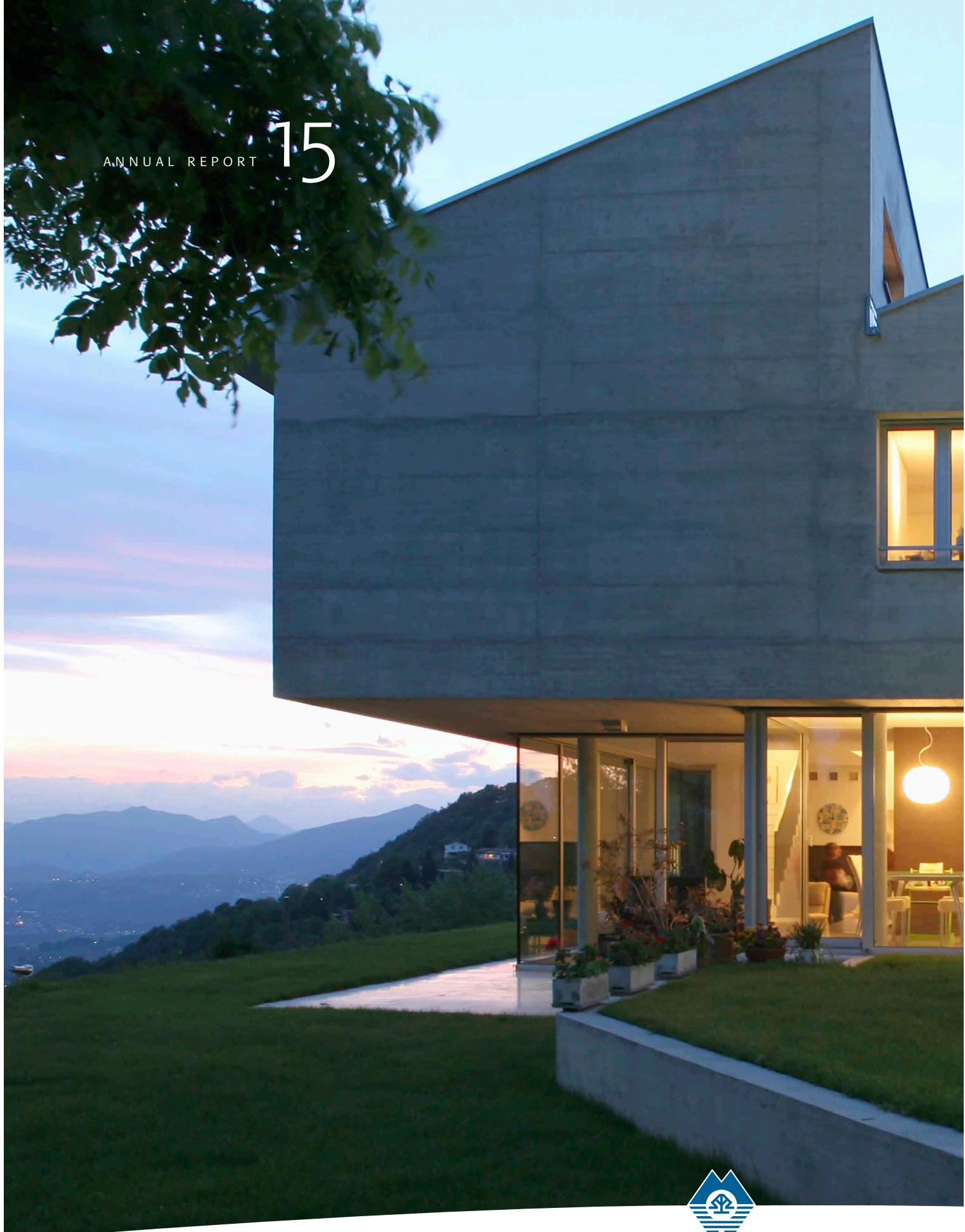


ANNUAL REPORT

15



MØRE BOLIGKREDITT

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# Report from the Board of Directors 2015

## OPERATIONS IN 2015

Møre Boligkredit AS is a wholly owned subsidiary of Sparebanken Møre. The company is licensed to operate as a mortgage company and to issue covered bonds. The company is located at Sparebanken Møre's headquarter in Keiser Wilhelmsgate 29 – 33, in the city of Ålesund. Møre Boligkredit AS is Sparebanken Møre's most important source of long term market funding and an important part of the parent bank's funding strategy.

During 2015, Møre Boligkredit AS' net growth in acquired loans from Sparebanken Møre was NOK 1 366 million, and the company's lending portfolio amounted to NOK 16 911 million at year-end 2015. Mortgages in the company's cover pool are secured by residential properties, all at the time of acquisition within 75 per cent of the property's estimated value.

In 2015 Møre Boligkredit AS issued one new fixed rate bond loan of NOK 1 000 million, and also drew a total of NOK 2 950 million on 4 existing bond loans. Furthermore two NOK denominated bond loans with a total of NOK 1 958 million, and one SEK denominated bond loan of SEK 450 million matured in 2015 and were fully paid in. The company's net growth in outstanding bond loan in 2015 is NOK 1 679 million, and total outstanding covered bond loan volume issued by Møre Boligkredit AS amounts to NOK 15 662 million.

## RATING OF THE COMPANY'S ISSUES OF COVERED BONDS

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

## THE MORTGAGE COMPANY'S ANNUAL FINANCIAL STATEMENTS

The financial statements of Møre Boligkredit AS show a profit before tax of NOK 241 million in 2015, compared with NOK 261 million in 2014. Interest income amounted to NOK 551 million, compared with NOK 616 million in 2014, while interest expenses totaled NOK 278 million, compared with NOK 318 million in 2014. Total operating costs amounted to NOK 31 million, compared with NOK 29 million in 2014.

Møre Boligkredit AS had no final losses and allocated no provisions for individual impairment in 2015. The company increased its provisions for collective impairment in 2015 with NOK 2 million. The amount allocated for collective impairment was NOK 4 million by year end 2015. Profit after tax amounted to NOK 176 million, compared with NOK 191 million in 2014. Taxes amounted to NOK 65 million, compared with NOK 70 million in 2014. Total assets at the end of 2015 amounted to NOK 18 080 million compared with NOK 16 252 million at the end of 2014. Loans and receivables from customers amounted to NOK 16 907 million, compared with NOK 15 544 million by the end of 2014.

By the end of 2015, the company's liquid assets amounted to NOK 688 million, including receivables from credit institutions of NOK 285 million, compared with NOK 312 million by end the of 2014.

Paid-in equity capital and other equity capital consists entirely of Tier-1 capital, and amounted to NOK 1 153 million by year-end 2015, compared with NOK 1 053 million by the end of 2014. This corresponds to a capital adequacy/core capital ratio of 14.7 per cent. Risk-weighted assets amounted to NOK 7 608 million by the end of 2015. Møre Boligkredit AS use internal rating based (IRB) models to calculate capital requirements for credit risk.

It is the opinion of the Board of Directors that the presented financial statements provide correct and adequate information about the company's operations and status as at 31 December 2015.

## RISKS

Møre Boligkredit AS is subject to a number of acts, regulations, recommendations and regulatory provisions. These regulations largely stipulate restrictions concerning the scope of the company's various risk exposures.

The Board and the Managing Director of Møre Boligkredit AS are responsible for ensuring that proper risk management is established, and that such risk management is adequate and complies with current laws

and regulations. Operational risk management in Møre Boligkreditt AS is maintained by Sparebanken Møre according to a service agreement concluded between Møre Boligkreditt AS and Sparebanken Møre.

Risk management emphasizes identifying, measuring and managing the company's risk elements in a manner that ensures that Møre Boligkreditt AS complies with the professional credit regulations and keeps the various risks at a low level.

#### CREDIT RISK

Credit risk is defined as the risk of losses associated with customers or other counterparties being unable to fulfill their obligations at the agreed time and pursuant to written agreements, and that the received collateral is not covering outstanding claims.

The credit risk strategy adopted by the company defines which loans that can be acquired by the company. The strategy stipulates criteria for both borrowers and the collateral for the loans that can be acquired. At year-end 2015, the mortgages in the cover pool had an average loan-to-value ratio of 55 per cent, calculated as mortgage amount relative to the value of the property used as collateral. The Board regards the quality of the loan portfolio as very good and the credit risk as low.

#### MARKET RISK

Market risk is the risk that will arise due to the mortgage company holding or assuming positions in lending and financial instruments in which the values over time will be affected by changes in market prices. Møre Boligkreditt AS must, pursuant to laws and regulations, have very low market risk and Board approved restrictions concern-

ing its maximum exposure to market risk. The company utilizes financial derivatives to keep this type of risk at a low level. A specific market strategy has been adopted for Møre Boligkreditt AS which establishes the limits for this type of risk. The company's positions in fixed interest and foreign currencies are hedged with financial derivatives. The Board considers the overall market risk as low.

#### LIQUIDITY RISK

Liquidity risk is the risk that Møre Boligkreditt AS will be unable to fulfill its obligations without substantial extra costs being incurred in the form of decline in asset values, forced sales or more expensive funding. The company has adopted a liquidity risk strategy and established limits for long-term funding and short-term liquidity risk limits. Bonds issued by Møre Boligkreditt AS have a soft bullet structure in which the company has the opportunity to extend the term of its borrowing by up to 12 months. The Board regards the company's liquidity risk as low.

#### OPERATIONAL RISK

Operational risk is the risk of losses due to inadequate or failing internal processes, human error, system failures or external events. Møre Boligkreditt AS has entered into a management agreement with Sparebanken Møre. The services covered by this agreement include administration, production, IT operations, and financial and risk management. Although the operational risk of Møre Boligkreditt AS is dependent of Sparebanken Møre's ability to manage this type of risk, Møre Boligkreditt AS independently bear risk associated with errors in the deliveries and services provided by Sparebanken Møre.

The evaluation of the management and control of operational risk is also afforded con-

siderable space in the Group's annual ICAAP. The operational and established yearly internal control report, both within Sparebanken Møre and by the managing director of Møre Boligkreditt AS, is an important tool for reducing operational risk. The internal control reports will help identifying any operational risk, and enable action to be taken. The Board regards the company's operational risk as low.

#### CORPORATE GOVERNANCE STATEMENT

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

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

In order to ensure that Møre Boligkreditt AS' risk management and internal control are carried out satisfactorily, the Board continuously receives various types of reports

throughout the year from Sparebanken Møre's control bodies, as well as from internal and external auditors. The Board actively participates in the annual implementation of the long-term strategic plan. The Board revises and approves all the company's general risk management documents at least once a year. Every year in the 4th quarter, the Managing Director of Møre Boligkredit AS reports on the structure and efficiency of the company's internal control.

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

The Board of Directors (the Board) is elected by the Supervisory Board, and shall consist of four to six members elected for a period of two years. The Chairman of the Board is elected by the Supervisory Board. After one year, at least half of the elected members shall step down, based on the drawing of lots, while the remainder shall step down after one more year. Board members can be re-elected. The Supervisory Board has been discontinued from 1 January 2016.

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

competence to see if improvements can be made.

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

The company's share capital of NOK 1 150 000 000 consist of 780 000 shares of NOK 1 250 fully paid in, together with a share premium of NOK 175 000 000. With the consent of the Financial Supervisory Authority of Norway, the general meeting may raise additional share capital, subordinated loan capital and guarantee capital.

#### **INTERNAL CONTROL**

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

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

and internal control in Møre Boligkredit AS are adequate and systematic, and that the processes have been established in compliance with the law and regulations, articles of association, instructions, and external and internal guidelines. The Board systematically and regularly assesses the strategies and guidelines for risk management.

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

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

#### **PROFIT DISTRIBUTION POLICY**

Møre Boligkredit AS' profit distribution policy states the following:

"The company shall make a maximum payment from the profit generated in the fiscal year, either in the form of a dividend

or as a group contribution. Such payments, however, shall not conflict with the requirement for liquidity and financial strength of the company, and shall in any case abide by what is considered good and prudent business and accounting practice."

#### **GENERAL MEETING, SUPERVISORY BOARD AND COMPANY BOARD**

The General Meeting is the supreme body of Møre Boligkredit AS. The General Meeting of Møre Boligkredit AS consists of the Board of Directors of Sparebanken Møre, Sparebanken Møre being the 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 Board shall consist of four to six members elected for a period of two years.

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

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

#### **GOING CONCERN ASSUMPTION**

The Board is of the opinion that the prerequisites for the going concern assumption exist, and the Board confirms that the 2015 annual financial statements were prepared on the basis of the going concern assumption.

#### **EMPLOYEES**

Møre Boligkredit AS had no employees at year-end 2015. One man-year from Sparebanken Møre is dedicated full time to the mortgage company. Furthermore, a number of services are outsourced to Sparebanken Møre, regulated by a specific agreement between the mortgage company and the bank.

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

#### **EQUAL OPPORTUNITIES**

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

#### **POLLUTION OF THE EXTERNAL ENVIRONMENT**

The activities of Møre Boligkredit AS do not pollute the external environment.

#### **OTHER FACTORS**

As far as the Board is aware, no events have occurred after the end of the financial year 2015 of material importance to the position and result of Møre Boligkredit AS.

#### **RESEARCH AND DEVELOPMENT**

Møre Boligkredit AS has no research and development activities.

#### **CORPORATE SOCIAL RESPONSIBILITY**

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

#### **FUTURE PROSPECTS**

The Norwegian economy, and especially the oil related part of the economy, has experienced a slowdown during 2015, and we will probably experience lower and selective growth also in the coming quarters. This is mainly due to the decline in petroleum related investments in 2016. A strong household sector due to record low interest rates, still low unemployment levels, together with a solid public sector will however keep the production levels high in several sectors. The weak NOK is positive for the competitiveness of the export industry, and for the tourist industry.

Should the Norwegian economy be hit harder than expected, monetary and financial policy will be moved in an even more expansive direction. The development of house prices, together with growth in debt, is probably the most important risk factors to Norwegian households. Important risk factors going forward are also the oil price development, macroeconomic growth in export markets and the NOK exchange rate.

The combined activity level of businesses located in Møre og Romsdal County will most likely remain high despite the decline in the petroleum related industries. However, the growth in production will probably not be strong enough to prevent unemployment from rising further in 2016. The registered unemployment rate in Norway was 3.0 per cent in December, compared to 2.9 per cent in the county of Møre og Romsdal. We expect unemployment in the county to rise above national average levels in 2016.

Retail lending has so far been good, with a growth rate for the Sparebanken Møre

Group of 1.5 per cent in fourth quarter 2015, and 8.0 per cent the last twelve months.

The Board believes that despite the slowdown of the economy, both in Norway and in the county of Møre og Romsdal, the low interest rates and high disposable house-

hold income, will contribute to further mortgage loan growth in Sparebanken Møre. This mortgage growth will position Møre Boligkreditt AS to acquire further mortgage loan portfolios from the parent bank, and further increase the volume of outstanding bond loans from Møre Boligkreditt AS.

#### DISTRIBUTIONS

Profit after tax amounted to NOK 176 million in 2015. In line with Møre Boligkreditt AS' distribution policy, the Board of Directors proposes to the annual General Meeting to pay out the entire profit after tax as dividend.

Ålesund, 31 December 2015

8 February 2016

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

MANAGING DIRECTOR

## STATEMENT OF INCOME

		MØRE BOLIGKREDITT AS	
(MNOK)	Notes	2015	2014
Interest income from:			
Loans to and receivables from credit institutions	11	6	5
Loans to and receivables from customers		541	606
Certificates, bonds and other interest-bearing securities		4	5
Interest income	2	551	616
Interest expenses in respect of:			
Loans from credit institutions	11	20	29
Debt securities	9, 10, 11	258	289
Interest expenses	9	278	318
Net interest income	4	273	298
Commission income		0	1
Net change in value of securities and related derivatives	9	1	-8
Wages, salaries and general administration costs		2	2
Other operating costs	11	29	27
Total operating costs	12	31	29
Profit before impairment on loans and taxes		243	262
Impairment on loans	3, 5	2	1
Pre tax profit		241	261
Taxes	13	65	70
Profit after tax		176	191
Proposed distribution:			
Proposed dividends		176	191
Total		176	191

## STATEMENT OF COMPREHENSIVE INCOME

		MØRE BOLIGKREDITT AS	
(MNOK)	Notes	2015	2014
Profit after tax		176	191
Other comprehensive income		0	0
Total comprehensive income after tax		176	191

## STATEMENT OF FINANCIAL POSITION

		MØRE BOLIGKREDITT AS	
(MNOK)	Notes	31 Dec 2015	31 Dec 2014
<b>Assets</b>			
Loans to and receivables from credit institutions	4, 6, 8, 10, 11	285	104
Loans to and receivables from customers	2, 3, 4, 5, 6, 8, 10	16 907	15 544
Certificates and bonds	4, 6, 8, 10	403	208
Financial derivatives	4, 7, 8, 9	485	395
Deferred tax asset	13	0	1
Total assets		18 080	16 252
<b>Liabilities and equity</b>			
Loans from credit institutions	4, 6, 8, 11	970	915
Debt securities issued	4, 6, 8, 10, 11	15 711	14 023
Financial derivatives	4, 7, 8, 9	6	0
Tax payable		63	70
Deferred tax liability	13	1	0
Total liabilities		16 751	15 008
Share capital	15	975	875
Share premium		175	175
Paid-in equity		1 150	1 050
Retained earnings		179	194
Total equity	14	1 329	1 244
Total liabilities and equity		18 080	16 252

Ålesund, 31 December 2015

8 February 2016

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  
MANAGING DIRECTOR

## STATEMENT OF CHANGES IN EQUITY

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2015

Amounts in MNOK	Notes	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2014		1 244	875	175	194
Total comprehensive income for the period		176			176
Issue of share capital		100	100		
Dividends		-191			-191
Equity as at 31 December 2015	14, 15	1 329	975	175	179

The share capital consists of 780 000 shares at NOK 1 250, a total of NOK 975 million. All shares are owned by Sparebanken Møre. Proposed dividend as of 31 December 2015 amounts to NOK 176 million.

2014

Amounts in MNOK	Notes	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2013		855	700	0	155
Total comprehensive income for the period		191			191
Issue of share capital and premium		350	175	175	
Dividends		-152			-152
Equity as at 31 December 2014	14, 15	1 244	875	175	194

The share capital consisted of 700 000 shares at NOK 1 250, a total of NOK 875 million. All shares were owned by Sparebanken Møre. Dividend as of 31 December 2014 amounted to NOK 191 million.

## STATEMENT OF CASH FLOW

		MØRE BOLIGKREDITT AS	
(MNOK)	Notes	2015	2014
<b>Cash flow from operating activities</b>			
Interest, commission and fees received		547	566
Interest, commission and fees paid		-22	-21
Operating expenses paid		-31	-29
Income taxes paid		-70	-60
Payment for acquiring loans from the Parent Bank		-6 964	-5 043
Payment related to instalment loans and credit lines to customers		5 598	4 362
Net cash flow from operating activities	4, 12	-942	-225
<b>Cash flow from investing activities</b>			
Received interest, commission and fees related to certificates, bonds and other securities		5	5
Proceeds from the sale of certificates, bonds and other securities		65	245
Purchases of certificates, bonds and other securities		-264	-244
Changes in other assets		5	-10
Net cash flow from investing activities	4, 8, 10	-189	-4
<b>Cash flow from financing activities</b>			
Paid interest, commission and fees related to issued bonds		-258	-263
Net change in deposits from financial institutions		55	-217
Proceeds from bonds issued		3 965	2 509
Maturity of debt securities		-2 343	-2 460
Dividend and group contribution paid		-191	-152
Changes in other debt		-16	35
Issue of share capital and premium		100	350
Net cash flow from financing activities	10, 15	1 312	-198
Net change in cash and cash equivalents		181	-427
Cash balance at 01.01		104	531
Cash balance at 31.12	6	285	104

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 operating activities, investing activities or financing activities. Financial position line items have been adjusted for the impact of foreign exchange rate changes.

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

# 1 ACCOUNTING POLICIES

## 1.1 Main policies

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

The company's financial statements 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 2015.

### Changes in accounting policies and presentation

There were no changes to the accounting policies in 2015.

### New or revised standards applicable for 2015

The mortgage company has implemented the following new or revised standards/interpretations in 2015:

- IFRS 3 Business combinations - The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- IFRS 13 Fair value measurement - The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39.
- IAS 40 Investment Property - The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination.
- IFRIC 21 Levies: The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The new or amended standards/interpretations above have not had any significant impact on the financial statements of the company.

### Approved IFRSs and IFRICs with future effective dates

Standards and interpretations that are issued up to the date of issuance of the financial statements, but not yet effective, are disclosed below. The company's intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the financial statements are issued.

- IFRS 9 Financial Instruments: IFRS 9 will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. In order to expedite the replacement of IAS 39, the IASB divided the project into phases: classification and

measurement, hedge accounting and impairment. New principles for impairment were published in July 2014 and the standard is now completed. The parts of IAS 39 that have not been amended as part of this project, have been transferred into IFRS 9. The Standard is not yet endorsed by the EU. The preliminary assessment is that the standard will not have a significant impact on the financial statements of Møre Boligkredit AS.

The following approved IFRSs with future effective dates are expected not to be relevant for the company, thus have no impact on the financial statements of the company:

- IFRS 15 Revenues from Contracts with Customers
- IFRS 16 Leases (new)

## 1.2 Revenue recognition

Interest income is recognised as income using the effective interest rate method, including loan related fees and charges.

## 1.3 Currency

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

## 1.4 Recognition and derecognition of financial assets and liabilities

Financial assets and financial liabilities are recognised in the statement of financial position when the company becomes a party to the contractual provisions of the instruments. All financial instruments are measured initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. Fair value at initial recognition is normally equal to the transaction price.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or the company transfers the financial asset in such a way that substantially all of the potential for risk and rewards of ownership of the asset is transferred. A financial liability is derecognised when the financial liability is discharged, cancelled or expired.

## 1.5 Financial instruments

### 1.5.1 Classification

The company's financial instruments are classified at

initial recognition based on type of instrument and their purpose. Møre Boligkredit AS has the following categories of financial instruments:

- Financial assets held for trading. This category includes derivatives, including derivatives designated as hedging instruments.
- Financial assets designated as at fair value through profit or loss. This category includes the company's holding of covered bonds.
- Loans and receivables (at amortised cost). The category includes loans and receivables from customers and receivables from the parent bank.
- Other financial liabilities. This category includes securities-related debt recorded in the statement of financial position at amortised cost.

## 1.5.2 Measurement

### Measurement at amortised cost

Financial instruments at amortised cost include loans to and receivables from credit institutions, loans to and receivables from customers, loans from credit institutions and debt securities issued. These are recognised at fair value at initial recognition, with the addition of establishment fees and other commissions. Loans are subsequently measured 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 to the carrying amount of the financial instrument as shown in the statement of financial position. In this process all cash flows are estimated, and all contract-related terms and conditions relating to the loan are taken into consideration. Fees and commissions are amortised over the life of the loans as an integral part of the instruments effective interest rate.

### Measurement at fair value

Møre Boligkredit AS has covered bonds and financial derivatives (interest rate swaps and currency swaps) measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Furthermore, the fair value measurements are categorized into the following three levels based on the inputs used to measure fair value:

- Financial instruments traded in an active market  
For financial instruments traded in an active market, quoted price obtained from either an exchange, a broker or a pricing agency is used to measure fair value. None of the financial instruments of the company are quoted in an active market.

- Financial instruments not traded in an active market

For financial instruments that are not traded in active markets various valuation techniques are used to measure fair value. These measurements are

divided into two types based on the inputs used in the measurement:

**1) Measurement based on observable market data:**

- Recently observed transactions in the same instrument between informed, willing and unrelated parties
- Instruments traded in an active market, which are substantially similar to the instruments that are valued

**2) Measurement based on other than observable market data:**

- Estimated cash flows
- Other valuation techniques where material parameters are not based on observable market data

#### **Impairment**

Møre Boligkreditt AS assesses whether there is objective evidence that the financial assets have been exposed to loss events that have negative effects on future cash flows. A financial asset or group of financial assets are impaired if there is objective evidence that one or more loss events have occurred after initial recognition of the asset or assets. See note 3 for further description. Impairment of loans is recognised in the income statement.

#### **Individual assessment**

An impairment loss is recognised for a loan on an individual basis if there is objective evidence that impairment exists when they are assessed individually.

Examples of objective evidence of impairment that may be observed for assets on individual basis are:

- a) Significant financial problems in the case of the borrower in question
- b) Default of payment or other significant breaches of contract. A loan or other asset is considered to be in default if the borrower fails to pay when due, or overdrawn amounts are not repaid, within a maximum of 90 days past due limit
- c) Amendments to terms or conditions as a result of the borrower's financial difficulties, such as deferral of payment or new credit to make the borrower able to pay an instalment, or amendments to interest rate terms
- d) It becomes probable that the debtor will enter into debt negotiations or other financial restructuring, or that the debtor's assets are subject to bankruptcy proceedings

#### **Collective assessment**

Assets for which no objective evidence of impairment is observed on an individual instrument basis are grouped based on similar credit risk characteristics and assessed on a collective basis. Collective impairments are recognised for sub-groups of loans when there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition, while the decrease cannot yet be identified with the individual financial assets in the group.

The collective assessment is based on risk classification and loss experience for the group in question.

Objective evidence of loss events for groups of loans include:

- a) Negative changes in the payment status for the borrowers in the group
- b) Negative changes in national or regional economic conditions that have occurred at the reporting date that have not been fully taken into account in the group's risk classification system

An impairment loss is reversed if the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised. If objective evidence of impairment is identified, impairment losses are calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted using the effective interest rate. The effective interest rate used to calculate the impairment loss is the effective interest rate applicable to the loan before objective evidence of impairment was identified. The effective interest rate is accordingly not adjusted to reflect changes in the loan's credit risk or other amendments to terms. Impairment reduces the assets' carrying amount and are recognised in the income statement as "Impairment on loans". Interest income calculated using the effective interest method based on carrying amounts net of impairment loss, is included in "Net interest income".

#### **1.5.3 Hedge accounting**

The company applies fair value hedge accounting and hedges interest rate risk and foreign exchange rate risk on debt securities issued with fixed interest rate or foreign currency denomination. Hedge accounting requires a clear, direct and proven correlation between changes in fair value of the hedged item arising from the hedged risk and changes in fair value of the financial derivative (hedging instrument).

At the origination of the hedge, the relationship between the hedging instrument and the hedge item is documented. In addition the objectives and the strategy for the hedging transaction are documented. Changes in fair value related to the hedged risk of the hedged item and the hedging instrument are evaluated periodically to ensure sufficient hedge effectiveness. Hedging instruments are carried at fair value and are recorded under "Net change in value of debt securities and related derivatives".

For the hedged item, changes in fair value due to the hedged risk are recognised as an adjustment to the carrying value of the debt securities, and are recorded under "Net change in value of debt securities and related derivatives".

#### **1.6 Presentation in the statement of financial position and income statement**

##### **Lending**

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

##### **Certificates and bonds**

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

##### **Liabilities to financial institutions**

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

##### **Debt securities issued**

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

##### **1.7 Tax**

Tax cost consists of payable tax for the income year, any tax payable for previous years, and any changes in deferred tax. Deferred tax is calculated on the temporary differences in accordance with IAS 12 Income Taxes. A temporary difference is the difference between the carrying amount of an asset or liability and the taxable value of that asset or liability. Tax increasing and tax reducing temporary differences that are reversed or could be reversed in the same period are offset and the net amount recognised. Deferred tax assets are recognised in the statement of financial position to the extent that it is likely they will be able to be utilised against future taxable income. Deferred tax (tax assets) is recognised at its nominal value and reported on a separate line on the statement of financial position.

##### **1.8 Provisions, contingent assets and contingent liabilities**

A provision is only recognised when an obligation exists (legal or constructive) as a result of a previous event, and it is likely that an outflow of resources embodying economic benefits will be required to fulfil the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are recognised at the amount that expresses the best estimate of the expenditure required to fulfil the

existing obligation. If material the time value of money is taken into account when calculating the size of the provision. Contingent assets or contingent liabilities are not recognised.

#### 1.9 Events occurring after the reporting period

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

#### 1.10 Statement of cash flow

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

#### 1.11 Equity

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

#### 1.12 Use of estimates in the preparation of the annual financial statements

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

The financial assets and liabilities of the company are allocated to different categories according to IAS 39 by the management. Normally this process requires limited judgment.

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

##### Impairment on loans

The company examines the lending portfolio at least every quarter. Loans are reviewed individually and deemed to be impaired when there is objective evidence of impairment, at the latest when the commitment have been in default for more than 90 days. Similarly, groups of loans are assessed collectively for impairment on a quarterly basis. When examining the lending portfolio to assess whether loans or groups of loans are impaired, management relies on approximation and prior experience.

##### Fair value assessments

For financial instruments which are not traded in active markets, various methods are applied in order to ascertain fair value. Further information and a description of the techniques used, is stated above. Financial instruments not traded in an active market are measured based on in-house judgments and assumptions with regards to current market conditions, or valuations from other market participants.

## 2 OPERATING SEGMENTS

Møre Boligkredit AS has only one segment in its business and 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.

(MNOK)	LOANS	
	2015	2014
Sectors		
Agriculture and forestry	1	3
Fisheries	0	1
Manufacturing	9	7
Building and construction	26	26
Wholesale and retail trade, hotels	6	9
Property management	250	264
Transport and private/public services	59	55
Public entities	0	0
Activities abroad	0	0
Miscellaneous	0	0
Total corporate/public entities	351	365
Retail customers	16 544	15 160
Accrued interest income	16	21
Loans, nominal amount	16 911	15 546
Collective impairment	-4	-2
Loans to and receivables from customers	16 907	15 544

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**GEOGRAPHICAL SPECIFICATION**


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	Møre og Romsdal		Remaining parts of Norway		Foreign countries		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Loans, nominal amount	13 413	12 392	3 473	3 126	25	28	16 911	15 546
In percentage	79.3	79.7	20.5	20.1	0.2	0.2	100.0	100.0
Interest income	431	478	119	137	1	1	551	616
In percentage	78.2	77.6	21.6	22.2	0.2	0.2	100.0	100.0

### 3 IMPAIRMENT, LOSSES AND NON-PERFORMANCE

Møre Boligkredit AS reviews its loan portfolio continuously. If there is objective evidence that a loan is impaired, the impairment loss is calculated quarterly as the difference between the carrying value of the loan and the estimated present value of future cash flows. Loans and loan commitments are assessed to see whether or not objective evidence exists that a loss event has occurred at the reporting date that have a negative impact on future cash flows. Examples of such objective evidence are significant financial problems at the borrower, payment defaults, significant breaches of contract, amendments to terms as a result of the borrower's financial difficulties, bankruptcy, etc.

If objective evidence of impairment exists, the impairment is estimated as the difference between the carrying amount and the present value of future cash flows. Estimates of future cash flows also take into account takeovers and sales of associated collateral, including expenses associated with such takeovers and sales.

When all collateral has been realised and there is no doubt that the mortgage company will not receive further payments relating to the loan, the impairment 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.

Assets for which no objective evidence of impairment is observed on an individual instrument basis are grouped based on similar credit risk characteristics and assessed on a collective basis. Collective impairments are recognised for sub-groups of loans or loan commitments when there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans or loan commitments since the initial recognition, while the decrease cannot yet be identified with the individual financial assets in the group.

The Sparebanken Møre Group has developed its own collective impairment 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 impairment is tailored to Møre Boligkredit AS' assumptions and operations.

No objective evidence of loss events requiring impairment on an individual loan or loan commitment basis was observed at the reporting date. Nor do the lending statistics on this date show any registered non-performance in the mortgage company's portfolio. The collective impairment model on this date indicates increase in collective impairments for the mortgage company's portfolio. Total impairment amounts to NOK 4 million as at 31 December 2015.

## 4 RISK MANAGEMENT

### Strategy

The Sparebanken Møre Group's, and thereby Møre Boligkredit AS', long-term strategic development and goal achievement are supported by high quality risk- and capital management. The overall purpose of risk management and -control is to ensure that goals are achieved, to ensure internal and external reporting of high quality, and to make sure that the Group operates in accordance with relevant laws, rules, regulations and internal guidelines.

Risk-taking is a fundamental aspect of banking operations, which is why risk management is a central area in the day-to-day operations as well as in the Board of Directors' ongoing focus. Sparebanken Møre's Board of Directors has agreed overall guidelines for management and control throughout the Group. The Board of Directors of Møre Boligkredit AS has agreed a separate risk policy for the company.

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

### Reporting

Møre Boligkredit AS focuses on correct, complete and timely reporting of the risk and capital situation. Based on this, a number of different types of periodic reporting have been established that are intended for the 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 Boligkredit is included in the assessments of overall ICAAP for the Sparebanken Møre Group, and the Managing Director of Møre Boligkredit AS is involved in the process. The process is led by the department for Risk Management in Sparebanken Møre. Specific guidelines have been prepared for ICAAP in Sparebanken Møre. ICAAP is reviewed by the bank's management team and the Board of Directors.

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

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

Each quarter, a liquidity forecast with a 5-year horizon is prepared, contributing to a continuous control of the liquidity situation and the refinancing needs of the mortgage company.

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

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

A reporting portal has been established in the Sparebanken Møre Group, and customer relationship employees have 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 Boligkredit AS to monitor performance within their area of responsibility. The reports are also used to analyse customers, portfolios and different industrial, commercial and other sectors.

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

### Capital management

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

### Capital adequacy rules and regulations

The EU's capital adequacy directive's purpose is to strengthen the stability in the financial system through more risk-sensitive capital requirements, better risk management and control, more stringent supervision and more information provided for the market. The capital adequacy directive is based on three pillars:

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

### Risk exposure and strategic risk management

Møre Boligkredit AS is exposed to several different types of risk. The most important risk groups are:

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

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

Møre Boligkredit has adopted the credit risk policies as set by the Sparebanken Møre Group. The group

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

See also the Group's Pillar III document published on [www.sbm.no](http://www.sbm.no).

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

Møre Boligkredit AS minimize currency risk through swap agreements with eligible counterparties.

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

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

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

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

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

Møre Boligkredit AS' liquidity situation at year-end is considered to be sound.

- Operational risk: The risk of losses due to inadequate or failing internal processes, human error, system failures, or external events. Møre Boligkredit AS has 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, efficient operations, reliable reporting, and compliance with acts and regulations, including compliance with intragroup and company-specific guidelines and policies. A well-functioning internal control system should also ensure the mortgage company's risk exposure being within the adopted risk profile. Reports are submitted to the company's Board concerning operations and the risk situation throughout the year. The Managing Director submits an annual report to the Board containing an overall assessment of the risk situation and an assessment of whether the internal controls are functioning satisfactorily.

Møre Boligkredit 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 Boligkredit AS has set the following overall levels of risk exposure for the various risk areas:

- Credit risk: A low level of risk is accepted
- Market risk: A low level of risk is accepted
- Liquidity risk: A low level of risk is accepted
- Operational risk: The acceptable risk level is low to moderate

## 5 CREDIT RISK

Credit risk represents the most significant area of risk and is defined as the risk of losses associated with customers being unable to fulfil their obligations at the agreed time and pursuant to written agreements, and the received collateral not covering outstanding claims. The company's credit risk strategy is revised and approved annually by the Board and sets forth the company's risk profile in the area of credit. Monthly portfolio management reports have been established that ensure that any deviations from the strategic goals set forth in the credit risk strategy are uncovered. The risk classification systems are used as

decision support, monitoring and reporting. The risk parameters used in the classification systems are an integrated part of the credit process and ongoing risk monitoring, including the follow-up of credit strategies. Probability of default, PD, is used to measure quality.

The risk classification system is divided into ten risk classes where 1 represents the lowest and 10 the highest risk. The classification system is based on the probability of default which is an estimate of the likelihood of a counterparty defaulting on its contractual obligations within the next 12 months. In

the table below, all loans to customers and undrawn commitments are presented according to risk level. The amounts are based on the nominal amounts before adjustments for impairment and accrued interest.

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

RISK GROUPS BASED ON PROBABILITY OF DEFAULT IN 2015	Loans	Drawingrights/ facilities	Total exposure
Low risk (0 % - < 1 %)	16 374	1 243	17 617
Medium risk (1 % - < 4 %)	434	4	438
High risk (4 % - < 100 %)	87	0	87
Commitments in default	0	0	0
Total loans, nominal value	16 895	1 247	18 142
Accrued interest income	16	0	16
- Impairment (individual and collective)	-4	0	-4
Loans to and receivables from customers as at 31 December 2015	16 907	1 247	18 154

RISK GROUPS BASED ON PROBABILITY OF DEFAULT IN 2014	Loans	Drawingrights/ facilities	Total exposure
Low risk (0 % - < 1 %)	14 961	1 095	16 056
Medium risk (1 % - < 4 %)	420	8	428
High risk (4 % - < 100 %)	144	0	144
Commitments in default	0	0	0
Total loans, nominal value	15 525	1 103	16 628
Accrued interest income	21	0	21
- Impairment (individual and collective)	-2	0	-2
Loans to and receivables from customers as at 31 December 2014	15 544	1 103	16 647

### Collateral

The company requires residential property as collateral to reduce the risk associated with customers' willingness and ability to serve their obligation. 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 247 million as at 31 December 2015, see note 10.

## 6 LIQUIDITY RISK

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

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

Pursuant to the Financial Institutions Act, a mortgage company which issues covered bonds must ensure

that the cash flow from the cover pool enable the company to meet its payment obligations to holders of covered bonds and counterparties to derivative agreements at all times.

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

Loans that are acquired and not included in a portfolio financed by covered bonds, and loans that serve as over-collateralisation, are financed through a facility the company holds in the parent bank, Sparebanken Møre, or equity. The long-term overdraft facility in Sparebanken Møre has a total limit of NOK 2.25 billion.

Receivables from credit institutions and investments in covered bonds are used as part of the cover pool.

REMAINING MATURITY AS PER 31.12.15	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
<b>Assets</b>						
Loans to and receivables from credit institutions	285	0	0	0	0	285
Loans to and receivables from customers	83	168	756	3 858	17 502	22 367
Certificates and bonds	1	1	5	393	30	430
Total assets	369	169	761	4 251	17 532	23 082
<b>Liabilities</b>						
Loans from credit institutions	970	0	0	0	0	970
Debt securities issued	12	53	1 028	12 980	2 623	16 696
Total liability	982	53	1 028	12 980	2 623	17 666
<b>Financial derivatives</b>						
Cash flow in	0	15	59	291	333	698
Cash flow out	1	12	39	176	141	369
Total financial derivatives	-1	3	20	115	192	329

Cash flows from nominal interest payments are included for "Loans to and receivables from customers", for "Certificates and bonds" and for "Debt securities issued".

REMAINING MATURITY AS PER 31.12.14	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
Loans to and receivables from credit institutions	104	0	0	0	0	104
Loans to and receivables from customers	84	170	765	3 941	17 120	22 080
Certificates and bonds	1	1	3	217	0	222
Total assets	189	171	768	4 158	17 120	22 406
<b>Liabilities</b>						
Loans from credit institutions	915	0	0	0	0	915
Debt securities issued	10	1 057	1 583	10 884	1 567	15 101
Total liability	925	1 057	1 583	10 884	1 567	16 016
<b>Financial derivatives</b>						
Cash flow in	1	2	65	239	355	662
Cash flow out	3	10	40	151	175	379
Total financial derivatives	-2	-8	25	88	180	283

Cash flows from nominal interest payments are included for "Loans to and receivables from customers", for "Certificates and bonds" and for "Debt securities issued".

## 7 MARKET RISK

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

Møre Boligkredit AS has funding in foreign currency. Currency risk associated with this funding is hedged and minimized by use of 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 expenses. Møre Boligkredit AS uses interest rate swaps as part of its risk management to manage interest rate risk. The company's borrowings with fixed

interest rates are swapped to floating interest rates. Potential effect of a 1-year period of a positive interest rate change of 1 percentage point, is an increase in interest income of NOK 12 million. Relative to the company's primary capital of NOK 1 153 million, the company's interest rate risk is considered to be insignificant.

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

(MNOK)	Up to 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
2015	-1	2	5	1	7
2014	-2	1	1	0	0

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

FINANCIAL DERIVATIVES	2015			2014	
	Nominal value	Asset	Liability	Nominal value	Asset
Interest rate swaps	2 050	238	6	1 050	227
Cross currency interest rate swaps	1 262	247	0	1 599	168
Total	3 312	485	6	2 649	395
- hereof applied in hedge accounting	2 290	287	3	1 251	258

The table below provides detail on the contractual maturity of financial derivatives based on nominal values.

MATURITY OF FINANCIAL DERIVATIVES	2015	2014
Maturity	Interest rate swaps	Cross currency swaps
2015		432
2016		
2017		733
2018		
2019		
2020		270
2021		
2022	1 000	
2023		
2024		
2025	1 050	1 050
2026		
2027		
2028	240	225
	2 050	1 599
		1 050

## 8 FINANCIAL INSTRUMENTS

All lending and receivables are recorded at amortised cost. Amortised cost is also used for fixed and floating rate securities issued.

Fair value of lending to and receivables from financial institutions, and lending to customers, is approximated to the carrying amount of the lending and receivables

states at amortised costs after deducting impairment charges. Floating interest rates apply to all these contracts, therefore there are no major differences between the book value and the assessed fair value. Fair value of the certificates and bonds is calculated allowing for change in the market interest rates and changes in the credit margin.

Financial derivatives related to the company's debt securities issued are carried at fair value through profit or loss, and presented gross in the balance sheet, as either asset or liability.

CLASSIFICATION OF FINANCIAL INSTRUMENTS	Financial instruments at fair value through profit and loss		Financial assets and liabilities carried at amortised cost	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Loans to and receivables from credit institutions	0	0	285	104
Loans to and receivables from customers	0	0	16 907	15 544
Certificates and bonds	403	208	0	0
Financial derivatives	485	395	0	0
Total assets	888	603	17 192	15 648
Loans from credit institutions	0	0	970	915
Debt securities issued	0	0	15 711	14 023
Financial derivatives	6	0	0	0
Total liability	6	0	16 681	14 938

FINANCIAL INSTRUMENTS AT FAIR VALUE	Based on prices in an active market		Observable market information		Other than observable market information		Total
	Level 1		Level 2		Level 3		
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015
Certificates and bonds	0	0	403	208	0	0	403
Financial derivatives	0	0	485	395	0	0	485
Total assets	0	0	888	603	0	0	888
Financial derivatives	0	0	6	0	0	0	6
Total liability	0	0	6	0	0	0	6

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST	31.12.2015		31.12.2014	
	Fair value	Book value	Fair value	Book value
Loans to and receivables from credit institutions	285	285	104	104
Loans to and receivables from customers	16 907	16 907	15 544	15 544
Total assets	17 192	17 192	15 648	15 648
Loans from credit institutions	970	970	915	915
Debt securities issued	15 595	15 711	14 157	14 023
Total liability	16 565	16 681	15 072	14 938

FINANCIAL INSTRUMENTS AT AMORTISED COST	Based on prices in an active market		Observable market information		Other than observable market information		Total	
	Level 1		Level 2		Level 3			
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014		
Loans to and receivables from credit institutions	0	0	285	104	0	0	285	104
Loans to and receivables from customers	0	0	0	0	16 907	15 544	16 907	15 544
Total assets	0	0	285	104	16 907	15 544	17 192	15 648
Loans from credit institutions	0	0	970	915	0	0	970	915
Debt securities issued	0	0	15 595	14 157	0	0	15 595	14 157
Total liability	0	0	16 565	15 072	0	0	16 565	15 072

MATURITY OF DEBT SECURITIES ISSUED, NOMINAL VALUE	2015	2014
2015		2 343
2016	828	828
2017	2 878	2 878
2018	2 500	2 000
2019	2 000	1 250
2020	4 744	3 044
2022	1 000	0
2025	1 050	1 050
2028	201	201
Total	15 201	13 594

## 9 HEDGING OF INTEREST RATE AND CURRENCY EXPOSURE

HEDGE ACCOUNTING FOR FINANCIAL LIABILITIES WITH FIXED INTEREST RATE	31.12.2015	31.12.2014
Changes in fair value of derivatives established to hedge changes in market interest rates	0	144
Changes in fair value due to changes in market interest rates on hedged financial liabilities with fixed interest rate	3	-145
HEDGE ACCOUNTING FOR FINANCIAL LIABILITIES IN FOREIGN CURRENCY	31.12.2015	31.12.2014
Changes in fair value of derivatives established to hedge currency exposure on financial liabilities	36	55
Changes in fair value due to changes in the exchange rate on hedged financial liabilities	-36	-55

## 10 ISSUED COVERED BONDS

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

### COVERED BONDS (MNOK)

ISIN code	Currency	Nominal value 31.12.2015	Interest	Issue	Maturity	31.12.2015	31.12.2014
NO0010499841	NOK	828	3M Nibor + 0.50 %	2009	2016	827	828
NO0010564982	NOK	0	3M Nibor + 0.40 %	2010	2015	0	1 008
NO0010575079	NOK	1 500	3M Nibor + 0.55 %	2010	2017	1 497	1 495
NO0010588072	NOK	1 050	fixed NOK 4.75 %	2010	2025	1 272	1 266
XS0685790585	SEK	0	3M Stibor + 0.75 %	2011	2015	0	432
NO0010635873	NOK	0	3M Nibor + 0.49 %	2012	2015	0	950
NO0010657232	NOK	2 500	3M Nibor + 0.65 %	2012	2018	2 512	2 010
XS0828616457	SEK	700	3M Stibor + 0.70 %	2012	2017	736	675
NO0010676018	NOK	2 000	3M Nibor + 0.47 %	2013	2019	2 006	1 249
XS0968459361	EUR	25	fixed EUR 2.81 %	2013	2028	289	252
XS0984191873	EUR	30	6M Euribor + 0.20 %	2013	2020	288	270
NO0010696990	NOK	2 000	3M Nibor + 0.45 %	2013	2020	1 999	799
NO0010699028	NOK	750	3M Nibor + 0.37 %	2013	2017	750	750
NO0010720204	NOK	2 500	3M Nibor + 0.24 %	2014	2020	2 497	1 999
NO0010730187	NOK	1 000	fixed NOK 1.50 %	2015	2022	989	0
Total securities issued						15 662	13 983
Accrued interest						49	40
Financial derivatives to hedge issued securities (liabilities)						6	0
Financial derivatives to hedge issued securities (assets)						-485	-395
Total borrowings raised through the issue of securities						15 232	13 628

### COVER POOL (MNOK)

	31.12.2015	31.12.2014
Pool of eligible loans 1)	16 648	15 110
Supplementary assets	688	312
Total collateralised assets	17 336	15 422
Collateralisation	113.8 %	113.2 %

1) NOK 247 million of total gross loans are not eligible for the cover pool as at 31.12.15.

## 11 TRANSACTIONS WITH RELATED PARTIES

In order to conduct normal business, Møre Boligkredit AS purchases services from Sparebanken Møre. There will also be transactions between the parties related to the acquisition of loan portfolio, and the fact that Sparebanken Møre provides loans and credits to the mortgage company.

Loans from Sparebanken Møre are transferred at market value. 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 Boligkredit 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 Boligkredit 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 Boligkredit AS should have difficulty in obtaining financing, there is established a revolving guarantee from Sparebanken Møre where the purpose is to ensure timely payments to owners of bonds and derivative counterparties.

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

Møre Boligkredit 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. The rent of office space is set by

Sparebanken Møre and is regulated according to market price. Regardless of the extent of the activity and the loan portfolio acquired by Møre Boligkredit AS, charges related to accounting, financial reporting, risk management, cash management, financing, governance and general legal services will incur.

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

The interest rate on 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:

(MNOK)	2015	2014
<b>Income statement</b>		
Interest and credit commission income from Sparebanken Møre related to deposits	6	5
Interest and credit commission paid to Sparebanken Møre related to loan/credit facility	20	28
Interest paid to Sparebanken Møre related to bonded debt	2	6
Management fee paid to Sparebanken Møre	24	22
<b>Statement of financial position</b>		
Deposits in Sparebanken Møre	285	104
Covered bonds held by Sparebanken Møre as assets	0	25
Loan/credit facility in Sparebanken Møre	970	915
Accumulated transferred loan portfolio from Sparebanken Møre	16 911	15 546

## 12 WAGES, COMPENSATIONS AND FEES

(Amounts in NOK Thousand)		2015	2014
Total wages and other cash payments		2 231	2 108
- hereof salary to the Managing Director		895	903
- hereof other remuneration to the Managing Director		74	56
- hereof refunded premium regarding the pension plan for the Managing Director		95	111
- hereof remuneration to the Board of Directors and the Control Committee		101	75
The Board of Directors	Kjetil Hauge, chairman	0	0
	Sandra Myhre Helseth	0	0
	Trond Lars Nydal	0	0
	Geir Tore Hjelle	43	30
	Britt Iren Tøsse Aandal	43	30
Control Committee	Grete Opshaug, chairman	6	6
	Jon Olav Slettebakk, vice chairman	3	3
	Karl Johan Brudevold	3	3
	Kjell Martin Rønning	3	3
Total fees paid to external auditor (all fees are stated including VAT of 25%)		736	735
- hereof statutory audit services		250	250
- hereof tax-related services		34	27
- hereof other attestation services		373	365
- hereof other non-audit services		79	93

Møre Boligkredit AS has no employees at the end of 2015. Møre Boligkredit AS remunerated Sparebanken Møre for the use of two man-years, but only the Managing Director of Møre Boligkredit AS is dedicated full time to the company. A number of services are also outsourced for performance by Sparebanken Møre, and these are regulated by a specific agreement between the mortgage company

and the bank. The above-mentioned pay and other cash benefits, as well as employer's national insurance contributions, are cost refunds to Sparebanken Møre. The employees are members of Sparebanken Møre's pension scheme. The scheme satisfies the current requirements for mandatory occupational pensions. The company had as per 31 December 2015 no obligation to pay the Managing Director, chairman

of the Board of Directors or other employees special remuneration upon them leaving the company or in the event of a change in their employment relationship or duties. Nor do any obligations concerning bonuses, options, or similar exist for any of the aforementioned people.

LOANS AND GUARANTEES (Amounts in NOK Thousand)	2015		2014	
	LOANS	GUARANTEES	LOANS	GUARANTEES
Board of Directors				
Kjetil Hauge, chairman	3 534	0	3 044	0
Sandra Myhre Helseth	2 429	0	2 627	0
Trond Lars Nydal	971	0	659	0
Geir Tore Hjelle	0	0	0	0
Britt Iren Tøsse Aandal	0	0	0	0
Control Committee				
Grete Opshaug, chairman	990	0	905	0
Jon Olav Slettebakk, vice chairman	1 011	0	1 023	0
Karl Johan Brudevold	0	0	0	0
Kjell Martin Rønning	0	0	0	0
Managing Director				
Ole Kjerstad	3 926	0	4 054	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 Managing Director and the Board members of Møre Boligkredit AS, who also are employees in Sparebanken Møre are given according to staff conditions.

## 13 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. The entire taxation cost is related to Norway.

	2015	2014
Result before tax	241	261
Permanent differences	0	0
Changes in temporary differences	-8	0
Income subject to tax	233	261
Tax payable at 27 per cent	63	70
Change in deferred tax	2	0
Total tax cost	65	70

SPECIFICATION OF TEMPORARY DIFFERENCES AND COMPUTATION OF DEFERRED TAX	2015	2014
Financial liabilities	-439	-365
Financial instruments	444	362
Net negative (-)/positive differences	5	-3
Deferred tax asset/liability (-) as at 31 December	-1	1

Some financial instruments are measured in the financial statements at fair value, while financial instruments are taxed as they are realised.

A tax rate of 27 per cent is used as the prevailing tax rate in 2015. As of 2016 the corporate tax rate has changed to 25 per cent, which has limited effect on the company due to the temporary differences not being significant.

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	2015	2014
27 per cent of pre-tax result	65	70
Other permanent differences	0	0
Total tax cost	65	70

## 14 EQUITY AND RELATED CAPITAL

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

However, as long as Norwegian transitional rules relating to full implementation of the IRB approach

remain in force, the total risk-weighted assets cannot be reduced below 80 per cent of the Basel I requirements.

The legislation requires a minimum common equity Tier-1 from 1 July 2016 of 11.5 per cent, including a conservation-buffer of 2.5 per cent, a systemic-risk-buffer of 3.0 per cent and a counter-cyclical buffer of 1.5 per cent. Minimum capital adequacy ratio from 1 July 2016 is 15 per cent.

The current defined long-term target for Møre Boligkredit AS is to meet minimum capital requirements. Møre Boligkredit AS has as of 31.12.2015 capital adequacy/core capital ratio of 14.7 per cent. The company is expected to deliver a return on equity above the level corresponding to long-term yield on Norwegian government bonds.

(MNOK)	MØRE BOLIGKREDITT AS	
	31.12.2015	31.12.2014
<b>Core capital and supplementary capital</b>		
Share capital and share premium	1 150	1 050
Retained earnings	179	194
Total equity	1 329	1 244
Dividends	-176	-191
Expected losses exceeding actual losses, IRB portfolios corporate	-32	-1
Common Equity Tier 1 capital	1 121	1 052
Supplementary capital	0	0
<b>Total core capital and supplementary capital</b>	<b>1 121</b>	<b>1 052</b>

### Risk-weighted assets (calculation basis for capital adequacy ratio)

Credit risk loans and receivables (Standardised Approach)	301	5 731
Credit risk loans and receivables (Internal ratings based Approach)	3 345	214
Operational Risk (Basic indicator Approach)	411	266
Total risk exposure amount for credit valuation adjustment (CVA) (SA)	444	526
Risk-weighted assets less transitional rules	4 500	6 737
Additional RWA from transitional rules 1)	3 108	81
<b>Total risk-weighted assets</b>	<b>7 608</b>	<b>6 818</b>
<b>Minimum requirement common equity Tier 1 capital (4,5%)</b>	<b>342</b>	<b>307</b>

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

### Buffer Requirement

Countercyclical buffer (1.0%)	76	68
Capital conservation buffer (2.5%)	190	170
Systemic risk buffer (3.0%)	228	205
<b>Total buffer requirements</b>	<b>494</b>	<b>443</b>
Available common equity Tier 1 capital after buffer requirements	285	302

### Capital adequacy as a percentage of the weighted asset calculation basis

Capital adequacy ratio	14.7 %	15.4 %
Core capital ratio	14.7 %	15.4 %
Common Equity Tier 1 capital ratio	14.7 %	15.4 %

Møre Boligkredit AS' capital requirements at 31st December 2015 are based on IRB-Foundation for corporate commitments and IRB-Retail for retail commitments.

## 15 SHARE CAPITAL

The share capital consists of 780 000 shares each with a nominal value of NOK 1 250. All shares are owned by Sparebanken Møre. Møre Boligkredit 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](http://www.sbm.no).

	2015	2014
Total number of shares 1 January	700 000	700 000
Issue of new shares	80 000	0
Total number of shares 31 December	780 000	700 000
Profit after tax as a percentage of average assets	1.06	1.23

The Board of Directors has proposed a dividend of NOK 176 million per 31.12.15.

## 16 EVENTS AFTER THE REPORTING DATE

No events of material significance for the financial statements for 2015 have occurred after the reporting date. The company is not involved in any legal proceedings.

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

We hereby confirm that the company's annual financial statements for the period 1 January 2015 to 31 December 2015, 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

true and fair view of the company's assets, liabilities, financial position, and results as a whole.

We also hereby declare that the annual report provides a true and fair view of the financial performance and position of the

company, as well as a description of the principal risks and uncertainties facing the company.

Ålesund, 31 December 2015  
8 February 2016

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

MANAGING DIRECTOR

# Auditor's report 2015

## To the Annual Shareholders' Meeting of 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 2015, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended, 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 at 31 December 2015 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**

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report 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.

Oslo, 8 February 2016  
ERNST & YOUNG AS

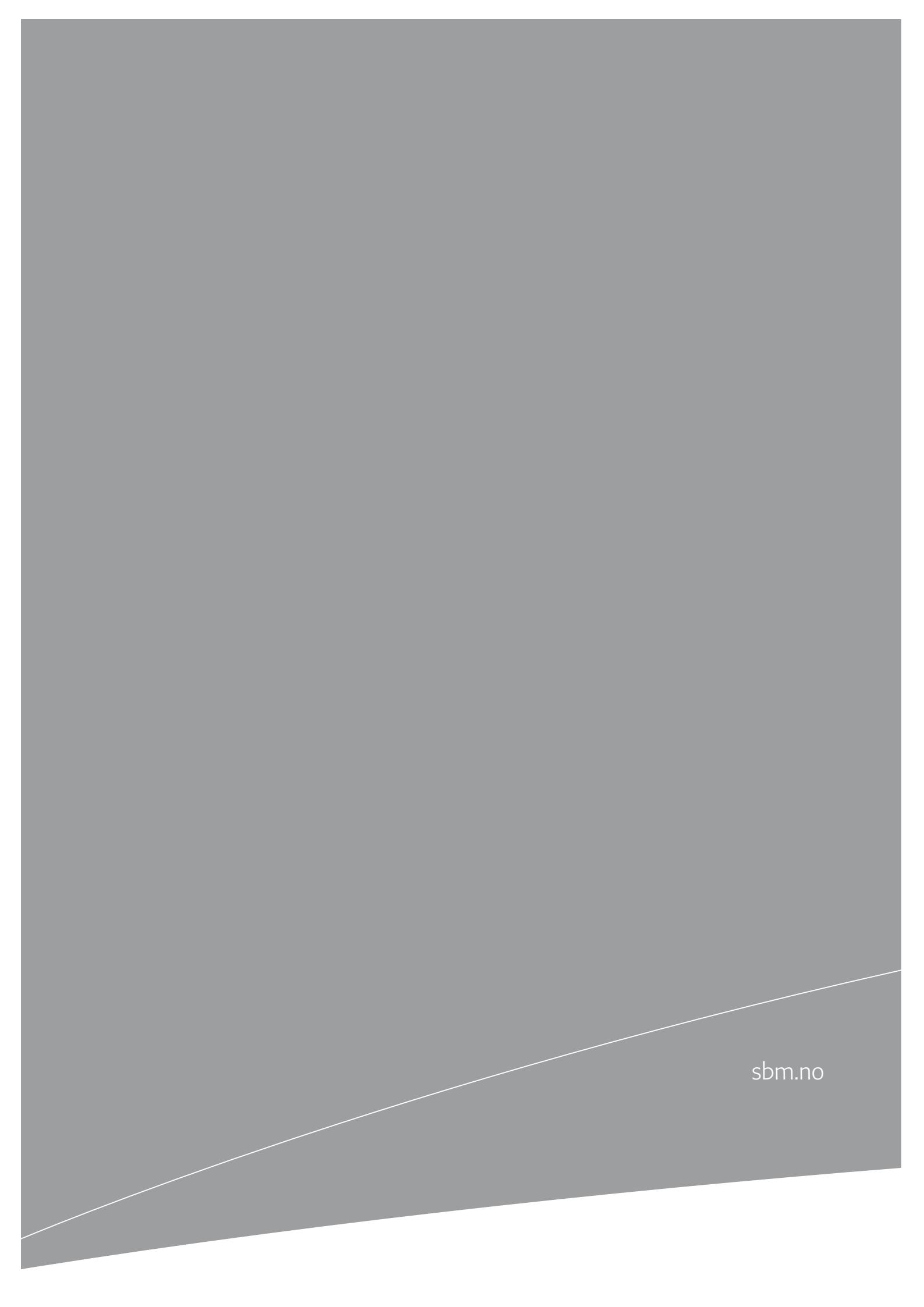
Einar Hersvik  
State Authorised Public Accountant  
(Norway)





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