

INTERIM REPORT 4. QUARTER
NOT AUDITED

11



MØRE BOLIGKREDITT

Quarterly Report from the Board of Directors

About the company

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

The accounts have been prepared in accordance with IFRS, IAS 34 (compressed).

Profit and balance sheet performance

The financial statements of Møre Boligkreditt AS show a profit after tax of NOK 28 million per Q4 2011, compared with NOK 31 million for the corresponding period in 2010. Interest income amounted to NOK 294 million, compared with NOK 191 million for the same period last year, while interest expenses totalled NOK 233 million, compared with NOK 134 million for the same period last year. Costs amounted to NOK 19 million, compared with NOK 14 million for the corresponding period in 2010.

Møre Boligkreditt AS had no registered losses, but NOK 0.8 million has been allocated for non-specific loss provisions in Q4 2011. Profit before tax amounted to NOK 39 million, compared with NOK 43 million for the same period last year. Tax amounted to NOK 11 million, compared with NOK 12 million for the same period last year. Total assets amounted to NOK 8 324 million at the end of the quarter compared with NOK 5 796 million at the end of the same quarter last year. Net lending amounted to NOK 8 148 million, compared with NOK 5 539 million for the same period last year, while bank deposits totalled NOK 110 million, compared with NOK 250 million for the same period last year.

The company issued one new covered bond in Q4 2011. The bond is the first issued under the company's EMTCN programme and had a face value of SEK 300 million. The bond issue is Møre Boligkreditt AS's ninth. The mortgage company has a total loan debt of NOK 7 137 million at the end of Q4.

Rating of the company's issues of covered bonds

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

Financial strength

Møre Boligkreditt AS's equity and subordinated loan capital amounted to NOK 531 million at the end of Q4 2011 compared with NOK 421 million at the end of Q4 2010. This corresponds to an increase in capital adequacy/core capital ratio of 16.65 per cent. The risk-weighted balance sheet amounted to NOK 3 187 million at the end of Q4 2011. The capital adequacy ratio has been calculated using the standard approach in the Basel II rules and regulations.

The Board of Directors considers the company's risk-bearing capacity as satisfactory.

Risks

Its licence as a mortgage company means that 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 mortgage company's various risk exposures. The Board of Directors and CEO of Møre Boligkreditt AS are responsible for ensuring that proper risk management is established, and that this is adequate and complies with the acts and regulations. Operational risk management in the mortgage company is performed by Sparebanken Møre based on an agreement concluded between the mortgage company and Sparebanken Møre. The risk management emphasises identifying, measuring and managing the mortgage company's risk elements in a manner that ensures 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 fulfil their obligations at the agreed time and pursuant to written agreements, and the collateral received not covering outstanding claims. The credit risk strategy adopted by the mortgage company defines which loans can be acquired by the mortgage company. The strategy stipulates criteria for both borrowers and the collateral for the loans that can be acquired. At the end of Q4 2011 the loans had an average debt to asset ratio of 53 per cent. The Board of Directors considers the quality of the loan portfolio to be very good and the credit risk to be low.

Market risk

Market risk is the risk that will arise due to the mortgage company's holding or assuming positions in lending and financial instruments in which the values over time will be affected by changes in market prices. Møre Boligkreditt AS must pursuant to the law have very low market risk and Board-approved restrictions regarding its maximum exposure to market risk. The mortgage company utilises 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 fixed rate and foreign currency positions are hedged by financial derivatives, and the Board considers the overall market risk to be low.

Funding risk

Funding risk is the risk that the mortgage company will be unable to fulfil its obligations without substantial extra costs being incurred in the form of price falls for assets that must be realised or extra expensive funding. The mortgage company has adopted a funding risk strategy and established limits for long-term funding and short-term funding risk limits. The bonds issued by Møre Boligkreditt AS have a soft bullet structure and the mortgage company has an opportunity to extend the term of its borrowing by up to 12 months should the mortgage company experience problems refinancing on the ordinary due date. The Board of Directors considers the mortgage company's funding risk to be low.

Operational risk

Operational risk is the risk of loss 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 include administration, production, IT operations, and financial and risk management. Therefore, the operational risk lies within the Bank's definition and management of this type of risk, and it is therefore the Bank that bears the risk associated with any errors in the deliveries and services that should be provided. The Board considers the mortgage company's operational risk to be low.

Future prospects

Despite the international economic downturn, the outlook for the Norwegian economy is relatively good. The main reason for this is the prospect of continued growth within private and public service sector. A solid upturn in oil investments can also be expected.

However, the export industry will be affected by lower export market growth. The travel industry will also notice lower demand from abroad. Moreover, the downturn could spread to the housing market. Nonetheless, low interest rates and low unemployment rates mean housing prices will probably be sustained.

The most important risk factors are the development of the international economy, the oil price and the mood of the household segment. However, should Norway be more severely affected than expected, monetary and financial policy could quickly move in a more expansive direction.

Møre Boligkreditt AS is planning further acquisitions from the Parent Bank's loan portfolio and growth in its bond volume during 2012.

Ålesund, 1 February 2012
The Board of Directors of Møre Boligkreditt AS

Kjetil Hauge
CHAIRMAN

Britt Iren Tøsse Aandal

Trond Nydal

Geir Tore Hjelle

Sandra Myhre Helseth

Ole Kjerstad
CEO

Statement of income

		Møre Boligkreditt AS			
Amounts in NOK million	Notes	2011	2010	4. q. 11	4. q. 10
Interest income		294	191	86	58
Interest costs		233	134	71	42
Net interest and credit commission income	5	61	57	15	16
Net change in value of debt securities and related derivatives		-2	0	0	0
Wages, salaries and general administration costs		3	4	1	1
Other operating costs	5	16	10	4	3
Total operating costs		19	14	5	4
Result before credit losses		40	43	10	12
Losses on loans, guarantees etc.	3	1	0	1	0
Result from ordinary operations before tax		39	43	9	12
Tax payable on ordinary result		11	12	3	3
Result from ordinary operations after tax		28	31	6	9
Result pr. share (NOK)		55.95	78.14	12.48	22.38
Diluted earnings pr. share (NOK)		55.95	78.14	12.48	22.38

Statement of comprehensive income

		Møre Boligkreditt AS			
Amounts in NOK million		2011	2010	4. q. 11	4. q. 10
Result from ordinary operations after tax		28	31	6	9
Total comprehensive income from ordinary operations after tax		28	31	6	9

Balance sheet

- Statement of financial position as at the end of the period

Amounts in NOK million	Notes	Møre Boligkreditt AS	
		31.12.11	31.12.10
Assets			
Loans to and deposits with credit institutions, on a call basis	2, 4, 5	110	250
Net loans to and claims on customers	2, 3, 4	8 148	5 539
Financial derivatives		44	0
Prepayments and accrued income		22	7
Total assets		8 324	5 796
Liabilities and equity capital			
Liabilities to credit institutions, on a call basis	5	594	217
Borrowings raised through the issue of securities	4, 5	7 137	5 082
Financial derivatives		9	16
Other liabilities		11	12
Accrued liabilities and deferred income		42	18
Total liabilities		7 793	5 345
Share capital		500	398
Other paid-in equity capital		0	0
Paid-in equity capital		500	398
Other equity capital		30	53
Equity capital accumulated through retained earnings		30	53
Total equity capital		531	451
Total liabilities and equity capital		8 324	5 796

Statement of changes in equity

2011				
Amounts in NOK Thousand	Equity capital	Share capital	Other paid-in equity capital	Other equity capital
Equity capital as at 31.12.10	451 656	398 000	360	53 296
Group contributions paid after tax	-51 000			-51 000
Capital increase	102 000	102 000		
Equity capital before allocations	502 656	500 000	360	2 296
Total comprehensive income from ordinary operations after tax	28 162			28 162
Equity capital as at 31.12.11	530 818	500 000	360	30 458

The share capital is distributed over 500 000 shares at NOK 1 000, a total of NOK 500 million. All shares are owned by Sparebanken Møre.

2010				
Amounts in NOK Thousand	Equity capital	Share capital	Other paid-in equity capital	Other equity capital
Equity capital as at 31.12.09	197 556	175 000	360	22 196
Capital increase registered in the Register of Business Enterprises on 9 January 2010	223 000	223 000		
Equity capital before allocations	420 556	398 000	360	22 196
Total comprehensive income from ordinary operations after tax	31 100			31 100
Equity capital as at 31.12.10	451 656	398 000	360	53 296

Suggested group contribution amounts to NOK 51 million after tax.

Cash Flow Statement

	Møre Boligkreditt AS	
Amounts in NOK million	2011	2010
Cash flow from operational activities		
Interest, commission and fees received	318	197
Interest, commission and fees paid	-249	-136
Paid operating expenses	-22	-14
Payment of tax	0	-8
Net changes relating to instalment loans to customers	-2 091	-1 359
Net changes in respect of utilised credit facilities	-518	-574
Net cash flow from operational activities	-2 562	-1 894
Cash flow from investment activities	0	0
Net cash flow from investment activities	0	0
Cash flow from funding activities		
Net changes relating to deposits from Norges Bank and other financial institutions	378	62
Net payments received in respect of proceeds from bond issues raised	2 012	1 831
Payment of dividend and group contribution	-63	0
Changes in other debt	-7	16
Change in equity due to capital increase	102	0
Net cash flow from funding activities	2 422	1 909
Net changes on cash holdings	-140	15
Holdings of cash 01.01	250	235
Holdings of cash 31.12	110	250

1 - Accounting principles

Møre Boligkreditt AS' interim report is prepared in accordance with adopted international accounting standards, International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board and implemented by the EU at 31 December 2011. The interim financial statements have 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 interim accounts for 1 quarter of 2011.

The principles are outlined in the interim report for 1 quarter of 2011. There have been no changes in standards that affect the financial statements of Møre Boligkreditt AS from 31 March 2011.

The interim financial statement is not audited.

All amounts are stated in NOK million unless stated otherwise.

2 - Gross loans broken down according to sectors

Amounts in NOK million	Gross loans	
	2011	2010
Sectors		
Agriculture and forestry	1	2
Fisheries	1	2
Industry and mining	1	1
Building and construction	7	6
Wholesale and retail trade, hotel industry	4	7
Property management	157	97
Transport and private service industry	27	19
Public entities	0	0
Non-Norwegian lending	0	0
Miscellaneous	0	0
Total Corporate/Public entities	198	134
Retail customers	7 951	5 405
Total Gross loans	8 149	5 539
Non-specific loss provisions	-1	0
Net loans	8 148	5 539

3 - Write-downs, losses and non-performance

Møre Boligkreditt AS reviews its loan portfolio every quarter. All commitments that must be assessed individually are tested to see whether or not objective evidence exists that a loss event has occurred and that the loss event reduces the loan's future cash flows. Examples of such objective evidence are material financial problems at the debtor, payment defaults, material breaches of contract, agreed changes to the interest rate or other agreement terms due to financial problems at the debtor, bankruptcy, etc.

If objective evidence of impairment exists, the loss on the loan is estimated as the difference between the carrying amount (balance + accrued interest on the date of assessment) and the present value of future cash flows. Estimates of future cash flows also take into account takeovers and sales of associated collateral, included expenses associated with such takeovers and sales.

When a future cash flow is estimated according to best judgement and this is registered, the system will calculate the new value of the loan (amortised cost) and the difference compared to the carrying amount will equal the write-down amount.

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

Collective write-downs for impaired value are calculated for sub-groups of loans concerning which objective events indicate that future cash flows that would be used to service the commitments have weakened, where it is not possible to examine all commitments on an individual basis, or where information is not identifiable at a commitment level. Commitments against which individual writedowns for losses have been registered are not included in the basis for collective write-downs.

The Sparebanken Møre Group has developed its own collective writedown model and calculations are conducted each month based on input from the risk classification system, data warehouse, and assessments of macroeconomic factors. Changes to risk classification, negative developments in collateral values, and registered macroeconomic events that affect future estimated cash flows are taken into account in the model. The models looks at both cash flows out of the company (total borrowing and funding expenses, administration expenses, etc), as well as estimated cash flow into the company (including interest income from customers). The group's model for collective write-downs is tailored to Møre Boligkreditt AS' assumptions and operations.

No exposures in the company's lending portfolio were identified on the balance sheet date as needing individual write-downs. Nor do the lending statistics on the balance sheet show any registered nonperformance in the mortgage company's portfolio. Write-down of group of loans have been charged to the accounts with NOK 0.8 million during fourth quarter 2011.

4 - Financial liabilities

Securitised debt is classified as being valued at amortised cost.

Covered bonds (Amounts in NOK million)

ISIN code	Currency	Nominal value 31.12.2011	Interest	Issue	Maturity	31.12.2011	31.12.2010
NO0010499825	NOK	141	3M Nibor + 0.40 %	2009	2012	141	750
NO0010499833	NOK	1 000	3M Nibor + 0.45 %	2009	2014	1 000	1 000
NO0010499841	NOK	1 500	3M Nibor + 0.50 %	2009	2016	1 500	1 500
NO0010564982	NOK	1 250	3M Nibor + 0.40 %	2010	2015	1 248	749
NO0010575079	NOK	1 000	3M Nibor + 0.55 %	2010	2017	999	599
NO0010588072	NOK	700	fast 4.75 %	2010	2025	738	484
NO0010601396	SEK	750	3M Stibor + 0.85 %	2011	2016	651	-
NO0010625833	NOK	600	3M Nibor + 0.44 %	2011	2014	599	-
XS0685790585	SEK	300	3M Stibor + 0.75 %	2011	2015	261	-
Total borrowings raised through the issue of securities						7 137	5 082

Coverpool (Amounts in NOK million)

	31.12.2011	31.12.2010
Pool of eligible loans 1)	7 973	5 391
Supplementary assets	110	250
Total collateralised assets	8 083	5 641
Over-collateralisation	113.3 %	111.1 %

1) NOK 175 million of total gross loans at the balance sheet date do not qualify for the coverpool.

5 - Transactions with related parties

In order to exercise normal operations, Møre Boligkreditt AS buys services from Sparebanken Møre. There will also be transactions between the parties related to the mortgage company's acquisition of loan portfolio, and the fact that Sparebanken Møre provides loans

and credits to the mortgage company.

Møre Boligkreditt AS and Sparebanken Møre have entered into a "Transfer and Servicing Agreement", and the transactions between the two companies are on commercial terms.

The most important transactions are as follows:

(Amounts in NOK million)	2011	2010
Transferred loan portfolio during the period	5 703	3 861
Result		
Interest and credit commission income from Sparebanken Møre related to deposits	6	6
Interest and credit commission income paid to Sparebanken Møre related to loan/credit facility	12	8
Interest paid to Sparebanken Møre related to securitised debt	89	86
Management fee paid to Sparebanken Møre	10	7
Balance sheet		
Deposits in Sparebanken Møre	110	250
Covered bonds	2 291	2 818
Loan/credit facility in Sparebanken Møre	594	217

6 - Equity and related capital

(Amounts in NOK million)

	Møre Boligkreditt AS	
	2011	2010
Standard method (Basel II)		
Core capital	531	421
Supplementary capital	0	0
Net equity and subordinated loan capital	531	421
Risk-weighted assets (calculation basis for capital adequacy ratio)	3 187	2 146
Capital adequacy ratio	16.65	19.60
Core capital ratio	16.65	19.60

Highlights

Quarterly results

(Amounts in NOK million)	4. q. 2011	3. q. 2011	2. q. 2011	1. q. 2011	4. q. 2010
Net interest and credit commission income	15	15	15	16	16
Total other operating income	0	-3	1	0	0
Total operating costs	5	4	6	4	4
Result before losses	10	8	10	12	12
Losses on loans, guarantees etc.	1	0	0	0	0
Result before tax	9	8	10	12	12
Tax payable on ordinary result	3	2	3	3	3
Result from ordinary operations after tax	6	6	7	9	9

As a percentage of average assets	4. q. 2011	3. q. 2011	2. q. 2011	1. q. 2011	4. q. 2010
Net interest and credit commission income	0.79	0.85	0.91	1.09	1.16
Total other operating income	-0.02	-0.15	0.06	0.00	0.01
Total operating costs	0.26	0.26	0.35	0.24	0.27
Result before losses	0.51	0.43	0.61	0.85	0.90
Losses on loans, guarantees etc.	0.04	0.00	0.00	0.00	0.00
Result before tax	0.47	0.43	0.61	0.85	0.90
Tax payable on ordinary result	0.14	0.12	0.17	0.23	0.25
Result from ordinary operations after tax	0.33	0.32	0.44	0.62	0.65

Result

(Amounts in NOK million)	2011	2010
Net interest and credit commission income	61	57
Total other operating income	-2	0
Total operating costs	19	14
Result before losses	40	43
Losses on loans, guarantees etc.	1	0
Result before tax	39	43
Tax payable on ordinary result	11	12
Result from ordinary operations after tax	28	31

As a percentage of average assets	2011	2010
Net interest and credit commission income	0.90	1.19
Total other operating income	-0.03	0.00
Total operating costs	0.28	0.29
Result before losses	0.59	0.90
Losses on loans, guarantees etc.	0.01	0.00
Result before tax	0.58	0.90
Tax payable on ordinary result	0.16	0.25
Result from ordinary operations after tax	0.42	0.65

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