

INTERIM REPORT
2 QUARTER
UNAUDITED

18



MØRE BOLIGKREDITT

Interim report from the Board of Directors

About the Company

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

The accounts have been prepared in accordance with IFRS.

Second quarter results

The financial statements of Møre Boligkreditt AS show a pre-tax profit of NOK 51 million in second quarter 2018, compared to NOK 46 million in second quarter 2017. Net interest income amounted to NOK 66 million, compared to NOK 61 million in the same quarter last year. Costs amounted to NOK 11 million in second quarter 2018, compared with NOK 9 million in the corresponding quarter in 2017.

The ECL calculation of expected loss for Møre Boligkreditt AS resulted in increased impairments of NOK 2 million in second quarter 2018, compared to no changes in impairments in second quarter of 2017. Profit after tax amounted to NOK 40 million in second quarter 2018, compared to NOK 34 million in the corresponding quarter 2017.

The transition from IAS 39 to IFRS 9 from 1 January 2018 impacts the company's accounting for basiswap spreads. Basiswap spreads are charged to OCI with NOK 4 million in second quarter 2018.

Møre Boligkreditt AS acquired mortgages from Sparebanken Møre in the second quarter of 2018, and net lending increased by NOK 611 million. One new bond loan of EUR 250 million was issued in June 2018. No outstanding bond loans matured in second quarter 2018.

Half year end results

By half year end 2018 the financial statements show a profit before tax of NOK 117 million, compared to NOK 88 million by half year end 2017. Net interest income amounted to NOK 138 million by half year end 2018, compared to NOK 118 million by end of same period last year. Costs in the period ending 30 June 2018 amounted to NOK 21 million, compared with NOK 19 million for the corresponding period 2017.

Net losses in value of debt securities issued and related derivatives was NOK 1 million for the first six months of 2018, compared to net loss of NOK 11 million including basiswap spreads at first six months of 2017. Basiswap spreads are charged to OCI with NOK 9 million as at 30 June 2018.

Profit after tax amounted to NOK 90 million by half year end 2018 compared to NOK 66 million by half year end 2017. Tax amounted to NOK 27 million in the first six months of 2018 compared to NOK 22 million for the first six months of 2017.

Møre Boligkreditt AS had twelve bond loans outstanding at 30 June 2018 with a total bond loan debt of NOK 23 609 million, compared to twelve bond loans with NOK 18 615 million outstanding at 30 June 2017.

Total assets at half year end 2018 amounted to NOK 26 385 million compared to NOK 21 315 million at half year end 2017. Net lending increased by NOK 2 694 million in the first six months and amounted to NOK 23 856 million at half year end 2018, compared with NOK 20 535 million at half year end 2017. The ECL model calculation as at 30 June 2018 shows expected credit loss of NOK 22 million for Møre Boligkreditt AS, compared with NOK 5 million allocated for collective impairment as at 30 June 2017. At half year end 2018, the mortgages in the cover pool had an average loan-to-value ratio of 56.8 per cent, calculated as mortgage amount relative to the value of the property used as collateral.

At half year end 2018, the company's substitute assets included in the cover pool amounted to NOK 2 101 million, compared to NOK 270 million at half year end 2017. Over-collateralisation, calculated as the value of the coverpool relative to the value of outstanding covered bond loan debt was 10.0 per cent as at 30 June 2018, compared to 13.0 per cent as at 30 June 2017.

Møre Boligkreditt AS' liquidity portfolio consisting of Liquidity Coverage Ratio (LCR) eligible assets amounted to NOK 60 million at 30 June 2018, reporting total LCR of 327.3 per cent by second quarter end 2018.

Rating

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

Capital strength

Paid in equity and retained earnings amounted to NOK 1 683 million by end of second quarter 2018, compared to NOK 1 569 million by end of second quarter 2017. Risk weighted assets amounted to NOK 10 094 million by end of second quarter 2018. Net equity and subordinated loan capital amounted to NOK 1 575 million by the end of second quarter 2018, compared to NOK 1 465 million by end of second quarter 2017. This corresponds to a Common Equity Tier 1 capital ratio of 15.6 per cent. Møre Boligkreditt AS uses internal rating based (IRB) models to calculate capital requirements for credit risk.

Outlook

The slowdown of the oil related part of the Norwegian economy is levelling out, and Norwegian oil investments are expected to increase in 2018 for the first year since 2014. A strong household sector due to record low interest rates, low unemployment levels, together with a solid public sector has kept the production levels high in several other sectors. The still weak NOK is positive for the competitiveness of the export industry and the tourist industry.

The development of house prices, together with growth in debt, is the most important risk factors to Norwegian households. The Norwegian key policy rate will most likely be raised in second half of 2018, and we will also probably see upward pressure on mortgage interest rates. Important risk factors going forward are also the oil price development, macroeconomic growth in export markets, the growing 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 despite recent years decline in the petroleum related industries. The registered unemployment rate in the county of Møre og Romsdal is 2.2 per cent in June 2018, down from 2.7 per cent in June 2017, compared to the Norwegian national average also of 2.2 per cent in June 2018, down from 2.6 per cent in June 2017. We expect unemployment in the county to stay around national average levels.

Annual retail lending growth in the Sparebanken Møre Group was 5.6 per cent by the end of second quarter 2018.

The Board believes that the reduction in unemployment, still low interest rates 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 further mortgage loan portfolios from the parent bank and further increase the volume of outstanding bond loans from Møre Boligkreditt AS.

Ålesund, 30 June 2018

14 August 2018

THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS

KJETIL HAUGE, Chairman

BRITT IREN TØSSE AANDAL

ELISABETH BLOMVIK

GEIR TORE HJELLE

SANDRA MY HRE HELSETH

OLE KJERSTAD, Managing Director

Statement of income

STATEMENT OF INCOME

(NOK million)	Notes	Q2 2018	Q2 2017	30.06.2018	30.06.2017	2017
Interest income from assets assessed at amortised cost	2	150	128	287	256	527
Interest income from assets assessed at fair value	2	1	1	1	2	3
Interest expenses	2	85	68	150	140	269
Net interest income	2 6	66	61	138	118	261
Commission income		0	0	0	0	1
Net change in value of securities and related derivatives		-2	-6	-1	-11	-14
Wages, salaries and general administration costs		0	0	1	1	3
Other operating costs	6	11	9	20	18	35
Total operating costs		11	9	21	19	38
Profit before impairment on loans and taxes		53	46	116	88	210
Impairment on loans	3	2	0	-1	0	-3
Pre tax profit		51	46	117	88	213
Taxes		11	12	27	22	48
Profit after tax		40	34	90	66	165

STATEMENT OF COMPREHENSIVE INCOME

(NOK million)	Q2 2018	Q2 2017	30.06.2018	30.06.2017	2017
Profit after tax	40	34	90	66	165
Items that may subsequently be reclassified to the income statement:					
Basisswap spreads - changes in value 1)	-4	0	-9	0	0
Tax effect of basisswap spreads	1	0	2	0	0
Total comprehensive income after tax	37	34	83	66	165

1) Changes in value on basisswaps inherent in hedging instruments, have up to 31.12.2017 been recognised in the income statement. As of 1.1.2018, changes in value on basisswaps due to changes in basisswap spreads, will be recognised in OCI as a cost of hedging.

Statement of financial position

ASSETS

(NOK million)	Notes	30.06.2018	30.06.2017	31.12.2017
Loans to and receivables from credit institutions	2 4 5 6	1 086	152	85
Loans to and receivables from customers	2 3 4	23 856	20 535	21 162
Certificates and bonds	4 5	1 075	168	60
Financial derivatives	4 5	361	460	439
Deferred tax asset		7	0	2
Total assets		26 385	21 315	21 748

LIABILITIES AND EQUITY

(NOK million)	Notes	30.06.2018	30.06.2017	31.12.2017
Loans from credit institutions	4 6	1 048	1 107	1 202
Debt securities issued	4 5 6	23 609	18 615	18 823
Financial derivatives	4 5	23	7	4
Tax payable		22	17	52
Total liabilities		24 702	19 746	20 081
Share capital		1 425	1 325	1 325
Share premium		175	175	175
Paid-in equity		1 600	1 500	1 500
Retained earnings		0	3	167
Profit for the period		83	66	0
Total equity	7	1 683	1 569	1 667
Total liabilities and equity		26 385	21 315	21 748

Statement of changes in equity

30.06.2018

(NOK million)	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	-15			-15
Equity as at 01 January 2018	1 652	1 325	175	152
Total comprehensive income for the period	83			83
Issue of share capital	100	100		
Dividends	-152			-152
Equity as at 30 June 2018	1 683	1 425	175	83

The share capital consists of 1 140 000 shares at NOK 1 250, a total of NOK 1 425 million. All shares are owned by Sparebanken Møre. The issue of share capital of NOK 100 million was fully paid on 28 February 2018, approved by the Norwegian FSA 12 March 2018, and registered in the Norwegian Register of Business Enterprises 19 March 2018.

30.06.2017

(NOK million)	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2016	1 509	1 175	175	159
Total comprehensive income for the period	66			66
Issue of share capital	150	150		
Dividends	-156			-156
Equity as at 30 June 2017	1 569	1 325	175	69

The share capital consisted of 1 060 000 shares at NOK 1 250, a total of NOK 1 325 million. All shares were owned by Sparebanken Møre.

31.12.2017

(NOK million)	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2016	1 509	1 175	175	159
Total comprehensive income for the period	165			165
Issue of share capital	150	150		
Dividends	-156			-156
Equity as at 31 December 2017	1 667	1 325	175	167

The share capital consisted of 1 060 000 shares at NOK 1 250, a total of NOK 1 325 million. All shares were owned by Sparebanken Møre.

Dividend as of 31 December 2017 amounted to NOK 152 million.

Statement of cash flow

(NOK million)	30.06.2018	30.06.2017	31.12.2017
Cash flow from operating activities			
Interest, commission and fees received	288	256	527
Interest, commission and fees paid	-6	-10	-14
Operating expenses paid	-21	-19	-38
Income taxes paid	-56	-58	-51
Payment for acquiring loans from the Parent Bank	-5 427	-3 332	-5 108
Payment related to instalment loans and credit lines to customers	2 712	2 606	3 759
Net cash flow from operating activities	-2 510	-557	-925
Cash flow from investing activities			
Received interest, commission and fees related to certificates, bonds and other securities	1	2	3
Proceeds from the sale of certificates, bonds and other securities	30	433	1 170
Purchases of certificates, bonds and other securities	-1 045	-78	-707
Changes in other assets	-10	-11	-14
Net cash flow from investing activities	-1 024	346	452
Cash flow from financing activities			
Paid interest, commission and fees related to issued bonds	-143	-130	-252
Net change in loans from credit institutions	-154	-34	61
Proceeds from bonds issued	4 863	2 344	3 350
Redemption of issued covered bonds	0	-2 104	-2 883
Dividend paid	-152	-156	-156
Changes in other debt	21	22	17
Issue of share capital and premium	100	150	150
Net cash flow from financing activities	4 535	92	287
Net change in cash and cash equivalents	1 001	-119	-186
Cash balance at 01.01	85	271	271
Cash balance at 30.06/31.12	1 086	152	85

Note 1

ACCOUNTING PRINCIPLES

Møre Boligkreditt AS' interim report has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU as of 30.06.2018. The interim report has been prepared in accordance with IAS 34 Interim Financial Reporting (compressed). The accounts are prepared using the same principles and with the same methodology as the annual accounts for 2017, except for IFRS 9 replacing IAS 39 from 1 January 2018.

Accounting principles for classification in accordance with IFRS 9 are presented in Note 4. Tables showing the transition effects of the implementation of IFRS 9 are presented in Note 1.13 of the Annual Report for 2017. The methodology for measuring expected credit losses (ECL) in accordance with IFRS 9 is explained in the 1Q-2018 interim report. In addition, reference is made to the Annual Report 2017 for further description of accounting principles.

All amounts are stated in NOK million unless stated otherwise.

The interim financial statements are not audited.

Note 2

OPERATING SEGMENTS

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

(NOK million)	Loans		
Broken down according to sectors	30.06.2018	30.06.2017	31.12.2017
Commercial sector	533	378	380
Retail customers	23 345	20 141	20 759
Accrued interest income	0	21	25
Loans, nominal amount	23 878	20 540	21 164
Expected credit loss (ECL) - Stage 1	-2		
Expected credit loss (ECL) - Stage 2	-20		
Expected credit loss (ECL) - Stage 3	0		
Collective impairment	-	-5	-2
Loans to and receivables from customers	23 856	20 535	21 162

(NOK million)	Net interest income		
	30.06.2018	30.06.2017	31.12.2017
Interest income from:			
Loans to and receivables from credit institutions	2	1	2
Loans to and receivables from customers	285	255	525
Certificates, bonds and other interest-bearing securities	1	2	3
Interest income	288	258	530
Interest expenses in respect of:			
Loans from credit institutions	7	10	17
Debt securities issued	143	130	252
Interest expenses	150	140	269
Net interest income	138	118	261

Note 3

IMPAIRMENT, LOSSES AND NON-PERFORMANCE

Møre Boligkreditt 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 with 12-months ECL
- Stage 2: If a significant increase in credit risk since initial recognition is identified, but without objective evidence of loss, the commitment is transferred to stage 2 with lifetime ECL measurement
- Stage 3: If the credit risk increases further and there's objective evidence of loss or if individual impairments have been made, the commitment is transferred to stage 3.

The methodology for measuring expected credit losses (ECL) in accordance with IFRS 9 is explained in Note 1 in the interim report for the 1st quarter. Tables showing the transition effects of the implementation of IFRS 9 are presented in Note 1.13 in the Annual Report 2017.

Specification of credit loss expense (NOK thousand)	Q2 2018	Q2 2017	30.06.2018	30.06.2017	31.12.2017
Changes in collective impairment during the period (IAS 39)	-	0	-	0	-3 000
Changes in Expected Credit Loss (ECL) during the period stage 1	145	-	115	-	-
Changes in Expected Credit Loss (ECL) during the period stage 2	8 483	-	7 143	-	-
Changes in Expected Credit Loss (ECL) during the period stage 3	-6 954	-	-7 896	-	-
Total impairment on loans in the period	1 674	0	-638	0	-3 000

Commitments (exposure) divided into risk groups based on probability of default (NOK million)	Stage 1	Stage 2	Stage 3	Total
Low risk (0 % - < 0.5 %)	23 031	1 025	-	24 056
Medium risk (0.5 % - < 3 %)	375	639	-	1 014
High risk (3 % - <100 %)	7	97	2	106
Total loans before ECL	23 413	1 761	2	25 176
- ECL	-2	-20	-	-22
Loans and receivables from customers 30.06.2018 *)	23 411	1 741	2	25 154

*) The table shows exposures at reporting date and can therefore not be reconciled against carrying amount.

Changes in ECL in the period (NOK thousand)	Stage 1	Stage 2	Stage 3	Total
31.12.2017 according to IAS 39				2 000
Effect of transition to IFRS 9				20 258
ECL 01.01.2018 according to IFRS 9	1 568	12 665	8 024	22 258
New loans	259	3 550	12	3 821
Disposal of loans	-132	-1 645	-958	-2 735
Changes in ECL in the period for loans which have not migrated	-27	-1 527	-419	-1 973
Migration to stage 1	126	-2 161	-473	-2 509
Migration to stage 2	-97	9 327	-6 783	2 447
Migration to stage 3	-15	-400	725	310
ECL 30.06.2018	1 682	19 809	128	21 620

Note 4

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:

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

The classification of the financial assets depends on two factors:

- The purpose of the acquisition of the financial instrument
- The contractual cash flows from the financial assets

Financial assets assessed at amortised cost

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

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

All lending and receivables are recorded in the accounts at amortised cost, based on expected cash flows. The difference between the issue cost and the settlement amount at maturity, is amortised over the lifetime of the loan.

Financial liabilities assessed at amortised cost

Debt securities, including debt securities included in fair value hedging 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, as this portfolio is managed based on fair value.

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.

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

LEVELS IN THE VALUATION HIERARCHY

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

Level 1 – Valuation based on prices in an active market

Level 1 comprises financial instruments valued by using quoted prices in active markets for identical assets or liabilities. This category includes bonds and certificates in LCR-level 1, traded in active markets.

Level 2 – Valuation based on observable market data

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

Level 3 – Valuation based on other than observable market data

Level 3 comprises financial instruments which can not be valued based on directly or indirectly observable prices. This category mainly includes loans to customer.

CLASSIFICATION OF FINANCIAL INSTRUMENTS	Financial instruments at fair value through profit or loss		Financial instruments carried at amortised cost	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Loans to and receivables from credit institutions			1 086	152
Loans to and receivables from customers			23 856	20 535
Certificates and bonds	1 075	168		
Financial derivatives	361	460		
Total assets	1 436	628	24 942	20 687
Loans from credit institutions			1 048	1 107
Debt securities issued			23 609	18 615
Financial derivatives	23	7		
Total liabilities	23	7	24 657	19 722

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST	30.06.2018		30.06.2017	
	Fair value	Book value	Fair value	Book value
Loans to and receivables from credit institutions	1 086	1 086	152	152
Loans to and receivables from customers	23 856	23 856	20 535	20 535
Total assets	24 942	24 942	20 687	20 687
Loans from credit institutions	1 048	1 048	1 107	1 107
Debt securities issued	23 701	23 609	18 680	18 615
Total liabilities	24 749	24 657	19 787	19 722

FINANCIAL INSTRUMENTS AT AMORTISED COST - 30.06.2018	Based on prices in an active market		Other than observable market information	
	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions	-	1 086	-	1 086
Loans to and receivables from customers	-	-	23 856	23 856
Total assets	-	1 086	23 856	24 942
Loans from credit institutions	-	1 048	-	1 048
Debt securities issued	-	23 701	-	23 701
Total liabilities	-	24 749	-	24 749

FINANCIAL INSTRUMENTS AT AMORTISED COST - 30.06.2017	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions	-	152	-	152
Loans to and receivables from customers	-	-	20 535	20 535
Total assets	-	152	20 535	20 687
Loans from credit institutions	-	1 107	-	1 107
Debt securities issued	-	18 680	-	18 680
Total liabilities	-	19 787	-	19 787

FINANCIAL INSTRUMENTS AT FAIR VALUE - 30.06.2018	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Certificates and bonds	-	1 075	-	1 075
Financial derivatives	-	361	-	361
Total assets	-	1 436	-	1 436
Financial derivatives	-	23	-	23
Total liabilities	-	23	-	23

FINANCIAL INSTRUMENTS AT FAIR VALUE - 30.06.2017	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Certificates and bonds	-	168	-	168
Financial derivatives	-	460	-	460
Total assets	-	628	-	628
Financial derivatives	-	7	-	7
Total liabilities	-	7	-	7

Note 5

ISSUED COVERED BONDS

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

Covered bonds (NOK million)								
ISIN code	Currency	Nominal value 30.06.2018	Interest	Issue	Maturity	30.06.2018	30.06.2017	31.12.2017
NO0010588072	NOK	1 050	fixed NOK 4.75 %	2010	2025	1 206	1 243	1 235
NO0010657232	NOK	2 500	3M Nibor + 0.65 %	2012	2018	2 500	2 505	2 503
XS0828616457	SEK	-	3M Stibor + 0.70 %	2012	2017	-	694	-
NO0010676018	NOK	2 500	3M Nibor + 0.47 %	2013	2019	2 500	2 502	2 502
XS0968459361	EUR	25	fixed EUR 2.81 %	2013	2028	284	289	295
XS0984191873	EUR	30	6M Euribor + 0.20 %	2013	2020	285	287	295
NO0010696990	NOK	2 500	3M Nibor + 0.45 %	2013	2020	2 498	2 496	2 497
NO0010699028	NOK	-	3M Nibor + 0.37 %	2013	2017	-	150	-
NO0010720204	NOK	3 000	3M Nibor + 0.24 %	2014	2020	2 999	2 498	2 998
NO0010730187	NOK	1 000	fixed NOK 1.50 %	2015	2022	986	992	993
NO0010777584	NOK	3 000	3M Nibor + 0.58 %	2016	2021	3 003	2 499	3 003
XS1626109968	EUR	250	fixed EUR 0.125 %	2017	2022	2 380	2 389	2 450
NO0010819543	NOK	2 500	3M Nibor + 0.42 %	2018	2024	2 499	-	-
XS1839386577	EUR	250	fixed EUR 0.375 %	2018	2023	2 393	-	-
Total securities issued						23 533	18 544	18 771
Accrued interest						76	71	52
Total borrowings raised through the issue of securities						23 609	18 615	18 823

Cover pool (NOK million)	30.06.2018	30.06.2017	31.12.2017
Pool of eligible loans 1)	23 526	20 320	20 814
Supplementary assets	2 101	270	85
Financial derivatives to hedge issued securities (liabilities)	-23	-7	-4
Financial derivatives to hedge issued securities (assets)	361	460	439
Total collateralised assets	25 965	21 043	21 334
Collateralisation in %	110.0	113.0	113.3

1) NOK 330 million of total gross loans are not eligible for the cover pool as at 30.06.18.

Note 6

TRANSACTIONS WITH RELATED PARTIES

Møre Boligkreditt AS purchases services from Sparebanken Møre. There are also transactions between the parties related to the acquisition of loan portfolio and the fact that Sparebanken Møre provides loans and credits to the mortgage company.

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

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

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

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

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

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

The most important transactions are as follows:

(NOK million)	30.06.2018	30.06.2017	31.12.2017
Statement of income			
Interest and credit commission income from Sparebanken Møre related to deposits	2	1	2
Interest and credit commission income paid to Sparebanken Møre related to loan/credit facility	7	10	17
Interest paid to Sparebanken Møre related to bonded debt	9	10	11
Management fee paid to Sparebanken Møre	17	15	30
Statement of financial position			
Deposits in Sparebanken Møre	1 086	152	85
Covered bonds held by Sparebanken Møre as assets	2 214	150	425
Loan/credit facility in Sparebanken Møre	1 048	1 107	1 202
Accumulated transferred loan portfolio from Sparebanken Møre	23 878	20 540	21 164

Note 7

EQUITY AND RELATED CAPITAL

Tier 1 capital and supplementary capital	30.06.2018	30.06.2017	31.12.2017
Share capital and share premium	1 600	1 500	1 500
Retained earnings	0	3	167
Total equity	1 600	1 503	1 667
Dividends	0	0	-152
Expected IRB-losses exceeding ECL	-25	-38	-40
Common Equity Tier 1 capital	1 575	1 465	1 476
Supplementary capital	0	0	0
Net equity and subordinated loan capital	1 575	1 465	1 476

Risk-weighted assets (calculation basis for capital adequacy ratio)	30.06.2018	30.06.2017	31.12.2017
Credit risk loans and receivables (Standardised Approach)	349	243	217
Credit risk loans and receivables (Internal Ratings Based Approach)	4 532	3 976	3 898
Operational Risk (Basic indicator Approach)	486	505	505
Total risk exposure amount for credit valuation adjustment (CVA) (SA)	244	307	320
Risk-weighted assets less transitional rules	5 611	5 031	4 941
Additional RWA from transitional rules 1)	4 483	4 013	3 995
Total risk-weighted assets	10 094	9 044	8 936
Minimum requirement Common Equity Tier 1 capital (4.5%)	454	407	402

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

Buffer Requirement	30.06.2018	30.06.2017	31.12.2017
Countercyclical buffer (2.0%)	202	136	134
Capital conservation buffer (2.5%)	252	226	223
Systemic risk buffer (3.0%)	303	271	268
Total buffer requirements	757	633	626
Available Common Equity Tier 1 capital after buffer requirements	364	425	448

Capital adequacy as a percentage of the weighted asset calculation basis	30.06.2018	30.06.2017	31.12.2017
Capital adequacy ratio	15.6 %	16.2 %	16.5 %
Tier 1 capital ratio	15.6 %	16.2 %	16.5 %
Common Equity Tier 1 capital ratio	15.6 %	16.2 %	16.5 %

Leverage ratio	30.06.2018	30.06.2017	31.12.2017
Leverage ratio	5.8 %	6.7 %	6.6 %

Liquidity Coverage Ratio	30.06.2018	30.06.2017	31.12.2017
Liquidity Coverage Ratio - Total	327%	156%	295%
Liquidity Coverage Ratio - NOK	327%	-	295%
Liquidity Coverage Ratio - EUR	-	-	-

Møre Boligkreditt AS' capital requirements at 30th June 2018 are based on IRB-Foundation for commercial commitments and IRB-Retail for retail commitments.

Statement

Statement pursuant to section 5-6 of the Securities Trading Act

We hereby confirm that the company's financial statements for the period 1 January to 30 June 2018 to the best of our knowledge, have been prepared in accordance with IAS 34 - Interim Financial Reporting, and 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 interim 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, 30 June 2018

14 August 2018

THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS

KJETIL HAUGE, Chairman

BRITT IREN TØSSE AANDAL

ELISABETH BLOMVIK

GEIR TORE HJELLE

SANDRA MY HRE HELSETH

OLE KJERSTAD, Managing Director

Profit performance

QUARTERLY PROFIT (NOK million)	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Net interest income	66	72	75	68	61
Other operating income	-2	1	1	-3	-6
Total operating costs	11	10	10	9	9
Profit before impairment on loans	53	63	66	56	46
Impairment on loans	2	-2	-3	0	0
Pre tax profit	51	65	69	56	46
Tax	11	15	12	14	12
Profit after tax	40	50	57	42	34

As a percentage of average assets:

Net interest income	1.11	1.34	1.43	1.34	1.23
Other operating income	-0.03	0.02	0.02	-0.06	-0.11
Total operating costs	0.20	0.18	0.18	0.18	0.20
Profit before impairment on loans	0.88	1.18	1.27	1.10	0.92
Impairment on loans	0.03	-0.04	-0.06	0.00	0.00
Pre tax profit	0.85	1.22	1.33	1.10	0.92
Tax	0.20	0.28	0.23	0.28	0.23
Profit after tax	0.65	0.94	1.10	0.82	0.69

Average total assets (NOK million)	23 970	21 365	20 910	20 565	19 545
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ACCUMULATED PROFIT FOR THE YEAR (NOK million)	30.06.2018	30.06.2017	31.12.2017
Net interest income	138	118	261
Other operating income	-1	-11	-13
Total operating costs	21	19	38
Profit before impairment on loans	116	88	210
Impairment on loans	-1	0	-3
Pre tax profit	117	88	213
Tax	27	22	48
Profit after tax	90	66	165

As a percentage of average assets:

Net interest income	1.21	1.19	1.29
Other operating income	-0.01	-0.11	-0.06
Total operating costs	0.19	0.19	0.19
Profit before impairment on loans	1.01	0.89	1.04
Impairment on loans	-0.01	0.00	-0.01
Pre tax profit	1.02	0.89	1.05
Tax	0.24	0.22	0.24
Profit after tax	0.78	0.67	0.81

Average total assets (NOK million)	22 780	19 710	20 225
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