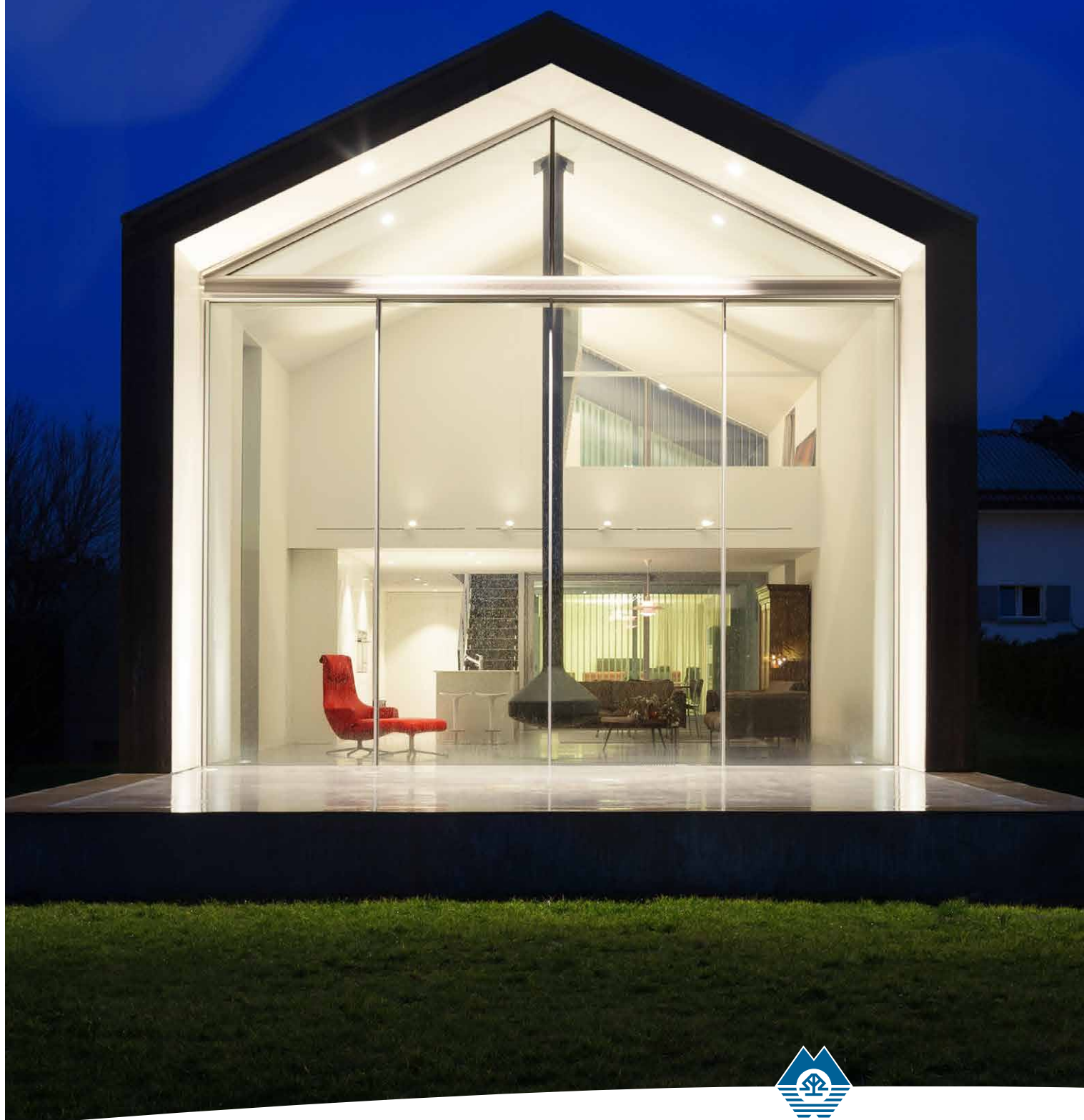


INTERIM REPORT  
4 QUARTER  
UNAUDITED

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 purpose of the company is to issue covered bonds backed by mortgages acquired from the owner. 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.

## Fourth quarter results

The financial statements of Møre Boligkreditt AS show a pre-tax profit of NOK 44 million in fourth quarter 2016, compared to NOK 54 million in fourth quarter 2015. Net interest income amounted to NOK 59 million, compared to NOK 65 million for the same period last year. Costs amounted to NOK 8 million in fourth quarter 2016, compared with NOK 8 million in the corresponding quarter in 2015. Net change in value of debt securities issued and related derivatives was negative with NOK 6 million in fourth quarter 2016, compared to negative with NOK 3 million in fourth quarter 2015.

Møre Boligkreditt AS has not established losses or impairment for individual losses in fourth quarter 2016, but has increased the collective impairment with NOK 1 million. Profit after tax amounted to NOK 33 million in fourth quarter 2016, compared to NOK 39 million in the corresponding quarter 2015.

Møre Boligkreditt AS acquired mortgages from Sparebanken Møre, and net lending increased with NOK 1 804 million in fourth quarter 2016.

Møre Boligkreditt AS issued one new covered bond loan with nominal balance of NOK 2 500 million in fourth quarter 2016, no outstanding bond loans matured in fourth quarter 2016.

## Fourth quarter end results

By fourth quarter end 2016 the financial statements show a pre-tax profit of NOK 208 million, compared to NOK 241 million by fourth quarter end 2015. Net interest income amounted to NOK 242 million by fourth quarter end 2016, compared to NOK 273 million by end of same period last year. Costs in the period ending 31 December 2016 amounted to NOK 33 million, compared with NOK 31 million for the corresponding period 2015.

The amount allocated for collective impairment increased by NOK 1 million in 2016 and ended up at a total of NOK 5 million at fourth quarter end 2016 compared to NOK 4 million at fourth quarter end 2015. Profit after tax amounted to NOK 156 million by fourth quarter end 2016, compared to NOK 176 million by fourth quarter end 2015. Tax amounted to NOK 52 million in 2016, compared to NOK 65 million in 2015.

Møre Boligkreditt AS had twelve bond loans outstanding at 31 December 2016 with a total bond loan debt of NOK 18 209 million, compared to twelve bond loans with NOK 15 662 million outstanding at 31 December 2015.

Total assets at fourth quarter end 2016 amounted to NOK 20 972 million compared to NOK 18 080 million at fourth quarter end 2015. Net lending amounted to NOK 19 810 million at fourth quarter end 2016, compared with NOK 16 907 million at fourth quarter end 2015.

At fourth quarter end 2016, the company's liquidity assets amounted to NOK 793 million of which NOK 743 million was included in the cover pool as substitute assets, compared to NOK 688 million at fourth quarter end 2015.

## Rating

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

## Capital strength

Paid-in equity and other equity amounted to NOK 1 509 million. Net equity and subordinated loan capital amounted to NOK 1 313 million by end of fourth quarter 2016, compared to NOK 1 121 million by end of fourth quarter 2015. This corresponds to a capital adequacy/core capital ratio of 15.1 per cent. Risk-weighted assets amounted to NOK 8 722 million by end of fourth quarter 2016.

Møre Boligkreditt AS use 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 fourth 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 month's 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. Møre Boligkreditt AS reports LCR of 119 per cent by fourth quarter end 2016. 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 attention 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**

New national accounts figures show slightly higher growth in the Norwegian economy in third quarter 2016 than expected. The year-to-year growth in core inflation was on target, 2.5 per cent, in December 2016, down 0.1 per cent from the year-to-year growth in November 2016. Norges Bank, at its December meeting, decided to keep the key policy rate unchanged at 0.50 per cent. The unemployment rate in Norway is falling, and the number of unemployed is probably close to its peak.

Growth in house prices has accelerated and is higher than projected, particularly in Oslo and surrounding areas. The twelve-month household debt growth was 6.1 per cent at end-November 2016, down from 6.3 per cent the month before. Continued high growth in house prices may lead to even higher debt accumulation and increased household vulnerabilities. A still strong household sector, due to record low interest rates, relative low unemployment levels, together with a solid public sector will keep the production levels high in several sectors. Despite of the recent strengthening of the NOK, the still relative weak NOK against EUR

and USD is positive for the competitiveness of the export industry and also tourism.

The development of house prices, together with growth in debt, is 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 of businesses, especially export oriented and tourist related, located in Møre og Romsdal County remains high despite the decline in the petroleum related industries. The registered unemployment rate in Norway was down 0.2 per cent last 12 months to 2.8 per cent in December 2016. In the county of Møre og Romsdal the similar figure was up 0.2 per cent to 3.1 per cent. We expect the unemployment rate in the county just above national average levels in the coming quarters.

The retail lending growth in Sparebanken Møre Group was 6.6 per cent the last twelve months. The Board believes that the low interest rates and high disposable household income, will contribute to further mortgage loan growth in Sparebanken Møre and position Møre Boligkreditt AS to acquire mortgage loan portfolios from the parent bank.

Ålesund, 31 December 2016

25 January 2017

**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	Notes	Q4 2016	Q4 2015	2016	2015
Interest income	2	129	131	502	551
Interest expenses	2	70	66	260	278
Net interest income	2 6	59	65	242	273
Commission income		0	0	0	0
Net change in value of securities and related derivatives		-6	-3	0	1
Wages, salaries and general administration costs		0	0	2	2
Other operating costs	6	8	8	31	29
Total operating costs		8	8	33	31
Profit before impairment on loans and taxes		45	54	209	243
Impairment on loans	3	1	0	1	2
Pre tax profit		44	54	208	241
Taxes		11	15	52	65
Profit after tax		33	39	156	176

## STATEMENT OF COMPREHENSIVE INCOME

Amounts in NOK million	Q4 2016	Q4 2015	2016	2015
Profit after tax	33	39	156	176
Other comprehensive income	0	0	0	0
Total comprehensive income after tax	33	39	156	176

# Statement of financial position

## Assets

Amounts in NOK million	Notes	31.12.2016	31.12.2015
Loans to and receivables from credit institutions	2 4 5 6	271	285
Loans to and receivables from customers	2 3 4	19 810	16 907
Certificates and bonds	4 5	522	403
Financial derivatives	4 5	368	485
Total assets		20 972	18 080

## Liabilities and equity

Amounts in NOK million	Notes	31.12.2016	31.12.2015
Loans from credit institutions	4 6	1 141	970
Debt securities issued	4 5 6	18 265	15 711
Financial derivatives	4 5	4	6
Tax payable		54	63
Deferred tax liability		0	1
Total liabilities		19 463	16 751
Share capital		1 175	975
Share premium		175	175
Paid-in equity		1 350	1 150
Retained earnings		159	179
Total equity	7	1 509	1 329
Total liabilities and equity		20 972	18 080

# Statement of changes in equity

## 31.12.2016

Amounts in NOK million	Total equity	Share capital	Share premium	Retained earnings
Equity as at 31 December 2015	1 329	975	175	179
Total comprehensive income for the period	156			156
Issue of share capital	200	200		
Dividends	-176			-176
Equity as at 31 December 2016	1 509	1 175	175	159

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.

Proposed dividend as of 31 December amounts to NOK 156 million.

## 31.12.2015

Amounts in NOK million	Total equity	EC 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	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	2016	2015
<b>Cash flow from operating activities</b>		
Interest, commission and fees received	496	547
Interest, commission and fees paid	-19	-22
Operating expenses paid	-33	-31
Income taxes paid	-63	-70
Payment for acquiring loans from the Parent Bank	-7 838	-6 964
Payment related to instalment loans and credit lines to customers	4 934	5 598
Net cash flow from operating activities	-2 523	-942
<b>Cash flow from investing activities</b>		
Received interest, commission and fees related to certificates, bonds and other securities	6	5
Proceeds from the sale of certificates, bonds and other securities	114	65
Purchases of certificates, bonds and other securities	-231	-264
Changes in other assets	-3	5
Net cash flow from investing activities	-114	-189
<b>Cash flow from financing activities</b>		
Paid interest, commission and fees related to issued bonds	-242	-258
Net change in loans from credit institutions	171	55
Proceeds from bonds issued	3 494	3 965
Maturity of debt securities	-828	-2 343
Dividend paid	-176	-191
Changes in other debt	4	-16
Issue of share capital and premium	200	100
Net cash flow from financing activities	2 623	1 312
Net change in cash and cash equivalents	-14	181
Cash balance at 01.01	285	104
Cash balance at 31.12	271	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 the customers derive mainly from the retail banking market. The following tables contain details of loans to customers by sector.

(MNOK)	Loans	
	31.12.2016	31.12.2015
<b>Broken down according to sectors</b>		
Commercial sector	366	351
Retail customers	19 426	16 544
Accrued interest income	23	16
Loans, nominal amount	19 815	16 911
Collective impairment	-5	-4
Loans to and receivables from customers	19 810	16 907

(MNOK)	Net interest income	
	31.12.2016	31.12.2015
Interest income from:		
Loans to and receivables from credit institutions	2	6
Loans to and receivables from customers	494	541
Certificates, bonds and other interest-bearing securities	6	4
Interest income	502	551
Interest expenses in respect of:		
Loans from credit institutions	18	20
Debt securities issued	242	258
Interest expenses	260	278
Net interest income	242	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 an increase in collective impairments for the mortgage company's Portfolio of NOK 1 million. Total impairment amounts to NOK 5 million as at 31 December 2016.

# Note 4

## FINANCIAL INSTRUMENTS

All lending and receivables are recorded at amortised cost. Amortised cost is also used for fixed and 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	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans to and receivables from credit institutions			271	285
Loans to and receivables from customers			19 810	16 907
Certificates and bonds	522	403		
Financial derivatives	368	485		
Total assets	890	888	20 081	17 192
Loans from credit institutions			1 141	970
Debt securities issued			18 265	15 711
Financial derivatives	4	6		
Total liabilities	4	6	19 406	16 681

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST	31.12.2016		31.12.2015	
	Fair value	Book value	Fair value	Book value
Loans to and receivables from credit institutions	271	271	285	285
Loans to and receivables from customers	19 810	19 810	16 907	16 907
Total assets	20 081	20 081	17 192	17 192
Loans from credit institutions	1 141	1 141	970	970
Debt securities issued	18 257	18 265	15 595	15 711

Total liabilities	19 398	19 406	16 565	16 681
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FINANCIAL INSTRUMENTS AT AMORTISED COST - 31.12.2016	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	-	271	-	271
Loans to and receivables from customers	-	-	19 810	19 810
Total assets	-	271	19 810	20 081
Loans from credit institutions	-	1 141	-	1 141
Debt securities issued	-	18 257	-	18 257
Total liabilities	-	19 398	-	19 398

FINANCIAL INSTRUMENTS AT AMORTISED COST - 31.12.2015	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	-	285	-	285
Loans to and receivables from customers	-	-	16 907	16 907
Total assets	-	285	16 907	17 192
Loans from credit institutions	-	970	-	970
Debt securities issued	-	15 595	-	15 595
Total liabilities	-	16 565	-	16 565

FINANCIAL INSTRUMENTS AT FAIR VALUE - 31.12.2016	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	-	522	-	522
Financial derivatives	-	368	-	368
Total assets	-	890	-	890
Financial derivatives	-	4	-	4
Total liabilities	-	4	-	4

FINANCIAL INSTRUMENTS AT FAIR VALUE - 31.12.2015	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	-	403	-	403
Financial derivatives	-	485	-	485
Total assets	-	888	-	888
Financial derivatives	-	6	-	6
Total liabilities	-	6	-	6

# 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 31.12.2016	Interest	Issue	Maturity	31.12.2016	31.12.2015
NO0010499841	NOK	-	3M Nibor + 0.50 %	2009	2016	-	827
NO0010575079	NOK	1 500	3M Nibor + 0.55 %	2010	2017	1 498	1 497
NO0010588072	NOK	1 050	fixed NOK 4.75 %	2010	2025	1 251	1 272
NO0010657232	NOK	2 500	3M Nibor + 0.65 %	2012	2018	2 508	2 512
XS0828616457	SEK	700	3M Stibor + 0.70 %	2012	2017	666	736
NO0010676018	NOK	2 500	3M Nibor + 0.47 %	2013	2019	2 503	2 006
XS0968459361	EUR	25	fixed EUR 2.81 %	2013	2028	282	289
XS0984191873	EUR	30	6M Euribor + 0.20 %	2013	2020	272	288
NO0010696990	NOK	2 500	3M Nibor + 0.45 %	2013	2020	2 496	1 999
NO0010699028	NOK	750	3M Nibor + 0.37 %	2013	2017	750	750
NO0010720204	NOK	2 500	3M Nibor + 0.24 %	2014	2020	2 498	2 497
NO0010730187	NOK	1 000	fixed NOK 1.50 %	2015	2022	987	989
NO0010777584	NOK	2 500	3M Nibor + 0.58 %	2016	2021	2 498	-
Total securities issued						18 209	15 662
Accrued interest						56	49
Financial derivatives to hedge issued securities (liabilities)						4	6
Financial derivatives to hedge issued securities (assets)						-368	-485
Total borrowings raised through the issue of securities						17 901	15 232

COVER POOL (MNOK)	31.12.2016	31.12.2015
Pool of eligible loans 1)	19 430	16 648
Supplementary assets	743	688
Total collateralised assets	20 173	17 336
Collateralisation in %	112,7	113,8

1) NOK 380 million of total gross loans are not eligible for the cover pool as at 31.12.16.

# 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)	31.12.2016	31.12.2015
Statement of income		
Interest and credit commission income from Sparebanken Møre related to deposits	2	6
Interest and credit commission income paid to Sparebanken Møre related to loan/credit facility	18	20
Interest paid to Sparebanken Møre related to bonded debt	8	2
Management fee paid to Sparebanken Møre	26	24
Statement of financial position		



Deposits in Sparebanken Møre	271	285
Covered bonds held by Sparebanken Møre as assets	2 186	0
Loan/credit facility in Sparebanken Møre	1 141	970
Accumulated transferred loan portfolio from Sparebanken Møre	19 815	16 911

# Note 7

## EQUITY AND RELATED CAPITAL

Core capital and supplementary capital	31.12.2016	31.12.2015
Share capital and share premium	1 350	1 150
Retained earnings	159	179
Total equity	1 509	1 329
Dividends	-156	-176
Expected losses exceeding actual losses, IRB portfolios	-39	-32
Common Equity Tier 1 capital	1 313	1 121
Supplementary capital	0	0
Net equity and subordinated loan capital	1 313	1 121

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

Credit risk loans and receivables (Standardised Approach)	250	301
Credit risk loans and receivables (Internal ratings based Approach)	4 083	3 345
Operational Risk (Basic indicator Approach)	501	411
Total risk exposure amount for credit valuation adjustment (CVA) (SA)	300	444
Risk-weighted assets less transitional rules	5 134	4 500
Additional RWA from transitional rules 1)	3 587	3 108
Total risk-weighted assets	8 722	7 608
Minimum requirement common equity Tier 1 capital (4,5%)	392	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%)	87	76
Capital conservation buffer (2.5%)	218	190
Systemic risk buffer (3.0%)	262	228
Total buffer requirements	567	495
Available common equity Tier 1 capital after buffer requirements	354	285

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

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

#### **Leverage ratio**

Leverage ratio	6,1 %	5,8 %
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#### **Liquidity Coverage Ratio**

Liquidity Coverage Ratio	119%	0%
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Møre Boligkreditt AS' capital requirements at 31st December 2016 are based on IRB-Foundation for commercial commitments and IRB-Retail for retail commitments

# Profit performance

## QUARTERLY PROFIT

(MNOK)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Net interest income	59	61	62	60	65
Other operating income	-6	1	1	4	-3
Total operating costs	8	8	9	8	8
Profit before impairment on loans	45	54	54	56	54
Impairment on loans	1	0	0	0	0
Pre tax profit	44	54	54	56	54
Tax	11	13	14	14	15
Profit after tax	33	41	40	42	39

## As a percentage of average assets

Net interest income	1,23	1,34	1,40	1,35	1,58
Other operating income	-0,14	0,03	0,01	0,11	-0,09
Total operating costs	0,18	0,17	0,21	0,18	0,18
Profit before impairment on loans	0,91	1,20	1,20	1,28	1,31
Impairment on loans	0,02	0,00	0,00	0,00	0,00
Pre tax profit	0,89	1,20	1,20	1,28	1,31
Tax	0,23	0,30	0,30	0,32	0,35
Profit after tax	0,66	0,90	0,90	0,96	0,96

Average total assets (MNOK)	19 164	18 003	18 046	17 615	16 626
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## ACCUMULATED PROFIT FOR THE YEAR

(MNOK)	31.12.2016	31.12.2015
Net interest income	242	273
Other operating income	0	1
Total operating costs	33	31
Profit before impairment on loans	209	243
Impairment on loans	1	2
Pre tax profit	208	241
Tax	52	65

Profit after tax	156	176
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**As a percentage of average assets**

Net interest income	1,33	1,63
Other operating income	0,00	0,01
Total operating costs	0,18	0,18
Profit before impairment on loans	1,15	1,46
Impairment on loans	0,01	0,01
Pre tax profit	1,14	1,45
Tax	0,29	0,39
Profit after tax	0,85	1,06

Average total assets (MNOK)	18 207	16 752
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