

Quarterly report

Q4 2013



 **SSB** boligkreditt



Directors' Report Fourth Quarter 2013

Nature of the business

SSB Boligkreditt AS is the funding company of the Sandnes Sparebank Group, for the issue of covered bonds. 2013 is the company's fifth year of operation. The Company has its registered office at Forus in the municipality of Sandnes.

SSB Boligkreditt AS 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

The last quarter of the year saw the continuation of the positive developments we have seen in the global economy recently. In Norway, on the other hand, the growth rate is still receding in most industries. Yet, the Oslo Stock Exchange Benchmark Index was up approximately 9% through the fourth quarter. The export industry, in particular, got a lift as the Norwegian Krone weakened significantly relative to the major trading currencies. In the oil and gas industry there is still a high level of activity, and the oil price has remained relatively stable. However, there are several sector companies that are struggling with high costs, and more staff cuts were announced in the last quarter of the year than we have seen previously.

The debt financing market for Norwegian banks was stable throughout the entire 2013. Short interest rates (Nibor) continued to decline steadily. The long interest rates (10 year swap rate) also continued to fall, but rebounded some towards the end of the year. In all sectors, the credit spreads have narrowed during the period. For SSB Boligkreditt, the indicated credit spread for 5 year financing (indicated by the VFF curve) went down from +44 basis points at the start of the quarter to +42 basis points at the end of the year.

In the Bank's primary market area, a slight increase in unemployment was observed in the last quarter, from 1.9% to 2.0%, according to statistics from the Norwegian Labour and Welfare Service (NAV). Housing price developments for 2013 showed a small price decline of 1.3% for all of Rogaland, according to the Norwegian Association

of Real Estate Agents. The 2013 price decline was somewhat greater in Sandnes (-1.7%) and Stavanger (-2.4%). The market in the Bank's primary market area is considered to be strong, but going forward there is more uncertainty regarding developments in housing prices and unemployment.

Earnings performance fourth quarter 2013

Figures in parentheses apply to the corresponding period in 2012. Profits before taxes were NOK 17.8 (19.7) million. After tax profits were NOK 15.0 (13.1) million.

The Company's net interest income totaled NOK 28.3 (22.4) million. Other income was -5.1 (-0.9) million. Other income was negative in both 2012 and 2013 due to revaluations of financial derivatives to fair value (in connection with hedging of fixed rate loans). In the fourth quarter of 2013, this revaluation amounted to -5.4 million.

The Company's operating costs during the fourth quarter of 2013 were NOK 4.7 (2.7) million. The cooperation with Sandnes Sparebank has been formalized through a management agreement. The Bank's management fee amounted to NOK 2.5 (2.3) million during the fourth quarter of 2013. Other operating cost increased by NOK 1.5 million from the third to the fourth quarter 2013, due to rating costs. Some of these costs were non-recurring. During the fourth quarter of 2013, NOK 0.1 (0.1) million of write-downs were made on groups of loans.

Balance sheet and asset management

At the end of 2013, SSB Boligkreditt AS managed assets totaling NOK 7.1 (6.8) billion. Loans to customers constituted NOK 6.7 (6.4) billion. At the end of the fourth quarter of 2013, the Company had issued bonds with a face value of NOK 4.25 billion. In addition, the item other liabilities includes debts to the parent company of NOK 2.4 (1.1) billion. 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 12/31/2013, the Company had a portfolio of home loans valued at NOK 6.7 billion. The weighted loan balance of this portfolio corresponded to 51% 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 12/31/2013, the company has issued bonds with a nominal value of NOK 4.25 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% 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 2013, 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.

The Board consists of 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 modest volume increase in 2014.

In November 2013, bonds issued by SSB Boligkreditt received a rating upgrade by Fitch. The rating went from AA- subject to an OC level of 12%, to AA subject to an OC level of 11%.

The Board of Directors of SSB Boligkreditt AS

February 06, 2014

Odd Egil Flokkesveit
Chairman of the Board

Arild Ollestad
Director

Svein Ivar Førland
Director

Terje Frafjord
Director

Elisabeth Froyland
Managing Director

Profit and loss statement

Profit and loss statement (Amounts in NOK thousands)	Note	4. quarter 2013	4. quarter 2012	Year 2013	Year 2012
Interest income		66 726	67 118	262 921	266 616
Interest expense		38 416	44 689	159 472	200 426
Net interest income		28 311	22 429	103 449	66 190
Commissions and income from banking services		309	170	963	674
Net change in value on financial instruments at fair value	5	-5 360	-1 067	-17 200	-4 422
Total other operating revenues		-5 052	-897	-16 237	-3 748
Salaries		5	55	41	106
Other operating costs		4 529	2 539	13 156	10 515
Depreciations and impairment		147	147	589	589
Total operating costs		4 681	2 742	13 785	11 209
Write downs and losses on lending and guarantees	2	793	-916	-214	558
Operating profit before taxes		17 785	19 707	73 640	50 675
Tax cost		2 791	6 627	18 430	15 298
Operating profit after taxes		14 994	13 079	55 210	35 377
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Other income and expenses (after taxes)					
Total comprehensive income		14 994	13 079	55 210	35 377

Balance sheet

Balance sheet (Amounts in NOK thousands)	Note	31.12.13	31.12.12
Bank deposits		123 801	305 592
Loans to customers	6,7	6 665 482	6 428 822
Notes and bonds		241 698	
Financial derivatives	6,7	15 924	20 106
Intangible assets		49	638
Deferred tax assets		4 710	
Prepaid expenses and accrued income		7 861	4 734
Total assets		7 059 526	6 759 892
Debts securities issued	6,7	4 177 752	5 228 136
Financial derivatives	6,7	7 318	10 390
Other debts		2 420 335	1 094 123
Taxes payable		21 956	14 062
Accrued expenses and prepaid income		9 451	11 479
Total liabilities		6 636 812	6 358 191
Equity certificate capital		227 600	227 600
Share premium		122 500	122 500
Other equity		72 614	51 601
Total equity		422 714	401 701
Total equity and liabilities		7 059 526	6 759 892

Statement of equity

	Equity certificate capital	Share premium	Other equity	Total
Equity as of 31.12.2011	227 600	122 500	19 398	369 498
Profit or loss			35 377	35 377
Group relief provided with tax effect (net after tax)			-3 173	-3 173
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

Cash flow statement

Cash flow statement (Amounts in NOK thousands)	Year 2013	Year 2012
Cash flow from operating activities		
Utlåns- og innlånsvirksomhet		
Interest / commission received and fees received from customers	257 136	267 813
Interest from dividends		
Interest receivable on securities	3 621	
Disbursements for operations	1 277 186	212 646
Taxes	-13 614	-4 301
Net cash flow from operating activities	1 524 328	476 159
Cash flow from investing activities		
Net cash flows from interest bearing securities	-241 842	
Net cash flow from investing activities	-241 842	
Cash flow from funding activities		
Net receipts / disbursements of repayment loans, credit lines	-247 850	-102 968
Certificates and bond debts issued	1 247 073	457 960
Certificates and bond debts repaid	-2 302 000	-748 000
Net interest payments on financing activities	-161 500	-203 675
Net cash flow from funding activities	-1 464 278	-596 682
Net cash flow for the period	-181 792	-120 523
Cash and cash equivalents at the beginning of the period	305 593	426 116
Cash and cash equivalents at the end of the period	123 801	305 592

Notes



GENERAL ACCOUNTING POLICIES

GENERAL

The financial statements for the fourth quarter 2013 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 2012.

Standards with effect from first quarter 2013:

IAS 34 Interim Financial Reporting

Amendments to IAS 34 has resulted in increased disclosure requirements about fair value of financial instruments in the interim financial reports.

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 2012, have been applied while preparing the accounts as of 31.12.2013.



LOSSES

	4. quarter 2013	4. quarter 2012	Year 2013	Year 2012
Writedowns and losses on loans				
Change in individual write-downs				
Write-offs with individual write-downs	793	-916	-214	558
Write-offs without individual write-downs				
Recoveries on amounts written off previously				
Writedowns and losses on loans	793	-916	-214	558
Writedowns of loans				
Group writedowns as of 1.1			4 245	5 366
- Transferred from Sandnes Sparebank			-571	-1 679
+ Change in group writedown			-214	558
Group writedowns as of 30.09 / 31.12			3 460	4 245
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 2013	4. quarter 2012	Year 2013	Year 2012
Profit and loss statement				
Deposit rate	145	686	1 125	4 749
Interest paid / credit commissions	-14 575	-20 559	-71 975	-91 143
Management fees	-2 501	-2 311	-9 624	-9 245
			31.12.13	31.12.12
Balance sheet				
Loans and advances to credit institutions			23 801	305 592
Other liabilities			2 420 333	1 093 927
Issued securities			349 804	2 006 944

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CAPITAL ADEQUACY

Net subordinated capital			31.12.13	31.12.12
Equity certificate capital			227 600	227 600
Share premium reserve			122 500	122 500
Other equity			72 614	51 601
Equity			422 714	401 701
Deduction for goodwill and other intangible assets			-4 759	-638
Total tier 1 capital			417 956	401 063
Net subordinated capital			417 956	401 063
Risk-weighted assets:				
Credit risk - standard method			2 634 362	2 586 312
Operational risk			111 738	72 638
Deductions			-3 460	-4 245
Total risk-weighted assets			2 742 640	2 654 705
Capital adequacy ratio			15,2	15,1
Tier 1 capital ratio			15,2	15,1

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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 2013	4. quarter 2012	Year 2013	Year 2012
Net change in valuation of notes and bonds	58		-24	
Gains/losses repayment treasury bonds	-3 400		-9 527	
Net change in valuation of currency and financial derivatives	-776	560	3 754	-4 140
Net change in valuation of loans at fair value	-1 243	-1 627	-11 403	-283
Net change in valuation of financial derivatives, hedging	-77	-1 264	-4 786	7 250
Net change in valuation of hedged financial liabilities	77	1 264	4 786	-7 250
Net change in valuation of financial instruments at fair value	-5 360	-1 067	-17 200	-4 422



6 CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial instruments at fair value 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

Financial instruments at fair value through the income statement 31.12.12

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	305 592					305 592
Loans to customers	6 066 216			362 606		6 428 822
Financial derivatives			20 106			20 106
Accrued income	4 734					4 734
Other assets					638	638
Total assets	6 376 542		20 106	362 606	638	6 759 892
Liabilities						
Debt in relation to issued securities	5 228 136					5 228 136
Financial derivatives		10 390				10 390
Accrued cost	11 479					11 479
Other liabilities	1 094 123					1 094 123
Accruals					14 062	14 062
Total liabilities	6 333 739	10 390			14 062	6 358 191



FAIR VALUE OF FINANCIAL INSTRUMENTS

	31.12.13		31.12.12	
	Recognized value in the balance sheet	Fair value	Recognized value in the balance sheet	Fair value
Assets				
Cash and deposits	123 801	123 801	305 592	305 592
Loans to customers	6 665 482	6 665 482	6 428 822	6 428 822
Accrued income	7 861	7 861	4 734	4 734
Total assets	6 797 145	6 797 145	6 739 148	6 739 148
Debt in relation to issued securities	4 177 752	4 211 537	5 228 136	5 263 561
Accrued expenses	9 451	9 451	11 479	11 479
Total liabilities	4 187 204	4 220 988	5 239 616	5 275 040

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	241 698	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

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

	Level 1	Level 2	Level 3	Total as of 31.12.12
Financial instruments at fair value through the income statement				
Loans to customers			362 606	362 606
Notes and bonds				
Financial derivatives				
Financial derivatives, hedging instrument		20 106		20 106
Total		20 106	362 606	382 712
Financial instruments at fair value through the income statement				
Financial derivatives		10 390		10 390
Financial derivatives, hedging instrument				
Total		10 390		10 390

Reconciliations of movements from Level 3 from 31.12.2012 to 31.12.2013

	Loans	Available for sale	Deposits	Total
Balance as of 31.12.2012	362 606			362 606
Recognized profit/loss in the current income statement	-11 403			-11 403
Recognized profit/loss in other income				
Purchase	94 817			94 817
Issued				
Settlement	-58 739			-58 739
Migration to level 2/1				
Balance as of 31.12.2013	387 281			387 281