

Business 2011

Robust customers combined with solid banking enabled SpareBank 1 SMN to post a net profit of NOK 1bn for the second year running.



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.

Important events in 2011

First quarter

- Profit of NOK 1,022m after tax in 2010
- Supervisory Board declares a dividend of NOK 3.00 per equity capital certificate for 2010
- Terje Skjønhalv re-elected as chairman of the Supervisory Board for a one-year term
- Per Axel Koch re-elected as new chairman of the Board of Directors for a two-year term
- FAIBCI Property Award goes to SpareBank 1 SMN's new Head Office
- Trondheim Municipality's Energy Award goes to SpareBank 1 SMN's new Head Office
- Tæl ('Guts') Prize of Honour awarded in Molde to Professor Arild Hervik of Molde University College
- The Bank acquires 9.1m Polaris Media shares from the bankruptcy estate of Roll Severin

Second quarter

- Profit of NOK 255m after tax for the first quarter 2011
- Supervisory Board approves establishment of Sparebankstiftelsen SpareBank 1 SMN
- School for street children, supported by SpareBank 1 SMN, opens in Tacloban in the Philippines

Third quarter

- Profit of NOK 505m after tax for the first half 2011
- SpareBank 1 SMN Jazztipendiat scholarship goes to saxophonist Marius Neset
- The Bank celebrates 125 years' presence in Snåsa

Fourth quarter

- Profit of NOK 745m after tax for the first nine months of 2011
- Tæl ('Guts') Prize of Honour awarded in Trondheim to the municipality's overdose team
- The Bank is awarded the Prize of Honour at Trondheim Sports Gala for excellent work on the keep-fit programme 'Better Shape'
- SpareBank 1 SMN Regnskap acquires 40 per cent of the national accounting chain Consis

Business description

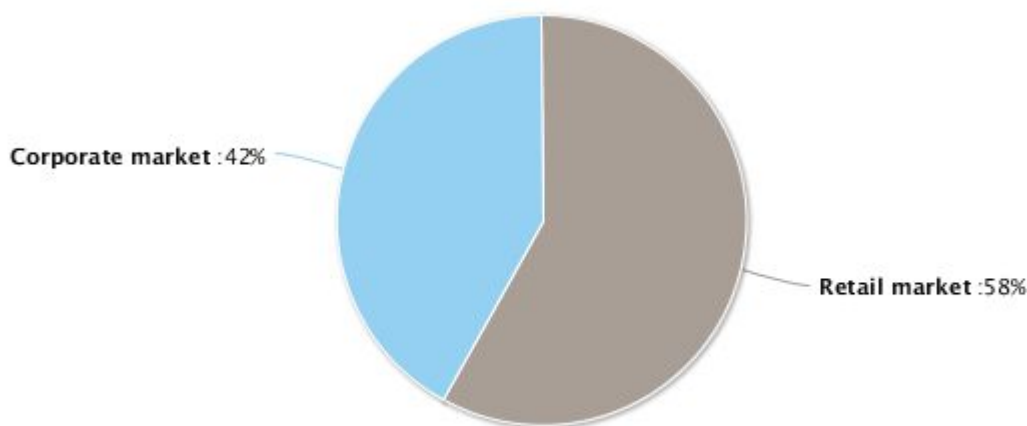
Overview

SpareBank 1 SMN is Trøndelag and Nordvestlandet's leading bank with assets totalling NOK 101bn at the end of 2011. The Head Office is in Trondheim and the Group employs about 1,150 staff. As one of six members of the SpareBank 1 Alliance, the Bank forms part of Norway's second largest financial services grouping. SpareBank 1 SMN is organised in divisions to secure a customer-oriented and cost-effective organisation while respecting the differing competencies required by the six divisions.

The Retail market, Corporate market and Capital markets Divisions focus on customer satisfaction and risk management alongside activity-based sales and advice. Business Support and Business Development focuses on cost-effective work processes and support enabling the customer-facing divisions to attain their goals, while the Finance Division provides an overall basis for decision making, risk management and financial and asset-liability management.

Through the SpareBank 1 Alliance and through its own subsidiaries, SpareBank 1 SMN is assured access to competitive products in the fields of financing, savings and investment, insurance and money transfer services.

Distribution of lending



Accessibility

A key aspect of SpareBank 1 SMN's strategy is to maintain a presence via a variety of office solutions in municipal and administrative centres in its natural catchment area. This, combined with round-the-clock access via the internet bank and mobile solutions and our customer centre, gives the Bank a unique competitive edge.

SpareBank 1 SMN has 54 offices in 43 municipalities. Its presence extends from Øvre Årdal in Sogn and Fjordane county in the south to Bindal in Nordland county in the north. The Bank's offices service the various

customer categories via a variety of office solutions. A total of 54 offices provide retail customers with advisory services in all product areas. 33 of these offices provide advisory services to corporate customers. Payment services are provided via ordinary OTC and self-service facilities.

Retail market Division

The business

The Retail market Division is responsible for all activity directed at the region's retail customers. The Division provides personal financial advice. The Division aims to attract and retain customers by strengthening and developing first class products, competence and customer handling.

The Bank offers a broad-based and modern product range in the fields of financing, savings and investment, insurance and payment services. This enables the customer to meet all his financial needs in one spot, and makes it securer and simpler for the customer to keep tabs on and to manage his/her personal finances.

Taking our place as the recommended bank places high demands on our staff. The Bank has a continuous focus on developing competence, skills and good mindsets to meet the demands of today's financial market and to give the best possible assistance to our customers. The Bank operates a wide-ranging competence building programme and takes care to ensure that advice is provided in compliance with statutory requirements and good advisory practice.

The Bank's customer contact points comprise an extensive network of offices throughout its market area and a dedicated direct bank, putting our advisors within easy reach of the customer. We also offer self-service facilities giving extensive access to our banking services. Activity and contact with the customer are a prerequisite for meeting customer requirements and expectations. Our high activity level features thematic meetings on topical themes, and individual advisory sessions are a key element.

Basic facts	2010	2011
Loanable capital:	46.9 bn NOK	52.1 bn NOK
Deposits:	19.1 bn NOK	21.2 bn NOK
No. of debit cards:	138,143	144,174
No. of credit cards:	74,115	87,347
No. of internet bank customers:	122,750	133,632
No. of multi-relationship customers:	182,279	184,825
No. of person-years in the division:	378	392

Customers and market position

The Bank leads the retail market in its catchment area, with a strong position in all product areas and market segments. Three out of ten households in Trøndelag and Nordvestlandet report the Bank as their main bank. Despite the intense competition the Bank shows a positive market trend and has a growing customer base.

Financial developments

The Retail market Division achieved a return on equity of 21.3 per cent in 2011. The pre-tax profit was NOK 273m. The decline of NOK 168m compared with 2010 is largely attributable to the write-back of early retirement (AFP) liabilities in 2010.

Incomes were NOK 30m lower than in 2010. Lending margins in 2011 were tightly squeezed by intense competition and stable low interest rates, but were compensated for by high growth and an increased

deposit margin. A net loss of NOK 7m was recorded, corresponding to 0.01 per cent of lending. Risk present in the loan portfolio is negligible.

Prospects for 2012

Good framework conditions for households remain in evidence at the start of 2012. Households' credit demand is closely tied to the trend in the housing market, indicating continued good demand for loans. Keen competition is expected to result in a flat margin trend. A continued moderate interest rate level will help to maintain debt servicing ability and to hold down losses and defaults. We anticipate a somewhat firmer trend in income from savings and investment products, insurance and payments as a result of an expanding market.

Retail market Division result overview (NOK m)	2011	% of total income	2010	% of total income
Loan contribution	215	24 %	324	35 %
Deposit contribution	296	34 %	216	24 %
Interest on allocated capital	29	3 %	11	1 %
Net interest income	540	61 %	550	60 %
SpareBank 1 Boligkreditt	76	9 %	108	12 %
Other financing income	4	0 %	2	0 %
Saving	52	6 %	49	5 %
Insurance	81	9 %	73	8 %
Payments transmission	123	14 %	130	14 %
Capital market	6	1 %	2	0 %
Other income	1	0 %	0	0 %
Commission income	343	39 %	363	40 %
Total income	883	100 %	913	100 %
Operating expenses *	603		468	
Result before loss and tax	280		445	
Loss on loans/guarantees	7		4	
Estimated tax	-76		-124	
Results after tax	196		318	

* Contains both direct and distributed expenses

Return on allocated capital	21.3 %	25.5 %
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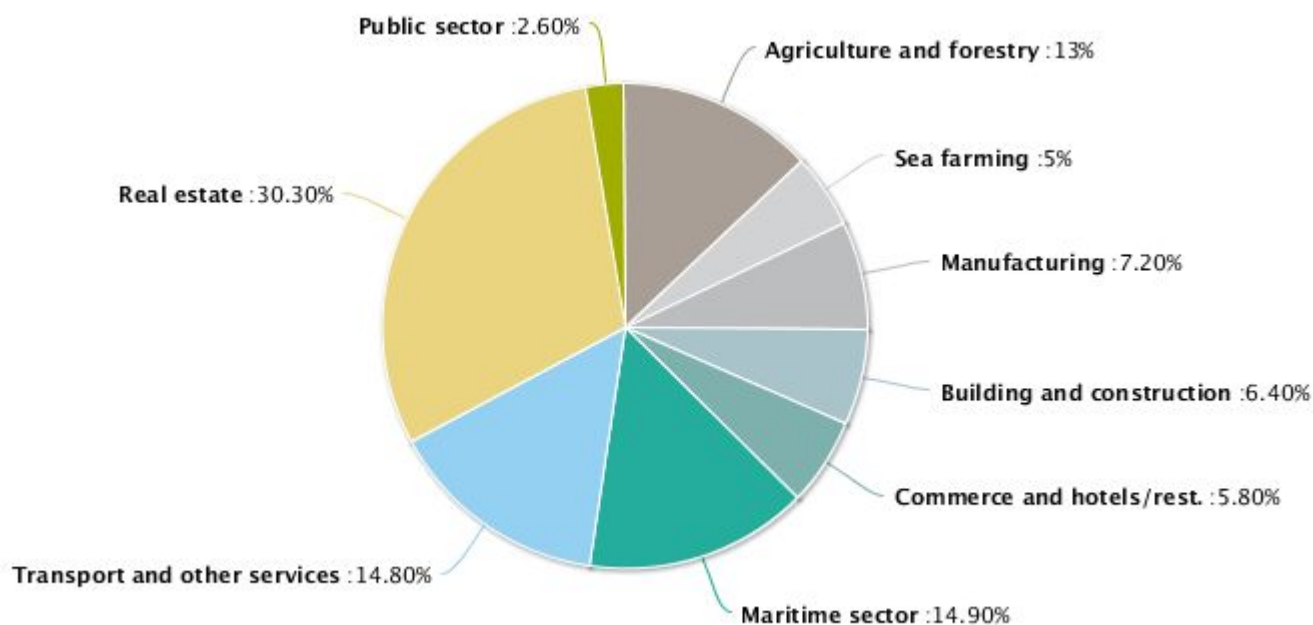
Corporate market Division

The business

The corporate market business focuses on financial counselling in investment and operations financing, insurance of individuals and buildings/operating equipment, investment of surplus liquidity and electronic and manual money transfers, domestic and foreign. Much of the business is in close cooperation with SpareBank 1 SMN Markets, SpareBank 1 SMN Finans and SpareBank 1 Factoring. The business is physically located across the entire market area to secure proximity to customers, while bearing in mind the need for competence units of sufficient size. The business is highly skills-intensive, and requires a continuous topping up of the individual staff member's competence. To this end the Bank has established an educational facility offering module-based training for all staff with particular emphasis on practical understanding of business and relevant banking skills.

The Bank is IRB approved and uses the IRB foundation approach to compute capital charges and credit risk. This, combined with excellent knowledge of the particular industry and local skills, will play its part in ensuring that further growth in the corporate market is in keeping with the Bank's responsibility as a regional market leader at the same time as risk exposure is in line with the Bank's credit policy.

Distribution of corporate lending by sector



Customers and market position

The Bank services around 13,200 multi-relationship customers, i.e. corporate customers, agricultural sector customers and customers in the public sector. SpareBank 1 SMN's share of this market segment in the region is about 35 per cent. The Bank also services a number of single-relationship customers in business areas including insurance, capital markets, leasing and factoring. The corporate sector in Trøndelag features a large number of small and mid-size companies in a variety of segments. This structure has a clear impact on the Bank's organisation of its corporate market operations.

SpareBank 1 SMN has a clear-cut ambition to retain its position as the leading regional bank for small and mid-size firms in Trøndelag and Nordvestlandet. This segment will be invited to replenish skills via a competence building programme ('PRO') at which the Bank in conjunction with BI Norwegian Business School will offer schooling in themes including innovation, marketing, financial management and leadership.

SpareBank 1 SMN has built up specialist competence in non-life insurance, asset allocation in addition to further developing its occupational pension solutions. In close conjunction with the Bank's business advisers, corporate clients in the region will have access to professional advice and solutions tailored to individual needs.

Basic facts	2010	2011
Loanable capital:	36.4 bn NOK	38.7 bn NOK
Deposits:	22.7 bn NOK	25.3 bn NOK
No. of multi-relationship customers:	13,163	13,235

No. of person-years in the division:	172	187
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Financial developments

The Corporate market Division posted 13.8 per cent return on equity in 2011 compared with 12.0 per cent in 2010. The improvement is ascribed mainly to increased incomes and reduced loan losses. Overall operating income came to NOK 1,069m in 2011, an increase of NOK 148m over the previous year. Net interest income rose by NOK 130m and commission income by NOK 18m. The increase in net interest income is ascribed to a stable lending margin, increased loan and deposit volumes and high arrangement commissions. Commission income rose by NOK 18m; this is mainly income on currency transactions and a result of successful collaboration with the Bank's Capital market Division.

Prospects for 2012

Prospects for 2012 are uncertain and heavily affected by developments in the eurozone. This is especially true of export firms with exposure to Europe. There are however positive expectations in the maritime industry, offshore, aquaculture and the fisheries - segments in which SpareBank 1 SMN's market share is growing. But the Bank is still prepared to take requisite steps to meet any problems that arise, and works closely with customers to find solutions that support common interests in the business conditions prevailing at all times. The Corporate market Division will accordingly maintain its capacity and competence to ensure that the Bank remains close at hand with skilled financial services in the long term.

Corporate market Division result overview				
(NOK m)	2011	% of total income	2010	% of total income
Loan contribution	562	53 %	543	59 %
Deposit contribution	221	21 %	171	19 %
Interest on allocated capital	117	11 %	56	6 %
Net interest income	900	84 %	770	84 %
SpareBank 1 Boligkreditt	2	0 %	3	0 %
Other financing income	34	3 %	32	3 %
Saving	2	0 %	9	1 %
Insurance	25	2 %	24	3 %
Payments transmission	69	6 %	68	7 %
Capital market	36	3 %	16	2 %
Other income	1	0 %	1	0 %
Commission income	169	16 %	151	16 %
Total income	1,069	100 %	921	100 %
Operating expenses *	352		278	
Result before loss and tax	717		643	
Loss on loans/guarantees	5		104	
Estimated tax	-199		-151	
Results after tax	513		388	

* Contains both direct and distributed expenses

Return on allocated capital	13.8 %	12.0 %
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SpareBank 1 SMN Markets

The business

SpareBank 1 SMN Markets delivers a complete range of capital market products and services. The business comprises the following units: Fixed Income/Foreign Exchange, Risk, Securities and Corporate Finance.

The division has risk operations in the fixed income/forex and securities area. All risk business is carried out from Head Office in Trondheim, while activity in Molde and Ålesund is in the hands of customer brokers who primarily provide services in the fixed income and foreign exchange area.

SpareBank 1 SMN Markets' ambition is to be the leading capital market operation in Trøndelag and Nordvestlandet. This ambition will be achieved through a continuous focus on specialist competence and market knowledge. Our services are designed to meet individual customer needs.

The division collaborates closely with SpareBank 1 Markets in Oslo on delivery of analysis and settlement services in the securities field. We expect business collaboration in the securities area to expand in the years ahead. In the fixed income and foreign exchange area an agreement has been signed giving SpareBank 1 Markets the opportunity to become a substantial national actor in fixed income and foreign exchange trading.

Customers and market position

Our customers are mainly corporates situated in Trøndelag and Nordvestlandet. Most of them are existing corporate customers of the Bank. SpareBank 1 SMN Markets is a wholesale bank for Samarbeidende Sparebanker (Samspar) which currently comprises 11 savings banks affiliated to the SpareBank 1 Alliance. We are experiencing an increase in the number of customers and still see a considerable potential for a stronger market position for the division.

Financial developments

SpareBank 1 SMN Markets achieved total income of NOK 139m in 2011 compared with NOK 93m in 2010. Activity levels were high in all business areas, enabling substantial income growth the second half-year of 2011.

Prospects for 2012

SpareBank 1 SMN Markets strengthened its staff across all units in 2011. 'Risk' was a unit in its own right in 2011, and we will now evaluate the division of work in the fixed income and foreign exchange area to achieve the best possible work processes. We expect the collaboration with SpareBank 1 Markets and the staff increase to produce higher incomes across all units, enabling the division as a whole to post higher income in 2012 than in 2011.

SpareBank 1 SMN Markets (NOKm)	2010	2011
Currency trading	45.2	53.8
Fixed income products	16.5	42.2
Corporate	20	14.6
Securities, brokerage commission	12.7	17.4
Investments	-1.0	11.1

Total income	93.4	139.1
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Affiliates and subsidiaries

The SpareBank 1 Alliance

The SpareBank 1 banks operate an alliance and develop product companies through the jointly owned holding company SpareBank 1 Gruppen.

The paramount objective of the SpareBank 1 Alliance is to assure the individual bank's independence and regional identity through strong competitiveness, profitability and financial soundness. The Alliance is among the largest providers of financial services in Norway and a fully-fledged alternative to traditional financial groups.

SpareBank 1 Alliance's vision

The Alliance's vision is for SpareBank 1 to be the recommended bank for private individuals and small and mid-sized businesses in Norway with a full product range. It wants customers to feel that we are the best in terms of our closeness, local identity and competence. Our key core values are closeness to the customer and capableness.

About SpareBank 1 Gruppen

SpareBank 1 Gruppen owns and develops companies that deliver financial services and products. It is owned by SpareBank 1 SR-Bank (19.5 per cent), SpareBank 1 Nord-Norge (19.5 per cent), SpareBank 1 SMN (19.5 per cent), Sparebanken Hedmark (12 per cent), Samarbeidende Sparebanker (19.5 per cent, comprising 11 savings banks in southeast and western Norway), and the Norwegian Confederation of Trade Unions and affiliated unions (10 per cent).

SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Livsforsikring (life insurer), SpareBank 1 Skadeforsikring (non-life insurer, includes Unison Forsikring), ODIN Forvaltning (fund manager) and SpareBank 1 Gruppen Finans (which includes Conecto and Actor Fordringsforvaltning). In addition SpareBank 1 Gruppen owns 93.4 per cent of SpareBank 1 Markets and is a partner in SpareBank 1 Utvikling DA.

SpareBank 1 Gruppen has administrative responsibility for collaborative processes within the SpareBank 1 Alliance in which technology, brand-building, communication, competence building, shared processes/exploitation of best practice and procurement are at centre stage. The Alliance is also engaged in development work through three competence centres for training (in Tromsø), the cash management area (in Trondheim) and the credit area (in Stavanger).

The SpareBank 1 banks also own SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt, SpareBank 1 Oslo Akershus, BN Bank and EiendomsMegler 1.

The SpareBank 1 Alliance consists of the following banks as of January 2012:

- SpareBank 1 Nord-Norge
- SpareBank 1 SMN
- SpareBank 1 SR-Bank
- Sparebanken Hedmark
- SpareBank 1 Ringerike Hadeland
- SpareBank 1 Østfold Akershus
- SpareBank 1 Nordvest
- SpareBank 1 Telemark
- SpareBank 1 Modum
- SpareBank 1 Lom og Skjåk
- SpareBank 1 Nøtterøy-Tønsberg
- SpareBank 1 Søre Sunnmøre

- SpareBank 1 Hallingdal
- SpareBank 1 Buskerud-Vestfold
- SpareBank 1 Gudbrandsdal
- SpareBank 1 Oslo Akershus
- BN Bank

BN Bank

SpareBank 1 SMN is the largest shareholder in BN Bank with a 33 per cent stake. BN Bank's strategy is to be a national direct bank in the retail market and a specialised bank in commercial real estate. In December 2008 the Ministry of Finance granted the SpareBank 1 banks a licence to purchase all the shares of Glitnir Bank. The bank concurrently changed its name to BNbank, and in November 2009 the spelling was changed to BN Bank.

The bank is owned by SpareBank 1 SMN (33 per cent), SpareBank 1 SR-Bank (23.5 per cent), SpareBank 1 Nord-Norge (23.5 per cent) and Samspar Bankinvest (20 per cent). The same owner structure applies at SpareBank 1 Næringskreditt.

BN Bank offers a broad array of bank services to firms and private individuals. The bank has its Head Office in Trondheim and a commercial real estate operation in Oslo. The bank services customers throughout the country via the internet and telephone facilities. BN Bank intends to be a leading niche bank for customers who prefer self-serviced products and solutions. In the corporate market BN Bank is at the forefront in financing commercial real estate in Norway. The bank aims to be an active and predictable partner and provider of debt capital instruments to selected actors in the field of commercial real estate with a focus on Oslo and southeast Norway. BN Bank will also, in collaboration with the various SpareBank 1 banks, be a stable and predictable provider of first mortgage loans for defined projects. As at 31 December 2011 BN Bank has 105 members of staff, deposits totalling NOK 16bn, loans of NOK 46bn (loans including SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt) and total assets worth NOK 41bn.

Subsidiaries

EiendomsMegler 1 Midt-Norge

EiendomsMegler 1 Midt-Norge has a solid market-leader position in Trøndelag and Nordvestlandet. This position was further reinforced in 2011.

The company delivered in 2011 a profit of NOK 75m before tax, representing a further improvement of NOK 24m from the previous year. The Bank's share was NOK 65m.

EiendomsMegler 1 Midt-Norge strengthened its position as one of the country's most profitable real estate agency for its customers, staff and owners. Its strategy of taking on, developing and retaining the best staff in the business was further reinforced in 2011, and the company took a great stride forward in the effort to create Norway's best workplace.

The company has specialised operations which include separate units for project and commercial property broking. These operations complement its traditional residential agency business, which is now a specialist function maintaining a local presence, co-located with banking, in various parts of Trondheim and the surrounding district. A new office was opened in Røros in 2011.

EiendomsMegler 1 Midt-Norge sold 6,150 properties in 2011, representing a market share of 40 per cent in the region. The company is equipped for further growth both in profit and market shares ahead. The

company is owned by SpareBank 1 SMN (87 per cent), SpareBank 1 Nordvest (7.6 per cent) and SpareBank 1 Søre Sunnmøre (5.4 per cent).

SpareBank 1 SMN Regnskap

SpareBank 1 SMN Regnskap continued its strong growth in 2011. With 60 per cent turnover growth, the company's market share in Trøndelag has risen to 10 per cent. The company has more than 40 new staff, bringing the overall work force close to 120.

The company is experiencing a growing influx of new customers. In 2011 about 200 new customer agreements were established. While the bulk of the growth is in the corporate market, new customers are also being attracted in the other three customer segments – farm operators, housing cooperatives/co-ownerships and a variety of associations.

In 2011 SpareBank 1 SMN Regnskap took over and absorbed six accounting firms in Trøndelag: Sollie Regnskap, Ingrid Forseth Regnskapskontor, Status Regnskapskontor, Consis Namsos, Consis Steinkjer and Consis Trondheim. 50 per cent of the shares of Leksvik Regnskapskontor were also acquired. The operations of all acquired firms have been coordinated with the company's existing business.

In the past year SpareBank 1 SMN Regnskap collaborated closely with its alliance partner Sparebanken Hedmark on acquiring Consis, one of the country's largest providers of finance and accounting services with 33 offices, 350 staff and 6,500 customers.

From January 2012 onwards Sparebanken Hedmark and SpareBank 1 SMN Regnskap will share ownership of Consis on a 60-40 basis. Together with Sparebanken Hedmark and other banks in the region, the company will focus on building a strong national brand in the industry. This will be important with a view to consolidating and strengthening the company's position in the industry in Trøndelag and Nordvestlandet.

SpareBank 1 SMN Regnskap has a continuous focus on strengthening the company's organisation and competence. A comprehensive training plan for all staff and a special coaching programme for managers have been implemented. In the course of the autumn a new organisation plan was adopted which will significantly strengthen administrative and professional management alike. The company has thereby laid a platform for attaining growth and development targets for 2012.

The industry's framework conditions and the market for financial services are changing rapidly. Removal of the audit obligation for the smallest businesses and rapid technological development are changes that impact on the industry. SpareBank 1 SMN Regnskap's vision is to create a new division for financial services. This will require the company to invest substantial resources in order to offer customers forward-looking competence and ICT solutions. Inherent in this is a keen focus on quality improvements and quality controls.

The company posted a turnover of NOK 86m in and a profit of NOK 5.4m before tax in 2011. The profit figure is affected by the strong growth and investments made in order to turn the company into a forward-looking business that is ready for further growth.

SpareBank 1 SMN Finans

SpareBank 1 SMN Finans is the region's leading finance company and an active partner for businesses. SpareBank 1 SMN Finans emphasises local competence, and works for greater value creation in Trøndelag and Nordvestlandet. The company services the market through its own sales operation and through the Bank's offices and suppliers.

SpareBank 1 SMN Finans offers leasing and car fleet management services to corporate customers and the public sector, and vendor's liens mainly to private individuals. The organisation is distinctly sales- and customer-oriented, and is designed to be a close and accessible finance partner with short decision-making paths.

At year-end the company managed leasing and car finance agreements worth NOK 3bn, of which leases account for 65 per cent and car finance for the remainder. The company has 29 employees in Trondheim, Verdal, Molde and Ålesund. The company posted a profit of NOK 26m before tax in 2011.

Integration and a structured business approach together with the Retail market Division and Corporate market Division at SpareBank 1 SMN are reaping results. The company expanded the car loan portfolio in 2011, and the proportion of internet applications via our web channels is rising. However, the leasing portfolio showed no growth in 2011, due to a general reduction in investments in the business sector.

In 2011, as previously, the company targeted its efforts in an effective manner, for example making adjustments in the credit area, and launched loss-mitigating measures which reaped results. In late autumn the company established a cooperation agreement with the Norwegian Association of Heavy Equipment Contractors. Work was done on self-service loan and leasing applications integrated with our IT systems used by customers and in our cooperation with suppliers.

The business has highly motivated staff. The company is a wholly-owned subsidiary SpareBank 1 SMN.

SpareBank 1 SMN Finans owns the subsidiary SpareBank 1 Bilplan which specialises in car fleet management and offers one-stop solutions for industry and the public sector nationwide. The company has a distribution agreement with SpareBank 1 Finans Nord-Norge and SpareBank 1 SR Finans.

Allegro Finans

Allegro Finans, headquartered in Trondheim, is the largest management company in the region. The company is owned by SpareBank 1 SMN (90.1 per cent) and the Reitan Group (9.9 per cent). It is licensed to carry on active asset management. In addition to managing assets for its owners, it manages assets for private individuals and institutional clients. The company's services are sold exclusively through external distributors who are licensed to engage in such activity. The company has 10 employees and assets of just over NOK 2bn.

The company offers a broad range of services designed to capture changes in market conditions. The portfolio array includes both specialised portfolios and allocation portfolios. Management volumes are highest in the field of dynamic asset allocation portfolios and in direct share portfolios. The market for the company's portfolios has developed in keeping with the positive macroeconomic picture.

In 2011, as previously, the company delivered good returns relative to benchmark indexes in asset allocation and share portfolios alike. The accounts show a deficit of NOK 5.3m before tax, of which the Bank's share was NOK 4.7m.

SpareBank 1 SMN Card Solutions

In 2011 SpareBank 1 SMN purchased all the shares of Convenient Card, which changed name to SpareBank 1 SMN Card Solutions in the same year. SpareBank 1 SMN Card Solutions sells and operates prepaid cards based on the Visa and MasterCard networks. The company has established the SpendOn brand which is linked to prepaid card products. SpareBank 1 SMN Card Solutions has launched the SpendOn Visa gift card in Norway and the MasterCard SpendOn gift card in Sweden. The company posted a profit of NOK 2.3m before tax in 2011.

SpareBank 1 SMN Kvartalet

SpareBank 1 SMN Kvartalet was responsible for the construction of SpareBank 1 SMN's new Head Office in Søndre gate, Trondheim. The building was completed by 20 October 2010. The company owns 76 per cent of the Head Office (16,300m²), after parts of the new building were demerged and merged with SpareBank 1 Bygget Trondheim, which already owned Kongens gt 4 (owns 5,100 m² all told). This company operates the conference centre in the head office under its own auspices, and has engaged Banken Restaurant to run the staff restaurant and cafeteria.

SpareBank 1 SMN Kvartalet is responsible for the operation, maintenance and cleaning of the entire head office complex. Subcontractors are Kjeldsberg Eiendomsforvaltning and Trøndelag Renholdservice. The company has no employees.

Further, a company has been formed to build a new office in Steinkjer, SpareBank 1 Bygget Steinkjer. This company is erecting an office building of about 1,800m² on the the station site in Steinkjer. The building will reach completion in May 2012, and will be rented to companies in the same group.

Corporate social responsibility

As a major regional bank, SpareBank 1 SMN shares a common destiny with the region. Ever since the Bank was established in 1823, further developing the society of which we are a part has been a central focus of our policy choices and dispositions. With our local knowledge and closeness to our customers we base our assessments not on economics and risk alone but also on a social perspective, and we work closely with customers and local communities to foster sound businesses and good living conditions.

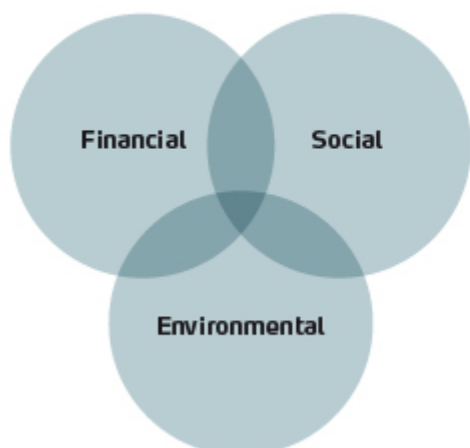
The Bank's focus on public issues is integrated in our ongoing planning work. This ensures that ethics, the environment and important social issues are on the agenda throughout. Through the Bank's gift fund we have for many years returned funds to the region we are a part of. This has been done through grants to talented individuals in the arts and sports, support for local associations and organisations, well-being measures at neighbourhood level and contributions to business development in Trøndelag and Nordvestlandet.

An active interplay between research, development, education and the business sector is important for the region's development. Each year SpareBank 1 SMN devotes substantial resources to stimulating innovation and to bringing together industry, business and knowledge institutions. The collaboration with the Norwegian University of Science and Technology (NTNU) and the Foundation for Scientific and Industrial Research (SINTEF), both in Trondheim, along with iKuben in Molde and Aalesund University College, is key to this effort.

The three-part bottom line

Solid banking creates a foundation for responsible social development. As a basis for our work, we have sought a balance between the financial, social and environmental aspects of the three-part bottom line. Under each theme we have defined key areas on which we maintain a special focus, and goals and initiatives have been developed for each area.

Our thinking on social responsibility: basic structure



FINANCIAL
Strategy and plans
Financial key figures
Ethics, legislation
Relationship to owners
Risk management

SOCIAL
Organisation, staff
Customers, market
Suppliers
Social commitment
Technology, security

ENVIRONMENTAL
Resource use
Purchasing policy
Energy
Pollution
Waste management

CSR status and goal achievement 2007-2011

Parent company figures

		2007	2008	2009	2010	2011
Strategy/ financial	Group strategy	Established	Updated	Continued	Continued	Continued
	Develop CSR strategy	N/A	Established	Continued	Continued	Continued
	Pre-tax profit (NOKm)	1,045	778	1,147	1,282	1,279
	Total assets (NOKm)	71,503	84,670	84,541	97,992	101,455
	Return on equity	18.90 %	11.90 %	16.20 %	14.60 %	12.80 %
	Core capital ratio	8.40 %	8.10 %	10.40 %	10.90 %	10.43 %
	No. of ECCs issued (m)	53.98	57.9	69.43	94.9	94.9
	Quoted price 31.12	72.25	22.85	49.02	54.00	39.30
	Market capitalisation (NOKm) 31.12	3,900	1,750	3,749	5,124	3,731
	Direct return	8.29 %	5.10 %	4.60 %	5.6 %	5.1 %
	No. of owners	9,111	9,123	9,500	9,654	9,532
	Knowledge of bank's ethical rules at least 90 %	96 %	96 %	96 %	96 %	96 %
	Society/ social conditions	No. of FTP equivalents	746	775	805	793
Sickness absence		3.57 %	3.84 %	4.22 %	4.00 %	4.00 %
Women's share of workforce		48.50 %	51.50 %	51.50 %	51 %	52 %
Women's share of senior positions		22 %	26 %	28 %	28 %	27 %
Average age		44.5 years	45 years	45 years	46 years	45.5 years
Employee satisfaction		75	75	75	I/T	715 *
Agreement on inclusive employment		Established	Continued	Continued	Continued	Continued
Strategy on life phase policy		Established	Continued	Further developed	Further developed	Continued
Managerial development programme		Established	Continued	Continued	Continued	Continued
No. of offices		58	56	56	54	54
No. of customers		191,000	192,000	194,000	194,500	196,500
Share of internet banking customers		52 %	54 %	57 %	73 %	81 %
Share of electronic bill payments		90 %	91 %	92 %	99 %	99 %
Share allocated to culture		12 %	22 %	24 %	22 %	24 %
Share allocated to sports		12 %	16 %	20 %	23 %	23 %
Share allocated to humanitarian work		5 %	6 %	4 %	6 %	6 %
Share allocated to business development		66 %	56 %	52 %	43 %	38 %
Environment	Purchase of paper **	40.4 tonnes	46,5 tonnes	35.9 tonnes	39.1 tonnes	35.7 tonnes
	Energy consumption ***	N/A	6,193,000 kWh	6,580,000 kWh	7,004,400 kWh	6,900,500 kWh
	No. of flights ****	4,324	3,984	3,585	3,816	3,910
	E-waste return scheme *****	6.10 tonnes	5.30 tonnes	2.90 tonnes	3.43 tonnes	3.40 tonnes
	Waste sorting at source	Established	Continued	Continued	Continued	Continued
	Printer and toner return scheme	Established	Continued	Continued	Continued	Continued
	No. of videoconferencing rooms	2	3	6	6	8
	Strategy/action plan for energy and the environment at the new head office	Established	Continued	Continued	Continued	Continued
	No. of offices certified under the 'Environmental Lighthouse' scheme	N/A	N/A	1	1	2

* New system for organisational analysis as from 2011

** Reduction of approx. 3.4 tonnes from 2010 to 2011 essentially due to switch to secure print and increased electronic communication

*** Reduction in 2011 due to a full year of operation in the new head office (a low-energy building)

**** Change due to increased travel related to customer activities in general and the enlargement of the bank's catchment area in particular

***** Volume due to procurement of new computers in 2010 and disposal at end-2010 and start-2011

Environment

The Group consistently implements measures designed to reduce consumption of electricity, paper and other resources and to ensure that limits are imposed on resource-demanding travel. Handling of e-waste and purchase of environment-friendly solutions also receives much attention. The Bank strives throughout to ensure the right procurement of technological equipment. To this end, energy and environmental requirements are included as specific assessment criteria.

All technological equipment is handled as special waste, and is thereby subject to environmentally correct disposal. In 2011 3.40 tonnes of technological waste were returned compared with 3.43 tonnes in 2000. Increased use of electronic communication and the introduction of new print solutions have reduced paper consumption from 39.1 tonnes in 2010 to 35.7 tonnes in 2011.

Growing use of technological solutions imposes greater demands on safety and personal protection. The following measures are being put in place to ensure a focus on, and competence in, safety.

- regular internal safety courses
- national safety exercises (disaster preparedness exercises)
- free-of-charge software for enhanced customer safety
- instructing older users in safe internet banking and in becoming more self-reliant bank customers

SpareBank 1 SMN made 3,910 business trips in 2011 compared with 3,816 in 2010. Increased customer activity and the Bank's involvement in committees and projects under the auspices of the SpareBank 1 Alliance are key factors behind the high travel frequency. Steps taken to reduce the number of air trips include greater use of video conferencing, telephone conferencing and digital tools to support teamworking and knowledge sharing.

Very low energy consumption at the new Head Office

SpareBank 1 SMN relocated to its new head office in Trondheim in autumn 2010. Our energy consumption target was an ambitious 85 kWh per square metre for the new office premises part of the building. The target was met by a good margin in the very first year of operation. Measurements show energy consumption below 60 kWh per square metre, which is far below the limit of 150 kWh per square metre set by the authorities. No other office building in Norway comes close to this figure. Compared with the 150 kWh per square metre consumed by the old bank building, the operating expense economies are substantial. The causes of the low energy consumption are numerous and complex, but the main individual factors are:

- a well isolated and efficient building envelope
- a highly energy-efficient ventilation system
- a sophisticated control and operation-monitoring system
- organisation of the workplace and monitoring by the building's users

Environmental lighthouse

SpareBank 1 SMN has opted for certification under 'Environmental Lighthouse', a national certification scheme catering to the private and public sectors. At end-2011 the Trondheim Head Office and the office in Ålesund had achieved certification. This meant that offices in which about 450 staff work on a daily basis were now certified in the following areas: work environment, procurements/materials use, energy, transport, waste, emissions and aesthetics. In 2012 the offices in Stjørdal, Levanger, Steinkjer and Namsos will achieve certification and work will start on certification of Molde and Verdal.

Ethics

The Group's business activities are dependent on the confidence of customers, public authorities and the wider society. Staff at SpareBank 1 SMN must be recognised for their high ethical standards. To this end each of us, in any context where we are identified with SpareBank 1 SMN, must display a conduct that is perceived to be confidence inspiring, honest and trustworthy and in compliance with the norms, rules and statutes by which the society is governed.

SpareBank 1 SMN intends to provide factual, correct information in an honest, trustworthy and open manner about the Bank's business and services.

SpareBank 1 SMN has set up the following formalised and recurring review of the Bank's ethical guidelines vis-à-vis the Group's employees; this, in sum, constitutes the formal framework tool for the practical conduct of all staff of the Bank.

- the ethical guidelines are a part of the staff handbook, and thus a part of the employment contract
- the ethical guidelines are reviewed at induction sessions for new staff
- ethics is a module in its own right at the Bank's educational facility and must be successfully completed by all staff
- ethical guidelines are a central part of the Bank's managerial development programme

Organisation and staff

SpareBank 1 SMN intends to be an attractive and inclusive employer for staff in all age groups and life phases. The Bank sets the stage for all staff to experience a good balance between work, home and leisure. We also encourage staff to maintain good health by promoting physical activity. This is based on the belief that staff members whose needs are catered for put in a better performance in the best interest of themselves and the enterprise.

SpareBank 1 SMN has relatively low sickness absence, and we believe this is to some extent ascribable to staff who are motivated by challenging and stimulating work at the same time as many stay in shape through various types of activities.

We currently have a good gender and age balance. The Bank is working to raise the proportion of women in senior positions. Currently 27 per cent of senior positions are held by women (28 per cent in 2010).

The Group has established a robust framework in the trade union area:

- staff handbook, health, environment and safety (HES) handbook, inclusive employment agreement
- internal committees fixed by agreement: liaison committee, appointments committee and negotiating committee
- ethical guidelines, procedure for reporting concerns and procedure for handling conflicts
- management development programme
- adviser programme and educational facility
- framework for professional development sessions
- annual staff survey

- induction sessions for new staff
- phase-of-life policy

The Group has established a project known as 'Better Shape' to promote good health, increased motivation and well-being. The project is a targeted drive aimed at motivating staff to raise their level of physical activity.

SpareBank 1 SMN Fund

The SpareBank 1 SMN Fund bases its work on the precept that the Bank's gifts should be non-profit, i.e. all financial support should be for the common good and benefit as many as possible. The Fund emphasises that all awards should contribute to building, supporting and developing the region. The Bank's gifts to non-profit causes therefore make demands in the sense that the recipient also has to contribute to ensuring that the cause attains its goal. In order to create new assets and make the region an attractive place to live, the Fund employs two primary methods in its work:

- we apply a process-oriented approach in which individuals, ideas and resources are brought together to create the symbiosis that produces value creation
- we supply capital through donations to activities that promote our social objectives

We therefore impose the same ethical and environmental demands on our partners as on ourselves before, during and after implementation of projects and initiatives. In processes, and in the case of awards of some size, written agreements are established to ensure that our social requirements are complied with.

Business development:

- innovation
- competence transfer to the region's business and industry
- assisting infrastructure development
- developing entrepreneurship
- start-up assistance (seedcorn and venture capital)

Culture/sports:

- cultural, sports, health, environmental, ethical and humanitarian purposes
- special focus on children and young people
- helping to strengthen the region's identity and historical foundation based on the St. Olav tradition and legacy
- helping to stimulate talented individuals, young people and enthusiasts in the spheres of culture and sports