

# About the bank



## Statement by the Group CEO

2018 was a very active year, bringing good results for SpareBank 1 SMN. Solid growth was again recorded, in particular in the personal market. In the corporate market we achieved success with a strategy that increasingly makes us the natural choice of bank for the large number of small and medium-sized businesses in Central Norway.

We have thus consolidated our position as market leader in the region while at the same time devoting much time to prepare for even tougher competition in the years ahead. Several years of good banking operations and good results have provided SpareBank 1 SMN with a solid equity ratio and good dividend capacity – both in the form of dividend to the bank's equity certificate holders and dividend on the social capital that materialises in contributions to a range of worthy causes across the bank's entire market area.

We are well satisfied with the financial results of the group. The bank is very solid with a CET1 ratio of 14.6 per cent. This is well above the requirement set by the government authorities of 14.1 per cent, and well on the way towards our self-imposed target of 15.0 per cent. The equity capital has been built up to a substantial level, whilst at the same time we are also delivering satisfactory return on that capital. There is good reason to be pleased with a post-tax profit of well over NOK 2 billion and a return on equity of 12.2 per cent.

This is due, in addition to sound operations on the part of the parent bank, to revenue diversification achieved over time through a focus on developing subsidiaries. SpareBank 1 SMN Regnskapshuset, EiendomsMegler 1 Midt-Norge, SpareBank1 Finans Midt-Norge, SpareBank 1 SMN Invest and SpareBank 1 Markets all make a good contribution to the group's top line and increasingly to its bottom line. The same is true of related companies such as BN Bank and companies in SpareBank 1 Gruppen.

It is pleasing to note that since admission to stock exchange listing in 1994 we have delivered an average annual return to our equity certificate holders of 15.4 per cent, taking both dividends and capital appreciation into account. I believe a long period of capital build-up is now complete. We have attained our capitalisation objectives and are well placed for robust growth. Losses in 2018 are lower than in 2017, and are in all essentials within oil-related activities. A positive trend is noted in the bank's exposure within this portfolio. It is pleasing to note that the bank's wider loan portfolio comes across as very robust.

The board of directors recommends for 2018 a dividend payout of NOK 5.10 per equity certificate, totalling just over 50 per cent of the net profit. This shows the significance assigned by SpareBank 1 SMN to an investor-friendly shareholder and dividend policy.

Since 2000, we have disbursed more than NOK 1 billion as social dividend in the form of gifts to non-profit causes. Last year we clarified our strategy as regards social dividend. This included leading the fight against plastic waste, through the Plastic Waste Clean-Up Project. We sparked the participation of more than 12,000 volunteers – adults and children alike – and in the course of some hectic weeks in May gathered 18,000 sackfuls of plastic.

We greatly appreciate the foundation Sparebankstiftelsen SMN's move to follow up the bank's initiative and its decision to fund the effort to reduce the release of rubber granulate from synthetic turf soccer fields throughout the region. In 2019 public health will be the theme we spotlight to create commitment and awareness throughout the region.

Some years ago, we made a demanding strategic choice. At a time when many banks were comprehensively scaling back their branch network and embarking on extensive digitalisation of all processes and products, we opted for a migration strategy. Our choice was based on our experience of the fruitful interplay between skilled colleagues localised where our customers live, and first-rate digital solutions. The strategy was formulated with the aim of making SpareBank 1 SMN *a digital bank with a personal and local signature*. In practice, this meant retaining our branch network, albeit with a sharp reduction in physical presence costs, while at the same time developing the best digital solutions, either alone or together with our colleagues in the SpareBank 1 Alliance. The fact that our mobile bank was voted Norway's best mobile bank in 2018 was a fine confirmation of the success of our digital strategy.

We are very concerned to safeguard the bank's future competitive power and we evaluate our chosen strategy against the competitive picture on an ongoing basis. Our most important competitors are still banks with comparable strategies. However, we have a continuous eye to the major, international technology giants who may well develop demanding, disruptive concepts. However, it is my conviction that it is eminently possible to meet this potential challenge through a continued focus on developing digital solutions.

Vipps is also a visible outcome of the realisation arrived at by both SpareBank 1 and DNB, i.e. that it is very sensible for fiercely competing banks to collaborate in non-competition sensitive areas. Scale effects are achieved and the competitive power of both banking groups is strengthened.

In 2018, the same banks agreed to join forces on insurance. This is a direct consequence of the Vipps collaboration. DNB opted to acquire 35 per cent of SpareBank 1 Forsikring, partly by merging DNB Forsikring with SpareBank 1 Forsikring and partly through a cash consideration. There is reason to believe that DNB will avail itself of its option to increase its stake to 40 per cent in 2019. The new insurance company, Fremtind, received government approval and was formally established on 1 January this year. The ambition is to develop Fremtind into Norway's largest non-life insurer based on bank distribution of the products of SpareBank 1 Forsikring, DNB Forsikring and LOFavør Forsikring.

The holding company SpareBank 1 Gruppen was established in 1996 to safeguard the competitive power of each of the banks participating in the SpareBank 1 Alliance, based on the respective bank's strategy of autonomy. The alliance has proven to be highly sustainable. In my view, the focus on autonomy remains a sensible strategy for SpareBank 1 SMN. Should one subsequently arrive at the realisation that other models are better suited to promoting the social mission and profitability, we may witness a new wave of bank mergers in Norway. In my assessment, there is nothing in the current situation to suggest that this is a sensible course. SpareBank 1 SMN will do all that is possible to ensure the continuation of the alliance and will contribute to the banks' competitive power ahead. The fact that we have also created substantial value since the founding of the alliance in 1996 was amply confirmed in 2018. The valuation of SpareBank 1 Forsikring in connection with the merger with DNB Forsikring has provided the alliance banks with a substantial gain, which will be taken to income in 2019.

Over a span of almost 200 years, we have built the bank into Central Norway's leading finance house. The group has some 1500 high-skilled employees of whom around 550 are located in the parent bank. Our subsidiaries have shown a fantastic talent for profitable growth. We are right at the top in terms of the ability to generate commission income, and close to 50 per cent of the group's top line is down to subsidiaries and related companies and to commission on sales of savings and insurance products. We have established ourselves as one of the giants in Norway in the field of accounting and corporate advisory services. In the real estate agency field, we are now incurring substantial costs on establishing an effective and profitable

estate agency concept in Oslo under the BN Bolig brand. At Markets we have in the space of a few years developed our company into one of the leading operations in a very demanding market. There are substantial synergies between the bank and the bank's subsidiaries. We have only just seen the start of the synergy potential inherent in the group.

This is the last time I sign SpareBank 1 SMN's management report since taking over as group CEO in 1991. It has been a wonderful journey, which I am immensely grateful and proud to have participated in together with the most accomplished colleagues a CEO could wish for. On 1 May, the baton passes to Jan-Frode Janson. I am convinced that, with him at the helm, SMN will experience growth and development ensuring that SpareBank 1 SMN remains a regional power hub with solid profitability to the delight of employees, shareholders and the society that the group serves.

I would like to thank all colleagues, shareholders and partners for the part they have played in creating the finance house SpareBank 1 SMN!

Finn Haugan  
Group CEO



## Key goals and strategies

### Vision and values

Our new vision, approved in February 2017, is about creating energy, results, change and development. For that reason we have chosen "Together we make things happen" as our vision. *Together* is the opening word, which is no coincidence. Achieving what we want to achieve is only possible together with others - with colleagues, customers, suppliers, partners and other local and regional capacities. We want to build relations and team up. *Making things happen* is about creating energy, results, change and development. Things happen when we enter the scene.

Our values are:

**Wholehearted:** It is wonderful being together with committed people, and nothing is more inspiring than working with wholehearted colleagues. There is a pulse, force and passion in a wholehearted person – not to speak of a bank that is full of them.

**Responsible:** Integrity, credibility, trust, broadmindedness and knowledge are all important qualities. We have summed them up in one word: Responsible. Being responsible is to say yes when it is right to do so and no when it is necessary.

**Likeable:** We are positive and easy to like. We are down-to-earth and straightforward. We are the real deal and on the customer's side. People choose a bank they like. One that is likeable.

**Capable:** Capable people are matter-of-fact and have no need to toss around grandiose terms and concepts. They exude professionalism and competence without setting themselves apart. Capable people win customers' confidence.

### Strategic ambition

SpareBank 1 SMN will continue to be an independent, regional finance house, a powerhouse for the development of the region. We will be profitable and best for customer experience. SpareBank 1 SMN is unquestionably solid, and its return on equity puts it among the three best banks in Norway. SpareBank 1 SMN will strengthen its market position in particular in Trondheim, Molde and Ålesund – cities that will see strong population growth in the years ahead – and in the SMB market.

Our ambition is to remain an independent, regional, profitable bank that means more to firms and individuals in our market area than any other bank. The SpareBank 1 Alliance is the bank's strategic foundation and the basis for SpareBank 1 SMN's regional business strategies and independence. SpareBank 1 SMN will play an active role in developing the SpareBank 1 Alliance as a leading Norwegian financial services grouping.

### Central themes

SpareBank 1 SMN will in the period 2017-2020 launch concrete projects to help promote an efficient, customer-oriented and forward-looking bank. The main underlying themes are:

- To create the bank of the future. Launch sub-projects and measures to strengthen the bank's dominant position in the region, enhance selling power across all channels while at the same time building an infrastructure that ensures cost-efficient sales, distribution, production and operation.
- The SpareBank 1 Alliance to be the bank's strategic platform for cost-efficient operation, development and innovation. SpareBank 1 SMN will contribute to developing profitable product companies in the banking collaboration.
- SpareBank 1 SMN to be a powerhouse for the region's development and long-term value creation. Its activities span a broad set of measures in which the bank collaborates with private individuals, businesses, clubs and associations.

## Financial goals

SpareBank 1 SMN intends to be among the three best-performing banks in Norway by being:

- **Customer oriented:** The bank will be best for customer experience, and thereby strengthen its market position
- **Profitable:** The bank will post an annual return on equity of 12 per cent
- **Solid:** The bank will maintain a CET1 capital adequacy ratio of 15 per cent
- **Efficient:** The bank will post zero growth in nominal costs at the parent bank
- **Dividend:** The bank will pay its equity certificate holders a dividend of 50 per cent on their rightful portion of the profit

## Close at hand

We put our faith in skilled advisers in multiple locations, combination with simple, good digital solutions.



Internet Bank	Mobile Bank	smn.no	Vipps	Facebook	Direct Bank
					
<b>7,045,000</b> -630,000* logins	<b>37,217,000</b> 13.917,000* logins	<b>9,782,000</b> -418,000* visitors	<b>123,300</b> 23,300* users	<b>65,200</b> 1,200* followers	<b>494,000</b> 34,000* enquiries

\* Increase from 2017

# The story of SpareBank 1 SMN

The first customers entered Trondhjems Sparebank in 1823. Our offering of financial services has evolved in keeping with society as a whole. Initially the bank's goal was to combat poverty and give ordinary people the opportunity to save. Today, SpareBank 1 SMN is one of Norway's largest banks and a complete financial department store.

