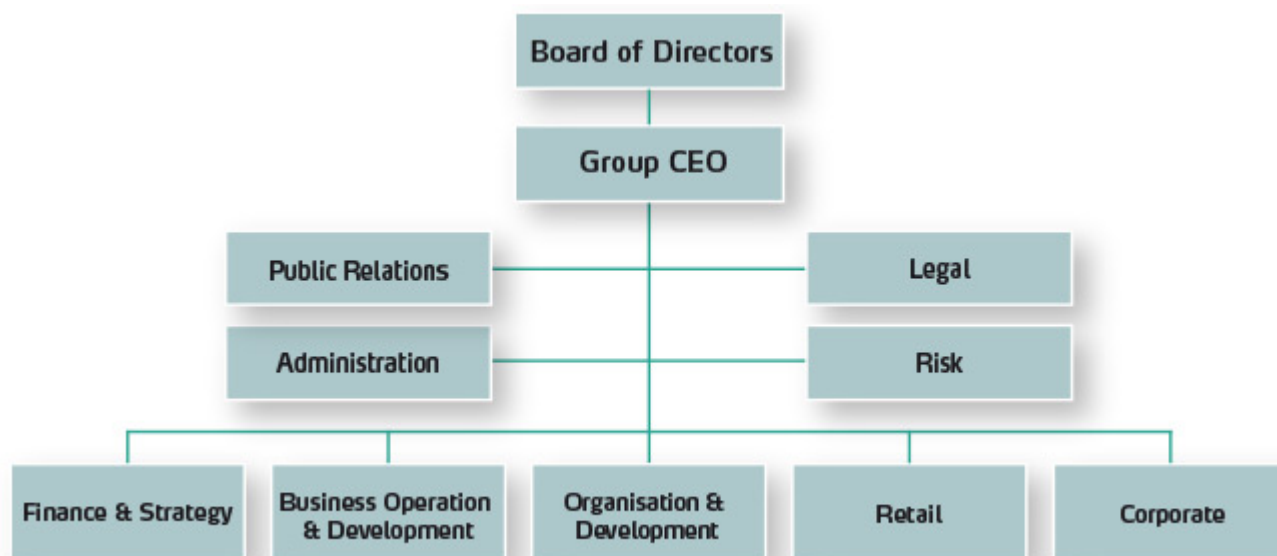


## Business description

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.

<b>Facts as at 31.12.2014</b>	<b>SMN Retail</b>
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.