



# Year-end report for 2008

The Swedish Housing Finance Corporation, SBAB



# SBAB's year-end report for 2008

1 January – 31 December 2008 • The Swedish Housing Finance Corporation, SBAB

- **SBAB's credit portfolio increased to SEK 183,959 million (SEK 167,981 million). The consumer market portfolio amounted to SEK 116,823 million (SEK 104,125 million) and the corporate market portfolio to SEK 67,136 million (SEK 63,856 million).**
- **Demand for SBAB's savings products remained high and the amount deposited in SBAB at 31 December totalled SEK 3,542 million (SEK 759 million).**
- **SBAB's partner business continued to develop well. During the quarter, Sparbanken Syd and the internet brokerage Nordnet joined as new partners.**
- **Operating profit increased to SEK 585 million (SEK 258 million). Net interest income was slightly lower than in the preceding year at SEK 1,141 million (SEK 1,177 million). Total operating income amounted to SEK 1,127 million (SEK 755 million) and the increase was mainly attributable to a decrease in the negative effects of items measured at fair value compared with the preceding year. Expenses for 2008 corresponded to the preceding year's level at SEK 520 million (SEK 517 million).**
- **Loan losses amounted to SEK 22 million (recoveries of SEK 20 million). Accordingly, loan losses in relation to the outstanding volume amounted to 0.01%. The increase was due to a rise in anticipated loan losses, and was attributable to the prevailing economic situation and to the uncertainty existing in financial markets.**

## Operating profit

SBAB's operating profit for 2008 amounted to SEK 585 million (SEK 258 million). Net interest income was slightly lower than in the preceding year, while expenses were at the same level. Financial items recognised at fair value had a negative net impact of SEK 26 million (SEK -441 million) on operating profit. Operating profit was charged with loan losses of SEK 22 million (recoveries of SEK 20 million). Changes in the value of the liquidity portfolio had a net impact of SEK -703 million (SEK -616 million) on financial items recognised at fair value. Excluding this effect, operating profit amounted to SEK 1,288 million (SEK 874 million).

## Operating income

Operating income, which was much higher than in the preceding year, amounted to SEK 1,127 million (SEK 755

## Summary

### SBAB Group

	Dec 2008	Dec 2007
Net interest income, SEK million	1,141	1,177
Operating profit, SEK million	585	258
Net profit for the year, SEK million	424	190
Lending, SEK million	183,959	167,981
Doubtful loan receivables after specific provisions, SEK million	43	62
Volume of international borrowing, SEK million	128,326	119,878
Expenditure/Income ratio excluding loan losses, % <sup>1)</sup>	46	68
Expenditure/Income ratio including loan losses, % <sup>1)</sup>	48	66
Return on equity, % <sup>2)</sup>	6.7	3.1
Capital ratio, %	9.4	9.4
Primary capital ratio, %	7.6	7.6
Equity ratio, %	2.5	2.8
Rating, long-term borrowing, SBAB		
Standard & Poor's <sup>3)</sup>	A+	AA-
Moody's <sup>4)</sup>	A1	Aa3
Rating, long-term borrowing, SCBC		
Standard & Poor's <sup>3)</sup>	AAA	AAA
Moody's	Aaa	Aaa
Rating, short-term borrowing, SBAB		
Standard & Poor's	A-1	A-1+
Moody's	P-1	P-1
Average number of employees during the year, of whom, temporary employees	365 8	374 8

<sup>1)</sup> Expenses/operating income.

<sup>2)</sup> At 31 December 2008, adjusted return on equity, excluding change in market value of the liquidity portfolio, amounted to 14.7%.

<sup>3)</sup> On 26 November 2008, Standard & Poor's downgraded SBAB's rating for long-term borrowing to A+ with a negative outlook and to A-1 for short-term borrowing.

<sup>4)</sup> On 5 February 2008, Moody's downgraded SBAB's rating for long-term borrowing to A1 with a negative outlook.

million). The improvement was attributable to a reduction in the negative impact of unrealized changes in market value compared with the preceding year. Net interest income for 2008 was slightly lower than in the preceding year, amounting to SEK 1,141 million (SEK 1,177 million). As a result of the turbulence prevailing in financial markets, lending costs and costs for managing liquidity risks increased, which had a negative impact on net interest income. The change in the value of the liquidity portfolio was SEK -703 million (SEK -616 million).

## Expenses

Expenses amounted to SEK 520 million (SEK 517 million). Staff costs amounted to SEK 268 million (SEK 251 million), with the increase attributable to higher pension costs and social security charges, as well as provisions for incentive

All comparative figures in brackets refer to the end of the preceding year. This is a translation of the Swedish year-end report. The auditor has not signed the translation for approval.

programme. SBAB's other expenses declined by SEK 15 million in comparison with the preceding year. Depreciation/amortisation amounted to SEK 32 million, in line with the preceding year.

### Loan losses

Loan losses increased and amounted to SEK 22 million net (recoveries of SEK 20 million), corresponding to 0.01% of the outstanding credit volume. The increase was due to a rise in anticipated loan losses and was attributable to the prevailing economic situation and to the uncertainty existing in financial markets. The internal analysis of credit risks showed a slight increase in the weighting of consumer-related risks, although this rise occurred from a low level. The increase is primarily attributable to the somewhat higher interest rate during the year, which generated a slight rise in overdue payments in connection with certain payment occasions. From the analysis, it was apparent that no significant increase in SBAB's economic capital has occurred and the operations continue to be characterised by a low level of risk.

### Lending

Lending to consumers amounted to SEK 183,959 million, compared with SEK 167,981 million at the beginning of the year. Part of the increase was attributable to SBAB's acquisition of loans from the partly owned company FriSpar Bolån AB in order to facilitate borrowing through the issuance of covered bonds in SBAB's wholly owned subsidiary The Swedish Covered Bond Corporation (hereinafter referred to as SCBC). At the time of the acquisition, June 2008, the consolidated effect was approximately SEK 9 billion.

SBAB's partner business constitute an important distribution channel within the consumer market. During the year, SBAB entered into partnerships with the property-brokerage chain ERA, the internet brokerage Nordnet and Sparbanken Syd. Through of these partnerships, SBAB reaches new target groups in a broader market.

New lending within the consumer market amounted to SEK 19,164 million (SEK 19,676 million). The consumer market portfolio amounted to SEK 116,823 million (SEK 104,125 million). SBAB's market share for lending to the consumer market was 7.5% (8.1%).

New lending in the corporate market amounted to

SEK 13,261 million (SEK 10,808 million). The corporate market portfolio amounted to SEK 67,136 million (SEK 63,856 million). SBAB's market share for lending to the corporate market was 11.4% (13.4%).

### Deposits

Demand for SBAB's savings accounts was very high and the amount deposited at the end of the year totalled SEK 3,542 million (SEK 759 million). SBAB offers two types of savings accounts with competitive interest rates. Interest is credited from the very first krona regardless of the amount deposited and withdrawals are free of charge.

### Funding

Since SBAB attaches considerable importance to having a well-diversified funding portfolio, an active market presence and a flexible range of products are essential. At the start of the financial crisis, SBAB decided at an early stage to maintain very high access to liquid funds and has continuously acted in accordance with this aim. The fourth quarter of 2008 continued to be characterised by considerable turbulence in global money and capital markets. During the autumn, the escalating unrest in global financial markets also impacted on conditions in the Swedish money market, which had previously been less exposed. Despite the increased unrest and reduced market liquidity, SBAB had healthy access to funds during every phase of the crisis. SBAB has been able to realise its target of achieving an increased share of long-term funding.

The total value of outstanding securities issued was SEK 198,643 million (SEK 191,807 million).

Programme utilisation	31 Dec 2008	31 Dec 2007
Swedish Commercial Paper Programme	SEK 11.8 bn	SEK 19.0 bn
Swedish covered bonds	SEK 56.6 bn	SEK 55.3 bn
European Commercial Paper Programme	USD 510 mn	USD 1,794 mn
US Commercial Paper Programme	USD 75 mn	USD 1,190 mn
Euro Medium Term Note Programme	USD 7,097 mn	USD 7,290 mn
Euro Medium Term Covered Note Programme	EUR 5,994 mn	EUR 5,418 mn

### Loan portfolio

SEK million	Dec 2008		Dec 2007	
	SBAB Group *	Group incl. all of FriSpar	SBAB-Group *	Group incl. all of FriSpar
Consumer market	116,823	117,931	104,125	113,803
- new lending	19,164	21,222	19,676	21,828
Corporate market	67,136	67,236	63,856	63,990
- new lending	13,261	13,261	10,808	10,809
<b>Total</b>	<b>183,959</b>	<b>185,167</b>	<b>167,981</b>	<b>177,793</b>
- new lending	32,425	34,483	30,484	32,637

\* Within the SBAB Group, 51% of FriSpar is consolidated in accordance with the proportional consolidation method.

Funding through the issuance of covered bonds is effected through SBAB's wholly owned subsidiary SCBC. The credit rating institutes Moody's and Standard & Poor's have set a credit rating of Aaa/AAA for the covered bonds issued.

### Liquidity portfolio

SBAB's liquidity portfolio is a liquidity reserve whose purpose is to manage liquidity and funding risks. On 31 December 2008, the portfolio amounted to SEK 31.5 billion (SEK 31.0 billion) and consisted of assets classified as "Loan receivables and accounts receivable" in an amount of SEK 23.1 billion (SEK 0.0 billion) and "Securities measured at fair value through profit and loss" of SEK 8.4 billion (SEK 31.0 billion). The objective of having these securities in the liquidity portfolio is long term and they consist only of items that achieve the highest rating, Aaa from Moody's or AAA from Standard & Poor's. SBAB's liquidity portfolio is not and has never been subject to any exposure to the US, to North American assets or to mortgage loans that are not classified as prime. In order to manage interest rate and currency risks in the liquidity portfolio, derivative contracts have been entered into. Accordingly, the changes in market value that arise are attributable to a general increase in the market for credit spread for assets, as a consequence of the greater turbulence. The bonds in the portfolio can be pledged at the Riksbank or the European Central Bank.

### Capital adequacy

SBAB reports credit risk mainly in accordance with the internal ratings-based approach (IRB approach) and operational risks according to the standard method. The Basel II regulations result in a significant decrease in capital requirements. As a result of the transitional rules between the different regulatory systems that apply until the end of 2009, the SBAB Group's capital requirement at 31 December increased by SEK 3,577 million from SEK 4,518 million to SEK 8,095 million. The capital base amounted to SEK 9,498 million (SEK 8,788 million). The capital ratio for the SBAB Group was 1.17 (1.19) on 31 December 2008. The capital adequacy ratio was 9.4% (9.4%) and the primary capital ratio was 7.6% (7.6%). For the Parent Company, the capital ratio was 4.40 (4.48), the capital adequacy ratio 35.2% (34.7%) and the primary capital ratio 27.1% (27.3%), while the capital base amounted to SEK 9,453 million (SEK 9,187 million). The figures at the end of December 2008 include profits in subsidiaries in accordance with the Board of Directors' motions in the annual accounts.

In connection with the interest-payment date, 30 March, SBAB exercised its right to demand premature repayment of a subordinated loan. The loan was previously included in an amount of SEK 722 million in supplementary capital. During the month of April, the redeemed subordinated loan was replaced by a new subordinated loan

of SEK 1 billion. The new subordinated loan affects the Group's capital adequacy ratio by 1.0%.

In contrast to SBAB's consolidated accounts, the proportional method is not used when FriSpar Bolån AB is included in the capital adequacy report. This is due to differences in rules relating to Group affiliation between the regulatory framework for capital adequacy and large exposures, as well as IFRS.

SBAB's economic capital consists of the capital the company estimates that it requires in order to cover unexpected losses in the year ahead. The anticipated losses are to be covered by income from current operations. When assessing economic capital, consideration has been taken to credit risk, market risk, operational risk and commercial risk.

In 2008, the Swedish Financial Supervisory Authority (FI) assessed SBAB's internal capital evaluation. FI determined that SBAB was sufficiently capitalised in relation to the risk to which it was exposed.

To a great extent, SBAB's economic capital model is based on the result of the Group's IRB models for the quantification of credit risk. As of 31 December 2008, SBAB's economic capital amounted to SEK 4,896 million (SEK 3,880 million), 76% (62%) of equity, which indicates a relatively low level of risk in operations. Of the difference in economic capital between 2007 and 2008, approximately 25% was attributable to credit risk and 75% to market risk. The increase in market risk was primarily due to a general increase in interest-rate volatility in the second half of 2008.

### Interest rate risk

On 31 December 2008, a parallel shift of the yield curve by plus one percentage point would have reduced the net value of SBAB's interest-bearing assets and liabilities, including derivative transactions, by approximately SEK -77.1 million.

In terms of other risks in SBAB, a statement was included in the 2007 Annual Report.

### Current events

- ➔ On November 26, 2008, Standard & Poor's amended SBAB's long-term rating from AA- to A+, lowered its short-term rating from A-1+ to A-1, and amended its outlook for the company to "negative".
- ➔ In November, SBAB received an award from the magazine *Privata Affärer* for the Savings Account of the Year, with the following explanation: "*Unfortunately, most banks' savings accounts are not characterized by simplicity. But this challenger has provided a great service by offering a new savings account without complicated conditions or different levels, and with one of the market's best interest rates.*"

- ➔ According to the Swedish Quality Index's annual survey, published in December, SBAB has the most satisfied institutional customers (tenant-owner associations, private property owners and property companies). SBAB also received a top ranking for loans to consumers.
- ➔ Following the close of the financial year, uncertainty concerning developments in financial markets continues to prevail.

### Performance in the fourth quarter of 2008 compared with the third quarter of 2008

Lending to the public amounted to SEK 183,959 million, compared with SEK 179,596 million in the third quarter of 2008. The consumer market portfolio totalled SEK 116,823 million (SEK 114,679 million). SBAB's share of the consumer market was 7.5% (7.6%). The company's corporate market portfolio totalled SEK 67,136 million (SEK 64,917 million). SBAB's share of the corporate market was 11.4% (12.5%).

During the fourth quarter, SBAB's savings products achieved very favourable growth. The rate of increase during the period was 89% (21%), and deposits from the public rose to SEK 3,542 million (SEK 1,876 million).

Net interest income decreased compared with the third quarter to SEK 210 million (SEK 306 million). Total operating income amounted to SEK 410 million (SEK 183 million). The relatively significant increase in operating income during the fourth quarter was due to the positive impact of net income from financial instruments recognised at fair value. In relation to the third quarter, expenses increased to SEK 147 million (SEK 105 million). Loan losses totalled SEK 23 million (recoveries of SEK 4 million), a relatively substantial increase compared with the preceding quarter. Operating profit for the quarter rose to SEK 240 million (SEK 82 million).

Capital adequacy remained favourable and amounted to 9.4% (9.5%), and the primary capital ratio was 7.6% (7.5%).

### Performance of the Parent Company 2008

In the Parent Company, lending to the public amounted to SEK 24,910 million (SEK 29,570 million). The Parent Company's profit trend was in line with that of the preceding year. Operating income totalled SEK 557 million, compared with SEK 548 million in the year-earlier period. Net interest income amounted to SEK 270 million (SEK 224 million). Expenses totalled SEK 514 million, compared with SEK 518 million for the year-earlier period. Loan losses increased, amounting to SEK 4 million net (recoveries of SEK 19 million). Operating profit for the year amounted to SEK 39 million, compared with SEK 49 million for the year-earlier period. The Parent Company's capital adequacy remained very favourable. The capital base for the Parent

Company amounted to SEK 9,453 million (SEK 9,187 million), and primary capital totalled SEK 7,260 million (SEK 7,240 million). The primary capital ratio and capital adequacy ratio amounted to 27.1% (27.3%) and 35.2% (34.7%), respectively.

### Accounting principles

The SBAB Group applies the International Financial Reporting Standards (IFRS) as adopted by the EU. It also complies with the Swedish Financial Supervisory Authority's accounting directives, the Act on Annual Accounts in Credit Institutions and Securities Companies, and the Swedish Financial Reporting Board's recommendation RFR 1.1, Supplementary Accounting Rules for Groups.

This year-end report complies with the requirements of IAS 34, Interim Financial Reporting. The accounting principles and methods of calculation are unchanged compared with the Annual Report for 2007. During the period ending on 30 June 2008, assets classified as financial assets available for sale were added. These were valued at fair value. The effects of the changes in value were recognised as equity.

The EU Commission has decided to amend IAS 39 and IFRS 7 in accordance with "Amendments October 2008, Reclassification of financial assets", published by the IASB. In addition, FI has published its preliminary assessments on how these amendments should be applied for financial companies that apply IFRS limited by law.

SBAB has elected to reclassify assets previously reported as financial assets available for sale and report them as loan receivables and accounts receivable.

The assets were reclassified on 1 July 2008, and were valued at their fair value at that time. As of 1 July 2008, the assets were reported at accrued acquisition value. The change in value that had been accumulated in equity before the reclassification will be reversed during the remaining maturity period. Extra information resulting from the completed reclassification is presented in Note 5.

### Financial information

	2009
Annual Report 2008	31 March
Annual General Meeting	15 April
Interim report January-March	29 April
Six-month interim report January-June	14 August
Interim report January-September	30 October

Stockholm, 29 January 2009

Eva Cederbalk  
CEO

# Income statement

SEK million	Group				Perent Company	
	Jan-Dec 2008	Jan-Dec 2007	Oct-Dec 2008	Oct-Dec 2007	Jan-Dec 2008	Jan-Dec 2007
Interest income	11,222	8,585	2,987	2,573	4,445	4,231
Interest expense	(10,081)	(7,408)	(2,777)	(2,304)	(4,175)	(4,007)
<b>Net interest income</b>	<b>1,141</b>	<b>1,177</b>	<b>210</b>	<b>269</b>	<b>270</b>	<b>224</b>
Dividend income	–	0	–	0	–	408
Commission income	45	56	11	17	73	82
Commission expense	(33)	(37)	(7)	(5)	(18)	(36)
Net income from financial instruments recognised at fair value (Note 1)	(26)	(441)	196	(158)	(143)	(436)
Other operating income	0	0	0	0	375	306
<b>Total operating income</b>	<b>1,127</b>	<b>755</b>	<b>410</b>	<b>123</b>	<b>557</b>	<b>548</b>
Staff costs	(268)	(251)	(72)	(71)	(268)	(251)
Other expenses	(220)	(235)	(67)	(56)	(230)	(249)
Depreciation of property, plant and equipment and amortisation of intangible fixed assets	(32)	(31)	(8)	(8)	(16)	(18)
<b>Total expenses before loan losses, net</b>	<b>(520)</b>	<b>(517)</b>	<b>(147)</b>	<b>(135)</b>	<b>(514)</b>	<b>(518)</b>
<b>Profit before loan losses</b>	<b>607</b>	<b>238</b>	<b>263</b>	<b>(12)</b>	<b>43</b>	<b>30</b>
Loan losses, net (Note 2)	(22)	20	(23)	(15)	(4)	19
<b>Operating profit</b>	<b>585</b>	<b>258</b>	<b>240</b>	<b>(27)</b>	<b>39</b>	<b>49</b>
Appropriations	–	–	–	–	–	3
Tax on profit for the year	(161)	(68)	(64)	9	16	99
<b>Net profit for the year</b>	<b>424</b>	<b>190</b>	<b>176</b>	<b>(18)</b>	<b>55</b>	<b>151</b>

# Balance sheet

SEK million	Group		Parent Company	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
<b>ASSETS</b>				
Cash and balances at central banks	0	0	0	0
Treasury bills and other eligible bills	10	10	10	10
Lending to credit institutions (Note 3)	12,570	19,909	33,094	38,502
Lending to consumers (Note 4)	183,959	167,981	24,910	29,570
Fair value adjustment of interest-rate hedged loan receivables	3,270	(922)	(41)	(88)
Bonds and other interest-bearing securities	31,787	31,056	31,787	31,056
Derivative financial instruments (Note 6)	20,649	3,799	11,694	2,225
Shares and participations	-	4	-	4
Investments in associates and joint ventures	-	-	510	602
Investments in Group companies	-	-	9,600	5,200
Deferred income tax assets	24	103	-	0
Intangible fixed assets	48	58	12	19
Property, plant and equipment	12	14	12	14
Other assets	228	296	1,686	537
Prepaid expenses and accrued income	737	783	506	490
<b>TOTAL ASSETS</b>	<b>253,294</b>	<b>223,091</b>	<b>113,780</b>	<b>108,141</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Liabilities to credit institutions	29,692	15,537	14,449	7,092
Customer accounts	3,542	759	3,542	759
Debt securities in issue	198,643	191,807	72,872	86,573
Derivative financial instruments (Note 6)	7,543	2,923	9,312	3,467
Other liabilities	172	694	1,342	671
Accrued expenses and prepaid income	3,604	2,420	924	524
Deferred income tax liabilities	-	-	354	-
Subordinated liabilities	3,666	2,725	3,666	2,725
<b>Total liabilities</b>	<b>246,862</b>	<b>216,865</b>	<b>106,461</b>	<b>101,811</b>
<b>Equity</b>				
Share capital	1,958	1,958	1,958	1,958
Legal reserve	-	-	392	392
Other reserves/Fair value reserve	(204)	14	(204)	14
Retained earnings	4,254	4,064	5,118	3,815
Net profit for the year	424	190	55	151
<b>Total equity</b>	<b>6,432</b>	<b>6,226</b>	<b>7,319</b>	<b>6,330</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>253,294</b>	<b>223,091</b>	<b>113,780</b>	<b>108,141</b>

# Statement of changes in equity

<b>Group</b>						
SEK million	Share capital	Other reserves	Retained earnings	Net profit for the year	Total equity	
<b>Opening balance 1 January 2008</b>	<b>1,958</b>	<b>14</b>	<b>4,254</b>		<b>6,226</b>	
Change in reclassified financial assets, after tax		(203)			(203)	
Change in instruments for cash flow hedges, after tax		(15)			(15)	
Net profit for the year				424	424	
<b>Closing balance 31 December 2008</b>	<b>1,958</b>	<b>(204)</b>	<b>4,254</b>	<b>424</b>	<b>6,432</b>	
<b>Opening balance 1 January 2007</b>	<b>1,958</b>	<b>12</b>	<b>4,064</b>		<b>6,034</b>	
Change in reclassified financial assets, after tax						
Change in instruments for cash flow hedges, after tax		2			2	
Net profit for the year				190	190	
<b>Closing balance 31 December 2007</b>	<b>1,958</b>	<b>14</b>	<b>4,064</b>	<b>190</b>	<b>6,226</b>	
<b>Parent Company</b>						
SEK million	Share capital	Legal reserve	Fair value reserve	Retained earnings	Net profit for the year	Total equity
<b>Opening balance 1 January 2008</b>	<b>1,958</b>	<b>392</b>	<b>14</b>	<b>3,966</b>		<b>6,330</b>
Change in reclassified financial assets, after tax			(203)			(203)
Change in instruments for cash flow hedges, after tax			(15)			(15)
Group contribution received				1,152		1,152
Net profit for the year					55	55
<b>Closing balance 31 December 2008</b>	<b>1,958</b>	<b>392</b>	<b>(204)</b>	<b>5,118</b>	<b>55</b>	<b>7,319</b>
<b>Opening balance 1 January 2008</b>	<b>1,958</b>	<b>392</b>	<b>12</b>	<b>3,815</b>		<b>6,177</b>
Change in reclassified financial assets, after tax						
Change in instruments for cash flow hedges, after tax			2			2
Net profit for the year					151	151
<b>Closing balance 31 December 2007</b>	<b>1,958</b>	<b>392</b>	<b>14</b>	<b>3,815</b>	<b>151</b>	<b>6,330</b>

# Cash flow statement

SEK million	<b>Group</b>		<b>Parent Company</b>	
	Jan-Dec 2008	Jan-Dec 2007	Jan-Dec 2008	Jan-Dec 2007
<b>Cash and cash equivalents at the beginning of the year</b>	<b>10,140</b>	<b>1,453</b>	<b>3,124</b>	<b>791</b>
Cash flow from operating activities	853	8,717	5,573	3,688
Cash flow from investing activities	(19)	(30)	(3,114)	(1,355)
Cash flow from financing activities	403	-	403	-
<b>Net increase/decrease in cash and cash equivalents</b>	<b>1,237</b>	<b>8,687</b>	<b>2,862</b>	<b>2,333</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>11,377</b>	<b>10,140</b>	<b>5,986</b>	<b>3,124</b>

Cash and cash equivalents comprises cash in hand, on demand deposits and lending to credit institutions with an original maturity of less than three months.



# Notes

## Note 1 Net income from financial instruments recognised at fair value

SEK million	Group		Parent Company	
	Jan-Dec 2008	Jan-Dec 2007	Jan-Dec 2008	Jan-Dec 2007
Gains/losses on interest-bearing financial instruments:				
- Securities measured at fair value through profit or loss	(146)	(790)	(146)	(790)
- Hedged items	(1,672)	72	(444)	250
- Derivative financial instruments	1,650	197	454	69
- Loan receivables	32	49	4	32
- Liabilities measured at fair value	(2)	(1)	(2)	(1)
- Other financial liabilities	119	28	0	0
Gains/losses on shares and participations:	0	2	0	2
Currency translation effects	(7)	2	(9)	2
<b>Total</b>	<b>(26)</b>	<b>(441)</b>	<b>(143)</b>	<b>(436)</b>

Of the SEK -703 million effect on earnings resulting from SBAB's liquidity portfolio, SEK -163 million is included in the item securities measured at fair value through profit or loss and SEK -540 million is included in the item derivative financial instruments.

## Note 2 Loan losses, net

Group	Jan-Dec 2008	Jan-Dec 2007
<b>CORPORATE MARKET</b>		
SEK million		
<b>SPECIFIC PROVISIONS FOR CORPORATE MARKET LOANS</b>		
This year's write-off for confirmed loan losses	2	4
Reversal of previous year's provisions for probable loan losses reported as confirmed loan losses in this year's financial statements	(2)	(3)
This year's provision for probable loan losses	15	21
Recoveries in respect of confirmed loan losses in previous years	(0)	(3)
Reversals of no longer necessary provisions for probable loan losses	(41)	(26)
Guarantees	16	(9)
<b>Net cost for the year for specific provisions for corporate market loans</b>	<b>(10)</b>	<b>(16)</b>
<b>COLLECTIVE PROVISION FOR CORPORATE MARKET LOANS</b>		
Allocation to/reversal of collective provisions	(28)	(23)
Guarantees	2	6
<b>Net cost for the year of collective provisions for corporate market loans</b>	<b>(26)</b>	<b>(17)</b>
<b>CONSUMER MARKET</b>		
SEK million		
<b>SPECIFIC PROVISIONS FOR CONSUMER MARKET LOANS</b>		
This year's write-off for confirmed loan losses	4	-
Reversal of previous year's provisions for probable loan losses reported as confirmed loan losses in this year's financial statements	(4)	-
This year's provision for probable loan losses	9	12
Reversals of no longer necessary provisions for probable loan losses	(2)	-
Guarantees	-	-
<b>Net cost for the year for specific provisions for consumer market loans</b>	<b>7</b>	<b>12</b>
<b>COLLECTIVE PROVISION FOR CONSUMER MARKET LOANS</b>		
This year's write-off for confirmed loan losses	5	5
Recoveries in respect of confirmed loan losses in previous years	(1)	(5)
Allocation to/reversal of collective provisions	42	(2)
Guarantees	5	3
<b>Net cost for the year of collective provisions for consumer market loans</b>	<b>51</b>	<b>1</b>
<b>NET COST/INCOME FOR THE YEAR FOR LOAN LOSSES</b>	<b>22</b>	<b>(20)</b>

Both the write-offs for the year regarding confirmed loan losses and the reversal of previous year's write-offs as specified above relate to receivables from the public.

### Note 3 Lending to credit institutions

Of the Parent Company's lending to credit institutions, SEK 19,426 million (SEK 15,439 million) related to a receivable from the wholly owned subsidiary The Swedish Covered Bond Corporation (SCBC). In the event of bankruptcy, liquidation or corporate reconstruction, this receivable is subordinated, which means that payment is received only after the other creditors of the subsidiary have been paid.

### Note 4 Lending to consumers

Group SEK million	31 Dec 2008		31 Dec 2007	
	Lending	Provision	Lending	Provision
Single-family dwellings and holiday homes	80,320	(108)	71,651	(84)
Tenant-owned apartments	36,653	(42)	32,575	(17)
Tenant-owner associations	34,901	(80)	33,465	(119)
Private multi-family dwellings	21,035	(25)	17,953	(40)
Municipal multi-family dwellings	5,046	-	7,000	-
Commercial properties	6,259	-	5,597	-
Provision for probable loan losses	(255)		(260)	
<b>Total</b>	<b>183,959</b>	<b>(255)</b>	<b>167,981</b>	<b>(260)</b>

Doubtful and nonperforming loan receivables	31 Dec 2008	31 Dec 2007
a) Doubtful loan receivables	138	180
b) Nonperforming loan receivables included in doubtful loan receivables	17	9
c) Nonperforming loan receivables not included in doubtful loan receivables	297	115
d) Specific provisions for loan receivables	95	118
e) Collective provisions for corporate market loans	25	53
f) Collective provisions for consumer market loans	135	89
g) Total provisions (d+e+f)	255	260
h) Impaired loans following specific provisions (a-d)	43	62
i) Provision ratio regarding specific provisions (d/a)	69%	66%

In certain partnerships on the lending side, it is possible for the partner to acquire mediated loans.

### Note 5 Classification of financial instruments

Group 31 December 2008, SEK million	Securities measured at fair value through profit or loss	Derivatives held for hedging	Loan receivables	Total
<b>Financial assets</b>				
Cash and balances at central banks			0	0
Treasury bills and other eligible bills	10			10
Lending to credit institutions			12,570	12,570
Lending to consumers			183,959	183,959
Fair value adjustment of interest-rate hedged loan receivables			3,270	3,270
Bonds and other interest-bearing securities	8,657		23,130	31,787
Derivative financial instruments		20,649		20,649
Other assets			228	228
Prepaid expenses and accrued income	189		548	737
<b>Total</b>	<b>8,856</b>	<b>20,649</b>	<b>223,705</b>	<b>253,210</b>

	Financial liabilities in hedge accounting	Derivatives held for hedging	Other financial liabilities	Total
<b>Financial liabilities</b>				
Liabilities to credit institutions			29,692	29,692
Customer accounts			3,542	3,542
Debt securities in issue	182,335		16,308	198,643
Derivative financial instruments		7,543		7,543
Other liabilities			172	172
Accrued expenses and prepaid income	3,359		245	3,604
Subordinated liabilities	3,666			3,666
<b>Total</b>	<b>189,360</b>	<b>7,543</b>	<b>49,959</b>	<b>246,862</b>

**Note 5** *Continued***Parent Company**

31 December 2008, SEK million

	Securities measured at fair value through profit or loss	Derivatives held for hedging	Loan receivables	Total
<b>Financial assets</b>				
Cash and balances at central banks			0	0
Treasury bills and other eligible bills	10			10
Lending to credit institutions			33,094	33,094
Lending to consumers			24,910	24,910
Fair value adjustment of interest-rate hedged loan receivables			(41)	(41)
Bonds and other interest-bearing securities	8,657		23,130	31,787
Derivative financial instruments		11,694		11,694
Other assets			1,686	1,686
Prepaid expenses and accrued income	189		317	506
<b>Total</b>	<b>8,856</b>	<b>11,694</b>	<b>83,096</b>	<b>103,646</b>

	Financial liabilities in hedge accounting	Derivatives held for hedging	Other financial liabilities	Total
<b>Financial liabilities</b>				
Liabilities to credit institutions			14,449	14,449
Customer accounts			3,542	3,542
Debt securities in issue	56,565		16,307	72,872
Derivative financial instruments		9,312		9,312
Other liabilities			1,342	1,342
Accrued expenses and prepaid income	730		194	924
Subordinated liabilities	3,666			3,666
<b>Total</b>	<b>60,961</b>	<b>9,312</b>	<b>35,834</b>	<b>106,107</b>

The fair value of the reclassified portfolio at 1 July 2008 was SEK 21.7 billion. At the same date, the fair value reserve attributable to these assets amounted to SEK –200 million net after tax. The fair value of the assets would have amounted to SEK 20.0 billion at 31 December 2008, if they had continued to be reported as "Available-for-sale financial assets". At the same date, the fair value reserve attributable to the reclassified assets would have amounted to SEK 2.4 billion, net after tax. The fair value reserve amounted to SEK –203 million after tax at 31 December 2008. SEK 45.5 million of the reserve before tax has been reversed and exchange rate fluctuations had a negative impact of SEK 44.2 million before tax on the value of the reserve.

**Note 6** Derivative financial instruments**Group**

31 December 2008, SEK million

	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate related	6,707	5,395	227,850
Share related	5	1	129
Currency related	13,629	2,147	93,107
Credit related	308	–	18,042
<b>Total</b>	<b>20,649</b>	<b>7,543</b>	<b>339,128</b>

**Parent Company**

31 December 2008, SEK million

	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate related	8,196	7,126	367,873
Share related	5	1	129
Currency related	3,493	2,185	35,760
<b>Total</b>	<b>11,694</b>	<b>9,312</b>	<b>403,762</b>

## Note 7 Segment reporting

Group SEK million	Jan-Dec 2008				Jan-Dec 2007			
	Consumer	Corporate clients	Finance	Total	Consumer	Corporate clients	Finance	Total
<b>Net interest income</b>	<b>724</b>	<b>143</b>	<b>274</b>	<b>1,141</b>	<b>767</b>	<b>173</b>	<b>237</b>	<b>1,177</b>
Net commission income	32	4	(24)	12	22	0	(3)	19
Net income from financial instruments recognised at fair value	0	2	(28)	(26)	0	4	(445)	(441)
<b>Total operating income</b>	<b>756</b>	<b>149</b>	<b>222</b>	<b>1,127</b>	<b>789</b>	<b>177</b>	<b>(211)</b>	<b>755</b>
<b>Total expenses before loan losses</b>	<b>(399)</b>	<b>(58)</b>	<b>(63)</b>	<b>(520)</b>	<b>(391)</b>	<b>(65)</b>	<b>(61)</b>	<b>(517)</b>
<b>Income before loan losses</b>	<b>357</b>	<b>91</b>	<b>159</b>	<b>607</b>	<b>398</b>	<b>112</b>	<b>(272)</b>	<b>238</b>
Loan losses, net	(21)	(1)	–	(22)	17	3	–	20
<b>Operating profit</b>	<b>336</b>	<b>90</b>	<b>159</b>	<b>585</b>	<b>415</b>	<b>115</b>	<b>(272)</b>	<b>258</b>

The Consumer segment comprises lending to single-family dwellings, holiday homes, tenant-owned apartments and tenant-owner associations. The Corporate clients segment includes lending to private multi-family dwellings, commercial properties and municipal multi-family dwellings. The Finance segment includes earnings from finance operations. Expenses for the non-commercial activity have been allocated to the segments with the aid of relevant allocation principles. Intra-Group eliminations have already been adjusted in the respective segment.

## Capital base

### Group

SEK million	31 Dec 2008	31 Dec 2007
<b>Primary capital</b>		
Equity	6,637	6,198
Primary capital contribution	994	994
Minority interest	500	467
<b>Total primary capital, gross</b>	<b>8,131</b>	<b>7,659</b>
Less other intangible assets	(48)	(58)
Less deferred income tax receivables	(24)	(103)
Deduction under Chapter 3, Section 8, of the Capital Adequacy Act	(411)	(346)
<b>Total primary capital, net</b>	<b>7,648</b>	<b>7,152</b>
<b>Supplementary capital</b>		
Perpetual subordinated loans	–	722
Time-limited subordinated debentures	2,260	1,260
Deduction under Chapter 3, section 8, of the Capital Adequacy Act	(410)	(346)
<b>Total supplementary capital</b>	<b>1,850</b>	<b>1,636</b>
Expanded part of capital base	–	–
Deduction from entire capital base	–	–
<b>Amount for capital base net after deductible items and limit values</b>	<b>9,498</b>	<b>8,788</b>

## Capital requirements

### Group

SEK million	31 Dec 2008	31 Dec 2007
<b>Credit risk reported in accordance with IRB approach</b>		
- Corporate exposures	1,577	1,590
- Household exposures	672	392
<b>Total credit risk according to IRB approach</b>	<b>2,249</b>	<b>1,982</b>
<b>Credit risk reported according to standard method</b>		
- Exposures to states and central banks	0	0
- Exposures to municipalities and comparable associations	0	0
- Institutional exposures	978	523
- Corporate exposures	980	518
- Household exposures	14	18
- Unregulated items	1	0
- Other items	4	8
<b>Total credit risk according to standard method</b>	<b>1,977</b>	<b>1,067</b>
Risks in commercial stocks	149	487
Operational risk	143	170
Currency risk	–	–
Commodity risk	–	–
<b>Total minimum capital requirement</b>	<b>4,518</b>	<b>3,706</b>
Addition during a transitional period	3,577	3,675
<b>Capital requirement including addition</b>	<b>8,095</b>	<b>7,381</b>

## Capital adequacy

SEK million	Group		Parent Company	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Primary capital	7,648	7,152	7,260	7,240
Total capital	9,498	8,788	9,453	9,187
Risk-weighted assets; Basel 1	116,105	98,918	31,666	27,901
Capital requirement / 8%	101,182	92,258	26,840	25,636
Primary capital ratio	7.6%	7.6%	27.1%	27.3%
Capital adequacy ratio	9.4%	9.4%	35.2%	34.7%
Capital ratio	1.17	1.19	4.40	4.48

# Review Report

To the Board of The Swedish Housing Finance Corporation, SBAB  
Corporate registration number 556253-7513

## Introduction

We have reviewed the year-end report of The Swedish Housing Finance Corporation, corp. reg. no. 556253-7513 for the period 1 January 2008 – 31 December 2008. The Board of Directors and the CEO are responsible for preparing and presenting this year-end report in accordance with IAS 34 and the Annual Accounts (Credit Institutions and Securities Companies) Act. Our responsibility is to express an opinion on this interim report, based on our review.

## The direction and extent of the review

We have performed this review in accordance with the Swedish Standard on Review Engagements SÖG 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by FAR. A review consists of making enquiries, primarily to persons responsible for financial and accounting matters, performing an analytical review and undertaking other review measures. A review has another direction and is substan-

tially less in scope than an audit conducted in accordance with the Auditing Standard in Sweden (RS) and generally accepted auditing practice otherwise. The measures undertaken in a review do not permit us to be certain that we have become aware of all significant matters that might have been identified in an audit. The expressed conclusion based on a review does not therefore have the degree of certainty that a conclusion expressed as a result of an audit has.

## Conclusion

On the basis of our review, nothing has come to our attention which gives us cause to believe that the year-end report has not been prepared, in all essentials, in accordance with IAS 34 and the Annual Reports (Credit Institutions and Securities Companies) Act for the Group and in accordance with the Annual Reports (Credit Institutions and Securities Companies) Act for the Parent Company.

Stockholm, 29 January 2009  
Öhrlings PricewaterhouseCoopers AB

Ulf Westerberg  
Authorised Public Accountant



The Swedish Housing Finance Corporation, SBAB