

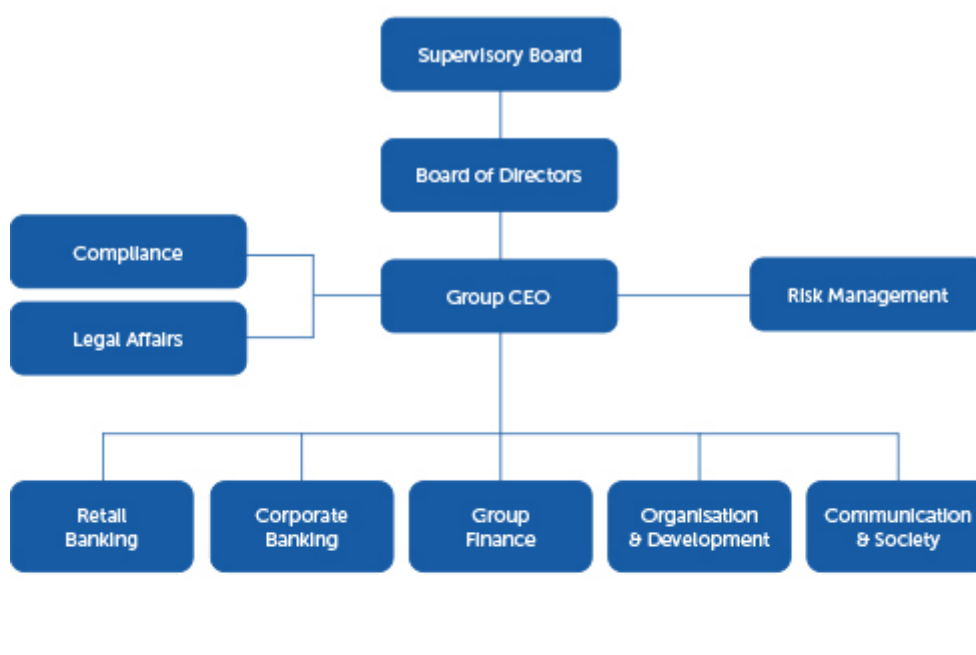
The business



Business description

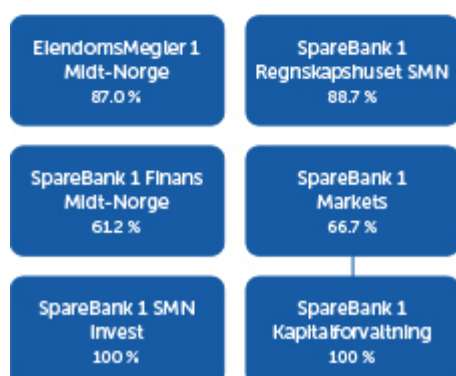
SpareBank 1 SMN is the region's leading financial services group and one of six owners of the SpareBank 1 Alliance. Its head office is in Trondheim and the group and its subsidiaries employ 1,600 staff. SpareBank 1 SMN is a regional independent savings bank with a local footing. Through the SpareBank 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:

Organisational Structure

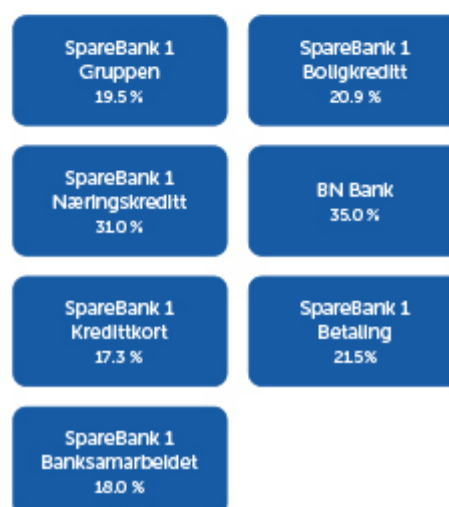


Financial Group SpareBank 1 SMN

Subsidiaries



Other associates



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.

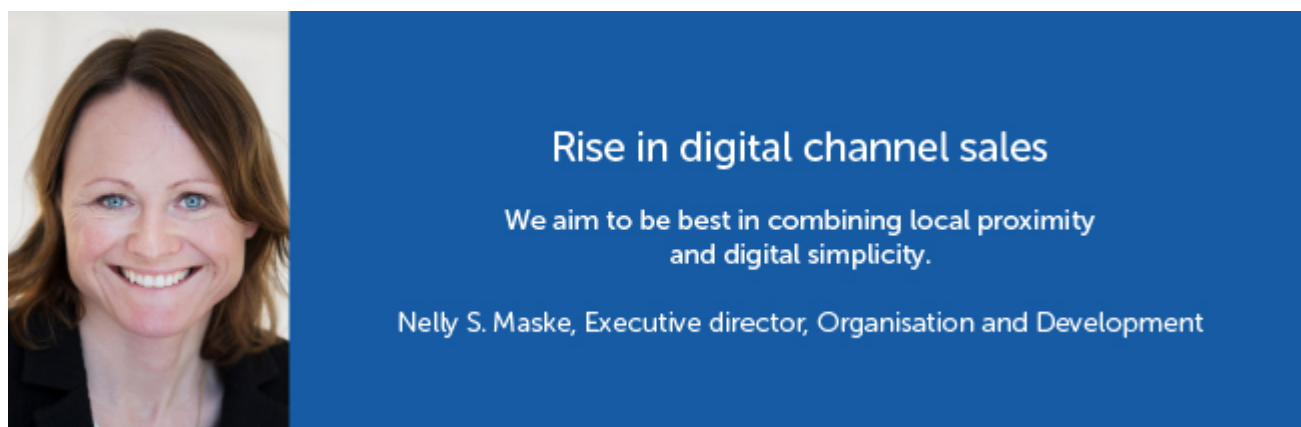
In September we were chosen by the Norwegian Confederation of Trade Unions (LO) as one of two banks to provide LO members with residential mortgages. This led to heavy demand which generated 5.9 per cent growth for the year as a whole. The agreement with the LO gives us access to more than one million 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.



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.

Retail Banking	2019	2018
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

Corporate Banking

The business line Corporate Banking offers investment and operations finance, advisory services, domestic and foreign money transfers, fixed income and currency hedging, investment of surplus liquidity and insurance of individuals and buildings/operating equipment to businesses and industry. Much of the business is in close cooperation with Retail Banking, SpareBank 1 Markets and with subsidiaries and related companies offering leasing, factoring along with accountancy and advisory services. The business is physically located across the entire bank's market area to secure proximity to customers. The business line has units with specialised industry and product knowledge.

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 banks in the SpareBank 1 Alliance, the bank expends substantial resources on continuously improving the credit scoring models.

Customers and market position

In 2019, 1015 new corporate clients were registered. SpareBank 1 SMN has a market share of about 35 per cent of the corporate market in the region, measured in terms of customer numbers. 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.

Direct Corporate Banking provides clients with good follow up and relevant advice in selecting products and services and in the use of digital services. In a dedicated customer satisfaction poll, Direct Corporate Banking scores very highly in areas such as competence, service, information and initiative.

Financial developments

Corporate Banking increased its income by almost NOK 50 million to NOK 1.25 billion in 2019. Incomes are generated by a positive trend in all business lines, but in particular from increased deposit margins and higher guarantee commissions. Income from insurance (general and life) is rising and more and more businesses see the value of turning to a local provider offering local competence in all product areas.

In step with the digitalisation of our products and services, Corporate Banking has downsized its staff and thereby its costs in this business line. There is a strong focus on digitalisation of products and a continuous effort is made to improve process efficiency.

Since 2014 the oil price fall has led to a significant deterioration of prospects for companies working in oil and offshore. We have therefore booked a number of losses to this segment. 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 elsewhere in the portfolio are very low.



Full focus on SMBs

In 2020 we will contribute to an increased degree of self-service and provide more advice on digital channels.

Vegard Helland, executive director, Corporate Banking

Sustainability given greater prominence

The bank attaches much importance to having business advisers with a practical business understanding. For 2020 priority is given to competence requirements in the field of sustainability.

The bank will in the course of the year undertake an ESG classification of the loan portfolio, conduct risk assessments in each segment for implementation in the bank's credit scoring models and, not least, provide the individual client with necessary advice in order to move the bank towards climate neutrality. Interest on loans and deposits will to a greater degree be used both to reward and penalise clients depending on their ability to implement the sustainability goals in their own business.

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 2020 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 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.

A continuous effort is being made to adapt our customer interface to business and industry's information needs. In 2020 we will contribute to a greater degree of self-service and provide more advice on digital channels.

An objective of the bank is to reduce losses from the levels seen in 2019. This, together with a profitability enhancement programme for the division, 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 clients 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.

Although the macroeconomic picture is uncertain on a general level, challenges vary in the sectors to which the bank's clients are exposed. Again in 2019 the bank published its economic barometer for Central Norway

which takes the pulse of the most important industries in the region and produces economic growth forecasts for our two counties. After two intense years in central Norwegian business and industry, there is greater uncertainty as to whether the pace of activity will be equally high in 2020. We therefore revise our forecast for the coming year from positive to neutral, but still anticipate high activity.

Næringsliv	2 019	2 018
Deposits	42.8	39.2 bn
Loans	40.2 bn	40.5 bn
No. of customers	15 000	15 000
No. of FTEs	158	148
Profit before tax	765 m	744 m