

INTERIM REPORT  
1 QUARTER  
UNAUDITED 17



MØRE BOLIGKREDITT

# Interim report from the Board of Directors

## About the company

Møre Boligkreditt AS is a wholly owned subsidiary of Sparebanken Møre. The company is licensed to operate as a mortgage company, issuing covered bonds. Møre Boligkreditt AS is Sparebanken Møre's most important source of market funding and an important part of the parent bank's long term funding strategy.

The accounts have been prepared in accordance with IFRS.

## First quarter results

The financial statements of Møre Boligkreditt AS show a pre tax profit of NOK 42 million in first quarter 2017, compared to NOK 56 million in first quarter 2016. Net interest income amounted to NOK 57 million, compared to NOK 60 million for the same period last year. Costs amounted to NOK 10 million in first quarter 2017, compared with NOK 8 million in the corresponding quarter in 2016. Net loss in value of debt securities issued and related derivatives was NOK 5 million at first quarter end 2017, compared to net gain of NOK 4 million at first quarter end 2016.

Møre Boligkreditt AS has not established losses or impairment for individual losses in first quarter 2017, nor made any changes to the collective impairment. Profit after tax amounted to NOK 32 million in first quarter 2017, compared to NOK 42 million in the corresponding quarter 2016.

Total assets at first quarter end 2017 amounted to NOK 19 572 million compared to NOK 19 150 million at first quarter end 2016. Net lending decreased by NOK 1 276 million in first quarter and amounted to NOK 18 534 million at first quarter end 2017, compared with NOK 18 023 million at first quarter end 2016.

At first quarter end 2017, the company's liquidity assets amounted to NOK 652 million of which NOK 602 million was included in the cover pool as substitute assets, compared to NOK 581 million at first quarter end 2016.

No new bond loan volume was issued in first quarter 2017 and no outstanding bond loans matured in first quarter 2017. A partly early redemption of NOK 1 369 million was made in one bond loan maturing in May 2017. Møre Boligkreditt AS had twelve bond loans outstanding at 31 March 2017 with a total bond loan debt of NOK 16 906 million, compared to twelve bond loans with NOK 15 765 million outstanding at 31 March 2016.

The amount allocated for collective impairment was NOK 5 million at first quarter end 2017, compared to NOK 4 million at first quarter end 2016.

## Rating

The rating agency Moody's has assigned Aaa-rating to all covered bond loans issued by Møre Boligkreditt AS.

## Capital strength

In first quarter 2017 Møre Boligkreditt AS increased its equity by NOK 150 million through an issue of 120 000 shares á NOK 1 250. The capital increase was fully paid in by Sparebanken Møre as the owner of all 1 060 000 shares in Møre Boligkreditt AS. Paid in equity and other equity amounted to NOK 1 503 million by end of first quarter 2017, compared to NOK 1 353 million by end of first quarter 2016. Net equity and subordinated loan capital amounted to NOK 1 467 million by the end of first quarter 2017, compared to NOK 1 318 million by end of first quarter 2016. This corresponds to a capital adequacy/core capital ratio of 17.9 per cent. Risk weighted assets amounted to NOK 8 173 million by end of first quarter 2017. Møre Boligkreditt AS uses internal rating based (IRB) models to calculate capital requirements for credit risk.

## Risks

Møre Boligkreditt AS is subject to a number of acts, regulations, recommendations and regulatory provisions. These regulations largely stipulate restrictions concerning the scope of the company's various risk exposures.

The Board and the Managing Director of Møre Boligkreditt AS are responsible for ensuring that proper risk management is established, and that such risk management is adequate and complies with current laws and regulations. Operational risk



management in Møre Boligkreditt AS is maintained by Sparebanken Møre according to a service agreement concluded between Møre Boligkreditt AS and Sparebanken Møre.

Risk management emphasizes identifying, measuring and managing the company's risk elements in a manner that ensures that Møre Boligkreditt AS complies with the professional credit regulations and keeps the various risks at a low level.

### **Credit risk**

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

The credit risk strategy adopted by the company defines which loans that can be acquired by the company. The strategy stipulates criteria for both borrowers and the collateral for the loans that can be acquired. At end of first quarter 2017, the mortgages in the cover pool had an average loan-to-value ratio of 54 per cent, calculated as mortgage amount relative to the value of the property used as collateral. The Board regards the quality of the loan portfolio as very good and the credit risk as low.

### **Market risk**

Market risk is the risk that will arise due to the mortgage company's holding or assuming positions in lending and financial instruments in which the values over time will be affected by changes in market prices. Møre Boligkreditt AS must, pursuant to the Act on financial institutions and financial groups, have very low market risk and Board approved restrictions concerning its maximum exposure to market risk. The company utilizes financial derivatives to keep this type of risk at a low level. A specific market strategy has been adopted for Møre Boligkreditt AS which establishes the limits for this type of risk. The company's positions in fixed interest and foreign currencies are hedged with financial derivatives. The Board considers the overall market risk as low.

### **Liquidity risk**

Liquidity risk is the risk that Møre Boligkreditt AS will be unable to fulfill its obligations without substantial extra costs being incurred in the form of decline in asset values, forced sales or more expensive funding. The company has adopted a liquidity risk strategy and established limits for long-term funding and short-term liquidity risk limits. A 12 month's rolling revolving credit facility guarantee from Sparebanken Møre ensures timely payments to derivative counterparties and owners of bonds issued by Møre Boligkreditt AS. Furthermore the bonds have a soft bullet structure in which the company has the opportunity to extend the term of its borrowing by up to 12 months. Møre Boligkreditt AS reports LCR of 204 per cent by first quarter end 2017. The Board regards the company's liquidity risk as low.

### **Operational risk**

Operational risk is the risk of losses due to inadequate or failing internal processes, human error, system failures or external events. Møre Boligkreditt AS has entered into a management agreement with Sparebanken Møre. The services covered by this agreement include administration, production, IT operations, and financial and risk management. Although the operational risk of Møre Boligkreditt AS is dependent of Sparebanken Møre's ability to manage this type of risk, Møre Boligkreditt AS independently bear risk associated with errors in the deliveries and services provided by Sparebanken Møre.

The evaluation of the management and control of operational risk is also afforded considerable attention in the Group's annual ICAAP. The operational and established yearly internal control report, both within Sparebanken Møre and by the Managing Director of Møre Boligkreditt AS, is an important tool for reducing operational risk. The internal control reports will help identifying any operational risk, and enable action to be taken. The Board regards the company's operational risk as low.

### **Outlook**

Growth in the gross domestic product for mainland Norway was 0.3 per cent in the 4th quarter of 2016, slightly up from the 3rd quarter, and we expect this positive development to continue also in the coming quarters. The Consumer Price Index rose 0.4 per cent from January 2017 to February 2017. The year-to-year growth in the Consumer Price Index was 2.5 per cent in February, down by 0.3 percentage points from January. Norges Bank, at its March meeting, decided to keep the key policy rate unchanged at 0.50 per cent. The twelve-month household debt growth was 6.6 per cent at end of February 2017, up from 6.5 per cent the month before.

Continued high growth in house prices may lead to even higher debt accumulation and increased household vulnerabilities.

A still strong household sector, due to record low interest rates, relative low unemployment levels, together with a solid public sector will keep the production levels high in several sectors. The still relative weak NOK against EUR and USD is positive for the competitiveness of the export industry and also tourism.

The development of house prices, together with growth in debt, is still the most important risk factors to Norwegian households.

Important risk factors going forward are also the oil price development, macroeconomic growth in export markets and the NOK exchange rate.

The combined activity of businesses, especially export oriented and tourist related, located in Møre og Romsdal county remains high despite the decline in the petroleum related industries. The registered unemployment rate in Norway was 2.9 per cent in March 2017, in the county of Møre og Romsdal the similar figure was 3.2 per cent. We expect the unemployment rate in the county just above national average levels in the coming quarters.

The retail lending growth in Sparebanken Møre Group was 8.0 per cent the last twelve months. The Board believes that the low interest rates and high disposable household income, will contribute to further mortgage loan growth in Sparebanken Møre and position Møre Boligkreditt AS to acquire mortgage loan portfolios from the Parent Bank.

Ålesund, 31 March 2017

26 April 2017

**THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS**

KJETIL HAUGE, Chairman

BRITT IREN TØSSE AANDAL

TROND NYDAL

GEIR TORE HJELLE

SANDRA MYHRE HELSETH

OLE KJERSTAD, Managing Director

# Statement of income

## STATEMENT OF INCOME

Amounts in NOK million	Notes	Q1 2017	Q1 2016	2016
Interest income	2	129	124	502
Interest expenses	2	72	64	260
Net interest income	2 6	57	60	242
Commission income		0	0	0
Net change in value of securities and related derivatives		-5	4	0
Wages, salaries and general administration costs		1	1	2
Other operating costs	6	9	7	31
Total operating costs		10	8	33
Profit before impairment on loans and taxes		42	56	209
Impairment on loans	3	0	0	1
Pre tax profit		42	56	208
Taxes		10	14	52
Profit after tax		32	42	156

## STATEMENT OF COMPREHENSIVE INCOME

Amounts in NOK million	Q1 2017	Q1 2016	2016
Profit after tax	32	42	156
Other comprehensive income	0	0	0
Total comprehensive income after tax	32	42	156

# Statement of financial position

## Assets

Amounts in NOK million	Notes	31.03.2017	31.03.2016	31.12.2016
Loans to and receivables from credit institutions	2 4 5 6	309	242	271
Loans to and receivables from customers	2 3 4	18 534	18 023	19 810
Certificates and bonds	4 5	343	339	522
Financial derivatives	4 5	386	546	368
<b>Total assets</b>		<b>19 572</b>	<b>19 150</b>	<b>20 972</b>

## Liabilities and equity

Amounts in NOK million	Notes	31.03.2017	31.03.2016	31.12.2016
Loans from credit institutions	4 6	1 084	1 942	1 141
Debt securities issued	4 5 6	16 906	15 765	18 265
Financial derivatives	4 5	12	5	4
Tax payable		35	42	54
Deferred tax liability		0	1	0
<b>Total liabilities</b>		<b>18 037</b>	<b>17 755</b>	<b>19 463</b>
Share capital		1 325	975	1 175
Share premium		175	175	175
Not inscribed capital increase			200	
<b>Paid-in equity</b>		<b>1 500</b>	<b>1 350</b>	<b>1 350</b>
Other equity		3	3	159
Profit for the period		32	42	0
Retained earnings		35	45	159
<b>Total equity</b>	7	<b>1 535</b>	<b>1 395</b>	<b>1 509</b>
<b>Total liabilities and equity</b>		<b>19 572</b>	<b>19 150</b>	<b>20 972</b>

# Statement of changes in equity

## 31.03.2017

Amounts in NOK million	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2016	1 509	1 175	175	159
Total comprehensive income for the period	32			32
Issue of share capital	150	150		
Dividends	-156			-156
Equity as at 31 March 2017	1 535	1 325	175	35

The share capital consists of 1 060 000 shares at NOK 1 250, a total of NOK 1 325 million. All shares are owned by Sparebanken Møre. The issue of share capital of NOK 150 million was fully paid in 27 February 2017, approved by the Norwegian FSA 20 March 2017, and registered in the Norwegian Register of Business Enterprises 4 April 2017.

## 31.03.2016

Amounts in NOK million	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2015	1 329	975	175	179
Total comprehensive income for the period	42			42
Issue of share capital	200	200		
Dividends	-176			-176
Equity as at 31 March 2016	1 395	1 175	175	45

The share capital consisted of 940 000 shares at NOK 1 250, a total of NOK 1 175 million. All shares were owned by Sparebanken Møre.

## 31.12.2016

Amounts in NOK million	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2015	1 329	975	175	179
Total comprehensive income for the period	156			156
Issue of share capital	200	200		
Dividends	-176			-176
Equity as at 31 December 2016	1 509	1 175	175	159

The share capital consisted of 940 000 shares at NOK 1 250, a total of NOK 1 175 million. All shares were owned by Sparebanken Møre. Dividend as of 31 December 2016 amounted to NOK 156 million.

# Statement of cash flow

Amounts in NOK million	31.03.2017	31.03.2016	31.12.2016
<b>Cash flow from operating activities</b>			
Interest, commission and fees received	129	123	496
Interest, commission and fees paid	-3	-4	-19
Operating expenses paid	-10	-8	-33
Income taxes paid	-29	-35	-63
Payment for acquiring loans from the Parent Bank	0	-2 110	-7 838
Payment related to instalment loans and credit lines to customers	1 276	993	4 934
Net cash flow from operating activities	1 363	-1 041	-2 523
<b>Cash flow from investing activities</b>			
Received interest, commission and fees related to certificates, bonds and other securities	1	2	6
Proceeds from the sale of certificates, bonds and other securities	180	64	114
Purchases of certificates, bonds and other securities	0	0	-231
Changes in other assets	-6	4	-3
Net cash flow from investing activities	175	70	-114
<b>Cash flow from financing activities</b>			
Paid interest, commission and fees related to issued bonds	-69	-60	-242
Net change in loans from credit institutions	-57	972	171
Proceeds from bonds issued	0	0	3 494
Maturity of debt securities	-1 369	0	-828
Dividend paid	-156	-176	-176
Changes in other debt	1	-8	4
Issue of share capital and premium	150	200	200
Net cash flow from financing activities	-1 500	928	2 623
Net change in cash and cash equivalents	38	-43	-14
Cash balance at 01.01	271	285	285
Cash balance at 31.03/31.12	309	242	271



# Note 1

## ACCOUNTING PRINCIPLES

Møre Boligkreditt AS' interim report is prepared in accordance with IAS 34 Interim Financial Reporting (compressed).

The accounts are prepared using the same principles, and with the same methodology as the annual accounts for 2016. The principles are outlined in the annual report for 2016. There have been no changes in standards that affect the financial statements of Møre Boligkreditt AS from 31 December 2016.

The interim financial statements are not audited.

All amounts are stated in NOK million unless stated otherwise.

# Note 2

## OPERATING SEGMENTS

Møre Boligkreditt AS has only one segment in its business and the customers derive mainly from the retail banking market. The following tables contain details of loans to customers by sector.

(MNOK)	Loans		
	31.03.2017	31.03.2016	31.12.2016
<b>Broken down according to sectors</b>			
Commercial sector	392	359	366
Retail customers	18 128	17 647	19 426
Accrued interest income	19	21	23
Loans, nominal amount	18 539	18 027	19 815
Collective impairment	-5	-4	-5
Loans to and receivables from customers	18 534	18 023	19 810

(MNOK)	Net interest income		
	31.03.2017	31.03.2016	31.12.2016
Interest income from:			
Loans to and receivables from credit institutions	0	1	2
Loans to and receivables from customers	127	121	494
Certificates, bonds and other interest-bearing securities	2	2	6
Interest income	129	124	502
Interest expenses in respect of:			
Loans from credit institutions	3	4	18
Debt securities issued	69	60	242
Interest expenses	72	64	260
Net interest income	57	60	242

# Note 3

## **IMPAIRMENT, LOSSES AND NON-PERFORMANCE**

Møre Boligkreditt AS reviews its loan portfolio continuously. If there is objective evidence that a loan is impaired, the impairment loss is calculated quarterly as the difference between the carrying value of the loan and the estimated present value of future cash flows. Loans and loan commitments are assessed to see whether or not objective evidence exists that a loss event has occurred at the reporting date that have a negative impact on future cash flows. Examples of such objective evidence are significant financial problems at the borrower, payment defaults, significant breaches of contract, amendments to terms as a result of the borrower's financial difficulties, bankruptcy, etc.

If objective evidence of impairment exists, the impairment is estimated as the difference between the carrying amount and the present value of future cash flows. Estimates of future cash flows also take into account takeovers and sales of associated collateral, including expenses associated with such takeovers and sales.

When all collateral has been realised and there is no doubt that the mortgage company will not receive further payments relating to the loan, the impairment will be reversed and the actual loss will be booked. Nonetheless, the claim against the customer will remain and be followed up, unless a debt forgiveness agreement is reached with the customer.

Assets for which no objective evidence of impairment is observed on an individual instrument basis are grouped based on similar credit risk characteristics and assessed on a collective basis. Collective impairments are recognised for sub-groups of loans or loan commitments when there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans or loan commitments since the initial recognition, while the decrease cannot yet be identified with the individual financial assets in the group.

The Sparebanken Møre Group has developed its own collective impairment model and calculations are conducted each month based on input from the risk classification system, data warehouse, and assessments of macroeconomic factors. Changes to risk classification, negative developments in collateral values, and registered macroeconomic events that affect future estimated cash flows are taken into account in the model. The Group's model for collective impairment is tailored to Møre Boligkreditt AS' assumptions and operations.

No objective evidence of loss events requiring impairment on an individual loan or loan commitment basis was observed at the reporting date. Nor do the lending statistics on this date show any registered non-performance in the mortgage company's portfolio. The collective impairment model on this date indicates no increase in collective impairments for the mortgage company's portfolio. Total impairment amounts to NOK 5 million as at 31 March 2017.

# Note 4

## FINANCIAL INSTRUMENTS

All lending and receivables are recorded at amortised cost. Amortised cost is also used for fixed and floating rate securities issued.

The company's debt securities issued with fixed interest rates are accounted for using fair value hedging. Losses and gains, resulting from changes in value due to changes in market interest, of debt securities with fixed interest are recognised in the income statement in the period they arise.

Market prices are used to price lending to and receivables from financial institutions and lending to customers. The prices set include a mark-up for the relevant credit risk. Fair value is estimated as the carrying amount of the lending and receivables stated at amortised cost after deducting impairment.

There are no major differences between the book value and the fair value of loans to credit institutions and customers, and liabilities to credit institutions agreed at variable rates and recognised at amortised cost. Fair value of debt securities is calculated allowing for change in the market interest rates and change in the credit margin.

Financial derivatives related to the company's debt securities issued are carried at fair value through profit or loss, and recognised gross per contract, as either asset or debt.

CLASSIFICATION OF FINANCIAL INSTRUMENTS	Financial instruments at fair value through profit or loss		Financial assets and liabilities carried at amortised cost	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
Loans to and receivables from credit institutions			309	242
Loans to and receivables from customers			18 534	18 023
Certificates and bonds	343	339		
Financial derivatives	386	546		
<b>Total assets</b>	<b>729</b>	<b>885</b>	<b>18 843</b>	<b>18 265</b>
Loans from credit institutions			1 084	1 942
Debt securities issued			16 906	15 765
Financial derivatives	12	5		
<b>Total liabilities</b>	<b>12</b>	<b>5</b>	<b>17 990</b>	<b>17 707</b>

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST	31.03.2017		31.03.2016	
	Fair value	Book value	Fair value	Book value
Loans to and receivables from credit institutions	309	309	242	242
Loans to and receivables from customers	18 534	18 534	18 023	18 023
<b>Total assets</b>	<b>18 843</b>	<b>18 843</b>	<b>18 265</b>	<b>18 265</b>
Loans from credit institutions	1 084	1 084	1 942	1 942
Debt securities issued	16 946	16 906	15 667	15 765
<b>Total liabilities</b>	<b>18 030</b>	<b>17 990</b>	<b>17 609</b>	<b>17 707</b>

<b>FINANCIAL INSTRUMENTS AT AMORTISED COST - 31.03.2017</b>	<b>Based on prices in an active market</b>	<b>Observable market information</b>	<b>Other than observable market information</b>	
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Loans to and receivables from credit institutions	-	309	-	309
Loans to and receivables from customers	-	-	18 534	18 534
<b>Total assets</b>	-	309	18 534	18 843
Loans from credit institutions	-	1 084	-	1 084
Debt securities issued	-	16 946	-	16 946
<b>Total liabilities</b>	-	18 030	-	18 030

<b>FINANCIAL INSTRUMENTS AT AMORTISED COST - 31.03.2016</b>	<b>Based on prices in an active market</b>	<b>Observable market information</b>	<b>Other than observable market information</b>	
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Loans to and receivables from credit institutions	-	242	-	242
Loans to and receivables from customers	-	-	18 023	18 023
<b>Total assets</b>	-	242	18 023	18 265
Loans from credit institutions	-	1 942	-	1 942
Debt securities issued	-	15 667	-	15 667
<b>Total liabilities</b>	-	17 609	-	17 609

<b>FINANCIAL INSTRUMENTS AT FAIR VALUE - 31.03.2017</b>	<b>Based on prices in an active market</b>	<b>Observable market information</b>	<b>Other than observable market information</b>	
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Certificates and bonds	-	343	-	343
Financial derivatives	-	386	-	386
<b>Total assets</b>	-	729	-	729
Financial derivatives	-	12	-	12
<b>Total liabilities</b>	-	12	-	12

<b>FINANCIAL INSTRUMENTS AT FAIR VALUE - 31.03.2016</b>	<b>Based on prices in an active market</b>	<b>Observable market information</b>	<b>Other than observable market information</b>	
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Certificates and bonds	-	339	-	339
Financial derivatives	-	546	-	546
<b>Total assets</b>	-	885	-	885
Financial derivatives	-	5	-	5
<b>Total liabilities</b>	-	5	-	5

# Note 5

## ISSUED COVERED BONDS

Securities issued at floating interest rates are measured at amortised cost. Securities issued at fixed interest rates are measured at amortised cost as well, and fair value hedge accounting with changes in fair value (due to the hedged risk) recognised in profit and loss is used for the company's securities issued at fixed rate terms.

COVERED BONDS (MNOK)								
ISIN code	Currency	Nominal value 31.03.2017	Interest	Issue	Maturity	31.03.2017	31.03.2016	31.12.2016
NO0010499841	NOK	-	3M Nibor + 0.50 %	2009	2016	-	827	-
NO0010575079	NOK	132	3M Nibor + 0.55 %	2010	2017	131	1 497	1 498
NO0010588072	NOK	1 050	fixed NOK 4.75 %	2010	2025	1 249	1 317	1 251
NO0010657232	NOK	2 500	3M Nibor + 0.65 %	2012	2018	2 507	2 511	2 508
XS0828616457	SEK	700	3M Stibor + 0.70 %	2012	2017	673	716	666
NO0010676018	NOK	2 500	3M Nibor + 0.47 %	2013	2019	2 502	2 005	2 503
XS0968459361	EUR	25	fixed EUR 2.81 %	2013	2028	281	298	282
XS0984191873	EUR	30	6M Euribor + 0.20 %	2013	2020	275	283	272
NO0010696990	NOK	2 500	3M Nibor + 0.45 %	2013	2020	2 496	1 999	2 496
NO0010699028	NOK	750	3M Nibor + 0.37 %	2013	2017	750	750	750
NO0010720204	NOK	2 500	3M Nibor + 0.24 %	2014	2020	2 498	2 497	2 498
NO0010730187	NOK	1 000	fixed NOK 1.50 %	2015	2022	991	1 013	987
NO0010777584	NOK	2 500	3M Nibor + 0.58 %	2016	2021	2 499	-	2 498
Total securities issued						16 852	15 713	18 209
Accrued interest						54	52	56
Financial derivatives to hedge issued securities (liabilities)						12	5	4
Financial derivatives to hedge issued securities (assets)						-386	-546	-368
Total borrowings raised through the issue of securities						16 532	15 224	17 901

  

COVER POOL (MNOK)	31.03.2017	31.03.2016	31.12.2016
Pool of eligible loans 1)	18 286	17 816	19 430
Supplementary assets	602	581	743
Total collateralised assets	18 888	18 397	20 173
Collateralisation in %	114.3	120.8	112.7

1) NOK 253 million of total gross loans are not eligible for the cover pool as at 31.03.17.

# Note 6

## TRANSACTIONS WITH RELATED PARTIES

In order to conduct normal business, Møre Boligkreditt AS purchases services from Sparebanken Møre. There will also be transactions between the parties related to the acquisition of loan portfolio, and the fact that Sparebanken Møre provides loans and credits to the mortgage company.

Loans from Sparebanken Møre are transferred at market value. If the purchased mortgage loans have fixed interest rates the price is adjusted for the value above / below par. Sparebanken Møre is responsible for ensuring that the loans to be transferred to Møre Boligkreditt AS are properly established and in accordance with the requirements specified in the agreement between the mortgage company and the Parent Bank. In case of a violation of these requirements, the Parent 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 the settlement of interest for transaction days from date of transfer of loan portfolio to date of settlement of the consideration.

If Møre Boligkreditt AS should have difficulty in obtaining financing, there is established a revolving guarantee from Sparebanken Møre where the purpose is to ensure timely payments to owners of bonds and derivative counterparties.

The pricing of the services provided to Møre Boligkreditt AS by Sparebanken Møre distinguishes between fixed and variable costs for the mortgage company. Fixed costs are defined as costs the mortgage company must bear regardless of the activity related to the issuance of covered bonds, the 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 employees to deliver satisfactory services given the number of customers in the portfolio.

Møre Boligkreditt AS is billed for costs related to the lease of premises at Sparebanken Møre. It is assumed that regardless of operations, a certain area of the bank attributable to the mortgage company is utilised during the year. Regardless of the extent of the activity and the loan portfolio acquired by Møre Boligkreditt AS, charges related to accounting, financial reporting, risk management, cash management, financing, governance and general legal services will incur.

Sparebanken Møre bills the mortgage company based on actual salary costs, including social security contribution, pension costs and other social costs. Parts of the mortgage company's expenses related to services provided by Sparebanken Møre relates to the size of the portfolio acquired from Sparebanken Møre. Management fee is calculated and billed monthly, in which the month's average portfolio size form the basis of billing.

The interest rate of the mortgage company's deposit and credit limit in Sparebanken Møre is based on 3 months NIBOR + a Premium.

The most important transactions are as follows:

(MNOK)	31.03.2017	31.03.2016	31.12.2016
Statement of income			
Interest and credit commission income from Sparebanken Møre related to deposits	1	1	2
Interest and credit commission income paid to Sparebanken Møre related to loan/credit facility	3	4	18
Interest paid to Sparebanken Møre related to bonded debt	8	0	8
Management fee paid to Sparebanken Møre	7	6	26
Statement of financial position			
Deposits in Sparebanken Møre	309	242	271
Covered bonds held by Sparebanken Møre as assets	752	234	2 186
Loan/credit facility in Sparebanken Møre	1 084	1 942	1 141
Accumulated transferred loan portfolio from Sparebanken Møre	18 539	18 027	19 815



# Note 7

## EQUITY AND RELATED CAPITAL

Core capital and supplementary capital	31.03.2017	31.03.2016	31.12.2016
Share capital and share premium	1 500	1 350	1 350
Retained earnings	3	3	159
Total equity	1 503	1 353	1 509
Dividends	0	0	-156
Expected losses exceeding actual losses, IRB portfolios	-36	-35	-39
Common Equity Tier 1 capital	1 467	1 318	1 313
Supplementary capital	0	0	0
Net equity and subordinated loan capital	1 467	1 318	1 313

### Risk-weighted assets (calculation basis for capital adequacy ratio)

Credit risk loans and receivables (Standardised Approach)	262	310	250
Credit risk loans and receivables (Internal ratings based Approach)	3 652	3 607	4 083
Operational Risk (Basic indicator Approach)	505	501	501
Total risk exposure amount for credit valuation adjustment (CVA) (SA)	290	482	300
Risk-weighted assets less transitional rules	4 709	4 900	5 134
Additional RWA from transitional rules 1)	3 464	3 265	3 587
Total risk-weighted assets	8 173	8 165	8 722
Minimum requirement common equity Tier 1 capital (4.5%)	368	367	392

1) Transitional rules require that RWA can not be less than 80 per cent of the corresponding Basel I requirement

### Buffer Requirement

Countercyclical buffer (1.5%)	123	82	87
Capital conservation buffer (2.5%)	204	204	218
Systemic risk buffer (3.0%)	245	245	262
Total buffer requirements	572	531	567
Available common equity Tier 1 capital after buffer requirements	527	420	354

**Capital adequacy as a percentage of the weighted asset calculation basis**

Capital adequacy ratio	17.9 %	16.1 %	15.1 %
Core capital ratio	17.9 %	16.1 %	15.1 %
Core tier 1 capital ratio	17.9 %	16.1 %	15.1 %

**Leverage ratio**

Leverage ratio	7.3 %	6.4 %	6.1 %
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**Liquidity Coverage Ratio**

Liquidity Coverage Ratio	204%	119%
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Møre Boligkreditt AS' capital requirements at 31st March 2017 are based on IRB-Foundation for commercial commitments and IRB-Retail for retail commitments

# Profit performance

## QUARTERLY PROFIT

(MNOK)	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	57	59	61	62	60
Other operating income	-5	-6	1	1	4
Total operating costs	10	8	8	9	8
Profit before impairment on loans	42	45	54	54	56
Impairment on loans	0	1	0	0	0
Pre tax profit	42	44	54	54	56
Tax	10	11	13	14	14
Profit after tax	32	33	41	40	42

## As a percentage of average assets

Net interest income	1.15	1.23	1.34	1.40	1.35
Other operating income	-0.11	-0.14	0.03	0.01	0.11
Total operating costs	0.19	0.18	0.17	0.21	0.18
Profit before impairment on loans	0.85	0.91	1.20	1.20	1.28
Impairment on loans	0.00	0.02	0.00	0.00	0.00
Pre tax profit	0.85	0.89	1.20	1.20	1.28
Tax	0.21	0.23	0.30	0.30	0.32
Profit after tax	0.64	0.66	0.90	0.90	0.96

Average total assets (MNOK)	19 876	19 164	18 003	18 046	17 615
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## ACCUMULATED PROFIT FOR THE YEAR

(MNOK)	31.03.2017	31.03.2016	31.12.2016
Net interest income	57	60	242
Other operating income	-5	4	0
Total operating costs	10	8	33
Profit before impairment on loans	42	56	209
Impairment on loans	0	0	1
Pre tax profit	42	56	208
Tax	10	14	52
Profit after tax	32	42	156

**As a percentage of average assets**

Net interest income	1.15	1.35	1.33
Other operating income	-0.11	0.11	0.00
Total operating costs	0.19	0.18	0.18
Profit before impairment on loans	0.85	1.28	1.15
Impairment on loans	0.00	0.00	0.01
Pre tax profit	0.85	1.28	1.14
Tax	0.21	0.32	0.29
Profit after tax	0.64	0.96	0.85
Average total assets (MNOK)	19 876	17 615	18 207