



CORPORATE GOVERNANCE

PURPOSE

Sparebanken Sør's corporate governance principles will ensure that the bank's corporate governance is in accordance with generally accepted and recognized views and standards and also statutes and regulations.

The principles describe the general guidelines and the aim is to ensure good cooperation between the bank's various partners, 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 partners.

The corporate governance principles have been specified in various controlling documents for Sparebanken Sør's operations. This includes the bank's articles of association, strategies, management and supervision framework, code of conduct and own-account trading routines.

The controlling documents have been based on the Norwegian Code of Practice for Corporate Governance and also the Committee of European Banking Supervisors' principles for good corporate governance.

One of the aims of Sparebanken Sør is to satisfy the recommendations in the above-mentioned documents, as far as this is possible.

OPERATIONS

Sparebanken Sør is a financial group, which consists of the parent bank and subsidiaries. References to the bank and / or Sparebanken Sør in this article concern the Sparebanken Sør group.

The object of Sparebanken Sør is to provide financial services to the private sector, industry and commerce and the public sector in the counties of Vest Agder, Aust Agder and Telemark. The business will be conducted with satisfactory profitability and justifiable risk. The strategy plan contains a description of the bank's objectives and strategies. The strategic basis is evaluated by the board of directors and management at least annually and the bank's plans are adjusted on an ongoing basis. The market is updated through presentation of quarterly reports.

Sparebanken Sør's social responsibility is extensive and is attended to in several ways, primarily through non-profit activities, participation in and helping to organize meeting places for industry and commerce and the community and also assets in companies / funds, the purpose of which is to create growth and development.

Sparebanken Sør has a customer-oriented organization with the retail banking and corporate market as the core business areas. These are supplemented by support areas and group services. The bank's organizational structure is dynamic and is assessed on the basis of changed needs and framework conditions.

NOMINAL SHARE CAPITAL AND DIVIDEND

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 external supply of capital is achieved through issue of covered bonds.

The board of directors makes at least an annual assessment of the capital situation in the bank and the last time this was done was at the end of 2010. Sparebanken Sør's profit for the year after allocations to donations is transferred to primary capital.

SUPERVISORY BOARD AND CONTROL COMMITTEE

The supervisory board is the bank's supreme body and will ensure that the bank operates according to its object in accordance with applicable statutes, articles of association and its own resolutions. The supervisory board is composed of 28 members, who are elected by the bank's depositors (a total of 16 members), the counties of Vest-Agder, Aust-Agder and Telemark (a total of 5 members) and the bank's employees (a total of 7 members).

Amendment of the bank's articles of association may be resolved by the supervisory board when a motion regarding this has been put forward at previous meeting. The resolution is valid when at least two thirds of those present and at least half of all the members of the supervisory board vote in favour of it.

Notice of ordinary meetings in the supervisory board is given in accordance with provisions in the Savings Banks Act and the Financial Services Act. A notice of the ordinary meeting of the supervisory board is sent annually by the end of March, where items on the agenda include the annual accounts, annual report, auditor's report and the report from the control committee. Allocation of donations is also discussed at this meeting. At the end of April each year a meeting of the Supervisory board is held to elect members of the board of directors and the control committee, etc. A separate election is held among customers and employees in order to elect representatives on the Supervisory board.

The supervisory board has elected an election committee that puts forward proposals to depositor-elected members of the supervisory board, the board of directors and the control committee. The chairman and deputy chairman of the supervisory board are elected in a separate election.

The control committee, who are also elected by the supervisory board, shall supervise the bank's operations. In accordance with the articles of association, the control committee must be composed of 3 members and 2 deputy members. The board of directors, CEO and members of the executive management and specialists also attend the meeting of the supervisory board, as required.

ELECTION COMMITTEE

In accordance with the articles of association, the election committee in Sparebanken Sør is composed of 5 members and 5 deputy members. Representatives from all groups are represented on the supervisory board. The election committee must give the reasons for its recommendations and these must contain relevant information about the candidates, including qualifications, capacity and independence. The recommendation must also include information about the committee's work. The election committee also attends the supervisory board meeting and puts forward its proposals. The election committee puts forward proposals regarding remuneration to employee representatives. No board members or representatives from the management are members of the election committee.

BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The board of directors is composed of 9 members and must have 3 representatives from each the Agder counties, 1 representative from Telemark and 2 employee representatives. Similarly, 4 deputy members are elected for 2 and 1 year at a time. The chairman and deputy chairman are elected by the supervisory board. At present, four of the regular board members are women. Important criteria for election of board members and the composition of the board are qualifications, gender, capacity and independence. The majority of the board members must not be connected to the bank's management and main business relations. The total competence of the board of directors will be assessed regularly in relation to the bank's challenges and the result of the assessment will be reported to the election committee.

The board of directors has set up an audit committee composed of 3 board members, which plans 5 meetings a year. The members are elected for one year at a time and at least one member must have accounting qualifications. The object of the audit committee is to comply with EU's Statutory Audit Directive and provide advice and carry out preparatory work for the board of directors related to the accounts reporting process, risk management, internal control, internal audit and elected auditor. The audit committee reviews the draft quarterly and annual report before these are discussed by the board of directors. The committee assesses compliance with the accounting principles and general accepted accounting standards and also valuation and presentation. In its review of the accounts, the committee has discussions with the management, the internal audit and the elected auditor.

The duties of the audit committee include ensuring that the bank has independent and efficient internal and external auditing, and that the risk management systems function efficiently. At least once a year, the committee has a meeting with the elected auditor and the bank's chief auditor individually, with no one from the administration present.

THE BOARD OF DIRECTORS' WORK

The board of directors of Sparebanken Sør has 11 fixed meetings a year, as well as meetings in connection with strategy work. A wheel of the year has been drawn up for the board of director's work. The board of directors places special emphasis on the work with annual review of the strategy plan. The board of directors also assesses whether the bank's capital situation and risk picture is commercially justifiable and within the statutory framework.

The CEO prepares matters to be discussed by the board of directors in cooperation with the chairman of the board. The board of directors has overriding responsibility for management of Sparebanken Sør and for supervising the day-to-day management and the bank's operations. The board of directors' management responsibility includes responsibility for organizing the bank properly, responsibility for establishing plans and budgets for the bank, responsibility for keeping itself updated about the bank's financial situation and that the bank's operations, asset management and accounts are under satisfactory supervision. The board of directors must follow the object of the business laid down in the bank's articles of association and must follow the guidelines and framework conditions laid down by the government, the Financial Supervisory Authority of Norway, the supervisory board and the control committee.

As part of its work, the board of directors has set up two committees:

- The audit committee, which will ensure that Sparebanken Sør has an independent and efficient external and internal auditing and also accounting and risk reporting in accordance with the statutes and regulations.
- The remuneration committee, which will ensure that the bank practises a competitive wage policy, which the bank's management finds motivating with a view to implementing the adopted strategy and established objectives and that complies with the applicable regulations.

The bank's internal auditor reports to the board of directors and is entitled to attend board meetings. An annual report regarding the work carried out is submitted to the board of directors. The board of directors approves the internal auditor's annual plan and resource requirements.

RISK MANAGEMENT AND INTERNAL CONTROL

Good risk and capital management are key elements of Sparebanken Sør's long-term value creation. The bank's overriding objectives have been laid down in the strategic business plan. The targeted return is decisive for the bank's activities and specification of sub-goals and there is focus on securing short and long-term competitiveness. Sparebanken Sør's market and commercial targets are balanced against the bank's risk capacity and willingness. Risk and capital assessments are an integral part of the bank's strategic and commercial processes.

The bank's risk management is associated with four risk areas:

- Credit risk
- Market risk
- Funding risk
- Operational risk

The board of directors of Sparebanken Sør assumes that the bank has good capital adequacy. Capital assessments (ICAAP) are made annually and the bank's capital strategy will be based on actual risk in the operations, supplemented with the impact of various stress scenarios. Responsibility for implementation of the bank's risk and capital management and supervision has been divided between the board of directors, the management and operational units.

The board of directors is responsible for ensuring that the bank has adequate capital based on the desired risk and the bank's operations and also for ensuring that the bank is adequately capitalized in accordance with the regulatory requirements. The board of directors also adopts the bank's targets and limits within all risk areas, including guidelines for the bank's risk and capital management. Reporting on targets and limits takes place quarterly.

The CEO has operational responsibility for the bank's total risk management, including development of good models and management and supervision frameworks.

The bank's Risk Management Department attends to important functions related to managing, monitoring, measuring and reporting the various risks. This department is also responsible for the bank's risk and capital management models. The Risk Management Manager reports to the CEO.

The bank's internal control is laid down in instructions, routines and guidelines for the line organization. Ongoing internal control is carried out in the line, whereas Risk Management is responsible for overall reporting and supervision and adaptation of internal control systems.

The bank relies on building trust among its customers and society as a whole. Emphasis is 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. These guidelines include areas, such as impartiality, confidentiality, customer relations / representation, participation in business activities and transactions with closely related parties.

Rules have also been adopted relating to employees and the employee representatives' 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 the various specialist functions in the organization. There is a special Compliance Officer in the securities and trading activities.

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

Sparebanken Sør's operations are supervised by the Financial Supervisory Authority of Norway. In addition to local supervisory activities, the Financial Supervisory Authority of Norway also reviews the bank's annual, quarterly and half-yearly accounts and also risk reports. The board of directors and the administration aim at maintaining an open and constructive dialogue with the Financial Supervisory Authority of Norway.

REMUNERATION TO THE BOARD OF DIRECTORS

The board of directors receives a fixed annual remuneration, which is determined by the supervisory board according to a recommendation from the election committee. There are no performance-related fees or other bonus schemes for the board members.

REMUNERATION TO MEMBERS OF THE GROUP MANAGEMENT TEAM

The board of directors determines the remuneration to the CEO and internal auditor, whereas remuneration to the group management team is determined by the CEO according to principles adopted by the board of directors and following prior discussion by the board of directors' remuneration committee. None of these have performance-based remuneration, apart from participation in the bank's ordinary profit-sharing scheme, which comprises all the bank's employees and which is the same for all. Wages and payments to the group management team are presented in the notes to the accounts.

INFORMATION AND COMMUNICATION

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 financial reports.

Financial reporting for the Sparebanken Sør group takes place quarterly in addition to the annual accounts. The annual accounts are audited by an external auditor. Regular presentations are also given to international business partners, lenders and investors and the bank is also rated by an international rating agency.



TAKEOVER

Sparebanken Sør is a self-owning institution that cannot be taken over by others through acquisition.

AUDITOR

An external auditor is elected by the supervisory board. The auditor submits an annual auditor's report to the supervisory board. The auditor attends the board meeting when the annual accounts are on the agenda. The auditor also attends the control committee meetings and the board of directors' audit committee meetings. The relationship with the auditor is regulated in a letter of engagement, which deals with such things as the parties' responsibilities, stipulation of auditor's fee and how other services shall be agreed and paid. The external auditor and internal auditor meet once a year with the board of directors' audit committee, without the CEO being present. The minutes from the board of directors' audit committee meeting is submitted to the board of directors.