

INTERIM REPORT 4 QUARTER  
NOT AUDITED

10



MØRE BOLIGKREDITT



# Interim report from the Board of Directors

## Company in brief

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

## Profit and balance sheet performance

The financial statements of Møre Boligkreditt AS show a profit after tax of TNOK 31 100 after the 4th quarter 2010, compared with TNOK 20 443 for the corresponding period in 2009. Interest income amounted to TNOK 190 786, compared with TNOK 108 533 for the same period last year, while interest expenses amounted to TNOK 134 092, compared with TNOK 72 953 for the same period last year.

Costs amounted to TNOK 13 679, compared with TNOK 7 251 for the corresponding period in 2009. No losses were registered or write-downs made in the 4th quarter 2010. The profit before tax was thus TNOK 43 197, compared with TNOK 28 392 for the same time last year. Tax amounted to TNOK 12 097, compared with TNOK 7 950 for the corresponding period last year.

Total assets at the end of the quarter amounted to NOK 5 796 million, compared with NOK 3 845 million at the end of the same quarter last year. Net lending accounted for NOK 5 539 million, compared with NOK 3 606 million for the same period last year, and bank deposits were NOK 250 million, compared with NOK 235 million for the same period last year.

In the 4th quarter 2010, Møre Boligkreditt AS acquired NOK 723 million in mortgages from Sparebanken Møre.

The company issued NOK 1.5 billion in covered bonds during the 4th quarter 2010, with the first tranche amounting to NOK 500 million. This issue is the sixth issue by Møre Boligkreditt AS, and the company's first with a fixed interest rate. All covered bonds issued by Møre Boligkreditt AS are listed on the Oslo Stock Exchange.

## Rating of the company's issues of covered bonds

The recognised rating agency Moody's has given an Aaa-rating to all the covered bonds issued by Møre Boligkreditt AS.

## Financial strength

Møre Boligkreditt AS' equity and related capital amounted to NOK 421 million at the end of the 4th quarter 2010, compared with

NOK 400 million at the end of the 4th quarter 2009. This corresponds to a capital/core capital adequacy ratio of 19.60 %. The risk-weighted balance sheet was NOK 2 146 million at the end of the 4th quarter 2010. The capital adequacy ratio has been calculated using the standard method in the Basel II rules and regulations. The Board of Directors regards the company's risk-bearing capacity as satisfactory.

## Risk

Its license as a mortgage company means Møre Boligkreditt AS is subject to a number of acts, regulations, recommendations, and regulatory provisions. The company has established guidelines and limits for managing and controlling the various forms of risk.

The credit risk strategy adopted by the mortgage company defines which loans can be acquired by the mortgage company. The Board of Directors regards the quality of the loan portfolio as very good and the credit risk as low.

The mortgage company's investments and loans are made in Norwegian kroner (NOK) at fixed or variable rates. Foreign exchange and interest rate risk is regulated through a special document that defines the strategy and limits within these risk groups. The mortgage company had no positions in foreign currency at the end of the 4th quarter 2010. The Board of Directors regards the total market risk as low. The Board of Directors also regards the mortgage company's liquidity risk as low.

A management agreement has been signed with Sparebanken Møre. The services covered by this agreement include administration, production, IT operations, and financial and risk management. The Board of Directors regards the mortgage company's operational risk as low.

The Board of Directors regards the company's total risk exposure as low.

## Future prospects

Household credit growth has stabilised in the range of 6 to 6.5 % throughout the autumn. Enduring low interest rates and low unemployment will contribute to maintain the level of activity in the housing market and thus credit growth as well in 2011.

Møre Boligkreditt AS is planning further acquisitions of loan portfolios from Sparebanken Møre in 2011, and the mortgage company also plans to issue new covered bonds and sell these to domestic and international investors. The company's bonds are rated continuously by Moody's.

Ålesund, 2 February 2011

The Board of Directors of Møre Boligkreditt AS

Kjetil Hauge  
CHAIRMAN

Britt Iren Tøsse Aandal

Trond Nydal

Geir Tore Hjelle

Sandra Myhre Helseth

Ole Kjerstad  
CEO

# Profit and Loss Account

Møre Boligkreditt AS					
Amounts in NOK Thousand	Notes	2010	2009	4. q. 10	4. q. 09
Interest and similar income from:					
Loans to and other claims on credit institutions	6	5 670	8 722	367	639
Loans to and claims on customers		185 116	99 811	57 835	33 122
Interest and similar income		190 786	108 533	58 202	33 761
Interest and similar costs in respect of:					
Debt owed to credit institutions	6	7 893	2 322	2 028	923
Securities issued for borrowing purposes	6	126 199	70 631	40 180	20 642
Interest and similar costs		134 092	72 953	42 208	21 565
Net interest and credit commission income		56 694	35 581	15 994	12 197
Commission income and revenues from banking services		155	63	56	21
Net gains/losses from securities and foreign exchange		27	0	27	0
Other operating income		182	63	83	21
Wages, salaries etc.		2 786	2 369	687	782
Administration costs		560	515	154	133
Wages, salaries and general administration costs		3 346	2 884	841	915
Other operating costs	6	10 333	4 367	2 832	1 636
Total operating costs		13 679	7 251	3 673	2 551
Result before credit losses		43 197	28 392	12 404	9 667
Losses on loans, guarantees etc.	4	0	0	0	0
Result from ordinary operations before tax		43 197	28 392	12 404	9 667
Tax payable on ordinary result		12 097	7 950	3 497	2 450
Result from ordinary operations after tax		31 100	20 443	8 907	7 217
Result pr. share (NOK) *		78.14	116.82	22.38	41.24
Diluted earnings pr. share (NOK)*		78.14	116.82	22.38	41.24

\* Prior to capital increase in January 2010. Applies only to 2009 numbers.

## Extended accounts according to IAS 1

Møre Boligkreditt AS				
	2010	2009	4. q. 10	4. q. 09
Result from ordinary operations after tax	31 100	20 443	8 907	7 217
Total result from ordinary operations after tax	31 100	20 443	8 907	7 217

# Balance sheet

		Møre Boligkreditt AS	
Amounts in NOK Thousand	Notes	31.12.10	31.12.09
<b>Assets</b>			
Loans to and claims on credit institutions, on a call basis	3, 5, 6	250 236	234 937
Overdrafts, working capital- and similar facilities	3, 4, 5	1 340 669	766 579
Instalment loans	3, 4, 5	4 198 516	2 839 280
Prepayments and accrued income		6 645	4 039
<b>Total assets</b>		<b>5 796 066</b>	<b>3 844 835</b>
<b>Liabilities and equity capital</b>			
Liabilities to credit institutions, on a call basis	6	216 512	154 100
Borrowings raised through the issue of securities	5, 6	5 081 619	3 250 254
Financial derivatives		15 801	0
Other liabilities		12 089	7 950
Deferred tax liability		7	0
Incurred costs and prepaid income		18 381	11 974
<b>Total liabilities</b>		<b>5 344 410</b>	<b>3 424 279</b>
<b>Share capital</b>			
Paid-in, not registered, capital increase		0	223 000
Other paid-in equity capital		360	360
<b>Paid-in equity capital</b>		<b>398 360</b>	<b>398 360</b>
<b>Other equity capital</b>			
Equity capital accumulated through retained earnings		53 296	22 195
<b>Total equity capital</b>		<b>451 656</b>	<b>420 555</b>
<b>Total liabilities and equity capital</b>		<b>5 796 066</b>	<b>3 844 835</b>

## Equity capital

2010				
Amounts in NOK Thousand	Equity capital	Share capital	Other paid-in equity capital	Other equity capital
Equity capital 31.12.09	197 555	175 000	360	22 195
Capital increase registered in the Register of Business Enterprises on 9 January 2010	223 000	223 000		
Equity capital before allocations	420 555	398 000	360	22 195
Total result from ordinary operations after tax	31 100			31 100
Equity capital 31.12.10	451 656	398 000	360	53 296

Suggested group contribution amounts to NOK 51 million.

2009				
Amounts in NOK Thousand	Equity capital	Share capital	Other paid-in equity capital	Other equity capital
Equity capital 31.12.08	177 113	175 000	360	1 753
Capital increase registered in the Register of Business Enterprises on 9 January 2010	223 000	223 000		
Equity capital before allocations	400 113	398 000	360	1 753
Suggested set aside for dividend 1)	20 000			20 000
Transferred to other equity capital	443			443
Total result from ordinary operations after tax	20 443			20 443
Equity capital 31.12.09	420 555	398 000	360	22 195

1) The General Meeting decided 10 March 2010 to reduce the proposed dividends to NOK 0. Hence, NOK 20 million is maintained as other equity capital.

# Cash Flow Statement

Amounts in NOK Thousand	Møre Boligkreditt AS	
	2010	2009
Cash Flow Statement		
Interest, commission and fees received	197 348	120 570
Interest, commission and fees paid	-136 697	-76 992
Outgoings relating to operations	-13 653	-7 251
Payment of tax	-7 950	-760
Changes relating to loans to and claims on other financial institutions	0	0
Changes relating to instalment loans to customers	-1 359 237	-2 839 278
Changes in respect of utilised credit facilities	-574 090	-766 579
Net cash flow from operational activities	-1 894 279	-3 570 290
Cash flow from investment activities	0	0
Net cash flow from investment activities	0	0
Cash flow from funding activities		
Changes relating to deposits from Norges Bank and other financial institutions	62 412	154 100
Payments received in respect of proceeds from bond issues raised	1 831 365	3 250 254
Changes in other debt	15 801	0
Changes of equity due to capital increase	0	223 000
Net cash flow from funding activities	1 909 578	3 627 354
Net changes on cash holdings	15 299	57 064
Holdings of cash 01.01	234 937	177 873
Holdings of cash 31.12	250 236	234 937

## 1 - Accounting principles

The company's interim financial statements are prepared in accordance with Norwegian accounting law and the Ministry of Finance's accounting regulations. Møre Boligkreditt AS uses IFRS Light. The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

The financial statements are presented in Norwegian kroner (NOK), which is also the company's functional currency. All amounts are

stated in NOK '000s, unless otherwise specified.

Please refer to the annual report for 2009 for a more detailed description of these accounting principles. The interim report was prepared in accordance with the accounting principles and measurement methods used in the annual financial statements.

The interim financial statement is not audited.

## 2 - Important accounting estimates and assessments based on judgement

The preparation of Møre Boligkreditt AS' financial statement requires the management in some cases to make estimates and assumptions based on their best judgement. The estimates and assumptions used affect the reported amounts for assets, liabilities, income, and costs in the financial statements. A risk exists that the actual results may at a

later time differ to some degree from the estimates and assumptions used. The most important estimates and assumptions which represent a risk of material changes in carrying amounts are write-downs of loans, both individual and group.

## 3 - Gross loans broken down according to sectors

Amounts in NOK thousand	Gross loans	
	2010	2009
Sectors		
Agriculture and forestry	1 617	1 686
Fisheries	1 556	1 604
Industry and mining	1 211	0
Building and construction	6 262	6 525
Wholesale and retail trade, hotel industry	7 503	6 563
Property management	96 759	102 520
Transport and private service industry	19 076	14 820
Public entities	0	0
Non-Norwegian lending	0	0
Miscellaneous	0	0
Total Corporate/Public entities	133 984	133 718
Retail customers	5 405 200	3 472 144
Total Gross loans	5 539 184	3 605 859

## 4 - Write-downs, losses and non-performance

Møre Boligkreditt AS reviews its loan portfolio every quarter. All commitments that must be assessed individually are tested to see whether or not objective evidence exists that a loss event has occurred and that the loss event reduces the loan's future cash flows. Examples of such objective evidence are material financial problems at the debtor, payment defaults, material breaches of contract, agreed changes to the interest rate or other agreement terms due to financial problems at the debtor, bankruptcy, etc.

If objective evidence of impairment exists, the loss on the loan is estimated as the difference between the carrying amount (balance + accrued interest on the date of assessment) and the present value of future cash flows. Estimates of future cash flows also take into account takeovers and sales of associated collateral, included expenses associated with such takeovers and sales.

When a future cash flow is estimated according to best judgement and this is registered, the system will calculate the new value of the loan (amortised cost) and the difference compared to the carrying amount will equal the write-down amount.

When all collateral has been realised and there is no doubt the mortgage company will not receive further payments relating to the commitment, the loss write-down will be reversed and the actual loss will be booked. Nonetheless, the claim against the customer will remain and be followed up, unless a debt forgiveness agreement is reached with the customer.

Group write-downs for impaired value are calculated for sub-groups of loans concerning which objective events indicate that future cash flows that would be used to service the commitments have weakened, where it is not possible to examine all commitments on an individual basis, or where information is not identifiable at a commitment level. Commitments against which individual write-downs for losses have been registered are not included in the basis for group write-downs.

The Sparebanken Møre Group has developed its own group write-down model and calculations are conducted each month based on input from the risk classification system, data warehouse, and assessments of macroeconomic factors. Changes to risk classification, negative developments in collateral values, and registered macroeconomic events that affect future estimated cash flows are taken into account in the model. The model looks at both cash flows out of the company (total borrowing and funding expenses, administration expenses, etc), as well as estimated cash flow into the company (including interest income from customers). The group's model for group write-downs is tailored to Møre Boligkreditt AS' assumptions and operations.

No commitments in the company's lending portfolio were identified on the balance sheet date as needing individual write-downs. Nor do the lending statistics on the balance sheet show any registered non-performance in the mortgage company's portfolio. The model used for group write-downs does not indicate any need for provisions for losses for groups of loans.



## 5 - Financial liabilities

Securitised debt is classified as being valued at amortised cost.

Covered bonds (Amounts in NOK thousand)

ISIN code	Currency	Nominal value	Interest	Issue	Maturity	31.12.2010
NO0010499825	NOK	1 500 000	3M Nibor + 0.40 %	2009	2012	749 956
NO0010499833	NOK	1 500 000	3M Nibor + 0.45 %	2009	2014	1 000 000
NO0010499841	NOK	1 500 000	3M Nibor + 0.50 %	2009	2016	1 500 272
NO0010564982	NOK	1 500 000	3M Nibor + 0.40 %	2010	2015	748 703
NO0010575079	NOK	1 500 000	3M Nibor + 0.55 %	2010	2017	598 589
NO0010588072	NOK	1 500 000	fixed 4.75 %	2010	2025	484 099
						5 081 619

Cover pool (Amounts in NOK thousand)	31.12.10	31.12.2009
Pool of eligible loans	5 391 005	3 532 655
Supplementary assets	250 236	234 937
Total collateralised assets	5 641 241	3 767 592
Over-collateralisation	111.1 %	115.9 %

## 6 - Transactions with related parties

These are transactions between the mortgage company and Sparebanken Møre that are conducted at arm's length and at arm's length prices. Credit and deposits in the parent company are priced

on commercial terms. Other costs (rent, office supplies, IT equipment, etc) are purchased from the parent bank at market prices/market rent.

The most important transactions are as follows:

(Amounts in NOK thousand)	2010	2009
<b>Result</b>		
Interest and credit commission income from Sparebanken Møre related to deposits	5 670	8 722
Interest and credit commission income paid to Sparebanken Møre related to loan/credit facility	7 893	2 322
Interest paid to Sparebanken Møre related to securitised debt	86 582	67 957
Management fee paid to Sparebanken Møre	6 850	3 661
<b>Balance sheet</b>		
Deposits in Sparebanken Møre	250 236	234 937
Covered bonds	2 817 948	3 040 367
Loan/credit facility in Sparebanken Møre	216 512	154 100

## 7 - Equity and related capital

(Amounts in NOK million)	Møre Boligkreditt AS	
	2010	2009
Standard method (Basel II)		
Core capital	421	400
Supplementary capital	0	0
Net equity and subordinated loan capital	421	400
Risk-weighted assets (calculation basis for capital adequacy ratio)	2 146	1 428
Capital adequacy ratio	19.60	28.01
Core capital ratio	19.60	28.01

# Highlights

## Quarterly results

Amounts in NOK thousand	4. q. 2010	3. q. 2010	2. q. 2010	1. q. 2010	4. q. 2009
Net interest and credit commission income	15 994	13 159	13 550	13 991	12 197
Total other operating income	83	43	36	20	21
Total operating costs	3 673	2 840	4 657	2 509	2 551
Result before losses	12 404	10 362	8 929	11 502	9 667
Losses on loans, guarantees etc.	0	0	0	0	0
Result before tax	12 404	10 362	8 929	11 502	9 667
Tax payable on ordinary result	3 497	2 900	2 500	3 200	2 450
Result from ordinary operations after tax	8 907	7 462	6 429	8 302	7 217

As a percentage of average assets	4. kv. 2010	3. kv. 2010	2. kv. 2010	1. kv. 2010	4 kv. 2009
Net interest and credit commission income	1.16	1.08	1.16	1.40	1.38
Total other operating income	0.01	0.00	0.00	0.00	0.00
Total operating costs	0.27	0.23	0.40	0.25	0.29
Result before losses	0.90	0.85	0.76	1.15	1.09
Losses on loans, guarantees etc.	0.00	0.00	0.00	0.00	0.00
Result before tax	0.90	0.85	0.76	1.15	1.09
Tax payable on ordinary result	0.25	0.24	0.21	0.32	0.28
Result from ordinary operations after tax	0.65	0.61	0.55	0.83	0.81

## Result

Amounts in NOK thousand	2010	2009
Net interest and credit commission income	56 694	35 581
Total other operating income	182	63
Total operating costs	13 679	7 251
Result before losses	43 197	28 392
Losses on loans, guarantees etc.	0	0
Result before tax	43 197	28 392
Tax payable on ordinary result	12 097	7 950
Result from ordinary operations after tax	31 100	20 443

As a percentage of average assets	2010	2009
Net interest and credit commission income	1.19	1.47
Total other operating income	0.00	0.00
Total operating costs	0.29	0.30
Result before losses	0.90	1.18
Losses on loans, guarantees etc.	0.00	0.00
Result before tax	0.90	1.18
Tax payable on ordinary result	0.25	0.33
Result from ordinary operations after tax	0.65	0.85

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