
NORGES BANK'S SUPERVISORY COUNCIL REPORT FOR 2019

Document No. 9 (2019–2020)



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TO THE STORTING

Norges Bank's Supervisory Council's oversight of Norges Bank in 2019 leaves an impression of a solid business where the community's values are managed in a satisfactory manner.

In the Supervisory Council's opinion, the Executive Board has exercised good governance and control of Norges Bank's operations. Appropriate procedures have been established to ensure that the business is carried out in accordance with law, agreements, decisions and other frameworks. The overall picture is that both the central bank business and asset management are well run within the established framework of the Executive Board.

Norges Bank's budget for 2020 was adopted on the proposal of the Executive Board at the Supervisory Council's meeting on 12 December 2019. In 2019, Norges Bank's Supervisory Council was particularly concerned with the central bank's work on a more cost-effective organization of the business. The Supervisory Council has over time pointed to the importance of high cost awareness by utilizing synergies in Norges Bank's organization. Questions have been raised about whether Norges Bank can pool administrative functions and thereby achieve economies of scale. Over the past year, several such organizational changes have been made. The Executive Board has established the Norges Bank Administration (NBA), where several joint services for central bank operations and asset management are now assembled. The Supervisory Council will follow the continuation of this work.

The Supervisory Council has for several years seen a need for more comparable figures for measuring the efficiency of operations in Norges Bank's asset management. This evaluation has now been further developed. In the opinion of the Supervisory Council, such analyses are important in order to be able to identify the differences in costs between the companies included in the surveys.

Through supervisory reviews and external attestation assignments, the Supervisory Council has highlighted Norges Bank's reporting. The Supervisory Council is concerned that reporting is targeted, comprehensive and understandable. The Supervisory Council therefore recommended that the Executive Board consider whether the reports should to a greater extent present Norges Bank's own assessment of the results of the Government Pension Fund Global (GPF). The Executive Board was also recommended to clarify who are Norges Bank's target groups in the bank's communications. Norwegians are particularly interested in the development and changes in the GPF, and Norges Bank therefore has a responsibility to communicate well to all interest groups.

Oslo, 3 April 2020

Julie Brodtkorb
Chair of Norges Bank's Supervisory Council

The management of the GPF is a significant task for Norges Bank and must be carried out in accordance with a mandate set by the Ministry of Finance. In 2019, the Supervisory Council has been particularly concerned that the organization of this is as good as possible, also in the many portfolios and markets spread around the world. Therefore, an audit review and two attestation assignments have been carried out that specifically concern the management of the GPF.

The audit included a risk that all real estate investors are concerned about; namely the risk of accidents or other situations that could endanger the lives and health of those who work, live or stay in the buildings. The Supervisory Council advised that this risk be explicitly regulated in the mandate. The Supervisory Council is therefore pleased that such a provision was incorporated when the Ministry of Finance adopted amendments in force from 30 November 2019.

One of the certification assignments was to analyse the framework Norges Bank has for risk management and control related to the approval of markets. Questions are often asked about Norges Bank's investments in markets such as Saudi Arabia, Africa and South America. When markets are approved, both financial risk and reputation risk must be taken into account. The reputation risk is linked, among other things, to ethical principles and international standards for investment activities set by the UN and the OECD. The attestation assignment provided clear recommendations on clarity of responsibilities and documentation.

The second certification project concerns the use of internal reference portfolios and indices in the management of the GPF. Managing the GPF is a large and complicated task. It is therefore important to supervise the tools used to manage and control the investments. The attestation assignment will be discussed in the Supervisory Council's report to the Storting for 2020 when the Executive Board's response to the recommendations is available.

The Supervisory Council has considered the Executive Board's annual report for Norges Bank and approved the annual accounts for 2019. In accordance with guidelines for the allocation and allocation of Norges Bank's profits, NOK 19.7 billion is transferred to the Treasury. The annual report on the management of the Government Pension Fund Global for 2019 has also been considered.

At its meeting of 25 March 2020, the Supervisory Council approved this report on the supervision of Norges Bank in 2019. The report is hereby presented to the Storting.

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CHAPTER 1

SUMMARY OF THE MAIN POINTS
OF THE REPORT

Under Article 33 of the Constitution and the Act relating to Norges Bank and the Monetary System etc. (the Central Bank Act), Norges Bank is the central bank of Norway. It is a separate legal entity owned by the central government. Its activities are governed by the Central Bank Act. This new act was passed by the Storting on 21 June 2019 and entered into force on 1 January 2020. The Supervisory Council's work on the supervision of the Bank in 2019 was based on the Norges Bank Act of 1985 with subsequent amendments, which was the law then in force. The requirements for the Council's report to the Storting are unchanged in the new act, and this report on its supervision is submitted in accordance with the provisions of Section 4-1 (4) of the new act.

The priorities for the Council's supervision in 2019 were set out in a separate chapter of last year's report, Document No. 9 (2018-2019). Supervision was carried out in accordance with approved plans and is presented in this report.

A number of changes were made at Norges Bank in 2019 which tie in with the Council's recommendations and observations over time. These include clarification of the Executive Board's responsibilities and changes to the organisation which are expected to help make the Bank's operations more cost-effective over time. Some key points from the Supervisory Council's work in 2019 illustrate this:

1. External reporting and real transparency on the Bank's activities

One key area for Norges Bank is to have good communication and extensive external reporting on all parts of its activities. This is important in ensuring credibility through a good reputation and good democratic insight into the economic policy pursued with the instruments assigned to the central bank, and into the management of the Government Pension Fund Global (GPF).

FIGURE 1 CONTENTS OF THE REPORT:

SECTION 4-1 (4) OF THE CENTRAL BANK ACT: <i>"The Supervisory Council shall at least once a year submit to the Storting its statement on the supervision of Norges Bank. The statement on the supervision of the Bank shall include, at a minimum, the following:</i>	THE TOPICS LISTED IN THE ACT ARE COVERED BY THE FOLLOWING CHAPTERS OF THIS REPORT:
a) <i>an account of how the supervision of the Bank has been organised;</i>	Chapter 3: Implementation of the supervision of Norges Bank Chapter 10: The Council's organisation and expenditure
b) <i>an account of completed supervisory activities and the Supervisory Council's priorities for its upcoming supervisory activities;</i>	Chapter 4: Supervision of overall governance and control at Norges Bank Chapter 5: Supervision of central banking Chapter 9: Priorities for future supervisory activities
c) <i>an account of the supervision of the Bank's investment management activities;</i>	Chapter 6: Supervision of investment management
d) <i>the Supervisory Council's assessment of the Executive Board's governance and control of the Bank's management and activities;</i>	Chapter 2: Main conclusions from the supervision of Norges Bank in 2019 Presentation of supervisory activities in Chapters 4-6
e) <i>an account of the Supervisory Council's efforts in relation to approval of the Bank's budget and adoption of its financial statements;</i>	Chapter 7: Norges Bank's annual report and financial statements for 2016 Chapter 8: Norges Bank's budget and expenditure
f) <i>any particular comments merited by its supervision.</i>	Chapter 2: Main conclusions from the supervision of Norges Bank in 2019 Presentation of supervisory activities in Chapters 4-6
Section 3-3 (5) of the Regulation on Risk Management and Internal Control at Norges Bank: <i>"The Executive Board shall each year prepare a summary with conclusions on the risk situation and internal control.</i> <i>"The assessments with the Executive Board's summary shall be sent to the Supervisory Council."</i>	Chapter 2: Main conclusions from the supervision of Norges Bank in 2019 Assessment of the Executive Board's governance and control

Norges Bank's external communication takes many different forms through a variety of channels. Management hold press conferences, have meetings with networks around Norway, participate in conferences, provide extensive and detailed information online, contribute to reports and information submitted to the Storting, and publish a number of regular written reports. In 2019, the Council performed a supervisory review looking specifically at these periodic written reports. This regular reporting meets clear requirements in terms of form and is traceable, and makes the central bank's external communications suited to a supervisory review.

The Council found that the Bank meets the requirements set out in the Central Bank Act and the management mandate for the GPFG, but made recommendations to the Executive Board on providing explanations and assessments of results, effects and approaches in the management of the GPFG. The Council also recommended that the Board clarifies the Bank's target groups in its communication principles and systematically explores whether the external public reports contain relevant information for these defined target groups.

Some of the Bank's reports deal with technically demanding questions, problems and metrics. These reports seem to be aimed clearly at professionals and experts, for example at banks and other firms, at ministries and in academia. The annual reports on the Bank's overall activities seem to be aimed more directly at the general public. The Council sets great store by communication aimed at the general public being easy to understand.

The report from the supervisory review was submitted to the Executive Board, which responded that it is natural to review the Bank's general communication principles in the light of the new Central Bank Act. The Board will take account of the recommendations from the supervisory review in its future work.

2. Organisation and cost-effectiveness

One of the Council's tasks is to set Norges Bank's budget. Two major organisational changes were made in 2019: the management of unlisted real estate, which previously came under the separate organisational unit Norges Bank Real Estate Management (NBREM), was reintegrated into Norges Bank Investment Management (NBIM), and Norges Bank Administration (NBA) was created to provide Bank-wide administrative functions. These organisational changes were decided on and implemented in 2019, but can be expected to have their full impact on procedures

and costs over a longer period. The Council has been keen to see a good and cost-effective organisation and will monitor the effects of the changes going forward.

The budget rules for Norges Bank are issued by the Council and are an important instrument in regulating processes and reporting. The Council aims to issue new budget rules in June 2020, partly to follow up the new Central Bank Act. It is very important that the aims and effects of strategic decisions and organisational choices can be followed up over time. The Council has worked on provisions in the new budget rules that can bring clarity in this respect.

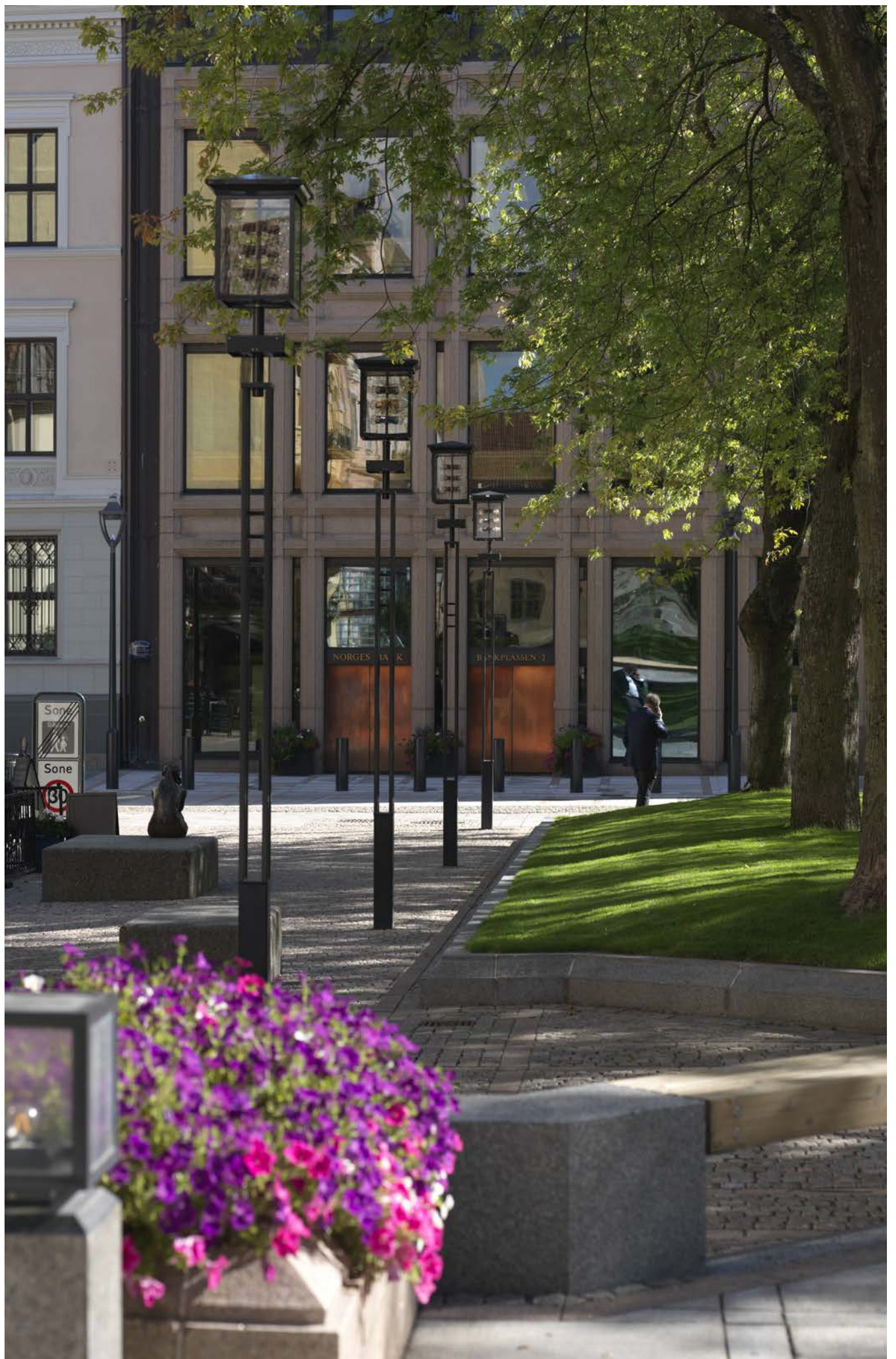
The Council sets the Bank's overall budget including costs for the management of the GPFG. Actual costs for the management of the GPFG are covered by the Ministry of Finance within a predetermined limit. This limit was previously stated as a share of assets under management, but this has been changed from 2020 such that the limit is now given in kroner. This may be a significant change in periods with big swings in the fund's value, and the Council attaches importance to sound budgetary processes that allow for this.

3. Assurance engagement on the approval of markets in investment management

In 2019, the Council commissioned the external auditor Deloitte AS to carry out a project to provide reasonable assurance that Norges Bank has designed and implemented a risk management and control framework for the approval of markets and issuing countries for government bond investments in accordance with specific measurement criteria.

Deloitte AS confirmed that risk management and control relating to the approval of markets for investments in equities, bonds and real estate, and of issuing countries for government bond investments, have essentially been designed and implemented in accordance with the chosen measurement criteria. Recommendations were made on the risk assessment that is to be performed and on the approval of a market.

The Ministry of Finance amended the mandate given to Norges Bank for the management of the GPFG with effect from 30 November 2019. It now states that the Executive Board is to approve all financial instruments that are to be used, and all markets in which investments are to be made – in other words, this may no longer be delegated to the CEO of NBIM.



CHAPTER 2

MAIN CONCLUSIONS FROM THE SUPERVISION OF NORGES BANK IN 2019



1. Hovedsædet i Kristiania (Le Siège Central).

a. Direktører.

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recteur-en-chef)

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ASSESSMENT OF THE EXECUTIVE BOARD'S GOVERNANCE AND CONTROL

INTRODUCTION

Norges Bank's Supervisory Council reports on its supervision and other duties in accordance with the Act relating to Norges Bank and the Monetary System etc. (the Central Bank Act), and this report constitutes its full statement on this work in 2019.

A new Central Bank Act was passed by the Storting on 21 June 2019 and entered into force on 1 January 2020. The act states: *"The Supervisory Council shall report to the Storting on the supervision of the Bank pursuant to Section 4-1, Sub-section 4."* The Council's duties are set out as follows: *"The Supervisory Council shall supervise in accordance with Section 4-1, approve budgets pursuant to Section 4-2, adopt financial statements pursuant to Section 4-3, appoint the auditor pursuant to Section 4-4 and determine the method of appointment, if applicable, of employee representatives on the Executive Board pursuant to Section 2-3, Sub-section 2, third sentence."*¹

The main provision on supervision reads: *"The Supervisory Council shall supervise the operation of Norges Bank and monitor its compliance with the provisions governing its activities. The Supervisory Council shall ensure that the Executive Board's governance and control of the Bank's management and activities are adequate, and that appropriate procedures have been established to ensure that the Bank's activities are conducted in accordance with statutes, agreements, decisions and other regulatory provisions."*²

Supervision in 2019 was performed in accordance with the previous Norges Bank Act of 1985 with subsequent amendments, regulations and mandates that applied to that year. The supervisory role and other duties of the Supervisory Council have been retained in the new act. This report is submitted in accordance with the new Central Bank Act.³

One key starting point for the content of this supervision is set out in the preparatory work on the Central Bank

Act:⁴ *"On page 38 of Report to the Storting No. 7 (2018-2019), the Ministry proposes that the Council's supervision continues to consist of retrospective control and oversight based on the Executive Board's minutes, such that the Council is not given powers to override the Board's decisions."*

*"Retrospective control does not prevent the Council from asking questions about the decisions taken by the Board, for example to understand the background to the decision. The Council may also make recommendations on changes intended to strengthen the governance and control of Norges Bank, and request a response. If, after the Executive Board has been given ample opportunity to justify its decisions etc., the Council believes that the Board has not exercised satisfactory governance or that there has been a breach of the rules, the Council's reaction might be to minute comments on, for example, a need for further follow-up, and to mention the matter in its annual report to the Storting if it believes that the matter merits such a mention. It is this type of reaction that is meant by active supervision of Norges Bank, and not resolutions that are to be directly operationalised."*⁵

FRAMEWORK FOR RISK MANAGEMENT AND INTERNAL CONTROL

The Executive Board's duties are set out in the Central Bank Act.⁶

Requirements for risk management and internal control are also set out in the Regulation on Risk Management and Internal Control at Norges Bank (the Internal Control Regulation).⁷

The regulation requires the Executive Board to *"send a risk assessment report for Norges Bank's operations to the Supervisory Council at least once a year."*⁸ The Board is also to prepare an overall assessment of whether internal control has been performed satisfactorily at least once a year. This builds on overall assessments of internal control from the operational areas and Internal Audit.⁹ The Governor's overall assessment is reviewed by the Executive Board.

¹ Central Bank Act, Sections 1-8 and 2-17.

² Central Bank Act, Section 4-1 (1).

³ Central Bank Act, Section 4-1 (4).

⁴ Cf. Bill 97 L (2018-2019), p. 75.

⁵ Our emphasis.

⁶ Central Bank Act, Section 2-4 (1) and (3).

⁷ Laid down by the Ministry of Finance on 17 December 2009. Not yet aligned with the new Central Bank Act.

⁸ Internal Control Regulation, Section 8 third paragraph.

⁹ Internal Control Regulation, Section 9: *"The director of Internal Audit shall submit a report on risk management and internal control to the Executive Board at least once a year."*

The Board has laid down principles for risk management at Norges Bank both at a general level and specifically for central banking and investment management. These rules are routinely submitted to the Council for information. The Council attaches considerable importance to the Board's follow-up and assessment of risk management and internal control.

THE COUNCIL'S ASSESSMENT OF THE EXECUTIVE BOARD'S REPORTING ON RISK AND INTERNAL CONTROL IN 2019

The Supervisory Council considered quarterly and semi-annual reports from the Executive Board on governance, compliance and control in investment management and central banking during the year. These reports provide an overview of operational risk and internal control activities during the year. During the consideration of these reports, the Governor answered questions from the Council on the handling of various topics covered, such as establishing roles and responsibilities when insourcing IT systems and personnel at NBIM, and more generally on the implementation of changes to Norges Bank's organisation.

During the Council's consideration of these periodic reports, the Bank's management responded to questions about its reporting of non-financial information and on roles and responsibilities relating to major IT projects at the Bank. The Council has noted that the Bank has established a new model for the supply of IT services where outsourced solutions have been replaced with specialist suppliers and a transition to cloud-based IT infrastructure. The Council has been informed by management that recruitment in the area of IT security is on schedule.

The Council has considered the Executive Board's overall assessment of risk and internal control in 2019. This assessment notes that the Board reviewed annual reports from central banking and investment management. It also considered nine periodic reports during the year on operational risk management, internal control and compliance. The Council has taken note of these periodic reports and the briefings given at its meetings. The required assessment of security at the Bank under the Preventive Security Regulation was provided by these reports.

Internal Audit submitted 15 reports from internal auditing projects that were considered by the Executive Board during the year. Nine of these concerned investment management, and five concerned central banking. These reports and Internal Audit's annual report formed part of the basis for the Executive Board's assessment of internal control. In its reporting, Internal Audit attached impor-

tance to management having prepared adequate action plans to follow up recommendations in the reports.

The Executive Board's conclusion for 2019 was that:

- Internal control at Norges Bank was performed satisfactorily
- Operational risk exposure in investment management was within the Board's defined tolerance limit during the year
- Operational risk exposure in central banking during the year was acceptable

The Board states that no significant breaches of laws or regulations were identified during the course of 2019. Unwanted incidents were reported and followed up immediately. Faults in IT systems were the most common category. None of these incidents was considered to have had serious actual consequences in the past year or required notification of the Norwegian Data Protection Authority. A number of unwanted incidents reported at NBIM had a financial impact of more than NOK 5m and were therefore considered to be significant.

The following areas were examined in the consideration of the internal control report:

- Use and understanding of the concept of "maturity"
- Events with financial consequences
- Collaboration with other institutions and bodies on security and contingency planning

The Council asked questions and received information on work to improve processes so that unwanted incidents do not have significant negative consequences. The Governor responded to these questions and provided information on the organisation of work on IT security.

The Council has taken note of the Board's overall assessment of risk and internal control at Norges Bank for 2019 and is of the opinion that the processes and reporting in place satisfy the requirements of the Central Bank Act and the Internal Control Regulation.

MAIN CONCLUSIONS

Norges Bank made a number of changes in 2019 which tie in with the Council's recommendations and observations from its supervisory work over time. Building on the new Central Bank Act, and through changes to the manage-

ment mandate for the GPFG, the Ministry of Finance has taken account of input from the Council on clarifying the Executive Board's responsibilities. The Board is making changes to the organisation of Norges Bank which seem likely to have good results over time in terms of synergies and cost-effectiveness. A recommendation from the Council on obtaining an assurance statement on reporting on social responsibility and responsible investment was heeded. This is a rapidly evolving area internationally.

The Council's priorities for its supervision in 2019 were set out in a separate chapter of Document No. 9 (2018–2019). The Council considered reports during the year from supervisory reviews and investigations in areas such as periodic public and internal reporting, the Council's supervisory responsibilities beyond the requirements of the Central Bank Act, and cost-effective management and use of resources. Assurance reports on third-party risks and the frameworks for investment management were considered. Supervision reports were sent to the Executive Board, which, as is customary, provided comments in letters to the Council with information on how its recommendations and assessments will be followed up.

These investigations, supervision reports and assurance statements together with the Board's follow-up are presented in this report. No questions have been unanswered. A number of topics will be examined further as part of supervision, such as compliance with the rules in the management mandate for the GPFG and the frameworks for measures to counter money laundering and terrorist financing. The Council will continue to pay close attention to the Executive Board's cost control and real transparency on Norges Bank's operations. By real transparency, the Council means that reporting must be accurate, relevant and accessible for a broad readership.

The Supervisory Council has reviewed the Executive Board's minutes.¹⁰ During this process, questions were asked on matters referred to in the minutes, and on documents and reports sent over from the Board. Members of the Council expressed the view that the Board's minutes could contain more information from its discussions. Questions were asked about the remuneration arrangements in investment management, the use of space, and the organisation of administrative functions with possible budgetary consequences.¹¹ The Governor provided further information on these issues.

The Council received all of the information requested. Its supervision gave no cause for particular comments under the Central Bank Act.¹²

In the Council's opinion, the Executive Board exercised governance and control of Norges Bank's activities in accordance with the requirements of the Central Bank Act, the Regulation on Risk Management and Internal Control at Norges Bank, and the Management Mandate for the Government Pension Fund Global. Appropriate procedures have been established to ensure that these activities are conducted in accordance with statutes, agreements, decisions and other regulatory provisions.

No breaches of critical importance were reported in the supervision of Norges Bank's operation and compliance with the rules for its activities. The Council presents its assessment of the Executive Board's governance and control of Norges Bank in this report.

Norges Bank is a public institution that attracts great attention, and the Council considers it important for the Board to ensure that the Bank's overall use of resources is cost-effective and reasonable. When considering the annual financial statements for Norges Bank and the reporting on the management of the GPFG, the Council took note of the Board's presentation of the Bank's activities and assessment of the results for the GPFG in 2019.

The investments in the Government Pension Fund Global returned 19.9 percent in 2019, which is 0.23 percentage point more than the return on the benchmark index the fund is measured against. The Executive Board is satisfied that the return both in 2019 and over a longer period has been good and higher than the return on the benchmark index. A transfer of NOK 19.7bn is to be made from Norges Bank's Transfer Fund to the Treasury for 2019.

The Council has approved the Bank's annual financial statements for 2019 and adopted the Bank's budget for 2020. The Council believes that the Executive Board's annual report and the Bank's annual financial statements provide adequate information on its activities in accordance with statutes and regulations.

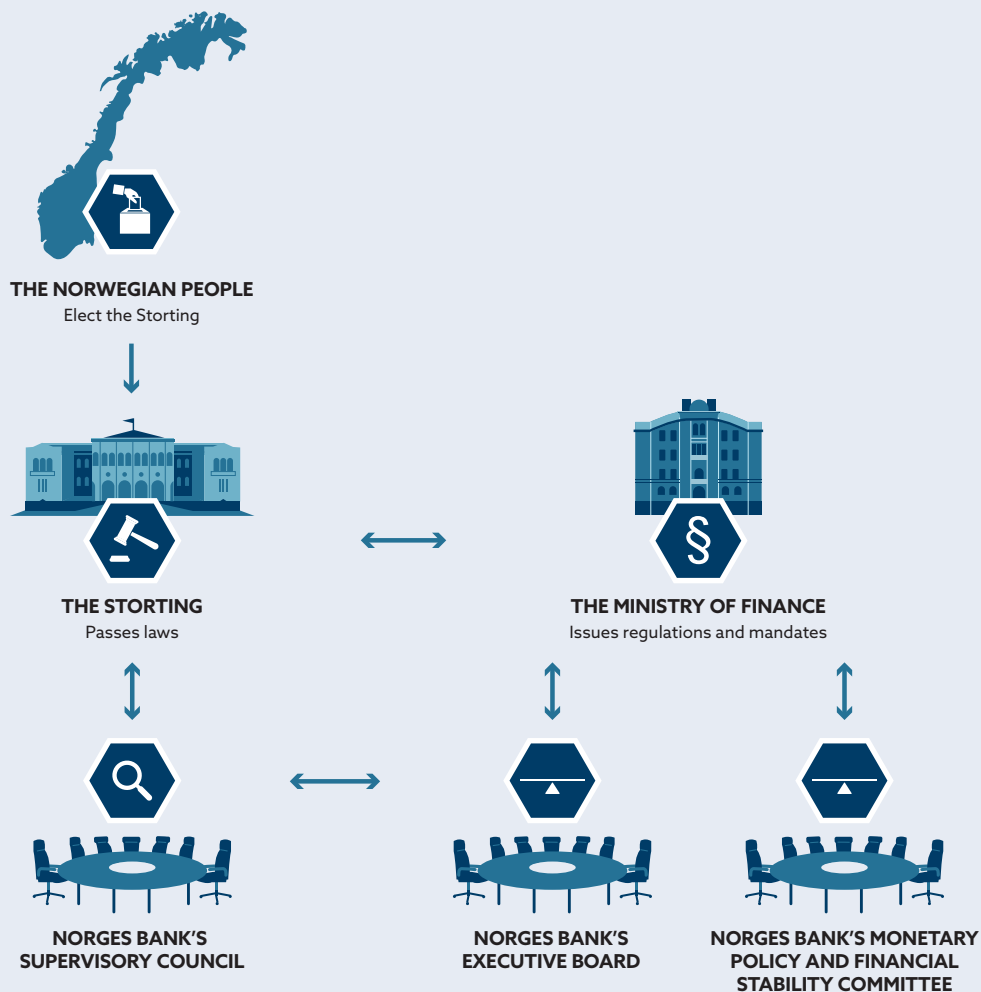
¹⁰ Central Bank Act, Section 4-3 (3).

¹¹ These topics are discussed later in this report.

¹² Central Bank Act, Section 4-1 (4) (f) and Bill 97 L (2018–2019).

CHAPTER 3

IMPLEMENTATION OF THE SUPERVISION OF NORGES BANK



FRAMEWORK FOR SUPERVISION

THE SUPERVISORY COUNCIL'S DUTIES

Norges Bank's Supervisory Council has been appointed by the Storting – the Norwegian parliament – to conduct supervision of Norges Bank and perform various other duties set out in the Central Bank Act. It reports directly to the Storting on this work each year in Document No. 9.¹³ The Council's role and the implementation of its supervision have evolved significantly over time. In the preparatory work on the new Central Bank Act, the Council's role was further clarified along with expectations for the implementation of its supervision. The Council's independent role was strengthened.

The Council's principal duties are to:

- supervise the Executive Board's governance and control of Norges Bank, which includes supervising the operation of the Bank and monitoring its compliance with the provisions governing its activities
- approve the Bank's budget on the basis of a proposal from the Executive Board
- adopt the annual financial statements prepared by the Executive Board
- appoint the external auditor and approve the auditor's plans and expenses
- issue a statement on the minutes of Executive Board meetings, the supervision of the Bank and matters submitted to the Council by the Board
- lay down rules for loans to employees
- supervise companies that are partly or wholly owned by the Bank

The Council is free to conduct enquiries at every level and in every part of Norges Bank's activities. Its supervision is based on its own assessment of risk and materiality. *"The Supervisory Council shall be entitled to access all information relating to the affairs of Norges Bank and may conduct such enquiries as it deems necessary for the performance of its duties under the Act."*¹⁴ This key provision has been retained in the new Central Bank Act and is of great importance for the implementation of confidence-inspiring supervision.

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

The Council's supervision does not extend to the exercise of discretionary powers with regard to economic policy.¹⁵ This means that the Council does not consider or comment on the Bank's interest rate decisions, consultation responses or technical advice to political authorities. The supervision of the Bank's operations will, however, cover processes and documents at Norges Bank that form the basis for such advice and exercise of discretionary powers. The Council is informed about the Bank's work in these areas.

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

- Budget rules for Norges Bank. See discussion in Chapter 8 of the report below
- Rules on loans to employees of Norges Bank, last amended on 12 December 2019. The loan scheme is linked to the Council's budgetary authority under the Central Bank Act.¹⁶ The Governor manages the loan scheme under powers delegated by the Council.
- Guidelines for the Council's supervision of companies owned by Norges Bank in connection with investments in the GPFG. See discussion in Chapter 6 of the report below

CHANGES TO THE MANAGEMENT MANDATE FOR THE GOVERNMENT PENSION FUND GLOBAL

The Supervisory Council received a letter from the Ministry of Finance on 25 October 2019 on proposed changes to the management mandate for the GPFG. The Ministry's proposals were partly a reflection of the new Central Bank Act. A letter with the Council's assessments was sent to the Ministry, stating that the Council considered it most important for the mandate to provide clarity on

¹³ Central Bank Act, Section 1-8 (1) second sentence and Section 4-1 (4).

¹⁴ Central Bank Act, Section 4-1 (2).

¹⁵ Central Bank Act, Section 4-1 (1), final sentence: "Its supervision shall not extend to the exercise of discretionary powers by the Executive Board or the Monetary Policy and Financial Stability Committee." The Committee was established from 2020.

¹⁶ Norges Bank may to a limited extent issue mortgages and small personal loans to its own employees. The provision on the Council's authority in this area was omitted from the new Central Bank Act. See Bill 97 L (2018-2019), Sections 9.4.4 and 6.5.3.4. The preparatory work included discussion of whether the Bank should be permitted to extend loans to employees as part of human resources policy. The Ministry shared the Central Bank Law Commission's view that there was no need to regulate this in the act. The Commission found it natural for the body with budgetary competence to issue the guidelines for the loan scheme.

roles, responsibilities and duties. It is crucial that the overall control and supervision of Norges Bank are not undermined by changes to the rules for the central bank, including the mandate for the GPFG.

In this context, the Council also asked the Ministry to consider stating in the mandate that health and safety are to be a priority in the management of the unlisted real estate portfolio. The Ministry was positive about this input and included it in the provision on due diligence for unlisted investments. Section 3-10 (4) of the mandate for the GPFG now reads: *“The Executive Board shall establish guidelines ensuring a thorough due diligence review in advance of each investment in the unlisted real estate portfolio and the unlisted renewable energy infrastructure portfolio.”*

The Executive Board also commented in a separate letter to the Ministry. The revised mandate entered into force on 30 November 2019.

PROVISIONS ON ANNUAL FINANCIAL STATEMENTS

In the light of the new Central Bank Act, the Ministry of Finance has issued a Regulation on Norges Bank's Annual Financial Statements etc. This replaces the equivalent regulation under the previous act and entered into force on 1 January 2020.

From the same date, updated Guidelines on Provisions and Allocations of Norges Bank's Profit entered into force pursuant to the Royal Decree of 13 December 2019.¹⁷ These guidelines apply with effect from the 2020 financial year. The Council was informed about the regulations, which were taken into account when considering Norges Bank's annual financial statements for 2019. See also Chapter 7 below.

THE COUNCIL'S SUPERVISORY RESPONSIBILITIES UNDER OTHER LEGISLATION

It is stated clearly in the new Central Bank Act that the Supervisory Council is to supervise *“compliance with the provisions governing [the Bank's] activities”* and *“that appropriate procedures have been established to ensure that the Bank's activities are conducted in accordance with statutes, agreements, decisions and other regulatory provisions”*. This means that the Council is to supervise compliance in more areas than set out explicitly in the act with associated regulations and the mandate for the GPFG.

In line with the supervision plan for 2019, a review was carried out of the laws and regulations that apply to Norges Bank's activities. The aim was to obtain clarity on the Council's supervisory responsibilities over and above those set out in the Central Bank Act. In this context, it was also relevant to have an overview of what duties other supervisory authorities may have in respect of the Bank. The review looked at how overlapping supervision with different designs and requirements can be avoided.

Norges Bank's reputation could be adversely affected if a supervisory body outside the central bank identifies non-compliance that should normally be revealed by its own control and supervision functions.

The aim of the review was to map the rules that require particular attention. It also aimed to contribute to understanding of the degree to which international investment management activities are subject to official supervision, and whether there is a need for further knowledge about offices outside Norway in order to be able to assess whether the requirements of the Central Bank Act are being met.

The review concluded as follows:

- With regard to the Security Act, where the National Security Authority (NSM) has supervisory responsibilities, it is expected that the Council will be informed by Norges Bank's management about the supervision performed and the follow-up of the results.
- Norges Bank is covered by Section 4 (1) (d) of the Act relating to Measures to Combat Money Laundering and Terrorist Financing (the Anti-Money Laundering Act). However, the review found that no supervision of Norges Bank is required under that act:

“Section 43. Supervisory authorities

(1) The supervisory authorities shall supervise the compliance of obliged entities with provisions laid down in, or pursuant to, this Act.

(2) The supervisory authorities are:

a) The Financial Supervisory Authority for obliged entities referred to in Section 4, paragraph 1, letters a) to c) and e) to o) and paragraph 2, letters a), b), c), no. 1, and d) to f).”

¹⁷ Central Bank Act, Section 3-11.

Letter d) concerning Norges Bank is omitted. Nor was it stated in the preparatory work on the act that any body was to supervise Norges Bank. From this, it is deduced that, since the Bank is not part of the Financial Supervisory Authority's area of responsibility, the general supervisory responsibility for the Supervisory Council under the Central Bank Act will apply.

- Personal trading by employees of Norges Bank is no longer covered by specific rules on personal trading in the Securities Trading Act. Employees' personal trading is governed by ethical principles and supplementary guidelines laid down by Norges Bank. Breaches of these internal rules are covered by the periodic compliance reporting.
- The Bank's status as a central bank does not affect its international investment activities directly, but does so indirectly in that the process of starting up activities abroad is simpler. These activities are not covered by international rules such as MiFID II.

The report from the review concluded that personal trading and statutory measures to combat money laundering are to be part of the Supervisory Council's supervision. Compliance with all laws and other provisions governing the Bank is to be reported on periodically to the Executive Board, which forwards these reports to the Council. The Council's review of this periodic governance and compliance reporting is very important for its supervision.

The Council's follow-up in this area will be as follows:

1) The anti-money laundering rules and internal provisions on personal trading will be addressed in the work on the Council's supervision plans.

2) In the planning of supervision, topics will be selected for ongoing supervision and special reviews on the basis of relevance and risk assessments. Norges Bank's activities at overseas offices will be evaluated in this context.

METHODOLOGICAL APPROACH

ORGANISATION

The Supervisory Council has established a Permanent Committee as a preparatory working committee with five members.¹⁸ The Council also has a secretariat – the Office of the Supervisory Council – established in accordance with the Central Bank Act.¹⁹ Against the background of its statutory duties, the Council has laid down rules for its own activities in the form of rules of procedure for the Council, a mandate for the Permanent Committee and standing instructions for the Office. All of these documents were updated on 12 December 2019 to reflect the changes in the new Central Bank Act.

The Council's organisation is described further in Chapter 10 below.

SUPERVISION PLANS

The preparatory work on the new act clarified expectations of what supervision and the Council's role should involve. One key aspect of its supervision is independence of the Bank's risk framework and the Bank's governance and control systems.

Norges Bank has good, risk-based supervision tailored to the nature and scope of its activities. One objective for the Council is to ensure democratic access to, and independent control of, Norges Bank's operations. There is to be a broad consensus in the Storting that the Council conducts effective and efficient supervision of Norges Bank in line with the Central Bank Act and other requirements. The Council is to help ensure public confidence in the Bank's discharge of its central banking duties and management of the GPFG.

The supervision of the Bank requires a broad knowledge of its operations and organisation and of its governance and control frameworks. The aim of the supervision of Norges Bank and the management of the Government Pension Fund Global is set out in long-term planning documents, action plans and annual supervision plans. Good supervision in line with relevant standards and good international practice contributes to positive developments in governance and control at the Bank.

One important starting point for supervision is that the Council has all necessary resources, high levels of expertise and a real commitment to its duties. Emphasis is given

¹⁸ Central Bank Act, Section 2-16 (6).

¹⁹ Central Bank Act, Section 2-16 (5).

to integrity and objectivity in working processes and reporting. This extends to the whole of the Council's organisation, and to the interaction between the Office and Norges Bank's external auditor. Importance is attached to continuous skills development.

The Council wishes there to be transparency and clear dialogue on its work in its communications with the Bank's Executive Board and management, other relevant audit, control and supervision bodies, the Ministry of Finance and the Storting. Meetings, reports and the publication of minutes and other information contribute to this.

WORKING PROCESSES AND METHODOLOGICAL APPROACH

The Council holds regular meetings based on a predetermined schedule and also where there is a special need or where requested by five or more of its members or by the Executive Board.

Figure 2 illustrates the Council's working processes, starting from approved plans, through the consideration of reports from the Office and the external auditor, to the completion of Document No. 9 to the Storting.

The Council's supervision of the Bank's activities is based primarily on minutes, reports and documents. All minutes of Executive Board meetings are sent to the Council and included on the agenda for Council meetings. The same applies to all periodic reporting on operations, risk and compliance. The Governor attends all Council meetings to

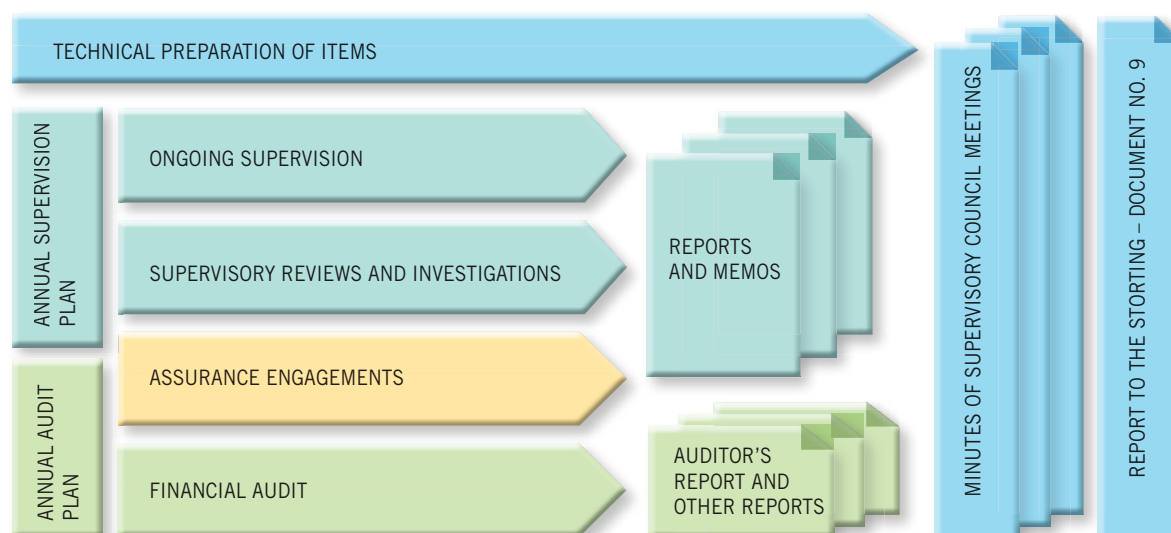
provide information and answer questions about the minutes and reports. The briefings given at the meetings are minuted along with decisions on individual items, and any follow-up may be subject to further supervisory work. This supervisory work is carried out continuously throughout the year.

The main purpose of the Office of the Supervisory Council is to provide a sound basis for the Council's supervision of the Bank and to arrange technical seminars and other activities. The Office also prepares supporting documentation and draft minutes, consultation responses, presentations and the annual report to the Storting.

The Office handles the Council's day-to-day relations and contact with the Board and the Bank's management. The Office's Director attends meetings of the Executive Board and its Audit Committee when certain matters are being considered. Meetings are held regularly with the Bank's management, the operational areas, control and compliance units, risk management units, Internal Audit and the external auditor. Internal Audit's reporting to the Audit Committee and the Executive Board is reviewed. These are important sources of information on the Bank's operations in areas relevant to supervision.

This work gives the Office in-depth access to, and knowledge of, the Bank's activities. Supervision involves observing, questioning, discussing, evaluating and reporting. This work is essential so that the Council can be kept constantly updated on developments material to its supervi-

FIGURE 2 WORKING PROCESSES



sion. In the ongoing supervisory process, attention is paid to the Board's follow-up of compliance, risk management, governance and expenditure. Observations from this ongoing supervision may be important for planning supervisory reviews.

In connection with the Council's meetings, the Office examines matters submitted by the Board. Supplementary information and technical assessments are provided in memos that provide additional depth and can provide input for the Council's deliberations.

SUPERVISORY REVIEWS AND INVESTIGATIONS

On the basis of the approved annual supervision plan, the Office performs investigations and supervisory reviews in specific areas. The Council may also request special enquiries where relevant.

Supervisory reviews are to be carried out in accordance with relevant technical standards and the instructions and guidelines issued by the Council. There is no clear internationally recognised standard for the supervision of central banks, but the Office monitors developments at other central banks, other comparable institutions and relevant standard setters such as the BIS²⁰, OECD²¹ and European Central Bank. In the implementation of supervision, reference is made to practices and working methods at other relevant institutions. Within Norway, related areas include the Financial Supervisory Authority's methodology and reporting on the supervision of banks and other financial institutions, and the Office of the Auditor General's methodology for auditing public bodies. International standards for internal auditing²² and external auditing²³ also provide guidance for the methodological approach to supervision. An enterprise risk management framework is applied.²⁴

The Bank's processes for managing various risks are assessed against standards or recognised practices at peer organisations. The observations made in these supervision reports are differences noted between the Bank's practices and the benchmark chosen for the review. It is important for the Council to clarify key authorities and responsibilities through its supervision. A conclusion is drawn as to whether established practices at Norges Bank are considered satisfactory from a supervisory perspective.

The Council decides whether recommendations should be sent to the Executive Board in specific areas. Given the Council's role and duties, there needs to be a relatively high threshold before making clear recommendations to the Executive Board on concrete changes to the Bank's organisation and operations. The observations and assessments in the supervisory reviews may nevertheless be of great interest to the Executive Board, as the reviews are made on an entirely independent basis and by technical experts at the Office of the Supervisory Council with support from external specialists.

The response from the Board is followed up. In these discussions, it is standard practice to ask questions about processes and solutions.

SUPERVISORY REVIEWS IN THE FORM OF ASSURANCE ENGAGEMENTS

A system of conducting assurance engagements in accordance with the international standard ISAE 3000 was launched in 2009. A letter from the Ministry of Finance raised the need for external reviews of operational risk in the management of the GPFG. The Ministry thought it might be appropriate for this to take the form of assurance engagements performed by Norges Bank's external auditor. The aim of this type of engagement is to obtain independent assurance for the Supervisory Council. It is assumed that the assurance statements will be made available to the Ministry of Finance and made public on submission.

A process has been established for informing the Ministry of Finance in connection with the preparation and approval of annual supervision plans. The Ministry writes to the Council with input on the plan for supervision of the management of the GPFG, including proposals for the content of one or more assurance projects. The Council performs an assessment and decides on approval.

Specific engagement agreements are entered into for each approved assurance engagement. In these projects, the management of the GPFG is compared with best international practice. The Office of the Supervisory Council closely monitors the external auditor during this work and participates in it in order to build its own expertise.

²⁰ The Bank for International Settlements in Basel, Switzerland. Includes the Basel Committee on Banking Supervision, issuer of the Core Principles for Effective Banking Supervision (Core Principles) of 2012.

²¹ The Organisation for Economic Co-operation and Development.

²² The Institute of Internal Auditors (IIA) Code of Ethics and International Standards for the Professional Practice of Internal Auditing.

²³ The most relevant standards are the International Standard on Assurance Engagements (ISAE) 3000 series.

²⁴ CRM Integrated Framework, <https://www.coso.org/Documents/COSO-ERM-Executive-Summary-Norwegian.pdf>.

ENGAGEMENT AGREEMENT WITH THE EXTERNAL AUDITOR

The Supervisory Council appoints the external auditor for Norges Bank and signs the engagement agreement for the auditing of the Bank's financial reporting. The current engagement agreement with Deloitte AS²⁵ has a term of six years and covers the 2016-2021 financial years. The agreement covers the auditing of the annual financial statements for Norges Bank, the financial reporting for the GPFG, the annual financial statements for Norges Bank's Pension Fund, and other related activities.²⁶ In the planning of the audit, the designated auditor at Deloitte AS in Norway may decide on the use of resources from other parts of Deloitte's international network.

The work of the external auditor is important for the Council's supervisory activities. The designated partner attends Council meetings while relevant matters are being considered. The Office of the Supervisory Council enters into agreements with Deloitte AS on assurance engagements which are approved by the Council. Assurance

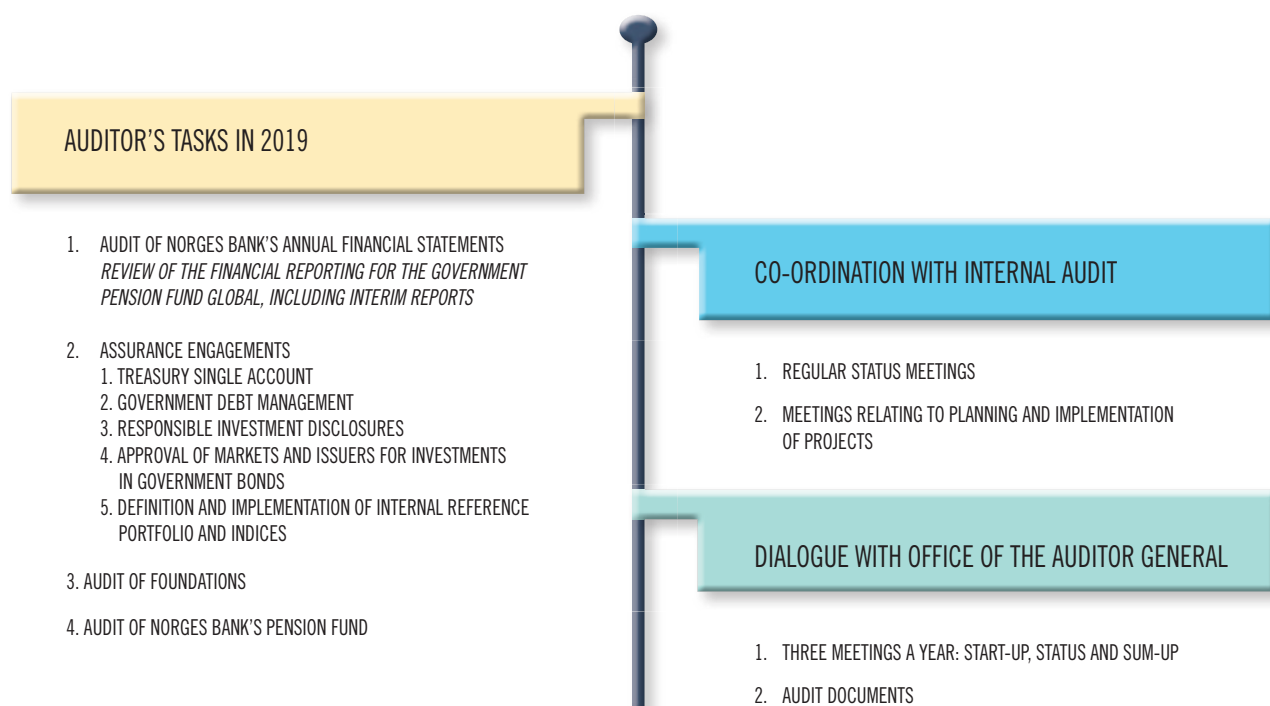
engagements are carried out in accordance with the international standard ISAE 3000²⁷ in order to give the Council reasonable confidence that the work in this area is of high quality. Various experts at Deloitte AS in Norway and in Deloitte's international organisation are used in this supervisory work.

The Council took note of the audit plan for Norges Bank for 2019. The auditor's assessment of the risk of material misstatements in the financial statements draws on a knowledge built up of the Bank's operations, procedures and processes, and broader public expectations for quality and transparency in its reporting.

In the guidelines on the Council's supervision of companies owned by Norges Bank in connection with the GPFG's real estate investments, the Council has stipulated that the Bank's external auditor should normally be appointed auditor at companies where the Bank has control over the appointment. In cases where the Bank's own auditor is not chosen, the Bank must seek to ensure that the Bank's

²⁵ Deloitte AS in Norway is a member firm of Deloitte Touche Tohmatsu Limited (DTTL), a British company limited by guarantee.

FIGURE 3 AUDITOR'S TASKS IN NORGES BANK



²⁶ The auditing of Norges Bank's Economic Research Foundation, the Governor N. Rygg Foundation and Norges Bank Headquarters Pensioners' Foundation.

²⁷ International Standard on Assurance Engagements (ISAE) 3000: "Assurance engagements other than audits or reviews of historical financial information", prepared and approved by the International Auditing and Assurance Standards Board (IAASB).

auditor is able to obtain information and documentation directly from the company's auditor.

Deloitte companies in the countries in question have been appointed auditor of Norges Bank's real estate subsidiaries, with the exception of those in the US, where Deloitte AS in Norway issues a statement to the management of NBIM on the financial reporting for these companies.

Deloitte AS delivers two annual assurance statements on work that Norges Bank carries out under an agreement with the Ministry of Finance. These concern the treasury single account system²⁸ and national debt management.

The annual financial statements for Norges Bank's Pension Fund and associated auditor's report are submitted to the Council for consideration. Deloitte AS submits an independent annual statement²⁹ on risk management and internal control to the board of Norges Bank's Pension Fund.

The Council has given permission for the external auditor to supply certain other services to Norges Bank on an exceptional basis and subject to approval from the Office. Potential assignments are carefully assessed to avoid conflicts of interest, and such work has historically been limited in scope.

There was close dialogue between the Office and the auditor during the year, both through scheduled meetings and through ongoing contact. The Council is kept informed about progress under the annual audit plan and about any issues material to the execution and scope of the audit. Deloitte AS and the Office are in regular contact to exploit synergies between the auditing and supervision of the Bank. The auditor's services are evaluated regularly against the engagement agreement entered into.

Figure 3 shows the external auditor's tasks at Norges Bank.

USE OF OTHER EXTERNAL EXPERTS

When carrying out supervisory duties, the need to use additional external expertise is considered. This applies, for example, to matters of investment management, physical security and IT security. These experts participate in discussions of relevant best practices nationally and internationally.

The Council and the Office have entered into four-year framework agreements with a law firm and an external adviser on investment management. Experience has shown that there is no need for special framework agreements. What is important is to have good access to top-notch expertise in every area whenever relevant. In future, effort will be put into building up internal resources and increasingly drawing on external expertise on the basis of a concrete assessment in each individual case.

In addition to Deloitte AS in Norway and Deloitte internationally, Mercer AS was used for various analyses and contributed to seminars for the Supervisory Council in 2019.

PROFESSIONAL DEVELOPMENT, MEETINGS AND SEMINARS

Great importance is attached to the Supervisory Council possessing good and appropriate expertise for the supervision of central banking and investment management at Norges Bank. In the preparatory work on the new Central Bank Act, it was noted that its members must have both the skills and the capacity required for the supervisory body's work. Although the composition of the Council is to reflect that of the Storting, it is important that supervision is based on objective considerations. The scope of its tasks, the size of the assets and the complexity of the management of the GPFG mean that a broad set of skills is required of a body such as the Council.

In connection with the Council's inaugural meetings,³⁰ an introductory seminar is held aimed particularly at new members. Topics for the seminar are Norges Bank's organisation and duties, the governance and control structure, security and the Council's role and supervisory responsibilities.

The Governor and Deputy Governors provide information on topical economic issues domestically and globally at Council meetings. There may also be briefings on the Bank's technical reports, monetary policy assessments and the background to interest rate decisions. These are technical briefings that are outside the Council's supervisory responsibilities, but are still useful for understanding the work and responsibilities of the Bank and the Board.

²⁸ Central government payments are made through the treasury single account system. This ensures that all central government funds are pooled daily at Norges Bank.

²⁹ Submitted under the Regulation on Risk Management and Internal Control at Norges Bank issued by the Ministry of Finance on 22 September 2008 and last amended with effect from 1 January 2017.

³⁰ Held every second year when new members are elected.

The Council holds technical seminars in connection with its meetings during the year. The aim of the seminars is to keep abreast of relevant fields and to discuss in more depth the topics covered by its supervision. When planning longer seminars or study trips, importance is also attached to information gathering and who can best provide information on a particular subject. The aim is to cover topics in both central banking and investment management.

In 2019, there was a seminar on stock indices and benchmark portfolios for the GPFG with input from Mercer AS. Deputy Governor Egil Madsen participated in a discussion of the Executive Board's work in this area.

At a special seminar, the central bank provided information on the Bank's participation in various international meetings, such as those of the BIS and the Financial Stability Board (FSB)³¹ in Basel.

The Governor attends meetings of the Central Bank Governance Group. There was also a presentation on the international outlook from a central bank perspective, and a briefing on the market outlook for China. These elements of the seminar formed part of preparations for the Council's study trip to Switzerland in autumn 2019 where it had meetings with the FSB, BIS and Swiss National Bank (SNB). Thomas J. Jordan, chair of the SNB's governing board, provided information on the bank's organisation and duties.

These meetings with key institutions in Switzerland gave the members of the Council a good insight into the governance of central banks and the challenges they may face going forward.

Recommendations from the Council on Ethics on the exclusion of companies from the GPFG are often referred to in the Executive Board's minutes. The Council expressed an interest in holding a meeting with the chair of the Council on Ethics and the head of its secretariat to learn more about its work. This took place in connection with the inaugural meeting and seminar in January 2020.

EVALUATION OF THE COUNCIL'S WORK

Members of the Supervisory Council perform several self-evaluations of their work each year. The aim of these is to identify areas with room for improvement and to strengthen the Council's supervision and other work. The results of the evaluations are discussed at a meeting, and any proposed measures are followed up by the chair of

the Council and the Office. The Bank's management attend the summing up.

In 2019, there was an overall evaluation of the Council's working procedures, the discussions at its meetings, and relations with the Office, external auditor and advisers. It emerged that the preparation of items from the Executive Board and the preparation for oral and written responses from the Bank's management have room for improvement. A wish was also expressed for more training in Norges Bank's activities. An evaluation of the technical seminars and study trip emphasised that preparations in the form of information materials and meetings increase the benefits. Meetings with institutions comparable with Norges Bank are useful in the implementation of supervision.

These matters will be followed up in the planning and implementation of future meetings and seminars.

REPORTING AND TRANSPARENCY

TRANSPARENCY

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

The Council contributes to transparency primarily through the publication of the minutes of its meetings and its annual report to the Storting (Document No. 9). This report is designed to paint a complete picture of the Council's duties, assessments of the Bank's control structure, and the supervisory activities carried out.

The approved minutes of the Council's meetings are published on its website.³² This takes place in accordance with the provisions of the Freedom of Information Act. The minutes present resolutions, any questions and comments on risks, and the Governor's statements. Remarks during the year, the Executive Board's follow-up of comments from supervision, and any unclarified matters subject to further follow-up are presented. The Council's discussions and questions put to the Bank's management also contribute to transparency about Norges Bank.

Assurance statements submitted under the international standard for assurance engagements ISAE 3000 are made

³¹ The FSB is a body for the G20 international forum.

³² See www.norges-bank.no/representantskapet or www.representantskapet.no.

public in their entirety when submitted to the Ministry of Finance. Reference may also be made to the consultation responses and letters sent by the Council to the Ministry.

INVESTIGATION OF TRANSPARENCY

The Council asked the Office to summarise the changes made in terms of transparency in the minutes and work of the Executive Board and the Supervisory Council. Statements from the Office and the Board on transparency in public reporting and access to information, and on the duty of confidentiality and the Board's view of its practice, have previously been considered in depth by the Council. This discussion led partly to provisions in the Council's rules of procedure on increased openness and the publication of its minutes. Transparency about its work in the form of publishing supervision reports has also been a topic of discussion. The Council requested information about the level of public interest in the form of downloads.

The Office reviewed the minutes of Council and Board meetings over a number of years. Openness about the Bank's work in the form of reports and other publications was examined. There was also a brief comparison with other relevant bodies. In the Office's opinion, the Supervisory Council and the Executive Board are very transparent about their work and their decisions.

This was summed up in a memo as follows:

"The Council's minutes have been expanded somewhat over time when it comes to the coverage of its discussions. The Council regularly considers whether items considered are of such import that the Storting should be informed in a separate report or letter in addition to mention in the annual report.

"In comparison to comparable bodies, the Council shows a high degree of openness about its activities and its decisions.

"It is recommended that the Office, based on the Council's discussions, works on further developing the format and presentation of minutes and resolutions.

"It is also recommended that the current practice is continued, such that supervision reports are not published in their entirety but are presented in sufficient detail in the report to the Storting, with the Executive Board's response presented at the same time and in the same way."

The Council passed the following resolution:

The Council has noted the review of transparency in the memo.

The Office is requested to work on developing the Council's minutes and resolutions and to present proposals in connection with the consideration of the minutes.

Supervision reports will not be published in their entirety, but will be presented in the reports to the Storting. The Executive Board's response will be presented at the same time and in the same way.

CO-ORDINATION WITH THE OFFICE OF THE AUDITOR GENERAL

The Office of the Auditor General conducts checks on the Council of State's exercise of powers pursuant to Act No. 21 of 7 May 2004 on the Office of the Auditor General and the Instructions for the Office of the Auditor General issued by the Storting.³³ The role of the Office of the Auditor General with respect to Norges Bank differs from that for other state enterprises etc. due to the Supervisory Council's duties and responsibilities. Governance and control at Norges Bank are subject to supervision by the Supervisory Council. The audit of the GPFG is linked to the Ministry of Finance's overall management (exercise of powers).

In 2010, an agreement was signed between the Office of the Auditor General and Norges Bank's Supervisory Council on guidelines for the exchange of information and co-ordination of auditing and supervision between the two with regard to the GPFG.

This agreement states that the Office of the Auditor General can build on Norges Bank's external audit in its work on auditing the central government accounts. The Office of the Supervisory Council co-ordinates the exchange of information between the Bank's auditor and the Office of the Auditor General. A number of meetings are held during the year between the Office of the Auditor General, the Office of the Supervisory Council and Deloitte AS to run through plans, the status of ongoing audits, and a summary of the annual accounts. Meetings were also held in 2019 concerning the new Central Bank Act, reporting and audit methods. This is an arrangement that functions well.

³³ Central Bank Act, Section 1-8 (2).

CHAPTER 4

SUPERVISION OF OVERALL
GOVERNANCE AND CONTROL
AT NORGES BANK

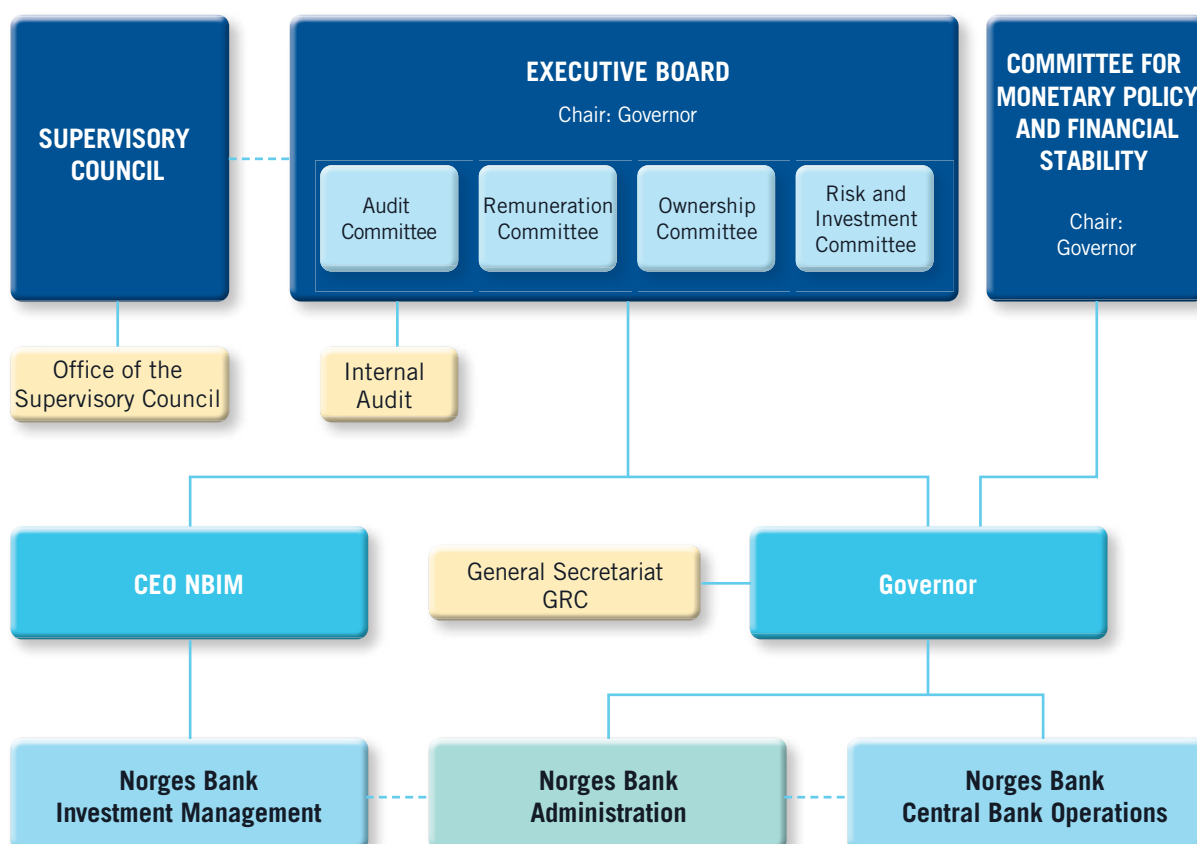
GOVERNANCE AND ORGANISATION OF THE BANK'S OVERALL OPERATIONS

NORGES BANK'S ORGANISATION

Norges Bank “is a separate legal entity with the capacity to be a party to legal proceedings, and is owned by the central government”.³⁴ The new Central Bank Act’s introductory provisions state that Norges Bank’s governing bodies are an Executive Board, a Monetary Policy and Financial Stability Committee, and a Supervisory Council.³⁵ The Bank is to have a Governor and two Deputy Governors. The Governor is the chair of the Executive Board, the chair of the Monetary Policy and Financial Stability Committee and the general manager of Norges Bank. The two Deputy Governors are the first and second deputy chairs respectively of the Executive Board and the Committee.

The Executive Board is responsible for the whole of the Bank’s activities, including all administrative matters and technical matters that do not fall to the Committee. This means responsibility for the management of the GPFG, which is organised under Norges Bank Investment Management (NBIM), and for the management of the foreign exchange reserves, the payment system and the settlement system etc., which are organised under Norges Bank Central Banking Operations (NBCBO).

The Committee was formed when the new Central Bank Act entered into force on 1 January 2020. It is responsible for the Bank’s executive and advisory monetary policy authority, including the use of policy instruments, and is to contribute to the promotion of financial stability. In 2019, the Executive Board was responsible for those tasks. The Council’s supervision included briefings on policy work, including interest rate decisions via the Executive Board’s minutes and information provided at meet-



³⁴ Central Bank Act, Section 1-1 (2).

³⁵ Central Bank Act, Section 2-1.

ings. Its supervision does not extend to the use of discretionary powers in these areas.

The members of the Executive Board and the Monetary Policy and Financial Stability Committee are appointed by the King in Council for four years at a time.³⁶ The Governor and the Deputy Governors are appointed by the King in Council for a fixed term of six years. This appointment may be extended for a further term of up to six years.³⁷ From 1 January 2020, the Executive Board has had six external members, as opposed to the previous five external members and two alternates. In 2019, the alternates attended and had the right to speak at all meetings of the Board. Two employee representatives join the Executive Board when it is considering administrative matters.

Remuneration and pensions for the Governor and Deputy Governors, and fees for the external members, are set by the Ministry of Finance.

The Ministry of Finance has issued rules on conflicts of interest:³⁸ Supplementary provisions on conflicts of interest etc. for members of Norges Bank's Executive Board and Monetary Policy and Financial Stability Committee. These rules cover the external members of the Board and the Committee, the Governor and the Deputy Governors. The Ministry has also issued a special Provision on Monetary Policy.³⁹

THE EXECUTIVE BOARD'S ORGANISATION OF ITS ACTIVITIES

The Board has established and mandated four preparatory and advisory subcommittees.⁴⁰ At the beginning of 2020, on the entry into force of the new Central Bank Act, the Executive Board conducted a review of these mandates to align them with the new act. The subcommittees' activities do not alter the responsibilities of the Executive Board or its individual members. Minutes of the subcommittees' proceedings are considered by the Board. Members of the committees are appointed for a term of two years.

The roles of the four subcommittees are as follows:

- The *Audit Committee's* duties centre on monitoring, oversight and control of financial reporting, operational risk, compliance and systems for risk management and internal control. The committee has three members chosen by and from among the external members of the Executive Board and has been established in accordance with the Central Bank Act and the Internal Control Regulation.⁴¹
- The *Risk and Investment Committee* is to help strengthen and streamline the Board's work on investment strategy, exposures, evaluation of performance, setting and use of risk limits, and particularly large and important investment decisions. The committee has three members and is chaired by the Deputy Governor with special responsibility for the GPFG.
- The *Remuneration Committee* is to contribute to thorough and independent consideration of matters concerning the Bank's remuneration arrangements.⁴² The committee has three members chosen from among the Board's external members and one member chosen from the employee representatives on the Executive Board.
- The *Ownership Committee* is to prepare the Board's consideration of matters concerning the Bank's responsible investment activities and decisions on the exclusion and observation of companies from the GPFG's investment universe.

The Bank's General Secretariat assists with meetings of the Executive Board and the Monetary Policy and Financial Stability Committee, serves as the secretariat for the Remuneration Committee and the Risk and Investment Committee, and provides technical and other support for the Bank's management. NBIM serves as the secretariat for the Ownership Committee, and Internal Audit for the Audit Committee.

Under the new Central Bank Act, Norges Bank's tasks are performed by Norges Bank Central Banking Operations (NBCBO) and Norges Bank Investment Management (NBIM). The Council's supervision of central banking and investment management is presented in Chapters 5 and 6 respectively of this report.

³⁶ Central Bank Act, Sections 2-3 and 2-6.

³⁷ Central Bank Act, Section 2-9.

³⁸ Central Bank Act, Sections 2-3 fifth sentence and 2-6 fourth sentence.

³⁹ In force from 1 January 2020 pursuant to Section 1-4 of the Central Bank Act.

⁴⁰ Central Bank Act, Section 2-4 (6): "The Executive Board may appoint preparatory committees from among the members of the Executive Board. When a preparatory committee discusses administrative matters, the employees shall be represented on such a committee, cf. Section 2-3, Sub-section 2."

⁴¹ Central Bank Act, Section 2-4 (5), and Internal Control Regulation, Section 10.

⁴² See, for example, the Management Mandate for the Government Pension Fund Global, Section 5-2 "Remuneration guidelines and limits".

Norges Bank has its head office in Oslo. It also has international offices with duties relating to the management of the GPFG.

NBCBO is responsible for the conduct of monetary policy, financial stability, market operations and management of the foreign exchange reserves. It is led by the Governor. NBIM's main role is to manage the Government Pension Fund Global (GPFG). Its CEO is appointed by the Executive Board for a maximum of two fixed terms of five years.⁴³ NBIM's CEO is responsible for presenting matters to the Executive Board within his or her area of responsibility.

CREATION OF NORGES BANK ADMINISTRATION (NBA)

In recent years, the Supervisory Council has asked the Executive Board whether administrative functions might be arranged in such a way that the central bank can realise additional economies of scale and synergies. 2019 saw the start of a substantial reorganisation, with a number of areas being brought together under Norges Bank Administration. Work on implementing the changes continues in 2020. In its annual report for 2019, the Bank presents this as follows: *"In line with the new mandate, Norges Bank has modified its organisation. To support Central Banking Operations and Norges Bank Investment Management, the Executive Board decided on 8 May to create a new shared department, Norges Bank Administration (NBA). NBA brings together support functions such as human resources, communications, finance and accounts, purchasing, real estate, legal expertise, archiving and security. NBA is to make use of the Bank's combined expertise, contribute to cost-effective solutions and emphasise that Norges Bank is a single entity. NBA became operational on 10 December 2019, with 37 employees transferring from Norges Bank Investment Management and 112 from Central Banking Operations. NBA's Executive Director reports to the Governor."*

The Bank's management reported during the year on strategies for the organisation and co-ordination of different functions. In connection with the creation of NBA and the co-ordination of various functions, questions were asked and answered on changes in employee numbers. NBIM's strategy plan for 2020-2022 shows a decrease in the number of employees. The Bank's management also gave briefings on the reorganisation of real estate management from the previous Norges Bank Real Estate Man-

agement (NBREM) to NBIM RE in 2019. This is discussed in Chapter 6 below.

In the Council's opinion, the Executive Board has established a sound governance structure at the highest level of Norges Bank. Work on the Board's and the Governor's further development of NBA with the possibility of further consolidation of tasks will be monitored closely in future supervision.

GOVERNANCE MODEL AND FRAMEWORK

The Executive Board has adopted rules of procedure for its work that are evaluated annually.⁴⁴

Decisions of a strategic nature and on matters of principle are to be taken by the Board. The Governor may otherwise decide a matter under authority from the Executive Board or when it is necessary for a decision to be reached swiftly. The Governor must then inform the Executive Board in writing of the decision as soon as possible.⁴⁵

Otherwise, all matters are dealt with at meetings of the Board. The minutes of these meetings are made publicly available. Minutes of meetings of the Executive Board and the Monetary Policy and Financial Stability Committee are to be sent to the Supervisory Council and the Ministry of Finance.⁴⁶ The Office of the Auditor General also receives copies of the minutes. The Council pays particular attention to the minutes in its supervision. The Council keeps abreast of any new or amended guidelines through its consideration of the Board's minutes, matters submitted and briefings given at its meetings.

In some areas, there is a need for common rules for the whole of Norges Bank. The Executive Board (in the form of principles) or the Governor (in the form of guidelines) issue rules covering the whole of the Bank in addition to various rules and instructions for the individual operational areas. The Governor issues guidelines for central banking, and the CEO of NBIM issues guidelines for investment management.

Central banking and the management of the GPFG are conducted on the basis of established strategies, targets and governance systems. The Supervisory Council monitored developments in the organisation of this work during the course of 2019 through various reports from

⁴³ Central Bank Act, Section 2-13.

⁴⁴ Last amended on 9 January 2020.

⁴⁵ Central Bank Act, Section 2-11 (2).

⁴⁶ Central Bank Act, Section 4-3 (3).

the Executive Board and oral information at meetings. The Council ensures that the Board exercises good management and control at an overall level as well as within each of the operational areas, in accordance with applicable rules.

The Executive Board produces general strategy plans for a three-year period describing challenges and priorities. The Board also considers the strategies for the operational areas. Together with statutory requirements and internal guidelines, these strategies provide guidance for the development of the Bank and for how the task of managing the GPFG is to be fulfilled.

The Executive Board reports to the Council on performance against targets and implementation of action plans in the strategies through periodic management reports and budget updates.

The Executive Board has approved principles for risk management at Norges Bank based on the Ministry of Finance's Internal Control Regulation. The principles provide guidance on a systematic and holistic approach. The Board sets a risk profile and risk limits both for the Bank as a whole and for each individual operational area. Risk management is to be an integral part of operational management that helps strike a balance between goals, risk and control measures. The Governor and the CEO of NBIM are to ensure adequate risk management and internal control on the basis of an assessment of relevant risks in accordance with guidelines issued by the Executive

Board. The operational areas report regularly on operational risk management and compliance. Critical incidents are to be reported immediately.

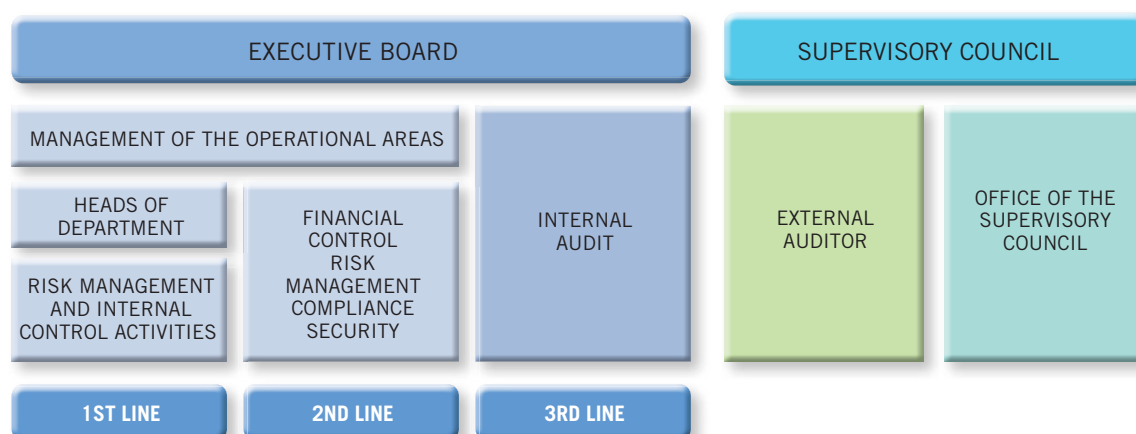
Norges Bank's control model is illustrated in Figure 4.

Roles and responsibilities in the risk management system are organised along three "lines of defence", and limits and guidelines for risk management and control have been issued at each level. The Bank's risk management and control model conforms to accepted international practice.

The first line of defence is operational management, which is responsible for risk management and control activities being carried out. Risk assessment and compliance are to be an integral part of business processes and also cover the management of outsourced services.

The second line of defence comprises central units for risk management and compliance, security and financial control. These help support risk management in the departments at operational level with reporting tools and by assessing the quality of control structures. The compliance units co-ordinate reporting to management and the Executive Board. The necessary reporting lines to the CEO of NBIM and the Governor respectively have been established. Where necessary, reporting may be made straight to the Executive Board.

FIGURE 4 CONTROL MODEL AT NORGES BANK (LINES OF DEFENCE)



The third line of defence is the Internal Audit unit, which has been established by the Executive Board in accordance with the requirements of the Central Bank Act.⁴⁷ Internal Audit's role is to support the Board's oversight by providing assessments and recommendations on the Bank's governance, risk management and internal control. Internal Audit bases its assessments and recommendations on observations from audit projects performed and on knowledge obtained by monitoring the Bank's operations.

Internal Audit's work is performed on the basis of instructions from the Executive Board and international standards.⁴⁸ The Head of Internal Audit is appointed by the Executive Board and reports administratively to the Governor. The Board approves the unit's work plans, and the unit reports to the Board on its assessments and conclusions from its work. The Audit Committee considers reports and matters submitted by Internal Audit. Under the Internal Control Regulation, the Head of Internal Audit is entitled to attend meetings of the Executive Board and may also attend meetings of the Board's subcommittees.

The chair of the Audit Committee and the Head of Internal Audit have presented the Committee's follow-up of Internal Audit's work and annual audit plans to the Supervisory Council. The Council is kept abreast of Internal Audit's reporting through the Executive Board's minutes.

The Executive Board further describes the Bank's organisation and governance model in the Bank's annual report and financial statements for 2019 and the annual report on the GPFG for 2019.

The Council believes that the governance and control model established at the Bank provides for adequate internal control with a division of duties between decision-making, controlling and reporting functions.

ONGOING SUPERVISION

REVIEW OF THE EXECUTIVE BOARD'S MINUTES

As required by the Central Bank Act, all minutes of Executive Board meetings in 2019 were submitted to the Council. Consideration of the minutes is an important

element of the Council's supervision and provides an overview of the matters considered by the Board and of its decisions on specific matters. The Board's minutes provided the Council with information on the Board's updating of the overall management and control framework. The Governor and Deputy Governors attend Council meetings and provide information on the items considered by the Board and on its minutes. The Council pays particular attention to compliance with legislation, mandates and guidelines. During the discussions, questions are asked about developments in risks and the status of measures taken.

In some cases, the Council has asked whether the minutes could have contained more information on the Executive Board's discussions. The Council received all the information requested from the Board in its supervision. The Governor provided regular assessments of risk and information on planned and implemented measures. It is very important to the Council that it is kept up-to-date and adequately involved.

MANAGEMENT OF SECURITY

Norges Bank is covered by the Act on National Security (Security Act) and the Document Security Instructions⁴⁹. Under the Central Bank Act, the Executive Board may require those performing work or services for Norges Bank to provide a full Norwegian criminal record certificate or foreign equivalent if justified by security considerations.⁵⁰ The Ministry of Finance has issued a regulation on criminal record certificates for those working or providing services for Norges Bank pursuant to the Central Bank Act.

The Executive Board has issued principles for security, contingency planning and crisis management. An overall contingency plan is in place. The Governor and the CEO of NBIM have issued guidelines on personnel security, physical security and personal protection to flesh out the Board's principles.

At the end of the year, responsibility for the management of physical security and personnel security was brought together under the Security & Crisis Management unit at NBA. Security risks are monitored by the compliance functions at NBCBO and NBIM.

⁴⁷ Central Bank Act, Section 4-5.

⁴⁸ Code of Ethics and International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA).

⁴⁹ Instructions for the Handling of Documents Requiring Protection for Reasons Other than those Stipulated in the Security Act and Associated Regulations (Document Security Instructions). Issued by Royal Decree of 17 March 1972 pursuant to the King's Powers of Instruction.

⁵⁰ Central Bank Act, Section 2-15 (3).

Norges Bank as a critical institution is best placed to protect its assets. The Bank's security unit liaises and exchanges information with national security services, the police and other relevant players both nationally and internationally. An international network of central banks has also been set up. The National Security Authority (NSM) oversees preventive security work at entities covered by the Security Act, which include Norges Bank. NSM's work on the control of "fundamental national functions" includes Norges Bank. The central bank has paid great attention to compliance with the new Security Act entering into force on 1 January 2019.

The central bank works systematically on security and analysis of current threats. Extensive plans, instructions and agreements are in place to prevent and manage the most extreme situations. The Executive Board is briefed regularly on the management of security risks, and necessary changes to processes and control procedures are followed up. Knowledge and awareness of security are a very important part of preventive security work. Employees and temporary staff therefore receive security training throughout the year.

Security management, contingency planning and crisis management are given high priority in the supervision of the Bank. The Supervisory Council considers it important for risk analyses and threat assessments to be realistic. The Bank's priorities for enhancing security and contingency planning are discussed regularly at the Council's meetings. Reporting on security management and compliance is monitored closely. In 2019, information was provided on security measures and the work of the security unit through a demonstration of processes, organisation and equipment. Employee safety is a priority, and matters relating to personnel security, physical security in office premises, information security and security risks at suppliers were discussed. It is very important that Norges Bank's critical functions for society are safeguarded.

Attention will continue to be paid to these issues in future supervisory work. Resources for security measures are allocated through annual budgets. In exceptional circumstances, the Board can cover the cost of safeguarding lives, health and other important assets without any special allocation of funds, but a report must then be submitted to the Council. No such cases were reported in 2019.

GOVERNANCE AND CONTROL OF IT DEVELOPMENT AND IT SECURITY

In its supervision, the Council attaches importance to the Executive Board working systematically on organising and following up changes to IT systems and new IT products and services. IT is an evolving field, and new vulnerabilities come to light. The Bank is making substantial changes to introduce and upgrade systems. Many of these changes entail keeping work in-house, but purchasing system solutions.

During the year, the Council considered reports and information provided to the Executive Board by the operational areas on the governance of work on developing IT and IT security. At its meetings, the Council requested supplementary information on strategies, governance frameworks, organisation and follow-up, and the Governor provided this information.

The Council considers it important for the operational areas' work to be based on a clear framework and standards for the governance of IT security. The Council is following development work on clarifying responsibilities and reporting lines for IT security. The ongoing programmes to develop IT and IT security are also described in depth in budgets approved by the Council.

A review of work on the governance of IT security in 2019 is discussed below under supervisory reviews.

WORKING ENVIRONMENT AND GENDER BALANCE

A number of joint employee/employer committees have been set up under agreements between employee organisations and Norges Bank and the provisions of the Working Environment Act. Norges Bank is a member of the employer organisation Spekter. The Working Environment and Works Council helps promote a good working environment and ensure that the requirements of the Inclusive Working Life (IA) agreement are met.⁵¹ The committee's organisation, composition, work and reporting comply with the Working Environment Act. It is chaired by the Governor and the Chief Shop Steward in alternate years. The occupational health service doctor participates in meetings of the committee.

⁵¹ The government and the social partners signed a new Letter of Intent Regarding a More Inclusive Working Life on 18 December 2018 with the sub-heading "A working life with room for everyone". The new agreement applies to all Norwegian employers in the period 2019-2022, including Norges Bank. The aim of the tripartite agreement is to create a working life with room for everyone by reducing sickness absence and withdrawal from working life, increasing employment and creating good arenas for inclusion in working life.

Staff Consultation and HR Committees have also been set up to ensure communication, collaboration and staff consultation in agreements between employer and employees. A Negotiation Committee is appointed for each collective agreement period to facilitate pay negotiations with employee organisations.

The Working Environment and Works Council is to report to the Executive Board on its activities each year and forward this annual report to the Supervisory Council for information. The Board also reports on the working environment in its annual report. No occupational injuries or accidents were reported to the Norwegian Labour Inspection Authority in 2019, and low levels of sickness absence have been reported over time.

The Council has noted that relevant laws and agreements concerning the working environment have been observed and reported on.

The Bank prioritised work on gender balance in its strategy for 2017-2019. The three priority areas are recruitment and reputation management, career development, and an inclusive working environment. The Board has set a target of 40 percent women for both the overall workforce and management in both operational areas as a long-term goal. At the end of 2019, the 40 percent target was not met at management level, nor for other employees at NBIM.

The Board has decided to delegate to the Governor and the CEO of NBIM respectively the job of preparing and integrating gender equality work into the operational areas' strategies and action plans so that they are tailored to each area's specific circumstances.

Reference is made to the information provided in the Board's annual report for 2019. Norges Bank's social responsibility means open and clear communication, research and knowledge sharing, ethical business conduct, and promoting gender balance and a good working environment.

The Council sets great store by the Executive Board's reporting on the working environment and looks positively on the Bank setting and pursuing targets for gender balance. At a meeting, the Council asked the Bank's management about its ambitions for gender

balance and steps taken to achieve the target of 40 percent women. In connection with a report on work on the organisation of administrative functions at the Bank, the Council deemed it important that the central bank considers the possibility of increasing the percentage of women in management positions as part of this work and other organisational changes.

NORGES BANK'S PENSION FUND AND PENSION SCHEME

Norges Bank's Pension Fund was established following a resolution of the Supervisory Council on 1 June 1916. The fund is an independent legal entity and prepares its own annual accounts. Its assets and liabilities are separate from Norges Bank. The Bank guarantees its share of the fund's premium reserve.

The fund's purpose is to provide retirement benefits for employees and former employees of Norges Bank and their survivors. Funded plans through the fund are based on actuarial assumptions regarding life expectancy, expected wage growth and adjustment of the basic amount in the National Insurance Scheme. The pension scheme complies with the National Insurance Scheme and is aligned with the rules for the Norwegian Public Service Pension Fund.

The fund is headed by its own board with six full members plus alternates. Four full members and two alternates are appointed by the Executive Board of Norges Bank, at least one of whom must have no connection to the pension fund, the Bank or member companies. Two full members and their alternates are appointed by employee organisations.

The fund's articles of association were originally laid down by the Supervisory Council.⁵² Changes to the articles are to be approved by the fund's board and forwarded to Norges Bank's governing bodies for information. The fund's operations are supervised by the Norwegian Financial Supervisory Authority, Finanstilsynet.⁵³ Changes to its articles must also be approved by Finanstilsynet.

In accordance with the fund's articles, the Supervisory Council has appointed Deloitte AS as the fund's auditor, and a separate engagement agreement has been entered into between the auditor and the board of the fund.

The Council considers it important for the fund to have good financial strength and generate good returns on its

⁵² Adopted on 13 December 2007 and last amended on 25 November 2010.

⁵³ Act on the Supervision of Financial Institutions etc. (Financial Supervision Act), Section 1 first paragraph, item 15.

assets in order to reduce pension costs for the Bank. The Council is kept updated about the Executive Board's appointment of members of the fund's board and receives the fund's annual report, accounts and auditor's report for information.

In 2019, the Executive Board approved changes to the old-age pension under the pension scheme based on the same principles and from the same date as for the Norwegian Public Service Pension Fund. The new old-age pension is an extension of the pension reform introduced in 2011 and ties in with that reform's intention of keeping people in work longer. The most important changes in the new old-age pension are:

- The scheme has been changed from gross benefits to net benefits and comes on top of benefits under the National Insurance Scheme
- The AFP early retirement pension is now part of the overall old-age pension and will be lifelong in the new scheme
- As with the National Insurance Scheme, the old-age pension can be taken in full or in part from the age of 62 and combined with employment income without a reduction in benefits

The new old-age pension will apply to the roughly 650 active members of Norges Bank's Pension Fund born in 1963 or later, and to all new employees recruited from 1 January 2020.

The Executive Board's approval was given on the condition that the Supervisory Council and the board of the Pension Fund do not have any material objections to the changes.

The Council had no objections in its consideration of the matter and approved the changes.

OTHER FUNDS AND GRANT SCHEMES

THE NORWEGIAN FINANCE INITIATIVE (NFI)

The NFI was set up by Norges Bank's Executive Board in 2010. The initiative is managed by NBIM. The aim is to help strengthen financial research and education at academic institutions in Norway, and to support academic research in areas of particular relevance to the long-term management of the GPFG.

The NFI awarded ten publication bonuses in 2019. This is the highest number since the programme began. The NFI

co-finance seven positions under a Co-financing of Junior Professorships programme, one at the Norwegian School of Economics (NHH) and six at BI Norwegian Business School, of which three were new for 2019. A professorship at BI is also co-financed under a Co-financing of Senior Professorships programme. At student level, a summer school is organised, and an annual prize is awarded for the best Master's thesis in financial economics. These activities help profile Norges Bank and NBIM's work.

Almost NOK 10.6m was paid out in 2019 to finance activities under the NFI programmes. Costs were within the approved budget for Norges Bank.

During its consideration, the Council was given a briefing on activities aimed particularly at Norwegian academic and research institutions. The annual report for 2019 was submitted to the Council for information.

THE GOVERNOR N. RYGG FOUNDATION

The Governor N. Rygg Foundation was set up following a resolution of the Supervisory Council in 1954. The foundation has its own statutes.⁵⁴ Its operations are supervised by the Norwegian Foundation Authority. It has base capital of NOK 200,000. Its object is to assist employees and pensioners who require financial support for reasons such as illness, extraordinary strain or misfortune in order to overcome these difficulties. The fund is also to "help promote well-being and goodwill at Norges Bank through initiatives in the interests of employees and pensioners". Funds may be provided as gifts or loans at the board's discretion.

The members of the foundation's board are appointed by the Governor and the central bank's employees. Two grants totalling NOK 97,050 were made from the fund in 2019. The annual financial statements are audited by Deloitte AS and submitted to the Governor.

Proposals from the board for changes to its statutes are to be put before the Council before being submitted to the Norwegian Foundation Authority. No matters concerning the foundation were brought before the Council in 2019.

NORGES BANK'S ECONOMIC RESEARCH FOUNDATION

Norges Bank's Economic Research Foundation was set up on the occasion of the Bank's 150th anniversary in 1966

⁵⁴ Last amended by the foundation's board on 12 October 2015.

with base capital of NOK 2m. When the Bank celebrated its 175th anniversary in 1991, the foundation's base capital was increased to NOK 6m. The fund's base capital may not be disbursed. The investment of the fund is decided by the Governor.

The foundation's purpose is to support Norwegian research, especially applied research, in the field of economics, including studies abroad in connection with special research tasks.

The annual financial statements are audited by Deloitte AS.

Under the foundation's statutes, proposals from the board for the amendment of its statutes are to be put before the Supervisory Council before being submitted to the Norwegian Foundation Authority.⁵⁵ No matters from the foundation were brought before the Council in 2019.

REPORTS FROM SUPERVISORY REVIEWS

The Supervisory Council considered three reports from the Office of the Supervisory Council in 2019 on reviews relating to Norges Bank's activities in general. The starting point was the approved supervision plan. No reports on assurance engagements relating to the Bank in general were received in 2019.

WORK ON THE GOVERNANCE AND CONTROL OF IT SECURITY AT NORGES BANK

The purpose of this supervisory review was to shed light on the Executive Board's governance and control of IT security at Norges Bank. It described how the Bank works systematically on establishing frameworks for, organising and following up IT security so that the consequences of unwanted situations or incidents are reduced.

The starting point for the review is a general risk assessment. Norges Bank owns and operates substantial assets. Threat assessments indicate that activities both within the central bank and in the management of the GPFG are a potential target for unwanted attention. With information systems, there is an inherent risk of unauthorised persons exploiting vulnerabilities in order to obtain information or gain access to transaction systems. Norges Bank uses numerous information systems, platforms and suppliers. This in itself impacts on the risk.

Establishing a strong technical environment for IT security may at times be challenging, partly in terms of access to appropriate and up-to-date expertise. Norges Bank has created a number of IT units that provide services for each operational area and have contracts with various suppliers. Multiple units may be appropriate, as different systems require different skills. At the same time, it means a risk of synergies not being realised, which could happen if these units do not exchange experience and knowledge.

The review focused on risk management and how the Executive Board governs work on IT security through frameworks and the organisation of these activities. The review did not extend to measures relating to personnel security or physical security. Both operational areas at Norges Bank – NBCBO and NBIM – were covered by the review. Procedures and governance of security in IT systems from suppliers/third parties were not covered.

The supervisory review was based chiefly on a review of documents considered by the Executive Board and the Supervisory Council. These documents describe work on IT security, including strategies, governance systems, follow-up, evaluations and reporting to the Board from the operational areas and Internal Audit. Information on the central bank's governance framework was also used, and information on the organisation of IT security was obtained through meetings with NBCBO and NBIM.

Three assessment criteria were considered in the review:

1. Overall governance system:

Has the Executive Board established a strategy and overall framework for the governance and control of IT security? IT security is an area reported to the Executive Board that has considerable operational risk. The Board and the management of NBCBO and NBIM pay great attention to this. Clear governance frameworks have been established, and investments are made in developing the system portfolio, resources and skills. IT security is developed in connection with new IT initiatives.

2. Governance model:

Are responsibility for and the organisation of IT security work clear, and to what extent is IT security integrated into the operational areas' governance systems? The fact that both NBCBO and NBIM use the established frame-

⁵⁵ Last amended by the foundation's board on 10 October 2018.

works NIST and CIS Controls as the basis for their work is considered to be consistent with good governance.

IT security is organised differently at NBCBO and NBIM. At NBIM, first-line activities come under the Chief Operating Officer (operational level) and second-line activities under the Chief Compliance Officer (compliance function). At NBCBO, both first- and second-line activities are handled by the Markets and ICT department, but by different teams. There is great awareness of these differences, and work on clarifying lines of responsibility and reporting is under way.

The Office of the Supervisory Council was informed that monthly meetings are held between the IT security units at NBCBO and NBIM. This is a forum for exchanging experience and discussing the handling of incidents. In the Office's opinion, this exchange of experience can help strengthen work on IT security at Norges Bank.

The projects DiffIT at NBCBO⁵⁶ and ISAC at NBIM⁵⁷ have required considerable attention and have been followed up by the Executive Board through strategy work, reporting and internal audits. The ISAC project at NBIM was completed in 2019 within the approved budget, on time and with the desired effect. The Office believes that the organisation structure with close follow-up contributes to satisfactory governance of the projects.

3. Reporting and follow-up:

Has the Executive Board established follow-up processes, including for handling serious IT security incidents?

IT is a field that will evolve over time, and it has to be expected that new vulnerabilities will emerge. Norges Bank is making major changes to update systems, increase flexibility and capacity, and establish necessary controls. In this phase, risk reporting from both operational areas has confirmed substantial operational risks over multiple periods. The Office's review did not give reason to conclude differently to the operational areas themselves in their own reporting to the Executive Board. The Board follows up the status of the management of risks and the development of IT security through reports from the operational areas and Internal Audit. Frequent follow-up of IT security risks by the Board is very important for developing resources and skills.

The supervision report took the form of a briefing of the Supervisory Council on the current situation for the governance and control of IT security. No proposals were made for recommendations from the Supervisory Council to the Executive Board. The reason for this is that, as noted in the Standing Committee on Finance and Economic Affairs hearing in 2019, this is an area where considerable work and major changes are under way at Norges Bank. In the Office's opinion, it is more appropriate for supervision to be performed in retrospect with regard to the implementation and establishment of major change processes in the IT area, and it is not the role of supervision to assess an ongoing process.

Against this background, the Office made two recommendations for follow-up work in future supervision once the changes have been made and practised for some time:

1. It was recommended that the Council monitors the organisation of IT security and work on clarifying lines of responsibility and reporting. This should be done through thorough reviews and presentations in connection with reports considered by the Council. In the first instance, the Council will have an opportunity to explore organisational issues when the Bank assesses its own shared functions as an extension of work on the new Central Bank Act. The Council should expect reporting on progress and expenditure to continue to be made through the Bank's management reporting.
2. It was recommended that the Council includes in its supervision plan a supervision project in the field of IT security once the DiffIT and ISAC projects are complete and the solutions have been active for at least a year.

The Council endorses the assessments and recommendations in the report on the governance and control of IT security at Norges Bank.

NORGES BANK'S PERIODIC PUBLIC REPORTS

The background to a review of the Bank's public reports was the question of whether this reporting satisfies formal requirements and external expectations for its form and content. In addition, there was an examination of the extent to which Norges Bank has a dialogue with the target groups for its reporting.

⁵⁶ The Differentiated IT Portfolio (DiffIT) programme to upgrade the IT portfolio. See further discussion in Chapter 5.

⁵⁷ Insourcing, Security, Automation and Cloud.

One possible risk is that inadequate or inaccessible information might mean that the Bank does not meet requirements set out in laws or mandates. There may be a risk that the principles for good internal control of focused and efficient operations and reliable reporting are not followed. Information that is hard to find could lead to target groups not receiving the information they believe to be relevant for their purpose. These are also factors that could impact on the Bank's reputation.

The use of languages other than Norwegian may mean that nuances and complexity in the information are not fully accessible for some target groups. Some publications with supplementary information on the management of the GPFG are published only in English. This may limit transparency.

During the period between the supervision plan being improved and the final report being available, a new Central Bank Act was adopted which will affect the central bank's reporting. The mandate for the GPFG has also been revised, with changes to the requirements.⁵⁸ The new mandate⁵⁹ states that "all reporting required under this mandate shall be published in Norwegian", which has been addressed in the public reports.

The review was based on the Bank's public reports for the whole of 2018 and the first half of 2019. The review was limited to assessing how the general public is informed through fixed periodic public reports, both financial and non-financial, published on the basis of laws or mandates. This means that replies to letters and other statements from the Bank to a particular body, such as the Ministry of Finance, fell outside its scope. Other types of information provided through websites, press releases, press conferences, speeches and consultations were also excluded.

The external auditor ensures that the statutory requirements for financial reporting are complied with. Interviews and meetings were held internally at the Bank and with the Office of the Auditor General, the Ministry of Finance, the external auditor and consultants at Deloitte AS. Relevant internal rules and procedures and the minutes of Executive Board meetings on the consideration of the reports were reviewed. Data were obtained on print runs and on downloads to measure activity and demand for reports on the Bank's websites.

The review did not extend to the Board's use of discretionary powers in assessments related to the conduct of monetary policy.

The main conclusion in the report is that the Bank satisfies the requirements set out in the Central Bank Act and mandate.

The Bank's communication principles do not define target groups, but the Bank operates with two main categories of stakeholder. The Bank did not provide information during the review on the process for arriving at these stakeholder categories. It might be asked whether the reports produced actually reach the desired target groups.

The Executive Board forwards all public reports to the Council. Reports where the Council has a responsibility are duly taken note of. Where it is important only that the Council is aware of the contents, reports are generally received only for information.

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

Recommendation 1: It is recommended that the Board considers whether its reports should to a greater extent provide the Bank's explanation and assessment of results, effects and approaches in the management of the GPFG, without compromising the requirements for responsible execution of the management assignment.

Recommendation 2: The Council recommends that the Executive Board clarifies the Bank's target groups in its communication principles. It also recommends that systematic surveys are conducted to test whether the external public reports contain relevant information for the defined target groups.

In its written response, the Board writes that the limited scope of the review meant that a large part of the central bank's communication was not assessed, and that the supervision report and comments need to be seen in the light of this.

⁵⁸ For the Central Bank Act, this applies from 1 January 2020, whereas the mandate changes came into force from 30 November 2019.

⁵⁹ Management Mandate for the Government Pension Fund Global, Section 6-1 (1) second sentence.

On recommendation 1, the Board replies:

"[...] The investment strategies each have a different evaluation horizon. The Board's assessments seek to present the strategies' results in the context of their respective evaluation horizons. The assessments are therefore given a form where information on more short-term fluctuations in the latest period is limited on the grounds of relevance.

"[...] The Board believes that more frequent assessment and explanation, for example in the interim reports, is not appropriate given the fund's long-term nature. This is also supported by the Ministry of Finance's decision to change the interval for public interim reports from quarterly to semi-annual. [...] The fund's written reports are intended to reach a broad target group, and it is not certain that these printed reports are suited to more detailed information than presented to date. However, the Board is keen to further develop the Bank's communication on the management of the GPFG and will take account of the recommendation in this work."

In its response to recommendation 2, the Board refers to the Bank's communication over and above the periodic public reports. Its reply also confirms the observation in the report that *"the general principles do not specify who the Bank's different target groups are."* It specifies further that *"Norges Bank's role in society means that the Bank must in principle aim to provide good information for everyone. This is also laid down in the communication principles. In practice, however, information asymmetries and different information requirements mean that there is a natural difference between professional stakeholders and the general public. Who these professional stakeholders are will vary between the operational areas and between subject areas."*

One type of reporting that is aimed at the general public is the annual and interim reports on investment management. The Executive Board writes: "[...] The fund's annual and interim reports, and the annual review of its work on responsible investment, are aimed at the general public."

Finally, the Board writes: *"In the light of the new Act relating to Norges Bank and the Monetary System etc. (Central Bank Act) entering into force on 1 January 2020, it is natural to review the Bank's general communication principles once again. The Board will in this context assess whether it is appropriate to formalise the definitions of the Bank's target groups in the general communication principles, or whether the Bank should continue the current*

practice of defining the target groups at an operational level."

The Board states that there are two target groups for the Bank's reporting – professional stakeholders, such as the Norwegian financial sector, and the press and general public.

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

The Council noted that the Executive Board will perform an assessment of how definitions of the Bank's target groups should be addressed, and how feedback can be obtained. The Council takes note of the Board's response to the recommendations in the supervisory review of the Bank's periodic public reports.

NORGES BANK'S PERIODIC INTERNAL REPORTS TO GOVERNING BODIES

The Council has also considered a report from a review of internal reports considered by the Executive Board.

Reports from the operational areas give the Board a constant flow of information on activities, performance, risk and other material matters. This knowledge is essential for good governance and control of the Bank's activities. This reporting is also used as a basis for adopting strategies and action plans and setting budgets. The Executive Board is to send a risk assessment report for Norges Bank's operations to the Supervisory Council at least once a year.

Within Norges Bank, NBCBO and NBIM report at different frequencies. Reports are also submitted outside the periodic/fixed reporting schedule. The number of reports considered at the highest level can be seen as considerable.

The aim of the review was to see to what extent Norges Bank's reports provide the Executive Board with relevant information so that it can make the right decisions. The reports' importance for the work of the Board was considered. The way in which the Board sets requirements for reporting also formed part of the review.

The review concentrated on governance and compliance reports. Governance is the sum of the structures, processes and tools that are used to manage activities, resources and risk exposure in an organisation. Compli-

ance reports provide an overview of whether rules are being followed and of unwanted incidents.

One starting point for the review was a general impression that internal reporting was extensive, detailed and demanding both for the organisation to produce and for the governing bodies to absorb. The review did not confirm this impression. A comparison with other institutions did not provide a basis to conclude that Norges Bank should amend its processes or reports. Conversations with three members of the Executive Board revealed that they are happy with the level and scope of the reports covered by the review.

The reports in the review were forwarded from the Executive Board and considered by the Supervisory Council. They provide a sound basis for the supervision of the Board's work and decisions, while also giving the Council a knowledge of the central bank's operations and development.

The Executive Board's consideration of the reports emerges clearly. Internal reports have evolved over the past year in line with changes to the organisation. No proposals were therefore made for recommendations from the Supervisory Council to the Executive Board.

A summary of the assessment points:

The Executive Board may at its meetings signal desired adjustments to the reports. In this way, the form and content of the reports is influenced directly by their consideration by the Board. The Audit Committee's assessments of the reports are presented in the minutes submitted to the Board. This information is not included in the Board's own minutes. These minutes provide little information, but they do show that it is the Board that has the responsibility.

When the reports are considered at Board meetings, management attend so that the Board's views are transmitted directly to those responsible for the reports and further on down through the organisation.

Reports from the operational areas on the same topics (risk management and compliance) have largely the same layout and content, but the approach in some areas differs, especially in the presentation of risks, compliance and development. The members of the Executive Board nevertheless feel that the message is clear, such that the Board's needs are met.

The Council endorsed the assessments in the report on the Bank's periodic internal reports to governing bodies.

CHAPTER 5

SUPERVISION OF
CENTRAL BANKING

RESPONSIBILITIES AND ORGANISATION OF NORGES BANK CENTRAL BANKING OPERATIONS (NBCBO)

The new Central Bank Act entering into force from 1 January 2020 gives Norges Bank a clear mandate in Section 1-2: “Purpose of the central banking activities”:

“(1) The purpose of the central banking activities is to maintain monetary stability and to promote the stability of the financial system and an efficient and secure payment system.

“(2) The central bank shall contribute to high and stable output and employment.”

The Governor is the head of Norges Bank Central Banking Operations (NBCBO), which is organised into three departments: Monetary Policy, Financial Stability, and Markets and ICT. Norges Bank Administration and the General Secretariat also come under the Governor. The General Secretariat is home to the Governance, Risk and Compliance (GRC) unit, which is the Governor’s second-line control body.

The heads of department at NBCBO are appointed to permanent positions by the Executive Board rather than for a fixed term. In the execution of the Bank’s core activities, the heads of department are responsible for risk management, internal control and financial management in their particular areas. They also issue internal guidelines as required.

The Monetary Policy department is home to an International Economy unit and the research unit Policy and Analysis which conducts research into topics relating to the whole of NBCBO’s activities. Extensive analytical material is published. These analyses are used in the Bank’s decisions on the key policy rate during the year and in its advisory work.

Further information about these activities can be found in Norges Bank’s annual report. The Supervisory Council receives reports on the various duties that the Bank carries out and briefings on this work at its meetings. The Governor also provides information on the Executive Board’s work and the Monetary Policy and Financial Stability Committee’s decisions on monetary policy.

ONGOING SUPERVISION

GOVERNANCE AND FOLLOW-UP BY THE EXECUTIVE BOARD AND GOVERNOR

The Executive Board has adopted principles for risk management at NBCBO which set out rules and requirements consistent with the Internal Control Regulation. Relevant financial and operational risk concepts are defined, and requirements are laid down for management and reporting. The Board considers reports on financial risk each quarter and operational reports every second quarter. These reports cover areas such as the status of action plans and expenditure, operational risks, compliance and internal control.

The Council’s supervision of the governance of NBCBO involves reviewing the semi-annual reporting from the Executive Board and consideration of the Board’s minutes. The status of action plans is considered in the light of management reporting, annual reports on expenditure, and the adoption of budgets for Norges Bank. This is discussed later in the report.

The Council has been kept informed about the principles and guidelines for risk management. These guidelines also set out roles and the division of responsibilities between the first and second lines of defence in the control model. Changes made by the Board to the guidelines for NBCBO are mentioned in the Board’s minutes and presented at Council meetings. The Council is also informed through periodic reporting. The heads of department issue internal rules within their areas of responsibility.

It is very important for the Council’s supervision that there are documented procedures for reporting and addressing breaches of rules and incidents, together with the implementation of risk reduction measures. No unwanted incidents at NBCBO with serious consequences for Norges Bank were reported in 2019.

STRATEGIC INITIATIVE – UPGRADING THE IT PORTFOLIO

The Differentiated IT Portfolio (DiffIT) programme includes establishing a system portfolio and modernising operating platforms. The Executive Board decided on the programme in 2018. The indicative budget for the programme in the period 2019–2021 is NOK 230m. Progress is largely on schedule, and the forecast cost of the programme is still at the anticipated level.

The proposed budget for the programme in 2020 is NOK 98m. The transition to a new IT platform entails a gross

need for 20 full-time equivalent employees to provide functions being taken over by internal resources, as well as increased capacity to handle necessary security, control and contingency work. Approximately another NOK 6m has been budgeted for new staff (salary and personnel costs) in line with planned organisational developments in 2020.

The Supervisory Council has been kept informed about the ongoing work at NBCBO on upgrading its IT portfolio under the DiffIT programme. All costs are included in budgets adopted by the Council.

Work is also under way on strengthening the internal organisation and competence when it comes to IT security, in close connection with the DiffIT programme. The Council considers it important for the Bank to work systematically in the IT area and on IT security.

MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

Norges Bank's international reserves consist of foreign exchange reserves and International Monetary Fund (IMF) reserve positions. The Bank determines the amount of the official foreign exchange reserves and how they should be invested. The reserves are to be available to fulfil the purpose of central banking activities and meet international obligations.⁶⁰ Considerable importance is attached to investing the foreign exchange reserves in liquid instruments. Within these constraints, the aim is for the reserves to be managed cost-effectively and with a positive relative return. Specific rules and guidelines for the management of the reserves have been issued which differ clearly from the management of the GPF. The Executive Board performs an annual assessment of the strategy and framework for the management of the foreign exchange reserves.

The reserves make up around 90 percent of the Bank's assets excluding the GPF. The market value of the portfolio at the end of 2019 was NOK 546.3bn. The foreign exchange reserves comprise a fixed-income portfolio, an equity portfolio and a petroleum buffer portfolio. The aim of the buffer portfolio is to ensure appropriate management of the government's need to convert between foreign currency and NOK, and to make transfers to and from the GPF.

The Executive Board issues principles for the management of the foreign exchange reserves. The Governor issues supplementary guidelines for the management of the reserves⁶¹ and has the power to depart from the principles set by the Board if warranted by contingency considerations. The guidelines set out the equities in which the reserves may be invested on regulated and recognised markets. Responsibility for managing the reserves rests with NBCBO, but NBIM handles the operational management of the equity portfolio under an agreement. The strategic allocation to equities is up to 20 percent.

Quarterly reports on financial risk and the management of the foreign exchange reserves are sent to the Council, which takes note of these reports. Following questions from the Council, the Governor has explained the importance of seignorage⁶² and reporting on this. No breaches of the Board's guidelines were reported during the year, nor any abnormal circumstances. The reports are published by Norges Bank.

MONETARY POLICY AND FINANCIAL STABILITY

Norges Bank accepts deposits from commercial banks and savings banks on terms laid down by the central bank. Banks may deposit excess liquidity at Norges Bank, or obtain sufficient liquidity for the settlement of payments at the Bank by borrowing against collateral in the form of securities. The interest rate paid on banks' deposits is the most important rate in the conduct of monetary policy (key policy rate). In accordance with the regulation on a countercyclical capital buffer, Norges Bank produces documentation as a basis for decisions and gives the Ministry of Finance advice each quarter on the level of this buffer at the banks. Vulnerability in the bank sector is analysed continuously.

The Council does not supervise discretionary decisions made by the Executive Board or the new Monetary Policy and Financial Stability Committee, but monitors the underlying evaluation processes through information provided by the Governor at its meetings. This includes decisions on the key policy rate and advice on the countercyclical capital buffer.⁶³

The Council receives the Bank's reports for information. A monetary policy report with an assessment of financial stability is published four times a year together with the Bank's interest rate decisions.

⁶⁰ Central Bank Act, Section 3-2.

⁶¹ Guidelines for the Management of the Equity Portfolio of Norges Bank's Foreign Exchange Reserves, updated on 30 January 2020.

⁶² The net profit made when issuing currency. This profit arises due to the difference between the face value of money and the cost of producing, distributing and ultimately withdrawing it from circulation. See <https://en.wikipedia.org/wiki/Seigniorage>.

⁶³ Central Bank Act, Section 1-5.

NORGES BANK'S SETTLEMENT SYSTEM (NBO)

Norges Bank is the top-level settlement bank for inter-bank payments in Norway. This role derives from the provisions of the Central Bank Act on promoting an efficient payment system domestically as well as vis-à-vis other countries, and banks' right to open accounts with, and borrow from, Norges Bank. The average daily volume of payments settled is around NOK 259bn. At the end of 2019, banks had sight and reserve deposits at Norges Bank totalling NOK 40.1bn.

Norges Bank's settlement system and the overall payment system in Norway are highly dependent on IT and external suppliers for their operation. The payment system and financial infrastructure provide a critical function for society and are subject to stringent security requirements. There were few disruptions in Norway's payment systems in 2019, and they largely comply with international principles. With the exception of two brief outages, the operation of NBO was stable during the year.

The Council monitors reporting on operational stability and the management of security, risk and contingency planning through ordinary management reporting. An internal annual report on NBO is forwarded to the Council for information.

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

Norges Bank has a sovereign right to issue Norwegian banknotes and coins as part of an efficient and secure payment system. The central bank decides on their face value and design. Norges Bank's notes and coins are legal tender in Norway. The central bank is responsible for

ensuring the necessary availability of cash in society, and has issued regulations pursuant to the Central Bank Act on the replacement of lost, burnt and damaged notes and coins.

High levels of security have been established, with internal control processes and oversight by the external auditor and the Office of the Supervisory Council. Reports from Norges Bank's checks on its cash depots in Norway have been reviewed.

The Executive Board and the Governor have issued general internal guidelines. The guidelines on physical security at the Bank include general requirements for security standards in vaults and premises that also apply to central bank depots and suppliers' warehouses.

All denominations of the new series VIII banknotes have now been issued. The final denomination, the new NOK 1,000 note, was launched on 14 November 2019. Work on withdrawing old banknotes is under way. The cost of the banknote project has been reviewed when considering budgets and as part of auditing. As a result of the phasing out of the series VII banknotes, the central bank reported on the handling of almost 31,000 note exchange cases in 2019. Detailed investigations were carried out under the anti-money laundering rules, and a number of cases were routinely reported to the National Authority for Investigation and Prosecution of Economic and Environmental Crime due to suspected money laundering.

Notes and coins in circulation amounted to NOK 41.6bn at the end of 2019, down around NOK 3.2bn on a year earlier. The Council considers the Bank's annual reports on notes and coins and relevant management reporting.



The external auditor carries out various checks on the correct registration of inventories. No weaknesses in internal control in this area have been detected. This work is described in the presentation of key audit matters in the auditor's report on the Bank's annual financial statements.

The Council receives an internal annual report on notes and coins for information, and monitors the issue of new notes and exchange of expired banknote series via management reporting from NBCBO. Parts of this report are made public.

ASSURANCE ENGAGEMENTS

Deloitte AS has been engaged to issue annual assurance statements in accordance with engagement agreements with the Supervisory Council and at the request of the Ministry of Finance. The statements cover two main tasks that the central bank performs for the government under the Central Bank Act. *"Norges Bank shall provide services relating to sovereign debt issuance and debt management, and the treasury single account system. The Bank shall also, to the extent stipulated by the Ministry, provide financial services to the central government as well as to separate legal entities that are wholly owned by the central government."*⁶⁴

Both statements for 2019 had a positive conclusion. This means that no non-conformances were identified that present risks or a need for follow-up action.

GOVERNMENT ACCOUNTS AT NORGES BANK

Norges Bank has various duties relating to central government payments, cash management and debt. These duties have their legal basis in the Central Bank Act and are regulated in more detail in an agreement with, and mandate from, the Ministry of Finance. Through the treasury single account system, all central government money is gathered in an account at Norges Bank each day.

At the end of 2019, deposits from central government bodies amounted to NOK 187.7bn. This makes up the largest liability item in the Bank's balance sheet other than the deposit account for the GPFG. Government

deposits will, however, vary considerably during the year due to large payments to and from the government's operating accounts.

The Bank is responsible for implementing and overseeing agreed stipulations on security, backups and emergency procedures, including tasks performed by external suppliers of operational and account management services. This work is to be performed in accordance with the regulations on financial management in central government and the guidelines for settlement accounts in the treasury single account system.

Deloitte AS issues an assurance statement on Norges Bank's documentation of compliance with the requirements of the agreement, including the requirements for security in the management of these accounts.

The Council has taken note of the assurance statement on the government's accounts at Norges Bank for 2019. The assurance statement has been forwarded to the Ministry of Finance.

MANAGEMENT OF GOVERNMENT DEBT

In line with the Central Bank Act, the Ministry of Finance has issued a mandate for the management of central government debt along with supplementary provisions and powers for Norges Bank.⁶⁵

Under this mandate, Norges Bank has operational responsibility for the management of government debt. From 2020, costs for the management of government debt will be borne by the central bank.⁶⁶

The government borrows to fund state lending schemes, repay maturing debts and ensure that it has adequate cash holdings. The overall objective for the management of government debt is to meet the government's borrowing needs at the lowest possible cost within given risk limits. Auctions are held to issue and repurchase government bonds and treasury bills during the year.

In its management of government debt, Norges Bank issues government debt and enters into financial contracts in the Ministry of Finance's name. Transactions

⁶⁴ Central Bank Act, Section 3-7 "Banker to the central government".

⁶⁵ New mandate issued on 19 December 2019 and entering into force on 1 January 2020. Cf. the new Central Bank Act, Section 3-7.

⁶⁶ Mandate for Government Debt Management, Section 5.

The Ministry of Finance previously covered Norges Bank's costs for government debt management, administering the treasury single account system and issuing commemorative coins, which together amounted to NOK 41.6m in 2019 (2018: NOK 37.6m). Cf. Note 19 to the Bank's annual financial statements for 2019.

relating to government debt management are accounted for in the central government accounts rather than Norges Bank's balance sheet. The regulations on financial management in central government are to be followed in the management of the loan portfolio.

Quarterly reports and an annual report are submitted to the Ministry of Finance and published by Norges Bank. Lending strategies and loan programmes are to be published by the central bank.

At the request of the Ministry of Finance, Deloitte AS publishes an independent assurance statement on the governance and control of accounting and payments in the management of government debt.

The Office of the Auditor General also received a report from Deloitte AS in 2019 on agreed-upon procedures relating to the accounting for government debt management.

The Council has taken note of the assurance statement on government debt management for 2019. The assurance statement has been forwarded to the Ministry of Finance.

CHAPTER 6

SUPERVISION OF
INVESTMENT MANAGEMENT

RESPONSIBILITIES AND ORGANISATION OF NORGES BANK INVESTMENT MANAGEMENT (NBIM)

The Central Bank Act assigns to Norges Bank the role of managing the Government Pension Fund Global. The GPFG is managed in accordance with the Government Pension Fund Act⁶⁷, the Management Mandate for the Government Pension Fund Global⁶⁸ and the Guidelines for Observation and Exclusion from the Government Pension Fund Global⁶⁹.

The GPFG is a deposit in an account at Norges Bank. The countervalue is managed in accordance with detailed provisions issued by the Ministry of Finance. The operational management of the GPFG is carried out by NBIM. NBIM also manages the equity portfolio in the Bank's foreign exchange reserves on behalf of NBCBO, as mentioned earlier in the report.

The CEO of NBIM is responsible for the day-to-day management of NBIM's activities and is to comply with guidelines and instructions from the Executive Board. This does not include matters which, by the operational area's standards, are of an unusual nature or major importance.⁷⁰ In this context, the Governor of the Central Bank

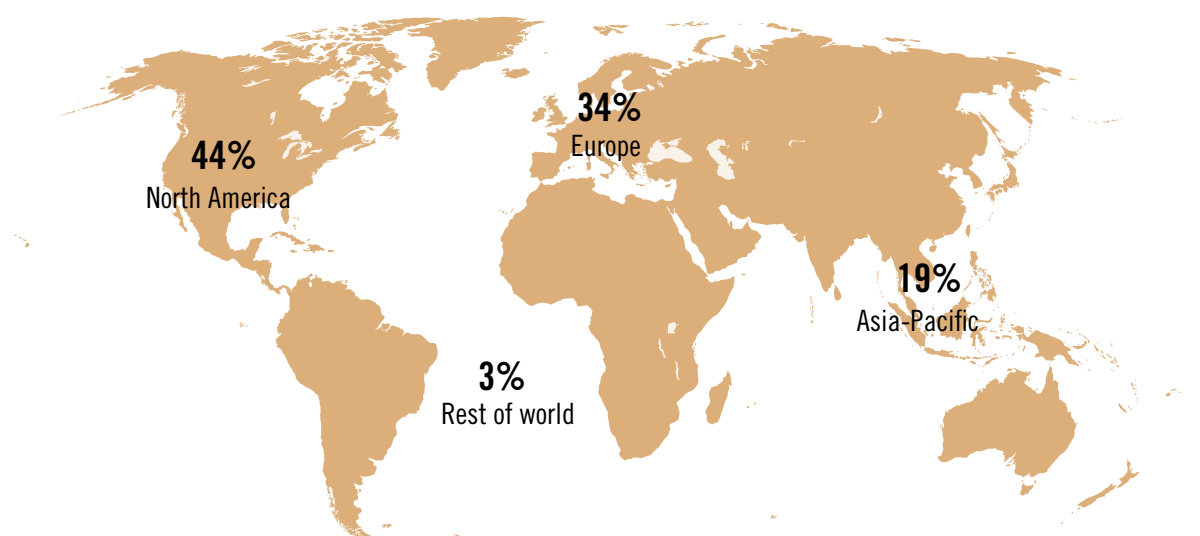
has the role of head of the Executive Board. The Executive Board has issued an investment mandate and job description with various powers.

The current CEO of NBIM has announced his departure, and in response to questions from the Supervisory Council, the Governor has provided information on the process for the appointment of a new CEO. Under the new Central Bank Act, the CEO is to be appointed for a fixed term of five years. This may be extended with an additional term of up to five years.

NBIM's leader group includes the CEO, the Deputy CEO, four Chief Investment Officers responsible for the fund's three investment strategies, a Chief Risk Officer, a Chief Operating Officer, a Chief Real Estate Officer, a Chief Financial Officer, a Chief Compliance and Control Officer and a Chief People and Operations Officer.

The three asset classes in which the GPFG is invested are equities, fixed income and unlisted real estate. The fund is invested in more than 9,000 companies all around the world. NBIM is an international organisation with employees from 38 countries and has offices in London, New York, Shanghai and Singapore. Subsidiaries have been

INVESTED IN MORE THAN 9,000 COMPANIES IN 74 COUNTRIES



⁶⁷ Act of 21 December 2005.

⁶⁸ Laid down by the Ministry of Finance on 8 November 2010 and last amended with effect from 30 November 2019.

⁶⁹ Laid down by the Ministry of Finance on 18 December 2014 and subsequently amended. The guidelines apply to the Council on Ethics for the Government Pension Fund Global and Norges Bank.

⁷⁰ Central Bank Act, Section 2-13 (2).

formed in Norway and abroad as part of its real estate management.

In spring 2019, the Executive Board approved a new strategy for real estate management in the GPFG. With a limited portfolio of unlisted real estate and an increased desire for a combined approach to listed and unlisted real estate, the Board no longer considered it appropriate to have a separate organisation for unlisted real estate. It therefore decided to discontinue NBREM as a separate organisational unit. The management of unlisted real estate investments is now organised as a department within NBIM called NBIM RE. The Governor has informed the Council about this decision and about the Bank's letter to the Ministry of Finance presenting the decision.

The Executive Board "shall annually evaluate its execution of the management assignment and its associated expertise"⁷¹ and forward this self-assessment to the Ministry. The assessment of the results for 2019 is included in the annual report on the management of the GPFG, which has been considered by the Council. The reported return on the investments in the GPFG in 2019 was 19.9 percent, which is 0.23 percentage point more than the return on the benchmark index the fund is measured against. The Executive Board is satisfied that the return both in 2019 and over a longer period has been good and higher than the return on the benchmark index.

Further information can be found in Norges Bank's annual report and financial statements for 2019, and the annual report and three quarterly reports on the management of the GPFG. From 2020, the required frequency of reporting has been reduced to twice a year.⁷² Additional information is also published each year on return and risk, on responsible investment and in a GIPS⁷³ return report. The last of these reports includes multiple methods and metrics for risk-adjusted return. The Council follows with interest the publication of these reports, but has not reviewed their content as this is considered to fall under the responsibilities of the Executive Board.

ONGOING SUPERVISION

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

The Ministry of Finance has defined the overall objective for the GPFG in its management mandate: *"The Bank shall seek to generate the highest possible return, net of costs, measured in the currency basket of the investment portfolio, within the applicable investment management framework."*

The Ministry of Finance has also defined a benchmark index against which the management of the GPFG is measured. One important provision in the mandate requires Norges Bank to manage the fund in such a way that expected relative volatility (tracking error) does not exceed 1.25 percentage points. NBIM employs a variety of investment strategies.

The Executive Board has approved a new strategy plan for the period 2020-2022 which builds on those for previous years. Norges Bank will continue to use a variety of investment strategies in its investment management, with controlled risk and low costs. Investments in unlisted real estate and unlisted renewable energy infrastructure will bring further diversification.

In line with the new Central Bank Act, the Executive Board has issued an updated job description for the CEO of NBIM.⁷⁴ The CEO is responsible for the day-to-day management of Norges Bank's management of the GPFG and is to adhere to principles and instructions from the Board.⁷⁵

The Board conducts an annual review of the policy documents laid down for investment management. Based on the Board's principles for risk management at NBIM, risk management is to be integrated into NBIM's processes, into strategic planning and into the procedures for change management. The principles include measures to control and validate relevant risks. The Board has also issued principles for the remuneration of employees at NBIM and for responsible investment management at Norges Bank.

NBIM's CEO has issued principles and requirements for NBIM's investment activities. These guidelines include the

⁷¹ Management Mandate for the Government Pension Fund Global, Section 3-1 (1).

⁷² Management Mandate for the Government Pension Fund Global, Section 6-1 (3).

⁷³ Global Investment Performance Standards.

⁷⁴ Central Bank Act, Section 2-4 (4).

⁷⁵ Central Bank Act, Section 2-13.

execution of investment strategies (excluding unlisted real estate management) and the governance and monitoring of these strategies.

The executives in the leader group issue guidelines within their own areas of responsibility.

The Council has been kept informed of the Board's assessments and decisions.

The Executive Board receives periodic reports on governance, operational risk management, and compliance and control. The Governor and the Board are to be notified of significant critical incidents without delay. No significant breaches of the Ministry of Finance's rules for the management of the GPFG were reported in 2019. Nor were any significant breaches of market rules or general legislation reported by local supervisory authorities.

The Council's supervision of the governance of investment management takes the form of considering periodic reports from the Executive Board and following up the Board's minutes. In its supervision, the Council attaches great importance to established procedures for reporting breaches of rules and incidents, together with the implementation of risk reduction measures. The Office of the Supervisory Council discussed incidents and follow-up procedures at meetings with the compliance unit during the year. No incidents during the year were reported as having serious consequences.

The Council is also kept informed during the year about the Bank's advice to the Ministry of Finance on the investment strategy for the GPFG.⁷⁶

REMUNERATION ARRANGEMENTS

Norges Bank had 249 employees entitled to performance-based pay at the end of 2019, including 12 at subsidiaries. Over time, the Council has monitored reporting on remuneration and asked the Bank's management to provide information on how the remuneration arrangements at NBIM work. Information has been provided on the basis for these earnings and how performance pay is paid. Relevant comparisons with other institutions have also been requested.

The Council also asked the Bank's management to come back with information on how the change to the GPFG's mandate requiring the remuneration scheme to comply with Chapter 2 of the regulations under the Securities Funds Act to be integrated into the Executive Board's principles and put into practice.

The Council has received details of remuneration arrangements from the Bank's management for information.

GPFG RETURN AND RISK, PERIODIC REPORTING

The Office of the Supervisory Council received and reviewed NBIM's reporting on return and risk in 2019. Meetings were held, and analyses performed, to identify any abrupt changes or abnormal results in the reporting. Questions from these reviews were forwarded to the Council for follow-up at its meetings.

Norges Bank has established various control activities relating to the calculation of returns. The Office of the Supervisory Council received a briefing from Deloitte AS on its testing of the return in 2019. Data were obtained from external sources, and the return calculations were verified for six months. In addition, use was made of an external adviser on investment management, who obtained data to calculate the absolute and relative return and which factors impacted on the return. This process did not detect any non-conformances.

Securities are reported at fair value. In the review of the quarterly reports for the GPFG, management provides an analysis of results and returns for equities, bonds and unlisted real estate.

Against the background of these analyses and presentations at meetings, the Council believes that procedures and follow-up in this area functioned satisfactorily in 2019.

Responding to questions from the Council, the Bank's management provided information on the role of movements in the krone exchange rate, responsible investment, valuation, risk-based divestments and the follow-up of recommendations from the Council on Ethics.

⁷⁶ *Management Mandate for the Government Pension Fund Global, Section 1-4 (1) and (2): "(1) The Executive Board shall advise the Ministry on the investment strategy for the investment portfolio. Advice shall be provided upon request from the Ministry, but may also be given on the initiative of the Executive Board.*

"(2) The Executive Board shall advise the Ministry on any need for amendments to the mandate. Advice shall be provided upon request from the Ministry, but may also be given on the initiative of the Executive Board."

During this process, the Council noted information on returns generated and the use of the risk limits in the mandate. Briefings by the Bank's management included a focus on historical performance and relative returns, as well as expectations for future performance and risks.

EXTERNAL PORTFOLIO MANAGEMENT

At the end of 2019, 83 management mandates had been placed with 79 external investment managers around the world. External equity managers are used in emerging markets and to a great extent in segments and markets where it is not appropriate to build up internal expertise. These investment mandates are mainly within the GPF's equity portfolio.

NBIM has established set procedures for selecting, overseeing and terminating agreements with external managers. A separate unit at NBIM is responsible for monitoring managers during the year. As part of the ongoing supervision of NBIM's activities, the Office of the Supervisory Council has developed a model for holding meetings with selected external managers. This model helps select managers in countries where, for example, corruption and ESG⁷⁷ risks are perceived to be high. Information on corruption, environmental issues, human rights, minority shareholder rights and national regulatory conditions in different countries are compared in this model. Data are obtained from publicly available sources.

Ahead of meetings with the external managers, the Office also obtains updated information on governance, economic developments and cultural matters in the relevant country, partly through meetings with the Norwegian Ministry of Foreign Affairs and the relevant Norwegian Embassy. Documentation is also obtained from NBIM's approval process and annual follow-up reports.

In recent years, the Office has had meetings with investment managers in South Africa, Russia, India, Turkey and Poland. In 2019, two managers in Mexico City were visited. Mexico is a country facing considerable challenges in terms of government, corruption and security. The managers with which NBIM has contracts have long experience as investment managers and a good knowledge of the securities market and the governance system in the country.

Through these meetings, the Office gained an insight into the managers' organisation, management strategy and control systems. One focus area was how these managers

monitor the ESG performance of companies in the investment portfolio. Internal guidelines to ensure that ethical, insider-related and reputational issues are taken into account were presented. Briefings were given on how information is obtained to prepare a business case that may subsequently lead to the purchase of shareholdings.

No material problems were identified in these meetings with the managers, but a number of follow-up questions were answered by NBIM. Topics discussed included the local supervisory authorities' regulation of the managers, the role and influence of the investment committee, and remuneration arrangements. Mexican pension funds have historically had very limited allocations to equities, and a high share of Mexican government bonds in their portfolios. A high real interest rate has helped to meet the pension funds' required rates of return. Market expectations of lower real interest rates could mean that the share of equities in their portfolios will need to be increased to provide these required rates of return. This could lead to increased demand for investment management services and put greater pressure on the relatively few established equity managers in Mexico. NBIM is assessing the potential consequences of this for the GPF.

The Office of the Supervisory Council finds that external managers are monitored closely by NBIM. The Council received briefings from the meetings with managers and endorsed the Office's plans to continue this practice of holding meetings with external managers.

ACTIVE OWNERSHIP AND RESPONSIBLE INVESTMENT

The Executive Board has issued principles for responsible management of the GPF. This work is to support the objective of the highest possible return. The Board decides on the exclusion or observation of companies based on ethically motivated guidelines issued by the Ministry of Finance and recommendations from the Council on Ethics. Exclusions can also be reversed following a decision of the Board and on the recommendation of the Council on Ethics. The decisions are minuted and published. In cases where the Board reaches a different decision to the recommendation from the Council on Ethics, importance is attached to communication on these matters being sufficient to enable understanding of the reasons for the Board's decision.

Exclusions of five companies were published in 2019. Seven previous exclusions were revoked, and it was decided to place one company under observation. Norges

⁷⁷ Environmental, social and governance risks.

Bank reports on active ownership and responsible investment quarterly and annually. The Supervisory Council monitors the Board's processes for considering recommendations from the Council on Ethics. In cases where the Board decides on different instruments or has a different assessment to the recommendation from the Council on Ethics, the Council has asked for further information.

Over the years, the Executive Board has published seven expectation documents setting out how Norges Bank expects the companies in which the GPFG invests to approach global challenges. The latest topics covered are tax transparency, anticorruption (money laundering) and ocean sustainability. These expectations reflect the UN's Sustainable Development Goals. Position papers have also been published to address concrete corporate governance issues and form a basis for voting. In addition, NBIM has established a Corporate Governance Advisory Board which advises on the fund's ownership strategy, the exercise of ownership rights, and principles and practices relevant to listed companies in the equity portfolio.

The Council has been informed about the Bank's reporting on responsible investment in the public quarterly reports, the annual publication on responsible investment and the annual report on the GPFG. The Council was also given a demonstration of the IT tool used by NBIM and how voting takes place in practice. The Council has attached importance over time to the Bank's work on responsible investment being principles-based and complying with international recommendations.

INVESTMENT IN UNLISTED COMPANIES, REAL ESTATE AND RENEWABLE ENERGY

It is up to Norges Bank to decide how much is to be invested in unlisted real estate, and which types of property the GPFG is to invest in, within set limits. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

The Council monitors developments in the control structure and areas with particular risks, and it has been important to understand the holding structures for these investments. It also seeks to ensure adequate access to and oversight of these companies. There is to be regular reporting to the Council on investments and holding structures. The Office of the Supervisory Council has monitored developments in real estate management through meetings with the compliance unit at NBIM and a review of the quarterly reporting to the Executive Board.

The Council has issued guidelines on its supervision of companies owned by Norges Bank in connection with the GPFG's investments. Following the introduction of the new Central Bank Act and changes to the management mandate for the GPFG, the Council has approved adjustments to these guidelines. They have been made more general so that they also cover any subsidiaries in the field of renewable energy. The requirements for the choice of auditor at subsidiaries have been simplified and made more principles-based. The Executive Board has updated the principles for the formation, acquisition and supervision of subsidiaries in the management of the GPFG. These principles build on the Supervisory Council's guidelines.

Under Section 2-4 (7) of the Central Bank Act, the Executive Board may decide that activities forming part of the management of the GPFG are to be carried out by separate companies. This applies whether these companies are formed or acquired (in whole or in part) by Norges Bank. It is assumed that, when deciding that activities relating to the management of the GPFG should be carried out at foreign companies, the Executive Board will ensure that the Supervisory Council is afforded real and effective opportunities to conduct direct supervision of the company as set out in Section 4-1 (3) of the Central Bank Act through formal policy/corporate documents.

The right of access is to be regulated through formal policy/corporate documents at the individual company. The Council must at all times be assured of the right to obtain information directly from the CEO, Board and auditor in addition to making enquiries directly into the companies itself. Should local rules prevent access to specific information that may be relevant to supervision, the Executive Board must ensure an alternative arrangement that satisfies the Council's supervisory needs.

Norges Bank's external auditor should be appointed where the Bank has influence over the appointment. If another auditor is already appointed, it must be ensured that this auditor is well reputed and that the auditing of the company is of high quality.

No breaches of these guidelines were presented to the Council in 2019.

SUPERVISORY REVIEWS AND ASSURANCE ENGAGEMENTS

Based on approved supervision plans, the Office of the Supervisory Council submitted one report from a supervisory review, and Deloitte AS reported on two assurance engagements relating to investment management. The Office monitored the extensive work on the assurance statements performed by Deloitte AS. The assurance statements were sent to the Ministry of Finance and published. An information meeting was also held with the Ministry.

Following a resolution of the Council, all of the reports were forwarded to the Executive Board for comment. The Board has so far responded to the supervisory review and one of the assurance engagements. A response to the other assurance report is expected in the course of 2020. In line with the established practice, the Executive Board's response is not forwarded to the Ministry of Finance.

The reports and the Board's responses are presented here.

SUPERVISORY REVIEW OF THIRD-PARTY RISKS IN REAL ESTATE MANAGEMENT – GOVERNANCE AND CONTROL OF RISK RELATING TO SERVICES FOR REAL ESTATE

The Office of the Supervisory Council performed a supervisory review and submitted a report on third-party risk in real estate management.

Owning a property can entail a responsibility for people in and around the building. Fire, terrorist acts and accidents are examples of incidents that could occur. In most cases, these are events that occur regardless of the resources that the owner puts into preventing them. In the case of serious incidents, questions are often asked about whether the owner adequately addressed safety and security at the property.

The GPFG's real estate portfolio consists mainly of office buildings, retail premises and logistics properties. It emerged from the supervisory review that Norges Bank also owns or part-owns around 150 apartments in London. There is a risk that properties that are wholly or partly owned could be affected by serious incidents. It is therefore important that adequate follow-up procedures have been established to prevent this. This also applies to tasks delegated to third parties. A holding structure has been created for these properties which is intended to

shield Norges Bank from economic risks following incidents.

In its review, the Office of the Supervisory Council looked more closely at the risks inherent in owning unlisted real estate, regardless of the form of ownership, and at whether the Bank should be prepared for the reputational consequences of serious incidents affecting life and health.

The supervisory review covered three assessment criteria:

1. Whether an adequate framework has been established for the governance and control of third-party services
2. Whether the Executive Board receives sufficient information to monitor risks associated with third-party services in real estate management
3. Whether there are factors that limit Norges Bank's access and opportunities to obtain information and perform checks, and potentially opportunities to implement risk reduction measures

The main conclusion of the report was that NBIM (previously NBREM) has established an adequate framework for the governance and control of third-party services when it comes to risks to life and health. The Executive Board receives sufficient information to follow up risks associated with these services. Technical requirements for the properties conform to national rules. Absolute requirements could be considered in areas that concern life and health. Ownership of residential properties (apartments) may bring higher risks and this may demand special attention. Holding structures in the US may impose restrictions on opportunities for control and active ownership, and this may entail slightly higher risks for these investments.

The report includes three recommendations to which the Executive Board was invited to respond:

1. It is recommended that the Executive Board considers introducing absolute requirements in certain areas relating to risks to life and health when purchasing properties.
2. It is recommended that the Executive Board considers the need for special monitoring of risks relating to residential properties (apartments) in the portfolio.

3. It is recommended that the Executive Board considers whether operational risks when investing in D-REITs in the US require special monitoring.⁷⁸

The Council endorsed the report's assessments and recommendations. The report was forwarded to the Executive Board.

The Executive Board responded in a letter to the Council. In general, the Board replied that the risks singled out in the supervisory review are addressed by the established risk framework. This is also in keeping with the main conclusion of the review. In addition, the Board replied that investments in unlisted real estate present different challenges for investment management to investments in equities and bonds. The Council's report draws attention to a number of special types of risk associated with real estate management. The review looks at risks to life and health in the fund's real estate investments and, in the Board's opinion, underlines the importance of a sound framework in this area too. The Board will take account of the assessments in the report in future work on the risk framework.

On the recommendations in the report, the Executive Board responded as follows:

Recommendation 1 on introducing absolute requirements when purchasing properties

The Executive Board responds that *"as an investor, commercial player and investment partner, there will be significant challenges in introducing absolute requirements for local activities. In addition, the Bank invests in real estate of high quality and the properties are owned alongside partners that also demand high standards of quality. The Executive Board believes that the current detailed framework for risk management, and the requirements set for purchases of properties, are suited to addressing risks to life and health."*

Recommendation 2 on special monitoring of risks relating to residential properties (apartments)

"No investments have been made specifically in residential real estate (apartments). The residential properties acquired form part of larger transactions where the main use is classified as office or retail. Exposure to residential

real estate by market value makes up 0.4 percent of the Bank's investments in unlisted real estate. The Executive Board's assessment is that both the quality of the buildings in the portfolio and the framework for operational risk management indicate that the operational risk for these investments is addressed appropriately."

Recommendation 3 on assessment of operational risks when investing in D-REITs

The Executive Board replies that *"Norges Bank's unlisted real estate investments in the US are made as minority holdings, and the Bank does not have a controlling influence in these structures. In the same way as when investing in joint ventures, the Bank will enter into a partnership with well-renowned partners in a D-REIT model. These partners will normally demand the same high standards in terms of monitoring and managing health and safety risks as the Bank does. In important cases, partners and managers will seek input from the Bank, and matters that are particularly important to NBIM are set out contractually. Besides the ongoing contact that takes place via NBIM's portfolio managers, NBIM has periodic formal meetings with partners and investment managers. Health and safety risks are regularly discussed. The Executive Board's assessment is therefore that the operational risk in these investments is best addressed through the established risk framework. Within the constraints of the D-REIT corporate form, NBIM takes account of the Bank's interests as a minority owner of the US real estate structures."*

Responding to questions from the Supervisory Council, the Bank's management provided information on identity checks when entering into contracts with third parties and on the consequences of registration errors. Information was also provided on the practice for categorising properties as office and/or retail when investing in unlisted real estate that also includes apartments.

The Council has noted the responses to the recommendations and notes that the Executive Board will take the assessments in the report into account in its future work on the Bank's risk framework.

⁷⁸ More than 50 percent of the shares in a D-REIT (domestically controlled real estate investment trust) must be held by US owners. A REIT must also have at least 100 shareholders. At least 75 percent of its revenue must consist of rent, interest on loans for real estate or income from the sale of real estate. The company must pay out at least 90 percent of its profit to shareholders as dividends.

RISK MANAGEMENT AND CONTROL FRAMEWORK FOR APPROVING MARKETS

Deloitte AS performed an assurance engagement in accordance with an approved plan from the Supervisory Council to assess the risk management and control framework for the approval of markets and issuing countries for government bond investments in the management of the GPFG. The assurance project was carried out before the changes to the mandate for the GPFG were made.⁷⁹ The changes to the mandate mean that the Executive Board must now approve all financial instruments used in the management of the GPFG, and all markets in which it is invested. Operational risks and reputational risks that are considered critical may only be approved by the Executive Board in accordance with a set scale.

In its conclusion and assessments, Deloitte writes:

“Norges Bank’s mandate from the Ministry of Finance sets out the long-term investment strategy for the GPFG, including the fund’s strategic benchmark index and associated limits for its management. The fund’s benchmark indices for equities and bonds are based on broad global indices from leading index providers. The benchmark indices largely reflect the investment opportunity set in global equity and bond markets, and the return on the fund largely follows general market movements. The Ministry’s mandate to Norges Bank also permits the Bank to depart from the benchmark index to a limited extent. Regardless of the composition of the benchmark indices, Norges Bank has an independent responsibility to approve markets within the permitted investment universe.”

The report has a positive overall conclusion, but contains clear recommendations for improvements to processes in this area. Deloitte’s assessment is that risk management and control relating to the approval of markets for investments in equities, bonds and real estate, and of issuing countries for government bond investments, have essentially been designed and implemented in accordance with the chosen measurement criteria.

The review identified a number of issues that could be significant for work on further developing risk management and control relating to market approvals. Input on this work is given, particularly in relation to the risk assessment that is to be drawn up and the recommendation that is to be made when approving a market.

A risk assessment is to be prepared before approving a market. The difference between investment risks and operational risks was not entirely clear, and it was recommended that this is documented more clearly along with the consequences of the reputational risks identified. It was further recommended that the documentation of the recommendation on whether or not to approve a market is strengthened.

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

The Council takes note of the assessments in the assurance report on the risk management and control framework for approving markets.

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

The Council considered the Executive Board’s reply letter and comments on the report. The Board notes the overall conclusion and comments on Deloitte’s observations and presentation of its procedures. It also refers to changes to the management mandate for the GPFG which mean that the Board must now approve markets and financial instruments. The recommendations from Deloitte will be taken into account in work on the new process for approving markets currently being drawn up by the Executive Board.

“As part of the follow-up of the change to the risk framework, the template for the risk assessment used by NBIM for approving markets was updated.

“This template now states clearly which risk factors come under investment risk (the investment mandate) and which risk factors come under operational risks (the Executive Board’s risk tolerance). In the Board’s opinion, these changes, made after the example that was reviewed, address Deloitte’s recommendation to document the difference between investment risks and operational risks, and the reputational consequences of the risks identified.”

“In its assessment of the report from Deloitte, the Executive Board also attached importance to there being a process subsequent to the formal approval of a market at the committee stage, where the Chief Operating Officer and Chief Risk Officer consider the market’s operational functioning. In this phase, test transactions are performed

⁷⁹ With effect from 30 November 2019.

to verify/qualify the assumptions made about the market's operational functioning in the approval. Only after this operational approval will the investment organisation be able to make actual portfolio investments."

"The Executive Board notes that Deloitte also recommends strengthening the documentation of recommendations in the minutes of the meetings of NBIM's internal committee for approving markets, the Investment Universe Committee.

"The Ministry of Finance's mandate for Norges Bank's management of the Government Pension Fund Global was amended with effect from 30 November 2019 and now states in Section 3-10 that it is the Executive Board that is to approve all financial instruments that are to be used and all markets in which investments are to be made. The process for approving financial instruments and markets will be reviewed in the light of this.

"The Board's approval of financial instruments and markets will build on an underlying risk assessment and recommendation from NBIM. In this connection, the requirements for documenting the Board's decisions will also be considered, including relevant risk factors and the form of the recommendation from NBIM to the Board. The report's recommendations will be taken into account in work on the process for approving markets currently being formulated by the Board.

"Work on the process for approving financial instruments and markets is ongoing. The Executive Board will forward its decision and the basis for its decision to the Supervisory Council for information."

The Council passed the following resolution:

The Council takes note of the reply from the Executive Board on the risk management and control framework for approving markets.

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

The Supervisory Council engaged Deloitte AS to perform an independent review of the design and implementation of the Bank's risk management and control framework for defining and implementing the reference portfolio and internal reference indices. The management mandate for the GPFG states that the Bank is to establish principles for

valuation, return measurement and management, and risk measurement, management and control that, as a minimum, adhere to internationally recognised standards and methods. It also requires the maximum possible transparency about investment management to the extent compatible with sound execution of the management assignment, and that public reporting provides a true, fair and comprehensive overview of the Bank's execution of the management assignment, including the Bank's choices and priorities, the performance achieved, and the utilisation of the limits provided in the mandate.

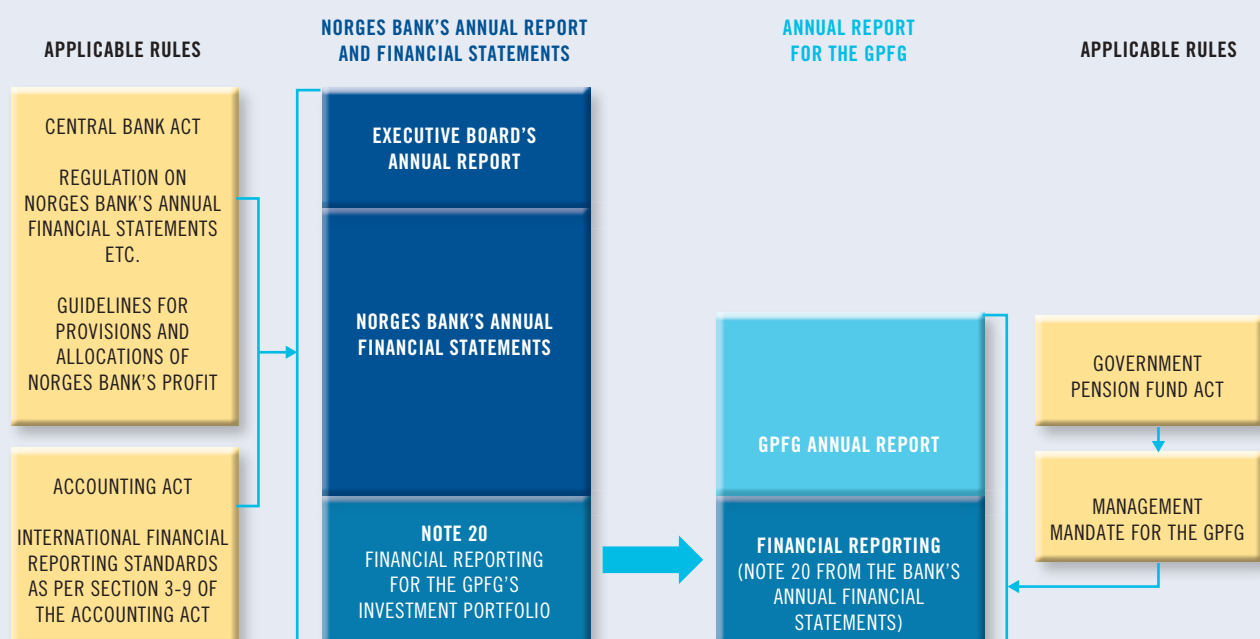
Deloitte AS submitted an assurance statement which was considered by the Supervisory Council at its meeting on 25 March 2020 with the following resolution:

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

Following the Council's consideration, the statement was submitted to the Ministry of Finance in the usual manner and published. The assurance statement and any comments from the Executive Board will be discussed in the Council's report to the Storting for 2020, Document No. 9 (2020-2021).

CHAPTER 7

NORGES BANK'S ANNUAL REPORT AND FINANCIAL STATEMENTS FOR 2019



FRAMEWORK AND PROCESS FOR NORGES BANK'S FINANCIAL REPORTING

The requirements for Norges Bank's financial reporting are set out in the Central Bank Act and provisions on its annual financial statements and guidelines on provisions and allocations of the Bank's profit.⁸⁰ Norges Bank has a statutory obligation to keep accounts under the Accounting Act and the Bookkeeping Act. It is to follow the rules for large enterprises in the Accounting Act. Financial statements are prepared in accordance with International Financial Reporting Standards as set out in the Accounting Act.⁸¹ Special requirements have been issued for the presentation of the GPFG and subsidiaries in the investment portfolio. The Executive Board prepares an annual report and annual financial statements, and the latter are to be approved by the Supervisory Council.⁸²

The Ministry of Finance has placed a certain share of the government's assets as a deposit in a krone account for the Government Pension Fund Global. Norges Bank in turn invests this deposit in its own name in accordance with the management mandate for the GPFG. The deposit, the investments and the returns achieved are presented in Norges Bank's annual financial statements. The same applies to management costs and the management fee approved by the Ministry of Finance. An extract from the Bank's annual financial statements (Note 20) is presented in a separate annual report on the management of the GPFG.

The Bank is also to report periodically during the year on changes in value, results, risk and utilisation of limits in accordance with the mandate for the GPFG from the Ministry of Finance.

The diagram above on Norges Bank's annual report shows the relationship between this reporting and the rules that apply.

The Accounting Act's requirements for reporting on social responsibility apply to Norges Bank.⁸³ Information on social responsibility is provided in the Bank's annual report and financial statements for 2019. Given the public interest in the Bank's operations, the Council has empha-

sised the importance of the Executive Board paying attention to this area. For the 2019 financial year, Deloitte AS has for the first time issued an assurance statement on the information in the chapter of Norges Bank's annual report on responsible investment of the GPFG through to the section "Responsible real estate management in the GPFG". Assurance statements on social responsibility and sustainability have become established over time as good international practice. The Council gave the Executive Board a recommendation to obtain such a statement following a supervisory review in 2018.

The external auditor's work and reporting on the Bank's financial reporting provide assurance for the Council that sound internal procedures have been established, and that the financial statements presented comply with applicable rules.

The annual report, the audited annual financial statements, the auditor's report and the assurance statement, together with the resolution on the Council's consideration of them, are sent to the Ministry of Finance and reported to the Storting. All financial reporting is published on the Bank's website. Requirements for the public disclosure of information on the management of the GPFG are set out in the mandate.

In the Council's opinion, Norges Bank prepares its annual report and annual financial statements in accordance with applicable rules and in so doing ensures transparency about its activities.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS AND REPORTING FOR 2019

Norges Bank's annual report and annual financial statements and the annual report on the management of the GPFG for 2019 were approved by the Executive Board on 5 February 2020. The resolution on the Bank's annual report and financial statements for 2019 was minuted and is included in the Bank's annual report:

⁸⁰ Central Bank Act, Section 4-3 (1) and (2). The financial statements for 2019 are based on the previous act and regulation on the annual financial statements. New provisions and guidelines from the Ministry have entered into force for financial years commencing after 31 December 2019.

⁸¹ Central Bank Act, Section 3-9.

⁸² Section 30 of the previous Norges Bank Act which applies to the financial statements for 2019 reads: "Each year the Executive Board shall prepare an annual report and accounts for the year. The annual financial statements are adopted by the Supervisory Council."

⁸³ Section 3-3c of the Accounting Act requires the Bank to account for what it has done to integrate human rights, labour rights and social, environmental and anticorruption issues.

The Council passed the following resolution at its meeting of 26 February 2020:

- The Supervisory Council takes note of the Annual Report of the Executive Board for 2019.
- The Supervisory Council takes note of the auditor's report and assurance statement on responsible investment and approves Norges Bank's annual financial statements for 2019.
- In accordance with the guidelines, the total comprehensive income of NOK 43.8bn is to be transferred as follows: NOK 14.3bn to the Adjustment Fund and NOK 29.5bn to the Transfer Fund.
- From the Transfer Fund, one third, or NOK 19.7bn, will be transferred to the Treasury.

The transfer from the Transfer Fund to the Treasury for 2018 was NOK 15bn.

The Council passed the following resolution on the annual report on the GPFG for 2019:

The Council takes note of Norges Bank's annual report on the management of the Government Pension Fund Global for 2019, including the Executive Board's assessment of the results and the auditor's report.

Norges Bank's operating expenses totalled NOK 5,419m in 2019 (2018: NOK 5,696m). Costs for the management of the GPFG amounted to NOK 4,312m, corresponding to 80 percent of total expenses. Expenses for the other main tasks of the central bank totalled NOK 1,107m. An assessment of expenditure and the Council's oversight of expenditure are discussed later in this report.

Norges Bank's balance sheet showed total assets of NOK 10,727bn on 31 December 2019. The total for the central bank excluding the GPFG was NOK 643bn. At the end of 2019, the Bank had equity of NOK 263.2bn after the distribution of total comprehensive income, compared with NOK 239.1bn a year earlier. This equity consists of an Adjustment Fund (NOK 223.8bn), which is classified as restricted equity, and a Transfer Fund (NOK 39.4bn), which is the basis for transfers to the Treasury. The Bank's equity is not affected by the krone deposit for the GPFG,

as it is counterbalanced in the balance sheet with financial investments.

The net value of the krone deposit for the GPFG in the balance sheet was NOK 10,083.8bn at the end of 2019 after deducting the management fee. This is an increase of NOK 1,832.4bn on a year earlier. These assets broke down into 69.4 percent equities, 26.5 percent fixed income and 4.1 percent unlisted real estate.

Transfers to the GPFG from the government totalled NOK 13bn in 2019 net of the management fee paid. The fund's growth and composition from inception in 1996 through to the end of 2019 consist of transfers from the government of NOK 3,389bn, returns of NOK 5,358bn before management fees, and NOK 1,390bn from movements in the krone exchange rate.

Fixed fees to external managers came to NOK 611m in 2019 (2018: NOK 724m), while performance-based fees to external managers totalled NOK 291m (NOK 673m).

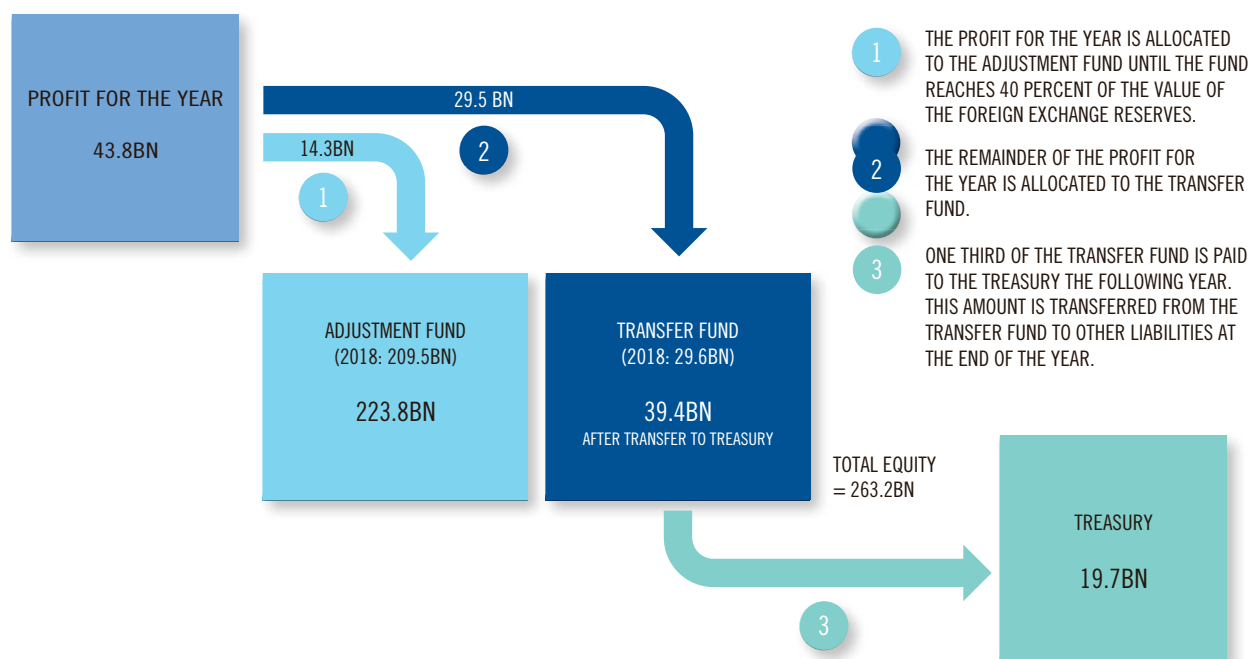
The distribution of Norges Bank's annual profit and the transfer to the Treasury are illustrated in Figure 5.

The management mandate for the GPFG requires the Executive Board to report on its assessment of the results of investment management, including the results of different investment strategies for equity and fixed-income management.⁸⁴ This assessment is included in Norges Bank's annual report on the management of the GPFG for 2019.

In its consideration of the annual reports, the Council asked whether the text of the public reports could be simplified by using less specialist terminology. Does the Executive Board consider the language to be easily understood by a target group defined as "the general public"? The Board's assessment of the results is an example of technically demanding topics in its reporting that are widely publicised.

The Council believes that the Bank's annual report and annual financial statements provide good and adequate information on its activities. Further details can be found in the information on holdings and results in Norges Bank's annual report and financial statements and the report on the management of the GPFG in 2019.

⁸⁴ Management Mandate for the Government Pension Fund Global, Section 6-1 (4) (b).

FIGURE 5 EQUITY, ALLOCATION OF NORGES BANK'S PROFIT (NOK)

* VED KURSREGULERINGSFOND UNDER 25 % AV VALUTARESERVEVERDIEN BLIR HEILE OVERFØRINGSFONDET TILBAKEFØRT.

** VALUTARESERVEVERDIEN BLIR JUSTERT FOR ANDRE FORDRINGAR PÅ / PLIKTER OVERFOR UTlandet.



THE AUDITOR'S REPORTING ON THE ANNUAL FINANCIAL STATEMENTS

When the Council considered the Bank's annual financial statements and reporting on the management of the GPFG for 2019, Deloitte AS provided information on the audit procedures carried out.

In line with established practice, Deloitte AS prepared a management letter presenting the audit performed and items that might be significant for the financial reporting.

Deloitte AS writes: *"In connection with our work, we have provided a number of pointers for the further development of internal control in relation to financial reporting. These pointers have been communicated on an ongoing basis with those responsible at Norges Bank. Our audit did not identify any errors in the financial statements, weaknesses in internal controls or other matters that, in our opinion, require a written report under applicable laws and generally accepted auditing practices. In our opinion, Norges Bank has established adequate internal control in relation to financial reporting."*

In the management letter for 2018, the auditor made an observation regarding IT at NBIM. In the audit for 2019, the auditor confirmed that NBIM has taken a number of steps to follow up the recommendation from 2018.

The Council has taken note of the management letter from Deloitte AS on the audit of Norges Bank for 2019. The management letter was forwarded to the Executive Board after it was considered by the Council.

Three statements were submitted to the Council on Norges Bank's two annual reports for 2019. These statements are included in the respective annual reports. They are:

- Independent auditor's report. A statement on the audit of the annual financial statements
- Independent assurance statement on information on responsible investment of the Government Pension Fund Global for 2019
- Independent auditor's report. A statement on the audit of the financial reporting for the investment

portfolio of the GPFG that forms part of Norges Bank's annual financial statements

The auditor's report on Norges Bank's annual financial statements was unqualified.

"Opinion"

"We have audited the financial statements of Norges Bank which comprise the balance sheet as at 31 December 2019, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

"In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of Norges Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Accounting Act and the regulation concerning annual financial reporting for Norges Bank. The regulation requires the financial statements for Norges Bank to be prepared in accordance with International Financial Reporting Standards as endorsed by the EU, but sets certain specific presentation requirements for the investment portfolio of the Government Pension Fund Global, including subsidiaries being part of the investment portfolio."

The auditor's statement on the financial reporting for the GPFG's investment portfolio was also unqualified and was worded similarly.

In the auditor's reports, key matters that, in the opinion of the auditor, were most important in the audit of the annual financial statements for 2019 are described, and the risks assessed.

Figure 6 presents Deloitte AS's presentation of key audit matters and other significant audit matters in 2019.

In summary, the conclusions on these matters state that Norges Bank has established a series of control activities, and the auditor has not identified any misstatements or other significant non-conformances. The audit tests performed are described. It is confirmed that the information in the notes is adequate.

Statements were also provided on a limited review of the financial reporting for the GPFG for each of the first three quarters of the year, again with an unqualified conclusion. Work on these reports is based on the international standard on review engagements for interim financial information.

The Council has taken note of the auditor's reports and statements on the periodic reporting on the GPFG from Deloitte AS. Reference should also be made to Norges Bank's annual report and financial statements and the reporting on the management of the GPFG for 2019.

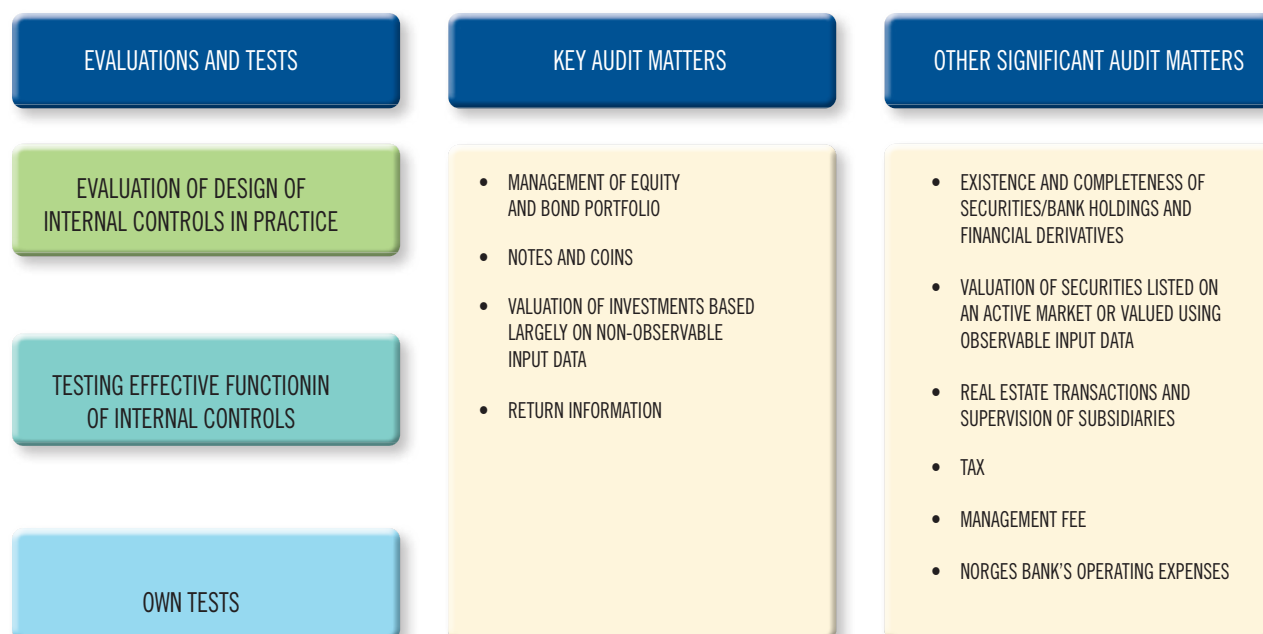
Where subsidiaries in real estate management have appointed their own auditor, the independent auditor's report is submitted directly to the board of each company. These reports are not considered by the Council.

REPORTING ON SOCIAL RESPONSIBILITY

Norges Bank's corporate social responsibility entails responsible investment activities, transparent and clear communication, research and knowledge-sharing, ethical business conduct and the promotion of gender equality, diversity and a sound working environment. The Executive Board's ethical principles for employees require Norges Bank to maintain high ethical standards, respect human rights and behave in a socially responsible manner. The Bank does not accept any form of discrimination or corruption.

Information on the Bank's work on social responsibility in 2019 was provided in a number of reports, the Executive Board's minutes and various items put before the Council during the year. The Board's annual report, the annual report on the management of the GPFG and the dedicated report on responsible investment present the Bank's approach in areas such as ethics, human rights, discrimination and corruption. The Council is keen to see openness in this reporting.

The Bank has adopted an environmental strategy for its activities. The strategy includes a mix of concrete short-term measures and long-term analytical work. The Bank is a member of the Network for Greening the Financial System (NGFS), which brings together central banks and supervisory authorities to exchange experience and share best practices in order to help develop systems for managing environmental and climate risks in the financial sector.

FIGURE 6 MATTERS OF MOST SIGNIFICANCE IN AUDIT OF THE FINANCIAL STATEMENTS FOR 2019

The Supervisory Council has engaged Deloitte AS to perform an independent review of responsible investment in the GPFG. The starting point for this new assurance statement in 2019 was a supervisory review the previous year of the Executive Board's follow-up of the management of the GPFG against the OECD's Guidelines for Multinational Enterprises. It was also noted that the Board has established a set of principles for responsible investment. These are taken into account in policies and guidelines at NBIM.

The supervision report made the recommendation that the Executive Board's reporting on social responsibility should be presented in such a way that it lends itself to external assurance. It is established practice at a number of large enterprises to obtain such external assurance and so contribute to the development of best practice in this area.

The Board has agreed to pave the way for external assurance of its presentation of social responsibility. The Council's agreement with Deloitte AS on a statement from the auditor is based on ISAE 3000. A stepwise model was chosen, with only a limited scope for 2019.

Based on an assessment of materiality and risk, the auditor's work included analyses and interviews with those responsible for work on responsible investment, and spot

checks on parts of the documentation underlying the disclosures in the annual report.

The auditor concluded:

Nothing has come to our attention in our work that gives us reason to conclude other than that:

- Norges Bank has established procedures to identify, collect, collate, document and quality-assure information for 2019 for use in the aforementioned section of the chapter "Responsible investment of the Government Pension Fund Global".
- The information in the aforementioned section of the chapter "Responsible investment of the Government Pension Fund Global" is presented in accordance with the underlying documentation.

Reference should be made to the full Norwegian version of Norges Bank's annual report for 2019, which includes the statement in its entirety.

The Council has taken note of the assurance statement and will monitor developments in this area.

CHAPTER 8

NORGES BANK'S BUDGET
AND EXPENDITURE

Norges Bank's budget is not included in the Storting's consideration of the government budget. This budgetary independence does not apply in other parts of central government, but is common among central banks. Economic and political independence helps ensure an independent role in the conduct of monetary policy and promotion of financial stability. Norges Bank's freedom of action under this arrangement brings expectations of strict budget discipline and close monitoring of expenditure.

Great importance was given to these matters in the preparatory work on the new Central Bank Act entering into force on 1 January 2020. The Supervisory Council's budgetary powers have been retained in the Section 4-2: *"The Supervisory Council shall adopt Norges Bank's budget on the basis of a proposal from the Executive Board. The approved budget shall be communicated to the Ministry."*

The Council believes that it is also important for the Storting to receive information directly on financial management at the central bank. The budget process, the approved budget and reported expenditure are discussed here.

BUDGET RULES AND FINANCIAL RULES

The Council has issued budget rules with general principles for financial management. The annual budget resolution covers the whole of Norges Bank's activities, including the management of the GPFG. At an overarching level, the criteria and assumptions for budgeting are to be consistent across the whole of the Bank.

The Council's budget resolution entails overarching control and approval of Norges Bank's total expected expenditure in the coming year. The Council ensures that the Executive Board has presented clear overviews showing reasonable financial budgets for the Bank's tasks and operations. The Council may request further information from the Board in connection with its assessments.

Based on the budget rules, the Executive Board has issued additional financial rules for the Bank with principles for financial management and the budget process.

To follow up the new Central Bank Act and organisational changes, the budget rules will be updated in 2020. For example, there will be more specific requirements regarding personnel costs, reporting on the status of expenditure against accrued budgets, and forecasts during the

year. It is proposed that the Council should be informed without undue delay of any major strategic changes. The possibility of three-year long-term forecasts at a general level is also being discussed.

Section 5-1 of the management mandate for the GPFG is an important starting point for the budget approval process: *"The Bank shall by 1 December each year send the Ministry a reasoned proposal for a limit on the investment portfolio management costs, based on an investment management cost estimate for the following year. The Ministry shall stipulate the investment management cost limit. The Bank will only be reimbursed for actual costs within the stipulated limit. Any costs in excess of the stipulated limit shall not be reimbursed. Any part of external manager fees which reflects the attainment of excess return shall be reimbursed outside the stipulated investment management cost limit."*

ASSESSMENT OF EXPENDITURE IN 2019

The Council has considered a letter from the Executive Board dated 12 February 2020 with its budget reporting for 2019. This reporting includes a status report on performance against the budget for the Bank's overall operating revenue, operating expenses and capital expenditure, and an overview of significant reallocations and variations. During the Council's consideration of the reporting, the Bank's management provided information on a planned decrease in staff numbers. Questions were asked about the size of costs for IT services, systems, data and information, which totalled NOK 945m in 2019. Information was provided on the main components of these costs.

The Council finds that the requirements in the budget rules have been complied with, and that reported revenue, expenses and capital expenditure are within the approved budget. Information was provided on variations and uncertain items.

The operating loss for the year was NOK 927m, excluding costs for the Office of the Supervisory Council and the Supervisory Council itself. Total operating revenue, including the management fee for the GPFG, was NOK 4.5bn. The total operating expenses of NOK 5.4bn were NOK 472m less than budgeted. The main reasons for this are the item "Other operating expenses" – which includes analysis, consultants and legal support – and lower fees to external managers, both fixed and performance-based, than budgeted.

The budget for capital expenditure for 2019, which extends over several years, is for NOK 227m. The forecast for budgeted capital expenditure is NOK 169m, which is NOK 58m less than budgeted. Capital expenditure in 2019 totalled NOK 150m.

The Council pointed out a need to pay continued attention to cost-effectiveness and economies of scale.

GOVERNANCE AND USE OF RESOURCES

Norges Bank made two major changes to the organisation of its activities in 2019. One was the reintegration of the operational area Norges Bank Real Estate Management (NBREM) into NBIM. The other was the centralisation of various administrative functions under Norges Bank Administration.

The Council monitored work in these areas in 2019. Given that these processes are still under way, it has not been possible to measure or attribute efficiency gains from this reorganisation. However, the Executive Board has expressed an ambition that the formation of NBA will help realise synergies as early as 2020.

Increased co-ordination of administrative functions has previously been called for by the Supervisory Council. In the preparatory work on the new Central Bank Act, the Ministry of Finance was also considered to have wanted this, and in its white paper the Ministry specifically mentioned functions such as communications, human resources, security and contingency planning, finance and IT. The new management mandate for the GPFG entering into force from 30 November 2019 contains a new provision that the Executive Board is to *“ensure that the Bank’s management of the GPFG, including any joint function with other organisational areas of the Bank, is organised in a responsible, efficient and effective manner.”*

The Council takes this to mean that the Executive Board will consider whether other areas should be centralised in addition to those brought together under NBA, and will continue to monitor developments in this area.

RESOLUTION ON THE BANK'S BUDGET FOR 2020

The Executive Board's proposed budget for 2020 covers the whole of Norges Bank's activities, with more detailed presentations of the budgets for NBCBO, NBIM and NBA. Appendices present uncertain and variable costs, benchmarking with other central banks and investment managers, and strategy documents.

A review of the implementation of the new governance model at Norges Bank, including an assessment of the organisation of administrative functions, was conducted in 2019. The aim is to realise synergies and economies of scale during the coming strategy period through the creation of NBA. These efforts are anchored in the Executive Board's *“Strategy 2022: One Bank”*.⁸⁵

In preparation for the Council's consideration of the budget, assessments were made of whether the budget rules had been followed. Norges Bank has followed up comments from the budget approval process in 2019 relating to the organisation of administrative functions, cost levels in the management of the GPFG, and reductions in staff numbers. In addition, the Executive Board has addressed the Council's comment on the use of updated forecasting and accounting data. The budget rules attach importance to the use of relevant cost benchmarking.

The budget shows a net operating loss. Norges Bank's annual profit is dominated by returns and interest from its central banking and investment management activities. This revenue is not budgeted.

Norges Bank receives revenue from services for central government, including the management of the GPFG, and operating revenue from services for banks. The Ministry of Finance determines the size of the management fee. Under the new Central Bank Act, the Bank will no longer have costs for the management of government debt reimbursed. This change equates to a revenue loss of around NOK 45m annually.

The Council's consideration of the budget attaches importance to management costs for the GPFG not exceeding the limit for the reimbursement of costs set by the Ministry of Finance. The Ministry's letter to Norges Bank dated 6 December 2019 on the limit for 2020 was available when the Council considered the budget.

⁸⁵ Strategy for Norges Bank approved by the Executive Board at its meeting of 11 September 2019.

The Ministry writes:

“Under Section 5-1 of the Management Mandate for the Government Pension Fund Global, the Ministry of Finance sets a limit for management costs based on a reasoned proposal from Norges Bank. The Bank will be reimbursed only for actual costs within the stipulated limit. Costs above the limit will not be covered. In addition, Norges

Bank will be reimbursed for the part of the fees paid to external managers that relates to excess return. The cost limit is set for one year at a time.

“Section 5-1 (2) of the mandate previously stated that the limit for management costs should be set as a proportion of assets under management. This provision was amended with effect from 30 November, cf. the Ministry’s letter to

BUDGET RESOLUTION FOR 2020

In accordance with the Central Bank Act and the budget rules for Norges Bank, the Supervisory Council has considered the Executive Board’s proposed budget for Norges Bank for 2020.

With reference to the briefing on the budget from the Chief Financial Officer and the letter from the Ministry of Finance dated 6 December 2019 on the management fee for 2020, the Council hereby approves the following budget for Norges Bank for 2020 (in millions of NOK):

	BUDGET 2020
Management fee, GPFG	4 840
Other operating revenue	119
Total operating revenue, Norges Bank	4 959
Personnel expenses, NBCBO	-383
Other operating expenses, NBCBO	-461
Depreciation, amortisation and impairment losses, NBCBO	-52
Personnel expenses, NBIM	-1 422
Other operating expenses, NBIM	-1 953
Depreciation, amortisation and impairment losses, NBIM	-77
Fees to external managers, NBIM	-1 463
Personnel expenses, NBA	-243
Other operating expenses, NBA	-174
Depreciation, amortisation and impairment losses, NBA	-94
Elimination of shared costs*	314
Elimination of shared costs passed on by NBCBO to SC/OSC	8
Total operating expenses, Norges Bank	-5 599
Operating loss, Norges Bank	-1 040

* Comprises shared costs passed on from NBCBO and NBA to NBIM of NOK 279m (including rent of NOK 26m) and expenses passed on from the Supervisory Council (SC) to NBIM of NOK 35m.

Proposed new investments amount to a total of NOK 53m, breaking down into NOK 43m for Norges Bank Administration (NBA) and NOK 10m for central banking operations (NBCBO). The estimate of previously approved and ongoing investments is NOK 13m.

The Supervisory Council approves a budget for 2020 of NOK 100m for operating expenses at operating companies in the GPFG’s real estate management.

The Council set a budget for supervision and audit costs in a separate resolution at its meeting on 12 December 2019.

Norges Bank’s overall budget will be submitted to the Ministry of Finance in accordance with Section 29 of the Central Bank Act.

the Bank of 29 November 2019. With effect from the 2020 fiscal year, the Ministry will set the limit for management costs as an amount in kroner.”

“The Ministry would stress that it is the return after costs that is most important in realising the fund’s long-term objective. At the same time, the Ministry has a clear expectation that Norges Bank will perform the management of the GPFG cost-effectively and realise economies of scale.”

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

One important change for 2020 is that the annual fee from the Ministry has been set as an amount in kroner. Previously, the limit was set as a percentage share of the fund’s average market value. The decision on the limit for 2020 is presented in the Ministry’s letter: “All things considered, the Ministry of Finance sets the maximum limit for management costs for 2020 at NOK 4.9bn, including costs at subsidiaries set up as part of the real estate investments that are covered by the limit.”

During its consideration of the budget, the Council had comments on the organisation of administrative functions, cost levels in the management of the GPFG, and reductions in staff numbers.

The Bank’s management answered questions from the Council on topics such as:

- Material variable and uncertain assumptions
- Cost benchmarking
- Changes in the level of external management of securities
- Salary principles for senior positions
- The relationship between reductions in personnel costs and staff numbers
- Principles for setting salaries when making organisational changes and changes to positions

The Supervisory Council approved the budget for 2020 at its meeting on 12 December 2019.

The budget assumes 931 permanent employees at Norges Bank at the end of 2020, which is fewer than a year earlier. At the end of 2019, 112 employees at NBCBO and 37 at NBIM were transferred to NBA. The Council does not pass resolutions on the number of employees at the Bank.

The budget shows total operating revenue of NOK 4,959m, of which the management fee for the GPFG accounts for NOK 4,840m. The fee for 2019 was NOK 4,312m.

CAPITALISED INVESTMENT PROJECTS

International Financial Reporting Standards define what can be classified as an investment project.

Total capital expenditure includes new investments and the continuation in 2020 of ongoing investments decided on previously. Table 1 presents an overview of investments with figures for previously approved investments continuing in 2020, the total budget for new and ongoing investments, and the forecast for 2020:

New investments in 2020 are estimated at NOK 53m. Including previously approved and ongoing investments brought forward to 2020, the Bank’s total budget for

TABLE 1 INVESTMENT BUDGET (NOKM)

PLANNED INVESTMENTS	PREVIOUSLY APPROVED AND ONGOING INVESTMENTS	NEW INVESTMENTS APPROVED FROM 2020	TOTAL AVAILABLE	FORECAST USAGE IN 2019
NBCBO				
NBIM	0	0	0	0
NBA	0	43	43	43
Total	13	53	66	63

capital expenditure amounts to NOK 66m. No new investment projects are planned at NBIM.

The Supervisory Council pays close attention to the Executive Board's cost management. It looks positively on the consideration of relevant cost benchmarking in the budget process. The Council will monitor changes to operational strategies and the management of costs, including the development of NBA and related savings over time.

BUDGET FOR SUBSIDIARIES IN THE GPFG'S REAL ESTATE MANAGEMENT

Under the budget rules, a budget for investment management costs at subsidiaries that are part of the management of the GPFG's real estate investments is to be submitted to the Council. Total operating expenses at wholly-owned operating subsidiaries are budgeted at NOK 88m for 2020. The boards of these companies pass budget resolutions based on plans for their operations. The cost limit from the Ministry of Finance also includes these management costs. Other operating expenses at wholly and partly owned real estate companies related to ongoing maintenance and the operation of buildings and leases are not covered by the budget process. These expenses are charged directly to the companies' own accounts and offset against returns generated.

BUDGET RESOLUTION FOR THE COUNCIL'S OWN ACTIVITIES

At its meeting on 12 December 2019, the Council also approved a budget for 2020 for the Supervisory Council itself, the Office of the Supervisory Council and the external auditor, totalling NOK 49.9m. See also the discussion of the Council's activities and expenditure in 2019 in Table 2 in Chapter 10 below.

The budget for the Council's own activities is NOK 4.2m. This covers all fixed and variable fees, meeting costs, seminars and study trips including travel expenses, based on the meeting schedule set for 2020. The Storting has set the fees for the Supervisory Council with effect from 1 January 2020 in accordance with Recommendation 54 S (2019-2020).

Supervisory Council:

- Chair NOK 66,100 per annum
- Deputy Chair NOK 44,100 per annum
- Other members NOK 33,100 per annum

Permanent Committee:

- Chair NOK 99,100 per annum
- Deputy chair NOK 66,100 per annum
- Other members NOK 66,100 per annum
- Alternates NOK 3,800 per annum

The budget for the Office of the Supervisory Council is based on eight FTEs. Its budget of NOK 26.8m covers salary, personnel and pension costs and external training amounting to NOK 14.0m. Rent and a share of shared costs under the service agreement with Norges Bank come to NOK 7.9m and are eliminated in the resolution on the Bank's budget. Based on the supervision plan for 2020, NOK 4.0m has been budgeted for purchases of specialist services from external experts.

Audit fees of NOK 16.1m have been budgeted for Deloitte AS's financial audit of Norges Bank's financial statements. Of this, NOK 2.0m relates to the limited review of the GPFG's interim financial reporting and assurance on return data. The external auditor's fees are based on the fixed price in the engagement agreement, adjusted in line with the agreed price index. A further NOK 2.8m has been budgeted as a limit for the Office of the Supervisory Council's use of consulting services in connection with assurance projects.

CHAPTER 9

PRIORITIES FOR FUTURE SUPERVISORY ACTIVITIES



The Supervisory Council attaches great importance to the development of its supervision, and besides carrying out its statutory tasks it aims to contribute to transparency about Norges Bank's activities. A planning document for 2019-2021 has been produced setting out the Council's role and duties. The action plan is evaluated and adjusted annually and now covers the following activities:

- Further development of control and supervision work
- Openness and communication
- Skills development

The Council adopts a supervision plan each year which sets out the areas that are relevant for continuous monitoring, and the main areas for more detailed reviews performed by the Office of the Supervisory Council. The approved supervision plan for the Office in 2020 has a particular emphasis on the provisions of relevant legislation and the mandate for the GPFG. As usual, the supervision plan has been sent to the Executive Board and the Ministry of Finance for information.

Strategies for the period 2020-2022 have been adopted for both Norges Bank and the management of the GPFG. Supervision will include monitoring the Board's day-to-day operations and compliance with the rules for the Bank and will have a special focus in 2020 on the implementation of strategic choices in the governance frameworks and reporting.

The Board's cost management is monitored through reporting on expenditure, performance and budget management. Following up budget resolutions and status reports is important. Work has begun on updating the budget rules that will apply to reporting in 2020 and the budget for 2021.

Each year, a number of topics are selected for supervision and testing based on relevance and risk assessments. The Office of the Supervisory Council has identified several areas for special attention in its ongoing supervision of compliance and operations in 2020, including:

- Formation and organisation of NBA
- Security
- Choice of IT suppliers and management of IT security
- Reporting on compliance, return and risk
- Meetings with external investment managers
- Reporting on the governance and operation of real estate management and investments in unlisted renewable energy infrastructure
- Security and administration at international offices
- The role of issuer, security and inventory management for banknotes and coins

The plan for 2020 includes the following four main areas for supervisory reviews:

1. Investments in unlisted real estate. Ownership structures, governance models
2. The Executive Board's frameworks for and organisation of governance and control
3. Compliance with rules on money laundering and terrorist financing
4. Norges Bank's operations in the krone market, currency transactions

The Council will prioritise the following in the implementation of these supervisory reviews:

1. Investments are made on the basis of multiple objectives. When investing in unlisted real estate, various holding structures are used to deal with liability and tax issues. The complex picture when it comes to governance and control of investments in unlisted real estate merits regular reviews in this area. In this review, the Council will address requirements in the Central Bank Act and the management mandate for the GPFG.
2. The new Central Bank Act and follow-up of the act have brought clarifications of the Executive Board's responsibility for governance and control at the Bank. With a broad set of duties and responsibilities, there is a risk that of gaps in its work, discussions and reporting. This risk can be reduced through common frameworks and good organisation. In this review, the Council will address requirements in the Central Bank Act, the management mandate for the GPFG and the provisions of the Internal Control Regulation.
3. There is a need to analyse situations where the central bank may be exposed to money laundering and terrorist financing. Consideration also needs to be given to whether the management of the GPFG entails such a risk. Contractual counterparties may be exposed. The risk of money laundering is considered to be challenging to analyse and identify, and methods and a culture need to be developed to identify relevant areas. In its review, the Council will address the requirements of the Anti-Money Laundering Act, the Executive Board's principles for following up the money laundering rules, and the Internal Control Regulation.
4. Norges Bank's role in exchanging currency for central government must not become confused with its work on achieving monetary policy goals. Clear guidelines, clear communication and consistent execution will help clarify this. In its review, the Council will address requirements in the Central Bank Act and applicable agreements and guidelines governing the Bank's performance of tasks for the government.

CHAPTER 10

THE COUNCIL'S ORGANISATION AND EXPENDITURE



Portraits of Council chairs since Norges Bank's formation in 1816

SUPERVISORY COUNCIL

Under the Central Bank Act, the Supervisory Council is one of three governing bodies at Norges Bank.⁸⁶ Its members are appointed by the Storting to conduct supervision and control of Norges Bank. In 2019, the Council had 15 full members and two alternate members elected by the Storting. The two alternates attended and could speak at all Council meetings.

The Council's chair and deputy chair in 2019 were Julie Brodtkorb and Reidar Sandal respectively, appointed by the Storting for the period 2018-2019. The Storting has reappointed the same chair and deputy chair for 2020-2021.

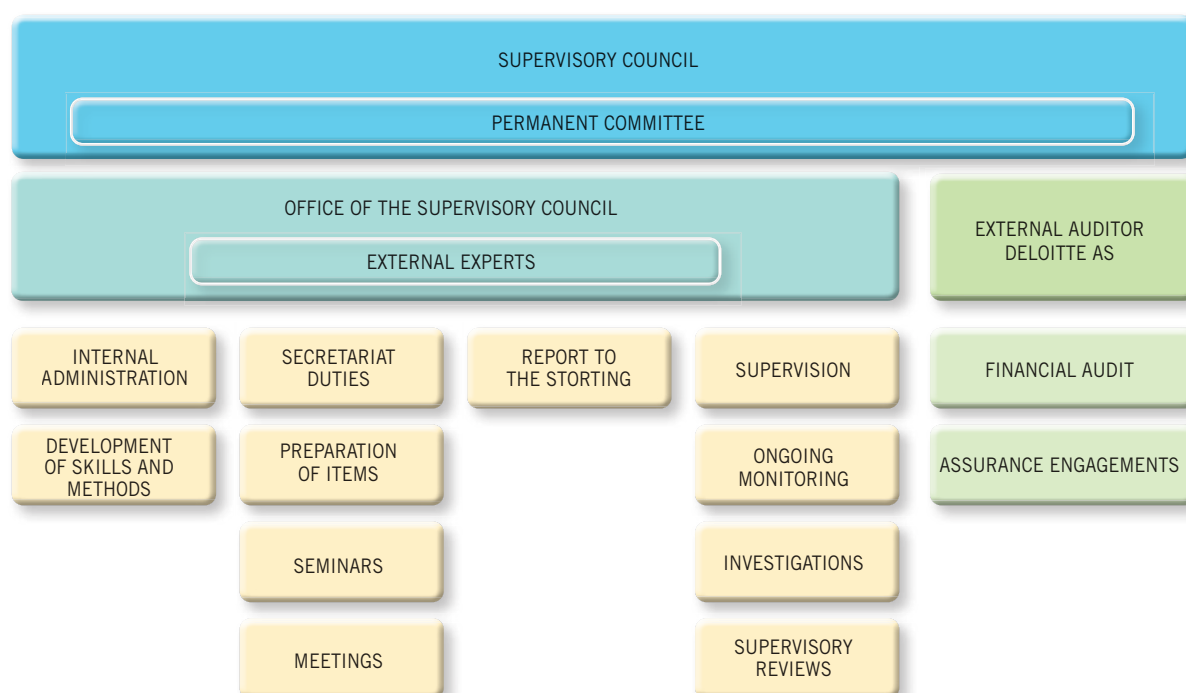
Elections are held every second year, alternating between the appointment of seven members and eight members, each for a term of four years. Members may be re-elected to serve up to eight years in total under the new act. In the election of members to serve from 1 January 2020, the Storting re-elected Ingrid Fiskaa. Seven new members were elected for the period 2020-2023: Marianne Aasen,

Truls Wickholm, Eirin Sund, Harald Espedal, Kari Anne Sand, Line Henriette Holten and Lars Tvete. The last of these was an attending alternate member in the previous period. Seven members – Kjetil Lund, Randi Øverland, Vidar Bjørnstad, Tormod Andreassen, Helle Hammer, Ingebrigt S. Sørfohn and Morten Lund – and the alternate member Jonas Varhaug retired.

Members of the Council collectively have broad expertise and experience from key areas of Norwegian society, public administration and industry. Four of the permanent members in 2019, or 27 percent, were women. In the new period 2020-2021, the share of women has risen to six out of 15 members, or 40 percent.

The Council's members are covered by the duty of confidentiality set out in Section 5-2 of the Central Bank Act. Under the Council's rules of procedure, it is the chair – or a person nominated by the chair – who makes public statements on behalf of the Council.

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



⁸⁶ Central Bank Act, Section 2-1: "Norges Bank shall have an Executive Board, a Monetary Policy and Financial Stability Committee and a Supervisory Council."

PERMANENT COMMITTEE

The Permanent Committee is a working committee that prepares and submits recommendations for decisions on matters to be considered by the Council. It consists of the Council's chair and deputy chair and three other members elected by and from the Council's full members for a term of two years. For 2020-2021, the committee comprises Julie Brodtkorb (chair), Reidar Sandal (deputy chair), Gjermund Hagesæter, Paul Birger Torgnes and Marianne Aasen. The last three members and five personal alternates were elected at the Council's inaugural meeting on 16 January 2020.

The Permanent Committee works to a mandate issued by the Supervisory Council. As a committee of the Supervisory Council, the Permanent Committee has the right of access to all of the Bank's affairs. The Committee has no powers to take decisions on behalf of the Council. With support from the Office of the Supervisory Council, the Permanent Committee sets the agenda for coming meetings of the Supervisory Council, prepares items for the meetings, and presents proposals for resolutions. The minutes of the Committee's meetings are circulated with the meeting documentation and present significant discussions and briefings.

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

OFFICE OF THE SUPERVISORY COUNCIL

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

The Office reports directly to the Council, independently of both the Executive Board and the Bank's management.⁸⁷ The Director takes part in meetings of the Council and the Permanent Committee and may bring along experts. These may be employees of the Office, representatives of the external auditor, or others. The Office's employees have a right to attend meetings of the Supervisory Council when it is considering administrative matters concerning the Office. Where matters concern the Office's

employees, the Council is to represent Norges Bank as employer.

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

When it comes to the Office of the Supervisory Council, emphasis is given to a strong professional environment characterised by Norges Bank's values: team spirit, integrity, innovation and excellence. Skills development is important in order to understand and assess important trends. Development opportunities come from strong professional networks, access to specialist resources and regular contact with the Bank's management and operational areas, and are important for retaining skilled staff.

Besides participating in relevant courses and conferences, the Office hosts regular meetings and technical seminars on its own account. Speakers are sourced from various centres of expertise, via international contacts and from the Bank's operational areas. This skills building is very important both for supervisory reviews and for preparations for the Supervisory Council's work.

Topics for technical seminars have included intercultural communication and awareness, briefings on the Bank's international network, cloud solutions and IT security/risk, investments in unlisted infrastructure, and developments in internal auditing in the financial sector. At one such seminar, NBIM provided information on its choices of cloud-based services and the risks associated with cloud solutions, in terms of efficiency, security and flexibility.

The Office of the Supervisory Council organised a seminar with participants from the Bank's IT security units. The Norwegian Computing Centre gave a presentation on

⁸⁷ *Central Bank Act, Section 2-16 (5).*

FINSEC88, a development project on IT security in the financial sector under the European Commission.

The Office holds regular meetings with the Ministry of Finance to exchange information relevant to the supervision of the management of the GPFG. These meetings include briefings on the Council's report to the Storting, annual supervision plans and the supervisory and audit activities performed.

MEETINGS AND ITEMS CONSIDERED

The Council held six ordinary meetings in 2019.

The Permanent Committee had six ordinary meetings. There was also a telephone meeting to consider a statement to the Ministry of Finance on changes to the mandate for the GPFG.

The Council considered a total of 90 items during the year, including the minutes of its own meetings. A further 13 items in the form of technical reports and other supplementary information about Norges Bank's operations were presented.

Figure 8 provides a breakdown of the items considered by the Council in 2019 between Norges Bank's operations and the Council's administrative matters. Eighty-two of these items concerned the supervision of the Bank's activities. These included the minutes of the Executive

Board's meetings. Numerous items concerning Norges Bank at a general, overarching level were considered in 2019. These related particularly to the implications of the new Central Bank Act and the ensuing amendments to regulations and mandates and work on changes to the organisation. Reporting on investment management accounts for a substantial share of the items considered.

The Council attends the Governor's annual address, since 1986 entitled "Economic perspectives". The chair of the Council welcomes guests on behalf of Norges Bank. The Governor covers a broad range of topics that are important for Norges Bank's economic choices. This tradition dates right back to 1922. Representatives of the Storting, the government, the financial sector, academia, and other parts of industry and society are invited. Thanks to extensive media coverage, the address reaches a considerable audience and makes a useful contribution to the Bank's transparency and role in providing advice and informing the public.

COSTS AND EXPENDITURE

Reporting on the Council's expenditure is reconciled with the approved annual budget. This expenditure also covers the Office of the Supervisory Council, the external auditor and the use of external advisers, and is included in the Bank's overall annual financial statements.

FIGURE 8 MATTERS CONSIDERED BY THE SUPERVISORY COUNCIL IN 2019

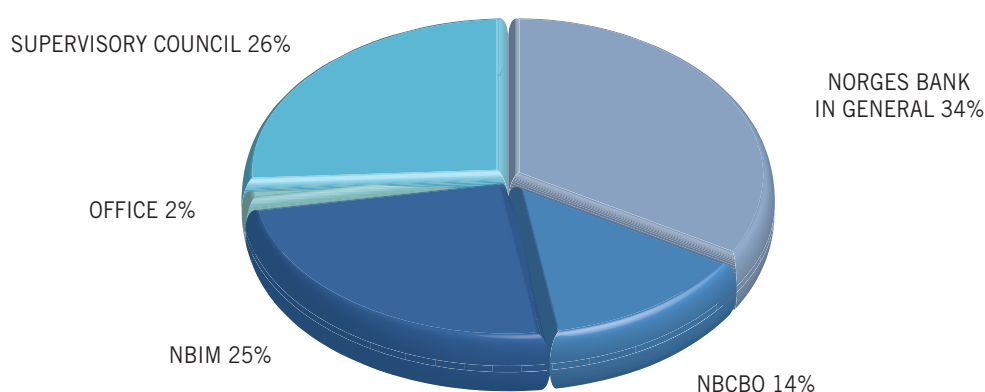


TABLE 2 FIXED FEES IN 2019

FIXED ANNUAL FEES	SUPERVISORY COUNCIL	PERMANENT COMMITTEE	TOTAL PER MEMBER	TOTAL FIXED FEES
Chair	62,400	93,500	155,900	155,900
Deputy chair	41,600	62,400	104,000	104,000
Three other members of the Permanent Committee	31,200	62,400	93,600	280,800
Ten other members of the Supervisory Council	31,200		31,200	312,000
Two permanently attending alternates	31,200		31,200	62,400
Total fixed fees paid				915,100

The Storting sets the rates for the fixed fees paid to members of the Supervisory Council and the Permanent Committee.⁸⁹ Fees paid to members of the Council in 2019 totalled NOK 1,096,300 (2018: NOK 1,125,833). Fixed fees amounted to NOK 915,100. A breakdown of rates per member and fixed fees paid can be found in Table 2.

Total fees of NOK 7,200 were paid to attending alternate members of the Permanent Committee in 2019. Documented losses of earnings due to travel to and attendance of meetings are also reimbursed in line with criteria set by the Council. These amounted to NOK 174,000 in 2019 (2018: NOK 199,933).⁹⁰

The Council's total expenditure in 2019 was NOK 42.7m. Table 3 gives a breakdown of this expenditure. The Coun-

cil's costs came in NOK 1.1m below budget. This was due partly to lower costs than planned for the study trip made.

The Office has entered into a service agreement with Norges Bank. The agreement covers the provision of administrative services to meet the Office's ongoing needs. This includes the use of offices and other premises, security and contingency planning, archiving, use of IT hardware, payroll and personnel services, and canteen and conference facilities. It also includes relevant services for the Council such as arrangements for meetings, travel security, agreements with travel agents, and payment of fees. The agreement helps safeguard the independent position of the Office and the Council. Costs under this agreement amounted to NOK 10.3m in 2019.



89

90 This amount includes allowances for holiday pay and supplements for trips abroad.

TABLE 3 THE SUPERVISORY COUNCIL'S EXPENDITURE

THOUSANDS OF NOK	BUDGET	ACTUAL	BUDGET	ACTUAL
	2020	2019	2019	2018
Supervisory Council	4,204	3,201	4,319	3,849
Office of the Supervisory Council	26,840	21,507	27,391	25,451
Assurance engagements	2,800	2,585	3,000	1,021
Statutory audit	16,100	15,455	15,656	15,046
Total	49,944	42,748	50,366	45,367

Costs for the Office of the Supervisory Council were slightly lower than budgeted. There was significantly less use of external consultants outside Norway, especially in the supervision of investment management and for legal matters. More internal expertise is being built up when it comes to investment management.

The Director of the Office of the Supervisory Council was paid a salary of NOK 2,016,472 in 2019 (2018: NOK 1,969,477). Pension contributions amounted to NOK 415,450, and other benefits (electronic communication, insurance and other payments in kind) came to NOK 13,538.

Costs for the statutory audit came to NOK 15.5m, with around 6,300 hours billed in 2019. The audit fee is based

on the terms of the engagement agreement and is subject to the Council's approval. Deloitte AS also receives fees for assurance statements concerning the treasury single account and the management of government debt, and for assurance engagements relating to supervision under separate agreements and based on itemised invoices. It is estimated that 85 percent of expenditure on supervisory and auditing services relates to investment management.

Fees for auditing subsidiaries formed by Norges Bank for use exclusively in the management of the GPFG are charged to the companies directly and are paid to the respective audit firms. These fees amounted to NOK 7.5m in 2019.

The timeline below shows the Supervisory Council's activities in 2019.

MAY**23 May**

Government debt management
Notes and coins
Audit plan, external auditor

4 May

Committee hearing
on Doc. No. 9

SEPTEMBER**5 September**

Semi-annual reporting
Pension scheme
Committee recommendation
on Doc. No. 9

4 September

Seminar on Bank's international
activities

23–25 September

Study trip to Basel and Zürich
Financial Stability Board
Bank for International Settlements
Swiss National Bank

NOVEMBER**7 November**

Annual report on
financial stability
Quarterly reporting

DECEMBER**12 December**

Budget for
Norges Bank
Supervision plan
Self-assessment

APPENDIX

MEMBERS OF THE SUPERVISORY
COUNCIL 2020–2021

MEMBERS OF THE SUPERVISORY COUNCIL 2020–2021

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

PERMANENT COMMITTEE

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

PROFILES OF COUNCIL MEMBERS



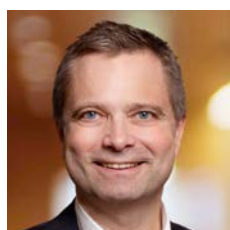
Julie Brodtkorb, chair

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



Reidar Sandal, deputy chair

- Consultant
- Executive chair of Kystvegen Måløy – Florø AS and board member of Helse Førde HF
- Past experience includes Minister of Education, Research and Church Affairs, member of the Storting and chairman of its Standing Committee on Finance and Economic Affairs, county councillor, teacher, director of education at Sogn og Fjordane County Municipality, adviser to Botnaneset Industriselskap AS, CEO of Sunnfjord Chamber of Commerce, chairman of Fjord1 AS, Nynorsk kultursentrum, Sunnfjord Næringsutvikling AS and Innovation Norway, and board member at Investinor AS
- MA from the University of Bergen



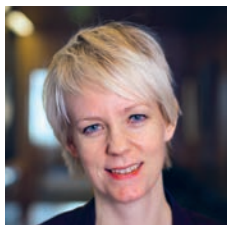
Harald Espedal

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



Pål Farstad

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



Ingrid Fiskaa

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



Gjermund Hagesæter

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



Line Henriette Holten

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



Kari Anne Sand

- Teacher at Kongsberg Upper Secondary School
- Mayor and municipal executive committee member in Kongsberg, deputy director of KS Viken
- Past experience includes member of Buskerud County Council, project manager at the Norwegian Agrarian Association, specialist at Landbrukshelsen and lower-level teacher at Kongsberg Upper Secondary School
- MA in Norwegian from the University of South-Eastern Norway



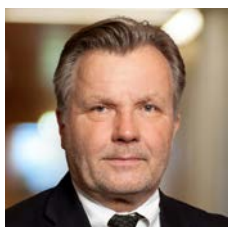
Eirin Sund

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



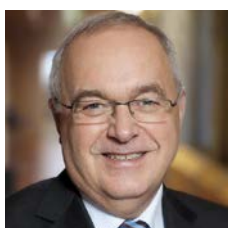
Morten Sjøberg

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



Ib Thomsen

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



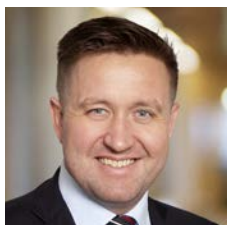
Paul Birger Torgnes

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



Lars Tvete

- Chairman and owner of LBT Holding AS
- Member of Trøndelag County Council, board member at Thomas Angells Stiftelser, and supervisory board member at SpareBank 1 SMN
- Past experience includes member of Trondheim City Council, CEO of Basale Eiendomsforvaltning AS, board member at BN kreditt, chair of Trondheim Municipal Pension Fund, and adviser to and board member of various large real estate companies
- Economics degree from Trondheim Business College



Truls Wickholm

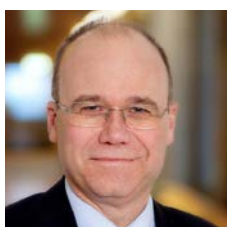
- Mayor and municipal executive committee member in Nesodden
- Past experience includes member of the Storting and its Standing Committees on Finance and Economic Affairs, Transport and Communications, and Education, Research and Church Affairs, electrician at Hafslund, board member of EL & IT Oslo,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



Marianne Aasen

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

OFFICE OF THE SUPERVISORY COUNCIL



Jan Frode Jakobsen

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

THE OFFICE'S OTHER EMPLOYEES

Randi Ingun Almås	Deputy director
Berit Langelo	Senior adviser
Kristian Magnus Langseth	Special adviser
Anne Gullhagen Larsen	Special adviser
Mats Leonhard Pedersen	Special adviser
Lise Taylor	Administrative co-ordinator

Norges Bank Supervisory Council
Report for 2019

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