

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.

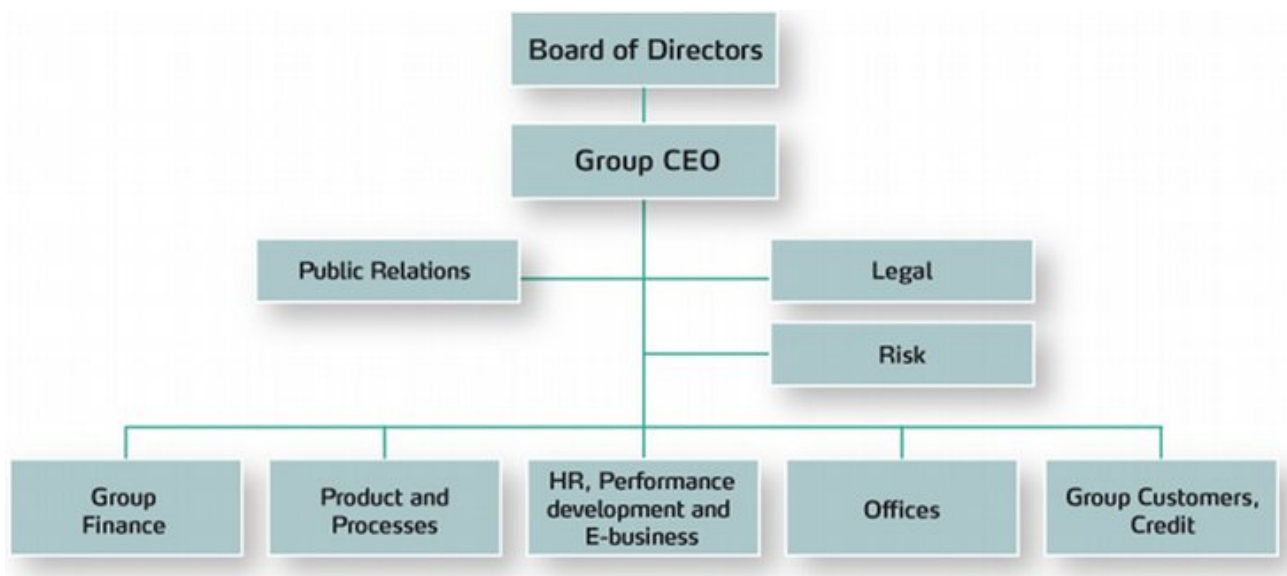
As from 1 January 2013 the Bank is organised on a new model. The organisational change is in keeping with the Bank's aim of being best for customer experience by 2015. We have coined a collective term Ny giv ("New Possibilities") to cover all strategic projects completed to ensure that we maintain and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

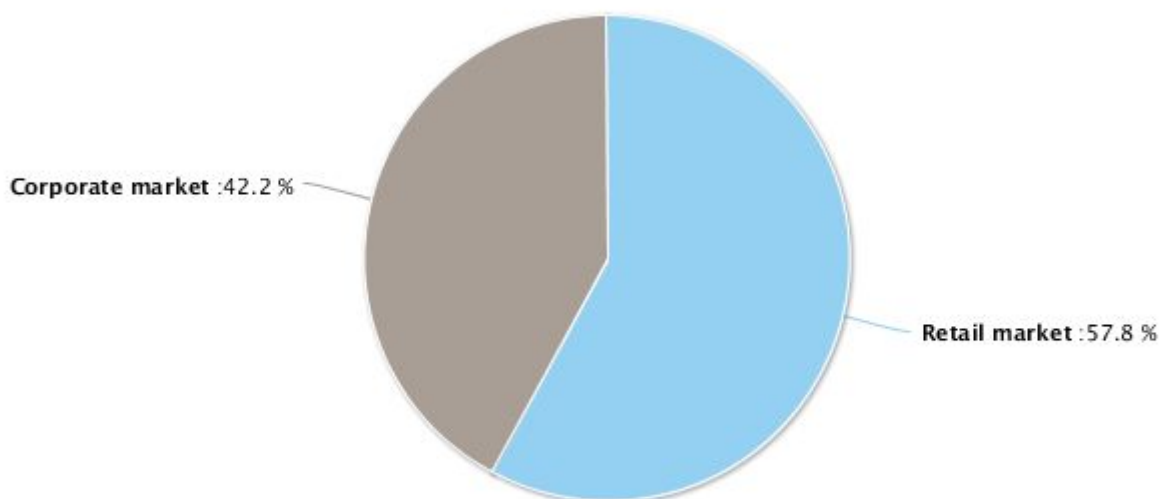
The new model builds on the following structure:



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.

Basic facts	2012	2011
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 %
Net interest income	552	53 %	527	60 %
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 %
Commission income	485	47 %	345	40 %
Total income	1,037	100 %	872	100 %
Operating expenses *)	654		608	
Result before loss and tax	383		264	
Loss on loans/guarantees	1		7	
Estimated tax	-107		-72	
Results after tax	275		185	

*) Contains both direct and distributed expenses

Return on allocated capital	22.6 %	16.8 %
-----------------------------	--------	--------

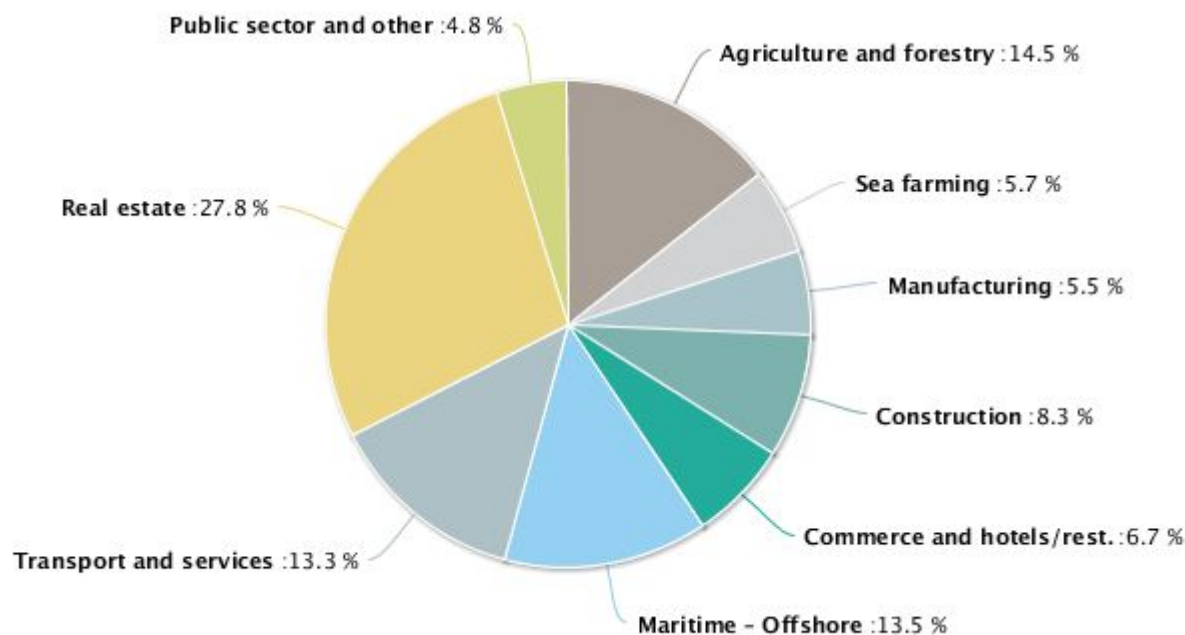
Corporate market

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.

Basic facts	2012	2011
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.

Corporate market result overview (NOKm)	2012	% of total income	2011	% of total income
Loan contribution	670	57 %	561	52 %
Deposit contribution	235	20 %	221	20 %
Interest on allocated capital	98	8 %	128	12 %
Net interest income	1,003	85 %	910	84 %
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 %
Commission income	171	15 %	169	16 %
Total income	1,174	100 %	1,079	100 %
Operating expenses *)	399		351	
Result before loss and tax	775		729	
Loss on loans/guarantees	45		5	
Estimated tax	-204		-203	
Result after tax	526		521	

*) 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.

Markets (NOKm)	2012	2011	Change
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
Total income	131.5	147.9	-16.4