

# ANNOUNCEMENT OF SBAB'S RESULT FOR 2006

1 JANUARY – 31 DECEMBER 2006 • THE SWEDISH HOUSING FINANCE CORPORATION, SBAB

## THE YEAR IN BRIEF

- The new investment in the corporate market has led to a broader offering to customers and a development of the organisation. New lending in the corporate market totalled SEK 10,280 million (SEK 4,976 million).
- During the year, the retail market portfolio increased by SEK 12 billion including securitised loans. The year was characterised by very stiff competition.
- Net operating income for the whole year totalled SEK 652 million (SEK 666 million), a decrease of 2%.
- Net interest income rose by 3% to SEK 1,334 million (SEK 1,296 million).
- Expenses decreased to SEK 593 million (SEK 596 million).
- SBAB has carried out an issue in the form of hybrid capital of SEK 1,000 million (nominal amount), which explains an increased capital base and capital adequacy.
- During the financial year, SBAB has started to build up a liquidity portfolio as a buffer against liquidity risk.

## NET INTEREST INCOME & OTHER OPERATING INCOME

Net interest income totalled SEK 1,334 million compared with SEK 1,296 million in 2005. Continued pressure on margins has led to income not increasing at the same rate as the portfolio. Commission expenses have increased due to the positive development of SBAB's partners. The lower commission income is explained by lower service income from securitised loans since repurchase of SRM No 1 and SRM No 2 took place.

## EXPENSES

Expenses decreased to SEK 593 million (SEK 596 million), despite the extensive investment during the year in new products such as covered bonds and deposits and despite restructuring expenses for the reorganisation that took place being charged. The costs of personnel, administration and marketing are lower than last year.

## LOAN LOSSES & DOUBTFUL LOAN CLAIMS

Loan losses have continued to be low and have posted a positive net result of SEK 4 million (positive SEK 36 million). Doubtful loan claims have decreased during the year from SEK 144 million to SEK 125 million. The provision ratio for specific provisions for loan claims assessed individually was 73%. At the end of 2006, total provisions were SEK 222 million, of which SEK 101 million was for collective provisions for loan claims assessed individually.

## Summary, SBAB Group

	Dec 2006	Dec 2005
Net interest income, SEK million	1,334	1,296
Net operating income, SEK million	652	666
Net profit for the year, SEK million	462	471
Lending, SEK million	171,160	156,020
Securitised loans, SEK million	7,427	15,108
Doubtful loan claims after specific provisions for loan claims assessed individually, SEK million	34	49
Volume of international borrowing, SEK million	111,048	90,563
Income/Expenditure ratio excluding loan losses	2.1	2.1
Income/Expenditure ratio including loan losses	2.1	2.2
Return on equity %	7.9	8.7
Capital ratio, %	9.0	9.0
Primary capital ratio, %	7.3	7.1
Equity ratio, %	3.3	3.7
Rating, long-term borrowing Standard & Poor's Moody's	AA- Aa3	AA- Aa3
Rating, short-term borrowing Standard & Poor's Moody's	A-1+ P-1	A-1+ P-1
Average number of employees during the period of which temporary employees	410 17	421 34

## Loan portfolio and securitised loans

SEK billion	Dec 2006		Dec 2005	
	Total	Of which securitised loans	Total	Of which securitised loans
Retail market	112.3	0.0	100.5	7.0
Corporate market	66.3	7.4	70.6	8.1
<b>Total</b>	<b>178.6</b>	<b>7.4</b>	<b>171.1</b>	<b>15.1</b>

All figures in brackets for income items and new lending refer to the corresponding period last year.

The comparison date is 31 December of the previous year for figures concerning balance sheet items, capital adequacy, lending and market shares.

## LENDING

During the year, new lending to the retail market totalled SEK 27,728 million (SEK 37,260 million). As in previous years, SBAB's business partners have been important distribution channels. The portfolio totalled SEK 112,254 million (SEK 93,528 million) excluding securitised loans. SBAB's market share for retail market lending including securitised loans is 9.3% (9.4%).

New lending to the corporate market was SEK 10,280 million (SEK 4,976 million). The corporate market portfolio excluding securitised loans totalled SEK 58,906 million (SEK 62,492 million). SBAB's market share for corporate lending including securitised loans is 14.1% (14.8%).

## FUNDING

SBAB considers it very important to have a well-diversified funding portfolio. This requires an active presence in the capital market and a flexible range of products. As at 31 December, the portfolio consisted of the following: Swedish Commercial Paper Programme SEK 18.2 billion (SEK 14.2 billion), Swedish covered bonds SEK 47.0 billion (SEK 0.0 billion), European Commercial Paper Programme USD 1,440 million (USD 1,790 million), US Commercial Paper Programme USD 1,813 million (USD 1,537 million), Euro Medium Term Note Programme USD 9,423 million (USD 7,895 million), Euro Medium Term Covered Note Programme EUR 2,486 million (EUR 0 million).

Lending through issue of covered bonds takes place through SBAB's wholly-owned subsidiary the Swedish Covered Bond Corporation (SCBC). The credit rating institutes Moody's and Standard & Poor's have set a credit rating of Aaa/AAA for the covered bonds issued.

## CAPITAL ADEQUACY

The capital ratio 2006 was 9.0% (9.0%). The primary capital ratio was 7.3% (7.1%). SBAB's capital base amounted to SEK 9,150 million (SEK 7,507 million). The parent company's primary capital ratio was 19.1% (9.6%), the primary capital ratio 15.3% (7.4%) and the capital base SEK 8,606 million (SEK 7,171 million). The parent company's increased capital ratio and primary capital ratio is mainly due to transfers of the loan portfolio to SBAB's wholly-owned subsidiary SCBC. As at 31 December, the subsidiary's portfolio totalled SEK 88,710 million.

## INTEREST RATE RISK

A parallel shift in the yield curve of plus one percentage point on 31 December 2006 would have resulted in a reduction of the net value of SBAB's interest-bearing assets and liabilities, including derivative transactions, of around SEK 176.4 million.

## ACCOUNTING PRINCIPLES

This interim report has been produced in accordance with the provisions of the Annual Accounts (Credit Institutions and Securities Companies) Act (ÅRKL) and the Financial Supervisory Authority's regulations and general guidelines (2002:22). The accounting principles have not changed since the Annual Report for 2005.

SBAB will apply the international financing reporting standards (IFRS) from 1 January 2007.

## CURRENT EVENTS

- A reorganisation was carried out in the last quarter of the year as part of efforts to make operations more efficient and reduce costs. In connection with this, it was decided to close the office in Uppsala.
- The bonds issued in securitisation transaction SRM No 2 were repaid on 15 December 2006. In conjunction with this, SBAB repurchased loan claims of SEK 6,249 million.

## FINANCIAL INFORMATION 2007

Annual General Meeting	19 April
Interim report January-March	16 May
Interim report January-June	27 July
Interim report January-September	29 October

## Income statement

SEK million	GROUP				PARENT COMPANY	
	Jan-Dec 2006	Jan-Dec 2005	Oct-Dec 2006	Oct-Dec 2005	Jan-Dec 2006	Jan-Dec 2005
Interest income	6,306	5,419	1,790	1,341	4,901	5,323
Interest expense	(4,972)	(4,123)	(1,458)	(1,006)	(4,018)	(4,142)
<b>Net interest income</b>	<b>1,334</b>	<b>1,296</b>	<b>332</b>	<b>335</b>	<b>883</b>	<b>1,181</b>
Dividends received	0	-	0	-	0	-
Commission income	40	50	6	11	99	101
Commission expenses	(138)	(120)	(36)	(32)	(56)	(53)
Net income from financial transactions	5	-	4	-	5	-
Other operating income	0	0	0	0	157	0
<b>Total operating income</b>	<b>1,241</b>	<b>1,226</b>	<b>306</b>	<b>314</b>	<b>1,088</b>	<b>1,229</b>
General administration expenses	(515)	(511)	(140)	(161)	(527)	(526)
Depreciation of tangible and intangible fixed assets	(26)	(22)	(6)	(6)	(16)	(15)
Other operating expenses	(52)	(63)	(12)	(17)	(52)	(63)
<b>Total operating expenses</b>	<b>(593)</b>	<b>(596)</b>	<b>(158)</b>	<b>(184)</b>	<b>(595)</b>	<b>(604)</b>
<b>Operating income before loan losses</b>	<b>648</b>	<b>630</b>	<b>148</b>	<b>130</b>	<b>493</b>	<b>625</b>
Loan losses, net (Note 1)	4	36	(1)	31	4	36
<b>Net operating income</b>	<b>652</b>	<b>666</b>	<b>147</b>	<b>161</b>	<b>497</b>	<b>661</b>
Allocations	-	-	-	-	1,052	(103)
Minority share in the year's result	0	1	(1)	1	-	-
Tax on profit for the year	(190)	(196)	(43)	(49)	(441)	(165)
<b>Net profit for the year</b>	<b>462</b>	<b>471</b>	<b>103</b>	<b>113</b>	<b>1,108</b>	<b>393</b>

## Balance sheet

SEK million	GROUP		PARENT COMPANY	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
<b>ASSETS</b>				
Cash in hand and balance at central banks	0	0	0	0
Repo eligible Treasury bills, etc.	3	3	3	3
Lending to credit institutions (Note 2)	791	157	28,087	14,799
Lending to the public (Note 3)	171,160	156,020	65,001	141,285
Bonds and other interest-bearing securities	21,847	-	21,847	-
Shares and participations	0	0	0	0
Shares and participations in group companies	-	-	4,459	357
Intangible fixed assets	55	48	21	17
Tangible assets	19	21	19	21
Other assets	1,131	5,175	1,028	5,173
Prepaid expenses and accrued income	591	404	445	425
<b>TOTAL ASSETS</b>	<b>195,597</b>	<b>161,828</b>	<b>120,910</b>	<b>162,080</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>				
<b>LIABILITIES</b>				
Liabilities to credit institutions	5,415	4,525	605	4,490
Securities issued, etc.	174,423	145,400	105,899	146,100
Other liabilities	5,485	2,592	5,387	2,591
Accrued expenses and prepaid income	1,115	1,212	446	1,176
Allocations for deferred tax	10	304	-	-
Subordinated debt	2,645	1,851	2,645	1,851
<b>Total liabilities</b>	<b>189,093</b>	<b>155,884</b>	<b>114,982</b>	<b>156,208</b>
<b>Untaxed reserves</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>1,055</b>
<b>Minority interest</b>	<b>442</b>	<b>344</b>	<b>-</b>	<b>-</b>
<b>EQUITY CAPITAL</b>				
Share capital	1,958	1,958	1,958	1,958
Restricted reserves/Legal reserve	418	1,174	392	392
Non-restricted reserves/Profit brought forward	3,224	1,997	2,467	2,074
Net profit for the year	462	471	1,108	393
<b>Total equity capital</b>	<b>6,062</b>	<b>5,600</b>	<b>5,925</b>	<b>4,817</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>	<b>195,597</b>	<b>161,828</b>	<b>120,910</b>	<b>162,080</b>

## Changes in equity capital

SEK million	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
<b>Equity capital at the beginning of the year</b>	<b>5,600</b>	<b>5,268</b>	<b>4,817</b>	<b>4,563</b>
Dividend	-	(139)	-	(139)
Net profit for the year	462	471	1,108	393
<b>Equity capital at the end of the year</b>	<b>6,062</b>	<b>5,600</b>	<b>5,925</b>	<b>4,817</b>

## Cash flow analysis

SEK million	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
<b>Liquid assets at the beginning of the year</b>	<b>157</b>	<b>2,406</b>	<b>157</b>	<b>2,406</b>
Cash flow from current operations	(427)	(2,650)	3,760	(2,515)
Cash flow from investment operations	(31)	(32)	(4,120)	(94)
Cash flow from financing operations	1,092	433	994	360
Increase/Decrease in liquid funds	634	(2,249)	634	(2,249)
<b>Liquid funds at the end of the year</b>	<b>791</b>	<b>157</b>	<b>791</b>	<b>157</b>

Liquid funds are defined as cash in hand and lending to credit institutions with a tenor of at most three months.

## Note 1 Loan losses, net

Group SEK million	Jan-Dec	
	2006	2005
<i>Specific provisions for individually-assessed loan claims</i>		
The year's write-off for actual loan losses	8	25
Reversal of previous positions for probable loan losses reported as actual loan losses in the accounts for the year	(3)	(20)
The year's provision for probable loan losses	14	9
Recoveries in respect of actual loan losses in previous years	(4)	(3)
Reversal of provisions for probable loan losses no longer required	(17)	(15)
<b>Net cost for the year</b>	<b>(2)</b>	<b>(4)</b>
<i>Collective provision for individually assessed loan claims</i>		
Allocation/withdrawal from collective provisions	(11)	(31)
<i>Collectively assessed homogeneous groups of loan claims</i>		
The year's write-off for actual loan losses	2	3
Recoveries in respect of loan losses in previous years	(2)	(2)
Allocation to/withdrawal from provisions for loan losses	9	(2)
<b>Net cost for the year of collectively assessed homogeneous loan claims</b>	<b>9</b>	<b>(1)</b>
<b>Net cost of loan losses for the year</b>	<b>(4)</b>	<b>(36)</b>

Both the write-offs for actual loan losses for the year and the reversal of previous write-offs as specified above are related to claims on the public.

## Note 2 Lending to credit institutions

SEK 9,331 million of the parent company's lending to credit institutions is related to a claim on the wholly-owned subsidiary SCBC. These claims are subordinated, i.e. the claims are met only after other creditors of the subsidiary have been paid.

## Note 3 Lending to the public

Group SEK million	31 Dec 2006		31 Dec 2005	
	Lending	Provision	Lending	Provision
Municipal multi-family dwellings	9,781	-	13,158	-
Tenant-owner associations	27,500	(154)	28,890	(166)
Privately-owned multi-family dwellings	18,859	(38)	19,880	(42)
Single-family dwellings and holiday homes	79,901	(21)	69,319	(18)
Tenant-owned apartments	32,383	(9)	24,229	(2)
Commercial properties	2,958	-	772	-
Provision for probable loan losses	(222)		(228)	
<b>Total</b>	<b>171,160</b>	<b>(222)</b>	<b>156,020</b>	<b>(228)</b>

SEK 88,710 million of the total lending portfolio is in SCBC. SEK 84,336 million of the loans are collateral pledged for covered bonds of SEK 69,424 million.

<i>Doubtful and non-performing loan claims</i>	31 Dec 2006	31 Dec 2005
a) Doubtful loan claims	125	144
b) Non-performing loan claims which are included in doubtful loan claims	6	42
c) Non-performing loan claims for which interest is taken up as income and which are thus not included in doubtful loan claims	193	92
d) Specific provisions for individually assessed loan claims	91	95
e) Collective provisions for individually assessed loan claims	101	113
f) Provisions for collectively assessed homogenous groups of loan claims	30	20
g) Total provisions (d+e+f)	222	228
h) Doubtful loan claims after specific provisions for individually assessed loan claims (a-d)	34	49
i) Provision ratio for specific provisions for individually assessed loan claims (d/a)	73%	66%

## Note 4 Book values and actual values of derivative instruments

Group SEK million	31 Dec 2006		31 Dec 2005	
	Book value	Actual value	Book value	Actual value
<i>Derivative instruments with positive values or zero value</i>				
Interest rate swaps	602	1,090	1,154	1,946
Interest rate and currency swaps	135	233	1,472	1,735
Equity-related derivative contracts	0	47	3	40
<b>Total</b>	<b>737</b>	<b>1,370</b>	<b>2,629</b>	<b>3,721</b>
<i>Derivative instruments with negative values</i>				
Interest rate swaps	1,279	1,665	1,526	2,921
Interest rate and currency swaps	3,433	3,454	975	971
Equity-related derivative contracts	1	0	0	3
<b>Total</b>	<b>4,713</b>	<b>5,119</b>	<b>2,501</b>	<b>3,895</b>

All funding in foreign currency is hedged with interest rate and currency swaps and/or equity-linked contracts in order to eliminate risks for SBAB.

Stockholm, 30 January 2007

Eva Cederbalk  
Chief Executive Officer

## AUDITORS' REPORT

To the Board of Directors of the Swedish Housing Finance Corporation, SBAB (publ). Reg no. 556253-7513.

### Introduction

We have reviewed the enclosed announcement of SBAB's result for the period 1 January 2006 – 31 December 2006. The Board of Directors and the CEO are responsible for preparing and presenting this announcement in accordance with the Annual Accounts (Credit Institutions and Securities Companies) Act. Our responsibility is to express an opinion on this announcement based on our review.

### The direction and extent of the review

We have performed this review in accordance with the review standard SÖG 2410 *Review of financial information in interim reports performed by the company's appointed auditors* issued by FAR. A review consists of making enquiries, in the first place to persons who are responsible for financial and accounting matters, performing an analytical review and undertaking other review measures. A review has another direction and is of considerably smaller scope than an audit 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 important circumstances that would have been identified if an audit had been performed. The expressed conclusion based on a review does not therefore have the same degree of certainty that a conclusion expressed as a result of an audit has.

### Conclusion

On the basis of our review, nothing has emerged which gives us cause to consider that the attached announcement is not, in all essentials, drawn up in accordance with the Annual Accounts (Credit Institutions and Securities Companies) Act.

Stockholm, 30 January 2007

KPMG Bohlins AB

Per Bergman  
Authorised Public Accountant

Lars-Ola Andersson  
Authorised Public Accountant  
Appointed by the Swedish  
Financial Supervisory Authority



Sveriges Bostadsfinansieringsaktiebolag, SBAB (publ)  
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