



# Interim Report

## The Swedish Housing Finance Corporation, SBAB

1 January – 30 September 2004

### Net Operating Result

Net operating income for the first nine months of 2004 amounted to SEK 547 million (SEK 554 million). The slightly lower result than for the corresponding period for the previous year is due to the increase in costs and the lower net interest income. Developments in net loan losses continue to be positive.

### Net Interest Income

Net interest income amounted to SEK 933 million which is slightly lower than in the corresponding period in 2003 when net interest income amounted to SEK 940 million. The effect of the improvement in the direct margin of the lending portfolio is dampened by the lower yield effect on flows and equity capital due to lower market interest rates.

### Expenses

Expenses have increased and amounted to SEK 369 million (SEK 341 million), this increase is due to larger investments in strategic projects and higher staff costs compared to the same period in 2003.

### Net Loan Losses

Net loan losses continued to be low and posted a positive result of SEK 7 million, which is an improvement of SEK 31 million over the corresponding period in 2003.

### Doubtful Loan Receivables and Provisions

Doubtful loan receivables have been reduced since the year-end from SEK 220 million to SEK 197 million. The provision ratio regarding specific provisions for individually assessed loan receivables was 51 per cent. At the end of the third quarter, total provisions amounted to SEK 289 million of which SEK 169 million regards collective provisions for individually assessed loan receivables.

#### SUMMARY FOR THE SBAB GROUP

	Sept 2004	Sept 2003	Dec 2003
Net interest income, SEK million	<b>933</b>	940	1 253
Net operating income, SEK million	<b>547</b>	554	721
Net operating income after tax, SEK million	<b>391</b>	398	519
Loan losses net, SEK million	<b>(7)</b>	24	28
Return on equity, % <sup>1</sup>	<b>10.3</b>	10.3	11.0
Capital ratio, %	<b>10.1</b>	10.0	10.2
Primary capital ratio, %	<b>8.4</b>	8.2	8.4
Equity ratio, %	<b>4.0</b>	3.5	3.9
Doubtful loan receivables after specific provisions for individually assessed loan receivables, SEK million	<b>97</b>	218	102
Income/Expenditure ratio, excluding loan losses	<b>2.5</b>	2.7	2.5
Income/Expenditure ratio, including loan losses	<b>2.5</b>	2.5	2.4
Rating, long-term debt Standard & Poor's Moody's	<b>AA- A1</b>	AA- A1	AA- A1
Rating, short-term debt Standard & Poor's Moody's	<b>A-1+ P-1</b>	A-1+ P-1	A-1+ P-1
Volume of international borrowing, SEK million	<b>71 922</b>	66 388	74 494
Lending, SEK million	<b>129 222</b>	127 593	125 772
Securitised loans, SEK million	<b>25 354</b>	26 401	26 042
Average number of employees for the period	<b>393</b>	385	384
of whom temporary employees	<b>29</b>	32	31

<sup>1</sup> Net operating income after tax for the last twelve months in relation to the average equity capital.

#### LOAN PORTFOLIO AND SECURITISED LOANS

SEK billion	September 2004		September 2003	
	Total	of which securitised loans	Total	of which securitised loans
Retail market	<b>72.7</b>	<b>15.9</b>	59.4	16.3
Property-company market	<b>81.9</b>	<b>9.5</b>	94.6	10.1
<b>Total</b>	<b>154.6</b>	<b>25.4</b>	154.0	26.4

## Lending

During the first nine months, SBAB has increased lending to the retail market with new lending amounting to SEK 17 276 million (SEK 11 377 million). A considerable part of the lending is via the Internet and as earlier, SBAB's business partners constitute important distribution channels. The continuation of good growth in lending to the retail market has resulted in an increase in the size of the portfolio, which now amounts to SEK 56 762 million (SEK 46 179 million) excluding securitised loans.

New lending in the property-company market totalled SEK 3 296 million (SEK 3 360 million) and the total size of the property-company portfolio excluding securitisations amounted to SEK 72 460 million (SEK 79 593 million). At the same time lending to municipal housing companies has decreased and the focus on certain specific customer groups, in combination with the discontinuation of non strategic projects, has resulted in a reduction in the property-company market portfolio.

On the whole, SBAB's customers are choosing somewhat shorter loan terms than during the corresponding period in 2003.

## Funding

Long-term funding in the first nine months of 2004 amounted to SEK 30 353 million (SEK 37 683 million), of which SEK 15 080 million (SEK 22 645 million) was raised in the international market and SEK 15 274 million (SEK 15 037 million) in the domestic bond market. Short-term debt, defined as short-term at the issue date, amounted to SEK 33 238 million (SEK 35 369 million).

## Capital Adequacy

The capital ratio at the end of the third quarter was 10.1 per cent (10.2 per cent). The primary capital ratio was 8.4 per cent (8.4 per cent) and included nine months profits with estimated tax and dividends deducted. SBAB's capital base amounted to SEK 6 302 million (SEK 6 015 million). The parent company's capital ratio was 10.6 per cent (10.6 per cent), the primary capital ratio 8.8 per cent (8.7 per cent) and the capital base SEK 6 060 million (SEK 5 799 million).

## Interest Rate Risk

A parallel shift in the yield curve of plus one percentage point at 30 September 2004 would have resulted in a reduction in the net value of SBAB's interest bearing assets and liabilities, including derivative transactions, of around SEK 133.3 million.

## Accounting Principles

This interim report has been prepared in accordance with the terms of the Annual Accounts Act concerning credit institutions and securities companies (ÅRKL) and the regulations issued by the Swedish Financial Supervisory Authority (2002:22). Accounting principles have not been changed since the Annual Report for 2003.

## Prospects for the Rest of the Year

The result for 2004 is expected to be in line with the result for 2003.

INCOME STATEMENT	GROUP				PARENT COMPANY	
	Jan–Sept 2004	Jan–Sept 2003	July–Sept 2004	July–Sept 2003	Jan–Sept 2004	Jan–Sept 2003
SEK million						
Interest income	4 409	5 214	1 430	1 627	4 102	4 335
Interest expenses	(3 476)	(4 274)	(1 126)	(1 326)	(3 234)	(4 266)
<b>Net interest income</b>	<b>933</b>	940	<b>304</b>	301	<b>868</b>	69
Dividends received	-	0	-	0	-	0
Commission income	44	36	13	13	71	-
Commission expenses	(68)	(58)	(23)	(20)	(31)	(13)
Other operating income	0	1	0	0	0	170
<b>Total operating income</b>	<b>909</b>	919	<b>294</b>	294	<b>908</b>	226
General administration expenses	(314)	(290)	(90)	(90)	(318)	(181)
Depreciation of tangible and intangible fixed assets	(13)	(9)	(5)	(3)	(9)	(9)
Other operating expenses	(42)	(42)	(11)	(13)	(42)	(3)
<b>Total operating expenses</b>	<b>(369)</b>	(341)	<b>(106)</b>	(106)	<b>(369)</b>	(193)
<b>Operating income before loan losses</b>	<b>540</b>	578	<b>188</b>	188	<b>539</b>	33
Loan losses, net (Note 1)	7	(24)	(1)	(5)	7	-
<b>Net operating income</b>	<b>547</b>	554	<b>187</b>	183	<b>546</b>	33
Allocations	-	-	-	-	(80)	1
Minority share in the period's result	(0)	(0)	(0)	(0)	-	-
Deferred taxes	(23)	(28)	(8)	(10)	-	-
Tax on profit for the period	(133)	(128)	(45)	(42)	(133)	(10)
<b>Net profit for the period</b>	<b>391</b>	398	<b>134</b>	131	<b>333</b>	24

<b>BALANCE SHEET</b>		<b>GROUP</b>			<b>PARENT COMPANY</b>	
SEK million	<b>30 Sept 2004</b>	30 Sept 2003	31 Dec 2003	<b>30 Sept 2004</b>	31 Dec 2003	
<b>ASSETS</b>						
Cash in hand and balance at central banks	<b>0</b>	0	0	<b>0</b>	0	
Eligible Treasury Bills, etc.	-	1 322	709	-	709	
Lending to credit institutions	<b>2 973</b>	7 464	3 777	<b>13 170</b>	11 963	
Lending to the public (Note 2)	<b>129 222</b>	127 593	125 772	<b>118 981</b>	117 540	
Shares and participations	<b>0</b>	1	1	<b>0</b>	1	
Shares and participations in group companies	-	-	-	<b>255</b>	204	
Intangible fixed assets	<b>34</b>	27	31	<b>12</b>	9	
Tangible assets	<b>21</b>	24	22	<b>21</b>	22	
Other assets	<b>1 856</b>	4 234	931	<b>1 853</b>	929	
Pre-paid costs and accrued income	<b>595</b>	740	611	<b>599</b>	620	
<b>TOTAL ASSETS</b>	<b>134 701</b>	141 405	131 854	<b>134 891</b>	131 997	
<b>LIABILITIES AND EQUITY CAPITAL</b>						
<b>LIABILITIES</b>						
Debt to credit institutions	<b>6 022</b>	7 817	4 562	<b>5 992</b>	4 550	
Funding from general public	<b>1 000</b>	-	-	<b>1 000</b>	-	
Bonds issued, etc.	<b>117 460</b>	123 416	118 018	<b>117 960</b>	118 418	
Other liabilities	<b>615</b>	554	170	<b>616</b>	171	
Accrued costs and pre-paid income	<b>2 432</b>	2 917	2 252	<b>2 423</b>	2 228	
Provision for deferred tax	<b>269</b>	240	246	-	-	
Subordinated debt	<b>1 482</b>	1 482	1 482	<b>1 482</b>	1 482	
<b>Total liabilities</b>	<b>129 280</b>	136 426	126 730	<b>129 473</b>	126 849	
<b>Untaxed reserves</b>	-	-	-	<b>937</b>	857	
<b>Minority share holding</b>	<b>247</b>	174	198	-	-	
<b>EQUITY CAPITAL</b>						
<i>Restricted equity capital</i>						
Share capital	<b>1 958</b>	1 958	1 958	<b>1 958</b>	1 958	
Restricted reserves/Legal reserve	<b>1 083</b>	1 007	1 026	<b>392</b>	392	
<i>Unrestricted equity capital</i>						
Unrestricted reserves/Profit brought forward	<b>1 742</b>	1 442	1 423	<b>1 798</b>	1 511	
Net profit for the period	<b>391</b>	398	519	<b>333</b>	430	
<b>Total equity capital</b>	<b>5 174</b>	4 805	4 926	<b>4 481</b>	4 291	
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>	<b>134 701</b>	141 405	131 854	<b>134 891</b>	131 997	

<b>CHANGES IN EQUITY CAPITAL</b>		<b>GROUP</b>			<b>PARENT COMPANY</b>	
SEK million	<b>Jan–Sept 2004</b>	Jan–Sept 2003	Jan–Dec 2003	<b>Jan–Sept 2004</b>	Jan–Sept 2003	
Equity capital at the beginning of the period	<b>4 926</b>	4 544	4 544	<b>4 291</b>	2 505	
Dividends	<b>(143)</b>	(137)	(137)	<b>(143)</b>	(137)	
Net profit for the period	<b>391</b>	398	519	<b>333</b>	24	
Equity capital at the end of the period	<b>5 174</b>	4 805	4 926	<b>4 481</b>	2 392	

<b>CASH FLOW ANALYSIS</b>		<b>GROUP</b>			<b>PARENT COMPANY</b>	
SEK million	<b>Jan–Sept 2004</b>	Jan–Sept 2003	Jan–Dec 2003	<b>Jan–Sept 2004</b>	Jan–Sept 2003	
Liquid funds at the beginning of the period	<b>651</b>	581	581	<b>651</b>	571	
Cash flow from current operations	<b>2 431</b>	122	196	<b>2 528</b>	152	
Cash flow from investment operations	<b>(15)</b>	(25)	(38)	<b>(63)</b>	(40)	
Cash flow from financing operations	<b>(94)</b>	(112)	(88)	<b>(143)</b>	(137)	
Increase/Decrease in liquid funds	<b>2 322</b>	(15)	70	<b>2 322</b>	(25)	
Liquid funds at the end of the period	<b>2 973</b>	566	651	<b>2 973</b>	546	

Liquid funds are defined as cash in hand, balances at banks and assets payable on demand.

**Note 1** Loan Losses, Net

SEK million	GROUP	
	Jan–Sept 2004	Jan–Sept 2003
<i>Specific provision for individually assessed loan receivables</i>		
The period's write-offs for actual loan losses	17	69
Reversal of previous provisions for probable loan losses reported as actual loan losses in the accounts for the period	(15)	(59)
The period's provision for probable loan losses	14	17
Recoveries in respect of actual loan losses in previous years	(2)	(13)
Reversal of previous provisions for probable loan losses no longer required	(20)	(74)
Net cost for the period	(6)	(60)
<i>Collective provision for individually assessed loan receivables</i>		
Allocation to/Withdrawal from collective provision	(1)	65
<i>Collectively assessed homogeneous groups of loan receivables</i>		
The period's write-offs for actual loan losses	1	3
Recoveries in respect of actual loan losses in previous years	(2)	(2)
Allocation to/Withdrawal from provision for loan losses	1	18
Net cost for the period of collectively valued homogeneous loan receivables	0	19
Net cost of loan losses for the period	(7)	24

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

**Note 2** Lending to the public

SEK million	30 Sept 2004		31 Dec 2003	
	Lending	Provision	Lending	Provision
Municipal property companies	18 825	-	20 842	-
Tenant-owner co-operatives	28 710	(201)	28 430	(218)
Private property companies	23 434	(68)	26 750	(70)
Single-family homes and holiday homes	44 058	(17)	37 932	(16)
Tenant-owner apartments	12 724	(3)	8 266	(3)
Commercial properties	1 760	-	3 859	-
Reserve for probable loan losses	(289)		(307)	
<b>Total</b>	<b>129 222</b>	<b>(289)</b>	<b>125 772</b>	<b>(307)</b>

<i>Doubtful loan receivables and non-performing loan receivables</i>	30 Sept 2004		31 Dec 2003	
a) Doubtful loan receivables	197		220	
b) Non-performing loan receivables, which are included in doubtful loan receivables	64		63	
c) Non-performing loan receivables on which interest is taken up as income and which thus are not included in doubtful loan receivables	110		186	
d) Specific provisions for individually assessed loan receivables	100		118	
e) Collective provisions for individually assessed loan receivables	169		170	
f) Provisions for collectively assessed homogeneous groups of loan receivables	20		19	
g) Provisions, total (d+e+f)	289		307	
h) Doubtful loan receivables after specific provisions for individually assessed loan receivables (a–d)	97		102	
i) Provision ratio regarding specific provisions for individually assessed loan receivables (d/a)	51%		54%	

**Note 3** Actual and Nominal Values of Derivatives

SEK million	30 Sept 2004		31 Dec 2003	
	Nominal value	Actual value	Nominal value	Actual value
<i>Derivatives with positive or zero values – not reported in the Balance Sheet</i>				
Interest rate swaps	59 342	1 933	52 277	1 214
Interest rate and currency swaps	10 303	821	16 453	1 154
Equity linked derivative contracts	247	28	245	21
<b>Total</b>	<b>69 892</b>	<b>2 782</b>	<b>68 975</b>	<b>2 389</b>
<i>Derivatives with negative values – not reported in the Balance Sheet</i>				
Interest rate swaps	75 702	3 433	67 543	2 731
Interest rate and currency swaps	54 970	1 822	58 355	3 820
Equity linked derivative contracts	244	17	469	33
<b>Total</b>	<b>130 916</b>	<b>5 272</b>	<b>126 367</b>	<b>6 584</b>

All borrowing in foreign currencies is hedged with interest rate and currency swaps and/or equity linked derivative contracts in order to eliminate financial risk.

Stockholm, 4 November 2004

Eva Cederbalk

Chief Executive Officer

**Auditors' Report**

We have carried out a broad examination of this interim report according to the recommendation issued by FAR (the institute for the accountancy profession in Sweden). There are significant limitations in a broad examination, compared with an audit. Nothing has emerged to suggest that this interim report does not meet the requirements according to the stock exchange and annual report & accounts legislation.

Stockholm, 4 November 2004

KPMG Bohlins AB

Per Bergman

Authorised Public Accountant

Lars-Ola Andersson

Authorised Public Accountant  
Appointed by the Swedish  
Financial Supervisory Authority

**Financial reporting**

SBAB's annual accounts for 2004 will be published on 31 January 2005



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