

Møre Boligkreditt AS

A company in the Sparebanken Møre Group

2 quarter 2019

Unaudited
interim report



**Møre
Boligkreditt**

Interim report from the Board of Directors

About the Company

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

The accounts have been prepared in accordance with IFRS.

Second quarter results

The financial statements of Møre Boligkreditt AS show a pre-tax profit of NOK 63 million in the second quarter of 2019, compared to NOK 51 million in the second quarter 2018. Net interest income amounts to NOK 77 million, compared to NOK 66 million in the same quarter last year. Costs amounts to NOK 13 million in the second quarter of 2019, compared to NOK 11 million in the corresponding quarter in 2018.

Calculations of expected credit loss (ECL) for Møre Boligkreditt AS resulted in a reduction of impairments of NOK 1 million in the second quarter 2019 compared to an increase of NOK 2 million in the corresponding quarter in 2018.

Net change in value of debt securities in second quarter 2019 is negative with NOK 2 million, which is equal to the change reported in the corresponding quarter of 2018.

Møre Boligkreditt AS acquired mortgages in the amount of NOK 2,980 million from Sparebanken Møre in the second quarter of 2019. Net loans to- and receivables from customers increased by NOK 1,311 million in the second quarter of 2019. In the second quarter of 2019 one bond loan with outstanding amount of NOK 2.5 billion matured, and one new bond loan of NOK 2.5 billion was successfully placed in the market.

Profit after tax amounts to NOK 50 million in the second quarter of 2019, compared to NOK 40 million in the corresponding quarter 2018. Taxes amounts to NOK 13 million in the second quarter of 2019 compared to NOK 11 million in the corresponding quarter in 2018.

Half year end results

By half year end 2019 the financial statements show a pre-tax profit of NOK 124 million, compared to NOK 115 million by half year end 2018. Net interest income amounts to NOK 146 million by half year end 2019, compared to NOK 138 million by end of same period last year. Costs in the period ending 30 June 2019 amounts to NOK 23 million, compared with NOK 21 million for the corresponding period 2018.

Net losses in value of debt securities issued and related derivatives is NOK 1 million at half year end 2019, equal to the reported net losses in value of debt securities issued and related derivatives at half year end 2018.

Profit after tax amounts to NOK 97 million in the first six months of 2019, compared to NOK 89 million in the corresponding period in 2018. Taxes amounts to NOK 27 million in the first six months of 2019 compared to NOK 26 million in the first six months of 2018.

Changes in value of basis swap spreads are added to other comprehensive income (OCI) with NOK 1 million after tax by half year end 2019, compared to being charged with NOK 7 million by half year end 2018.

Financial position

Møre Boligkreditt AS has twelve bond loans outstanding at 30 June 2019 with total debt securities issued of NOK 22,371 million, compared to twelve bond loans and NOK 23,609 million outstanding at 30 June 2018.

Total assets at half year end 2019 amounts to NOK 25,851 million compared to NOK 26,390 million at half year end 2018. Net lending amounts to NOK 24,993 million at half year end 2019, compared to NOK 23,863 million at half year end 2018. ECL model calculations as at 30 June 2019 shows expected credit loss of NOK 13 million for Møre Boligkreditt AS, compared with NOK 15

million as at 30 June 2018.

At half year end 2019, the mortgages in the cover pool has an average loan-to-value ratio of 57 per cent, calculated as mortgage amount relative to the value of the property used as collateral.

At half year end 2019, the company's substitute assets included in the cover pool amounts to NOK 5 million, compared to NOK 2,101 million at half year end 2018. Over-collateralisation, calculated as the value of the cover pool relative to the value of outstanding covered bond loan debt is 13.2 per cent as at 30 June 2019, compared to 10.0 per cent as at 30 June 2018.

Møre Boligkreditt AS' liquidity portfolio consisting of Liquidity Coverage Ratio (LCR) eligible assets amounts to NOK 80 million at 30 June 2019, reporting total LCR of 397 per cent by half year end 2019.

Rating

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

Capital strength

Paid in equity and retained earnings amounts to NOK 2,148 million by end of half year 2019, compared to NOK 1,689 million by end of half year 2018. Risk weighted assets amounts to NOK 10,427 million by end of half year 2019. Net equity and subordinated loan capital amounts to NOK 2,011 million by end of half year 2019, compared to NOK 1,582 million by end of half year 2018. This corresponds to a Common Equity Tier 1 capital ratio of 19.3 per cent as at 30 June 2019. Møre Boligkreditt AS uses internal rating based (IRB) models to calculate capital requirements for credit risk.

Outlook

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

The Norwegian key policy rate was announced raised with 0.25 percentage points to 1.25 per cent 21 June 2019, followed by announcements of mortgage interest rate hikes from banks operating in the Norwegian mortgage market. The development of housing prices, together with the growth in debt, are the most important risk factors to Norwegian households. Important risk factors going forward are also the oil price development, macroeconomic growth in export markets, the concern for a global trade war and the NOK exchange rate.

The combined activity of businesses located in the county of Møre og Romsdal remains high. The registered unemployment rate in the county of Møre og Romsdal is 2.0 per cent at the end of June 2019, just below the Norwegian national average of 2.1 per cent. We expect unemployment level in the county to be around national average levels also going forward.

Retail lending in Sparebanken Møre Group increased with 6.2 per cent the last twelve months.

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

Ålesund, 30 June 2019

13 August 2019

THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS

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

OLE ANDRE KJERSTAD, Managing Director

Statement of income

STATEMENT OF INCOME - compressed

(NOK million)	Notes	Q2 2019	Q2 2018	30.06.2019	30.06.2018	2018
Interest income from assets assessed at amortised cost	2	176	151	340	287	599
Interest income from assets assessed at fair value	2	5	0	6	1	4
Interest expenses	2	104	85	200	150	329
Net interest income	2 6	77	66	146	138	274
Commission income		0	0	0	0	0
Net change in value of securities and related derivatives		-2	-2	-1	-1	-1
Wages, salaries and general administration costs		0	0	1	1	3
Other operating costs	6	13	11	22	20	39
Total operating costs		13	11	23	21	42
Profit before impairment on loans and taxes		62	53	122	116	231
Impairment on loans	3	-1	2	-2	1	1
Pre-tax profit		63	51	124	115	230
Taxes		13	11	27	26	56
Profit after tax		50	40	97	89	174

STATEMENT OF COMPREHENSIVE INCOME - compressed

(NOK million)	Q2 2019	Q2 2018	30.06.2019	30.06.2018	2018
Profit after tax	50	40	97	89	174
Items that may subsequently be reclassified to the income statement:					
Basis swap spreads - changes in value	6	-4	2	-9	-17
Tax effect of basis swap spreads	-2	1	-1	2	4
Total comprehensive income for the period	54	37	98	82	161

Statement of financial position

ASSETS - compressed

(NOK million)	Notes	30.06.2019	30.06.2018	31.12.2018
Loans to and receivables from credit institutions	2 4 5 6	148	1 086	1 002
Loans to and receivables from customers	2 3 4	24 993	23 863	23 409
Certificates and bonds	4 5	80	1 075	512
Financial derivatives	4 5	621	361	625
Deferred tax asset		9	5	9
Total assets		25 851	26 390	25 557

LIABILITIES AND EQUITY - compressed

(NOK million)	Notes	30.06.2019	30.06.2018	31.12.2018
Loans from credit institutions	4 6	1 273	1 048	1 330
Debt securities issued	4 5 6	22 371	23 609	22 384
Financial derivatives	4 5	29	23	23
Tax payable		30	21	53
Total liabilities		23 703	24 701	23 790
Share capital		1 875	1 425	1 425
Share premium		175	175	175
Paid-in equity		2 050	1 600	1 600
Other equity		0	7	167
Total comprehensive income for the period		98	82	-
Retained earnings		98	89	167
Total equity	7	2 148	1 689	1 767
Total liabilities and equity		25 851	26 390	25 557

Statement of changes in equity

30.06.2019

(NOK million)	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2018	1 767	1 425	175	167
Total comprehensive income for the period	98			98
Issue of share capital	450	450		
Dividends	-167			-167
Equity as at 30 June 2019	2 148	1 875	175	98

The share capital consists of 1 500 000 shares at NOK 1 250, a total of NOK 1 875 million. All shares are owned by Sparebanken Møre. The issue of share capital of NOK 450 million was fully paid on 22 February 2019, approved by the Norwegian FSA 11 March 2019, and registered in the Norwegian Register of Business Enterprises 13 March 2019.

30.06.2018

(NOK million)	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2017	1 667	1 325	175	167
Effect of transition to IFRS 9 01.01.2018	-9			-9
Equity as at 01 January 2018	1 659	1 325	175	159
Total comprehensive income for the period	82			82
Issue of share capital	100	100		
Dividends	-152			-152
Equity as at 30 June 2018	1 689	1 425	175	89

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

31.12.2018

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

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

Proposed dividend as of 31 December 2018 amounted to NOK 167 million.

Statement of cash flow

(NOK million)	30.06.2019	30.06.2018	31.12.2018
Cash flow from operating activities			
Interest, commission and fees received	341	288	600
Interest, commission and fees paid	-6	-6	-14
Operating expenses paid	-23	-21	-42
Income taxes paid	-51	-56	-56
Payment for acquiring loans from the Parent Bank	-4 785	-5 427	-7 943
Payment related to instalment loans and credit lines to customers	3 203	2 712	5 683
Net cash flow from operating activities	-1 321	-2 510	-1 772
Cash flow from investing activities			
Received interest, commission and fees related to certificates, bonds and other securities	6	1	4
Proceeds from the sale of certificates, bonds and other securities	1 716	30	2 622
Purchases of certificates, bonds and other securities	-1 284	-1 045	-3 073
Changes in other assets	0	-10	-20
Net cash flow from investing activities	438	-1 024	-467
Cash flow from financing activities			
Paid interest, commission and fees related to issued bonds	-192	-143	-317
Net change in loans from credit institutions	-58	-154	128
Proceeds from bonds issued	2 497	4 863	5 862
Redemption of issued covered bonds	-2 504	0	-2 500
Dividend paid	-167	-152	-152
Changes in other debt	3	21	34
Issue of share capital and premium	450	100	100
Net cash flow from financing activities	29	4 535	3 155
Net change in cash and cash equivalents	-854	1 001	917
Cash balance at 01.01	1 002	85	85
Cash balance at 30.06/31.12	148	1 086	1 002

Note 1

ACCOUNTING PRINCIPLES

Møre Boligkreditt AS' interim accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU as of 30 June 2019. The interim report has been prepared in accordance with IAS 34 Interim Financial Reporting (compressed). The accounts are prepared using the same principles and with the same methodology as the annual accounts for 2018. IFRS 16 Leases is effective from 1 January 2019. The implementation of the new standard has no effect on the statements of either income or financial position of Møre Boligkreditt AS.

All amounts are stated in NOK million unless stated otherwise.

The interim financial statements are not audited.

Note 2

OPERATING SEGMENTS

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

	Loans		
(NOK million)	30.06.2019	30.06.2018	31.12.2018
Loans, nominal amount	25 006	23 878	23 424
Expected credit loss (ECL) - Stage 1	-3	-2	-3
Expected credit loss (ECL) - Stage 2	-10	-12	-12
Expected credit loss (ECL) - Stage 3	0	0	0
Loans to and receivables from customers	24 993	23 863	23 409

	Net interest income		
(NOK million)	30.06.2019	30.06.2018	31.12.2018
Interest income from:			
Loans to and receivables from credit institutions	9	2	8
Loans to and receivables from customers	332	285	591
Certificates, bonds and other interest-bearing securities	5	1	4
Interest income	346	288	603
Interest expenses in respect of:			
Loans from credit institutions	8	7	12
Debt securities issued	192	143	317
Interest expenses	200	150	329
Net interest income	146	138	274

Note 3

IMPAIRMENT, LOSSES AND NON-PERFORMANCE

Møre Boligkreditt AS applies a three-stage approach when assessing ECL on loans to customers in accordance with IFRS 9.

- Stage 1: At initial recognition and if there's no significant increase in credit risk, the commitment is classified in stage 1 with 12-months ECL.
- Stage 2: If a significant increase in credit risk since initial recognition is identified, but without objective evidence of loss, the commitment is transferred to stage 2 with lifetime ECL measurement.
- Stage 3: If the credit risk increases further and there's objective evidence of loss or if individual impairments have been made, the commitment is transferred to stage 3.

The methodology for measuring expected credit losses (ECL) in accordance with IFRS 9 are presented in Note 3 in the Annual Report 2018.

Specification of credit loss expense (NOK thousand)	Q2 2019	Q2 2018	30.06.2019	30.06.2018	31.12.2018
Changes in Expected Credit Loss (ECL) in stage 1	159	169	105	-19	510
Changes in Expected Credit Loss (ECL) in stage 2	-1 684	1 313	-2 006	991	405
Changes in Expected Credit Loss (ECL) in stage 3	0	0	-237	0	237
Total impairment on loans in the period	-1 525	1 482	-2 138	972	1 152

Changes in ECL in the period (NOK thousand) - 30.06.2019	Stage 1	Stage 2	Stage 3	Total
ECL 31.12.2018	2 825	11 787	237	14 849
New loans	231	638	0	869
Disposal of loans	-472	-820	0	-1 292
Changes in ECL in the period for loans which have not migrated	41	-264	0	-223
Migration to stage 1	463	-6 224	-237	-5 999
Migration to stage 2	-158	4 665	0	4 506
Migration to stage 3	0	0	0	0
ECL 30.06.2019	2 930	9 781	0	12 711

Changes in ECL in the period (NOK thousand) - 30.06.2018	Stage 1	Stage 2	Stage 3	Total
31.12.2017 according to IAS 39				2 000
Effect of transition to IFRS 9				11 697
ECL 1.1.2018 according to IFRS 9	2 315	11 382	0	13 697
New loans	313	2 711	0	3 024
Disposal of loans	-206	-1 020	0	-1 226
Changes in ECL in the period for loans which have not migrated	-69	-1 512	0	-1 581
Migration to stage 1	95	-2 549	0	-2 454
Migration to stage 2	-151	3 360	0	3 209
Migration to stage 3	0	0	0	-
ECL 30.06.2018	2 296	12 373	0	14 669

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

Commitments (exposure) divided into risk groups based on probability of default (NOK million) - 30.06.2019	Stage 1	Stage 2	Stage 3	Total
Low risk (0 % - < 0.5 %)	24 990	161	0	25 151
Medium risk (0.5 % - < 3 %)	639	326	0	965
High risk (3 % - <100 %)	94	79	0	173
Total commitments before ECL	25 723	566	0	26 289
- ECL	-3	-10	0	-13
Loans to and receivables from customers 30.06.2019 *)	25 720	556	0	26 277

Commitments (exposure) divided into risk groups based on probability of default (NOK million) - 30.06.2018	Stage 1	Stage 2	Stage 3	Total
Low risk (0 % - < 0,5 %)	23 943	211	0	24 154
Medium risk (0,5 % - < 3 %)	560	454	0	1 014
High risk (3 % - <100 %)	40	67	0	107
Total commitments before ECL	24 543	732	0	25 275
- ECL	-3	-12	0	-15
Loans to and receivables from customers 30.06.2018 *)	24 540	720	0	25 260

Commitments (exposure) divided into risk groups based on probability of default (NOK million) - 31.12.2018	Stage 1	Stage 2	Stage 3	Total
Low risk (0 % - < 0.5 %)	23 165	183	0	23 348
Medium risk (0.5 % - < 3 %)	691	429	0	1 120
High risk (3 % - <100 %)	78	93	3	174
Total commitments before ECL	23 934	704	3	24 641
- ECL	-3	-12	0	-15
Loans and receivables from customers 31.12.2018 *	23 931	692	3	24 626

*) The tables above show exposures at reporting date and can therefore not be reconciled against carrying amount.

Note 4

FINANCIAL INSTRUMENTS

CLASSIFICATION AND MEASUREMENT

The company's portfolio of financial instruments is at initial recognition classified in accordance with IFRS 9. Financial assets are classified in one of the following categories:

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

The classification of the financial assets depends on two factors:

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

Financial assets assessed at amortised cost

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

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

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

Financial liabilities assessed at amortised cost

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

Financial instruments assessed at fair value, any changes in value recognised through the income statement

The company's portfolio of bonds in the liquidity portfolio is classified at fair value with any value changes through the income statement, as this portfolio is managed based on fair value.

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

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

LEVELS IN THE VALUATION HIERARCHY

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

Level 1 – Valuation based on prices in an active market

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

Level 2 – Valuation based on observable market data

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

Level 3 – Valuation based on other than observable market data

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

CLASSIFICATION OF FINANCIAL INSTRUMENTS	Financial instruments at fair value through profit or loss			Financial instruments carried at amortised cost		
	30.06.2019	30.06.2018	31.12.2018	30.06.2019	30.06.2018	31.12.2018
Loans to and receivables from credit institutions				148	1 086	1 002
Loans to and receivables from customers				24 993	23 863	23 409
Certificates and bonds	80	1 075	512			
Financial derivatives	621	361	625			
Total assets	701	1 436	1 137	25 141	24 949	24 411
Loans from credit institutions				1 273	1 048	1 330
Debt securities issued				22 371	23 609	22 384
Financial derivatives	29	23	23			
Total liabilities	29	23	23	23 644	24 657	23 714

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST	30.06.2019		30.06.2018		31.12.2018	
	Fair value	Book value	Fair value	Book value	Fair value	Book value
Loans to and receivables from credit institutions	148	148	1 086	1 086	1 002	1 002
Loans to and receivables from customers	24 993	24 993	23 863	23 863	23 409	23 409
Total assets	25 141	25 141	24 949	24 949	24 411	24 411
Loans from credit institutions	1 273	1 273	1 048	1 048	1 330	1 330
Debt securities issued	22 454	22 371	23 701	23 609	22 432	22 384
Total liabilities	23 727	23 644	24 749	24 657	23 762	23 714

FINANCIAL INSTRUMENTS AT AMORTISED COST - 30.06.2019	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions			148	148
Loans to and receivables from customers			24 993	24 993
Total assets	-	148	24 993	25 141
Loans from credit institutions			1 273	1 273
Debt securities issued			22 454	22 454
Total liabilities	-	23 727	-	23 727

FINANCIAL INSTRUMENTS AT AMORTISED COST - 30.06.2018	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions	-	1 086	-	1 086
Loans to and receivables from customers	-	-	23 863	23 863
Total assets	-	1 086	23 863	24 949
Loans from credit institutions	-	1 048	-	1 048
Debt securities issued	-	23 701	-	23 701
Total liabilities	-	24 749	-	24 749

FINANCIAL INSTRUMENTS AT AMORTISED COST - 31.12.2018	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions	-	1 002	-	1 002
Loans to and receivables from customers	-	-	23 409	23 409
Total assets	-	1 002	23 409	24 411
Loans from credit institutions	-	1 330	-	1 330
Debt securities issued	-	22 432	-	22 432
Total liabilities	-	23 762	-	23 762

FINANCIAL INSTRUMENTS AT FAIR VALUE - 30.06.2019	Based on prices in an active market	Observable market information	Other than observable market information		
	Level 1	Level 2	Level 3	Total	
Certificates and bonds			80	80	
Financial derivatives			621	621	
Total assets	-		701	-	701
Financial derivatives			29	29	
Total liabilities	-		29	-	29

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

FINANCIAL INSTRUMENTS AT FAIR VALUE - 31.12.2018	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Certificates and bonds	512	-	-	512
Financial derivatives	-	625	-	625
Total assets	512	625	-	1 137
Financial derivatives	-	23	-	23
Total liabilities	-	23	-	23

Note 5

ISSUED COVERED BONDS

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

Covered bonds (NOK million)								
ISIN code	Currency	Nominal value 30.06.2019	Interest	Issue	Maturity	30.06.2019	30.06.2018	31.12.2018
NO0010588072	NOK	1 050	fixed NOK 4.75 %	2010	2025	1 200	1 206	1 200
NO0010657232	NOK	-	3M Nibor + 0.65 %	2012	2018	-	2 500	-
NO0010676018	NOK	-	3M Nibor + 0.47 %	2013	2019	-	2 500	2 501
XS0968459361	EUR	25	fixed EUR 2.81 %	2013	2028	304	284	298
XS0984191873	EUR	30	6M Euribor + 0.20 %	2013	2020	291	285	298
NO0010696990	NOK	2 500	3M Nibor + 0.45 %	2013	2020	2 499	2 498	2 499
NO0010720204	NOK	3 000	3M Nibor + 0.24 %	2014	2020	2 999	2 999	2 999
NO0010730187	NOK	1 000	fixed NOK 1.50 %	2015	2022	987	986	987
NO0010777584	NOK	3 000	3M Nibor + 0.58 %	2016	2021	3 002	3 003	3 002
XS1626109968	EUR	250	fixed EUR 0.125 %	2017	2022	2 463	2 380	2 502
NO0010819543	NOK	2 500	3M Nibor + 0.42 %	2018	2024	2 499	2 499	2 499
XS1839386577	EUR	250	fixed EUR 0.375 %	2018	2023	2 495	2 393	2 519
NO0010836489	NOK	1 000	fixed NOK 2.75 %	2018	2028	1 042	-	1 018
NO0010853096	NOK	2 500	3M Nibor + 0.37 %	2019	2025	2 498	-	-
Total securities issued						22 279	23 533	22 322
Accrued interest						92	76	62
Total borrowings raised through the issue of securities						22 371	23 609	22 384

Cover pool (NOK million)	30.06.2019	30.06.2018	31.12.2018
Pool of eligible loans 1)	24 719	23 526	22 976
Supplementary assets	5	2 101	1 300
Financial derivatives to hedge issued securities (liabilities)	-29	-23	-23
Financial derivatives to hedge issued securities (assets)	621	361	625
Total collateralised assets	25 316	25 965	24 878

1) NOK 274 million of total gross loans are not eligible for the cover pool as at 30.06.19 (NOK 330 million as at 30.06.2018)

Covered bonds issued (NOK million)	30.06.2019	30.06.2018	31.12.2018
Covered bonds (nominal) 2)	21 930	23 329	22 071
Premium/discount	349	204	251
Total covered bonds	22 279	23 533	22 322
Accrued interest	92	76	62
Own holding (covered bonds)	-	-	-
Debt securities issued	22 371	23 609	22 384

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

Collateralisation (in %)	30.06.2019	30.06.2018	31.12.2018
Total collateralised assets / debt securitised issued	113.2	110.0	111.1

Note 6

TRANSACTIONS WITH RELATED PARTIES

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

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

If Møre Boligkreditt AS should have difficulties obtaining financing, a revolving guarantee from Sparebanken Møre is established with the purpose of ensuring timely payments to owners of bonds and derivative counterparties.

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

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

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

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

The most important transactions are as follows:

(NOK million)	30.06.2019	30.06.2018	31.12.2018
Statement of income:			
Interest and credit commission income from Sparebanken Møre related to deposits	9	2	8
Interest and credit commission income paid to Sparebanken Møre related to loan/credit facility	8	7	12
Interest paid to Sparebanken Møre related to bonded debt	5	9	19
Management fee paid to Sparebanken Møre	17	17	34
Statement of financial position:			
Deposits in Sparebanken Møre	148	1 086	867
Covered bonds held by Sparebanken Møre as assets	0	2 214	818
Loan/credit facility in Sparebanken Møre	1 130	1 048	1 177
Accumulated transferred loan portfolio from Sparebanken Møre	25 006	23 878	23 424

Note 7

EQUITY AND RELATED CAPITAL

Tier 1 capital and supplementary capital	30.06.2019	30.06.2018	31.12.2018
Share capital and share premium	2 050	1 600	1 600
Retained earnings	98	89	167
Total equity	2 148	1 689	1 767
Value adjustments of financial instruments at fair value	-1	-	-1
Expected IRB-losses exceeding ECL	-38	-25	-32
Dividends	0	0	-167
Deductions for total comprehensive income for the period	-98	-82	-
Common Equity Tier 1 capital	2 011	1 582	1 567
Supplementary capital	0	0	0
Net equity and subordinated loan capital	2 011	1 582	1 567

Risk-weighted assets (calculation basis for capital adequacy ratio)	30.06.2019	30.06.2018	31.12.2018
Credit risk loans and receivables (Standardised Approach)	313	349	505
Credit risk loans and receivables (Internal Ratings Based Approach)	4 888	4 532	4 537
Operational Risk (Basic indicator Approach)	477	486	486
Total risk exposure amount for credit valuation adjustment (CVA) (SA)	468	244	498
Risk-weighted assets less transitional rules	6 146	5 611	6 026
Additional RWA from transitional rules 1)	4 281	4 483	3 944
Total risk-weighted assets	10 427	10 094	9 970
Minimum requirement Common Equity Tier 1 capital (4.5%)	469	454	449

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

Buffer Requirement	30.06.2019	30.06.2018	31.12.2018
Countercyclical buffer (2.0%)	209	202	200
Capital conservation buffer (2.5%)	261	252	249
Systemic risk buffer (3.0%)	313	303	299
Total buffer requirements	782	757	748
Available Common Equity Tier 1 capital after buffer requirements	760	364	370

Capital adequacy as a percentage of the weighted asset calculation basis	30.06.2019	30.06.2018	31.12.2018
Capital adequacy ratio	19.3 %	15.6 %	15.7 %
Tier 1 capital ratio	19.3 %	15.6 %	15.7 %
Common Equity Tier 1 capital ratio	19.3 %	15.6 %	15.7 %
<hr/>			
Leverage ratio	30.06.2019	30.06.2018	31.12.2018
Leverage ratio	7.6 %	5.8 %	6.0 %
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Liquidity Coverage Ratio	30.06.2019	30.06.2018	31.12.2018
Liquidity Coverage Ratio - Total	397%	327%	325%
Liquidity Coverage Ratio - NOK	397%	327%	325%
Liquidity Coverage Ratio - EUR	-	-	-

Møre Boligkreditt AS' capital requirements at 30 June 2019 are based on IRB-Foundation for commercial commitments and IRB-Retail for retail commitments.

Statement

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

We hereby confirm that the company's financial statements for the period 1 January to 30 June 2019 to the best of our knowledge, have been prepared in accordance with IAS 34 - Interim Financial Reporting, and provides a true and fair view of the company's assets, liabilities, financial position and results as a whole.

We also hereby declare that the interim report provides a true and fair view of the financial performance and position of the company, as well as a description of the principal risks and uncertainties facing the company.

Ålesund, 30 June 2019

13 August 2019

THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS

KJETIL HAUGE, Chairman

BRITT IREN TØSSE AANDAL

ELISABETH BLOMVIK

GEIR TORE HJELLE

SANDRA MYHRE HELSETH

OLE ANDRE KJERSTAD, Managing Director

Profit performance

QUARTERLY PROFIT (NOK million)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net interest income	77	69	70	66	66
Other operating income	-2	1	-1	1	-2
Total operating costs	13	10	10	11	11
Profit before impairment on loans	62	60	59	56	53
Impairment on loans	-1	-1	1	-2	2
Pre tax profit	63	61	58	58	51
Tax	13	14	16	13	11
Profit after tax	50	47	42	45	40

As a percentage of average assets:

Net interest income	1.21	1.13	1.17	1.02	1.11
Other operating income	-0.03	0.02	-0.01	0.01	-0.03
Total operating costs	0.20	0.17	0.17	0.16	0.20
Profit before impairment on loans	0.98	0.98	0.99	0.87	0.88
Impairment on loans	-0.02	-0.01	0.01	-0.02	0.02
Pre tax profit	1.00	0.99	0.98	0.89	0.86
Tax	0.22	0.22	0.28	0.20	0.20
Profit after tax	0.78	0.77	0.70	0.69	0.66

Average total assets (NOK million)	25 142	24 582	23 794	25 983	23 970
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ACCUMULATED PROFIT FOR THE YEAR (NOK million)	30.06.2019	30.06.2018	31.12.2018
Net interest income	146	138	274
Other operating income	-1	-1	-1
Total operating costs	23	21	42
Profit before impairment on loans	122	116	231
Impairment on loans	-2	1	1
Pre tax profit	124	115	230
Tax	27	26	56
Profit after tax	97	89	174

As a percentage of average assets:

Net interest income	1.17	1.21	1.15
Other operating income	-0.01	-0.01	0.00
Total operating costs	0.19	0.19	0.18
Profit before impairment on loans	0.97	1.01	0.97
Impairment on loans	-0.02	0.01	0.00
Pre tax profit	0.99	1.00	0.97
Tax	0.22	0.23	0.24
Profit after tax	0.77	0.77	0.73

Average total assets (NOK million)	24 862	22 780	20 225
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Alternative performance measures - APMs

Alternative performance measures

Alternative performance measures or APMs defined by ESMA (European Securities and Markets Authority) as «a financial measure of historical or future financial performance, financial position, or cash flows, other than financial measure defined or specified in the applicable financial reporting framework».

Alternative performance measures are either adjusted key figures or key figures not defined under IFRS. APMs are not intended to substitute accounting figures prepared in accordance with IFRS and are not to be assigned greater importance than these accounting figures, however, they have been included in the financial reporting in order to provide a more complete description of the company's performance. Furthermore, APMs constitute important targets as to how the management governs the company.

The APMs of Møre Boligkreditt AS are used in the report of the Board of Directors, as well as in presentations of the financial statements. All APMs are specified with corresponding comparative figures for previous periods.

Møre Boligkreditt AS has the following APMs, which are not reflected in the financial statements with disclosures:

Total assets

Definition: The sum of all assets.

Justification: Total assets is an industry-specific designation for the sum of all assets.

Average assets

Definition: The average sum of total assets for the year, calculated as a daily average.

Justification: This key figure is used in the calculation of percentage ratios for the performance items.

LTV (Loan to value)

Definition: Average loan amount of loans to customers divided by average market value of collateral.

Justification: This key figure provides information about the asset ratio in the lending portfolio and is relevant for evaluating the risk of loss.

Over-collateralisation

Definition: Over-collateralisation, calculated as the value of the cover pool relative to the value of outstanding covered bond loan debt.

Justification: This key figure provides information about the ratio between outstanding bond loans and the underlying collateralised assets.

Møre Boligkreditt AS

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