

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 corporate governance principles describe how the bank will be managed and supervised in order to create value 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, insider trading 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 Supervisor's principles for management and supervision. One of the aims of Sparebanken Sør is to satisfy the recommendation in the above-mentioned documents, as far as this is possible.

OPERATIONS

Sparebanken Sør is a financial group consisting of the parent bank and subsidiaries.

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 interim 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 ownership interests in companies / funds, the purpose of which is to stimulate growth and development.

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

EQUITY SHARE CAPITAL AND DIVIDEND

Sparebanken Sør is a self-owning institution. External supply of capital is achieved through issue of equity certificates and covered bonds.

Sparebanken Sør's equity share capital amounts to MNOK 600 divided into 6 million equity certificates. The equity certificates are wholly owned by Sparebankstiftelsen Sparebanken Sør and are not yet listed on the stock exchange.

Owners of equity certificates should have predictable conditions as regards equal treatment, return and managerial influence. The equity certificate owners have a 20% representation on the supervisory board.

The board of directors makes at least an annual assessment of the capital situation in the bank and ongoing assessments of solvency are made against regulatory requirements and commercial needs.

Sparebanken Sør's profit for the year is divided between the equity share capital and the primary capital according to the ratio between the equity share capital and primary capital. After the board of directors has put forwards its proposal, the supervisory board determines the percentage of the total profit for the year to be allocated to dividend and donations to charitable causes. Sparebanken Sør has a financial goal for its operations to achieve results that provide satisfactory total return in the form of dividend and increase in value of issued equity certificates. When allocating profit for the year, emphasis will be placed on the bank's equity development and capital adequacy.

ORGANISATION AND RESPONSIBILITIES

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 the applicable status, articles of association and own resolutions. The supervisory board is composed of 28 members, who are elected by the bank depositors (total of 12 representatives), the counties of Vest-Agder, Aust-Agder and Telemark (total of 3 representatives), equity certificate owners (total of 6 representatives) and the bank's employees (total of 7 representatives).

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 the 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 of the supervisory board is given in accordance with the 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 and report, auditor's report and the report from the control committee. This meeting adopts the dividend on the bank's equity certificates and also allocation of donations. 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 members of the supervisory board.

The control committee, who are also elected by the supervisory board, shall supervise the board of directors and the group management's work. In accordance with the articles of association, the control committee shall 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 committees

In accordance with the articles of association, the election committee for election of the supervisory board shall be composed of 5 members and 5 deputy members.

Representatives from all groups are represented on the supervisory board. The election committee must give 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.

The supervisory board's election committee shall prepare election of the chairman, deputy chairman, members and deputy members of the board of directors (with the exception of the employee representatives). The election committee also prepares election of the chairman of the control committee and of the deputy chairman, members and deputy members.

There are also separate nomination committees for the depositors and equity certificate owners' election.

The election committee for the depositors' election prepares the depositors' election to the supervisory board. The committee is composed of three members and one deputy member elected from among the depositors.

The election committee for the equity certificate owners' election prepares the equity certificate owners' election to the supervisory board. The committee is composed of three members elected from among the equity certificate owners.

BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The board of directors is composed of 9 members and must have 3 representatives from each of the Agder counties, 1 representative for Telemark and 2 representatives from the employees. Similarly, 4 deputy members are elected for 2 and 1 year at a time respectively. The chairman and deputy chairman are elected by the supervisory board. 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' work

The board of directors of Sparebanken Sør Group has 11 fixed annual meetings and also meetings in connection with the strategy work. A wheel of the year has been drawn up for the board of directors' work. The board of directors places special emphasis on the work with the annual review of the strategy plan. The board of directors also assesses whether the bank's capital adequacy 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 the overall responsibility for management of the Sparebanken Sør Group and for supervising the day-to-day management and the bank's operations. The board of directors' management responsibility includes responsibility for organising the bank properly, establishing plans and budgets for the bank, keeping itself

updated on 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 public authorities, the Financial Supervisory Authority of Norway and the supervisory board.

The board of directors has set up two committees as part of its work:

- The audit committee, which will ensure that Sparebanken Sør Group has an independent and efficient external and internal auditing and also account and risk reporting in accordance with the statutes and regulations.
- The remuneration committee, which will ensure that the bank practices a competitive wage policy, is experienced as being motivating to the bank's management with a view to implementing the adopted strategy and achieving 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.

REMUNERATION TO THE BOARD OF DIRECTORS AND MANAGEMENT

Remuneration to the board of directors

Board members receive a fixed annual remuneration determined by the supervisory board following a recommendation from the election committee. No performance-related directors' fees or other bonus scheme has been agreed for the board members.

Remuneration to key personnel

Remuneration to the CEO and internal auditor is determined by the board of directors of the bank, whereas remuneration to key personnel 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 participating in the bank's ordinary profit-sharing scheme, which includes and is the same as for all employees in the bank. Wages and payments to key personnel are presented in the notes to the accounts.

RISK MANAGEMENT AND INTERNAL CONTROL

Good risk and capital management are key elements in the Sparebanken Sør Group's long-term value creation. The bank's overall 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. The Sparebanken Sør Group'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 the Sparebanken Sør Group 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 capitalised 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, assessing and reporting the various risks. The 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 organisation. The ongoing internal control is carried out in the line, while Risk Management is responsible for overall reporting and supervision and adaptation of internal control systems.

The bank relies on trust among its customers and society as a whole. Emphasis is placed on maintaining a high ethical standard in the bank's business operations. The Sparebanken Sør Group 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 been adopted relating to employees and employee representatives' trading – including own account and insider trading.

These guidelines shall ensure that the bank's operations at all levels are conducted in a reassuring manner as regards impartiality and objectivity.

Compliance with sub-areas is taken care of by Risk Management, which also attends to this function for the investment firm.

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.

The Sparebanken Sør Group'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 administration aim at maintaining an open and constructive dialogue with the Financial Supervisory Authority of Norway.

INFORMATION AND COMMUNICATION

The bank would like to 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 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, determination of the auditor's fee and how other services shall be agreed and paid. The external and internal auditor meet once a year with the board of directors' audit committee without the CEO being present. The external auditor also has an annual meeting with the board of directors without the management being present. The minutes from the meetings on the board of directors' audit committee are presented to the board of directors.

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