This is the annual report

# SSB Boligkreditt 2020

TRANSLATED VERSION

# Annual Report 2020

## Nature of the business

SSB Boligkreditt is a wholly owned subsidiary of Sandnes Sparebank, and is the covered bond funding vehicle of the Group. Scope Ratings has rated the bonds issued by SSB Boligkreditt to AAA.

The financial statements are reported pursuant to the International Financial Reporting Standards (IFRS) as approved by the EU. The applicable accounting principles are described in Note 2 to the financial statements. Figures in parentheses apply to the corresponding period last year.

## Profits

2020 profits were NOK 45.0 (31.7) million after tax, which represents a return on equity of 7.6% (5.7%).

In 2020, net interest income was NOK 76.7 million, up from NOK 64.6 million in 2019. The increase in net interest income was mainly due to growth of the balance sheet, but also due to some improvement of the interest margin. Average total assets in 2020 were NOK 9.3 billion, versus NOK 8.6 billion in 2019. Net interest income in percent of total assets was 0.82% for the year as a whole, up from 0.75% in 2019.

Operating cost amounted to NOK 18.7 (18.1) million in 2020.

Losses on loans (step 1 and 2 provisions) were NOK 1.2 million for the year. In 2019, the company experienced reversals of NOK 0.9 million. Increased provisions for future losses have to be seen in the context of the ongoing Corona pandemic, and are a consequence of discretionary adjustments of the loss models. The adjustments were implemented to account for increased risk of unemployment, defaults and losses (see Note 6).

## Balance sheet and asset management

At the end of 2020, SSB Boligkreditt managed assets totaling NOK 9.6 (9.0) billion. Loans to customers constituted NOK 8.9 (7.9) billion. As of 12/31/2020, SSB Boligkreditt had issued covered bonds with a face value of NOK 7.6 (7.5) billion. The Company had no holdings of own bonds.

At the end of the year, the over-collateralization level was 21.1%, which is 17.1 percentage points above the 4% rating requirement. Please refer to Note 22 for more details regarding the calculation.

The Other liabilities item includes debt to the Parent Bank of NOK 1.0 (0.9) million. This is related to bridge financing of SSB Boligkreditt's purchase of a loan portfolio 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

Most local economic indicators in Rogaland have been on a stable positive trend from 2016 until the start of 2020. There has been steady growth in both investments, production and employment. The economy has a high degree of capacity utilization, with a registered unemployment rate of 2.2% at the start of the year. Due to the drop in oil prices in 2014, in recent years there has been significant focus by the oil service industry on cost reduction, competency improvement, digitalization and diversification, in order to improve competitiveness and reduce vulnerability.

On March 12, severe restrictions were introduced in Norway and Rogaland in order to limit the dissemination of the Corona virus, that lead to a significant close-down of society. The authorities passed major economic aid packages, Norges Bank (Norway's central bank) reduced its policy rate from 1.5% to 0%, and lowered the capital requirements for banks by 1.5%, by reducing the counter-cyclical buffer.

In the second and third quarter there was again a positive trend in the Rogaland economy. In the fourth quarter, new restrictions were introduced to limit contagion. At the end of the year, there is still a great deal of uncertainty related to the long-term effects for the economy of the region.

The unemployment rate in Rogaland was 3.5% at the end of the year, which was a little lower than the country average of 3.8%. Unemployment was stable in the last quarter, but fell from 4.8% for the second half. The travel industry, in particular, has a high unemployment rate.

The regional network survey from the Norwegian Central Bank is reporting a good activity level among the companies in the region, but many are awaiting the course of events with respect to new investments.

The oil price increased to USD 52 at the end of the year. This is a decline for the year as a whole, but a significant improvement from the collapse in March. With respect to the Rogaland economy, the oil price volatility contributes to strengthen economic uncertainty, but the activity level has been more stable than feared. The authorities' package of measures directed at the oil industry, has contributed positively to the stimulation of activity in the industry.

The Rogaland property market developed positively during the year, with a price increase of 5.2%. Although home prices have been more or less flat during the past six years, the number of transactions is increasing, and the stock of unsold homes is on its way down. This indicates a better relationship between the supply of and demand for housing. The low interest rate level has contributed positively to developments.

With the exception of March and April, the market for covered bonds worked well in 2020. At the start of 2020, the price of 5-year covered bond financing was in the area NIBOR +35 to +40 basis points, dependent on the size of the issue. At the end of the year, the pricing was about 10 basis points lower.

3 month NIBOR started the year at 1.84% and ended it at 0.49%. On average, NIBOR was 0.70% in 2020, down from 1.55% in 2019.

## 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 2020, the Company had a portfolio of home loans valued at NOK 8.9 billion. The average loan to value (LTV) of the portfolio is 53%. At the end of the quarter, 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 uses financial derivatives in order to keep the above mentioned risks at a low level. All bonds issued with a fixed rate are hedged to a floating rate with 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 has no currency risk. The Board of Directors considers the overall market risk to be low.

### Liquidity risk

This is the risk of the Company not being able to refinance upon maturity, or not being able to finance its assets at market terms. As of 12/31/2020, the net debt financing becoming due during the next 12 months, is NOK 93 million. The Company's liquidity reserves were NOK 484 million, and that entails that the Company will not have any net refinancing requirements during the next 12 months. Furthermore, the covered bonds issued by SSB Boligkreditt have a soft-bullet structure with an extended maturity as part of the loan agreement. Such a clause is standard in the Norwegian covered bond market. It provides the issuer with the option of extend 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 transfer and servicing agreement 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

The macro economic conditions in the region have been improving in recent years, and have been characterized by a high level of activity. The long-term economic consequences of the Corona pandemic are still somewhat uncertain, but vaccination of the population has started, and that contributes to a more optimistic view of the future. At the end 2020, the situation is stable for most customers. The Sandnes Sparebank Group is well positioned in the market, and is expecting lending growth also going forward. Thus SSB Boligkreditt also expects growth of the loan portfolio in 2021. The growth will be financed by issuance of covered bonds in the Norwegian market.

SSB Boligkreditt is well prepared both with respect to stable operations and financial solvency. At of 12/31/2020, SSB Boligkreditt had a Common Equity Tier-1 capital ratio (CET-1) of 17.1%. In March, the counter cyclical buffer was reduced to 1%, and thus, the regulatory requirement to subordinated capital is 14.5%, including 11.0% of CET-1 capital and 3.5% of additional capital in the form of hybrid capital and subordinated loans. The Board of Directors' CET-1 capital ratio objective is the same as the regulatory subordinated capital requirement, i.e. 14.5% as of 12/31/2020.

The Company's covered bonds have a AAA-rating with a stable outlook from Scope Ratings, and it is expected to be maintained.

## Proposal for the allocation of annual profits

Annual profits for 2020 were NOK 45 million. The entire profits of the year are proposed transferred to retained earnings.

Sandnes, March 16, 2021 | The Board of Directors of SSB Boligkreditt AS

**Erik Kvia Hansen**
Chairman of the Board

**Arild Ollestad**
Director

**Lene Nevland Sivertsen**
Director

**Tomas Nordbø Middelthon**
Director

**Carl Fredrik Hjelle**
Managing Director

# Key figures as of 12/31/2020

## Profit summary

| NOK '000 | The year 2020 | The year 2019 |
|---|---|---|
| Net interest income | 76 698 | 64 642 |
| Other operating income | 655 | -6 495 |
| Other operating cost | 18 718 | 18 069 |
| Net loss/writedowns | 1 274 | -889 |
| **Operating profit before taxes** | **57 363** | **40 967** |
| Tax cost | 12 397 | 9 261 |
| **Operating profit after taxes** | **44 966** | **31 707** |
| Other income and cost (after taxes) | | |
| **Total profits** | **44 966** | **31 707** |

## Balance sheet excerpts

| NOK millions | The year 2020 | The year 2019 |
|---|---|---|
| Total assets | 9 577 | 9 026 |
| Average total assets | 9 301 | 8 582 |
| Loans to customers | 8 920 | 7 897 |
| Notes and bonds | 473 | 795 |
| Equity capital | 612 | 567 |

## Key figures

| | The year 2020 | The year 2019 |
|---|---|---|
| **PROFITABILITY** | | |
| Net interest income in % of avg. total assets | 0.82 % | 0.75 % |
| Total cost in % of avg. total assets | 0.2 % | 0.2 % |
| Return on equity before taxes | 9.7 % | 7.4 % |
| Return on equity after taxes | 7.6 % | 5.7 % |
| **SOLVENCY** | | |
| Capital ratio | 17.1 % | 16.9 % |
| Tier-1 capital ratio | 17.1 % | 16.9 % |
| Common Equity Tier-1 capital ratio | 17.1 % | 16.9 % |
| Risk-weighted capital | 3 578 376 | 3 347 003 |

# Income statement



| NOK '000 | Note | The year 2020 | The year 2019 |
|---|---|---|---|
| Interest income measured with the yield method | 13 | 193 485 | 215 205 |
| Interest income measured at fair value | 13 | 7 408 | 10 874 |
| Interest and similar costs | 13 | 124 194 | 161 436 |
| **Net interest and credit commission income** | | **76 698** | **64 642** |
| Commission income and income from banking services | 14 | 33 | 46 |
| Net change in valuation of financial instruments | 15 | 623 | -6 541 |
| **Total other operating income** | | **655** | **-6 495** |
| Payroll cost | 16 | 40 | 40 |
| Other operating cost | 16 | 18 678 | 18 029 |
| Depreciation/writedowns | 16 | | |
| **STotal operating cost** | | **18 718** | **18 069** |
| Writedowns and losses on loans and guarantees | 9 | 1 274 | -889 |
| **Ordinary operating profit before taxes** | | **57 363** | **40 967** |
| Tax cost | 17 | 12 397 | 9 261 |
| **Ordinary profit after taxes** | | **44 966** | **31 707** |
| Other income and cost (after taxes) | | | |
| **Total profits** | | **44 966** | **31 707** |
| Allocation: | | | |
| Transferred to retained earnings | | 44 966 | 31 707 |

# Balance sheet

| NOK '000 | Note | 12/31/2020 | 12/31/2019 |
|---|---|---|---|
| Bank deposits | 18,19 | 16 234 | 271 031 |
| Loans to customers at amortized cost | 6-9,18,19 | 8 920 045 | 7 897 451 |
| Notes and bonds | 18,19,20 | 473 292 | 795 395 |
| Financial derivatives | 11,18,19 | 166 312 | 59 919 |
| Deferred tax asset | | | 24 |
| Prepaid cost and accrued income | 18,19 | 784 | 1 965 |
| **Total assets** | | **9 576 667** | **9 025 783** |
| Payable to credit institutions | 18,19 | 137 093 | 27 700 |
| Issued debt | 18,19,21 | 7 766 137 | 7 449 785 |
| Financial derivatives | 11,18,19 | 16 406 | 32 645 |
| Other liabilities | 12,18,19,23 | 1 032 405 | 939 490 |
| Taxes payable | 17 | 12 051 | 9 008 |
| Deferred taxes | | 543 | |
| Accrued expenses and received, not accrued income | 18,19 | 163 | 253 |
| **Total liabilities** | | **8 964 798** | **8 458 881** |
| Share capital | 24 | 227 600 | 227 600 |
| Share premium | | 122 500 | 122 500 |
| Other equity | | 261 768 | 216 802 |
| **Total equity** | | **611 868** | **566 902** |
| **Total liabilities and shareholders' equity** | | **9 576 667** | **9 025 783** |

Sandnes, March 16, 2021 | The Board of Directors of SSB Boligkreditt AS

**Erik Kvia Hansen**
Chairman of the Board

**Arild Ollestad**
Director

**Lene Nevland Sivertsen**
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 12/31/2018** | **227 600** | **122 500** | **185 094** | **535 194** |
| Profit or loss | | | 31 708 | 31 708 |
| **Equity capital as of 12/31/2019** | **227 600** | **122 500** | **216 802** | **566 902** |
| Profit or loss | | | 44 966 | 44 966 |
| **Equity capital as of 12/31/2020** | **227 600** | **122 500** | **261 768** | **611 868** |

# Cash flow statement

| NOK '000 | The year 2020 | The year 2019 |
|---|---|---|
| **Cash flow from operations** | | |
| Payment of interest, commissions and fees from customers | 194 698 | 213 286 |
| Net payment in/out in connection with trading of financial assets | -122 632 | 7 957 |
| Interest payments received on securities | 7 408 | 10 874 |
| Operational payables | -17 944 | -17 867 |
| Taxes | -8 811 | -10 788 |
| **Net cash flow from operations** | **52 719** | **203 461** |
| | | |
| **Cash flow from investment activities** | | |
| Net payment in/out in connection with trading of interest-bearing securities | 322 103 | -257 707 |
| **Net cash flow from investment activities** | **322 103** | **-257 707** |
| | | |
| **Cash flow from financing activities** | | |
| Net payments in/out on installment loans, lines of credit | -931 029 | -289 748 |
| Net deposits/loans from credit institutions | 109 393 | -8 502 |
| Placement of note and bond debt | 800 000 | 2 400 000 |
| Repayment of notes and bond debt | -483 648 | -1 726 969 |
| Distribution of dividends | | |
| Net interest payments made on funding activities | -124 335 | -161 396 |
| **Net cash flow from funding activities** | **-629 618** | **213 385** |
| | | |
| Net cash flow for the period | -254 797 | 159 138 |
| Cash and cash equivalents at the beginning of the period | 271 031 | 111 893 |
| Cash and cash equivalents at the end of the period | 16 234 | 271 031 |

# Notes

# Content

# 1 GENERAL INFORMATION

SSB Boligkreditt AS is a wholly owned subsidiary of Sandnes Sparebank. The Company was established to be the Parent Bank's company for the issue of covered bonds. SSB Boligkreditt AS offers home 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 2020 Financial Statements were approved by the Board of Directors on March 16, 2021.

# 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 1, 2005.

The accounts of SSB Boligkreditt AS have been prepared in accordance with Norwegian Regulations on annual accounts for banks, mortgage companies and finance companies § 1-4, 2nd paragraph b. The regulations entail the right to recognize allocated dividends and group contributions in subsidiaries as income and present the board's proposals to dividends and group contributions as debt on the balance sheet date. According to full IFRS-standards, dividends are to be classified as equity until they are resolved at the general assembly. Otherwise, the regulation entails that the company fully applies the accounting principles that follow from IFRS.

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 2020 financial year

No new standards or interpretations that have been employed as of the 2020 financial year, may be considered to have a materially impact on the financial statements of 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 installments, 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 Group 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. IFRS 9 simplifies the requirements to hedge accounting by associating the hedging efficiency closer to risk management, and this provides more room for discretion. The requirement of a hedging efficiency of 80–125 percent, has been removed, and is replaced by a more qualitative requirement, including that there must be a financial link between the hedging instrument and the hedged object, and that credit risk shall not dominate the changes in the value of the hedging instrument.

According to IFRS 9, it is sufficient with a prospective efficiency test. Hedging documentation is still required.

### 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**

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.

On August 27, 2020, the phase II project of the IBOR reform was completed. This entails changes to, inter alia, IFRS 7 and IFRS 9, due to the change of reference rate. The changes became effective as of January 1, 2021.

**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 ongoing Corona crisis has been challenging for the Company's estimation of expected credit losses. On the date of the balance sheet, there are limited indications of a general impairment of the credit quality of the loan portfolio. However, the Company expects that, over time, the Corona crisis will be reflected by the Bank's risk models, by inter alia, increased unemployment in the retail customer segment. It is still too early to see all the effects of the ongoing crisis, and how this will have a concrete impact on the Bank's customers. In 2020, due to the uncertainty, the Bank has elected to adjust down the macroeconomic assumptions used in the loss model, and carried out discretionary adjustments up of PD's in the retail customer segment. Seen in isolation, this will entail increased provisions for losses. Please refer to further descriptions thereof in Note 6.

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

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| **CAPITAL RATION** | | |
| Share capital | 227 600 | 227 600 |
| Share premium | 122 500 | 122 500 |
| Other equity | 261 768 | 216 802 |
| Equity capital | 611 868 | 566 902 |
| Deduction for goodwill and other intangible assets | | -24 |
| Deduction prudent valuation | -638 | -864 |
| Total Tier-1 capital | 611 231 | 566 015 |
| **Subordinated capital** | **611 231** | **566 015** |
| | | |
| **RISK-WEIGHTED CAPITAL** | | |
| Credit risk – standardized approach | 3 443 116 | 3 159 767 |
| Operational risk | 135 259 | 137 877 |
| CVA risk | | 49 359 |
| **Calculation base** | **3 578 376** | **3 347 003** |
| **Capital ratio** | **17,1** | **16,9** |
| **Tier-1 capital ratio** | **17,1** | **16,9** |
| **Core Tier-1 capital ratio** | **17,1** | **16,9** |
| | | |
| **SPECIFICATION OF CALCULATION BASE** | | |
| Standardized approach | | |
| Institutions | 37 830 | 72 154 |
| Companies | | |
| Loans secured by real estate | 3 358 788 | 2 894 322 |
| Overdue loans | 2 653 | |
| Covered bonds | 43 062 | 75 320 |
| Others | 784 | 117 971 |
| Credit risk | 3 443 116 | 3 159 767 |
| | | |
| Operational risk | 135 259 | 137 877 |
| | | |
| CVA risk | | 49 359 |
| | | |
| **Total calculation base** | **3 578 376** | **3 347 003** |

SSB Boligkreditt applies the standardized approach to the capital adequacy measurements.

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

The Company has an internal capitalization policy which requires a CET-1 ratio above the minimum total capital requirement of the Norwegian FSA, calculated on the basis of the standardized approach. The adopted capitalization policy shall contribute to the Company having equity capital of a sufficient size 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) and
- 60% of total retail loans of Sandnes Sparebank.

# 5 RISK MANAGEMENT

The Board of Directors of SSB Boligkreditt AS puts great emphasis 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 cover pool.

As of 12/31/2020, the Company had a portfolio of home mortgages of NOK 8.9 (7.9) billion, with an average loan to value ratio of 52.9% (53.6%). 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 increased funding cost. 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 are in place to ensure reporting of undesirable events.

# 6 CREDIT RISK

| Maximum exposure to credit risk | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Bank deposits | 16 234 | 271 031 |
| Loans to customers | 8 920 045 | 7 897 451 |
| Financial derivatives | 166 312 | 59 919 |
| Prepaid cost and accrued income | 784 | 1 965 |
| **Total credit risk exposure in balance sheet items** | **9 103 375** | **8 230 365** |
| Unused credit facilities and loan grants | 1 022 620 | 1 039 181 |
| **Total credit exposure** | **10 125 995** | **9 269 546** |

As of 12/31/2020, the Company had a portfolio of home loans valued at NOK 8.9 billion. At the same point in time, no substantial loan amounts 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. The models vary on the basis of how much and what kind of information is available for each individual customer. This means that for new customers, the models start with publicly available information, whereas for existing customers, internal behavioral history.

The models calculate a score that may be recomputed into a probability of default, and then be assigned a risk category. Currently, the Bank is using an A to K classification, where A is best and K are customers who are in default or have loans subject to individual writedown. The model is tested regularly and is recalibrated when necessary, most recently in the second quarter. At that time, a general upward adjustment of PD estimates was made, in order to also capture increased uncertainty related to the Corona situation.

The below table shows the intervals for the different risk classes.

PD-intervals for risk classification

| Risk class | PD |
|---|---|
| A | 0.050 % |
| B | 0.175 % |
| C | 0.375 % |
| D | 0.625 % |
| E | 1.000 % |
| F | 1.625 % |
| G | 2.500 % |
| H | 4.000 % |
| I | 6.500 % |
| J | 20.000 % |

In addition, all loans are assigned a value for loss given default (LGD). This is set on the basis of an assessment of the loan's size versus the value of the collateral. Home values are adjusted quarterly with the used of updated market value data from Eiendomsverdi (a valuation company).

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 LGD is the basis for 3 risk categories.

| 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 % |

**Details of the ECL model**

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.

The model used by SSB Boligkreditt to compute expected losses, has operationalized a low risk exception by making it possible to assume that there has not been a significant increase in the credit risk of loans considered to have a low credit risk at the time of reporting, provided there are no other changes with respect to the customer than a statistically computed increase in PD of less than 0.5 percentage points, and that the customer has had a 12-month PD under 1%. Correspondingly, the requirement is 2 percentage points when you get over a 12-month PD of 1%. In practice, this means that the vast majority of customers will move to step 2 if you migrate a rating category for loans with default probability above 1% in the first place, while it can migrate up to three classes for those with the lowest risk before moving to step 2. It is considered proper to use the exception in order to avoid that low probability of default risk, migrate to step 2 due to small absolute changes in probability of default. 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.

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. Subjective evaluations without quarantine time apply to migration out of step 3 and back to 2 or 1.

SSB Boligkreditt 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 SSB Boligkreditt adapts 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.

As of 12/31/2020, the Company has the following expectations regarding the development of the macro variables:

| | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| **NORMAL GROWTH AND DEVELOPMENT** | | | | |
| Unemployment rate (level) | 4.5 % | 4.3 % | 4.1 % | 4.1 % |
| Household debt (change) | 1.0 % | 1.0 % | 1.0 % | 1.2 % |
| Average bank loan rate (level) | 1.8 % | 1.8 % | 1.8 % | 1.8 % |
| Oil price (USD per barrel) | 43 | 46 | 48 | 48 |
| **THE DOWNSIDE SCENARIO** | | | | |
| Unemployment rate (level) | 5.0 % | 4.8 % | 4.6 % | 4.6 % |
| Household debt (change) | -2.0 % | -2.0 % | 1.0 % | 0.7 % |
| Average bank loan rate (level) | 0.6 % | 0.6 % | 0.6 % | 0.6 % |
| Oil price (USD per barrel) | 26 | 28 | 28 | 28 |
| **THE HIGH GROWTH SCENARIO** | | | | |
| Unemployment rate (level) | 3.9 % | 3.7 % | 3.5 % | 3.5 % |
| Household debt (change) | 0.9 % | 0.9 % | 1.0 % | 1.7 % |
| Average bank loan rate (level) | 3.0 % | 3.0 % | 3.0 % | 3.0 % |
| Oil price (USD per barrel) | 63 | 66 | 68 | 68 |

As of 12/31/2020, the weighting of the scenarios is 2/3 for the base expectation, 1/6 for the positive scenario and 1/6 for the negative scenario. This is used to generate multipliers for future expectations in the ECL model, which affect the writedowns at step 1 and step 2. Individual values are calculated for the different counties.

The 'Normal Growth and Development' scenario is based on SSB estimates from September 2020. A scenario where economic growth recovers after at big setback in previous years.

Leverage is increasing markedly this year, where income is suffering, due to the temporary crisis of the Norwegian business community, but credit growth is no more than normal – in line with prior years.

Home prices are assumed to increase by 3 percent annually going forward, which is about half the price growth seen so far during the 2000's. The home price growth is lower because wage and price growth is generally lower than previously. Neither will we get the tremendous drop in interest rates that we have experienced during this millennium. A rate drop which in prior years probably gave home prices a lift.

The 'Downside Scenario' is based on a standard deviation plus/minus from the relevant time series.

**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. Unused credit facilities have an EAD equal to the outstanding unused credit at time of reporting.

## Share of exposure (EAD) distributed on risk category and step

### 12/31/2020

| | Risk category | | | | |
|---|---|---|---|---|---|
| Step | Low | Medium | High | Non-perf/loss | Total |
| 1 | 88 % | 0 % | 0 % | 0 % | 89 % |
| 2 | 8 % | 1 % | 2 % | 0 % | 11 % |
| 3 | 0 % | 0 % | 0 % | 0 % | 0 % |
| **SUM** | **97 %** | **1 %** | **2 %** | **0 %** | **100 %** |

### 12/31/2019

| | 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 % |
| **SUM** | **97 %** | **1 %** | **2 %** | **0 %** | **100 %** |

## Total loans to retail customers by risk group

### 12/31/2020

| Risk classes | Loans to customers | Guarantees | Unused limit | Total loans and advances | Percentage |
|---|---|---|---|---|---|
| Low | 8 597 259 | | 1 022 279 | 9 619 538 | 96.8 % |
| Medium | 149 242 | | | 149 242 | 1.5 % |
| High | 171 983 | | 341 | 172 324 | 1.7 % |
| Non-perf/writedowns | 1 561 | | | 1 561 | 0.0 % |
| **Total** | **8 920 045** | | **1 022 620** | **9 942 665** | **100.0 %** |

### 12/31/2019

| Risk classes | Loans to customers | Guarantees | Unused limit | Total loans and advances | Percentage |
|---|---|---|---|---|---|
| Lav | 7 628 250 | | 1 032 171 | 8 660 421 | 96.9 % |
| Middels | 129 927 | | 6 581 | 136 508 | 1.5 % |
| Høy | 139 274 | | 429 | 139 703 | 1.6 % |
| **Sum** | **7 897 451** | | **1 039 181** | **8 936 632** | **100.0 %** |

## Aging distribution, loans due

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

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| 1-30 days | 50 516 | 44 730 |
| 31-60 days | 14 473 | 24 867 |
| 61-90 days | | 4 036 |
| More than 90 days | | |
| **Total** | **64 989** | **73 633** |

# 7 LOANS TO CUSTOMERS

## Loans to customers

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Loans to customers, at fair value | | |
| Loans to customers, at amortized cost | 8 920 045 | 7 897 451 |
| **Net lending to customers** | **8 920 045** | **7 897 451** |

# 8 LOANS BY GEOGRAPHIC REGION AND BUSINESS SECTOR

| By geography | Lending | | Unused credit facilities | |
|---|---|---|---|---|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Rogaland | 7 845 426 | 6 999 734 | 937 742 | 930 225 |
| Oslo/Akershus | 460 649 | 547 962 | 36 942 | 75 653 |
| Other counties | 601 175 | 326 440 | 47 936 | 25 313 |
| Abroad | 17 800 | 27 094 | | 7 989 |
| **Total** | **8 925 049** | **7 901 231** | **1 022 620** | **1 039 181** |

| By business sector | Lending | | Unused credit facilities | |
|---|---|---|---|---|
| | 12/31/2020 | 12/31/2019 | 12/31/2020 | 12/31/2019 |
| Distributive trade | | | | |
| Retail customers and others | 8 925 049 | 7 901 231 | 1 022 620 | 1 039 181 |
| Writedowns | -5 004 | -3 780 | | |
| **Net lending** | **8 920 045** | **7 897 451** | **1 022 620** | **1 039 181** |

# 9 WRITE-DOWNS AND LOSSES ON LOANS

| Losses on loans and guarantees | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Changes in provisions for losses during the period, step 1 | 242 | 745 |
| Changes in provisions for losses during the period, step 2 | 1 031 | (1 634) |
| 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** | **1 274** | **(889)** |

There are no significant doubtful or defaulted commitments per. 31.12.2020.

# 12/31/2020

## 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 01/01/2020** | **2 279** | **1 615** | | **3 893** |
| Movements with impact on earnings: | | | | |
| Transfers: | | | | |
| Transfers from Step 1 to Step 2 | -547 | 1 253 | | 706 |
| Transfers from Step 2 to Step 1 | 83 | -1 029 | | -946 |
| New loans and guarantees added during the period | 282 | 78 | | 360 |
| Disposals of loans and guarantees during the period | -963 | -381 | | -1 344 |
| Changes during the period for loans and guarantees not migrated | -203 | -107 | | -311 |
| Other adjustments | 1 591 | 1 217 | | 2 808 |
| **Provisions for losses as of 12/31/2020** | **2 521** | **2 646** | | **5 167** |
| Recognized as a reduction of loans to / claims on credit institutions | | | | |
| Recognized as a reduction of loans to customers | | | | 5 004 |
| Recognized as provisions for debit items | | | | 163 |
| **Total provisions for losses as of 12/31/2020** | | | | **5 167** |

## 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 01/01/2020** | **7 450 368** | **721 895** | | **8 172 263** |
| Transfers: | | | | |
| Transfers between Step 1 and Step 2 | -508 846 | 508 846 | | |
| Transfers between Step 1 and Step 3 | -450 | | 450 | |
| Transfers between Step 2 and Step 1 | 308 904 | -308 904 | | |
| Transfers between Step 2 and Step 3 | | -863 | 863 | |
| | 1 327 325 | 158 046 | | 1 485 371 |
| New loans and guarantees added during the period | -711 392 | -4 959 | | -716 351 |
| Changed provisions for losses during the period for loans and guarantees not migrated incl.disposals | | | | |
| **Gross loans and guarantees recognized in the balance sheet as of 12/31/2020[1]** | **7 865 908** | **1 074 062** | **1 313** | **8 941 282** |

1 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.

## 12/31/2019

### 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 01/01/2019** | **1 533** | **3 248** | | **4 781** |
| Movements with impact on earnings: | | | | |
| Transfers: | | | | |
| Transfers from Step 1 to Step 2 | -106 | 576 | | 470 |
| Transfers from Step 2 to Step 1 | 199 | -1 836 | | -1 637 |
| 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 12/31/2019** | **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 12/31/2019** | | | | **3 893** |

### 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 01/01/2019** | **6 720 603** | **805 736** | | **7 526 340** |
| Transfers: | | | | |
| Transfers between Step 1 and Step 2 | -273 210 | 273 210 | | |
| Transfers between Step 2 and Step 1 | 353 938 | -353 938 | | |
| New loans and guarantees added during the period | 1 283 615 | 72 114 | | 1 355 728 |
| Changed provisions for losses during the period for loans and guarantees not migrated incl. disposals | -634 578 | -75 227 | | -709 805 |
| **Gross loans and guarantees recognized in the balance sheet as of 12/31/2019**[1] | **7 450 368** | **721 895** | | **8 172 263** |

1 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 analyzes

The write-down model for calculating ECL on the commitments is based on several critical assumptions, including, among other things, the probability of default, losses due to default and general macro development. The model and the loss estimates are thus vulnerable to changes in the assumptions that have been set - the corona outbreak and the crisis in the Norwegian economy reinforce the uncertainties in the estimates.

It is still difficult to predict how the crisis will affect house prices in the future and currently no possible fall in house prices has been taken into account as a result of redundancies and generally lower economic activity and consumption. NHO estimated in the first quarter that house prices could fall to 9-10% during the year.

Reduced house prices weaken the value of mortgage collateral. In addition, increased unemployment will affect the likelihood of default. Statistics Norway estimated unemployment up to 6% while the IMF is even more pessimistic and predicted unemployment up to 13-14%. With regard to general macro prospects, these are significantly weaker than was the case as of 31.12.19. Both the sharp fall in oil prices and the increase in unemployment have a negative effect on the macro indicators. The Norwegian FSA's stress test scenario is based on significantly weaker macro assumptions going forward than was the case as of 31.12.19. SSB Boligkreditt has consequently reproduced loss estimates given changes in key assumptions for the purpose of illustrating how the loss estimates are affected by individual factors and given scenarios.

As of 31 December 2020, sensitivity analyzes have been performed for the following factors and scenarios;

- The future will be as it is today (unchanged expectation)
- Life expectancy equals full maturity
- Probability of default (PD) up 10%
- Probability of default (PD) down 10%
- Increased unemployment (IMF scenario)
- Significantly weakened macro scenario

In the two adjustments of default probability, it is assumed that the probability of default for all customers except those in default increases and respectively decreases by 10%.

If customers fall in credit quality, they will have a harder time getting refinanced loans and at the same time have a lower ability to repay or make additional payments.

The scenario of expected maturity equal to full maturity, assumes that all loans go to final maturity and that all outstanding loans are fully utilized.

The expectations for the future are in the main scenario negative (based on a weighting of a positive- a negative-, as well as a main expectation).

In the scenario that "The future will be as it is today", the expectation = 1 ie. neither positive nor negative.

The last two scenarios are crisis scenarios. The first of them being tested against an increase in unemployment that goes up to 13.5%, where we expect that up to 10% of our customers have serious payment problems. In the second scenario a general economic weakening is also added and in addition to significant reduced property values.

Resultat av sensitivitetsanalyse;

| | Uendret forventning til fremtiden | Full løpetid | PD oppjustert 10 % | PD nedjustert 10 % | Arb. Ledighet 13.5 % | Fin tilsyn stress |
|---|---|---|---|---|---|---|
| Percentage change in loss provision per 31.12.2020 | -5.2 % | 11.8 % | 9,1 % | -7.7 % | 126.5 % | 75.8 % |
| Percentage change in loss provision per 31.12.2019 | 2.7 % | 7.0 % | 5.8 % | -5.7 % | 177.7 % | 64.8 % |

# 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 12/31/2020, the Company has issued bonds with a nominal value of NOK 7.8 billion, of which NOK 5.4 billion carry a floating rate.

## Time to repricing date (gap) for assets and liabilities

| 12/31/2020 | Up to 1 month | 1-3 months | 3 months-1 year | 1-5 years | More than 5 years | No interest exposure | 12/31/2020 |
|---|---|---|---|---|---|---|---|
| Bank deposits | 16 234 | | | | | | 16 234 |
| Loans to customers | 15 754 | 8 904 291 | | | | | 8 920 045 |
| Notes and bonds | 79 292 | 394 000 | | | | | 473 292 |
| Financial derivatives | -314 172 | -1 956 987 | | 954 567 | 1 482 903 | | 166 312 |
| Other assets | 784 | | | | | | 784 |
| **Total assets** | **-202 108** | **7 341 304** | | **954 567** | **1 482 903** | | **9 576 667** |
| Payable to credit institutions | 137 093 | | | | | | 137 093 |
| Debt established through the issue of securities | | 5 396 583 | | 911 850 | 1 457 704 | | 7 766 136 |
| Financial derivatives | | 16 406 | | | | | 16 406 |
| Other liabilities | 1 045 162 | | | | | | 1 045 162 |
| Equity capital | | | | | | 611 868 | 611 868 |
| **Total liabilities and shareholders' equity** | **1 182 256** | **5 412 989** | | **911 850** | **1 457 704** | **611 868** | **9 576 666** |
| Net liquidity exposure, balance sheet items | -1 070 192 | 3 901 708 | | -911 850 | -1 457 704 | -611 868 | -149 906 |
| Notional value of derivatives | -314 172 | -1 973 393 | | 954 567 | 1 482 903 | | 149 906 |
| **Net total all items** | **-1 384 364** | **1 928 315** | | **42 717** | **25 199** | **-611 868** | |

| 12/31/2019 | Up to 1 month | 1-3 months | 3 months-1 year | 1-5 years | More than 5 years | No interest exposure | 12/31/2019 |
|---|---|---|---|---|---|---|---|
| Bank deposits | 271 031 | | | | | | 271 031 |
| Loans to customers | 18 602 | 7 878 849 | | | | | 7 897 451 |
| Notes and bonds | 106 395 | 689 000 | | | | | 795 395 |
| Financial derivatives | -316 240 | -1 113 142 | 103 003 | 832 317 | 553 982 | | 59 919 |
| Other assets | 1 988 | | | | | | 1 988 |
| **Total assets** | **81 775** | **7 454 707** | **103 003** | **832 317** | **553 982** | | **9 025 783** |
| Payable to credit institutions | 27 700 | | | | | | 27 700 |
| Debt established through the issue of securities | | 4 844 746 | | 1 246 072 | 1 358 967 | | 7 449 785 |
| Financial derivatives | | 911 955 | | -343 523 | -535 787 | | 32 645 |
| Other liabilities | 948 751 | | | | | | 948 751 |
| Equity capital | | | | | | 566 902 | 566 902 |
| **Total liabilities and shareholders' equity** | **976 451** | **5 756 701** | | **902 548** | **823 180** | **566 902** | **9 025 783** |
| Net liquidity exposure, balance sheet items | -578 435 | 3 723 103 | | -1 246 072 | -1 358 967 | -566 902 | -27 274 |
| Notional value of derivatives | -316 240 | -2 025 097 | 103 003 | 1 175 840 | 1 089 769 | | 27 274 |
| **Net total all items** | **-894 676** | **1 698 006** | **103 003** | **-70 232** | **-269 198** | **-566 902** | |

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, 2020, 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 12/31/2020, 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 all important financial counterparties.

| | 2020 | Fair value as of 12/31/2020 | | 2019 | Fair value as of 12/31/2019 | |
|---|---|---|---|---|---|---|
| | Contractual amount | Positive market value [1] | Negative market value [1] | Contractual amount | Positive market value [1] | Negative market value [1] |
| Interest rate agreements [2] | 2 318 000 | 166 312 | 16 406 | 2 568 000 | 59 919 | 32 645 |
| Currency exchange rate agreements | | | | | | |
| **Total financial derivatives** | **2 318 000** | **166 312** | **16 406** | **2 568 000** | **59 919** | **32 645** |
| [2] Of which used for hedging purposes | 2 318 000 | 166 312 | 16 406 | 2 568 000 | 59 919 | 32 645 |

1 Market values of financial derivatives are presented including accrued (not capitalized) interest as of 31.12.

**Hedge accounting**

The Company applies hedge accounting for fair value hedging of 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 12/31/2020, 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 12/31/2020

| 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 | 2 318 000 | 166 312 | 16 406 | Finansielle derivater | 116 292 |
| **Total** | **2 318 000** | **166 312** | **16 406** | | **116 292** |

## Information about hedging objects

| Type of hedging object | Nominal amount of hedging object | Amount of hedging object recognized through the balance sheet [1] | 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 | 2 318 000 | 2 465 118 | 112 698 | Debt securities in issue | -116 292 |
| **Total** | **2 318 000** | **2 465 118** | **112 698** | | **-116 292** |

## Information about hedging instruments

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

1 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 time to maturity.

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

| 12/31/2020 | Up to 1 month | 1-3 months | 3 months - 1 year | 1-5 years | More than 5 years | No residual maturity | 2020 |
|---|---|---|---|---|---|---|---|
| Debt to credit institutions | 137 093 | | | | | | 137 093 |
| Issued bonds | | 93 000 | | 6 200 000 | 1 325 000 | | 7 618 000 |
| Other liabilities | | | | | | 1 045 162 | 1 045 162 |
| Financial derivatives, gross settlement | 664 | 23 443 | 2 226 | | | | 26 333 |
| Contractual interest payments | | 26 751 | 42 450 | 191 880 | 101 325 | | 362 406 |
| **Contractual interest payments** | **137 757** | **143 194** | **44 676** | **6 391 880** | **1 426 325** | **1 045 162** | **9 188 994** |

| 12/31/2019 | Up to 1 month | 1-3 months | 3 months - 1 year | 1-5 years | More than 5 years | No residual maturity | 2019 |
|---|---|---|---|---|---|---|---|
| Debt to credit institutions | 27 700 | | | | | | 27 700 |
| Debt securities in issue | 347 000 | 343 000 | | 5 400 000 | 1 325 000 | | 7 415 000 |
| Other liabilities | | | | | | 948 751 | 948 751 |
| Financial derivatives, gross settlement | 62 822 | 23 443 | 2 226 | | | | 88 491 |
| Contractual interest payments | 130 246 | 26 174 | 44 295 | 191 880 | 101 325 | | 493 920 |
| **Contractual interest payments** | **567 768** | **392 617** | **46 521** | **5 591 880** | **1 426 325** | **948 751** | **8 973 862** |

As of 12/31/2020, the liquidity risk is assumed to be low.

## 13 NET INTEREST INCOME

| | 2020 | 2019 |
|---|---|---|
| **INTEREST INCOME MEASURED WITH THE YIELD METHOD** | | |
| Interest received on loans to credit institutions | 641 | 2 250 |
| Interest received on loans to customers | 192 844 | 212 955 |
| **Total interest income measured with the yield method** | **193 485** | **215 205** |
| | | |
| Interest income from securities | 7 408 | 10 874 |
| **Total interest income measured at fair value** | **7 408** | **10 874** |
| | | |
| **INTEREST COST** | | |
| Interest cost on subordinated loan capital, measured with the yield method | 13 691 | 21 313 |
| Interest cost on securities, measured with the yield method | 135 201 | 148 926 |
| Interest on financial derivatives as hedging instruments | (26 600) | (9 801) |
| Other interest cost | 1 901 | 998 |
| **Total interest cost** | **124 194** | **161 436** |
| | | |
| **Net interest income** | **76 698** | **64 642** |

## 14 NET COMMISSION INCOME AND INCOME FROM BANKING SERVICES

| Other fees | 2020 | 2019 |
|---|---|---|
| Commission income and income from banking services | 33 | 46 |
| Commission costs and costs of banking services | | |
| **Net commission income and income from banking services** | **33** | **46** |

## 15 NET CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS AT FAIR VALUE

| Net change in valuation of financial instruments | 2020 | 2019 |
|---|---|---|
| Net change in valuation of notes and bonds, measured at fair value | 623 | -580 |
| Gains/losses on writedowns on own bonds, measured at amortized cost | | -5 962 |
| Net change in valuation of financial derivatives, hedging | 116 292 | -13 112 |
| Net change in valuation of hedged financial liabilities | -116 292 | 13 112 |
| Net change in valuation of hedged items | | |
| **Net change in valuation of financial instruments** | **623** | **-6 541** |

# 16 OPERATING COST

| Operating cost | 2020 | 2019 |
|---|---|---|
| Wages | 35 | 35 |
| Social security cost | 5 | 5 |
| **Payroll and general administrative costs** | **40** | **40** |
| | | |
| Audit fee | 154 | 111 |
| Other audit related services | 203 | 146 |
| Tax assistance | | |
| Other assistance | | |
| Total auditors' fees, incl. VAT | 358 | 257 |
| | | |
| Management fee | 16 950 | 16 950 |
| Other administrative costs | 104 | 72 |
| Consultancy fees | 359 | 128 |
| Other operating cost | 907 | 622 |
| **Total other operating costs** | **18 678** | **18 029** |
| | | |
| Depreciation | | |
| **Total depreciation and writedowns** | | |
| | | |
| **Total operating cost** | **18 718** | **18 069** |

In 2020, 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 | 2020 | 2019 |
| --- | --- | --- |
| **Taxes payable** | | |
| Annual tax cost | 12 051 | 9 008 |
| Correction of prior years' tax cost | -221 | |
| Change in deferred taxes | 567 | 252 |
| **Total tax on ordinary profit** | **12 397** | **9 261** |

| RECONCILIATION OF TAX COST AGAINST PROFIT BEFORE TAXES | 2020 | 2019 |
| --- | --- | --- |
| Profit before taxes | 57 363 | 40 967 |
| 22% of pre-tax profit | 12 620 | 9 013 |
| Permanent differences | -2 | -4 |
| Change in deferred taxes | | 252 |
| Impacts of changed taxation rules | | |
| Adjustment of tax for previous years | -221 | |
| **Total tax on ordinary profit** | **12 397** | **9 261** |
| Effective tax rate | 22 % | 23 % |

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

| DEFERRED TAX ASSETS / DEFERRED TAXES | 12/31/2020 | 12/31/2019 |
| --- | --- | --- |
| Financial instruments | -543 | 24 |
| **Total deferred tax assets / deferred taxes** | **-543** | **24** |

| RECONCILIATION OF DEFERRED TAX BENEFIT/DEFERRED TAXES | 12/31/2020 | 12/31/2019 |
| --- | --- | --- |
| Deferred tax benefit as of 1/1 | 24 | 276 |
| Change recognized in the income statement | -567 | -251 |
| **Total deferred tax assets / deferred taxes as of 12/31** | **-543** | **24** |

| BASIS FOR TAXES PAYABLE IN THE BALANCE SHEET | 12/31/2020 | 12/31/2019 |
| --- | --- | --- |
| Profit before taxes | 57 363 | 40 967 |
| **Basis for taxes payable** | **57 354** | **49 509** |
| 22% on the basis of taxes payable | 12 618 | 9 009 |
| Change in deferred taxes | -567 | -1 |
| **Taxes payable in the balance sheet** | **12 051** | **9 008** |

# 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.

## 12/31/2020

| 12/31/2020 | 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 | 16 234 | | | | 16 234 |
| Loans to customers | 8 920 045 | | | | 8 920 045 |
| Notes and bonds | | 473 292 | | | 473 292 |
| Financial derivatives | | | 166 312 | | 166 312 |
| Accrued income | | | | 784 | 784 |
| Other assets | | | | | |
| **Total assets** | **8 936 279** | **473 292** | **166 312** | **784** | **9 576 667** |
| **LIABILITIES** | | | | | |
| Payable to credit institutions | 137 093 | | | | 137 093 |
| Debt established through the issue of securities[1] | 7 766 137 | | | | 7 766 137 |
| Financial derivatives | | | 16 406 | | 16 406 |
| Accrued cost | | | | | |
| Provisions | 163 | | | | 163 |
| Other liabilities | 1 032 405 | | | 12 594 | 1 044 999 |
| **Total liabilities** | **8 935 798** | | **16 406** | **12 594** | **8 964 798** |

1 Securities debt is recognized at amortized cost. Hedge accounting is used for the Company's fixed rate bonds. As of 12/31/2020, the book value of fixed rate bonds is MNOK 2.465.

## 12/31/2019

| 12/31/2019 | 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** |

# 19 FAIR VALUE OF FINANCIAL INSTRUMENTS

| Fair value of financial instruments valued at amortized cost | 12/31/2020 | | 12/31/2019 | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| **ASSETS** | | | | |
| Cash and bank deposits | 16 234 | 16 234 | 271 031 | 271 031 |
| Loans to customers | 8 920 045 | 8 920 045 | 7 897 451 | 7 897 451 |
| Prepaid cost and accrued income | | | | |
| **Total assets** | **8 936 279** | **8 936 279** | **8 168 482** | **8 168 482** |
| **LIABILITIES** | | | | |
| Payable to credit institutions | 137 093 | 137 093 | 27 700 | 27 700 |
| Debt established through the issue of securities | 7 766 137 | 7 785 638 | 7 449 785 | 7 489 783 |
| Accrued expenses and received, not accrued income | 163 | 163 | 112 | 112 |
| Other liabilities | 1 032 405 | 1 032 405 | 939 490 | 939 490 |
| **Total liabilities** | **8 935 798** | **8 955 300** | **8 417 087** | **8 457 085** |

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 12/31/2020, 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 | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Government guaranteed bonds | 42 529 | 42 029 |
| Bonds (OMF) | 430 396 | 751 972 |
| Accrued interest | 367 | 1 394 |
| **Total notes and bonds at fair value** | **473 292** | **795 395** |
| Yield | 1.50 % | 1.93 % |
| Duration | 2.73 | 1.86 |

# 21 DEBT ESTABLISHED THROUGH THE ISSUE OF SECURITIES

| Securities debt | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Bond loan, discount deducted/premium added | 7 729 965 | 7 409 159 |
| Bond issues, own holdings | | |
| Accrued interest | 36 171 | 40 626 |
| **Total debt established through the issue of securities** | **7 766 137** | **7 449 785** |
| **Average interest rate on bond issues** | **1.32 %** | **2.34 %** |

| Change in securities debt | 12/31/2019 | Issued | Matured/ redeemed | Other changes | 12/31/2020 |
|---|---|---|---|---|---|
| Bond debt, nominal value | 7 415 000 | 800 000 | 597 000 | | 7 618 000 |
| Valuation adjustments | -5 841 | | | 117 807 | 111 966 |
| Accrued interest | 40 626 | | | -4 455 | 36 171 |
| **Total debt securities in issue** | **7 449 785** | | | | **7 766 137** |

| | 12/31/2018 | Issued | Matured/ redeemed | Other changes | 12/31/2019 |
|---|---|---|---|---|---|
| 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** |

As of 12/31/2020, SSB Boligkreditt has issued 11 bonds.

## Bonds

| Bonds | Face value | Final due date |
|---|---|---|
| NO0010704232 | 93 000 | 25.02.2021 |
| 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 |
| NO0010834070 | 300 000 | 10.10.2028 |

| Bonds | Face value | Final due date |
|---|---|---|
| NO0010849847 | 300 000 | 19.06.2029 |
| NO0010856271 | 300 000 | 05.06.2023 |
| NO0010868706 | 300 000 | 20.05.2030 |
| NO0010871452 | 1 000 000 | 16.05.2023 |
| NO0010886237 | 300 000 | 16.06.2025 |
| **Total nominal value of bonds in issue** | **7 618 000** | |

# 22 OVERCOLLATERALIZATION

The overcollateralization 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 cover pool.

## Overcollateralization

| NOK '000 | 12/31/2020 | 12/31/2019 |
|---|---|---|
| **Total nominal value issued covered bonds** | **7 618 000** | **7 415 000** |
| Loans to customers | 8 877 839 | 7 827 161 |
| Bank deposits | 16 219 | 270 395 |
| Liquid assets | 473 104 | 794 282 |
| Deduction substitute collateral[1] | -140 000 | -20 500 |
| **Total cover pool value** | **9 227 162** | **8 871 338** |
| **Overcollateralizaion** | **121.1 %** | **119.6 %** |
| Rating agency minimum requirement | 104.0 % | 105.0 % |
| Minimum regulatory overcollateralization requirement | 102.0 % | 102.0 % |

1 The part of the overcollateralization used for LCR purposes, is removed from the calculation of overcollateralization in accordance with the instruction from the Financial Supervisory Authority.

## 23 OTHER LIABILITES

| | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Debt to Sandnes Sparebank | 1 032 054 | 939 481 |
| Other liabilities | 351 | 9 |
| **Other liabilities** | **1 032 405** | **939 490** |

SSB Boligkreditt paid 3 month NIBOR + 0.41% as interest on the debt to the Parent Company.

The debt to the Parent Company of NOK 1,032 (939) 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.

## 25 EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events after the date of the balance sheet that affects the financial statements as of 12/31/2020.

## 26 TRANSACTIONS WITH INTIMATES

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.

Summary of intergroup transactions:

### Intra group transactions

| Income statement | The year 2020 | The year 2019 |
|---|---|---|
| Deposit interest | 992 | 2 094 |
| Interest and credit commissions paid | -12 642 | -21 251 |
| Management fee | -16 950 | -16 950 |

| Balance sheet | 12/31/2020 | 12/31/2019 |
|---|---|---|
| Loans to and claims on credit institutions | 16 226 | 270 419 |
| Other liabilities | 1 032 054 | 939 481 |
| Debt established through the issue of securities | 25 200 | |

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

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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 2020, 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.

Sandnes, March 16, 2021 | The Board of Directors of SSB Boligkreditt AS

**Erik Kvia Hansen**
Chairman of the Board

**Arild Ollestad**
Director

**Lene Nevland Sivertsen**
Director

**Tomas Nordbø Middelthon**
Director

**Carl Fredrik Hjelle**
Managing Director

# Auditor's report

Deloitte.

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NO-4066 Stavanger
Norway

Tel: +47 51 81 56 00
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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 2020, the income statement, statement of comprehensive income, statement of changes in equity 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 2020, and its financial performance and its cash flows for the year then ended in accordance with Norwegian regulation on financial statements for banks, mortgage credit institutions and finance companies section 1-4 second paragraph.

*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 Norwegian regulation on financial statements for banks, mortgage credit institutions and finance companies section 1-4 second paragraph, and for such internal control as management determines is necessary to enable the

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Independent Auditor's Report – SSB Boligkreditt AS

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.

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Independent Auditor's Report – SSB Boligkreditt AS

*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, 16 March 2021
Deloitte AS

**Bjarte M. Jonassen**
State Authorised Public Accountant (Norway)

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

**Design:** Fasett 2021

SSBboligkreditt

www.sandnes-sparebank.no