

## Statement by the Group CEO

2011 proved another good year for SpareBank 1 SMN. A Group pre-tax profit of NOK 1,279m, a stable trend in the Bank's core business and sound growth in market shares confirm the Bank's solid position. The Bank is better equipped than ever to meet its customers' expectations and needs.

2011 was marked by the debt challenges facing a number of European states, while Norway, more clearly than for some time, has been the odd country out. Whereas the eurozone is rocked by financial turmoil, Norway appears relatively untouched. The housing market is breaking record after record, the oil price remains high and unemployment is very low. The Bank's market area – Trøndelag and Nordvestlandet – has been very little affected by the international turbulence. Both households and firms appear robust. This, in combination with the solid banking skills shown by our capable staff, has resulted in another good year for SpareBank 1 SMN.

Last year's profit of NOK 1,024m was unprecedented, and NOK 2m higher than the 2010 figure. Return on equity was 12.8 per cent (14.6 per cent). The annual accounts reflect well-run core business, a positive income trend, low losses, high return on financial assets, a good financial position, excellent lending growth in the retail market and high growth in both household and corporate deposits.

### **Profitable growth**

SpareBank 1 SMN aims to achieve good growth in prioritised areas. The Bank has succeeded well in the retail market and the corporate market alike. This is largely due to the Bank's "sit tight" strategy, adopted in September 2008, which effectively meant maintaining normal lending activity in a period when most banks introduced lending restrictions. In autumn 2011 the Board of Directors opted to continue this strategy.

The Bank saw a good supply of customers in 2011, as previously, with a net growth of 2,600 new retail customers and 600 new corporate customers. We strengthened our market leader position in Trøndelag and Nordvestlandet over the course of the year. This is especially gratifying since our main competitor has in 2011 tried harder than ever to challenge our position as the clear-cut leading bank for business and industry, the public sector and retail customers. They will not succeed in this endeavour.

A large influx of new customers in combination with good customer follow-up and sales secures the Bank's economic base. This complements the Bank's high focus on risk management. The Bank's low level of defaults and losses confirms our first-rate credit skills. Continuous improvement of the Bank's ICAAP and good processes with regard to our forthcoming application for advanced IRB status will over time reinforce our work on risk management in the credit area and in all other relevant areas.

### **Money market funding**

In 2011 as in 2010 we devoted much attention to maintaining access to money market funding. The debt crisis in Europe and the resulting challenges for the international banking and financial system have led to periods of poor access to ordinary senior funding, and funding costs have risen strongly over the year. We do not see our bank facing poorer access or higher costs than our competitors. Our chief funding source is still ordinary deposits. On that front we improved the Bank's competitive power and saw excellent deposit growth in 2011.

SpareBank 1 Boligkreditt, the Bank's residential mortgage arm, is an important source of funding, and by the end of 2011 we had transferred home mortgage loans worth NOK 22bn to this entity. A substantial potential for further transfers exists, indicating that Boligkreditt will be one of our chief funding sources in 2012 as previously. Prices have also risen in the covered bond market. The increased cost of money market funding, both for the Bank directly and by way of Boligkreditt, suggests increased margins both for home loans and corporate loans in 2012.

The Board of Directors has affirmed the Bank's conservative liquidity strategy, and at the end of 2011 our liquidity reserve, including Boligkreditt, was sufficient for the Bank to maintain ordinary operations for upwards of 17 months. The minimum requirement under the liquidity strategy is 12 months.

### **Strong alliance**

The SpareBank 1 Alliance showed a satisfactory trend in 2011, as previously. The results posted by the companies in SpareBank 1 Gruppen were marginally down on the 2010 figures. This is mainly due to a negative stock exchange trend and an increased number of major claims which diluted the performance of the non-life company. All product companies saw improved sales in 2011. Cooperation within the alliance is very good.

Structural adjustments are taking place, and mergers between alliance banks have been seen in 2011 and a small savings bank opted to merge with a bank outside the alliance. Further, several Terra banks have merged with Samspar banks, thereby strengthening Samspar as an alliance partner. Towards year-end Samspar showed renewed confidence in SpareBank 1 SMN by choosing to prolong its wholesale agreement with the Bank.

We are very pleased with our position as an alliance participant, and are doing what is necessary throughout to strengthen the Bank's relationship with SpareBank 1 Gruppen and the alliance banks.

### **Establishment of Sparebankstiftelsen SpareBank 1 SMN**

The Supervisory Board resolved in May 2011 to establish a savings bank foundation named Sparebankstiftelsen SpareBank 1 SMN. The foundation's mission is to secure long-term ownership of SpareBank 1 SMN through participation in private placings. Based on the Supervisory Board's resolution, the foundation will be allotted portions of the provision for donations to non-profit causes. It is our assessment that this model best secures the Bank's long-term survival as an independent, regional savings bank by enabling portions of the added value assigned to the ownerless capital to be reinvested in the Bank. With this policy for gift allocations, the Bank will in good times concurrently be able to maintain contributions to social development through non-profit donations at a level sufficient to discharge our social responsibility in a sound manner. Although, over time, the foundation will also be in a position to distribute donations, it is considered indubitably best for this function to be discharged by the Bank and is viewed in conjunction with the Bank's ordinary business development.

### **Strengthening equity capital**

At the time of writing the Board of Directors has made public its proposal to carry out an equity capital increase of up to NOK 1,010m. This is the outcome of the Board's strategy discussions in 2011 and meets the market's general expectations of increased equity capital in the financial sector.

The increase of capital will be achieved through an underwritten rights issue in favour of existing equity capital certificate (ECC) holders, a private placing of up to NOK 60m with employees of the Group and members of the Bank's Board of Directors, and a private placing of up to NOK 200m mainly with the foundation Sparebankstiftelsen SpareBank 1 SMN.

With its proposed stock issues the Bank intends to strengthen core capital and the financial basis for profitable growth and exploitation of business potentials in the market area. In line with the Bank's strategy behind the establishment of the foundation Sparebankstiftelsen SpareBank 1 SMN, a stock issue will be placed with the foundation. The foundation has been supplied with funds partly year-end appropriations for 2010 and partly by transferring to the foundation an unutilised gift provision from previous years.

SpareBank 1 SMN's aims for a tier 1 capital ratio of 11 per cent, rising to 12 per cent by 2015. This target was set in autumn 2011. The planned stock issues will raise the tier 1 ratio to up to 11.6 per cent, with common tier 1 equity at 10.1 per cent.

### **Most important resource**

We are giving increasing focus to competence enhancement, and developing workforce skills and the organisation is becoming ever more important. Our employees are by far the Bank's most important resource. Without their commitment and teamworking ability, last year's record performance would not have been possible.

In order to assure well-being and development of both professional competence and the individual staff member's ability to foster customer relationships in a first-class manner, we will foster continuous improvement, healthful activities through the 'Better Shape' programme and training of authorised financial and insurance advisers.

In 2011 the Board of Directors adopted a new strategy for the period 2012 - 2015. The strategy is named "Excellent Customer Experience". We will implement a number of initiatives designed to assure a keen attention to the customer's experience in our sales and advisory activities. The Bank creates value through the interaction between adviser and customer. We believe a stronger focus on this interaction process and all deliveries to the customer adviser will enhance value creation and customer satisfaction and preference over time. This will consolidate the Bank's position and assure sound profitability for a long time ahead.

Administrative follow-up is assured by the recruitment of Wenche Seljeseth to the Bank's group management team to direct this programme. A key step in this work will be to initiate continuous improvement of all processes in the Group with a view to improving the customer's experience of the Bank and increasing the Group's cost-efficiency.

### **Concluding comment**

At SpareBank 1 SMN we wish to create lasting values for our customers, owners, employees and society. We have a good year behind us. The Bank has acquired a solid market position and the SpareBank 1 Alliance is functioning well.

Our vision is to be the recommended bank. Our ambition is to consolidate our position as different. Different in the sense that we do not wish to be seen as a 'run of the mill' bank, but as a bank that means something extra for businesses and to most people in Trøndelag and Nordvestlandet. Our means to attain this ambition are first and foremost capable staff, good ongoing earnings and a strong financial position that enable responsibly-minded banking. By responsibly-minded banking we mean an approach to the profession that

gives due weight to our social role as a leading provider of capital, custodian of savings and distributor of important savings and insurance products in our market area. We wish to make an extra effort when key firms face challenges we believe we can help to solve, likewise when vital social projects are to be carried through.

Moreover, we will contribute financially to afford our children optimal conditions for growing up and our young people a safe arena and a broad range of sports and cultural facilities, and we will play our part in enabling new businesses to emerge and grow. We are an active mainstay for the majority of major cultural events throughout our market area and view the Bank's support as important and necessary to ensure that our region is an attractive one to live in. By the same token we also believe we are safeguarding the Bank's future as a strong, leading and profitable institution much appreciated by its employees, owners, the society and its customers alike.

That is why we are confident that SpareBank 1 SMN will fare well and make progress in 2012 and the years ahead.