

# INTERIM REPORT

## 1 JANUARY – 30 JUNE 2006

THE SWEDISH HOUSING FINANCE CORPORATION, SBAB

### THE PERIOD IN BRIEF

- The retail market portfolio continues to increase and now totals SEK 101,744 million (SEK 93,528 million) excl. securitised loans.
- New lending to the corporate market was 65% higher than in the corresponding period last year.
- Net operating income for the first half of the year totalled SEK 313 million (SEK 325 million).
- Net interest income increased to SEK 671 million (SEK 635 million).
- Expenses amounted to SEK 317 million (SEK 284 million).

### NET OPERATING INCOME

SBAB's net operating income for the first half of 2006 amounted to SEK 313 million (SEK 325 million). The deterioration in income is primarily explained by decreased net commission and higher expenses compared with the corresponding period last year.

### NET INTEREST INCOME & OTHER OPERATING INCOME

Net interest income amounted to SEK 671 million compared with SEK 635 million for the first half of 2005. Continued stiff competition and lower margins have led to income not increasing at the same rate as the portfolio. Other operating income totalled SEK –46 million (SEK –30 million). Commission expenses has increased as a consequence of growth in volumes with SBAB's business partners.

### EXPENSES

During the first half of the year, expenses totalled SEK 317 million (SEK 284 million). SBAB's development projects have been pursued more intensively compared with the corresponding period last year, which has increased project expenses. However, administration expenses are considerably lower for the first two quarters of the year compared with the same period last year.

### LOAN LOSSES & DOUBTFUL LOAN CLAIMS

Loan losses have continued to be low and have posted a positive result of SEK 5 million (SEK 4 million). Doubtful loan claims have decreased during the first half of the year from SEK 144 million to SEK 133 million. The provision ratio for specific provisions for loan claims assessed individually was 67%. Total provisions at the end of June 2006 were SEK 220 million, of which SEK 111 million was for collective provisions for loan claims assessed individually.

### LENDING

During the first half of the year, new lending totalled SEK 15,314 million (SEK 16,443 million). As before, SBAB's business partners are

### Summary SBAB group

	Jun 2006	Jun 2005	Dec 2005
Net interest income, SEK million	671	635	1,296
Net operating income, SEK million	313	325	666
Net operating income after tax, SEK million	223	229	471
Lending, SEK million	159,310	136,873	156,020
Loans securitised, SEK million	14,456	23,129	15,108
Doubtful loan claims after specific provisions for loan claims assessed individually, SEK million	44	68	49
Volume of international borrowing, SEK million	92,528	76,570	90,563
Income/Expenditure ratio excluding loan losses	2.0	2.1	2.1
Income/Expenditure ratio including loan losses	2.0	2.2	2.2
Return on equity, %	8.3	8.8	8.7
Capital ratio, %	9.7	9.3	9.0
Primary capital ratio, %	7.9	7.8	7.1
Equity ratio, %	3.6	3.8	3.7
Rating, long-term borrowing Standard & Poor's Moody's	AA– Aa3	AA– Aa3	AA– Aa3
Rating, short-term borrowing Standard & Poor's Moody's	A–1+ P–1	A–1+ P–1	A–1+ P–1
Average number of employees during the period of which temporary employees	422 24	408 30	421 34

### Loan portfolio and securitised loans

	Jun 2006		Dec 2005	
	Total	Of which securitised loans	Total	Of which securitised loans
SEK billion				
Retail market	108.5	6.8	100.5	7.0
Corporate market	65.3	7.7	70.6	8.1
<b>Total</b>	<b>173.8</b>	<b>14.5</b>	<b>171.1</b>	<b>15.1</b>

important distribution channels. The portfolio now totals SEK 101,744 million (SEK 93,528 million) excluding securitised loans. SBAB's market share for retail market lending is 9.5% (9.4%). The reduction is primarily explained by a lower lending to the municipal sector.

New lending in the corporate market increased to SEK 3,122 million (SEK 1,895 million). The corporate market portfolio excluding securitised loans amounted to SEK 57,566 million (SEK 62,492 million). The reduction is primarily explained by a lower lending to the municipal sector. SBAB's market share for corporate market lending is 13.8% (14.8%).

## FUNDING

SBAB regards having a well-diversified funding portfolio as very important. This requires an active presence in the capital market and a flexible range of products. On 30 June, the portfolio consisted of the following: Swedish Commercial Paper Programme SEK 21.6 billion (SEK 14.2 billion), Swedish covered bonds SEK 37.4 billion (SEK 0.0 billion), European Commercial Paper Programme USD 1,779 million (USD 1,790 million), US Commercial Paper Programme 1,390 MUSD (USD 1,537 million), Euro Medium Term Note Programme USD 9,510 million (USD 7,895 million).

## CAPITAL ADEQUACY

The capital ratio at the end of the first half of the year was 9.7% (9.0%). The primary capital ratio was 7.9% (7.1%) and included six months profit with tax and dividend deducted. SBAB's capital base amounted to SEK 8,706 million (SEK 7,507 million). The capital ratio for the parent company was 17.6% (9.6%), the primary capital ratio 14.2% (7.4%) and the capital base SEK 8,315 million (SEK 7,171 million).

SBAB has carried out an issue of subordinated debt in the form of hybrid capital of SEK 1,000 million (nominal amount), which explains an increased capital base and capital adequacy. The parent company's increased capital ratio and primary capital ratio is mainly due to SEK 64,339 million of the loan portfolio being transferred to SBAB's wholly-owned subsidiary AB Sveriges Säkerställda Obligationer (publ).

## INTEREST RATE RISK

A parallel shift in the yield curve of plus one percentage point at 30 June 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 146.5 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 complies with the regulations and general guidelines (FFFS 2002:22) issued by the Swedish Financial Supervisory Authority with supplements and adaptations in accordance with the transitional provisions for the regulations and general guidelines (FFFS 2005:33) of the Swedish Financial Supervisory Authority. Accounting principles have not changed since the Annual Report for 2005.

All listed companies in the EU shall apply the accounting standards (IFRS) produced by the IASB (International Accounting Standards Board) from 2005 with certain exceptions. The respective member state can make a decision to postpone implementation of IFRS to 2007 for those companies which are only listed with debt instruments. The Swedish parliament, the Riksdag, decided at the end of 2004 that Sweden would make use of this possibility. SBAB has only issued listed debt instruments and is preparing to introduce IFRS from 2007.

## CURRENT EVENTS

- SBAB's subsidiary is introducing covered bonds in the Swedish capital market. The rating agencies Moody's Investors Service and Standard & Poor's have set a credit rating of Aaa/AAA for the covered bonds issued by AB Sveriges Säkerställda Obligationer (publ). At the same time, SBAB is retaining its rating for the parent company.
- SBAB has started working together with Hemverket.se. This collaboration enables SBAB to offer a financing solution to people who want to buy or sell their house or apartment privately without the assistance of an estate agent in a secure and cost-effective way.

## FINANCIAL INFORMATION

SBAB's interim report for the third quarter of 2006 will be published on 30 October 2006.

## Income statement

	GROUP				PARENT COMPANY	
SEK million	Jan-Jun 2006	Jan-Jun 2005	Apr-Jun 2006	Apr-Jun 2005	Jan-Jun 2006	Jan-Jun 2005
Interest income	2,828	2,763	1,431	1,367	2,647	2,718
Interest expenses	(2,157)	(2,128)	(1,088)	(1,052)	(2,079)	(2,137)
<b>Net interest income</b>	<b>671</b>	<b>635</b>	<b>343</b>	<b>315</b>	<b>568</b>	<b>581</b>
Dividends received	0	-	0	-	0	-
Commission income	20	26	10	14	50	49
Commission expenses	(67)	(56)	(32)	(29)	(27)	(26)
Net income from financial transactions	1	-	2	-	1	-
Other operating income	0	0	0	0	27	0
<b>Total operating income</b>	<b>625</b>	<b>605</b>	<b>323</b>	<b>300</b>	<b>619</b>	<b>604</b>
General administration expenses	(269)	(236)	(139)	(128)	(270)	(244)
Depreciation of tangible and intangible fixed assets	(13)	(11)	(7)	(6)	(9)	(7)
Other operating expenses	(35)	(37)	(18)	(23)	(35)	(37)
<b>Total operating expenses</b>	<b>(317)</b>	<b>(284)</b>	<b>(164)</b>	<b>(157)</b>	<b>(314)</b>	<b>(288)</b>
<b>Operating income before loan losses</b>	<b>308</b>	<b>321</b>	<b>159</b>	<b>143</b>	<b>305</b>	<b>316</b>
Loan losses, net (Note 1)	5	4	(0)	1	5	4
<b>Net operating income</b>	<b>313</b>	<b>325</b>	<b>159</b>	<b>144</b>	<b>310</b>	<b>320</b>
Allocations	-	-	-	-	(41)	(48)
Minority share in the period's result	1	0	0	0	-	-
Deferred taxes	(10)	(15)	(5)	(6)	-	-
Tax on profit for the period	(81)	(81)	(41)	(37)	(79)	(81)
<b>Net profit for the period</b>	<b>223</b>	<b>229</b>	<b>113</b>	<b>101</b>	<b>190</b>	<b>191</b>

## Balance sheet

	GROUP			PARENT COMPANY	
SEK million	30 Jun 2006	30 Jun 2005	31 Dec 2005	30 Jun 2006	31 Dec 2005
<b>ASSETS</b>					
Cash in hand and balance at central banks	0	0	0	0	0
Repo eligible Treasury bills, etc	3	3	3	3	3
Lending to credit institutions (Note 2)	3,766	2,516	157	33,940	14,799
Lending to the public (Note 3)	159,310	136,873	156,020	80,577	141,285
Bonds and other interest-bearing securities	8,970	-	-	8,970	-
Shares and participations	0	0	0	0	0
Shares and participations in group companies	-	-	-	3,258	357
Intangible fixed assets	48	46	48	21	17
Tangible assets	21	22	21	21	21
Other assets	1,753	8,220	5,175	1,875	5,173
Prepaid expenses and accrued income	409	442	404	319	425
<b>TOTAL ASSETS</b>	<b>174,280</b>	<b>148,122</b>	<b>161,828</b>	<b>128,984</b>	<b>162,080</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>					
<b>LIABILITIES</b>					
Liabilities to credit institutions	8,518	8,513	4,525	1,283	4,490
Securities issued, etc.	150,089	128,810	145,400	112,509	146,100
Other liabilities	5,126	2,235	2,592	5,890	2,591
Accrued expenses and prepaid income	1,261	1,208	1,212	442	1,176
Provision for deferred tax	314	288	304	-	-
Subordinated debt	2,757	1,414	1,851	2,757	1,851
<b>Total liabilities</b>	<b>168,065</b>	<b>142,468</b>	<b>155,884</b>	<b>122,881</b>	<b>156,208</b>
<b>Untaxed reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,096</b>	<b>1,055</b>
<b>Minority shareholding</b>	<b>392</b>	<b>296</b>	<b>344</b>	<b>-</b>	<b>-</b>
<b>EQUITY CAPITAL</b>					
Share capital	1,958	1,958	1,958	1,958	1,958
Restricted reserves/Legal reserve	1,200	1,133	1,174	392	392
Non-restricted reserves/Profit brought forward	2,442	2,038	1,997	2,467	2,074
Net profit for the period	223	229	471	190	393
<b>Total equity capital</b>	<b>5,823</b>	<b>5,358</b>	<b>5,600</b>	<b>5,007</b>	<b>4,817</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>	<b>174,280</b>	<b>148,122</b>	<b>161,828</b>	<b>128,984</b>	<b>162,080</b>

## Changes in equity capital

	GROUP			PARENT COMPANY	
SEK million	Jan-Jun 2006	Jan-Jun 2005	Jan-Dec 2005	Jan-Jun 2006	Jan-Jun 2005
<b>Equity capital at the beginning of the period</b>	<b>5,600</b>	<b>5,268</b>	<b>5,268</b>	<b>4,817</b>	<b>4,563</b>
Dividend	-	(139)	(139)	-	(139)
Net profit for the period	223	229	471	190	191
<b>Equity capital at the end of the period</b>	<b>5,823</b>	<b>5,358</b>	<b>5,600</b>	<b>5,007</b>	<b>4,615</b>

## Cash flow analysis

	GROUP			PARENT COMPANY	
SEK million	Jan-Jun 2006	Jan-Jun 2005	Jan-Dec 2005	Jan-Jun 2006	Jan-Jun 2005
<b>Liquid funds at the beginning of the period</b>	<b>157</b>	<b>2,406</b>	<b>2,406</b>	<b>157</b>	<b>2,406</b>
Cash flow from current operations	2,578	243	(2,650)	4,419	285
Cash flow from investment operations	(12)	(19)	(32)	(2,912)	(36)
Cash flow from financing operations	1,043	(114)	433	994	(139)
Increase/Decrease in liquid funds	3,609	110	(2,249)	2,501	110
<b>Liquid funds at the end of the period</b>	<b>3,766</b>	<b>2,516</b>	<b>157</b>	<b>2,658</b>	<b>2,516</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-Jun	
	2006	2005
<i>Specific provision for individually assessed loan claims</i>		
The period's write-off for actual loan losses	6	13
Reversal of previous provisions for probable loan losses reported as actual loan losses in the accounts for the period	(2)	(13)
The period's provision for probable loan losses	6	4
Recoveries in respect of actual loan losses in previous years	(5)	(1)
Reversal of provisions for probable loan losses no longer required	(9)	(8)
<b>Net cost of loan losses for the period</b>	<b>(4)</b>	<b>(5)</b>
<i>Collective provision for individually assessed loan claims</i>		
Allocation to/withdrawal from collective provisions	(2)	-
<i>Collectively assessed homogeneous groups of loan claims</i>		
The period's write-off for actual loan losses	1	2
Recoveries in respect of actual loan losses in previous years	(1)	(1)
Allocation to/withdrawal from provision for loan losses	1	(0)
<b>Net cost for the period of collectively assessed homogeneous loan claims</b>	<b>1</b>	<b>1</b>
<b>Net cost for loan losses for the period</b>	<b>(5)</b>	<b>(4)</b>

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

## Note 2 Lending to credit institutions

SEK 15,168 million of the parent company's lending to credit institutions is related to a claim on the wholly-owned subsidiary AB Sveriges Säkertällda Obligationer (publ). 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	30 Jun 2006		31 Dec 2005	
	Lending Provision		Lending Provision	
Municipal multi-family dwellings	10,936	-	13,158	-
Tenant-owner associations	27,915	(159)	28,890	(166)
Privately-owned multi-family dwellings	18,018	(41)	19,880	(42)
Single-family dwellings and holiday homes	73,556	(18)	69,319	(18)
Tenant-owned apartments	28,208	(2)	24,229	(2)
Commercial properties	897	-	772	-
Provision for probable loan losses	(220)		(228)	
<b>Total</b>	<b>159,310</b>	<b>(220)</b>	<b>156,020</b>	<b>(228)</b>

SEK 59,368 million of the loans in the lending portfolio are collateral pledged for covered bonds of SEK 38,380 million.

## Doubtful och non-performing loan claims

	30 Jun 2006	31 Dec 2005
a) Doubtful loan claims	133	144
b) Non-performing loan claims which are included in doubtful loan claims	14	42
c) Non-performing loan claims on which interest is taken up as income and which are thus not included in doubtful loan claims	138	92
d) Specific provisions for individually assessed loan claims	89	95
e) Collective provisions for individually assessed loan claims	111	113
f) Provisions for collectively assessed homogeneous groups of loan claims	20	20
g) Total provisions (d+e+f)	220	228
h) Doubtful loan claims after specific provisions for individually assessed loan claims (a-d)	44	49
i) Provision ratio for specific provisions for individually assessed loan claims (d/a)	67%	66%

## Note 4 Book and actual values of derivative instruments

Group SEK million	30 Jun 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	1,053	1,722	1,154	1,946
Interest rate and currency swaps	231	392	1,472	1,735
Equity-related derivative contracts	0	31	3	40
<b>Total</b>	<b>1,284</b>	<b>2,145</b>	<b>2,629</b>	<b>3,721</b>
<i>Derivative instruments with negative values</i>				
Interest rate swaps	1,326	2,004	1,526	2,921
Interest rate and currency swaps	2,103	2,081	975	971
Equity-related derivative contracts	0	1	0	3
<b>Total</b>	<b>3,429</b>	<b>4,086</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, 29 August 2006

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 this interim report for the period 1 January 2006 – 30 June 2006. The Board of Directors and the CEO are responsible for preparing and presenting this interim report in accordance with 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 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 degree of certainty that a conclusion expressed as a result of an audit has.

## Conclusions

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

Stockholm, 29 augusti 2006

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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