

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 2108. 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