

Statement by the Group CEO

2013 proved to be another good year for SpareBank 1 SMN. We achieved a profit of NOK 1,400m, an increase of NOK 323m from the previous year. Return on equity was 13.3 per cent, an improvement of 1.6 percentage points from 2012.

In 2013 the board of directors and the management team focused on the capital plan that was adopted in 2012. An important element of the plan is to secure earnings that make it likely that we will be in a position to deliver a return on equity in the region of 12 per cent on a very high level of equity capital. This poses a challenge, but the profit achieved in 2013 gives grounds for optimism.

Two factors left their mark on the financial industry last year. One is all the implications of new regulatory requirements which the banks have to square up to. Last year the strongest focus was on new requirements on common tier 1 equity. The other is the definitive breakthrough for banking applications on mobile phones and tablets. SpareBank 1 SMN tackled both challenges well.

In January 2014 the board of directors of SpareBank 1 SMN adopted a revised capital plan whereby the bank plans for a common equity tier 1 ratio of at least 13.5 per cent by 30 June 2016. At the end of 2013 this ratio stands at 11.1 per cent. Over the past five years the bank has built up NOK 4.5bn of common equity tier 1 capital. We need to add a further NOK 2bn to 3bn to succeed with our capital plan. We expect and intend to reach our goal without need for an ordinary equity issue. The target was set in light of the fact that the finance minister in December 2013 limited the countercyclical buffer to 1.0 per cent, leaving an overall common tier 1 ratio requirement of 13.0 per cent.

A profit of NOK 1,400m is needed in order to service a rapidly growing volume of equity capital and thereby meet the authorities' requirements. Gaining an understanding of this among the general public has not been easy. Our responsibility is to ensure that SpareBank 1 SMN meets the challenge through a combination of improved banking operations, reduced expenses, moderate growth, lower dividend pay-outs and disposal of assets outside our core business.

Last summer our customers reached a new milestone. For the first time we registered more logins to the bank's mobile banking facility than via PC to the internet bank. A new digital step had been taken. Since then the trend towards mobile-based solutions has grown even clearer. In an ever increasingly technology-based environment the bank stands firm by its strategy of staying at the forefront in the development of new digital solutions, while at the same time maintaining a network of bank offices staffed by capable, helpful advisers. At our bank we believe that people will never go out of fashion. Customers are doing more and more of their banking digitally, but what above all will single us out from our competitors is our capable advisers and staff who are becoming ever more determined to deliver a good customer experience.

Just over a year ago we set ourselves the goal of becoming the best bank for customer experience. The main principles here are a vigorous customer orientation externally and effective interaction internally, putting the adviser at centre-stage, introducing a flatter organisation structure with fewer managers and transferring power from head office to the local level. The improvement project has uncovered a major potential for increased market shares and thereby continued income growth through an increased focus on an organisation that promotes good adviser performances. We are on course for our goal, and in 2014 we are stepping up the pace by a further margin.

SpareBank 1 SMN holds a leading market position in Trøndelag and in Møre and Romsdal, a position that was strengthened in 2013. More and more customers are turning to us to service their financial needs. Last year we saw an influx of 13,000 new retail customers and 700 new corporate customers. Lending growth outstripped general market growth, particularly as regards home mortgage lending. At the same time we have lived up to our ambition of being the best bank in terms of losses. In addition to being among Norwegian banks with the absolutely lowest losses and default rate, our ambition entails creating sound, socially responsible solutions in demanding situations for our customers. New, good examples were seen in 2013.

We believe that 2014 will be another good year for the bank. We see few indications that business and industry in Trøndelag and in Møre and Romsdal face a change in the economic climate. Businesses in the region largely show good profits and prospects appear promising. This, in combination with solid banking skills, makes us optimistic for the future. We expect a high activity level and continued good demand for home mortgage loans and somewhat lower growth in the corporate market.

Uncertainty regarding future capital requirements made us somewhat more cautious in 2013, in particular towards new customers. The requirements have now been clarified and we have established a capital plan that enables us to restore normal credit activity.

We look forward to achieving further progress in 2014.