

Annual report 2019

Contents

| | |
|------------|--|
| 4 | Key figures Group |
| 6 | CEO - Contributor to creative enthusiasm |
| 8 | Organisation and Management |
| 10 | Executive Management |
| 12 | Subsidiaries |
| 14 | Board of Directors |
| 16 | Directors' report |
| 34 | Corporate Governance |
| 43 | Corporate social responsibility and sustainability |
| 64 | Statement of Income |
| 66 | Statement of Financial Position |
| 68 | Statement of Changes in Equity |
| 75 | Statement of Cash Flow |
| | Notes to the financial statements |
| 77 | 1 Accounting principles |
| 82 | 2 Risk management |
| 93 | 3 Credit risk |
| 97 | 4 Commitments broken down according to sectors |
| 99 | 5 Commitments broken down according to geographical areas |
| 100 | 6 Losses on loans and guarantees |
| 110 | 7 Defaulted and doubtful commitments |
| 112 | 8 Guarantees, credit facilities and collateral |
| 113 | 9 Liquidity risk |
| 116 | 10 Market risk |
| 116 | 10.1 Interest rate risk |
| 118 | 10.2 Foreign exchange risk |
| 122 | 10.3 Financial derivatives |
| 125 | 11 Subordinated loan capital and Additional Tier 1 capital |
| 127 | 12 Debt securities |
| 129 | 13 Classification of financial instruments |
| 133 | 14 Financial instruments at amortised cost |
| 135 | 15 Financial instruments at fair value |
| 140 | 16 Subsidiaries |
| 142 | 17 Operating segments |
| 146 | 18 Other operating income |
| 148 | 19 Operating costs excl. personnel costs |
| 149 | 20 Leases |
| 151 | 21 Salaries and transactions with related parties |
| 155 | 22 Pension costs and liabilities |
| 159 | 23 Fixed assets |
| 163 | 24 Intangible assets |
| 164 | 25 Other assets |
| 165 | 26 Tax |
| 168 | 27 Profit-earnings per EC |
| 169 | 28 Capital adequacy |
| 173 | 29 ECs and ownership structure |
| 179 | 30 Events after the reporting period |
| 180 | Statement |
| 181 | Independent Auditor's report |
| 187 | Alternative Performance Measures |

Key figures Group

Income statement

| | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
|---|-------------|------|-------------|------|-------------|------|-------------|------|-------------|------|
| | NOK million | % |
| Net interest income | 1 314 | 1.79 | 1 179 | 1.70 | 1 100 | 1.72 | 1 082 | 1.79 | 1 098 | 1.89 |
| Net commission and other operating income | 219 | 0.30 | 207 | 0.30 | 194 | 0.30 | 182 | 0.30 | 193 | 0.33 |
| Net return from financial investments | 74 | 0.10 | 41 | 0.06 | 48 | 0.08 | 99 | 0.16 | 12 | 0.02 |
| Total income | 1 607 | 2.19 | 1 427 | 2.06 | 1 342 | 2.10 | 1 363 | 2.25 | 1 303 | 2.24 |
| Total operating costs | 646 | 0.88 | 607 | 0.87 | 590 | 0.92 | 586 | 0.97 | 561 | 0.96 |
| Profit before impairment on loans | 961 | 1.31 | 820 | 1.19 | 752 | 1.18 | 777 | 1.28 | 742 | 1.28 |
| Impairment on loans, guarantees etc. | 50 | 0.07 | 16 | 0.02 | 13 | 0.02 | 22 | 0.04 | 50 | 0.09 |
| Pre tax profit | 911 | 1.24 | 804 | 1.17 | 739 | 1.16 | 755 | 1.24 | 692 | 1.19 |
| Tax | 200 | 0.27 | 199 | 0.28 | 182 | 0.28 | 181 | 0.30 | 189 | 0.32 |
| Profit after tax | 711 | 0.97 | 605 | 0.89 | 557 | 0.88 | 574 | 0.94 | 503 | 0.87 |

Statement of financial position

| (NOK million) | 31.12.2019 | 31.12.2018 | 31.12.2017 | 31.12.2016 | 31.12.2015 |
|--|------------|------------|------------|------------|------------|
| Total assets 3) | 74 875 | 71 040 | 66 491 | 61 593 | 60 120 |
| Average assets 3) | 73 496 | 69 373 | 64 000 | 60 525 | 58 113 |
| Loans to and receivables from customers | 64 029 | 60 346 | 56 867 | 52 691 | 51 286 |
| Gross loans to retail customers | 43 815 | 41 917 | 39 817 | 37 133 | 34 822 |
| Gross loans to corporate and public entities | 20 441 | 18 616 | 17 168 | 15 734 | 16 526 |
| Deposits from customers | 36 803 | 34 414 | 32 803 | 32 562 | 29 389 |
| Deposits from retail customers | 21 685 | 20 624 | 19 688 | 18 675 | 17 829 |
| Deposits from corporate and public entities | 15 118 | 13 790 | 13 101 | 13 877 | 11 550 |
| Lending growth as a percentage 3) | 6.1 | 6.1 | 7.9 | 2.7 | 4.9 |
| Deposit growth as a percentage 3) | 6.9 | 4.9 | 0.7 | 10.8 | 3.5 |

Key figures

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-------|-------|-------|-------|-------|
| Return on equity 1) 3) | 11.7 | 10.6 | 10.4 | 11.6 | 10.7 |
| Cost income ratio 3) | 40.2 | 42.5 | 44.0 | 43.0 | 43.0 |
| Losses as a percentage of loans as of 1.1.3) | 0.08 | 0.03 | 0.02 | 0.04 | 0.10 |
| Gross doubtful commitments as a percentage of loans/guarantees | 1.48 | 0.62 | 0.57 | 1.12 | 0.47 |
| Net doubtful commitments as a percentage of loans/guarantees | 1.12 | 0.42 | 0.40 | 0.98 | 0.32 |
| Deposit-to-loan ratio 3) | 57.5 | 57.0 | 57.7 | 61.8 | 57.3 |
| Liquidity Coverage Ratio (LCR) | 165 | 158 | 159 | 91 | 123 |
| Capital adequacy ratio | 21.5 | 19.6 | 18.4 | 18.6 | 18.1 |
| Tier 1 capital ratio | 19.3 | 17.6 | 16.8 | 17.0 | 16.6 |
| Common Equity Tier 1 capital (CET 1) | 17.4 | 16.0 | 15.0 | 14.6 | 14.1 |
| Leverage Ratio (LR) | 8.0 | 8.1 | 8.2 | 8.5 | 8.0 |
| Man-years | 357 | 361 | 359 | 378 | 388 |
| Equity Certificates: | | | | | |
| Profit per EC (Group) (NOK) 2) | 34.50 | 29.60 | 27.70 | 28.80 | 25.25 |
| Profit per EC (Parent Bank) (NOK) 2) | 32.00 | 28.35 | 27.00 | 29.85 | 25.70 |
| Dividend per EC (NOK) | 17.50 | 15.50 | 14.00 | 14.00 | 11.50 |
| 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) | 317 | 283 | 262 | 254 | 188 |
| Book value per EC, in NOK (Group figure, incl. proposed dividend) | 320 | 303 | 289 | 275 | 257 |
| Price/Book value (P/B) (Group) 3) | 0.99 | 0.93 | 0.91 | 0.93 | 0.73 |

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

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

3) Defined as Alternative Performance Measure (APM), see attachment to the Annual Report.



Trond Lars Nydal

CEO

Contributor to creative enthusiasm

Sparebanken Møre is proud to be part of our region, Nordvestlandet, amid its entrepreneurship, determination and impressive adaptability. Our region presents us with opportunities – but also responsibilities.

We are in contact with hundreds of people in our region every day, and every day we are impressed by the commitment of the People living here. The ability to innovate has always formed an integral part of our culture and it is an important driving force in good times and in bad.

A desire to develop Nordvestlandet

As the largest bank in Nordvestlandet, we have the clout to contribute to this culture of creativity, and thereby also value creation in our region. This presents us with opportunities that we take very seriously. In 2019, we adopted a new vision that will guide the Bank's strategy in the coming years: Sparebanken Møre shall be the leading contributor to creative enthusiasm in Nordvestlandet. Every day.

Our vision obliges us to encourage increased business growth, innovation and entrepreneurial zeal. We must help ensuring that people can create a home and a future here with healthy finances. We must facilitate prosperity, inward migration and quality of life, and we must cultivate solidarity and collaborations that have positive ripple effects for our region.

Dialogue with our stakeholders

Meanwhile, a number of things must be in place if we are to bring our vision to fruition. It is vital that the Bank has a sound financial foundation. That is why it is pleasing to be able to present another strong annual result based on profitability, efficiency and financial strength. This creates security and opportunities for both communities and the people who live here.

Value creation also depends on knowledge, partnership and development. These are areas we are constantly addressing, both in the Bank and in our communities. In the past year, we have been a driving force behind, and a participant in, a number of forums in which relationships have been strengthened and ideas created. We have shared our knowledge, at the same time as we have obtained useful and important new input from our surroundings. For a bank that makes a living from being an adviser, driving force and supporter, it is crucial to listen to the feedback of those for whom we are here.

We received good confirmation that we are developing in the right direction when we achieved a record score in our annual service quality survey for 2019. Sparebanken Møre's measured customer satisfaction has never been higher among either retail customers or corporate customers. In addition to this, the Bank's customer service came out on top in a ranking of the country's best customer service in the banking category.

An active year

Confirmation that the steps we are taking to create good customer experiences and equip the Bank for the future are producing results is a great motivator. 2019 was an active year in this respect. We carried out a number of projects that really showed the clout that the expert environment and culture we call "Team Møre" has.

There is not enough room to list everything, but examples include new digital solutions, user friendly services and measures that have made everyday banking simpler for our customers. We also specifically reinforced our services for small and medium-sized enterprises (SMEs) and are now seeing the effects of this through increased growth in this customer segment. When the analysis company, Cicero, recently named the best website for SMEs, Sparebanken Møre walked away victorious.

We improved our card services with a credit card from Mastercard and we also launched a new, future-oriented visual profile. I think we have successfully managed to preserve our long, proud history while updating our profile and ensuring it is suitable for digital customer channels. Not least, throughout the year we were a substantial professional and financial contributor to initiatives that promote the development of a sustainable region.

Sustainable development

In 2019, we entered into a partnership with the regional cluster network NCE iKuben, which aims to help companies in the areas of innovation, converting to new technology and sustainability. We were also a partner when Ålesund Municipality signed a letter of intent with the UN to establish a centre for sustainable urban development – the second one in the world.

In addition to this, we contributed to teaching school children about economics and to research into marine resources, while stimulating entrepreneurship and innovation through the NÆRINGSTEFT [‘Nose for Business’] skills journey. The fact that more than 80 entrepreneurs signed up with their ideas when the concept was organised for the third year in a row, is indisputable confirmation of the innovative power you can find in our region.

Both Norway and the world community urgently need to restructure in the next few years in order to achieve the climate targets for 2030. As a regional savings bank, we have the power to influence, both through the projects we get involved in as well as through our everyday banking activities. We will do our bit for our shared future, and in 2019 we integrated sustainability into the Bank's overarching strategy for the next few years. We also committed ourselves to the UN Principles for Responsible Banking and will continue this work at full force in 2020 as well – both in the Bank and in our environment.

Future prospects

The Bank's updated analysis of its future prospects show moderate production growth in the county in the coming period. This is due to low interest rates, a weak Norwegian kroner and growth in our export markets. We anticipate continued good activity levels in all of our main industries and unemployment will probably remain low this year as well.

I look forward to continuing to develop the Bank in 2020. We believe in our model and we believe in our region. Our banking industry holds the solutions of the future, but we must be able to identify and manage them in the best possible manner. A strong professional environment characterised by knowledge sharing, partnership and development is required – and we have that in Sparebanken Møre. Given that we also have a flexible and forward-leaning local business sector, there is reason to be optimistic about the future.

Nordvestlandet has assets that create assets and that is what will drive us forward. Every single day.

Organisation and management

Sparebanken Møre has defined its primary geographic area of operations as Nordvestlandet. The Bank is the leading financial group in the region with 28 branches in Møre og Romsdal.

Sparebanken Møre's General Meeting is the Bank's supreme body. The General Meeting's main duties involves approving the financial statements, and electing 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 among the Bank's customers
- 17 members and four deputy members are elected by and from among the equity certificate holders
- 11 members and four deputy members are elected by and from among the employees
- Three members and two deputy members are elected by the general meeting to represent the local community



The CEO's executive management team is composed of the heads of sections, Corporate Banking Division and the Retail Banking Division.

The Head of the Retail Banking Division is responsible for developing and maintaining the Bank's retail customer concept. A total of 28 branches perform the Bank's customer-oriented activities. Every retail market department is headed by a bank executive who reports to the head of the division, who in turn reports directly to the chief executive.

The Head of the Corporate Banking Division is responsible for developing and maintaining the Bank's corporate banking concept. The Corporate Banking Division consists of the Corporate Banking Sunnmøre, Corporate Banking Romsdal og Nordmøre, and Corporate Banking Søre Sunnmøre. Corporate Banking Sunnmøre is in turn organised into six different branches (maritime, offshore and supply, industry, real estate, trade and services, and SME). The heads of these departments report to the head of the division, who in turn reports to the chief executive.

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 addressed by the Bank's central support system, which is organised into seven staff units. Each of these units is managed by an EVP, who reports directly to the CEO.

The executive management group forms the cornerstone of Sparebanken Møre's management structure in order to ensure efficient communications 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: 6,877

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: 5,198

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

Elisabeth Blomvik

Born: 1978 | ECs: 808

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: 4,288

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: 6,339

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: 4,411

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: 5,088

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 Distrikthøgskole (1980-1982) and Møre og Romsdal Ingeniørhøgskole (1982-1984).



Tone Skoheim Gjerdsbakk

Born: 1982 | ECs: 3,096

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: 691

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: 2,156

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).

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 2019 | NOK million |
|--|-------------|
| Net loans to customers | 25,655 |
| Debt Securities issued (covered bonds) | 23,062 |
| Net interest income | 308 |
| Profit after tax | 222 |

Møre Eiendomsmegling AS



The company was established in 1992 and acquired by Sparebanken Møre in 2005. Møre Eiendomsmegling changed their market name to Møremegling in 2019. 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 14 employees and offices in Molde, Ålesund and Ørsta. The company traded 371 properties in 2019. Managing Director of Møre Eiendomsmegling AS is Odd Arild Sæther.

Key Figures 2019 NOK million

| | |
|------------------|------|
| Turnover | 19.9 |
| Profit after tax | 0.8 |
| Equity | 11.0 |

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 2019.



Roy Reite

Deputy Chairman | ECs: 3,522

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, including as the CEO of the Vard Group. Today, he is the CEO of Fjordlaks AS. Reite has been a board member of Sparebanken Møre since 2004 and lives in the Municipality of Ålesund. Reite attended eleven out of eleven board meetings in 2019.



Marie Rekdal Hide

Board member | ECs: 341

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 and the corporate market. She lives in the municipality of Sula. Hide attended eleven out of eleven board meetings in 2019.



Helge Karsten Knudsen

Board member | ECs: 1,344

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 2019.



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. Bjerkeset lives in the municipality of Fræna, and attended ten out of eleven board meetings in 2019.



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 six out of eleven board meetings in 2019.



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 special-

ized 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 2019.



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 eleven out of eleven board meetings in 2019.

Directors Report 2019

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.

AREAS OF OPERATION AND MARKETS

Sparebanken Møre is an independent financial group that consists of the Parent Bank, the mortgage company Møre Boligkreditt AS, the 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 (16 municipalities in Sunnmøre, six in Romsdal and two in Nordmøre) at the end of 2019. Its head office is in Ålesund.

Sparebanken Møre offers a full range of financial services within the following areas:

- Financing
- Deposits and other forms of investments
- Asset management
- Financial advisory services
- Money-transfer services
- Currency and interest rate trading
- Insurance
- Real estate brokerage

STRATEGY AND GOALS

Sparebanken Møre shall be an independent bank that is the first choice for retail customers and small and medium-sized enterprises in Nordvestlandet. The Bank shall also be an attractive partner for larger companies and the public sector.

Sparebanken Møre shall attract the best partners and suppliers via a business strategy based on the contract banking principle. This means that the Bank can choose to operate and develop on its own, or with partners and suppliers where this is deemed to be the best solution for customers and the Bank.

The Bank's goal is to have the most qualified employees and managers, and clear competence requirements are set for each individual employee. The Bank also takes a systematic approach to recruitment and the development of managers and employees.

Good interaction between the Bank's branches, digital channels, specialist functions and customer service is designed to ensure that the Bank provides a high quality customer experience.

The financial targets for the strategy period 2019-2023 are a return on equity of more than 11 per cent and a cost income ratio of less than 40 per cent. The goal is also to achieve a lower level of losses than the average for Norwegian banks.

KEY FIGURES FOR 2019

The Sparebanken Møre Group delivered a solid result in 2019 and the Board of Directors is pleased with the Bank's development and results.

Group's key figures

(Comparable figures for 2018 in brackets)

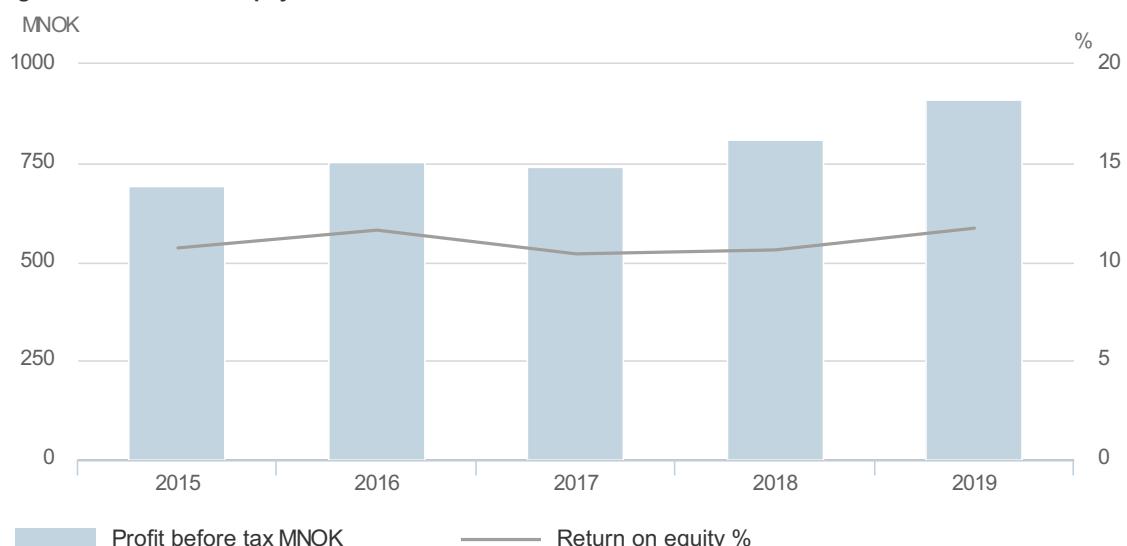
- Profit after tax: NOK 711 million (NOK 605 million)
- Return on equity after tax: 11.7 per cent (10.6 per cent)
- Lending growth in the last 12 months: 6.1 per cent (6.1 per cent)
- Deposit growth in the last 12 months: 6.9 per cent (4.9 per cent)
- At year end, the primary capital amounted to NOK 6.9 billion and represented 21.5 per cent of the basis for calculation. Consequently the Tier 1 capital ratio was 19.3 per cent and the Common Equity Tier 1 capital ratio was 17.4 per cent.
- Earnings per equity certificate: NOK 34.50 (NOK 29.60)
- The Board of Directors recommends that the General Meeting pays a cash dividend of NOK 17.50 per equity certificate and sets aside NOK 176 million for dividend funds for local communities. In total, this represents around 51 per cent of the total group profit for 2019.

Parent Bank's key figures

(Comparable figures for 2018 in brackets)

- Profit after tax: NOK 661 million (NOK 580 million)
- At year end, the primary capital amounted to NOK 6.7 billion and represented 22.4 per cent of the basis for calculation. Consequently the Tier 1 capital ratio was 20.0 per cent and the Common Equity Tier 1 capital ratio was 17.9 per cent.
- Earnings per equity certificate: NOK 32.00 (NOK 28.35)

Fig. 1 Profit and return on equity



FRAMEWORK CONDITIONS

Moderate economic expansion

The moderate economic expansion in the Norwegian economy continued in 2019. According to Statistics Norway's calculations, GDP grew by 2.5 per cent in Mainland Norway last year. This was due to higher

activity in both the private and the public sector. The upturn in production and demand has led to lower unemployment. At the end of December last year, 2.2 per cent of the workforce in Norway were unemployed.

Total credit growth from domestic sources (K2) fell slightly over the year and was at 5.6 per cent in November 2019. The growth in credit for households was 5.2 per cent while for non-financial companies it was 6.2 per cent. House prices continued to rise at a moderate pace.

Key policy rate

Norges Bank raised its key policy rate three times last year to 1.50 per cent. The most important reasons for this were the high levels of demand in the Norwegian economy and the weak NOK exchange rate.

According to the central bank's latest interest rate forecasts, published in December 2019, the key policy rate will remain unchanged in 2020.

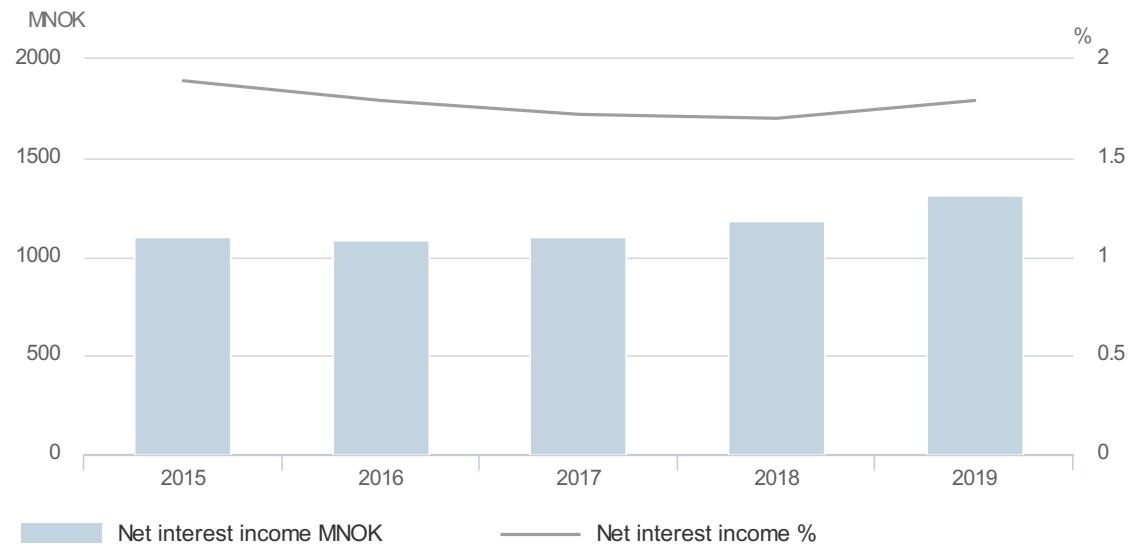
Developments in the financial markets

Deposits are the most important source of financing for the Group. The deposit-to-loan ratio of 57.5 per cent as at 31 December 2019 is high and helps both reduce Sparebanken Møre's dependence on the financial markets and protect net interest income during a period of interest rate rises. The capital markets functioned well throughout 2019 and Sparebanken Møre has had good access to competitive financing, not only in the form of deposits but also through the issue of senior debt and covered bonds. There has been a focus on diversifying sources of financing in recent years and in early October last year, Møre Boligkreditt AS placed its third successful semi benchmark Public Issue of EUR 250 million in the European market.

RESULTS

The annual financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as established by the International Accounting Standards Board and approved by the EU as at 31 December 2019.

Fig. 2 Net interest income



Net interest income

Net interest income totalled NOK 1,314 million (1,179 million) or 1.79 per cent (1.70 per cent) of average total assets. Net interest income accounted for 81.8 per cent of total income in 2019.

Over the course of the year, rising interest rates led to increased funding costs and slightly reduced

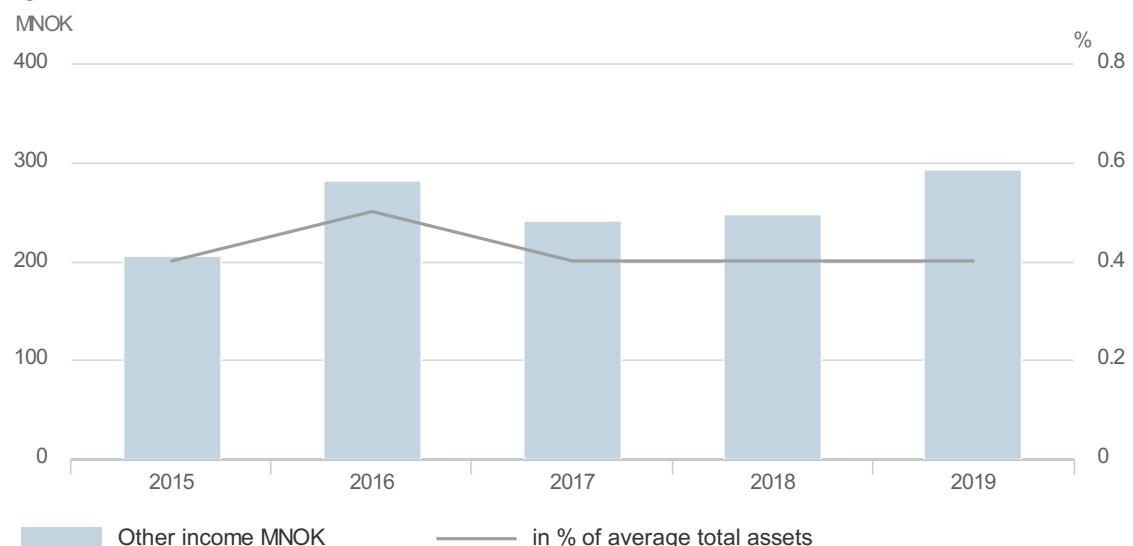
margins on lending. The interest rate hikes implemented in 2019 kept the lending margin at year end 2019 at about the same level as at year end 2018. The margin for deposits increased in the same period and, overall, this improved net interest income in 2019 compared with 2018.

In addition to this, higher lending and deposit volumes, as well as better interest contributions from the Bank's equity, increased net interest income in NOK compared with last year.

Strong competition in both lending and deposits, and reduced risk in the lending portfolio, have contributed to downward pressure on net interest income.

In the retail market, the lending margin decreased and the deposit margin increased compared with 2018. The lending margin in the corporate market was unchanged, while the deposit margin has increased slightly.

Fig. 3 Other income



Other operating income

Other operating income was NOK 293 million in 2019 (0.40 per cent of average total assets). This is an increase of NOK 45 million compared with 2018.

Capital losses from bond holdings were NOK 9 million, compared with losses of NOK 19 million in 2018. Capital gains on equities were NOK 16 million, compared with NOK 10 million in 2018. Income from other financial investments increased by NOK 17 million compared with 2018.

Other operating income increased by NOK 12 million compared with 2018.

Fig. 4 Costs



Costs

Total costs were NOK 646 million, which is NOK 39 million higher than in 2018. Personnel costs increased by NOK 14 million compared with 2018 and were NOK 354 million. Financial activity tax in the form of higher employers' National Insurance contributions was NOK 15 million in 2019, NOK 1 million higher than in 2018. Staffing has been reduced by 4 full-time equivalents in the last 12 months to 357 FTEs. Other operating costs were NOK 25 million higher than in 2018.

The cost income ratio was 40.2 per cent for 2019. This represents a decrease of 2.3 percentage points compared with 2018.

Fig. 5 Losses



Doubtful commitments

In 2019, the income statement was charged with NOK 50 million (NOK 16 million) in losses on loans and guarantees. This amounts to 0.07 per cent of average total assets (0.02 per cent).

At year end 2019, total expected losses were NOK 375 million, equivalent to 0.57 per cent of loans and guarantees (NOK 338 million and 0.55 per cent). NOK 24 million of the impairments were linked to commitments in default for more than 90 days (NOK 31 million), which amounts to 0.03 per cent of loans and guarantees (0.06 per cent). NOK 351 million relates to other commitments (NOK 307 million), which is equivalent to 0.54 per cent of gross loans and guarantees (0.49 per cent).

Net doubtful commitments (total commitments in default above 90 days and other credit-impaired commitments not in default) have increased by NOK 478 million in the last 12 months. At the end of 2019, the corporate market accounted for NOK 650 million of net doubtful commitments, and the retail market NOK 86 million. In total, this represents 1.12 per cent of gross loans and guarantees (0.42 per cent).

Fig. 6 Balance sheet

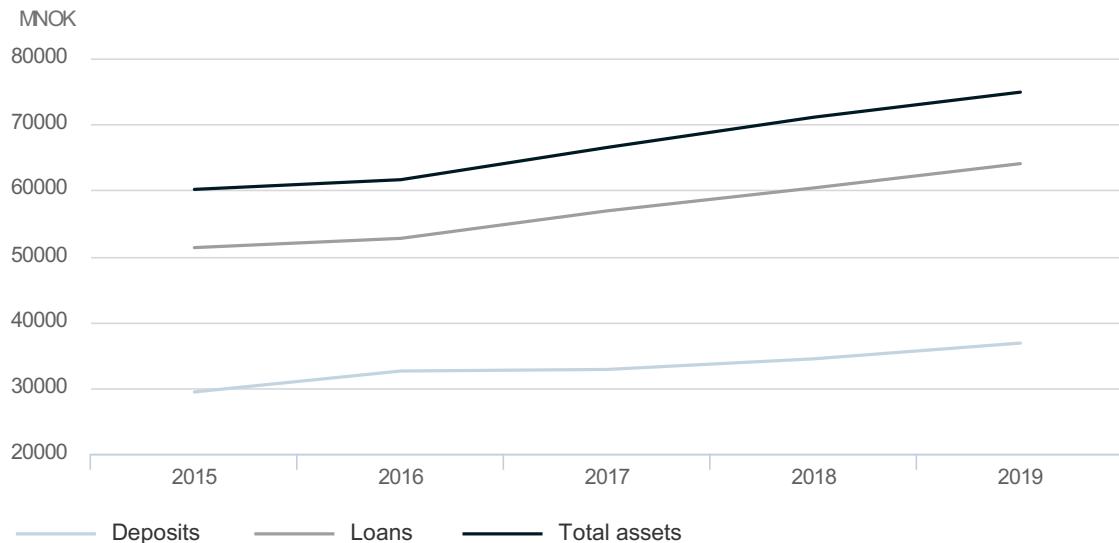
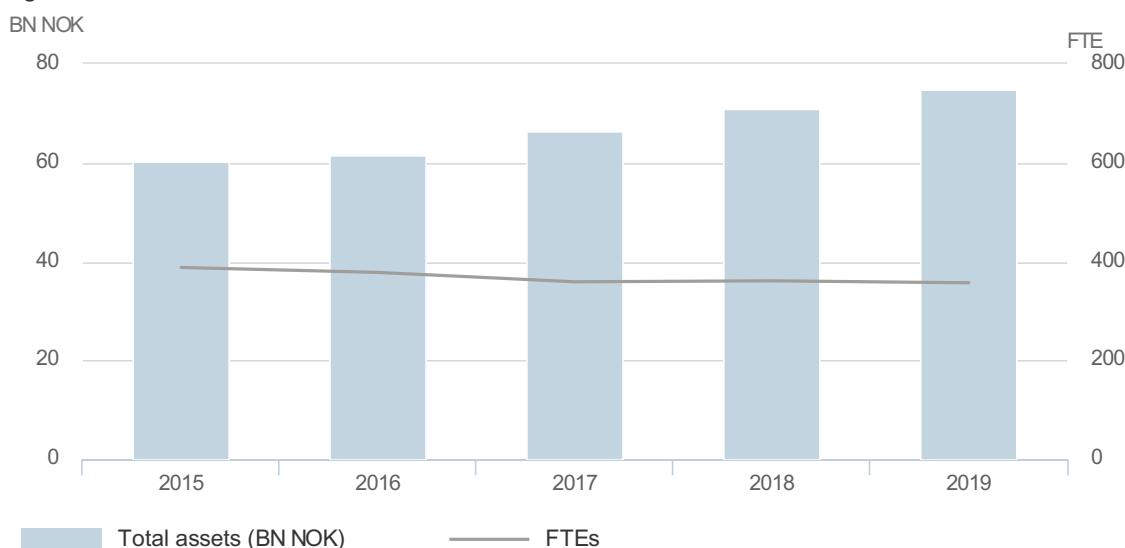


Fig. 7 Total assets and FTEs



Total assets

Total assets increased by NOK 3,835 million, or 5.4%, in 2019 to NOK 74,875 million as at 31 December 2019. The change in total assets is primarily attributable to an increase in lending.

Lending to customers

At year end 2019, lending to customers amounted to NOK 64,029 million (NOK 60,346 million). Customer lending has increased by a total of NOK 3,683 million, or 6.1 per cent, in the last 12 months. Retail lending has increased by 4.5 per cent, while corporate lending has increased by 9.8 per cent in the last 12 months. Retail lending accounted for 68.4 per cent of lending at year end 2019 (69.2 per cent).

Deposits from customers

Customer deposits have increased by NOK 2,389 million, or 6.9 per cent, in the last 12 months. At year end 2019, deposits amounted to NOK 36,803 million (NOK 34,414 million). Retail deposits have increased by 5.1 per cent in the last 12 months, while corporate deposits have increased by 10.2 per cent and public sector deposits have decreased by 0.4 per cent. The retail market's relative share of deposits amounted to 58.9 per cent (59.9 per cent), while deposits from the corporate market accounted for 39.0 per cent (37.9 per cent) and from the public sector market 2.1 per cent (2.2 per cent).

The deposit-to-loan ratio was 57.5 per cent at the end of 2019 (57.0 per cent).

Securities

Holdings of investments in securities (the LCR portfolio plus the surplus liquidity portfolio) at year end 2019 amounted to NOK 6,938 million compared with NOK 6,789 million at year end 2018. The volume of the portfolio is generally tailored to the LCR requirement, but also the Bank's overall liquidity situation.

The Bank had no significant trading portfolio at year end 2019.

The Bank's additional Tier 1 capital consists of two loans totalling NOK 600 million. Both loans are subject to variable rates.

PROPOSED ALLOCATION OF THE PROFIT

In line with the rules for equity certificates, etc., and in accordance with Sparebanken Møre's dividend policy, it is proposed that 50.7 per cent of the Group's profit allocated to equity certificate holders be set aside for cash dividends and dividend funds for local communities. Based on the accounting breakdown of equity in the Parent Bank 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 were NOK 34.50 in 2019. The recommendation to the General Meeting is that the cash dividend per equity certificate for the 2019 financial year be set at NOK 17.50.

Proposed allocation of profit (figures in NOK millions):

| | |
|---|------------|
| Profit for the year | 711 |
| Share allocated to AT1 instrument holders | 23 |
| Dividend funds (50.7 %): | |
| To cash dividends | 173 |
| To dividend funds for local communities | 176 349 |
| Strengthening equity (49.3 %): | |
| To the dividend equalisation fund | 144 |
| To the primary capital fund | 146 |
| To other funds | 49 339 |
| Total allocated | 711 |

BUSINESS AREAS

Retail Banking Division

In 2019, Sparebanken Møre consolidated its position as the leading bank for retail customers, clubs and associations in Nordvestlandet. The Bank gained about 8,000 new retail market customers in 2019, with the growth being particularly strong in its priority market areas.

Lending to the retail market increased by NOK 1.9 billion from the same period last year to a total of NOK 43.8 billion. Deposits grew by 5.1 per cent, with deposits from retail customers totalling NOK 21.7 billion at the end of the year. Retail customers account for 58.9 per cent of deposits.

Sparebanken Møre attaches great importance to external activities that focus on customers. Expert advisers combined with products that are well-suited to meeting customers' needs made important contributions to creating good customer experiences. All employees who advise customers must complete their FinAut authorisation programmes. They must also undergo continuous refreshers in market developments, systems training and training in providing good customer advice. The Bank also has a product committee that assesses new and existing products to ensure that they are suitable for the needs of customers.

Customers are increasingly serving themselves and performing most of the simple banking services in the online or mobile bank. This gives us a great opportunity to spend time and resources on providing good advice to customers when they need it. The demand for advice remains high, and young first-time buyers and customers with complex family situations especially are seeking advice.

The Bank worked systematically throughout the year to ensure customers have good customer experiences when they contact us, and in 2019 Sparebanken Møre made it all of the way to the top and was named Norway's best customer service in the bank category. The Bank's own service quality survey also showed record customer satisfaction among retail market customers in 2019.

Availability and expertise are important priority areas for the Bank, and this work will be continued with full force in 2020.

Corporate Market Division

The Corporate Banking Division is the largest financial services environment for business in Nordvestlandet and in 2019 it strengthened its market position through good growth in both the lending and investment markets.

Lending to the corporate market increased by just over NOK 1.7 billion to a total of NOK 19.7 billion, which represents growth of 9.6 per cent. The growth in deposits was very good and ended the year at 10.2 per cent with deposits from corporate customers totalling NOK 14.3 billion.

The largest individual industries measured in terms of lending were commercial real estate and fisheries. The quality of the portfolio is considered good, and losses remain low.

The growth in new customers is increasing, and in 2019 about 500 new business customers chose to establish an active customer relationship with Sparebanken Møre. The majority of these were companies in the SME segment.

All account managers in the Corporate Banking Division are authorised financial advisers and must pass annual tests to renew their authorisation. The Bank also strives to ensure it has solid, relevant industry knowledge in order to improve the employees' advisory skills.

In parallel with improving the adviser's skills, there is a focus on digitalising both internal processes and better self-service solutions in order to simplify processes for customers with respect to customer and product establishment, as well as efficient, digitalised, self-service credit solutions. This will help ensure that the Bank's account managers can give even greater priority to direct customer contact with advice that provides added value to customers.

EPSI's recent customer satisfaction survey shows that Sparebanken Møre is one of the banks with the

most satisfied business customers. Local presence, a focus on the customer and short decision-making paths are important factors behind this. The Bank's own service quality survey confirms the positive trend in the corporate area with customer feedback indicating greatly improved customer satisfaction in 2019.

Capital Market

Sparebanken Møre's investment firm licence is administered by Treasury and Markets, where the Treasury department follows up services related to financing and management for the Group, while the Markets department manages the customer-oriented services through customer trading in foreign exchange, interest rates and shares, as well as Discretionary Asset Management service.

Sparebanken Møre must aim for low to moderate overall risk in the activities of the Bank and the Group. Earnings should be a product of customer-related activities, and not financial risk taking, and the Bank's market risk must be low.

The section's customer-oriented services generated income of NOK 105.5 million in 2019, which represented 36 per cent of the Bank's other operating income in 2019 and an increase of about 10 per cent compared with 2018. Currency and fixed income trading, as well as Discretionary Asset Management, are the most important income areas. After deducting costs, the income is allocated to the customer centres in the Corporate Banking Division and the Retail Banking Division.

SUBSIDIARIES

The aggregate profit of the Bank's three subsidiaries was NOK 222 million after tax in 2019 (NOK 177 million).

Møre Boligkredit AS

Møre Boligkredit AS was established as part of the Group's long-term funding strategy. The main purpose of the mortgage company is to issue covered bonds for sale to Norwegian and international investors. At year end 2019, the company had net outstanding bonds of NOK 23.1 billion in the market; almost 34 per cent of the borrowing was in a currency other than NOK. The company contributed NOK 222 million to the result in 2019 (NOK 174 million).

Møre Eiendomsmegling AS

Møre Eiendomsmegling AS provides real estate brokerage services to both retail and corporate customers. The company contributed NOK 0.8 million to the result in 2019 (NOK 1 million). At year end, the company employed 13 full-time equivalents.

Sparebankeiendom AS

Sparebankeiendom AS's purpose is to own and manage the Bank's commercial properties. The company contributed NOK -1.1 million to the result in 2019 (NOK 2 million). The company has no employees.

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 and regulations
- Transparency and good communications with equity certificate holders, other investors, customers, employees and the community at large
- Equal treatment of all equity certificate holders

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 as a separate section.

RESEARCH AND DEVELOPMENT

The Bank takes a systematic approach to various development projects where the purpose is to provide improved products and services for customers, or to help streamline and enhance the quality of internal work processes.

Some of the projects are carried out in collaboration with partners, including through the establishment of the TEFT-lab at NTNU in Ålesund.

The Group does not carry out its own research activities beyond this, but is a strong contributor to R&D activities in Nordvestlandet via science parks and industry clusters.

CAPITAL ADEQUACY RATIO AND APPLICABLE REGULATIONS

The EU's capital requirements regulation and directive (CRR/CRD IV) came into force in Norway on 31 December 2019. These meant, among other things, that the capital requirements for lending to small and medium-sized enterprises (SMEs) were reduced and that the Basel I floor was repealed. The Ministry of Finance has decided that the system risk buffer for financial institutions that use the advanced IRB method should be increased to 4.5 per cent from 31 December 2020. The change will come into effect from 31 December 2022 for other institutions. The Ministry of Finance has previously decided that the countercyclical buffer will be increased to 2.5 per cent from 31 December 2019.

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. This represents a decrease of 0.1 percentage points compared with the Financial Supervisory Authority of Norway's previous decision. The next time it sets the Pillar 2 requirement, the Financial Supervisory Authority of Norway will also express its expectation concerning a capital requirement margin (P2G) in excess of the total risk-weighted capital requirement.

For Sparebanken Møre, the total minimum requirement for the common equity Tier 1 capital ratio amounted to 14.2 per cent as at 31 December 2019.

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

Operational risk calculations are performed using the basic method.

Sparebanken Møre's capital adequacy at year end 2019 was well above the regulatory capital requirements and the internally set minimum target for the common equity Tier 1 capital ratio of 15.2 per cent. Primary capital was 21.5 per cent (19.6 per cent), core capital 19.3 per cent (17.6 per cent) and common equity Tier 1 capital 17.4 per cent (16.0 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 49 per cent of the Group's profit to further build up the Group's financial strength.

The minimum requirement for the 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 2019, the leverage ratio for Sparebanken Møre was 8.0 per cent (8.1 per cent), which represents a good margin with respect to the total requirement of 5 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 2019, the Board adopted a new strategic plan, "Møre 2023". 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 2019 indicate that the Group's capital adequacy is sufficiently robust to tolerate an economic development that is significantly more negative than the development on which the basic scenario in the long-term strategic plan is based. This is supported by both economic calculations and simulations based on various stress tests.

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

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

Credit risk

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

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

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

Compliance with the Board's resolutions within the area of credit is monitored by the Bank's Risk Management & Compliance 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 are used in the credit approval process.

Through the Group's reporting portal, each member of staff with customer responsibilities has access to reports which show the development of the credit risk in his or her portfolio. The portal has a hierarchical structure allowing managers in Sparebanken Møre to monitor performance within their respective area of responsibility. The reporting is 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 Risk Management & Compliance. 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 the follow-up and control of this area is good. 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 needs and safeguard access to loans from Norges Bank, as well as customer-generated interest rate and foreign exchange trading.

The Board stipulates limits for Group market risk in the market risk strategy. The limits are monitored by Risk Management & Compliance. 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 recovery plan includes a description of how the funding situation should be handled in turbulent 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. The LCR target established by the Group 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 interest cost for the Bank. It also makes the Bank more vulnerable to changes in credit spreads.

To ensure that the Group's funding risk is kept at a low level, lending to customers must primarily be financed by customer deposits and issuing long-term debt securities. The Bank's deposit-to-loan ratio at the end of 2019 was 57.5 per cent.

Møre Boligkredit 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 2019, around 40 per cent of the Group's total lending (58 per cent of lending to the retail market) had been transferred to the mortgage company. Sparebanken Møre will continue to transfer loans to Møre Boligkredit AS in accordance with the plans set out in the funding strategy. At year end, 83 per cent of Møre Boligkredit AS's outstanding bond volume was for an amount that qualifies for Level 2A liquidity in LCR. Møre Boligkredit AS will issue and accumulate more loans in this category going forward.

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

In December 2019, Moody's upheld its good A2 rating of Sparebanken Møre. Bonds issued by Møre Boligkredit 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 term in excess of one year. Total market financing ended at net NOK 29.7 billion at year end – almost 90 per cent of this financing has a remaining term of more than one year. The Parent Bank's outstanding senior bonds, with a term of more than one year, had a weighted remaining term of 1.92 years at year end 2019, while covered bond funding correspondingly had a remaining term of 4.01 years.

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

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

Operational risk

Operational risk is defined as the risk of losses due to inadequate or failing internal processes or systems, human error or external events.

The process for managing operational risk must ensure that no single incident can seriously harm Sparebanken Møre's financial position. The Board has adopted internal guidelines for the area and risk assessments are carried out based on external and internal incidents to which the Bank is exposed.

Sparebanken Møre attaches great importance to external activities that focus on customers. Our employees' high level of expertise and products that are well-suited to meeting the needs of customers both contribute to the mitigation of operational risk and ensuring that our customers find being a customer of our bank a good experience. All employees who advise customers are authorised via FinAut's authorisation programmes and must also undergo continuous refreshers in market developments, systems training and training in providing good customer advice. The Bank has also established a product committee that assesses all new products and changes to existing products, as well as regularly evaluates the Bank's products to ensure that they are suitable for the needs of customers.

The quality and stability of our digital banking services and other ICT services were generally good in 2019. Good cooperation between 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 and that is why the Bank is a member of groups such as Nordic Financial CERT. Sparebanken Møre has a strong focus on ICT security, including amongst the Bank's employees and at the Bank's service providers. All employees of the Bank must take a compulsory e-learning course in information security, and outsourcing and service providers are regularly followed up. Quality, stability and security will also be focused on heavily in 2020.

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 2020.

Processing personal data is key to the Bank's operations. Sparebanken Møre is therefore committed to processing information in accordance with the Personal Data Act. The work is performed in a structured manner in line with internal policies (any discrepancies are dealt with) and by establishing appropriate controls within the area. This will be a focus area in 2020 as well.

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.

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. The Board believes that the Bank's overall risk exposure related to operational risk is prudent.

Compliance risk

Compliance risk is the ongoing and future risk with respect to earnings and capital related to any breach of, or failure to comply with, statutory or regulatory requirements, or requirements stipulated pursuant to acts and regulations, by the Group.

Compliance risk may result in public sanctions (loss of licence or fines), civil law compensation, and/or

compensation for losses in the event of breaches of contract. Compliance risk can also result in loss of reputation, limit business opportunities and reduce the potential for expansion.

Sparebanken Møre's overall goal for compliance is to ensure that the Group operates in accordance with acts and regulations. Tolerance for deviations must be low.

The main principle for compliance with the regulatory requirements to which Sparebanken Møre is exposed is the sharing of work and liability. This means that the various divisions, staff units, departments and business units have an independent responsibility to ensure compliance with acts and regulations in their day-to-day work.

All employees have an independent responsibility to comply with routines and guidelines established in accordance with acts and regulations, including providing feedback in the event of any discrepancies.

The compliance function must ensure compliance with statutory or regulatory requirements and reports directly to the CEO and Board. The function is responsible for identifying, assessing, monitoring, reporting and advising on compliance risk.

The Board adopts annual compliance instructions and receives quarterly compliance reports. In the opinion of the Board, the Bank's operations are organised such that the compliance risk is within the adopted risk limits.

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. 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 Management.

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.

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

Internal control reporting

Internal control reporting at Sparebanken Møre is decentralised, with Compliance Management is the coordinating unit. The internal control system is reviewed and verified every year in a process that involves all managers at levels 1, 2 and 3.

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.

The Board has received regular reports on the operations and risk situation throughout the year.

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

CORPORATE SOCIAL RESPONSIBILITY

Please refer to the separate section on corporate social responsibility and sustainability for information on how Sparebanken Møre addresses and fulfils its responsibilities with respect to human rights, labour rights and social conditions, the external environment and combating corruption in business strategies, day-to-day operations and in relation to stakeholders. Information about working environment and sick leave in Sparebanken Møre is also presented in this section.

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 2019. The internal auditing function reports to the Risk Committee and the Board. A plan has been prepared for the work of the internal auditor and approved by the Board. The Risk Committee and the Board received regular reports from the internal auditor in 2019 in accordance with this plan, and no material breaches of relevant laws or regulations were identified.

EQUITY CERTIFICATES AND DIVIDENDS

At year end 2019, there were 5,526 holders of Sparebanken Møre's equity certificates. 9,886,954 equity certificates have been issued. Equity certificate capital accounts for 49.6 per cent of the Bank's total equity.

The 20 largest equity certificate holders represented 50.7 per cent of the Bank's equity certificate capital at year end. Of these equity certificate holders, 11 were residents of Møre og Romsdal, with a relative ownership interest among the 20 largest of 57.7 per cent (54.3 per cent). Note 29 includes a list of the 20 largest holders of the Bank's equity certificates.

Sparebanken Møre encourages all employees to own equity certificates in Sparebanken Møre and contributes to this via reward schemes. At the end of the year, employees held 282,804 equity certificates, which makes employees the seventh largest MORG owner overall.

As at 31 December 2019, the Bank owned 25,251 of its own equity certificates. These were purchased on the Oslo Børs at market prices.

The equity certificates are freely negotiable in the market.

Sparebanken Møre's dividend policy states that the Bank's aim is to achieve financial results which provide 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 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.

GOING CONCERN

In accordance with the requirements of Norwegian accounting legislation, 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.

EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred after the balance sheet date that materially affect the annual financial statements as presented.

FUTURE PROSPECTS

The county is expected to see moderate production growth going forward. Continued low interest rates, a weak Norwegian kroner exchange rate and growth in our export markets will contribute to this. It appears that the uncertainty surrounding Brexit and the trade war between the US and China has diminished. We still expect good activity within our main industries.

Unemployment in the county has fallen heavily since the beginning of 2017. According to NAV, registered unemployment at job centres in Møre og Romsdal amounted to 2.0 per cent of the workforce at the end of December. In comparison, the national unemployment rate was 2.2 per cent. With moderate production growth going forward, unemployment is likely to remain low throughout the current year.

Growth in household debt in Norway as a whole fell steadily throughout 2019 and ended up at around 5 per cent. The downward trend has been of this magnitude ever since 2012. The growth in lending in the corporate market was more stable in 2019, although the total growth in lending fell slightly during the year.

Competition in our markets, remains strong, both for lending and deposits.

The Bank has noted a somewhat slower pace of growth in lending to the retail market and the corporate market in 2020. There is a constant focus on good operations and increased profitability. A stable deposit growth is expected in 2020.

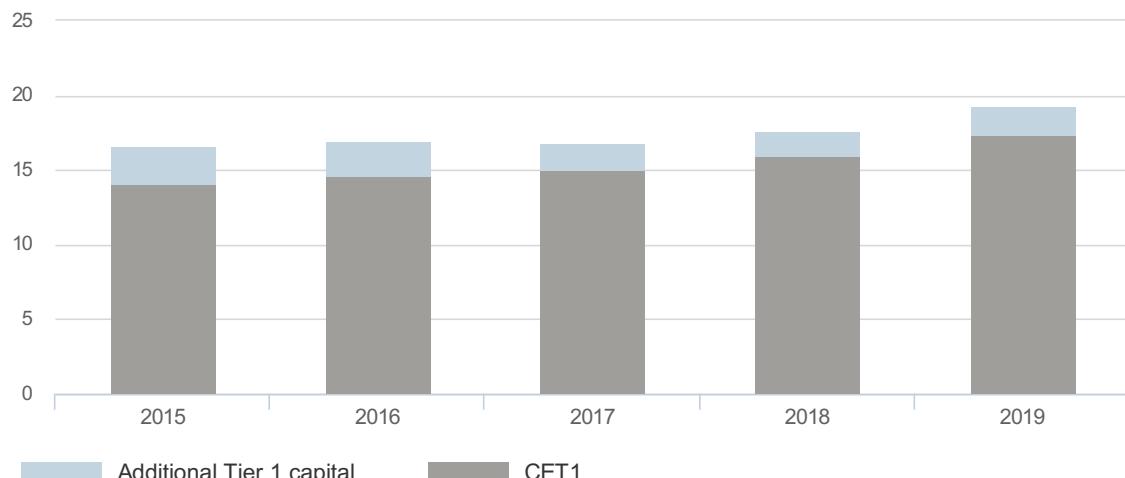
The Bank will remain strong and committed in supporting our customers.

Sparebanken Møre's target for cost-effective operations is a cost income ratio of less than 40 per cent.

Sparebanken Møre's losses are also expected to be low in 2020. Overall, good results are expected in 2020, with a return on equity above the Bank's strategic target of 11 per cent.

Fig. 8 Capital adequacy

in % of RWA



THANK YOU

The Board of Directors would like to thank all of the Group's employees and elected representatives for their good contributions in 2019. 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 2019
26 February 2020

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 has in 2019 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 2023’, was adopted by the Board in August 2019 and the initiatives adopted in this plan are already being implemented. See the detailed description in section 9 below.

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

Sparebanken Møre shall be the first choice for retail customers and small and medium-sized enterprises in Nordvestlandet. The Bank shall also be an attractive partner for larger companies and the public sector.

It focuses on maintaining a healthy financial structure and financial strength, and achieving a high level of 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: "Close, Committed and Capable". 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 separate report on corporate social responsibility and sustainability for 2019 for a more detailed account of Sparebank Møre's fulfilment of its corporate social responsibilities.

Deviations from the Code of Practice: None

3. Equity 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, operations and risk, Møre og Romsdal's internationally-oriented industry and commerce, a stable market for long-term funding when required, and the goals of the 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.

Its capital adequacy at the end of 2019 exceeded the regulatory and internal minimum requirements for capital. Primary capital was 21.5 %, Tier 1 capital 19.3 % and Common Equity Tier 1 capital 17.4 %.

Sparebanken Møre's 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 which provide 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 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 % of this year's surplus can be distributed as dividends. 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 20 March 2019, 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 2020, although for no longer than 31 March 2020. 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 20 March 2019, 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 equity certificate 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 were, as at 31 December 2019, 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. Equity certificates and negotiability

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 % 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 follow from the Norwegian Financial Institutions Act, section 8. 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 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 committee

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 2 years at a time and no one may serve for more than 6 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.

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 board members of financial institutions to undergo suitability assessments. 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.

The articles of association stipulate that board members are elected for 2 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 their position for a continuous period of more than 12 years, or 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 of Directors

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, Operational Risk 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 of Directors

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 to the General Meeting each for an advisory vote. Guidelines regarding the awarding, 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 apply to remuneration schemes in financial institutions. These are set out in the Norwegian Financial Institutions Act's chapter 15.

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 2019.

In addition, each employee can receive a lump-sum supplement as recognition of an extraordinary contribution. 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 1 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 communications

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 2019.

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 % of the 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.

Corporate social responsibility and sustainability

Our corporate social responsibility and focus on sustainability go hand in hand and encompass everything from responsible lending and asset management, combating economic crime, our purchases, requirements for our suppliers, human and labour rights, and a number of other areas. This report describes the Bank's status, work and future plans in important areas.

A driving force for sustainable development

Sparebanken Møre has roots stretching back to a number of local communities in Nordvestlandet with the oldest bank being established in 1843. Ever since the first banks saw the light of day, they have played an important social role in their various local communities. The same is true today. The work on sustainable development is a continuation of the strong corporate social responsibility savings banks have demonstrated in local communities for more than 175 years.

Sustainability is defined as development that meets today's needs without destroying the chances of future generations to meet their needs. Ensuring sustainable development requires services and solutions that safeguard and promote environmental, social and ethical business conditions.

Norway's goal is to achieve the UN Sustainable Development Goals and become a low emissions society by the end of 2030. Banks have an important role to play in this restructuring work. If we are to succeed, government and the public sector, business actors and individual consumers require knowledge and need to be willing to change. We want to contribute to this by adapting our activities, raising the awareness of stakeholders and setting requirements for our partners.

An integral part of the strategy

Both Norway and the world community urgently need to restructure in the next few years in order to achieve the climate targets for 2030. As a regional savings bank, we have the power to influence, both through the projects we get involved in as well as through our everyday banking activities. This presents us with opportunities that we take very seriously. In 2019, we adopted a new vision that will guide the Bank's strategy in the coming years: Sparebanken Møre shall be the leading contributor to creative enthusiasm in Nordvestlandet. Every day.

Sparebanken Møre is a regional actor in Nordvestlandet that focuses on sustainability, growth and development in the communities of which the Bank is a part. Our vision obliges us to encourage greater business growth, innovation and entrepreneurial zeal. We must help to ensure that people can create a home and a future here with healthy finances. We must facilitate prosperity, inward migration and quality of life, and we must cultivate solidarity and collaborations that have positive ripple effects for our region.

In addition to our regional perspective, we must view the Bank's sustainability work in a national and global perspective. In 2019, we also committed ourselves to the UN Principles for Responsible Banking, UNEP FI, and will continue this work at full force in 2020 as well – both in the Bank and outside it. We will do our bit for our shared future.

Sustainability has been incorporated into the Group's strategy and the Bank's Code of Conduct and corporate social responsibility policy, which provide guidelines for how the Bank's employees should conduct themselves and handle situations involving ethical judgements, human rights, labour rights, equality, social factors, the external environment, and combating money laundering and corruption. New Sparebanken Møre employees are introduced to the Group's regulations in the induction course for new staff. All employees also undergo e-learning.

All of the main business areas have their own guidelines and in 2020 sustainability will be incorporated more strongly into the Bank's governing documents.

Our stakeholders

Sparebanken Møre has a broad and complex group of stakeholders that consists of, among others, customers, employees, owners, the authorities, partners and suppliers.



The dialogue with our stakeholders is a top priority in Sparebanken Møre and during 2019 we were in contact with our stakeholders in various ways. This provides us with important knowledge about the areas that are important to the various groups and what they expect of us.

Based on the stakeholder dialogue with external and internal groups, we have identified five UN Sustainable Development Goals (SDGs) that are especially important for us. One of the them is SDG no. 17 Partnerships for the goals.

During the course of 2020 we will conduct a materiality analysis that will provide an addition basis for defining important focus areas going forward.

Below we provide examples of our dialogue with target groups on sustainability related themes.

Dialogue with customers

The dialogue with our customers is key to our ability to develop into an even better bank for people and business in Nordvestlandet. We carry out an annual service quality survey, which

allows customers to provide feedback and input. In 2019, the results showed record high customer satisfaction among both retail and corporate customers. The survey includes measurements of customers' perception of the Bank's community engagement, and the results show that the importance of this has increased over time.

Dialogue with industry actors, partners and networks

Several of the Bank's employees participate in national professional committees working for a more sustainable industry, including under the auspices of Finance Norway. We also play a central role in the sustainability group organised by Nordic Finance Innovation (NFI). The Bank is an active contributor to the development of forums and networks for the business sector in the region. We are also an active driving force behind, and participants in, regional and local networks, all of which work for a more sustainable region, including:

The ProtoMore, Vindel and ÅKP knowledge parks

The ProtoMore, Vindel and ÅKP science parks are facilitators of important business clusters, including GCE Blue Maritime, NCE Blue Legasea and NCE iKuben. Our commitment and cooperation with the science parks are motivated by a need to stimulate greater interaction in innovation and sustainable development. Sparebanken Møre is engaged in several of the science parks' initiatives, and is also represented on the boards of ProtoMore and ÅKP.

The national Global Centres of Expertise programme is a major national spearhead initiative focusing on the most growth-driven industry clusters in Norway. NCE Blue Legasea is led by ÅKP and is a national expert centre that brings together resources, experience and knowledge from all parts of the marine value chain. The aim is to develop the Norwegian fishing industry and at the same time turn Norway into a pioneer within sustainable value creation based on the 100 % utilisation of marine raw materials.

GCE Blue Maritime Clusters, which is also led by ÅKP, aims to inspire and strengthen collaborative development activities in the marine cluster in Møre with the aim of increasing the cluster's dynamism and attractiveness, and helping to strengthen the individual businesses' innovation and competitiveness.

NCE iKuben is led by ProtoMore and is a national expert centre and cross-industry cluster with a focus on sustainability, digitalisation and new business models.

NExTdigital

NExTdigital is a network that creates forums where the present meets the future. Here, members from different businesses meet to find solutions to digital challenges, and the network also has its own sustainability working group. Sparebanken Møre is a partner and a member.

TEFT-lab

TEFT-lab aims to contribute to education, research and innovation in the region in the areas of service innovation, entrepreneurship, finance and technology. Since its establishment in May 2018, sustainability has also been included as a theme in the lab. TEFT-lab is associated with nine different PhD positions. The lab is a collaboration between the Norwegian University of Science and Technology (NTNU) in Ålesund and Sparebanken Møre, and the Bank is represented on both the board and in the steering group. TEFT-lab also conducted a summer internship programme in 2019.

The UN's future lab – U4SSC

Ålesund Municipality became the first urban region in Norway to be admitted to the UN's Smart Cities network. Sparebanken Møre contributed financially to the development of a digital twin of Ålesund, and as a result of this a smart cities lab was established in Ålesund in autumn 2019 as the second such lab in the world. The lab is based on the UN's U4SSC (UN Centre of Excellence on Smart and Sustainable Cities) programme led by the Organisation for International Economic Relations (OIER). Sparebanken Møre is a partner and participates in both the Future Council and the steering group.

Young Entrepreneurship in Møre og Romsdal

Through our cooperation with Young Entrepreneurship in Møre og Romsdal, we have close contact with pupils and students through Young Entrepreneurship's various programmes. Here we get to meet young people through dialogues and discussions on personal finance, career choices and establishing companies. The environment, climate and consequences of our choices are increasingly discussed topics in these forums as well.

Dialogue with employees

Our employees are the Bank's most important resource, and as an employer Sparebanken Møre is interested in ensuring a good dialogue with, and the participation of, employees. Among other things, we carry out an annual working environment survey, which in 2019 showed an employee satisfaction score of 8.3 on a scale of 1-10. This must be considered a very high employee satisfaction score, and was a record.

In 2019, we engaged the entire organisation in our sustainability work in various ways. All of the employees received a questionnaire survey intended to analyse our status and important areas of influence, as well as to establish targets for future work. The answers were anonymous and the response rate high, and there was a lot of good, specific input that was included in the next phase.

As a continuation of the survey, we established a working group consisting of employees from different parts of the organisation. In addition to this, special workshops were conducted for the Bank's executive management team. The results of the process were used to guide the choice of SDGs.

Dialogue with owners/investors/market actors

Sparebanken Møre attaches a great deal of importance to ensuring that equity certificate holders and other investors and market players receive correct, clear and relevant information from Sparebanken Møre at the same time. IR work is a top priority and has dedicated resources. Overall investor care must be of a high quality, transparent and open.

An annual IR calendar is prepared that includes activities and forums that create dialogue between the Bank and these actors. Examples include quarterly presentations, roadshows, other events arranged by the Bank and the Annual General Meeting. The Bank maintains continuous contact with the largest owners and analysts who monitor the Bank's equity certificate, as well as with foreign capital investors and intermediaries in Norway and abroad. The ratings agency, Moody's, is followed up every quarter. A number of meetings were held in which sustainability was on the agenda.

Our commitments

UN Guidelines for Business and Human Rights and OECD Guidelines for Multinational Enterprises

Responsible business is about the responsibility that business actors are expected to assume on behalf of people, society and the environment that are impacted by their business. The government expects all Norwegian companies to comply with the UN Guidelines for Business and Human Rights (UNG) and OECD Guidelines for Multinational Enterprises (OECD Guidelines).

The Bank's Code of Conduct and corporate social responsibility policy are based on compliance with these guidelines and address themes such as the climate and environment, human rights and labour rights, environmental harm, and bribery and anti-corruption.

UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) are the world's joint action plan for a sustainable future. Based on our internal insights work and dialogue with stakeholders, we have identified five SDGs where we think we can particularly make a difference:

SDG 8: Decent work and economic growth

As a regional savings bank and the largest financial environment between Bergen and Trondheim, Sparebanken Møre is an important source of financial information and financial services for both people and businesses in Nordvestlandet. We take a systematic approach to entrepreneurship and innovation in order to reinforce value creation and employment in our region.

SDG 9: Industry, innovation and infrastructure

In order for Nordvestlandet to be an attractive region in the future, it is important that we work actively to build solid infrastructure, promote inclusive and sustainable industrialisation, and contribute to innovation. Sparebanken Møre wants to be both a driving force behind, and a supporter of, such activities. The Bank established its own innovation department in 2017. We also work closely with NTNU in Ålesund and the ProtoMore, Vindel and ÅKP knowledge parks on initiatives aimed at increasing the capacity for innovation in Nordvestlandet.

SDG 11: Sustainable cities and communities

Since its inception in 1843, Sparebanken Møre has contributed to making cities and communities inclusive, safe, resilient and sustainable. This is vital for quality of life, innovation, population growth and value creation. Communities need strong local environments to develop.

SDG 12: Responsible consumption and production

In order to contribute to sustainable regional development, the public sector, the business sector and individuals must change their consumption. As a society, we currently consume more than is environmentally sustainable. Sparebanken Møre wants to help reverse this by increasing stakeholders' knowledge, contributing to research in the area, and taking steps in our own organisation. If we are successful, this could result in economic growth in the long term, mitigate climate change and improve the quality of life.

SDG 17: Partnerships for the goals

Strong new partnerships are needed in order to achieve the SDGs. The authorities, business and local communities must work together to achieve sustainable development. As a major regional player, Sparebanken Møre can make a difference. We want to encourage partnerships and help connect knowledge and relationships across disciplines and industries by creating and supporting various forums.

We are focusing on reducing our negative impact and making a positive contribution to achieving these goals through the multiple roles we play as an employer, social actor, investor, lender, facilitator, and provider of financial services.

UN Principles for Responsible Banking

The UN Environment Programme (UNEP) has a partnership with the financial services sector called the United Nations Environment Programme – Finance Initiative (UNEP FI). The Principles for Responsible Banking were adopted by the UN in September 2019. The goal of the principles is to enable the banking industry to take a leadership role in achieving the SDGs and fulfilling the Paris Agreement.

Sparebanken Møre signed up to the principles in October 2019.

| | | |
|--|--|--|
|  PRINCIPLE 1: ALIGNMENT <p>We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</p> |  PRINCIPLE 2: IMPACT & TARGET SETTING <p>We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.</p> |  PRINCIPLE 3: CLIENTS & CUSTOMERS <p>We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.</p> |
|  PRINCIPLE 4: STAKEHOLDERS <p>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.</p> |  PRINCIPLE 5: GOVERNANCE & CULTURE <p>We will implement our commitment to these Principles through effective governance and a culture of responsible banking.</p> |  PRINCIPLE 6: TRANSPARENCY & ACCOUNTABILITY <p>We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.</p> |

Corporate social responsibility in the Bank's day-to-day operations

Efforts to combat money laundering and the financing of terrorism

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. Combating economic crime, including laundering of the proceeds of criminal activities or financing terrorist activities, is demanding and important work. Part of the financial services industry's social mission is to ensure that its services and products are not exploited for illegal purposes. Sparebanken Møre has guidelines intended to prevent it from being used for money laundering, tax evasion or terrorist financing.

Sparebanken Møre prepares an annual internal risk assessment regarding money laundering and terrorist financing, along with the associated risk mitigation measures. We implemented the new Anti-Money Laundering Act during 2019. Banks are required by law to collect and verify identification documents in connection with the establishment of ordinary customer relationships and, through ongoing customer checks, be able to produce a valid identification document for a customer. In 2019, Sparebanken Møre carried out an extensive project together with customers to obtain a valid identification document for those customers for whom this was missing.

Corruption puts long-term value creation at risk and creates distrust of the systems in society. It can lead to court cases and fines or other penalties, loss of market access, assets and the right to conduct banking. Sparebanken Møre must conduct itself in line with high ethical standards and must not be associated with activities, customers or industries of dubious repute. The responsibilities employees have are described in the Bank's Code of Conduct and it is important that each member of staff is aware of these. Sparebanken Møre has seen an increase in the number of fraud cases where someone has, or has tried to, deceive customers. These cases started with customers being contacted by email or while they were shopping online. The Bank assists customers who report frauds to us. The Group practises zero tolerance for internal fraud.

Sparebanken Møre has a number of means of combating economic crime, which include:

- Customer verification
- Reporting suspicious customer transactions to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM)
- Fraud management
- Close cooperation with other banks, authorities and our own Incident Response Team (IRT)

Sparebanken Møre carries out annual training initiatives for the Bank's employees within this area.

Privacy

Sparebanken Møre processes a large amount of personal data. The information is primarily used for managing customer relationships and for fulfilling our obligations to carry out assignments and service agreements. The processing is regulated by law and subject to strict requirements to protect the information transmitted between a customer and the Bank.

Sparebanken Møre manages a huge volume of assets for customers. Such management provides opportunities for fraud and crime. The Bank has a duty to implement measures to prevent and detect fraud, crime and terrorist financing. Personal data will be processed for the purpose of preventing, detecting, clearing up and dealing with such crimes.

Privacy was a priority area in Sparebanken Møre throughout 2018 and 2019.

Sparebanken Møre has appointed a data protection officer and implemented a number of training initiatives that were mandatory for all employees. Investments have been made in systems and solutions to make the processing of personal data as secure as possible.

Sparebanken Møre's internal audit function audited the area of privacy in 2019. The inspection revealed no significant deficiencies. No complaints concerning privacy or data protection breaches were registered. Internal failings were reported to the Norwegian Data Protection Authority, although the Bank has received no criticism from the supervisory authority.

Sparebanken Møre has adapted its policies, routines and methods to ensure proper compliance with the GDPR. The Bank's privacy policy provides information about how the Bank safeguards customers' privacy in line with the GDPR, why and what rights data subjects have.

Sparebanken Møre will continue its work to incorporate and update privacy in the Group in 2020.

Information security

The ICT strategy is intended to support and reflect the objectives and plans set out in the Bank's main strategy and support the applicable business processes. The ICT strategy is the Bank's tool for ensuring that ICT deliveries are implemented in line with the agreed quality and are based on sustainable, cost-effective and secure technology and infrastructure.

The work on information security is organised and implemented in accordance with statutory and regulatory requirements, such as the ICT Regulation and the Personal Data Act. Customers and society as a whole must regard Sparebanken Møre as being focused on security and offering secure services. The Bank's services must achieve a high availability rate during advertised opening hours, and services provided via digital channels should be available 24/7. Customers should be confident that the Bank's services are safe to use, and financial transactions must be protected from fraud and manipulation. Preventing security breaches is an important element of this work. At the same time, we must be able to quickly implement effective countermeasures if necessary to minimise interruptions to services and business activities, as well as financial losses.

The Bank's ICT security reports assesses threats and events related to cyber risk in the area of operational risk.

New regulatory requirements and solutions are making greater demands regarding increased information security. We have very good defences around our key solutions, and in 2019 we reinforced the security of our central platform. This contributed to more holistic and modern security solutions, as well as better organisation and coordination of security and quality work.

We introduced Managed Security Services in 2019:

- A technology and process service that detects, analyses, and responds to security events, Security Operations Centre (SOC).
- AI based real-time analysis of security alarms and alerts, Security Information and Event Management (SIEM solution)
- A professional team that is ready for, and reacts to, security breaches around the clock, Incident Response Team (IRT)

We rolled out new printers and PCs via the Digital Workplace project. This provided a further boost within security, quality and the environment; the latter through the safe disposal and reuse of old hardware. This has contributed to a significant reduction in printing through the use of laptops and Follow-Me print.

We have access to major international and national partners within information security, which means we have successfully revised our quality system in line with the new regulatory requirements, GDPR, PSD2 and new/changed solutions/work methods.

Sustainable innovation

Sparebanken Møre will continuously work towards the development of solutions that allow customers to meet their financial needs. New solutions will focus on providing real benefits for customers that contribute to a simpler everyday life. The Bank has its own department for Innovation, which in 2019 focused on, among other things, the following areas:

- Open Banking – enables innovative and relevant services from third party providers and makes them easily available in the Bank's digital customer channels.
- Assessing services within liquidity and receivables funding for the SME market so that customers can gain a better overview and control of their business
- Offering subscription services for customers in the Bank's digital customer channels with the aim of making it easy for the customer to keep track
- Using Artificial Intelligence (AI) in the Bank's work to forecast financial opportunities and threats for our customers
- Assessing our digital financial advice where this provides at least as good quality as personal dialogue

The aim of the Bank's service development is to ensure sustainability, improve the customer experience and contribute to value creation and efficiency. Risk and compliance assessments are an important part of our development work.

The Bank launched several products and services that support the above in 2019.

Ethical marketing

Sparebanken Møre provides products and services that play a key role in society functioning. Correct communication tailored to its target group is therefore important to ensure that companies and retail market customers have sufficient familiarity, knowledge and understanding. We are constantly striving to improve our customer solutions, and in Cicero's market report for winter 2020, the Bank's website at sbm.no was named the best in the country for the SME customer segment.

In 2019, we focused on the following in our work on responsible marketing:

- The extensive use digital rather than printed channels to reduce our paper consumption. Among other things, we replaced most of the Bank's posters with digital screens in 2019.
- Sustainability is an important criterion when choosing partners for, for example, merchandising articles.

- All communication must be based on responsible, good economic advice.
- The Bank supports many events in the course of a year, and we have a close dialogue with the organisers to find sustainable solutions. One example of this is the Summer Party in Giske, which became the first festival in the world to accept collected plastic waste as a means of paying for a ticket.
- All new sponsorship agreements include the area of sustainability in the sponsorship.

Responsible purchasing

Sparebanken Møre's suppliers and contractual partners must respect basic requirements regarding the environment, social conditions and ethical business activities in line with descriptions in the Bank's Code of Conduct and corporate social responsibility policy. Goods and services delivered to Sparebanken Møre must be produced in conditions that are consistent with the requirements of these policies.

We also specify the following requirements related to the environment:

- Suppliers must, wherever possible, use products that can be reused
- Products must have a life cycle with a low environmental impact
- Unnecessary packaging must be avoided
- Suppliers must actively work to minimise their negative impact on the external environment
- We must choose shipping options with a low environmental impact

In 2019, the Bank has among other entered into an electricity agreement with Tussa with a guarantee of origin. This ensures that the electricity is based on 100 per cent renewable energy and produced entirely without emissions of greenhouse gas CO2 and radioactive waste.

Additional requirements and guidelines for our suppliers and partners will be prepared in 2020.

The external environment

Sparebanken Møre takes a twofold approach to environmental and climate challenges. On the one hand, we want to reduce our environmental and climate impact. On the other, we want to help our customers and suppliers do the same.

Our commitment to the environment is, for example, expressed through our focus on choosing eco-friendly 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 the use of digital signatures in the online bank. When we need to communicate with customers, or vice versa, electronic channels such as email, the online bank's letterbox, and online chat via Skype can be used. 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 and choosing sustainable materials. There is an emphasis on reducing the overall energy consumption through upgrading lighting and heating controls.

In 2020, Sparebanken Møre will communicate clearer environmental requirements to our suppliers and ensure environmental reporting in line with established standards.

Responsible lending and asset management

Responsible credit

Sparebanken Møre's loan portfolio is made up of approximately 70 % retail customers with

mortgages and 30 % corporate customers. The corporate portfolio is broadly composed within the SME, trade/service industry, industry, marine, real estate and offshore/supply industry sectors.

The Bank's credit risk strategy stresses that customers' creditworthiness should be viewed from a long-term perspective. Sparebanken Møre must conduct itself in accordance with high ethical standards and shall not be associated with activities, customers or industries of dubious repute. Sparebanken Møre is open to all types of customers within defined market areas and will not discriminate against customers based on age, gender, nationality, religion or marital status.

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. Sparebanken Møre does not provide loans to customers with operations within tobacco, pornography, controversial weapons, companies with significant activities in coal and oil sands, or companies that are in violation of international standards and norms. 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.

The Bank can be a driving force for sustainable development in its lending activities in both the retail and the corporate market. In 2019, Sparebanken Møre was able to offer loans through the growth guarantee scheme for companies in a startup or growth phase.

In 2020, Sparebanken Møre will develop and implement an even clearer strategy and policy for granting credit that will aim to contribute to the transition to a more sustainable society, albeit with a main focus on the environment and adapting to a low emissions society.

This work will require a multi-level skills boost in the Bank's credit environment. In connection with this, it should be mentioned that the Bank's Credit Department is part of Finance Norway's sustainability reference group and its separate working group for climate risk. When implementing new and expanded guidelines such as those mentioned above, several measures will be taken to improve internal expertise within sustainability (environmental risk).

Responsible ownership

Sparebanken Møre is alliance-free and has chosen a contract banking model. The Bank has clarified that its risk capacity should be allocated to traditional banking and customers from Nordvestlandet. Its market risk must be low. As a consequence, the Bank has, for example, no stakes in product companies and nor have limits been established for the equities trading portfolio.

Besides subsidiaries, the Bank's holdings of equities are divided into three portfolios: market strategic, business strategic and restructuring. Of its total equity exposure of around NOK 194 million, the exposure in the restructuring portfolio is very low, while the greatest exposure is in the business strategic portfolio. Several of the investments in this portfolio are followed up through the Bank's partner strategy, which, among other things, states that we require partners to comply with Norwegian law and recognised norms of corporate social responsibility, as well as binding international agreements and conventions. It is also important that the partner has a sustainability mindset, which must include a focus on environmental and climate issues.

Sparebanken Møre has three subsidiaries: Møre Boligkreditt AS, Møre Eiendomsmegling AS and Sparebankeiendom AS. Møre Boligkreditt AS was established as part of the Group's long-term funding strategy, Møre Eiendomsmegling AS provides services in real estate sales to both retail customers and the business sector, while Sparebankeiendom AS's purpose is to own and manage the Bank's commercial properties. Møre Eiendomsmegling AS is the only company with its own employees. Like all employees of the Group, these participate in, among other things,

the strategy process in which corporate social responsibility and sustainability are top priorities, as well as the annual review and confirmation of the Bank's Code of Conduct and corporate social responsibility policy.

Requirements for providers of funds

Pivoting towards investments in companies that focus on sustainability increases capital and value creation in the right businesses and industries. We are our suppliers' customers and have the clout to influence how suppliers take responsibility for sustainable value creation. Sparebanken Møre does not provide in-house fund management services, instead it distributes mutual funds from fund managers such as Holberg, Alfred Berg and DNB Asset Management. As a result, we require fund providers to comply with Norwegian law and recognised norms of corporate social responsibility, as well as binding international agreements and conventions. These include, among others, human rights, internationally recognised anti-money laundering standards, corruption risk and breaches of Norwegian or other countries' tax legislation.

None of our fund providers invest in companies involved in tobacco, pornography, controversial weapons, companies with significant activities in coal and oil sands, or companies that are in violation of international standards and standards.

In partner meetings, we have challenged all of our fund providers to document and inform us on how they work with sustainability in their investments. Today, the work is regulated by the Bank's Code of conduct and corporate social responsibility policy.

Our fund providers have signed the following commitments:

- Holberg – UN Principles for Responsible Investments (UNPRI)
- Alfred Berg – Socially Responsible Investment (SRI)
- DNB Asset Management – UN Principles for Responsible Investments (UNPRI)

During 2020, we will assess our range of services and increasingly emphasise sustainable investments in our future choice of providers. We will also put together green fund portfolios, and consider labelling our funds related to climate and the environment. In addition, we want to ensure that the information about sustainable investments on our website is clear so that it is easier for customers to choose green options.

Investments with Discretionary Asset Management

Sparebanken Møre holds a licence to operate as an investment firm, including as Discretionary Asset Management. This is a service for customers with financial assets of more than NOK 1 million who want alternative placements for their deposits and do not have the capacity, interest or expertise to perform the management themselves.

The activity is regulated by licence terms and conditions, as well as documents approved by the Board, such as the guidelines for the investment firm (reviewed annually), guidelines for portfolios in Discretionary Asset Management (board matter with review of material changes), as well as internal departmental guidelines.

Close cooperation with the leading brokerage houses in the Nordic region, local market competence and freedom to choose managers are intended to ensure that Discretionary Asset Management can protect the interests of customers in the best possible manner.

Discretionary Asset Management invests in companies with long-term value creation based on a sustainable business model. It is important that the management of the companies have the ability and willingness to implement measures that ensure compliance with this. For investments in and outside Norway/the Nordic region, the emphasis will be on investing in companies with a business concept and ethical conduct that do not conflict with the Bank's ethical standards.

Sparebanken Møre Discretionary Asset Management primarily aims to be a value-based

manager. This means that the preference is to invest in companies that are regarded as reasonably priced in relation to the underlying value in the company. Important criteria that are emphasised in relation to choosing investments are profit growth, dividend payments, cash flow and book values.

As an active manager, Discretionary Asset Management takes positions in companies or sectors regardless of the index's composition. This is what has produced extra value for customers over time. Going forward, Discretionary Asset Management will also focus on ensuring that the companies it invests in have a sustainable business model that will produce a better environment over time. Among other things, consideration will be given to establishing a new portfolio in Discretionary Asset Management with a focus on the environment and climate, social conditions and ethical business practice, also known as ESG.

Responsible investments in the Bank's liquidity management and control

Sparebanken Møre's counterparty risk strategy aims to name and classify banks and counterparties according to a set of criteria for determining the total lending and activity framework the Sparebanken Møre Group may have in relation to an individual institution. This document, together with the market risk strategy, reviews, clarifies and establishes the activity and risk frameworks for the Group's credit exposure. This is aimed at the parts of the Group's credit exposure that result from the management and risk-covering activities in the Treasury and Markets section. Both the counterparty risk strategy and the market risk Strategy are reviewed annually by the Bank's board.

The Bank's partner strategy will be taken account of both by establishing new counterparties and in the annual assessments. This means, among other things, that the partner must have a sustainability mindset, which must include a focus on environmental and climate issues. Immediate assessments are also made if the ratings of counterparties are downgraded, or there are changes in their framework conditions, economic developments that impact the Bank's risk position, and similar situations. Counterparties are assessed in relation to special environmental, social and governance (ESG) requirements. In a business context, ESG is about how a company's products and services contribute to sustainable development, as well as about how the company adapts its operations to minimise their negative impact on its surroundings.

Danske Bank has been rated twice (ESG and rating) in the last six quarters and Swedbank once (ESG) under these regulations. The result of the assessments of Danske Bank was that no new defined transactions were established for a clarification period. The assessment of Swedbank had the same result. Temporary restrictions have now been rescinded.

Employees and diversity

Sparebanken Møre strives to be an attractive workplace in which individual employees are given independent responsibilities and opportunities 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.

Sparebanken Møre strives for gender equality and diversity among its employees. Good diversity contributes to a good working environment, innovation and increased value creation. The Group's workforce totalled 357 man-years at the end of the year, a decrease of four persons during 2019. The average age has increased from 48.3 years to 48.7 years. On average, employees have worked for the Bank for 18.3 years. 15 new employees started working at Sparebanken Møre in 2019. During the same period, staff turnover was 4.2 %, compared with 7.5 % in 2018.

In 2019, this gender balance was distributed by the level of the position and stated in %:

| Percentage by level of position | Women | Men |
|---|-------|------|
| Level 1 – CEO | 0% | 100% |
| Level 2 | 33% | 67% |
| Level 3 | 48% | 52% |
| Level 4 | 42% | 58% |
| Level 5 | 74% | 26% |
| Level 6 | 65% | 35% |
| Percentage on the Bank's board of directors | 50% | 50% |

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 pay of Sparebanken Møre's employees is determined by individual agreements, collective bargaining (collective agreements) or administrative decisions. Sparebanken Møre has established key principles for the Group's remuneration strategy. The Bank's annual pay review process is intended to minimise the pay gap between women and men.

The table below shows women's pay as a percentage of men's pay in a 100 % position at different levels of position:

| Women's pay as a percentage of men's (based on level of position) | Number of women | Average for 100% position |
|--|-----------------|---------------------------|
| Level 1 CEO | 0% | 0% |
| Level 2 Executive management team | 33% | 98% |
| Level 3 | 48% | 97% |
| Level 4 | 42% | 86% |
| Level 5 | 74% | 92% |
| Level 6 | 65% | 98% |

| Average salary | Share | Average for 100% position |
|----------------|---------|---------------------------|
| Men | 655 704 | 660 751 |
| Women | 523 639 | 543 006 |

Sparebanken Møre will help ensure employees can take statutory leave, and wants to promote a more balanced distribution of work and family life among parents.

The table below shows the number of business days that were taken as parental leave by gender and as a percentage of possible business day.

| Taken as parent leave | Number of business days | as % of total |
|-----------------------|-------------------------|---------------|
| Men | 587 | 1.58% |
| Women | 1 661 | 2.84% |

Sparebanken Møre wants to contribute to low work-related sick leave through systematic HSE work, good management and a good working environment. We have seen a low sick leave rate over time of 3.31 %.

| Sick leave | as % of total | as % of own gender |
|------------|---------------|--------------------|
| Men | 0.48% | 1.23% |
| Women | 2.83% | 4.63% |

| Leave due to sick children | Business days | as % of total |
|----------------------------|---------------|---------------|
| Men | 79 | 0.21% |
| Women | 168 | 0.29% |

Sparebanken Møre want to enable employees to work reduced hours in they need to for health, social or welfare reasons. In 2019, 40 out of a total pf 362 employees worked in a reduced position.

| Proportion of part-time | Percentage | Number |
|-------------------------|------------|--------|
| Men | 7.50% | 3 |
| Women | 92.50% | 37 |

Explanation of the fulfilment of the activity requirement

Working environment

Sparebanken Møre wants to lay the groundwork for jobs created by interested and engaged employees. We are committed to achieving a good working environment through personnel policy measures, employee involvement and development, and well thought through feedback. Good feedback on this and a high level of employee satisfaction will in turn be reflected in a perception of us as an attractive employer.

We measure employee satisfaction every year and analyse the working environment, engagement, management and communication, as well as the risk culture in Sparebanken Møre. The results provide us with an understanding of what we are good at as an organisation and where we could improve. For 2019, we scored 8.3 on a scale from 1-10 in the employee satisfaction survey, which indicates a very good working environment and is the highest score we have ever measured.

We can also see that our employees were highly likely to recommend Sparebanken Møre as a place to work.

This is measured by an eNPS Score. An eNPS Score of 53 on a scale of -100 to +100 shows that our employees are very likely to recommend our bank as a place to work.

Sparebanken Møre is working to be an inclusive workplace for employees in all age groups and phases of life. The Bank promotes a healthy workplace and encourages physical activity through an active corporate sports team, SMIL, as well as by support employees' own exercising. Workstations and duties must be adapted when health or other causes dictate it. The Bank seeks to avoid discrimination in all contexts. No cases of discrimination were reported in 2019.

Recruitment

Sparebanken Møre has designed and applies a recruitment process based on a model approved by DNVGL. The process takes into account the requirements of the Working Environment Act and the Equality and Anti-Discrimination Act. Among other things, these entail that it is illegal to discriminate on the basis of gender, ethnicity, religion, beliefs, disabilities, sexual orientation, gender identity and gender expression. The interview templates used in recruitment take these matters into account.

Pay and working conditions

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 pay of Sparebanken Møre's employees is determined by individual agreements, collective bargaining (collective agreements) or administrative decisions. Sparebanken Møre has established key principles for the Group's remuneration strategy.

The following components can be included in Sparebanken Møre's remuneration:

- Fixed salary
- Variable one-off remuneration based on delivery and performance
- Bonus
- Pension plan
- Common benefits

Remuneration Committee:

Sparebanken Møre has a remuneration committee elected by and from amongst the Board's members.

The Remuneration Committee is intended to contribute to thorough and independent consideration of matters relating to the remuneration of executive personnel, etc. in the Bank.

Recruitment Committee:

A recruitment committee has been established in line with the main agreement between Finance Norway and the Finance Sector Union of Norway. The committee deals with pay and working conditions upon recruitment and assesses employees' pay conditions on an annual basis.

Both of the above committees must take account of gender equality and non-discrimination in relation to pay and working conditions.

Promotion

Sparebanken Møre wants to facilitate career development, with both a management and professional orientation, and will focus on both career paths. Quarterly reviews are carried out of substitutes and potential successors of executive personnel. This work must take the breadth of the organisation into account. Annual reviews of the organisation with substitutes and potential successors are also conducted by the Bank's remuneration committee. This work also focuses on the development of talented employees.

Facilitation

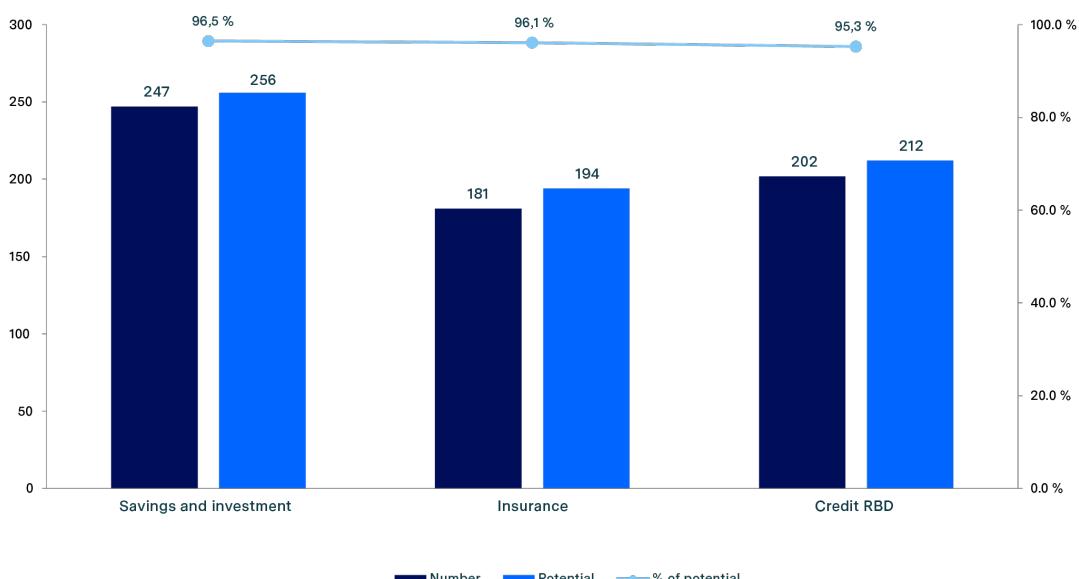
Sparebanken Møre must facilitate good corporate health services. The corporate health services provider reports on any areas requiring improvement with respect to the working situation/ergonomics once a year, at an organisational level.

Opportunities for development/training

Sparebanken Møre's vision means that we want to be viewed as an attractive employer with competent employees. One important goal is to achieve motivated employees with the right skills to meet their customers' varying and future needs. The UN's SDG no. 4 is therefore an important target to which we want to link measures and action.

Skills development is carried out under the auspices of our in-house Møre Academy. All employees who deal directly with customers must be authorised within various disciplines in both the Retail Banking Division and the Corporate Banking Division.

Authorisation for their role is a requirement for new recruitments and 95 % of the target group have completed the necessary authorisations and approvals from FinAut.



Authorisation also became a requirement within personal insurance in 2019. The target is for a minimum of 90 % of the Bank's employees in the target group to complete the authorisation process.

Sparebanken Møre has committed itself to complying with the "Good practices in advice and other customer service" that have been adopted by Finance Norway. This was implemented in 2019 through e-learning for all employees.

Ongoing training measures are carried out using e-learning and Skype meetings in order to

reach our decentralised branch structure. 22 Skype meetings and e-learning courses were organised in various areas in 2019. When new products and services are launched, the necessary training is provided to close any gaps in knowledge.

Specific specialists/roles are systematically directed to other learning arenas such as conferences, workshops and studies/further education. Over a 5-year period, 24 employees have participated in higher education study courses with the support of the Møre Academy. These include a PhD candidate in industrial economics and technology leadership. The latest study contract to have been signed is a study involving “Sustainability as a competitive advantage”. The gender distribution among those who have taken further education is 70 % women and 30 % men.

The Bank has its own development programme for managers and employees involving a practical approach to everyone's workday and what they need and want to develop in relation to. Themes within management, communication and values are part of the programme. Three management values have been implemented in the organisation. To achieve our objectives, the Group is dependent on managers who inspire employees to achieve their goals, develop effective teams, as well as the employees' skills and confidence, and who perform through their employees with the help of follow-up and clear feedback.

In 2019, 60 managers and 20 new recruits/employees completed this development programme.

Balancing work and family life

Sparebanken Møre wants to facilitate a good balance between work and family life. We have a flexi-time scheme and practice what we call 'flexibility both ways'. We have also facilitated a good home office solution and give people the opportunity to work from home when they need to. Overall, Sparebanken Møre wants its operations to be based on limited overtime work. We have good social schemes such as a corporate sports team, good personal insurance policies and company cottages/apartments that employees with family can use.

Sparebanken Møre has good policies, principles and standards that are intended to take account of gender equality and non-discrimination. Nevertheless, we see that there are areas where improvements could be made that should be highlighted further in a special project in 2020. In particular, we will look at areas for improvement in relation to diversity.

Whistleblowing

Sparebanken Møre wants to facilitate an open culture of free speech. A good climate for free speech is important for the working environment, the well-being of individuals and in achieving the best possible operations. It is important that illegal situations, wrongdoing and other adverse situations are uncovered and followed up as early as possible. Sparebanken Møre focuses on making employees feel confident that addressing adverse situations is a natural element of an individual's responsibilities in the workplace, and ensuring that such situations can be resolved at the lowest possible level.

Employees also have a statutory right under the Working Environment Act to report wrongdoing in the workplace. Contracted labour and people who are on placements for learning purposes or work-oriented measures are also regarded as employees in this context. The same applies to people on labour market measures. In some cases, employees also have a statutory duty to report.

Sparebanken Møre has good whistleblowing routines that are designed to facilitate secure and proper whistleblowing. No reports were received in 2019.

Local engagement

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

Significant sums of money are transferred every year to dividend funds for local communities and the allocation of the funds is based on board-approved guidelines. NOK 176 million has been allocated for the 2019 accounting year for good causes that should contribute to well-being, development and value creation in the region. Dividend funds for local communities are largely divided into TEFT funds, TEFT grants and NÆRINGSTEFT.

TEFT funds

Clubs and organisations in Møre og Romsdal can apply for TEFT funds for good causes within the following categories: Business development (31 %), skills (2 %), culture (10 %), sports (41 %), local communities (13 %) and infrastructure (1 %). The percentages show the distribution of funds within the various categories in 2019.

The funds give the Bank opportunities and influence in the work for a more sustainable region.

In 2019, we implemented a new clause in all new agreements. This entails obligations in relation to sustainability work, both within the organisations and in their local communities. One specific result of this was the cooperation with the Summer festival in Giske, which in 2019 decided people could purchase a festival pass by handing in collected marine plastic waste. A total of almost four tonnes of marine plastic waste were handed in. Other festivals took note of the initiative and several, both in Norway and abroad, have introduced similar schemes.

In 2019, we also contributed to a stronger focus on women's football in the county. Through dialogue and cooperation with Sunnmøre Fotballkrets, Nordmøre and Romsdal Fotballkrets, Molde FK and AaFK Fortuna, Sparebanken Møre has been an important conversation partner and premise setter, and also contributed NOK 8 million to this initiative. In 2019, the world's second smart cities lab, U4SSC, was also established in Ålesund. Sparebanken Møre was part of the team, together with a number of other local and good partners.

TEFT grants

People should be allowed to be good, and talented young people are also good role models for the people around them. TEFT grants give young people aged 15-25 an opportunity to pursue their talent within the categories of sports, culture and an open class. In 2019, 16 young people received grants ranging from NOK 50,000 to NOK 100,000.

Contribution to expertise and business development

Value creation is contingent on knowledge, entrepreneurship and cooperation, among other things. Sparebanken Møre wants to help strengthen the region in these areas, and has established several concepts and collaborations where the purpose is to facilitate the sustainable development of Nordvestlandet.

NÆRINGSTEFT

NÆRINGSTEFT ['Nose for Business'] is a skills journey and competition organised by Sparebanken Møre for entrepreneurs in an early phase that allows them to forge links with the entire entrepreneurial ecosystem in our region. Giving these entrepreneurs access to mentors from academia, public support systems, established business and investor environments gives them opportunities to develop with greater effect and speed than they might have managed alone.

Angel Challenge

Together with Innovation Norway, PIR Invest, DNB and Startup Norway, we arranged courses for investors who want to invest in startups throughout 2019. Increasing access to capital willing to take a risk early on, as well as engaging a wider range of investors, also increases the opportunities for more businesses to grow, at the same time as we are ensuring that a greater proportion of local capital can be invested in new local businesses.

Collaboration with academia and research

TEFT-lab is a research collaboration with NTNU in Ålesund where we want to provide new and more in-depth knowledge related to financial technology and entrepreneurship. We have also contributed equipment to Møreforskning's Mørelab, where local marine companies can use high-tech equipment in their research and product development.

Teaching in personal finance and entrepreneurship

You have to start early if you want to make good entrepreneurs. As Young Entrepreneurship Møre og Romsdal's main partner, we are contributing to increased competence around personal finance for pupils in both primary and secondary school. Every school year, nearly 3,000 pupils receive training through the "Economy and Career Choices" and "Boss of Your Life" programmes. Young Entrepreneurship's business programmes inspire young entrepreneurs through their work with pupil, young people and student companies. Sparebanken Møre plays the role of mentor and an active part on juries and in providing guidance.

Greater interest in science

Through the establishment of the Newton Room and several creator workshops, as well as the First Lego League - the world's largest technology tournament for children, we also want to contribute to the joy of learning and scientific expertise. We also regularly visit schools to give talks on both economics and macroeconomics. In addition, we arrange two academic days for the research course at Fagerlia Upper Secondary School, where the school class visits the Bank and learns about various science-oriented topics.

ESG report - Environmental, social and governance

| Economy | | 2019 | 2018 |
|--------------------------------------|-----------|--------|--------|
| Pre tax profit, Group | NOK mill. | 911 | 804 |
| Total assets, Group | NOK mill. | 74 875 | 71 040 |
| Return on equity after tax, Group | | 11.7 | 10.6 |
| Common Equity Tier 1 / (CET1), Group | | 17.4 | 16.0 |

| Value creation | | 2019 | 2018 |
|--|-----------|------|------|
| Taxes and fees | NOK mill. | 186 | 142 |
| Net wages/pensions and other benefits | NOK mill. | 354 | 340 |
| Allocated dividends to EC-owners | NOK mill. | 173 | 153 |
| Allocated dividends to the local community | NOK mill. | 176 | 156 |
| Withheld result to strengthen equity | NOK mill. | 319 | 276 |
| Purchase of goods and services | NOK mill. | 99 | 99 |

| Strategy | | 2019 | 2018 |
|----------------|--|-------------|-----------------|
| Group strategy | | Updated | Updated |
| ESG-strategy | | Established | Not established |

| Employees | | 2019 | 2018 |
|---|------------|------|--------------|
| Number of man-years, Group | Number | 357 | 361 |
| Number of man-years, Parent Bank | Number | 344 | 348 |
| Number of employees, Group | Number | 378 | 373 |
| Number of employees, Parent Bank | Number | 364 | 359 |
| Sick leave | % | 3.31 | 3.42 |
| Percentage of women | % | 60.3 | 61.6 |
| Percentage of men | % | 39.7 | 38.4 |
| Percentage of women in high level positions | % | 45.3 | 46.4 |
| Percentage of men in high level positions | % | 54.7 | 53.6 |
| Average age | Yrs | 48.7 | 48.3 |
| Average employment | Yrs | 18.3 | 18.3 |
| The number of external recruits | Number | 15 | 19 |
| Staff turnover | % | 4.5 | 7.5 |
| Employees satisfaction, organizational survey | AMU-score | 8.3 | 8.1 |
| Employees recommendation of Sparebanken Møre as a workplace | eNPS-score | 53 | Not measured |

| | | | |
|--|---------------------|-----------|-----------|
| Annual review and confirmation that ethical guidelines have been read and understood | | Completed | Completed |
| Management development program | Number of employees | 60 | Completed |
| Employee development program | Number of employees | 20 | Completed |
| Agreement on Inclusive Employment | | Continued | Continued |
| Strategy for life-phase policy | | Continued | Continued |

| Dividend funds | | 2019 | 2018 |
|---|------------------------|-------|-------|
| Allocated for public benefit funds | NOK mill. | 176 | 141 |
| TEFT-grants, received applications | Number | 92 | 78 |
| TEFT-grants awarded to talented young people (between NOK 50,000-100,000) | Number of scholarships | 16 | 15 |
| TEFT-funds, applications received | Number | 1 290 | 1 150 |
| NÆRINGSTEFT | Number of participants | 90 | 100 |

| Environment | | 2019 | 2018 |
|---|--------------|---|---|
| Garbage | | Initiated recycling of garbage | Not measured |
| Use of energy, incl district heating in Ålesund | Kwh | 3 417 239 | 3 602 579 |
| Flights in Norway and abroad | Number | 316 | 273 |
| Flights, number of kilometers traveled | Number of KM | 317 853 | 271 617 |
| Emissions related to flights | KgCO2 | 45 737 | 32 871 |
| Remuneration per kilometer when using own vehicle | Number of KM | 366 200 | 394 800 |
| Emissions when using vehicles | KgCO2 | 54 930 | 59 220 |
| The Bank's own carpark | Number | 1 | 0 |
| Numbers of EL-cars amongst the Banks' own carpark | | 0 | 0 |
| Number of video conferencing rooms | | All meetingrooms have the option of video conferencing via Skype or own PC. | All meetingrooms have the option of video conferencing via Skype or own PC. |

Statement of Income

| GROUP | | | | PARENT BANK | | |
|-------|-------|---|--|-------------|-------|--|
| 2018* | 2019 | (NOK million) | Note | 2019 | 2018* | |
| | | Interest income from: | | | | |
| 34 | 17 | Loans to and receivables from credit institutions | | 34 | 47 | |
| 1 816 | 2 181 | Loans to and receivables from customers | <u>16</u> <u>21</u> | 1 446 | 1 227 | |
| 90 | 130 | Certificates, bonds and other interest-bearing securities | | 132 | 106 | |
| 1 940 | 2 328 | Total interest income | <u>13</u> | 1 612 | 1 380 | |
| | | Interest expenses: | | | | |
| 23 | 13 | Liabilities to credit institutions | | 31 | 32 | |
| 277 | 396 | Deposits from and liabilities to customers | <u>16</u> <u>21</u> | 396 | 277 | |
| 391 | 530 | Debt securities issued | | 104 | 94 | |
| 42 | 33 | Subordinated loan capital | | 33 | 42 | |
| 28 | 42 | Other interest | <u>20</u> | 41 | 27 | |
| 761 | 1 014 | Total interest expenses | <u>13</u> | 605 | 472 | |
| 1 179 | 1 314 | Net interest income | <u>17</u> | 1 007 | 908 | |
| 208 | 221 | Commission income and income from banking services | | 220 | 208 | |
| 25 | 26 | Commission expenses and expenses from banking services | | 26 | 25 | |
| 24 | 24 | Other operating income | | 38 | 36 | |
| 207 | 219 | Net commission and other income | <u>18</u> | 232 | 219 | |
| 41 | 74 | Net gains/losses from financial instruments | <u>18</u> | 249 | 199 | |
| 248 | 293 | Total other operating income | | 481 | 418 | |
| 1 427 | 1 607 | Total income | <u>17</u> | 1 488 | 1 326 | |
| 340 | 354 | Wages, salaries etc. | <u>21</u> <u>22</u> | 340 | 327 | |
| 133 | 143 | Administration costs | <u>19</u> <u>20</u> | 143 | 132 | |
| 473 | 497 | Total wages, salaries and general administration costs | | 483 | 459 | |
| 35 | 50 | Depreciation and impairment of non-financial assets | <u>19</u> <u>20</u> <u>23</u> <u>24</u> | 54 | 27 | |
| 99 | 99 | Other operating costs | <u>16</u> <u>19</u> <u>20</u> <u>21</u> | 80 | 99 | |
| 820 | 961 | Profit before impairment on loans | | 871 | 741 | |
| 16 | 50 | Impairment on loans, guarantees etc. | <u>3</u> <u>6</u> <u>7</u> | 60 | 20 | |
| 804 | 911 | Pre tax profit | <u>17</u> | 811 | 721 | |
| 199 | 200 | Taxes* | <u>26</u> | 150 | 142 | |
| 605 | 711 | Profit after tax | | 661 | 580 | |

| | | | | | |
|-------|-------|---|-----------|-------|-------|
| 590 | 688 | Allocated to equity owners | 638 | 565 | |
| 15 | 23 | Allocated to owners of Additional Tier 1 capital* | 23 | 15 | |
| 156 | 176 | Dividend funds to the local community 1) | 176 | 156 | |
| 153 | 173 | Dividend to the EC-holders 1) | 173 | 153 | |
| 129 | 146 | Transferred to the primary capital fund | 146 | 129 | |
| 127 | 144 | Transferred to the dividend equalisation fund | 144 | 127 | |
| 25 | 49 | Transferred to other equity capital | 0 | 0 | |
| 590 | 688 | Proposed distribution | 638 | 565 | |
| 29.60 | 34.50 | Result per EC (NOK) 2) | <u>27</u> | 32.00 | 28.35 |
| 29.60 | 34.50 | Diluted earnings per EC (NOK) 2) | <u>27</u> | 32.00 | 28.35 |

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

*) As a result of the change in IAS 12 with effect from 1.1.2019, comparative figures for 2018 have changed. See note 1.2 for an explanation and quantification of the effects related to tax expense and profit attributable to owners of Additional Tier 1 capital.

STATEMENT OF COMPREHENSIVE INCOME

| GROUP | | | PARENT BANK | | |
|-------|------|---|-------------|------|------|
| 2018 | 2019 | (NOK million) | Note | 2019 | 2018 |
| 605 | 711 | Profit after tax | | 661 | 580 |
| | | Other income/costs reversed in ordinary profit: | | | |
| -18 | 2 | Change in value on basis swap spreads | | 0 | 0 |
| 4 | 0 | Tax effect of change in value on basis swap spreads | <u>26</u> | 0 | 0 |
| | | Other income/costs not reversed in ordinary profit: | | | |
| 12 | -29 | Pension estimate deviations | | -29 | 12 |
| -3 | 7 | Tax effect of deviations on pension estimates | <u>26</u> | 7 | -3 |
| 600 | 691 | Total comprehensive income after tax | | 639 | 589 |
| 585 | 668 | Allocated to equity owners | | 616 | 574 |
| 15 | 23 | Allocated to owners of Additional Tier 1 capital* | | 23 | 15 |

Statement of Financial Position

ASSETS

| GROUP | | | PARENT BANK | | |
|------------|------------|--|---|------------|------------|
| 31.12.2018 | 31.12.2019 | (NOK million) | Note | 31.12.2019 | 31.12.2018 |
| 857 | 1 072 | Cash and claims on Norges Bank | | 1 072 | 857 |
| 813 | 369 | Loans to and receivables from credit institutions, on a call basis | | 369 | 678 |
| 475 | 719 | Loans to and receivables from credit institutions, with a fixed maturity | | 2 890 | 1 652 |
| 1 288 | 1 088 | Total loans to and receivables from credit institutions | <u>16</u> | 3 259 | 2 330 |
| 60 346 | 64 029 | Net loans to and receivables from customers | <u>3</u> <u>4</u> <u>5</u> <u>6</u> <u>7</u> <u>16</u> <u>17</u> <u>21</u> | 38 494 | 37 059 |
| 6 789 | 6 938 | Certificates, bonds and other interest-bearing securities | <u>13</u> <u>15</u> | 6 260 | 7 095 |
| 1 209 | 1 176 | Financial derivatives | <u>10</u> | 586 | 584 |
| 182 | 194 | Shares and other securities | <u>13</u> <u>15</u> | 194 | 182 |
| 0 | 0 | Equity stakes in financial institutions (subsidiaries) | | 2 050 | 1 600 |
| 0 | 0 | Equity stakes in other Group companies | | 21 | 21 |
| 0 | 0 | Total equity stakes in Group companies | <u>16</u> | 2 071 | 1 621 |
| 54 | 0 | Deferred tax benefit | <u>26</u> | 0 | 50 |
| 42 | 53 | Intangible assets | <u>24</u> | 53 | 42 |
| 14 | 9 | Machinery, equipment, fixtures and fittings and vehicles | <u>23</u> | 9 | 14 |
| 172 | 227 | Buildings and other real estate | <u>20</u> <u>23</u> | 189 | 20 |
| 186 | 236 | Total fixed assets | | 198 | 34 |
| 17 | 0 | Excess funding defined benefit plan | <u>22</u> | 0 | 17 |
| 70 | 89 | Other assets | <u>25</u> | 84 | 66 |
| 71 040 | 74 875 | Total assets | <u>9</u> <u>10</u> <u>13</u> <u>14</u> <u>15</u> | 52 271 | 49 937 |

LIABILITIES AND EQUITY

| GROUP | | | PARENT BANK | | |
|------------|------------|--|---|------------|------------|
| 31.12.2018 | 31.12.2019 | (NOK million) | Note | 31.12.2019 | 31.12.2018 |
| 201 | 67 | Loans and deposits from credit institutions, on a call basis | | 769 | 914 |
| 754 | 750 | Loans and deposits from credit institutions, with a fixed maturity | | 750 | 754 |
| 955 | 817 | Total loans and deposits from credit institutions | <u>16</u> | 1 519 | 1 668 |
| 24 620 | 25 538 | Deposits from customers, on a call basis | | 25 559 | 24 643 |
| 9 794 | 11 265 | Deposits from customers, with a fixed maturity | | 11 265 | 9 794 |
| 34 414 | 36 803 | Total deposits from customers | <u>4</u> <u>5</u> <u>16</u> <u>17</u> <u>21</u> | 36 824 | 34 437 |
| 26 980 | 28 271 | Bonds issued | <u>12</u> <u>13</u> <u>14</u> <u>15</u> | 5 209 | 5 415 |
| 525 | 288 | Financial derivatives | <u>10</u> | 242 | 502 |

| | | | | | |
|--------|--------|--|-----------------------------------|--------|--------|
| 76 | 86 | Incurred costs and prepaid income | | 86 | 77 |
| 30 | 32 | Pension liabilities | <u>22</u> | 32 | 30 |
| 187 | 100 | Tax payable | <u>26</u> | 88 | 132 |
| 95 | 116 | Provisions against guarantee liabilities | <u>7</u> | 116 | 95 |
| 0 | 146 | Deferred tax liability | <u>26</u> | 81 | 0 |
| 422 | 542 | Other liabilities | <u>8 20</u> | 646 | 419 |
| 810 | 1 022 | Total provisions and other liabilities | | 1 049 | 753 |
| 293 | 0 | Additional Tier 1 capital | | 0 | 293 |
| 703 | 704 | Subordinated loan capital | | 704 | 703 |
| 996 | 704 | Total subordinated loan capital | <u>11 14</u> | 704 | 996 |
| 64 680 | 67 905 | Total liabilities | <u>9 10 12 13 14</u> <u>15</u> | 45 547 | 43 771 |
| 989 | 989 | EC capital | <u>29</u> | 989 | 989 |
| -3 | -3 | ECs owned by the Bank | <u>29</u> | -3 | -3 |
| 356 | 357 | Share premium | | 357 | 356 |
| 349 | 599 | Additional Tier 1 capital | <u>11</u> | 599 | 349 |
| 1 691 | 1 942 | Total paid-in equity | | 1 942 | 1 691 |
| 2 649 | 2 783 | Primary capital fund | | 2 783 | 2 649 |
| 125 | 125 | Gift fund | | 125 | 125 |
| 1 391 | 1 525 | Dividend equalisation fund | | 1 525 | 1 391 |
| 504 | 595 | Other equity | | 349 | 310 |
| 4 669 | 5 028 | Total retained earnings | | 4 782 | 4 475 |
| 6 360 | 6 970 | Total equity | <u>28</u> | 6 724 | 6 166 |
| 71 040 | 74 875 | Total liabilities and equity | | 52 271 | 49 937 |

Ålesund, 31 December 2019
26 February 2020

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 31.12.2019 | 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 01.01.2019 | 6 360 | 986 | 356 | 349 | 2 649 | 125 | 1 391 | 0 | 504 |
| Changes in own equity certificates | 1 | | 1 | | | | | | |
| Distributed dividend to the EC holders | | -153 | | | | | | | -153 |
| Distributed dividend to the local community | | -156 | | | | | | | -156 |
| Issued Additional Tier 1 capital | 250 | | | 250 | | | | | |
| Interest paid on issued Additional Tier 1 capital | | -23 | | | | | | | -23 |
| Equity before allocation of profit for the year | 6 279 | 986 | 357 | 599 | 2 649 | 125 | 1 391 | 0 | 172 |
| Allocated to the primary capital fund | 146 | | | | 146 | | | | |
| Allocated to the dividend equalisation fund | | 144 | | | | | 144 | | |
| Allocated to the owners of Additional Tier 1 capital | | 23 | | | | | | | 23 |
| Allocated to other equity | | 49 | | | | | | 49 | |
| Proposed dividend allocated to the EC holders | | 173 | | | | | | | 173 |
| Proposed dividend allocated to the local community | | 176 | | | | | | | 176 |
| Profit for the year | 711 | 0 | 0 | 0 | 146 | 0 | 144 | 0 | 421 |

| | | | | | | | | | |
|---|-------|-----|-----|-----|-------|-----|-------|-----|-----|
| Change in value on basis swap spreads | 2 | | | | | | | 2 | |
| Tax effect of change in value on basis swap spreads | 0 | | | | | | | 0 | |
| Pension estimate deviations | -29 | | | | -15 | | | -14 | |
| Tax effect of pension estimate deviations | 7 | | | | 4 | | | 3 | |
| Total other income and costs from comprehensive income | -20 | 0 | 0 | 0 | -11 | 0 | -10 | 0 | 2 |
| Total profit for the period | 691 | 0 | 0 | 0 | 134 | 0 | 134 | 0 | 423 |
| Equity as at 31 December 2019 (notes 28 and 29) | 6 970 | 986 | 357 | 599 | 2 783 | 125 | 1 525 | 0 | 595 |

| 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) | 6 048 | 984 | 355 | 349 | 2 470 | 125 | 1 216 | 78 | 471 |
| Effect of transition to IFRS 9 as of 01.01.2018 *) | 1 | | | | 44 | | 43 | -78 | -8 |
| Equity as at 01.01.2018 | 6 049 | 984 | 355 | 349 | 2 514 | 125 | 1 259 | 0 | 463 |
| 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 | -15 | | | | | | | -15 | |
| Equity before allocation of profit for the year | 5 761 | 986 | 356 | 349 | 2 516 | 125 | 1 260 | 0 | 169 |
| 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 | 15 | | | | | | | 15 | |
| Allocated to other equity | 25 | | | | | | | 25 | |
| Proposed dividend allocated to the EC holders | 153 | | | | | | | 153 | |
| Proposed dividend allocated to the local community | 156 | | | | | | 127 | 0 | 349 |
| Profit for the year | 605 | 0 | 0 | 0 | 129 | 0 | | | |

| | | | | | | | | | |
|---|--------------|------------|------------|------------|--------------|------------|--------------|----------|------------|
| 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) | 6 360 | 986 | 356 | 349 | 2 649 | 125 | 1 391 | 0 | 504 |

| PARENT BANK 31.12.2019 | 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 01.01.2019 | 6 166 | 986 | 356 | 349 | 2 649 | 125 | 1 391 | 0 | 310 |
| Changes in own equity certificates | 1 | | 1 | | | | | | |
| Distributed dividend to the EC holders | -153 | | | | | | | | -153 |
| Distributed dividend to the local community | -156 | | | | | | | | -156 |
| Issued Additional Tier 1 capital | 250 | | | 250 | | | | | |
| Interest paid on issued Additional Tier 1 capital | -23 | | | | | | | | -23 |
| Equity before allocation of profit for the year | 6 085 | 986 | 357 | 599 | 2 649 | 125 | 1 391 | 0 | -23 |
| Allocated to the primary capital fund | 146 | | | | 146 | | | | |
| Allocated to the dividend equalisation fund | 144 | | | | | | 144 | | |
| Allocated to the owners of Additional Tier 1 capital | 23 | | | | | | | | 23 |
| Proposed dividend allocated to the EC holders | 173 | | | | | | | | 173 |
| Proposed dividend allocated to the local community | 176 | | | | | | | | 176 |
| Profit for the year | 661 | 0 | 0 | 0 | 146 | 0 | 144 | 0 | 372 |
| Change in value on basis swap spreads | 0 | | | | | | | | |
| Tax effect of change in value on basis swap spreads | 0 | | | | | | | | |
| Pension estimate deviations | -29 | | | | -15 | | -14 | | |
| Tax effect of pension estimate deviations | 7 | | | | 4 | | 3 | | |
| Total other income and costs from comprehensive income | -22 | 0 | 0 | 0 | -11 | 0 | -11 | 0 | 0 |
| Total profit for the period | 639 | 0 | 0 | 0 | 134 | 0 | 133 | 0 | 372 |
| Equity as at 31 December 2019 (notes 28 and 29) | 6 724 | 986 | 357 | 599 | 2 783 | 125 | 1 525 | 0 | 349 |

| 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 | -15 | | | | | | | | -15 |
| Equity before allocation of profit for the year | 5 578 | 986 | 356 | 349 | 2 516 | 125 | 1 260 | 0 | -14 |
| 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 | 15 | | | | | | | | 15 |
| Proposed dividend allocated to the EC holders | 153 | | | | | | | | 153 |
| Proposed dividend allocated to the local community | 156 | | | | | | | | 156 |
| Profit for the year | 580 | 0 | 0 | 0 | 129 | 0 | 127 | 0 | 324 |

| | | | | | | | | | |
|---|-------|-----|-----|-----|-------|-----|-------|----|-----|
| 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 | 589 | 0 | 0 | 0 | 133 | 0 | 132 | 0 | 324 |
| Equity as at 31 December 2018 (notes 28 and 29) | 6 166 | 986 | 356 | 349 | 2 649 | 125 | 1 391 | 0 | 310 |

Statement of Cash Flow

| GROUP | | | | PARENT BANK | |
|--|--------|--|---|-------------|--------|
| 2018 | 2019 | (NOK million) | Note | 2019 | 2018 |
| Cash flow from operating activities | | | | | |
| 2 059 | 2 449 | Interest, commission and fees received | <u>18</u> | 1 742 | 1 497 |
| -383 | -515 | Interest, commission and fees paid | <u>18</u> | -542 | -391 |
| 3 | 12 | Dividend and group contribution received | <u>18</u> | 184 | 155 |
| -561 | -548 | Operating expenses paid | <u>19</u> <u>20</u> <u>21</u> <u>22</u> | -499 | -547 |
| -204 | -81 | Income taxes paid | <u>26</u> | -57 | -146 |
| 7 | 200 | Changes relating to loans to and claims on other financial institutions | | -929 | 167 |
| -3 740 | -3 755 | Changes relating to repayment of loans/leasing to customers | | -1 747 | -1 658 |
| 303 | 52 | Changes in utilised credit facilities | | 287 | 485 |
| 1 610 | 2 390 | Net change in deposits from customers | <u>21</u> | 2 388 | 1 617 |
| -906 | 204 | Net cash flow from operating activities | | 827 | 1 179 |
| Cash flow from investing activities | | | | | |
| 112 | 134 | Interest received on certificates, bonds and other securities | | 136 | 127 |
| 9 469 | 8 462 | Proceeds from the sale of certificates, bonds and other securities | | 9 996 | 8 502 |
| -10 198 | -8 649 | Purchases of certificates, bonds and other securities | | -9 199 | -9 184 |
| 0 | 0 | Proceeds from the sale of fixed assets etc. | <u>23</u> | 0 | 0 |
| -23 | -33 | Purchase of fixed assets etc. | <u>23</u> | -32 | -23 |
| -135 | 63 | Changes in other assets | <u>24</u> <u>25</u> | -424 | -20 |
| -775 | -23 | Net cash flow from investing activities | | 477 | -598 |
| Cash flow from financing activities | | | | | |
| -434 | -563 | Interest paid on issued bonds and subordinated loan capital | | -137 | -136 |
| 386 | -138 | Net change in deposits from Norges Bank and other financial institutions | | -150 | 1 015 |
| 4 603 | 5 374 | Proceeds from bonds issued | <u>10</u> <u>11</u> <u>12</u> | 2 299 | 799 |
| -2 654 | -4 317 | Maturity of debt securities | <u>10</u> <u>11</u> <u>12</u> | -2 813 | -1 809 |
| -138 | -153 | Dividend paid | <u>29</u> | -153 | -138 |
| 153 | -396 | Changes in other debt | <u>17</u> <u>22</u> | -362 | -77 |
| 0 | 250 | Proceeds from issued Additional Tier 1 capital | <u>11</u> | 250 | 0 |
| -15 | -23 | Interest paid on issued Additional Tier 1 capital | <u>11</u> | -23 | -15 |
| 1 901 | 34 | Net cash flow from financing activities | | -1 089 | -361 |
| 220 | 215 | Net change in cash and cash equivalents | | 215 | 220 |
| 637 | 857 | Cash balance at 01.01 | | 857 | 637 |
| 857 | 1 072 | Cash balance at 31.12 | | 1 072 | 857 |

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.

Reference is made to note 10, 11 and 12 for specification of the financing activities in the Group.

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 in Nordvestlandet, 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.

Figures are presented in MNOK unless otherwise stated.

The preliminary annual accounts were approved for publication by the Board of Directors on 29 January 2020. The final annual accounts were presented by the Board of Directors on 26 February 2020.

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 2019.

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 Guarantees, credit facilities and collateral | 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 | IFRS 16 |
| 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 |

Calculation basis

The calculation basis for preparing the financial statements is historical cost, with the exception of the following items (AC = Amortised Cost. FVPL= Fair Value through Profit and Loss).

| ASSETS | Category |
|--|----------|
| Cash and claims on Norges Bank | AC |
| Loans to and receivables from credit institutions | AC |
| Loans to and receivables from customers | AC/FVPL |
| Certificates, bonds and other interest-bearing securities | FVPL |
| Financial derivatives | FVPL |
| Shares and other securities assessed at fair value through P/L | FVPL |

| LIABILITIES | Category |
|---|----------|
| Loans and deposits from credit institutions | AC |
| Deposits from customers | AC |
| Bonds issued | AC |
| Financial derivatives | FVPL |
| Subordinated loan capital | AC |

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.

Changes in accounting principles and presentation (classifications)

Apart from the implementation of IFRS 16 and the change in IAS 12 described below, there are no significant changes in accounting principles for 2019.

New or amended standards

The Group has implemented IFRS 16 Leases in 2019. The new standard affects the Group's accounting for lease of property.

IFRS 16 Leases replaces 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 essentially unchanged.

Sparebanken Møre has decided to use modified retrospective method when implementing IFRS 16. This implies that comparative figures for 2018 are not restated. It is primarily the Group's ordinary rental agreements that are covered by IFRS 16. Sparebanken Møre has taken advantage of the opportunity not to capitalise leases related to low-value assets and/or assets with short lifetimes (less than 1 year). These include, for example, office machines and coffee makers. The discount rate used is equivalent to the bank's marginal loan rate and amounts to 2.04. Right-of-use assets are presented in the Statement of financial position under the accounting line "Fixed assets", while the related lease liabilities are presented under the accounting line "Other liabilities".

When implementing IFRS 16 as of 1 January 2019, the right-of-use assets and the associated lease liabilities were included in the balance sheet with NOK 78 million in the Group and NOK 197 million in the Parent Bank. The implementation led to a reduction in CET1 capital of 0.04 percentage points for the Group and 0.09 percentage points for the Parent Bank.

As a consequence of the new rules, the rental expense in the Group is reduced by NOK 13.6 million in 2019, while interest expense has increased by NOK 1.4 million and depreciation has increased by NOK 12.5 million. The transition to IFRS 16 has given a marginal increase in cost for the Group of NOK 0.3 million at 31.12.2019. In the Parent Bank, rental expense is reduced by NOK 27.0 million in 2019, while interest expense has increased by NOK 3.7 million and depreciation has increased by NOK 24.6 million. The transition to IFRS 16 has given a marginal increase in cost for the Parent Bank of NOK 1.3 million at 31.12.2019.

In 2019, the Group also implemented the change in IAS 12 that states that the tax effect of paid interest on hybrid Tier 1 capital classified as equity must be recognised through profit or loss. This change came into effect on 1 January 2019 and required the restatement of comparable figures. This means that the Group's tax cost for 2018 has been reduced by NOK 4 million, from NOK 203 million to NOK 199 million (from NOK 146 million to NOK 142 million for the Parent Bank) and that the result allocated to holders of hybrid Tier 1 capital has been increased correspondingly by NOK 4 million, i.e. from NOK 11 million to NOK 15 million. The result allocated to holders of hybrid Tier 1 capital thus matches the actual interest paid before tax for both 2018 and 2019.

Future standards

At the time of issuance of the consolidated financial statements, no standards or interpretations, with future date of entry into force, having material impact on the financial position or the profit for the Sparebanken Møre Group, have been adopted.

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 31.12.2019. 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. Reference is made to note 13 for measurement principles. The Group makes no significant judgement regarding to the use of accounting principles.

1.5 USE OF ESTIMATES AND JUDGMENT IN THE PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

The preparation of the annual accounts in accordance with certain IFRS accounting standards implies that, the management, to some extent, uses best estimates and assumptions. The assessments are based on historical experience and assumptions deemed to be reasonable and sensible by the 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 presented in the 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.

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

Expected credit loss on loans

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 regards to estimates of amounts and timing of future cash flows and collateral. 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 criteria 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 various 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, Exposure and LGD (Loss Given Default)
- Choice of future-oriented macro-economic scenarios and weighting of probability,

Further information on the Group's ECL model, loss calculations and associated sensitivities is presented in note 6.

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.

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 Committees are elected by and amongst the members of the Board of Directors. The Committees are sub-committees of the Board. Their purpose is to carry out more thorough assessments of designated areas and report the results to the Board. The Audit and Risk Committees shall ensure that the institution has independent and effective external and internal auditors, and satisfactory financial statement reporting and risk management routines, complying with 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 is also responsible for working with the ICAAP and the Recovery Plan. 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 the CEO in Sparebanken Møre 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 Risk Committee and the Board of Directors.

A balanced scorecard report is prepared every month. This illustrates the status and performance of the

most important factors for Sparebanken Møre's target attainment. The report is being submitted to bank managers and the bank's management team, and it is an integral part of the financial reporting to the Board of Directors.

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

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 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 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 "Close, Committed and Capable". 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 Nordvestlandet. 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 exposures towards issuers with high ratings and low capital weight. See note 15 for an overview of the credit quality of the Group's liquidity portfolio.

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 Boligkredit AS require the signing of CSA (Credit Support Annex) agreements before trading of derivatives against any counterparties. CSA agreements are part of an ISDA agreement and help to regulate the counterparty risk associated with changes in market conditions. This provides Sparebanken Møre with collateral for any given exposure. The agreements with counterparties define when the collateral shall be transferred between the parties. Sparebanken Møre practices cash collateral in relation to its counterparties. The market value of all derivatives signed between Sparebanken Møre and the counterparty is settled according to the different CSA-agreements and the counterparty risk will then largely be eliminated. EMIR - European Market Infrastructure Regulation -will ensure regulation and control of the market for derivatives traded outside regulated markets by requiring reporting of transactions to transaction records, and requirements for settlement (clearing) through central counterparties (CCPs). Sparebanken Møre has entered into an agreement with SEB as a clearing broker and

clears derivatives through the London Clearing House.

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 15 for the equity risk of the Group.
- Currency risk: Consists of the risk of losses when exchange rates change. All financial instruments and other positions with currency risk are included in the assessment. Currency risk on the banking book, that is, foreign exchange risk arising as a result of hedging customer trading, including lending/deposit business, is considered separately and has its own set of risk parameters.

Sparebanken Møre's exposure to currency risk is a result of mismatch between the underlying business and hedging transactions, as well as the necessary reserves of the Group's bank accounts in foreign banks. Changes in exchange prices in the market cause changes in the value of Sparebanken Møre's currency position. The currency position also includes Sparebanken Møre's cash holdings of notes denominated in foreign currencies. Sparebanken Møre has no trading portfolio of FX contracts. Sparebanken Møre's currency risk is low and well within the limits specified in the regulations. See note 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, 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 has increased the importance of highquality 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 2023", sets out a liquidity strategy protecting the structure and volume of the LCR requirement. The Authority's requirements for LCR amounts to 100 per cent.

At year-end 2019, the LCR indicator for the Group was 165 per cent and NSFR 113 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 Division
- EVP Retail Banking Division
- Managing director of Møre Boligkreditt AS
- Head of Treasury

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

The funding risk is attempted reduced by spreading funding on different markets, sources, instruments and maturities. In order to ensure the Group's funding risk is kept at a low level, lending to customers must primarily be financed by customer deposits and long-term securities issued. There is a major focus on efforts to increase ordinary deposits in all customer-related activities throughout the bank. The deposit-to-loan ratio in Sparebanken Møre was 57,5 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.

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

Reports on the Group's operations and risk situations throughout the year are submitted to the 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 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. Reference is made to note 15 for information about the credit quality related to other counterparties.

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 CRR/CRD IV regulations for fundamental IRB. Calculated expected loss (PD x LGD x EAD) is used as the basis when assessing customer profitability and is taken into consideration when fixing interest rate terms and conditions.

Based on the bank's risk assessments, in risk context, the commitments may be classified into the following groups:

(Ref note 8 regarding guarantees and undrawn credit facilities and note 10.3 regarding derivatives. The tables below are only including derivatives for customers and are netted if the contracts allow off-setting and the stated exposure are therefore not reconcilable against the balance sheet, also including the bank's own hedging).

| Commitments according to risk classification based on probability of default - GROUP 2019 | Loans | Guarantees | Credit facilities | Derivatives (EAD) | Total | Total exposure (EAD) |
|---|--------|------------|-------------------|-------------------|--------|----------------------|
| Low risk (0 % - < 0.5 %) | 51 810 | 259 | 3 802 | 473 | 56 343 | 55 956 |
| Medium risk (0.5 % - <3 %) | 9 616 | 468 | 766 | 28 | 10 878 | 10 551 |
| High risk (3 % - <100 %) | 2 336 | 182 | 275 | 6 | 2 800 | 2 688 |
| Doubtful commitments | 525 | 451 | 1 | 8 | 985 | 889 |
| Total before ECL | 64 288 | 1 360 | 4 845 | 514 | 71 006 | 70 084 |
| - ECL | -259 | -116 | 0 | 0 | -375 | -375 |
| Total customers 31.12.2019 | 64 029 | 1 244 | 4 845 | 514 | 70 631 | 69 709 |

| Commitments according to risk classification based on probability of default - GROUP 2018 | Loans | Guarantees | Credit facilities | Derivatives (EAD) | Total | Total exposure (EAD) |
|--|---------------|-------------------|--------------------------|--------------------------|---------------|-----------------------------|
| Low risk (0 % - < 0.5 %) | 49 829 | 489 | 4 155 | 571 | 55 045 | 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 |
| Doubtful commitments | 203 | 179 | 5 | 8 | 395 | 387 |
| Total before ECL | 60 589 | 1 418 | 5 569 | 609 | 68 186 | 67 229 |
| - ECL | -243 | -95 | 0 | 0 | -338 | -338 |
| Total customers 31.12.2019 | 60 346 | 1 323 | 5 569 | 609 | 67 848 | 66 891 |

| Commitments according to risk classification based on probability of default - PARENT BANK 2019 | Loans | Guarantees | Credit facilities | Derivatives (EAD) | Total | Total exposure (EAD) |
|--|---------------|-------------------|--------------------------|--------------------------|---------------|-----------------------------|
| Low risk (0 % - < 0.5 %) | 27 891 | 259 | 2 430 | 473 | 31 052 | 30 576 |
| Medium risk (0.5 % - <3 %) | 8 244 | 468 | 763 | 28 | 9 503 | 9 176 |
| High risk (3 % - <100 %) | 2 084 | 182 | 275 | 6 | 2 547 | 2 436 |
| Doubtful commitments | 525 | 451 | 1 | 8 | 985 | 889 |
| Total before ECL | 38 744 | 1 360 | 3 470 | 514 | 44 089 | 43 077 |
| - ECL | -250 | -116 | 0 | 0 | -366 | -366 |
| Total customers 31.12.2019 | 38 494 | 1 244 | 3 470 | 514 | 43 723 | 42 711 |

| Commitments according to risk classification based on probability of default - PARENT BANK 2018 | Loans | Guarantees | Credit facilities | Derivatives (EAD) | Total | Total exposure (EAD) |
|--|---------------|-------------------|--------------------------|--------------------------|---------------|-----------------------------|
| Low risk (0 % - < 0.5 %) | 27 815 | 489 | 2 944 | 571 | 31 819 | 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 |
| Doubtful commitments | 203 | 179 | 5 | 8 | 395 | 380 |
| Total before ECL | 37 284 | 1 418 | 4 354 | 609 | 43 665 | 42 609 |
| - ECL | -225 | -95 | 0 | 0 | -320 | -320 |
| Total customers 31.12.2019 | 37 059 | 1 323 | 4 354 | 609 | 43 345 | 42 289 |

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. Except of commitments where individual loss assessment has been made in stage 3, 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 expected loss 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.

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.

Information regarding repossessed assets are presented in note 25.

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.

| Level of security GROUP - 31.12.2019 | Retail customers (NOK million) | Retail customers as percentage of total | Corporate (NOK million) | Corporate as percentage of total | Total (NOK million) | Total in percentage |
|---|---|---|-------------------------------|---|------------------------|------------------------|
| 0 % - 60 % | 18 985 | 41.59 | 8 334 | 44.72 | 27 318 | 42.49 |
| 60 % - 70 % | 7 942 | 17.40 | 1 372 | 7.36 | 9 315 | 14.49 |
| 70 % - 80 % | 9 314 | 20.40 | 1 898 | 10.18 | 11 212 | 17.44 |
| 80 % - 90 % | 3 970 | 8.70 | 1 829 | 9.81 | 5 799 | 9.02 |
| 90 % - 100 % | 2 019 | 4.42 | 1 990 | 10.68 | 4 009 | 6.24 |
| Above 100 % | 3 123 | 6.84 | 3 000 | 16.10 | 6 123 | 9.52 |
| Not secured | 298 | 0.65 | 214 | 1.15 | 512 | 0.80 |
| Total | 45 651 | 100.00 | 18 637 | 100.00 | 64 288 | 100.00 |

| Level of security GROUP - 31.12.2018 | Retail customers (NOK million) | Retail customers as percentage of total | Corporate (NOK million) | Corporate as percentage of total | Total (NOK million) | Total in percentage |
|---|---|---|-------------------------------|---|------------------------|------------------------|
| 0 % - 60 % | 18 162 | 41.83 | 8 710 | 50.72 | 26 872 | 44.35 |
| 60 % - 70 % | 7 327 | 16.88 | 1 219 | 7.10 | 8 546 | 14.10 |
| 70 % - 80 % | 8 895 | 20.49 | 1 484 | 8.64 | 10 379 | 17.13 |
| 80 % - 90 % | 3 771 | 8.68 | 1 303 | 7.59 | 5 074 | 8.37 |
| 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 | 43 418 | 100.00 | 17 171 | 100.00 | 60 589 | 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 | 31.12.2019 | 31.12.2018 |
|--|---------------|---------------|
| Pool of eligible loans | 25 182 | 22 976 |
| Supplementary assets | 988 | 1 300 |
| Financial derivatives applied in hedge accounting(assets) | 589 | 625 |
| Financial derivatives applied in hedge accounting(debt) | -45 | -23 |
| Total collateralised assets 1) | 26 714 | 24 878 |
| Collateralisation in % | 115.8 | 111.1 |

1) NOK 476 million of total gross loans are not eligible for the cover pool as at 31 December 2019 (NOK 433 million in 2018).

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 with agreed floating interest rate and agreed fixed-interest rate are measured at amortised cost. For more information about classification and measurement, see note 13.

| LOANS TO CUSTOMERS | Group | | Parent Bank | |
|---|------------|------------|-------------|------------|
| | 31.12.2019 | 31.12.2018 | 31.12.2019 | 31.12.2018 |
| Broken down according to sectors | | | | |
| Agriculture and forestry | 568 | 542 | 555 | 536 |
| Fisheries | 3 502 | 3 206 | 3 487 | 3 197 |
| Manufacturing | 2 346 | 2 369 | 2 338 | 2 364 |
| Building and construction | 915 | 698 | 864 | 658 |
| Wholesale and retail trade, hotels | 621 | 676 | 600 | 653 |
| Supply/offshore | 1 042 | 1 005 | 1 042 | 1 005 |
| Property management | 7 692 | 6 733 | 7 565 | 6 576 |
| Professional/financial services | 1 186 | 1 272 | 1 138 | 1 238 |
| Transport and private/public services | 2 307 | 1 867 | 2 126 | 1 728 |
| Public entities | 0 | 0 | 0 | 0 |
| Activities abroad | 262 | 248 | 262 | 248 |
| Total corporate/public entities | 20 441 | 18 616 | 19 977 | 18 203 |
| Retail customers | 43 815 | 41 917 | 18 735 | 19 029 |
| Fair value adjustment of loans | 32 | 56 | 32 | 52 |
| Total gross loans to and receivables from customers | 64 288 | 60 589 | 38 744 | 37 284 |
| Expected credit loss (ECL) - Stage 1 Corporate customers | -30 | -20 | -30 | -20 |
| Expected credit loss (ECL) - Stage 1 Retail customers | -5 | -5 | -4 | -2 |
| Expected credit loss (ECL) - Stage 2 Corporate customers | -58 | -29 | -58 | -29 |
| Expected credit loss (ECL) - Stage 2 Retail customers | -36 | -31 | -30 | -17 |
| Expected credit loss (ECL) - Stage 3 Corporate customers | -106 | -139 | -106 | -139 |
| Expected credit loss (ECL) - Stage 3 Retail customers | -24 | -19 | -22 | -18 |
| Total net loans to and receivables from customers | 64 029 | 60 346 | 38 494 | 37 059 |
| - of which loans with floating interest rate (amortised cost) | 59 832 | 56 535 | 29 360 | 29 752 |
| - of which loans with fixed interest rate (fair value) | 4 197 | 3 811 | 9 134 | 7 307 |

| DEPOSITS FROM CUSTOMERS | Group | | Parent Bank | |
|---|-------------------|-------------------|--------------------|-------------------|
| | 31.12.2019 | 31.12.2018 | 31.12.2019 | 31.12.2018 |
| Broken down according to sectors | | | | |
| Agriculture and forestry | 187 | 181 | 187 | 181 |
| Fisheries | 1 252 | 995 | 1 252 | 995 |
| Manufacturing | 1 659 | 1 559 | 1 659 | 1 559 |
| Building and construction | 841 | 661 | 841 | 661 |
| Wholesale and retail trade, hotels | 839 | 813 | 839 | 813 |
| Property management | 1 648 | 1 576 | 1 658 | 1 588 |
| Transport and private/public services | 5 448 | 5 043 | 5 459 | 5 054 |
| Public entities | 777 | 780 | 777 | 780 |
| Activities abroad | 5 | 5 | 5 | 5 |
| Miscellaneous | 2 462 | 2 177 | 2 462 | 2 177 |
| Total corporate/public entities | 15 118 | 13 790 | 15 139 | 13 813 |
| Retail customers | 21 685 | 20 624 | 21 685 | 20 624 |
| Total deposits from customers | 36 803 | 34 414 | 36 824 | 34 437 |

Note 5

Commitments broken down according to geographical areas

| GROUP as at 31.12. | Møre og Romsdal | | Remaining parts of Norway | | Foreign countries | | Total | |
|--------------------|-----------------|--------|---------------------------|--------|-------------------|------|--------|--------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Gross loans | 50 984 | 49 851 | 12 935 | 10 410 | 369 | 328 | 64 288 | 60 589 |
| In percentage | 79.3 | 82.3 | 20.1 | 17.2 | 0.6 | 0.5 | 100.0 | 100.0 |
| Deposits | 28 809 | 27 254 | 7 474 | 6 681 | 520 | 479 | 36 803 | 34 414 |
| In percentage | 78.3 | 79.2 | 20.3 | 19.4 | 1.4 | 1.4 | 100.0 | 100.0 |

| PARENT BANK as at 31.12. | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
|--------------------------|--------|--------|-------|-------|------|------|--------|--------|
| Gross loans | 31 330 | 32 004 | 7 114 | 4 990 | 300 | 290 | 38 744 | 37 284 |
| In percentage | 80.9 | 85.8 | 18.3 | 13.4 | 0.8 | 0.8 | 100.0 | 100.0 |
| Deposits | 28 830 | 27 277 | 7 474 | 6 681 | 520 | 479 | 36 824 | 34 437 |
| In percentage | 78.3 | 79.2 | 20.3 | 19.4 | 1.4 | 1.4 | 100.0 | 100.0 |

Note 6

Losses on loans and guarantees

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 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 evidence of loss, 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.

Staging is performed at account level and implies that two or more accounts held by the same customer can be placed in different stages.

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 individually assessed is calculated as the present value of 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 specific corporate portfolios). All customers within a segment are exposed to the same risk drivers.
- For commitments with evidence of loss, an individual assessment is carried out and the commitments are placed in stage 3.

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. Each segment is subject to separate macro adjustments.

Regression analysis of changes in the default rate on changes in relevant macro time series have been performed. The established subpopulations of the ECL model (sub-portfolios except supply and offshore) are based on the macro time series used at present. The regression analyzes are based on the company's customer data base.

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 exposure. The parameters have been adjusted in order to give an unbiased estimate of expected loss.

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 rating-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 exposure 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

Exposure is the share of the approved credit that is expected to be drawn at the time of any future default. The exposure 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

In addition to the quantitative assessment of changes in the PD, a qualitative assessment is made to determine whether there has been a significant increase in credit risk, for example if the commitment is subject to special monitoring.

«Backstops»

Credit risk is always considered to have increased significantly if the following events, "backstops", have occurred:

- 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 to be individually assessed in stage 3.

Significant reduction in credit risk – recovery

A customer migrates from stage 2 to stage 1 if there is a significant reduction in credit risk compared to last time customer migrated to stage 2. Significant reduction in credit risk means:

- The criteria for migration from stage 1 to stage 2 is no longer present, **and**
- This is satisfied for at least one subsequent month (total 2 months)

A customer migrates from stage 3 to stage 1 or stage 2 if the customer no longer meets the conditions for migration to stage 3:

- The customer migrates to stage 2 if more than 30 days in default.
- Otherwise, the customer migrates to stage 1.

Customers who are not subject to the migration rules above are not expected to have significant change in credit risk and retain the stage from previous month.

Definition of default, forbearance and credit-impaired

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 a lifetime ECL in stage 3.

Sensitivity analysis

Macro factors and weighting of scenarios are important input factors in the bank's loss model that can contribute to significant changes in the calculation of losses and is subject to large degree of discretion. Each macroeconomic scenario includes a five-year period projection.

Three scenarios for macroeconomic variables in 5 years have been prepared.

The bank's base case scenario is based on monetary report from Norges Bank. Upside and downside scenarios are designed with emphasis on development in economic conditions.

Management override

Quarterly review meetings evaluate the basis for the accounting of ECL losses. If there are significant events that will affect an estimated loss which the model has not taken into account, relevant factors in the ECL model will be overridden.

Validation

The ECL model is subject to annual validation and review.

Individual assessment in stage 3

An individual assessment is made when there are indications that a loan is credit impaired.

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 instalments, 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 assessment in stage 3, 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. Reversal of impairment will result in reversal of amortised cost and is recognised 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. Commitments subject to enforcement activities amount to NOK 15 million as at 31.12.2019.

Losses on loans and guarantees

| GROUP | | | PARENT BANK | |
|-------|------|---|-------------|------|
| 2018 | 2019 | Specification of losses on loans, guarantees etc. | 2019 | 2018 |
| 1 | 10 | Changes in ECL - Stage 1 | 12 | 1 |
| 16 | 37 | Changes in ECL - Stage 2 | 46 | 14 |
| -12 | -138 | Changes in ECL - Stage 3 | -139 | -6 |
| 2 | 2 | Increase in existing expected losses in stage 3 (individually assessed) | 2 | 2 |
| 30 | 155 | New expected losses in stage 3 (individually assessed) | 155 | 30 |
| 11 | 12 | Confirmed losses, previously impaired | 12 | 11 |
| -33 | -30 | Reversal of previous expected losses in stage 3 (individually assessed) | -30 | -33 |
| 8 | 10 | Confirmed losses, not previously impaired | 10 | 8 |
| -7 | -8 | Recoveries | -8 | -7 |
| 16 | 50 | Total impairment on loans and guarantees | 60 | 20 |

Changes in ECL in the period

| GROUP 2019 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---------|---------|---------|-------|
| ECL 01.01.2019 | 26 | 61 | 251 | 338 |
| New commitments | 15 | 11 | 1 | 27 |
| Disposal of commitments and transfer to stage 3 (individually assessed) | -5 | -12 | -125 | -142 |
| Changes in ECL in the period for commitments which have not migrated | 2 | 2 | 0 | 4 |
| Migration to stage 1 | 1 | -22 | -1 | -22 |
| Migration to stage 2 | -3 | 60 | -21 | 36 |
| Migration to stage 3 | 0 | -1 | 8 | 7 |
| Changes stage 3 (individually assessed) | - | - | 127 | 127 |
| ECL 31.12.2019 | 36 | 99 | 240 | 375 |
| - of which expected losses on loans to retail customers | 5 | 36 | 24 | 65 |
| - of which expected losses on loans to corporate customers | 30 | 58 | 106 | 194 |
| - of which expected losses on guarantees | 1 | 5 | 110 | 116 |

| GROUP 2018 | 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 and transfer to stage 3 (individually assessed) | -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 stage 3 (individually assessed) | - | - | -1 | -1 |
| ECL 31.12.2018 | 26 | 61 | 251 | 338 |
| - of which expected losses on loans to retail customers | 5 | 31 | 19 | 55 |
| - of which expected losses on loans to corporate customers | 20 | 29 | 139 | 188 |
| - of which expected losses on guarantees | 1 | 1 | 93 | 95 |

| PARENT BANK 2019 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---------|---------|---------|-------|
| ECL 01.01.2019 | 23 | 47 | 250 | 320 |
| New commitments | 15 | 11 | 4 | 30 |
| Disposal of commitments and transfer to stage 3 (individually assessed) | -4 | -10 | -125 | -139 |
| Changes in ECL in the period for commitments which have not migrated | 2 | 4 | 0 | 6 |
| Migration to stage 1 | 1 | -14 | -1 | -14 |
| Migration to stage 2 | -2 | 56 | -21 | 33 |
| Migration to stage 3 | 0 | -1 | 4 | 3 |
| Changes stage 3 (individually assessed) | - | - | 127 | 127 |
| ECL 31.12.2019 | 35 | 93 | 238 | 366 |
| - of which expected losses on loans to retail customers | 4 | 30 | 22 | 56 |
| - of which expected losses on loans to corporate customers | 30 | 58 | 106 | 194 |
| - of which expected losses on guarantees | 1 | 5 | 110 | 116 |

| PARENT BANK 2018 | 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 and transfer to stage 3 (individually assessed) | -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 stage 3 (individually assessed) | - | - | -1 | -1 |
| ECL 31.12.2018 | 23 | 47 | 250 | 320 |
| - of which expected losses on loans to retail customers | 2 | 17 | 18 | 37 |
| - of which expected losses on loans to corporate customers | 20 | 29 | 139 | 188 |
| - of which expected losses on guarantees | 1 | 1 | 93 | 95 |

Changes in exposure during the period

| GROUP 2019 | Stage 1 | | Stage 2 | | Stage 3 | | |
|--|---------|-----------|---------|-----------|---------|-----------|---------|
| | Retail | Corporate | Retail | Corporate | Retail | Corporate | Total |
| Commitments at 01.01.2019 | 38 786 | 16 417 | 1 900 | 2 073 | 45 | 1 206 | 60 427 |
| New commitments | 8 831 | 5 740 | 226 | 461 | 3 | 1 | 15 262 |
| Disposal of commitments | -7 621 | -2 545 | -380 | -312 | -15 | -7 | -10 880 |
| Changes in ECL in the period for commitments which have not migrated | 48 | -1 014 | -27 | -91 | 1 | -5 | -1 088 |
| Migration to stage 1 | 1 071 | 1 110 | -1 071 | -994 | 0 | -116 | 0 |
| Migration to stage 2 | -689 | -767 | 694 | 1 239 | -5 | -472 | 0 |
| Migration to stage 3 | -27 | 0 | -49 | -3 | 76 | 3 | 0 |
| Other changes | -15 | -73 | 87 | -89 | -7 | 268 | 171 |
| Commitments at 31.12.2019* | 40 384 | 18 868 | 1 380 | 2 284 | 98 | 878 | 63 892 |

| GROUP 2018 | Stage 1 | | Stage 2 | | Stage 3 | | | Total |
|--|---------|-----------|---------|-----------|---------|-----------|---------|-------|
| | Retail | Corporate | Retail | Corporate | Retail | Corporate | | |
| Commitments at 01.01.2018 | 36 639 | 14 952 | 1 041 | 1 342 | 892 | 2 275 | 57 141 | |
| New commitments | 10 128 | 5 405 | 387 | 299 | 3 | 24 | 16 246 | |
| Disposal of commitments | -6 491 | -2 808 | -151 | -290 | -239 | -406 | -10 385 | |
| Changes in ECL in the period for commitments which have not migrated | -1 410 | -691 | -19 | -34 | -4 | -84 | -2 242 | |
| Migration to stage 1 | 594 | 1 197 | -403 | -649 | -191 | -548 | 0 | |
| Migration to stage 2 | -670 | -1 364 | 1 065 | 1 462 | -395 | -98 | 0 | |
| Migration to stage 3 | -14 | -5 | -5 | -9 | 20 | 13 | 0 | |
| Other changes | 10 | -269 | -15 | -48 | -41 | 30 | -333 | |
| Commitments at 31.12.2018* | 38 786 | 16 417 | 1 900 | 2 073 | 45 | 1 206 | 60 427 | |

| PARENT BANK 2019 | Stage 1 | | Stage 2 | | Stage 3 | | | Total |
|--|---------|-----------|---------|-----------|---------|-----------|--------|-------|
| | Retail | Corporate | Retail | Corporate | Retail | Corporate | | |
| Commitments at 01.01.2019 | 12 038 | 15 937 | 1 089 | 1 980 | 39 | 1 203 | 32 286 | |
| New commitments | 4 070 | 5 603 | 111 | 510 | 25 | 1 | 10 320 | |
| Disposal of commitments | -4 133 | -2 492 | -252 | -277 | -22 | -20 | -7 196 | |
| Changes in ECL in the period for commitments which have not migrated | -1 118 | -1 027 | -21 | -89 | 0 | -5 | -2 260 | |
| Migration to stage 1 | 430 | 1 087 | -430 | -971 | 0 | -116 | 0 | |
| Migration to stage 2 | -255 | -757 | 258 | 1 229 | -3 | -472 | 0 | |
| Migration to stage 3 | -4 | 0 | -18 | -3 | 22 | 3 | 0 | |
| Other changes | 704 | -82 | -45 | -89 | -3 | 324 | 809 | |
| Commitments at 31.12.2019* | 11 732 | 18 269 | 692 | 2 290 | 58 | 918 | 33 959 | |

| PARENT BANK 2018 | Stage 1 | | Stage 2 | | Stage 3 | | | Total |
|--|---------|-----------|---------|-----------|---------|-----------|--------|-------|
| | Retail | Corporate | Retail | Corporate | Retail | Corporate | | |
| Commitments at 01.01.2018 | 12 644 | 14 516 | 417 | 1 274 | 746 | 2 267 | 31 864 | |
| New commitments | 4 018 | 5 285 | 205 | 292 | 7 | 25 | 9 832 | |
| Disposal of commitments | -3 915 | -2 899 | -68 | -326 | -224 | -407 | -7 839 | |
| Changes in ECL in the period for commitments which have not migrated | -561 | -609 | -9 | -30 | -4 | -84 | -1 297 | |
| Migration to stage 1 | 246 | 1 185 | -145 | -641 | -101 | -544 | 0 | |
| Migration to stage 2 | -310 | -1 381 | 705 | 1 445 | -395 | -64 | 0 | |
| Migration to stage 3 | -5 | -5 | -3 | -7 | 8 | 12 | 0 | |
| Other changes | -79 | -155 | -13 | -27 | 2 | -2 | -274 | |
| Commitments at 31.12.2018* | 12 038 | 15 937 | 1 089 | 1 980 | 39 | 1 203 | 32 286 | |

*) The tables above are based on exposure (incl. undrawn credit facilities and guarantees) at the reporting date. The tables do not include 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 2019 | Stage 1 | Stage 2 | Stage 3 | Total 31.12.2019 |
|------------------------------|---------|---------|---------|------------------|
| Low risk (0 % - < 0.5 %) | 50 157 | 171 | - | 50 328 |
| Medium risk (0.5 % - < 3 %) | 7 369 | 2 489 | - | 9 858 |
| High risk (3 % - <100 %) | 1 726 | 1 004 | - | 2 730 |
| Doubtful commitments | - | - | 976 | 976 |
| Total commitments before ECL | 59 252 | 3 664 | 976 | 63 892 |
| - ECL | -36 | -99 | -240 | -375 |
| Net commitments *) | 59 216 | 3 565 | 736 | 63 517 |

| GROUP 2018 | 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 |
| Doubtful commitments | - | - | 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 2019 | Stage 1 | Stage 2 | Stage 3 | Total 31.12.2019 |
|------------------------------|---------|---------|---------|------------------|
| Low risk (0 % - < 0.5 %) | 21 951 | 161 | - | 22 112 |
| Medium risk (0.5 % - < 3 %) | 6 421 | 1 978 | - | 8 399 |
| High risk (3 % - <100 %) | 1 629 | 843 | - | 2 472 |
| Doubtful commitments | - | - | 976 | 976 |
| Total commitments before ECL | 30 001 | 2 982 | 976 | 33 959 |
| - ECL | -34 | -93 | -238 | -365 |
| Net commitments *) | 29 967 | 2 889 | 738 | 33 594 |

| PARENT BANK 2018 | 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 |
| Doubtful commitments | - | - | 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 are based on exposure (incl. undrawn credit facilities) at the reporting date. The tables do not include loans assessed at fair value. The figures are thus not reconcilable against balances in the statement of financial position.

Sensitivity analysis

| GROUP - 2019 | Scenario weights | | | |
|----------------------|------------------|-------|------|------------------------------|
| | Worst | Basis | Best | Calculated ECL (NOK million) |
| Normal development | 10% | 80% | 10% | 375 |
| Negative development | 60% | 30% | 10% | 444 |
| Positive development | 10% | 30% | 60% | 313 |

The sensitivity analysis above is based on changes in weighting of scenarios. The analysis includes all commitments in stage 1, 2 and 3.

The Group uses three macroeconomic scenarios (normal development, negative development and positive development). The different scenarios are used to adjust relevant parameters for calculation of expected loss, and a probability weighted average of expected loss according to respective scenarios is recognized as loss.

The Group's base case scenario is based on monetary report from Norges Bank. Upside and downside scenarios are designed with emphasis on development in economic conditions where development in unemployment and property prices matter most.

In the sensitivity analysis, a simulation of changes in lifetime PD for commitments in stage 2 is made.

Commitments with ECL in stage 3 calculated individually constitute a relatively large part of ECL in total. Individual assessments of scenarios have been made and the weighting of these commitments is based on the best estimate of the Group.

Note 7

Defaulted and doubtful commitments

The accounting policies regarding assessments of loans are disclosed in note 6.

The table Commitments in default shows the total of 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. Commitments, where a probable deterioration of customer solvency is identified, is considered credit-impaired and transferred to stage 3 where lifetime ECL is calculated.

The table Doubtful commitments consists of total commitments in default above 3 months and other credit-impaired commitments not in default above 3 months.

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

| Overdue commitments | 31.12.2019 | | | 31.12.2018 | | |
|------------------------|------------|--------|-----------|------------|--------|-----------|
| | Total | Retail | Corporate | Total | Retail | Corporate |
| 0-1 months | 615 | 438 | 177 | 405 | 363 | 42 |
| 1-3 months | 52 | 46 | 6 | 81 | 20 | 61 |
| 3-6 months | 43 | 23 | 20 | 22 | 10 | 12 |
| 6-12 months | 29 | 22 | 7 | 35 | 27 | 8 |
| Above 12 months | 90 | 31 | 59 | 19 | 18 | 1 |
| Gross loans in default | 829 | 560 | 269 | 562 | 438 | 124 |

| PARENT BANK | Total | | | Total | | |
|------------------------|--------|-----------|--------|-----------|-----|-----|
| | Retail | Corporate | Retail | Corporate | | |
| 0-1 months | 451 | 279 | 172 | 277 | 235 | 42 |
| 1-3 months | 40 | 34 | 6 | 76 | 15 | 61 |
| 3-6 months | 43 | 23 | 20 | 22 | 10 | 12 |
| 6-12 months | 29 | 22 | 7 | 35 | 27 | 8 |
| Above 12 months | 90 | 31 | 59 | 19 | 18 | 1 |
| Gross loans in default | 653 | 389 | 264 | 429 | 305 | 124 |

Doubtful commitments

(total commitments in default above 3 months and other credit-impaired commitments not in default above 3 months)

| GROUP | 31.12.2019 | | | 31.12.2018 | | |
|--|------------|--------|-----------|------------|--------|-----------|
| | Total | Retail | Corporate | Total | Retail | Corporate |
| Gross commitments in default above 3 months | 162 | 76 | 86 | 76 | 55 | 21 |
| Gross other credit-impaired commitments | 814 | 34 | 780 | 306 | 29 | 277 |
| Gross doubtful commitments | 976 | 110 | 866 | 382 | 84 | 298 |
| ECL (stage 3) on commitments in default above 3 months | 24 | 19 | 5 | 31 | 14 | 17 |
| ECL (stage 3) on other credit-impaired commitments | 216 | 5 | 211 | 93 | 5 | 88 |
| Total ECL on doubtful commitments | 240 | 24 | 216 | 124 | 19 | 105 |
| Net commitments in default above 3 months | 138 | 57 | 81 | 45 | 41 | 4 |
| Net other credit-impaired commitments | 598 | 29 | 569 | 213 | 24 | 189 |
| Net doubtful commitments | 736 | 86 | 650 | 258 | 65 | 193 |
| Gross doubtful commitments as a percentage of total loans/guarantees | 1.48 | 0.25 | 3.96 | 0.62 | 0.20 | 1.49 |
| Net doubtful commitments as a percentage of total loans/guarantees | 1.12 | 0.20 | 2.98 | 0.42 | 0.17 | 0.96 |
| PARENT BANK | Total | Retail | Corporate | Total | Retail | Corporate |
| Gross commitments in default above 3 months | 162 | 76 | 86 | 76 | 55 | 21 |
| Gross other credit-impaired commitments | 814 | 34 | 780 | 306 | 29 | 277 |
| Gross doubtful commitments | 976 | 110 | 866 | 382 | 84 | 298 |
| ECL (stage 3) on commitments in default above 3 months | 24 | 19 | 5 | 31 | 14 | 17 |
| ECL (stage 3) on other credit-impaired commitments | 214 | 3 | 211 | 92 | 4 | 88 |
| Total ECL on doubtful commitments | 238 | 22 | 216 | 123 | 18 | 105 |
| Net commitments in default above 3 months | 138 | 57 | 81 | 45 | 41 | 4 |
| Net other credit-impaired commitments | 600 | 31 | 569 | 214 | 25 | 189 |
| Net doubtful commitments | 738 | 88 | 650 | 259 | 66 | 193 |
| Gross doubtful commitments as a percentage of total loans/guarantees | 2.43 | 0.59 | 4.05 | 0.99 | 0.44 | 1.52 |
| Net doubtful commitments as a percentage of total loans/guarantees | 1.87 | 0.52 | 3.06 | 0.68 | 0.37 | 0.98 |

Note 8

Guarantees, credit facilities 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. Guarantees are evaluated for impairment in accordance with the principles applied to loans and are referred to in note 6.

| GROUP | | | PARENT BANK | |
|------------|------------|---|-------------|------------|
| 31.12.2018 | 31.12.2019 | | 31.12.2019 | 31.12.2018 |
| 1 418 | 1 360 | Guarantee liabilities relating to customers | 1 360 | 1 418 |
| 0 | 0 | Guarantee liabilities towards credit institutions | 0 | 0 |
| 0 | 0 | Guarantee provided for the Savings Bank's Guarantee Fund (SBGF) | 0 | 0 |
| 1 418 | 1 360 | Guarantee liabilities as at 31.12 | 1 360 | 1 418 |
| 5 569 | 4 845 | Undrawn credit facilities for customers | 3 470 | 4 354 |

| 31.12.2018 | 31.12.2019 | | 31.12.2019 | 31.12.2018 |
|------------|------------|---|------------|------------|
| 1 400 | 2 018 | Certificates and bonds pledged as collateral for access to loans from Norges Bank | 2 018 | 1 400 |
| 0 | 0 | Utilised under loan facility from Norges Bank | 0 | 0 |

As at 31.12.2019, 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 57.5 per cent at the end of 2019, opposed to 57.0 per cent by the end of 2018.

The average residual maturity of the portfolio of senior bonds and covered bonds were respectively 1.9 years and 4.0 years at the end of 2019, compared with 1.9 years and 3.7 years 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 31.12.2019

| 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 | 1 072 | 0 | 0 | 0 | 0 | 1 072 |
| Loans to and receivables from credit institutions | 1 088 | 0 | 0 | 0 | 0 | 1 088 |
| Loans to and receivables from customers | 11 298 | 235 | 1 678 | 15 862 | 48 431 | 77 504 |
| Certificates and bonds | 122 | 406 | 949 | 5 850 | 650 | 7 977 |
| Total assets | 13 580 | 641 | 2 627 | 21 712 | 49 081 | 87 641 |
| Liabilities | | | | | | |
| Loans and deposits from credit institutions | 317 | 0 | 0 | 500 | 0 | 817 |
| Deposits from customers | 35 172 | 476 | 1 171 | 24 | 0 | 36 843 |
| Debt securities issued | 236 | 602 | 3 665 | 20 303 | 5 004 | 29 810 |
| Subordinated loan capital | 4 | 2 | 18 | 96 | 786 | 906 |
| Total liabilities | 35 729 | 1 080 | 4 854 | 20 923 | 5 790 | 68 376 |
| Financial derivatives | | | | | | |
| Cash flow in | 14 | 62 | 271 | 941 | 391 | 1 679 |
| Cash flow out | 26 | 95 | 359 | 1 219 | 337 | 2 036 |
| Total financial derivatives | -12 | -33 | -88 | -278 | 54 | -357 |

Liquidity risk 31.12.2018

| 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 31.12.2019

| 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 | 1 072 | 0 | 0 | 0 | 0 | 1 072 |
| Loans to and receivables from credit institutions | 3 259 | 0 | 0 | 0 | 0 | 3 259 |
| Loans to and receivables from customers | 7 114 | 235 | 1 601 | 15 550 | 27 346 | 51 846 |
| Certificates and bonds | 121 | 404 | 471 | 5 641 | 650 | 7 287 |
| Total assets | 11 566 | 639 | 2 072 | 21 191 | 27 996 | 63 464 |
| Liabilities | | | | | | |
| Loans and deposits from credit institutions | 1 019 | 0 | 0 | 500 | 0 | 1 519 |
| Deposits from customers | 35 151 | 476 | 1 171 | 24 | 0 | 36 822 |
| Debt securities issued | 4 | 521 | 83 | 4 818 | 0 | 5 426 |
| Subordinated loan capital | 4 | 2 | 18 | 96 | 786 | 906 |
| Total liabilities | 36 178 | 999 | 1 272 | 5 438 | 786 | 44 673 |
| Financial derivatives | | | | | | |
| Cash flow in | 14 | 47 | 174 | 538 | 202 | 975 |
| Cash flow out | 10 | 48 | 168 | 515 | 202 | 943 |
| Total financial derivatives | 4 | -1 | 6 | 23 | 0 | 32 |

Liquidity risk 31.12.2018

| 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 |

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/adopted 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.

Interest rate risk is presented in note 10.1, foreign exchange risk in note 10.2 and financial derivatives is described in note 10.3.

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. The potential effect on the profit and loss over a 1-year period of an interest rate change of 1 percentage point is NOK 70 million for the Group.

| GROUP - 2019 | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Above 5 years | Total |
|--------------|---------------|--------------|---------------|-------------|---------------|-------|
| NOK | 8 | 8 | 7 | -18 | -3 | 2 |
| Cur | 1 | 4 | 0 | -1 | -2 | 2 |
| Total | 9 | 12 | 7 | -19 | -5 | 4 |

| 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 |

| PARENT BANK - 2019 | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Above 5 years | Total |
|--------------------|---------------|--------------|---------------|-------------|---------------|-------|
| NOK | -2 | 14 | 6 | -15 | -2 | 1 |
| Cur | 1 | 4 | 0 | -1 | -2 | 2 |
| Total | -1 | 18 | 6 | -16 | -4 | 3 |

| 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 |

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 - 31.12.2019 | Total | NOK | Currency | Of which: USD | EUR | JPY | CHF | Other |
|---|---------------|---------------|--------------|---------------------|--------------|-----------|------------|------------|
| Cash and claims on Norges Bank | 1 072 | 1 072 | 0 | | | | | |
| Loans to and receivables from credit institutions | 1 088 | 919 | 169 | 78 | 47 | | 12 | 32 |
| Loans to and receivables from customers | 64 029 | 60 928 | 3 101 | 1 221 | 440 | 25 | 791 | 624 |
| Certificates and bonds | 6 938 | 5 992 | 946 | | 607 | | | 339 |
| Other assets | 1 748 | 1 661 | 87 | 29 | 47 | | 7 | 4 |
| Total assets | 74 875 | 70 572 | 4 303 | 1 328 | 1 141 | 25 | 810 | 999 |
| Loans and deposits from credit institutions | 817 | 806 | 11 | 8 | | | | 3 |
| Deposits from customers | 36 803 | 36 474 | 329 | 138 | 169 | 1 | | 21 |
| Debt securities issued | 28 271 | 20 171 | 8 100 | | 8 100 | | | |
| Other liabilities | 1 310 | 1 267 | 43 | 4 | 39 | | | |
| Subordinated loan capital | 704 | 704 | 0 | | | | | |
| Equity | 6 970 | 6 970 | 0 | | | | | |
| Total liabilities and equity | 74 875 | 66 392 | 8 483 | 150 | 8 308 | 1 | 0 | 24 |
| Forward exchange contracts | | | 4 196 | -1 176 | 7 169 | -24 | -803 | -970 |
| Net exposure foreign exchange | | | 16 | 2 | 2 | 0 | 7 | 5 |
| Effect of a 10 per cent change in price (MNOK) | | 2 | | | | | | |

| GROUP - 31.12.2018 | 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 | 1 760 | 1 738 | 22 | 12 | 1 | | 8 | 1 |
| Total assets | 71 040 | 66 893 | 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 | 6 360 | 6 360 | 0 | | | | | |
| Total liabilities and equity | 71 040 | 65 135 | 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 | | | | | |

| PARENT BANK - 31.12.2019 | Total | NOK | Currency | Of which: USD | | | | |
|---|---------------|---------------|--------------|------------------|--------------|-----------|------------|------------|
| | | | | EUR | JPY | CHF | Other | |
| Cash and claims on Norges Bank | 1 072 | 1 072 | 0 | | | | | |
| Loans to and receivables from credit institutions | 3 259 | 3 090 | 169 | 78 | 47 | | 12 | 32 |
| Loans to and receivables from customers | 38 494 | 35 393 | 3 101 | 1 221 | 440 | 25 | 791 | 624 |
| Certificates and bonds | 6 260 | 5 314 | 946 | | 607 | | | 339 |
| Other assets | 3 186 | 3 099 | 87 | 29 | 47 | | 7 | 4 |
| Total assets | 52 271 | 47 968 | 4 303 | 1 328 | 1 141 | 25 | 810 | 999 |
| Loans and deposits from credit institutions | 1 519 | 1 508 | 11 | 8 | | | | 3 |
| Deposits from customers | 36 824 | 36 495 | 329 | 138 | 169 | 1 | | 21 |
| Debt securities issued | 5 209 | 5 209 | 0 | | | | | |
| Other liabilities | 1 291 | 1 248 | 43 | 4 | 39 | | | |
| Subordinated loan capital | 704 | 704 | 0 | | | | | |
| Equity | 6 724 | 6 724 | 0 | | | | | |
| Total liabilities and equity | 52 271 | 51 888 | 383 | 150 | 208 | 1 | 0 | 24 |
| Forward exchange contracts | | | -3 904 | -1 176 | -931 | -24 | -803 | -970 |
| Net exposure foreign exchange | | | 16 | 2 | 2 | 0 | 7 | 5 |
| Effect of a 10 per cent change in price (MNOK) | | 2 | | | | | | |

| PARENT BANK - 31.12.2018 | Total | NOK | Currency | Of which: | | EUR | JPY | CHF | Other |
|---|---------------|---------------|--------------|--------------|------------|-----------|--------------|------------|-------|
| | | | | USD | | | | | |
| 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 | 2 596 | 2 574 | 22 | 12 | 1 | | 8 | 1 | |
| Total assets | 49 937 | 45 790 | 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 | 1 255 | 1 250 | 5 | 5 | | | | | |
| Subordinated loan capital | 996 | 996 | 0 | | | | | | |
| Equity | 6 166 | 6 166 | 0 | | | | | | |
| Total liabilities and equity | 49 937 | 49 658 | 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 | | | | | | |

Note 10.3

Financial derivatives

Financial derivatives are contracts entered into in order to hedge an already existing interest- OR 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 value of basis swaps in hedge accounting which is caused by changes in basis spreads are recognised in other comprehensive income as a cost of hedging. The estimated fair value of financial OTC derivatives is adjusted for counterparty credit risk (CVA) or for the Group's own credit risk (DVA).

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.

The table shows the financial derivatives' nominal values and their market values. In the accounts, financial derivatives are presented as an asset or as a liability, depending on whether the derivative has a positive or a negative value.

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 require the signing of CSA (Credit Support Annex) agreements before trading of derivatives against any interbank counterparty. 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 to these counterparties.

The market value of all derivatives signed between Sparebanken Møre and the counterparty is settled according to the different CSA-agreements. As at 31.12.2019, Sparebanken Møre has a cash collateral of NOK 200 million (NOK 566 million).

| GROUP | 2019 | | | 2018 | | |
|--------------------------------------|---------------|-------|-----------|---------------|-------|-----------|
| | Nominal value | Asset | Liability | Nominal value | Asset | Liability |
| Interest rate instruments | | | | | | |
| Swaps | 13 902 | 289 | 131 | 12 053 | 329 | 209 |
| Foreign exchange instruments | | | | | | |
| Swaps | 9 201 | 408 | 108 | 6 725 | 446 | 112 |
| FX forward | 5 459 | 479 | 49 | 9 349 | 434 | 204 |
| Total financial derivatives | | 1 176 | 288 | | 1 209 | 525 |
| - hereof applied in hedge accounting | 11 312 | 493 | 25 | 8 405 | 558 | 13 |

| PARENT BANK | 2019 | | | 2018 | | |
|--------------------------------------|---------------|-------|-----------|---------------|-------|-----------|
| | Nominal value | Asset | Liability | Nominal value | Asset | Liability |
| Interest rate instruments | | | | | | |
| Swaps | 10 852 | 94 | 126 | 9 003 | 146 | 207 |
| Foreign exchange instruments | | | | | | |
| Swaps | 1 394 | 13 | 67 | 1 375 | 4 | 91 |
| FX forward | 5 459 | 479 | 49 | 9 349 | 434 | 204 |
| Total financial derivatives | | 586 | 242 | | 584 | 502 |
| - hereof applied in hedge accounting | 725 | 0 | 1 | 277 | 6 | 0 |

As of 31 December 2019, the following swaps were used in fair value hedging of interest rate risk:

| GROUP - 2019 | Currency | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years |
|-----------------------------|----------|---------------|------------|-------------|-----------|--------------|
| Nominal amount | NOK | | | | 1 725 | 2 050 |
| Average fixed interest rate | | | | | 1.9 % | 3.8 % |
| Nominal amount | EUR | | | | 5 825 | 1 712 |
| Average fixed interest rate | | | | | 0.2 % | 0.4 % |
| | | | | | | |
| GROUP - 2018 | Currency | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years |
| Nominal amount | NOK | | | 277 | 1 000 | 2 050 |
| Average fixed interest rate | | | | 11.7 % | 1.5 % | 3.8 % |
| Nominal amount | EUR | | | | 4 854 | 225 |
| Average fixed interest rate | | | | | 0.3 % | 2.8 % |
| | | | | | | |
| PARENT BANK - 2019 | Currency | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years |
| Nominal amount | NOK | | | | 725 | |
| Average fixed interest rate | | | | | 2.4 % | |
| | | | | | | |
| PARENT BANK - 2018 | Currency | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years |
| Nominal amount | NOK | | | 277 | | |
| Average fixed interest rate | | | | 11.7 % | | |

Maturity of financial derivatives, nominal value

| GROUP | 2019 | | 2018 | | |
|-------|----------|--|----------------------------|--|----------------------------|
| | Maturity | Interest rate and foreign exchange swaps | Forward exchange contracts | Interest rate and foreign exchange swaps | Forward exchange contracts |
| 2019 | | | | 1 883 | 8 680 |
| 2020 | | 2 084 | 5 196 | 2 160 | 572 |
| 2021 | | 2 258 | 178 | 1 881 | 65 |
| 2022 | | 4 999 | 37 | 4 520 | 12 |
| 2023 | | 4 342 | 8 | 3 478 | 4 |
| 2024 | | 3 409 | 8 | 467 | 4 |
| 2025 | | 1 665 | 8 | 1 492 | 4 |
| 2026 | | 1 198 | 8 | 415 | 4 |
| 2027 | | 62 | 9 | 252 | 4 |
| 2028 | | 1 614 | 4 | 2 057 | |
| 2029 | | 992 | 2 | 120 | |
| 2030 | | 250 | | | |
| 2032 | | 229 | | 53 | |
| | | 23 102 | 5 458 | 18 778 | 9 349 |

| PARENT BANK | 2019 | | 2018 | | |
|-------------|----------|--|----------------------------|--|----------------------------|
| | Maturity | Interest rate and foreign exchange swaps | Forward exchange contracts | Interest rate and foreign exchange swaps | Forward exchange contracts |
| 2019 | | | | 1 883 | 8 680 |
| 2020 | | 1 814 | 5 196 | 1 889 | 572 |
| 2021 | | 2 258 | 178 | 1 881 | 65 |
| 2022 | | 1 585 | 37 | 1 096 | 12 |
| 2023 | | 1 923 | 8 | 1 048 | 4 |
| 2024 | | 928 | 8 | 467 | 4 |
| 2025 | | 615 | 8 | 442 | 4 |
| 2026 | | 1 198 | 8 | 415 | 4 |
| 2027 | | 62 | 9 | 252 | 4 |
| 2028 | | 391 | 4 | 832 | |
| 2029 | | 992 | 2 | 120 | |
| 2030 | | 250 | | | |
| 2032 | | 229 | | 53 | |
| | | 12 245 | 5 458 | 10 378 | 9 349 |

Note 11

Subordinated loan capital and Additional Tier 1 capital

GROUP AND PARENT BANK

| ISIN.NR. | Currency | Issue | Maturity | Terms | 31.12.2019 |
|----------------------------------|----------|------------|----------|---------------------|------------|
| NO0010809304 | NOK | 31.10.2017 | 2023 | 3 mnth NIBOR + 1.55 | 503 |
| NO0010791692 | NOK | 03.05.2017 | 2022 | 3 mnth NIBOR + 1.46 | 201 |
| Subordinated loan capital | | | | | 704 |

| ISIN.NR. | Currency | Issue | Maturity | Terms | 31.12.2019 |
|----------------------------------|----------|------------|----------|---------------------|------------|
| NO0010796154 | NOK | 15.06.2017 | 2022 | 3 mnth NIBOR + 3.25 | 349 |
| NO0010856495 | NOK | 12.06.2019 | 2024 | 3 mnth NIBOR + 3.50 | 250 |
| Additional Tier 1 Capital | | | | | 599 |

Additional Tier 1 capital NO0010796154 and Additional Tier 1 capital NO0010856495 are classified as equity in the balance sheet and are 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, they 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 23 million has been paid in 2019. NOK 23 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. The Group had no investments in subordinated loan capital in other enterprises (including credit institutions) at the end of 2019. Loan agreements are made available on the bank's website.

Changes in subordinated loan capital

| GROUP AND PARENT BANK | Book value 31.12.18 | Issued | Matured/redeemed | Other changes | Book value 31.12.19 |
|--|------------------------|----------|------------------|---------------|------------------------|
| Subordinated loan capital, nominal value | 700 | | | - | 700 |
| Accrued interest | 3 | | | 1 | 4 |
| Value adjustments | - | | | - | - |
| Total subordinated loan capital | 703 | - | - | 1 | 704 |

Changes in Additional Tier 1 capital (classified as debt)

| GROUP AND PARENT BANK | Book value 31.12.18 | Issued | Matured/redeemed | Other changes | Book value 31.12.19 |
|--|------------------------|--------|------------------|---------------|------------------------|
| Additional Tier 1 capital, nominal value | 277 | | -277 | - | - |
| Accrued interest | 10 | | -10 | - | - |
| Value adjustments | 6 | | - | -6 | - |
| Total Additional Tier 1 capital (classified as debt) | 293 | - | -287 | -6 | - |

Changes in Additional Tier 1 capital (classified as equity)

| GROUP AND PARENT BANK | Book value 31.12.18 | Issued | Matured/redeemed | Other changes | Book value 31.12.19 |
|--|------------------------|--------|------------------|---------------|------------------------|
| Additional Tier 1 capital, nominal value | 350 | 250 | | | 600 |
| Accrued interest | - | - | | | - |
| Value adjustments | -1 | - | | | -1 |
| Total Additional Tier 1 capital (classified as equity) | 349 | 250 | - | - | 599 |

Note 12

Debt securities

The debt securities in the Parent bank consist of bonds 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 for changes in fair value due to changes in market rates, 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 | | | | |
|---------------|------------|---------------|------------|--|---------------|------------|---------------|------------|
| 31.12.2018 | | 31.12.2019 | | | 31.12.2019 | | 31.12.2018 | |
| Nominal value | Book value | Nominal value | Book value | | Nominal value | Book value | Nominal value | Book value |
| 8 405 | 8 806 | 11 312 | 11 266 | Value secured debt securities with changes in value recognised in the income statement | 725 | 725 | 277 | 283 |
| 8 405 | 545 | 11 312 | 468 | Financial derivatives applied in hedge accounting | 725 | -1 | 277 | 6 |

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

| GROUP | | | | PARENT BANK | |
|-------|------|--|--|-------------|------|
| 2018 | 2019 | | | 2019 | 2018 |
| -174 | 73 | Value secured debt securities with changes in value recognised in the income statement | | 3 | 10 |
| 173 | -76 | Financial derivatives applied in hedge accounting | | -7 | -10 |
| -1 | -3 | Total | | -4 | 0 |

Debt securities

| GROUP | | | PARENT BANK | |
|------------|--------|--------------------------|-------------|------------|
| 31.12.2018 | | 31.12.2019 | 31.12.2019 | 31.12.2018 |
| 26 325 | 27 660 | Bond debt, nominal value | 5 199 | 5 409 |
| 68 | 73 | Accrued interest | 13 | 7 |
| 587 | 538 | Value adjustments | -3 | -1 |
| 26 980 | 28 271 | Total debt securities | 5 209 | 5 415 |

Changes in debt securities

| GROUP | Bonds issued | Subordinated loan capital | Additional Tier 1 capital | Total |
|--------------------|--------------|---------------------------|---------------------------|--------|
| Balance 31.12.2018 | 26 980 | 703 | 293 | 27 976 |
| Issued | 5 374 | | | 5 374 |
| Overdue/ redeemed | -4 024 | | -293 | -4 317 |
| Other changes | -59 | 1 | | -58 |
| Balance 31.12.19 | 28 271 | 704 | - | 28 975 |

| PARENT BANK | Bonds issued | Subordinated loan capital | Additional Tier 1 capital | Total |
|--------------------|--------------|---------------------------|---------------------------|--------|
| Balance 31.12.2018 | 5 415 | 703 | 293 | 6 411 |
| Issued | 2 299 | | | 2 299 |
| Overdue/ redeemed | -2 520 | | -293 | -2 813 |
| Other changes | 15 | 1 | | 16 |
| Balance 31.12.19 | 5 209 | 704 | - | 5 913 |

Maturity of securities-based debt, nominal value

| GROUP | PARENT BANK | | | | |
|--------|-------------|--------|----------|-------|-------|
| | 2018 | 2019 | Maturity | 2019 | 2018 |
| 3 092 | | | 2019 | | 1 409 |
| 6 844 | | 3 973 | 2020 | 499 | 1 100 |
| 5 900 | | 5 900 | 2021 | 2 900 | 2 900 |
| 3 363 | | 4 163 | 2022 | 800 | |
| 2 375 | | 3 375 | 2023 | 1 000 | |
| 2 500 | | 5 498 | 2024 | | |
| 1 050 | | 3 550 | 2025 | | |
| 1 201 | | 1 201 | 2028 | | |
| 26 325 | | 27 660 | Total | 5 199 | 5 409 |

An overview of contractual non-discounted cash flows is presented in note 9.

Note 13

Classification of financial instruments

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

- Amortised cost
- Fair value with value changes through the income statement

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 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 initial cost and the settlement amount at maturity, is amortised over the lifetime of the loan.

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), direct transaction costs 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.

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. The portfolio is held solely for liquidity management and is traded to optimize returns within

current quality requirements of the liquidity portfolio. The Group's portfolio of fixed interest rate loans is 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.

| GROUP - 31.12.2019 | Financial instruments at fair value in the income statement | Financial instruments assessed at amortised cost | Total book value |
|---|---|---|---------------------|
| Cash and claims on Norges Bank | | 1 072 | 1 072 |
| Loans to and receivables from credit institutions | | 1 088 | 1 088 |
| Loans to and receivables from customers | 4 197 | 59 832 | 64 029 |
| Certificates and bonds | 6 938 | | 6 938 |
| Shares and other securities | 194 | | 194 |
| Financial derivatives | 1 176 | | 1 176 |
| Total financial assets | 12 505 | 61 992 | 74 497 |
| Loans and deposits from credit institutions | | 817 | 817 |
| Deposits from customers | | 36 803 | 36 803 |
| Financial derivatives | 288 | | 288 |
| Debt securities issued | | 28 271 | 28 271 |
| Subordinated loan capital and Additional Tier 1 capital | | 704 | 704 |
| Total financial liabilities | 288 | 66 595 | 66 883 |

| GROUP - 31.12.2018 | Financial instruments at fair value in the income statement | Financial instruments assessed at amortised cost | Total book value |
|---|---|---|---------------------|
| 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 | 3 811 | 56 535 | 60 346 |
| Certificates and bonds | 6 789 | | 6 789 |
| Shares and other securities | 182 | | 182 |
| Financial derivatives | 1 209 | | 1 209 |
| Total financial assets | 11 991 | 58 680 | 70 671 |
| Loans and deposits from credit institutions | | 955 | 955 |
| Deposits from customers | | 34 414 | 34 414 |
| Financial derivatives | 525 | | 525 |
| Debt securities issued | | 26 980 | 26 980 |
| Subordinated loan capital and Additional Tier 1 capital | | 996 | 996 |
| Total financial liabilities | 525 | 63 345 | 63 870 |

| PARENT BANK - 31.12.2019 | Financial instruments at fair value in the income statement | Financial instruments assessed at amortised cost | Total book value |
|---|---|---|---------------------|
| Cash and claims on Norges Bank | | 1 072 | 1 072 |
| Loans to and receivables from credit institutions | | 3 259 | 3 259 |
| Loans to and receivables from customers | 9 134 | 29 360 | 38 494 |
| Certificates and bonds | 6 260 | | 6 260 |
| Shares and other securities | 194 | | 194 |
| Financial derivatives | 586 | | 586 |
| Total financial assets | 16 174 | 33 691 | 49 865 |
| Loans and deposits from credit institutions | | 1 519 | 1 519 |
| Deposits from customers | | 36 824 | 36 824 |
| Financial derivatives | 242 | | 242 |
| Debt securities issued | | 5 209 | 5 209 |
| Subordinated loan capital and Additional Tier 1 capital | | 704 | 704 |
| Total financial liabilities | 242 | 44 256 | 44 498 |

| PARENT BANK - 31.12.2018 | Financial instruments at fair value in the income statement | Financial instruments assessed at amortised cost | Total book value |
|---|---|---|---------------------|
| 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 | 7 307 | 29 752 | 37 059 |
| Certificates and bonds | 7 095 | | 7 095 |
| Shares and other securities | 182 | | 182 |
| Financial derivatives | 584 | | 584 |
| Total financial assets | 15 168 | 32 939 | 48 107 |
| Loans and deposits from credit institutions | | 1 668 | 1 668 |
| Deposits from customers | | 34 437 | 34 437 |
| Financial derivatives | 502 | | 502 |
| Debt securities issued | | 5 415 | 5 415 |
| Subordinated loan capital and Additional Tier 1 capital | | 996 | 996 |
| Total financial liabilities | 502 | 42 516 | 43 018 |

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.

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 | |
|-------|-------|--|--------------|--------------|
| 2018 | 2019 | | 2019 | 2018 |
| 178 | 243 | Interest income on financial assets assessed at fair value | 245 | 194 |
| 1 762 | 2 085 | Interest income on financial assets assessed at amortised cost | 1 367 | 1 186 |
| 1 940 | 2 328 | Total interest income | 1 612 | 1 380 |

Interest costs

| GROUP | | | PARENT BANK | |
|-------|-------|--|-------------|------------|
| 2018 | 2019 | | 2019 | 2018 |
| 0 | 0 | Interest costs on financial liabilities assessed at fair value | 0 | 0 |
| 761 | 1 014 | Interest costs on financial liabilities assessed at amortised cost | 605 | 472 |
| 761 | 1 014 | Total interest costs | 605 | 472 |

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), direct transaction costs 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 | 31.12.2019 | | 31.12.2018 | |
|---|------------|------------|------------|------------|
| | Fair value | Book value | Fair value | Book value |
| Cash and claims on Norges Bank | 1 072 | 1 072 | 857 | 857 |
| Loans to and receivables from credit institutions | 1 088 | 1 088 | 1 288 | 1 288 |
| Loans to and receivables from customers | 59 832 | 59 832 | 56 535 | 56 535 |
| Total financial assets | 61 992 | 61 992 | 58 680 | 58 680 |
| Loans and deposits from credit institutions | 817 | 817 | 955 | 955 |
| Deposits from customers | 36 803 | 36 803 | 34 414 | 34 414 |
| Debt securities issued | 28 362 | 28 271 | 27 039 | 26 980 |
| Subordinated loan capital and Additional Tier 1 capital | 714 | 704 | 1 000 | 996 |
| Total financial liabilities | 66 696 | 66 595 | 63 408 | 63 345 |

| PARENT BANK | 31.12.2019 | | 31.12.2018 | |
|---|------------|------------|------------|------------|
| | Fair value | Book value | Fair value | Book value |
| Cash and claims on Norges Bank | 1 072 | 1 072 | 857 | 857 |
| Loans to and receivables from credit institutions | 3 259 | 3 259 | 2 330 | 2 330 |
| Loans to and receivables from customers | 29 360 | 29 360 | 29 752 | 29 752 |
| Total financial assets | 33 691 | 33 691 | 32 939 | 32 939 |
| Loans and deposits from credit institutions | 1 519 | 1 519 | 1 668 | 1 668 |
| Deposits from customers | 36 824 | 36 824 | 34 437 | 34 437 |
| Debt securities issued | 5 224 | 5 209 | 5 428 | 5 415 |
| Subordinated loan capital and Additional Tier 1 capital | 714 | 704 | 1 000 | 996 |
| Total financial liabilities | 44 281 | 44 256 | 42 533 | 42 516 |

Note 15

Financial instruments at fair value

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.

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 2019. 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 2019, a total of NOK 3.8 million is recognised as a result of changes in value including changes in credit spreads on fixed rate loans and related hedging. In the income statement, the change in value is presented under Net gains/losses from financial instruments. A change in the discount rate of 10 basis points would result in a change of approximately NOK 10 million on fixed rate loans.

Shares:

Shares presented in level 3 of the valuation hierarchy are primarily the bank's investment in Eksportfinans ASA (NOK 73 million) and the bank's ownership interest in Vipps AS (NOK 43 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 15 per cent is deducted. The value of Eksportfinans is increased by NOK 7 million in 2019.

The tables below show financial instruments at fair value. The Group's liquidity portfolio is also presented broken down by rating classes based on official rating.

| GROUP - 31.12.2019 | Based on prices in an active market | Observable market information | Other than observable market information | | |
|---|---|-------------------------------------|---|---------|---------|
| | | | | Level 1 | Level 2 |
| | | | | Level 3 | Total |
| Cash and claims on Norges Bank | | | | | - |
| Loans to and receivables from credit institutions | | | | | - |
| Loans to and receivables from customers | | | | 4 197 | 4 197 |
| Certificates and bonds | 4 741 | 2 197 | | | 6 938 |
| Shares | 6 | | | 188 | 194 |
| Financial derivatives | | 1 176 | | | 1 176 |
| Total financial assets | 4 747 | 3 373 | 4 385 | | 12 505 |
| Loans and deposits from credit institutions | | | | | - |
| Deposits from customers | | | | | - |
| Debt securities issued | | | | | - |
| Subordinated loan capital and Additional Tier 1 capital | | | | | - |
| Financial derivatives | | 288 | | | 288 |
| Total financial liabilities | - | 288 | - | | 288 |

| GROUP - 31.12.2018 | 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 |

| PARENT BANK - 31.12.2019 | 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 | | | | 9 134 | 9 134 |
| Certificates and bonds | 4 470 | 1 790 | | | 6 260 |
| Shares | 6 | | 188 | | 194 |
| Financial derivatives | | 586 | | | 586 |
| Total financial assets | 4 476 | 2 376 | 9 322 | 16 174 | |
| Loans and deposits from credit institutions | | | | | - |
| Deposits from customers | | | | | - |
| Debt securities issued | | | | | - |
| Subordinated loan capital and Additional Tier 1 capital | | | | | - |
| Financial derivatives | | 242 | | | 242 |
| Total financial liabilities | - | 242 | - | 242 | |

| PARENT BANK - 31.12.2018 | 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 | |

| GROUP - Level 3 reconciliation | Loans to and receivables from customers | Shares |
|---------------------------------------|--|---------------|
| Book value as at 31.12.2018 | 3 811 | 175 |
| Purchases/additions | 1 097 | 10 |
| Sales/reduction | -687 | -14 |
| Transferred to Level 3 | 0 | 0 |
| Transferred from Level 3 | 0 | 0 |
| Net gains/losses in the period | -24 | 17 |
| Book value as at 31.12.2019 | 4 197 | 188 |

| PARENT BANK - Level 3 reconciliation | Loans to and receivables from customers | Shares |
|---|--|---------------|
| Book value as at 31.12.2018 | 7 307 | 175 |
| Purchases/additions | 2 538 | 10 |
| Sales/reduction | -687 | -14 |
| Transferred to Level 3 | 0 | 0 |
| Transferred from Level 3 | 0 | 0 |
| Net gains/losses in the period | -24 | 17 |
| Book value as at 31.12.2019 | 9 134 | 188 |

Credit quality of certificates, bonds and other interest-bearing securities

| GROUP 2019 | AAA | AA+ | AA- | A- | Not rated | Total |
|---|-------|-----|-----|----|-----------|-------|
| Certificates, bonds and other interest-bearing securities | 5 877 | 964 | 50 | 47 | 0 | 6 938 |

| GROUP 2018 | AAA | AA+ | AA- | A- | Not rated | Total |
|---|-------|-----|-----|----|-----------|-------|
| Certificates, bonds and other interest-bearing securities | 6 104 | 586 | 0 | 49 | 50 | 6 789 |

| PARENT BANK 2019 | AAA | AA+ | AA- | A- | Not rated | Total |
|---|-------|-----|-----|----|-----------|-------|
| Certificates, bonds and other interest-bearing securities | 5 305 | 858 | 50 | 47 | 0 | 6 260 |

| PARENT BANK 2018 | AAA | AA+ | AA- | A- | Not rated | Total |
|---|-------|-----|-----|----|-----------|-------|
| Certificates, bonds and other interest-bearing securities | 6 410 | 586 | 0 | 49 | 50 | 7 095 |

Shares and other securities

| GROUP/PARENT BANK | Stake | Number of shares | Book value/ market value |
|---------------------------|--------|------------------|-----------------------------|
| Eksportfinans ASA | 1.3 % | 3 551 | 73 |
| Vipps AS | 1.1 % | | 43 |
| VN Norge AS | 1.6 % | | 29 |
| Moldekraft AS | 8.7 % | | 12 |
| Visa Norge Holding 1 AS | 0.3 % | | 10 |
| Novela Kapital I AS | 15.0 % | | 5 |
| Sparebank 1 Søre-Sunnmøre | 4.8 % | 48 070 | 5 |
| Sparebank 1 Nordvest | 1.7 % | 37 756 | 4 |
| Other | | | 13 |
| Total | | | 194 |

Note 16

Subsidiaries

GROUP STRUCTURE

| Parent bank | Home country | Core operations |
|------------------|--------------|-----------------|
| Sparebanken Møre | Norway | Banking |

Ownership in credit institutions

| Company | Home country | Core operations | Ownership share | Voting share | Book value 2019 | Book value 2018 |
|---------------------|--------------|-----------------|-----------------|--------------|-----------------|-----------------|
| Møre Boligkredit AS | Norway | Funding | 100 % | 100 % | 2 050 | 1 600 |

Ownership in other subsidiaries

| Company | Home country | Core operations | Ownership share | Voting share | Book value 2019 | Book value 2018 |
|---------------------------------------|--------------|------------------------|-----------------|--------------|-----------------|-----------------|
| Møre Eiendomsmegling AS | Norway | Real estate brokerage | 100 % | 100 % | 9 | 9 |
| Sparebankeiendom AS | Norway | Real estate management | 100 % | 100 % | 12 | 12 |
| Total ownership in other subsidiaries | | | | | 21 | 21 |
| Total ownership in subsidiaries | | | | | 2 071 | 1 621 |

Transactions involving subsidiaries

These are transactions between the Parent Bank and wholly-owned subsidiaries made 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 (2.33 per cent in 2019 and 1.83 per cent in 2018).

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 Boligkredit AS related to the transfer of loan portfolio to Møre Boligkredit 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 | 2019 | 2018 |
|--|--------|--------|
| Statement of income | | |
| Interest and credit commission income from subsidiaries | 10 | 26 |
| Received dividend and group contribution from subsidiaries | 172 | 152 |
| Administration fee received from Møre Boligkreditt AS | 36 | 34 |
| Rent paid to Sparebankeiendom AS | 13 | 17 |
| Statement of financial position at 31.12. | | |
| Claims on subsidiaries | 2 290 | 1 300 |
| Covered bonds | 0 | 818 |
| Liabilities to subsidiaries | 848 | 890 |
| Intragroup right-of-use of properties in Sparebankeiendom AS | 107 | - |
| Accumulated loan portfolio transferred to Møre Boligkreditt AS | 25 658 | 23 424 |

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. Key distribution keys are FTEs, activity capital, lending, deposits, number of customers and customer transactions, which are used for example for charging the sections' costs.

Customer income that is recognised as income at head office and is generated by the segments (e.g. currency gains, interest rate hedging income, income from Discretionary Asset Management, etc.) is allocated to the segments based on customer affiliation. This customer income is distributed across the segments net (less associated costs) and is presented under internal income. The costs remain at head office under other and contribute to a negative result.

The Group does not carry out trading on its own account, meaning that all income is a result of external customer transactions. Dividends from securities, changes in the value of shares, bonds and financial derivatives are not allocated by customer segment.

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 reporting segments:

| Reporting 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 Boligkredit AS 1) | Financing (mortgage loans) |
| Real estate brokerage | Møre Eiendomsmegling AS | Real estate brokerage services |

1) Loans from Møre Boligkredit AS to housing associations are recognised in the corporate segment.

Geographical segments

The Group's operations are mainly limited to Nordvestlandet 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.

| Result - 2019 | Group | Eliminations | Other 2) | Corporate | Retail 1) | Real estate brokerage |
|--------------------------------------|-------|--------------|----------|-----------|-----------|-----------------------|
| Net interest income | 1 314 | 2 | 5 | 509 | 798 | 0 |
| Other operating income | 293 | -51 | 110 | 99 | 115 | 20 |
| Total income | 1 607 | -49 | 115 | 608 | 913 | 20 |
| Operating costs | 646 | -50 | 153 | 127 | 397 | 19 |
| Profit before impairment | 961 | 1 | -38 | 481 | 516 | 1 |
| Impairment on loans, guarantees etc. | 50 | 0 | 0 | 40 | 10 | 0 |
| Pre tax profit | 911 | 1 | -38 | 441 | 506 | 1 |
| Taxes | 200 | | | | | |
| Profit after tax | 711 | | | | | |

| Key figures - 31.12.2018 | Group | Eliminations | Other 2) | Corporate | Retail 1) | Real estate brokerage |
|----------------------------|--------|--------------|----------|-----------|-----------|-----------------------|
| Loans to customers 1) | 64 029 | -120 | 1 372 | 19 693 | 43 084 | 0 |
| Deposits from customers 1) | 36 803 | -21 | 711 | 13 134 | 22 979 | 0 |
| Guarantee liabilities | 1 360 | 0 | 0 | 1 355 | 5 | 0 |
| Deposit-to-loan ratio | 57.5 | 0.0 | 51.8 | 66.7 | 53.3 | 0.0 |
| Man-years | 357 | 0 | 156 | 51 | 137 | 13 |

| Result - 2018 | Group | Eliminations | Other 2) | Corporate | Retail 1) | Real estate brokerage |
|--------------------------------------|-------|--------------|----------|-----------|-----------|-----------------------|
| Net interest income | 1 179 | 2 | -9 | 454 | 732 | 0 |
| Other operating income | 248 | -52 | 76 | 100 | 104 | 20 |
| Total income | 1 427 | -50 | 67 | 554 | 836 | 20 |
| Operating costs | 607 | -52 | 154 | 120 | 367 | 18 |
| Profit before impairment | 820 | 2 | -87 | 434 | 469 | 2 |
| Impairment on loans, guarantees etc. | 16 | 0 | 0 | 14 | 2 | 0 |
| Pre tax profit | 804 | 2 | -87 | 420 | 467 | 2 |
| Taxes | 199 | | | | | |
| Profit after tax | 605 | | | | | |

| Key figures - 31.12.2018 | Group | Eliminations | Other 2) | Corporate | Retail 1) | Real estate brokerage |
|----------------------------|--------|--------------|----------|-----------|-----------|-----------------------|
| Loans to customers 1) | 60 346 | -123 | 1 367 | 17 964 | 41 138 | 0 |
| Deposits from customers 1) | 34 414 | -23 | 611 | 11 804 | 22 022 | 0 |
| Guarantee liabilities | 1 418 | 0 | 0 | 1 412 | 6 | 0 |
| Deposit-to-loan ratio | 57.0 | 0.0 | 44.7 | 65.7 | 53.5 | 0.0 |
| Man-years | 361 | 0 | 159 | 51 | 138 | 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.

2) Consists of head office activities not allocated to reporting segments, customer commitments towards employees as well as the subsidiary Sparebankeiendom AS, which manages the buildings owned by the Group.

| MØRE BOLIGKREDITT AS | | |
|--------------------------------------|------|------|
| Statement of income | 2019 | 2018 |
| Net interest income | 308 | 274 |
| Other operating income | -3 | -1 |
| Total income | 305 | 273 |
| Operating costs | 45 | 42 |
| Profit before impairment on loans | 260 | 231 |
| Impairment on loans, guarantees etc. | -11 | 1 |
| Pre tax profit | 271 | 230 |
| Taxes | 49 | 56 |
| Profit after tax | 222 | 174 |

| Statement of financial position | 31.12.2019 | 31.12.2018 |
|---|------------|------------|
| Loans to and receivables from customers | 25 655 | 23 409 |
| Equity | 2 274 | 1 767 |

County-by-country reporting

| | |
|--------------------------------------|------------------|
| GROUP (NOK million) | 31.12.2019 |
| Name of the company | Sparebanken Møre |
| Area of operation | Norway |
| Geografical location | Norway |
| Revenue/total income | 1 607 |
| Man-years | 357 |
| Pre-tax profit | 911 |
| Taxes | 200 |
| Government grants/subsidies received | None received |

Note 18

Other operating income

Guarantee commissions are recognised as they occur in the same way as for interest income. All fees related to payment transactions are recognised as income when the transaction occurs. Fees and charges from sales or brokerage of shares, equity funds, insurance, property or other investment objects that do not generate balance sheet items in the Bank's accounts, are recognised as income after the income generating activity has been executed. Customer trades involving financial instruments will generate income in the form of margins and broker's commissions, which is recognised as income after the trade has been executed. Dividends on shares is recognised as income after the dividend has finally been approved.

| GROUP | | | | PARENT BANK | |
|-------|------|---|-----------|-------------|------|
| 2018 | 2019 | | Note | 2019 | 2018 |
| 34 | 28 | Guarantee commission | | 28 | 34 |
| 19 | 22 | Income from the sale of insurance services | | 22 | 19 |
| 12 | 11 | Income from the sale of shares in unit trusts/securities | | 11 | 12 |
| 34 | 36 | Income from discretionary asset management | | 36 | 34 |
| 88 | 97 | Income from payment transfers | | 97 | 88 |
| 21 | 27 | Other fees and commission income | | 26 | 21 |
| 208 | 221 | Commission income and revenues from banking services | | 220 | 208 |
| -25 | -26 | Commission costs and expenditure in respect of banking services | | -26 | -25 |
| 20 | 20 | Income from real estate brokerage | | 0 | 0 |
| 4 | 4 | Other operating income | | 38 | 36 |
| 24 | 24 | Total other operating income | | 38 | 36 |
| 207 | 219 | Net commision- and other operating income | | 232 | 219 |
| | | | | | |
| 2018 | 2019 | | Note | 2019 | 2018 |
| 3 | 12 | Dividends | <u>16</u> | 184 | 155 |
| -10 | -24 | Change in value on fixed interest loans | <u>15</u> | -24 | -10 |
| 18 | 28 | Derivatives related to fixed interest loans | | 28 | 18 |
| -176 | 35 | Change in value of issued bonds and certificates | | 6 | 11 |
| 176 | -35 | Derivatives related to issued bonds and certificates | | -7 | -10 |
| 10 | 16 | Gains/losses on shares | | 16 | 10 |
| -24 | -9 | Gains/losses on bonds | | -9 | -23 |
| 38 | 41 | Trading in foreign exchange (on behalf of customers) | | 41 | 38 |
| 6 | 10 | Other income | | 14 | 10 |
| 41 | 74 | Net gains/losses from financial instruments | | 249 | 199 |
| 248 | 293 | Total other operating income | <u>17</u> | 481 | 418 |

The following table lists commission income and costs covered by IFRS 15 broken down by the largest main items and allocated per segment.

| Result - 2019 | Group | Other | Corporate | Retail | Real estate brokerage |
|---|-------|-------|-----------|--------|-----------------------|
| Guarantee commission | 28 | 0 | 28 | 0 | 0 |
| Income from the sale of insurance services | 22 | 0 | 1 | 21 | 0 |
| Income from the sale of shares in unit trusts/securities | 11 | 0 | 0 | 11 | 0 |
| Income from discretionary asset management | 36 | 0 | 19 | 17 | 0 |
| Income from payment transfers | 97 | 0 | 22 | 75 | 0 |
| Other fees and commission income | 27 | 0 | 7 | 20 | 0 |
| Commission income and revenues from banking services | 221 | 0 | 77 | 144 | 0 |
| Commission costs and expenditure in respect of banking services | -26 | 0 | -1 | -25 | 0 |
| Income from real estate brokerage | 20 | 0 | 0 | 0 | 20 |
| Other operating income | 4 | 4 | 0 | 0 | 0 |
| Total other operating income | 24 | 4 | 0 | 0 | 20 |
| Net commission- and other operating income | 219 | 4 | 76 | 119 | 20 |

| Result - 2018 | Group | Other | Corporate | Retail | Real estate brokerage |
|---|-------|-------|-----------|--------|-----------------------|
| Guarantee commission | 34 | 0 | 34 | 0 | 0 |
| Income from the sale of insurance services | 19 | 0 | 1 | 18 | 0 |
| Income from the sale of shares in unit trusts/securities | 12 | 0 | 0 | 12 | 0 |
| Income from discretionary asset management | 34 | 0 | 18 | 16 | 0 |
| Income from payment transfers | 88 | 0 | 21 | 67 | 0 |
| Other fees and commission income | 21 | 0 | 10 | 11 | 0 |
| Commission income and revenues from banking services | 208 | 0 | 84 | 124 | 0 |
| Commission costs and expenditure in respect of banking services | -25 | 0 | -1 | -24 | 0 |
| Income from real estate brokerage | 20 | 0 | 0 | 0 | 20 |
| Other operating income | 4 | 4 | 0 | 0 | 0 |
| Total other operating income | 24 | 4 | 0 | 0 | 20 |
| Net commission- and other operating income | 207 | 4 | 83 | 100 | 20 |

Note 19

Operating costs excl. personnel costs

The table gives an overview of key cost items. Other costs are included in the line Other operating costs.

| GROUP | | | PARENT BANK | |
|-------|------|---|-------------|------|
| 2018 | 2019 | | 2019 | 2018 |
| 100 | 109 | IT-costs | 109 | 100 |
| 22 | 24 | Telephone/postage/office supplies/travel expenses | 24 | 22 |
| 16 | 21 | Marketing costs | 21 | 16 |
| 35 | 26 | Depreciation and impairment of fixed- and intangible assets | 30 | 27 |
| 0 | 24 | Depreciation and impairment - IFRS 16 (leases) | 24 | 0 |
| 26 | 32 | Property costs | 46 | 39 |
| 0 | -26 | Property costs IFRS 16 (leases) | -26 | 0 |
| 2 | 1 | Fees paid to External Auditor | 1 | 1 |
| 11 | 16 | Costs relating to fixed assets | 16 | 11 |
| 5 | 5 | Capital tax | 5 | 5 |
| 50 | 60 | Other operating costs | 27 | 37 |
| 267 | 292 | Total operating costs excl. personnel costs | 277 | 258 |

Note 20

Leases

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 further information about the business premises.

| | 2019 | 2018 |
|------------------------|------|------|
| Rent paid to: | | |
| Sparebankeiendom AS | 15 | 16 |
| Other external lessors | 11 | 10 |

Duration of rental agreements

Rental agreements with external lessors are mainly of 5 and 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 10-year duration. The rent is at market price.

Right-of-use assets according to IFRS 16

| GROUP | | PARENT BANK |
|-------|------------------------|-------------|
| | 2019 | 2019 |
| 0 | Right-of-use assets OB | 0 |
| 78 | Implementation effects | 197 |
| 0 | Additions | 0 |
| 13 | Depreciations | 25 |
| 65 | Right-of-use assets CB | 172 |

Lease liability according to IFRS 16

| GROUP | | PARENT BANK |
|-------|------------------------|-------------|
| | 2019 | 2019 |
| 0 | Lease liability OB | 0 |
| 78 | Implementation effects | 197 |
| 0 | Additions | 0 |
| 14 | Lease payments | 27 |
| 1 | Interests | 4 |
| 66 | Lease liabilities CB | 174 |

Right-of-use assets are presented in the Statement of financial position under the accounting line Fixed assets, while the related lease liabilities are presented under the accounting line Other liabilities.

PARENT BANK - Maturity analysis, undiscounted cash flow

| | 2019 |
|-------------------------------------|------------|
| Less than 1 år | 24 |
| 1-2 years | 23 |
| 2-3 years | 23 |
| 3-4 years | 22 |
| 4-5 years | 20 |
| More than 5 years | 63 |
| Total undiscounted cash flow | 174 |

Other significant agreements

The Group has outsourced most of the operations within the IT-area. Sparebanken Møre has an 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. The agreement was extended in December 2018 and expires 2021. 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. In addition, EVRY delivers operation of all banking systems and infrastructure.

Note 21

Salaries and transactions with related parties

| GROUP | | | PARENT BANK | |
|-------|------|--|-------------|------|
| 2018 | 2019 | (NOK million) | 2019 | 2018 |
| 238 | 248 | Wages, salary and other cash-based benefits | 236 | 225 |
| 2 | 3 | Fees paid to members of the Board of Directors and the General Meeting | 3 | 2 |
| 13 | 15 | Bonus/profit sharing 1) | 15 | 13 |
| 22 | 22 | Pension costs (note 22) | 22 | 22 |
| 36 | 38 | Employers' social security contribution | 38 | 36 |
| 14 | 15 | Financial activity tax | 15 | 14 |
| 15 | 13 | Other personnel costs | 11 | 15 |
| 340 | 354 | Total wages and salary costs | 340 | 327 |
| | | | | |
| 2018 | 2019 | Manning levels: | 2019 | 2018 |
| 373 | 378 | Number of employees as at 31.12 | 364 | 359 |
| 374 | 376 | Average number of employees | 362 | 360 |
| 361 | 357 | Number of man-years as at 31.12 | 344 | 348 |
| 360 | 358 | Average number of man-years | 345 | 347 |

1) Part of the bonus (about 50 per cent) for 2019 and 2018 was given in the form of ECs (MORG), purchased at share price in the market. The total number of ECs purchased was about 28.000 in 2019 and about 27.000 in 2018.

As at 31.12.2019, 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.

Board member Ragna Brenne Bjerkeset is employed as process manager in ProtoMore Knowledge Park. In 2019, the company has invoiced Sparebanken Møre for its services a total of NOK 334.103.

Board member Henrik Grung is a partner in the law firm SANDS. In 2019, SANDS invoiced Sparebanken Møre for legal services, a total of NOK 459.058.

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 2.887.144 in 2019 (2018: NOK 2.743.121). The estimated value of benefits in kind totalled NOK 245.082 (2018: NOK 232.596). In addition, NOK 321.357 has been charged to the income statement related to the CEO's pension agreement (2018: NOK 314.541) (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 corresponding to 70 % of the final salary. The CEO is also included in the Bank's ordinary defined contribution pension scheme.

Wages and salaries/fees to elected bodies

| GROUP (NOK thousand) | 2019 | 2018 |
|---|-------|-------|
| General Meeting | 315 | 308 |
| Board of Directors *) | 2 512 | 1 556 |
| | | |
| Fees paid to External Auditor (including value added tax) | 3 099 | 3 009 |
| - hereof fee for statutory audit | 1 394 | 1 795 |
| - hereof other attestation services | 394 | 496 |
| - hereof tax-related advisory services | 259 | 97 |
| - hereof other non-audit services | 1 052 | 621 |

*) Payments from previous years are included in wages and salaries for 2019.

Loans, deposits and guarantees

| GROUP (NOK million) | 31.12.2019 | | 31.12.2018 | |
|---------------------|------------|----------|------------|----------|
| | Loans | Deposits | Loans | Deposits |
| General Meeting | 58 | 15 | 50 | 15 |
| Board of Directors | 20 | 6 | 20 | 7 |
| Employees | 1 036 | 131 | 1 041 | 143 |

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. No guarantees have been issued to any of the members of the General Meeting, the Board of Directors or employees.

Interest rate subsidy of loans to the employees

The total benefit in kind relating to loans provided at a rate of interest lower than the interest rate (average 2.27 per cent in 2019) which triggers a basis for taxing such benefits in kind to the employees has been estimated at NOK 2.004.361 compared to NOK 3.679.969 in 2018.

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

| (NOK million) | 2019 | 2018 |
|-----------------|------|------|
| Interest income | 2 | 2 |
| Interest costs | 0 | 0 |

Wages, salaries, other remuneration and pensions - PARENT BANK

| (NOK thousand) | Wages/salaries | | Other remuneration | |
|--|----------------|---------------|--------------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| General Meeting | | | | |
| Jan Kåre Aurdal | 57 | 50 | | |
| Other members 3) | 258 | 258 | | |
| Total | 315 | 308 | | |
| Board of Directors | | | | |
| Leif-Arne Langøy, Chairman | 581 | 380 | | |
| Roy Reite, Deputy Chairman | 328 | 186 | | |
| Ragna Brenne Bjerkeset | 294 | 166 | | |
| Henrik Grung | 343 | 190 | | |
| Jill Aasen | 254 | 139 | | |
| Ann Magritt Bjåstad Vikebakk | 319 | 175 | | |
| Helge Karsten Knudsen, employees elected representative 1) | 227 | 160 | | |
| Marie Rekdal Hide, employees elected representative 2) | 168 | 160 | | |
| Total 4) | 2 512 | 1 556 | 0 | 0 |
| CEO | | | | |
| Trond Lars Nydal | 2 887 | 2 743 | 245 | 233 |
| Remuneration to Executive Management | | | | |
| EVP, Retail Banking Division, Elisabeth Blomvik | 1 462 | 1 397 | 130 | 126 |
| EVP, Corporate Banking Division, Terje Krøvel | 1 583 | 1 537 | 153 | 153 |
| EVP, Organizational Development, Kjetil Hauge | 1 268 | 1 225 | 95 | 111 |
| EVP, Treasury and Markets, Runar Sandanger | 1 613 | 1 487 | 154 | 151 |
| EVP, Finance and Facilities Management, Idar Vattø | 1 381 | 1 368 | 98 | 118 |
| EVP, Risk Management and Compliance, Erik Røkke | 1 375 | 1 358 | 119 | 145 |
| EVP, Business Support, Perdy Lunde | 1 492 | 1 314 | 103 | 119 |
| EVP, Communications and Group Support, Tone S. Gjerdbsbakk | 1 262 | 1 238 | 124 | 137 |
| EVP, Customer Experience, Arild Sulebakk | 1 276 | 1 165 | 104 | 41 |
| Total remuneration to Executive Management | 12 712 | 12 089 | 1 080 | 1 102 |

| Fees paid to External Auditor (including value added tax) - PARENT BANK | 2019 | 2018 |
|---|-------|-------|
| Fees paid to External Auditor | 2 126 | 1 762 |
| - hereof fee for statutory audit | 973 | 1 388 |
| - hereof other attestation services | 12 | 36 |
| - hereof tax-related advisory services | 140 | 37 |
| - hereof other non-audit services | 1 001 | 301 |

- 1) Ordinary salary amounts to NOK 541.957 (2018: NOK 518.389)
- 2) Ordinary salary amounts to NOK 610.492 (2018: NOK 545.704)
- 3) Deputy chairman and members of the General Meeting are compensated with NOK 3.000 per meeting in 2019. 2 meetings have been held in 2019.
- 4) Payments from previous years are included in wages and salaries for 2019.

Loans and guarantees

| (NOK thousand) | Loans | |
|---|------------|------------|
| | 31.12.2019 | 31.12.2018 |
| General Meeting | | |
| Jan Kåre Aurdal, Chairman | 2 458 | 5 449 |
| Other members (43 members in 2019 and 43 members in 2018) | 55 919 | 46 550 |
| Board of Directors | | |
| Leif-Arne Langøy, Chairman | 0 | 8 |
| Roy Reite, Deputy Chairman | 0 | 0 |
| Ragna Brenne Bjerkeset | 2 877 | 3 503 |
| Henrik Grung | 0 | 0 |
| Jill Aasen | 0 | 0 |
| Ann Magritt Bjåstad Vikebakke | 7 645 | 7 671 |
| Helge Karsten Knudsen, employees elected representative | 3 568 | 3 553 |
| Marie Rekdal Hide, employees elected representative | 5 515 | 5 600 |
| CEO | | |
| Trond Lars Nydal | 3 722 | 4 570 |
| Employees | 1 036 110 | 1 041 449 |

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.

No guarantees have been issued to the members of the General Meeting, Board of Directors, CEO or employees.

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.

Defined benefit pension scheme in own 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 are calculated as the current value of future, probable pension payments and are based on financial and actuarial calculations and assumptions. The difference between the estimated accrued liability and the value of the pension assets is recognised in the statement of financial position. Actuarial gains and losses due to changed assumptions or deviations between expected and actual return on the pension assets are recognised in Other income and cost in the statement of comprehensive income in the period in which they occur.

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 portion of the Group's pension scheme which is defined benefit, entitles employees to agreed future pension benefits equal to 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 42 (70) active members and 279 (259) pensioners by the end of 2019.

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 13 million in 2019 (NOK 12 million in 2018).

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. The CEO is also included in the Bank's ordinary defined contribution pension scheme.

Statutory early retirement pension (SERP)

The SERP scheme is not an early retirement scheme, but a scheme that provides a lifelong addition to the ordinary pension. Employees covered by the scheme, and who meets the requirements, can choose to join the 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 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 2019 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 2020 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 are recognised as costs on an ongoing basis and no provisions are made in the financial statements. Premium payments amount to NOK 4 million in 2019 (NOK 4 million in 2018).

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

Financial and actuarial assumptions

| | Liabilities | | Costs | |
|--|-------------|------------|----------|----------|
| | 31.12.2019 | 31.12.2018 | 2019 | 2018 |
| Rate of discounting/expected return on pension resources | 2.30 | 2.80 | 2.80 | 2.40 |
| Wages and salary adjustment | 2.25 | 2.75 | 2.75 | 2.50 |
| Pension adjustment | 0 | 0 | 0 | 0 |
| Adjustment of the National Insurance's basic amount | 2.00 | 2.50 | 2.50 | 2.25 |
| 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 | 2019 | 2018 |
|---|------|------|
| 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 | -9 | -7 |
| Net pension cost for the pension fund | 4 | 6 |
| Change in present value of pension accruals relating to other pension schemes | -1 | -2 |
| Pension costs charged to the profit and loss, incl. payments to the defined-benefit- and the SERP-schemes | 19 | 18 |
| Total pension costs | 22 | 22 |

| Specification of estimate deviations in comprehensive income | 2019 | 2018 |
|--|------|------|
| Change in the rate of discounting | -21 | 18 |
| Change in other financial assumptions | 3 | -1 |
| Estimate deviations on pension funds | -11 | -5 |
| Total estimate deviations | -29 | 12 |

| Total pension liabilities/-funds | 31.12.2019 | 31.12.2018 |
|--|------------|------------|
| Pension liabilities | 320 | 308 |
| Value of pension resources | -317 | -325 |
| Net pension liabilities/-funds relating to the pension fund | 3 | -17 |
| Net pension liabilities relating to members of the Bank's executive management/bank managers | 29 | 30 |
| Total net pension liabilities/-funds | 32 | 13 |
| - of which recognised under Assets: "Overfunding defined benefit plan" | 0 | -17 |
| - of which recognised under Liabilities: "Provisions and other liabilities" | 32 | 30 |

| Sensitivity analysis | Change in the rate of discounting in % | Effect on the | Effect on the |
|----------------------------------|--|---------------------------------|---------------------------|
| | | liability in % as at 31.12.2019 | pension cost in % in 2019 |
| The funded plan (Pension Fund) | 0.5 | -6.0 | -5.9 |
| The funded plan (Pension Fund) | -0.5 | 6.5 | 6.5 |
| Unfunded schemes (Other schemes) | 0.5 | -5.0 | - |
| Unfunded schemes (Other schemes) | -0.5 | 5.6 | - |

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 statement of financial position.

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.

The Pension Fund has invested in 2.752 (4.164) 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 21 million (NOK 18 million in 2018) in Sparebanken Møre.

| Investment profile - pension resources | 31.12.2019 | | 31.12.2018 | |
|--|------------|--------------|------------|--------------|
| | Fair value | % | Fair value | % |
| Shares | 91 | 16.0 | 76 | 14.4 |
| Fund shares | 47 | 8.3 | 50 | 9.5 |
| Bonds/certificates | 378 | 66.7 | 348 | 66.2 |
| Bank deposits | 51 | 9.0 | 52 | 9.9 |
| Total pension resources | 567 | 100.0 | 526 | 100.0 |

NOK 317 million (NOK 325 million) of the total pension resources of NOK 567 million (NOK 526 million) are related to the defined benefit scheme in Sparebanken Møre. The remaining NOK 250 million (NOK 201 million) are related to issued paid-up policies, administered by Sparebanken Møre's Pension Fund.

| Return on pension resources in % | 31.12.2019 | 31.12.2018 |
|----------------------------------|------------|------------|
| Total pension resources | 6.92 | 0.46 |

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 depreciations are reversed in the accounts, and any gains or losses from the sale are recognised 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. Expenses incurred after the bank has started using the asset, including repairs and maintenance, are expensed.

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 into separate components for depreciation purposes.

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

| Fixed assets | Time profile depreciation |
|--------------------------|---------------------------|
| Building plots and sites | No depreciation |
| Holiday properties | No depreciation |
| 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 generating units). A cash 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.

Any gains or losses from the sale of fixed assets are incorporated in the income statement on an ongoing basis.

Fully impaired fixed assets in use consist of fixtures and fittings and office machines.

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, Nordvestlandet. 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 (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.

GROUP

| 31.12.2019 | Total | Buildings, incl. tech.install., building plots/holiday cabins | Cars/IT/office machines | Fixtures and fittings |
|--|-------|---|----------------------------|-----------------------------|
| Acquisition cost as at 01.01 | 372 | 280 | 27 | 65 |
| Additions | 2 | 0 | 0 | 2 |
| Disposals | 0 | 0 | 0 | 0 |
| Acquisition cost as at 31.12 | 374 | 280 | 27 | 67 |
| Accumulated depreciation and impairment as at 01.01 | 185 | 108 | 24 | 53 |
| Depreciation during the year | 18 | 10 | 2 | 6 |
| Impairment during the year | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 |
| Accumulated depreciation and impairment as at 31.12 | 203 | 118 | 26 | 59 |
| Carrying amount as at 31.12 | 171 | 162 | 1 | 8 |
| Straight-line depreciation period (years) | | 10-50 | 3-5 | 8-10 |
| Fully depreciated fixed assets in use (acquisition cost) | 62 | 0 | 25 | 37 |

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 | 171 | 96 | 21 | 54 |
| Depreciation during the year | 19 | 12 | 3 | 4 |
| Impairment during the year | 0 | 0 | 0 | 0 |
| Disposals | 5 | 0 | 0 | 5 |
| Accumulated depreciation and impairment as at 31.12 | 185 | 108 | 24 | 53 |
| Carrying amount as at 31.12 | 186 | 172 | 2 | 12 |
| Straight-line depreciation period (years) | | 10-50 | 3-5 | 8-10 |
| Fully depreciated fixed assets in use (acquisition cost) | 48 | 0 | 18 | 30 |

PARENT BANK

| 31.12.2019 | Total | Buildings, incl. tech.install. | Cars/IT/office machines | Fixtures and fittings |
|--|-------|-----------------------------------|----------------------------|-----------------------------|
| Acquisition cost as at 01.01 | 121 | 33 | 26 | 62 |
| Additions | 1 | 0 | 0 | 1 |
| Disposals | 0 | 0 | 0 | 0 |
| Acquisition cost as at 31.12 | 122 | 33 | 26 | 63 |
| Accumulated depreciation and impairment as at 01.01 | 87 | 14 | 23 | 51 |
| Depreciation during the year | 10 | 3 | 2 | 5 |
| Impairment during the year | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 |
| Accumulated depreciation and impairment as at 31.12 | 97 | 17 | 25 | 56 |
| Carrying amount as at 31.12 | 26 | 17 | 1 | 8 |
| Straight-line depreciation period (years) | | 10-50 | 3-5 | 8-10 |
| Fully depreciated fixed assets in use (acquisition cost) | 60 | 0 | 25 | 35 |

PARENT BANK

| 31.12.2018 | Total | Buildings, incl. tech.install. | 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 (acquisition cost) | 46 | 0 | 18 | 28 |

Note 24

Intangible assets

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

Capitalised assets are carried at cost, reduced by any depreciation and impairment. Intangible assets are depreciated on a straight-line basis over estimated useful life. Estimated useful life is normally 5 years.

Purchased software is capitalised at acquisition cost plus the costs incurred in order to prepare the software for use. Impairment assessments are conducted annually. Expenses relating to the maintenance of software and IT-systems are expensed on an ongoing basis.

| GROUP | | | PARENT BANK | |
|-------|------|---|-------------|------|
| 2018 | 2019 | | 2019 | 2018 |
| 126 | 139 | Acquisition cost as at 01.01 | 138 | 125 |
| 16 | 31 | Additions | 31 | 16 |
| 3 | 0 | Disposals | 0 | 3 |
| 139 | 170 | Acquisition cost as at 31.12 | 169 | 138 |
| 84 | 97 | Accumulated depreciation and impairment as at 01.01 | 96 | 83 |
| 16 | 19 | Depreciation during the year | 19 | 16 |
| 0 | 0 | Impairment during the year | 0 | 0 |
| 3 | 0 | Disposals | 0 | 3 |
| 97 | 116 | Accumulated depreciation and impairment as at 31.12 | 115 | 96 |
| 42 | 42 | Carrying amount as at 01.01 | 42 | 42 |
| 42 | 53 | Carrying amount as at 31.12 | 53 | 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 | |
|------------|------------|--|-------------|------------|
| 31.12.2018 | 31.12.2019 | | 31.12.2019 | 31.12.2018 |
| 7 | 10 | Repossessed assets | 10 | 7 |
| 39 | 59 | Capital in Sparebanken Møre's Pension Fund | 59 | 39 |
| 24 | 20 | Other receivables | 15 | 20 |
| 70 | 89 | Total other assets | 84 | 66 |

In connection with the legal recovery of non-performing loans and guarantees, the bank in some cases repossesses assets which have been provided as security for such commitments. Such assets are assessed at their estimated realisation value at the time of repossession. Any deviation from the carrying amount of the non-performing or impaired commitment at the time of acquisition, is classified as impairment.

Repossessed assets amount to NOK 10 million (NOK 7 million in 2018). This consists of residential properties of NOK 6 million (NOK 3 million in 2018) and plots of NOK 4 million (NOK 4 million in 2018). 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.

Capital contributions to Sparebanken Møre's Pension Fund are not included as part of the pension funds in the defined benefit scheme. This is equity that Sparebanken Møre as a sponsor has provided to satisfy the Pension Fund's financial strength requirements.

Note 26

Tax

Taxes consist of payable income tax and change in deferred tax.

Deferred tax/tax benefit is calculated on 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. The Group will reduce the amount of deferred tax benefit to the amount that the Group may be able to utilize.

Payable tax and deferred tax/tax benefits are recognised in comprehensive income to the extent that this relates to items which are recognised 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 recognised in comprehensive income.

Deferred tax and deferred tax benefits are calculated on 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 at nominal value.

Sparebanken Møre is subject to financial tax and has therefore a tax rate of 25 per cent both for 2018 and 2019. For the subsidiaries, the tax rate altered from 23 per cent in 2018 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 was used for calculating tax payable for 2018. When calculating deferred tax as of 31 December 2018, as well as tax payable and deferred tax as of 31 December 2019, a tax rate of 22 per cent is applied.

The entire tax cost is related to Norway.

Tax expense recognised in the income statement

| GROUP | | | PARENT BANK | |
|-------|------|--|-------------|------|
| 2018 | 2019 | | 2019 | 2018 |
| 191 | 151 | Tax payable on profit for the period | 88 | 132 |
| 2 | 60 | Changes in deferred taxes in the income statement *) | 65 | 7 |
| 6 | -11 | Changes in estimates related to prior years | -3 | 3 |
| 199 | 200 | Taxes | 150 | 142 |
| 24.8 | 22.0 | Effective tax rate (tax expense as a percentage of pre-tax profit) | 18.5 | 19.7 |

*) The tax reporting for previous years has been amended. This resulted in a reduction in deferred tax assets and a corresponding reduction in tax payable, of which NOK 51 million, related to the subsidiary Møre Boligkreditt AS, is still outstanding as at 31.12.2019.

Tax expense recognised in the comprehensive income

| GROUP | | | PARENT BANK | |
|-------|------|--|-------------|------|
| 2018 | 2019 | | 2019 | 2018 |
| 3 | -7 | Changes in deferred taxes due to pension estimate deviations | -7 | 3 |
| -4 | 0 | Tax effect on tax payable related to changes in value on basis spreads | 0 | 0 |
| -1 | -7 | Tax expense in comprehensive income | -7 | 3 |

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

| GROUP | | | PARENT BANK | |
|-------|------|---|-------------|------|
| 2018 | 2019 | | 2019 | 2018 |
| 804 | 911 | Pre-tax profit | 811 | 722 |
| -12 | -27 | Non-taxable income and non-deductable costs related to shares | -199 | -164 |
| -15 | -23 | Deductable interests on Additional Tier 1 capital treated as equity | -23 | -15 |
| 14 | 14 | Other non-taxable income and non-deductable costs | 25 | 14 |
| -11 | -239 | Changes in temporary differences *) | -262 | -28 |
| 780 | 636 | Taxable income | 352 | 529 |
| 191 | 151 | Tax payable on ordinary profit (25 % for the Parent Bank and 22 % (23 %) for the subsidiaries) | 88 | 132 |
| -4 | 0 | Tax payable on comprehensive income (25 % for the Parent Bank and 22 % (23 %) for the subsidiaries) | 0 | 0 |
| 187 | 151 | Tax payable *) | 88 | 132 |

*) The tax reporting for previous years has been amended. This resulted in a reduction in deferred tax assets and a corresponding reduction in tax payable, of which NOK 51 million, related to the subsidiary Møre Boligkreditt AS, is still outstanding as at 31.12.2019.

Specification of temporary differences and the computation of deferred tax

| GROUP | | | PARENT BANK | |
|------------|------------|--|-------------|------------|
| 31.12.2018 | 31.12.2019 | | 31.12.2019 | 31.12.2018 |
| | | Temporary differences relating to: | | |
| -47 | -40 | Fixed assets | -52 | -65 |
| 206 | 217 | Pension liabilities | 217 | 206 |
| -163 | 686 | Other temporary differences | 402 | -136 |
| -4 | 863 | Net negative (-) / positive differences recognised in the income statement | 567 | 5 |
| -219 | -248 | Share of net pension liability recognised in other comprehensive income | -248 | -219 |
| 3 | 4 | Limited partnerships | 4 | 3 |
| -220 | 619 | Total negative (-) / positive differences | 323 | -211 |
| | | | | |
| -54 | 146 | Deferred tax asset (-) or liability (25 % for the Parent Bank and 22 % for the subsidiaries) | 81 | -53 |
| 0 | 0 | Tax effect of the implementation of IFRS 9 | 0 | 3 |
| -54 | 146 | Deferred tax asset (-) or liability | 81 | -50 |

Reconciliation of tax expense and pre-tax profit

| GROUP | | | PARENT BANK | |
|------------|------------|---|-------------|------------|
| 31.12.2018 | 31.12.2019 | | 31.12.2019 | 31.12.2018 |
| 192 | 220 | 25 % of pre-tax profit (22 % for the subsidiaries in 2019 and 23 % in 2018) | 203 | 177 |
| -3 | -7 | Shares 25 % (22 %/23 %) | -50 | -41 |
| 4 | -2 | Other non-taxable income and non-deductable costs 25 % (22 %/23 %) | 1 | 4 |
| 6 | -11 | Changes in estimates related to prior years | -3 | 3 |
| 199 | 200 | Total taxes | 150 | 142 |

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 | 2019 | 2018 |
|---|-----------|-----------|
| Earnings per EC (NOK) 2) | 34.50 | 29.60 |
| Diluted earnings per EC (NOK) | 34.50 | 29.60 |
| EC-holders' share of the profit: | | |
| Profit | 688 | 590 |
| EC-holders' share of the profit according to the EC-fraction 1) | 341 | 293 |
| Weighted number of ECs - the Bank's own portfolio | 25 440 | 45 110 |
| Number of own ECs as at 31.12 | 25 251 | 28 183 |
| Number of own ECs as at 01.01 | 28 183 | 44 215 |
| Weighted average of outstanding ECs | 9 861 514 | 9 841 844 |
| Number of outstanding ECs as at 31.12 | 9 861 703 | 9 858 774 |
| Number of outstanding ECs as at 01.01 | 9 858 774 | 9 842 734 |
| 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 based on figures for the Parent Bank which provide the basis for allocation of profit to the EC holders. The ratio is calculated as the sum of the EC capital, the share premium fund and the dividend equalisation fund, divided by the Parent Bank's total equity excluding Additional Tier 1 capital and proposed dividend and gift fund (other equity). The EC ratio was 49.6 per cent in both 2019 and 2018.

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 are not entitled to full dividend.

Note 28

Capital adequacy

The EU's capital requirements regulation and directive (CRR/CRD IV) came into force in Norway on 31 December 2019 and the Group's calculations and reporting related to capital adequacy comply with this regulation and directive. The introduction of the regulation and directive meant, among other things, that the capital requirements for lending to small and medium-sized enterprises (SMEs) were reduced and that the Basel I floor was repealed. The Ministry of Finance has decided that the system risk buffer for financial institutions that use the advanced IRB method should be increased to 4.5 per cent from 31 December 2020. The change will come into effect from 31 December 2022 for other institutions, including Sparebanken Møre. The next time it sets the Pillar 2 requirement, the Financial Supervisory Authority of Norway will also express its expectation concerning a capital requirement margin in excess of the total risk-weighted capital requirement.

The minimum requirement for the Common Equity Tier 1 capital ratio (CET1) at the end of the year for Pillar 1 was 12.5 per cent. The countercyclical capital buffer was increased from and including 31 December 2019 to 2.5 per cent. The Financial Supervisory Authority of Norway set a Pillar 2 supplement of 1.7 per cent for Sparebanken Møre in 2018, although with a minimum NOK 590 million, effective from 31 March 2019. The Ministry of Finance set a minimum requirement for the leverage ratio of 3 per cent in addition to a Tier 1 capital buffer of at least 2 per cent.

The Board of Sparebanken Møre has set a minimum target for the Group's CET1 of 15.2 per cent. It is emphasised that the various units in the Group at all times have adequate capitalisation. Further, 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 2019 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.

Sparebanken Møre calculates financial capital used in the day-to-day management of the bank 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.

| GROUP | | | PARENT BANK | |
|----------------------------|------------|--|-------------|------------|
| 31.12.2018 | 31.12.2019 | | 31.12.2019 | 31.12.2018 |
| 989 | 989 | EC capital | 989 | 989 |
| -3 | -3 | - ECs owned by the Bank | -3 | -3 |
| 356 | 357 | Share premium | 357 | 356 |
| 349 | 599 | Additional Tier 1 capital (AT 1) | 599 | 349 |
| 1 391 | 1 525 | Dividend equalisation fund | 1 525 | 1 391 |
| 125 | 125 | Gift fund | 125 | 125 |
| 2 649 | 2 783 | Primary capital fund | 2 783 | 2 649 |
| 153 | 173 | Proposed dividend for the EC holders | 173 | 153 |
| 156 | 176 | Proposed dividend for the local community | 176 | 156 |
| 195 | 246 | Other equity | 0 | 1 |
| 6 360 | 6 970 | Total equity | 6 724 | 6 166 |
| Tier 1 capital (T1) | | | | |
| -42 | -53 | Goodwill, intangible assets, other deductions | -53 | -42 |
| -14 | -14 | Value adjustments of financial instruments at fair value | -13 | -13 |
| -13 | 0 | Deduction of overfunded pension liability | 0 | -13 |
| -349 | -599 | Additional Tier 1 capital (AT 1) | -599 | -349 |
| -173 | -352 | Expected IRB-losses exceeding ECL | -304 | -137 |
| -153 | -173 | Proposed dividend for the EC holders | -173 | -153 |
| -156 | -176 | Proposed dividend for the local community | -176 | -156 |
| 5 495 | 5 603 | Total Common Equity Tier 1 capital (CET1) | 5 406 | 5 303 |
| 349 | 599 | Additional Tier 1 capital - classified as equity | 599 | 349 |
| 197 | 0 | Additional Tier 1 capital - classified as debt | 0 | 197 |
| 6 041 | 6 202 | Total Tier 1 capital (T1) | 6 005 | 5 849 |
| Tier 2 capital (T2) | | | | |
| 703 | 704 | Subordinated loan capital of limited duration | 704 | 703 |
| 703 | 704 | Total Tier 2 capital (T2) | 704 | 703 |
| 6 743 | 6 906 | Net equity and subordinated loan capital | 6 709 | 6 552 |

RISK WEIGHTED ASSETS (RWA) BY EXPOSURE CLASSES

Credit risk - standardised approach

| 31.12.2018 | 31.12.2019 | | 31.12.2019 | 31.12.2018 |
|------------|------------|---|------------|------------|
| 0 | 0 | Central governments or central banks | 0 | 0 |
| 150 | 188 | Regional governments or local authorities | 188 | 150 |
| 54 | 73 | Public sector companies | 73 | 54 |
| 472 | 342 | Institutions (banks etc) | 1 504 | 5 068 |
| 0 | 0 | Companies (corporate customers) | 120 | 123 |
| 400 | 373 | Covered bonds | 326 | 464 |
| 98 | 148 | Equity | 148 | 98 |
| 621 | 666 | Other items | 2 647 | 2 038 |
| 1 795 | 1 790 | Total credit risk - standardised approach | 5 006 | 7 995 |

Credit risk - IRB Foundation

| 31.12.2018 | 31.12.2019 | | 31.12.2019 | 31.12.2018 |
|------------|------------|---------------------------------|------------|------------|
| 8 617 | 8 684 | Retail - Secured by real estate | 4 134 | 4 272 |
| 620 | 431 | Retail - Other | 431 | 620 |
| 19 213 | 17 969 | Corporate lending | 17 784 | 19 504 |
| 28 450 | 27 084 | Total credit risk - IRB-F | 22 349 | 24 396 |

| | | | | |
|---------------|---------------|--|---------------|---------------|
| 554 | 535 | Credit value adjustment risk (CVA) - market risk | 83 | 55 |
| 2 582 | 2 735 | Operational risk (basic method) | 2 546 | 2 434 |
| 1 009 | 0 | Transitional scheme (Basel I) | 0 | 0 |
| 34 390 | 32 144 | Risk weighted assets (RWA) | 29 984 | 34 880 |

| | | | | |
|-------|-------|--|-------|-------|
| 1 548 | 1 446 | Minimum requirement Common Equity Tier 1 capital (4.5 %) | 1 349 | 1 570 |
|-------|-------|--|-------|-------|

Buffer Requirements

| 31.12.2018 | 31.12.2019 | | 31.12.2019 | 31.12.2018 |
|------------|------------|--|------------|------------|
| 860 | 804 | Capital conservation buffer, 2.5 % | 750 | 872 |
| 1 032 | 964 | Systemic risk buffer, 3.0 % | 900 | 1 046 |
| 688 | 804 | Countercyclical buffer, 2.5 % (2.0 % in 2018) | 750 | 698 |
| 2 579 | 2 572 | Total buffer requirements | 2 399 | 2 616 |
| 1 368 | 1 585 | Available Common Equity Tier 1 capital after buffer requirements | 1 658 | 1 117 |

Capital adequacy as a percentage of the weighted asset calculation basis (incl. transitional rule for 2018)

| 31.12.2018 | 31.12.2019 | | 31.12.2019 | 31.12.2018 |
|------------|------------|------------------------------------|------------|------------|
| 19.6 | 21.5 | Capital adequacy ratio | 22.4 | 18.8 |
| 17.6 | 19.3 | Tier 1 capital ratio | 20.0 | 16.8 |
| 16.0 | 17.4 | Common Equity Tier 1 capital ratio | 17.9 | 15.2 |

Leverage ratio(LR)

| 31.12.2018 | 31.12.2019 | | 31.12.2019 | 31.12.2018 |
|------------|------------|---|------------|------------|
| 74 359 | 77 538 | Basis for calculation of leverage ratio | 58 566 | 75 758 |
| 8.1 | 8.0 | Leverage Ratio | 10.3 | 7.7 |

Note 29

ECs and ownership structure

Equity Certificates

At the end of 2019, 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 1,525 million and the share premium fund, totalling NOK 357 million. According to the Bank's by-laws, there are no limitations with regards 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. 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.

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, excluding Additional Tier 1 capital and proposed dividend and gift fund (other 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 31.12.19 | Number of ECs | Share of EC capital in % |
|--|---------------|--------------------------|
| Sparebankstiftelsen Tingvoll | 977 100 | 9.88 |
| Cape Invest AS | 831 270 | 8.41 |
| Verdipapirfond Nordea Norge Verdi | 390 343 | 3.95 |
| Wenaasgruppen AS | 380 000 | 3.84 |
| MP Pensjon | 339 781 | 3.44 |
| Pareto AS | 305 189 | 3.09 |
| Verdipapirfond Pareto Aksje Norge | 281 847 | 2.85 |
| Wenaas Kapital AS | 250 000 | 2.53 |
| FLPS - Princ All Sec | 205 121 | 2.07 |
| Verdipapirfondet Eika egenkapital | 199 894 | 2.02 |
| Beka Holding AS | 150 100 | 1.52 |
| Lapas AS (Leif-Arne Langøy) | 113 500 | 1.15 |
| Storebrand Norge I Verdipapirfond | 95 810 | 0.97 |
| State Street Bank | 76 329 | 0.77 |
| Stiftelsen Kjell Holm | 76 000 | 0.77 |
| PIBCO AS | 75 000 | 0.76 |
| Forsvarets personell pensjonskasse | 68 960 | 0.70 |
| Malme AS | 55 000 | 0.56 |
| U Aandals Eftf AS | 50 000 | 0.51 |
| Mertens | 40 000 | 0.40 |
| J E Devold AS | 40 000 | 0.40 |
| Total 20 largest | 5 001 244 | 50.58 |
| Total | 9 886 954 | 100.00 |

Key financial figures (Parent Bank)

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|-----------|-----------|
| Price at OSE | 317 | 283 | 262 | 254 | 188 |
| 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.) | 1 525 | 1 391 | 1 216 | 1 092 | 935 |
| Share premium (NOK mill.) | 357 | 356 | 355 | 354 | 354 |
| 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 | 17.50 | 15.50 | 14.00 | 14.00 | 11.50 |
| Dividend per EC, in NOK as a % of price at OSE 31.12 | 5.5 | 5.5 | 5.3 | 5.5 | 6.1 |
| Effective return (%) 3) | 17.5 | 13.4 | 8.7 | 41.2 | -6.7 |
| Dividend in % of EC-owners share of adjusted profit 1) | 54.7 | 54.7 | 51.8 | 48.6 | 44.8 |
| Profit per EC, in NOK 1) | 32.0 | 28.35 | 27.00 | 29.85 | 25.70 |
| Book value per EC, in NOK 1) 2) | 320 | 303 | 289 | 275 | 257 |
| P/E 1) 4) | 9.2 | 9.5 | 9.4 | 8.8 | 7.3 |
| P/BV 1) | 0.99 | 0.93 | 0.91 | 0.93 | 0.73 |

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

2) Group figures, incl. proposed dividend

3) Calculated as the total of this year's change in stock price and dividend paid this year, divided by the stock price at the end of previous year.

4) Calculated based on the Group's profit

Geographical distribution

| Number of owners | 2019 | 2018 | 2017 | 2016 | 2015 |
|------------------|-------|-------|-------|-------|-------|
| Møre og Romsdal | 3 683 | 3 606 | 3 633 | 3 576 | 3 602 |
| Others in Norway | 1 707 | 1 675 | 1 939 | 2 003 | 2 149 |
| Outside Norway | 132 | 121 | 126 | 136 | 101 |
| Total | 5 522 | 5 402 | 5 698 | 5 715 | 5 852 |

| Number of ECs | 2019 | 2018 | 2017 | 2016 | 2015 |
|------------------|-----------|-----------|-----------|-----------|-----------|
| Møre og Romsdal | 3 440 923 | 5 218 905 | 5 127 491 | 5 182 359 | 4 812 272 |
| Others in Norway | 5 264 345 | 4 065 423 | 4 216 784 | 4 059 262 | 4 554 010 |
| Outside Norway | 1 181 686 | 602 626 | 542 679 | 645 333 | 520 672 |
| 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 | Share in % | Number of owners | Share in % |
|------------------|------------------|---------------|------------------|---------------|
| 1 - 100 | 76 353 | 0.77 | 1 629 | 29.50 |
| 101 - 1.000 | 1 120 589 | 11.33 | 2 815 | 50.98 |
| 1.001 - 10.000 | 2 505 388 | 25.34 | 987 | 17.87 |
| 10.001 - 100.000 | 1 760 579 | 17.81 | 79 | 1.43 |
| Above 100.000 | 4 424 045 | 44.75 | 12 | 0.22 |
| Total | 9 886 954 | 100.00 | 5 522 | 100.00 |

| | Number of ECs | | EC capital | | Share premium | |
|---|---------------|-----------|------------|------|---------------|------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Change in ECs and share premium: | | | | | | |
| Ordinary ECs as at 01.01. | 9 886 954 | 9 886 954 | 989 | 989 | 356 | 355 |
| Changes | 0 | 0 | 0 | 0 | 1 | 1 |
| Ordinary ECs as at 31.12 | 9 886 954 | 9 886 954 | 989 | 989 | 357 | 356 |
| Bank's own ECs: | | | | | | |
| Own ECs as at 01.01 | 28 183 | 44 215 | 3 | 5 | | |
| Changes | -2 932 | -16 032 | 0 | -2 | | |
| Own ECs as at 31.12 | 25 251 | 28 183 | 3 | 3 | | |

Distributed and proposed dividend

| | Total amount (NOK thousand) |
|-----------------------------|-----------------------------|
| Dividend paid on ECs | |
| 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 |
| NOK 15.50 per EC in 2019 | 153 248 |
| Proposed dividend | |
| 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 | 153 248 |
| NOK 17.50 per EC in 2019 | 173 022 |

Elected representatives of the Bank owning/representing ECs as at 31.12.2019

| | Number of ECs | | Number of ECs |
|--------------------------|----------------------|------------------------------|----------------------|
| Renate Austrheim | 15 145 | Jan Petter Larsen | 250 989 |
| Ragna Brenne Bjerkeset | 950 | Lars Martin Lunde | 339 781 |
| Mette Brit Bjordal | 25 150 | Christin Pedersen | 831 270 |
| Nils Petter Drønnen | 1 520 | Roy Reite | 3 522 |
| Sverre A. Farstad | 12 000 | Turid Sand | 1 358 |
| Paulus Giørtz | 10 837 | Åsmund Skår | 305 389 |
| Linda Rafteseth Grimstad | 81 | Karianne Røsberg Slagnes | 1 037 |
| Ann Magrit Grønningsæter | 1 354 | Alf Sollid | 1 100 |
| Karoline Hansen | 587 | Finn Moe Stene | 977 100 |
| Marie Rekdal Hide | 341 | Roger Lunden Strand | 210 |
| Rolf Hjellegjerde | 5 500 | Linda Strømmen | 620 |
| Elisabeth Husøy | 9 173 | Svein Arild Sættem | 4 003 |
| Ester Sørdal Klungre | 278 | Solfrid Teigen | 1 411 |
| Helge Knudsen | 1 344 | Ole-Viggo Tynes | 109 |
| Ruben Kvalsvik | 69 | Ann Magritt Bjåstad Vikebakk | 6 805 |
| Leif-Arne Langøy | 113 500 | Trude Wenaas | 17 500 |
| Berit Larsen | 229 | 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 2019.

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

We hereby confirm that the Group's and the Bank's annual financial statements for the period 1 January 2019 to 31 December 2019, 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 the 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 2019
26 February 2020

THE BOARD OF DIRECTORS OF SPAREBANKEN MØRE

LEIF-ARNE LANGØY, Chairman
ROY REITE, Deputy Chairman
RAGNA BRENNE BJRKESET
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, which comprise:

- The financial statements of the parent company Sparebanken Møre (the Company), which comprise the balance sheet as at 31 December 2019, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 2019, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 2019, 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 2019, 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 to the corporate market*

Reference is made to note 3 Credit Risk, note 4 Commitments broken down according to sectors note 6 Losses on loans and guarantees, note 7 Defaulted and doubtful commitments and Directors Report, section credit risk.

| <i>The Key Audit Matter</i> | <i>How the matter was addressed in our audit</i> |
|---|--|
| <p>Expected credit loss on loans and guarantees that are not credit-impaired amounts to MNOK 135 for the Group as of 31 December 2019. Expected credit losses on loans and guarantees that are credit-impaired amounts to MNOK 240 as of 31 December 2019.</p> <p>IFRS 9 requires that the Group recognise expected credit loss equal to 12-month expected credit losses for loans and guarantees that does not have a significant increase in credit risk (stage 1), and lifetime expected credit loss for loans and guarantees that has a significant increase in credit risk (stage 2). The Group uses models for calculating expected credit loss for stage 1 and 2. To determine the expected credit losses, management exercise judgement, particularly related to the following parameters;</p> <ul style="list-style-type: none"> • Probability of default (PD) • Loss given default (LGD) • Exposure at default (EAD) • Definition of significant increase in credit risk • Weighing of different forward-looking scenarios. <p>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 model for calculation of expected credit losses (ECL).</p> <p>For loans and guarantees where there is significant increase in credit risk and where there is objective evidence for a decrease in value (stage 3), the Group calculates the lifetime expected credit loss based on an individual assessment. Determining the expected credit loss entails a high degree of management judgement. Key factors in management's assessments are:</p> <ul style="list-style-type: none"> • Identification of credit-impaired loans and guarantees • Assumptions for determining the size of expected cash flows, including valuation of collaterals. <p>Based on the size of the gross lending, inherent credit risk, the size of the provisions and the</p> | <p>We gained an understanding of the Groups definitions, methods and control activities for measuring and recognition of expected credit loss, and also controlling whether they are in compliance with IFRS 9. We have among other things;</p> <ul style="list-style-type: none"> • Assessed whether the Groups validation of IRB-models are carried out in a professionally sound manner, • Control of the Group's documentation of the model for calculation of expected losses, • Assessed whether the Group's validation of the ECL-model was carried out in a professionally sound manner, • Assessed whether the ECL-model's results are a good predictor of the actual recorded losses. • Tested the completeness and accuracy of inputs in the ECL-model to calculate expected losses, including PD, LGD and EAD, • Considered the weighting of different scenarios and the sensitivity of different weights, • Testing the mathematical accuracy of the ECL-model <p>In our work on assessing validations and control of model documentation, we have used specialists.</p> <p>In order to challenge management's judgements and parameters that have been used in the calculation of the expected credit loss for stage 1 and 2, we have, among other things;</p> <ul style="list-style-type: none"> • Assesed and tested management's control of the model's calculations, • Carried out analyses of key figures, • Based on our knowledge of the industry, assessed model-calculated expected credit losses against comparable banks. <p>We have formed an understanding of how the Group identifies and follows up credit impaired engagements (stage 3).</p> <p>We have tested that selected key controls work as intended;</p> <ul style="list-style-type: none"> • The Group's controls established to identify credit impaired loans, |

| | |
|---|---|
| <p>relevant estimates, we consider the expected credit losses to be a key audit matter.</p> | <ul style="list-style-type: none"> • The Group's control of registration and updating of collateral values, • The Group's control of the correct calculation of expected credit losses. <p>We have challenged management's process for identifying credit-impaired loans and guarantees by developing own view of whether there are indications of objective evidence that commitments in the business portfolio are credit-impaired through the use of external credit information and other publicly available information.</p> <p>For a selection of credit impaired loans, we have:</p> <ul style="list-style-type: none"> • Calculated expected losses, • Evaluated and challenged management on assumptions for expected cash flows against external valuations |
|---|---|

2. *IT-systems and application controls*

Refer to note 20 Leases, section Other significant agreements

| The Key Audit Matter | How the matter was addressed in our audit |
|---|--|
| <p>Sparebanken Møre is dependent on the IT infrastructure in the financial reporting.</p> <p>The Group uses a standard core system delivered and operated by an external service provider. Sound governance and control over the IT systems is critical to ensure accurate, complete and reliable financial reporting.</p> <p>Furthermore, the IT systems support regulatory compliance for financial reporting to authorities, which is central to licensed businesses.</p> <p>The system calculates interest rates on borrowing and lending (application controls) and the Group's internal control systems are based on system-generated reports.</p> <p>Due to the importance of the IT systems for the Group's operations, the IT environment supporting the financial reporting process is considered a key audit matter.</p> | <p>In connection with our audit of the IT-system in the Company, we have gained an understanding of the control environment and tested that selected general IT controls are functioning as intended and support important application controls. In our control testing, we have focused on access management controls.</p> <p>The independent auditor of the external service provider has assessed and tested the effectiveness of internal controls related to the IT systems outsourced to external service provider. We have obtained the attestation report (ISAE 3402) from the independent auditor to evaluate whether the external service provider has satisfactory internal control in areas of significant importance to the Group. We have assessed the independent auditor's competence and objectivity, as well as evaluated the report in order to assess possible deviations and consequences for our audit.</p> <p>We have requested the independent auditor of the service provider to test a selection of standard reports and application controls in the core-system to assess whether:</p> <ul style="list-style-type: none"> • standard system reports contain all relevant data, and |

| | |
|--|--|
| | <ul style="list-style-type: none"> the application controls, including controls related to interest rate-, annuity- and fee calculations, is functioning as intended. <p>We have inquired management regarding their evaluation and review of the independent auditor's attestations report, in order to evaluate if findings are sufficiently followed up.</p> <p>We have used our IT audit specialist in the work to understand the control environment, test controls and examine the reports.</p> |
|--|--|

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, 26 February 2020
KPMG AS

Svein Arthur Lyngroth
State Authorised Public Accountant

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

Alternative Performance Measures

| | | |
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| Total assets | Definition | Total assets. |
| | Justification | Total assets is an industry-specific designation for the sum of all assets. |
| | Calculation | The total 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. |
| | Calculation | This figure comes from daily calculations in the accounting system and cannot be directly reconciled with the balance sheet. |
| 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. |
| | Calculation | $\frac{\text{Pre tax profit - interests on AT1 capital}}{(\text{OB Equity-AT1-allocated dividends} + \text{CB Equity-AT1-allocated dividends})/2}$ |
| | Figures | 2019: $(711-23)/((6,360-349-153-156)+(6,970-599-173-176))/2 = 11.7\%$ 2018: $(605-15)/((6,048-349-138-141)+(6,360-349-153-156))/2=10.6\%$ |
| 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. |
| | Calculation | $\frac{\text{Total operating costs}}{\text{Total income}}$ |
| | Figures | 2019: $646/1,607=40.2\%$ 2018: $607/1,427=42.5\%$ |
| Losses as a percentage of loans, guarantees, etc | 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. |
| | Calculation | $\frac{\text{Losses on loans and guarantees}}{\text{Net loans to and receivables from customers per 1.1.}}$ |
| | Figures | 2019: $50/60,346=0.08\%$ 2018: $16/56,867=0.03\%$ |
| 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. |
| | Calculation | $\frac{\text{Deposits from customers}}{\text{Net loans to and receivables from customers}}$ |
| | Figures | 2019: $36,803/64,029=57.5\%$ 2018: $34,414/60,346=57.0\%$ |
| 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. |
| | Calculation | $\frac{\text{CB Net loans to and receivables from customers} - \text{OB Net loans to and receivables from customers}}{\text{OB Net loans to and receivables from customers}}$ |
| | Figures | 2019: $(64,029-60,346)/60,346=6.1\%$ 2018: $(60,346-56,867)/56,867=6.1\%$ |

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| 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. |
| | Calculation | $\frac{\text{CB Deposit from customers} - \text{OB Deposits from customers}}{\text{OB Deposits from customers}}$ |
| | Figures | 2019: $(36,803-34,414)/34,414=6.9\%$ 2018: $(34,414-32,803)/32,803=4.9\%$ |
| 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. |
| | Calculation | $\frac{(\text{Total Equity} + \text{share premium} + \text{dividend equal. fund} + \text{EC holders' share of other equity, incl. proposed dividends})}{\text{Number of ECs issued}}$ |
| | Figures | 2019: $(986+357+1,525+595*0.496)/9.886954=320$ 2018: $(986+356+1,391+(504*0.496))/9.886954=303$ |
| 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. |
| | Calculation | $\frac{\text{Market price per equity certificate}}{\text{Book value per equity certificate}}$ |
| | Figures | 2019: $317/320=0.99$ 2018: $283/303=0.93$ |

