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 65 million in first quarter 2018, compared to NOK 42 million in first quarter 2017. Net interest income amounted to NOK 72 million, compared to NOK 57 million in the same quarter last year. Costs amounted to NOK 10 million in first quarter 2018, compared with NOK 10 million in the corresponding quarter in 2017. The transition from IAS 39 to IFRS 9 from 1 January 2018 impacts the company's accounting for basisswap spreads as these are charged to OCI with NOK 5 million as at 31 March 2018. Net gain in value of debt securities issued and related derivatives was NOK 1 million at first quarter end 2018, compared to net loss of NOK 5 million including basisswap spreads at first quarter end 2017.

IFRS 9 also changes the loan loss impairment methodology, and replaces IAS 39's incurred loss approach with a forward looking expected credit loss (ECL) approach. The ECL calculation of expected loss for Møre Boligkreditt AS as at 31 March 2018 resulted in reduced impairments of NOK 2 million in first quarter 2018, compared to no changes in impairments in first quarter of 2017. Profit after tax amounted to NOK 50 million in first quarter 2018, compared to NOK 32 million in the corresponding quarter 2017.

Total assets at first quarter end 2018 amounted to NOK 24 065 million compared to NOK 19 572 million at first quarter end 2017. Net lending increased by NOK 2 103 million in first quarter and amounted to NOK 23 245 million at first quarter end 2018, compared with NOK 18 534 million at first quarter end 2017.

At first quarter end 2018, the company's substitute assets included in the cover pool amounted to NOK 402 million, compared to NOK 602 million at first quarter end 2017. Over-collateralisation, calculated as the value of the coverpool relative to the value of outstanding covered bond loan debt was 11.1 per cent as at 31 March 2018, compared to 13.9 per cent as at 31 March 2017.

Møre Boligkreditt AS' liquidity portfolio consisting of Liquidity Coverage Ratio (LCR) eligible assets amounted to NOK 60 million at 31 March 2018, reporting total LCR of 285 per cent by first quarter end 2018.

One new bond loan of NOK 2 500 million was issued in first quarter 2018. No outstanding bond loans matured in first quarter 2018. Møre Boligkreditt AS had eleven bond loans outstanding at 31 March 2018 with a total bond loan debt of NOK 21 217 million, compared to twelve bond loans with NOK 16 906 million outstanding at 31 March 2017.

The ECL model calculation as at 31 March 2018 shows expected credit loss of NOK 20 million for Møre Boligkreditt AS, compared with NOK 5 million allocated for collective impairment as at 31 March 2017.

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

Capital strength
In first quarter 2018 Møre Boligkreditt AS increased its equity by NOK 100 million through an issue of 80 000 shares á NOK 1 250. The capital increase was fully paid in by Sparebanken Møre as the owner of all 1 140 000 shares in Møre Boligkreditt AS. Paid in equity and retained earnings amounted to NOK 1 646 million by end of first quarter 2018, compared to NOK 1 535 million by end of first quarter 2017. Risk weighted assets amounted to NOK 9 769 million by end of first quarter 2018. Net equity and subordinated loan capital amounted to NOK 1 574 million by the end of first quarter 2018, compared to NOK 1 467 million by end of first quarter 2017. This corresponds to a Common Equity Tier 1 capital ratio of 16.1 per cent. Møre Boligkreditt AS uses internal rating based (IRB) models to calculate capital requirements for credit risk.

Outlook
The slowdown of the oil related part of the Norwegian economy is levelling out, and Norwegian oil investments are expected to increase in 2018 for the first year since 2014. A strong household sector due to record low interest rates, low unemployment levels, together with a solid public sector has kept the production levels high in several other sectors. The still weak NOK is positive for the competitiveness of the export industry and the tourist industry.

The development of house prices, together with growth in debt, is the most important risk factors to Norwegian households. The Norwegian key policy rate will most likely be raised in second half of 2018, and we will also probably see upward pressure on mortgage interest rates. Important risk factors going forward are also the oil price development, macroeconomic growth in export markets and the NOK exchange rate.

The combined activity of businesses located in the county of Møre og Romsdal remains high despite recent years decline in the petroleum related industries. The registered unemployment rate in the county of Møre og Romsdal is 2.6 per cent in March 2018, down from 3.2 per cent in March 2017, compared to Norwegian national average of 2.5 per cent in March 2018, down from 2.9 per cent in March 2017. We expect unemployment in the county to stay around national average levels.

Annual retail lending growth in the Sparebanken Møre Group was 6.3 per cent by the end of first quarter 2018.

The Board believes that the reduction in unemployment, still 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 2018
23 April 2018
THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS
KJETIL HAUGE, Chairman
BRITT IREN TØSSE AANDAL
ELISABETH BLOMVIK
GEIR TORE HJELLE
SANDRA MYHRE HELSETH

OLE KJERSTAD, Managing Director

Statement of income

STATEMENT OF INCOME

Amounts in NOK million	Notes	Q1 2018	Q1 2017	2017
Interest income from assets assessed at amortised cost	2	137	128	527
Interest income from assets assessed at fair value	2	0	1	3
Interest expenses	2	65	72	269
Net interest income	2 6	72	57	261
Commission income		0	0	1
Net change in value of securities and related derivatives		1	-5	-14
Wages, salaries and general administration costs		1	1	3
Other operating costs	6	9	9	35
Total operating costs		10	10	38
Profit before impairment on loans and taxes		63	42	210
Impairment on loans	3	-2	0	-3
Pre tax profit		65	42	213
Taxes		15	10	48
Profit after tax		50	32	165

STATEMENT OF COMPREHENSIVE INCOME

Amounts in NOK million	Q1 2018	Q1 2017	2017
Profit after tax	50	32	165
Items that may subsequently be reclassified to the income statement:			
Basisswap spreads - changes in value 1)	-5	0	0
Tax effect of basisswap spreads	1	0	0
Total comprehensive income after tax	46	32	165

1) Changes in value on basisswaps inherent in hedging instruments, have up to 31.12.2017 been recognised in the income statement. As of 1.1.2018, changes in value on basisswaps due to changes in basisswap spreads, will be recognised in OCI as a cost of hedging.

Statement of financial position

Assets

Amounts in NOK million	Notes	31.03.2018	31.03.2017	31.12.2017
Loans to and receivables from credit institutions	2 4 5 6	402	309	85
Loans to and receivables from customers	2 3 4	23 245	18 534	21 162
Certificates and bonds	4 5	60	343	60
Financial derivatives	4 5	352	386	439
Deferred tax asset		6	0	2
Total assets		24 065	19 572	21 748

Liabilities and equity

Amounts in NOK million	Notes	31.03.2018	31.03.2017	31.12.2017
Loans from credit institutions	4 6	1 136	1 084	1 202
Debt securities issued	4 5 6	21 217	16 906	18 823
Financial derivatives	4 5	28	12	4
Tax payable		38	35	52
Total liabilities		22 419	18 037	20 081
Share capital		1 425	1 325	1 325
Share premium		175	175	175
Paid-in equity		1 600	1 500	1 500
Other equity		0	3	0
Profit for the period		46	32	0
Retained earnings		46	35	167
Total equity	7	1 646	1 535	1 667
Total liabilities and equity		24 065	19 572	21 748

Statement of changes in equity

31.03.2018

Amounts in NOK million	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2017	1 667	1 325	175	167
Effect of transition to IFRS 9 01.01.2018	-15			-15
Equity as at 01 January 2018	1 652	1 325	175	152
Total comprehensive income for the period	46			46
Issue of share capital	100	100		
Dividends	-152			-152
Equity as at 31 March 2018	1 646	1 425	175	46

The share capital consists of 1 140 000 shares at NOK 1 250, a total of NOK 1 425 million. All shares are owned by Sparebanken Møre. The issue of share capital of NOK 100 million was fully paid on 28 February 2018, approved by the Norwegian FSA 12 March 2018, and registered in the Norwegian Register of Business Enterprises 19 March 2018.

31.03.2017

Amounts in NOK million	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2016	1 509	1 175	175	159
Total comprehensive income for the period	32			32
Issue of share capital	150	150		
Dividends	-156			-156
Equity as at 31 March 2017	1 535	1 325	175	35

The share capital consists of 1 060 000 shares at NOK 1 250, a total of NOK 1 325 million. All shares are owned by Sparebanken Møre. The issue of share capital of NOK 150 million was fully paid on 27 February 2017, approved by the Norwegian FSA 20 March 2017, and registered in the Norwegian Register of Business Enterprises 4 April 2017.

31.12.2017

Amounts in NOK million	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2016	1 509	1 175	175	159
Total comprehensive income for the period	165			165
Issue of share capital	150	150		
Dividends	-156			-156
Equity as at 31 December 2017	1 667	1 325	175	167

The share capital consists of 1 060 000 shares at NOK 1 250, a total of NOK 1 325 million. All shares are owned by Sparebanken Møre. The issue of share capital of NOK 150 million was fully paid on 27 February 2017, approved by the Norwegian FSA 20 March 2017, and registered in the Norwegian Register of Business Enterprises 4 April 2017.

Proposed dividend as of 31 December amounts to NOK 152 million.

Statement of cash flow

Amounts in NOK million	31.03.2018	31.03.2017	31.12.2017
Cash flow from operating activities			
Interest, commission and fees received	137	129	527
Interest, commission and fees paid	-2	-3	-14
Operating expenses paid	-10	-10	-38
Income taxes paid	-28	-29	-51
Payment for acquiring loans from the Parent Bank	-3 251	0	-5 108
Payment related to instalment loans and credit lines to customers	1 151	1 276	3 759
Net cash flow from operating activities	-2 003	1 363	-925
Cash flow from investing activities			
Received interest, commission and fees related to certificates, bonds and other securities	0	1	3
Proceeds from the sale of certificates, bonds and other securities	30	180	1 170
Purchases of certificates, bonds and other securities	-30	0	-707
Changes in other assets	-5	-6	-14
Net cash flow from investing activities	-5	175	452
Cash flow from financing activities			
Paid interest, commission and fees related to issued bonds	-61	-69	-252
Net change in loans from credit institutions	-66	-57	61
Proceeds from bonds issued	2 499	0	3 350
Redemption of issued covered bonds	0	-1 369	-2 883
Dividend paid	-152	-156	-156
Changes in other debt	5	1	17
Issue of share capital and premium	100	150	150
Net cash flow from financing activities	2 325	-1 500	287
Net change in cash and cash equivalents	317	38	-186
Cash balance at 01.01	85	271	271
Cash balance at 31.03	402	309	85

Note 1

ACCOUNTING PRINCIPLES

Møre Boligkreditt AS' interim accounts has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU as of 31.03.2018. The interim report has been prepared in accordance with IAS 34 Interim Financial Reporting (compressed). The accounts are prepared using the same principles, and with the same methodology as the annual accounts for 2017 , except for IFRS 9 replacing IAS 39 from 1 January 2018.

Accounting principles for classification in accordance with IFRS 9 are presented in Note 4. Tables showing the transition effects of the implementation of IFRS 9 are presented in Note 1.13 of the Annual Report for 2017 . The methodology for measuring expected credit losses (ECL) in accordance with IFRS 9 is explained in the following. In addition, please refer to the Annual Report 2017 for further description of accounting principles.

All amounts are stated in NOK million unless stated otherwise.

The interim financial statements are not audited.

Expected credit losses (ECL) according to IFRS 9

Møre Boligkreditt AS applies a three-stage approach when assessing ECL on loans to customers subject to the IFRS 9 impairment rules:

- At initial recognition and if there's no significant increase in credit risk, the commitment is classified in stage 1 with 12-months ECL.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is transferred to stage 2 with lifetime ECL measurement.
- An increase in credit risk reflects both customer-specific circumstances and developments in relevant macro risk drivers for the segment where the customer belongs. The assessment of what is considered to be a significant increase in credit risk is based on a combination of quantitative and qualitative indicators and backstops.
- If credit risk deteriorates further and the commitment is either defaulted, subject to forbearance or credit-impaired, the commitment is moved to stage 3. Credit-impaired commitments are subject to an individual assessment of losses. Commitments with forbearance or which are defaulted, are subject to a lifetime ECL measurement. As opposed to stage 1 and 2, the effective interest rate is calculated on amortised cost (gross carrying amount less loss allowance) instead of gross carrying amount.

  The loan loss measurement is based on the following principles:
- The loss provision for commitments which are not credit-impaired is calculated as the present value of exposure at default (EAD) multiplied by the probability of default (PD) multiplied by loss given default (LGD). PD, LGD and EAD use the IRB framework as a starting point, but are converted into being point-in-time and forward-looking as opposed to through the cycle and conservative.
- Past, present and forward-looking information is used to estimate ECL. For this purpose, the loan portfolio is divided into 7 segments based on field of operation. All customers within a segment are exposed to the same risk drivers.
- For credit-impaired financial instruments in stage 3, individual assessments are performed.

The model used for calculating ECL follows four steps: Segmentation, determination of macro adjustments, staging and calculation of ECL.

Segmentation and macro adjustments

The assessment of significant increase in credit risk and the calculation of ECL incorporates past, present and forward-looking information. Segmentation of the portfolio is based on the customers' fields of operation, and each segment is subject to separate macro adjustments.

Theory of cyclical cycles has been used to model macro factors to estimate lifetime ECL in the model. A trend curve is prerequisite to show long-term GDP growth. Based on an assessment by the Chief Economist and the corporate unit managers in SBM, key indicators have been selected for the retail market and the various corporate sectors. Indicators issued by Statistics Norway (SSB) have been used to a large extent. Volatility in the indicators is taken into account when calculating the macro-factors. Standard deviations are calculated for each indicator, which entails that high/low volatility indicators will cause a higher/lower impact on the macro factor.

Calculation of expected credit loss
The determination of a significant increase in credit risk and the measurement of ECL are based on parameters already used in credit risk management and for capital adequacy calculations: PD, LGD and EAD. The parameters have been adjusted in order to give an unbiased estimate of ECL.

Probability of default (PD)
Møre Boligkreditt AS applies several different models to determine a customer's PD. The choice of model depends on whether it is a retail or corporate customer. PD models are key components both in calculating the ECL and in assessing whether a significant increase in credit risk has occurred since initial recognition. These models fulfil the IFRS 9 requirement to provide an unbiased probability-weighted estimate of ECL. Møre Boligkreditt AS has as part of the Sparebanken Møre Group been granted permission to use internal ratings based approach (IRB) models for determining PD in capital adequacy calculations. In order to apply these PDs for IFRS 9, modifications have been made to allow that the PDs used for IFRS 9 reflect management's current view of expected cyclical changes and that all PD estimates are unbiased.

Loss given default (LGD)
LGD represents the percentage of EAD which the Group expects to lose if the customer fails to meet his obligations, taking the collateral provided by the customer, future cash flows and other relevant factors into consideration.

Similar to PDs, Møre Boligkreditt AS uses IRB LGDs for capital adequacy calculations. In order to convert the IRB LGDs to IFRS LGDs, modifications have been made to remove the margin of conservatism to produce unbiased projections rather than downturn projections, and to exclude regulatory floors.

These modifications imply that the LGDs used for IFRS 9 should reflect management's current view and that all LGD estimates are unbiased.

Exposure at default (EAD)
EAD is the share of the approved credit that is expected to be drawn at the time of any future default. The EAD is adjusted to reflect contractual payments of principal and interest. The proportion of undrawn commitments expected to have been drawn at the time of default is reflected in the credit conversion factor.

Significant increase in credit risk
The assessment of a significant increase in credit risk is based on a combination of quantitative and qualitative indicators and backstops. A significant increase in credit risk has occurred when one or more of the criteria below are met.

Quantitative criteria
A significant increase in credit risk is determined by comparing the PD at the reporting date with the PD at initial recognition. If the actual PD is higher than initial PD, an assessment is made of whether the increase is significant.

Significant increase in credit risk since initial recognition is considered to have occurred when either

- PD has increased by 100 % or more and the increase in PD is more than 0.5 percentage points, or
- PD has increased by more than 2.0 percentage points.

Qualitative criteria
Qualitative information is normally reflected in the respective PD models for each group of customers.

Backstop
Backstops are used and a significant increase in credit risk has occurred if:

- the customer's contractual payments are 30 days past due
- the customer has been granted forbearance measures due to financial distress, though it is not severe enough for the financial instrument to be classified as credit-impaired.

Definition of default, forbearance and credit-impaired in stage 3
A commitment is defined to be in default if a claim is more than 90 days overdue and the overdue amount exceeds NOK 1 000.

A commitment is defined to be subject to forbearance if the bank agrees to changes in the terms and conditions because the debtor is having problems meeting payment obligations, and this is assumed to significantly reduce the value of the cash flow.

A commitment is defined to be credit-impaired if the commitment, as a result of a weakening of the debtor's creditworthiness, has been subject to an individual assessment, resulting in an individual impairment. The principles and estimation techniques for credit-impaired financial instruments are not affected by IFRS 9. Please refer to the description of individual impairment in note 7 in the Annual Report 2017 for more details.

Expert credit judgement
The new rules require that significant professional judgement is applied to many of the input parameters in the ECL-measurement. The assessment of the macro prognoses and the impact are key judgements which are addressed in a separate advisory forum. The forum's purpose is to assess if the predicted macro prognoses for each segment reflect the management's view on the expected future economic development.

Validation
The ECL model is subject to annual validation and review.

Note 2

OPERATING SEGMENTS

Møre Boligkreditt 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.

(MNOK)	Loans		
Broken down according to sectors	**31.03.2018**	**31.03.2017**	**31.12.2017**
Commercial sector	506	392	380
Retail customers	22 759	18 128	20 759
Accrued interest income	0	19	25
Loans, nominal amount	23 265	18 539	21 164
Expected credit loss (ECL) - Stage 1	-2		
Expected credit loss (ECL) - Stage 2	-11		
Expected credit loss (ECL) - Stage 3	-7		
Collective impairment		-5	-2
Loans to and receivables from customers	23 245	18 534	21 162

(MNOK)	Net interest income		
	31.03.2018	**31.03.2017**	**31.12.2017**
Interest income from:			
Loans to and receivables from credit institutions	1	0	2
Loans to and receivables from customers	136	127	525
Certificates, bonds and other interest-bearing securities	0	2	3
Interest income	137	129	530
Interest expenses in respect of:			
Loans from credit institutions	4	3	17
Debt securities issued	61	69	252
Interest expenses	65	72	269
Net interest income	72	57	261

Note 3

IMPAIRMENT, LOSSES AND NON-PERFORMANCE

Specification of credit loss expense

(Amounts in NOK thousand)	31.03.2018	31.03.2017	31.12.2017
Changes in collective impairment during the period (IAS 39)	-	0	-3 000
Changes in Expected Credit Loss (ECL) during the period stage 1	-30	-	-
Changes in Expected Credit Loss (ECL) during the period stage 2	-1 340	-	-
Changes in Expected Credit Loss (ECL) during the period stage 3	-942	-	-
Total impairment on loans in the period	-2 312	0	-3 000

Commitments (exposure) divided into risk groups based on probability of default

(MNOK)	Stage 1	Stage 2	Stage 3	Total 31.03.2018
Low risk (0 % - < 0,5 %)	22 654	32	825	23 511
Medium risk (0,5 % - < 3 %)	300	463	135	898
High risk (3 % - <100 %)	5	59	37	101
Commitments in default	-	-	0	0
Total loans before ECL	22 959	554	997	24 510
- ECL	-2	-11	-7	-20
Loans and receivables from customers 31.03.2018 *)	22 957	543	990	24 490

*) The table shows exposures at reporting date and can therefore not be reconciled against carrying amount.

Changes in ECL in the period

(Amounts in NOK thousand)	Stage 1	Stage 2	Stage 3	Total
31.12.2017 according to IAS 39				2 000
Effect of transition to IFRS 9				20 258
ECL 1.1.2018 according to IFRS 9	1 568	12 665	8 024	22 258
New loans	29	24	12	65
Disposal of loans	-56	-806	-643	-1 505
Changes in ECL in the period for loans which have not migrated	-30	-536	-419	-985
Migration to stage 1	65	-922	-392	-1 249
Migration to stage 2	-24	1 301	-97	1 179
Migration to stage 3	-14	-400	597	183
ECL 31.03.2018	1 538	11 325	7 082	19 946

Note 4

FINANCIAL INSTRUMENTS

CLASSIFICATION AND MEASUREMENT

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

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

The classification of the financial assets depends on two factors:

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

Financial assets assessed at amortised cost
The classification of the financial assets assumes that the following requirements are met:

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

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

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

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

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

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

LEVELS IN THE VALUATION HIERARCHY

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

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

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

Level 3 – Valuation based on other than observable market data
Level 3 comprises financial instruments which can not be valued based on directly or indirectly observable prices. This category mainly includes loans to customer.

CLASSIFICATION OF FINANCIAL INSTRUMENTS	Financial instruments at fair value through profit or loss		Financial instruments carried at amortised cost	
	31.03.2018	31.03.2017	31.03.2018	31.03.2017
Loans to and receivables from credit institutions			402	309
Loans to and receivables from customers			23 245	18 534
Certificates and bonds	60	343		
Financial derivatives	352	386		
Total assets	412	729	23 647	18 843
Loans from credit institutions			1 136	1 084
Debt securities issued			21 217	16 906
Financial derivatives	28	12		
Total liabilities	28	12	22 353	17 990

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST	31.03.2018		31.03.2017	
	Fair value	Book value	Fair value	Book value
Loans to and receivables from credit institutions	402	402	309	309
Loans to and receivables from customers	23 245	23 245	18 534	18 534
Total assets	23 647	23 647	18 843	18 843
Loans from credit institutions	1 136	1 136	1 084	1 084
Debt securities issued	21 309	21 217	16 946	16 906
Total liabilities	22 445	22 353	18 030	17 990

FINANCIAL INSTRUMENTS AT AMORTISED COST - 31.03.2018	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions	-	402	-	402
Loans to and receivables from customers	-	-	23 245	23 245
Total assets	-	402	23 245	23 647
Loans from credit institutions	-	1 136	-	1 136
Debt securities issued	-	21 309	-	21 309
Total liabilities	-	22 445	-	22 445

FINANCIAL INSTRUMENTS AT AMORTISED COST - 31.03.2017	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions	-	309	-	309
Loans to and receivables from customers	-	-	18 534	18 534
Total assets	-	309	18 534	18 843
Loans from credit institutions	-	1 084	-	1 084
Debt securities issued	-	16 946	-	16 946
Total liabilities	-	18 030	-	18 030

FINANCIAL INSTRUMENTS AT FAIR VALUE - 31.03.2018	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Certificates and bonds	60	-	-	60
Financial derivatives	-	352	-	352
Total assets	60	352	-	412
Financial derivatives	-	28	-	28
Total liabilities	-	28	-	28

FINANCIAL INSTRUMENTS AT FAIR VALUE - 31.03.2017	Based on prices in an active market	Observable market information	Other than observable market information	
	Level 1	Level 2	Level 3	Total
Certificates and bonds	251	92	-	343
Financial derivatives	-	386	-	386
Total assets	251	478	-	729
Financial derivatives	-	12	-	12
Total liabilities	-	12	-	12

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 31.03.2018	Interest	Issue	Maturity	**31.03.2018**	**31.03.2017**	**31.12.2017**
NO0010575079	NOK	-	3M Nibor + 0.55 %	2010	2017	-	131	-
NO0010588072	NOK	1 050	fixed NOK 4.75 %	2010	2025	1 203	1 249	1 235
NO0010657232	NOK	2 500	3M Nibor + 0.65 %	2012	2018	2 502	2 507	2 503
XS0828616457	SEK	-	3M Stibor + 0.70 %	2012	2017	-	673	-
NO0010676018	NOK	2 500	3M Nibor + 0.47 %	2013	2019	2 502	2 502	2 502
XS0968459361	EUR	25	fixed EUR 2.81 %	2013	2028	287	281	295
XS0984191873	EUR	30	6M Euribor + 0.20 %	2013	2020	288	275	295
NO0010696990	NOK	2 500	3M Nibor + 0.45 %	2013	2020	2 498	2 496	2 497
NO0010699028	NOK	-	3M Nibor + 0.37 %	2013	2017	-	750	-
NO0010720204	NOK	3 000	3M Nibor + 0.24 %	2014	2020	2 998	2 498	2 998
NO0010730187	NOK	1 000	fixed NOK 1.50 %	2015	2022	980	991	993
NO0010777584	NOK	3 000	3M Nibor + 0.58 %	2016	2021	3 003	2 499	3 003
XS1626109968	EUR	250	fixed EUR 0.125 %	2017	2022	2 401	-	2 450
NO0010819543	NOK	2 500	3M Nibor + 0.42 %	2018	2024	2 499	-	-
Total securities issued						21 161	16 852	18 771
Accrued interest						56	54	52
Total borrowings raised through the issue of securities						21 217	16 906	18 823

COVER POOL (MNOK)	**31.03.2018**	**31.03.2017**	**31.12.2017**
Pool of eligible loans 1)	22 853	18 286	20 814
Supplementary assets	402	602	85
Financial derivatives to hedge issued securities (liabilities)	-28	-12	-4
Financial derivatives to hedge issued securities (assets)	352	386	439
Total collateralised assets	23 579	19 262	21 334
Collateralisation in %	111.1	113.9	113.3

1) NOK 392 million of total gross loans are not eligible for the cover pool as at 31.03.2018. (NOK 253 million as at 31.03.2017).

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)	31.03.2018	31.03.2017	31.12.2017
Statement of income:			
Interest and credit commission income from Sparebanken Møre related to deposits	1	1	2
Interest and credit commission income paid to Sparebanken Møre related to loan/credit facility	4	3	17
Interest paid to Sparebanken Møre related to bonded debt	2	8	11
Management fee paid to Sparebanken Møre	8	7	30
Statement of financial position:			
Deposits in Sparebanken Møre	402	309	85
Covered bonds held by Sparebanken Møre as assets	1 320	752	425
Loan/credit facility in Sparebanken Møre	1 136	1 084	1 202
Accumulated transferred loan portfolio from Sparebanken Møre	23 265	18 539	21 164

Note 7

EQUITY AND RELATED CAPITAL

Tier 1 capital and supplementary capital	31.03.2018	31.03.2017	31.12.2017
Share capital and share premium	1 600	1 500	1 500
Retained earnings	0	3	167
Total equity	1 600	1 503	1 667
Dividends	0	0	-152
Expected losses exceeding ECL, IRB portfolios	-26	-36	-40
Common Equity Tier 1 capital	1 574	1 467	1 476
Supplementary capital	0	0	0
Net equity and subordinated loan capital	1 574	1 467	1 476

Risk-weighted assets (calculation basis for capital adequacy ratio)			
Credit risk loans and receivables (Standardised Approach)	188	262	217
Credit risk loans and receivables (Internal Ratings Based Approach)	4 381	3 652	3 898
Operational Risk (Basic indicator Approach)	486	505	505
Total risk exposure amount for credit valuation adjustment (CVA) (SA)	251	290	320
Risk-weighted assets less transitional rules	5 306	4 709	4 941
Additional RWA from transitional rules 1)	4 463	3 464	3 995
Total risk-weighted assets	9 769	8 173	8 936
Minimum requirement Common Equity Tier 1 capital (4.5%)	440	368	402

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

Buffer Requirement			
Countercyclical buffer (2.0%)	195	123	134
Capital conservation buffer (2.5%)	244	204	223
Systemic risk buffer (3.0%)	293	245	268
Total buffer requirements	733	572	626
Available Common Equity Tier 1 capital after buffer requirements	402	527	448

Capital adequacy as a percentage of the weighted asset calculation basis

Capital adequacy ratio	16.1 %	17.9 %	16.5 %
Tier 1 capital ratio	16.1 %	17.9 %	16.5 %
Common Equity Tier 1 capital ratio	16.1 %	17.9 %	16.5 %

Leverage ratio

Leverage ratio	6.4 %	7.3 %	6.6 %

Liquidity Coverage Ratio

Liquidity Coverage Ratio - Total	285%	204%	295%
Liquidity Coverage Ratio - NOK	286%	204%	295%
Liquidity Coverage Ratio - EUR	107%	-	-

Møre Boligkreditt AS' capital requirements at 31st March 2018 are based on IRB-Foundation for commercial commitments and IRB-Retail for retail commitments.

Profit performance

QUARTERLY PROFIT

(MNOK)	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	72	75	68	61	57
Other operating income	1	1	-3	-6	-5
Total operating costs	10	10	9	9	10
Profit before impairment on loans	63	66	56	46	42
Impairment on loans	-2	-3	0	0	0
Pre tax profit	65	69	56	46	42
Tax	15	12	14	12	10
Profit after tax	50	57	42	34	32
As a percentage of average assets					
Net interest income	1.34	1.43	1.34	1.23	1.15
Other operating income	0.02	0.02	-0.06	-0.11	-0.11
Total operating costs	0.18	0.18	0.18	0.20	0.19
Profit before impairment on loans	1.18	1.27	1.10	0.92	0.85
Impairment on loans	-0.04	-0.06	0.00	0.00	0.00
Pre tax profit	1.22	1.33	1.10	0.92	0.85
Tax	0.28	0.23	0.28	0.23	0.21
Profit after tax	0.94	1.10	0.82	0.69	0.64
Average total assets (MNOK)	21 365	20 910	20 565	19 545	19 876

ACCUMULATED PROFIT FOR THE YEAR

(MNOK)	31.03.2018	31.03.2017	31.12.2017
Net interest income	72	57	261
Other operating income	1	-5	-13
Total operating costs	10	10	38
Profit before impairment on loans	63	42	210
Impairment on loans	-2	0	-3
Pre tax profit	65	42	213
Tax	15	10	48
Profit after tax	50	32	165

As a percentage of average assets

Net interest income	1.34	1.15	1.29
Other operating income	0.02	-0.11	-0.06
Total operating costs	0.18	0.19	0.19
Profit before impairment on loans	1.18	0.85	1.04
Impairment on loans	-0.04	0.00	-0.01
Pre tax profit	1.22	0.85	1.05
Tax	0.28	0.21	0.24
Profit after tax	0.94	0.64	0.81
Average total assets (MNOK)	21 365	19 876	20 225