

MINUTES OF THE EXECUTIVE BOARD MEETING OF 21 JUNE 2017

Present:

Executive Board: Øystein Olsen, Jon Nicolaisen (items 127-138), 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 130-134a)

Supervisory Council: Jan Frode Jakobsen (items 132-134,136-137)

Management: Ida Wolden Bache (items 127-129), Torbjørn Hægeland (items 127-129), Kristin Gulbrandsen (items 127-129, 132-133), Henrik Borchgrevink (items 127-129), Per Espen Lilleås (items 127-129), Ingrid Solberg (items 127-129), Anne Kari Haug (items 127-129), Ylva Søvik (items 127-129), Olav Bø (items 127-129, 132-133), Marius Ryel (item 130), Carl-Axel Hagen (items 132-133), Helge Mothes (items 132-133), Torkel Fagerli (items 132-133), Yngve Slyngstad (items 130, 134-140), Trond Grande (items 134-140), Stephen Hirsch (items 134-136), Merethe Riddervold (items 134-139), John Tore Vatnar (item 138), Ole Christian Bech-Moen (items 136-139), Lise Lindbäck (items 136-139), Dag Huse (items 134,138-139) Ingunn Valvatne (items 132-139), Birger Vikøren (items 130-141), Runar Malkenes (items 127-130), Bjarne Gulbrandsen (items 127-141), Olav Mundal (items 127-129, 132-139)

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

- Executive Board meeting and seminar plan for 2018
Memo of 19 June 2017 from the General Secretariat
- Monthly report – GPFG performance and Risk – April 2017

127/2017 Advice on the countercyclical capital buffer 2017 Q2

- Discussion document:
- Advice on the countercyclical capital buffer 2017 Q2
HIGHLY CONFIDENTIAL memo of 15 June 2017 from Financial Stability (FST)
 - Background information – charts distributed at the meeting

Jon Nicolaisen presented a status update of the decision basis for Norges Bank's advice to the Ministry of Finance on the countercyclical capital buffer.

In the discussion, the Executive Board emphasised that the long period of strong property price inflation and the persistent rise in household debt burdens indicate that financial imbalances have built up. Financial imbalances increase the risk of an abrupt decline in demand and bank loan losses. Household credit growth remains high. Low house price inflation and tighter bank lending will curb household debt accumulation and may over time reduce household sector vulnerabilities.

At the end of the year, the countercyclical capital buffer will increase to 2 percent. With higher capital levels, banks will be better equipped to cope with losses further ahead.

The Executive Board decided to advise the Ministry of Finance to keep the buffer rate unchanged at 2 percent at the end of 2017. The decision was unanimous.

128/2017 Monetary Policy Report 2/17 with financial stability assessment

Discussion document: HIGHLY CONFIDENTIAL memo of 20 June 2017 from Monetary Policy (PPO)

Jon Nicolaisen gave a briefing on some adjustments made to the report after the Executive Board's meeting on 14 June 2017.

The Executive Board discussed the economic outlook, the monetary policy stance and the decision basis for the countercyclical capital buffer. The Executive Board approved the proposed "Executive Board's assessment", cf. the interest rate decision under item 129/2017. The assessments will be published in Monetary Policy Report 2/17.

129/2017 The current monetary policy outlook – interest rate decision

Discussion document: - Norges Bank's key policy rate – meeting of 21 June 2017
HIGHLY CONFIDENTIAL memo of 20 June 2017 from Monetary Policy (PPO)
- Report from the meeting between the Ministry of Finance and Norges Bank on Friday, 28 April 2017
- Background information – charts distributed at the meeting

Jon Nicolaisen presented a review of economic developments since the previous Executive Board meeting with particular emphasis on developments in money, foreign exchange and capital markets.

The Executive Board judges that there is a continued need for an expansionary monetary policy. Interest rates abroad are low. Capacity utilisation in the Norwegian economy is still below a normal level, and the outlook suggests that inflation will range between 1 percent and 2 percent in the coming years.

In its discussion of monetary policy in the near term, the Executive Board emphasised that capacity utilisation in the Norwegian economy appears to be higher than envisaged earlier. Inflation is lower than expected and may continue to drift down in the months ahead, but increased activity and receding unemployment suggest that inflation will pick up. Inflation expectations appear to be firmly anchored. Low house price inflation will curb debt accumulation, but it will take time for household vulnerabilities to recede.

On the basis of an overall assessment, the Executive Board decided to keep the key policy rate unchanged at 0.5%. The Executive Board's current assessment of the outlook and the balance of risks suggests that the key policy rate will remain at today's level in the period ahead. The decision was unanimous.

130/2017 Briefing on relevant matters for Norges Bank Central Banking Operations

The Governor gave a briefing on relevant matters for Norges Bank Central Banking Operations.

131/2017 Minutes of the Executive Board meeting of 14 June 2017

The Executive Board approved the minutes of its meeting of 14 June 2017.

132/2017 Status report, competitive tender IT operations

Discussion document: Memo of 15 June 2017 from Markets and Banking Services (MB)

Jon Nicolaisen presented a status report on the competitive tender for IT operations for Norges Bank Central Banking Operations.

The Executive Board took note of the status of the competitive tender process for IT operations. The matter will be sent to the Supervisory Council for information.

133/2017 Responsibility for ICT security at Norges Bank Central Banking Operations

Discussion document: Memo of 15 June 2017 from the General Secretariat

The Executive Board considered the audit report on management and control of ICT security at Norges Bank Central Banking Operations in January 2017 and asked to be kept informed of progress in following up the audit recommendations (item 20/2017).

Jon Nicolaisen presented the matter for discussion and reported on the follow-up process.

The Executive Board took note of the change in the division of responsibilities for IT security management and strategy at Norges bank Central Banking Operations.

134/2017 Annual revision of governance documents issued by Norges Bank's Executive Board:

134 a) - Executive Board Principles for Compensation to NBIM Employees

Discussion documents: Memo of 14 June 2017 from Norge Bank Investment Management (NBIM)
Memo of 20 June 2017 from the Remuneration Committee

Yngve Slyngstad and Trond Grande presented the matter for discussion. Hilde Myrberg reported on the Remuneration Committee's discussions and the issues of particular concern to the Committee.

The Executive Board discussed the matter. The Executive Board principles for compensation to NBIM employees are to be changed in line with the proposal.

134 b) - Executive Board Principles for Risk Management in NBIM

Discussion Memo of 14 June 2017 from NBIM
documents: Memo of 20. June 2017 from the Risk and Investment
Committee

Yngve Slyngstad presented the matter for discussion. Egil Matsen reported on the Risk and Investment Committee's discussions and the Committee's proposal to adjust the description of *tax management* in the Principles.

The Executive Board discussed the matter. The Executive Board Principles for Risk Management in NBIM are to be changed in line with the management's proposal, including the adjustment proposed by the Risk and Investment Committee.

134 c) - Executive Board Principles for Responsible Investment

Discussion Memo of 14 June 2017 from NBIM
documents: Memo of 20 June 2017 from the Ownership Committee

Yngve Slyngstad presented the matter for discussion. Egil Matsen reported on the Ownership Committee's discussions and the issues of particular concern to the Committee.

The Executive Board discussed the matter. The Executive Board Principles for Responsible Investment are to be changed in line with the proposal.

134 d) - NBIM CEO Investment Mandate

Discussion Memo of 14 June 2017 from NBIM
documents: Memo of 20 June 2017 from the Risk and Investment
Committee

Yngve Slyngstad and Trond Grande presented the matter for discussion. Egil Matsen reported on the Risk and Investment Committee's discussions and the issues of particular concern to the Committee.

The Executive Board discussed the matter. The Executive Board's investment mandate for the CEO of NBIM is to be changed in line with the proposal.

The Executive Board also requested that the mandate for the Real Estate Investment Board (REIB) be reviewed for the purpose of updating the mandate. The wording of subsection 3.4 of the investment mandate should be assessed as part of the review.

135/2017 Government Pension Fund Global – investment in property listed on the stock exchange

Discussion document: CONFIDENTIAL memo of 14 June 2017 from NBIM

Yngve Slyngstad presented the matter for discussion.

The Executive Board discussed the matter. The Executive Board's majority took note of the presentation concerning investment in property listed on the stock exchange.

Executive Board member Karen Helene Ulltveit-Moe expressed the view that the matter raises issues of a strategic nature and that the Executive Board should therefore consider the substance of the matter.

136/2017 Securities lending – follow-up of Internal Audit Report 1606

Discussion document: Memo of 14 June 2017 from NBIM

At its meeting on 26 April 2017, the Executive Board considered a presentation by Internal Audit of a proposal for a follow-up of audit report 1606 NBIM Securities Lending (item 102/2017). The Executive Board concurred with Internal Audit's recommendations and asked NBIM to report on the implementation of measures as described in the memo to the Executive Board of 22 June 2016.

Trond Grande presented the matter for discussion.

The Executive Board discussed the matter and took note of the presentation concerning securities lending. The Executive Board does not see the need for further action to follow up the audit report.

137/2017 Benchmark index for the Government Pension Fund Global

Discussion document: Memo of 14 June 2017 from NBIM

Yngve Slyngstad and Ole Christian Bech-Moen presented the matter for discussion. Egil Matsen reported on the Risk and Investment Committee's discussions and the issues of particular concern to the Committee. The Committee recommended that the Executive Board adopt the management's proposal.

The Executive Board discussed the matter and approved the proposal that NBIM's further preparation of its advice to the Ministry of Finance concerning the benchmark index be based on the main elements of the discussion document, adjusted for contributions and comments from the Executive Board's discussion. A draft letter to the Ministry of Finance will be submitted for consideration by the Executive Board at its next meeting on 16 August.

138/2017 Council on Ethics recommendation of 5 May 2017 on exclusion of companies

Discussion document: Memo of 20 June from the Ownership Committee

Norges Bank has received from the Council on Ethics a recommendation on exclusion of the companies Hansae Yes24 Holdings Co. Ltd. and Hansae Co. Ltd. The reason given for the recommendation is the risk that the company will be responsible for systematic human rights violations (see the conduct-based criterion in *Guidelines for observation and exclusion from the Government Pension Fund Global, Section 3 a*).

Section 6, subsection 4, of the Guidelines states that “Observation may be decided when there is doubt as to whether the conditions for exclusion are met or as to future developments, or where observation is deemed appropriate for other reasons.”

Egil Matsen reported on the Ownership Committee’s discussions and its recommendation. The Ownership Committee’s conclusion is that there may be adequate reason for doubt as to future developments. A decision to put the company under observation is therefore considered appropriate. As the fund is invested in the companies in question through an external manager who can obtain relevant information, the Ownership Committee recommends that the Executive Board request that relevant information be relayed to the Council on Ethics by NBIM.

The Executive Board discussed the matter. The Executive Board’s majority concurred with the Ownership Committee’s recommendation and adopted the following decision:

- *Hansae Yes24 Holdings Co. Ltd.* and *Hansae Co. Ltd.* are to be put under observation.
- NBIM is requested to relay relevant information about *Hansae Yes24 Holdings Co. Ltd.* and *Hansae Co. Ltd.* to the Council on Ethics.
- The Governor of Norges Bank is authorised to set the date of publication of the decision.

The Executive Board’s minority, members Karen Helene Ulltveit-Moe and Hilde Myrberg, supported the Council on Ethics recommendation to exclude *Hansae Yes24 Holdings Co. Ltd.* and *Hansae Co. Ltd.* from the GPFG.

The Council on Ethics is to be informed of the decision.

139/2017 Proposed changes to the mandate for the Government Pension Fund Global

Discussion documents: Memo of 14 June 2017 from NBIM
Memo of 20. June 2017 from the Risk and Investment Committee

Yngve Slyngstad presented the matter for discussion. Egil Matsen reported on the Risk and Investment Committee’s discussions.

The Executive Board discussed the matter and approved the request for a letter

to be sent to the Ministry of Finance in line with the attached proposal. The Chair of the Board was authorised to finalise the letter based on the comments presented at the meeting.

140/2017 Briefing on relevant matters for Norges Bank Investment Management

Yngve Slyngstad gave a briefing on relevant matters for Norges Bank Investment Management.

141/2017 Any other business

Karen Helene Ulltveit-Moe gave a briefing on the appointment of members to the Audit Committee (see attachment).

Executive Board members:

Executive Board alternates:

Employee representatives in respect of items 130-134a:

ATTACHMENT TO THE MINUTES OF THE EXECUTIVE BOARD MEETING OF 21 JUNE 2017

Appointment of members of the Audit Committee

Section 2 of the Audit Committee mandate concerning appointments and organisation reads:

The Audit Committee comprises three members, one of which serves as chair. The members of the Audit Committee are selected by and from among the Executive Board's external members. Board members normally serve for a period of two years.

The external members of the Executive Board discussed the composition of the Audit Committee on 14 June and decided to retain the current composition until the end of 2018.

Thus, the Audit Committee will have the following members until 31 December 2018:

- Karen Helene Ulltveit-Moe, chair
- Kathryn Baker, member
- Steinar Juel, member

The composition of the committee will be re-assessed if changes in the composition of the Executive Board that affect the committee are introduced on 1 January 2018.

External members of the Executive Board: