SpareBank 1 SMN

Statement by the Group CEO

Equipping SpareBank 1 SMN for the future

2017 was a good year for SpareBank 1 SMN. 12,000 personal customers and 1,200 corporate customers joined us over the course of the year, and we have strengthened our market share from an already high level. This makes us both proud and humble. Profit measured in kroner was the best ever. It enabled us to deliver a solid dividend to our equity certificate holders and to increase our allocation to non-profit causes. Moreover, it is pleasing to note that the bank's equity certificate has shown a sound value increase through 2017.

The bank's subsidiaries and related companies have delivered solid performances. Two of them, EiendomsMegler 1 Midt-Norge and SpareBank 1 Markets, have made investments over the year in, respectively, BN Bank and competence and capacity building which we will garner the fruits of in the years ahead. SpareBank 1 Gruppen, and the insurers in particular, have also exceeded our expectations in 2017.

We have further developed Mid-Norway's leading finance house in 2017. Our strategy is to secure a high share of other income and thus render ourselves less vulnerable to changes in net interest income. We are well pleased with the fact that almost half of the group's income is now commission income from subsidiaries and sales commissions at the parent bank. We have also defined an objective that half of the parent bank's sales should be digital sales by the year 2020. This bolsters the group's robustness.

A good 50 per cent of the group's almost 1500 employees work outside the parent bank. SpareBank 1 Regnskapshuset employs 400 staff, and is expanding rapidly through frequent acquisitions. SpareBank 1 Markets has reversed a negative trend and is now making a profit. With last year's addition of a large new team, we have established a position as one of the leading brokerage houses. SpareBank 1 Finans Midt-Norge contributes, with its relatively few full-time position equivalents, good results, and is building exciting relationships with other banks both within and outside the SpareBank 1 Alliance. EiendomsMegler 1 Midt-Norge retains its number one position in the region and aspires to an increased market share in a somewhat more demanding housing market. BN Bank's drive in Oslo, with concepts and services delivered by EiendomsMegler 1 Midt-Norge, is another, exciting, venture offering substantial potentials. SpareBank 1 SMN Invest has shown its skill in finding profitable investments and has gradually built a portfolio of technology businesses with intriguing potentials.

SpareBank 1 SMN comes across as solid and robust. It is important to safeguard this position through the choices we are to make ahead. We are spending more and more time and money on understanding trends and building a forward-looking finance house. Where we previously competed with traditional banks we have known for decades, we now have to gear up to meet major technology giants headquartered in Silicon Valley in California or Hangzhou in China. The substantial technology shift facing the financial industry is not so very different from the one experienced by the media industry in recent years. People's media habits have changed dramatically over a short period, challenging the media houses' entire business model. Today more than half of the revenues from the Norwegian advertising market disappear to California, mainly to Google and Facebook.

We must accept that the same reality may overtake our own industry. It is probably only a matter of time before giants such as Apple press the button and launch their payment solution in the Norwegian market. This is a competition we know will come, and we have devoted substantial resources to meeting it. We started the year by merging SpareBank 1 Mobilbetaling (mCash) with Vipps. By this means SpareBank 1 together with DNB established a common payment solution, which the other Norwegian savings banks opted to participate in as co-owners. It is my definite view that rallying round Vipps as a major Norwegian fintech project is among the most important strategic moves that have been made.

In November this work was further reinforced when we took the initiative to merge the companies Vipps, BankAxept and BankID. At the time of writing this merger is under consideration at the Competition Authority and the Financial Supervisory Authority. We expect the merger to be able go ahead before summer 2018. Norwegian banks and affiliated banks in Norway are building an important platform on which to meet growing competition in the payments area where the banks in the first instance are meeting competition from new actors. SpareBank 1 will own about 25 per cent of the merged entity, and a clear-cut ambition is to ensure that the company has the power and innovative capacity to be able to compete in an international market.

In addition, a number of initiatives have been taken over the year both by SpareBank 1 SMN and the SpareBank 1 Alliance that leave me convinced that we are making the moves necessary to guarantee our continued relevance and profitability in a world in which banks' framework conditions are changing dramatically as a result of the strong digital evolution.

In the course of 2017 we have given ourselves a substantial lift in terms of corporate social responsibility. We have, for example, undertaken to support the UN's sustainability goals by signing the UN Global Compact, and we have tightened our requirements on ethics, anti-corruption and sustainability both with respect to ourselves and our partners. A significant aspect of the corporate social responsibility effort is transparency and openness, allowing our surroundings to measure us on what we do. We will therefore report in accordance with the Global Reporting Initiative (GRI), starting with the present annual report.

SpareBank 1 SMN intends to be a digital bank with a personal and local signature. We will offer the best digital solutions and at the same time maintain a broad-based office network staffed by skilled advisers with copious local knowledge. This strategy might appear bold at a time where most observers would expect us, like other banks, to opt for a steep reduction in the number of offices. Instead we have chosen to retain all locations, but at a lower cost. This has been a successful strategy that we have chosen to give a specific name – phygital.

I am convinced that this strategy has contributed to increased market shares and improved profits. We have established a channel interaction that brings the best out of our capable advisers and the best out of our digital solutions. I believe this to be a sustainable strategy also for the years ahead.