ANNUAL REPORT 18

Møre Boligkreditt

Report from the Board of Directors

OPERATIONS IN 2018

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

During 2018, Møre Boligkreditt AS' net growth in mortgages acquired from Sparebanken Møre was NOK 2,247 million, and the company's mortgage portfolio amounted to NOK 23,409 million at year-end 2018. Mortgages in the company's cover pool are secured by residential properties, all at the time of acquisition within 75 per cent of the property's estimated value.

In 2018 Møre Boligkreditt AS issued three new covered bond loans. One covered bond loan matured in 2018. Net growth in outstanding covered bond loans in 2018 was NOK 3,561 million, and total outstanding covered bond loan volume issued by Møre Boligkreditt AS amounts to NOK 22,384 million.

RATING

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

THE MORTGAGE COMPANY'S ANNUAL FINANCIAL STATEMENTS

The financial statements of Møre Boligkreditt AS show a profit before tax of NOK 230 million, compared with NOK 213 million in 2017. Interest income amounted to NOK 603 million, compared with NOK 530 million in 2017, while interest expenses amounted to NOK 329 million, compared with NOK 269 million in 2017. Total operating costs amounted to NOK 42 million, compared with NOK 38 million in 2017.

Møre Boligkreditt AS had no losses and allocated no provisions for individual impairment in 2018. The calculation of expected credit loss (ECL) for Møre Boligkreditt AS resulted in an increase of impairments of NOK 1 million in 2018. The ECL calculation as at 31 December 2018 shows ECL of NOK 15 million for Møre Boligkreditt AS, compared with NOK 2 million allocated for collective impairment as at 31 December 2017.

Profit after tax amounted to NOK 174 million in 2018, compared with NOK 165 million in 2017. Tax amounted to NOK 56 million, compared with NOK 48 million in 2017. Total assets at the end of 2018 amounted to NOK 25,557 million compared with NOK 21,748 million at the end of 2017.

Net cash flow from operating activities amounted to NOK -1,772 million compared to NOK -925 million in 2017. The timing of the main outflow and inflow is related to payments for acquiring loans from the parent bank and payments related to instalment loans and credit lines to customers.

The company's substitute assets included in the cover pool amounted to NOK 1,902 million, compared with NOK 520 million as at 31 December 2017. Over-collateralisation, calculated as the value of the cover pool relative to the value of outstanding covered bond loan debt was 11.1 per cent as at 31 December 2018, compared with 13.3 per cent as at 31 December 2017.

Møre Boligkreditt AS' liquidity portfolio consisting of Liquidity Coverage Ratio (LCR) eligible assets amounted to NOK 60 million as at 31 December 2018. It is the opinion of the Board of Directors that the presented financial statements provide correct and adequate information about the company's operations and status as at 31 December 2018.

CAPITAL STRENGTH

Paid in equity and retained earnings amounted to NOK 1, 767 million, compared to NOK 1,667 million as at 31 December 2017. Risk weighted assets amounted to NOK 9,970 million as at 31 December 2018, compared to NOK 8,936 million last year. Net equity and subordinated loan capital amounted to NOK 1,567 million, compared to NOK 1,476 million as at 31 December 2017. This corresponds to a capital adequacy/core capital ratio of 15.7 per cent as at 31 December 2018, compared to 16.5 per cent last year. Møre Boligkreditt AS uses internal rating based (IRB) models to calculate capital requirements for credit risk.

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 can be acquired by the company. The strategy stipulates criteria for both borrowers and the collateral for the loans that can be acquired. At year-end 2018, the mortgages in the cover pool had an average loan-to-value ratio of 58.1 per cent, calculated as mortgage amount relative to the value of the property used as collateral. The Board regards the quality of the loan portfolio as very good and the credit risk as low.

MARKET RISK

Market risk is the risk that will arise due to the mortgage company holding or assuming positions in lending and financial instruments in which the values over time will be affected by changes in market prices. Møre Boligkreditt AS must, pursuant to laws and regulations, have very low market risk and Board approved restrictions 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. Bonds issued by Møre Boligkreditt AS have a soft bullet structure in which the company has the opportunity to extend the term of its borrowing by up to 12 months. Møre Boligkreditt AS reports LCR of 325 per cent by year-end 2018. 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.

CORPORATE GOVERNANCE STATEMENT

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

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

In order to ensure that Møre Boligkreditt AS' risk management and internal control are carried out satisfactorily, the Board continuously receives various types of reports throughout the year from Sparebanken Møre's control bodies, as well as from internal and external auditors. The Board actively participates in the annual implementation of the long-term strategic plan. The Board revises and approves all the company's general risk management documents at least once a year. Every year in the 4th quarter, the Managing Director of Møre Boligkreditt AS reports on the structure and efficiency of the company's internal control.

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

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

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

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

The company's paid-in equity of NOK 1,600,000,000 consist of 1,140,000 shares of NOK 1,250 fully paid in, together with a share premium of NOK 175,000,000. With the consent of the Financial Supervisory Authority of Norway, the General Meeting may raise additional share capital, subordinated loan capital and guarantee capital.

Møre Boligkreditt AS is part of the Sparebanken Møre Group. The parent bank, Sparebanken Møre prepares the statement on ethics and corporate social responsibility which also covers subsidiaries. Reference is made to Sparebanken Møre's annual report available on www.sbm.no for further information.

The Group's corporate governance is based on the Norwegian Code of Practise for Corporate Governance, most recently updated on 17 October 2018. The Group's corporate governance report also cover subsidiaries, and reference is made to Sparebanken Møre's annual report for further information on corporate governance

INTERNAL CONTROL

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

Møre Boligkreditt AS bases its internal control on an overall risk management process. This is set out in various documents included in the company's Risk Policy. The Board has decided upon guidelines for establishing proper risk management and internal control, and ensures that risk management and internal control in Møre Boligkreditt AS are adequate and systematic, and that the processes have been established in compliance with the law and regulations, articles of association, instructions, and external and internal guidelines. The Board systematically and regularly assesses the strategies and guidelines for risk management.

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

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

PROFIT DISTRIBUTION POLICY

Møre Boligkreditt AS' profit distribution policy states the following: "The company shall make a maximum payment from the profit generated in the fiscal year, either in the form of a dividend or as a group contribution. Such payments, however, shall not conflict with the requirement for liquidity and financial strength of the company, and shall in any case abide by what is considered good and prudent business and accounting practice."

GENERAL MEETING AND COMPANY BOARD

The General Meeting is the supreme body of Møre Boligkreditt AS. The General Meeting of Møre Boligkreditt AS consists of the Board of Directors of Sparebanken Møre, Sparebanken Møre being the sole owner of the company.

The Board shall consist of four to six members elected for a period of two years.

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

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

GOING CONCERN ASSUMPTION

The Board is of the opinion that the prerequisites for the going concern assumption exist, and the Board confirms that the 2018 annual financial statements is prepared on the basis of the going concern assumption.

EMPLOYEES

Møre Boligkreditt AS had no employees at year-end 2018. One man-year from Sparebanken Møre is dedicated full time to the mortgage company. Furthermore, a number of services are outsourced to Sparebanken Møre, regulated by a specific agreement between the mortgage company and the bank.

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

EQUAL OPPORTUNITIES

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

POLLUTION OF THE EXTERNAL ENVIRONMENT

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

OTHER FACTORS

As far as the Board is aware, no events have occurred after the end of the financial year 2018 of material importance to the position and result of Møre Boligkreditt AS.

RESEARCH AND DEVELOPMENT

Møre Boligkreditt AS has no research and development activities.

CORPORATE SOCIAL RESPONSIBILITY

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

FUTURE PROSPECTS

A strong household sector due to record low interest rates, low unemployment levels, together with a solid public sector has kept Norwegian production levels high. 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 was announced unchanged at 0.75 percentage points 24 January 2019. Inflation is just above Norges Bank's target of 2 percent and stand at 2.1 percent year-over-year by December 2018. This will support Norges Bank's current rate path, and we believe the first of two hikes in the policy rate in 2019 will be announced in March. Important risk factors going forward are also the oil price development, macroeconomic growth in export markets, the growing concern for a global trade war and the NOK exchange rate.

The combined activity of businesses located in the county of Møre og Romsdal remains high despite recent years decline in the petroleum related industries. The registered unemployment rate in the county of Møre og Romsdal was 2.3 per cent in December 2018, at the same level as the Norwegian national average. We expect unemployment level in the county around national average levels.

Annual retail lending growth in the Sparebanken Møre Group was 6.1 per cent in 2018. The Board believes that the low level of 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.

DISTRIBUTIONS
Profit after tax amounted to NOK 174 million in 2018. The recommendation from the Board of Directors to the annual General Meeting is a dividend payment of NOK 167 million.

Ålesund, 31 December 2018
4 February 2019

THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS

Kjetil Hauge
CHAIRMAN

Britt Iren Tøsse Aandal

Elisabeth Blomvik

Geir Tore Hjelle

Sandra Myhre Helseth

Ole Kjerstad
MANAGING DIRECTOR

Statement of income

STATEMENT OF INCOME

(NOK million)	Note	2018	2017
Interest income from:			
Loans to and receivables from credit institutions - amortised cost	11	8	2
Loans to and receivables from customers - amortised cost		591	525
Certificates, bonds and other interest-bearing securities - fair value		4	3
Interest income	2	603	530
Interest expenses in respect of:			
Loans from credit institutions	11	12	17
Debt securities	9 10 11	317	252
Interest expenses	9	329	269
Net interest income	4	274	261
Commission income		0	1
Net change in value of securities and related derivatives		-1	-14
Wages, salaries and general administration costs		3	3
Other operating costs	11	39	35
Total operating costs	12	42	38
Profit before impairment on loans and taxes		231	210
Impairment on loans	3 5	1	-3
Pre-tax profit		230	213
Taxes	13	56	48
Profit after tax		174	165

STATEMENT OF COMPREHENSIVE INCOME

(NOK million)	2018	2017
Profit after tax	174	165
Items that may subsequently be reclassified to the income statement:		
Basis swap spreads - changes in value 1)	-17	-
Tax effect of basis swap spreads	4	-
Total comprehensive income after tax	161	165

1) Changes in value on basis swaps 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 basis swaps due to changes in basis swap spreads, are recognised in OCI as a cost of hedging.

PROPOSED DISTRIBUTION

(NOK million)	2018	2017
Proposed dividends	167	152
Retained earnings	-6	13
Total	161	165

Statement of financial position

Assets

(NOK million)	Note	31.12.2018	31.12.2017
Loans to and receivables from credit institutions	4 6 8 10 11	1 002	85
Loans to and receivables from customers	2 3 4 5 6 8 10	23 409	21 162
Certificates and bonds	4 6 8 10	512	60
Financial derivatives	4 7 8 9	625	439
Deferred tax asset	13	9	2
Total assets		25 557	21 748

Liabilities and equity

(NOK million)	Note	31.12.2018	31.12.2017
Loans from credit institutions	4 6 8 11	1 330	1 202
Debt securities issued	4 6 8 10 11	22 384	18 823
Financial derivatives	4 7 8 9	23	4
Tax payable	13	53	52
Total liabilities		23 790	20 081
Share capital	15	1 425	1 325
Share premium		175	175
Paid-in equity		1 600	1 500
Retained earnings		167	167
Total equity	14	1 767	1 667
Total liabilities and equity		25 557	21 748

Ålesund, 31 December 2018
4 February 2019

THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS

Kjetil Hauge
CHAIRMAN

Britt Iren Tøsse Aandal

Elisabeth Blomvik

Geir Tore Hjelle

Sandra Myhre Helseth

Ole Kjerstad
MANAGING DIRECTOR

Statement of changes in equity

31.12.2018

(NOK million)	Note	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 1)		-9			-9
Equity as at 1 January 2018		1 658	1 325	175	158
Total comprehensive income for the period		161			161
Issue of share capital		100	100		
Dividends		-152			-152
Equity as at 31 December 2018	14 15	1 767	1 425	175	167

1) The effect of transition to IFRS 9 is entirely related to increased impairments for expected credit losses of NOK 12 million, less tax effect of NOK 3 million.

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.

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

31.12.2017

(NOK million)	Note	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	14 15	1 667	1 325	175	167

The share capital consisted of 1 060 000 shares at NOK 1 250, a total of NOK 1 325 million. All shares were owned by Sparebanken Møre.
Dividend as of 31 December 2017 amounted to NOK 152 million.

Statement of cash flow

(NOK million)	Note	2018	2017
Cash flow from operating activities			
Interest, commission and fees received		600	527
Interest, commission and fees paid		-14	-14
Operating expenses paid		-42	-38
Income taxes paid		-56	-51
Payment for acquiring loans from the Parent Bank		-7 943	-5 108
Payment related to instalment loans and credit lines to customers		5 683	3 759
Net cash flow from operating activities	4 12	-1 772	-925
Cash flow from investing activities			
Received interest, commission and fees related to certificates, bonds and other securities		4	3
Proceeds from the sale and settlement of certificates, bonds and other securities		2 622	1 170
Purchases of certificates, bonds and other securities		-3 073	-707
Changes in other assets		-20	-14
Net cash flow from investing activities	4 8 10	-467	452
Cash flow from financing activities			
Paid interest, commission and fees related to issued bonds		-317	-252
Net change in loans from credit institutions		128	61
Proceeds from covered bond issuance		5 862	3 350
Redemption of issued covered bonds		-2 500	-2 883
Dividend paid		-152	-156
Changes in other debt		34	17
Issue of share capital		100	150
Net cash flow from financing activities	10 15	3 155	287
Net change in cash and cash equivalents		917	-186
Cash balance at 01.01		85	271
Cash balance at 31.12	6	1 002	85

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

Financial position line items have been adjusted for the impact of foreign exchange rate changes.

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

Note 1

ACCOUNTING PRINCIPLES

1.1 GENERAL INFORMATION

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

Preliminary Annual statement was approved for publishing by the Board of Directors 23 January 2019. Final Annual statement was approved by the Board of Directors 4 February 2019.

1.2 ACCOUNTING POLICIES

The company`s financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board, and approved by the EU as at 31 December 2018.

How the company's accounting policies are to be read:
Møre Boligkreditt AS describes accounting policies in connection with relevant notes. See the table below for an overview of accounting principles and the notes in which they are described, as well as reference to relevant and important IFRS-standards.

Accounting policies	Note	IFRS standard
Operating segments	Note 2 Operating segments	IFRS 8
Impairments	Note 3 Impairment, losses and non-performance	IFRS 9, IFRS 7
Financial derivatives	Note 7 Market risk	IFRS 9, IFRS 7, IFRS 13
Hedging	Note 9 Hedging of interest rate and currency exposure	IFRS 9, IFRS 7
Classification of financial instruments	Note 8 Financial instruments - classification and measurement	IFRS 9, IFRS 7
Amortised cost	Note 8 Financial instruments - classification and measurement	IFRS 9, IFRS 7
Fair value	Note 8 Financial instruments - classification and measurement	IFRS 9, IFRS 13, IFRS 7
Tax	Note 13 Tax	IAS 12
Equity	Note 15 Share capital	IAS 1
Events after the reporting date	Note 16 Events after the reporting date	IAS 10

Changes in accounting policies and presentation
There were no material changes to the accounting policies in 2018.

New or revised standards applicable for 2018
The mortgage company has implemented one new standard in 2018, IFRS 9 Financial Instruments which replaced IAS 39 as of 1 January 2018. Please see note 3 for information and specifications regarding the effects of the implementation on impairments and note 8 regarding classification and measurement.

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

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

- IFRS 16 Leases

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

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

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

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

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

1.5 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES
A provision is only recognised when an obligation exists (legal or constructive) as a result of a previous event, and it is likely that an outflow of resources embodying economic benefits will be required to fulfil the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are recognised at the amount that expresses the best estimate of the expenditure required to fulfil the existing obligation. If material the time value of money is taken into account when calculating the size of the provision. Contingent assets or contingent liabilities are not recognised.

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

The financial assets and liabilities of the company are allocated to different categories according to IFRS 9 by the management. Normally this process requires limited judgment.

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

Impairment on loans

The measurement of expected credit losses (ECL) under IFRS 9 requires judgement when assessing whether there has been a significant increase in credit risk and in determining the level of impairment losses, in particular with regards to the estimation of the amount and timing of future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Sparebanken Møre Group has developed an ECL-model based on the Group's IRB parameters. The ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- The internal credit grading model, which assigns probability of default (PD)
- The criteria for assessing if there has been a significant increase in credit risk resulting in allowances for financial assets being measured on a lifetime ECL basis
- Development of the ECL model, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on probability of default (PD), exposure at default (EAD) and loss given default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings

Fair value assessments

For financial instruments which are not traded in active markets, various methods are applied in order to ascertain fair value. Further information and a description of the techniques used, is stated in note 8. Financial instruments not traded in an active market are measured based on in-house judgments and assumptions with regards to current market conditions, or valuations from other market participants.

Note 2

OPERATING SEGMENTS

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

	Loans	
(NOK million)	**31.12.2018**	**31.12.2017**
Loans, nominal amount	23 424	21 164
Expected credit loss (ECL) - Stage 1	-3	-
Expected credit loss (ECL) - Stage 2	-12	-
Expected credit loss (ECL) - Stage 3	0	-
Collective impairment	-	-2
Loans to and receivables from customers	23 409	21 162

Geographical specification	**County of Møre og Romsdal**		**Other Norway**		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Loans, nominal amount	17 970	16 471	5 454	4 693	23 424	21 164
In percentage	76.7 %	77.8 %	23.3 %	22.2 %	100.0 %	100.0 %
Interest income	458	404	145	126	603	530
In percentage	76.0 %	76.3 %	24.0 %	23.7 %	100.0 %	100.0 %

Note 3

IMPAIRMENT, LOSSES AND NON-PERFORMANCE

The effect of the implementation of IFRS 9 at 1 January 2018

IFRS 9 Financial Instruments replaced IAS 39 as of 1 January 2018. IFRS 9 has fundamentally changed the loan loss impairment methodology. The standard has replaced IAS 39's incurred loss approach with a forward looking expected credit loss (ECL) approach.

The following table sets out the impact of replacing incurred credit loss calculations according to IAS 39 with expected credit losses (ECL) according to IFRS 9, by reconciling the aggregate loan loss provision allowances under IAS 39 to the ECL allowances under IFRS 9 at 1 January 2018. The company's model for calculation of expected credit loss (ECL) resulted in increased impairments of NOK 12 million for Møre Boligkreditt AS at 1 January 2018.

Amounts in NOK thousand	Loan loss provision under IAS 39 as at 31 December 2017	Remeasurement	ECL under IFRS 9 at 1 January 2018
Impairment allowance for:			
Loans and receivables per IAS 39/financial assets at amortised cost under IFRS 9	2 000	11 697	13 697
	2 000	11 697	13 697

Expected credit losses (ECL) according to IFRS 9

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

Stage 1: At initial recognition and if there's no significant increase in credit risk, the commitment is classified in stage 1, and expected loss for the next 12 months is calculated.

Stage 2: If a significant increase in credit risk since initial recognition is identified, but without objective evidence of loss, the commitment is transferred to stage 2 and lifetime expected loss is calculated.

Stage 3: If the credit risk increases further and there's objective evidence of loss or if individual impairments have been made, the commitment is transferred to stage 3 and lifetime expected loss is calculated. 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.

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.

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. All customers within the retail-banking 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 business 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 Sparebanken Møre, 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.

The following economic indicators are important for macro adjustment for the retail market:

- Unemployment in Møre og Romsdal
- Interest rate developments in Norway
- Household debt burden
- Housing price development in Møre og Romsdal

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 company 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.

Important qualitative criteria for the PD model for the retail customer market are whether the customer has payment remarks and overdrafts on loans in the bank.

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

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.

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 their impacts 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.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "Impairment on loans" in the Statement of income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Validation

The ECL model is subject to annual validation and review.

As a consequence of low levels of PDs and low LTVs, almost the entire portfolio in Møre Boligkreditt AS is assigned to stage 1 in the ECL-model, thus loss is calculated according to 12 months ECL for the major part of the company's portfolio.

Expected credit loss on loans is presented as a reduction of "Loans to and receivables from customers" in the Statement of financial position.

Specification of credit loss expense (NOK thousand)	31.12.2018	31.12.2017
Changes in collective impairment during the period (IAS 39)	-	-3 000
Changes in Expected Credit Loss (ECL) during the period stage 1	510	-
Changes in Expected Credit Loss (ECL) during the period stage 2	405	-
Changes in Expected Credit Loss (ECL) during the period stage 3	237	-
Total impairment on loans in the period	1 152	-3 000

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

Changes in EAD in the period (NOK million)	Stage 1	Stage 2	Stage 3	Total
EAD 01.01.2018 according to IFRS 9	21 433	614	-	22 048
New loans	7 139	165	-	7 304
Disposal of loans	-3 811	-86	-	-3 896
Changes in ECL in the period for loans which have not migrated	-780	-13	-	-793
Migration to stage 1	220	-229	-	-10
Migration to stage 2	-264	253	-	-11
Migration to stage 3	-3	-	3	-
EAD as at 31.12.2018 *	23 934	704	3	24 641

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

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

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

Note 4

RISK MANAGEMENT

Strategy

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

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

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

Reporting

Møre Boligkreditt AS focuses on correct, complete and timely reporting of the risk and capital situation. Based on this, a number of different types of periodic reporting have been established that are intended for the Board of the company. The most important reports during the year are as follows:

ICAAP (Internal Capital Adequacy Assessment Process) is carried out and reported at least once a year. Møre Boligkreditt AS is included in the assessments of overall ICAAP for the Sparebanken Møre Group, and the Managing Director of Møre Boligkreditt AS is involved in the process. The process is led by the department for Risk Management in Sparebanken Møre. Specific guidelines have been prepared for ICAAP in Sparebanken Møre. ICAAP is reviewed by the bank's management team and the Board of Directors.

Møre Boligkreditt AS' internal liquidity adequacy assessment process (ILAAP) is included in the company's Internal Capital Adequacy Assessment Process (ICAAP).

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

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

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

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

A reporting portal has been established in the Sparebanken Møre Group, and customer relationship employees have access to reports which show the position and development in the credit risk in his or her portfolio. The portal has a hierarchical structure, allowing managers in Sparebanken Møre and Møre Boligkreditt AS to monitor performance within their area of responsibility. The reports are also used to analyse customers, portfolios and different industrial, commercial and other sectors.

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

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

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

• Pilar 1 – Minimum requirement for equity and related capital

• Pilar 2 – Assessment of aggregate capital requirements and regulatory follow-up (ICAAP)

• Pilar 3 – Publication of information

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

Risk exposure and strategic risk management
Møre Boligkreditt AS is exposed to several different types of risk. The most important risk groups are:

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

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

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

See also the Group's Pillar 3 document published on www.sbm.no.

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

Møre Boligkreditt AS minimizes currency risk through swap agreements with eligible counterparties.

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

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

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

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

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

The liquidity situation in Møre Boligkreditt AS at year-end is considered to be sound.

• Operational risk: The risk of losses due to inadequate or failing internal processes, human error, system failures, or external events. Møre Boligkreditt AS has a management agreement with Sparebanken Møre. The services covered by this 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 substantial space in the group's annual ICAAP. The operational and established internal control system in the mortgage company is also an important tool for reducing operational risk with respect to both uncovering it and following it up.

The internal control system should be designed to ensure reasonable certainty with respect to attaining goals within the areas of strategic development, efficient operations, reliable reporting, and compliance with acts and regulations, including compliance with intragroup and company-specific guidelines and policies. A well-functioning internal control system should also ensure the mortgage company's risk exposure being within the adopted risk profile. Reports are submitted to the company's Board concerning operations and the risk situation throughout the year. The Managing Director submits an annual report to the Board containing an overall assessment of the risk situation and an assessment of whether the internal controls are functioning satisfactorily.

Møre Boligkreditt AS takes into account the interaction between the various risk areas by setting desired levels of exposure. Overall, it is the internal conditions, general conditions, customer base etc. in the Group that form the basis for setting the desired overall risk exposure.

Based on an evaluation of the risk profile, management and control, Møre Boligkreditt AS has set the following overall levels of risk exposure for the various risk areas:

• Credit risk: A low level of risk is accepted

• Market risk: A low level of risk is accepted

• Liquidity risk: A low level of risk is accepted

• Operational risk: A low level of risk is accepted

Note 5

CREDIT RISK

Credit risk represents the most significant area of risk and is defined as the risk of losses associated with customers being unable to fulfill their obligations at the agreed time and pursuant to written agreements, and the received collateral not covering outstanding claims. The company's credit risk strategy is revised and approved annually by the Board and sets forth the company's risk profile in the area of credit. Monthly portfolio management reports have been established to ensure that any deviations from the strategic goals set forth in the credit risk strategy are uncovered. The risk classification systems are used as decision support, monitoring and reporting. The risk parameters used in the classification systems are an integrated part of the credit process and ongoing risk monitoring, including the follow-up of credit strategies. Probability of default, PD, is used to measure quality.

The risk classification system is divided into ten risk classes where 1 represents the lowest and 10 the highest risk. The classification system is based on the probability of default which is an estimate of the likelihood of a counterparty defaulting on its contractual obligations within the next 12 months. In the table below, all loans to customers and undrawn commitments are presented according to risk level. The amounts are based on the nominal amounts before adjustments for impairment and accrued interest.

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

Risk groups based on probability of default - 2018	Loans	Credit facilities	Total
Low risk (0 % - < 0.5 %)	22 127	1 215	23 342
Medium risk (0.5 % - < 3 %)	1 128	4	1 132
High risk (3 % - <100 %)	169	0	169
Commitments in default	0	0	0
Total loans before expected credit loss (ECL)	23 424	1 219	24 643
- ECL	-15	0	-15
Loans to and receivables from customers 31.12.2018	23 409	1 219	24 628

Risk groups based on probability of default - 2017	Loans	Credit facilities	Total
Low risk (0 % - < 0.5 %)	20 082	1 210	21 292
Medium risk (0.5 % - < 3 %)	942	1	943
High risk (3 % - <100 %)	115	0	115
Commitments in default	0	0	0
Total loans before individual and collective impairment	21 139	1 211	22 350
Accrued interest income	25	0	25
- Impairment (individual and collective impairment)	-2	0	-2
Loans to and receivables from customers 31.12.2017	21 162	1 211	22 373

Collateral
The company requires residential property as collateral to reduce the risk associated with customers' willingness and ability to serve their obligations. By the granting of loans there is an objective valuation of residential properties. Factors are also taken into account that may affect the security's value, such as licensing conditions or easements.

Møre Boligkreditt AS is the legal and beneficial owner of each loan in the portfolio and is secured rights to the collateral that is associated with each loan. Proper transfers of loans are handled through a separate agreement between the company and the Parent Bank. In cases where the collateral secures loans for both the company and the Parent Bank, it is agreed that Møre Boligkreditt AS is ranked first under the current security.

All mortgages in the cover pool had LTV within 75 per cent at the time of acquisition. Part of the mortgages exceeding LTV of 75 per cent, based on quarterly valuation from AVM company, totaled NOK 433 million as at 31 December 2018, see note 10.

The table below shows the percentage distribution of commitments with different levels of security. For example, the line 0 % - 60 % implies that the commitments are less than 60 % of the security object. Above 100 % implies that the loan amount exceeds the value of the security object.

Loan to value - 2018	Total in NOK million	Total in percentage
0 % - 60 %	10 881	46.5 %
60 % - 70 %	5 365	22.9 %
70 % - 80 %	5 358	22.9 %
80 % - 90 %	1 160	5.0 %
90 % - 100%	323	1.4 %
Above 100 %	323	1.4 %
Total	23 409	100.0 %

Loan to value - 2017	Total in NOK million	Total in percentage
0 % - 60 %	10 083	47.6 %
60 % - 70 %	4 860	23.0 %
70 % - 80 %	4 721	22.3 %
80 % - 90 %	870	4.1 %
90 % - 100%	314	1.5 %
Above 100 %	314	1.5 %
Total	21 162	100.0 %

Note 6

LIQUIDITY RISK

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

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

Pursuant to the Financial Institutions Act, a mortgage company which issues covered bonds must ensure that the cash flow from the cover pool enables the company to meet its payment obligations to holders of covered bonds and counterparties to derivative agreements at all times.

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

Loans that are acquired and not included in a portfolio financed by covered bonds, and loans that serve as over-collateralisation, are financed through a facility the company holds in the parent bank, Sparebanken Møre, or equity. The long-term overdraft facility in Sparebanken Møre has a total limit of NOK 5 billion. Undrawn facility amounts to NOK 3.8 billion as of 31.12.

Receivables from credit institutions and investments in covered bonds, not used for LCR purposes, are used as part of the cover pool.

As of 31.12.2018 the requirement for liquidity coverage ratio for Norwegian covered bond companies is on total currency level 100 %, 100 % in significant currencies and 50 % in NOK if significant currencies equals EUR or USD. As of 31.12.2018 Møre Boligkreditt AS reports 325 % on total currency level and on NOK. There are no LCR-outflows in EUR as of 31.12.2018.

Remaining maturity as per 31.12.18	Up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Assets						
Loans to and receivables from credit institutions	1 002	0	0	0	0	1 002
Loans to and receivables from customers	57	115	523	3 110	27 749	31 554
Certificates and bonds	0	300	173	41	0	514
Total assets	1 059	415	696	3 151	27 749	33 070
Liabilities						
Loans from credit institutions	1 330	0	0	0	0	1 330
Debt securities issued	10	60	2 742	15 409	5 075	23 296
Total liabilities	1 340	60	2 742	15 409	5 075	24 626

Financial derivatives

Cash flow in	0	15	96	427	271	809
Cash flow out	1	35	110	459	141	746
Total financial derivatives	-1	-20	-14	-32	130	63

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

Remaining maturity as per 31.12.17	Up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Assets						
Loans to and receivables from credit institutions	85	0	0	0	0	85
Loans to and receivables from customers	104	209	1 019	4 792	21 780	27 904
Certificates and bonds	0	0	30	31	0	61
Total assets	189	209	1 049	4 823	21 780	28 050
Liabilities						
Loans from credit institutions	1 202	0	0	0	0	1 202
Debt securities issued	8	50	2 681	15 240	1 482	19 461
Total liabilities	1 210	50	2 681	15 240	1 482	20 663
Financial derivatives						
Cash flow in	0	15	59	298	190	562
Cash flow out	1	15	49	231	61	357
Total financial derivatives	-1	0	10	67	129	205

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

Note 7

MARKET RISK

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

Møre Boligkreditt AS has funding in foreign currency. Currency risk associated with this funding is hedged and minimized by use of currency swaps. The financial derivatives are recognised at fair value, with value changes recognised in the profit and loss account, and are carried in the balance sheet on a gross basis per contract as assets or liabilities respectively. The estimated fair value of financial OTC derivatives is adjusted for counterparty credit risk (CVA) or for the company's own credit risk (DVA).

Through its regular operations, the company is exposed to interest rate risk. Interest risk occurs in the company's portfolio in connection with its activities relating to loans and bond debt in which different interest terms apply to the company's receivables and liabilities. Depending on the relationship between the interest terms for receivables and liabilities, changes to interest rates could result in increased income or expenses. Møre Boligkreditt AS uses interest rate swaps as part of its risk management to manage interest rate risk. The company's borrowings with fixed interest rates are swapped to floating interest rates. Potential effect of a 1 year period change in interest rate of 1 percentage point, is an increase/decrease in interest income of NOK 16 million. Relative to the company's total equity of NOK 1 767 million, the company's interest rate risk is considered to be insignificant.

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

(NOK million)	Up to 3 months	3 - 12 months	1 - 5 years	Above 5 years	Total
2018	4	1	-3	-1	1
2017	1	1	-2	0	0

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

	2018			2017		
Financial derivatives	**Nominal value**	**Asset**	**Liability**	**Nominal value**	**Asset**	**Liability**
Interest rate swaps	3 050	183	2	2 050	204	4
Cross currency interest rate swaps	5 350	442	21	2 900	235	0
Total financial derivatives	8 400	625	23	4 950	439	4
- hereof applied in hedge accounting	8 128	545	13	4 681	391	0

The table below provides details on the contractual maturity of financial derivatives based on nominal values:

	2018		2017	
Maturity	Interest rate swaps	Cross currency swaps	Interest rate swaps	Cross currency swaps
2018				
2019				
2020		271		269
2021				
2022	1 000	2 424	1 000	2 408
2023		2 430		
2024				
2025	1 050		1 050	
2026				
2027				
2028	1 000	225		223
	3 050	5 350	2 050	2 900

Note 8

FINANCIAL INSTRUMENTS - CLASSIFICATION AND MEASUREMENT

IFRS 9 Financial Instruments replaced IAS 39 as of 1 January 2018. IFRS 9 introduces a business oriented model for classification and measurement of financial instruments, an expected loss model for impairments and a new accounting regulation for hedge accounting.

For Møre Boligkreditt AS the transition to IFRS 9 has impacted the company's accounting for basisswap spreads as these are charged to OCI as of 1.1.2018 as part of the new hedge accounting model where the cost of hedging, under certain circumstances, can be charged to OCI.

The following table shows a reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018.

	IAS 39 measurement			IFRS 9	
	Category	Amount	Remeasurement	Amount	Category
Amounts in NOK million		**31.12.17**	ECL	**01.01.18**	
Financial assets					
Loans to and receivables from credit institutions	L & R - AC *	85		85	AC
Loans to and receivables from customers	L & R - AC *	21 162	-12	21 150	AC
Certificates and bonds	FVPL **	60		60	FVPL
Financial derivatives	FVPL **	439		439	FVPL

* L & R - AC: Loans and Receivables at amortised cost

** FVPL: Fair Value through Profit & Loss

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, based on the business model of the company.

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.

Changes in basis swaps effects are recognised in OCI.

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 customers.

CLASSIFICATION OF FINANCIAL INSTRUMENTS	Financial instruments at fair value through profit or loss		Financial assets and liabilities carried at amortised cost	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Loans to and receivables from credit institutions	-	-	1 002	85
Loans to and receivables from customers	-	-	23 409	21 162
Certificates and bonds	512	60	-	-
Financial derivatives	625	439	-	-
Total assets	1 137	499	24 411	21 247
Loans from credit institutions	-	-	1 330	1 202
Debt securities issued	-	-	22 384	18 823
Financial derivatives	23	4	-	-
Total liabilities	23	4	23 714	20 025

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST	31.12.2018		31.12.2017	
	Fair value	Book value	Fair value	Book value
Loans to and receivables from credit institutions	1 002	1 002	85	85
Loans to and receivables from customers	23 409	23 409	21 162	21 162
Total assets	24 411	24 411	21 247	21 247
Loans from credit institutions	1 330	1 330	1 202	1 202
Debt securities issued	22 432	22 384	18 894	18 823
Total liabilities	23 762	23 714	20 096	20 025

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

FINANCIAL INSTRUMENTS AT AMORTISED COST - 31.12.2017	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	-	85	-	85
Loans to and receivables from customers	-	-	21 162	21 162
Total assets	-	85	21 162	21 247
Loans from credit institutions	-	1 202	-	1 202
Debt securities issued	-	18 894	-	18 894
Total liabilities	-	20 096	-	20 096

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

FINANCIAL INSTRUMENTS AT FAIR VALUE - 31.12.2017	**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	60	-	-	60
Financial derivatives	-	439	-	439
Total assets	60	439	-	499
Financial derivatives	-	4	-	4
Total liabilities	-	4	-	4

Note 9

HEDGING OF INTEREST RATE AND CURRENCY EXPOSURE

The company's funding should have a maximum of 3-months fixed interest rate and be in NOK. If funding is done by issuances of fixed rate- or foreign exchange bonds, it is swapped into 3-months Nibor. The company should not take any currency risk.

HEDGE ACCOUNTING FOR FINANCIAL LIABILITIES WITH FIXED INTEREST RATE	31.12.2018	31.12.2017
Changes in fair value of derivatives established to hedge changes in market interest rates	-34	-9
Changes in fair value due to changes in market interest rates on hedged financial liabilities with fixed interest rate	30	8

HEDGE ACCOUNTING FOR FINANCIAL LIABILITIES IN FOREIGN CURRENCY	31.12.2018	31.12.2017
Changes in fair value of derivatives established to hedge currency exsposure and market interest rates on financial liabilities	55	26
Changes in fair value due to changes in the exchange rate and market interest rates in hedged financial liabilities	-61	-27

Note 10

ISSUED COVERED BONDS

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

COVERED BONDS (NOK million)

ISIN code	Currency	Nominal value 31.12.2018	Interest	Issue	Maturity	31.12.2018	31.12.2017
NO0010588072	NOK	1 050	fixed NOK 4.75 %	2010	2025	1 200	1 235
NO0010657232	NOK	-	3M Nibor + 0.65 %	2012	2018	-	2 503
NO0010676018	NOK	2 500	3M Nibor + 0.47 %	2013	2019	2 501	2 502
XS0968459361	EUR	25	fixed EUR 2.81 %	2013	2028	298	295
XS0984191873	EUR	30	6M Euribor + 0.20 %	2013	2020	298	295
NO0010696990	NOK	2 500	3M Nibor + 0.45 %	2013	2020	2 499	2 497
NO0010720204	NOK	3 000	3M Nibor + 0.24 %	2014	2020	2 999	2 998
NO0010730187	NOK	1 000	fixed NOK 1.50 %	2015	2022	987	993
NO0010777584	NOK	3 000	3M Nibor + 0.58 %	2016	2021	3 002	3 003
XS1626109968	EUR	250	fixed EUR 0.125 %	2017	2022	2 502	2 450
NO0010819543	NOK	2 500	3M Nibor + 0.42 %	2018	2024	2 499	-
XS1839386577	EUR	250	fixed EUR 0.375 %	2018	2023	2 519	-
NO0010836489	NOK	1 000	fixed NOK 2.75 %	2018	2028	1 018	-
Total securities issued						22 322	18 771
Accrued interest						62	52
Total borrowings raised through the issue of securities						22 384	18 823

COVER POOL (MNOK)	31.12.2018	31.12.2017
Pool of eligible loans 1)	22 976	20 814
Supplementary assets	1 300	85
Financial derivatives to hedge issued securities (liabilities)	-23	-4
Financial derivatives to hedge issued securities (assets)	625	439
Total collateralised assets	24 878	21 334
Collateralisation in %	111.1 %	113.3 %

1) NOK 433 million of total gross loans are not eligible for the cover pool as at 31.12.18.

Debt securities issued	31.12.2018	31.12.2017
Covered bonds, nominal value	21 733	18 358
Accrued interest	62	52
Value adjustments	589	413
Total debt securities	22 384	18 823

Changes in debt securities	31.12.2017	Issued	Redemption	Other changes	31.12.2018
Covered bonds, nominal value	18 358	5 875	2 500		21 733
Accrued interest	52			10	62
Value adjustments	413			176	589
Total debt securities	18 823	5 875	2 500	186	22 384

Note 11

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.

Should Møre Boligkreditt AS for any reason experience difficulties in obtaining financing, a revolving guarantee provided by Sparebanken Møre has been established in order 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:

(NOK million)	31.12.2018	31.12.2017
Statement of income:		
Interest and credit commission income from Sparebanken Møre related to deposits	8	2
Interest and credit commission income paid to Sparebanken Møre related to loan/credit facility	12	17
Interest paid to Sparebanken Møre related to bonded debt	19	11
Management fee paid to Sparebanken Møre	34	30
Statement of financial position:		
Deposits in Sparebanken Møre	867	85
Covered bonds held by Sparebanken Møre as assets	818	425
Loan/credit facility in Sparebanken Møre	1 177	1 202
Accumulated transferred loan portfolio from Sparebanken Møre	23 424	21 164

Note 12

WAGES, COMPENSATIONS AND FEES

(NOK thousand)		2018	2017
Total wages and other cash payments		2 345	2 306
- hereof salary to the Managing Director		990	955
- hereof other remuneration to the Managing Director		47	41
- hereof refunded premium regarding the pension plan for the Managing Director		66	60
- hereof remuneration to the Board of Directors		120	100
The Board of Directors	Kjetil Hauge, Chairman	0	0
	Sandra Myhre Helseth	0	0
	Elisabeth Blomvik	0	0
	Geir Tore Hjelle	60	50
	Britt Iren Tøsse Aandal	60	50
Total fees paid to external auditor (all fees are stated including VAT of 25 %)		965	1 002
- hereof statutory audit services		266	269
- hereof tax-related services		38	38
- hereof other attestation services		416	650
- hereof other non-audit services		245	45

Møre Boligkreditt AS has no employees at the end of 2018. Møre Boligkreditt AS remunerated Sparebanken Møre for the use of two man-years, but only the Managing Director of Møre Boligkreditt AS is dedicated full time to the company. A number of services are also outsourced for performance by Sparebanken Møre, and these are regulated by a specific agreement between the mortgage company and the bank. The above-mentioned pay and other cash benefits, as well as employer's national insurance contributions, are cost refunds to Sparebanken Møre. The employees are members of Sparebanken Møre's pension scheme. The scheme satisfies the current requirements for mandatory occupational pensions. The company had as per 31 December 2018 no obligation to pay the Managing Director, chairman of the Board of Directors or other employees special remuneration upon them leaving the company or in the event of a change in their employment relationship or duties. Nor do any obligations concerning bonuses, options or similar exist for any of the aforementioned people.

Loans and guarantees

(NOK thousand)	2018		2017	
	Loans	**Guarantees**	**Loans**	**Guarantees**
Board of Directors				
Kjetil Hauge, Chairman	2 887	0	3 214	0
Sandra Myhre Helseth	1 498	0	2 414	0
Elisabeth Blomvik	5 688	0	0	0
Geir Tore Hjelle	0	0	0	0
Britt Iren Tøsse Aandal	0	0	0	0
Managing Director				
Ole Kjerstad	3 329	0	3 579	0

Ordinary customer terms and conditions have been applied to loans provided for members of the Board of Directors.

Loans to the Managing Director and the Board members of Møre Boligkreditt AS, who also are employees in Sparebanken Møre, are given according to staff conditions.

Note 13

TAX

Tax cost consists of payable tax for the income year, any tax payable for previous years, and any changes in deferred tax. Deferred tax is calculated on the temporary differences in accordance with IAS 12 Income Taxes. A temporary difference is the difference between the carrying amount of an asset or liability and the taxable value of that asset or liability. Tax increasing and tax reducing temporary differences that are reversed or could be reversed in the same period are offset and included in the accounts on a net basis.

Deferred tax is calculated on the basis of the differences which exist between the accounting-related and tax-related values at the end of the accounting year. Deferred tax assets are recognised in the statement of financial position to the extent that it is likely they will be able to be utilised against future taxable income. Deferred tax (tax assets) is recognised at its nominal value and reported on a separate line on the statement of financial position.

A tax rate of 23 per cent is used as the prevailing tax rate in 2018. As of 2019 the corporate tax rate is proposed reduced to 22 per cent, which has limited effect on the company due to the temporary differences not being significant. Realisation of deferred tax benefit is based on future results liable to tax, based on empirical experience and prognoses, exceeding the tax benefit in question in the case of reversal of any existing temporary differences. No temporary differences exist in relation to items recognised against comprehensive Income.

The entire tax-cost is related to Norway.

Specification of taxes in Statement of income	**2018**	**2017**
Pre-tax profit	230	213
Permanent differences	0	0
Changes in temporary differences	18	5
Income subject to tax	248	218
Tax payable at 23 per cent (24 per cent in 2017)	57	52
Change in deferred tax	-4	-2
Correction previous year	3	-2
Total tax cost	56	48

Specification of taxes in Statement of comprehensive income	**2018**	**2017**
Basis swap spreads - changes in value	-17	-
Comprehensive income subject to tax	-17	-
Total tax cost (tax payable at 23 per cent)	-4	-

Specification of tax payable	2018	2017
Tax payable in Statement of income	57	52
Tax payable in Comprehensive income	-4	0
Total tax payable	53	52

Specification of temporary differences and computation of deferred tax	2018	2017
Financial liabilities	-274	-221
Financial instruments	248	213
Net negative (-)/positive differences	-26	-8
Deferred tax asset (-) or liability due to temporary differences	-6	-2
Deferred tax asset (-) or liability due to implementation of IFRS 9	-3	-
Deferred tax asset (-) or liability as at 31 December	-9	-2

Reconciliation of tax cost and pre-tax profit	2018	2017
23 per cent of pre-tax profit (24 per cent in 2017)	53	51
Other permanent differences 23 per cent (24 per cent in 2017)	0	0
Correction previous year	3	-3
Total tax cost	56	48

Note 14

EQUITY AND RELATED CAPITAL

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

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

However, as long as Norwegian transitional rules relating to full implementation of the IRB approach remain in force, the total risk-weighted assets cannot be reduced below 80 per cent of the Basel I requirements.

The legislation requires a minimum Common Equity Tier-1 of 12.0 per cent, including a conservation-buffer of 2.5 per cent, a systemic-risk buffer of 3.0 per cent and a counter-cyclical buffer of 2.0 per cent. Minimum capital adequacy ratio is 15.5 per cent. The current defined long-term target for Møre Boligkreditt AS is to meet minimum capital requirements. Møre Boligkreditt AS has as of 31.12.2018 capital adequacy/core capital ratio of 15.7 per cent.

Tier 1 capital and supplementary capital	31.12.2018	31.12.2017
Share capital and share premium	1 600	1 500
Retained earnings	167	167
Total equity	1 767	1 667
Dividends	-167	-152
Value adjustments of financial instruments at fair value	-1	0
Expected IRB-losses exceeding ECL	-32	-40
Common Equity Tier 1 capital	1 567	1 476
Supplementary capital	0	0
Net equity and subordinated loan capital	1 567	1 476

Risk-weighted assets (calculation basis for capital adequacy ratio)	31.12.2018	31.12.2017
Credit risk loans and receivables (Standardised Approach)	505	217
Credit risk loans and receivables (Internal Ratings Based Approach)	4 537	3 898
Operational Risk (Basic indicator Approach)	486	505
Total risk exposure amount for credit valuation adjustment (CVA) (SA)	498	320
Risk-weighted assets less transitional rules	6 026	4 941
Additional RWA from transitional rules 1)	3 944	3 995
Total risk-weighted assets	9 970	8 936
Minimum requirement Common Equity Tier 1 capital (4,5%)	449	402

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

Buffer Requirement	31.12.2018	31.12.2017
Countercyclical buffer (2.0%)	200	179
Capital conservation buffer (2.5%)	249	223
Systemic risk buffer (3.0%)	299	268
Total buffer requirements	748	670
Available Common Equity Tier 1 capital after buffer requirements	370	403

Capital adequacy as a percentage of the weighted asset calculation basis	31.12.2018	31.12.2017
Capital adequacy ratio	15.7 %	16.5 %
Tier 1 capital ratio	15.7 %	16.5 %
Common Equity Tier 1 capital ratio	15.7 %	16.5 %

Leverage ratio	31.12.2018	31.12.2017
Leverage ratio	6.0 %	6.6 %

Liquidity Coverage Ratio	31.12.2018	31.12.2017
Liquidity Coverage Ratio - Total	325%	295%
Liquidity Coverage Ratio - NOK	325%	295%
Liquidity Coverage Ratio - EUR	0%	0%

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

Note 15

SHARE CAPITAL

The share capital consists of 1 140 000 shares each with a nominal value of NOK 1 250. 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.

Møre Boligkreditt AS is included in the consolidated financial statements of Sparebanken Møre and information about the consolidated financial statements can be obtained by contacting one of the bank's offices or via the bank's website: www.sbm.no.

	2018	2017
Total number of shares 1 January	1 060 000	940 000
Issues of new shares	80 000	120 000
Total number of shares 31 December	1 140 000	1 060 000
Dividend per share	146.49	143.30
Profit after tax as a percentage of average assets	0.73	0.81

The Board of Directors has proposed a dividend of NOK 167 million per 31.12.2018.

Note 16

EVENTS AFTER THE REPORTING DATE

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

No events of material significance for the financial statements for 2018 have occurred after the reporting date. The company is not involved in any legal proceedings.

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

We hereby confirm that the company's annual financial statements for the period 1 January 2018 to 31 December 2018, have, to the best of our knowledge, been prepared in accordance with applicable accounting standards and that the information in the financial statements provides a true and fair view of the company's assets, liabilities, financial position and results as a whole. We also hereby declare that the annual report provides a true and fair view of the financial performance and position of the company, as well as a description of the principal risks and uncertainties facing the company.

Ålesund, 31 December 2018
4 February 2019

THE BOARD OF DIRECTORS OF MØRE BOLIGKREDITT AS

Kjetil Hauge
CHAIRMAN

Britt Iren Tøsse Aandal

Elisabeth Blomvik

Geir Tore Hjelle

Sandra Myhre Helseth

Ole Kjerstad
MANAGING DIRECTOR

To the General Meeting of Møre Boligkreditt AS

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Møre Boligkreditt AS which comprise the balance sheet as at 31 December 2018, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Issued covered bonds – compliance with regulation

Refer to note *4 Risk Management*, note *5 Credit risk*, Note *10 Issued Covered Bonds* and Report from the Board of Directors.

The Key Audit Matter	*How the matter was addressed in our audit*
The covered bonds are measured at amortized cost and the total liability is NOK 22 384 million. Møre Boligkreditt AS issues covered bonds as their prime source of funding. To issue these bonds the company must be compliant with the Norwegian Financial Institutions Act, which set out detailed requirements to the assets included in and the value of the cover pool. Since such compliance is of significant importance for the funding and going concern of Møre Boligkreditt AS, we considered this a key audit matter.	We assessed management's process for acquiring loans that qualify as collateral for covered bonds. We tested operating effectiveness of selected internal controls that are set up to secure that only loans that fulfil legal requirements to serve as collateral, are transferred from Sparebanken Møre to Møre Boligkreditt AS. For a number of loans included in the cover pool, our procedures, among others, include: • testing that the assets in the cover pool comply with the requirements in the Financial Institutions Act §11-8 • agreeing collateral values with external valuations from Eiendomsverdi • testing the mathematical accuracy and corroborating the input of the calculation that management uses to establish the collateralization in percent. We have also assessed management's process for keeping the register up to date and identifying movements in the underlying assets in the cover portfolio.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statement on Corporate Governance concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Ålesund, 4 February 2019
KPMG AS

Svein Arthur Lyngroth
State Authorised Public Accountant