Corporate governance

1. Implementation and reporting on corporate governance

Every year, the Board and management of Sbanken ASA review the bank’s principles for corporate governance and how effective they are in the group. The formal requirements and recommendations for this report follow from the Norwegian Accounting Act Section 3-1b and the Norwegian Code of Practice for Corporate Governance of 17 October 2018, available at nue.no. The bank’s corporate governance guidelines are available on its website.

This document provides a report that describes how Sbanken has arranged its affairs to comply with the 15 chapters of the Code of Practice. Any deviations are commented on below.

Deviations from the Code of Practice: None

2. Business

Sbanken ASA is a listed financial services group that consists of the parent bank and its subsidiary Sbanken Boligkredit AS. Sbanken is a digital challenger bank with no branch offices, offering modern banking services to Norwegian retail customers and SMEs through a user-friendly and flexible banking platform. Sbanken’s business is set out in the company’s Articles of Association, which are available on the bank’s website. The Articles of Association state that the object of the company is to conduct banking activity within the legislative framework that applies at all times. The bank performs all transactions and services that are customary or natural for banks to perform. The Board of Directors adopts its resolutions within the framework of the business decided by the General Meeting.

The Board is in charge of the company’s strategic planning and defines clear goals, strategies and a risk profile for the bank’s business. Information about this work is provided in the Board of Directors’ report. The company’s goals, strategies and risk profile are evaluated at least once a year, among other things through work on the business plan and ICAAP. These documents are adopted by the bank’s Board.

Sbanken shall inspire smart financial choices for the future, and the bank’s values are: Open, Simple, Fair, and Friendly Rebel. The bank’s activities and services are dependent on a high degree of trust. The trust of our customers and society at large is based on a good reputation and high ethical standards in all parts of the business. Together with the bank’s values, this shall form the basis for decision-making and govern the corporate culture.

The bank’s targets and values form the basis for the bank’s rules on ethics and corporate social responsibility. Sbanken’s code of ethics and business conduct and the policy on corporate social responsibility and sustainability are available on the bank’s website.

The bank’s corporate social responsibility is described in the Board of Directors’ report and in a separate chapter in the annual report.

Deviations from the Code of Practice: None

3. Equity and dividends

Capital adequacy

The Board continuously assesses the capital situation in light of the company’s targets, strategies and risk profile. The bank’s capital risk policy is adopted by the Board. The bank’s capital needs are analysed based on the bank’s business plan and financial plan through the annual ICAAP process, which is adopted by the Board.

Details concerning the bank’s capital situation are available in the accounting information.

Dividend

When deciding the size of the annual dividend, particular account is taken of the group’s capital needs, including capital adequacy requirements, and the group’s targets and strategic plans. Sbanken’s policy for the period 2019–2021 is to distribute dividend of up to 30 per cent of the net profit.

Authorisations to the Board

At the annual general meeting, held on 26 April 2019, the Board was granted authorisation to

- issue a subordinated bond loan between Sbanken ASA as the borrower and Nordic Trustee ASA as the trustee for the bond holders, with a total nominal value of up to NOK 600 million,
- issue subordinated loans between Sbanken ASA as the borrower and Nordic Trustee ASA as the trustee, with a total nominal value of up to NOK 750 million,
- purchase, on behalf of the company, own shares with a total value of up to NOK 15 million, corresponding to 1.4 per cent of the company’s share capital. The purpose of the authorisation is to enable the company to buy back shares to distribute to employees in accordance with previously adopted share purchase programmes. The maximum amount that can be paid per share is NOK 150 and the minimum is NOK 10. Under the authorisation, the company may buy and sell shares in the manner that the Board finds expedient. Acquisition shall nonetheless not take place through subscription for own shares, and
- increase the share capital by up to NOK 100 million. The purpose of the authorisation is to enable the company to raise capital in connection with acquisitions and/or when more capital is needed to achieve growth in lending. The authorisations are valid from the date of decision until the annual general meeting in 2020 or 30 April 2020, whichever comes first.

Deviations from the Code of Practice: None

4. Equal treatment of shareholders and transactions with close associates

Sbanken has one class of shares, and all shares carry equal voting rights. In the event of share capital increases, existing shareholders have pre-emptive rights, unless special circumstances indicate that those rights may be waived. In such case, the basis for such a waiver must be explained. In cases where the Board of Directors requests authorisation from the General Meeting by buy back own shares, this must be carried out in the market at market prices.

Largest shareholder

Altor Fund IV, which collectively owns 26 per cent of the shares via Altior Invest 3 AS and Altior Invest 4 AS, is Sbanken ASA’s biggest shareholder.

Transactions with close associates

Before non-material transactions are carried out between the company and its shareholders, a shareholder’s parent company, board members, members of the management or close associates of any such parties, the Board shall obtain an independent third-party assessment. However, this does not apply to transactions subject to the General Meeting’s approval in accordance with the provisions of the Public Limited Liability Companies Act. An independent assessment shall also be carried out for transactions between companies in the group if any of the companies involved have minority shareholders. Members of the Board and management must notify the Board if they have direct or indirect interests in a transaction carried out by the company.

Deviations from the Code of Practice: None

5. Shares and negotiability

The shares in Sbanken ASA are listed on Oslo Børs with the ticker SBANK and are freely negotiable. The Articles of Association contain more detailed provisions on the exercise of voting rights at the annual general meeting.

Deviations from the Code of Practice: None
6. General meeting
Sbanken AS’s supreme authority is the General Meeting, which represents the bank’s shareholders. Under the Articles of Association, the annual general meeting shall be held by the end of April each year. Notice of and forms for registration and proxy are sent to the shareholders and made available on the bank’s website at least 21 days before the date of the general meeting. Steps are taken to ensure that shareholders can exercise their rights by attending the meeting. Shareholders who are unable to attend may vote by proxy. The proxy form is designed to allow votes to be cast for each item on the agenda. The deadline for registration, advance voting and the use of proxies is set as close to the date of the annual general meeting as possible.

Pursuant to the Articles of Association, case documents are only made available on the bank’s website by the same date, but shareholders may ask to receive case documents by post if they so wish.

The Board takes steps to ensure that the General Meeting can elect an independent person to chair the meeting. The CEO, the Chair of the Board and the Chair of the Nomination Committee attend the annual general meeting. The auditor will also attend when it is considered necessary based on the nature of the items to be considered. Minutes of annual general meetings are available on the bank’s website.

The General Meeting elects the Chair of the Board, members of the Board, the Chair of the Nomination Committee and members of the Nomination Committee. Shareholders may vote for each individual candidate for offices on the Board and Nomination Committee. The General Meeting also elects the external auditor.

Deviations from the Code of Practice: None

7. Nomination Committee
Sbanken’s Articles of Association specify that the bank shall have a nomination committee consisting of three members: two members and a chair, elected by the General Meeting for up to two years at a time. The Chair of the Nomination Committee has chief responsibility for the committee’s work. No members of the Board or representatives of the bank’s management are members of the Nomination Committee. Members of the Nomination Committee may not be re-elected more than twice, so that the total term of office does not exceed six years.

The Nomination Committee submits its recommendations to the General Meeting concerning:
- the election of shareholder-elected board members and the Chair of the Board
- the election of members and the Chair of the Nomination Committee
- remuneration of the Board and the Nomination Committee

The Nomination Committee’s recommendation for the General Meeting is made available together with the other case documents at least 21 days before the date of the meeting.

Information about the Nomination Committee and about how to submit proposals to the Committee is available on the bank’s website together with the rules of procedure for the Nomination Committee.

Deviations from the Code of Practice: None

8. The Board of Directors: composition and independence
Composition of the Board
The General Meeting elects the Chair of the Board and board members for up to two years at a time. As of 31 December 2019, the Board comprised six shareholder-elected board members in addition to two employee-elected board members. Information about the board members is available on the bank’s website and in the annual report.

The Nomination Committee endeavours to make a recommendation for the General Meeting that ensures that the composition of the Board safeguards the bank’s shareholders and the company’s need for expertise, capacity and diversity. Endeavours should also be made to ensure that the Board functions effectively as a collegiate body. The composition of Sbanken’s Board meets the requirements of financial legislation and the Norwegian Code of Practice for Corporate Governance concerning independence in relation to the company’s management, main shareholders and important business associates. Neither the CEO nor executive personnel are members of the Board.

Four of the board members are women: three shareholder-elected members (elected by the General Meeting) and one employee-elected member. No one may hold the office of board member or Chair of the Board for a continuous period of more than 12 years. No one may be a member of the Board for more than 20 years.

Board members are encouraged to own shares in the bank. The bank’s website and the annual report contain an overview of board members’ acquisitions.

The Board’s independence
All shareholder-elected board members are deemed to be independent of the bank’s day-to-day management. The majority of the shareholder-elected board members are considered to be independent of the company’s main shareholders. Board member Hugo Maustad is a partner in Altura Equity Partners, which controls Altor Fund IV, which in turn owns 25 per cent of the bank’s shares via Altor Invest 3 AS and Altor Invest 4 AS. The majority of the shareholder-elected board members are deemed to be independent of the company’s main business associates. Board member August Baumann was appointed Senior Vice President of Atlas ASA in 2017. Sbanken entered into an agreement with Atlas ASA for the provision of operational IT services, which includes operation of and support for the bank’s office platform, in February 2016.

Participation in board meetings and board committees in 2019
A total of 11 board meetings were held during the year, four of which were extraordinary board meetings. The Audit Committee held five meetings, the Remuneration Committee held six meetings and the Risk and Compliance Committee held six meetings. In addition, several meetings have been held relating to strategy work and competence-raising for board members.

The following table shows each board member’s participation in board meetings and board committees:

<table>
<thead>
<tr>
<th>Board Committee</th>
<th>Member</th>
<th>Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Committee*</td>
<td>Mai-Lill Ibsen</td>
<td>9</td>
</tr>
<tr>
<td>Audit Committee*</td>
<td>Cathrine Cloumann</td>
<td>9</td>
</tr>
<tr>
<td>Risk and Compliance Committee</td>
<td>Svein Frøystad</td>
<td>9</td>
</tr>
<tr>
<td>Remuneration Committee*</td>
<td>August Baumann</td>
<td>9</td>
</tr>
</tbody>
</table>

Deviations from the Code of Practice: None

9. The work of the Board of Directors
Duties of the Board
The duties of the Board are laid down in the rules of procedure, which regulate the Board’s responsibilities and duties, the Board’s consideration of matters and which items are to be considered by the Board, as well as rules for convening and holding meetings. The rules of procedure also contain provisions on suitability, impartiality and handling of conflicts of interest. Board members and executive personnel are obliged to inform the company of any material interests they may have in matters to be considered by the Board. The Board has adopted rules of procedure for the CEO’s authorisations, reporting to the Board and the duty to ensure that the Board’s resolutions are implemented. The Board adopts an annual meeting and work plan that covers strategy work, financial reporting, risk management and internal control. The CEO and the board secretary prepare matters to be considered by the Board together with the Chair of the Board.

As a listed group, Sbanken has three board committees, described in more detail below. The members of the committees are elected by and from among the board members. The members of the committees shall have the expertise that is considered necessary in relation to Sbanken’s organisation and business. The Board has adopted separate rules of procedure for each committee, which include provisions on their purpose, composition, duties and functions. The committees do not adopt any resolutions, but supervise the administration’s work and prepare matters for consideration by the Board on its behalf within their areas of responsibility.

Remuneration Committee
In 2019, the Remuneration Committee consisted of three members of the company’s Board. In addition to the members of the Committee, the Head of Organisation also attends the meetings. In accordance with the rules of procedure adopted by the Board, the Committee shall ensure a thorough and independent preparation of matters relating to remuneration in the bank. At least annually, the Committee shall consider and provide recommendations for board resolutions relating to which roles and employees in the bank should be considered leading employees, employees with duties of significance to the company’s risk exposure, and employees with supervisory duties. The Committee shall also prepare an assessment of the company’s remuneration schemes and a declaration on the salary of the CEO and the employees mentioned above.

Audit Committee
In 2019, the Audit Committee consisted of three members of the company’s Board. The composition of the Committee satisfies the Code of Practice’s requirements for independence and competence. At least one of the independent members has satisfactory qualifications in accounting and/or auditing. In addition to the members of the Committee, the CFO and the CRO attend the meetings. The Audit Committee’s duties include preparing the Board’s follow-up of the financial reporting process, monitoring systems for internal control and risk management and ensuring that the group has an independent, efficient external auditor and satisfactory financial reporting in accordance with laws and regulations. Separate rules of procedure have been prepared for the Audit Committee and adopted by the Board of Directors.

Risk and Compliance Committee
In 2019, the Risk and Compliance Committee consisted of three members of the company’s Board. In addition to the members of the Committee, the CFO, CRO and CCO attend the meetings. The Committee shall ensure that the group’s risk and capital management supports the group’s strategic development and endeavours to meet its targets, and that it ensures financial stability and satisfactory asset management. Separate rules of procedure have been prepared for the Risk and Compliance Committee and adopted by the Board of Directors.

The Board’s self-evaluation
The Board annually conducts an evaluation of its methods and competence, which forms the basis for changes in the Board and the board committees’ work and composition.

The key points in the Board’s review are made available to the Nomination Committee, and the Committee also meets with each individual board member separately.

Deviations from the Code of Practice: None
10. Risk management and internal control

Risk management is an integral part of the Board’s work. The Board has adopted an overarching strategy for risk management and internal control. The bank shall have a sound risk culture based on openness, transparency and competence, and it shall continuously challenge its methods, processes and procedures in order to improve its performance.

Sbanken’s Board establishes the risk appetite for defined risk categories and adopts guidelines that operationalise the company’s risk appetite.

The bank adopts a holistic approach to risk management. This means that the following principles shall apply:

- The bank’s risk appetite for each risk category shall be translated into specific management parameters.
- Each risk category shall be allocated capital in line with the actual risk status, which in turn shall be tailored to the bank’s risk appetite.
- The bank’s risk management systems and procedures shall be appropriate to the complexity of the business.
- Risk management shall be an ongoing, continuous process.
- Risk reports shall be presented in an understandable manner that provides a clear picture of the bank’s risk situation to all stakeholders.
- Risk management shall be performed across group companies, at all levels within each individual group company, and for the group as a whole.
- The bank shall only assume risk where the bank and the individual decision-makers have the qualifications and systems needed to manage the risk.
- Responsibility for entering into agreements that incur risk for the bank is delegated through personal authorisations.
- Efforts shall be made to achieve as great a balance as possible between risk and profitability. Profitability shall be measured individually at the customer and exposure level, with respect to sub-portfolios/segments/departments and for the bank as a whole. Profitability shall be measured on a risk-adjusted basis and on the basis of economic capital allocated.
- The organisation of the bank is based on the principle of three lines of defence.

First line of defence

The bank’s operational management represents the first line of defence and shall take ownership of any risk-taking. The business units are responsible for handling the operation and control of their own risks and for performing risk assessments and implementing risk and internal controls that enable the bank to operate in accordance with applicable regulations and the limits and risk appetite adopted by the Board of Directors.

Second line of defence

Second-line functions monitor and verify that the bank operates within the adopted risk limits. The Chief Risk Officer and the Chief Compliance Officer perform this role. The Chief Risk Officer heads the bank’s Risk Management function, and the Chief Compliance Officer heads the bank’s Compliance function.

The Risk Management function is responsible for establishing and maintaining systems and processes that ensure that the bank complies with adopted risk strategies, policies and procedures. The function prepares regular risk reports for the Board of Directors, and reports any breaches of limits and guidelines.

The Chief Risk Officer is independent of managers with responsibility for risk-taking, and does not take part in decisions that relate directly to areas that are monitored and reported on. Organisationally, the Chief Risk Officer reports directly to the CEO, but also has a right and a duty to report directly to the Board. The Chief Risk Officer may not be dismissed without the Board’s consent.

The Chief Compliance Officer is independent of managers with responsibility for risk-taking and leads the part of the second line of defence that covers compliance with procedures and regulations. Administratively, the function reports to the CEO. In practice, however, it is independent of the bank’s management and other staff and control functions. The Chief Compliance Officer verifies compliance with regulations based on the Board’s instructions, and reports to the Board on relevant matters. The Chief Compliance Officer may not be dismissed without the Board’s consent.

Third line of defence

The bank’s internal auditor carries out independent tests of the risk management procedures. The internal auditor shall be independent of the bank’s operational functions, and reports directly to the Board of Directors. The internal audit is intended to ensure that the company is organised and run in a responsible manner and in accordance with applicable requirements. The internal auditor performs audits in accordance with the audit plan and rules of procedure adopted by the Board. KPMG was the bank’s independent internal auditor in 2019.

A self-assessment of risk and internal control is carried out annually. All the bank’s managers participate in the evaluation, and the results are presented to the Board. The bank’s systems for risk management and internal control cover all parts of the business, including its relationship with society.

Deviations from the Code of Practice: None

11. Remuneration of the Board of Directors

Remuneration paid to members of the Board of Directors and the board committees is determined by the General Meeting, based on a recommendation from the Nomination Committee.

Board members’ fees are not conditional on the company’s financial performance or other targets. No options are issued to members of the Board. With the exception of employee-elected board members, no other members of the Board perform other tasks for the company than board work. Information about remuneration paid to individual board members is presented in the notes to the annual accounts.

Deviations from the Code of Practice: None

12. Remuneration of executive personnel

Sbanken’s policy for remuneration of employees of Sbanken ASA is approved by the bank’s Board, and the remuneration scheme applies to all employees.

The policy shall help to ensure that the bank is able to attract, retain and motivate employees. The remuneration policy is based on the bank’s business concept and objectives, the market and competitive situation, and the bank’s economic circumstances. The salary level should reflect the bank’s aim to be both cost-efficient and competitive. The remuneration scheme shall comply with the bank’s over-riding objectives, risk tolerance and long-term interests.

The remuneration scheme is designed to ensure that the bank complies with the Regulations relating to Remuneration Arrangements in Financial Institutions. The bank’s remuneration scheme contains separate rules for executive personnel, other employees and officers with duties of significance to the bank’s risk exposure, and employees with supervisory duties. The bank’s performance-based remuneration scheme is covered by exemptions described in the Financial Supervisory Authority’s circular no 15/2014, chapter 3.

13. Information and communication

Sbanken ASA’s Board has adopted a financial reporting policy to ensure that the bank complies with the requirement to provide the management, Board, owners, other investors, the authorities, employees and customers with transparent, reliable information about its business.

Sbanken has dedicated investor relations pages at www.sbanken.no/ir, where its procedures for financial communication are described. The bank places great emphasis on providing accurate, relevant and timely information about the group’s development and performance in order to create a sense of confidence among investors. All price-sensitive information is published in Norwegian and English. Stock exchange announcements, annual and quarterly reports, presentation material and webcasts are available on the bank’s website.

Information is also communicated to the market through quarterly investor presentations. Regular presentations are held for national and international investors. All reporting is based on transparency and equal treatment of parties in the securities market. The group’s financial calendar is published on the bank’s website.

Deviations from the Code of Practice: None

14. Take-overs

Sbanken’s corporate governance policy is approved by the bank’s Board. It sets out guidelines for how the Board should handle any takeover bids.

Sbanken’s Board of Directors will handle any takeover bids in accordance with the principle of equal treatment of shareholders. The Board will also help shareholders to obtain as much supplementary information as possible in all situations that affect their interests. Approval must be sought from the Financial Supervisory Authority of Norway for the acquisition of shares in a financial institution that brings the total shareholding up to more than 10 per cent of the acquired company’s share capital.

Deviations from the Code of Practice: None.
15. External auditor

Deloitte AS has been Sbanken ASA's external auditor since 2015. The external auditor presents an annual plan for the audit work to the Audit Committee and the Board of Directors. The Audit Committee evaluates and makes a recommendation to the Board for the election of the external auditor. The Board holds an annual meeting with the auditor that is not attended by members of the management group. The Audit Committee submits its recommendation to the Board for approval of the external auditor’s fee.

The Board subsequently presents the proposal to the General Meeting for approval.

The external auditor gives the Audit Committee a description of the main elements of the audit for the previous fiscal year, including details of any material weaknesses identified through internal control in connection with the financial reporting process.

The CEO may use the auditor for other services than auditing. This is regulated in internal guidelines approved by the Board, and in the letter of assignment from Deloitte AS.

Deviations from the Code of Practice: None

Declaration on corporate governance pursuant to the Accounting Act
Section 3-3b

1. The declaration complies with statutory requirements. Sbanken complies with the Norwegian Code of Practice for Corporate Governance, issued by the Norwegian Corporate Governance Board (NUES).

2. The Code of Practice is available at www.nues.no.

3. Any deviations from the recommendation are commented on in the Board of Directors’ declaration on corporate governance in this report.

4. Section 10 of the report contains a description of the main elements of the systems for internal control and risk management relating to the financial reporting process.

5. Sbanken has no Articles of Association that deviate from Section 6 of the Public Limited Liability Companies Act concerning the General Meeting, or from the Norwegian Code of Practice for Corporate Governance.

6. The report contains a description of the composition of the Board and the General Meeting. Sections 8 and 9 of the report also provide a description of the main elements of the guidelines and mandates for the bodies.

7. Section 8 of the report contains a description of Articles of Association that regulate the appointment and replacement of board members.

8. Articles of Association and authorisations whereby the Board of Directors is authorised to buy back or issue own shares are described in section 3 of the report.