

SpareBank 1 SMN and SpareBank 1 Søre Sunnmøre announce agreement of intent to merge

The boards of directors of SpareBank 1 SMN and SpareBank 1 Søre Sunnmøre have on Monday 20 June 2022 voted unanimously to enter an agreement of intent to merge the two banks. The merger will set the stage for an even greater focus on Sunnmøre and Fjordane, through growth and increased local presence.

The agreement of intent regulates a number of conditions on which the banks reached agreement at the start of the negotiations. These receive closer attention further down in this stock exchange notice. A final decision on a merger is planned to be announced in November 2022.

“SpareBank 1 SMN has built a solid position with a basis in our specialist entity in Ålesund. By joining forces with SpareBank 1 Søre Sunnmøre, which over a long period has established a strong position in Søre Sunnmøre, we can realise our ambition of becoming the leading bank in this attractive growth region”, says board chair at SpareBank 1 SMN, Kjell Bjordal.

Together the two banks cover large sections of Sunnmøre, and they aspire to a solid position in Fjordane.

“Merging the two banks strengthens the basis for profitable growth, vigorous specialised entities and an enhanced presence in the region. We believe the banks are in a far stronger position together than separately,” says board chair at SpareBank 1 Søre Sunnmøre, Kjell Storeide.

After the merger the bank envisages stronger growth in Sunnmøre and in Fjordane, partly by boosting even more corporate clients in the region. There will be no dismissals, and no branches or offices will be closed as a result of the merger.

If a final agreement on a merger is entered into, the plan is to establish the Sunnmøre and Fjordane region as a division in its own right, with its head office and management in Volda. The division will be headed by an executive director who will be part of the merged bank's group management team. Stig Brautaset, who is currently CEO of SpareBank 1 Søre Sunnmøre, will take on this role. In the further negotiations the banks will jointly designate a management team for the new division, with representatives from both organisations. The chief employee representatives of both banks have been closely involved in the process, and the employee representatives on the respective boards of directors have voted in favour of the agreement of intent.

In connection with the merger a savings bank foundation will be set up with its head office in Volda which will manage substantial assets by virtue of its majority holding in the merged bank. The foundation will be managed entirely at local level and will be in a position to contribute substantial sums to non-profit causes in Søre Sunnmøre.

Background and objectives

Both banks presently operate in Sunnmøre. The region is a highly attractive market area and offers major growth potentials in both the corporate and personal market. This presents major opportunities, although the region is also characterised by strong competition from other players.

Since its acquisition of BN Bank, SpareBank 1 SMN has established a sound footing in Sunnmøre's corporate market, but the region is also important in terms of the personal market. SpareBank 1 Søre Sunnmøre holds a strong position in Sunnmøre and is a local bank with good customer relationships and skilled advisers with relevant competencies who are well acquainted with the region's dynamics, and it enjoys high confidence among its customers. This – together with SpareBank 1 SMN's position, balance sheet capacity/A-IRB and ability to take on larger clients, its complementary competencies, compliance setup and agreement with LO Norway – altogether provides the banks with unique competitive power in the region.

Based on the above, the banks agree that there is a strong strategic and industrial rationale for a merger that will enable the banks to jointly contribute to further growth and sustainable development of the area and to become the leading banking player in the region. The region is defined as Sunnmøre and Fjordane, i.e. Sunnmøre along with the northern section of Vestland county (north of the Sogne Fjord).

The overarching goal of the merged bank is to take its place as the leading banking player in Sunnmøre and in Fjordane. A merged bank makes for greater competitive power, enhanced presence and increased attractiveness to customers, employees and investors and shareholders alike. The ambitions and objectives set for the new bank include the following:

- A strong focus on the personal and corporate markets, strengthened by close integration with subsidiaries, will set the stage for substantial growth in the region.
- An improved customer offering through a stronger presence, access to the leading specialised entity in the region and access to more products.
- To be the most attractive workplace in banking and finance in the region.
- A more competitive bank and profitable operations will provide shareholders and investors with increased returns.
- In addition, potential added value will accrue from capital, financing and increased sales to existing customers by forging close links between the bank and subsidiaries/related companies.
- To draw benefit from a savings bank foundation to be established by SpareBank 1 Søre Sunnmøre in connection with the merger which will be supplied with substantial funds by virtue of being the merged bank's largest owner.
- In addition the local community will benefit from community dividend provided by the bank.

The parties have identified a realistic potential for income and cost synergies of about NOK 30m per year. There is also a potential for large capital synergies, and an improved growth platform for the banks.

The merged bank

Selected pro forma key figures (unaudited) based on accounting data (group) as at 31 March 2022:

• Total assets incl. mortgage companies	NOK 275.9bn
• Gross lending incl. mortgage companies	NOK 213.5bn
• Deposits	NOK 123.0bn
• Equity capital exc. hybrid capital	NOK 22.6bn

• CET1 ratio (consolidated)	18.3%
• No. of branches/offices	45
• No. of FTEs	1,621

Main points of the agreement of intent

Transaction model and legal acquiring entity

Under the agreement of intent, SpareBank 1 SMN will be the legal acquiring entity. The aim is to implement the merger through the transfer of SpareBank 1 Søre Sunnmøre to SpareBank 1 SMN which will issue equity certificates (ECs) and in the event cash as payment to a savings bank foundation established by SpareBank 1 Søre Sunnmøre. EC holders in SpareBank 1 Søre Sunnmøre will receive ECs from SpareBank 1 SMN in payment.

The mission of the savings bank foundation will be to uphold savings bank traditions and to exercise long-term, stable ownership of SpareBank 1 SMN. The mission will also include distribution of gifts to non-profit causes in the area in which SpareBank 1 Søre Sunnmøre has operated its business. The ownerless capital (*grunnfondskapitalen*) accumulated by SpareBank 1 Søre Sunnmøre will accordingly be managed and disposed in the local community. The savings bank foundation will be the largest owner of the merged bank. This ensures that the local community will also benefit from funds provided through future dividends from SpareBank 1 SMN.

Supervisory board and board of directors

In connection with the merger, SpareBank 1 Søre Sunnmøre's depositors will elect one member, and SpareBank 1 Søre Sunnmøre's employees will elect one member, to the supervisory board of the merged bank.

Under the agreement of intent, SpareBank 1 Søre Sunnmøre will in connection with the merger be entitled to designate one member of SpareBank 1 SMN's board of directors who in the first instance will be elected for a two-year term but will be re-elected for a further two years.

SpareBank 1 Søre Sunnmøre's chief employee representative will as from the date of the merger attend meetings of SpareBank 1 SMN's board of directors in an observer capacity with the right speak, but not to vote, up until the next ordinary election of the board of directors in 2024.

Group management team

In order to assure influence and local decision-making authority, it is proposed that the merged bank's activities in the region be headed by a designated executive director. The new director will be Stig Brautaset who will join the merged bank's group management team and have overarching responsibility for the market area within the merged bank's strategy and policies.

The banks will jointly designate the new management (management team) for the region. The parties are also agreed on the establishment of one or more group functions in the region and will continue this work up to the signing of a merger plan.

Presence in Sunnmøre

The region's head office will be assigned to Volda and the workplace of the executive director for the region will be located in Volda.

The new region, Sunnmøre and Fjordane, will include both the activities of SpareBank 1 Søre Sunnmøre and SpareBank 1 SMN's existing business in Sunnmøre. All offices of the merged bank will be retained. In addition the bank wishes to strengthen/expand its local presence by establishing further offices.

The merged bank needs to retain all employees, and no employee will be given notice to leave as a result of the merger. The ambitions proposed for the merged bank entail growth in market share and number of staff.

Basis for and principles underlying the conversion ratio

The conversion ratio will only become available on the date of a final agreement on a merger. The conversion ratio will be set following negotiations between the parties and will be based in part on a financial and legal due diligence of SpareBank 1 Søre Sunnmøre, book value and adjusted shareholders' equity, a costing analysis based on historical key figures, along with normalised profit and adjusted shareholders' equity, regression analysis, return on equity and price/book ratios for comparable savings banks, as well as market pricing and target pricing.

Timetable and assumptions for implementation

Under the preliminary timetable, the banks aim to have the merger plan considered by their respective boards of directors at the start of October 2022. The agreement will in such case be presented to the banks' respective supervisory boards/general meetings for decision at the start of November 2022. According to the preliminary timetable, a merger can be implemented by the end of the first quarter of 2023.

The implementation of a merger is among other things conditional on:

- A satisfactory due diligence by SpareBank 1 Søre Sunnmøre, and
- Agreement on the terms and conditions of merger, including the conversion ratio and signing of a final agreement, and
- Approval of the merger plan and related agreements by the bank's respective boards of directors and supervisory boards/general meetings, and
- Necessary approvals by authorities and contracting parties on acceptable terms.

The banks have engaged SpareBank 1 SMN Markets AS as their joint financial adviser in the process, and Advokatfirmaet Selmer AS as their joint legal adviser.

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The above information is disclosable pursuant to Section 5-12 of the Norwegian Securities Trading Act.

The above information is considered to be inside information pursuant to the Market Abuse Regulation (MAR). This notice is published on behalf of SpareBank 1 SMN by Rolf Jarle Brøske, executive director, Communications and Brand at SpareBank 1 SMN, 07.30hrs, 20 June 2022.