

# Business 2013

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



## Statement by the Group CEO

2013 proved to be another good year for SpareBank 1 SMN. We achieved a profit of NOK 1,400m, an increase of NOK 323m from the previous year. Return on equity was 13.3 per cent, an improvement of 1.6 percentage points from 2012.

In 2013 the board of directors and the management team focused on the capital plan that was adopted in 2012. An important element of the plan is to secure earnings that make it likely that we will be in a position to deliver a return on equity in the region of 12 per cent on a very high level of equity capital. This poses a challenge, but the profit achieved in 2013 gives grounds for optimism.

Two factors left their mark on the financial industry last year. One is all the implications of new regulatory requirements which the banks have to square up to. Last year the strongest focus was on new requirements on common tier 1 equity. The other is the definitive breakthrough for banking applications on mobile phones and tablets. SpareBank 1 SMN tackled both challenges well.

In January 2014 the board of directors of SpareBank 1 SMN adopted a revised capital plan whereby the bank plans for a common equity tier 1 ratio of at least 13.5 per cent by 30 June 2016. At the end of 2013 this ratio stands at 11.1 per cent. Over the past five years the bank has built up NOK 4.5bn of common equity tier 1 capital. We need to add a further NOK 2bn to 3bn to succeed with our capital plan. We expect and intend to reach our goal without need for an ordinary equity issue. The target was set in light of the fact that the finance minister in December 2013 limited the countercyclical buffer to 1.0 per cent, leaving an overall common tier 1 ratio requirement of 13.0 per cent.

A profit of NOK 1,400m is needed in order to service a rapidly growing volume of equity capital and thereby meet the authorities' requirements. Gaining an understanding of this among the general public has not been easy. Our responsibility is to ensure that SpareBank 1 SMN meets the challenge through a combination of improved banking operations, reduced expenses, moderate growth, lower dividend pay-outs and disposal of assets outside our core business.

Last summer our customers reached a new milestone. For the first time we registered more logins to the bank's mobile banking facility than via PC to the internet bank. A new digital step had been taken. Since then the trend towards mobile-based solutions has grown even clearer. In an ever increasingly technology-based environment the bank stands firm by its strategy of staying at the forefront in the development of new digital solutions, while at the same time maintaining a network of bank offices staffed by capable, helpful advisers. At our bank we believe that people will never go out of fashion. Customers are doing more and more of their banking digitally, but what above all will single us out from our competitors is our capable advisers and staff who are becoming ever more determined to deliver a good customer experience.

Just over a year ago we set ourselves the goal of becoming the best bank for customer experience. The main principles here are a vigorous customer orientation externally and effective interaction internally, putting the adviser at centre-stage, introducing a flatter organisation structure with fewer managers and transferring power from head office to the local level. The improvement project has uncovered a major potential for increased market shares and thereby continued income growth through an increased focus on an organisation that promotes good adviser performances. We are on course for our goal, and in 2014 we are stepping up the pace by a further margin.

SpareBank 1 SMN holds a leading market position in Trøndelag and in Møre and Romsdal, a position that was strengthened in 2013. More and more customers are turning to us to service their financial needs. Last year we saw an influx of 13,000 new retail customers and 700 new corporate customers. Lending growth outstripped general market growth, particularly as regards home mortgage lending. At the same time we have lived up to our ambition of being the best bank in terms of losses. In addition to being among Norwegian banks with the absolutely lowest losses and default rate, our ambition entails creating sound, socially responsible solutions in demanding situations for our customers. New, good examples were seen in 2013.

We believe that 2014 will be another good year for the bank. We see few indications that business and industry in Trøndelag and in Møre and Romsdal face a change in the economic climate. Businesses in the region largely show good profits and prospects appear promising. This, in combination with solid banking skills, makes us optimistic for the future. We expect a high activity level and continued good demand for home mortgage loans and somewhat lower growth in the corporate market.

Uncertainty regarding future capital requirements made us somewhat more cautious in 2013, in particular towards new customers. The requirements have now been clarified and we have established a capital plan that enables us to restore normal credit activity.

We look forward to achieving further progress in 2014.

## Important events in 2013

### First quarter

- Profit of NOK 321m after tax in the first quarter 2013
- Supervisory Board sets dividend of NOK 1.50 per EC after 2012
- Kjell Bjordal appointed new chair of the Board of Directors at the Bank. Bård Benum moves up to new deputy chair, while Morten Loktu is appointed new member of the Board of Directors
- Randi Dyrnes re-elected chair of the Supervisory Board
- The Bank becomes joint owner of the re-established investment company Salvesen & Thams

### Second quarter

- Profit of NOK 285m after tax in the second quarter 2013
- A number of SpareBank 1 banks, including SpareBank 1 SMN, unite around a nationwide venture at SpareBank 1 Regnskaphuset
- The bank celebrates 150 years' presence in Nærøy municipality

### Third quarter

- Profit of NOK 433m after tax in the third quarter 2013
- Svein Tore Samdal appointed new executive director with responsibility for Offices
- SpareBank 1 SMN voted Norway's best bank by Euromoney, the global business and investment magazine

### Fourth quarter

- Profit of NOK 361m after tax in the fourth quarter 2013
- Tæl Prize of Honour awarded to arts luminary Arnulf Haga from Verdal
- The Bank awards a total of five prizes to "Årets kremmer" on the basis of profit and growth
- The Bank contributes up to NOK 50m to a new seedcorn fund
- The Bank decides to open an office at Brekstad in Ørland municipality
- Opening of the Bank's new course and conference centre, Bjerkeløkkja, in Oppdal

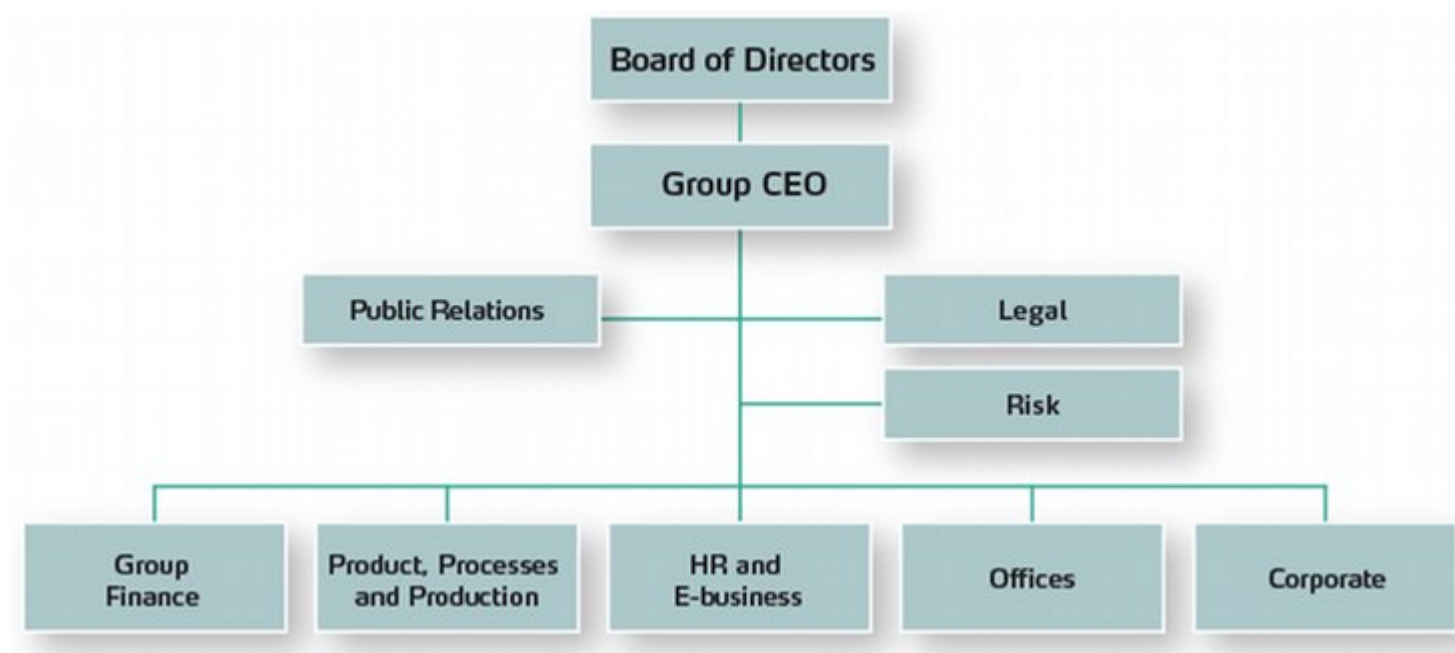
## Business description

SpareBank 1 SMN is the leading bank in Trøndelag and Møre and Romsdal with total assets of NOK 147bn at the end of 2013. 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 the best for customer experience by 2015. The new model starts out from our 189,000 retail customers and 13,000 corporate customers, and power and authority will as far as possible be transferred to our 50 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 enhance our 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 the bank's natural catchment area. This, combined with round-the-clock access via the internet bank and mobile solutions along with the direct banking facility, gives the bank a unique competitive edge.

SpareBank 1 SMN is present in 50 localities in 42 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.

## Offices

### The business

At its business area Offices the bank offers advice to retail customers, farm sector customers, pools/associations, one-person businesses and small and medium businesses (the latter organised in SMN Corporate as from 1 January 2014). We offer a broad-based 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 place, and provides a basis for good management and overview of personal finances.

Our bank offices are situated throughout our market area, putting our advisers within easy reach of the customer in the office network. The bank has developed self-service facilities giving extensive access to our most important banking services and the direct bank which offers financial advice to the customer by telephone. Dialogue with the customer is a prerequisite for meeting customer requirements and expectations, and individual advisory sessions are a key element of customer contact.

At SpareBank 1 SMN we keep a continuous focus on developing our expertise and skills to enable us to meet the demands of today's financial market in the best possible manner. We have a responsibility for ensuring that advice is provided in compliance with legal requirements and good advisory practices, and we aim to give our customers the best possible assistance when providing financial advice.

The table below includes farm sector customers, pools/associations, one-person businesses and small and medium businesses.

| <b>Facts as at 31.12.2013</b>       | <b>SME</b> | <b>Retail market</b> |
|-------------------------------------|------------|----------------------|
| Loanable capital (NOKm)             | 9,055      | 63,518               |
| Deposit capital (NOKm)              | 8,734      | 24,185               |
| No. of multi-relationship customers | 9,681      | 188,871              |

### 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. The region's features a large number of small and medium companies, and the business areas Offices and SMN Corporate work closely to be competitive in a market featuring a large number of participants. Despite the intense competition the bank shows a positive market trend and growth in volume and customer base. Growth is particularly strong in the retail market.

### Financial developments

Offices achieved an overall return on equity of 35,4 per cent in 2013, comprising 38,7 per cent for Retail Market and 29,4 per cent for the SME segment. Overall pre-tax profit for Offices was NOK 904m comprising NOK 705m for Retail Market and NOK 210m for SMBs.

For Retail Market, operating income and return on equity have risen substantially due to increased margins on home mortgage loans. Risk on loans to retail borrowers is generally low, as reflected in continued low losses. Net losses in 2013 totalled NOK 6m.

Overall operating income in the SMB segment was NOK 366m with net interest income of NOK 286m and commission income of NOK 94m. Customers in this segment have total loanable capital NOK 9.1bn and deposit capital of 8.7bn.

**Prospects for 2014**

Key industries in the bank's core area are showing activity growth and sound profits, and there are currently no strong signs that the region's business sector faces a change in the economic climate. Housing demand levelled off over the course of 2013, and there are reports in particular of lower growth in retail trade. Low unemployment and no clear macroeconomic indications for the region nonetheless provide a basis for positive expectations at the start of 2014.

Uncertainty remains regarding the announced regulatory changes for the European financial sector. Norwegian authorities have previously signalled an early introduction of new requirements, which will affect Norwegian banks' competitiveness relative to other banks. Credit quality in the bank's loan portfolio is satisfactory and the risk of loss is therefore low.

## Corporate

**The business**

The business area Corporate 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 Retail Market, Markets and 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, retail trade 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.

**Customers and market position**

The bank services around 12,600 corporate customers, farm sector customers, sole proprietorships, pools/associations and customers in the public sector (farm sector customers, sole proprietorships and pools/associations are organised in Offices as from 1 January 2014). 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 business areas such as insurance, capital market, leasing and factoring. The business sector in Trøndelag and in Møre and Romsdal features a large number of small and medium companies. This structure has a clear impact on the bank's organisation of its business.

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, business clients in the region will have access to professional advice and solutions tailored to individual needs.



| <b>Facts as at 31.12.2013</b>       | <b>Large corporates</b> |
|-------------------------------------|-------------------------|
| Loanable capital (NOKm)             | 31,920                  |
| Deposit capital (NOKm)              | 21,544                  |
| No. of multi-relationship customers | 2,918                   |

## Financial developments

The Large Corporate business line achieved a total income of NOK 869m in 2013. The increase is ascribable to a positive trend in all business areas: financing, cash management, capital market services. The growth in sales of non-life insurance and pension solutions is especially gratifying. More and more businesses are seeing the value of turning to a local provider for all their financial services.

## Prospects for 2014

Prospects for 2014 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 Ministry of Finance decided in December 2013 to require the banks to set aside 1 per cent of loans granted to a countercyclical capital buffer with a view to harder times. This is somewhat less than expected. At the same time the period allowed for attaining the capital adequacy requirement has been lengthened somewhat, making room to accommodate more of the demand for borrowing. The bank is working closely with customers to find solutions that safeguard common interests in the economic situation prevailing at all times. The corporate market business will accordingly maintain capacity and competence to ensure that the bank at all times comes across as a readily accessible and capable provider of financial services.

## E-business

E-business comprises the direct bank, which handles incoming and outgoing approaches from retail customers and corporate clients, and a department for the development of solutions and content for the Bank's digital channels. The aim is to offer customers effective solutions in the channels they wish to use. In the years immediately ahead the Bank will invest in further development and renewal of solutions in digital channels with a view to increased freedom of choice and customer satisfaction.

SpareBank 1 SMN notes a large increase in customers' use of direct banking and digital channels. In 2013 the direct bank handled more than half a million approaches, an increase of about 30 per cent over the last two years. The Bank offers access to the direct bank from 0700hrs to 2400hrs. Customers are increasingly opting to order and buy bank products via the direct bank and digital channels. The mobile bank has shown strong growth in customer numbers over the course of 2013. The number of logins per month is now larger at the mobile bank than at the internet bank. We note that mobile bank customers use the bank more frequently, and log in up to 20 times per month.

Customer needs and customer behaviour will lead the way in the development of the Bank's digital solutions. The combination of a strong physical distribution through an efficient and effective office network and good self-service solutions gives SpareBank 1 SMN a strong strategic position. This provides a robust basis for good customer relationships.



## SpareBank 1 SMN Markets

### **The business**

SpareBank 1 SMN Markets has a staff of 34 in the following departments: fixed income/foreign exchange, securities and operations. The corporate business has carried on at SpareBank 1 Markets as from 1 October 2013. Markets has four 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 Corporate at the bank.

### **Customers and market position**

The customers are mainly small and medium businesses situated in Trøndelag and in Møre and Romsdal. Most of them report SpareBank 1 SMN as their main bank. SpareBank 1 Markets also delivers capital market services to customers of eleven SpareBank 1 banks affiliated to Samarbeidende Sparebanker (Samspår). The unit notes an increase in customer numbers and sees a considerable potential for strengthening the regional market position.

### **Financial developments**

SpareBank 1 SMN Markets recorded total income of NOK 100m in 2013, 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 achieved an increase in incomes from bond trading.

### **Prospects for 2014**

Strengthening advisory capacity in the risk analysis field for customer trades for hedging purposes is expected to provide a positive effect. An increased focus on bond trading will likely strengthen income from securities further in 2014. The introduction of electronic currency trading is expected to have a positive effect on incomes as a result of increased customer trading.

## Affiliates and subsidiaries

### The SpareBank 1 Alliance

The Norwegian SpareBank 1 banks operate an alliance and develop products through the jointly owned companies SpareBank 1 Gruppen and Alliansesamarbeidet SpareBank 1.

The SpareBank 1 Alliance is Norway's second largest financial services grouping. The Alliance consists of independent banks that are fully-fledged providers of financial products and services to private individuals and firms.

The Alliance wants customers to feel that SpareBank 1 is the best in terms of its closeness, local identity and competence. It has an overall workforce of about 6,500, of whom about 1,300 are attached to SpareBank 1 Gruppen and the latter's subsidiaries.

SpareBank 1 Gruppen and Alliansesamarbeidet SpareBank 1 make up the Collaborative Alliance. The mission of the Alliance is to deliver attractive products and services with a focus on good customer experience in order to contribute to the SpareBank 1 banks' competitiveness and profitability, enabling them to remain strong and independent. The Collaborative Alliance's vision is: Attractive to the customers and the banks!

### About SpareBank 1 Gruppen

SpareBank 1 Gruppen 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), and the Norwegian Confederation of Trade Unions (LO) and affiliated unions (10 per cent).

### SpareBank 1 Gruppen owns 100 per cent of the shares of:

- SpareBank 1 Forsikring (life insurer)
- ODIN Forvaltning (fund manager)
- SpareBank 1 Medlemskort
- SpareBank 1 Gruppen Finans
- Conecto

### About the SpareBank 1 Collaborative Alliance

The Alliance is owned by the SpareBank 1 banks and SpareBank 1 Gruppen. This company's mission is to develop and deliver joint IT and mobile solutions, brand-building and marketing concepts, business concepts, products and services, competence, analyses, processes, best practices and procurement. The company also comprises three competence centres: Cash Management in Trondheim, Credit in Stavanger and Training in Tromsø. The following subsidiaries are included as from 1 January 2014:

- EiendomsMegler 1 Norge (real estate agency)
- SpareBank 1 Kundesenter (customer service centre)
- SpareBank 1 Verdipapirservice (securities services)

### Companies directly owned by the majority of the banks and LO with varying holdings

- Bank 1 Oslo Akershus
- BN Bank
- SpareBank 1 Boligkreditt
- SpareBank 1 Kredittkort
- SpareBank 1 Næringskreditt
- SpareBank 1 Markets

### The SpareBank 1 Alliance consists of the following banks:

- SpareBank 1 Nord-Norge
- SpareBank 1 SMN
- SpareBank 1 SR-Bank
- Sparebanken Hedmark
- SpareBank 1 Ringerike Hadeland
- SpareBank 1 Østfold Akershus
- SpareBank 1 Hallingdal 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
- Bank 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. BN Bank operates nationwide, but has most of its customers in Trondheim, Oslo and southeast Norway. In the retail market BN Bank is a specialised self-service bank for customers who want efficient, straightforward and predictable banking services on mobile, tablet and internet. In the corporate market BN Bank is a specialised bank in the field of commercial real estate finance. The bank is an efficient, competent, prompt and predictable partner for its customers. Specialisation and self-service will make BN Bank the country's most cost-effective bank. This will ensure competitive terms for the customers and good return for the owners over time.

As at 31 December 2013 BN Bank had 126 employees, deposits totalling NOK 15bn and loans worth NOK 29bn (including loans transferred to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt). Total assets at the same point came to NOK 38bn 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 reinforced in 2013.

The company delivered in 2013 a profit of NOK 60.7m before tax.

In 2013 the company came third on Great Place to Work's list of Norway's best employers, and number eight in Europe. The company has a very high customer satisfaction rating, enjoys high preference among housing stakeholders, and can safely vouch for its 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 reinforced in 2013, 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 6,237 properties in 2013, representing a market share of more than 40 per cent in our region. The company is equipped for continued 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 Finans Midt-Norge**

SpareBank 1 Finans Midt-Norge 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.

SpareBank 1 Finans Midt-Norge offers car loans, boat loans, leasing and business loans to corporates and private individuals. The company services the market through its own sales operation and through the Bank's offices and other partners. The company's values are its easy access, prompt response, proactive stance, solution focus and probity.

At year-end the company managed leasing and loan agreements worth NOK 3.3bn. The company has 33 employees in Trondheim, Steinkjer, Kristiansund, Molde and Ålesund. The company posted a profit of NOK 50,7m before tax in 2013.

Structured collaboration with the Bank is reaping results. In 2013, as in 2012, the company expanded its loan portfolio and the proportion of internet applications is rising. The leasing portfolio was unchanged from the start of 2013. SpareBank 1 Finans Midt-Norge has established both a new vision and a new value set, a new set of objectives and a new strategy for the period to 2019.

The company is owned by SpareBank 1 SMN (90.1 per cent), SpareBank 1 Nordvest (4.95 per cent) and SpareBank 1 Søre Sunnmøre (4.95 per cent).

### **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 Finans Midt-Norge, SpareBank 1 SR-Finans, SpareBank 1 Finans Nord-Norge and through the Bank's office network.

The organisation's focus is 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. SpareBank 1 Bilplan's solutions give the customer a continuous overview of and access to reporting from the overall level down to each individual car.

The company has twelve employees, all working out of Trondheim. The business has high competence and highly motivated staff. In 2013 the company recorded a loss of NOK 1,4m before tax. The company is entirely owned by SpareBank 1 SMN.

**SpareBank 1 Regnskapshuset SMN**

In 2013 SpareBank 1 Regnskapshuset SMN achieved a pre-tax profit of NOK 14m on a turnover of NOK 133m. With 13 per cent turnover growth, the company has a market share in Trøndelag of 13 per cent. SpareBank 1 Regnskapshuset SMN is now one of the three largest actors in the accountancy business in Norway with close to 200 staff at year-end.

The company is experiencing a growing influx of new customers. In 2013 221 new customer agreements were established. While the bulk of the growth is in the corporate market, new customers are also being attracted in the following customer segments: farm operators, housing cooperatives/co-ownerships and pools/associations.

Over the course of 2013 the business has built up a dedicated advisory/technical department, comprising experts in tax, accountancy and governance. This strengthening of competence enables an increased customer influx, increased specialist competence in-house and a strengthening of the company's position in the market. In 2013 it intensified its focus on competence-building throughout the company, for example through theme days arranged for the entire staff and a special advisory programme.

In 2013 the company acquisitions Interdata Berkåk and Widar Nyheim were absorbed, along with the subsidiaries Røros Regnskap and Calculus, by SpareBank 1 Regnskapshuset SMN.

In the current year the company has taken over the customer portfolio and staff of Snåsa Regnskapslag, Consis Røros and Accountor Stjørdal and acquired all the shares of GWG Regnskap and Admin in Verdal. These businesses are to be integrated into SpareBank 1 Regnskapshuset SMN in 2014. Further, agreements have been signed to acquire Merkantilservicegruppen in Trondheim and Økopartner in Ålesund with takeover scheduled for 1 January 2014. All together these acquisitions have increased the number of customers with 740.

SpareBank 1 Regnskapshuset SMN owns 40 per cent of the shares of SpareBank 1 Regnskapshuset Østlandet. SpareBank 1 Regnskapshuset SMN also owns 50 per cent of the shares of Leksvik Regnskapskontor.

In conjunction with other banks in the SpareBank 1 Alliance in the region, the company intends to build up a strong national actor in the accounting industry. In June 2013 the SpareBank 1 Alliance launched SpareBank 1 Regnskapshuset as the brand name for this joint venture. This will play its part in consolidating and strengthening SpareBank 1 Regnskapshuset SMN's position in Trøndelag and in Møre and Romsdal.

**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 that are licensed to engage in such activity. The company has distribution agreements with a number of banks in the SpareBank 1 Alliance.

The company has 10 employees and assets totalling about NOK 3bn.

The company primarily offers management services designed to capture the effect of changes in market conditions. Hence the portfolio array mainly comprises asset allocation portfolios, where the company has

the largest business volume. The company's allocation portfolios performed better than their benchmarks in 2013. The accounts show a profit of NOK 9.3m before tax.

### **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, telecoms, 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 and promises sound growth in the years ahead.

The company delivered a profit of NOK 2.9m before tax in 2013.

### **SpareBank 1 Invest**

SpareBank 1 Invest's vision is to be a preferred partner in the capitalisation of local equity funds and single investments, and thereby contribute to regional value creation in the same market area as the Bank. SpareBank 1 SMN Invest will contribute capital, network and competence. The company will by virtue of its position exploit acquired knowledge that is unavailable to an ordinary equity certificate holder.

The company's strategy is to carry out investments in regional seedcorn, venture and private equity funds and to invest directly in growth companies with national/international market potential in the same market area. By this means the company will contribute competence-based jobs, attractive new customers for the Bank and regional value creation. It will in addition facilitate an increased supply of risk capital to the region in collaboration with the business area Corporate and SpareBank 1 Markets as well as positioning ahead of stock exchange listings.

The company has two employees in Trondheim. The business has highly qualified staff and ample competence. The company reports a profit of 46,6m before tax for 2013.

### **Property companies**

**SpareBank 1 SMN Kvartalet** has as its mission to own, develop and manage built-up real property. The company was in charge of the construction of SpareBank 1 SMN's new head office in Søndre gate, Trondheim. The building was completed on 20 October 2010. The head office is a low energy building certified in energy class A.

**SpareBank 1 Bygget Steinkjer** has as its mission to own and manage the new bank building on the station site in Steinkjer. The company 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 Regnskapshuset SMN.

**Brannstasjonen SMN** has as its mission to own, operate and develop property. The company acquired Trondheim Brannstasjon (fire station) at Kongens gate 2 from the City of Trondheim. The building was erected in two stages in 1943 and 1948/49 with a total area of about 5,733 sq.m. distributed over eight

floors, of which two floors are below ground. After partitioning, the owned site measures about 900 sq.m. The fire station is classified as a building of high antiquarian value. The property will be rehabilitated to a modern office/commercial building.

**St Olavs Plass 1 SMN** was founded on 26 November 2012 for the purpose of owning, operating and developing property. The company acquired the St Olavs Plass 1 property in Ålesund in October 2012. The building measures about 3,979 sq.m. distributed over six floors, of which one floor is below ground. The building was erected in 1907 and extended in 1963 and 1996. In addition to SpareBank 1 SMN, the following undertakings are tenants in the building: Innovation Norway, Salmar Sales and Golden Energy Offshore Management.

**Jernbanegata 19 SMN** has as its mission to own, operate and develop property. The company acquired the property in September 2013. The building measures 2,407 sq.m. distributed over four floors, of which one floor is below ground. The building was erected in 1983. In addition to SpareBank 1 SMN, the following are tenants in the building: Attorney-at-Law Marcus Amdahl, Dental Practitioner Kjetil Kroglund, Dental Practitioner Otto Indgul and Dental Practitioner Unni Walberg.

**SpareBank 1 Bygget Trondheim** owns, operates and leases parts of the property at Søndre gate in Trondheim. Parts of the building are leased to SpareBank 1 SMN, which subleases to EiendomsMegler 1 Midt-Norge, SpareBank 1 Markets, SpareBank 1 Bygget Trondheim and SpareBank 1 Regnskapshuset SMN. The company operates a conference centre and is responsible for the staff canteen and reception at Head Office. The company is wholly owned by SpareBank 1 SMN.



## Corporate social responsibility

As a major regional bank, SpareBank 1 SMN lives in close community with the region. Ever since the Bank was established in 1823, further development of 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.

Consideration for society is integrated in all aspects and at all levels of our business, extending to matters touched on in the Accounting Act section 3-3 which deals with human rights, employee rights, social conditions, external environment and the combating of corruption. This ensures that ethics, the environment and important social issues are on the agenda throughout.

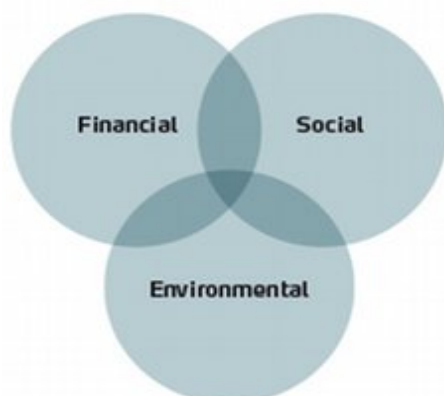
Through the Bank's gift fund we have for many years returned funds to the region of which we are a part. We can mention grants to talented individuals in the arts and sports, support for local associations and organisations, well-being measures at neighbourhood level and contributions to business development 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 - 2013

|  | 2008        | 2009           | 2010           | 2011       | 2012             | 2013             |
|--|-------------|----------------|----------------|------------|------------------|------------------|
| <b>Strategy/financial</b>  |             |                |                |            |                  |                  |
| Group strategy   | Updated     | Continued      | Continued      | Continued  | Continued        | Continued        |
| Develop CSR strategy   | Established | Continued      | Continued      | Continued  | Continued        | Continued        |
| Pre-tax profit (NOKm)  | 778         | 1,147          | 1,282          | 1,279      | 1,355            | 1,758            |
| Total assets (NOKm)  | 84,670      | 84,541         | 97,992         | 101,455    | 107,919          | 115,630          |
| Return on equity   | 11.90 %     | 16.20 %        | 14.60 %        | 12.80 %    | 11.70 %          | 13.30 %          |
| Core capital ratio   | 8.10 %      | 10.40 %        | 10.90 %        | 10.43 %    | 11.34 %          | 13.00 %          |
| No. of ECs issued (millions)   | 82.41       | 82.78          | 102.74         | 102.76     | 129.83           | 129.83           |
| Quoted price 31.12   | 38.07       | 45.06          | 49.89          | 36.31      | 34.80            | 55.00            |
| Market capitalisation (NOKm) 31.12   | 1,750       | 3,749          | 5,124          | 3,731      | 4,518            | 7,141            |
| Direct return  | 5.10 %      | 4.60 %         | 5.60 %         | 5.10 %     | 4.30 %           | 3.20 %           |
| No. of owners  | 9,123       | 9,500          | 9,654          | 9,532      | 9,749            | 8,741            |
| Knowledge of bank's ethical rules at least 90 %                            | 96 %        | 96 %           | 96 %           | 96 %       | 96 %             | 96 %             |
| <b>Society/social conditions</b>   |             |                |                |            |                  |                  |
| No. of FTP equivalents   | 775         | 805            | 793            | 794        | 819              | 758              |
| Sickness absence   | 3,84 %      | 4,22 %         | 4,00 %         | 4,00 %     | 4,60 %           | 4.08 %           |
| Women's share of workforce   | 51.5 %      | 51.5 %         | 51.0 %         | 52.0 %     | 51.9 %           | 51.0 %           |
| Women's share of senior positions  | 26.0 %      | 28.0 %         | 28.0 %         | 27.0 %     | 28.7 %           | 31.6 %           |
| Average age  | 45 år       | 45 år          | 46 år          | 46 år      | 46 år            | 46 år            |
| Employee satisfaction  | 75          | 75             | I/T            | 715*       | 730*             | 756*             |
| Agreement on inclusive employment  | Videreført  | Videreført     | Videreført     | Videreført | Videreført       | Videreført       |
| Strategy on life phase policy  | Videreført  | Videreutviklet | Videreutviklet | Videreført | Videreført       | Videreført       |
| Managerial development programme   | Videreført  | Videreført     | Videreført     | Videreført | Ikke gjennomført | Ikke gjennomført |
| No. of offices   | 56          | 56             | 54             | 54         | 51               | 50               |
| No. of customers   | 192,000     | 194,000        | 194,500        | 196,500    | 200,900          | 201,500          |
| Share of internet banking customers  | 54 %        | 57 %           | 73 %           | 81 %       | 95 %             | 95 %             |
| Share of electronic bill payments  | 91 %        | 92 %           | 99 %           | 99 %       | 99 %             | 99 %             |
| Share allocated to culture   | 22 %        | 24 %           | 22 %           | 24 %       | 17 %             | 21 %             |
| Share allocated to sports  | 16 %        | 20 %           | 23 %           | 23 %       | 21 %             | 15 %             |
| Share allocated to humanitarian work                                       | 6 %         | 4 %            | 6 %            | 6 %        | 12 %             | 5 %              |
| Share allocated to business development                                    | 56 %        | 52 %           | 43 %           | 38 %       | 35 %             | 59 %             |
| <b>Environment</b>   |             |                |                |            |                  |                  |
| Purchase of paper (tonnes)**   | 46.50       | 35.90          | 39.10          | 35.70      | 26.90            | 35.80            |
| Energy consumption (kWh)   | 6,193,000   | 6,580,000      | 7,004,400      | 6,900,500  | 6,135,000        | 6134 600         |
| No. of flights   | 3,984       | 3,585          | 3,816          | 3,910      | 3,524            | 3,517            |
| E-waste return scheme (tonnes)   | 5.30        | 2.90           | 3.43           | 3.40       | 3.25             | 3.10             |
| Waste sorting at source  | Continued   | Continued      | Continued      | Continued  | Continued        | Continued        |
| Printer and toner return scheme  | Continued   | Continued      | Continued      | Continued  | Continued        | Continued        |
| No. of videoconferencing rooms   | 3           | 6              | 6              | 8          | 10               | 10               |
| Strategy/action plan for energy and the environment at the new head office | Continued   | Continued      | Continued      | Continued  | Continued        | Continued        |
| No. of offices certified under the 'Environmental Lighthouse' scheme       | I/T         | 1              | 1              | 2          | 4                | 4                |

\* New system for organisational analysis as from 2011

\*\* Slight increase in paper consumption from 2012 to 2013 due to increased customer base.

## Ethics

The Group's business activities are dependent on the confidence of its customers, the 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, repeating review of the Bank's ethical guidelines for 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, with pertinent examples presented for discussion by all new staff
- Ethics is a compulsory module at the Bank's educational facility and must be successfully completed by all staff once every three years

## 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 business.

SpareBank 1 SMN has relatively low rate of sickness absence of 4.08 per cent. We believe this can to some extent be ascribed to staff that are motivated by challenging and stimulating work at the same time as many stay in shape through various types of physical activity.

We have a good gender and age balance. The Bank is working to raise the proportion of women in senior positions. In 2013 women held 31.6 per cent of senior positions compared with 28 per cent in 2012.

The Group has established a robust framework in the organisational 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
- induction programme and gatherings for new staff members
- targeted competence development through adviser training and the educational facility
- framework for personal professional development sessions
- annual staff survey and follow-up
- 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 increase their physical activity.

## Corruption and internal illegalities

Corruption is defined as giving/offering or demanding/receiving/accepting an improper advantage in relation to a position, office or assignment.

Internal illegalities include acts whereby a staff member, substitute, elected officer or member of a governing body of SpareBank 1 SMN knowingly and unjustifiably commits an act that leads to personal or financial gain for the individual concerned or for others. This may be by means of embezzlement, theft, forgery, breach of financial trust, fraud, selling information or withholding information. Irregularities can include breaches of applicable instructions, code of ethics, procedures, authorisations or agreements.

The Group's sanctions system is designed to assure uniform responses, reporting, archiving and follow-up of censurable circumstances among staff across the Group. The object of the sanctions system is to have in place an effective set of rules that ensures compliance with the established code of business conduct while safeguarding staff members' security under the law.

Disclosure of corruption and other illegalities at an enterprise is generally termed "whistleblowing". Everyone has a social responsibility and no-one should keep quiet about criminal offences. SpareBank 1 SMN has a keen awareness of this issue and takes precautionary measures against, and uncovers, cases of corruption and illegalities and investigates any suspicion of illegality or wrongdoing.

## Money laundering and financing of terrorism

SpareBank 1 SMN works systematically to uncover and combat economic crime. The know-your-customer principle is widened in the new money laundering legislation to include both know-your-customer and know-your-customer's business. This means that we as a financial institution are required to know what transactions are normal for the particular customer to carry out if we are to be able to uncover unusual or suspicious transactions. Requirements on financial institutions are tightened with regard to identity verification and customer due diligence and to recording information about the customer.

Authorities, customers and competitors must have confidence in SpareBank 1 SMN's professionalism and honesty. By maintaining vigilance at all levels of the organisation we make our contribution to ensuring that products and services are not exploited to criminal ends, including money laundering and terrorist financing. We are required to investigate all suspicious transactions. These are handled by a dedicated system and are reported under special criteria to the National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim).

As an institution subject to the reporting obligation, SpareBank 1 SMN is required to make a concrete review of the risk of money laundering and terrorist financing facing its business. The risk analysis is revised annually. For the year 2013 the risk of money laundering and terrorist financing to SpareBank 1 SMN is considered to be at a moderate/low level given the procedures and measures adopted by the Bank. The

internal procedures ensure that SpareBank 1 SMN fulfils all relevant rules related to anti-money laundering and anti-terrorist financing measures, and all procedures have been prepared against the background of a concrete risk-based review of the business.

As required by the legislation, SpareBank 1 SMN has created an anti-money laundering function within the Group management team. The day-to-day central exercise of this function and the associated reporting is assigned to the Security Department. The Bank has also established an internal anti-money laundering group drawing staff from all relevant customer segments and areas of the banks' business.

All staff members are required at specific intervals to undergo mandatory e-training with regard to money laundering and terrorist financing. In 2013, 237 staff members underwent such training. The Security Department held 12 presentations for a total of some 300 staff as part of their training in combating various forms of economic crime.

## Environment

The Group consistently implements measures designed to reduce consumption of electricity, paper and other resources. We are also reducing resource-demanding travel by replacing travel with video conferencing. Handling of e-waste and purchase of environment-friendly solutions also receives much attention. The Bank strives throughout to ensure the right procurement of technological equipment, and to this end includes energy and environmental requirements as specific assessment criteria. This is set out in a procurement guide, and our Environmental Lighthouse action plans

All technological equipment is handled as special waste, and is delivered to an approved e-waste disposal facility. In 2013 3 tonnes of technological waste were delivered to such a facility. Increased use is made of electronic work processes, and the introduction of new copy and print solutions has reduced paper consumption. The growing use of electronic processes 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 mobile banking

SpareBank 1 SMN made 3,517 business trips in 2013 compared with 3,524 in 2012. 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. We also encourage employees to take public transport or, preferably, to walk or cycle to and from work.

### **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 and indoor climate targets were ambitious. The energy consumption target for the new office premises section of the building was 85 kWh per square metre. This target was met by an ample margin in the first year. After three years of operation, energy consumption in this section has stabilised at 77 kWh per square metre, which is far below the limit of 144 kWh per square metre set by the authorities. Savings on operating expenses are therefore substantial. In spring 2012 our office in Steinkjer moved into new premises based on

the same energy principles as the new head office. This building also has a very low energy requirement. The reasons for 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

Work on energy-reducing measures is in progress at all offices undergoing environmental certification.

### **Environmental lighthouse**

SpareBank 1 SMN has opted for certification under 'Environmental Lighthouse', a national certification scheme catering to the private and public sectors. We gain certification using the head office model. At end-2013 the Trondheim head office and the offices in Ålesund, Stjørdal and Steinkjer were certified. Our subsidiaries SpareBank 1 Finans Midt-Norge and SpareBank 1 Bilplan are also certified. This means that offices in which about 600 staff work on a daily basis are now certified in the following areas: work environment, procurements/materials use, energy, transport, waste, emissions and aesthetics. The offices in Verdal, Inderøy and Snåsa have been enrolled for certification in the first quarter of 2014. Certification of seven offices continues in 2014, and work is to start on a further 15 offices. SpareBank 1 SMN is also a member of Grønt Punkt Norge AS ("Green Dot Norway plc").

## **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. We contribute competence and capital to enable the creation of new value and to make the region an attractive place to live.

- We apply a process-oriented approach in which individuals, ideas and resources are brought together to create a symbiosis that fosters value creation
- We supply capital to activities that promote 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 about NOK 50m to non-profit causes in 2013.