Møre Boligkreditt AS

A company in the Sparebanken Møre Group

Annual report 2019

Møre Boligkreditt

Content

Møre Boligkreditt AS
P.O.Box 121, sentrum, NO-6001 Ålesund
Visiting address: Keiser Wilhelmsgate 29-33, Ålesund
www.sbm.no/mbk

Report from the Board of Directors

OPERATIONS IN 2019

Møre Boligkreditt AS is a wholly owned subsidiary of Sparebanken Møre, a regional Norwegian savings bank operating in the county of Møre og Romsdal. Møre Boligkreditt AS is licensed to operate as a mortgage company and to issue covered bonds. Møre Boligkreditt AS is Sparebanken Møre's most important source of long-term market funding and an important part of the parent bank's funding strategy. Møre Boligkreditt AS is located at Sparebanken Møre's headquarter in Keiser Wilhelmsgate 29/33, in the city of Ålesund.

During 2019, Møre Boligkreditt AS' net growth in mortgages acquired from Sparebanken Møre was NOK 2,246 million, and the company's mortgage portfolio amounted to NOK 25,655 million at year-end 2019. Mortgages in the company's cover pool are secured by residential properties, all at the time of acquisition within 75 per cent of the property's estimated value.

In 2019, two new covered bond loans were issued together with tap issue in an existing bond loan. One covered bond loan matured in 2019, and early redemption was made in one bond loan maturing in January 2020. Net growth in outstanding covered bond loans in 2019 was NOK 678 million, and total outstanding covered bond loan volume amounts to NOK 23,062 million at year-end 2019.

RATING

The rating agency Moody's has rated all covered bonds issued by Møre Boligkreditt AS an Aaa- rating.

THE MORTGAGE COMPANY'S ANNUAL FINANCIAL STATEMENTS

The financial statements of Møre Boligkreditt AS show a profit before tax of NOK 271 million, compared with NOK 230 million in 2018. Net interest income amounted to NOK 308 million in 2019, compared to NOK 274 million in 2018. Total operating costs amounted to NOK 45 million, compared with NOK 42 million in 2018.

The ECL calculation as at 31 December 2019 shows expected credit loss of NOK 3 million for Møre Boligkreditt AS, compared with NOK 15 million in ECL as at 31 December 2018. Profit after tax amounted to NOK 222 million in 2019, compared with NOK 174 million in 2018. Tax amounted to NOK 49 million, compared with NOK 56 million in 2018. Total assets at the end of 2019 amounted to NOK 27,749 million compared with NOK 25,557 million at the end of 2018.

Net cash flow from operating activities amounted to NOK -1,552 million compared to NOK -1,772 million in 2018. The timing of the main outflow and inflow is related to payments for acquiring loans from the parent bank and payments related to instalment loans and credit lines to customers.

As at 31 December 2019, the company's substitute assets included in the cover pool amounted to NOK 988 million, compared to NOK 1,300 million as at 31 December 2018. Net value of financial derivatives included in the cover pool amounted to NOK 544 million at year-end 2019, compared to NOK 602 million at year-end 2018. Over-collateralisation, calculated as the value of the cover pool relative to the value of outstanding covered bond loan debt was 15.8 per cent as at 31 December 2019, compared to 11.1 per cent as at 31 December 2018.

Møre Boligkreditt AS' liquidity portfolio consisting of Liquidity Coverage Ratio (LCR) eligible assets amounted to NOK 293 million as at 31 December 2019, reporting total LCR of 117 per cent.

It is the opinion of the Board of Directors that the presented financial statements provide correct and adequate information about the company's operations and status as at 31 December 2019.

CAPITAL STRENGTH

Paid in equity and retained earnings amounted to NOK 2,274 million by year-end 2019, compared to NOK 1,767 million by year-end 2018. Risk weighted assets amounted to NOK 6,068 million by year-end 2019. Net equity and subordinated loan capital amounted to NOK 2,005 million by year-end 2019, compared to NOK 1,567 million by year-end 2018. This corresponds to a Common Equity Tier 1 capital ratio of 33 per cent as at 31 December 2019. 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 can be acquired by the company. The strategy stipulates criteria for both borrowers and the collateral for the loans that can be acquired. At year-end 2019, the mortgages in the cover pool had an average loan-to-value ratio of 59 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 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 laws and regulations, 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. Bonds issued by Møre Boligkreditt AS 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 117 per cent by year-end 2019. 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 space 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.

CORPORATE GOVERNANCE STATEMENT

Møre Boligkreditt AS complies with the latest Norwegian Code of Practice for Corporate Governance. Møre Boligkreditt AS was established as part of Sparebanken Møre's long-term funding strategy with the purpose of funding the bank through issuing covered bonds. Møre Boligkreditt AS helps ensure that the Sparebanken Møre Group properly manages its assets, as well as providing additional assurance that goals and strategies are achieved and realized.

The Board ensures that risk management and internal control are adequate and systematic, and that they have been established in compliance with the law and regulations, articles of association, ethical guidelines, instructions, and external and internal guidelines. The Board shall lay down principles and guidelines for risk management and internal control for the various levels of activity pursuant to the company's risk bearing capacity, and assure themselves that the strategies and guidelines are being followed. The Board shall systematically and regularly assess the strategies and guidelines for risk management.

In order to ensure that Møre Boligkreditt AS' risk management and internal control are carried out satisfactorily, the Board continuously receives various types of reports throughout the year from Sparebanken Møre's control bodies, as well as from internal and external auditors. The Board actively participates in the annual implementation of the long-term strategic plan. The Board revises and approves all the company's general risk management documents at least once a year. Every year in the 4th quarter, the Managing Director of Møre Boligkreditt AS reports on the structure and efficiency of the company's internal control.

The overall responsibility for ensuring that principles of accounting and financial control are identified, monitored and evaluated is outsourced to the Finance department and the Risk Management department in Sparebanken Møre. The responsibility for the preparation of financial statements, and the reporting of these to the Managing Director in Møre Boligkreditt AS, is assigned to the Finance department in the parent bank.

The Board of Directors (the Board) and the Chairman of the Board is elected by the General Meeting, and shall consist of four to six members elected for a period of two years. After one year, at least half of the elected members shall step down, based on the drawing of lots, while the remainder shall step down after one more year. Board members can be re-elected.

The Chairman of the Board in Møre Boligkreditt AS shall, by the end of October and in consultation with the Managing Director, set out a proposed annual plan for the Board's work for the coming year and the main items on the agendas of board meetings for the next calendar. Each year, the Board evaluates its own methods and professional competence to see if improvements can be made.

The Chairman of the Board shall ensure that the Board of Directors convenes at least once every quarter and otherwise as often as is called for by the nature of the company's activities, or when requested by a board member. A valid Board resolution is passed by at least three board members voting in favor of the resolution. The annual General Meeting shall be held each year before the end of June.

The company's paid-in equity of NOK 2,050 million consist of 1,500,000 shares of NOK 1,250 fully paid in, together with a share premium of NOK 175 million. With the consent of the Financial Supervisory Authority of Norway, the General Meeting may raise additional share capital, subordinated loan capital and guarantee capital.

Møre Boligkreditt AS is part of the Sparebanken Møre Group. The Group’s corporate governance is based on the Norwegian Code of Practise for Corporate Governance, most recently updated on 17 October 2018. The corporate governance report is included in Sparebanken Møre’s consolidated annual report, please see www.sbm.no

Statement on ethics and corporate social responsibility in the consolidated annual report for Sparebanken Møre include statement on ethics and social responsibility for Møre Boligkreditt AS, see www.sbm.no

INTERNAL CONTROL

The Managing Director of Møre Boligkreditt AS is responsible for establishing proper risk management and internal control based on the guidelines decided by the Board, making sure that these are adhered to, and providing the Board with information about developments within the various areas. The Managing Director reports on structure and efficiency of the company's internal control in the fourth quarter every year.

Møre Boligkreditt AS bases its internal control on an overall risk management process. This is set out in various documents included in the company's Risk Policy. The Board has decided upon guidelines for establishing proper risk management and internal control, and ensures that risk management and internal control in Møre Boligkreditt AS are adequate and systematic, and that the processes have been established in compliance with the law and regulations, articles of association, instructions, and external and internal guidelines. The Board systematically and regularly assesses the strategies and guidelines for risk management.

In the financial reports, written procedures relating to critical areas within the company, as well as the level of achievement of both the company's financial goals, and the qualitative goals relating to risk managing are presented. This ensures a close and accurate monitoring of the financial reporting and increases the possibility of early risk detection. The Managing Director of Møre Boligkreditt AS has the primary responsibility for managing risk associated with the company's operational and financial reporting, which is the foundation for satisfactory quality in the financial reporting.

The internal control and risk assessment of the financial reporting is one of the areas of focus in the Managing Director's annual confirmation on the quality of, and the compliance with internal controls. The Internal Auditor has an important role in the monitoring of internal controls related to financial reporting. The financial statements provide additional information about the risk management and internal control of Møre Boligkreditt AS.

PROFIT DISTRIBUTION POLICY
Møre Boligkreditt AS' profit distribution policy states the following: "The company shall make a maximum payment from the profit generated in the fiscal year, either in the form of a dividend or as a group contribution. Such payments, however, shall not conflict with the requirement for liquidity and financial strength of the company, and shall in any case abide by what is considered good and prudent business and accounting practice."

GENERAL MEETING AND COMPANY BOARD
The General Meeting is the supreme body of Møre Boligkreditt AS. The General Meeting of Møre Boligkreditt AS consists of the Board of Directors of Sparebanken Møre, Sparebanken Møre being the sole owner of the company.

The Board shall consist of four to six members elected for a period of two years.

In electing the members of the Board, the goal is to meet the need for continuity and independence, as well as ensuring a balanced composition of the Board.

The Board's responsibilities and tasks are set forth in a separate document which is discussed and revised by the Board regularly. The document contains the dividing of responsibilities and tasks between the Board and the Managing Director of the company. Each year, the Board evaluates its own methods and professional competence.

GOING CONCERN ASSUMPTION
The Board is of the opinion that the prerequisites for the going concern assumption exist, and the Board confirms that the 2019 annual financial statements is prepared on the basis of the going concern assumption.

EMPLOYEES
Møre Boligkreditt AS had no employees at year-end 2019. One man-year from Sparebanken Møre is dedicated full time to the mortgage company. Furthermore, a number of services are outsourced to Sparebanken Møre, regulated by a specific agreement between the mortgage company and the bank.

No special work environment measures have been implemented in Møre Boligkreditt AS.

EQUAL OPPORTUNITIES
The Sparebanken Møre Group strives for gender-neutral employment – and wage policy. The Board and management in Sparebanken Møre systematically and actively work to promote equality. The Board of Møre Boligkreditt AS consists of two men and three women.

POLLUTION OF THE EXTERNAL ENVIRONMENT
The activities of Møre Boligkreditt AS do not pollute the external environment.

OTHER FACTORS
As far as the Board is aware, no events have occurred after the end of the financial year 2019 of material importance to the position and result of Møre Boligkreditt AS.

RESEARCH AND DEVELOPMENT

Møre Boligkreditt AS has no research and development activities.

CORPORATE SOCIAL RESPONSIBILITY

For information on corporate social responsibility, Møre Boligkreditt AS being a wholly owned subsidiary of Sparebanken Møre, we refer to Sparebanken Møre Group's Annual Report.

FUTURE PROSPECTS

A strong household sector due to the still low interest rate level, low unemployment levels, together with a solid public sector has kept Norwegian production levels high. The weak NOK is positive for the competitiveness of the export industry and the tourist industry.

The Norwegian key policy rate was announced unchanged at 1.50 per cent 19 December 2019, and in the Norges Bank's Executive Board assessment the policy rate is expected to stay close to the current level ahead. The development of housing prices, together with the growth in debt, are the most important risk factors for Norwegian households. Important risk factors going forward are also the oil price development, macroeconomic growth in export markets, the concern for a global trade war and the NOK exchange rate.

The combined activity of businesses located in the county of Møre og Romsdal remains high. The registered unemployment rate in the county of Møre og Romsdal is 2.0 per cent in December 2019, below the Norwegian national average of 2.2 per cent. We expect the unemployment rate in the county to remain around the national average level also going forward.

Retail lending in Sparebanken Møre Group increased with 4.5 per cent in 2019.

The Board believes that the low level of unemployment, still low interest rate level on mortgages and high disposable household income will contribute to further mortgage loan growth in Sparebanken Møre. This mortgage growth will position Møre Boligkreditt AS to acquire mortgage loan portfolios from Sparebanken Møre and increase the volume of outstanding bond loans from Møre Boligkreditt AS.

DISTRIBUTIONS

Profit after tax amounted to NOK 222 million in 2019. The recommendation from the Board of Directors to the annual General Meeting is a dividend payment of NOK 224 million.

Ålesund, 31 December 2019
10 February 2020

THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS

KJETIL HAUGE, Chairman
BRITT IREN TØSSE AANDAL
ELISABETH BLOMVIK
GEIR TORE HJELLE
SANDRA MYHRE HELSETH

OLE ANDRE KJERSTAD, Managing Director

Statement of income

STATEMENT OF INCOME

(NOK million)	Note	2019	2018
Interest income from:			
Loans to and receivables from credit institutions - amortised cost	11	18	8
Loans to and receivables from customers - amortised cost		739	591
Certificates, bonds and other interest-bearing securities - fair value		7	4
Interest income	2	764	603
Interest expenses in respect of:			
Loans from credit institutions	11	17	12
Debt securities	9 10 11	435	317
Other interest expenses		4	0
Interest expenses	9	456	329
Net interest income	4	308	274
Commission income		1	0
Net change in value of securities and related derivatives		-4	-1
Wages, salaries and general administration costs	12	3	3
Other operating costs	11	42	39
Total operating costs	12	45	42
Pre tax operating profit before impairment		260	231
Impairment on loans	3 5	-11	1
Pre-tax profit		271	230
Taxes	13	49	56
Profit after tax		222	174
Earnings/diluted earnings per share (NOK)		149.33	146.49

STATEMENT OF COMPREHENSIVE INCOME

(NOK million)	2019	2018
Profit after tax	222	174
Items that may subsequently be reclassified to the income statement:		
Basis swap spreads - changes in value	2	-17
Tax effect of basis swap spreads	0	4
Total comprehensive income after tax	224	161

PROPOSED DISTRIBUTION

(NOK million)	2019	2018
Proposed dividends	224	167
Retained earnings	0	-6
Total	224	161

Statement of financial position

Assets

(NOK million)	Note	31.12.2019	31.12.2018
Loans to and receivables from credit institutions	4 6 8 10 11	827	1 002
Loans to and receivables from customers	2 3 4 5 6 8 10	25 655	23 409
Certificates and bonds	4 6 8 10	678	512
Financial derivatives	4 7 8 9	589	625
Deferred tax asset	13	0	9
Total assets		27 749	25 557

Liabilities and equity

(NOK million)	Note	31.12.2019	31.12.2018
Loans from credit institutions	4 6 8 11	2 296	1 330
Debt securities issued	4 6 8 10 11	23 062	22 384
Financial derivatives	4 7 8 9	45	23
Tax payable	13	10	53
Deferred tax	13	62	0
Total liabilities		25 475	23 790
Share capital	15	1 875	1 425
Share premium		175	175
Paid-in equity		2 050	1 600
Retained earnings		224	167
Total equity	14	2 274	1 767
Total liabilities and equity		27 749	25 557

Ålesund, 31 December 2019
10 February 2020

THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS

KJETIL HAUGE, Chairman
BRITT IREN TØSSE AANDAL
ELISABETH BLOMVIK
GEIR TORE HJELLE
SANDRA MYHRE HELSETH

OLE ANDRE KJERSTAD, Managing Director

Statement of changes in equity

31.12.2019

(NOK million)	Note	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2018		1 767	1 425	175	167
Total comprehensive income for the period		224			224
Issue of share capital		450	450		
Dividend paid		-167			-167
Equity as at 31 December 2019	14 15	2 274	1 875	175	224

The share capital consists of 1 500 000 shares at NOK 1 250, a total of NOK 1 875 million. All shares are owned by Sparebanken Møre.

Proposed dividend as of 31 December 2019 amounts to NOK 224 million.

31.12.2018

(NOK million)	Note	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2017		1 667	1 325	175	167
Effect of transition to IFRS 9 01.01.2018 1)		-9			-9
Equity as at 1 January 2018		1 658	1 325	175	158
Total comprehensive income for the period		161			161
Issue of share capital		100	100		
Dividend paid		-152			-152
Equity as at 31 December 2018	14 15	1 767	1 425	175	167

1) The effect of transition to IFRS 9 is entirely related to increased impairments for expected credit losses of NOK 12 million, less tax effect of NOK 3 million.

The share capital consisted of 1 140 000 shares at NOK 1 250, a total of NOK 1 425 million. All shares were owned by Sparebanken Møre.

Dividend as of 31 December 2018 amounted to NOK 167 million.

Statement of cash flow

(NOK million)	Note	2019	2018
Cash flow from operating activities			
Interest, commission and fees received		758	600
Interest, commission and fees paid		-9	-14
Operating expenses paid		-45	-42
Income taxes paid		-22	-56
Payment for acquiring loans from the Parent Bank		-9 088	-7 943
Payment related to instalment loans and credit lines to customers		6 854	5 683
Net cash flow from operating activities	4 12	-1 552	-1 772
Cash flow from investing activities			
Received interest, commission and fees related to certificates, bonds and other securities		7	4
Proceeds from the sale and settlement of certificates, bonds and other securities		1 746	2 622
Purchases of certificates, bonds and other securities		-1 911	-3 073
Changes in other assets		-3	-20
Net cash flow from investing activities	4 8 10	-161	-467
Cash flow from financing activities			
Paid interest, commission and fees related to issued bonds		-435	-317
Net change in loans from credit institutions		965	128
Proceeds from covered bond issuance	10	5 536	5 862
Redemption of issued covered bonds	10	-4 784	-2 500
Dividend paid		-167	-152
Changes in other debt		-27	34
Issue of share capital and premium		450	100
Net cash flow from financing activities	10 15	1 538	3 155
Net change in cash and cash equivalents		-175	917
Cash balance at 01.01		1 002	85
Cash balance at 31.12	6	827	1 002

The cash flow analysis is prepared on the basis of the direct method with cash flows attributable to operational, investment and financing activities. Cash flows from operational activities are net receipts and payments from lending activities, and payments generated from costs associated with operational activities. Cash flows from investing activities are purchases or sales of bonds and other securities. Cash flows from other securities transactions, issuing and repaying securities issued, and equity are defined as financing activities.

Financial position line items have been adjusted for the impact of foreign exchange rate changes.

Cash and cash equivalents are defined as loans to and receivables from credit institutions with no agreed period of notice. Loans and receivables from credit institutions are mainly related to Sparebanken Møre.

Note 1

Accounting principles

1.1 GENERAL INFORMATION
Møre Boligkreditt AS (the company) is part of the Sparebanken Møre Group. The company's Head Office is located at Keiser Wilhelmsgt. 29/33, P.O.Box 121 Sentrum, 6001 Ålesund, Norway.

Preliminary Annual statement (4 quarter 2019 interim report) was approved for publishing by the Board of Directors 29 January 2020. Final Annual statement was approved by the Board of Directors 10 February 2020.

1.2 ACCOUNTING POLICIES
The company`s financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board, and approved by the EU as at 31 December 2019.

How the company's accounting policies are to be read:
Møre Boligkreditt AS describes accounting policies in connection with relevant notes. See the table below for an overview of accounting principles and the notes in which they are described, as well as reference to relevant and important IFRS-standards.

Accounting policies	Note	IFRS standard	Basis for measurement
Operating segments	Note 2 Operating segments	IFRS 8	Amortised cost
Impairments	Note 3 Impairment, losses and non-performance	IFRS 9, IFRS 7	Amortised cost
Financial derivatives	Note 7 Market risk	IFRS 9, IFRS 7, IFRS 13	Fair value
Hedging	Note 9 Hedging of interest rate and currency exposure	IFRS 9, IFRS 7	Fair value
Classification of financial instruments	Note 8 Financial instruments - classification and measurement	IFRS 9, IFRS 7	Amortised cost/fair value
Amortised cost	Note 8 Financial instruments - classification and measurement	IFRS 9, IFRS 7	Amortised cost
Fair value	Note 8 Financial instruments - classification and measurement	IFRS 9, IFRS 13, IFRS 7	Fair value
Tax	Note 13 Tax	IAS 12	Amortisert cost
Equity	Note 15 Share capital	IAS 1	Historical cost
Events after the reporting date	Note 16 Events after the reporting date	IAS 10	N/A

Changes in significant accounting policies and presentation
There were no material changes to the accounting policies in 2019.

New or revised standards applicable for 2019
A number of new or revised standards are effective from January 2019, but they do not have a material effect on the financial statements of the company.

Approved IFRSs and IFRICs with future effective dates
The company's intention is to adopt relevant new and amended standards and interpretations when they become effective, subject to EU approval before the financial statements are issued. There is no approved IFRS with future effective date relevant for the company as at 31.12.2019.

1.3 CURRENCY
All amounts in the financial statements and notes are stated in NOK million, unless otherwise specified. The company's functional currency and presentation currency is Norwegian kroner (NOK). Cash items in foreign currencies are converted into NOK at the exchange rates at the reporting date. Changes in value for such items due to exchange rates differences between the transaction date and the reporting date are recognised in the income statement. Income statement items are converted using the exchange rate at the time of the transaction.

1.4 PRESENTATION IN THE STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

Lending
Lending is presented in the statement of financial position, depending on the counterparty, either as "Loans to and receivables from credit institutions" or "Loans to and receivables from customers". Interest income is recognised in the lines "Interest income from: Loans to and receivables from credit institutions and Loans to and receivables from customers" using the effective interest rate method. Impairments are recognised in "Impairment on loans".

Certificates and bonds
The holding of bonds measured at fair value is presented in the balance sheet as "Certificates and bonds". The interest income is included in "Certificates, bonds and other interest-bearing securities" and fair value changes in "Net change in value of securities and related derivatives".

Liabilities to financial institutions
Liabilities to financial institutions are recognised in the statement of financial position as "Loans from credit institutions". Interest expenses on liabilities are included in "Interest expenses in respect of loans from credit institutions" based on the effective interest rate method.

Debt securities issued
Debt securities issued include issued covered bonds. Interest expenses on the financial instruments are included in "Interest expenses in respect of debt securities" based on the effective interest rate method.

Offsetting
Møre Boligkreditt AS uses bilateral ISDA agreements with external counterparties when entering into derivative contracts. The agreements allow for netting in each currency, ie. NOK and EUR. The company has also entered into agreements on daily margin requirement of collateral (CSA), which also apply for each currency. The agreements are one-way, meaning that only the counterparty must provide collateral when the market value fluctuates. Collateral from the counterparty shall be made when the market value breaches thresholds stated in the Credit Support Annex (CSA), in each currency. The CSA agreements also contain rating clauses whereby the counterparty must post more collateral if the rating drops below defined rating triggers. If the rating falls below a predetermined level, the counterparty must novate the contracts to another counterparty at the counterparties own expense. Netting agreements are not offset on the balance sheet, because the transactions are not settled on a net basis.

1.5 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES
A provision is only recognised when an obligation exists (legal or constructive) as a result of a previous event, and it is likely that an outflow of resources embodying economic benefits will be required to fulfil the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are recognised at the amount that expresses the best estimate of the expenditure required to fulfil the existing obligation. If material, the time value of money is taken into account when calculating the size of the provision. Contingent assets or contingent liabilities are not recognised.

1.6 USE OF ESTIMATES IN THE PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

In the preparation of the financial statements, management makes estimates and assumptions that affect the financial statements and the reported amounts of assets and liabilities, income and costs. The assessments are based on historical experience and assumptions deemed to be reasonable and sensible by the management. There is a risk that the actual outcomes will deviate from the estimated outcomes.

The financial assets and liabilities of the company are allocated to different categories according to IFRS 9 by the management. Normally this process requires limited judgment.

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

Impairment on loans

The measurement of expected credit losses (ECL) under IFRS 9 requires judgement when assessing whether there has been a significant increase in credit risk and in determining the level of impairment losses, in particular with regards to the estimation of the amount and timing of future cash flows and collateral values. These estimates are driven by a number of factors, in which changes can result in different levels of allowances.

The Sparebanken Møre Group has developed an ECL-model based on the Group's IRB parameters. The ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- The internal credit grading model, which assigns probability of default (PD)
- The criteria for assessing if there has been a significant increase in credit risk resulting in allowances for financial assets being measured on a lifetime ECL basis
- Development of the ECL model, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on probability of default (PD), exposure and loss given default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings

Note 2

Operating segments

The business of Møre Boligkreditt AS mainly comprises operations within the retail banking market. Møre Boligkreditt AS has only one operating segment.

	Loans	
(NOK million)	**31.12.2019**	**31.12.2018**
Gross loans	25 658	23 424
Expected credit loss (ECL) - Stage 1	0	-3
Expected credit loss (ECL) - Stage 2	-3	-12
Expected credit loss (ECL) - Stage 3	0	0
Loans to and receivables from customers	25 655	23 409

Geographical specification of loans to customers	**County of Møre og Romsdal**		**Other Norway**		**Total**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Gross loans	19 767	17 968	5 891	5 456	25 658	23 424
In percentage	77.0 %	76.7 %	23.0 %	23.3 %	100.0 %	100.0 %
Interest income	606	487	133	104	739	591
In percentage	82.1 %	82.3 %	17.9 %	17.7 %	100.0 %	100.0 %

Country by country reporting

Møre Boligkreditt AS comprises operations solely in Norway and mainly within the retail market. Total revenue for 2019 amounted to NOK 305 million. Møre Boligkreditt AS has no employees at the end of 2019 (Møre Boligkreditt AS remunerated Sparebanken Møre for two man-years. Referance is made to note 12). Pre-tax profit amounted to NOK 271 million and taxes amounted to NOK 49 million. Møre Boligkreditt has not received any government grants/subsidies in 2019.

Note 3

Impairment, losses and non-performance

Expected credit losses (ECL) according to IFRS 9
Møre Boligkreditt AS applies a three-stage approach when assessing ECL on loans to customers 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, and expected loss for the next 12 months is calculated.

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

Stage 3: If the credit risk increases further and there's objective evidence of loss or if individual impairments have been made, the commitment is transferred to stage 3 and lifetime expected loss is calculated. As opposed to stage 1 and 2, the effective interest rate is calculated on amortised cost (gross carrying amount less loss allowance) instead of gross carrying amount.

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 developments in relevant macro risk drivers for the segment where the customer belongs. The assessment of what is considered to be a significant increase in credit risk is based on a combination of quantitative and qualitative indicators and backstops.

The calculation of ECL is based on the following principles:

The loss provision for commitments which are not credit-impaired is calculated as the present value of exposure multiplied by the probability of default (PD) multiplied by loss given default (LGD). PD, LGD and exposure 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. All customers within the retail-banking segment are exposed to the same risk drivers.

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

The model used for calculating ECL follows four steps: Segmentation, determination of macro adjustments, staging 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. Møre Boligkreditt has only one operating segment (mainly comprises operation within the retail banking market). The entire segment is subject to equal macro adjustments.

Regression analyzes of changes in the default rate on changes in relevant macro time series have been performed. The established subpopulations of the ECL model 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 ECL.

Probability of default (PD)
Møre Boligkreditt AS 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. Møre Boligkreditt AS has as part of the Sparebanken Møre Group 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 company 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, Møre Boligkreditt AS 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, and to exclude 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. 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.

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

- the customer's contractual payments are 30 days past due

- the customer has been granted forbearance measures due to financial distress, though it is not severe enough for the financial instrument to be classified as credit-impaired.

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, and this is assumed to significantly reduce the value of the cash flow.

A commitment is defined to be credit-impaired if the commitment, as a result of a weakening of the debtor's creditworthiness, has been subject to an individual assessment, resulting in an individual impairment.

Sensitivity analysis
Macro factors and weighting of scenarios are subject to expert judgment and are important input factors in the company's loss model that can contribute to significant changes in the calculation of losses. Each macroeconomic scenario includes a five-year period projection.

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

The company'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.

The sensitivity analysis results in a low expected loss due to small recorded losses historically. Due to low levels of PDs in the portfolio and the minimum threshold of 0,5 percentage points for migration to stage 2, the sensitivity analysis shows low migration between the stages.

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.

As a consequence of low levels of PDs and low LTVs almost the entire portfolio in Møre Boligkreditt AS is assigned to stage 1 in the ECL-model, thus loss is calculated according to 12 months ECL for the major part of the company's portfolio.

Expected credit loss on loans is presented as a reduction of "Loans to and receivables from customers" in the Statement of financial position.

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 company 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 impairment. This assessment is carried out at the individual asset level.

Recoveries of amounts previously impaired are included in "impairment losses on financial instruments" in the statement of profit or loss and OCI.

Impaired financial assets could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Specification of credit loss expense (NOK thousand)	2019	2018
Changes in Expected Credit Loss (ECL) - stage 1	-2 284	510
Changes in Expected Credit Loss (ECL) - stage 2	-8 938	405
Changes in Expected Credit Loss (ECL) - stage 3	-237	237
Total impairment on loans in the period	-11 459	1 152

Changes in ECL in the period (NOK thousand)

31.12.2019	Stage 1	Stage 2	Stage 3	Total
ECL 31.12.2018	2 825	11 787	237	14 849
New loans	109	234	0	343
Disposal of loans	-573	-2 859	0	-3 432
Changes in ECL in the period for loans which have not migrated	-1 418	-1 951	0	-3 369
Migration to stage 1	28	-5 204	0	-5 176
Migration to stage 2	-147	1 167	-122	898
Migration to stage 3	0	0	0	0
Other changes	-284	-325	-115	-724
ECL 31.12.2019	540	2 849	0	3 389

31.12.2018	Stage 1	Stage 2	Stage 3	Total
31.12.2017 according to IAS 39				2 000
Effect of transition to IFRS 9				11 697
ECL 01.01.2018 according to IFRS 9	2 315	11 382	0	13 697
New loans	746	3 377	0	4 123
Disposal of loans	-440	-2 312	0	-2 752
Changes in ECL in the period for loans which have not migrated	125	-789	0	-664
Migration to stage 1	185	-4 764	0	-4 579
Migration to stage 2	-105	4 893	0	4 788
Migration to stage 3	-1	0	237	236
ECL 31.12.2018	2 825	11 787	237	14 849

Changes in exposure in the period (NOK million)

31.12.2019	Stage 1	Stage 2	Stage 3	Total
Exposure 01.01.2019	23 935	705	3	24 643
New loans	8 970	118	0	9 088
Disposal of loans	-5 531	-152	0	-5 683
Changes in ECL in the period for loans which have not migrated	-800	-10	0	-810
Migration to stage 1	370	-370	0	0
Migration to stage 2	-322	324	-2	0
Migration to stage 3	0	0	0	0
Other changes	-167	-33	-1	-201
Exposure as at 31.12.2019 *	26 455	582	0	27 037

31.12.2018	Stage 1	Stage 2	Stage 3	Total
Exposure 01.01.2018 according to IFRS 9	21 433	614	0	22 048
New loans	7 778	165	0	7 943
Disposal of loans	-4 450	-86	0	-4 536
Changes in ECL in the period for loans which have not migrated	-780	-13	0	-793
Migration to stage 1	220	-220	0	0
Migration to stage 2	-254	254	0	0
Migration to stage 3	-3	0	3	0
Other changes	-10	-9	0	-19
Exposure as at 31.12.2018 *	23 935	705	3	24 643

* The tables above show exposures (incl. undrawn credit facilities) and can therefore not be reconciled against carrying amount.

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

31.12.2019	Stage 1	Stage 2	Stage 3	Total
Low risk (0 % - < 0.5 %)	25 410	1	0	25 411
Medium risk (0.5 % - < 3 %)	930	444	0	1 374
High risk (3 % - <100 %)	115	137	0	252
Total commitments before ECL	26 455	582	0	27 037
- ECL	0	-3	0	-3
Loans and receivables from customers 31.12.2019 *	26 455	579	0	27 034

31.12.2018	Stage 1	Stage 2	Stage 3	Total
Low risk (0 % - < 0.5 %)	23 159	183	0	23 342
Medium risk (0.5 % - < 3 %)	703	429	0	1 132
High risk (3 % - <100 %)	73	93	3	169
Total loans before ECL	23 935	705	3	24 643
- ECL	-3	-12	0	-15
Loans and receivables from customers 31.12.2018 *	23 932	693	3	24 628

*) The tables above show exposures (incl. undrawn credit facilities) and can therefore not be reconciled against carrying amount.

Note 4

Risk management

Strategy
The Sparebanken Møre Group's, and thereby Møre Boligkreditt AS', long-term strategic development and goal 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 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 as well as 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 Board of Directors of Møre Boligkreditt AS has agreed a separate risk policy for the company.

Møre Boligkreditt AS shall have a low risk profile and revenue generation shall be a product of customer related activities related to the company's operations and purpose, not a product of financial risk-taking. In addition, the company has introduced separate policies for each significant risk area: credit risk, market risk, liquidity risk and counterparty risk. The risk strategies are adopted by the Board of Directors and revised at least once a year or when special circumstances should warrant it. The approved risk policies operationalize the business strategy set forth in the company's overall strategic plan. The company 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.

Reporting
Møre Boligkreditt AS 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 that are intended for the Board of the company. The most important reports during the year are as follows:

ICAAP (Internal Capital Adequacy Assessment Process) is carried out and reported at least once a year. Møre Boligkreditt AS is included in the assessments of overall ICAAP for the Sparebanken Møre Group, and the Managing Director of Møre Boligkreditt AS is involved in the process. The process is led by the department for Risk Management in Sparebanken Møre. Specific guidelines have been prepared for ICAAP in Sparebanken Møre. ICAAP is reviewed by the bank's management team and the Board of Directors.

Møre Boligkreditt AS' internal liquidity adequacy assessment process (ILAAP) is included in the company's Internal Capital Adequacy Assessment Process (ICAAP).

A performance management report is prepared every month. The report presents the status and performance of the most important aspects of goal achievement at Møre Boligkreditt AS. The report is an integral part of the reporting to the Board of Directors.

A risk report is prepared every quarter. This is a key element of Møre Boligkreditt AS' continuous monitoring of its risk position. The risk report is reviewed by the Board of Directors in quarterly board meetings.

Internal control reports are produced every year. In the report an assessment is made of whether or not the internal control is adequate in relation to the risk tolerance. This includes an assessment and comments on internal control work performed, a review of important risk areas, an assessment of compliance with external and internal regulations, and suggestions for and planned improvement measures. The internal control report is discussed by the Board of Directors. Møre Boligkreditt AS' internal control report is consolidated in the Group's total internal control reporting.

Reports from external and internal auditors are reviewed by the Board of Directors, as well as the Risk and Audit Committee of Sparebanken Møre.

A reporting portal has been established in the Sparebanken Møre Group, and each member of staff with customer responsibility have access to reports showing the position and development in the credit risk in his or her portfolio. The portal has a hierarchical structure, allowing managers in Sparebanken Møre and Møre Boligkreditt

AS to monitor performance within their area of responsibility. The reports are also used to analyse customers, portfolios and different industrial, commercial and other sectors.

Finance and accounting reports are prepared monthly (and include calculations of expected credit loss, as well as quarterly loss reviews of portfolios with a focus on the need for individual impairment). The reports are reviewed by the Board of Directors.

Capital management
Møre Boligkreditt AS acquires mortgages from Sparebanken Møre of which minimum 80 per cent are funded through the issuance of covered bonds. The funding of the mortgage company in excess of issuance of covered bonds is done by equity and established credit facility in the Parent Bank.

Capital adequacy rules and regulations
The EU's capital adequacy directive's purpose is 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:

- Pilar 1 – Minimum requirement for equity and related capital
- Pilar 2 – Assessment of aggregate capital requirements and regulatory follow-up (ICAAP)
- Pilar 3 – Publication of information

Møre Boligkreditt AS applies the IRB Approach when calculating capital adequacy for credit risk, the Standard Approach for market risk and the Base method for operational risk. Møre Boligkreditt AS' Board of Directors ensures that plans for the capitalization of the Company are in place, both during economic downturns and periods of strong economic expansion. Capital assessments (ICAAP) are done every year, and the company's capital strategy is based on the risk in the company's operations, having taken into consideration different stress scenarios.

Risk exposure and strategic risk management
Møre Boligkreditt AS is exposed to several different types of risk. The most important risk groups are:
- Credit risk: This is the company's most significant risk area. Credit risk is defined as the risk of loss due to customers or other counterparts being unable to meet their obligations at the agreed time in accordance with the written agreements and that collateral held is not covering the outstanding claims. Included in the credit risk is also concentration risk, defined as the risk of loss resulting from the concentration of large individual clients, specific industries, geographical areas, collateral with the same risk characteristics, counterparties in interbank operations or trading in financial derivatives.

Møre Boligkreditt AS' main credit risk is related to loans to customers with collateral in residential property and housing associations. Møre Boligkreditt AS acquires the loans from Sparebanken Møre, originally granted to customers by Sparebanken Møre, based on group policies and limits. At the time of the transfer of loan portfolios, only loans that qualifies as collateral for the issue of covered bonds, are accepted by Møre Boligkreditt AS. For all these mortgage loans, the value of the loan balance should not exceed 75 per cent of the total value of the property. The collateral value is monitored on an ongoing basis.

Møre Boligkreditt AS has adopted the credit risk policies as set by the Sparebanken Møre Group. The Group manages and controls credit risk by setting limits on the amount of risk and by monitoring exposures in relation to such limits. Collateral is taken to manage credit risk in the loan portfolios. According to the agreement relating to the transfer of loans between Sparebanken Møre and Møre Boligkreditt AS, the day-to-day monitoring of the loans are managed by Sparebanken Møre on behalf of Møre Boligkreditt AS. Sparebanken Møre's risk classification system is based on the probability of default (PD), which estimates the likelihood of a customer defaulting on its contractual obligations.

See also the Group's Pillar 3 document published on www.sbm.no.

- Market risk: The risk of loss due to changes in fair value of financial instruments as a result of fluctuations in market prices such as share prices, foreign exchange rates and interest rates.

Møre Boligkreditt AS minimizes currency risk through swap agreements with eligible counterparties.

The Board of Directors sets risk limits, positions are monitored on a daily basis, and quarterly exposure reports are prepared for the management and for The Board of Directors.

Fixed interest on the company's funding is managed through interest rate swaps with eligible counterparties.

• Liquidity risk: The risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Board of Directors sets annual limits for the company's liquidity risk, which means preparing liquidity risk limits, contingency plans, forecasts, stress tests, routines for monitoring limit utilisation and compliance with guidelines, management reporting and monitoring of management and control systems.

In a stress scenario where the mortgage company faces difficulties in refinancing its covered bonds through normal funding sources, Møre Boligkreditt AS can rely on a revolving credit facility in Sparebanken Møre covering the mortgage company’s payment obligations for the next 12 months, and a 12 month soft-call (12 month extendable maturity) on covered bonds issued.

• Operational risk: The risk of losses due to inadequate or failing internal processes, human error, system failures or external events. Møre Boligkreditt AS has a management agreement with Sparebanken Møre. The services covered by this 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 of high focus in the Group's annual ICAAP. The operational and established internal control system in the mortgage company is also an important tool for reducing operational risk in terms of both identifying risk as well as follow-up.

The internal control system should be designed to ensure reasonable certainty with respect to attaining goals within the areas of strategic development, efficient operations, reliable reporting and compliance with acts and regulations, including compliance with intragroup and company-specific guidelines and policies. A well-functioning internal control system should also ensure the mortgage company's risk exposure being within the adopted risk profile. Reports are submitted to the company's Board concerning operations and the risk situation throughout the year. The Managing Director submits an annual report to the Board containing an overall assessment of the risk situation and an assessment of whether the internal controls are functioning satisfactorily.

Møre Boligkreditt AS takes into account the interaction between the various risk areas by setting desired levels of exposure. Overall, it is the internal conditions, general conditions, customer base etc. in the Group that form the basis for setting the desired overall risk exposure.

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

• Credit risk: A low level of risk is accepted

• Market risk: A low level of risk is accepted

• Liquidity risk: A low level of risk is accepted

• Operational risk: A low level of risk is accepted

Note 5

Credit Risk

Credit risk represents the most significant area of risk and is defined as the risk of losses associated with customers being unable to fulfill their obligations at the agreed time and pursuant to written agreements, and the received collateral not covering outstanding claims. The company's credit risk strategy is revised and approved annually by the Board and sets forth the company's risk profile in the area of credit. Monthly portfolio management reports have been established to ensure that any deviations from the strategic goals set forth in the credit risk strategy are uncovered. The risk classification systems are used as decision support, monitoring and reporting. The risk parameters used in the classification systems are an integrated part of the credit process and ongoing risk monitoring, including the follow-up of credit strategies. Probability of default, PD, is used to measure quality.

The risk classification system is divided into ten risk classes where 1 represents the lowest and 10 the highest risk. The classification system is based on the probability of default which is an estimate of the likelihood of a counterparty defaulting on its contractual obligations within the next 12 months. In the table below, all loans to customers and undrawn credit facilities are presented according to risk level.

Loans for which payments are overdue with more than 90 days are considered non-performing and transferred to “Commitments in default”.

Risk groups based on probability of default - 2019	Loans	Undrawn credit facilities	Total
Low risk (0 % - < 0.5 %)	24 035	1 376	25 411
Medium risk (0.5 % - < 3 %)	1 371	3	1 374
High risk (3 % - <100 %)	252	0	252
Commitments in default	0	0	0
Total loans before expected credit loss (ECL)	25 658	1 379	27 037
- ECL	-3	0	-3
Loans to and receivables from customers 31.12.2019	25 655	1 379	27 034

Risk groups based on probability of default - 2018	Loans	Undrawn credit facilities	Total
Low risk (0 % - < 0.5 %)	22 127	1 215	23 342
Medium risk (0.5 % - < 3 %)	1 128	4	1 132
High risk (3 % - <100 %)	169	0	169
Commitments in default	0	0	0
Total loans before expected credit loss (ECL)	23 424	1 219	24 643
- ECL	-15	0	-15
Loans to and receivables from customers 31.12.2018	23 409	1 219	24 628

Collateral

The company requires residential property as collateral to reduce the risk associated with customers' willingness and ability to serve their obligations. By the granting of loans there is an objective valuation of residential properties. Factors are also taken into account that may affect the security's value, such as licensing conditions or easements.

Møre Boligkreditt AS is the legal and beneficial owner of each loan in the portfolio and is secured rights to the collateral that is associated with each loan. Proper transfers of loans are handled through a separate agreement between the company and the Parent Bank. In cases where the collateral secures loans for both the company and the Parent Bank, it is agreed that Møre Boligkreditt AS is ranked first under the current security.

Møre Boligkreditt has no repossessed assets or properties as at 31.12.2019.

All mortgages in the cover pool had LTV within 75 per cent at the time of acquisition. Part of the mortgages exceeding LTV of 75 per cent, based on quarterly valuation from AVM company, totaled NOK 476 million as at 31 December 2019, see note 10.

The table below shows the percentage distribution of commitments with different levels of security. For example, the line 0 % - 50 % implies that the commitments are less than 50 % of the security object. Above 100 % implies that the loan amount exceeds the value of the security Object. The table shows all mortgages, including the part of a mortage exceeding LTV of 75 per cent.

Loan to value - 2019	**Total in NOK million**	**Total in percentage**
0 % - 60 %	11 366	44.3 %
60 % - 70 %	5 744	22.4 %
70 % - 80 %	6 549	25.5 %
80 % - 90 %	1 168	4.6 %
90 % - 100%	363	1.4 %
Above 100 %	468	1.8 %
Total	25 658	100.0 %

Loan to value - 2018	**Total in NOK million**	**Total in percentage**
0 % - 60 %	10 896	46.5 %
60 % - 70 %	5 365	22.9 %
70 % - 80 %	5 358	22.9 %
80 % - 90 %	1 160	5.0 %
90 % - 100%	323	1.4 %
Above 100 %	323	1.4 %
Total	23 424	100.0 %

In addition to collateralized residential properties, certificates and bonds are included in substitute assets in the cover pool presented in note 10. Reference is made to note 8 for credit quality of these certificates and bonds.

Note 6

Liquidity Risk

Liquidity risk is the risk that Møre Boligkreditt AS will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.

The Board of Møre Boligkreditt AS annually sets limits for management of liquidity risk in the company.

Pursuant to the Financial Institutions Act, a mortgage company which issues covered bonds must ensure that the cash flow from the cover pool enables the company to meet its payment obligations to holders of covered bonds and counterparties to derivative agreements at all times.

The loans acquired by Møre Boligkreditt AS are primarily financed through the issuing of covered bonds. The company's plan is to ensure that this type of funding shall over time account for a minimum of 80 per cent of the entity's financing of acquired loans.

Loans that are acquired and not included in a portfolio financed by covered bonds, and loans that serve as over-collateralisation, are financed through a facility the company holds in the parent bank, Sparebanken Møre, or equity. The long-term overdraft facility in Sparebanken Møre has a total limit of NOK 5 billion. Undrawn facility amounts to NOK 2.8 billion as of 31.12.19.

Receivables from credit institutions and investments in covered bonds, not used for LCR purposes, are used as part of the cover pool.

As of 31.12.2019 the requirement for liquidity coverage ratio for Norwegian covered bond companies is on total currency level 100 %, 100 % in significant currencies and 50 % in NOK if significant currencies equal EUR or USD. As of 31.12.2019 Møre Boligkreditt AS reports 117 % on total currency level and on NOK. There are no LCR-outflows in EUR as of 31.12.2019.

Remaining maturity as per 31.12.19	Up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Assets						
Loans to and receivables from credit institutions	827	0	0	0	0	827
Loans to and receivables from customers*	73	146	735	3 790	31 317	36 061
Certificates and bonds*	22	2	459	209	0	692
Total financial assets	922	148	1 194	3 999	31 317	37 580
Liabilities						
Loans from credit institutions	2 296	0	0	0	0	2 296
Debt securities issued*	231	81	3 578	15 386	5 000	24 276
Total financial liabilities	2 527	81	3 578	15 386	5 000	26 572
Financial derivatives						
Cash flow in	0	15	97	403	188	703
Cash flow out	15	47	191	704	135	1 092
Total financial derivatives	-15	-32	-94	-301	53	-389

* Includes cash flows from nominal interest payments

Remaining maturity as per 31.12.18	Up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Assets						
Loans to and receivables from credit institutions	1 002	0	0	0	0	1 002
Loans to and receivables from customers*	57	115	523	3 110	27 749	31 554
Certificates and bonds*	0	300	173	41	0	514
Total financial assets	1 059	415	696	3 151	27 749	33 070
Liabilities						
Loans from credit institutions	1 330	0	0	0	0	1 330
Debt securities issued*	10	60	2 742	15 409	5 075	23 296
Total financial liabilities	1 340	60	2 742	15 409	5 075	24 626
Financial derivatives						
Cash flow in	0	15	96	427	271	809
Cash flow out	1	35	110	459	141	746
Total financial derivatives	-1	-20	-14	-32	130	63

* Includes cash flows from nominal interest payments

Note 7

Market Risk

Market risk arises as a consequence of open positions in foreign exchange and interest rate.

Møre Boligkreditt AS has funding in foreign currency. Currency risk associated with this funding is hedged and minimized by use of currency swaps. The financial derivatives are recognised at fair value, with value changes recognised in the profit and loss account and carried in the balance sheet on a gross basis per contract as assets or liabilities respectively. The estimated fair value of financial OTC derivatives is adjusted for counterparty credit risk (CVA) or for the company's own credit risk (DVA).

Through its regular operations, the company is exposed to interest rate risk. Interest risk occurs in the company's portfolio in connection with its activities relating to loans and bond debt in which different interest terms apply to the company's receivables and liabilities. Depending on the relationship between the interest terms for receivables and liabilities, changes to interest rates could result in increased income or expenses. Møre Boligkreditt AS uses interest rate swaps as part of its risk management to manage interest rate risk. The company's borrowings with fixed interest rates are swapped to floating interest rates. Potential effect of a 1 year period change in interest rate of 1 percentage point, is an increase/decrease in interest income of NOK 20,5 million. Relative to the company's total equity of NOK 2,274 million, the company's interest rate risk is considered to be insignificant.

The table shows the potential effect of the change in market value of financial assets and liabilities of the company due to a one percentage point increase in interest rates. The calculation is based on current positions and market rates as of 31 December:

(NOK million)	Up to 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
2019	3	1	-2	-1	1
2018	4	1	-3	-1	1

The table below shows nominal values on financial derivatives according to type of derivative as well as positive and negative market values. Positive market values are recognised as assets in the balance sheet, whereas negative market values are recognised as liabilities:

	2019			2018		
Financial derivatives	**Nominal value**	**Asset**	**Liability**	**Nominal value**	**Asset**	**Liability**
Interest rate swaps	3 050	194	5	3 050	183	2
Cross currency interest rate swaps	7 807	395	40	5 350	442	21
Total financial derivatives	10 857	589	45	8 400	625	23
- hereof applied in hedge accounting	10 587	539	32	8 128	545	13

The table below provides details on the contractual maturity of financial derivatives based on nominal values:

	2019		2018	
Maturity	Interest rate swaps	Cross currency swaps	Interest rate swaps	Cross currency swaps
2019				
2020		269		271
2021				
2022	1 000	2 413	1 000	2 424
2023		2 419		2 430
2024		2 481		
2025	1 050		1 050	
2026				
2027				
2028	1 000	225	1 000	225
	3 050	7 807	3 050	5 350

Note 8

Financial instruments - Classification and Measurement

The company'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 any changes in value 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.

Financial liabilities assessed at amortised cost
Debt securities, including debt securities included in fair value hedging and loans and deposits from credit institutions, are assessed at amortised cost based on expected cash flows.

Financial instruments assessed at fair value, any changes in value recognised through the income statement
The company's portfolio of bonds in the liquidity portfolio is classified at fair value with any value changes through the income statement, based on the business model of the company.

Financial derivatives are instruments used to mitigate any interest- or currency risk incurred in the company. Financial derivatives are recorded at fair value, with any changes in value through the income statement, and recognised gross per contract, as either asset or debt.

Changes in basis swaps effects for swaps included in fair value hedging are recognised in OCI.

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

LEVELS IN THE VALUATION HIERARCHY
Financial instruments at fair value 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 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 derivatives and any bonds which are not included in level 1.

Level 3 – Valuation based on other than observable market data
Level 3 comprises financial instruments which cannot be valued based on directly or indirectly observable prices.

Classification of financial instruments	Financial instruments at fair value through profit or loss		Financial assets and liabilities carried at amortised cost	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Loans to and receivables from credit institutions			827	1 002
Loans to and receivables from customers			25 655	23 409
Certificates and bonds	678	512		
Financial derivatives	589	625		
Total financial assets	1 267	1 137	26 482	24 411
Loans from credit institutions			2 296	1 330
Debt securities issued			23 062	22 384
Financial derivatives	45	23		
Total financial liabilities	45	23	25 358	23 714

Fair value of financial instruments at amortisied cost	31.12.2019		31.12.2018	
	Fair value	Book value	Fair value	Book value
Loans to and receivables from credit institutions	827	827	1 002	1 002
Loans to and receivables from customers	25 655	25 655	23 409	23 409
Total financial assets	26 482	26 482	24 411	24 411
Loans from credit institutions	2 296	2 296	1 330	1 330
Debt securities issued	23 138	23 062	22 432	22 384
Total financial liabilities	25 434	25 358	23 762	23 714

Financial instruments at fair value - 31.12.2019	Based on prices in an active market Level 1	Observable market information Level 2	Other than observable market information Level 3	Total
Certificates and bonds	678			678
Financial derivatives		589		589
Total financial assets	678	589	-	1 267
Financial derivatives		45		45
Total financial liabilities	-	45	-	45

Financial instruments at fair value - 31.12.2018	Based on prices in an active market Level 1	Observable market information Level 2	Other than observable market information Level 3	Total
Certificates and bonds	512	-	-	512
Financial derivatives	-	625	-	625
Total financial assets	512	625	-	1 137
Financial derivatives	-	23	-	23
Total financial liabilities	-	23	-	23

Maturity of debt securities issued, nomial value		2019	2018
	2019	-	2 500
	2020	3 474	5 744
	2021	3 000	3 000
	2022	3 363	3 363
	2023	2 375	2 375
	2024	5 498	2 500
	2025	3 550	1 050
	2028	1 201	1 201
Total		22 461	21 733

Credit quality of certificates and bonds

2019	AAA	AA+	AA-	A-	Not rated	Total
Certificates and bonds	572	106				678

2018	AAA	AA+	AA-	A-	Not rated	Total
Certificates and bonds	512					512

Note 9

Hedging of interest rate and currency exposure

The company's funding must have a maximum of 3-months fixed interest rate and be in NOK. If funding is done by issuances of fixed rate- or foreign exchange bonds, it is swapped into 3-months Nibor. The company shall not take any currency risk.

HEDGE ACCOUNTING FOR FINANCIAL LIABILITIES WITH FIXED INTEREST RATE	31.12.2019	31.12.2018
Changes in fair value of derivatives established to hedge changes in market interest rates	-11	-34
Changes in fair value due to changes in market interest rates on hedged financial liabilities with fixed interest rate	13	30

HEDGE ACCOUNTING FOR FINANCIAL LIABILITIES IN FOREIGN CURRENCY	31.12.2019	31.12.2018
Changes in fair value of derivatives established to hedge currency exsposure and market interest rates on financial liabilities	-48	55
Changes in fair value due to changes in the exchange rate and market interest rates in hedged financial liabilities	48	-61

Note 10

Issued covered bonds

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

Covered bonds (NOK million)

ISIN code	Currency	Nominal value 31.12.2019	Interest	Issued	Maturity	31.12.2019	31.12.2018
NO0010588072	NOK	1 050	fixed NOK 4.75 %	2010	2025	1 187	1 212
NO0010676018	NOK	-	3M Nibor + 0.47 %	2013	2019	-	2 506
XS0968459361	EUR	25	fixed EUR 2.81 %	2013	2028	308	300
XS0984191873	EUR	30	6M Euribor + 0.20 %	2013	2020	296	298
NO0010696990	NOK	230	3M Nibor + 0.45 %	2013	2020	231	2 507
NO0010720204	NOK	3 000	3M Nibor + 0.24 %	2014	2020	3 001	2 999
NO0010730187	NOK	1 000	fixed NOK 1.50 %	2015	2022	999	1 001
NO0010777584	NOK	3 000	3M Nibor + 0.58 %	2016	2021	3 013	3 011
XS1626109968	EUR	250	fixed EUR 0.125 %	2017	2022	2 490	2 504
NO0010819543	NOK	3 000	3M Nibor + 0.42 %	2018	2024	3 004	2 500
XS1839386577	EUR	250	fixed EUR 0.375 %	2018	2023	2 522	2 524
NO0010836489	NOK	1 000	fixed NOK 2.75 %	2018	2028	1 024	1 022
NO0010853096	NOK	2 500	3M Nibor + 0.37 %	2019	2025	2 503	-
XS2063496546	EUR	250	fixed EUR 0.01 %	2019	2024	2 484	-
Total borrowings raised through the issue of securities						23 062	22 384

COVER POOL (MNOK)	31.12.2019	31.12.2018
Pool of eligible loans 1)	25 182	22 976
Substitute assets	988	1 300
Financial derivatives to hedge issued securities (assets)	589	625
Financial derivatives to hedge issued securities (liabilities)	-45	-23
Total collateralised assets	26 714	24 878

1) NOK 476 million of total gross loans are not eligible for the cover pool as at 31.12.19 (NOK 433 million as at 31.12.2018).

Covered bonds issued (NOK million)	31.12.2019	31.12.2018
Covered bonds (nominal) 2)	22 720	22 071
Premium/discount	342	313
Total covered bonds	23 062	22 384
Own holding (covered bonds)	0	0
Debt securities issued	23 062	22 384

2) Norges Bank's exchange rates at the date of reporting is applied for outstanding debt in currencies other than NOK

Collateralisation (in %)	31.12.2019	31.12.2018
Total collateralised assets/debt securities issued	115.8	111.1

Changes in debt securities	31.12.2018	Issued	Redemption	Other changes	31.12.2019
Covered bonds, nominal value	21 733	5 536	4 784	-24	22 461
Accrued interest	62			-2	60
Value adjustments	589			-48	541
Total debt securities	22 384	5 536	4 784	-74	23 062

Note 11

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. 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.

Should Møre Boligkreditt AS for any reason experience difficulties in obtaining financing, a revolving guarantee provided by Sparebanken Møre has been established in order 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:

(NOK million)	31.12.2019	31.12.2018
Statement of income:		
Interest and credit commission income from Sparebanken Møre related to deposits	18	8
Interest and credit commission income paid to Sparebanken Møre related to loan/credit facility	17	12
Interest paid to Sparebanken Møre related to bonded debt	9	19
Management fee paid to Sparebanken Møre	36	34
Statement of financial position:		
Deposits in Sparebanken Møre	827	867
Covered bonds held by Sparebanken Møre as assets	0	818
Loan/credit facility in Sparebanken Møre	2 171	1 177
Accumulated transferred loan portfolio from Sparebanken Møre	25 658	23 424

Note 12

Wages, compensations and fees

(NOK thousand)		2019	2018
Total wages and other cash payments		2 379	2 345
- hereof salary to the Managing Director		1 036	990
- hereof other remuneration to the Managing Director		40	47
- hereof refunded premium regarding the pension plan for the Managing Director		72	66
- hereof remuneration to the Board of Directors		140	120
The Board of Directors	Kjetil Hauge, Chairman	0	0
	Sandra Myhre Helseth	0	0
	Elisabeth Blomvik	0	0
	Geir Tore Hjelle	70	60
	Britt Iren Tøsse Aandal	70	60
Total fees paid to external auditor (all fees are stated including VAT of 25 %)		717	965
- hereof statutory audit services		225	266
- hereof tax-related services		81	38
- hereof other attestation services		367	416
- hereof other non-audit services		44	245

Møre Boligkreditt AS has no employees at the end of 2019. Møre Boligkreditt AS remunerated Sparebanken Møre for the use of two man-years, but only the Managing Director of Møre Boligkreditt AS is dedicated full time to the company. A number of services are also outsourced for performance by Sparebanken Møre, and these are regulated by a specific agreement between the mortgage company and the bank. The above-mentioned pay and other cash benefits, as well as employer's national insurance contributions, are cost refunds to Sparebanken Møre. The employees are members of Sparebanken Møre's pension scheme. The scheme satisfies the current requirements for mandatory occupational pensions. The company had as per 31 December 2019 no obligation to pay the Managing Director, chairman of the Board of Directors or other employees special remuneration upon them leaving the company or in the event of a change in their employment relationship or duties. Nor do any obligations concerning bonuses, options or similar exist for any of the aforementioned people.

Loans and guarantees

(NOK thousand)	2019	2018
	Loans	
Board of Directors		
Kjetil Hauge, Chairman	2 872	2 887
Sandra Myhre Helseth	1 507	1 498
Elisabeth Blomvik	5 542	5 688
Geir Tore Hjelle	0	0
Britt Iren Tøsse Aandal	0	0
Managing Director		
Ole Andre Kjerstad	3 107	3 329

Ordinary customer terms and conditions have been applied to loans provided for members of the Board of Directors. No guarantees have been issued.

Loans to the Managing Director and the Board members of Møre Boligkreditt AS, who also are employees in Sparebanken Møre, are given according to staff conditions.

Note 13

Tax

Tax cost consists of payable tax for the income year, any tax payable for previous years, and any changes in deferred tax. Deferred tax is calculated on the temporary differences in accordance with IAS 12 Income Taxes. A temporary difference is the difference between the carrying amount of an asset or liability and the taxable value of that asset or liability. Tax increasing and tax reducing temporary differences that are reversed or could be reversed in the same period are offset and included in the accounts on a net basis.

Deferred tax is calculated on the basis of the differences which exist between the accounting-related and tax-related values at the end of the accounting year. Deferred tax assets are recognised in the statement of financial position to the extent that it is likely they will be able to be utilised against future taxable income. Deferred tax (tax assets) is recognised at its nominal value and reported on a separate line on the statement of financial position.

A tax rate of 22 per cent is used as the prevailing tax rate in 2019. Realisation of deferred tax benefit is based on future results liable to tax, based on empirical experience and prognoses, exceeding the tax benefit in question in the case of reversal of any existing temporary differences. No temporary differences exist in relation to items recognised against comprehensive Income.

The entire tax-cost is related to Norway.

Specification of taxes in Statement of income	2019	2018
Pre-tax profit	271	230
Permanent differences	-12	0
Changes in temporary differences *)	16	18
Income subject to tax	275	248
Tax payable at 22 per cent (23 per cent in 2018)	61	57
Change in deferred tax *)	-4	-4
Correction previous year	-8	3
Total tax cost	49	56

Specification of taxes in Statement of comprehensive income	2019	2018
Basis swap spreads - changes in value	2	-17
Comprehensive income subject to tax	2	-17
Total tax cost (tax payable at 22 per cent)	0	-4

Specification of tax payable	2019	2018
Tax payable in Statement of income	61	57
Tax payable in Comprehensive income	0	-4
Changes in tax payable in previous years *)	-51	0
Total tax payable	10	53

Specification of temporary differences and computation of deferred tax	2019	2018
Financial liabilities	-321	-274
Financial instruments	605	248
Net negative (-)/positive differences	284	-26
Deferred tax asset (-) or liability due to temporary differences	62	-6
Deferred tax asset (-) or liability due to implementation of IFRS 9	-	-3
Deferred tax asset (-) or liability as at 31 December	62	-9

Reconciliation of tax cost and pre-tax profit	2019	2018
22 per cent of pre-tax profit (23 per cent in 2018)	60	53
Other permanent differences 22 per cent (23 per cent in 2018)	-3	0
Correction previous year	-8	3
Total tax cost	49	56

*) The tax reporting for previous years has been corrected. This entails a reduction in deferred tax asset and corresponding reduction in tax payable by NOK 75 million as of 2018, of which NOK 51 million still is unsettled at 31.12.2019.

Note 14

Equity and related capital

The equity consists of paid-in share capital, share premium and retained earnings. Møre Boligkreditt AS recognises proposed dividends and group contributions as retained earnings until approved by the company's General Meeting. Transaction costs associated with an equity transaction are recognized directly against equity.

Møre Boligkreditt AS follows the EU's new capital adequacy regulations, CRR and CRD IV. These regulations are based on the Basel Committee's recommendations on new and stricter capital and liquidity standards, Basel III. The Sparebanken Møre Group has been granted permission to use the Internal Ratings Based ("IRB") approach for credit risk to calculate the total risk-weighted assets.

Due to the Norwegian transitional rules relating to full implementation of the IRB approach, the total risk-weighted assets cannot be reduced below 80 per cent of the Basel I requirements. These rules do no longer apply as of 31.12.2019.

The legislation requires a minimum Common Equity Tier-1 of 12.5 per cent, including a conservation-buffer of 2.5 per cent, a systemic-risk buffer of 3.0 per cent and a counter-cyclical buffer of 2.5 per cent. Minimum capital adequacy ratio is 16.0 per cent. The current defined long-term target for Møre Boligkreditt AS is to meet minimum capital requirements. Møre Boligkreditt AS has as of 31.12.2019 capital adequacy/core capital ratio of 33.0 per cent.

Tier 1 capital and supplementary capital	31.12.2019	31.12.2018
Share capital and share premium	2 050	1 600
Retained earnings	224	167
Total equity	2 274	1 767
Value adjustments of financial instruments at fair value	-1	-1
Expected IRB-losses exceeding ECL	-44	-32
Dividends	-224	-167
Common Equity Tier 1 capital	2 005	1 567
Supplementary capital	0	0
Net equity and subordinated loan capital	2 005	1 567

Risk-Weighted Assets (RWA) - calculation basis for capital adequacy ratio	31.12.2019	31.12.2018
Credit risk loans and receivables (Standardised Approach)	429	505
Credit risk loans and receivables (Internal Ratings Based Approach)	4 671	4 537
Operational Risk (Basic indicator Approach)	516	486
Total risk exposure amount for credit valuation adjustment (CVA) (SA)	452	498
Risk-weighted assets (less transitional rules for 2018)	6 068	6 026
Additional RWA from transitional rules 1)	0	3 944
Total risk-weighted assets	6 068	9 970
Minimum requirement Common Equity Tier 1 capital (4,5%)	273	449

1) Transitional rules require that RWA can not be less than 80 per cent of the corresponding Basel I requirement. This rule is no longer applicable as of 31.12.2019.

Buffer Requirement	31.12.2019	31.12.2018
Countercyclical buffer (2.5 % in 2019 and 2.0% i 2018)	152	200
Capital conservation buffer (2.5%)	152	249
Systemic risk buffer (3.0%)	182	299
Total buffer requirements	485	748
Available Common Equity Tier 1 capital after buffer requirements	1 247	370

Capital adequacy as a percentage of the weighted asset calculation basis	31.12.2019	31.12.2018
Capital adequacy ratio	33.0 %	15.7 %
Tier 1 capital ratio	33.0 %	15.7 %
Common Equity Tier 1 capital ratio	33.0 %	15.7 %

Leverage ratio	31.12.2019	31.12.2018
Leverage ratio	7.0 %	6.0 %

Liquidity Coverage Ratio	31.12.2019	31.12.2018
Liquidity Coverage Ratio - Total	117.0 %	325%
Liquidity Coverage Ratio - NOK	117.0 %	325%
Liquidity Coverage Ratio - EUR	-	-

Møre Boligkreditt AS' capital requirements at 31 December 2019 are based on IRB-Foundation for commercial commitments and IRB-Retail for retail commitments.

Note 15

Share capital

The share capital consists of 1 500 000 shares each with a nominal value of NOK 1 250. All shares are owned by Sparebanken Møre. The issue of share capital of NOK 450 million was fully paid on 22 February 2019, approved by the Norwegian FSA 11 March 2019, and registered in the Norwegian Register of Business Enterprises 13 March 2019.

Møre Boligkreditt AS is included in the consolidated financial statements of Sparebanken Møre and information about the consolidated financial statements can be obtained by contacting one of the bank's offices or via the bank's website: www.sbm.no.

	2019	2018
Total number of shares 1 January	1 140 000	1 060 000
Issues of new shares	360 000	80 000
Total number of shares 31 December	1 500 000	1 140 000
Dividend per share	149.33	146.49
Profit after tax as a percentage of average assets	0.87	0.73

Nominal value per share is NOK 1 250.

The Board of Directors has proposed a dividend of NOK 224 million per 31.12.2019.

Note 16

Events after the reporting date

New information about conditions that existed at the end of the reporting period shall be taken into account in the annual financial statements. Events after the reporting date that do not affect the mortgage company's position at that date, but will affect the mortgage company's financial position in the future, shall be disclosed if they are material.

No events of material significance for the financial statements for 2019 have occurred after the reporting date. The company is not involved in any legal proceedings.

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

We hereby confirm that the company's annual financial statements for the period 1 January 2019 to 31 December 2019, have, to the best of our knowledge, been prepared in accordance with applicable accounting standards and that the information in the financial statements provides a true and fair view of the company'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 company, as well as a description of the principal risks and uncertainties facing the company.

Ålesund, 31 December 2019
10 February 2020

THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS

KJETIL HAUGE, Chairman
BRITT IREN TØSSE AANDAL
ELISABETH BLOMVIK
GEIR TORE HJELLE
SANDRA MYHRE HELSETH

OLE ANDRE KJERSTAD, Managing Director

KPMG

KPMG AS
Langelandsveien 1
6010 Ålesund

Telephone +47 04063
Fax +47 70 10 31 30
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the General Meeting of Møre Boligkreditt AS

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Møre Boligkreditt AS, 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 accompanying financial statements are prepared in accordance with law and regulations and 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 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 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. Issued covered bonds – compliance with regulation

Refer to note *4 Risk Management*, note *5 Credit risk*, Note *10 Issued Covered Bonds* and Report from the Board of Directors.

The Key Audit Matter	*How the matter was addressed in our audit*
The covered bonds are measured at amortized cost and the total liability is NOK 23 062 million. The Company issues covered bonds as their prime source of funding. To issue these bonds the Company must be compliant with the Norwegian Financial Institutions Act, which set out detailed requirements to the assets included in and the value of the cover pool. Since such	We assessed management's process for acquiring loans that qualify as collateral for covered bonds. We tested operating effectiveness of selected internal controls that are set up to secure that only loans that fulfil legal requirements to serve as collateral, are transferred from Sparebanken Møre to the Company.

compliance is of significant importance for the funding and going concern of the Company, we considered this a key audit matter.	For a number of loans included in the cover pool, our procedures, among others, include: • testing that the assets in the cover pool comply with the requirements in the Financial Institutions Act §11-8 • agreeing collateral values with external valuations from Eiendomsverdi • testing the mathematical accuracy and corroborating the input of the calculation that management uses to establish the collateralization in percent. We have also assessed management's process for keeping the register up to date and identifying movements in the underlying assets in the cover portfolio.

2. IT-systems and application controls

The Key Audit Matter	*How the matter was addressed in our audit*
The company is dependent on the IT infrastructure in the financial reporting. The Company 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. Furthermore, the IT systems support regulatory compliance for financial reporting to authorities, which is central to licensed businesses. The system calculates interest rates on borrowing and lending and the Company's internal control systems are based on system-generated reports. Due to the importance of the IT systems for the Company's operations, the IT environment supporting the financial reporting process is considered a key audit matter.	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. 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 Company. 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. 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: • standard system reports contain all relevant data, and • the application controls, including controls related to interest rate-, annuity- and fee calculations, work as intended. We have used our IT audit specialist in the work to understand the control environment, test controls and examine the reports.

Other information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's 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 Company 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 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'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 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.

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 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, 10 February 2020
KPMG AS

Svein Arthur Lyngroth
State Authorized Public Accountant

Alternative Performance Measures

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	Average sum of total assets*
LTV (Loan to value)	**Definition**	A customer's loan amount as a percentage of market value** of the collateral.
	Justification	This key figure provides information about the asset ratio in the lending portfolio and is relevant for evaluating the risk of loss.
	Calculation	Weighted average LTV is calculated by weighting each LTV by the respective loan amount, and then dividing the sum of the weighted LTVs by the total loan amount.
Over-collateralisation	**Definition**	Over-collateralisation, calculated as the value of the cover pool relative to the value of outstanding covered bond loan debt.
	Justification	This key figure provides information about the ratio between outstanding bond loans and the underlying collateralised assets.
	Calculation	Total collateralised assets / Debt securitites issued
	Figures	2019: 26,714 / 23,062 = 115.8% 2018: 25,713 / 22,099 = 114.9%

*This figure is based on daily calculations in the accounting system, and is not directly reconcilable against the Statement of financial position.

**Market value is obtained from external AVM company (Eiendomsverdi AS).

Møre Boligkreditt