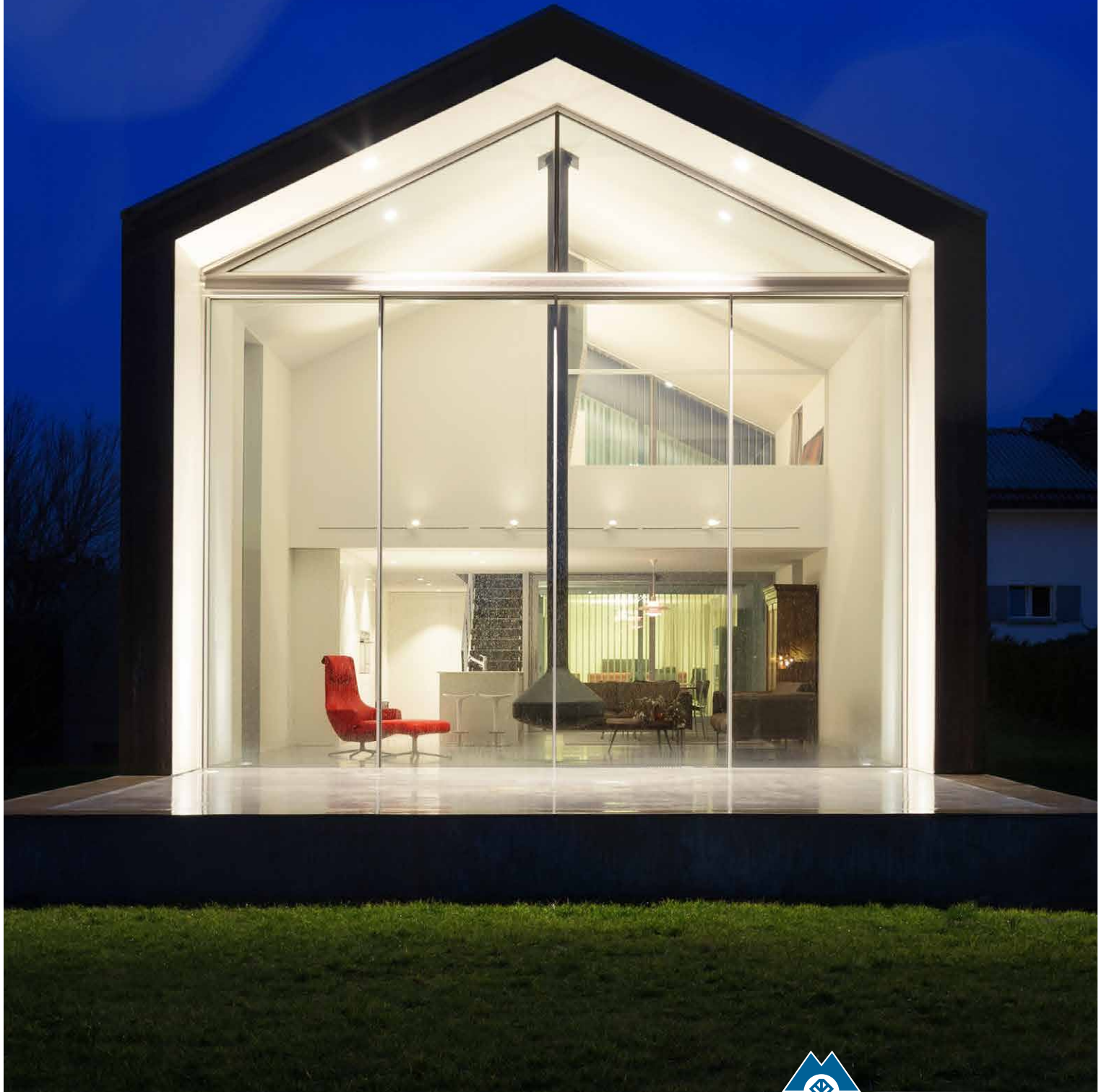


INTERIM REPORT  
1 QUARTER  
UNAUDITED

16



MØRE BOLIGKREDITT

# Interim report from the Board of Directors

## About the company

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

The accounts have been prepared in accordance with IFRS.

## First quarter results

The financial statements of Møre Boligkreditt AS show a pre tax profit of NOK 56 million in first quarter 2016, compared to NOK 76 million in first quarter 2015. Net interest income amounted to NOK 60 million, compared to NOK 75 million for the same period last year. Costs amounted to NOK 8 million in first quarter 2016, compared with NOK 7 million in the corresponding quarter in 2015. Net gain in value of debt securities issued and related derivatives was NOK 4 million at first quarter end 2016, compared to NOK 8 million at first quarter end 2015.

Møre Boligkreditt AS has not established losses or impairment for individual losses in first quarter 2016, nor made any changes to the collective impairment. Profit after tax amounted to NOK 42 million in first quarter 2016, compared to NOK 55 million in the corresponding quarter 2015.

Total assets at first quarter end 2016 amounted to NOK 19 150 million compared to NOK 16 941 million at first quarter end 2015. Møre Boligkreditt AS acquired mortgages from Sparebanken Møre also in the first quarter 2016, and net lending increased by NOK 1 116 million. Net lending amounted to NOK 18 023 million at first quarter end 2016, compared with NOK 15 772 million at first quarter end 2015.

At first quarter end 2016, the company's substitute assets included in the cover pool amounted to NOK 581 million, including receivables from credit institutions of NOK 242 million, compared to NOK 777 million in substitute assets at first quarter end 2015.

No new bond loan volume was issued in first quarter 2016, and no outstanding bond loans matured in first quarter 2016. Møre Boligkreditt AS had twelve bond loans outstanding at 31 March 2016 with a total bond loan debt of NOK 15 765 million, compared to fourteen bond loans with NOK 14 483 million outstanding at 31 March 2015.

The amount allocated for collective impairment was NOK 4 million at first quarter end 2016, compared to NOK 2 million at first quarter end 2015.

## Rating

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

## Capital strength

In first quarter 2016 Møre Boligkreditt AS increased its equity by NOK 200 million through an issue of 160 000 shares á NOK 1 250. The capital increase was fully paid in by Sparebanken Møre as the owner of all 940 000 shares in Møre Boligkreditt AS. Paid-in equity and other equity amounted to NOK 1 353 million by end of first quarter 2016, compared to NOK 1 153 million by end of first quarter 2015. This corresponds to a capital adequacy/core capital ratio of 16.1 per cent. Risk-weighted assets amounted to NOK 8 165 million by end of first quarter 2016.

Møre Boligkreditt AS uses internal rating based (IRB) models to calculate capital requirements for credit risk. The Board regards the company's interest bearing capacity as satisfactory.

## Risks

Møre Boligkreditt AS is subject to a number of acts, regulations, recommendations and regulatory provisions. These regulations largely stipulate restrictions concerning the scope of the company's various risk exposures. The Board and the managing director of Møre Boligkreditt 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 end of first quarter 2016, 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's holding or assuming positions in lending and financial instruments in which the values over time will be affected by changes in market prices. Møre Boligkreditt AS must, pursuant to the Financial Institution Act, have very low market risk and Board approved restrictions concerning 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. A 12 months rolling revolving credit facility guarantee from Sparebanken Møre ensures timely payments to derivative counterparties and owners of bonds issued by Møre Boligkreditt AS. Furthermore the bonds 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 considerable 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.

### **Outlook**

The Norwegian economy, and especially the oil related part of the economy will experience a further slowdown also in 2016, and we will experience lower and selective growth also in the coming quarters. This is mainly due to the low oil price and the decline in petroleum related investments. A strong household sector due to record low interest rates, still relative 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 fiscal 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 not be enough to prevent unemployment from rising further in 2016. The registered unemployment rate in Norway was 3.3 per cent in March, compared to 3.4 per cent in the county of Møre og Romsdal. We expect unemployment in the county to stay just above national average levels during 2016.

Retail lending growth in Sparebanken Møre Group is 6.8 per cent the last twelve months, but in line with weaker national growth in household debt, we also see the Group retail lending growth rate slowing down somewhat in first quarter 2016.

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

Ålesund, 31 March 2016

20 April 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

## STATEMENT OF INCOME

Amounts in NOK million	Note	Q1 2016	Q1 2015	2015
Interest income		124	147	551
Interest expenses		64	72	278
Net interest income	<u>9</u>	60	75	273
Commission income		0	0	0
Net change in value of debt securities issued and related derivatives		4	8	1
Wages, salaries and general administration costs		1	1	2
Other operating costs		7	6	29
Total operating costs		8	7	31
Profit before impairment on loans and taxes		56	76	243
Impairment on loans	<u>3</u>	0	0	2
Pre tax profit		56	76	241
Taxes		14	21	65
Profit after tax		42	55	176

## STATEMENT OF COMPREHENSIVE INCOME

Amounts in NOK million	Q1 2016	Q1 2015	2015
Profit after tax	42	55	176
Other comprehensive income	0	0	0
Total comprehensive income after tax	42	55	176

# Statement of financial position

## Assets

Amounts in NOK million	Note	31.03.2016	31.03.2015	31.12.2015
Loans to and receivables from credit institutions	<u>5 6 9</u>	242	569	285
Loans to and receivables from customers	<u>2 3 4 5 7 9</u>	18 023	15 772	16 907
Certificates and bonds	<u>5 7 9</u>	339	208	403
Financial derivatives	<u>5 7</u>	546	391	485
Deferred tax asset		0	1	0
<b>Total assets</b>		<b>19 150</b>	<b>16 941</b>	<b>18 080</b>

## Liabilities and equity

Amounts in NOK million	Note	31.03.2016	31.03.2015	31.12.2015
Loans from credit institutions	<u>5 6 9</u>	1 942	1 164	970
Debt securities issued	<u>5 6</u>	15 765	14 483	15 711
Financial derivatives	<u>5 7</u>	5	24	6
Tax payable		42	62	63
Deferred tax liability	<u>5 6</u>	1	0	1
<b>Total liabilities</b>		<b>17 755</b>	<b>15 733</b>	<b>16 751</b>
Share capital	<u>10</u>	975	975	975
Share premium		175	175	175
Not inscribed capital increase		200	0	0
<b>Paid-in equity</b>		<b>1 350</b>	<b>1 150</b>	<b>1 150</b>
Other equity		3	3	179
Profit for the period		42	55	0
<b>Retained earnings</b>		<b>45</b>	<b>58</b>	<b>179</b>
<b>Total equity</b>		<b>1 395</b>	<b>1 208</b>	<b>1 329</b>
<b>Total liabilities and equity</b>		<b>19 150</b>	<b>16 941</b>	<b>18 080</b>

# Statement of changes in equity

<b>31.03.2016</b>	<b>Total equity</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Other equity</b>
Equity as at 31 December 2015	1 329	975	175	179
Total comprehensive income for the period	42			42
Issue of share capital	200	200		
Dividends	-176			-176
Equity as at 31 March 2016	1 395	1 175	175	45

The share capital consists of 940 000 shares at NOK 1 250, a total of NOK 1 175 million. All shares are owned by Sparebanken Møre. The issue of share capital of NOK 200 million was fully paid in 8 March 2016, approved by the Norwegian FSA 7 April 2016, and registered in The Brønnøysund Register Centre 12 April 2016.

<b>31.03.2015</b>	<b>Total equity</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Other equity</b>
Equity as at 31 December 2014	1 244	875	175	194
Total comprehensive income for the period	55			55
Issue of share capital	100	100		
Dividends	-191			-191
Equity as at 31 March 2015	1 208	975	175	58

The share capital consisted of 780 000 shares at NOK 1 250, a total of NOK 975 million. All shares were owned by Sparebanken Møre.

	<b>2015 Total equity</b>	<b>EC capital</b>	<b>Share premium</b>	<b>Other equity</b>
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	1 329	975	175	179

The share capital consisted of 780 000 shares at NOK 1 250, a total of NOK 975 million. All shares were owned by Sparebanken Møre. Dividend as of 31 December 2015 amounted to NOK 176 million.

# Statement of cash flow

Amounts in NOK million	31.03.2016	31.03.2015	31.12.2015
<b>Cash flow from operating activities</b>			
Interest, commission and fees received	123	146	547
Interest, commission and fees paid	-4	-5	-22
Operating expenses paid	-8	-7	-31
Income taxes paid	-35	-29	-70
Payment for acquiring loans from the Parent Bank	-2 110	-1 729	-6 964
Payment related to instalment loans and credit lines to customers	993	1 502	5 598
Net cash flow from operating activities	-1 041	-122	-942
<b>Cash flow from investing activities</b>			
Received interest, commission and fees related to certificates, bonds and other securities	2	1	5
Proceeds from the sale of certificates, bonds and other securities	64	0	65
Purchases of certificates, bonds and other securities	0	0	-264
Changes in other assets	4	8	5
Net cash flow from investing activities	70	9	-189
<b>Cash flow from financing activities</b>			
Paid interest, commission and fees related to issued bonds	-60	-67	-258
Net change in loans from credit institutions	972	249	55
Proceeds from bond issues raised	0	1 508	3 965
Redemption of debt securities	0	-1 008	-2 343
Dividend paid	-176	-191	-191
Changes in other debt	-8	-13	-16
Issue of share capital and premium	200	100	100
Net cash flow from financing activities	928	578	1 312
Net change in cash and cash equivalents	-43	465	181
Cash balance at 01.01	285	104	104
Cash balance at 31.03/31.12	242	569	285



# Note 1

## **ACCOUNTING PRINCIPLES**

Møre Boligkreditt AS' interim report is 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 2015. The principles are outlined in the annual report for 2015. There have been no changes in standards that affect the financial statements of Møre Boligkreditt AS from 31 December 2015.

The interim financial statements are not audited.

All amounts are stated in NOK million unless stated otherwise.

# Note 2

## OPERATING SEGMENTS

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

(MNOK)	Loans		
	31.03.2016	31.03.2015	31.12.2015
<b>Broken down according to sectors</b>			
Agriculture and forestry	3	3	1
Fisheries	0	0	0
Manufacturing	8	6	9
Building and construction	27	30	26
Wholesale and retail trade, hotels	8	9	6
Property management	251	258	250
Transport and private/public services	62	62	59
Public entities	0	0	0
Activities abroad	0	0	0
Miscellaneous	0	0	0
Total corporate/public entities	359	368	351
Retail customers	17 647	15 382	16 544
Accrued interest income	21	24	16
Loans, nominal amount	18 027	15 774	16 911
Collective impairment	-4	-2	-4
Loans to and receivables from customers	18 023	15 772	16 907

(MNOK)	Net interest income		
	31.03.2016	31.03.2015	31.12.2015
Interest income from:			
Loans to and receivables from credit institutions	1	1	6
Loans to and receivables from customers	121	145	541
Certificates, bonds and other interest-bearing securities	2	1	4
Interest income	124	147	551
Interest expenses in respect of:			
Loans from credit institutions	4	5	20
Debt securities issued	60	67	258
Interest expenses	64	72	278
Net interest income	60	75	273

## Note 3

### **IMPAIRMENT, LOSSES AND NON-PERFORMANCE**

Møre Boligkreditt 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 Boligkreditt 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 no increase in collective impairments for the mortgage company's portfolio. Total impairment amounts to NOK 4 million as at 31 March 2016.

## Note 4

### FINANCIAL INSTRUMENTS

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

The company's debt securities issued with fixed interest rates are accounted for using fair value hedging. Losses and gains, resulting from changes in value due to changes in market interest, of debt securities with fixed interest are recognised in the income statement in the period they arise.

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

There are no major differences between the book value and the fair value of loans to credit institutions and customers, and liabilities to credit institutions agreed at variable rates and recognised at amortised cost. Fair value of debt securities is calculated allowing for change in the market interest rates and change in the credit margin.

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

CLASSIFICATION OF FINANCIAL INSTRUMENTS	Financial instruments at fair value through profit or loss		Financial assets and liabilities carried at amortised cost	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
Loans to and receivables from credit institutions			242	569
Loans to and receivables from customers			18 023	15 772
Certificates and bonds	339	208		
Financial derivatives	545	391		
<b>Total assets</b>	<b>884</b>	<b>599</b>	<b>18 265</b>	<b>16 341</b>
Loans from credit institutions			1 942	1 164
Debt securities issued			15 765	14 483
Financial derivatives	5	24		
<b>Total liabilities</b>	<b>5</b>	<b>24</b>	<b>17 707</b>	<b>15 647</b>

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST	31.03.2016		31.03.2015	
	Fair value	Book value	Fair value	Book value
Loans to and receivables from credit institutions	242	242	569	569
Loans to and receivables from customers	18 023	18 023	15 772	15 772
<b>Total assets</b>	<b>18 265</b>	<b>18 265</b>	<b>16 341</b>	<b>16 341</b>
Loans from credit institutions	1 942	1 942	1 164	1 164
Debt securities issued	15 667	15 765	14 580	14 483
<b>Total liabilities</b>	<b>17 609</b>	<b>17 707</b>	<b>15 744</b>	<b>15 647</b>

FINANCIAL INSTRUMENTS AT AMORTISED COST	Based on prices in an active market		Observable market information	Other than observable market information	
	31.03.2016	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions		-	242	-	242
Loans to and receivables from customers		-	-	18 023	18 023
Total assets		-	242	18 023	18 265
Loans from credit institutions		-	1 942	-	1 942
Debt securities issued		-	15 667	-	15 667
Total liabilities		-	17 609	-	17 609

FINANCIAL INSTRUMENTS AT AMORTISED COST	Based on prices in an active market		Observable market information	Other than observable market information	
	31.03.2015	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions		-	569	-	569
Loans to and receivables from customers		-	-	15 772	15 772
Total assets		-	569	15 772	16 341
Loans from credit institutions		-	1 164	-	1 164
Debt securities issued		-	14 580	-	14 580
Total liabilities		-	15 744	-	15 744

FINANCIAL INSTRUMENTS AT FAIR VALUE	Based on prices in an active market		Observable market information	Other than observable market information	
	31.03.2016	Level 1	Level 2	Level 3	Total
Certificates and bonds		-	339	-	339
Financial derivatives		-	545	-	545
Total assets		-	884	-	884
Financial derivatives		-	5	-	5
Total liabilities		-	5	-	5

FINANCIAL INSTRUMENTS AT FAIR VALUE	Based on prices in an active market		Observable market information	Other than observable market information	
	31.03.2015	Level 1	Level 2	Level 3	Total
Certificates and bonds		-	208	-	208
Financial derivatives		-	391	-	391
Total assets		-	599	-	599
Financial derivatives		-	24	-	24
Total liabilities		-	24	-	24

# Note 5

## ISSUED COVERED BONDS

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

COVERED BONDS (MNOK)								
ISIN code	Currency	Nominal value 31.03.2016	Interest	Issue	Maturity	31.03.2016	31.03.2015	31.12.2015
NO0010499841	NOK	828	3M Nibor + 0.50 %	2009	2016	827	828	827
NO0010575079	NOK	1 500	3M Nibor + 0.55 %	2010	2017	1 497	1 496	1 497
NO0010588072	NOK	1 050	fixed NOK 4.75 %	2010	2025	1 317	1 269	1 272
XS0685790585	SEK	-	3M Stibor + 0.75 %	2011	2015	-	423	-
NO0010635873	NOK	-	3M Nibor + 0.49 %	2012	2015	-	950	-
NO0010657232	NOK	2 500	3M Nibor + 0.65 %	2012	2018	2 511	2 010	2 512
XS0828616457	SEK	700	3M Stibor + 0.70 %	2012	2017	716	660	736
NO0010676018	NOK	2 000	3M Nibor + 0.47 %	2013	2019	2 005	2 007	2 006
XS0968459361	EUR	25	fixed EUR 2.81 %	2013	2028	298	254	289
XS0984191873	EUR	30	6M Euribor + 0.20 %	2013	2020	283	261	288
NO0010696990	NOK	2 000	3M Nibor + 0.45 %	2013	2020	1 999	799	1 999
NO0010699028	NOK	750	3M Nibor + 0.37 %	2013	2017	750	749	750
NO0010720204	NOK	2 500	3M Nibor + 0.24 %	2014	2020	2 497	1 999	2 497
NO0010730187	NOK	1 000	fixed NOK 1.50 %	2015	2022	1 013	726	989
Total securities issued						15 713	14 431	15 662
Accrued interest						52	52	49
Financial derivatives to hedge securities (liabilities)						5	24	6
Financial derivatives to hedge securities (assets)						-545	-391	-485
Total borrowings raised through the issue of securities						15 225	14 116	15 232

COVER POOL (MNOK)	31.03.2016	31.03.2015	31.12.2015
Pool of eligible loans 1)	17 816	15 414	16 648
Supplementary assets	581	777	688
Total collateralised assets	18 397	16 191	17 336
Collateralisation in %	120,8	114,7	113,8

1) NOK 194 million of total gross loans are not eligible for the cover pool as at 31.03.16.

# Note 6

## TRANSACTIONS WITH RELATED PARTIES

In order to conduct normal business, Møre Boligkreditt 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 Boligkreditt AS are properly established and in accordance with the requirements specified in the agreement between the mortgage company and the Parent Bank. In case of a violation of these requirements, the Parent Bank will be liable for any losses that the mortgage company would experience as a result of the error. Sparebanken Møre and Møre Boligkreditt AS have formalised the settlement of interest for transaction days from date of transfer of loan portfolio to date of settlement of the consideration.

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

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

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

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

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

The most important transactions are as follows:

(MNOK)	31.03.2016	31.03.2015	31.12.2015
Statement of income			
Interest and credit commission income from Sparebanken Møre related to deposits	1	1	6
Interest and credit commission income paid to Sparebanken Møre related to loan/credit facility	4	5	20
Interest paid to Sparebanken Møre related to bonded debt	0	1	2
Management fee paid to Sparebanken Møre	6	6	24
Statement of financial position			
Deposits in Sparebanken Møre	242	569	285
Covered bonds	234	195	0
Loan/credit facility in Sparebanken Møre	1 942	1 164	970
Accumulated transferred loan portfolio from Sparebanken Møre	18 027	15 774	16 911

# Note 7

## EQUITY AND RELATED CAPITAL

<b>Core capital and supplementary capital</b>	31.03.2016	31.03.2015	31.12.2015
Share capital and share premium	1 350	1 150	1 150
Retained earnings	3	2	179
<b>Total equity</b>	<b>1 353</b>	<b>1 152</b>	<b>1 329</b>
Dividends	0	0	-176
Expected losses exceeding actual losses, IRB portfolios corporate	-35	-34	-32
<b>Common Equity Tier 1 capital</b>	<b>1 318</b>	<b>1 118</b>	<b>1 121</b>
Supplementary capital	0	0	0
<b>Net equity and subordinated loan capital</b>	<b>1 318</b>	<b>1 118</b>	<b>1 121</b>

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

Credit risk loans and receivables (Standardised Approach)	310	315	301
Credit risk loans and receivables (Internal ratings based Approach)	3 607	3 236	3 345
Operational Risk (Basic indicator Approach)	501	411	411
Total risk exposure amount for credit valuation adjustment (CVA) (SA)	482	440	444
<b>Risk-weighted assets less transitional rules</b>	<b>4 900</b>	<b>4 402</b>	<b>4 500</b>
Additional RWA from transitional rules 1)	3 265	2 620	3 108
<b>Total risk-weighted assets</b>	<b>8 165</b>	<b>7 022</b>	<b>7 608</b>
Minimum requirement common equity Tier 1 capital (4,5%)	367	316	342

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%)	82	70	76
Capital conservation buffer (2.5%)	204	176	190
Systemic risk buffer (3.0%)	245	211	228
<b>Total buffer requirements</b>	<b>531</b>	<b>456</b>	<b>495</b>
Available common equity Tier 1 capital after buffer requirements	420	346	285

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

Capital adequacy ratio	16,1 %	15,9 %	14,7 %
Core capital ratio	16,1 %	15,9 %	14,7 %
Core tier 1 capital ratio	16,1 %	15,9 %	14,7 %

### Leverage ratio

Leverage ratio	6,4 %	6,2 %	5,8 %
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Møre Boligkreditt's capital requirements at 31st March 2016 are based on IRB-Foundation for corporate commitments and IRB-Retail for retail commitments



# Profit performance

## QUARTERLY PROFIT

(MNOK)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net interest income	60	65	66	67	75
Other operating income	4	-3	-3	-1	8
Total operating costs	8	8	7	9	7
Profit before impairment on loans	56	54	56	57	76
Impairment on loans	0	0	0	2	0
Pre tax profit	56	54	56	55	76
Tax	14	15	15	14	21
Profit after tax	42	39	41	41	55

## As a percentage of average assets

Net interest income	1,35	1,58	1,52	1,61	1,84
Other operating income	0,11	-0,09	-0,06	-0,01	0,20
Total operating costs	0,18	0,18	0,17	0,20	0,18
Profit before impairment on loans	1,28	1,31	1,29	1,40	1,86
Impairment on loans	0,00	0,00	0,00	0,06	0,00
Pre tax profit	1,28	1,31	1,29	1,34	1,86
Tax	0,32	0,35	0,35	0,36	0,50
Profit after tax	0,96	0,96	0,94	0,98	1,36

Average total assets (MNOK)	17 615	16 626	17 492	16 578	16 312
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## ACCUMULATED PROFIT FOR THE YEAR

(MNOK)	31.03.2016	31.03.2015	31.12.2015
Net interest income	60	75	273
Other operating income	4	8	1
Total operating costs	8	7	31
Profit before impairment on loans	56	76	243
Impairment on loans	0	0	2
Pre tax profit	56	76	241
Tax	14	21	65
Profit after tax	42	55	176

**As a percentage of average assets**

Net interest income	1,35	1,84	1,63
Other operating income	0,11	0,20	0,01
Total operating costs	0,18	0,18	0,18
Profit before impairment on loans	1,28	1,86	1,46
Impairment on loans	0,00	0,00	0,01
Pre tax profit	1,28	1,86	1,45
Tax	0,32	0,50	0,39
Profit after tax	0,96	1,36	1,06
Average total assets (MNOK)	17 615	16 312	16 752