

Quarterly report  
4th quarter 2015

# Directors' Report Fourth Quarter 2015

## Nature of the business

SSB Boligkreditt is the funding company of the Sandnes Sparebank Group, for the issue of covered bonds. The Company has its registered office at Forus in the municipality of Sandnes.

SSB Boligkreditt is a wholly owned subsidiary of Sandnes Sparebank.

The Board of Directors considers the Company's capital adequacy and liquidity levels to be satisfactory. The financial statements have been prepared on the basis that the Company will continue operating as a going concern, as this assumption is justified. The applicable accounting principles are described in Note 1 to the financial statements.

## Market conditions

Throughout the fourth quarter, the markets for covered bonds (OMB) were characterized by little liquidity and rising credit premiums. For SSB Boligkreditt, the indicated credit premium for 5-year financing increased from +60 basis points to +83 basis points during the quarter. 3 Month NIBOR was at 1.12% at the start of the quarter, and was more or less unchanged at 1.13% when it ended. The average NIBOR was 1.13% versus 1.21% during the previous quarter. Relative to the preceding quarter, the long interest rates remained relatively stable in the past quarter. The 10 year swap rate fell from 1.90% at the start of the quarter to 1.86% at the end of the quarter.

Unemployment in Rogaland has increased from 3.8% at the end of the third quarter 2015 to 4.3% at the end of the fourth quarter of 2015. Unemployment for Norway as a whole has increased from 2.9% to 3.0%. Rogaland is now the county with the highest unemployment rate.

During the fourth quarter of 2015, housing prices in Norway as a whole fell by 1.4% (not seasonally adjusted), according to housing price statics from the Norwegian Association

of Real Estate Agents. In Rogaland, the change last quarter was -3.6%. Changes for Sandnes and Stavanger were -3.8% and -3.9%, respectively. The sale execution time for Norway as a whole has gone from 33 days to 54 during the last quarter. In Rogaland, the sale execution time has increased from 54 days to 78 days. The market in the Bank's primary catchment area is considered stable, but we expect unemployment to continue to rise and home prices to fall in 2016.

## Earnings performance in the fourth quarter of 2015

*Figures in parentheses apply to the corresponding period in 2014.*

Profits before taxes were NOK 12.4 (16.4) million.  
After tax profits were NOK 8.5 (12.0) million.

The Company's net interest income totaled NOK 19.6 (23.0) million. The decline of the net interest income is due to rate cuts implemented during the period. Other income was NOK -1.0 (-1.1) million. Other income was negative due to revaluations of financial derivatives to fair value (in connection with hedging of fixed rate loans).

The Company's operating costs during the second quarter of 2015 were NOK 5.9 (6.0) million. The cooperation with Sandnes Sparebank has been formalized through a management agreement. The Bank's management fee amounted to NOK 5.4 (5.4) million during the fourth quarter of 2015. Group writedowns for loan losses increased by NOK 0.3 million in the fourth quarter.

## Balance sheet and asset management

At the end of the fourth quarter of 2015, SSB Boligkreditt managed assets totaling NOK 7.4 (7.2) billion. Loans to customers constituted NOK 7.0 (6.8) billion. As of 12/31/2015, SSB Boligkreditt had issued covered bonds with a face value

of NOK 6.6 billion. The Company had treasury holdings of NOK 1.0 billion, whereas net outstanding amount of covered bonds was NOK 5.6 billion. Fixed rate bonds with a face value of NOK 1.2 billion have been issued, whereas the rest carry a floating rate. During the fourth quarter of 2015, SSB Boligkreditt issued new bonds with a face value of NOK 0.2 billion. During the same period, the company bought back short maturities in the amount of NOK 0.1 billion. No bonds matured during the quarter. OC-level at the end of the year was 27%.

The Other liabilities item includes debt to the Parent Bank of NOK 1.2 (1.7) million. This is related to bridge financing of SSB Boligkreditt's purchase of a loan portfolio from Sandnes Sparebank.

The Company's liquidity situation is satisfactory.

## Risk issues

Pursuant to laws and regulations stipulated by the authorities, companies with license to issue Covered Bonds (Obligasjoner med Fortriksrett - OMF) should have a low risk level. The Board of Directors of SSB Boligkreditt emphasizes that the Company shall identify, measure and manage the various risk factors in such a way that the confidence in SSB Boligkreditt is maintained in the market.

### Credit risk

As of 12/31/2015, the Company had a portfolio of home loans valued at NOK 7.0 billion. The weighted loan balance of this portfolio corresponded to 51.0% of the valuation of the objects. No loans were in default at the end of the period.

The Board of Directors considers the quality of the loan portfolio as very good, and the credit risk as low.

### Market risk

Market risk is defined as economic loss due to changes in observable market variables, such as interest rates, currency exchange rates and prices of financial instruments.

SSB Boligkreditt shall carry a low level of market risk, and has established exposure limits for both interest rate and currency risk. The Company will use financial derivatives in order to keep the above mentioned risks at a low level. As of 12/31/2015, the Company has issued bonds with a nominal value of NOK 6.6 billion, of which NOK 5.4 billion carry a floating rate.

The Company has positions in Norwegian Kroner only. With respect to the lending volume, 94.5% of the loans carry a floating rate. The Company uses financial derivatives to hedge interest rate risk, in order to keep it low. At the end of the fourth quarter 2015, the Company had no positions in foreign currency, and consequently no currency risk.

The Board of Directors considers the overall market risk to be low.

### Liquidity risk

This is the risk of the Company not being able to refinance upon maturity, or not being able to finance its assets at market terms. SSB Boligkreditt issues bonds that enables the Company to extend the maturity of its funding by 12 months if the Company should experience refinancing problems at the ordinary maturity date.

The Board of Directors considers the Company's liquidity risk to be low.

### Operational risk

This is the risk of loss due to errors or irregularities in the handling of transactions, lack of internal controls or irregularities in the systems used. SSB Boligkreditt has entered a framework agreement with Sandnes Sparebank regarding management, production, IT, and financial and risk management.

The Board of Directors considers the operational risk to be low.

The Board of Directors is of the opinion that the overall risk exposure of SSB Boligkreditt is low.

## DIRECTORS' REPORT

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### Organization, employees and environment

The Company has entered an agreement with Sandnes Sparebank regarding the management of the Company's loan portfolio. Prices and terms and conditions are adjusted annually. The Company has no employees. Formally, the Managing Director is employed by Sandnes Sparebank.

There are four Directors.

The company does not pollute the external environment.

### Prospects

SSB Boligkreditt has issued covered bonds in the market. New issues are targeted at the Norwegian market.

The Company expects a stable volume in 2016. Despite a more uncertain macroeconomic picture, credit losses are not expected to increase materially for SSB Boligkreditt.

The current rating of the bonds issued by SSB Boligkreditt of AA from Fitch, is expected to be maintained. Fitch requires an OC level of 10%. SSB Boligkreditt aims to keep the required OC level at 11%.

Sandnes Sparebank entered the Eika Alliance in November 2014, with full system-conversion in October 2015. During this period there has been a dialogue between Sandnes Sparebank and Eika Boligkreditt regarding future cooperation. Due to structural and technical differences the joint decision is to discontinue these discussions for the time being. The process can be reinitiated by either party at a later stage.

The Board of Directors of SSB Boligkreditt AS

February 23, 2016



Sune Svein Madland  
Chairman of the Board



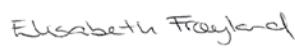
Arild Ollestad  
Director



Ingrid O. F. Schøpp  
Director



Terje Frafjord  
Director



Elisabeth Frøyland  
Managing Director

## Profit and loss statement

Profit and loss statement (Amounts in NOK thousands)	Note	4. quarter 2015	4. quarter 2014	Year 2015	Year 2014
Interest income		50 494	60 055	215 360	254 194
Interest expense		30 892	37 011	130 108	150 839
<b>Net interest income</b>		<b>19 602</b>	<b>23 044</b>	<b>85 251</b>	<b>103 355</b>
Commissions and income from banking services		471	277	1 252	1 159
Net change in value on financial instruments at fair value	5	-1 448	-1 337	-8 414	-1 900
<b>Total other operating revenues</b>		<b>-977</b>	<b>-1 060</b>	<b>-7 163</b>	<b>-741</b>
Salaries		13	55	154	91
Other operating costs		5 861	5 987	23 950	20 465
Depreciations and impairment					49
<b>Total operating costs</b>		<b>5 874</b>	<b>6 042</b>	<b>24 104</b>	<b>20 605</b>
Write downs and losses on lending and guarantees	2	332	-495	1 633	-70
<b>Operating profit before taxes</b>		<b>12 419</b>	<b>16 437</b>	<b>52 352</b>	<b>82 079</b>
Tax cost		3 946	4 454	6 174	22 177
<b>Operating profit after taxes</b>		<b>8 473</b>	<b>11 984</b>	<b>46 178</b>	<b>59 902</b>
Other income and expenses (after taxes)					
<b>Total comprehensive income</b>		<b>8 473</b>	<b>11 984</b>	<b>46 178</b>	<b>59 902</b>

## Balance sheet

Amounts in NOK thousands	Note	31.12.15	31.12.14
Bank deposits	6,7	110 529	126 277
Loans to customers	6,7	6 986 850	6 790 435
Notes and bonds	6	213 731	217 538
Financial derivatives	6,7	77 030	68 829
Deferred tax assets		7 037	5 087
Prepaid expenses and accrued income	6,7	9 607	11 855
<b>Total assets</b>		<b>7 404 785</b>	<b>7 220 021</b>
Debts securities issued	6,7	5 663 445	4 982 754
Financial derivatives	6,7	20 808	19 134
Other debts	6	1 167 040	1 701 866
Taxes payable		16 649	22 156
Accrued expenses and prepaid income	6,7	9 121	12 568
<b>Total liabilities</b>		<b>6 877 065</b>	<b>6 738 479</b>
Equity certificate capital		227 600	227 600
Share premium		122 500	122 500
Other equity		177 620	131 442
<b>Total equity</b>		<b>527 720</b>	<b>481 542</b>
<b>Total equity and liabilities</b>		<b>7 404 785</b>	<b>7 220 021</b>

## Statement of equity

	Equity certificate capital	Share premium	Other equity	Total
<b>Equity as of 31.12.2013</b>	227 600	122 500	72 614	422 714
Profit or loss			59 902	59 902
Group relief provided with tax effect (net after tax)			(1 075)	(1 075)
<b>Equity as of 31.12.2014</b>	227 600	122 500	131 442	481 542
Profit or loss			46 178	46 178
<b>Equity as of 31.12.2015</b>	227 600	122 500	177 620	527 720

## Cash flow statement

Amounts in NOK thousands	Year 2015	Year 2014
<b>Cash flow from operating activities</b>		
Interest / commission received and fees received from customers	213 978	248 986
Interest receivable on securities	4 883	2 373
Disbursements for operations	-558 929	-740 496
Taxes	-13 631	-21 956
<b>Net cash flow from operating activities</b>	<b>-353 699</b>	<b>-511 093</b>
<b>Cash flow from investing activities</b>		
Net cash flows from interest bearing securities	22 270	22 270
<b>Net cash flow from investing activities</b>	<b>22 270</b>	22 270
<b>Cash flow from funding activities</b>		
Net receipts / disbursements of repayment loans, credit lines	-204 163	-115 171
Certificates and bond depts issued	1 350 670	1 829 192
Certificates and bond depts repaid	-675 000	-1 075 000
Net interest payments on financing activities	-133 555	-147 722
<b>Net cash flow from funding activities</b>	<b>337 952</b>	<b>491 299</b>
Net cash flow for the period	-15 748	2 476
Cash and cash equivalents at the beginning of the period	126 277	123 801
Cash and cash equivalents at the end of the period	110 529	126 277

## 1

### GENERAL ACCOUNTING POLICIES

#### General

The financial statements for the fourth quarter 2015 for SSB Boligkreditt AS has been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the EU, including IAS 34 – Interim financial reporting. The accounting principles used has been described in the annual report for 2014.

#### Application of estimates

The preparation of accounts in compliance with generally accepted accounting principles in some cases requires the management to apply estimates and assumptions. The estimates are based on historical experience and assumptions that management consider reasonable and prudent. The estimates and valuations on which decisions are based affect the recognised amounts of assets, debts and liabilities, as well as income and costs in the accounts. Actual results may subsequently differ to some extent from the estimates and assumptions.

The same estimates and assumptions that were described in the annual report for 2014, have been applied while preparing the accounts as of 31.12.2015.

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### LOSSES

Writedowns and losses on loans	4. quarter 2015	4. quarter 2014	Year 2015	Year 2014
Change in individual write-downs				
Write-offs with individual write-downs	332	-495	1 633	-70
Write-offs without individual write-downs				
Recoveries on amounts written off previously				
Writedowns and losses on loans	332	-495	1 633	-70

#### Writedowns of loans

Group writedowns as of 1.1		3 064	3 460
- Transferred from Sandnes Sparebank		-372	-326
+ Change in group writedown		1 633	-70
Group writedowns as of 31.12		4 325	3 064

#### Losses and non-performing loans and advances

Non-performing loans and advances			
Doubtful loans and advances			
Individual write-downs			
Gross non-performing loans and advances as a percentage of gross loans		0,00 %	0,00 %

Non-performing loans and advances are loans and advances that are non-performed for more than 90 days.

Doubtful loans and advances are loans and advances that has been impaired.

The bank does not report a loan or advance on both lines. If a loan or advance is impaired, it is reported under the line doubtful loans and advances regardless of whether it has been non-performed or not.

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## TRANSACTIONS WITH RELATED PARTIES

Transactions within the Group	4. quarter 2015	4. quarter 2014	Year 2015	Year 2014
<b>Profit and loss statement</b>				
Deposit rate	-21	258	269	599
Interest paid / credit commissions	-7 560	-7 951	-26 300	-42 940
Management fees	-5 442	-5 442	-21 767	-17 845
			<b>31.12.15</b>	<b>31.12.14</b>
<b>Balance sheet</b>				
Loans and advances to credit institutions			10 352	26 277
Other liabilities			1 166 971	1 701 842
Issued securities			400 282	

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## CAPITAL ADEQUACY

<b>Net subordinated capital</b>	<b>31.12.15</b>	<b>31.12.14</b>
Equity certificate capital	227 600	227 600
Share premium reserve	122 500	122 500
Other equity	177 620	131 442
Equity	527 720	481 542
Deduction for goodwill and other intangible assets	-7 037	-5 087
Total tier 1 capital	520 683	476 455
<b>Net subordinated capital</b>	<b>520 683</b>	<b>476 455</b>
 <b>Risk-weighted assets:</b>		
Credit risk - standard method	2 739 232	2 698 348
Operational risk	167 447	157 667
CVA risk	96 467	79 880
<b>Total risk-weighted assets</b>	<b>3 003 146</b>	<b>2 935 895</b>
<b>Capital adequacy ratio</b>	<b>17,3</b>	<b>16,2</b>
<b>Tier 1 capital ratio</b>	<b>17,3</b>	<b>16,2</b>
<b>Core Tier 1 capital ratio</b>	<b>17,3</b>	<b>16,2</b>

## NOTES

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Spesification of calculation base	31.12.15	31.12.14
Standard method		
Institutions	57 197	43 193
Companies		401
Loans secured by real estate	2 604 749	2 560 852
Covered bonds	21 428	21 944
Others	55 858	71 958
Credit risk	2 739 232	2 698 348
Operational risk	167 447	157 667
Cva surcharge	96 467	79 880
<b>Total risk-weighted assets</b>	<b>3 003 146</b>	<b>2 935 895</b>

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### NET CHANGE OF VALUE AND GAINS/LOSSES ON CURRENCY AND SECURITIES VALUED AS CURRENT ASSETS

Net change in valuation of financial instruments at fair value	4. quarter 2015	4. quarter 2014	Year 2015	Year 2014
Net change in valuation of notes and bonds	-628	122	-3 807	1 032
Gains/losses repayment treasury bonds		-1 363		-2 922
Net change in valuation of currency and financial derivatives	380	-5 702	1 507	-9 721
Net change in valuation of loans at fair value	-1 200	5 606	-6 115	9 711
Net change in valuation of financial derivatives, hedging	-3 621	37 539	5 020	50 810
Net change in valuation of hedged financial liabilities	3 621	-37 539	-5 020	-50 810
<b>Net change in valuation of financial instruments at fair value</b>	<b>-1 448</b>	<b>-1 337</b>	<b>-8 415</b>	<b>-1 900</b>

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### CLASSIFICATION OF FINANCIAL INSTRUMENTS

Assets	Financial assets and liabilities valued at amortized cost	Financial instruments at fair value through the income statement			31.12.15
		Trading portfolio	Decided recognized at fair value	Financial derivatives as hedging instruments	
Cash and deposits	110 529				110 529
Loans to customers	6 592 582		394 268		6 986 850
Notes and bonds			213 731		213 731
Financial derivatives		1 783		75 247	77 030
Accrued income	9 607				9 607
Other assets				7 037	7 037
<b>Total assets</b>	<b>6 712 718</b>	<b>1 783</b>	<b>608 000</b>	<b>75 247</b>	<b>7 404 785</b>

### Liabilities

Debt in relation to issued securities	5 663 445				5 663 445
Financial derivatives		16 634		4 174	20 808
Accrued cost	9 121				9 121
Other liabilities	1 167 040				1 167 040
Accruals				16 649	16 649
<b>Total liabilities</b>	<b>6 839 607</b>	<b>16 634</b>		<b>4 174</b>	<b>6 877 065</b>

Assets	Financial assets and liabilities valued at amortized cost	Financial instruments at fair value through the income statement			31.12.14
		Trading portfolio	Decided recognized at fair value	Financial derivatives as hedging instruments	
Cash and deposits	126 277				126 277
Loans to customers	6 429 345		361 090		6 790 435
Notes and bonds			217 538		217 538
Financial derivatives		1 594		67 235	68 829
Accrued income	11 855				11 855
Other assets				5 087	5 087
<b>Total assets</b>	<b>6 567 478</b>	<b>1 594</b>	<b>578 628</b>	<b>67 235</b>	<b>7 220 021</b>

### Liabilities

Debt in relation to issued securities	4 982 754				4 982 754
Financial derivatives		17 952		1 183	19 134
Accrued cost	12 568				12 568
Other liabilities	1 701 866				1 701 866
Accruals				22 156	22 156
<b>Total liabilities</b>	<b>6 697 189</b>	<b>17 952</b>		<b>1 183</b>	<b>22 156</b>
					<b>6 738 479</b>

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## FAIR VALUE OF FINANCIAL INSTRUMENTS

	Fair value of financial instruments valued at amortized costs			
	31.12.15		31.12.14	
Assets	Recognized value in the balance sheet	Fair value	Recognized value in the balance sheet	Fair value
Cash and deposits	110 529	110 529	126 277	126 277
Loans to customers	6 986 850	6 986 850	6 790 435	6 790 435
Accrued income	9 607	9 607	11 855	11 855
<b>Total assets</b>	<b>7 106 986</b>	<b>7 106 986</b>	<b>6 928 567</b>	<b>6 928 567</b>
 <b>Liabilities</b>				
Debt in relation to issued securities	5 663 445	5 572 868	4 982 754	5 023 562
Accrued expenses	9 121	9 121	12 568	12 568
<b>Total liabilities</b>	<b>5 672 566</b>	<b>5 581 989</b>	<b>4 995 323</b>	<b>5 036 130</b>

### Determination of fair value at the end of the period pursuant to the valuation hierarchy

	Level 1	Level 2	Level 3	Total as of 31.12.15
Financial instruments at fair value through the income statement				
Loans to customers			394 268	394 268
Notes and bonds	213 731			213 731
Financial derivatives	1 783			1 783
Financial derivatives, hedging instrument	75 247			75 247
<b>Total</b>	<b>290 762</b>	<b>394 268</b>		<b>685 030</b>
Financial instruments at fair value through the income statement				
Financial derivatives	16 634			16 634
Financial derivatives, hedging instrument	4 174			4 174
<b>Total</b>	<b>20 808</b>			<b>20 808</b>

### Determination of fair value at the end of the period pursuant to the valuation hierarchy

	Nivå 1	Nivå 2	Nivå 3	Total as of 31.12.14
Financial instruments at fair value through the income statement				
Loans to customers			361 090	361 090
Notes and bonds	217 538			217 538
Financial derivatives	1 594			1 594
Financial derivatives, hedging instrument	67 235			67 235
<b>Total</b>	<b>286 367</b>	<b>361 090</b>		<b>647 457</b>
Financial instruments at fair value through the income statement				
Financial derivatives	17 952			17 952
Financial derivatives, hedging instrument	1 183			1 183
<b>Total</b>	<b>19 134</b>			<b>19 134</b>

## NOTES

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Reconciliations of movements from Level 3 from 31.12.2014 til 31.12.2015

	Available Loans	for sale	Deposits	Total
Balance as of 31.12.2014	361 090			361 090
Recognized profit/loss in the current income statement	-6 115			-6 115
Issued	88 238			88 238
Settlement	-48 945			-48 945
<b>Balance as of 31.12.2015</b>	<b>394 268</b>			<b>394 268</b>