

## 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](http://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](http://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 out 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](http://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](http://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](http://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 Group. 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 audit 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 Directors**

(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](http://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.