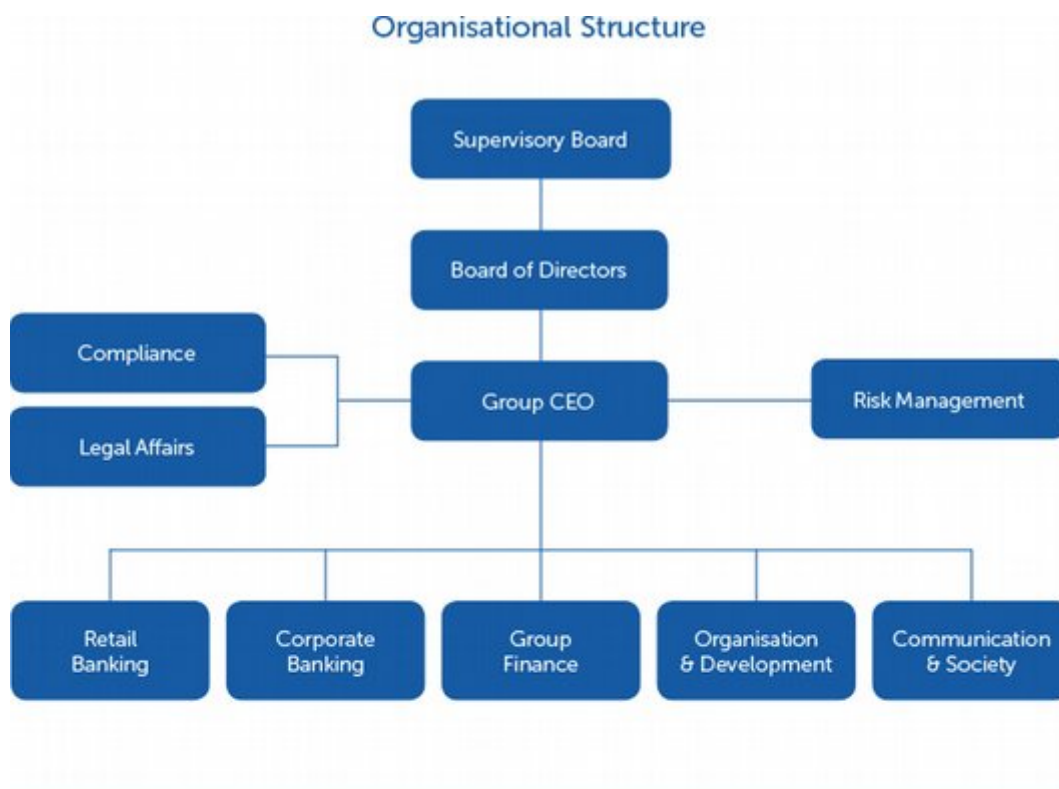


The business

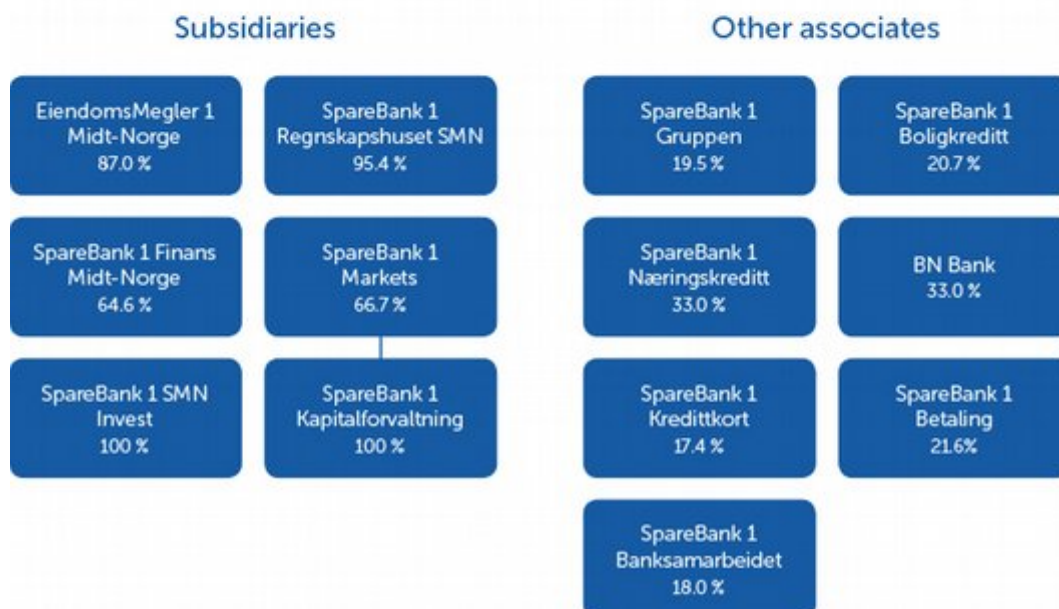


Business description

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 under 1,500 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 line Retail Banking offers advice to personal customers, agricultural sector customers, clubs, associations and one-person businesses. Together with product suppliers and subsidiaries, we offer all products that are important in making customer finances simpler and more secure. A long and broad-based customer relationship provides us with the best basis for finding the best solutions together with the customer, tailored to the individual customer's needs. We believe that even though production tasks and solutions are becoming increasingly digital, there is a substantial need for advice that needs to be met in order to build and secure the present and the future for our respective customer groups.

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

In addition to following the industry's norms and requirements regarding good advisory practices, we must as a bank also utilise our knowledge and insight to continuously improve the quality of the service and advice we offer our customers. The residential mortgage portfolio continues to show a positive risk trend.

Customers and market position

In 2018 SpareBank 1 SMN strengthened its position as the leading actor in all Retail Banking's customer groups, and all product areas.

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 in the customer base.

Financial developments

Retail Banking posted an overall pre-tax profit of NOK 1,206m.

The loan portfolio shows growth of about 10 per cent in the retail segment in 2018. The growth is largely down to new borrowers joining us from other banks, but also to refinancing of loans in the existing portfolio. Part of the growth is also due to an increased focus on collaboration with mortgage agents. The growth in sales of a broad range of products was on a par with results for 2017.

The loan portfolio consistently shows low risk. At the start of 2018, we saw a negative trend and a significant increase in long defaults. Later in 2018, a weak downward development was noted such that, relative to lending growth, we have a decline in the proportion of defaults. However, we still see a need for strengthened preparedness for an expected increase in defaults. Information on borrowers' unsecured debts that will become available via the debt registers in due course gives rise to uncertainty. Viewed in light of the growth in household debt, we expect a general increase in the number of borrowers with debt-servicing problems ahead. We see the need for a further tightening of our lending practices to ensure that we continue to maintain an acceptable level of quality in the credit area.

The Norwegian economy currently shows good growth, and prospects for business and industry in our region are also favourable. Capacity utilisation in the economy is high and growth is anticipated in employment and the labour supply, indicating that the labour market will feature low average unemployment

figures in 2019 as previously. Nonetheless, market prospects at the end of 2018 reflected some uncertainty, along with lower expectations of households' private consumption. The housing market has been sluggish, the time taken to sell a house has lengthened and the supply of existing dwellings is record-high. We expect somewhat lower growth in the portfolio in 2019.



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.

Nelly S. Maske, executive director, Retail Banking

Customers are growing in number and meeting more of their needs with us

2018 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 main focus in a broad range of situations. This is about easy access to 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 2018 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 for 2018, at the same time as growth in risk and quality is well in line with target. 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 of 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 gradually 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 2018 we implemented a new CRM system that enables us to use customer data to develop on an ongoing basis new solutions for providing customers with relevant advice and service, whether the customer is in direct contact with our advisers or utilises our digital solutions. Customers must be assured that we are fully updated on their accounts etc. and on their contact with us, irrespective of the channel or platform on which this took place.

Moreover, good use was 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. The SpareBank 1 Alliance has

already opened the way for accounts with other SpareBank 1 banks and with Sbanken to be displayed using our mobile bank.

2019 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 an exciting working day, and our investors with a good return.

Retail Banking	2018	2017
Deposits	40.0 bn	37.2 bn
Loan	112.7 bn	103.1 bn
No. of customers	223 000	218 000
No. of FTEs	316	350
Profit before tax	1,206 bn	1,127 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 15,000 corporate clients including the public sector. In 2018 about 1100 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 lines 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. In a customer satisfaction poll, the Corporate Customer Centre scores very highly in areas such as competence, service, information and initiative.

Financial developments

The business area Corporate Banking increased its income by almost 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 4.2 per cent for the year, while deposit growth was excellent with an increase of 16.5 per cent. We anticipate low lending growth again in 2019 while aspiring to a deposit growth in the region of 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 area. More focus will be given to digitalisation, improving the efficiency of processes and staff reductions in 2019.

The oil price fall has led to a significant deterioration of prospects for companies working in oil and offshore, and the business unit therefore recognised losses of NOK 212m in 2018. 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 very low.



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 Central Norway.

Corporate Banking employs a systematic approach to attract new customers, and all customer advisers have specific customer recruitment objectives. 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 2019 we will continue to focus on the SMB segment with a view to reducing industry or single name concentration.

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 other banks in the SpareBank 1 Alliance, the bank has developed new digital services for business and industry. This is 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 2018. 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, a variety of challenges are faced in the sectors to which the bank's clients are exposed. Again in 2018 the bank published its Economic Barometer which takes the pulse of the most important industries in the region and produces economic growth forecasts for Central Norway. 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 2018 the business area has had a major focus on compliance, in particular on the anti-money laundering effort. 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 2019 and will enable increased digital sales and, not least, distribution of new products and services.

Næringsliv	2 018	2 017
Deposits	39.2 bn	38.7 bn
Loans	40.5 bn	39.5 bn
No. of customers	15 000	15 000
No. of FTEs	148	145
Profit before tax	744 m	632 m

The people - the bank's greatest asset

Behind the strong accounting figures lie good economic conditions and solid banking. However, the bank's greatest asset by far is, and will continue to be, the skills and competence of its staff.

The people

Technological development and changing customer behaviour means the bank has to adapt to a new daily life and equip itself for the future. This influenced the work done on organisation development and management in 2018.

Reorganisation along with management and staff development with a view to building new competence and new skills for the bank of the future had high priority in the past year.

At the end of 2018 the bank employed 580.4 FTEs.

Vision and values

We have a keen focus on and awareness of our fundamental values: wholehearted, responsible, likeable and accomplished. Our values, together with the bank's vision "Together we make things happen", impart meaning, direction and energy to the people working at the bank. Moreover, we make active use of those values to build the bank's identity and to underpin a culture in which the staff thrive, working each day to create results for the good of our customers and the bank alike.

Recruitment and employer attractiveness

SpareBank 1 SMN is among the region's most attractive employers and draws keen interest when job vacancies are to be filled. In 2018 many new, high-quality staff were recruited who, together with the organisation as a whole, will be important contributors to the work of adapting and developing the bank in line with the considerable changes facing us.

The bank maintains a targeted focus on colleges and universities with a view to building relations with talented students. We attract many applicants and note 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. Adjustments have accordingly been made in parts of the organisation, and 13 severance packages were agreed in 2018. The processes are described more fully in the chapter on corporate social responsibility.

Management and staff development

The bank's managers and staff are its most important resource and a crucial differentiating factor when it comes to realising goals and 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.

SpareBank 1 SMN is affiliated to industry schemes for the financial industry, and all our financial advisers are required to complete the requisite certification programme. In 2018, a new industry scheme was introduced for the credit area. By the end of 2018, a large share of our advisers and managers had completed the new certification programme. All our retail market advisers must obtain certification by the end of March 2019.

In addition to the industry schemes and basic competence building in the various product areas, we maintain a keen focus on developing the skills needed to ensure a good customer experience and high quality advisory services. In 2018, we completed a project involving the use of virtual reality (VR) technology in training customer advisers in communication and relationship skills in the context of customer dialogue.

In 2018, we held the management development programme SKIFT2020. All managers with personnel responsibility have completed five modules focusing both on individual and collective management skills that we as an organisation need to master in order to attain our ambitious goals. The programme continues in 2019.

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 2018 was 84 per cent.

Sickness absence in 2018 was 4.2 per cent, with sickness absence reported by the employees themselves and by a doctor accounting for 0.7 per cent and 3.5 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 2018 correctives were applied to ensure that pay level imbalances between women and men were evened out. The gender distribution at the bank in 2018 was 49.7 per cent women and 50.3 per cent men. The proportion of female managers was 42.6 per cent. The group management team consists of six persons, of whom one is female. The bank's focus on diversity and gender equality/equal opportunity is described in detail in the chapter on corporate social responsibility.

Society/social conditions	2018	2 017
No. Of FTP equivalents	580	595
Sickness absence	4.20 %	4.00 %
Women's share of workforce	49.80 %	51.20 %
Womens's share of senior positions	42.60 %	418 %
Average age	46 år	46 yrs
Employee engagement	82	83

Digital Trend

Relevant customer communication and digital sales

SpareBank 1 SMN's most important competitive advantage is its combination of simple, user-friendly digital solutions and relevant advice offered both by our digital channels and our branch offices. Digital sales accounted for 34 per cent of overall sales in 2018, up from 24 per cent in 2017. By year-end more than 60 per cent of all loans applications from retail customers started in the digital channel.

New digital solutions for businesses are also an important focal area, and in autumn 2018, we launched, as the first bank in Norway to do so, an entirely new service that makes establishing one's own business a simple matter. This fully digital service is hooked up to the Brønnøysund Register Centre and the government internet portal Altinn. Since its launch, 83 businesses have been established by way of the new service.

In autumn 2017, the bank introduced the market's most powerful tool for coordinating relevant customer communication across the bank's channels. Through 2018, this has enabled the bank to initiate various follow-up programs designed to ensure that customers receive correct information tailored to their needs. Initiatives presented in the mobile channel and the internet channel are well received by customers. Correct use of data and a well-functioning and effective cross-channel interplay are crucial to creating a good customer experience, and to increasing sales across all channels. Advanced statistical prediction models substantially enhanced the level of precision. At the start of 2019, a project is under way to put the tool to use in the Corporate Banking business line too.

The client meeting with advisers is central to the bank's offering to retail customers and businesses alike. At the same time as more and more contact points between the client and the bank are being digitalised, the bank is working purposefully to ensure that we provide relevant and good advice in connection with important life events of our personal customers or with major changes at businesses. In 2018, the bank introduced virtual reality (VR) technology in its adviser training to imbue our competence-building measures with even greater learning effect for our advisers.

The financial industry of the future

SpareBank 1 SMN has set itself the ambitious goal of exploiting the opportunity provided by the revised Payment Services Directive, PSD2, to offer improved services and add more value for existing and new customers. In 2018, it became possible for our customers to view their account balance with other banks on their smartphone. This is the first step on the path towards 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 in-house team with new skills designed to enable more customer centric innovation and development, in particular involving interaction with local innovation entities. The bank works closely together with start-up companies, partly through its fintech incubator F3 "Finance for the Future", located in the bank's head office building.

In 2018, the bank continued its work on cloud technology as a platform for new IT solutions. Cloud solutions provide opportunities for quicker access to new solutions or to adapt solutions to meet new needs. SpareBank 1 SMN participates in the Alliance's shared security strategy effort to address and respond to the changes this development brings.



Rise in digital channel sales

Digital sales accounted for 34 per cent of overall sales in 2018,
an increase from 24 per cent in 2017

Nelly S. Maske, Executive director, Organisation and Development