

## Corporate governance

Each year the management team and board of directors of SpareBank 1 SMN review its corporate governance policies and how they function across the group. The corporate governance policies and practice are prepared and presented in conformity with the Accounting Act (Regnskapsloven) section 3-3b and the Norwegian Code of Practice for Corporate Governance.

### Accounting Act, section 3-3b, second subsection

The following explains how the Accounting Act section 3-3b, second subsection, is complied with at SpareBank 1 SMN. The numbering shows the numbering in the subsection concerned.

1. A statement of recommendations and rules for corporate governance which apply to the company or which it chooses to abide by. Policies and practice for corporate governance at SpareBank 1 SMN are based on Norwegian law. The group abides by the Norwegian Code of Practice for Corporate Governance. Reference is made to point 1 of the Code of Practice below.
2. Information on where recommendations and rules as mentioned in no. 1 are publicly available. The Code of Practice for Corporate Governance is available at [nues.no](#).
3. A justification for any deviation from recommendations and rules as mentioned in no. 1. Any deviations from the recommendation receive comment under the report on compliance with the Code of Practice below.
4. A description of the main elements in the undertaking's and – for entities that are under the obligation to maintain accounting records and that prepare consolidated accounts – in the event also the group's systems for internal control and risk management associated with the financial reporting process. See the report regarding point 10 of the Code of Practice below.
5. Provisions of articles of association which in whole or in part expand or diverge from provisions of the Public Limited Companies Act chapter 5. See the report regarding point 6 of the Code of Practice below.
6. The composition of the board of directors, corporate assembly, supervisory board and control committee; any working committees for these bodies, and a description of the main elements of applicable instructions and guidelines for the work of these bodies and any committees. See the report regarding points 6, 7, 8 and 9 of the Code of Practice below.
7. Provisions of articles of association which regulate the appointment and replacement of board members. See the report regarding point 8 of the Code of Practice below.
8. Provisions of articles of association and authorisations which empower the board of directors to decide that the company shall repurchase or issue treasury shares or equity certificates. See the report regarding point 3 of the Code of Practice below.

## Norwegian Code of Practice for Corporate Governance

The following explains how the 15 points set out in the Norwegian Code of Practice for Corporate Governance of 30 October 2014 are complied with at SpareBank 1 SMN.

### **Point 1: Report on corporate governance**

There are no significant deviations between the Code of Practice and compliance with the Code of Practice at SpareBank 1 SMN.

The Code of Practice applies to the extent appropriate to savings banks with equity certificates. Any deviations are explained below.

Against the background of amendments to laws and regulations in force as from 1 January 2016, certain changes and adjustments are made to the group's governing and control bodies. Of particular significance is the entry into force of the new Financial Undertakings Act (finansforetaksloven). The amendments are taken into account in revised articles of association which are effective as of 2016. This report is based on the group's organisation in 2015, except where specifically stated otherwise.

SpareBank 1 SMN has a distinct corporate governance policy, and will further develop this policy within the framework of applicable laws and in keeping with recommendations emanating from influential sources.

Through its corporate governance policy the bank aims to assure sound management of its assets and to give added assurance that its stated goals and strategies will be attained and realised. Good corporate governance encompasses the values, goals and overarching policies by which the bank is governed and controlled with a view to securing the interests of EC holders, depositors and other stakeholder groups in the bank. The bank adheres to the "Norwegian Code of Practice for Corporate Governance" to the extent appropriate to savings banks with equity certificates. The Code of Practice is available at [nues.no](http://nues.no).

Through its corporate governance the bank gives special emphasis to:

- a structure assuring targeted and independent management and control
- systems assuring monitoring and accountability
- effective risk management
- full information and effective communication
- non-discrimination of EC holders and a balanced relationship with other stakeholders
- compliance with laws, rules and ethical standards

The staff must be recognised for their high ethical standards. To this end they must display a conduct that is perceived to be confidence inspiring, honest and trustworthy and in compliance with the norms, rules and statutes by which the society is governed. The ethical rules deal inter alia with legal (in)capacity; relationships to customers, suppliers and competitors; securities trading; insider rules and relevant financial circumstances of the individual. This body of rules applies to all employees and elected officers in governing bodies.

All staff and elected officers at SpareBank 1 SMN are obliged to regard knowledge of the group's or a customer's circumstances as confidential. This duty of confidentiality applies not only in respect of third parties but also towards colleagues who have no need for the information in question in their work. Further, no SMN staff member may, via computer systems or by any other means, retrieve information about other

colleagues or customers that is not necessary for their work. The bank's ethical rules stipulate that a staff member must immediately inform his/her superior or other contact persons if he/she learns of circumstances that breach applicable statutes and rules or constitute significant violations of internal provisions. SpareBank 1 SMN wishes to contribute to sustainable social development through responsible business activities which includes safeguarding ethical, environmental and social considerations. A distinct strategy for managing the bank's corporate social responsibility has been established.

Corporate social responsibility is an integral aspect of the bank's operations and is expressed through strategies, measures and activities. Corporate social responsibility is expressed through the way resources are managed and through dialogue with employees, owners, customers, local communities and other stakeholders. Further, a procurement strategy has been established setting out the ethical framework, requirements on suppliers and the criteria applied by the bank when making purchases.

See also the chapter on corporate social responsibility in this annual report.

Deviations from point 1 of the Code of Practice: None

### **Point 2: Operations**

SpareBank 1 SMN is an independent financial services group in the SpareBank 1 Alliance. The bank's vision is to be the recommended bank. According to its articles of association, SpareBank 1 SMN's object is to promote saving by accepting deposits from depositors and to manage them in a secure manner in accordance with the statutory rules applying at any and all times to savings banks. The bank can transact all ordinary banking business and banking services in accordance with the legislation at any time in force. The articles of association can be found in extenso on the bank's website.

The bank's business mission is to provide financial advisory services to private individuals, enterprises and the public sector primarily in North and South Trøndelag, Møre and Romsdal, and Sogn and Fjordane, to enable them to realise their goals through investment, saving, payments and protection of lives and assets. The group also provides real estate agency, asset management, leasing and accountancy services in the same geographical areas and to the same customer groups.

It is important that our customers should view us as close at hand and capable. That means being close to our customers through personal contact and taking the initiative to meet the customer with the best advice and products as well as being a pro-active mainstay in the region. Capableness entails offering a broad range of products that is right for the times, and having a professionally competent staff with high quality skills. We strive for high ethical standards in everything we do and want our customers to feel that their need for financial advice and services is met in a professional and dedicated manner.

Deviations from point 2 of the Code of Practice: None

### **Point 3: EC capital and dividends**

The board of directors continuously assesses the capital situation in light of the group's goals, strategy and desired risk profile. As at 31 December 2015 SpareBank 1 SMN's equity capital totalled NOK 13.9bn. As of the same date the tier 1 ratio was 15.6 per cent and the common equity tier 1 (CET1) ratio was 13.6 per cent.

For detailed information on capital adequacy, see the relevant note in the annual report. For a further account of the rules governing capital adequacy and the principles on which SpareBank 1 SMN bases its

assessment of capital need, see the group's Pillar 3 report published at smn.no, and the chapter dealing with risk and capital management in this annual report.

#### *Dividends*

SpareBank 1 SMN aims to manage the group's resources in such a way as to provide EC holders with a good, stable and competitive return in the form of dividend and a rising value of the bank's EC.

The net profit for the year will be distributed between the owner capital (the EC holders) and the ownerless capital in accordance with their respective shares of the bank's total equity capital.

SpareBank 1 SMN's intention is that up to one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that up to one half of the ownerless capital's share of the net profit for the year should be disbursed as gifts or transferred to the foundation Sparebankstiftelsen SMN. This is on the assumption that capital adequacy is at a satisfactory level. When determining dividend payout, account will be taken of the profit trend expected in a normalised market situation, of external framework conditions and of the need for tier 1 capital. The bank's supervisory board sets the annual dividend payout based on the board of directors' recommendation. The dividend policy is published on the bank's website.

#### *Deficits*

Any deficit is to be covered by pro rata transfer from the ownerless capital, including the gift fund and any owner capital in excess of that stipulated in the articles of association, including the dividend equalisation fund. Any deficit not so covered will be covered by pro rata transfer from the EC premium account and the compensation fund, thereafter by reduction of the owner capital stipulated in the articles of association.

#### *Acquisition of treasury equity certificates*

SpareBank 1 SMN's board of directors are authorised to buy treasury ECs for up to 10 per cent of the bank's owner capital, and such purchases shall be made by trading on the securities market via the Oslo Stock Exchange. The total volume of ECs held by the bank and/or in which it has a consensual security interest may not exceed 10 per cent of the bank's owner capital. Each EC may be bought at prices between NOK 1 and NOK 200. The authorisation is valid for 13 months as from the adoption of the resolution at the supervisory board's meeting on 27 March 2015.

#### *Increase of capital*

Authorisations to the board of directors to increase the bank's EC capital are given for specific and defined purposes. As at 31 December 2015 no authorisation is available to the board of directors to increase the capital of SpareBank 1 SMN.

Deviations from point 3 of the Code of Practice: None

#### **Point 4: Non-discrimination of shareholders and transactions with related parties**

SpareBank 1 SMN has one class of ECs. Through the articles of association, and in the work of the board of directors and management team, emphasis is given to equal treatment of all EC holders and equal opportunity for them to exercise influence. All ECs confer an identical voting right. The bank abides by the Financial Undertakings Act's provisions regulating holdings and voting rights insofar as these provisions apply to savings banks with equity certificates.

In the event of an increase of capital, existing EC holders have pre-emptive rights unless special circumstances call for deviation this rule. Any such deviation will be explained. SpareBank 1 SMN has at

irregular intervals launched private placings with the employees, and such increases of capital have been designed to strengthen employees' ownership of the bank and interest in the bank's capital instrument. Any exercise of the board of directors' authorisation to acquire treasury certificates shall be by trading on the securities market via the Oslo Stock Exchange.

#### *Transactions with related parties*

Under instructions in force for the board of directors, a director is barred from participating in the consideration of, or decision in, any matter whose significance to him/herself or to any related party is such that the director is to be regarded as having, directly or indirectly, a particular personal or financial interest in that matter. The same follows from the group's ethical guidelines. Each director is obliged to personally verify that he or she is not disqualified from participating in the treatment of a matter.

Any agreement between the bank and a director or the group CEO must be approved by the board of directors, as must any agreement between the bank and a third party in which a director or the group CEO has a particular interest. Directors are required to disclose on their own initiative any interest the individual or related party concerned may have. Unless the director him/herself opts to step back from the consideration of or decision in a matter, the board of directors shall decide whether or not the director shall step back. The board's assessments of legal (in)capacity must be duly recorded.

Deviations from point 4 of the Code of Practice: None

#### **Point 5: Free transferability**

The bank's equity certificate is quoted on the Oslo Stock Exchange under the MING ticker symbol and is freely transferable. The articles of association contain no restrictions on transferability.

Deviations from point 5 of the Code of Practice: None

#### **Point 6: General meeting**

##### *Supervisory board*

A savings bank is basically a 'self-owned' institution. Its governance structure and the composition of its governing bodies differ from those of limited liability companies; see the Financial Institutions Act and what bodies a savings bank is required to have. The bank's highest body is the supervisory board comprising EC holders, customers, employees and representatives of the public authorities.

The supervisory board shall see to it that the bank operates in line with its mission and in conformity with law, its articles of association and decisions of the supervisory board.

The supervisory board has 43 members and 32 alternates with the following representation:

- EC holders: 17 members and 10 alternates
- the county councils of Sør-Trøndelag, Nord-Trøndelag and Møre og Romsdal: 8 members and 8 alternates
- customers: 8 members and 8 alternates
- employees: 10 members and 6 alternates

According to the legislation, it is important that elected members should reflect the savings bank's customer structure, other stakeholder groups and its role in society. The supervisory board approves the group's annual accounts, authorises the board of directors to raise subordinated capital and to undertake any

increase of capital, and appoints the members of the bank's board of directors and election committee. The supervisory board also fixes the remuneration for the above bodies. The members of the board of directors, the group CEO and the auditor are also summoned to meetings of the bank's supervisory board. They may participate in the proceedings but are not entitled to vote. The supervisory board chair presides over the meeting or, in the latter's absence, the deputy chair.

Notice of meetings of the supervisory board is sent to its members and is available on the bank's website at least 21 days ahead of the meeting. The intention is that proposals for resolutions and case documents that are dispatched should be sufficiently detailed to enable the members of the supervisory board to take a position on the matters to be considered. Minutes of the meetings of the supervisory board are also made available on the bank's website.

A list of supervisory board members can be found at [smn.no](http://smn.no).

#### *Control committee*

The supervisory board has resolved to dispense with the control committee as from 1 January 2016. The following is a description of the committee's mission and tasks in 2015.

The control committee's mission is to oversee that the bank conducts its business in an appropriate and satisfactory manner in accordance with laws and regulations, articles of association and orders and recommendations issued by Finanstilsynet. Its remit covers the entire business, including subsidiaries. The control committee is an elected committee in its own right in the subsidiary SpareBank 1 Finans Midt-Norge.

In order to discharge its tasks the committee:

- reviews selected decisions and working documents of the board of directors and sees to it that the board acts on its decisions
- monitors developments in central key figures and ratios
- obtains documentation of the bank's control procedures and ensures that they function as intended
- reviews internal audit reports and the appointed auditor's written approaches to the bank and ensures that any remarks are properly responded to
- collaborates with the chair of the board of directors and the company's auditor on working plans and important observations

Each year the control committee reports on its work to Finanstilsynet and the supervisory board. The committee also issues a statement to the supervisory board on the annual accounts and the directors' report.

A record of the control committee's meetings is sent to the bank's board of directors, the supervisory board chair, the internal auditor and the risk management director. The control committee's minutes are also presented at the meetings of the supervisory board.

The control committee normally meets eight times each year. The group CEO attends these meetings. The committee also meets the chair of the board of directors, the chair of the audit and risk committees and the chair of the supervisory board on an annual basis. The control committee is appointed by the supervisory board and has three members and two alternates who are elected for a two-year term.

Deviations from point 6 of the Code of Practice: Where the composition of the bank's bodies is concerned, SpareBank 1 SMN abides by laws and provisions that regulate financial undertakings.

**Point 7: Election committee**

The supervisory board resolved as from 1 January 2016 that elections at SpareBank 1 SMN are to be run by an election committee in addition to the employees' election committee. In accordance with the articles of association for 2015 there were three election committees and an election committee for employees' elections of supervisory board members. Their tasks were as follows:

*Election committee for the supervisory board*

The supervisory board appoints an election committee from among the members of the supervisory board. The election committee comprises four members and four alternates. The committee comprises one representative from each of the following: the EC holders, the depositors, public appointees and the employees in addition to one alternate from each group. The EC holders' representative on the election committee must be a member of the election committee for EC holders' election of supervisory board members.

In connection with the elections the committee gives due attention to a composition based on competence and gender. The committee's task is to prepare the election of the chair and deputy chair of the supervisory board, the chair, deputy chair and other members and alternates of the bank's board of directors and control committee, and members and alternates of the election committee for the supervisory board. The election committee is also charged with reviewing and recommending any changes to the fee structure for the bank's elected officers.

*Election committee for depositors' election of supervisory board members*

This election committee comprises three members and three alternates, with one member and one alternate from each of the three election districts. The committee prepares the depositors' election of members and alternates to the bank's supervisory board, and members and alternates to the election committee for depositors' election of supervisory board members.

*Election Committee for EC holders' election of supervisory board members*

The EC holders appoint an election committee at an EC holders' meeting. The election committee has three members and two alternates. At least one of the members and one of the alternates must be members of the supervisory board. The election committee prepares the EC holders' election of supervisory board members and alternates and the election of members and alternates to the election committee for EC holders' election of supervisory board members.

*Election committee for employees' election of supervisory board members*

According to the Savings Banks Act this election shall be organised by an election board with representatives appointed by the board of directors. The election board shall comprise at least three members and both the management and the employees shall be represented.

Deviations from point 7 of the Code of Practice: All members of the election committee for the supervisory board are appointed from among the groups represented on the supervisory board, in accordance with the Regulations on election committees at savings banks.

**Point 8: Supervisory board and board of directors, composition and independence**

See point 6 for information about the supervisory board. As of 31 December 2015 the board of directors had eight regularly attending members of whom one represented the employees. Meetings of the board of directors are also attended by one regularly attending alternate for the employees. Four members of the board of directors are women. Members of the board of directors are appointed for two years at a time and

can hold office for a maximum of 20 years, but not more than 12 years continuously in the same position. The group CEO is not a member of the board of directors. As from the first election held after 1 January 2016 the board of directors has nine members of who two represent the employees. None of the members of the board of directors appointed by the supervisory board are in any employment relationship or independent contractor relationship with the group beyond their posts as elected officers. The board members' independence has been assessed by the election committee and the board members are deemed to be independent, with the exception of the board members elected by the employees. The chair and deputy chair are elected by the supervisory board at separate elections for a one-year term.

The composition of the board of directors shall be based on the bank's articles of association. In the election of board members the criteria of competence, capacity and diversity are in focus. The individual director's background is described in the annual report and at smn.no. The board of directors meets at least 11 times each year, and the members' attendance at meetings of the board is described in the annual report. The directors are encouraged to own the bank's equity certificates, and their respective holdings of ECs in SpareBank 1 SMN are shown under the presentation of the board of directors in the annual report and on the bank's website.

Deviations from point 8 of the Code of Practice: None

#### **Point 9: Work of the board of directors**

The board of directors' work and procedures are regulated by board instructions, and annual plans are prepared for the work of the board. The board of directors manages the bank's operations in compliance with laws, articles of association and resolutions of the supervisory board. The board of directors is responsible for ensuring that the assets at the bank's disposal are managed in a safe and appropriate manner. The board of directors is also required to ensure that accounting and asset management are subject to satisfactory control. In addition the board of directors adopts the bank's strategy, budget and market and organisational objectives. It is the board of directors that appoints and dismisses the group CEO.

The board of directors receives reports on profit performance and market developments, and on developments in the group's risk picture. The board of directors conducts an annual evaluation of its work and its competence. It reviews working method, case handling, meeting structure and prioritising of tasks, and this provides a basis for any changes and measures needed.

#### *Audit committee*

The board of directors has appointed an audit committee and a risk committee comprising three members of the bank's board of directors. The members are appointed for a two-year term. The audit committee and risk committee are preparatory and advisory working committees to the board of directors. The board of directors establishes instructions for the committees.

Pursuant to the Financial Undertakings Act section 8-19 the audit committee's tasks are to:

- prepare the board of directors' follow-up of the financial reporting process,
- monitor the internal control and risk management systems and the bank's internal audit and issue an opinion on the election of the auditor,
- have ongoing contact with the bank's appointed auditor regarding the audit of the annual accounts,
- assess and monitor the auditor's independence; ref. the Auditors Act chapter 4



The audit committee meets at least five times yearly ahead of the board of directors' consideration of quarterly and annual reports.

#### *Risk committee*

The risk committee's tasks are regulated in the Financial Undertakings Act section 13-6 (4) and the Capital Requirements Regulations section 47-4. The risk committee's task is to ensure that risk and capital management support the group's strategic development and goal attainment, and at the same time ensure financial stability and sound asset management. The risk committee shall ensure that the group's management and control arrangements are appropriate to the risk level and volume of the business.

The committee shall

- ensure that risk management is in keeping with best practice and the board of directors' level of ambition
- review risk management strategies and policies as preparation for consideration by the board of directors
- ensure that the group's capital adequacy is satisfactory within the adopted group strategy
- ensure that laws and regulations and internal rules that regulate the group are identified, implemented, complied with and overseen.

The risk committee meets at least five times yearly.

#### *Compensation committee*

The board of directors has appointed a compensation committee that shall comprise at least three directors. The board chair is a permanent member of the committee and also chairs the committee. The committee members are appointed by the board of directors for a two-year term.

The committee is a preparatory body to the board of directors in matters relating to the design and practice of guidelines and framework for the group's compensation policy. The group's compensation policy is intended to promote sound management and control of the group's risk, discourage excessive risk taking, encourage a long-term perspective, contribute to avoidance of conflicts of interest and be in compliance with applicable law and regulations.

The compensation committee makes a recommendation to the board of directors regarding compensation policy and regarding conditions applying to the group CEO. The committee also establishes limits with regard to variable compensation, and approves compensation arrangements for all business areas and subsidiaries. The committee can also be used as an advisory body to the group CEO in the determination of conditions for the group management.

The committee meets when convened by the chair, but at least once yearly and otherwise as and when required. The attendance of at least two members is required.

The board of directors has established the compensation committee's mandate.

Deviations from point 9 of the Code of Practice: None

### **Point 10: Risk management and internal control**

Sound risk and capital management are central to SpareBank 1 SMN long-term value creation. Internal control aims to ensure efficient operation and proper management of risks of significance for the attainment of business goals.

The group's report on capital requirements and risk management, the Pillar 3 Report, contains a description of risk management, capital management and capital calculation. This report is available at [smn.no](http://smn.no).

SpareBank 1 SMN aims to maintain a moderate risk profile and to apply risk monitoring of such high quality that no single event will seriously impair the bank's financial position. The bank's risk profile is quantified through targets for rating, risk-adjusted return, expected loss, necessary economic capital and regulatory capital adequacy.

The board of directors reviews the group's development in the main risk areas on a quarterly basis and reviews the internal control system on an annual basis. The board of directors of SpareBank 1 SMN has the main responsibility for setting limits to and monitoring the group's risk exposure. The bank's risks are measured and reported in accordance with the principles and policy adopted by the board of directors. Risk management at SpareBank 1 SMN underpins the group's strategic development and goal attainment. Managements at the various companies in the group are responsible for risk management and internal control, and this is intended to ensure:

- targeted, safe, high-quality and cost-effective operations
- reliable and timely reporting
- compliance with applicable laws and regulations as well as internal procedures and policies

Risk management is an integral part of the management's decision processes, and a central element in regard to organisation, procedures and systems. A risk management department has been established at SpareBank 1 SMN.

The risk management department is organised independently of the business units and reports directly to the group CEO. The department is responsible for the group's risk models and for further developing effective risk management systems. The department is responsible for independent risk assessment, risk reporting and overall risk monitoring in the group and reports periodically to the group CEO and the board of directors.

The bank's most important profit objective is to achieve a competitive return on equity. This is done through increased focus on risk-adjusted return. Principles and framework for internal control and risk management are enshrined in a risk management policy. This policy sets out guidelines for the group's overall approach to risk management and is designed to ensure that the group has an effective and appropriate process to that end.

The board of directors receives annually from the internal auditor and external auditor an independent assessment of the group's risk and internal control function. The board monitors compliance with adopted frameworks, principles, and quality and risk objectives through:

- quarterly reports from the group CEO and the risk management department
- quarterly reports/annual report from the internal auditor

SpareBank 1 SMN uses the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Framework and the Control Objectives for Information and Related Technology (CobiT) framework as a basis for its policies for internal control and risk management.

*Internal control in relation to financial reporting*

The board of directors of SpareBank 1 SMN has issued guidelines for the group's financial reporting. They apply within the current requirements imposed by the authorities and are designed to ensure relevant, reliable, up to date and simultaneous information to the bank's EC holders and the securities market in general. Group Finance is headed by the finance director and is organised independently of the business areas. The unit attends to financial reporting at both parent-bank and group level, and establishes guidelines for monthly, quarterly and annual reporting from the various business areas and subsidiaries. The finance director assesses the business areas' financial results and goal achievement on a continuous basis, and sees to it that all units perform in keeping with the group's overall financial objectives. The finance director reports directly to the group CEO.

The bank's Accounts Department and Finance Department are organised under Group Finance and prepare financial reports for the group. The departments see to it that reports are made in conformity with applicable legislation, accounting standards, the group's accounting policies and the board of directors' guidelines.

Group Finance has established processes to ensure that financial reporting is quality assured and that any errors and deficiencies are followed up and rectified as and when they occur. A number of control measures have been established to ensure that all financial reporting is correct, valid and complete.

Each quarter the external auditor conducts a limited audit of the group's interim financial statements. A full audit is conducted of the group's annual financial statements.

For further information on risk management and internal control, see note 6 in the annual report concerning financial risk management and a separate chapter on Risk and capital management.

*Internal audit*

The internal audit function is a tool used by the board of directors and the administration to oversee that the risk management process is targeted, effective and functions as intended. Internal audit services are delivered by KPMG and these services cover the parent bank and subsidiaries subject to the risk management and internal control regulations. The internal audit function's main task is to confirm that the established internal control system functions as intended, and to ensure that risk management measures are adequate to the bank's risk profile. The internal audit function reports quarterly to the board of directors and the internal audit's reports and recommendations are reviewed and improvements implemented on a continuous basis. The board of directors adopts annual plans and budgets for the internal audit function.

The internal audit function carries out the operational audit of units and business areas, and does not conduct a financial audit of the group. Annual audit plans are prepared which are discussed with the group management, considered by the risk committee and approved by the board of directors. The audit function's risk assessments determine which areas are to be reviewed. Separate audit reports are prepared containing results and proposed improvement measures which are presented to the responsible manager and the group's management team. A summary of the reports is sent quarterly to the risk committee and the board of directors. Any consultancy services are provided within the scope of standards and recommendations applying to internal auditors (Institute of Internal Auditors Norway).

*Ethics and whistleblowing*

Ethical guidelines have been drawn up for the group and its employees, and ethics is a standard topic at seminars for all new staff members. This helps to ensure that the group's values and ethical guidelines are properly communicated and made known throughout the organisation. Clear-cut guidelines have been established for internal communication should any member of staff learn of circumstances that breach external or internal regulatory provisions or of other circumstances which are likely to harm the group's reputation or financial situation.

Deviations from point 10 of the Code of Practice: None

**Point 11: Remuneration to the board of directors**

The board members' fees that are recommended by the election committee and adopted by the supervisory board are not performance-related and no options are issued to the directors. The board of directors' chair and deputy chair are remunerated separately, and directors participating in board committees receive additional remuneration for doing so. None of the directors appointed by the supervisory board perform tasks for the group beyond serving on the board of directors. Further information on compensation to the board of directors and board committees is shown in note 22 in this annual report.

Deviations from point 11 of the Code of Practice: None

**Point 12: Remuneration to senior employees**

The group has established a remuneration policy that is in accordance with the group's overarching objectives, risk tolerance and long-term interests. This policy is designed to promote and incentivise good management and control of the group's risk, to counter excessive or undesired risk-taking, to pre-empt conflicts of interest and to be in accordance with applicable law and regulations. See the requirements of Regulations on remuneration schemes at financial institutions, investment firms and fund management companies. The remuneration policy has special rules for senior employees. These rules also apply to other

employees and elected officers with work tasks of material significance for the group's risk exposure and to employees and elected officers with control tasks.

The board of directors has appointed a compensation committee which acts as a preparatory body for the board in cases relating to the assessment of, and compensation to, the group CEO. The committee also recommends to the board of directors guidelines for remuneration to senior employees (the group management). See also the account of the board of directors' compensation committee under point 9.

A description of remuneration to the group CEO and senior employees is given in note 22 to this annual report. A further description of the bank's remuneration scheme is available on the bank's home page.

Deviations from point 12 of the Code of Practice: None

### **Point 13: Information and communication**

The bank's information policy is designed to underpin the relationship of trust between the bank's EC holders, board of directors and management, and to ensure that the bank's stakeholders are at all times able to assess and relate to the bank. The bank's information policy is based on active dialogue in which openness, predictability and transparency are at centre stage.

The open information practice is in conformity with the bank's internal and external guidelines, with such limitations as follow from the duty of confidentiality and stock exchange rules in effect at all times.

Correct, relevant and timely information on the bank's progress and performance aims to instil investor market confidence. Information is communicated to the market via quarterly investor presentations, an investor relations area on the bank's website and stock exchange notices. The group's financial calendar is published on the bank's website.

Presentations for international partners, lenders and investors are also arranged on a regular basis. The board of directors has adopted a communications strategy indicating who can make statements on behalf of SpareBank 1 SMN and in what areas.

Deviations from point 13 of the Code of Practice: None

### **Point 14: Takeover**

SpareBank 1 SMN is a partly 'self-owning' institution which cannot be taken over by others through acquisition without consideration of the matter by the bank's bodies. A savings bank's ownership structure is regulated by law and no-one may own more 10 per cent of the bank's owner capital. Finanstilsynet's approval is required for any larger acquisition. A list of the SpareBank 1 SMN's 20 largest EC holders is available on the bank's website at [smn.no](http://smn.no).

Deviations from point 14 of the Code of Practice: Statutory limit on equity holdings

### **Point 15: External auditor**

An external auditor is appointed by the supervisory board upon the recommendation of the audit committee and nomination by the board of directors, and the auditor is identical for all companies in the group. The external auditor performs the statutory confirmation of the financial information provided by the companies in

their public financial statements. The external auditor presents each year to the audit committee a plan for the audit work. The external auditor attends meetings of the board of directors at which the annual accounts are reviewed and also meetings of the audit committee where the accounts are reviewed.

The board of directors holds at least one meeting each year with the external auditor without the group CEO or others from the day-to-day management team being present. Guidelines have been established for the day-to-day management team's right to utilise the external auditor for non-audit services. Any such services from the external auditor must at all times be within the scope of the Auditors Act. The board of directors informs the supervisory board of the external auditor's remuneration for the audit and any other services.

The external auditor provides the audit committee with a description of the main elements of the audit, including whether any significant weaknesses have been identified in the bank's internal control related to financial reporting processes. In addition the auditor confirms his independence and discloses whether any services other than statutory audit have been delivered to the group over the course of the accounting year.

Deviations from point 15 of the Code of Practice: None