

CORPORATE GOVERNANCE

PURPOSE

Sparebanken Sør's corporate governance principles include the objectives according to which the bank is managed and controlled in order to protect the depositors and other groups' interest in the Bank. The object of corporate governance is to clarify the distribution of roles between the Bank's governing bodies and the day-to-day management over and above what is stated in the legislation. The principles are based on the Norwegian Code of Practice for Corporate Governance of 4 December 2007 and the rules and regulations for good corporate governance given by the Committee of European Banking Supervisors (CEBS).

In Sparebank Sør, corporate governance must ensure good interaction between the Bank's various interests, such as lenders, customers, employees, governing bodies, management and society as a whole. The principles of corporate governance describe how the Bank will be managed and supervised in order to create values for the Bank and its interested parties.

The principles of corporate governance have been specified in various controlling documents for Sparebanken Sør's business. This includes, among other things, the Bank's articles of association, strategies, board of directors' manual, the management and supervision framework, code of conduct and own-account trading routines.

VALUE CREATION

Sparebanken Sør's objects clause is given in the Bank's articles of association. The object of the Bank is to supply financial services to the private sector, industry and commerce and the public sector in Vest-Agder, Aust-Agder and Telemark. The business will be conducted with satisfactory profitability and justifiable risk.

Sparebanken Sør is a self-owning institution. The Bank has not issued Equity Certificates or other external equity capital and therefore does not have any external owners.

An important tool related to the Bank's social responsibility is the donation fund. The Bank endeavours to give some of its profit back to the local community through donations to worthwhile causes and would like to make allocations within the framework of the law, as far as the operating result and a sound balance sheet allows.

Sparebanken Sør makes an annual review of the Bank's business strategy, including vision, objectives and strategies. The Bank's business strategy forms the basis for specification of the level of ambition in the Bank's overall business and thereby also for the Bank's market activities in order to achieve the targets for financial return, growth and development. The Bank's employees are involved in the work and information about the Bank's business strategy is published on the Bank's website and in its annual report.

GOVERNING BODIES

The Board of Trustees is the Bank's supreme body and will ensure that the Bank operates according to its object in accordance with applicable laws, by-laws and its own resolutions. The Board of Trustees consists of 28 members, who are elected by the Bank's depositors (a total of 16 members), the county municipalities of Vest-Agder, Aust-Agder and Telemark (a total of 5 members) and the Bank's employees (a total of 7 members).

The Board of Trustees elects the Board of Directors, which consists of 9 members, three of whom must be elected from each of the Agder counties, 1 member from Telemark and 2 employee representatives. The Chairman of the Board is responsible for convening the meetings and for making sure that Board of Directors' discussions are duly recorded in the minutes of meeting. The Board of Directors has overall responsibility for management of the Bank and for supervision of the day-to-day management of the business. The Board of Directors also ensures that the Bank operates in accordance with the applicable law, by-laws and the Board of Trustees resolutions. The Board of Directors is responsible for ensuring that the assets Sparebanken Sør has control of are managed in a safe and reassuring manner. The Board of Directors must ensure that the Bank's operations are organized in an appropriate way and there is good and reassuring control. The Board of Directors has set up an Auditing Committee consisting of 3 members. Powers of attorney to the CEO is granted by the Board of Directors and these are delegated onward to the Bank's managers and employees to an appropriate extent.

The CEO is appointed by the Board of Directors, who also stipulate his terms of employment. He is responsible for the day-to-day management of the Bank and must follow the instructions given by the Board of Directors. Day-to-day management does not include matters of an unusual nature or great importance to the Bank. He must ensure ongoing accounting complies with the applicable laws and regulations and that management of all assets and liabilities is done in a safe and reassuring manner. The CEO's remuneration is not linked to performance nor is he included in the Bank's ordinary profit sharing scheme. The CEO has appointed a Group management, who together with him are responsible for the operational management of the Bank's operations. Sparebanken Sør's Group management team consists of 4 members, including the CEO, and holds weekly meetings, or more frequently if circumstances so require.

SUPERVISORY BODIES

The Control Committee is elected by the Board of Trustees and consists of 3 members, one of whom must be a lawyer. On behalf of the Board of Trustees, the Control Committee must supervise the Bank's operations and make sure that these are in accordance with the applicable laws and regulations and instructions given by the Board of Trustees.

Auditing, internal control and risk management

The external auditor is elected by the Bank's Board of Trustees. He or she must confirm that the financial information contained in the Annual Accounts is correct and that the accounts comply with the applicable laws and regulations. The external auditor must also ensure that the Bank has organized the management of assets and liabilities in a safe, secure and reassuring manner and with appropriate internal control.

The Bank also has an internal auditing unit, which is led by the internal audit manager, who reports directly to the Board of Directors. The internal audit manager attends the Board of Directors' meetings and submits reports to the Board of Directors on the quality of the Bank's internal control. The internal audit manager is allowed to make comments on matters presented by the Group management. The internal audit manager submits an annual confirmation of the Bank's internal control and risk management to the Board of Directors. The internal auditing unit's action plan is subject to the Board of Directors' annual approval.

ELECTION COMMITTEE

The Election Committee is elected by the Board of Trustees and consists of 5 members. The Committee must make the necessary preparations for election of depositor-elected members of the Board of Trustees, the Chairman and Deputy Chairman of the Board of Trustees, the Chairman and Deputy Chairman of the Board and the other members of the Board of Directors. The Election Committee must make preparations for election of the Control Committee's Chairman, Deputy Chairman and members and also the Chairman, Deputy Chairman and members of the Election Committee.

MANAGEMENT AND CONTROL, INCLUDING ORGANIZATION

In accordance with law and regulations and also internally adopted management, control and reporting routines, there is clear distribution of responsibilities between the various bodies in the Bank. The key bodies are the Board of Trustees, the Control Committee, the Board of Directors, external auditing, internal auditing and Group management.

Long-term income targets for the operations are based on the adopted strategies and objectives. These control the Bank's specific targets, frameworks, budget, etc. Risk-adjusted targets for the operations are set wherever this is natural. The required rate of return reflects that the various risks the Bank undertakes must be moderate and manageable, both on the asset and liability side of the balance sheet, and is expressed in an adopted risk profile. Risk and capital assessments are integrated in the Bank's management process and value creation.

The Board of Directors adopts the Bank's risk strategies (credit, market, funding, operational), and risk identification procedures have been established. In addition to the Bank's ongoing finance reporting, there is quarterly risk reporting, which shows the status in relation to targets and any action required. Analyses and reports are carried out when required and are discussed by the Bank's management and Board of Directors.

The Board of Directors has adopted guidelines for the Bank's capital assessment and an annual process is implemented relating to the Bank's risk and capital requirements (ICAAP). This is based on requirements set by the authorities and also the Bank's own assessments. The Bank's internal control follows instructions, routines and guidelines for the line organization. Overall control and follow-up, including event reporting and internal control confirmation, is taken care of by the Bank's Risk Management Unit.

REMUNERATION FOR MEMBERS OF THE BOARD OF DIRECTORS

Board members receive a fixed annual remuneration, which is determined by the Board of Trustees. There are no performance-related fees or other bonus scheme for the members of the Board of Directors.

REMUNERATION FOR MEMBERS OF THE GROUP MANAGEMENT TEAM

The Board of Directors determines the CEO's remuneration. The CEO determines the remuneration for all other members of the Group management team according to guidelines from the Board of Directors. None of these members receives performance-based remuneration, apart from their participation in the Bank's ordinary profit-sharing scheme, which comprises all the Bank's employees and which is the same for all.

The Board of Directors has established a pension agreement for the CEO, which enables him to leave the Bank on reaching 60 years of age.

MARKET COMMUNICATION / INFORMATION

The Bank will establish trust in the financial markets through focus on correct, relevant and timely information regarding the Bank's development and results. Information to the market is communicated through quarterly stock exchange reports and press releases, the Bank's website and also annual and quarterly reports.

COMPLIANCE WITH ACTS, REGULATIONS AND ETHICAL STANDARDS

The Bank depends on the customers' trust and the trust of the community in general. Therefore, the Bank has developed a communication strategy to underpin the Bank's values and operations. Emphasis is also placed on maintaining a high ethical standard in the Bank's business operations. Sparebanken Sør has a code of conduct that applies to all employees and employee representatives. This code of conduct includes areas such as impartiality, duty of confidentiality, customer relations, participation in the business activity and transactions with closely related parties.

Rules have also been adopted relating to the employees and the employee representatives' securities trading – including own account and insider trading. These guidelines will ensure that the Bank's operations at all levels are conducted in a reassuring manner with regard to impartiality and objectivity. Compliance within sub-areas is taken care of by various specialist functions in the organization. There is a special Compliance Officer in the securities and trading activities. Possible breaches / deviations shall be reported to the Bank's group management and Board of Directors.

The employees' duty of confidentiality is an important aspect of the Bank's handling of confidential information about private persons, companies and the public sector.