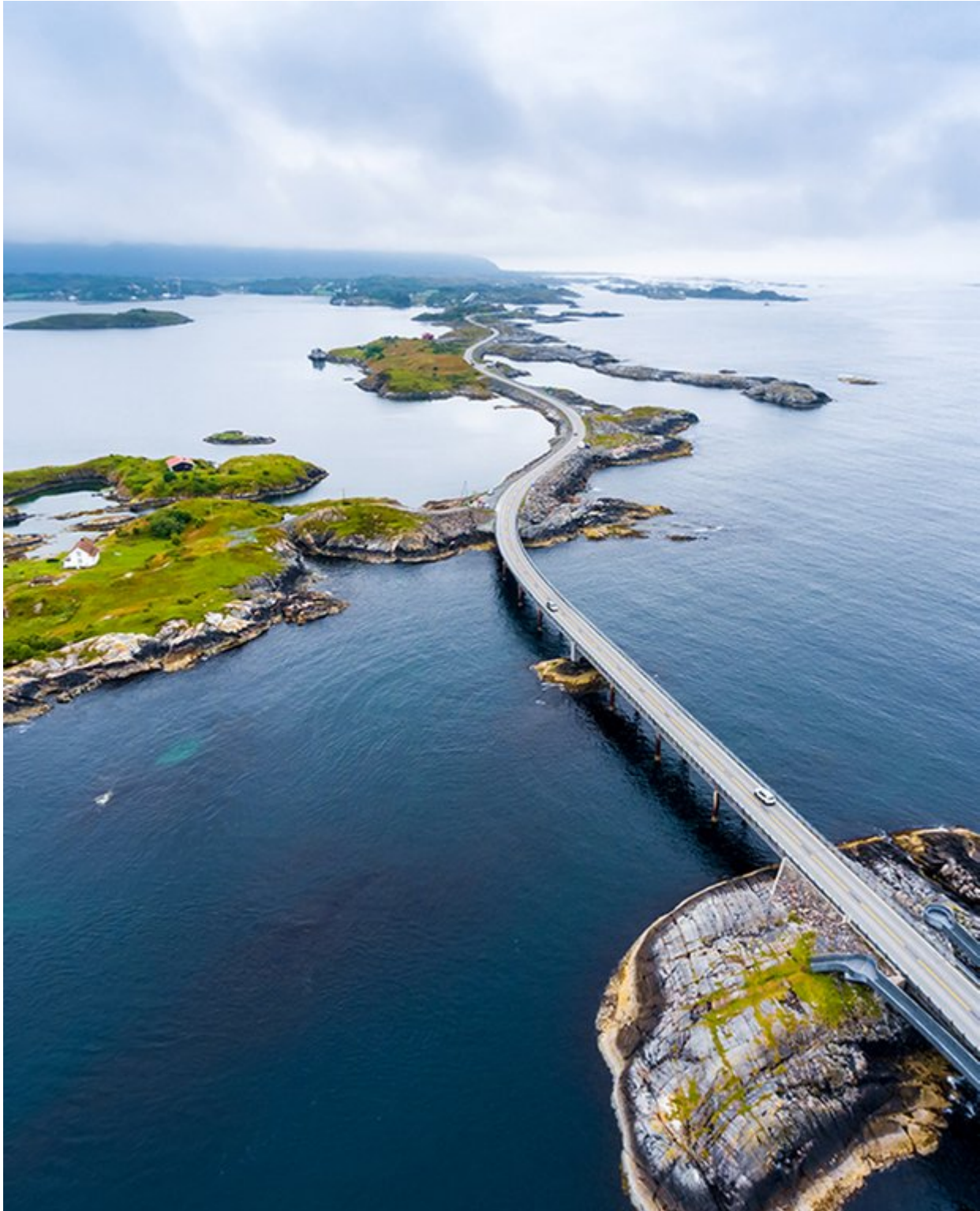
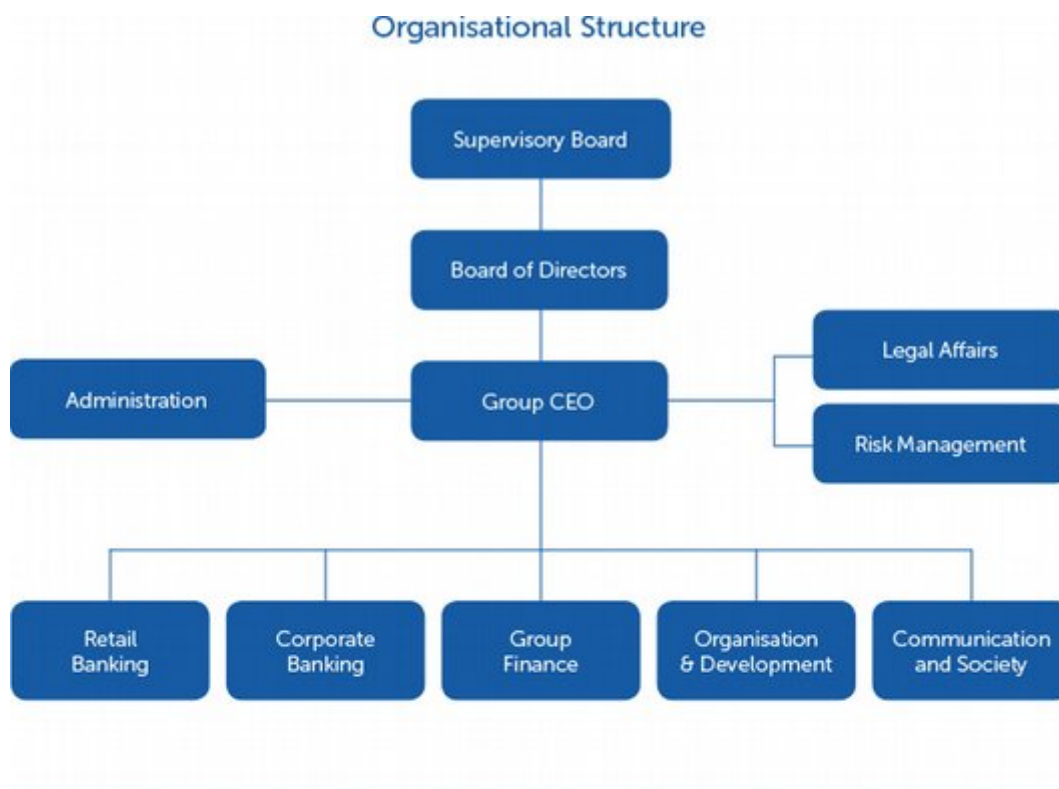


# The business

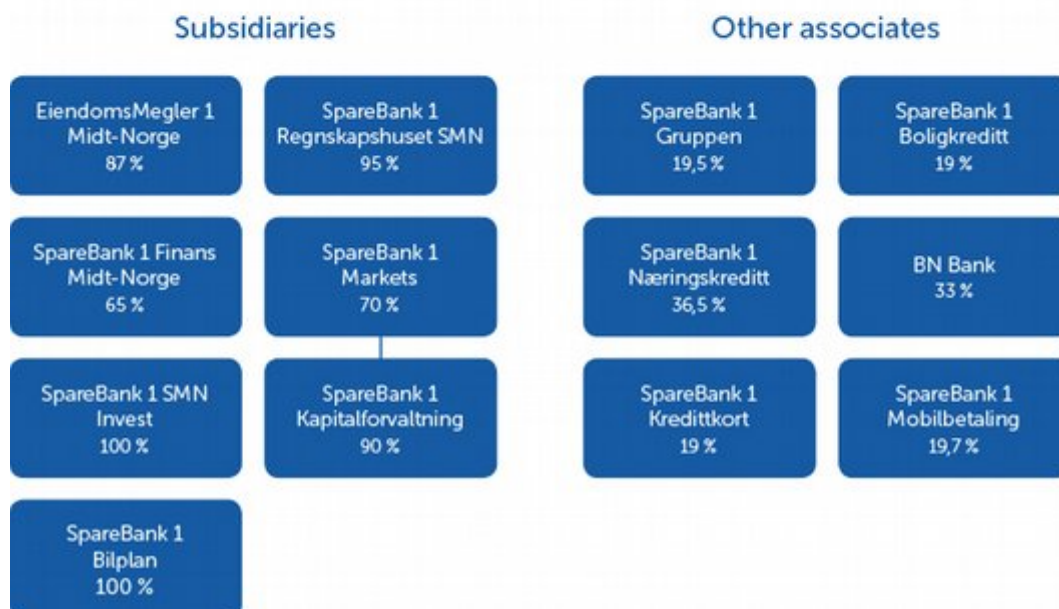


## Business description

SpareBank 1 SMN is the region’s leading financial services group and one of six owners of the SpareBank 1 Alliance. Its head office is in Trondheim and the group and its subsidiaries employ just over 1,300 staff. SpareBank 1 SMN is a regional independent savings bank with a local footing. 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:



### Financial Group SpareBank 1 SMN



## Retail Banking

The business area Retail Banking offers advice to personal customers, farm sector customers, clubs, associations and one-person businesses. Together with product suppliers and subsidiaries, the bank offers all products that are important in making customer finances simpler and securer and in finding solutions together with the customer. The advice offered is based in the customer's needs. Although production tasks and solutions are becoming increasingly digital, we believe there is a large and unmet need for advice in building and safeguarding the present and the future for all customer groups of this business area.

Our ambition is to have the industry's best digital solutions, providing customers with straightforward day-to-day banking services and an opportunity to meet all their needs in the banking and insurance sphere. But we still see the value of decentral localisation that gives the customer an opportunity to meet us for one-stop advice, and to feel that that we are something more and different than the sum of our products.

In addition to following the industry's norms and requirements on good advisory practices, we must as a bank contribute knowledge and insight to continuously improve the quality and relevance of advisory content to our customers.

Our hallmark is our ability to meet an ever larger part of our customers' needs for financial services in an industry in which many actors focus on selling individual products.

### **Customers and market position**

In 2017 SpareBank 1 SMN strengthened its position as the leading actor in all Retail Banking's customer groups, and all product areas. More than 59,000 planned customer advisory sessions were completed in 2017, and this number is expected to increase further. The residential mortgage portfolio continues on a positive trend.

Our business has a strong standing among our customers, and shows an excellent trend in customer satisfaction. The interaction with subsidiaries, Corporate Banking and the Norwegian Confederation of Trade Unions (LO) is important in enabling Retail Banking to attain the division's goal of continued growth in activity and the customer base.

### **Financial developments**

Retail Banking posted an overall pre-tax profit of NOK 1,132m.

The loan book shows high growth, but at consistently low risk. The increase in growth compared with 2016 is largely down to new borrowers coming from banks that have made structural changes and no longer offer locally based advice. In addition to an unprecedented customer influx, we have also seen a good trend in sales across a broader range of products, and have positive expectations of growth in sales in 2018 too.

We anticipate greater uncertainty in the housing market in the period ahead, and this may have a bearing on risk in the industry. Back in March 2016 we made changes to our credit practice in order to be well prepared should house prices level off or fall. By means of a more stringent lending policy over time than is the norm in the industry, we believe we are well prepared for the levelling off of house prices we saw towards the end of 2017 and for any fall in house prices ahead. The region has a robust industry composition, and the bank has in addition focused its retail banking business on smaller loans and home financing. This makes for good risk diversification and, in combination with good sales and a good portfolio trend for mainstream products, gives us a solid basis to withstand possible negative shifts in the Norwegian economy.



## Local and digital

We are moving step by step from being a traditional bank offering digital services to a digital bank with a personal and local signature.

Svein Tore Samdal, executive director, Retail Banking

### **Customers are growing in number, making more purchases and staying with us longer**

2017 was another year confirming that our strategy is well-suited to the customers we want to cater to. We are moving step by step from being a traditional bank offering digital services to a digital bank with a personal and local signature. Customers are making ever more demands of us as a bank, and we see these demands change based on needs, situation and life phase. That is why we are offering more products and services across more channels than ever before. The customer experience is our important main focus in a broad range of situations. It is about enabling accessible and straightforward product purchases, secure establishment of new products and services, effective digital services that make daily life simpler for the banking customer and his/her family and competent advice in the more demanding situations that arise in a customer's life.

In 2017 we continued the sound growth trend. With a lending growth of more than 10 per cent we ended the year well above the target set of 2017, at the same time as growth in risk and quality is as targeted. We also achieved good deposit growth of 6.7 per cent. The growth in deposits is a result of high activity aimed at ensuring that all customers hold their salary and current accounts with us and a conscious desire on the part of many borrowers to do their day-to-day banking with us as well.

We retain our local presence in 48 locations across our region while at the same time adapting our office structure to a more digital day-to-day life. Specifically this entails an increase in advisory services related to life events and a drop in the number of enquiries related to day-to-day banking and services. The latter are to a greater extent provided through good intuitive digital solutions, increasingly frequently via the customer's mobile bank. In 2017 we also opted to introduce ANNE, our digital chatbot, who guides customers in many of their day-to-day enquiries. We believe the range of possibilities offered by this technology to be unexplored territory, and it could significantly enhance the customer's experience by coming across as both competent and accessible.

2017 was the year in which mCash merged with VIPPS. This has been good news for all our club and association customers who can now benefit from a flexible payment solution with very many users.

Moreover, good use has been made of the year to prepare for various scenarios that may become a reality as a result of PSD2, the revised payment services directive. We will play a leading role on this front, and focus on new partner and business initiatives to the benefit of all our customers.

2018 awaits us. Another year of change. We will continue to seize our opportunities – providing our customers with better advice, our staff with a sense of achievement and a fantastic working day, and our investors with a splendid return.

<b>Privatmarked</b>	<b>2 017</b>	<b>2 016</b>
Deposits	37.2 bn	34.9 bn
Loans	103.1 bn	93.8 bn
No. of customers	218 000	215 000
No. of FTEs	350	371
Profit before tax	1,127 bn	850 bn

## Corporate Banking

The business area Corporate Banking provides the bank with advice in investment and operations financing, domestic and foreign money transfers, fixed income and currency hedging, investment of surplus liquidity and insurance of individuals and buildings/operating equipment. Much of the business is in close cooperation with Retail Banking, 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 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 and tools along with its organisation of 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 and that risk exposure is consistent with the bank's credit strategy. Together with the other alliance banks, substantial resources are expended on continuously improving the credit scoring models.

### Customers and market position

The bank services some 21,000 corporate clients including the public sector. In 2017 about 1,500 new corporate clients were registered. SpareBank 1 SMN has a market share of about 35 per cent of the corporate market 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 and 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.

The Corporate Customer Centre is a central business line in Corporate Banking, enabling corporate customers to receive good follow up and relevant advice in selecting products and services and in the use of digital services. Customer satisfaction (CSI) hit an all-time high in 2017. The score takes into account competence, service, information and initiative.

### Financial developments

The business area Corporate Banking increased its income by close to NOK 20m to NOK 1.2bn last year. The income is generated by a positive trend in all business lines, but in particular from increased deposit margins and higher guarantee commission. It is especially gratifying that income from insurance (general and life) is rising and that more and more businesses see the value of turning to a local provider with local competence in all product areas to meet all their financial service needs.

Growth in lending has been low and in keeping with the bank's capital plan, and ended at 1.5 per cent for the year, while deposit growth was excellent with an increase of 19.5 per cent. We anticipate low lending growth again in 2018 while aspiring to a deposit growth of about 5 per cent.

In step with the digitalisation of our products and services, we have downsized our staff and thereby our costs in this business line. More focus will be given to digitalisation, improving the efficiency of processes and staff reductions in 2018.

The oil price fall has led to a significant deterioration of prospects for companies working in oil and offshore, and the business unit has therefore recognised losses of NOK 320m in 2017. The write-downs are in all essentials related to a portfolio of offshore service vessels. Little spread of contagion from the low oil price to other industries is in evidence and losses and defaults in other parts of the portfolio are extremely low.



## SMBs even more important

In 2018 we will continue to focus on the SMB segment in order to reduce concentrations in individual industries or single name groupings.

Vegard Helland, executive director, Corporate Banking

### Continuing focus on SMBs

SpareBank 1 SMN has clear ambitions to strengthen its position as the leading bank for small and medium-sized businesses in Trøndelag and in Møre and Romsdal.

Corporate Banking employs a systematic approach to attracting new customers, and all customer advisers have specific customer recruitment objectives for 2018. Continuous improvement is key to freeing up time for the customer advisers to enable them to carry out their primary task of taking care of existing customers and recruiting new ones. In 2018 we will continue to focus on the SMB segment with a view to reducing concentrations in individual industries or single name groupings.

The solution lies in having skilled advisers close at hand in the bank combined with development of new digitalised solutions that make day-to-day banking a simpler matter and that free up time and resources which can be devoted to providing good advice and to designing solutions tailored to the customer.

In collaboration with SpareBank 1 Regnskapshuset, the bank has developed new digital services for business and industry. This is being done at an innovation unit at the company SMB Lab whose mission is to launch concepts, products and services that are tailored throughout to the needs of small and medium-sized businesses and simplify their everyday life.

The bank's goal is to reduce losses from the levels seen in 2017. This, together with a profitability enhancement programme for the business unit, will improve profit and the risk adjusted return. The bank remains prepared to take the action needed to meet any problems that may arise in the oil and offshore sector. It is working closely with customers to find solutions that safeguard shared interests in the economic situation prevailing at any time. Corporate Banking will accordingly maintain the capacity and competence needed for the bank to remain a readily accessible and capable provider of financial services in the long term.

While the macroeconomic picture is uncertain on a general level, differing challenges are faced in the sectors to which the bank's clients are exposed. Again in 2017 the bank published its Economic Barometer

which takes the pulse of the most important industries in the region and produces economic growth forecasts for our three counties. Corporate Banking attaches great importance to having advisers with a practical business understanding of important industries. Cooperation with other SpareBank 1 banks is close.

In 2017 the business area has had a major focus on compliance, in particular on the anti-money laundering effort. This effort has produced good results and at year-end the business area has accomplished its aims. Further, we have launched a major project to build a new customer interface that combines information from the bank and accounts and permits third parties to deliver services to our customers. The new customer interface will be made available to the market in the course of 2018 and will enable increased digital sales and, not least, distribution of new products and services.

<b>Næringsliv</b>	<b>2 017</b>	<b>2 016</b>
Deposits	38.7 bn	32.4 bn
Loans	39.5 bn	38.9 bn
No. of customers	15 000	15 000
No. of FTEs	145	158
Profit before tax	632 m	384 m



## Digital Trend

At the start of 2018 the Norwegian financial industry faces major changes. The revised Payment Services Directive, PSD2, will be introduced in the course of the year. The bank and the SpareBank 1 Alliance have set an ambitious goal: to exploit this opportunity to offer improved services and create more value for existing and new customers. It will require increased investment to lift the bank's services out of closed electronic systems into an open system enabling us to offer banking services to both new and existing customers. This can be done through the bank's existing channels, new dedicated interfaces and ecosystems bringing in a number of partners.

Much of the development work will take place through the SpareBank 1 Alliance which has a strong development unit, but the bank is also strengthening its internal team with new skills to enable more customer centric innovation and development.

At the same time external partners are being invited to engage in innovation based on the bank's products and services and data. We are also collaborating closely with start-up companies, for example through our proximity to the incubator F3 Finance for the Future which is located in the bank's head office.

### **Employee-driven innovation – best at getting better**

In 2017 SpareBank 1 SMN has had a strong focus on involving its staff in the bank's improvement and innovation processes. The goal has been to create a better flow in internal work processes, increased quality and reduced delivery time to the customer and to remove pain points in digital purchase and service solutions.

In addition, ahead of the Group get-together in autumn 2017, all staff members were invited to take part in a grand idea competition called SMN Group Pitch 2017. The competition resulted in 120 well-documented and well-founded ideas, and some of their creators were invited to participate in further development and prototyping.

### **Relevant customer communication and digital selling**

The bank offers simple, user-friendly digital solutions for all our services, and we estimate that 50 per cent of all sales will be digital in 2020. Last year the bank introduced one of the market's most powerful tools for coordinating relevant customer communication across different channels. Correct use of data and a well-functioning and effective channel interaction are crucial to creating relevant initiatives and to increasing sales across all channels. Advanced statistical prediction models significantly enhance targeting.

Of the total number of sales, digital sales accounted for 24 per cent in 2017 – up from 19 per cent the previous year. We see a clear tendency for many of our customers to prefer a digital channel where the bank offers good solutions. This year we will develop new digital solutions for financing.

The bank has a new CRM system in the pipeline which, together with advanced statistical models and the Adobe campaign manager, will enhance and effectivise channel interaction, making for increased sales and a better customer experience.

### **Developing effective and efficient cloud services and digital assistants**

In 2017 the bank has actively studied the opportunities and risks involved in using the cloud as a technological platform for new IT solutions. Over the year a good basis was laid for using new solutions ourselves or placing them in a secure manner with selected cloud service providers. Cloud solutions provide

opportunities to establish new solutions more quickly than would otherwise be the case or to adapt solutions to meet new needs.

The bank has worked purposefully on installing robotic process automation (RPA) to digitalise and increase the efficiency of operational processes. RPA will also be a focal area in 2018. Developing a security architecture and solutions geared to a more open business model are challenges facing the financial industry. SpareBank 1 SMN plays its part in the Alliance's shared security strategy effort to address and respond to the changes this development will bring.



## New customer behaviour makes for increased digital sales

We estimate that 50 per cent of all sales will be digital in 2020.

Nelly S. Maske, executive director, Organisation and Development

## The SpareBank 1 Alliance

The SpareBank 1 Alliance brings together the Norwegian SpareBank 1 banks in a collaboration on banking and products through their jointly owned companies SpareBank 1 Gruppen and SpareBank 1 Banksamarbeidet.

### **About SpareBank 1 Gruppen**

SpareBank 1 Gruppen is the parent company of eight subsidiaries which all develop and deliver products to the Alliance banks which in turn offers these products to customers in their local markets. The company also develops and delivers products to the Norwegian Confederation of Trade Unions' (LO) associated unions and members through the credit card programme LOfavør.

SpareBank 1 Gruppen is wholly owned by SpareBank 1 banks and the 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), Samarbeidende Sparebanker AS (19.5 per cent), Sparebanken 1 Østlandet (12.4 per cent), and the LO and associated unions (9.6 per cent).

### **SpareBank 1 Gruppen wholly owns the following subsidiaries**

SpareBank 1 Forsikring, SpareBank 1 Skadeforsikring, ODIN Forvaltning, Conecto, SpareBank 1 Factoring, SpareBank 1 Portefølje, SpareBank 1 Spleis and SpareBank 1 Medlemskort (owns 51%).

### **About SpareBank 1 Banksamarbeidet**

SpareBank 1 Banksamarbeidet, a banking collaboration, has the administrative responsibility for collaborative processes and delivery of services to the SpareBank 1 Alliance. The company delivers business platforms and joint management and development services to the Alliance banks, and plays its part in ensuring that joint development and joint activities provide the banks with economies of scale and competence. The company also owns and manages the Alliance's intellectual property rights under the joint brand name SpareBank 1.

## The people - the bank's greatest asset

Behind the fine accounting figures lie favourable economic conditions and solid banking. But, the bank's definitively greatest asset is and will continue to be the skills and competence of its staff.

### **The people**

Technological development and changing customer behaviour mean the bank has to adapt to a new everyday and equip itself for the future. This has also influenced the work done on organisation development and management in 2017. Reorganisation, staff development and recruitment of new competence to build the bank of the future had high priority in the year behind us. A new vision and new values were launched in 2017. The new values will help to build a culture that makes the bank a good place to work and a good place to be a customer.

At the end of 2017 the bank employed the equivalent of 595 FTEs.

### **Vision and values**

In January 2017 a new vision and a new set of values were launched. They were the result of a thoroughgoing process marked by great involvement and a strong commitment. The vision conveys meaning, direction and energy to the people working at the bank. The bank's new vision reads: "Together we make things happen".

The bank's new values are wholehearted, responsible, likeable and capable. The values are intended to build a bank's identity, and form the basis for a culture in which the staff thrive, and work each day to create results for the good of our customers and the bank.

### **Recruitment and attractiveness to employees**

SpareBank 1 SMN is among the region's most attractive employers and is met with great interest when job vacancies are to be filled. In 2017 many new, high-quality staff were recruited who, together with the organisation as a whole, will play an important part in adapting and developing the bank in step with the considerable changes we are facing.

The bank has a targeted focus on colleges and universities with a view to building relations with talented students. We attract many applicants and note a keen interest both in our mentor programme for business and economics students and in the bank's summer project.

### **Reorganisation**

Changing customer behaviour and technological opportunities call for adjustments to the organisation. Digitalisation and automation of customer and production processes lessen the need for people in parts of the business. Targeted reorganisation processes have been carried through in parts of the organisation, and 39 severance packages were agreed in 2017. The processes are described more fully in the chapter on corporate social responsibility.

### **Employee development**

The bank's managers and staff are its most important resource and a crucial differentiating factor when it comes to attaining goals and fulfilling strategies. That is why the bank attaches great importance to developing competence and skills. Internal training activities are arranged on a substantial scale, and many

of our talented managers and staff are offered opportunities for professional and personal development on external courses and at educational institutions. The bank works continuously to identify competence needs in the short and long term to assure our ability to offer our customers advisory and other services of the highest quality.

In 2017 we completed a pilot project on the use of virtual reality (VR) technology in training our customer advisers. The project is continuing in 2018 the focus on training of relationship skills in the context of dialoguing with customers.

### New pension scheme

As from 1 January 2017 all employees were members of a defined contribution pension scheme. Although the bank closed its defined benefit scheme in 2008, about half of employees were still on that scheme at the start of 2016. After a long and thoroughgoing process with the employees' representatives it was decided to transfer all employees to the defined contribution scheme. The bank also decided with effect from 2017 to increase the defined contribution rates to 7 per cent from 0 to 7.1G\* and to 15 per cent in the interval 7.1 to 12G\*.

### Health, environment and safety

The bank has a targeted focus on measures designed to promote a good work environment, and substantial resources are devoted to encouraging good health through physical activity and keeping fit. The programme "Better Shape" stimulates individuals and departments to keep fit by holding competitions and awarding prizes, by subsidising fitness centre membership and by organising fitness activities at work. Employees log their workouts in a digital fitness diary, and the share of employees who tracked their workouts in 2017 was 81 per cent.

Sickness absence in 2017 was 4.0 per cent, with sickness absence reported by the employees and by a doctor accounting for 0.8 per cent and 3.2 per cent respectively.

### Gender equality

SpareBank 1 SMN is concerned that women and men should have equal opportunities in terms of personal development, salary and career. At the pay settlement in 2017 correctives were applied to ensure that pay level imbalances between women and men were evened out. The gender distribution at the bank in 2017 was 51.2 per cent women and 48.8 per cent men. The proportion of female managers was 41.8 per cent. The group management team consists of six persons, of which one is a woman. The bank's focus on diversity and gender equality/equal opportunity is described in detail in the chapter on corporate social responsibility.

<b>Society/social conditions</b>	<b>2 017</b>	<b>2 016</b>
No. Of FTP equivalents	595	630
Sickness absence	4 %	3,9 %
Women's share of workforce	51,2 %	51,8 %
Womens's share of senior positions	41,8 %	41,2 %
Average age	46 yrs	46 yrs
Employee engagement	83	N/A

\*G = the basic amount available under the Norway's national insurance scheme.