

Statement by the Group CEO

SpareBank 1 SMN can look back at another good year. Over the course of 2015 CET1 capital rose by NOK 1.5bn to NOK 12.2bn. At year-end the CET1 ratio stood at 13.6 per cent.

The initial CET1 ratio target of 13.5 per cent by 30 June 2016 has been met. Before Christmas the board of directors adopted a new target in keeping with Finanstilsynet's (Norway's FSA) expectations, i.e. a CET1 ratio of 14.5 per cent by the end of 2016.

Last year will be particularly remembered on two counts. In 2015 Norway's oil price dependence was brought into relief by a steep price fall. From a level in excess of USD 100 per barrel which remained stable for a number of years up to end-December 2014, the oil price dropped to USD 35 per barrel at last year-end. For SpareBank 1 SMN and most banks and other listed companies this brought a decline in stock values suggesting that the market sees a virtually complete correlation between oil price and bank performances and, not least, possible losses.

2015 will also be remembered as the year we as consumers truly accepted the digitalisation of a large number of central social functions. Behaviour has changed markedly. At SpareBank 1 SMN we have given much attention to digitalising customer services, and we have come a long way compared with our competitors. Digitalisation will have far-reaching consequences for resource use in the financial industry.

SpareBank 1 SMN presents a good set of financial statements for 2015, as previously. Despite somewhat bleaker prospects, losses are relatively low. A very low default rate indicates that the loss challenges ahead will be readily manageable. Among equity certificate holders and analysts there is a strong focus on our loan book in the oil and offshore segment. This segment accounts for five per cent of the bank's overall lending, and is in all essentials concentrated in ship financing. Our assessment thus far is that the owners behind these companies are financially robust and show a strong willingness and ability to take the steps needed to shepherd their companies through a demanding period of low oil prices. Our funding ratio in relation to new valuations of the vessels we finance is low throughout, and a large majority of them are in operation. We have nonetheless opted to increase the bank's collectively assessed impairment write-downs in order to make allowance for the uncertainty implicit in this part of the loan portfolio.

The loan book, both in Corporate Banking and Retail Banking, is characterised by good debt servicing ability and a low default rate. Thus far there are no clear indications of a problematic fall in house prices, and in Trondheim in particular a high property turnover rate and continued price growth are noted.

It is pleasing to note the success of the bank's diversification strategy, adopted in 1996. Our subsidiaries are performing well, with solid growth and earnings. In addition, we are reaping increasing success on the sales front, in particular in the retail segment. The result of this so far is that balance-sheet-independent revenues now account for 31 per cent of the group's overall revenues. In particular, Eiendomsmegler 1 Midt-Norge, SpareBank 1 Regnskapshuset SMN and SpareBank 1 Finans Midt-Norge have again performed at a high level. SpareBank 1 SMN Invest should also be singled out for having, again in 2015, made substantial gains on its investments.

We have good growth in the retail segment, and are also showing strong competitive power in the market for small and medium-sized businesses. However, the regulatory climate remains a challenge. Because of

various regulatory requirements imposed specifically on Norwegian financial institutions, we, like other Norwegian banks, are losing market shares in the low risk segment to foreign peers. This is particularly true of commercial property financing. Our co-owned subsidiary BN Bank is particularly affected, and for that reason wound down its commercial property portfolio in 2015.

Competition-distorting regulation is a theme which I in my capacity as Finance Norway's Board Chairman have addressed vis-à-vis regulatory authorities and politicians. It is gratifying that the Ministry of Finance now appears to be taking up this issue with Finanstilsynet, and a growing awareness from all parliamentary political parties is also in evidence.

The SpareBank 1 alliance resolved last year to reorganise the business of the co-owned SpareBank 1 Gruppen. We opted to take the consequence of the complexity and scope of the company's activities. Two equal organisational units, each reporting to its own board, respectively SpareBank 1 Banksamarbeidet and SpareBank 1 Gruppen, were established. It is satisfying to note the good progress made in the projects on which the SpareBank 1 banks are collaborating and, not least, the excellent results of our product companies.

SpareBank 1 SMN's organisation was, in 2015 as previously, marked by a substantial willingness to adapt and by commitment on the part of staff at all levels. There is a strong expectation that the pace of change will rise in keeping with digitalisation and that the competitive climate will require further cost reductions. This was the main theme when virtually all of the group's 1,200 employees met at a Group-wide get-together in Berlin in October. My experience is that the entire organisation is prepared for changes and is doing its utmost to ensure SpareBank 1 SMN's success and continued status as one of the absolutely leading banks in Norway. I am very proud of the Groups' staff who despite great uncertainty regarding the future are performing at a very high level and showing strong loyalty to their employer.

Given a well-functioning organisation, capable staff and relatively low exposure to segments that at present appear to pose a particular challenge, I am also optimistic for 2016.