

MERGER REPORT

SPAREBANK 1 SR-BANK ASA AND SPAREBANK 1 SØRØST-NORGE

The plan for the merger (“**Merger Plan**”) dated 26.10.2023 proposes that the operations of SpareBank 1 SR-Bank ASA and SpareBank 1 Sørøst-Norge be merged. In accordance with section 12-3 (2) of the Financial Institutions Act, cf. section 13-9 of the Public Limited Liability Companies Act, the banks must submit a report on the merger and what it will mean for the bank.

The terms and expressions in this report have the same meaning as in the Merger Plan.

1 BACKGROUND AND RATIONALE FOR THE MERGER

1.1 Legal and financial rationale for the merger

The boards of SpareBank 1 SR-Bank ASA and SpareBank 1 Sørøst-Norge have agreed to merge the business operations of the banks. The Merger will take place by transferring SpareBank 1 Sørøst-Norge’s savings bank operations to what is today SpareBank 1 SR-Bank ASA. The merged bank will continue to operate under the name SpareBank 1 Sør-Norge ASA.

Both banks are the result of a series of mergers over many years. These mergers were driven by a desire to meet the opportunities and challenges the banking industry faced in a proactive manner by implementing structural measures in good times that ensure future competitiveness. The merged group will be:

- **A powerful financial group in which the Parties make each other stronger.** SpareBank 1 SR-Bank ASA and SpareBank 1 Sørøst-Norge have no overlapping locations – the branch networks of both Parties and their subsidiaries complement each other. Therefore, from the moment the Merger is completed, the new group will use its new strength and capacity to generate further growth and development in the business sector and local communities in which the group operates.
- **A powerful bank based on the “concept of local banking”** that combines the close and familiar with the best digital solutions. A third of the financial group’s employees work in subsidiaries that contribute to a comprehensive customer offering for people and business. At the same time, the Merger will provide the entire region with a financial player that can offer larger companies a partner with expertise, product breadth and financial capacity.
- **A refinement and strengthening of the group’s decentralised operational management, specialist environments and decision-making structures** through strong local banks and centres of expertise located throughout the group’s geographical catchment area. Expert environments and corporate functions will be continued, and Stavanger and Sandefjord will remain centres of expertise. The merged bank will be known for its efficient decision-making processes, both internally and in the bank’s customer relationships. After the Merger, the group will be even better able to attract the best expertise by offering attractive jobs for professionals throughout Southern Norway.
- **A solid financial group with considerable capacity.** SpareBank 1 Sør-Norge will be the second largest Norwegian-owned bank and the largest bank in the SpareBank 1 Alliance with total lending (including transfers to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS) of approximately NOK 370 billion and total assets of approximately NOK 500 billion based on figures as per the date this Merger

Plan was signed. Based on the Parties' coverage as per the second quarter of 2023, the Common Equity Tier 1 (CET1) ratio will be 18.3%.

- **A bank with better access to capital, which will be dedicated to people and businesses in urban and rural districts throughout Southern Norway.** SpareBank 1 Sør-Norge will be a listed savings bank owned by shareholders and have IRB status and good access to capital in an international equity and bond market. This will strengthen the bank's competitiveness and, in combination with economies of scale, stronger centres of expertise and greater capacity, help SpareBank 1 Sør-Norge provide customers with a better offering.
- **A group with strong local and long-term owners, where seven savings bank foundations will together initially own more than 40% of SpareBank 1 Sør-Norge.** This will provide a good foundation for long-term stable and local ownership through the local communities retaining the capital that has been built up over generations.
- **A strong challenger in the Norwegian banking market, as well as a counterweight to the trends of larger companies being headquartered in Oslo and of decisions and power being centred there.** SpareBank 1 Sør-Norge will be a powerful organisation with leading expertise in a number of fields. The group will have strong local roots throughout Southern Norway and create value for customers, employees, local communities and owners.
- **A powerful player through cooperation with, and co-ownership of, the SpareBank 1 Alliance.** SpareBank 1 Sørøst-Norge is currently part of the SpareBank 1 Alliance through SamSpar, while SpareBank 1 SR-Bank ASA is a regional bank in the SpareBank 1 Alliance. The merged group will be part of the SpareBank 1 Alliance. The group will actively work to strengthen the SpareBank 1 Alliance in cooperation with the other SpareBank 1 banks, where a strong brand, powerful product companies, jointly developing new digital solutions, dealing with regulatory requirements and exploiting economies of scale will be key.

The Financial Institutions Act allows savings banks to merge with savings banks owned by shareholders, cf. section 12-2 of the Financial Institutions Act. From a legal and accounting perspective, SpareBank 1 SR-Bank ASA will be the acquiring bank and take over all of SpareBank 1 Sørøst-Norge's assets, rights and obligations. The merger will take place in accordance with section 12-2 of the Financial Institutions Act, cf. sections 12-3 to 12-6 and 12-13, cf. sections 13-3, 13-4, 13-6 to 13-11 and 13-13 to 13-19. of the Public Limited Liability Companies Act.

1.2 Tax consequences for the banks

The Merger is not directly covered by the tax-free merger provisions of chapter 11 of the Taxation Act. An application will therefore be made for tax exemptions for the transaction pursuant to section 11-22 of the Taxation Act.

2 CALCULATION AND DETERMINATION OF REMUNERATION

2.1 Basis for determining the exchange ratio

The exchange ratio and the merger remuneration have been set following negotiations between the Parties and are based on a process that included the following:

- Financial due diligence by both parties conducted by Ernst & Young AS

- Limited legal due diligence by SR-Bank conducted by Advokatfirmaet Selmer AS and by Sørøst-Norge conducted by Advokatfirmaet Thommessen AS
- A review of the banks' balance sheets as at 30.6.2023, with an assessment of any added and lower value of assets and liabilities, as well as an updated review as at 30.9.2023
- An emphasis on book and value-adjusted equity and expected normalised profit
- The fact that SR-Bank will conduct a share issue worth up to NOK 1 billion on market terms before the Implementation Date

2.2 Further information on the exchange ratio

Book equity as at 30.6.2023 was NOK 27,036 million in SR-Bank and NOK 12,475 million in Sørøst-Norge (after hybrid capital was deducted). Taking into account identified added and lower values on the Parties' balance sheets, additional dividends, the share issue and profit analysis (including adjustment for, among other things, one-off items), the Parties agreed on an exchange ratio of 68.88% for SR-Bank and 31.12% for Sørøst-Norge, corresponding to price/book parity as at 30.6.2023, less and adjusted for the share issue and additional dividend of 1.045.

Sørøst-Norge's current capital structure consists of primary capital and share capital. The ownership ratio as at 30.6.2023 was calculated at 60.70%, and a total of 140,098,561 equity certificates have been issued.

The remuneration for the takeover of Sørøst-Norge's business will be settled in the form of (i) shares in the merged bank, which will be issued to Sørøst-Norge's existing equity certificate holders, (ii) shares in the merged bank issued to those savings bank foundations that have not received final settlement for their primary capital in connection with previous mergers in Sørøst-Norge, and (iii) a cash sum as remuneration for existing equity certificate holders in Sørøst-Norge.

Based on the exchange ratio specified above, SR-Bank will issue a total of 111,187,338 shares as remuneration for the share capital and primary capital in Sørøst-Norge. Of these, 67,485,793 shares will be remuneration for the equity certificates in Sørøst-Norge and 43,701,545 shares will be remuneration for the primary capital in Sørøst-Norge. This means that one equity certificate in Sørøst-Norge will provide 0.481702 of a share in SR-Bank. The subscription price per share will match the final estimated book value per share at a corporate level on the date the board of directors decide to complete the Merger. Cash remuneration of NOK 4.33235 per equity certificate in Sørøst-Norge will also be paid. In the calculation of the remuneration, the primary capital in Sørøst-Norge was theoretically converted to share capital.

In connection with the Merger, the capital in Sørøst-Norge will be converted into share capital and other equity in SR-Bank. The remuneration for this primary capital will be distributed on the basis of the distribution formula set out in article 8-2 of Sørøst-Norge's articles of association. This means that these remuneration shares will be distributed as follows: 48.14% to SpareBank 1 Stiftelsen BV, 36.44% to Sparebankstiftelsen Telemark and 15.42% to Sparebankstiftelsen SpareBank 1 Modum. As remuneration for the primary capital in Sørøst-Norge, SR-Bank will therefore issue 21,037,924 shares to SpareBank 1 Stiftelsen BV, 15,924,843 shares to Sparebankstiftelsen Telemark and 6,738,778 shares to Sparebankstiftelsen SpareBank 1 Modum. These shares are included in the total remuneration of 111,187,338 shares referred to above.

These three savings bank foundations will also receive cash remuneration totalling NOK 393,044,263.78 as remuneration for Sørøst-Norge's primary capital. This cash remuneration will be distributed as follows: NOK 189,211,508.58 for SpareBank 1 Stiftelsen BV, NOK 143,225,329.72 for Sparebankstiftelsen Telemark and NOK 60,607,425.47 for Sparebankstiftelsen SpareBank 1 Modum.

This results in the following distribution of shares as remuneration to the owners of SpareBank 1 Sørøst-Norge:

Recipient	Total shares	Remuneration for share capital	Remuneration for primary capital
SpareBank 1 Stiftelsen BV	32,666,869	11,628,945	21,037,924
Sparebankstiftelsen Telemark	25,033,916	9,109,073	15,924,843
Sparebankstiftelsen SpareBank 1 Modum	15,623,606	8,884,828	6,738,778
Sparebankstiftelsen Nøtterøy-Tønsberg	5,262,839	5,262,839	0
Sparebankstiftelsen Telemark - Holla og Lunde	4,948,876	4,948,876	0
Other owners of Sørøst-Norge	27,651,232	27,651,232	0
Total	111,187,338	67,485,793	43,701,545

No fractional shares in SR-Bank will be issued as remuneration. Instead, such fractional shares will be aggregated into whole shares that will be sold. The proceeds of the sale will be distributed proportionately between those who would have received fractional shares. SR-Bank will arrange the sale of the shares and distribution of the proceeds of the sale.

2.3 Distributions and changes to capital

Prior to the Implementation Date, the Parties must not approve or distribute any dividends or equity repayments (including purchasing treasury shares/equity certificates or otherwise) other than paying the partial cash remuneration to equity certificate holders and the partial settlement for the primary capital in Sørøst-Norge in line with section 5.2 of the Merger Plan. However, this shall not hinder:

- Utilisation of profits within the limits of the Parties' stipulated dividend policies with a view to the distribution ratio defined as a share of the period's consolidated profit after tax that is paid out as dividends on shares and equity certificates, as well as the distribution of gift funds, as further regulated below. The Parties agree that any utilisation of profits prior to the Implementation Date shall comply with the following principles:
 - (i) The utilisation of profits shall be based on the exchange ratio of 68.88% for SR-Bank and 31.12% for Sørøst-Norge.
 - (ii) The size of any distribution made by each Party will be determined by SR-Bank first deciding how much SR-Bank will distribute. This amount is hereinafter referred to as the "**SR Dividend**".
 - (iii) The SR Dividend must constitute 68.88% of the total amount distributed by the Parties, hereinafter referred to as the "**Total Dividend**". The Total Dividend will therefore be calculated using the following formula:

$$(SR\ Dividend/68.88) \times 100 = Total\ Dividend$$
 - (iv) Sørøst-Norge may distribute an amount in dividends and gifts limited to a maximum of 31.12% of the Total Dividend, and this amount is hereinafter referred to as the "**Sørøst-**

Norge Dividend". The Sørøst-Norge Dividend will therefore be calculated using the following formula:

$$(31.12 \times \text{Total Dividend}) / 100 = \text{Sørøst-Norge Dividend}$$

- (v) If Sørøst-Norge does not have sufficient distribution capacity to distribute the Sørøst-Norge Dividend as calculated pursuant to paragraphs (i) to (iv) above, then SR-Bank will reduce its distributions pursuant to paragraph (ii) to an amount that enables Sørøst-Norge to distribute the Sørøst-Norge Dividend pursuant to paragraph (iv).
 - (vi) The Parties will hold the board meetings at which the dividends will be proposed on the same date, as far as is practicable. The Parties will also hold a general meeting and supervisory board meeting to adopt the SR Dividend and the Sørøst-Norge Dividend, respectively, on the same date, as far as is practicable.
- Buying back treasury shares/equity certificates as part of an already approved savings programme for employees and/or bonus programmes for executive personnel.

Prior to the Implementation Date, no mergers, demergers, increases in primary capital or issues of new, or sale of existing, shares/equity certificates, changes to the nominal value of shares/equity certificates or granting of options or issuing of any subscription rights shall be carried out, other than (i) the issue in SR-Bank which has been taken into account in determining the exchange ratio, (ii) the sale of treasury shares/equity certificates as part of an already approved savings programme for employees, and/or bonus programme for executive personnel, and (iii) what occurs as part of the Merger pursuant to the Merger Plan.

3 CONSEQUENCES FOR THE BANKS' EMPLOYEES

As of the Implementation Date, SpareBank 1 SR-Bank ASA will assume employer responsibility for all employees of SpareBank 1 Sørøst-Norge. Rights and obligations arising from the employment relationship at SpareBank 1 Sørøst-Norge and which exist on the Implementation Date are transferred to SpareBank 1 SR-Bank ASA pursuant to the rules on business transfer in chapter 16 of Act no. 62 of 17.6.2005 relating to the working environment, working hours and employment protection etc. (the "**Working Environment Act**") and applicable collective agreements.

Seniority from SpareBank 1 Sørøst-Norge will be continued in the merged bank.

Collective wage agreements in SpareBank 1 Sørøst-Norge will be transferred to SpareBank 1 SR-Bank ASA, unless SpareBank 1 SR-Bank ASA reserves its rights in accordance with the provisions and deadlines set out in the Working Environment Act. The individual terms and conditions that follow from collective wage agreements will be retained for the transferred employees until the period covered by the collective wage agreement expires or until a new collective wage agreement is concluded.

The employees' pension schemes will be continued within the framework of current legislation and harmonised at a later date.

Other personal insurance and personnel and welfare benefits will in principle be continued at the same level as before the Merger, although some schemes may be adjusted and harmonised. The details surrounding this will be clarified before the Implementation Date.

The merged bank's head office will be in Stavanger. Strong expert environments and corporate functions will continue to work in both Stavanger and Sandefjord, and possibly elsewhere in Southern Norway where appropriate.

The Merger will not result in any redundancies. Everyone will be invited to play a part in creating "SpareBank 1 Sør-Norge – a powerful, future-oriented relationship bank." One of the goals is to offer attractive local jobs for professionals who can be managed from different locations. None of the current locations will be closed because of the Merger.

The plan is to facilitate flexibility that helps the group's employees remain in the same geographic locations. Therefore, SpareBank 1 Sør-Norge's main focus will be on how the overall expertise in the new group can best be utilised. Some employees and managers will, however, see changes in their responsibilities and duties. Following the Merger, the CEO will continuously evaluate the group's organisational structure and distribution of responsibilities in cooperation with the board.

The employees will be entitled to board representation in the merged bank in accordance with what follows from the Merger Plan and the legislation in force at any given time.

Stavanger, 26.10.2023

The Board of Directors of SpareBank 1 SR-Bank ASA

Name: Dag Mejdell

Name: Kate Henriksen

Name: Jan Steffen Skogseth

Name: Trine Sæther Romuld

Name: Kjetil Skjæveland

Name: Camilla Aldona Cakste Tepfers

Name: Sally Lund-Andersen

Name: Kristian Kristensen