



SPAREBANKEN SØR

Corporate governance



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CORPORATE GOVERNANCE REPORT

Sparebanken Sør is an independent financial services group whose principal activities are in banking, securities and real estate in Agder, Vestfold and Telemark as well as Rogaland.

In addition to the parent company Sparebanken Sør, the Sparebanken Sør Group consists of the following companies:

PARENT BANK 31.12.2020					
NOK THOUSAND	Type of business	Office location	Owner shares	Share capital	Nominal value
Sparebanken Sør Boligkreditt AS	Credit institution	Kristiansand	100 %	1 125 000	2 095 695
Sørmegleren Holding AS	Estate agency firm	Kristiansand	91 %	10 739	11 499
AS Eiendomsvekst	Property management	Arendal	100 %	3 000	2 935
Arendal Brygge AS	Property management	Arendal	50 %	601	-
Prosjektutvikling AS	Property management	Arendal	100 %	100	-
Transitt Eiendom AS	Property management	Kristiansand	100 %	100	780
Total					2 110 909

The headquarters and registered address of the bank are in Kristiansand. The head office of the retail banking division and some of the corporate functions are located in Arendal. The Bank's organisation number is 937 894 538. This report is based on NUES (Norwegian Code of Practice for Corporate Governance) and the "comply or explain" requirements of the Oslo Stock Exchange.

The company's intention with this document is:

- To clarify the allocation of roles between the Bank's governing bodies and day-to-day management
- Equal and secure access to reliable and timely information on the company's operations
- Equal treatment of equity certificate holders
- To optimise the company's value in a long-term perspective

The corporate governance principles have been specified in various policy documents for Sparebanken Sør's operations. This includes the bank's articles of association, strategies, Board instructions, instructions for the CEO, framework for management and control, governance document for sustainability and procedures for own-account trading.

THE CONNECTION WITH THE BANK'S OTHER POLICY DOCUMENTS

The Bank's strategy documents specifies the overall plans for the Group, and to complement the totality of the Group's policy documents there should be a close correlation between the overall strategy document and the complementary and more detailed governance documents.

The structure of the various documents is shown below.



For some policy documents there are, in addition, supplementary documents adopted by the administration. To ensure that the various policy documents correspond to the Group's objectives, the policy documents have to be revised and maintained regularly. An audit is normally carried out within a period of 12 months with a decision by a relevant authority.

For operationalization of the Bank's strategic objectives, detailed annual action plans.

The document owner is responsible for ongoing maintenance, including presenting proposals for changes and ensuring that these are treated in accordance with the Bank's procedures. The document owner is responsible for implementing the governing documents in the organisation.

For a comprehensive overview of the various management documents, see the document «Organization of risk management in Sparebanken Sør».

OPERATIONS

Objectives

The Bank's objective is to generate growth and development in the region in a long-term, responsible and sustainable manner.

Main strategies

To generate growth and development in the region, Sparebanken Sør has a strategy for high value creation. The Bank's strategic objective will be achieved through proximity to the market, customer focus, building of relations, expertise, local decision-making power, competitive products, motivated employees and cost-effective processes. By doing this, the Bank's reputation is enhanced, customer loyalty is built up and the Bank's profitability is safeguarded.

Sparebanken Sør's main market area is Agder as well as Vestfold and Telemark and Rogaland. In addition, the Bank aims to strengthen its position in the KNIF segment (Kristen-Norges Innkjøpsfelleskap), in both the retail and corporate markets. Expansion in the KNIF segment will provide growth potential and diversification of risk. Growth will be controlled and based on profitability and low risk.

The Board directs the Bank's operations, and the work of the Board follows an established annual plan and Board instructions. The Board adopts the Bank's strategy in a three to five-year perspective. The strategic plan is evaluated on a rolling basis over the strategic period. The Board establishes goals and a risk profile for the business annually.

As a traditional savings bank dating back to 1824, Sparebanken Sør is run in accordance with the statutory rules that apply at any particular time to savings banks. The Bank can perform all normal banking transactions and services and provide investment services in accordance with the applicable regulations at any time. See the articles of association on the Bank's website www.sor.no.

Social responsibility

Social responsibility is integral to Sparebanken Sør's business. Sparebanken Sør's corporate social responsibility is expressed in the bank's business concept of contributing to growth and development in the region, and the goal of its social responsibility activities is to help achieve this in a responsible and sustainable way. Work on social responsibility helps to strengthen the Bank's competitiveness, reduce risk, and attract good customers, investors and skilled employees.

Sparebanken Sør is committed to taking considerations of the climate, the environment, social conditions and good corporate governance in all its activities, including the development of products and services, advisory and sales activities, investment and credit decisions, and in its production and operations. Sparebanken Sør shall not contribute to the infringement of human and workers' rights, corruption, serious environmental damage and other acts, which may be regarded as unethical.

By being a community building company, Sparebanken Sør contributes toward sustainable industrial and social development through creating values for the region. The bank also supports projects in culture, sport and other areas that make a positive contribution to the region. In addition to traditional sponsorship of teams and clubs, the Bank carries on the strong tradition of making donations for the public good in its capacity as an independent savings bank.

Measures against money laundering and the financing of terrorism

Sparebanken Sør must comply with the authorities' anti-money laundering regulations whose purpose is to combat money laundering and the financing of terrorism. This includes both an automatic notification system for suspicious transactions and responsibility for each individual employee to report individual cases or, if appropriate, to carry out intensified customer checks. The Bank has specific procedures for this and provides continuous training for employees, particularly those, who are in direct contact with customers.

Environmental matters

Sparebanken Sør takes account of climate issues. Environmental protection is becoming increasingly more important to and the bank would like to do its part to contribute. Sparebanken Sør has defined work on internal environmental efficiency as a priority area in the Bank's response to climate change.

Deviations from the recommendation: None

EQUITY AND DIVIDENDS

Equity

Sparebanken Sør's equity is complex for several reasons. The most important of these are the size of the Group, a stable market for long-term funding and the Bank's objectives in a long-term, strategic perspective. Through annual evaluation of management and control, including the Internal Capital Adequacy Assessment Process (ICAPP), the Group has a strong focus on ensuring that its equity is tailored to its goals, strategies and risk profile. The capital situation is monitored closely through the year with internal calculations and reports.

Dividend

Risk-adjusted return is assumed to be high and competitive in the market. The equity certificate holders' mathematical share of profit is split between a cash dividend and an equalisation fund. The objective is for 50 to 70 percent of the equity certificate holders' share of profit for the year after tax to be distributed as a dividend.

Emphasis is placed on the bank's equity development, solvency, liquidity situation and market adjustment when determining the size of the cash dividend and the share of the profit.

Board authorisations

The Bank's articles of association do not contain any provisions on the purchase of own equity certificates. Decisions on this issue must be discussed and adopted by the Board of Trustees, which can authorise the Board of Directors. Such decisions/authorisations to increase equity are otherwise based on the Financial Institutions Act and the principles set out in the Public Limited Companies Act.

Deviations from the recommendation: None

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

The bank will place strong emphasis on transparency in relation to those, who provide the bank with equity and funding, and those who have relations with the bank in other ways.

Sparebanken Sør has one equity certificate class, and all equity certificate holders are treated equally. The Bank follows the provisions of the Financial Institutions Act on restrictions in ownership and voting rights insofar as the provisions apply to savings bank with listed equity certificates. Existing equity certificates have preference in the event of increases in capital, unless special circumstances dictate that this rule be waived. The waiver in such a case will be reasoned, and the reasons will be published in a stock exchange report.

In cases where the Bank has transactions in its own equity certificates, these are done on the stock exchange. If significant transactions occur between the Sparebanken Sør Group and equity certificate holders, board members, senior executives or parties related to these, the Board of Directors must ensure that a valuation has been made by an independent third party.

The Bank is obliged by the Stock Exchange's rules on reporting financial and other information to the market.

Deviations from the recommendation: None

EQUITY CERTIFICATES AND NEGOTIABILITY

Sparebanken Sør's equity certificates are listed on Oslo Stock Exchange and are freely negotiable.

The only restriction is statutory requirements which at present stipulate that acquisition of a qualified share of the equity capital, at 10 percent or more, requires consent from the Ministry of Finance.

Listing on the stock exchange ensures that the Bank abides by the terms and conditions which apply at any time in the equity market.

Deviations from the recommendation: None

THE BOARD OF TRUSTEES

A savings bank is, in essence, self-owned institution, and the management structure and composition of its governing bodies differs from those of limited liability companies with respect to the governing bodies a savings bank shall have. The Bank's governing structure and the composition of its governing bodies are deemed to comply with the wording of the recommendation" to the extent appropriate to savings banks with listed equity certificates".

The Bank's highest governing body is the Board of Trustees, which must ensure that the Bank acts in line with its purpose and in accordance with laws, articles of association and the Board of Trustees' own resolutions.

The Board of Trustees consists of 28 members, of whom 12 represent customers, 3 represent the general public, 6 represent equity certificate holders and 7 represent the Bank's employees. Mechanisms have been adopted that ensure geographical spread in the representation of the Bank's market areas.

Notice to the Board of Trustees' meetings will be sent with at least 21 days' notice. The Board of Trustees does not make decisions in other cases than those specified in the notice of the meeting.

The Board of Directors and auditor attend meetings of the Board of Trustees.

Deviations from the recommendation: None

NOMINATING COMMITTEES

Under the Bank's articles of association, 3 nominating committees are elected:

- The Trustees Election Committee shall prepare the elections of Trustees. One nominating committee with 8 members is elected from among the members of the Board of Trustees and shall have representatives from all groups represented in the Board of Trustees.
- The Depositor Nomination Committee shall prepare the election of depositors to the Board of Trustees. One nominating committee with 4 members is elected from among the depositor-elected members of the Board of Trustees.
- Nomination Committee for the equity certificate holders shall prepare the election of representatives of the equity owners to the Board of Trustees. One nominating committee with 4 members is elected from among the equity certificate holders'-elected members of the Board of Trustees.

The work of the nomination committees

The Board of Trustees' nominating committee prepares election of the Chairman and Deputy Chairman of the Board of Trustees, the Chairman and Deputy Chairman of the Board of Directors, and other members and deputy members of the Board of Directors, excluding the employees' representatives. Likewise for elections of the Chairman, members and deputy members of the Nominating Committee.

The reasons for the recommendations of the Board of Trustees, the depositor-elected, equity certificate-elected and employees' nominating committees shall be given.

Deviations from the recommendation: None

THE BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The composition of the Board of Directors is stated in Article 4-1 of the articles of association.

The Board of Directors shall consist of 7 to 8 members and 3 deputy members, of which at least 4 are from Agder and at least 1 member from Vestfold and Telemark. Among these, 2 members and 2 personal deputy members are elected from the employees. The other members of the Board of Directors elect a permanent attending deputy member with a right to speak.

Members of the Board of Directors are elected for two years.

The composition of the Board is based on expertise, capacity and diversity, and in compliance with the Bank's articles of association with regard to geographical distribution.

The Board of Directors independence

None of the bank's day-to-day management is a member of the Board of Directors.

The Board members' independence

All members of the Board of Directors are independent of executive personnel. The members of the Board of Directors are also independent of significant business connections.

Deviations from the recommendation: None

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the funds at the Bank's disposal being managed in a secure and appropriate manner. The Board of Directors must ensure the satisfactory organisation of the Bank's operations, keep itself informed of the Bank's financial position and ensure that its operations, accounting and asset management are subject to satisfactory control.

The Board of Directors shall supervise day-to-day management and the Bank's operations in general.

The Board of Directors shall ensure that the Bank has good management and control systems in order to meet the statutory provisions applicable to the business.

The Board of Directors conducts an annual self-assessment.

The Audit Committee

The Audit Committee have separate instructions adopted by the Board of Directors. The committee is a preparatory and advisory committee for the Board of Directors, whose purpose is to strengthen work on financial reporting and internal control. At least one of the committee's members must be independent of the business and have qualifications (formal or experience-based competence) in accounting and auditing.

The Audit Committee prepares the Board of Directors' follow-up of the financial reporting process, monitors internal control and risk management systems, has ongoing contact with the Bank's chosen auditor, and assesses and monitors the auditor's independence.

The Board of Directors elects 3 members to the committee from among its members.

In accordance with the NUES recommendation, the majority of the members in the Audit Committee, are independent of the business.

The Risk Committee

The Risk Committee has separate instructions adopted by the Board of Directors. The Risk Committee is a preparatory and advisory committee to the Board of Directors and shall ensure that risk and capital management in the Group supports the Group's strategic development and achievement of objectives while ensuring financial stability and prudent asset management.

The Risk Committee shall monitor the overall risk and assess

whether the group's management and control systems have been adjusted to the risk level and the scope of the business.

The Board of Directors elects 3 members to the committee from among its members.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

The Remuneration Committee

The Remuneration Committee has separate instructions adopted by the Board of Directors. The Remuneration Committee will help to ensure that there is consistency between the bank's remuneration arrangements, the overall objectives, risk tolerance and long-term interests.

The committee prepares all matters relating to remuneration schemes for the Board of Directors. The committee must support the work of the Board of Directors to determine and ensure that the Bank at all times has and practices guidelines and frameworks for remuneration arrangements.

The Bank has established a Remuneration Committee consisting of 3 members of the Board of Directors, of whom 1 member is an employee representative.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

Technology Committee

Technology Committee has its own instructions adopted by the Board of Directors. The committee shall have a special responsibility for being informed about financial technology and prepares all matters concerning strategic choices within the technology area for the Board.

The Bank has established a Technology Committee consisting of 2 members of the Board of Directors.

RISK MANAGEMENT AND INTERNAL CONTROL

The Bank has established a separate risk management and control division. There is a clear division of responsibility between the various governing bodies in the Bank in accordance with laws and regulations, as well as internally adopted management, control and reporting procedures. Key bodies are the Board of Trustees, the Board of Directors, external auditing, internal auditing and Group management.

Internal audit

The Bank's internal auditor reports to the Board of Directors and submits an annual report to the Board of Directors on completed audit projects. On behalf of the Board of Directors, the internal auditor must ensure that adequate and efficient internal control and risk management procedures have been established and implemented. Separate instruction has

been prepared for the internal auditor. Each year, the Board of Directors approves the annual internal auditing plan and resource requirements. The internal auditor may participate as an observer at the Board of Directors' meetings.

Internal control

The Bank has established guidelines and procedures for the implementation of internal controls based on the COSO model. This model has an international standard for comprehensive risk management, and is widely used within the financial sector. Responsibility for practical implementation of the Group's internal control processes is allocated to the Risk Management Division, organised independently of the business units.

Compliance

The Bank focuses on having good processes to ensure compliance with applicable laws and regulations, and has established a separate compliance function, organised independently of the business units.

Risk management and capital adequacy

Good risk and capital management is a key part of Sparebanken Sør's long-term value creation. The bank's overall objectives are given by the strategic business concept. The targeted return is decisive for the bank's activities and specification of targets. Focus is to ensure the bank's short and long-term competitive power. Sparebanken Sør's market and business objectives are balanced against the bank's risk capacity and willingness. Risk and capital assessments are an integral part of the bank's strategic and business processes.

The Board of Directors has adopted guidelines for the Bank's capital assessment. A process related to the Bank's risk and capital adequacy assessment (ICAAP) is carried out annually. The Board of Directors ensures that the bank has sufficient capital relatively to the desired risk and the bank's operations and ensures that the bank is adequately capitalised in respect of regulatory requirements. The ICAAP - process is based on requirements set out by the authorities in addition to the bank's own assessments.

Consideration of external factors in value creation

As a basis for its operations, the Bank must set strict requirements for honesty and good business ethics. The Bank therefore expects employees and elected representatives to have a high level of integrity, and attitudes in accordance with the Bank's code of conduct. These provide guidance on customer care, donations, confidentiality, participation in other commercial activity and transactions with related parties. The code's guidelines also requires employees to report any breaches of internal guidelines, laws and regulations. The procedure for how such disclosures are to be made is described in more detail in the Bank's whistleblowing routines.

Deviations from the recommendation: None

REMUNERATION OF THE BOARD OF DIRECTORS

Directors' fees are determined by the Board of Trustees following a recommendation from the Nominating Committee. The size of the fees reflects the Board of Directors' responsibilities, expertise, time and the complexity of the business. The members of the board's sub-committee receive special compensation.

Deviations from the recommendation: None

REMUNERATION OF EXECUTIVE PERSONNEL

The remuneration to the CEO and the head of internal auditing is determined by the Board of Directors, following a proposal from the Remuneration Committee. Remuneration paid to members of Group management is determined by the CEO in consultation with the Remuneration Committee. No members of Group management receive performance-based remunerations other than participating in the Bank's ordinary bonus scheme, which encompasses all Bank employees. The head of internal auditing does not receive performance-based remuneration, and does not participate in the Bank's ordinary bonus scheme.

The Board of Directors' declaration on pay to executive personnel is submitted to the Board of Trustees annually.

Deviations from the recommendation: None

INFORMATION AND COMMUNICATION

The Bank must have an open and active dialogue with all stakeholders. It is the intention of the Bank that customers, equity certificate holders, lenders (financial market players) and public authorities should have simultaneous access to correct, clear, relevant and complete information on the Bank's strategies and financial objectives, development and financial situation.

Information to the market is communicated through quarterly stock exchange and press releases, a separate Investor Relations area on the Bank's website and financial reports.

Deviations from the recommendation: None

COMPANY ACQUISITION

Sparebanken Sør is a self-owned institution that cannot be taken over by others through acquisition. The ownership structure is regulated by law, and no party may own more than 10 percent of the Bank's equity. Acquisition exceeding this limit must be approved by the Financial Supervisory Authority of Norway.

The savings bank foundation Sparebankstiftelsen Sparebanken Sør owns 51 percent of the equity certificates in the bank.

Statutory limits on ownership are assumed to be within the wording of the recommendation "to the extent appropriate to savings banks with listed equity certificates".

Deviations from the recommendation: None

EXTERNAL AUDITOR

An external auditor is selected by the Board of Trustees and submits an annual auditor's report concerning the annual financial statements. The external auditor attends the meeting of the Board of Directors at which the annual financial statements are discussed. The external auditor also attends meetings of the Audit Committee and has an annual meeting with the Board of Directors without members of administration being present. The external auditor's fees are considered by the Board of Trustees when the annual financial statements are discussed. The relationship with the external auditor is also governed by a separate letter of engagement which, among other things, is concerned with the parties' responsibilities.

The Audit Committee monitors the auditor's in-dependency, including what other services are provided by the auditor.

Deviations from the recommendation: None