Governance


SpareBank 1
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SpareBank 1
Governance
SpareBank 1 SMN bases its business on short decision paths, and strengthens its independence by being a partner in the SpareBank 1 Alliance.

Group management

Finn Haugan (1953)

Group CEO

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

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

Chairman of BN Bank, Finance Norway (FNO) and Board member of Norwegian Savings Banks Association. Board member of SpareBank 1 Gruppen and Bank 1 Oslo Akershus. Chairman of EiendomsMegler 1 Midt-Norge, SpareBank 1 Markets, chairman of the Supervisory Board of Selskabet for Trondhjems Bys Vel and Board member of Stiftelse Til Nevrovitenskaplig Forskning (Kavli Stiftelsen).

Vegard Helland (1975)

Executive director – Corporate

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. Primarily responsible for major clients. Head of the SpareBank 1 SMN's Corporate market Division since August 2010. Head of the SpareBank 1 SMN's group credit committee since 2007. Previously with KPMG (aquaculture and fisheries).

Chairman of SpareBank 1 Finans Midt-Norge and board member of SpareBank 1 Gruppen Finans, Conecto and Mavi XV. Alternate board member of SpareBank 1 SMN Card Solutions.

Kjell Fordal (1957)

Executive Director – Finance and Strategy

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 Regnskapshuset SMN, SpareBank 1 SMN Pensjonskasse, SpareBank 1 Næringskreditt, SpareBank 1 Boligkreditt, SpareBank 1 SMN Invest, GMA Invest and Prøven Eiendom. Board member of SpareBank 1 Markets, SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt and SpareBank 1 Kredittkort.

Nelly S. Maske (1975)

Executive director – Organisation and Development

Joined SpareBank 1 SMN in 2013.

Master of Science from South Bank University in London 2000, Bachelor's degree in business and administration from Sør-Trøndelag University College (previously TØH) 1998.

Broad experience from the professional services firm Ernst & Young, latterly as director at Ernst & Young Advisory from 2010 to 2013.

Board member of SpareBank 1 Mobilbetaling AS (under establishment).

Svein Tore Samdal (1971)

Executive Director – Retail

Master's degree in Political Science, Norwegian University of Science and Technology (1999).

Joined SpareBank 1 SMN in 2013. Has held senior positions at Eiendomsmegler 1 Midt-Norge since that firm in 2006. Previously Sports Director of the women's national cross-country ski team at the Norwegian Ski Federation, 2001-2006.

Chairman of Allegro Kapitalforvaltning AS and Board member of Lounge AS.

Board of Directors

Kjell Bjordal (1953) Board Chairman

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 and board chair since 2013. Member of the remuneration committee since 2012 and chair since 2013.

Self-employed.

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

Board chairman of Axess, Axess Holding, Brødrene Dyrøy and Norsk Landbrukskjemi. Board member of Entra Eiendom, Novela and Florvaag Bruk Holding.

Attended 13 of 13 meetings of the Board of Directors in 2015.

Bård Benum (1962) Vice-chairman

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

Board member since March 2009, and deputy chair since 2013. Member of the internal audit committee since 2009 and member of the risk committee since 2013.

Group CEO at Powel.

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

Attended 12 of 13 meetings of the Board of Directors in 2015.

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. Head of the risk committee since 2013.

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, respectively, Bachke & Co and Det norske oljeselskap.

Chairman of Arild og Emilie Bachkes Fond, Trondhjems Kunstforenings legatstyre and

Generalkonsul Adolf Øiens Donationsfond. Board member of Bachke & Co.

Attended 13 of 13 meetings of the Board of Directors in 2015.

Arnhild Holstad (1963)

Cand.mag. degree and journalist.

Board member since 2010.

Chief executive officer, Namsos municipality.

Communication manager at Statskog 2007-2015. 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).

Board member of NTE Holding.

Attended 12 of 13 meetings of the Board of Directors in 2015.

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. Member of the remuneration committee since 2012.

Special inspector on the staff of the director of the mid-Norway region, 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.

Member of the programme committee on aquaculture at the Research Council of Norway. Former member of the Averøy municipal council and municipal executive board, the board of directors of Romsdals Fellesbank and the control committee and the supervisory board of SpareBank 1 SMN.

Attended 12 of 13 meetings of the Board of Directors in 2015.

Morten Loktu (1960)

Master of Science, Norwegian University of Science and Technology (1984).

Board member since 2013. Member of the remuneration committee since 2013.

Area director, Statoil’s production and development activity off Mid-Norway and North Norway.

Joined Statoil in 1985 and has held various posts including in research and development. In charge of Statoil’s technology organisation (2000-2002). Senior Vice President, research and development at Statoil (2005-2010). Group CEO, SINTEF Group (2002-2004).

Attended 12 of 13 meetings of the Board of Directors in 2015.

Venche Johnsen (1952)

Varied education at Bankakademiet and at university college level.

Board member since 2004.

Group employee representative at the Finance Sector Union’s branch at SpareBank 1 SMN. 37 years' experience in various positions with SpareBank 1 SMN.

Attended 13 of 13 meetings of the Board of Directors in 2015.

Janne Thyø Thomsen (1957)

Cand. Jur. (law) degree, University of Copenhagen (1981). Graduate Diploma in Business Administration, Copenhagen Business School (1986).

Board member since 2014. Member of the audit and risk committee since 2014.

Consultant and adviser at JT Targeting in Denmark. Previously senior vice president at Moody's rating agency (1997–2012). Prior to that with Yamaichi International (Europe) Limited (1987–1995), with the Ministry of Finance, Government Debt Office (1984–1987) and with the Export Credit Council, Ministry of Industry (1981–1984).

Attended 13 of 13 meetings of the Board of Directors in 2015.

Erik Gunnes (1966)

Three-year business school. Bank-related training at Bankakademiet and BI Norwegian Business School.

Alternate Board member since 2014. Regularly attending alternate for the employees.

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

Board member of the Finance Sector Union in Trøndelag (2010–2012).

Attended 13 of 13 meetings of the Board of Directors in 2015.

Elected officers

Supervisory Board

Members elected by the equity certificate holders	Residence	Number of equity held*
Asbjørn Tronsgård	Sunndalsøra	37,222
Anne-Brit Skjetne	Levanger	3,982,032
Berit Tiller	Trondheim	1,039
Lars Bjarne Tvete (nestleder)	Trondheim	1,600
Marit Collin	Trondheim	3,555
Ragnar Lyng	Vanvikan	53,122
Stig Jakobsen	Angvik	21,991
Thor Arne Falkanger	Trondheim	209,255
Thor Christian Haugland	Stavanger	153,685
Torgeir Svae	Oslo	2,736,435
Knut Solberg	Trondheim	365,449
Kjell Hagan	Trondheim	1,968
Ragnhild Tokstad Bergsmyr	Trondheim	200
Therese Bjørstad Karlsen	Trondheim	170
Knut Vardal	Ålesund	62,400
Egil Stenshagen	Oslo	0
Trond B. Brekke	Trondheim	196,667

Members elected by the depositors	Residence	Number of equity held*
Anne Lise Aunaas	Trondheim	0
Jan-Yngvar Kiel	Trondheim	0
Leif Helge Kongshaug	Averøy	0
Marit Dille	Kolvereid	700
Randi Bakken	Trondheim	0
Randi Borghild Dyrnes (leder)	Molde	0
Aage Rostad	Verdal	2,494
Ingunn Kjeldstad	Levanger	7,713

Members elected by the county councils	Residence	Number of equity held*
Anne Sophie Hundstad	Trondheim	0
Frode Revhaug	Frosta	0
Gunn Iversen Stokke	Buvik	0
Hans Martin Storø	Nærøy	5,179
Jonny Meland	Sunndalsøra	0
Torgeir Dahl	Molde	0
Torhild Aarbergsbotten	Brekstad	0
Trine Hallem	Verdal	0

Members elected by the employees	Residence	Number of equity held*
Alvhild Skogmo Jensen	Namsos	0
Ann Kristin Leirvik Sletnes	Torvikbukt	3
Ellinor Finserås	Trondheim	601
Linda Leer	Trondheim	2,357
Rolf Bratlie	Trondheim	4,000
Oddbjørn Kulseth	Stjørdal	3,793
Hege Karina Bøe	Molde	1,560
Randi Selnes Herskedal	Fræna	8,343
Anders Skrove	Steinkjer	458
Bjørn Larsen	Trondheim	2,426

Board of Directors

	Residence	Number of equity held*
Kjell Bjordal, leder	Molde	110,000
Bård Benum, nestleder	Trondheim	0
Arnhild Holstad	Namsos	0
Aud Skrudland	Averøy	2,765
Morten Loktu	Trondheim	5,000
Paul E. Hjelm-Hansen	Trondheim	49,219
Venche Johnsen	Trondheim	24,719
Janne Thyø Thomsen	Danmark	3,000
Bente Karin Trana (varamedlem)	Steinkjer	0
Erik Gunnes (varamedlem)	Trondheim	230
Pål Hofstad (varamedlem)	Verdal	0

Controll Committee

	Residence	Number of equity held*
Terje Lium	Trondheim	0
Anders Lian	Trondheim	0
Terje Ruud	Trondheim	0

Election Commitee

	Residence	Number of equity held*
Lars Bjarne Tvete	Trondheim	1,600
Jonny Meland	Sunndalsøra	0
Marit Dille	Kolvereid	700
Alvhild Skogmo Jensen	Namsos	0

* Number of equity certificates held as of 31 December 2015 includes certificates held by the EC holder's related parties, by companies under the EC holder's control and by companies on whose behalf the EC holder is elected.

Corporate governance

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

Accounting Act, section 3-3b, second subsection

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

1. A statement of recommendations and rules for corporate governance which apply to the company or which it chooses to abide by. Policies and practice for corporate governance at SpareBank 1 SMN are based on Norwegian law. The group abides by the Norwegian Code of Practice for Corporate Governance. Reference is made to point 1 of the Code of Practice below.

2. Information on where recommendations and rules as mentioned in no. 1 are publicly available. The Code of Practice for Corporate Governance is available at nues.no.

3. A justification for any deviation from recommendations and rules as mentioned in no. 1. Any deviations from the recommendation receive comment under the report on compliance with the Code of Practice below.

4. A description of the main elements in the undertaking's and – for entities that are under the obligation to maintain accounting records and that prepare consolidated accounts – in the event also the group's systems for internal control and risk management associated with the financial reporting process. See the report regarding point 10 of the Code of Practice below.

5. Provisions of articles of association which in whole or in part expand or diverge from provisions of the Public Limited Companies Act chapter 5. See the report regarding point 6 of the Code of Practice below.

6. The composition of the board of directors, corporate assembly, supervisory board and control committee; any working committees for these bodies, and a description of the main elements of applicable instructions and guidelines for the work of these bodies and any committees. See the report regarding points 6, 7, 8 and 9 of the Code of Practice below.

7. Provisions of articles of association which regulate the appointment and replacement of board members. See the report regarding point 8 of the Code of Practice below.

8. Provisions of articles of association and authorisations which empower the board of directors to decide that the company shall repurchase or issue treasury shares or equity certificates. See the report regarding point 3 of the Code of Practice below.

Norwegian Code of Practice for Corporate Governance

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

Point 1: Report on corporate governance
There are no significant deviations between the Code of Practice and compliance with the Code of Practice at SpareBank 1 SMN.

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

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

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

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

Through its corporate governance the bank gives special emphasis to:

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

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

All staff and elected officers at SpareBank 1 SMN are obliged to regard knowledge of the group's or a customer's circumstances as confidential. This duty of confidentiality applies not only in respect of third parties but also towards colleagues who have no need for the information in question in their work. Further, no SMN staff member may, via computer systems or by any other means, retrieve information about other colleagues or customers that is not necessary for their work. The bank's ethical rules stipulate that a staff member must immediately inform his/her superior or other contact persons if he/she learns of circumstances that breach applicable statutes and rules or constitute significant violations of internal provisions. SpareBank 1 SMN wishes to contribute to sustainable social development through responsible business activities which includes safeguarding ethical, environmental and social considerations. A distinct strategy for managing the bank's corporate social responsibility has been established.

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

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

Deviations from point 1 of the Code of Practice: None

Point 2: Operations

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

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

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

Deviations from point 2 of the Code of Practice: None

Point 3: EC capital and dividends

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

For detailed information on capital adequacy, see the relevant note in the annual report. For a further account of the rules governing capital adequacy and the principles on which SpareBank 1 SMN bases its assessment of capital need, see the group's Pillar 3 report published at smn.no, and the chapter dealing with risk and capital management in this annual report.

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

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

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

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

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

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

Deviations from point 3 of the Code of Practice: None

Point 4: Non-discrimination of shareholders and transactions with related parties
SpareBank 1 SMN has one class of ECs. Through the articles of association, and in the work of the board of directors and management team, emphasis is given to equal treatment of all EC holders and equal opportunity for them to exercise influence. All ECs confer an identical voting right. The bank abides by the Financial Undertakings Act's provisions regulating holdings and voting rights insofar as these provisions apply to savings banks with equity certificates.

In the event of an increase of capital, existing EC holders have pre-emptive rights unless special circumstances call for deviation this rule. Any such deviation will be explained. SpareBank 1 SMN has at irregular intervals launched private placings with the employees, and such increases of capital have been designed to strengthen employees' ownership of the bank and interest in the bank's capital instrument. Any exercise of the board of directors' authorisation to acquire treasury certificates shall be by trading on the securities market via the Oslo Stock Exchange.

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

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

Deviations from point 4 of the Code of Practice: None

Point 5: Free transferability
The bank's equity certificate is quoted on the Oslo Stock Exchange under the MING ticker symbol and is freely transferable. The articles of association contain no restrictions on transferability.

Deviations from point 5 of the Code of Practice: None

Point 6: General meeting
Supervisory board
A savings bank is basically a 'self-owned' institution. Its governance structure and the composition of its governing bodies differ from those of limited liability companies; see the Financial Institutions Act and what bodies a savings bank is required to have. The bank's highest body is the supervisory board comprising EC holders, customers, employees and representatives of the public authorities.

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

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

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

According to the legislation, it is important that elected members should reflect the savings bank's customer structure, other stakeholder groups and its role in society. The supervisory board approves the group's annual accounts, authorises the board of directors to raise subordinated capital and to undertake any increase of capital, and appoints the members of the bank's board of directors and election committee. The supervisory board also fixes the remuneration for the above bodies. The members of the board of directors, the group CEO and the auditor are also summoned to meetings of the bank's supervisory board. They may participate in the proceedings but are not entitled to vote. The supervisory board chair presides over the meeting or, in the latter's absence, the deputy chair.

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

A list of supervisory board members can be found at smn.no.

Control committee

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

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

In order to discharge its tasks the committee:

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

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

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

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

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

Point 7: Election committee

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

Election committee for the supervisory board

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

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

Election committee for depositors' election of supervisory board members

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

Election Committee for EC holders' election of supervisory board members

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

Election committee for employees' election of supervisory board members

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

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

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

See point 6 for information about the supervisory board. As of 31 December 2015 the board of directors had eight regularly attending members of whom one represented the employees. Meetings of the board of directors are also attended by one regularly attending alternate for the employees. Four members of the board of directors are women. Members of the board of directors are appointed for two years at a time and can hold office for a maximum of 20 years, but not more than 12 years continuously in the same position. The group CEO is not a member of the board of directors. As from the first election held after 1 January 2016 the board of directors has nine members of who two represent the employees. None of the members of the board of directors appointed by the supervisory board are in any employment relationship or independent contractor relationship with the group beyond their posts as elected officers. The board members' independence has been assessed by the election committee and the board members are deemed to be independent, with the exception of the board members elected by the employees. The chair and deputy chair are elected by the supervisory board at separate elections for a one-year term.

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

Deviations from point 8 of the Code of Practice: None

Point 9: Work of the board of directors
The board of directors' work and procedures are regulated by board instructions, and annual plans are prepared for the work of the board. The board of directors manages the bank's operations in compliance with laws, articles of association and resolutions of the supervisory board. The board of directors is responsible for ensuring that the assets at the bank's disposal are managed in a safe and appropriate manner. The board of directors is also required to ensure that accounting and asset management are subject to satisfactory control. In addition the board of directors adopts the bank's strategy, budget and market and organisational objectives. It is the board of directors that appoints and dismisses the group CEO.

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

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

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

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

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

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

The committee shall

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

The risk committee meets at least five times yearly.

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

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

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

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

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

Deviations from point 9 of the Code of Practice: None

Point 10: Risk management and internal control

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

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

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

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

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

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

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

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

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

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

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

Internal control in relation to financial reporting

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

The bank's Accounts Department and Finance Department are organised under Group Finance and prepare financial reports for the group. The departments 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.

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

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

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

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

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

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

Deviations from point 10 of the Code of Practice: None

Point 11: Remuneration to the board of directors
The board members' fees that are recommended by the election committee and adopted by the supervisory board are not performance-related and no options are issued to the directors. The board of directors' chair and deputy chair are remunerated separately, and directors participating in board committees receive additional remuneration for doing so. None of the directors appointed by the supervisory board perform tasks for the group beyond serving on the board of directors. Further information on compensation to the board of directors and board committees is shown in note 22 in this annual report.

Deviations from point 11 of the Code of Practice: None

Point 12: Remuneration to senior employees
The group has established a remuneration policy that is in accordance with the group's overarching objectives, risk tolerance and long-term interests. This policy is designed to promote and incentivise good management and control of the group's risk, to counter excessive or undesired risk-taking, to pre-empt conflicts of interest and to be in accordance with applicable law and regulations. See the requirements of Regulations on remuneration schemes at financial institutions, investment firms and fund management companies. The remuneration policy has special rules for senior employees. These rules also apply to other

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

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

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

Deviations from point 12 of the Code of Practice: None

Point 13: Information and communication

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

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

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

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

Deviations from point 13 of the Code of Practice: None

Point 14: Takeover

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

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

Point 15: External auditor

An external auditor is appointed by the supervisory board upon the recommendation of the audit committee and nomination by the board of directors, and the auditor is identical for all companies in the group. The external auditor performs the statutory confirmation of the financial information provided by the companies in their public financial statements. The external auditor presents each year to the audit committee a plan for the audit work. The external auditor attends meetings of the board of directors at which the annual accounts are reviewed and also meetings of the audit committee where the accounts are reviewed.

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

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

Deviations from point 15 of the Code of Practice: None

Risk and capital management

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, concentration, risk-adjusted return, probability of default, loss ratios, expected loss, necessary economic capital, regulatory capital adequacy and expected liquidity-related regulatory requirements.

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 designed to support the group's strategic development and target attainment. The risk management regime also aims to ensure financial stability and prudent asset management. This shall 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 application 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 cover the actual risk incurred by the group. The board of directors has resolved that the risk-adjusted capital should cover 99.9% 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. For further details, see the bank's Pillar III reporting which is available on the bank's home page.

Return on risk-adjusted capital is a key strategic profit measure in the internal management of SpareBank 1 SMN. It involves allocation of 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 enables comparison of risk across risk groups and business areas. To this end the bank has implemented EVA calculations (Economic Value Added) in order to monitor risk-adjusted profitability in the respective areas. Risk is also gauged and monitored by measuring positions relative to quantitative risk limits and key portfolio risk measures.

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 department 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 control and governance measures.

The group attaches importance to a control and management structure that promotes targeted and independent management and control.

The board of directors of SpareBank 1 SMN is responsible for overseeing that the group's own funds are satisfactory relative to the adopted risk profile and requirements set by the authorities.

The group board establishes the overarching objectives such as risk profile, return targets and how capital is to be distributed on the respective risk areas. The group 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 to the monitoring of risk exposure. The group CEO is also responsible for delegating authorisations and for reporting to the board.

The business areas are responsible for the day-to-day risk management within their respective 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 department is organised independently of the business units and reports directly to the group CEO. This department 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 risk monitoring within the group.

The group has a central-level group credit committee and a credit committee for SMB customers. The credit committees deliver an independent recommendation to the authorisation holder concerned. The recommendation:

- assesses loan and credit applications, including exposure renewals, in accordance with the existing credit strategy, credit policy, lending regulations and credit processing procedures
- 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 bank has a separate department for special exposures which 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.

A credit watch committee has been established whose main focus is on exposures at risk. The committee deals with exposures defined on a centralised watch list, mainly in excess of NOK 50m.

The validation committee reviews, at minimum annually, the validation of the bank's IRB models. The committee also considers proposals for implementation of newly and further developed versions of the bank's IRB models. The committee submits recommendations to the bank's board of directors, which makes the final decision.

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 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 performed by an external provider, thereby assuring the required independence, competence and capacity.

The internal audit function reports to the board of directors. The reports and any recommendations for improvements in the group's risk management are continuously reviewed. 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.

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 group is exposed to credit risk through all its claims on customers and counterparties. While the group is mainly exposed through ordinary lending operations and leasing activities, it also incurs credit risk through the liquidity reserve portfolio and through counterparty risk arising from interest rate and foreign exchange derivatives.

The bank's organisation of and framework for management of credit risk is geared 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. 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 Retail Banking and Corporate Banking respectively, maximum portfolio default probability (PD) and maximum economic and regulatory capital (UL) allocated to the credit business.

Concentration risk is managed by:

- limits on the size of loans and loss given default on individual exposures,
- limits on maximum exposure within lines of business,

- limits on regulatory risk weighted assets for Retail Banking and Corporate Banking.

Compliance with credit strategy and limits adopted by the board of directors is monitored on a continual basis by the risk management department and reported quarterly to the board of directors.

Credit risk is managed through:

a) Organisation of management and control of credit risk, established annually by the board of directors. The document establishes the overarching principles for lending. This includes structuring of the bank's management documents, organisation (distribution of responsibilities and roles) of the credit function and overarching principles for lending.

b) The credit strategy, adopted annually by the board of directors.
The credit strategy establishes priority areas, credit strategy limits and targets and how credit risk is to be priced at SpareBank 1 SMN

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

c) Guidelines for portfolio management.
The guidelines describe the framework and policies governing the management of SpareBank 1 SMN's credit portfolio. They distribute responsibilities and roles with respect to measuring and reporting portfolio risk and profitability in the portfolio 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.

d) Credit policy for Retail Banking and Corporate Banking.
These documents describe how the bank's credit strategy is to be implemented through the establishment of detailed lending criteria for, respectively, Retail Banking and Corporate Banking. The responsibility for the drawing up and maintenance of credit policy rests with the group CEO.

e) Lending regulations: Exercise of lending authorisations.
All authorisations within Retail Banking and Corporate Banking are personal. In Corporate Banking, 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 processing system.

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. The group CEO can further delegate authorisations to lower levels.

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

f) 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).

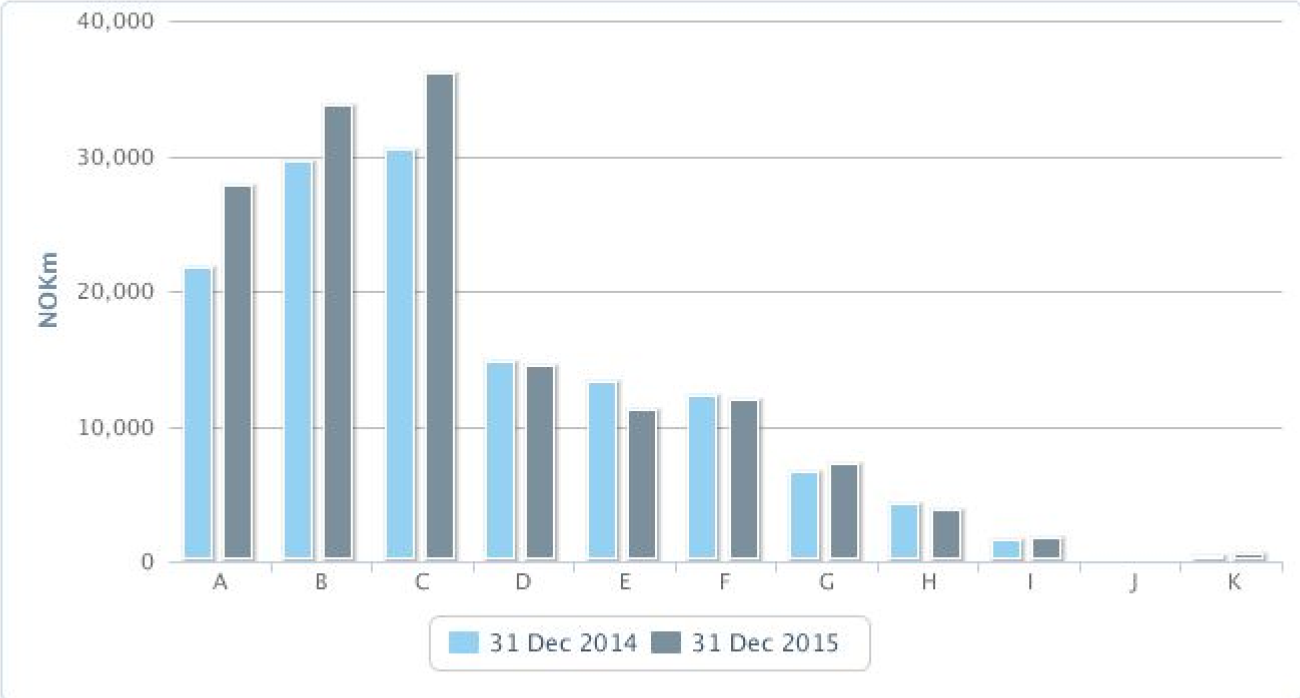
Probability of default (PD)
The bank's credit models are based on statistical computations of probability of default. The calculations are based on scoring models that take into account financial position along with internal and external behavioural data. The models are based partly on point-in-time ratings, and reflect the probability of default over 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 borrowers whose loans are in default and/or written down.

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 Retail Banking and Corporate Banking are validated on an ongoing basis and at minimum 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 any 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 after default. CF is validated monthly for drawing rights within Retail Banking and Corporate Banking. 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.

Values are determined using standard models, and actual realised values are validated to test the models' reliability.

In conformity with the capital requirements regulations the estimates are downturn estimates. The values are determined based on defined models. 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.

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.

Counterparty risk

Counterparty risk in derivatives trading is managed through ISDA and CSA contracts set up with financial institutions that are the bank's 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.

The bank has in recent years made system changes to prepare the ground for the forthcoming EMIR Regulation. Due to challenges in the EEA body of rules, this Regulation has not been implemented in Norwegian law.

Market risk

Market risk is a generic term for the risk of loss and reduction of future incomes arising as a result of changes in observable rates or prices on financial instruments – in particular changes in share prices, interest rates (including credit spreads) and exchange rates. Market risk also includes the risk of loss due to changes in the market price of financial derivatives such as futures, options, and financial derivatives 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 through day-to-day monitoring of risk exposures against limits set by the board of directors and through ongoing analyses of outstanding positions. Risk Management 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, positions in the fixed income and currency markets and to spread risk.

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 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 add-on for the risk factors risk diversification and market liquidity. Risk factors are reviewed on a quarterly basis.

Interest rate risk is the risk of loss due to changes in interest rates in financial markets. 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 in addition to a separate limit for overall interest rate risk. Interest rate lock-ins on the group's instruments are essentially short, and the group's interest rate risk is low to moderate.

Spread risk is the risk of loss due to changes in the market value/realistic value of bonds as a consequence of increased risk mark-ups in the pricing of these bonds. Credit risk in the bond portfolio is managed based on an evaluation of the respective issuers. In addition the bank has a separate limit for overall spread risk for all bonds. The bank computes spread risk with a basis in Finanstilsynet's module for market and credit risk where overall loss potential is the sum of loss potentials calculated for each individual credit risk exposure. The loss potential for the individual credit exposure is computed with a basis in rating and duration. Bond risk is considered to be 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. Exchange rate risk is considered to be low.

Equity risk is the risk of loss due to changes in share prices. This risk is linked to positions in equity instruments, including derivatives with equity instruments as the underlying. Equity risk is considered to be moderate.

Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its obligations and/or finance increases in assets without incurring extra costs in the form of falling prices of assets which must be realised or in the form of extra costly financing.

Management

The bank's finance department is responsible for the group's funding and liquidity management. Compliance with limits is monitored by the risk management department which reports to the board of directors monthly. The group manages its liquidity on an overall basis since the finance department is responsible for funding both the bank and the subsidiaries.

Liquidity management is based in the group's overall liquidity strategy which reflects the group's moderate risk profile. As part of the strategy, preparedness plans have been drawn up to handle the liquidity situation in periods of capital market turbulence featuring both bank-specific and industry-related crisis outcomes and a combination of the two. 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 plans developed for the group's and the alliance's liquidity management regime.

Risk measurement

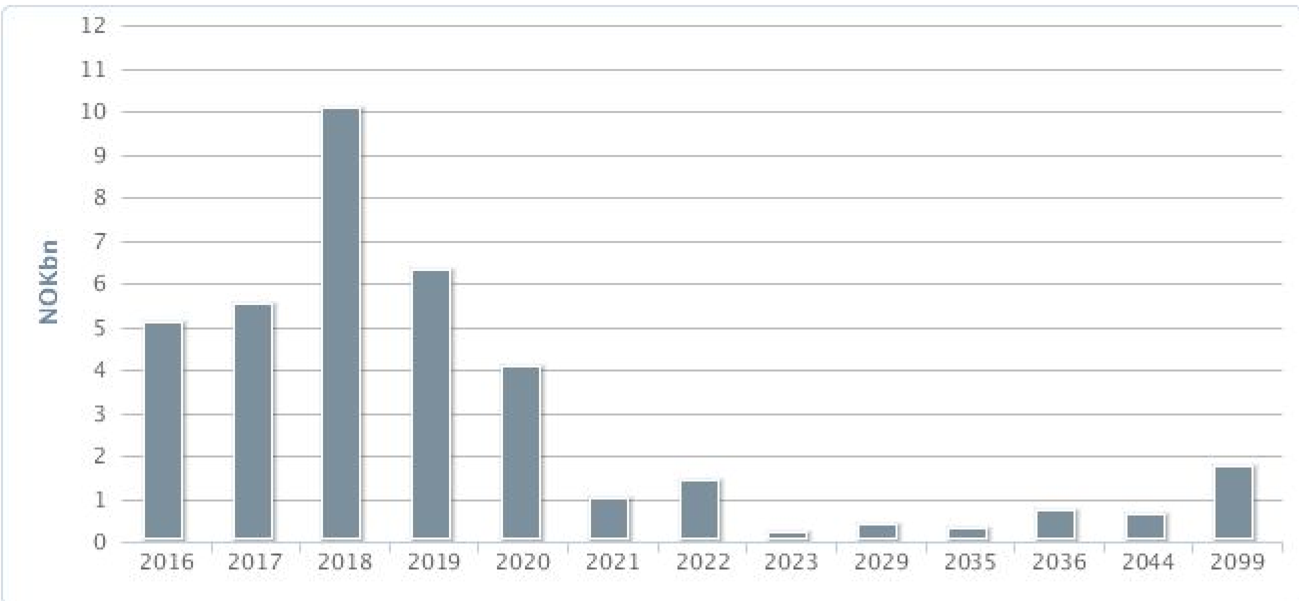
The bank's board of directors reviews the liquidity strategy annually and establishes a framework that promotes a long-term perspective and balance in liquidity procurement. The bank's overall aim is to be able to survive 12 months of ordinary operations without fresh external funding.

The bank's most important source of finance is customer deposits. The bank 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. The bank is rated by Moody's and Fitch Ratings to assure funding at acceptable prices in the money and capital markets. The bank established its own residential mortgage company in 2015, and was granted a licence by Finanstilsynet (Norway's FSA) in autumn 2015. The company is not operational, but will be a part of the bank's preparedness plan. SpareBank 1 Boligkreditt remains the bank's preferred instrument for home financing.

SpareBank 1 SMN's liquidity position is satisfactory. The bank's liquidity is measured regularly against the liquidity indicator for a reference portfolio defined by Finanstilsynet. The bank's liquidity strategy specifies a maximum deviation against this portfolio. The bank kept within this limit throughout 2015.

The Ministry of Finance set new quantitative requirements for banks' liquidity reserves on 25 November 2015. The LCR requirement obliges undertakings to maintain a liquidity reserve of at least 100 per cent at all times, i.e. their holdings of liquid assets shall at minimum correspond to net liquidity outflow in a given stressed period of 30 calendar days. The bank can phase in the liquidity reserve requirement as follows: 70 per cent as from 31 December 2015, 80 per cent as from 31 December 2016 and 100 per cent as from 31 December 2017.

The figure below illustrates the funding portfolio's maturity structure as from end-2015.



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 may be errors on the part of employees, possible flaws in products, processes or systems, or the bank may incur losses due to fraud, fire or natural damage.

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

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 annual internal control report. In addition the board of directors receives each year from the internal auditor an independent assessment of the group's risk position 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.

A broad-based insurance programme is in place that will 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 2015 operational loss events were recorded involving a total loss of about NOK 2.8m.

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, BN Bank, SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt fall within this definition. The risk posed by these companies is moderate, but 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 and BN Bank 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.

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
- 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 of directors

Financial projections
A four-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 gauge how financial developments in business activities and the macroeconomy will impact on the group’s financial development, including return on equity, funding structure and capital adequacy.

See also the bank's Pillar III reporting, available at smn.no for further information on SpareBank 1 SMN's risk and capital management.