

Business 2014

Robust clients combined with good banking skills have enabled SpareBank 1 SMN to post a net profit in excess of NOK 1 billion for the fifth year running.



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.

Important events in 2014

First quarter

- Profit of NOK 500m after tax in the first quarter 2014
- Supervisory Board sets dividend of NOK 1.75 per EC after 2013
- Bård Benum appointed new deputy chair of the Board of Directors at the Bank, while Janne T. Thomsen becomes a new member of the Board of Directors
- Randi Dyrnes re-elected chair of the Supervisory Board

Second quarter

- Profit of NOK 463m after tax in the second quarter 2014
- The Bank celebrates 150 years' presence in Inderøy municipality
- SpareBank 1 SMN becomes Rosenborg Ballklub's (RBK's) new main sponsor

Third quarter

- Profit of NOK 443m after tax in the third quarter 2014
- The Bank opens a new office at Lerkendal in Trondheim

Fourth quarter

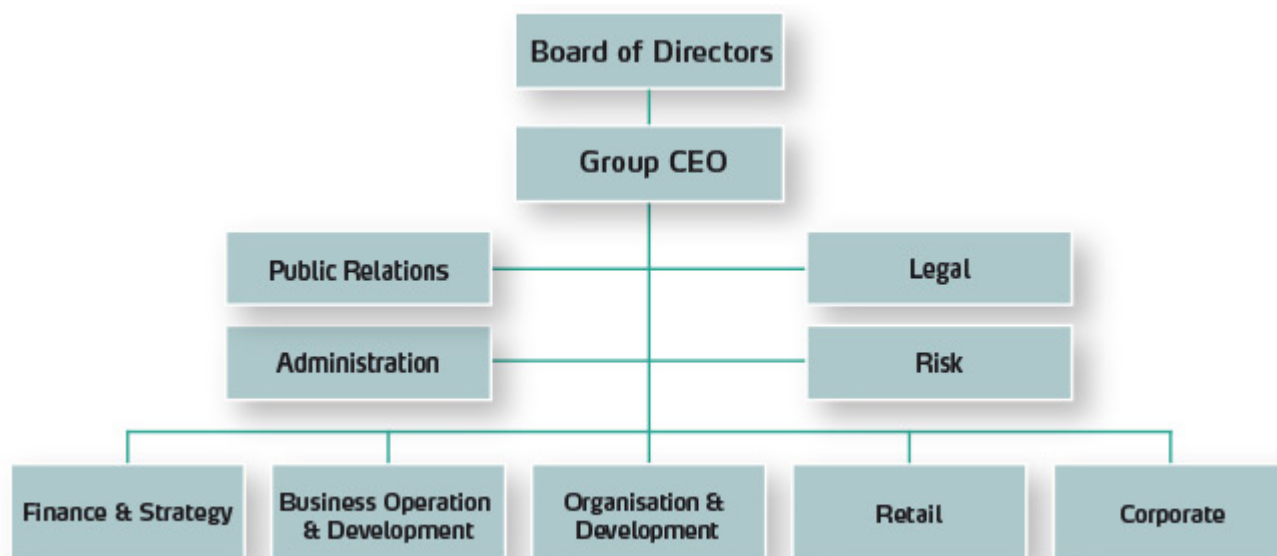
- Profit of NOK 375m after tax in the fourth quarter 2014
- Tæl Prize of Honour awarded to the Opera School in Stjørdal
- Nelly S Maske (39) appointed new executive director at the Bank with responsibility for organisation and development

Business description

SpareBank 1 SMN is the leading bank in Trøndelag and Møre og Romsdal with total assets of NOK 126bn at the end of 2014. The head office is in Trondheim and the group and its subsidiaries employ 1,200 staff. As one of six members of the SpareBank 1 Alliance, the Bank is 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 payment services.

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 bank, gives the Bank a unique competitive edge.

SpareBank 1 SMN is present in 48 localities in 42 municipalities. Its presence extends from Øvre Årdal in Sogn og Fjordane in the south to Vikna in Nord-Trøndelag in the north. The Bank's offices service the various customer categories via a variety of office solutions.

SMN Retail

The business

Through its business area SMN Retail, the Bank offers advice to retail customers, farm sector customers, pools/associations and one-person businesses. We offer personal financial advice tailored to customer needs and a broad range of products in our core areas of financing, savings and investment, insurance and payment services. Our products and service concept aim to improve and simplify everyday life for our customers.

Our bank offices are situated throughout our market area, putting our advisers within easy reach of the customer on a face to face or remote basis. The most important banking services are self-service, while the direct bank offers advice to the customer on a remote basis.

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 in their financial everyday life.

Facts as at 31.12.2014	SMN Retail
Loanable capital (NOKm)	78,321
Deposit capital (NOKm)	31,569
No. of multi-relationship customers	201,918

Customers and market position

SpareBank 1 SMN leads the retail market in Trøndelag and in Møre og Romsdal, with a strong position in all product areas and market segments. The region's business sector features a large number of small and medium companies, and the business areas SMN Retail and SMN Corporate work together closely to maintain competitiveness. Despite the intense competition, the Bank shows a positive market trend and growth in volume and customer base.

Financial developments

SMN Retail posted a return of 19.2 per cent on equity in 2014. Overall pre-tax profit was NOK 861m. Operating income and return on equity were down on the 2013 figures due to reduced margins on home mortgage loans and tighter regulatory requirements set by the authorities. Risk in the loan portfolio is generally low, as reflected in continued low losses. Net losses in 2014 totalled NOK 5.5m.

Prospects for 2015

2014 ended well on a highly positive trend with growth in lending to retail customers and the agricultural segment. Housing demand was strong throughout 2014 and we have positive expectations of 2015. The macroeconomy is being closely monitored after a fall in the Norwegian krone exchange rate and a lower oil price than for many years. Over the course of 2014 adjustments were made to come into line with regulatory changes in the European financial sector, and new regulatory requirements were introduced during the year. This has affected profitability and will impact significantly on the Bank's results in 2015.

SMN Corporate

The business

The business area SMN Corporate focuses on financial counselling in the fields of 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 SMN Retail, SpareBank 1 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 combined with satisfactory competence units. The business is skills-intensive, and much emphasis is given to training in practical understanding of business in segments to which the Bank is heavily exposed such as real estate, sea farming, agriculture, 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. IRB approval granted by Finanstilsynet (Norway's FSA) has led to improved scoring models, processes, tools, organisation and – not least – industry competence which ensures sound knowledge and management of the loan portfolio. This 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 16,000 corporate clients and customers in the public sector. SpareBank 1 SMN has a market share of close to 40 per cent in this segment in Trøndelag and in Møre og Romsdal. The Bank also services a number of customers in business areas such as insurance, capital market, leasing, factoring and accounting. The business sector in Trøndelag and in Møre og Romsdal features a large number of small and medium companies. This structure has a clear impact on the Bank's organisation of its business.

Again in 2014, the Bank held two sizeable business ("NæringsDriv") conferences. The Bank also published its own economic barometer which takes the pulse of the most important business lines and industries in the region and produces economic growth forecasts for the three counties constituting our region.

SpareBank 1 SMN has a clear ambition to retain its position as the region's leading bank for small and medium businesses in Trøndelag and in Møre and Romsdal. Combined with ready access to skilled advisers in the Bank, new digitalised solutions are being developed to facilitate everyday banking transactions and to free up time and resources for provision of good advice and tailor-made solutions in all business areas.

Facts as at 31.12.2014	SMN Corporate
Loanable capital (NOKm)	37,350
Deposit capital (NOKm)	28,052
No. of multi-relationship customers	16,800

Financial developments

SMN Corporate recorded operating income of NOK 1,095m in 2014. 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 2015

Prospects for 2015 are uncertain and affected by developments in the EU, oil prices and currency turbulence. 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 oil price fall has led to lower activity on the Norwegian shelf, with consequent depreciation of the Norwegian krone. Suppliers to the petroleum industry already feel the effects, but the Bank has a broad exposure to less cyclically sensitive industries and is less vulnerable to oil price developments.

The Bank is still prepared to take the action needed to meet any financial challenges that may arise. It is working closely with customers to find solutions that safeguard common interests in the economic situation prevailing at all times. The corporate banking business will accordingly maintain capacity and competence to ensure that the Bank will be readily accessible and a capable provider of financial services in the long term.

Digital trend

The goal is offer customers effective and efficient solutions in their preferred channels. In the years immediately ahead the Bank will invest in the further development and renewal of solutions in digital channels. This will promote greater freedom of choice and customer satisfaction. More and more customers are opting to place their orders/purchases of bank products via digital channels. Digital channel traffic continued to grow strongly in terms of customer numbers and usage in 2014, with the mobile bank showing particularly strong growth figures. There are more logons per month to the mobile bank than to the internet bank, while the internet bank is maintaining stable visiting figures. We note that mobile bank customers are making more frequent use of the Bank and log on up to 20 to 30 times per month. The Bank will do more to develop good models to analyse customer needs and ensure a customer dialogue that is tailored to customer needs and provides the customer with the right content in the right channel at the right time. Investments in system platforms for analysis and customer dialogue will assure the Bank's ability to contact the customer with greater accuracy and offer the customer relevant solutions in the channels the customer prefers to use to meet his or her needs. Customer needs and customer behaviour will determine the further development of the Bank's digital solutions. The combination of a strong physical distribution through an efficient branch network and good self-service solutions gives SpareBank 1 SMN a strong strategic position. This provide a robust basis for good customer relationships.

SpareBank 1 SMN Markets

SpareBank 1 SMN Markets has a staff of 34 in the following departments: fixed income/foreign exchange, securities and operations. Operations performs settlement services and control tasks for the Bank in addition to Markets. The corporate business was transferred to SpareBank 1 Markets as from 1 October 2013. SpareBank 1 SMN Markets has a market making unit employed at Head Office in Trondheim which conducts 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 Ålesund is in the hands of customer brokers who primarily provide services in the fixed income and foreign exchange area. Customers in region Romsdal are now serviced by customer brokers in Ålesund following closure of the Molde office.

SpareBank 1 SMN Markets' ambition is to be the leading capital market operation in Trøndelag and in Møre og 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 SMN Corporate at the Bank.

In August 2014 it was decided to integrate the business of SpareBank 1 SMN Markets into SpareBank 1 Markets. Integration was effective as from 1 January 2015. The integrated company offers a full range of services to meet the Alliance banks' and their customers' need for capital market services.

Customers and market position

Our customers comprise a large number of small and medium businesses situated in Trøndelag and in Møre og Romsdal. Most of them report SpareBank 1 SMN as their main bank. SpareBank 1 SMN Markets also delivers capital market services to customers of eleven SpareBank 1 banks affiliated to Samarbeidende Sparebanker (Samspar). SpareBank 1 SMN Markets strengthened its customer base in 2014 and sees further potentials to strengthen its market position.

Financial developments

SpareBank 1 SMN Markets recorded total income of NOK 82m in 2014, a decline of NOK 18m on 2013. The income decline is mainly due to capital losses in the bond portfolio as a result of increased credit spreads. Incomes from customer trading and risk refinement in fixed income and forex instruments were somewhat lower than in the preceding year. Operating profit in 2014 was NOK 21.5m.

Prospects for 2015

Positive income effects are anticipated from the integration with SpareBank 1 Markets. This will apply in the fixed income/forex and the securities area alike. We have strengthened advisory capacity by offering risk analysis to fixed income/forex clients. Electronic currency trading was introduced stepwise in the fourth quarter of 2014, and we anticipate increased incomes from clients' forex trading in 2015.

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 (the “SpareBank 1 grouping”) and Alliansesamarbeidet SpareBank 1 (“the “SpareBank 1 collaborative alliance”).

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 1,200 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 so as 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 (11 per cent), Samarbeidende Sparebanker (19.5 per cent), the Norwegian Confederation of Trade Unions and affiliated unions (9.6 per cent) and Bank 1 Oslo Akershus (1.4 per cent)

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

- SpareBank 1 Forsikring (insurer)
- SpareBank 1 Skadeforsikring (mon-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 also form part of the Alliance:

- 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 BV
- 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).

BN Bank operates nationwide serving corporate and retail customers. Its strategy is to be a straightforward and effective bank catering to selected segments. In the corporate market BN Bank is a specialist in financing commercial property. In the retail market BN Bank is an offering for customers who prefer simple and efficient banking services. BN Bank is seen to be competent, prompt and predictable. This strategy makes BN Bank the country's most cost-effective bank, a bank that provides its customers with competitive terms and its owners with good return over time.

As at 31 December 2014 BN Bank had 112 FTEs, deposits totalling NOK 14.4bn and loans worth NOK 49bn (including loans transferred to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt). Total assets of the BN Bank Group at the same point came to NOK 35.8bn. Thanks to its good credit and risk skills, BN Bank was in 2014 granted permission to apply the advanced IRB approach to corporate the exposures of BN Bank ASA and Bolig- og Næringskreditt AS.

Subsidiaries

EiendomsMegler 1 Midt-Norge

The estate agency firm EiendomsMegler 1 Midt-Norge is the leading broker of new and existing homes in Trøndelag and in Møre og Romsdal, and reinforced this position in 2014.

The company delivered in 2014 a profit of NOK 50.9m before tax.

In 2014 the company came second on the Great Place to Work's list of Norway's best employers. 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.

EiendomsMegler 1 Midt-Norge's strategy of taking on, developing and retaining the best staff in the business was reinforced in 2014, and person-years worked rose substantially over the year, in keeping with the company's growth strategy.

The company has specialised operations which include separate units for project and commercial property broking. These operations complement its traditional residential estate agency business which performs a

specialist function through its local presence, co-located with banking, in various parts of Trondheim and the surrounding district.

EiendomsMegler 1 Midt-Norge sold 6,383 properties in 2014, representing a market share of 38.7 per cent in our region. The company is equipped for continued growth both in profit and in market shares. 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 SMN Finans Midt-Norge

SpareBank 1 SMN Finans Midt-Norge is the region's leading finance company and an active partner for businesses and private individuals. The company attaches importance to local competence, and works for greater value creation in Trøndelag and in Møre og Romsdal.

SpareBank 1 SMN offers loans and leasing to businesses along with car loans (vendor's lien) and consumer loans to private individuals. The company services the market through its own sales operation and through the owner banks' 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 3.6bn. The company has 33 employees in Trondheim, Steinkjer, Kristiansund, Molde and Ålesund. The company posted a profit of NOK 67.9m before tax in 2014.

Structured collaboration with the Bank is reaping results. In 2014 the company substantially expanded its portfolio of vendor's lien loans, and the proportion of customers using our self-service facilities rose steeply. The corporate leasing portfolio also expanded due a number of new large contracts in 2014.

SpareBank 1 Finans Midt-Norge has established a clear vision and strategy as a guide for its activities in 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 branch network.

The organisation focuses 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 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 2014 the company recorded a loss of NOK 24,000 before tax. The company is wholly owned by SpareBank 1 SMN.

SpareBank 1 Regnskapshuset SMN

In 2014 SpareBank 1 Regnskapshuset SMN achieved a pre-tax profit of NOK 40.5m on a turnover of NOK 182m. With 37 per cent turnover growth, the company has a market share of 11 per cent in Trøndelag. SpareBank 1 Regnskapshuset SMN is now one of the three largest actors in the accountancy business in Norway with 210 staff at year-end.

The company is seeing a growing influx of new customers. In 2014 204 new customer agreements were established. While the bulk of the growth is in the corporate market, new customers are also noted in the following customer segments: farming, housing cooperatives/co-ownerships and pools/associations.

Over the course of 2014 the senior management was strengthened, and the company increased its development capacity. The company has a strong ambition for further growth in the period to 2020, and in 2014 established its new vision to be the accounting firm of the future. New core values have been implemented.

In 2014 the company acquisition GWG Regnskap & Admin AS was absorbed into SpareBank 1 Regnskapshuset SMN. In the current year the company has taken over the customer portfolio and staff of Trønder Regnskap & Data and acquired all the shares of Merkantilservice, Vekstra Rørvik and Økopartner Ålesund. These businesses are to be integrated into SpareBank 1 Regnskapshuset SMN in 2015.

In 2014 SpareBank 1 Regnskapshuset SMN sold its 40 per cent stake in SpareBank 1 Regnskapshuset Østlandet. SpareBank 1 Regnskapshuset SMN holds 50 per cent of the shares of Leksvik Regnskapskontor.

Together with the other regional banks in the SpareBank 1 Alliance, the company is well on the way to building up a strong national player in the accounting business.

Allegro Kapitalforvaltning

Allegro Kapitalforvaltning, 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 11 employees and assets totalling a little over NOK 4bn.

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 2014.

The accounts show a profit of NOK 2.6m before tax.

SpareBank 1 SMN Card Solutions

SpareBank 1 SMN Card Solutions sells and administrates 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 and Sweden.

The company sells its payment products and services principally through convenience stores and grocery stores in Norway and Sweden.

The company delivered a profit of NOK 13,000 before tax in 2014.

SpareBank 1 SMN Invest

SpareBank 1 SMN 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'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 Banking and SpareBank 1 SMN 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 1.7m before tax for 2014.

Property companies

SpareBank 1 SMN Kvartalet has as its mission to own, develop and manage 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 new 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 1,800 sq.m. for the Group in Steinkjer. The building is on lease to SpareBank 1 SMN which subleases it to EiendomsMegler 1 and SpareBank 1 Regnskapshuset SMN.

Brannstasjonen SMN has as its mission to own, develop and manage 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 standard. A turnkey contract has been signed for renovation of the property with completion scheduled for August 2016.

St Olavs Plass 1 SMN was founded for the purpose of owning, developing and managing 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, develop and manage 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 it turn subleases to EiendomsMegler 1 Midt-Norge, SpareBank 1 SMN Markets, SpareBank 1 Bygget Trondheim and SpareBank 1 Regnskapshuset SMN. The company operates a dedicated conference centre and is responsible for the staff canteen and the reception at the Head Office.

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. By this means we ensure that ethics, the environment and important social issues are on the agenda throughout.

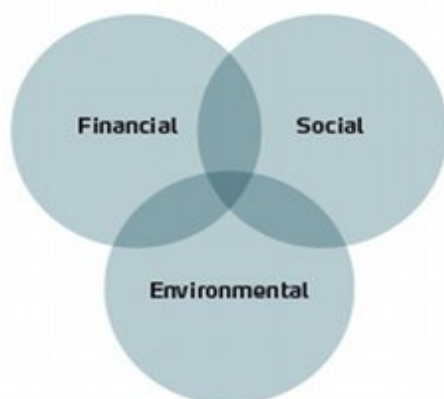
Through the Bank's gift fund we have for many years returned funds to the region of which we are a part. We can mention grants to talented individuals in the arts and sports, support for local associations and organisations, well-being measures at neighbourhood level and contributions to business development in Trøndelag and in Møre og 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. We seek a balance between the financial, social and environmental aspects of the three-part bottom line. Under each theme we have defined key areas in which specific initiatives have been developed.

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 2009 - 2014

	2009	2010	2011	2012	2013	2014
Strategy/financial						
Group strategy	Continued	Continued	Continued	Continued	Continued	Continued
Develop CSR strategy	Continued	Continued	Continued	Continued	Continued	Continued
Pre-tax profit (NOKm)	1,147	1,282	1,279	1,355	1,758	2,143
Total assets (NOKm)	84,541	97,992	101,455	107,919	115,630	126,047
Return on equity	16.2 %	14.6 %	12.8 %	11.7 %	13.3 %	15.1 %
CET1 ratio	7.8 %	9.3 %	8.9 %	10.0 %	11.1 %	11.2 %
No. of ECs issued (millions)	82.78	102.74	102.76	129.83	129.83	129.83
Quoted price 31.12	45.06	49.89	36.31	34.80	55.00	58.50
Market capitalisation (NOKm) 31.12	3,749	5,124	3,731	4,518	7,141	7,595
Direct return	4.6 %	5.6 %	5.1 %	4.3 %	3.2 %	3.8 %
No. of owners	9,500	9,654	9,532	9,749	8,741	8,398
Society/social conditions						
No. of FTP equivalents	805	793	794	819	758	753
Sickness absence	4,22 %	4,00 %	4,00 %	4,60 %	4.08 %	3,20 %
Women's share of workforce	51.5 %	51.0 %	52.0 %	51.9 %	51.0 %	48,0 %
Women's share of senior positions	28.0 %	28.0 %	27.0 %	28.7 %	31.6 %	32,0 %
Average age	45 yrs	46 yrs	46 yrs	46 yrs	46 yrs	46 yrs
Employee satisfaction	75	I/T	715*	730*	756*	768*
Agreement on inclusive employment	Continued	Continued	Continued	Continued	Continued	Continued
Strategy on life phase policy	Continued	Continued	Continued	Continued	Continued	Continued
No. of offices	56	54	54	51	50	48
No. of customers	194,000	194,500	196,500	200,900	201,500	203,000
Share allocated to culture	24 %	22 %	24 %	17 %	21 %	28 %
Share allocated to sports	20 %	23 %	23 %	21 %	15 %	26 %
Share allocated to humanitarian work	4 %	6 %	6 %	12 %	5 %	7 %
Share allocated to business development	52 %	43 %	38 %	35 %	59 %	39 %
Environment						
Purchase of paper (tonnes)**	35.90	39.10	35.70	26.90	35.80	26.50
Energy consumption (kWh)	6,580,000	7,004,400	6,900,500	6,135,000	6,134,600	5,965,100
No. of flights	3,585	3,816	3,910	3,524	3,517	3,626
E-waste return scheme (tonnes)	2.90	3.43	3.40	3.25	3.10	3,15
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	6	6	8	10	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	1	1	2	4	4	15

* New system for organisational analysis as from 2011

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 a test must be passed 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, 3.2 per cent in 2014, and 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 forms 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 2014 women held 32.0 per cent of senior positions compared with 31.6 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 known as 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). Authorities both nationally and internationally have sharpened their focus on economic crime and financing of terrorism, and further requirements are anticipated for the financial industry.

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 2014 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 established by the Bank. The internal procedures ensure that SpareBank 1 SMN complies with 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 designated an anti-money laundering officer 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.

Staff members are required at specific intervals to undergo mandatory e-training with regard to money laundering and terrorist financing. The Security Department held 28 courses for a total of 331 staff as part of their training in combating various forms of economic crime.

Environment

The Group implements measures designed to reduce consumption of energy, 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 2014 a good three 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)

SpareBank 1 SMN made 3,626 business trips in 2014 compared with 3,517 in 2013. Despite increased customer activity and the Bank's involvement in committees and projects under the auspices of the SpareBank 1 Alliance, air travel is on a stable trend. Videoconferencing, telephone conferencing and digital tools to support teamworking and knowledge sharing are on the increase. We also encourage employees to take public transport or, preferably, to walk or cycle to and from work. Paper consumption was reduced by 25 per cent from 2013 to 2014.

Very low energy consumption at the new head office

SpareBank 1 SMN relocated to its new head office 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 per year. This target was met by an ample margin in the first year. After three years of operation, energy consumption in this section was 77 kWh per square metre, which is far below the limit of 144 kWh per square metre set by the authorities. Concrete measures to reduce energy consumption in 2014, along with lower winter temperatures, have enabled an overall saving of some 170,000 kWh compared with 2013. Consumption in the offices premises section stands at about 60kWh. The reasons for the low energy consumption are numerous and complex, but the main individual factors are:

- a well insulated 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 under the head office model. At the start of 2014 the Trondheim head office and the offices in Ålesund, Stjørdal and Steinkjer were certified. A further 11 offices are now certified. Our subsidiaries SpareBank 1 Finans Midt-Norge and SpareBank 1 Bilplan are also certified. This means that offices in which about 700 staff work on a daily basis are now certified in the following areas: work environment, procurements/materials use, energy, transport, waste, emissions and aesthetics. Certification of a further 11 offices starts in 2015. SpareBank 1 SMN is also a member of Grønt Punkt Norge AS ("Green Dot Norway plc").

SpareBank 1 SMN's monetary gifts

Contributions to the community and society should be non-profit and benefit as many as possible. We consider it highly important that our contributions should build, support and develop 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 work to bring together individuals, ideas and resources in a process 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:

- 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, in particular through the Tæl Prize of Honour

SpareBank 1 SMN disbursed just over NOK 50m to non-profit causes in 2014.