

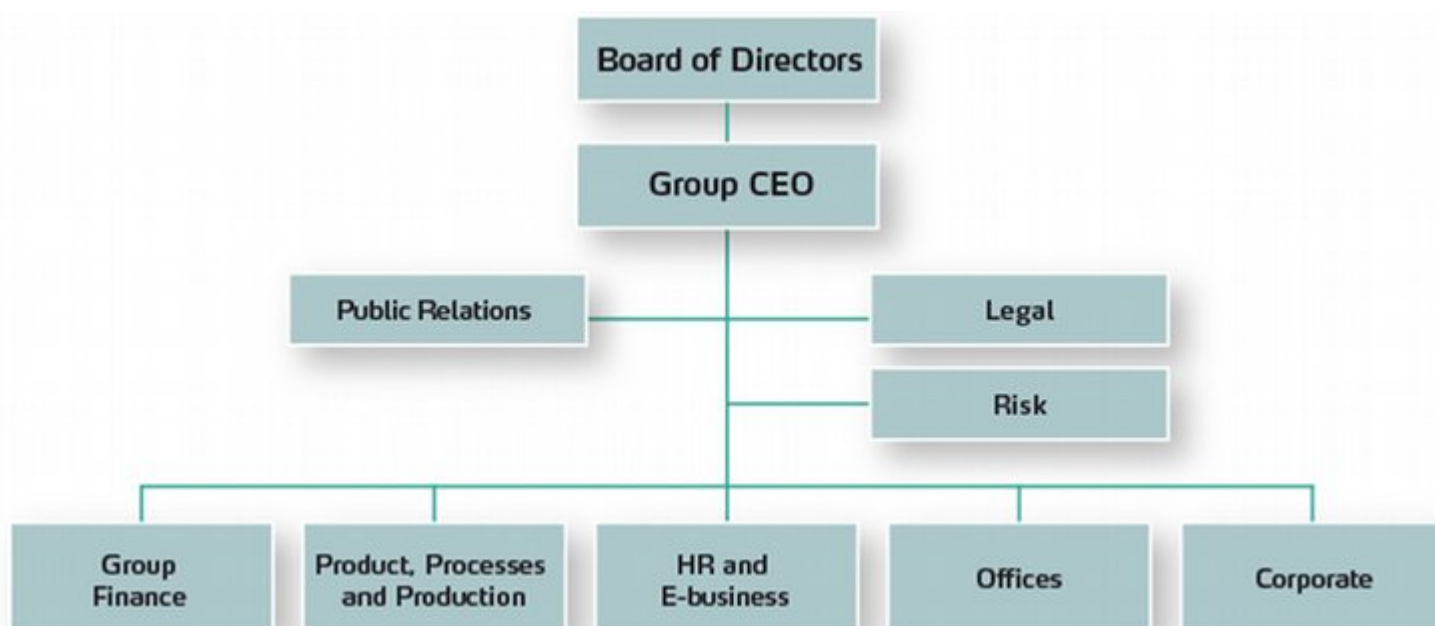
Business description

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.

Facts as at 31.12.2013	SME	Retail market
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.

Facts as at 31.12.2013	Large corporates
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 (Samspar). 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.