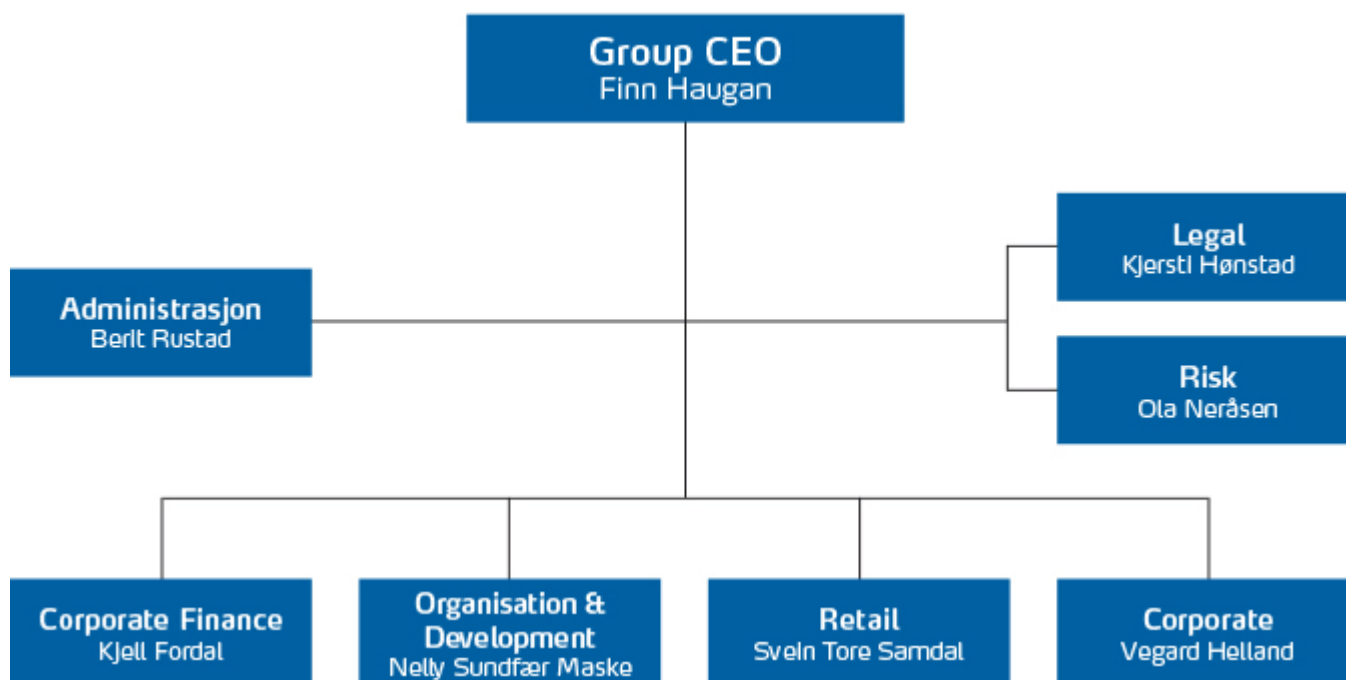


Business description

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.