



SPAREBANKEN MØRE

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COVER PHOTO

Sparebanken Møre has financially supported the establishment of a Newtonroom at NMK on Campus in Ålesund by NOK 5 million. Newton Møre will be fully utilized by local school classes from August 2018. The purpose of this Newtonroom, is to increase the interest in science among children and adolescents.

Foto: Havnevik AS

Key figures Group

Income statement

	2017		2016		2015		2014		2013	
	NOK million	%	NOK million	%	NOK million	%	NOK million	%	NOK million	%
Net interest income	1 100	1.72	1 082	1.79	1 098	1.89	1 093	2.01	1 042	2.00
Net commission and other operating income	194	0.30	182	0.30	193	0.33	180	0.33	174	0.34
Net return from financial investments	48	0.08	99	0.16	12	0.02	135	0.25	28	0.05
Total income	1 342	2.10	1 363	2.25	1 303	2.24	1 408	2.59	1 244	2.39
Total operating costs	590	0.92	586	0.97	561	0.96	564	1.04	569	1.09
Profit before impairment on loans	752	1.18	777	1.28	742	1.28	844	1.55	675	1.30
Impairment on loans, guarantees etc.	13	0.02	22	0.04	50	0.09	22	0.04	54	0.10
Pre tax profit	739	1.16	755	1.24	692	1.19	822	1.51	621	1.20
Tax	182	0.28	181	0.30	189	0.32	199	0.36	171	0.33
Profit after tax	557	0.88	574	0.94	503	0.87	623	1.15	450	0.87

Statement of financial position

NOK million	2017	2016	2015	2014	2013
Total assets	66 491	61 593	60 120	56 305	54 627
Average assets	64 000	60 525	58 113	54 455	52 104
Loans to and receivables from customers	56 867	52 691	51 286	48 884	46 241
Loans to retail customers	39 817	37 133	34 822	32 245	30 454
Loans to corporate and public entities	17 168	15 734	16 526	16 817	15 974
Deposits from customers	32 803	32 562	29 389	28 389	28 068
Deposits from retail customers	19 688	18 675	17 829	17 024	15 999
Deposits from corporate and public entities	13 101	13 877	11 550	11 358	12 057
Lending growth as a percentage	7.9	2.7	4.9	5.7	6.2
Deposit growth as a percentage	0.7	10.8	3.5	1.1	3.6

Key figures

	2017	2016	2015	2014	2013
Return on equity 1)	10.4	11.6	10.7	14.0	11.6
Costs/income ratio	44.0	43.0	43.0	40.1	45.7
Losses as a percentage of loans 1.1	0.02	0.04	0.10	0.05	0.12
Problem loans as a percentage of loans (prior to impairment)	0.57	1.12	0.47	0.80	1.16
Problem loans as a percentage of loans (after impairment)	0.40	0.98	0.32	0.51	0.80
Deposits to lending ratio	57.7	61.8	57.3	58.1	60.8
Liquidity Coverage Ratio (LCR)	159	91	123	127	
Capital adequacy ratio 2)	18.4	18.6	18.1	15.8	17.0
Tier 1 capital ratio 2)	16.8	17.0	16.6	14.4	15.5
Common Equity Tier 1 capital (CET1) 2)	15.0	14.6	14.1	12.0	12.5
Leverage Ratio (LR)	8.2	8.5	8.0	7.9	
Man-years	359	378	388	383	391
Equity Certificates:					
Profit per EC (Group) (NOK) 3)	27.70	28.80	25.25	31.20	21.65
Profit per EC (Parent Bank) (NOK) 3)	27.00	29.85	25.70	29.10	18.45
Dividend per EC (NOK)	14.00	14.00	11.50	13.50	8.00
EC fraction 1.1 as a percentage (Parent Bank)	49.6	49.6	49.6	49.6	47.7
Price at Oslo Stock Exchange (NOK)	262	254	188	216	198
Price/Book value (P/B) (Group)	0.91	0.93	0.73	0.89	0.88

1) Calculated using the share of the profit to be allocated to equity owners.

2) Calculated according to IRB in Basel II incl. transitional rule in Basel I. IRB-Retail for retailmarket as of 31.03.15 and IRB-Foundation for corporate commitments from 30th June 2014.

3) Calculated using the EC-holder's share (49.6 %) of the period's profit to be allocated to equity owners.

A flexible organisation

After a year with strong results, we are entering 2018 with a strong financial foundation, future-oriented, with dedicated and willing employees, ready to develop the Bank further for the benefit of our customers and our region.



Trond Lars Nydal

CEO

At a time when banking habits have changed, new competitors have entered the market and technology is developing rapidly, it is more important than ever that we can offer relevant services, tailored advice and short decision chains. As we sum up the past year, it is pleasing to observe that we are holding a steady course.

Sparebanken Møre operates in an area with a culture of innovation. Our goal is to be a driving force as well as a participant in this culture in order to further develop and strengthen both the Bank and the community around us. The last year offered several examples of this.

Valuable partnerships

In February, we announced that Sparebanken Møre was joining forces with 105 other Norwegian banks to develop the Vipps service further. More banks joined our ranks during the year and together we have developed a strong, fintech environment with substantial expertise in money-transfer services, identification, and development. This partnership provides us with inspiring ideas and useful knowledge, as well as providing our customers with access to good and userfriendly solutions.

During the summer of 2017, we entered into a collaboration with the Norwegian University of Science and Technology (NTNU) to establish an innovation lab at NTNU in Ålesund. This lab will provide a platform for research in the intersection between technology and finance and is a good example of a successful partnership between academia and business. It contributes to

knowledge useful for both the Bank as well as other parts of local businesses and industries, it strengthens the academic environment in Møre og Romsdal, and it will undoubtedly contribute to exciting synergies creating values in our region.

NÆRINGSTEFT is a third example of a concept that has produced positive ripple effects, both for the Bank and for the multitude of ideas to be found in our county. Almost 200 entrepreneurs applied when we announced 50 participants would have a chance to take part in a skills journey on the road to a first prize of NOK 1 million. The competition has provided the Bank with valuable knowledge about an important group of customers, while at the same time we have been important contributors to the work of concretising and realising ideas that can create value for our county. We consider this meaningful processes.

Future-oriented organisation

In the autumn, we announced an updated organisation chart, including two new units: Organisational Development and Customer Experience. The right composition of skills is vital for the Bank's positive development going forward. At the same time, we must be able to convert expertise into actions creating good experiences and high value for our customers.

A good, future-oriented structure is now in place and we will make each other even better by facilitating cooperation, sharing ideas and exchanging skills across branches and business areas in the Bank. Good teamwork can be a competitive advantage.

Close to the customers

As a regional savings bank, we have close ties to our customers. Together with our customers, we appreciate the good times and do our part and provide support during bad times. 2017 was a challenging year for oil-related industries. Structural changes in the offshore industry in particular had consequences for companies, people and local communities. During this period, we were regularly reminded that the local corporate sector appreciates our local presence and the way we do things, with proximity and close relations to our customers as well as local knowledge as important management tools.

2018 has begun with good prospects for Møre og Romsdal. Production is high in most industries, the downturn in oil-related industries is starting to turn and the level of activity in the public sector is high. Given that we also have a flexible and forward-leaning local corporate sector, there is reason to be optimistic about the future.

Making our mark

When conditions change, we also have to change. We have taken many steps, but must be prepared to take further in the future. We are, however, confident that we have a flexible organisation capable of both creating and seizing new opportunities.

In 2018, it is 175 years since we established our first local branch. We have been bankers for generations, and we are well-equipped to make our mark going forward as well.

Trond Lars Nydal
CEO

Organisation and Management

Sparebanken Møre's operations are concentrated in Møre og Romsdal where the Bank has branches in 16 municipalities in Sunnmøre, six in Romsdal and two in Nordmøre. As at 31 December 2017, the Group had 376 permanent staff representing 359 full-time equivalents.

The main duties of the General Meeting are to approve the financial statements and to elect a board of eight members. The General Meeting has 40 members and 14 deputy members. It is composed of four groups with the following distribution:

- 13 members and four deputy members are elected by and from the Bank's customers
- 13 members and four deputy members are elected by and from the equity certificate holders
- 10 members and four deputy members are elected by and from the employees
- Four members and two deputy members are elected by the General Meeting to represent the local community

The Sparebanken Møre Group consists of the Parent Bank and three wholly owned subsidiaries. Møre Boligkreditt AS's purpose is to finance lending secured by mortgages in residential and commercial properties. Møre Eiendomsmegling AS offers services within real estate brokerage for both residential and commercial properties. Sparebankeiendom AS is a property company that owns and manages the Bank's own commercial properties.



Sparebanken Møre's head office is in Ålesund. The Bank's activities in the retail market are organised in the Retail Banking Division. Every retail market department is headed by a bank manager who reports to the EVP of the division, who in turn reports directly to the CEO. A total of 28 branches perform the Bank's customer-oriented activities. The EVP of the Retail Banking Division is responsible for developing and maintaining the Bank's retail customer concept.

Corporate activities in Sparebanken Møre are organised in the Corporate Banking Division, which includes Corporate Banking Sunnmøre, Corporate Banking Romsdal and Nordmøre and Corporate Banking Søre Sunnmøre. Corporate Banking Sunnmøre is in turn organised into six branch departments. The heads of these departments report to the EVP of the division, who in turn reports to the CEO. The EVP of the Corporate Banking Division is responsible for developing and maintaining the Bank's corporate banking concept.

The organisation also consists of seven units, each of which is headed by an EVP. The EVPs report directly to the CEO. The executive management group forms the cornerstone of Sparebanken Møre's management structure in order to ensure efficient communication and decision-making processes.



Executive Management Group

CEO's Executive Management Group consist of the Heads of Divisions, Corporate Banking and Retail Banking Division.

Trond Lars Nydal

Born: 1970 | ECs: 5 373

CEO since 1 April 2017. Previously, EVP, Retail Banking Division. Joined Sparebanken Møre in 1997. He has also held other senior positions in the Bank, including HR manager and regional bank manager. Nydal has been a member of the executive management group since 2003. Business School Graduate from NHH.



Terje Krøvel

Born: 1959 | ECs: 4 291

EVP, Corporate Banking Division since 1 October 2017. Previously, EVP, Sunnmøre Corporate Banking Division. Joined Sparebanken Møre in 1983. He has had senior positions within various industry groups in the Bank and has also been the regional bank manager, corporate banking, for the Ålesund and Sula region. Economics and administration from Møre og Romsdal Distriktshøyskole (1983).



Elisabeth Blomvik

Born: 1978 | ECs: 40

EVP, Retail Banking Division since 17 July 2017. Previous experience from Nordea (2002-2017) where she worked in a number of senior positions, last as Regional Manager of Nordea Ålesund. Master in Management from BI Oslo and has both participated and mentored in various management development programmes.



Runar Sandanger

Born: 1957 | ECs: 3 382

EVP, Treasury and Markets since 1 February 2013. Joined Sparebanken Møre in 1986. He has had a number of senior positions within the areas of FX, capital markets, finance and economics. Previous experience from Norges Bank and the Norwegian Institute of International Affairs. Cand. Oecon. degree from the University of Oslo (1983).



Erik Røkke

Born: 1969 | ECs: 5 530

EVP, Risk Management and Compliance since 1 October 2017. Previously, EVP, Credit and Legal. Joined Sparebanken Møre in 2012. Previously worked as an auditor at PWC (1994-2001) and a bank manager at Ørskog Sparebank (2001-2012). Business School Graduate from NHH (1994) and State Authorised Auditor.



Idar Vattøy

Born: 1959 | ECs: 4 406

EVP, Finance and Facilities Management since 1 October 2017. Previously, EVP, Financial Control, Risk Management, Human Resources and Security. Joined Sparebanken Møre in 1984. University graduate (Cand. Mag.). Graduate of Møre og Romsdal Distriktshøgskole (1980-1982) and Møre og Romsdal Ingeniørhøgskole (1982-1984).



Arild Sulebakk

Born: 1963 | ECs: 308

EVP, Customer Experience since 1 January 2018. Joined Sparebanken Møre in 2006. Has previously headed Møre Finans and been a regional bank manager for the inland region and head of NL staff. Previously worked at PAB Consulting and Norsk Hydro. Electrical engineer, Møre og Romsdal Ingeniørhøgskole (1985), and Business School Graduate from BI (1991).



Perdy Karin Lunde

Born: 1957 | ECs: 3 751

EVP, Business Support since 1 October 2017. Previously, EVP, Business Development and Support. Joined Sparebanken Møre in 1977. She has had a number of senior positions within the area of product and business development. Business School Graduate from BI (1990).



Kjetil Hauge

Born: 1972 | ECs: 1 498

EVP, Organisational Development since 1 October 2017. Joined Sparebanken Møre in 1998. He has had various senior positions in the Bank, including regional bank manager, head of Information and Compliance, head of Møreskolen and Managing Director of Møre Boligkreditt AS. Business School Graduate from NHH (1995).



Tone Skotheim Gjerdsk

Born: 1982 | ECs: 2 445

Public Information Manager and EVP, Communication and Group Support since 1 October 2017. Previously, EVP Information and Administration. Joined Sparebanken Møre in 2014. She has experience as a journalist from NRK and as a communications adviser from a number of communications agencies. Journalist from Volda University College (2003).

Subsidiaries

Sparebanken Møre Group consists of the Parent Bank and three wholly owned subsidiaries: Møre Boligkreditt AS, Møre Eiendomsmegling AS and Sparebankeiendom AS. Sparebankeiendom AS is a real estate company that owns and manages the Bank's own commercial properties.

MØRE BOLIGKREDITT AS



Møre Boligkreditt AS is a wholly owned subsidiary of Sparebanken Møre. The company's purpose is to acquire mortgages from Sparebanken Møre and finance these through issuing covered bonds. Covered bonds are among the most actively traded private bonds on the Oslo Stock Exchange, and is, next to government bonds, considered to be one of the safest securities in the Norwegian market. Møre Boligkreditt AS is Sparebanken Møre's primary source of long-term funding, and the company has issued covered bonds in both NOK, as well as EUR. Covered bonds issued by Møre Boligkreditt AS are listed on Oslo Stock Exchange as well as London Stock Exchange. Managing Director of Møre Boligkreditt AS is Ole Andre Kjerstad.

Key Figures 2017	NOK million
Net loans to customers	21 162
Debt Securities issued (covered bonds)	18 823
Net interest income	261
Profit after tax	165

Aaa-rated by Moody's

MØRE EIENDOMSMEGLING AS



The company was established in 1992 and acquired by Sparebanken Møre in 2005. Møre Eiendomsmegling AS provides real estate brokerage services in the purchase and sale of homes, leisure homes, project brokering and business brokering. They are among the largest and most experienced broker communities in Møre og Romsdal and have 17 employees and offices in Molde, Ålesund and Ørsta. The company traded 345 properties in 2017. Managing Director of Møre Eiendomsmegling AS is Odd Arild Sæther.

Key Figures 2017 NOKmillion

Turnover	17.9
Profit after tax	-0.5
Equity	11.47

"Dedicated real estate agents"

Board of Directors

Leif-Arne Langøy

Chairman | ECs 113.500

Leif-Arne Langøy (1956) is a business graduate from the Norwegian School of Economics (NHH) in Bergen. He lives in the municipality of Haram and is currently the owner and general manager of Lapas AS. In the period 2003-2009 Mr. Langøy was CEO of Aker ASA, and from 2006-2009 he was also the Chairman of the Board of Directors of the company. Mr. Langøy has previously held the position of CEO of Aker Yards ASA and CEO of Aker Brattvaag, among others. Mr. Langøy holds a number of directorships, among others he is Chairman of Kværner ASA and DNV-GL Group AS. He was elected Chairman of the Board of Directors of Sparebanken Møre in 2011. He was also Chairman of the Bank from 1998 to 2003. Langøy attended eleven out of eleven board meetings in 2017.



Roy Reite

Deputy Chairman | ECs 2.522

Roy Reite (1965) graduated as an engineer from the Norwegian University of Science and Technology (NTNU) in Trondheim and has wide-ranging experience from the maritime industry. Today he is the CEO of Vard Holdings Limited, a company that is listed in Singapore and has its head office in Ålesund. The company has subsidiaries in Norway, Romania, Brazil, Singapore, Canada, USA, Croatia, India and Vietnam. Mr. Reite has been a board member of Sparebanken Møre since 2004 and lives in the municipality of Ålesund. Reite attended ten out of eleven board meetings in 2017.



Marie Rekdal Hide

Board member | ECs 201

Marie Rekdal Hide (1985) works in Sparebanken Møre as an authorised financial adviser for Corporate Banking Sunnmøre, Dept. SME. Representative on the Board since March 2017. She has a Master of Business Administration from Edinburgh Business School. Joined Sparebanken Møre in 2007 and has experience from the retail market and the corporate market. She lives in the municipality of Sula. Hide attended eight out of eight board meetings in 2017.



Helge Karsten Knudsen

Board member | ECs 1.250

Helge Karsten Knudsen (1954) is the senior employee representative at Sparebanken Møre and has been a board member since 2014. He was also a board member from 2001-2012. He started working at Sparebanken Møre in 1973 and has many years' experience as a customer service officer. Mr. Knudsen lives in the municipality of Ålesund. He attended ten out of eleven board meetings in 2017.



Ragna Brenne Bjerkeset

Board member | ECs 950

Ragna Brenne Bjerkeset (1962) graduated as an agronomist from the Norwegian University of Life Sciences (UMB) and also holds qualifications in marketing, innovation and management. She has experience from the consulting industry in Møre og Romsdal and from various management

positions in TINE SA and Tibe Samfunn AS. Today she has a position as Assistant Regional and Business Manager in Møre og Romsdal County. Ms. Bjerkeset has been a member of the Board of Sparebanken Møre since 2011 and also holds several directorships in business and industry in the region. She lives in the municipality of Fræna. Bjerkeset attended ten out of eleven board meetings in 2017.



Ann Magritt B. Vikebakk

Board member | ECs 6.805

Ann Magritt Bjåstad Vikebakk (1977) graduated as a lawyer from the University of Oslo. In 2013 she founded Bjåstad Vikebakk Advokatfirma AS, which principally operates in the areas of taxation law, contracts and real estate property. She has previously been employed at the tax administration

of Norway and at the law firm Schjødt AS. Ms. Vikebakk has been a Board member of Sparebanken Møre since 2014, and holds directorships in several other companies including Tussa Kraft AS and Hareid Elektriske AS. Ms. Vikebakk lives in the municipality of Hareid. She attended eleven out of eleven board meetings in 2017.



Henrik Grung

Board member | ECs 0

Henrik Grung (1970) is partner and lawyer at the law firm SANDS, where he is chairman of the Board of Directors. Grung works primarily with strategic legal advice, negotiation and dispute resolution within the industries of fisheries, development of commercial

properties, government administration, commerce and industry. He holds a cand. Jur. degree from the University of Bergen. Mr. Grung has been a member of the Board of Sparebanken Møre since 2015. He attended ten out of eleven board meetings in 2017.



Elisabeth Maråk Støle

Board member | ECs 180

Elisabeth Maråk Støle (1968) is a business graduate with an Executive Master of Management. She is the CEO of NORCE - Norwegian Research Centre AS. Støle has held senior positions in international groups such as SafeRoad, Jotun, Telenor and SCA, been the director of

Møreforsking, and held a number of board positions. She has been a board member of Sparebanken Møre since 2016. She was also in the Board in the period 2008-2014. Støle is a member of the Bank's audit and risk committees. She lives in the municipality of Ålesund. Attended ten out of eleven board meetings in 2017.

Board of Directors report 2017

The financial statements have been prepared in accordance with IFRS. All figures relate to the Group. Figures in brackets refer to the corresponding period last year.

GROUP'S KEY FIGURES

(Comparable figures for 2016 in brackets)

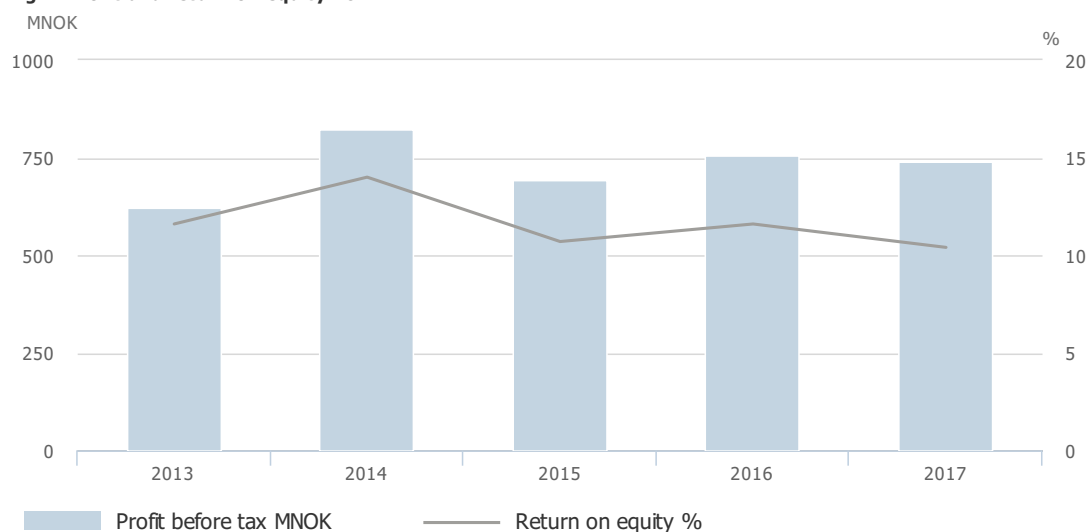
- Profit after tax: NOK 557 million (NOK 574 million)
- Return on equity after tax: 10.4 % (11.6 %)
- Lending grew by 7.9 % (2.7 %)
- Deposits grew by 0.7 % (10.8 %)
- At year end, primary capital amounted to NOK 6.3 billion and represented 18.4 % of the basis for calculation. Consequently, the Tier 1 capital ratio was 16.8 % and the Common Equity Tier 1 capital ratio 15.0 %
- Earnings per equity certificate: NOK 27.70 (NOK 28.80)
- The Board of Directors is well satisfied with the results for 2017
- The Board of Directors recommends that the General Meeting pays a cash dividend of NOK 14.00 per equity certificate and allocates NOK 141 million to dividend funds for local communities. In total, this represents 50.6 % of the total Group profit for 2017.

PARENT BANK'S KEY FIGURES

(Comparable figures for 2016 in brackets)

- Profit after tax: NOK 544 million (NOK 595 million)
- At year end, primary capital amounted to NOK 6.14 billion and represented 18.6 % of the basis for calculation. Consequently, the Tier 1 capital ratio was 17.0 % and the Common Equity Tier 1 capital ratio 15.2 %
- Earnings per equity certificate: NOK 27.00 (NOK 29.85)

Fig. 1 Profit and return on equity 2017



AREA OF OPERATION AND MARKETS

The Sparebanken Møre Group consists of the Parent Bank, the mortgage company Møre Boligkreditt AS, the real estate agency Møre Eiendomsmegling AS and the property company Sparebankeiendom AS. Sparebanken Møre has defined the county of Møre & Romsdal as its geographic area of operation, in which the Bank at year-end had 28 branches in 24 municipalities.

The customer-oriented activities within the retail market are organised in a central unit, the Retail Banking Division. All of the retail market departments (28) report to the EVP, Retail Banking Division, who in turn reports to the CEO.

The corporate banking activity is organised into three geographic units reporting to the EVP of the Corporate Banking Division, who in turn reports to the CEO. The Corporate Banking Division has a matrix organisation, divided into 6 different industries (marine, offshore & supply, industry, real estate, trade & services and SME).

The various tasks and responsibilities relating to Sparebanken Møre's day-to-day operations are allocated in such a way that the resource usage in the branch network is, to a great extent, prioritised in favour of direct customer-related activities. Other tasks shall, as far as possible, be attended by the Bank's central support system, which is organised in seven staff-units. Each of these units is managed by an EVP, who reports to the CEO. The EVP, Retail Banking Division, the EVP, Corporate Banking Division and the EVPs of the seven staff units form their own management groups together with their respective department heads. The EVP, Retail Banking Division, the EVP, Corporate Banking Division and the EVPs of the staff units are appointed by the Board. The CEO selects the members of the Bank's executive management group.

Sparebanken Møre is a full-service provider with the following products and services for customers:

- Financing
- Deposits and other forms of investments
- Asset management
- Financial advisory
- Payment transfers
- Currency and interest rate hedging
- Insurance
- Real estate brokerage

The Bank's distribution strategy covers its network of branches, digital channels, specialist functions and telephone services. The coordination of customer services in the various distribution channels is intended to ensure that the Bank's customers have options, easy access to a competent staff, good advices and a high degree of service. The Bank aims to further develop and maintain a high level of quality as far as these distribution channels are concerned in order to contribute to enhanced competitiveness, a high level of efficiency and improved profitability. This means that we will deliver high level of expertise in our personal counselling as well as provide user-friendly and good digital services for our customers.

RESULTS

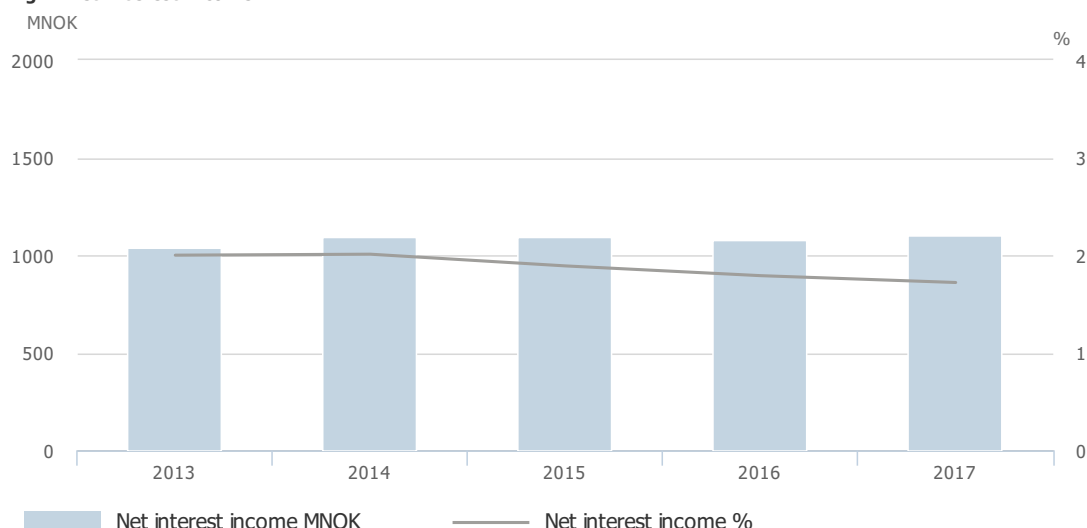
The profit before losses on loans and guarantees amounted to NOK 752 million, or 1.18 % of average total assets, compared with NOK 777 million, or 1.28 %, for 2016.

The profit after losses on loans and guarantees amounted to NOK 739 million, or 1.16 % of average total assets, compared with NOK 755 million, or 1.24 %, for 2016.

The profit after tax for 2017 amounted to NOK 557 million, or 0.88 % of average total assets, compared with NOK 574 million or 0.94 % for 2016.

Earnings per equity certificate in 2017 amounted to NOK 27.70 (NOK 28.80) for the Group and NOK 27.00 (NOK 29.85) for the Parent Bank.

Fig. 2 Net interest income

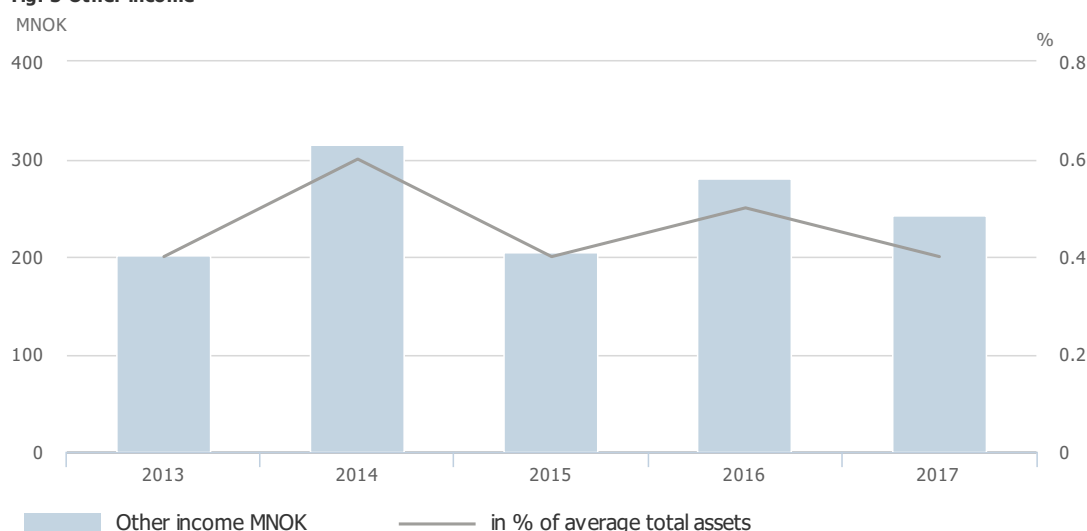


Net interest income

Net interest income totalled NOK 1 100 million (NOK 1 082 million). In relation to average total assets, net interest income was 1.72 % (1.79 %). Net interest income accounted for 82.0 % of total income in 2017.

The general low level of interest rates in the market, combined with strong competition on both loans and deposits, is affecting the development of net interest income. In addition, lower volumes combined with reduced margins due to reduced risk in the marine sector, resulted in lower net interest income compared with last year. A higher lending volume has resulted in increased net interest income in NOK.

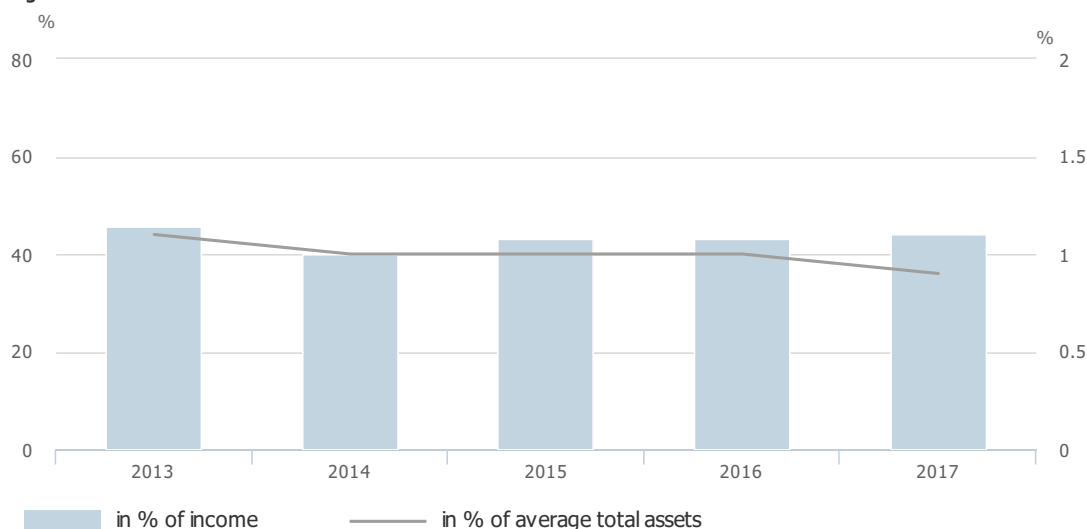
Fig. 3 Other income



Other operating income

Other operating income amounted to NOK 242 million (0.38% of average total assets) in 2017. This is a reduction of NOK 39 million compared with 2016. Capital gains on the bond portfolio amounted to NOK 23 million in 2017, equal to 2016.

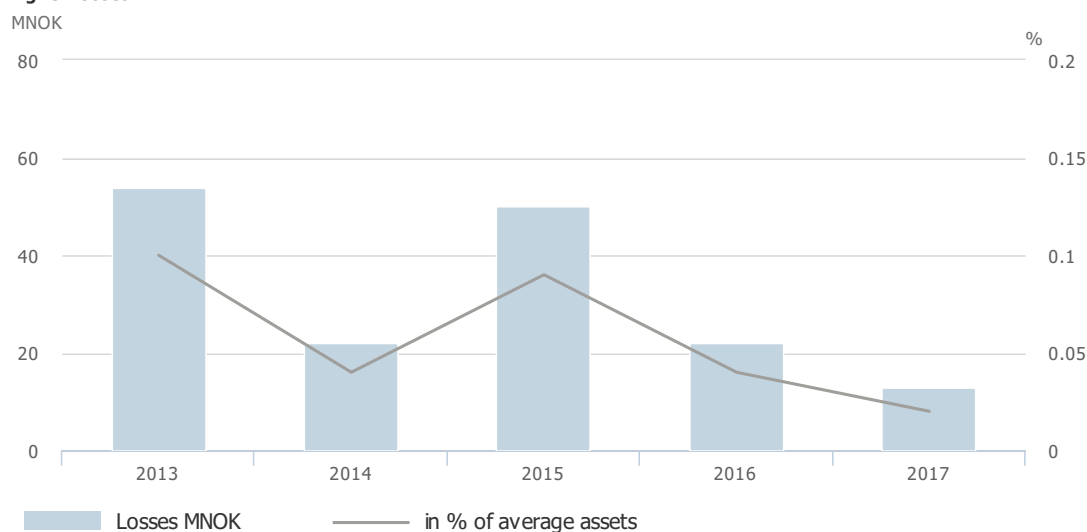
Capital losses on shares recognised in the income statement amount to NOK 10 million in 2017, compared to a capital gain of NOK 41 million in 2016. The effect of the Visa transaction on profit before tax amounted to NOK 45 million in 2016.

Fig. 4 Costs

Costs

Total costs amounted to NOK 590 million which is NOK 4 million higher than in 2016. The personnel costs are unchanged compared to 2016 and amount to NOK 335 million. Financial activity tax in the form of higher employers' National Insurance contributions amounted to NOK 14 million in 2017. Staffing has been reduced by 19 full-time equivalents in the last 12 months to 359 full-time equivalents.

The cost income ratio was 44.0 % in 2017, an increase of 1.0 percentage points compared to 2016.

Fig. 5 Losses

Losses and defaults

In 2017, the income statement is charged with NOK 13 million (NOK 22 million) in losses on loans and guarantees. This represents 0.02 % (0.04 %) of average total assets. The losses on loans and guarantees are due to a NOK 45 million decrease in collective impairments, a NOK 59 million increase in the corporate segment and a NOK 1 million reduction in the retail segment.

At year-end 2017, total impairments for losses amounted to NOK 336 million, equivalent to 0.57 % of gross lending (NOK 360 million and 0.66 %). NOK 4 million of the individual impairments involved commitments in default for more than 90 days (NOK 15 million), which represents 0.01 % of gross lending (0.03 %). NOK 96 million relates to other commitments (NOK 64 million), which

is equivalent to 0.16 % of gross lending (0.12 %). Collective impairments amounted to NOK 236 million (NOK 281 million) or 0.40 % of gross lending (0.51 %).

Net problem loans (loans that have been in default for more than 90 days and loans that are not in default but which have been subject to an individual impairment for losses) have decreased by NOK 296 million in the last 12 months. At year-end 2017, the corporate market accounted for NOK 181 million of net problem loans, and the retail market NOK 55 million. In total this represents 0.40 % of gross lending (0.98 %).

Fig. 6 Balance sheet

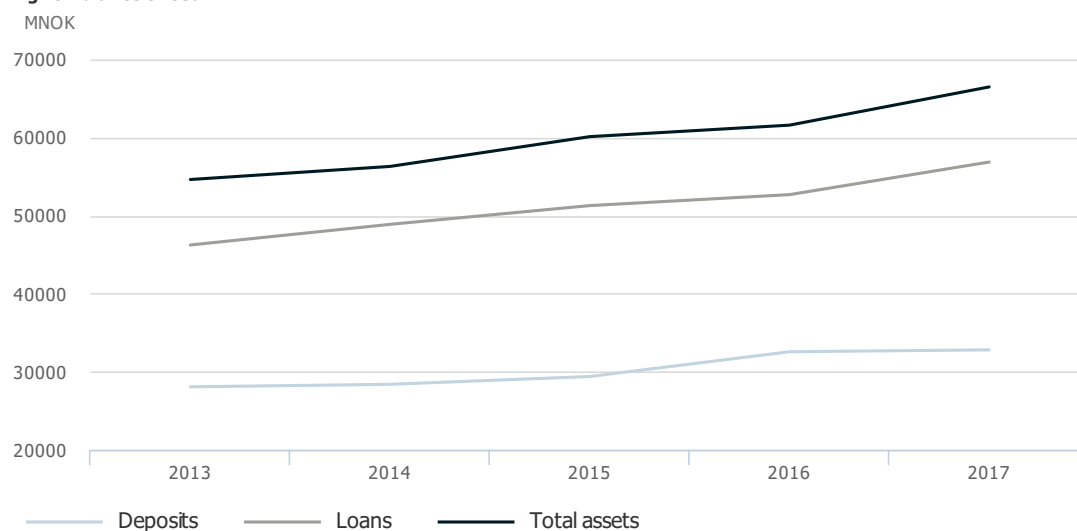
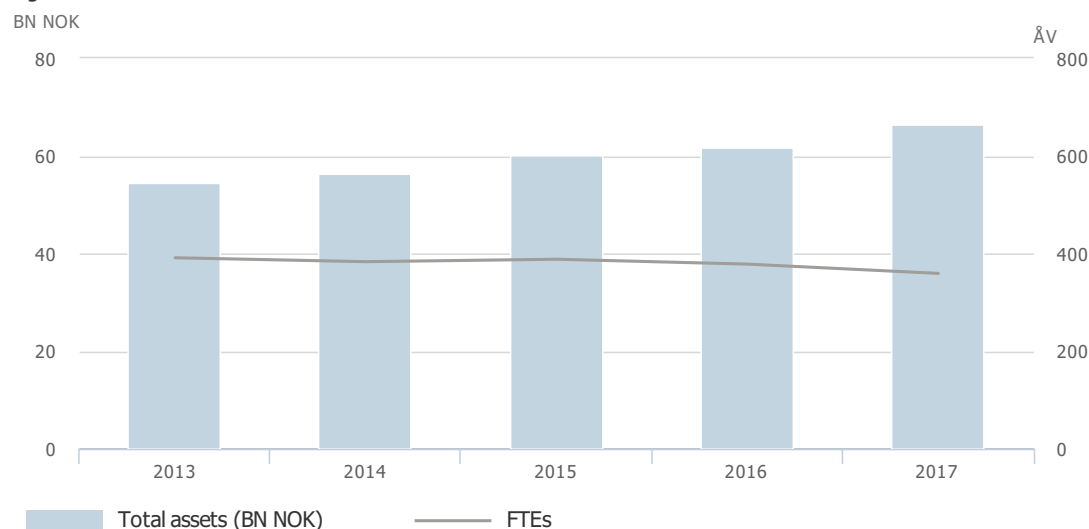


Fig. 7 Total assets and FTEs



Total assets

Total assets increased by NOK 4 898 million, or 8.0 %, in 2017 to NOK 66 491 million as at 31 December 2017. The change in total assets is primarily attributable to an increase in lending.

Lending to customers

At year-end 2017, lending to customers amounted to NOK 56 867 million (NOK 52 691 million). Net customer lending has increased by a total of NOK 4 176 million or 7.9 %, in the last 12 months. Retail lending has increased by 7.2 %, while corporate lending has increased by 9.1 % in the last 12 months. Retail lending accounted for 70.0 % of lending at year-end 2016 (70.2 %).

Deposits from customers

Customer deposits have increased by 0.7 % in the last 12 months. At year-end 2017, deposits amounted to NOK 32 803 million (NOK 32 562 million). Retail deposits have increased by 5.4 % in the last 12 months, while corporate deposits have decreased by 3.1 % and public sector deposits have decreased by 33.3 %. The retail market's relative share of deposits amounted to 60.0 % (57.4 %), while deposits from corporate customers accounted for 37.8 % (39.2 %) and from public sector customers 2.2 % (3.4 %).

The deposit to loan ratio amounted to 57.7 % (61.8 %) at year-end 2017.

Securities

Holdings of investments in securities (the LCR portfolio) at year-end 2017 amounted to NOK 6 096 million compared with NOK 6 199 million at year-end 2016. The volume of the portfolio is adapted to a LCR-requirement of 100 % from 31.12.2017.

There was no significant trading portfolio at year-end 2017.

The Bank's Additional Tier 1 capital consists of two loans, totalling NOK 627 million. One of the loans is subject to a variable interest rate, while the other is subject to a fixed coupon rate swapped to a variable interest rate.

SUBSIDIARIES

The aggregate profit of the Bank's three subsidiaries amounted to NOK 166 million after tax in 2017 (NOK 153 million).

Møre Boligkreditt AS was established as part of the Group's long-term funding strategy. The mortgage company's main purpose is to issue covered bonds for sale to Norwegian and international investors. At the end of the year, the company had raised a net NOK 18.4 billion in funding for the Group, approximately 16 % of the loans in another currency than NOK. The company contributed NOK 165 million to the result in 2017 (NOK 156 million).

Møre Eiendomsmegling AS provides real estate brokerage services to both retail and corporate customers. The company made no contribution to the overall result in 2017 (NOK -2.0 million). At year end, the company employed 13 full-time equivalents.

Sparebankeiendom AS's purpose is to own and manage the Bank's commercial properties. The company contributed NOK 1 million to the result in 2017. The company has no employees.

EQUITY CERTIFICATES – MORG

At year-end 2017, there were 5 698 holders of Sparebanken Møre's equity certificates. 9 886 954 equity certificates have been issued. The EC holders' share of the Bank's total equity amounted to 49.6 %.

The 20 largest equity certificate holders represented 49.7 % of the Bank's equity certificate capital at year end. Of these equity certificate holders, 10 were residents of Møre og Romsdal, with a relative ownership interest among the 20 largest of 53.8 % (48.3 %). Note 31 contains an overview of the 20 largest holders of the Bank's equity certificates.

As at 31 December 2017, the Bank owned 44 215 of its own equity certificates. These were purchased via the Oslo Stock Exchange at market prices. The equity certificates are freely negotiable in the market.

SPAREBANKEN MØRE'S DIVIDEND POLICY

Sparebanken Møre aims to achieve financial results providing a good and stable return on the Bank's equity. The results shall ensure that the owners of the equity receive a competitive long-term return in the form of cash dividends and capital appreciation on the equity.

Dividends consist of cash dividends for equity certificate holders and dividends to the local community. The proportion of profits allocated to dividends is adapted to the Bank's capital strength. Unless the Bank's capital strength dictates otherwise, it will be aimed at distributing about 50 % of the profit. Sparebanken Møre's allocation of earnings shall ensure that all equity owners are guaranteed equal treatment.

Proposed allocation of the profit for the year:

In line with the rules for equity certificates, etc., and in accordance with Sparebanken Møre's dividend policy, it is proposed that 50.6 % of the Group's profit be allocated to cash dividends and dividend funds for local communities. Based on the accounting

breakdown of equity between equity certificate capital and the primary capital fund, 49.6 % of the profit will be allocated to equity certificate holders and 50.4 % to the primary capital fund. Earnings per equity certificate amounted to NOK 27.70 in 2017. The recommendation to the General Meeting is that the cash dividend per equity certificate for the 2017 financial year be set at NOK 14.00.

Proposed allocation of profit (figures in NOK millions):

Profit of the year	557
Allocated to holders of Additional Tier 1 capital	6
Dividend funds (50.6 %):	
To cash dividends	138
To dividends to local community	141 279
Strengthening of equity (49.4 %):	
To the dividend equalisation fund	128
To the primary capital fund	130
To other funds	14 272
Total allocated	557

EFFECT OF TRANSITION TO IFRS 9

The Group's equity will at 01.01.2018 be charged with NOK 6 million after tax as a consequence of increased impairments due to the implementation of IFRS 9. The implementation of IFRS 9 will have no effect on the Group's primary capital, as expected loss according to the capital adequacy requirements already exceeds loss according to IFRS 9. Sparebanken Møre will therefore have no need to apply the transitional rule. Please see note 2 for further information.

CAPITAL ADEQUACY RATIO AND APPLICABLE REGULATIONS

Sparebanken Møre has permission from the Financial Supervisory Authority of Norway to use the Foundation IRB method for calculating capital requirements for credit commitments. The internal risk management models have been developed and implemented over a number of years within the credit area for the Group.

The Group's capital adequacy is reported in accordance with the Financial Supervisory Authority of Norway's permission. Sparebanken Møre was subject to capital requirements associated with the transitional scheme for the Basel I floor at year-end 2017. Operational risk calculations are performed using the basic method.

Sparebanken Møre's capital adequacy at year-end 2017 was well above the regulatory capital requirements and also above the internally set minimum target for the Core Tier 1 capital ratio. Primary capital amounts to 18.4 % (18.6 %), Tier 1 capital 16.8 % (17.0 %), of which Common Equity Tier 1 capital amounts to 15.0 % (14.6 %). The capital adequacy figures include the annual profit and the Board's proposed allocation of the profit. The Board's proposal concerning the allocation of profit for the year entails retaining 49.4 % of the Group's profit to further build up the Group's financial strength.

The minimum requirement for leverage ratio is set at 3 % and all banks must also have a buffer of at least 2 %. At year-end 2017, the leverage ratio for Sparebanken Møre was 8.2 % (8.5 %), giving a good margin with respect to the total requirement of 5 %.

Based on the capital adequacy regulations, the minimum requirement for capital adequacy consists of a Pillar 1 requirement and a Pillar 2 requirement. The Pillar 2 supplement applies to risks that are not covered or are only partly covered by Pillar 1. The Financial Supervisory Authority of Norway set the Bank's Pillar 2 requirement at 1.8 %, applicable from 31 December 2016. During 2018, the FSA will review the level of the bank's Pillar 2 supplement. The Ministry of Finance further decided that the countercyclical buffer will be increased by 0.5 percentage points to 2 % such that from 31 December 2017 the total minimum requirement for the Common Equity Tier 1 capital ratio will be 13.8 %. The Board monitors capital adequacy in the Group on an ongoing basis and is prepared to rapidly deploy measures in the event of a need to strengthen capital balances.

RISK MANAGEMENT

Risk-taking is a fundamental element of banking operations. Risk management and risk control are two of the Board's focus areas. The overall purpose of risk management and risk control is to ensure that set targets are attained, ensure effective operations, manage risks which may prevent the attainment of commercial targets, ensure high quality of internal and external reporting and ensure that the Group's operations comply with all relevant laws, regulations and internal guidelines.

The stated goal of the Board of Sparebanken Møre is to ensure that the operations of the Group maintain a low to moderate risk

profile. Earnings should be a product of customer-related activities and not financial risk taking. Sparebanken Møre constantly strives to maintain control of existing risks. In case a risk is deemed to exceed an acceptable level, immediate steps will be taken to reduce this risk.

The overall framework and limits for Sparebanken Møre's risk management are assessed annually by the Board as part of the preparation of the Bank's strategic plan. In August 2017, the Board adopted a new strategic plan, "Møre 2021". The Board approves overall guidelines for management and control in the Group each year, and the Parent Bank and subsidiaries adopt individual risk policies tailored to their activities. Separate policies have been approved for each significant risk area, including credit risk, counterparty risk, market risk, concentration risk, operational risk and liquidity risk. Risk strategies are approved by the Board and reassessed at least once a year, or when particular circumstances make it necessary. Sparebanken Møre's risk policies were last reviewed and approved in a revised form in December 2017.

The various policies form the framework for the Group's ICAAP. The Board actively participates in the annual process and establishes ownership of the assessments and calculations made, including through the ICAAP's key role in long-term strategic planning. The ILAAP process, which is the Bank's assessment of liquidity and funding risk, is included as part of the ICAAP. Calculations performed in connection with the ICAAP for 2017 indicate that the Group's capital adequacy is sufficiently robust to tolerate an economic development that is significantly more negative than the development on which the basic scenario in the long-term strategic plan is based. This is supported by both economic calculations and simulations based on various stress tests.

Sparebanken Møre has established a monitoring and control structure that is intended to ensure compliance with the overall framework of the Bank's strategic plan. The Group's risk exposure and risk development are followed up on an overall basis through periodic reports submitted to management, the Audit and Risk Committee and the Board of Directors. One of the Audit and Risk Committee's primary purposes is to ensure that Sparebanken Møre's risk management is addressed satisfactorily.

The Board is of the opinion that Sparebanken Møre's aggregate risk exposure conform to the Group's targeted risk profile. The Board considers the Group's and Bank's risk management to be satisfactory.

Credit risk

Credit risk (or counterparty risk) is the risk of losses associated with customers or other counterparties being unable to fulfil their obligations at the agreed time pursuant to written agreements, and of received collateral not covering outstanding claims.

Credit risk also encompasses concentration risk, including risk linked to major commitments with the same customer, concentration within geographic areas or industries or with similar groups of customers.

Credit risk represents Sparebanken Møre's biggest risk area. The Group has a moderate risk profile for credit risk, as this risk is defined through the Group's credit risk strategy. The strategy provides, for example, limits for concentration in industrial sectors and the size of commitments, geographic exposure, growth targets and risk levels.

Compliance with the Board's resolutions within the area of credit is monitored by the Bank's Risk Management & Compliance unit. This unit is independent of the customer divisions. The Board receives reports on credit risk trends throughout the year in monthly risk reports. In addition, periodic reviews of the credit area are carried out by the Audit and Risk Committee. The Board receives quarterly reports on mortgage lending, in line with the guidelines of the Financial Supervisory Authority of Norway. Sparebanken Møre's internal guidelines conform to the Financial Supervisory Authority of Norway's guidelines for mortgage lending.

Sparebanken Møre has, as part of the IRB system, developed its own risk classification models for classifying customers:

- Probability of Default (PD) is used as an indicator of quality. Customers are classified in a risk class according to the probability of default.
- Exposure At Default (EAD) is a calculated amount which includes drawn commitments or lending, loan commitments and a proportion of approved, undrawn facilities.
- Loss Given Default (LGD) indicates how much the Group would expect to lose if the customer defaulted on his obligations.

The models take account of the collateral that the customer has pledged, future cash flows and other relevant factors.

These models make an important contribution to the in-house management of credit risk. The customers are scored on a monthly basis, and this provides the basis for ongoing monitoring of the development of Sparebanken Møre's credit risk. Specific application scoring models have also been implemented and are used in the credit approval process.

Through the Group's reporting portal, each member of staff with customer responsibilities has access to reports showing the development of the credit risk in his or her portfolio. The portal has a hierarchical structure allowing managers in Sparebanken Møre to monitor performance within their respective area of responsibility. The reports are used to analyse customers, portfolios and segments among other things. The portal also provides customer account managers with an overview of the customers' positions and limits in relation to exposure in financial instruments.

The Special Commitments department is part of the Risk Management & Compliance unit. The purpose of this department is to

improve the efficiency of the processes associated with losses and commitments in default, as well as increase interaction between the Custodian department and the Credit department. This will improve the quality and professionalism in handling impaired commitments and ensures that case processing will be objective and independent. The department reports upwards in the management hierarchy independent of the branches.

The Board finds that Sparebanken Møre's overall credit risk is within the Group's adopted risk tolerance. Exposure to large commitments has been significantly reduced over the last years, but follow-up and control of this area has been enhanced. The Board finds that Sparebanken Møre is well prepared to handle potential increased credit risk in the loan portfolio, and that the Group has a good foundation for increasing its focus on solid lending projects in Sparebanken Møre's area of operation in the future.

Market risk

Sparebanken Møre's market risk is primarily a reflection of activities which are conducted in order to support the Group's daily operations. This relates to the Group's funding, the bond portfolio which is maintained in order to meet funding requirements and safeguard access to loans from Norges Bank as well as customer-generated interest rate- and currency trading.

The Board stipulates limits for the Group's market risk in the market risk strategy. The limits are monitored by the Risk Management & Compliance unit. The amounts of the limits are agreed against the background of analyses of negative market movements. Based on an evaluation of risk profile, management and control, it is assumed that the Bank accepts low risk within the market risk area. The governing documents dealing with market risk are reviewed and renewed at least annually by the Board, most recently in December 2017. The Bank's board receives monthly reports on the development of market risk. The limits for market risk are conservative, and on an overall basis, market risk represents a small part of the Group's aggregate risk.

The Board finds that the Group's risk exposure in the area of market risk is within the adopted risk tolerance limits.

Funding risk

The management of Sparebanken Møre's funding structure is laid down in an overall funding strategy which is evaluated and approved by the Board at least once a year, most recently in December 2017. The strategy reflects the moderate risk level that is accepted for this area of risk. It describes Sparebanken Møre's targets for maintaining its financial strength. Specific limits have been defined for different areas of the Group's liquidity management. Sparebanken Møre's contingency plan for liquidity included in the Bank's guidelines for stress testing and concentration risk describes how the liquidity situation is to be handled in unsettled financial markets.

Two key quantitative requirements have been established for liquidity:

- Requirement for liquidity coverage under stress: Liquidity Coverage Ratio (LCR)
- Requirement for long-term stable funding: Net Stable Funding Ratio (NSFR)

LCR measures an institution's ability to survive a 30-day stress period. LCR increases the importance of high-quality liquid assets. NSFR measures the longevity of an institution's funding.

NSFR entails institutions having to fund liquid assets with the aid of a greater proportion of stable and long-term funding.

LCR has been phased in over time and the requirement as of 31 December 2017 is 100 percent.

In recent years, the liquidity portfolio has stabilized at a higher level both in volume and against LCR quality securities. The targets established by the Group regarding LCR comply with the regulations' escalation plan. Reporting shows that Sparebanken Møre is well within the announced requirements.

At a general level, the stricter liquidity requirements will entail a significant interest cost for the Bank. It also makes the Bank more vulnerable to changes in credit spreads.

To ensure that the Group's funding risk is kept at a low level, lending to customers must primarily be financed by customer deposits and issuing of long-term debt securities. The Bank's deposit to loan ratio at year-end 2017 was 57.7 %.

Møre Boligkreditt AS provides the Group with increased diversification of funding sources. The company issues covered bonds. The Bank transfers parts of its mortgage portfolio to the mortgage company, and this facilitates access to these funding opportunities. At year-end 2017, 36 % of the Group's total lending (52 % of lending to the retail market) had been transferred to the mortgage company. Sparebanken Møre will continue to transfer loans to Møre Boligkreditt AS in accordance with the plans set out in the funding strategy. At year end, 85 % of Møre Boligkreditt AS' outstanding bond volume was of an amount that qualifies for Level 2A liquidity in LCR. Møre Boligkreditt AS will issue and accumulate more loans in this category going forward.

In order to gain access to new sources of funding and seek stable access to funding from external sources, securities issued by both Sparebanken Møre and Møre Boligkreditt AS are rated by the rating agency Moody's.

In December 2017, Moody's maintained its good A2 rating of Sparebanken Møre. Bonds issued by Møre Boligkreditt AS are rated Aaa by Moody's.

As far as the composition of the external funding is concerned, priority is given to ensure that a relatively high proportion of funding has a term in excess of 1 year. Total market funding ended at net NOK 26.0 billion at year end – about 87 % of this funding has a remaining term of more than 1 year. The Parent Bank's outstanding senior bonds had a weighted remaining term of 2.38 years at year-end 2017, while covered bond funding correspondingly had a remaining term of 3.48 years.

The liquidity risk module consists of guidance for the Financial Supervisory Authority of Norway's assessment of the institution's liquidity risk level and guidance concerning the assessment of the institution's system for the management and control of liquidity risk. Sparebanken Møre has implemented the proposed reporting structure from the module in the management report linked to liquidity.

The Board considers the Bank's liquidity situation at year-end to be good. The Board also considers the ongoing liquidity management of the Group to be good.

Operational risk

Operational risk is defined as the risk of loss due to insufficient or failing internal processes, human or systems-related failure, or external events. This may for instance involve failures and breakdowns with regard to routines, electronic data processing systems, professional competence and the Bank's subcontractors; and it may also involve staff and customer breaches of confidence/trust, robberies, embezzlement, etc. The Board of Sparebanken Møre has adopted a low to moderate risk profile for this area of risk.

Targeted measures are necessary to prevent and reduce operational risk. Examples of risk-reducing measures include physical security measures, established contingency plans, ransom- and conflict management exercises, contingency exercises, insurance schemes and training.

Sparebanken Møre attaches great importance to external activities in which the customer is in focus. The fact that our employees possess a good level of expertise is an important contribution to reducing operational risk and at the same time ensuring that our customers find being a customer of our bank a good experience.

A great deal of resources has been expended in recent years in connection with the authorisation scheme for financial advisers. By the end of 2017, 261 of the Bank's employees were licensed financial advisers. Four of these were authorised in 2017. Most of the managers in frontline positions have completed an AFA examiner course, providing the managers with good training and practice in exercising their managerial roles.

A new national authorisation scheme for credit came into force on 1 January 2017 and by the end of the year 195 employees had completed it and gained authorisation. Sparebanken Møre also takes part in the national certification scheme for non-life insurance. At year end 2017, 188 employees had passed this certification. The Bank also has a standardised training programme provided by the Bank's internal "Møreskole", which all new employees must undergo. The Board is very satisfied with the substantial rise in competence that individual employees and the Bank have achieved over the last several years and will continue to emphasise this work in the years ahead.

The quality and stability of our digital banking services and other ICT services were generally good in 2017, with the exception of one incident in the autumn. This incident was due to a fault in an important machine at the Bank's most important systems provider and impacted multiple banks using the same provider. The fault resulted in key customer-oriented and internal systems being offline for around 24 hours. Transactions to and from customers were also delayed. Measures have been initiated, both internally in Sparebanken Møre and at the relevant provider, to avoid situations like this occurring again. Otherwise, the reliability of these services and the underlying systems has been generally good. Besides the above-mentioned incident, no material security events or losses due to breaches of security were experienced. Good cooperation between the actors in the industry makes an important contribution to the work on reducing the consequences of targeted attacks aimed at banks and other financial institutions. Sparebanken Møre has a strong focus on ICT security, also amongst the Bank's employees. In 2017, all the Bank's employees completed a mandatory e-learning course on information security. In 2015, the Bank extended an agreement with Evry concerning the delivery of an effective platform for modern banking operations, including digital solutions for future customer needs. Quality, stability and security will also be in focus in 2018.

There is a major focus on preventing money laundering and terror financing in the Group. The Bank carries out a risk assessment of the area annually. A lot of resources are expended on internal control and training employees linked to this area. The Bank was well represented at the annual anti-money laundering conference arranged by Finance Norway, the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) and the Financial Supervisory Authority of Norway in November. Sparebanken Møre will continue to prioritise money laundering and terror financing prevention in 2018 as well.

Sparebanken Møre's overarching contingency plan is revised annually and latest in December 2017. The underlying contingency plans, such as the ICT contingency plan, are also updated on an ongoing basis. Exercises are arranged annually. The experience gained from the exercises is used to supplement contingency plans with additional details and provides valuable experience in

managing any crisis situations that could arise. The exercises also help to raise awareness and vigilance in relation to issues that may arise during a crisis.

Sparebanken Møre has established various forums and committees that actively work to manage the Group's operational risk. This includes the annual security forum for employees within the Group who are responsible for security. The Group also has a security committee which performs an approval function for the Bank's BankID regulations. The committee's members represent a wide range of people from many functions within the Group. The Board receives an annual report on the security situation at Sparebanken Møre, in addition to ongoing reports relating to significant deviations and events that may occur. The annual ICAAP reviews the major areas of risk for the Group, and a lot of attention is paid to operational risk in this context.

Sparebanken Møre's established, operational internal control represents an important tool for reducing operational risk, through both identification and follow-up.

Internal control

The internal control system should be designed to ensure reasonable certainty with respect to attaining goals within the areas of strategic development, goal-oriented and efficient operations, reliable reporting, and compliance with laws and regulations, including compliance with internal Group guidelines and policies. A well-functioning internal control system should also ensure that the Group's risk exposure is within adopted risk profiles and risk tolerance limits.

Sparebanken Møre's internal control processes are based on the principles of the global internal control standard, the COSO model. The processes and the internal controls should apply to the Group as a whole. This also means that risks that arise as a result of ownership and operation of subsidiaries must be handled by the Group's overall internal control processes.

At Sparebanken Møre, individual managers have a special individual responsibility to ensure that internal control within his or her area of responsibility functions and is implemented as intended. This means that managers at every level of the organisation monitor the control measures put in place in their areas of responsibility. This insight is normally achieved through personal presence, monitoring staff, spot checks, reviewing key figures and deviation measurements, etc. This principle also applies to the managers of the subsidiaries in the Group.

Internal control in connection with the financial reporting process

The purpose of internal control in connection with the financial reporting process is to ensure that the financial statements are prepared and presented free from material error, including that any errors shall be identified in time. Moreover, internal control shall ensure that external accounting requirements are met, as well as safeguard that information disseminated to analysts, supervisory authorities, investors, customers and other stakeholders is complete and provides a true and fair view of the Group's financial situation.

Responsibility for the financial reporting process is assigned to the Finance & Facilities Management unit, coordinated and led by the Finance Department. Plans are established, clearly specifying the distribution of work and back-up lists for both tasks and personnel in this and other departments within the section.

Transactions are registered in the Bank's core systems, and reconciliations are performed between these systems and the accounting system (IROS) on a daily basis. Management reports are prepared periodically and quality checked. Any deviations that are recorded are rectified on an ongoing basis. Various management reports are prepared every month: Balanced Scorecard, analyses, risk reports etc. and consolidated financial statements are produced both monthly and quarterly. Items in the income statement, statement of financial position and note disclosures are reconciled against various systems and previous reports.

Part of the internal control in connection with reporting the annual financial statements is the cooperation with the external auditor and their audit of the Group accounts. The cooperation is considered to be satisfactory, and the external auditor contributes to the good financial reporting process.

Both the quarterly and annual reports are reviewed by both the Bank's management group and the Audit Committee and Risk Committee prior to final consideration by the Board and the General Meeting.

Internal control reporting

Internal control reporting at Sparebanken Møre is decentralised, with the Compliance department as the coordinating unit.

The Board has received regular reports on the operations and risk situation throughout the year. The CEO has also submitted an annual report to the Board containing an overall assessment of the risk situation and an assessment of whether the established internal controls function satisfactorily. This report also contained assessments of subsidiaries subject to the requirements of the Risk Management and Internal Control Regulations.

Based on the reports received, the Board believes that internal control is being properly addressed at Sparebanken Møre.

Internal auditing

Internal auditing is a monitoring function which, independently of the rest of the Bank's management and organisation, conducts systematic risk assessments, checks and examinations of Sparebanken Møre's internal control in order to assess whether it is working in an appropriate and satisfactory manner.

The Group's internal auditing was outsourced to BDO in 2017. The internal auditing function reports to the Audit and Risk Committee and the Board. A plan has been prepared for the work of the internal auditor and approved by the Board. The Audit Committee, the Risk Committee and the Board received regularly reports from the internal auditor in 2017 in accordance with this plan.

The internal auditor's annual report for 2017 to the Board states that the Group's corporate governance, risk management and internal controls are satisfactory, given the size and complexity of Sparebanken Møre. No material breaches of applicable acts or regulations have been identified. The internal auditor has also reviewed the Bank's self-evaluation of its risk management and internal control throughout the year. This was found to be satisfactory with regard to the process, degree of detail and execution, as well as the summary report to the Board. The Bank's self-evaluation was also found to be in compliance with the requirements stipulated in the Risk Management and Internal Control Regulations.

CORPORATE GOVERNANCE REPORT

Corporate Governance in Sparebanken Møre includes the aims, targets and overall principles in accordance with which the Group is managed and controlled for the purpose of safeguarding the interests of owners, depositors and other groups in the Group. The Group's corporate governance should ensure prudent asset management and provide assurance that communicated goals and strategies are attained and realised.

The Board highlights the following areas as critical to maintaining the confidence of the market:

- Capital appreciation for equity certificate holders and other investors in the Bank's securities
- Competent and independent management and control
- Good internal management and monitoring processes
- Compliance with laws, rules and regulations
- Transparency and good communications with equity certificate holders, other investors, customers, employees and the community at large
- Equal treatment of all equity owners

The Group's corporate governance is based on the Norwegian Code of Practice for Corporate Governance, most recently updated on 30 October 2014. Sparebanken Møre's corporate governance report is included in the annual report in a separate section.

SPAREBANKEN MØRE'S FULFILMENT OF ITS CORPORATE SOCIAL RESPONSIBILITY

Savings banks have long traditions and are, thanks to their functions, important contributors in local communities to both businesses and the customers who live in the savings bank's market area. Sparebanken Møre takes this responsibility seriously. Sparebanken Møre was formed on 1 April 1985 by the merger of a number of savings banks in Møre og Romsdal. Since then a number of other banks in the county have merged with Sparebanken Møre, the last, Tingvoll Sparebank, in 2009. The banking activities of the merged banks can be traced back to 1843 and the founding of Herrøe og Røvde Sparebank.

Code of conduct and corporate social responsibility

Sparebanken Møre's core values must permeate all of the organisation's activities. Both the executive management group and the Group's employees must do their utmost to ensure that Sparebanken Møre is perceived as "Committed, Close, and Sound". These core values also permeate our code of conduct and corporate social responsibility, providing guidelines for behaviour and how to handle situations involving ethical judgements, human rights, labour rights, equality, social factors, the external environment and combating money laundering and corruption. The guidelines were revised and updated in December 2017 with effect from January 2018.

The guidelines are operationalised through, for example, the personnel handbook, employment regulations, security handbook, internal anti-money laundering rules, etc. New employees in Sparebanken Møre are introduced to the Group's regulations in the Bank's introduction course for new staff. All employees also undergo e-learning.

Working environment

"Guiding values", which is Sparebanken Møre's steering document for culture, values and attitudes, is designed to counter discrimination within the Group. No incidents of discrimination were recorded in 2017. The Bank has specific guidelines for whistle-blowing, which must be followed if the Bank's employees see a need to report unwanted incidents of importance either to themselves or their colleagues.

The Bank's annual surveys of the internal working environment analyse different aspects of the working environment and general working situation in the Bank. The survey provides a concrete starting point for prioritising various improvement measures. The 2017 working environment survey shows that the staff perceives both the working environment and the learning environment to be good. Working environment surveys are discussed at board level in Sparebanken Møre.

Gender equality

Sparebanken Møre systematically works to promote gender equality. The distribution between women and men showed that of the Group's total staff of 376, 235 were women (62.5%) and 141 were men (37.5%). There are 362 employees in the Bank and 14 in the subsidiaries. Of the Parent Bank's 362 employees, 228 are women (63.0%) and 134 are men (37.0%). The Bank employs 40 part-time staff, all of whom are women. The percentage of women in various managerial positions was 44.1%, while the corresponding percentage for men was 55.9%. The Bank wants to increase the proportion of women in senior positions.

Sparebanken Møre's Board consists of eight members – four women and four men.

Employees

The Group's workforce totalled 359 full-time equivalents at year end, a reduction of 19 full-time equivalents in 2017. The average age of the Bank's employees changed from 47.9 to 48.3. The average length of service with Sparebanken Møre of the current staff is 18.5 years. Sparebanken Møre recruited seven new employees in 2017. Staff turnover was 6.4% in 2017, compared with 4.4% in 2016.

Sparebanken Møre strives to be an attractive workplace in which individual employees are given independent responsibilities and an opportunity for personal development. Competition in the financial services market is strong and it is important to adapt to meet market expectations in the long term, both with respect to availability and expertise. The quality and efficiency of work processes that address the market are always a priority in the competency measures implemented in the Bank. Sparebanken Møre ensures this partly through development programmes and partly through its recruitment policy.

No discrimination against employees based on age, gender, nationality, religion or civil status is tolerated. Employees are free to organise and join unions, and Sparebanken Møre has established a system for electing employee representatives. Rules for this are set forth in the personnel administrative handbook and provide a basis for the Group's recruitment procedures. The employees' elected representatives and members of the Bank's executive management group meet regularly once every quarter to discuss matters of importance to both parties, such as the working environment and job satisfaction. The collaboration between management and the employees' elected representatives is good throughout Sparebanken Møre.

Sick leave and Inclusive Workplace

The total sick leave rate was 3.91% in 2017, compared with 3.44% in 2016. The long-term sick leave rate was 2.52% in 2017, compared with 2.05% in 2016. The short-term sick leave rate was stable and unchanged at 1.39% in 2017. Employees on long-term sick leave are followed up closely with the aim of helping them return to work as quickly as possible.

Sparebanken Møre is a member of the Inclusive Workplace programme. The Bank's experience of collaborating with public sector organisations on facilitating adapted arrangements for employees that need them has been positive. The leave of absence rate was 2.55% in 2017.

The monitoring and follow-up system for health, environment and safety forms an integral part of the Bank's other internal control procedures. Improvement measures within these areas are implemented whenever weaknesses are identified. HSE courses were organised for the Bank's safety representatives and members of the working environment committee, and an HSE course was arranged for all managers with personnel responsibilities. Each department must prepare its own risk and vulnerability analysis each year. This must survey dangers and problems, assess risks and draw up plans that reduce the risk factors. Exercises are also arranged at regular intervals in order to teach staff how to deal with crisis situations, such as fires, robberies and conflict management. A few cases of threats against the Bank's employees were reported in 2017. These were followed up immediately. There were also a number of false alarms. With the exception of these events, no other similar incidents, damage or accidents were registered or reported during 2017.

Human rights

Sparebanken Møre supports and respects international human rights. The Bank is a member of Finance Norway and is bound by agreements in this area. All of Sparebanken Møre's business takes place in Norway and it has no employees or major customers with addresses outside Norway.

External environment and climate change

Sparebanken Møre's activities do not pollute the external environment. Therefore, no special guidelines have been drawn up for this area. Nonetheless, the fact that no such guidelines have been drawn up does not mean that we do not focus on the environmental challenges the rest of society faces. Our commitment to the environment is, for example, expressed through our use of various types of consumables, purchasing plans, electricity consumption, recycling schemes, waste management and management of scrapped electrical and electronic equipment.

We strive to offer paperless services to our customers, including amongst others, signing of various banking papers digitally in the online bank. When we need to communicate with customers, or vice versa, electronic channels such as email, the online bank's letterbox and online chat via Skype can be used. On those occasions when the Bank refurbishes and alters existing premises, the work also takes into account additional improvements to HSE conditions as well as, for example, energy efficiency requirements for the project. There is an emphasis on reducing the overall energy consumption through upgrading lighting and heating controls.

Sparebanken Møre has a broadly differentiated corporate portfolio. A number of enterprises the Bank has granted loans to, have operations impacting the environment. The Bank's provision of credit gives an indirect opportunity to impact the external environment.

The Group must carry out special assessments when financing businesses (or people) where the customer's products or activities could be associated with material environmental risk. Environmental factors must be assessed in the same way as other forms of risk.

Combating corruption and financial crime

As an actor in the financial services industry, we are subject to a range of laws and requirements aimed at countering corruption and other types of financial crime. Sparebanken Møre shall appear with high ethical standards and shall not be associated with activities, customers or industries of dubious repute. It is important that each member of staff is aware of such situations, and this is also a priority for the Board of Sparebanken Møre. As well as focusing on the staff in this area, through internal rules and ethical guidelines, Sparebanken Møre also has both internal processes and systems helping to prevent money laundering, corruption and other financial criminal acts. Among other things, the Bank regularly reports suspicious transactions to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM). Anti-money laundering measures when opening accounts for new customers and in other contact with our customers are also a high priority area.

Our Group has a zero-tolerance policy when it comes to internal fraud. We also have a very low threshold when it comes to reporting suspected criminal acts, e.g. suspicious transactions, to the correct authorities. The Board receives annual reports on the number of cases sent to ØKOKRIM in this area. Sparebanken Møre does its utmost, through systemic measures and staff training, to ensure any corruption and financial crime are identified and prevented as early as possible. Some of the general challenges within this area stem from the fact that crimes are increasingly becoming more speculative and the fact that the technological opportunities for hiding corruption and financial crime are continually improving. Sparebanken Møre therefore cooperates with other financial industry actors in order to deal with these issues and maintains an ongoing dialogue with Finance Norway, ØKOKRIM and the police. The number of reported cases of fraud has remained relatively stable in recent years, although the trend was slightly increasing from 2016 to 2017.

Our contribution to local communities in Møre og Romsdal

The non-profit work of savings banks and savings bank foundations has its roots in the establishment of a savings bank authority in Norway in the 1820s. The savings banks were in turn established to ensure communities having some financial infrastructure, while the banks also had strong socio-political motivations. The general public were to be given an opportunity to invest their savings safely and be assured a sensible return on them. At the same time, parts of the profits would be used to benefit good social causes in the Bank's area of operations.

Sparebanken Møre has two groups of owners: equity certificate holders and local communities. The Bank's dividend strategy plainly states that our owners must be treated equally. The local communities in Møre og Romsdal own around 50% of Sparebanken Møre, which means that half of the year's distributed profit is channelled back to the county through what we have chosen to call "dividend funds for local communities" ("TEFT funds").

Funds averaging NOK 120 million have been allocated as TEFT funds annually in the last few years. Through these funds Sparebanken Møre highlights its responsibility and social commitment to the local communities in Møre og Romsdal of which the Bank is proud to be a part.

Our vision for TEFT funds

The funds that are allocated to publicly beneficial purposes every year are considerable. It is therefore important for us in Sparebanken Møre that these funds are properly managed and that we have a clear strategy concerning the purpose of the funds. Our corporate social responsibility vision is:

"Sparebanken Møre shall help to improve opportunities for people and enterprises to live, work, develop and enjoy a good life in Møre og Romsdal."

Main focus areas

A lot of people associate Sparebanken Møre's corporate social responsibility with support for various kinds of sports. However, we are also one of the county's most important sponsors of culture and an important contributor to various local community initiatives. In the last few years, we have also focused heavily on innovation and business development in close cooperation with university colleges, the university and knowledge parks in the county.

For the 2016 financial year NOK 141 million was allocated to dividend funds for local communities. These funds were distributed throughout 2017 in line with the Bank's main focus areas: sports, culture, local communities, transport, competence and business development.



TEFT grants

TEFT grants are grants Sparebanken Møre gives to talented young people aged 15-35. In 2017, we awarded 16 grants within the categories culture and sports, which included three top grants of NOK 100,000.

NÆRINGSTEFT business innovation grants

2017 saw the launch of our new NÆRINGSTEFT business innovation grants, an entrepreneur concept based around a competition where the winner receives NOK 1 million. The business innovation grants have attracted great interest and almost 200 entrepreneurs in the Bank's market area submitted applications. 50 of them were chosen to take part in a competitive journey under the direction of the Bank and knowledge parks in the county. This group was gradually reduced to 10 semi-finalists and the winner will be announced at Sparebanken Møre's "Børs og Bacalao" investor seminar on 8 March 2018.

Partnerships with schools and business

Sparebanken Møre is an active partner for many schools in the county. One of the ways in which several of the Bank's employees contribute is by teaching in primary and secondary schools and at a university/university college level.

Sparebanken Møre is a main partner of Young Entrepreneurship Møre og Romsdal (UE). This collaboration stretches back to 2005. We do not just contribute financially, we make a considerable professional contribution. UE involves pupils and students across the country in pupil-, youth- and student enterprises. The local association in Møre og Romsdal is very active and several of the companies have made it to both the Norwegian finals and the European finals. It is natural for Sparebanken Møre to support enthusiastic young innovators and help ensure they acquire the knowledge they need to make good, independent choices.

One important part of the collaboration with UE involves teaching people about personal finances. Around 50 of the Bank's staff are involved as mentors in the "Economics and Career Choices" and "Boss of Your Life" programmes in secondary schools in the county. The Bank taught 2,100 secondary school pupils in the 2016/2017 school year through the "Economics and Career Choices" programme. In addition to this, almost 1,000 secondary school pupils in the county received teaching through the "Boss of Your Life" programme. The feedback from both teachers and pupils indicates that this is very useful, and the Bank is experiencing increasing demand for both programmes from the schools.

In 2017, Sparebanken Møre established a formal research collaboration with the Norwegian University of Science and Technology (NTNU) in Ålesund. The TEFT lab is meant to contribute to research in the areas of service innovation, entrepreneurship, finance and technology and is a good example of an exciting collaboration between academia and business. While contributing to expertise that business in our region needs, it also strengthens the academic environment in Møre og Romsdal. The goal for this collaboration is to contribute to exciting synergies that can create value for our region. The Bank wants to be a driving force and take part in this work.

Reporting

The Board wants Sparebanken Møre's corporate social responsibility to be properly managed. Reports on plans, awards and the use of publicly beneficial funds are therefore prepared every six months.

GOING CONCERN ASSUMPTION

The Board confirms that the prerequisites for the going concern assumption have been met, and that the annual financial statements have been prepared and presented on a going concern basis. This is based on the Group's long-term forecasts for the coming years. The Group's capital adequacy ratio exceeds the authorities' requirements.

FUTURE PROSPECTS

Møre og Romsdal's economic prospects appear good at the start of 2018. Production is high in most industries, the downturn in oil-related industries is starting to turn around and the level of activity in the public sector is high. Higher oil prices, low interest rates, a weak Norwegian kroner exchange rate and good export market growth are important factors to this development. However, housing prices have continued to fall and there is uncertainty regarding price development going forward.

The upturn in production and demand within non-oil related industries, together with substantial restructuring in the labour market, has resulted in a fall in unemployment. Average unemployment in the county has not been lower since spring 2015. At the end of December, registered unemployment in Møre og Romsdal was 2.4% according to the Norwegian Labour and Welfare Administration (NAV). This is the same unemployment rate as the nationwide rate.

Figures for the entire country show that the growth in household debt was relatively stable throughout 2017, while the growth rate for corporate loans is rising. The growth rate for deposits also rose in the last few months of 2017. Competition in the market remains strong, both for loans and deposits. The Bank is competitive and recorded a good, although slightly weakening, lending growth for both the retail market and the corporate market in 2017.

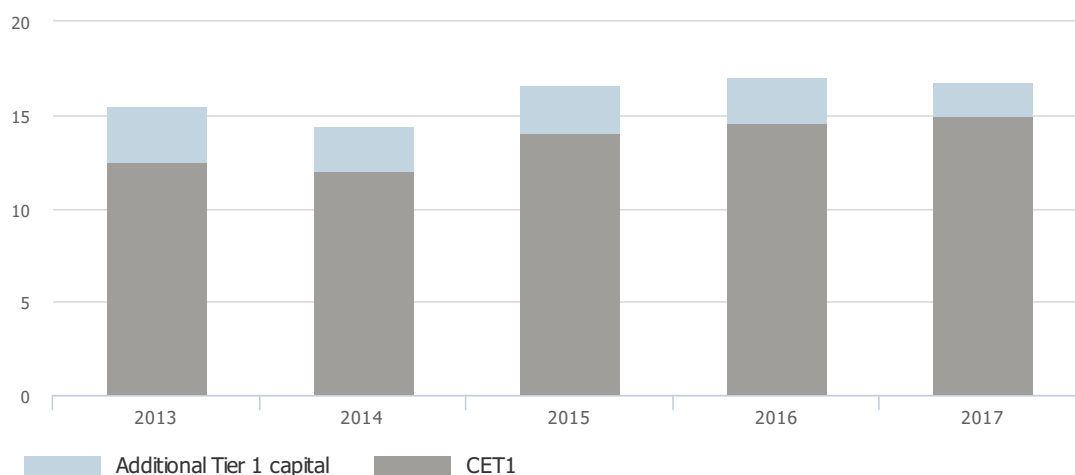
Deposit growth in the retail market is good and the deposit-to-loan ratio is high. Lending growth within both the retail market and the corporate market is expected to be somewhat lower in 2018 compared with the growth in 2017. The focus will always be on ensuring profitable growth.

The Bank will remain a strong, committed supporter of the business sector in North Western Norway.

Sparebanken Møre's goal is to ensure cost-effective operations and its cost/income ratio target for 2018 is below 45%. Sparebanken Møre's losses are also expected to be low in 2018. Overall, good results are expected in 2018 with a return on equity of more than 10%.

Fig. 8 Capital adequacy

in % of RWA



VOTE OF THANKS

The Board of Directors would like to thank all of the Group's employees and elected representatives for their good efforts in 2017. The Board of Directors would also like to thank Sparebanken Møre's customers, investors and other associates for our good partnership throughout the year.

Ålesund, 31 December 2017
21 February 2018

THE BOARD OF DIRECTORS OF SPAREBANKEN MØRE

LEIF-ARNE LANGØY, Chairman
ROY REITE, Deputy Chairman
RAGNA BRENNE BJERKESET
HENRIK GRUNG
ELISABETH MARÅK STØLE
MARIA REKDAL HIDE
HELGE KARSTEN KNUDSEN

TROND LARS NYDAL, CEO

Norwegian Code of Practice for Corporate Governance

The following description explains how Sparebanken Møre in 2017 complies with the 15 points in the Norwegian Code of Practice for Corporate Governance dated 30 October 2014. The Code of Practice was drawn up by the Norwegian Corporate Governance Board (NUES) and is available from www.nues.no.

1. CORPORATE GOVERNANCE REPORT

Sparebanken Møre follows the Norwegian Code of Practice for Corporate Governance of 2014. There are no significant differences between this code of practice and the way in which it is complied with in Sparebanken Møre. Minor adaptations have been made on account of the fact that a savings bank is a self-owning institution, and that the management structure and the composition of the management bodies differ from those of limited companies. In addition, consideration must be given to the Bank's special relationship with the local community, and the Banks' corporate social responsibility. Reference is also made to the Board of Directors' Report for 2017 regarding a more detailed account of Sparebanken Møre's fulfilment of its corporate social responsibilities.

The Group has drawn up both a code of ethics and guidelines for corporate responsibility based on its core values: "Committed, close and sound". These core values must be reflected at all interfaces that Sparebanken Møre has with the market, customers and the surroundings. More detailed descriptions of the core values as well as the guidelines can be found on the Group's website.

Deviations from the code of practice: None

2. OPERATIONS

Sparebanken Møre was formed on 1 April 1985 by the merger of a number of banks in Møre og Romsdal. In subsequent years more banks in Møre og Romsdal have joined Sparebanken Møre. The banking history of the merged savings banks can be traced back to 1843.

The purpose of Sparebanken Møre is to perform business and services normal or natural for savings banks to perform, within the framework of the legislation at any given time and also according to statutory rules that apply to savings banks.

The Bank may provide investment services and associated services in accordance with the provisions of the Securities Trading Act.

Sparebanken Møre is a full-service provider within the areas of financing, deposits and investments, payment systems, financial advice, personal portfolio management, insurance and real estate brokerage.

The complete text of its articles of association can be found on the Group's website: www.sbm.no.

Sparebanken Møre annually carries out a comprehensive strategic process defining the Group's long-term goals and direction. The current long-term strategic plan, "Møre 2021", was adopted by the Board of Directors in August 2017, and the implementation of the work relating to the initiatives that were adopted in this plan is already well under way.

The strategy and objectives set out in the long-term strategic plan fall within the framework of Sparebanken Møre's Articles of Association. Sparebanken Møre shall maintain its position as the number one bank for retail customers from Møre og Romsdal, as well as small and medium-sized businesses. Sparebanken Møre shall also be an attractive partner for larger businesses and the public sector. The Bank shall aim for a solid financial structure and solvency, along with strong profitability. The Bank's financial performance targets are presented in Sparebanken Møre's Annual Report and Sparebanken Møre's Pillar 3 document, which are available from the Bank's website. During the year, information and guidance are given to the market and other stakeholders via stock exchange notices and accounts presentations concerning the Bank's strategic objectives and developments in relation to these objectives.

Deviations from the code of practice: None

3. COMPANY CAPITAL AND DIVIDEND

The composition of Sparebanken Møre's capital is determined on the basis of a number of considerations. The most important of these considerations are the Group's size, Møre og Romsdal's internationally orientated industry and commerce, a stable market for long-term funding as required, and the goals of the long-term strategic plan. In its annual evaluation of its management and control systems, which includes capital adequacy assessments (known as ICAAP), there's a strong focus in the Group ensuring that its primary capital is adapted according to goals, strategies, risk profile and regulatory requirements. The Bank's capital situation is continuously monitored throughout the year through internal calculations and reporting.

Sparebanken Møre's dividend policy was changed on 18 October 2017 and is as follows:

"Sparebanken Møre aims to achieve financial results providing a good and stable return on the Bank's equity capital. The results shall ensure that the equity owners receive a competitive long-term return in the form of cash dividends and capital appreciation on the equity.

Dividends consist of cash dividends to equity certificate holders and dividends to local community. The proportion of profits allocated to dividends is adapted to the Bank's capital strength. Unless the capital strength dictates otherwise, it will be aimed at distributing about 50 percent of the profit.

Sparebanken Møre's allocation of earnings shall ensure that all equity owners are guaranteed equal treatment."

The General Meeting can authorise the Board to distribute dividends on the basis of the most recently approved annual financial statements. Any such authorisation will be anchored in Sparebanken Møre's dividend policy, and the justification for the recommendation for such authorisation will state, among other things, how the authorisation reflects this dividend policy.

Sparebanken Møre's Board can be authorised by the General Meeting to increase capital and/or buy back its own equity certificates. Board authorisations to increase capital are restricted to specific defined purposes, and such authorisations must be limited and last no longer than until the next Ordinary General Meeting. Authorisation to purchase the Bank's own equity certificates is normally renewed at the General Meeting in December, and is thus normally limited to one year at a time.

Deviations from the code of practice: None

4. EQUAL TREATMENT OF EC HOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

The Bank is dedicated to further develop the relationship of mutual trust which has been established between Sparebanken Møre and its most important interest groups. In view of this, strong emphasis is placed on transparency in relation to all stakeholders in the market. This includes both those providing the Bank with equity share capital and funding, and those in need of a relationship with the Bank in other ways.

All EC holders shall be treated equally and have the same opportunity to influence the Bank. The Board's contact with investors normally takes place via the executive management team. All ECs have the same voting rights. The Bank complies with the provisions of the Act on financial institutions and financial groups regarding ownership and voting limitations insofar as the provisions apply to savings banks with ECs. EC holders usually have preferential rights when equity share capital is increased unless special circumstances indicate that these should be waived. Such waivers must be justified and the justification published as a stock exchange notice in connection with the capital increase.

The Bank's transactions involving its own ECs usually take place via the stock exchange. ECs are bought back at the current market price.

The Group's code of ethics contains rules concerning how conflicts of interest are to be handled in transactions with close associates. These rules apply to elected representatives and employees within the Group. "Instructions for the Board of Directors of Sparebanken Møre" set out specific rules linked to the handling of matters where board members, or their associates, have personal direct or indirect interests. Board members must also notify the Board if they either directly or indirectly have a material interest in an agreement which is to be entered into by the Bank.

Should material transactions take place between the Sparebanken Møre Group and EC holders, board members, executive employees or their close associates, the Board shall ensure that a valuation is obtained from an independent third party except in cases that have been discussed and voted on by the General Meeting.

Deviations from the code of practice: None

5. FREE TRADABILITY

Sparebanken Møre's ECs are listed on the Oslo Stock Exchange and are freely tradable. The articles of association contain no restrictions concerning tradability.

Deviations from the code of practice: None

6. GENERAL MEETING

A savings bank is essentially a self-owning institution and the management structure and the composition of the management bodies differ from those of limited companies; see Chapter 8 of the Act on financial institutions and financial groups concerning governing bodies. Sparebanken Møre complies with the provisions of the Act on financial institutions and financial groups, and this represents a deviation from the code of practice.

The Bank's supreme body is the General Meeting. The composition of the General Meeting follows from the Articles of Association. The members of the General Meeting are personally elected and can not be represented by proxy. Elected deputies attend by absence.

Notices convening meetings and case documents for the General Meeting are made available on the Bank's website at least 21 days before the meeting is scheduled to be held. Notices convening meetings and case documents are also published on Oslo Stock Exchange and notice is also sent by e-mail. Members of the General Meeting, or anyone else who, by law, must receive such documents, may nevertheless have the documents sent to them.

The General Meeting cannot make decisions on any matters other than those which are specifically listed in the notice convening the meeting. Proposals for decisions and case enclosures which are made available on websites and via Oslo Stock Exchange must be sufficiently detailed and comprehensive to enable the General Meeting's members to reach a decision concerning the matters that are to be considered.

Members of the Board, the Nomination Committee and the external auditor participate at General Meetings. The Chairman of the Board and the CEO have an obligation to attend the General Meeting.

The Chairman of the General Meeting shall chair meetings. Alternatively, in his or her absence, the Deputy Chairman shall perform this task.

Deviations from the code of practice: Minor deviations, as the management structure and the composition of the management bodies in a savings bank differ from those of a limited company.

7. NOMINATION COMMITTEES

The Bank's Articles of Association set out provisions concerning nomination committees.

The General Meeting's Nomination Committee is elected by the General Meeting and consists of four members with four deputies elected amongst the members of the General Meeting. The Nomination Committee includes representatives from all groups who are represented in the General Meeting. In addition, the members shall insofar as is feasible reflect the geographical distribution within the municipalities in which the savings bank operates. Emphasis is also placed on the principle of independence and qualification in the relationship between the Nomination Committee and those who are to be elected.

The CEO participates in the Nomination Committee's first meeting and otherwise upon request. The Chairman of the Board also

participates in a meeting with the Nomination Committee during the committee's work process. The Nomination Committee receives the Board's evaluation of its own work.

The General Meeting's Nomination Committee prepares election of the members and deputy members of the General Meeting representing the local community, the Chairman and the Deputy Chairman of the General Meeting, the Chairman, the Deputy Chairman and other members and deputies of the Board of Directors, excluding the employee representatives, as well as the election of the members of the Nomination Committee. Guidelines for the Nomination Committee have been prepared and adopted by the General Meeting.

Customer-elected members of the General Meeting elect their own Nomination Committee, which carries out preparations for the election of representatives to the General Meeting by the customers. This committee has four members.

Members of the General Meeting elected by EC holders also elect their own Nomination Committee, responsible for preparations of the EC holders' election of members to the General Meeting. This committee has three members.

Members of the Nomination Committees are elected for terms of two years. The recommendations of the individual committees are justified. The recommendations of the General Meeting's Nomination Committee are made available to the General Meeting at least 21 days before the elections are scheduled to be held by the General Meeting; see Article 6.

A statement of the members of the Nomination Committee is available on the Bank's website.

Deviations from the code of practice: None

8. CORPORATE ASSEMBLY AND BOARD, COMPOSITION AND INDEPENDENCE

Savings banks do not have a corporate assembly. Please refer to point 6 for information on the composition of a savings bank's bodies.

The Board consists of eight members and four deputies elected by the General Meeting. Two of the members are elected from the Bank's employees. All board members shall be independent of the Bank's day-to-day management and important business connections. The Chairman and Deputy Chairman of the Board are elected by the General Meeting through specific elections. All elected members are elected for terms of two years. Of the elected members, four are elected one year and the remaining four members are elected the following year. Members and deputies who are up for election can be re-elected. An elected member of the Board cannot hold this position for a continuous period of more than 12 years, or hold this position for more than 20 years in total.

In connection with the election of the Board's members, continuity, independence and a balanced composition are sought insofar as is possible. Emphasis is placed on the Board's total composition in terms of competence, capacity and diversity.

The Annual Report contains further information about board members, including the number of ECs held by each member. Sparebanken Møre does not have a program for the purchase of ECs by board members.

Deviations from the code of practice: None

9. THE WORK OF THE BOARD

The Board leads the work of the Savings Bank. The Board is responsible for the safe and prudent management of all funds controlled by the Savings Bank. The Board shall ensure that the operations of the Bank are properly organised, and is responsible for ensuring that the accounting and management of assets are subject to satisfactory control. The Board also stipulates the Bank's rules and regulations relating to the granting of credit.

The Board's responsibilities and duties are set out in "Instructions for the Board of Directors of Sparebanken Møre". The instructions are regularly revised. "Instructions for the CEO" have also been adopted. These instructions form the basis for the distribution of responsibilities and duties between the Board and CEO.

The Chairman of the Board shall, by the end of May and in consultation with the CEO, set out a proposed annual plan for the Board's work for the coming year with a particular emphasis on targets, strategy and implementation, including a meeting schedule and the main items on the agendas of board meetings for the coming year.

Each year, the Board evaluates its own methods and professional competence to see if improvements can be made.

The Board sets out Sparebanken Møre's overall long-term financial targets. These are set out in the Group's strategic plan. The details of this plan are revised annually in a joint process involving the Board and the Bank's Executive Management team. In this way, the Board ensures the Bank is managed in such a way that the overall agreed targets are met.

In case the Chairman of the Board or another board member is regarded as disqualified in relation to matters that are going to be discussed and voted on, the Chairman of the Board or other board member shall take no part in discussions or voting on such matters. Case memoranda are not presented to this member. In cases where the Chairman of the Board is deemed disqualified, the discussion and voting shall be chaired by the Deputy Chairman of the Board.

Sparebanken Møre has three board committees elected by and amongst the Board's members. These are the Audit Committee, the Risk Committee and the Compensation Committee (the Remuneration Committee). Instructions have been prepared for these board committees and adopted by the Board.

Both the Audit Committee and the Risk Committee have three members. In order to streamline the tasks of the committees and ensure interaction and synergies between the committees, the members of the two committees are the same people. The committees possess the expertise necessary to perform their duties based on the Bank's organisation and operations. Independence is ensured in accordance with the code of practice.

The Audit Committee shall ensure that the institution has independent and effective external and internal auditors and satisfactory financial statement reporting and risk management routines complying with all pertinent laws and regulations.

The Risk Committee shall assess whether the pricing of Sparebanken Møre's products takes into account the associated risk. Where this is not the case, the committee must ensure that a proposal is presented to the Board of measures to rectify the situation. The committee must also contribute to ensuring that the Board monitors and manages the Bank and the Group's collective risk in a satisfactory manner, and contribute to ensuring that the Board regularly assesses whether the Bank's management and control arrangements are appropriate for the level of risk and the scope of the business.

The Compensation Committee (Remuneration Committee) is referred to in point 12 of the report.

Deviations from the code of practice: None

10. RISK MANAGEMENT AND INTERNAL CONTROL

Sparebanken Møre uses a holistic risk management process as the basis for its internal control. This is stated in the Bank's "Risk Policy", as adopted by the Board, and elsewhere. In order to carry out holistic risk management within Sparebanken Møre, the global internal control standard COSO model is used.

The "Overall guidelines for management and control within Sparebanken Møre" states that, as a general rule, each manager in the Group must ensure that they possess adequate knowledge of all material risks within their area of responsibility, such that the risk can be managed in a financially and administratively prudent manner.

The "Instructions for the Board of Directors of Sparebank Møre" defines the Board's role and the importance, form, content and implementation of the Board's work. This includes risk management via both its management function and its supervisory function. Separate instructions have also been prepared for the Group's Audit Committee and Risk Committee, along with separate instructions for the Compensation Committee (Remuneration Committee).

The Board shall ensure that risk management and internal control processes within Sparebanken Møre are adequate and systematic, and that these processes have been established in compliance with laws and regulations, articles of association, instructions and external and internal guidelines. The Board establishes principles and guidelines for risk management and internal control for the various levels of activity pursuant to the risk bearing capacity of the Bank and the Group, and make sure that the strategies and guidelines are being communicated to the employees. The Board shall systematically and regularly assess strategies and guidelines for risk management. Furthermore, the Board shall monitor and periodically assess the effectiveness of the Group's overall management and control, including taking into account internal and external influencing factors. The latter point especially applies in the case of changes in economic cycles and macroeconomic general conditions.

To ensure that Sparebanken Møre's risk management and internal control processes are carried out satisfactorily, the Board continually receives various types of reports throughout the year from Sparebanken Møre's control bodies, including the Risk Management and Compliance Department and internal and external auditors. The Board actively participates in the annual ICAAP through its implementation in the long-term strategic plan. The Board revises and approves all the Bank's general risk management documents at least once a year. Every year during the fourth quarter, the CEO reports on the structure and efficiency of the Group's internal control.

Both the Board's Annual Report and the annual financial statements otherwise contain further information about Sparebanken Møre's risk management and internal control.

Deviations from the code of practice: None

11. THE BOARD'S REMUNERATION

The remuneration of the Board is determined by the General Meeting. The Board members' remuneration is not performance-based and is entirely restricted to ordinary board member remuneration, plus any additional fees for participation in the Audit Committee, Risk Committee and Compensation Committee (Remuneration Committee).

The general rule is that the Board members do not perform any tasks for Sparebanken Møre other than those relating to their position on the Board. In cases where companies with which the Board's members have an association perform tasks for Sparebanken Møre, the entire Board is informed. Fees for such services are approved by the Board. If remuneration has been paid in addition to the ordinary Board fee, such remuneration will be specified in notes in the Annual Report.

Deviations from the code of practice: None

12. REMUNERATION OF EXECUTIVE EMPLOYEES

In accordance with the Financial institutions and financial groups Regulation, Sparebanken Møre has a Compensation Committee (Remuneration Committee), elected by and from the Board's members. The Board is responsible for approving and maintaining Sparebanken Møre's remuneration policy, and for assessing and monitoring the effects of the remuneration policy. The practising of the remuneration scheme shall be reviewed at least once a year by an independent control body, and a specific report shall be prepared on the annual review. Within Sparebanken Møre, the Group's internal auditor (BDO) prepares a report on the practising of the remuneration scheme.

Sparebanken Møre does not operate with incentive-based remuneration (commission) for any of the Bank's employees.

A collective bonus scheme has been established with a common calculation principle for all employees. Where appropriate, the scheme is reduced in relation to the length of service or full-time percentage equivalent during the year. The CEO is not covered by this scheme. The size of the bonus depends on the overall achievement of the Group's targets in relation to the Group's long-term strategic plan.

In addition, each employee can receive a lump-sum supplement in addition to their salary based on that person's achievement of their goals in relation to their individual action plan. As a general requirement, variable lump-sum remuneration of senior executives, employees with duties of material importance to the Bank's risk exposure, and employees who perform control duties must be based on a combination of an assessment of the person concerned, the person's business unit and the Bank as a whole. The starting point for determining variable lump-sum remuneration shall be the risk-based result.

For senior executives, etc. referred to in the above paragraph, there are people who hold positions which are not directly linked to result-generating units. For these people, greater emphasis is placed on achievement of the goals of the individual's department/section in established managerial agreements, as regards results in relation to changes in working methods and the achievement of personal and case results. These assessments are based on results achieved over a two-year period. In the assessments, emphasis is also placed on Sparebanken Møre's total return on equity capital over the previous two years, insofar as is possible.

In the case of senior executives, etc. who work in result-generated units, the financial key figures defined in Sparebanken Møre's balance scorecard and the fulfilment thereof over the previous two years is given greater emphasis than in the case of people who do not work in directly result-generating units. Attainment of the goals laid down for the individual and the department/section in established management agreements over and above the financial figures in the balance scorecard shall also be used for assessing these employees. The balance scorecard contains various indicators which are directly related to risk-related results.

At least half of the general bonus paid to all employees is given in the form of Sparebanken Møre's ECs (MORG). The allocation is given from Sparebanken Møre's holdings of its own ECs corresponding to the market value at the time of settlement. These ECs cannot be freely transferred by the individual any earlier than one year after allocation (see below concerning specific rules for senior executives, etc.).

Senior executives, etc. also receive at least half of their general bonus in the form of MORG. For these employees, ECs cannot be freely transferred by the individual any earlier than evenly distributed over a period of three years.

At least half of all variable lump-sum supplements to employees who are not senior executives, etc. shall be paid in the form of MORG if the variable lump-sum supplement amounts to NOK 50,000 or more. In such cases, these ECs shall be held for at least one year prior to disposal.

At least half of all variable lump-sum supplements paid to senior executives, etc. shall be given in the form of MORG, regardless of the amount concerned. These ECs cannot be freely transferred by the individual any earlier than evenly distributed over a period of at least three years. In the event of a negative trend in Sparebanken Møre's results, or in the specific results of the business unit

of a senior executive, etc., the approved variable remuneration may be reduced over the following three years after receipt of the variable remuneration. Any severance fee upon termination of employment shall be adapted to the results that have been achieved over time. Poor results shall not be rewarded. Senior executives, etc. shall not have agreements or insurance policies which provide security against the loss of performance-based remuneration.

The CEO's salary is fixed by the Board in a board meeting. The Board is informed of the salaries and other remuneration paid to those members of staff who report to the CEO.

Specific guidelines for Sparebanken Møre's remuneration scheme have been prepared and presented to the General Meeting. The Board shall annually present a statement concerning executive pay as a separate item for the General Meeting.

Deviations from the code of practice: None

13. INFORMATION AND COMMUNICATION

Guidelines for reporting of financial and other information have been prepared and adopted by the Board.

Sparebanken Møre attaches great importance to the provision of accurate, relevant and up-to-date information concerning the Group's development and results in order to establish trust in relation to the investor market. Through its annual and interim reports, the Bank seeks to achieve the required transparency regarding the most important factors relating to its development. This is done in order that all market participants may be able to form as correct a picture as possible of the Bank's situation. In addition, members of the Bank's executive management team give special presentations, both locally and in Oslo, in connection with the publication of Sparebanken Møre's annual and interim results. This information is also made available to the whole market on the Bank's website and through publications on Oslo Stock Exchange.

Annual and interim reports are available in English for Sparebanken Møre's international contacts. The Bank's major banking connections abroad are kept informed on a regular basis, partly through outreach in which Sparebanken Møre's financial statements and development are among the topics discussed. A special investor relations plan concerning investors to contact, and when and how this should be done, is drawn up every year.

Information about the Bank's ECs, dividend policy and financial calendar can be found in both annual reports and on the Bank's website.

Deviations from the code of practice: None

14. CORPORATE TAKEOVERS

Sparebanken Møre is a self-owned institution that cannot be taken over by an acquisition. Structural changes require the consent of the authorities. Permission must be sought from the Financial Supervisory Authority of Norway for acquisitions of ECs that result in ownership stakes of more than 10 per cent of the equity share capital.

Deviations from the code of practice: Because of the statutory restriction on ownership in savings banks, this point represents a deviation.

15. AUDITOR

The General Meeting elects auditors and determines the auditor's remuneration.

The Bank's external auditor, EY, is the auditor of both the Parent Bank and the Group's subsidiaries. The auditor draws up a schedule for the coming year's auditing work each year. The auditor presents the plan to the Audit Committee and in a board meeting. The Audit Committee's and the Bank's annual plans include an annual meeting with the auditor in which the Bank's executive management team does not attend. The Audit Committee/Board also meets with the auditor to discuss the auditor's views on the Bank's risk areas, internal control routines and accounting principles. At such meetings, the external auditor will make the board members aware of any areas which would benefit from an improvement in overall quality levels, and present proposals for improvements. The external auditor attends all Audit Committee and Board meetings dealing with the Bank's Annual Report and financial statements, and reviews all areas where the Board members need to be informed of any significant circumstances.

Every year, the auditor shall present an overview of billed/accrued fees which is broken down into ordinary auditing fees and other services. The General Meeting shall consider the external auditor's fee annually.

15. AUDITOR

The General Meeting elects auditors and determines the auditor's remuneration.

The Bank's external auditor, EY, is the auditor of both the Parent Bank and the Group's subsidiaries. The auditor draws up a schedule for the coming year's auditing work each year. The auditor presents the plan to the Audit Committee and in a board meeting. The Audit Committee's and the Bank's annual plans include an annual meeting with the auditor in which the Bank's executive management team does not attend. The Audit Committee/Board also meets with the auditor to discuss the auditor's views on the Bank's risk areas, internal control routines and accounting principles. At such meetings, the external auditor will make the board members aware of any areas which would benefit from an improvement in overall quality levels, and present proposals for improvements. The external auditor attends all Audit Committee and Board meetings dealing with the Bank's Annual Report and financial statements, and reviews all areas where the Board members need to be informed of any significant circumstances.

Every year, the auditor shall present an overview of billed/accrued fees which is broken down into ordinary auditing fees and other services. The General Meeting shall consider the external auditor's fee annually.

The Board has adopted guidelines for the general management's access to use the auditor for non-audit services.

Deviations from the code of practice: None

Statement of income

GROUP				PARENT BANK	
2016	2017	Amounts in NOK million	Note	2017	2016
		Interest income from:			
39	31	Loans to and receivables from credit institutions		48	57
1 660	1 677	Loans to and receivables from customers	18 23	1 154	1 170
84	79	Certificates, bonds and other interest-bearing securities		86	86
1 783	1 787	Interest income	<u>15</u>	1 288	1 313
		Interest costs in respect of:			
8	19	Liabilities to credit institutions		20	11
261	261	Deposits from and liabilities to customers	<u>18 23</u>	261	261
333	317	Debt securities issued		76	99
71	63	Subordinated loan capital		63	71
28	27	Other interest		27	28
701	687	Interest costs	<u>15</u>	447	470
1 082	1 100	Net interest income	<u>19</u>	841	843
281	242	Other operating income	<u>20</u>	423	466
335	335	Wages, salaries etc.	<u>23 24</u>	322	322
124	128	Administration costs	<u>21 22</u>	127	123
459	463	Wages, salaries and general administration costs		449	445
32	31	Depreciation, impairment and changes in value of non-financial assets	<u>21 25 26</u>	27	26
95	96	Other operating costs	<u>18 21 22 23</u>	95	93
777	752	Profit before impairment on loans		693	745
22	13	Impairment on loans, guarantees etc.	<u>4 7 8 9</u>	16	21
755	739	Pre tax profit	<u>19</u>	677	724
181	182	Taxes	<u>28</u>	133	129
574	557	Profit after tax		544	595
0	6	Allocated to owners of Additional Tier 1 capital		6	0
574	551	Allocated to equity owners		538	595
141	141	Dividend funds to the local community 1)		141	141
138	138	Dividend to the EC-holders 1)		138	138
159	130	Transferred to the primary capital fund		130	159
156	128	Transferred to the dividend equalisation fund		128	156
-21	14	Transferred to other equity capital		0	0
574	551	Proposed distribution		538	595
28.80	27.70	Result per EC (NOK) 2)	<u>29</u>	27.00	29.85
28.80	27.70	Diluted earnings per EC (NOK) 2)	<u>29</u>	27.00	29.85

1) To be transferred to other equity capital until the final resolution has been passed

2) Calculated using the EC-holders share (49.6 %) of the period's profit to be allocated to equity owners

Statement of comprehensive income

GROUP				PARENT BANK	
2016	2017	Amounts in NOK million	Note	2017	2016
574	557	Profit after tax		544	595
		Other income/costs reversed in ordinary profit:			
-31	27	Equities available for sale - changes in value		27	-31
		Other income/costs not reversed in ordinary profit:			
-8	-12	Pension estimate deviations		-12	-8
2	3	Tax effect of deviations on pension estimates	<u>28</u>	3	2
537	575	Total comprehensive income after tax		562	558
0	6	Allocated to owners of Additional Tier 1 capital		6	0
537	569	Allocated to equity owners		556	558

Statement of financial position

GROUP				PARENT BANK	
2016	2017	Amounts in NOK million	Note	2017	2016
300	637	Cash and claims on Norges Bank		637	300
629	626	Loans to and receivables from credit institutions, on a call basis		626	629
20	669	Loans to and receivables from credit institutions, with a fixed maturity		1 871	1 160
649	1 295	Loans to and receivables from credit institutions	<u>18</u>	2 497	1 789
52 691	56 867	Net loans to and receivables from customers	<u>4 5 6 7 8 9 18 19 23</u>	35 832	33 011
6 199	6 096	Certificates, bonds and other interest-bearing securities	<u>15 17</u>	6 461	7 863
1 224	1 004	Financial derivatives	<u>12</u>	564	856
2	0	Shares and other securities assessed at fair value through profit or loss		0	2
131	188	Shares and other securities available for sale		188	131
133	188	Shares and other securities	<u>15 17</u>	188	133
0	0	Equity stakes in financial institutions (subsidiaries)		1 500	1 350
0	0	Equity stakes in other Group companies		21	21
0	0	Equity stakes in Group companies	<u>18</u>	1 521	1 371
42	59	Deferred tax benefit	<u>28</u>	62	49
47	42	Intangible assets	<u>26</u>	42	47
19	17	Machinery, equipment, fixtures and fittings and vehicles		16	18
211	211	Buildings and other real estate		21	18
230	228	Fixed assets	<u>25</u>	37	36
78	75	Other assets	<u>27</u>	72	77
61 593	66 491	Total assets	<u>11 12 15 16 17</u>	47 913	45 532

GROUP				PARENT BANK	
2016	2017	Amounts in NOK million	Note	2017	2016
430	132	Loans and deposits from credit institutions, on a call basis		132	430
228	437	Loans and deposits from credit institutions, with a fixed maturity		522	499
658	569	Loans and deposits from credit institutions	<u>18</u>	654	929
22 970	22 552	Deposits from customers, on a call basis		22 569	22 983
9 592	10 251	Deposits from customers, with a fixed maturity		10 251	9 592
32 562	32 803	Deposits from customers	<u>5 6 18 19 23</u>	32 820	32 575
0	0	Certificates issued		0	0
20 363	24 488	Bonds issued		6 090	4 284
20 363	24 488	Debt securities issued	<u>14 15 16 17</u>	6 090	4 284
580	483	Financial derivatives	<u>12</u>	480	576

73	78	Incurred costs and prepaid income		78	77
40	44	Pension liabilities	<u>24</u>	44	40
172	197	Tax payable	<u>28</u>	143	117
0	52	Specific provisioning against guarantee liabilities	<u>8</u>	52	0
386	361	Other liabilities	<u>10</u>	357	382
671	732	Provisions and other liabilities		674	616
816	302	Additional Tier 1 capital		302	816
502	1 036	Subordinated loan capital		1 036	502
1 318	1 338	Subordinated loan capital	<u>13 16</u>	1 338	1 318
56 152	60 413	Total liabilities	<u>11 12 14 15 16 17</u>	42 056	40 298
989	989	EC capital	<u>31</u>	989	989
-3	-5	ECs owned by the Bank	<u>31</u>	-5	-3
354	355	Share premium		355	354
0	349	Additional Tier 1 capital		349	0
1 340	1 688	Paid-in equity		1 688	1 340
2 346	2 470	Primary capital fund		2 470	2 346
125	125	Gift fund		125	125
1 092	1 216	Dividend equalisation fund		1 216	1 092
51	78	Value adjustment fund		78	51
487	501	Other equity		280	279
4 101	4 390	Retained earnings		4 169	3 894
5 441	6 078	Total equity	<u>30</u>	5 857	5 234
61 593	66 491	Total liabilities and equity		47 913	45 532

Ålesund, 31 December 2017

21 February 2018

THE BOARD OF DIRECTORS OF SPAREBANKEN MØRE

LEIF-ARNE LANGØY, Chairman

ROY REITE, Deputy Chairman

RAGNA BRENNE BJERKESET

HENRIK GRUNG

ELISABETH MARÅK STØLE

MARIA REKDAL HIDE

HELGE KARSTEN KNUDSEN

TROND LARS NYDAL, CEO

Statement of changes in equity

GROUP 31.12.2017	Total equity	EC capital	Share premium	Additional Tier 1 capital	Primary capital fund	Gift fund	Dividend equalisation fund	Value adjustment fund	Other equity
Equity as at 31 December 2016 (notes 30 and 31)	5 441	986	354		2 346	125	1 092	51	487
Changes in own equity certificates	-3	-2	1		-2				
Distributed dividend to the EC holders	-138								-138
Distributed dividend to the local community	-141								-141
Issued Additional Tier 1 capital	349			349					
Interest paid on issued Additional Tier 1 capital	-6								-6
Equity before allocation of profit for the year	5 502	984	355	349	2 344	125	1 092	51	202
Allocated to the primary capital fund	130				130				
Allocated to the dividend equalisation fund	128						128		
Allocated to the owners of Additional Tier 1 capital	6								6
Allocated to other equity	14								14
Proposed dividend allocated to the EC holders	138								138
Proposed dividend allocated to the local community	141								141
Profit for the year	557	0	0	0	130	0	128	0	299
Equities available for sale - changes in value	27							27	
Pension estimate deviations	-12				-6		-6		
Tax effect of pension estimate deviations	3				2		1		
Total other income and costs from comprehensive income	18	0	0	0	-4	0	-5	27	0
Total profit for the period	575	0	0	0	126	0	123	27	299
Equity as at 31 December 2017 (notes 30 and 31)	6 078	984	355	349	2 470	125	1 216	78	501

GROUP 31.12.2016	Total equity	EC capital	Share premium	Additional Tier 1 capital	Primary capital fund	Gift fund	Dividend equalisation fund	Value adjustment fund	Other equity
Equity as at 31 December 2015 (notes 30 and 31)	5 112	976	354	0	2 183	125	935	82	457
Changes in own equity certificates	21	10			7		4		
Distributed dividend to the EC holders	-114								-114
Distributed dividend to the local community	-115								-115
Equity before allocation of profit for the year	4 904	986	354	0	2 190	125	939	82	229
Allocated to the primary capital fund	159				159				
Allocated to the dividend equalisation fund	156						156		
Allocated to other equity	-21								-21
Proposed dividend allocated for the EC holders	138								138
Proposed dividend allocated for the local community	141								141
Profit for the year	574	0	0	0	159	0	156	0	259
Equities available for sale - changes in value	-31							-31	
Pension estimate deviations	-8				-4		-4		
Tax effect of pension estimate deviations	2				1		1		
Total other income and costs from comprehensive income	-37	0	0	0	-3	0	-3	-31	0
Total profit for the period	537	0	0	0	156	0	153	-31	259
Equity as at 31 December 2016 (notes 30 and 31)	5 441	986	354	0	2 346	125	1 092	51	487

PARENT BANK 31.12.2017	Total equity	EC capital	Share premium	Additional Tier 1 capital	Primary capital fund	Gift fund	Dividend equalisation fund	Value adjustment fund	Other equity
Equity as at 31 December 2016 (notes 30 and 31)	5 234	986	354	0	2 346	125	1 092	51	279
Changes in own equity certificates	-3	-2	1		-2				
Distributed dividend to the EC holders	-138								-138
Distributed dividend to the local community	-141								-141
Issued Additional Tier 1 capital	349			349					
Interest paid on issued Additional Tier 1 capital	-6								-6
Equity before allocation of profit for the year	5 295	984	355	349	2 344	125	1 092	51	-6
Allocated to the primary capital fund	130				130				
Allocated to the dividend equalisation fund	128						128		
Allocated to owners of Additional Tier 1 capital	6								6
Proposed dividend allocated to the EC holders	138								138
Proposed dividend allocated to the local community	141								141
Profit for the year	544	0	0	0	130	0	128	0	285
Equities available for sale - changes in value	27							27	
Pension estimate deviations	-12				-6		-6		
Tax effect of pension estimate deviations	3				2		1		
Total other income and costs from comprehensive income	18	0	0	0	-4	0	-5	27	0
Total profit for the period	562	0	0	0	126	0	123	27	285
Equity as at 31 December 2017 (notes 30 and 31)	5 857	984	355	349	2 470	125	1 216	78	280

PARENT BANK 31.12.2016	Total equity	EC capital	Share premium	Additional Tier 1 capital	Primary capital fund	Gift fund	Dividend equalisation fund	Value adjustment fund	Other equity
Equity as at 31 December 2015 (notes 30 and 31)	4 884	976	354	0	2 183	125	935	82	229
Changes in own equity certificates	21	10			7		4		
Distributed dividend to the EC holders	-114								-114
Distributed dividend to the local community	-115								-115
Equity before allocation of profit for the year	4 676	986	354	0	2 190	125	939	82	0
Allocated to the primary capital fund	159				159				
Allocated to the dividend equalisation fund	156						156		
Proposed dividend allocated for the EC holders	138								138
Proposed dividend allocated for the local community	141								141
Profit for the year	595	0	0	0	159	0	156	0	279
Equities available for sale - changes in value	-31								-31
Pension estimate deviations	-8				-4		-4		
Tax effect of pension estimate deviations	2				1		1		
Total other income and costs from comprehensive income	-37	0	0	0	-3	0	-3	-31	0
Total profit for the period	558	0	0	0	156	0	153	-31	279
Equity as at 31 December 2016 (notes 30 and 31)	5 234	986	354	0	2 346	125	1 092	51	279

Statement of cash flow

GROUP				PARENT BANK	
2016	2017	Amounts in NOK million	Note	2017	2016
Cash flow from operating activities					
1 880	1 905	Interest, commission and fees received	20	1 408	1 420
-344	-343	Interest, commission and fees paid	<u>20</u>	-344	-351
2	2	Dividend and group contribution received	<u>20</u>	158	178
-465	-525	Operating expenses paid	<u>21 22 23 24</u>	-497	-448
-214	-168	Income taxes paid	<u>28</u>	-117	-149
556	-646	Changes relating to loans to and claims on other financial institutions		-708	385
-1 845	-3 777	Changes relating to repayment of loans/leasing to customers		-2 671	885
420	-321	Changes in utilised credit facilities		-74	615
3 173	242	Net change in deposits from customers	<u>23</u>	246	3 165
3 163	-3 631	Net cash flow from operating activities		-2 599	5 700
Cash flow from investing activities					
110	106	Interest received on certificates, bonds and other securities		114	112
3 860	4 162	Proceeds from the sale of certificates, bonds and other securities		5 819	4 270
-5 380	-4 022	Purchases of certificates, bonds and other securities		-4 378	-7 865
17	0	Proceeds from the sale of fixed assets etc.	<u>25</u>	0	8
-20	-24	Purchase of fixed assets etc.	<u>25</u>	-24	-19
92	149	Changes in other assets	<u>26 27</u>	69	-216
-1 321	371	Net cash flow from investing activities		1 600	-3 710
Cash flow from financing activities					
-404	-380	Interest paid on issued bonds		-139	-170
-400	-89	Net change in deposits from Norges Bank and other financial institutions		-275	-414
1 527	7 942	Proceeds from bonds issued	<u>12 14</u>	5 655	749
-2 947	-3 841	Maturity of debt securities	<u>12 14</u>	-3 784	-2 644
-114	-138	Dividend paid	<u>31</u>	-138	-114
-258	-239	Changes in other debt	<u>19 24</u>	-325	-151
0	349	Proceeds from issued Additional Tier 1 capital	<u>13</u>	349	0
0	-7	Interest paid on issued Additional Tier 1 capital	<u>13</u>	-7	0
-2 596	3 597	Net cash flow from financing activities		1 336	-2 744
-754	337	Net change in cash and cash equivalents		337	-754
1 054	300	Cash balance at 01.01		300	1 054
300	637	Cash balance at 31.12		637	300

The cash flow statement shows cash payments received and made and cash equivalents throughout the year. The statement is prepared according to the direct method. The cash flows are classified as operating activities, investing activities or financing activities. The balance sheet items have been adjusted for the impact of foreign exchange rate changes. Cash is defined as cash-in-hand and claims on Norges Bank.

Note 1

GENERAL INFORMATION

Sparebanken Møre, which is the Parent company of the Group, is a savings bank registered in Norway. The bank's Equity Certificates (ECs) are listed on the Oslo Stock Exchange.

The Group consists of Sparebanken Møre (the Parent Bank) and its subsidiaries Møre Boligkreditt AS, Møre Eiendomsmegling AS and Sparebankeiendom AS.

The Sparebanken Møre Group provides banking services for retail and corporate customers and real estate brokerage through a large network of branches within Møre og Romsdal, this region being defined as the bank's geographic home market.

The company's Head Office is located at Keiser Wilhelmsgt. 29/33, P.O.Box 121 Sentrum, 6001 Ålesund, Norway.

The preliminary annual accounts were approved for publication by the Board of Directors on 24 January 2018. The final annual accounts were presented by the Board of Directors on 21 February 2018.

The Group's operations are described in note 19.

Note 2

ACCOUNTING PRINCIPLES

The Group's annual accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), which have been stipulated by the International Accounting Standards Board, and implemented by the EU as at 31 December 2017.

How to read the Group's accounting principles:

Sparebanken Møre describes the accounting principles in conjunction with each note. See the table below for an overview the various principles and the notes in which they are described, as well as reference to relevant and important IFRS standards.

Accounting principle	Note	IFRS-standard
Impairment	Note 7 Losses on loans and guarantees	IAS 39, IFRS 7
Financial guarantees and uncertain liabilities	Note 10 Liabilities	IAS 39, IAS 37
Financial derivatives	Note 12.3 Financial derivatives	IAS 39, IFRS 7, IFRS 13
Hedging	Note 14 Debt securities	IAS 39, IFRS 7
Classification of financial instruments	Note 15 Classification of financial instruments	IAS 39, IFRS 7
Amortised cost	Note 16 Financial instruments at amortised cost	IAS 39, IFRS 7
Fair value	Note 17 Financial instruments at fair value	IAS 39, IFRS 13, IFRS 7
Operating segments	Note 19 Operating segments	IFRS 8
Revenue recognition	Note 20 Other operating income	IAS 18, IAS 39
Pensions	Note 24 Pension costs and liabilities	IAS 19
Fixed assets	Note 25 Fixed assets	IAS 16, IAS 36
Intangible assets	Note 26 Other intangible assets	IAS 38, IAS 36
Tax	Note 28 Tax	IAS 12
Equity	Note 31 ECs and ownership structure	IAS 1
Events after the reporting period	Note 32 Events after the reporting period	IAS 10

Consolidation principles

The consolidated financial statements comprise Sparebanken Møre and all companies in which Sparebanken Møre has control through ownership. An entity is controlled when the owner is exposed to or has rights to returns from the entity and has the opportunity to influence these returns through its influence over the entity. This applies to subsidiaries mentioned in note 18.

Companies which have been bought or sold during the year are included in the Group accounts from the time at which control is obtained and until control ceases.

The Group accounts are prepared as if the Group is one financial unit.

All transactions between companies in the Group, have been eliminated in the consolidated financial statements. Uniform accounting principles have been applied for all companies in the Group. In the Parent Bank's accounts, investments in subsidiaries are valued at cost. The acquisition method is applied when recognising acquired units/entities. The acquisition cost relating to an acquisition is assessed as the fair value of the items involved, such as assets, equity instruments issued and liabilities taken over. Identifiable assets bought, liabilities taken over and debt obligations are assessed at fair value at the time of the acquisition. Any acquisition cost in excess of fair value of the Group's equity stake of identifiable net assets is, according to IFRS 3, incorporated as goodwill. Transaction costs related to acquisitions are recognised in the income statement as incurred.

Temporary acquired shares in connection with securing commitments are not consolidated, but are treated as available for sale at fair value through the income statement.

Changes in accounting principles and presentation (classifications)

There are no material changes in accounting policies for 2017.

New or amended standards

The Group has not implemented any new or amended standards in 2017.

Future standards

Standards and interpretations which are issued up to the date of issuance of the consolidated financial statements, but not yet effective, are disclosed below. The Group's intention is to adopt the relevant new and amended standards and interpretations when they become effective, provided that the EU approves the changes prior to issuing the consolidated financial statements.

• IFRS 9 Financial Instruments

IFRS 9 introduces a business-oriented model for the classification and measurement of financial assets, an expected loss model for impairment and a new general model for hedge accounting. This standard will replace the current requirements for these areas in IAS 39. The Standard is endorsed by the EU and is effective for annual periods beginning on or after 1 January 2018. Refer to note 2.6 regarding information and specification of the effects of the implementation for Sparebanken Møre.

The following new standards with future effective dates are not expected to be of significant relevance for the Sparebanken Møre Group:

• IFRS 15 Revenues from Contracts with Customers

IASB has published the new standard IFRS 15 Revenue from contracts with customers. The new standard outlines a comprehensive model for recognising revenues based on contracts with customers, and will replace current revenue recognition standards and interpretations within IFRS, such as IAS 18 Revenue. The new standard applies to fiscal years beginning 1. January 2018. The standard does not apply to financial instruments, insurance contracts or leases. The new standard will not have significant impact on the Group's financial statements, capital adequacy or large commitments.

• IFRS 16 Leases

IFRS 16 Leases replaces existing IFRS leases requirements, IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ("lessee") and the supplier ("lessor"). The new leases standard requires lessees to recognise assets and liabilities for most leases, which is a significant change from current requirements. Accounting requirements for lessor is unchanged. The new standard is effective for fiscal years beginning 1. January 2019 or later. Early adoption is permitted. Sparebanken Møre currently does not intend to apply this standard at an earlier date. The Group's current assessment is that the new standard will affect the accounting for lease of property, which will mainly affect the consolidated balance sheet.

Annual improvements

Minor changes have been done in a number of standards during IASB's annual improvement projects. None of these changes are considered to have significant impact on the financial position or performance of the Sparebanken Møre Group.

Foreign exchange

The Group presents its accounts in Norwegian kroner (NOK). The functional currency for the Parent Bank and its subsidiaries is NOK.

All monetary items in foreign currencies have been recalculated into the bank's functional currency (NOK) according to foreign exchange rates provided by Norges Bank as at 31.12.2017.

Current income and costs have been translated into NOK at the foreign exchange rates ruling at the time of the transactions, and the effects of changes in foreign exchange rates have been included in the income statement on an ongoing basis during the accounting period.

Judgments in applying accounting principles

Financial assets and liabilities are allocated to the different categories in IAS 39, which subsequently determine the measurement in the statement of financial position. The bank has clear procedures for the categorisation, and the process normally requires only limited use of judgment.

Use of estimates and judgment in the preparation of the annual financial statements

Preparation of the annual accounts in accordance with certain IFRS accounting standards means that in certain cases management has to use best estimates and assumptions. The assessments are based on historical experience and assumptions deemed to be reasonable and sensible by management. The estimates and assumptions on which the abovementioned preparation is based, affect the reported amounts of assets, liabilities and off-balance sheet items, as well as income and costs in the submitted annual accounts. There is a risk that actual results may later, to a certain extent, deviate from the estimates and assumptions on which the abovementioned preparation is based.

Certain accounting principles are regarded as particularly important in order to illustrate the Group's financial position, due to the fact that management is required to make difficult or subjective assessments, applying estimates which mainly relate to matters which are initially uncertain.

The executive management team makes assessments when choosing and applying accounting policies. The company's financial assets and liabilities are allocated to different categories in accordance with IAS 39. Little discretionary judgment is normally exercised in this context. Please refer to note 15 for the measurement policies.

In the opinion of the management, the most important areas which involve critical estimates and assumptions are as follows:

Impairment on loans

The Group examines the lending portfolio at least every quarter. Commitments are reviewed individually and deemed to require impairment when there is objective proof of impairment, or at the latest in the case of the commitment having been in default for more than 90 days. Furthermore, impairment assessments are done for groups of loans. Reference is made to note 7 for further description of principles and methodology. There are guidelines for conducting assessment of future cash flows. Significant commitments are reviewed by the central credit institutions in the bank before a final decision of impairment is made.

In connection with impairment assessments, all cash flows relating to the commitments in question shall in principle be identified, and an assessment shall be made as to which cash flows are vulnerable. Against the background of the large number of commitments which are subject to assessment both on an individual and group basis, such calculations must be done on the basis of approximation and figures from earlier experience.

Fair value of financial instruments – including derivatives

For financial instruments which are not traded in active markets, various evaluation methods are applied in order to ascertain fair value. Further information and a description of the techniques used may be found in note 17. Reference is also made to notes 11-16, dealing with financial instruments.

Pension liabilities

The present value of pension liabilities depends on several factors that are determined using a number of actuarial assumptions. Any change in these assumptions would affect the amount of the pension liabilities shown in the balance sheet. The rate of interest to be applied when discounting is decided at the end of the year. This is the rate of interest which is applied in order to calculate the present value of future necessary payments to cover the pension liabilities. The discount rate is based on the Norwegian market for covered bonds, and swap rates in the interbank market for the extrapolation of the curvature over 10 years, enabling us to arrive at an approximately similar maturity as that which applies to the pension liability. Other basic assumptions for the pension liabilities are partly based on actual market conditions. Mortality and death trend assumptions are based on standardized assumptions and other demographic factors. Please refer to note 24 for additional information.

Alternative performance measures

Alternative performance measures or APMs, is of ESMA (European Securities and Markets Authority) defined as "a financial measure of historical or future financial performance, financial position, or cash flows, other than financial measure defined or specified in the applicable financial reporting framework".

Sparebanken Møre has following APMs which is not reflected in the financial statements with disclosures:

Total assets

Total assets

Average assets

Average assets for the year (calculated as a daily average)

Return on Equity

Profit for the year as a percentage of average equity (calculated as an annual average). Additional Tier1 capital classified as Equity is excluded from this calculation.

Costs as a percentage of revenue

Total operating expenses as a percentage of total revenue

Losses as a percentage of loans

"Losses on loans, guarantees etc" as a percentage of "Loans to and receivables from customers" in the beginning of the accounting period

Deposits to lending ratio

"Deposits from customers" as a percentage of "Net loans to and receivables from customers" by year-end

Implementation effect of IFRS 9 per 1.1.2018

IFRS 9 comes into force from 1.1.2018, replacing current standard IAS 39. IFRS 9 introduces a business oriented model for classification and measuring of financial assets, an expected loss model for impairments as well as changed principles for hedge accounting.

Classification and measurement

According to the classification and measurement requirements of IFRS 9, financial assets are classified and measured at amortised cost, fair value through profit and loss (FVPL) or fair value through other comprehensive income (FVOCI). The classification of a financial instrument is determined by the business model for the portfolio which the instrument belong to and whether the cash flows are only payments of interest and principal.

The accounting of financial liabilities will largely be the same as the requirements of IAS 39.

The new regulations regarding classification and measurement will not result in any significant changes for the Group compared to the measurement of financial instruments in IAS 39. The category Stocks available for sale with changes in value over OCI will cease to exist from 1.1.2018. The Group's change in value on stocks and equity instruments will be recognised in the income statement from this date onwards. For the Parent Bank, loans prepared for transfer to Møre Boligkreditt AS must be classified at fair value as these loans are not held to receive contractual cash flows, and changes in value on these loans will be recognised in the income statement and be included under "Other operating income".

Impairment

In line with current rules in IAS 39, impairment for loss can only take place when there is objective evidence that a loss event has occurred. According to IFRS 9, however, the impairment is based on a model for expected credit losses (ECL). IFRS 9 will apply to financial assets measured at amortised cost or at fair value with value changes recognised through other comprehensive income. In addition, also loan commitments, financial guarantee contracts and lease receivables are included. Losses should be allocated to all commitments from day one.

The method of impairment for expected losses for financial assets in the income statement depends on whether credit risk has increased substantially since the initial recognition. The assets to be tested for impairment are divided into three levels, based on the level of credit deterioration. At initial recognition, and if the credit risk has not increased significantly, a provision is made for 12 months' expected loss. If the credit risk has increased significantly, the impairment to be recognised shall be equal to the expected loss for the entire lifetime. For individual impairments (level 3) there are no significant changes to the rules of today.

An important factor for the size of impairments under IFRS 9 is the initiating event for the transfer of an asset from Level 1 to Level 2. The provisions according to IFRS 9 will be calculated as the probability of default (PD) multiplied by the exposure at default (EAD) multiplied by the loss given default (LGD). For assets in level 1, this calculation will be based on losses that may occur during the lifetime of the financial instrument due to default in the first 12 months, while for assets in Level 2 and 3, the calculation will be based on the expected maturity of the asset. For assets where there has been a significant increase in credit risk, the bank has, according to current rules, calculated impairments based on incurred losses, while IFRS 9 requires an impairment loss to be calculated based on expected losses over the term.

Sparebanken Møre has developed an ECL-model based on the Group's IRB parameters. A customer migrates from level 1 to level 2 if the customer has number of days with balance/overdraft > 30 or if there's a significant increase in credit risk compared to the last time the customer migrated to level 1. Significant increase in credit risk means:

- PD has increased by 100 % or more since customer was new or since customer last migrated to level 1 and increase in PD is above 0.5 percentage points – assuming that PD was below 1 % when customer was new or last migrated to level 1
- PD has increased by 100 % or more since customer was new or since customer last migrated to level 1 and increase in PD is above 2.0 percentage points – assuming that PD was above or equal to 1 % when the customer was new or last migrated to level 1

In level 3, commitments are placed with objective proof of loss (PD=100 % or there's an agreement of payment relief due to payment struggles).

When calculating expected loss during the maturity according to IFRS 9, including level classification, the calculation shall be based on probability weighted forward-looking information. The Group has decided to apply sector divided macroeconomic scenarios to consider the non-linear aspects of the expected loss.

The calculation of impairments according to IFRS 9 will require more experience-based credit ratings of the reporting units than what is required under IAS 39 today, which implies a higher degree of subjective judgement. The use of forward-looking information increases the complexity and makes provisions more dependent on management's view of the economic outlook (expert opinions).

It is expected that the impairment calculations under IFRS 9 will be more volatile and procyclical than under IAS 39, mainly as a result of applying the considerable subjectivity in determining the future scenarios, and the transition from incurred losses to expected losses.

Calculation of expected loss for the Group Sparebanken Møre as at 1.1.2018 entails an increase in total impairments of NOK 7 million, while the Parent Bank will get reduced impairments of NOK 13 million, please see table below.

The Group's equity will, on the date of entry into force of IFRS 9 on 1.1.2018, be charged with NOK 6 million after tax, while the Parent Bank's equity will be credited with NOK 10 million, please see table below.

The implementation of IFRS 9 will not have any effect on the Group's or the Parent Bank's primary capital as expected loss according to the capital adequacy regulations already exceeds expected loss according to IFRS 9. Sparebanken Møre will therefore not need to make use of the transitional rule.

Hedge accounting

IFRS 9 provides new principles for hedge accounting with the purpose that the financial statements shall better reflect the bank's risk management activities. Financial hedging currently subject to hedge accounting under IAS 39 will be continued under the new standard. Change in value on the Group's basis-swaps inherent in hedging instruments, has up to 31.12.2017 been recognised in the income statement. From 1.1.2018, changes in value on basis-swaps due to changes in basis-swap spreads, will be recognised under OCI as a cost of hedging.

Implementation effects for Sparebanken Møre

The tables below display the effect on the Bank's Balance Sheet and Retained Earnings following the implementation of IFRS 9, including the effect of replacing incurred loss calculations according to IAS 39 with expected loss calculations (EL) according to IFRS 9.

The following table shows a reconciliation of the carrying amounts under IAS 39 against balances reported under IFRS 9 as of 1 January 2018:

GROUP	IAS 39 measurement				IFRS 9	
	Category	Amount	Reclassification	Remeasurement	Amount	Category
		31.12.2017		ECL	01.01.2018	
Financial assets						
Cash and claims on Norges Bank	L & R - AC	637			637	AC
Loans to and receivables from credit institutions	L & R - AC	1 295			1 295	AC
Loans to and receivables from customers	L & R - AC	52 944		-7	52 937	AC
Loans to and receivables from customers	FVPL	3 923			3 923	FVPL
Certificates, bonds and other interest-bearing securities	FVPL	6 096			6 096	FVPL
Financial derivatives	FVPL	1 004			1 004	FVPL
Shares and other securities assessed at fair value through the income statement	FVPL	0	188		188	FVPL
Shares and other securities available for sale	AFS	188	-188		0	FVOCI

PARENT BANK	IAS 39 measurement				IFRS 9	
	Category	Amount	Reclassification	Remeasurement	Amount	Category
		31.12.2017		ECL	01.01.2018	
Financial assets						
Cash and claims on Norges Bank	L & R - AC	637			637	AC
Loans to and receivables from credit institutions	L & R - AC	2 497			2 497	AC
Loans to and receivables from customers	L & R - AC	31 909	-3 251	13	28 671	AC
Loans to and receivables from customers	FVPL	3 923	3 251		7 174	FVPL
Certificates, bonds and other interest-bearing securities	FVPL	6 461			6 461	FVPL
Financial derivatives	FVPL	564			564	FVPL
Shares and other securities assessed at fair value through the income statement	FVPL	0	188		188	FVPL
Shares and other securities available for sale	AFS	188	-188		0	FVOCI

The following table reconciles the aggregate opening loss impairments under IAS 39 to the ECL allowance under IFRS 9:

GROUP	Loss impairments under IAS 39 at 31 December 2017	Remeasurement	ECLs under IFRS 9 at 1 January 2018
Impairments on:			
Loans and receivables per IAS 39/financial assets at amortised cost under IFRS 9	336	7	343
	336	7	343

The ECL model's calculation of expected loss for the Group at 1.1.2018 results in increased impairments of MNOK 7.

PARENT BANK	Loss impairments under IAS 39 at 31 December 2017	Remeasurement	ECLs under IFRS 9 at 1 January 2018
Impairments on:			
Loans and receivables per IAS 39/financial assets at amortised cost under IFRS 9	334	-13	321
	334	-13	321

The ECL model's calculation of expected loss for the Parent Bank at 1.1.2018 results in reduced impairments of MNOK 13.

Transition to IFRS 9 has the following impact on Retained Earnings:

GROUP		PARENT BANK
	Value adjustment fund	
78	Closing balance under IAS 39 (31 December 2017)	78
-78	Recognition of IFRS 9 ECLs	-78
0	Opening balance under IFRS 9 (1 January 2018)	0
	Retained earnings	
4 312	Closing balance under IAS 39 (31 December 2017)	4 091
78	Recognition of IFRS 9 ECLs	78
-7	Change in loss impairments due to transition to IFRS 9	13
1	Tax effect due to changes in loss impairments	-3
4 384	Opening balance under IFRS 9 (1 January 2018)	4 179
-6	Total change in equity due to adopting IFRS 9	10

The Group's equity will be charged with NOK 6 million after tax as a consequence of the implementation of IFRS 9, while the Parent Bank's equity will increase by NOK 10 million after tax.

The implementation of IFRS 9 is not going to effect the Group's or the Parent Bank's primary capital as expected loss according to the capital adequacy requirements already exceeds calculated ECL according to IFRS 9.

Note 3

RISK MANAGEMENT

Strategy

Sparebanken Møre's long-term strategic development and target achievement are supported by high quality risk- and capital management. The overall purpose of risk management and -control is to ensure that goals are achieved, to ensure effective operations and the handling of risks which can prevent the achievement of business related goals, to ensure internal and external reporting of high quality, and to make sure that the Group operates in accordance with relevant laws, rules, regulations and internal guidelines. Risk-taking is a fundamental aspect of banking operations, which is why risk management is a central area in the day-today operations and in the Board of Directors' ongoing focus.

Sparebanken Møre's Board of Directors has agreed overall guidelines for management and control throughout the Group, as well as a separate risk policy. The Group shall have a low to moderate risk profile and revenue generation shall be a product of customer-related activities, not financial risk taking. In addition, the bank has introduced separate policies for each significant risk area: credit risk, counterpart risk, market risk, funding risk and operational risk. The risk strategies are agreed by the Board of Directors and revised at least once a year, or when special circumstances should warrant it. The Group has established a follow-up and control structure, which shall ensure that the overall framework of the strategic plan is adhered to at all times.

Corporate culture, organisation and responsibility

The risk management process is based on the bank's and Group's corporate culture. This includes management philosophy, management style and the people in the organisation. Staff's integrity, value basis and ethical attitudes represent fundamental elements in a well-functioning corporate culture. Well-developed control and management measures cannot compensate for poor corporate culture. Against this background, Sparebanken Møre has established clear ethical guidelines and a clear value basis, which have been made well known throughout the organisation.

Sparebanken Møre attaches a great deal of importance to independence in the risk management. The responsibility for, and execution of risk management and control is therefore shared between the Board of Directors, management and operative units.

The Board of Directors of Sparebanken Møre bears the overall responsibility for ensuring the bank and the Group having adequate primary capital based on the desired levels of risk and the Group's activities, and for ensuring that Sparebanken Møre is adequately capitalized based on regulatory requirements. The Board shall also ensure that risk management and internal control is adequate and systematic, and that this is established in compliance with laws and regulations, articles of association, instructions, and external and internal guidelines. The Board also sets out the principles and guidelines for risk management and internal control for the various levels of activity, and regularly revises and adopts, at least once a year, various strategies and guidelines for risk management.

The Audit and Risk Committee is elected by and amongst the members of the Board of Directors. The committee is a sub-committee of the Board. Its purpose is to carry out more thorough assessments of designated areas and report the results to the Board. The Audit and Risk Committee shall ensure that the institution has independent and effective external and internal auditors, and satisfactory financial statement reporting and risk management routines, which comply with all pertinent laws and regulations.

The CEO is responsible for ensuring the establishment of appropriate risk management and internal control on the basis of assessments, agreed principles and guidelines introduced by the Board. The CEO is responsible for ensuring that good control environments are established in all levels of the bank and shall continuously monitor changes to the bank's risks and ensure that these are properly addressed in accordance with the Board's guidelines. The CEO shall ensure that the bank's risk management and internal control is documented according to current laws, rules, regulations and statutes, and shall, at least once a year, prepare an overall assessment of the risk situation, which shall be presented to the Board for their consideration.

The Risk Management Department is responsible for preparing and designing systems, guidelines and procedures for identifying, measuring, reporting and following up the bank's most important inherent risks. The department is responsible for ensuring that the total risk exposure of Sparebanken Møre, including results of conducted stress tests, is reported to the CEO and the Board of Directors. Further, the department bears primary responsibility for the IRB process in the Group. It is also a key setter of conditions and adviser in the strategy process concerning risk assessments, risk tolerance and operationalisation of the bank's

overall goals with regard to risks. The department also has responsibility for supervising the annual ICAAP work. The department forms part of the Risk management and Compliance, reporting directly to the CEO.

Pursuant to the requirements in the Financial Undertakings Act, Sparebanken Møre has an own compliance function. Each year, the Board of Directors of Sparebanken Møre approves compliance instructions, and an annual work- and action plan is prepared for the function. The department is responsible for coordinating annual internal control confirmations from the operational managers. The head of Compliance reports to Sparebanken Møre's CEO, but is organizationally subordinate to the EVP of the Risk management and Compliance Division.

Finance and Accounting is responsible for the Group's total financial management/reporting and accounting, and is part of the unit Finance and Facilities Management.

Sparebanken Møre's operative managers of important business areas shall actively involve themselves in the process surrounding the assessment of whether or not the established risk management and internal control is being conducted as assumed. It is assumed that all managers at every level of the organisation are monitoring the approved control measures within their area of responsibility.

Sparebanken Møre's Credit Committee deals with larger commitments and matters of a special nature, and shall provide an independent proposal to the person holding the power of attorney. The Credit Committee attaches special importance to the identification of risk in connection with each credit application, and makes its own assessment regarding credit risk. In addition, consideration is made whether commitments are in accordance with the Group's credit risk strategy, credit policy, credit-granting rules and regulations, and credit handling routines.

The internal auditing is a monitoring function which, independent of the rest of the bank's administration, deals with systematic risk assessments, control and examination of the Group's internal control in order to ascertain whether it works according to its purpose and in a reassuring manner. The bank's Board approves the resources and annual plans of the internal auditing. The internal auditor should also discuss the plan and scope of the audit work with the Audit and Risk Committee. The internal audit in Sparebanken Møre is outsourced to BDO.

Reporting

Sparebanken Møre focuses on correct, complete and timely reporting of the risk and capital situation. Based on this, a number of different types of periodic reporting have been established, which are intended for the Group's management and Board, as well as reporting intended for the individual segments and departments, including customer account managers. The most important reports during the year are as follows:

ICAAP is carried out and reported at least once a year. The Board actively participates in the review and establishes ownership of the process, including through ICAAP's key role in the long-term strategic planning. Specific guidelines have been prepared for ICAAP in Sparebanken Møre. ICAAP is reviewed by the bank's management team, the Audit and Risk Committee and the Board of Directors.

A balanced scorecard report is prepared every month. This illustrates the status and performance of the most important factors for Sparebanken Møre's target attainment. The report is being submitted to bank managers and the bank's management team, and it is an integral part of the financial reporting to the Board of Directors.

A risk report is prepared every month. This is a key element of Sparebanken Møre's continuous monitoring of its risk situation. At the end of the quarter the risk report will also be expanded with supplementary comments from various disciplines within the Group. The report is dealt with by the bank's management team, Audit and Risk Committee and Board of Directors.

Internal control reports are produced for all business areas and regions every year. In this an assessment is made of whether or not the internal control is adequate in relation to the risk tolerance. This includes an assessment of and comments on their own work on internal control, a review of all important risk areas, an assessment of their own compliance with external and internal regulations, and suggestions for and planned improvement measures. The internal control reports are dealt with by the bank's management team, Audit and Risk Committee and the Board of Directors.

Compliance reports are prepared regularly and contain elements linked to an assessment of compliance risk and control, testing of compliance and the results of these tests, reassessments and plans for implementing guidelines, the follow-up of observations from external and internal auditors, the follow-up of observations from the FSA, deviation management in internal control, etc. The compliance reports are dealt with by the bank's management team, Audit and Risk Committee and the Board of Directors.

Reports from external and internal auditors are dealt with by the bank's management team, the Audit and Risk Committee and the

Board of Directors. Both internal and external auditors have regular meetings with the Audit and Risk Committee.

Reports on mortgages are prepared quarterly for the bank's Board of Directors.

A reporting portal has been established in Sparebanken Møre, in which each member of staff with customer responsibility has access to reports which show the position and development of credit risk in his or her portfolio. The portal has a hierarchical structure, allowing managers in Sparebanken Møre to monitor performance within their area of responsibility. The reports are also used to analyse customers, portfolios and different industries. The portal provides customer account managers with an overview of the customers' positions and limits in relation to exposure to financial instruments.

Finance and accounting reports are prepared monthly, and include monthly calculations of impairments. The reports are dealt with by the bank's management team, Audit and Risk Committee and the Board of Directors.

Capital structure

Sparebanken Møre's equity and related capital is composed with regard to several considerations. The most important considerations are the Group's size, Møre og Romsdal's internationally orientated industry and commerce, and a stable market for long-term funding whenever external funding is required. Furthermore, the Group's long-term strategic plan is a significant provider of conditions with regard to which capital structure Sparebanken Møre should adopt.

Assessments of risk profile, capital requirements and profitability are always based on the Group's long-term strategic plan. The Group's capital requirements are calculated, at least, in the annual ICAAP. The Group's total capital shall comply with the Group's accepted risk tolerance. The ICAAP clarifies all the alternatives the Group can implement if the Group's capital adequacy is subject to stress. The alternatives are listed in a prioritized order, with description of measures, and indication of planned implementation if necessary.

Sparebanken Møre's aim is to achieve financial results which provide a good and stable return on equity. The results shall ensure that all equity owners receive a competitive long-term return in the form of dividends and capital appreciation on the equity. The equity owners' share of the annual profits set aside as dividend funds, shall be adjusted to the equity situation. Sparebanken Møre's allocation of earnings shall ensure that all equity owners are guaranteed equal treatment.

Capital adequacy rules and regulations

The capital adequacy regulations aim to strengthen the stability in the financial system through more risk-sensitive capital requirements, better risk management and control, more stringent supervision and more information provided for the market.

The capital adequacy directive is based on three pillars:

- Pillar I – Minimum requirement for equity and related capital
- Pillar II – Assessment of aggregate capital requirements and regulatory follow-up (ICAAP)
- Pillar III – Publication of information

Sparebanken Møre's capital adequacy is calculated according to the IRB Foundation Approach for credit risk. Calculations related to market risk are based on the Standard Approach and operational risk on the Basis Approach. Sparebanken Møre's Board of Directors insists that the Group must be well capitalised, both during economic downturns and periods of strong economic expansion. Capital assessments (ICAAP) are conducted every year, and the Group's capital strategy is based on the risk in the Group's operations, different stress scenarios having been taken into consideration.

Reference is made to note 30 concerning "Capital adequacy" for further descriptions, as well as comments related to changes in the regulations.

Risk exposure and strategic risk management

Sparebanken Møre is exposed to several different types of risk. The most important risk groups are:

- Credit risk: This is the Group's biggest area of risk. Credit risk is defined as the risk of loss due to customers or other counterparties being unable to meet their obligations at the agreed time, and in accordance with written agreements, and due to the collateral security held not covering the outstanding claims. Counterparty risk and concentration risk are also included in this area of risk.
- Market risk: The risk of loss involving market values relating to portfolios of financial instruments as a result of fluctuations in share prices, foreign exchange rates and interest rates.

- **Funding risk:** The risk of the Group being unable to meet its obligations and/or fund increases in assets without incurring significant extra costs in the form of fall in prices of assets which have to be sold, or in the form of particularly expensive funding. The level of the institution's capital is a key condition to attract necessary funding at any time.

- **Operational risk:** The risk of loss due to insufficient or failing internal processes and systems, or due to human error or external events.

Sparebanken Møre tries to take account of the interaction between the various risk areas when setting desired levels of exposure. Overall it is the internal conditions, general conditions, customer base, etc. within the Group which form the basis for setting the desired overall risk exposure.

Based on an evaluation of the risk profile, management and control, Sparebanken Møre has set the following overall levels of risk exposure for the various risk areas:

- **Credit risk:** A moderate to significant level of risk is accepted

- **Market risk:** A low level of risk is accepted

- **Funding risk:** A moderate level of risk is accepted

- **Operational risk:** A low to moderate level of risk is accepted

The Group's risk is quantified partly through calculations of expected loss and the requirement for capital in order to be able to cover unexpected losses. Expected losses and financial capital are calculated for all main groups of risks, and for different business areas within the Group. Expected loss describes the amount which in statistical context the bank must expect to lose during a 12-month period. Financial capital describes the amount of capital the Group deems to be required in order to cover the actual risk which has been incurred by the Group. Statistical methods for the computation of financial capital have been used as a basis. Please also refer to note 30 regarding capital adequacy for further comments concerning financial capital.

Credit risk

Credit risk represents Sparebanken Møre's biggest risk area. Included in this risk area are counterparty risk and concentration risk. The Group is exposed to this type of risk through its lending products for the retail market and corporate customers, and through the activities of Sparebanken Møre's Treasury & Markets Division.

The credit risk strategy is revised and agreed each year by the Board of Directors. The strategy focuses on risk sensitive limits, which have been designed in such a way that they manage the Group's risk profile within the credit area in the most appropriate and effective manner. Furthermore, limits, guidelines, and power of attorney-related rules and regulations have been established, which underpin and support Sparebanken Møre's credit risk strategy and long-term strategic plan.

The core values of Sparebanken Møre are "Dedicated, Close and Solid". These values are to be reflected in all contact with the market, create added value for the customers and help create a positive view of Sparebanken Møre. The credit policy is intended to promote a credit culture in which creditworthiness is viewed in a long-term perspective, where general and industry economic fluctuations are taken into account. Sparebanken Møre shall conduct itself in accordance with high ethical standards, and shall not be associated with activities, customers or industries of dubious repute. The Group is open to all types of customers within defined market areas, and discrimination based on the customer's age, gender, nationality, religion or marital status shall not occur.

Sparebanken Møre's geographic core region is the county of Møre og Romsdal. However, it is allowed to financially support investments/businesses outside its core region when, from an ownership perspective, they are linked to individuals or companies in/from Møre og Romsdal. Commitments outside the Group's market area will also be considered as part of the deliberate diversification of the portfolio in terms of segment and geographical exposure. In such cases the Group's strategy sets clear limits for the maximum risk level for an individual commitment.

The Department for Risk Management has established monthly portfolio management reports which ensure that any discrepancies from the strategic targets incorporated in the credit risk strategy are identified. Officers responsible for the concepts relating to corporate and retail banking respectively, have independent responsibility for the ongoing monitoring of the position, in order to identify discrepancies in relation to the same strategic targets, and in order to implement measures in the case of any discrepancies having occurred.

The Board of Directors is responsible for the Group's granting of loans and credits. Within certain limits, power of attorney is delegated to the bank's CEO for the operational responsibility with regard to decisions in credit matters. Within his powers of attorney, the CEO may delegate powers of attorney to other officers in the bank. The grant authorisations are personal and graded after criteria like the size of grant, the limit of the commitment (corporate customers), the customers total debt (retail customers),

and class of risk. Further, the power of attorney is related to the employee's job level.

Sparebanken Møre actively uses internal reports in order to monitor the level and development of the Group's credit portfolio. Each member of staff with customer responsibility has access to reports which show the position and development in the credit risk in his or her portfolio. The reports are prepared on a hierarchical basis, enabling the bank's management to monitor the development within their own area of responsibility. The reports are also used to analyse customers, portfolios and different sectors.

The Group has prepared separate risk models for the corporate and retail markets, which are used in monthly measuring and reporting of credit risk. The Group has also developed application score models for the two customer segments, which are being used in the credit granting process.

There are mainly three central parameters within credit risk for which models are applied:

1. Probability of default (PD): PD is calculated per customer and states the probability of the customer defaulting on his or her outstanding commitment during the next 12 months. A separate PD is calculated for each customer, based on statistical models using variables of both external and bank-internal information, in the form of both financial key figures and non-financial criteria.
2. Degree of loss in the case of default (LGD): LGD indicates how big a part of the commitment is expected to be lost in the case of default. The assessments take into consideration the values of the collateral provided by the customer, and the costs which would be incurred in the case of the recovery/collection of commitments in default.
3. Expected exposure in the case of default (EAD): EAD indicates the level of exposure which is expected in connection with a commitment if and when it goes into default.

The abovementioned parameters form the basis for calculation of expected loss (EL), and are included in the computation of financial capital. By classifying customers according to probability of default, and by estimating the level of loss and the requirement for financial capital at customer level, the Group obtains information about the level and development of the aggregate credit risk in the total portfolio. In-house migration analyses show the development of the number of customers and EAD between different risk classes during different periods.

Treasury risk

Treasury risk is part of Sparebanken Møre's total credit risk. Board adopted limits for the Group's credit exposure in this area have been defined.

Credit exposure is linked to bonds and certificates in the Group's liquidity portfolio, short-term lending to other banks, including accounts held in foreign banks, and exposure in connection with financial derivatives which are signed to neutralise already present interest and currency risk which the bank has assumed. The portfolio consists of reputable domestic and foreign relationships.

Sparebanken Møre's policy is that, especially in relation to placements in international banks and other debtors outside Norway, the Group shall use assessments carried out by the major official ratings agencies. The credit risk shall be at a minimum, but even highly rated issuers/papers can be exposed to risk. If a counterparty's status is changed to a negative outlook or their rating falls, Sparebanken Møre carries out a new internal assessment of existing lines of credit. If necessary the line of credit, and any exposure, is reduced or eliminated.

Treasury risk is also viewed in connection with the funding indicators LCR and NSFR. The LCR regulations entail a movement towards lower risk weighted counterparties, including state and state guaranteed papers and covered bonds.

The pre-classification process emphasises considering banks with which Sparebanken Møre has a mutual (reciprocity) and long business relationship. It is also necessary to have sufficient competition in products and instruments that are traded, as well as diversification in market and geography for Sparebanken Møre.

If changes occur in general conditions, the market, economic trends or Sparebanken Møre's activities which have a material effect on the Group's risk positions, limits must be assessed and possibly set for investment opportunities. This involves, for example, not investing in some countries, groups of countries, individual counterparties, counterparties with certain attributes, etc.

Sparebanken Møre and Møre Boligkreditt AS require the signing of CSA (Credit Support Annex) agreements before trading of derivatives against any counterparties. CSA agreements are part of an ISDA agreement and help to regulate the counterparty risk associated with changes in market conditions. This provides Sparebanken Møre with collateral for any given exposure. The

agreements with counterparties define when the collateral shall be transferred between the parties. Sparebanken Møre practices cash collateral in relation to its counterparties. The market value of all derivatives signed between Sparebanken Møre and the counterparty is settled according to the different CSA-agreements and the counterparty risk will then largely be eliminated. EMIR - European Market Infrastructure Regulation –will ensure regulation and control of the market for derivatives traded outside regulated markets by requiring reporting of transactions to transaction records, and requirements for settlement (clearing) through central counterparties (CCPs). Sparebanken Møre will adapt to these regulations.

Market risk

Sparebanken Møre's market risk is managed through defined position limits for each risk area. Management of market risk is set out in Sparebanken Møre's market risk strategy. The strategy is adopted by the Board of Directors, and provides the overall guidelines for the Group's activities in the capital market, including the framework for Sparebanken Møre's total exposures within currency, interest rate and shares.

The Group's market risk can be divided into the following areas:

- **Interest rate risk:** Consists of market risk associated with positions in interest-bearing financial instruments, including derivatives with underlying interest instruments. Interest rate risk related to the liquidity portfolio, as well as hedging transactions related to it, are considered separately and will have its own set of risk parameters. See note 12.1 for the Group's interest rate risk.
- **Equity risk:** Consists of market risk on positions in equity instruments, including derivatives with underlying equity instruments. Shares in subsidiaries are not included. Sparebanken Møre has no trading portfolios. The financial risk of Sparebanken Møre is considered to be low. See note 15 for the equity risk of the Group.
- **Currency risk:** Consists of the risk of losses when exchange rates change. All financial instruments and other positions with currency risk are included in the assessment. Currency risk on the banking book, that is, foreign exchange risk arising as a result of hedging customer trading, including lending/deposit business, is considered separately and has its own set of risk parameters.

Sparebanken Møre's exposure to currency risk is a result of mismatch between the underlying business and hedging transactions, as well as the necessary reserves of the Group's bank accounts in foreign banks. Changes in exchange prices in the market cause changes in the value of Sparebanken Møre's currency position. The currency position also includes Sparebanken Møre's cash holdings of notes denominated in foreign currencies. Sparebanken Møre has no trading portfolio of FX contracts. Sparebanken Møre's currency risk is low and well within the limits specified in the regulations. See note 12.2 for the Group's currency risk.

- **Spread risk:** Defined as the risk of changes in market value of bonds and commitments as a result of general changes in credit spreads.
- **Total market risk:** The overall risk assessment is obtained by comparing the assessments of areas of interest rates, equities and foreign exchange. The FSA's methodology in this area form the basis for assessing the overall market risk. Assessments are based on three risk factors.
- Exposure
- Risk spreading
- Market liquidity

Any diversification effects between asset classes are not taken into account.

Based on the recommendation from the CEO's Balance Board Committee, the Board of Directors annually approves a total limit for the market risk of Sparebanken Møre. The framework is adapted to the Group's activity level and risk tolerance. If required, the overall framework may be changed more frequently than the annual review.

Total limit for market risk is defined as the maximum loss on a stress scenario where the FSA's methodology is applied. The approved overall market risk limit is delegated to the CEO, while the EVP of Treasury and Markets has administrative authority for the overall market risk limit. The EVP is responsible for administration of the limits within the various sub-portfolios being in compliance at all times.

Treasury and Markets has an independent responsibility for ongoing monitoring of positions within the various portfolios and daily follow up, or with the frequency required in relation to the level of activity. The Risk Management department has the

primary responsibility for monitoring, reporting and control of the market risk area. Back Office is responsible for transaction control and processing of payment transactions.

SimCorp Dimension (SCD) is the principal risk management system in Sparebanken Møre within the market risk area. The system provides current status of market development. All financial instruments are recorded in the system and monitored continuously. The Risk Management department is responsible for good quality in valuation of financial instruments.

The Risk Management department monitors the compliance of the risk management framework and strategy continuously. If activities exceed limits or strategy, written reporting instructions are specified.

Reporting of the market activity is part of Sparebanken Møre's periodic "Risk Report" to management, Audit and Risk Committee and Board of Directors. Monthly earnings performance reports are prepared, as well as actual risk exposure within each portfolio, both individually and in aggregate. The reports are compared to maximum activity frame and overall market risk limit (stress frame). The Board is also given a quarterly record of any violation of the framework, the strategy or laws and regulations.

There is no performance-based compensation to any person working in the market risk area beyond what is included in Sparebanken Møre's general bonus scheme which deals with, and is equal to, all employees of the Group.

Funding risk

Liquidity may be defined as the Group's ability to fund increases in assets and to meet its obligations as funding requirements occur. Sparebanken Møre is liquid when it is able to repay its debt as it falls due.

Management of the Group's funding risk is based on the overall financing strategy, which is evaluated and approved by the Board of Directors at least once a year. The strategy reflects the moderate risk level accepted for this risk area.

The Group's funding risk requires special monitoring. This is due to the Group's special position as a manager of deposits for small and non-professional participants, as well as the central role the Group plays in payment systems. The banks' duty to accept deposits from a non-specific base of depositors and the fact that these deposits are normally available on the same day, means that they face considerably greater risk than other financial institutions. The authorities' loan schemes and safety net for banks are based on these precise factors. The costs of reducing funding risk must be viewed in the context of the advantages lower funding risk provides. One fundamental prerequisite for maintaining the trust of depositors and other lenders is that the institutions always have sufficient liquidity to cover current liabilities.

LCR measures institutions' ability to survive a 30-day stress period. LCR increases the importance of high quality liquid assets. NSFR measures the longevity of an institution's funding. NSFR entails institutions having to fund illiquid assets with the aid of a greater proportion of stable and long-term funding. In this context, deposits are not regarded as an equally stable source of funding, which means that the quality of the deposits will increase in importance. This also means that financial institutions must, to a greater degree, fund themselves through bond issues with a higher maturity.

The Group also regularly reports on the trends for liquidity indicators to the supervisory authorities in line with the disclosure requirements.

The Group's long-term strategic plan, "Møre 2021", sets out a liquidity strategy protecting the structure and volume of the LCR requirement. The LCR requirement amounts to 100 per cent as of 31 December 2017.

At year-end 2017, the LCR indicator for the Group was 159 per cent and NSFR 109 %. In the composition of the external funding, priority is given to having a relatively high share of maturities above one year.

The funding section of Sparebanken Møre is organised within the Treasury & Markets Division. The division controls the funding on a day to day basis, and has the responsibility to meet the funding requirements in Sparebanken Møre, including utilization of the mortgage company Møre Boligkreditt AS.

Liquidity control management is maintained by both the Treasury & Markets Division and by the Risk Management department. In this respect there is a distinction between the overall and the daily operational cash management and control. The daily operational management responsibility is handled by the Treasury & Markets Division, while the overall risk management, including strategies and framework controls, are handled by the Risk Management Department.

Upon the occurrence of abnormal situations regarding liquidity, either in the market or within Sparebanken Møre, the bank's emergency task group comes together. The group consists of the following persons:

- CEO (leader)
- EVP Treasury and Markets
- EVP Information and Administration
- EVP Finance and Facilities Management
- EVP Risk Management and Compliance
- Head of Risk Management
- EVP Corporate Banking Division
- EVP Retail Banking Division
- Managing director of Møre Boligkreditt AS
- Head of Treasury

The Board receives monthly reports on the liquidity situation. This report includes several key figures. In addition, early warning signals are reported by viewing the development of financial strength, balance sheet- and income statement-development, losses/defaults and the development of cost of funds.

The funding risk is attempted reduced by spreading funding on different markets, sources, instruments and maturities. In order to ensure the Group's funding risk is kept at a low level, lending to customers must primarily be financed by customer deposits and long-term securities issued. There is a major focus on efforts to increase ordinary deposits in all customer-related activities throughout the bank. The deposit to loan ratio in Sparebanken Møre was 58 % at year-end.

The Board shall be informed of the bank's liquidity situation on a monthly basis, and immediately of any important events which may affect the bank's current or future liquidity situation. The reporting tries to identify the funding situation during normal operations, identify any "early warning" signs and assess the bank's stress capacity.

Møre Boligkreditt AS has a license from the FSA to operate as a mortgage company, and it provides the Group with increased diversification of its funding sources. The Parent Bank has throughout the year transferred parts of the mortgage portfolio to the mortgage Company.

Operational risk

Operational risk includes all the potential sources of losses related to Sparebanken Møre's current operations. The Group has classified various types of operational risk into the following main categories:

- Internal fraud
- External fraud
- Employment conditions and safety at work
- Customers, products and business conduct
- Damage to assets
- Interruptions to operations and/or systems
- Settlements, delivery or other transaction processing

The Board of Directors of Sparebanken Møre has decided that a low to moderate risk profile is accepted related to operational risk. An overall strategy for this risk area is established, and there are several documents which support the Group's risk management. These documents include the ICT-area, contingency plans for personnel and property, security handbooks, authorisation structures, ethical guidelines and insurance strategies. Further, there are established guidelines for compliance of:

- Money laundering Act with regulations
- Securities Trading Act with regulations
- ICT-regulation

The Group's Legal Department helps to monitor and reduce operational risk. The Compliance Department has established board adopted instructions, work plans and action plans. Sparebanken Møre has established an annual Security Forum for people responsible for security in the Group, and meetings of the Group's Security Committee are held regularly.

Operational responsibility for managing and controlling operational risk, and thus also the quality of Sparebanken Møre's operations, is borne by each manager involved. This responsibility follows from job descriptions and various guidelines and

routines. All managers annually confirm to the CEO the quality of and compliance with internal controls within the risk areas stipulated in this document. They also suggest areas for improvement which are incorporated into special action plans. The CEO presents the report to the Audit and Risk Committee and the Board of Directors. The annual ICAAP also involves a review of the Group's material risk areas, including operational risk.

Beyond the annual management report and annual ICAAP, the bank's management and Board of Directors receive reports throughout the year containing elements included in operational risk; compliance reports, safety reports, reports from the Internal Auditor, reports from the External Auditor, work environment surveys, internal service quality surveys, ICT-reporting, industry analysis as well as any reports from the authorities.

For potential noted items in the abovementioned reports, measures are prepared to cope with deviations and deadlines and persons in charge are given. Monitoring of the performance level for the measures is followed by the Business Committee on a monthly basis.

The Group's established internal control routines are an important tool for reducing operational risk with regard to both identification and follow-up.

Internal Control

Internal control must be designed in order to provide reasonable certainty with regard to the achievement of goals and targets within the areas of strategic development, targeted and effective operations, reliable reporting and adherence to relevant laws, rules and regulations, including compliance with Group-internal guidelines and policies. Furthermore, a well-functioning internal control shall ensure that the bank's risk exposure is kept within the agreed risk profile.

The internal control in Sparebanken Møre is organised in a decentralized manner with Risk Management and Compliance as the coordinating unit in the day-to-day operations and in the annual reporting to the Audit and Risk Committee and the Board of Directors. The Compliance department monitors how the Group operationalises relevant laws, rules and regulations in operational context, and how the Group's staff adhere to relevant rules and regulations, laws, licenses, agreements, standards for different industrial and commercial sectors, internal instructions etc. in the day-to-day operations. The Risk Management department is responsible for developing systems, guidelines and procedures in order to identify, measure, report and follow up on the Group's most important inherent risks.

Reports on the Group's operations and risk situations throughout the year are submitted to the Audit and Risk Committee and the Board of Directors on an ongoing basis. The bank's CEO annually submits an overall assessment to the Board regarding the risk situation and whether the established internal control features function in a satisfactory manner. This report is based on confirmations received from managers at different levels throughout Sparebanken Møre.

Sparebanken Møre's Internal Auditor reports on a regularly basis to the Audit and Risk Committee and the Board of Directors on the Group's internal Control.

Discretionary Asset Management

The Group provides portfolio management for investment clients. The portfolio management is performed on behalf of clients, and related assets belong to the clients and not the Group.

Financial derivatives

Sparebanken Møre utilizes financial derivatives in order to handle risk incurred as a result of the bank's ordinary operations. The bank uses financial derivatives in its own trading to a very small extent. In the case of customer transactions, these shall as a main principle immediately be covered by an opposite transaction in the market.

The following derivatives are in use in Sparebanken Møre:

- **Forward exchange contracts**

An agreement to buy or sell a certain amount in a foreign currency, against a certain amount in another currency, at a rate agreed in advance, with payment at a certain time later than two working days after the agreement was entered into.

- **Swaps**

A transaction in which two parties agree to swap cash flows for an agreed amount over a certain period of time. In an interest rate swap, only the interest involved is swapped. In the case of an interest rate and currency swap, both the interest rate and currency conditions are swapped.

- FRAs

A legally binding agreement concerning a rate of interest which shall apply for a future period for a defined principal amount. Upon settlement, only the difference between the agreed interest rate and the actual market interest rate is exchanged.

- Options

A right, but not an obligation, to buy (a call option) or sell (a put option) a certain product at a rate agreed in advance (strike price). When entering into an option contract, the person or company buying a call or put option will have to pay a premium to the person or company writing the option. Options can be offered on the basis of a financial instrument.

The risk relating to these financial instruments involves the credit risk of covering counterparts which are given prior credit clearance by the Board of Directors as well as operational risk.

These instruments are primarily utilized to provide the bank's customers with reliable cash flows and a desired risk position in the various markets. Limits for financial instruments involving customers are established by the staff responsible for the customers in question. The limits shall fix a maximum amount for the bank's exposure against each individual customer in relation to the customer's business volume in financial instruments and the market-related development in these. Each member of staff responsible for the customer in question, is responsible for the establishment of the limit and must make sure that such a limit has been subject to the necessary formal credit-handling procedures, and that a sufficient level of collateral and/or other security has been established to cover the limit. Furthermore, the member of staff responsible for the customer in question, together with the dealer involved, are both responsible for making sure that the credit risk as a result of the customer's exposure to financial instruments is at all times within the limits which have been agreed. In the case of all customers involved with financial instruments, a set-off agreement must be obtained. The purpose of this agreement is to reduce the bank's credit exposure to the customer by having all contracts netted out so that the bank ends up with just a net exposure towards the customer. It is the member of staff responsible for the customer in question who is responsible for establishing a set-off agreement with the customer, making sure that all customers who use this type of financial instrument are made aware of the bank's usual business terms and conditions.

The Department for Risk Management is responsible for follow-up and for all internal reporting and reporting to the relevant authorities relating to the bank's exposure to different counterparts as a result of trading in financial instruments.

Note 4

CREDIT RISK

Credit risk is the Group's most significant area of risk and is defined as the risk of loss relating to customers or other counterparties being unable to meet their obligations at the agreed time and in accordance with written agreements, and when the collateral held does not cover the outstanding claim. The Group is exposed to this type of risk through its lending products for the retail market and corporate customers, and through the activities of the Group's Treasury & Markets Division. Note 3, concerning Risk Management, explains in more detail agreed strategies for the credit risk in the Group, as well as processes for management and control of this area of risk. A central feature in this connection is the calculation of the probability of default for each individual customer and portfolio.

Credit risk also includes remaining risk and concentration risk. Remaining risk is the risk that the collateral of a commitment is less effective than expected. Concentration risk is risk associated with large commitments with the same customer, concentration within geographic areas, with similar industries or similar groups of customers.

Concentration risk is managed in relation to the relevant targets for sector-based percentages, the largest individual commitments and the aggregate target for large commitments. Periodic stress tests are carried out in order to assess the loss potential in the credit portfolio due to large, but not implausible, negative changes in operating conditions. Management and measurement of credit risk is further described in the report Risk and Capital Management (Pillar 3). Reference is also made to note 30 where credit risk for the Group is quantified through risk-adjusted capital. As described in note 3, the probabilities of default (PD) for the commitments contained in Sparebanken Møre's credit portfolio are calculated. PD is calculated per customer and indicates the probability of a customer defaulting on his or her commitment within the next 12 months and is modeled to be in line with the Capital Requirements Directive's specifications for fundamental IRB. Calculated expected loss (PD x LGD x EAD) is used as the basis when assessing customer profitability and is taken into consideration when fixing interest rate terms and conditions.

Loans and receivables

All loans and receivables are valued in the balance sheet at fair value at first assessment, with the addition of directly attributable transaction costs for instruments which are not assessed at fair value with value changes recognised in the income statement. Fair value when first assessed is normally the same as the transaction price. When determining the loan's value at the time of transaction (transaction price), establishment fees are deducted and subject to accrual accounting over the lifetime of the loan as part of the loan's effective interest rate. Loans are subsequently assessed at amortised cost by applying the effective interest rate method. The effective rate of interest is the rate at the signing time which exactly discounts estimated, future cash flows over the loan's expected lifetime, down to the net value of the loan as shown in the balance sheet. By conducting this calculation, all cash flows are estimated, and all contract-related terms and conditions relating to the loan are taken into consideration.

Based on the bank's risk assessments, in risk context, the commitments may be put into the following groups (the figures are based on nominal principal amount):

Commitments according to risk classification based on probability of default - GROUP 2017	Gross loans	Guarantees	Credit facilities	Derivatives	Total	Total EAD
Low risk (0 % - < 0.5 %)	47 988	695	4 103	420	53 206	52 592
Medium risk (0.5 % - < 3 %)	8 039	782	697	144	9 663	9 382
High risk (3 % - < 100 %)	963	111	115	1	1 190	1 193
Commitments in default/problem loans	161	181	17	0	359	355
Total loans before individual and collective impairment	57 151	1 769	4 932	565	64 418	63 521
- Impairment (individual and collective impairment)	-284	-52	0	0	-336	-336
Net loans to and receivables from customers 31.12.2017	56 867	1 717	4 932	565	64 082	63 185

Commitments according to risk classification based on probability of default - GROUP 2016	Gross loans	Guarantees	Credit facilities	Derivatives	Total	Total EAD
Low risk (0 % - < 0.5 %)	43 399	558	4 194	426	48 577	47 904
Medium risk (0.5 % - <3 %)	7 601	752	828	272	9 453	9 224
High risk (3 % - <100 %)	1 778	86	188	4	2 056	2 023
Commitments in default/problem loans	273	345	40	15	672	636
Total loans before individual and collective impairment	53 051	1 741	5 250	717	60 758	59 787
- Impairment (individual and collective impairment)	-360	0	0	0	-360	-360
Net loans to and receivables from customers 31.12.2016	52 691	1 741	5 250	717	60 398	59 427

Commitments according to risk classification based on probability of default - PARENT BANK 2017	Gross loans	Guarantees	Credit facilities	Derivatives	Total	Total EAD
Low risk (0 % - < 0.5 %)	28 010	695	2 905	420	32 030	31 311
Medium risk (0.5 % - <3 %)	7 095	782	696	144	8 717	8 436
High risk (3 % - <100 %)	848	111	115	1	1 075	1 077
Commitments in default/problem loans	161	181	17	0	359	355
Total loans before individual and collective impairment	36 114	1 769	3 733	565	42 181	41 178
- Impairment (individual and collective impairment)	-282	-52	0	0	-334	-334
Net loans to and receivables from customers 31.12.2017	35 832	1 717	3 733	565	41 847	40 844

Commitments according to risk classification based on probability of default - PARENT BANK 2016	Gross loans	Guarantees	Credit facilities	Derivatives	Total	Total EAD
Low risk (0 % - < 0.5 %)	24 793	558	3 060	426	28 837	28 069
Medium risk (0.5 % - <3 %)	6 669	752	817	272	8 510	8 282
High risk (3 % - <100 %)	1 631	86	188	4	1 909	1 876
Commitments in default/problem loans	273	345	40	15	673	636
Total loans before individual and collective impairment	33 366	1 741	4 105	717	39 929	38 863
- Impairment (individual and collective impairment)	-355	0	0	0	-355	-355
Net loans to and receivables from customers 31.12.2016	33 011	1 741	4 105	717	39 574	38 508

Collateral and other risk reducing measures

In addition to the assessment of debt servicing level, the Group accepts different kinds of collateral in order to reduce risk depending upon the market and type of transaction involved.

The main principle for value assessment of collateral is based on the realisation value of the asset in question, and what that value is deemed to be when the Bank needs the security. With the exception of commitments against which impairment has been made, the value of the collateral is calculated on the assumption of a going concern. When assessing the value of collateral, estimated sales costs are taken into consideration.

In the calculations of individual impairment on loans, the bank's valuation of the security objects is considered. Additional information is presented in note 7.

The main types of collateral used are: mortgage on property (residential and commercial), guarantees, surety, registered moveable property (chattels), charge on goods (stocks), operating equipment and licenses or set-off agreements. Guarantees represent a minor part of the bank's risk exposure; guarantors relating to private persons (consumer guarantees), companies (professional), guarantee institutes and banks are accepted.

Collateral and other security is updated at least once every year or, in the case of the retail customers, when a new credit proposal is dealt with. In the case of corporate customers, the security involved is updated either when a new credit proposal is dealt with or when certain commitments are followed up. Value assessment is part of the credit decision.

When calculating capital requirement for credit risk, the bank does not apply set-off relating to exposure on, or off, the balance sheet.

Sparebanken Møre requires establishment of a CSA agreement before entering into derivatives trading with any interbank counterparty. This provides Sparebanken Møre with security for a given exposure. The agreement with the counterparty defines when the collateral is to be transferred between the parties. Sparebanken Møre practices cash collateral with their counterparties. The market value of all derivatives entered into between Sparebanken Møre and its counterparties are settled according to the actual CSA-agreement. Derivates are presented gross in the balance sheet, either as asset or debt, depending on positive or negative value of the derivative, and net only when counterparty is the same and agreement with counterparty entitles set-off.

In addition to an assessment of debt servicing level and future realisation value of collateral, the financial commitment terms (covenants) are included in most credit agreements for large corporate customers. These conditions are a supplement to reduce risks and to ensure proper monitoring and control of Commitments.

The table below shows the percentage distribution of commitments with different levels of security. For example, the line 0 % - 60 % implies that the commitments are less than 60 % of the security object. Above 100 % implies that the loan amount exceeds the value of the security object. The bank's guidelines for valuation of collateral objects are utilized. This means that the security objects have been carefully considered in relation to the market value. The figures in the table are at group level.

Level of security - 2017	Retail customers in MNOK	Retail customers as percentage of total	Corporate in MNOK	Corporate as percentage of total	Total in MNOK	Total in percentage
0 % - 60 %	17 428	42.35	6 914	43.39	24 342	42.64
60 % - 70 %	7 299	17.73	1 417	8.89	8 716	15.27
70 % - 80 %	7 824	19.01	1 482	9.30	9 306	16.30
80 % - 90 %	3 474	8.44	1 319	8.28	4 793	8.40
90 % - 100 %	1 839	4.47	1 090	6.84	2 929	5.13
Above 100 %	2 949	7.17	3 529	22.15	6 478	11.35
Not secured	343	0.83	183	1.15	526	0.92
Total	41 156	100.00	15 934	100.00	57 091	100.00

Level of security - 2016	Retail customers in MNOK	Retail customers as percentage of total	Corporate in MNOK	Corporate as percentage of total	Total in MNOK	Total in percentage
0 % - 60 %	17 465	45.63	7 071	47.79	24 536	46.23
60 % - 70 %	7 358	19.23	1 273	8.61	8 631	16.26
70 % - 80 %	6 387	16.69	685	4.63	7 072	13.33
80 % - 90 %	2 704	7.07	1 934	13.07	4 639	8.74
90 % - 100 %	1 386	3.62	752	5.08	2 138	4.03
Above 100 %	2 607	6.81	2 779	18.78	5 385	10.15
Not secured	366	0.96	302	2.04	668	1.26
Total	38 273	100.00	14 796	100.00	53 069	100.00

Collateralisation is a variable that indicates the level of over-collateralisation in relation to the volume of outstanding covered bonds.

Cover pool related to covered bonds issued by Møre Boligkreditt AS	2017	2016
Pool of eligible loans	20 814	19 430
Supplementary assets	85	743
Financial derivatives applied in hedge accounting(debt)	-4	-4
Financial derivatives applied in hedge accounting(assets)	439	368
Total collateralised assets 1)	21 334	20 537
Collateralisation	113.3	112.4

1) NOK 348 million of total gross loans are not eligible for the cover pool as at 31 December 2017 (NOK 380 million in 2016).

Note 5

COMMITMENTS BROKEN DOWN ACCORDING TO SECTORS

In the financial statements the loan portfolio and deposits with agreed floating interest rate are measured at amortised cost. The loan portfolio and deposits with fixed interest rate are measured at fair value.

GROUP	Loans		Deposits		Guarantees	
Broken down according to sectors	2017	2016	2017	2016	2017	2016
Agriculture and forestry	464	390	186	196	2	1
Fisheries	2 402	2 281	1 214	851	164	0
Manufacturing	2 030	2 327	1 806	2 080	346	446
Building and construction	562	562	636	583	105	118
Wholesale and retail trade, hotels	620	525	842	799	69	60
Supply/offshore	882	956	351	256	837	980
Property management	6 672	5 804	1 309	1 230	39	52
Professional/financial services	1 261	881	1 453	2 316	0	0
Transport and private/public services	2 152	1 891	2 397	2 489	144	73
Public entities	0	4	723	1 084	0	0
Activities abroad	123	113	5	10	0	0
Miscellaneous	0	0	2 179	1 983	0	0
Total corporate/public entities	17 168	15 734	13 101	13 877	1 706	1 730
Retail customers	39 817	37 133	19 688	18 675	11	11
Fair value adjustment of loans/deposits	66	86	2	0	0	0
Accrued interest income	100	98	12	10	0	0
Total loans/deposits	57 151	53 051	32 803	32 562	1 717	1 741
Individual impairment	-48	-79				
Collective impairment	-236	-281				
Loans to and receivables from customers	56 867	52 691				
Loans/deposits with floating interest rate (amortised cost)	53 228	48 307	31 463	31 308		
Loans/deposits with fixed interest rate (fair value)	3 923	4 744	1 340	1 254		

PARENT BANK	Loans		Deposits		Guarantees	
Broken down according to sectors	2017	2016	2017	2016	2017	2016
Agriculture and forestry	461	389	186	196	2	1
Fisheries	2 397	2 279	1 214	851	164	0
Manufacturing	2 024	2 316	1 806	2 080	346	446
Building and construction	536	538	636	583	105	118
Wholesale and retail trade, hotels	614	517	842	799	69	60
Supply/offshore	882	956	351	256	837	980
Property management	6 584	5 686	1 316	1 235	39	52
Professional/financial services	1 230	853	1 453	2 316	0	0
Transport and private/public services	2 064	1 847	2 407	2 497	144	73
Public entities	0	4	723	1 084	0	0
Activities abroad	123	113	5	10	0	0
Miscellaneous	0	0	2 179	1 983	0	0
Total corporate/public entities	16 915	15 498	13 118	13 890	1 706	1 730
Retail customers	19 058	17 707	19 688	18 675	11	11
Fair value adjustment of loans/deposits	66	86	2	0	0	0
Accrued interest income	75	75	12	10	0	0
Total loans/deposits	36 114	33 366	32 820	32 575	1 717	1 741
Individual impairment	-48	- 79				
Collective impairment	-234	- 276				
Loans to and receivables from customers	35 832	33 011				
Loans/deposits with floating interest rate (amortised cost)	32 191	28 622	31 480	31 321		
Loans/deposits with fixed interest rate (fair value)	3 923	4 744	1 340	1 254		

Note 6

COMMITMENTS BROKEN DOWN ACCORDING TO GEOGRAPHICAL AREAS

	Møre og Romsdal		Remaining parts of Norway		Foreign countries		Total	
GROUP	2017	2016	2017	2016	2017	2016	2017	2016
Gross loans	47 536	44 069	9 446	8 813	169	169	57 151	53 051
In percentage	83.2	83.1	16.5	16.6	0.3	0.3	100.0	100.0
Deposits	26 285	26 272	6 108	5 996	410	294	32 803	32 562
In percentage	90.1	80.7	8.6	18.4	1.3	0.9	100.0	100.0
Guarantees	1 471	1 614	246	127	0	0	1 717	1 741
In percentage	85.7	92.7	14.3	7.3	0.0	0.0	100.0	100.0

PARENT BANK	2017	2016	2017	2016	2017	2016	2017	2016
Gross loans	31 207	28 606	4 758	4 614	149	146	36 114	33 366
In percentage	86.4	85.7	13.2	13.9	0.4	0.4	100.0	100.0
Deposits	26 302	26 285	6 108	5 996	410	294	32 820	32 575
In percentage	80.1	80.7	18.6	18.4	1.3	0.9	100.0	100.0
Guarantees	1 471	1 614	246	127	0	0	1 717	1 741
In percentage	85.7	92.7	14.3	7.3	0.0	0.0	100.0	100.0

Note 7

LOSSES ON LOANS AND GUARANTEES

Impairment

The impairment amount is calculated as the difference between the carrying amount (principal + accrued interest at the valuation date) and the present value of future cash flows, discounted at the effective interest method over the commitments' expected lifetime. Only credit losses due to loss events occurring on the balance sheet date are recognised.

The discounting rate for loans with floating interest rates is equal to the effective rate of interest at the time of assessment. For loans with fixed interest rates, the discounting rate is equal to the original, effective interest rate. For commitments which have altered interest rates as a result of debtors' financial problems, the effective rate of interest ruling before the commitment's interest rate was altered is applied. When estimating future cash flows, a possible takeover and sale of related collateral is taken into consideration, also including costs relating to the takeover and sale.

Impairment of commitments is recognised in the income statement as losses on loans. Interest calculated on loans which have previously been impaired, is recognised as interest income. Reversal of impairment is recognised in the income statement as a correction of losses. Estimates of future cash flows from a loan should also consider the acquisition and sale of related collateral. When evaluating security coverage there should be a qualified assessment of the collateral's nature and market value, taking into account the costs of the acquisition and sale. Realisation values for different collateral in a realizable situation are determined by the use of best judgment. Timing for liquidation of loans with impairment is based on judgment and experiences from other liquidation engagements and bankruptcies. When all collateralised assets have been realised and when there is definitely no likelihood of the bank receiving any more payments relating to the outstanding commitment, the loss is confirmed. The claim against the customer will still exist and continued being followed up, unless the bank has agreed to debt forgiveness for the customer.

Provisions for guarantee liabilities are made if the liability is likely to be settled and the liability can be estimated in a reliable manner. Best estimate is applied when determining the amount of the provisions to be made. Claims for recourse related to guarantees where provisions have been made are capitalized as an asset maximum equal to provisions made.

Individual impairment

Individual impairment for credit losses is made when there are objective indications that there has been impairment of a loan's value as a result of reduced creditworthiness. An impairment is reversed when the loss is reduced and when it can objectively be related to an event which has occurred after the time of impairment. All commitments which are regarded as significant, and a selection of other loans, are assessed individually in order to determine whether there is objective proof of impairment in value.

Individual commitments are subject for impairment in value if there is objective proof of:

- a) The debtor having significant financial problems
- b) Default of payment or other significant breaches of contract. A commitment is deemed to be in default if the borrower does not pay installments which have fallen due, or if an overdraft has not been covered, within a maximum period of 90 days.
- c) Approved deferment of payment or new credit for the payment of an installment, agreed changes to the rate of interest or other terms and conditions relating to the agreement as a result of debtor's financial problems. Renegotiation of loan terms to ease the borrower's position is regarded as objective evidence of impairment.
- d) A likelihood of the debtor entering into debt negotiations, other financial restructuring, or if the debtor's estate being subject to bankruptcy proceedings.

Collective impairment

Collective impairment is calculated on subgroups of loans, where objective evidence indicates that future cash flows from the commitments are impaired, where an individual review of all loans is not possible, or where information is not identifiable for each commitment. Commitments where individual impairment has been made are not included in the basis for collective impairment. The impairment assessment is conducted on customer groups with largely similar risk- and value characteristics, and is based on risk classification and credit loss experience for the customer groups involved.

Groups of loans are impaired if there is objective proof of:

- a) Negative changes in the payment status of debtors within the Group
- b) Economic effects which have occurred and which, on the balance sheet day, have not been fully taken into consideration in the bank's risk classification system

Losses on loans and guarantees

GROUP			PARENT BANK	
2016	2017	Specification of losses on loans, guarantees etc.	2017	2016
1	20	Changes in individual impairment of loans and guarantees during the period	20	1
19	-45	Changes in collective impairment during the period	-42	18
8	25	Confirmed losses during the period, previously impaired (individually)	25	8
5	19	Confirmed losses during the period, not previously impaired	19	5
11	6	Recoveries	6	11
22	13	Losses on loans, guarantees etc.	16	21

Impairment on loans/guarantees broken down according to sectors

GROUP	2017			2016		
Broken down according to sectors	Losses	Losses as a perc. of gross loans	Perc. share of gross loans	Losses	Losses as a perc. of gross loans	Perc. share of gross loans
Agriculture and forestry	0	0.00	0.8	-2	-0.57	0.7
Fisheries	0	0.00	4.2	-1	-0.03	4.3
Manufacturing	7	0.24	3.7	2	0.13	4.4
Building and construction	-2	-0.33	1.0	3	0.42	1.0
Wholesale and retail trade, hotels	-1	-0.20	1.1	-2	-0.34	1.0
Supply/Offshore	54	2.80	1.5	15	1.26	2.1
Property management	0	0.00	11.7	-6	-0.11	10.9
Professional/financial services	0	0.00	2.2	0	0.00	1.7
Transport and private/public services	1	0.05	3.6	0	0.00	3.3
Public entities	0	0.00	0.0	0	0.00	0.0
Activities abroad	0	0.00	0.2	0	0.00	0.2
Total corporate/public entities	59	0.34	30.0	9	0.05	29.6
Retail customers	-1	-0.01	69.7	-6	-0.02	70.0
Other	0	0.00	0.3	0	0.00	0.4
Collective impairment	-45	-0.08		19	0.04	
Total customers	13	0.02	100.0	22	0.04	100.0
Credit institutions		0.00			0.00	
Total	13	0.02	100.0	22	0.04	100.0

Impairment on loans/guarantees broken down according to sectors

PARENT BANK						
2017				2016		
Broken down according to sectors	Losses	Losses as a perc. of gross loans	Perc. share of gross loans	Losses	Losses as a perc. of gross loans	Perc. share of gross loans
Agriculture and forestry	0	0.00	1.3	-2	-0.57	1.2
Fisheries	0	0.00	6.6	-1	-0.03	6.8
Manufacturing	7	0.24	5.6	2	0.13	7.0
Building and construction	-2	-0.34	1.5	3	0.43	1.6
Wholesale and retail trade, hotels	-1	-0.21	1.7	-2	-0.34	1.6
Supply/Offshore	54	2.80	2.4	15	1.26	3.5
Property management	0	0.00	18.2	-6	-0.11	17.0
Professional/financial services	0	0.00	3.4	0	0.00	2.6
Transport and private/public services	1	0.05	5.8	0	0.00	4.9
Public entities	0	0.00	0.0	0	0.00	0.0
Activities abroad	0	0.00	0.3	0	0.00	0.3
Total corporate/public entities	59	0.34	46.8	9	0.05	46.5
Retail customers	-1	-0.01	52.8	-6	-0.03	53.0
Other	0	0.00	0.4	0	0.00	0.5
Collective impairment	-42	0.13		18	0.05	
Total customers	16	0.05	100.0	21	0.06	100.0
Credit institutions		0.00			0.00	
Total	16	0.05	100.0	21	0.06	100.0

Note 8

IMPAIRMENT ON LOANS AND GUARANTEES

Individual impairment of loans

GROUP			PARENT BANK	
2016	2017		2017	2016
79	79	Individual impairment on loans as at 01.01	79	79
8	25	Confirmed losses during the period, where individual impairment had previously been made	25	8
7	5	Increase in individual impairment during the period	5	7
26	13	Individual impairment of new commitments during the period	13	26
25	24	Recoveries on individual impairment during the period	24	25
79	48	Individual impairment on loans as at 31.12	48	79

Collective impairment of loans

GROUP			PARENT BANK	
2016	2017		2017	2016
262	281	Collective impairment of loans as at 01.01	276	258
19	-45	Changes during the period	-42	18
281	236	Collective impairment of loans as at 31.12	234	276

Individual impairment of guarantees

GROUP			PARENT BANK	
2016	2017		2017	2016
0	0	Individual impairment as at 01.01	0	0
0	52	Individual impairment during the period	52	0
0	0	Recoveries on individual impairment during the period	0	0
0	52	Individual impairment as at 31.12	52	0

Gross loans - Impairment - Commitments in default as at 31.12.2017

GROUP	Gross loans	Ind. impair.	Coll. impair.	Net loans	Guarantees	Commitments in default above 90 days	Other problem loans	Credit facilities
Agriculture and forestry	464	1		463	2	0	4	52
Fisheries	2 402	0		2 402	164	0	0	13
Manufacturing	2 030	18		2 012	346	6	42	523
Building and construction	562	3		559	105	0	4	144
Wholesale and retail trade, hotels	620	4		616	69	1	6	224
Supply/offshore	882	0		882	837	0	0	87
Property management	6 672	14		6 658	39	0	16	257
Professional/financial services	1 261	0		1 261	0	0	0	7
Transport and private/public services	2 152	2		2 150	144	2	194	269
Public entities	0	0		0	0	0	0	20
Activities abroad	123	0		123	0	0	0	0
Miscellaneous	0	0		0	0	0	0	0
Total corporate/public entities	17 168	42	202	16 924	1 706	9	266	1 596
Retail customers	39 817	6	34	39 777	11	53	8	3 336
Fair value adjustment of loans	66			66	0			
Accrued interest income	100			100	0			
Total	57 151	48	236	56 867	1 717	62	274	4 932

Gross loans - Impairment - Commitments in default as at 31.12.2016

GROUP	Gross loans	Ind. impair.	Coll. impair.	Net loans	Guarantees	Commitments in default above 90 days	Other problem loans	Credit facilities
Agriculture and forestry	390	1		389	1	0	4	43
Fisheries	2 281	0		2 281	0	0	0	38
Manufacturing	2 327	19		2 308	446	3	36	868
Building and construction	562	3		559	118	0	7	163
Wholesale and retail trade, hotels	525	4		521	60	3	8	234
Supply/offshore	1 103	15		1 088	980	0	436	80
Property management	5 804	23		5 781	52	13	22	207
Professional/financial services	881	0		881	0	0	0	10
Transport and private/public services	1 744	1		1 743	73	0	9	393
Public entities	4	0		4	0	0	0	56
Activities abroad	113	0		113	0	0	0	0
Miscellaneous	0	0		0	0	0	0	0
Total corporate/public entities	15 734	66	240	15 428	1 730	19	522	2 092
Retail customers	37 133	13	41	37 079	11	46	24	3 158
Fair value adjustment of loans	86			86				
Accrued interest income	98			98				
Total	53 051	79	281	52 691	1 741	65	546	5 250

PARENT BANK	Gross loans	Ind. impair.	Coll. impair.	Net loans	Guarantees	Commitments in default above 90 days	Other problem loans	Credit facilities
Agriculture and forestry	461	1		460	2	0	4	52
Fisheries	2 397	0		2 397	164	0	0	13
Manufacturing	2 024	18		2 006	346	6	42	523
Building and construction	536	3		533	105	0	4	144
Wholesale and retail trade, hotels	614	4		610	69	1	6	224
Supply/offshore	882	0		882	837	0	0	87
Property management	6 584	14		6 570	39	0	16	257
Professional/financial services	1 230	0		1 230	0	0	0	7
Transport and private/public services	2 064	2		2 062	144	2	194	269
Public entities	0	0		0	0	0	0	20
Activities abroad	123	0		123	0	0	0	0
Miscellaneous	0	0		0	0	0	0	0
Total corporate/public entities	16 915	42	202	16 671	1 706	9	266	1 596
Retail customers	19 058	6	32	19 020	11	53	8	2 137
Fair value adjustment of loans	66			66	0			
Accrued interest income	75			75	0			
Total	36 114	48	234	35 832	1 717	62	274	3 733

PARENT BANK	Gross loans	Ind. impair.	Coll. impair.	Net loans	Guarantees	Commitments in default above 90 days	Other problem loans	Credit facilities
Agriculture and forestry	389	1		388	1	0	4	43
Fisheries	2 279	0		2 279	0	0	0	38
Manufacturing	2 316	19		2 297	446	3	36	868
Building and construction	538	3		535	118	0	7	163
Wholesale and retail trade, hotels	517	4		513	60	3	8	234
Supply/offshore	1 103	15		1 088	980	0	436	80
Property management	5 686	23		5 663	52	13	22	207
Professional/financial services	853	0		853	0	0	0	10
Transport and private/public services	1 700	1		1 699	73	0	9	393
Public entities	4	0		4	0	0	0	56
Activities abroad	113	0		113	0	0	0	0
Miscellaneous	0	0		0	0	0	0	0
Total corporate/public entities	15 498	66	240	15 192	1 730	19	522	2 092
Retail customers	17 707	13	36	17 658	11	44	24	2 013
Fair value adjustment of loans	86			86				
Accrued interest income	75			75				
Total	33 366	79	276	33 011	1 741	63	546	4 105

Note 9

DEFAULTED AND DOUBTFUL COMMITMENTS

The accounting policies on commitments in default and estimated losses are disclosed in note 7.

The table Commitments in default shows the total of a customer's outstanding commitments broken down into the number of days past due caused by lack of ability or willingness to pay. Defaulted loans and overdrafts are continuously supervised. Impairment is assessed for commitments where a probable deterioration of customer solvency is identified.

The table Problem loans consists of total commitments in default above 3 months and other commitments subject for individual impairment without being in default.

Age analysis of commitments in default (total of all of a customer's outstanding commitments)

GROUP	2017			2016		
	Total	Retail	Corporate	Total	Retail	Corporate
0-1 months	524	465	59	497	408	89
1-3 months	39	31	8	44	28	16
3-6 months	12	10	2	12	10	2
6-12 months	18	18	0	37	21	16
Above 12 months	32	26	6	17	14	3
Gross loans in default	625	550	75	607	481	126
Thereof commitments with impairment	23	14	9	65	45	20
Thereof commitments without impairment	602	536	66	542	436	106

PARENT BANK	Total	Retail	Corporate	Total	Retail	Corporate
0-1 months	362	304	58	345	256	89
1-3 months	34	26	8	43	27	16
3-6 months	12	10	2	10	8	2
6-12 months	18	18	0	37	21	16
Above 12 months	32	26	6	17	14	3
Gross loans in default	458	384	74	452	326	126
Thereof commitments with impairment	23	14	9	65	45	20
Thereof commitments without impairment	435	370	65	387	281	106

Problem loans

(total of commitments in default above 3 months and commitments subject for individual impairment without being in default)

	2017			2016		
GROUP	Total	Retail	Corporate	Total	Retail	Corporate
Problem loans prior to individual impairment:						
Commitments in default above 3 months	62	53	9	65	45	20
Other bad and doubtful commitments subject to impairment	274	8	266	546	24	522
Total problem loans prior to individual impairment	336	61	275	611	69	542
Individual impairment on:						
Commitments in default above 3 months	4	2	2	15	3	12
Other bad and doubtful commitments subject to impairment	96	4	92	64	10	54
Total individual impairment	100	6	94	79	13	66
Problem loans after individual impairment:						
Commitments in default above 3 months	58	51	7	50	42	8
Other bad and doubtful commitments subject to impairment	178	4	174	482	14	468
Total problem loans less individual impairment	236	55	181	532	56	476
Total problem loans prior to individual impairment as a percentage of total loans	0.57	0.15	1.46	1.12	0.19	3.10
Total problem loans less individual impairment as a percentage of total loans	0.40	0.14	0.96	0.98	0.15	2.73
PARENT BANK	Total	Retail	Corporate	Total	Retail	Corporate
Problem loans prior to individual impairment:						
Commitments in default above 3 months	62	53	9	63	43	20
Other bad and doubtful commitments subject to impairment	274	8	266	546	24	522
Total problem loans prior to individual impairment	336	61	275	609	67	542
Individual impairment on:						
Commitments in default above 3 months	4	2	2	15	3	12
Other bad and doubtful commitments subject to impairment	96	4	92	64	10	54
Total individual impairment	100	6	94	79	13	66
Problem loans after individual impairment:						
Commitments in default above 3 months	58	51	7	48	40	8
Other bad and doubtful commitments subject to impairment	178	4	174	482	14	468
Total problem loans less individual impairment	236	55	181	530	54	476
Total problem loans prior to individual impairment as a percentage of total loans	0.89	0.32	1.48	1.74	0.38	3.15
Total problem loans less individual impairment as a percentage of total loans	0.62	0.29	0.97	1.51	0.30	2.76

Development last 5 years

GROUP						PARENT BANK				
2013	2014	2015	2016	2017		2017	2016	2015	2014	2013
					Problem loans prior to individual impairment:					
152	86	74	65	62	Commitments in default above 3 months	62	63	72	86	152
382	306	170	546	274	Other bad and doubtful commitments subject to impairment	274	546	170	306	382
534	392	244	611	336	Total problem loans prior to individual impairment	336	609	242	392	534
					Individual impairment on:					
35	21	14	15	4	Commitments in default above 3 months	4	15	14	21	35
131	122	65	64	96	Other bad and doubtful commitments subject to impairment	96	64	65	122	131
166	143	79	79	100	Total individual impairment	100	79	79	143	166
					Problem loans after individual impairment:					
117	65	60	50	58	Commitments in default above 3 months	58	48	58	65	117
251	184	105	482	178	Other bad and doubtful commitments subject to impairment	178	482	105	184	251
368	249	165	532	236	Total problem loans less individual impairment	236	530	163	249	368
1.16	0.80	0.47	1.12	0.57	Total problem loans prior to individual impairment as a percentage of total loans	0.89	1.74	0.70	1.16	1.70
0.80	0.51	0.32	0.98	0.40	Total problem loans less individual impairment as a percentage of total loans	0.62	1.51	0.47	0.74	1.17

Note 10

LIABILITIES

Financial guarantees

The Group issues financial guarantees as part of its ordinary operations. Credit risk is presented in note 4 and also includes financial guarantees and commitments. These guarantees are evaluated for impairment in accordance with the principles applied to loans, and are referred to in note 7.

Uncertain liabilities

These are uncertain liabilities and provisions, not directly related to the lending activities in the Bank. An item of provisioning is shown in the accounts when the group has a valid (legal or assumed) liability as a result of events which have occurred, and if it can be argued as likely (more likely than not) that a financial settlement will be made as a result of the event involved, and that the amount can be estimated in a reliable manner. Any provisions raised are reviewed on each balance sheet date in question and their value assessed on the basis of the best estimate of the liability involved. In the case of insignificant time discrepancies, the amount of provisioning raised equals the cost of getting out of the liability. When the time discrepancy is significant, the amount of provisioning raised equals the present value of future payments to be made in order to cover the liability. An increase in the amount of provisioning raised as a result of the time involved, is shown as interest costs.

An uncertain liability where a financial settlement is not likely to happen is regarded as a contingent liability. A provision shall not be made for contingent liabilities. Mention has been made of significant contingent liabilities, with the exception of contingent liabilities where the likelihood of any liability being low. A contingent asset is not included in the annual accounts, but mentioned if it is likely that a benefit will accrue to the Group.

GROUP			PARENT BANK	
2016	2017		2017	2016
232	372	Payment guarantees	372	232
494	378	Contract guarantees	378	494
926	865	Loan guarantees	865	926
89	102	Other guarantee liabilities	102	89
1 741	1 717	Guarantee liabilities relating to customers	1 717	1 741
0	0	Guarantee liabilities towards credit institutions	0	0
0	0	Guarantee provided for the Savings Bank's Guarantee Fund (SBGF)	0	0
1 741	1 717	Guarantee liabilities as at 31.12	1 717	1 741
5 250	4 932	Drawing rights facilities for customers	3 733	4 105

Breakdown according to different commercial, industrial and other sectors is shown in note 5.

Assets pledged as collateral security for loans etc.

980	1 105	Certificates and bonds pledged as collateral for access to loans from Norges Bank	1 105	980
0	0	Utilised under loan facility from Norges Bank	0	0

As at 31.12.2017, the Group is not involved in any legal disputes.

Note 11

LIQUIDITY RISK

The management of Sparebanken Møre's funding structure is defined in an overall liquidity strategy which is evaluated and agreed by the Board of Directors at least once every year. In this strategy document, the bank's targets relating to the maintenance of its financial strength are described, and actual limits for the bank's liquidity management within different areas are defined. Liquidity management also includes stress tests according to which the liquidity effect of different scenarios is simulated by quantifying the probability of refinancing from the various sources of funding involved. Part of the bank's strategy is to apply diversification to its funding with regard to sources, markets, financial instruments and maturities, the object being to reduce the overall risk.

To ensure the Group's liquidity risk being kept at a low level, lending to customers should primarily be funded by customer deposits and long-term debt securities. Liquidity risk is managed through both short-term limits that restrict net refinancing needs, and a long-term management target which determines the proportion of loans and other illiquid assets to be funded by stable sources such as customer deposits or loans with minimum 12-months residual maturity.

The Group's deposit to lending ratio, calculated including transferred mortgages to Møre Boligkreditt AS, amounted to 57.7 per cent at the end of 2017, opposed to 61.8 per cent by the end of 2016.

The average residual maturity of the portfolio of senior bonds and covered bonds were respectively 2.4 and 3.5 at the end of 2017, compared with 1.7 and 3.9 a year earlier.

The bank also has holdings of securities, which are included as part of the ongoing liquidity management. See additional information in note 15 and 17.

The table below shows contractual undiscounted cash flows. The figures can therefore not be reconciled with the figures in the balance sheet.

Liquidity risk 2017

GROUP	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Above 5 years	Total
Assets						
Cash and claims on Norges Bank	637					637
Loans to and receivables from credit institutions	1 295					1 295
Loans to and receivables from customers	8 712	789	3 086	14 828	42 132	69 547
Certificates and bonds	351	158	824	4 214	834	6 381
Total assets	10 995	947	3 910	19 042	42 966	77 860
Liabilities						
Loans and deposits from credit institutions	69			500		569
Deposits from customers	31 141	362	1 316	14		32 833
Debt securities issued	29	862	2 887	20 064	1 720	25 562
Subordinated loan capital	3	336	53	730	500	1 622
Total liabilities	31 242	1 560	4 256	21 308	2 220	60 586
Financial derivatives						
Cash flow in	10	23	79	340	195	647
Cash flow out	15	39	102	462	129	747
Total financial derivatives	-5	-16	-23	-122	66	-100

Liquidity risk 2016

GROUP	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Above 5 years	Total
Assets						
Cash and claims on Norges Bank	300					300
Loans to and receivables from credit institutions	649					649
Loans to and receivables from customers	12 235	623	2 364	11 877	37 232	64 331
Certificates and bonds	206	506	638	4 665	413	6 428
Total assets	13 390	1 129	3 002	16 542	37 645	71 708
Liabilities						
Loans and deposits from credit institutions	455		454	20		929
Deposits from customers	32 323	538	948	19		33 828
Debt securities issued	30	637	3 077	15 190	2 779	21 713
Subordinated loan capital	7	5	571	322	794	1 699
Total liabilities	32 815	1 180	5 050	15 551	3 573	58 169
Financial derivatives						
Cash flow in	12	60	259	838	374	1 543
Cash flow out	22	64	239	807	228	1 360
Total financial derivatives	-10	-4	20	31	146	183

Liquidity risk 2017

PARENT BANK	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Above 5 years	Total
Assets						
Cash and claims on Norges Bank	637					637
Loans to and receivables from credit institutions	2 497					2 497
Loans to and receivables from customers	4 846	608	2 204	10 696	25 442	43 796
Certificates and bonds	351	128	1 248	4 183	834	6 744
Total assets	8 331	736	3 452	14 879	26 276	53 674
Liabilities						
Loans and deposits from credit institutions	154			500		654
Deposits from customers	31 141	362	1 316	14		32 833
Debt securities issued	21	812	628	4 792		6 253
Subordinated loan capital	3	336	53	730	500	1 622
Total liabilities	31 319	1 510	1 997	6 036	500	41 362
Financial derivatives						
Cash flow in	10	8	19	42	5	84
Cash flow out	14	23	53	231	69	390
Total financial derivatives	-4	-15	-34	-189	-64	-306

Liquidity risk 2016

PARENT BANK	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Above 5 years	Total
Assets						
Cash and claims on Norges Bank	300					300
Loans to and receivables from credit institutions	1 789					1 789
Loans to and receivables from customers	8 627	454	1 603	7 959	21 400	40 043
Certificates and bonds	175	355	2 079	5 054	413	8 076
Total assets	10 891	809	3 682	13 013	21 813	50 208
Liabilities						
Loans and deposits from credit institutions	184		454	20		658
Deposits from customers	32 336	538	948	19		33 841
Debt securities issued	20	572	1 414	2 368		4 374
Subordinated loan capital	7	5	571	322	794	1 699
Total liabilities	32 547	1 115	3 387	2 729	794	40 572
Financial derivatives						
Cash flow in	12	45	203	553	116	929
Cash flow out	21	53	203	646	127	1 050
Total financial derivatives	-9	-8	0	-93	-11	-121

Note 12

MARKET RISK

The bank's Board of Directors stipulates the long-term targets with regard to the bank's risk profile. These targets are made operational through powers of attorney and limits delegated within the organisation. Sparebanken Møre manages market risk and handles powers of attorney, limits and guidelines relating to financial instruments based on the bank's strategy documents. The strategy documents are subject to periodical reviews and are revised/agreed once every year by the bank's Board of Directors. In addition, the documents shall be passed on to, approved and understood by the operative units, the bank's control functions and administration. In order to ensure the necessary quality and independence, the development of risk management tools and the execution of the risk reporting are organised in a separate unit, independent of the operative units.

Market risk in the Group is measured and monitored based on conservative limits, renewed and approved by the Board at least annually.

Note 12.1

INTEREST RATE RISK

Sparebanken Møre measures interest rate risk through analyses, showing the impact on the overall result of a 1 percentage point parallel shift in the yield curve. In this way, it is possible to quantify the risk incurred by the bank and the effect it has on the result there being changes in the interest rates in the market. The analysis shows effective maturity for the interest-bearing part of the balance sheet. The longer funds are fixed in the case of a placement, the bigger is the potential loss or gain following an increase or a fall in the interest rates in the market. The Group has a short interest-fixing period overall and the interest rate risk is deemed to be moderate. The table below shows the potential impact on the overall result of changes in value of financial assets and liabilities for the Group by an increase in interest rates of one percentage point. The calculation is based on the current positions and market interest rates at 31 December, and confirms the bank's low risk tolerance for changes in value due to interest rate developments. Potential effect of a 1-year period of an interest rate change of 1 percentage point is NOK 61 million.

GROUP - 2017	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
NOK	8	7	7	-9	-3	10
Cur	1	3	-1	-4	0	-1
Total	9	10	6	-13	-3	9

GROUP - 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
NOK	5	3	1	-10	-1	-2
Cur	1	1	-1	-2	0	-1
Total	6	4	0	-12	-1	-3

PARENT BANK - 2017	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
NOK	-3	16	6	-7	-2	10
Cur	1	3	-1	-4	0	-1
Total	-2	19	5	-11	-2	9

PARENT BANK - 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
NOK	-5	12	-1	-7	0	-1
Cur	1	1	-1	-2	0	-1
Total	-4	13	-2	-9	0	-2

Note 12.2

FOREIGN EXCHANGE RISK

Sparebanken Møre measures foreign exchange risk on the basis of its net positions in the different currencies involved. The bank's foreign exchange risk is incurred in connection with the bank's operations of foreign exchange transactions done on behalf of customers and with other banks. It is a main principle that all transactions involving customers shall immediately be hedged by doing opposite transactions in the market so that the bank's foreign exchange risk is reduced to a minimum level. The bank does not trade on its own account as far as foreign currency instruments are concerned. All balance sheet items in foreign currencies are converted into Norwegian kroner at the middle rate from Norges Bank as at 31 December. For notes and coins, approximate purchase prices are applied. Current income and costs are converted into Norwegian kroner at the prices ruling on transaction date. Net realised and unrealised gains or losses are included in the income statement. Throughout the year, unintentional foreign exchange risk has been at a minimum level.

GROUP - 2017	Total	NOK	Currency	Of which: USD	EUR	JPY	CHF	Other
Cash and claims on Norges Bank	637	635	2		2			
Loans to and receivables from credit institutions	1 295	1 253	42	1	8	6	12	15
Loans to and receivables from customers	56 867	53 824	3 043	942	509	23	1 117	452
Certificates and bonds	6 096	5 386	710		415			295
Other assets	1 596	1 538	58	13	34		5	6
Total assets	66 491	62 636	3 855	956	968	29	1 134	768
Loans and deposits from credit institutions	569	562	7	6				1
Deposits from customers	32 803	32 562	241	202	22	6		11
Debt securities issued	24 488	21 444	3 044		3 044			
Other liabilities	1 215	1 207	8	5				3
Subordinated loan capital	1 338	1 338	0					
Equity	6 078	6 078	0					
Total liabilities and equity	66 491	63 191	3 300	213	3 066	6	0	15
Forward exchange contracts			-540	-741	2 102	-23	-1 129	-749
Net exposure foreign exchange			15	2	4	0	5	4
Effect of a 10 per cent change in price	2							

GROUP - 2016	Total	NOK	Currency	Of which: USD	EUR	JPY	CHF	Other
Cash and claims on Norges Bank	300	297	3		3			
Loans to and receivables from credit institutions	649	550	99	18	57	11	2	11
Loans to and receivables from customers	52 691	49 830	2 861	1 019	569	25	1 216	32
Certificates and bonds	6 199	5 509	690		465			225
Other assets	1 754	1 724	30	11	11	1	6	1
Total assets	61 593	57 910	3 683	1 048	1 105	37	1 224	269
Loans and deposits from credit institutions	658	196	462	7	454			1
Deposits from customers	32 562	32 339	223	154	47	12		10
Debt securities issued	20 363	19 140	1 223		557			666
Other liabilities	1 251	1 215	36	2	13	1		20
Subordinated loan capital	1 318	1 318	0					
Equity	5 441	5 441	0					
Total liabilities and equity	61 593	59 649	1 944	163	1 071	13	0	697
Forward exchange contracts			-1 722	-881	-30	-24	-1 217	430
Net exposure foreign exchange			17	4	4	0	7	2
Effect of a 10 per cent change in price (MNOK)	2							

PARENT BANK - 2017	Total	NOK	Currency	Of which: USD	EUR	JPY	CHF	Other
Cash and claims on Norges Bank	637	635	2		2			
Loans to and receivables from credit institutions	2 497	2 455	42	1	8	6	12	15
Loans to and receivables from customers	35 832	32 789	3 043	942	509	23	1 117	452
Certificates and bonds	6 461	5 751	710		415			295
Other assets	2 486	2 428	58	13	34		5	6
Total assets	47 913	44 058	3 855	956	968	29	1 134	768
Loans and deposits from credit institutions	654	647	7	6				1
Deposits from customers	32 820	32 579	241	202	22	6		11
Debt securities issued	6 090	6 090	0					
Other liabilities	1 154	1 146	8	5				3
Subordinated loan capital	1 338	1 338	0					
Equity	5 857	5 857	0					
Total liabilities and equity	47 913	47 657	256	213	22	6	0	15
Forward exchange contracts			-3 584	-741	-942	-23	-1 129	-749
Net exposure foreign exchange			15	2	4	0	5	4
Effect of a 10 per cent change in price (MNOK)	2							

PARENT BANK - 2016	Total	NOK	Currency	Of which: USD	EUR	JPY	CHF	Other
Cash and claims on Norges Bank	300	297	3		3			
Loans to and receivables from credit institutions	1 789	1 690	99	18	57	11	2	11
Loans to and receivables from customers	33 011	30 150	2 861	1 019	569	25	1 216	32
Certificates and bonds	7 863	7 173	690		465			225
Other assets	2 569	2 539	30	11	11	1	6	1
Total assets	45 532	41 849	3 683	1 048	1 105	37	1 224	269
Loans and deposits from credit institutions	929	467	462	7	454			1
Deposits from customers	32 575	32 352	223	154	47	12		10
Debt securities issued	4 284	4 284	0					
Other liabilities	1 192	1 156	36	2	13	1		20
Subordinated loan capital	1 318	1 318	0					
Equity	5 234	5 234	0					
Total liabilities and equity	45 532	44 811	721	163	514	13	0	31
Forward exchange contracts			-2 945	-881	-587	-24	-1 217	-236
Net exposure foreign exchange			17	4	4	0	7	2
Effect of a 10 per cent change in price (MNOK)	2							

Note 12.3

FINANCIAL DERIVATIVES

Financial derivatives are contracts entered into in order to hedge an already existing interest- and foreign exchange risk incurred by the bank. Financial derivatives are recognised at fair value, with value changes recognised in the income statement, and are capitalized on a gross basis per contract as assets or liabilities respectively. The estimated fair value of financial OTC derivatives is adjusted for counterparty credit risk (CVA) or for the Group's own credit risk (DVA).

The table shows the financial derivatives' nominal values and their market values. In the accounts, positive market value per contract is shown as an asset, whereas a negative market value is shown under liabilities in the balance sheet. The table includes both financial derivatives for customer transactions, incorporated under Net gains/losses from financial instruments, and financial derivatives in the bank's portfolio, recognised in Net interest income.

	2017			2016		
GROUP	Nominal value	Asset	Liability	Nominal value	Asset	Liability
Interest rate related contracts						
Swaps	12 166	365	261	14 299	522	352
Foreign exchange related						
Swaps	4 263	238	103	2 722	153	75
FX forward	9 203	361	89	9 765	491	129
Earned interest		40	30		58	24
Total financial derivatives		1 004	483		1 224	580
- hereof applied in hedge accounting	4 958	374	0	3 606	301	13

	2017			2016		
PARENT BANK	Nominal value	Asset	Liability	Nominal value	Asset	Liability
Interest rate related contracts						
Swaps	10 116	185	261	12 249	318	336
Foreign exchange related						
Swaps	1 363	3	100	1 602	2	75
FX forward	9 203	361	89	9 765	491	129
Earned interest		15	30		45	36
Total financial derivatives		564	480		856	576
- hereof applied in hedge accounting	277	17	0	1 342	33	0

The table shows the value of derivative contracts, covered by set-off agreements or secured by cash under Credit Support Annex (CSA). For customer transactions, limits are established based on necessary formal credit-handling procedures where sufficient security is demanded for the limit. For banking counterparties, the counterparty risk associated with changes in market conditions is regulated through CSA agreements. Sparebanken Møre practices cash collateral with these counterparties. As at 31.12.2017, Sparebanken Møre has a cash collateral of MNOK 585.

Maturity of financial derivatives, nominal value
GROUP

Maturity	2017			2016		
	Interest rate swaps	Interest rate and foreign exchange swaps	Forward exchange contracts	Interest rate swaps	Interest rate and foreign exchange swaps	Forward exchange contracts
2017	-	-	-	2 579	1 287	9 454
2018	1 973	307	8 971	1 603	304	304
2019	1 201	705	175	1 253	367	7
2020	2 260	309	29	2 246	296	
2021	1 214	216	4	1 163	208	
2022	2 475	2 482	4	2 351	46	
2023	365	21	4	389		
2024	318		4	322		
2025	1 501		4	1 715		
2026	426		4	367		
2027	270		4	251		
2028	106	223			214	
2032	57			60		
	12 166	4 263	9 203	14 299	2 722	9 765

PARENT BANK

Maturity	2017			2016		
	Interest rate swaps	Interest rate and foreign exchange swaps	Forward exchange contracts	Interest rate swaps	Interest rate and foreign exchange swaps	Forward exchange contracts
2017	-	-	-	2 579	639	9 454
2018	1 973	307	8 971	1 603	304	304
2019	1 201	705	175	1 253	367	7
2020	2 260	40	29	2 246	38	
2021	1 214	216	4	1 163	208	
2022	1 475	74	4	1 351	46	
2023	365	21	4	389		
2024	318		4	322		
2025	451		4	665		
2026	426		4	367		
2027	270		4	251		
2028	106					
2032	57			60		
	10 116	1 363	9 203	12 249	1 602	9 765

Note 13

SUBORDINATED LOAN CAPITAL AND ADDITIONAL TIER 1 CAPITAL

GROUP AND PARENT BANK

ISIN.NR.	Currency	Issue	Maturity	Terms	31.12.2017
NO0010671928	NOK	22.02.2013	2018	3 mnth NIBOR + 2,50	334
NO0010809304	NOK	31.10.2017	2023	3 mnth NIBOR + 1,55	502
NO0010791692	NOK	03.05.2017	2022	3 mnth NIBOR + 1,46	200
Subordinated loan capital					1 036

ISIN.NR.	Currency	Issue	Maturity	Terms	31.12.2017
NO0010532765	NOK	10.09.2009	2019	11,70 %	302
Additional Tier 1 Capital					302

ISIN.NR.	Currency	Issue	Maturity	Terms	31.12.2017
NO0010796154	NOK	15.06.2017	2022	3 mnth NIBOR + 3,25	349
Additional Tier 1 Capital					349

The Additional Tier 1 capital NO0010532765 is classified as liability. This is, like previous years, presented as a liability in the bank's balance sheet, as the bank has interpreted the agreement in a manner which does not give the bank an unconditional right to, at any time, refrain from paying interests.

The Additional Tier 1 capital NO0010796154 is classified as equity in the balance sheet and is included in the Tier 1 capital. Based on the fact that the bank has a unilateral right not to pay interest or principal to investors, it does not qualify as debt under IAS 32. The interest cost is not presented in the income statement, rather as a reduction of retained earnings. The cost is recognised by payment. Interests totalling NOK 7.3 mill has been paid in 2017. An additional NOK 0.7 mill has incurred in interest expense by year-end, so that together NOK 6 mill of the profit after tax are allocated to the owners of Additional Tier 1 capital.

There is no option to convert the subordinated loan capital/additional tier 1 capital to EC-capital (Equity Certificates). The Group had no investments in subordinated loan capital in other enterprises (including financial institutions) at the end of 2017. Loan agreements are made available on the bank's website.

Note 14

DEBT SECURITIES

The debt securities in the Parent bank consist of bonds and certificates quoted in Norwegian kroner. Møre Boligkreditt AS has issued covered bonds quoted in NOK and EUR.

The bank's loans at floating interest rates are assessed at amortised cost. Loans at fixed interest rates are assessed by using fair value hedging, with value changes recognised in the income statement. The bank hedges the value of interest rate and FX-risk on an individual basis. There is a clear, direct and documented relationship between value changes relating to the hedging instrument and the hedged object. The relationship is documented through a test of the hedging effectiveness when entering into the transaction and through the period of the hedging relationship. Hedging gains and losses result in an adjustment of the balance sheet value of hedged loans. The hedging adjustments are amortised over the remaining period of the hedging by adjusting the loans' effective interest rate if the hedging no longer is effective, if hedging is discontinued or by other termination of hedging. By applying this principle, one establishes a correct accounting presentation which is in accordance with the bank's interest rate and FX management and the actual financial development.

Financial instruments in fair value hedging

GROUP					PARENT BANK			
2016		2017			2017		2016	
Nominal value	Book value	Nominal value	Book value		Nominal value	Book value	Nominal value	Book value
3 606	3 930	4 958	5 266	Value secured debt securities with changes in value recognised in the income statement	277	292	1 342	1 409
3 606	301	4 958	374	Financial derivatives applied in hedge accounting	277	17	1 342	33

Changes in value of financial instruments in fair value hedging recognised in the income statement

GROUP				PARENT BANK	
2016	2017			2017	2016
74	-92	Value secured debt securities with changes in value recognised in the income statement		16	46
-72	90	Financial derivatives applied in hedge accounting		-17	-43
2	-2	Total		-1	3

Debt securities

GROUP				PARENT BANK	
2016	2017			2017	2016
-	-	Certificate debt, nominal value		-	-
20 018	24 017	Bond debt, nominal value		6 082	4 238
95	58	Earned interest		8	40
250	413	Value adjustments		-	6
20 363	24 488	Total debt securities		6 090	4 284

Changes in debt securities

GROUP

	Balance sheet 31.12.16	Issued	Overdue/ redeemed	Other changes	Balance sheet 31.12.17
Certificate debt, nominal value	-				-
Bond debt, nominal value	20 018	8 313	6 080	1 766	24 017
Earned interest	95			-37	58
Value adjustments	250			163	413
Total debt securities	20 363	8 313	6 080	1 892	24 488

PARENT BANK

	Balance sheet 31.12.16	Issued	Overdue/ redeemed	Other changes	Balance sheet 31.12.17
Certificate debt, nominal value	-				-
Bond debt, nominal value	4 238	4 950	3 200	94	6 082
Earned interest	40			-32	8
Value adjustments	6			-6	-
Total debt securities	4 284	4 950	3 200	56	6 090

Maturity of securities-based debt, nominal value

GROUP

PARENT BANK

2016	2017	Maturity	2017	2016
3 333		2017		1 888
4 100	3 459	2018	1 382	1 600
3 250	4 000	2019	1 500	750
5 264	6 844	2020	1 100	
1 800	5 100	2021	2 100	
1 000	3 363	2022		
1 050	1 050	2025		
221	201	2028		
20 018	24 017	Total	6 082	4 238

Note 15

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the balance sheet at the date when the Group becomes a party to the contractual provisions of the instrument. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or the company transfers the financial asset in such a way that risk and profit potential of the financial asset is transferred. Financial liabilities are derecognised from the date when the rights to the contractual provisions have been fulfilled, cancelled or expired.

CLASSIFICATION

The Group's portfolio of financial instruments is at initial recognition classified in accordance with IAS 39. The bank's classes of financial instruments and the measurement basis for these are the following:

- Financial assets and derivatives held for trading (trading portfolio)
- Financial assets and liabilities assessed at fair value, any changes in value recognised through the income statement
- Instruments held as available for sale, assessed at fair value, any changes in value recognised in other comprehensive income
- Loans and receivables
- Financial liabilities assessed at amortised cost

Financial assets and derivatives held for trading

Financial derivatives are contracts signed to mitigate an existing interest rate or currency risk incurred by the bank. Financial derivatives are recognised at fair value, gross per contract as an asset or liability in the balance sheet, with value changes posted against the income statement.

The Group's criteria for classification of the trading portfolio are the following:

- Positions in financial instruments held for the Group's own account for the purpose of selling and/or financial instruments acquired by the Group in order to take advantage on a short-term basis of any differences between purchase- and sale prices or any other price- and interest rate fluctuations.
- Positions held by the Group in order to hedge other parts of the trading portfolio
- Other commitments related to positions being a part of the trading portfolio

Financial assets and liabilities assessed at fair value, any changes in value recognised through the income statement

The Group's portfolio of bonds in the liquidity portfolio is classified at fair value through the income statement as this portfolio is managed based on fair value. The Group's portfolio of fixed interest rate loans and deposits are classified to avoid accounting mismatch in relation to the underlying interest rate swaps.

Losses and gains as a result of value changes of those assets and liabilities which are assessed at fair value, with any value changes being recognised in the income statement, are included in the accounts during the period in which they occur.

Instruments held as available for sale, assessed at fair value, any changes in value recognised in other comprehensive income

The Group's portfolio of shares, not classified as held for trading, are classified as available for sale, with any value changes shown in other comprehensive income. Realised gains and losses, as well as impairment below cost, are recognised in the income statement during the period in which they occur.

Loans and receivables

All loans and receivables, including leasing, with the exception of fixed interest rate loans, are assessed at amortised cost, based on expected cash flows. The difference between the issue cost of the securities and the settlement amount at maturity, is amortised over the lifetime of the loan.

Financial liabilities assessed at amortised cost

Debt securities, including debt securities included in fair value hedging, loans and deposits from credit institutions and deposits from customers without agreed maturity, are valued at amortised cost based on expected cash flows. The portfolio of own bonds is shown in the accounts as a reduction of the debt.

LEVELS IN THE VALUATION HIERARCHY

The valuation of financial instruments are classified into different levels based on the quality of market data for each type of instrument.

Level 1 – Valuation based on prices in an active market

Level 1 comprises financial instruments valued by using quoted prices in active markets for identical assets or liabilities. This category includes listed shares and mutual funds, as well as bonds and certificates traded in active markets.

Level 2 – Valuation based on observable market data

Level 2 comprises financial instruments valued by using information which is not quoted prices, but where prices are directly or indirectly observable for assets or liabilities, including quoted prices in inactive markets for identical assets or liabilities. This category mainly includes debt securities issued, derivatives and bonds not included in level 1.

Level 3 – Valuation based on other than observable market data

Level 3 comprises financial instruments which can not be valued based on directly or indirectly observable prices. This category mainly includes loans to and deposits from customers, as well as shares.

GROUP - 2017	Financial instruments at fair value in the income statement		Financial instruments assessed at amortised cost	Financial instruments assessed as held available for sale
	Trading	At fair value		
Cash and claims on Norges Bank			637	
Loans to and receivables from credit institutions			1 295	
Loans to and receivables from customers		3 923	52 944	
Certificates and bonds		6 096		
Shares and other securities				188
Financial derivatives	1 004			
Total financial assets	1 004	10 019	54 876	188
Loans and deposits from credit institutions			569	
Deposits from customers		1 340	31 463	
Financial derivatives	483			
Debt securities issued			24 488	
Subordinated loan capital and Additional Tier 1 capital			1 338	
Total financial liabilities	483	1 340	57 858	-

GROUP - 2016	Financial instruments at fair value in the income statement		Financial instruments assessed at amortised cost	Financial instruments assessed as held available for sale
	Trading	At fair value		
Cash and claims on Norges Bank			300	
Loans to and receivables from credit institutions			649	
Loans to and receivables from customers		4 744	47 947	
Certificates and bonds		6 199		
Shares and other securities	2			131
Financial derivatives	1 224			
Total financial assets	1 226	10 943	48 896	131
Loans and deposits from credit institutions			658	
Deposits from customers		1 254	31 308	
Financial derivatives	580			
Debt securities issued			20 363	
Subordinated loan capital and Additional Tier 1 capital			1 318	
Total financial liabilities	580	1 254	53 647	-

PARENT BANK - 2017	Financial instruments at fair value in the income statement		Financial instruments assessed at amortised cost	Financial instruments assessed as held available for sale
	Trading	At fair value		
Cash and claims on Norges Bank			637	
Loans to and receivables from credit institutions			2 497	
Loans to and receivables from customers		3 923	31 909	
Certificates and bonds		6 461		
Shares and other securities				188
Financial derivatives	564			
Total financial assets	564	10 384	35 043	188
Loans and deposits from credit institutions			654	
Deposits from customers		1 340	31 480	
Financial derivatives	480			
Debt securities issued			6 090	
Subordinated loan capital and Additional Tier 1 capital			1 338	
Total financial liabilities	480	1 340	39 562	-

PARENT BANK - 2016	Financial instruments at fair value in the income statement		Financial instruments assessed at amortised cost	Financial instruments assessed as held available for sale
	Trading	At fair value		
Cash and claims on Norges Bank			300	
Loans to and receivables from credit institutions			1 789	
Loans to and receivables from customers		4 744	28 267	
Certificates and bonds		7 863		
Shares and other securities	2			131
Financial derivatives	856			
Total financial assets	858	12 607	30 356	131
Loans and deposits from credit institutions			929	
Deposits from customers		1 254	31 321	
Financial derivatives	576			
Debt securities issued			4 284	
Subordinated loan capital and Additional Tier 1 capital			1 318	
Total financial liabilities	576	1 254	37 852	-

Interest income is recognised as income using the effective interest rate method. This implies interest income being recognised when received plus amortisation of establishment fees. The effective interest rate is set by discounting contractual cash flows within the expected term. All fees exceeding direct transaction costs related to interest-bearing loans and borrowings are included in the calculation of the balance sheet item's effective interest rate and are amortised over the expected term.

Recognition of interest income using the effective interest rate method is used for both balance sheet items valued at amortised cost, and balance sheet items valued at fair value through the income statement, with the exception of establishment fees on loans at fair value which are recognised as income when earned. Interest income on impaired loans is calculated as the effective interest rate on the impaired value. Interest income on financial instruments is included in the line item "Net interest income".

Interest income

GROUP			PARENT BANK	
2016	2017		2017	2016
189	169	Interest income on financial assets assessed at fair value	177	191
1 594	1 618	Interest income on financial assets assessed at amortised cost	1 111	1 122
1 783	1 787	Total interest income	1 288	1 313

Interest costs

GROUP			PARENT BANK	
2016	2017		2017	2016
13	18	Interest costs on financial liabilities assessed at fair value	18	13
688	669	Interest costs on financial liabilities assessed at amortised cost	429	457
701	687	Total interest costs	447	470

Note 16

FINANCIAL INSTRUMENTS AT AMORTISED COST

Loans are assessed at fair value at first assessment, with the addition of direct transaction costs. When determining the loan's value at the time of transaction (transaction price), establishment fees are deducted and subject to accrual accounting over the lifetime of the loan as part of the loan's effective interest rate. Loans are subsequently assessed at amortised cost by applying the effective interest rate method. The effective rate of interest is the rate at the signing time which exactly discounts estimated, future cash flows over the loan's expected lifetime, down to the net value of the loan as shown in the balance sheet. By conducting this calculation, all cash flows are estimated, and all contract-related terms and conditions relating to the loan are taken into consideration. Fair value of the instruments traded in active markets is based on traded price on the balance sheet date. For those financial instruments not traded in an active market, own valuations based on current market conditions are applied, alternatively valuations from another market player.

GROUP	2017		2016	
	Fair value	Book value	Fair value	Book value
Cash and claims on Norges Bank	637	637	300	300
Loans to and receivables from credit institutions	1 295	1 295	649	649
Loans to and receivables from customers	52 944	52 944	47 947	47 947
Total financial assets	54 876	54 876	48 896	48 896
Loans and deposits from credit institutions	569	569	658	658
Deposits from customers	31 463	31 463	31 308	31 308
Debt securities issued	24 575	24 488	20 366	20 363
Subordinated loan capital and Additional Tier 1 capital	1 363	1 338	1 352	1 318
Total financial liabilities	57 970	57 858	53 684	53 647

PARENT BANK	2017		2016	
	Fair value	Book value	Fair value	Book value
Cash and claims on Norges Bank	637	637	300	300
Loans to and receivables from credit institutions	2 497	2 497	1 789	1 789
Loans to and receivables from customers	31 909	31 909	28 267	28 267
Total financial assets	35 043	35 043	30 356	30 356
Loans and deposits from credit institutions	654	654	929	929
Deposits from customers	31 480	31 480	31 321	31 321
Debt securities issued	6 106	6 090	4 295	4 284
Subordinated loan capital and Additional Tier 1 capital	1 363	1 338	1 352	1 318
Total financial liabilities	39 603	39 562	37 897	37 852

GROUP - 2017	Based on prices in an active market	Observable market information	Other than observable market information	Total
	Level 1	Level 2	Level 3	
Cash and claims on Norges Bank		637		637
Loans to and receivables from credit institutions		1 295		1 295
Loans to and receivables from customers			52 944	52 944
Total financial assets	-	1 932	52 944	54 876
Loans and deposits from credit institutions		569		569
Deposits from customers			31 463	31 463
Debt securities issued		24 575		24 575
Subordinated loan capital and Additional Tier 1 capital		1 363		1 363
Total financial liabilities	-	26 507	31 463	57 970

GROUP - 2016	Based on prices in an active market	Observable market information	Other than observable market information	Total
	Level 1	Level 2	Level 3	
Cash and claims on Norges Bank		300		300
Loans to and receivables from credit institutions		649		649
Loans to and receivables from customers			47 947	47 947
Total financial assets	-	949	47 947	48 896
Loans and deposits from credit institutions		658		658
Deposits from customers			31 308	31 308
Debt securities issued		20 366		20 366
Subordinated loan capital and Additional Tier 1 capital		1 352		1 352
Total financial liabilities	-	22 376	31 308	53 684

PARENT BANK - 2017	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Cash and claims on Norges Bank		637		637
Loans to and receivables from credit institutions		2 497		2 497
Loans to and receivables from customers			31 909	31 909
Total financial assets	-	3 134	31 909	35 043
Loans and deposits from credit institutions		654		654
Deposits from customers			31 480	31 480
Debt securities issued		6 106		6 106
Subordinated loan capital and Additional Tier 1 capital		1 363		1 363
Total financial liabilities	-	8 123	31 480	39 603

PARENT BANK - 2016	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Cash and claims on Norges Bank		300		300
Loans to and receivables from credit institutions		1 789		1 789
Loans to and receivables from customers			28 267	28 267
Total financial assets	-	2 089	28 267	30 356
Loans and deposits from credit institutions		929		929
Deposits from customers			31 321	31 321
Debt securities issued		4 295		4 295
Subordinated loan capital and Additional Tier 1 capital		1 352		1 352
Total financial liabilities	-	6 576	31 321	37 897

Note 17

FINANCIAL INSTRUMENTS AT FAIR VALUE

Financial instruments are recognised at fair value at the time of entering into the agreement. Fair value of the instruments traded in active markets is based on the traded price on the balance sheet date. Financial instruments not traded in an active market are assessed by applying the bank's own valuations based on currently applicable market conditions, or, alternatively, value assessment provided by another player in the market. Financial instruments which are assessed at fair value, but not traded in an active market, consist of the portfolios of fixed interest rate loans, -deposits, more complex products and unlisted shares. Acquisition cost, or impaired value, is applied for unlisted shares where a sufficiently reliable assessment of fair value cannot be made. Transaction costs relating to financial assets and liabilities recognised at fair value, with changes in value recognised through the income statement, are not recognised in the balance sheet.

A change in the discount rate of 10 basis points would result in a change of approximately NOK 10 million on fixed rate loans and no significant effect on fixed rate deposits.

GROUP - 2017	Based on prices in an active market	Observable market information	Other than observable market information	Total
	Level 1	Level 2	Level 3	
Cash and claims on Norges Bank				-
Loans to and receivables from credit institutions				-
Loans to and receivables from customers			3 923	3 923
Certificates and bonds	4 261	1 835		6 096
Shares and other securities	19		169	188
Financial derivatives		1 004		1 004
Total financial assets	4 280	2 839	4 092	11 211
Loans and deposits from credit institutions				-
Deposits from customers			1 340	1 340
Debt securities issued				-
Subordinated loan capital and Additional Tier 1 capital				-
Financial derivatives		483		483
Total financial liabilities	-	483	1 340	1 823

GROUP - 2016	Based on prices in an active market	Observable market information	Other than observable market information	Total
	Level 1	Level 2	Level 3	
Cash and claims on Norges Bank				-
Loans to and receivables from credit institutions				-
Loans to and receivables from customers			4 744	4 744
Certificates and bonds	4 167	2 032		6 199
Shares and other securities	5		128	133
Financial derivatives		1 224		1 224
Total financial assets	4 172	3 256	4 872	12 300
Loans and deposits from credit institutions				-
Deposits from customers			1 254	1 254
Debt securities issued				-
Subordinated loan capital and Additional Tier 1 capital				-
Financial derivatives		580		580
Total financial liabilities	-	580	1 254	1 834

PARENT BANK - 2017	Based on prices in an active market	Observable market information	Other than observable market information	Total
	Level 1	Level 2	Level 3	
Cash and claims on Norges Bank				-
Loans to and receivables from credit institutions				-
Loans to and receivables from customers			3 923	3 923
Certificates and bonds	4 201	2 260		6 461
Shares and other securities	19		169	188
Financial derivatives		564		564
Total financial assets	4 220	2 824	4 092	11 136
Loans and deposits from credit institutions				-
Deposits from customers			1 340	1 340
Debt securities issued				-
Subordinated loan capital and Additional Tier 1 capital				-
Financial derivatives		480		480
Total financial liabilities	-	480	1 340	1 820

PARENT BANK - 2016	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Cash and claims on Norges Bank				-
Loans to and receivables from credit institutions				-
Loans to and receivables from customers			4 744	4 744
Certificates and bonds	3 766	4 097		7 863
Shares and other securities	5		128	133
Financial derivatives		856		856
Total financial assets	3 771	4 953	4 872	13 596
Loans and deposits from credit institutions				-
Deposits from customers			1 254	1 254
Debt securities issued				-
Subordinated loan capital and Additional Tier 1 capital				-
Financial derivatives		576		576
Total financial liabilities	-	576	1 254	1 830

Approach to valuation of financial instruments in Level 3 of the fair value hierarchy:

Fixed rate loans and deposits:

There have been no significant changes in the approach to the valuation of fixed-rate loans and deposits in 2017. Fair value is calculated based on contractual cash flows discounted at a market interest rate matching the rates applicable to the corresponding fixed-rate loans and deposits at the balance sheet date. In 2017 a total of NOK 6 million is recognised as a result of changes in value including changes in credit spreads on fixed rate loans. In the income statement, the change in value is presented under Other operating income.

Shares:

Shares presented in level 3 of the valuation hierarchy are primarily the bank's investment in Eksportfinans ASA (MNOK 73) and the bank's claim on Visa Norway (NOK 22 million).

The bank's ownership in Eksportfinans ASA is valued based on its relative share of Eksportfinans' equity, adjustment made for unrealized changes in value of underlying financial investments and borrowings in Eksportfinans. In the valuation a liquidity discount of 20 per cent is deducted. The value of Eksportfinans is increased by NOK 4 million in 2017.

GROUP - Level 3 reconciliation	Loans to and receivables from customers	Shares	Deposits from customers
Book value as at 31.12.2016	4 744	128	1 254
Purchases/additions	272	49	579
Sales/reduction	1 073	4	493
Transferred to Level 3			
Transferred from Level 3			
Net gains/losses in the period	-20	-4	
Book value as at 31.12.2017	3 923	169	1 340

PARENT BANK - Level 3 reconciliation	Loans to and receivables from customers	Shares	Deposits from customers
Book value as at 31.12.2016	4 744	128	1 254
Purchases/additions	272	49	579
Sales/reduction	1 073	4	493
Transferred to Level 3			
Transferred from Level 3			
Net gains/losses in the period	-20	-4	
Book value as at 31.12.2017	3 923	169	1 340

Note 18

SUBSIDIARIES

GROUP STRUCTURE

Company	Home country	Core operations	Ownership share	Voting share
Møre Eiendomsmegling AS	Norway	Real estate brokerage	100%	100%
Sparebankeiendom AS	Norway	Real estate management	100%	100%
Møre Boligkreditt AS	Norway	Funding	100%	100%
The Parent Bank Sparebanken Møre	Norway	Bank		

Transactions involving subsidiaries

These are transactions between the Parent Bank and wholly-owned subsidiaries which have been done at arm's length and at arm's length's prices. Price terms and conditions for transactions with subsidiaries are also shown in Note 19.

Settlement of financing costs and -income between the different segments is done on an ongoing basis using the Parent Bank's funding cost. The internal rate of interest for this is defined as the effective 3-month NIBOR + a funding supplement for long-term financing (1.65 per cent in 2017 and 1.83 per cent in 2016).

Rent is allocated according to the floor space used for each segment, based on the same principles and the same prices as those applicable to the Parent Bank, at market rent.

Other services (office supplies, IT-equipment etc.) are bought by the segment involved from the Parent Bank at the same price as the Parent Bank obtains from external suppliers.

There are transactions between Sparebanken Møre and Møre Boligkreditt AS related to the transfer of loan portfolio to Møre Boligkreditt AS, as well as Sparebanken Møre providing loans and credits to the mortgage company. The economic conditions for the transfer of loans from Sparebanken Møre are market value. If mortgages with fixed interest rates are purchased, the price will be adjusted for premium/discount.

Sparebanken Møre is responsible for ensuring that loans transferred to Møre Boligkreditt AS are properly established and in accordance with the requirements set forth in the agreement between the mortgage company and the Parent Bank. In case of violation of these requirements, the Bank will be liable for any losses that the mortgage company would experience as a result of the error. Sparebanken Møre and Møre Boligkreditt AS have formalised settlement of interest for transaction days from the date of transfer of the portfolio of loans to the date of settlement of the consideration.

To ensure timely payment to holders of covered bonds (OMF) and associated derivatives, a revolving credit facility ("Revolving Credit Facility Agreement") is established between Sparebanken Møre and Møre Boligkreditt AS. Sparebanken Møre guarantees timely coupon payments and payments linked to derivatives on outstanding covered bonds from Møre Boligkreditt AS, and repayment of principal on the covered bonds maturing in the ongoing next 12 months. In addition to the revolving credit facility, Møre Boligkreditt AS has a credit facility in Sparebanken Møre with an allocated limit of NOK 2 250 million.

The pricing of services provided to Møre Boligkreditt AS from Sparebanken Møre distinguishes between fixed and variable costs for the mortgage company. Fixed costs are defined as costs which the mortgage company must bear, regardless of the activity related to the issuance of covered bonds, acquisition of portfolio etc. Variable costs are defined as costs related to the size of the portfolio acquired from Sparebanken Møre, and the work that must be exercised by the Bank's staff to provide adequate services given the number of customers in the portfolio.

The most important transactions that have been eliminated in the Group accounts are as follows:

PARENT BANK	2017	2016
Statement of income		
Interest and credit commission income from subsidiaries	28	27
Received dividend and group contribution from subsidiaries	156	176
Rent paid to Sparebankeiendom AS	17	16
Administration fee received from Møre Boligkreditt AS	30	26
Statement of financial position		
Claims on subsidiaries	1 328	1 270
Covered bonds	425	2 186
Liabilities to subsidiaries	102	284
Accumulated loan portfolio transferred to Møre Boligkreditt AS	21 164	19 815

Note 19

OPERATING SEGMENTS

The operations in the Group are divided into three strategic business areas/segments, according to type of services, customers and products involved, also being reporting segments according to IFRS 8. The classification corresponds to the structure in the ongoing reporting to the CEO and the Board of Directors, defined as the primary decision makers. The different operating segments partly sell different products, have a somewhat different risk profile, but target many of the same groups of customers.

The classification into different operating segments and financial information relating to segments are presented in the table below. Most of the income and operating costs involved apply to the Bank's different operating segments according to actual usage or according to activity-based distribution formulae. Segment profit is presented before tax. Tax is not allocated to the segments.

Transactions between different operating segments are based on market values/prices, similar to transactions with subsidiaries. Please see note 18 for additional information on terms.

The Group is divided into following three primary segments:

Primary segments	Company name	Product/operations
Corporate	Sparebanken Møre	Financing, payment transmissions, saving/placement, advisory services etc.
Retail	Sparebanken Møre	Financing, payment transmissions, saving/placement, advisory services etc.
	Møre Boligkreditt AS 1)	Financing (loans made against mortgages)
Real estate brokerage	Møre Eiendomsmegling AS	Real estate brokerage services

1) Loans to housing associations from Møre Boligkreditt AS are recognised in the commercial segment.

Geographical segments

The Group's operations are mainly limited to Møre og Romsdal which is defined as the Group's home market. In view of this, balance sheet and income statement figures are not split into geographical segments. Activities in areas other than the home county are not different from the Group's other activities with regard to risk or return. Please see note 4 and note 6 for further information. Eliminations/other include Sparebankeiendom AS, handling real estate management of the Group's own properties.

Result - 2017	Group	Eliminations/ other	Corporate	Retail 1)	Real estate brokerage
Net interest income	1 100	-20	422	698	0
Other operating income	242	35	93	96	18
Total income	1 342	15	515	794	18
Operating costs	590	101	113	358	18
Profit before impairment	752	-86	402	436	0
Impairment on loans, guarantees etc.	13	-5	17	1	0
Pre tax profit	739	-81	385	435	0
Taxes	182				
Profit after tax	557				

Key figures - 2017	Group	Eliminations/ other	Corporate	Retail 1)	Real estate brokerage
Loans to customers 1)	56 867	943	16 815	39 109	0
Deposits from customers 1)	32 803	567	11 231	21 005	0
Guarantee liabilities	1 717	0	1 706	11	0
The deposit-to-loan ratio	57.7	60.1	66.8	53.7	0.0
Man-years	359	155	51	140	13

Result - 2016	Group	Eliminations/ other	Corporate	Retail 1)	Real estate brokerage
Net interest income	1 082	-36	433	685	0
Other operating income	281	85	87	92	17
Total income	1 363	49	520	777	17
Operating costs	586	102	115	349	20
Profit before impairment	777	-53	405	428	-3
Impairment on loans, guarantees etc.	22	20	6	-4	0
Pre tax profit	755	-73	399	432	-3
Taxes	181				
Profit after tax	574				

Key figures - 2016	Group	Eliminations/ other	Corporate	Retail 1)	Real estate brokerage
Loans to customers 1)	52 691	824	15 508	36 359	0
Deposits from customers 1)	32 562	480	12 083	19 999	0
Guarantee liabilities	1 741	0	1 730	11	0
The deposit-to-loan ratio	61.8	58.3	77.9	55.0	0
Man-years	378	150	55	159	14

1) The subsidiary, Møre Boligkreditt AS, is part of the Bank's Retail segment. The mortgage company's main objective is to issue covered bonds for both national and international investors, and the company is part of Sparebanken Møre's long-term financing strategy. Key figures for Møre Boligkreditt AS are displayed in a separate table.

MØRE BOLIGKREDITT AS		
Statement of income	2017	2016
Net interest income	261	242
Other operating income	-13	0
Total income	248	242
Operating costs	38	33
Profit before impairment on loans	210	209
Impairment on loans, guarantees etc.	-3	1
Pre tax profit	213	208
Taxes	48	52
Profit after tax	165	156
Statement of financial position	2017	2016
Loans to and receivables from customers	21 162	19 810
Equity	1 667	1 509

Note 20

OTHER OPERATING INCOME

All fees receivable relating to payment transactions are recognised in the income statement on an ongoing basis. Commissions and fees derived from the sale or brokerage of shares, unit trust certificates, property or similar investment objects which do not generate balance sheet items in the bank's accounts, are included as income in income statement when they are accrued. Customer transactions with financial instruments will generate revenue in the form of margins and brokerage which is booked as income once the trade has been completed. Margin income may have been realised when the contract has been entered into, but may also include a credit risk premium relating to the customer's ability to settle any liabilities incurred as a result of future changes in the contract's market value. If the margin incorporates a credit risk premium, this will be included in the income statement as it is being accrued. Dividends on shares are recognised as income once the dividends have been finally approved.

GROUP				PARENT BANK	
2016	2017		Note	2017	2016
2	2	Dividends and other income from securities with variable yields	18	158	178
38	35	Guarantee commission		35	38
17	18	Income from the sale of insurance services		18	17
11	8	Income from the sale of shares in unit trusts/securities		8	11
21	28	Income from discretionary asset management		28	21
12	13	Various fees relating to loans		13	12
2	2	Inter-bank fees		2	2
11	12	Fees relating to cheques and giro payments		12	11
50	49	Fees from cards		49	50
8	9	Fees from international payment transmission services		9	8
19	22	Other fees and commission income		21	19
189	196	Commission income and revenues from banking services		195	189
-28	-26	Commission costs and expenditure in respect of banking services		-26	-28
-94	-20	Fixed interest loans		-20	-94
83	26	Derivatives related to fixed interest loans		26	83
160	-87	Issued bonds and certificates		13	46
-160	67	Derivatives related to issued bonds and certificates		-17	-43
41	-10	Gains/losses on shares		-10	41
24	23	Gains/losses on bonds		23	21
33	38	Trading in FX (on behalf of customers)		38	33
11	9	Other income		7	12
98	46	Net gains/losses from securities and foreign exchange	<u>14 17</u>	60	99
2	2	Operating revenues from real estate		0	2
17	18	Income from real estate brokerage		0	0
0	3	Gains on sale of buildings		3	0
1	1	Other operating income		33	26
20	24	Total other operating income		36	28
281	242	Total non-interest income	<u>19</u>	423	466

Note 21

OPERATING COSTS EXCL. PERSONNEL COSTS

GROUP			PARENT BANK	
2016	2017		2017	2016
84	88	IT-costs	88	84
12	9	Telephone/postage/office supplies	9	12
10	9	Travel costs/car allowance on a per kilometer basis/representation	9	10
13	17	Marketing costs	17	13
5	5	Other administration costs	4	4
124	128	Total administration costs	127	123
32	31	Depreciation of fixed and intangible assets	27	26
29	28	Property costs	41	39
3	3	Fees paid to External Auditor	2	2
16	18	Costs relating to fixed assets	18	16
3	3	Capital tax	3	3
44	44	Other operating costs	31	33
95	96	Total other operating costs	95	93
251	255	Total operating costs	249	242

Note 22

RENTAL AGREEMENTS

All of the Bank's rental agreements are operational.

Rental of business premises

The Bank rents 28 of its business premises from external lessors, as well as 2 from the Bank's wholly-owned real estate management company, Sparebankeiendom AS. Please see note 25 for further information about the business premises.

	2017	2016
Rent paid to:		
Sparebankeiendom AS	16	15
Other external lessors	20	19

Duration of rental agreements

Rental agreements with external lessors are mainly of 10 years' duration (some are for 1 year) with a 12 months' period of notice for both parties and rental at market prices. Rental agreements with the subsidiary Sparebankeiendom AS have a 1-month period of notice and are for one year at the time. The rent is market price.

Contract-related future rental costs (nominal amounts)	Within 1 year	1 to 5 years	Above 5 years
Sparebankeiendom AS	16	0	0
Other external lessors	20	81	101
Total	36	81	101

Other significant agreements

The Group has outsourced most of the operations within the IT-area. In 2015, Sparebanken Møre entered into a new agreement with the company EVRY ASA, for delivery of the Bank's IT services. The total value of the agreement is approximately NOK 185 million, and it expires in 2019, with an option to extend for further two years. Sparebanken Møre continues the cooperation of a complete range of banking solutions and operating services from EVRY.

EVRY delivers solutions that support key banking services such as deposits, financing, card and payment processing, accounting and reporting, message distribution and customer interaction services, self-service channels and solutions for branch offices. Along with these solutions, EVRY delivers operation of all banking systems and infrastructure.

Note 23

SALARIES AND TRANSACTIONS WITH RELATED PARTIES

GROUP			PARENT BANK	
2016	2017	(Amounts in NOK million)	2017	2016
234	231	Wages, salary and other cash-based benefits	218	222
2	3	Fees paid to members of the Board of Directors and the General Meeting	3	2
17	11	Bonus/profit sharing 1)	11	17
25	25	Pension costs (note 24)	25	25
41	37	Employers' social security contribution	37	40
	14	Financial activity tax	14	
16	14	Other personnel costs	14	16
335	335	Total wages and salary costs	322	322
		Manning levels		
398	376	Number of employees as at 31.12	362	382
404	387	Average number of employees	372	387
378	359	Number of man-years as at 31.12	346	364
383	366	Average number of man-years	353	368

1) Part of the bonus (about 50 per cent) for 2017 and 2016 was given in the form of ECs (MORG), purchased at current share price in the market at the time. The total number of ECs purchased was about 25 000 in 2017 and about 45 000 in 2016.

As at 31.12.2017, the Bank had no obligations in relation to its Chief Executive Officer (CEO), the members of the Board of Directors or other employees regarding any special payment on termination or change of employment or positions, except a 6-month severance pay for the CEO. Furthermore, there are no accounting-related obligations relating to bonuses, profit sharing, options or similar for any of the abovementioned persons. Regarding the bonus schemes in the Group, see the discussion in the NUES-document paragraph 12. The CEO's contract includes a 6-month period of notice. Reference is also made to note 24, containing a description of pension schemes. All salaries and other remuneration for the Group's employees and related parties are charged to the income statement at the end of the accounting year. Pension costs are an accounting-related expense for the Bank, including the payment of premiums relating to the various pension schemes.

GROUP - Wages, salaries, other remuneration and pensions

Trond Lars Nydal was EVP in the Retail Banking Division until 31 March 2017. On 1 April 2017, he was employed as CEO. Salary paid to the CEO (Nydal) amounted to NOK 2 224 086 in 2017. Estimated value of benefits in kind totalled NOK 156 804. In addition, NOK 118 207 has been charged to the income statement related to the CEO's pension agreement (note 24). Olav Arne Fiskerstrand was CEO until 31 March 2017. Salary paid to former CEO amounted to NOK 1 117 826 in 2017 (2016: NOK 2 381 753). Estimated value of benefits in kind totalled NOK 400 981 (2016: NOK 421 302). In addition, NOK 667 382 (2016: NOK 6 794 395) has been charged to the income statement related to the former CEO's pension agreement, including employer's social security contributions.

Wages and salaries/fees to elected bodies

GROUP (Amounts in NOK thousand)	2017	2016
General Meeting	277	264
Board of Directors	1 628	1 382
Fees paid to External Auditor (including value added tax)	3 512	3 116
- hereof fee for statutory audit	1 987	1 988
- hereof other attestation services	700	475
- hereof tax-related advisory services	196	186
- hereof other non-audit services	629	467

Loans, deposits and guarantees

GROUP (Amounts in NOK million)	2017			2016		
	Loans	Deposits	Guarantees	Loans	Deposits	Guarantees
General Meeting	39	9	0	50	15	0
Board of Directors	19	5	0	16	5	0
Employees	990	145	0	995	145	0

Ordinary customer terms and conditions have been applied to loans and other commercial services provided for members of the Bank's General Meeting and the Board of Directors.

Interest rate subsidy relating to loans extended to the Group's staff

The total benefit in kind relating to loans provided at a rate of interest lower than the interest rate (average 2,2 per cent in 2017) which triggers a basis for taxing such benefits in kind to the employees has been estimated at NOK 3 032 064 compared to NOK 4 158 893 in 2016.

Interest income and interest costs related to the General Meeting and Board of Directors

(Amounts in NOK million)	2017	2016
Interest income	0	0
Interest costs	1	1

Wages, salaries, other remuneration and pensions - PARENT BANK

Amounts in NOK thousand	Wages/salaries		Other remuneration		Pension costs	
	2017	2016	2017	2016	2017	2016
General Meeting						
Jan Kåre Aurdal	43					
Former chairman:						
Kjersti Kleven		24				
Other members 3)	234	258				
Total	277	282				
Board of Directors						
Leif-Arne Langøy, Chairman	402	367	6			
Roy Reite, Deputy Chairman	205	166				
Ragna Brenne Bjerkeset	185	146				
Henrik Grung	194	200				
Elisabeth Maråk Støle	179	103				
Ann Magritt Bjåstad Vikebakk	179	190				
Helge Karsten Knudsen, employees elected representative 1)	164	140				
Marie Rekdal Hide, employees elected representative 2)	120	0				
Former board members:						
Turid Håndlykken Sylte, employees elected representative		70				
Total	1 628	1 382	6			
CEO						
Trond Lars Nydal	2 224		157		118	
Former CEO:						
Olav Arne Fiskerstrand	1 118	2 382	401	421	667	6 794
Executive Management in 2017						
EVP, Retail Banking Division, Elisabeth Blomvik	633		15			
EVP, Corporate Banking Division, Terje Krøvel	1 502	1 463	169	178		
EVP, Organizational Development, Kjetil Hauge	1 122		37			
EVP, Treasury and Markets, Runar Sandanger	1 408	1 353	131	121		
EVP, Finance and Facilities Management, Idar Vattøy	1 344	1 332	129	147		
EVP, Risk Management and Compliance, Erik Røkke	1 264	1 255	98	136		
EVP, Business Support, Perdy Lunde	1 255	1 248	93	106		
EVP, Communications and Group Support, Tone S. Gjerdsbakk	1 172	1 064	132	116		
Former Executive Management:						
EVP, Retail Banking Division, Trond Lars Nydal		1 495		188		
EVP, Romsdal and Nordmøre Corporate Banking, Kolbjørn Heggdal		1 411		126		
EVP, Søre Sunnmøre Corporate Banking, Kjell Jan Brudevoll		1 214		108		
Total Executive Management	9 701	11 835	805	1 226		

Fees paid to External Auditor (including value added tax)

Fees paid to External Auditor	2 232	2 053
- hereof fee for statutory audit	1 575	1 575
- hereof other attestation services	0	17
- hereof tax-related advisory services	116	111
- hereof other non-audit services	542	350

1) Ordinary salary amounts to NOK 499 449 (2016: NOK 487 198)

2) Ordinary salary amounts to NOK 502 923

2) Deputy chairman and members of the General Meeting are compensated with NOK 3 000 per meeting in 2017. Two meetings have been held in 2017.

Loans and guarantees

Amounts in NOK thousand	2017		2016	
	Loans	Guarantees	Loans	Guarantees
General Meeting				
Jan Kåre Aurdal, Chairman	2 248			
Former chairman:				
Kjersti Kleven			4 876	0
Other members (39 members in 2017 and 43 members in 2016)	38 699	0	50 107	0
Board of Directors				
Leif-Arne Langøy, Chairman	2	0	172	0
Roy Reite, Deputy Chairman	0	0	0	0
Ragna Brenne Bjerkeset	3 616	0	2 539	0
Henrik Grung	0	0	0	0
Elisabeth Maråk Støle	0	0	0	0
Ann Magritt Bjåstad Vikebakk	6 633	0	6 917	0
Helge Karsten Knudsen, employees elected representative	4 827	0	4 839	0
Marie Rekdal Hide, employees elected representative	3 900	0		
Former Board members:				
Turid Håndlykken Sylte, employees elected representative			1 589	0
CEO				
Trond Lars Nydal	4 934	0	925	0
Former CEO:				
Olav Arne Fiskerstrand	0	0	0	0
Employees	989 690	0	995 182	0

Ordinary customer terms and conditions have been applied to loans and other commercial services provided for members of the Bank's General Meeting and Board of Directors.

Loans to the CEO and employees elected representative are given according to staff conditions.

Note 24

PENSION COSTS AND LIABILITIES

The Group has two pension plans, a defined benefit plan and a defined contribution plan. The Group also participates in the statutory early retirement pension (SERP) scheme.

The Group's pension plans meet the requirements in the regulations regarding pensions.

Benefit-based pension scheme in own pension fund

The Group has provided its employees with pensions defined as benefit based schemes (retirement pensions). The benefit based scheme is guaranteed through payments to the bank's pension fund. The existing benefit based pension plan was closed to new members as at 31 December 2009. With effect from 31.12.2015 the benefit based scheme was further closed by transferring all employees born in 1959 or later from the defined benefit scheme to the defined contribution scheme.

Pension costs and pension liabilities relating to the defined benefit scheme are recognised in accordance with IAS 19.

The pension liabilities are valued annually by an actuary, based on assumptions determined by the bank.

The pension liabilities and pension costs are determined by applying a straight line accrual formula. A straight line accrual formula spreads the accrual of future pension benefits on a straight line basis over the time of pension accruals, the accrued pension entitlements for staff during the period in question being regarded as the pension costs for the year. Net pension costs are included in personnel expenses in the financial statements.

Pension liabilities are calculated as the present value of future, probable pension payments and are based on economic and actuarial computations and assumptions. The difference between calculated, incurred liability and the value of the pension resources is shown in the balance sheet. Actuarial gains and losses due to changed assumptions or discrepancies between expected and actual return on the pension resources, is recognized in the period they occur in other income and costs in the statement of comprehensive income.

The discount rate is based on the interest rate on corporate bonds with high credit ratings. The Norwegian covered bond market is deemed to possess the characteristics required for use as the basis for calculating the discount rate.

Expected return on pension resources is calculated using the same interest rate used for discounting pension liabilities. Return in excess of the discount rate is recognised in other income and costs in comprehensive income.

The introductions of new schemes or changes to existing schemes that have retroactive effect, such that the employees have immediately earned a paid-up policy (or a change to a paid-up policy), are recognised in the income statement immediately. Gains or losses linked to restrictions or terminations of pension plans are recognised in the income statement when they occur.

The portion of the Group's pension scheme which is defined benefit, entitles employees to agreed future pension benefits equaling the difference between 70 per cent of leaving salary at vesting age of 67 years and estimated benefits from the Norwegian National Insurance Scheme, assuming full vesting (30 years). This liability comprises 88 (95) active members and 245 (248) pensioners by the end of 2017.

Contribution based pension scheme

The Group's contribution based pension schemes are delivered by DNB and a percentage of income is paid into the scheme, depending on the individual's level of income, and the payments are expensed as they occur. The contribution based pension scheme has contribution rates of 7 % of salary in the range up to 7.1 times the national insurance basic amount (G) and 15 % of salary in the range from 7.1 to 12 G. Pension payments are expensed as they occur and are recognised in Wages, salaries etc. in the income statement.

The bank's subsidiary Møre EiendomsMegling AS has provided a contribution based pension scheme for its employees. The contribution represents 3 % of the employee's salary.

The Group's costs related to the contribution based pension schemes amounted to NOK 11 million in 2017 (NOK 12 million in 2016).

Pension agreement for the Bank's CEO

The CEO has a retirement age of 65 years. He has a contribution based pension scheme equivalent to the rest of the employees in the bank.

Statutory early retirement pension (SERP)

The Group participated in the statutory early retirement pension (SERP) scheme for the financial industry, which meant that all employees with retirement age 67 years could choose to take early retirement from and including the age of 62. A decision was taken to wind up this scheme in February 2010 and it was only possible to take early retirement pursuant to the old scheme before 31 December 2010. A new SERP scheme was established as a replacement for the old SERP scheme. Unlike the old scheme, the new SERP scheme is not an early retirement scheme, but a scheme that provides a lifelong addition to the ordinary pension. Employees covered by the new scheme, and who meets the requirements, can choose to join the new SERP scheme from the age of 62, including in parallel with staying in work, and by working until 67 years old it provides additional earnings. The new SERP scheme is a defined benefit based multi-enterprise pension scheme, and is funded through premiums which are determined as a percentage of pay. The premium for 2017 was set at 2.5 per cent of total payments between 1 G (G = the national insurance basic amount) and 7.1 G to the company's employees between 13 and 61 years old. For 2018 the premium is set at 2.5 per cent. The scheme does not involve the building up of a fund and the level of premiums is expected to increase in the coming years. At the moment, there is no reliable measurement and allocation of the liabilities and funds in the scheme. The scheme is treated in the financial statements as a contribution based pension scheme in which premium payments of NOK 4 million in 2017 (NOK 4 million in 2016) are recognised as costs on an ongoing basis and no provisions are made in the financial statements.

The figures in the table below are equal for the Parent Bank and the Group.

Financial and actuarial assumptions

	Liabilities		Costs	
	2017	2016	2017	2016
Rate of discounting/expected return on pension resources	2.40	2.60	2.60	2.50
Wages and salary adjustment	2.50	2.25	2.25	2.50
Pension adjustment	-	-	-	-
Adjustment of the National Insurance's basic amount	2.25	2.00	2.00	2.25
Employers' social security contribution	19.10	19.10	19.10	14.10
Table for mortality rate etc	K 2013BE	K 2013	K 2013BE	K 2013
Disability tariff	IR02	IR02	IR02	IR02

Pension costs in ordinary result

	2017	2016
Present value of pension accruals during the year including administration costs	5	6
Interest cost of incurred pension liabilities	8	8
Expected return on pension resources	-8	-7
Net effect of the transition to a defined contribution scheme	0	0
Net pension cost for the pension fund	6	7
Change in present value of pension accruals relating to other pension schemes	1	0
Payments/pension costs charged to the profit and loss account, incl. payments according to the defined-contribution scheme and the statutory early retirement pension (SERP)	18	18
Total pension costs	25	25

Specification of estimate deviations in comprehensive income

	2017	2016
Change in the rate of discounting	-9	5
Change in other financial assumptions	-14	-4
Estimate deviations on pension funds	11	-9
Total estimate deviations	-12	-8

Total pension liabilities/-funds

	2017	2016
Pension liabilities	334	328
Value of pension resources	-322	-321
Net pension liabilities/-funds relating to the pension fund	11	7
Net pension liabilities relating to members of the Bank's executive management/bank managers	33	33
Total net pension liabilities/-funds	44	40

Funded pension liabilities

	2017	2016
Pension liabilities as at 01.01	328	346
Pension accruals for the year	5	6
Pension payments	-15	-14
Interest costs	8	8
Employers' social security contribution	-2	-4
Actuarial gains/losses	9	-14
Pension liabilities as at 31.12	334	328

Funded pension resources

	2017	2016
Pension resources as at 01.01	321	315
Total amount paid in	10	33
Pensions paid out	-15	-14
Expected return	8	7
Actuarial gains/losses	-1	-20
Pension resources as at 31.12	322	321

Estimated payment for 2018 amounts to NOK 10 million.

Pension liabilities - other pensions

	2017	2016
Pension liabilities as at 01.01	33	28
Pension accruals for the year	0	3
Pension payments	-3	-1
Interest costs	1	2
Actuarial gains/losses	1	2
Pension liabilities as at 31.12	33	33

Sensitivity analysis

	Change in the rate of discounting	Effect on the liability as at 31.12.2017	Effect on the pension cost in 2017
The funded plan	0.5	-6.4	-6.1
The funded plan	-0.5	7.0	6.7
Unfunded schemes	0.5	-5.0	-
Unfunded schemes	-0.5	5.7	-

The sensitivity analysis above is based on a change in the discount rate, given that all other factors remain constant.

Sensitivity calculations are performed using the same method as the actuarial calculation for the calculation of the pension liability in the balance sheet.

Historic development

	2017	2016	2015	2014	2013
Pension liabilities incl. employers' social security contribution	334	328	346	485	373
Pension resources	-322	-321	-315	-447	-428
Pension liabilities SERP and other pensions	33	33	28	29	30
Total net pension liabilities/-funds	44	40	59	68	-25

Management of the pension fund`s Resources

Sparebanken Møre has its own pension fund managing payments of the pension benefits at a vesting age of 67 years.

The capital shall be managed in consideration of security, the diversification of risk, return and liquidity. The pension fund shall manage the assets in such a way that the correct compliance with the insurance liabilities involved is secured and safeguarded. In particular, the management of the pension fund shall ensure security over time against the background of the pension fund's long-term liabilities.

Within the framework of appropriate security and risk diversification, the pension fund shall over time make every effort to achieve the best possible return on the assets under management.

The long-term aspect of the asset management implies that the pension fund must undertake both interest rate and market risk in order to be assured a moderate extra return in addition to a risk-free placement rate of interest.

The pension fund shall ensure that it has sufficiently good liquidity in order to make all its expected payments.

The pension fund has invested NOK4 million in a bond issued by Sparebanken Møre, in addition to 4 575 ECs issued by Sparebanken Møre. Beyond this the pension fund has not invested in financial instruments issued by Sparebanken Møre or in properties owned or used by the bank.

The pension fund has a deposit of NOK12 million (NOK30 million in 2016) with Sparebanken Møre.

Investment profile - pension resources

	2017		2016	
	Fair value	Percentage	Fair value	Percentage
Shares	81	15.5	45	8.8
Bonds/certificates	366	70.0	370	72.6
Bank deposits	76	14.5	95	18.6
Total pension resources	523	100.0	510	100.0

NOK 322 million (NOK 321 million) of the total pension resources of NOK 523 million (NOK 510 million) are related to the defined benefit scheme in Sparebanken Møre. The remaining NOK 201 million (NOK 189 million) are related to issued paid-up policies, administered by the bank's pension fund.

Return on pension resources

	2017	2016
Total pension resources	4.69	5.79

Note 25

FIXED ASSETS

Fixed assets are valued at historical cost, including direct attributable cost, less accumulated depreciation and impairment. When assets are sold or disposed of, the cost price and accumulated depreciation are reversed in the accounts, and any gains or losses from the sale are shown in the income statement. The cost price of fixed assets is defined as the purchase price, including levies, indirect taxes and direct acquisition costs relating to preparing the asset for use. Costs incurred after the bank has started using the asset, including repairs and maintenance, are shown as costs in the income statement.

If the acquisition cost of a component is substantial in relation to the total acquisition cost, and the time of usage involved is significantly different, substantial fixed assets are broken down for depreciation purposes into separate components.

Depreciation is calculated by applying the straight-line method over the following time periods, taking into account the residual value:

Assets	Time period depreciation
Building plots and sites	Are not depreciated
Holiday properties	Are not depreciated
Buildings	50 years
Technical installations	10 years
Fixtures and fittings	8-10 years
Cars	5 years
Office machines	5 years
IT-equipment	3-5 years

An annual reassessment is made of remaining life and residual values for each separate asset. At each reporting date, fixed assets are assessed as to whether there are indications of impairment. If there are such indications, the assets' recoverable amounts are calculated. The recoverable amount is the higher of fair value less sales costs, and the value of use. When assessing impairment, the fixed assets are grouped together at the lowest level in which it is possible to separate independent cash flows (cash flow-generating units). A cash flow-generating unit is defined as the smallest identifiable group generating cash flows, which to a very large extent is independent of other assets or groups. The book value of an asset is immediately impaired to the recoverable amount, if the book value is higher.

Similarly, an assessment is made in order to ascertain whether the basis for previous impairment still exists. If the basis for previous years' impairment no longer is present, the previous years' impairments are reversed and included in the income statement. Fixed assets are thus shown at their historical value, less accumulated depreciation and accumulated losses in the case of impairment.

Assets which separately are of minor importance, for instance PCs and other office equipment, are not assessed individually for residual values, economic life or permanent impairment, rather assessed as groups.

Assets under construction are classified as fixed assets and shown in the accounts at the incurred costs relating to the asset. Assets under construction are not depreciated until they are put in use. Any gains or losses from the sale of fixed assets are incorporated in the income statement on an ongoing basis.

Buildings and plots are fully owned by bank's subsidiary, Sparebankeiendom AS. The buildings are only intended for own use relating to the operations of the bank, and are therefore not defined as investment properties. The buildings are located in the Group's geographical home market, the county of Møre og Romsdal. The aggregate floor space is about 10 000 square meters, of which some 500 square meters are rented to external tenants. Only smaller parts of the premises are vacant at present (about 1 400 square meters), and there are only commercial premises in the buildings. The buildings are recognized in the accounts at historical cost less accumulated depreciation and impairment. There is no evidence of impairment of the Group's buildings as at 31.12.2017.

GROUP

31.12.2017	Total	Buildings, incl. tech.install. , building plots/holiday cabins	Cars/IT/office machines	Fixtures and fittings
Acquisition cost as at 01.01	356	270	21	65
Additions	14	7	6	1
Disposals	1	0	1	0
Acquisition cost as at 31.12	369	277	26	66
Accumulated depreciation and impairment as at 01.01	127	59	20	48
Depreciation during the year	15	7	2	6
Impairment during the year	0	0	0	0
Disposals	1	0	1	0
Accumulated depreciation and impairment as at 31.12	141	66	21	54
Carrying amount as at 31.12	228	211	5	12
Straight-line depreciation period (years)		10-50	3-5	8-10
Fully depreciated fixed assets in use	40	0	17	23
Estimated residual value of fixed assets	70			

GROUP

31.12.2016	Total	Buildings, incl. tech.install. , building plots/holiday cabins	Cars/IT/office machines	Fixtures and fittings
Acquisition cost as at 01.01	398	297	37	64
Additions	4	2	1	1
Disposals	46	29	17	0
Acquisition cost as at 31.12	356	270	21	65
Accumulated depreciation and impairment as at 01.01	139	63	35	41
Depreciation during the year	16	8	1	7
Impairment during the year	0	0	0	0
Disposals	28	12	17	0
Accumulated depreciation and impairment as at 31.12	127	59	20	48
Carrying amount as at 31.12	230	211	1	17
Straight-line depreciation period (years)		10-50	3-5	8-10
Fully depreciated fixed assets in use	26	0	16	10
Estimated residual value of fixed assets	74			

PARENT BANK

31.12.2017	Total	Buildings, incl. tech.install. , building plots/holiday cabins	Cars/IT/office machines	Fixtures and fittings
Acquisition cost as at 01.01	106	25	20	61
Additions	13	6	6	1
Disposals	1	0	1	0
Acquisition cost as at 31.12	118	31	25	62
Accumulated depreciation and impairment as at 01.01	70	7	18	45
Depreciation during the year	12	3	3	6
Impairment during the year	0	0	0	0
Disposals	1	0	1	0
Accumulated depreciation and impairment as at 31.12	81	10	20	51
Carrying amount as at 31.12	37	21	5	11
Straight-line depreciation period (years)		10-50	3-5	8-10
Fully depreciated fixed assets in use	39	0	17	22

PARENT BANK

31.12.2016	Total	Buildings, incl. tech.install. , building plots/holiday cabins	Cars/IT/office machines	Fixtures and fittings
Acquisition cost as at 01.01	130	34	36	60
Additions	3	2	1	1
Disposals	27	11	17	0
Acquisition cost as at 31.12	106	25	20	61
Accumulated depreciation and impairment as at 01.01	80	8	33	39
Depreciation during the year	10	3	1	6
Impairment during the year	0	0	0	0
Disposals	20	3	17	0
Accumulated depreciation and impairment as at 31.12	70	7	18	45
Carrying amount as at 31.12	36	18	2	16
Straight-line depreciation period (years)		10-50	3-5	8-10
Fully depreciated fixed assets in use	24	0	16	9

Note 26

INTANGIBLE ASSETS

Intangible assets consist of capitalised costs relating to the acquisition and development of software, licenses etc.

Intangible assets acquired separately are carried in the balance sheet at cost. The cost of intangible assets obtained through acquisition is included in the accounts at fair value in the Group's opening balance sheet. Intangible assets on the balance sheet are carried at cost, reduced by any depreciation and impairment. Intangible assets are depreciated over estimated life-time of use.

Amounts paid for licenses and software are included in the balance sheet and depreciated on a straight-line basis over the expected time of useful economic life, which is normally 5 years. Such products bought are included in the balance sheet at acquisition cost plus the costs incurred in order to prepare the product for use. Impairment assessments are conducted annually. Costs relating to maintenance of software and IT-systems are charged on an ongoing basis to the income statement.

GROUP			PARENT BANK	
2016	2017		2017	2016
103	115	Acquisition cost as at 01.01	114	101
16	11	Additions	11	16
4	0	Disposals	0	3
115	126	Acquisition cost as at 31.12	125	114
55	68	Accumulated depreciation and impairment as at 01.01	67	54
16	16	Depreciation during the year	16	16
0	0	Impairment during the year	0	0
3	0	Disposals	0	3
68	84	Accumulated depreciation and impairment as at 31.12	83	67
48	47	Carrying amount as at 01.01	47	47
47	42	Carrying amount as at 31.12	42	47
20	20	Straight-line depreciation rate	20	20
5	5	Economic life – number of years	5	5

Note 27

OTHER ASSETS

GROUP			PARENT BANK	
2016	2017		2017	2016
10	8	Reposessed assets	8	10
39	39	Capital in Sparebanken Møre`s Pension Fund	39	39
29	28	Other receivables	25	28
78	75	Total other assets	72	77

Reposessed assets amounts to NOK 8 million (NOK 10 million in 2016). This consists of residential properties of NOK 4 million (NOK 4 million in 2016) and plots of NOK 4 million (NOK 6 million in 2016). These properties have mainly been acquired/reposessed as part of the Bank's realization of collateral security. Sparebanken Møre does not wish to remain the owner of reposessed properties. In the event of not obtaining an acceptable price, effort is made to rent out the properties.

Note 28

TAX

Taxation cost consists of payable income tax and change in deferred tax.

Deferred tax/tax benefit is calculated on the basis of the temporary differences, existing between the accounts-related and tax-related value of assets and liabilities at the end of the accounting year. Temporary negative and positive differences which are reversed or which may be reversed during the same period, have been offset and included in the accounts on a net basis.

Deferred tax benefit is included in the accounts when it is likely that the Group will have sufficient tax-related profits in the future to be able to utilize it. On each balance sheet day, the Group reviews the deferred tax benefit included in the accounts and its stated value. If applicable, the Group will reduce the amount of deferred tax benefit to the extent that the Group may no longer be able to utilize it.

Payable tax and deferred tax/tax benefits are shown in comprehensive income to the extent that this relates to items which are shown in comprehensive income. Calculated deferred tax related to pension estimate deviations has been recognised in comprehensive income.

Deferred tax and deferred tax benefits are calculated on the basis of the expected future tax rates applicable to the companies in the Group where temporary differences have materialised. Deferred tax and deferred tax benefits are incorporated in the accounts irrespective of when the differences are going to be reversed. Deferred tax benefit is shown at nominal value.

Sparebanken Møre is subject to financial tax and has therefore a tax rate of 25 per cent both for 2016, 2017 and 2018. For the subsidiaries, the tax rate altered from 25 per cent in 2016 to 24 per cent effective from 2017. The tax rate is further reduced to 23 per cent effective from 2018. For the Parent bank this means that both tax payable and deferred tax are calculated at a tax rate of 25 per cent for all the years. For the subsidiaries, a tax rate of 24 per cent is used both for calculating tax payable for 2017 as well as the deferred tax as of 31 December 2016. For calculating deferred tax as of 31 December 2017, a tax rate of 23 per cent is applied. When calculating tax payable for the subsidiaries in 2016, a tax rate of 25 per cent was applied.

The entire taxation cost is related to Norway.

Tax expense recognised in the income statement

GROUP			PARENT BANK	
2016	2017		2017	2016
172	197	Tax payable	143	117
9	-14	Changes in deferred taxes	-9	12
0	-1	Changes in estimates related to prior years	-1	0
181	182	Taxes	133	129
24.0	24.6	Effective tax rate (tax expense as a percentage of pre-tax profit)	19.6	17.8

Tax expense recognised in the comprehensive income statement

GROUP			PARENT BANK	
2016	2017		2017	2016
-2	-3	Changes in deferred taxes due to pension estimate deviations	-3	-2
-2	-3	Tax expense in comprehensive income	-3	-2

Specification of the difference between the pre-tax profit and the income subject to tax

GROUP			PARENT BANK	
2016	2017		2017	2016
755	739	Pre-tax profit	677	724
-46	-3	Permanent differences related to shares	-159	-223
17	18	Other permanent differences	18	17
-38	43	Changes in temporary differences	36	-49
688	797	Income subject to tax	572	469
172	197	Tax payable (25 per cent for the Parent Bank and 24 per cent for the subsidiaries)	143	117

Specification of temporary differences and the computation of deferred tax

GROUP			PARENT BANK	
2016	2017		2017	2016
		Temporary differences relating to:		
-73	-60	Fixed assets	-82	-100
179	187	Pension liabilities	187	179
2	1	Added value related to transferred portfolio of loans	1	2
-60	-133	Other temporary differences	-127	-62
48	-5	Net negative (-)/positive differences recognised in the income statement	-21	19
-219	-231	Share of net pension liability recognised in other comprehensive income	-231	-219
3	3	Limited partnerships	3	3
-168	-233	Total negative (-)/positive differences	-249	-197
-42	-59	Deferred tax asset (-) or liability (25 per cent for the Parent Bank and 23 per cent for the subsidiaries)	-62	-49

Reconciliation of tax expense and pre-tax profit

GROUP			PARENT BANK	
2016	2017		2017	2016
189	179	25 per cent of pre-tax profit (24 per cent for the subsidiaries)	169	181
-12	-1	Shares 25 per cent (24 per cent)	-40	-56
4	5	Other permanent differences 25 per cent (24 per cent)	5	4
0	-1	Changes in estimates related to prior years	-1	0
181	182	Total taxes	133	129

Note 29

PROFIT-EARNINGS PER EC

The basic earnings per equity certificate (EC) is calculated as the proportion between the year's profit accruing to the Bank's EC holders according to the EC fraction as per 1 January, and the number of issued ECs at year-end, adjusted for any issues that do not provide entitlement to full dividend. The diluted earnings per EC is no different to the basic earnings per EC.

GROUP	2017	2016
Earnings per EC (NOK) 2)	27.70	28.80
Diluted earnings per EC (NOK)	27.70	28.80
EC-holders' share of the profit:		
Profit	551	574
EC-holders' share of the profit according to the EC-fraction 1)	273	285
Weighted number of ECs - the Bank's own portfolio	48 700	100 660
Number of own ECs as at 31.12	44 215	29 850
Number of own ECs as at 01.01	29 850	125 122
Weighted average of outstanding ECs	9 838 254	9 786 294
Number of outstanding ECs as at 31.12	9 842 734	9 857 104
Number of outstanding ECs as at 01.01	9 857 104	9 757 704
Weighted average number of ECs issued	9 886 954	9 886 954
Number of ECs as at 31.12	9 886 954	9 886 954
Number of ECs as at 01.01	9 886 954	9 886 954

1) The EC ratio has been computed on the basis of figures for the Parent Bank which provides the basis for allocation of profit to the EC holders. The fund for unrealised gains was excluded from the computation. The EC ratio was 49.6 per cent in both 2017 and 2016.

2) Earnings per Equity Certificate (EC) is calculated as the EC holders' proportion of the result divided by the number of issued ECs at year-end, adjusted for any issues that do not provide entitlement to full dividend.

Note 30

CAPITAL ADEQUACY

Sparebanken Møre's capital adequacy is calculated in accordance with IRB Foundation for credit risk. Market risk calculations are based on the standard method and operational risk calculations on the basic method.

The minimum requirement for the Common Equity Tier 1 capital ratio (CET1) at the end of the year for Pillar 1 was 12.0%. The countercyclical capital buffer was increased from and including 31 December 2017 to 2%. The Financial Supervisory Authority of Norway set a Pillar 2 supplement of 1.8% for Sparebanken Møre in 2016. The supplement will be reassessed in 2018. The Ministry of Finance set a minimum requirement for the leverage ratio of 3% with effect from 30 June 2017. In addition to this there must be a core capital buffer of at least 2%.

The Board of Sparebanken Møre has set a minimum target for the Group's CET1 of 14.3%. It is emphasised that the various units in the Group at all times have adequate capitalisation. Moreover, assessments of the risk profile, capital requirements and profitability must always be based on the Group's long-term strategic plan. The Group's capital requirements are calculated in the annual ICAAP.

Analyses conducted as part of Sparebanken Møre's 2017 ICAAP show that the Group satisfies the capital requirements by a good margin.

Note 3 "Risk Management" provides further information about Sparebanken Møre's capital structure and relationship to the capital adequacy regulations. Otherwise please refer to the Group's Pillar 3 document, which is available on Sparebanken Møre's website.

In addition to regulatory capital, Sparebanken Møre also calculates financial capital. The level of the financial capital indicates the capital reserves required to cover any unexpected losses the Group may experience. Financial capital is used in the day-to-day management of Sparebanken Møre and provides a basis for business decisions. A risk adjusted equity figure that is distributed across the different segments, departments and customers is calculated based on the distribution of financial capital. It is this risk adjusted equity that provides the basis for, among other things, assessing a department's performance in relation to achieving its return on equity target.

Sparebanken Møre's ICAAP

Sparebanken Møre's ICAAP is tailored to the Group's position in relation to resources, competence, models and experience. The capital requirement assessment is based on an assessment of the risk profile and an assessment of the quality of management and control. The conclusions are based on figures and professional judgements.

Special board-approved guidelines have been drawn up for ICAAP, which is an important and integral part of Sparebanken Møre's annual strategy process. The process normally has to be carried out once a year. However, events can occur making it necessary to carry out/revise the ICAAP more frequently than once a year. The internal guidelines list the events that would require the carrying out of formal assessments in relation to this.

The ICAAP guidelines provide guidance for broad participation from different management levels in Sparebanken Møre, as well as from different departments and sections. The Group's board also actively participates in Sparebanken Møre's ICAAP process, including through its work on strategic plans and revising the Group's central steering documents. The Board receives monthly reports throughout the year on developments with respect to the Group's risk and capital situation.

All material risks are assessed in the calculation of capital requirements. The risks are assessed individually and overall. Model simulations assume both moderate and conservative development perspectives.

An analysis of Sparebanken Møre's risk exposure is designed to provide a picture of the risk prwhich is used as a basis for judging capital requirements. Every risk element is assessed on the basis of probability and consequences (inherent risk) and how Sparebanken Møre could manage/control this risk effectively. Risk reducing measures will reduce the inherent risk, leaving the institution with residual risk. An assessment of the probability and consequences of residual risk also entails an assessment of the capital Sparebanken Møre needs to retain in order to cover unexpected losses from the individual risks. Assessing residual risk also provides a basis for taking steps to limit the risk further.

The Group's internal auditor, BDO, is involved in the Group's ICAAP. The internal auditor is kept up-to-date on the process, gives advice and reviews the documentation sent to the Board. The internal auditor also conducts own risk assessments throughout the year and produces an evaluation/report on Sparebanken Møre's ICAAP. This is included as part of the documentation submitted to the Financial Supervisory Authority of Norway.

Two different types of scenario models and stress tests are run in connection with the ICAAP. One method is based on a financial simulation model linked to the basic alternative in the long-term strategic plan, while the other method focuses on stress testing the credit area. ICAAP takes no account of any diversification effects between different areas of risk.

Sparebanken Møre's Pillar 3 document provides further descriptions of these stress tests and their effects on the Group's capital adequacy.

GROUP			PARENT BANK	
2016	2017		2017	2016
		Tier 1 capital		
989	989	EC capital	989	989
-3	-5	- ECs owned by the Bank	-5	-3
354	355	Share premium fund	355	354
	349	Additional Tier 1 capital	349	
1 092	1 216	Dividend equalisation fund	1 216	1 092
125	125	Gift fund	125	125
2 346	2 470	Primary capital fund	2 470	2 346
51	78	Value adjustment fund	78	51
138	138	Proposed dividend for the EC holders	138	138
141	141	Proposed dividend for the local community	141	141
208	222	Other equity	0	0
5 441	6 078	Total equity	5 857	5 234
-98	-100	Goodwill, intangible assets, other deductions	-100	-98
-14	-14	Value adjustment due to the requirements for prudent valuation	-14	-14
800	254	Additional Tier 1 capital	254	800
-219	-151	Expected losses exceeding actual losses, IRB portfolios	-107	-177
-138	-138	Proposed dividend for the EC holders	-138	-138
-141	-141	Proposed dividend for the local community	-141	-141
5 631	5 788	Total Tier 1 capital	5 610	5 465
4 831	5 185	Common Equity Tier 1 capital	5 007	4 665
		Supplementary capital in addition to Tier 1 capital		
502	530	Subordinated loan capital of limited duration	530	502
0	0	50 per cent deduction for equity in other financial institutions	0	0
502	530	Total supplementary capital	530	502
6 133	6 318	Net subordinated loan capital	6 140	5 967

Exposure classes SA - credit risk

0	0	Central governments or central banks	0	0
14	14	Regional governments or local authorities	13	14
17	3	Public sector companies	3	17
46	36	Institutions (banks etc)	348	350
0	0	Companies (corporate customers)	10	11
0	0	Mass marked (retail banking customers)	0	0
0	0	Secured by mortgage on immovable property	0	0
0	0	Exposures in default	0	0
20	25	Covered bonds	28	34
8	8	Equity	8	8
121	86	Other items	191	214
226	172	Total capital requirements - credit risk, The Standardised Approach	601	648

Exposure classes IRB - credit risk

602	638	Retail - Secured by real estate	338	295
46	47	Retail - Other	47	46
629	682	SME	664	609
415	549	Specialised lending	549	415
465	252	Other corporate lending	252	465
2 157	2 168	IRB-F capital requirements	1 850	1 830
2 383	2 340	Total capital requirements - credit risk	2 451	2 478

Exposure classes SA - marked risk

0	0	Debt	0	0
0	0	Equity	0	0
0	0	Foreign exchange	0	0
29	29	Credit value adjustment risk (CVA)	4	4
29	29	Total capital requirements - market risk	4	4

194	200	Operational Risk (Basic Indicator Approach)	186	174
0	0	Deductions from the capital requirement	0	0
2 606	2 569	Total capital requirements less Transitional Rules	2 641	2 656
35	181	Additional capital requirements from Transitional Rules	0	0
2 641	2 750	Total capital requirements	2 641	2 656

32 553	32 105	Risk-Weighted Assets less Transitional Rules	33 001	33 200
455	2 265	Risk-Weighted Assets Transitional Rules	0	0
33 008	34 370	Risk-Weighted Assets including Transitional Rules	33 001	33 200
1 483	1 542	Minimum requirement Common Equity Tier 1 capital 4.5 %	1 485	1 494

Buffer Requirement

825	859	Capital conservation buffer 2.5 %	825	830
990	1 031	Systemic risk buffer 3.0 %	990	996
495	687	Countercyclical buffer 2.0 % (1.5 % in 2016)	660	498
2 310	2 578	Total buffer requirements	2 475	2 324
1 038	1 065	Available Common Equity Tier 1 capital after buffer requirement	1 047	847

Capital adequacy as a percentage of the weighted asset calculation basis

18.6	18.4	Capital adequacy ratio	18.6	18.0
17.0	16.8	Tier 1 capital ratio	17.0	16.5
14.6	15.0	Common Equity Tier 1 capital ratio	15.2	14.1

Leverage ratio(LR)

8.5	8.2	Leverage Ratio	8.0	8.1
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Note 31

ECS AND OWNERSHIP STRUCTURE

Equity Certificates

At the end of 2017, Sparebanken Møre's EC capital totalled NOK 989 million, consisting of 9 886 954 Equity Certificates, each with a nominal value of NOK 100. In addition to this, the EC holders' capital consists of the dividend equalisation fund, amounting to NOK 1 216 million and the share premium fund, totalling NOK 355 million. According to the Bank's by-laws, there are no limitations with regard to voting rights. Furthermore, no rights/options exist that may result in the issuance of new ECs.

Own Equity Certificates (ECs)

Nominal value of own ECs is shown in the balance sheet separately, as a reduction to issued ECs. Purchase price in excess of nominal value is posted against the primary capital fund and the dividend equalisation fund in accordance to historically adopted distribution. Losses and gains from transactions involving own ECs are posted directly against the primary capital fund and the dividend equalisation fund according to their mutual relationship.

Costs relating to equity transactions

Transaction costs relating to an equity transaction are posted directly against equity.

Dividend policy

The aim of Sparebanken Møre is to achieve financial results providing a good and stable return on the Bank's equity. The results shall ensure that the owners of the equity receive a competitive long-term return in the form of dividends and capital appreciation on their equity. Dividends consist of cash dividends for equity certificate holders and dividends to the local community. The proportion of profits allocated to dividends is adapted to the Bank's capital strength. Sparebanken Møre's allocation of earnings shall ensure that all equity owners are guaranteed equal treatment.

There are no special agreements between the Bank and its owners. The Board of Directors cannot refuse purchase or sale of ECs unless this is covered by the stipulations contained in the Companies Act.

Classification of dividends

Dividends on ECs and dividend funds for the local community are classified as other equity until the Board of Directors' proposal has been agreed by the Bank's annual General Meeting.

Other equity items

The value adjustment fund consists of aggregate net value changes relating to fair value of financial instruments classified as available for sale. Realised gains and losses, as well as impairment, are incorporated in the income statement during the period in which they occur. The Group does not have convertible bonds or any other financial instruments which can be converted into equity.

EC Capital

Sparebanken Møre's EC capital totals NOK 988 695 400, consisting of 9 886 954 certificates, each with nominal value of NOK 100.

The EC capital was raised through nine separate issues:

Year	Issue	Changes in EC capital	Total EC capital	Number of ECs
1988	Public issue	100.0	100.0	1 000 000
1993	Public issue	100.0	200.0	2 000 000
1994	Public issue	150.0	350.0	3 500 000

1996	Public issue	100.0	450.0	4 500 000
1996	Issue, the Bank's staff	1.7	451.7	4 516 604
1998	Public issue	100.0	551.7	5 516 604
1998	Issue, the Bank's staff	0.9	552.6	5 526 154
2008	Dividend issue	42.3	594.9	5 949 153
2009	Rights issue	58.5	653.4	6 534 264
2010	Scrip issue	130.7	784.1	7 841 116
2013	Rights issue	148.6	932.7	9 327 603
2013	Repair issue	54.1	986.8	9 868 144
2013	Issue, the Bank's staff	1.9	988.7	9 886 954

EC holders' share of the profit

Earnings per equity certificate (EC) is calculated as the EC holders' proportion of the profit divided by the number of issued ECs at year-end, adjusted for any issues during the year, not entitled to full dividend. The EC holders' proportion of the profit corresponds to the EC capital's, the dividend equalisation fund's and the share premium fund's proportion of the Bank's total equity at the beginning of the year. If EC capital is expanded during the year in the form of an offering, a time-weighted proportion of the increase is included from and including the payment date.

The 20 largest EC holders in Sparebanken Møre as at 31.12.17	Number of ECs	Percentage share of EC capital
Sparebankstiftelsen Tingvoll	988 500	10.00
Cape Invest AS	633 889	6.41
Verdipapirfond Pareto Aksje Norge	393 401	3.98
Verdipapirfond Nordea Norge Verdi	386 014	3.90
Wenaasgruppen AS	380 000	3.84
MP Pensjon	376 698	3.81
Pareto AS	305 189	3.09
Wenaas Kapital AS	230 161	2.33
FLPS - Princ All Sec	214 513	2.17
Verdipapirfondet Eika egenkapital	176 707	1.79
Beka Holding AS	150 100	1.52
Lapas AS (Leif-Arne Langøy)	113 500	1.15
Fondsfinans Norge	106 000	1.07
Verdipapirfondet Landkreditt Utbytte	100 000	1.01
PIBCO AS	75 000	0.76
Odd Slyngstad	65 215	0.66
Forsvarets personell pensjonskasse	63 660	0.64
Malme AS	55 000	0.56
U Aandals Eftf AS	50 000	0.51
Stiftelsen Kjell Holm	49 850	0.50
Total 20 largest	4 913 397	49.70
Total	9 886 954	100.00

Key financial figures (Parent Bank)

	2017	2016	2015	2014	2013
Price at OSE	262	254	188	216	198
Number of ECs issued	9 886 954	9 886 954	9 886 954	9 886 954	9 886 954
EC capital (NOK mill.)	989	989	989	989	989
Dividend equalisation fund (NOK mill.)	1 216	1 092	935	799	684
Share premium (NOK mill.)	355	354	354	353	353
EC percentage (average in 2013)	49.6	49.6	49.6	49.6	47.7
EC percentage 31.12	49.6	49.6	49.6	49.6	49.6
Dividend per EC, in NOK	14.00	14.00	11.50	13.50	8
Dividend per EC, in NOK as a % of price at OSE 31.12	5.3	5.5	6.1	6.3	4.0
Return (%)	8.7	41.2	-6.7	13.1	31.3
Dividend in % of EC-owners share of adjusted profit 1)	51.8	48.6	44.8	46.4	43.4
Profit per EC, in NOK 1)	27.00	29.85	25.70	29.10	18.45
Book value per EC, in NOK 1) 2)	289	275	257	244	225
P/E 1)	9.4	8.8	7.3	7.4	10.7
P/BV 1)	0.91	0.93	0.73	0.89	0.88

1) Fund for unrealised gains has been excluded from the calculation.

2) Group figures, incl. proposed dividend.

Geographic distribution

Number of owners	2017	2016	2015	2014	2013
Møre og Romsdal	3 633	3 576	3 602	3 565	3 617
Others in Norway	1 939	2 003	2 149	2 244	2 398
Outside Norway	126	136	101	89	99
Total	5 698	5 715	5 852	5 898	6 114

Number of ECs	2017	2016	2015	2014	2013
Møre og Romsdal	5 127 491	5 182 359	4 812 272	4 361 378	4 516 332
Others in Norway	4 216 784	4 059 262	4 554 010	5 076 773	4 964 767
Outside Norway	542 679	645 333	520 672	448 803	405 855
Total	9 886 954	9 886 954	9 886 954	9 886 954	9 886 954

Breakdown by number of Ecs

Number of ECs	Number of ECs	In percentage	Number of owners	In percentage
1 - 100	87 204	0.88	1 849	32.45
101 - 1.000	1 132 803	11.46	2 778	48.75
1.001 - 10.000	2 473 683	25.02	982	17.23
10.001 - 100.000	1 729 099	17.49	76	1.33
Above 100.000	4 464 165	45.15	13	0.23
Total	9 886 954	100.00	5 698	100.00

	Number of ECs		EC capital		Share premium	
	2017	2016	2017	2016	2017	2016
Change in ECs and share premium:						
Ordinary ECs as at 01.01.	9 886 954	9 886 954	989	989	354	354
Changes	0	0	0	0	1	0
Ordinary ECs as at 31.12	9 886 954	9 886 954	989	989	355	354
Bank's own ECs:						
Own ECs as at 01.01	29 847	125 122	3	13		
Changes	14 368	-95 275	2	-10		
Own ECs as at 31.12	44 215	29 847	5	3		

Distributed and proposed dividend

	Total amount (TNOK)
Dividend paid on ECs	
NOK 8.00 per EC in 2014	79 096
NOK 13.50 per EC in 2015	133 474
NOK 11.50 per EC in 2016	113 700
NOK 14,00 per EC in 2017	138 417
Proposed dividend	
NOK 13.50 per EC in 2014	133 474
NOK 11.50 per EC in 2015	113 700
NOK 14.00 per EC in 2016	138 417
NOK 14,00 per EC in 2017 1)	138 417

1) Approved at the annual General Meeting on 21.03.2018. Included in the accounts as other equity as at 31.12.2017.

Elected representatives of the Bank owning/representing ECs as at 31.12.2017

	Number of ECs		Number of ECs
Renate Austrheim	15 145	Roy Reite	2 522
Ragna Brenne Bjerkeset	950	Kjell Martin Rønning	8 000
Mette Brit Bjordal	25 000	Turid Sand	1 219
Bjørn Bjåstad	6 672	Aadne Sandanger	1 007
Kåre Dybvik	1 100	Johan Settem	50 000
Harald Jarle Eriksen	162 600	Åsmund Skår	305 389
Sverre A. Farstad	12 000	Karianne Røsberg Slagnes	898
Linda Rafteseth Grimstad	70	Alf Sollid	700
Ann Magrit Grønningsæter	1 200	Finn Moe Stene	995 800
Marie Rekdal Hide	201	Linda Strømmen	641
Turi Indergaard	1 201	Elisabeth Maråk Støle	180
Ester Sørdal Klungre	278	Stig Rune Sætre	330
Helge Knudsen	1 205	Solfrid Teigen	1 411
Leif-Arne Langøy	113 500	Lilian Thomas	873
Berit Larsen	176	Ann Magritt Bjåstad Vikebakk	6 805
Lars Martin Lunde	376 698	Trude Wenaas	17 500
Lise Løseth	313	Kaj Bang Westre	13 565
Borghild Møller	40 977		

Note 32

EVENTS AFTER THE REPORTING PERIOD

Any new information about the Group's positions on the date of financial position is included in the annual accounts. Events occurring after the date of financial position, which have no impact on the Group's position on the date of financial position, but which will have an impact on the Group's position in the future, are disclosed if they are material.

No events have occurred after the reporting period that will materially affect the figures presented as of 31 December 2017.

Statement

STATEMENT PURSUANT TO SECTION 5-5 OF THE SECURITIES TRADING ACT

We hereby confirm that the Group's and Bank's annual financial statements for the period 1 January 2017 to 31 December 2017, have been, to the best of our knowledge, prepared in accordance with applicable accounting standards and that the information in the financial statements provides a true and fair view of the Group's and Bank's assets, liabilities, financial position and results as a Whole.

We also hereby declare that the annual report provides a true and fair view of the financial performance and position of the Group and the Bank, as well as a description of the principal risks and uncertainties facing the Group and the Bank.

Ålesund, 31 December 2017
21 February 2018

THE BOARD OF DIRECTORS OF SPAREBANKEN MØRE

LEIF-ARNE LANGØY, Chairman
ROY REITE, Deputy Chairman
RAGNA BRENNE BJERKESET
HENRIK GRUNG
ELISABETH MARÅK STØLE
MARIA REKDAL HIDE
HELGE KARSTEN KNUDSEN

TROND LARS NYDAL, CEO

Independent Auditor's report

To the Annual Shareholders' Meeting of Sparebanken Møre

Report on the audit of the financial statements

OPINION

We have audited the financial statements of Sparebanken Møre, which comprise the financial statements for the parent bank and the Group. The financial statements for the bank and the Group comprise the statement of financial position as at 31 December 2017, the statement of income, the statement of comprehensive income, the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the bank and the Group as at 31 December 2017 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

BASIS FOR OPINION

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the bank and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Impairment on loans and losses on guarantees

Net loans to and receivables from customers in the group financial statements represent MNOK 56 867 (86 % of total assets) and off-balance sheet guarantee commitments represent MNOK 1 717. Equivalent figures in the financial statements of the bank are respectively MNOK 35 832 (75 % of total assets) and MNOK 1 717. Impairment on loans and losses on guarantee are calculated individually, for individually significant loans and guarantees where objective evidence of impairment is identified, or collectively for groups of loans and guarantees which are not assessed individually, and for which objective evidence of impairment is identified on a portfolio basis. Identifying engagements with impairments and calculation of losses on loans and guarantees are processes which involve judgement about various assumptions and factors including, but not limited to, the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of impairments on loans and losses on guarantees. Oil and offshore related companies have been subject to increased uncertainty as a consequence of a reduced oil price and a general downturn in related markets. Since the impairments on loans and losses on guarantees in this sector are material and subject to estimation uncertainty, we have assessed impairment on loans and losses on guarantees as a key audit matter.

We assessed the design and tested the operating effectiveness of internal controls over individual and collective loan loss provisions. For individually significant loans and losses on guarantees our procedures included assessing the identification of loss events and testing of assumptions used in the models, including the forecasted future cash flows and the estimated value of underlying collaterals. We also tested the mathematical accuracy of the models. For loan loss provisions calculated on a collective basis, we evaluated the key input variables or assumptions to the models, and where relevant, compared data and assumptions to external benchmarks. We also tested the mathematical accuracy of the models.

See note 5, 7, 8 and 9 in the financial statements for further information.

Financial instruments valued at fair value

Unlisted or illiquid financial instruments valued at fair value are valued based on models that use assumptions that are not observable in the market place. The valuation of these instruments therefore have a higher risk of errors. Such instruments represent assets of MNOK 4 092 and liabilities of MNOK 1 340 in the group financial statements as well as in the financial statements of the bank and are disclosed as level 3 instruments in the valuation hierarchy. Due to the materiality of the unlisted or illiquid instruments, we considered the valuation of these instruments as a key audit matter.

We assessed the design and tested the operating effectiveness of internal controls over the valuation process including management's determination and approval of assumptions and methodologies used in model-based calculations. We assessed input variables in the models against industry practice and valuation guidelines. We also performed independent valuations for selected instruments and used external source data where available. We compared results of our valuations to the bank's valuations.

Level 3 instruments, which are presented at fair value on the statement of financial position, are disclosed in note 15 and 17 in the financial statements.

OTHER INFORMATION

Other information consists of the information included in the bank's annual report other than the financial statements and our auditor's report thereon. The Board and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the bank or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on the Board of Directors' report and on the statement on corporate governance

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements and in the statement on corporate governance, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, it is our opinion that management has fulfilled its duty to ensure that the bank's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Ålesund, 21 February 2018
ERNST & YOUNG AS

Einar Hersvik
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)