
NORGES BANK'S SUPERVISORY COUNCIL REPORT FOR 2017

Document No. 9 (2017–2018)



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TO THE STORTING

The role of Norges Bank's Supervisory Council is regulated in the Norges Bank Act. In accordance with the Act, the Council supervised the Bank's activities in 2017 and ensured that the rules governing the Bank's operations were observed.

The Council considered supervision reports on the strategy for the Government Pension Fund Global (GPFG), the management of the foreign exchange reserves, compliance with market regulations, control of real estate operations, and responsible investment management. The Council also attached importance to topics such as ICT security and physical security at the Bank's offices in Norway and abroad.

It is the Supervisory Council that is responsible for approving Norges Bank's budget. Net inflows into the GPFG are likely to be smaller in the coming years. Good investment returns and good cost control are therefore important. For an institution with operations in more than one area, it is particularly important that shared support services such as IT, HR and finance bring economies of scale in terms of both financial and human resources.

To be able to measure operational efficiency, relevant benchmarking is necessary for both returns and costs. Going forward, the Council expects that the Executive Board will employ more refined methods for benchmarking costs when drawing up budgets and overseeing expenditure.

As one of Norges Bank's two governing bodies, the Council responded to the consultation on report NOU 2017:13 on the future framework for the central bank and the management of the GPFG. The Council is as yet the only body with experience of independent supervision of the GPFG. In its statement, the Council stressed the importance of the Storting's independent control of the central bank and the nation's wealth.

The Council has approved the Executive Board's annual report and adopted the annual financial statements for Norges Bank for 2017. The Bank had equity of NOK 238bn on 31 December 2017, after positive comprehensive income for the year of NOK 27.7bn. In accordance with the guidelines on provisions and allocations of the Bank's earnings, NOK 14.3bn was allocated for transfer to the Treasury.

The annual report on the management of the GPFG in 2017 and various other publications on its operations have also been considered. The fund's market value grew by NOK 978bn during the course of 2017. The return on the fund before adjustments for currency gains and management fees was NOK 1,028bn. The government made net withdrawals from the fund of NOK 61bn. Withdrawals were first made from the fund in 2016, when they amounted to NOK 101bn net. Further information on Norges Bank's activities can be found in its annual reports and other publications.

The Council adopted this report on the supervision of Norges Bank in 2017 at its meeting of 15 March 2018, and the report is hereby presented to the Storting.

Oslo, 10 April 2018

Julie Brodtkorb
Chair of Norges Bank's Supervisory Council

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CHAPTER 1

SUMMARY AND MAIN CONCLUSIONS

EXECUTIVE SUMMARY OF THE REPORT

Norges Bank is Norway's central bank. Its activities are regulated by Act No. 28 of 24 May 1985 relating to Norges Bank and the Monetary System etc. (the Norges Bank Act). The Bank is a separate legal entity owned by the state. Its position as the central bank of Norway is established in Article 33 of the Constitution.

As Norway's central bank and manager of the Government Pension Fund Global (GPF), the Bank holds a position of immense trust. 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.

Article 75(c) of the Constitution requires the Storting – the Norwegian parliament – to “supervise the monetary system of the Realm”. This role is performed partly by Norges Bank's Supervisory Council, which is appointed by the Storting. The Council supervises whether the Bank conducts its activities in accordance with applicable rules. The Council's supervisory role is set out in the Norges Bank Act. The Council selects the Bank's auditor, adopts its annual financial statements and approves its budget.

Pursuant to Section 30 of the Act, the Council must “at least once a year present to the Storting its statement on the minutes of the meetings of the Executive Board and its supervision of the Bank, cf. Section 5, fourth paragraph, fifth sentence.” This statement on the supervision of the Bank is set out in the various chapters of this report.

The Council's report to the Storting for 2016 – Document No. 9 (2016–2017) – set out priorities for future supervisory activities. The prioritised tasks have been carried out. The execution of the strategy adopted for the Supervisory Council and the implementation of scheduled supervisory activities in accordance with the approved supervision plan are presented in this report. It also presents the supervision of the Executive Board's management and control both at an overall level and in central banking and investment management specifically.

The Bank's activities are described only in general terms. More detailed information can be found in the Bank's

annual report and financial statements for 2017, the annual report on the management of the GPF in 2017, and other reports published by the Bank.

The GPF is managed by the Ministry of Finance. The fund is deposited in an account at Norges Bank, which is then to invest this krone deposit in its own name in an investment portfolio outside Norway. The GPF is to be managed in accordance with more detailed rules issued by the Ministry in its mandate for the management of the GPF. The Executive Board is responsible for ensuring that the guidelines for the fund are complied with.

The Council has considered matters submitted by the Executive Board concerning risk management and internal control, and notes that the Board follows up these activities by issuing principles and guidelines and considering periodic reports. No significant events or breaches of the rules that entailed diminished internal control were identified during the year. The Board has been asked to keep the Council informed about the implementation of risk reduction measures.

The Council's supervision included the Executive Board's implementation of strategies and action plans, and expenditure. The Council has taken note of the Board's annual review and update of the principles for the Bank's activities.

Once considered by the Council, supervision reports are forwarded to the Executive Board for follow-up. The Board is asked for opinions, and it is particularly important that its prioritisation of risks and any actions is clear. A systematic review has been conducted of the follow-up of action items from previous supervisory reviews. The Council has received written replies from the Board setting out the Board's assessments on six reports from previous years. The action items in question, which mainly concern aspects of governance, are presented in this report. The Board's most recent reply is attached to this report as Appendix 2. The Council has taken note of the Board's replies on these matters. Key topics will continue to be subject to risk assessments and prioritisation exercises in future supervisory work.

The Council considered four supervision reports in 2017. Supervisory reviews of the management of the foreign exchange reserves and the management and control of subsidiaries in real estate management resulted in no special remarks with recommendations. When it comes to the management of the GPFG, the Council considered a supervision report on strategy, including the relationship between strategic choices, return expectations and cost-effectiveness in the management of the fund. The starting point for this review included the follow-up of the budget approval process for 2017. The Council also considered a supervision report on risks relating to market regulations.

The conclusions of these last two reports resulted in a number of follow-up questions that the Executive Board was asked to consider. The Board described the background to the Bank's chosen practices in a letter to the Council. This is discussed in detail in this report, and the Council has concluded that the Bank's principles and processes for management and control – including the follow-up of risk, performance and costs – will remain at the heart of its supervisory work. This work will be carried out in such a way as to ensure continuity in following up the risk outlook for Norges Bank through special reviews and ongoing supervisory activities.

The Council has noted the response from the Executive Board and has no further remarks for the Board to consider.

The Council considered an assurance statement from Deloitte AS on the development and communication of responsible investment management based on the mandate for the GPFG. The report contains recommendations to be followed up by the Executive Board and Norges Bank, and this work will be monitored in the supervision for 2018. The assurance report is publicly available. Two further supervisory reviews in the area of responsible investment are planned in 2018.

A previously planned supervisory review of the Executive Board's management of serious threats and crises in the management of the GPFG will be considered in the context of a new general risk assessment during the course of 2018.

The minutes of Executive Board meetings play an important role in the Council's supervision, as they provide a good 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 were also submitted to the Council.

During its ongoing supervisory work, the Council paid particular attention to the Bank's operations as a whole being exposed to significant risks relating to markets, physical security and IT security. For example, it monitored developments in real estate management, active ownership and responsible investment, external portfolio management and reporting on return and risk. The Executive Board submitted assessments of the risk outlook for Norges Bank's operations during the year. The Council was able to monitor significant areas of risk via this reporting.

The Council has adopted the Bank's annual financial statements for 2017. When considering the annual financial statements and other reporting on expenditure, the Council conducted thorough assessments and requested additional information from the Board.

The Council is to pay particular attention to Norges Bank's budgets.

In the Council's opinion, the Executive Board responded on the two areas – setting strategies and targets, and cost comparisons and analyses – on which the Council asked for information in connection with its approval of the budget for 2017. The Board referred to the management of the GPFG being constrained by the mandate and general strategies set by the Ministry of Finance.

When considering the budget for 2018, the Supervisory Council continued its follow-up of costs at Norges Bank. The Council noted that the costs presented for the management of the GPFG cannot be compared directly with the benchmark, partly because the distinction between active and passive management is unclear. To ensure adequate cost-consciousness, the Council is keen for relevant benchmarks to be used to assess developments in expenditure.

As far as the GPFG is concerned, the proposed budget referred to the Ministry of Finance's cost benchmarks. The Executive Board was asked to provide more information.

This follow-up is in line with the Ministry of Finance's letter on the budget for the management of the GPFG in 2018.

The general public has an insight into the Supervisory Council's activities through its minutes and its annual report to the Storting.

MAIN CONCLUSIONS

Pursuant to the fourth paragraph of Section 30 and the fifth sentence of the fourth paragraph of Section 5 of the Norges Bank Act, the Council must at least once a year present to the Storting its statement on the minutes of the meetings of the Executive Board and its supervision of the Bank, and matters submitted to the Council by the Board. This statement is to include any particular remarks arising from supervisory activities, cf. Section 30, fourth paragraph, sixth item.

The Supervisory Council is to supervise the Bank's activities and ensure that the rules governing the Bank's operations are observed.

The supervision of the Bank's activities in 2017 did not uncover any breaches of the Norges Bank Act or of regulations, mandates and other rules for Norges Bank's activities, including the management of the GPFG. The minutes of Executive Board meetings have been reviewed. Questions about specific matters arose during this process, and the Governor gave further clarification on the issues raised.

The Council is of the opinion that the Executive Board exercised management and control of Norges Bank's operations in 2017 in accordance with the Norges Bank Act, the regulation on risk management and internal control at Norges Bank, and the mandate and guidelines for the management of the GPFG.

The Council has received the information it has requested. The Council did not minute any remarks on the Board's minutes in 2017. Its supervision gave no cause for particular remarks under the Norges Bank Act.

The Council has adopted the Bank's annual financial statements for 2017 and approved the Bank's budget for 2018.

During its consideration of the budget, the Council noted an increase of around 11 percent in the overall budget for Norges Bank. Questions were asked about this, and reference was made to comments from the Storting's Standing Committee on Finance and Economic Affairs and communications from the Ministry of Finance. The Bank's executive management provided information on the items in the budget.

Costs will remain a priority in the Supervisory Council's work.

The budget rules require Norges Bank to present cost comparisons. The Council has pointed out that there is a need for more extensive material in this area.

This report constitutes the Supervisory Council's full statement on the supervision of Norges Bank and the Council's other duties during the year.

CHAPTER 2

THE COUNCIL'S OVERALL ASSESSMENT OF THE EXECUTIVE BOARD'S MANAGEMENT AND CONTROL

FRAMEWORK FOR RISK MANAGEMENT AND INTERNAL CONTROL

Rules on Norges Bank's and the Executive Board's responsibilities and reporting on risk management and internal control are set out in the Norges Bank Act and the regulation on risk management and internal control at Norges Bank (the Internal Control Regulation). Executive and advisory authority at Norges Bank is vested in the Executive Board.¹ The Board is in charge of the Bank's operations, manages its resources and is responsible under the Act for its appropriate organisation with satisfactory frameworks, objectives and principles for its operations.

The Internal Control Regulation sets out requirements for governance of the Bank. The Executive Board is to set targets and strategies and ensure that the Bank's operations, including accounting and asset management, are subject to sound governance and control.² The Board is to assess its work and competence in relation to the Bank's risk management and internal control at least once a year and submit an overall assessment to the Council.³ The management mandate for the GPFG issued by the Ministry of Finance also requires the Bank to evaluate its work and competence related to risk management and internal control at least once a year.⁴

THE COUNCIL'S ASSESSMENT OF THE EXECUTIVE BOARD'S REPORTING ON RISK AND INTERNAL CONTROL IN 2017

The Council has considered the annual letter from the Executive Board⁵ presenting its assessment of risk management and internal control at Norges Bank, including compliance with the Internal Control Regulation. The basis for the Board's letter includes the annual reports on operational risk and internal control for Norges Bank Central Banking Operations (NBCBO), Norges Bank Investment Management (NBIM) and Norges Bank Real Estate Management (NBREM), the annual report from Internal Audit, and the status report on physical security in 2017.

In its letter, the Board writes:

“The Executive Board's assessment for 2017 was that:

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

The Executive Board also writes:

“Risk is a product of the probability of an event occurring and the consequences if it does. Failures in functions or processes that are critical for society can have serious consequences. With some core processes, the risk is therefore considered inherently critical. The same will also apply to some ICT functions and to risks relating to IT security, or ‘cyber risk’. Effective controls reduce risk, but the remaining risk is still considerable in some areas.”

Key risk areas where the Executive Board reports that there is a particular focus across the Bank are IT security, information management and new IT solutions, physical security and staff safety. In central banking, the

¹ *Norges Bank Act, Section 5.*

² *Regulation on Risk Management and Internal Control at Norges Bank, Section 3 “Responsibilities of the Executive Board”.*

³ *Regulation on Risk Management and Internal Control at Norges Bank, Section 8.*

⁴ *Management Mandate for the Government Pension Fund Global, Section 4-1.*

⁵ *Letter dated 14 February 2018 following consideration by the Executive Board on 7 February 2018.*

consequences of disruption to bank settlements are emphasised. In investment management, the Board highlights the allocation process for distributing capital between the three asset classes of equities, fixed income and unlisted real estate, the design of the associated benchmark indices, and new markets for real estate investments.

The Board states that no significant breaches of laws or regulations were identified during the course of 2017. Events are reported and followed up regularly within each operational area. There has been a slight upward trend in the number of events relative to previous years. No events were considered to have serious consequences. Events are measured partly on the basis of potential financial consequences, and the Board states that such cases in 2017 were immediately rectified. The Board reports a few minor breaches of the management mandate from the Ministry of Finance in the management of the GPFG. NBIM's handling of such breaches and other unwanted events and assessment of the potential consequences are discussed. The Board's reporting also includes an overview of risk reduction measures implemented in 2017.

Internal Audit is to support the Executive Board in following up its management and control through independent audits and other internal auditing activities. The unit reports to the Executive Board, and matters are prepared by the Audit Committee. Internal Audit's annual report presents conclusions and assessments based on completed audit projects and ongoing contact with the operational areas in 2017. Information is provided on eight audit projects in investment management, five in central banking, and two covering the Bank as a whole. The reports from the audit projects have positive conclusions. No irregularities were identified, and appropriate action has been taken on the items raised.

The risk of fraud is considered as an integral part of all audits. In general, Internal Audit concludes that there is a low probability of fraud. In the unit's opinion, therefore, a pure risk-based approach may result in insufficient focus on fraud risk. During the course of 2017, Internal Audit conducted an audit concentrating specifically on fraud risk across both operational areas. No weaknesses in internal control were reported.

During the year, the Council considered a number of matters concerning the Board's updating of the overall management and control framework. Particular attention was paid to compliance with legislation, mandates and guidelines. During the Council's deliberations, questions were asked particularly about the status of actions and developments in risks over the past year.

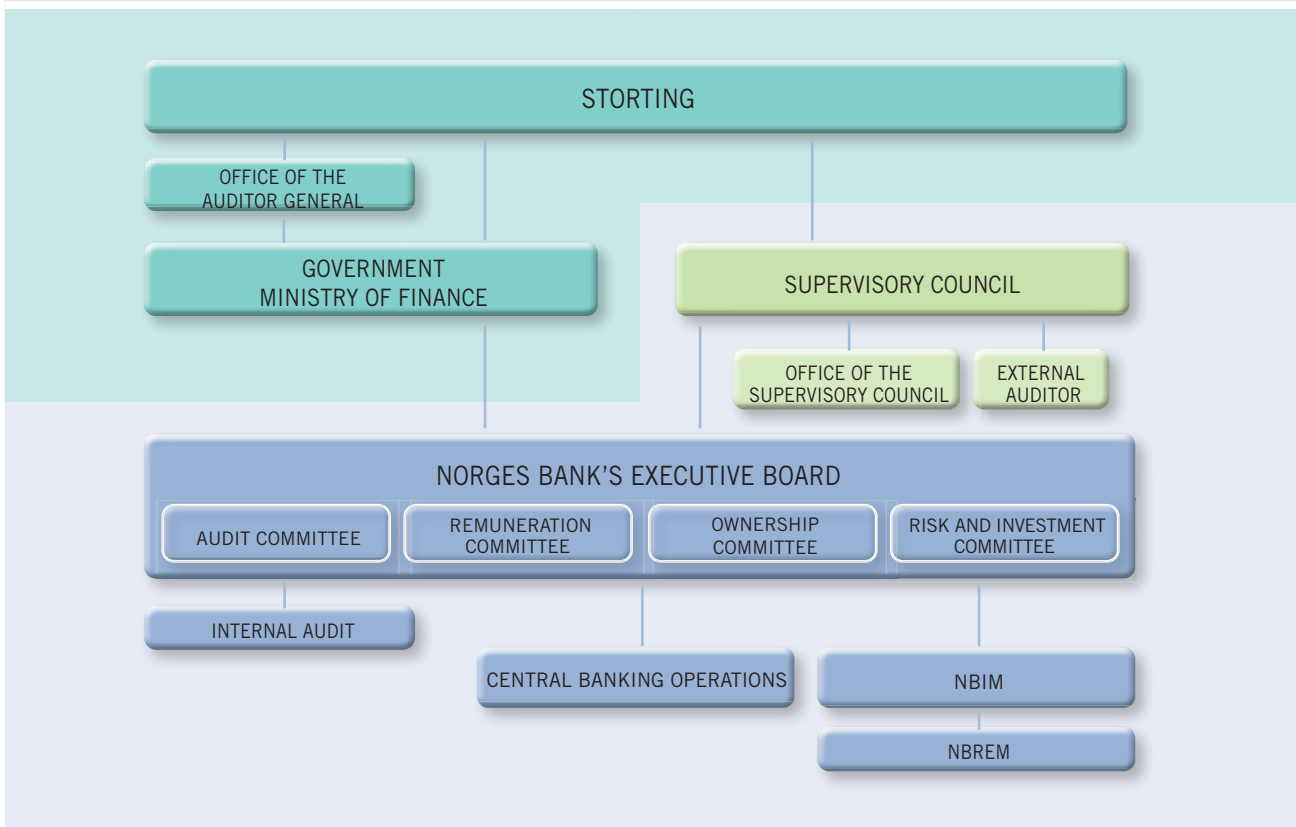
The minutes of all Executive Board meetings in 2017 were submitted to the Council during the year. Consideration of the minutes is an important element of the Council's supervision and provides an overview of the matters considered by the Board and of its decisions on specific matters. The Governor and Deputy Governors attended the Council's meetings and provided supplementary information on the matters considered by the Board and on its minutes. The Council received all of the information requested from the Board. Regular risk assessments were given, and planned and implemented measures were presented. It is very important to the Council that it is kept up-to-date and adequately involved.

The Council is to submit its assessment of the Executive Board's management and control of the Bank's administration and operations to the Storting at least once a year.⁶

The Council has taken note of the Board's overall assessment of internal control and risk, including the status report on physical security at Norges Bank in 2017. The Council is of the opinion that the Bank has established processes that ensure compliance with the requirements of the Norges Bank Act and the Internal Control Regulation. The Executive Board has been asked to keep the Council regularly updated on the follow-up of risk reduction measures.

⁶ *Norges Bank Act, Section 30, fourth paragraph, fourth item.*

FIGURE 1 MANAGEMENT AND CONTROL STRUCTURE



CHAPTER 3

SUPERVISION OF OVERALL MANAGEMENT AND CONTROL AT NORGES BANK IN 2017

THE EXECUTIVE BOARD'S MANAGEMENT AND ORGANISATION OF THE BANK'S OPERATIONS

Article 33 of the Constitution states that “*Norges Bank is the central bank of Norway*”. The Bank plays a key role in society and administers policy instruments that are very important for the Norwegian economy. Norges Bank is an independent legal entity owned by the state. Its relationship to government authorities is regulated in Section 2 of the Norges Bank Act. Confidence in the central bank depends on effective and efficient performance of its duties and satisfactory management and control.

The Bank's operations are monitored by both the Storting and the government, and an extensive management and control structure has been established. The role of the Office of the Auditor General in relation to Norges Bank and the management of the GPFG is to audit the fund in the central government accounts and to control the government's exercise of authority under separate legislation and instructions issued by the Storting.

The management and control structure is outlined in Figure 1.

Norges Bank's duties are regulated specifically in the Norges Bank Act of 24 May 1985 and underlying regulations, and in the mandate and guidelines⁷ for the management of the GPFG. Norges Bank's mission is to promote economic stability in Norway. The central bank has executive and advisory responsibilities in the area of monetary policy, manages the nation's foreign exchange reserves, and is responsible for promoting robust and efficient payment systems and financial markets.⁸ Norges Bank also has the exclusive right to issue Norwegian banknotes and coins.

⁷ *Management Mandate for the Government Pension Fund Global of 8 November 2010, last amended on 31 August 2017 with effect from 1 January 2018.*

Guidelines for the Observation and Exclusion of Companies from the Government Pension Fund Global, last amended on 10 February 2017. Strategic benchmark index, last amended with effect from 1 January 2017.

⁸ *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.”*

The management of the GPFG is an important task. The Ministry of Finance has overall responsibility for the management of the Government Pension Fund, which comprises both the Government Pension Fund Global and the Government Pension Fund Norway.⁹ The GPFG takes the form of a deposit at Norges Bank, which handles the operational management of the fund.

Pursuant to the Norges Bank Act, the Ministry has issued regulations on risk management and internal control at the Bank, on the Bank's annual financial statements, on monetary policy, and in various other areas. Norges Bank in turn has issued regulations on banks' access to borrowing and deposit facilities at the Bank and a number of regulations concerning notes and coins. 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, equal opportunities and the working environment. International investment management activities may be subject to local rules. Norges Bank has its headquarters in Oslo and may open offices both in Norway and abroad.¹⁰

The Supervisory Council's supervision is based on a broad knowledge of the Bank's operations and organisation and its management and control framework. The following provides a general description of the Executive Board's organisation and management of the Bank's operations.

THE EXECUTIVE BOARD

The Executive Board has eight full members appointed by the King in Council.¹¹ These include five external members appointed for a term of four years. The Governor, who chairs the Executive Board, and the two Deputy Governors, who are its first and second deputy chairs, are appointed to full-time positions for a period of six years. Two external alternates also attend and have the right to speak at Board meetings. Two employee-elected members and the two external alternates participate in the consideration of administrative matters.

⁹ *Cf. Government Pension Fund Act, Section 2, first and second paragraphs.*

¹⁰ *Norges Bank Act, Section 8.*

¹¹ *Norges Bank Act, Section 6, amended with effect from 1 January 2016 to provide for a second Deputy Governor.*

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. Decisions of a strategic nature and on matters of principle are to be taken by the Board. The Board may give special authority to the Governor or others to take decisions in specific areas.¹² Delegated authority is overseen through regular reporting.

The Ministry of Finance has issued a regulation on conflicts of interest for Norges Bank's Executive Board. The regulation covers both full members and alternates, including employee representatives. The Executive Board has issued ethical principles both for the external members of the Board¹³ and for employees of Norges Bank.

The Governor has a general authority to take decisions that fall to the Executive Board where an immediate decision is needed and there is neither time nor opportunity to call a meeting of the Board to reach a decision. This authority may not be delegated further.

The Executive Board has the flexibility to organise the Bank's operations to reflect its responsibilities and objectives. The Board has drawn up rules of procedure for its work.¹⁴ It has also established and mandated four preparatory and advisory subcommittees. The subcommittees' activities do not alter the responsibilities of the Board or its individual members. Minutes of the subcommittees' proceedings are submitted to the Board.

The four subcommittees are as follows:

- The *Audit Committee* was established pursuant to the Internal Control Regulation.¹⁵ Its duties centre on monitoring, oversight and control of financial reporting, operational risk, compliance and systems for risk management and internal control.

- The *Risk and Investment Committee* is to help strengthen and streamline the Board's work on general risk management, the rules and limits for real estate management, and particularly large and important investment decisions.
- The *Remuneration Committee* is to contribute to thorough and independent consideration of matters concerning the Bank's remuneration arrangements.¹⁶
- The *Ownership Committee* is to prepare the Board's consideration of matters concerning responsible investment and decisions on the exclusion and observation of companies from the GPF's investment universe.

The Internal Control Regulation requires the chair and members of the Audit Committee to be elected by and from the Executive Board's external members. The Remuneration Committee is chaired by an external member of the Executive Board. The Risk and Investment Committee and the Ownership Committee are both chaired by one of the Deputy Governors. Each committee has two further members chosen from among the Executive Board's external members and alternates.

A Central Executive Managers Forum has been set up to discuss general guidelines for subsequent approval by the Governor and other matters of importance for the whole of Norges Bank before they are considered by the Executive Board.

The Governor has established a General Secretariat. The executive director of the department reports to the Governor. The department is to serve as a secretariat, provide administrative support for management and for the Executive Board and its subcommittees, and handle contact with Internal Audit and the Office of the Supervisory Council. The General Secretariat is to ensure consistency between overlapping policy documents issued by the Executive Board and the Governor. Its work also includes monitoring the legal framework for the central bank's activities and the Executive Board's external communications.

¹² *Norges Bank Act, Section 10.*

¹³ *The Governor, Deputy Governors and employee representatives are covered by the Ethical Principles for Employees of Norges Bank, issued by the Executive Board.*

¹⁴ *Last amended on 14 June 2017.*

¹⁵ *Cf. the Regulation on Risk Management and Internal Control at Norges Bank, Section 10.*

¹⁶ *See, for example, the Management Mandate for the Government Pension Fund Global, Section 5-2 "Guidelines and limits for a remuneration system".*

The Executive Board keeps minutes of its meetings, which are submitted to the Supervisory Council once approved. The Council pays particular attention to the minutes in its supervision. The minutes are also submitted to the Ministry of Finance¹⁷ and the Office of the Auditor General¹⁸ and are made public.

At its meeting in May 2017, the Council was informed and took note of the Executive Board's decision to publish the minutes of its interest rate decisions without delay in line with the remainder of the minutes of its meetings. The change took effect from the rate-setting meeting of 21 June 2017. Information was also provided on updates to the Board's rules of procedure. The Council looks positively on this change, which brings greater transparency on the Board's work and decisions.

INTERNAL AUDIT

The Executive Board has established an Internal Audit Unit in line with the provisions of the Norges Bank Act and the Internal Control Regulation. Its role is to support the Executive Board's oversight by providing assessments of risk management and internal control. Its work is performed on the basis of instructions from the Executive Board and international standards for internal auditing practices.¹⁹

The director of Internal Audit is appointed and terminated by the Executive Board and reports administratively to the Governor. The Board approves the unit's work plans, and the unit reports to the Board via the Audit Committee on its assessments and conclusions from its work. Internal Audit is to provide necessary support for the Audit Committee and serve as its secretariat.

The Internal Control Regulation gives the director of Internal Audit the right to attend Executive Board meetings. The unit's standing instructions were updated in 2017. A requirement for objectivity was included in line with changes to international standards. They also now

state that the director of Internal Audit is entitled to attend meetings of the Executive Board's subcommittees.

The instructions state that Internal Audit is to serve as the whistleblowing channel for Norges Bank and ensure that the handling of whistleblowing cases complies with the principles and guidelines for internal whistleblowing.

Internal Audit submits an annual report to the Executive Board.²⁰ The report supports the overall assessment of internal control by the Governor and Executive Board, and accompanies the Board's annual report to the Supervisory Council.

The Council is kept abreast of Internal Audit's plans and reporting through the Executive Board's minutes and dialogue with the Office of the Supervisory Council.

TWO OPERATIONAL AREAS

Under the Norges Bank Act, the Bank has considerable independence from government authorities in areas where the Executive Board has decision-making powers, most notably the use of monetary policy instruments and work on financial stability.

The Bank is a single legal entity, and its operational areas largely share offices. The Governor is in charge of Norges Bank's administration and has overall responsibility for the implementation of decisions. The Executive Board has delegated overall responsibility for the management of the GPFG to the CEO of NBIM, who is also responsible for submitting matters in his area.

Norges Bank's duties are fulfilled by two operational areas: Norges Bank Central Banking Operations (NBCBO) and Norges Bank Investment Management (NBIM) and their underlying departments. See the organisation chart in Figure 2.

The Bank has its headquarters in Oslo and has also opened offices abroad as part of its investment management activities.

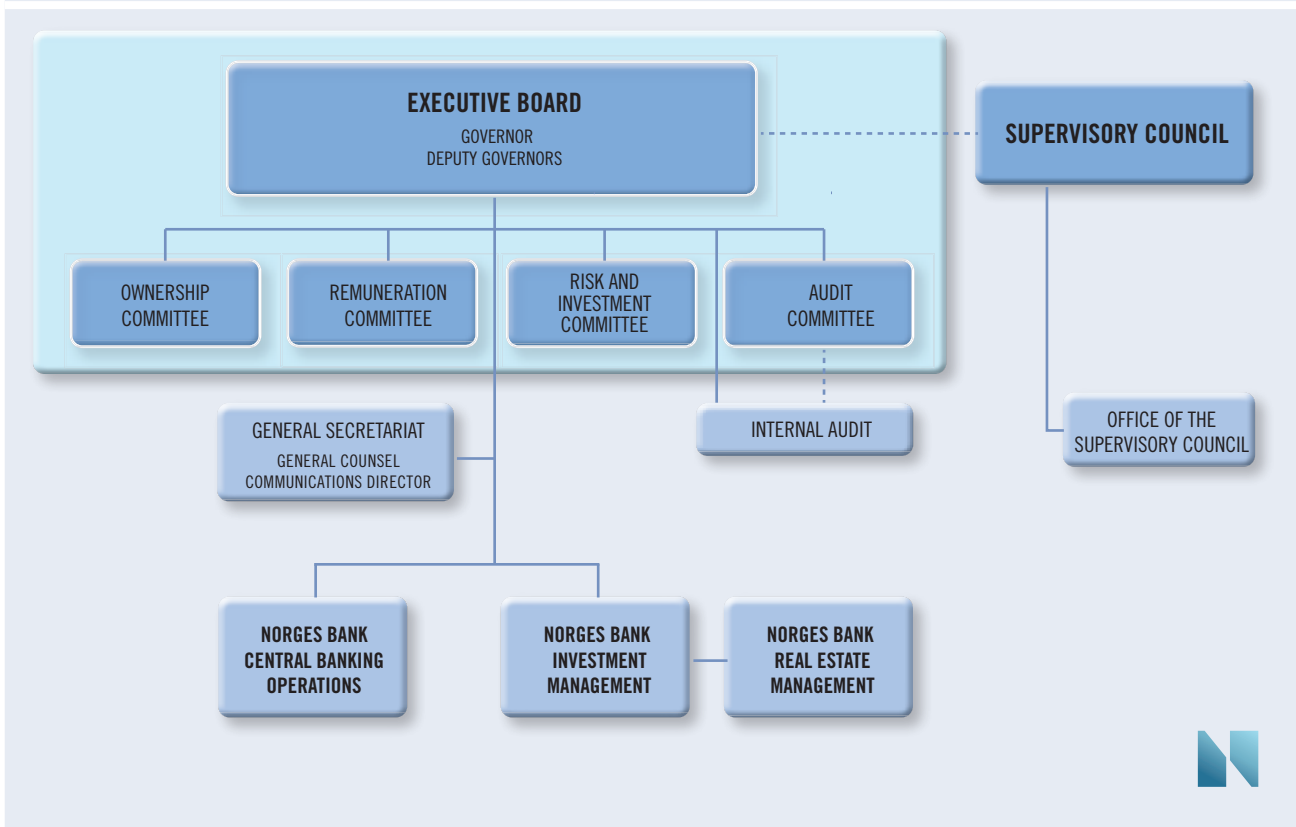
¹⁷ *Norges Bank Act, Section 30, second paragraph.*

¹⁸ *Cf. the Storting's Instructions of 11 March 2004 concerning the Activities of the Office of the Auditor General, Section 12.*

¹⁹ *Standards issued by the Institute of Internal Auditors (IIA).*

²⁰ *Internal Audit's annual report is prepared pursuant to the Regulation on Risk Management and Internal Control at Norges Bank, Section 9.*

FIGURE 2 NORGES BANK ORGANISATION CHART



The mandates and duties for NBCBO and NBIM differ, and this is the background to the current organisation of the bank. In some areas, there is a need for common rules. The Executive Board (in the form of principles) or the Governor (in the form of guidelines) issue rules covering the whole of the Bank in addition to various rules and instructions for the individual operational areas. The Ministry of Finance's mandate for the GPFG specifies which rules and limits for investment management are to be set by the Executive Board.

The Board appoints the head of each department in NBCBO, the CEO of NBIM, and the CEO of Norges Bank Real Estate Management (NBREM). Powers and duties are delegated to these officers. The Governor issues guidelines for central banking, and the CEO of NBIM issues guidelines for investment management, including the follow-up of external regulatory requirements, etc.

The Council's supervision of central banking and investment management in 2017 is presented in Chapters 4 and 5 respectively of this report.

SUPERVISORY ACTIVITIES AND CONCLUSIONS IN 2017

THE EXECUTIVE BOARD'S OVERALL MANAGEMENT OF THE BANK

Central banking and the management of the GPFG are conducted on the basis of strategies, targets and management systems. The Supervisory Council monitored developments in the organisation of this work during the course of 2017 through various reports from the Executive Board and oral information at meetings. The Council attaches importance to the Board exercising good management and control at a general, overall level as well as within each of the operational areas.

The Executive Board produces general strategic plans for a three-year period setting out challenges and priorities. It also considers strategies drawn up by the two operational areas. The current strategy period runs from 2017 to 2019. Together with statutory requirements and internal guidelines, these strategies provide guidance for the development of the Bank's operations.

The Executive Board reports to the Council on performance against targets and implementation of action plans in the strategies through periodic management reports and budget updates. It also considers reports on operational risk management and compliance. Critical incidents are to be reported immediately.

The Board lays down rules and principles for risk management and internal control at a general level for the whole of the Bank. The principles for risk management mark out a systematic and comprehensive approach. The Board sets a risk profile and risk limits both for the Bank as a whole and for each individual operational area. Risk management is an integral part of operational management intended to help strike a balance between goals, risk and control measures. The Governor is to ensure adequate risk management and internal control on the basis of an assessment of relevant risks in accordance with guidelines issued by the Executive Board.

THE EXECUTIVE BOARD'S AND THE GOVERNOR'S OVERALL GUIDELINES

A number of the Executive Board's operational guidelines were reviewed and updated in 2017: the Financial Rules for Norges Bank, the Ethical Principles for Employees of Norges Bank, the Principles for Whistleblowing at Norges Bank, and the Principles for the Management of Norges Bank's Foreign Exchange Reserves.

The changes to the financial rules include clearer specification of the responsibilities of the Governor and NBIM's CEO when it comes to financial reporting, and new guidelines for cost benchmarking in budget documents. The financial rules are discussed in Chapter 7 below on Norges Bank's budget.

The principles for managing the foreign exchange reserves are discussed in Chapter 4 on the supervision of central banking.

ETHICAL PRINCIPLES

The Executive Board's ethical principles now state that they also apply to employees of wholly owned subsidiaries of the Bank. A few changes were made to the principles in 2017 concerning the handling of personal trading and anticorruption. The Governor also issued supplementary

ethical rules for employees of NBCBO, and the CEO of NBIM updated its ethical rules accordingly.

The introduction to the ethical principles states: *“The purpose of these Ethical Principles is to safeguard Norges Bank’s reputation and maintain public trust in the Bank by ensuring that all employees perform their duties in a professional and independent manner and act with loyalty to Norges Bank as their employer. The aim of the Ethical Principles is to create a common approach to ethical matters among all Norges Bank’s employees and to provide a basis for more detailed rules and procedures laid down by Norges Bank’s executive management.”*

More details on attitudes to and rules for anticorruption were included partly as a result of input from the Supervisory Council in the light of the report from a previous supervisory review. The Council also encouraged the publication of principles for the Bank’s anticorruption programme, in line with internationally recognised practice. The Executive Board has done so. When it comes to the management of the GPF, anticorruption expectations for companies in the investment portfolio are discussed in the Bank’s responsible investment report for 2017.

WHISTLEBLOWING

The Executive Board also amended its whistleblowing principles for the Bank in 2017, due partly to changes to the Working Environment Act.²¹ The whistleblowing principles set out procedures enabling employees and agency staff to report wrongdoing at Norges Bank. Both employees and agency staff are encouraged to speak up about any wrongdoing. The principles permit the establishment of alternative whistleblowing channels: *“Norges Bank’s whistleblowing system is to allow the use of multiple whistleblowing channels so that whistleblowers can disclose information in the way they themselves are most comfortable with.”*

Authority is delegated to the Governor to establish a whistleblowing system and issue supplementary rules for whistleblowing at Norges Bank excluding NBIM. The guidelines for NBCBO state:

“Reports of wrongdoing should primarily be made to Internal Audit or to a manager at Norges Bank (line managers, HR managers, etc.).”

Rules are set out for the handling of reports of wrongdoing by Internal Audit and line management.

Authority is delegated to the CEO of NBIM to establish a separate whistleblowing system and issue supplementary rules for NBIM. NBIM’s whistleblowing guidelines apply both to permanent and temporary employees and to agency staff, and encourage them to contact the compliance function or their superior. As an alternative, they may alert Internal Audit.

Rules on the handling of internal whistleblowing through Internal Audit’s whistleblowing channel, laid down by the General Counsel, cover reports of wrongdoing at NBCBO and cases where NBIM employees choose to contact Internal Audit. The rules are based on the Governor’s guidelines for internal whistleblowing at NBCBO.

In response to questions about whistleblowing during the Council’s consideration of management reporting, the Bank’s executive management stated that staff in Norway and abroad made few reports of wrongdoing in 2014, 2015 and 2016.

In previous supervisory reviews, the Council asked whether an external whistleblowing channel should be established for the Bank. The Executive Board responded that it wishes to await the results of the expert committee appointed by the government to review and assess the whistleblowing rules in the Working Environment Act and their application.²²

MANAGEMENT OF SECURITY AND CONTINGENCY PLANNING

The management of physical security and contingency planning, IT security and cybersecurity are a priority at Norges Bank. The Bank’s operations are covered by the Security Act and the Document Security Instructions. The Council shares the Executive Board’s view that it is

²¹ Cf. the Working Environment Act, Chapter 2A. The most important change is that agency staff are to be entitled to report wrongdoing to the client and be protected from reprisals from both the client and the agency.

²² The government has appointed a committee to look at the Working Environment Act’s rules on whistleblowing. It is due to present its report on 15 March 2018. Among other things, the committee is to consider whether the scope and terminology of the rules in the act are appropriate. It is chaired by Anne Cathrine Frøstrup.

very important that the Bank's critical role in national security is addressed, and that the safety of employees and the protection of assets and IT systems are given high priority. Information is often requested in relation to questions in this area at meetings.

The Executive Board has issued principles for security, contingency planning and crisis management at Norges Bank. A Bank-wide contingency plan with a description of the crisis organisation at the Bank has been produced. The Governor has issued guidelines on physical security to flesh out the Board's principles.

Norges Bank works with security experts at the Storting, government ministries, the police, central and local government bodies and other relevant stakeholders both in Norway and abroad. The National Security Authority (NSM) oversees security at the organisations covered by the Security Act, which include Norges Bank. NSM carries out checks to ensure compliance with the Security Act's provisions on protective security services. The Bank has put procedures in place for reporting incidents to NSM under these rules.

Norges Bank works systematically on the basis of current threats, partly through an established contingency plan and by holding regular exercises. Extensive plans, instructions and agreements are in place covering the most extreme situations the country may face. Norges Bank as a critical institution is best placed to protect its assets.

The management and control of physical security are also monitored through ordinary management reporting and the Board's plans and budget proposals. A status report on physical security is prepared each year, which includes analyses of risks relating to staff safety. In response to external events and assessments of potential threats, any necessary changes are made to contingency processes and control procedures to protect Norges Bank's assets and organisation.

The Council considers it important that threat assessments are realistic and that contingency work is prioritised with plans for a range of scenarios. Considerable attention is given to security and contingency planning, and compliance with legislation in this area. The Executive Board's

principles for this work are monitored closely. The Bank's priorities for measures to enhance security and contingency planning are discussed regularly.

The Council monitored reporting on the management of security in 2017 and noted that the greatest risks relate to the management of physical security, IT systems and information security. One area discussed by the Council was cybersecurity in relation to outsourcing, and it will pay attention to these issues in its future supervisory work.

Resources for measures required to provide security 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 2017.

WORKING ENVIRONMENT AND GENDER EQUALITY

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.²³ It is chaired by the Governor and the Chief Shop Steward in alternate years. The Bank's occupational health unit attends meetings. 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 NBCBO and one for NBIM. A Negotiation Committee is appointed for each collective agreement period to facilitate pay negotiations with employee organisations.

The Working Environment and Works Council is to report to the Executive Board on its activities each year and forward this annual report to the Supervisory Council. The Council notes that relevant laws and agreements concerning the working environment have been observed and reported on.

²³ 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.

Staff rules for employees of Norges Bank have been laid down under a written agreement between the Bank and employee representatives in accordance with Section 14–17 of the Working Environment Act. New data protection rules enter into force in Norway in May 2018 when the EU's new data protection regulation enters into force.²⁴ The Bank has begun work on ensuring compliance.

Information on the working environment and gender equality is also provided in the Executive Board's annual report. In 2017, the gender breakdown of employees at Norges Bank was 67 percent men and 33 percent women, unchanged from 2016. The Executive Board has set a long-term target of at least 40 percent of the Bank's overall workforce being women. This target provides a starting point for work on strategies and action plans. The share of women in senior and middle management at the end of 2017 was 32 percent for NBCBO and 22 percent for NBIM. Here too the target is 40 percent. The Bank's executive management explains that in some areas the gap between the current share of women and the target level has to do with the availability of female candidates.

The Council attaches great importance to the Executive Board's reporting on the working environment and looks positively on the Bank setting and pursuing targets for gender equality. Questions have been asked of the Bank's executive management on its ambitions for managers in the organisation and on actions taken where targets may seem to be taking longer than expected to meet.

NORGES BANK'S PENSION FUND

Norges Bank's Pension Fund was established following a resolution of the Supervisory Council on 1 June 1916. The fund is an independent legal entity and prepares its own accounts. Its purpose is to provide retirement benefits for members and their survivors. Members are employees of Norges Bank or former employees of the Bank who have been transferred to other companies following a special decision on the transfer of activities. Norges Bank's pension arrangements reflect Norway's National Insurance scheme and are aligned with the rules for the Norwegian Public Sector Pension Fund.

The Pension Fund's articles of association are adopted by the Council.²⁵ Changes to the articles are to be approved by the fund's board and forwarded to Norges Bank's governing bodies and the boards of any other member companies for information. The fund is supervised by the financial supervisory authority Finanstilsynet.²⁶ Changes to its articles must also be approved by Finanstilsynet. The fund's board enters into an agreement with an actuary, who must be approved by Finanstilsynet and reports to Finanstilsynet.

The Pension Fund is headed by its own board with six full members and four alternates. Four full members and two alternates are appointed by Norges Bank's Executive Board. At least one member must have no connection with the Pension Fund, Norges Bank or other member companies. Two full members and their alternates are appointed by employee organisations from among the fund's members and pensioners.

Norges Bank's Pension Fund produces its own annual accounts. Its assets and liabilities are separate from Norges Bank and member companies. Norges Bank guarantees its share of the fund's premium reserve. In accordance with the fund's articles of association, the Supervisory Council has appointed Deloitte AS as the fund's auditor, and a separate engagement agreement has been entered into between the auditor and the board of the fund.

The Council considers it important for the Pension Fund to be financially sound and generate a good return. The Council is kept updated about the Executive Board's appointment of members of the fund's board and receives the fund's annual report, accounts and auditor's report for information.

THE EXECUTIVE BOARD'S RESPONSE TO AND FOLLOW-UP OF THE COUNCIL'S SUPERVISION REPORTS

PROCESS FOR CONSIDERATION OF SUPERVISION REPORTS

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

²⁶ Act on the Supervision of Financial Institutions etc. (Financial Supervision Act), Section 1, first paragraph, item 15.

²⁴ The General Data Protection Regulation (GDPR).

The Supervisory Council considers reports from reviews, assurance engagements and investigations. Through its supervision, it is important for the Council to clarify key responsibilities.

The reports from reviews assess the Bank's processes for managing various risks against standards or recognised practices at peer organisations. The observations made in these reports are differences noted between Norges Bank's practices and the benchmark chosen for the review. Risks are analysed and discussed, and conclusions are drawn about whether established practice at the Bank is considered satisfactory.

The Executive Board is responsible for running the Bank and for setting the Bank's strategy, targets and risk tolerance. It is important that a clear line is drawn between the responsibilities of the Executive Board and the role of the Supervisory Council. The Council is not to be held accountable for the choices made by the Board, but to ensure that the Board has established sound processes.

Once considered by the Council, the supervision reports are forwarded to the Board for follow-up. The Board is asked for its assessments, and it is particularly important that the prioritisation of risks and any actions is clear.

The Board responds to supervision reports in letters to the Council during the year. In addition, it has become an established practice for the Board to report annually on the status of its follow-up work. The Council expects risks to be discussed and any weaknesses or failures to be followed up. The discussions between the two governing bodies include space for asking questions about processes and solutions.

The Council monitors developments in the Board's follow-up of supervision reports. The Office of the Supervisory Council has been asked to review the Board's letters and come up with proposals for further follow-up of recommendations from the individual supervisory reviews. One key objective of the ongoing supervisory process is to ensure that resolutions passed by the Council are considered and assessed by the Executive Board and Norges Bank.

FOLLOW-UP OF SUPERVISION REPORTS

In 2017, the Office of the Supervisory Council and Norges Bank's staff worked on clarifying the status of the follow-up of past supervision reports. A thematic overview was prepared of the topics covered by the Council's assessments and the Bank's responses in 2012–2017, divided into five areas:

- a) Norges Bank's management model and the Executive Board's overall governance
- b) Operations and compliance (operational risk management)
- c) Irregularities, corruption and ethics
- d) Security and contingency planning, including IT security
- e) Expenditure and financial management

The Council considered 12 reports dealing with Bank-wide topics, four focusing on NBCBO and 29 on NBIM's area of responsibility. These reports have been discussed in the Council's annual reports to the Storting during the period.

In 2017, reports were received on four supervisory reviews and one assurance engagement. The Executive Board has responded to two of the supervisory reviews relating to investment management. This is discussed in Chapter 5 of the report below.

All supervision reports are forwarded directly to the Executive Board. The Board has presented its position on various questions and assessments in the reports in its previous responses. At the beginning of 2017, there was still a need for further clarification from the Board on observations made in the following six reports from previous years:

1. Norges Bank's role as advisor, dated 12 August 2014
2. Management and control of reputational risk in the management of the GPF, dated 27 November 2014
3. Norges Bank's management model, dated 4 March 2015
4. Overall governance at Norges Bank, dated 13 May 2015
5. The control structure at Norges Bank, dated 3 November 2016
6. Norges Bank's framework for tax risk management and control – Tax transparency (assurance engagement), dated 3 November 2016

The Council has received a response from the Executive Board dated 7 March 2018 presenting the Board's combined review of the observations in the reports from these

six previous supervisory reviews. The observations and excerpts from the Board's response are presented below. The Board's letter of response (in Norwegian) is reproduced in full in Appendix 2 to the Council's report issued in Norwegian, but it is not reproduced in this report.

The Council has taken note of the Executive Board's response. Key aspects of governance and cost control will continue to be subject to risk assessments and prioritisation exercises in future supervisory work.

The Board begins:

“The Executive Board has reviewed the items where the Council has not found a final response to all of the questions raised. With some of the recommendations, the Board has found it appropriate to consider its action in the context of other ongoing processes, and the Council has been informed that the Board will come back on these. In other areas, the Board may have arrived at different action that is considered more appropriate.”

1. Norges Bank's advisory role

This report includes a remark that the Governor signs documents from NBIM before the matters have been considered by the Executive Board. This procedure could give the impression that the matters are finalised by the Bank's executive management before being submitted to the Board. The Board has provided information previously on its follow-up of this remark, including an amendment of the Board's rules of procedure dated 17 September 2014.

In subsequent supervisory work, a lack of consistency was noted between the Board's rules of procedure and the job description for NBIM's CEO when it comes to who submits matters relating to investment management.

In its latest response, the Board states:

“The Governor's signature on documents submitted by NBIM confirms that the document adequately sheds light on the matter and that the matter is therefore ready for consideration by the Board. NBIM's CEO is responsible for the material content of the document. Thus the Board believes that roles and responsibilities when it comes to advising the Ministry of Finance are clearly communicated and understood.”

The Council has taken note of the Board's response.

2. Management and control of reputational risk in the management of the GPFG

The report from a supervisory review of reputational risk recommended that the Executive Board considers clarifying the framework for the management and control of reputational risk and the reporting of overall reputational risk.

The Board replies that it attaches importance to the management of the GPFG being of a high standard, and that NBIM established a new comprehensive risk management framework in 2017 spanning strategic, investment and operational risk. Under this framework, both financial and reputational consequences are to be assessed and reported for each of these three categories. The Board further states that it *“follows up NBIM's comprehensive risk management through quarterly reports from the second line of defence. In addition, the Board has instructed Internal Audit in 2018 to conduct an independent assessment of the design and implementation of the framework. Against the background of these actions, the Board believes that the follow-up of reputational risk is adequately addressed.”*

The Council has had no further comments on this.

3. Norges Bank's management model

Following the report from this supervisory review, information was requested on the Executive Board's position in two areas:

- a) Updating the Executive Board's rules of procedure to include leadership, management and follow-up of investment management

On the content of its rules of procedure, the Board responds: *“The Executive Board's rules of procedure are, as is standard practice for such documents, a set of rules for the Board's consideration of matters arising. [...] The document does not therefore aim to set out 'governance premises for the Bank', nor does it contain provisions on targets and strategies – for either central banking or investment management. These matters are regulated at length in other policy documents issued by the Bank.”*

“The rules of procedure set out general rules for the Board's own consideration of matters and related processes, and – in principle – apply equally to matters from central banking and investment management.”

“One exception is the provisions on the consideration of matters at interest rate-setting meetings and the monetary policy stance.”

The Board argues:

“It is therefore incorrect to claim that ‘the rules of procedure attach weight to specific decisions relating to central banking but not to investment management, including decisions on targets/strategy’. The provisions in the rules of procedure apply generally and equally to both operational areas.”

On two purely descriptive points, the Executive Board will nevertheless consider amending its rules of procedure to underline the Board's overall areas of responsibility, and will inform the Council of the outcome of its deliberations.

- b) Formalisation and documentation of annual evaluations of the Executive Board's working procedures

This report includes a remark that the chair of the Executive Board has established a system whereby working procedures are discussed at separate meetings with individual board members and annually in a plenary session. It was noted that there is no systematic gathering of opinions from the members of the Board in advance, and that there are no formal minutes of the discussions that would permit them to be followed up subsequently.

The Board previously concluded that *“the more qualitative discussions of ‘the Executive Board's role and working procedures’ provide a sound framework for the Board's self-assessments.”* On this occasion, it writes that *“the Board has reviewed the matter once more and still believes that these sessions provide a good platform for the discussion and further development of its working procedures in line with the aims of such reviews.”*

The Council has no further remarks on this.

4. Overall governance at Norges Bank

A previous remark in a supervisory report noting *“a need to clarify the strategic direction for Bank-wide support functions”* was raised in the review.

The Board previously provided information on the organisation of shared functions at Norges Bank as a result of the clarification of responsibilities that took place in autumn 2015. In its reply in 2018, it states:

“Under the Executive Board's rules of procedure, the Board is to ensure the sound organisation of, and establish satisfactory frameworks, objectives and principles for, the Bank's operations. The Board would stress that the organisation of support functions should be seen partly in the light of the delegation of powers to the CEO of NBIM. For its part, the Board considers that the different nature and needs of the two operational areas mean that the chosen organisation of the Bank's support functions is appropriate. The Board also believes that the background for this organisation is adequately explained and that the strategic direction for the Bank's support functions is clearly communicated and understood within the Bank.”

The Council has taken note of the Board's information on its organisation of the Bank's operations. The Council will continue to emphasise the efficient use of resources in its supervision and the budget process.

5. The control structure at Norges Bank

This supervisory report contained a recommendation that the Executive Board should establish an external whistleblowing channel. In its response, the Board notes that the government has appointed an expert committee to review the rules on whistleblowing. This includes considering a requirement for external whistleblowing channels. The Board writes that it wishes to see the results of this work and will consider the need for changes to the Bank's whistleblowing arrangements in the light of the committee's report.

The Council has taken note of the Board's assessment. Whistleblowing and its follow-up in the supervisory process are discussed separately earlier in this chapter.

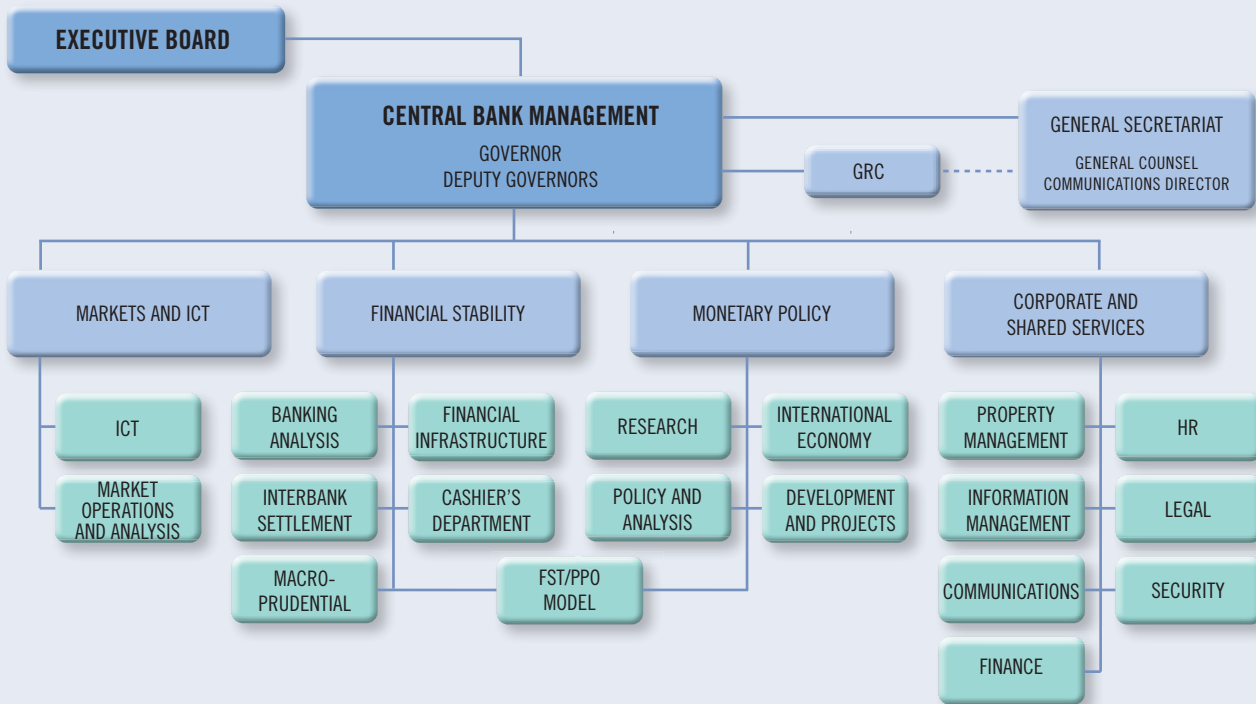
6. Norges Bank's framework for tax risk management and control –Tax transparency

In 2016, Deloitte AS delivered a report on an assurance engagement on the management and control of tax in the management of the GPFG.

The Board writes that it conducted an annual audit of its policy documents at its meeting of 22 June 2017, including its principles for risk management. The principles adopted include an explicit requirement for transparency on tax matters in line with the recommendations in the report.

The Council notes that the Board is working for transparency in this area.

FIGURE 3 CENTRAL BANKING OPERATIONS



CHAPTER 4

SUPERVISION OF CENTRAL BANKING IN 2017

RESPONSIBILITIES AND ORGANISATION OF CENTRAL BANKING OPERATIONS (NBCBO)

The Bank's activities as the central bank of Norway are organised under Norges Bank Central Banking Operations (NBCBO). The Bank is tasked with the operational implementation of monetary policy²⁷ and investing the official foreign exchange reserves.²⁸ This work, along with issuing banknotes and coins, promoting an efficient payment system and monitoring money, credit and foreign exchange markets²⁹ is organised into three departments: Monetary Policy (PPO), Financial Stability (FST) and Markets and ICT (MI).

Each of these departments carries out extensive analytical work that is published. These analyses help inform the Executive Board's decisions on the key policy rate during the year and the Bank's advisory work.

The Corporate and Shared Services Department provides administrative support for NBCBO as well as functions and processes covering the whole of the Bank.

When it comes to the execution of the Bank's core activities, the heads of department are responsible for risk management, internal control and financial management in their particular department. They also issue internal guidelines as required.

Figure 3 presents the organisation of NBCBO.

A central Governance, Risk and Compliance (GRC) function is organised under the Governor's Central Secretariat. Its role is to support the heads of department and the Governor in their work on monitoring operational risks and compliance in NBCBO. The management of rules and guidelines and the follow-up of incidents employ an electronic tool that is available to all NBCBO employees.

²⁷ Cf. the Monetary Policy Regulation issued by the Ministry of Finance.

²⁸ Norges Bank Act, Section 24.

²⁹ Norges Bank Act, Section 1.

SUPERVISORY ACTIVITIES AND CONCLUSIONS IN 2017

MANAGEMENT AND OVERSIGHT BY THE EXECUTIVE BOARD AND GOVERNOR

Based on the general principles for risk management at Norges Bank, the Executive Board has adopted criteria for assessing the level of operational risk and principles for risk management in NBCBO. The Board reviews management reporting for NBCBO every six months. This includes the status of action plans and expenditure, operational risk, compliance and internal control.

The Council's supervision of the management of NBCBO takes the form of twice-yearly reporting by the Board and consideration of the Board's minutes. The status of action plans is considered together with management reporting, annual reports on expenditure, and the adoption of budgets for Norges Bank. This is discussed later in the report.

The Council has been kept informed about the principles and guidelines for risk management. It is very important for the Council's supervision that there are documented procedures for reporting breaches of rules and incidents, together with the implementation of risk reduction measures. The Office of the Supervisory Council discussed incidents and follow-up procedures at meetings with the GRC function during the year. No incidents during the year were reported as having serious consequences.

The Governor provides information on the Board's work and decisions on monetary policy at meetings of the Supervisory Council. The Council's supervision does not extend to the Board's exercise of discretionary authority, cf. Norges Bank Act, Section 5, fourth paragraph.

MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

Norges Bank's international reserves consist of foreign exchange reserves and International Monetary Fund (IMF) reserve positions. The foreign exchange reserves are the Bank's contingency funds in international currency and are to be available for conducting monetary policy, promoting financial stability and meeting the Bank's

international commitments to the IMF and individual countries.³⁰

The reserves make up around 90 per cent of the Bank's assets excluding the GPFG. Their market value at the end of 2017 was NOK 512.4bn (2016: NOK 480.9bn). The foreign exchange reserves comprise a fixed-income portfolio, an equity portfolio and a petroleum buffer portfolio. The petroleum buffer portfolio receives the government's foreign-currency cash flows from petroleum activities and any transfers from the GPFG, and forms part of Norges Bank's management of the government's need to convert between foreign currency and NOK.

Responsibility for managing the reserves rests with NBCBO, but NBIM handles the operational management of the equity portfolio.

The Board made changes to the framework and governance structure for the management of the foreign exchange reserves in 2017. The split of powers between the Board and the Governor for setting limits for the management of the reserves in the Board's principles was revised, with greater responsibility being given to the Board. The strategy for the size and composition of the reserves was reviewed and left unchanged. Considerable importance is attached to liquidity. Norges Bank is exposed to various types of financial risk in its management of the foreign exchange reserves. The Bank is not exposed to liquidity risk in NOK.

The Governor has issued guidelines for the petroleum buffer portfolio and for the management of the fixed-income portfolio, based on the Executive Board's principles. Guidelines have also been introduced for transfers from the equity portfolio to the fixed-income portfolio in the event of a need to enhance the Bank's preparedness.

The Council has considered reports from the Board on financial risk and the management of the foreign exchange reserves. The reserves remained within the maximum limits for risk throughout the year. No breaches of the Executive Board's guidelines were reported during the year, nor any abnormal circumstances.

SUPERVISORY REVIEW – MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

The Office of the Supervisory Council has conducted a review of the Executive Board's management and control of Norges Bank's foreign exchange reserves. The aim was to give the Council an overview of their management and assess whether the Bank has a comprehensive governance framework for the reserves. The review was largely document-based, and much of the information was taken from the Bank's reporting.

The overall conclusion of the review was that, in the opinion of the Office, the Board has established a satisfactory governance framework for the foreign exchange reserves. Taken together, reporting on the reserves gives the Board a sound basis for close and continuous monitoring of their management.

The review assessed the Board's opportunities for governance and control of the management of the reserves. It also looked at scheduled reporting to the Board. The following assessment criteria were used as the background to the overall conclusion:

- Has the Executive Board established a comprehensive governance framework for the management of the foreign exchange reserves that addresses the management of risk?
- Does the Executive Board's consideration of reporting provide systematic oversight of the foreign exchange reserves?

One important input for the supervisory review was a project carried out by Internal Audit in 2017 resulting in a report to the Executive Board. The project covered the governance model, governance and control of fixed-income investment management at NBCBO, and measurement and reporting. The portfolio of equities managed by NBIM has been covered by other internal auditing projects carried out at NBIM. Reference was made to international practice in the assessments.

Internal Audit concludes in its report that, taken together, the overall framework provides adequate regulation of the management of the reserves. The processes have defined

³⁰ This corresponds to the IMF definition of foreign exchange reserves.

key controls that help ensure valid, accurate, complete, traceable and authorised trades. The report also concludes that the measurement of market risk conforms to recognised international practice. Reporting takes place in accordance with the principles.

The report makes a number of recommendations to ensure that the Markets and ICT Department establishes internal model documentation shedding light on the strengths and weaknesses of the chosen methods. In the opinion of the Office of the Supervisory Council, Internal Audit's report provides an important basis for follow-up by the Executive Board.

The Audit Committee considered the report, and there was particular discussion of differences in remuneration arrangements and different practices in the documentation of the use of models between MOA³¹ and NBIM. The Executive Board's minutes of its consideration of the report note that the Audit Committee was particularly interested in the division of duties between the Board and management. The Board asked management to take account of the Audit Committee's comments in its ongoing work on updating the strategy and framework for the foreign exchange reserves.

The Office of the Supervisory Council attached considerable importance to the Board having adjusted its principles for the management of the reserves in line with Internal Audit's recommendations and international practice. These changes to the principles mean that the Board will be more involved in the management of the reserves than before.

The Council took note of the assessments in the supervision report on the management of Norges Bank's foreign exchange reserves. It noted that the recommendations in the report from Internal Audit on amended responsibilities have been actioned, with the result that the Executive Board now has powers in the management of the reserves that were previously held by the Governor. The Council was briefed on the background to the size of the foreign exchange reserves and liquidity in the event of a crisis.

There were no follow-up questions for the Board, and the report was forwarded for information.

MONETARY POLICY AND FINANCIAL STABILITY

Norges Bank accepts deposits from commercial banks and savings banks on terms laid down by the Bank.³² Banks may deposit excess liquidity at Norges Bank, or obtain sufficient liquidity for the settlement of payments at the Bank by borrowing against collateral in the form of securities. The interest rate paid on banks' deposits is the most important rate in the conduct of monetary policy (key policy rate). In accordance with the regulation on a countercyclical capital buffer,³³ Norges Bank produces documentation as a basis for decisions and gives the Ministry of Finance advice each quarter on the level of this buffer at the banks. Vulnerability in the bank sector is analysed continuously.

The Council is informed about the Bank's monetary policy report with an assessment of financial stability, which is published four times a year. The report includes the Executive Board's assessment of the outlook for the key rate and forms the basis for the Bank's advice to the Ministry of Finance on the level of the countercyclical capital buffer at banks. The Council also receives the Board's annual report on financial stability, which looks more closely at long-term and structural trends in the financial system, including the bank sector in Norway.

The Council does not supervise the Board's exercise of discretionary authority, including the advice it gives the authorities, but keeps itself informed through the Board's minutes and the Governor's presentations at its meetings. The content of these reports is technically outside the Council's supervisory responsibilities, but provides important background information on processes and core activities in this area at the Bank.

NORGES BANK'S ROLE AS ISSUER OF BANKNOTES AND COINS

Norges Bank has a sovereign right to issue Norwegian banknotes and coins. This role is set out in the Norges Bank Act. The central bank is responsible for promoting

³¹ *The Market Operations and Analysis Unit under the Markets and ICT Department.*

³² *Norges Bank Act, Section 20.*

³³ *Laid down by the Ministry of Finance on 4 October 2013.*

an efficient payment system and ensuring that the public has the necessary access to cash.

Norges Bank's distribution warehouse is a "sensitive object" under the Security Act. High levels of security have been established with internal control processes and oversight by Internal Audit, the external auditor and the Office of the Supervisory Council. The Executive Board and the Governor have issued general internal guidelines. The Governor's guidelines on physical security at the Bank include general requirements for security standards in vaults and premises that also apply to central bank depots and suppliers' warehouses.

Notes and coins in circulation outside Norges Bank amounted to NOK 48.4bn at the end of 2017, down around NOK 2bn from a year earlier. The Council considers the Bank's annual reports on notes and coins and relevant management reporting. Work on the destruction of banknotes is largely automated and carried out locally at the Bank's depots. The Office of the Supervisory Council follows up this destruction work by reviewing reports during the year.

The Council has discussed the security and availability of cash in Norway. The Council is particularly concerned about the considerable inherent risk of irregularities and external threats associated with cash. No unwanted incidents were reported in 2017.

A new banknote series began to be introduced in 2017, with two denominations entering circulation in May and the remaining denominations due to follow in 2018 and 2019. The Council has been kept informed about, and approved resources for, the implementation of the project to develop and produce the notes. The project has been carried out within budget.

In its financial audit, Deloitte AS carried out selected tests of control activities established to ensure the correct registration of stocks of notes and coins. Deloitte also obtained control reports from a number of cash depots and counts carried out by third parties operating the depots. The auditor performed a site visit and re-count of banknotes at a central bank depot operated by NOKAS. No non-conformances were identified, and an account of its

assessments is provided in the auditor's report on Norges Bank's annual financial statements.

Following an overall assessment, the Council is of the opinion that adequate management and control of Norges Bank's roles and responsibilities in the supply of cash have been established.

A number of central banks, including Norges Bank, are assessing the development of new ways of supplying cash through the use of electronic, digital or virtual central bank money. It will be natural for the Council to monitor this work in its future supervision.

NORGES BANK'S SETTLEMENT SYSTEM (NBO)

Norges Bank's settlement system (NBO) and the overall payment system in Norway are highly dependent on IT and external suppliers for their operation. This entails a high risk of operational disruption and cybercrime. Payment transactions between banks in Norway are settled through accounts at Norges Bank. The central bank is the top level in the system and is tasked with promoting efficiency and security in the payment system. The payment system and financial infrastructure provide a critical function for society. NBO is therefore covered by the Security Act's requirements for the protection of "sensitive objects".³⁴ NBO must comply with, and report in line with, relevant international standards.

A supervisory review of the management and control of cybersecurity in NBO was carried out in 2015. The management of security both at Norges Bank and at suppliers in relation to NBO was examined. One recommendation was that the Bank should strengthen its work on managing cybersecurity. Work on security was monitored in 2017, and the Council was informed that steps to upgrade the system and security procedures and monitoring of suppliers have been implemented as planned. Norges Bank has conducted a review of NBO against international principles for cybersecurity and external security requirements.

³⁴ 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.

The Council monitors reporting on operational stability and the management of risk and contingency planning through the Executive Board's ordinary management reporting. Stable operation was reported throughout 2017. The Bank's annual report on the settlement system and public report on financial infrastructure for 2017 will be considered later in 2018.

The National Security Authority (NSM) oversees whether the requirements for security measures are met. The Bank receives supervision reports from NSM, and any non-conformities are addressed and followed up through general reporting on security. Norges Bank is not formally covered by Finanstilsynet's ICT regulations, but considers them a relevant management framework for its operation and development of ICT solutions for the settlement system.

GOVERNMENT ACCOUNTS AT NORGES BANK

Central government deposits at Norges Bank amounted to NOK 162.4bn at the end of 2017. The agreement entered into with the Ministry of Finance on the management of the government's accounts at the Bank was adjusted in 2016. 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. The Bank is responsible for implementing and overseeing the agreement's stipulations on security, backups and emergency procedures, including tasks performed by external suppliers of operational and account management services.

Under the agreement with the Ministry of Finance, an annual independent assurance statement³⁵ is to be obtained on Norges Bank's documentation of compliance with the requirements in the agreement, including security requirements for the management of the government's accounts at the Bank. Deloitte AS submitted an assurance statement for 2017 with a positive conclusion, which has been noted by the Supervisory Council and made available 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 under an agreement with, and mandate from, the Ministry of Finance. The agreement on the management of the government's accounts at Norges Bank also covers these services. An annually agreed fee is received from the Ministry.

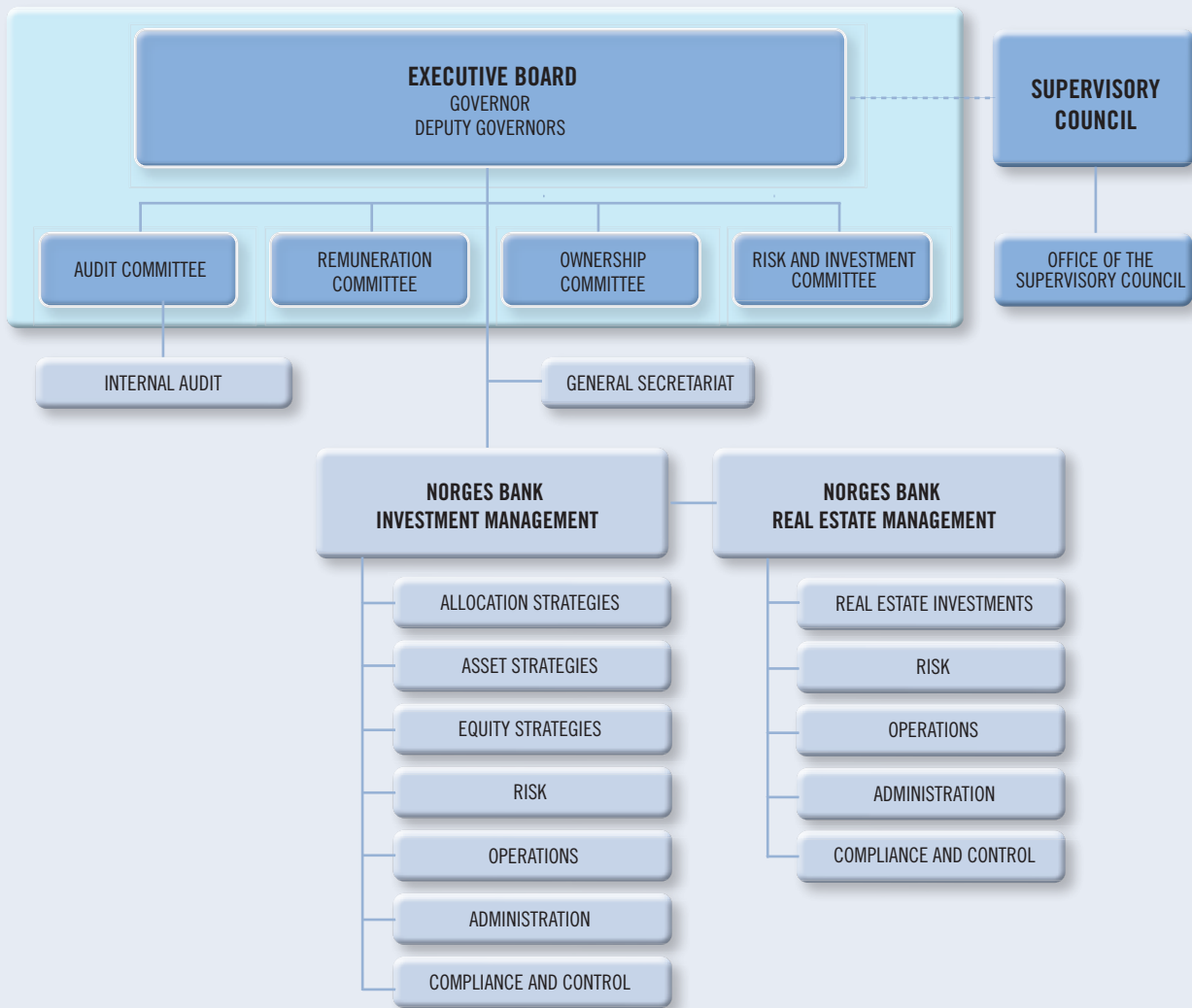
Government debt forms part of the central government accounts and is not included in Norges Bank's annual financial statements. Quarterly reports are submitted to the Ministry of Finance and published by Norges Bank.

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 engagement was carried out covering the management and control of accounting and payments in the management of government debt. Deloitte AS submitted an assurance statement with a positive conclusion, which has been noted by the Supervisory Council and made available to the Ministry of Finance and the Office of the Auditor General.

The Office of the Supervisory Council has arranged a meeting between Norges Bank, Deloitte AS and the Office of the Auditor General to review the Bank's work on government debt management. The Office of the Auditor General received a report from Deloitte AS in 2017 on agreed control procedures relating to the accounts for government debt management.

³⁵ Assurance engagement under ISAE 3000.

FIGURE 4 ORGANISATION CHART NBIM AND NBREM



CHAPTER 5

SUPERVISION OF INVESTMENT MANAGEMENT IN 2017

RESPONSIBILITIES AND ORGANISATION OF NORGES BANK INVESTMENT MANAGEMENT (NBIM)

Norges Bank manages the Government Pension Fund Global (GPGF) pursuant to the Government Pension Fund Act and the mandate and guidelines for the management of the GPGF. The operational management of the GPGF is carried out by NBIM. NBIM also manages the equity portfolio in the Bank's foreign exchange reserves on behalf of NBCBO, as mentioned earlier in the report.

The GPGF takes the form of a krone deposit at Norges Bank. It is to be invested in the Bank's name and may only be invested outside Norway. The investment portfolio consists of equities, bonds ("fixed income"), an unlisted real estate portfolio ("real estate") and cash deposits, and is operated in accordance with the mandate's instructions and restrictions.

NBIM's CEO has a mandate and powers from the Executive Board, which has issued a job description and an investment mandate. The CEO has an independent responsibility as head of the operational area, with overall responsibility for all matters (including real estate management), and reports directly to the Board. The Governor's role in this context is as chair of the Executive Board.

The management of unlisted real estate is organised in a separate department: Norges Bank Real Estate Management (NBREM). The CEO of NBREM is appointed by the Executive Board on the recommendation of NBIM's CEO and reports to NBIM's CEO, who has issued a mandate and job description.

Separate risk management units and units to monitor compliance with laws, regulations, mandates and guidelines have been set up at both NBIM and NBREM.

NBIM is led from Norges Bank's headquarters in Oslo and also has offices in London, New York, Singapore and Shanghai.

In addition, NBREM has formed four wholly-owned administrative and operating subsidiaries in Luxembourg, Singapore, London and Tokyo. Investments in real estate

are held through holding structures set up in the US, the UK and Norway and under the Luxembourg subsidiary. The companies with legal title to the properties may be subsidiaries or associates.

The mandate for the GPGF requires Norges Bank to report publicly on its investments and its performance. Further information on the management of the fund can be found in the annual report and three quarterly reports for the GPGF as a whole for 2017. Separate reports have also been published on responsible investment, real estate investments, and return and risk, together with an expectations document on tax.

NBIM's organisation structure in 2017 is shown in Figure 4.

SUPERVISORY ACTIVITIES AND CONCLUSIONS IN 2017

THE EXECUTIVE BOARD'S MANAGEMENT AND OVERSIGHT OF THE MANDATE AND GUIDELINES FOR THE MANAGEMENT OF THE GPGF

The Ministry of Finance has defined the overall objective for the GPGF in its management mandate:

*"The Bank shall seek to achieve the highest possible return after costs measured in the investment portfolio's currency basket and within the applicable management framework."*³⁶

The Executive Board is to have a strategic plan for the execution of its management assignment. It is to evaluate regularly the extent to which the goals in the strategic plan have been achieved.³⁷

The Ministry of Finance has defined a benchmark index against which the fund is measured. The Executive Board and NBIM have developed investment strategies to exploit the fund's special characteristics and strengths. One key provision in the mandate requires Norges Bank to manage the fund in such a way that expected relative volatility (tracking error) does not exceed 1.25 percentage points.

³⁶ Management Mandate for the Government Pension Fund Global, Section 1-3 "The management objective".

³⁷ Cf. Management Mandate for the Government Pension Fund Global, Section 1-7.

The excess return in 2017 was achieved with only partial use of this limit.

The mandate was last amended with effect from 1 January 2017. The fund's real estate investments were removed from the benchmark index but remain part of the investment universe. In the new model, it is up to Norges Bank to decide how much is to be invested in unlisted real estate, and which types of property the fund is to invest in, within set limits. The government decided during the year to increase the allocation to equities in the benchmark index from 62.5 to 70 percent. At an operational level, unlisted and listed real estate investments are now managed under a combined strategy for real estate.

In line with the requirement for regular assessment of policy documents laid down for investment management, the Executive Board conducts an annual review. In this process, it considers recommendations from supervisory reviews and assurance reports received. The Council is kept informed of the Board's assessments and decisions. In 2017, updates were made to the investment mandate for NBIM's CEO and three principles documents on the remuneration of NBIM employees, risk management at NBIM, and responsible investment.

In response to a question from the Council about NBIM's investment mandate, the Bank's executive management provided information on the purpose of the special exemption permitting the fund to have holdings of up to 30 percent in listed real estate companies. Real estate returns are managed and measured together for listed and unlisted exposures. The Council also asked for information on work to establish information barriers between NBIM and NBREM to avoid insider issues in investment management. The Bank's executive management explained how this is done.

The Executive Board receives periodic reports on governance, operational risk management and compliance. The Governor and Board are also notified without delay of any special events or situations.

The Council's supervision of the management of investment management takes the form of considering reports from the Executive Board and monitoring the Board's

minutes. It is very important for the Council's supervision that there are documented procedures for reporting breaches of rules and incidents, together with the implementation of risk reduction measures. The Office of the Supervisory Council discussed incidents and follow-up procedures at meetings with the compliance units during the year. No incidents during the year were reported as having serious consequences.

RETURN AND RISK

The mandate requires the Bank to aim for the highest possible return after costs in its management of the GPFG. In addition to the quarterly and annual reports on the management of the GPFG, the Bank publishes a more detailed report each year on return and risk in the fund. This report includes multiple calculation methods and metrics for risk-adjusted return.

Reports on return and risk were received from the Executive Board each quarter in 2017. The Office of the Supervisory Council works with internationally recognised advisers to review this reporting and forwards its assessments to the Council. The Council is also informed about the Bank's advice to the Ministry of Finance on the investment strategy for the GPFG.

During this process, the Council took note of information on returns and the use of the risk limits in the mandate. Briefings by the Bank's executive management included a focus on historical performance and relative returns.

EXTERNAL PORTFOLIO MANAGEMENT

Norges Bank has entered into agreements with external investment management companies on the management of approximately 5.3 percent of the GPFG's capital. An increasing share of the fund is being managed externally. These investment mandates are for the fund's equity portfolio and primarily in emerging markets. NBIM's CEO has issued guidelines for external portfolio management.

NBIM has established close monitoring of external managers and their operational processes. The Office of the Supervisory Council has held meetings with External Strategies, the unit at NBIM that is responsible for selecting and monitoring external managers. As part of the Office's risk-based oversight of investment management,

two external portfolio managers in Istanbul were selected for supervisory meetings.

Through these meetings, the Office gained an insight into these managers' organisation, management strategy and control systems. One topic covered was how they approach environmental, social and governance issues at companies in the portfolio. These meetings did not reveal any risks on which further information was requested from NBIM.

ACTIVE OWNERSHIP AND RESPONSIBLE INVESTMENT

Norges Bank reports extensively on responsible investment in both annual and quarterly reports. Through its management mandate for the GPF, the Ministry of Finance has expressed clear expectations for the Bank's work on responsible investment.

The Executive Board takes the final decision on observation and exclusion of companies after receiving a recommendation from the Council on Ethics. Exclusions can also be reversed following a decision of the Board on the recommendation of the Council on Ethics. The decisions are minuted and published. There is considerable openness about this activity and the decisions. The Ministry is to be informed separately about the decisions. The Council on Ethics endeavours to balance market sensitivity in the decisions by giving NBIM early warning of issues where exclusion may be recommended.

The Supervisory Council monitors the Board's processes for considering recommendations from the Council on Ethics through reports and minutes from the Board. In response to a question from the Supervisory Council where the Board had decided to take different action to that recommended by the Council on Ethics, the Governor provided additional information. Further information was also requested about companies that have been excluded from the GPF's investment universe, and the Bank's executive management provided examples of factors to which the Board has attached importance in its decisions.

The Council has reviewed the Bank's annual report on responsible investment, as well as the coverage of this topic in the public quarterly reports on the GPF. Over time,

the Council has been keen for the Bank's work on responsible investment to be focused and has pointed out a need for more concrete reporting in this area. There has been a move in the right direction in its reporting, with the content having been made clearer and more concrete. Norges Bank complies with the established framework, and the Executive Board minuted its independent decisions on exclusions and divestments.

UNLISTED REAL ESTATE INVESTMENTS AND THE MANAGEMENT AND CONTROL OF RISK IN REAL ESTATE MANAGEMENT

The Office of the Supervisory Council has monitored developments in real estate management through meetings with the compliance unit at NBREM and a review of the quarterly reporting to the Executive Board. The aim of this ongoing supervision has been to monitor developments in the control environment and areas with particular risks, and to understand the holding structures. It is also intended to ensure that the Council has adequate access to these structures for oversight.

Investments in unlisted real estate are made through subsidiaries of Norges Bank set up specifically as part of the management of the GPF. These subsidiaries are financed with equity and long-term loans. The Council asked for clarification of a number of matters of principle, including the development of the investment strategy and the split of responsibilities between the Executive Board's Risk and Investment Committee and NBREM's advisory committee, the Real Estate Investment Board (REIB). The Bank's executive management provided information on this and on the strategy for the planned increase in the real estate portfolio and the maximum holding in listed real estate companies. The Executive Board has assessed and adjusted the mandate for the REIB when it comes to requirements for reporting to the Board. The REIB is to report on its activities and decisions annually. As part of the Council's review of the Board's minutes, the Bank's executive management provided information on the Board's consideration of the minutes of REIB meetings.

The Council asked for further details on the valuation process when selling properties. The Bank's executive management explained how this works in practice. The valuation of properties is also covered by the external

auditor's work on Norges Bank's financial reporting. The policies applied when valuing international real estate will continue to be monitored in the supervisory process.

The Council has issued guidelines on the supervision of companies owned by Norges Bank in connection with the GPF's real estate investments. Its right of access is to be governed through formal policy and corporate documents. The Board must ensure that the Council has real and effective supervisory access.

In one real estate investment trust³⁸ in the UK, Norges Bank has a holding of around 58 percent. Local legislation and the trust's articles of association and established practice mean that there are reduced opportunities for access and oversight in this specific ownership structure even though Norges Bank is the majority owner. The Council is aware that steps were taken in 2017 to improve access. The board of the trust worked on clarifying the roles and responsibilities of the CEO, chair and external auditor. In this context, consideration will be given in 2018 to whether the Council's guidelines need to be updated.

REMUNERATION IN THE MANAGEMENT OF THE GPF

In line with the management mandate for the GPF,³⁹ the Executive Board has issued guidelines and limits for the remuneration system for NBIM employees. The aim of the system is to help promote and create incentives for good management and control of risks in investment management, avoid excessive risk exposure and prevent conflicts of interest.

The regulation on remuneration systems at financial institutions⁴⁰ requires the remuneration system to be designed such that it creates an incentive structure aligned with the

organisation's overall objectives, risk tolerance and long-term interests.

The Council considered a supervisory review of the remuneration system at NBIM in 2016. The review revealed that the Executive Board has set general limits and oversees the system at NBIM in accordance with applicable rules. The report recommended that the Board conducts a broad review of the principles for the remuneration system to ensure that they are aligned with the objectives and strategy for the management of the GPF.

The Executive Board responded that it has taken note of the recommendations in the report. The Board's principles for remuneration are revised at least annually. On its review of the principles in 2017, the Executive Board writes:

“The Board has included in the principles a requirement that the results of such comparisons are also to be presented to the Board.”

Internal Audit conducts an annual review of compliance with regulatory requirements concerning remuneration and has issued a statement to the Executive Board.

The Council discussed this matter during its consideration of the Board's briefing on the annual audit of policy documents, and took note of its follow-up actions. The Council will continue to monitor the Board's work on remuneration arrangements.

THREE SUPERVISORY REVIEWS IN 2017

The Council has considered reports from three supervisory reviews relating to investment management in 2017. The starting point was the approved supervision plan for 2017. The reports begin with their main conclusions. The two reports on processes for setting strategies and compliance with market regulations contain a number of recommendations for the Bank. The Board was asked for information on processes established at the Bank that differ from the benchmark used for the supervisory reviews.

When considering the Executive Board's response to these reports (letter of 7 December 2017), the Council noted that the Board planned to address these assessments in its work on further developing its control and oversight of the

³⁸ A real estate investment trust (REIT) is a corporate form where a portfolio of properties is held by a number of partners.

³⁹ Section 5-2 of the Management Mandate for the Government Pension Fund Global requires NBIM to establish a remuneration system, and the third paragraph states that the Regulation on Remuneration Systems at Financial Institutions etc. is to apply with necessary adaptations. This regulation was annulled when the Regulation on Financial Institutions and Financial Groups entered into force at the end of 2016.

⁴⁰ Chapter 15 of the new regulation essentially retains the requirements of the former regulation, cf. Section 15-2 on the establishment and review of remuneration systems.

management of the GPFG. At the same time, the Council noted that the Board had not made any fresh assessment in the light of the factors highlighted in the two supervision reports. It was asked for further information and comments.

The Council has received a new letter from the Executive Board dated 17 January 2018 with supplementary responses to questions from the supervisory reviews. In its letter, the Board describes the background to the practices chosen for Norges Bank, and in some cases the Board points out that Internal Audit is to conduct an assessment of the matters raised in the supervisory reviews.

The introduction to the Board's most recent letter states: *“The letter [of 1 December 2017] provides a detailed account of the Board's processes for setting strategies and the management model for the GPFG to shed light on various questions arising from the supervisory review. Similarly, the Board endeavoured to provide a broad description of the handling of market regulations within the chosen framework with a view to answering the questions raised in the review.*

“As a general starting point, there is reason to stress the importance of the Board setting goals and strategies that at all times conform to the requirements of the Ministry of Finance. These requirements are anchored in turn in the decisions of the Storting.

“Furthermore, there are few, if any, management organisations with the same basis for their work as Norges Bank. As context for the assessment of the management and control of the GPFG, account must be taken of the extent to which comparison with other institutions is relevant.

“More detailed replies to questions from the supervisory reviews are provided in the enclosure following the format used in the letter from the Office of the Supervisory Council.”

The Council passed the following resolution on the Executive Board's reply:⁴¹

“In its supervisory reviews, the Council has used standards and relevant practices at other leading institutions to assess Norges Bank's processes and organisation. In cases where significant differences have been observed, the Council has asked the Board to

explain its choices. In its letter, the Board describes the background to the practices chosen for the Bank, and in some cases the Board notes that Internal Audit is to conduct assessments of matters raised in the supervisory reviews.

“The Council considers it important that the risk assessments for its supervisory work also include the Board's follow-up of previous supervision reports. The Bank's principles and processes for management and control, including the oversight of risk, performance and costs, will remain at the core of the supervision process. This work will be continued in the supervision plan for 2018 to ensure continuity in overseeing the risk outlook for Norges Bank through special reviews and ongoing supervisory activities.”

See also Chapter 8 below.

SUPERVISORY REVIEW – THE EXECUTIVE BOARD'S PROCESSES FOR SETTING STRATEGIES AND THE MANAGEMENT MODEL FOR THE GPFG

The Office of the Supervisory Council has submitted a report from its supervisory review of the Executive Board's processes for setting strategies and the management model for the GPFG. The main aim of the review was to assess the relationship between the management mandate for the GPFG and the strategies that the Bank has chosen for its implementation. Any inconsistency may be a result of the chosen investment strategies not being effective, or the operational implementation of the management of the fund (the management model) not being aligned with the mandate.

The Ministry of Finance lays down the key features of the investment strategies in its mandate and guidelines after consulting Norges Bank and groups of experts. Significant changes to these fundamental investment strategies are also put before the Storting in annual hearings. On the basis of this formal framework, the Bank establishes more detailed investment strategies and organises the management of the fund.

In its review, the Office of the Supervisory Council made use of international advisers from Oliver Wyman AB, first and foremost to gain an understanding of industry practices for strategic processes. These practices were used as a benchmark for assessing the processes at Norges Bank. When it comes to requirements for formulating goals and

⁴¹ Cf. the decision taken at the Council's meeting of 22 February 2018.

evaluating results, it was also relevant to base the assessments on the Norwegian government's guidance on performing evaluations.⁴² Two international pension funds were contacted to obtain a background picture of strategy development at other asset managers.

The supervisory review used the following assessment criteria (AC) to map decisions on strategic processes and the management model at Norges Bank:

AC1: Have clear goals and targets been established for the management of the fund?

AC2: Have investment strategies corresponding to the goals and targets for the fund been defined?

AC3: Are there clear roles in the process for setting and evaluating strategy and its implementation?

AC4: Is the process for setting and evaluating strategy up-to-date?

It was concluded that the Bank's Executive Board has established a strategic plan as required by the regulation and the mandate. On the other hand, it was noted that some aspects of the strategy process could be further developed. Closer oversight could bring the Bank more in line with established practice among international asset managers.

The Council conducted a detailed discussion of the report and endorsed the recommendations made. The Governor provided information on a number of questions during this process. It was decided to forward the report to the Board and ask for its position on the recommendations.

The Board has responded as follows to the Council's questions on the assessment criteria⁴³ (quotations from its letter shown in italics):

AC1: A) The Executive Board is asked to account for how the fund's overall objective is translated into performance goals when setting strategy.

In its reply, the Board refers to the mandate for the GPF and to the Ministry of Finance setting benchmark indices so that the fund's absolute return depends first and foremost on movements in these indices:

"It is important that Norges Bank does not set goals that depart from the Ministry's requirements. The Board believes that measuring and reporting against the requirements in the mandate provides a good starting point for assessing results in the management of the GPF over time. The Board believes that its oversight of overall performance is aligned with the governance structure for the management of the GPF."

AC1: B) The Executive Board is asked to account for how the goals in the strategy can be operationalised into management parameters in the short, medium and longer term.

The Board replies, among other things, that *"the goals in the strategic plan are operationalised through annual action plans approved by NBIM's management. These action plans set concrete targets for the period. These concrete targets and the monitoring of these targets form the basis for quarterly management reporting to the Board on how the goals in the strategic plan are being followed up and implemented."*

"As the Board's body for independent assessment of management and control, Internal Audit supports the Board in the exercise of its oversight responsibilities under the Internal Control Regulation."

AC1: C) The Executive Board is asked to account for whether risk factors other than relative volatility (such as tail risk) are used as management parameters.

The Board refers to extensive public reporting on the management of the GPF and also writes that *"a variety of different metrics and risk analyses are used to obtain the broadest possible picture of the fund's market risk. In addition to the mandate's limit for expected relative volatility of 125 basis points, we use models that take greater account of market dynamics and tail risk. The Board has, for example, set a limit for expected shortfall in order to capture the risk associated with extreme market movements."*

"The Board would emphasise that the measures of risk used need to be viewed as a whole, so that they do not conflict with one

⁴² *Guidance on Performing Evaluations, Ministry of Finance, 2005.*

⁴³ *In its letter dated 17 January 2018.*

another. The Board has developed risk metrics and reporting in line with the mandate from the Ministry of Finance.”

AC2: The Executive Board is asked to account for how it systematically ensures that the investment philosophy serves as an anchor for the investment strategies and management model.

The Board refers to the management mandate and its extensive reporting to the Ministry of Finance, which is also made public, and replies:

“It is the Executive Board’s view that the management model, including measurement and reporting against the mandate from the Ministry, ensures that the management of the GPFG conforms to requirements and expectations.”

AC4: A) In view of the Bank being a long-term investor, the Executive Board is asked to account for the choice of three-year strategy periods and whether longer horizons have been discussed for all or parts of the portfolio.

The Board has established a practice of three-year strategy periods for the fund and replies: *“The length of the strategy period must be such that it permits strategies to be adjusted in the light of experience and changing conditions. These adjustments will always be guided by the fund’s long-term horizon. To date, the fund’s rapid growth and changing conditions have brought a need for regular adjustments, and the strategies set have had different emphases in the different periods. The Board believes that a strategy period of three to four years provides the necessary opportunity to adjust the chosen course in response to changes. The inclusion of real estate investments in the portfolio is one of a number of such changes.”*

AC4: B) The Executive Board is asked to account for how it will ensure in the final evaluation of the current strategy period that it has clear answers as to whether the investment strategies have resulted in the expected return and risk exposure, and whether the management model has been effective in terms of expenditure.

The Board responds:

“Norges Bank manages the fund with a view to the highest possible long-term return within the constraints laid down by the Ministry of Finance. Its strategies – which are grouped into fund

allocation, security selection and asset management – are complementary, due partly to having different time horizons. They are also based on different analytical frameworks and are expected to produce excess returns under different market conditions. We do not expect all strategies to produce an excess return at any given time. The aim is for the strategies together to produce a higher return than the benchmark index over time. In its oversight of the fund, the Board attaches great importance to assessing the effect of the different strategies over time. The creation of the Risk and Investment Committee has improved the Board’s oversight of risk and return, and the Board considers that its oversight provides a sound basis for assessing performance.

*“The Board attaches great importance to cost-effective investment management. Costs are assessed not only for the fund as a whole but also for the different investment strategies. The Ministry of Finance has designed the framework for benchmarking against other managers. The assessment of costs in the management of the GPFG is therefore based on comparisons with other management organisations. The Board believes that this framework, together with quarterly budget reviews, provides a sound basis for overseeing costs.”*The Council has considered the Board’s replies concerning the assessment criteria in the report and noted that it has not provided new information. In response to follow-up questions from the Council, the Bank’s executive management provided additional information on the return targets for investment management at a meeting. The Council’s resolution on the Board’s response is reproduced on page 35 of the report above.

SUPERVISORY REVIEW – MANAGEMENT AND CONTROL OF COMPLIANCE WITH MARKET REGULATIONS

The Office of the Supervisory Council presented a report from a supervisory review of the Executive Board’s management and control of risk relating to compliance with market regulations where Norges Bank invests. In its management of listed securities for the GPFG, the Bank must comply with regulations that vary from country to country. The aim of the review was to assess whether the Bank manages and controls this compliance risk at an overall level.

Market regulations are defined here as laws and regulations that apply to participants trading on different

countries' exchanges.⁴⁴ These include rules on inside information and market manipulation, notification rules for special transactions, and trading rules for how transactions in listed financial instruments are to be executed.

Shortcomings in the management of compliance risk can have financial, legal and reputational consequences. The risk includes both breaches of existing rules and failure to capture new rules.

The Office of the Supervisory Council carried out the supervision project in co-operation with international advisers from Oliver Wyman AB.

Section 3 of the Internal Control Regulation sets out the Executive Board's responsibility for defining which risk limits are to apply. This covers all aspects of its operations, including compliance risk.

Under Section 4-1 (1) of the management mandate for the GPF, Norges Bank is to establish principles for the control of risk that, as a minimum, adhere to internationally recognised standards and methods.⁴⁵ As a market participant, the Bank must follow the same rules on exchanges as other investors, as well as relevant market regulations issued by the authorities in different countries. Both the marketplace itself (the exchange) and the authorities in each country set requirements for how investors are to behave, and sanctions for breaches of these requirements.

The supervisory review was based on the following assessment criteria (AC):

AC1: Is Norges Bank's management framework for overseeing compliance with market regulations aligned with practices at other leading asset managers?

AC2: Have processes been established for overseeing and ensuring compliance with market regulations in line with practices at other leading asset managers?

⁴⁴ Rules are issued both by the authorities in different countries and by the individual exchanges.

⁴⁵ Section 4-1 "Introductory provisions": "(1) The Bank shall establish principles for valuation, performance measurement, and risk management that, as a minimum, adhere to internationally recognised standards and methods."

AC3: Are any breaches of market regulations managed in line with practices at other leading asset managers?

The overall conclusion of the report was that Norges Bank has established frameworks and processes for managing and controlling risk relating to compliance with market regulations that are largely aligned with the practices of other leading asset managers.

In its consideration of the supervision report, the Council endorsed this conclusion. The Council looks positively on NBIM and NBREM having established procedures for managing inside information in 2017 to limit the number of securities covered by trading restrictions. This issue was also raised in previous supervisory reviews.

The Executive Board responded as follows to the Council's questions on the assessment criteria⁴⁶ (quotations from its letter shown in italics).

AC1: A) The Executive Board is asked to account for whether the principles for operational risk provide sufficiently nuanced tolerance limits for different types of risk, and whether there may be a need for further specification of these limits.

The Executive Board refers to previous information on the processes for establishing strategies and action plans for the GPF and replies:

"NBIM's operational risk management framework is designed to look at all operational risks combined. The Board has set an upper, aggregated risk tolerance for financial and reputational losses for the fund's total operations. Part of this framework is a systematic assessment of operational risk factors in the form of the probability and consequences of potential events. The processes and procedures for the concrete risk assessments are formalised in NBIM's framework, with requirements for escalation and reporting, and measurement against the established risk tolerance.

"Given the purpose, design and functionality of the risk framework, the Board has considered it inappropriate to attempt to regulate in detail individual risk factors or types of risk beyond today's risk categories."

⁴⁶ In a letter dated 17 January 2017.

The Board states that it has been decided that Internal Audit will incorporate the recommendations from the supervision report in its independent assessments of risk management. Benchmarking against recognised practices for operational risk management is at the core of Internal Audit's reviews.

AC1: B) The Executive Board is asked to account for how potential costs and losses are assessed when it comes to active management of inside information.

The Board has also commented on this matter to the Council before. The risk situation is described in its reply: *“Disclosing information on future transactions may make the whole of NBIM an insider, leading to trading restrictions and potential losses. Shortcomings in the procedures for managing inside information may also lead to sanctions and reputational damage. NBREM's real estate investments generally feature lengthy investment processes and contractual negotiations with a risk of contagion effects on NBIM. Recent years have therefore seen extensive work on establishing separate working processes and support systems at NBREM independent of NBIM. One of the aims has been to establish information barriers between the two so that NBIM is not encumbered with trading restrictions as a result of NBREM's activities. This is a necessary measure.*

“In addition to the need for information barriers, the Board has also found that the extensive scope of the two areas' tasks dictates that IT solutions should be established locally. The Board believes that it has received sound and adequate information on NBIM's implementation of separate IT systems, including for the management of inside information.”

Internal Audit will perform an assessment in this area too in 2018.

AC2: A) The Executive Board is asked to account for how expected future regulations with potential consequences for different aspects of the fund's management are adequately analysed and described in reporting.

The Board's reporting requirements are set out in the job description for NBIM's CEO, which the Council has been briefed on previously. The Board's assessment is as follows: *“The Board receives quarterly reports on operational risk in investment management (NBIM Compliance and Control*

Report) in line with these requirements. This reporting covers compliance with laws and regulations, security risks, operational risks and events during the period. The reporting also includes any relevant risks from the introduction of new legislative or regulatory requirements material to investment activities.”

The Council receives these reports from the Board and notes that the Board considers the existing arrangements to be adequate.

AC2: B) The Executive Board is asked to account for whether its current reporting of significant events and NBIM's follow-up of these events are sufficiently systematic and consistent over time, including when it comes to matters that are to be reported to relevant authorities.

The Board explains its processes for ensuring compliance with market regulations that apply to the GPF. It also writes:

“The Board has decided that events categorised as orange or red are to be included in the quarterly report to the Board. One exception is events that have resulted in breaches of market regulations. All such events are to be included in the quarterly reporting to the Board.

“To ensure that NBIM has robust procedures that ensure correct and complete reporting of events, Internal Audit conducted a review in 2015 of the reporting of events at NBIM. The conclusion was that NBIM had established clear guidelines for reporting and that these were clearly communicated and understood in the organisation. Internal Audit concluded that the procedures are sound and are complied with consistently in the organisation.

“Based on the review of reports from NBIM and Internal Audit's report, it is the Board's opinion that the reporting of events is robust and ensures consistency and quality over time.”

The Council has no further remarks on this.

AC3: The Executive Board is asked to account for its tolerance limits for breaches of market regulations and how these are to be followed up and reported. The Board writes in its response:

“Norges Bank is required to comply with relevant laws and regulations in the markets where the fund is invested. When it comes to breaches of market regulations, the Board's zero tolerance

is clearly expressed by the fact that all such events must be reported to the Board.”

The Council has considered the Executive Board's replies on the assessment criteria in the report and noted that no new information has been provided. In response to questions from the Council, the Bank's executive management provided further information on the management of inside information in investment management. The Council's resolution on the Board's response is reproduced on page 35 of the report above.

SUPERVISORY REVIEW – MANAGEMENT AND CONTROL OF SUBSIDIARIES AND JOINT VENTURES

In conjunction with Deloitte AS, the Office of the Supervisory Council has reviewed the established control of subsidiaries and joint ventures in NBREM. The aim of the review was to assess the Bank's overall management and control of wholly owned subsidiaries and joint ventures in which the Bank has interests of between 30 and 50 percent. Comparisons were made with good international practice.

In the review, the subsidiary NBREMEL (Norges Bank Real Estate Management Europe Ltd) was used as an example of the Bank's management and control. NBREMEL is a subsidiary that manages properties that are wholly owned by the Bank.

Investing in unlisted real estate exposes the Bank to different types of reputational risk compared to investments in listed investments on an exchange. This might mean, for example, an accident at a property owned by the Bank, or a tenant engaging in activities with which the Bank would not wish to be associated.

Investing and managing real estate can bring exposure to a wide range of different types of service provider and other third parties (such as tenants). Good management and control are therefore important to ensure that these companies adhere to the same general rules as otherwise apply in the management of the fund.

It is also important to ensure that subsidiaries comply with local legislative requirements in areas such as tax, public administration, health and safety, and the environment.

This reduces the risk of both compensation claims and loss of reputation. In addition to good management and control of companies, it is important to ensure that the Bank's overall goals for its real estate investments are addressed.

In connection with the review, the Office of the Supervisory Council met a large real estate investor in London. The meeting provided a good starting point for assessing the management and control of the Bank's subsidiaries in this jurisdiction.

The conclusion of the supervision report was positive, and there were no observations with recommendations for action by the Executive Board. The Council took note of the assessments and forwarded the report to the Board for information.

INDEPENDENT ASSURANCE ENGAGEMENT ON RESPONSIBLE INVESTMENT

Development and communication of Norges Bank's principles for responsible investment for the GPF

It is an established practice for the Ministry of Finance to be informed about, and invited to comment on, the Supervisory Council's supervision plan for the coming year. The Council then considers whether the Ministry's feedback can be incorporated into the plan.⁴⁷

In its letter of 3 February 2017, the Ministry requested that the Council considers one or more assurance projects in the area of responsible investment. Following an assessment, it was decided to perform a limited assurance engagement based on the mandate for the GPF. The requirements for responsible investment are extensive, with a variety of different principles and guidelines. Implementation varies across sectors and with the status of relevant principles and guidelines.

Deloitte AS conducted a review of whether the Executive Board's principles in the area are anchored in NBIM/NBREM's organisation. The assurance engagement was

⁴⁷ This interaction with the Ministry of Finance is based on Proposition to the Odelsting No. 58 (2008–2009).

conducted in accordance with the international standard for assurance engagements ISAE 3000. The review covered supervision of the management and control of the development of the communication of Norges Bank's principles for responsible investment. Staff from Deloitte's international network were used in this work.

Criteria for the assessments in the review were developed on the basis of various guidelines and international standards and Deloitte's experience of practices in the industry. Deloitte AS submitted an assurance report with a positive conclusion:

“In our opinion, management and control relating to

- the development of principles for responsible investment and how they are applied at Norges Bank Investment Management (“NBIM”) and Norges Bank Real Estate Management (“NBREM”),*
- the communication of the principles for responsible investment to external managers and joint venture partners, and*
- internal and external reporting of responsible investment activities*

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

“Our review did not include an assessment of whether and how the principles for responsible investment are used in practice or whether they are complied with. Our conclusion applies only to the areas defined in the criteria.

“Practices and expectations for responsible investment are constantly evolving, and NBIM and NBREM will therefore need to continue to develop their principles and activities relating to responsible investment.”

The assurance report singled out three areas with room for improvement and made the following recommendations:

“As part of the further development of responsible investment,

- NBIM and NBREM should consider strengthening the process by further formalising that NBREM is to provide*

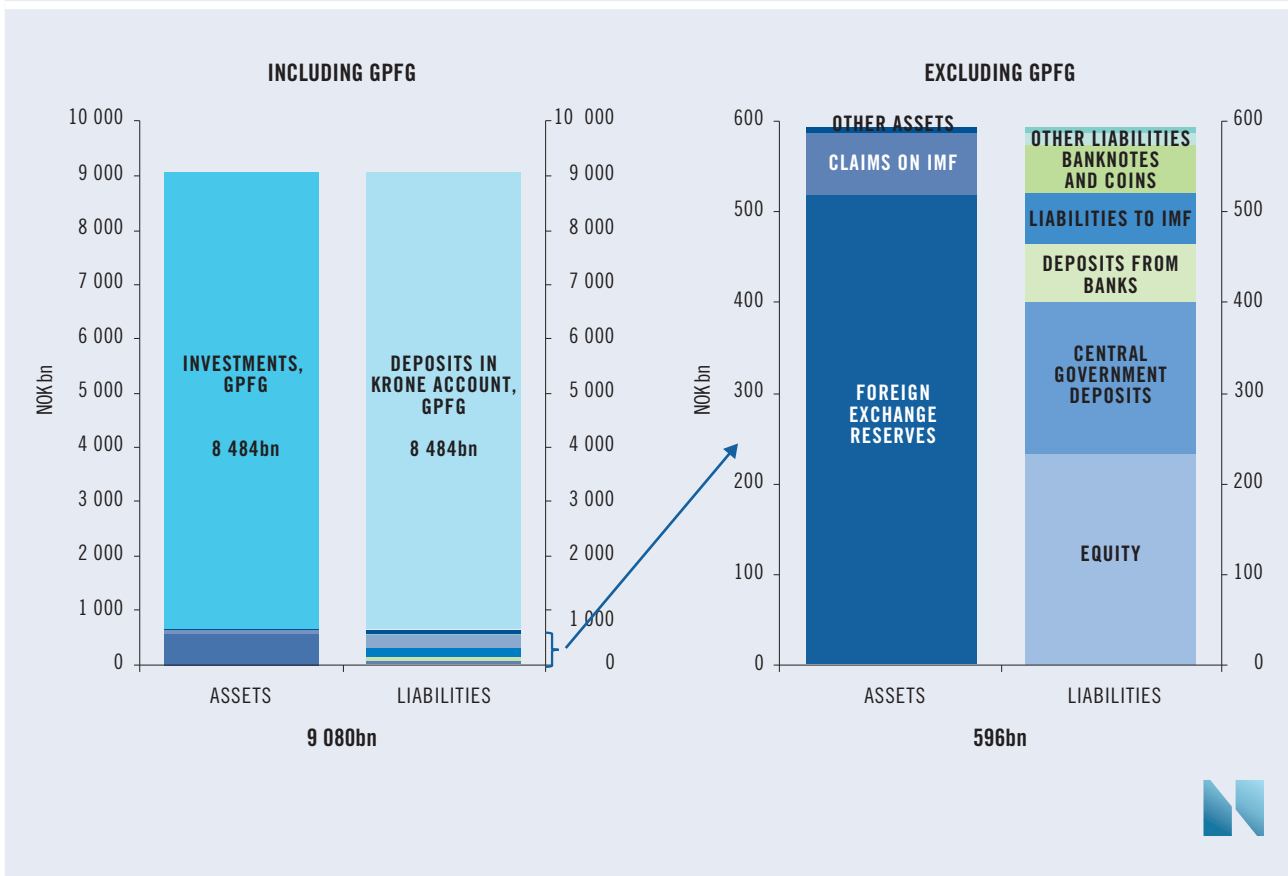
input at co-ordination meetings on any changes to the principles for responsible investment.

- NBIM should consider further formalising and documenting meetings with external managers to strengthen documentation that relevant ESG-related topics have been covered.*
- NBIM should consider either including unlisted real estate in [the annual report on responsible investment for the GPF] or clarifying that this topic is covered by the annual report on real estate investments.”*

The Supervisory Council considered the assurance statement and took note of the assessments in the report. The report was forwarded to the Executive Board and was made publicly available when it was sent to the Ministry of Finance. The Board is expected to follow up the recommendations in the report and return to the Council with comments.

This is the first stage in a planned programme of supervision of responsible investment. Two further supervisory reviews of principles and regulations in the field in relation to the mandate for the GPF will be prioritised in 2018 – see further information in Chapter 8 of the report below.

FIGURE 5 NORGES BANK'S BALANCE SHEET



CHAPTER 6

NORGES BANK'S ANNUAL REPORT AND FINANCIAL STATEMENTS FOR 2017

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

The key provisions on Norges Bank's financial reporting are set out in Section 30 of the Norges Bank Act:

“Each year the Executive Board shall prepare an annual report and accounts for the year. The annual accounts are adopted by the Supervisory Council.

“Norges Bank has a statutory obligation to keep accounts in accordance with the Accounting Act and the Bookkeeping Act.”

The Bank's annual financial statements and the Board's annual report are prepared in accordance with the Accounting Act's rules for large enterprises and the regulation on the Bank's annual financial statements. This regulation requires the Bank's financial reporting to comply with International Financial Reporting Standards (IFRS) and contains special requirements for the presentation of the GPFG and subsidiaries.

The financial reporting for the GPFG is integrated into Norges Bank's annual financial statements. The investment portfolio under management corresponds at all times to the balance on a krone account in Norges Bank's balance sheet, and the management costs and fee approved by the Ministry of Finance are included in the Bank's income statement. The management results are also presented in notes to the financial statements. Requirements for the content of financial reporting are set out in the management mandate for the GPFG. A separate annual report on the management of the fund is published with excerpts from Norges Bank's financial statements. The Bank is also to report quarterly on changes in value, results and risk, and utilisation of the limits in the mandate from the Ministry of Finance.

The Executive Board's annual report, the audited annual financial statements, the auditor's report and the Council's resolution adopting the financial statements are sent to the Ministry of Finance for submission to the King in Council and communication to the Storting. All financial reporting is to be published on the Bank's website. Requirements for the disclosure of information on the management of the fund are set out in the management mandate.⁴⁸

⁴⁸ *Management Mandate for the Government Pension Fund Global, Chapter 6 “Public reporting”.*

Quarterly reports are also published on the management of the foreign exchange reserves, as well as monthly balance sheets showing the results of Norges Bank's operations. In addition, there are annual reports and publications on central banking, financial infrastructure, financial stability, responsible investment, real estate investment, and return and risk in the GPFG.

In the Council's opinion, the Bank complies with the reporting framework and is open about its activities. The Accounting Act's requirements for reporting on social responsibility apply to Norges Bank.⁴⁹ This information 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.

CONSIDERATION OF THE ANNUAL FINANCIAL STATEMENTS AND REPORTING FOR 2017

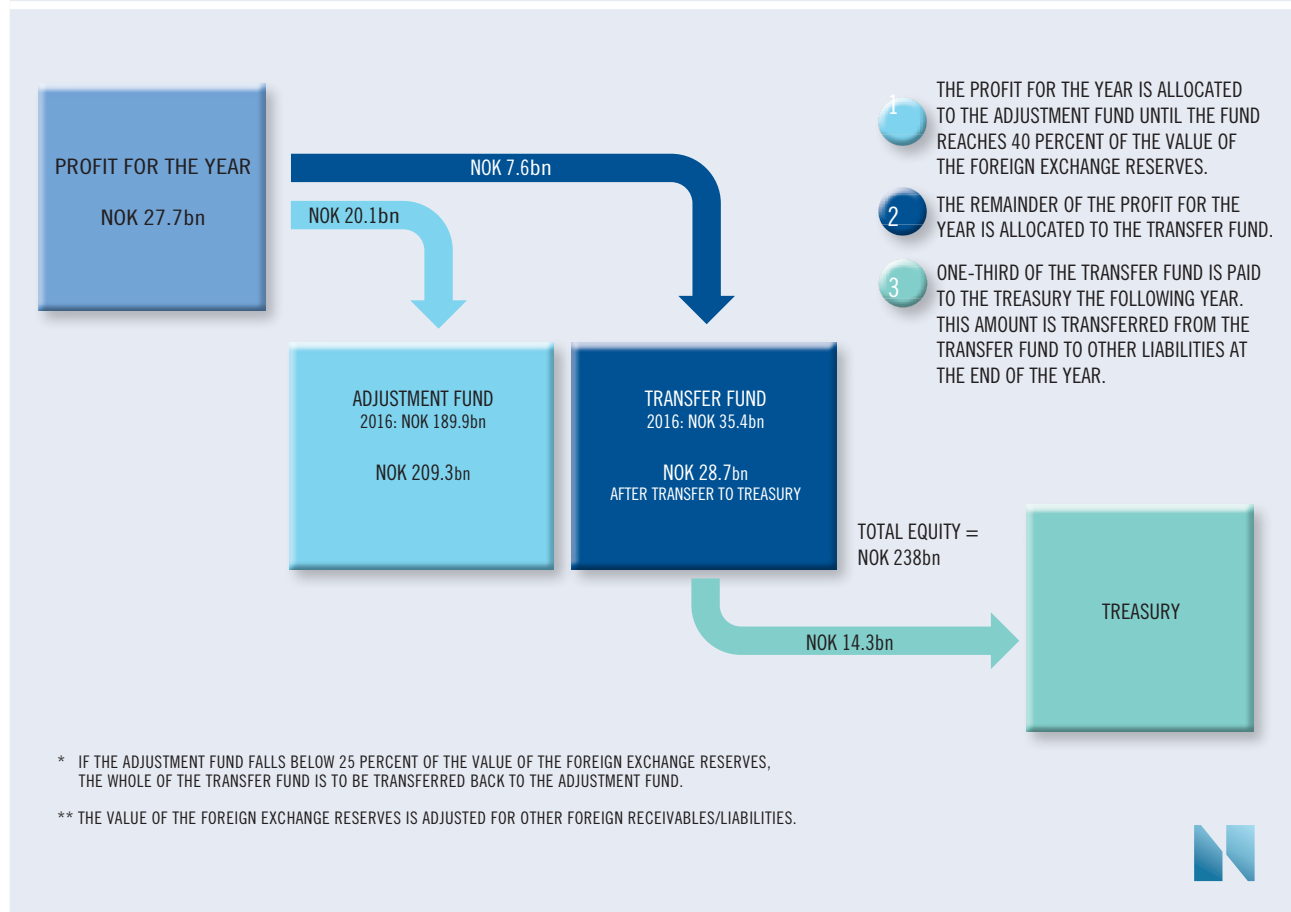
Norges Bank's annual report and annual financial statements for 2017 were approved by the Executive Board on 7 February 2018. The annual report on the management of the GPFG was approved at the same time. There were no changes to the accounting policies or IFRSs used in the preparation of the annual financial statements. Nor were there any other changes in the regulatory requirements applying to the annual financial statements in 2017.

The annual report, annual financial statements and annual report on the management of the GPFG were considered at the Supervisory Council's meeting of 22 February 2018. The Council adopted the annual financial statements and the distribution of comprehensive income proposed by the Board. The external auditor's work and reporting on the Bank's financial statements has provided assurance for the Council that the rules for the Bank's financial reporting have been complied with.

Norges Bank's balance sheet at 31 December 2017 is shown in Figure 5 both including and excluding the GPFG.

When considering the annual report for the GPFG, the Council noted that the Bank uses as its benchmark for

⁴⁹ *Accounting Act, Section 3-3c. The Bank must also account for what it has done to integrate human rights, labour rights and social, environmental and anti-corruption issues.*

FIGURE 6 EQUITY MECHANISM. ALLOCATION OF NORGE BANK'S PROFIT FOR THE YEAR

management costs a report obtained by the Ministry of Finance from CEM Benchmarking Inc. (hereinafter referred to as “the CEM report”). The Council believes that this analysis is somewhat lacking in precision. The Board comments in its budget process that uncertainty in the benchmark makes it difficult to perform a detailed analysis. It notes, for example, that NBIM's investment management is not divided into asset classes but into investment strategies.

The Council has also commented on this in connection with its budget resolutions, and will continue to follow reporting on cost analyses in its supervision work.

Norges Bank's balance sheet showed total assets of NOK 9,079.7bn on 31 December 2017, consisting of both assets relating to central banking and assets under management in the GPFG. The balance sheet total excluding the GPFG was NOK 596bn (2016: NOK 574.6bn).

The market value of the krone deposit for the GPFG in the Bank's balance sheet was NOK 8,484bn after deducting the Bank's management fee. The increase in the value of the fund in 2017 was NOK 978bn. The fund's asset allocation was 66.6 percent equities, 2.6 percent real estate and 30.8 percent fixed income at the end of the year. There were no inflows into the fund in 2017; rather the government withdrew a total of NOK 61bn (2016: NOK 101bn).

Norges Bank's income statement for 2017 shows a profit of NOK 27.7bn (2016: loss of NOK 2.9bn). Based on the guidelines for the distribution of Norges Bank's income, NOK 14.3bn is to be transferred to the Treasury, leaving the Bank with equity of NOK 238bn. Total comprehensive income consisted primarily of the foreign exchange reserves' return in international currency on equity and fixed-income investments of NOK 30.2bn. A stronger krone exchange rate resulted in foreign exchange losses of NOK 1.5bn.

Total operating expenses including management costs for the GPFG amounted to NOK 5,935m. Expenditure and the Council's oversight of expenditure in 2017 are discussed in Chapter 7 below.

The Council has taken note of the presentation of the Bank's operations and results in the Executive Board's

annual report for 2017. The Council believes that the Board's annual report and the Bank's annual financial statements provide good information on its activities.

The Council's resolution on the Bank's annual financial statements for 2017 was as follows:

The Supervisory Council adopted the following decision at its meeting on 22 February 2018:

- The Supervisory Council takes note of the Annual Report of the Executive Board for 2017.
- The Supervisory Council takes note of the auditor's report for Norges Bank for 2017 and adopts Norges Bank's financial statements for 2017.
- In accordance with the guidelines, the net gain of NOK 27.7bn is transferred with NOK 20.1bn to the Adjustment Fund and NOK 7.6bn to the Transfer Fund.

From the Transfer Fund, one-third, or NOK 14.3bn, will be transferred to the Treasury.

Norges Bank's equity consists of an Adjustment Fund and a Transfer Fund. The Adjustment Fund consists of restricted equity, and the Transfer Fund is the basis for transfers to the Treasury. Under Section 30 of the Norges Bank Act, the King lays down guidelines for provisions and allocations of the Bank's net profit.⁵⁰ Decisions on transfers from Norges Bank to the government must be approved by the Storting and are carried out in the first quarter of the following year. The transfer from the Transfer Fund to the Treasury for 2016 amounted to NOK 17.7bn. The distribution of Norges Bank's profit and transfers to the Treasury are illustrated in Figure 6.

⁵⁰ Guidelines issued by the King in Council on 7 February 1986 and most recently amended by Royal Decree on 6 December 2002. For further information, see the statement of changes in equity and information on accounting policies in Norges Bank's annual report and financial statements for 2017.

THE AUDITOR'S REPORTING ON THE ANNUAL FINANCIAL STATEMENTS FOR 2017

Deloitte AS audits Norges Bank's annual financial statements and the financial reporting for the GPFG's investment portfolio included in a note to the financial statements. Review reports are also provided on a limited review of the financial reporting for the GPFG in each of the three first quarters of the year.

The Supervisory Council took note of the external auditor's audit plan for Norges Bank for 2017 before audit work began. In the auditor's assessment of the risk of material errors in the financial statements, a knowledge of Norges Bank's operations, procedures and processes is built up, and the outside world's expectations of quality and transparency in the reporting are addressed. Particular importance is attached in the audit process to the following areas: "Management of the equity and fixed-income portfolios in the foreign exchange reserves and the Government Pension Fund Global", "Notes and coins in circulation", "Valuation of investments in unlisted real estate, Government Pension Fund Global" and "Risk and return disclosures, Government Pension Fund Global".

Deloitte AS provided more detailed information on the use of data analyses in the audit process and automated controls in the management of the fund. The Council asked to be informed of any material developments with implications for the implementation and scope of the audit. No such developments were reported for 2017.

The Council took note of the management letter from Deloitte AS on the audit of Norges Bank for 2017. The letter provided information on key points considered in connection with the financial reporting.

As part of the Supervisory Council's consideration of Norges Bank's financial statements for 2017, the external auditor provided information on the audit processes carried out. The Council has received two audit reports from Deloitte AS on Norges Bank's annual financial reporting: "Independent auditor's report on the audit of Norges Bank's annual financial statements" and "Independent auditor's report on the audit of the financial reporting for the management of the Government Pension Fund Global". When it comes to Norges Bank's annual financial statements, the auditor concluded:

“Opinion

“We have audited the financial statements of Norges Bank which comprise the balance sheet as at 31 December 2017, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

“In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of Norges Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the Accounting Act and the regulation concerning annual financial reporting for Norges Bank. The regulation requires the financial statements for Norges Bank to be prepared in accordance with International Financial Reporting Standards as endorsed by the EU, but sets certain specific presentation requirements for the investment portfolio of the Government Pension Fund Global, including subsidiaries being part of the investment portfolio.”

The opinion in the report on the financial reporting for the investment portfolio of the GPFG is similarly positive.

In the independent auditor's reports, key matters that, in the opinion of the auditor, were most important in the audit of the annual financial statements for 2017 are described, and risks are assessed. The auditor does not provide a separate opinion on these.

The Council has taken note of the two audit reports and the management letter from Deloitte AS. Reference should be made to the full text of the audit reports in Norges Bank's annual report and financial statements and in the report on the management of the GPFG for 2017. The review reports on the quarterly reports on the GPFG in 2017 were also unqualified. Work on these reports is based on the international standard on review engagements for interim financial information. The Council has also taken note of these reports.

Subsidiaries in real estate management have appointed their own auditors which submit an independent auditor's report directly to the board of each company. These reports are not considered by the Council.

CHAPTER 7

NORGES BANK'S BUDGET AND EXPENDITURE

THE BUDGET FRAMEWORK – THE BUDGET RULES AND THE FINANCIAL RULES

The Norges Bank Act⁵¹ requires the Executive Board each year to prepare a draft budget for the coming financial year. The budget is approved by the Supervisory Council and communicated to the Ministry of Finance.

The Council has issued budget rules with general principles for financial management at Norges Bank.⁵² These principles also cover the management of the GPFG. The rules set out general guidelines and assumptions for budget decisions.

One principle in the budget rules is that the annual decision covers the whole of Norges Bank's activities. In the budget process, the Council ensures that there is a sufficient financial basis for Norges Bank's duties and operations. The budget must essentially adhere to the same principles as set out in applicable financial reporting rules, laid down in the regulation on Norges Bank's annual accounts, etc. At an overall level, the criteria and assumptions for budgeting are to be consistent across the whole of the bank.

When considering the annual budgets and annual financial reporting, the Council makes its own assessments and may request additional information from the Executive Board.

Based on the budget rules, the Executive Board has issued additional *financial rules* with principles for financial management and the budget process. In 2017, the Executive Board updated the part of the financial rules covering budgeting. They now specify that the Board is to make cost-effective and responsible use of the Bank's resources, with requirements for external cost benchmarking and cost-benefit analyses.

The background to the updates includes a recommendation from the Council following a supervisory review in 2016 on cost control in the management of the GPFG. The Board was encouraged there to incorporate the budget rules' provisions on cost-effective expenditure more

explicitly into the financial rules, and to consider providing further guidance on cost control. The changes should be seen in the light of the Council's remarks when considering Norges Bank's budget for 2017.⁵³ The revised financial rules were submitted to the Council, which looks positively on the Board's response.

In line with Section 5-1(2) of the management mandate for the GPFG, the Ministry of Finance sets a limit for the reimbursement of management costs as a percentage of assets under management. The Bank is reimbursed only for actual costs incurred up to that limit. Fees to external managers for excess return generated are covered outside the limit. Within the limit, therefore, Norges Bank has no financial risk. The Ministry's approval is based on the budget estimate submitted by the Bank with a proposed upper limit.⁵⁴ The letter from the Ministry will generally be available by the time the Council makes its resolution on the budget for Norges Bank.

FOLLOW-UP OF THE BUDGET RESOLUTION FOR 2017

In its consideration of the budget for 2017,⁵⁵ the Supervisory Council passed the following resolution:

1. The Supervisory Council asks the Executive Board to submit approved strategies and targets for the period 2017–2019 with cost-benefit analyses for strategic choices, both for the Bank as a whole and for the individual operational areas.
2. The Supervisory Council asks the Executive Board to submit relevant cost comparisons and analyses of the Bank's operations.

In a letter dated 4 April 2017, the Executive Board presented extensive material which, in the opinion of the

⁵¹ *Norges Bank Act*, Section 29.

⁵² *Adopted by the Supervisory Council on 15 November 2012. Last amended on 5 November 2015.*

⁵³ *Cf. Document No. 9 (2016–2017), Chapter 7.*

⁵⁴ *Management Mandate for the Government Pension Fund Global, Section 5-1: "By 1 December each year, the Bank shall send the Ministry a substantiated proposal for a limit on the costs for the management of the investment portfolio based on estimates of the management costs for the following year."*

⁵⁵ *At the Council's meeting of 20 December 2017.*

TABLE 1 NORGES BANK'S OPERATING RESULTS EXCLUDING SUPERVISORY COUNCIL'S EXPENSES

MILLIONS OF NOK	BUDGET 2018	ACTUAL 2017	ACTUAL 2016
Operating revenue, NBCBO	129	124	128
Management fee, GPFG	5,270	4,728	3,731
Total operating revenue	5,399	4,852	3,859
Operating expenses, NBCBO	-1,260	-1,263	-1,080
Operating expenses, NBIM	-5,372	-4,822	-3,863
Eliminations	210	190	189
Total operating expenses	-6,422	-5,895	-4,754
Net operating expenses	-1,023	-1,043	-895
Capital expenditure, NBCBO	55	91	127
Capital expenditure, NBIM	101	112	197
Total capital expenditure	156	203	324

Council, provides an overview of the two topics on which the Council requested information. The Board's model for the management and organisation of the Bank is described as background to the chosen strategies. It is noted that the management of the GPFG is constrained by the mandate and overall strategies set by the Ministry of Finance. The strategy approved for NBIM for 2017–2019 is appended to the Board's letter.

Reference is made to extensive work over time on decomposing and specifying cost components, with descriptions of how costs have moved at NBIM. Cost-benefit analyses of strategic choices are described. The benchmarking of costs in the management of the GPFG in the CEM report is appended to the letter and commented on. For central banking, there is periodic external benchmarking of central banks' expenditure and a methodological analysis developed by the ECB. The analyses are tailored to the tasks assigned to each country's central bank.

The Council minuted⁵⁶ the following resolution following its consideration of the letter from the Executive Board:

“The Board has presented extensive material. The response is complete in the sense that it provides an overview of the topics on which the Council asked for information. It is also clear that considerable work has gone into decomposing and specifying cost components.

“The relations between strategic choices, return expectations and cost-effectiveness in the management of the fund will be followed up in a separate supervisory review.”⁵⁷

The Council will pay similar attention to Norges Bank's budgets in the years to come.

ASSESSMENT OF EXPENDITURE IN 2017

Norges Bank's budget is not included in the Storting's consideration of the government budget. Like many other central banks, Norges Bank has budgetary independence that does not apply in other parts of the government

sector. This independence is important for the Executive Board's freedom of action, but also requires strict budget discipline and sound procedures for the management and control of expenditure.

Under the budget rules, the Executive Board is responsible for activities being performed in such a way that targets are achieved within the financial constraints set out in the budget decision. The management of the GPFG is also to be performed cost-effectively and in such a way that Norges Bank does not incur costs in excess of the limit for the reimbursement of costs approved by the Ministry of Finance. The Board summarises the status of expenditure at Norges Bank as a whole as at the end of June and December. The Council also monitors more detailed descriptions of expenditure in management reports prepared quarterly by NBIM and biannually by NBCBO. In the discussions, members singled out aspects of the Bank's management that could entail a risk of high overall costs and require co-ordination of expertise, e.g. in the area of security, when choosing IT solutions and when it comes to IT security.

In the status reports for the first half of 2017, the Council noted that actual expenditure and the forecast for the year were within the approved budget. At the Council's request, the Governor provided supplementary information on uncertainty around the new financial tax and the reduction in custody costs in investment management. The lower custody costs were due primarily to discounts from the custodian and a reduction in fixed-income instruments under management. The Council took note of this information and the report.

The reporting at year-end covers expenditure relative to the approved budget for Norges Bank's total operating revenue, operating expenses and capital expenditure. Reallocations and deviations from the budget are discussed. In accordance with the budget rules, there is also an account of the results achieved relative to the assumptions in the budget proposal, and the status of the implementation of action plans and achievement of targets, with an assessment of the risk outlook.

Operating expenses totalled NOK 5,895m in 2017 (2016: NOK 4,754m). Including fees for the management of the

⁵⁶ At the Council's meeting of 8 June 2017.

⁵⁷ See also the discussion of the supervisory review on strategic choices in the management of the GPFG in Chapter 5 above.

FIGURE 7 BUDGET RESOLUTION FOR NORGES BANK FOR 2018

In accordance with the Norges Bank Act and the budget rules for Norges Bank, the Supervisory Council has considered the Executive Board's proposed budget for Norges Bank for 2018.

With reference to the letter from the Ministry of Finance dated 7 December 2017 on the management fee for the GPFG, the Supervisory Council hereby approves the following budget for Norges Bank for 2018 (in millions of NOK):

Management fee, GPFG	5,270
Other operating revenue	129
Total operating revenue, Norges Bank	5,399
Personnel costs, NBCBO	546
Other operating expenses, NBCBO	578
Depreciation, amortisation and impairment losses, NBCBO	136
Personnel costs, NBIM	1,463
Other operating expenses, NBIM	2,893
Depreciation, amortisation and impairment losses, NBIM	154
Performance-based fees to external managers, NBIM	862
Elimination of joint costs*	-202
Elimination of joint costs allocated from NBCBO to Supervisory Council/OSC	-8
Total operating expenses	6,422
Net operating expenses, Norges Bank	-1,023
Capital expenditure, NBCBO	55
Capital expenditure, NBIM	101
Total capital expenditure, Norges Bank	156

* Comprises joint costs allocated from NBCBO to NBIM of NOK 147m, rent of NOK 24m, and expenses allocated from the Supervisory Council and the Office of the Supervisory Council (OSC) to NBIM of NOK 31m.

Proposed capital expenditure for the period 2018–2020 amounts to NOK 55m for NBCBO and NOK 101m for NBIM. Forecast capital expenditure in 2018, including previously approved and ongoing investments, is NOK 119m for NBCBO and NOK 143m for NBIM.

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

The Council's budget for supervision and audit costs was approved in a separate resolution on 14 December 2017.

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

GPFG but excluding the Supervisory Council's costs, there was an operating loss of NOK 1,043m (2016: NOK 895m), which is slightly less than budgeted.

Operating expenses excluding fees to external managers were NOK 198m less than budgeted. Personnel costs accounted for 38 percent of total operating expenses, which is in line with the previous year. Payroll costs were increased by a provision of NOK 44m to cover any liability to pay financial tax in 2017.

Management costs for the GPFG, which the Ministry of Finance approved within a set limit, are taken from the fund's capital and amounted to NOK 4,728m in 2017. This was 5.2 basis points of average assets under management during the year, but NOK 123m more than budgeted.⁵⁸ The management fee for 2016 was NOK 3,731m. Performance-based fees to external managers totalled NOK 924m (2016: NOK 222m).

Capital expenditure at NBCBO was unchanged in 2017 at NOK 126m. The portfolio includes a number of projects spanning several years, and activity levels are high. A number of major investments, especially in IT development, will continue in 2018 and 2019. Capital expenditure at NBIM amounted to NOK 112m. The budget was NOK 285m, breaking down into NOK 220m at NBIM and NOK 65m at NBREM. Investments are being made in expanding and converting offices in London and New York over a three-year period. There is also high IT-related activity at NBIM and NBREM.

At the end of 2017, Norges Bank had 922 permanent employees⁵⁹ (2016: 923). Of these, 349 were employed at NBCBO⁶⁰ and 573 at NBIM, including 131 at NBREM (18 of these at three subsidiaries).

Table 1 shows operating results and capital expenditure (actual and budgeted) in the period 2016–2018 for Norges

⁵⁸ The net operating loss for NBIM of NOK 95m – the difference between total operating expenses and the GPFG management fee – comprises costs for the management of the equity portfolio in the foreign exchange reserves of NOK 86m and costs relating to the Norwegian Finance Initiative (NFI) of NOK 9m.

⁵⁹ Or 918 full-time equivalents.

⁶⁰ Including the Governor, two Deputy Governors and seven staff at Internal Audit.

Bank as a whole. While operating expenses for central banking are largely unchanged, they are continuing to grow in investment management (NBIM).

The reporting also includes the status of operating expenses at wholly owned operating companies and wholly owned holding companies involved in the management of the GPFG's real estate investments. The total budget approved for operating expenses at the operating companies in 2017 was NOK 90m. Actual costs amounted to NOK 81m, which is NOK 9m below budget.

The Council has taken note of the Executive Board's report on total expenditure at Norges Bank in 2017 and approved the operating accounts. It has also taken note of the management reports for NBIM and NBREM for the fourth quarter of 2017 and for NBCBO for the second half of 2017. The Board managed expenditure in 2017 within the approved budget and reported in accordance with the budget rules for Norges Bank.

THE SUPERVISORY COUNCIL'S CONSIDERATION OF AND RESOLUTION ON THE BUDGET FOR 2018

NORGES BANK'S BUDGET FOR 2018

In preparation for the Council's consideration of the Executive Board's proposed budget for 2018, assessments were made of whether the budget rules had been followed. At the same time, the Office of the Supervisory Council had a dialogue with the Bank on compliance with the requirements.

A letter from the Ministry of Finance on the approved limit for the fee for managing the GPFG was received on 7 December 2017.

The budget for Norges Bank for 2018 was approved on 14 December 2017. See the resolution in Figure 7. A letter on the budget resolution dated 15 December 2017 was then sent to the Ministry.

The approved budget for Norges Bank shows an overall operating loss of NOK 1,023m. Operating expenses are budgeted at NOK 6,422m, which is NOK 527m more than actual expenses reported for 2017. Expenses for

managing the GPFG are budgeted at NOK 5,270m, which is NOK 542m higher than actual management costs reported for 2017. Investment income from investment management other than for the GPFG⁶¹ is not included in the budget, due partly to the considerable uncertainty associated with movements in exchange rates and financial markets.

The overall budget for Norges Bank for 2018 is 11 percent larger than the budget for 2017. Developments in expenditure were discussed during the Council's consideration of the budget. The Governor responded to comments and questions.

The Council has taken note of the letter from the Ministry of Finance on costs in the management of the GPFG. Reference was also made to the remark made by the Storting's Standing Committee on Finance and Economic Affairs in Recommendation 326 S (2015–2016):

“The Committee notes that the fund's management costs measured in kroner have increased over time and are considerable in absolute terms. It is therefore important for there to be regular assessments of how the fund's management can be made more cost-effective, and the Committee has a clear expectation that economies of scale could be realised on account of the fund's ever greater value and scope.”

The Supervisory Council's budget rules for Norges Bank attach importance to the use of relevant cost benchmarking. To ensure adequate cost-consciousness, the Council is keen for benchmarking to be used to assess developments in expenditure. The Executive Board's discussion of external benchmarking of expenditure against peer organisations was more extensive in the 2018 budget than before. For example, it presented a comparison of staff numbers at the Nordic central banks.

For the GPFG, the CEM report, which compares management costs at 285 different funds, was appended along with supplementary explanations and reservations concerning the analysis of individual components or cost categories. The Board's reservations relate to Norges Bank's choice of investment strategies to structure its investment management rather than asset classes as used in the

benchmark. In its consideration of the budgets for 2017 and 2018, the Council has not been satisfied with the Bank not conducting independent analyses and cost benchmarking beyond making reference to the CEM report.

The Council noted that, in the proposed budget, the Bank describes extensive measures to further develop work on IT security. This high priority is clearly linked to assessments of increased risk. At the same time, the Council noted that the Executive Board is paving the way for the development of expertise and infrastructure for IT security within each of the Bank's two operational areas. The Council underlined the importance of the Board finding solutions for IT security that cover the entire Bank's needs cost-effectively and appropriately.

New investments totalling NOK 156m are budgeted for the period 2018–2020. Including previously approved and ongoing investments brought forward to 2018, the Bank's total budget for capital expenditure amounts to NOK 293m.

The Ministry of Finance has set a limit for management costs in 2018⁶² of 7 basis points (0.07 percent) of the fund's average market value⁶³. This is below Norges Bank's proposal of 7.5 basis points, which was the level approved for 2017. The Ministry believes that it is important for the limit for costs to provide an incentive for good control and cost-effective investment management. The budget for 2018 estimates costs at 5.5 basis points, excluding performance-based fees to external managers.

A safety margin has thus been factored in between the budget and the cost limit, but in the Ministry's opinion this should not be excessive, and in its decision the buffer has been set at around 1.5 basis points. The limit includes costs at subsidiaries that are part of the Bank's management of real estate investments. In its letter, the Ministry noted that internal investment management costs have risen significantly over time. Much of this rise can be explained by movements in exchange rates and the

⁶² Letter from the Ministry of Finance to Norges Bank of 7 December 2017.

⁶³ The average is calculated on the basis of the market value of the fund's portfolio measured in NOK at the end of each month during the calendar year.

⁶¹ Reported under financial assets and liabilities.

expansion of real estate management, but a substantial part is due to increases in costs over and above normal price and cost inflation.

The Ministry remarks that the Bank is now planning to increase employee numbers significantly further than estimated in its strategic plan, despite there having been no significant changes in the mandate from the Ministry. The Ministry has previously expressed that the management of the fund is to be performed cost-effectively.⁶⁴

Under the budget rules, a budget for management costs at subsidiaries that are part of the management of the GPFG's real estate investments is to be submitted to the Council. Other operating expenses at wholly and partly owned real estate companies for maintaining and operating buildings and leases are not covered by the budget process.

Expenses at the underlying real estate companies are charged directly to the companies' own accounts and offset against returns generated. The Council has been briefed about these processes for budgeting and cost control at companies in the management of real estate that are kept outside the Bank's approved budget and financial statements.

A number of items in the budget are associated with considerable uncertainty. The budget for 2018 is based on exchange rates at 30 June 2017.⁶⁵ When it comes to investment management, the uncertainty relates primarily to movements in exchange rates, assets under management and returns. These are factors that are outside the Bank's ordinary budgetary control. The size and mix of assets under management will impact on custodian costs, among others. A substantial part of the fees paid to external managers and internal remuneration at NBIM is tied to the returns generated over time.

BUDGET DECISION FOR THE COUNCIL'S ACTIVITIES IN 2018

At its meeting of 14 December 2017, Norges Bank's Supervisory Council also approved a budget for 2018 for its own activities, covering the Council itself, the Office of the Supervisory Council (including the use of external experts) and the external auditor. The Office of the Supervisory Council has eight FTEs. Expenditure in 2018 is estimated at NOK 51.5m in the approved budget.

The budgeted fee for the external auditor is NOK 15.5m and covers the financial audit of Norges Bank's annual financial statements, including the reporting for the GPFG. This fee is based on the fixed price in the engagement agreement with Deloitte AS, adjusted in line with the agreed price index.

The use of external experts is budgeted at NOK 10.1m. This is the annual budget for assurance engagements, supervisory reviews and other assistance with supervisory activities and investigations.

The budget includes a share of joint costs for Norges Bank (central banking operations) of NOK 6.2m in line with the service agreement entered into. The budget also includes NOK 2.4m in pension costs and a provision of NOK 0.5m for the new financial tax. 2018 is the first year that these expenses have been included in the Council's budget. See also the discussion of the Council's expenditure in Chapter 10 below.

⁶⁴ Report to the Storting No. 21 (2014–2015).

⁶⁵ As per the Executive Board's financial rules.

CHAPTER 8

PRIORITIES FOR FUTURE SUPERVISORY ACTIVITIES

The Council's priorities for its supervision in 2017 were set out in a separate chapter of last year's Report to the Storting – Document No. 9 (2016–2017). The execution of the strategy adopted for the Supervisory Council and the implementation of scheduled supervisory activities in accordance with the approved supervision plan have largely been carried out and are presented in this report. A previously planned supervisory review of the Executive Board's management of serious threats and crises in the management of the GPFG will be considered in the context of a new general risk assessment during the course of 2018.

The Council is very aware of the Bank's strong and independent position in Norwegian society. This is essential for balanced economic policy and for the fulfilment of its duties as a central bank. The management of the GPFG has become a key element of economic policy. By assigning responsibility for the fund's management to Norges Bank, the authorities have ensured that the long-term goals for petroleum wealth are addressed independently of the government's more short-term and situation-dependent budgetary position. It also addresses security and emergency response considerations.

In 2017, the Ministry of Finance received the report of the commission appointed to review the Norges Bank Act and the organisation of the management of the GPFG. The Council prepared a separate consultation response and will be closely monitoring future developments. It is particularly concerned that the organisation of Norges Bank provides a solid model for management and control, and that any legislative changes concerning the management of the GPFG ensures that an independent body reports directly to the Storting on the supervision of investment management.

It is very important for the Council's supervision to provide the Storting's independent control of Norges Bank. The Council attaches importance to continuous development of its supervisory work to meet the challenges associated with Norges Bank's extensive and complex operations. This applies not least to requirements and expectations for independent, transparent and competent supervision of the management of the GPFG. The Council has an unwavering focus on changes to the regulatory

framework for Norges Bank and the management of the GPFG. The Executive Board's management and control of results and risks in investment management, including new instruments, changes to the asset mix, reduced inflows of capital and varying withdrawals, are followed closely.

The Council's work is planned and implemented with a view to high-quality reporting to the Storting. A strategy and action plans for the Supervisory Council and the Office of the Supervisory Council have been adopted for the period 2016–2018. Integrity, focus and efficiency are prioritised in supervisory work. Continuous development of skills, supervision methods and reporting are very important for the Office. Supervision is risk-based and focuses on the management and control of operations. Supervisory work attaches importance to changes in the risks facing Norges Bank's organisation and tasks, and the Executive Board's oversight and development of the Bank.

Risk-based supervision requires the Council and the Office to have expertise and capacity concerning all operational and market risks faced by the Bank's operations. The Office will conduct ongoing supervision and supervisory reviews in accordance with the approved supervision plan. Its work is to cover matters of principle concerning the Council's supervision of operations and compliance. The starting point for supervision is the Executive Board's management and control of the Bank's administration and activities.

Transparent and comprehensive reporting on the work of both the Council and the Board is of increased importance. It is also important for the Council's supervision that the content of the minutes from the Executive Board and other information on which the Council bases its decisions is complete.

During the Council's consideration of the supervision plan for 2018, it was pointed out that it is very important for there to be a focus on the work of the Board and the Bank on IT security. Importance is attached to areas of particular importance to society, the regulatory framework for central banking and investment management, and assessments of risk and materiality in this regard. Changes to the mandate for the GPFG and expectations for its

management are followed closely. It is also considered important to monitor carefully the development and management of real estate investments.

The current risk picture for Norges Bank is shaped partly by:

- Complex and changing threats, including an increased need to manage crises
- Complex work on IT security, including new IT systems and changes in the organisation of this work
- Numerous and extensive agreements with suppliers in different areas
- Expectations, requirements and developments in responsible investment

Topics to be followed up especially (supervisory reviews) in 2018 are:

- Changes to the management mandate for the GPFG. One key consideration will be whether there is an adequate basis for the Executive Board's oversight of return and risk to be both consistent and comparable over time and aligned with the requirements in the mandate.
- Responsible investment. Assessment of whether the Executive Board's principles and processes for deciding and following up on the observation and exclusion of companies from the GPFG's investment universe are aligned with applicable requirements and assumptions.
- Responsible investment. Assessment of whether there is an adequate basis for the Executive Board's oversight of the management of the GPFG that takes account of the principles in the OECD's guidance for institutional investors.
- Crisis management. Assessment of whether the Executive Board's work on risk assessments, guidelines, contingency plans and follow-up puts the Bank in a good position to deal with abnormal, unstable and complex situations that may present serious threats.

- Risks relating to service providers in real estate management. This follows up on the supervision report in 2017 on the management and control of subsidiaries and joint ventures in real estate management.
- IT security. The Executive Board attaches great importance to developing work on IT security in its plans. The review will look particularly at the organisation and systematic structure of this work.

Besides generally monitoring the Executive Board's running of the Bank and compliance, supervisory work will look particularly at topics that include assessments of whether strategic choices are incorporated into policy documents and reporting, such that performance is observable, and whether the Board's annual review of policy documents is adequate. Periodic reporting from the operational areas on risk management and compliance will be monitored to assess whether the reporting is adequate and makes sufficient reference to relevant risk factors and events. The work reported to the Executive Board and carried out by Internal Audit and the various governance and compliance units is of great importance in this context.

As mentioned under the Council's consideration of the budget and reporting of expenditure, the Council will closely monitor the Board's management of costs, especially within the limit set for managing the GPFG. Follow-up of the budget resolutions for 2017 and 2018 will also be an important part of future supervisory work.

CHAPTER 9

THE COUNCIL'S RESPONSE TO NOU 2017:13 “NEW CENTRAL BANK ACT”

On 26 June 2017, the government commission chaired by former Governor of Norges Bank and Secretary General of the Ministry of Finance Svein Gjedrem (“the Gjedrem Commission”) delivered its report on a new Norges Bank Act and the organisation of Norges Bank and the Government Pension Fund Global. The Bank was one of the consultation bodies, and the Council submitted a consultation response as one of the Bank’s two governing bodies. The Executive Board prepared and submitted a separate consultation response.

The chair of the Supervisory Council was in contact and held meetings with the chair and secretary of the Gjedrem Commission before the report was presented. Thus the Council was to some extent kept informed about the Commission’s work and assessments.

The Council decided to restrict its consultation response to the topics most closely related to the Council’s duties and responsibilities at Norges Bank. The Council believes that the principles of an independent central bank, independent supervision of Norges Bank, and transparency about its operations and supervision, are of great importance for the development of the governance model for the central bank and the management of the nation’s wealth in the GPFG. The Council assessed whether the Commission’s proposals discussed these topics adequately. The Council is the only control body with experience of supervising the management of the GPFG.

As part of its work on the consultation response, the Council engaged Eivind Smith, professor of public law at the University of Oslo. He delivered a report on the significance of Article 75(c) of the Norwegian Constitution, which states: “*It devolves upon the Storting to supervise the monetary affairs of the Realm.*” Reference was made to Smith’s report in the Council’s response. The text of the report is available on the Council’s website.⁶⁶

Smith concludes:

“One key premise for the Gjedrem Commission’s proposed changes to the organisation of the central bank appears to be

that Article 75(c) of the Constitution does not have any independent significance alongside the opportunities for supervision/control that follow from the parliamentary governance system as a whole.

“In my view, this premise is not adequately justified. Nor does it seem immediately convincing. Thus I cannot see that the Gjedrem Commission has provided an adequate basis for firm conclusions about the precise meaning of Article 75(c) in today’s world, and certainly not when it comes to as clear a break with a 200-year-old tradition as the Commission’s proposed legislative changes would entail in this respect.”

The Council shares Smith’s view that the Storting’s supervisory role over the central bank and the precise meaning of Article 75(c) of the Constitution have not been adequately examined. The Storting’s democratic right of access and oversight of the central bank and the management of the government’s financial wealth need to be assured.

The Gjedrem Commission presents three possible legislative models. The Council is critical of the Commission’s proposed legislation in models A and B, which assign a new supervisory role to the Ministry of Finance. The Council does not believe that this proposal and the consequences for the Storting’s control through independent supervision are adequately discussed by the Commission. The comments made mainly concern the Commission’s descriptions of the model for supervision and control, including the roles and duties of an independent supervisory function for the Storting. It also comments on the proposed roles and duties of the government, the Ministry of Finance and the board of Norges Bank.

The Commission’s proposed legislation in model C retains the principle of independent supervision. Should the decision on a new Norges Bank Act nevertheless favour model A or B, the Council strongly recommends having the same requirements for independent supervision and reporting on supervision and control directly to the Storting as in model C. These requirements and principles should be addressed in the final text of the act.

⁶⁶ See <https://www.norges-bank.no/en/about/Organisation/The-Supervisory-Council/>.

SUMMARY OF THE COUNCIL'S REMARKS

NORGES BANK IS A SEPARATE LEGAL ENTITY OWNED BY THE NORWEGIAN STATE

- The Council supports the inclusion of an objects clause and recognition of the central bank's independence in the draft act.

THE BUDGET PROCESS

- The Council believes that the proposed models A and B entail undesirable involvement of the Ministry when it comes to the board's responsibility for the Bank's budget and operations, and that these proposals undermine the independence of the central bank.
- The Council believes that the proposed provisions on budgeting in model C are a good solution: *“The Supervisory Council approves the Bank's budget following a proposal from the Board. The approved budget is communicated to the Ministry.”*
- It is important that the Storting receives information about the Bank's financial management directly from an independent supervisory body. This is why the budget process, the approved budget and the Bank's expenditure are discussed in the Supervisory Council's annual report to the Storting.

NORGES BANK'S ANNUAL FINANCIAL STATEMENTS

- The Council supports the proposal that the rules on the distribution of the Bank's profit take account of the Bank's need for sufficient equity.

AUDITING

- The Supervisory Council believes that the necessary co-ordination and exchange of information between auditing and supervision will be weakened if the Commission's legislative proposals in models A or B – where the Ministry of Finance appoints the external auditor – are implemented. The Ministry's reporting to the Storting should in any case include information on the work of the auditor if these legislative models are adopted.

- The Council believes that the Commission's presentation of the existing system for assurance engagements is incorrect. Assurance engagements form part of the supervision of the Bank rather than part of the external auditor's financial auditing. Assurance engagements cannot replace a system of independent supervision with reporting to the Storting.⁶⁷

ROLE OF THE STORTING

- The Council believes that the proposal to transfer supervisory and control authority to the Ministry of Finance is liable to undermine the central bank's independent position. In the Council's opinion, important consequences of assigning new duties to the Ministry are not made clear in the report. The central bank's independent role and protection from undesirable government intervention are not adequately examined.
- The Council believes that the Storting must be presented with independent reporting on the supervision of Norges Bank's board. The Commission has considered two alternatives for this reporting: from the Office of the Auditor General and from Norges Bank's Supervisory Council. As a matter of principle, the Commission does not advise that the Office of the Auditor General is given such a role at the central bank. This leaves only one possibility for independent reporting to the Storting: the system with a Supervisory Council appointed by the Storting.

DEMOCRATIC ACCESS TO AND INDEPENDENT SUPERVISION OF THE CENTRAL BANK

- The Council would like to draw particular attention to the issues surrounding the positioning of the supervision of the board of Norges Bank. The Commission's assessments on matters concerning independent supervision and the Storting's direct access to Norges Bank and the monetary affairs of the Realm are inadequately examined.

⁶⁷ See also the statement from the Office of the Auditor General.

ROLE AND DUTIES OF THE MINISTRY OF FINANCE IN THE PROPOSED NEW SUPERVISION SYSTEM

- The Council believes that the proposed legislative amendments will give the Ministry of Finance additional roles and significantly increased influence in the management of the Bank. This could lead to material conflicts of interest. There needs to be detailed discussion about whether the Ministry's supervisory role would undermine the Storting's right of access as currently achieved through an independent supervisory body. The Minister's different roles might also be more challenging if there is disagreement between the Ministry and the board of the Bank.
- The Council believes that the absence of minimum requirements means that the Storting will not be assured of sufficient information to provide a basis for its control of the management of Norges Bank. The Storting's need for access to the Ministry's supervision is not adequately examined.

SUPERVISION SHOULD FOCUS ON THE BOARD

- The Council believes that the Governor's roles as chief executive officer and chairman of the board are not critical for achieving independent supervision. A board cannot in any case undertake independent supervision of its own decision processes or its own management of the organisation's operations and compliance. The Commission's description of the board's supervisory responsibility (role as overseer) is not consistent with the role of an independent supervisor.
- The Council recommends that the act provides for the retention of a risk management and internal control regulation that governs the board's oversight. The management and reporting model for internal control provides an important basis for the supervision of the Bank's operations.

REPRESENTATION AND RESOURCES FOR SUPERVISION

- The Council believes that its remarks from 2015 on the size of the body are still valid. It is also considered important that the Storting's representation in numerical terms is retained in order to ensure democratic access to the operations of the central bank.

- In the Council's opinion, a breadth of experience and skills is as important for the supervisory function as high-level expertise in the central bank's operational areas.

TRANSPARENCY

- If all oversight of Norges Bank is assigned to the Ministry of Finance, the Council assumes that the same transparency on the planning, execution and reporting of supervision will be retained.
- The Council believes that minutes and supporting documentation made publicly available should, as a minimum, be written in Norwegian.

CHANGES TO THE MANAGEMENT MODEL FOR THE GPFG AND IMPLICATIONS FOR SUPERVISION

- The Council believes that the organisation of the management of the GPFG needs to be seen in the context of the fund's objective. As far as the Council is aware, the Storting has not discussed any new objective for the GPFG, and the Ministry of Finance has not signalled any significant changes to the overall strategy for the GPFG in recent years.
- The Council would stress that any adjustments to the legislation concerning the management of the GPFG must ensure that an independent body reports directly to the Storting on the supervision of investment management. This is essential to ensure satisfactory access and democratic accountability for the control of the nation's financial wealth.



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CHAPTER 10

ORGANISATION OF THE SUPERVISION OF NORGES BANK IN 2017

SUPERVISORY MANDATE, TASKS AND EXECUTION

FRAMEWORK FOR THE SUPERVISORY COUNCIL'S WORK

The historical statutory basis⁶⁸ for the creation of the Supervisory Council as a Storting-appointed management and control body of Norges Bank is Article 75(c) of the Constitution:

“It devolves upon the Storting to supervise the monetary affairs of the Realm.”

The Council's role has evolved over time. The organisation of the Bank's supervision and the statutory basis for the Council's activities are currently set out in Sections 5, 7, 9, 29, 30 and 30a of the Norges Bank Act of 1985 as subsequently amended. The Council's principal duties are as follows:

- Supervising the Executive Board's management and control of Norges Bank, including supervising the Bank's activities and ensuring that the rules governing the Bank's operations are observed
- Approving the budget proposed by the Executive Board
- Adopting the annual financial statements prepared by the Executive Board
- Appointing the auditor and approving the auditor's plans and fees
- Issuing a statement on the minutes of Executive Board meetings, the supervision of the Bank and matters submitted to the Council by the Board
- Laying down rules for loans to employees
- Deciding that the production of banknotes and coins or other commercial activities that fall within the scope of the Act are to be performed by companies partly or wholly owned by the Bank
- Supervising companies that are partly or wholly owned by the Bank

At least once a year, the Council is to present to the Storting a statement on the minutes of Executive Board meetings and its supervision of the Bank in accordance with the fourth paragraph of Section 30 and the fifth paragraph of Section 5 of the Norges Bank Act.

“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.”*

The main purpose of this supervision is set out in the fourth paragraph of Section 5 of the Act and covers the whole of the Bank's operations:

“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 supervision of the Bank requires a broad knowledge of its operations and organisation and of its management and control framework. The Council establishes goals for its supervision in three-year strategies. The strategy for

⁶⁸ From the Constitution of 1814 and on the establishment of Norges Bank in 1816.

2016–2018 reads: “*The Council is to ensure democratic access to, and independent control of, Norges Bank’s operations. There is to be a broad consensus in the Storting that the Council conducts effective and efficient supervision of Norges Bank in line with the 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.*”

The Council has no authority over the running of Norges Bank with the exception of its resolution on the annual budget. Otherwise, its supervision consists of observing, assessing and reporting. Supervision is carried out at a general level by considering matters tabled at meetings. The chair calls meetings in line with an agreed schedule and also where there is a special need or where requested by five or more of its members or by the Executive Board.⁶⁹ Approved minutes of these meetings are made publicly available in accordance with the provisions of the Freedom of Information Act.⁷⁰

Pursuant to the Norges Bank Act, the Council has laid down rules for its own activities, which include rules of procedure for the Council, a mandate for its Permanent Committee, and standing instructions for the Office of the Supervisory Council. The Council’s rules of procedure and the mandate for the Permanent Committee were reviewed and adjusted in 2016. Associated updates to the Office’s standing instructions were approved in 2017.

The Council obtained a legal opinion in 2017 on the application of the rules on personal trading and inside information.⁷¹ The opinion covered the rules in the Securities Trading Act on personal trading and insider dealing, and the extent to which these apply to members of the Council. It was concluded that members are not covered by the rules on personal trading. On the other hand, the rules on insider dealing apply to all those in possession of information that can be defined as inside information, which includes members of the Council. This may particularly be the case when considering matters concerning

the Executive Board’s decisions on excluding companies on the recommendation of the Council on Ethics. The Supervisory Council issued advice to all members to take due care in order to ensure that they do not contravene the provisions of the Securities Trading Act.

As a framework for Norges Bank’s operations, the Supervisory Council has issued “Budget rules for Norges Bank”, as discussed earlier in this report, and “Rules on loans to employees of Norges Bank”⁷². The Governor manages the loan scheme under powers delegated by the Council.

The Council has also issued “Guidelines for the Supervisory Council’s supervision of companies owned by Norges Bank in connection with the GPF’s real estate investments”, which came into force on 1 January 2016. These guidelines aim to ensure real and effective access for supervision in accordance with Section 5 of the Norges Bank Act at all companies wholly or partly owned by Norges Bank in connection with the GPF’s real estate investments. Companies not covered by the Act are still subject to the Council’s supervision. The Council’s right of access is to be regulated through formal governance and corporate documents. The Executive Board is to ensure that the Supervisory Council is ensured of real and effective supervisory access. This is also discussed earlier in this report.

The Office of the Auditor General and Norges Bank’s Supervisory Council have signed an agreement⁷³: “Guidelines for the exchange of information and co-ordination of auditing and supervision between the Office of the Auditor General and Norges Bank’s Supervisory Council in relation to the Government Pension Fund Global”.

The Council’s supervision does not extend to the Executive Board’s exercise of discretionary authority under the

⁷² Adopted on 29 May 2013. The final sentence of Section 23 of the Norges Bank Act permits the Bank to issue housing loans and small personal loans to its employees to a limited extent.

⁷³ Signed on 1 December 2010. Norges Bank is covered by a separate audit arrangements, cf. Section 30a of the Norges Bank Act. The Office of the Auditor General does not oversee Norges Bank, but monitors the finance minister’s exercise of authority over the Bank, cf. Norges Bank Act, Section 2, fourth paragraph, final sentence.

⁶⁹ Norges Bank Act, Section 7, fifth paragraph.

⁷⁰ Cf. the Supervisory Council’s rules of procedure.

⁷¹ Securities Trading Act, Sections 3 and 8.

Norges Bank Act.⁷⁴ This means that the Council does not consider or comment on the Board's interest rate decisions, consultation responses or technical advice to political authorities. This 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 supervision of the Bank's operations will, however, include the processes at Norges Bank that form the basis for the Board's advice and exercise of discretionary authority. The Council is kept informed about the Bank's work in these areas.

COMPOSITION OF THE SUPERVISORY COUNCIL

The organisation of the Council is regulated in Section 7 of the Norges Bank Act. The Council has 15 full members and two alternate members elected by the Storting for a four-year term.⁷⁵ The alternates attend and may speak at all meetings of the Council.

Elections are held every second year, alternating between the appointment of seven members and eight members.⁷⁶ Members may be re-elected for a total period of twelve years. In the election of members to serve from 1 January 2018⁷⁷, the Storting re-elected two members. Five members – Toril Hovdenak, Peter Meidell, Iver Nordseth, Frank Sve and Synnøve Søndergaard – left the Council, and five new members – Julie Brodtkorb, Gjermund Hagesæter, Åse Michaelsen, Iselin Nybø and Morten Søberg – were elected for the period 2018–2021. Iselin Nybø and Åse Michaelsen were subsequently appointed ministers in the Solberg government, and so Ib Thomsen and Pål Farstad were elected as members in their place.⁷⁸

The Storting elects the chair and deputy chair from among the Council's members for a two-year term. For

2018–2019, Julie Brodtkorb was appointed chair and Reidar Sandal deputy chair.

Members of the Council have a political background and together have broad professional expertise and experience from key areas of Norwegian society, public administration and industry. Four of the 15 full members, or 27 per cent, are women.

Appendix 1 to this report provides a full list of the Council's full and alternate members for the period 2018–2019, including a brief profile of each member's relevant experience. An overview of the composition of the Council in the period 2016–2017 can be found in the Council's report to the Storting for 2016 – Document No. 9 (2016–2017).

THE PERMANENT COMMITTEE

The Permanent Committee is a working committee that prepares and submits recommendations for decisions on matters to be considered by the Council.⁷⁹ It consists of the Council's chair and deputy chair and three other members elected by and from the Council's full members for a term of two years. For 2018–2019, the Committee comprises Julie Brodtkorb, Reidar Sandal, Tormod Andreassen, Gjermund Hagesæter and Randi Øverland. The last three members and five personal alternates were elected at the Council's inaugural meeting on 18 January 2018.

A mandate for the work of the Permanent Committee is issued by the Supervisory Council. As a committee of the Supervisory Council, the Permanent Committee has the right of access to all of the Bank's affairs. The Committee has no powers to take decisions on behalf of the Council. Minutes are to be taken of its meetings and approved by the chair.⁸⁰ The minutes are appended to the agenda for the next meeting of the Council. The minutes cover significant discussions and briefings at the Committee's meetings and its recommendations for decisions by the Council.

⁷⁴ Cf. Section 5, fourth paragraph. An investigation carried out for the Supervisory Council in 2013 clarified supervisory responsibilities concerning the Executive Board's discretionary authority.

⁷⁵ Cf. Norges Bank Act, Sections 7 and 9.

⁷⁶ Cf. Norges Bank Act, Section 7, second paragraph.

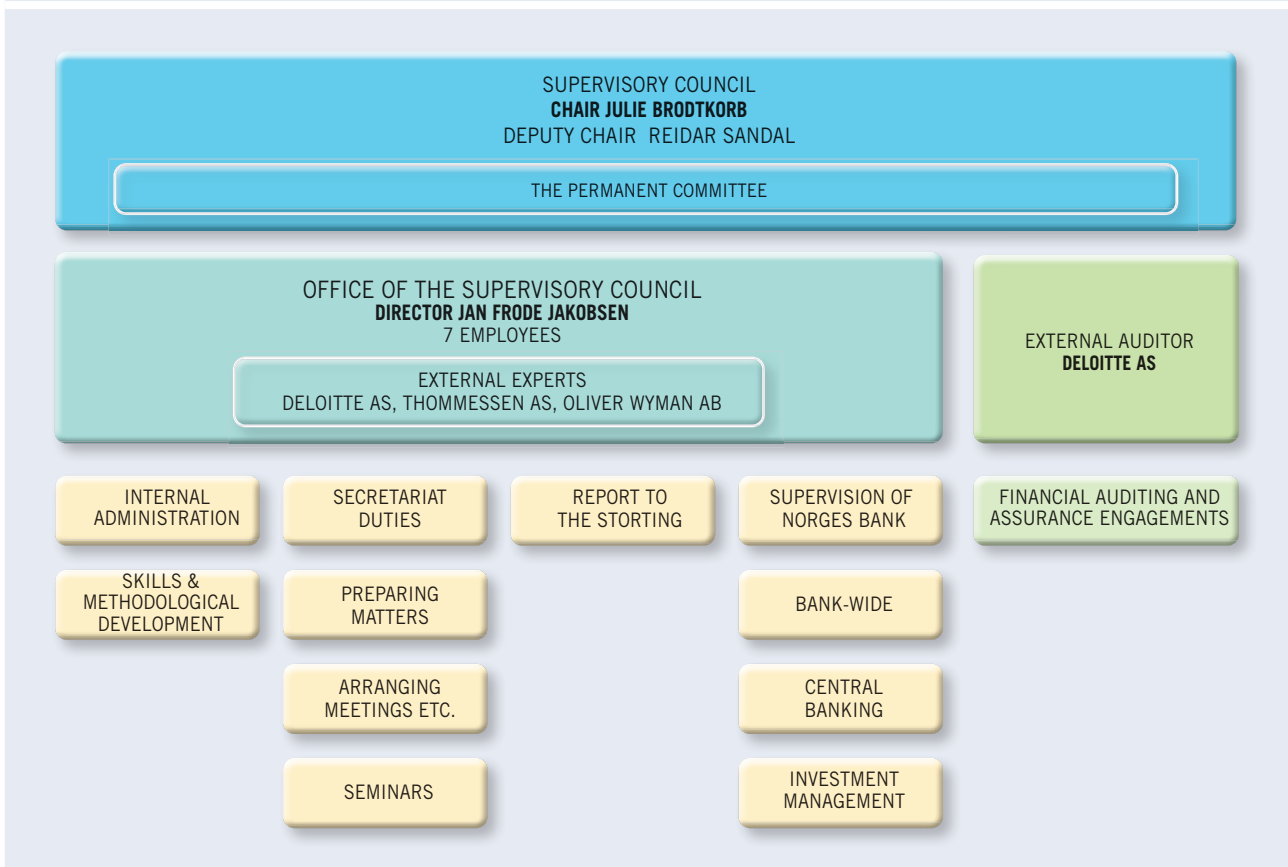
⁷⁷ Recommendation 70 S (2017–2018): Recommendation to the Storting from the Nomination Committee on the Election of Members of Norges Bank's Supervisory Council of 7 December 2017.

⁷⁸ Recommendation 117 S (2017–2018).

⁷⁹ Cf. Norges Bank Act, Section 7, fourth paragraph.

⁸⁰ The previous system whereby minutes were approved by the full Supervisory Council has been altered with effect from 2018.

FIGURE 8 ORGANISATION AND DUTIES OF THE COUNCIL AND OSC



The Governor may be asked to attend meetings of the Permanent Committee. 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 makes its recommendation for a decision on a matter. Where there is good reason, the Committee may inform the Governor of its intended recommendation.

THE OFFICE OF THE SUPERVISORY COUNCIL

The Office of the Supervisory Council is the Council's secretariat and has a total of eight staff. A new director was appointed with effect from 1 February 2017.⁸¹ The Council decides on the director's remuneration and other terms of employment. The director is mandated to recruit and dismiss staff, set salaries and terms of employment and perform other employer functions in accordance with labour agreements and the constraints laid down by the Council. The director takes part in meetings of the Council and the Permanent Committee and may bring along experts. Employees have a right to attend meetings of the Supervisory Council when it is considering administrative matters concerning the Office.

The Office reports directly to the Council, independently of both the Executive Board and the Bank's management. The Office's activities and administrative affairs are regulated by standing instructions, supervision plans, guidelines and budgets issued by the Council.⁸² High priority is given to integrity in the Office's work. Its main purpose is to provide a sound basis for the Council's supervision of the Bank and to arrange technical seminars and other activities.

The Office is to be appropriately staffed with adequate and relevant multidisciplinary expertise. Members of staff have broad professional experience in areas such as accountancy, finance, law, corporate governance, risk management and internal control. In addition to relevant professional expertise, considerable importance is attached to integrity, professionalism, loyalty, objectivity and due care in the conduct of duties. Professional expertise is to be maintained and continuously developed. The director may hire

external experts and enter into framework agreements with technical advisers within the plans and budgets approved by the Council.

The Office prepares supporting documentation and draft minutes, consultation responses, presentations and the annual report to the Storting. The Office arranges the Council's meetings, seminars and professional activities.

The Council's organisation and duties are illustrated in Figure 8.

The Office administers the Council's agreement with the external auditor. It also co-ordinates co-operation between Norges Bank, the external auditor and the Office of the Auditor General, especially when it comes to the management of the GPF. One aim of this collaborative model is to help the Office of the Auditor General obtain information about, and build on, the auditing and supervision performed by the external auditor and the Supervisory Council.

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

A service agreement has been entered into between Norges Bank's Corporate and Shared Services Department and the Office of the Supervisory Council, and submitted to the Council. The agreement covers the provision of administrative services to meet the Office's ongoing needs. This includes the use of offices and other premises, security and contingency planning, archiving, ICT, HR, occupational health, and canteen and conference facilities. It also includes relevant services for the Supervisory Council such as arrangements for meetings, security, agreements with travel agents, and payment of fees. All use of services is paid for by the Council. The agreement helps safeguard the independent position of the Office and the Council.

⁸¹ Cf. *Norges Bank Act, Section 5, fourth paragraph.*

⁸² Discussed in *Proposition to the Odelsting No. 58 (2008–2009).*

THE EXTERNAL AUDITOR

The Supervisory Council appoints the external auditor for Norges Bank and signs the engagement agreement. The current engagement agreement with Deloitte AS has a term of six years and covers the 2016–2021 financial years. The engagement covers the auditing of the annual financial statements for Norges Bank, the financial reporting for the GPFG's investment portfolio, the annual accounts for Norges Bank's Pension Fund, and other related activities⁸³. In the implementation of the audit engagement, the responsible auditor at Deloitte AS in Norway also plans the use of resources from other parts of Deloitte's international network.

In its “Guidelines for the Supervisory Council's supervision of companies owned by Norges Bank in connection with the GPFG's real estate investments”, the Council has laid down the following rules on the election of auditors at subsidiaries:

“Norges Bank's external auditor shall normally be appointed auditor at companies where Norges Bank has control over the appointment. Where the Bank's external auditor is not appointed, the Bank shall actively seek to influence the choice of auditor to ensure that the company engages a recognised auditor and that the company benefits from high-quality auditing. As part of this, Norges Bank shall attach importance to the audit firm's independence, market position, expertise and reputation. These factors are to be reviewed regularly.”

“In cases where the Bank's auditor is not chosen, the Bank shall seek to ensure that the Bank's auditor is able to obtain information and documentation directly from the company's auditor. The Council will in other respects consider which audit models are appropriate and effective.”

For 2017, international audit firms in the Deloitte network were appointed auditors of subsidiaries in real estate management in the UK, France, Japan, Singapore, Luxembourg and the US.

Deloitte AS also prepares two annual assurance statements on Norges Bank's work for the Ministry of Finance on the

central government group account and the management of government debt. The Office of the Supervisory Council co-ordinates the exchange of information between Norges Bank's auditor and the Office of the Auditor General.

The annual accounts for Norges Bank's Pension Fund and associated auditor's report are submitted to the Supervisory Council for consideration. Deloitte AS also submits an independent annual statement⁸⁴ on risk management and internal control to the board of Norges Bank's Pension Fund.

The Office of the Supervisory Council enters into agreements with Deloitte AS on any further assurance engagements in the supervision of the Bank. The Council has given permission for the external auditor to provide certain consulting services for Norges Bank subject to approval from the Office. Potential assignments are carefully assessed to avoid conflicts of interest, and such work has been limited in scope.

The Office administers the agreement with the auditor. There is close dialogue between the Office and the auditor during the year, both at scheduled meetings and through ongoing contact. The Council is kept informed about progress under the annual audit plan and any issues material to the execution and scope of the audit. Deloitte AS and the Office are in regular contact to exploit potential synergies between the auditing and supervision of Norges Bank.

In total, the external auditor's work on financial auditing of Norges Bank's annual financial statements and the quarterly financial reporting for the GPFG came to around 6,500 hours. The auditor's services in the form of financial auditing of Norges Bank's annual financial statements and the quarterly financial reporting for the GPFG are evaluated regularly against the engagement agreement entered into.

In 2017, the Office of the Supervisory Council had a dialogue with, and obtained feedback from, the Bank's accounting units on topics that included collaboration

⁸³ The audit of Norges Bank's Economic Research Foundation and Norges Bank Headquarters Pensioners' Foundation

⁸⁴ Submitted under the Regulation on Risk Management and Internal Control at Norges Bank issued by the financial supervisory authority Finanstilsynet on 22 September 2008 and last amended with effect from 1 January 2017

with the external auditor. A summary was presented to the Council. The Office concluded that Deloitte AS conducts its audit in an orderly and professional manner in accordance with the engagement agreement and the formal rules and regulations applying to the auditor. A number of items were discussed with the responsible partner at Deloitte, which will be followed up together with the Office.

The work of the external auditor is important for the Council's supervisory activities. The responsible partner at Deloitte AS attends Council meetings while relevant matters are being considered.

EXTERNAL EXPERTS

When carrying out supervisory tasks, the need to bring in supplementary professional expertise is considered, especially when it comes to investment management, security, governance and some legal issues. These experts are drawn on at meetings and seminars, in the ongoing supervision process, and to assist with supervisory reviews, four of which were reported on in 2017. It is useful to discuss relevant recognised practice at both a national and an international level.

The Council and the Office have established effective access to resources through framework agreements with the consulting firm Oliver Wyman AB⁸⁵ on international investment management and the law firm Thommessen AS⁸⁶ on legal issues. Use is also made of advisers from Deloitte AS. Mercer AS was used for discussion of economic analyses and the follow-up of risk limits in investment management.

Information was also obtained from and discussed with other experts on special topics covered by seminars and investigations.

SUPERVISORY METHODOLOGY

Supervision entails monitoring activities and reporting at Norges Bank. The Office of the Supervisory Council handles the Council's relations and contact with the Executive Board and the Bank's executive management. Meetings are held regularly with the Bank's executive

management, the operational areas, the compliance and risk management functions, Internal Audit and the external auditor. Internal Audit's reporting to the Executive Board is reviewed.

The director of the Office attends meetings of the Executive Board and the Audit Committee where this is permitted and where matters relevant to supervision are being considered. In connection with the Council's meetings, the Office reviews matters submitted by the Executive Board and liaises with the Board's secretariat. Additional information or technical assessments are obtained to facilitate the Council's deliberations. This work gives the Office in-depth access to, and knowledge of, the Bank's activities. This is essential in order that the Council can be kept constantly updated on developments material to its supervision.

Supervision and control tasks are to be carried out in accordance with relevant technical standards and the instructions and guidelines issued by the Council. There is no clear internationally recognised standard for the supervision of central banks, but the Office monitors developments at other central banks, other comparable institutions and relevant standard setters such as the BIS⁸⁷, OECD⁸⁸ and ECB. The supervisory methodology may also be based on practice at relevant institutions. Within Norway, related areas include the financial supervisory authority Finanstilsynet's methodology and reporting on the supervision of banks and other financial institutions, and the Office of the Auditor General's methodology for auditing public bodies. International standards for internal auditing⁸⁹ and external auditing⁹⁰ also provide guidance for the methodological approach to supervision.

Special supervisory reviews and investigations are performed in selected areas, resulting in separate reports to the Council. In these reviews, assessment criteria are

⁸⁵ The agreement with Oliver Wyman AB covers the period 2015–2018.

⁸⁶ The agreement with Thommessen AS runs for four years from 1 July 2016.

⁸⁷ *Bank for International Settlements, including the Basel Committee on Banking Supervision's Core Principles for Effective Banking Supervision (Core Principles)*, 2012

⁸⁸ *The Organisation for Economic Co-operation and Development*

⁸⁹ *The Institute of Internal Auditors (IIA) Code of Ethics and International Standards for the Professional Practice of Internal Auditing*

⁹⁰ *The most relevant standards are the International Standard on Assurance Engagements (ISAE) 3000 series.*

FIGURE 9 THE SUPERVISION AND REPORTING PROCESS

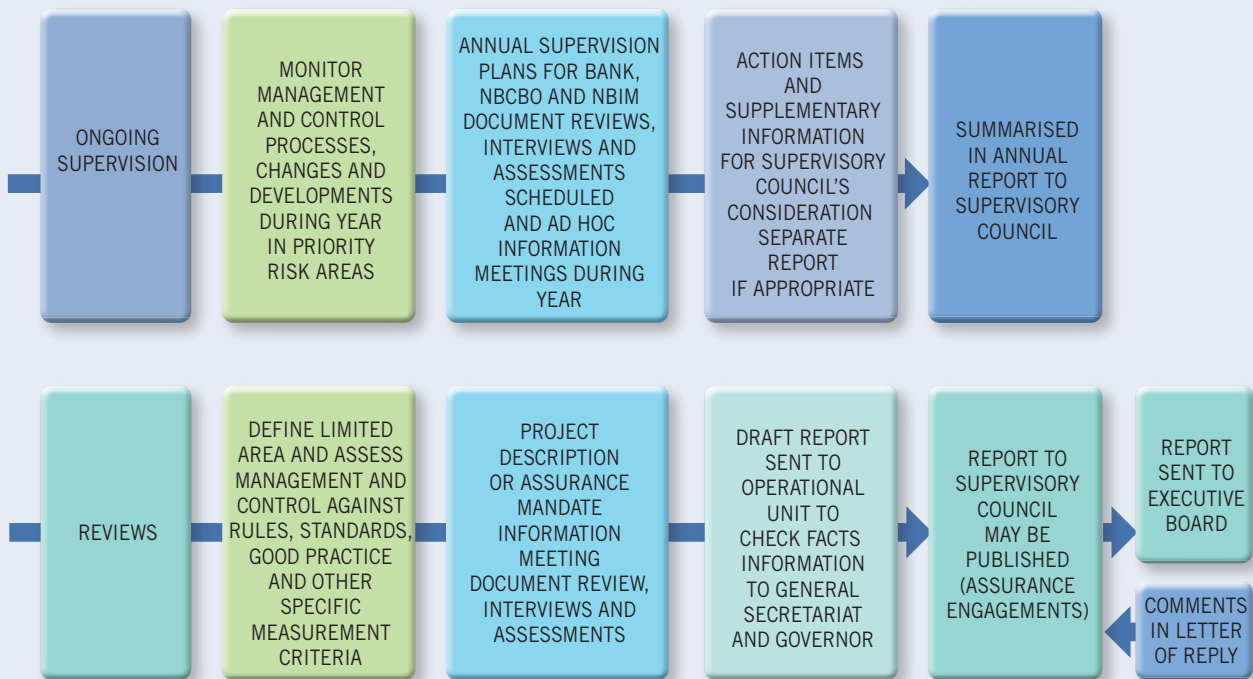
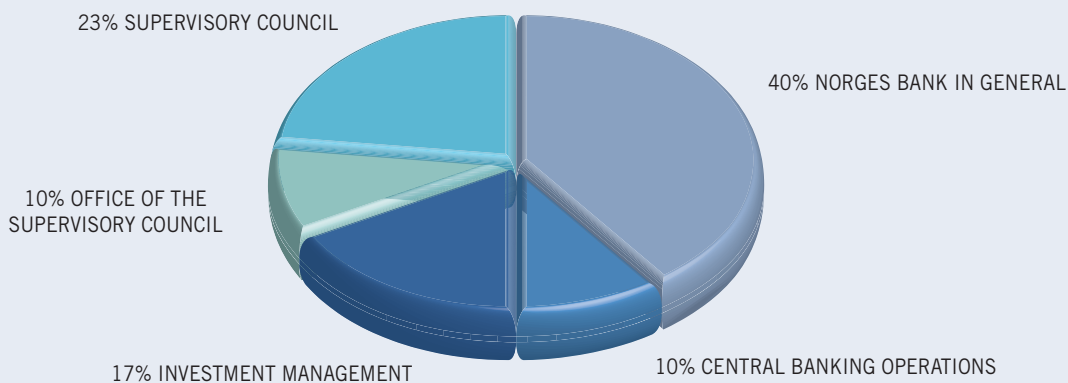


FIGURE 10 MATTERS CONSIDERED BY THE SUPERVISORY COUNCIL IN 2017



defined on the basis of overall goals and risks and the formal regulatory requirements for Norges Bank. Assessments of established control structures and processes are based partly on the model in the COSO ERM risk management framework. Comparisons are made with relevant established standards and practices for peer institutions. Information on requirements for internal rules and the Executive Board's organisation of this work is obtained through meetings and the review of documents.

Figure 9 shows the processes for implementing ongoing supervision and supervisory reviews on the basis of the approved supervision plan.

Reports from supervisory reviews and assurance statements are forwarded to the Executive Board, and the Council asks the Board to respond to questions and provide statements on the assessments made. Work has been put into being more specific in the assessments in supervisory reviews so that it is clearer which remarks the Board is expected to respond to. The answers from the Executive Board are followed up.

REPORTING AND TRANSPARENCY

The Council conducts its supervision by considering matters submitted at its meetings. Its deliberations and resolutions are made public through the publication of the minutes of its meetings on the Council's pages on the Bank's website.⁹¹ The minutes present resolutions, any questions and comments on risks, other remarks and the Governor's statements. Supporting documentation relating to matters considered at Council meetings is exempt from public access under Section 14 of the Freedom of Information Act on internal documents, unless otherwise indicated in the document itself.

Briefings at these meetings by the Bank's executive management and the Executive Board are minuted and followed up in the supervisory process. Some matters may be the topic of planned new supervisory reviews.

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

The report to the Storting – Document No. 9 – is designed to give a complete overview of the Council's duties, assessments of Norges Bank's control structure, and supervisory activities carried out. In these reports, the Council reports on its remarks during the year, the Executive Board's follow-up of comments from supervision, and any unclarified matters subject to further follow-up. It is therefore the Storting that takes a final position on matters and issues where there is clear disagreement between Norges Bank's Executive Board and the Supervisory Council as overseer.

The Council has noted considerable public interest in Norges Bank's operations and supervision. Transparency about the Council's work is achieved within the constraints and limits laid down in the Norges Bank Act and other relevant rules on the Bank's operations. There has been increased coverage in the media, due partly to disclosures in the Council's minutes.

The Council's members are covered by the duty of confidentiality set out in Section 12 of the Norges Bank Act. Under the Council's rules of procedure, it is the chair – or the member nominated by the chair – who makes public statements on behalf of the Council.

ACTIVITIES AND EXPENDITURE IN 2017

MEETINGS AND MATTERS CONSIDERED

The Council held seven ordinary meetings in 2017, plus an additional meeting to consider the consultation response to the Ministry of Finance on the report NOU 2017:13 "New central bank act". The Permanent Committee had six ordinary meetings.

The Council considered a total of 100 matters during the year, including the minutes of its own meetings and meetings of the Permanent Committee. Sixty-seven of these matters concerned the supervision of Norges Bank's operations. Of these, 40 were of a general nature or common to both operational areas. A further 19 items in the form of technical reports and other supplementary information about Norges Bank's operations were discussed, but no resolutions are made on such matters. The discussions at these meetings show that issues pertaining to

⁹¹ See www.norges-bank.no/en/about/Organisation/The-Supervisory-Council/.

TABLE 2 THE SUPERVISORY COUNCIL'S EXPENDITURE

THOUSANDS OF NOK	2018 BUDGET	2017	2016	2015
Supervisory Council	4,190	3,106	4,506	2,602
Office of the Supervisory Council	21,751	14,133	12,494	11,522
External experts	10,100	9,141	6,623	10,955
Financial auditing	15,500	14,668	16,194	18,261
Total	51,541	41,048	39,817	43,340

TABLE 3 THE SUPERVISORY COUNCIL FIXED FEES PAID IN 2017

FIXED FEES	SUPERVISORY COUNCIL	PERMANENT COMMITTEE	TOTAL PER MEMBER	TOTAL FIXED FEES
Chair	60,000	90,000	150,000	150,000
Deputy chair	40,000	60,000	100,000	100,000
Three other members of Permanent Committee	30,000	60,000	90,000	270,000
Ten other members of Supervisory Council	30,000		30,000	300,000
Two alternates	30,000		30,000	60,000
Total fixed fees paid				880,000

investment management account for a substantial part of the Council's attention in its supervisory work.

Figure 10 provides a breakdown of the types of matters considered by the Council.

OTHER ACTIVITIES

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

The attendance of the Bank's executive management at these meetings also gives the entire Council an opportunity to ask questions and raise issues where a statement may be required. This forms part of the supervisory process.

Technical seminars were held in connection with two of the Council's meetings in 2017. The aim of these seminars is to discuss more in-depth topics covered by supervision or described in a supervisory review, and to be updated on relevant and important technical areas.

At one seminar, different types of risk assessment and measurement in investment management were discussed. There were three presentations: consulting firm Mercer gave a briefing on monitoring risk using stress tests, Oliver Wyman presented best practice for strategy processes and assessments made in connection with a supervisory review of strategy work, and the Bank's executive management gave a briefing on Norges Bank's investment strategies and, in particular, the use of the internal reference portfolio in the management of the GPF. G.

The other seminar was held in Frankfurt am Main, where there was a meeting with the ECB. Information was provided on its governance model, and the supervision of banks in the EU system was discussed. At the Bundesbank, the bank's governance model and key priorities in an economy with persistently low growth were discussed.

There was also a presentation of factor investing⁹² from investment manager Quoniam⁹³, and a meeting with EIOPA⁹⁴ on supervision methods in the EU insurance and pension sector.

The Council hosts the Governor's annual speech, titled "Economic perspectives", which aims to cover a broad range of topics that are important for economic choices. The speech has been made annually since 1922 (except during the German occupation in 1941–1945) and was originally given to the Supervisory Council in connection with its meeting to consider the Bank's annual accounts and reporting. The chair of the Council welcomes guests on behalf of Norges Bank.

As discussed earlier in this report, the Council submitted a separate consultation response to the Ministry of Finance on the report NOU 2017:13 "A new central bank act". Eivind Smith, professor of public law at the University of Oslo, was engaged to consider legal issues concerning the Constitution and the Storting's oversight of Norges Bank.

COSTS AND EXPENDITURE

The Council approves an annual budget for its activities, including costs for the Office of the Supervisory Council, the external auditor and the use of 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 financial statements.

The Council's total expenditure in 2017 was NOK 41m. Table 2 gives a breakdown of this expenditure. Costs for the Office of the Supervisory Council also include directly incurred pension costs and a share of joint costs at Norges Bank. With effect from 2017, a service agreement has been entered into between the Bank and the Office covering the provision of services and the allocation of costs for these services.

⁹² Factor investing, also known as "smart beta", is the use of quantitative and systematic investment strategies with the aim of generating a systematic excess return.

⁹³ A leading investment manager that uses quantitative methods.

⁹⁴ The European Insurance and Occupational Pensions Authority.

The costs for financial auditing cover Deloitte AS's work as Norges Bank's external auditor in 2017. The Council approves the external auditor's fee for auditing Norges Bank's annual financial statements. Deloitte AS also receives a fee for assurance engagements concerning the central government group account and the management of government debt. Fees for financial auditing of subsidiaries and associates in connection with real estate management are charged directly to those companies.

The use of external experts amounted to around 3,000 hours in 2017. Of the costs for the external auditor and external experts, 85 percent concerned investment management, principally the GPFG.

The Storting sets the fees payable to members of the Supervisory Council and the Permanent Committee.⁹⁵ A total of NOK 901,000 was paid out in fees in 2017, comprising fixed fees of NOK 880,000 and fees paid to attending alternate members of the Permanent Committee of NOK 21,000. A breakdown of fees per member and fixed fees in 2017 can be found in Table 3.

Documented losses of earnings due to attendance of meetings are also reimbursed in line with criteria set by the Council. In 2017, these amounted to NOK 99,000.

The director of the Office of the Supervisory Council was paid a salary and other fees of NOK 1,714,166 in 2017⁹⁶. Pension contributions and other benefits for the director came to NOK 371,546 and NOK 7,827 respectively.

EVALUATIONS

Members of the Supervisory Council perform an annual self-evaluation. The aim of this is to identify areas with room for improvement and to strengthen the Council's supervision and other work. The questionnaire is completed anonymously and covers the Council's way of working, the discussions at its meetings, and interaction

with the Office of the Supervisory Council, external auditor and external advisers. Comments are also invited on areas the Council should prioritise in its future work.

The results of the survey are discussed at a meeting, and any proposed measures are followed up by the chair of the Council and the Office. Follow-up items from the year's questionnaire include discussing the Permanent Committee's working procedures and the transfer of information from discussions on the Permanent Committee to the other members of the Council in the form of minutes of its meetings. Attention should also be given to the discussions at meetings in the Council's most important areas of responsibility, including contributing clearly to planning and reporting on supervisory reviews and ensuring that there is sufficient focus on the Executive Board's work on leadership and management.

Immediately following seminars and study trips, more specific evaluations are performed to help plan similar activities in future.

⁹⁵ The rates for fees in 2017 were set by the Storting with effect from 1 January 2016, cf. Recommendation 137 S (2015–2016).

New rates for fees in 2018 and 2019 apply from 1 January 2018. Cf. Recommendation 70 S (2017–2018): Recommendation to the Storting from the Nomination Committee on the Election of Members of Norges Bank's Supervisory Council.

⁹⁶ Started on 1 February 2017.

APPENDIX 1

NORGES BANK'S SUPERVISORY COUNCIL 2018–2019

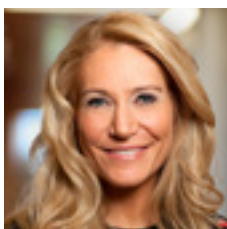
SUPERVISORY COUNCIL

Full members	First elected	Current term
Julie Brodtkorb, chair	2018	2018–2021
Reidar Sandal, deputy chair	2010	2018–2021
Tormod Andreassen	2008	2016–2019
Vidar Bjørnstad	2012	2016–2019
Pål Farstad	2018	2018–2021
Ingrid Fiskaa	2016	2016–2019
Gjermund Hagesæter	2018	2018–2021
Helle Hammer	2016	2016–2019
Kjetil Lund	2016	2016–2019
Morten Lund	2010	2016–2019
Morten Sjøberg	2018	2018–2021
Ingebrigt S. Sjøforn	2012	2016–2019
Ib Thomsen	2018	2018–2021
Paul Birger Torgnes	2014	2018–2021
Randi Øverland	2012	2016–2019
Alternates		
Lars Bjarne Tvete	2014	2016–2019
Jonas Varhaug	2016	2016–2019

Permanent Committee**Personal alternates mmer**

Julie Brodtkorb, chair	Helle Hammer
Reidar Sandal, deputy chair	Ingrid Fiskaa
Tormod Andreassen	Ingebrigt Sjøforn
Gjermund Hagesæter	Paul Birger Torgnes
Randi Øverland	Morten Sjøberg

PROFILES OF THE MEMBERS OF THE SUPERVISORY COUNCIL



Julie Brodtkorb, chair

CEO of the Norwegian Association of Heavy Equipment Contractors. Chair of the Norwegian Broadcasting Council.

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



Reidar Sandal, deputy chair

Executive chairman of Kystvegen Måløy – Florø AS and board member at Helse Førde HF. 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, department director at Sogn og Fjordane County Municipality, adviser to Botnaneset Industriselskap AS, CEO of Sunnfjord Chamber of Commerce, chairman of Fjord1 AS, Nynorsk kultursentrum, Sunnfjord Næringsutvikling AS and Innovation Norway, and board member at Investinor AS. Associate Professor.

MA from the University of Bergen.



Tormod Andreassen

Board member at Lærdal Finans AS, Liberalt Forskningsinstitutt Lifo and Sparebank1 Nord-Norge Pension Fund.

Past experience includes deputy CEO and chief economist at Christiania Bank, chief investment officer and chief economist at SpareBank 1 Gruppen, 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.

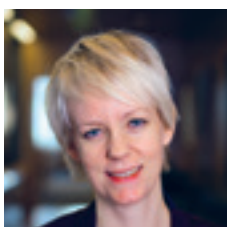


Vidar Bjørnstad

Head of the international department at the Norwegian Confederation of Trade Unions (LO).

Past experience includes member of the Storting and 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.

Past experience includes secretary of state at the Ministry of Foreign Affairs, member of the High Level Panel on Illicit Financial Flows from Africa, and board member at Attac Norge.

MA in History from the University of Oslo.



Pål Farstad

Tourism officer.

Past experience includes member of the Storting and its Standing Committee on Business and Industry, member of Møre og Romsdal County Council, member of Kristiansund City Council, business adviser, CEO of Nordmøre Fiskebåt and Nordmøre Fiskarlag, and chairman of the Kristiansund district chamber of commerce.

Assistant Professor. Teaching qualification from the University of Trondheim.



Gjermund Hagesæter

Self-employed.

Past experience includes member of the Storting and its Standing Committees on Local Government and Public Administration and Finance and Economic Affairs, secretary of state at the Ministry of Justice, county and municipal councillor, officer in the Armed Forces, legal adviser for the UN, assistant head of health and social services, legal consultant, board member at Nordhordland Kraftlag, member of the transport committee in Hordaland, deputy chairman of Haukeland Hospital, and member of the board of the European Movement.

Law degree from the University of Bergen and economics degree from the Norwegian School of Economics.



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.

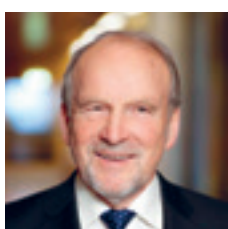


Kjetil Lund

Vice Mayor for Business Development and Public Ownership in the Oslo City Government.

Past experience includes senior vice president of public affairs at Statkraft, researcher at Statistics Norway, secretary of state at the Ministry of Finance, head of the secretariat for the UN Special Envoy for Climate Change, adviser at the Office of the Prime Minister and the Ministry of Finance, and board member at Ruter AS.

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, 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 and PhD from the Norwegian College of Agriculture and the Norwegian Institute of Technology.



Morten Søberg

Head of public relations at SpareBank 1 Gruppen.

Past experience includes researcher in Statistics Norway's research division, fiscal and constitutional adviser to the Centre Party's parliamentary group, and secretary of state at the Ministry of Finance.

Doctorate in experimental economics from the University of Oslo and BSc in philosophy and economics from the London School of Economics.



Ingebrigt S. Sørffonn

Self-employed.

Past experience includes member of the Storting, member of its Standing Committees on Finance and Economic Affairs and Foreign Affairs, mayor and financial director at Sunnhordland Kraftlag AS.

Master of Management from BI Norwegian Business School.

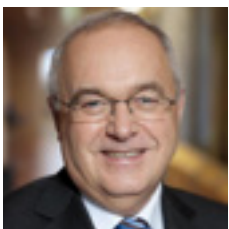


Ib Thomsen

Owner-manager.

Past experience includes member of the Storting and its Standing Committees on Local Government and Public Administration and Family and Cultural Affairs, municipal executive committee member in Nittedal, chairman of Nittedal Energiverk, board member at Thon Gruppen and area manager for the Norwegian Home Guard.

Management training in the Armed Forces and at BI Norwegian Business School.

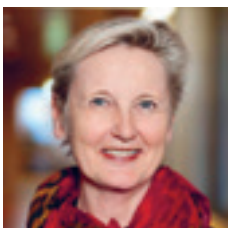


Paul Birger Torgnes

CEO of Fjord Marin Holding AS, chairman of the Norwegian Seafood Federation, chairman of Norsk Havbrukscenter, vice president of the Federation of European Aquaculture Producers, and municipal executive board member in Brønnøy.

Past experience includes mayor, CEO of Fjord Seafood ASA and NorAqua AS, board member at 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.



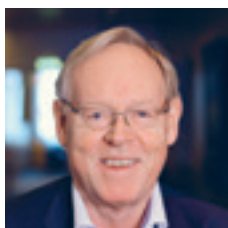
Randi Øverland

Senior adviser at the University of Agder and member of Vest-Agder County Council. Board member at Agder Kollektivtrafikk, Lister Kompetanse, Agder county vocational training board, Sørlandsrådet and NSC Marine Resources Group, among others.

Past experience includes secretary of state at the Ministry of Culture and Church Affairs and the Ministry of Education, Research and Church Affairs, chairwoman of Agder College Board, board member at the Norwegian Film Institute, city councillor and municipal executive committee member in Kristiansand, and headmistress.

Assistant Professor from Telemark University College and further studies in political science at the University of Oslo.

ALTERNATES



Lars Bjarne Tvette

Chairman and owner of LBT Holding AS, board member at Thomas Angells Stiftelser, supervisory board member at Sparebank1 and Icelandic consul.

Past experience includes member of Trondheim City Council and Sør Trøndelag County Council, founder and CEO of Basale Eiendomsforvaltning AS, board member at BN kreditt and chairman of Trondheim Municipal Pension Fund.

Economics degree from Trondheim Business College.



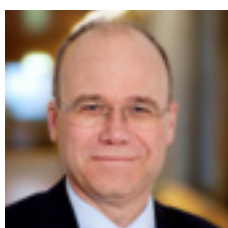
Jonas Varhaug

CEO of Jærøk DA accountants.

Past experience includes farmer, accountant and municipal treasurer.

Authorised accountant, state-authorised public accountant from the Norwegian School of Economics.

DIRECTOR OF THE OFFICE OF THE SUPERVISORY



Jan Frode Jakobsen

Past experience includes CEO of pension fund Helseforetakenes Pensjonskasse, director of Oslo City Council's secretariat, economic adviser and head of secretariat for the parliamentary Labour Party, secretary to the Standing Committee on Finance and Economic Affairs, adviser at the Ministry of Finance and inspector at Finanstilsynet.

MBA from the Norwegian School of Economics and MSc from the London School of Economics.

APPENDIX 2

**THE EXECUTIVE BOARD'S
LETTER OF 7 MARCH 2018**

The Board's letter of response (in Norwegian) is reproduced in full in Appendix 2 to the Councils report issued in Norwegian, but it is not reproduced in this report.

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Report for 2017

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