

# Remuneration policy at SpareBank 1 SMN

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## Contents

Purpose of the remuneration policy

Regulatory conditions

Remuneration governance model

General remuneration policy

    Various types of remuneration

    Objectives and performance development

    Equal pay

Special notes on remuneration of senior personnel, material risk takers and employees with control functions

    Categorisation of senior employees et al.

    Performance-related remuneration

    Performance assessment and curtailment

    Termination of employment relationships

Reporting and revision

Remuneration of the board of directors

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### **Purpose of the remuneration policy**

The Group's remuneration policy covers all managers and staff at SpareBank 1 SMN. Each company in the Group is required to document and uphold its remuneration arrangements in conformance with the Group's remuneration policy. The board of directors of SpareBank 1 SMN has approved the remuneration policy at the recommendation of the remuneration committee.

SpareBank 1 SMN is a finance centre embodying customer-oriented, governance-oriented and operations-oriented business. Competition for competencies and manpower is keen in all areas of the Group's business. In order to strengthen the Group's competitive power the remuneration policy must at all times play its part in attracting and retaining relevant competencies. A performance-promoting remuneration policy is an important strategic tool to that end, which at the same time seeks to promote and incentivise sound management and control of Group risk, to reduce the likelihood of excessive risk taking and to help pre-empt conflicts of interest.

SpareBank 1 SMN's remuneration policy informs the design of remuneration arrangements within the respective Group companies. The aim is to assure professionalism and coherent overall management of a key strategic tool.

In addition to stimulating the achievement of the Group's business goals, the remuneration arrangements are designed to support other key risk management objectives:

- To reduce the likelihood of undesired risk taking
- To stimulate the efficient employment of capital
- To minimise the risk of internal control failures
- To assure sound and effective management of sustainability risk

### **Regulatory conditions**

The Group's remuneration policy is designed in conformity with the legislation in force at any and all times.

The central framework for the requirements set for the remuneration policy is set out in the Financial Institutions Regulations, chapter 15. with appurtenant circulars from Finanstilsynet (Norway's financial supervisory authority).

This entails inter alia that:

- The basis for variable remuneration linked to the Group's risk-adjusted profit is a multi-year period, with a qualifying period of at least two years
- SpareBank 1 SMN does not operate remuneration arrangements for customer-facing units that encourage behaviour likely to challenge our risk tolerance or ethical guidelines, or that may contribute to conflicts of interest
- SpareBank 1 SMN does not operate remuneration arrangements for control functions that encourage behaviour likely to challenge our impartiality
- Variable remuneration arrangements at SpareBank 1 SMN include curtailment clauses in the event of breaches of applicable rules or guidelines. The basis for curtailment builds on the Group's sanctions system and is duly described and made known

The Group's remuneration policy includes rules specifically for senior employees, for other employees and board members with functions of material significance for the Group's risk exposure, and for other employees and board members with control tasks.

### **Remuneration governance model**

The board of directors is responsible for appointing a remuneration committee. The remuneration committee submits to the board of directors a recommendation for the Group's remuneration policy and for the Group CEO's terms and conditions of employment. The committee moreover sets limits for variable remuneration and approves remuneration arrangements for all business lines and subsidiaries that operate such arrangements. The committee is also available as an advisory body to the Group CEO when terms and conditions are set for the Group management team.

The board of directors approves and maintains the remuneration policy, and sees to it that the documentation underlying decisions made regarding that policy is attended to. The board of directors also approves any material changes to the remuneration policy. The board of directors may, within the bounds of law, approve derogations from the remuneration policy should extraordinary factors so justify.

The remuneration committee also conducts each year a review of the practice of remuneration policy, and a report in writing is drawn up and sent to the board of directors for review and approval. The remuneration committee also sees to it that the practice of remuneration policy is reviewed at least annually by independent control functions.

The Group's remuneration policy is reviewed at least annually by the remuneration committee.

A document entitled "*Mandate for the remuneration committee of SpareBank 1 SMN*" further regulates the committee's composition and competence.

The Group's remuneration policy builds on a clear governance model to ensure sound processes and compliance.

The following bodies constitute the Group's remuneration policy governance model:

<b>Body</b>	<b>Role in the governance model</b>
Board of directors/remuneration committee	Responsible for approving and maintaining the Group's remuneration policy
Group management team	Responsible for administering and managing the Group's remuneration policy in conformity with strategic objectives
Subsidiaries' boards of directors	Responsible for formulating, documenting and managing the company's remuneration arrangements in conformity with the Group's remuneration policy, the company's strategic objectives and cost limits. A report on compliance is sent to the head of HR as a basis for overall reporting for the Group. The head of HR is informed of basis on which performance-related pay is determined and awarded before such remuneration is given effect
Managements of the bank's respective business lines	Responsible for formulating, documenting and managing the business line's remuneration arrangements for the company in conformity with the Group's remuneration policy, strategic objectives and cost limits
Managers with personnel responsibilities	Responsible for compliance with, and communication of, the business line's remuneration arrangements
Executive director, risk management	Responsible for exercising management and control of the Group's remuneration policy
Head of HR	Responsible for executing the Group's remuneration policy, and for reporting on the Group's compliance to the executive director of risk management, the internal auditor, Finanstilsynet and the Groups' remuneration committee
Chief employee representative	Discussion partner for the establishment of remuneration arrangements
Appointments committee	Appoints persons to, and sets remuneration for, positions within the General Agreement's pay scale
Negotiating committee	Negotiates changes to local corporate agreements

### **General remuneration policy**

The remuneration policy rests on the Group's overarching objectives for the current strategy period. The business lines' strategies and action plans are designed to support those

objectives. The various Group companies may accordingly operate differing remuneration arrangements within the framework of the Group's overall remuneration policy.

SpareBank 1 SMN aspires to competitive remuneration arrangements that support the recruitment and retention of staff with relevant competencies needed to fulfil the Group's strategic objectives and focal areas.

In order to ensure good remuneration practice and competitive remuneration arrangements, positions in the Group are evaluated in a systematic and objective manner. Such evaluation is the basis for the remuneration system which comprises a position structure with defined position levels and remuneration potential. The main components in the evaluation process are the position's responsibilities, complexity and competency requirements.

The remuneration system allows the Group to:

- Develop a robust remuneration system for all position levels
- Identify possibilities for job development for staff with key competencies
- Compare its remuneration practice with relevant reference markets, both within the SpareBank 1 Alliance and in the external labour market.

### Various types of remuneration

Remuneration at SpareBank 1 SMN may include the following arrangements:

- Fixed remuneration (ordinary salary)
- Variable remuneration based on performance
- Pension
- Other employee benefits
- Remuneration for new appointments
- Share purchase schemes
- Post-employment remuneration

The individual employee's employment contract shows the terms and conditions agreed for the employment relationship.

The ***fixed remuneration*** is a function of the individual staff member's role and position, including the position's complexity and responsibilities, required competency, experience and training along with local market conditions.

***Variable remuneration based on performance*** may be individual pay models, departmental bonus or company bonus. The following guidelines apply to this type of remuneration:

- There should be an appropriate balance between fixed and variable remuneration. The fixed component should be sufficiently high to allow the undertaking the possibility of paying no variable component at all.
- The variable component should as a rule not exceed 50 per cent of the fixed remuneration.
- A minimum level of performances should be required

- The criteria should be based on a combined assessment of financial and non-financial performances and results for the business unit concerned, along with the undertaking's overall results.
- The assessment underlying the award of such remuneration should be based on a period of at least two years
- Alternative arrangements may be established by way of exception where this is considered a necessary adjustment to the "industry standard" among competing undertakings.

Disbursement of variable remuneration components should be curtailed in the following cases:

Individual level:

- In the case of material breaches of the Group's policies and procedures at the individual level, as defined in the Group's procedure for follow up of quality deviations.

Department level:

- In the case of serious breaches of criteria for risk management at department level, including breaches of risk limits, material weaknesses in compliance with procedures and authorisations

Group/senior manager level:

- In the case of serious breaches of criteria for risk management at undertaking level, including breaches of risk limits, material weaknesses in compliance with procedures and authorisations

Curtailed should be undertaken at all levels where the financial situation indicates that disbursing variable remuneration would be ill-advised.

The Group offers *pension arrangements* under pension agreements at the individual company. The pension arrangements include group life cover and occupational pensions. All companies in the Group operate defined contribution schemes.

*Other employee benefits* include individual benefits, benefits offered to certain employee groups and collective benefits. The two first-mentioned categories includes for example car allowances, newspapers, internet, parking and telephone. All employees of SpareBank 1 SMN are entitled to the collective benefits in effect at any time as described and published on the intranet.

*Remuneration for new appointments* is confined to special instances with a view to attracting specialist competencies which would otherwise be unobtainable. In such cases a compensation amount may be paid where the candidate loses their right to accrued bonus that they would have received in the post they are quitting.

*Share purchase schemes* may be offered to employees of SpareBank 1 SMN. Such schemes may permit employees to purchase equity certificates and to receive bonus certificates if

ownership extends beyond a set period. They may also permit purchase of equity certificates at a discount. The latter type of share purchase scheme invariably requires the board of directors' approval.

**Post-employment remuneration** may in individual cases be granted in connection with termination of employment relationships and in connection with staff reduction processes.

In-house salary spirals are not accepted in the case of positions with identical competence requirements and areas of responsibility. Salary regulation may only take place in cases where an internal job change entails material changes in responsibilities and tasks.

### **Objectives and performance development**

The Group's remuneration policy aims to strengthen our performance culture through clear-cut performance objectives, robust performance criteria and predictable guidance and performance evaluation. At SpareBank 1 SMN performances are measured in relation to goal achievement, competence and behaviour. The performance evaluation takes a basis in the performance expected for the individual position level. All Group employees are required to attend reviews of their own development and performances with their immediate superior over the course of the year. This also applies to staff on leave of absence.

### **Equal pay**

Remuneration is determined without regard to gender, race, ethnic origin, political conviction, sexual orientation, age or other discriminatory factors. The equal pay principle entails that SpareBank 1 SMN's staff receive equal pay for the same work or work of equal value, regardless of the factors mentioned above. SpareBank 1 SMN works continuously to promote diversity and inclusiveness, and equality with regard to appointments, career development and pay.

### **Special notes on remuneration of senior employees, material risk takers and employees with control functions**

SpareBank 1 SMN aspires to be competitive in terms of remuneration to senior employees to ensure that the Group attracts and retains competent management personnel. Moreover, remuneration arrangements for management personnel must be designed to support the Group's business strategies, values, key priorities and long-term goals. Senior employees may receive all types of remuneration listed in point 3:

- Fixed remuneration (ordinary salary)
- Variable remuneration based on performance
- Pension
- Other employee benefits
- Remuneration for new appointments
- Share purchase schemes
- Post-employment remuneration

Senior employees may also receive fees for board positions held in the SpareBank 1 Alliance.

### **Categorisation of senior employees et al.**



An overarching principle adopted by SpareBank 1 SMN is that each company's top manager is responsible for risk management and control in their business by virtue of their leadership.

Other discretionary criteria for identifying senior employees conform to those established by Finanstilsynet at any given time.

### **Performance-based variable remuneration**

As a general rule SpareBank 1 SMN does not establish arrangements involving result- or performance-based variable remuneration for senior employees, material risk takers or employees with control functions.

However, where variable remuneration schemes *are* established due to market- or industry-related factors, the following guidelines apply:

- There should be an appropriate balance between fixed and variable remuneration for senior employees. The fixed component should be sufficiently high to allow the undertaking the possibility of paying no variable component at all.
- For the CEO and members of the bank's management team the variable component should not exceed 50% of the fixed remuneration. As a general rule this principle also applies to other senior employees in the Group. Alternative arrangements may be established by way of exception, subject to the constraints of regulations mentioned above, where this is considered a necessary adjustment to the "industry standard" among competing undertakings.
- The basis for variable remuneration related to the undertaking's profits should be a period of least two years. Variable remuneration can be accrued annually, based on assessments of financial and non-financial performances over a period of at least two years.
- At least half the annual variable remuneration should be awarded in the form of shares or other equity capital instruments issued by the undertaking. This does not apply where the remuneration is below EUR 20,000 and does not constitute more than one-third of the employee's overall annual remuneration.
- Where the variable remuneration constitutes a particularly large amount viewed in light of the undertaking's business activity and salary level, at least 60 per cent of the overall variable remuneration should be deferred.
- At least 40% of the shares/equity capital instruments may not be freely disposed over by the individual earlier than evenly distributed over a period of at least four years.
- For managers, material risk takers and employees with control functions, variable remuneration shall be determined with a basis in function-specific objectives and not based on the profits of the undertaking they are overseeing. The remuneration arrangement must not compromise their objectivity and independence.

Variable remuneration should be based on a combination of assessments of the financial and non-financial performance of the person concerned, the business unit concerned and the undertaking as a whole. Where profits are measured, account shall be taken of current and future risks to the undertaking and costs associated with capital and liquidity needs.

In this context the term ‘undertaking’ (*foretaket*) is to be viewed in line with the general understanding of the term as applied to the specific registered legal entity.

### **Key figures**

The basis for determining variable remuneration is risk adjusted profit. The process of determining remuneration should make allowance for all risks ensuing from the undertaking’s business, including the cost of capital and liquidity needed by the undertaking.

### **Performance assessment and curtailment**

Performance shall be determined with a basis in predetermined financial and non-financial criteria. Relevant control functions should be included in the assessment. Compliance with the Group’s values and ethical guidelines should invariably be included in any assessment of performance and disbursement of variable remuneration.

Over the course of the four-year period mentioned above, an ex post risk adjustment should be made before variable remuneration is determined with final effect for the employee. This enables the undertaking to adjust the remuneration to the employee through the use of reduction mechanisms.

### **Termination of employment relationships**

As a general rule senior employees, like other employees, have a three-month notice period. Further, members of the Group management team may receive post-employment remuneration upon retirement. The ultimate size of such remuneration will be assessed under the remuneration rules in effect at any given time.

### **Reporting and revision**

The implementation of the remuneration arrangement is subject to annual review. A written report on each annual review shall also be drawn up. The report is to be scrutinised by the internal auditor and presented to the remuneration committee and board of directors.

The Group duly publishes information about its remuneration arrangement in accordance with the legislation in force at any given time.

### **Remuneration of the board of directors**

Remuneration of members of SpareBank 1 SMN’s board of directors, including employees with board positions, is determined by the supervisory board at the recommendation of the election committee. Board members receive a fixed fee, and no board member may receive any form of bonus or performance-based fee. Remuneration of board members is subject to annual assessment.