

Quarterly report

2nd quarter 2014



Directors' Report Second 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 decline, from 2.2% at the end of the first quarter to 2.1% at the end of the second quarter of 2014. The corresponding numbers for Norway as a whole were 2.9% and 2.7%, respectively. Rogaland is the county with the lowest unemployment, but still was the county with the second biggest increase in unemployment last year. It was 0.4 percentage points, versus 0.2 percentage points for Norway as a whole.

Housing prices stayed stable during the second quarter of 2014. For Rogaland as a whole, the change last quarter was -0.2% (not seasonally adjusted) according to housing price statistics from the Norwegian Association of Real Estate Agents. The development was slightly more negative for Sandnes (-1.0%) and Stavanger (-0.9%). On the other hand, in the last quarter, the turnover time for Rogaland outside Stavanger went down from 45 days to 39 days. For Stavanger the change has been from 37 days to 31 days. 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 also during the second quarter. Investors' need for returns ensured a continued tightening of credit spreads in general, although not as quickly as during the first quarter. Going forward, there is some uncertainty regarding the difference between the pricing of larger and smaller credit institutions with respect to the LCR reporting. For SSB Boligkreditt, the indicated credit spread for 5 year financing (indicated by the NBP curve) was reduced from +37 to +27 basis points during the quarter.

The average 3M NIBOR for the quarter was 1.79%, whereas the long interest rates (represented by the 10 year swap rate) had come down a further 33 basis points by the end of the quarter.

Earnings performance

Figures in parentheses apply to the corresponding period in 2013.

Profits before taxes were NOK 22.4 (18.9) million. After tax profits were NOK 16.4 (13.6) million.

The Company's net interest income totaled NOK 27.2 (25.4) million. Other income was 0.4 (-4.6) million. Other income was negative in 2013 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 2014 were NOK 4.9 (2.6) million. The cooperation with Sandnes Sparebank has been formalized through a management agreement. The Bank's management fee amounted to NOK 4.5 (2.3) million during the second quarter of 2014. The reason for the increase of the management fee is an evaluation of the allocation of cost between Sandnes Sparebank and SSB Boligkreditt in connection with the renewal of the management agreement. During the second quarter of 2014, NOK 0.3 (-0.9) million of write-downs were made on groups of loans.

Balance sheet and asset management

At the end of the second quarter of 2014, SSB Boligkreditt AS managed assets totaling NOK 6.9 (6.9) billion. Loans to customers constituted NOK 6.5 (6.5) billion. At the end of the second quarter of 2014, the Company had issued bonds with a face value of NOK 4.7 billion. During the past quarter, two bonds were expanded by a total of NOK 0.5 billion. The Other liabilities item includes debt to the Parent Bank of NOK 2.1 (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 6/30/2014, the Company had a portfolio of home loans valued at NOK 6.5 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 abovementioned risks at a low level. As of 6/30/2014, the Company has issued bonds with a nominal value of NOK 4.7 billion, of which NOK 3.7 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 second 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 forward in 2014.

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

July 08, 2014



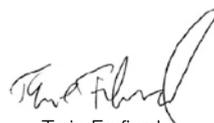
Odd Egil Flokketveit
Chairman of the Board



Arild Ollestad
Director



Svein Ivar Førland
Director



Terje Frafjord
Director



Elisabeth Frøyland
Managing Director

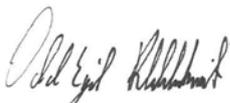
Declaration pursuant to Section 5-6 of the Securities Trading Act

We certify that SSB Boligkreditt's interim accounts for the period 1 January to 30 June 2013 have according to the best of our belief been compiled in compliance with IAS 34 Interim reporting and that the information in the accounts provides a correct overview of the information mentioned in Section 5-6(4) of the Securities Trading Act:

- An overview of important events during the accounting period and their effect on the half-year accounts
- A description of the most important elements of risk and uncertainty facing the enterprise during the coming accounting period
- A description of important transactions with related parties

Sandnes, July 8, 2014

The Board of Directors of SSB Boligkreditt AS



Odd Egil Flokkesveit
Chairman of the Board



Arild Ollestad
Director



Svein Ivar Førland
Director



Terje Frajford
Director



Elisabeth Frøyland
Managing Director

Profit and loss statement

Profit and loss statement (Beløp i tusen kr)	Note	2. quarter 2014	2. quarter 2013	Half year 2014	Half year 2013	Year 2013
Interest income		65 167	66 462	131 138	128 229	262 921
Interest expense		37 935	41 104	75 049	81 258	159 472
Net interest income		27 232	25 359	56 089	46 971	103 449
Commissions and income from banking services		296	222	599	396	963
Net change in value on financial instruments at fair value	5	97	-4 839	-200	-9 547	-17 200
Total other operating revenues		394	-4 617	399	-9 151	-16 237
Salaries		34	1	35	36	41
Other operating costs		4 922	2 563	8 566	5 573	13 156
Depreciations and impairment			147	49	294	589
Total operating costs		4 957	2 711	8 651	5 904	13 785
Write downs and losses on lending and guarantees	2	252	-891	252	-891	-214
Operating profit before taxes		22 418	18 921	47 587	32 808	73 640
Tax cost		6 053	5 298	12 848	9 186	18 430
Operating profit after taxes		16 365	13 623	34 738	23 622	55 210
Other income and expenses (after taxes)						
Total comprehensive income		16 365	13 623	34 738	23 622	55 210

Balance sheet

Balance sheet (Amounts in NOK thousands)	Note	30.06.14	30.06.13	31.12.13
Bank deposits	6,7	137 035	25 284	123 801
Loans to customers	6,7	6 500 745	6 510 198	6 665 482
Notes and bonds	6	207 186	302 733	241 698
Financial derivatives	6,7	23 335	17 577	15 924
Intangible assets			343	49
Deferred tax assets		4 710		4 710
Prepaid expenses and accrued income	6,7	10 853	10 094	7 861
Total assets		6 883 863	6 866 230	7 059 526
Debts securities issued	6,7	4 257 720	4 281 967	4 177 752
Financial derivatives	6,7	11 016	7 966	7 318
Other debts	6	2 125 738	2 121 795	2 420 335
Taxes payable		21 190	18 947	21 956
Accrued expenses and prepaid income	6,7	10 747	10 233	9 451
Total liabilities		6 426 411	6 440 907	6 636 812
Equity certificate capital		227 600	227 600	227 600
Share premium		122 500	122 500	122 500
Other equity		107 353	75 223	72 614
Total equity		457 453	425 323	422 714
Total equity and liabilities		6 883 863	6 866 230	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
Kapitalutvidelse / emisjon				
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			34 738	34 738
Equity as of 30.06.2014	227 600	122 500	107 353	457 453

Cash flow statement

Cash flow statement (Amounts in NOK thousands)	1.halvår 2014	1.halvår 2013	Året 2013
Cash flow from operating activities			
Interest / commission received and fees received from customers	126 660	122 925	257 136
Interest from dividends			
Interest receivable on securities	2 086	340	3 621
Disbursements for operations	-303 198	1 022 062	1 277 186
Taxes	-13 614	-4 301	-13 614
Net cash flow from operating activities	-188 067	1 141 026	1 524 328
Cash flow from investing activities			
Net cash flows from interest bearing securities	35 288	-302 751	-241 842
Net cash flow from investing activities	35 288	-302 751	-241 842
Cash flow from funding activities			
Net receipts / disbursements of repayment loans, credit lines	168 590	-88 473	-247 850
Certificates and bond debts issued	421 175		1 247 073
Certificates and bond debts repaid	-350 000	-947 605	-2 302 000
Net interest payments on financing activities	-73 753	-82 504	-161 500
Net cash flow from funding activities	166 013	-1 118 583	-1 464 278
Net cash flow for the period	13 234	-280 308	-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	137 035	25 284	123 801

1 GENERAL ACCOUNTING POLICIES

GENERAL

The financial statements for the second 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 30.06.2014.

2 LOSSES

	2. quarter 2014	2. quarter 2013	Half year 2014	Half year 2013	Year 2013
Writedowns and losses on loans					
Change in individual write-downs					
Write-offs with individual write-downs	252	-891	252	-891	-214
Write-offs without individual write-downs					
Recoveries on amounts written off previously					
Writedowns and losses on loans	252	-891	252	-891	-214

Writedowns of loans

Group writedowns as of 1.1			3 460	4 245	4 245
- Transferred from Sandnes Sparebank			285	847	-571
+ Change in group writedown			252	-891	-214
Group writedowns as of 30.06 / 31.12			3 997	4 201	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	2. quarter 2014	2. quarter 2013	Half year 2014	Half year 2013	Year 2013
Profit and loss statement					
Deposit rate	70	191	248	823	1 125
Interest paid / credit commissions	-11 253	-19 782	-24 789	-38 601	-71 975
Management fees	-4 461	-2 311	-6 962	-4 623	-9 624
			30.06.14	30.06.13	31.12.13
Balance sheet					
Loans and advances to credit institutions			37 035	25 284	23 801
Other liabilities			2 125 720	2 121 766	2 420 333
Issued securities			14 775	1 141 371	349 804

4 CAPITAL ADEQUACY

	30.06.14	30.06.13	31.12.13
Net subordinated capital			
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	-343	-4 759
Total tier 1 capital	435 374	413 169	417 956
Net subordinated capital	435 374	413 169	417 956
Risk-weighted assets:			
Credit risk - standard method	2 567 440	2 583 517	2 634 362
Operational risk	111 738	72 638	111 738
Deductions	-3 997	-4 201	-3 460
Total risk-weighted assets	2 675 180	2 651 953	2 742 640
Capital adequacy ratio	16,3	15,6	15,2
Tier 1 capital ratio	16,3	15,6	15,2
Core Tier 1 capital ratio	16,3	15,6	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	2. quarter 2014	2. quarter 2013	Half year 2014	Half year 2013	Year 2013
Net change in valuation of notes and bonds	346	61	886	-19	-24
Gains/losses repayment treasury bonds		-3 964	-1 559	-3 964	-9 527
Net change in valuation of currency and financial derivatives	-3 037	1 641	-3 630	2 424	3 754
Net change in valuation of loans at fair value	2 789	-2 577	4 104	-7 987	-11 403
Net change in valuation of financial derivatives, hedging	8 074	-1 864	7 343	-2 529	-4 786
Net change in valuation of hedged financial liabilities	-8 074	1 864	-7 343	2 529	4 786
Net change in valuation of financial instruments at fair value	97	-4 839	-200	-9 547	-17 200

6 CLASSIFICATION OF FINANSIAL INSTRUMENTS

Financial instruments at fair value through the income statement through the income statement 30.06.14

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	137 035					137 035
Loans to customers	6 135 814			364 930		6 500 745
Notes and bonds				207 186		207 186
Financial derivatives		749	22 586			23 335
Accrued income	10 853					10 853
Other assets					4 710	4 710
Total assets	6 283 703	749	22 586	572 116	4 710	6 883 863
Liabilities						
Debt in relation to issued securities	4 257 720					4 257 720
Financial derivatives		11 016				11 016
Accrued cost	10 747					10 747
Other liabilities	2 125 738					2 125 738
Accruals					21 190	21 190
Total liabilities	6 394 205	11 016			21 190	6 426 411

Financial instruments at fair value through the income statement through the income statement 30.06.13

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	25 284					25 284
Loans to customers	6 136 891			373 308		6 510 198
Notes and bonds				302 733		302 733
Financial derivatives			17 577			17 577
Accrued income	10 094					10 094
Other assets					343	343
Total assets	6 172 269		17 577	676 041	343	6 866 230
Liabilities						
Debt in relation to issued securities	4 281 967					4 281 967
Financial derivatives		7 966				7 966
Accrued cost	10 233					10 233
Other liabilities	2 121 795					2 121 795
Accruals					18 947	18 947
Total liabilities	6 413 995	7 966			18 947	6 440 907

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

	30.06.14		30.06.13		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	137 035	137 035	25 284	25 284	123 801	123 801
Loans to customers	6 500 745	6 500 745	6 510 198	6 510 198	6 665 482	6 665 482
Accrued income	10 853	10 853	10 094	10 094	7 861	7 861
Total assets	6 648 633	6 648 633	6 545 576	6 545 576	6 797 145	6 797 145
Debt in relation to issued securities	4 257 720	4 299 104	4 281 967	4 309 650	4 177 752	4 211 537
Accrued expenses	10 747	10 747	10 233	10 233	9 451	9 451
Total liabilities	4 268 467	4 309 851	4 292 199	4 319 883	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	30.06.14
Financial instruments at fair value through the income statement				
Loans to customers			364 930	364 930
Notes and bonds	207 186			207 186
Financial derivatives		749		749
Financial derivatives, hedging instrument		22 586		22 586
Total	207 186	23 335	364 930	595 451

Financial instruments at fair value through the income statement				
Financial derivatives		11 016		11 016
Financial derivatives, hedging instrument				
Total		11 016		11 016

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

	Level 1	Level 2	Level 3	30.06.13
Financial instruments at fair value through the income statement				
Loans to customers			373 308	373 308
Notes and bonds	302 733			302 733
Financial derivatives				
Financial derivatives, hedging instrument		17 577		17 577
Total	302 733	17 577	373 308	693 617

Financial instruments at fair value through the income statement				
Financial derivatives		7 966		7 966
Financial derivatives, hedging instrument				
Total		7 966		7 966

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

	Level 1	Level 2	Level 3	31.12.13
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		15 924	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 30.06.2014

	Loans	Available for sale	Deposits	Total
Balance as of 31.12.2013	387 281			387 281
Recognized profit/loss in the current income statement	4 104			4 104
Recognized profit/loss in other income				
Purchase	6 631			6 631
Issued				
Settlement	-33 086			-33 086
Migration to level 2/1				
Balance as of 30.06.2014	364 930			364 930