ANNUAL REPORT 18

175

VEKST & UTVIKLING

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SPAREBANKEN MØRE

COVER PHOTO

2018 marked the 175th anniversary since the opening of the first bank of what we know today as Sparebanken Møre. In 2018, this was celebrated in different ways in our local communities, among others with two free concerts with Sigrid as one of the artists on stage.

Foto: Scream Media/Martin Litwicki

Content

Key figures Group

Income statement

	2018		2017		2016		2015		2014	
	NOK million	%	NOK million	%	NOK million	%	NOK million	%	NOK million	%
Net interest income	1 179	1.70	1 100	1.72	1 082	1.79	1 098	1.89	1 093	2.01
Net commission and other operating income	207	0.30	194	0.30	182	0.30	193	0.33	180	0.33
Net return from financial investments	41	0.06	48	0.08	99	0.16	12	0.02	135	0.25
Total income	1 427	2.06	1 342	2.10	1 363	2.25	1 303	2.24	1 408	2.59
Total operating costs	603	0.87	590	0.92	586	0.97	561	0.96	564	1.04
Profit before impairment on loans	824	1.19	752	1.18	777	1.28	742	1.28	844	1.55
Impairment on loans, guarantees etc.	16	0.02	13	0.02	22	0.04	50	0.09	22	0.04
Pre tax profit	808	1.17	739	1.16	755	1.24	692	1.19	822	1.51
Tax	203	0.29	182	0.28	181	0.30	189	0.32	199	0.36
Profit after tax	605	0.88	557	0.88	574	0.94	503	0.87	623	1.15

Statement of financial position

NOK million	2018	2017	2016	2015	2014
Total assets	71 074	66 491	61 593	60 120	56 305
Average assets *	69 373	64 000	60 525	58 113	54 455
Loans to and receivables from customers	60 346	56 867	52 691	51 286	48 884
Loans to retail customers	41 917	39 817	37 133	34 822	32 245
Loans to corporate and public entities	18 616	17 168	15 734	16 526	16 817
Deposits from customers	34 414	32 803	32 562	29 389	28 389
Deposits from retail customers	20 624	19 688	18 675	17 829	17 024
Deposits from corporate and public entities	13 790	13 101	13 877	11 550	11 358
Lending growth as a percentage	6.1	7.9	2.7	4.9	5.7
Deposit growth as a percentage	4.9	0.7	10.8	3.5	1.1

* Average assets is calculated as a daily average of the Group's total assets throughout the year.

Key figures

	2018	2017	2016	2015	2014
Return on equity 1)	10.6	10.4	11.6	10.7	14.0
Cost income ratio	42.3	44.0	43.0	43.0	40.1
Losses as a percentage of loans as of 1.1.	0.03	0.02	0.04	0.10	0.05
Gross problem loans as a percentage of loans	0.62	0.57	1.12	0.47	0.80
Net problem loans as a percentage of loans	0.46	0.40	0.98	0.32	0.51
Deposit-to-loan ratio	57.0	57.7	61.8	57.3	58.1
Liquidity Coverage Ratio (LCR)	158	159	91	123	127
Capital adequacy ratio 2)	19.6	18.4	18.6	18.1	15.8
Tier 1 capital ratio 2)	17.6	16.8	17.0	16.6	14.4
Common Equity Tier 1 capital (CET 1) 2)	16.0	15.0	14.6	14.1	12.0
Leverage Ratio (LR)	8.1	8.2	8.5	8.0	7.9
Man-years	361	359	378	388	383
Equity Certificates:					
Profit per EC (Group) (NOK) 3)	29.80	27.70	28.80	25.25	31.20
Profit per EC (Parent Bank) (NOK) 3)	28.35	27.00	29.85	25.70	29.10
Dividend per EC (NOK)	15.50	14.00	14.00	11.50	13.50
EC-fraction 1.1. as a percentage (Parent Bank)	49.6	49.6	49.6	49.6	49.6
Price at Oslo Stock Exchange (NOK)	283	262	254	188	216
Price/Book value (P/B) (Group)	0.93	0.91	0.93	0.73	0.89

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 30 June 2014.

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

Contributing to the region for 175 years

2018 marked the 175th anniversary of the founding of the first bank in today's Sparebanken Møre. The anniversary gave us an opportunity to delve into our history and reflect on our evolution and, not least, celebrate with our local communities.

Trond Lars Nydal
CEO

Our history tells the story of an industry that has seen constant change. It also confirms that Sparebanken Møre has been able to adapt to economic fluctuations, new customer needs and technological advances. At the start of 2019, a strong and well-prepared bank is ready for the next chapter.

Attractive competence centre

Today, Sparebanken Møre is one of the few independent banks that does not belong to an established alliance. We have adhered to our contract banking philosophy since the start. This allows us the flexibility to choose to operate and develop on our own, or with partners where we believe this is best for our customers and the Bank. This model provides us with access to both expertise and networks, although it has also made heavy demands on our organisation. I think this have been crucial to the Bank's positive development.

Expertise is required to assess and prioritise. And over time, the Bank has established a strong culture of training and employee development, with the aim of ensuring our team is as skilled as possible to make wise decisions. As an independent actor, we have a broad range of in-house specialist units and competence, and we are experiencing great interest in our expertise. In 2018 alone, we hired 19 new employees who will each in their own way help developing the Bank.

Strong financial position

To be a competitive bank for our customers, we need to achieve profitable, efficient and solid banking operations. The figures for 2018 show an organisation that is increasing its value creation and has control over its costs, at the same time as we are focusing heavily on organisational development and new technology.

The Bank's strong financial position makes a good platform for further growth and development. In December 2018, the Financial Supervisory Authority of Norway decided to reduce the Bank's Pillar 2 requirement from 1.8 per cent to 1.7 per cent with effect from 31 March 2019. At the same time, Moody's, the ratings agency, confirmed the Bank's high level of creditworthiness in its semi-annual credit assessment. The analysis confirms that the Bank has maintained its A2 rating with stable outlook.

A high deposit-to-loan ratio, good rating and total assets of NOK 71 billion make us an important and competitive source of capital in our region.

Facilitator and contributor

We have to understand what our local communities need and expect from us in order to develop. We operate in a region known for its innovative culture, and we are determined to be both a facilitator and a contributor in this culture. At the end of 2018, we can look back at a number of collaborations that were established with the aim of producing strong centres of competence, local business development and attractive local communities.

We cannot list them all, but we can highlight a few, such as the TEFT Lab, which we opened together with the Norwegian University of Science and Technology (NTNU) in Ålesund in May. At this lab, we have established a strong specialist hub for innovation, finance and technology that will benefit the entire region. In August, Nobel laureate May-Britt Moser had the honour of opening the county's first Newton Room at the Norwegian Maritime Competence Centre (NMK) in Ålesund. The Bank helped to realise the project, which provides pupils in primary, lower secondary and upper secondary education with curriculum-based teaching in natural sciences and technology in new and exciting ways. In December, we also announced that the Bank would take part in the new Ålesund Municipality's Smart City project, which will contribute to improved quality of life for the residents as well as increased value creation for local businesses.

We are also determined to support entrepreneurship in Nordvestlandet in order to help businesses develop. One specific initiative is the NÆRINGSTEFT skills journey, where the Bank facilitates educational sessions, challenges and network, while the entrepreneurs contribute to development and entrepreneurship that can create new jobs in our region. No fewer than 100 entrepreneur teams signed up when we announced the second round of NÆRINGSTEFT in the autumn 2018. This makes me both optimistic and proud of our region.

Proud of our history

Herrøe og Røvde Sparebank represented the beginning in 1843, and today – 175 years later – Sparebanken Møre is the largest bank in the county, with 28 branches in 24 municipalities in Møre og Romsdal.

Our local presence and our strong local commitment have been cornerstones of the Bank's activities ever since the start. So, when planning our 175th anniversary, it was natural for us to include our local communities in the celebrations. As well as donating NOK 175,000 to good projects in every one of the 24 municipalities in which we have a branch, we also invited locals to giant birthday parties in both Ålesund and Molde.

During all these years, we have been a part of thousands of dreams and events in people's lives. We have seen ideas born around a kitchen table or among the rocks on the seashore grow into major companies. We have seen villages and cities grow stronger and prouder, and, not least, we have felt the pride of being part of a region renowned for its vitality, tenacity, stamina and creative enthusiasm.

We are proud of our history, grateful for the trust and looking forward to the next chapter.

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 2018, the Group had 373 permanent staff representing 361 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 44 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
- 17 members and four deputy members are elected by and from the equity certificate holders
- 11 members and four deputy members are elected by and from the employees
- Three 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 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 executive management group forms the cornerstone of Sparebanken Møre's management structure in order to ensure efficient communication and decision-making processes. 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.

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: 6 114

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

Terje Krøvel

Born: 1959 | ECs: 4 752

EVP, Corporate Banking Division since 1 Oct. 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: 408

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: 3 843

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: 5 986

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.

Perdy Karin Lunde

Born: 1957 | ECs: 4 115

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).

Idar Vattøy

Born: 1959 | ECs: 4 788

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).

Tone Skotheim Gjerdsbakk

Born: 1982 | ECs: 2 806

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).

Arild Sulebakk

Born: 1963 | ECs: 394

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).

Kjetil Hauge

Born: 1972 | ECs: 1 859

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).

Equity Certificates (ECs) show stock per EC-holder in Sparebanken Møre as of 31.12.18. ECs owned by related parties are also included (Sec.Tr.Act §2-5 nbr 1,2 and 4).

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 2018	**NOK million**
Net loans to customers	23 409
Debt Securities issued (covered bonds)	22 384
Net interest income	274
Profit after tax	174

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 15 employees and offices in Molde, Ålesund and Ørsta. The company traded 400 properties in 2018. Managing Director of Møre Eiendomsmegling AS is Odd Arild Sæther.

Key Figures 2018	**NOK million**
Turnover	20.3
Profit after tax	1.0
Equity	10.9

"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 2018.

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 it's 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 2018.

Marie Rekdal Hide

Board member | ECs: 268

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 eleven out of eleven board meetings in 2018.

Helge Karsten Knudsen

Board member | ECs: 1 273

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 eleven out of eleven board meetings in 2018.

Ragna Brenne Bjerkeset

Board member | ECs: 950

Ragna Brenne Bjerkeset (1962) graduated as an agronom from the Norwegian University of Life Sciences (UMB) and also holds qualifications in marketing, innovation, management and digital transformation. She has extensive experience from the consulting industry in Møre og Romsdal, from various management positions in both larger groups, SMBs and within public sector. Today she has the position as Process Manager in the innovation company ProtoMore AS.
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 2018.

Ann Magritt B Vikebakk

Board member | ECs: 6 805

Ann Magritt Bjåstad Vikebakk (1977) is the CEO of HG International AS, a company in the Hareid Group. During 2013-2018, she had her own law firm, Bjåstad Vikebakk Advokatfirma AS, principally operating in the areas of taxation law, contracts and real estate property. Vikebakk has previously been employed at the Tax Administration of Norway and at the law firm Schjødt AS. She graduated as a lawyer from the University of Oslo. Ms. Vikebakk has been a board member of Sparebanken Møre since 2014 and holds directorships in several other companies, including Tussa Kraft AS. She lives in the municipality of Hareid. Ms. Vikebakk has attended eleven out of eleven board meetings in 2018.

Henrik Grung

Board member | ECs: 0

Henrik Grung (1970) is partner and lawyer at the law firm SAND, where he is the chairman of the Board of Directors. Grung works primarily with corporate governance, business strategy and industrial development focusing on restructuring, acquisitions and mergers. Grung is specialized in corporate law, commercial negotiations and contracts. 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 eleven out of eleven board meetings in 2018.

Jill Aasen

Board member | ECs: 0

Jill Aasen (1971) is the CFO of Havila AS. She graduated as an auditor from the college in Molde, and has previously worked as an auditor in BDO in Ulsteinvik and as a controller in Tussa Kraft AS. Aasen has board experience from Havila Shipping ASA and also works voluntarily within sports and culture. She has been a deputy member of the Board of Sparebanken Møre since 2014, and a board member since 2018. Aasen lives in the municipality of Herøy. She attended eight out of eight board meetings in 2018.

Equity Certificates (ECs) show stock per EC-holder in Sparebanken Møre as of 31.12.18. ECs owned by related parties are also included (Sec.Tr.Act §2-5 nbr 1,2 and 4).

Board of Directors Report 2018

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 2017 in brackets)

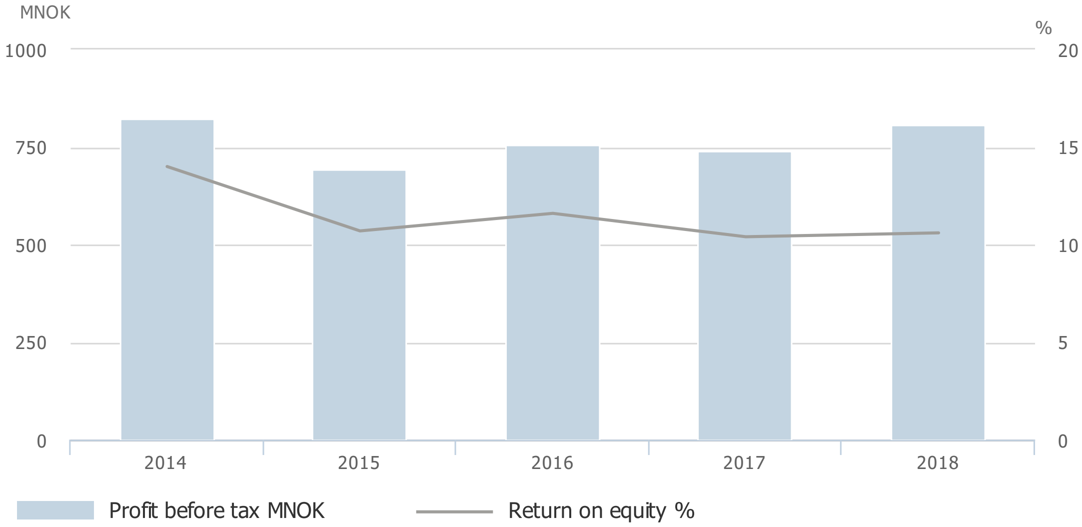
- Profit after tax: NOK 605 million (NOK 557 million)
- Return on equity after tax: 10.6 % (10.4 %)
- Lending grew by 6.1 % (7.9 %)
- Deposits grew by 4.9 % (0.7 %)
- At year end, primary capital amounted to NOK 6.7 billion and represented 19.6 % of the basis for calculation. Consequently, the Tier 1 capital ratio was 17.6 % and the Common Equity Tier 1 capital ratio 16 %.
- Earnings per equity certificate: NOK 29.80 (NOK 27.70)
- The Board of Directors is well satisfied with the results for 2018
- The Board of Directors recommends that the General Meeting pays a cash dividend of NOK 15.50 per equity certificate and allocates NOK 156 million to dividend funds for local communities. In total, this represents 52 % of the total group profit for 2018.

PARENT BANK'S KEY FIGURES

(Comparable figures for 2017 in brackets)

- Profit after tax: NOK 576 million (NOK 544 million)
- At year end, primary capital amounted to NOK 6.55 billion and represented 18.8 % of the basis for calculation. Consequently, the Tier 1 capital ratio was 16.8 % and the Common Equity Tier 1 capital ratio 15.2 %.
- Earnings per equity certificate: NOK 28.35 (NOK 27.00)

Fig. 1 Profit and return on equity 2018



AREAS 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 its geographic area of operation as Nordvestlandet, where the Bank had 28 branches in 24 municipalities at year end.

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 services
- Payment transfers
- Currency and interest rate trading
- Insurance
- Real estate brokerage

The Bank's distribution strategy covers its branch network, digital channels, specialist functions and customer services. Coordinated customer services are designed to ensure that the Bank provides the best customer experience with a high degree of service and good advice. The Bank aims to develop and maintain the high-quality standards in its distribution channels to increase the value created for customers and the Bank. This means we will provide expert advice in person and offer user-friendly services to our customers online.

RESULTS

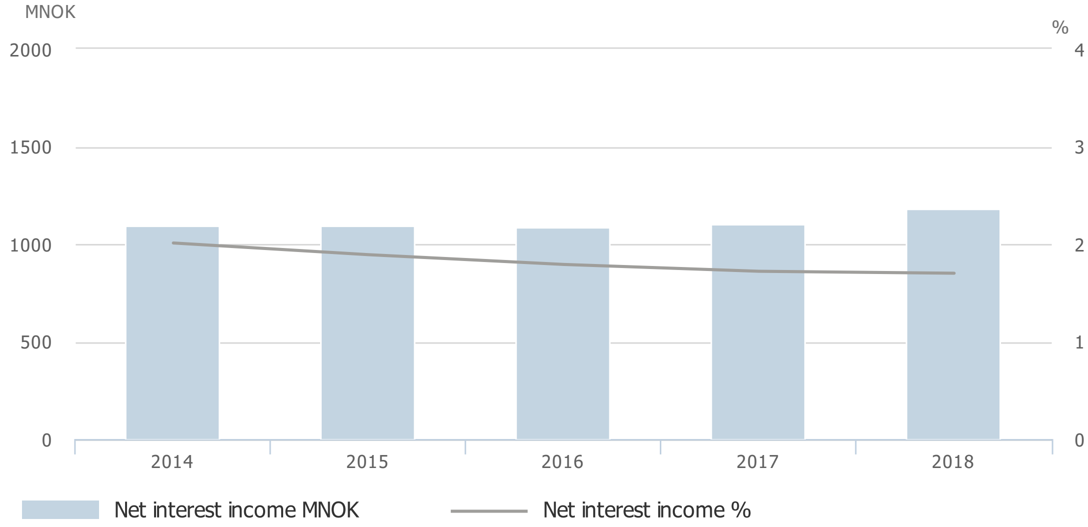
The profit before losses on loans and guarantees amounted to NOK 824 million, or 1.19 per cent of average total assets, compared with NOK 752 million, or 1.18 per cent, for 2017.

The profit before tax amounted to NOK 808 million, or 1.17 per cent of average total assets, compared with NOK 739 million, or 1.16 per cent, for 2017.

The profit after tax amounted to NOK 605 million, or 0.88 per cent of average total assets, compared with NOK 557 million, or 0.88 per cent, for 2017.

Earnings per equity certificate in 2018 amounted to NOK 29.80 (NOK 27.70) for the Group and NOK 28.35 (27.00) for the Parent Bank.

Fig. 2 Net interest income

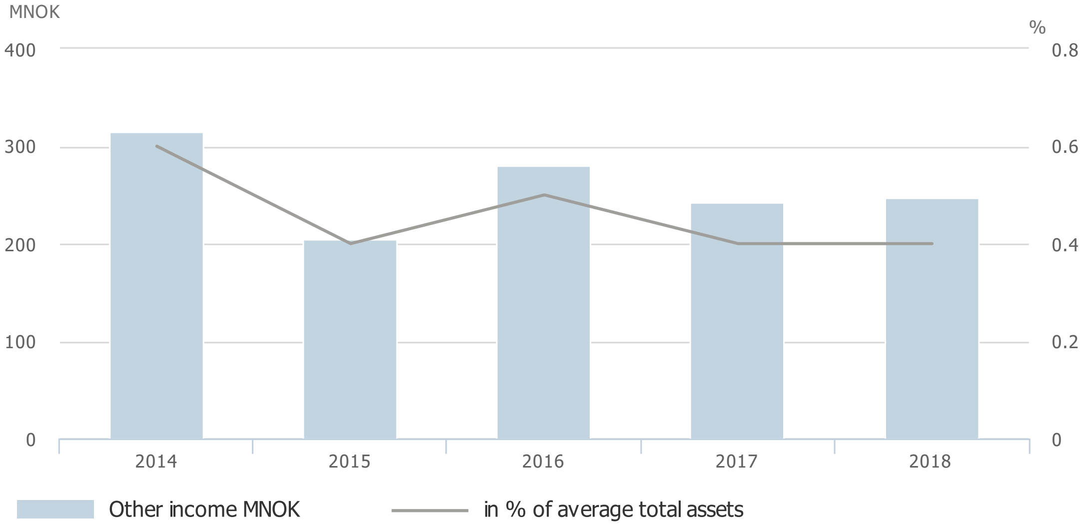


Net interest income

Net interest income totalled NOK 1,179 million (1,100 million) or 1.70 per cent (1.72 per cent) of average total assets. Net interest income accounted for 82.6 per cent of total income in 2018.

A higher lending volume combined with a higher interest contribution from deposits and the Bank's high level of equity resulted in higher net interest income in Norwegian kroner compared with last year. Strong competition on both lending and deposits and reduced risk have contributed to pressure on the net interest margin.

Fig. 3 Other income



Other operating income

Other operating income amounted to NOK 248 million (0.36 per cent of average total assets) in 2018. This is an increase of NOK 6 million compared with 2017.

The value of the bond portfolio fell NOK 19 million in 2018 following capital gains of NOK 23 million in 2017.

Capital gains on equities totalled NOK 10 million in 2018, compared with capital losses of NOK 10 million in 2017.

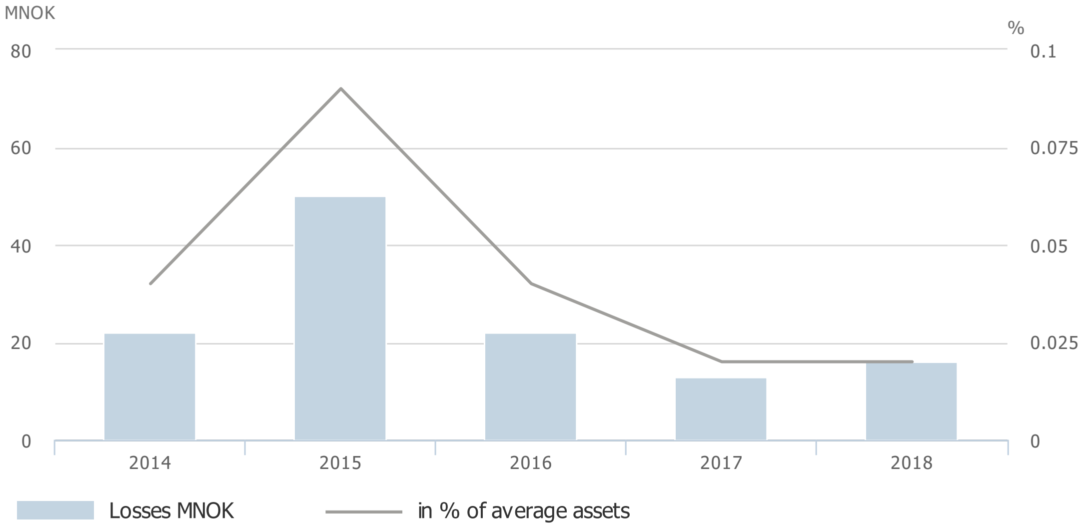
Fig. 4 Costs

Costs

Total costs amounted to NOK 603 million, which is NOK 13 million higher than in 2017. Personnel costs increased by NOK 5 million compared with 2017 and amounted to NOK 340 million. Financial activity tax in the form of higher employers' National Insurance contributions amounted to NOK 14 million in 2018, the same as in 2017. Staffing has increased by two full-time equivalents in the last 12 months to 361 full-time equivalents. Other operating costs were NOK 8 million higher than in 2017.

The cost income ratio was 42.3 per cent in 2018. This represents a decrease of 1.7 percentage points compared with 2017. In the strategic plan for 2019-2022, the Board has decided to change the Group's maximum target for the cost income ratio from 45 per cent to 40 per cent.

Fig. 5 Losses



Problem loans

In 2018, the income statement was charged with NOK 16 million (NOK 13 million) in losses on loans and guarantees. This represents 0.02 per cent (0.02 per cent) of average total assets.

At the end of 2018, total loss impairments amounted to NOK 338 million, equivalent to 0.55 per cent of loans and guarantees (NOK 336 million and 0.57 per cent). Of the individually assessed commitments, NOK 11 million of the impairments were linked to commitments in default for more than 90 days (NOK 4 million), which amounts to 0.02 per cent of loans and guarantees (0.01 per cent). NOK 327 million relates to other commitments (NOK 332 million), which is equivalent to 0.53 per cent of gross loans and guarantees (0.56 per cent).

Net impaired commitments (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 in the last 12 months decreased by NOK 47 million. At the end of 2018, the corporate market accounted for NOK 220 million of net impaired commitments, and the retail market NOK 63 million. In total this represents 0.46 per cent of gross loans and guarantees (0.40 per cent).

Fig. 6 Balance sheet

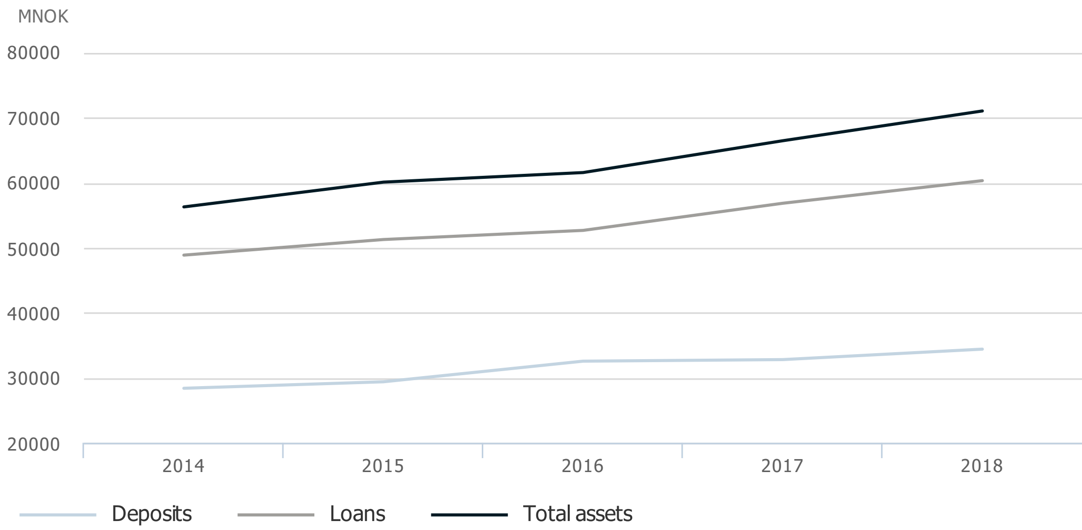
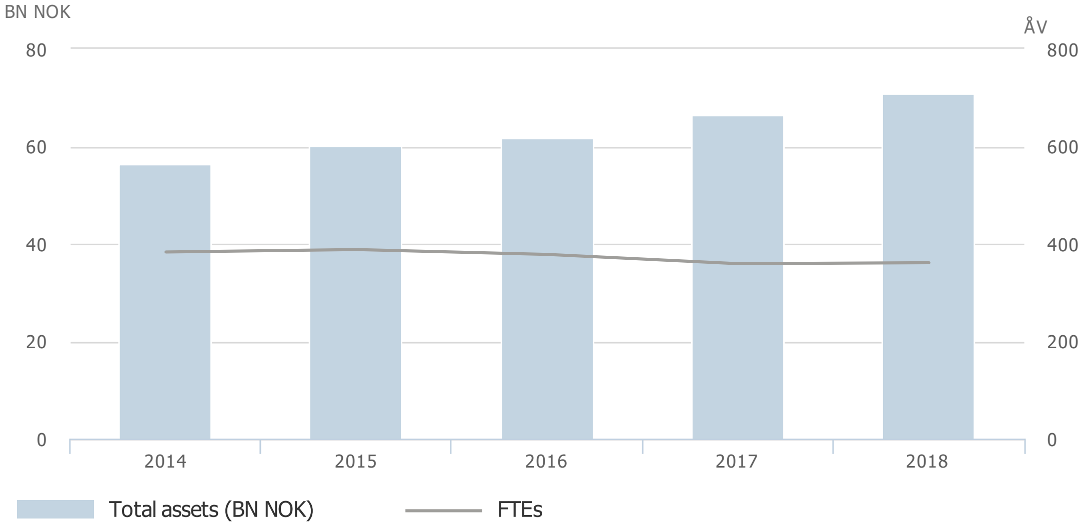


Fig. 7 Total assets and FTEs



Total assets

Total assets increased by NOK 4,583 million, or 6.9 per cent, in 2018 to NOK 71,074 million as at 31 December 2018. The change in total assets is primarily attributable to an increase in lending.

Lending to customers

At year-end 2018, lending to customers amounted to NOK 60,346 million (NOK 56,867 million). Customer lending has increased by a total of NOK 3,479 million, or 6.1 per cent, in the last 12 months. Retail lending has increased by 5.3 per cent, while corporate lending has increased by 8.4 per cent in the last 12 months. Retail lending accounted for 69.2 per cent of lending at the end of 2018 (70.0 per cent).

Deposits from customers

Customer deposits have increased by 4.9 per cent in the last 12 months. At year-end 2018, deposits amounted to NOK 34,414 million (NOK 32,803 million). Retail deposits have increased by 4.8 per cent in the last 12 months, while corporate deposits have increased by 5.1per cent, and public sector deposits have increased by 7.9 per cent. The retail market's relative share of deposits amounted to 59.9 per cent (60.0per cent), while deposits from the corporate market accounted for 37.9 per cent (37.8per cent) and from the public sector market 2.2 per cent (2.2 per cent). The deposit-to-loan ratio amounted to 57.0 per cent the end of 2018 (57.7 per cent).

Securities

Holdings of investments in securities (the LCR portfolio) at year-end 2018 amounted to NOK 6,789 million compared with NOK 6,096 million at year-end 2017. The volume of the portfolio is tailored to the LCR requirement.

The Bank had no significant trading portfolio at year-end 2018.

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 177 million after tax in 2018 (NOK 166 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 2018, the company had net outstanding bonds of NOK 22.4 billion in the market. About 25 per cent of the borrowing was in a currency other than NOK. The company contributed NOK 174 million to the result in 2018 (NOK 165 million).

Møre Eiendomsmegling AS provides real estate brokerage services to both retail and corporate customers. The company contributed NOK 1 million to the result in 2018 (NOK 0 million in 2017). 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 2 million to the result in 2018 (NOK 1 million in 2017). The company has no employees.

EQUITY CERTIFICATES – MORG

At year-end 2018, there were 5,402 holders of Sparebanken Møre's equity certificates. 9,886,954 equity certificates have been issued. The equity certificate capital accounts for 49.6 per cent of the Bank's total equity.

The 20 largest equity certificate holders represented 49.7 per cent of the Bank's equity certificate capital at year end. Of these equity certificate holders, ten were residents of Møre og Romsdal, with a relative ownership interest among the 20 largest of 54.3 per cent (53.8 per cent). Note 10 includes a list of the 20 largest holders of the Bank's equity certificates.

As at 31 December 2018, the Bank owned 28,193 of its own equity certificates. These were purchased on the Oslo Stock Exchange at market prices.

The equity certificates are freely negotiable in the market.

DIVIDEND POLICY

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

Dividends consist of cash dividends for equity certificate holders and dividend funds for local communities. The proportion of profits allocated to dividends is in line with the Bank's capital strength. Unless the Bank's capital strength dictates otherwise, it is expected that about 50 per cent of this year's surplus can be distributed as dividends.

Sparebanken Møre's allocation of earnings should ensure that all equity certificate holders 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 52 per cent 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 per cent of the profit will be allocated to equity certificate holders and 50.4 per cent to the primary capital fund. The earnings per equity certificate in the Group amounted to NOK 29.80 in 2018 (NOK 21.65). The recommendation to the General Meeting is that the cash dividend per equity certificate for the 2018 financial year be set at NOK 15.50.

Proposed allocation of profit (figures in NOK millions):

Profit for the year		**605**
Allocated to holders of Additional Tier 1 capital		11
Dividend funds (52%):		
To cash dividends	153	
To dividends to local community	156	309
Strengthening equity (48%):		
To the dividend equalisation fund	127	
To the primary capital fund	129	
To other funds	29	285
Total allocated		**605**

EFFECT OF TRANSITION TO IFRS 9

As a consequence of reduced impairments according to IFRS 9, the Group's equity increased by NOK 1 million after taxes. The implementation of IFRS 9 had no impact on the Group's primary capital as expected losses according to the capital adequacy requirements already exceeded losses according to IFRS 9. Sparebanken Møre therefore had no need to apply the transitional rule.

CAPITAL ADEQUACY RATIO AND APPLICABLE REGULATIONS

Sparebanken Møre has authorisation from the Financial Supervisory Authority of Norway to use the IRB Foundation method for calculating capital requirements for credit commitments.

The Group's capital adequacy is reported in accordance with the Financial Supervisory Authority of Norway's authorisation. Sparebanken Møre was subject to capital requirements associated with the transitional scheme for the Basel I floor at year-end 2018. Operational risk calculations are performed using the basic method.

Sparebanken Møre's capital adequacy at year-end 2018 was well above the regulatory capital requirements and the internally set minimum target for the Common Equity Tier 1 capital ratio of 14.8 per cent. The primary capital stands at 19.6 per cent (18.4 per cent) and Tier 1 capital 17.6 per cent (16.8 per cent), of which Common Equity Tier 1 capital accounts for 16.0 per cent (15.0 per cent). 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 48 per cent of the Group's profit to further build up the Group's financial strength.

The minimum requirement for the Tier 1 leverage ratio has been set at 3 per cent. Every bank must also have a buffer of at least 2 per cent. At year-end 2018, the Tier 1 leverage ratio for Sparebanken Møre was 8.1 per cent (8.2 per cent), which provides a good margin with respect to the total requirement of 5 per cent.

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 has set the Bank's Pillar 2 requirement at 1.7 per cent, applicable from 31 March 2019. The represents a decrease of 0.1 percentage points compared with the Financial Supervisory Authority of Norway's previous decision. The Ministry of Finance has further decided that the countercyclical buffer will be increased by 0.5 percentage points to 2.5 per cent from 31 December 2019. The total minimum requirement for the Common Equity Tier 1 capital ratio will thus increase to 14.2 per cent. 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 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 the risks that exist. In those cases where the 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 2018, the Board adopted a new strategic plan, "Møre 2022". 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.

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 ICAAP 2018 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 monitored on an overall basis through periodic reports submitted to the management, the Audit Committee, the Risk Committee and the Board of Directors. One of the primary purposes of the Audit Committee and the Risk Committee 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 largest 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 and Compliance Section, which 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 Committee and the 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, all of the Financial Advisors have access to reports which show the development of the credit risk in her or his 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 and Compliance unit The purpose of this department is to improve the efficiency of the processes associated with losses and commitments in default. 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 line.

The Board finds that Sparebanken Møre's overall credit risk is within the Group's adopted risk tolerance. Exposure to large commitments is well within the adopted limits and follow-up and control of this area has been enhanced The Board finds that Sparebanken Møre is well prepared to handle any 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 foreign exchange trading.

The Board stipulates limits for the Group's market risk in the market risk strategy. The limits are monitored by the Risk Management and Compliance unit. The limits are established based on 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 control and management documents which deal with market risk are reviewed and renewed at least annually by the Board. 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. 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 means that institutions have to fund liquid assets with the aid of a greater proportion of stable and long-term funding.

The LCR requirement is 100 per cent. In recent years, the liquidity portfolio has stabilised at a higher level both in volume and against LCR quality securities. The LCR target established by the Group for complies with the regulatory requirement and the reporting shows that Sparebanken Møre has a good margin in relation to the requirement.

A stricter liquidity requirement generally entails a significant funding 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 long-term debt securities. The Bank's deposit-to-loan ratio at the end of 2018 was 57.0 per cent.

Møre Boligkreditt AS increases the diversification of the Group's sources of funding. 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 2018 around 39 per cent of the Group's total lending (54 per cent 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 per cent of Møre Boligkreditt AS's outstanding bond volume was for 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, both Sparebanken Møre and securities issued by Møre Boligkreditt AS are rated by the rating agency Moody's.

In December 2018, 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 ensuring that a relatively high proportion of funding has a maturity above one year. Total market funding ended at net NOK 28.5 billion at year end – above 85 per cent of this funding has a remaining maturity of more than one year. The Parent Bank's outstanding senior bonds, with a maturity above one year, had a weighted remaining duration of 1.93 years at year-end 2018, while covered bond funding correspondingly had a remaining duration of 3.72 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.

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 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, robbery 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 ensures our customers find being a customer of our bank a good experience.

A great deal of resources have been expended in recent years in connection with the authorisation scheme for financial advisors and most of the managers in frontline positions have completed an AFA examiner course, which provides the managers with very good training and practice in exercising their managerial roles.

In addition to this, Sparebanken Møre has worked hard on the authorisation scheme for credit and also takes part in the national certification scheme for non-life insurance. The Bank also has a standardised training programme provided by the Bank's internal "Møreskolen", which all new employees must undergo. The Board is delighted with the substantial skills boost 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 2018. 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, including amongst the Bank's employees. All employees of the Bank must take a compulsory e-learning course in information security. Quality, stability and security will also be focused on in 2019.

There is a heavy focus on 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 work on combating money laundering and terror financing will also be a major focus area in Sparebanken Møre in 2019.

Sparebanken Møre's overarching contingency plan is revised annually. 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 that 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

An 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 acts 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 itself is assigned to the Finance and Facilities Department, with the Finance Department the coordinating, lead unit. Plans clearly specifying the distribution of work and back-up lists for both tasks and personnel in this and other departments within the section have been established.

Transactions are registered in the Bank's core systems, and a reconciliation is 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 consolidation takes place on both a monthly and a quarterly basis. 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 contributes to the good financial reporting process.

Quarterly and annual reports are reviewed by the Bank's management group, the Audit Committee and the Risk Committee prior to final consideration by the Board and 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.

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

Internal auditing
The internal auditing function's remit is to provide independent assessments of the quality and effectiveness of management and control, risk management and internal control, and compliance with relevant laws and regulations.

The Group's internal auditing was outsourced to EY in 2018. 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 2018 in accordance with this plan, and no material breaches of relevant laws or regulations were identified.

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 the 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 17 October 2018. 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 played a role in society and are, thanks to their work, important actors in local communities for both businesses and the customers who live in the savings bank's market area. Sparebanken Møre takes this responsibility very 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.

In 2018, Sparebanken Møre celebrated its 175th anniversary by donating NOK 175,000 to each municipality where we have a branch. The gifts were given to projects aimed at improving well-being, growth and development in the region. The anniversary was also celebrated with free concerts in Ålesund and Molde.

In line with the UN Sustainable Development Goal for sustainable cities and communities, Sparebanken Møre wants to help Møre og Romsdal become a better place to live and work in the future as well.

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, which provide 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 rules, security handbook, internal anti-money laundering rules, etc. New Sparebanken Møre employees are introduced to the Group's regulations in the 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 cases of discrimination were recorded in 2018. The Bank has specific guidelines for whistle-blowing, which must be used 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 specific starting point for prioritising various improvement measures. The 2018 working environment survey shows that the staff perceive both the working environment and the learning environment to be good. Working environment surveys are discussed at board level in Sparebanken Møre.

Gender equality
In accordance with UN Sustainable Develop Goal number 5, gender equality, Sparebanken Møre systematically works to promote equality between the genders. The distribution between women and men showed that of the Group's total staff of 373, 228 were women (61.1 per cent) and 145 were men (38.9 per cent). There are 359 employees in the Bank and 14 in the subsidiaries. Of the Parent Bank's 359 employees, 221 are women (61.6 per cent) and 138 are men (38.4 per cent). The Bank employs 43 part-time staff, all of whom are women. The percentage of women in various managerial positions was 46.4 per cent, while the corresponding percentage for men was 53.6 per cent. 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 361 full-time equivalents at year end, a reduction of two full-time equivalents in 2018. The average age of the Bank's employees was unchanged at 48.3. The average length of service with Sparebanken Møre of the current staff is 18.3 years. Sparebanken Møre recruited 19 new employees in 2018. Staff turnover was 7.5 per cent in 2018, compared with 6.4 per cent in 2017.

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 skills development measures we implement. 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 3.42 per cent in 2018, compared with 3.91 per cent in 2017 . The long-term sick leave rate was 2.04 per cent in 2018, compared with 2.52 per cent in 2017 . The short-term sick leave rate was stable and almost unchanged at 1.38 per cent in 2018, compared with 1.39 per cent 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 absence rate was 2.87 per cent in 2018.

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. In 2018, three incidents of unacceptable behaviour/threats against employees of the Bank were reported. One minor personal injury due to a fall on a wet floor was also reported. These incidents were followed up immediately. There were also a number of false alarms. Besides these, no other similar incidents, injuries or accidents were registered or reported during 2018.

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, which include signing various documents digitally. 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 made loans to have operations that will have an impact on the environment. The Bank's provision of credit gives it 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 conduct itself according to 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 that help 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. This work supports several of the secondary goals under UN Sustainable Development Goal number 16, peace, justice and strong institutions.

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. The trend in cases of attempted fraud against both our customers and the Bank has been rising. Online fraud is a growing problem, and this means the need to launder the “proceeds” will increase correspondingly. More suspected cases of money laundering/terrorist financing were reported to ØKOKRIM in 2018 than in 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 had 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 states that our owners must be treated equally. The local communities in Møre og Romsdal own around 50 per cent of Sparebanken Møre, which means that half of the year’s distributed profit is channelled back to the community through what we have called “dividend funds for local communities” (“TEFT funds”).

Funds averaging NOK 140 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 science parks in the county.

NOK 141 million was allocated to dividend funds for local communities for the 2017 financial year. These funds were distributed throughout 2018 in line with the Bank's main focus areas: sports, culture, local communities, infrastructure, competence and business development.

TEFT grants

TEFT grants are grants Sparebanken Møre gives to talented young people aged 15-35. In 2018, we awarded 15 grants of NOK 50,000 within the categories culture and sports.

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 skills journey under the direction of the Bank and science parks in the county. This group was gradually reduced to ten semi-finalists and the winner was announced at Sparebanken Møre's "Børs og Bacalao" investor seminar on 8 March 2018. The winner of NÆRINGSTEFT 2018 was Agrimare Bio.

Thanks to good feedback, we organised a new round of innovation grants in the autumn 2018, which attracted 101 entrepreneurs. The unique feature of this competence journey is that many of the seminars are open to the public, which means you can continue to improve your skills even when you are out of the competition. In November, 50 ideas were chosen to move on to the next phases of the competition. On 6 December 2018, ten semi-finalists were announced. The semi-final was held in Molde on 1 February 2019. The three finalists were announced live. The winner will be named at the "Børs og Bacalao" investor seminar on 13 March 2019.

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, young people 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 more than 2,100 lower secondary school pupils in the 2017/2018 school year through the "Economics and Career Choices" programme. In addition to this, more than 1,000 upper 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. We signed a new 3-year agreement with UE in 2018.

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 this contributes expertise that business in the region needs, it also strengthens the academic environment in Møre og Romsdal. The goal is for the collaboration to help create synergies that can create value for our region. The Bank wants to be a driving force and take part in this work.

The TEFT Lab also has office space for a number of PhD candidates. Lars Ole Hjelkrem from Sparebanken Møre started his business PhD in January 2018. His research could result in, among other things, advanced machine learning methods in general and the development of modern application scoring models in particular.

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

Production and demand remain high in the county. This is due to low interest rates, a weak Norwegian krone, high activity levels in the public sector and continued growth in our export markets. In addition to this, there has been an upturn in important oil-related industries. The level of activity in the housing market is also satisfactory. Nevertheless, the uncertainty has increased somewhat due to unease in the financial markets and the prospects of lower growth in the global economy than previously anticipated.

The upturn in the level of activity, together with significant restructuring in the labour market in recent years, has resulted in low unemployment. At the end of December, registered unemployment in Møre og Romsdal amounted to 2.3 per cent according to the Norwegian Labour and Welfare Administration (NAV), the same as the national unemployment rate. Given the prospect of moderate production growth in the county, unemployment will probably stabilise at around the current level over the year.

Credit growth in Norway, both for households and for business, fell throughout 2018 and the annual percentage growth figure at year-end 2018 was around 1.0 percentage point lower than at year-end 2017.

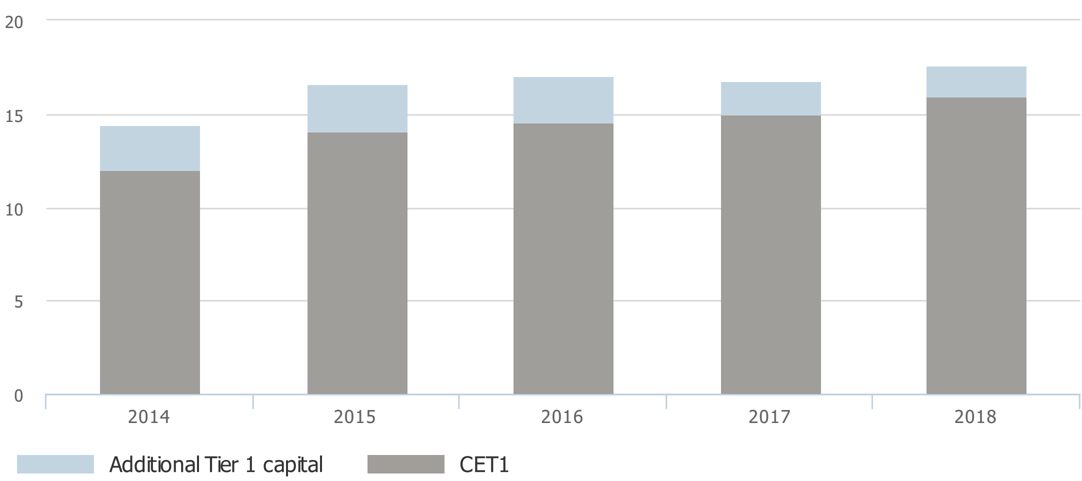
Competition in the market remains strong, both for loans and deposits. The Bank is competitive and recorded a good, but somewhat lower, growth rate in loans in the retail market. An increase in the growth rate for lending to the corporate market was registered in the last quarter. Deposit growth in the retail market is good and the deposit-to-loan ratio is high, especially in the corporate market. Lending growth within both the retail market and the corporate market in 2019 is expected to be on a par with the growth rate in 2018. This implies growth on a par with or above market growth. There is a constant focus on effective operations and increased profitability.

The Bank will remain a strong and committed supporter of the business sector in our region, Nordvestlandet. Sparebanken Møre's target for cost-effective operations for the strategy period 2019-2022 is a cost income ratio below 40 per cent per cent.

Sparebanken Møre's losses are expected to be low also in 2019. Overall, a good result is expected for 2019. The Bank's strategic target is for the return on equity to exceed 11 per cent in the strategy period 2019-2022.

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 contributions in 2018. 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 2018
20 February 2019

THE BOARD OF DIRECTORS OF SPAREBANKEN MØRE

LEIF-ARNE LANGØY, Chairman
ROY REITE, Deputy Chairman
RAGNA BRENNE BJERKESET
HENRIK GRUNG
JILL AASEN
ANN MAGRITT BJÅSTAD VIKEBAKK
HELGE KARSTEN KNUDSEN
MARIE REKDAL HIDE

TROND LARS NYDAL, CEO

Corporate governance

The report below describes how Sparebanken Møre in 2018 has complied with the 15 points in the Norwegian Code of Practice for Corporate Governance dated 17 October 2018 (the "Code of Practice"). 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 complies with the Norwegian Code of Practice for Corporate Governance of 2018 where this is applicable to savings banks that have issued equity certificates. The Bank also complies with the Guidelines on Internal Governance GL 11/2017 issued by the European Banking Authority (EBA).

The Norwegian Financial Institutions Act lays down regulations for savings banks that have issued equity certificates. In some cases, these result in deviations from the Norwegian Public Limited Companies Act and the Code of Practice not applying in full. Such deviations from the Code of Practice are described in the relevant points below. Nevertheless, there are no material deviations between the Code of Practice and how this is complied with in Sparebanken Møre.

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.

Sparebanken Møre's articles of association specify the types of business the Bank may conduct. The purpose of Sparebanken Møre is to perform business and services normal or natural for savings banks to perform, within the framework of the applicable legislation and licences that have been granted at any given time. The Bank may provide investment services and associated services in accordance with the provisions of the Norwegian Securities Trading Act. The complete text of its articles of association can be found on the Group's website.

The Group is a full-service provider of financial products and services within the areas of financing, deposits and other forms of investments, payment transfers, financial advisory services, asset management, insurance and real estate brokerage.

The Board of Sparebanken Møre ensures that the Group carries out a comprehensive strategy process every year that defines its objectives, strategies and risk profile. The current strategy document, "Møre 2022", was adopted by the Board in August 2018 and the implementation of the work relating to the initiatives that were adopted in this plan is already well under way. See the detailed description in section 9 below.

The targets and strategies comply with the framework laid down by the business provision of Sparebanken Møre's articles of association.

Sparebanken Møre wants to maintain its position as Møre og Romsdal's number one bank for retail customers, as well as for small and medium-sized businesses. Sparebanken Møre also wants to be an attractive partner for larger companies and the public sector.

Efforts are made on maintaining a healthy financial structure, strong capital and high profitability.

Its 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.

The Board has adopted both a code of ethics and guidelines for corporate social responsibility based on the Group's core values: "Committed, Close, and Sound". These core values must be reflected in all of the points of contact Sparebanken Møre has with the market, customers and other stakeholders. A more detailed description of the guidelines and core values can be found on the Group's website. See the Board of Directors' Report 2018 for a more detailed account of Sparebank Møre's fulfilment of its corporate social responsibilities.

Deviations from the Code of Practice: None

3. COMPANY CAPITAL AND DIVIDENDS

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-oriented industry and commerce, a stable market for long-term funding when required, and the goals of the long-term strategy document.

In its annual evaluation of its management and control systems, which includes capital adequacy assessments (known as ICAAP), the Board focuses heavily on ensuring that its primary capital is suited to the Group's goals, strategies, risk profiles and regulatory requirements. The Bank's capital situation is continuously monitored throughout the year via internal calculations and reporting.

The Group's capital adequacy ratio at the end of 2018 exceeded the regulatory and internal minimum requirements for capital. Primary capital amounts to 19.6 per cent, Tier 1 capital 17.6 per cent and Common Equity Tier 1 capital stands 16.0 per cent.

Sparebanken Møre's dividend policy was changed on 18 October 2017. The dividend policy has been published and made available on the Group's website. The dividend policy is as follows:

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

Dividends consist of cash dividends for equity certificate holders and dividends to the local communities. 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 per cent of the profit.
Sparebanken Møre's allocation of earnings shall ensure that all equity certificate holders are guaranteed equal treatment."
The General Meeting can authorise the Board to increase capital for specific purposes. On 21 March 2018, the General Meeting authorised the Board to increase equity certificate capital by up to NOK 98,869,500 if the situation warrants it. The authorisation is valid until the Annual General Meeting in 2019, although for no longer than 31 March 2019. The authorisation had not been exercised at the end of the year since there had been no need to do so.

The General Meeting can also authorise the Board to buy back its own equity certificates. On 21 March 2018, the General Meeting authorised the Board to acquire/establish collateral in its own equity certificates up to an amount of NOK 98.8 million. This authorisation is valid for up to 12 months.

Deviations from the Code of Practice: None

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

All equity certificate holders shall be treated equally and have the same opportunity to influence the Bank.
All equity certificates have the same voting rights.

Equity certificate holders shall have preferential rights when the 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 equity certificates take place via the stock exchange. Equity certificates are bought back at the current market price.

Should material transactions take place between the Sparebanken Møre Group and equity certificates holders, board members, senior executives or close associates of these, the Board shall ensure that a valuation is obtained from an independent third party, except for matters that have been discussed and voted on by the General Meeting.

An independent valuation must also be obtained in the event of transactions between companies in the same group where there are minority shareholders. Sparebanken Møre's subsidiaries are, as at 31 December 2018, all wholly owned by the Bank.

The articles of association were amended in 2018 to ensure equity certificate holders greater influence in decisions concerning the equity certificate capital. The amendments mean that further amendments to the articles of association concerning specified matters of significance for the equity certificate capital cannot be approved by the General Meeting without the agreement of a two-thirds majority of the votes of the general meeting members elected by equity certificate holders. An indication of which matters this concerns is provided in the articles of association, which are available on the Bank's website.

Deviations from the Code of Practice: None

5. FREE TRADABILITY

Sparebanken Møre's equity certificates are listed on the Oslo Stock Exchange and are freely negotiable. The articles of association contain no restrictions concerning negotiability.

Upon acquisition of a qualifying holding in a financial institution (10 per cent or more of the capital), the rules regarding permission from the Financial Supervisory Authority of Norway apply, cf. chapter 6 of the Norwegian Financial Institutions Act and section 9-10 of the Norwegian Securities Trading Act.

Deviations from the Code of Practice: None, with the exception of the special rules that follow from the Norwegian Financial Institutions Act regarding the acquisition of qualifying holdings.

6. GENERAL MEETING

Part of the equity of savings banks that have issued equity certificates is ownerless. As a result, different requirements apply with respect to the composition of the General Meeting in savings banks that have issued equity certificates than those that apply to public limited companies. The requirements follows from chapter 8 of the Norwegian Financial Institutions Act. Sparebanken Møre complies with the statutory requirements. Therefore, point 6 of the Code of Practice does not fully apply to savings banks.

The Bank's supreme body is the General Meeting. Sparebanken Møre's General Meeting has 44 members and 14 deputy members, of which: 17 members and four deputy members are elected by equity certificate holders; 13 members and four deputy members are elected by and from amongst the Bank's customers; 11 members and four deputy members are elected by and from amongst the employees; and three members and two deputy members are elected by the General Meeting to represent local communities.

The articles of association set out the composition requirements. An overview of the elected members is available on the Group's website.

The members of the General Meeting are personally elected and cannot be represented by proxy. Elected deputy members attend in the event of absences.

Notices convening meetings and supporting 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 supporting documents are also published on the Oslo Stock Exchange and notice is also sent by email. 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. The supporting documents should be sufficiently accurate and comprehensive to enable members of the General Meeting to determine which matters should be considered.

Members of the Board, the Nomination Committee and the external auditor participate in General Meetings. The Chairman of the Board and the CEO are duty bound to attend the General Meeting.

The General Meeting shall elect a chair and deputy chair from among the members of the General Meeting not employed by the savings bank. General Meetings shall be chaired by the chair, or the deputy chair in the event of the chair's absence.

Deviations from the Code of Practice: Point 6 of the Code of Practice does not fully apply to savings banks that have issued equity certificates and this entails a deviation.

7. NOMINATION COMMITTEES

The Bank's articles of association set out provisions concerning nomination committees. The General Meeting has established instructions for the General Meeting's Nomination Committee.

The General Meeting's Nomination Committee is elected by the General Meeting and consists of four members elected from amongst the members of the General Meeting. The General Meeting shall elect the chair and deputy chair of the committee in separate elections. The General Meeting determines the committee's remuneration.

Both the Chairman of the Board and the CEO must be summoned to attend at least one meeting with the Nomination Committee. The Nomination Committee receives the Board's evaluation of its own work.

The Nomination Committee includes representatives from all groups who are represented in the General Meeting. In addition, the members shall insofar as it is feasible reflect the geographical distribution within the municipalities in which the savings bank operates. The Nomination Committee is independent of the Board and other senior executives. Neither board members nor senior executives are members of the committee. Members of nomination committees are elected for two years at a time and no one may serve for more than six consecutive years.

The General Meeting's Nomination Committee proposes candidates for local community members and deputy members of the General Meeting, the chair and deputy chair of the General Meeting, the Chairman, Deputy Chairman and other members and deputy members of the Board of Directors, as well as for the election of chair and members of the Nomination Committee.

The reasons for the Nomination Committee's recommendations must be stated. 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 point 6.

Equity certificate holders elect their own nomination committee, which is responsible for preparing the equity certificate holders' election of members of the General Meeting. This committee has three members. Customer-elected members of the General Meeting elect their own nomination committee, which is responsible for preparing the customers' elections of members of the General Meeting. This committee has four members.

An overview of the members of the various nomination committees can be found on the Bank's website.

Deviations from the Code of Practice: None

8. BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The Board consists of eight members and four deputy members elected by the General Meeting. Two of the members are elected from the Bank's employees.

The emphasis when electing board members must be on qualifications, capacity, independence, diversity and the Board's ability to function as a collegiate body. The Norwegian Financial Institutions Act requires institutions to assess the fitness and propriety of board members. The assessment must encompass qualifications, capacity, independence and suitability/character. The assessment of each board member must be reported to the Financial Supervisory Authority of Norway.

The majority of board members must be independent of senior executives, important business associates and the largest owners of equity certificates. No senior executives are members of the Board.
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 deputy members 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.

The annual report contains further information about the board members' attendance at board meetings and the number of equity certificates owned by each member.

Deviations from the Code of Practice: None

9. THE WORK OF THE BOARD

The Board has established instructions for the Board and day-to-day management that clearly set out the internal division of responsibilities and duties.

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 next calendar.

The Board sets out Sparebanken Møre's overall long-term financial targets. These are set forth in the Group's strategy document. The document is 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.

Stricter rules regarding conflicts of interest apply in financial institutions than those that follow from the Norwegian Public Limited Companies Act. The Board has also established guidelines for conflicts of interest that are additional to the statutory requirements. The Board ensures that board members and senior executives disclose to the Bank of any material interests they may have in matters that will be considered by the Board. When considering important matters in which the Chairman of the Board is, or has been, actively engaged, the Board's consideration shall be chaired by the Board's Deputy Chairman or another board member.

The Board has elected an Audit Committee, a Risk Committee and a Remuneration Committee from amongst the Board's members. The Audit Committee and the Risk Committee have three members, all of which are independent of the institution.

The Remuneration Committee has four members, one of which is an employee-elected member. The Board has also adopted instructions for board committees describing the committees' duties and procedures. The Remuneration Committee is discussed in more detail in point 12 of this report. Each year, the Board evaluates its own work and professional competence to see if improvements can be made.

Deviations from the Code of Practice: None

10. RISK MANAGEMENT AND INTERNAL CONTROL

Sparebanken Møre uses a comprehensive risk management process as the basis for its internal control. In order to carry out comprehensive 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 also 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 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 Department and Compliance Department and internal and external auditors. The Board actively participates in the annual ICAAP via its implementation in the strategy document. 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. REMUNERATION OF THE BOARD

The remuneration of board members and members of the Board’s committees shall be determined by the General Meeting based on the recommendations of the Nomination Committee.

The board members’ remuneration is not performance-related. Options are not issued to board members.

The general rule is that board members, or companies to which they are connected, should not undertake any tasks for Sparebanken Møre beyond their position on the Board. However, if they do, the entire Board must be informed. Fees for such services must be 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 SENIOR EXECUTIVES

The Board revises the guidelines for the remuneration of senior executives every year.

The guidelines are presented annually to the General Meeting each for an advisory vote. Guidelines regarding the allocation, etc. of equity certificates in the Bank are presented to the General Meeting for approval.

The Board's declaration regarding the remuneration of senior executives must be prepared as a separate supporting document for the General Meeting.

Special rules set out in chapter 15 of the Norwegian Financial Institutions Act apply to remuneration schemes in financial institutions.

The Board has elected a Remuneration Committee from amongst the board members.

The levels of remuneration in Sparebanken Møre should contribute to the Group's achieving its targets and encourage appropriate conduct. Furthermore, the levels of remuneration should act as a means of good management and control in relation to the Group's risk, counter unwanted risk-taking and contribute to the avoidance of conflicts of interest.

The implementation of the remuneration scheme must be reviewed at least once a year by the internal auditor, who will submit a report on the review to the Board.

Sparebanken Møre has no established annual bonus scheme, although in years with good results and good target achievement, the Bank's Board will consider giving a bonus to all of the Bank's employees, including senior executives, with the exception of the CEO. The Board has approved a bonus for 2018.

In addition, each employee can receive a lump-sum supplement in addition to their salary based on that person's achievement of their goals. As a general requirement, 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 those senior executives and others mentioned above who are not in positions that are directly linked to result-generating units, 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 and others 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.

Ceilings have been set for both types of variable remuneration.

At least half of the general bonus paid to all employees is given in the form of Sparebanken Møre's equity certificates. The allocation is given from Sparebanken Møre's holdings of its own equity certificates corresponding to the market value at the time of settlement. The employee may not sell the equity certificates any earlier than one year after allocation (see below concerning specific rules for senior executives, etc.).

Senior executives, etc. shall receive at least half of their general bonus in the form of equity certificates. These equity certificates cannot be sold by the individual any earlier than evenly distributed over a period of at least three years.

In the event of a negative trend in the Bank's results, or in the specific results of the business units of senior executives, etc., full or partial repayment of the variable remuneration received may be demanded in the three years following its receipt. Any severance fee upon termination of employment shall be adjusted in light of the results that have been achieved over time. Poor results shall not be rewarded. Senior executives, etc. shall not have agreements or insurance policies that provide security against the loss of performance-based remuneration.

Deviations from the Code of Practice: None

13. INFORMATION AND COMMUNICATION

The Board has established guidelines for reporting of financial and other information. Sparebanken Møre complies with the IR recommendations issued by the Oslo Stock Exchange in March 2017.

The guidelines emphasise that correct, relevant and up-to-date information about the Group's performance and results should establish trust in relation to the investor market and fulfil the requirement for equal treatment of stakeholders in the securities 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. The Bank gives special presentations in connection with the publication of Sparebanken Møre's annual and interim results. The reports and presentations are made available to the entire market via the Bank's website, including webcast presentations, and by publication on the Oslo Stock Exchange.

Annual and quarterly 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 regarding which investors to contact, and when and how, is drawn up each year.

Guidelines have been established for the Bank's contact with shareholders outside the General Meeting.

Information about the Bank's equity certificates, 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

Part of the equity of a savings bank that has issued equity certificates is ownerless. This means that Sparebanken Møre 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 equity certificates that result in ownership stakes of more than 10 per cent of the equity share capital.

Deviations from the Code of Practice: Point 14 of the Code of Practice does not apply to savings banks that have issued equity certificates and this entails a deviation.

15. AUDITOR

The Audit Committee ensures that the auditor draws up a plan for the execution of the auditing work each year and that the auditor presents this plan to the Audit Committee.

The Board and the Audit Committee summon the auditor to attend meetings at which the financial statements are considered.

At such meetings, the auditor reviews key aspects of the audit, including material situations about which the auditor and the management have disagreed. The auditor's views on the Bank's risk areas, internal control routines and accounting policies are also discussed. Besides this, the auditor will make the board members aware of any areas which would benefit from an improvement in overall quality levels, and present proposed improvements where they are required.

The Board's annual plan includes an annual meeting with the auditor which the Bank's executive management team does not attend. 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	
2017	**2018**	(NOK million)	**Note**	**2018**	**2017**
		Interest income from:			
31	34	Loans to and receivables from credit institutions		47	48
1 677	1 816	Loans to and receivables from customers	16 21	1 227	1 154
79	90	Certificates, bonds and other interest-bearing securities		106	86
1 787	1 940	Interest income	13	1 380	1 288
		Interest costs in respect of:			
19	23	Liabilities to credit institutions		32	20
261	277	Deposits from and liabilities to customers	16 21	277	261
317	391	Debt securities issued		94	76
63	42	Subordinated loan capital		42	63
27	28	Other interest		27	27
687	761	Interest costs	13	472	447
1 100	1 179	Net interest income	17	908	841
242	248	Other operating income	18	418	423
335	340	Wages, salaries etc.	21 22	327	322
128	133	Administration costs	19 20	132	127
463	473	Wages, salaries and general administration costs		459	449
31	31	Depreciation, impairment and changes in value of non-financial assets	19 23 24	27	27
96	99	Other operating costs	16 19 20 21	99	95
752	824	Profit before impairment on loans		741	693
13	16	Impairment on loans, guarantees etc.	3 6 7	20	16
739	808	Pre tax profit	17	721	677
182	203	Taxes	26	146	133
557	605	Profit after tax		576	544
551	594	Allocated to equity owners		565	538
6	11	Allocated to owners of Additional Tier 1 capital		11	6
141	156	Dividend funds to the local community 1)		156	141
138	153	Dividend to the EC-holders 1)		153	138
130	129	Transferred to the primary capital fund		129	130
128	127	Transferred to the dividend equalisation fund		127	128
14	29	Transferred to other equity capital		0	0
551	594	Proposed distribution		565	538
27.70	29.80	Result per EC (NOK) 2)	27	28.35	27.00
27.70	29.80	Diluted earnings per EC (NOK) 2)	27	28.35	27.00

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	
2017	**2018**	(NOK million)	**Note**	**2018**	**2017**
557	605	Profit after tax		576	544
		Other income/costs reversed in ordinary profit:			
27	-	Equities available for sale - change in value (before tax)		-	27
-	-18	Change in value on basis swap spreads		0	-
-	4	Tax effect of change in value on basis swap spreads		0	-
		Other income/costs not reversed in ordinary profit:			
-12	12	Pension estimate deviations		12	-12
3	-3	Tax effect of deviations on pension estimates	26	-3	3
575	600	Total comprehensive income after tax		585	562
569	589	Allocated to equity owners		574	556
6	11	Allocated to owners of Additional Tier 1 capital		11	6

Statement of financial position

ASSETS

GROUP				PARENT BANK	
2017	**2018**	(NOK million)	**Note**	**2018**	**2017**
637	857	Cash and claims on Norges Bank		857	637
626	813	Loans to and receivables from credit institutions, on a call basis		678	626
669	475	Loans to and receivables from credit institutions, with a fixed maturity		1 652	1 871
1 295	1 288	Loans to and receivables from credit institutions	16	2 330	2 497
56 867	60 346	Net loans to and receivables from customers	3 4 5 6 7 16 17 21	37 059	35 832
6 096	6 789	Certificates, bonds and other interest-bearing securities	13 15	7 095	6 461
1 004	1 209	Financial derivatives	10	584	564
0	182	Shares and other securities assessed at fair value through profit or loss		182	0
188	-	Shares and other securities available for sale		-	188
188	182	Shares and other securities	13 15	182	188
0	0	Equity stakes in financial institutions (subsidiaries)		1 600	1 500
0	0	Equity stakes in other Group companies		21	21
0	0	Equity stakes in Group companies	16	1 621	1 521
59	54	Deferred tax benefit	26	50	62
42	42	Intangible assets	24	42	42
17	14	Machinery, equipment, fixtures and fittings and vehicles		14	16
211	206	Buildings and other real estate		20	21
228	220	Fixed assets	23	34	37
0	17	Excess funding defined benefit plan	22	17	0
75	70	Other assets	25	66	72
66 491	71 074	Total assets	9 10 13 14 15	49 937	47 913

LIABILITIES AND EQUITY

GROUP				PARENT BANK	
2017	**2018**	(NOK million)	**Note**	**2018**	**2017**
132	201	Loans and deposits from credit institutions, on a call basis		914	132
437	754	Loans and deposits from credit institutions, with a fixed maturity		754	522
569	955	Loans and deposits from credit institutions	16	1 668	654
22 552	24 620	Deposits from customers, on a call basis		24 643	22 569
10 251	9 794	Deposits from customers, with a fixed maturity		9 794	10 251
32 803	34 414	Deposits from customers	4 5 16 17 21	34 437	32 820
24 488	26 980	Bonds issued	12 13 14 15	5 415	6 090
483	525	Financial derivatives	10	502	480

78	76	Incurred costs and prepaid income		77	78
44	30	Pension liabilities	22	30	44
197	187	Tax payable	26	132	143
52	95	Provisions against guarantee liabilities	7	95	52
361	422	Other liabilities	8	419	357
732	810	Provisions and other liabilities		753	674
302	293	Additional Tier 1 capital		293	302
1 036	703	Subordinated loan capital		703	1 036
1 338	996	Subordinated loan capital	11 14	996	1 338
60 413	64 680	Total liabilities	9 10 12 13 14 15	43 771	42 056
989	989	EC capital	29	989	989
-5	-3	ECs owned by the Bank	29	-3	-5
355	356	Share premium		356	355
349	349	Additional Tier 1 capital	11	349	349
1 688	1 691	Paid-in equity		1 691	1 688
2 470	2 649	Primary capital fund		2 649	2 470
125	125	Gift fund		125	125
1 216	1 391	Dividend equalisation fund		1 391	1 216
78	0	Value adjustment fund		0	78
501	538	Other equity		310	280
4 390	4 703	Retained earnings		4 475	4 169
6 078	6 394	Total equity	28	6 166	5 857
66 491	71 074	Total liabilities and equity		49 937	47 913

Ålesund, 31 December 2018
20 February 2019

THE BOARD OF DIRECTORS OF SPAREBANKEN MØRE

LEIF-ARNE LANGØY, Chairman
ROY REITE, Deputy Chairman
RAGNA BRENNE BJERKESET
HENRIK GRUNG
JILL AASEN
ANN MAGRITT BJÅSTAD VIKEBAKK
HELGE KARSTEN KNUDSEN
MARIE REKDAL HIDE

TROND LARS NYDAL, CEO

Statement of changes in equity

GROUP 31.12.2018	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 2017 (notes 28 and 29)	6 078	984	355	349	2 470	125	1 216	78	501
Effect of transition to IFRS 9 as of 01.01.2018 *)	1				44		43	-78	-8
Equity as at 01.01.2018	6 079	984	355	349	2 514	125	1 259	0	493
Changes in own equity certificates	6	2	1		2		1		
Distributed dividend to the EC holders	-138								-138
Distributed dividend to the local community	-141								-141
Interest paid on issued Additional Tier 1 capital	-11								-11
Equity before allocation of profit for the year	5 795	986	356	349	2 516	125	1 260	0	203
Allocated to the primary capital fund	129				129				
Allocated to the dividend equalisation fund	127						127		
Allocated to the owners of Additional Tier 1 capital	11								11
Allocated to other equity	29								29
Proposed dividend allocated to the EC holders	153								153
Proposed dividend allocated to the local community	156								156
Profit for the year	605	0	0	0	129	0	127	0	349
Change in value on basis swap spreads	-18								-18
Tax effect of change in value on basis swap spreads	4								4
Pension estimate deviations	12				6		6		
Tax effect of pension estimate deviations	-3				-2		-1		
Total other income and costs from comprehensive income	-5	0	0	0	4	0	5	0	-14
Total profit for the period	600	0	0	0	133	0	132	0	335
Equity as at 31 December 2018 (notes 28 and 29)	6 394	986	356	349	2 649	125	1 391	0	538

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 28 and 29)	5 441	986	354	0	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 28 and 29)	6 078	984	355	349	2 470	125	1 216	78	501

PARENT BANK 31.12.2018	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 2017 (notes 28 and 29)	5 857	984	355	349	2 470	125	1 216	78	280
Effect of transition to IFRS 9 as of 01.01.2018 *)	10				44		43	-78	
Equity as at 01.01.2018	5 866	984	355	349	2 514	125	1 259	0	280
Changes in own equity certificates	6	2	1		2		1		
Distributed dividend to the EC holders	-138								-138
Distributed dividend to the local community	-141								-141
Interest paid on issued Additional Tier 1 capital	-11								-11
Equity before allocation of profit for the year	5 582	986	356	349	2 516	125	1 260	0	-10
Allocated to the primary capital fund	129				129				
Allocated to the dividend equalisation fund	127						127		
Allocated to the owners of Additional Tier 1 capital	11								11
Proposed dividend allocated to the EC holders	153								153
Proposed dividend allocated to the local community	156								156
Profit for the year	576	0	0	0	129	0	127	0	320
Change in value on basis swap spreads	0								
Tax effect of change in value on basis swap spreads	0								
Pension estimate deviations	12				6		6		
Tax effect of pension estimate deviations	-3				-2		-1		
Total other income and costs from comprehensive income	9	0	0	0	4	0	5	0	0
Total profit for the period	585	0	0	0	133	0	132	0	320
Equity as at 31 December 2018 (notes 28 and 29)	6 166	986	356	349	2 649	125	1 391	0	310

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 28 and 29)	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 28 and 29)	5 857	984	355	349	2 470	125	1 216	78	280

The effect on Equity on transistion to IFRS 9:

GROUP		PARENT BANK
	Value adjustment fund	
78	Closing balance according to IAS 39 (31.12.2017)	78
-78	Reclassification of financial instruments from available for sale to fair value over ordinary profit and loss	-78
0	Opening balance according to IFRS 9 (1.1.2018)	0
	Retained earnings	
4 312	Closing balance according to IAS 39 (31.12.2017)	4 091
78	Reclassification of financial instruments from available for sale to fair value over ordinary profit and loss	78
1	Change in impairments on transition to IFRS 9	22
-	Change in value on loans valued at fair value on transition to IFRS 9	-9
0	Tax effect of changed impairments and fair value assessments on transition to IFRS 9	-3
4 391	Opening balance according to IFRS 9 (1.1.2018)	4 179
1	Total change in equity on transition to IFRS 9	10

The Group's equity increased by NOK 1 million after tax as a consequence of the implementation of IFRS 9, whereas the equity in the Parent Bank increased by NOK 10 million after tax.

The implementation of IFRS 9 had no impact on the primary capital of the Group or the Parent Bank as the expected losses according to the capital adequacy requirements already exceeded the calculated ECL according to IFRS 9.

Statement of cash flow

GROUP				PARENT BANK	
2017	**2018**	(NOK million)	**Note**	**2018**	**2017**
		Cash flow from operating activities			
1 905	2 059	Interest, commission and fees received	18	1 497	1 408
-343	-383	Interest, commission and fees paid	18	-391	-344
2	3	Dividend and group contribution received	18	155	158
-525	-561	Operating expenses paid	19 20 21 22	-547	-497
-168	-204	Income taxes paid	26	-146	-117
-646	7	Changes relating to loans to and claims on other financial institutions		167	-708
-3 777	-3 740	Changes relating to repayment of loans/leasing to customers		-1 658	-2 671
-321	303	Changes in utilised credit facilities		485	-74
242	1 610	Net change in deposits from customers	21	1 617	246
-3 631	-906	Net cash flow from operating activities		1 179	-2 599
		Cash flow from investing activities			
106	112	Interest received on certificates, bonds and other securities		127	114
4 162	9 469	Proceeds from the sale of certificates, bonds and other securities		8 502	5 819
-4 022	-10 198	Purchases of certificates, bonds and other securities		-9 184	-4 378
0	0	Proceeds from the sale of fixed assets etc.	23	0	0
-24	-23	Purchase of fixed assets etc.	23	-23	-24
149	-135	Changes in other assets	24 25	-20	69
371	-775	Net cash flow from investing activities		-598	1 600
		Cash flow from financing activities			
-380	-434	Interest paid on issued bonds and subordinated loan capital		-136	-139
-89	386	Net change in deposits from Norges Bank and other financial institutions		1 015	-275
7 942	4 603	Proceeds from bonds issued	10 12	799	5 655
-3 841	-2 654	Maturity of debt securities	10 12	-1 809	-3 784
-138	-138	Dividend paid	29	-138	-138
-239	153	Changes in other debt	17 22	-77	-325
349	0	Proceeds from issued Additional Tier 1 capital	11	0	349
-7	-15	Interest paid on issued Additional Tier 1 capital	11	-15	-7
3 597	1 901	Net cash flow from financing activities		-361	1 336
337	220	Net change in cash and cash equivalents		220	337
300	637	Cash balance at 01.01		637	300
637	857	Cash balance at 31.12		857	637

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

ACCOUNTING PRINCIPLES

1.1 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 23 January 2019. The final annual accounts were presented by the Board of Directors on 20 February 2019.

The Group's operations are described in note 17.

1.2 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 2018.

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
Impairments	Note 6 Losses on loans and guarantees	IFRS 9, IFRS 7
Financial guarantees and uncertain liabilities	Note 8 Liabilities	IFRS 9, IAS 37
Financial derivatives	Note 10.3 Financial derivatives	IFRS 9, IFRS 7, IFRS 13
Hedging	Note 12 Debt securities	IFRS 9, IFRS 7
Classification of financial instruments	Note 13 Classification of financial instruments	IFRS 9, IFRS 7
Amortised cost	Note 14 Financial instruments at amortised cost	IFRS 9, IFRS 7
Fair value	Note 15 Financial instruments at fair value	IFRS 9, IFRS 13, IFRS 7
Operating segments	Note 17 Operating segments	IFRS 8
Revenue recognition	Note 18 Other operating income	IFRS 15, IFRS 9
Leases	Note 20 Leases	IAS 17
Pensions	Note 22 Pension costs and liabilities	IAS 19
Fixed assets	Note 23 Fixed assets	IAS 16, IAS 36
Intangible assets	Note 24 Other intangible assets	IAS 38, IAS 36
Tax	Note 26 Tax	IAS 12
Equity	Note 29 ECs and ownership structure	IAS 1
Events after the reporting period	Note 30 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 16.

Companies which are 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 equity investment valued at fair value.

Changes in accounting principles and presentation (classifications)
There are no material changes in accounting policies for 2018.

New or amended standards
The Group has implemented one new standard in 2018, IFRS 9 Financial instruments, replacing IAS 39 from 1 January 2018. See following notes for additional information:

- Changes in equity: implementation effect on equity by transition to IFRS 9
- Note 6 Losses on loans and guarantees: information and specifications related to the effect of the implementation on expected credit losses
- Note 13 Classification of financial instruments: the effect on classification and assessment
- Note 10.3 Financial derivatives: changed principles for hedge accounting

The implementation of IFRS 9 had no impact on primary capital of the Group or the Parent Bank, as expected losses according to the capital adequacy requirements already exceeded losses according to IFRS 9. Sparebanken Møre therefore had no need to apply the transitional rule.

In addition, IFRS 15 was implemented in 2018, but this standard has not resulted in changes in the Group's recognition of income.

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.

The following new standard with future effective date will not have significant relevance for the Sparebanken Møre Group:

• IFRS 16 Leases

This standard replaces existing standard, 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 has not used the possibility of early adoption. The new standard will affect the Group's accounting for lease of property This will affect the Group's balance sheet by the implementation on 1 January 2019, by recognizing assets related to rights of use with NOK 90 million and corresponding liabilities related to lease obligations are recognised at NOK 90 million. For the Parent Bank, the corresponding figures will be NOK 202 million. The implementation will not have any impact on the Group's equity. Annual depreciation and interest cost according to IFRS 16 will not materially deviate from the current rental cost in accordance with IAS 17.

Annual improvements
Minor changes have been made 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.

1.3 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 31.12.2018. 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.

1.4 JUDGMENTS IN APPLYING ACCOUNTING PRINCIPLES

Financial assets and liabilities are allocated to the different categories in IFRS 9, 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.

1.5 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 IFRS 9. Little discretionary judgment is normally exercised in this context. Please refer to note 13 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 and guarantees
Measurement of ECL (Expected Credit Loss) according to IFRS 9 requires an assessment when it comes to significant increase in credit risk and determining the level of impairment, particularly with regard to estimates of amounts and timing of future cash flows and colleteral. These estimates are driven by a number of factors, where changes can result in different levels of provisions.

Sparebanken Møre has developed an ECL-model based on IRB parameters in the Group.. ECL-calculations are output from complex models with several underlying prerequisites related to the choice of variable inputs and the dependency ratio.

Elements of the ECL-model containing assessments and estimates include:

- The internal credit model, which specifies PDs (PD = Probability of Default)
- The crieria assessing whether there's been a significant increase in credit risk, so that lifetime ECL (ECL = Expected Credit Loss) is calculated
- The development of the ECL-model, including variours formulas and choice of inputs
- Choice of connection between macroeconomic scenarios and economic inputs, such as unemployment level and value of collateral, and the effect on PD, EAD (Exposure at Default) and LGD (Loss Given Default)
- Choice of future-oriented macroeconomic scenarios and weighting of probability

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 15. Reference is also made to notes 9-14, 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 22 for additional information.

Note 2

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-to-day 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. 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 EY.

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 (BMS) 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 prepared annually. 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 28 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 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 28 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 and 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. Credit quality is considered to be high, mainly due to investments in issuers with high ratings and low capital weight.

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).

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 10.1 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 13 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 10.2 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 2022", sets out a liquidity strategy protecting the structure and volume of the LCR requirement. The Authority's requirements amounts to 100 per cent.

At year-end 2018, the LCR indicator for the Group was 158 per cent and NSFR 108 per cent. 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 and 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 and 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 and 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 Divison

• 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 57 per cent 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 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.

For the Compliance Department, board adopted instructions, work plans and action plans have been established.

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.

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 and responsible for 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-today 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. 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. For all customers trading in 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 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 using 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 3

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 2, concerning Risk Management, specifies the 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 28 where credit risk for the Group is quantified through risk-adjusted capital. As described in note 2, 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 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.

The classification of loans and receivables at amortised cost assumes that the following requirements are met:

- The asset is acquired to receive contractual cash flows
- The contractual cash flows consist solely of principal and interest

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 2018	Gross loans	Guarantees	Credit facilities	Derivatives	Total	Total EAD
Low risk (0 % - < 0.5 %)	49 858	540	4 155	571	55 125	54 493
Medium risk (0.5 % - <3 %)	9 175	391	1 015	25	10 606	10 289
High risk (3 % - <100 %)	1 382	359	394	5	2 140	2 059
Commitments in default/problem loans	174	223	5	8	410	387
Total loans before impairments	60 589	1 513	5 569	609	68 281	67 229
- Impairments	-243	-95	0	0	-338	-338
Net loans to and receivables from customers 31.12.2018	60 346	1 418	5 569	609	67 943	66 891

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 impairments	57 151	1 769	4 932	565	64 418	63 521
- Impairments	-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 - PARENT BANK 2018	Gross loans	Guarantees	Credit facilities	Derivatives	Total	Total EAD
Low risk (0 % - < 0.5 %)	27 851	540	2 944	571	31 462	31 175
Medium risk (0.5 % - <3 %)	8 047	391	1 011	25	9 474	9 157
High risk (3 % - <100 %)	1 220	359	394	5	1 977	1 897
Commitments in default/problem loans	167	223	5	8	403	380
Total loans before impairments	37 284	1 513	4 354	609	43 760	42 609
- Impairments	-225	-95	0	0	-320	-320
Net loans to and receivables from customers 31.12.2018	37 059	1 418	4 354	609	42 996	42 289

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 impairments	36 114	1 769	3 733	565	42 181	41 178
- Impairments	-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

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 6.

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. Derivatives 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 - 2018	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 %	18 139	41.80	8 710	50.72	26 849	44.33
60 % - 70 %	7 327	16.88	1 219	7.10	8 546	14.11
70 % - 80 %	8 895	20.50	1 484	8.64	10 379	17.14
80 % - 90 %	3 771	8.69	1 303	7.59	5 074	8.38
90 % - 100 %	1 738	4.00	1 820	10.60	3 557	5.87
Above 100 %	3 208	7.39	2 408	14.02	5 616	9.27
Not secured	317	0.73	229	1.33	546	0.90
Total	43 395	100.00	17 171	100.00	60 566	100.00

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

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	2018	2017
Pool of eligible loans	22 976	20 814
Supplementary assets	1 300	85
Financial derivatives applied in hedge accounting(debt)	-23	-4
Financial derivatives applied in hedge accounting(assets)	625	439
Total collateralised assets 1)	24 878	21 334
Collateralisation in %	111.1	113.3

1) NOK 433 million of total gross loans are not eligible for the cover pool as at 31 December 2018 (NOK 348 million in 2017).

Note 4

COMMITMENTS BROKEN DOWN ACCORDING TO SECTORS

In the financial statements, the loan portfolio with agreed floating interest rate is measured at amortised cost, while the loan portfolio with fixed-interest rate is measured at fair value. Deposits are measured at amortised cost.

LOANS TO CUSTOMERS	**Group**		**Parent Bank**	
Broken down according to sectors	**2018**	**2017**	**2018**	**2017**
Agriculture and forestry	542	464	536	461
Fisheries	3 206	2 402	3 197	2 397
Manufacturing	2 369	2 030	2 364	2 024
Building and construction	698	562	658	536
Wholesale and retail trade, hotels	676	620	653	614
Supply/offshore	1 005	882	1 005	882
Property management	6 733	6 672	6 576	6 584
Professional/financial services	1 272	1 261	1 238	1 230
Transport and private/public services	1 867	2 152	1 728	2 064
Public entities	0	0	0	0
Activities abroad	248	123	248	123
Total corporate/public entities	18 616	17 168	18 203	16 915
Retail customers	41 917	39 817	19 029	19 058
Fair value adjustment of loans	56	66	52	66
Accrued interest	-	100	-	75
Total loans to customers	60 589	57 151	37 284	36 114
Expected credit loss (ECL) - Stage 1	-25		-22	
Expected credit loss (ECL) - Stage 2	-60		-46	
Expected credit loss (ECL) - Stage 3	-111		-110	
Individual impairment	-47	-48	-47	-48
Collective impairment	-	-236	-	-234
Total net loans to and receivables from customers	60 346	56 867	37 059	35 832
- of which loans with floating interest rate (amortised cost)	56 535	52 944	29 752	31 909
- of which loans with fixed interest rate (fair value)	3 811	3 923	7 307	3 923

DEPOSITS FROM CUSTOMERS	Group		Parent Bank	
Broken down according to sectors	**2018**	**2017**	**2018**	**2017**
Agriculture and forestry	181	186	181	186
Fisheries	995	1 214	995	1 214
Manufacturing	1 559	1 806	1 559	1 806
Building and construction	661	636	661	636
Wholesale and retail trade, hotels	813	842	813	842
Property management	1 576	1 309	1 588	1 316
Transport and private/public services	5 043	4 201	5 054	4 211
Public entities	780	723	780	723
Activities abroad	5	5	5	5
Miscellaneous	2 177	2 179	2 177	2 179
Total corporate/public entities	13 790	13 101	13 813	13 118
Retail customers	20 624	19 688	20 624	19 688
Fair value adjustment of deposits	0	2	0	2
Accrued interest	-	12	-	12
Total deposits from customers	34 414	32 803	34 437	32 820

Note 5

COMMITMENTS BROKEN DOWN INTO GEOGRAPHICAL AREAS

	Møre og Romsdal		Remaining parts of Norway		Foreign countries		Total	
GROUP	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Gross loans	49 851	47 536	10 410	9 446	328	169	60 589	57 151
In percentage	82.3	83.2	17.2	16.5	0.5	0.3	100.0	100.0
Deposits	27 254	26 285	6 681	6 108	479	410	34 414	32 803
In percentage	79.2	90.1	19.4	8.6	1.4	1.3	100.0	100.0

PARENT BANK	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Gross loans	32 004	31 207	4 990	4 758	290	149	37 284	36 114
In percentage	85.8	86.4	13.4	13.2	0.8	0.4	100.0	100.0
Deposits	27 277	26 302	6 681	6 108	479	410	34 437	32 820
In percentage	79.2	80.1	19.4	18.6	1.4	1.3	100.0	100.0

Note 6

LOSSES ON LOANS AND GUARANTEES

Implementation effect of IFRS 9 as of 1 January 2018

IFRS 9 came into force on 1 January 2018, replacing the then current standard IAS 39. The impairment rules according to IFRS 9 are based on a model of expected credit losses (ECL). IFRS 9 applies to financial assets measured at amortised cost or at fair value with value changes recognised through other comprehensive income (OCI). In addition, also financial guarantee contracts are included. Losses shall be allocated to all commitments from day one.

The following table shows the effect of the implementation of IFRS 9. The table shows a reconciliation of the total impairments according to IAS 39 against the ECL-provision 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	1	-335
	-336	1	-335

The calculation of expected credit loss for the Group Sparebanken Møre as of 1 January 2018 resulted in reduced impairments of MNOK 1.

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	22	-312
Change in fair value of loans prepared for sale	0	-9	-9
	-334	13	-321

The calculation of expected credit loss for the Parent Banke Sparebanken Møre as of 1 January 2018 resulted in reduced impairments of MNOK 22.

In addition, the value of the loans prepared for sale to Møre Boligkreditt AS, which are measured at fair value, was reduced by MNOK 9 as of 1 January 2018.

Methodology for measuring expected credit loss (ECL) according to IFRS 9

Sparebanken Møre has developed an ECL-model based on the IRB-parameters in the Group, dividing the commitments into three stages when calculating expected credit loss (ECL) on loans to customers and financial guarantees in accordance with IFRS 9:

Stage 1: At initial recognition and if there's no significant increase in credit risk, the commitment is classified in stage 1 with 12-months ECL.

Stage 2: If a significant increase in credit risk since initial recognition is identified, but without objective evidence of loss, the commitment is transferred to stage 2 with lifetime ECL measurement.

Stage 3: If the credit risk increases further and there's objective evidence of loss, PD = 100 % and/or individual impairments have been made, the commitment is transferred to stage 3 with lifetime ECL measurement. As opposed to stage 1 and 2, the effective interest rate in stage 3 is calculated on net impaired commitments (total commitments less expected credit losses) instead of gross commitments.

An increase in credit risk, reflects both customer-specific circumstances and development in relevant macro factors for the particular customer segment. The assessment of what is considered to be a significant increase in credit risk is based on a combination of quantitative and qualitative indicators, as well as "backstops" (see separate section regarding "backstops").

The calculation of expected credit losses is based on the following principles:

- The loss provision for commitments which are not credit-impaired is calculated as the present value of exposure at default (EAD) multiplied by the probability of default (PD) multiplied by loss given default (LGD). PD, LGD and EAD use the IRB framework as a starting point, but are converted into being point-in-time and forward-looking as opposed to through the cycle and conservative.

- Past, present and forward-looking information is used to estimate ECL. For this purpose, Sparebanken Møre's loan portfolio is divided into 7 segments (retail portfolio and 6 industry spesific corporate portfolios). All customers within a segment are exposed to the same risk drivers.

- For credit-impaired financial instruments in stage 3, individual assessments are performed.

The model used for calculating ECL follows four steps: Segmentation, determination of macro adjustments, staging/migration and calculation of ECL.

Segmentation and macro adjustments
The assessment of significant increase in credit risk and the calculation of ECL incorporates past, present and forward-looking information. Segmentation of the portfolio is based on the customers' fields of operation, and each segment is subject to separate macro adjustments.

Theory of cyclical cycles has been used to model macro factors to estimate lifetime ECL in the model. A trend curve is prerequisite to show long-term GDP growth. Based on an assessment by the Chief Economist and the corporate unit managers in SBM, key indicators have been selected for the retail market and the various corporate sectors. Indicators issued by Statistics Norway (SSB) have been used to a large extent. Volatility in the indicators is taken into account when calculating the macro-factors. Standard deviations are calculated for each indicator, which entails that high/low volatility indicators will cause a higher/lower impact on the macro factor.

Important indicators for macro adjustment can be:
- Unemployment
- Interest rate development
- Debt burden
- Housing price development

Calculation of expected credit loss
The determination of a significant increase in credit risk and the measurement of ECL are based on parameters already used in credit risk management and for capital adequacy calculations: PD, LGD and EAD. The parameters have been adjusted in order to give an unbiased estimate of ECL.

Probability of default (PD)
Sparebanken Møre applies several different models to determine a customer's PD. The choice of model depends on whether it is a

retail or corporate customer. PD models are key components both in calculating the ECL and in assessing whether a significant increase in credit risk has occurred since initial recognition. These models fulfil the IFRS 9 requirement to provide an unbiased probability-weighted estimate of ECL. Sparebanken Møre has been granted permission to use internal ratings based approach (IRB) models for determining PD in capital adequacy calculations. In order to apply these PDs for IFRS 9, modifications have been made to allow that the PDs used for IFRS 9 reflect management's current view of expected cyclical changes and that all PD estimates are unbiased.

Loss given default (LGD)
LGD represents the percentage of EAD which the Group expects to lose if the customer fails to meet his obligations, taking the collateral provided by the customer, future cash flows and other relevant factors into consideration.

Similar to PDs, Sparebanken Møre uses IRB LGDs for capital adequacy calculations. In order to convert the IRB LGDs to IFRS LGDs, modifications have been made to remove the margin of conservatism to produce unbiased projections rather than downturn projections as well as removing the effect of regulatory floors.

These modifications imply that the LGDs used for IFRS 9 should reflect management's current view and that all LGD estimates are unbiased.

Exposure at default (EAD)
EAD is the share of the approved credit that is expected to be drawn at the time of any future default. The EAD is adjusted to reflect contractual payments of principal and interest. The proportion of undrawn commitments expected to have been drawn at the time of default is reflected in the credit conversion factor.

Significant increase in credit risk
The assessment of a significant increase in credit risk is based on a combination of quantitative and qualitative indicators and backstops. A significant increase in credit risk has occurred when one or more of the criteria below are met.

Quantitative criteria
A significant increase in credit risk is determined by comparing the PD at the reporting date with the PD at initial recognition. If the actual PD is higher than initial PD, an assessment is made of whether the increase is significant.

Significant increase in credit risk since initial recognition is considered to have occurred when either

- PD has increased by 100 % or more and the increase in PD is more than 0.5 percentage points, or
- PD has increased by more than 2.0 percentage points

Qualitative criteria
Qualitative information is normally reflected in the respective PD models for each group of customers.

«Backstops»

Backstops are used and a significant increase in credit risk has occurred if:

- the customer's contractual payments are 30 days past due
- the customer has been granted forbearance measures due to financial distress, though it is not severe enough for the financial instrument to be classified as credit-impaired

Definition of default, forbearance and individual impairment
A commitment is defined to be in default if a claim is more than 90 days overdue and the overdue amount exceeds NOK 1 000.

A commitment is defined to be subject to forbearance if the bank agrees to changes in the terms and conditions because the debtor is having problems meeting payment obligations.

A commitment is defined to be credit-impaired if the commitment, as a result of a weakening of the debtor's creditworthiness, has been subject to an individual assessment, resulting in an individual impairment. The principles and estimation techniques for credit-impaired financial instruments are not affected by IFRS 9.

Expert credit judgement
The new rules require significant professional judgement of the input parameters in the ECL-measurement. The assessment of the macro prognoses and their impact are key judgements and Sparebanken Møre has established an advisory forum to address this. The forum's purpose is to assess if the predicted macro prognoses for each segment reflect the management's view on the expected future economic development.

Validation
The ECL model is subject to annual validation and review.

Individual impairment
Individual impairment for losses is made when there are indications that a loan is impaired. An impairment is reversed when the loss is reduced and when it can 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 whethe there are indications of credit deterioration

A financial asset is impaired when one or more events that have a negative impact on the financial asset's estimated future cash flows have taken place. Indications that a financial asset is impaired include observable data on the following events:

a) the debtor having significant financial problems,
b) breaches of contract, for example default or overdue payments,

A financial asset is considered as defaulted if the borrower does not pay overdue installments, or overdrafts are not covered, maximum within 90 days

c) When the borrower's lender, for financial or contractual reasons related to the borrower's financial difficulties, has given the borrower concessions that the lender would otherwise not have considered,
d) when it becomes likely that the borrower will go bankrupt or be subjected to another form of financial reorganization,
e) when an active market for the financial asset disappears due to financial difficulties, or
f) purchase or creation of a financial asset with a significant discount that reflects accrued credit losses.

It may not be possible to identify a single separate event - instead, the overall impact of several events may have been the cause of financial assets deteriorating.

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.

In case of individual 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.

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.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in "Impairment

on loans, guarantees etc." in the Statement of income. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Losses on loans and guarantees

GROUP			PARENT BANK	
2017	**2018**	**Specification of losses on loans, guarantees etc.**	**2018**	**2017**
-45	-	Changes in collective impairment during the period (IAS 39)	-	-42
-	1	Changes in ECL during the period - Stage 1	1	-
-	16	Changes in ECL during the period - Stage 2	14	-
-	-12	Changes in ECL during the period - Stage 3	-6	-
5	2	Increase in existing individual impairments	2	5
65	30	New individual impairments	30	65
25	11	Confirmed losses, previously impaired	11	25
-49	-33	Reversal of previous individual impairments	-33	-49
18	8	Confirmed losses, not previously impaired	8	18
-6	-7	Recoveries	-7	-6
13	16	Total impairment on loans and guarantees	20	16

Changes in ECL in the period

GROUP	Stage 1	Stage 2	Stage 3	Total
Total impairments at 31.12.2017 according to IAS 39				336
Effect of transition to IFRS 9				-1
ECL 01.01.2018 according to IFRS 9	25	46	264	335
New commitments	9	16	1	26
Disposal of commitments	-6	-12	-13	-30
Changes in ECL in the period for commitments which have not migrated	-2	-3	13	8
Migration to stage 1	3	-18	-8	-23
Migration to stage 2	-2	32	-11	19
Migration to stage 3	0	-1	6	5
Changes in individual impairments			-1	-1
ECL 31.12.2018	26	61	251	338
- of which expected losses on loans	25	60	158	243
- of which expected losses on guarantees	1	1	93	95

PARENT BANK	Stage 1	Stage 2	Stage 3	Total
Total impairments at 31.12.2017 according to IAS 39				334
Effect of transition to IFRS 9				-22
ECL 01.01.2018 according to IFRS 9	22	32	258	312
New commitments	8	13	2	23
Disposal of commitments	-6	-11	-10	-27
Changes in ECL in the period for commitments which have not migrated	-1	0	13	12
Migration to stage 1	2	-12	-8	-18
Migration to stage 2	-2	26	-9	15
Migration to stage 3	0	-1	5	4
Changes in individual impairments			-1	-1
ECL 31.12.2018	23	47	250	320
- of which expected losses on loans	25	60	158	225
- of which expected losses on guarantees	1	1	93	95

Changes in commitments (exposure) during the period

GROUP	Stage 1	Stage 2	Stage 3	Total
Commitments at 01.01.2018 acc. to IFRS 9	51 591	2 383	3 167	57 141
New commitments	15 533	686	27	16 246
Disposal of commitments	-9 299	-441	-645	-10 385
Changes in ECL in the peroid for commitments which have not migrated	-2 101	-53	-88	-2 242
Migration to stage 1	1 791	-1 107	-739	-55
Migration to stage 2	-2 260	2 527	-493	-226
Migration to stage 3	-21	-14	33	-2
Other changes	-31	-8	-11	-50
Commitments at 31.12.2018*	55 203	3 973	1 251	60 427

PARENT BANK	Stage 1	Stage 2	Stage 3	Total
Commitments at 01.01.2018 acc. to IFRS 9	27 160	1 691	3 013	31 864
New commitments	9 303	497	32	9 832
Disposal of commitments	-6 814	-394	-631	-7 839
Changes in ECL in the peroid for commitments which have not migrated	-1 170	-39	-88	-1 297
Migration to stage 1	1 431	-823	-645	-37
Migration to stage 2	-1 902	2 150	-459	-211
Migration to stage 3	-10	-11	20	-1
Other changes	-23	-2		-25
Commitments at 31.12.2018*	27 975	3 069	1 242	32 286

*) The tables above are based on exposure at the reporting date, not including fixed rate loans assessed at fair value. The figures are thus not reconcilable against balances in the statement of financial position.

Commitments (exposure) divided into risk groups based on probability of default

GROUP	Stage 1	Stage 2	Stage 3	Total 31.12.2018
Low risk (0 % - < 0.5 %)	48 342	833	0	49 175
Medium risk (0.5 % - < 3 %)	6 345	2 533	681	9 559
High risk (3 % - <100 %)	516	607	188	1 311
Problem loans			382	382
Total commitments before ECL	55 203	3 973	1 251	60 427
- ECL	-26	-61	-251	-338
Net commitments *)	55 177	3 912	1 000	60 089

PARENT BANK	Stage 1	Stage 2	Stage 3	Total 31.12.2018
Low risk (0 % - < 0.5 %)	21 975	549	0	22 524
Medium risk (0.5 % - < 3 %)	5 569	2 024	681	8 274
High risk (3 % - <100 %)	431	496	179	1 106
Problem loans			382	382
Total commitments before ECL	27 975	3 069	1 242	32 286
- ECL	-23	-47	-250	-320
Net commitments *)	27 952	3 022	992	31 966

*) The tables above is based on exposure at the reporting date, not including fixed rate loans assessed at fair value. The figures are thus not reconcilable against balances in the statement of financial position.

Note 7

DEFAULTED AND DOUBTFUL COMMITMENTS

The accounting policies on commitments in default and estimated losses are disclosed in note 6. 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. If a customer has one commitment that is overdue, then all the other commitments with this customer are regarded as overdue. 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 to individual impairment without being in default.

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

Overdue commitments	2018			2017		
GROUP	**Total**	**Retail**	**Corporate**	**Total**	**Retail**	**Corporate**
0-1 months	405	363	42	524	465	59
1-3 months	81	20	61	39	31	8
3-6 months	22	10	12	12	10	2
6-12 months	35	27	8	18	18	0
Above 12 months	19	18	1	32	26	6
Gross loans in default	562	438	124	625	550	75
Thereof commitments with impairment	26	11	15	23	14	9
Thereof commitments without impairment	536	427	109	602	536	66

PARENT BANK	Total	Retail	Corporate	Total	Retail	Corporate
0-1 months	277	235	42	362	304	58
1-3 months	76	15	61	34	26	8
3-6 months	22	10	12	12	10	2
6-12 months	35	27	8	18	18	0
Above 12 months	19	18	1	32	26	6
Gross loans in default	429	305	124	458	384	74
Thereof commitments with impairment	26	11	15	23	14	9
Thereof commitments without impairment	403	294	109	435	370	65

Problem loans

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

	2018			2017		
GROUP	**Total**	**Retail**	**Corporate**	**Total**	**Retail**	**Corporate**
Commitments in default above 3 months	76	55	21	62	53	9
Other bad and doubtful commitments subject to impairment	306	17	289	274	8	266
Gross problem loans	382	72	310	336	61	275
Commitments in default above 3 months	11	9	2	4	2	2
Other bad and doubtful commitments subject to impairment	88	0	88	96	4	92
Total individual impairment	99	9	90	100	6	94
Commitments in default above 3 months	65	46	19	58	51	7
Other bad and doubtful commitments subject to impairment	218	17	201	178	4	174
Net problem loans	283	63	220	236	55	181
Gross problem loans as a percentage of total loans	0.62	0.17	1.54	0.57	0.15	1.46
Net problem loans as a percentage of total loans	0.46	0.15	1.09	0.40	0.14	0.96

PARENT BANK	**Total**	**Retail**	**Corporate**	**Total**	**Retail**	**Corporate**
Commitments in default above 3 months	76	55	21	62	53	9
Other bad and doubtful commitments subject to impairment	306	17	289	274	8	266
Gross problem loans	382	72	310	336	61	275
Commitments in default above 3 months	11	9	2	4	2	2
Other bad and doubtful commitments subject to impairment	88	0	88	96	4	92
Total individual impairment	99	9	90	100	6	94
Commitments in default above 3 months	65	46	19	58	51	7
Other bad and doubtful commitments subject to impairment	218	17	201	178	4	174
Net problem loans	283	63	220	236	55	181
Gross problem loans as a percentage of total loans	0.99	0.40	1.63	0.89	0.32	1.48
Net problem loans as a percentage of total loans	0.74	0.35	1.16	0.62	0.29	0.97

Development last 5 years

GROUP						PARENT BANK				
2014	**2015**	**2016**	**2017**	**2018**		**2018**	**2017**	**2016**	**2015**	**2014**
86	74	65	62	76	Gross commitments in default above 3 months	76	62	63	72	86
306	170	546	274	306	Other bad and doubtful commitments subject to impairment	306	274	546	170	306
392	244	611	336	382	Gross problem loans	382	336	609	242	392
21	14	15	4	11	Impairments on commitments in default above 3 months	11	4	15	14	21
122	65	64	96	88	Impairments on other bad and doubtful commitments subject to impairment	88	96	64	65	122
143	79	79	100	99	Total individual impairments	99	100	79	79	143
65	60	50	58	65	Net commitments in default above 3 months	65	58	48	58	65
184	105	482	178	218	Other bad and doubtful commitments subject to impairment	218	178	482	105	184
249	165	532	236	283	Net problem loans	283	236	530	163	249
0.80	0.47	1.12	0.57	0.62	Gross problem loans a percentage of total loans	0.99	0.89	1.74	0.70	1.16
0.51	0.32	0.98	0.40	0.46	Net problem loans as a percentage of total loans	0.74	0.62	1.51	0.47	0.74

Note 8

GUARANTEES, DRAWING RIGHTS AND COLLATERAL

Financial guarantees

The Group issues financial guarantees as part of its ordinary operations. Credit risk is presented in note 3 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 6.

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 recognised in the annual accounts, but disclosed if it is likely that a benefit will accrue to the Group.

GROUP			PARENT BANK	
2017	**2018**		**2018**	**2017**
1 717	1 418	Guarantee liabilities relating to customers	1 418	1 717
0	0	Guarantee liabilites towards credit institutions	0	0
0	0	Guarantee provided for the Savings Bank's Guarantee Fund (SBGF)	0	0
1 717	1 418	Guarantee liabilities as at 31.12	1 418	1 717
4 932	5 569	Drawing rights facilities for customers	4 354	3 733

2017	2018	Assets pledged as collateral security for loans etc.	2018	2017
1 105	1 400	Certificates and bonds pledged as collateral for access to loans from Norges Bank	1 400	1 105
0	0	Utilised under loan facility from Norges Bank	0	0

As at 31.12.2018, the Group is not involved in any legal disputes.

Note 9

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.

The Group`s deposit-to-loan ratio, calculated including transferred mortgages to Møre Boligkreditt AS, amounted to 57.0 per cent at the end of 2018, opposed to 57.7 per cent by the end of 2017.

The average residual maturity of the portfolio of senior bonds and covered bonds were respectively 1.9 and 3.7 at the end of 2018, compared with 2.4 and 3.5 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 13 and 15.

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

Liquidity risk 2018

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	857	0	0	0	0	857
Loans to and receivables from credit institutions	1 288	0	0	0	0	1 288
Loans to and receivables from customers	8 122	193	1 495	12 944	46 073	68 827
Certificates and bonds	28	404	999	5 260	619	7 310
Total assets	10 295	597	2 494	18 204	46 692	78 282
Liabilities						
Loans and deposits from credit institutions	455	0	0	500	0	955
Deposits from customers	33 048	339	1 000	39	0	34 426
Debt securities issued	10	81	3 394	19 466	5 075	28 026
Subordinated loan capital	3	1	324	76	787	1 191
Total liabilities	33 516	421	4 718	20 081	5 862	64 598
Financial derivatives						
Cash flow in	9	50	292	774	388	1 513
Cash flow out	12	79	316	870	264	1 541
Total financial derivatives	-3	-29	-24	-96	124	-28

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	0	0	0	0	637
Loans to and receivables from credit institutions	1 295	0	0	0	0	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	0	0	500	0	569
Deposits from customers	31 141	362	1 316	14	0	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 2018

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	857	0	0	0	0	857
Loans to and receivables from credit institutions	2 330	0	0	0	0	2 330
Loans to and receivables from customers	4 310	192	1 487	12 555	26 996	45 540
Certificates and bonds	28	107	1 646	5 219	619	7 619
Total assets	7 525	299	3 133	17 774	27 615	56 346
Liabilities						
Loans and deposits from credit institutions	1 168	0	0	500	0	1 668
Deposits from customers	33 071	339	1 000	39	0	34 449
Debt securities issued	0	24	1 468	4 069	0	5 561
Subordinated loan capital	3	1	324	76	787	1 191
Total liabilities	34 242	364	2 792	4 684	787	42 869
Financial derivatives						
Cash flow in	9	35	196	347	117	704
Cash flow out	10	44	205	410	123	792
Total financial derivatives	-1	-9	-9	-63	-6	-88

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	0	0	0	0	637
Loans to and receivables from credit institutions	2 497	0	0	0	0	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	0	0	500	0	654
Deposits from customers	31 141	362	1 316	14	0	32 833
Debt securities issued	21	812	628	4 792	0	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

Note 10

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 10.1

INTEREST RATE RISK

Interest rate risk occurs due to the fact that the Group may have different interest rate periods on its assets and liabilities. 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 64 million.

GROUP - 2018	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
NOK	8	9	5	-16	-3	3
Cur	1	4	0	-1	-3	1
Total	9	13	5	-17	-6	4

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

PARENT BANK - 2018	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
NOK	-3	15	4	-13	-2	1
Cur	2	4	0	-1	-3	2
Total	-1	19	4	-14	-5	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

Note 10.2

FOREIGN EXCHANGE RISK

Sparebanken Møre measures foreign exchange risk on the basis of its net positions in the different currencies involved. 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 - 2018	Total	NOK	Currency	Of which: USD	EUR	JPY	CHF	Other
Cash and claims on Norges Bank	857	856	1		1			
Loans to and receivables from credit institutions	1 288	1 175	113	46	11	8	8	40
Loans to and receivables from customers	60 346	57 136	3 210	1 054	451	24	1 065	616
Certificates and bonds	6 789	5 988	801		469			332
Other assets	1 794	1 772	22	12	1		8	1
Total assets	71 074	66 927	4 147	1 112	933	32	1 081	989
Loans and deposits from credit institutions	955	943	12	8				4
Deposits from customers	34 414	34 152	262	211	33	7		11
Debt securities issued	26 980	21 354	5 626		5 626			
Other liabilities	1 335	1 330	5	5				
Subordinated loan capital	996	996	0					
Equity	6 394	6 394	0					
Total liabilities and equity	71 074	65 169	5 905	224	5 659	7	0	15
Forward exchange contracts			1 762	-892	4 727	-24	-1 073	-976
Net exposure foreign exchange			4	-4	1	1	8	-2
Effect of a 10 per cent change in price (MNOK)	1							

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 (MNOK)	2							

PARENT BANK - 2018	Total	NOK	Currency	Of which: USD	EUR	JPY	CHF	Other
Cash and claims on Norges Bank	857	856	1		1			
Loans to and receivables from credit institutions	2 330	2 217	113	46	11	8	8	40
Loans to and receivables from customers	37 059	33 849	3 210	1 054	451	24	1 065	616
Certificates and bonds	7 095	6 294	801		469			332
Other assets	2 599	2 577	22	12	1		8	1
Total assets	49 940	45 793	4 147	1 112	933	32	1 081	989
Loans and deposits from credit institutions	1 668	1 656	12	8				4
Deposits from customers	34 437	34 175	262	211	33	7		11
Debt securities issued	5 415	5 415	0					
Other liabilities	1 258	1 253	5	5				
Subordinated loan capital	996	996	0					
Equity	6 166	6 166	0					
Total liabilities and equity	49 940	49 661	279	224	33	7	0	15
Forward exchange contracts			-3 864	-892	-899	-24	-1 073	-976
Net exposure foreign exchange			4	-4	1	1	8	-2
Effect of a 10 per cent change in price (MNOK)	1							

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							

Note 10.3

FINANCIAL DERIVATIVES

IFRS 9 provides new principles for hedge accounting, with the purpose of better reflecting the risk management activities of the bank. Financial hedging previously 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 As of 01.01.2018, changes in value on basis-swaps due to changes in basis-swap spreads, will be recognised in OCI as a cost of hedging.

Calculation of fair value of financial derivatives is based on valuation models in which the price of underlying interest and currency are obtained in the market.

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. Changes in basis swaps effects are charged to Comprehensive income. 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 Other operating income, and financial derivatives in the bank's portfolio, recognised in Net interest income.

	2018			2017		
GROUP	**Nominal value**	**Asset**	**Liability**	**Nominal value**	**Asset**	**Liability**
Interest rate related contracts						
Swaps	12 053	329	209	12 166	365	261
Foreign exchange related						
Swaps	6 725	446	112	4 263	238	103
FX forward	9 349	434	204	9 203	361	89
Earned interest					40	30
Total financial derivatives		1 209	525		1 004	483
- hereof applied in hedge accounting	8 405	558	13	4 958	374	0

	2018			2017		
PARENT BANK	**Nominal value**	**Asset**	**Liability**	**Nominal value**	**Asset**	**Liability**
Interest rate related contracts						
Swaps	9 003	146	207	10 116	185	261
Foreign exchange related						
Swaps	1 375	4	91	1 363	3	100
FX forward	9 349	434	204	9 203	361	89
Earned interest					15	30
Total financial derivatives		584	502		564	480
- hereof applied in hedge accounting	277	6	0	277	17	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 31.12.2018, Sparebanken Møre has a cash collateral of NOK million 566.

As of 31 December 2018, the following swaps were used in fair value hedging of interest rate risk:

GROUP - 2018		Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Nominal amount	NOK	0	0	277	1 000	2 050
Average fixed interest rate		-	-	11.7 %	1.5 %	3.8 %
Nominal amount	EUR	0	0	0	4 854	225
Average fixed interest rate		-	-	-	0.3 %	2.8 %

GROUP - 2017		Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Nominal amount	NOK	0	0	0	1 277	1 050
Average fixed interest rate		-	-	-	3.7 %	4.8 %
Nominal amount	EUR	0	0	0	2 408	223
Average fixed interest rate		-	-	-	0.1 %	2.8 %

PARENT BANK - 2018		Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Nominal amount	NOK	0	0	277	0	0
Average fixed interest rate		-	-	11.7 %	-	-

PARENT BANK - 2017		Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Nominal amount	NOK	0	0	0	277	0
Average fixed interest rate		-	-	-	11.7 %	-

Maturity of financial derivatives, nominal value

GROUP	2018			2017		
Maturity	Interest rate swaps	Interest rate and foreign exchange swaps	Forward exchange contracts	Interest rate swaps	Interest rate and foreign exchange swaps	Forward exchange contracts
2018	-	-	-	1 973	307	8 971
2019	1 117	766	8 680	1 201	705	175
2020	1 849	311	572	2 260	309	29
2021	1 621	260	65	1 214	216	4
2022	2 022	2 498	12	2 475	2 482	4
2023	908	2 570	4	365	21	4
2024	387	80	4	318		4
2025	1 477	15	4	1 501		4
2026	415		4	426		4
2027	252		4	270		4
2028	1 832	225		106	223	
2029	120					
2032	53			57		
	12 053	6 725	9 349	12 166	4 263	9 203

PARENT BANK	2018			2017		
Maturity	Interest rate swaps	Interest rate and foreign exchange swaps	Forward exchange contracts	Interest rate swaps	Interest rate and foreign exchange swaps	Forward exchange contracts
2018	-	-	-	1 973	307	8 971
2019	1 117	766	8 680	1 201	705	175
2020	1 849	40	572	2 260	40	29
2021	1 621	260	65	1 214	216	4
2022	1 022	74	12	1 475	74	4
2023	908	140	4	365	21	4
2024	387	80	4	318		4
2025	427	15	4	451		4
2026	415		4	426		4
2027	252		4	270		4
2028	832			106		
2019	120					
2032	53			57		
	9 003	1 375	9 349	10 116	1 363	9 203

Note 11

SUBORDINATED LOAN CAPITAL AND ADDITIONAL TIER 1 CAPITAL

GROUP AND PARENT BANK

ISIN.NR.	Currency	Issue	Maturity	Terms	31.12.2018
NO0010809304	NOK	31.10.2017	2023	3 mnth NIBOR + 1.55	502
NO0010791692	NOK	03.05.2017	2022	3 mnth NIBOR + 1.46	201
Subordinated loan capital					703

ISIN.NR.	Currency	Issue	Maturity	Terms	31.12.2018
NO0010532765	NOK	10.09.2009	2019	11.70 %	293
Additional Tier 1 Capital					293

ISIN.NR.	Currency	Issue	Maturity	Terms	31.12.2018
NO0010796154	NOK	15.06.2017	2022	3 mnth NIBOR + 3.25	349
Additional Tier 1 Capital					349

The Additional Tier 1 capital NO00105327 65 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 NO00107 96154 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 15.2 million has been paid in 2018. An additional NOK 0.7 mill has incurred in interest expense by year-end, so that together NOK 11.4 million 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 2018. Loan agreements are made available on the bank's website.

Note 12

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			
2017		2018			2018		2017	
Nominal value	Book value	Nominal value	Book value		Nominal value	Book value	Nominal value	Book value
4 958	5 266	8 405	8 806	Value secured debt securities with changes in value recognised in the income statement	277	283	277	292
4 958	374	8 405	545	Financial derivatives applied in hedge accounting	277	6	277	17

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

GROUP			PARENT BANK	
2017	2018		2018	2017
-92	-174	Value secured debt securities with changes in value recognised in the income statement	10	16
90	173	Financial derivatives applied in hedge accounting	-10	-17
-2	-1	Total	0	-1

Debt securities

GROUP			PARENT BANK	
2017	2018		2018	2017
-	-	Certificate debt, nominal value	-	-
24 017	26 325	Bond debt, nominal value	5 409	6 082
58	68	Earned interest	7	8
413	587	Value adjustments	-1	-
24 488	26 980	Total debt securities	5 415	6 090

Changes in debt securities

GROUP

	31.12.2017	Issued	Overdue/ redeemed	Other changes	31.12.2018
Certificate debt, nominal value	-				-
Bond debt, nominal value	24 017	6 675	4 367		26 325
Earned interest	58			10	68
Value adjustments	413			174	587
Total debt securities	24 488	6 675	4 367	184	26 980

PARENT BANK

	31.12.2017	Issued	Overdue/ redeemed	Other changes	31.12.2018
Certificate debt, nominal value	-				-
Bond debt, nominal value	6 082	800	1 473		5 409
Earned interest	8			-1	7
Value adjustments	-			-1	-1
Total debt securities	6 090	800	1 473	-2	5 415

Maturity of securities-based debt, nominal value

GROUP			PARENT BANK	
2017	2018	Maturity	2018	2017
3 459		2018		1 382
4 000	3 092	2019	1 409	1 500
6 844	6 844	2020	1 100	1 100
5 100	5 900	2021	2 900	2 100
3 363	3 363	2022		
	2 375	2023		
	2 500	2024		
1 050	1 050	2025		
201	1 201	2028		
24 017	26 325	Total	5 409	6 082

Note 13

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Implementation effects of IFRS 9 as of 1 January 2018

The new regulations regarding classification and measurement did not result in any significant changes for the Group compared to measurement of financial instruments in IAS 39. The category Stocks available for sale with changes in value over Other comprehensive income ceased to exist from 1 January 2018. The Group's change in value on equities and equity instruments were recognised in the income statement from this date onwards. For the Parent Bank, loans prepared for sale to Møre Boligkreditt AS are classified at fair value as these loans are not held to receive contractual cash flows, and changes in value on these loans are recognised in the income statement, included under Other operating Income.

The table below shows a reconciliation of carrying amounts according to IAS 39 compared to balances reported under IFRS 9 as of 1 January 2018:

	IAS 39				IFRS 9	
	Category	Amount	Reclassification	Remeasurement	Amount	Category
GROUP		**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		1	52 945	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

		IAS 39			IFRS 9	
	Category	Amount	Reclassification	Remeasurement	Amount	Category
PARENT BANK		**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	22	28 680	AC
Loans to and receivables from customers	FVPL	3 923	3 251	-9	7 165	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

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 substantially transferred. Financial liabilities are derecognised from the date when the rights to the contractual provisions have been extinguished, cancelled or expired.

CLASSIFICATION AND MEASUREMENT

The Group's portfolio of financial instruments is at initial recognition classified in accordance with IFRS 9. Financial assets are classified in one of the following categories:

• Fair value with value changes through the income statement

• Amortised cost

The classification of the financial assets depends on two factors:

• The purpose of the acquisition of the financial instrument

• The contractual cash flows from the financial assets

Financial assets assessed at amortised cost

The classification of the the financial assets assumes that the following requirements are met:

• The asset is acquired to receive contractual cash flows

• The contractual cash flows consist solely of principal and interest

All lending and receivables are recorded in the accounts at amortised cost, based on expected cash flows. The difference between the issue cost 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, 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.

Financial instruments assessed 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, based on the business model of the bank. The portfolio is not held soley to receive principle and interest. The Group's portfolio of fixed interest rate loans are assessed at fair value to avoid accounting mismatch in relation to the underlying interest rate swaps.

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 through the income statement and recognised gross per contract as an asset or liability.

The Group's portfolio of shares is assessed at fair value with any value changes through the income statement.

Losses and gains as a result of value changes on assets and liabilities 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.

LEVELS IN THE VALUATION HIERARCHY

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 in LCR-level 1, 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 which are 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 - 2018	Financial instruments at fair value in the income statement	Financial instruments assessed at amortised cost
Cash and claims on Norges Bank		857
Loans to and receivables from credit institutions		1 288
Loans to and receivables from customers	3 811	56 535
Certificates and bonds	6 789	
Shares and other securities	182	
Financial derivatives	1 209	
Total financial assets	11 991	58 680
Loans and deposits from credit institutions		955
Deposits from customers		34 414
Financial derivatives	525	
Debt securities issued		26 980
Subordinated loan capital and Additional Tier 1 capital		996
Total financial liabilities	525	63 345

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	-

PARENT BANK - 2018	Financial instruments at fair value in the income statement	Financial instruments assessed at amortised cost
Cash and claims on Norges Bank		857
Loans to and receivables from credit institutions		2 330
Loans to and receivables from customers	7 307	29 752
Certificates and bonds	7 095	
Shares and other securities	182	
Financial derivatives	584	
Total financial assets	15 168	32 939
Loans and deposits from credit institutions		1 668
Deposits from customers		34 437
Financial derivatives	502	
Debt securities issued		5 415
Subordinated loan capital and Additional Tier 1 capital		996
Total financial liabilities	502	42 516

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	564			188
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	-

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	
2017	2018		2018	2017
169	178	Interest income on financial assets assessed at fair value	194	177
1 618	1 762	Interest income on financial assets assessed at amortised cost	1 186	1 111
1 787	1 940	Total interest income	1 380	1 288

Interest costs

GROUP			PARENT BANK	
2017	2018		2018	2017
18	0	Interest costs on financial liabilities assessed at fair value	0	18
669	761	Interest costs on financial liabilities assessed at amortised cost	472	429
687	761	Total interest costs	472	447

Note 14

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	31.12.2018		31.12.2017	
	Fair value	Book value	Fair value	Book value
Cash and claims on Norges Bank	857	857	637	637
Loans to and receivables from credit institutions	1 288	1 288	1 295	1 295
Loans to and receivables from customers	56 535	56 535	52 944	52 944
Total financial assets	58 680	58 680	54 876	54 876
Loans and deposits from credit institutions	955	955	569	569
Deposits from customers	34 414	34 414	31 463	31 463
Debt securities issued	27 039	26 980	24 575	24 488
Subordinated loan capital and Additional Tier 1 capital	1 000	996	1 363	1 338
Total financial liabilities	63 408	63 345	57 970	57 858

PARENT BANK	31.12.2018		31.12.2017	
	Fair value	Book value	Fair value	Book value
Cash and claims on Norges Bank	857	857	637	637
Loans to and receivables from credit institutions	2 330	2 330	2 497	2 497
Loans to and receivables from customers	29 752	29 752	31 909	31 909
Total financial assets	32 939	32 939	35 043	35 043
Loans and deposits from credit institutions	1 668	1 668	654	654
Deposits from customers	34 437	34 437	31 480	31 480
Debt securities issued	5 428	5 415	6 106	6 090
Subordinated loan capital and Additional Tier 1 capital	1 000	996	1 363	1 338
Total financial liabilities	42 533	42 516	39 603	39 562

GROUP - 2018	**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	857			857
Loans to and receivables from credit institutions		1 288		1 288
Loans to and receivables from customers			56 535	56 535
Total financial assets	857	1 288	56 535	58 680
Loans and deposits from credit institutions		955		955
Deposits from customers			34 414	34 414
Debt securities issued		27 039		27 039
Subordinated loan capital and Additional Tier 1 capital		1 000		1 000
Total financial liabilities	-	28 994	34 414	63 408

GROUP - 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		1 295		1 295
Loans to and receivables from customers			52 944	52 944
Total financial assets	637	1 295	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

PARENT BANK - 2018	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	857			857
Loans to and receivables from credit institutions		2 330		2 330
Loans to and receivables from customers			29 752	29 752
Total financial assets	857	2 330	29 752	32 939
Loans and deposits from credit institutions		1 668		1 668
Deposits from customers			34 437	34 437
Debt securities issued		5 428		5 428
Subordinated loan capital and Addtional Tier 1 capital		1 000		1 000
Total financial liabilities	-	8 096	34 437	42 533

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	637	2 497	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 Addtional Tier 1 capital		1 363		1 363
Total financial liabilities	-	8 123	31 480	39 603

Note 15

FINANCIAL INSTRUMNETS 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 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.

GROUP - 2018	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			3 811	3 811
Certificates and bonds	4 696	2 093		6 789
Shares	7		175	182
Financial derivatives		1 209		1 209
Total financial assets	4 703	3 302	3 986	11 991
Loans and deposits from credit institutions				-
Deposits from customers				-
Debt securities issued				-
Subordinated loan capital and Additional Tier 1 capital				-
Financial derivatives		525		525
Total financial liabilities	-	525	-	525

GROUP - 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				-
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	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

PARENT BANK - 2018	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			7 307	7 307
Certificates and bonds	4 635	2 460		7 095
Shares	7		175	182
Financial derivatives		584		584
Total financial assets	4 642	3 044	7 482	15 168
Loans and deposits from credit institutions				-
Deposits from customers				-
Debt securities issued				-
Subordinated loan capital and Additional Tier 1 capital				-
Financial derivatives		502		502
Total financial liabilities	-	502	-	502

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				-
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	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

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

Fixed rate loans:
There have been no significant changes in the approach to the valuation of fixed-rate loans in 2018. 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 at the balance sheet date. In 2018, a total of NOK 7.3 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 (NOK 66 million) and the bank's claim on Vipps AS (NOK 39 million).

The bank's ownership in Eksportfinans ASA is valued based on its relative share of Eksportfinans` equity, adjustment made for unrealised 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 reduced by NOK 7 million in 2018.

GROUP - Level 3 reconciliation	Loans to and receivables from customers	Shares
Book value as at 31.12.2017	3 923	169
Purchases/additions	866	2
Sales/reduction	968	16
Transferred to Level 3	0	0
Transferred from Level 3	0	0
Net gains/losses in the period	-10	20
Book value as at 31.12.2018	3 811	175

PARENT BANK - Level 3 reconciliation	Loans to and receivables from customers	Shares
Book value as at 31.12.2017	3 923	169
Effect of implementation to IFRS 9	3 242	0
Purchases/additions	1 120	2
Sales/reduction	968	16
Transferred to Level 3	0	0
Transferred from Level 3	0	0
Net gains/losses in the period	-10	20
Book value as at 31.12.2018	7 307	175

Note 16

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.

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 (1.83 per cent in 2018 and 1.65 per cent in 2017).

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 5 billion.

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	2018	2017
Statement of income		
Interest and credit commission income from subsidiaries	26	28
Received dividend and group contribution from subsidiaries	152	156
Rent paid to Sparebankeiendom AS	17	17
Administration fee received from Møre Boligkreditt AS	34	30
Statement of financial position		
Claims on subsidiaries	1 300	1 328
Covered bonds	818	425
Liabilities to subsidiaries	890	102
Accumulated loan portfolio transferred to Møre Boligkreditt AS	23 424	21 164

Note 17

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 16 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 3 and note 5 for further information. Eliminations/other include Sparebankeiendom AS, handling real estate management of the Group's own properties.

Result - 2018	Group	Eliminations/ other	Corporate	Retail 1)	Real estate brokerage
Net interest income	1 179	-7	454	732	0
Other operating income	248	24	100	104	20
Total income	1 427	17	554	836	20
Operating costs	603	98	120	367	18
Profit before impairment	824	-81	434	469	2
Impairment on loans, guarantees etc.	16	0	14	2	0
Pre tax profit	808	-81	420	467	2
Taxes	203				
Profit after tax	605				

Key figures - 2018	Group	Eliminations/ other	Corporate	Retail 1)	Real estate brokerage
Loans to customers 1)	60 346	1 244	17 964	41 138	0
Deposits from customers 1)	34 414	588	11 804	22 022	0
Guarantee liabilities	1 418	0	1 412	6	0
Deposit-to-loan ratio	57.0	47.3	65.7	53.5	0.0
Man-years	361	159	51	138	13

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
Deposit-to-loan ratio	57.7	60.1	66.8	53.7	0.0
Man-years	359	155	51	140	13

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	**2018**	**2017**
Net interest income	274	261
Other operating income	-1	-13
Total income	273	248
Operating costs	42	38
Profit before impairment on loans	231	210
Impairment on loans, guarantees etc.	1	-3
Pre tax profit	230	213
Taxes	56	48
Profit after tax	174	165

Statement of financial position	2018	2017
Loans to and receivables from customers	23 409	21 162
Equity	1 767	1 667

Note 18

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 recognised as income in the income statement when 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	
2017	**2018**		**Note**	**2018**	**2017**
2	3	Dividends and other income from securities with variable yields	16	155	158
35	34	Guarantee commission		34	35
18	19	Income from the sale of insurance services		19	18
8	12	Income from the sale of shares in unit trusts/securities		12	8
28	34	Income from discretionary asset management		34	28
13	12	Various fees relating to loans		12	13
2	2	Inter-bank fees		2	2
12	13	Fees relating to cheques and giro payments		13	12
49	49	Fees from cards		49	49
9	8	Fees from international payment transmission services		8	9
22	25	Other fees and commission income		25	21
196	208	Commission income and revenues from banking services		208	195
-26	-25	Commission costs and expenditure in respect of banking services		-25	-26
-20	-10	Fixed interest loans		-10	-20
26	18	Derivatives related to fixed interest loans		18	26
-87	-176	Issued bonds and certificates		11	13
67	176	Derivatives related to issued bonds and certificates		-10	-17
-10	10	Gains/losses on shares		10	-10
23	-24	Gains/losses on bonds		-23	23
38	38	Trading in FX (on behalf of customers)		38	38
9	6	Other income		14	7
46	38	Net gains/losses from securities and foreign exchange	12 15	48	60
2	1	Operating revenues from real estate		0	0
18	20	Income from real estate brokerage		0	0
3	0	Gains on sale of buildings		0	3
1	3	Other operating income		32	33
24	24	Total other operating income		32	36
242	248	Total non-interest income	17	418	423

Note 19

OPERATING COSTS EXCL. PERSONNEL COSTS

GROUP			PARENT BANK	
2017	**2018**		**2018**	**2017**
93	100	IT-costs	100	93
21	22	Telephone/postage/office supplies/travel expenses	22	21
17	16	Marketing costs	16	17
31	31	Depreciation of fixed and intangible assets	27	27
28	26	Property costs	39	41
3	2	Fees paid to External Auditor	1	2
11	11	Costs relating to fixed assets	11	11
3	5	Capital tax	5	3
48	50	Other operating costs	37	34
255	263	Total operating costs excl.personnel costs	258	249

Note 20

RENTAL AGREEMENTS

All of the Bank's rental agreements are operational.

Rental of business premises

The Bank rents 26 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 23 for furter information about the business premises.

	2018	2017
Rent paid to:		
Sparebankeiendom AS	17	16
Other external lessors	19	20

Duration of rental agreements

Rental agreements with external lessors are mainly of 10 years duration (some of 1 year) with a mutual 12 months' notice period and at market prices. Rental agreements with the subsidiary Sparebankeiendom AS have a notice period of 6 months and run for one year at a time. The rent is at market price.

Contract-related future rental costs (nominal amounts)	Within 1 year	1 to 5 years	Above 5 years
Sparebankeiendom AS	17	0	0
Other external lessors	19	78	97
Total	36	78	97

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. In December 2018, the agreement was extended for another 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 21

SALARIES AND TRANSACTIONS WITH RELATED PARTIES

GROUP			PARENT BANK	
2017	**2018**	(NOK million)	**2018**	**2017**
231	238	Wages, salary and other cash-based benefits	225	218
3	2	Fees paid to members of the Board of Directors and the General Meeting	2	3
11	13	Bonus/profit sharing 1)	13	11
25	22	Pension costs (note 22)	22	25
35	36	Employers' social security contribution	36	35
14	14	Financial activity tax	14	14
16	15	Other personnel costs	15	16
335	340	Total wages and salary costs	327	322

2017	**2018**	Manning levels:	**2018**	**2017**
376	373	Number of employees as at 31.12	359	362
387	374	Average number of employees	360	372
359	361	Number of man-years as at 31.12	348	346
366	360	Average number of man-years	347	353

1) Part of the bonus (about 50 per cent) for 2018 and 2017 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 27.000 in 2018 and about 25.000 in 2017.

As at 31.12.2018, 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 22, 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.

Transactions with related parties
Board member Ragna Brenne Bjerkeset is employed as process manager in ProtoMore Knowledge Park. In 2018, the company has invoiced Sparebanken Møre for its services a total of NOK 489.629. Board member Henrik Grung is a partner in the law firm Sands. In 2018, Sands invoiced Sparebanken Møre for legal services, a total of NOK 190.293.

The transactions have been entered into on ordinary market terms as if they were carried out between independent parties.

GROUP – Wages, salaries, other remuneration, pensions
Salaries to the CEO amounted to NOK 2.743.121 in 2018 (2017 : NOK 2.224.086). The estimated value of benefits in kind totalled NOK 232.596 (2017 : NOK 156.804). In addition, NOK 314.541 has been charged to the income statement related to the CEO's pension agreement (2017 : NOK 118.207) (note 22). The CEO has a retirement age of 65 and during the period from 65 to 67 years, it will be paid an annual pension amounting to 70 % of final salary. From the age of 67 , the CEO will receive a pension from the bank's ordinary defined contribution scheme.

Wages and salaries/fees to elected bodies

GROUP (NOK thousand)	2018	2017
General Meeting	308	277
Board of Directors	1 556	1 628
Fees paid to External Auditor (including value added tax)	3 009	3 512
- hereof fee for statutory audit	1 795	1 987
- hereof other attestation services	496	700
- hereof tax-related advisory services	97	196
- hereof other non-audit services	621	629

Loans, deposits and guarantees

GROUP (NOK million)	2018			2017		
	Loans	Deposits	Guarantees	Loans	Deposits	Guarantees
General Meeting	50	15	0	39	9	0
Board of Directors	20	7	0	19	5	0
Employees	1 041	143	0	990	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 of loans to employees

The total benefit in kind relating to loans provided at a rate of interest lower than the interest rate (average 2.15 per cent in 2018) which triggers a basis for taxing such benefits in kind to the employees has been estimated at NOK 3.679.969 compared to NOK 3.032.064 in 2017.

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

(NOK million)	2018	2017
Interest income	0	0
Interest costs	2	1

Wages, salaries, other remuneration and pensions - PARENT BANK

(NOK thousand)	Wages/salaries		Other remuneration	
	2018	**2017**	**2018**	**2017**
General Meeting				
Jan Kåre Aurdal	50	43		
Other members 3)	258	234		
Total	308	277		
Board of Directors				
Leif-Arne Langøy, Chairman	380	402		6
Roy Reite, Deputy Chairman	186	205		
Ragna Brenne Bjerkeset	166	185		
Henrik Grung	190	194		
Jill Aasen	139	-		
Ann Magritt Bjåstad Vikebakk	175	179		
Helge Karsten Knudsen, employees elected representative 1)	160	164		
Marie Rekdal Hide, employees elected representative 2)	160	120		
Former board members:				
Elisabeth Maråk Støle	-	179	-	
Total	1 556	1 628	0	6
CEO				
Trond Lars Nydal	2 743	2 224	233	157
Remuneration to Executive Management				
EVP, Retail Banking Division, Elisabeth Blomvik	1 397	633	126	15
EVP, Corporate Banking Division, Terje Krøvel	1 537	1 502	153	169
EVP, Organizational Development, Kjetil Hauge	1 225	1 122	111	37
EVP, Treasury and Markets, Runar Sandanger	1 487	1 408	151	131
EVP, Finance and Facilities Management, Idar Vattøy	1 368	1 344	118	129
EVP, Risk Management and Compliance, Erik Røkke	1 358	1 264	145	98
EVP, Business Support, Perdy Lunde	1 314	1 255	119	93
EVP, Communications and Group Support, Tone S. Gjerdsbakk	1 238	1 172	137	132
EVP, Customer Experience, Arild Sulebakk	1 165	-	41	-
Total remuneration to Executive Management	12 089	9 701	1 102	805

Fees paid to External Auditor (including value added tax)	2018	2017
Fees paid to External Auditor	1 762	2 232
- hereof fee for statutory audit	1 388	1 575
- hereof other attestation services	36	0
- hereof tax-related advisory services	37	116
- hereof other non-audit services	301	542

1) Ordinary salary amounts to NOK 518.389 (2017: NOK 499.449)

2) Ordinary salary amounts to NOK 545.704 (2017: NOK 502.923)

3) Deputy chairman and members of the General Meeting are compensated with NOK 3.000 per meeting in 2018. Two meetings have been held in 2018.

Loans and guarantees

(NOK thousand)	2018		2017	
	Loans	Guarantees	Loans	Guarantees
General Meeting				
Jan Kåre Aurdal, Chairman	5 449	0	2 248	
Other members (43 members in 2018 and 39 members in 2017)	46 550	0	38 699	0
Board of Directors				
Leif-Arne Langøy, Chairman	8	0	2	0
Roy Reite, Deputy Chairman	0	0	0	0
Ragna Brenne Bjerkeset	3 503	0	3 616	0
Henrik Grung	0	0	0	0
Jill Aasen	0	0	0	0
Ann Magritt Bjåstad Vikebakk	7 671	0	6 633	0
Helge Karsten Knudsen, employees elected representative	3 553	0	4 827	0
Marie Rekdal Hide, employees elected representative	5 600	0	3 900	0
Former Board members:				
Elisabeth Maråk Støle	-	0	0	0
CEO				
Trond Lars Nydal	4 570	0	4 934	0
Employees	1 041 449	0	989 690	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 22

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 70 (88) active members and 259 (245) pensioners by the end of 2018.

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 12 million in 2018 (NOK 11 million in 2017).

Pension agreement for the Bank`s CEO

The CEO has a retirement age of 65 years and during the period between 65 to 67 years, it will be paid an annual pension amounting to 70 % of final salary. From the age of 67, the CEO will receive a pension from the bank's ordinary defined contribution scheme.

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 2018 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 2019 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 2018 (NOK 4 million in 2017) 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	
	31.12.2018	31.12.2017	2018	2017
Rate of discounting/expected return on pension resources	2.80	2.40	2.40	2.60
Wages and salary adjustment	2.75	2.50	2.50	2.25
Pension adjustment	0	-	0	-
Adjustment of the National Insurance`s basic amount	2.50	2.25	2.25	2.00
Employers` social security contribution	19.10	19.10	19.10	19.10
Table for mortality rate etc	K 2013BE	K 2013BE	K 2013BE	K 2013BE
Disability tariff	IR02	IR02	IR02	IR02

Pension costs in ordinary result	2018	2017
Present value of pension accruals during the year including administration costs	5	5
Interest cost of incurred pension liabilities	8	8
Expected return on pension resources	-7	-8
Net effect of the transition to a defined contribution scheme	0	0
Net pension cost for the pension fund	6	6
Change in present value of pension accruals relating to other pension schemes	-2	1
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	22	25

Specification of estimate deviations in comprehensive income	2018	2017
Change in the rate of discounting	18	-9
Change in other financial assumptions	-1	-14
Estimate deviations on pension funds	-5	11
Total estimate deviations	12	-12

Total pension liabilities/-funds	2018	2017
Pension liabilities	308	334
Value of pension resources	-325	-322
Net pension liabilities/-funds relating to the pension fund	-17	11
Net pension liabilities relating to members of the Bank's executive management/bank managers	30	33
Total net pension liabilities/-funds	13	44
- of which recognised under Assets: "Overfunding defined benefit plan"	-17	0
- of which recognised under Liabilities: "Provisions and other liabilities"	30	44

Funded pension liabilities	2018	2017
Pension liabilities as at 01.01	334	328
Pension accruals for the year	5	5
Pension payments	-16	-15
Interest costs	8	8
Employers' social security contribution	-4	-2
Actuarial gains/losses	-19	9
Pension liabilities as at 31.12	308	334

Funded pension resources	2018	2017
Pension resources as at 01.01	322	321
Total amount paid in	20	10
Pensions paid out	-16	-15
Expected return	7	8
Acturial gains/losses	-8	-1
Pension resources as at 31.12	325	322

Estimated payment for 2019 amounts to NOK 20 million.

Pension liabilities - other pensions	2018	2017
Pension liabilities as at 01.01	33	33
Pension accruals for the year	0	0
Pension payments	-2	-3
Interest costs	1	1
Acturial gains/losses	0	1
Other changes	-1	0
Pension liabilities as at 31.12	30	33

Sensitivity analysis	Change in the rate of discounting	Effect on the liability as at 31.12.2018	Effect on the pension cost in 2018
The funded plan	0.5	-6.2	5.9
The funded plan	-0.5	6.7	6.4
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	2018	2017	2016	2015	2014
Pension liabilities incl. emloyers' social security contribution	308	334	328	346	485
Pension resources	-325	-322	-321	-315	-447
Pension liabilities SERP and other pensions	30	33	33	28	29
Total net pension liabilities/-funds	13	44	40	59	68
- of which recognised under Assets: "Overfunding defined benefit plan"	-17				
- of which recognised under Liabilities: "Provisions and other liabilities"	30				

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 in 4.164 (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 NOK 18 million (NOK 12 million in 2017) with Sparebanken Møre

Investment profile - pension resources	**2018**		**2017**	
	Fair value	**Percentage**	**Fair value**	**Percentage**
Shares	76	14.4	81	15.5
Fund shares	50	9.5	0	0.0
Bonds/certificates	348	66.2	366	70.0
Bank deposits	52	9.9	76	14.5
Total pension resources	526	100.0	523	100.0

NOK 325 million (NOK 322 million) of the total pension resources of NOK 526 million (NOK 523 million) are related to the defined benefit scheme in Sparebanken Møre. The remaining NOK 201 million (NOK 201 million) are related to issued paid-up policies, administered by the Bank's pension fund.

Return on pension resources in percentage	**2018**	**2017**
Total pension resources	0.46	4.69

Note 23

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 the bank's subsidiary, Sparebankeiendom AS. The buildings are intended for own use relating to the operations of the bank, and are therefore not defined as investment properties. The buildings are also including holiday properties used by the employees. The buildings related to the operations of the bank 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 recognised in the accounts at historical cost less accumulated depreciation and impairment. There is no evidence of impairment of the Group`s buildings as at 31.12.2018.

GROUP

31.12.2018	Total	Buildings, incl. tech.install. , building plots/holiday cabins	Cars/IT/office machines	Fixtures and fittings
Acquisition cost as at 01.01	369	277	26	66
Additions	7	3	1	3
Disposals	4	0	0	4
Acquisition cost as at 31.12	372	280	27	65
Accumulated depreciation and impairment as at 01.01	141	66	21	54
Depreciation during the year	15	8	3	4
Impairment during the year	0	0	0	0
Disposals	5	0	0	5
Accumulated depreciation and impairment as at 31.12	151	74	24	53
Carrying amount as at 31.12	220	206	2	12
Straight-line depreciation period (years)		10-50	3-5	8-10
Fully depreciated fixed assets in use	48	0	18	30
Estimated residual value of fixed assets	66			

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			

PARENT BANK

31.12.2018	Total	Buildings, incl. tech.install. , building plots/holiday cabins	Cars/IT/office machines	Fixtures and fittings
Acquisition cost as at 01.01	118	31	25	62
Additions	7	2	1	4
Disposals	4	0	0	4
Acquisition cost as at 31.12	121	33	26	62
Accumulated depreciation and impairment as at 01.01	81	10	20	51
Depreciation during the year	11	4	3	5
Impairment during the year	0	0	0	0
Disposals	5	0	0	5
Accumulated depreciation and impairment as at 31.12	87	14	23	51
Carrying amount as at 31.12	34	20	2	12
Straight-line depreciation period (years)		10-50	3-5	8-10
Fully depreciated fixed assets in use	46	0	18	28

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

Note 24

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	
2017	**2018**		**2018**	**2017**
115	126	Acquisition cost as at 01.01	125	114
11	16	Additions	16	11
0	3	Disposals	3	0
126	139	Acquisition cost as at 31.12	138	125
68	84	Accumulated depreciation and impairment as at 01.01	83	67
16	16	Depreciation during the year	16	16
0	0	Impairment during the year	0	0
0	3	Disposals	3	0
84	97	Accumulated depreciation and impairment as at 31.12	96	83
47	42	Carrying amount as at 01.01	42	47
42	42	Carrying amount as at 31.12	42	42
20	20	Straight-line depreciation rate	20	20
5	5	Economic life – number of years	5	5

Note 25

OTHER ASSETS

GROUP			PARENT BANK	
2017	2018		2018	2017
8	7	Repossessed assets	7	8
39	39	Capital in Sparebanken Møre`s Pension Fund	39	39
28	24	Other receivables	20	25
75	70	Total other assets	66	72

Repossessed assets amounts to NOK 7 million (NOK 8 million in 2017). This consists of residential properties of NOK 3 million (NOK 4 million in 2017) and plots of NOK 4 million (NOK 4 million in 2017). These properties have mainly been acquired/repossessed as part of the Bank's realisation of collateral security. Sparebanken Møre does not wish to remain the owner of repossessed properties. In the event of not obtaining an acceptable price, effort is made to rent out the properties.

Note 26

TAX

Taxes consist 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. Temporary differences, including calculated deferred tax related to pension estimate deviations have been recognised in comprehensive income, in addition to payable tax related to changes in value on basis spreads.

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 2017, 2018 and 2019. For the subsidiaries, the tax rate altered from 24 per cent in 2017 to 23 per cent effective from 2018. The tax rate is further reduced to 22 per cent effective from 2019. 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 23 per cent is used both for calculating tax payable for 2018 as well as the deferred tax as of 31 December 2017. For calculating deferred tax as of 31 December 2018, a tax rate of 22 per cent is applied. When calculating tax payable for the subsidiaries in 2017, a tax rate of 24 per cent was applied.

The entire tax cost is related to Norway.

Tax expense recognised in the income statement

GROUP			PARENT BANK	
2017	2018		2018	2017
199	195	Tax payable on profit for the period*)	136	145
-14	2	Changes in deferred taxes in the income statement	7	-9
-3	6	Changes in estimates related to prior years	3	-3
182	203	Taxes	146	133
24.6	25.1	Effective tax rate (tax expense as a percentage of pre-tax profit)	20.2	19.6

*) Interest paid on Additional Tier 1 capital posted against equity reduces tax payable per 31.12.2018 by NOK 4 mill. (NOK 2 mill as of 31.12.2017)

Tax expense recognised in the comprehensive income statement

GROUP			PARENT BANK	
2017	2018		2018	2017
-3	3	Changes in deferred taxes due to pension estimate deviations	3	-3
-	-4	Tax effect on tax payable related to changes in value on basis spreads	0	-
-3	-1	Tax expense in comprehensive income	3	-3

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

GROUP			PARENT BANK	
2017	**2018**		**2018**	**2017**
739	808	Pre-tax profit	721	677
-3	-12	Non-taxable income and non-deductable costs related to shares	-164	-159
-8	-15	Deductable interests on Additional Tier 1 capital treated as equity	-15	-8
26	14	Other non-taxable income and non-deductable costs	14	26
43	-11	Changes in temporary differences	-28	36
797	784	Taxable income	528	572
197	191	Tax payable on ordinary profit (25 % for the Parent Bank and 23 % for the subsidiaries)	132	143
0	-4	Tax payable on comprehensive income (25 % for the Parent Bank and 23 % for the subsidiaries)	0	0
197	187	Tax payable	132	143

Specification of temporary differences and the computation of deferred tax

GROUP			PARENT BANK	
2017	**2018**		**2018**	**2017**
		Temporary differences relating to:		
-60	-47	Fixed assets	-65	-82
187	206	Pension liabilities	206	187
1	0	Added value related to transferred portfolio of loans	0	1
-133	-163	Other temporary differences	-136	-127
-5	-4	Net negative (-) / positive differences recognised in the income statement	5	-21
-231	-219	Share of net pension liability recognised in other comprehensive income	-219	-231
3	3	Limited partnerships	3	3
-233	-220	Total negative (-) / positive differences	-211	-249
-59	-54	Deferred tax asset (-) or liability (25 % for the Parent Bank and 22 % for the subsidiaries)	-53	-62
-	0	Tax effect of the implementation of IFRS 9	3	-
-59	-54	Deferred tax asset (-) or liability	-50	-62

Reconciliation of tax expense and pre-tax profit

GROUP			PARENT BANK	
2017	**2018**		**2018**	**2017**
179	196	25 % of pre-tax profit (23 % for the subsidiaries)	180	169
-1	-3	Shares 25 % (23 %)	-41	-40
7	4	Other non-taxable income and non-deductable costs 25 % (23 %)	4	7
-3	6	Changes in estimates related to prior years	3	-3
182	203	Total taxes	146	133

Note 27

PROFIT-EARNINGS PER EC

The basic earnings per equity certificate (EC) is calculated as the ratio 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 entitle to full dividend. The diluted earnings per EC is no different to the basic earnings per EC.

GROUP	2018	2017
Earnings per EC (NOK) 2)	29.80	27.70
Diluted earnings per EC (NOK)	29.80	27.70
EC-holders' share of the profit:		
Profit	594	551
EC-holders' share of the profit according to the EC-fraction 1)	294	273
Weighted number of ECs - the Bank's own portfolio	45 110	48 700
Number of own ECs as at 31.12	28 183	44 215
Number of own ECs as at 01.01	44 215	29 850
Weighted average of outstanding ECs	9 841 844	9 838 254
Number of outstanding ECs as at 31.12	9 858 774	9 842 734
Number of outstanding ECs as at 01.01	9 842 734	9 857 104
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 2018 and 2017.

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 28

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 per cent and as of 31 December 2019 it will further increase to 2.5 per cent. The Financial Supervisory Authority of Norway set a Pillar 2 supplement of 1.8 per cent for Sparebanken Møre in 2016. When reassessing this supplement in 2018, it was reduced to 1.7 per cent, although with a minimum NOK 590 mill., effective from 31 March 2019. The Ministry of Finance set a minimum requirement for the leverage ratio of 3 per cent with effect from 30 June 2017. In addition to this there must be a core capital buffer of at least 2 per cent.

The Board of Sparebanken Møre has set a minimum target for the Group's CET1 of 14.8 per cent. 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 2018 ICAAP show that the Group satisfies the capital requirements by a good margin.

Note 2 “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 profile, which 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, EY, 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	
2017	**2018**		**2018**	**2017**
989	989	EC capital	989	989
-5	-3	- ECs owned by the Bank	-3	-5
355	356	Share premium fund	356	355
349	349	Additional Tier 1 capital	349	349
1 216	1 391	Dividend equalisation fund	1 391	1 216
125	125	Gift fund	125	125
2 470	2 649	Primary capital fund	2 649	2 470
78	-	Value adjustment fund	-	78
138	153	Proposed dividend for the EC holders	153	138
141	156	Proposed dividend for the local community	156	141
222	229	Other equity	1	0
6 078	6 394	Total equity	6 166	5 857
-100	-42	Goodwill, intangible assets, other deductions	-42	-100
-14	-14	Value adjustment due to the requirements for prudent valuation	-13	-14
0	-13	Deductable overfunding pension	-13	
254	197	Additional Tier 1 capital	197	254
-151	-173	Expected losses exceeding actual losses, IRB portfolios	-137	-107
-138	-153	Proposed dividend for the EC holders	-153	-138
-141	-156	Proposed dividend for the local community	-156	-141
5 788	6 041	Total Tier 1 capital	5 849	5 610
5 185	5 495	Common Equity Tier 1 capital	5 303	5 007
530	703	Total supplementary capital (additional capital)	703	530
6 318	6 743	Net equity and subordinated loan capital	6 552	6 140

Capital requirements by engagement categories

Exposure classes SA - credit risk

2017	2018		2018	2017
0	0	Central governments or central banks	0	0
14	12	Regional governments or local authorities	12	13
3	4	Public sector companies	4	3
36	38	Institutions (banks etc)	406	348
0	0	Companies (corporate customers)	10	10
25	32	Covered bonds	37	28
8	8	Equity	8	8
86	50	Other items	163	191
172	144	Total capital requirements - credit risk, The Standardised Approach	640	601

Exposure classes IRB - credit risk

2017	2018		2018	2017
638	689	Retail - Secured by real estate	342	338
47	50	Retail - Other	50	47
682	734	SME	713	664
549	543	Specialised lending	542	549
252	304	Other corporate lending	304	252
2 168	2 320	IRB-F capital requirements	1 951	1 850
2 340	2 464	Total capital requirements - credit risk	2 591	2 451

Exposure classes SA - marked risk

2017	2018		2018	2017
0	0	Debt	0	0
0	0	Equity	0	0
0	0	Foreign exchange	0	0
29	44	Credit value adjustment risk (CVA)	4	4
29	44	Total capital requirements - market risk	4	4

200	207	Operational Risk (Basic Indicator Approach)	195	186
0	0	Deductions from the capital requirement	0	0
2 569	2 715	Total capital requirements less Transitional Rules	2 790	2 641
181	37	Additional capital requirements from Transitional Rules	0	0
2 750	2 751	Total capital requirements	2 790	2 641

32 105	33 930	Risk-Weighted Assets excluding Transitional Rules	34 880	33 001
2 265	460	Risk-Weighted Assets Transitional Rules	0	0
34 370	34 390	Risk-Weighted Assets including Transitional Rules	34 880	33 001
1 542	1 548	Minimum requirement Common Equity Tier 1 capital 4.5 %	1 570	1 485

Buffer Requirement

2017	2018		2018	2017
859	860	Capital conservation buffer 2.5 %	872	825
1 031	1 032	Systemic risk buffer 3.0 %	1 046	990
687	688	Countercyclical buffer 2.0 %	698	660
2 578	2 579	Total buffer requirements	2 616	2 475
1 065	1 368	Available Common Equity Tier 1 capital after buffer requirement	1 117	1 047

Capital adequacy as a percentage of the weighted asset calculation basis

2017	2018		2018	2017
18.4	19.6	Capital adequacy ratio	18.8	18.6
16.8	17.6	Tier 1 capital ratio	16.8	17.0
15.0	16.0	Common Equity Tier 1 capital ratio	15.2	15.2

Leverage ratio(LR)

2017	2018		2018	2017
8.2	8.1	Leverage Ratio	7.7	8.0

Note 29

ECS AND OWNERSHIP STRUCTURE

Equity Certificates

At the end of 2018, 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 1.391 million and the share premium fund, totalling NOK 356 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 euity.

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 31.12.18	Number of ECs	Percentage share of EC capital
Sparebankstiftelsen Tingvoll	901 000	9.11
Cape Invest AS	751 000	7.60
Verdipapirfond Pareto Aksje Norge	419 467	4.24
Verdipapirfond Nordea Norge Verdi	386 014	3.90
Wenaasgruppen AS	380 000	3.84
MP Pensjon	339 781	3.44
Pareto AS	304 355	3.08
Wenaas Kapital AS	230 161	2.33
FLPS - Princ All Sec	207 782	2.10
Verdipapirfondet Eika egenkapital	173 000	1.75
Beka Holding AS	150 100	1.52
Verdipapirfondet Landkreditt Utbytte	125 000	1.26
Lapas AS (Leif-Arne Langøy)	113 500	1.15
State Street Bank	75 913	0.77
PIBCO AS	75 000	0.76
Forsvarets personell pensjonskasse	63 660	0.64
Odd Slyngstad	59 915	0.61
Malme AS	55 000	0.56
U Aandals Eftf AS	50 000	0.51
Stiftelsen Kjell Holm	49 850	0.50
Total 20 largest	4 910 498	49.67
Total	9 886 954	100.00

Key financial figures (Parent Bank)

	2018	2017	2016	2015	2014
Price at OSE	283	262	254	188	216
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.)	1 391	1 216	1 092	935	799
Share premium (NOK mill.)	356	355	354	354	353
EC percentage (annual average)	49.6	49.6	49.6	49.6	49.6
EC percentage 31.12	49.6	49.6	49.6	49.6	49.6
Dividend per EC, in NOK	15.50	14.00	14.00	11.50	13.50
Dividend per EC, in NOK as a % of price at OSE 31.12	5.5	5.3	5.5	6.1	6.3
Return (%)	13.4	8.7	41.2	-6.7	13.1
Dividend in % of EC-owners share of adjusted profit 1)	54.7	51.8	48.6	44.8	46.4
Profit per EC, in NOK 1)	28.35	27.00	29.85	25.70	29.10
Book value per EC, in NOK 1) 2)	303	289	275	257	244
P/E 1)	9.5	9.4	8.8	7.3	7.4
P/BV 1)	0.93	0.91	0.93	0.73	0.89

1) Fund for unrealised gains has been excluded from the calculation (up to 31.12.2017)

2) Group figures, incl. proposed dividend.

Geographic distribution

Number of owners	2018	2017	2016	2015	2014
Møre og Romsdal	3 606	3 633	3 576	3 602	3 565
Others in Norway	1 675	1 939	2 003	2 149	2 244
Outside Norway	121	126	136	101	89
Total	5 402	5 698	5 715	5 852	5 898

Number of ECs	2018	2017	2016	2015	2014
Møre og Romsdal	5 218 905	5 127 491	5 182 359	4 812 272	4 361 378
Others in Norway	4 065 423	4 216 784	4 059 262	4 554 010	5 076 773
Outside Norway	602 626	542 679	645 333	520 672	448 803
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	73 395	0.74	1 569	29.04
101 - 1.000	1 125 377	11.38	2 744	50.80
1.001 - 10.000	2 520 533	25.49	994	18.40
10.001 - 100.000	1 702 773	17.22	82	1.52
Above 100.000	4 464 876	45.16	13	0.24
Total	9 886 954	100.00	5 402	100.00

	Number of ECs		EC capital		Share premium	
	2018	2017	2018	2017	2018	2017
Change in ECs and share premium:						
Ordinary ECs as at 01.01.	9 886 954	9 886 954	989	989	355	354
Changes	0	0	0	0	1	1
Ordinary ECs as at 31.12	9 886 954	9 886 954	989	989	356	355
Bank's own ECs:						
Own ECs as at 01.01	44 215	29 847	5	3		
Changes	-16 032	14 368	-2	2		
Own ECs as at 31.12	28 183	44 215	3	5		

Distributed and proposed dividend	Total amount (NOK thousand)
Dividend paid on ECs	
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
NOK 14.00 per EC in 2018	138 417
Proposed dividend	
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	138 417
NOK 15.50 per EC in 2018 1)	153 248

1) Approved at the annual General Meeting on 20.03.2019. Included in the accounts as other equity as at 31.12.2018.

Elected representatives of the Bank owning/representing ECs as at 31.12.2018

	Number of ECs		Number of ECs
Renate Austrheim	15 145	Christin Pedersen	751 000
Ragna Brenne Bjerkeset	950	Roy Reite	2 522
Mette Brit Bjordal	25 150	Kjell Martin Rønning	8 000
Bjørn Bjåstad	6 672	Turid Sand	1 813
Harald Jarle Eriksen	162 600	Aadne Sandanger	1 076
Sverre A. Farstad	12 000	Åsmund Skår	304 555
Linda Rafteseth Grimstad	80	Karianne Røsberg Slagnes	967
Ann Magrit Grønningsæter	1 274	Alf Sollid	1 100
Marie Rekdal Hide	268	Finn Moe Stene	908 400
Elisabeth Husøy	9 173	Linda Strømmen	540
Turi Indergaard	1 264	Stig Rune Sætre	133
Ester Sørdal Klungre	568	Svein Arild Sættem	4 003
Helge Knudsen	1 273	Solfrid Teigen	1 411
Leif-Arne Langøy	113 500	Lilian Thomas	948
Berit Larsen	271	Ann Magritt Bjåstad Vikebakk	6 805
Lars Martin Lunde	339 781	Trude Wenaas	17 500
Lise Løseth	379	Kaj Bang Westre	13 565

Note 30

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 2018.

Statement pursuant to section 5-5 of the Securities Trading Act

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 2018 to 31 December 2018, 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 2018
20 February 2019

THE BOARD OF DIRECTORS OF SPAREBANKEN MØRE

LEIF-ARNE LANGØY, Chairman
ROY REITE, Deputy Chairman
RAGNA BRENNE BJERKESET
HENRIK GRUNG
JILL AASEN
ANN MAGRITT BJÅSTAD VIKEBAKK
HELGE KARSTEN KNUDSEN
MARIE REKDAL HIDE

TROND LARS NYDAL, CEO

To the General Meeting of Sparebanken Møre

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebanken Møre. The financial statements comprise:

- The financial statements of the parent company Sparebanken Møre (the Company), which comprise the balance sheet as at 31 December 2018, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Sparebanken Møre and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2018, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its 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 Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities 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 of the current period. 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.

1. *Expected credit loss on loans and guarantees that are not credit-impaired (Step 1 and 2)*

Refer to note 3 Credit risk, note 6 losses on loans and guarantees, note 7 defaulted and doubtful commitments and Directors Report, section credit risk.

<table>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>
Expected credit loss on loans and guarantees that are not credit-impaired amounts to MNOK 87 per 31.12.2018, which corresponds to 0.17 % of gross lending.
IFRS 9 has led to changes in the rules of recognition and measurement of expected losses on loans, receivables and guarantees compared to previous regulations. According to the previous regulations, IAS 39, losses on loans was only recognised when there where objective evidence of impairment. IFRS 9 requires the bank to recognize an expected credit loss (ECL) already when establishing loans and guaranties.
To determine the expected credit loss, management exercises judgment, particularly related to the following parameters;

Probability of default (PD)
Loss given default (LGD)
Exposure by default (EAD)
Definition of significant increase in credit risk
Identification and assessment of credit-impaired loans and guarantees, including realization values for collateral.

As an IRB-bank, Sparebanken Møre has developed its own models for determining PD, LGD and EAD. Based on these approved IRB-models, the group has developed its own ECL model for calculation of expected credit losses.
Expected credit losses will to a large extend be affected by the management's expectations and estimates, we have therefore considered the item as a key audit matter.
</td><td>
We have formed an understanding of how the group has implemented the new standard for recognition and measurement of expected credit losses and evaluated the accounting interpretations for compliance with IFRS 9. Our work related to this includes;

Assessed the group's validation of IRB-models
Control of the group's documentation of the model for calculating expected credit losses
Assessed the group's validation of the model for calculating expected credit losses to see that the model works as expected.
Evaluation of the input in the ECL-model for calculating expected credit losses, including PD, LGD and EAD,
Testing the mathematical accuracy of the ECL model.

In our work on assessing validations and control of model documentation, we have used specialists.
In order to challenge management's judgements and parameters that have been used in calculations of expected credit losses, we have among other things;

Assessed and tested management's controls of the model's calculations,
Carried out analyses of key figures,
Assessed model-calculated expected credit losses against comparable banks and our knowledge of the industry.

</td></tr>
</table>

2. Expected credit loss on credit-impaired loans and guarantees (step 3)

Refer to note 3 Credit risk, note 6 losses on loans and guarantees, note 7 defaulted and doubtful commitments and Directors Report, section credit risk.

The Key Audit Matter	How the matter was addressed in our audit
Expected credit losses on loans and guarantees that are credit-impaired are MNOK 251 as of 31.12.2018 and corresponds to 0.50% of gross lending. IFRS requires that, for credit-impaired loans and guarantees, expected credit loss is calculated over the entire duration of the asset. Determining the expected credit loss entails a high degree of management judgment. Key factors in management's estimates are: - Identification of credit-impaired loans and guarantees, - Assumptions for determining the size and timing of expected cash flows including realisation value of collateral Based on the size of the gross lending, inherent credit risk, the size of the provisions and the relevant estimates, we consider the expected credit losses to be a key audit matter.	We have gained an understanding of how the Group identifies and follows up on loan and guarantees that are credit-impaired. We have tested that selected controls work as intended: - We have tested the group's controls that have been established to ensure the completeness of loans and guarantees that are credit impaired, - We have tested the group's control of registration and updating of collateral values, - We have tested the group's control for calculating expected credit losses. We have for a sample of credit-impaired loans and guarantees, challenged management's assessments by; - Re-performing the bank's calculation of expected credit loss. - Assessing the discount rate applied against the effective interest rate of the loan. - Assessing and challenging management on the assumptions for size and timing of cash flow including amongst other, against external valuations.

3. *IT-systems and application controls*

Refer to note 20 Rental agreements, section on Other Significant agreements.

The Key Audit Matter	How the matter was addressed in our audit
Sparebanken Møre is dependent on the IT infrastructure in the bank functioning as intended. The bank uses a standard core system delivered and operated by an external service provider. Sound governance and control of the IT systems is essential to ensure accurate, complete and reliable financial reporting. Furthermore, the IT systems support regulatory compliance for financial reporting to authorities, which is central to licensed businesses. Among other things, the system calculates interest rates on borrowing and lending and the bank's internal control systems is based on system-generated reports. Based on the importance of the IT systems for the bank's operations, we have identified this area as a key audit matter.	In connection with our audit of the IT-system in the bank, we have gained an understanding of the control environment and tested that selected general IT controls function as intended and support important application controls. We have focused on access management controls. The independent auditor at the external service provider has assessed and tested the effectiveness of internal controls related to the IT systems at the external service provider. We have obtained an attestation report (ISAE 3402) from the independent auditor to assess whether the service provider has satisfactory internal controls on areas of significant importance to Sparebanken Møre. We have evaluated the independent auditor's competence and objectivity and assessed the report in order to evaluate possible deviations and consequences for our audit. The independent auditor at the service provider has tested standard reports and application controls in the core- system. We have collected the report (ISRS 4400) to evaluate whether: - application controls, including controls related to interest rate calculations, work as intended, and - standard system reports are complete and accurate. We have used our IT audit specialist in the work to understand the control environment, test controls and examine the reports.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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 the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including 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 Company's and the Group'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 Group 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 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 laws, regulations, and auditing standards and practices generally accepted 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. We 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 Company's or the Group'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 Company and the Group'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 Company and the Group 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 the Board of Directors 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 the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the Board of Directors, 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

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 and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed 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 produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Ålesund, 20 February 2019
KPMG AS

Svein Arthur Lyngroth
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Alternative performance measures

Alternative performance measures
Alternative performance measure or APM is defined by ESMA (European Securities and Markets Authority) 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».

Alternative performance measures are either adjusted key figures or key figures not defined under IFRS. APMs are not intended to substitute accounting figures prepared in accordance with IFRS and are not to be assigned greater importance than these accounting figures, however, they have been included in the financial reporting in order to provide a more complete description of the Group's performance. Furthermore, APMs constitute important targets as to how the management governs the Group.

The APMs of Sparebanken Møre are used in the overview of key figures, in the report of the Board of Directors, as well as in presentations of the financial statements. All APMs are specified with corresponding comparative figures for previous periods.

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

Total assets
Definition: The sum of all assets.

Justification: Total assets is an industry-specific designation for the sum of all assets.

Average assets
Definition: The average sum of total assets for the year, calculated as a daily average.

Justification: This key figure is used in the calculation of percentage ratios for the performance items.

Return on equity
Definition: Profit/loss for the financial year as a percentage of the average equity for the year. Additional Tier 1 capital classified as equity is excluded from this calculation, both in profit/loss and in equity.

Justification: Return on equity is one of Sparebanken Møre's most important financial performance figures. It provides relevant information about the profitability of the Group by measuring the profitability of the operation in relation to the invested capital. The profit/loss is adjusted for interest on Additional Tier 1 capital, which pursuant to IFRS, is classified as equity, but in this context more naturally is classified as liability since the Additional Tier 1 capital bears interest and does not entitle to dividends.

Cost income ratio
Definition: Total operating costs in percentage of total income.

Justification: This key figure provides information about the relation between income and costs, and is a useful performance indicator for evaluating the cost-efficiency of the Group.

Losses as a percentage of loans
Definition: «Impairment on loans, guarantees etc.» in percentage of «Net loans to and receivables from customers» at the beginning of the accounting period.

Justification: This key figure specifies recognised impairments in relation to net lending and gives relevant information about the bank's losses compared to lending volume. This key figure is considered to be more suitable as a comparison figure to other banks than the impairments itself since this figure is viewed in context of lending volume.

Gross problem loans as a percentage of loans
Definition: Problem loans, measured as the total of non-performing commitments exceeding 3 months, which have individual impairments, as well as other doubtful commitments subject to individual impairments without being in default, in percentage of

gross lending and guarantees (before impairments).

Justification: This key figure provides relevant information about the Group's credit risk and is considered to be useful supplementary information in addition to the loss disclosures.

Net problem loans as a percentage of loans
Definition: Problem loans, measured as the total of non-performing commitments exceeding 3 months, which have individual impairments, as well as other doubtful commitments subject to individual impairments without being in default, in percentage of net lending and guarantees (after impairments).

Justification: This key figure provides relevant information about the Group's credit risk and is considered to be useful supplementary information in addition to what follows from the loss disclosures.

Deposit-to-loan ratio
Definition: «Deposit from customers» as a percentage of «Net loans to and receivables from customers».

Justification: The deposit-to-loan ratio provides important information about how the Group finances its operations. Receivables from customers represent an important share of the financing of the Group's lending, and this key figure provides important information about the Group's dependence on market funding.

Lending growth as a percentage
Definition: The period's change in «Lending to and receivables from customers» as a percentage of «Lending to and receivables from customers» at the beginning of the period.

Justification: This key figure provides information about the activity and growth in the bank's lending.

Deposit growth as a percentage
Definition: The period's change in «Receivables from customers» as a percentage of «Receivables from customers» at the beginning of the period.

Justification: This key figure provides information about the activity and growth in deposits, which is an important part of the financing of the Group's lending.

Price/book value (P/B)
Definition: Market price on the bank's equity certificates (MORG) divided by the book value per equity certificate for the Group.

Justification: This key figure provides information about the book value per equity certificate compared to the market price at a certain time. This gives the reader the opportunity to assess whether the market price of the equity certificate is reasonable.

Book value per equity certificate
Definition: The total equity that belongs to the owners of the bank's equity certificates (equity certificate capital, share premium, dividend equalisation fund and equity certificate holders' share of other equity, including proposed dividends) divided by the number of issued equity certificates.

Justification: This key figure provides information about the value of the book equity per equity certificate. This gives the reader the opportunity to assess whether the market price of the equity certificate is reasonable. The key figure is calculated as equity certificate holders' share of the equity at the end of the period, divided by the number of equity certificates.

Asset ratio/LTV (Loan to value)
Definition: Average loan amount of loans to customers divided by average market value of collateral.

Justification: This key figure provides information about the asset ratio in the lending portfolio and is relevant for evaluating the risk of loss.

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