ANNUAL REPORT 2019.....

SSBboligkreditt

Translated version

Annual report for 2019

Nature of the business

SSB Boligkreditt is a wholly owned subsidiary of Sandnes Sparebank, and is the covered bond funding vehicle of the Group. The Scope credit rating agency has rated the bonds issued by SSB Boligkreditt as AAA.

The financial statements are being reported pursuant to IFRS, and the quarterly financial statements have been prepared in compliance with IAS 34 regarding interim reporting. The applicable accounting principles are described in Note 1 to the financial statements. Figures in parentheses apply to the corresponding period last year.

Profits

This year's profits after taxes were NOK 31.7 (38.7) million. The Company's net interest income totaled NOK 64.6 (75.1) million. Other income was NOK -6.5 (-6.8) million. Other income was negatively affected by repurchase of existing bond debt.

The redemptions were executed in connection with the refinancing, and the subsequent extension of the company's funding profile. The refinancing resulted in negative one-off effects of NOK 6 million. The Company utilized good market conditions throughout 2019, and has therefore reduced its refinancing risk and ensured competitive funding going forward.

The drop in interest margin was primarily due to higher NIBOR rates in 2019 than in 2018. In addition, continued strong competition for mortgage customers has contributed to the repricing of parts of the mortgage loan portfolio.

The Company's operating costs were NOK 18.1 (19.3) million. There have been reversals of Step 1 and 2 provisions (previously groupwise provisions) of a total of NOK 0.9 million year to date.

Balance sheet and asset management

At the end of the year 2019, SSB Boligkreditt managed assets totaling NOK 9.0 (8.1) billion. Loans to customers constituted NOK 7.9 (7.4) billion. As of 31.12.2019, SSB Boligkreditt had issued covered bonds with a face value of NOK 7.4 (6.8) billion. The Company had no holdings of own bonds. Fixed rate bonds with a face value of NOK 2.6 billion have been issued, whereas the rest carry a floating rate.

The over-collateralization level was 19.4% at the end of the year, which is 14.4 percentage points above the 5% rating requirement. The Financial Supervisory Authority of Norway uses a different interpretation of the calculation of over-collateralization. The calculation method used by the Financial Supervisory Authority results in a lower level, but the overcollateralization is still considerably higher than the minimum requirement. Please refer to Note 8 for more details regarding the
calculation.

The Other liabilities item includes debt to the Parent Bank of NOK 0.9 (0.7) million. This is related to temporary financing of SSB Boligkreditt's purchase of a mortgage loans from Sandnes Sparebank.

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 Board of Directors considers the Company's capital adequacy and liquidity levels to be satisfactory.

Market conditions in 2019

The covered bond market has been characterized by good demand and liquidity during the whole year. For the Company, the indicated credit premium for 5-year NIBOR financing fell from +58 basis points at the start of the year to +38 bps at the end of the year. 3 month NIBOR rose throughout the year due to interest rate increases by Norges Bank. The Norwegian central bank increased the policy rate by 0.25% three times during 2019 (March, June and September). The policy rate started the year at 0.75% and was 1.50% at the end of the year. NIBOR started the year at 1.27% and ended it at 1.84%. On average, NIBOR was 1.84% in the quarter, up 0.22 percentage points from the prior quarter.

Trade wars, Brexit uncertainties and slowing economic growth globally, resulted in increased volatility for the long interest rates abroad and in Norway. The Norwegian 10-year swap rate started the year at 2.11% and finished up at 2.07%, but fluctuations were great. The interest rate fell month by month until the middle of August, when the bottom was reached at 1.42%, for then to rise again towards the end of the year.

The economy in the company's primary area was positive throughout 2019. Many new jobs were created in the region, and we experienced a continued increasing level of employment. According to NAV, unemployment in Rogaland was 2.2% as of the end of 2019. This is the same level as the country average, which is at its lowest level in over 10 years.

The home prices in Norway fell by 2.3% in the most recent quarter (not seasonally adjusted). For the Stavanger area, the number is -5.3% for the last quarter and -2.7% for the year. The sale execution time in Norway increased from 47 days to 71 days during the last quarter. In Stavanger and environs, the sale execution time increased from 73 days to 95 days during the same period. The market in the Company's primary year area is still considered to be stable.

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
At the end of the year, the Company had a portfolio of home loans valued at NOK 7.9 billion. The average loan to value of the portfolio is 53.6%. At the end of the year, there were no defaults. 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 the end of the year, the Company had issued bonds with a nominal value of NOK 7.4 billion, of which NOK 4.8 billion carry a floating rate. All bond loans issued with a fixed rate are hedged to a floating rate by the use of interest rate derivatives.

The Company has positions in Norwegian Kroner only. With respect to the lending volume, 100% of the loans carried a floating rate. The Company uses financial derivatives to hedge interest rate risk, in order to keep it low. The Company carried no currency risk at the end of 2019. 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 has a revolving credit line with Sandnes Sparebank that covers net maturities due during the next 12 months on issued covered bonds. The facility is adjusted for the Company's own liquidity reserves.

The covered bonds of SSB Boligkreditt also have a soft bullet clause regarding extended maturity as part of the loan agreements. Such a clause is standard in the Norwegian covered bond market. It provides the issuer with the option of extending the maturity of its funding by 12 months if the company cannot manage to redeem the loan at the original 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 for 2020

The macro economic conditions in the region have been improving in recent years, and have been characterized by a high level of activity. There is full employment in the region, but still some imbalances in the housing and commercial property markets. Events in March 2020, with spread of the Corona virus, have created uncertainty both nationally and internationally. It is uncertain how much events will affect the Company's customers and the local business community. The Company is well prepared both with respect to stable operations and financial solvency.

The Company is well capitalized. At the end of the year, SSB Boligkreditt had a Core Tier-1 capital ratio of 16.9%. As of 31.12.2019, the counter cyclical buffer has been increased by 0.5%, and thus, the regulatory requirement to subordinated capital is 16%, including 12.5% of CET1-capital and 3.5% of additional capital in the form of hybrid capital and subordinated loans. The Board of Directors' Tier-1 capital ratio objective is the same as the regulatory subordinated capital requirement, i.e. 16% as of 31.12.2019.

The Company is expecting continued growth of the mortgage portfolio during the next 12 months. The Parent Bank has signaled a desire to increase the amount of loans that are transferred to the mortgage company going forward.

The Company is well prepared for 2020, in the form of good liquidity, good solvency and competencies.

The current credit rating of the bonds issued by SSB Boligkreditt, which is AAA with stable prospects from Scope Ratings, is expected to be maintained. Scope's required nominal OC for SSB Boligkreditt was 5% as of 31.12.2019.

Proposal for the allocation of annual profits

Annual profits for 2019 were NOK 31.7 million. The entire profits of the year are proposed retained as equity.

The Board of Directors of SSB Boligkreditt AS | Sandnes, 18 March 2020

Erik Kvia Hansen
Chairman of the Board

Arild Ollestad
Director

Tom Risa
Director

Tomas Nordbø Middelthon
Director

Carl Fredrik Hjelle
Managing Director

Key figures as of 31.12.2018

Profit summary

(NOK '000)	The year 2019	The year 2018
Net interest income	64 642	75 075
Other operating income	-6 495	-6 809
Other operating cost	18 069	19 291
Net loss/writedowns	-889	-535
Operating profit before taxes	**40 967**	**49 509**
Tax cost	9 261	10 839
Operating profit after taxes	**31 707**	**38 670**
Other income and cost (after taxes)		
Total profits	**31 707**	**38 670**

Balance sheet excerpts

(NOK '000)	The year 2019	The year 2018
Total assets	9 026	8 137
Average total assets	8 582	7 606
Loans to customers	7 897	7 416
Notes and bonds	795	544
Equity capital	567	535

Key figures

	The year 2019	The year 2018
PROFITABILITY		
Net interest income in % of avg. total assets	0.75%	0.99%
Total cost in % of avg. total assets	0.2%	0.3%
Return on equity before taxes	7.4%	9.6%
Return on equity after taxes	5.7%	7.5%
Solvency		
CAPITAL RATIO		
Tier-1 capital ratio	16.9%	17.2%
Core Tier-1 capital ratio	16.9%	17.2%
Risk-weighted capital	16.9%	17.2%
Risikovektet kapital	3 347 003	3 112 085

Income statement

NOK '000	Note	The year 2019	The year 2018
Interest income measured with the yield method	13	215 205	176 977
Interest income measured at fair value	13	10 874	5 241
Interest and similar costs	13	161 436	107 144
Net interest and credit commission income		**64 642**	**75 075**
Commission income and income from banking services	14	46	135
Net change in valuation of financial instruments	15	-6 541	-6 944
Total other operating income		**-6 495**	**-6 809**
Payroll cost	16	40	40
Other operating cost	16	18 029	19 251
Depreciation/writedowns	16		
Total operating cost		**18 069**	**19 291**
Writedowns and losses on loans and guarantees	9	-889	-535
Ordinary operating profit before taxes		**40 967**	**49 509**
Tax cost	17	9 261	10 839
Ordinary profit after taxes		**31 707**	**38 670**
Other income and cost (after taxes)			
Total profits		**31 707**	**38 670**
Allocation:			
Transferred to retained earnings		31 707	38 670

Balance sheet

NOK '000	Note	31.12.2019	31.12.2018
Bank deposits	18,19	271 031	111 893
Loans to customers at amortized cost	6-9,18,19	7 897 451	7 415 635
Notes and bonds	18,19,20	795 395	544 229
Financial derivatives	11,18,19	59 919	65 274
Deferred tax benefit	17	24	276
Prepaid cost and accrued income	18,19	1 965	
Total assets		**9 025 783**	**8 137 307**
Payable to credit institutions	18,19	27 700	36 202
Debt securities	18,19,21	7 449 785	6 776 753
Financial derivatives	11,18,19	32 645	30 044
Other liabilities	18,19,23	939 490	748 320
Taxes payable	17	9 008	10 536
Accrued expenses and received, not accrued income	18,19	253	258
Total liabilities		**8 458 881**	**7 602 113**
Share capital	24	227 600	227 600
Share premium		122 500	122 500
Other equity		216 802	185 094
Total equity		**566 902**	**535 194**
Total liabilities and shareholders' equity		**9 025 783**	**8 137 307**

The Board of Directors of SSB Boligkreditt AS | Sandnes, 18 March 2020

Erik Kvia Hansen
Chairman of the Board

Arild Ollestad
Director

Tom Risa
Director

Tomas Nordbø Middelthon
Director

Carl Fredrik Hjelle
Managing Director

Equity capital

NOK '000	Share capital	Share premium	Other equity	Total equity
Equity capital as of 31.12.2017	**227 600**	**122 500**	**147 178**	**497 278**
Profit or loss			38 670	38 670
Change in group writedowns opening balance 1/1/2018 IFRS 9			(754)	(754)
Equity capital as of 31.12.2018	**227 600**	**122 500**	**185 094**	**535 194**
Profit or loss			31 707	31 707
Correction prior years' errors			2	2
Equity capital as of 31.12.2019	**227 600**	**122 500**	**216 802**	**566 902**

Cash flow statement

NOK '000	The year 2019	The year 2018
Cash flow from operations		
Payment of interest, commissions and fees from customers	213 286	177 129
Net payment in/out in connection with trading of financial assets	7 957	
Interest payments received on securities	10 874	5 304
Operational payables	-17 867	-18 842
Taxes	-10 788	-15 792
Net cash flow from operations	**203 461**	**147 798**
Cash flow from investment activities		
Net payment in/out in connection with trading of interest-bearing securities	-257 707	-309 302
Net cash flow from investment activities	**-257 707**	**-309 302**
Cash flow from financing activities		
Net payments in/out on installment loans, lines of credit	-289 748	-533 150
Net deposits/loans from credit institutions	-8 502	36 202
Placement of notes and bond debt	2 400 000	1 900 000
Repayment of notes and bond debt	-1 726 969	-1 144 215
Distribution of dividends		
Net interest payments made on funding activities	-161 396	-104 713
Net cash flow from funding activities	**213 385**	**154 124**
Net cash flow for the period	159 138	-7 380
Cash and cash equivalents at the beginning of the period	111 893	119 273
Cash and cash equivalents at the end of the period	271 031	111 893

NOTES TO THE ACCOUNTS

Content

1 GENERAL INFORMATION

SSB Boligkreditt AS is a wholly owned subsidiary of Sandnes Sparebank. The Company was established by the Parent Bank's company issue covered bonds. SSB Boligkreditt AS offers residential mortgage loans when the collateral is within 75 percent of the value of the home. The Company started operations in February 2009.

SSB Boligkreditt is headquartered in the municipality of Sandnes, and its office address is Rådhusgata 3.

The 2019 Financial Statements were ACCOUNTING PRINCIPLES approved by the Board of Directors on Tuesday, 18 March 2019.

2 ACCOUNTING PRINCIPLES

1 General

SSB Boligkreditt AS is part of the Sandnes Sparebank group, which implemented IFRS for their group financial statements as of January 01, 2005.

The corporate financial statements of SSB Boligkreditt AS have been prepared pursuant to §1-5 of the regulation by the Norwegian Ministry of Finance regarding annual financial statements, which allow simplified application of international accounting standards, hereafter referred to as simplified IFRS. Simplified IFRS entails permission to recognize provisions for dividends and group contributions from subsidiaries as income and to recognize the Board of Directors' proposed dividends and group contributions as liabilities in the balance sheet. According to full IFRS, dividends should be recognized as equity until they have been approved by the Annual General Meeting. In other respects, simplified IFRS entails that the Company applies the IFRS accounting principles in full.

The measurement basis for the financial statements is historical cost, with the exception of financial derivatives and the financial assets and liabilities that are reported at fair value with changes in value through the income statement.

All amounts in the financial statements are presented as thousand amounts unless otherwise specifically stated, and Norwegian Kroner is the Company's presentation currency.

2 New standards and interpretations employed as of the 2019 financial year

IFRS 16 Lease agreements

The introduction of the standard means that there shall no longer be a differentiation between operational leasing and financial leasing, where agreements entered transfers the right to use a specific asset from the lessor to the lessee for a specific period. For the lessor, the rules from IAS 18 are mainly being continued. The standard is approved by the EU and applies to annual financial statements starting from January 01, 2019. Short-term lease agreements (less than 12 months) and the lease of assets with a low value are exempt from the requirements.
In order to determine whether an agreement contains a lease agreement, it has been considered whether the agreement transfers the right to control the use of an identified asset. The assessment is that the Company does not have any lease agreements that is comprised by the new standard, and consequently the implementation of the new standard will have no effect on the Company.

3 Foreign currency

The presentation currency is Norwegian Kroner (NOK), which is also the functional currency for the Company.

4 Accrual of income

Interest income and interest costs are recognized in the income statement using the yield method. The yield method calculates the amortized cost of loans and deposits and distributes earned interest or interest expense over the expected term to maturity. The yield is determined by discounting contractual cash flows within the anticipated term to maturity. The method entails current income accrual of nominal interest with the addition of amortization of up-front fees. If a loan has been written down due to value impairment (part of step 3), interest income is recognized as yield, based on the expected written down cash flows.

Commission income and costs are generally accrued as and when a service is rendered and classified as "Commission income" and "Commission cost", respectively. Fees associated with fixed income instruments are part of the yield calculation and is correspondingly recognized in the income statement.

Other fees subject to IFRS 15 are limited in scope for the Company. Fees are charged to the customer's account on an ongoing basis and on the date accrued, and are recognized as income on an ongoing basis.

The Company has only limited income containing significant elements of separate delivery obligations, meaning that the timing of recognition of income and measurement of compensation of the transactions, have not been changed as a consequence of the introduction of IFRS 15.

5 Balance sheet recognition of assets and liabilities

The Company recognizes assets at the time when the Company achieves real control of the rights to the assets. Similarly, liabilities are recognized in the balance sheet when the Company assumes real liabilities.

Assets are derecognized at the time when real risk regarding the assets is transferred and the control over the rights to the assets lapses or expires.

6 Financial instruments

Classification of financial instruments

Classification of financial instruments is based on the purpose of their acquisition and the characteristics of the instrument.

Financial assets are classified as::
- Financial instruments valued at amortized cost (AC)
- Financial instruments valued at fair value with valuation changes through ordinary profit or loss (FVTPL)
- Financial instruments valued at fair value with valuation changes through comprehensive income (FVTPL)

Financial liabilities are classified as:
- Financial liabilities at fair value with change in value through the income statement
- Other financial liabilities measured at amortized cost

The definition of a financial instrument is determined by IAS 32 and has not been changed due to IFRS 9. In the determination of the measurement category, IFRS 9 differentiates between ordinary debt instruments and equity instruments, including derivatives. Ordinary debt instruments are defined as fixed income instruments on which the yield is dependent on the time value of money, credit risk and other relevant risks for ordinary debt instruments.

Derivatives
All derivatives held by the Company are measured at fair value with valuation changes through the income statement, but derivatives designated as hedging instruments shall be recognized in line with the principles for hedge accounting.

Financial assets that are debt instruments
For ordinary debt instruments, the measurement category is determined by the purpose of the investment. Debt instruments that are part of a portfolio created for the purpose of receiving contractual cash flows in the form of interest and instalments, shall be measured at amortized cost.

Debt instruments that are part of a portfolio created for the purpose of both receiving cash flows and making sales, shall be measured at fair value through other comprehensive income (FVOCI), with interest income, effects of currency exchange rate conversions and writedowns presented via the income statement.

Instruments that at the outset should be measured at amortized cost or at fair value with valuation changes through comprehensive income (FVOCI), may be designated to be measured at fair value with valuation changes in value through the income statement if this will eliminate or significantly reduce an accounting mismatch (Fair Value Option/FVO).

Fixed income instruments of the other business models, shall be measured at fair value through profit and loss.

Financial liabilities
For financial liabilities that has been decided recognized at fair value through ordinary profit and loss, changes in value due to the company's own credit risk shall be recognized through comprehensive income (OCI), unless the recognition through comprehensive income (OCI) creates or reinforces an accounting mismatch. The scope of liabilities recognized at fair value is of limited scope, and the impact on the Company is therefore considered insignificant.

Hedge accounting
The Company applies hedge accounting for fair value hedging of some fixed rate funding (bonds, subordinated loans and hybrid capital bonds). Derivatives related to this funding are earmarked for hedging purposes. In connection with the transition to IFRS 9, new rules for hedge accounting were introduced, including the removal of the required hedging efficiency of 80-125% and replacing it with more qualitative requirements. It is also possible to delay the implementation of the hedge accounting rules pursuant to IFRS 9. The Company has elected to continue to use the hedge accounting rules in accordance with IAS 39.

Measurement

Initial recognition

At initial recognition, all financial instruments are measured at fair value on the trading day. Transaction costs that are directly attributable to the establishment of the asset/liability are included in the cost price of all financial instruments that are not classified at fair value with changes in value through ordinary profit and loss.

Subsequent measurement

Measurement at fair value
For all financial instruments traded on an active market, the quoted price obtained either from a stock exchange, broker or a pricing agency, is applied. Financial instruments not traded on an active market are valued with various valuation techniques, and some are valued by professional agencies. All changes in fair value are recognized directly in the income statement unless the asset is classified as financial instruments at fair value with valuation changes through comprehensive income (FVOCI).

The Company has set the fair value of floating rate loans to correspond to the nominal value, adjusted for the associated expected credit loss on the loan (ECL). The reason is that such loans are repriced almost continuously, and that any deviation from the nominal value in an arm's length transaction between informed and willing parties is considered insignificant.

Amortized cost valuation
Financial instruments not measured at fair value are valued at amortized cost and income/cost is estimated using the yield method. The

yield is determined by discounting contractual cash flows within the anticipated term to maturity. Amortized cost is the present value of the cash flows discounted by the yield.

Hedge accounting

The Company applies hedge accounting for fair value hedging of some fixed rate funding (bonds). Derivatives related to this funding are earmarked for hedging purposes. The hedge effect is valued and documented both at initial classification and at each closing of the accounts. In case of fair value hedging, the hedging instrument is recognized at fair value and the value of the hedging object is adjusted for the change in valuation associated with the hedged risk. Changes in these values from the starting balance are recognized in the income statement. This method ensures that the presentation in the financial statements of these instruments complies with the Group's policies for managing interest rates and actual economic developments.
If the hedge is terminated, or if sufficient hedging efficiency cannot be verified, the change in value of the hedging object is amortized over its remaining maturity.

Writedown of financial assets

Pursuant to IFRS 9, provisions for losses shall be recognized on the basis of expected credit losses (ECL). The general model for the write-down of financial assets comprises only financial assets recognized at amortized cost or fair value through comprehensive income. In addition, loan grants and financial guarantee contracts that are not recognized at fair value through profit and loss, and receivables on lease agreements, are included.

The measurement of provisions for expected losses in the general model, depends on whether the credit risk has increased significantly since it was first recognized in the balance sheet the first time. The credit deterioration is measured by the development of the probability of default (PD).

At the first balance sheet recognition and when the credit risk has not increased significantly since the first balance sheet recognition, expected losses over 12 months are recognized. The expected loss for 12 months, is the loss that is expected to occur over the life of the instrument, but that may be linked to default events occurring during the first 12 months. If credit risk has increased significantly after the first recognition, the provision shall correspond to the expected loss over the whole lifespan.

The Bank groups its loans, in line with IFRS 9, in three steps;

STEP 1

This is the starting point for all financial assets comprised by the general loss model. All assets that do not have significantly higher credit risk than at the first balance sheet recognition, are assigned a calculated cost of loss equal to expected losses over 12 months.

STEP 2

Step 2 in the loss model consists of assets that have experienced a significant increase in credit risk since the first balance sheet recognition, but which have not incurred credit losses as of the date of the balance sheet. For these assets, the calculated provision is equal to the expected loss over their lifespans. This group includes accounts with significant degrees of credit deterioration, but which belong to customers for which there is no objective loss event. With respect to delimitation against step 1, the Bank defines significant degree of credit deterioration by considering whether the calculated probability of default (PD) for a loan has increased significantly, or whether the customer has been granted easier payment terms.

STEP 3

Step 3 consists of assets that have experienced a significant increase in credit risk since establishment, and where there is an objective loss event as of the date of the balance sheet. For these assets, the Company makes individual provisions for losses. At each balance sheet date an assessment is made whether there is objective evidence of any impairment of the value of an individually assessed loan. The impairment must be the result of one or more events occurring after the first-time recognition in the balance sheet (a loss event) and it must also be possible to measure the result of the loss event (or events) reliably. Examples of such events are material financial problems for the debtor, payment default or other breach of contract. If there is objective proof of the occurrence of impairment of value, the amount of the loss is calculated. In the case of loans carried at amortized cost, the loss is calculated as the difference between the value recognized in the balance sheet and the present value of estimated future cash flows discounted by the loan's original yield. The changes during the period in the valuation of loans are recognized under "Writedowns and losses on loans and guarantees".

Please refer to Note 6 for a more detailed description of the loss model.

More details about some types of financial instruments

Loans and receivables

Loans and receivables are financial assets without market quotations. Floating rate loans are valued at amortized cost or at yield to maturity. The Company has no fixed rate funding or loans for any other purpose than to collect the contractual cash flows of its portfolio. .

Notes and bonds

The Company's liquidity portfolio of notes and bonds is valued at fair value with valuation changes through ordinary profit and loss (FVTPL) according to the business model governing the management of the liquidity portfolio, pursuant to IFRS 9. The business model provides a required rate of return for the liquidity portfolio, and purchases and sales are made for the purpose of maximizing profits.

Financial derivatives

Derivatives are valued at fair value with valuation changes through ordinary profit and loss (FVTPL). Fair value is valued on the basis of quoted market prices in an active market, including recent market transactions and various valuation techniques. All derivatives are recognized as assets if the fair value is positive and as liabilities if the fair value is negative.

Funding and other financial liabilities

Issued floating rate securities debt is measured at amortized cost. With respect to issued fixed rate securities debt, hedge accounting is applied in which valuation changes of the hedged part of the debt recognized through ordinary profit and loss.

Other financial liabilities are measured at amortized cost where differences between the received amount less transaction costs and redemption value are distributed over the term of the loan using the yield method.

7 Recognition and derecognition of financial assets and liabilities

Financial assets and liabilities are recognized on the day of transaction, meaning the time when the bank becomes party to the contractual terms and conditions for the instruments.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets have expired, or when the right to the cash flows from the assets are transferred in such a way that the risk and return related to the ownership for all intents and purposes have been transferred.

With respect to financial liabilities, these are derecognized when the contractual terms and conditions are met, have expired or are cancelled.

Repurchased issued securities debt

Any premium or discount on the repurchase of own bonds is recognized through the income statement and recorded under interest cost. Any purchase premium in case of repurchase of debt before it matures, is considered to be a price loss/gain and is presented and recognized in the income statement in the item "valuation changes of financial instruments". Interest from other financial liabilities is reported as "interest cost" in income statement.

8 Modified assets and liabilities

If the terms and conditions of an existing financial asset or liability is modified or otherwise changed, the instrument will be treated as a new financial asset or liability if the renegotiated terms and conditions are significantly changed from the old terms and conditions. If the requirements for significant change are satisfied, the old assets and liabilities are derecognized and the new asset or liability is recognized.

If the modified instrument is not considered to be significantly changed from the original instrument, for accounting purposes the instrument is considered to be a continuation of the existing instrument. In such cases the new cash flows are discounted with the instrument's original effective rate of interest, and any difference to the existing amount recorded in the balance sheet will be recognized through the ordinary income statement.

9 Income tax

Tax recognized in the income statement consists of payable tax and deferred tax. Payable tax is the tax calculated on the year's taxable profits. Deferred tax is recognized according to the debt method in accordance with IAS 12. Liabilities or assets are calculated on deferred tax on temporary differences, which is the difference between the book value and the taxable value of assets and liabilities. However, no liability or asset is calculated on the initial recognition items that neither influence accounting nor taxable profits. An asset is estimated in the event of deferred tax on tax-related losses carried forward. Deferred tax benefits are recognized in the balance sheet if it is likely that they may be applied against future taxable earnings.

As of 1/1/2019, the tax rate on ordinary income in Norway was changed from 23 to 22 %. The tax rate remains unchanged in 2020.

10 Cash flow statement

The cash flow statements are prepared according to the direct method and the statement shows cash flows grouped according to sources and application areas. Liquid assets comprise cash and receivables from banks.

11 Adopted standards and interpretations with effective dates in the future

Only interpretations and standards that are considered relevant for the Company have been included.

Changes in benchmark interest rate and any impact on the accounts

The Company's hedging arrangements are based on NIBOR as the benchmark rate. There are ongoing initiatives to reform the benchmark rates, including NIBOR. Norske Finansielle Referanser AS, a company, will continue NIBOR, provided it receives NIBOR quotes from the panel banks. The Company considers it likely that NIBOR will be maintained throughout the remaining lifespan of the Bank's existing hedging arrangements. Furthermore, the Company is of the opinion that a transition to an alternative benchmark rate would not have a significant impact on the hedging efficiency of the Company's existing hedging arrangements.

A working group has been established, that has analyzed alternative benchmark rates in Norway. For the time being, no conclusions have been reached with respect to which benchmark rate will be used in the longer term, or when a transition will take place. The Company will consider the further handling of any transition to new benchmark rates when it has been finally clarified which benchmark rates will be introduced in Norway.

Annual improvement projects

In connection with its annual improvement projects, IASB has made some minor changes in a number of standards. The changes have been evaluated to not have any material significance for the Company.

3 APPLICATION OF ESTIMATES

The preparation of financial statements in compliance with generally accepted accounting principles in some cases requires the management to make assumptions and to rely on estimates and discretionary assessments. Estimates and discretionary assessments are evaluated on a current basis, and are based on historical experiences and assumptions about future events that appear probable on the date of the balance sheet. There is uncertainty associated with the assumptions and expectations that have been used in estimates and discretionary assessments. Actual results may deviate from the estimates and the assumptions.

Writedowns of loans and guarantees

In the case of individually assessed loans and for groups of loans that have been identified as doubtful, a calculation is made to determine a value for the loan or group of loans. The calculation assumes the use of numbers that are based on judgment, and these affect the quality of the calculated value. Write-down assessments are performed each quarter.

Step 3 writedowns (individual writedowns)
If there is objective proof of impairment of the value of a loan valued at amortized cost, the loss is calculated as the difference between the balance sheet value and the present value of estimated future cash flows, discounted by the original yield of the loan. The estimate of future cash flows is made on the basis of experience and discretionary assessment of probable outcomes for, inter alia, market developments and concrete issues pertaining to each loan, including empirical data regarding the debtor's ability to handle a pressured financial situation. In the valuation of writedowns of loans, there is uncertainty related to the identification to be written down, estimate of timing and amount of future cash flows, as well as the valuation of collateral.

Step 1 & 2 writedowns (statistical writedowns)
Loans that are not subject to individual writedowns are part of the calculation of statistical writedowns (IFRS 9 writedowns) of loans and guarantees. Writedown is calculated on the basis of the development of the customers' risk classification (as described in Note 6) and loss experience for the respective customer groups (PD and LGD). Beyond this, cyclical and market developments (macro conditions) that have yet to impact the above-mentioned risk classification, are considered in the evaluation of the need for writedowns for customer groups in aggregate. The statistical model for the computation of Expected credit losses (ECL) on loans, is built on several critical assumptions, including probability of default, loss in case of default, expected lifespan of the loans and macro developments. Due to significant estimate uncertainty, the presentation of sensitivity analyses are requirement for a given change in the different parameters. This is shown in Note 9.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market, are valued with the use of different valuation techniques. The Company seeks to base these valuations to the greatest extent possible on the market conditions prevailing on the date of the balance sheet. If there are no empirical market data, assumptions are made regarding how the market will price the instrument, e.g. based on the pricing of similar instruments. Valuations require extensive use of discretion, inter alia in the assessment of credit risk, liquidity risk and volatility. A change in one or more of these factors may affect the set value of the instrument. The fair value of financial instruments is presented in Note 19.

4 CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

	31.12.2019	31.12.2018
CAPITAL RATIO		
Share capital	227 600	227 600
Share premium	122 500	122 500
Other equity	216 802	185 094
Equity capital	566 902	535 194
Deduction for goodwill and other intangible assets	-24	-276
Deduction prudent valuation	-864	-631
Total Tier-1 capital	566 015	534 286
Subordinated capital	**566 015**	**534 286**
RISK-WEIGHTED CAPITAL		
Credit risk – standardized approach	3 159 767	2 932 658
Operational risk	137 877	141 389
CVA risk	49 359	38 038
Risk weighted assets (RWA)	**3 347 003**	**3 112 085**
Capital ratio	**16,9**	**17,2**
Tier-1 capital ratio	**16,9**	**17,2**
Core Tier-1 capital ratio	**16,9**	**17,2**
SPECIFICATION OF CALCULATION BASE		
Standardized approach		
Institutions	72 154	42 340
Companies		-
Loans secured by real estate	2 894 322	2 826 872
Covered bonds	75 320	53 664
Others	117 971	9 783
Credit risk	3 159 767	2 932 658
Operational risk	137 877	141 389
CVA risk	49 359	38 038
Total risk weighted assets	**3 347 003**	**3 112 085**

The Company applies the standardized approach for the calculation of capital requirements.

The main objective of SSB Boligkreditt is to ensure the Sandnes Sparebank group access to satisfactory funding. This is effected by issuance of issue of covered bonds (OMF).

The Company has an internal capitalization policy which requires a core Tier-1 capital ratio of at least 16% at all times, calculated on the basis of the standardized approach. The adopted capitalization policy shall contribute to the Company having sufficient equity capital to enable effective use of equity relative to the scope and risk profile of the business. Access to liquidity shall be the dominant consideration with respect to the goal of achieving competitive returns on equity.

The equity capital shall also ensure that the Company will have sufficient capital buffers to withstand periods with losses.

The capitalization of the Company is closely tied to the size of the portfolio of loans transferred to the Company. Limits have been set for the size of the portfolio relative to the loan portfolio of Sandnes Sparebank.

The limit is a total loan portfolio corresponding to the lower of:

- 40% of the total loan portfolio of Sandnes Sparebank (group)
- 60% of total retail loans of Sandnes Sparebank.

5 RISK MANAGEMENT

The Board of Directors of SSB Boligkreditt AS puts great effort into in risk management through the identification, measurement and management of the different risks to which the Company may be exposed. This maintains the confidence in SSB Boligkreditt AS that it is necessary to have in the market. SSB Boligkreditt AS shall have a low risk profile.

Organization and authorization structure

Board of Directors

The Board of Directors of SSB Boligkreditt AS is the Company's highest governing body with respect to risk and control. The Board of Directors is also responsible for ensuring that the Company has adequate equity relative to the risk and scope of the Company's operations, and for ensuring compliance with statutory capital adequacy requirements.

The Board of Directors determines the overall objectives, such as risk profile, required rates of return and capital levels. The Board of Directors also determines the framework and authorizations within the different risk areas. Guidelines for the Company's risk management is also the responsibility of the Board of Directors.

Managing Director

The Managing Director has the daily responsibility for risk management. This means that the Managing Director is responsible for implementing effective risk management systems, and ensuring that risk exposures are monitored and reported in a satisfactory manner.

Risk management

SSB Boligkreditt AS does not have a separate risk management unit, but is utilizing the resources of Sandnes Sparebank. This also ensures the necessary autonomy.

Credit risk

Credit risk is defined as the risk of loss due to customers and other counterparties becoming unable to pay at the agreed time and according to written agreements, and due to collateral received not covering outstanding claims. The operating framework of the Company has defined limits for which loans that should be included in the loan portfolio of SSB Boligkreditt and sets the requirements for both borrowers and collateral. The Company is using a classification system that only allows the best risk classes to be part of the Company's body of collateral.

As of 31.12.2019, the Company had a portfolio of home mortgages of NOK 7.9 (7.4) billion, with an average loan to asset value ratio of 53.6% (52.4%). The Board of Directors considers the quality of the portfolio to be very good, which also entails low credit risk.

Liquidity and settlement risk

Liquidity risk is defined as the risk of the Company not being able to fulfill its obligations and/or finance an increase in assets without extra costs arising in the form of price reduction for assets that have to be realized, or in the form of extra expensive funding. Liquidity risk is managed through limits set by the Board of Directors.

Market risk

Market risk is defined as risk of loss of market values of portfolios of financial instruments, due to fluctuations in share prices, currency exchange rates and interest rates. SSB Boligkreditt AS is not exposed to currency or equity instruments. Limits have been set for interest risk exposure.

Interest rate risk

Interest rate risk is the risk of loss arising due to changes in interest rate levels. The risk arises primarily from funding by fixed income securities. The Company measures interest rate risk as the profit effect of a parallel shift in the yield curve. The risk of non-parallel shifts is covered through limitations on maximum exposure.

The main principle of the Company's interest rate risk management is to neutralize the interest rate risk by matching the Company's assets and liabilities. The Company is constantly monitoring its interest rate exposure. Interest rate exposure is measured at 3 month intervals from 0-10 years.

Operational risk

Operational risk is defined as the risk of loss due to insufficient or deficient internal processes, human errors and system faults, or external events.

Guidelines have been prepared for the reporting of undesirable events.

6 CREDIT RISK

Maximum exposure to credit risk	31.12.2019	31.12.2018
Bank deposits	271 031	111 893
Loans to customers	7 897 451	7 415 635
Financial derivatives	59 919	65 274
Prepaid cost and accrued income	1 965	
Total credit risk exposure in balance sheet items	**8 230 365**	**7 592 803**
Unused credit facilities and loan grants	1 039 181	957 017
Total credit exposure	**9 269 546**	**8 549 820**

As of 31.12.2019, the Company had a portfolio of residential mortgage loans valued at NOK 7.9 billion. At the same point in time, no loans were in default (over 90 days). The quality of the loan portfolio is considered to be very good, and the credit risk as low.

Score card models are used as part of the quantification of credit risk. These models calculate the customer's probability of default (PD) over the next 12 months.

SSB Boligkreditt AS uses the same models as Sandnes Sparebank. Part of the maintenance of the models is an annual validation.

RM customers are scored monthly in different credit models. The behavioral model for RM customers assign customers points between 0 and 690 on the basis of different variables. The customers are classified in one of 11 classes (A-K) based on their points. A credit score of between 483 and 560 results in the lowest risk class, J, and an associated 12 month expected PD of 20%. The best customers achieve a score of between 685 and 690, resulting in risk class A and an associated PD of 0.05%.

Class K consists of loans in default and loans with individual writedowns, and these have a PD of 100%.

A generic model is used for new RM customers.

The table below shows the intervals for the different risk categories in the RM (excluding non-performing and written down loans);

Intervals for the different risk categories in the RM

Score (rounded)	Risk class	PD
685-690	A	0.050%
660-684	B	0.175%
640-659	C	0.375%
630-639	D	0.625%
615-629	E	1.000%
600-614	F	1.625%
585-599	G	2.500%
570-584	H	4.000%
560-569	I N	6.500%
483-560	J	20.000%

SSB Boligkreditt AS is pricing its loans on the basis of their risk exposure. The loans with the highest risk have the highest price. The combination of probability of default and collateral coverage forms the basis for 3 risk categories (excluding non-performing and written down loans):

Risk category	Expected losses lower limit	Expected losses upper limit
Low	0.00%	0.25%
Medium	0.25%	1.00%
High	1.00%	100.00%

Part of the maintenance of the models is an annual validation. Validation of the PD models is done by evaluating how well the model predicts default versus observed defaults during the period. With respect to LGD, the LGD rates are evaluated against the different collateral classes, as well as overall against empirical data. This work also provides indications of possible adjustments that ought to be made in the further development of the models.
Risk classification is important for the level of monitoring of the customer, and is also included as a criterion in credit assessment and credit decisions. Additional to risk classification are discretionary issues like management, market, loan history, profitability, etc. Beyond the use of scoring models, the Group has guidelines for the composition of the various portfolios.

The risk classification is also the basis for the calculation of losses in step 1 and 2 pursuant to IFRS 9. In step 1, the expected loss over 12 months is calculated. In case of a material increase of credit risk, the loan shall be put in step 2, and the expected loss for the entire term of the loan is calculated. Significant increase in credit risk is defined as the occurrence of one of two events:

1) **Either that** the original PD 12m at loan establishment is adjusted for future prospects < 1% and concurrently that PD 12m has increase by at least 0.5% since first time registration, and concurrently that PD life for the residual maturity has become twice as high as the original PD life for the residual maturity
2) **Or that** the original PD 12m adjusted for future prospects is greater than or equal to 1% and concurrently that either PD 12m has increased by at least 2% since loan establishment or that PD life for the residual maturity of the loan has become twice as high as at loan establishment.

In addition, an account is defined in step 2 if it is marked with forbearance or has been in default for more than 30 days. Step 3 equals the individual writedowns that are evaluated subjectively in each case.

In order to find expected losses over the maturity of the loan in Step 2, it is assumed that customers' risk class shifts follow a so-called Markov process. In this case, the Bank applies a migration matrix based on historical risk category shifts to describe future risk category shifts. The expected changes in risk class one year into the future are a result of historical changes and expected changes, e.g. 5 years into the future being the same as five one-year changes in a row. This way, the probability of default may be computed for an arbitrary number of years into the future. The PD lifecycle matrix sets the probability for a given risk category a given number of years into the future.

When the probability of default is 5% or less, the expected maturity is used. The expected maturity is calculated on the basis of empirical data as an average per product type for both retail and corporate loans. When the probability of default is over 5%, the full maturity is used.

In order for loans to migrate positively (recovery), reduced credit risk has to be measured over time. For migration between step 1 and 2, as calculated in the model, a 6 month quarantine is applied. This entails that if a variable leading to a loan moving from step 1 to step 2 (higher latent risk) should no longer apply, e.g. that the customer has been giving forbearance marking, the loan is not moved back to step 1 until 6 months after the removal of the forbearance marking.

The model used by the Company to estimate expected losses, as operationalized a low risk exception that loans considered to have low credit risk at the time of reporting, may be assumed not to be subject to a significant increase in credit risk under certain conditions. It is considered practical to use the exception for some loans in order to avoid that loans with low risk of probable default, migrate to step 2.

The Company is using a low risk exception for migration from step 1 to step 2, by requiring that all loans that had a 12 month PD < 1%, adjusted for macro expectations at initial registration, have to achieve a 12 month PD at the date of the financial statements of at least 0.5% in order to be classified on step 2. A portion of the Company's loan portfolio fulfill the conditions for low risk exception, but it is the Company's impression that the use of this exception does not have any significant outcome for the distribution of loans between steps, or for total provisions for losses.

The Company then adjusts provisions for losses with the expected development of different macro variable that are considered to affect expected losses. The starting point for the macro-economic scenarios come from Eika, but the Company approves, and may change, them to adapt them to its exposure and market view. The future outlook is derived from a macro model that considers three scenarios – the base case, an outcome based on positive expectations, as well as an outcome based on negative expectations, for macro-economic developments for one to three years into the future. The base case, and the negative scenario, is based on the Financial Supervisory Authority's values for the basic scenario and the stress test in the Risk Outlook publication dated June 2019. The positive scenario is based on an estimate by the Chief Economist of Eika Gruppen. Variables such as unemployment, oil price, household debt and bank lending rates are part of the model. The variables are distributed on counties for the retail market and on industries for the corporate market. As of 31.12.2019, the weighing of the scenarios is 2/3 for the base expectation, 1/6 for the positive scenario and 1/6 for the negative scenario.

As of 31.12.2019, the Company has the following expectations regarding the development of the macro variables:

As of 12/31/2019, the Company has the following expectations regarding the development of the macro variables:

	2020	2021	2022	2023
NORMAL GROWTH AND DEVELOPMENT				
Unemployment rate (level)	3.8%	3.8%	3.9%	3.9%
Household debt (change)	5.0%	5.0%	5.0%	5.0%
Average bank loan rate (level)	4.1%	4.0%	4.2%	4.6%
Oil price (USD per barrel)	65	63	62	61
THE DOWNSIDE SCENARIO				
Unemployment rate (level)	5.1%	6.2%	6.3%	6.0%
Household debt (change)	0.0%	0.0%	0.0%	5.0%
Average bank loan rate (level)	7.2%	5.5%	4.7%	4.1%
Oil price (USD per barrel)	30	30	30	30
THE HIGH GROWTH SCENARIO				
Unemployment rate (level)	3.3%	3.1%	2.9%	2.7%
Household debt (change)	7.0%	7.0%	7.0%	5.0%
Average bank loan rate (level)	4.3%	4.2%	4.4%	4.8%
Oil price (USD per barrel)	80	80	80	80

The 'Normal growth and development" scenario is based on the normal scenario of the Financial Supervisory Authority. A scenario where the economic growth is checked without the need for major measures in the form of tightening (interest rate increases, tight financial policy) in order to brake economic growth, or in the form of stimulus (interest rate cuts, accommodating financial policy). Not completely like the scenario of the financial Supervisory Authority, but in the same ballpark.

The downside scenario is based on the stress test of the Financial Supervisory Authority. A typical international slump, with significant drops in both export volumes for traditional industries, and for the oil industry, is assumed to make the financial markets uncertain with respect to the credit rating of the Norwegian public. This is how the downside scenario is depicted, with a long-term drop in the oil price to USD 30 per barrel (as in the June report from the Financial Supervisory Authority). Equally important is a halving of oil investments in the same year as the oil price drops. The interest rates offered to most people, increase in slumps, because the increased credit premiums more than compensate for any interest rate cuts by Norges Bank, the Norwegian central bank.

The high growth scenario is formed as a situation where many of the parameter values characteristic of a slump, get the corresponding positive signs. Good growth in export volumes, and an oil price of USD 80 throughout the estimate period, are included. The scenario is a classic Norwegian boom, where good times for our export industries, is the basis for a broadly based Norwegian recovery.

Exposure (EAD)

The EAD for agreements at step 1 consist of outstanding receivables or liabilities adjusted for cash flows during the next 12 months and for agreements in step 2, the discounted cash flows for the expected life of the agreement. For guarantees, EAD is equal to the outstanding liability at the date of reporting, multiplied with a conversion factor of 1 or 0.5 depending on the type of guarantee. Unused credit facilities have an EAD equal to the outstanding unused credit at time of reporting.

The below table shows share of exposure (EAD) distributed on risk category and step

31.12.2019

	Risk category				
Step	Low	Medium	High	Non-perf/loss	Total
1	91 %	1 %	1 %	0 %	92 %
2	6 %	1 %	1 %	0 %	8 %
3	0 %	0 %	0 %	0 %	0 %
TOTAL	**97 %**	**1 %**	**2 %**	**0 %**	**100 %**

31.12.2018

	Risikogruppe				
Step	Low	Medium	High	Non-perf/loss	Total
1	90 %	0 %	0 %	0 %	90 %
2	8 %	1 %	1 %	0 %	10 %
3	0 %	0 %	0 %	0 %	0 %
TOTAL	**98 %**	**1 %**	**1 %**	**0 %**	**100 %**

Total loans to retail customers by risk groups

31.12.2019

Risk classes	Loans to customers	Guarantees	Unused limit	Total loans and advances	Percentage
Low	7 628 250		1 032 171	8 660 421	96,9 %
Medium	129 927		6 581	136 508	1,5 %
High	139 274		429	139 703	1,6 %
Total	**7 897 451**		**1 039 181**	**8 936 632**	**100,0 %**

Total loans to retail customers by risk groups

31.12.2018

Risk classes	Loans to customers	Guarantees	Unused limit	Total loans and advances	Percentage
Low	7 244 317		956 938	8 201 255	98,0 %
Medium	75 390		156	75 546	0,9 %
High	95 929			95 929	1,1 %
Total	**7 415 636**		**957 094**	**8 372 730**	**100,0 %**

Loans in arrears by days overdue

The table shows overdue amounts on loans and overdrafts of credits/deposits distributed on the number of days overdue.

	31.12.2019	31.12.2018
1-30 days	44 730	58 236
31-60 days	24 867	293
61-90 days	4 036	
Over 90 days		
Total	**73 633**	**58 529**

7 LOANS TO CUSTOMERS

Loans to customers

	31.12.2019	31.12.2018
Loans to customers, at fair value	0	0
Loans to customers, at amortized cost	7 897 451	7 415 635
Net lending to customers	**7 897 451**	**7 415 635**

8 LOANS DISTRIBUTED BY REGION AND SECTOR

By geography

	Lending		Unused credit facilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Rogaland	6 999 734	6 626 557	930 225	857 594
Oslo/Akershus	547 962	516 494	75 653	71 025
Other counties	326 440	249 005	25 313	21 966
Abroad	27 094	28 118	7 989	6 432
Total	**7 901 231**	**7 420 174**	**1 039 181**	**957 017**

By business sector

	Lending		Unused credit facilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Distributive trade		8 818		
Retail customers and others	7 901 231	7 411 356	1 039 181	957 017
Writedowns	-3 780	-4 538		
Net lending	**7 897 451**	**7 415 635**	**1 039 181**	**957 017**

9 WRITE-DOWNS AND LOSSES ON LOANS

Losses on loans and guarantees

	31.12.2019	31.12.2018
Changes in provisions for losses during the period, step 1	745	435
Changes in provisions for losses during the period, step 2	(1 634)	(970)
Changes in provisions for losses during the period, step 3	-	
Confirmations of previous writedowns		
Confirmations without previous writedowns		
Recovery of realized losses in previous periods		
Losses on loans and guarantees	**(889)**	**(535)**

Doubtful and non-performing loans:

Non-performing loans and advances	-	-
Doubtful loans and advances		
Individual writedowns		
Gross non-performing as a % of gross lending	**0.00%**	**0.00%**
Gross non-performing and problem as a % of gross lending	**0.00%**	**0.00%**

There are no problem or non-performing loans and advances as of 31.12.2019

31.12.2019

Changes in provisions for losses

	Step 1 12-month loss	Step 2 Lifetime loss	Step 3 Lifetime loss	Total writedowns
Provisions for losses as of 1/1/2019	**1 533**	**3 248**		**4 781**
Movements with impact on earnings:				
Transfers:				
Transfers from Step 1 to Step 2	-107	576		469
Transfers from Step 1 to Step 3				
Transfers from Step 2 to Step 1	199	-1 836		-1 637
Transfers from Step 2 to Step 3				
Transfers from Step 3 to Step 2				
Transfers from Step 3 to Step 1				
New loans and guarantees added during the period	264	42		306
Disposals of loans and guarantees during the period	-476	-692		-1 168
Changes during the period for loans and guarantees not migrated	331	-715		-384
Other adjustments	534	992		1 526
Provisions for losses as of 31.12.2019	**2 279**	**1 615**		**3 893**
Recognized as a reduction of loans to / claims on credit institutions				1
Recognized as a reduction of loans to customers				3 780
Recognized as provisions for debit items				112
Total provisions for losses as of 31.12.2019				**3 893**

Gross loans and guarantees with writedowns for expected loss recognized in balance sheet

	Steg 1	Steg 2	Steg 3	Total
Gross loans and guarantees recognized in the balance sheet as of 1/1/2019	**6 720 603**	**805 736**	**-**	**7 526 340**
Transfers:				
Transfers between Step 1 and Step 2	-273 210	273 210		
Transfers between Step 1 and Step 3				
Transfers between Step 2 and Step 1	353 938	-353 938		
Transfers between Step 2 and Step 3				
Transfers between Step 3 and Step 2				
Transfers between Step 3 and Step 1				
New loans and guarantees added during the period	1 283 615	72 114		1 355 728
Other changes in the period (incl. disposals)	-634 578	-75 227		-709 805
Gross loans and guarantees recognized in the balance sheet as of 31.12.2019*	**7 450 368**	**721 895**		**8 172 263**

* The above table is based on gross loans at the time of reporting, including loans to customers, and claims on credit institutions. The table does not include accrued interest on loans or guarantees/unused lines of credit.

31.12.2018

Changes in provisions for losses

Changes in provisions for losses	Step 1 12-month loss	Step 2 Lifetime loss	Step 3 Lifetime loss	Total writedowns
Provisions for losses as of 31.12.2017 according to IAS 39				**4 226**
Impact of changes in provisions in connection with the transition to IFRS 9				1 006
Provisions for losses as of 1/1/2018	**1 014**	**4 218**	**-**	**5 232**
Movements with impact on earnings:				
Transfers:				
Transfers from Step 1 to Step 2	-70	1 218	-	1 148
Transfers from Step 2 to Step 1	135	-1 366	-	-1 232
New loans and guarantees added during the period	359	284		642
Disposals of loans and guarantees during the period	-173	-1 105	-	-1 279
Changes during the period for loans and guarantees not migrated	184	-0		184
Other adjustments	85			85
Provisions for losses as of 31.12.2018	**1 533**	**3 248**	**-**	**4 781**
Recognized as a reduction of loans to / claims on credit institutions				86
Recognized as a reduction of loans to customers				4 538
Recognized as provisions for debit items				157
Total provisions for losses as of 31.12.2018				**4 781**

Gross loans and guarantees with writedowns for expected loss recognized in balance sheet

	Step 1	Step 2	Step 3	Total
Gross loans and guarantees recognized in the balance sheet as of 1/1/2018	**5 667 598**	**993 479**	**-**	**6 661 078**
Transfers:				
Transfers between Step 1 and Step 2	-261 887	305 563		43 676
Transfers between Step 2 and Step 1	391 544	-323 229		68 315
New loans and guarantees added during the period	1 107 367	66 184		1 173 551
Disposals of loans and guarantees during the period	-931 624	-266 644		-1 198 268
Changed provisions for losses during the period for loans and guarantees not migrated	747 606	30 382		777 989
Gross loans and guarantees recognized in the balance sheet as of 31.12.2018*	**6 720 603**	**805 736**	**-**	**7 526 340**

* The above table is based on gross loans at the time of reporting, including loans to customers, and claims on credit institutions. The table does not include accrued interest on loans or guarantees/unused lines of credit.

Sensitivity analyses

The statistical model for the computation of Expected credit losses (ECL) on loans, is built on several critical assumptions, including probability of default, loss in case of default, expected lifespan of the loans and macro developments.

Thus, the model and the loss estimates are vulnerable with respect to changes in the assumptions used. Consequently, the Bank has reproduced the loss estimates provided changes in key assumptions with the aim of illustrating how the loss estimates are affected by given scenarios.

Sensitivity analyses are made for the following factors:

- Probability of Default (PD) down 10%
- Probability of Default (PD) up 10%
- 30% decline in home prices (adjusted LGD)
- Expected lifespan equal to full maturity
- Future will remain as today (expectation unchanged)

The home price scenario assumes an LGD change for those of the Retail Market loans secured with a home mortgage.

If customers are subject to falling credit quality, it will be more difficult for them to get loans refinanced and also less opportunity to pre-redeem or make extra payments. The expected lifespan equal to full maturity scenario assumes that all loans will run to final maturity and that all undrawn lines of credit will be fully utilized.

In the main scenario, future prospects are faintly positive (based on the same weighting of a positive, a negative and a main expectation). In the "future will remain as today" scenario, the expectation = 1, i.e. neither positive nor negative.

The result of the sensitivity analysis for the company is as follows;

	Changes in key assumptions				
31.12.2019	Unchanged future outlook	Full maturity	PD - 10%	PD + 10%	Drop in home prices 30%
Percentage change in loss estimate	2.7%	7.0%	-5.7%	5.8%	57.6%

	Changes in key assumptions				
31.12.2018	Unchanged future outlook	Full maturity	PD - 10%	PD + 10%	Drop in home prices 30%
Percentage change in loss estimate	1.4%	29.0%	-3.3%	6.9%	84.7%

10 INTEREST RATE RISK

SSB Boligkreditt is not exposed to currency exchange risk or equity instrument risk. Thus, market risk only arises due to open holdings on the fixed income market. The risk is related to loss of earnings due to interest rate fluctuations.

Interest rate risk is related to negative earnings impacts due to market rate fluctuations. Primarily, the balance sheet of SSB Boligkreditt consists of loans to the retail market with a floating rate of interest, and funding in the form of covered bonds. As of 31.12.2019, the Company has issued bonds with a nominal value of NOK 7.5 billion, of which NOK 4.9 billion carry a floating rate.

Time to repricing date (gap) for assets and liabilities

31.12.2019	Up to 1 month	1-3 months	3 months–1 year	1-5 years	More than 5 years	No interest exposure	Accrued interest	31.12.2019
Bank deposits	271 030						1	271 031
Loans to customers	7 889 504						7 947	7 897 451
Notes and bonds		794 001					1 394	795 394
Financial derivatives				8 399	7 213		44 306	59 919
Other assets						1 988		1 988
Total assets	**8 160 534**	**794 001**		**8 399**	**7 213**	**1 988**		**9 025 783**
Payable to credit institutions	27 700							27 700
Debt established through the issue of securities		7 449 785						7 449 785
Financial derivatives				10 604	8 603		13 438	32 645
Other liabilities	948 751							948 751
Total liabilities and shareholders' equity	**976 451**	**7 449 785**		**10 604**	**8 603**			**8 458 881**
Net liquidity exposure, balance sheet items	7 184 083	-6 655 784		-2 205	-1 390	1 988		526 693
Payments in/out, off balance sheet derivatives								
Net total all items	**7 184 083**	**-6 655 784**		**-2 205**	**-1 390**	**1 988**		**526 693**

31.12.2018	Up to 1 month	1-3 months	3 months–1 year	1-5 years	More than 5 years	No interest exposure	Accrued interest	31.12.2019
Bank deposits	111 882						11	111 893
Loans to customers	7 409 836						5 800	7 415 635
Notes and bonds		543 347					882	544 229
Financial derivatives				24 446	7 664		33 164	65 274
Other assets				,		276		276
Total assets	**7 521 718**	**543 347**		**24 446**	**7 664**	**276**	**39 856**	**8 137 307**
Debt established through the issue of securities	36 202							36 202
Financial derivatives		6 776 753						6 776 753
Other liabilities					21 001		9 043	30 044
Total liabilities and shareholders' equity	759 114							759 114
Net liquidity exposure, balance sheet items	**795 316**	**6 776 753**			**21 001**			**7 602 113**
Payments in/out, off balance sheet derivatives	6 726 402	-6 233 406		24 446	-13 336	276		504 381
Net total all items	**6 726 402**	**-6 233 406**		**24 446**	**-13 336**	**276**		**504 381**

NOK 0 (Loans to customers) in the No interest exposure column, is related to write-down of losses.

Interest rate sensitivity

The value of on- and off-balance sheet items is affected by changes in interest rates. The table below shows the potential gain(+)/loss (-) for the Bank of a parallel positive shift of the yield curve of two percentage points. As of December 31, 2019, the Company held no fixed rate loans, and a parallel interest rate increase/decline of two percent would not have triggered any gain/loss.
The Company's interest rate risk is considered to be low.

11 FINANCIAL DERIVATIVES AND HEDGE ACCOUNTING

Financial derivatives

Interest rate related instruments are used to minimize interest rate risk on the Company's loans to customers. The Company uses interest rate swaps to minimize the interest risk on its fixed rate funding. As of 31.12.2019, the Company had no fixed rate loans or deposits.

The Board of Directors has adopted limits for the Company's exposure vis-à-vis all counterparties in order to reduce the settlement risk related to the use of financial instruments.

The set-off rights of the Company are in accordance with normal Norwegian law. SSB Boligkreditt employs ISDA agreements with counterparties in connection with financial derivatives. The agreements ensure set-off rights if the counterparties default on their obligations. CSA agreements have also been entered with most important financial counterparties.

	2019	Fair value as of 31.12.2019		2018	Fair value as of 31.12.2018	
	Contractual amount	Positive market value	Negative market value	Contractual amount	Positive market value	Positive market value
Interest rate agreements *	2 568 000	59 919	32 645	1 668 000	65 274	30 044
Currency exchange rate agreements						
Total financial derivatives	**2 568 000**	**59 919**	**32 645**	**1 668 000**	**65 274**	**30 044**
* Of which used for hedging purposes	2 568 000	59 919	32 645	1 668 000	65 274	30 044

1 Mark-to-market values on derivatives are presented including accrued (not capitalized) interest per 31.12.2019

Hedge accounting

The Company applies hedge accounting for fair value hedging of some fixed rate funding (bonds). Interest rate swaps are only used for interest rate hedging. All interest rate swaps are denominated in NOK, as the Company is not exposed to foreign currency debt. Each individual hedging is documented with reference to the Company's risk management strategy, a unique identification of the hedged object and the hedging instrument, a unique description of the hedged risk, a description of why the hedging is expected to be effective, and a description of when and how the Group will document that the hedge has been effective during the accounting period and is expected to be effective during the next accounting period.

The Company has defined the hedged risk as changes in value related to the NIBOR component of the funding. The hedge effect is valued and documented both at initial classification and at each closing of the accounts. In case of fair value hedging, the hedging instrument is recognized at fair value, and the value of the hedging object is adjusted for the change in valuation associated with the hedged risk. Changes in these values from the starting balance are recognized in the income statement as hedging inefficiency. This method ensures that the presentation in the financial statements of these instruments complies with the Company's policies for managing interest rates and actual economic developments. Any inefficiency in the Bank's hedging may arise due to actual valuation adjustments of the floating leg of the hedging instrument. See Note 15 for amounts recognized in the income statement.

As of 31.12.2019, in all hedging arrangements, the hedging object and the hedging instruments have the same principal and the same duration and coupon on the fixed leg (1:1 hedging). The fixed interest rate is swapped to a floating rate on a three month basis.

Information about hedging instruments

Type of hedging instrument	Nominal amount of hedging instrument	Amount of hedging instrument recognized through the balance sheet		Line item in the balance sheet	Changes in fair value used to calculate inefficiency
		Assets	Liabilities		
Interest rate agreements	2 568 000	59 919	32 645	Finansielle derivater	-13 112
Total	**2 568 000**	**59 919**	**32 645**		**-13 112**

Information about hedging objects

Type of hedging object	Nominal amount of hedging object	Amount of hedging object recognized through the balance sheet*	Accumulated valuation changes of the hedging object due to fair value hedging	Line item in the balance sheet	Changes in fair value used to calculate inefficiency
Fair value hedging (interest rate risk)					
Securities debt in NOK	2 568 000	2 601 712	-3 595	Verdipapirgjeld	13 112
Total	**2 568 000**	**2 601 712**	**-3 595**		**13 112**

Information about hedging inefficiency

Inefficiency recognized through the income statement (gain/loss on financial instruments)	0

*Book value of hedging object includes accrued (non-capitalized) interest, but is not a part of the valuation changes of the hedging object.

12 LIQUIDITY RISK

Liquidity risk entails that the Company is not able to refinance its debt as it matures, or unable to finance increases in its assets. The valuation of the Company's liquidity risk is based on a consideration of the Company's balance sheet structure, including the Company's dependence on funding and the additional cost related to having to obtain long maturity funding in the money market, compared to funding with shorter final maturities.

The mortgage company is covering its funding needs through the issue of covered bonds (OMF). Other financing needs are covered by short-term debt to the Parent Company.

Remaining period to maturity, main items

31.12.2019	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years	No residual maturity	Total as of 31.12.2019
Debt securities in issue			347 000	5 743 000	1 325 000		7 415 000
Other liabilities						948 751	948 751
Financial derivatives, gross settlement				24 058	8 587		32 645
Total disbursements			**347 000**	**5 767 058**	**1 333 587**	**948 751**	**8 396 396**

31.12.2018	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years	No residual maturity	Total as of 31.12.2019
Debt securities in issue			80 000	4 343 000	2 325 000		6 748 000
Other liabilities						759 114	759 114
Financial derivatives, gross settlement					30 044		30 044
Total disbursements			**80 000**	**4 343 000**	**2 355 044**	**759 114**	**7 537 158**

As of 31.12.2019, the liquidity risk is assumed to be low.

13 INTEREST INCOME

	2019	2018
RINTEREST INCOME MEASURED WITH THE YIELD METHOD:		
Interest received on loans to credit institutions	2 250	1 076
Interest received on loans to customers	212 955	175 901
Total interest income measured with the yield method	**215 205**	**176 977**
Interest income from securities	10 874	5 241
Total interest income measured at fair value	**10 874**	**5 241**
INTEREST COST		
Interest cost on subordinated loan capital, measured with the yield method	21 313	12 958
Interest cost on securities, measured with the yield method	148 926	106 362
Interest on financial derivatives as hedging instruments	(9 801)	(12 176)
Other interest cost	998	
Total interest cost	**161 436**	**107 144**
Net interest income	**64 642**	**75 075**

14 NET COMMISSION INCOME AND INCOME FROM BANKING SERVICES

Other fees

	2019	2018
Commission income and income from banking services	46	135
Commission costs and costs of banking services		
Net commission income and income from banking services	**46**	**135**
Other operating income, net	**0**	**0**

15 NET CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS AT FAIR VALUE

Net change in valuation of financial instruments

	2019	2018
Net change in valuation of notes and bonds, measured at fair value	-580	-1 090
Gains/losses on writedowns on own bonds, measured at amortized cost	-5 962	-5 854
Net change in valuation of financial derivatives, hedging	-13 112	-35 826
Net change in valuation of hedged financial liabilities	13 112	35 826
Net change in valuation of hedged items	0	0
Net change in valuation of financial instruments	**-6 541**	**-6 944**

16 OPERATING COST

Operating cost	2019	2018
Wages	35	35
Social security cost	5	5
Payroll and general administrative costs	**40**	**40**
Audit fee	111	126
Other audit related services	146	147
Tax assistance	-	-
Other assistance		
Total auditors' fees, incl. VAT	257	273
Management fee	16 950	16 950
Other administrative costs	72	114
Consultancy fees	128	1 235
Other operating cost	622	680
Total other operating costs	**18 029**	**19 251**
Depreciation		-
Total depreciation and writedowns		-
Total operating cost	**18 069**	**19 291**

In 2019, there were no employees of SSB Boligkreditt AS. The General Manager is paid by the Parent Company and his services charged to the mortgage company through the management fee. NOK 35,000 have been disbursed for the payment of fees.

The management fee is related to an agreement with Sandnes Sparebank regarding the purchase of services for the management of the loan portfolio and other administrative functions.

17 TAXES

TAX ON PROFITS	2019	2018
Taxes payable		
Annual tax cost	9 008	10 536
Correction of prior years' tax cost		-631
Change in deferred taxes	252	934
Total tax on ordinary profit	**9 261**	**10 839**

RECONCILIATION OF TAX COST AGAINST PROFIT BEFORE TAXES	2019	2018
Profit before taxes	40 967	49 509
22% (23%) tax on profit before taxes	9 013	11 387
Permanent differences	-4	5
Change in deferred taxes	252	0
Impacts of changed taxation rules		1
Adjustment of tax for previous years		-554
Total tax on ordinary profit	**9 261**	**10 839**
Effective tax rate	23 %	22 %

Deferred tax benefits and deferred tax in the balance sheet distributed on temporary differences

DEFERRED TAX BENEFIT	31.12.2019	31.12.2018
Financial instruments	24	25
Implementation effect IFRS 9		251
Total deferred tax benefit	**24**	**276**

RECONCILIATION OF DEFERRED TAX BENEFIT/DEFERRED TAXES	31.12.2019	31.12.2018
Deferred tax benefit as of 1/1	276	959
Change recognized in the income statement	-251	-858
Adjustment of tax for previous years		-77
Implementation effect IFRS 9		251
Total deferred tax benefit 12/31	**24**	**276**

BASIS FOR TAXES PAYABLE IN THE BALANCE SHEET	31.12.2019	31.12.2018
Profit before taxes	40 967	49 509
Basis for taxes payable	**40 967**	**49 509**
22% (23%) on the basis of taxes payable	9 009	11 392
Change in deferred taxes	-1	-856
Taxes payable in the balance sheet	**9 008**	**10 536**

18 CLASSIFICATION OF FINANCIAL INSTRUMENTS

According to IFRS 9, financial assets shall be classified assets:
- Amortized cost
- Fair value with valuation changes through comprehensive income (FVOCI)
- Fair value with valuation changes through profit or loss (FVTPL)

The rules for financial liabilities are essentially the same as in the current IAS 39. For further description of the classification of financial instruments, please refer to Note 2.

31.12.2019	Financial assets and liabilities valued at amortized cost	Financial instruments at fair value with valuation changes through profit or loss (FVTPL)	Financial derivatives as hedging instruments	Non-financial assets and liabilities	Total
ASSETS					
Cash and bank deposits	271 031				271 031
Loans to customers	7 897 451				7 897 451
Notes and bonds		795 395			795 395
Financial derivatives			59 919		59 919
Accrued income				1 965	1 965
Other assets				24	24
Total assets	**8 168 482**	**795 395**	**59 919**	**1 988**	**9 025 783**
LIABILITIES					
Payable to credit institutions	27 700				27 700
Debt established through the issue of securities	7 449 785				7 449 785
Financial derivatives			32 645		32 645
Accrued cost				141	141
Provisions	112				112
Other liabilities	939 490			9 008	948 498
Total liabilities	**8 417 087**		**32 645**	**9 149**	**8 458 881**

31.12.2018					
ASSETS					
Cash and bank deposits	111 893				111 893
Loans to customers	7 415 635				7 415 635
Notes and bonds		544 229			544 229
Financial derivatives			65 274		65 274
Accrued income					
Other assets				276	276
Total assets	**7 527 528**	**544 229**	**65 274**	**276**	**8 137 307**
LIABILITIES					
Payable to credit institutions	36 202				36 202
Debt established through the issue of securities	6 776 753				6 776 753
Financial derivatives			30 044		30 044
Provisions	258				258
Other liabilities	748 320			10 536	758 856
Total liabilities	**7 561 534**		**30 044**	**10 536**	**7 602 113**

19 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments valued at amortized cost	31.12.2019		31.12.2018	
	Book value	Fair value	Book value	Fair value
ASSETS				
Cash and bank deposits	271 031	271 031	111 893	111 893
Loans to customers	7 897 451	7 897 451	7 415 635	7 415 635
Prepaid cost and accrued income	-	-	-	-
Total assets	**8 168 482**	**8 168 482**	**7 527 528**	**7 527 528**
LIABILITIES				
Payable to credit institutions	27 700	27 700	36 202	36 202
Debt established through the issue of securities	7 449 785	7 489 783	6 776 753	6 770 663
Accrued expenses and received, not accrued income	112	112	258	258
Other liabilities	939 490	939 490	748 320	748 320
Total liabilities	**8 417 087**	**8 457 085**	**7 561 534**	**7 555 443**

With respect to financial instruments of short duration (less than three months), book value is assumed to represent fair value.

Loans to customers valued at amortized cost, include floating rate loans. Floating rate loans are adjusted for changes to the market interest rate and for changes in the credit risk. Consequently, the Company measures the fair value of these loans as being approximately equal to the book value. Loans that do not satisfy this current repricing condition, are individually valued at fair value on the date of the balance sheet. Any excess or inferior values arising within any change of interest rate period are not considered to represent material for the Company.

Financial instruments valued at fair value

The Company uses the following valuation hierarchy in the calculation of the fair value of financial instruments:

Level 1 – Quoted prices in an active market for the relevant asset or liability

Level 2 – Quoted prices in an active market for similar assets or liabilities, or another valuation method where all significant input is based on empirical market data.

Level 3 – Valuation techniques that are mainly not based on empirical market data.

Please see below for a description of how fair value is calculated for financial instruments on level 2 and 3, i.e. where a valuation technique has been applied.

Financial instruments classified on level 2

Financial derivatives

Financial derivatives are valued at market value on the basis of information collected about currency exchange rates and swap curves. The category includes interest rate swaps, currency swaps and forward contracts for which the observable market values are available via Reuters or Bloomberg.

Financial instruments classified on level 3

As of 31.12.2019, SSB Boligkreditt did not have any financial derivatives under item 3.

Loans to customers

Fixed rate loans to customers are valued on the basis of the agreed cash flow from the loans, discounted by the yield. The yield is based on the prevailing market terms for similar fixed rate loans.

Customer loans subject to writedowns are valued on the basis of probable cash flow from the loans, discounted by the yield, adjusted for market terms for similar not written-down loans.

The year’s increase is wholly related to the takeover of loans from the Parent Company, Sandnes Sparebank.

20 NOTES AND BONDS

Notes and bonds at fair value

	31.12.2019	31.12.2018
Government guaranteed bonds	42 029	42 641
Covered bonds (OMF)	751 972	500 706
Accrued interest	1 394	882
Total notes and bonds at fair value	**795 395**	**544 229**
Yield	1.93%	1.54%
Duration	1.86	2.94

21 DEBT ESTABLISHED THROUGH ISSUANCE OF SECURITIES

	31.12.2019	31.12.2018
Bond issues, discounts deducted	7 409 159	6 743 589
Bond issues, own holdings	0	0
Accrued interest	40 626	33 164
Total debt established through issuance of securities	**7 449 785**	**6 776 753**
Average interest rate on bond issues:	**2.34 %**	**1.87%**

Change in securities debt

	31.12.2018	Issued	Matured/redeemed	Other changes	31.12.2019
Bond debt, nominal value	6 748 000	2 400 000	1 733 000		7 415 000
Valuation adjustments	-4 411			-1 430	-5 841
Accrued interest	33 164			7 462	40 626
Total debt securities in issue	**6 776 753**				**7 449 785**

Covered bonds

Bonds	Face value	Final due date
NO0010704232	343 000	25/02/2021
NO0010718331	347 000	03/09/2020
NO0010731938	2 000 000	15/06/2022
NO0010753320	425 000	18/03/2026
NO0010822398	600 000	08/05/2024
NO0010833254	2 000 000	27/09/2024

Bonds	Face value	Final due date
NO0010834070	300 000	10/10/2028
NO0010849847	300 000	19/06/2029
NO0010856271	300 000	05/06/2023
NO0010868706	300 000	20/05/2030
NO0010871452	500 000	16/05/2023
Total nominal value of bonds issued	**7 415 000**	

As of 31.12.2019, SSB Boligkreditt has issued 11 bonds.

22 AMOUNT BALANCE

The amount balance has been calculated in accordance with the requirements of §11-11 of the Norwegian Financial Institutions Act, for an always current balance.

As a minimum, the Act requires the value of the collateral to at all times to exceed 102% of the value of the covered bonds being covered by the collateral.

Overcollateralization – Cover Pool covered bonds

(in NOK '000)	31.12.2019	31.12.2018
Covered bonds	7 449 785	6 776 753
Financial derivatives	3 595	-35 230
Total bond value	**7 453 380**	**6 741 523**
Loans to customers	7 835 108	7 357 447
Bank deposits	270 395	100 000
Liquid assets	794 282	543 347
Total cover pool value	8 899 785	8 000 794
Overcollateralization	**119.4%**	**118.7%**
Rating agency minimum requirement	**105.0%**	**108.5%**

Amount balance – gross covered bonds in issue, gross holding of collateral according to the Financial Supervisory Authority of Norway

(in NOK '000)	31.12.2019	31.12.2018
Covered bonds	7 449 785	6 776 753
Treasury covered bonds	-	-
Total bond value	**7 449 785**	**6 776 753**
Loans to customers	7 835 108	7 357 447
Bank deposits (min rating A-)		100 000
Liquid assets	794 282	543 347
Financial derivatives	-3 595	35 230
Deduction subsitute collateral**	-20 500	-58 500
Total cover pool value	8 605 295	7 977 524
Overcollateralization, gross calculation of covered bonds	**115.5%**	**117.7%**
Minimum regulatory overcollateralization requirement	**102.0%**	**102.0%**

As opposed to traditional calculations of overcollateralization, the Financial Supervisory Authority of Norway has requested that financial institutions also calculate overcollateralization on the basis of gross covered bond volume in issue (incl. retained bonds), however without considering retained covered bonds as part of the collateral.

* / ** Only very liquid and secure claims may be used as subsitute collateral. The collateral volume may at all times contain up to 20% subsitute collateral. In special circumstances, the Financial Supervisory Authority of Norway may permit this share to constitute up to 30% for a limited period.

Thus, when calculating the level of overcollateralization, the portion exceeding 20% of the total value of the collateral, will be subject to deduction until a permit is granted by the Financial Supervisory Authority of Norway.

Furthermore, the Financial Supervisory Authority of Norway has decided that liquid assets used for LCR coverage cannot be used as collateral. Thus, the part of the collateral used for LCR purposes, is removed from the calculation of overcollateralization according to the Authority's methodology.

23 OTHER LIABILITIES

	31.12.2019	31.12.2018
Debt to Sandnes Sparebank	939 481	748 320
Other liabilities	9	
Other liabilities	**939 490**	**748 320**

SSB Boligkreditt paid 3 month NIBOR + 0.39% as interest on the debt to the Parent Company.

The debt to the Parent Company of NOK 939 (748) million is related to temporary financing of SSB Boligkreditt's purchase of the loan portfolio from the Parent Company.

24 EQUITY CAPITAL

The share capital of SSB Boligkreditt AS is NOK 227,600,000 divided on 2,276,000 shares, each with a nominal value of NOK 100. Each share gives the same voting right in the Company. All shares are owned by Sandnes Sparebank.

Other information

25 EVENTS AFTER THE BALANCE SHEET DATE

The Corona outbreak and financial uncertainty in the Norwegian and international economy

In March 2020, the spread of the Corona virus resulted in considerable uncertainty in the Norwegian and international economy. There is great volatility in the financial and currency markets, and the oil price has fallen significantly, but local companies and households in Rogaland will also be affected by events. The uncertainty in the financial market have a negative impact on the Company's liquidity portfolio, but with a low market risk, including interest rate and currency risk, the negative financial impact on the Company is reduced.

There is a risk of increased unemployment and an associated increasing rate of default in the loan portfolio, if the challenging macroeconomic market situation continues for a long time. There is also a risk of home prices falling in the time ahead, which may affect the loan to value ratio (LTV) of the Company's mortgage loan portfolio. Both the liquidity situation and the solidity of the Company is good, and the credit risk of the Company's body of loans is low. Over time, our customers have shown good debt servicing capacity and the loan to value (LTV) ratios are at reassuring levels. The Company is well equipped for the demanding period that is ahead of us.

Otherwise, there have been no significant events after the date of the balance sheet that affects the financial statements as of 31.12.2019.

26 TRANSACTIONS WITH RELATED PARTIES

SSB Boligkreditt AS is a wholly owned subsidiary of Sandnes Sparebank. Transactions between the Company and the Parent Bank are effected according to normal commercial terms and principles.

Intra group transactions:

Income statement	The year 2019	The year 2018
Deposit interest	2 094	46
Interest and credit commissions paid	-21 251	-12 787
Management fee	-16 950	-16 950

Balance sheet	31.12.2019	31.12.2018
Loans to and claims on credit institutions	270 419	10 916
Other liabilities	939 481	748 318
Debt established through the issue of securities	0	0

Statement pursuant to§ 5-5 of the Norwegian Securities Trading Act

Rådhusgata 3, 4306 Sandnes
Boks 1133, 4391 Sandnes
Telefon 03260
kundeservice@sandnes-sparebank.no
www.sandnes-sparebank.no
Org.nr. 915 691 161
Swiftadr. saskno22

Statement pursuant to § 5-5 of the Norwegian Securities Trading Act

We confirm that the annual financial statements for the period from 1 January to 31 December 2019, to the best of our knowledge, have been prepared in accordance with IFRS, and that the information contained by the financial statements provides a true picture of the company's assets, liabilities, financial position, and overall profits, and that the information in the Annual Report provides a true summary of developments, results and the position of the company, together with the key risk and uncertainty factors facing the company.

The Board of Directors of SSB Boligkreditt AS | Sandnes, 18 March 2020

Erik Kvia Hansen Chairman of the Board	Arild Ollestad Director	Tom Risa Director
Tomas Nordbø Middelthon Director	Carl Fredrik Hjelle Managing Director	

Auditor's report

Deloitte AS
Strandsvingen 14 A
Postboks 287 Forus
NO-4066 Stavanger
Norway

Tel: +47 51 81 56 00
www.deloitte.no

To the General Meeting of SSB Boligkreditt AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SSB Boligkreditt AS, which comprise the balance sheet as at 31 December 2019, the income statement, statement of comprehensive income and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with simplified application of International Accounting Standards according to the Norwegian Accounting Act section 3-9, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Deloitte.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 18 March 2020
Deloitte AS

Bjarte M. Jonassen
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

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