

Statement by the Group CEO

2014 was another good year for SpareBank 1 SMN. The Bank's core business, the bank's subsidiaries and SpareBank 1 Gruppen along with other associated companies all reported a good performance from 2013.

SpareBank 1 SMN achieved a post-tax profit of NOK 1,782m in 2014, an increase of NOK 382m over the previous year. Return on equity was 15.1 per cent, an improvement of 1.8 percentage points from 2013. This is the Bank's best profit performance ever in terms of kroner.

The annual financial statements reflect strengthened core business with increased net interest income and limited cost growth, low loan losses and defaults, high growth in deposits and loans, good return on financial investments and good profit figures for SpareBank 1 Gruppen.

More and more people are turning to SpareBank 1 SMN. In 2014 we acquired 9,700 new retail customers and 1,300 new corporate clients. Growth in the corporate market is somewhat higher than allowed for by the Bank's capital plan. In 2015 we are planning for lower growth that will better reflect the general demand among the Bank's SMB clients.

At the same time we are living up to our ambition to be the best bank as regards losses. In addition to being among the Norwegian banks that incur the very lowest losses and defaults, our ambition involves finding good, socially responsible solutions in demanding situations for our customers. Since the financial crisis in 2008 we have focused even more closely on credit quality because we wish to be well prepared should a weakened economic climate affect our market area. We are still not seeing clear signs of change in the Bank's default figures, but will intensify portfolio monitoring.

In 2014 the Board of Directors and the management team focused on the Bank's capital plan which targets a CET1 ratio of a minimum of 13.5 per cent by 30 June 2016. At end-2014 this ratio stood at 11.2 per cent. The plan to attain this target without launching an ordinary stock issue stands firm. On 24 February this year Finanstilsynet informed the Bank that it was being granted permission to apply the advanced IRB approach to calculate regulatory capital charges for credit risk posed by corporate clients. With this authorisation SpareBank 1 SMN will be able to use internal models to calculate capital to be tied up by such charges. This is a sign of quality and in itself represents a growth of 0.8 percentage points in the Bank's common equity Tier 1 capital.

The Board of Directors adopted new targets for the Bank's cost trend in autumn 2014. This was done to adapt the Bank to a digital world and to strengthen its competitive power. Our new cost strategy aims for zero growth in the Bank's nominal costs in 2015 and 2016. This requires effectiveness and efficiency enhancements at the Bank. The work on continuous improvement is being intensified, and in the course of 2014 we received verification that the majority of SMN's internal labour-intensive work processes can be digitalised. Improving efficiency also means reducing staff levels, and we are in the process of elucidating a new distribution model.

In an increasingly technology-based world, the Bank is standing by its strategy of staying at the forefront of new digital solution developments while at the same time maintaining a network of bank offices staffed by capable and service-minded advisers. Our strategies and our thinking rest on an important precept: that the customer will in the future as in the past prefer access to skilled advisers when this is called for in important

situations. The combination of a first-rate digital platform and having the best advisers available to our customers in their own locations will be a winning concept.

Our vision for 2020 is for SpareBank 1 SMN to have in place digital solutions at least on a par with those of our competitors while at the same time offering locally available advisory competence and continuing to demonstrate that we care about businesses, people in general and the wider community and society. This is how we will stand out. This is how we will remain at the forefront in terms of delivering a good customer experience, and this is how we will maintain and further develop a good level of earnings and a good financial position for SpareBank 1 SMN.

Working at an enterprise in a continuous change process is demanding. Reorganisation and staff reductions are painful and can affect the focus on customer and sales. I feel this has not happened in our Group. I commend all my 1200 colleagues at the Parent Bank and subsidiaries for their splendid commitment and firm belief that SpareBank 1 SMN is and will remain the preferred financial services provider in Trøndelag and in Møre og Romsdal.

The Bank anticipates a slight weakening of the economic climate in 2015, driven mainly by lower oil prices and tenuous international impulses to growth. Our market area appears to be less vulnerable than is the case for Norway as a whole. The Bank has only limited credit exposure to oil service related activities, i.e. about 4 per cent of overall outstanding loans. After close scrutiny of this portfolio, no basis has been found either for individual impairment write-downs on exposures to the sector or for changes in collectively assessed write-downs.

We are optimists as regards 2015, and I feel assured that we will attain our objectives for 2020 as well.