

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