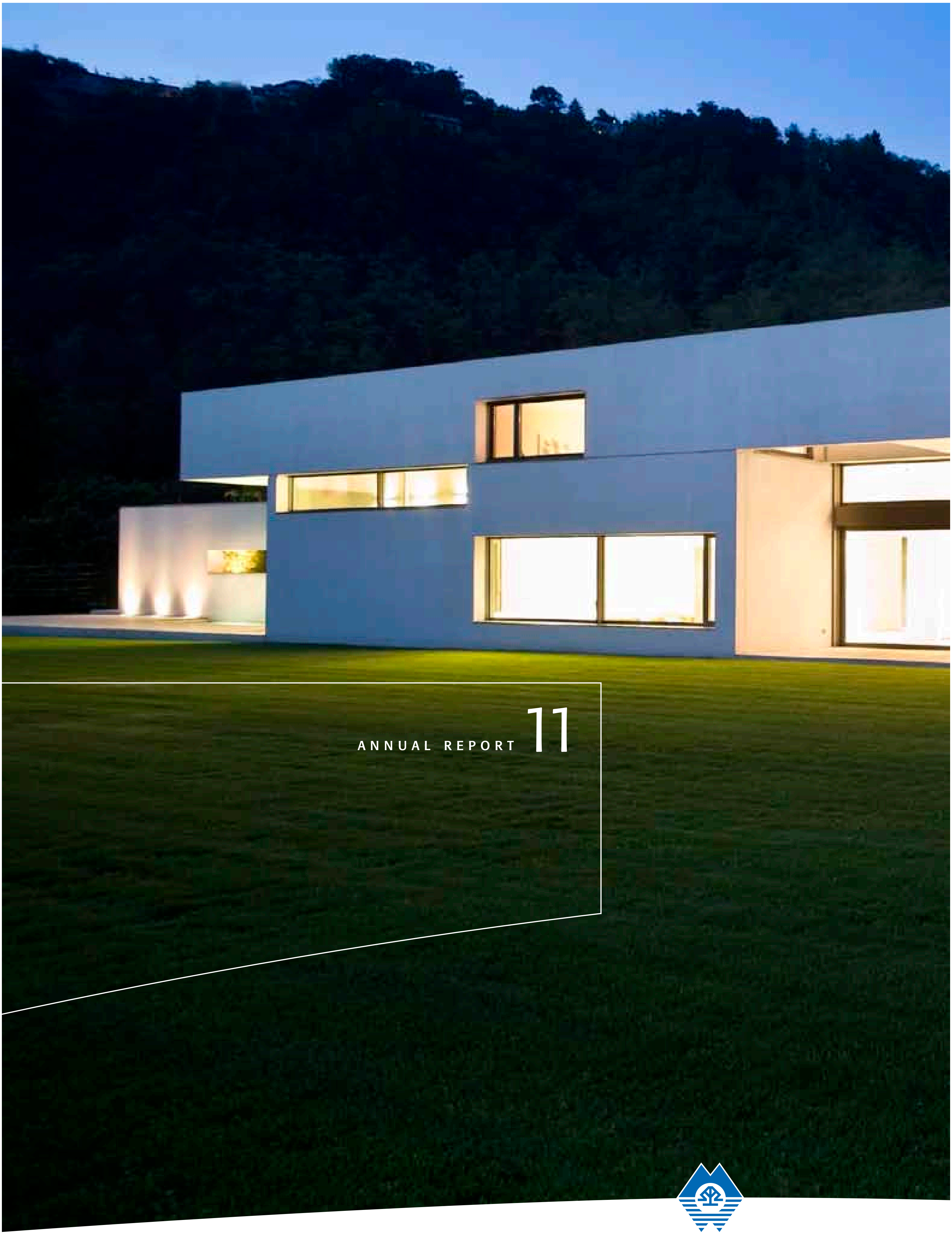

ANNUAL REPORT 11

MØRE BOLIGKREDITT

Contents

Annual Report and Accounts 2011

OPERATIONS IN 2011

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. The mortgage company is linked to Sparebanken Møre's head office in Keiser Wilhelmsgate 29 – 33 in Ålesund. Møre Boligkreditt AS is Sparebanken Møre's most important source of longterm market funding and an important part of the bank's funding strategy.

During 2011, the mortgage company acquired loans from Sparebanken Møre and the mortgage company's lending portfolio amounted to NOK 8 148 million at year-end 2011. All of the loans in the mortgage company's cover pool were secured by residential mortgages within 75 percent of the property's value at the time of acquisition.

Møre Boligkreditt AS issued NOK 2 616 million worth of covered bonds in 2011. NOK 1 516 million of this came from three new issues and NOK 1 100 million drew on existing facilities. The company's total outstanding covered bonds amount to NOK 7 137 million. NOK 2 301 million from the company's first three issues was used by the Parent Bank in Norges Bank's swap scheme.

In 2011 Møre Boligkreditt AS established an EMTCN-program ("Euro Medium Term Covered Note"), preferably for the issuance of bonds internationally. The program has a total sum of EUR 2 000 million, and the first issuance under the program was implemented in the fourth quarter of 2011 through the issuance of SEK 300 million.

RATING OF THE COMPANY`S ISSUES OF COVERED BONDS

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

THE MORTGAGE COMPANY`S ANNUAL FINANCIAL STATEMENTS

The annual financial statements of Møre Boligkreditt AS show a profit after tax amounting to NOK 28 million for 2011. Interest income amounted to NOK 294 million, while interest expenses amounted to NOK 233 million. Net interest income amounted to NOK 61 million. Costs amounted to NOK 19 million. No losses were registered in Møre Boligkreditt AS in 2011, but the company has recognised NOK 1 million as collective write-downs. The pre-tax result thus amounted to NOK 39 million. The tax cost amounted to NOK 11 million.

Total assets grew by NOK 2 528 million in 2011, and ended up at NOK 8 324 million by year-end 2011. Net lending accounted for NOK 8 148 million and bank deposits NOK 110 million. Overall, the company acquired loans from the Parent Bank with a value of NOK 5 703 million.

The liabilities primarily consisted of bond debt amounting to NOK 7 137 million and loan in Sparebanken Møre amounting to NOK 594 million. Overcollateralisation at year-end 2011 was 113.3 per cent.

At the end of 2011, the company`s equity amounted to NOK 531 million. Core capital is equal to the equity capital and amounted to NOK 531 million. The mortgage company's capital adequacy is based on the standard method in Basel II, and was calculated at 16.65 per cent as at 31 December 2011. The Board of Directors considers the capital adequacy to be satisfactory in relation to the level of risk in the loan portfolio and the company`s other operations.

In the opinion of the Board of Directors, the presented profit and loss accounts, balance sheet, and notes provide correct and adequate information about the mortgage company's operations and position as per 31 December 2011.

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 mortgage company's various risk exposures.

The Board and the 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 fulfill their obligations at the agreed time and pursuant to written agreements, and the received collateral 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 year-end 2011, the loans had an average loan-to-value ratio of 53.0 per cent. 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 the law, have very low market risk and Board approved restrictions concerning 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.

2011 was characterised by increasing uncertainty regarding global macro developments and a focus on European Government debt management, and the company experienced higher and more volatile borrowing margins.

The mortgage company's positions in fixed interest and foreign currency are hedged with financial derivatives. The Board considers the overall market risk as low.

Liquidity risk

Liquidity risk is the risk that the mortgage company will be unable to fulfill 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 liquidity risk strategy and established limits for long-term funding and short-term liquidity risk limits. The bonds issued by Møre Boligkreditt AS have a soft bullet structure in which the mortgage company has an opportunity to extend the term of its borrowing by up to 12 months. The Board regards the mortgage 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 concluded 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 evaluation of the management and control of operational risk is also afforded substantial space in the group's annual ICAAP. The operational and established internal control system in the bank and mortgage company is also an important tool for reducing operational risk with respect to both uncovering it and following it up. The Board regards the mortgage company's operational risk as low.

CORPORATE GOVERNANCE STATEMENT

Møre Boligkreditt AS complies to the 2011 Norwegian Code of Practice for Corporate Governance. Møre Boligkreditt AS has been established as part of Sparebanken Møre's long-term funding strategy with the aim of issuing covered bonds. Møre Boligkreditt AS helps ensure that the Sparebanken Møre Group properly manages its assets, as well as providing additional assurance that communicated aims and strategies are realised and achieved.

Internal control

CEO of Møre Boligkreditt AS is responsible for establishing proper risk management and internal control based on the guidelines decided by the Board, as well as for following this up and providing the Board with information about developments within the various areas. Every year in the fourth quarter, the CEO reports on the structure and efficiency of the mortgage company's internal control.

Møre Boligkreditt AS bases its internal control on an overall risk management process. This is set out in various places including in the company's Risk Policy. The Board has decided guidelines for establishing proper risk management and internal control and ensures that risk management and internal control at 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.

Profit allocation policy

In its profit allocation policy, Møre Boligkreditt AS states the following:

"The company shall make a maximum payment from the profit for the 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 mortgage company and shall in any case abide by what is good and prudent business and accounting practice."

General meeting, supervisory board and company board

The general meeting is the supreme authority in Møre Boligkreditt AS. The general meeting of Møre Boligkreditt AS consists of the Board of Directors of Sparebanken Møre, as sole owner of the company. All board members of Sparebanken Møre are independent of the Bank's day-to-day management and important business connections.

The Supervisory Board consists of six members and two deputy members elected by the general meeting for a period of two years. The Supervisory Board shall be broadly based, with representatives from the various districts, interest groups and industries affected by the company's activities.

Board members, observers and the CEO cannot be members of the Supervisory Board.

The Supervisory Board shall elect its chairman and deputy chairman each year.

The Board shall consist of four to six members elected by the Supervisory Board for a period of two years. The Chairman of the Board is elected by the Supervisory Board.

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

The Board's responsibilities and tasks are set forth in a separate document which is discussed and revised by the Board at regular intervals. The document contains the division of responsibilities and tasks between the Board and CEO of the company. Each year, the Board evaluates its own methods and professional competence to see if improvements can be made.

GOING CONCERN ASSUMPTION

The Board is of the opinion that the prerequisites for the going concern assumption exist and confirms that the 2011 annual financial statements were prepared on the basis of a going concern assumption.

EMPLOYEES

Møre Boligkreditt AS had no employees at year-end 2011. Two man-years from Sparebanken Møre are dedicated to the mortgage 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.

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

EQUAL OPPORTUNITIES

The Sparebanken Møre Group strives for an gender-neutral employment - and wage policy. The Board and management systematically and actively work to promote equality in the company. The Board consists of three men and two women.

POLLUTION OF THE EXTERNAL ENVIRONMENT

Møre Boligkreditt AS' activities 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 of material importance to the mortgage company's position and result as per 31 December 2011.

RESEARCH AND DEVELOPMENT

Møre Boligkreditt AS carries out no research and development activities.

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 will be Sparebanken Møre's most important source of market funding and forms an important part of the bank's long-term funding strategy. Sparebanken Møre has procedures and routines that facilitate registering and preparing for transfer mortgages that qualify for transfer to Møre Boligkreditt AS.

Møre Boligkreditt AS is planning further acquisitions from Sparebanken Møre's loan portfolio in 2012. The mortgage company plans to issue new covered bonds and sell these to domestic and international investors. The company's bonds will be continuously rated by Moody's.

The Board stresses that significant uncertainty is normally associated with assessing future situations.

ALLOCATIONS

Profit after tax amounted to NOK 28 million for 2011.

In line with the mortgage company`s allocations policy, the Board of Directors proposes to the Annual General Meeting that the result entirely should be allocated to dividends.

Ålesund, 31 December 2011
9 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
Interest and similar income from:			
Loans to and deposits with credit institutions	10	6	6
Loans to and other lendings to customers	2	288	185
Interest and similar income		294	191
Interest and similar costs in respect of:			
Debt owed to credit institutions	10	12	8
Securities issued for borrowing purposes	8, 9, 10	221	126
Interest and similar costs	9	233	134
Net interest and credit commission income	4	61	57
Net change in value of debt securities and related derivatives	7, 9	-2	0
Wages, salaries etc.		2	3
Administration costs		1	1
Wages, salaries and general administration costs	11	3	4
Other operating costs	10, 11	16	10
Total operating costs		19	14
Result before credit losses		40	43
Losses on loans and changes in impairment on loans	3, 4.1	1	0
Result from ordinary operations before tax		39	43
Tax payable on ordinary result	12	11	12
Result from ordinary operations after tax		28	31
Result pr. share (NOK)	15	68.41	78.14
Diluted earnings pr. share (NOK)	15	68.41	78.14

Statement of comprehensive income

	Møre Boligkreditt AS	
Amounts in NOK Million	2011	2010
Result from ordinary operations after tax	28	31
Total comprehensive income from ordinary operations after tax	28	31

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

		Møre Boligkreditt AS	
Amounts in NOK Million	Notes	2011	2010
Assets			
Loans to and deposits with credit institutions, on a call basis	4, 5, 6, 8, 10	110	250
Net loans to customers	2, 3, 4, 5, 6, 8	8 148	5 539
Financial derivatives	4, 5, 6, 7, 9	44	0
Prepayments and accrued income	4	22	7
Total assets		8 324	5 796
Liabilities and equity capital			
Liabilities to credit institutions, on a call basis	4, 5, 6, 10	594	217
Borrowings raised through the issue of securities	4, 5, 6, 7, 8, 10	7 137	5 082
Financial derivatives	4, 5, 6, 7, 9	9	16
Tax payable	12	11	12
Deferred tax liability	12	0	0
Accrued liabilities and deferred income	8	42	18
Total liabilities		7 793	5 345
Share capital	14	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	13	531	451
Total liabilities and equity capital		8 324	5 796

Ålesund, 31 December 2011
9 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 change in equity

2011					
Amounts in NOK Thousand	Notes	Equity capital	Share capital	Other paid-in equity capital	Other equity capital
Equity capital 31.12.10		451 656	398 000	360	53 296
Distributed group contribution 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 31.12.11	13, 14	530 818	500 000	360	30 458

Proposed dividend amounts to NOK 28 million as per 31 December 2011.

2010					
Amounts in NOK Thousand	Notes	Equity capital	Share capital	Other paid-in equity capital	Other equity capital
Equity capital 31.12.09		197 555	175 000	360	22 195
Capital increase registered in the Register of Business Enterprises on 9 January 2010		223 000	223 000		
Equity capital before allocations		420 555	398 000	360	22 195
Total comprehensive income from ordinary operations after tax		31 100			31 100
Equity capital 31.12.10	13, 14	451 656	398 000	360	53 296

Proposed group contribution with tax effect amounts to NOK 43 million and proposed group contribution without tax effect amounts to NOK 20 million as per 31 December 2010.

Cash Flow Statement

		Møre Boligkreditt AS	
Amounts in NOK million	Notes	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
Payment for transferred loans from the Parent Bank		-5 703	-3 861
Payments from customers related to installment loans and credit lines		3 094	1 928
Net cash flow from operational activities	4, 11	-2 562	-1 894
Cash flow from investment activities		0	0
Net cash flow from investment activities		0	0
Cash flow from funding activities			
Changes relating to deposits from financial institutions		378	62
Net payments received in respect of proceeds from bond issues raised		2 616	1 831
Payment on redemption of debt securities		-604	0
Payment of dividend and group contribution		-63	0
Changes of other debt		-7	16
Changes of equity due to capital increase		102	0
Net cash flow from funding activities	8, 14	2 422	1 909
Net changes on cash holdings		-140	15
Holdings of cash 01.01		250	235
Holdings of cash 31.12	4.3	110	250

The Cash Flow Statement shows cash payments received and made and cash equivalents throughout the year. The statement has been prepared according to the direct method. The cash flows are classified as operational activities, investment activities or financial activities. The Balance Sheet items have been adjusted for the impact of foreign exchange rate changes. Cash is defined as cash-in-hand and claims on Sparebanken Møre.

Notes

1 - Notes and summary of significant accounting policies and other explanatory information

1.1 Main policies

Møre Boligkreditt AS (the company) is part of the Sparebanken Møre Group. The company`s accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), which have been issued by the International Accounting Standards Board, and approved by the EU as at 31 December 2011.

Changes in accounting principles and presentation (classifications)

There were no changes to the accounting principles in 2011.

New standards

The mortgage company has implemented the following new standards in 2011:

IAS 24 Related Party Disclosures:

IAS 24 has clarified and simplified the definition of related parties. The revised standard also provides some relief with respect to the requirements for additional disclosures for public enterprises.

IFRS 7 Financial Instruments - Disclosures:

It is no longer a requirement that the maximum credit exposure be specified in the notes for instruments where the amount in the balance sheet represents the maximum credit exposure. This means that only those cases of exposure where the amount in the balance sheet does not represent the maximum credit exposure now need to be specified in notes.

The requirement to disclose the carrying amount for financial assets whose terms have been renegotiated, and where the assets would otherwise be past due and in default or would have resulted in impairment had no such renegotiation occurred, has now been removed.

Clarification has been issued in relation to disclosure of collateral provided for the benefit of the company and similar risk-reduction arrangements. It is the financial effect of the collateral provided and other risk-reduction arrangements in relation to the maximum credit exposure that must be disclosed (under-collateralisation in an arrangement cannot be presented net against over-collateralisation in another arrangement).

The requirement to disclose pledged collateral the company has taken control of has been modified so that now only disclosure need be made of pledged collateral the company has taken control of where the pledged collateral is still in its possession on the balance sheet date.

The requirement to provide a description of pledged collateral to the company and other credit enhancements for financial instruments that are past due but are not impaired, and for those that are individually determined to be impaired, has been removed. The same applies to the requirement to provide an estimate of the fair value of the collateral pledged for these instruments.

IAS 1 Presentation of Financial Statements:

A clarification has been included that an analysis shall be presented of each individual component of other comprehensive income for each component of equity, either in the statement of comprehensive income or in notes to the financial statements.

The mortgage company has applied the changes from 1 January 2011. The implementation of new standards in 2011 did not cause changes in comparable figures, and had no effect on equity as per 1 January 2011.

Future standards

We have mentioned below new/revised/additions to standards and interpretations, which are expected to possibly have an impact on the company's accounting preparations, which have been published, but which have not come into force for the 2011 accounting year (1 January – 31 December), and which have therefore not been implemented by the company:

Changes to IFRS 7 Financial Instruments - Disclosures:

The changes concern the notes requirements in connection with the transfer of financial assets in which the company retains some involvement. The changes are intended to provide users with a better picture of the exposure of the company transferring the financial assets. The changes apply with effect for financial years starting 1 July 2011 and later. The mortgage company expects to apply the changed standard from and including 1 January 2012.

Changes to IFRS 7 Financial Instruments - Disclosures:

The changes mean that entities are obliged to provide a range of quantitative information relating to set-off of financial assets and financial liabilities. The disclosure requirements apply for all recognised financial instruments that are set off in accordance with IAS 32. The changes apply with effect for the accounting year starting 1 January 2013 or later, but are still not EU-approved. Earlier application is permitted if the EU approves the standard. The mortgage company expects to apply the changed standard from and including 1 January 2013.

IFRS 9 Financial instruments:

IFRS 9 will replace IAS 39. The project is divided into several phases. The first phase related to the rules of classification and measurement are finalized by the IASB. In this first phase it emerges from IFRS 9 that financial assets that contain ordinary loan terms shall be recognised at amortised cost unless one chooses to recognise them at fair value, while other financial assets shall be recognised at fair value. Classification and measurement rules for financial liabilities in IAS 39 is continued, with the exception of financial liabilities designated at fair value with changes through profit or loss (fair value option), where the value changes related to own credit risk is separated out and posted over other comprehensive income. IFRS 9 is effective for accounting years beginning on 1 January 2015 or later, but the standard has yet to be approved by the EU. The mortgage company expects to apply the standard from 1 January 2015.

Changes to IAS 1 Presentation of Financial Statements:

The change to IAS 1 was a requirement that income and costs be grouped together in the statement of other operating income and costs due to the fact that they may potentially be reclassified, or otherwise, as part of the profit or loss. The changes apply with effect for the accounting year starting 1 January 2012 or later, but the EU has not approved the changes. Earlier application is permitted if the EU approves the changes. The mortgage company expects to apply the changed standard from and including 1 January 2013.

Changes to IAS 32 Financial Instruments - presentation:
IAS 32 has been changed to clarify what is meant by "currently has a legally enforceable right to set-off" and also to clarify the application of IAS 32's set-off criteria for settlement systems, such as clearing house systems that apply gross settlement mechanisms that are not simultaneous. The changes apply with effect for the accounting year starting 1 January 2014 or later, but the EU has not approved the changes. Earlier application is permitted if the EU approves the changes and the changes in IFRS 7 that require disclosure of offsetting of financial instruments are also met. The mortgage company expects to apply the changed standard from and including 1 January 2014.

1.2 Income recognition

All fees related to payment transactions are recognised as income as they occur. Interest income is recognised as income using the effective interest rate method. This means that nominal interest plus amortised set-up charges less direct marginal set-up charges is recognised as income as it occurs. The recognition of interest as income pursuant to the effective interest rate method is used for balance sheet items which are stated at amortised cost.

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 on the balance sheet date. Changes in value for such items due to changed exchange rates between the transaction date and the balance sheet date are recognised in the profit and loss account. Profit and loss account items are converted using the exchange rate at the time of the transaction.

1.4 Recognition and derecognition of assets and liabilities

Assets and liabilities are recognised on the balance sheet on the date the company attains control over the rights to the assets and assumes obligations. Assets and liabilities are derecognised from the date real risk relating to the assets and liabilities are transferred and control over the rights to the assets and the liabilities ceases to exist or expires.

1.5 Financial instruments

1.5.1 Classification

The company's holdings of financial instruments are classified pursuant to IAS 39 according to the purpose of the financial instruments when they are first recognised in the financial statements. Møre Boligkreditt AS has the following classes of financial instruments:

- Loans and claims carried in the balance sheet at amortised cost
- Securities-related debt carried in the balance sheet at amortised cost
- Financial derivatives classified as hedging instruments assessed at fair value through the profit and loss account

Loans and claims carried in the balance sheet at amortised cost
All loans and claims are assessed at amortised cost based on expected cash flows.

Securities-related debt carried in the balance sheet at amortised cost
Securities-related debt with floating interest rate are measured at amortised cost. Differences between admission cost and settlement amount at maturity is amortised over the life of the loan using the effective interest method.

Fair value hedging with value changes through the profit and loss account is used for the company's securities issued on fixed rate terms. Any losses and gains in the event of value changes in securities, which are due to changes in market interest rates, will be recognised in the profit and loss account for the period in which they occur.

Financial derivatives classified as hedging instruments assessed at fair market value through the profit and loss account
Financial derivatives are booked at fair value with value changes through the profit and loss account, and recognised in the balance sheet at the gross amount per contract as assets or liabilities, respectively. Financial derivatives used as hedging instruments for managing interest risk are included in this category.

1.5.2 Valuation

Valuation at amortised cost
Loans are assessed at market value when first assessed, with the addition of direct transaction costs. When determining the loan's value (transaction price), establishment fees are deducted and subject to accrual accounting over the life of the loan as part of the loan's effective interest cost. Loans are subsequently assessed at amortised cost by applying the effective interest rate method. The effective rate of interest is the rate which exactly discounts estimated, future cash flows over the loan's expected life, down to the net value of the loan as shown in the balance sheet. By implementing this calculation, all cash flows are estimated, and all contract-related terms and conditions relating to the loan are taken into consideration.

Measurement of debt securities with an agreed fixed rate
Only changes in value related to interest rate changes are included in the change in value. Changes in credit spread are excluded because the identified hedging only relates to the interest element.

Valuation at fair value
Møre Boligkreditt AS has financial derivatives (interest rate swaps and currency swaps) valued at fair value. Fair value is the amount financial derivatives can be traded to, or a liability could be settled in, in a transaction between independent parties. The financial derivatives are valued respectively at bid and ask prices. Furthermore, the financial derivatives are classified in the following categories:

- Financial derivatives traded in an active market
For financial instruments traded in an active market, the quoted price obtained from either an exchange, a broker or a pricing agency is used. The market is active if it is possible to obtain external observable prices, exchange rates or interest rates and those prices represent actual and frequent market transactions. None of the financial derivatives associated with the company at the balance sheet date are quoted in an active market.

- Financial derivatives not traded in an active market
Financial derivatives not traded in active markets are valued based on various valuation techniques and are divided into two categories:

1) Valuation based on observable market data:

- Recently observed transactions in the current derivative between informed, willing and unrelated parties
- Derivatives traded in an active market, which is substantially similar to the instrument that is valued

2) Valuation based on other than observable market data:
- Estimated cash flows
- Models where material parameters are not based on observable market data

By using valuation techniques value is adjusted for the pricing of risk for the same derivatives as the basis for assessment.

Write-downs
At each balance sheet date Møre Boligkreditt AS assesses whether there is objective evidence that the financial assets have been exposed to loss events that have negative effects on the cash flow. A financial asset or group of financial assets are written down if there is objective evidence of credit losses.

Write-downs for the impairment of loans are recognised in the profit and loss account as lending losses. Calculated interest from lending that was previously written down is recognised in the profit and loss account as interest income. Reversals of write-downs are recognised in the profit and loss account as corrections of losses.

Individual write-downs
Individual write-down for credit losses is made when there are objective indications that there has been impairment of a loan's value as a result of reduced creditworthiness. For all commitments which are to be assessed individually, there shall be an assessment whether there is objective evidence that a loss event has occurred, and that the loss event reduces the loan's future cash flows. Examples of objective evidence are:

a) Significant financial problems in the case of the debtor in question
b) Default of payment or other significant breaches of contract. An engagement is considered to be in default if the borrower fails to pay overdue installments, or overdrawn is not covered in, within a maximum of 90 days
c) Approved deferment of payment or new credit for the payment of an installment, agreed changes to the rate of interest or other terms and conditions relating to the agreement as a result of debtor's financial problems
d) A likelihood of the debtor entering into debt negotiations, other financial restructuring, or of the debtor's estate being subject to bankruptcy proceedings

An impairment loss is reversed if the loss is reduced and can be related objectively to an event occurring after the impairment date. If objective evidence of impairment can be identified, estimated impairment losses are calculated as the difference between book value in the balance sheet and the present value of estimated future cash flows discounted using the effective interest rate. In accordance with IAS 39 the best estimate is basis for the assessment of future cash flows. The effective interest rate used is the effective interest rate related to the loan before objective evidence of impairment was identified. The effective interest rate used for discounting is not adjusted due to changes in the loan's credit risk or loan terms because objective evidence of impairment is identified. Individual write-downs on loans reduces the commitments` value recognised in the balance sheet. Changes in assessed value for the loans are recorded under "Losses on loans and changes in impairment on loans". Interest calculated using the effective interest method on the written down value of the loan is included in "Net interest and credit commission income".

Collective write-downs
Collective write-downs for impaired value are calculated for sub-groups of loans for which objective events indicate that future cash flows that would have been 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 write-downs for losses have been registered are not included in the basis for collective write-downs.

The impairment tests look at groups of customers with almost equal risk and value properties and are based on risk classification and loss experience for the groups of customers.

Groups of loans are written-down for impairment if there is objective evidence of:
a) Negative changes in the payment status of debtors in the group of loans
b) Real economic effects having occurred that on the balance sheet date have not been fully taken into account in the group's risk classification system

1.5.3 Hedge accounting
The company enters into hedging transactions to manage interest rate risk on debt securities with fixed interest rate and foreign currency. Hedge accounting is used only for debt securities with an agreed fixed rate.

At individual hedging, there exists a clear, direct and proven correlation between fluctuations in value of the hedged item arising from the hedged risk and value fluctuations of the financial derivative (hedging instrument).

At the conclusion of the transaction the relationship between the hedging instrument and the object is documented. In addition the objectives and the strategy for the hedging transaction are documented. Change in fair value related to the hedged risk of the hedged item and the instrument is evaluated periodically to ensure the necessary protection efficiency. Hedging instruments are carried at fair value and are recorded under "Net change in value of debt securities and related financial derivatives".

For the hedged item changes in fair value related to the hedged risk are recognised as an addition or deduction in the carrying value of debt securities and are recorded under "Net change in value of debt securities and related financial derivatives".

If the hedging relationship is interrupted or adequately hedge effectiveness can not be verified, the value change associated with the hedged item is amortised over the remaining maturity.

1.6 Presentation in the balance sheet and income statement
Loans to and claims on credit institutions
Cash is defined as lending to and claims on financial institutions without agreed terms.

Lending
Lending is presented on the balance sheet, depending on the counterparty, either as loans to and claims on financial institutions or lending to customers, independent of the valuation principle.
Interest income is included on the line "Interest and similar income

from loans to and claims on customers and credit institutions" using the effective interest rate method. Changes in value that can be linked to defined objective evidence of impairment on the balance sheet date are included in "Losses on loans and changes in impairment on loans".

Liabilities to financial institutions

Liabilities to financial institutions are recognised in the profit and loss account as liabilities to financial institutions independent of the valuation principle. Interest expenses on liabilities are included in "Interest and similar costs in respect of debt owed to credit institutions" based on the effective interest rate method.

Securities issued

Securities issued includes issued bonds independent of the valuation principle. Interest expenses on the financial instruments are included in "Interest and similar costs in respect of securities issued for borrowing purposes" based on the effective interest rate method.

1.7 Tax

The 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 on the balance sheet 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 the net amount recognised. Deferred tax assets are recognised on the balance sheet 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 balance sheet. Tax payable and deferred tax are recognised directly in the profit and loss account against equity to the extent they relate to situations in which these are recognised directly against equity.

1.8 Provisions, contingent assets and contingent liabilities

A provision is only recognised when an obligation exists (legal or actual) as a result of a previous event, it is likely that a flow of resources that includes financial benefits out of the entity 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 expenses required to fulfil the existing obligation on the balance sheet date. If material, account is taken of the time value of money when calculating the size of the provision. Contingent assets or contingent liabilities are not recognised.

1.9 Events occurring after the balance sheet date

New information about the mortgage company's positions on the balance sheet date is taken into account in the annual financial statements. Events after the balance sheet date that do not affect the mortgage company's position on the balance sheet date, but will affect the mortgage company's position in the future are disclosed if they are material.

1.10 Statement of cash flow

The cash flow analysis is prepared on the basis of net cash flows from operational, investment and financing activities. Cash flows from operational activities are defined as current interest associated with lending activities for customers, net receipts and payments from lending activities, and payments generated from costs associated with operational activities. Cash flows from other securities transactions, issuing and repaying securities issued, and equity are defined as funding activities.

1.11 Equity capital

The equity capital consists of paid-in share capital, other paid-in equity, and other equity. Møre Boligkreditt AS recognises provisions for dividends and group contributions as other equity up to the point they are approved by the company's general meeting. Transaction costs associated with an equity transaction are recognised directly against equity.

1.12 Use of estimates in the preparation of the annual accounts

During the preparation of financial statements, management makes estimates and assumptions that affect the application of accounting principles. This will affect 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. The estimates and assumptions on which the abovementioned preparation is based affect the reported amounts of assets, liabilities and off-balance sheet items, as well as income and costs in the submitted annual accounts. There is a risk of the actual results later, to a certain extent, deviating from the estimates and assumptions on which the abovementioned preparation is based.

Certain accounting principles are regarded as particularly important in order to illustrate the company's financial position due to the fact that management is required to make difficult or subjective assessments, applying estimates which mainly relate to matters which are initially uncertain.

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

Write-down on loans

The company examines the lending portfolio at least every quarter. Commitments are reviewed individually and deemed to require writedowns when there is objective proof of impairment in value or at the latest in the case of the commitment having been in default for more than 90 days. Furthermore, write-down assessments are done for groups of loans. Reference is made to Note 3 for further description of principles and methodology. In connection with write-down assessments, all cash flows relating to the commitments in question shall in principle be identified, and an assessment shall be made as to which cash flows are vulnerable. Against the background of the large number of commitments which are subject to assessment both on an individual- and group basis, such calculations must be done on the basis of approximation and figures from earlier experience.

Fair value of financial derivatives

For financial instruments which are not traded in active markets, various evaluation methods are applied in order to ascertain fair market value. Further information and a description of the techniques used may be found in Accounting principles, under 1.5.2. Reference is also made to notes 5, 6 and 7 which deal with financial instruments.

2 - Segments

In the classification into operating segments weight has been given to products and services, as well as customer type. Møre Boligkreditt AS has only one segment in its business where loans are provided against collateral in the form of property, and here the customers derive mainly from the retail banking market. The following tables contain details of loans to customers by sector, business activity and geographical area.

Amounts in NOK million	Gross loans	
Sector/industry	2011	2010
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/public 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 write-downs	-1	0
Total net loans	8 148	5 539

Geographical specification (MNOK)

	Møre og Romsdal		Remaining parts of Norway		Foreign countries		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Gross loans	6 641	4 515	1 489	1 009	19	15	8 149	5 539
In percentage	81.5	81.5	18.3	18.2	0.2	0.3	100.0	100.0
Interest income	236	152	52	33	0	0	288	185
In percentage	81.9	82.2	18.1	17.8	0.0	0.0	100.0	100.0

The factors that have the greatest impact on the fair value of the company's lending portfolio are changes in interest rates and credit margins that are not reflected in borrowing rates at the time of measuring. The lending portfolio is stated at amortised cost in the annual financial statements, as this is considered the best approach to fair value. The lending portfolio generated gross interest income of NOK 288 million in 2011 (NOK 185 million in 2010).

3 - Write-downs, losses and defaults

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 subgroups 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 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 1 million as at 31.12.2011.

4 - Risk management

Strategy

The Sparebanken Møre Group`s, and thus Møre Boligkreditt AS's, long-term strategic development and target achievement are supported by good risk- and capital management. The overall purpose of risk management and -control is to ensure that goals are achieved, to ensure effective operations and the handling of risks which can prevent the achievement of businessrelated goals, to ensure internal and external reporting of high quality, and to make sure that the Group operates in accordance with relevant laws, rules, regulations and internal guidelines.

Risk-taking is a fundamental aspect of banking operations, which is why risk management is a central area in the day-to-day operations and in the Board of Directors' ongoing focus. Sparebanken Møre's Board of Directors has agreed overall guidelines for management and control throughout the Group. The 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 financial risktasking. In addition, the company has introduced separate policies for each significant risk area: credit risk, market risk, funding risk and counterpart risk. The risk strategies are agreed by the Board of Directors and revised at least once a year or when special circumstances should warrant it. The approved riskpolicies operationalises the business strategy set forth in the company's overall strategic plan. The company has established a follow-up and control structure which shall see to it that the overall framework of the strategic plan is adhered to at all times.

Reporting

Møre Boligkreditt AS focuses on the 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 Group's Board. 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 is included in the assessments of overall ICAAP for the Sparebanken Møre Group, and CEO in Møre Boligkreditt AS is involved in the process. The process is headed by the department for Compliance and Risk Control. Specific guidelines have been prepared for ICAAP in Sparebanken Møre. ICAAP is reviewed by the Bank's management team, the Board of Directors and the Control Committee.

A performance management report is prepared every month. This illustrates the status and performance of the most important factors for Møre Boligkreditt AS's target attainment. The report is an integral part of the financial reporting to the Board of Directors.

A risk report is prepared every quarter. This is a key element of Møre Boligkreditt AS's continuous monitoring of its risk situation. The risk report is dealt with by the Board of Directors. The Control Committee also receives a copy of the quarterly risk report.

Each quarter, a cash budget with 5-year horizon is prepared. This is an element to have continuous control of the liquidity situation and the refinancing needs of the mortgage company.

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

Reports from external and internal auditors are dealt with by the Board of Directors, as well as the Audit Committe of Sparebanken Møre. Both internal and external auditors have (at least) annual meetings with the Control Committee.

A reporting portal has been established in the Sparebanken Møre Group in which each member of staff with customer responsibility has access to reports which show the position and development in the credit risk in his or her portfolio. The 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.

Financing and accounting reports are prepared monthly (and include calculations of group write-downs, as well as quarterly loss reviews of portfolios with a focus on the need for individual writedowns). The reports are dealt with by the Board of Directors. Every six months the Control Committee receives a special review of the financial statements, including the development of finance and risk related issues.

Capital adequacy rules and regulations

The EU's capital adequacy directive (Basel II) was implemented in Norway with effect from 1 January 2007. Its 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 I – Minimum requirement for equity and related capital
- Pilar II – Assessment of aggregate capital requirements and regulatory follow-up (ICAAP)
- Pilar III – Publication of information

Møre Boligkreditt AS applies the Standard Approach in Basel II when computing capital adequacy for credit risk and market risk, and the basis method for operational risk. Møre Boligkreditt AS's Board of Directors insists that the company must be well capitalised, 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, different stress scenarios having been taken into consideration.

For several years Sparebanken Møre has developed and implemented internal risk management models within the credit area. In 2010, the Group decided in its strategic plan to, by the end of 2011, apply to the Financial Authority for the use of the IRB basic method in accordance with the capital adequacy regulations for the modeling of credit risk. This decision also included Møre Boligkreditt AS. The application for the Parent Bank and the mortgage company was sent the Financial Authority during the fourth quarter of 2011. Depending on the Financial Authority's processing of the application, the goal for the Group is to carry out Pillar 1 capital adequacy reporting in accordance with the IRB approach from 2013. Regardless of the method of calculation, Møre Boligkreditt AS must meet minimum capital requirements with the addition of a buffer that matches the mortgage company`s accepted risk tolerance.

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 biggest area of risk. 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 in question, and due to the collateral security held 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.

- Market risk: The risk of loss involving market values relating to portfolios of financial instruments as a result of fluctuations in share prices, foreign exchange rates and interest rates.

- Funding risk: The risk of the company being unable to meet its obligations and/or fund increases in assets without incurring significant extra costs in the form of falls in prices of assets which have to be sold, or in the form of particularly expensive funding.

- Operational risk: The risk of loss due to insufficient or failing internal processes and systems, or due human error or external events. Møre Boligkreditt has outsourced parts of its daily operations to Sparebanken Møre. Operational risk in the mortgage company is, in all material depending on the internal processes of the Parent Bank. The mortgage company shall still have an overview and understanding of the risks that directly affect the mortgage company's operations.

Møre Boligkreditt AS tries to take account of 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
- Funding risk: A low level of risk is accepted
- Operational risk: The acceptable risk level is low to moderate

Møre Boligkreditt AS's risk is quantified partly through calculations of expected loss and the requirement for financial capital in order to be able to cover unexpected losses. Expected losses and financial capital are calculated for all main groups of risk. Expected losses describe the amount which in statistical context the company must expect to lose during a 12-month period. Financial capital describes the amount of capital the company deems to be required in order to cover the actual risk which has been incurred by the company. Statistical methods for the computation of financial capital have been used as a basis, but the calculations nevertheless assume that qualitative assessments are applied in certain cases.

4.1 - Credit risk

Credit risk represents the greatest 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 adopted annually by the Board and sets forth the company's risk profile in the area of credit. Monthly portfolio management reports have been established that ensure that any deviations from the strategic goals set forth in the credit risk strategy are uncovered. The risk models that have been developed to measure and report credit risk take as their starting point statistical calculations in which both external and internal bank information related to the individual customer is included in the models.

(MNOK)	Møre Boligkreditt AS			
Risk groups based on probability of default in 2011	Gross loans	Guarantees/ Letters of Credit etc	Drawingrights facilities	Total exposure
Low risk (0 % - < 1 %)	7 841	0	533	8 374
Middle risk (1 % - < 4 %)	268	0	1	269
High risk (4 % - <100 %)	40	0	0	40
Commitments in default	0	0	0	0
Total loans before individual and group write-downs	8 149	0	534	8 683
- Write-downs (individual and group write-downs)	-1	0	0	-1
Net loans to and claims on customers as at 31.12.2011	8 148	0	534	8 682

(MNOK)	Møre Boligkreditt AS			
Risk groups based on probability of default in 2010	Gross loans	Guarantees/ Letters of Credit etc	Drawingrights facilities	Total exposure
Low risk (0 % - < 1 %)	5 183	0	449	5 632
Middle risk (1 % - < 4 %)	278	0	7	285
High risk (4 % - <100 %)	78	0	1	79
Commitments in default	0	0	0	0
Total loans before individual and group write-downs	5 539	0	457	5 996
- Write-downs (individual and group write-downs)	0	0	0	0
Net loans to and claims on customers as at 31.12.2010	5 539	0	457	5 996

Collateral

The company uses collateral in residential property to reduce the risk associated with customers' willingness and ability to pay. 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 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 transfer of loans are handled through a separate agreement between the company and the Parent Bank. For cases where the collateral secures loans for both the company and the Parent Bank, it is agreed that Møre Boligkreditt AS be ranked first under the current security.

All loans in the cover pool had mortgages within 75 per cent of property value at the time of acquisition. The mortgage company had mortgages with loan balance exceeding 75 per cent of property value of a total of NOK 175 million as at 31.12.2011, see note 8.

4.2 - Market risk

Møre Boligkreditt AS has funding in foreign currency. Currency risk associated with these positions are eliminated through currency swaps. 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 costs.

Møre Boligkreditt AS measures its interest risk with the aid of duration analysis. In this manner the risk the company has assumed, and the effect this would have on the result in the event of changes in the market interest rate, can be quantified.

The analysis states the effective term of the interest-bearing part of the balance sheet. The longer assets are tied up by an investment, the greater the potential loss/gain in the event of a increase/decrease in the market interest rate. Møre Boligkreditt AS uses interest rate and currency swaps as part of its risk management to manage interest rate and currency risk. Interest flows related to the company's borrowings in fixed rate are swapped to interest rates with short fixing, and the interest rate risk is considered low.

The tables show the potential effect on the company's result of a one percentage point increase in the level of interest rates. The calculation is based on current positions and market rates as per 31 December.

(MNOK)	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
2011	-4	1	1	1	0	-1

(MNOK)	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
2010	-3	2	1	1	0	1

4. 3 - Liquidity risk

Liquidity risk is the risk that the company will be unable to fulfill its obligations without substantial extra costs being incurred in the form of price falls for assets that must be realised or extra expensive funding. A financial entity is solvent when it is able to redeem its liabilities as they fall due, and finance increases in its loan portfolio as it arises.

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 that issues covered bonds must ensure that the cash flow from the cover pool enable the company to redeem 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 credit facility the company holds in the parent bank, Sparebanken Møre.

Residual maturity as per 31.12.11

(MNOK)	Up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Loans to and claims on customers	22	44	207	2 992	4 949	8 214
Loans to and deposits with credit institutions	110	0	0	0	0	110
Total	132	44	207	2 992	4 949	8 324
Liabilities to credit institutions	594	0	0	0	0	594
Borrowings raised through the issue of securities	0	0	0	3 900	3 237	7 137
Other liabilities	9	11	0	0	42	62
Total	603	11	0	3 900	3 279	7 793

Residual maturity as per 31.12.10

(MNOK)	Up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Loans to and claims on customers	19	39	180	2 272	3 036	5 546
Loans to and deposits with credit institutions	250	0	0	0	0	250
Total	269	39	180	2 272	3 036	5 796
Liabilities to credit institutions	217	0	0	0	0	217
Borrowings raised through the issue of securities	0	0	0	2 499	2 583	5 082
Other liabilities	30	0	0	0	16	46
Total	247	0	0	2 499	2 599	5 345

4.4 - 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 concluded 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 its parent bank's definition and management of this type of risk, and it is therefore the parent bank that bears the risk associated with any errors in the deliveries and services that should be provided.

The evaluation of the management and control of operational risk is also afforded substantial space 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 with respect to both uncovering it and following it up.

The internal control system should be designed to ensure reasonable certainty with respect to attaining goals within the areas of strategic development, goal-oriented, 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 is within the adopted risk profile. Reports are submitted to the company's Board concerning operations and the risk situation throughout the year. The CEO 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.

5 - Classification of financial instruments

All lending and receivables are stated at amortised cost based on expected cash flows. Amortised cost is used for securities issued on variable rate terms. The difference between the borrowing costs and settlement amount upon maturity is amortised over the loan's term, see note 6.

Fair value hedging with value changes through the profit and loss account is used for the company's securities issued on fixed rate terms, see note 6.

Financial derivatives related to the company`s debt securities are carried at fair value through profit or loss, and recognised gross per contract, as either asset or debt, see note 7.

31.12.11 (MNOK)	Hedged financial liabilities	Financial derivatives used as hedging instruments	Financial assets and liabilities stated at amortised cost	Financial derivatives stated at fair value	Total
Loans to and deposits with credit institutions	0	0	110	0	110
Loans to and claims on customers	0	0	8 149	0	8 149
Financial derivatives	0	38	0	6	44
Total financial assets	0	38	8 259	6	8 303
Liabilities to credit institutions	0	0	594	0	594
Financial derivatives	0	0	0	9	9
Borrowings raised through the issue of securities	737	0	6 400	0	7 137
Total financial debt	737	0	6 994	9	7 740

31.12.10 (MNOK)	Hedged financial liabilities	Financial derivatives used as hedging instruments	Financial assets and liabilities stated at amortised cost	Financial derivatives stated at fair value	Total
Loans to and deposits with credit institutions	0	0	250	0	250
Loans to and claims on customers	0	0	5 539	0	5 539
Total financial assets	0	0	5 789	0	5 789
Liabilities to credit institutions	0	0	217	0	217
Financial derivatives	0	16	0	0	16
Borrowings raised through the issue of securities	484	0	4 598	0	5 082
Total financial debt	484	16	4 815	0	5 315

6 - Fair value of financial assets and liabilities

Debt securities issued with floating interest rate are measured at amortised cost. Differences between admission cost and settlement amount at maturity is amortised over the life of the loan using the effective interest method.

The company's debt securities with fixed interest rates are assessed by using fair value hedging with changes in value shown over the profit and loss account. Losses and gains, resulting from changes in value due to changes in market interest, of debt securities with fixed interest are recognised through profit or loss in the period they arise.

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

(MNOK)	Booked value	Fair value	Booked value	Fair value
	31.12.2011	31.12.2011	31.12.2010	31.12.2010
Loans to and deposits with credit institutions	110	110	250	250
Loans to and claims on customers	8 148	8 148	5 539	5 539
Financial derivatives	44	44	0	0
Total financial assets	8 302	8 302	5 789	5 789
Liabilities to credit institutions	594	594	217	217
Financial liabilities measured at amortised cost	6 400	6 370	4 598	4599
Hedged financial liabilities with changes in value, due to changes in market interest rates, recognised in the income statement	737	721	484	478
Financial derivatives	9	9	16	16
Total financial liabilities	7 740	7 694	5 315	5 310

There are no major differences between the book value and the fair value of loans to credit institutions and customers, and the liabilities to credit institutions agreed at variable rates and entered at amortised cost. It is assumed that the book values provide the best approximation to the fair value. Fair value of securities is calculated allowing for change in the market interest rates and change in the credit margin.

7 - Financial instruments measured at fair value

Financial instruments not traded in an active market are valued based on own value judgments on the basis of current market conditions, or valuation from other market players.

31.12.11 (MNOK)	Valuation based on prices in an active market Level 1	Valuation based on observed market information Level 2	Valuation based on other than observed market information Level 3
Assets			
Financial derivatives	0	44	0
Debt			
Financial derivatives	0	9	0

The company's securities issued on fixed rate terms have a shortfall of NOK 37 million and financial derivatives (interest rate swaps) have an excess value of NOK 37 million as per 31 December 2011. The net change in value of debt securities and related derivatives was NOK 0 million in 2011.

31.12.10 (MNOK)	Valuation based on prices in an active market Level 1	Valuation based on observed market information Level 2	Valuation based on other than observed market information Level 3
Assets			
Financial derivatives	0	0	0
Debt			
Financial derivatives	0	16	0

The company's securities issued on fixed rate terms have an excess value of NOK 16 million and financial derivatives (interest rate swaps) have a shortfall of NOK 16 million as per 31 December 2010. The net change in value of debt securities and related derivatives was NOK 0 million in 2010.

8 - Issued covered bonds

Securities issued on variable rate terms are stated at amortised cost. Fair value hedging with value changes through the profit and loss account is used for the company's securities issued on fixed rate terms (NO0010588072).
Møre Boligkreditt AS established an EMTCN-program ("Euro Medium Term Covered Note"), preferably for the issuance of bonds internationally. The program has a framework amount of EUR 2 000 million. Bond XS068579058 was drawn by SEK 300 million in the fourth quarter of 2011, and is the company's first issuance within the EMTCN-program.

Covered bonds (MNOK)

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	fixed 4.75 %	2010	2025	738	484
NO0010601396	SEK	750	3M Stibor + 0.85 %	2011	2016	651	
NO0010625833	NOK	600	3M Nibor + 0.40 %	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
Interest and similar costs in respect of securities issued for borrowing purposes						221	126

The bank swapped government securities for covered bonds with the government in the government's confidence package for the banks. Sparebanken Møre has bought parts of issued bonds from Møre Boligkreditt AS, which are used as collateral for swap agreements concluded with Norges Bank. The value of the pledged collateral must exceed the value of received government securities plus a minimum security margin during the entire agreement period. Upon expiry of the agreement period, the bank is obligated to buy back the covered bonds at the original sales price. The bank receives interest from the covered bonds as if these were not sold. From an accounting perspective, the bank group assesses the conditions in IAS 39 for derecognition not to be fulfilled since in the swap scheme the bank group retains the risk associated with the development of the value of the bonds and other cash flows in the form of interest.

Cover pool (MNOK)	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 are not eligible for the cover pool.

9 - Hedging of interest rate and currency exposure

Hedge accounting of financial liabilities with fixed rate (MNOK)	31.12.2011	31.12.2010
Changes in value of derivatives established to hedge changes in market interest rates	+ 37	-16
Change in value due to changes in market interest rates on financial liabilities with fixed interest	- 37	+ 16

Booked financial liabilities and related financial derivatives in foreign currency (MNOK)	31.12.2011	31.12.2010
Net changes in value of derivatives established to hedge currency exposure on financial liabilities	- 3	0
Net changes in value due to changes in the exchange rate on financial liabilities	+ 2	0

10 - 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.

The economic conditions for the transfer of loans from Sparebanken Møre are 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 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 obtaining financing, there is established a revolving guarantee from Sparebanken Møre whose purpose is to ensure timely payments to owners of bonds and derivatives.

The pricing of the services provided to Møre Boligkreditt AS by Sparebanken Møre distinguish 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 lease of premises at Sparebanken Møre. It is assumed that regardless of the operation a certain area of the Bank that is attributable to the mortgage company is seized during the year. Regardless of the size 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 employers` 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:

Amounts in NOK million	2011	2010
Transferred loan portfolio during the period	5 703	3 861
Result		
Interest and credit commision income from Sparebanken Møre related to deposits	6	6
Interest and credit commision 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	2 302	2 818
Loan/credit facility in Sparebanken Møre	594	217

11 - Wages, compensation and fees

(Amounts in NOK Thousand)		2011	2010
Total wages and other cash payments		2 797	2 786
- hereof salary to the CEO		707	219
- hereof other remuneration to the CEO		163	52
- hereof refunded premium regarding the pension plan for the CEO		85	13
- hereof salary to former CEO from 1 January to 31 August 2010		-	527
– hereof refunded premium regarding the pension plan for the CEO in the period 1 January to 31 August 2010		-	27
- hereof other remuneration to former CEO		-	118
- hereof remuneration to the Board of Directors and the Control Committee		75	75
The Board of Directors	Magnar Inge Bolstad, former chairman	0	0
	Kjetil Hauge, chairman	0	0
	Sandra Myhre Helseth	0	0
	Trond Lars Nydal	0	0
	Geir Tore Hjelle	30	30
	Britt Iren Tøsse Aandal	30	30
Control Committee	Kjetil Kvammen, chairman	6	6
	Lars K. Nogva	3	3
	Thor Martin Eidem	3	3
	Eva Hove	3	3
Total fees paid to external auditor		927	369
- hereof auditing services		266	130
- hereof tax-related advisory services		16	7
- hereof other non-audit services, mainly fees for independent inspector according to the Financial Services Act		645	232

Møre Boligkreditt AS have no employees at the end of 2011. Two man-years from Sparebanken Møre are through a written agreement with the Bank dedicated to working for the mortgage 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 2011 no obligation to pay the CEO, 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 from the mortgage company or Sparebanken Møre as at 31 December 2011 amounts to:

Loans and guarantees	2011		2010	
Amounts in NOK Thousand	Loans	Guarantees	Loans	Guarantees
Board of Directors				
Kjetil Hauge	2 714	0	2 754	0
Sandra Myhre Helseth	2 322	0	2 715	0
Trond Lars Nydal	1 289	0	1 262	0
Geir Tore Hjelle	0	0	0	0
Britt Iren Tøsse Aandal	0	0	0	0
Control Committee				
Kjetil Kvammen, chairman	0	0	4	0
Lars K. Nogva	500	0	500	0
Thor Martin Eidem	17	0	0	0
Eva Hove	0	0	0	0
CEO				
Ole Kjerstad	3 554	0	2 887	0

Ordinary customer terms and conditions have been applied to loans provided for members of the Board of Directors and Control Committee. Loans to the CEO and the Board members of Møre Boligkreditt AS, as well as employees in Sparebanken Møre are given according to staff conditions.

12 - Tax

Temporary negative and positive differences which are reversed or which may be reversed during the same period, have been offset and included in the accounts on a net basis. Deferred tax 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. A tax rate of 28 per cent is applied. The entire taxation cost is related to Norway.

	2011	2010
Result before tax	39	43
Permanent differences	0	0
Changes in temporary differences	1	0
Income subject to tax	40	43
Tax payable at 28 per cent	11	12
Change in deferred tax	0	0
Total tax cost	11	12

Specification of temporary differences and computation of deferred tax	2011	2010
Financial liabilities	-34	16
Financial instruments	33	-16
Net negative (-)/positive differences	-1	0
Deferred tax (28 per cent) as at 31 December	0	0

Financial instruments are valued in the financial statements at market value, while in the tax accounts handled by the realisation principle.

The nominal rate of tax, 28 per cent, is based on currently valid tax rates applicable to capital income. 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 or directly against equity. All deferred tax relates to items recognised in the result for the accounting year.

Reconciliation between tax cost and account-related result	2011	2010
28 per cent of pre-tax result	11	12
Other permanent differences - 28 per cent	0	0
Too much/too little set aside in previous years	0	0
Total tax cost	11	12

13 - Capital adequacy

Capital adequacy is calculated pursuant to the applicable regulations in Basel II. The purpose of the new regulations is to produce greater harmony between risk and capital requirements in the various institutions. Møre Boligkreditt AS uses the standard method for calculating the minimum requirements regarding primary capital for credit risk and market risk. Calculations associated with operational risk are calculated based on the basic method.

In the fourth quarter of 2011, the Sparebanken Møre Group, including Møre Boligkreditt AS, forwarded an application to the Financial Supervisory Authority of Norway to use IRB basic methods pursuant to the requirements in the Capital Requirements Regulations for modelling credit risk. Depending on the time it takes the Financial Supervisory Authority of Norway to process this, the aim is that from and including 2013, the Group will be able to report Pillar 1 – Capital Adequacy in accordance with IRB methods.

The primary capital of the group and the mortgage company shall at all times fulfill the minimum requirements for capital adequacy with the addition of a buffer equal to Møre Boligkreditt AS' accepted risk tolerances. The assessment of the risk profile, capital requirements and profitability shall at all times be based on the group's and mortgage company's long-term strategic plan. The group's capital requirements are calculated in the annual ICAAP. Capital assessments relating to Møre Boligkreditt AS are included in these calculations. Otherwise please refer to the group's Pillar III document, which is available on Sparebanken Møre's website, as well as Note 4 - "Risk management".

Basel III introduces a range of new requirements relating to a number of areas, including capitalisation and liquidity. The new regulations will be phased in over a longer time period. In terms of capital adequacy, Basel III will have a number of consequences, including higher requirements governing minimum levels and stricter quality requirements as to what may be counted as capital base/core capital. In December 2011, the Financial Supervisory Authority of Norway sent a standard letter to savings banks and finance companies emphasising the need to further improve solvency at Norwegian banks. Initially the Financial Supervisory Authority of Norway is requiring that all Norwegian banks and finance companies must have and meet a target of 9% core capital by 30 June 2012. Møre Boligkreditt AS is well within this target.

The current defined long-term target for Møre Boligkreditt AS is to have a core capital ratio of at least 11. Møre Boligkreditt AS has identical capital targets as The Group as a whole. The company is expected to deliver a return on equity above the level corresponding to long-term yield on Norwegian government bonds.

Amounts in NOK Million	Møre Boligkreditt AS	
Standard method (Basel II)	31.12.11	31.12.10
Share capital	500	398
Other equity capital	31	53
Total equity capital	**531**	**451**
Deduction for group contribution	0	-30
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
Discrepancy relating to net equity and related capital - minimum requirement 8 per cent	276	250
Total minimum requirement (8 per cent) for equity and related capital according to the Standard method in Basel II:	255	171
Commitments involving institutions (banks etc.)	2	4
Commitments involving mass market (retail customers)	19	0
Commitments involving mortgage on residential property	227	161
Other commitments	2	1
Capital requirement – credit-/counterpart- and impairment risk	250	166
Capital requirement – position-/foreign exchange- and commercial risk	0	0
Operational risk (basis method)	5	5
Deductions from the capital requirement	0	0

14 - Share capital

The share capital consists of 500 000 shares each with a nominal value of NOK 1 000. All shares are owned by Sparebanken Møre. 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.

	2011	2010
Total number of shares 01.01	398 000	175 000
Capital increase	102 000	223 000
Total number of shares 31.12	500 000	398 000

The Board of Directors has proposed a dividend of NOK 28 million per 31.12.11.

15 - Result/earnings per share

The basic result per share is calculated as the proportion between the year`s result and the number of shares issued at year-end, adjusted for any issues that do not provide entitlement to full dividend. The diluted result per share is no different to the basic result per share.

	2011	2010
Result from ordinary operations after tax (NOK Thousand)	28 162	31 100
Weighted average number of shares issued	411 693	398 000
Weighted average number of shares issued, diluted	411 693	398 000
Result per share (NOK)	68.41	78.14
Diluted result per share (NOK)	68.41	78.14

16 - Events after the balance sheet date

No events of material significance for the financial statements for 2011 have occurred after the balance sheet 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 2011 to 31 December 2011, have been, to the best of our knowledge, prepared in accordance with applicable accounting standards and that the information in the financial statements provides a fair and true picture of the company's assets, liabilities, financial position, and results as a whole.

We also hereby declare that the annual report provides a fair and true picture of the financial performance and position of the company, as well as a description of the most important risk and uncertainty factors faced by the company.

Ålesund, 31 December 2011
9 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

Auditor`s report for 2011

To the Annual Shareholders' Meeting in Møre Boligkreditt AS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Møre Boligkreditt AS, which comprise the statement of financial position as at 31 December 2011, the statement of income, the statement of comprehensive income, cash flow statement and statement of change in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Managing Director's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of Møre Boligkreditt AS have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as of 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and the statement on corporate governance

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and the statement on corporate governance concerning the financial statements, the going concern assumption and the proposal for the 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 the Board of Directors and Managing Director have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Aalesund, 22. February 2012
ERNST & YOUNG AS

Ivar-André Norvik
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Annual Report 2011 from the Control Committee

During the year of operations in 2011, the Control Committee has seen to it that the operations of Møre Boligkreditt AS have been conducted in accordance with laws and regulations, the company`s articles of association and other decisions to which Møre Boligkreditt AS is obliged to adhere.

The Control Committee has reviewed the Minutes of the Board of Directors, reports from the external and the internal auditor, reports from the independent inspector, the company's correspondence with the Norwegian FSA (Finanstilsynet), and otherwise conducted inspections as imposed by currently valid laws.

During the period, regular committee meetings have been held at the company's head office.

The comments made by the Control Committee during the period in question have been resolved with the company's management.

Furthermore, the Control Committee has examined the Annual Report from the Board of Directors, the Annual Accounts and Auditor's Report, and found no basis for any comments to be made.

The Control Committee recommends the Annual Report and the Annual Accounts for the 2011 accounting year to be approved.

The Control Committee of Møre Boligkreditt AS consists of Kjetil Kvammen, Lars K. Nogva, Eva Hove and Thor Martin Eidem. Due to disqualification factors, deputy member Jon Olav Slettebakk has replaced Thor Martin Eidem in 2012.

Ålesund, 22 February 2012

Control Committee of Møre Boligkreditt AS

Kjetil Kvammen
CHAIRMAN

Lars K. Nogva
DEPUTY CHAIRMAN

Anita Ostnes (deputy member)

Jon Olav Slettebakk (deputy member)

Design: Havnevik as
Photo: iStock Photo

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