

Statement by the Group CEO

More than a bank: SpareBank 1 SMN has contributed to the development of Trøndelag for almost 200 years, and in the past decade the same goes for Møre og Romsdal. We do this both by knowledge-based funding of businesses and private individuals, and by allocating parts of the bank's net profit to good causes in the spheres of business development, culture and the arts, and sports. In that way we are more than a bank for our customers.

In order to fill this role we need to be profitable and solid. We need to be at least as profitable as our competitors and to maintain a financial position that ensures our ability to meet the regulatory requirements we must abide by at all times.

It is very gratifying to be able to state at the start of 2016 that our efforts to build up our capital position have been successful. We have attained our capital target of 14.5 per cent by an ample margin, and can now embark on a normal phase of operation in which our equity certificate holders can expect higher dividends than during the capital build-up.

SpareBank 1 SMN has delivered solid financial results in most years since the banking crisis in the early 1990s. In 2002 we recorded zero profit due to the losses we incurred in the crisis that hit Norway's aquaculture industry. In 2016 we witnessed a deep crisis among suppliers to the oil industry. This inflicted the highest loan loss on the bank in nominal krone terms since 1991.

Even so we are seeing a solid improvement in our profit performance. This confirms that the bank, after a period of capital build-up, is better placed than ever to withstand fluctuations. Despite exposure to one of the nation's most important industries, we have systematically reduced risk in the bank's balance sheet. We have reduced concentration risk by scaling back the number of large exposures and are seeing strong, profitable growth in the retail market. Alongside an increased focus on families, children and young people, we will mark ourselves out even more strongly ahead as a bank for the ordinary small or medium-sized business.

We have thus built up a financial position that makes us one of the country's best capitalised banks, and we have reduced the risk present in the bank's book. In addition, within the SpareBank 1 Alliance, we are committing substantial investments to digitisation and robotics as a step in enhancing the customer experience and reducing our operating expenses. This means, in sum, that we have a very solid basis for good profit performances in the years ahead. That is why we are maintaining our objective of 12 per cent return on equity, even in an economic environment with a very low risk-free interest rate. We are signalling as clearly as ever our intention to guarantee our equity certificate holders predictability and high, stable dividends ahead.

Each year the bank's Economic Barometer takes the pulse of business and industry in the region. 2016 can be summed up by saying that most of Trøndelag is faring well, and that after a tough period prospects may appear brighter in Møre and Romsdal. Unemployment in both Trøndelag counties is now lower than in both preceding years, while Møre and Romsdal still feel the spillover effects of the challenges in the oil sector.

It is taxing for an entire industry to see assets that have been built up over generations be rubbed out, and entire local communities hit by unemployment and reduced tax receipts. We have been through many ups

and downs since the bank was founded in 1823. We have learnt that downturns can be painful and inflict substantial losses on owners, employees, the bank and society alike, but we have also learnt that by close cooperation between all the above actors it is eminently possible to emerge from a crisis in a stronger position. The Norwegian aquaculture industry is a splendid example of just that.

Some of our strongest corporate clients have undergone substantial restructuring in 2016. The bank gained a solid market position in the offshore industry in Sunnmøre when it acquired Glitnir's Norwegian banking arm in 2008. Since that time we have posted good earnings and close, fruitful cooperation with our clients.

We have taken relatively large losses, and we believe somewhat more are likely ahead. Many jobs and assets have been lost, but much has been done to safeguard jobs at the local level, and to ensure that assets and ownership remain in the region. Hence it means a lot to us when an actor such as Farstad Shipping, after a year of demanding negotiations, publicly thanks the bank for having acted in such an orderly and proper manner. The client has seen the value of the bank's local presence and of decisions being taken at the local level.

Nevertheless the fact that large parts of the maritime industry cluster in Sunnmøre are consolidated in larger entities whose headquarters are elsewhere is liable to prompt concern. We are happy that many businesses have retained their regional ownership and we hope ardently that the restructuring now carried out proves to be sufficiently robust to tackle potential new downturns.

We at SpareBank 1 SMN genuinely believe that being close to local communities and customers is of immense value. That is why we maintain a physical presence throughout the region. This does not mean that we are not adapting our distribution to more demanding environment. Like our competitors we are having to focus on reducing costs. But we are doing so in a slightly different manner. We are reducing our costs through staff reductions and less costly premises, while at the same time setting the stage for our customers to utilise self-service solutions on a daily basis. By this means we are physically present where people live and can offer accessibility tailored to actual needs, and we are achieving strong customer loyalty in a digital world.

Since the establishment of the SpareBank 1 Alliance in 1996 our strategy has been aimed at increasing commission income. Our subsidiaries and associates are evolving very satisfactorily and played their part in ensuring that in 2016 our earnings over and above margin income accounted for close to half of the group's overall income. We have thus attained yet another goal, namely income differentiation that renders us less vulnerable to fluctuations in interest earnings.

All staff at the bank have in 2016 played their part in developing the bank's new vision and values that we as an organisation believe should guide our conduct and business development. The new vision is: "Together we make things happen". The vision succinctly expresses our strong will to continue our almost 200-year-long tradition of sticking together with our customers and the communities we serve in the years ahead. The aim is to continue our sound banking operations based on a strong financial position and good results and thereby to be a driving force for the development of our region so that business and industry thrive and our young people and people in general want to live right here.

Behind us we have a good, but exacting, year. In my view we are very well placed to deliver good financial results and worthwhile contributions to the community in 2017 and in the years to come.