

Quarterly report

3rd quarter 2014



Directors' Report Third Quarter 2014

Nature of the business

SSB Boligkreditt is the funding company of the Sandnes Sparebank Group, for the issue of covered bonds. 2014 is the Company's sixth year of operation. 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

Unemployment in Rogaland saw a slight uptick, from 2.1% at the end of the second quarter to 2.3% at the end of the third quarter of 2014. Unemployment in Norway has remained stable at 2.7%. Rogaland is the county with the third lowest unemployment rate, but was yet the county with the biggest increase in unemployment last year. It was 0.4 percentage points, versus 0.1 percentage points for Norway as a whole.

During the third quarter 2014, housing prices increased by 1.6% for Norway as a whole. For Stavanger, the change last quarter was 0.4% (not seasonally adjusted) according to housing price statistics from the Norwegian Association of Real Estate Agents. In Stavanger, the turnover time has gone down from 31 days to 30 days. The corresponding numbers for the country as a whole are 33 and 36 days, respectively. The market in the Bank's primary market area is considered to be strong and housing prices are stable, but going forward there is uncertainty regarding developments both for housing prices and unemployment.

The debt financing market was good for mortgage companies during the third quarter. The market is characterized by an excess of liquidity. The credit spreads shrank further during the quarter, but now seem to be flattening. We have seen some indications of an increase in the credit spreads of industrial bonds towards the end of the quarter. For SSB Boligkreditt, the indicated credit spread for 5 year financing went from +27 basis points to +22 basis points (indicated by the NBP OMF2 yield curve). As the bonds issued by SSB Boligkreditt do not qualify as assets for the purpose of LCR reporting, we now find that we have to pay 2-3 basis points above the yield curve. The average NIBOR for the quarter has been 1.71% (versus 1.79%

in the previous quarter). Long interest rates (indicated by the 10 year swap rate) have fallen from 2.78% at the start of the quarter to 2.55% at the end of the quarter.

Earnings performance

Figures in parentheses apply to the corresponding period in 2013.

Profits before taxes were NOK 18.1 (23.0) million. After tax profits were NOK 13.2 (16.6) million.

The Company's net interest income totaled NOK 24.2 (28.2) million. Other income was NOK -0.1 (-2.0) 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 third quarter of 2014 were NOK 5.9 (3.2) million. The cooperation with Sandnes Sparebank has been formalized through a management agreement. The Bank's management fee amounted to NOK 5.4 (2.5) million during the third quarter of 2014. The reason for the increase of the management fee is an adjustment of the allocation of cost between Sandnes Sparebank and SSB Boligkreditt in connection with the renewal of the management agreement. During the third quarter of 2014, NOK 0.2 (-0.1) million of writedowns were made on groups of loans.

Balance sheet and asset management

At the end of the third quarter of 2014, SSB Boligkreditt managed assets totaling NOK 7.1 (7.1) billion. Loans to customers constituted NOK 6.7 (6.7) billion. At the end of the third quarter of 2014, the Company had issued bonds with a face value of NOK 5.4 billion. During the past quarter, there have been issues and expansion amounting to NOK 0.8 billion. The Other liabilities item includes debt to the Parent Bank of NOK 2.0 (2.1) 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 Fortrinnsrett - 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 9/30/2014, the Company had a portfolio of home loans valued at NOK 6.7 billion. The weighted loan balance of this portfolio corresponded to 50.6% 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 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 9/30/2014, the Company has issued bonds with a nominal value of NOK 5.4 billion, of which NOK 4.2 billion carry a floating rate.

The Company has positions in Norwegian Kroner only. With respect to the lending volume, 94.6% 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 third quarter 2014, 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.

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 going for the rest of 2014 and into 2015.

The current rating of the bonds issued by SSB Boligkreditt of AA from Fitch, subject to an OC level of 11%, is expected to be maintained.

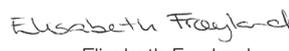
The Board of Directors of SSB Boligkreditt AS
October 16, 2014


Odd Egil Flokketveit
Chairman of the Board


Arild Ollestad
Director


Svein Ivar Førland
Director


Terje Frafjord
Director


Elisabeth Frøyland
Managing Director

Profit and loss statement

Profit and loss statement (Amounts in NOK thousands)	Note	3. quarter 2014	3. quarter 2013	Jan-Sep 2014	Jan-Sep 2013	Year 2013
Interest income		63 001	67 966	194 139	196 194	262 921
Interest expense		38 780	39 798	113 829	121 056	159 472
Net interest income		24 221	28 167	80 311	75 138	103 449
Commissions and income from banking services		283	259	882	655	963
Net change in value on financial instruments at fair value	5	-364	-2 293	-564	-11 840	-17 200
Total other operating revenues		-81	-2 035	319	-11 185	-16 237
Salaries		3		279	36	41
Other operating costs		5 909	3 054	14 235	8 627	13 156
Depreciations and impairment			147	49	442	589
Total operating costs		5 912	3 201	14 563	9 104	13 785
Write downs and losses on lending and guarantees	2	174	-116	425	-1 007	-214
Operating profit before taxes		18 055	23 048	65 641	55 856	73 640
Tax cost		4 875	6 453	17 723	15 640	18 430
Operating profit after taxes		13 180	16 594	47 918	40 216	55 210
Other income and expenses (after taxes)						
Total comprehensive income		13 180	16 594	47 918	40 216	55 210

Balance sheet

Balance sheet (Amounts in NOK thousands)	Note	30.09.14	30.09.13	31.12.13
Bank deposits	6,7	130 744	195 973	123 801
Loans to customers	6,7	6 663 696	6 674 281	6 665 482
Notes and bonds	6	217 749	211 710	241 698
Financial derivatives	6,7	29 760	15 320	15 924
Intangible assets			196	49
Deferred tax assets		4 710		4 710
Prepaid expenses and accrued income	6,7	11 758	10 036	7 861
Total assets		7 058 417	7 107 516	7 059 526
Debts securities issued	6,7	4 549 108	4 561 749	4 177 752
Financial derivatives	6,7	11 902	5 861	7 318
Other debts	6	1 989 036	2 062 292	2 420 335
Taxes payable		26 065	25 400	21 956
Accrued expenses and prepaid income	6,7	11 673	10 296	9 451
Total liabilities		6 587 784	6 665 599	6 636 812
Equity certificate capital		227 600	227 600	227 600
Share premium		122 500	122 500	122 500
Other equity		120 533	91 817	72 614
Total equity		470 633	441 917	422 714
Total equity and liabilities		7 058 417	7 107 516	7 059 526

Statement of equity

Parent company	Equity certificate capital	Share premium	Other equity	Total
Equity as of 31.12.2012	227 600	122 500	51 601	401 701
Profit or loss			55 210	55 210
Group relief provided with tax effect (net after tax)			-4 197	-4 197
Group relief provided without tax effect			-30 000	-30 000
Equity as of 31.12.2013	227 600	122 500	72 614	422 714
Profit or loss			47 918	47 918
Equity as of 30.09.2014	227 600	122 500	120 533	470 633

Cash flow statement

Cash flow statement (Amounts in NOK thousands)	Jan-Sept 2014	Jan-Sept 2013	Year 2013
Cash flow from operating activities			
Interest / commission received and fees received from customers	189 235	189 931	257 136
Interest from dividends			
Interest receivable on securities	1 890	1 616	3 621
Disbursements for operations	-445 812	959 506	1 277 186
Taxes	-13 614	-4 301	-13 614
Net cash flow from operating activities	-268 301	1 146 752	1 524 328
Cash flow from investing activities			
Net cash flows from interest bearing securities	23 299	-211 792	-241 842
Net cash flow from investing activities	23 299	-211 792	-241 842
Cash flow from funding activities			
Net receipts / disbursements of repayment loans, credit lines	5 466	-254 613	-247 850
Certificates and bond debts issued	708 084	634 272	1 247 073
Certificates and bond debts repaid	-350 000	-1 302 000	-2 302 000
Net interest payments on financing activities	-111 606	-122 239	-161 500
Net cash flow from funding activities	251 944	-1 044 580	-1 464 278
Net cash flow for the period	6 943	-109 620	-181 792
Cash and cash equivalents at the beginning of the period	123 801	305 593	305 593
Cash and cash equivalents at the end of the period	130 744	195 973	123 801

1 GENERAL ACCOUNTING POLICIES

GENERAL

The financial statements for the third quarter 2014 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 2013.

Accounting standards with effect from first quarter 2014:

IAS 32 – Netting of a financial asset and a financial liability

IAS 32 has been changed to clarify the content of the netting criterion, specifically that one has to have an existing legally enforceable right to net the recognized amounts, and to clarify that the application of the netting criteria for settlement systems using non-concurrent gross settlement mechanisms. The Company applies the standard from 1 January 2014. The amendment does not have a material impact on the company.

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 2013, have been applied while preparing the accounts as of 30.09.2014.

2 LOSSES

	3. quarter 2014	3. quarter 2013	Jan-Sep 2014	Jan-Sep 2013	Year 2013
Writedowns and losses on loans					
Change in individual write-downs					
Write-offs with individual write-downs	174	-116	425	-1 007	-214
Write-offs without individual write-downs					
Recoveries on amounts written off previously					
Writedowns and losses on loans	174	-116	425	-1 007	-214

Writedowns of loans

Group writedowns as of 1.1			3 460	4 245	4 245
- Transferred from Sandnes Sparebank			-87	596	-571
+ Change in group writedown			425	-1 007	-214
Group writedowns as of 30.09 / 31.12			3 798	3 834	3 460

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 %	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.

3 TRANSACTIONS WITH RELATED PARTIES

Transactions within the Group	3. quarter 2014	3. quarter 2013	Jan-Sep 2014	Jan-Sep 2013	Year 2013
Profit and loss statement					
Deposit rate	93	157	341	980	1 125
Interest paid / credit commissions	-10 199	18 799	-34 989	-57 400	-71 975
Management fees	-5 442	-2 501	-12 404	-7 123	-9 624
			30.09.14	30.09.13	31.12.13
Balance sheet					
Loans and advances to credit institutions			30 744	95 973	23 801
Other liabilities			1 989 035	2 062 292	2 420 333
Issued securities			14 775	902 960	349 804

4 CAPITAL ADEQUACY

Net subordinated capital	30.09.14	30.09.13	31.12.13
Equity certificate capital	227 600	227 600	227 600
Share premium reserve	122 500	122 500	122 500
Other equity	89 984	63 412	72 614
Equity	440 084	413 512	422 714
Deduction for goodwill and other intangible assets	-4 710	-196	-4 759
Total tier 1 capital	435 374	413 316	417 956
Net subordinated capital	435 374	413 316	417 956
Risk-weighted assets:			
Credit risk - standard method	2 653 255	2 638 348	2 634 362
Operational risk	111 738	72 638	111 738
CVA risk	35 835		
Deductions	-3 798	-3 834	-3 460
Total risk-weighted assets	2 797 029	2 707 152	2 742 640
Capital adequacy ratio	15,6	15,3	15,2
Tier 1 capital ratio	15,6	15,3	15,2
Core Tier 1 capital ratio	15,6	15,3	15,2

5 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	3. quarter 2014	3. quarter 2013	Jan-Sep 2014	Jan-Sep 2013	Year 2013
Net change in valuation of notes and bonds	24	-63	910	-82	-24
Gains/losses repayment treasury bonds		-2 162	-1 559	-6 127	-9 527
Net change in valuation of currency and financial derivatives	-389	2 105	-4 019	4 529	3 754
Net change in valuation of loans at fair value	2	-2 173	4 106	-10 160	-11 403
Net change in valuation of financial derivatives, hedging	5 928	-2 257	13 271	-4 786	-4 786
Net change in valuation of hedged financial liabilities	-5 928	2 257	-13 271	4 786	4 786
Net change in valuation of financial instruments at fair value	-364	-2 293	-564	-11 840	-17 200

6 CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial instruments at fair value through the income statement through the income statement 30.09.14

Assets	Financial assets and liabilities valued at amortized cost	Trading portfolio	Financial derivatives as hedging instruments	Decided recognized at fair value	Non-financial assets and liabilities	Total
Cash and deposits	130 744					130 744
Loans to customers	6 290 882			372 814		6 663 696
Notes and bonds				217 749		217 749
Financial derivatives		880	28 880			29 760
Accrued income	11 758					11 758
Other assets					4 710	4 710
Total assets	6 433 384	880	28 880	590 563	4 710	7 058 417
Liabilities						
Debt in relation to issued securities	4 549 108					4 549 108
Financial derivatives		11 535	366			11 902
Accrued cost	11 673					11 673
Other liabilities	1 989 036					1 989 036
Accruals					26 065	26 065
Total liabilities	6 549 818	11 535	366		26 065	6 587 784

Financial instruments at fair value through the income statement through the income statement 30.09.13

Assets	Financial assets and liabilities valued at amortized cost	Trading portfolio	Financial derivatives as hedging instruments	Decided recognized at fair value	Non-financial assets and liabilities	Total
Cash and deposits	195 973					195 973
Loans to customers	6 258 996			415 285		6 674 281
Notes and bonds				211 710		211 710
Financial derivatives			15 320			15 320
Accrued income	10 036					10 036
Other assets					196	196
Total assets	6 465 005		15 320	626 995	196	7 107 516
Liabilities						
Debt in relation to issued securities	4 561 749					4 561 749
Financial derivatives		5 861				5 861
Accrued cost	10 296					10 296
Other liabilities	2 062 292					2 062 292
Accruals					25 400	25 400
Total liabilities	6 634 338	5 861			25 400	6 665 599

Financial instruments at fair value through the income statement through the income statement 31.12.13

Assets	Financial assets and liabilities valued at amortized cost	Trading portfolio	Financial derivatives as hedging instruments	Decided recognized at fair value	Non-financial assets and liabilities	Total
Cash and deposits	123 801					123 801
Loans to customers	6 278 201			387 281		6 665 482
Notes and bonds				241 698		241 698
Financial derivatives		682	15 243			15 924
Accrued income	7 861					7 861
Other assets					4 759	4 759
Total assets	6 409 864	682	15 243	628 979	4 759	7 059 526
Liabilities						
Debt in relation to issued securities	4 177 752					4 177 752
Financial derivatives		7 318				7 318
Accrued cost	9 451					9 451
Other liabilities	2 420 335					2 420 335
Accruals					21 956	21 956
Total liabilities	6 607 538	7 318			21 956	6 636 812

7 FAIR VALUE OF FINANCIAL INSTRUMENTS

Virkelig verdi av finansielle instrumenter vurdert til amortisert kost

	30.09.14		30.09.13		31.12.13	
	Recognized value in the balance sheet	Fair value	Recognized value in the balance sheet	Fair value	Recognized value in the balance sheet	Fair value
Assets						
Cash and deposits	130 744	130 744	195 973	195 973	123 801	123 801
Loans to customers	6 663 696	6 663 696	6 674 281	6 674 281	6 665 482	6 665 482
Accrued income	11 758	11 758	10 036	10 036	7 861	7 861
Total assets	6 806 199	6 806 199	6 880 290	6 880 290	6 797 145	6 797 145
Debt in relation to issued securities	4 549 108	4 596 720	4 561 749	4 594 257	4 177 752	4 211 537
Accrued expenses	11 673	11 673	10 296	10 296	9 451	9 451
Total liabilities	4 560 781	4 608 394	4 572 045	4 604 552	4 187 204	4 220 988

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

	Level 1	Level 2	Level 3	Total as of 30.09.2014
Financial instruments at fair value through the income statement				
Loans to customers			372 814	372 814
Notes and bonds		217 749		217 749
Financial derivatives		880		880
Financial derivatives, hedging instrument		28 880		28 880
Total		247 509	372 814	620 323
Financial instruments at fair value through the income statement				
Financial derivatives		11 535		11 535
Financial derivatives, hedging instrument				
Total		11 535		11 535

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

	Level 1	Level 2	Level 3	Total as of 30.09.2013
Financial instruments at fair value through the income statement				
Loans to customers			415 285	415 285
Notes and bonds		211 710		211 710
Financial derivatives				
Financial derivatives, hedging instrument		15 320		15 320
Total		227 030	415 285	642 315
Financial instruments at fair value through the income statement				
Financial derivatives		5 861		5 861
Financial derivatives, hedging instrument				
Total		5 861		5 861

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

	Level 1	Level 2	Level 3	Total as of 31.12.2013
Financial instruments at fair value through the income statement				
Loans to customers			387 281	387 281
Notes and bonds		241 698		241 698
Financial derivatives		682		682
Financial derivatives, hedging instrument		15 243		15 243
Total		257 622	387 281	644 904
Financial instruments at fair value through the income statement				
Financial derivatives		7 318		7 318
Financial derivatives, hedging instrument				
Total		7 318		7 318

Reconciliations of movements from Level 3 from 31.12.2013 til 30.09.2014

	Loans	Available for sale	Deposits	Total
Balance as of 31.12.2013	387 281			387 281
Recognized profit/loss in the current income statement	4 106			4 106
Recognized profit/loss in other income				
Purchase	34 269			34 269
Issued				
Settlement	-52 842			-52 842
Migration to level 2/1				
Balance as of 30.09.2014	372 814			372 814