RISK AND CAPITAL MANAGEMENT

Disclosure according to Pillar 3 2023

SPAREBANKEN SØR

Contents

1. CRO's summary of 2023

The year 2023 was marked by several factors that adversely impacted the framework conditions for both retail and corporate customers. Prices have increased significantly, and although inflation is falling, it remains higher than the set target. The value of the Norwegian krone (NOK) has been weak, but it strengthened somewhat towards the end of the year. Norges Bank implemented several interest rate hikes throughout the year, resulting in the highest interest rate level since the financial crisis in 2008. These trends are assessed to have negatively impacted credit risk.

There was a significant increase in bankruptcies and forced liquidations throughout 2023 compared with 2022, both at national level and in the Bank's main region. Despite this substantial increase, the level has returned to a more normalised state, similar to before the pandemic.

There have been periods of high electricity prices, and although retail customers received a substantial electricity subsidy, the significant differences between Norway's electricity price areas have created a considerable competitive disadvantage for many businesses in Southern Norway (NO2).

Despite the wide-ranging negative macroeconomic impacts, employment has remained at a high level and the labour market remains relatively tight.

The authorities consider high debt levels among households to be the most vulnerable area of the Norwegian financial system. With interest rates, energy costs and food prices all rising, households' ability to absorb interest and cost increases will be critical. The increasing costs and interest rates over the last two years have had a clearly negative impact on the household sector, but it appears that only a very small proportion of households are unable to service their debt.

There have been significant variations in activity levels in the property development sector, including construction. In the second half of 2023, it became increasingly evident that new home sales remain persistently low, and several new development projects have largely come to a halt in the initiation phase.

However, the market for existing homes has remained robust in the Bank's main market areas, with better price development than in most other parts of the country.

The Bank's volume of unscheduled payments continues to be stable, but there has been growth in the lending volume in stage 3. Despite this, the total lending volume in stage 3 is still at a low level, returning to the pre-pandemic level in 2019. The Bank had low loss costs, mainly attributable to model-based losses.

The credit spreads for bond financing of the types the Bank uses remained at high levels in 2023 compared with the average spreads seen in recent years. Premiums fell for most types of bonds towards the end of 2022, but were still at relatively high levels at the end of 2023. The Bank's financing structure is considered to be sound.

Sparebanken Sør's overall risk exposure is considered to be low, even though underlying risk is deemed to have risen in some areas during 2023. This applies in particular to credit risk.

Risk and capital levels must be viewed in context. With this in mind, Sparebanken Sør was very well capitalised at the end of 2023. The Common Equity Tier 1 capital ratio closed the year on 16.8 percent. At 9.0 percent, the leverage ratio was at a very high level compared with the other major Norwegian and Nordic banks.

Sparebanken Sør's report on risk management and capital management (Pillar 3 report) provides information on the Group's risk management, risk measurement and capital management in accordance with the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA-GL-2016-11) and the requirements in CRR 2/CRD 4.

The report consists of a descriptive section and a quantitative Annex, which is updated at least annually. Information in the Annex relating to "Key Metrics" is updated every six months. Information on capital adequacy is updated quarterly and published as part of the Bank's three-month interim report.

The method used to calculate capital requirements as well as information on the Bank's internal risk measurement and management are also described in the report.

This report on risk management and capital management (Pillar 3 report) provides an accurate and precise description of the status of risk management and risk exposure at Sparebanken Sør, and explains how the Bank measures, manages and reports risk.

Bjørn A. Friestad
Chief Risk Officer

a. Regulatory framework

The purpose of the Capital Requirements Regulations is to improve risk management at banks and ensure better alignment of risk exposure and capitalisation. The EU's CRR 2 (Capital Requirements Regulation)/CRD 5 (Capital Requirements Directive) and the revised Bank Resolution and Recovery Directive (BRRD 2) were formally introduced in Norway with effect from 30 June 2022.

The Capital Requirements Regulations consist of three pillars:

Pillar 1 – Minimum and buffer requirements for own funds. The amount of own funds is measured in relation to risk-weighted assets.

Pillar 2 – Internal assessment process (ICAAP) of overall capital requirements. Supervisory follow-up of capital requirements and associated strategy (SREP).

Pillar 3 – Disclosure of information on risk management and capital management.

In accordance with the regulations, individual banks may develop different methods to establish the risk-weighted assets; however, some of the methods require the prior approval of the Financial Supervisory Authority of Norway. The following methods can be used to establish the risk-weighted assets:

Credit risk	**Market risk**	**Operational risk**
Standardised approach	Standardised approach	Basic indicator method
Foundation IRB [1)]	Value-at-Risk (VaR) [1)]	Standardised approach
Advanced IRB [1)]		AMA method [1)]

1) Individual banks must obtain the Financial Supervisory Authority of Norway's approval to apply the internal IRB, VaR and AMA methods, whereby the capital requirement is calculated based on internal models for each form of risk.

Sparebanken Sør uses the following methods to establish the risk-weighted assets:

Credit risk:	Standardised approach
Market risk:	Standardised approach
Operational risk:	Basic indicator method

b. Nature of business

Sparebanken Sør is an independent financial institution whose core business is banking, securities trading and acting as a real estate agent in Agder, Rogaland, Vestfold, and Telemark. The real estate business is operated by the subsidiary Sørmegleren. Non-life and personal insurance products are delivered via the insurance company Frende, in which the Bank is a part-owner. The Bank is also part-owner in the companies Norne Securities AS and Brage Finans, suppliers of securities trading, and leasing and sales mortgages, respectively. The Bank has 31 branches, and its head office is located in Kristiansand.

Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør, and the company is licensed to operate as a credit institution with the right to issue covered bonds. The company's main objective is to ensure the Group's stability and long-term funding on competitive terms. In 2022, the company received approval from the Financial Supervisory Authority of Norway for a premium covered bond programme, which has special requirements for over-collateralisation, composition and valuation of the cover pool.

Sørmegleren is the Bank's real estate agency. This real estate business has a dominant position in large parts of the Bank's market area. In addition to dominating the market for existing homes, the company also has a very strong position in the newbuild market. This applies in and around the largest towns in Agder in particular. Sørmegleren has also sharpened its focus on traditional commercial real estate activity, and has high hopes of increasing its market share and leveraging synergies between the Bank and the real estate agency.

Frende Holding AS (19.9 percent ownership interest) is the parent company of Frende Skadeforsikring AS and Frende Livsforsikring AS, which offer non-life and life insurance to private individuals and businesses.

Brage Finans AS (24.9 percent ownership interest) is a nationwide finance company that offers leasing and mortgage loans to the corporate and retail markets. The company was established in 2010 and operates from its head office in Bergen. Distribution of the company's products takes place through owner banks, via retailers of capital goods, and through its own sales force.

Norne Securities AS (15.1 percent ownership interest) is an investment firm that offers investment services to the corporate and retail markets. The company, which was established in 2008, provides consultancy services to operators in the capital market, in particular savings banks and their customers. The company has three business areas: Online trading in shares and funds for private investors, Investment Banking (consultancy services for companies) and trading in securities for professional investors.

Balder Betaling AS is owned by Sparebanken Sør together with 20 other savings banks. The Bank's ownership interest is 23.0 percent. The company has a 10.49 percent ownership interest in Vipps AS and aims to further develop Vipps together with other owners. Sparebanken Sør thus has an indirect ownership interest in Vipps AS of 2.41 percent.

The Bank wholly owns Sørlandet Forsikringssenter AS, after acquiring the remaining 22 percent of shares in the company in June 2023. The company constitutes a significant part of the sales force within insurance and is important for the Group's initiatives in this area.

The Bank's other subsidiaries mainly engage in property management. In 2023, the subsidiary Transitt Eiendom AS acquired 100 percent of the shares in Arendal brygge and its subsidiary. The acquisition resulted in a write-down of consolidated goodwill of NOK 6.3 million.

Together with the Annual Report, the Report on risk management and capital management (the Pillar 3 document) provides information on risk and capital management at Sparebanken Sør.

2. Risk management

a. Purpose

"Risk management is the process of identifying (detecting), analysing, estimating and controlling costs (and income) relating to risk."

The Bank is exposed to various types of risk in all areas of its operations, although actual risk exposure levels vary. Risk management is not about eliminating risk, but about taking appropriate (calculated) risk and pricing it correctly. Active risk management contributes to the Bank's value creation.

Active risk management means that risk evaluation is an integral part of the evaluations made in both the first and second lines. The Bank must practise sound risk management and have good systems that support risk management. The Bank's risk management must be structured in such a way that both risk exposure and the Bank's risk management meet established management objectives.

b. Risk culture

In the processes for risk management, the organisation's risk culture is a foundation on which the other elements of comprehensive risk management are based. Risk culture is a critical factor for achieving the desired level for the Bank's risk management.

"A good risk culture means that there is an environment in which there is awareness that the Bank is exposed to various risks in most activities, but where there is an understanding that risk is to be managed. There must be an openness in which respect and trust ensure that various viewpoints are heard in decision-making processes and where constructive engagement is encouraged."

The Bank's risk management is based on uniting sound practice with sound theory, where the Bank will have a culture for assessing and dealing with risk in all contexts. The Bank will develop and maintain a sound risk culture through communication, information and training about the Bank's strategy, activities and desired risk profile.

All employees must be aware of their own responsibility with respect to risk management, where risk management is not limited to specialists, but is also an integral part of daily business activities.

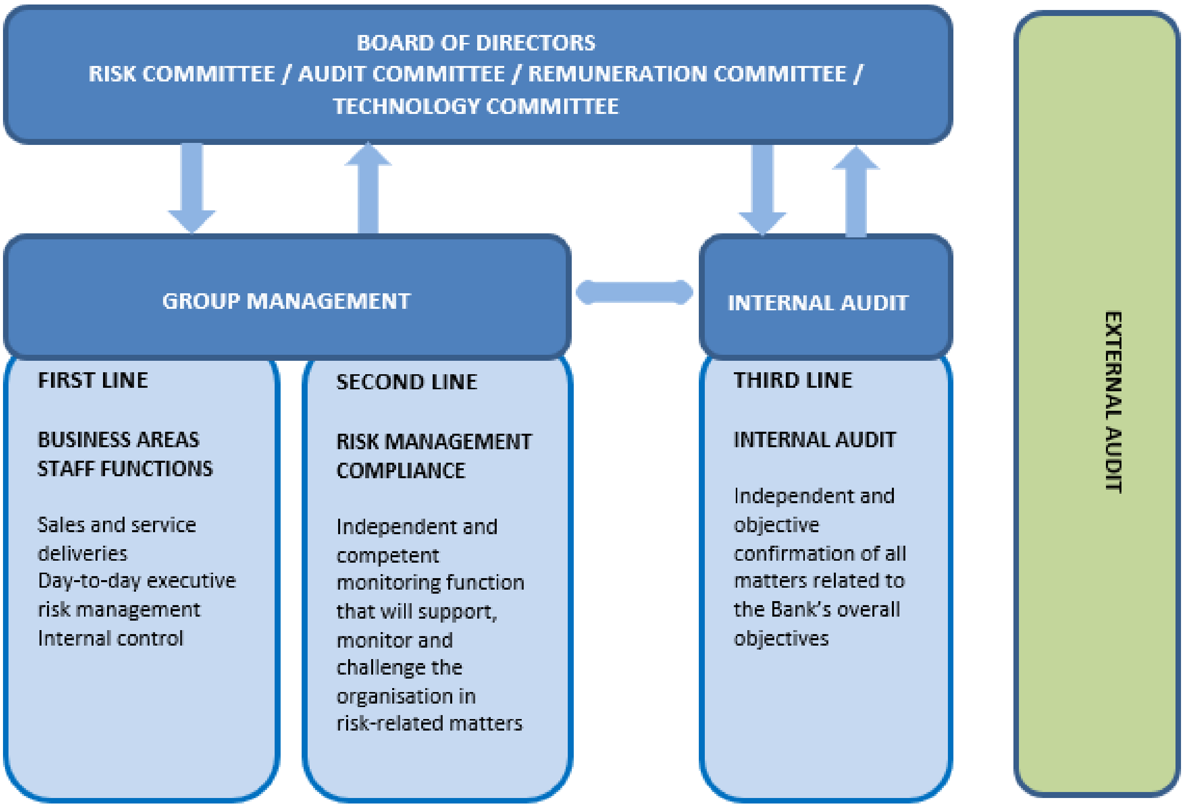
c. Organisation and assignment of responsibilities

Functions and roles must be allocated between the Bank's business areas and auditing bodies.

Sparebanken Sør has a policy that employees in the executive function are to manage and measure the risk the Bank is exposed to in daily operations and report this according to procedures that have been adopted.

Within the various risk areas, there must be an appropriate organisation and independence between the employees who perform operational work and those responsible for monitoring and reporting financial key figures and management objectives.

In general, the Bank's corporate governance can be described schematically within the "three lines model". Schematically the model can be described as follows:



Board of Directors

The Board has overall responsibility for the Bank's total risk management and aims to ensure that the Bank has appropriate systems in place for risk management and internal control. The Board determines risk strategies and risk profile, including management objectives and risk tolerance. The risk profile is operationalised through the framework for risk management, including the setting of authorities.

The Board establishes guidelines for the Group's risk taking, identification, monitoring and control of risk factors to which the Group is or may become exposed, including risks relating to macroeconomic conditions, and the Board imposes requirements for reporting and information. The Board must regularly be informed about the Group's risk management and risk exposure.

The Board of Directors also determines the strategy and guidelines for the level, composition and allocation of equity, and approves the process to ensure adequate equity at all times (ICAAP).

Risk Committee

The Risk Committee is a subcommittee of the Board whose mandate is to help ensure that the Group's risk and capital management activities support the Group's strategic development and targets. The Risk Committee will monitor the aggregate risk and assess whether the Group's management and control systems are appropriate for the risk level and the scope of the business.

The Board establishes instructions for and appoints members of the Risk Committee from among the Board's own members.

The Risk Committee also functions as an ESG committee and is required to process and prepare ESG matters for the Board. The Committee held nine meetings in 2023.

Audit Committee

The Audit Committee is a subcommittee of the Board whose mandate is to perform more in-depth assessments of agreed focus areas, including strengthening work on financial reporting and internal control.

The Board establishes instructions for and appoints members of the Audit Committee from among the Board's own members.

Remuneration Committee

The Remuneration Committee is a subcommittee of the Board of Directors whose mandate is to prepare all matters relating to remuneration schemes to be reviewed by the Board. The Committee must support the work of the Board of Directors to determine and ensure that the Bank at all times has and implements guidelines and frameworks for remuneration schemes.

The Board establishes instructions for and appoints members of the Remuneration Committee from among the Board's own members.

Technology Committee

The Technology Committee is a subcommittee of the Board of Directors with a particular responsibility for keeping abreast of developments in financial technology. The Committee also acts as a strategic discussion partner for the Board and management regarding the Bank's strategic choices in the area of technology. The Committee also discusses strategic technology topics for further consideration by the Board.

The Board establishes instructions for and appoints members of the Technology Committee from among the Board's own members.

Chief Executive Officer

The CEO is responsible for implementing risk management and internal control. The CEO has established an advisory Group management team, which meets regularly.

The CEO has delegated duties in accordance with the formal responsibility for internal control and risk management. Responsibility for the basis for implementation of the annual assessment of risk and capital adequacy is delegated to the Risk Management Division. Control tasks are further delegated to the various line managers within the framework of agreed principles, instructions and authorities.

Group management

Group management is responsible for ensuring that the Bank has an organisation with the right expertise and sound, effective frameworks, processes, systems, models and procedures for managing risks to which the Bank is exposed.

Matters relating to changes in or the implementation of new policies and strategies within the Group should always be presented to Group management for discussion and a decision before being considered by the Risk Committee and the Board. Group management reviews an assessment of the risk situation and the associated capital requirement (ICAAP) at least annually. These assessments are then presented to the Risk Committee and the Board.

Group management also reviews matters and provides input regarding the Bank's management and control of total risk, including rating issues and overall balance sheet management. Group management considers the Group's aggregate risk exposure and aligns this with the Group's and the parent bank's capital requirement.

Group management is also the Bank's overall professional governing body in the ICT area as well as the security forum for BankID.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) operates under the mandate of the CEO. The ALCO's purpose is to contribute to better strategic and tactical decisions relating to financial risk management. Additionally, the ALCO aims to improve support for these decisions and assessments within management and the organisation. The work of the ALCO also serves to build management's breadth and depth of expertise in financial risk management.

The ALCO consists of Group management, and subject matter experts may be involved for certain matters.

Business areas and technical functions

The business areas and the technical functions are responsible for operation and day-to-day management and monitoring of risk within their own areas of responsibility. The business areas are responsible for developing and maintaining processes, systems, guidelines and procedures for managing risk within their own areas of responsibility and for monitoring and verifying compliance with the same.

Risk Management

The Risk Management Division covers the entire Group and does not perform activities which the control function is intended to monitor. The division is required to identify, measure and assess the Bank's total risk and has the overarching responsibility for capital management. The Risk Management Division is responsible for regularly reporting to Group management, the Risk Committee and the Board on the Bank's total risk exposure.

Compliance

The Bank has established an independent Compliance function, which reports directly to the CEO on professional performance, and to the Director of Strategy and Compliance on personnel performance.

The main responsibility of the Compliance function is to control and report any non-compliances with laws, regulations, directives and governing documents. The mandate of Compliance is to ensure that the Bank performs its tasks in accordance with regulatory requirements and various standards. The prevailing regulatory requirements must be complied with at all times, and this is also important in order to make correct and sound decisions that will contribute to fulfilling the management objectives that have been adopted.

The Compliance function is part of second-line control and carries out independent random sample checks, risk monitoring and reporting.

Internal Audit

The Group has an Internal Audit function with its own employees who report directly to the Board of Directors and are independent from the administration. Internal Audit is an independent verification and advisory activity intended to provide added value and improve the Group's operations. Internal Audit uses a systematic and structured method in order to evaluate and improve the effectiveness and appropriateness of the Group's processes for risk management, control and governance. In addition, Internal Audit will contribute through its audits to preventing and detecting any irregularities.

Internal Audit must have full access to all relevant information.

d. Risk strategy

The purpose of risk management is to support Sparebanken Sør's strategic goals. Frameworks have been established for risk appetite, risk frameworks and risk tolerance for individual types of risk. Systems will be established for measuring, reporting, managing and controlling risk. Both the aggregate risk level and the various risk categories must be closely monitored to ensure that the Group is performing in accordance with the adopted risk profile and strategies.

Risk management is also intended to ensure that risk exposure is known at all times, and to help Sparebanken Sør achieve its strategic goals for financial stability and profitability. The Group’s risk exposure must be adapted to capital, growth ambitions, competence and market opportunities, as well as regulatory requirements and guidelines.

Key elements in the Group’s risk management:

- Define and quantify the Group’s risk
- Establish frameworks and guidelines for the Group’s risk-taking
- Determine risk strategies, risk appetite with appropriate risk targets and risk tolerance
- Maintain and develop a sound risk culture with a good balance between business goals and risk
- Have the best possible allocation of the Group’s capital on the basis of strategic objectives and profitability
- Have risk strategies with appropriate management objectives
- Have good systems and procedures for identifying, measuring and analysing risk
- Have good systems and procedures for managing, monitoring, reporting and controlling risk

Together with strategies, procedures and guidelines, a business culture characterised by solid expertise that understands, controls and monitors risk and quality will ensure that the Bank’s activities are implemented in a satisfactory manner with regard to quality, legal competence and objectivity at all levels.

Compliance with adopted ethical guidelines plays an important role in helping the Group achieve its long-term goals.

Risk management will ensure:

- A risk profile that is on a par with comparable banks, but is also adapted to the Bank’s risk capacity and risk appetite
- Risk-taking that is based on profitability and returns
- A risk profile that ensures that no individual risk threatens Sparebanken Sør’s independence
- That all regulatory requirements are satisfied
- A risk profile that does not harm the Group’s good name and reputation

Risk is concretised through qualitative and quantitative risk frameworks for risk and capital.

Overarching objective for risk management

The Bank attaches importance to complying with the principles of good banking practice, which apply to the management and control of risk, and are discussed in the Financial Supervisory Authority of Norway’s modules for risk management, including the “Module for evaluation of internal corporate governance” as well as in the EBA’s Guidelines on Internal Governance under CRD.

The Bank’s overall objective for managing and controlling risk is to ensure that risk is on a par with comparable banks.

The most significant risk factors can be grouped into financial risk (which includes credit risk, market risk (relating to the Bank's exposure in the interest rate, foreign currency exchange and stock markets) as well as liquidity risk), operational risk (including compliance risk, money laundering risk, ICT risk, cybersecurity risk and model risk), as well as strategic and business risk. The Bank is also exposed to ESG (Environmental, Social and Governance) risk, which is linked to climate and the environment, social conditions and corporate governance. This is not an independent risk, but a risk that has to be evaluated in the context of other risks, for example credit risk and operational risk.

Strategic risk relates to the strategies, plans and changes the Bank makes or intends to make, while business risk is the risk of unexpected income or expense fluctuations due to changes in external factors such as economic upturns/downturns, competition, customer behaviour, lack of business development and regulation by public authorities. Reputational risk is the risk of loss of earnings or access to capital due to lack of credibility or reputation in the market. Reputational risk forms part of business risk.

Recovery plan

Sparebanken Sør has established a recovery plan to ensure that the Bank can recover from an extremely serious financial crisis without extraordinary help from the authorities. The plan is an integral part of the Group's framework for risk management and capital management, and it will enter into force in the event of breaches of predefined indicators. The plan therefore encompasses identification of relevant indicators to ensure sufficiently early intervention and effective measures to be able to restore the Bank's financial position following a major financial crisis.

Crisis management plan

The Bank Recovery and Resolution Directive (BRRD) facilitates the crisis management of certain banks to avoid resolution that could threaten financial stability. In assessing the preferred crisis management strategy for Sparebanken Sør, the Financial Supervisory Authority of Norway, as the resolution authority in Norway, considers resolution not to be feasible or credible. The Financial Supervisory Authority of Norway has determined that the crisis measure of internal recapitalisation ("bail-in") would be most appropriate and effective in serving public interests.

The European Banking Authority (EBA) has issued guidelines on improving banks' ability to manage crises, effective from 1 January 2024. The purpose is to ensure that banks can be crisis-managed in line with the preferred crisis management strategy, and that obstacles to implementation are removed. To comply with the guidelines, Sparebanken Sør has developed a crisis management plan describing the formal and operational aspects of crisis management, as well as measures and activities to be implemented before, during and after crisis management.

Reporting

Frameworks for risk and capital management are established in various governing documents and are followed up through regular reporting. This ensures ongoing follow-up of management objectives, individual risks and the Group's aggregate risk.

3. Capital management

Sparebanken Sør aims to be well capitalised at all times. The Bank's Common Equity Tier 1 capital ratio must satisfy the minimum regulatory requirements and be on a par with comparable banks. Sparebanken Sør is the only one of the large regional banks in Norway to use the standardised approach to calculate capital adequacy, and this must be taken into account in comparisons.

Sparebanken Sør must be well capitalised so that the Bank has a sound basis for development and growth during economic upturns and are robust enough to weather economic downturns.

Capital management must ensure:

- Regulatory requirements for capital are observed
- Market opportunities and ambitions are leveraged
- Adequate operational buffers
- Rating objectives are met
- Requirements from the Norwegian and international financial markets are met
- A competitive return is realised

There is an objective for the return on equity in the business areas to be calculated as risk-adjusted return. To the extent that capital is a scarcity factor, capital is to be allocated on the basis of strategic and profitability considerations.

Risk analysis

An analysis is performed of the nature and drivers of identified risks. The risks must be quantified with regard to probability, consequence and expected losses. The risk analysis must ensure that a qualified and structured assessment of the need for control measures or measures to reduce risk is performed. Ongoing control measures are performed, documented and reported. Sparebanken Sør aims to have a quality of risk management on a par with comparable banks.

The introduction of the revised Basel III framework ("Basel IV") was supposed to have been implemented in the EU from 2022 with transition rules up until 2027, but this has been postponed. At the end of June 2023, the EU agreed on a new Basel reform, and the aim is for the revised regulations (CRR3/CRD6 and BRRD3) to enter into force in the EU from 1 January 2025. In December, the Ministry of Finance announced that it was working on facilitating the implementation of corresponding EEA rules in Norway at the same time as the rules are adopted in the EU. The Ministry of Finance has commissioned the Financial Supervisory Authority of Norway to prepare a consultation paper on draft regulatory changes.

A critical element in the new regulations will be the introduction of a new, more risk-sensitive, standardised approach for credit risk. Basel IV also outlines some changes to the IRB Regulations.

Given the composition of the Group's loan portfolio, it is expected that the new standard regulations for credit risk will result in a very positive effect for the Group. Based on available information on the regulations and customer portfolios, it is estimated that this could have a positive effect on the Common Equity Tier 1 capital ratio of around 3.5 percentage points. The full details of the regulations and their implementation, including any national adjustments, have not yet been finalised, meaning that the final effects cannot be quantified at this stage. The Financial Supervisory Authority of Norway is expected to publish a consultation paper on the capital requirements regulation in the spring.

The Bank is developing its risk management framework and models so that it will be possible to apply to the Financial Supervisory Authority of Norway for approval to use internal models in the capital calculation (IRB-F). It is estimated that the transition to IRB-F could have a positive capital effect on the common equity tier 1 ratio of approximately 3.5 percentage points.

The Bank considers that an IRB process with subsequent IRB approval of the risk models contains key elements that are important for the future development of the Bank. The Bank has accorded this work a high priority and is on course to meet its aim of submitting the IRB-F application during the second half of 2024.

a. Capital requirements

The minimum statutory requirement for own funds essentially corresponds to 8 percent of the overall risk-weighted assets. In other words,

$$\frac{\text{Total Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Credit risk} + \text{Market risk} + \text{Operational risk}} \geq 8 \text{ percent}$$

In addition, the Bank must maintain sufficient capital to satisfy the regulatory requirements for buffer capital, which must consist of Common Equity Tier 1 capital.

Institutions must have a capital conservation buffer of 2.5 percent and a systemic risk buffer. The Ministry of Finance adopted regulatory amendments that put the EU Capital Requirements Regulations CRR/CRD IV into effect as of 31 December 2019. The systemic risk buffer requirement was raised from 3.0 to 4.5 percent. On 16 December 2022, the Ministry of Finance decided to maintain the system buffer requirement at 4.5 percent, with banks that use the standardised approach given until the end of 2023 to meet the requirement. Consequently, Sparebanken Sør's systemic risk buffer requirement rose from 3.0 to 4.5 percent effective 31 December 2023.

The Ministry of Finance also sets requirements for countercyclical buffers and particular buffer requirements for systemically important financial institutions. The level of the countercyclical buffer is established by Norges Bank each quarter. The countercyclical capital buffer requirement was raised to 2.5 percent with effect from 31 March 2023 and remained at this level for the rest of the year. The purpose of the countercyclical capital buffer is to strengthen the banks' financial situation and to prevent a more restrictive lending practice by the banks from exacerbating the economic downturn. Sparebanken Sør was not defined as a systemically important bank as of 31 December 2023.

In accordance with Pillar 2 of the regulations, institutions must have a process for assessing the overall capital requirements in relation to their risk profile, and banks must have a strategy to maintain their capital levels. The ICAAP (Internal Capital Adequacy Assessment Process) considers all risk to which the Bank is exposed, including forms of risk not covered by Pillar 1. The Internal Liquidity Adequacy Assessment Process (ILAAP) will be an important part of the overall risk assessment.

Pillar 2 also provides guidelines on the authorities' review process, SREP (Supervisory Review Evaluation Process). The Financial Supervisory Authority of Norway will monitor and evaluate the institution's process under Pillar 2, while the supervisory authorities will implement measures if they do not regard the process as satisfactory.

The Financial Supervisory Authority of Norway's current capital requirements decision under Pillar 2, which were issued in connection with the completed SREP (Supervisory Review and Evaluation Process and Pillar 2), is 1.7 percent of risk-weighted assets. In addition, the Financial Supervisory Authority of Norway considers that the Bank should maintain capital requirement adequacy in the form of a Common Equity Tier 1 capital ratio of 1 percent above the total requirement for total Common Equity Tier 1 capital, Tier 1 capital ratio and the capital ratio. On 20 December 2023, the Ministry of Finance established a transitional regulation which means that the capital composition requirements in Pillar 2 pursuant to the Capital Requirements Directive will apply to all banks from 31 December 2023. This set the requirement for Common Equity Tier 1 adequacy to cover the Pillar 2 requirement at 1.0 percent.

The Pillar 2 requirement and expected Common Equity Tier 1 capital adequacy were effective from 30 April 2022, but the Bank will be informed of the SREP and a new Pillar 2 decision at the beginning of 2024. The Bank received a provisional Pillar 2 decision from the Financial Supervisory Authority of Norway in December 2023, including an unchanged Pillar 2 capital add-on of 1.7 percent of risk-weighted assets. The Financial Supervisory Authority of Norway also considers that the Bank should have a capital requirement adequacy of 1.25 percent in the form of Common Equity Tier 1 capital above the total requirement for Common Equity Tier 1 capital, total Tier 1 capital ratio and capital adequacy. The Bank has submitted its comments on the provisional Pillar 2 decision and expectations of capital requirement adequacy to the Financial Supervisory Authority of Norway.

Pillar 3 encompasses the requirements for disclosure of information, while Pillar 3, through the minimum requirements in Pillar 1 and the supervisory follow-up in Pillar 2, is intended to contribute to increased market discipline and a better basis for comparison between institutions. Banks must publish information that gives market players the opportunity to assess the institutions' risk profile, capitalisation and risk management and control. The information is disclosed on the Bank's website.

b. Capital adequacy

The Group had a Common Equity Tier 1 capital ratio of 16.8 percent, a total Tier 1 capital ratio of 18.1 percent and a total capital ratio of 20.3 percent as of 31 December 2023. The Group satisfied the capital requirements of 19.2 percent for total capital, 16.8 percent for Tier 1 capital and 15.0 percent for Common Equity Tier 1 capital by a good margin. The Group's target Common Equity Tier 1 capital adequacy for 2023 was 16.5 percent. The Group's internal targets for 2024 will be determined when a new Pillar 2 decision is made in early 2024.

Capital adequacy 2017–2023

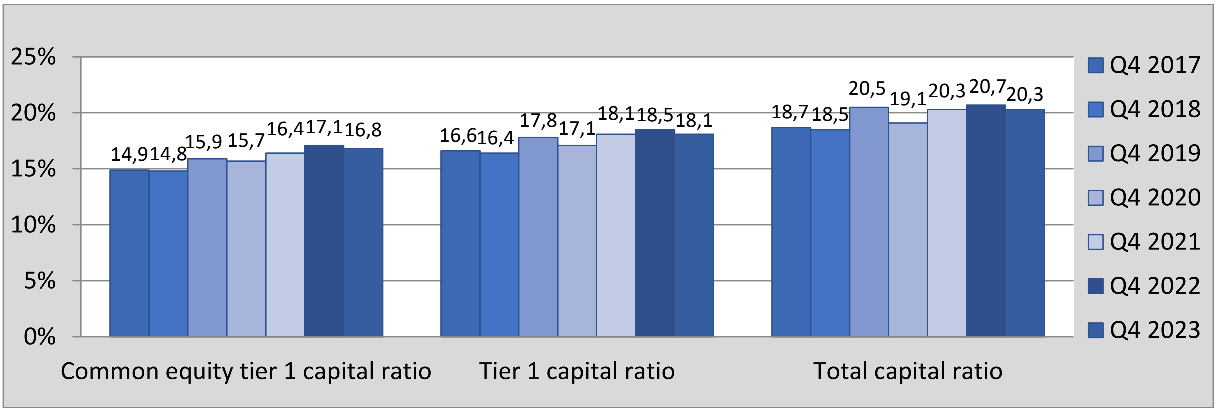


Figure: Q4 Common Equity Tier 1 capital ratio, total Tier 1 capital ratio and total capital adequacy (own funds) 2017–2023. Authority requirements for the various types of capital adequacy were all satisfied by a comfortable margin.

Leverage ratio

The leverage ratio is defined as a capital indicator (the numerator) divided by an exposure indicator (the denominator). The capital indicator consists of Tier 1 capital, and the exposure indicator includes all balance sheet items and non-balance sheet items calculated without risk weighting.

As of 31 December 2023, Sparebanken Sør had a leverage ratio of 9.0 percent. The Bank's solvency is assessed as being very good.

Bank Recovery and Resolution Directive (BRRD) – MREL

The EU Bank Recovery and Resolution Directive (BRRD) was introduced in Norway with effect from 1 January 2019. This entails requirements for convertible and non-preferred debt for Sparebanken Sør. The requirements are set by the Financial Supervisory Authority of Norway on the basis of capital requirements and calculated based on the current adjusted risk-weighted assets. Based on capital requirements and the adjusted risk-weighted assets at 31 December 2023, the effective MREL requirement was set at 35.9 percent and amounted to NOK 22.4 billion. The requirement for the subordinated MREL was set at 28.9 percent and amounted to NOK 18.1 billion. At the end of the fourth quarter of 2023, the Bank had issued a total of NOK 7.1 billion in senior subordinated bond loans (Tier 3).

c. ICAAP

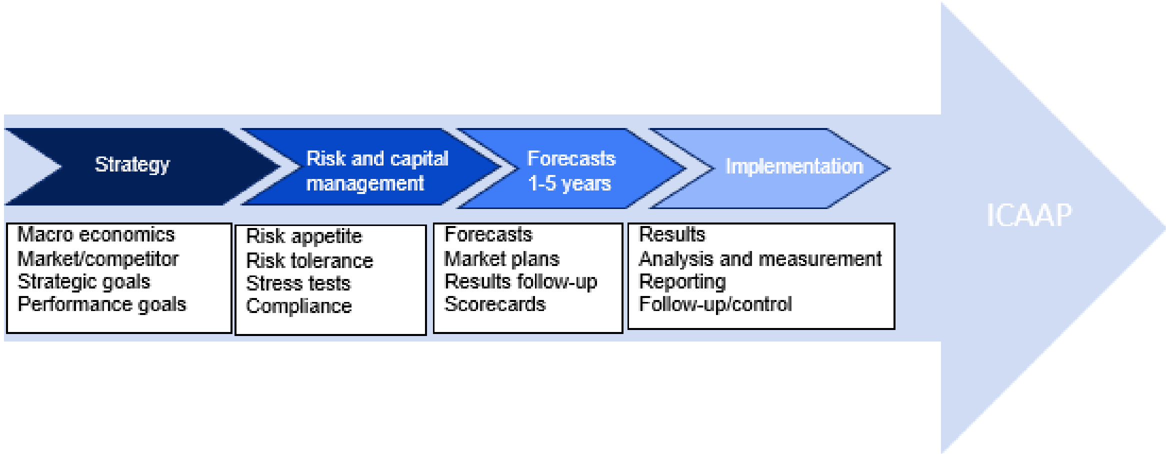
The Board of Directors is responsible for the Bank's internal risk and capital adequacy assessment process (ICAAP). The Board of Directors is further responsible for assessing the Bank's risk tolerance, capital requirements and capital planning. The Board of Directors also approves the choice of methods and results. The purpose of the ICAAP is to conduct a quantitative and qualitative assessment of the Group's risks in order to assess whether the Bank's capital adequacy and capital buffer are adequate in comparison with the Bank's risk profile.

The Board of Directors has integrated ICAAP into the Bank's strategic and business processes. This means that ICAAP represents an important decision-making basis in areas such as:

- Strategic plan
- Annual forecasts and investment needs
- Risk assessments for the market and products
- Overarching risk and capital planning

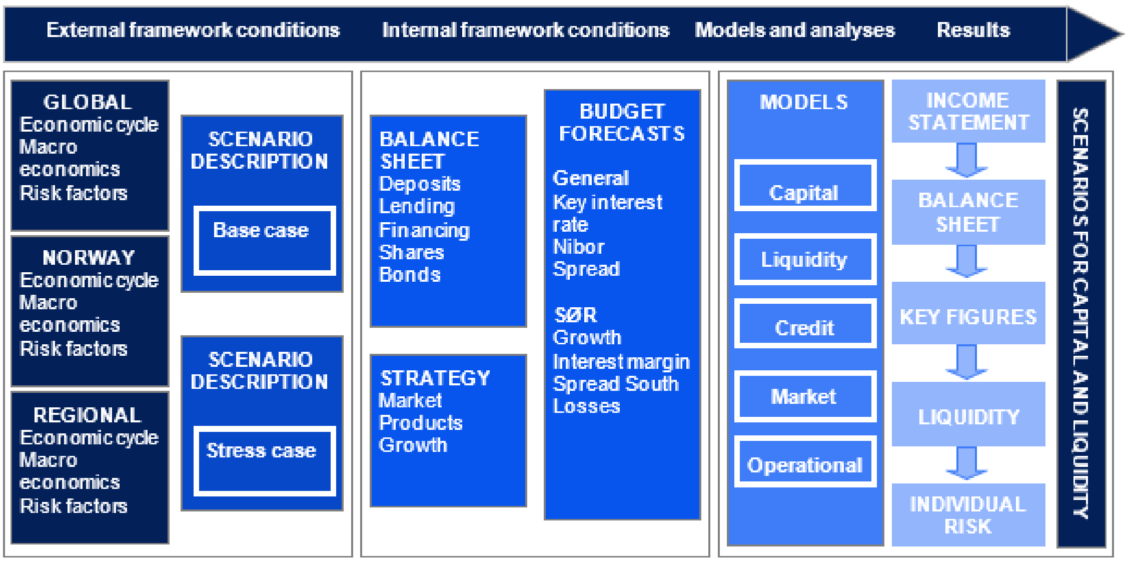
The Group's processes relating to the capital adequacy assessment (ICAAP) are based on a quantification of risk and capital requirements in the key risk areas.

An outline of the Group's ICAAP process, integrated with strategy and budget, is shown in the figure below:



Quantitative analyses of risk are supplemented with qualitative assessments.

Scenario analyses of expected economic developments and stress testing are key considerations in assessing the Group's long-term capital requirements and capital buffer.



Risk management and capital adequacy are essentially based on goals and ambitions set out in the Group's strategic plan and other governing documents.

Risks are identified and analysed, and capital requirements are established for individual risks.

Potential future economic scenarios are outlined based on global, national and regional economic trends. Scenarios are prepared for expected developments (Base case) and a Stress case. The Stress case is intended to represent a serious economic downturn.

The scenarios estimate the effects on the income statement, balance sheet, capital, individual risks, liquidity and various key figures. The ICAAP must be forward-looking. The Bank has therefore based its scenario analyses on a four-year period, where the economic downturn bottoms out in year 3 of the Stress case. Sensitivity analyses and reverse stress testing are also performed.

Together with the scenario analyses and other assessments, analysis of individual risks will form the basis for the Group's desired capital and capital buffer.

Liquidity and funding risk will be an important part of the overall risk assessment. This is known as the ILAAP. Short- and long-term liquidity requirements and the results of implemented stress tests are key factors in this context. Information about the size, composition and quality of the Bank's liquidity buffer will be published, along with changes in quantitative measurement parameters such as the "Liquidity Coverage Ratio" (LCR).

The ICAAP/ILAAP is carried out once a year. In the event of material changes in external or internal framework conditions and assumptions, methods or other conditions that will affect capital adequacy, the ICAAP/ILAAP will be revised and updated.

Assessment of risk and capital requirements

The table below shows the risks that are included in the Group's ICAAP and the methods that are used to calculate risk and capital.

Risk type	Risk categories	Calculation method
Credit risk	Pillar 1	Standardised approach
	Pillar 2 Concentration risk	Sector – The Financial Supervisory Authority of Norway's methodology/own assessments Large exposures – The Financial Supervisory Authority of Norway's methodology/own assessments
	Pillar 2 High lending growth	The Financial Supervisory Authority of Norway's methodology/own assessments
	Pilar 2 Portfolio quality	The Financial Supervisory Authority of Norway's methodology/own assessments
Market risk	Pillar 1 (Foreign currency)	Standardised approach
	Pillar 2 (Risk above standard)	The Financial Supervisory Authority of Norway's methodology/own assessments

Operational risk	Pillar 1 (External, personnel, procedures)	Basic indicator method
	Pillar 2 (Risk above Basic)	Own assessments
Liquidity risk	Financing cost	Own assessments
Business risk	Unexpected reductions in income/costs	Own assessments
Strategic risk	Inadequate/flawed initiatives	Own assessments
Ownership risk	Ownership including the insurance business	The Financial Supervisory Authority of Norway's methodology/own assessments
Other risk		Own assessments

Based on models and methods, as well as qualitative assessments such as those outlined above, capital requirements are identified and calculated for the various risks included in ICAAP (Pillar 1 and Pillar 2 risks).

Capital targets

Results from the ICAAP provide guidance on risk appetite, capital requirements and the risk strategies adopted by the Board. The ICAAP verifies that:

- The Group has sufficient capital to satisfy regulatory requirements and internal management objectives for capital adequacy and capital buffers.
- The Group's capital adequacy at the bottom of a serious economic downturn is above the minimum regulatory requirements, and there is a high degree of probability that measures can be taken to return the capital adequacy to the management objective.
- The Group has sufficient capital and capital buffers to implement plans and strategic measures without endangering the financial solvency target.

One of the Group's key objectives is to keep its Common Equity Tier 1 capital ratio on a par with comparable banks. Sparebanken Sør is the only one of the large regional banks in Norway to use the standardised approach to calculate capital adequacy.

The Financial Supervisory Authority of Norway's Supervisory Review Evaluation Process (SREP) for Norwegian financial institutions is split into five groups based on size, complexity and scope, as well as the degree of risk that the institutions represent for the financial system. Sparebanken Sør is in Group 2, which encompasses small and medium-sized institutions that mainly operate within Norway but with large national or regional market shares. Banks in Group 2 will be subject to a detailed SREP assessment with written feedback every two years.

4. Credit risk

Credit risk is the risk that a counterparty does not meet its obligations under an agreement. In a loan relationship, the credit risk consists of the borrower not fulfilling the loan agreement and established securities not covering the exposure. Credit risk is the Group's greatest risk and the risk that requires the most capital.

Concentration risk is credit risk in the form of a risk of loss arising from highly concentrated exposure to an individual counterparty or related groups of counterparties (major exposures) or counterparties with operations in the same sector (industry concentration) or geographic area (geographic concentration). The Bank currently has a well-diversified portfolio in terms of geography, customer segment and sector.

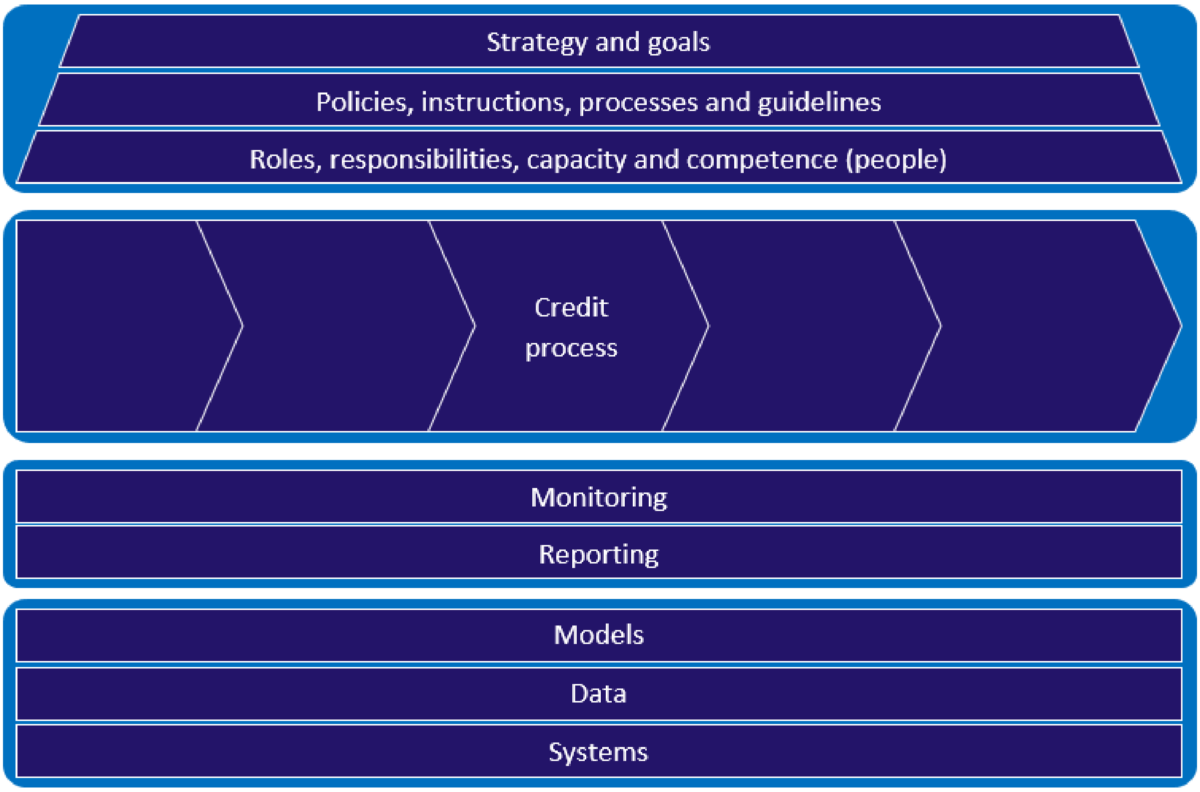
The Group uses the standardised approach to calculate risk and capital. The Bank also regularly assesses whether there are any other aspects of the Bank's credit risk that indicate that capital ought to be set aside for risks that cannot be covered by the standardised approach.

a. Management and control

The Board has overarching responsibility for the Bank's granting of credit, and establishes the Bank's credit strategy and policy. The Risk Management Division is an independent risk control function that identifies, measures, assesses and reports material risks associated with credit.

The Bank implements customer due diligence relating to money laundering and financing of terrorism in all credit cases. When carrying out customer due diligence, the Bank applies a risk-based approach, in accordance with the provisions of the Norwegian Anti-Money Laundering Act and the Bank's business-specific risk assessment. The Bank focuses in particular on controlling and reducing the risk associated with customers and transactions with a high risk of money laundering and financing of terrorism. In credit cases where the customer is subject to enhanced checks, enhanced customer due diligence is carried out in accordance with operational credit guidelines.

The figure below shows the principles for management and control of credit risk.



b. Goals and guidelines for managing credit risk

Credit risk is managed through the Group's credit strategy, credit policy, operational credit guidelines, credit processes and approval mandates.

The Bank complies with the principles for managing credit risk as defined by the EBA, the Basel Committee and the Financial Supervisory Authority of Norway.

Credit strategy

The credit strategy encompasses overarching issues relating to the Bank's credit portfolio and granting of credit and comprises general outlines and a series of credit strategy and quantitative frameworks.

These essentially consist of objectives and guidelines, while the quantitative frameworks can establish both restrictions and targets for risk tolerance and risk appetite.

Sparebanken Sør has an objective that the Bank's customer portfolio must have a "Moderate" to "Low" risk profile. The Bank's risk profile must be on a par with comparable banks. Management objectives for credit operations are determined annually and are adapted to the Bank's requirements for capital adequacy, profitability and risk profile.

Lending purposes and ethics

The Bank only grants credit for purposes that are compatible with good business practice. Sparebanken Sør must not be associated with activities, customers or sectors that have a reputation with which the Bank does not wish to be associated.

The Bank must exercise caution in granting credit to customers who develop or sell products that cause particular harm to the environment, nature or people. The Bank also has a restrictive lending practice for projects viewed as controversial by the general public.

The Bank and its employees must adhere to high ethical standards in order to ensure that situations do not arise where the Bank or employees' integrity can be called into question.

Market area and customer segment

Sparebanken Sør's main market area is Agder, Vestfold, Telemark and Rogaland. The Bank also operates in a national market segment through retail customers and organisations that form part of KNIF and their employees.

Within the corporate market, the Bank mainly finances small and medium-sized enterprises, as well as organisations and the public sector.

Risk diversification and concentration risk

The Bank's credit portfolio must be composed in such a way that risk is diversified in terms of market segments, industries and individual customers.

Credit competence, quality and culture

The Bank attaches importance to maintaining a high level of credit competence in both the first and second line in order to ensure that the Bank achieves its objectives in the credit area. The Bank's credit processes must be characterised by thorough due diligence and collation of all relevant information.

The quality of exposures and requirements for profitability (measured as risk-adjusted return) must never be compromised for the sake of volume targets or the Bank's reputation in local communities.

The Bank's credit culture is characterised by a common set of norms and values. The Bank establishes clear objectives, guidelines and procedures for the Bank's operations and ensures that these are followed.

The credit process is based on good risk management and is orderly, transparent and efficient.

ESG and sustainable credit processes

The Bank must be a responsible lender, and take account of the climate and nature, social conditions and good corporate governance in credit processes and administration. The Bank considers ESG to be an important parameter when assessing credit risk, and has integrated an ESG module into its credit assessment process. Please refer to the Bank's governing document "Sustainability strategy" on the Bank's website www.sor.no.

Credit policy

The credit policy describes and specifies the principles for the Bank's granting of credit to individual exposures in the corporate and retail market. The policy consists of general policy requirements and recommendations, and a set of industry-specific policy requirements and recommendations for the corporate market.

In the event of non-compliances with policy requirements for decisions made under an individual authority, the credit decision must be escalated a level.

General policy requirements and recommendations for the corporate market:

General requirements and recommendations apply to all businesses the Bank finances, regardless of their sector. These include requirements relating to the customer's servicing ability, equity/own exposure, risk class, security category, financing structure and key person risk.

Industry-specific policy requirements and recommendations for the corporate market:

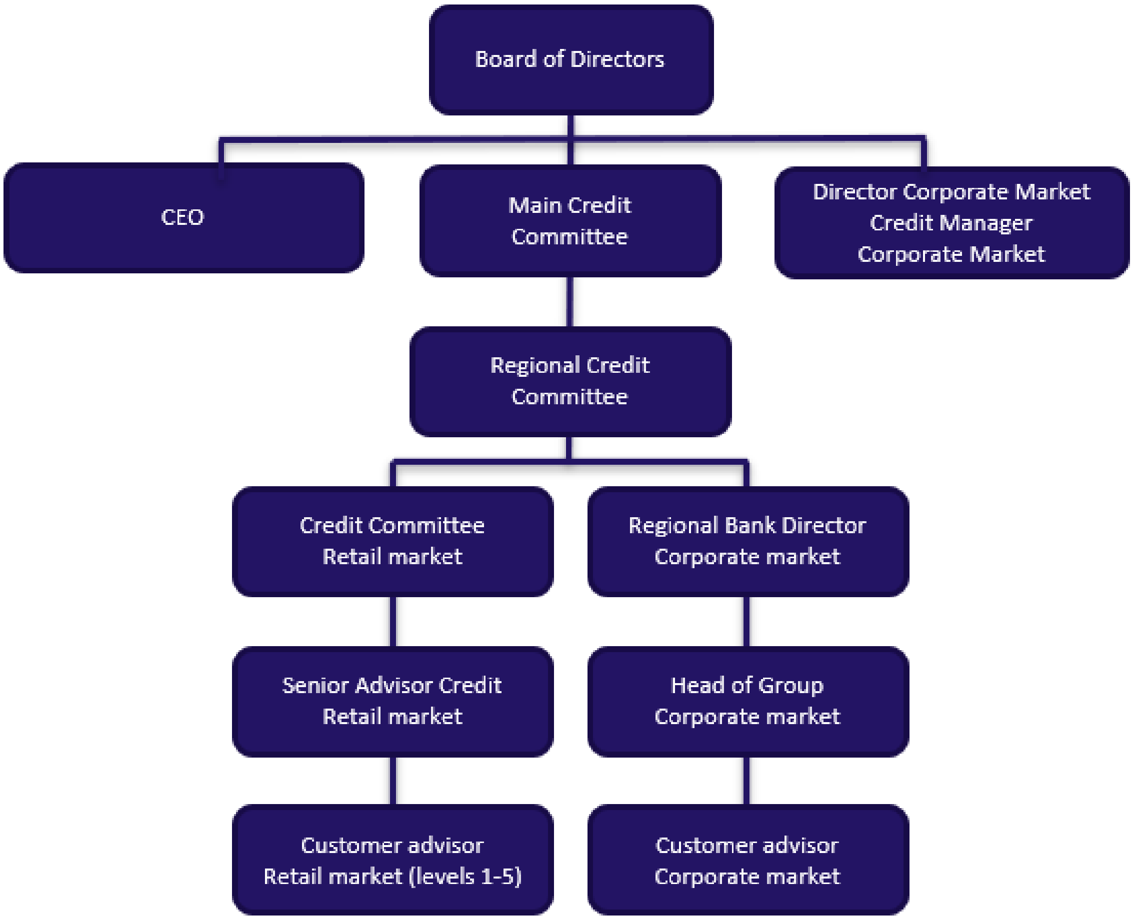
Some industries are subject to industry-specific requirements and recommendations with regard to financing. Industry-specific requirements may have precedence over general requirements. Commercial property, development property (project financing), operating companies, housing cooperatives, co-owners and agricultural enterprises are examples of sectors subject to specific requirements and recommendations with regard to long-term financing.

c. Operational credit management

In addition to the credit strategy and credit policy, Sparebanken Sør has established a framework for managing and controlling the Bank's credit risk.

Approval regulations

The approval regulations are a key element of active management of credit risk in the portfolio. These authorities are differentiated by competence, risk class and security category, as well as the needs for the individual position. The organisational structure of approval mandates and mandates for the respective authorisation holders, along with the credit case processing hierarchy, are shown below:



The Board has overarching responsibility for the Bank's granting of credit, and determines approval mandates for the Main Credit Committee and the CEO. The Board delegates responsibility for granting authorities for the Regional Credit Committee and other authority holders to the Main Credit Committee.

Shared case management

Credit cases exceeding a certain size and complexity must be assessed by more than one person. In the corporate market, such cases are escalated one authority level for a decision, and major exposures must be reviewed by the Credit Committee.

In the retail market, the principle of shared case management is applied for such cases. This means that the case officer presents the case to their superior in a higher authority group, who decides whether to approve or reject the case.

Credit management procedures

In addition to the credit strategy and credit policy, more detailed operational credit guidelines have been prepared regulating various matters relating to the granting and monitoring of credit and dealing with non-performing exposures.

Credit scoring process

The Bank uses decision-support systems as part of its credit scoring process. There is one process flow for retail customers and three process flows for corporate customers, depending on the size and type of the customer. There is also a process flow for renewing exposures for corporate customers.

The main features of the credit scoring process are outlined below.

The introductory analysis is based on internal and external assessments and policy controls and is intended to identify whether the application complies with the Bank's strategy and policy, or whether there are risk aspects that indicate that the application should be rejected even at this early stage. Non-compliances with established credit policy requirements and/or credit policy recommendations are presented here.

Sparebanken Sør has developed and applies scoring models for risk classification in credit processes and portfolio management in the retail and corporate markets.

Based on the results of scoring and introductory analyses, guidelines are established to determine which credit processes and risk assessments should be performed and which authorities should be applied for the granting and monitoring of exposures in the retail and corporate markets. In each credit case, an assessment is made of earnings, solvency and behaviour/management.

Risk classification system

The risk classification system is used in the credit scoring processes and to calculate risk, tied-up capital and profitability at product, customer and portfolio level.

The risk classification system is made up of the following components:

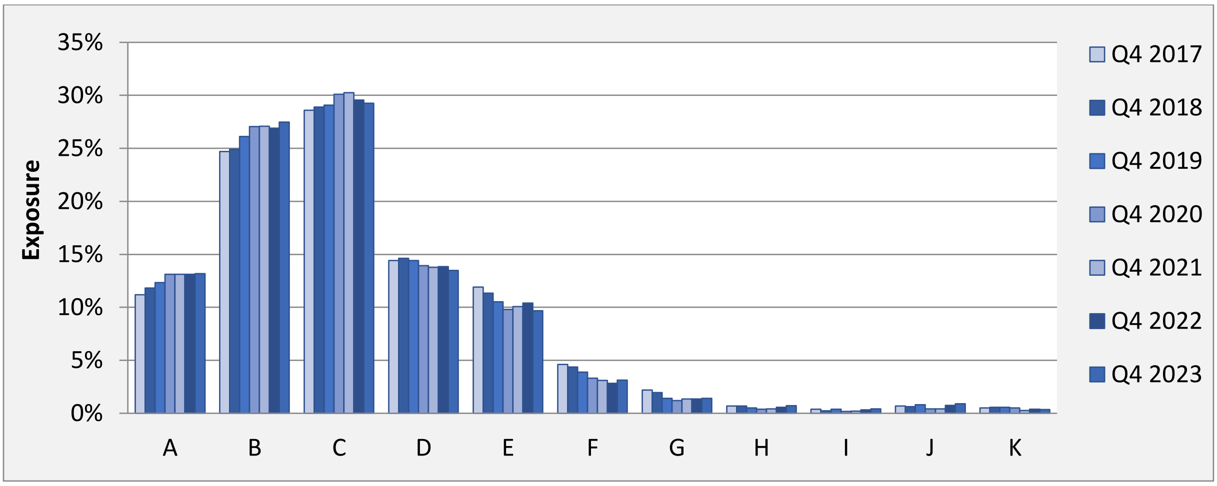
Probability of default	Models for calculating the probability of default
Security classes	Models for calculating security classes
Exposure	Models for calculating exposure
Loss ratio	Models for calculating loss given default
Expected loss	Models for calculating expected loss in the next 12 months
Risk group	Models for allocation into risk groups
Risk price	Models for calculating risk-adjusted price

Probability of default

Scorecards are used to calculate the probability of default. Scorecards assign customers to 11 risk classes from A–K, where A–D are low risk, E–G are medium risk, H–J are high risk and category K is default. The Group has application and behaviour scorecards for the retail market and the corporate market.

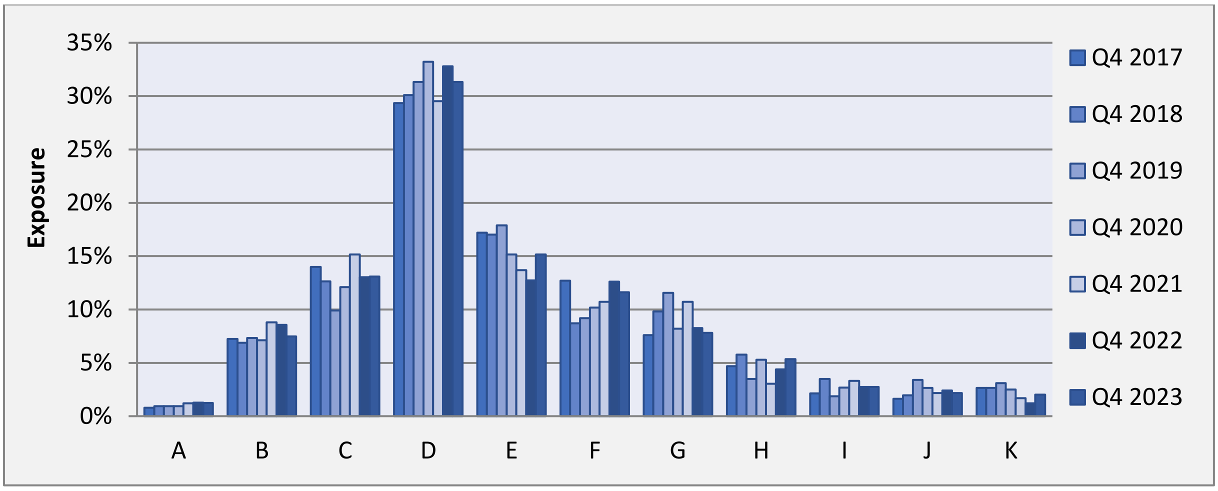
Risk class	Risk group	Default (PD values)	
		From	to
A	Low	0.00%	0.10%
B	Low	0.10%	0.25%
C	Low	0.25%	0.50%
D	Low	0.50%	0.75%
E	Medium	0.75%	1.25%
F	Medium	1.25%	2.00%
G	Medium	2.00%	3.00%
H	High	3.00%	5.00%
I	High	5.00%	8.00%
J	High	8.00%	99.00%
K	Default	100.00%	

Risk classes Retail Market



The figure shows the Retail Market portfolio by risk class. In the fourth quarter of 2023, customers with low risk (A–D) accounted for 83.4 percent of the portfolio. Customers with medium risk (E–G) accounted for 14.2 percent, while customers with high risk (H–J) including category K, which is default, accounted for 2.4 percent.

Risk classes Corporate Market



The figure shows the Corporate Market portfolio by risk class. In the fourth quarter of 2023, customers with low risk (A–D) accounted for 53.1 percent of the portfolio. Customers with medium risk (E–G) accounted for 34.6 percent, while customers with high risk (H–J) including category K, which is default, accounted for 12.3 percent.

Loss Given Default (LGD)

Based on the loan-to-value/collateral coverage, a loss ratio (LGD – Loss Given Default) is calculated for the exposure in the event of default.

Exposure in the event of default

The Conversion Factor (CF) defines how great a percentage of the unused credit framework is expected to be utilised in the event of default. EAD – Exposure At Default – is calculated as the higher of the balance or total exposure.

Expected loss

The expected loss for the next 12 months is calculated as follows:

Probability of default (PD) × Exposure (EAD) × Loss Given Default (LGD).

Validation

Each year the Group performs a qualitative and quantitative validation of the scoring models. The models are calibrated using a “Through-the-Cycle” (TTC) approach.

Non-performing exposures

Sparebanken Sør's definition of default is according to the EU's regulation on the use of the definition of default (575/2013, Article 178). The Bank defines default at the customer level for both the mass market and corporates. If a customer is defined as being in default, the customer's commitment is to be included in the Bank's public reporting of non-performing exposures.

Default is the failure of a borrower to fulfil its obligations to the Bank. A borrower's obligations include financial requirements (failure to pay) and other obligations that the borrower is unlikely to fulfil.

A customer exposure is defined as in default if a claim is overdue by more than 90 days and the amount exceeds 1 percent of the balance sheet exposure and NOK 1,000 for the mass market and NOK 2,000 for corporates (failure to pay).

A customer exposure is defined as in default if it is likely that the borrower will not fulfil its obligations because of objective requirements:

- An individually calculated loss write-down has been recorded against the customer exposure
- Confirmed losses have been recorded against the customer without subsequently granted credit
- Bankruptcy proceedings have been brought against the customer
- The customer has sought or is in a debt settlement
- Compulsory dissolution proceedings have been brought against the customer
- Sales of credit owing to impaired credit quality

Additional subjective requirements for a qualitative assessment of whether the requirement will lead to default also apply. These are assigned the reason for default "Unlikeliness to pay".

The following reasons that may lead to default require a qualitative assessment:

- Contagion from associates or companies in the same customer group
- Accounts – negative trends and/or negative equity (weak interim accounts)
- Weak liquidity and negative liquidity development
- Arrears to other creditors (which become known to the Bank)
- Distraint or forced sale of pledge collateral from other creditors
- Payment orders in favour of third parties (if the Bank is aware of such)
- A bankruptcy petition has been submitted by the customer
- Compulsory dissolution proceedings have been brought against the customer
- Anti-money laundering – missing customer information
- Notification that the auditor has resigned
- Breaches of certain types of covenants:
    - Equity requirements
    - Material non-approved changes in ownership
    - Change in form of company, spin-off/merger
    - Material changes in commercial operations
    - Auditor's comments

All defaults are followed by a waiting period which starts when all the customer's active default triggers have ceased. During the waiting period, the customer is considered to be in default and the period lasts for a minimum of 3 or 12 months depending on the reason for default.

Forbearance

Exposures with forbearances are debt contracts in which forbearances have been granted to a debtor who has or is expected to experience problems with meeting the debtor's financial obligations. Exposures with forbearances include both healthy and non-performing exposures. If a customer is granted forbearances, this results in the customer exposure being marked with a forbearance. Factors that result in customers being marked with forbearances will be changes in repayments, e.g. postponement of instalments and refinancing as a result of non-temporary payment problems.

Procedures and guidelines for valuation of collateral

When granting and monitoring loans, the Bank must value collateral in accordance with the EBA Guidelines 2020/06 ("Guidelines on loan origination and monitoring"). For real estate, the Financial Supervisory Authority of Norway's circular no. 5/2021 ("Requirements for the valuation of real estate when granting and monitoring loans") applies.

The Bank should use statistical models to value collateral whenever possible. Estimates from the Eiendomsverdi property database are the main source of valuations of private residences.

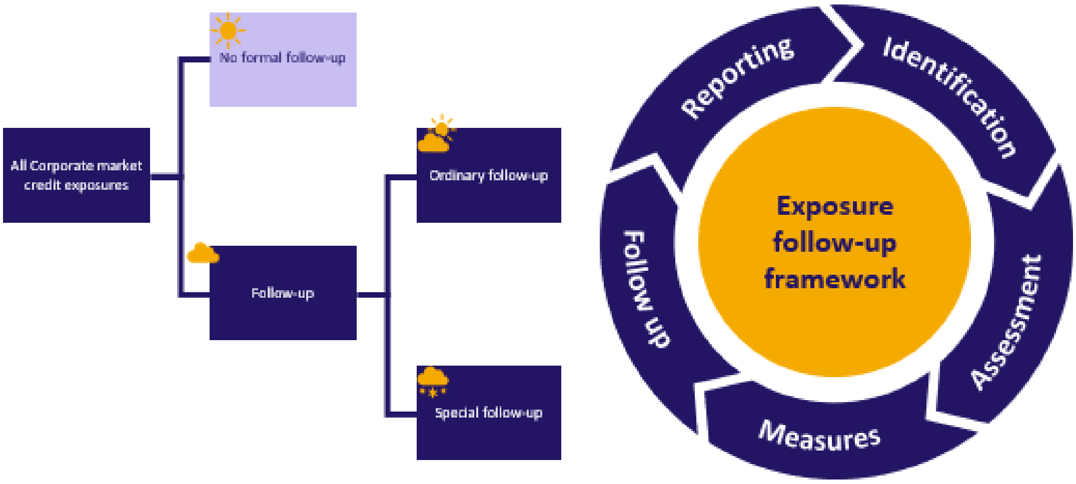
When granting loans where the use of statistical models does not satisfy the valuation criteria, the valuation must be carried out by an external or internal valuer. This is the case for the majority of the Corporate Market portfolio.

The Bank has established its own valuation function, which carries out internal valuations. The Bank also engages external valuers where required. This enables the Bank to consistently and independently value collateral.

The Bank's main principle is that objects should be valued at market value. Collateral coverage calculations are based on expected realisable values. The realisable value of a mortgage object is the market value reduced by a factor. The size of this factor is based on data from the Bank's loss history for the individual object type.

d. Exposure monitoring

The exposure of the credit portfolio is monitored on an ongoing basis. The Bank uses the following methods to monitor exposure:



The Risk Management Division/Group Credit has an independent second-line function that monitors and checks compliance with the credit regulations. Early warning lists and watch lists are regularly drawn up to identify exposures that require extra follow-up, at the earliest stage possible. All customers considered to be in a high risk class are monitored each quarter through action plans in respect of measures and loss provisions.

In most cases non-performing exposures in the retail customer and sole proprietor segments are assigned to an external debt collection agency for recovery.

In addition to incident-based follow-up, account managers in the corporate market carry out an annual exposure review of their own portfolio. Exposure follow-up in the corporate market should also ensure that covenants associated with an exposure are met at all times.

e. Analyses and reporting

The Risk Management Division carries out regular reporting and analyses in the credit area. Quarterly risk reports to the Board provide a supplementary description of statuses in relation to the management objectives and tolerance limits set out in the Bank's governing documents. A more extensive discussion of the changes in the general credit risk picture is also provided.

The Bank's largest exposures are regularly presented to the Board.

f. Internal control

Procedures have been established for annual risk identification, risk analysis, control plans and follow-up relating to the various processes in the credit area. Semi-annual management confirmations of assessments of changes in risk are also obtained, and managers in all business areas must update the risk picture and internal control on an ongoing basis.

5. Counterparty risk

Counterparty risk is the risk that the Bank's business partners/suppliers in the financial area are unable to fulfil their contractual obligations to the Bank.

Counterparty risk is reduced by diversifying among different providers of financial services, as well as implementing risk-mitigating measures such as contractually exchanging collateral between the parties and immediate counterparty clearing.

a. Risk assessment

The counterparty risk is considered low.

Capital adequacy for counterparty risk is calculated using the standardised approach SA-CCR. The Bank has also assessed whether there are other aspects of the Bank's counterparty risk that indicate capital ought to be set aside for risks that cannot be covered using the standardised approach.

b. Management and control

The Board has determined that counterparty risk is to be low.

Derivative contracts are entered into to hedge risks that arise when managing the Group's financing and liquidity risk, and by entering into customer contracts that involve fixed-interest-rate and currency exposure.

The requirement for low counterparty risk means that risk-mitigating measures must be established. In order to manage the counterparty risk from financial institutions, frameworks have been established per counterparty for various products. The setting of frameworks is intended to ensure the Group's diversification objective. Counterparties must have a credit rating of at least investment grade level and a good reputation among borrowers and investors, including with regard to ESG.

Transactions in financial instruments with the Group's counterparties must be regulated by a satisfactory legal agreement. The agreement terms must include requirements for the exchange of collateral and aim to reduce credit risk vis-à-vis the counterparties. The terms for short-term lending to counterparties in exchange for collateral (repo agreements) must normally be governed by a standard contract (Global Master Repurchase Agreement (GMRA)). Derivative transactions with financial counterparties shall be governed by standardised agreements (ISDA Master with Credit Support Annex (CSA)) or equivalent agreements. An agreement on clearing through a clearing house approved by the authorities is an additional risk-mitigating measure.

Sparebanken Sør complies with the regulations for derivatives trading under EMIR (European Market Infrastructure Regulation) for settlement, confirmations, documentation and reporting to the authorities.

When choosing financial counterparties, investment objects and business partners in the financial area, the Group's policies and guidelines for sustainability are emphasised. Through its management and selection of providers, Sparebanken Sør seeks to affect social development in a sustainable direction, including actively avoiding exposures that may result in infringement of human rights, corruption, financing of terrorism etc. The "Policy for responsible investments and responsible securities trading" is a key document for the Group's initiatives to establish sustainable financing and placement activities, and should have a risk-mitigating effect with a view to preventing unwanted exposure.

6. Market risk

Market risk is the risk of changes in value as a result of changes in market prices. Market risk can be broken down into interest rate risk, foreign exchange risk, share price risk, credit spread risk, basis swap risk and property risk. Financial market risk is part of market risk, and represents the risk of changes in the value of unsecured positions as a result of changes in market prices for interest rates, exchange rates, shares, credit spreads and basis swaps (combined interest rate and currency swap agreements).

a. Risk assessment

The market risk is considered low. At the end of the year, the levels of market risk were within the requirements adopted by the Board.

Capital adequacy for counterparty risk is calculated using the standardised approach. The Bank has also assessed whether there are other aspects of the Bank's market risk that indicate capital ought to be set aside for risks that cannot be covered using the standardised approach.

b. Management and control

Market risk is managed through management objectives set out in Board-adopted guidelines and procedures. The Board has determined that the Group is to have a low market risk. The Board sets annual risk tolerance levels for loss potential for interest rate risk, credit spread risk, foreign exchange risk and share price risk respectively, as well as aggregate loss potential for market risk. The frameworks will limit the risk and ensure that Sparebanken Sør at all times meets the Board's requirement for a prudent risk profile.

The market risk is to be on a par with comparable banks, but it must be reconciled with the Bank's risk profile when viewed overall and Board-adopted requirements for capital adequacy. The risk profile must be adapted to the current market situation and the prospects for the future. Management and control of the market risk must be attended to in such a way that the Bank is able to withstand a long period of market stress.

When hedging market risk (interest rate and foreign exchange risk), interest rate and currency derivatives are used, as well as asset-liability matching.

The Group's Method Document for Market Risk contains assumptions and model options for measuring interest rate risk, credit spread risk, foreign exchange risk and share price risk. The models are based on the Financial Supervisory Authority of Norway's module for market risk.

Market risk is monitored continuously and reported quarterly to Group management, the Risk Committee and the Board in accordance with Board-adopted guidelines.

c. Interest rate risk

Interest rate risk is defined as the risk of losses arising from changes in interest rates if the fixed-interest period for Sparebanken Sør’s liabilities and receivables do not coincide. Interest rate risk arising in the Group’s ordinary operations in the form of fixed-interest customer loans, interest rate derivatives relating to customers, fixed-interest investments and funding at fixed rates of interest and in foreign currencies is hedged on an ongoing basis. The Group’s interest rate risk exposure is measured by taking into account unhedged balance sheet and derivative positions.

The Group is exposed to fixing risk over each three-month period. If significant liabilities are exposed to a new interest rate at one point in time, and significant assets are exposed to a new interest rate at another point in time within the same three-month period, fixing risk arises. In given scenarios this can adversely impact the Group’s expected result.

Interest rate risk is assessed using the Economic Value of Equity (EVE) method on the basis of a stress test scenario in which the entire yield curve has a parallel shift of 2 percentage points, as well as an assessment of how six stress test scenarios with various distortions in the yield curve affect the Group’s position. The scenario with the greatest loss potential is taken as a basis for measuring interest rate risk. At Group level, the Board has adopted a risk tolerance level for interest rate risk applying the EVE method.

Interest rate risk is also measured using the Net Interest Income (NII) method. This method assesses the effect on net interest income for all assets and liabilities in the event of an interest rate shock of 2 percentage points within a time horizon of one year.

d. Credit spread risk

Credit spread risk is the risk of changes in the market value of interest-bearing securities as a result of general changes in credit spreads. A general increase in credit spreads would lead to a reduction in the value of a portfolio of interest-bearing securities. Changes in credit spreads are a consequence of changes in investors’ requirements for a risk premium.

The Financial Supervisory Authority of Norway’s stress test model for credit spread risk is used to calculate loss potential. The loss potential is calculated for various risk classes based on factors such as rating, with set changes in spreads. The calculation takes into account the Group’s actual positions measured at market value and residual maturity. Total loss potential constitutes the Group's credit spread risk.

The Group’s credit spread risk is also adjusted indirectly via limits for maximum investments in different sectors.

e. Foreign exchange risk

Foreign exchange risk consists of the risk of loss when the exchange rate changes. All financial instruments and other positions with foreign exchange risk must be included in the assessment.

Foreign exchange risk at Sparebanken Sør arises as a result of financing and investment activity, international payment transactions and/or customer transactions. Foreign exchange exposure is hedged on an ongoing basis using different instruments including foreign exchange spots, futures and swaps.

The loss potential is measured on the basis of a stress scenario where the exchange rates change by 25 percent. The calculation is based on the Group's overall net foreign exchange position.

f. Share price risk

Share price risk consists of market risk associated with positions in equity instruments, including investments in hedge funds, private equity funds, venture capital funds and seed funds. Shares in subsidiaries and/or strategic ownership interests in the financial sector are not included. Sparebanken Sør does not have a trading portfolio in equity instruments.

The loss potential is measured on the basis of a stress scenario where the market value of the shares declines by 45 percent. The calculation must be based on market rates, to the extent that these are available for the instrument.

7. Liquidity risk

Liquidity risk is defined as the risk of the Group not being able to meet its obligations or fund its assets, or obtain funding without incurring significant additional costs, in the form of a fall in the value of assets that must be realised, or in the form of funding at an above-normal cost level. Liquidity risk also includes the risk that the financial markets that the Bank wishes to use are not functioning.

a. Risk assessment

The liquidity risk is considered moderate to low. At the end of the year, the levels of liquidity risk were within the limits adopted by the Board.

b. Management and control

Sparebanken Sør's liquidity risk must comply with regulatory and Board-imposed requirements. The Board has determined that Sparebanken Sør is to have a moderate to low liquidity risk. The Board has set risk tolerance levels for various management objectives that indicate maximum and minimum limits for risk appetite. In addition, the Board has set risk targets that indicate a long-term objective or desired trend.

The liquidity risk must be on a par with comparable banks, but it must be reconciled with the Bank's risk profile when viewed overall and Board-adopted requirements for capital adequacy. The risk profile must be adapted to the prevailing market situation and the prospects for the future. Financing and liquidity buffers must be arranged in such a way that the Bank is able to withstand a long period of stress.

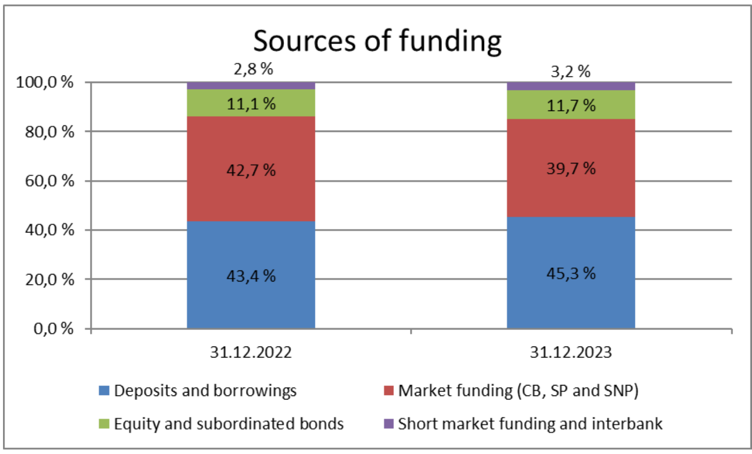
In addition to ordinary deposits and own funds, the Group's financing may be carried out by issuing senior non-preferred bonds, senior preferred bonds issued by Sparebanken Sør Boligkreditt AS and loans from other financial institutions.

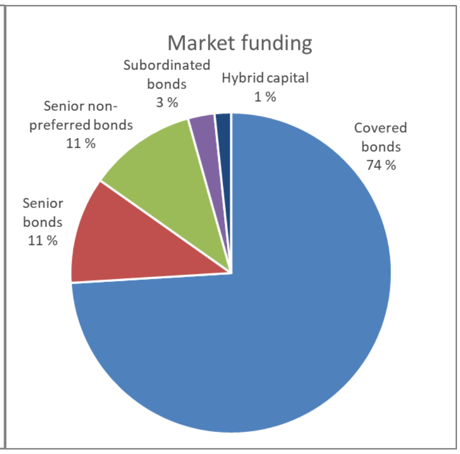
Deposits from customers are the Group's most stable source of funding. The Board of Directors emphasises that the ratio between deposits from customers and lending must be tailored to the Group's overall funding situation. The Group's deposit-to-loan ratio amounted to 54 percent as at 31 December 2023, up from 53 percent in 2022.

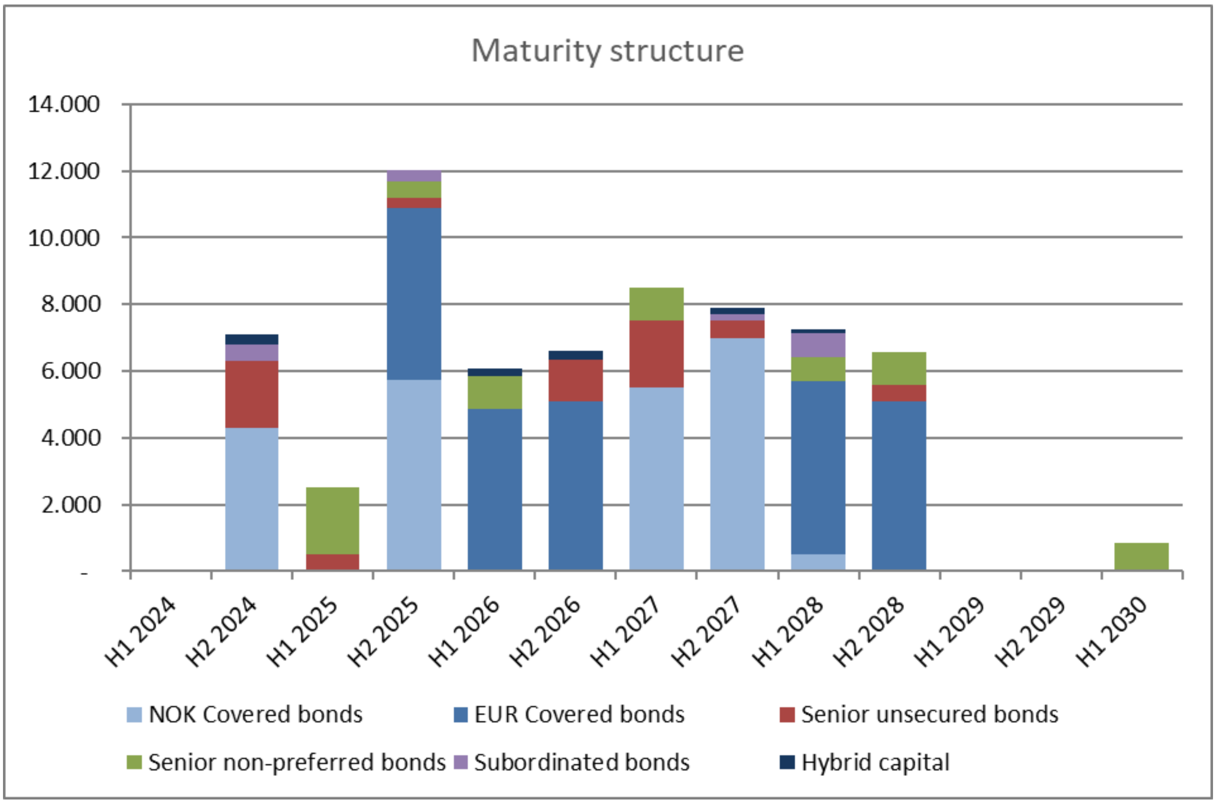
In addition, Sparebanken Sør Boligkreditt AS is an important funding instrument, ensuring access to long-term funding through the issuance of covered bonds. To be able to issue covered bonds, at the end of the year, mortgage loans equivalent to 65 percent of all mortgage loans to the retail market were transferred from the parent bank to the mortgage company. This represents a decrease from 68 percent in 2022.

The Group attaches importance to diversifying market funding. An EMTN (Euro Medium Term Note) programme has been established for the parent bank and an EMTCN (European Medium Term Covered Bond Note) programme has been established for the mortgage company; this facilitates market funding from sources outside the Norwegian bond market. At the end of 2023, Sparebanken Sør Boligkreditt had issued covered bonds corresponding to EUR 2.5 billion, of which EUR 1 billion was issued as Green Covered Bonds. Sparebanken Sør has also issued Green Senior Bonds with a total value of NOK 2 billion. See our website for more information on Sparebanken Sør's Green & Sustainability Bond Framework.

Market funding is diversified among various instruments and maturities as shown in the figures below. The average maturity for long-term market funding (maturity greater than 12 months) was 3.1 years at year end, and the liquidity indicator for long-term funding (NSFR) was 123 percent.







The Group's liquidity portfolio must meet regulatory and Board-approved requirements for a prudent and liquid interest-bearing securities portfolio. The liquidity portfolio consists of interest-bearing investments that satisfy liquidity requirements specified in the LCR regulations, including government bonds and other securities with zero capital weighting, covered bonds and securities issued by Norwegian municipalities and county authorities. The Group's expanded liquidity buffer takes into account the capacity to issue additional covered bonds and consists of the available cover pool at the mortgage company, mortgage loans on the parent bank's balance sheet that qualify as cover pool and holdings of own covered bonds.

The liquidity portfolio is intended to assist the Group in fulfilling its overarching ESG strategy. To help achieve this, the investment mandate for the liquidity portfolio must contain an objective to increase the Group's portfolio in green, social and sustainable investments. Specifically, investments made in the liquidity portfolio must be eligible to be included within the ESG mandate.

For the investment to be eligible for inclusion in the ESG mandate, the following conditions must be met:

- Bond investments must be classified as either Green, Social or Sustainable investments.
- The bonds must be marketed and sold as Green, Social or Sustainable investments.
- The bond investments must either be Covered Bond LCR 1 & 2 or 0-weighted LCR 1a.

Management of short-term liquidity risk includes alignment with the Liquidity Coverage Ratio (LCR). At the end of 2023, the total LCR for Sparebanken Sør Group, the parent bank and Sparebanken Sør Boligkreditt AS was sufficient to comfortably satisfy all the projected liquidity maturities within the next 30 days under a stress scenario. The Group's LCR amounted to 156 percent as at 31 December 2023, down from 177 percent in 2022. The regulatory requirement was 100 percent.

The Liquidity Coverage Ratio requirement is a regulatory requirement for liquidity coverage that measures the ability of credit institutions that issue covered bonds to continue trading for 180 days. As of the end of 2023, the liquidity buffer in the cover pool covered the net liquidity outflow within 180 days by a comfortable margin.

Stress testing is utilised to reveal whether established liquidity buffers are sufficient to meet predicted liquidity outflows. Stress testing is carried out in line with the Group's Method Document for Liquidity Stress Test and shows the utilisation of the liquidity buffers for four scenarios (Base Case scenario, Systemic Crisis scenario, Institution-Specific scenario and Combination of Institution-Specific scenario and Systemic Crisis scenario). The stress scenarios include various assumptions regarding outflows of deposits and opportunities for refinancing.

In order to aggregate the risk exposure across the management objectives, the Group's ability to survive is used as an overarching management objective. The ability to survive is measured by estimating how long the liquidity coverage is positive by using only established liquidity buffers, before the Group is unable to meet its obligations. The calculation ignores market-based refinancing. At the end of the year, the ability to survive was greater than 12 months.

A contingency plan has been established for liquidity that describes which events may trigger the contingency plan, how the Group is to organise itself and which measures can or must be taken in situations in which the Sparebanken Sør's liquidity may be threatened.

Measurement of liquidity risk is based on the Financial Supervisory Authority of Norway's module for liquidity risk.

Liquidity risk is managed on an ongoing basis and followed up through quarterly reports to the Board, Group management and the Risk Committee.

8. Operational risk

Operational risk is the risk of losses due to inadequate or flawed internal processes or systems, human error or external events. These may be disruptions or interruptions of an operational nature, breach of procedures, faults in IT systems or hardware, regulatory violations, fraud, fire and terrorist attacks. Operational risk also includes elements that are often treated as separate risks, such as compliance risk, ESG risk, behavioural risk, IT and information security risk.

Capital adequacy for operational risk is calculated using the basic indicator method. The Bank has also assessed whether there are other aspects of the Bank's operational risk that indicate that capital ought to be set aside for risks not covered by Pillar 1.

a. Management and control

The Bank must have low to moderate operational risk and good systems for follow-up and control. Sparebanken Sør has established specific guidelines for the management of operational risk in order to help the Group achieve its strategic goals. It may be necessary to accept some risk in order to facilitate innovation and it will never be possible or necessarily desirable to eliminate the inherent operational risk associated with all activities. Sparebanken Sør has identified seven main risks within operational risk: supplier and outsourcing risk, financial crime, IT and information security risk, behavioural risk, compliance risk, change risk and risk relating to resources, competence and human error. A qualitative description of risk appetite has been established for each main risk area, to be supplemented by quantitative key risk indicators. The Bank has zero tolerance for losses that could threaten strategic goals and the Bank's independence.

Operational risk is managed through the Group's framework for operational risk, procedures and authorities. The management objectives for operational risk are established each year by the Board. The Basel Committee's "Principles for the Sound Management of Operational Risk" and the Financial Supervisory Authority of Norway's modules for operational risk and internal corporate management specify the key external requirements for operational risk management. Sparebanken Sør regularly assesses changes to the framework to increase compliance with the requirements stipulated by the Basel Committee and the Financial Supervisory Authority of Norway.

Management of operational risk at Sparebanken Sør must contribute to the systematic identification of risk across the Group, and ensure that necessary risk-mitigating measures are implemented to prevent losses exceeding risk tolerance levels. Good risk management involves assigning clear roles and responsibilities for work on operational risk and internal control, and ensuring that the Bank continuously strives to establish a healthy risk culture at all levels. All managers in the Group must ensure that risks within their area (products, services, procedures, processes and systems) are identified, assessed and followed up.

The Operational Risk department in the Risk Management Division is Sparebanken Sør's central specialist unit for operational risk management, and the Group's second-line function for this type of risk. The department is responsible for the framework for managing operational risk and reporting. As part of the Risk Management Division, the department is an independent control function, and contributes as a facilitator of risk assessments and the annual self-evaluation process for the various divisions in the Group. The department continuously strives to improve the framework for holistic management and measurement of operational risk, and during 2023 devoted significant resources to entering into agreements with suppliers on various risk management tools in order to automate and clarify roles and tasks relating to work on operational risk. This work will continue in 2024.

All operational incidents and losses must be registered in the Bank's incident database. Any follow-up measures must be registered together with the incident. Relevant information from the incident database must be evaluated when carrying out risk assessments.

Sparebanken Sør has set risk targets and risk tolerance levels that establish a framework for the maximum operational risk accepted by the Group. Information from the Group's incident database, measurement of key risk indicators together with identification and assessment of risk provide an overall picture of the Group's operational risk. Main risks relating to anti-money laundering and the financing of terrorism, IT risk, supplier and outsourcing risk and data protection risk are reported to the Bank's Board as part of quarterly risk reporting. Reporting of operational risk also encompasses risk of non-compliance with, and implementation of, ESG requirements as well as operational risk in large projects. Sparebanken Sør is working to incorporate the assessment and management of ESG risk into the Bank's operational risk management framework. In addition to reporting on the overall status of implementation and compliance with ESG requirements on a quarterly basis, there is an increased focus on ESG in the annual self-evaluation of risk and control. Requirements for assessing ESG have been added to risk assessments for new or modified products and services, and the Bank will consider several risk-mitigating measures and controls within various disciplines during 2024.

Since the second quarter of 2022, Sparebanken Sør has taken out comprehensive cybersecurity insurance to reduce the consequences of a serious cyber incident.

The Group's procedures for approving new products, services, procedures, processes and systems must ensure that all new or changed products and services are thoroughly risk-assessed before they are approved. The product, service, process or system is described, risk-assessed and forwarded to a permanent consultation group, which ensures that the necessary risks have been assessed and that relevant risk-mitigating measures have been identified.

The Group's procedure for internal control is based on the COSO framework and is designed to ensure continuous improvement in all products, services, processes, systems and procedures. All managers are responsible for aligning the internal control within their own area of responsibility with risk and materiality, and for ensuring that this functions satisfactorily. In addition to continuous follow-up of risk, the quality and effectiveness of internal control is assessed in the annual self-evaluation of risk and control. All areas of the Group assess the extent to which relevant risks have been identified and whether existing controls and measures contribute to reducing the inherent risk to an acceptable level. The results of the self-evaluation process are summarised and presented to Group management. The status of internal control is reported in the annual internal control report.

b. Operational incidents

Sparebanken Sør measures operational losses within the categories of internal fraud; external fraud; employees and workplace safety; customer, product and business practices; damage to physical assets; business interruption and system errors; settlement; delivery and other transaction processing as well as customer complaints.

In 2023, Sparebanken Sør experienced a decrease in operational losses. Operational losses are still most significant within the category of "external fraud", and Sparebanken Sør is actively working to implement solutions to prevent fraud against the Bank's customers. The Bank works closely with TietoEvry to develop effective tools for detecting and preventing fraud. Regular meetings with customers are conducted to inform them about threats and vulnerabilities relating to fraud, and Sparebanken Sør has established a constructive collaboration with the police to contribute information to the investigation of fraud cases. Although the Bank has identified an increase in the number of fraud cases, losses relating to these cases decreased by 37 percent in 2023. This reduction is attributed, in part, to the Bank having better tools to identify fraud and to the Bank preventing more fraudulent transactions.

The Bank experienced a decrease in the number of incidents relating to business interruptions and IT systems. During the whole of 2023, the Bank recorded approximately 40 hours of downtime in its customer-facing systems.

c. IT and information security risk

The overall risk profile of the information security area must be low and is specified through selected security goals.

Given the global threat picture and the increased likelihood of cyberattacks and ransomware viruses, Sparebanken Sør has heightened its focus on the development of IT risk management. In 2021, the

Bank established a management system for information security certified to ISO 27001 (ISMS). During 2023, the Bank established measures and controls to ensure efficient implementation and compliance with the management system. Implementation and competence-enhancing measures will be continued in 2024.

Sparebanken Sør recognises that IT infrastructure is becoming increasingly complex, in particular in terms of the number of systems and suppliers. The constant need for change and digitalisation of processes and services has augmented the need for control. The Bank continuously works to identify and implement risk-mitigating measures to ensure compliance with regulatory requirements and sufficient quality in all outsourced services. The Bank has been working to clarify the criticality and relevance of IT systems for the Bank's core operations and the maintenance of critical societal functions. This work is relating to compliance with the European Banking Authority's (EBA) guidelines for crisis management and holds a high priority within the Bank.

d. Financial crime, money laundering and financing of terrorism

Sparebanken Sør has a low appetite for financial crime risk and is committed to maintaining robust controls to reduce the risk of the Bank, its employees or its customers being involved in financial crime.

Detecting and preventing financial crime, including money laundering and the financing of terrorism, is a very important social responsibility that has a high priority at Sparebanken Sør. The Bank has a comprehensive framework of governing documents, policies and guidelines to ensure compliance with the applicable legal requirements at all times, and significant resources are invested in fulfilling the Bank's role in protecting the Bank's customers, the financial system and society as a whole. Ongoing training and internal controls are conducted to ensure compliance with the framework.

Sparebanken Sør adopts a risk-based approach to Anti-Money Laundering (AML) work and the measures implemented to reduce the risk. This is ensured through the development and at least annual update of business-specific risk assessments. The risk assessment identifies risk-mitigating measures that must be implemented to reduce the specific identified risks. The Bank has implemented several risk-mitigating measures in the past year, including increased staffing, thereby enhancing expertise and capacity, improvements in system support, and enhanced reporting lines for internal control in the AML area.

The Bank is active in a number of national networks in the fight against financial crime. The Bank has found there is a low threshold for sharing experiences and expertise across industry players, supervisory authorities and public bodies. There are detailed checks on a considerable number of suspicious transactions in the course of the year. If suspicions are not dispelled by the Bank's investigation, the suspicion is reported to the National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim).

The Bank's "Anti-Money Laundering and Anti-Terrorism Financing Policy" provides guidance for the Bank's attitude towards and work on corruption, trading in influence, bribes and use of facilitation payments. Activities included in the Bank's efforts to combat financial crime are described in more detail in the sustainability library published under Corporate Social Responsibility on the Bank's website.

e. Compliance risk

The Board has set a goal that Sparebanken Sør is to have low compliance risk. This requires effective management and control of compliance risk and minimal compliance violations.

The scope of Norwegian legislation, including through international regulations implemented under Norwegian law, is significantly expanding. A common feature of many of the changes is that compliance requires considerable input from the organisation in the form of investments in new system solutions and development of new processes in the Group. Banks that do not comply with the law also face an increased risk of economic sanctions.

Sparebanken Sør is undergoing a period of rapid change. New products, new systems, system changes, and new and departing employees are all factors that can increase the probability of compliance violations. Safeguarding personal data, AML requirements, crisis management requirements and IT security are examples of areas that have required heightened attention over the past year.

The compliance culture in operational activities is considered to be good, but ensuring timely, continuous implementation and compliance with an expanding scope of Norwegian and international regulations is an ever-greater challenge.

9. HR remuneration policy and election of the Board

a. Remuneration policy

Sparebanken Sør's Remuneration Policy is essentially based on the following bodies/laws, which provide important guidance and principles for sound management of remuneration:

The Remuneration Policy has been drawn up on the basis of the Regulations on financial institutions and financial groups (the Financial Institutions Regulations), the Regulations on guidelines and reports on remuneration for senior executives, the Financial Supervisory Authority of Norway's circular 2/2020 and the Public Limited Liability Companies Act.

The Financial Supervisory Authority of Norway also follows European guidelines and regulations (European Banking Authorities/EBA and Capital Requirements Regulations/CRR), which, among other things, require more extensive remuneration disclosures than the Financial Institutions Regulations.

The Board of Directors is responsible for:

- adopting a policy for remuneration, and storing the documentation on which decisions are based
- determining the framework for variable remuneration
- determining salary and other remuneration for the CEO each year
- approving the "Report on Remuneration paid to Senior Executives" and presenting this to the Annual General Meeting
- providing information about the Board's review of the "Report on remuneration practices at Sparebanken Sør"

Remuneration Committee

Sparebanken Sør has a Remuneration Committee made up of up to five board members, all of whom have no ties that, in the opinion of the Board, could affect the members' independence. Senior executives may not serve on the Remuneration Committee. The Committee must at all times have at least one employee representative. The Committee prepares all matters relating to remuneration schemes to be reviewed by the Board of Directors and supports the Board's efforts to determine and ensure that the Bank at all times has and implements guidelines and frameworks for remuneration schemes. The Committee normally holds four meetings a year.

Sparebanken Sør – an attractive employer

The Bank offers market-based remuneration schemes that are perceived as competitive and motivating, and that act as a successful tool in the competition for new talent. The remuneration scheme must always be in accordance with the applicable legal requirements for remuneration schemes in financial institutions.

The guidelines are intended to provide a framework for remuneration of senior executives so that the terms support the Bank's business strategy, long-term interests and sustainability goals. The guidelines should promote and provide incentives for good management of and control over the Bank's risks, discourage excessive risk-taking and help avoid conflicts of interest.

Guidelines for the remuneration system stipulate that the fixed remuneration should make up the main part of each employee's salary. Employees at Sparebanken Sør should receive a salary tailored to the market, based on the individual employee's results (quantitative and qualitative), efforts, competence and responsibility.

This means that:

- A salary is a reward for results, work effort, adaptability, responsibility and value creation that the individual contributes to the Bank's collective efforts.
- Salaries will differ according to the extent to which the above criteria are present and are met.
- Target and performance appraisals are periodically held between the employee and their line manager, in order to align the Bank's requirements and expectations of the individual with the employee's own future and development plans.
- An internal change of position may entail a change in previously accrued personal benefits and job title.

The Bank has a general bonus scheme for all employees, which can trigger a bonus payment of up to 1.5 months' salary. The bonus is distributed to all employees at the same percentage of annual salary as a monetary benefit. The bonus scheme does not provide an incentive to take risks on behalf of the Bank.

The fixed salary is the main element in the remuneration of senior executives and should reflect the position requirements with regard to qualifications, responsibilities, complexity and the extent to which the person in question contributes to achieving the Bank's overall business goals, long-term interests and sustainability goals. Senior executives are covered by the Bank's general bonus scheme and the Bank has no form of variable remuneration that is paid out over several years or in the form of equity certificates.

Reference to the remuneration policy and the report on remuneration paid to senior executives in the Annual Report (from page 104).

b. Election of the Board of Directors

The Election Committee is tasked with preparing and submitting a recommendation to the Board of Trustees regarding the election of the Chair, Deputy Chair and other members and substitute members of the Board, excluding employee representatives.

The Election Committee consists of eight members and four substitute members who are elected by the Board of Trustees from among the Board of Trustees' members. The Chair of the Board is elected by the Board of Trustees. The Election Committee must have representatives from all four categories that are represented on the Board of Trustees. The majority of the Election Committee should be independent of the Board and senior executives. Members are elected for a term of two years.

The composition of the Board and the Election Committee proposed by the Election Committee must look after the interests of all categories on the Board of Trustees and the Bank's need for competence, capacity and diversity.

Consideration should be given to ensuring that the Board can function as a collegial body. The Election Committee must ensure that proposed Board members satisfy the requirements for suitability as well as independence according to the prevailing guidelines on corporate governance.

As far as possible, the geographical background of the members of the Board must reflect the counties in which the Bank is represented, with at least four members from Agder and at least one member from Vestfold or Telemark. The composition of the Board must satisfy the principles in Section 6-11(a) of the Norwegian Public Limited Liability Companies Act, regarding representation of both genders on the Board. The Board of Directors must consist of seven to eight members, and include two employee representatives. This means that both genders must be represented among the employee representatives and there must be at least three members of each gender among the other members. The Board Chair and at least two-thirds of the Board must not be employed by the Bank or a company in the same group.

The Board's members must display a high level of personal and professional conduct, ethics and integrity. Collectively, the Board should have a diverse mixture of skills, professional and industry backgrounds, geographical experience, expertise, gender, age, ethnicity and diversity. The Board should have sufficient diversity to ensure it takes a broad view of both current commercial activities and needs for changes, adaptation and adjustments for the future. There must be a culture of cultivating inclusion and diversity that supports the Bank's values.

The Election Committee must submit a reasoned recommendation for its proposed candidates. The recommendation must also disclose relevant information about the candidates, including their competence, capacity and independence, as well as age, education and professional experience.

Information should be provided on any equity certificates held in the Bank and assignments performed for the Bank, as well as employment, positions of trust and significant assignments performed for other companies and organisations. Recommendations for re-election of Board members should also disclose how long the candidate has been a Board member at the Bank, and the number of Board meetings the candidate has attended. The Election Committee's recommendation should also explain how the Committee has reached its decision, including the form of contact/meetings and efforts undertaken to obtain information about potential candidates.

10. Annex

See separate Excel Annex on Pillar 3.

SPAREBANKEN SØR

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