

Sir David Walker,
c/o HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Date: 30 Sep 2009
Your ref.:
Our ref.: AKV

Sent via email to: feedback@walkerreview.org

Dear Sir David,

Walker Review of Corporate Governance of UK Banking Industry

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian central bank (Norges Bank) and is responsible for investing the international assets of the Norwegian Government Pension Fund. NBIM also manages the major share of Norges Bank's foreign exchange reserves and the Government Petroleum Insurance Fund.

NBIM holds assets in excess of NOK 2500 billion, (£265 billion) of which approximately £32 billion is invested in UK equities. NBIM is committed to make active use of its ownership rights in order to safeguard the financial wealth of future generations by promoting good corporate governance and high ethical, social and environmental standards at investee companies. NBIM supports initiatives that seek to strengthen the quality of corporate governance and we welcome the opportunity to contribute to the Walker Review.

Our summary recommendations:

- NBIM fully supports those recommendations of the Walker Review that will enhance accountability for board directors and shareholders.
- NBIM favours annual election for all directors in addition to an annual vote for the reappointment of chairman. We also encourage improved disclosure of individual director competencies.
- NBIM sees merit in a single Combined Code with any specific banking governance requirements taken up by the Financial Services Authority (FSA) and incorporated in its rule-making, investigatory and enforcement powers.
- NBIM supports the recommendation to separate the Combined Code into a Company code and Principles for shareholders.
- NBIM endorses the critical importance of risk monitoring.
- NBIM believes that setting remuneration policies that incentivise executives and employees and align shareholder interests is the responsibility of the board.

Moreover, moving immediately to annual election for all directors will ensure proper accountability by each director for his or her actions. In companies where annual elections for all board members currently exist, we have not witnessed any sudden or unjustifiable wholesale removal of a board. Such fears are misplaced. Shareholders are accountable for their voting decision and must be trusted to act in the best interests of the company. Annual elections for all directors will demonstrably increase the accountability of directors and, by consequence, we believe will contribute to raising decision making standards.

The role and competencies of the board

The financial crisis has identified an evident lack of competence on financial company boards. We regard this Review as an opportunity to address the wider issue of director competencies on boards in general. Revision to the Combined Code and the final recommendations of the Walker Review should seek to achieve meaningful improvements in this key area of governance risk. We support the call for non executive directors to give greater time commitment than has been normal in the past, but we believe it is the responsibility of each director, and ultimately the chairman, to determine the appropriate time commitment. Consequently, we see no need for a prescriptive minimum number of days duty to be stated in offer letters.

Similarly with regard to director induction, training and performance evaluation, it is the duty of the board to ensure itself that it is fit for purpose. We support full disclosure of the process by which a company evaluates the performance and contribution of each director as well as the aggregate balance of skills and competencies on the board. We also look for improved disclosure requirements on director qualifications and skill sets at the time of candidate nominations. This will improve the basis for board member election and raise accountability towards shareholders.

The Role of Institutional Investors

NBIM endorses the recent statement by Lord Myners that shareholders must take front-line responsibility for the companies in whose equity they have invested funds. As already stated, we are committed to make active use of our ownership rights and accept we are accountable for our own actions and decisions. We fully support the recommendation to formally divide the existing Combined Code into a Company Governance Code and to create separate Principles for Stewardship for Investors.

Through our actions NBIM embraces the Principles of Stewardship as developed by the Institutional Shareholders Committee (ISC). We see merit in setting out, publicly, our policy regarding voting. We publish annually our voting record on each resolution for all companies globally. The cost of doing so is not overly burdensome and we would encourage other investors to consider a similar policy of open and accountable disclosure.

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hold the board accountable for its decisions regarding the allocation of profit to remuneration. To this end we are cautious over 'Say on Pay'. Evidence in the UK market for the first six years of the policy application suggests say on pay has neither aligned investors' interest with those of executives nor restrained total remuneration levels. NBIM believes it is more appropriate to vote against the Remuneration Committee members responsible for approving inequitable remuneration schemes than vote against a non-binding remuneration report.

Conclusion

We reiterate our support for the efforts taken by Sir David and his Committee members in seeking to raise the standards of corporate governance of UK banks and other financial institutions. As a major, committed and long term shareholder in UK companies we welcome this opportunity to contribute to the corporate governance policy making process. NBIM would be pleased to discuss our proposals directly with the Committee should that be of value for its considerations.

Yours sincerely,



Anne K. Kvam
Global Head of Corporate Governance

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