

## Retail Banking

Together with product suppliers and subsidiaries, Retail Banking offers a broad range of financial products and services. Our aim is to provide customers with a sense of security and an overview of their finances, and to be on hand when needed. We intend to be the best at combining local proximity with digital simplicity in a way that makes a difference to people's daily life and through the various life phases.

Our advisers are well versed in personal finances, they care about their customers, and they enable the customer to be certain he or she is making the right financial choices. We are on hand when a customer encounters new financial milestones, whether related to moving into or out of their home, embarking on or ending working life, family expansion or contraction, insuring possessions, or helping out with a project.

We work hard to provide the industry's best digital solutions, and espouse innovation in order to develop our services and make them more accessible. In 2019, 48 per cent of our sales in Private Banking were digital, reflecting a substantial change in customer behaviour. At the same time we 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. Through a good interplay between digital solutions, the customer service centre and our local presence, we will help the customer make good financial choices.

In addition to following the industry's norms and requirements as regards good advisory practices, we must as a bank also utilise our knowledge and insight to continuously improve the quality and relevance of the services and advice we offer our customers.

### **Customers and market position**

In 2019 SpareBank 1 SMN strengthened its position as the leading actor in all customer groups and all product areas in the retail segment.

Our business has a strong standing among our customers, and shows a good trend in customer satisfaction. The interaction with subsidiaries and the corporate banking division is important in enabling Retail Banking to attain its goal of continued growth.

In September we were chosen by the Norwegian Confederation of Trade Unions (LO) as one of two banks to provide LO members with residential mortgages. This led to heavy demand which generated 5.9 per cent growth for the year as a whole. The agreement with the LO gives us access to more than one million LO members, and there are high expectations of continued growth in this segment in 2020. We also recorded good growth of 4 per cent in deposits. The deposit growth is a result of a focused effort to ensure that all customers hold their salary and current accounts with us, and reflects a conscious desire on the part of many of our new borrowers to turn to us for their day-to-day banking.

### **Financial developments**

Retail Banking posted an overall pre-tax profit of NOK 1,270 million.

The loan portfolio shows growth of 5.9 per cent in the retail segment in 2019. The growth is largely down to new borrowers joining us from other banks, but also to refinancing of loans in the existing portfolio. The substantial growth in the second half-year largely reflects the influx of new LO customers, while the agreement with the LO is also bringing in more customers from outside Central Norway. Growth in the number of multi-product customers was on a par with the preceding year.

We note an increase in the number customers in default, and the default volume has risen compared with previous years. More customers are struggling to honour their debt commitments. This applies to residential mortgages and unsecured credits alike. Since the introduction of the debt register in July 2019, the number of loan refusals has doubled. This indicates that the information now available to us on customers' overall debt burden contributes to more exacting assessments of creditworthiness. We are in our estimation in good control of the risk present in the loan portfolio, and losses on loans and guarantees in 2019 were at a low level of NOK 32 million. At year-end, compliance with both the residential mortgage lending regulations and the consumer lending regulations is good. The division's advisers and managers have ensured a healthier trend in loan approvals over the course of the year behind us. A systematic effort has been made across all aspects of the credit process – loan approval, monitoring and repayment.



## Rise in digital channel sales

We aim to be best in combining local proximity and digital simplicity.

Nelly S. Maske, Executive director, Organisation and Development

### Expectations of 2020

Global growth shows a number of signs of slowdown which may in turn mean reduced growth for Norway's open economy. Although the Norwegian economy continues to prosper, the rate of growth appears to have levelled out. We take a basis in an expectation of continued stable, low unemployment and a stable central bank base rate. Norwegian households' debt growth has slowed somewhat in the past two years or so, which may imply stronger competition among banks for residential mortgage borrowers. For 2020 a market growth rate (C2) of about 5 per cent is anticipated.

Households will also be affected by the substantial readjustment facing us if we are to meet the climate objectives set. This could on the one hand pose a threat to growth and financial stability because investors and consumers change their preferences. On the other hand the readjustment could provide business opportunities. SpareBank 1 SMN will need to handle and price climate risk correctly, while at the same time developing new products and services.

Recent years have seen major changes in, and tightening of, the regulatory framework in which Norwegian banks operate. This trend is expected to continue, and we will need to make allowance for it in the bank's realignment ahead. The area viewed with most suspense at the start of 2020 is savings and investment. The introduction of MiFID 2 will bring changes to the banks' business models, and the SpareBank 1 banks will launch new customer offerings in both the digital and human channel over the course of 2020.

Despite prospects of lower growth, we have set ambitious goals for 2020 with of course the LO as the chief driver. High growth is important in safeguarding the investments made by the bank in digital channels in recent years and in order to take this development forward.

Our planning incorporates relatively stable deposit margins, although we also note discussion on banks' practices with regard to higher margins on deposits versus loans.

**A digital bank with a personal signature**

2019 was another year confirming that our strategy as a one-stop provider of financial services that combines simple digital solutions with skilled advisers, is well-suited to the retail customer. Customers are making ever more demands of us as a bank, and we see these demands changing based on needs, situation and life phase. That is why we are offering more products and services across more channels than ever before.

Creating a good customer experience is our most important task. For us this is about knowing the customer, being relevant and offering good advice when the customer needs it. We build effective and efficient digital services that simplify families' daily life, we make products and services readily available, and we offer skilled advice in the more demanding situations that arise in a customer's life.

We retain our focus on a strong local presence. In 2019 we opened a new branch in Moholt in Trondheim which assembled our activities in that part of the city. We now have 46 locations offering advisory services in our region. In keeping with the transition to a more digital existence and fewer enquiries related to day-to-day banking (payments) and services, and a growing need for advice, we see a need to modify opening hours across our branch network. Customer service will to a greater degree be provided through good intuitive digital solutions and more and more often via the customer's mobile bank, the chat facility or the customer service centre.

In 2019 we further developed our CRM system with the aim of ensuring a good customer experience across the bank's channels. Customers must have assurance that we are fully updated on their accounts etc. and on their customer relationship and contact with us, irrespective of how this was established or took place.

The revised payment services directive, PSD2, was introduced in September, enabling each Norwegian banking customer to assemble his or her payment accounts in a single overview. Thus far most customers have opted to view their accounts with other banks in our digital interfaces, but PSD2 opens the door to a more open banking market, and we expect this to lead to a tighter competitive situation.

2020 awaits us with new, exciting opportunities. We will continue to seize our opportunities and provide our customers with better advice, our staff with a sense of achievement and a stimulating working day, and our investors with a good return.

<b>Retail Banking</b>	<b>2019</b>	<b>2018</b>
Deposits	41.6 bn	40.0 bn
Loan	119.4 bn	112.7 bn
No. of customers	226 000	223 000
No. of FTEs	353	316
Profit before tax	1,270 bn	1,206 bn