsible investment, the management of the real estate operation, tax aspects of investment management, and the management of risk in active investment management.

This supervision revealed no cause for special remarks under the Norges Bank Act.

The Council has approved the Bank's budget and adopted its annual financial statements for 2013. There were no special remarks concerning expenditure.



**Back row:** Ingebrigt S. Sørfonn, Peter Meidell and Paul Birger Torgnes  
**Third row:** Vidar Bjørnstad, Randi Øverland, Morten Lund, Tormod Andreassen and Toril Hovdenak  
**Second row:** Frank Sve, Synnøve Søndergaard and Runbjørg Bremset Hansen  
**Front row:** Iver Nordseth, Reidar Sandal, André Støylen and Eva Karin Gråberg

## SECTION 2

# THE SUPERVISORY COUNCIL'S WORK

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

Norges Bank manages considerable assets and performs important functions in society under the Norges Bank Act and the Ministry of Finance’s mandate for the management of the Government Pension Fund Global issued under the Government Pension Fund Act. As the Storting’s supervisory and control body, the Supervisory Council has overall responsibility for overseeing whether the Bank’s activities are carried out in accordance with applicable rules.

### ROLES AND RESPONSIBILITIES

Norges Bank’s operations are governed by the Norges Bank Act<sup>2</sup>. The Supervisory Council’s main duties are set out in section 5 of the Act:

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

Norges Bank is a separate legal entity owned by the state<sup>3</sup>. It may implement any measures customarily or ordinarily taken by a central bank. It is to conduct its operations in accordance with the economic policy guidelines drawn up

by the government authorities and with Norway’s international commitments. Norges Bank is responsible for setting interest rates and keeping inflation low and stable, promoting an efficient payment system and extending credit to banks. Norges Bank is the banks’ bank and lender of last resort.

Pursuant to section 2 of the Government Pension Fund Act, the fund is managed by the Ministry of Finance. The fund consists of the Government Pension Fund Global (GPFG) and the Government Pension Fund Norway (GPFN). The GPFG is placed as a deposit in an account at Norges Bank. The Bank is then to invest the balance of this account in its own name in financial instruments and cash deposits denominated in foreign currency. The GPFG is to be managed in accordance with more detailed rules issued by the Ministry in its mandate for the management of the Government Pension Fund Global. The Executive Board is responsible for ensuring that the guidelines for the fund are complied with. The Supervisory Council’s supervisory role under the Norges Bank Act extends to all tasks entrusted to Norges Bank.

Norges Bank’s pension fund pays pensions to members and other beneficiaries at Norges Bank. The pension fund is a separate legal entity with its own accounts and its own board, and comes under the supervision of the Financial Supervisory Authority, Finanstilsynet. The Supervisory Council decides its articles of association and appoints its auditor.

Section 5 of the Norges Bank Act sets out further duties for the Supervisory Council, such as selecting the Bank’s auditor, adopting its annual financial statements and approving its budget.

The Council can also approve the formation of companies, cf. section 8A of the Act: *“The Supervisory Council may, on the proposal of the Executive Board, decide that the production of banknotes and coin or other commercial activities that fall within the scope of this Act shall be performed by companies that are partly or wholly owned by the Bank. The Executive Board represents the Bank as owner on the bodies of such companies.”*

<sup>2</sup> Act No. 28 of 24 May 1985 relating to Norges Bank and the Monetary System etc. (the Norges Bank Act), last amended on 17 December 2010. The Council’s tasks are set out in sections 5, 7, 8a, 29, 30 and 30a of the Act.

<sup>3</sup> Norges Bank Act, section 2, fourth paragraph.

**FIGURE 1** EXCERPT FROM THE SUPERVISORY COUNCIL'S STRATEGY FOR 2013-2015**Vision and goals**

*The Supervisory Council ensures democratic insight and independent control and contributes to high levels of public confidence in Norges Bank and the Government Pension Fund Global.*

The main goals contributing to this vision are:

- There is to be a broad consensus in the Storting that the Council exercises effective supervision of Norges Bank in line with its mandate and expectations
- The Council is to enjoy high levels of public confidence.
- There is to be a consensus at Norges Bank that the Council performs its duties in a way that contributes to the Bank's performance and reputation
- Members of the Council are to consider their work useful and rewarding

**Fundamental requirements**

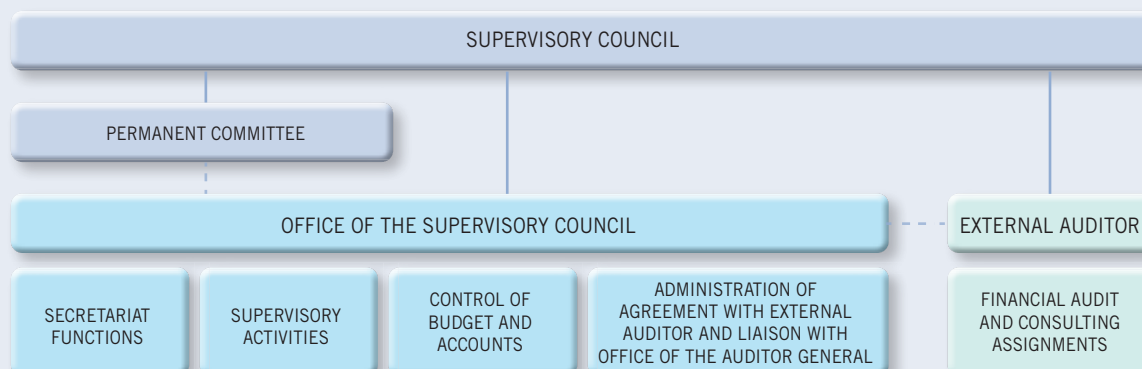
External reporting and communication from the Council must be open and clear.

Members must have a good knowledge of the operations of Norges Bank and the role of the Council, with particular attention to how the Government Pension Fund Global is managed.

The Council must have good access to information and an open dialogue with the Executive Board and the Bank's management.

The Council must have access to high standards of expertise at the Office of the Supervisory Council and the external auditor.

Meetings and documents must be expedient and well organised.

**FIGURE 2** THE SUPERVISORY COUNCIL'S ORGANISATION STRUCTURE

*“The Supervisory Council is responsible for supervising the companies referred to in the first paragraph, and has the right to request the information necessary to perform its supervisory tasks from the company’s manager, board of directors and the elected auditor. To the extent necessary, the Supervisory Council itself may undertake inspections of the company. The Supervisory Council shall be notified in advance of the date of company general meetings and has the right to be present at the general meetings.”*

It is also required that the Supervisory Council issues a statement on the minutes of the meetings of the Executive Board, the supervision of the Bank and matters submitted to it by the Board.

Pursuant to section 30 of the Act, the Council must *“at least once a year present to the Storting its statement on the minutes of the meetings of the Executive Board and its supervision of the Bank, cf. Section 5, fourth paragraph, fifth sentence. A duplicate of the statement is to be sent to the Ministry<sup>4</sup>. The statement concerning the supervision of the Bank shall, at the minimum, comprise the following:*

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

This information is provided in the present report.

<sup>4</sup> The Ministry of Finance.

## THE SUPERVISORY COUNCIL’S ORGANISATION

### THE SUPERVISORY COUNCIL

The Supervisory Council has 15 members elected by the Storting for a four-year term. A named alternate is also elected for each full member. The Storting’s election of members in 2014<sup>5</sup> resulted in three members being re-elected and five new members. Marianne Lie, Monica Salthella, Erland Vestli and Reidar Åsgård retired from the Council, and Tine Sundtoft asked to step down after being appointed a minister in the Solberg government in October 2013. The new members from 1 January 2014 are Toril Hovdenak, Peter Meidell, Iver Nordseth, André Støylen and Paul Birger Torgnes.

The members of the Council have a broad professional background and experience from key areas of Norwegian society, public administration and industry. The appendix to this report provides a full list of members and alternates for 2014–2015 and their terms of office, together with a brief profile of each member’s relevant experience.

Reidar Sandal served as chairman and Frank Sve as deputy chairman in the period 2012–2013. The Storting has re-elected Reidar Sandal as chairman and elected André Støylen as deputy chairman from 2014, both for a term of two years.

The Council prepares a strategy and action plan for its activities for a three-year period. Figure 1 presents an excerpt from the Council’s strategy for 2013–2015.

The organisation behind the Supervisory Council consists of the Permanent Committee, the Office of the Supervisory Council, the chosen external auditor and other external expertise, cf. Figure 2 and the descriptions below.

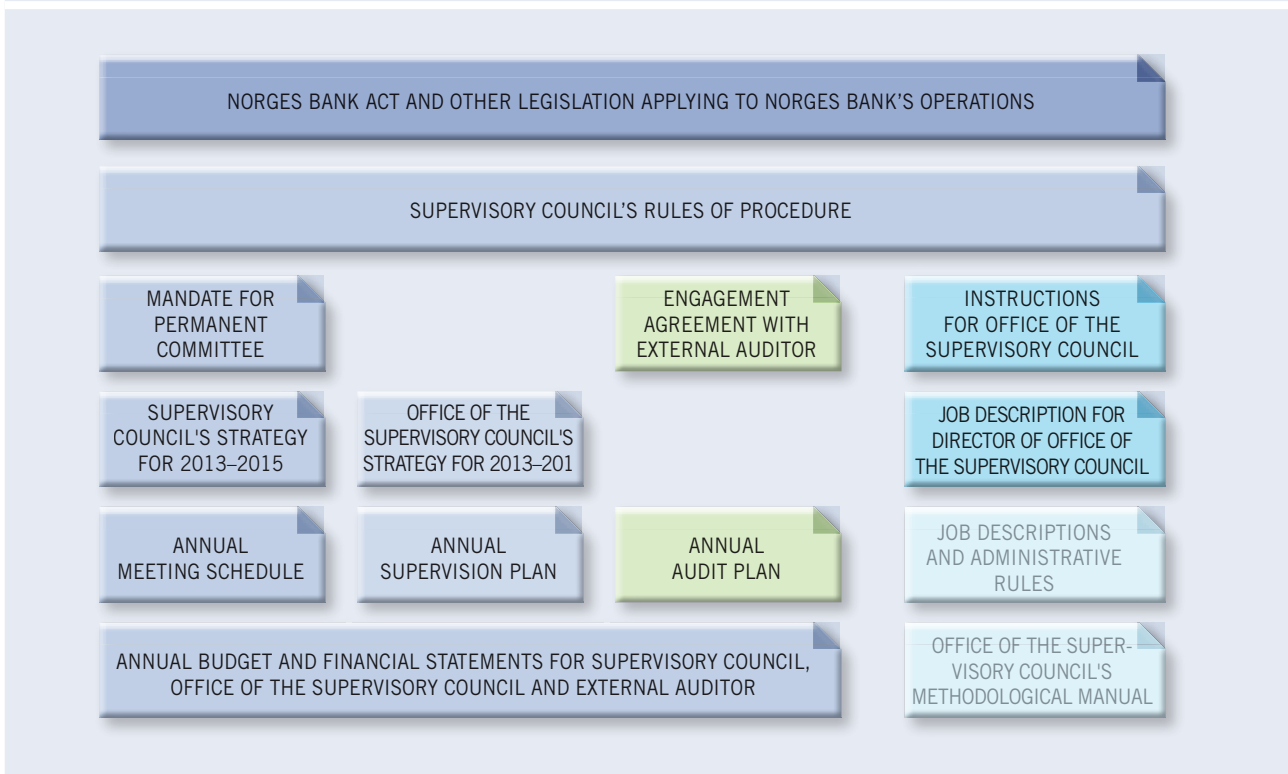
### THE PERMANENT COMMITTEE

The Permanent Committee is a working committee of full members of the Supervisory Council established in accordance with the Norges Bank Act<sup>6</sup>. The Committee

<sup>5</sup> Recommendation 56 S (2013–2014) of the Election Committee on the Election of Members and Alternates to Norges Bank’s Supervisory Council and the Remuneration of the Supervisory Council and the Permanent Committee.

<sup>6</sup> Norges Bank Act, section 7, fourth paragraph: *“From its members the Supervisory Council may appoint committees to consider matters to be dealt with by the Supervisory Council.”*

**FIGURE 3** FRAMEWORK FOR THE SUPERVISORY COUNCIL'S WORK



consists of the Council's chairman, deputy chairman and three other members, all elected for a term of two years. In 2014–2015, the Committee comprises Reidar Sandal (chairman), André Støylen (deputy chairman), Toril Hovdenak, Frank Sve and Synnøve Søndergaard.

In 2012–2013, the Committee consisted of Reidar Sandal (chairman), Frank Sve (deputy chairman), Runbjørg Bremset Hansen, Monica Salthella and Reidar Åsgård.

The Council has issued a mandate for the Permanent Committee. Its duties extend to preparing and making recommendations on matters to be considered by the Council. The Committee has no decision-making powers.

#### **OFFICE OF THE SUPERVISORY COUNCIL**

The Office of the Supervisory Council<sup>7</sup> conducts supervisory work, including various reviews and analyses. It prepares matters, assists with meetings and provides secretariat services for the Council. The Office is professionally and administratively independent of both the Executive Board and Norges Bank's administration. Its work is performed on the basis of instructions, strategies, plans and budgets issued by the Council.

The Council appoints the director of the Office and approves the director's job description and terms of employment. He acts as an adviser to the Council and is responsible for the organisation of the office, development and services living up to the expectations and decisions of the Council. The director also recruits the Office's staff. The Office has eight employees (7.6 full-time equivalents), including the director. Together they have a broad professional background in auditing, financial management, finance, corporate governance and law.

The Office of the Supervisory Council administers the agreement with the external auditor and follows up its work during the year. The Office also serves as a coordinator between Norges Bank, the external auditor and the Office of the Auditor General. The Office of the Supervisory Council is charged with helping the Office of the

Auditor General to exercise its right to inspect Norges Bank's management of the GPF. The external auditor and other experts may carry out independent assurance engagements or contribute to analyses carried out under the leadership of the Office of the Supervisory Council.

#### **EXTERNAL AUDITOR**

The Supervisory Council has appointed Deloitte AS external auditor for Norges Bank from 2010 and signed an engagement agreement running for six years. The agreement covers the auditing of Norges Bank's annual financial statements and reporting on the management of the GPF. The external auditor's annual plan for the financial audit is presented to the Supervisory Council.

The external auditor's work is important for the Council's supervisory activities, and there is regular professional contact between the Office of the Supervisory Council and Deloitte AS. Collaboration and good communication on key aspects of auditing and supervision are given high priority.

Deloitte AS has also been appointed auditor of Norges Bank's pension fund and subsidiaries.

#### **OTHER EXTERNAL EXPERTS**

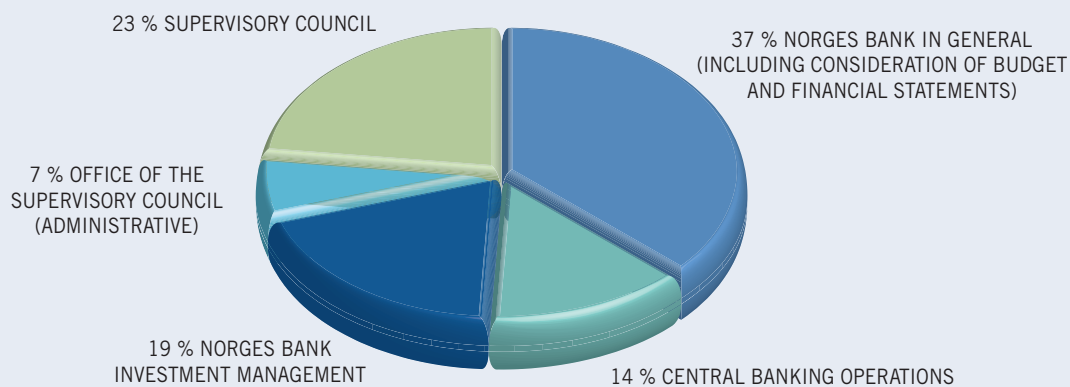
External experts both in Norway and abroad are also used in the course of supervisory work, especially to resolve legal issues and complex problems relating to investment management. Effective access to such resources has been achieved through a framework agreement with a large law firm and the engagement agreement with the external auditor. Other agreements with specific experts are entered into as required.

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

Based on the Norges Bank Act, the Supervisory Council has adopted rules of procedure containing more detailed provisions. It has also established a framework for its work with tasks and areas of authority, in the form of various instructions and mandates and annual plans, cf. Figure 3.

This framework, together with assessments of relevant issues and general risk assessments, provides a basis for the implementation of supervisory work. A new procedure for annual self-assessment of the Council's work was introduced in 2013.

<sup>7</sup> *Norges Bank Act, section 5, third paragraph, final sentence: "The Supervisory Council shall have a secretariat."*

**FIGURE 4** BREAKDOWN OF MATTERS CONSIDERED BY THE SUPERVISORY COUNCIL IN 2013**TABLE 1** THE SUPERVISORY COUNCIL'S EXPENDITURE

THOUSANDS OF NOK	2013	2012
Supervisory Council	2 114	2 821
Office of the Supervisory Council	9 870	10 172
External experts	6 088	4 220
Statutory audit	14 389	13 204
<b>Total</b>	<b>32 461</b>	<b>30 413</b>



## ACTIVITIES AND EXPENDITURE IN 2013

### MEETINGS AND MATTERS CONSIDERED

The Supervisory Council held six meetings in 2013. The Permanent Committee had a total of 12 meetings. Figure 4 provides a breakdown of the matters considered by the Council. A total of 98 matters were considered, and a further 13 were presented for information only. The number of matters has been stable in recent years.

Around 37 per cent of matters considered concerned the supervision of Norges Bank in general, 19 per cent investment management and 14 per cent central banking operations. These included matters put forward by the Executive Board, the Office of the Supervisory Council and the external auditor. The remaining matters concerned the Council's minutes and its own activities, and administrative matters relating to the Office of the Supervisory Council, cf. Figure 4.

The Council keeps abreast of the Bank's operations through briefings from the Central Bank Governor, reports, other case documents and elaboration at meetings. The Executive Board's follow-up of the management framework is important, with particular emphasis on risk management, internal control, risk reduction measures and regulatory compliance.

Seminars and study trips are arranged to keep up-to-date on relevant and important technical areas. In 2013, a seminar was held in conjunction with the Norwegian School of Economics. The aim was to meet experts in fields such as investment management and financial management. The main topics discussed were ethics, credibility and legitimacy in the context of active ownership, global macroeconomic trends, and investment management and Norges Bank's management model.

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

### EXPENDITURE IN 2013

The Supervisory Council sets its own meeting schedule and approves an annual supervision plan for the work of the Office of the Supervisory Council. It approves an overall annual budget for supervisory activities, which includes the Office's expenditure and the external auditor's fees.

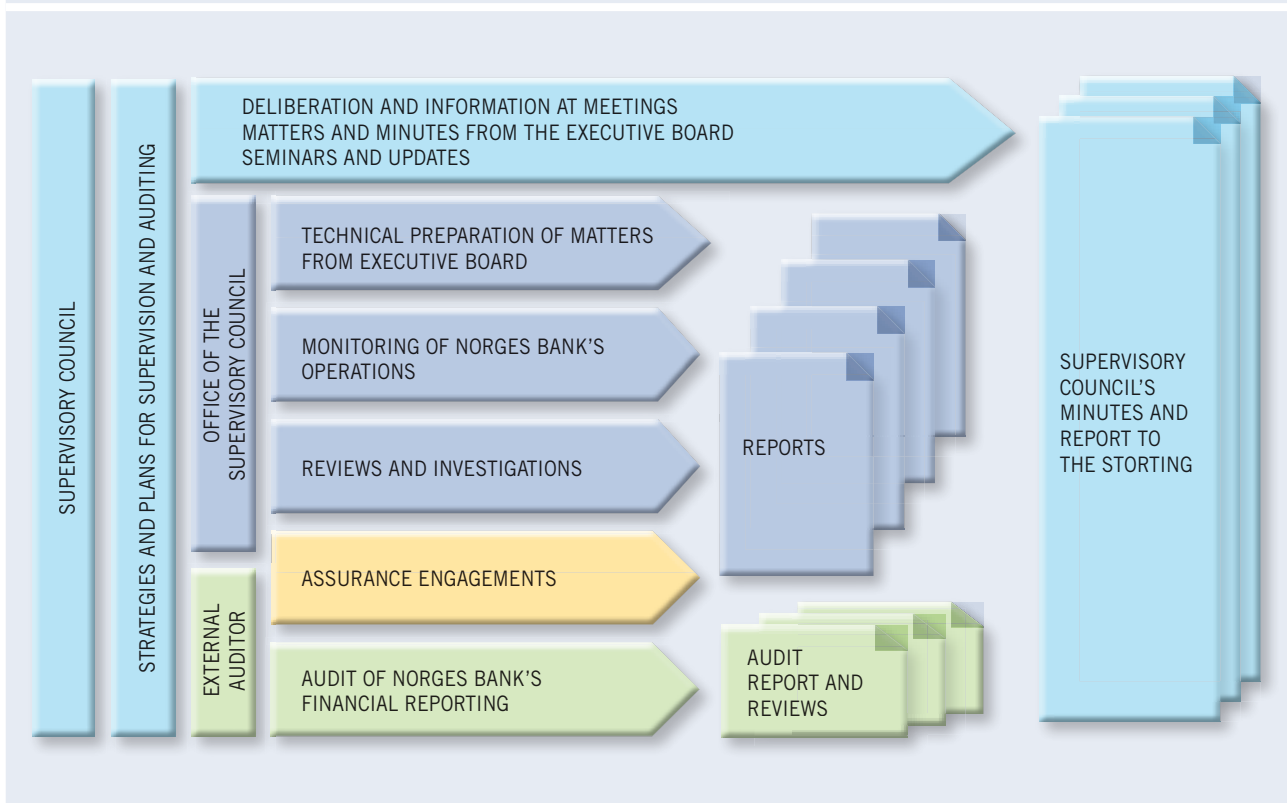
The Storting sets the fees payable to members of the Supervisory Council and the Permanent Committee<sup>8</sup>. A total of NOK 690,000 was paid out in 2013. The chairman and deputy chairman were paid a total of NOK 96,800 and NOK 78,800 respectively. The other members of the Permanent Committee each received NOK 72,000, and the other members of the Council NOK 23,600. Alternates received a fixed annual fee of NOK 3,900 plus an additional NOK 2,250 per meeting attended.

The director of the Office of the Supervisory Council was paid a salary of NOK 1,736,824 in 2013, an increase of 3.2 per cent on the previous year. His pension earnings and other benefits came to NOK 406,383 and NOK 20,374 respectively. The director sets the salaries of other employees at the Office within limits approved by the Council.

The Supervisory Council's total expenditure in 2013 was NOK 32.5m. Table 1 breaks down this expenditure between the Council's own activities, the Office of the Supervisory Council, external experts and Deloitte AS. Approximately 80 per cent of expenditure on external expertise and auditing related to investment management.

"Statutory audit" refers to Deloitte AS's work as Norges Bank's external auditor. An estimated 9,500 hours were spent on the audit of the Bank's annual financial statements and the review of the quarterly reports for the GPFG.

<sup>8</sup> The rates for fees in 2013 were set by the Storting from 1 January 2012. New rates have been set from 1 January 2014 on the basis of Recommendation 56 S (2013–2014).

**FIGURE 5** THE SUPERVISORY COUNCIL'S WORKING PROCESS**FIGURE 6** ASSURANCE PROJECTS ON RISK MANAGEMENT IN THE MANAGEMENT OF THE GOVERNMENT PENSION FUND GLOBAL

- Organisation structure, operational risk and internal control (2009)
- Monitoring external managers (2010)
- Capital inflows and exposure to the chosen benchmark portfolio (2010)
- Framework for assessment of counterparty risk (2011)
- Control system for real estate investments (2012)
- Framework for risk management in the active management of the GPFG (2013)

## METHODOLOGICAL APPROACH TO SUPERVISION

### RISK ASSESSMENTS

The starting point for supervisory work is the Supervisory Council's supervision of the Executive Board's management and control of the Bank's operations. Work is prioritised on the basis of formal rules, the Storting's expectations, social considerations and previous experience. The Council has an independent responsibility for undertaking risk assessments. Significant areas of risk and relevant key challenges in the Bank's operational areas are given particular attention. Together, these guide the operational supervision plan and the agendas for the Council's meetings.

Supervision focuses on the execution of important management tasks and compliance with key rules. Shortcomings in the Executive Board's management may have consequences for Norwegian society. There may be a particular spotlight on the Executive Board and the Supervisory Council in the event of incidents leading to the loss of lives and assets. The tolerance threshold is low for events resulting from irregularities or unethical behaviour or from a lack of attention from the Executive Board.

### THE COUNCIL'S WORKING PROCESSES

The Supervisory Council's work consists primarily of reviewing documents relating to matters presented at its meetings. This work is performed on the basis of an annual schedule. It entails a combination of considering minutes and matters from the Executive Board and reviewing reports from the Office of the Supervisory Council and the external auditor. Further information on specific topics is provided in presentations at meetings of the Council or through seminars and study trips, cf. Figure 5.

The Executive Board's assessments, management and follow-up of risk, including the work of Internal Audit, are very important for the Council's supervision. The Council has the right of access to all of Norges Bank's affairs. In principle, it is up to the Council to assess the need for information and the relevance of the information received.

The Council must ensure that account is taken of roles and responsibilities when it comes to matters concerning the Executive Board's exercise of discretionary authority.

An investigation was performed in 2013 to clarify the supervisory responsibility for the Board's exercise of discretionary authority. In key policy areas such as monetary policy and financial stability, the Norges Bank Act provides only a limited basis to supervise the Board's assessments. This means that the Council does not comment on the Board's monetary policy decisions, or on the advice and consultation responses it submits. The general supervision of the Bank's operations will, however, include the organisation and processes that have been established by Norges Bank and form the basis for the Board's exercise of discretionary authority.

The Office of the Supervisory Council's continuous presence provides an insight into, and knowledge of, Norges Bank and ensures that the Council is kept fully up-to-date on significant issues. The Council may initiate special investigations and analyses relating to events and circumstances relevant to its supervision. Such investigations are performed by the Office of the Supervisory Council, possibly in conjunction with the external auditor or other consultants.

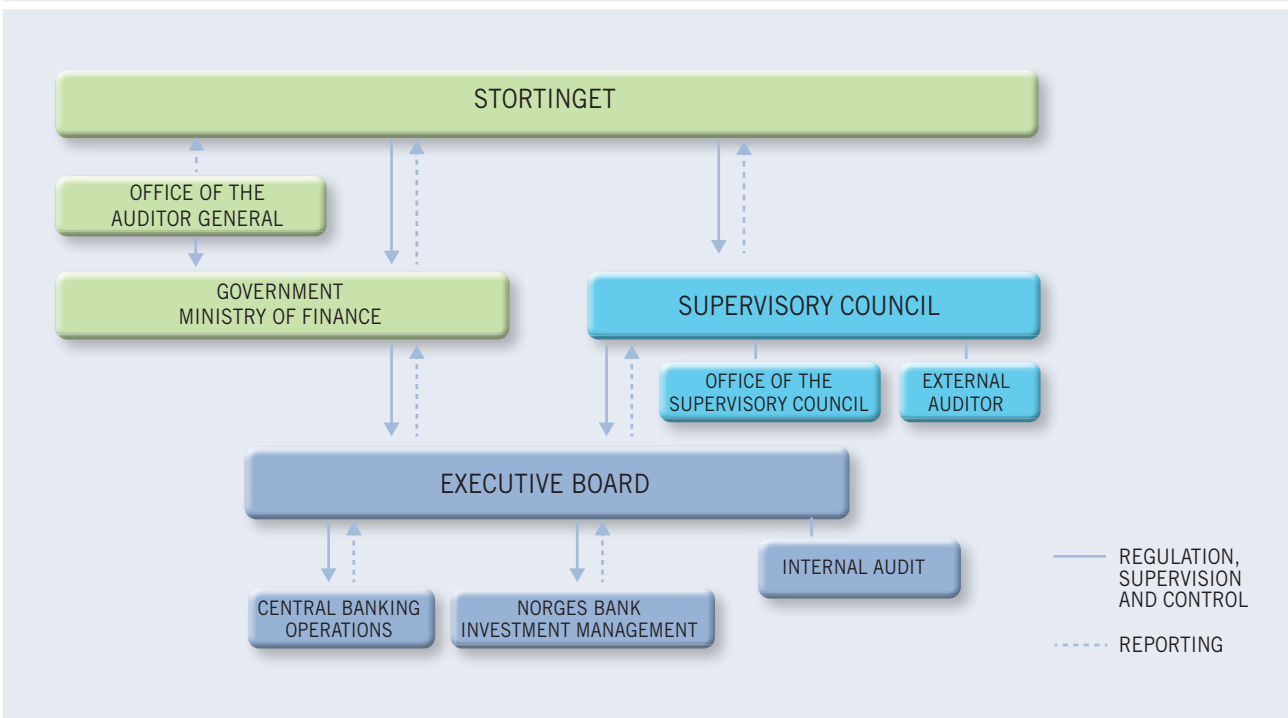
### ASSURANCE PROJECTS ON RISK MANAGEMENT IN THE MANAGEMENT OF THE GOVERNMENT PENSION FUND GLOBAL

In 2009, the Supervisory Council decided on a programme of assurance engagements looking at operational risk management in the management of the GPF. The Ministry of Finance has provided input on areas it may be appropriate for the Council's supervision to cover. The projects are included in the annual supervision plans.

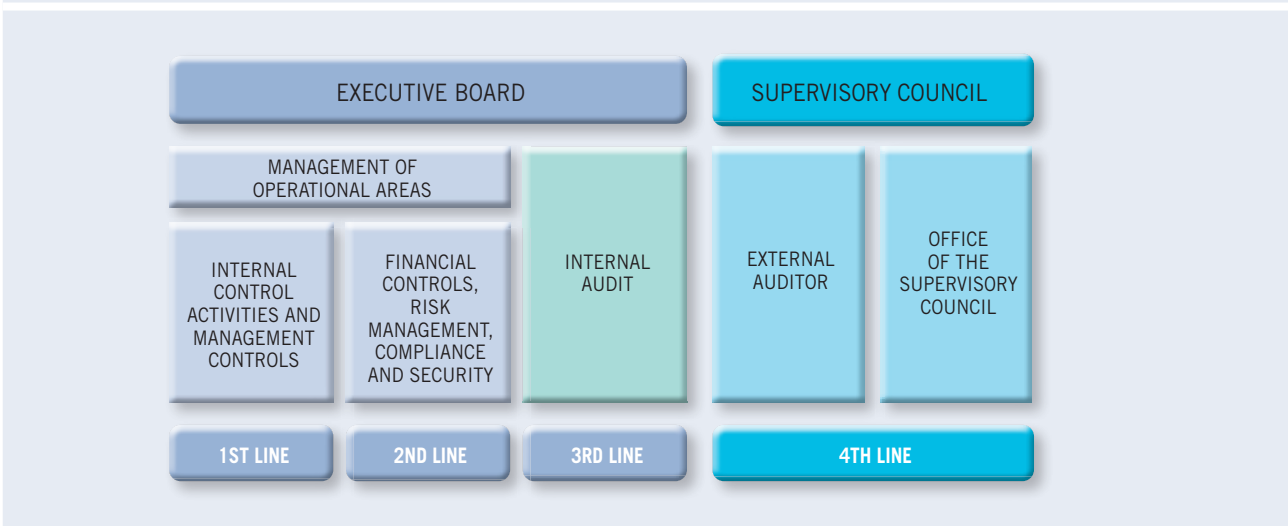
All of the projects have been carried out by Deloitte AS in conjunction with the Office of the Supervisory Council. For each project, an independent assurance statement is submitted to the Council in line with international auditing standards<sup>9</sup>. Figure 6 provides an overview of the projects carried out to date and when the reports were made.

<sup>9</sup> *International Standards on Assurance Engagements from the International Auditing and Assurance Standards Board. The standard applied is ISAE 3000: "Assurance engagements other than audits or reviews of historical financial information."*

**FIGURE 7** NORGES BANK'S MANAGEMENT AND CONTROL STRUCTURE



**FIGURE 8** CONTROL MODEL AT NORGES BANK (LINES OF DEFENCE)



The reports on these reviews are sent to the Ministry of Finance for information and published simultaneously. They are available on Norges Bank's website. These assurance engagements have been discussed in the Supervisory Council's previous reports to the Storting. In accordance with the supervision plan for 2013, a review of the framework for risk management and control of active management was carried out during the year and is presented later in this report.

#### **MEETINGS OF THE SUPERVISORY COUNCIL**

The Supervisory Council normally holds six meetings during the year. The chairman calls meetings in line with the agreed schedule, where deemed necessary or where requested by five or more of its members or by the Executive Board<sup>10</sup>. The minutes of its meetings are sent to the Ministry of Finance and the Office of the Auditor General for information.

The Central Bank Governor and Deputy Central Bank Governor are to attend these meetings unless the Council decides otherwise or there is another valid reason<sup>11</sup>. The Governor elaborates on matters and answers questions during their consideration, and he may bring along experts where necessary. Additional information on matters may be requested in the form of further documentation, written accounts from the Executive Board or presentations at the meetings.

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

There has been increased public interest in the role and duties of the Supervisory Council in recent years. Openness about the Council's work is achieved within the constraints and limits laid down in, among others, the Norges Bank Act and other relevant rules on the Bank's operations. Its members are subject to the Norges Bank Act's provisions on confidentiality<sup>12</sup>. Any increases in openness or exemptions from the duty of confidentiality are decided on a case-by-case basis by the chairman of the Supervisory Council.

The Council is keen to give the general public an insight into the activities of Norges Bank and the Supervisory Council. The Council's report to the Storting is designed to present a broad and complete picture of the Council's work and assessments. The reports on assurance engage-

ments relating to the management of the GPFG are published as they are completed. In principle, the minutes of the Council's meetings are publicly available, while the case documentation may be exempt from publication. At its meeting in December 2013, the Supervisory Council decided to make its minutes available on Norges Bank's website with effect from 2014.

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

Norges Bank manages considerable assets and performs important functions in society under the Norges Bank Act and the mandate for the management of the Government Pension Fund Global. Confidence in the central bank depends on the efficient and complete performance of these tasks. Norges Bank's activities are followed up directly by both the government and the Storting. An extensive management and control structure has been established, cf. Figure 7. As the most senior supervisory and control body, the Supervisory Council has a special responsibility for following up the overall control structure.

The control model established at Norges Bank is based on recognised standards and guidelines, cf. Figure 8. This model is particularly widespread among regulated banking and financial institutions which are normally subject to extensive public supervision and regulation. Independent external control functions are there in the first instance to meet the need of the owners and society for control and supervision.

Ongoing internal control activities are the foundation of the control model and are presented as first-level controls. This first "line of defence" has primary responsibility for performing tasks in accordance with given procedures and guidelines. There is also a second "line of defence", which includes risk management and compliance functions. These carry out control activities based on their own risk assessments. Internal Audit is the Executive Board's control unit and provides the third "line of defence" in the model. It too is charged with following up management controls in the organisation.

Each level has an independent responsibility for assessing risk and the need to perform controls. They must always seek to make use of the control activities carried out at the previous level. A complete and balanced audit and supervision regime at Norges Bank is ensured through dialogue and collaboration between the Office of the Supervisory Council, Internal Audit and the external auditor. Internal Audit's reports to the Executive Board are assessed regularly as part of the supervisory process and the work of the external auditor.

<sup>10</sup> *Norges Bank Act, section 7, fifth paragraph.*

<sup>11</sup> *Norges Bank Act, section 7, sixth paragraph.*

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

**FIGURE 9** OVERALL REGULATORY FRAMEWORK FOR NORGES BANK

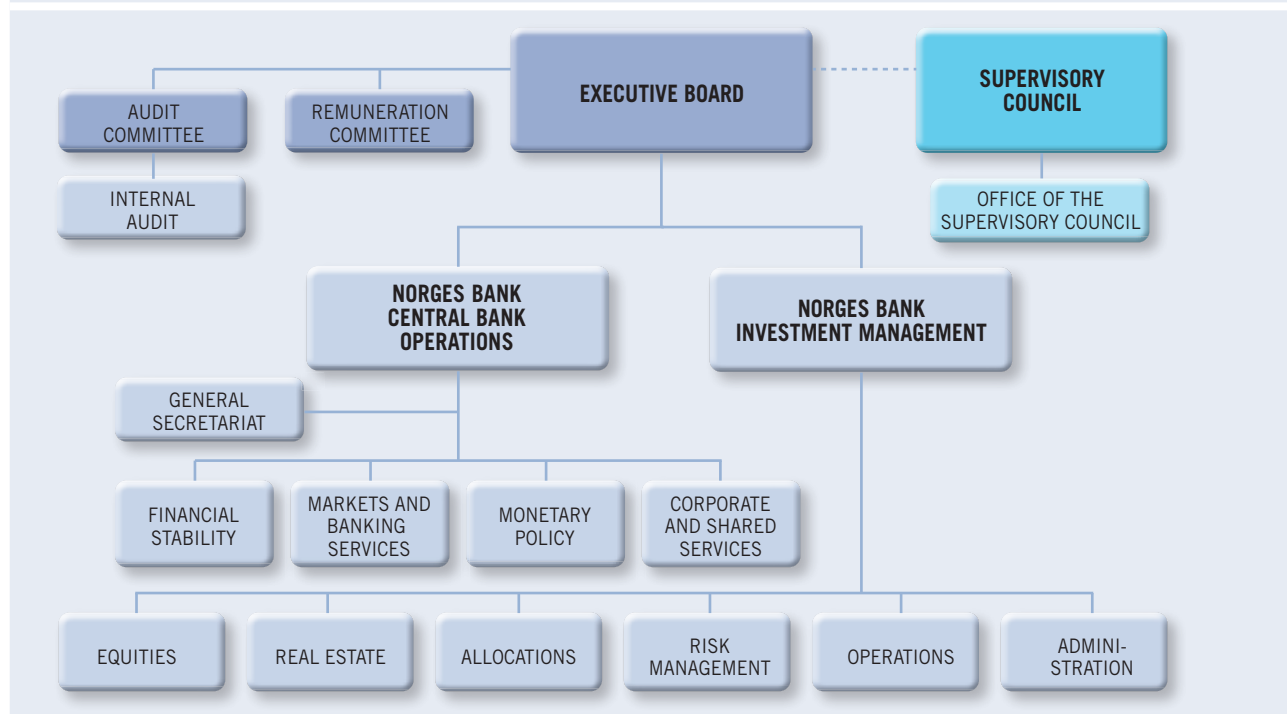
**Key acts of parliament**

- Norges Bank Act
- Government Pension Fund Act
- Payment Systems Act
- Deposit Act

**Key regulations**

- Regulation on monetary policy
- Regulation on the quotation of exchange rates
- Regulation on countercyclical capital buffers
- Regulation on loans and deposits in Norges Bank etc.
- Regulation on the enforcement of the duty to provide information
- Regulation on the annual financial statements etc. of Norges Bank
- Regulation on risk management and internal control at Norges Bank
- Regulation on the impartiality of Norges Bank's Executive Board
- Regulation on criminal record checks when working at or for Norges Bank
- Mandate for the management of the Government Pension Fund Global

**FIGURE 10** NORGES BANKS ORGANISASJONSKART 2014



## SECTION 3

# SUPERVISION OF OVERALL MANAGEMENT AND CONTROL AT NORGES BANK

### NORGES BANK'S OPERATIONS AND OVERALL REGULATORY FRAMEWORK

The Supervisory Council's supervision requires a broad knowledge of Norges Bank's operations and organisation and its management and control framework. The following provides a general description of the Bank's organisation and duties.

Norges Bank's duties and management structure are, as mentioned earlier, governed primarily by the Norges Bank Act and the mandate for the management of the Government Pension Fund Global. In addition, an extensive regulatory framework has been established for the tasks to be performed by Norges Bank, cf. Figure 9.

The central bank is also covered by other rules, such as tax legislation, the Accounting Act, the Public Administration Act, the Freedom of Information Act, the Public Procurement Act, the Security Act and underlying regulations, and the Working Environment Act.

#### DUTIES AND ORGANISATION

Under section 5 of the Norges Bank Act, executive and advisory authority at the Bank is vested in the Executive Board: *“The Board is in charge of the Bank's operations and manages its resources. The Executive Board is responsible for the sound organisation of the Bank's operations, and for establishing satisfactory frameworks, objectives and principles for the Bank's operations. The Executive Board is to ensure that the Bank's operations, including accounting and asset management, are under satisfactory governance and control. The Executive Board shall supervise the Bank's administration and other activities.”*

Norges Bank's operations are tailored to its core tasks and objectives of promoting economic stability in Norway. The central bank has executive and advisory responsibilities in the area of monetary policy and is responsible for promoting robust and efficient payment systems and financial markets. The nation's foreign exchange reserves and the GPFG are managed with the aim of generating a return. These tasks are handled by two separate operational areas: central banking operations and Norges Bank Investment Management. Norges Bank's operations are led from Oslo, and it also has offices in London, New York, Singapore and Shanghai.

An overview of committees, staff functions and departments can be found in Figure 10.

Sections 4 and 5 of this report describe the duties and management models for central banking operations and Norges Bank Investment Management respectively. See also Norges Bank's annual report and financial statements for 2013 and the annual report on the management of the GPFG for 2013.

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

The Board has seven members appointed by the King in Council. The Governor and Deputy Governor of Norges Bank are its chairman and vice-chairman respectively. The Bank's employees also appoint two members from their ranks who join the Executive Board for the consideration of administrative matters.

The Central Bank Governor is the Bank's chief executive and, pursuant to the last paragraph of section 5 of the Norges Bank Act, *“is in charge of the Bank's administration and the implementation of the decisions.”*

With reference to the Norges Bank Act, the Executive Board has delegated authority to the Central Bank Governor and various committees through both general and specific authorities. Delegated authority is followed up through regular reporting to the Board. The Board issues general management documents setting premises for the execution of the Bank's operations.

The Executive Board has a Remuneration Committee consisting of two of its external members. The Committee prepares and advises the Board on matters relating to pay and remuneration arrangements.

In accordance with the Norges Bank Act and as required by the regulation on risk management and internal control at Norges Bank, the Board has also set up an Audit Committee. It consists of three of the Board's external members and is a preparatory and advisory body which is to help increase the quality and efficiency of the Board's work on the management and oversight of financial reporting, risk management and internal control, and the work of Internal Audit.

An Internal Audit unit has been set up in line with the Norges Bank Act and the Internal Control Regulation. Its role is to support the Executive Board's oversight by providing independent assessments and advice on the Bank's governance, risk management and internal control. The Board issues three-year long-term plans and annual audit plans for Internal Audit.

The Executive Board has published a three-year strategy for Norges Bank as a whole. Separate strategies have also been produced for the two operational areas. These strategies are operationalised through annual action plans and followed up through management reporting.

The Central Bank Governor and the Chief Executive Officer of Norges Bank Investment Management are responsible for the management models for central banking operations and investment management respectively, as discussed in more detail later in the report. Risk management and compliance functions have been established in each operational area to help ensure that laws, regulations and internal rules are adhered to.

## THE SUPERVISORY COUNCIL'S GENERAL ANNUAL SUPERVISION

### THE EXECUTIVE BOARD'S OVERSIGHT

In its supervision, the Supervisory Council has attached importance to ensuring that the Executive Board sets the premises for work in the two operational areas and systematically follows up results, risks, compliance, events and action plans. Work on strengthening the management structure and control environment continued in 2013, including the approach to operational risk management. Importance is attached to striking a balance between goals, risk and control measures for important processes.

In accordance with the Internal Control Regulation, the Board has issued general principles for risk management at Norges Bank. The aim is to ensure a systematic and comprehensive approach. The principles are to cover all categories of risk. Supplementary guidelines on their implementation have been drawn up in both operational areas. Risk management is integrated into operational management and is to help strike the balance between goals, risk and control measures for important processes.

The Supervisory Council is kept abreast of the regulatory framework and the Executive Board's principles for risk management. It is positive that procedures have been put in place for regular assessments of the risk situation, as well as sound procedures for implementing risk reduction measures.

The Council is informed about the Board's follow-up of unwanted events through matters submitted to it. No events were reported in 2013 that had significant negative consequences for Norges Bank. There were, however, instances of disruption in the ICT infrastructure. The Council follows up this reporting and receives any necessary additional information from the Central Bank Governor at its meetings.

Other matters from the Executive Board included plans and budgets with assessments of operational risk. The Council also considered operational reports from central banking operations and investment management, reports on risk management, internal control and compliance, and the annual report from Internal Audit. Statements were also submitted on the oversight of security and contingency planning at Norges Bank.

Recommendations emerging from a supervisory review in 2012 of Internal Audit's organisation and work were followed up. For example, steps were taken to formalise the criteria for designing the audit plan and clarifying Internal Audit's role. The Supervisory Council was made aware of the assessments and any significant recommendations in the reporting from Internal Audit to the Executive Board. It has become an established practice for the Council to receive an annual statement from the Audit Committee's chairman on the Committee's activities.

Work on health, safety and the environment is covered by the Executive Board's annual report, and the Council also considers annual reports from the Working Environment and Works Council.

The Council's consideration of periodic reporting, the Executive Board's annual report and the annual financial statements gives it a good overview of the Bank's operations.



The director of the Office of the Supervisory Council attends the consideration by the Executive Board and the Audit Committee of matters relevant to supervision. Contact meetings have also been established between the Central Bank Governor and the chairman of the Supervisory Council for mutual exchange of information and discussion of special issues. The Office of the Supervisory Council holds regular meetings with the risk management and compliance functions and with Internal Audit.

The Executive Board's overall strategy for Norges Bank for 2014–2016 has been presented to the Supervisory Council. The strategy emphasises that Norges Bank is to be a transparent and well-run central bank that makes prudent and responsible use of resources. Work on modernising and further developing its core activities will continue.

The Council's supervision provided documentation that the Executive Board has implemented processes to update the overall management and control framework. In addition, the Council has had it documented, through material from the Executive Board and statements from the Central Bank Governor, that the Board regularly follows up targets, action plans, internal control and the risk situation.

#### **COMPLIANCE WITH THE INTERNAL CONTROL REGULATION**

The Ministry of Finance has issued a regulation on risk management and internal control at Norges Bank (the Internal Control Regulation), which supplements the Norges Bank Act's rules on the responsibility of the Executive Board and the Central Bank Governor for the management and control of the Bank's operations.

Reporting on the status of action plans, risk management and internal control is considered during the year. The Executive Board presents a general assessment of internal control and the risk situation to the Supervisory Council at least once a year. This is based on reporting by the two operational areas and the annual report from Internal Audit.

Based on the Executive Board's overall assessment, the risk situation for central banking operations is acceptable, taking account of the risk reduction measures to be introduced in 2014. There is risk attached to instability in the settlement of payments, the operational stability of ICT systems and physical security at head office. Operational risk in investment management was within the Executive Board's tolerance limit during the year. Investments in real estate and unlisted markets and complex ICT systems both internally and at service providers entail a higher level of risk than is ideal. Risk management in the two operational areas is discussed later in this report.

The Supervisory Council was kept informed of planned and implemented measures and took note of the Executive Board's assessment of the risk situation. Management reporting has been enhanced, with integrated risk assessments. This helps strengthen both understanding of the complexity of the central bank and the basis for management and control.

In the opinion of the Supervisory Council, compliance with the requirements of the Internal Control Regulation was achieved and documented in 2013. The Council will follow the Executive Board's oversight of risk reduction measures.

#### **SECURITY AND CONTINGENCY PLANNING AT NORGES BANK**

Security and contingency planning are always a priority area. The Bank's operations are covered by the Security Act and the Document Security Instructions<sup>13</sup>. Norges Bank's settlement system and tasks in the area of notes and coins are considered critical under the Document Security Instructions. This entails more stringent requirements for security clearance and authorisation for access to information. The National Security Authority oversees the Bank and other public bodies covered by the Security Act. A procedure has been established for reporting incidents to the Authority.

<sup>13</sup> The Document Security Instructions were issued by Royal Decree of 17 March 1972. Subsequent amendment of the Security Act led to changes in the Instructions to ensure the necessary link to rules on data security for classified documents and to permit electronic communication.

The Executive Board has issued principles for security, contingency planning and crisis management at Norges Bank. These take account of the requirements of the Security Act, the Document Security Instructions, the Personal Data Act, the Working Environment Act and new public guidelines and standards for security. On the basis of these principles, the Central Bank Governor has formulated bank-wide guidelines. A new contingency plan has also been put in place.

The Supervisory Council has paid particular attention to security and has noted that thorough risk and threat analyses have been performed. It is informed of assessments of the threat picture, along with plans and priorities for implementing measures to enhance security and preparedness. Security is also dealt with through management reporting and the Executive Board's plans and budget proposals. Resources have been made available through both ordinary budget decisions and additional allocations. In extraordinary situations, the Executive Board can cover costs to safeguard lives, health and major assets without any special allocation decisions. A report must then be submitted to the Supervisory Council.

It is positive that the Executive Board has an unwavering focus on security and contingency planning, and that the Bank works systematically on the basis of the principles established by the Board and the current threat picture.

## SPECIFIC MATTERS AND TOPICS FOR SUPERVISION IN 2013

### ETHICAL GUIDELINES

It is essential that the outside world has full confidence in Norges Bank and that its employees show high levels of ethical awareness and integrity. The Executive Board has issued ethical principles for employees that underline how important it is for everyone to take responsibility for the central bank's reputation. These principles highlight the importance of compliance with laws and regulations, and of employees behaving in an ethically acceptable manner.

The Board's ethical principles have been supplemented with ethical rules for employees in both of the operational areas. The rules cover the duty of confidentiality and trading in financial instruments. The provisions of the

Securities Trading Act on insider dealing apply to employees who have a knowledge of, or work with, the management of financial instruments at Norges Bank as part of their job. Rules have also been issued on business gifts, loans, economic independence and integrity, duty of disclosure and consequences of non-compliance.

The Office of the Supervisory Council has carried out a review showing that a management framework addressing key ethical issues has been established. This framework has been clearly communicated and is followed up systematically. A need was identified to establish follow-up procedures relating to compliance with the specific provisions on insider dealing for members of the Executive Board<sup>14</sup>, and procedures were immediately put in place.

The Supervisory Council notes that Norges Bank works systematically to ensure ethical awareness and behaviour.

### PROCEDURES FOR WHISTLEBLOWING AT NORGES BANK

The Supervisory Council's report to the Storting for 2012 noted that there were separate frameworks and channels for whistleblowing in the two operational areas. The Council recommended that the Executive Board should issue principles for a single whistleblowing setup for the whole of Norges Bank based on recognised practice.

The Board has established principles for whistleblowing that ensure that cases are treated independently, anonymously and objectively. Changes have been made so that Internal Audit is now the whistleblowing channel for all employees. The Council has been informed of the Board's experience of whistleblowing and the level of such activity in 2013.

### SUPERVISION OF OUTSOURCED OPERATIONS

The outsourcing of significant operations or purchase of services that could have been integrated into the ordinary running of the Bank is a strategic decision. For several years, Norges Bank has worked towards an overall goal of being a more streamlined specialist concentrating on core activities. Outsourcing has been an instrument in this

<sup>14</sup> Regulation concerning the relationship of Norges Bank's Executive Board to other credit institutions and enterprises, section 3.

process, and the number of FTEs in central banking operations has been substantially reduced.

Both central banking operations and Norges Bank Investment Management buy in a relatively large volume of services, in particular custody, settlement and ICT services. Responsibility for outsourcing is always with the principal. General risks are attached to shortcomings in the management and operation of outsourced services and failures to comply with applicable rules and regulations. These can have significant economic and reputational consequences. Outsourced services are evaluated regularly, in terms of both commercial needs and the requirements of the rules on public procurement.

The Executive Board monitors the risk picture and the performance of outsourced operations through management reporting. The Executive Board's strategy for 2014–2016 requires an assessment of which services can best be outsourced and which need to be performed in-house.

For the Supervisory Council, there are also risks in terms of efficient and appropriate expenditure. When outsourcing significant operations during change processes, it has become an established practice for the Council to be informed before the Executive Board reaches a decision. In 2012, the Office of the Supervisory Council performed an evaluation of the regulation of supervision and auditing in contracts with suppliers, which concluded that these contracts do allow the Council to supervise and control outsourced operations.

In 2013, the Office performed a review assessing the Executive Board's monitoring and evaluation of outsourced operations. The review revealed that outsourcing is anchored in the Bank's strategy, guidelines and management model. This contributes to an active position on the outsourcing of operations and purchase of services from external suppliers. The Council finds that the Board has established processes for the management and control of outsourced operations.



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## SECTION 4

# SUPERVISION OF CENTRAL BANKING OPERATIONS

## MANAGEMENT MODEL FOR CENTRAL BANKING OPERATIONS

Central banking operations are organised into four departments and a General Secretariat. The Markets and Banking Services, Monetary Policy and Financial Stability Departments work on traditional central banking activities in accordance with the Norges Bank Act<sup>15</sup>.

The Corporate and Shared Services Department provides administrative support for central banking operations and bank-wide functions and processes. These include financial reporting, general security, property management in Norway, human resources, archiving and communications. Secretariat services for the Executive Board, the legal framework for Norges Bank's operations and the Board's external communications are handled by the General Secretariat, cf. Figure 10.

The Central Bank Governor has implemented a management structure defining organisation, processes, roles, responsibilities etc. The department directors are responsible for risk management and controls in their respective areas and issue the necessary internal guidelines. A central risk management function and a compliance function have been set up to support the department directors and the Central Bank Governor in their work on managing operational risk and regulatory compliance. Reports on operational risk are made quarterly to the Governor. The status of compliance is reported to the Governor every six months and immediately upon the discovery of any serious breaches of the rules.

Operational risk and the status of compliance form an integral part of the semi-annual management reporting from central banking operations to the Executive Board. These reports are an important part of the basis for the Supervisory Council's oversight.

<sup>15</sup> *Norges Bank Act, section 1, paragraph 1, second and third sentences: "The Bank shall be an executive and advisory body for monetary, credit and foreign exchange policy. It shall issue banknotes and coin, promote an efficient payment system domestically as well as vis-à-vis other countries, and monitor developments in the money, credit and foreign exchange markets."*

## THE SUPERVISORY COUNCIL'S GENERAL ANNUAL OVERSIGHT

### THE EXECUTIVE BOARD'S OVERSIGHT

Based on the principles for risk management at Norges Bank, the Executive Board adopted principles for risk management in central banking operations in 2013. Risk assessments are part of the basis for decisions on all material changes, including changes that can impact on financial risk.

In 2013, the Central Bank Governor issued guidelines on risk management in central banking operations at a more detailed level. The guidelines include risk definitions, management of incidents, responsibilities and reporting. Risk identification and assessment are performed quarterly, in the event of serious incidents, and following major changes to duties, ICT systems or other infrastructure and regulatory conditions. Unwanted events must be reported and addressed in order to bring operations back to normal. The Executive Board has also considered criteria for the assessment of the level of operational risk.

The Supervisory Council has been informed of these guidelines. It is very important to the Council that there are good procedures for reporting events and establishing risk reduction measures. The Council monitors the management of central banking operations at a general level through its consideration of reports, plans and budget decisions.

### NORGES BANK'S INTERNATIONAL RESERVES

Norges Bank's international reserves consist of foreign exchange reserves and claims on the International Monetary Fund (IMF)<sup>16</sup>. The reserves are divided into a money market portfolio and a long-term portfolio. There is also a buffer portfolio for the Bank's regular purchases of foreign currency for subsequent transfer to the GPF. G.

<sup>16</sup> *The IMF aims to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.*

The financial risk in Norges Bank's balance sheet relates mainly to the foreign exchange reserves, lending to banks and international commitments through the IMF. Limits for financial risk for the various components of Norges Bank's balance sheet are laid down in regulations and internal management documents from the Executive Board.

The foreign exchange reserves had a total market value of NOK 329.6bn at the end of 2013. The money market portfolio and the buffer portfolio are managed by central banking operations and amounted to NOK 38.3bn and NOK 18.0bn respectively. The long-term portfolio, consisting of shares and long-term fixed-income investments, is managed by Norges Bank Investment Management and had a value of NOK 273.3bn.

The Executive Board updated the principles for the management of the foreign exchange reserves in 2013, including the division into portfolios and the investment universe. The intention was to ensure that importance is attached to liquidity; for example, the money market portfolio is to be invested in short-term fixed-income instruments to this end. The reserves are managed on the basis of a benchmark index defined internally on the basis of risk limits in the guidelines for the portfolio issued by the Central Bank Governor.

The role of the buffer portfolio<sup>17</sup> is to even out fluctuations in petroleum tax, the oil-adjusted budget deficit and the SDFI's revenue<sup>18</sup>, such that currency purchases do not fluctuate excessively and result in unwanted variations in the value of the krone. The portfolio is used to make appropriate transfers of new capital to the GPF. The buffer portfolio is invested in short-term fixed-income securities. No benchmark index has been defined for this portfolio.

Quarterly reports on the management of Norges Bank's foreign exchange reserves are reviewed by the Supervisory Council, which is satisfied with the new, combined reporting on the portfolios.

#### **MONETARY POLICY**

Monetary policy is a core area for the central bank. The Supervisory Council does not assess the exercise of discretionary authority, but supervises the Executive Board's oversight of processes and instruments. Importance is attached to the Board being open and predictable in its interest rate setting. The Central Bank Governor's briefings to the Supervisory Council on developments in the economic situation in Norway and abroad included an account of the effects on the Norwegian economy.

A new monetary policy report with an assessment of financial stability has been developed. The report includes Norges Bank's assessment of the outlook for the key policy rate and the need for countercyclical capital buffers at banks. The report is published four times a year with effect from 2013. The purpose and content of the report fall outside the Council's immediate supervisory responsibilities, but it provides important background information on the Bank's tasks and core processes and is therefore a sound basis for the Council's supervision of the running of the Bank.

#### **NORGES BANK'S SETTLEMENT SYSTEM**

Norges Bank's settlement system (NBO) provides settlement services for banks. Average daily turnover in 2013 was in the region of NOK 203bn. Norges Bank is to promote efficient payment systems, which depend on stable and robust ICT systems. The operation of NBO has been outsourced to a large supplier of ICT services in Norway. No significant interruptions in the operation of the settlement system or the availability of core systems were reported during the year. The supplier's control procedures are documented in annual audit reports.

<sup>17</sup> The buffer fund is built up each month through transfers of foreign currency. On the last day of the month, the amount set by the Ministry of Finance as the transfer for that month is withdrawn from the portfolio and transferred with final effect to the GPF's investment portfolio.

<sup>18</sup> The State's Direct Financial Interest in petroleum activities.

Given that NBO has been defined as a critical service, the National Security Authority has conducted supervision processes relating to ICT security. Norges Bank has received a report detailing a number of non-conformances, and this has been dealt with by the security department. The Council has been kept informed through the general reporting on security.

The annual payment systems report has been considered, and information was provided on significant operational events through management reporting during the year. The Supervisory Council is pleased to see high levels of operational stability being reported for the settlement system. It also notes that action is being taken to reduce the risk associated with contingency solutions and has asked to be kept informed about this.

#### **NORGES BANK'S RESPONSIBILITIES AS ISSUER OF NOTES AND COINS**

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

NOKAS AS operates four of the five central bank depots, while Norges Bank itself is responsible for the depot in Oslo. Det Norske Myntverket AS handled all production of Norwegian circulation and commemorative coins under an agreement running from 2009 to 2013. Norwegian banknotes were supplied by two European producers under agreements running from 2013 to 2019. The Council has been kept informed about these agreements and about the start-up of a project to develop a new banknote series.

The Office of the Supervisory Council performs set annual supervisory tasks in this area, partly by monitoring the management of contractual relationships. It also assesses Norges Bank's checks of stocks at suppliers, deliveries of new notes and coins, and stock management and holdings at the central bank depots.

The Council considers the Bank's semi-annual reports on notes and coins and relevant management reporting, and is pleased that no deviations from established procedures were reported in 2013. The Council is of the opinion that adequate management and control of duties and responsibilities in the area of notes and coins have been established.

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

Central government deposits at Norges Bank totalled NOK 89,464m at the end of 2013. No interest was paid on these deposits. An agreement has been reached between the Ministry of Finance and the Bank on the operation and management of the government's accounts. Under the agreement, this work is to be performed in accordance with the rules governing financial management in the central government sector and the guidelines for settlement accounts in the group account system.

The agreement requires an annual assurance statement to be submitted on Norges Bank's compliance with specific requirements in the agreement. Deloitte AS has performed assessments of control procedures and requirements for security and contingency planning, and has submitted an assurance statement that has been considered by the Supervisory Council and forwarded to the Ministry of Finance. The Council is of the opinion that adequate management and control of central government deposits have been established.

## SPECIFIC MATTERS AND TOPICS FOR SUPERVISION IN 2013

### CONTINGENCY PLANNING FOR FINANCIAL CRISES

The management of financial crises is part of the central bank's core task of promoting financial stability. There is close cooperation with other authorities when financial crises arise, in particular the Financial Supervisory Authority, Finanstilsynet, and the Ministry of Finance.

The Office of the Supervisory Council has carried out a review of the framework and processes established for crisis management. It concluded that the Executive Board has established a management framework that addresses the tasks associated with contingency planning and the management of financial crises. The framework complies with relevant law and international benchmarks. It was also found that regular exercises are performed.

The Council is kept updated on Norges Bank's activities in this area through ordinary reporting and the Central Bank Governor's briefings. The Council is of the opinion that Norges Bank works systematically on contingency planning for the management of financial crises.

### MANAGEMENT OF ICT SECURITY

Operations in Norges Bank's core areas are heavily dependent on effective ICT systems, which need to feature high levels of security. The Executive Board has issued general principles for security, contingency planning and crisis management, and the Central Bank Governor has issued supplementary guidelines. This framework is to help prevent unwanted events, limit losses and ensure rapid restoration of key functions in the event of incidents.

Through internal management reporting and reports from Internal Audit and the external auditor, the Executive Board has a sound basis for overseeing risks relating to ICT security. The National Security Authority has performed two supervision processes relating to ICT security and reported the results.

The Office of the Supervisory Council has conducted an investigation of ICT security in central banking operations. The conclusion in its report was that an appropriate management framework has been established and that internal guidelines reflect the principles and criteria in the formal framework and recognised standards.

The Council has also been kept informed about work on ICT security and the follow-up of any incidents through ordinary management reporting. The Council finds that the Executive Board pays considerable attention to ICT security.



## SECTION 5

# SUPERVISION OF INVESTMENT MANAGEMENT

### MANAGEMENT MODEL FOR NORGES BANK INVESTMENT MANAGEMENT

The core tasks for the investment management operation are to manage the Government Pension Fund Global in accordance with the mandate from the Ministry of Finance<sup>19</sup> and to manage the long-term portfolio in Norges Bank's foreign exchange reserves. Guidelines for investment management are issued by the Executive Board in the form of principles, an investment mandate and a job description for the Chief Executive Officer of Norges Bank Investment Management.

There are three investment areas: equities, fixed income and real estate. Departments with support functions have also been established for securities trading and operational management, and departments for risk management and administrative procedures, cf. Figure 10.

Operations are run from Oslo. There are also investment activities at offices in London, New York, Shanghai and Singapore. This global presence ensures continuity across time zones and proximity to the markets invested in. Norges Bank formed the subsidiary NBIM S.à r.l. in Luxembourg in 2011, and many of the fund's real estate investments in Europe will be made through this company.

A structured management framework has been established and includes risk management and internal control. There are also risk and compliance functions which follow up operational risks and compliance with laws, regulations, the mandate for the management of the GPFG and internal rules.

The management mandate permits Norges Bank to invest up to 5 per cent of the value of the GPFG in real estate. This business area is being built up rapidly and was extended in 2013 to include new markets, with investments in more European countries and, for the first time, the US. Investing directly in properties helps diversify risk and

investments across more markets. Large holdings in real estate companies result in a more active and demanding ownership role and require a different approach to risk to listed financial investments in equities and fixed income.

The accounting information in the annual reporting for the GPFG complies with the requirements of international accounting standards. There is considerable interest in the performance of the fund. The method for measuring returns in the reporting is based on an internationally recognised standard<sup>20</sup> and is verified annually by an external consulting firm. With effect from the first quarter of 2013, the Supervisory Council entered into an agreement with Deloitte AS on the performance of checks on the key return data in the external quarterly reports.

### THE SUPERVISORY COUNCIL'S GENERAL ANNUAL OVERSIGHT

#### THE EXECUTIVE BOARD'S OVERSIGHT

The Executive Board considers monthly overviews and quarterly reports on developments in risks and returns. There are also quarterly reports on operational risk management, unexpected and unwanted events, and regulatory compliance. The level of operational risk exposure was within the Executive Board's tolerance limit throughout 2013. As a result of the increased breadth of the GPFG, this tolerance limit was raised in 2013<sup>21</sup>.

The number of unwanted events reported was somewhat lower than in 2012. These events related partly to the ICT infrastructure, custody functions and voting. The investment management operation is heavily dependent on secure ICT systems. Key services such as custody and ICT operation have been outsourced to international companies. The consequences of operational errors may have a financial impact and affect Norges Bank's reputation.

<sup>19</sup> Section 1-2 of the mandate states that the Ministry's krone deposit is to be placed in a separate account in Norges Bank. Also: "The Bank shall invest the krone deposit in its own name in a portfolio of financial instruments, real estate and cash deposits, and other assets and financial liabilities managed by the Bank pursuant to the present mandate (the investment portfolio)."

<sup>20</sup> Global Investment Performance Standard (GIPS).

<sup>21</sup> In April 2013 the Executive Board set its risk tolerance for total exposure to operational risk factors related to a financial risk management measure at a maximum of NOK 750m, P80 value. This means that there must be less than a 20 per cent probability of unwanted operational events resulting in gains and losses totalling NOK 750m or more in a 12-month period.



Significant breaches of the mandate and guidelines for the management of the GPFG and other relevant operational events are reported to the Ministry of Finance. They are also mentioned in the annual and quarterly public reports on the management of the fund.

In 2013, the Supervisory Council's general oversight covered periodic management reports, reports on risks and returns, and reports on operational risk management, internal control and compliance. The external reports on the management of the GPFG and the foreign exchange reserves are also important for the supervision process.

The management of the fund produced a very strong return in 2013, especially on equity investments. The Council has noted that this was not the result of, and did not result in, an increase in risk taking. Nor did it impact on the exercise of management and control.

The Council is of the opinion that the Executive Board gives high priority to overseeing investment management, and that this is done in a regular and systematic fashion. Both internal and external reporting have improved in recent years in terms of structure and transparency. The Council looks positively on the openness in internal reporting on risks and unwanted events, and on the disclosure of significant matters in external reporting. In addition, importance is attached to the reporting also extending to matters relating to subsidiaries for real estate investments.

#### **OVERSIGHT OF THE MANDATE FOR THE MANAGEMENT OF THE GPFG**

The management mandate from the Ministry of Finance was amended with effect from 1 January 2013. One of the changes was to permit real estate investments in countries outside Europe. There were also adjustments to the return objective and to the requirements for the diversification of the real estate portfolio.

The risk management and compliance function at Norges Bank Investment Management has systems for detecting and following up any breaches of the guidelines. This process includes compliance with the Ministry of Finance's mandate and guidelines, as well as external market rules and guidelines issued by the Executive Board. Any breaches of the rules are mentioned in the quarterly reports to the Executive Board. No significant breaches were reported in 2013.

The GPFG is managed mainly internally at Norges Bank. In 2013, 61 external managers were used in various markets and sectors, and approximately 3.8 per cent of the fund was managed externally.

As part of the ongoing supervision of investment management, the Office of the Supervisory Council held meetings with two external managers in an emerging market. The aim was to gain an overview of the execution of investment management and the framework for regulation and control in the local stock market. The managers' procedures for compliance with agreements and management mandates were reviewed. Systems have been put in place to ensure that tasks are performed in line with the mandate from Norges Bank and the rules of the markets operated in. These procedures also included satisfying requirements for responsible investment. The managers underwent supervision by local supervisory authorities without any significant remarks.

At the same meetings, Deloitte AS performed assessments relating to the audit of Norges Bank's financial reporting.

The Office of the Supervisory Council has established regular follow-up meetings with the risk management and compliance function. Through the quarterly reporting process, the Council had it confirmed that the Executive Board monitored compliance with the mandate for the management of the GPFG. The Council also followed the process of adjustment to the changes made to the regulatory framework.

## SPECIFIC MATTERS AND TOPICS FOR SUPERVISION IN 2013

### ACTIVE MANAGEMENT

Active management means that Norges Bank considers different investment opportunities and makes investments with the aim of achieving a higher return than the benchmark index set by the Ministry of Finance. The mandate sets a risk limit for active management. Norges Bank itself sets investment targets, and risk limits have been set at various levels of the organisation.

Norges Bank Investment Management has established internal reference portfolios in the operational management of the fund to take account of its size, long-term horizon and objective. The Executive Board follows up the reporting of risks and returns on a monthly basis.

Deloitte AS has performed an assurance engagement looking at the design and implementation of the framework for risk management and control for active management. The project covered the management structure in place, the delegation of investment mandates, monitoring and reporting processes. The report found that the framework for risk management and control has been designed in accordance with market practice in the financial sector.

The Supervisory Council finds that an adequate management framework for active management has been established.

### CONTROL FRAMEWORK FOR REAL ESTATE INVESTMENTS THROUGH SUBSIDIARIES

Real estate investments are organised through subsidiaries to address commercial and tax considerations and limit Norges Bank's financial liability<sup>22</sup>. At the end of the year, Norges Bank owned all or part of 68 companies in Europe and the US.

The Supervisory Council issued guidelines in 2012 on the formation and supervision of companies. The aim of the guidelines is to help safeguard the Council's supervisory and control authority as set out in the Norges Bank Act. At the same time, the guidelines must be practicable for Norges Bank.

Real estate investments are normally made together with partners through joint ventures. At a meeting with one of these partners, the Office of the Supervisory Council and Deloitte AS were informed about the management and control systems and financial reporting from these corporate structures. Processes for ensuring compliance with contracts with Norges Bank were also reviewed.

Section 8a of the Norges Bank Act governs the formation and supervision of subsidiaries. Companies that engage in commercial activities are set up by the Supervisory Council on the recommendation of the Executive Board. NBIM S.à r.l is currently the only company that the Council has decided to form with reference to this provision.

The Executive Board has established a framework to ensure compliance with section 8a of the Act. The Office of the Supervisory Council has performed a review of this framework and its application. An external legal adviser was used. The review concluded that the framework could be developed further to ensure that all relevant matters are considered when forming new companies and corporate structures.

The Supervisory Council has asked the Executive Board to undertake an evaluation of the framework and its application to ensure that the Council's responsibilities under the Norges Bank Act are addressed. At the same time, the Council will assess the need for adjustments to the guidelines on the formation and supervision of companies. This will be followed up further in 2014.

<sup>22</sup> This structure was discussed in the government's reports to the Storting on the Government Pension Fund for 2010 and 2011.

#### **FRAMEWORK FOR THE MANAGEMENT AND CONTROL OF TAX ON REAL ESTATE INVESTMENTS**

Norges Bank is not a separate tax subject in Norway. The investment operation may incur tax liabilities in other countries, but this will often be reduced through tax treaties between the countries concerned. In some countries, central banks enjoy tax immunity on investments in equities and bonds. This immunity does not normally extend to direct investments in real estate.

Deloitte AS has undertaken a review to assess whether the Bank has established good management and control of procedures to ensure compliance with tax rules in the countries where investments are made. The review also included an assessment of management systems for reporting taxes to internal and external stakeholders, and adjustment to changes in investment activities and tax rules. The growing public interest in international organisations' approach to tax planning and ethical considerations was also examined in the review.

The report noted that no management documents specifying attitudes to tax mitigation had been drawn up. At the time of the assessment, considerable changes were being made to the procedures for the management and control of taxes in real estate management. It was too early to say whether the new procedures and measures had been fully implemented.

The Supervisory Council endorsed the conclusion on a need to clarify attitudes to tax mitigation. The review did not identify significant shortcomings in the management and control of taxation, but the Council has asked for a statement on the implementation of the relevant management framework at a later date.

#### **ACTIVE OWNERSHIP AND RESPONSIBLE INVESTMENT**

The Ministry of Finance's mandate and guidelines require corporate governance, environmental and social issues to be integrated into the management of the GPF. Rules have been issued for the exclusion of companies or sectors. Norges Bank Investment Management has formulated principles for responsible investment and produced internal guidelines for investment analysis, voting and company follow-up as part of its active ownership work.

This work concentrates on a number of focus areas, including children's rights, climate change and water management.

Social responsibility has attracted growing public attention in Norway and abroad. Work on responsible investment and active ownership is crucial for the legitimacy of the investment management operation and for Norges Bank's reputation. The Supervisory Council has monitored developments in responsible investment practices, partly through internal and external reporting. It has noted that Norges Bank is continuing to work on adjusting the portfolio on the basis of risk assessments of particularly exposed sectors.

The Office of the Supervisory Council has conducted a review of the management framework for responsible investment and the Executive Board's oversight, as an extension of a more general assessment in 2012. External experts were used in this review. The report found that standards and good practice are evolving internationally, especially when it comes to measurement criteria and the standardisation of reporting.

Norges Bank's work on responsible investment is deemed to comply with the fundamental requirements of the mandate, but the management model and reporting should be made clearer and developed further. It is recommended that Norges Bank starts more clearly from applicable international standards and contributes further to development in this area. The Council endorses the conclusions of the report and has requested follow-up from the Executive Board.

**TABLE 2** CONDENSED BALANCE SHEET FOR NORGES BANK

MILLIONS OF NOK	2013	2012
Financial assets	377 564	321 202
Investments, GPFG	5 034 846	3 813 576
Other assets	2 080	1 941
<b>Total assets</b>	<b>5 414 490</b>	<b>4 136 719</b>
Deposits from banks etc.	74 672	35 336
Deposits from the Treasury	89 464	130 783
Notes and coins in circulation	54 060	53 755
Other liabilities	34 751	29 931
Deposits in krone account, GPFG	5 034 846	3 813 576
<b>Total liabilities</b>	<b>5 287 793</b>	<b>4 063 381</b>
Equity	126 697	73 338
<b>Total liabilities and equity</b>	<b>5 414 490</b>	<b>4 136 719</b>

## SECTION 6

# NORGES BANK'S BUDGET AND FINANCIAL STATEMENTS

### BUDGETING AND ACCOUNTING PROCESSES

Each year, the Executive Board prepares a proposed budget for Norges Bank in accordance with the Norges Bank Act<sup>23</sup> and the budget rules issued by the Supervisory Council<sup>24</sup>. The Ministry of Finance sets a limit each year for the fee covering Norges Bank's direct and indirect costs for the management of the GPFG, which is used in the draft budget.

In its consideration of the budget, the Supervisory Council ensures that responsible financial constraints have been set for the Bank's duties and operations. The operational budget is adopted for the coming year. The Council reaches separate decisions on proposed investments and activities that run for more than one year. Approval may be given for funding for the whole of the planned period until the investment or activity is finally completed.

The Council's responsibility relates to control and approval of the Bank's overall expenditure. The Executive Board is responsible for the use of resources being prudent and responsible. It must ensure that assets and resources are responsibly managed and protected. Reports are made to the Council on the status of the Bank's expenditure at least twice a year.

Norges Bank produces monthly balance sheets, which are published on [www.norges-bank.no](http://www.norges-bank.no). Quarterly reports on the management of the GPFG are published on [www.nbim.no](http://www.nbim.no).

The Executive Board produces an annual report and annual financial statements for Norges Bank, which incorporate the financial reporting on the management of the GPFG. The Council adopts the annual financial statements and takes note of the Board's annual report. The external auditor's report is considered at the same time. The external auditor also audits the consolidated financial reporting in the quarterly reports for the GPFG's investment portfolio and submits separate audit reports to the Supervisory Council. These audit reports are published together with the financial reporting. The approved

budget and the adopted annual financial statements are sent to the Ministry of Finance.

### FRAMEWORK FOR NORGES BANK'S ANNUAL FINANCIAL STATEMENTS AND OTHER FINANCIAL REPORTING

The preparation and submission of financial statements is covered by the regulation on the annual financial statements etc. of Norges Bank, which states that the rules for large enterprises in the Accounting Act are to be complied with. It also states that the financial reporting for the GPFG is to be prepared in accordance with international accounting standards.

In general, the Supervisory Council considers developments in financial reporting in recent years to have been positive for the central bank's reputation. International accounting standards help ensure consistent reporting and allow comparisons with similar organisations.

The Council has been informed that work is underway on assessing the presentation of real estate investments and subsidiaries in Norges Bank's accounts. The background to this is changes in international accounting standards and a desire to provide the most informative possible financial reporting in this growing area of activity.

### NORGES BANK'S ANNUAL FINANCIAL STATEMENTS FOR 2013

Norges Bank's annual report and financial statements and the financial reporting on the management of the GPFG for 2013 were considered at the Supervisory Council's meeting of 27 February 2014.

Norges Bank's financial statements for 2013 show total comprehensive income of NOK 53,359m in 2013 (2012: NOK 773m). This consists primarily of net income from financial instruments in the foreign exchange reserves and exchange rate movements. The increase in 2013 was due to a strong return on equity management and foreign exchange gains, which together totalled NOK 54,232m (2012: NOK 306m). The operating results for 2013 are discussed below.

<sup>23</sup> *Norges Bank Act, sections 5 and 29.*

<sup>24</sup> *Budget rules for Norges Bank of 15 November 2012.*

**TABLE 3** OPERATING INCOME AND EXPENSES

MILLIONS OF NOK	2013	2012
<b>Operating income, central banking operations</b>	<b>125</b>	<b>113</b>
<b>Fee for the management of the GPFG</b>	<b>2 889</b>	<b>2 193</b>
Total operating income	3 014	2 306
Personnel expenses	-1 209	-1 107
Other operating expenses	-2 580	-2 012
<b>Total operating expenses</b>	<b>-3 789</b>	<b>-3 119</b>
<b>Net operating expenses, Norges Bank</b>	<b>-775</b>	<b>-813</b>



Norges Bank's balance sheet showed total assets of NOK 5,414bn at the end of 2013, an increase of NOK 1,278bn from the end of 2012. See Table 2 for further details. The dominant item is the krone account for the GPFG at NOK 5,035bn (2012: NOK 3,814bn). The growth in the fund breaks down into transfers of new capital from the government of NOK 241bn and an increase in the value of its investments of NOK 980bn. The fund's return before currency effects was NOK 692bn (2012: NOK 447bn). The return on the fund does not impact on the central bank's profit or equity but is recognised directly in the krone account for the GPFG.

The Supervisory Council has reached the following decision on the financial statements for 2013:

- The Supervisory Council takes note of the Annual Report of the Executive Board for 2013.
- The Supervisory Council takes note of the auditor's report and adopts Norges Bank's financial statements for 2013.
- In accordance with the guidelines, the profit after other allocations of NOK 53,359m is to be transferred to the Adjustment Fund. There is no capital in the Transfer Fund and no transfers will therefore be made to the Treasury.

The audit reports from Deloitte AS on Norges Bank's financial statements and the financial reporting for the GPFG contain no qualifications. The Council has also received information from the auditor on significant matters relating to the year's audit. The Executive Board has confirmed that processes have been initiated to follow up the comments in the audit review from 2012. The audit review for 2013 will be considered by the Supervisory Council in spring 2014.

The Accounting Act's new requirements<sup>25</sup> for reporting on social responsibility apply to Norges Bank. Given the

public interest in the Bank's operations, the Council has stressed the importance of the Executive Board paying attention to reporting in this area. The Board's annual report for 2013 includes an overview of Norges Bank's work on corporate social responsibility, and Deloitte AS has confirmed in its audit review that the content of this presentation complies with the requirements of the Accounting Act. Responsible investment is also discussed in the annual report on the management of the GPFG.

Social responsibility is a new element in the annual report, and the Supervisory Council finds that the annual report satisfies the given reporting requirements. The Council believes that it is important to develop this reporting in line with developments in standards and best practice in the area.

## FOLLOW-UP OF EXPENDITURE

### FOLLOW-UP OF EXPENDITURE IN 2013

The operational budget for Norges Bank for 2013 was presented to the Supervisory Council in December 2012. The Bank's expenditure is covered by the Bank's annual report and financial statements for 2013.

The Council followed up the Bank's expenditure by considering semi-annual management reports and internal accounts. Operating expenses totalled NOK 3,789m in 2013. Net expenses for traditional central banking operations totalled NOK 775m, offset in part by income of NOK 125m. Expenses for the management of the GPFG totalled NOK 2,889m. In addition, there were operating expenses of NOK 61m at subsidiaries involved in the management of real estate investments.

Norges Bank had 701 employees at the end of the year, against 660 at the end of 2012. Of these, 331 (2012: 324) worked in central banking operations and 370 (2012: 336) at Norges Bank Investment Management. 29 per cent (2012: 23 per cent) of Norges Bank Investment Management's employees worked at offices outside Norway. Many operational support activities have been outsourced to external suppliers in Norway and abroad.

The operating income and expenses reported in the financial statements for 2013 are presented in Table 3.

<sup>25</sup> Accounting Act, section 3-3 (c) "Report on social responsibility". Effective from the 2013 financial year.

## NORGES BANK'S BUDGET FOR 2014 – THE SUPERVISORY COUNCIL'S BUDGET DECISION

The Supervisory Council reached the following decision on 19 December 2013:

1. With reference to the budget rules issued by the Supervisory Council, the Executive Board's proposed budget and the Ministry of Finance's letter of 17 December 2013 on fees for the management of the Government Pension Fund Global, the Council hereby adopts the following budget for Norges Bank's operations and investments in 2014 (all figures in millions of NOK):

Operating income, central banking operations	120
Fee for the management of the GPFG	3 273
<b>Total operating income</b>	<b>3 393</b>
Personnel expenses	1 345
Other operating expenses	2 890
<b>Total operating expenses</b>	<b>4 235</b>
<b>Net operating expenses, Norges Bank</b>	<b>- 842</b>
Capital Investments Central banking operations	301
Capital Investments NBIM	38
<b>Total Capital Investments</b>	<b>339</b>

The decision is based on the proposed budget's presentation of action plans, assumptions and uncertainties about certain items.

The Council takes note of the appended operating budget for the subsidiary NBIM S.à r.l and wholly-owned sub-sidiaries.

2. The Council approves funds for new multi-year activities of NOK 2m in central banking operations. Of the budgeted operating expenses for 2014, NOK 9m is estimated to be brought forward from previous years.
3. Total funds of NOK 200m are approved for new investments in central banking operations in 2014 and subsequent years. Of this, NOK 146m is included in the investments budgeted for 2014, together with NOK 155m estimated to be brought forward from previous years' budget decisions. Funds for investments in NBIM totalling NOK 38m are estimated to be brought forward from previous years' budget decisions.
4. The Council notes that the Executive Board plans to present proposals in 2014 for additional appropriations as discussed in the proposed budget.

The Council notes that the Executive Board has launched a project to develop a new banknote series as a multi-year activity. The Council requests that a total cost estimate for the entire project is presented.

The Council's budget for supervision and audit costs in 2014 will be set in a separate decision.

The approved budget will be submitted to the Ministry of Finance in accordance with section 29 of the Norges Bank Act.

Expenses were within the approved budget for both central banking operations and investment management. Expenses in central banking operations were on a par with the previous year. Expenses for the management of the GPFG increased by almost NOK 700m. This is acceptable given the increase in assets under management and the breadth of investment management activities. Performance-based fees to external managers totalled NOK 684m, against NOK 307m in 2012. The increase was due to the strong investment performance. A ceiling has been set for the fees payable to individual managers.

The Ministry of Finance set an upper limit for reimbursement for the management of the GPFG in 2013 of 9 basis points (0.09 per cent) of average assets under management before performance-based fees to external managers. Management costs amounted to 5.0 basis points of assets under management in 2013, down from 5.3 basis points in 2012. These costs were within the given limit and so reimbursed in their entirety by the Ministry of Finance.

The Supervisory Council is satisfied that Norges Bank's cost control and management of expenditure complied with the budget rules and the approved budget. It also notes that expenses for the management of the GPFG were well below the Ministry of Finance's limit and are continuing to trend downwards relative to assets under management.

#### **THE SUPERVISORY COUNCIL'S BUDGET DECISION FOR 2014**

Norges Bank's budget for 2014 was adopted by the Supervisory Council in December 2013, showing total operating expenses of NOK 4,235m and a total net operating loss of NOK 842m. Estimated costs for the management of the GPFG account for NOK 3,273m of this. The Ministry of Finance has retained the limit of 9 basis points for the reimbursement of costs for the management of the GPFG. Total investments of NOK 339m have been budgeted. The budget decision is presented in a separate box.



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## SECTION 7

# ASSESSMENT OF THE EXECUTIVE BOARD'S MANAGEMENT AND CONTROL

The review of the Executive Board's minutes is a duty set out in section 5 of the Norges Bank Act: *"The Supervisory Council issues a statement on the minutes of the meetings of the Executive Board, the supervision of the Bank and matters submitted to it by the Executive Board."*

The Board's minutes are 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. They provide a basis for asking the Central Bank Governor for additional information. Approximately 42 per cent of the matters considered by the Executive Board were passed to the Supervisory Council.

The Central Bank Governor attended meetings of the Supervisory Council and responded to questions raised. Some supplementary statements were given. The Council has reviewed all of the minutes for 2013 and has received all of the information it has asked for.

No special remarks on the Board's minutes were minuted in 2013.

There were reports during the year of issues and a need for a stronger control framework and risk reduction measures in a number of areas. The Council notes that work is underway on comprehensive management reporting, which includes operational risk management.

The Council regularly monitors reports on the management of the GPF, with a particular focus on compliance with the mandate and guidelines from the Ministry of Finance. Following a number of supervisory reviews, the Supervisory Council has stressed the importance of separate follow-up. In 2013, this applied to responsible investment, real estate management and tax aspects of investment management.

The Council has good experience of the Executive Board and the two operational areas following up the recommendations in a systematic fashion. It is very important that the Supervisory Council is kept up-to-date and is adequately involved.

The Council is of the opinion that the Executive Board exercised satisfactory management and control of Norges Bank in 2013. Its operations were carried out in accordance with the Norges Bank Act, the mandate and guidelines for the management of the Government Pension Fund Global, and the regulation on risk management and internal control at Norges Bank.

With reference to the external auditor's report, the Council has adopted the Executive Board's proposed annual financial statements for Norges Bank for 2013 and the Executive Board's proposed distribution of total comprehensive income. The Council finds that the Executive Board managed expenditure in 2013 in line with the budget rules for Norges Bank and the approved budget.

The supervision of the Bank's activities and compliance with the rules for its operations revealed no cause for special remarks under the Norges Bank Act.



## SECTION 8

# PRIORITIES FOR FUTURE SUPERVISORY WORK

In the strategy for Norges Bank for 2014–2016, the Executive Board places emphasis on being a transparent and well-run central bank that makes prudent and responsible use of resources. Work on modernising and further developing its core activities is continuing. In its management of the Government Pension Fund Global, Norges Bank aims to safeguard the fund's assets for future generations. The Supervisory Council will closely monitor the Board's implementation of this strategy.

The Council will further develop its own work in line with its strategy for the period 2013–2015 while making the necessary adjustments in line with developments in Norges Bank's operations. A supervision plan for 2014 has been adopted, describing general and specific areas for supervision. The Council will monitor developments in regulatory conditions and tasks for the central bank. Attention will be paid to the Executive Board's adjustment of the management framework and the implementation of action plans. Particular emphasis will be given to risk management and risk reduction measures, the follow-up of significant events, and internal control.

The supervision plan includes a review of Norges Bank's overall management model. The control structure to ensure compliance with key rules and regulations and Norges Bank's exercise of its role as adviser are also key topics.

Work on security and contingency planning, work on establishing secure ICT solutions and the use of external suppliers will continue to be followed up. The operational areas conduct regular evaluations of ICT services supplied. To reduce risk, there are plans to strengthen internal ICT expertise. The Executive Board notes in its management reporting that there is a need for increased awareness and control of sensitive information, and the development of structured, bank-wide rules. The Council will monitor the implementation of major projects.

The ongoing supervision of the Board's management and control of investment management and compliance with the mandate for the management of the GPFG has high priority. In 2014, there will, for example, be a review of the management framework for managing the reputational risk associated with investments. There will also be an assessment of how various risk factors are followed up when investing in new emerging markets.

As a continuation of previous assessments in its oversight, the Supervisory Council will monitor the implementation of responsible investment and the implementation of the management framework for tax on real estate investments. The same applies to the rapid build-up of investments in real estate. The Council will contribute to the development and implementation of a framework for the formation and supervision of subsidiaries.

The Council has been informed that work is underway at the Ministry of Finance on evaluating the mandate for the management of the GPFG. The assessment of the framework for responsible investment is expected to be a key point. It is assumed that Norges Bank will have an opportunity to comment on any changes in the mandate. In this context, the Council will submit consultation responses on matters of significance for its areas of responsibility.





# ENCLOSURES

## NORGES BANK'S SUPERVISORY COUNCIL 2014–2015

### SUPERVISORY COUNCIL

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

### THE PERMANENT COMMITTEE

Reidar Sandal, <i>chairman</i>	Morten Lund
André Støylen, <i>deputy chairman</i>	Iver Nordseth
Toril Hovdenak	Tormod Andreassen
Frank Sve	Peter Meidell
Synnøve Søndergaard	Eva Karin Gråberg

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## PROFILES OF THE MEMBERS OF THE SUPERVISORY COMMITTEE

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### **Reidar Sandal**

CEO of Sunnfjord Chamber of Commerce. Chairman of Innovation Norway, Fjord1 AS and Sunnfjord Næringsutvikling AS. Board member at Investinor AS. Previous experience includes minister at the Ministry of Church Affairs, Education and Research, member of the Storting and chairman of its Standing Committee on Finance and Economic Affairs, county councillor, chief executive of Sogn og Fjordane county municipality, and teacher. MA from the University of Bergen.



### **André Støylen**

CEO of Sparebankstiftelsen DNB. Chairman of LHL Helse AS and Boligbygg Oslo KF. Previous experience includes CFO at the Norwegian Red Cross, director of finance at Oslo City Government, secretary of state at the Ministry of the Environment, consultant at McKinsey&Company and board member at the National Museum. MBA from the Norwegian Business School.



### **Tormod Andreassen**

Board member at Lærdal Finans AS, Civita and Sparebank1 Nord-Norge Pension Fund, among others. Previous experience includes deputy CEO and chief economist at Christiania Bank, chief investment officer and chief economist at SpareBank 1 Gruppen AS, CEO of Alfred Berg Norge AS and SR-Fonds, chairman of Berg Fondsforvaltning, department director at Statistics Norway, board member at the Norwegian Commercial Banks' Guarantee Fund and member of Finance Norway's life and pensions committee. BSc (Econ) from the University of Oslo.



### **Vidar Bjørnstad**

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



### **Eva Karin Gråberg**

Teacher at Isfjorden Oppvekstsenter, deputy chairwoman of Troll-Tinn AS and chairwoman of the Supervisory Council at Tøndergård School. Previous experience includes deputy county council chairwoman, headmistress, board member at Nordmøre og Romsdal HF and Nordveggen AS, and national board member at the Norwegian Association of Local and Regional Authorities and the Norwegian Association of Hydropower Municipalities (LVK). BA from the University of Oslo.

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**Runbjørg Bremset Hansen**

Teacher at Kolvereid School. Member of municipal administrative committee in Nærøy. Previous experience includes county councillor, deputy county council chairman, board member at Helse Midt-Norge and member of the Regional Committee for Northern Norway. Author of a history of Nærøy. MA from the Norwegian University of Science and Technology.

**Toril Hovdenak**

CEO of Bussbygg AS. Board member at Gjensidige Nordmøre og Romsdal and Molde University College. Previous experience includes chairwoman of Molde Municipal Pension Fund, deputy county council chairwoman, board member at Sparebanken Møre, deputy chairwoman of Helse Midt-Norge, and board member at Istad AS. MBA from Bodø Business School (now the University of Nordland).

**Peter Meidell**

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

**Iver Nordseth**

Specialist consultant/business adviser. Local politician. County executive board member and county council group leader. Chairman of the Norwegian Association of Windpower Municipalities (LNVK), regional board member at the Norwegian Association of Local and Regional Authorities in Møre og Romsdal, and board member at Nordmøre Chamber of Commerce. Previous experience includes county council chairman, teacher and board member at Nordmøre Energiverk. BA from the Universities of Bergen and Trondheim.

**Morten Lund**

Retired. Previous experience includes sole proprietor and farmer, researcher at the Agricultural University of Norway and the Norwegian Labour Inspection Authority, member of the Storting and chairman of its Standing Committee on Business and Industry, political adviser to the Centre Party's parliamentary group, attending alternate member of the Board of Auditors General, county council chairman and chairman of Fosen Regional Council and the committee of Sør-Trøndelag Kraftselskap. BSc (Agric) from the Agricultural University of Norway and PhD from the Agricultural University of Norway/Norwegian University of Science and Technology.

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**Frank Sve**

Local politician. County executive board member, county council group leader, member of the Regional Council for Western Norway. Member of the executive committee of Stranda Municipality. Chairman of Åknes/Tafjord Beredskap IKS and director of the Local Programming Committee for the Norwegian Broadcasting Corporation in Møre og Romsdal. Previous experience includes county council chairman, production director at Møremøbler/Stokke, and board member at St. Olavs Hospital HF and Innovation Norway Møre og Romsdal. Vocational background.

**Synnøve Søndergaard**

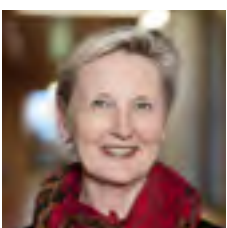
District secretary at the Norwegian Confederation of Trade Unions (LO) district office in Troms, deputy chairwoman of Inko Industri- og Kompetansesenter AS, and board member of the RDA II Programme Committee and Innovation Norway Troms. Previous experience includes senior adviser at Forsvarsbygg, assistant controller at Det Norske Veritas Rotterdam and county council cabinet member in Troms. Studied IT at Østfold University College.

**Ingebrigt S. Sørffonn**

Self-employed. Chairman of the Egill Danielsen Foundation and eight Danielsen schools. Previous experience includes member of the Storting, second deputy chairman of its Standing Committee on Finance and Economic Affairs, chairman of Fitjar municipality, managerial positions at Sunnhordland Kraftlag AS and chairman of the Norwegian Lutheran Mission (ImF). MSc (Management) from the Norwegian Business School.

**Paul Birger Torgnes**

CEO of Fjord Marin Holding AS and deputy chairman of Brønnøy municipality. Deputy chairman of NCE Aquaculture and the University of Nordland. Previous experience includes CEO of Fjord Seafood ASA and NorAqua, chairman of Torghatten, political adviser to the fisheries minister and secretary-general of the Norwegian Aquaculture Association. Studied business at the University of Nordland and the Norwegian Fisheries College (now the Arctic University of Norway).

**Randi Øverland**

Senior adviser at the University of Agder. Chairwoman of Sørlandet Museum of Art. Previous experience includes head of Tangen Upper Secondary School, undersecretary of state at the Ministry of Culture and Church Affairs, undersecretary of state at the Ministry of Church Affairs, Education and Research, and municipal executive committee member. Degree from Telemark Teaching College (now Telemark University College) and further studies at the Universities of Oslo and Agder, among others.

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## DIRECTOR OF THE OFFICE OF THE SUPERVISORY COUNCIL



### **Svenn Erik Forsstrøm**

Previous experience includes central bank auditor at Norges Bank and partner at accountants Coopers & Lybrand (now PwC). BSc (Econ) from the Norwegian Business School, state-authorized public accountant.

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Report for 2013

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