

Business description

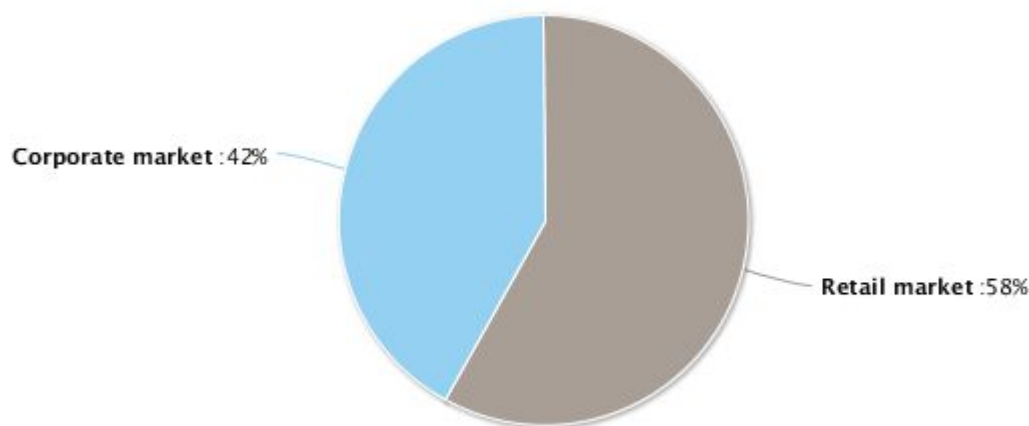
Overview

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 %
------------------------------------	---------------	---------------

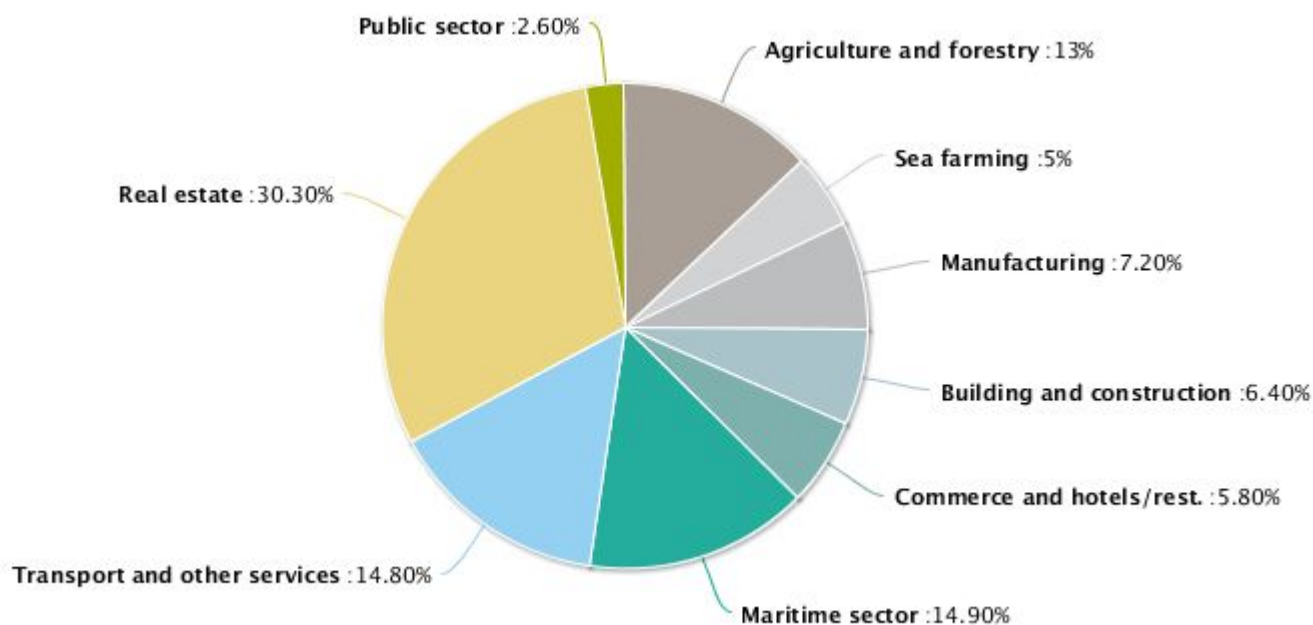
Corporate market Division

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

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 %
------------------------------------	---------------	---------------

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