

The business



The business

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 sixth year running.

Statement by the Group CEO

SpareBank 1 SMN can look back at another good year. Over the course of 2015 CET1 capital rose by NOK 1.5bn to NOK 12.2bn. At year-end the CET1 ratio stood at 13.6 per cent.

The initial CET1 ratio target of 13.5 per cent by 30 June 2016 has been met. Before Christmas the board of directors adopted a new target in keeping with Finanstilsynet's (Norway's FSA) expectations, i.e. a CET1 ratio of 14.5 per cent by the end of 2016.

Last year will be particularly remembered on two counts. In 2015 Norway's oil price dependence was brought into relief by a steep price fall. From a level in excess of USD 100 per barrel which remained stable for a number of years up to end-December 2014, the oil price dropped to USD 35 per barrel at last year-end. For SpareBank 1 SMN and most banks and other listed companies this brought a decline in stock values suggesting that the market sees a virtually complete correlation between oil price and bank performances and, not least, possible losses.

2015 will also be remembered as the year we as consumers truly accepted the digitalisation of a large number of central social functions. Behaviour has changed markedly. At SpareBank 1 SMN we have given much attention to digitalising customer services, and we have come a long way compared with our competitors. Digitalisation will have far-reaching consequences for resource use in the financial industry.

SpareBank 1 SMN presents a good set of financial statements for 2015, as previously. Despite somewhat bleaker prospects, losses are relatively low. A very low default rate indicates that the loss challenges ahead will be readily manageable. Among equity certificate holders and analysts there is a strong focus on our loan book in the oil and offshore segment. This segment accounts for five per cent of the bank's overall lending, and is in all essentials concentrated in ship financing. Our assessment thus far is that the owners behind these companies are financially robust and show a strong willingness and ability to take the steps needed to shepherd their companies through a demanding period of low oil prices. Our funding ratio in relation to new valuations of the vessels we finance is low throughout, and a large majority of them are in operation. We have nonetheless opted to increase the bank's collectively assessed impairment write-downs in order to make allowance for the uncertainty implicit in this part of the loan portfolio.

The loan book, both in Corporate Banking and Retail Banking, is characterised by good debt servicing ability and a low default rate. Thus far there are no clear indications of a problematic fall in house prices, and in Trondheim in particular a high property turnover rate and continued price growth are noted.

It is pleasing to note the success of the bank's diversification strategy, adopted in 1996. Our subsidiaries are performing well, with solid growth and earnings. In addition, we are reaping increasing success on the sales front, in particular in the retail segment. The result of this so far is that balance-sheet-independent revenues now account for 31 per cent of the group's overall revenues. In particular, Eiendomsmegler 1 Midt-Norge, SpareBank 1 Regnskapshuset SMN and SpareBank 1 Finans Midt-Norge have again performed at a high level. SpareBank 1 SMN Invest should also be singled out for having, again in 2015, made substantial gains on its investments.

We have good growth in the retail segment, and are also showing strong competitive power in the market for small and medium-sized businesses. However, the regulatory climate remains a challenge. Because of

various regulatory requirements imposed specifically on Norwegian financial institutions, we, like other Norwegian banks, are losing market shares in the low risk segment to foreign peers. This is particularly true of commercial property financing. Our co-owned subsidiary BN Bank is particularly affected, and for that reason wound down its commercial property portfolio in 2015.

Competition-distorting regulation is a theme which I in my capacity as Finance Norway's Board Chairman have addressed vis-à-vis regulatory authorities and politicians. It is gratifying that the Ministry of Finance now appears to be taking up this issue with Finanstilsynet, and a growing awareness from all parliamentary political parties is also in evidence.

The SpareBank 1 alliance resolved last year to reorganise the business of the co-owned SpareBank 1 Gruppen. We opted to take the consequence of the complexity and scope of the company's activities. Two equal organisational units, each reporting to its own board, respectively SpareBank 1 Banksamarbeidet and SpareBank 1 Gruppen, were established. It is satisfying to note the good progress made in the projects on which the SpareBank 1 banks are collaborating and, not least, the excellent results of our product companies.

SpareBank 1 SMN's organisation was, in 2015 as previously, marked by a substantial willingness to adapt and by commitment on the part of staff at all levels. There is a strong expectation that the pace of change will rise in keeping with digitalisation and that the competitive climate will require further cost reductions. This was the main theme when virtually all of the group's 1,200 employees met at a Group-wide get-together in Berlin in October. My experience is that the entire organisation is prepared for changes and is doing its utmost to ensure SpareBank 1 SMN's success and continued status as one of the absolutely leading banks in Norway. I am very proud of the Groups' staff who despite great uncertainty regarding the future are performing at a very high level and showing strong loyalty to their employer.

Given a well-functioning organisation, capable staff and relatively low exposure to segments that at present appear to pose a particular challenge, I am also optimistic for 2016.

Important events in 2015

First quarter

- Profit of NOK 441m after tax in the first quarter 2015
- Supervisory Board sets dividend of NOK 2.25 per EC for 2014
- Kjell Bordal re-elected as chair of the Board of Directors for a two-year term
- The bank receives go-ahead to apply IRB approach to corporate exposures
- SpareBank 1 Alliance becomes new main sponsor of Norway's cross country Ski Federation

Second quarter

- Profit of NOK 430m after tax in the second quarter 2015
- Moody's Investor Service upgrades the bank's rating from A2 to A1
- Fitch affirms the bank's credit rating

Third quarter

- Profit of NOK 248m after tax in the third quarter 2015

Fourth quarter

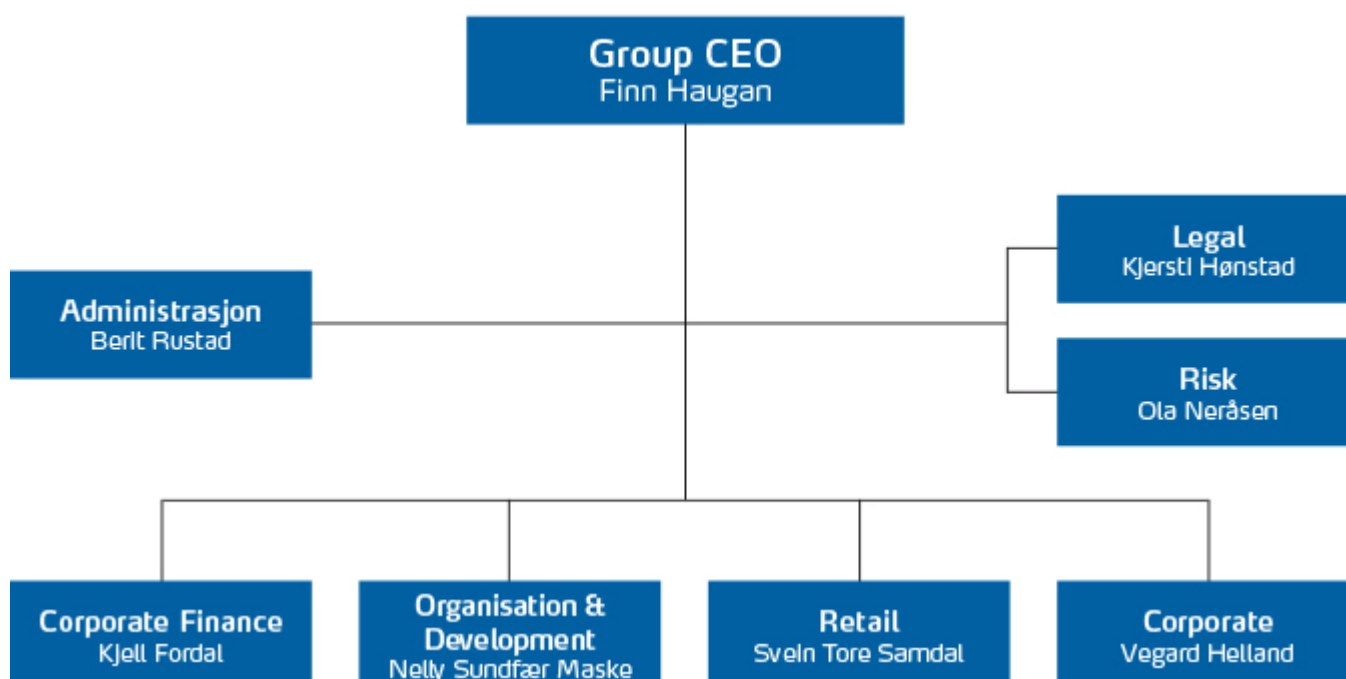
- Profit of NOK 287m after tax in the fourth quarter 2015
- The bank celebrates 150 years' presence in Ålen, Sør-Trøndelag
- Fitch affirms the bank's credit rating

Business description

SpareBank 1 SMN is the leading bank in Trøndelag and Møre og Romsdal with total assets of NOK 132bn at the end of 2015. The head office is in Trondheim and the Group and its subsidiaries employ 1,300 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 bank is organised under 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 internet banking and mobile solutions along with direct banking, gives the bank a unique competitive edge.

SpareBank 1 SMN is present in 48 localities across 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.

Retail Banking

The business

Through its business area Retail Banking, 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 located throughout our market area, putting our advisers within easy reach of the customer on a face-to-face or digital/remote basis. More and more of the bank's offerings are now 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.

<u>Facts as at 31 Dec 2015</u>	<u>Retail Banking</u>
Loanable capital (NOKm)	84,980
Deposit capital (NOKm)	35,647
No. of multi-relationship customers	209,238

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-sized companies, and the business areas Retail Banking and Corporate Banking work together closely to maintain competitiveness. In an intensely competitive climate, the bank shows a positive market trend and growth in volume and customer base.

Financial developments

Retail Banking posted a return of 15.8 per cent on equity in 2015. Overall pre-tax profit was NOK 873m. Operating income and return on equity were down on the 2014 figures due to reduced margins on home mortgage loans and tighter regulatory requirements set by the authorities. Risk in the loan portfolio is consistently low, as reflected in continued low losses. Net losses in 2015 totalled NOK 11m.

Prospects for 2016

2015 was a good year with a highly positive trend and growth in lending to the retail segment and agriculture. Over the course of the year the number of multi-relationship customers increased – in particular in the insurance and savings/investment area. Housing demand was strong throughout 2015 and we have positive expectations of 2016, although the low oil price and the weakened Norwegian krone make for some uncertainty. In 2015 adjustments were made to come into line with regulatory changes in the European financial sector, and new domestic regulatory requirements were introduced. A higher level of capital tie-up has affected profitability.

Corporate Banking

The business

The business area Corporate Banking 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 Retail Banking, 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, construction, sea farming, agriculture, fisheries, shipbuilding, offshore, energy, retail trade and the public sector.

The bank is IRB approved and uses the advanced IRB approach to compute capital charges and credit risk. The bank has good credit 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 market leader in the region, at the same time as risk exposure is consistent with the bank's credit policy. Substantial resources are expended, together with the other alliance banks, on continuously improving the credit scoring models.

Customers and market position

The bank services some 20,000 corporate clients including the public sector. SpareBank 1 SMN has a market share of about 35 per cent in this segment in the region. 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-sized companies. This structure has a clear bearing on the bank's organisation of its business.

Again in 2015 the bank published its 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-sized businesses in the region. 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 Dec 2015	Corporate Banking
Loanable capital (NOKm)	37,388
Deposit capital (NOKm)	28,431
No. of clients	20,944

Financial developments

The business area Corporate Banking recorded operating income of NOK 1,164m in 2015, of which NOK 971m was net interest income and NOK 193m was commission income and income from forex and fixed income business. The pre-tax profit was NOK 659m which yielded a return of 12.4 per cent on capital employed. The income is generated from a positive trend in all business areas; financing, cash

management, insurance and 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 2016

Prospects for 2016 are uncertain and are affected by international developments with falling oil prices. There are however still positive expectations in 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 and consequent depreciation of the Norwegian krone. Suppliers to the petroleum industry are already feeling the effects, but the bank has a broad exposure to less cyclically sensitive industries and sound diversification of credit risk.

The bank remains 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 a readily accessible and capable provider of financial services in the long term.

Digital trend

The goal is offer customers effective and efficient solutions in their preferred channels. 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 2015, with the mobile bank showing particularly strong growth figures. There are more logons per month to the mobile bank than to the internet bank, at the same time as 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 20 to 30 times per month.

The bank is undergoing a long period of investment with a view to renewing solutions in digital channels and underlying core systems. With a keen focus on data capture and advanced analysis the bank has developed good models to analyse customer needs. The goal is a customer dialogue that provides the customer with the right content in the right channel at the right time. We are working on process improvement, digitalisation, automation and new system solutions that support our strategic objectives in the retail banking and corporate banking segments alike. Moreover, new technology is enabling the creation of new digital business models that we are testing in the market.

The combination of a strong physical distribution through an efficient branch network and good self-service solutions based on holistic data analysis across all inputs gives SpareBank 1 SMN a strong strategic position.

Associates 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 6,800, 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 Alliansesamarbeidet. The purpose of the Alliansesamarbeidet 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. Alliansesamarbeidet's vision is: Attractive to the customers and the banks.

About SpareBank 1 Gruppen

SpareBank 1 Gruppen is wholly owned by SpareBank 1 banks and the Norwegian Confederation of Trade Unions (LO) as follows:

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 AS (19.5 per cent), SpareBank 1 Oslo Akershus (1.4 per cent) and the Norwegian Confederation of Trade Unions and associated unions (9.6 per cent).

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

- SpareBank 1 Forsikring
- SpareBank 1 Skadeforsikring
- ODIN Forvaltning
- SpareBank 1 Medlemskort
- SpareBank 1 Gruppen Finans
- Conecto

SpareBank 1 Gruppen also has administrative responsibility for collaborative processes and service deliveries to the SpareBank 1 alliance through the limited partnership SpareBank 1 Banksamarbeidet DA.

SpareBank 1 Banksamarbeidet is a limited partnership owned by SpareBank 1 Gruppen AS, Samarbeidende Sparebanker and SpareBank 1 Oslo Akershus with varying stakes.

SpareBank 1 Banksamarbeidet develops and delivers joint IT and mobile solutions, brand-building and marketing concepts, business concepts, products and services, competence, analyses, processes, best practices and procurement.

The company is also engaged in development work through three competence centres: Training (Tromsø), Cash Management (Trondheim) and Credit (Stavanger). SpareBank 1 Banksamarbeidet owns the following subsidiaries:

- Eiendomsmegler 1 Norge
- SpareBank 1 Kundesenter
- SpareBank 1 Verdipapirservice

The SpareBank 1 Alliance banks and the LO hold direct stakes in the following companies:

- BN Bank
- SpareBank 1 Boligkreditt
- SpareBank 1 Næringskreditt
- SpareBank 1 Markets
- Bank 1 Oslo Akershus*
- SpareBank 1 Mobilbetaling**

* In 2015 Sparebanken Hedmark purchased 100 per cent of the shares of SpareBank 1 Oslo Akershus with effect from 2016

** SpareBank 1 Mobilbetaling was established in 2015

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 Board of Directors of BN Bank resolved in August 2015 to wind down the financing of commercial property in which the bank has been a substantial actor for many years. The wind-down is prompted by a capital adequacy regime specific to Norway.

BN Bank is being cultivated as a nationwide, internet- and telephone-based bank. Its strategy is to be a straightforward and effective bank for the retail market offering deposit and loan services to small and medium-sized businesses against collateral in residential property.

BN Bank was among the growth winners in 2015, and saw growth of more than 14 per cent in residential mortgages.

As at 31 December 2015 BN Bank had 117 FTEs, deposits totalling NOK 14.8bn and loans worth NOK 46.5bn (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 32.6bn.

As from the second quarter 2014 the bank started reporting corporate exposures under the advanced IRB approach, and in June was granted permission to apply the advanced IRB approach to its home loan portfolio.

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 2015.

The company delivered in 2015 a profit of NOK 47m before tax.

In 2015 the company came fourth 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 2015, 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 6,615 properties in 2015, representing a market share of 40 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. 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 the owner banks' offices, other partners and its own sales operation.

SpareBank 1 SMN Finans maintains a presence in ten counties across Midt- og Sør-Norge; Nord og Sør-Trøndelag, Møre og Romsdal, Sogn og Fjordane, Oppland, Buskerud, Telemark, Akershus, Vestfold and Østfold.

At year-end the company managed leasing and loan agreements worth NOK 4.3bn. The company has 35 employees in Trondheim, Steinkjer, Kristiansund, Molde and Ålesund. The company posted a pre-tax profit of NOK 83.1m in 2015.

SpareBank 1 SMN Finans's values are its easy access, prompt response, proactive stance, solution focus and probity.

The company has developed a leading concept for distribution via its owner banks. This brought substantial results in 2015 with the establishment in June of cooperation agreements with a further eight SpareBank 1 banks for distribution of the company's products. The agreement entailed that the banks concerned acquired an owner stake of 20 per cent in SpareBank 1 Finans. The expansion of distribution capacity has resulted in a steep increase in the portfolio of vendor's lien loans and in leasing.

At year-end the company was owned by SpareBank 1 SMN (72.08 per cent), SpareBank 1 Buskerud-Vestfold (4.98 per cent), SpareBank 1 Telemark (4.22 per cent), SpareBank 1 Østfold-Akershus (4.10 per cent), SpareBank 1 Nordvest (3.96 per cent), SpareBank 1 Søre Sunnmøre (3.96 per cent),

SpareBank 1 Hallingdal Valdres (1.71 per cent), SpareBank 1 Nøtterøy-Tønsberg (1.51 per cent), SpareBank 1 Modum (1.37 per cent), SpareBank 1 Gudbrandsdal (1.17 per cent) and SpareBank 1 Lom og Skjåk (0.94 per cent).

In November a cooperation agreement was also entered with Sparebanken Sogn og Fjordane for sale of the company's products. Under the agreement Sparebanken Sogn og Fjordane becomes the next largest owner of SpareBank 1 Finans with a stake of 7.5 per cent. Settlement is through the sale of shares and is scheduled for January 2016. SpareBank 1 SMN remains the largest shareholder, now with a stake of 64.6 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 is located in Trondheim. The business has good competence and motivated staff. In 2015 the company recorded a loss of NOK 485,000 before tax. The company is wholly owned by SpareBank 1 SMN.

SpareBank 1 Regnskapshuset SMN

In 2015 SpareBank 1 Regnskapshuset SMN achieved a pre-tax profit of NOK 34.8m on a turnover of NOK 196m. With 7.4 per cent turnover growth in 2015, the company has a market share of 10 per cent in Midt-Norge. SpareBank 1 Regnskapshuset SMN is now one of the three largest actors in the accountancy business in Norway with 201 staff at year-end.

The company is seeing a growing influx of new customers. In 2015, 367 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.

The company has a strong ambition for further growth in the period to 2020, and to that end has signed a strategic cooperation agreement with the IT company Areto Solutions. This agreement is part of Regnskapshuset's focus on digitalisation.

SpareBank 1 Regnskapshuset SMN acquired in 2015 the subsidiary Avito Regnskap which it absorbed along with the subsidiaries SpareBank 1 Regnskapshuset Merkantilservice and SpareBank 1 Regnskapshuset Ålesund.

In conjunction 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 12 employees and assets totalling some NOK 5.5bn.

The company offers primarily 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 2015.

The accounts show a profit of NOK 1.4m before tax.

SpareBank 1 SMN Card Solutions

SpareBank 1 SMN Card Solutions sells and administrates prepaid cards. The company is a wholly-owned subsidiary of SpareBank 1 SMN. It primarily sells and administrates the SpendOn card. It also performs services for the bank in regard to the bank's closed loop gift card solutions and Visa prepaid cards.

The company sells cards to the corporate and private segments in grocery stores in Norway.

The company delivered a profit of NOK 1.5m before tax in 2015.

SpareBank 1 SMN Invest

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 in which SpareBank 1 SMN operates. By this means the company will foster competence-based jobs and regional value creation. SpareBank 1 SMN Invest contributes capital, network and competence.

The company has two employees in Trondheim. The business has highly qualified staff and ample competence. The company reported a profit of 38.9m before tax for 2015.

SpareBank 1 Markets

SpareBank 1 Markets is an analysis-based investment firm. The company aspires to be a profitable capital market operation which in collaboration with its owner banks can deliver all capital market services including customer trading and own account trading in fixed income and forex instruments, bonds and equities, advisory services and the facilitating of internal and external equity finance as well as securities administration services.

The largest owners are SpareBank 1 SMN (73.4 per cent), SpareBank 1 Nord-Norge (9.9 per cent), Samarbeidende Sparebanker (9.9 per cent) and Sparebanken Hedmark (6.1 per cent).

In 2015 the company delivered a profit of minus NOK 93m after tax. The company has 109 employees. The company is the leading capital market entity in SpareBank 1 SMN's market area. SpareBank 1 Markets is headquartered in Trondheim and has departments in Trondheim and Ålesund.

Customers and market position

SpareBank 1 Markets' main focus is on clients where the company itself has a strong competitive position alone or in collaboration with its owner banks.

The securities broking arm has its own customer base, built up over a number of years, as well as customers from the owner banks.

In the other product areas, customer activities in collaboration with the owner banks' other business lines are the main business, combining specialist competence with local knowledge and understanding. Own account trading is intended to support customer servicing with products and prices.

Property companies

SpareBank 1 SMN Kvartalet's purpose 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's purpose is to own, develop 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's purpose is to own, develop and manage property. The company acquired Trondheim Brannstasjon (fire station) at Kongens gate 2 from the City of Trondheim in 2012. The building was erected in two stages in 1943 and 1948/49 with a total area of about 680 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 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's purpose is to own, develop and manage property in Verdal. 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 in 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.

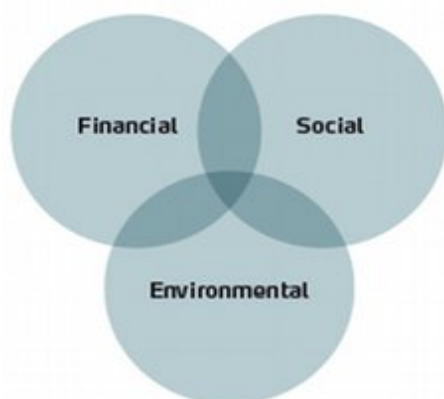
Through the bank's gift fund we have for many years returned funds to the region of which we are a part. We can mention grants to talented individuals in the arts and sports, support for local associations and organisations, well-being measures at neighbourhood level and contributions to business development 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 good balance between financial, social and environmental aspects. 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 - 2015

	2015	2014	2013	2012	2011	2010	2009
Strategy/financial							
Group strategy	Continued	Continued	Continued	Continued	Continued	Continued	Continued
Develop CSR strategy	Continued	Continued	Continued	Continued	Continued	Continued	Continued
Pre-tax profit (NOKm)	1 776	2 143	1 758	1 355	1 279	1 282	1 147
Total assets (NOKm)	131 914	126 047	115 630	107 919	101 455	97 992	84 541
Return on equity	10,70 %	15,10 %	13,30 %	11,70 %	12,80 %	14,60 %	16,20 %
CET1 ratio	13,60 %	11,20 %	11,10 %	10,00 %	8,90 %	9,30 %	7,80 %
No. of ECs issued (millions)	129,83	129,83	129,83	129,83	102,76	102,74	82,78
Quoted price 31.12	50,50	58,50	55,00	34,80	36,31	49,89	45,06
Market capitalisation (NOKm) 31.12	6 556	7 595	7 141	4 518	3 731	5 124	3 749
Direct return	4,50 %	3,80 %	3,20 %	4,30 %	5,10 %	5,60 %	4,60 %
No. of owners	8 059	8 398	8 741	9 749	9 532	9 654	9 500
Society/social conditions							
No. of FTP equivalents	645	753	758	819	794	793	805
Sickness absence	4,20 %	3,20 %	4,10 %	4,60 %	4,00 %	4,00 %	4,20 %
Women's share of workforce	53,00 %	48,00 %	51,00 %	51,90 %	52,00 %	51,00 %	51,50 %
Women's share of senior positions	36,00 %	32,00 %	31,60 %	28,70 %	27,00 %	28,00 %	28,00 %
Average age	46 yrs	46 yrs	46 yrs	46 yrs	46 yrs	46 yrs	45 yrs
Employee satisfaction	NA**	768*	756*	730*	715*	I/T	750
Agreement on inclusive employment	Continued	Continued	Continued	Continued	Continued	Continued	Continued
Strategy on life phase policy	Continued	Continued	Continued	Continued	Continued	Continued	Continued
No. of offices	48	48	50	51	54	54	56
No. of customers	209 200	203 000	201 500	200 900	196 500	194 500	194 000
Share allocated to culture	27 %	28 %	21 %	20 %	27 %	26 %	24 %
Share allocated to sports	30 %	26 %	15 %	22 %	26 %	27 %	20 %
Share allocated to humanitarian work	8 %	7 %	5 %	12 %	7 %	7 %	4 %
Share allocated to business development	35 %	39 %	59 %	46 %	40 %	40 %	52 %
Environment							
Purchase of paper (tonnes)**	19,8	26,5	35,8	35,8	35,7	39,1	35,9
Energy consumption (kWh)	4 522 914	5 965 100	6 134 600	6 135 000	6 900 500	7 004 400	6 580 000
No. of flights	3 660	3 626	3 517	3 524	3 910	3 816	3 585
E-waste return scheme (tonnes)	0,30	3,15	3,10	3,25	3,40	3,43	2,90
Waste sorting at source	Continued	Continued	Continued	Continued	Continued	Continued	Continued
Printer and toner return scheme	Continued	Continued	Continued	Continued	Continued	Continued	Continued
No. of videoconferencing rooms	11	10	10	10	8	6	6
Strategy/action plan for energy and the environment at the new head office	Continued	Continued	Continued	Continued	Continued	Continued	Continued
No. of offices certified under the 'Environmental Lighthouse' scheme	15	15	4	4	2	1	1

* New system of organisation analysis as from 2011

** Organisation analysis not conducted in 2015

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
- all authorised and approved advisers receive an annual competence update that includes an ethics session

Organisation and staff

SpareBank 1 SMN aims 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, 4.17 per cent in 2015, and we believe this can to some extent be ascribed to a workforce that is 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 2015 women held 36 per cent of senior positions compared with 32 per cent in 2014.

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. Illegalities 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 known as whistleblowing. Everyone has a social responsibility and no-one should keep quiet about a criminal offence. SpareBank 1 SMN has a keen awareness of this issue and takes precautionary measures against, and uncovers, corruption and irregularities and investigates any suspicion of illegality or irregularity.

Money laundering and financing of terrorism

"Know-your-customer" and "know-your-customer's business" are important principles of Norway's Money Laundering Act. Alongside the societal trend of increasing exposure to risk, the bank sees a regulatory regime and international standards that are constantly evolving. Increased requirements are imposed throughout, as well as more specific and stringent requirements on customer due diligence and customer follow up.

SpareBank 1 SMN works systematically to uncover and combat economic crime. As an institution subject to the reporting obligation, SpareBank 1 SMN is required to undertake a concrete review of the risk of money laundering and terrorist financing facing its business. Our risk assessment involves identifying and assessing risk associated with customers, customer relationships, products and transactions. Customer due diligence measures must be tailored to the identified risk.

Knowledge of our business and of our customers is important when applying a risk based approach under the requirements imposed on us by legislation. This means that SpareBank 1 SMN needs 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. The bank must to that end be able to demonstrate that its due diligence measures are tailored to the risk in question. Authorities, customers and competitors must have confidence in SpareBank 1 SMN's professionalism and integrity. By maintaining vigilance at all levels of the organisation the bank plays its part in ensuring that products and services are not exploited to criminal ends.

The threat picture has changed where economic crime is concerned, not least in terms of the increased volume of organised cross-border crime. The bank is witness to ever more sophisticated attempts to launder money, and also an increase in cross-border transactions, as well as in foreign customers. We further note more widespread fraud and attempted fraud against our customers. Customers are lured into making payments to recipients abroad, for example in connection with internet dating, investment fraud, holiday property rentals, bogus e-mails etc.

In the past two years SpareBank 1 SMN has increased its number of reports to the National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) by 90% compared with previous years. The bank elucidated and reported 114 cases in 2015. A significant portion of reported cases were prompted by frequent and/or large cash deposits via cash deposit machines that are often used for transfers to other countries; extraordinary loan repayments; mixing of personal and business activities etc, along with other suspicious account movements and large cash withdrawals.

All staff members are required at specific intervals to undergo mandatory e-training with respect to money laundering and terrorist financing. In addition 20-25 courses/training in combating money laundering are held annually for a large number staff.

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 2015 a good 300 kg of technological waste were delivered to such a facility. Paper consumption amounted to 19.8 tonnes compared with 26.5 tonnes in 2014. Increased use is made of electronic work processes, bringing greater demands on safety and personal protection. The following measures are 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 3,660 flights in 2015 compared with 3,626 in 2014. 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 cycle or walk to and from work if feasible.

Very low energy consumption at the 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 office premises section of the building was 85 kWh per square metre per year. This target was met by an ample margin in the very 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, 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 factors are:

- a well-insulated and efficient building envelope
- a highly energy-efficient ventilation system
- a good 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. By the start of 2015 the Trondheim head office and the offices in Ålesund, Stjørdal and Steinkjer were certified. A further 12 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 the remaining offices starts in 2016. SpareBank 1 SMN is also a member of Grønt Punkt Norge AS.

SpareBank 1 SMN's monetary gifts

Contributions to the community and society are non-profit and they 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 Prize of Honour

SpareBank 1 SMN disbursed a good NOK 30m to activities of benefit to the community through its gift institute in 2015.