

---

# NORGES BANK'S SUPERVISORY COUNCIL REPORT FOR 2015

---

Document No. 9 (2015–2016)

---





---

---

# NORGES BANK'S SUPERVISORY COUNCIL REPORT FOR 2015

Document No. 9 (2015–2016)

---



## TO THE STORTING

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

In 2015, the Council paid special attention to the Executive Board's work on regulatory compliance and adjustments to the organisation and management model. With regard to the running of the central bank, the Council was particularly interested in the organisation of investment management and the expansion and risk management of real estate investments in the GPFG. Assessments were made of the Executive Board's oversight of risks and returns and management of country risk and corruption risk. The Board's control of security and contingency planning, both physical and ICT-related, and the management of the central bank's role in the Norwegian payment system and the monitoring of the financial infrastructure are key elements of the Council's supervision.

Changes to the legislation concerning governance at Norges Bank and the work of the Supervisory Council were announced in 2015. The arrangement whereby the Council had to approve the formation of subsidiaries in the management of the GPFG was discontinued from 1 January 2016. The Council attaches importance to appropriate supervision and auditing of such companies.

The Council is keen to contribute actively to, and have a rewarding dialogue with, the committee assessing the regulatory framework for the central bank, and input has been provided.

The Council has considered the Bank's annual report and adopted its annual financial statements for 2015. The Bank's reports on the management of the GPFG and responsible investment in 2015 have also been considered. The value of the GPFG's assets increased by almost NOK 1,044bn during the year. A more detailed presentation of the Bank's activities can be found in the aforementioned reports.

Norges Bank had equity of NOK 245.4bn on 31 December 2015, including comprehensive income for the year of NOK 66.1bn. In accordance with the guidelines on provisions and allocations of the Bank's profit, NOK 26.6bn was allocated for transfer to the Treasury. Such transfers to the Treasury were last made in 2014 and 2001.

The Council adopted this report on the supervision of Norges Bank in 2015 at its meeting of 17 March 2016, and the report is hereby presented to the Storting.

Oslo, 17 March 2016  
Reidar Sandal  
Chairman of Norges Bank's Supervisory Council



---

# CONTENTS

---

<b>1. Summary and main conclusions</b>	<b>6</b>
Executive summary of the report	6
Main conclusions for 2015	7
<b>2. The Supervisory Council's work</b>	<b>9</b>
The Supervisory Council's role and responsibilities	9
Organisation of the supervision of Norges Bank	11
Activities and expenditure in 2015	17
The Supervisory Council's approach to supervision	21
<b>3. Supervision of overall management and control at Norges Bank</b>	<b>27</b>
Norges Bank's operations	27
The Executive Board's oversight	30
Supervisory activities and conclusions in 2015	31
<b>4. Supervision of central banking</b>	<b>35</b>
Responsibilities and organisation of Central Banking Operations (CBO)	35
The Executive Board's oversight	35
Supervisory activities and conclusions in 2015	35
<b>5. Supervision of investment management</b>	<b>43</b>
Responsibilities and organisation of Norges Bank Investment Management (NBIM)	43
The Executive Board's oversight	43
Supervisory activities and conclusions in 2015	44
<b>6. Norges Bank's budget and annual financial statements</b>	<b>51</b>
Budgeting and accounting processes	51
Norges Bank's annual report and financial statements for 2015	53
Oversight of Norges Bank's expenditure	55
<b>7. Assessment of the Executive Board's management and control</b>	<b>59</b>
<b>8. Priorities for future supervisory activities</b>	<b>61</b>
<b>Appendix</b>	
1. Norges Bank's Supervisory Council 2016-2017	63
2. Glossary	68

## CHAPTER 1

# SUMMARY AND MAIN CONCLUSIONS

### EXECUTIVE SUMMARY OF THE REPORT

Pursuant to Section 5 of the Norges Bank Act, the Supervisory Council supervised the running of the Bank and ensured that the rules governing the Bank's operations were observed in 2015. The Council reports on the minutes of Executive Board meetings, the supervision of the Bank and matters submitted to it by the Board.

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

The Council's report to the Storting for 2014 (Document No. 9 (2014–2015)) set out priorities for future supervisory activities. These priorities have largely been realised.

The Council monitored developments in the regulatory framework for the central bank in general and the management of the GPFG in particular. Statements were issued on legislative changes affecting the governance of Norges Bank and the work of the Council. Attention was paid to the Executive Board's work on regulatory compliance and adjustments to the organisation and management model. The Council monitored the Board's implementation of strategies and action plans and oversight of internal control, risks and expenditure in the Bank's operational areas.

This report provides an overview of the Council's activities, expenditure and methodology in 2015. It also covers the supervision of the Board's overall management and control, and the supervision of central banking and investment management.

The minutes of Executive Board meetings play an important role in the Council's supervisory activities, as they provide an overview of the matters considered by the

Board and a basis for requesting additional information or clarifications. Many of the matters considered by the Board in 2015 were also presented to the Council. Reports and statements from the Office of the Supervisory Council and the external auditor were also discussed. In 2015, the Council paid particular attention to the Board's management and organisation of real estate investments.

The year also saw a supervisory review of overall governance at Norges Bank. Monitoring work on security and contingency planning was given high priority, and there was a review of cybersecurity in Norges Bank's settlement system.

On the investment management side, supervisory reviews were conducted of the outsourcing of ICT services, country risk, corruption risk, real estate management, and oversight of risks and returns. The reviews were carried out by the Office of the Supervisory Board in close collaboration with the external auditor and expert advisers. A framework agreement was entered into during the year with an international investment management consulting firm which assisted with the supervision of the GPFG's management.

The Council closely monitors reporting on the management of the GPFG, with a particular focus on compliance with the mandate and guidelines from the Ministry of Finance. Matters relating to responsible investment were given particular attention. New guidelines on observation and exclusion from the GPFG entered into force on 1 January 2015, with the power to decide on exclusions being transferred from the Ministry of Finance to Norges Bank. The Council monitored the Executive Board's organisation and handling of recommendations from the Council on Ethics.

The Council has approved the Executive Board's annual report and adopted the annual financial statements for Norges Bank for 2015. The financial statements show a profit for the year of NOK 66.1bn and equity of NOK 245.4bn at 31 December 2015. In accordance with the applicable guidelines, NOK 26.6bn of the profit for the year was allocated for transfer to the Treasury.



The market value of the GPFG's investment portfolio was NOK 7,475bn at the end of 2015. This was an increase of NOK 1,044bn on a year earlier, more than half of which was due to the depreciation of the krone. The return for the year was NOK 334bn, while new capital of NOK 42bn was transferred from the government.

With the engagement agreement with Deloitte AS due to expire after the 2015 financial year, an open call for tenders was held for the provision of auditing services. The Council reappointed Deloitte AS as auditor of Norges Bank for a period of six years.

The Council's budget rules for Norges Bank were revised on the basis of the assessments and recommendations from a 2014 report, and the amended version is effective from 2016.

It is important to the Supervisory Council that Norges Bank is open about its activities, within set limits. This also applies to the work of the Council, and the minutes of its meetings are publicly available.

## MAIN CONCLUSIONS FOR 2015

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

The minutes of Executive Board meetings in 2015 have been reviewed by the Council. Questions were raised about specific matters, and the Central Bank Governor gave satisfactory explanations. No particular remarks on the Board's minutes were minuted.

The Council considers that the Board exercised satisfactory management and control of Norges Bank's operations in 2015 in accordance with the Norges Bank Act, the mandate and guidelines for the management of the GPFG and the regulation on risk management and internal control at the Bank.

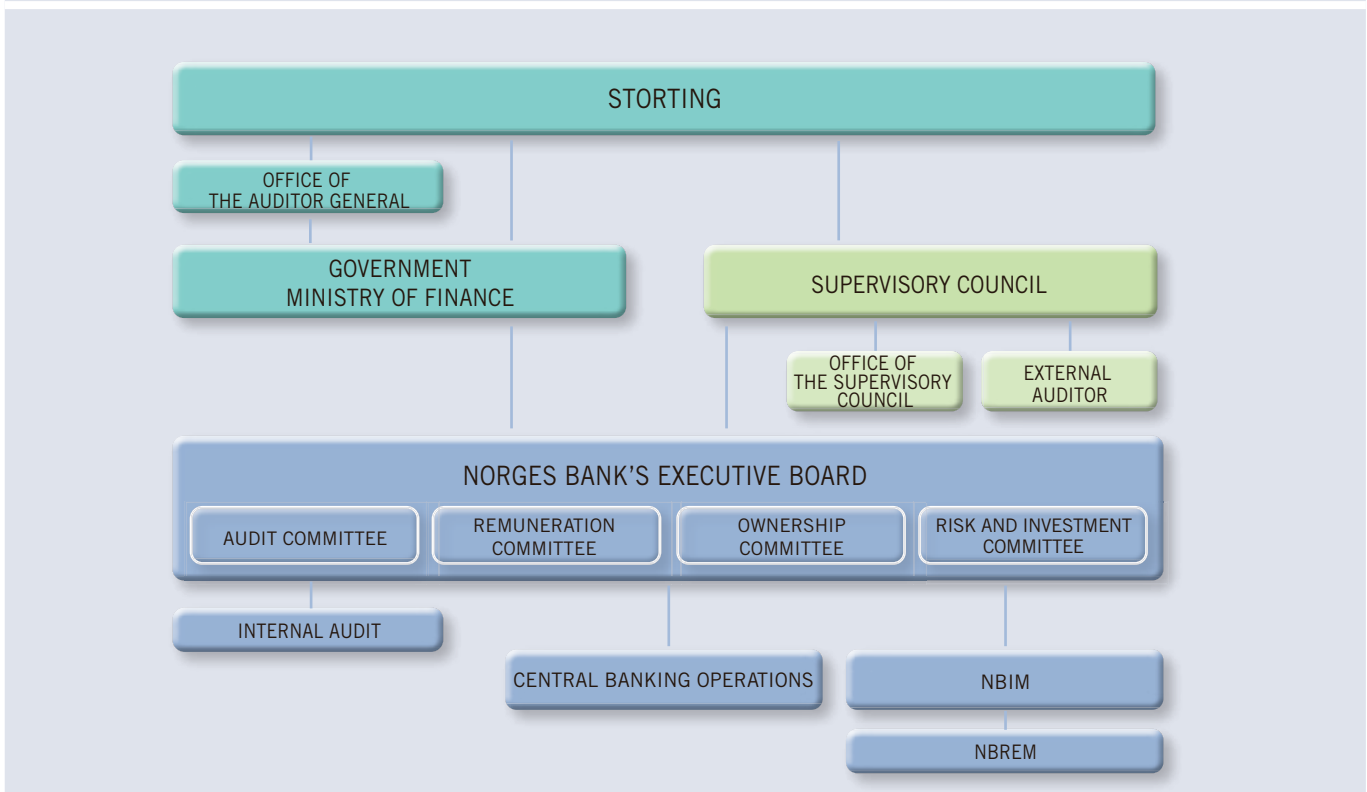
Over the course of the year, the Board reported on issues arising and the need for an enhanced control framework and risk-reduction measures. During the discussion of certain matters, the Council explicitly requested action and feedback from the Board.

The conclusions of the various supervisory reviews and assurance engagements conducted were largely positive. Suggestions and recommendations were also made for the development of Norges Bank's management and control framework. One reoccurring issue has been that the Executive Board should consider whether it can further clarify the overall principles and rules in different areas of the GPFG's management and further develop its overall management reporting. The Council has endorsed the conclusions of the supervision reports and asked to be kept updated about the Board's follow-up actions.

The Council has adopted the Bank's annual financial statements for 2015 and approved the Bank's budget for 2016.

Its supervision gave no cause for particular remarks under the Norges Bank Act. The Council has had good experience of the Executive Board systematically dealing with issues raised and updating the Council on the actions taken.

**FIGURE 1** CONTROL STRUCTURE OF NORGES BANK



## CHAPTER 2

# THE SUPERVISORY COUNCIL'S WORK

### THE SUPERVISORY COUNCIL'S ROLE AND RESPONSIBILITIES

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

As Norway's central bank, Norges Bank manages considerable assets and plays an important role in society. Its functions are mainly regulated by the Norges Bank Act<sup>1</sup>, the Government Pension Fund Act and the management mandate for the GPF. Norges Bank is a separate legal entity owned by the state.<sup>2</sup> It is to conduct its operations in accordance with the economic policy guidelines drawn up by the government authorities and with Norway's international commitments.

Confidence in the central bank depends on effective and efficient performance of its duties and satisfactory management and control. Its operations are monitored by both the government and the Storting, and an extensive management and control structure has been established, as shown in Figure 1.

The Supervisory Council's supervision requires a broad knowledge of Norges Bank's operations and organisation and its management and control framework. In addition to the discussion of Norges Bank's operations in this report, reference should be made to the additional information provided in Norges Bank's annual report and financial statements for 2015, the annual report on the management of the GPF in 2015, and other reports published by Norges Bank.

#### THE SUPERVISORY COUNCIL'S DUTIES

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

The management and control of Norges Bank's operations are regulated by the Norges Bank Act. Pursuant to the second paragraph of Section 5 of the Act, “*executive and advisory authority is vested in the Executive Board. The Executive Board is in charge of the Bank's operations and manages its resources. The Executive Board shall ensure the sound organisation of, and establish satisfactory frameworks, objectives and principles for, the Bank's operations. The Executive Board shall ensure that the Bank's operations, including accounting and asset management, are subject to sound governance and control. The Executive Board shall supervise the Bank's administration and other activities.*”

The Supervisory Council's duties are set out in several places in the Act.<sup>3</sup> As Norges Bank's supervisory and control body, the Council has overall responsibility for overseeing the Bank's operations and compliance with the regulatory framework. The supervisory role is defined in the third paragraph of Section 5 of the Act and covers all of Norges Bank's activities.

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

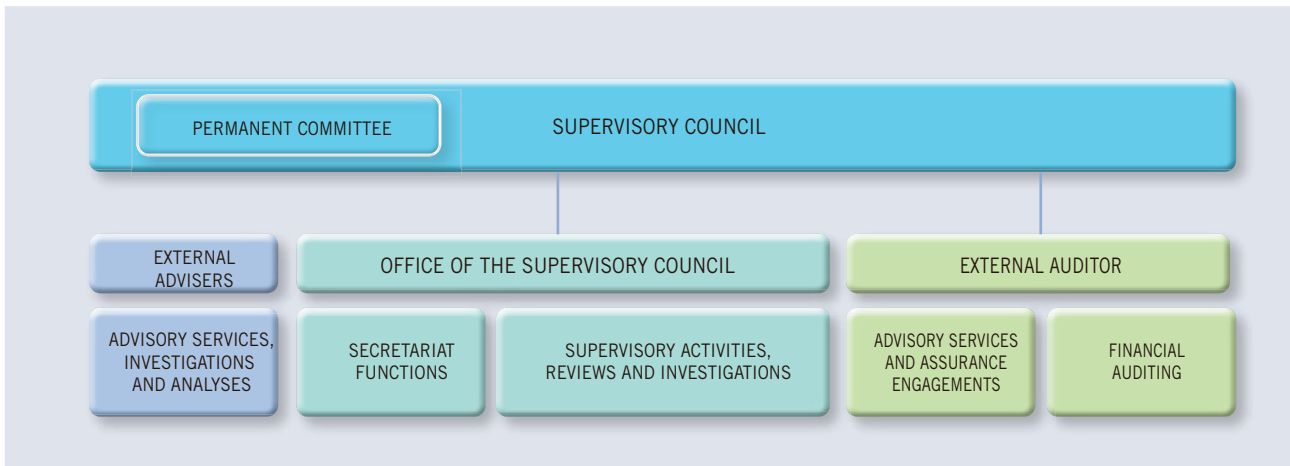
The Council also approves the Bank's annual budget, adopts the Bank's annual financial statements and appoints the Bank's auditor.<sup>4</sup> These duties are discussed later in this report.

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

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

<sup>3</sup> Cf. Sections 5, 7, 8a, 29, 30 and 30a.

<sup>4</sup> Norges Bank Act, Sections 29, 30, first paragraph, and 5, fourth paragraph.

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

At least once a year, the Council is to present to the Storting a statement on the minutes of the Executive Board meetings and its supervision of the Bank.<sup>5</sup>

*“The statement concerning the supervision of the Bank shall, as a minimum requirement, comprise the following:*

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

This information is provided in the present report.

In addition to its supervisory responsibilities, the approval of the budget and the adoption of the annual financial statements, the Council also has other specific areas of authority under the Norges Bank Act. On the recommendation of the Executive Board, it may decide that commercial operations be performed by companies that are partly or wholly owned by the Bank.<sup>6</sup> The Council approves the establishment of any such companies and is responsible for supervising them. This decision-making process applied throughout 2015, but the Storting has revised the Act in this area with effect from 1 January 2016. More information on legislative changes and the governance of Norges Bank's subsidiaries is provided later in the report.

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

<sup>6</sup> Norges Bank Act, Section 8a.

Norges Bank's pension fund was established by the Supervisory Council on 1 June 1916. Its articles of association<sup>7</sup> are decided by the Council, which also appoints its auditor. Changes to the articles of association are to be approved by the pension fund's board and presented to Norges Bank and the boards of any member companies for information. The pension fund is an independent legal entity with its own accounts and its own board independent of Norges Bank, and its activities are supervised by the Financial Supervisory Authority of Norway, Finanstilsynet.<sup>8</sup>

## ORGANISATION OF THE SUPERVISION OF NORGES BANK

The Supervisory Council's organisation structure is shown in Figure 2.

### THE SUPERVISORY COUNCIL

The Supervisory Council has 15 members elected by the Storting for a four-year term.<sup>9</sup> As well as political experience, members of the Council have broad technical expertise and experience from key areas of Norwegian society, public administration and industry.

The Storting elects the chairman and deputy chairman from among the Council's members for a two-year term. Reidar Sandal served as chairman and André Støylen as deputy chairman in the period 2014–2015. The Storting has re-elected Reidar Sandal as chairman from 2016, with Tormod Andreassen as deputy chairman.

Alternately seven and eight members are elected every second year.<sup>10</sup> In the election of members for a new term from 2016, the Storting re-elected five members and

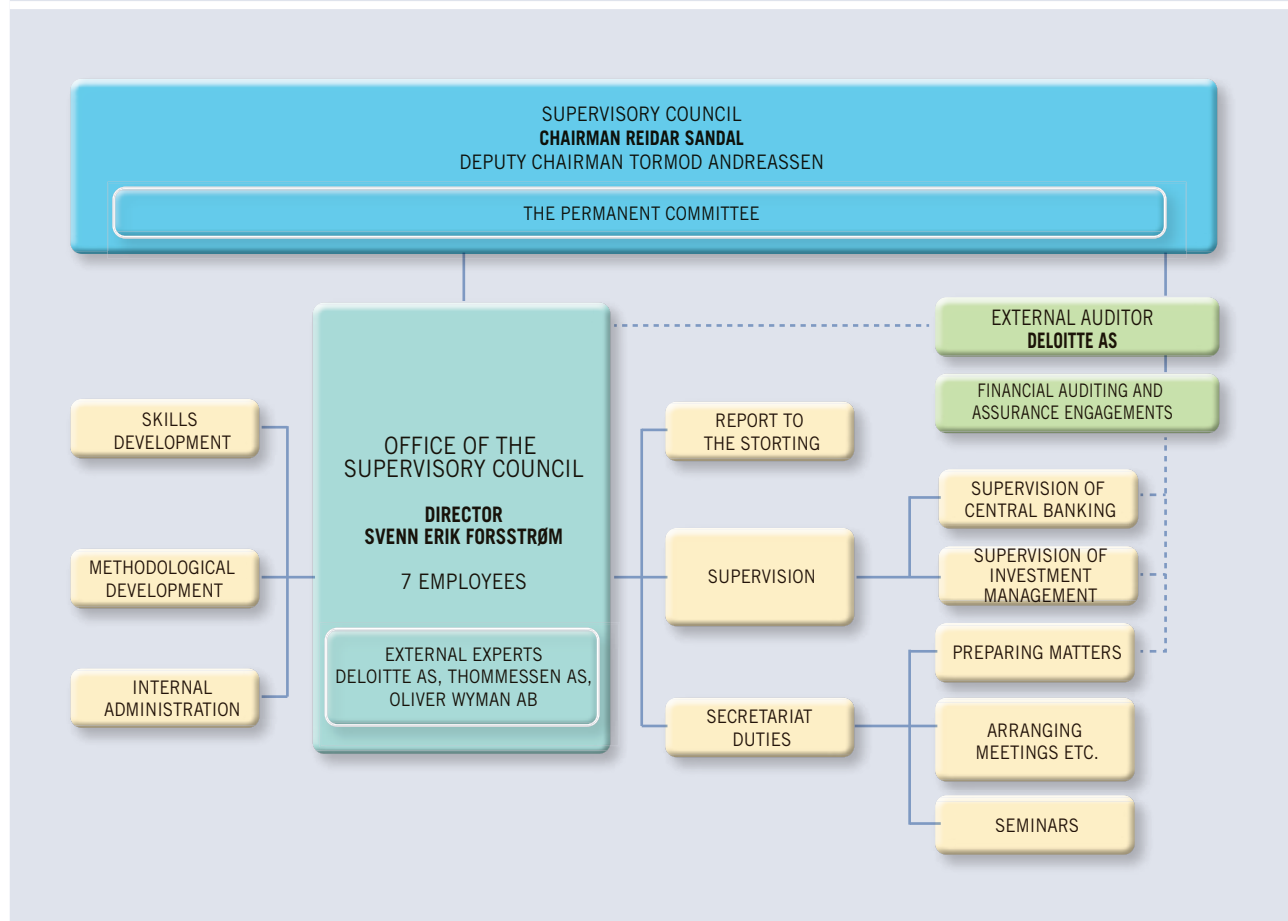
<sup>7</sup> Adopted on 13 December 2007 and last amended on 25 November 2010. The articles of association and any changes to the articles of association must be approved by the King, cf. the Act on Insurance Companies, Pension Undertakings and Their Activities etc., Section 7-4.

<sup>8</sup> Act on the Supervision of Financial Institutions etc. (Financial Supervision Act), Section 1, first paragraph, sentence 15.

<sup>9</sup> Cf. Norges Bank Act, Section 7.

<sup>10</sup> Cf. Norges Bank Act, section 7, second paragraph: “Members may be re-elected for a total period of twelve years.”

**FIGURE 3** THE OFFICE OF THE SUPERVISORY COUNCIL'S ORGANISATION AND DUTIES



appointed three new members.<sup>11</sup> Eva Karin Gråberg, Runbjørg Bremset Hansen and André Støylen stepped down from the Council, and the new members from 1 January 2016 are Ingrid Fiskaa, Helle Hammer and Kjetil Lund.

Previously 15 personal alternates were appointed, but this arrangement was revised from 1 January 2016.<sup>12</sup> For the period 2016–2019, the Storting has appointed two alternates: Lars Tvette and Jonas Varhaug.<sup>13</sup> The two alternates may attend and speak at all meetings of the Council.

Appendix 1 to this report provides a full list of the Council's full and alternate members for the period 2016–2017, including a brief profile of each member's relevant experience. An overview of the composition of the Council in the period 2014–2015 can be found in the Council's report to the Storting for 2014.

#### THE PERMANENT COMMITTEE

The Permanence Committee is a working committee of the Council established in accordance with the Norges Bank Act.<sup>14</sup> It consists of the Council's chairman and deputy chairman and three other members elected by and from the Council's members for a term of two years.

In 2014–2015, the Committee comprised Reidar Sandal (chairman), André Støylen (deputy chairman), Toril Hovdenak, Frank Sve and Synnøve Søndergaard.

For the period 2016–2017, Reidar Sandal will serve as chairman and Tormod Andreassen as deputy chairman, and Toril Hovdenak, Frank Sve and Synnøve Søndergaard will again be the remaining members of the committee. These last three members and five personal alternates were

elected at the Council's inaugural meeting on 14 January 2016.

The Council has issued a mandate for the Permanent Committee. The Committee prepares and makes recommendations on matters to be considered by the Council. As a committee of the Supervisory Council, the Permanent Committee has the right to access to all of the Bank's affairs. The Committee cannot itself take decisions on matters within the Council's area of responsibility. Minutes of its meetings are kept and submitted to the Council.

The Central Bank Governor may be asked to attend meetings and bring along experts where necessary. The Governor or the Executive Board may raise matters with the Permanent Committee with a view to their consideration by the Council, and may present their assessments before the Committee issues a recommendation on a matter. Where there is good reason, the Committee may inform the Governor of its intended recommendation.

The director of the Office of the Supervisory Council attends meetings and may bring along experts where necessary. The external auditor may be invited to attend where necessary.

#### THE OFFICE OF THE SUPERVISORY COUNCIL

In accordance with the Norges Bank Act<sup>15</sup>, the Council has established a secretariat – the Office of the Supervisory Council – which conducts supervisory work, performs administrative tasks and arranges meetings and seminars. The Office is independent of both the Executive Board and Norges Bank's management. The Council has issued instructions covering the Office's work and administrative affairs.<sup>16</sup> Its annual budget and expenditure are approved by the Council.

The Council's organisation and duties are outlined in Figure 3.

<sup>11</sup> Recommendation 137 S (2015-2016) of the Election Committee on the Election of Members and Alternates to Norges Bank's Supervisory Council and the Remuneration of the Supervisory Council and the Permanent Committee, 11 December 2015.

<sup>12</sup> Cf. Bill 90 L (2014-2015) Amendments to the Norges Bank Act, Sections 5-9. Debated by the Storting on 19 June 2015 (effective 1 January 2016 under Royal Decree No. 668 of 19 June 2015).

<sup>13</sup> Cf. Norges Bank Act, Section 9.

<sup>14</sup> Norges Bank Act, Section 7, fourth paragraph: "From among its members the Supervisory Council may appoint committees to consider matters to be dealt with by the Supervisory Council."

<sup>15</sup> Cf. Section 5, third paragraph, final sentence: "The Supervisory Council shall be served by a Secretariat."

<sup>16</sup> Discussed in Proposition to the Odelsting No. 58 (2008-2009).

The Council appoints the director of the Office and decides on his job description and terms of employment. He attends the Council's meetings and acts as an adviser to the Council and the Permanent Committee. He is also responsible for the Office's organisation, recruitment, development and activities. The director sets the salaries of other staff at the Office within limits set by the Council.

At the end of 2015, the Office had seven employees in addition to the director. In keeping with the Council's strategy, the Office's resources were bolstered in the second half of the year with the recruitment of a new staff member with extensive experience of investment management. Staff at the Office otherwise have broad professional experience in areas such as accountancy, economics, law, corporate governance, risk management and internal control. In addition to relevant professional expertise, considerable importance is attached to integrity, objectivity and due care in the conduct of duties.

The Office's principal purpose is to provide a sound basis for the Council's supervision of Norges Bank's operations and compliance. Its work is performed on the basis of annual supervision plans and suggestions arising from the Council's meetings. In connection with the Council's meetings, the Office reviews matters presented by the Executive Board and liaises with the Executive Board's secretariat. In some cases, it obtains additional information or technical assessments to facilitate the Council's deliberations.

One important task is to monitor activities and reporting at Norges Bank as part of the ongoing supervision of its operations. The Office holds regular meetings with Norges Bank's management, the operational areas, the compliance and risk management functions, Internal Audit and the external auditor. The director attends meetings of the Executive Board and the Audit Committee<sup>17</sup> where matters relevant to supervisory work are considered.

Supervisory reviews or investigations are performed in selected areas, and technical services may be obtained from the external auditor or external advisers. Supervisory activities and reporting in 2015 are discussed later in this report.

The Office prepares the Council's strategies and work plans. It also prepares meetings, documents, minutes, presentations, consultation responses and the report to the Storting.

Regular meetings are held with the Ministry of Finance to exchange information relevant to the supervision of the management of the GPFG. At these meetings, briefings are given on the Council's report to the Storting, the annual supervision plan and the supervisory activities performed.

The Office administers the Council's agreement with the external auditor. The Office also serves as a liaison between Norges Bank, the external auditor and the Office of the Auditor General of Norway, especially concerning the management of the GPFG and government debt. The aim of this collaborative model is for the Office of the Auditor General to be able to obtain information about, and build on, the audits and supervision performed by the external auditor and the Supervisory Council.

<sup>17</sup> See Chapter 3 for a presentation of the organisation of the Executive Board.



### EXTERNAL AUDITOR

The Supervisory Council has appointed Deloitte AS external auditor for Norges Bank. The engagement agreement covers the auditing of Norges Bank's annual financial statements, Norges Bank's pension fund and other related bodies.<sup>18</sup> Deloitte AS also audits the financial reporting for the investment portfolio of the GPFG that forms part of Norges Bank's annual financial statements. In the case of the GPFG's financial reporting for the first three quarters of the year, an assurance review is performed. The Council has also adopted guidelines to ensure that Norges Bank's external auditor is normally appointed auditor of subsidiaries<sup>19</sup> established for investments in real estate outside Norway.

The audit reports on Norges Bank's annual financial statements and the annual report on the management of the GPFG, as well as the assurance review reports on the GPFG's interim financial statements, are presented to the Council. The audit report on the pension fund's annual financial statements is sent by the Executive Board to the Council for information. After all audits have been completed, an annual auditing report is sent to the Board and the Council.

Deloitte AS submits to the Council an annual financial audit plan for Norges Bank, and keeps the Office of the Supervisory Council and the Council itself informed during the year about issues material to the execution and scope of its auditing.

The agreement with Deloitte AS includes an option for providing relevant assurance, auditing and advisory services to the Council or the Office of the Supervisory Council. Agreement has been reached on annual assurance reports on the Bank's responsibilities in relation to the management of the central government group account and the management of government debt. Deloitte AS also produces an independent report<sup>20</sup> on risk management and

internal control for the board of Norges Bank's pension fund. The Supervisory Council has given permission for the external auditor to provide consulting services for Norges Bank subject to approval from the Office of the Supervisory Council. Potential assignments are carefully assessed to avoid conflicts of interest, and such work has been limited in scope.

The external auditor's work is important for the Council's supervisory activities, and there are regular technical discussions between the Office of the Supervisory Council and Deloitte AS. The partner at Deloitte AS responsible for Norges Bank normally attends Council meetings whenever relevant matters are under consideration.

With the engagement agreement with Deloitte AS due to expire after the 2015 financial year, an open call for tenders was held for the provision of auditing services in the coming period. Tenders were received from three international accountancy firms, and after a thorough assessment the Council reappointed Deloitte AS. The new agreement has a term of six years and covers the 2016–2021 financial years. The auditor's duties under the new agreement are of the same scope as previously.

### EXTERNAL EXPERTISE

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

The engagement agreement with Deloitte AS provides access to broad global expertise in areas such as corporate governance, financial management, tax issues, risk management, ICT security and internal control. A framework agreement has also been signed with the law firm Thommessen AS to ensure access to leading legal expertise.<sup>21</sup> In 2015, a framework agreement was also signed with Oliver Wyman AB, an international investment

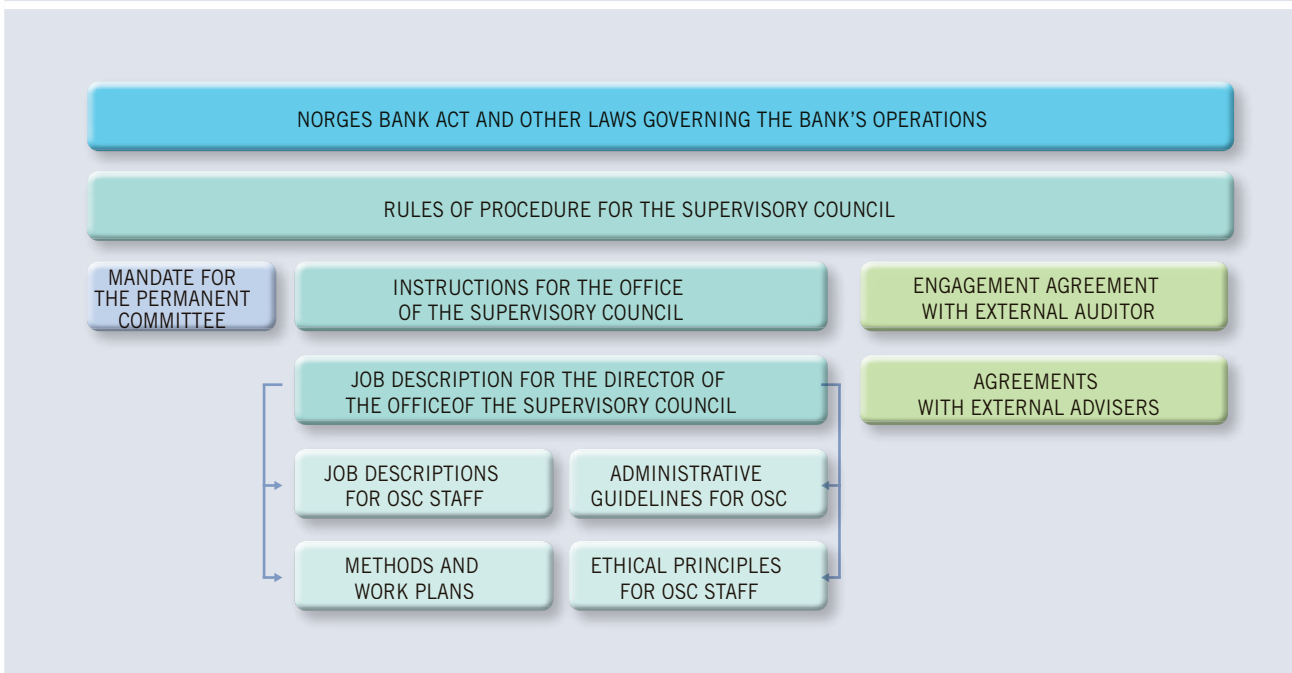
<sup>18</sup> *Norges Bank's Economic Research Foundation, Norges Bank Headquarters Pensioners' Foundation and Governor N. Rygg Foundation.*

<sup>19</sup> *Companies formed under Section 8a of the Norges Bank Act and other subsidiaries with an obligation to prepare accounts.*

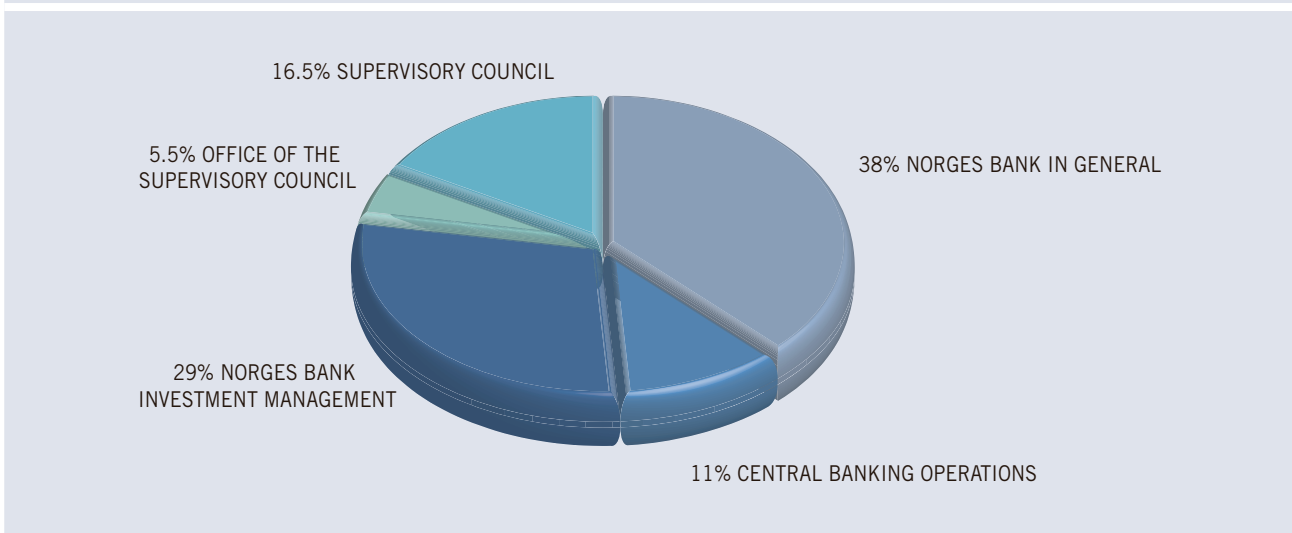
<sup>20</sup> *Given under the Regulation on Risk Management and Internal Control at Norges Bank, issued by the Ministry of Finance on 22 December 2008.*

<sup>21</sup> *The agreement with Thommessen AS was signed on 15 June 2012 for a period of four years.*

**FIGURE 4** FRAMEWORK FOR THE SUPERVISORY COUNCIL'S SUPERVISORY ACTIVITIES



**FIGURE 5** MATTERS CONSIDERED BY THE SUPERVISORY COUNCIL IN 2015



management consulting firm.<sup>22</sup> Other experts in specific fields are contacted as required.

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

Based on the Norges Bank Act, the Supervisory Council has adopted rules of procedure and a mandate for the Permanent Committee. It produces three-year strategies with action plans and annual supervision plans. The framework for the Council's work also includes instructions for the Office of the Supervisory Council, the job description for the Office's director and agreements with Deloitte AS and external advisers. The Office's director approves job descriptions for its employees, methods, work plans and administrative and ethical guidelines for the Office.

This overall framework provides a basis for the systematic implementation of supervisory work and is illustrated in Figure 4.

Based on its areas of responsibility, the Council has issued a series of guidelines for Norges Bank. These include budget rules for the Bank and guidelines for the Council's supervision of companies owned by the Bank as part of the GPFG's real estate investments, as discussed in more detail later in the report.

### **ACTIVITIES AND EXPENDITURE IN 2015**

#### **STRATEGY FOR 2013-2015**

The Council prepares a strategy and action plan for its activities for periods of three years. The overall vision for the 2013–2015 strategy period was: *“The Supervisory Council ensures democratic insight and independent control and contributes to high levels of public confidence in Norges Bank and the Government Pension Fund Global.”*

The main aim was for there to be a broad consensus in the Storting that the Council exercises effective supervision of Norges Bank in line with the law and expectations. The Council should also enjoy the confidence of the general public, and there should be an perception that its duties are performed in a way that contributes to Norges Bank's performance and reputation. Key factors for achieving these

aims have been transparency and clarity in external reporting and communication, good access to information, and an open dialogue with the Executive Board and the management of the central bank. The Council builds a high level of knowledge about Norges Bank and the management of the GPFG through its work. It is also important to have access to skilled resources through the Office of the Supervisory Council, the external auditor and other experts.

A new strategy has been adopted for the period 2016–2018, as discussed in more detail in Chapter 8 of this report. On the basis of its goals and key priorities, the Council has identified a number of areas for particular attention and further development.

#### **MEETINGS AND MATTERS CONSIDERED**

The Council held six ordinary meetings in 2015, as did the Permanent Committee. The chairman calls meetings in line with an agreed schedule, where deemed necessary or where requested by five or more of its members or by the Executive Board.<sup>23</sup>

Minutes, reports and matters submitted by the Executive Board are discussed during the year. Other items include supervision reports, investigations and discussion notes from the Office of the Supervisory Council and the external auditor on the basis of approved plans or at the request of the Council. All in all, the Council considered 104 matters in 2015, including the minutes of its own meetings and meetings of the Permanent Committee. A further 21 items in the form of technical reports and supplementary information about Norges Bank's operations were received, discussed and minuted as information items not requiring a decision. Two of the meetings were designated specifically for reviewing the annual reports and the annual budget proposal.

Figure 5 provides a breakdown of the types of matters considered by the Council.

Around 38 per cent concerned the supervision of Norges Bank in general. These covered the whole of Norges Bank's operations, but predominantly investment manage-

<sup>22</sup> The agreement with Oliver Wyman AB was signed on 19 February 2015 for a period of four years.

<sup>23</sup> Norges Bank Act, Section 7, fifth paragraph.

ment. Matters specifically concerning investment management came to 29 per cent of the total, and central banking 11 per cent. Taken together, issues pertaining to investment management account for a substantial part of the Council's attention in its supervisory work. The Council is in the process of assessing the structure of the case documentation provided in a dialogue with the Executive Board. This could lead to fewer but more detailed contributions.

The Council has introduced cost-effective and secure electronic distribution and storage of all case documents and permanent information using tablet computers.

#### EVALUATIONS

The members of the Supervisory Council perform systematic and anonymous annual self-evaluations of the work of the Council, the Permanent Committee and the Office of the Supervisory Council. The results form the basis for a discussion of the Council's working methods and relationship with the Office and the external auditor. The aims include identifying areas for improvement, and significant elements from the discussions have been integrated into the Council's strategy for 2016–2018.

In line with the strategy for 2013–2015, the Office of the Supervisory Council has undergone an external evaluation. This was based on the Council's instructions and relevant recognised standards for similar supervisory functions.<sup>24</sup> The evaluation will be followed up by the Council in the first half of 2016.

#### CONSULTATION RESPONSES AND CONTRIBUTIONS TO LEGISLATIVE CHANGE PROCESSES

The Council responded to two consultations in 2015 concerning proposed changes to the Security Act and the Norges Bank Act.

##### AMENDMENTS TO THE SECURITY ACT

The Ministry of Defence is working on proposals for amendments to the Security Act. Norges Bank's Executive Board has submitted comments on a number of the provi-

sions. In a letter, the Council submitted comments restricted to matters concerning the security clearance of its members. At present, members of the Council do not require security clearance. In the light of the increased focus on security in society in general and at Norges Bank in particular, the Council considers the need for access to information in the context of security to be growing.

Norges Bank is currently authorised to perform security checks on its own employees and others working for Norges Bank. Given the independence of the Supervisory Council, it is not appropriate for Norges Bank to do the same for members of the Council. One proposed change to the act is to reduce the number of clearance bodies to one for the civilian sector and one for the military sector, with the option of separate clearance bodies for the Storting, the courts and the security services. Such a solution would meet the Council's needs. The Council will monitor the further progress of the amendments and awaits a decision concerning its own security clearance.

##### AMENDMENTS TO THE NORGES BANK ACT

In spring 2015, the Ministry of Finance presented proposals for changes to the Norges Bank Act's provisions on the organisation of Norges Bank.<sup>25</sup> These included the composition of the Supervisory Council and decisions to form subsidiaries of Norges Bank.

In its consultation response, the Council stated that its current size of 15 members has given it strong democratic representation which should be retained. The Council supported the proposal to discontinue the system of personal alternates and instead elect two general alternate members. In its final proposal, the government decided to retain the number of full members and reduce the number of alternates. The Storting supported this.<sup>26</sup>

Until 2015, the formation of subsidiaries in the management of the GPFG with employees and activities that would otherwise have been part of Norges Bank was covered by Section 8a of the Norges Bank Act, which requires such companies to be approved by the Council on

<sup>24</sup> The most relevant standard for assessing such functions and activities was considered to be the Basel Committee on Banking Supervision's Core Principles for Effective Banking Supervision of 2012.

<sup>25</sup> Bill 90 L (2014-2015) Amendments to the Norges Bank Act (organisation of Norges Bank).

<sup>26</sup> Recommendation 299 L (2014-2015).

the recommendation of the Executive Board. In its consultation response, the Council argued that the proposal to transfer authority for final approval to the Board would undermine the Council's supervision and control.

The Storting approved the proposed change to the law.<sup>27</sup> From 2016 onwards, the Board may decide that activities relating to the management of the GPFG be performed by companies that are wholly or partly owned by the Bank. The Council's guidelines and the Executive Board's principles for the formation and supervision of subsidiaries in real estate management have been updated to reflect the change in the law. The guidelines highlight the Board's responsibility to ensure that the Council has real and effective access for supervision. This is normally regulated through formal governance and corporate documents at the individual company. Further changes have been made to ensure that Norges Bank's auditor or another recognised auditor is appointed.

#### REVIEW OF THE NORGES BANK ACT

The Ministry of Finance has appointed and instructed a committee<sup>28</sup> to review the Norges Bank Act, the Bank's governance structure and the relationship between Norges Bank and government authorities. The review is to take account of Norges Bank's special responsibility for the management of the GPFG under the Government Pension Fund Act. The committee is also to base its assessments on the guidelines for monetary policy.

The chairman of the Supervisory Council, representatives of the Office of the Supervisory Council and the external auditor have all participated in a meeting with the committee where information was provided on roles and responsibilities, duties and organisation. There was also discussion on establishing a dialogue to facilitate the committee's work.

There is broad agreement on the Council that it should contribute actively to the evolution of the regulatory framework for the central bank. The Council assumes that

it will have ample opportunity to comment on the committee's report<sup>29</sup> and any proposed amendments to the legislation in a consultation process. Submissions have been made to the committee concerning the current Norges Bank Act's management and control structure. These submissions have been restricted to matters concerning the Council's role, responsibilities and activities.

#### SEMINARS AND OTHER ACTIVITIES

Seminars, study trips and meetings with relevant organisations are arranged to stay up-to-date on relevant and important technical developments. In 2015, a seminar was held on the state of the Norwegian economy. The topics considered related to monetary policy considerations, financial stability and the challenges currently facing Norges Bank.

The Council made a study trip to Stockholm for meetings with the Swedish central bank, Sveriges Riksbank. The Riksbank's General Council<sup>30</sup> hosted the meetings. There was an exchange of information and experience on governance models and transparency at the two banks. Work on macro supervision was presented, and the Governor of the Riksbank provided information on the monetary policy situation in Sweden. The Council also held a meeting with Oliver Wyman AB and the chairman of a large Swedish financial services group on developments in board practices at investment managers.

The Council hosts the Central Bank Governor's annual address, first given by Nicolai Rygh in 1922 and an annual tradition ever since except for the period 1941–1945. Since 1986, the main theme has been "Economic perspectives". The address is attended by members of the Council and invited guests from the government, the Storting, academia, industry and wider society.

<sup>27</sup> The former Section 8a was repealed with effect from 2016 by Act No. 45 of 19 June 2015.

<sup>28</sup> Mandate issued by the Ministry of Finance on 10 April 2015. The committee is chaired by former Central Bank Governor Svein Gjedrem.

<sup>29</sup> The committee is to submit its report to the ministry by 10 April 2017.

<sup>30</sup> Sveriges Riksbank's General Council can be considered an equivalent body to Norges Bank's Supervisory Council. It is appointed by, and reports to, the Riksdag – the Swedish parliament. Its duties include monitoring the Riksbank's operations and the Executive Board's running of the bank.

**TABLE 1** THE SUPERVISORY COUNCIL'S EXPENDITURE

THOUSANDS OF NOK	2015	2014	2013
Supervisory Council	2 602	3 008	2 114
Office of the Supervisory Council	12 418	10 722	9 870
External experts	10 955	4 130	6 088
Financial auditing	18 261	17 044	14 389
<b>Total</b>	<b>44 236</b>	<b>34 904</b>	<b>32 461</b>

**TABLE 2** BREAKDOWN OF FIXED FEES PAID IN 2015

FIXED FEES	SUPERVISORY COUNCIL	PERMANENT COMMITTEE	TOTAL PER MEMBER	TOTAL FIXED FEES
Chairman	54000	82000	136000	136000
Deputy chairman	34000	54000	88000	88000
Three other members of Permanent Committee	26500	54000	80500	241500
Ten other members of Supervisory Council	26500		26500	265000
15 alternates	4400		4400	66000
<b>Total fixed fees</b>				<b>796500</b>

### THE SUPERVISORY COUNCIL'S EXPENDITURE IN 2015

The Council approves an annual budget for its activities, including the cost of the Office of the Supervisory Council, the external auditor and the use of other external advisers. The budget and reporting of this expenditure are considered as separate items by the Council. These costs are included in Norges Bank's overall budget and annual accounts. The Council's total expenditure in 2015 was NOK 44.2m. Table 1 gives a breakdown of this expenditure.

The costs for financial auditing cover Deloitte AS's work as Norges Bank's external auditor in the 2015 calendar year as discussed earlier in the report. The Council approves the external auditor's fee for auditing Norges Bank's annual financial statements. Deloitte AS also receives fees for financial auditing of subsidiaries and associates which are charged directly to those companies. In keeping with the intentions behind concluding a framework agreement with an external adviser on investment management, substantial resources were put into ongoing supervision and supervisory reviews in 2015. Around 85 per cent of costs for the external auditor and other external experts relate to investment management.

The budget adopted and expected expenditure in 2016 are around the same level as in 2015.

The Storting sets the fees payable to the members of the Supervisory Council and the Permanent Committee.<sup>31</sup> A total of NOK 839,700 was paid out in fees in 2015, including fixed fees of NOK 796,500 as shown in the breakdown of fees in Table 2. In addition to fixed fees, alternate members of the Supervisory Council received NOK 2,550 per meeting attended, and alternate members of the Permanent Committee NOK 3,150. The total amount paid to alternate members for attending meetings was NOK 43,200.

The director of the Office of the Supervisory Council was paid a salary of NOK 1,855,107 in 2015, an increase of 3.5 per cent on the previous year. Pension contributions and other benefits for the director amounted to NOK 496,231 and NOK 10,367 respectively.

<sup>31</sup> The rates for fees in 2014 and 2015 were set by the Storting with effect from 1 January 2014, cf. Recommendation 56 S (2013-2014).

### THE SUPERVISORY COUNCIL'S APPROACH TO SUPERVISION

#### ASSESSMENTS OF RISK AND MATERIALITY

Norges Bank plays an important role in society, and its activities are very important for the Norwegian economy. The Bank's operations attract considerable attention both in Norway and abroad. The starting point for supervisory work is the formal regulatory framework for Norges Bank and for the Council's supervision of the Executive Board's management and control of the Bank's operations. The Council's supervisory activities are prioritised on the basis of the Storting's expectations, wider social considerations and past experience. The annual supervision plans are based on assessments of risk and materiality. These assessments draw on Norges Bank's reports on material risks and the main challenges it faces.

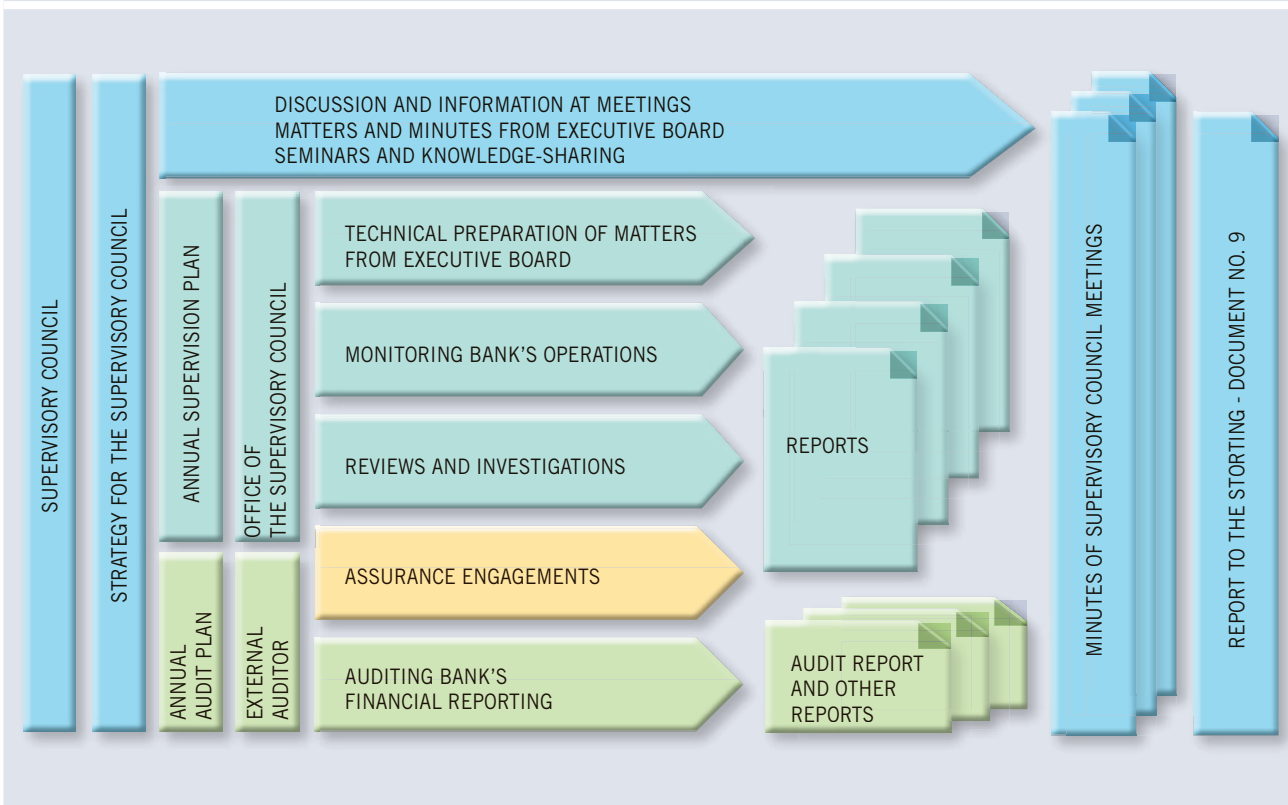
Supervisory activities cover both the Bank's complex investment management responsibilities and its more traditional central banking duties, as well as compliance with rules and regulations. Special attention is given to the Board's management and control of risks and expenditure. The Bank's activities may entail a risk of events with a human and financial cost. The Council has zero tolerance of irregularities, unethical behaviour and other conduct that could harm the reputation of Norges Bank or the Council. Importance is attached to transparency in external reporting. Threat assessments and security measures are monitored carefully in the supervision process.

#### THE COUNCIL'S WORKING PROCESS

The Council's work normally takes the form of discussions and decisions at its meetings on matters submitted, such as those submitted by the Executive Board and the Office of the Supervisory Council, including reports from supervisory reviews in particular areas as set out in the annual supervision plan.

Figure 6 shows the various elements of the working process for supervision and auditing based on strategies and annual plans.

**FIGURE 6** THE SUPERVISORY COUNCIL'S WORKING PROCESS





The Central Bank Governor and Deputy Central Bank Governors are to attend meetings unless the Council decides otherwise or there is another valid reason.<sup>32</sup>

The Council has the right of access to all of Norges Bank's affairs. Further information on matters under consideration may be requested, and the Governor provides additional information and answers questions on these matters. He may bring experts with him as required. When necessary, the chairman of the Council engages in dialogue with the management of the central bank in preparation for meetings. Additional meetings have been established between the Governor and the chairman of the Council to discuss and exchange information on specific issues. It has also become an established practice for the Council to receive an annual statement from the Audit Committee's chairman on the Committee's activities. Briefings by the Governor help keep the Council abreast of Norges Bank's activities. In principle, it is up to the Council to assess the need for information and the relevance of the information received.

The Council's discussion of matters submitted and topical issues raised by its members may prompt a request for further information or investigations from the Office of the Supervisory Council or the Executive Board. This work gives the Office an in-depth insight into the Bank's activities, providing a sound basis for supervision. This helps ensure that the Council is kept continuously up-to-date about significant issues.

At each meeting, the Governor gives a report on current issues and the Board's assessment. Under the Norges Bank Act, the Council's supervision does not extend to the Executive Board's exercise of discretionary authority under the Act.<sup>33</sup> This applies particularly to monetary policy and financial stability and means that the Council does not comment on the Board's interest rate decisions, consultation responses or advice to political authorities. It also applies to Norges Bank's advisory role in the management of the GPFG and its work on macro supervision and

the monitoring of systemic risk where the aim is help reduce vulnerability in the financial system.

The Council is nevertheless informed about the Bank's work in these areas. In 2015, particular attention was paid to Norges Bank's interest rate and liquidity policies and the potential effects on the exchange rate.

The general supervision of the Bank's operations will, however, include the organisation and processes that form the basis for the Board's exercise of discretionary authority.

#### **TRANSPARENCY AND REPORTING**

The Supervisory Council has noted growing public interest in its role and supervisory activities. Transparency about the Council's work is achieved within the constraints and limits laid down in the Norges Bank Act and other relevant rules on the Bank's operations. Its members are subject to the provisions on confidentiality in Section 12 of the Norges Bank Act. Any increases in transparency or exemptions from the duty of confidentiality are decided on a case-by-case basis by the chairman of the Council. Where relevant, the decision is taken in consultation with the Central Bank Governor. Under the Council's rules of procedure, it is the chairman – or the person nominated by him – who makes public statements on behalf of the Council.

The Council's annual report to the Storting gives the general public a broad insight into its activities and is designed to paint a comprehensive picture of Norges Bank's control structure and of the Council's supervisory activities and assessments. Since 2014, the minutes of the Council's minutes have been published on Norges Bank's website.<sup>34</sup> The minutes are also submitted to the Office of the Auditor General of Norway.<sup>35</sup> Case documents relating to matters considered at Council meetings are exempt from public access.

In 2015, a request for access to two reports from supervisory reviews was rejected by the Council on the grounds of these being internal case documents and so exempt

<sup>32</sup> *Norges Bank Act, section 7, sixth paragraph.*

<sup>33</sup> *An investigation carried out for the Supervisory Council in 2013 clarified supervisory responsibilities concerning the Executive Board's exercise of discretionary authority.*

<sup>34</sup> *See [www.norges-bank.no/representantskapet/](http://www.norges-bank.no/representantskapet/).*

<sup>35</sup> *Cf. the Storting's Instructions of 11 March 2004 concerning the Activities of the Office of the Auditor General, Section 12.*



From the Standing Committee on Finance and Economic Affairs' open hearing on the management of the GPF of 4 May 2014. From left: NBIM CEO Yngve Slyngstad, Central Bank Governor Øystein Olsen, finance minister Siv Jensen, Supervisory Council chairman Reidar Sandal, Folketrygdfondet chairman Erik Keiserud and Folketrygdfondet managing director Olaug Svarva.

from access.<sup>36</sup> An appeal was lodged, and the Council referred the matter to the Ministry of Finance, which is the appeal body for Norges Bank under the Public Administration Act. The Ministry considered whether transparency should be increased for all or part of these documents, but its conclusion supported the Council's decision. The documents were prepared and intended as a basis for internal discussion and assessment by the Council and could therefore be exempted from public access under the law. The Ministry also stressed that public interest in the matter was adequately addressed by the Council's reporting on its supervisory activities in its annual reports to the Storting.

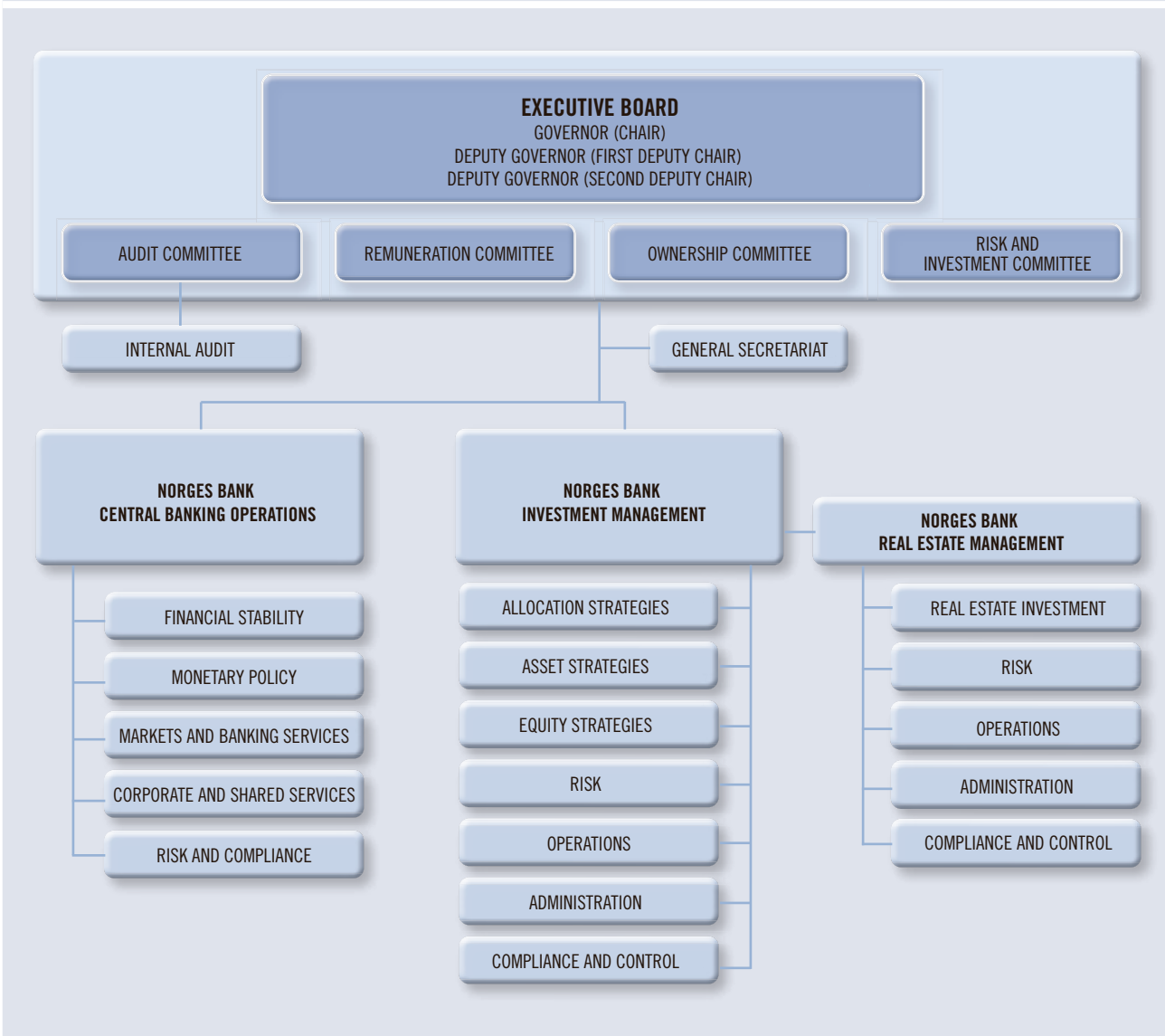
Since 2009, there has been a dialogue with the Ministry of Finance to obtain input on relevant issues for supervisory reviews concerning the management of the GPFG.<sup>37</sup> The Council is considering whether this input should be incorporated into the supervision plan and whether the Ministry should be given access to reports. The reviews have been carried out by Deloitte AS in conjunction with the Office of the Supervisory Council, and reports have been presented in the form of independent assurance reports in accordance with international auditing standards.<sup>38</sup> The reports sent to the Ministry of Finance have also been published and presented in the Council's reports to the Storting. One such assurance engagement, concerning the GPFG's real estate investments, was performed in 2015, as discussed later in this report.

<sup>36</sup> Cf. *Freedom of Information Act, Section 14, first paragraph.*

<sup>37</sup> Cf. *Report to the Storting No. 10 (2009-2010) on the Management of the Government Pension Fund Global in 2009.*

<sup>38</sup> *International Standards on Assurance Engagements from the International Auditing and Assurance Standards Board. The standard used is ISAE 3000 "Assurance engagements other than audits or reviews of historical financial information".*

**FIGURE 7** NORGES BANK'S ORGANISATION



## CHAPTER 3

# SUPERVISION OF OVERALL MANAGEMENT AND CONTROL AT NORGES BANK

The Supervisory Council's work requires a broad knowledge of the Bank's operations and organisation and its management and control framework. The following provides a general description of the framework for the Bank's operations, organisation and management by the Executive Board.

## NORGES BANK'S OPERATIONS

As previously mentioned, Norges Bank's responsibilities and management structure are primarily governed by the Norges Bank Act. The central bank is responsible for setting interest rates and keeping inflation low and stable. It is to promote an efficient payment system, serve as the banks' bank and lender of last resort, and take any action that customarily or naturally falls within the remit of a central bank. The Executive Board has the flexibility to organise the Bank's operations to reflect its responsibilities and objectives.

The Ministry of Finance has issued regulations on risk management and internal control at Norges Bank and on the Bank's annual financial statements, and various other regulations have also been issued pursuant to the Norges Bank Act. In addition, the Bank's operations are governed by general legislation in areas such as accounting, tax, freedom of information, public procurement, public administration, security, human resources and the working environment.

The Government Pension Fund is managed by the Ministry of Finance<sup>39</sup> and consists of the Government Pension Fund Global (GPFGL) and the Government Pension Fund Norway (GPFN). The GPFGL takes the form of a deposit at Norges Bank and is managed in accordance with rules issued by the Ministry.<sup>40</sup>

## THE EXECUTIVE BOARD'S MANAGEMENT AND CONTROL STRUCTURE

The Executive Board had seven full members in 2015. With effect from 1 January 2016, the Board has been augmented with an additional Deputy Central Bank Governor. The Central Bank Governor is the chairman of the Board, and the two Deputy Governors are its deputy chairmen. All three are appointed to full-time positions at Norges Bank for a period of six years. The other five members of the Executive Board are external. Two alternates attend and have the right to speak at Board meetings. All full and alternate members are appointed by the King in Council.<sup>41</sup> Their fees are set by the Ministry of Finance.

The Bank's employees also elect two members from their ranks who join the Executive Board when it is considering administrative matters. The two alternates act as full members when such matters are considered.

The Board has drawn up rules of procedure for its work. These were updated in 2015, mainly as a result of the amendment of the Norges Bank Act to add a second Deputy Governor. The Council was informed of these changes.

The minutes of Executive Board meetings are to be submitted to the Council and the Ministry of Finance once approved.<sup>42</sup> The minutes are also sent to the Office of the Auditor General.<sup>43</sup> Case documents are exempt from public access under Section 14 of the Freedom of Information Act on internal documents. The minutes of the Board's rate-setting meetings are normally made public after 12 years.

The Board has set up four preparatory and advisory committees and issued mandates for these committees. The committees' activities do not alter the responsibilities of the Executive Board or its members.

The *Audit Committee*, which consists of three of the Board's external members, was established in accordance

<sup>39</sup> *Government Pension Fund Act, Section 2, first and second paragraphs.*

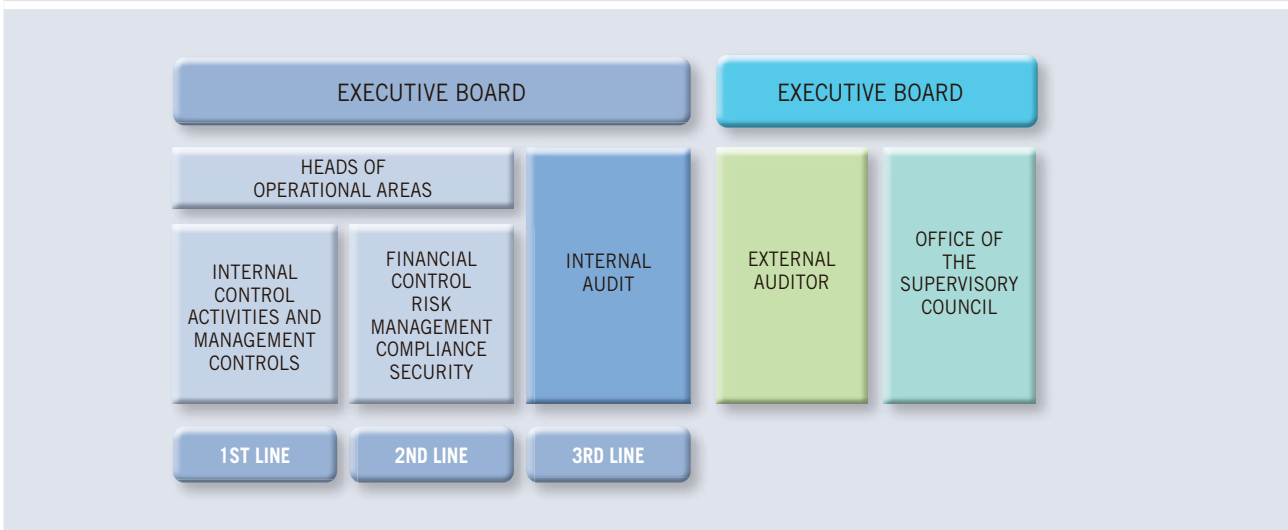
<sup>40</sup> *The Ministry of Finance's guidelines and management mandate for the Government Pension Fund Global of 8 November 2010.*

<sup>41</sup> *Norges Bank Act, Section 6.*

<sup>42</sup> *Norges Bank Act, Section 30, second paragraph.*

<sup>43</sup> *Cf. the Storting's Instructions of 11 March 2004 concerning the Activities of the Office of the Auditor General, Section 12.*

**FIGURE 8** CONTROL MODEL AT NORGES BANK



with the regulation on risk management and internal control at Norges Bank. Internal Audit serves as the committee's secretariat. The committee's role is to increase the quality and efficiency of the Board's work on the management and oversight of financial reporting, risk management and internal control.

The *Remuneration Committee* consists of two of the Board's external members and was formed in accordance with the regulation on remuneration schemes at financial institutions etc.<sup>44</sup> The committee's role is to prepare matters relating to Norges Bank's pay and remuneration arrangements and ensure that there are regular assessments of compliance with applicable limits and requirements.

The *Ownership Committee*, set up in 2015, is chaired by one of the Deputy Governors and also includes two members selected from among the Board's external members and alternates. Norges Bank Investment Management serves as the committee's secretariat. The committee's role is to prepare matters relating to responsible investment and the observation and exclusion of companies from the GPFG's investment portfolio.

The *Risk and Investment Committee* was formed in 2015, is chaired by one of the Deputy Governors and also includes two members selected from among the Board's external members and alternates. The committee's role is to help improve the quality and efficiency of the Board's work in the investment management area on matters relating to investment strategy, risk limits and particularly large and important investment decisions.

Under the Norges Bank Act, executive and advisory authority at the Bank is vested in the Executive Board. Decisions of a strategic nature, on matters of principle or with wide-ranging implications are also taken by the Board. The Board may give special authority to the Governor or give others authority to make decisions in specific areas.<sup>45</sup> Delegated authority is overseen through regular reporting. The Central Bank Governor is in charge of

Norges Bank's administration and has overall responsibility for the implementation of decisions.<sup>46</sup> Under the Executive Board's rules of procedure, the Governor is responsible for preparing matters for the Board. The Board has delegated the operational management of the GPFG to the CEO of Norges Bank Investment Management, who is also responsible for submitting matters in his area.

#### **NORGES BANK'S ORGANISATION**

Norges Bank's duties are fulfilled by two operational areas: Central Banking Operations (CBO) and Norges Bank Investment Management (NBIM). Operations are run from Oslo. NBIM also has offices in London, New York, Shanghai and Singapore. Norges Bank's organisation is presented in Figure 7.

In 2015, the Central Bank Governor clarified the overall management model in terms of roles and responsibilities for a number of administrative tasks affecting the entire organisation. For example, a central management forum was set up to consider matters of importance for the whole of Norges Bank before they are dealt with by the Executive Board.

Norges Bank has established a management model based on recognised standards and rules for governance and internal control. Each level of the organisation has an independent responsibility for assessing risk and the need to perform controls. The operational level (first line of defence) has primary responsibility for performing and quality-assuring tasks in accordance with set procedures and guidelines. Risk management and compliance functions (second line of defence) have also been set up in the operational areas to monitor risks and perform control activities based on their own risk assessments. Internal Audit (third line of defence) serves as the Executive Board's control unit and supports the oversight of governance, risk management and internal control.

Figure 8 shows the relationship between these lines of defence at Norges Bank. The model has been developed in accordance with standard practice in the financial sector, which is generally subject to extensive regulation and supervision. Independent functions performed by the

<sup>44</sup> *The Regulation on Remuneration Systems at Financial Institutions, Securities Companies and Securities Fund Managers issued by the Ministry of Finance on 1 December 2010.*

<sup>45</sup> *Norges Bank Act, Section 10.*

<sup>46</sup> *Norges Bank Act, Section 5, final paragraph.*

external auditor and the Supervisory Council meet the need of the owners and society for control and supervision. As the Storting's supervisory and control body, the Supervisory Council has a special responsibility for overseeing the overall control structure. This is achieved partly through continuous dialogue and interaction between the Office of the Supervisory Council, Internal Audit and the external auditor.

A number of joint employee/employer committees have been set up to comply with the provisions of the Working Environment Act and agreements between employee organisations and Norges Bank. The Working Environment and Works Council helps promote a good working environment and ensure that the requirements of the Inclusive Workplace (IA) agreement are met.<sup>47</sup> It is chaired by the Central Bank Governor and the Chief Shop Steward in alternate years. Staff Consultation and HR Committees have also been set up to ensure communication, collaboration and staff consultation in agreements between employer and employees, one for Central Banking Operations and one for NBIM. A Negotiation Committee is appointed for each collective agreement period to facilitate pay negotiations with employee organisations.

The Supervisory Council has considered the annual report of the Working Environment and Works Council and is satisfied that relevant laws and agreements have been observed and reported on. The Council attaches importance to the Bank setting and applying equality targets.

## THE EXECUTIVE BOARD'S OVERSIGHT

The Executive Board produces general strategic plans for a three-year period looking at the current situation, challenges and priorities. It also approves strategies for the two operational areas. Together with statutory requirements and internal guidelines, these strategies form the framework for the development of the Bank. The Board presents these strategies to the Council and provides further information on them.

In the strategy for 2014–2016, importance is attached to Norges Bank modernising and further developing its core activities. The Bank is to help set the standard internationally for the exercise of monetary policy, the monitoring and analysis of financial stability, and global investment management.

The Executive Board is responsible for establishing satisfactory frameworks and principles for risk management and internal control across the Bank. The main principles for risk management have been laid down at Bank level to ensure a systematic and comprehensive approach. Each operational area then draws up supplementary guidelines on their implementation. Risk management is integrated into operational management and is intended to help strike a balance between goals, risk and control measures in key processes. The operational areas have established functions to coordinate and oversee risk management internally. The Executive Board receives regular management reports during the year on the status of strategies, action plans and expenditure. It also receives reports on operational risk management and compliance.

In 2015, the Executive Board updated its principles for compliance with money-laundering rules. The purpose of the principles is to ensure that Norges Bank fulfils its obligations under the Money Laundering Act and associated regulations. Other important internal rules include the Executive Board's financial rules, ethical principles for external members of the Executive Board, and ethical principles for employees. The aim of the ethical principles is to ensure a good reputation and public confidence in Norges Bank by contributing to a common approach to ethical dilemmas.

The Board has also issued internal whistleblowing procedures to enable employees to report irregularities without fear of reprisals from the Bank. Internal Audit is the whistleblowing channel for all employees.

## INTERNAL AUDIT

An Internal Audit unit has been set up in line with the provisions of the Norges Bank Act and the regulation on risk management and internal control at Norges Bank. Its role is to support the Executive Board's oversight by providing independent assessments of risk management and

<sup>47</sup> The government and the social partners signed a fourth letter of intent for a more inclusive workplace (IA Agreement) on 4 March 2014. Norges Bank has signed up to the agreement, which runs from 4 March 2014 to 31 December 2018.



internal control. Its duties are performed on the basis of instructions from the Executive Board and international standards for professional internal auditing practices.<sup>48</sup> The Executive Board approves three-year long-term plans and annual audit plans. Internal Audit reports to the Board via the Audit Committee, and the director of Internal Audit reports administratively to the Central Bank Governor. The regulation on risk management and internal control gives the director of Internal Audit the right to attend Executive Board meetings.

Internal Audit has six employees and has entered into a framework agreement with an external audit firm on consulting services for projects. Audits are carried out during the year in line with the annual plan. Reports are issued on the various audits of Central Banking Operations, NBIM's investment process and the management and control of the GPFG's real estate portfolio.

Internal Audit prepares an annual report to the Executive Board on risk management and internal control in line with the regulation on risk management and internal control. Its assessments are based on observations from audit projects performed, the follow-up of conclusions from previous audits, and continuous contact with the operational areas.

## SUPERVISORY ACTIVITIES AND CONCLUSIONS IN 2015

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

During the year, the Council considered matters raised by the Executive Board on the modernisation of the Bank's overall management and control framework. The Central Bank Governor presented planned and implemented measures and provided regular assessments of risks faced. The Council took note of reports on operational risk management and internal control. The Council was informed about the Board's consideration of principles and rules common to all of the Bank's operations. Taken together, this helps strengthen the Council's understanding of the

central bank's complexity and the basis for management and control.

The Office of the Supervisory Council reviewed all reports from Internal Audit considered by the Audit Committee and the Executive Board. The Office's director attended meetings of the Audit Committee and the Executive Board during the consideration of these reports. Meetings were held between the Office of the Supervisory Council and Internal Audit during the year to go through relevant reports. Relevant reports from Internal Audit are considered in connection with supervisory reviews.

The Council is informed of Internal Audit's plans and annual report, and in some cases considers project reports where significant infringements or events material to supervision are identified.

In line with the regulation on risk management and internal control, the Executive Board conducts a general annual assessment of internal control and risks.<sup>49</sup> The Board's assessment was submitted to the Council together with the internal control report for NBIM for 2015, the operational report for Central Banking Operations for the second half of 2015 and Internal Audit's annual report. The Board's conclusion is that internal control at Norges Bank during the year was performed satisfactorily. The Board also confirms that operational risk exposure at NBIM during the year was within the Board's defined risk tolerance, and that operational risk exposure in Central Banking Operations is acceptable given the risk-reduction measures to be implemented in 2016.

The Council noted the Board's assessment of internal control and the risks faced by Norges Bank. In the Council's opinion, Norges Bank has established processes that ensured compliance with the requirements of the regulation on risk management and internal control in 2015, and that these were adequately documented through its overall reporting. At the Council's request, the Board has provided an overview of risk-reduction measures implemented in 2015 and those prioritised for 2016.

<sup>48</sup> Standards issued by the Institute of Internal Auditors, January 2013.

<sup>49</sup> Regulation on Risk Management and Internal Control at Norges Bank, Section 8.

### GENERAL GOVERNANCE

Norges Bank's two main roles – central banking and the management of the GPFG – are performed in accordance with specially tailored strategies, objectives and management systems. Through various reports from the Executive Board and oral information at meetings, the Council monitored developments in the organisation during the course of 2015. Norges Bank is a single legal entity, and the Council attached importance to the Board exercising good management and control at a general, overall level as well as within each of the operational areas. Attention was paid to this in the discussion of matters from the Executive Board and in several supervisory reviews.

One supervisory review looked specifically at overall governance at Norges Bank. The Executive Board's processes for the strategic management of the Bank and Bank-wide support functions were assessed. It was found that the Board has established an overall strategy for both central banking and investment management that conforms to good practice. The Board considers various reports on the implementation of strategies and action plans during the year. The report from the supervisory review recommended that the Board considers clarifying operational targets at an overall level in its future strategic work. Reporting to the Board could also be linked more directly to strategic objectives and action plans.

The organisation of support functions and shared administrative functions was discussed by the Executive Board in 2015. Appropriate and efficient organisation of the Bank's operations and associated support functions is covered by the Board's strategy. General principles for the Bank as a whole have been established, but the governance framework entails a high degree of delegation to the operational areas. The report from the supervisory review recommended that the Board considers clarifying roles and responsibilities in relation to Bank-wide support functions. The Council endorsed the report's conclusions.

In its response to the Council, the Executive Board stated that it has decided to make the strategy more concrete with operational targets in the annual action plans, which are then followed up in the performance reporting. One question raised was whether it might be appropriate to have a more detailed three-year strategy with operational

targets. The Board will return on this during the next strategy period. The Council has noted the Board's comments on the report.

At the end of 2015, the Executive Board and the Central Bank Governor established a General Secretariat reporting to the Governor. From 2016, there is also a central management forum to discuss topics affecting the entire organisation. The need for coordination and common guidelines in the light of the fact that Norges Bank is a single legal entity has been recognised. As the officer with administrative responsibility for Norges Bank, the Governor takes the final decision on matters affecting the whole organisation.

### SECURITY AND CONTINGENCY PLANNING

Good ICT security, physical security and contingency planning are very important to Norges Bank. The Bank's operations are covered by the Security Act and the Document Security Instructions and must meet stringent requirements for security clearance of personnel and authorisation for access to information.

The Executive Board has issued principles for security, contingency planning and crisis management at Norges Bank. For Norges Bank as a whole, there are joint rules to protect assets that are important to both Central Banking Operations and NBIM. The preparation of more detailed guidelines has been delegated to the heads of the operational areas. The security department is responsible for security guards and other security arrangements at the Bank's headquarters, its international offices and the central bank depots.

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

The Council pays particular attention to security and contingency planning and has been kept informed about the

Executive Board's principles. Each year, the Council considers the Board's security review, which includes an analysis of potential threats. Information is provided on priority measures to enhance security and preparedness.

Security is also dealt with in management reporting and the Board's plans and budget proposals. In the light of external events and assessments of potential threats, any necessary changes are made to processes and control procedures to protect Norges Bank's assets and organisation. Resources for implementing measures are allocated through annual budgets. In exceptional circumstances, the Board can cover the cost of safeguarding lives, health and major assets without any special allocation of funds, but a report must then be submitted to the Council. No such cases were reported in 2015.

The Council has been kept informed about developments in security measures that also depend on circumstances beyond Norges Bank's control. The Council notes that thorough risk and vulnerability analyses are performed and can confirm that the Board closely monitors this area. It is important that Norges Bank is able to perform critical functions essential to society, and that the safety of employees and the protection of assets are given high priority.



Meeting in Stockholm between Sveriges Riksbank's General Council and Norges Bank's Supervisory Council.

## CHAPTER 4

# SUPERVISION OF CENTRAL BANKING

### RESPONSIBILITIES AND ORGANISATION OF CENTRAL BANKING OPERATIONS (CBO)

Norges Bank serves as an executive and advisory body for monetary, credit and foreign exchange policy.<sup>50</sup> Core tasks are to promote price stability through monetary policy, monitor and analyse stability in the financial system, and manage international reserves. It is also to issue banknotes and coins, promote an efficient payment system, and monitor developments in the money, credit and foreign exchange markets. These tasks are organised into CBO's departments for Markets and Banking Services, Monetary Policy and Financial Stability.

The Central Bank Governor has established an organisation and management structure with clear roles and responsibilities. The department directors are responsible for risk management, internal control and financial management within their respective departments and issue internal guidelines. The Corporate and Shared Services Department provides administrative support for CBO and Bank-wide functions and processes. A central compliance and risk management function has also been created to support the department directors and the Governor in their work on managing operational risk.

CBO's organisation structure is illustrated in Figure 7.

### THE EXECUTIVE BOARD'S OVERSIGHT

The Executive Board has approved a strategy for 2014–2016 and approves annual action plans for Central Banking Operations. The Council is kept informed about these action plans in connection with the adoption of annual budgets for the operational area and the follow-up presented in management reporting.

Based on the general principles for risk management at Norges Bank, the Executive Board has adopted risk management principles for CBO. The Board has also considered criteria for assessing the level of operational risk. The

<sup>50</sup> *Norges Bank Act, Section 1, first paragraph, second and third sentences: "The Bank shall be an executive and advisory body for monetary, credit and foreign exchange policy. It shall issue banknotes and coin, promote an efficient payment system domestically as well as vis-à-vis other countries, and monitor developments in the money, credit and foreign exchange markets."*

Central Bank Governor has issued supplementary guidelines on risk management at CBO that include definitions of risk, management of incidents, responsibilities and reporting. Risks are identified and assessed quarterly, in the event of serious incidents, and following major changes to duties, ICT systems, infrastructure or regulatory frameworks.

The Board reviews management reporting for CBO every six months. This includes the status of action plans and expenditure, operational risk, compliance and internal control.

The central risk management and compliance function is the Governor's advisory and control body for tasks and functions performed by CBO. The Office of the Supervisory Council held regular meetings with the compliance function during the year and discussed incidents and follow-up procedures. Any breaches of the rules or other incidents are presented in the management reporting from the Executive Board to the Council. No significant breaches material to CBO were reported during the year.

The Supervisory Council has been kept informed about the principles and guidelines for risk management. It is very important for the Council's supervision that there are good procedures for reporting events and implementing risk-reduction measures. The Council oversees the management of CBO at a general level through the twice-yearly management reporting from the Executive Board and through its consideration of the Board's minutes, plans and budgets.

### SUPERVISORY ACTIVITIES AND CONCLUSIONS IN 2015

#### MANAGEMENT OF INTERNATIONAL RESERVES

Norges Bank's international reserves consist of foreign exchange reserves and claims on the International Monetary Fund (IMF). The foreign exchange reserves comprise a money market portfolio<sup>51</sup> and a petroleum buffer portfolio<sup>52</sup> managed by CBO, and a long-term portfolio which

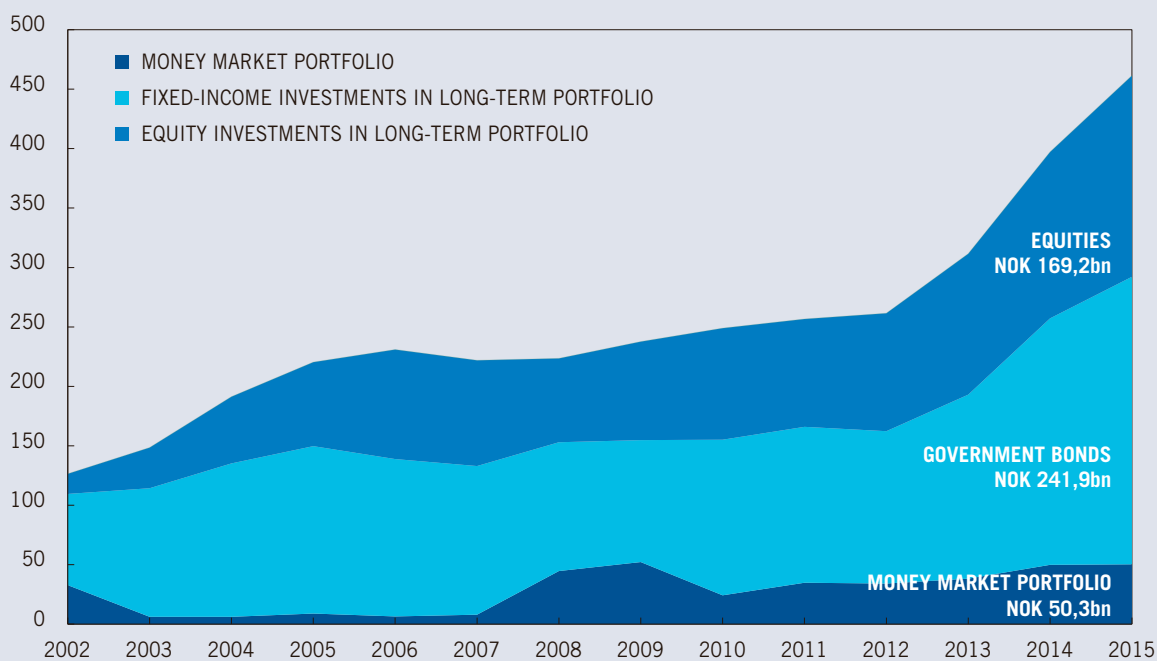
<sup>51</sup> *The size of the money market portfolio is to be between SDR 3.5bn and SDR 4.5bn. An SDR is roughly equivalent to NOK 12.*

<sup>52</sup> *The buffer portfolio should not normally exceed NOK 35bn.*

**FIGURE 9** FOREIGN EXCHANGE RESERVES EXCLUDING BUFFER PORTFOLIO PER 31 DEC 2015

**FOREIGN EXCHANGE RESERVES**

Market value at year-end<sup>\*)</sup> excluding buffer portfolio



<sup>\*)</sup> The total market value at the end of the fourth quarter of 2015 was NOK 461.4bn or SDR 37.7bn.

was managed by NBIM in 2015. The Executive Board has decided in 2016 to transfer the management of bond investments in the long-term portfolio to CBO, while NBIM will continue to manage its equity investments. Fixed-income instruments are to consist mainly of liquid securities. Equities are to be managed on the basis of largely the same principles and management framework as apply to the management of the GPF. This also includes aspects of responsible investment.

The petroleum buffer portfolio receives the state's foreign-currency cash flows from petroleum activities and any transfers from the GPF. The aim is to ensure appropriate management of the state's need to exchange foreign currency and kroner in connection with cash flows from petroleum activities. The other portfolios are to be used for transactions in the foreign exchange market in the implementation of monetary policy or for the purposes of financial stability, and to meet Norges Bank's international commitments.<sup>53</sup>

The Executive Board has issued principles for the management of Norges Bank's foreign exchange reserves.<sup>54</sup> The strategy and framework are reviewed annually. The Central Bank Governor has also issued guidelines. Considerable importance is attached to liquidity. Norges Bank is exposed to various types of financial risk in its management of the foreign exchange reserves, primarily market, credit and counterparty risk. The Bank is not exposed to liquidity risk in Norwegian kroner.

The Board considers a report on the management of the foreign exchange reserves each quarter, and a simplified version of the report is published.

The Council has considered reports from the Board on financial risk and the management of the foreign exchange reserves. No significant breaches of the rules were reported in 2015. The Council was kept informed about the reduction in the buffer portfolio and a situation with withdrawals of foreign currency from the GPF for con-

version into kroner. The Council was informed of adjustments to the Executive Board's principles. The Council notes that the Board and Governor take an active approach to this important area for the central bank. The management of the reserves remained within the maximum limits for risk set by the Governor.

Figure 9 shows the composition of the reserves, excluding the buffer portfolio, at 31 December 2015. Their total market value was NOK 461.4bn or SDR 37.7bn

#### **MONETARY POLICY AND FINANCIAL STABILITY**

The Council does not supervise the Executive Board's technical assessments, advice and exercise of discretionary authority<sup>55</sup> but keeps abreast of these through the minutes of the Board's meetings. The Central Bank Governor reports on the Bank's assessment of the current economic climate, advice and decisions in his regular briefings at Council meetings. This is also the main theme of the Governor's annual address.

Norges Bank's responsibilities include monitoring Norway's financial infrastructure in line with the Norges Bank Act and international commitments. In addition, the central bank is part of the oversight committee for the cash settlement system CLS.<sup>56</sup> This monitoring is designed to limit the risks in the systems for reconciliation and settlement of interbank money transfers. In addition, the Bank monitors important developments in the overall payment system, with the aim of promoting financial stability.

In accordance with the regulation on the countercyclical capital buffer<sup>57</sup>, Norges Bank produces documentation as a basis for decisions and advises the Ministry of Finance quarterly on the level of this buffer at banks. The requirement of a 1 per cent countercyclical capital buffer<sup>58</sup> forms part of the overall capital requirements for banks.

<sup>53</sup> This corresponds to the IMF's definition of foreign exchange reserves.

<sup>54</sup> Laid down by Norges Bank's Executive Board on 23 January 2013 pursuant to the Norges Bank Act, Sections 10, first paragraph, and 24, last amended on 10 February 2015.

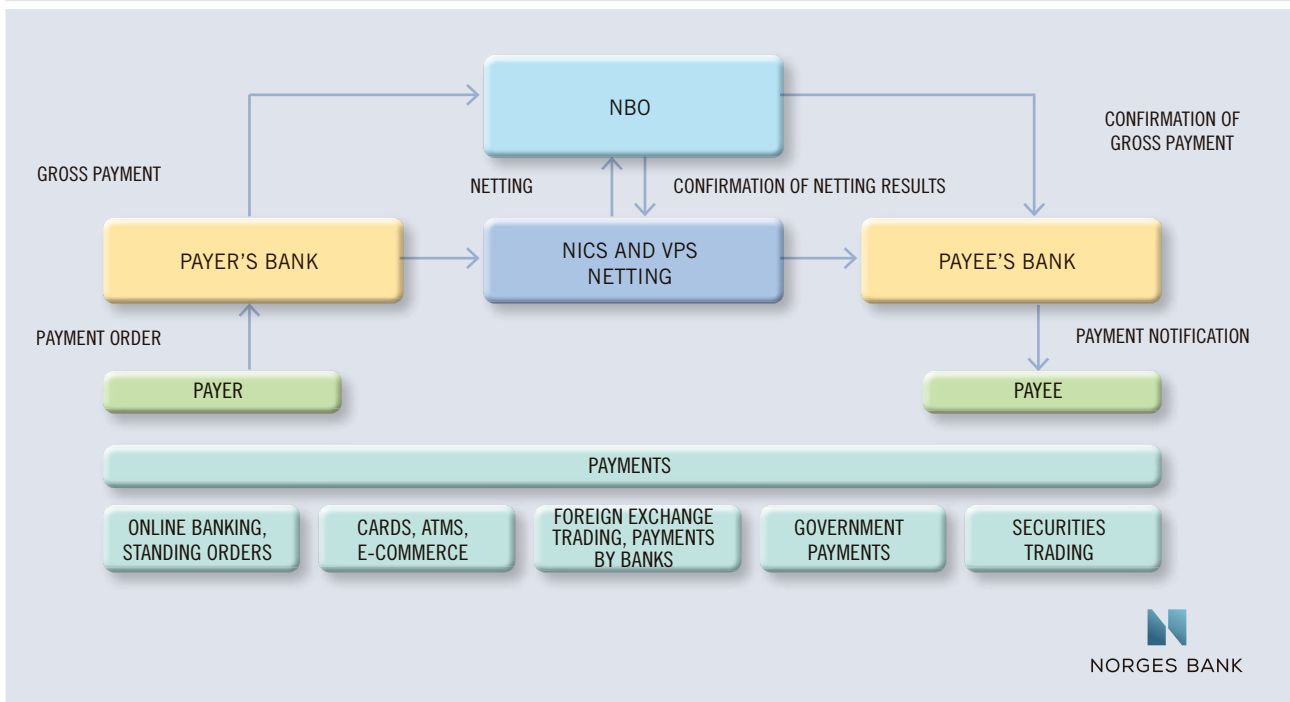
<sup>55</sup> Cf. Norges Bank Act, Section 5, fourth paragraph.

<sup>56</sup> Continuous Linked Settlement, a multi-currency cash settlement system.

<sup>57</sup> Ministry of Finance, laid down by Order in Council on 4 October 2013.

<sup>58</sup> The recommendation from Norges Bank is to accumulate and maintain a buffer of 1 per cent from 30 June 2015 and 1.5 per cent from 30 June 2016.

**FIGURE 10** THE NORWEGIAN PAYMENT SYSTEM





The Council receives the Bank's monetary policy report with an assessment of financial stability, which is published four times a year. The report contains the Bank's assessment of the outlook for the key policy rate and the need for a countercyclical capital buffer at banks. It also receives the Board's annual report on financial stability, which looks more closely at long-term and structural trends in the banking system. The content of these reports is technically outside the Council's supervisory responsibilities, but provides important background information on the Bank's core activities and the implementation of processes in this area.

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

Norges Bank is the ultimate settlement bank for interbank payments in Norway. Norges Bank's settlement system (NBO) is to contribute to an efficient payment system and secure settlement between banks. Figure 10 provides an overview of the participants in the Norwegian payment system and the relationships between them.

The average daily volume of payments handled by the settlement system in 2015 was NOK 219bn. The operation of NBO has been outsourced to the IT company Evry ASA (EVRY). EVRY's control procedures are documented in annual audit reports<sup>59</sup> which are followed up by Norges Bank and contain important information for Norges Bank's external auditor. The Executive Board regularly reviews risk assessments and incidents relating to NBO through management reporting and annual reports.

The settlement system must comply with relevant international standards and requirements for critical infrastructure. Norges Bank is not formally covered by the Financial Supervisory Authority of Norway's ICT regulations, but uses them as a management framework for its operation and development of ICT solutions for the settlement system.

NBO is defined as a critical service under the Security Act.<sup>60</sup> The National Security Authority (NSM) is responsible for supervision in this area. Norges Bank receives supervision reports from NSM, and any nonconformities are addressed and followed up through general reporting on security. Each year, the Bank prepares a schedule for contingency exercises which are conducted internally or together with external suppliers and participants in the payment system. Norges Bank publishes information about the settlement system in its annual report on financial infrastructure. The Executive Board discusses the settlement system in its annual report for 2015 and states that its operation was stable.

The Council has been kept informed about contingency planning and significant operational events through the annual report on NBO and general management reporting. The Council is pleased to see high levels of operational stability being reported for the settlement system. The Board's annual report on the settlement system and public report on financial infrastructure for 2015 will be considered later in 2016.

In line with the Council's supervision plan, a review of the management and control of cybersecurity<sup>61</sup> in NBO was conducted during the year. The review was performed by Deloitte AS in collaboration with the Office of the Supervisory Council. The management of security in relation to NBO at both Norges Bank and EVRY was reviewed, and weaknesses were identified. These were discussed with Norges Bank on an ongoing basis and actioned immediately.

The report from the review found that an ICT strategy with security measures is in place, but that the measures have room for improvement. All-encompassing cybersecurity management supported by the Executive Board needs to be established and implemented. Cybersecurity management should include strategies, risk management,

<sup>59</sup> Assurance Reports on Controls at a Service Organisation, issued by the external auditor at Evry ASA in accordance with International Standard on Assurance Engagements (ISAE) 3402.

<sup>60</sup> Security Act, Section 17. The Critical Asset Regulations contain requirements for the selection, classification and protection of assets defined in the Security Act as being of critical national importance.

<sup>61</sup> The term "cybersecurity" is an extension of the concept of information security and reflects society's ever-growing dependence on ICT systems.

FIGURE 11 NEW BANKNOTE SERIES



reporting, roles and responsibilities. It should also include management and control of suppliers.

The Council endorsed the conclusions of the report, which was forwarded to the Board. The Board has considered the report and provided information on its planned follow-up actions. Internal Audit also carried out a review of ICT security in Central Banking Operations in 2015 and reported similar issues to those emerging from the supervisory review.

The Council notes that the Board pays considerable attention to this area and has asked to be kept informed.

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

Norges Bank is responsible under the Norges Bank Act for issuing banknotes and coins. This includes deciding on their face value and design. The Bank is also responsible for ensuring that society has access to, and the necessary confidence in, cash as a means of payment, and for promoting an efficient overall payment system. At the end of 2015, notes and coins in circulation (outside Norges Bank) totalled NOK 53.1bn.

The Norwegian security company Nokas AS operates four central bank depots, in Tromsø, Trondheim, Bergen and Stavanger, while Norges Bank itself is responsible for the operation of the depot in Oslo. The depots perform central bank services such as deposits and withdrawals of notes and coins and the destruction of banknotes. Long-term agreements have been entered into with respected printers in France and Germany on the production of Norwegian banknotes. A framework agreement has been entered into with Det Norske Myntverket AS on the supply of Norwegian coins.

The Office of the Supervisory Council conducts regular annual follow-up meetings with the department responsible for notes and coins at Norges Bank. Information is provided on risks and changes to processes, systems and the management and control of suppliers and agreements. Together with Deloitte AS, a stock-take of holdings at the central bank depot in Oslo was carried out. The Council also assesses Norges Bank's reports on checks of stocks at

suppliers, deliveries of new notes and coins from producers, and stock management at the central bank depots.

The Council has been kept informed about, and approved resources for, the ongoing project to develop a new bank-note series as illustrated in Figure 11. The plan is for the first denominations to be issued in the second quarter of 2017.

The Council is primarily concerned with the considerable inherent risk of irregularities and external threats associated with cash. The Council considers the Bank's semi-annual reports on notes and coins and relevant management reporting. No significant nonconformities with established procedures were reported in 2015. The Council is of the opinion that the management and control procedures for roles and responsibilities in the area of banknotes and coins are adequate.

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

Central government deposits at Norges Bank totalled NOK 100.6bn at the end of 2015. An agreement has been reached between the Ministry of Finance and the Bank on the operation and management of the government's accounts. 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 group account system. Norges Bank is responsible for implementing and overseeing the agreement's stipulations on security, backups and contingency planning, including tasks performed by EVRY under contract from Norges Bank.

The agreement requires an annual assurance statement to be issued on Norges Bank's compliance with the requirements in the agreement. Deloitte AS has issued such a statement with an assessment of control procedures and compliance with the security and contingency planning requirements for 2015. The statement, which has a positive conclusion, has been noted by the Supervisory Council and forwarded to the Ministry of Finance.

#### **MANAGEMENT OF GOVERNMENT DEBT**

Norges Bank provides banking services for the state, state-owned banks and publicly owned funds, and provides services in connection with the issue and management of

government debt.<sup>62</sup> From 2015, the Bank has had increased operational responsibility for the management of government debt, which includes executing payments and accounting for transactions relating to this debt, under an agreement and mandate from the Ministry of Finance.<sup>63</sup> An annually agreed fee is received from the Ministry.

Government debt forms part of the central government accounts and is not included in Norges Bank's financial statements. Quarterly reports are submitted to the Ministry of Finance and published by Norges Bank.

The rules on financial management in the central government sector require all entities to establish systems and procedures with inbuilt internal control. This also applies to tasks delegated to others. At the request of the Ministry of Finance, an independent assurance review was performed of the framework and processes for accounting and payments in the management of government debt. Deloitte AS submitted an assurance report<sup>64</sup> with a positive conclusion, which has been noted by the Supervisory Council and forwarded to the Ministry of Finance. In addition, the Office of the Auditor General received a report from Deloitte AS on control documents relating to the accounts for government debt management.

<sup>62</sup> Cf. *Norges Bank Act, Section 17.*

<sup>63</sup> *The Mandate for the Management of Government Debt of 2 October 2014 and supplementary provisions of 11 December 2014.*

<sup>64</sup> *Assurance engagement under ISAE 3000.*

## CHAPTER 5

# SUPERVISION OF INVESTMENT MANAGEMENT

### RESPONSIBILITIES AND ORGANISATION OF NORGES BANK INVESTMENT MANAGEMENT (NBIM)

Norges Bank manages the Government Pension Fund Global (GPGF) in accordance with the Government Pension Fund Act and the management mandate for the GPGF. The operational management of the GPGF and the long-term portfolio in Norges Bank's foreign exchange reserves is carried out by NBIM. The management of the foreign exchange reserves is discussed earlier in this report.

The GPGF's capital is invested only outside Norway. The aim of these investments is to obtain the highest possible return with moderate risk. The overall investment strategy is laid down by the Ministry of Finance by defining a strategic benchmark index. Returns on the fund's equity and fixed-income investments are compared with returns on global benchmark indices for equities and bonds set by the Ministry. The mandate also regulates risk management and responsible investment.

At the end of 2015, the GPGF's investments comprised 61.2 per cent equities, 35.7 per cent fixed-income instruments and 3.1 per cent real estate. The equity portfolio was invested in around 9,000 listed companies. The real estate portfolio consisted of both listed and unlisted investments.

The Executive Board has delegated responsibility for the day-to-day management of investment management to the CEO of NBIM through a job description and investment mandate.

In 2015, the Executive Board decided to reorganise investments in unlisted real estate companies into a separate unit of NBIM called Norges Bank Real Estate Management (NBREM). Norges Bank's organisation structure is illustrated in Figure 7. The CEO of NBREM is appointed by the Executive Board but reports to the CEO of NBIM. The investment mandate and job description for the CEO of NBIM were updated in this context to reflect his responsibility for the fund as a whole and all of its assets under management. A separate investment mandate and job description for the CEO of NBREM were approved by the Executive Board. Separate risk management units

and compliance units have been set up at both NBIM and NBREM.

The Supervisory Council asked the Board for information on the reorganisation of NBIM on several occasions in 2015. There was particular discussion of the division of responsibilities between the CEOs of NBIM and NBREM. The Council considers it particularly important that the GPGF is one fund, and that the organisation model is clear when it comes to overall responsibility for the management of the fund, with clear reporting lines to the Executive Board. The Council also had questions about whether the creation of NBREM could lead to a risk of duplication of administrative functions and, as a result, increases in costs.

### THE EXECUTIVE BOARD'S OVERSIGHT

The management mandate for the GPGF sets out various limits and restrictions for the portfolios of equities and bonds. There are also separate limits for real estate investments. The Executive Board has issued supplementary provisions and limits in the investment mandate for the CEO of NBIM.

In 2016, the Board issued a mandate for a new Real Estate Investment Board (REIB), which is chaired by the CEO of NBIM and has five members. Two of the members are external and have expertise and experience in real estate investments. Investment decisions in unlisted real estate above USD 750m must be approved by the REIB. Single investments above USD 1.5bn must be approved by the Executive Board after being considered by the REIB and the Executive Board's Risk and Investment Committee. Previously the limit for consideration by the Executive Board was set at USD 1bn.

The Board has issued principles for operational risk management at NBIM that include a financial and reputational risk tolerance limit. The principles are subject to regular review, and the Council is kept updated.

There is considerable interest in the performance of the GPGF. The mandate requires internationally accepted standards to be used for valuation, performance measurement and the management, measurement and control of

risk. Deloitte AS conducts controls of key return data in the external quarterly reports and in the annual financial reporting as part of its financial auditing.

The Executive Board oversees investment management partly through periodic reports on operations, compliance and internal control, risks and returns. These reports are forwarded to the Council. As part of the Council's consideration of the quarterly reports, presentations are given on investment management activities, performance and risk. NBIM's reporting is evolving continuously.

Norges Bank has a right and a duty to advise the Ministry of Finance on the investment strategy and on the need for changes to the mandate for the GPF. The Bank also has a right to express an opinion on the Ministry's proposals for changes to the mandate. The Council is kept informed about such advice and opinions.

The Office of the Supervisory Council holds regular meetings with NBIM's compliance function on overseeing and reporting risk and compliance. The Council is satisfied that there is considerable transparency in the reporting of unwanted events. There was an increase in such incidents in 2015, but the financial consequences were considered to be insignificant. No significant breaches of compliance with the mandate and the guidelines for the management of the GPF were reported during the year.

In line with the management mandate for the GPF, the Executive Board has issued guidelines and limits for the remuneration of NBIM employees. Internal Audit issues a statement on compliance with the regulation on remuneration in the financial sector.<sup>65</sup> The Council considers an annual report from the Executive Board on its application.

## SUPERVISORY ACTIVITIES AND CONCLUSIONS IN 2015

### RESPONSIBLE INVESTMENT

The mandate and guidelines on the observation and exclusion of companies from the GPF are set by the Ministry of Finance. New guidelines and a number of changes to

the mandate concerning responsible investment came into effect on 1 January 2015. The amendments entailed a new management model for this work. The members of the Council on Ethics are appointed by the Ministry on the Bank's recommendation. The Council on Ethics now issues recommendations to Norges Bank rather than to the Ministry, and the Executive Board takes the decisions on observation and exclusion of companies. The Ministry is to be informed of these decisions.

The Supervisory Council has noted the Bank's new and extended responsibilities, and its supervision of this area includes the Board's processes for considering statements from the Council on Ethics.

The Executive Board's Ownership Committee prepares matters relating to responsible investment, including observation and recommendations for the exclusion of companies from the portfolios. Exclusions can also be reversed following a decision of the Board on the recommendation of the Council on Ethics. Responsible investment has been integrated into the Board's principles for risk management in investment management. In 2015, the Board issued separate principles for responsible investment in line with previous recommendations from the Supervisory Council. The new principles cover work on standard-setting, active ownership, management of environmental, social and governance risks, and observation and exclusion of companies.

The Council has been kept informed about the Board's organisation of this work and has noted that the Board considered a total of nine observation and exclusion cases in 2015, following the recommendations of the Council on Ethics in all instances. The Board's reasons for exclusions and reversals of previous exclusions are published. The Council looks positively on the transparency that is being practised.

Norges Bank reports on responsible investment activities in 2015 in the Executive Board's annual report, in the annual report on the management of the GPF, and in a dedicated responsible investment report. Monitoring the Board's oversight of compliance with the mandate and the development of reporting in this area is an important part of the Council's supervision. The Council has been kept

<sup>65</sup> *The Regulation on Remuneration Systems at Financial Institutions, Securities Companies and Securities Fund Managers of 1 December 2010.*

informed about Norges Bank's dialogue with the Ministry of Finance on following up white papers on the management of the Government Pension Fund when it comes to environmental issues and human rights.

#### **EXTERNAL MANAGEMENT**

NBIM assigns a small part of the management of the equity and bond portfolio in the GPFG to external managers, primarily in new markets or market segments. An extensive body of rules has been established for the selection of external managers, and NBIM closely monitors risks and returns, mandate compliance and fees.

Supervision meetings were held with two external managers in 2015. Information was provided about financial infrastructure, challenges in the present market, and control systems to ensure that investments comply with the manager's mandate and the law. There was a particular discussion of compliance with any sanctions from Norwegian authorities.

The Council is kept informed about external management at a general level through regular reporting on results, special risk factors and costs. The supervision of this area has not resulted in a need for specific action from Norges Bank.

#### **FRAMEWORK FOR THE MANAGEMENT AND CONTROL OF TAX COSTS IN THE MANAGEMENT OF THE GPFG**

Norges Bank's activities are exempt from tax in Norway but are taxable in a number of countries where investments are made. Under national tax rules or international tax agreements, the tax paid is partially or fully refunded. In autumn 2013, Deloitte AS submitted an assurance report on the framework for the management and control of tax costs in the management of the GPFG. The Executive Board has followed up the recommendation that it should draw up a policy document specifying attitudes and risk tolerance with regard to tax-reduction measures.

In 2015, the Board discussed the treatment of tax issues in investment management and kept the Council informed about this. At the Council's request, a report was received from the Board on the tax situation in relation to the formation of subsidiaries for real estate investments.

The Council attaches importance to tax issues and to operational limits being observed. The Council has taken note of the Board's oversight and implementation of the framework for the management and control of tax and will continue to monitor this area in 2016.

#### **MANAGEMENT AND CONTROL OF OPERATIONAL RISK IN THE OUTSOURCING OF ICT-RELATED SERVICES**

Investment management at the Bank is to a great extent dependent on effective and reliable ICT solutions and systems. The operational risk is considerable due to complexity, outsourcing and extensive use of temporary staff. In accordance with strategies and action plans, work on strengthening the operation and security of systems and procedures is a continuous process. The Council is regularly informed about the Executive Board's oversight.

In line with the supervision plan for 2015, a review was performed of the management and control of operational risk in the outsourcing of ICT systems. The review covered processes for entering into contracts, reporting and monitoring risks. Deloitte AS submitted an assurance report in collaboration with the Office of the Supervisory Council. The report had a positive overall conclusion. It was noted that Norges Bank could clarify its requirements for processes when entering into agreements with suppliers (due diligence<sup>66</sup>) and the regulation of social responsibility in the agreements.

The Council endorsed the report's conclusions and has asked to be kept informed about the Executive Board's follow-up actions.

#### **GENERAL OVERSIGHT OF RISKS AND RETURNS IN THE MANAGEMENT OF THE GPFG**

Overseeing risks and returns is a core part of investment management. General limits and expectations for risks and returns are issued by the Ministry of Finance, and the Executive Board has laid down supplementary principles and investment mandates. The Board monitors developments through quarterly reports from NBIM. The main elements are reported, in turn, to the Supervisory

<sup>66</sup> *Due diligence – procedures and methods for gathering and analysing information on financial and legal matters, for example. Often used as a basis for decision-making when entering into agreements with suppliers.*

Council. The Bank's external reporting on risks and returns is based on the mandate for the GPFG. A separate annual report in this area has been published for the first time in 2016.

The new Risk and Investment Committee prepares the Executive Board's oversight of risks and returns. The Committee was set up partly as a result of a previous recommendation from the Supervisory Council. The Council has noted that a process is under way to clarify the division of responsibilities between the Risk and Investment Committee and the Audit Committee.

In line with the supervision plan for 2015, the Office of the Supervisory Council performed a review of the Executive Board's oversight. Together with Oliver Wyman AB, assessment criteria were defined for the review on the basis of the mandate and leading practices among institutional investors and sovereign wealth funds globally. Account was taken of the framework for the management of the GPFG differing from that for other funds in some areas.

The supervision report found that overall objectives for the management of the GPFG have been established in accordance with leading practice. However, it was noted that the Executive Board should consider establishing a set of general management parameters to systematise the oversight of investment management. For example, it could consider more concrete return targets and targets for the use of the risk limits set by the Ministry of Finance. It was also recommended that, in the ongoing process of assessing the reporting of risks and returns, the Executive Board should evaluate whether the reports are tailored to its management and control responsibilities.

The Council endorsed the conclusions of the supervision report, which has been forwarded to the Board. The Council will monitor developments in reporting and has asked to be kept informed about the Board's follow-up actions.

#### **MANAGEMENT AND CONTROL OF COUNTRY RISK IN THE MANAGEMENT OF THE GPFG**

The GPFG had investments in 78 countries at the end of 2015. In line with the strategy for NBIM<sup>67</sup>, exposure to emerging markets has increased. This may entail a higher risk of financial and reputational losses.

In accordance with the supervision plan, a review was conducted of Norges Bank's overall framework for the management and control of country risk in the investment process. The review was carried out by Oliver Wyman AB in collaboration with the Office of the Supervisory Council.

The mandate and framework do not directly regulate the management of country risk but do provide some general guidance. There is little in the way of regulations and international standards for the management and control of country risk. The assessment criteria for the review were based on relevant practices and trends at international financial institutions. The assessments took account of Norges Bank's special position as a central bank.

The review revealed that the roles and responsibilities of the Executive Board and NBIM when it comes to the management and control of risk are clearly described. However, the Board is less involved as policymaker in the management of country risk than relevant practice and trends internationally might indicate.

The supervision report found that NBIM has a robust framework for country risk which is in many respects more extensive than best practice. It was noted that the Board should consider whether a more holistic overall approach could be established. This would not mean taking a position on investments in individual countries, but might include general principles and the design of more integrated and systematic reporting in this area. NBIM could consider formulating more in the way of objective criteria for the approval and monitoring of countries.

<sup>67</sup> Strategy for Norges Bank Investment Management 2014-2016 as approved by the Executive Board.



The Council endorsed the conclusions of the supervisory review. The report has been forwarded to the Board, and the Council will keep abreast of the Board's follow-up actions.

#### **MANAGING THE RISK OF CORRUPTION IN INVESTMENT MANAGEMENT**

Increased attention has been paid to anticorruption activities both in Norway and abroad recently. There has also been a trend in national rules and international standards and guidelines towards more stringent requirements for private and public organisations to combat corruption.

Both the Norwegian government and the Storting have expressed zero tolerance of corruption – see, for example, the white paper “Diverse and value-creating ownership”.<sup>68</sup>

In accordance with the supervision plan, the management of corruption risk in investment management was reviewed in 2015. The assessment criteria were based on the Norwegian Penal Code and relevant international corruption legislation, the UK Bribery Act<sup>69</sup> and the US Foreign Corrupt Practices Act<sup>70</sup>, and explanatory notes.

The review covered Norges Bank's principles and procedures for identifying, assessing and addressing the risk of corruption. In the management of the GPF, both operations and investment activities could be exposed.

The main conclusion of the review was that frameworks and processes to prevent corruption are in place. The Executive Board has expressed zero tolerance of corruption in its ethical principles for employees, which are publicly available. In line with good practice, an anticorruption programme has been set up at NBIM.

One recommendation in the supervision report was that the Board should consider formulating general principles for anticorruption work at Norges Bank that also include follow-up and reporting. The principles should cover the management of corruption risk at third parties. To highlight Norges Bank's attitude to corruption, the Board

should consider publishing the principles and the main elements of the anticorruption programme.

Ordinary reporting on compliance and control to the Executive Board includes corruption risk and any incidents. The Board also follows up this risk through the long-term plan for Internal Audit.

The Council endorsed the conclusions of the review and considers it particularly important for anticorruption work to cover third parties. The report has been forwarded to the Board, and the Council has asked to be kept informed about the Board's follow-up actions.

#### **RISK MANAGEMENT AND CONTROL IN REAL ESTATE MANAGEMENT**

The GPF's real estate activities expanded considerably in 2015. Investments have mainly been made together with partners and are held through subsidiaries. Norges Bank has established a holding structure that distinguishes between operating subsidiaries (management companies) with operational and support functions, and pure property companies (holding companies). The bulk of the companies formed are holding companies.

The management companies have operations which previously required approval from the Supervisory Council under Section 8a of the Norges Bank Act. Over time, approval has been given for the formation of operating subsidiaries in Luxembourg, Singapore, Tokyo, London and New York. The last two have yet to be formed.

Figure 12 outlines a draft future organisation structure of subsidiaries and holding companies.

NBIM S.à r.l. in Luxembourg was formed in 2012. In 2015, NBREM formed a company in Singapore for future operating and support functions. A real estate office in Tokyo was also set up as a subsidiary of the Singapore company.

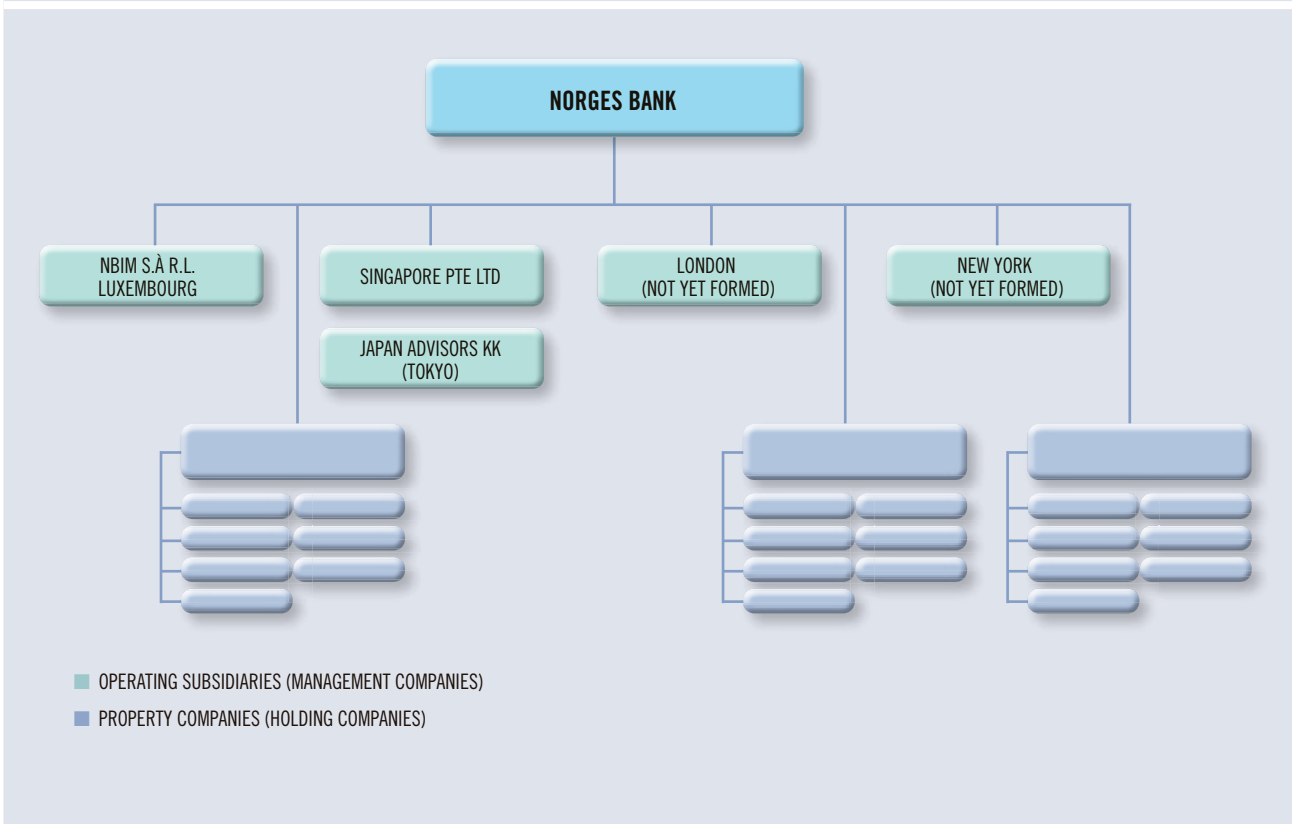
The Council was kept informed about investments, company formations, risks and returns in real estate management through quarterly reporting from the Executive Board.

<sup>68</sup> Report to the Storting No. 27 (2013-2014).

<sup>69</sup> Bribery Act 2010.

<sup>70</sup> Foreign Corrupt Practices Act 1977.

FIGURE 12 HOLDING STRUCTURES



In the light of the Council's guidelines for the supervision of subsidiaries, the Office of the Supervisory Council has regular contact with NBREM to obtain information on developments in the organisation and on new company formations and real estate transactions. This supervision includes checks on company formations and a dialogue on the choice of auditor at these companies. Checks are made to ensure that the required access to information and access for supervision and auditing are provided where property companies are held jointly with partners. In addition, meetings are held with real estate partners to review the management and control framework for compliance with the agreements with Norges Bank. This supervision is conducted together with Deloitte AS.

Following input from the Ministry of Finance and a special resolution of the Supervisory Council, an independent assurance review<sup>71</sup> looking at the risk management and control framework for real estate investments was carried out by Deloitte AS in consultation with the Office of the Supervisory Council.

The measurement criteria used for the review were based on international practice in the real estate industry and standards for risk management and control (COSO<sup>72</sup>). Deloitte AS believes that the framework for risk management and control has been designed and implemented in accordance with the established measurement criteria. The real estate operation is evolving rapidly, and the framework will need to develop with the size of the portfolio and the risks faced. The report also notes that real estate investments differ significantly from NBIM's other activities. The real estate operation's evolution and risks may therefore give reason to consider whether the Executive Board should set out more specific management principles.

The Council has taken note of the assurance report and endorses the conclusions. The report has been sent to the Ministry of Finance and published in line with applicable practice.

The report has been forwarded to the Executive Board, and the Council has asked to be kept informed about the Board's follow-up actions.

<sup>71</sup> The review was carried out in accordance with ISAE 3000.

<sup>72</sup> The Committee of Sponsoring Organizations of the Treadway Commission: "Enterprise Risk Management – An Integrated Framework".



## CHAPTER 6

# NORGES BANK'S BUDGET AND ANNUAL FINANCIAL STATEMENTS

Norges Bank is an independent financial entity, and its budget and annual financial statements are not included in the government budget or the government accounts. The Executive Board is to propose a budget for the coming year, which is then adopted by the Supervisory Council and communicated to the Ministry of Finance. The Board is also to produce an annual report and annual financial statements, which are audited by the external auditor and adopted by the Council. The annual report, the annual financial statements, the auditor's report and the Council's formal adoption of the annual financial statements are sent to the Ministry of Finance for submission to the King and are communicated to the Storting.<sup>73</sup>

### BUDGETING AND ACCOUNTING PROCESSES

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

The Council has adopted budget rules for Norges Bank, and the Executive Board has issued supplementary financial rules with general principles for financial management and the budget process. Both the budget rules and the financial rules were updated in 2015 with effect from the 2016 budget/financial year.

The Council's budget decision covers all of Norges Bank's activities. This is a principle and a practice specified in the budget rules. Roles and responsibilities in the budget process and oversight by the governing bodies have been made clearer in the updated budget rules. The Board considers the budget for each operational area but submits a combined budget proposal for Norges Bank. The scope and content of the underlying information in the proposal must be tailored to the Council's budget responsibilities and supervisory role. The aim is to give the Council a complete picture of the Bank's operations presented at the same level as the external financial reporting.

The budget rules contain specific requirements for the content of the budget proposal. The overall level of costs and developments in costs are to be presented in the light of the strategy and relevant external comparisons. There is a requirement that material uncertain budget items are clarified. Proposed capital expenditure is presented com-

pared for each operational area with an overview of, and best estimates for, individual items. From the 2016 budget year, administrative expenses at subsidiaries for the GPF's real estate investments are to be included in the Council's budget decision.

The Board's updated financial rules include general guidelines and principles for internal and external financial reporting. There is a requirement that material changes to accounting policies and information on accounting items associated with significant risk or a high degree of discretionary judgement are to be presented to the Audit Committee and the Executive Board. When it comes to accounting, responsibilities within the operational areas are clarified, and account is taken of Norges Bank being a single legal entity presenting a single set of financial statements.

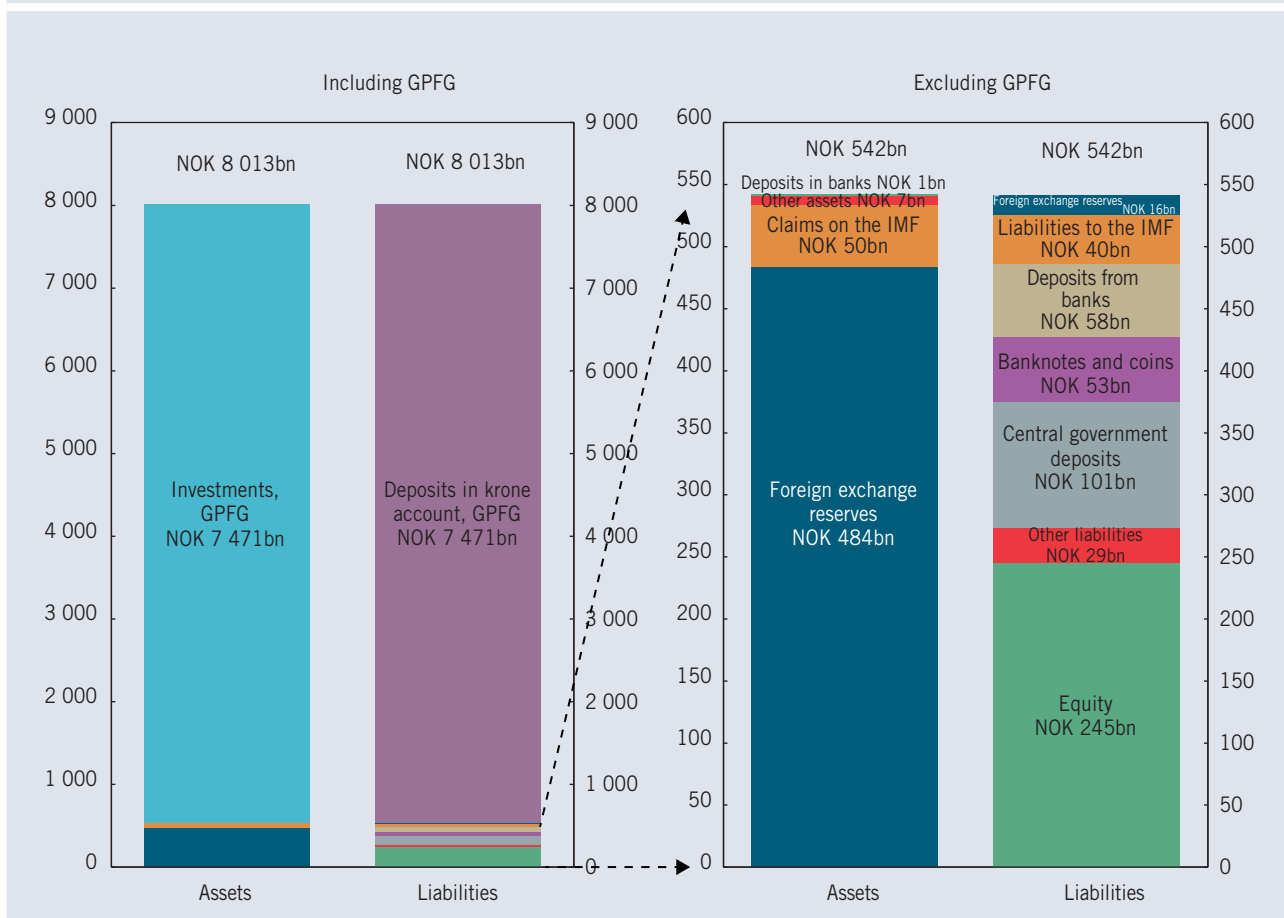
In its consideration of the budget, the Council checks that responsible financial limits have been set for the Bank's duties and operations. The budget decision covers operating revenue, operating expenses and capital expenditure for the two operational areas. Investment income from investment management activities is not included in the budget, due partly to the considerable uncertainty associated with movements in exchange rates and financial markets. Norges Bank is not exposed to financial risk through the GPF's investment results, as they are offset against the fund's deposit account.

The Ministry of Finance reimburses the Bank for the actual cost of managing the GPF within a limit set annually as a percentage of assets under management. Fees paid to external managers for excess returns are not included in the limit for management costs. The Ministry's annual limit is set on the basis of budgeted costs for investment management in the coming year.

The Executive Board has the authority to spend the budget within the total adopted by the Council. Unless otherwise stated in the budget decision or the budget rules, the budget may not normally be exceeded. Exceptions may be made to protect lives, health and major assets, or where due to significant variable and uncertain circumstances beyond the Bank's control. Budgeted funds may not be reallocated between the operational areas unless

<sup>73</sup> *Norges Bank Act, Sections 29 and 30.*

**FIGURE 13** NORGES BANK'S BALANCE SHEET INCLUDING GPFG AT 31 DECEMBER 2015



related to the reorganisation of activities. In special cases, the Council may approve changes to the budget adopted during the year following a proposal from the Board. No requests for additional funding were submitted in 2015.

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

The Executive Board produces an annual report and annual financial statements for Norges Bank, which also incorporate financial reporting on the management of the GPFG. The Council adopts the annual financial statements and takes note of the Board's annual report. The external auditor's reports on Norges Bank's annual financial statements and the financial reporting for the GPFG are considered at the same time. The financial reporting for the GPFG and the external auditor's report are published in a separate report on the management of the fund.

Norges Bank's annual financial statements and the Board's annual report are prepared in accordance with the Norwegian Accounting Act's rules for large enterprises and the regulation on the Bank's annual financial statements.<sup>74</sup> It is also a requirement that the financial reporting is prepared in accordance with international accounting standards.<sup>75</sup>

Norges Bank produces quarterly reports for the GPFG. The external auditor submits a report to the Supervisory Council in accordance with the international standard on the review of interim financial information. Three unqualified review reports were issued in 2015.

The publication of quarterly and annual reports for the GPFG is required by the management mandate. In these reports, the Bank is to aim for the greatest possible transparency about its management of the fund within the constraints imposed by responsible implementation of its investment mandate.<sup>76</sup> The Council is of the opinion that Norges Bank practises considerable transparency about its activities and results. The annual report and financial statements and the quarterly reports on the management of

the GPFG and the foreign exchange reserves are published on the Bank's website. The Bank also publishes monthly balance sheets, but these are not reviewed by the Board and the Council.

#### **NORGES BANK'S ANNUAL REPORT AND FINANCIAL STATEMENTS FOR 2015**

Norges Bank's annual report and financial statements for 2015 and the annual report on the management of the GPFG were considered at the Supervisory Council's meeting of 3 March 2016.<sup>77</sup> Deloitte AS's audit opinions<sup>78</sup> were unqualified. The Council approved the annual financial statements and the allocation of comprehensive income for 2015 proposed by the Executive Board. The audit report on the audit of the annual financial statements for 2015 was also reviewed.

Norges Bank's financial statements for 2015 show a total profit of NOK 66,469m (2014: NOK 89,198m). This profit comprised mainly investment returns and exchange gains on the foreign exchange reserves. The net return in international currency on equities and long-term fixed-income investments was NOK 12,288m. A weaker krone also led to an increase in the reserves of NOK 54,749m. Measured using an import-weighted exchange rate, the Norwegian krone was 8 per cent weaker at the end of 2015 than at the end of 2014. The operating profit for 2015 and the Council's oversight of expenditure are discussed below.

Norges Bank's balance sheet showed total assets of NOK 8,013bn at the end of 2015, consisting of both assets relating to central banking and assets under management in the GPFG. The balance sheet including and excluding the GPFG is presented in Figure 13.

The balance sheet total excluding the GPFG was NOK 542.1bn. The foreign exchange reserves had a market value of NOK 468bn.

<sup>74</sup> Laid down by the Ministry of Finance and effective for financial years beginning after 31 December 2010.

<sup>75</sup> International Financial Reporting Standards (IFRS) as adopted by the EU.

<sup>76</sup> Management Mandate for the Government Pension Fund Global, Chapter 6 "Public reporting".

<sup>77</sup> For more detailed information, see *Norges Bank's Annual Report and Financial Statements 2015*.

<sup>78</sup> Audit reports for Norges Bank and the GPFG were issued on 10 February 2016.

**TABLE 3** NORGES BANK'S OPERATING RESULTS EXCLUDING SUPERVISORY COUNCIL'S EXPENSES

MILLIONS OF NOK	BUDGET 2016	ACTUAL 2015	BUDGET 2015	ACTUAL 2014	ACTUAL 2013
Operating revenue, Central Banking Operations	127	125	125	128	125
Management fee, Government Pension Fund Global	4686	3933	3882	3202	2 889
<b>Total operating revenue</b>	<b>4813</b>	<b>4058</b>	<b>4007</b>	<b>3330</b>	<b>3 014</b>
Operating expenses, Central Banking Operations	-1070	-937	-955	-750	-750
Operating expenses, Norges Bank Investment Management	-4789	-4024	-3946	-3267	-2 949
<b>Total operating expenses</b>	<b>-5859</b>	<b>-4961</b>	<b>-4901</b>	<b>-4017</b>	<b>-3 789</b>
<b>Net operating expenses</b>	<b>-1046</b>	<b>-903</b>	<b>-894</b>	<b>-687</b>	<b>-775</b>
Capital expenditure, Central Banking Operations	116	178	236	167	140
Capital expenditure, Norges Bank Investment Management	369	165	175	83	112
<b>Total capital expenditure</b>	<b>485</b>	<b>343</b>	<b>411</b>	<b>250</b>	<b>252</b>



The market value of the krone account for the GPFG was NOK 7,471bn following an increase during the year of NOK 1,044bn. This increase breaks down into transfers from the government of NOK 42bn, an investment return of NOK 334bn and foreign exchange gains of NOK 668bn.

Norges Bank had equity of NOK 245.4bn on 31 December 2015, an increase of around NOK 40bn over the year. The Bank's equity consists of an exchange equalisation reserve and a transfer fund.

Under Section 30 of the Norges Bank Act, the King lays down guidelines for provisions and allocations of the Bank's profit.<sup>79</sup> The Supervisory Council has reached the following decision on the financial statements for 2015:

- The Supervisory Council takes note of the Executive Board's Annual Report for 2015.
- The Supervisory Council takes note of the auditor's report and adopts Norges Bank's financial statements for 2015.
- In accordance with the guidelines, the comprehensive income of NOK 66.5bn is to be transferred to the transfer fund (NOK 7.6bn) and to the exchange equalisation reserve (NOK 58.9bn). A third of the transfer fund, or NOK 26.6bn, is then to be transferred to the Treasury.

Decisions on transfers from Norges Bank to the government must be approved by the Storting and are carried out in the following year. Such transfers from the transfer fund to the Treasury last took place following the results achieved in 2014 and 2001 and amounted to NOK 10.4bn and NOK 10.7bn respectively.

The Accounting Act's requirements for reporting on social responsibility apply to Norges Bank.<sup>80</sup> The Bank must also

account for what it has done to integrate human rights, labour rights and social, environmental and anticorruption issues. This account is to be provided in the Executive Board's annual report or in another publicly available document. Given the public interest in the Bank's operations, the Council has emphasised the importance of the Board paying great attention to this area. Deloitte AS's audit report to the Council confirmed that the information provided in the Board's annual report for 2015 complies with the content requirements in the Accounting Act. The Council has taken note of the information in the Board's annual report.

## OVERSIGHT OF NORGES BANK'S EXPENDITURE

### OVERSIGHT OF EXPENDITURE IN 2015

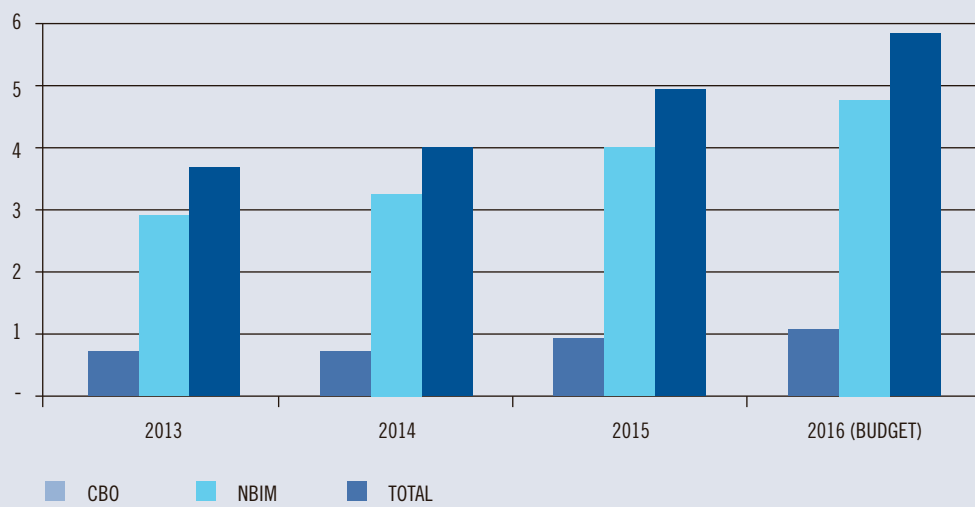
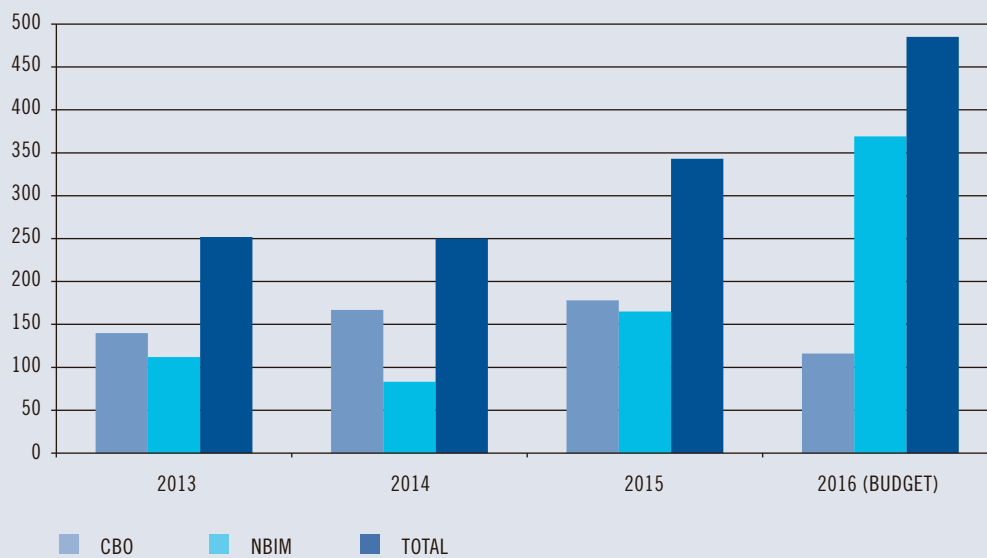
Net operating expenses totalled NOK 903m in 2015. As mentioned above, returns from investment management are not included. Net operating expenses were within the approved budget once exchange rate movements are taken into account. The Council oversees expenditure by considering semi-annual and annual management reporting.

Investment management costs came to NOK 4,024m. The management costs for the GPFG of NOK 3,933m have been reimbursed in full by the Ministry of Finance. This is equivalent to 5.0 basis points of assets under management, up from 4.7 basis points in 2014. Performance-based fees are excluded from these calculations. The limit set by the Ministry of Finance for 2015 was 9 basis points (0.09 per cent). The increase in management costs was due mainly to a weaker Norwegian krone than assumed in the budget. Costs for external managers, custody services, ICT, analytical services and personnel were particularly affected.

Table 3 shows operating profit and capital expenditure in the period 2013–2016 for Norges Bank as a whole. See also Figures 14 and 15 presenting developments in operating expenses and capital expenditure at Norges Bank.

<sup>79</sup> Guidelines issued by the King in Council on 7 February 1986 and most recently amended by Royal Decree on 6 December 2002.

<sup>80</sup> Annual Accounts Act, Section 3-3 c.

**FIGURE 14** NORGES BANK'S OPERATING EXPENSES (BILLIONS OF NOK)**FIGURE 15** NORGES BANK'S CAPITAL EXPENDITURE (MILLIONS OF NOK)

Norges Bank had 849 employees at the end of 2015, against 755 at the end of 2014.<sup>81</sup> Of these, 330 (2014: 327) worked in Central Banking Operations, including central administration and Internal Audit, and 518 (2014: 428) at NBIM. Norges Bank is an international organisation with employees from 38 nations, of whom 220 are based at offices outside Norway. The subsidiaries had 18 employees.

The Council is satisfied that the Executive Board managed expenditure in 2015 in line with the budget rules for Norges Bank. It notes that the cost of managing the GPFG was below the limit set by the Ministry of Finance.

#### **THE SUPERVISORY COUNCIL'S BUDGET DECISION FOR 2016**

Norges Bank's budget for operating activities and capital expenditure in 2016 has been submitted by the Executive Board. The Supervisory Council thoroughly reviewed and discussed the budget. Additional information was obtained on the principles for uncertain items and the increase in costs for investment management, especially real estate management. There was particular discussion of the increase in expenditure in investment management. Information was provided on the level of transaction costs.

With reference to the budget rules and the letter from the Ministry of Finance on the reimbursement of costs for the management of the GPFG<sup>82</sup>, the Council approved the budget presented.

Operating expenses excluding the Council's costs are budgeted at NOK 5,859m, and the budget shows an operating loss of NOK 1,046m and capital expenditure of NOK 485m for the Bank as a whole. A breakdown between the operational areas can be found in Table 3.

Costs for the management of the GPFG account for NOK 4,686m of the total budgeted, including NOK 70m in operating expenses at the subsidiaries. The Ministry of Finance has set a limit for management costs in 2016 of 8

basis points (0.08 per cent) of the fund's average market value. This limit is lower than in previous years.

Altogether, the budget assumes 946 full-time employees at Norges Bank in 2016: 331 at CBO and 608 at NBIM, including 140 at NBREM. The number of employees at NBIM has increased by almost 70 per cent since 2006, while staff numbers at CBO have been relatively stable over the same period. The budget allows for an expected increase in costs at NBIM, due mainly to the expansion of real estate investments.

As stated above, the Council has also approved the budget for 2016 for the Supervisory Council, the Office of the Supervisory Council and the external auditor, which totals NOK 44.4m.

<sup>81</sup> The Office of the Supervisory Council's employees are not included in these figures. For the Council's own expenditure, see the separate discussion earlier in the report.

<sup>82</sup> Letter from the Ministry of Finance to Norges Bank of 9 December 2015.



1. Hovedsædet i Kristiania (

a. **Direktører.**

ktionens fast beskikkede Formand, teg  
n-chef)

## CHAPTER 7

# ASSESSMENT OF THE EXECUTIVE BOARD'S MANAGEMENT AND CONTROL

Under Section 5 of the Norges Bank Act, the Supervisory Council is to issue “a statement on the minutes of the meetings of the Executive Board, the supervision of the Bank and matters submitted to it by the Executive Board”.

The minutes of all Executive Board meetings in 2015 have been reviewed by the Council. This is an important element of the Council's supervisory activities and provides an overview of the matters considered by the Board and of its decisions on specific matters. The Council did not minute any particular remarks on the Board's minutes.

Around 57 per cent of the matters considered by the Board were submitted to the Council. The Council also reviewed reports from the Office of the Supervisory Council and Deloitte AS dealing with the Board's management and control. The Central Bank Governor and Deputy Central Bank Governor attended the Council's meetings and answered the questions raised. Supplementary statements were made about the matters considered by the Board and about its minutes. The Council received all of the information requested.

The Council pays particular attention to reports on governance, operational risk and internal control. There is considerable transparency about internal control, incidents and the need for risk-reduction measures in certain areas. The Board and the operational areas work continuously on evaluating and improving the management and control framework. The importance of the Board's oversight was emphasised during the discussions, especially in the consideration of supervision reports. The Board follows up the decisions and suggestions arising from the Council's discussions. It has become an established practice for the Board to report annually on the status of matters that have been considered by the Council and require follow-up actions from the Board. It is very important for the Council that it is kept up-to-date and is adequately involved.

The reporting on the management of the GPFG is monitored closely by the Supervisory Council. Particular attention has been given to compliance with the mandate and guidelines from the Ministry of Finance. The Board's role and responsibilities are described in the framework for Norges Bank. It was noted in the supervision reports that

the Board should consider clarifying its role as policy-maker in specific areas. One reoccurring issue has been that the Board should consider whether it can further clarify the general principles and rules in various areas of the GPFG's management and further develop its overall management reporting. This is particularly relevant when it comes to risk management.

The Executive Board's annual assessment of internal control and risk factors in 2015 has been presented to the Supervisory Council. The Council has noted the Board's assessment and asked to be kept informed about the follow-up of risk-reduction measures. The supervision of the Bank's operations and compliance with the rules governing its activities gave no grounds for particular remarks under the Norges Bank Act.

The Council is of the opinion that the Bank's operations in 2015 were carried out in accordance with the Norges Bank Act, the Government Pension Fund Act, the Management Mandate for the GPFG, the regulation on the Bank's annual financial statements and the regulation on risk management and internal control at the Bank.

---

## STRATEGY FOR NORGES BANK'S SUPERVISORY COUNCIL 2016–2018

### ROLE AND RESPONSIBILITIES

The Supervisory Council's role and responsibilities are set out in the Norges Bank Act and elaborated on in its rules of procedure. The Office of the Supervisory Council is regulated by the rules, job description for the director, decisions and plans adopted by the Supervisory Council. The strategy highlights the main goals and priorities for the Supervisory Council and the Office of the Supervisory Council in the period 2016–2018.

### GOALS

The Council is to ensure democratic insight into, 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 Norges Bank Act and the Storting's expectations. The Council is to help ensure public confidence in the Bank's discharge of its central banking duties and management of the Government Pension Fund Global. Its supervision is to contribute to the development of management and control at Norges Bank.

During the strategy period, the Council will give particular priority to

- clarifying its independence and integrity
- further developing focused and efficient supervision
- transparency and clarity in communications
- contributing to the development of the framework for Norges Bank

The Office of the Supervisory Council is to contribute proactively to the Council's work, goals and priorities through high professional and administrative standards.

## CHAPTER 8

# PRIORITIES FOR FUTURE SUPERVISORY ACTIVITIES

In its supervisory work, the Council attaches importance to continuous development to meet the challenges associated with Norges Bank's ever more extensive and complex operations. This applies not least to requirements and expectations for independent, transparent and competent supervision of the management of the GPFG. It is important to monitor the development of the governance model at Norges Bank.

The Council has adopted a new strategy for the period 2016–2018. It is based partly on the Council's self-evaluation and developments in Norges Bank's operations and responsibilities. The vision and overall goals are retained from the previous strategy period. The strategy also contains a general action plan for the Council and the Office of the Supervisory Council. The strategy requires the Council to give particular priority to independence and integrity in its supervisory activities, focused and efficient supervision, transparency and clarity. One key element of the action plan for the Office of the Supervisory Council is to maintain and further develop its expertise and enhance its supervision methods and reports.

The Council closely monitors developments in the regulatory framework for Norges Bank, including reports to the Storting on the GPFG and mandate amendments. The management and control of the real estate operation remains a priority. Particular importance is attached to the development of the supervision model for subsidiaries and activities conducted jointly with corporate partners. The Council will monitor the establishment of the new management structure for investment management with a second Deputy Central Bank Governor, additional Board committees and the division of responsibilities between NBIM and NBREM. Developments in external reporting, including on risks and returns, will also be followed closely.

Priority topics for supervision are presented in the supervision plan for 2016, which has been approved by the Council. The conclusions and recommendations to the Executive Board from previous supervisory reviews will be followed up. New supervisory reviews will be carried out in selected risk areas. One priority issue is Norges Bank's overall structure for risk management and control. Reviews of the Board's management and control of costs

in the management of the GPFG and the remuneration structure are planned. There will also be an assessment of Norges Bank's tax position and monitoring of Norwegian and international tax rules. The Council will pay attention to the management of security and contingency planning at the Bank's international offices and subsidiaries. Norges Bank's processes to fulfil its responsibility as issuer of banknotes and coins will be reviewed, and the project to develop a new banknote series will be monitored.

The work of the committee reviewing the Norges Bank Act is important for the Council. There is a broad consensus on the importance of establishing a constructive dialogue with the committee and contributing to the ongoing development of the regulatory framework for the Bank.





APPENDIX 1

# NORGES BANK'S SUPERVISORY COUNCIL 2016-2017

## SUPERVISORY COUNCIL

Full members	First elected	Current term
Reidar Sandal, chairman	2010	2014–2017
Tormod Andreassen, deputy chairman	2008	2016–2019
Vidar Bjørnstad	2012	2016–2019
Ingrid Fiskaa	2016	2016–2019
Helle Hammer	2016	2016–2019
Toril Hovdenak	2014	2014–2017
Kjetil Lund	2016	2016–2019
Morten Lund	2010	2016–2019
Peter Meidell	2014	2014–2017
Iver Nordseth	2014	2014–2017
Frank Sve	2006	2014–2017
Synnøve J. Søndergaard	2010	2014–2017
Ingebrigt S. Sørffonn	2012	2016–2019
Paul Birger Torgnes	2014	2014–2017
Randi Øverland	2012	2016–2019
<b>Alternates</b>		
Lars Bjarne Tvete	2014	2016–2019
Jonas Varhaug	2016	2016–2019
<b>Permanent Committee</b>	<b>Alternates</b>	
Reidar Sandal, chairman	Ingrid Fiskaa	
Tormod Andreassen, deputy chairman	Ingebrigt S. Sørffonn	
Toril Hovdenak	Paul Birger Torgnes	
Frank Sve	Peter Meidell	
Synnøve Søndergaard	Vidar Bjørnstad	

---

## PROFILES OF THE MEMBERS OF THE SUPERVISORY COMMITTEE

---



### **Reidar Sandal**

Consultant. 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, department director at Sogn og Fjordane County Municipality, adviser to Botnaneset Industriselskap AS, CEO of Sunnfjord Chamber of Commerce, chairman of Innovation Norway, Fjord1 AS, Nynorsk kultursentrum and Sunnfjord Næringsutvikling AS, and board member at Investinor AS. MA from the University of Bergen.



### **Tormod Andreassen**

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



### **Vidar Bjørnstad**

Head of the international department at the Norwegian Confederation of Trade Unions (LO). Past experience includes member of the Storting and of its Standing Committees on Social Affairs, Justice, Foreign Affairs and Education, Research and Church Affairs, political adviser at the Ministry of Development Cooperation, county operations leader at Amnesty International, member of the board of the European Movement and private secretary to the president of LO. BA from the University of Oslo.



### **Ingrid Fiskaa**

Teacher at Sandnes Upper Secondary School. Member of the central committee of the Socialist Left Party. Past experience includes secretary of state at the Ministry of Foreign Affairs, member of the High Level Panel on Illicit Financial Flows from Africa, board member at Attac Norge and head of the Socialist Youth League of Norway. MA in History from the University of Oslo.



### **Helle Hammer**

CEO of Cefor and Council member at Det Norske Veritas. Board member at Maritimt Forum. Past experience includes secretary of state at the Ministry of Trade and Industry and the Ministry of Finance, political adviser in the Oslo City Government, Norwegian deputy governor of the EBRD, director of Innovation Norway's office in Houston and director of the Norwegian Shipowners' Association. BSc in Economics from Oslo Business Academy.

---

**Toril Hovdenak**

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

**Kjetil Lund**

Senior Vice President of Public Affairs at Statkraft and board member at Agenda. Past experience includes secretary of state at the Ministry of Finance, head of the secretariat to the UN Special Envoy for Climate Change, adviser at the Office of the Prime Minister and the Ministry of Finance, and research fellow at Statistics Norway. MSc in Economics from the University of Bergen.

**Morten Lund**

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

**Peter Meidell**

Executive chairman at P. Meidell AS. Registered legal adviser. BSc in Economics from BI Norwegian Business School, MBA from the University of Wisconsin, Madison, and LLM from the University of Oslo.

**Iver Nordseth**

Specialist consultant/business adviser. County executive board member in Møre og Romsdal, chairman of the Norwegian Association of Windpower Municipalities (LNVK) and board member at Kristiansund and Nordmøre Chamber of Commerce. Past experience includes mayor, chairman of Nordmøre Chamber of Commerce, board member at Nordmøre Energiverk and teacher. BA from the University of Bergen and University of Trondheim.

**Frank Sve**

County Executive Board member in Møre og Romsdal, county Councillor, member of the transport committee, municipal executive committee member, member of the Regional Council for Western Norway and chairman of Åknes/Tafjord Beredskap IKS. Past experience includes mayor, production director at Møremøbler/Stokke, board member at St. Olavs Hospital HF, Norsk Maritime Kompetansesenter and Innovation Norway Møre og Romsdal. Vocational background.

**Synnøve J. Søndergaard**

District secretary at the Norwegian Confederation of Trade Unions (LO) office in Troms, board member of the RDA II Programme, chairwoman of the NRK district programming committee and board member at Innovation Norway Troms. Past experience includes deputy chairwoman at Inko Industri- og Kompetansesenter AS, senior executive officer at the Norwegian Defence Estates Agency, assistant controller at Det Norske Veritas Rotterdam, county Council cabinet member in Troms and alternate member of the Storting. ICT degree from Østfold University College.

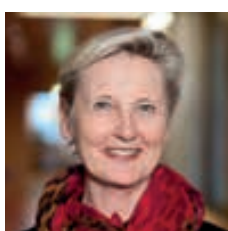
**Ingebrigt S. Sørffonn**

Self-employed. Chairman of the Egill Danielsen Foundation and eight Danielsen schools. Past experience includes member of the Storting, member of its Standing Committees on Finance and Economic Affairs, Business and Industry, and Foreign Affairs, mayor, various positions at Sunnhordland Kraftlag AS and chairman of the Norwegian Inner Mission Federation. Master of Management from BI Norwegian Business School.

**Paul Birger Torgnes**

CEO of Fjord Marin Holding AS, chairman of Sjømat Norge, deputy chairman of NCE Aquaculture, vice president of the Federation of European Aquaculture Producers, municipal Executive Board member in Brønnøy and chairman of various companies. Past experience includes mayor and deputy mayor of Brønnøy, CEO of Fjord Seafood ASA and NorAqua AS, chairman of Torghatten ASA, political adviser to the Minister of Fisheries and secretary-general of the Norwegian Aquaculture Association. Studied business at the University of Nordland and the Norwegian Fisheries College.

---

**Randi Øverland**

Senior advisor at the University of Agder, member of Agder County Council and board member at Kristiansand Cinema. Past experience includes board member at Agder University College and the Norwegian Film Institute, secretary of state at the Ministry of Culture and Church Affairs and the Ministry of Education, Research and Church Affairs, municipal executive committee member in Kristiansand and headmistress of Tangen Upper Secondary School. Degree from Telemark Teaching College and further studies in political science at the University of Oslo.

---

**ALTERNATES****Lars Bjarne Tvette**

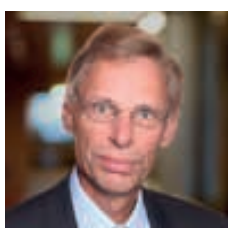
Chairman and owner of LBT Holding AS and chairman of Gardermoen Utvikling AS. Past experience includes member of Trondheim City Council and Sør Trøndelag County Council, chairman of Trondheim Municipal Pension Fund and board member at BN Kreditt ASA, founder and CEO of Basale Eiendomsforvaltning AS, CEO of Nordenfjeldske Eiendomsutvikling AS and assistant director of Den Nordenfjeldske Bykredittforening. Economics degree from Trondheim Business College.

---

**Jonas Varhaug**

CEO of Jærøk DA.  
Past experience includes farmer and municipal treasurer.  
State-authorized public accountant from the Norwegian Business School.

---

**DIRECTOR OF THE OFFICE OF THE SUPERVISORY COUNCIL****Svenn Erik Forsstrøm**

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

---

## APPENDIX 2

# GLOSSARY

---

CBO	Central Banking Operations
CEO	Chief Executive Officer
CLS	Continuous Linked Settlement A multi-currency cash settlement system.
COSO	The Committee of Sponsoring Organizations of the Treadway Commission The committee's "Enterprise Risk Management – Integrated Framework", first published in September 2004, is also referred to as COSO.
GPFGB	Government Pension Fund Global
ICT	Information and communication technology
IMF	International Monetary Fund Created in 1945, the IMF is an organisation of 188 countries working to promote international monetary cooperation, exchange rate stability, sustainable economic growth and high employment, and provide financial support for countries in need.
NBIM	Norges Bank Investment Management The operational area at Norges Bank responsible for investment management.
NBO	Norges Bank's settlement system Settlement system for transactions in the Norwegian payment system.
NBREM	Norges Bank Real Estate Management The department at NBIM responsible for managing the GPFGB's unlisted real estate investments.
NSM	National Security Agency of Norway
OSC	Office of the Supervisory Council

---

REIB	<p>Real Estate Investment Board</p> <p>Advisory committee for decisions on investments in unlisted entities as part of the GPFPG's real estate investments.</p>
SDR	<p>Special Drawing Right</p> <p>Asset that increases a country's international reserves without the need for an actual transfer of funds from other countries. The method is used by countries that are members of the IMF. The nominal value of an SDR is currently based on a basket of four currencies: the Japanese yen, the US dollar, the British pound and the euro. Its composition is normally reviewed every five years, and from 2016 it will also include the Chinese renminbi.</p> <p>An SDR is roughly equivalent to NOK 12.</p>

Norges Bank Supervisory Council  
Report for 2015

*Issued by:*

Norges Bank's Supervisory Council  
Bankplassen 2  
Postoffice box 1179 Sentrum  
N-0107 OSLO  
Norway  
Tel: +47 22 31 60 00  
[http://www.norges-bank.no/en/about/Organisation/  
The-Supervisory-Council](http://www.norges-bank.no/en/about/Organisation/The-Supervisory-Council)

*Published:*

5 April 2016

*English translation:*

Chris Schröder, The AngloNordic Translation  
Company Ltd

*Layout:*

07 Media AS

*Photos:*

Stortinget/John Greiner Olsen (p. 24)  
Kristian Rudsta Andersen (p. 34)  
Espen Schive (p. 50)  
Monica Kvaale (p. 58)  
Sturlason (pp. 64-67)

ISBN 978-82-7553-900-5





