

About the bank



Statement by the Group CEO

Our course set for 2023

On Friday 26 May 2023 it will be 200 years ago to the day since the bank was founded, as Trondhjems Sparebank. According to a study by McKinsey, the average lifetime of major companies is now barely 18 years, compared with 61 years in 1958. Although this trend is not equally marked among Norwegian firms, we rarely come across companies that have survived for 200 years. And we have done more than just survive. In 2019 we delivered our best ever profit performance, combined with a high pace of development. SMN is thus a youthful 200 year old.

Much of the secret has been down to an organisation reflecting a healthy balance between continuity and renewal. We have also developed our distinctive qualities through a quite special ownership model that combines stock exchange and society. Social ownership now stands at almost 40 per cent if we include ownership via the foundation Sparebankstiftelsen SMN. It also means that a corresponding share of the dividend is returned to the central Norwegian community.

Through our social dividend we have contributed to building local communities across the entire region throughout our history. The community as long-term owner has been crucial to building our strong position in Central Norway. The ownership model is also key to maintaining the bank's independence and further growth. Social ownership and social dividend will therefore receive even greater prominence in the run-up to the anniversary in 2023. The strong profit performance we have delivered enables us to share almost half a billion kroner with the regional community. NOK 200 million will be invested at the local level throughout the region this year alone. The remainder goes to the foundation Sparebankstiftelsen SMN, which is the community's 'savings account' enabling continued ownership of SMN. And if we accomplish the financial goals we have set ourselves, we will invest almost a billion kroner of our social dividend up to and including 2023. This will give the group a quite unique market position.

At the same time renewal has been crucial to the evolution of the bank. Today traditional banking operations account for about a third of the bank's 1600 employees, and we are less dependent on net interest revenues than ever before. About half of our revenues now derive from sources other than the interest margin. This would not have been possible had we not ventured to develop new business lines. The most immediate example is Regnskapshuset (accounting and payroll services), which now accounts for almost as many employees as banking operations and delivers solid contributions to our results. Together with EiendomsMegler 1 Midt-Norge, Finans Midt-Norge, SpareBank 1 Markets, Spire and SMN Invest, the subsidiaries offer a product range that makes us a fully-fledged finance house. We are already engaged in getting all our strong specialist units to interact more closely across the group, and this will receive high priority in the year ahead. One of our foremost competitive edges is our spearhead competence residing in the region, combined with local decision making.

The 2019 profit performance is unparalleled in our 200 year long history. A post-tax profit of NOK 2.5 billion, with a return on equity far in excess of the 12 per cent target, puts SpareBank 1 SMN right at the top as one of the best performing banks in the country. With a dividend payout ratio of a good 50 per cent, we are accordingly paying a record high dividend to our EC holders. We are well pleased with that. But we have now set ourselves the ambitious goal of yet further improvement. Competition is tight and is felt across the entire group. That is why we intend to limit our annual cost growth in 2020 to a maximum of 2 per cent,

which will enable us to continue to deliver competitive terms and good return to EC holders in the run-up to 2023.

In recent years we have focused heavily on technology and digital development, both in our own business and together with others. Most of our development work in the past 20 years has been in collaboration with the other banks making up the SpareBank 1 Alliance. Vipps, which after just a few years of operation has more users than Facebook in Norway, is a result of our cooperation with 124 other banks. In 2020 we will considerably expand our efforts both under our own auspices and together with others, as clearly manifested by the establishment of a dedicated position in the group management team with responsibility for digital development.

The banking market is rapidly changing, and requires new methods of working. We have long seen more and more people choose their bank through collective arrangements offered by organisations to which they are affiliated. We too are being challenged by other banks that have taken customers from us through such agreements. Hence the fact that last summer we were one of two banks to win the competition for an agreement for members of the Norwegian Trade Union Confederation (the LO), gives us a solid platform for further growth. This is the largest-ever banking agreement in Norwegian history, and gives us access to almost a million LO members across the country, of which 175,000 live in Central Norway.

From this year onwards sustainability will permeate SpareBank 1 SMN's entire business. This is a substantial project which imposes obligations. Put simply, sustainability has largely been a matter of fine words on grand websites. The time has now come to add substance to such words, well knowing that this will have corollaries. But we believe that the costs of inaction will be considerably larger

SpareBank 1 SMN has lived with and for the region for almost 200 years. We have now set our course for our 200th anniversary in 2023. We will position ourselves for further growth, we will enhance profitability throughout the group, and we will deliver solid results that benefit both private investors and the regional community as our largest stakeholder.

Jan-Frode Janson
Group CEO

Key goals and strategies

Vision and values

Our new vision is about creating energy, results, change and development. "Together we make things happen" is 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 resources. 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 necessary.

Likeable: We are positive and easy to like. We are down-to-earth and unpretentious. 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.

The companies making up the SMN Group currently embrace a range of visions and values. The effort to bring about 'One SMN' (see below) gives priority to a vision and values that are shared across the group.

New strategy: One SMN

The board of directors adopted a new strategy for the group in December. The strategy describes the group's overarching ambitions and priorities for the period to 2023.

SpareBank 1 SMN intends to be the leading finance house in Central Norway, and among the best performers in the Nordic region. SpareBank 1 SMN will create financial value, build society and take its share of the responsibility for sustainable development.

SpareBank 1 SMN aims to be among the best performers in the Nordic region. This involves

- **Being profitable**, with a 12 per cent return on equity
- **Being financially sound**, with a CET1 ratio of 16.9 per cent. Payout ratio about 50 per cent
- **Being efficient**. Annual cost growth in the group to be limited to 2.0 per cent within existing business
- **A strengthened market position**. Ambition to be no. 1 in the group's business lines

- **The most satisfied customers.** Ambition to have the most satisfied customers in all business lines and market areas
- **A proud and committed staff.** Ambition to have the most committed workforce in the financial industry in Norway
- **Quality** in all our work

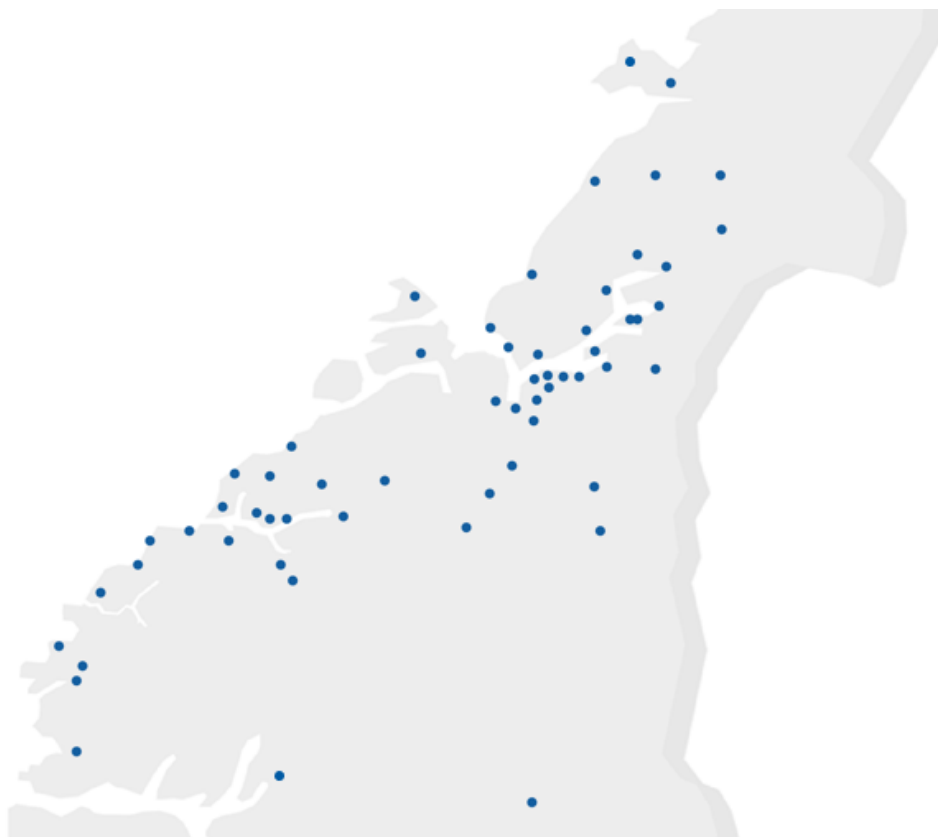
SpareBank 1 SMN will further develop its strong aspects – the group has delivered high return over time and has robust customer relationships. Five strategic priorities are highlighted for the strategy period. These entail:

- The creation of One SMN
- Increased digitalisation and use of insight
- A leading role in the development of Norway's savings banks
- Integrating sustainability into the business
- Exploiting the power present in the ownership model

In order to achieve the goals of the group strategy and to increase competitive power, a comprehensive enhancement programme termed One SMN has been initiated. One SMN is a comprehensive programme designed to enhance profitability through increased exploitation of synergies, increased incomes, cost efficiencies and improved capital utilisation.

Close at hand

We focus on a combination of skilled advisers across many locations and simple, good digital solutions. The SpareBank 1 SMN group is on hand with almost 1600 employees in 80 locations. A local presence and local-level decision making are our foundation.



Important events in 2019

First quarter

- Post-tax profit of NOK 401 million in the fourth quarter of 2018
- The bank's 'plastic waste clean-up project' crowned 'social commitment project of the year' by the Norwegian Sponsoring and Event Association
- The Supervisory Board adopts dividend of NOK 5.10 per equity certificate after 2018
- Kjell Bjordal re-elected board chairman for a two-year term

Second quarter

- Post-tax profit of NOK 1,046 million in the first quarter of 2019
- SpareBank 1 elected most sustainable brand in finance by Sustainable Brand Index
- Jan-Frode Janson takes over as Group CEO after Finn Haugan
- Møre and Romsdal county council reselect SpareBank 1 SMN as their main bank
- DeBank (now SpareBank 1 Spire Finans) integrated into SpareBank 1 SMN, offers invoice purchase as a new group product
- Moody's revise their rating outlook for SpareBank 1 SMN from negative to stable

Third quarter

- Post-tax profit of NOK 683 million in the second quarter of 2019
- The Norwegian Trade Union Confederation (LO) choose SpareBank 1 SMN as one of two recommended mortgage lending banks for their membership of almost one million
- SpareBank 1 SMN endorses the UN principles for responsible banking, one of five Norwegian banks to do so
- The bank issues the first Norwegian green senior bond in Europe, with NOK 5 billion earmarked for loans to sustainable commercial property, fisheries and aquaculture

Fourth quarter

- Post-tax profit of NOK 488 million in the third quarter of 2019
- In the year's edition of Economic Barometer for Central Norway the bank revises its forecast for the coming year from positive to neutral, but predicts continued high activity
- EiendomsMegler 1 Midt-Norge and BN Bank sell all shares of BN Bolig to EiendomsMegler Krogsveen
- Astrid Undheim appointed new executive director with responsibility for technology and development
- Launch of green loans to retail borrowers: green residential loan, green loan for energy initiatives and green consumer loan