

Governance



Governance

SpareBank 1 SMN has built its business on local-level decision taking, and its membership of the SpareBank 1 Alliance guarantees its independence.

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. Chairman of BN Bank and the Norwegian Savings Banks Association, board member of Finance Norway (FNO). Chairman of SpareBank 1 Gruppen from 2017. Chairman of EiendomsMegler 1 Midt-Norge and SpareBank 1 Markets. Board member of Trondheim Stiftelse Til Nevrovitenskaplig Forskning (Kavli Stiftelsen). Previously with Fokus Bank for 13 years, his final two years as deputy CEO.

**Vegard Helland (1975)**

Executive director – Corporate Banking

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

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

Joined SpareBank 1 SMN in 2003, and has focused primarily on major clients. Head of Corporate Banking since August 2010. Has chaired SpareBank 1 SMN's group credit committee since 2007. Previously with KPMG (aquaculture and fisheries).

**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).

Chairman of SpareBank 1 Regnskapshuset SMN, SpareBank 1 SMN Pensjonskasse, SpareBank 1 Næringskreditt, SpareBank 1 Boligkreditt, SpareBank 1 SMN Invest, GMA Invest, Prøven Eiendom and SMB Lab. Board member of SpareBank 1 Markets, SpareBank 1 Kredittkort, BN Kreditt and Trondhjems Turistforening. Joined SpareBank 1 SMN in 1982.

**Nelly S. Maske (1975)**

Executive director – Organisation and Development

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, BN Bolig and SMB Lab. Joined SpareBank 1 SMN in 2013.

**Svein Tore Samdal (1971)**

Executive director – Retail Banking

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

Has held senior positions at Eiendomsmegler 1 Midt-Norge since joining in 2006. Previously sports director of the women's national cross-country ski team, Norwegian Ski Federation, 2001-2006. Chairman of Allegro Kapitalforvaltning. Joined SpareBank 1 SMN in 2013.

**Rolf Jarle Brøske (1980)**

Executive director – Communications and Society

Studies in political science and history at Molde University College and the Norwegian University of Science and Technology (NTNU).

Previously industrial policy director at Det norske Oljeselskap, and on the management team of Danske Bank (Fokus Bank). Adviser to the Minister of Trade and Industry, Børge Brende, and to the Mayor of Trondheim. Has held a number of political positions. Joined SpareBank 1 SMN on 1 October 2016.

Board of Directors



Kjell Bjordal (1953) Board chair

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 committee 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, Nordlaks, Broodstock Capital Partners, Brødrene Dyrøy and Norsk Landbrukskjemt. Deputy board chair of Entra Eiendom and board member of Florvaag Bruk Holding.

Attended 16 of 16 meetings of the Board of Directors in 2016.



Bård Benum (1962) Deputy board chair

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 14 of 16 meetings of the Board of Directors in 2016.



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 16 of 16 meetings of the Board of Directors in 2016.

**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 15 of 16 meetings of the Board of Directors in 2016.

**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.

Chair 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 15 of 16 meetings of the Board of Directors in 2016.

**Morten Loktu (1960)**

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

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

Senior Vice President with responsibility for LEAN at Statoil.

Joined Statoil in 1985 and has held various posts including in research and development.

Executive director in charge of Statoil's technology organisation (2000-2002). Senior Vice President, research and development at Statoil (2005-2010). Area director, Statoil's production and development activity off Mid-Norway and North Norway (2011-2016).

Group CEO, SINTEF Group (2002-2004).

Attended 13 of 16 meetings of the Board of Directors in 2016.

**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 owner 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 16 of 16 meetings of the Board of Directors in 2016.

**Erik Gunnes (1966)**

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

Regularly attending alternate member for the employees since 2014. Board member for the employees from 2016.

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

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

Attended 16 of 16 meetings of the Board of Directors in 2016.

**Oddny Lysberg (1973)**

Commercial line, Nauma Upper Secondary School 1990-1992. Business administration, one-year course at Nord-Trøndelag University College, Steinkjer (2001).

Board member since 2016.

Joined SpareBank 1 SMN in 2002 as a substitute, permanent staff member from 2004. Elected officer since 2006. Board positions in several local clubs and associations. Elected to the Grong municipal council and municipal executive board, autumn 2015.

Attended 11 of 11 meetings of the Board of Directors in 2016.

Elected officers

Members elected by the equity certificate holders		No. of equity certificates held*
Berit Tiller	Trondheim	1 039
Lars Bjarne Tvete	Trondheim	5 600
Marit Collin	Trondheim	3 755
Ragnar Lyng	Vanvikan	53 122
Jøran Nyheim***	Molde	3965 391
Thor Arne Falkanger	Trondheim	209 255
Ivar Koteng	Trondheim	121 423
Torgeir Svae	Oslo	5 000
Knut Solberg	Trondheim	365 449
Kjell Hagan	Trondheim	1 968
Ragnhild Tokstad Bergsmyr	Trondheim	200
Therese Bjørstad Karlsen	Trondheim	170
Nina Kleven	Trondheim	1 100
Nils Martin Williksen	Rørvik	10 049
Trond B. Brekke	Trondheim	196 667
Randi Borghild Dyrnes (leder)	Smøla	1 000
Frithjof Andersen	Trondheim	26 797

Members elected by the depositors		No. of equity certificates held*
Anne Lise Aunaas	Trondheim	0
Anne Peggy Møller Schieflo	Steinkjer	11 191
Elin Hagerup	Trondheim	0
Marit Dille	Kolvereid	3 339
Randi Bakken	Trondheim	0
Line Melkild	Sunndalsøra	0
Ragnhild Amundsen	Isfjorden	0
Per Olav Tyldum (nestleder)	Overhalla	0

Members elected by the county councils		No. of equity certificates held*
Jan Inge Kaspersen	Stjørdal	0
Ida Bruheim Derås	Steinkjer	0
Gunn Iversen Stokke	Buvik	0
Karl Meinert Bucholdt	Levanger	0
Stig Klomsten	Bosberg	0
Torgeir Dahl	Molde	0
Torhild Aarbergstotten	Brekstad	0
Tove-Lise Torve	Sunndalsøra	0

Members elected by the employees		No. of equity certificates held*
Oddny Lysberg**	Grong	634
Ann Kristin Leirvik Sletnes	Torvikbukt	3
Anders Skrove	Inderøy	676
Linda Leer	Trondheim	2 357
Rolf Bratlie	Trondheim	618
Oddbjørn Kulseth	Stjørdal	3 793
Bjørn Kristian Dyrseth	Molde	2 463
Berit Bøifot	Torvikbukt	4 314

Bjørn Larsen	Trondheim	2 644
Geir Tore Mathisen	Trondheim	218

Board of Directors	Residence	No. of equity certificates held*
Kjell Bjordal (chair)	Molde	110 000
Bård Benum (deputy chair)	Trondheim	0
Arnhild Holstad	Namsos	0
Aud Skrudland	Averøy	4 765
Morten Loktu	Trondheim	5 000
Paul E. Hjelm-Hansen	Trondheim	49 219
Janne Thyø Thomsen	Danmark	3 000
Erik Gunnes	Trondheim	230
Oddny Lysberg**	Grong	634
Venche Johnsen (alternate)	Trondheim	24 716

Election Committee	Residence	No. of equity certificates held*
Lars Bjarne Tvete	Trondheim	5 600
Thor Arne Falkanger	Trondheim	209 255
Marit Dille	Kolvereid	3 339
Tove-Lise Torve	Sunnalsøra	0
Rolf Bratlie	Trondheim	618

* Number of equity certificates held as of 31 December 2016 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.

** Stepped down from the Supervisory Board and joined the Board of Directors on 31.03.2016

*** Representing Sparebankstiftelsen SMN

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 www.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 and 8 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 Institutions Act 2015 (finansforetaksloven). The amendments are taken into account in revised articles of association which were given effect as of 2016 and are available on the bank's website.

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. Since 2004 the bank's vision has been to be the recommended bank based on the values close at hand and capable. But in February 2017 we got our new vision and new values.

Our new vision is about creating energy, results, change and development. For that reason we have chosen "Together we make things happen" as our vision.

Our new values are wholehearted, responsible, likeable and capable.

The savings bank's object is to carry on business as a bank and to pursue and participate in activities that the savings bank is entitled to engage in under licences held and legislation in force at any and all times. The articles of association can be found in extenso on the bank's website.

SpareBank 1 SMN strives 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.

SpareBank 1 SMN will continue to be an independent, regional finance house, a powerhouse for development of the region. SpareBank 1 SMN will be profitable and best for customer experience. See also SpareBank 1 SMN's goals and strategies as set out in this annual report.

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 2016 SpareBank 1 SMN's equity capital totalled NOK 15,3bn. As of the same date the tier 1 ratio was 17.0 per cent and the common equity tier 1 (CET1) ratio was 14.9 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 utilised for distribution to non-profit causes 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.

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 31 March 2016.

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 2016 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 provisions of the Financial Institutions Act 2015 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 public limited liability companies; see the Financial Institutions Act 2015 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 South Trøndelag, North Trøndelag and Møre og Romsdal: 8 members and 8 alternates
- customers: 8 members and 8 alternates
- employees: 10 members and 6 alternates

The elected members of the supervisory board shall be composed of representatives of the holders of equity certificates and moreover in aggregate reflect the savings bank's customer structure and other interest groups as well as its social function. The supervisory board approves the group's annual accounts and management report, including application of profit for the year/distribution of dividend, considers the board of directors' declaration regarding determination of pay and other remuneration to senior employees, and considers the report on good corporate governance. The supervisory board's tasks are further described in the bank's articles of association which are available at smn.no.

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.

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 institutions.

Point 7: Election committee

The bank shall have an election committee consisting of five members and five alternates who are elected by the supervisory board for a two-year term. The election committee shall mirror the composition of members of the supervisory board and be composed as follows:

- Two members with alternates shall be elected from among the members elected by the representatives of the equity certificate holders
- Two members with two alternates shall be elected from among the members elected by the representatives of the equity certificate holders
- One member with one alternate shall be elected from among the members elected by the representatives of the customers
- One member with one alternate shall be elected from among the members elected by the representatives of the county councils
- One member with one alternate shall be elected from among the members elected by the representatives of the employees

The supervisory board establishes further instructions for the holding of the elections.

The election committee prepares the customers' and the equity certificate holders' election of members to the supervisory board.

The election committee also prepares the election of:

- the chair and deputy chair of the supervisory board
- the chair, deputy chair and other members of the board of directors
- the chair, members and alternates to the election committee as dealt with in this chapter

The directors with alternates to be elected from among the employees shall be nominated solely by the employee representatives on the election committee.

The election committee shall give grounds for its nominations.

The election committee proposes fees for members of the respective bodies.

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 provisions of the articles of association.

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

See point 6 for information about the supervisory board. As of 31 December 2016 the board of directors consists of nine regularly attending members of whom two represented the employees. Four of the nine 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. 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 two-year term.

The composition of the board of directors is 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 the status regarding 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.

The board of directors has established a compensation committee, and an audit committee and a risk committee consisting of members of the bank's board of directors. The members are appointed for a two-year term. The committees are preparatory and advisory working committees to the board of directors, and it is the board of directors that establishes instructions for the committees.

Audit committee

Pursuant to the Financial Institutions Act (2015) 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 Institutions Act (2015) 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.

Compliance

The compliance function is organised independently of the business units. The function identifies, assesses and makes recommendations and also monitors and reports under regulatory frameworks that govern SpareBank 1 SMN. The responsible head of this function reports periodically to the group CEO and board of

directors. Business areas and support functions, along with subsidiaries, are required to attend to compliance by operationalising the policy for compliance and identified compliance risks adopted by the board of directors. The function for monitoring compliance with anti-money laundering measures is attended to through the establishment of a position specifically responsible for the operationalisation of anti-money laundering measures.

The responsible head of the compliance function is responsible for reporting compliance risk and any breaches of laws and regulations to which SpareBank 1 SMN is subject. Quarterly compliance reports are prepared.

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 from the compliance function
- quarterly reports/annual report from the internal auditor

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

Internal control in relation to financial reporting

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

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

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

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

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

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