

# Business 2012



Robust customers combined with solid banking skills have enabled SpareBank 1 SMN to exceed a net profit of NOK 1 billion for the third year in a row.

## Statement by the Group CEO

2012 proved to be another very good year for SpareBank 1 SMN. A Group pre-tax profit of NOK 1,355m and a post-tax return on equity of 11.7 per cent are above the levels planned for the year. At the start of 2013 there are grounds for optimism for the profit trend this year too.

### **Profitable growth**

In 2012 we saw continued sound growth in all customer segments. This confirms the Bank's solid position as market leader and the strength of the SpareBank 1 concept. For 2013 and coming years the Bank's new tier 1 capital target and capital plan will impose restrictions on lending growth, especially to corporates. We are however in a position to meet the financing needs of our customers in Trøndelag and in Møre and Romsdal in view of the slight reduction in demand in evidence at the start of 2013. SpareBank 1 SMN will not weaken the solid market position it has established. We are also prepared to meet the need for house building and home loans in towns in our catchment area where the housing market is out of balance and shows a major need for new housing construction.

### **New regulatory requirements, application for advanced IRB status**

In the fourth quarter of 2011 the Norwegian authorities gave very clear signals of tighter capital requirements for Norwegian banks. A common equity tier 1 ratio of at least 9 per cent was to be achieved by 1 July 2012. We met this requirement, but the authorities subsequently gave notice of a far higher level of financial strength for banks in the slightly longer term. This has so far not been clarified. Moreover, the authorities signalled an early introduction of Basel III in Norway, based on the supposition that Norwegian banks are in a far better position to adapt to this new, more stringent regulatory regime than the European banking and financial system which still faces major challenges related to the European sovereign debt crisis. We share the Norwegian authorities' assessment of the respective positions. Even so, we believe that early introduction in Norway will weaken Norwegian banks' competitiveness vis-à-vis foreign competitors.

At the end of 2012 signals emerged of the Norwegian authorities' wish to reduce the risk of a possible home loan bubble by imposing on Norwegian banks a large increase in risk weights on home mortgage loans. For our part this entails an increase from 11 to 35 per cent in mortgage weights, corresponding to a tier 1 capital effect of 1.5 percentage points. Part of the idea behind this is that higher capital charges will limit the growth of lending for residential purposes and thereby reduce the risk of a housing bubble developing in Norway. We agree that bubble tendencies in the Norwegian economy should be prevented, likewise that a sharp reduction of house prices in Norway could have negative consequences for the wider economy. We are however uncertain whether introducing a mortgage weighting specific to Norway will have the intended effect. Both we and other Norwegian banks adjust by curbing loans to corporates with the highest risk weights. In addition we will ensure that a higher proportion of the profit for the year is retained, which among other things reduces funds available for non-profit causes. And, with 35 per cent mortgage weightings, the Bank's risk models are undermined, since the risk to banks posed by home mortgage loans is low, indeed far lower than this risk weight level would imply.

SpareBank 1 SMN is concerned to act responsibly and to come across as indisputably solid. This year we will apply for permission to use the advanced IRB approach and must reasonably be able to count on risk weights on corporate loans that better reflect the underlying risk than the today's IRB models do. The Bank's

trend in defaults and losses in recent years confirms the Bank's professionalism where risk management is concerned. We would like to see this reflected in risk weights and bring us to par with our competitors now enjoying advanced IRB status.

### **Capital plan and new common equity tier 1 target**

In spring 2012 we launched a rights issue which was oversubscribed by more than 50 per cent. Later we made a stock placing with the foundation Sparebankstiftelsen SMN and a smaller placing with the US-based Wellington Management Company. This put us in adherence with the required minimum 9 per cent tier 1 ratio by 1 July 2012.

In keeping with signals from the Norwegian authorities, the Board of Directors have adopted a new common equity tier 1 ratio target of a minimum of 12.5 per cent by the end of 2015. The Board has at several board meetings discussed its way to a plan for how the new capital target is to be attained. The capital plan was published in conjunction with the preliminary financial statements for 2012. The plan was well received, and the price of the Bank's equity certificate rose firmly. The plan outlines a series of measures to attain the above goal. A rights issue is not a part of the capital plan. In other words, we propose to achieve a 12.5 per cent common equity tier 1 ratio by:

- increased incomes
- continued low losses on lending
- increased retention ratio, i.e. a lower level of gifts to non-profit causes and a level of cash dividend limited to 25-30 per cent of equity certificate holders' share of net profit
- sale of assets that tie up core capital, but are not critical to Group operations
- increased return from SpareBank 1 Gruppen
- use of advanced IRB and thereby some adjustment of risk weights on loans to corporates etc.

The capital plan incorporates the assumption of 35 per cent risk weights on home mortgage loans and retention of our 33 per cent stake in BN Bank. Since the New Year we have divested shares in Polaris Media and signed an agreement to sell our stake in Bank 1 Oslo Akershus. These measures are enshrined in the capital plan.

### **Money market funding not a particular challenge for SpareBank 1 SMN**

At the end of last year we saw far better access to money market funding. Both access to funding and the market price are substantially improved for our part. This led to our decision in February 2013 to issue a senior bond of EUR 500m. We will continue our effort to ensure that SpareBank 1 SMN is well known and carries out issues in this market; by that means we expect our relative pricing to improve. Through the year we also saw favourable conditions for SpareBank 1 Boligkreditt and an increase in customer deposits. Given somewhat limited lending growth ahead, we expect funding in the years ahead to continue to be available at steadily lower cost.

### **Best for customer experience**

There was a tight focus on the Bank's strategic improvement projects in 2012 and these projects will be carried forward into 2013.

As from 1 January 2013 the Bank's organisation plan is changed. We have left the divisional model and established a model comprising three customer-facing units (Group Customers, Offices and E-business), two supply units (Products and Processes, HR) and Group Finance. We have concurrently redefined the

manager role and reduced the number of managers from 116 to 48 at the parent bank. In 2013 we will focus on the adviser role. Our aim is for these projects to inject new energy into the organisation and make added resources available for value creation and fewer resources to support functions. We already see indications of increased productivity in the organisation, thereby assuring a better customer experience as well as reducing resource use and cost growth at the Bank.

Our ability to upgrade the adviser role is absolutely key. The adviser is the creator of value and the owner of the customer relationship. We want as many as possible of our capable staff to work with customers and sales, and to experience a personal development in the adviser role that is as at least as interesting and rewarding as taking on an executive role. By redefining the manager role and reducing the number of managers we have freed up many of our best staff to work with customers. We are making more adviser capacity available to small and large corporates, in particular in Trondheim and Ålesund. It is my conviction that our customers will enjoy a better customer experience and that we will achieve increased sales and increased earnings.

### **We will reduce the Group's operating expenses**

We have seen strong cost growth in recent years. This is an unsustainable trend. We have built up the capacity and competence needed to ensure our profitability and market leader position. This has cost us. In terms of competence the Bank is now at a very high level. We have invested heavily in authorisation of our advisers and a high degree of professionalism is present in all core processes. Good risk management and low losses are also a feature of our business. That is why we now venture to reduce cost growth by reducing the number of person-years worked, putting in place improvements and streamlining work processes as well as reintroducing stronger cost management at all levels. The aim is to reduce cost growth at the parent bank to below 3 per cent annually and to reduce the number of person-years worked at the parent bank by a minimum of 75 by year 2015.

### **Well-functioning subsidiaries**

The Group's subsidiaries showed solid progress in 2012, as previously. The largest ones, EiendomsMegler 1 Midt-Norge, SpareBank 1 SMN Finans and SpareBank 1 SMN Regnskap, are strengthening their market position and profitability.

### **The Bank's monetary gift work**

We will ahead allocate less to monetary gifts than we have done in recent years, and we will seek to put our gift work to maximum effect despite reduced appropriations. We are still unparalleled as the largest private contributor to business and community development in Trøndelag, and have an important role to play in Møre and Romsdal where other savings banks also have substantial gift activities. The challenge is to find a good combination of causes of that benefit the community and a strengthening of the donor's market position through monetary gift work.

### **SpareBank 1 alliance – our most important strategic foundation**

Disregarding a tax-related one-time effect for SpareBank 1 Livsforsikring, SpareBank 1 Gruppen's companies together delivered a satisfactory profit contribution in 2012. Prospects for 2013 are even better. We are working with an amalgamation of our insurers, a major improvement programme has been initiated at ODIN Forvaltning and SpareBank 1 SMN Markets has taken its place as one of the country's leading

brokerage houses. Further, SpareBank 1 Gruppen's board of directors established in January 2013 a comprehensive improvement programme in response to clear signals from all owners in favour of simplification, reduced costs and a greater effect of the banking collaboration.

I view the cohesion in the alliance as very strong, and there are currently no significant challenges on the owner-front, rather a strong consensus and will to further develop SpareBank 1 as the country's second largest financial group and as leading banks for the regions of Norway. There is reason to believe that SpareBank 1 SMN in 2013 and further ahead will see significantly higher profit contributions and effects of the collaboration within the SpareBank 1 Alliance.

### **Concluding comment**

We have delivered solid performances in recent years, made an active contribution to the development of our market area and delivered good return to our owners through dividend and, more recently, a higher value of our equity instrument. The Bank has good risk management and incurs low defaults and low losses. We are continually strengthening our position in both the retail market and the corporate market. The entire financial industry will need increased income as a result of new capital requirements, and there are grounds to expect that SpareBank 1 SMN will also have a basis for raising the Bank's interest margins and income. We believe there are grounds for optimism 2013 too.

What path the economy will take is the ever present uncertainty. So far our market area has been negligibly affected by the international sovereign debt and financial crisis. With brighter prospects in evidence in Europe, there is no reason to believe that we will be affected in 2013 either. But it is important to have in place sound emergency plans in the event of an economic reversal. We expect continued growth and profit improvement in the current year, as previously.

## Important events in 2012

### First quarter

- Post-tax profit of NOK 1,024m in 2011
- Supervisory Board declares dividend of NOK 2.00 per equity certificate for 2011
- Randi Dyrnes elected new chair of the Supervisory Board for a one-year term
- Rights issue and private placing with employees strengthen the Bank's equity capital by NOK 761m
- Tæl Prize of Honour awarded to Ann-Elise Breivik, dedicated Salvation Army member and manager of the Warming House in Ålesund

### Second quarter

- Post-tax profit of NOK 272m in the first quarter 2012
- Board of Directors adopts the reorganisation programme "Ny giv" ("New Possibilities") in which the divisional model is replaced by a new structure with the following business units: Offices, Group Customers, Group Finance, Products and Processes along with HR/Performance Development /E-business
- New office opened in Steinkjer
- Tæl Prize of Honour awarded to Birgit Røkkum Skarstein, a participant in the TV series "Uten grenser" (No Limits)

### Third quarter

- Post-tax profit of NOK 510m in the second quarter 2012
- Private placing with Sparebankstiftelsen SMN (foundation) and a small number of large new institutional investors abroad which strengthens the Bank's equity capital by NOK 200m
- The Bank bestows NOK 25m for a new cancer assessment machine at the St Olavs Hospital in Trondheim. Trøndelag's business community provided the money, while the Bank organised the fundraising campaign and itself contributed NOK 5m
- Board of Directors decides to erect a new course and conference centre in Oppdal. Due for completion in the fourth quarter 2013
- The Bank celebrates 125 years' presence in Støren

### Fourth quarter

- Post-tax profit of NOK 816m in the third quarter 2012
- Tæl Prize of Honour awarded to Vardesenteret avdeling St Olavs Hospital (cancer care) in Trondheim
- Through a private placing SpareBank 1 Nordvest and SpareBank 1 Søre Sunnmøre each acquire 4.95 per cent of the shares of SpareBank 1 SMN Finans. SpareBank 1 SMN retains a stake of 90.1 per cent
- The Bank purchases the magnificent building No. 1 St Olavs Plass in Ålesund in which it is the largest tenant

## Business description

### Overview

SpareBank 1 SMN is the leading bank in Trøndelag and Møre and Romsdal with total assets of NOK 108bn at the end of 2012. The head office is in Trondheim and the Group employs 1,200 staff. As one of six members of the SpareBank 1 Alliance, the Bank forms part of Norway's second largest financial services grouping.

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

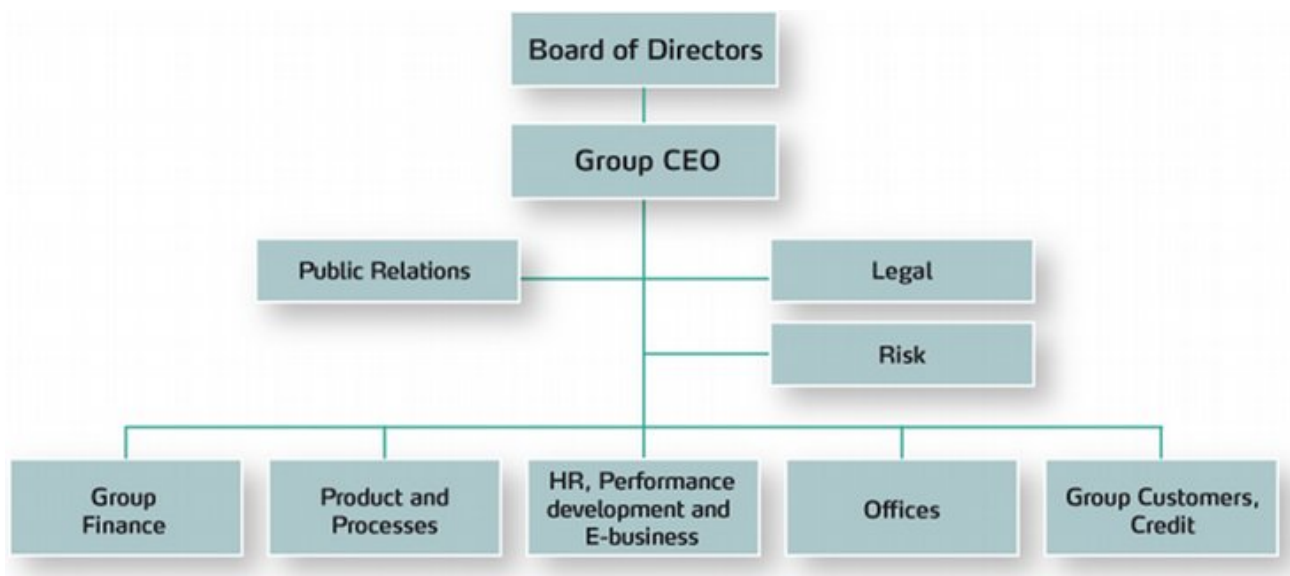
As from 1 January 2013 the Bank is organised on a new model. The organisational change is in keeping with the Bank's aim of being best for customer experience by 2015. We have coined a collective term Ny giv ("New Possibilities") to cover all strategic projects completed to ensure that we maintain and develop the Bank's unique position. An important aspect of New Possibilities is to realign the Bank's organisational arrangement.

The division model introduced by the Bank in 2001 has been highly successful. Year after year we have performed in the very top echelons of banks both in Norway and the Nordic region. We have significantly raised our game in terms of competence, risk management and sales over these eleven years.

Even so, we have decided to replace the division model. Inherent in this decision is a clear desire for better interaction and coordination, a stronger focus on value creation and hence a clear upgrading of the office and the adviser role.

The new model will start out from our 188,000 retail customers and 13,000 corporate customers, where power and authority will as far as possible be transferred to our 51 offices and advisers, i.e. closer to the customer than in the previous organisational set-up. The office network is the very bedrock of our distribution, we will now give the offices even more impetus. It is here that value is created, and it is here that we have the greatest potential to improve performance.

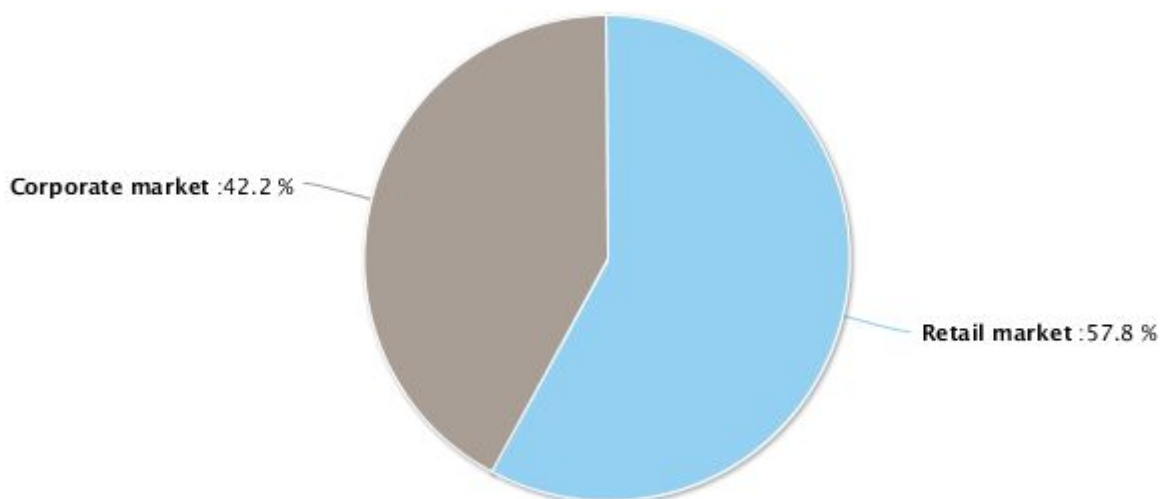
The new model builds on the following structure:



**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 telephone bank and our customer centre, gives the Bank a unique competitive edge.

SpareBank 1 SMN is present in 51 localities 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.



*Distribution of lending*



## Retail market

### The business

Retail market is responsible for all activity directed at retail customers. The unit provides personal financial advice.

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 or her 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 expertise, 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 customer centre, 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.

<b>Basic facts</b>	<b>2012</b>	<b>2011</b>
Loanable capital (NOKm)	58,892	52,055
Deposits (NOKm)	22,440	21,185
No. of debit cards	150,760	144,174
No. of credit cards	88,223	87,347
No. of internet bank customers	140,999	131,056
No. of telephone bank customers	143,466	138,375
No. of multi-relationship customers	188,011	184,825
No. of FTEs	374	392

### Customers and market position

The Bank leads the retail market in Trøndelag and in Møre and Romsdal, with a strong position in all product areas and market segments. Three out of ten adult inhabitants report SpareBank 1 SMN as their main bank in the overall market while just under four in ten have a customer relationship with the Bank. Despite the intense competition the Bank shows a positive market trend and a growing customer base.

### Financial developments

The Division achieved a return on equity of 22.6 per cent in 2012. The pre-tax profit was NOK 383m, an improvement of NOK 126m on the previous year.

Incomes were NOK 165m higher than the previous year. The positive margin trend resulting from falling market interest rates is the main reason for the strong income trend. A net loss of NOK 1m was recorded. Risk in the loan portfolio is very low.

## Prospects for 2013

Good framework conditions for households remain in evidence at the start of 2013. Households' credit demand is closely tied to the trend in the housing market, indicating continued good demand for loans. A continued moderate interest rate level will help to maintain debt servicing ability and to hold down losses and defaults. We anticipate a positive trend in income from savings and investment products, insurance and payments with a basis in our competitive power.

Retail market result overview, NOKm	2012	% of total income	2011	% of total income
Loan contribution	297	29 %	215	25 %
Deposit contribution	243	23 %	296	34 %
Interest on allocated capital	11	1 %	16	2 %
<b>Net interest income</b>	<b>552</b>	<b>53 %</b>	<b>527</b>	<b>60 %</b>
SpareBank 1 Boligkreditt	201	19 %	77	9 %
Other financing income	22	2 %	4	0 %
Investment products	44	4 %	52	6 %
Insurance	101	10 %	81	9 %
Payments transmission	118	11 %	123	14 %
Fixed income and forex	1	0 %	8	1 %
Other income	0	0 %	1	0 %
<b>Commission income</b>	<b>485</b>	<b>47 %</b>	<b>345</b>	<b>40 %</b>
<b>Total income</b>	<b>1,037</b>	<b>100 %</b>	<b>872</b>	<b>100 %</b>
<b>Operating expenses *)</b>	<b>654</b>		<b>608</b>	
<b>Result before loss and tax</b>	<b>383</b>		<b>264</b>	
Loss on loans/guarantees	1		7	
Estimated tax	-107		-72	
<b>Results after tax</b>	<b>275</b>		<b>185</b>	

\*) Contains both direct and distributed expenses

Return on allocated capital	22.6 %	16.8 %
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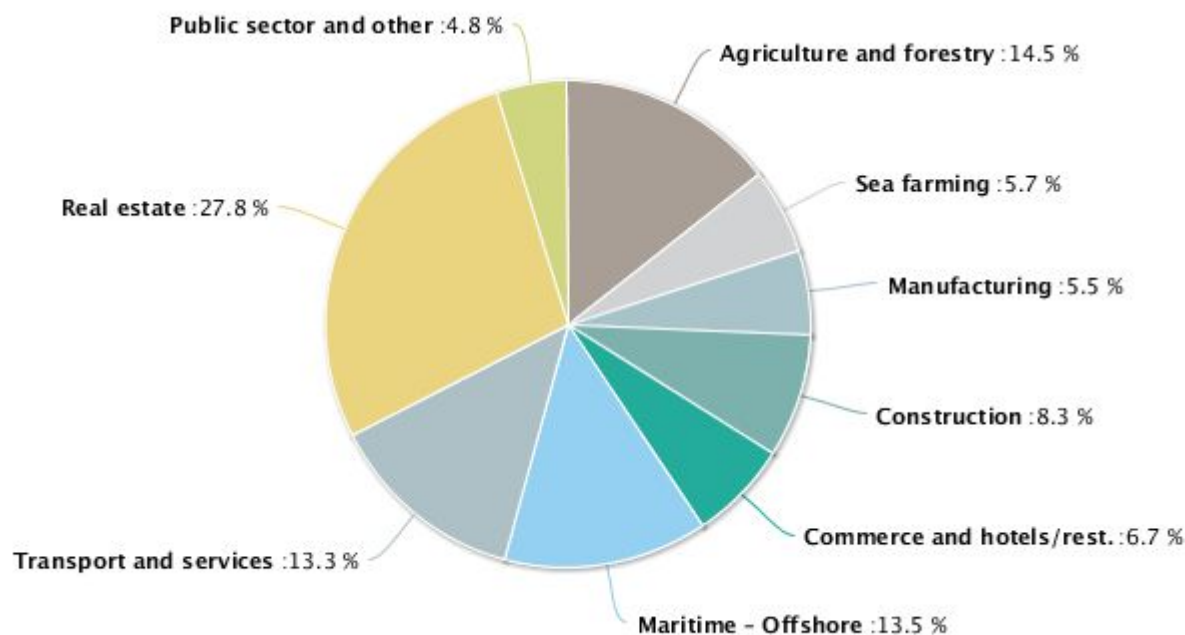
## Corporate market

### The business

The corporate market business focuses on financial counselling in investment and operations financing, domestic and foreign money transfers, fixed income and currency hedging, investment of surplus liquidity and insurance of individuals and buildings/operating equipment. Much of the business is in close cooperation with the retail market division, SpareBank 1 SMN Markets along with subsidiaries offering leasing, factoring and accountancy services.

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 skills-intensive, and much emphasis is given to training in practical understanding of business in segments in which the Bank is heavily exposed such as real estate, sea farming, fishery, offshore, energy and the public sector.

The Bank is IRB approved and uses IRB foundation approaches to compute capital charges and credit risk. This, combined with high knowledge of relevant industries and local expertise, will assure that further growth is in keeping with the Bank's responsibility as a regional actor, at the same time as exposed risk is consistent with the Bank's credit policy. Substantial resources are expended, together with the other alliance banks, on continuously improving the scoring models.

*Distribution of corporate lending by sector***Customers and market position**

The Bank services around 13,000 corporate customers, farm sector customers, sole proprietorships, pools/associations and customers in the public sector. SpareBank 1 SMN's share of this market segment in the region is close to 40 per cent. The Bank also services a number of customers in insurance, capital market, 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 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.

<b>Basic facts</b>	<b>2012</b>	<b>2011</b>
Loanable capital (NOKm)	40,671	38,655
Deposits (NOKm)	27,064	25,345
No. of multi-relationship customers	12,977	12,868
No. of FTEs	199	187

**Financial developments**

The Corporate market Division achieved a return on equity of 13.8 per cent in 2012. The pre-tax profit was NOK 731m, an improvement of NOK 7m on the previous year.

Income is NOK 95m higher than in 2011. Positive margins resulting from falling market interest rates and repricing of the portfolio are the main reasons for the positive income trend. A loss of NOK 45m, net, was recorded, corresponding to 0.11 per cent gross outstanding loans.

## Prospects for 2013

Prospects for 2013 are uncertain and heavily affected by developments in the EU. This is especially true of export firms with exposure to Europe. There are however still positive expectations in the maritime industry, offshore, aquaculture and the fisheries, segments in which SpareBank 1 SMN's market share is growing. 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 any given time.

<b>Corporate market result overview (NOKm)</b>	<b>2012</b>	<b>% of total income</b>	<b>2011</b>	<b>% of total income</b>
Loan contribution	670	57 %	561	52 %
Deposit contribution	235	20 %	221	20 %
Interest on allocated capital	98	8 %	128	12 %
<b>Net interest income</b>	<b>1,003</b>	<b>85 %</b>	<b>910</b>	<b>84 %</b>
SpareBank 1 Boligkreditt and Næringskreditt	8	1 %	2	0 %
Other financing income	32	3 %	34	3 %
Saving and investment	2	0 %	2	0 %
Insurance	21	2 %	25	2 %
Payments transmission	67	6 %	69	6 %
Fixed income and forex	34	3 %	36	3 %
Other income	7	1 %	1	0 %
<b>Commission income</b>	<b>171</b>	<b>15 %</b>	<b>169</b>	<b>16 %</b>
<b>Total income</b>	<b>1,174</b>	<b>100 %</b>	<b>1,079</b>	<b>100 %</b>
<b>Operating expenses *)</b>	<b>399</b>		<b>351</b>	
<b>Result before loss and tax</b>	<b>775</b>		<b>729</b>	
Loss on loans/guarantees	45		5	
Estimated tax	-204		-203	
<b>Result after tax</b>	<b>526</b>		<b>521</b>	

\*) Contains both direct and distributed expenses

Return on allocated capital 13.8 % 13.9 %

## SpareBank 1 SMN Markets

### The business

SpareBank 1 SMN Markets is an investment firm comprising the following units: fixed income/foreign exchange, securities, corporate finance and operations. SpareBank 1 SMN Markets has three staff members employed at Head Office in Trondheim who conduct risk operations in fixed income derivatives, forward contracts, forex and securities. This makes it possible to offer customers competitive trade prices without price-raising intermediaries. Activity at the offices 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 in Møre and Romsdal. This ambition will be achieved through a continuous focus on specialist competence and knowledge of customer needs in close interaction with advisers affiliated to the Bank's corporate market business.

### Customers and market position

Our customers are mainly corporates situated in Trøndelag and in Møre and Romsdal. Most of them report SpareBank 1 SMN as their main bank. We also deliver capital market services to customers of eleven

SpareBank 1 banks affiliated to Samarbeidende Sparebanker (Samspar). We are experiencing an increase in customer numbers and therefore see a considerable potential for strengthening our market position.

### Financial developments

SpareBank 1 SMN Markets recorded total income in 2012 of NOK 132m, a decline of NOK 16m compared with the previous year. Incomes are dominated by customer trading and risk refinement in fixed income and forex instruments. The securities business has undergone reorganisation in which the main focus is shifting from equities to bonds. We note an increase in incomes from bond trading.

### Prospects for 2013

The fixed income/forex division comprises three function areas: market making, transaction-intensive customers and customer trades for hedging purposes. We expect a positive effect of strengthening advisory services within risk advisory for customer trades for hedging purposes. We also hope that a new regulatory framework and greater focus on bond trading will strengthen income from securities in 2013.

<b>Markets (NOKm)</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>
Fixed income and currency, trading	48.8	53.5	-4.7
Fixed income and currency, risk	45.3	55.8	-10.5
Corporate	12.3	14.6	-2.3
Securities, brokerage commission	20.4	13.0	7.4
SpareBank 1 Markets	7.6	0.0	7.6
Investments, various	-2.9	11.0	-13.9
<b>Total income</b>	<b>131.5</b>	<b>147.9</b>	<b>-16.4</b>

## Affiliates and subsidiaries

### The SpareBank 1 Alliance

The Norwegian SpareBank 1 banks operate an alliance and develop products 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, offering a full product range. It wants customers to feel that SpareBank 1 is 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 Norway and in Møre and Romsdal), 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). In addition SpareBank 1 Gruppen owns 97.5 per cent of SpareBank 1 Markets and is a partner in SpareBank 1 Utvikling.

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 December 2012:

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

### BN Bank

SpareBank 1 SMN is the largest shareholder in BN Bank with a 33 per cent stake. Other owners are SpareBank 1 SR-Bank (23.5 per cent), SpareBank 1 Nord-Norge (23.5 per cent) and SamSpar Bankinvest (20 per cent). The SpareBank 1 banks have owned BN Bank since December 2008 when the Ministry of Finance authorised the SpareBank 1 banks' purchase of all shares of Glitnir Bank which changed its name to BN Bank.

BN Bank's strategy is to be an effective specialised bank in selected segments of the retail market and corporate market. It intends to offer our customers competitive products, concepts and terms and its owners a good return. BN Bank operates nationwide, but has most of its customers in Trondheim, Oslo and southeast Norway.

In the retail market BN Bank intends to be a specialised self-service bank for competent customers who want efficient, straightforward and predictable banking services on competitive terms. That is why BN Bank is developing effective, leading-edge services for mobile, tablet and internet usage. Specialisation and self-service will make BN Bank one of the country's cost-effective banks. In the corporate market BN Bank will be a specialised bank in the field of commercial real estate finance. The bank is an efficient, competent, prompt and predictable partner for selected real estate actors with its main focus on Oslo and southeast Norway. This will ensure competitive terms for customers and good return for owners over time.

As at 31 December 2012 BN Bank had 116 members of staff, deposits totalling NOK 16.9bn and loans worth NOK 49.5bn (including loans transferred to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt). Total assets at the same point came to NOK 58bn including loans transferred to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt.

## Subsidiaries

### EiendomsMegler 1 Midt-Norge

EiendomsMegler 1 Midt-Norge has a solid market-leader position in Trøndelag and in Møre and Romsdal. This position was further reinforced in 2012.

The company delivered in 2012 a profit of NOK 76m before tax. The Bank's profit share was NOK 66m before tax.

In 2012 the company featured on Great Place to Work's list of the country's best employers, has a very high customer satisfaction rating and can safely vouch for the vision of being Norway's most profitable real estate agency for its customers, staff and owners alike.

Its strategy of taking on, developing and retaining the best staff in the business was further reinforced in 2012, and person-years worked rose substantially over the year, in keeping with a strategy of growth.

The company has specialised operations which include separate units for project and commercial property broking. These operations complement its traditional residential agency business which to a greater degree will be a specialist function maintaining a local presence, co-located with banking, in various parts of Trondheim and the surrounding district.

EiendomsMegler 1 Midt-Norge sold 6,467 properties in 2012, representing a market share of more than 40 per cent in our 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 Finans**

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

SpareBank 1 SMN 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-at-hand and accessible finance partner with short decision-making paths.

At year-end the company managed leasing and car finance agreements worth NOK 3.2bn. The company has 30 employees in Trondheim, Steinkjer, Verdal, Molde and Ålesund. The company posted a profit of NOK 55.8m before tax in 2012, which is its best-ever performance.

Integration and a structured business approach with the retail market and corporate market businesses at SpareBank 1 SMN are reaping results. The company again expanded its car loan portfolio in 2012 and the proportion of internet applications is rising. The leasing portfolio showed no change from the start of 2012.

In 2012 SpareBank 1 SMN Finans worked in a purposeful manner to streamline and improve business processes, which is expected to provide substantial rationalisation and other gains in 2013. The company has launched a car loan app and new front systems for dealers/suppliers of cars and other capital goods. The business has high competence and highly motivated staff.

The general meeting voted on 13 December 2012 to invite SpareBank 1 Søre Sunnmøre and SpareBank 1 Nordvest to join the company as owners. It was concurrently decided to terminate the supervisory board. The increase of capital led to the following owner structure: SpareBank 1 Søre Sunnmøre 4.95 per cent, SpareBank 1 Nordvest 4.95 per cent and SpareBank 1 SMN 90.1 per cent. New owners will mean an even stronger footing for the company's products in Møre and Romsdal.

### **SpareBank 1 Bilplan**

SpareBank 1 Bilplan delivers car fleet management solutions to the public and private sectors nationwide. The company services the market through its own sales operation and through cooperation with SpareBank 1 SMN Finans, SpareBank 1 SR-Finans, SpareBank 1 Finans Nord-Norge and through the Bank's offices.



Up to the fourth quarter 2012 the company was a subsidiary of SpareBank 1 SMN Finans, but has now been taken over by the parent bank.

The organisation is sales- and customer-oriented, and focuses on being close-at-hand and accessible to customers. SpareBank 1 Bilplan's main mission is to ensure problem-free car maintenance for its customers. In 2012 SpareBank 1 SMN Finans worked in a purposeful manner to streamline and improve business processes, which is expected to provide substantial rationalisation and other gains in 2013.

The company has 12 employees, all working out of Trondheim. The business has high competence and highly motivated staff. In 2012 the company recorded a loss of NOK 1.8m before tax.

### **SpareBank 1 SMN Regnskap**

In 2012 SpareBank 1 SMN Regnskap posted its best ever pre-tax profit of NOK 13.8m on a turnover of NOK 104.7m. With 26 per cent turnover growth, the company's market share in Trøndelag is has reached 11 per cent. SpareBank 1 SMN Regnskap is now among the five largest actors in the accountancy business in Norway with close to 160 staff.

The company is experiencing a growing influx of new customers. In 2012 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.

Over the course of 2012 two acquisitions were completed: KL Røros Regnskap and Calculus, which are subsidiaries of the SpareBank 1 SMN Regnskap group. The subsidiaries are to be absorbed and coordinated with SpareBank 1 SMN Regnskap's existing business in 2013. Agreements have been signed to acquire Snåsa Regnskapslag, Økonor Interdata Berkåk and Widar Nyheim. SpareBank 1 SMN Regnskap owns 50 per cent of the shares of Leksvik Regnskapskontor.

As from January 2012 onwards alliance partner Sparebanken Hedmark and SpareBank 1 SMN Regnskap are sharing ownership of the accounting house Consis on a 60-40 basis. Consis' preliminary annual accounts for 2012 show a turnover of around NOK 100m and a pre-tax profit of NOK 4m.

In conjunction with other banks in the SpareBank 1 Alliance in the region, the company will focus on building a strong national brand in the accounting industry. This focus will serve to consolidate and strengthen SpareBank 1 SMN Regnskap's position in Trøndelag and in Møre and Romsdal.

As a subsidiary in the SpareBank 1 SMN group, SpareBank 1 SMN Regnskap is constantly taking out synergies on both the customer and cost front.

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.

SpareBank 1 SMN Regnskap laid in 2012 a good basis for further growth in 2013.

### **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).

The company is licensed to carry on active asset management. It manages assets for external public, private and institutional clients. The company's services are sold exclusively through external distributors who are licensed to engage in such activity. In 2012 the company signed distribution agreements with a number of banks in the SpareBank 1 Alliance.

The company has 11 employees and assets totalling just under NOK 2.5bn.

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 dynamic asset allocation portfolios. The company's allocation portfolios performed in line with the benchmark portfolios in 2012.

The accounts show a deficit of NOK 3.7m before tax, of which the Bank's share was NOK 3.3m.

### **SpareBank 1 SMN Card Solutions**

SpareBank 1 SMN Card Solutions sells and operates prepaid cards based on the Visa and MasterCard payment networks. The company is a wholly-owned subsidiary of SpareBank 1 SMN and operates under the trademark SpendOn in Norway, Sweden and Denmark. In addition the company offers operating services related to the issue of prepaid cards for actors in the retail, telecom, banking/finance and public sector fields.

The company sells its payment products and services principally through convenience stores and grocery stores throughout Scandinavia. The market for prepaid cards in Scandinavia is rapidly expanding. The bulk of the deposit volumes are from the Norwegian market, but the company expects increased market persuasion in both Sweden and Denmark to provide SpareBank 1 SMN Card Solutions with good conditions for growth in the years ahead.

In 2012 the company delivered a profit of NOK 3.0m before tax.

### **Property companies**

**SpareBank 1 SMN Kvartalet** was responsible for the construction of SpareBank 1 SMN's new head office in Søndre gate, Trondheim. The building was ready on 20 October 2010. SpareBank 1 Kvartalet SMN is responsible for the operation, maintenance and cleaning of the entire head office complex. The company has no employees.

The new head office meets the expectations imposed on a low energy building. Average energy consumption for the new office premises section of the building is measured at just under 66 kWh per square metre. According to regulations, the energy consumption limit for office buildings is 144 kWh per square metre. The office premises section is certified in energy class A.

**SpareBank 1 Bygget Steinkjer** completed in May 2012 a new office building of about 1,800m<sup>2</sup> for the group in Steinkjer. The building is on lease to SpareBank 1 SMN which subleases it to EiendomsMegler 1 Midt-Norge and SpareBank 1 SMN Regnskap. The principles underlying the low energy head office in Trondheim are also applied to this building.

**Brannstasjonen SMN** was founded on 3 January 2012 for the purpose of owning, operating and developing property. The company acquired Trondheim Brannstasjon (fire station) at Kongens gate 2 from the City of Trondheim.

Trondheim Fire and Rescue Service are the tenant up to mid-2015. An architectural competition will held to further clarify the possibilities for developing the building into a modern office building. Since the building is protected, the ground floor will be devoted to outward facing activity. The fire station is classified as a building of high antiquarian value.

**St Olavs Plass 1 SMN** was founded on 26 November 2012 for the purpose of owning, operating and developing property. The company acquired an office building at St Olavs Plass 1 in Ålesund. In addition to SpareBank 1 SMN, the following undertakings are tenants in the building: Innovation Norway, Salmar Sales and Golden Energy Offshore Management.

## Corporate social responsibility

As a major regional bank, SpareBank 1 SMN shares a common destiny with its 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 our customers and local communities to foster sound businesses and good living conditions.

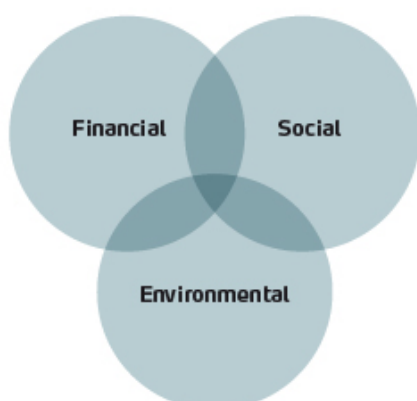
The Bank's focus on public issues is integrated in our ongoing planning work. This ensures that ethics, the environment and important social issues are on the agenda throughout. Through the Bank's gift fund we have for many years returned funds to the region we are a part of. This has been done through 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 in Møre and Romsdal.

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. Our 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 2008-2012

### Parent company figures

		2008	2009	2010	2011	2012
Strategy/ financial	Group strategy	Updated	Continued	Continued	Continued	Continued
	Develop CSR strategy	Established	Continued	Continued	Continued	Continued
	Pre-tax profit (NOKm)	778	1,147	1,282	1,279	1,355
	Total assets (NOKm)	84,670	84,541	97,992	101,455	107,919
	Return on equity	11.9 %	16.2 %	14.6 %	12.8 %	11.7 %
	Core capital ratio	8.10 %	10.40 %	10.90 %	10.43 %	11.34 %
	No. of ECCs issued (mill.)	82.41	82.78	102.74	102.76	129.83
	Quoted price 31.12	38.07	45.06	49.89	36.31	34.80
	Market capitalisation (NOKm) 31.12	1,750	3,749	5,124	3,731	4,518
	Direct return	5.10 %	4.60 %	5.60 %	5.10 %	4.30 %
	No. of owners	9,123	9,500	9,654	9,532	9,749
	Knowledge of bank's ethical rules at least 90 %	96 %	96 %	96 %	96 %	96 %
Society/social conditions	No. of FTP equivalents	775	805	793	794	819
	Sickness absence	3.84 %	4.22 %	4.00 %	4.00 %	4.60 %
	Women's share of workforce	51.5 %	51.5 %	51.0 %	52.0 %	51.9 %
	Women's share of senior positions	26 %	28 %	28 %	27 %	28.70 %
	Average age	45	45	46	46	46
	Employee satisfaction	75	75	I/T	715 *	730 *
	Agreement on inclusive employment	Continued	Continued	Continued	Continued	Continued
	Strategy on life phase policy	Continued	Further developed	Further developed	Continued	Continued
	Managerial development programme	Continued	Continued	Continued	Continued	Not implemented
	No. of offices	56	56	54	54	51
	No. of customers	192,000	194,000	194,500	196,500	200,900
	Share of internet banking customers	54 %	57 %	73 %	81 %	95 %
	Share of electronic bill payments	91 %	92 %	99 %	99 %	99 %
	Share allocated to culture	22 %	24 %	22 %	24 %	17 %
Share allocated to sports	16 %	20 %	23 %	23 %	21 %	
Share allocated to humanitarian work	6 %	4 %	6 %	6 %	12 %	
Share allocated to business development	56 %	52 %	43 %	38 %	35 %	
Environment	Purchase of paper (tonnes)**	46.5	35.9	39.1	35.7	26.9
	Energy consumption (kWh)	6,193,000	6,580,000	7,004,400	6,900,500	6,135,000
	No. of flights	3,984	3,585	3,816	3,910	3,524
	E-waste return scheme (tonnes)	5.30	2.90	3.43	3.40	3.25
	Waste sorting at source	Continued	Continued	Continued	Continued	Continued
	Printer and toner return scheme	Continued	Continued	Continued	Continued	Continued
	No. of videoconferencing rooms	3	6	6	8	10
	Strategy/action plan for energy and the environment at the new head office	Continued	Continued	Continued	Continued	Continued
	No. of offices certified under the 'Environmental Lighthouse' scheme	N/A	1	1	2	4

\* New system for organisational analysis as from 2011 \*\* Reduction of approx. 8.8 tonnes from 2011 to 2012, essentially due to switch to secure print and increased electronic communication

### 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 receive 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 2012 3.25 tonnes of technological waste were returned. Increased use of electronic communication and the introduction of new print solutions have reduced paper consumption from 35.7 tonnes in 2011 to 26.9 tonnes in 2012.

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 3,524 business trips in 2012 compared with 3,910 in 2011. Despite increased customer activity and the bank's involvement in committees and projects under the auspices of the SpareBank 1 Alliance, air travel has been reduced. Videoconferencing, telephone conferencing and digital tools to support teamworking and knowledge sharing are the main factors behind the reduced travel activity.

### **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 section of the building. Measurements show energy consumption averaging below 66 kWh per square metre per year, which is far below the limit of 150 kWh per square metre set by the authorities. So far no other office building in Norway comes close to this figure. Compared with a figure above 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

The principles underlying the new head office were also applied during the construction of a new SpareBank 1 SMN office in Steinkjer which was taken into use in May 2012.

### **Environmental lighthouse**

SpareBank 1 SMN has opted for certification under 'Environmental Lighthouse', a national certification scheme catering to the private and public sectors. By end-2012 the Trondheim head office and the offices in Ålesund, Stjørdal and Steinkjer were duly certified. This meant that offices in which about 500 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 2013 the offices in Levanger, Namsos, Molde and Verdal will achieve certification and work will start on certification of ten further offices.

### **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 compulsory module 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 physical activity.

We currently have a good gender and age balance. The Bank is working to raise the proportion of women in senior positions. In 2012 28.7 per cent of senior positions were held by women (27 per cent in 2011).

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's monetary gifts**

SpareBank 1 SMN's gift work is based on the precept that the Bank's monetary gifts should be non-profit,

i.e. all financial support should be for the common good and benefit as many as possible. The emphasis is on awards that contribute to building, supporting and developing the region. In order to create new value and make the region an attractive place to live, we employ two main models:

- 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 impose the same ethical and environmental demands on our partners as on ourselves. In processes, and in the case of awards of some size, written agreements are established to ensure that our social requirements are complied with. Our main focal areas are the following:

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

SpareBank 1 SMN disbursed almost NOK 65m to non-profit causes in 2012.