

MINUTES OF THE EXECUTIVE BOARD MEETING OF 14 DECEMBER 2016

Present:

Executive Board: Øystein Olsen, Jon Nicolaisen, Egil Matsen, Hilde Myrberg, Kjetil Storesletten, Karen Helene Ulltveit-Moe, Kathryn M. Baker and Steinar Juel

Alternates: Arne Hyttnes and Kristine Landmark

Employee representatives: Mona H. Sørensen and Nina Larsson Midthjell (items 244-248)

Office of the Supervisory Council: Svenn-Erik Forsstrøm (items 245-247)

Management: Ida Wolden Bache (items 233-235), Per Espen Lilleås (items 233-235), Ingrid Solberg (items 233-235), Torbjørn Hægeland (items 233-236), Sindre Weme (items 233-235), Kristin Gulbrandsen (items 233-235), Olav Bø (items 233-235), Sverre Mæhlum (item 233), Therese Riiser Wålen (items 233-235), Anna Grinaker (item 236), Geir Arne Dahl (item 236), Yngve Slyngstad (items 238-243), Trond Grande (items 238-247), Dag Huse (item 238), John Tore Vatnar (item 238), Ole Christian Bech-Moen (items 239-241), Lise Lindbäck (items 239-241), Stephen Hirsch (item 242), Merethe Riddervold (items 238-242 and 244-247), Ingunn Valvatne (items 240-242 and 244-247), Birger Vikøren (items 237-248), Runar Malkenes (items 233-235 and 238-242), Pål Haugerud (items 238-242 and 244-247), Bjarne Gulbrandsen (items 233-248)

The following were distributed for information together with the discussion documents:

- Letter to the Ministry of Finance of 25 November 2016: GPFG – Management fee for 2017
- Letter to the Ministry of Finance of 8 December 2016: GPFG – Management mandate
- Letter from the Ministry of Finance of 7 December 2016: GPFG – Limit for management costs in 2017
- Letter to the Ministry of Finance of 9 December 2016: Input on the modernisation of the regulation on monetary policy
- Real estate management – Report from REIB meeting of 30 November 2016

233/2016 Advice to the Ministry of Finance on the countercyclical capital buffer

- Discussion documents:
- Advice on the countercyclical buffer 2016 Q4
 - HIGHLY CONFIDENTIAL memo from Financial Stability of 13 December 2016
 - Background information – charts distributed at meeting

Jon Nicolaisen provided an update on the basis for the Bank's advice.

In its discussion, the Executive Board gave weight to growth in the Norwegian economy being subdued, but house prices rising sharply. Household debt accumulation is high partly owing to the rapid rise in house prices. This increases the vulnerability of many households and heightens the risk of a sharp fall in demand and an increase in loan losses for banks further out. High house price inflation and a continued rise in household debt ratios are signs that financial imbalances are building up further. This suggests a higher countercyclical capital buffer rate. Banks' loan losses have recently edged up, but banks' profit margins remain solid. Banks are well positioned to meet higher capital requirements, which will better equip banks to cope with increased losses further ahead.

On the basis of an overall assessment, the Executive Board decided to advise the Ministry of Finance to increase the buffer rate from 1.5% to 2% effective from 31 December 2017.

234/2016 Draft monetary policy report 4/16

Discussion documents: HIGHLY CONFIDENTIAL memo from Monetary Policy of 13 December 2016

Jon Nicolaisen presented a number of adjustments to the report following its consideration by the Executive Board on 7 December 2016.

The Executive Board discussed the economic outlook, the monetary policy stance and the basis for the countercyclical buffer at the banks. The Executive Board approved the proposed "Executive Board's Assessment". The assessment is to be published in Monetary Policy Report 4/16.

235/2016 The current monetary situation – Interest rate decision

Discussion documents: - Norges Bank's policy rate – meeting of 14 December 2016
HIGHLY CONFIDENTIAL memo from Monetary Policy of 13 December 2016
- Report from the meeting between Norges Bank and the Ministry of Finance of 25 October 2016
- Background information – charts distributed at meeting

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236/2016 The report “Financial Infrastructure 2017” – Proposed themes

Discussion documents: Memo from Financial Stability of 5 December 2016

Torbjørn Hægeland presented the proposed themes for the report, which will be considered by the Executive Board on 3 May 2017.

The Executive Board had an exchange of views and approved the proposed themes for the report “Financial Infrastructure 2017”.

237/2016 Briefing on current issues in Central Banking Operations

The Governor gave a briefing on current issues in Central Banking Operations.

238/2016 Recommendation on exclusion and observation – Product-based coal criterion

Discussion documents: Memo from NBIM of 8 December 2016
Memo from the Ownership Committee of 13 December 2016

Yngve Slyngstad and Dag Huse presented the topic. Egil Matsen outlined the discussions on the Ownership Committee.

The Executive Board had an exchange of views and decided to exclude the companies on the exclusion list attached to the discussion document from the GPFG’s investment universe. The Ministry of Finance is to be informed of the decision, and the exclusions are to take effect from 1 March 2017.

The Executive Board also decided to place the companies on the observation list attached to the discussion document under observation.

The Governor was authorised to set a date for publishing the decision and the basis for the decision. The Governor was also authorised to grant exemptions from the deadline in situations with challenging liquidity or other special situations.

The Executive Board is to be informed when the publication date has been set.

The Executive Board noted that NBIM has established a procedure for monitoring changes in which companies are covered by the criteria in the guidelines.

239/2016 GPFG – Investments in unlisted infrastructure

Discussion Memo from NBIM of 8 December 2016
documents:

In its letter of 4 July 2016, the Ministry of Finance asked for Norges Bank's input on how investments in unlisted infrastructure might be organised and framed in the management mandate, how the risk might be managed operationally, and how the Bank might ensure good reporting and transparency on such investments. The Bank's input was also to include a review of how comparable funds have handled the special risks associated with investments in unlisted infrastructure.

The Executive Board conducted a preliminary discussion of the matter at its meeting on 23 November, cf. item 210/2016.

Yngve Slyngstad presented the topic and the draft letter to the Ministry of Finance. Reference was also made to the Bank's letter to the Ministry of Finance of 2 December 2015 on the same topic.

The Executive Board had an exchange of views and approved the submission of a letter to the Ministry of Finance in line with the attached draft. The Governor was authorised to finalise the letter based on the comments at the meeting.

240/2016 GPFG – Guidelines for investments in government bonds

Discussion Memo from NBIM of 8 December 2016
documents:

In Recommendation 326 S (2015-2016), the Standing Committee on Finance and Economic Affairs discusses the fund's investments in government bonds and raises a number of issues in this context, including that of guidelines for the fund's investments in government bonds. In its letter of 29 June 2016, the ministry asked Norges Bank to provide an assessment of these issues as input for the ministry's own deliberations.

Yngve Slyngstad presented the topic.

The Executive Board had an exchange of views and approved the submission of a letter to the Ministry of Finance on guidelines for investments in government bonds in line with the attached draft. The Governor was authorised to finalise the letter based on the comments at the meeting.

241/2016 GPFG – Updating of the Executive Board's investment mandate for the CEO of NBIM

Discussion Memo from NBIM of 9 December 2016
documents:

The Ministry of Finance's management mandate for the GPFG is to be revised from 1 January 2017.

Yngve Slyngstad and Trond Grande presented proposed changes to the

Executive Board's investment mandate for the CEO of NBIM in light of the revised mandate.

The Executive Board approved the amendment of the investment mandate for the CEO of NBIM in line with the proposals. The changes will enter into force at the same time as the changes to the mandate from the Ministry of Finance. The updated investment mandate is to be sent to the Ministry and published on its entry into force.

242/2016 GPFG – Procedures for handling inside information

Discussion Memo from NBIM of 9 December 2016
documents:

Yngve Slyngstad and Stephen Hirsch presented the topic.

The Executive Board had an exchange of views. The Executive Board acknowledged the effective follow-up of its principles for risk management and took note of the procedures for handling inside information.

243/2016 Briefing on current issues in investment management

Yngve Slyngstad gave a briefing on current issues in investment management.

244/2016 Minutes of the Executive Board meeting of 7 December 2016

Consideration of the minutes was postponed to the next meeting.

245/2016 Supervisory review – The control structure at Norges Bank

Discussion Memo from the General Secretariat of 9 December 2016
documents:

Birger Vikøren presented the topic and the draft response to the Supervisory Council with proposed comments from the Executive Board on the report's remarks and conclusions.

The Executive Board decided that the attached letter should be sent to the Supervisory Council. The Governor was authorised to finalise the letter based on the Executive Board's remarks.

246/2016 Assurance report – Assessment of Norges Bank's framework for risk management and control of tax

Discussion Memo from the General Secretariat of 8 December 2016
documents:

Birger Vikøren presented the topic and the draft response to the Supervisory Council with proposed comments from the Executive Board on the report's

remarks and conclusions.

The Executive Board decided that the attached letter should be sent to the Supervisory Council. The Governor was authorised to finalise the letter based on the Executive Board's remarks.

247/2016 Reporting to the Executive Board on the management of the GPFG

Discussion documents: Memo from the General Secretariat of 9 December 2016

Birger Vikøren presented the topic.

The Executive Board discussed various aspects of the reporting on the management of the GPFG. In the Executive Board's opinion, current reporting provides a sound basis for monitoring the fund. The Executive Board approved the proposals for further developing this reporting.

248/2016 Any other business

The departing director of the Office of the Supervisory Council, Sverre Erik Forsstrøm, thanked the Executive Board for a constructive working relationship.

Executive Board members:

Executive Board alternates:

Employee representatives in respect of items 244-248: