Governance

SpareBank 1 SMN bases its business on short decision-making paths, and strengthens its independence by being an alliance partner in SpareBank 1.

Group management

Finn Haugan (1953)
Group CEO

Business economist from the Norwegian School of Management (1977).

Joined SpareBank 1 SMN as CEO in 1991. Title changed to Group CEO in 2010. Experience from managerial positions at Fokus Bank, his final two years as Deputy CEO.

Chairman of the Norwegian Banks' Guarantee Fund and BN Bank. Board member and for several periods chairman of SpareBank 1 Gruppen. Board member of NETS, the Norwegian Savings Banks Association and Finance Norway (FNO). Chairman of Fotograf Schrøders Stiftelse and Foto Schrøder. Chairman of the Supervisory Board of Selskabet for Trondhjems Bys Vel.

Tore Haarberg (1966)
Deputy CEO and Executive Director, Retail market Division

Business economist from Heriot-Watt University, UK (1991). Authorised fixed income analyst, Norwegian Society of Financial Analysts (NFF) (1996).

Joined SpareBank 1 SMN in 2000. Appointed deputy CEO in 2003.

Held various positions with Arthur Andersen Business Consulting, BN Bank and Fokus Bank. Chairman of Eiendomsmegler 1 Midt-Norge, board member of ODIN Forvaltning, board member of SpareBank 1-alliansen and chairman of the Supervisory Board of BN Bank.

Vegard Helland (1975)
Executive Director, Corporate market Division

Business economist from the Bodø Graduate School of Business (1999), authorised financial analyst (AFA) from the Norwegian School of Economics and Business Administration (2007).

Joined SpareBank 1 SMN in 2003. Early on responsible for major clients. Head of the SpareBank 1 SMN's group credit committee since 2007. Previously with KPMG and the Centre for Aquaculture and Fishery.

Board member of SpareBank 1 SMN Finans and SpareBank 1 Gruppen Finans.

Kjell Fordal (1957)
Executive Director, Finance Division

Business economist from the Norwegian School of Management (1981) and Master of Management from the same institution (2004).

Joined SpareBank 1 SMN in 1982.

Chairman of SpareBank 1 SMN Regnskap, SpareBank 1 SMN Pensjonskasse, SpareBank 1 Næringskreditt, and SpareBank 1 Boligkreditt. Board member of SpareBank 1 Markets, SpareBank 1 SMN Invest, SpareBank 1 SMN Kvartalet, BN Boligkreditt, Bolig og næringskreditt and Prøven Eiendom.

Tina Steinsvik Sund (1970)
Executive Director, Business Support and Business Development

Graduate engineer, Industrial Economics, from the Norwegian University of Science and Technology (1995), MBA from INSEAD, France (2000).

Joined SpareBank 1 SMN in 2006. Previously with Accenture and Intel Capital. Board chair of SpareBank 1 SMN Invest, SpareBank 1 SMN Card Solutions, SpareBank 1 SMN Kvartalet, SpareBank 1 Bygget Trondheim and SpareBank 1 Bygget Steinkjer. Board member of ProVenture Seed.

Wenche Margaretha Seljeseth (1964)
Executive Director, Marketing and Public Relations

Law graduate, University of Oslo (1996). Bachelor of Business Administration, Norwegian School of Management (BI) (2002).

Joined SpareBank 1 SMN in 2008. Executive Director in 2011. Previously responsible for pensions and insurance in the Corporate market Division. Various senior positions with Vital Forsikring and Gjensidige.

Board member of SpareBank 1 Livsforsikring.

Board of Directors

Per Axel Koch (1961) Board chairman
Business economist from the Norwegian School of Economics and Business Administration, NHH (1985) and higher degree from the same institution (1987).

Board member since 1994, chairman since 2001.

Group CEO at Polaris Media since 2008.

Prior to that, ten years as Managing Director and three years as Group CEO with the Adresseavisen newspaper. Previously project consultant with Wilh. Wilhelmsen Ltd and consultant with Mckinsey. Chairman of Papirkjøp, Board member of FINN.no, Board member of Trønder-Avisa and member of the Supervisory Board of SpareBank 1 Gruppen.

Attended 15 of 18 meetings of the Board of Directors in 2011 (15 meetings convened owing to disqualifications at three meetings).

Owns 35,000 ECCs as of 31 December 2011.

Eli Arnstad (1962) Deputy Chair
Cand.mag degree.

Board member since 2001.

Adviser with experience from Trondheim City Council secretariat, and the Stiklestad National Culture Centre. Managing director of Enova 2001-2007. A number of political offices, among them as regularly attending Member of Parliament.

Board member of Vattenfall, Norway Post, the AF Group, Centre for Economic Research at the Norwegian University of Science and Technology (NTNU) Trondheim, Nidaros Domkirkes Restaureringsarbeider, Norwegian University of Life Sciences at Aas and Friskgården Stjørdal.

Attended 15 of 18 meetings of the Board of Directors in 2011 (15 meetings convened owing to disqualifications at three meetings).

Owns 4,000 ECCs as of 31 December 2011.

Bård Benum (1962)
Graduate of the Norwegian University of Science and Technology (NTNU) (1987).

Board member since March 2009.

Group CEO at Powel. Senior positions at Norsk Hydro, Statoil, Reitan Group. CEO at Cresco (1998-2000) and Vital Forsikring (2001-2007).

Attended 13 of 18 meetings of the Board of Directors in 2011.

Owns 0 ECCs as of 31 December 2011.

Kjell Bjordal (1953)
Business economist from the Norwegian School of Economics and Business Administration NHH (1976), law studies and Advanced Management Program at Wharton Business School (1989).

Board member since 2007.

CEO of EWOS Group and head of Cermaq's fish food division. Experience as director of Trøndelag Theatre, finance director and CEO of the Glamox Group and CEO of NorAqua.

Chairman of Florvaag Bruk Holding, Brødrene Dyrøy, Norsk Landbrukskjemi, EWOS Norway and EWOS Innovation.

Attended 17 of 18 meetings of the Board of Directors in 2011.

Owns 27,428 ECCs as of 31 December 2011.

Paul E. Hjelm-Hansen (1962)
MBA from the University of Denver, USA (1988), Certified European Financial Analyst (AFA) from the Norwegian School of Economics and Business Administration (1996) and Authorised Portfolio Manager (Norwegian Society of Financial Analysts/Norwegian School of Economics and Business Administration) (2001).

Board member and chairman of the Internal Audit Committee since 2008.

Private investor and self-employed financial adviser. Has held positions as financial analyst, as portfolio manager at Christiania Bank og Kreditkasse and Fokus Bank and as head of finance and finance director at Bachke & Co and Det norske oljeselskap respectively.

Chairman of Arild og Emilie Bachkes Fond, Trondhjems Kunstforenings legatstyre and Generalkonsul Adolf Øiens Donationsfond. Board member of Bachke & Co.

Attended 18 of 18 Board meetings in 2011.

Owns 37,536 ECCs as of 31 December 2011.

Arnhild Holstad (1963)
Cand.mag degree and journalist.

Board member since 2010.

Communication manager at Statskog since 2007. Political adviser at the Ministry of Labour and Social Inclusion (2005-2007). Project manager at Olav Duun Innovasjon (2003-2005). Journalist with the Namdalsavisa newspaper (1991-2003). Refugee advisor, Aukra municipality (1988-1989). Teacher at Oppegård upper secondary school (1987-1988). Deputy chair, Norwegian State Council on Disability. Board member of NTE Holding and Namsen Friidrettsforening.

Attended 17 of 18 Board meetings in 2011.

Owns 0 ECCs as of 31 December 2011.

Aud Skrudland (1959)
Veterinary doctor, Norwegian School of Veterinary Science, 1984. Specialist in fish diseases. Additional training in marketing and public law.

Board member since 2010.

Special inspector with the Norwegian Food Safety Authority. Experience from the fish farming industry in the fields of fish health and product development, marketing and sale of medicinal products for fish.

Former member of the Averøy municipal council and municipal executive board. Former member of the programme committee on aquaculture at the Research Council of Norway, the Board of Directors of Romsdals Fellesbank, and the Control Committee and the Supervisory Board of SpareBank 1 SMN.

Attended 18 of 18 Board meetings in 2011.

Owns 1,346 ECCs as of 31 December 2011.

Venche Johnsen (1952)
Varied education at Bankakademiet and at university college level.

Board member since 2004.

Group employee representative at the Finance Sector Union branch at SpareBank 1 SMN. 32 years' experience in various positions with SpareBank 1 SMN.

Attended 18 of 18 Board meetings in 2011.

Owns 16,706 ECCs as of 31 December 2011.

Bente Karin Trana (1959)
Business economist (1984), continuing education at the Norwegian University of Science and Technology (1996, 2009) and the Norwegian Defence University College (2002).

First alternate member to the Board of Directors since 2010.

Head of Department at the Norwegian Public Roads Administration since 2001, previously Head of Administration and Acting Regional Roads Director, Nord-Trøndelag. Thirteen years' experience of project management with Aker Verdal and Aker Engineering, Oslo. Experience from Nord-Trøndelag University College and the Norwegian Trade Council, Milan.

Board chairman of STAS, Steinkjer. Board member of Accretio, Namsos, and Forsvarets høgskoleforening, Oslo.

Attended 16 of 18 Board meetings in 2011.

Owns 0 ECCs as of 31 December 2011.

Jan Gunnar Kvam (1947)
Varied education at Bankakademiet.

Board member since 2004. Regularly attending alternate for the employees. Deputy head of Finance Sector Union branch at SpareBank 1 SMN.

41 years' experience in various positions with SpareBank 1 SMN.

Attended 17 of 18 Board meetings in 2011.

Owns 10,094 ECCs as of 31 December 2011.

Includes ECCs owned by the individual's close associates, by companies he/she controls and by companies on whose behalf he/she is appointed.

Elected officers

Supervisory Board

Members elected by the ECC holders	Domicilie	No. Of ECCs*
Alf E. Erevik	Hønefoss	327,842
Arne Lorentsen	Trondheim	200,394
Asbjørn Tronsgård	Sunndalsøra	28,364
Berit Tiller	Trondheim	444
Christian Sørensen	Trondheim	17,431
Erik Sture Larre	Oslo	865,013
Gunnar Heglund	Trondheim	629,357
Johan Brobakke	Trondheim	1,019
Jorunn Skjermo	Trondheim	36,130
Lars Bjarne Tvete	Trondheim	1,000
Odd Reitan	Trondheim	6,872,514
Olav Revhaug	Oslo	1,500,966
Stig Jakobsen	Angvik	21,991
Thor Arne Falkanger	Trondheim	160,966
Thor Christian Haugland	Stavanger	233,960
Tor Stigum	Trondheim	35,668
Widar Slemdal Andersen	Rælingen	10,583

Members elected by the depositors	Domicilie	No. Of ECCs*
Aage Rostad	Verdal	1,919
Anne Lise Aunaas	Trondheim	0
Terje Skjønhals, chair	Trondheim	19,989
Marit Dille	Abelvær	0
Per Brovold	Rissa	27,000
Ragnhild Amundsen	Isfjorden	0
Randi Borghild Dyrnes	Molde	0
Åshild Vang	Inderøy	0

Members elected by the country councils	Domicilie	No. Of ECCs*
Borgny Grande	Grong	0
Hans Martin Storø	Lund	7,548
Ingvild Kjerkol	Stjørdal	0
Randi Sollie Denstad	Rissa	0
Solveig Kvidal	Vikhammer	0
Yngve Brox	Trondheim	0
Ingrid Kvande	Molde	0
Jonny Meland	Sunndalsøra	0

Members elected by the employees	Domicilie	No. Of ECCs*
Alvhild Skogmo Jensen	Namsos	1,450
Ann Kristin Leirvik Sletnes	Torvikbukt	233
Ellinor Finserås	Trondheim	463
Greta Rønning	Trondheim	2,098
Gunn Lerstad Brenne	Ekne	3,836
Inge Lindseth	Trondheim	26,000
Jan Skogrand	Trondheim	760
Oddbjørn Kulseth	Stjørdal	5,293
Randi Selnes Herskedal	Fræna	7,498

Board of Directors

	Domicilie	No. Of ECCs*
Per Axel Koch, chair	Trondheim	35,000
Eli Arnstad, deputy chair	Skatval	4,000
Arnhild Holstad	Namsos	0
Aud Skrudland	Averøy	1,346
Bård Benum	Trondheim	0
Kjell Bjordal	Molde	27,428
Paul E. Hjelm-Hansen	Trondheim	37,536
Venche Johnsen	Trondheim	16,706
Bente Karin Trana (alternate)	Steinkjer	0
Jan Gunnar Kvam (alternate)	Trondheim	10,094
Morten Midjo (alternate)	Trondheim	0
Liv Thun (alternate)	Steinkjer	0

Control Committee

	Domicilie	No. Of ECCs*
Rolf Røkke	Trondheim	0
Anders Lian	Trondheim	0
Terje Ruud	Trondheim	0

Election Committee

	Domicilie	No. Of ECCs*
Widar Slemdal Andersen	Rælingen	10,583
Borgny Grande	Grong	0
Per Brovold	Rissa	27,000
Jan Skogrand	Trondheim	763

* Includes ECCs owned by the individual's close associates, by companies he/she controls and by companies on whose behalf he/she is appointed

Corporate governance

Corporate governance at SpareBank 1 SMN encompasses the goals and overarching principles by which the Group is governed and controlled with a view to long-term value creation in the best interests of ECC holders, employees and the community and society as a whole.

SpareBank 1 SMN presents – in accordance with the Accounting Act (Regnskapsloven) section 3-3b and the Norwegian Code of Practice for Corporate Governance of 21 October 2010 – a report on its policies and practice for corporate governance.

Accounting Act, section 3-3b, second paragraph

The following explains how the Accounting Act section 3-3b, second paragraph, is complied with at SpareBank 1 SMN. The numbering shows the numbering in the paragraph 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 and the group complies with the Norwegian Code of Practice for Corporate Governance to the extent appropriate to savings banks with equity capital certificates. Reference is made to point 1 of this report, Report on Corporate Governance, for further details.

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 www.nues.no.

3. "a justification must be given 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 company's and – for entities legally bound to maintain accounting records that prepare consolidated accounts, in the event also the group's – systems for internal control and risk management associated with the financial reporting process": reference is made to point 10 of the Norwegian Code of Practice for Corporate Governance below for a description of internal control and risk management associated with the financial reporting process.

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": reference is made to point 6 under the Norwegian Code of Practice for Corporate Governance below for a description of SpareBank 1 SMN's compliance.

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 points 6, 7, 8 and 9 under the Norwegian Code of Practice for Corporate Governance below.

7. "provisions of articles of association which regulate the appointment and replacement of board members": see the report regarding point 8 of the recommendation 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 capital certificates": see point 3 under the Norwegian Code of Practice for Corporate Governance 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 21 October 2010 are complied with at SpareBank 1 SMN.

Report on corporate governance

(point 1 of the Code of Practice)

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

The Code of Practice applies to the extent appropriate to savings banks with equity capital certificates. Any deviations are explained below. SpareBank 1 SMN has adopted a 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 give added assurance that its stated goals and strategies will be attained and realised. Good corporate governance at SpareBank 1 SMN encompasses the values, goals and overarching policies by which the bank is governed and controlled with a view to securing the interests of ECC 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 capital certificates.

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 ECC holders and a balanced relationship with other stakeholders
- compliance with laws, rules and ethical standards

Staff at SpareBank 1 SMN 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 in contexts where the staff are identified with the Group. SpareBank 1 SMN’s ethical rules deal inter alia with legal (in)capacity; relationships to customers, suppliers and competitors; securities trading; insider rules and relevant finances 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 by external requirements and internal guidelines to regard as confidential any information about the Group’s or a customer’s circumstances which comes to their knowledge in the course of their work. 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 SpareBank 1 SMN staff may, via computer systems or by any other means, actively seek information about other colleagues or customers that is not necessary for their work. SpareBank 1 SMN’s ethical rules stipulate that a staff member must immediately inform his/her superior or other contact persons defined in a special whistleblowing procedure if he/she learns of circumstances that breach applicable external statutes and rules or constitute significant violations of internal provisions. Staff members who report misconduct in accordance with internal procedures will not be subjected to any burden associated with whistleblowing.

SpareBank 1 SMN wishes to contribute to sustainable social development through responsible business activities which includes safeguarding ethical, environmental and social considerations. To that end SpareBank 1 SMN has drawn up a separate strategy for administering the Bank's corporate social responsibility. Corporate social responsibility is an integral aspect of the Bank's operations and is expressed through the strategies, measures and activities we plan and execute. Corporate social responsibility is expressed through the way we manage the resources we dispose over and our 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.

Reference is also made to a separate chapter on corporate social responsibility in this annual report.

Deviations from point 1 of the Code of Practice: None

Operations

(point 2 of the Code of Practice)

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 the funds at its disposal 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 Trøndelag and Nordvestlandet, to enable them to realise their goals through the facilities it provides for investment, saving, payments and protection of lives and assets. We also provide real estate agency, asset management, leasing and accountancy services in the same geographical areas and to the same customer groups.

Our core values are closeness and capableness. 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 expert manner. SpareBank 1 SMN's central goals and strategies are also described in a chapter in this annual report.

Deviations from point 2 of the Code of Practice: None

ECC capital and dividends

(point 3 of the Code of Practice)

The Board of Directors continuously assesses the capital situation in light of the company's goals, strategy and desired risk profile. As at 31 December 2011 SpareBank 1 SMN's equity capital totalled NOK 8.35 bn. Based on rules established for calculating financial institutions' capital adequacy, the company's total capital measured 12.0 per cent of risk weighted assets and tier 1 capital 10.4 per cent. The authorities' minimum requirements are 8 per cent and 4 per cent respectively. The Bank aims for a total capital ratio of 13 per cent and a tier 1 capital ratio of 11 per cent. These targets are in line with the Bank's goals, strategy and risk profile. The Bank has implemented a tool for measuring economic capital and risk-adjusted return in the credit area, but will not be adjusting its capital adequacy targets until further notice. For further reference to the capital adequacy framework (Basel II), see the chapter dealing with risk and capital allocation in this annual report.

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

The net profit for the year will be distributed between the owner capital (the ECC 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 a foundation. 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, external framework conditions and 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 made available at smn.no/ir.

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 ECC premium account and the compensation fund, thereafter by reduction of the ECC capital stipulated in the articles of association.

Acquisition of own equity capital certificates
SpareBank 1 SMN's Board of Directors are authorised to buy ECCs up to limit of 10 per cent of the Bank's owner capital, and such purchases must be made by trading on the securities market via the Oslo Stock Exchange. The total volume of ECCs 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 ECC may be bought at prices between NOK 1 and NOK 200. The authorisation is valid for 13 months as from the decision was adopted at the Supervisory Board's meeting on 23 March 2011.

Increase of capital

Authorisations to the Board of Directors to increase the Bank's ECC capital are given for specific and defined purposes. As at 31 December 2011 no authorisation was available to the Board of Directors to increase the capital of SpareBank 1 SMN.

Deviations from point 3 of the Code of Practice: None

Non-discrimination of shareholders and transactions with related parties

(point 4 of the Code of Practice)

SpareBank 1 SMN has one class of ECCs. 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 ECC holders and equal opportunity for them to wield influence. All ECCs confer an identical voting right. The Bank abides by the financial institutions act's provisions regulating holdings and voting rights insofar as these provisions apply to savings banks with equity capital certificates.

In the event of an increase of capital, existing ECC holders have pre-emptive rights unless special circumstances indicate that this rule should be deviated from. Any such deviation will be explained.

SpareBank 1 SMN has carried out placings with the employees at irregular intervals, and such increases of capital have been carried out to strengthen employees' stake in their own bank and their interest in the Bank's capital instrument. Any exercise by the Board of Directors of their authorisation to acquire the Bank's own equity capital certificates must be via purchases in 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 himself 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 SpareBank 1 SMN'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, 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 in the decision taken in a matter. Unless the director him/herself opts to step back from the consideration or decision of a matter, the Board shall decide whether or not the director shall step back. In the assessment due importance must be given to all forms of personal, financial or other interests on the part of the director and to the bank's need for public confidence in its business activity. The Board's assessments of legal (in)capacity must be duly recorded.

Deviations from point 4 of the Code of Practice: None

Free transferability

(point 5 of the Code of Practice)

The Bank's equity capital certificate is quoted on the Oslo Stock Exchange and is freely transferable. The articles of association contain no restrictions on transferability.

Deviations from point 5 of the Code of Practice: None

Governing and control bodies at SpareBank 1 SMN

General meeting

(point 6 of the Code of Practice)

General meeting (Supervisory Board)
A savings bank is basically a 'self-owned' institution, and its governance structure and the composition of its governing bodies differ from those of limited liability companies; see Section 7 of the Savings banks Act which sets outs the bodies which a savings bank must have – a Supervisory Board (also termed 'Committee of Representatives' or 'Board of Trustees'), a Control Committee and a Board of Directors. The Bank's paramount body is the Supervisory Board comprising ECC holders, depositors, employees and representatives of the public authorities.

The Supervisory Board sees 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:

- ECC holders: 17 members and 10 alternates
- county councils of Sør-Trøndelag, Nord-Trøndelag and Møre and Romsdal: 8 members with 8 alternates
- depositors: 8 members with 8 alternates
- employees: 10 members with 6 alternates

According to the legislation, elected members must in aggregate reflect the savings bank's customer structure and other stakeholder groups and its role in society. At savings banks that have issued transferable ECCs, at least one-fifth and not more than two-fifths of the members of the Supervisory Board must be elected by the ECC holders. The Supervisory Board approves the Group's 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, Control Committee and Election Committee. The Supervisory Board also fixes the remuneration for the above bodies. The members of the Board of Directors, the Group CEO, the Control Committee and the Auditor are 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 and comprehensive 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 available on the Bank's website.

Each year an election meeting is held for the ECC holders where representatives are elected to the Supervisory Board and information is given about the Group's financial situation. All ECC holders with a known address receive notice in writing. Each equity capital certificate confers one voting right. All ECC holders may attend the meeting, and proxy voting is permitted.

A list of Supervisory Board members can be found at smn.no/ir.

Control Committee

The formal basis for the work of the Control Committee is section 13 of the savings banks act and standard instructions issued by Finanstilsynet (Norway's financial supervisory authority).

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, guidelines established by the Supervisory Board 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 SMN Finans.

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
- obtains documentation of the Bank's control procedures and ensure that they function as intended
- review internal audit reports and the appointed Auditor's written approaches to the Bank and ensure that any remarks are properly responded to
- collaborate with the Chair of the Board of Directors and the company's Auditor on working plans and important observations; see section 5 of the instructions

Each year 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 Manager. The Control Committee's minutes are also presented at the meetings of the Supervisory Board.

The Control Committee normally meets 11 times each year. The Group CEO attends these meetings. The committee also meets the Chair of the Board of Directors and the Chair of the Supervisory Board on an annual basis. The Control Committee is appointed by the Supervisory Board and has three members 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 the provisions of the Savings banks Act.

Election Committee

(point 7 of the Code of Practice)

Three Election Committees have been established in accordance with SpareBank 1 SMN's articles of association. An Election Committee has also been established for employees' election of Supervisory Board members.

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, respectively, each of the following: the ECC holders, the depositors, public appointees and the employees in addition to one alternate from each group. The ECC holders' representative on the Election Committee must be a member of the Election Committee for ECC 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
The depositor-elected members of the Supervisory Board appoint a separate Election Committee comprising three members and three alternates, with one member and one alternate from each of the three election districts. This Election 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 ECC holders' election of Supervisory Board members
The ECC holders appoint an Election Committee at an ECC 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 ECC holders' election of Supervisory Board members and alternates and the election of members and alternates to the Election Committee for ECC holders' election of Supervisory Board members.

Election Committee for employees' election of Supervisory Board members

According to the Savings banks Act this election is organised by an election board with representatives appointed by the Board of Directors. The Election Board comprises at least three members and both the management and the employees are 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 regulations on Election Committees at savings banks. Thus far consideration has not been given to enlarging the committee with a member who is not a member of the Supervisory Board. As of 31 December 2011 the supervisory board has not established further guidelines for the Election Committee beyond what is set forth in law, regulations and articles of association.

Supervisory Board and Board of Directors, composition and independence

(point 8 of the Code of Practice)

See point 6 for information about the general meeting/Supervisory Board. The Board of Directors has eight regularly attending members of whom seven are appointed by the Supervisory Board and one by the employees. Four Board members are women of whom three are elected by the Supervisory Board and one is an employee representative. Meetings of the Board of Directors are also attended by a regularly attending alternate in addition to a regularly attending alternate for the employees. 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. 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 is assessed and is shown under the presentation of the members of the Board. The chair and deputy chair are elected by the Supervisory Board at separate elections for one year at a time.

The Board of Directors is composed based on criteria of competence, capacity and diversity and in accordance with the Bank's articles of association. The individual director's background is described in the annual report and at smn.no/ir. The Election Committee has drawn up specification requirements for the composition of the Board of Directors. The Board meets at least 11 times each year, and the members' attendance at meetings of the Board of Directors is described in the annual report. The directors are encouraged to own the Bank's equity capital certificates, and their respective holdings of ECCs in SpareBank 1 SMN are shown under the presentation of the Board of Directors in the annual report and at smn.no/ir.

Deviations from point 8 of the Code of Practice: None

Work of the Board of Directors

(point 9 of the Code of Practice)

The Supervisory Board has adopted instructions for the Board of Directors that sets forth rules for the board's work and procedures. 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. The Board of Directors also adopts the Bank's strategy, budget and market and organisational objectives. The Board of Directors appoints and dismisses the Group CEO.

The Board of Directors receives periodical reports on profit performance, market developments, developments on the management, staff and organisational fronts, and developments in the Group's risk picture and risk exposure. The Board of Directors conducts an annual self-evaluation of its activity with regard to working method, case handling, meeting structure and prioritising of tasks, and this provides a basis for changes and measures needed. An evaluation is also made of the competence possessed by the Board.

Internal Audit Committee

The Board of Directors has appointed an Internal Audit Committee comprising three members of the Bank's Board of Directors, and the members are appointed for a two-year period. At least one member of the committee must have relevant accounting or auditing competency. The Internal Audit Committee is a preparatory and advisory working committee to the Board of Directors. The Internal Audit Committee's object, tasks and functions are established in accordance with international rules and the EU Statutory Audit Directive. The committee reviews the drafts of interim and annual financial statements before consideration by the Board of Directors, and as part of its review the committee holds discussions with the Bank's management team and the external auditor. The committee also appraises the internal control system, risk management system and internal audit to ensure their proper functioning and concurrently sees to it that SpareBank 1 SMN has an independent internal and external auditor. To this end the committee holds regular meetings with the internal and external auditors.

The committee meets at least five times yearly ahead of the Board of Directors' consideration of quarterly and annual reports.

The committee is a subcommittee of the Board of Directors and it is an assembled board that has overall responsibility and takes the final decision.

Compensation Committee

The Board of Directors has appointed a Compensation Committee comprising 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 to be in compliance with applicable law and regulations.

The committee's tasks and responsibilities:

- The committee is to formulate a compensation policy in keeping with the legislation in force at any and all times. It also ensures follow up, updating and maintenance of the Group's various compensation arrangements.

- In formulating and maintaining the compensation policy the committee is to identify those employees and elected officers whose tasks are of major significance for the Bank's risk exposure.
- In determining the compensation, the relationship between fixed compensation and any variable compensation is to be determined in such a way as to be balanced.

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 established limits with regard to variable compensation, and approves compensation arrangements for all business areas and subsidiaries having compensation schemes. 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 twice yearly and otherwise as and when required. At least two members are required to attend.

The Board of Directors has established the Compensation Committee's mandate.

Deviations from point 9 of the Code of Practice: None

Risk management and internal control

(point 10 of the Code of Practice)

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 achievement. Risk management is designed to assure financial stability and sound asset management.

Management at the various companies in the Group is responsible for risk management and internal control in the respective companies, and this is intended to ensure:

- targeted, safe, high-quality and cost-effective operations
- reliable and timely reporting
- observance of applicable laws and regulations as well as internal procedures and guidelines

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

The Risk management Division is organised independently of the business units and reports directly to the Group CEO. The division is responsible for the Group's risk models and for further developing effective risk management systems. The division is responsible for independent risk assessment, risk reporting and overall risk monitoring in the Droup. The division reports periodically to the Group CEO and the Board of Directors on developments in the risk picture.

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, and risk pricing is therefore key to achieving the Bank's goal of a satisfactory return on equity. The Group's principles and framework for internal control and risk management are enshrined in a risk management policy. This policy is the Group's internal framework for sound management and control, and 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.

Internal control and risk management make up a process initiated and implemented by the Bank's Board of Directors, management team and staff that is designed to identify, handle and monitor risk and ensure that overall risk exposure is in line with the Bank's adopted risk profile. The Board of Directors receives annually an independent assessment from the internal auditor and statutory auditor of the Group's risk and of whether the internal control system functions appropriately and satisfactorily.

The Board of Directors monitors compliance with adopted frameworks, principles, and quality and risk objectives through:

- quarterly reports from the Group CEO and the risk management division
- four-monthly/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 ECC holders and the securities market in general. The guidelines also include the Group's contact with investors other than those on the Supervisory Board. The Finance Division is headed by the Finance Director and is organised independently of the business areas. The division 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 in line with internal and external requirements. 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 and finance department is organised under the Finance Division and prepares financial reports for the SpareBank 1 SMN Group. The department sees to it that reports are made in conformity with applicable legislation, accounting standards, the Group's accounting policies and the Board of Directors' guidelines.

The division 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, complete and in conformity with law and regulations. These measures include reasonableness and probability checks at each individual place within the various business areas, as well as on a more aggregated level. In addition, detailed reconciliation checks are carried out on a daily and monthly basis. The Group has established sound measuring systems for use in all business areas in the Group where the most central target figures within each area are followed up. Each business area has responsibility for such monthly financial reporting and follow-up, and works closely with the finance division to develop and improve the measuring systems. Established control activities are evaluated regularly in terms of their design and effectiveness.

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.

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. Ernst & Young has delivered internal audit services to the group since 2004; as from 2012 this will be done by KPMG. The internal audit assignment covers the Parent Bank, subsidiaries subject to the risk management and internal control regulations and other significant subsidiaries. The internal audit function’s main task is to confirm that the established internal control system functions as intended, and to ensure that established risk management arrangements are adequate in relation to the Bank’s risk profile. The internal audit function reports on a four-monthly basis to the Board of Directors which adopts annual plans and budgets for the internal audit. The internal audit function’s reports and recommendations for improvements in the Bank’s risk management regime are reviewed and implemented on a continuous basis.

The internal iudit function carries out an operational audit of units and business areas in the SpareBank 1 SMN Group. The Internal Auditor does not conduct a financial audit, this being the remit of the external auditor. An audit plan is prepared which is discussed with the group management, considered by the audit 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 measures which are presented to the responsible manager and the Group's management team. A summary of the reports is sent every four months to the audit committee and the Board of Directors. The Internal Auditor presents each year to the Board of Directors a plan for implementation of the audit work. Any consultancy services are provided within the 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 provisions or of other circumstances which are likely to harm the Group's reputation or financial situation. Rules have been made requiring employees to give the alert should they learn of circumstances that are counter to external or in-house provisions, or which harm the Group’s reputation.

For more information about risk management and internal control, see a special note in the annual report concerning financial risk management and a special chapter on risk management and capital allocation.

Deviations from point 10 of the Code of Practice: None

Remuneration to the Board of Birectors

(point 11 of the Code of Practice)

The Board members’ fees that are recommended by the Election Committee for the Supervisory Board 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 sitting on the Board of Directors. Further information on compensation to the Board of Directors, the Internal Audit committee and the Compensation Committee is disclosed in a note in this annual report.

Deviations from point 11 of the Code of Practice: None

Remuneration to senior employees

(point 12 of the Code of Practice)

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). The Board of Directors establishes the Compensation Committee's mandate. See also an account of the Board of Directors' Compensation Committee under point 9. Remuneration to the Group CEO and senior employees is disclosed in a note in this annual report.

Deviations from point 12 of the Code of Practice: None

Information and communication

(point 13 of the Code of Practice)

The Bank's information policy is based on full and effective communication in underpinning the relationship of trust between the Bank's ECC holders, Board of Directors and management, and in ensuring 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 with respective stakeholder groups in which openness, predictability and transparency are at centre stage.

The open information practice is in conformity with the Bank's ethical guidelines and section 21 of the Savings banks Act, with the limitations following 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 notifications. 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 on what subjects. SpareBank 1 SMN has received the Oslo Stock Exchange's information award for meeting specific requirements with regard to the scope and distribution of information.

Deviations from point 13 of the Code of Practice: None

Takeover

(point 14 of the Code of Practice)

SpareBank 1 SMN is a self-owning institution which cannot be taken over by others through acquisition. A savings bank's ownership structure is regulated by law and no-one may own more 10 per cent of a savings bank's owner capital. Finanstilsynet's approval is required for any larger acquisition. A list of the SpareBank 1 SMN's 20 largest ECC holders is available on the Bank's website at smn.no/ir.

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

External auditor

(point 15 of the Code of Practice)

An external auditor is appointed by the Supervisory Board upon the recommendation of the audit committee. The Bank utilises the same auditor in the parent company and in all subsidiaries. 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 internal 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 internal audit committee where the financial statements 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 management team being present. No guidelines have been established for the management team's right to utilise the external auditor for non-audit services, but the external auditor has not provided the Group with advisory services of significance in 2011. Any such services from the external auditor must comply with the Auditors Act section 4-5. 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 of the preceding accounting year, including whether any significant weaknesses have been identified in the Bank's internal control related to financial reporting processes including any recommended improvements. In addition the auditor confirms his independence and discloses whether any services other than statutory audit have been delivered to the group in the course of the accounting year.

Deviations from point 15 of the Code of Practice: No guidelines have been established for the management team's right to utilise the external auditor for non-audit services, but the auditor reports on a yearly basis what services have been delivered to the Group in addition to ordinary audit.

Risk management and capital allocation

SpareBank 1 SMN aims to maintain a moderate risk profile and to employ 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 principles underlying SpareBank 1 SMN's risk management are laid down in the Bank's risk management policy. The Bank gives much emphasis to identifying, measuring, managing and following up central risks to ensure that the Group progresses in line with its adopted risk profile and strategies.

Risk management within the Group is intended to support the Group's strategic development and target attainment. The risk management regime is also designed to ensure financial stability and prudent asset management.

This will be achieved through:

- a strong organisation culture featuring a high level of risk-management awareness
- a sound understanding of the risks that drive earnings and risk costs, thereby creating an improved basis for decision-making
- striving for an optimal use of capital within the adopted business strategy
- avoiding unexpected negative events which could be detrimental to the Group's operations and reputation in the market.

The Group's risk is quantified by calculating expected loss and the risk-adjusted capital (economic capital) needed to meet unexpected losses. Expected loss is the amount which statistically can be expected to be lost in a 12-month period. Risk-adjusted capital is the volume of capital the Group considers it needs to meet the actual risk incurred by the Group. The Board has resolved that the risk-adjusted capital should cover 99.9 per cent of all possible unexpected losses.

Statistical methods are employed to compute expected loss and risk-adjusted capital, but calculation none the less requires expert assessments in some cases. In the case of risk types where no recognised methods of calculating capital needs are available, the Bank defines risk management limits to ensure that the likelihood of an event occurring is extremely low.

Return on risk-adjusted capital is a key strategic target of internal management at SpareBank 1 SMN. It entails allocating capital to business areas based on the estimated risk attending the business concerned, and continuous monitoring of return on capital. Calculation of risk-adjusted capital makes it possible to compare risk across risk groups and business areas. Risk is also gauged and monitored by measuring positions relative to quantitative risk limits and key portfolio risk limits.

The Group's overall risk exposure and risk trend are monitored through periodic risk reports to the Administration and the Board of Directors. Overall risk monitoring and reporting are carried out by the Risk Management Division which is independent of the Group's business areas.

Responsibility for risk management and control

Risk management and control are part of SpareBank 1 SMN's corporate governance as described in the chapter on Corporate Governance. The Group's control and management model aims for independence in risk reporting, with due emphasis given to responsibilities and roles in the day-to-day risk management. SpareBank 1 SMN has for several years devoted substantial resources to developing effective risk management processes in order to identify, measure and manage risk.

In the risk and capital management process, organisation culture is the foundation on which the other elements are built. SpareBank 1 SMN's organisation culture comprises management philosophy, managerial style and the people making up the organisation with their individual qualities such as integrity, values, and ethical stance. A deficient organisation culture cannot be compensated for by imposing other oversight and control measures.

The Group attaches importance to a control and management structure that promotes targeted and independent management and control. The risk management process is three-tiered:

The **Board of Directors** of SpareBank 1 SMN is responsible for overseeing that the Group's own funds are satisfactory based on the adopted risk profile and requirements set by the authorities.

The Group Board establishes the overarching objectives such as risk profile, return targets and the distribution of capital on the respective risk areas. The Board also establishes overall limits, authorisations and guidelines for risk management within the Group, as well as all significant aspects of risk management models and decision-making processes.

The **Group CEO** is responsible for risk management. Hence he is responsible for seeing to the implementation of effective risk management systems in the Group, and for the monitoring of risk exposure. The Group CEO is also responsible for delegating authorisations and for reporting to the Board.

The **Divisions** are responsible for the day-to-day risk management within their respective business areas, and they must at all times see to it that risk management and risk exposure comply with the limits and overarching management principles established by the Board or the Group CEO.

The **Risk Management Division** is organised independently of the business units and reports directly to the Group CEO. This division is responsible for the Group's risk models and for the further development of effective risk management systems. It is also responsible for independent risk assessment, risk reporting and for overall monitoring of risk within the Group.

Credit Committees. The Group has two local-level credit committees for the corporate market along with a central-level Group Credit Committee. The two local-level credit committees cover the following areas:

- Trondheim and Møre and Romsdal
- Sør-Trøndelag and Nord-Trøndelag

The Credit Committees deliver an independent recommendation to the authorisation holder concerned. The recommendation:

- assesses loan and credit applications in accordance with the existing credit strategy, credit policy, lending regulations and credit processing routines
- gives particular emphasis to identifying risk related to the individual application and to providing an independent credit risk assessment
- clarifies the consequences for the Group of the various risks involved

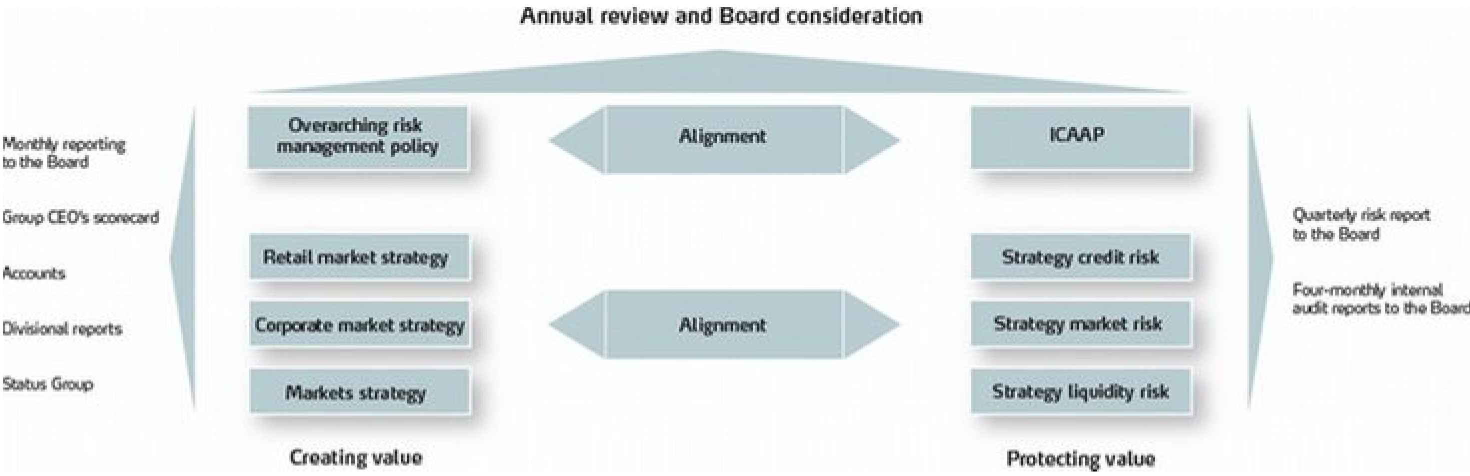
The **Balance Sheet Committee** is responsible for dealing with matters related to capital structure and liquidity risk, market risk, internal pricing of capital and compliance with limits established by the Board.

The **Credit Support Unit** takes over dealings with customers who are clearly unable, or are highly likely to become unable, to service their debts unless action is taken beyond ordinary follow-up.

Credit Watch Committee. This committee's main focus is on exposures at risk. The committee deals with exposures defined on a centralised watch list, mainly in excess in excess of NOK 50m.

The **Internal Audit** is a tool at the disposal of the Board of Directors and the Administration which oversees that the risk management process is targeted, effective and functions as intended. The Group's internal audit is carried out by an external provider, thereby assuring the required independence, competence and capacity. The Internal Audit function reports to the Board of Directors.

The Internal Audit function's reports and recommendations for improvements in Group risk management are continuously reviewed within the Group. The Internal Audit function reviews, regularly and at least annually, the IRB system, including the models underlying the calculation of risk parameters and the application of and compliance with the Capital Requirements Regulations.



Capital management

SpareBank 1 SMN applies a focused capital management process designed to assure:

- effective capital procurement and capital application in relation to the Group's strategic objectives and adopted business strategy
- satisfactory capital adequacy in relation to the chosen risk profile
- competitive returns
- competitive terms and good long-term access to capital market funding
- the Group's ability to maintain at minimum its present international ratings
- utilisation of growth potentials in the Group's defined market area
- that no individual events can seriously impair the Group's financial position

A long-term objective of the adopted business strategy is to ensure that the risk-adjusted capital is as far as possible allocated to those areas that yield the highest risk-adjusted return.

The capital management process must:

- be risk-driven and include all significant types of risk within the Group
- be an integral part of the business strategy, management process and decision-making structure
- be forward-looking and include stress testing
- be based on recognised and appropriate risk measurement methods and procedures
- be regularly reviewed, at least annually, by the Board

Financial projections. A five-year projection of financial developments is prepared with a basis in the strategic objectives and the business plan. A projection is also prepared of a serious economic downturn scenario. The projections are designed to compute how financial developments in business activities and the macroeconomy will impact on the Group's financial development, including return on equity, the funding situation and capital adequacy.

Basel II and the IRB system

Finanstilsynet (the Norwegian Financial Supervisory Authority) has granted SpareBank 1 SMN permission to apply the IRB foundation approach to account for credit risk. The Bank accordingly applies its own classification models when computing regulatory capital requirements. The Ministry of Finance resolved in December 2011 to prolong the transitional rules of section 49-2 subsection (11) of the capital requirements regulations. This entails a minimum capital requirement of at least 80 per cent of the requirement calculated under the old rules.

The IRB system includes models, processes, control mechanisms, IT systems and procedures and guidelines associated with classification and quantification of credit risk and with the extended management of credit risk. The IRB system and the models are validated quantitatively and qualitatively to ensure that the models have sufficient predictive ability and are in keeping with adopted guidelines.

In 2011 the Bank applied the basic indicator approach to quantify operational risk, and the standard approach to quantify market risk. SpareBank 1 SMN has established, as an integral part of its risk management policy, a capital allocation process (ICAAP) to ensure that the Bank at all times has adequate own funds in relation to its chosen risk profile. The process is also designed to assure efficient acquisition and application of capital.

Credit risk

Credit risk is the risk of loss resulting from the inability or unwillingness of customers or counterparties to honour their commitments to the Group. The Bank's organisation of and framework for management of credit risk is adapted to the Basel Committee's Sound Practices for the Management of Credit Risk and to Finanstilsynet's module for management and control of credit risk.

Credit risk arising from the Group's lending activity is the largest area of risk facing the Group. The Group incurs exposure to credit risk through lending and leasing products to retail and corporate customers and through the operations of the Bank's Markets and Finance Divisions.

Through its annual review of the Bank's credit strategy, the Board of Directors concretises the Bank's risk appetite by establishing objectives and limits for the Bank's credit portfolio.

The Bank's credit strategy and credit policy are derived from the Bank's main strategy, and contain guidelines for the risk profile, including maximum expected loss (EL) for the Retail and Corporate market Divisions respectively, maximum portfolio default probability (PD) and maximum economic capital (UL) allocated to the credit business. Concentration risk is managed by distribution of lending between the Retail market and Corporate market Divisions and within lines of business, limits to maximum application of economic capital within lines of business and requirements as to maximum exposure, credit quality and number of exposures above 10 per cent of own funds.

Compliance with credit strategy and limits adopted by the Board of Directors is monitored on a continual basis by the Risk Management Division and reported quarterly to the Board of Directors.

Credit risk is managed through:

a) The credit strategy is adopted annually by the Board of Directors

The credit strategy establishes the overarching principles for lending and for the management and pricing of credit risk at SpareBank 1 SMN. This includes the structuring of the Bank's management documents, organisation (distribution of responsibilities and roles) of the credit function, overarching principles for lending and credit strategy objectives.

Credit risk management at SpareBank 1 SMN is based on the principles recommended by the Basel Committee's paper entitled 'Principles for the Management of Credit Risk', new capital adequacy rules (Basel II) and relevant statutes and regulations.

b) Guidelines for portfolio management

The guidelines describe the framework and guidelines applying to the management of SpareBank 1 SMN's credit portfolio. This applies to the distribution of responsibilities and roles in connection with the measurement and reporting of portfolio risk and profitability as well as measures suited to managing the portfolio within the framework defined in the credit strategy and credit policy.

The composition of the portfolio is managed through the establishment of principles and framework for the granting of new credits, or through changes in existing exposures.

c) Credit policy for the Corporate and Retail market Divisions

These documents describe how the Bank's credit strategy is to be implemented through the establishment of detailed lending criteria for, respectively, the Corporate market Division and the Retail market Division. The responsibility for the drawing up and maintenance of credit policy rests with the Group CEO.

d) Lending regulations – exercise of lending authorisations

All authorisations in the Retail market and Corporate market Divisions are personal. In the Corporate market Division, credit committees have in addition been set up at local and central level to advise the decision taker in major credit cases. Granting of credit must be in line with the Bank's credit strategy, credit policy, credit processing procedures and guidelines and must be characterised by completeness, high quality and professionalism. This is documented by way of the Bank's ordinary loan-officer system.

Compliance with the credit strategy and limits adopted by the Board of Directors is continuously monitored by the Risk Management Division and reported to the Board of Directors on a quarterly basis.

The Bank's risk classification system is designed to enable the Bank's loan portfolio to be managed in conformity with the Bank's credit strategy and to secure the risk-adjusted return. The Board of Directors delegates overall lending authorisation to the Group CEO and the divisional directors. The Group CEO can further delegate authorisations to lower levels.

Lending authorisations are graded by size of commitment and risk profile.

e) Credit models

The Bank's credit models build on three central components: probability of default (PD), exposure at default (EAD) and loss given default (LGD).

Probability of default (PD)

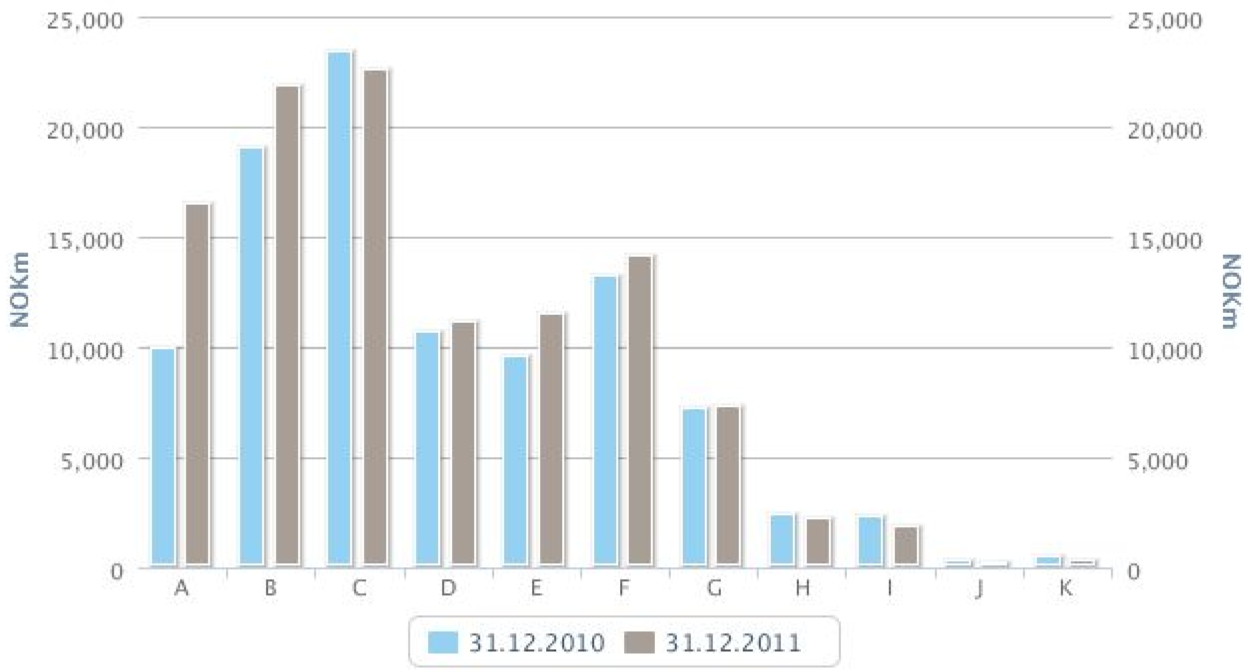
The Bank's credit models are based on statistical computations of probability of default. The calculations are based on scoring models that take into account financial position along with internal and external behavioural data. The models are based partly on point-in-time ratings, and reflect the probability of default in the course of the next 12 months under the current economic conditions.

In order to group customers by probability of default, nine risk classes are employed (A-I). In addition the Bank has two risk classes (J and K) for customers whose loans are in default and/or written down. The following table shows the intervals employed for probability of default in each of the risk classes.

SpareBank 1 SMN's default classes

Risk classes	PD Lower	PD Upper
A	0.00 %	0.10 %
B	0.10 %	0.25 %
C	0.25 %	0.50 %
D	0.50 %	0.75 %
E	0.75 %	1.25 %
F	1.25 %	2.50 %
G	2.50 %	5.00 %
H	5.00 %	10.00 %
I	10.00 %	99.99 %
J (default)	100.00 %	100.00 %
K (written down)	100.00 %	100.00 %

The figure below shows the volume distribution of exposures within the various risk classes.



The Bank's PD models for the retail and corporate markets are validated annually within three dimensions.

- Suitability. The models are evaluated in terms of their suitability for the Bank's existing portfolio.
- Ranking ability. Through statistical methods (AUC) we estimate the models' ability to distinguish between customers with differing risk levels.

- Level. The models' accuracy with regard to level is evaluated on an ongoing basis, at minimum annually. Where the estimated PD level deviates from the observed default rate (DR), the level will be adjusted. The evaluation takes account of the current economic situation and the model's cyclical characteristics.

The results of the validation confirm that the model's accuracy meets internal criteria and international recommendations.

Exposure at Default (EAD)

EAD is an estimate of the size of exposure in the event of default at a specific date in the future. For drawing rights, a conversion factor (CF) is used to estimate how much of the present unutilised credit ceiling will have been utilised at a future default date. For guarantees, CF is used to estimate what portion of issued guarantees will be brought to bear. CF is validated monthly for drawing rights within the retail and corporate market. The Bank's EAD model takes account of differences both between products and customer types.

Loss Given Default (LGD)

The Bank estimates the loss ratio for each loan based on the expected realisable value (RE value) of the underlying collateral, the recovery rate on unsecured debt, as well as the direct costs of recovery.

In conformity with the Capital Requirements Regulations the estimates are downturn estimates. The values are determined based on fixed models and actual realisation values are validated to test the models' reliability. Based on collateral cover (realisable value divided by EAD), the exposure is assigned to one of seven classes, the best of which has collateral cover above 120 per cent and the lowest has collateral cover below 20 per cent.

Collateral class	Lower	Upper
1	120	
2	100	120
3	80	100
4	60	80
5	40	60
6	20	40
7	0	20

The three parameters above (PD, EAD and LGD) underlie the Group's portfolio classification and statistical calculation of expected loss (EL) and necessary economic capital/risk-adjusted capital (UL).

The portfolio classification is designed to provide information on the level and development of overall credit risk in the total portfolio. Total exposures to customers and other counterparties are shown in notes to the accounts. The LGD model and its components are validated at least annually against observed values from implemented realisations.

Counterparty risk

Counterparty risk in derivatives trading is managed through ISDA and CSA contracts set up with financial institutions that are the most used counterparties. The CSA contracts limit maximum exposure through market evaluation of the portfolio and margin calls when the change in portfolio value exceeds the maximum agreed limit or threshold amount. The Bank will continue to enter CSA contracts to manage counterparty risk.

For customers, counterparty risk is hedged through use of cash depots or other collateral which must at all times exceed the market value of the customer's portfolio. Special procedures have been established for calling for further collateral or to close positions if market values exceed 80 per cent of collateral values.

Market risk

Market risk is a generic term for the risk of loss resulting from changes in rates or prices on financial instruments – in particular changes in share prices, bond rates, interest rates, exchange rates. Market risk also includes the risk of loss due to changes in the price of financial derivatives such as futures, options, and financial instruments based on items other than securities – for example commodities.

Market risk arises at SpareBank 1 SMN primarily in connection with the Bank's investments in bonds, short-term money market paper and shares, and as a result of activities designed to underpin banking operations such as funding, fixed income and currency trading.

Market risk is managed mainly through day-to-day monitoring of risk exposures against limits set by the Board of Directors and through ongoing analyses of outstanding positions. The Risk Management Division reports monthly to the Board of Directors on the position regarding compliance with the limits set by the Board. Detailed limits apply to investments in shares, bonds and positions in the fixed income and currency markets.

The Group defines limits on exposure to equity instruments using stress tests based on Finanstilsynet's scenarios. The limits are reviewed at least once a year and are adopted yearly by the Bank's Board of Directors. The limits are well within the maximum limits set by the authorities.

The Bank uses Finanstilsynet's models for market and credit risk to compute the Bank's market risk. These models stress test the Bank's market risk based on traditional risk measures with an addition for the risk factors risk diversification and market liquidity.

Interest rate risk is the risk of loss due to changes in interest rates. Interest rate risk arises mainly on fixed interest loans and funding in fixed interest securities. The risk on all interest rate positions can be viewed in terms of the change in value of interest rate instruments resulting from a rate change of 1 basis point. The Group utilises analyses showing the effect of this change for various maturity bands, with separate limits applying to interest rate exposure within each maturity band and across all maturity bands as a whole. Interest rate lock-ins on the Group's instruments are essentially short, and the Group's interest rate risk is low to moderate. Exchange rate risk is the risk of loss due to changes in exchange rates. The Group measures exchange rate risk with a basis in net positions in the various currencies.

The limits on exchange rate risk are expressed as limits on the maximum aggregate currency position and on the maximum position in the individual currency.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to refinance its debt or unable to fund increases in assets.

Management

The Group’s finance function is responsible for the Group’s funding and liquidity management. Compliance with limits is monitored by the Risk Management Division which reports to the Board of Directors monthly. The Group manages its liquidity on an overall basis since the Finance Division is responsible for funding both the Bank and the subsidiaries.

Liquidity risk management is based in the Group’s overall liquidity strategy which is reviewed and adopted by the Board of Directors at least once a year, and reflects the Group’s moderate risk profile. As part of the strategy, a preparedness plan has been drawn up to handle the liquidity situation in periods of capital market turbulence with bank-specific and industry-related crisis outcomes and a combination of these. Liquidity management includes stress tests which simulate the liquidity effect of various market events. The results of such testing are taken on board in the preparedness plan developed for the Group’s liquidity management regime.

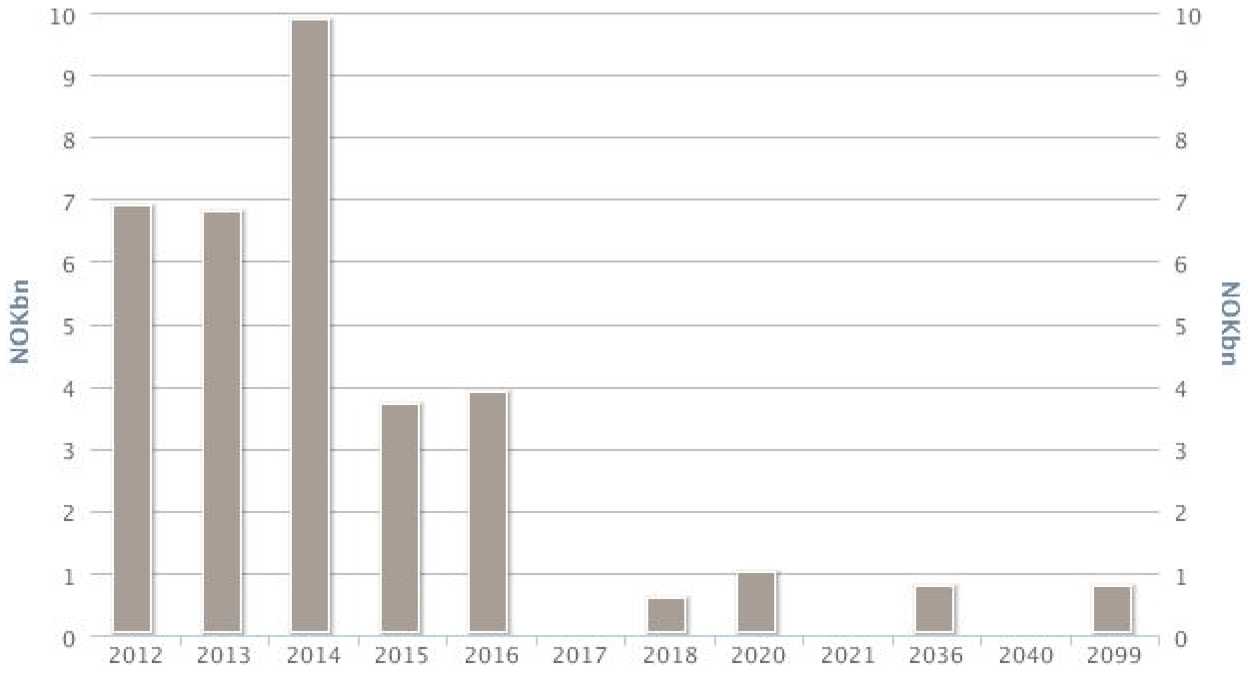
Risk measurement

The Board of Directors reviews the liquidity strategy annually and establishes a framework that promotes a long-term perspective and balance in liquidity procurement. This framework restricts the short-term maturity of the Groups’s liabilities within various time periods. Moreover, an aim of the Group is to survive for 12 months with moderate growth without fresh external funding. New liquidity regulations entered into force on 1 January 2011. SpareBank 1 SMN adjusted the liquidity strategy in autumn 2010 to meet the new requirements.

The Group’s most important source of finance is customer deposits. At end-2011 the ratio of deposits to loans was 65 per cent, as against 61 per cent at end-2010. The Group mitigates its liquidity risk by diversifying funding across a variety of markets, funding sources and instruments, and by use of long-term funding. Too high a concentration of maturities increases refinancing vulnerability. This risk is curbed through defined limits. SpareBank 1 SMN is rated by Moody’s and Fitch Ratings to assure funding at acceptable prices in the money and capital markets.

SpareBank 1 SMN’s liquidity position is satisfactory. The Group’s liquidity is measured regularly against the liquidity indicator for a reference portfolio defined by Finanstilsynet. The Group’s liquidity strategy specifies a maximum deviation against this portfolio. SpareBank 1 SMN stayed within this limit throughout 2011.

The figure below illustrates the funding portfolio's maturity structure as from end-2011.



Development over the past year

The Group was active in the funding market in 2011, and issued loans both domestically and abroad. Funding costs were somewhat higher at year-end than at the start of the year.

The Group's liquidity situation at end-2011 is satisfactory. The Group increased its liquid assets, in part through bonds deposited with Norges Bank in the course of the year. At year-end the Group's liquidity was satisfactory: NOK 1.5bn in cash and deposits with Norges Bank, NOK 2.6bn in loans and receivables from credit institutions and NOK 13bn in money market securities and bonds. The bulk of the securities portfolio can be used as collateral for loans from Norges Bank. Of the Group's total funding volume at year-end, about NOK 7bn is to be refinanced in 2012. By end-2011 SpareBank 1 SMN had moved NOK 22bn of its best-secured home mortgage loans to SpareBank 1 Boligkreditt and it is expected that Boligkreditt account for an important portion of the Group's financing in 2012.

In order to mitigate counterparty risk, the Group has signed agreements concerning provision of collateral in connection with derivative trades (CSA contracts) with central counterparties. This will substantially reduce exposure to the Group's key counterparties since the Group – or its counterparties – will be obliged to furnish collateral when the value of contracted business exceeds a pre-agreed threshold.

Operational risk

Operational risk is the risk of loss as a result of unsatisfactory or failing internal processes, systems, human error or external events. Examples of the foregoing include errors on the part of employees, possible flaws in products, processes or systems, or the Bank may incur losses due to fraud, fire and natural damage.

Operational risk is a risk category that captures the bulk of costs associated with quality failings in the Bank's ongoing business.

SpareBank 1 SMN is wishes to enhance its competence in operational risk management and is cooperating closely SpareBank 1 SR-Bank, SpareBank 1 Nord-Norge, SpareBank 1 Oslo Akershus, Sparebanken

Hedmark and the University of Stavanger to further develop a framework for analysis of operational risk and to establish tools for improved quantification of operational risk exposure.

Identification, management and control of operational risk are an integral aspect of executive responsibility at all levels in SpareBank 1 SMN. Executives' most important aids in this respect are professional insight and managerial expertise along with action plans, control routines and good monitoring systems. A systematic focus on risk assessment also promotes knowledge and awareness of improvements needed in the particular unit. Any flaws found are reported to appropriate levels of the organisation along with recommended improvements.

SpareBank 1 SMN attaches importance to authorisation structures, good descriptions of procedures and clear definition of responsibilities in supply contracts between the respective divisions as elements of a framework for handling operational risk.

The Board of Directors is kept abreast of the operational risk position through quarterly risk reports, and the Board receives each year a report summarising the various risk assessments conducted by the divisions. In addition to a presentation of the most significant risks and associated control and improvement measures, the report contains a self-evaluation of the position regarding the respective divisions' ongoing management and control. Through the quarterly reports the Board of Directors is also kept abreast of operational losses arising in the various business areas.

The Board of Directors receives each year from the Internal Audit and the statutory auditor an independent assessment of Group risk and of whether the internal control system functions in an appropriate and satisfactory manner.

A system of registration and follow-up (Risk Information System) is used in the effort to ensure continuous improvement in all SpareBank 1 SMN's business activity. This system promotes better structures and follow-up of risk, events and areas needing improvement. Together with the reporting carried out, this system constitutes an important experience base with respect to operational risk. All operational events which could potentially entail loss or where losses have arisen are recorded in the base. Improvement measures are considered and set in train where appropriate.

The Group has a broad-based insurance programme designed to capture significant portions of losses incurred as a result of major events and disasters. Various liability and crime insurances have been taken out, along with property and contents insurances, with a view to such events. These highly cost-effective policies are primarily intended to cover major loss events.

In 2011 the Parent Bank recorded operational loss events involving a total loss of about NOK 23m.

For 2011 risk-adjusted capital in respect of operational risk was estimated at NOK 330m.

Owner risk

Owner risk is the risk that SpareBank 1 SMN will incur negative results on its holdings in strategically owned companies and/or must supply fresh equity to these companies. The companies concerned are defined in this context as companies in which SpareBank 1 SMN has a significant owner interest and influence.

SpareBank 1 Gruppen, SpareBank 1 Oslo Akershus, BN Bank, SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt fall within this definition. While the risk posed by these companies is moderate, the Bank is indirectly exposed to increased market risk through its stake in SpareBank 1 Gruppen. SpareBank 1

Boligkreditt and SpareBank 1 Næringskreditt are primarily funding instruments for the core business operated by the owner banks. Their risk picture is relatively simple, and their appetite for market and liquidity risk is very low. Operational risk present in these companies is also low.

SpareBank 1 SMN exercises its control over the SpareBank 1 Gruppen, BN Bank and SpareBank 1 Oslo Akershus effectively through the formal governing bodies that have been established.

Business risk

Business risk is the risk of unexpected income fluctuations arising from factors other than credit risk, market risk and operational risk. It can materialise in various business or product segments and can arise from business cycle fluctuations and changed customer behaviour.

Business risk expresses itself in unexpected profit impairment. SpareBank 1 SMN constantly experiences changing framework conditions, both with regard to the competitive situation and the legislation affecting income models. The Bank's response to all such changes is to adjust its business model to compensate for any lapse in income, either by identifying other income areas or by adjusting costs to the new reality.

Sound strategic planning is the most important tool for mitigating business risk. Since business risk can arise from a variety of various risk factors, a broad set of tools (qualitative and quantitative) is employed to identify and report this type of risk.