

Policy on the remuneration of senior employees at SpareBank 1 SMN

Adopted by the Supervisory Board on 25 March 2021

Intention behind the policy

This policy lays down and describes the group's remunerations to senior employees, and their follow up, in keeping with Regulations of 11 December 2020 no. 2730 on guidelines on and reporting of remuneration for senior personnel.

SpareBank 1 SMN operates a group-wide remuneration policy. This policy underlies the design of remuneration arrangements within the respective group companies. The group's policy on remuneration of senior employees builds on the principles of the group's general remuneration policy.

SpareBank 1 SMN is a finance centre embodying customer-oriented, governance-oriented and operations-oriented 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 managerial competencies.

SpareBank 1 SMN's policy on the remuneration of senior employees 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.

General notes on the group's 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 the relevant competencies needed to fulfil the group's strategic goals and focal areas.

In addition to stimulating achievement of the group's business goals, the remuneration arrangements are designed to fulfil the following 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

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 SpareBank 1-alliansen and in the external labour market

Regulatory conditions

The group's policy on the remuneration of senior employees is shaped in conformance with the legislation in force at any given time.

The central framework for the requirements set for the remuneration scheme is laid out in Chapter 15 of the Financial Institutions Regulations with associated circulars issued by Finanstilsynet (Norway's financial supervisory authority).

Governance model

The board of directors is responsible for appointing a remuneration committee. The remuneration committee submits a recommendation to the board on the general remuneration policy and the guidelines that are to govern the remuneration of senior employees. The committee also 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.

Guidelines for the remuneration of senior employees are considered by the board of directors ahead of final approval by the supervisory board. The board of directors may, subject to constraints of law, derogate from all aspects of the guidelines should exceptional circumstances require this to be done in the interest of safeguarding a company's long-term interests and financial capacity or to protect a company's viability.

Various types of remuneration to senior employees

SpareBank 1 SMN aspires to be competitive in terms of the remuneration of its senior employees to ensure that the group attracts and retains competent management personnel. Moreover, remuneration arrangements for senior management must be designed to support the group's business strategies, values, key priorities and long-term goals.

Senior employees may receive the following types of remuneration:

- Fixed remuneration (ordinary salary)
- Variable remuneration based on performance
- Pension
- Other employee benefits
- Remuneration for new appointments
- Share purchase schemes
- Post-employment remuneration
- Fees for board positions in SpareBank 1-Alliansen

Fixed remuneration

Fixed remuneration is a function of the individual manager's role and position, including the position's complexity and responsibilities, required competency, experience and training along with local market conditions.

Variable remuneration

As a general rule SpareBank 1 SMN does not establish variable remuneration arrangements for senior employees based on performance.

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

- There shall be an appropriate balance between fixed and variable remuneration for senior employees. The fixed component shall 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 group management team the variable component shall as a rule not exceed 50 per cent 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 shall 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 shall be awarded in the form of shares or other equity capital instruments issued by the undertaking.
- The shares/equity capital instruments may not be freely disposed over by the individual earlier than evenly distributed over a period of at least three years.

Variable remuneration is based on a combination of assessments of the person concerned, the business unit concerned and the undertaking as a whole. Where profits are measured, account will be taken of 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.

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

When performance-related variable remuneration is to be fixed, profits are assessed with a basis in predetermined financial and non-financial criteria. Relevant control functions are included in the assessment. Compliance with the group's values and ethical guidelines is always included in any assessment of performance and disbursement of variable remuneration.

Over the course of the three-year period mentioned above, an ex post risk adjustment has to 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.

Pension arrangements

Pension arrangements for managers in the group are based on the pension agreements of the company in question.

The pension arrangements include group life cover and occupational pensions. All companies in the group operate defined contribution schemes. In addition, some managers have a pension agreement for salary above 12G (12 times the basic amount available under the National Insurance Fund Scheme). The contribution rate under this scheme is 15 per cent. This was previously a group-wide arrangement but was closed in 2017. Any new agreements on individual pension accrual in respect of remuneration above 12G require the board of directors' approval.

One member of the group management team has an early retirement pension agreement, granting this person the right to retire on reaching age 62. Any new agreements on early retirement pension require the board of directors' approval.

Other employee benefits

Other employee benefits include both individual benefits and collective benefits. The first-mentioned category includes car allowances, newspapers, internet, parking and telephone. All employees of SpareBank 1 SMN, including managers, are entitled to the collective benefits in effect at any time as they are described and published on the intranet.

Fixed remuneration for new appointments

Use of the fixed remuneration for new appointments is confined to special instances with a view to attracting specialist competencies which would otherwise be unobtainable. As a general rule such remuneration is employed in the case of appointments where the candidate loses their right to accrued bonus or commission that they would have received in the post they are quitting.

Share purchase schemes

Share purchase schemes are open to senior employees of SpareBank 1 SMN. Such schemes may permit senior employee 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

Post-employment remuneration may in individual cases be granted to managers in connection with termination of the employment relationship and in connection with staff reduction processes.

Categorisation of senior employees

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 are in line with those established by Finanstilsynet at any given time.

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 up to 12 months' pay upon retirement. The ultimate size of remuneration after termination of employment will be assessed under the remuneration rules in effect at any given time.

Reporting and review

The practice of remuneration policy and procedures is subject to annual review, including compliance with the group's policy on remuneration of senior employees. A written report on each annual review is also drawn up. The report is scrutinised by the internal auditor and presented to the remuneration committee and board of directors.

The group publishes information about its remuneration arrangements and policy on remuneration of senior employees in accordance with the legislation in force at any given time.

Remuneration of employee representatives on the board of directors

Remuneration of employees with board positions in the group is fixed by the supervisory board on the recommendation of the election committee. Board members receive a fixed fee, and no board members may receive any form of bonus or performance-based fee. Remuneration of board members is subject to annual review.