

# Governance



Foto: Hans Smedegård

## 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 and chairman of BankAxept.

Chairman of EiendomsMegler 1 Midt-Norge and SpareBank 1 Markets. Board member of Trondheim Stiftelse Til Nevrovitenskaplig Forskning (Kavlistiftelsen). 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, SpareBank 1 Factoring, Conecto and SMB Lab. Board member of SpareBank 1 Markets, SpareBank 1 Portefølje, SpareBank 1 SMN Card Solutions and Mavi XV.

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, BN Bolig and Trondhjems Turistforening. Board member of SpareBank 1 Markets, SpareBank 1 Kredittkort, BN Kreditt. Joined SpareBank 1 SMN in 1982.





**Nelly S. Maske (1975)**

Executive director – Retail Banking and 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.

Chairman of Odin Forvaltning to desember 2018. Board member of BN Bolig and Odin Forvaltning. 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 ASA, 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 in October 2016.



**Ola Neråsen (1965)**

Executive director – Risk Management

Business economist from the BI Norwegian School of Management (1977), state authorised public accountant from the Norwegian School of Economics and Business Administration (1994).

Board member of Betr AS.

Previously with Deloitte.

Joined SpareBank 1 SMN in 1997.

## 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, Axess Nordlaks Oppdrett, Nordlaks Smolt and Nordlaks produkter. Broodstock Capital Partners, II and Norsk Landbrukskjemi. Deputy board chair of Entra Eiendom.

Attended 15 of 15 meetings of the Board of Directors in 2018.



### **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.

CEO at VitalThings.

Senior positions at Norsk Hydro, Statoil, Reitan Group. CEO at Cresco (1998-2000) and Vital Forsikring (2001-2007). CEO Powel 2007-2018.

Attended 15 of 15 meetings of the Board of Directors in 2018.



### **Paul E. Hjeltn-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, Adolf Øiens Fond for almennyttige formål and Stiftelsen Karen og Adolf Øiens Aldershjem. Board member of Bachke & Co.

Attended 15 of 15 meetings of the Board of Directors in 2018.



**Mette Kamsvåg (1971)**

Business economist from the BI Norwegian School of Management (1994).

Board member since 2018. Member of the audit and risk committee as from 2018.

Self-employed. Fifteen years' experience from IT and payment systems through various management positions with the Norwegian banks' payment and clearing house (BBS) and NETS. CEO at NETS from 2011 to 2014.

Board chair at Maritech Systems AS and easy2you. Board member of VPS ASA (Norwegian securities depository) and SIVA (public funding agency for innovation).

Attended 10 of 11 meetings of the board of directors in 2018.



**Tonje Eskeland Foss (1971)**

Post graduate degree in petroleum economics (1996)

Board member since 2018. Member of the remuneration committee as from 2018.

Regional Director, Nord, at Atea since March 2017. Nineteen years' experience with the petroleum industry in the field of contracts and procurement, including with AkerBP ASA.

Previously board member of Det norske oljeselskap ASA (2012-2014) and BUE-stiftelsen (2007-2013).

Attended 11 of 11 meetings of the board of directors in 2018.



**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 & Operational Improvements 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 15 of 15 meetings of the Board of Directors in 2018.



**Janne T. 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 15 of 15 meetings of the Board of Directors in 2018.



**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 2014-2016. Board member for the employees from 2016.

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

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

Attended 15 of 15 meetings of the Board of Directors in 2018.



**Venche Jonsen (1952)**

Varied education at Bankademiet and at university college level.

Board member 2004-2016.

Alternate member for the employees 2016 – March 2017. Permanent member for the employees from March 2017.

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

Attended 15 of 15 Board meetings in 2018.

## Elected officers

<b>Members elected by the equity certificate holders</b>	<b>Residence</b>	<b>No. of equity certificates held*</b>
Lars Bjarne Tvete	Trondheim	30 000
Marit Collin	Trondheim	4 655
Jøran Nyheim	Molde	3 965 391
Thor Arne Falkanger	Trondheim	179 255
Torgeir Svæe	Os	2 500
Knut Solberg	Trondheim	293 887
Therese Bjørstad Karlsen	Trondheim	170
Nina Kleven	Trondheim	1 100
Nils Martin Williksen	Rørvik	10 049
Randi Borghild Dyrnes (leder)	Smøla	1 000
Frithjof Anderssen	Trondheim	26 797
Åsmund Skår	Nesbru	1 200
<b>Members elected by the depositors</b>	<b>Residence</b>	<b>No. of equity certificates held*</b>
Per Olav Tyldum (nestleder)	Overhalla	0
Vegard Forbord	Steinkjer	0
Marit Dille	Abelvær	3 339
Anne Rita Bakken	Stjørdal	0
Randi Bakken	Trondheim	0
Jan-Yngvar Kiel	Bosberg	0
Wollert Krohn-Hansen	Trondheim	0
Elin Hagerup	Trondheim	0
Line Melkild	Sunnalsøra	0
<b>Members elected by the county councils</b>	<b>Residence</b>	<b>No. of equity certificates held*</b>
Jan Inge Kaspersen	Stjørdal	0
Stig Klomsten	Bosberg	0
Tove-Lise Torve	Sunnalsøra	0
<b>Members elected by the employees</b>	<b>Residence</b>	<b>No. of equity certificates held*</b>
Linda Renate Linmo	Grong	1 562
Anders Skrove	Steinkjer	1 437
Bjørn Larsen	Trondheim	3 338
Anne Valstad-Aalmo	Trondheim	912
Geir Tore Mathisen	Trondheim	2 597
Rolf Bratlie	Buvik	1 312
Bjørn Kristian Dyrseth	Molde	2 603
Berit Bøifot	Molde	4 828
<b>Board of Directors</b>	<b>Residence</b>	<b>No. of equity certificates held*</b>
Kjell Bjordal (leder)	Molde	130 000
Bård Benum (nestleder)	Trondheim	0
Morten Loktu	Trondheim	5 000
Paul E. Hjelm-Hansen	Trondheim	49 219
Janne Thyø Thomsen	Danmark	3 000
Tonje Eskeland Foss	Trondheim	0
Mette Kamsvåg	Molde	5 600
Erik Gunnes	Trondheim	815
Venche Johnsen	Trondheim	24 996
Oddny Lysberg (varamedlem)	Grong	1 188
<b>Election Committee</b>	<b>Residence</b>	<b>No. of equity certificates held*</b>
Lars Bjarne Tvete	Trondheim	30 000
Thor Arne Falkanger	Trondheim	179 255
Marit Dille	Kolvereid	3 339
Tove-Lise Torve	Sunnalsøra	0
Rolf Bratlie	Buvik	1 312

\* Number of equity certificates held as of 31 December 2017 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](http://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 that 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 current Norwegian Code of Practice for Corporate Governance of 17 October 2018 are complied with at SpareBank 1 SMN.

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

There are no significant divergences 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.

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 realised. Good corporate governance encompasses the values, goals and overarching policies by which the bank is governed and controlled with a view to securing the interests of EC holders, depositors and other stakeholder groups in the bank. The bank adheres to the "Norwegian Code of Practice for Corporate Governance" to the extent appropriate to savings banks with equity certificates. The Code of Practice is available at [nues.no](http://nues.no).

Through its corporate governance the bank gives special emphasis to:

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

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

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

member must immediately inform his/her superior or other contact persons if he/she learns of circumstances that breach applicable statutes and rules or constitute **significant** violations of internal provisions.

*Deviations from point 1 of the Code of Practice: None*

### **Point 2: Operations**

SpareBank 1 SMN's activities are made clear in the company's articles of association. SpareBank 1 SMN'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, and SpareBank 1 SMN's goals and main strategies are set out in this annual report.

Long-range target rates of return are set for the business with a basis in adopted strategies and objectives. These are determinative for the bank's concrete goals, risk limits and capital management framework, budgets and so forth. Where it is natural to do so, risk-adjusted targets are set and the required rate of return reflects the various risks incurred by the bank. Risk and capital management are an integral part of the bank's management process and value creation.

Guidelines and various measurement variables have been developed by which the business units are measured and managed in order to achieve the business goals. Forecasting and budget management are also utilised as effective tools for attaining the strategic objectives.

See the relevant chapter in the annual report for a description of the bank's strategies and goals.

SpareBank 1 SMN wishes to promote a sustainable development of society through responsible business operations, which includes giving due consideration to ethics, the environment and social matters. A distinct strategy for managing the bank's corporate social responsibility (CSR) has been established.

Corporate social responsibility is an integral part of the bank's business activity and is given expression through strategies, measures and activities. Corporate social responsibility is reflected in the way resources are managed and through dialogue with the employees, shareholders, customers, local communities and other stakeholders. Furthermore, a purchasing strategy has been established which describes the bank's ethical framework, requirements on suppliers and the criteria underlying purchases and procurements.

See also the chapter on corporate social responsibility in the 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 2018 SpareBank 1 SMN's common equity tier 1 (CET1) ratio was 14.6 per cent.

For detailed information on capital adequacy, see the relevant note in this 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 Pillar 3 report published at smn.no.

### **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 one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that 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 5 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 5 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 15 months as from the adoption of the resolution at the supervisory board's meeting on 22 March 2018.

#### **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 2018 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 regulating holdings and voting rights insofar as these provisions apply to savings banks with equity certificates.

In the event of an increase of owner capital, existing EC holders have pre-emptive rights unless special circumstances call for deviation from 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.

In order to strengthen the equity certificate as an attractive financial instrument and to increase investors' influence regarding decisions affecting the owner capital, the supervisory board voted in 2017 to amend the bank's articles of association such that a qualified majority of the representatives of the equity certificate holders must vote in favour of amendments concerning the owner capital in addition to a qualified majority of the supervisory board. A list of the matters to which this applies is set out in article 10-1 of the bank's articles of association which can be found on the bank's website.

Deviations from point 4 of the Code of Practice: None

**Point 5: Shares and 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**

The governance structure and the composition of the governing bodies of a savings bank differ somewhat from those of public 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 32 members and 30 alternates with the following representation:

- EC holders: 12 members and 10 alternates
- the county councils of Trøndelag
- and Møre and Romsdal: 3 members and 3 alternates
- customers: 9 members and 9 alternates
- employees: 8 members and 8 alternates

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](http://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](http://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 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: Board of directors, composition and independence**

See point 6 for information about the supervisory board. As of 31 December 2018 the board of directors consists of nine regularly attending members of whom two represent 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, with the exception of the two employee representatives, 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 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 this 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 this 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 this 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, market and organisational objectives and risk profile. 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.

### **Independent consideration**

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.

### **Board committees**

The board of directors has established a compensation committee, 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 the committees' mandates.

#### *Audit committee*

Pursuant to the Financial Institutions 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 and objectivity

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 section 13-6(4) and the Financial Institutions Regulations section 13-2. 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 inter alia:

- 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 which shall comprise at least three directors. In addition to these three, the board of directors appoints one board representative for the employees who participates in the committee. The board chair is a permanent member of the committee and also chairs the committee. The committee members are appointed by the board of directors for a two-year term.

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

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

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

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

*Deviations from point 9 of the Code of Practice: None*

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

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

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

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

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

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

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.

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 assesses the undertaking's policies, procedures and systems to ensure regulatory compliance, and provides advice to the management and other relevant personnel on measures to be initiated to ensure compliance with the prevailing body of rules. The function shall also establish guidelines and processes for managing compliance risk and ensure that compliance is monitored and tested through a structured and well-defined monitoring programme. The head of the compliance function reports periodically to the Group CEO and the board of directors. Compliance reports are prepared on a quarterly basis.

The compliance function has established a specific responsibility for monitoring compliance with the Anti-Money Laundering Act and the Personal Data Act.

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.

### **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 this annual report concerning financial risk management and the group's report on capital requirements and risk management, the Pillar 3 report, which is available at smn.no.

### **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 the 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 the 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's equity capital consists of owner capital, ownerless capital and earned equity. The ownerless capital represents a 'self-owning' part of the savings bank which cannot be taken over by others through acquisition. A savings bank's ownership structure is also regulated by law such that approval is required for any acquisition entailing that a holding will represent 10 per cent or more of the bank's capital or voting rights. 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 the principal aspects of a plan for the conduct of the audit. 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*