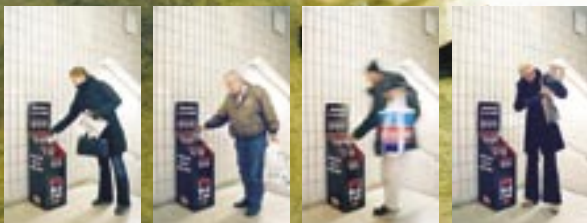
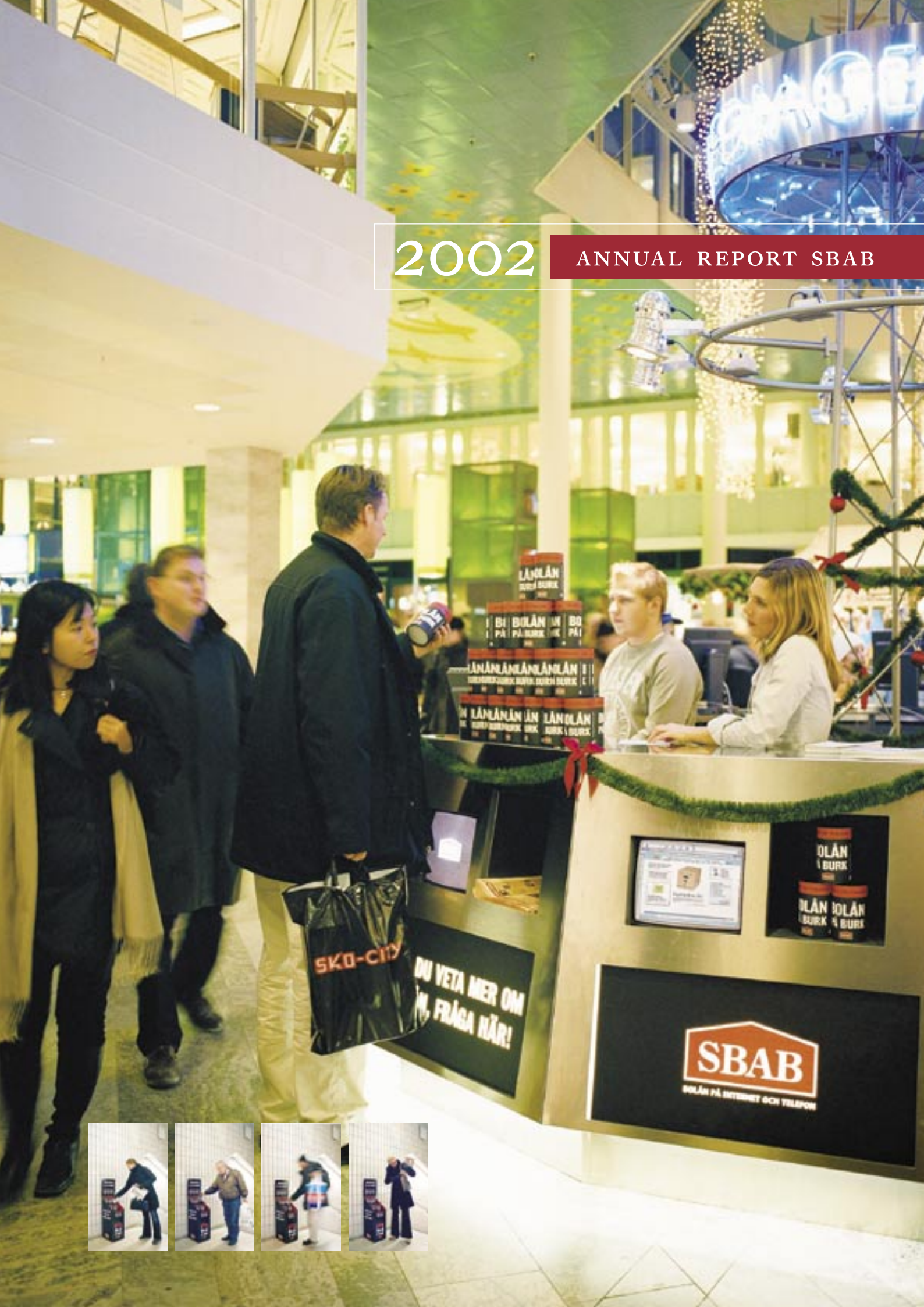
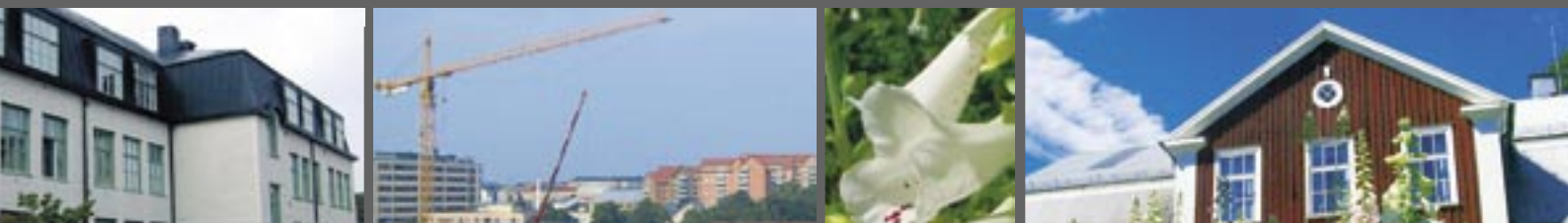


2002

ANNUAL REPORT SBAB





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SBAB is owned by the Swedish State. The mandate from its owner is to contribute to competition in the housing mortgage market by conducting an efficient and profitable mortgage lending operation.

SBAB conducted an eye-catching brand-promotional campaign in the autumn of 2002 "Bolån på burk" (canned house loans). The outside front cover shows SBAB's presence in one of Stockholm's shopping arcades. Photo: Carl-Mikael Björling



## The Year in Brief



**In terms of customer satisfaction**, SBAB is ranked best in the home loan market in respect of its retail customers and next best in respect of its property company customers, according to SKI (Swedish Customer Satisfaction Index).



**A public confidence measurement survey** of customers, the general public, journalists, members of parliament and others placed SBAB first in the whole home loan market. The survey was undertaken by Research International, SIFO.

**Public awareness of SBAB** has grown, particularly in the large city areas.



**More than 90 per cent** of SBAB's retail customers opt to stay with SBAB when renewing their loans and more than 99 per cent would recommend the Company.



**SBAB's web site www.sbab.se** has been re-designed. Around 55 per cent of all loan applications within the retail market are received via Internet.

**The strategy of broadening** the retail customer base and strengthening the SBAB brand, primarily in the Stockholm area, has been successful. The restructuring of the multi-family housing portfolio with pricing commensurate with risk has resulted in reduced loan volume, but at the same time improved net interest income.



**Net profit per employee** was SEK 1.6 million. SBAB's investment in training corresponded to approximately five training days per employee.



# The Year's Result in Brief

- SBAB's operating income for 2002 is the best since the start in 1985.
- SBAB's operating income for 2002 compared to last year increased by around 14 per cent to SEK 618 million (541 million), corresponding to a return on equity capital of 10.2 per cent.
- SBAB's new lending amounted to SEK 15 billion.
- SBAB continued trading with certificates in the US-capital market.
- SBAB issued a new bond loan, No. 120, on the Swedish market.
- SBAB's primary capital ratio at 31 December 2002 increased to 7.8 per cent.
- SBAB's two former government guarantees have been replaced by a credit facility on market terms, the cost of which has affected the result.
- SBAB's loan losses (net) at SEK 74 million for the year continued to run at a low level. At the same time a general reserve of SEK 90 million has been built up during 2002.
- SBAB's problem loans, after provisions, are in principle unchanged and stood at SEK 283 million at 31 December 2002 compared to SEK 277 million at 31 December 2001.
- SBAB's new process-oriented organisation will make it possible to reduce the number of staff. This reduction in staff will be achieved through negotiated pensions, towards which provisions have been made totalling SEK 32 million.
- SBAB's "stable outlook" rating from Moody's has been retained and Standard & Poor's has adjusted the assessment of SBAB from "negative" to "stable outlook".



## Summary for the SBAB Group

	2002	2001
Net operating income, SEK million	618	541
Loan losses, SEK million	74	55
Capital ratio, %	10.0	9.5
Primary capital ratio, %	7.8	7.0
Equity ratio, %	3.4	2.9
Return on equity, %	10.2	9.6
Problem loans after provisions, SEK million	283	277
Income/expenditure ratio, excluding loan losses	2.5	2.3
Income/expenditure ratio, including loan losses	2.1	2.0

	2002	2001
Rating, long-term debt		
Standard & Poor's	AA-	AA-
Moody's	A1	A1
Rating, short-term debt		
Standard & Poor's	A-1+	A-1+
Moody's	P-1	P-1
Lending, SEK million	133,840	137,430
Securitisation, SEK million	17,968	18,522
Average number of employees during the year	388	368
of whom temporary employees	36	32



# The Managing Director's Review

## SBAB 2002 – on the road to championship class



**SBAB is a vision, value and goal-oriented company. With continued growth in lending activity in the retail customer segment, high marks in customer satisfaction and confidence measurement surveys and continued strongly competitive funding, SBAB reports one of the most successful years ever achieved.**

**The operating income for the year amounted to SEK 618 million, the all-time best result since the start in 1985. Over the last three years SBAB's result has increased by 56 per cent and thereby exceeds the owner's stipulated annual rate of return.**

### Owner/Owner Expectations

SBAB is wholly owned by the Swedish State. Its mandate is to contribute to competition in the housing mortgage market while maintaining good and sustained profitability. The after tax rate of return over a business cycle (five years) should at least correspond to the rate of interest on a five-year Government bond plus five percentage points. Expansion should be internally generated out of earnings and a third of the company's after tax profit should be distributed by way of dividend.

### SBAB's Financial Position

The owner, the Swedish State, has contributed SEK 2.8 billion (net) in equity capital since the start in 1985 while over the same period the company has distributed around SEK 1 billion to the owner by way of ordinary dividend. The steady growth in profits has led to a substantial increase in the equity capital which stood at SEK 4.5 billion at the end of 2002.

As in recent years, the 2002 operations were typified by low loan losses. During the year a total sum of SEK 90 million was placed in a general provision against loans to company clients. This was made possible as a result of the new accounting rules applicable from and including 2002.

SBAB's primary capital ratio increased to 7.8 per cent over the year, thereby considerably exceeding the target level of 7 per cent.

The organisation became more process-oriented during the year. The greater degree of effectiveness within the new

organisation freed up the economic resources to further develop marketing, services and SBAB's IT-system.

The planned reduction in staff resulting from the changed organisation will be met partly by natural staff turnover but there will also be a number of negotiated pensions arranged in the coming years. The year's result reflects the cost of setting aside SEK 32 million against that eventuality.

### Customer Targets and Strategy

In order to fulfil our mission of contributing to competition in the housing mortgage market while maintaining long-term profitability, we are giving highest priority to customer targeting and related strategies.

SBAB should stand for creativity and renewal in the housing mortgage market. The goal is to have the most satisfied customers in the housing mortgage market. The strategies for growth are continued strong emphasis on retail customers, a widened customer base, deeper business involvement in the mid-sized property-owner segment and highly competitive funding, both domestic and foreign. Critical factors for success are accessibility, competence, confidence building, service level and price. In the marketing and selling of its services to owners of multi-family housing, SBAB has shifted focus from companies with large property-holdings to slightly smaller property-holding companies. A new pricing model has been developed for this segment which factors in the risk profile of the loan to a higher extent than previously.

Low risk, good profitability, cost effectiveness, a service-minded attitude and high ethical demands should characterise the operations.

#### Internet

SBAB's concept is to make home loans as simple as possible for the customer. It should be easy to compare offers from various mortgage lenders before making a choice. SBAB's open, clear and straightforward pricing is an important factor. Information should also be simple. The possibility of applying for a housing loan via the Internet is now well established.

## Strategic Direction

### Vision

SBAB is the leading housing mortgage company  
– the obvious choice for the customer!

### Business Concept

SBAB should finance housing in a manner that is simple and that offers good value for money.

This implies:

- That SBAB makes housing cheaper for those many people who own their own housing, by offering a low price and ready accessibility
- That SBAB offers competitive services to owners of multi-family housing situated in growth areas
- That SBAB leads in the packaging and sale of housing risks in JPY, USD, EUR and SEK to institutional investors and improves business flows with balanced risk-taking.

### Operations

SBAB's operations should be characterised by low risk, good profitability, cost-efficiency, service-consciousness, high ethical standards and should answer to the rate of return set by the owner.

### Brand Name

SBAB's core values or brand name loading, as it is also called, are Challenge and Simplicity.

### Internal Values

The agreed internal values within SBAB are: Overview Perspective, Innovation, Care, Trust and Commitment.

SBAB's web site has been extensively developed during the year with focus placed on simple and user-friendly customer solutions.

#### Co-operations

Co-operation with other financial institutions supplements SBAB's own range of services to retail customers. In this connection SBAB chooses partners who share the same basic values as SBAB. Such partners are ICA Banken, Ikanobanken, the Savings Bank Finn and the Savings Bank Gripen in Skåne.

## The Economic Environment – Positive Swedish Households

In Sweden year 2002 started out with the Riksbank raising the repo rate twice during the spring. There then followed an uncertain summer period when further increases were announced. Two decreases in the latter part of the autumn returned the repo rate to the same level as it started from at the beginning of the year, 3.75 per cent.

The Swedish economy nevertheless enjoyed the support of the household sector, with consumption increasing during the year notwithstanding the steep fall in stock exchange prices and worrying business trends.

The households' purchasing power was very much strengthened, largely resulting from the combination of decreased taxes and increased transfers from the public sector, which had the estimated effect of increasing disposable income by around 5 per cent.

Increased private consumption thus contributed positively to the GDP-growth, estimated at somewhere between 1.5 and 2 per cent for 2002 (1 per cent in 2001). The low interest rate levels during the year favoured SBAB's borrowers.

## Important Ingredients Weighed Together in the "Total Balance Sheet"

The company is guided by a many faceted belief in human endeavour, where both tangible and intangible values are weighed in a "Total Balance Sheet". In order to ensure the taking of an overview perspective and maintaining a long-term behavioural style SBAB works with five target areas with connected strategies and factors critical for success, which together describe SBAB's five different values.

The five values in the "Total Balance Sheet" are: Customer value, Staff value, Structural value, Public value and Financial capital.



SBAB's vision is to become the leading housing mortgage company – an obvious choice for the customer whether it concerns the financing of multi-family housing, owner occupied homes or tenant-owner apartments. The vision is successively being realised through the competence of SBAB's staff who, in the everyday performance of their work, constantly strive towards increasing the content of the five values.

In this way SBAB fulfils its mission of creating values for customers and the owner, as reflected in the "Total Balance Sheet" under **customer value** and **financial capital**.

SBAB is also mandated to perform a challenging role in the market. The role as specialist and challenger has become increasingly apparent in recent years, as well as making a difference in the market.

Services offered should be user-friendly and the brand's visual message should be easily understandable. Services should be of championship class. This can only be achieved through the high level of competence and involvement of the company's staff, who comprise the most important part of the brand image. This competence, expressing the assembled knowledge of SBAB's staff, is reflected in the "Total Balance Sheet" under **staff value**.

The company's capacity to supply a good infrastructure and a process-oriented organisation constitutes the assets of the **structural value**. When SBAB exerts a change in the market by forcing down prices and creating innovative forms of funding, value is added to society as a whole and this is shown in the **public value**.

#### Common value foundation

The aspiration towards being the leading housing mortgage company, the obvious choice for the customer, calls for a constant development in knowledge and competence as well as having a common value foundation and culture. It is through a high degree of knowledge and competence and a mutually respectful attitude in inter-personal relationships that the company's vision and values are fulfilled. The common value foundation within SBAB has been decided by common consensus among all the staff and the values are: Overview Perspective, Innovation, Care, Trust and Commitment.

#### High Confidence Level in SBAB's Brand

The confidence capital associated with the brand name and which measures the image and the confidence placed in SBAB is also a measure of the company's public value. The survey is made by Research International, SIFO, and is

based on many judgements of SBAB from different groups in society and in the market. The survey shows that SBAB has a high confidence capital in the different groups, among others from the public, customers, journalists and members of parliament.

One of SBAB's most important goals is to have the housing market's most satisfied customers. Happily enough this goal has been achieved for retail customers, according to Svenskt Kvalitetsindex (Customer Satisfaction Index), SKI, administered by Handelshögskolan (the Stockholm School of Economics) among others.

A corresponding index for customers in the property company market places SBAB as a close second to the large bank-owned housing mortgage companies.

#### The Housing Mortgage Market is Growing

The market for housing loans to retail customer increased during 2002 by around 10 per cent or SEK 68 billion, which is a very strong growth. At the same time the market for multi-family housing has fallen by SEK 8 billion during the year.

#### High Demand in the Stockholm Area and Increased Knowledge of the Brand Name

New lending to retail customers amounted to slightly more than SEK 11 billion. New sales should be seen in the light of the fact that marketing so far has been limited to the Stockholm area. The market share regarding new sales in the Stockholm area is 15 per cent.

Lending by means of the Internet has continued to be successful. More than 50 per cent of SBAB's own sales originate from the Internet.



*SKI confirms, as far as retail customers are concerned, SBAB has achieved its goal of having the mortgage market's most satisfied customers.*

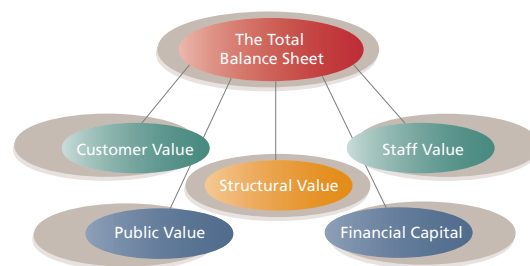
A large part of SBAB's lending is mediated through co-operation partners. These arrangements have developed well with the majority of partners. At the same time growth is negatively effected by the discontinuance of the co-operation with Länsförsäkringar Bank. With the exception of Länsförsäkringar Bank the number of loans mediated by co-operation partners has increased by 11 per cent compared to 2001.

SBAB's new lending within the property company market amounted to SEK 4.0 billion. At the same time, the loan portfolio decreased by a good SEK 8 billion as a result of strategic changes in the portfolio. In spite of a reduced portfolio, the net interest income has increased by a differentiated pricing according to risk.

Market awareness of SBAB's name continues to grow concurrent with the brand becoming more and more distinct. Customers give very high marks for service and competence. All of 90 per cent of customers whose loans fell due for renewal during the year chose to remain with SBAB.

## Funding

A decisive prerequisite for SBAB's competitive power is the ability to package and sell housing risk to investors both domestically and internationally. Here one can allude to the innovative securitisation transactions undertaken in earlier years aggregating SEK 18 billion. SBAB can thereby utilise



accessible capital more effectively, an important condition for offering competitive housing loans. In order to broaden the investor base, SBAB divides its funding equally between the international and the domestic markets.

SBAB has a creative and successful funding operation. Its special character requires a well maintained brand name with a good reputation to support investor confidence in the world's capital markets.

The demand for SBAB's securities has continued strong during the year. The liquid mortgage bonds and EMTN bonds that SBAB offers have continued to be widely acclaimed by investors around the world. During 2002 SBAB further developed funding in the US market. A new bond loan has been established in the Swedish market (SBAB 120).

## Improved Rating

An acknowledgement of how the company has been strengthened during the last years is reflected in a new and improved "outlook", indicated as "stable", accorded by both of the rating agencies judging SBAB's credit standing, Moody's and Standard & Poor's.

## The Development of the Financial Sector

The development towards increased harmonisation of the financial sector and the regulatory system within EC brings similar rules for the calculation and distribution of risk, treatment of secured bonds (Sw. säkerställda obligationer) and securitisation transactions. In the long run, this may result in customers being offered several competitive alternatives.

## Environment – the Development within the Housing Mortgage Market

The Nordic finance and housing mortgage market has undergone a powerful restructuring during the last years, creating larger and financially stronger units. These larger units offer a wider range of services with improved conditions for taking advantages of scale in the sales, production and distribution process.





This concentration has resulted in increased competition from both domestic and foreign operators, putting increased pressure on margins, mainly on loans with low risk.

### SBAB's Situation

The increase in market shares in the profitable owner-occupied home and tenant-owner apartment sectors might be constrained by increased competition, due to the fact that the dominating Swedish competitors are "locking" in their customers with longer maturities on their loans. The total loan volume will not increase to the same extent as during the last years due to the fact that the upward trend in the prices of owner-occupied homes and tenant-owner apartments may well now go into reverse. The possibilities to increase the price level on loans to multi-family housing will be limited. SBAB does not have the same possibilities as its competitors in offering complete funding solutions, due to the limited size of the company and the narrow range of services offered. The positive trend in the results over the last years may well be broken or in any case level off.

At the same time some of the potential opportunities available to SBAB should be emphasised: Marketing in growth areas outside the Stockholm area, development of a wider range of services, flexible organisation, committed and competent staff. The new regulations to be introduced regarding capital adequacy might entail some advantages for a small niche operator with low risk.

### SBAB's Prospects for 2003

The same operational aims and strategies as were set for 2002 will also apply for 2003. In addition, the company will contribute to sharpened competition within the savings

area by making it possible for retail customers and small investors to invest in SBAB's bonds.

Energetic marketing efforts will be made to increase the number of retail customers and further heighten public awareness of SBAB's brand. At the same time continued efforts will be devoted to improving customer service. Productivity will increase as a result of the new process-oriented organisation. Risk-related pricing is also a possibility for improved profitability.

Weak growth is expected next year in the housing mortgage market, primarily in respect of retail customers, which may have a negative effect on SBAB's growth. A continued low interest rate climate in combination with increasingly stiff competition, with other housing mortgage institutions narrowing the gap to SBAB's pricing, could well have a dampening effect on how the result develops. In the short-term perspective, the securitisation transaction planned for 2003 will also affect the result negatively.

Taken all in all, the positive sides weigh to SBAB's advantage and the outcome for 2003 should develop favourably, with a result somewhat higher than the result for 2002.



**CHRISTER MALM**  
*Managing Director*



# Economic Environment



Economic trends and interest rates 2002

SBAB's Chief Economist Barbro Wickman-Parak has analysed below how different changes in the world at large have influenced economic trends and interest rates. The analysis covers both domestic and international economic trends.

## Positive Start to the Year

Year 2002 started with positive economic signals and evidence of an approaching upturn in the United States. The industrial sector indicators showed that there were signs of recovery and production started to pick up after the marked downturn which began during the autumn of 2000.

The indicators in Europe were also more positive even though they still remained tentative at best and mostly concerned strengthened future expectations. Now hopes were kindled; the United States economy showed signs of strengthening and Europe and the rest of the world should gradually find themselves on a more favourable growth path. It should all become more evident during the second half of 2002. This proved not to be the case, however.

## The Scene Changed during the Summer of 2002

The stock markets seemed not to acknowledge the indications of the brightening in the economy noticeable during the early part of the year. Anxiety about new terrorist attacks, concern about the future development of the dollar, distrust of business in the wake of the Enron scandal and, last but not least, the long drawn out problems in the telecom sector held back any optimism on the stock market and share prices moved without any clear-cut or lasting tendency.

Thereafter followed a prolonged fall in share prices from the beginning of the summer and onwards, more or less continuously until well into October. Several factors contributed. The distrust of business was more pronounced as more and more accounting irregularities were revealed in the American business world. To this should also be added the risk for a war against Iraq.

The steady fall in stock market prices also heightened anxiety about the negative effects on the real economy. When the indicators then started to show obvious signs of a weakening in the economy, the nervousness on the stock market increased. During November there was a certain

recovery in share prices but the last month of the year ended with a renewed decline.

## Great Uncertainty Marked the End of the Year

The second half of the year was thus a period of dashed hopes. The growth in the American industry petered out and the country could not act as a recovery engine, as expected. In the European economies the growth prospects also faded away, as investment levels continued to decline and consumers became increasingly restrictive in their spending habits.

The Japanese economy had begun to send out more optimistic signals, with exports starting to rise in the first half of the year and company investments ceased falling. However, in the third quarter the export growth rate slowed down markedly and investments fell back once again. To sum up, the continued course of the world economy at the end of the year bore the stamp of genuine uncertainty. Not least, the question of a possible military attack against Iraq cast its shadow over the development.

## Consumers Supported Growth in Sweden

Sweden obviously could not avoid feeling the effects of the weakened international economic situation; the imprint left in the export statistics was only too obvious. The export of goods recovered well during the first six months but the trend was later broken and during the second half of 2002 exports declined. At the same time industrial investments continued downwards during the year and in spite of increased investments in housing and increased public investments, total fixed investments decreased as a whole in 2002.

But the Swedish economy gained substantial support from the household sector, whose consumption started becoming more active during the year. The households' optimism kept up relatively well in spite of the steep fall in stock exchange prices and worrying signs in the economic

situation. An important explanation for this apparent anomaly was the fact that the households' purchasing power had received a good boost as a result of a large contribution from the combination of lowered taxes and increased transfers from the public sector. In fact, real disposable income is estimated to have increased by around 5 per cent in 2002. The increased private consumption thus contributed positively to the GDP-growth, which for 2002 amounted to slightly under 2 per cent, as against about 1 per cent in 2001.

### The Housing Market Holds up Well

Prices for owner-occupied homes have continued upwards even if the rate of increase has slowed compared to the strong price development in 2000. For the whole of 2001 prices for owner-occupied homes increased by barely 8 per cent for the country as a whole, compared to more than 11 per cent in 2000. Prices increased by about 6.5 per cent in 2002. The course of events during 2002 meant that the pace of price increases occurred during the first three quarters. Year 2001 had ended with a price fall of 1.5 per cent during the last quarter compared to the previous quarter. Then prices increased quarter by quarter and in the third quarter they increased by 3.7 per cent compared to the previous quarter. For the last quarter of 2002 prices were almost unchanged compared to the previous quarter.

Price statistics from Svensk Fastighetsförmedling (an association of property agents) show that prices of tenant-owner apartments were rising during a large part of 2002, but

turned downwards towards the end of the year. According to those statistics, prices fell on tenant-owner apartments in the country as a whole by more than 10 per cent during the last quarter of the year, compared to the previous quarter. The price level was thereby 3 per cent below the corresponding level in 2001. It was mainly the Greater-Stockholm area that suffered from the price fall, while there were still price increases, for instance, in the Gothenburg and Malmö areas during the last quarter of 2002.

Even though the housing market started to show a tendency to weaken towards the end of the year, still it must be noted that prices were well maintained considering the weakened economy and the fall in share prices. The strong development in household incomes and low interest rates should surely have contributed in supporting the housing market and thereby also the housing loan operations.

### The Two Increases in the Key Interest Rates Were Taken Back during the Autumn

The Riksbank's key interest rate, the so called repo rate, had been lowered to 3.75 per cent a week after the terror attacks in USA on 11 September, 2001. The US central bank, the Fed, and the central bank of the Euro area, ECB, also lowered their interest rates on the same day. The Fed and ECB carried out further decreases at the end of 2001, while the Riksbank's repo rate remained unchanged. The fluctuations in the business cycle in the economic situation during 2002 are very clearly mirrored in the Riksbank's interest rate

## Barbro Wickman-Parak, Chief Economist

Barbro Wickman-Parak, Chief Economist at SBAB as of 1 January, 2003, succeeds Irma Rosenberg, who left her position as Chief Economist at SBAB on 1 January to become Deputy Governor of the Riksbank.

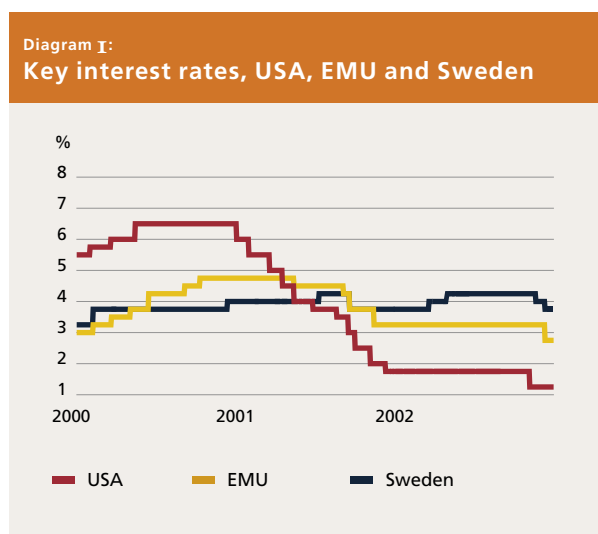
Barbro Wickman-Parak worked as Economist in SBAB's Economic Department during 2002. The Economic Department issues a publication giving business trends five times a year. The publication is available at SBAB's web site and contains information about business trends and interest rate development. In addition, comments about interest rates are published regularly. The purpose is to supply customers with relevant information before they take their housing loan decisions.



SBAB's Chief Economist, Barbro Wickman-Parak.



policy. When the economy started to show signs of recovery, the Riksbank lost no time in tightening the monetary policy. The first increase in interest rates occurred in March and in April there was another one. The repo rate reached 4.25 per cent as a result. Still, the Riksbank indicated in June that a further tightening of the monetary policy could be expected.



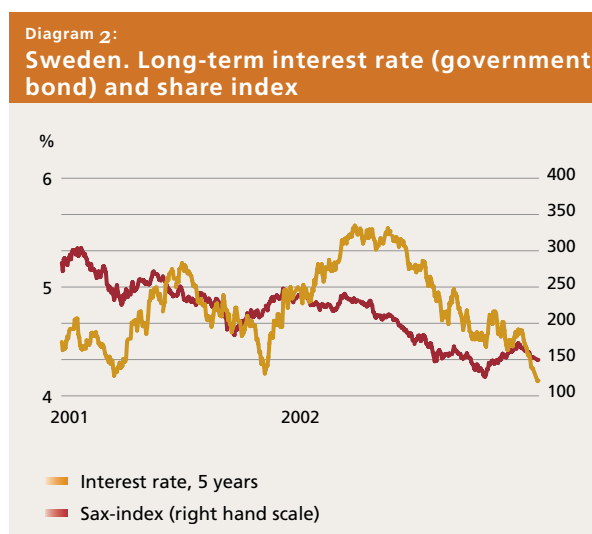
The general unrest in the financial markets during the summer and the evident weakening in the economy caused the Bank to change its view. At an extra meeting in the middle of November the repo rate was lowered to 4 per cent. A further decrease came after three weeks on 5 December. The two increases in the interest rates during the spring had thereby been taken back and the repo rate started and ended the year at 3.75 per cent.

### Long-Term Market Interest Rates Governed by the Stock Market

The long-term interest rates (in diagram 2 represented by the interest rate on 5 year government bonds) moved upwards in the opening months of the year. As economic conditions were in a strengthening phase, there were expectations that there would be increases in the repo rate over a period, which as far as Sweden was concerned was exactly what happened.

As can be seen, the 5 year interest rate increased from around 5 per cent to a level of around 5.50 per cent at the end of March/beginning of April where it remained. Then several factors already mentioned contributed to a fall in

stock exchange prices that proved to be very long drawn-out. The big area of uncertainty and the widespread damage to business confidence increased the risk aversion. Investors departed the stock exchange for more safe investments such as government bonds (“flight to quality”) causing interest rates to fall. Share prices then continued to decline more



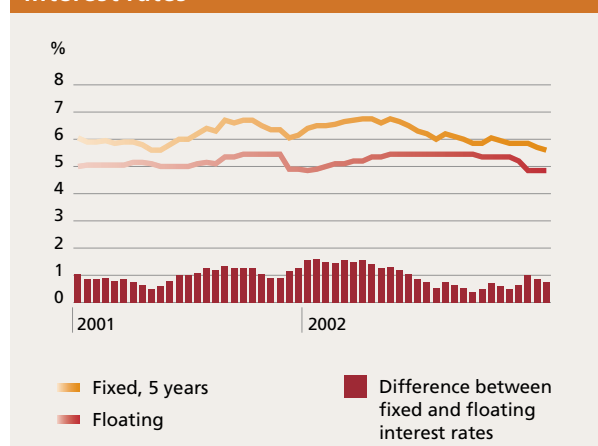
or less continuously until into early October after which there was a momentary recovery. The last month of the year ended with a renewed fall in share prices and interest rates. The five year interest rate ended the year on a level which was 1.5 percentage points lower than that quoted during March/April.

### Housing Interest Rates

The short-term interest rates are governed by the Riksbank’s repo rate and expectations as to changes in that rate. When expectations started to appear during the spring that the Riksbank would be likely to increase the repo rate, this was priced in by the market. Accordingly, the short-term interest rates, which govern SBAB’s funding cost for lending with short maturities, started to move upwards ahead of the Riksbank’s interest rate decision taken in March. Small adjustments upwards were also made to SBAB’s floating interest rate for loans (SBAB’s shortest maturity is 3 months). The floating interest rate for housing loans at the beginning of March was 5 per cent. Short-term interest rates moved up in step with the Riksbank’s two increases and SBAB’s lending rate was raised as a continuous adjustment

to changes in the cost of funds picture. At the end of May the floating interest rate for housing loans reached 5.45 per cent where it then remained until far in the autumn. Then when the Riksbank made two reductions in the interest rate, there was room for SBAB to make interest rate adjustments downwards and at the end of the year the floating interest

Diagram 3:  
SBAB's floating and fixed housing loan interest rates



rate was down to 4.85 per cent, i.e. around the same level as at the beginning of the year.

As has been shown (see diagram 2) the long-term market interest rates started to move upwards during spring 2002. SBAB's funding costs for fixed lending consequently increased and fixed lending interest rates were adjusted upwards, represented in diagram 3 by mortgage loans with fixed interest rates for five years. The fall in share prices on the stock exchanges then caused long-term market interest rates to fall and SBAB's housing fixed interest rates were successively adjusted downwards. As the short-term housing interest rates did not move until well into the autumn, the margin between the five-year and the floating lending rates was reduced, so that in September/October it varied at around 0.5 percentage points. At the beginning of the year the corresponding difference was around 1.5 percentage points.

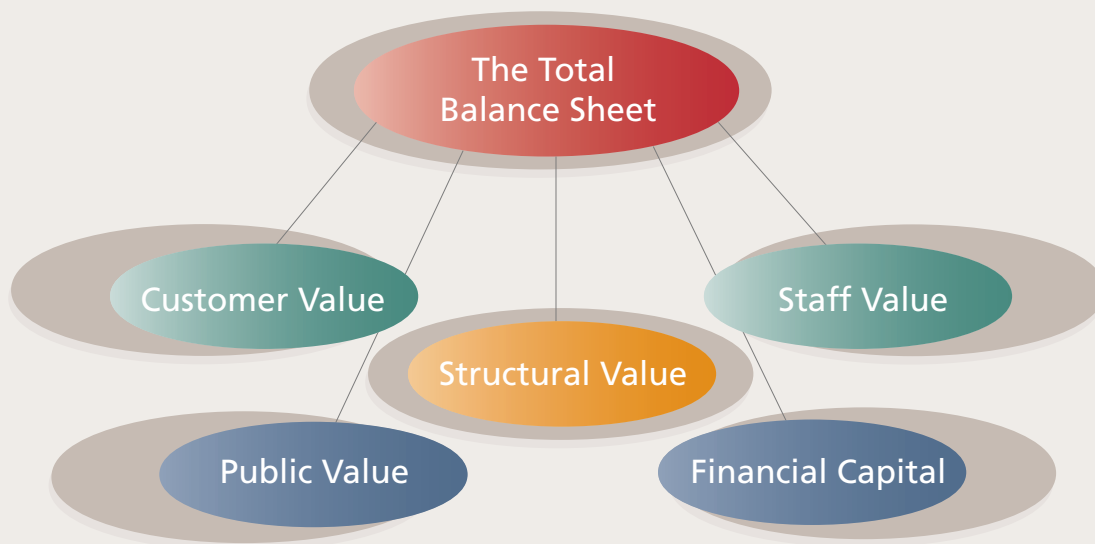
When the Riksbank had carried out its two decreases in interest rates during the autumn, with accompanying decreases in the floating interest rate for housing loans and at the same time the decrease in the fixed interest rates was more limited, the difference between the fixed and the

floating lending rates widened slightly. But the difference was again reduced towards the end of the year when the renewed drop in share prices pulled down the long-term interest rates more markedly. The reduced margin between the fixed and the floating lending rate resulted in customers being more inclined to fix the interest on their loans. During the first six months of 2002, 71 per cent of SBAB's new lending was at floating interest rates (3 months). For the last six months of the year the corresponding figure was 54 per cent. Loans with maturities of one and two years increased their proportion most during the second half of 2002, but loans with interest rates of five years showed an increase also.





# The “Total Balance Sheet”



## The “Total Balance Sheet”

To ensure that a comprehensive view is taken and that continuity in behavioural style is long-term, SBAB concentrates on five key areas, with connected strategies.

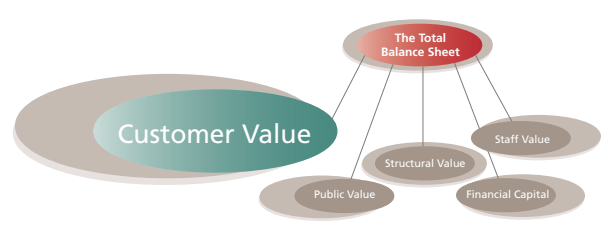
Goals and strategies are formulated for the five key areas concerned, namely, customer value, staff value, structural value, public value and finance capital, representing SBAB's different assets (values), both tangible and intangible. These five asset categories combine to form the “Total Balance Sheet”.





# Customer Value

Customer value in the "Total Balance Sheet" is defined as the sum of all customer contact SBAB has with its customers. Customer value is also the area accorded most value in the "Total Balance Sheet". SBAB has selected Svenskt Kvalitetsindex (Customer Satisfaction Index), SKI, in collaboration with Statistics Sweden and Stockholm School of Economics for the purpose of measuring customer value objectively.



Lena Hedlund, Deputy Head of Lending, responsible for the Customer Value.

- **Goal**  
The long-term goal is to have the house mortgage market's most satisfied customers by the end of year 2005.
- **Goal Achievement**  
According to SKI's measurement, in 2002 SBAB's retail customers were the most satisfied, and its property company market customers were the next most satisfied, in the whole housing market.

## ■ Market

The housing loan market grew by SEK 60 billion during 2002. Lending by housing mortgage institutions totalled SEK 1,211 billion, an increase of slightly more than 5 per cent<sup>1)</sup>.

Retail Market				
	31 Dec. 2002 (SEK billion)	31 Dec. 2001 (SEK billion)	Change (SEK billion)	Change (%)
Single-family homes	603.4	554.8	+ 48.6	+8.8
Tenant-owner apartments	95.5	75.0	+ 20.5	+27.4
Loan portfolios administered on behalf of third parties	22.7	24.0	- 1.3	-5.4
<b>Total</b>	<b>721.6</b>	<b>653.8</b>	<b>+ 67.8</b>	<b>+10.4</b>

The market for housing loans to retail customers increased very sharply during the year (+ SEK 67.8 billion). Over the last two years the market has increased by approximately SEK 136 billion which is about the same as during the four-year period 1997-2000 that was also SEK 136 billion.

The largest increase in terms of volume relates to single family homes (+ SEK 48.6 billion) but in terms of percentage, the 27 per cent increase in respect of tenant-owner

apartments is much larger. The increase can mainly be explained by the available stock of owner-occupied homes offering increased room for lending, plus the growth in the tenant-owner apartment segment of the market.

Property company market				
	31 Dec. 2002 (SEK billion)	31 Dec. 2001 (SEK billion)	Change (SEK billion)	Change (%)
Multi-family housing	414.6	418.6	- 4.0	- 1.0
Business and office buildings	33.8	40.4	- 6.6	- 16.3
Others	39.7	37.1	+ 2.6	+ 7.0
Loan portfolios administered on behalf of third parties	1.0	1.0		
<b>Total</b>	<b>489.1</b>	<b>497.1</b>	<b>- 8.0</b>	<b>- 1.6</b>

The volume of outstanding property loans within the property company market sector decreased by SEK 8 billion during the year. The business and office building segment mainly accounted for the decrease, both in volume and

<sup>1)</sup> According to statistics from the Swedish Bankers' Association as at December 2002



percentage terms. The decrease within this segment was SEK 6.6 billion or around 16.3 per cent. Demand within this sector has been falling every year since 1996, when the total market stood at around SEK 562.6 billion. The decrease since that time is around 13 per cent and largely results from the move towards conversions of multi-family housing rental apartments into tenant-owner apartments. At the same time the municipal property companies have reduced the volume of their borrowing.

### ■ Retail Market

SBAB's new lending to retail customers amounted to SEK 11.1 billion during 2002. Customers numbered around 240,000. During the year some 25,000 new customers were added. Owner-occupied homes accounted for 73 per cent of the new lending, while tenant-owner apartments accounted for the remaining 27 per cent. New lending has fallen by 29 per cent compared to last year, mainly explained by the fact that Länsförsäkringar Bank has ceased the mediation of first mortgage loans to SBAB.

The market share of new sales in the Stockholm area is around 15 per cent. This is mainly a result of marketing being concentrated to that same area during the year.

The loan portfolio, net of loans redeemed and amortised, increased by SEK 4.4 billion to SEK 36.8 billion. If the securitised transactions undertaken in previous years are included the administered portfolio amounted to SEK 53.8 billion, corresponding to a market share of slightly more than 7.5 per cent.

SBAB administers securitised retail loans amounting to a volume of SEK 17.0 billion of which SEK 12.6 relates to owner-occupied homes and SEK 4.4 billion to tenant-owner apartments.

The volume increase for the year has been achieved without sacrificing the low risk policy and notwithstanding increased margins. The greater part of the year's new borrowers, around 62 per cent, opted for a floating interest rate. The equivalent part for the total loan portfolio amounted to 45 per cent, the same level as 2001.

### Marketing

In addition to the two-week campaign "Rea på Bolån" (sale on housing loans) in August/September, a further two brand name promotion campaigns were conducted in Stockholm.

In April there was a publicity campaign involving the draping of around 20 centrally situated housing properties in Stockholm with façade hangings. These featured speech bubbles containing sayings by customers living in the draped houses. The campaign was successful, earning the Swedish advertising award "75-wattaren".

November saw the launch of the campaign "Bolån på burk" (canned house loans), an imaginative way of showing the simplicity and accessibility of SBAB's housing loan services.

The campaigns during the year have increased to 43 per cent the spontaneous recognition of the SBAB brand in Stockholm by all age groups. The goal was 40 per cent. In the main target group (20-40 years) the spontaneous recognition increased from 37 to 55 per cent during the year.

## Swedish Telephony and Customer Service Championship

SBAB earned two distinctions in the annual Swedish Telephony & Customer Service Championship, being judged best in its "Small switch-board" class and with Jennie Hedberg winning the coveted individual prize for the best customer service. The Swedish Championship was started by Telia in 1993, but is now arranged by Sqm Survey. SBAB's customer service will now go on to set its sights on achieving customer service in master class.



### Conversions from rental apartments to tenant-owner apartments

Conversions were most common in the Stockholm region where around 7,000 rental apartments became tenant-owner apartments. This, however, is a 30 per cent decrease compared to 2001. SBAB has provided its services in respect of conversions in 14 properties in Stockholm. SBAB has contributed in respect of similar conversions in properties in Gothenburg and Malmö.

### Development of sales co-operations

A large part of SBAB's new lending, in the region of 30 per cent, is mediated via SBAB's co-operation partners. The proportion of mediated loans fell by 48 per cent compared to last year. The explanation for the reduction is mainly that the co-operation with Länsförsäkringar Bank concerning first mortgage loans ceased during the year. Excluding Länsförsäkringar Bank the number of mediated loans from co-operation partners has decreased by 10 per cent compared to 2001. ICA Banken started to mediate first mortgage loans during the latter part of the year.

Other co-operations, with Sparbanken Finn and Sparbanken Gripen, Salus Ansvar and Ikanobanken, remain and continue to constitute an important distribution channel for SBAB.

FriSpar Bolån, a credit market company jointly owned with Sparbanken Finn and Sparbanken Gripen, showed favourable development and had a loan portfolio amounting to SEK 6.1 billion at the turn of the year. The company is owned as to 51 per cent by SBAB. The aim of the company is to finance housing in the western part of Skåne.

### Internet – well-attended market place for retail customers

Internet is the most important distribution channel for SBAB's housing loans, a place where SBAB meets its customers. During April 2002 SBAB launched a completely new web site with new colour and form in addition to new functions.

Among the news items can be mentioned "my page", which has been completely restructured and where customers can easily obtain detailed information about their loans. Calculations can be saved and customers have access to several monitoring and subscription services. At the end of 2002 there were 18,400 subscribers. The possibility for customers to book a time with SBAB's housing loan advisors via the net functioned well.

## Maj-Britt Lights Up the Web Site



One of SBAB's staff is in fact a hard-working lamp! Maj-Britt, the virtual site assistant, works on sbab.se. She answers all possible questions about housing loans and helps visitors to navigate on the web site.

SBAB's web site is one of Sweden's largest e-commerce shopping places. During 2002 sbab.se had 963,000 visitors and over 17,500 loan applications were made via Internet. Around 55 per cent of SBAB's lending to the retail market today is via Internet.

In April 2002 a new version of www.sbab.se was launched. The new features include several new services, a new layout and a new and better technical platform. All so that customers and visitors can have better service and experience on the web site.

During 2002 more than 17,500 loan applications were made via the Internet. Around 55 per cent of SBAB's own lending to the retail market is via an Internet application.

### Digital dialogue

A new function helps customers with everything from explaining words to finding their way in navigating. The function has answered all together slightly more than 13,000 questions during the year and cleared 76 per cent of all questions put about housing loans.

The number of visitors at www.sbab.se continues to increase and reached around 963,000 during the year with up to 44,000 visitors during a record week in response to a campaign.



## ■ Property Company Market

With a lending portfolio of SEK 98 billion including securitised loans for SEK 1 billion, SBAB's market share stands at about 19.5 per cent.

The year's new lending was SEK 4.0 billion and then mainly to tenant-owner co-operatives and private property owners.

The lending portfolio to property company customers decreased by SEK 8.5 billion during the year.

Property company customers numbered around 10 000 of whom tenant-owner co-operatives, smaller privately owned property companies and independent entrepreneurs made up the greater part. In addition to these, SBAB's customer base contains a number of municipal and listed property companies.

In 2002, the loan portfolio has also shifted from lending to municipal property companies to lending to private companies and tenant-owner co-operatives against mortgages as collateral. This shift, in combination with the strategy of pricing according to risk in a customer's loan engagement, has contributed towards strong profitability. Improved profitability in the loan portfolio takes precedence over volume growth.

The decrease in lending to municipal property companies was mainly a consequence of the continued stiff

competition in that particular customer segment. SBAB's lending strategy no longer includes lending in respect of commercial and office premises, which has led to a planned reduction in lending to this type of object. SBAB's strategy in refining the existing loan portfolio is another reason for the decrease in lending.

## Customer meetings

Marketing and sales activities within the market for multi-family housing has mainly been concentrated to large cities, university cities and growth areas. In these areas activities have been geared towards tenant-owner co-operatives and private property companies. During the year several events have been arranged where representatives of SBAB's economic secretariat have delivered lectures about the economy and its development. SBAB also participated in the annual property exhibition Business Arena Real Estate.

## ■ Funding Operations

SBAB's funding operations secure the company's supply of capital, both in a short and a long-term perspective in addition to managing the financial risks that occur in funding operations. The basic principle is that the financial risk should be low in comparison to the company's total business risk.

For SBAB, a housing mortgage company independent of

## SBAB's Campaigns

In November 2002, passengers on Stockholm's underground found themselves invited to take a "Bolån på burk", a canned housing loan. The cans distributed contained a loan application together with information about SBAB.

SBAB wanted to show with such a campaign that housing loans are not something difficult and complicated. Why make it difficult when you can make it easy? Loan applications increased by 45 per cent during the campaign.

In the same month, SBAB won a prize called "75-wattare" in the consumer class, a Swedish advertising award, in a competition for companies, sponsored by the business newspaper Dagens Industri and Annonserföreningen (an association for advertisers). The award was for earlier campaigns, such as the speech bubble façade drapes on buildings in Stockholm in the spring of 2002 and the temporary "mini offices" built into advertising pillars in the autumn of 2001. It is not just the creative aspect but also the efficiency and effectivity of the advertising for which the award is given.

*Fredrik Lindström, M.C. at the prize-giving ceremony, Albin Gustafsson, TBWA and Marianne Lundgren-Précenth, SBAB.*



banks, it is important to have access to the capital markets in order to ensure that the company's liquidity needs are met.

In order to reduce reliance on any one particular capital source, roughly half of SBAB's assets should at all times be financed via the international capital markets.

For many years SBAB has been working with the long-range strategy of building up a contact net and a good reputation on the international capital markets. In this way the opportunities for achieving the desired breadth in the investor base have increased.

Considerable emphasis is given to cultivating and promoting the brand name to investors. SBAB takes care to further develop long-term relations with existing customer contacts, at the same time as the interface with the capital market should be characterised by an openness for new business possibilities both as regards new markets and products as well as new counter-parties.

As an example, SBAB has very successfully managed to build up good relations with both retail and institutional investors in Japan, which has resulted in SBAB being a well-established brand in that market nowadays.

SBAB aims for a high presence in markets deemed strategic. Active care devoted to the markets has resulted in SBAB's credit spread showing steady development, which benefits both investors and market makers. SBAB's strategic

currencies are: SEK, JPY, USD and EUR and its aim is to be a frequent borrower in these currencies. SBAB and its markets makers in the capital market should ensure that SBAB's securities have good liquidity in the secondary market.

For a number of years, securitisation (Mortgage Backed Securities, MBS) has developed to be an important source of funding for SBAB. Internal procedures and competence have been built up around MBS as a funding method, creating good opportunities for SBAB to undertake MBS-transactions in the future. By using MBS as a funding method SBAB is increasing its financial product line, which in its turn makes it possible to reach a wider potential investor base.

**Short-term funding**

For the last two years, borrowers have gone for the short-term instead of long-term maturities, but during the latter part of 2002 several house loan customers have opted for longer maturities. In spite of this trend SBAB's need for short-term funding has continued to be large.

During 2002 short-term funding has mainly been achieved via SBAB's Swedish, European (ECP) and American (USCP) commercial paper programmes. All of SBAB's commercial paper programmes have the highest rating from Standard & Poor's and Moody's, A-1+ and P-1 respectively. SBAB is also active in the repo and deposit markets.

**SBAB Gains Recognition for Being the Best MBS-Borrower**



In the summer of 2002 SBAB was awarded the distinction "Best securitisation borrower" by the financial publication Euromoney, which annually confers "the world's best borrower" awards. Euromoney considers that SBAB has transformed itself from being a traditional lender to being one of the most innovative operators in the securitisation market, as evidenced by the transactions undertaken. The award was based on voting carried out among investors and market makers.

Euromoney takes up among other things the fact that SBAB was first in the world to securitise tenant-owner apartments, the good quality in the assets and the effective reporting of the portfolios which investors can obtain via Internet, [www.srminv.com](http://www.srminv.com).

Another appreciated aspect of SBAB's securitisation programme is the clarity of SBAB's strategy - to securitise a cross section of all types of assets contained in the loan portfolio.

The commercial paper has been mediated in the Swedish market by five market makers during the year. During 2002, SBAB sold a volume corresponding to SEK 45.5 billion (43.1 billion) under the Swedish commercial paper programme. SBAB's commercial paper programme is listed, which improves the conditions for reaching out to a broad investor base.

The European commercial paper (ECP) has been distributed by three market makers. SBAB sold the equivalent of SEK 21.2 billion (29.9 billion) in all under the ECP-programme. Most of the issues were denominated in USD and EUR. Also a number of CHF and GBP-transactions were undertaken when market conditions in these currencies were favourable.

SBAB resumed trading under the US commercial paper program (USCP) during 2001 in order to diversify the short-term borrowing. SBAB's US commercial paper has been distributed by three market makers during 2002. During the year SBAB issued commercial paper under the program for the equivalent of SEK 34.6 billion (43.1 billion).

#### Long-term funding

The Swedish mortgage bond market was a continued stable funding source in 2002. SBAB sold SEK 6.5 billion (16.9 billion) in Swedish benchmark bonds in 2002 and repurchases amounted to SEK 8.3 billion (5.7 billion). SBAB's benchmark loan No. 116 fell due on 18 September 2002. This loan was replaced by a new Swedish benchmark loan No. 120 falling due on 15 June 2005. During the year SEK 4.9 billion in all was sold of SBAB 120. The liquidity in SBAB's Swedish benchmark bonds should be high and therefore there is a repo facility intended for the market makers.

SBAB's short-term funding need has been supplied to a certain extent by the Swedish benchmark bonds being sold at the same time as a swap agreement has been entered into resulting in a short interest rate risk being taken on.

SBAB's long-term borrowing in the international markets corresponded to SEK 34.9 billion (23 billion). All transactions were documented under the EMTN-programme (Euro Medium Term Note Programme).

Outstanding funding is described in "SBAB's funding obligations 31 December 2002", page 37.

#### Funding needs 2003

Bond loans amounting to SEK 50.4 billion (49.6 billion) fall due in 2003, of which SEK 27.2 billion in loan 117. The average

short-term funding need for 2003 is presently estimated at approximately SEK 33 billion.

#### Securitisation (Mortgage Backed Securities, MBS)

The MBS-market in Europe has expanded very much during the last years. Several European countries, among them Sweden, having adjusted their legislation in order to accommodate the use of this financing technique.

The long-term strategy is to include loans in the MBS-transactions in such a way that over time the total volume securitised is a representative cross-section of SBAB's loan portfolio.

#### Outstanding MBS-transactions

SBAB's first MBS-transaction, Morfun No. 1 Plc, was undertaken in March 2000 and was mainly aimed at Nordic investors. The portfolio contained loans to municipal housing companies against mortgage collaterals in multi-family properties.

SBAB has thereafter established a brand in the market, SRM Investment Ltd, under which two transactions have been undertaken.

SRM Investment Ltd No. 1, undertaken in 2000, was mainly sold to Japanese and European investors. The portfolio contained retail market loans. SBAB was the first foreign lender with a MBS-transaction in the Japanese market.

SRM Investment Ltd. No. 2 was undertaken during 2001. This transaction was also entirely comprised of retail market loans. What distinguishes the most recent loan portfolio from the former is that 50 per cent of the latter comprised tenant-owner apartment loans in addition to loans to owner-occupied homes. This was the first time that tenant-owner apartment loans had been securitised in Sweden, which meant that SBAB had opened up new possibilities for the financing of housing. SRM Investment Ltd No. 2 was bought by both American and European investors.

During 2002 preparatory work was initiated for a future securitisation transaction containing loans to tenant-owner co-operatives.

Internet has been used as a distribution channel to European investors in the selling process for both SRM-transactions. The SRM-portfolios' development can be followed continually on SRM's web site [www.srminv.com](http://www.srminv.com).





*The Swedish housing bond market was a continued stable funding source in 2002.*

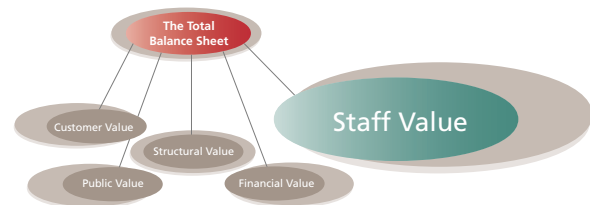
# Staff Value

It is through its staff that a company's vision can be achieved and its business idea realised. It is therefore natural that the staff value is an essential part of the company's total value. To be the leading housing mortgage company, the obvious choice for the customer, calls for a constant development in knowledge and competence as well as the possession of a common value foundation and culture. It is through a high degree of knowledge and competence and a mutually respectful attitude in inter-personal relationships that the company's vision and values are fulfilled. Within SBAB, thoughts and actions are imprinted with the common value foundation that has been arrived at by common consensus among all the staff and which consist of: Overview Perspective, Innovation, Care, Trust and Commitment. The common foundation of values leads to increased well-being, flourishing, service and business-mindedness.

Staff survey		
Year	2002	2001
Goal	73	72
<b>Outcome</b>	<b>76</b>	<b>72</b>



Per Balazsi, Deputy Head of MD-staff, is responsible for the staff value.



#### ■ Goal

The goal set for the staff value is measured with the help of an index in the company's staff surveys. For 2002 the goal was set at 73.

#### ■ Goal Achievement

The outcome for 2002 was 76 (72). The surveys are based on questions addressed to each staff member concerning their own work situation in addition to factors affecting the degree of motivation and commitment.

In a knowledge-based company, the staff value forms a part of the experience value. A customer often comes into contact with different parts of the company and it is therefore of decisive importance for the company's success that all staff are driven by the same values and service-mindedness. Each staff member has his or her value, derived from his or her knowledge, competence and person. If the staff are given participation and creativity possibilities, and if the leadership is carried out according to SBAB's management philosophy, each person will grow in knowledge, competence and as an individual. All such human growth contributes towards increasing the value of the company. Measured as an operational result per employee, this value amounted to SEK 1.6 million (1.5 million) during 2002.

A condition for growth and performance is that the employees' health, both physical and mental, is in balance.

It is important that employees in SBAB have balance in life. This is achieved among others by keep-fit activities, flexibility with regard to the way the work is performed and working hours, a limitation to the number of travelling days involving overnight stays, counselling in handling stress related questions, etc.

Within SBAB the individual is regarded as a personal "company" that offers its customers different services. A corresponding service offer applies with regard to the immediate superior. Each individual has personal responsibility for own development and retention of own power of appeal, thereby contributing to the company's development and success. Every year every employee formulates an "offer" setting out his or her personal commitment to the company. This is based on the business plan decided for the year. Based on the "offer", a discussion takes place between



the staff member and the leader regarding responsibility and commitment. This process has replaced the traditional development discussion.

Almost all leaders have participated in SBAB's management development programme. The most important task for the leader is to lead and steer operations based on the task formulated in the business plan and which has been delegated to each leader. For this task it is necessary to have the ability to balance soft and hard questions and to create a culture where people's need for relations, creativity and development are taken note of and which evoke both inclination and intention. The company's culture and valuations should be recognisable throughout every part of the company and an important task for the leader is to be a culture-bearing example where word and deed are brought together.

## ■ Employees

The number of employees had increased by 10 permanent staff and 2 temporary staff at 31 December 2002 compared to the same date last year. The increase in staff primarily results from measures to improve quality within loan operations and the increased funding operations, a reflection of the high demand for floating interest rate loans.

The average number of permanent staff in 2002 was 352 (336) of whom 211 were women. On 31 December 2002 the company had 357 (347) permanent staff, distributed as follows: Steering/supporting units in Stockholm and Karlstad 78 (80) and in the finance department 21 (19), in the retail market in Karlstad 175 (171) and in property company market offices 83 (77).

During 2002, the number of temporary staff was 36 (32), of whom 22 were women (21). The number of temporary staff on 31 December 2002 was 36 (34), distributed as follows: Steering/supporting units in Stockholm 2 (2), in the finance department 1 (0), in Karlstad 30 (30), and in the property company market offices 3 (2).

Of the staff 60 per cent were women and the percentage of women in leading positions was 42 per cent (40 per cent). There are three women in the executive management, representing 27 per cent. The ambition is that around 50 per cent of the leadership positions, at all levels, should be held by women.

The employee turnover in permanent staff was six per cent. One member of the staff retired on pension. The permanent staff average age is 41 years.



*Regina Perman, Group Head in Karlstad.*



*Curt Gustafsson is one of those responsible for business lines in Stockholm.*



*Helena Berglind works with financial accounting and analysis in Stockholm.*



### ■ Health and Keep-Fit Activities

Absence due to illness calculated on the average number of employees was 4.4 per cent (3.4 per cent). Absence for a shorter period than 15 days amounted to 2 per cent. By comparison with other companies in the private sector, the total absence due to illness was slightly above the average, 3.9 per cent.

The goal for absence due to illness, set at an absence of, at the most, 3.8 per cent of working time, was thus exceeded. Short-term absence due to illness increased sharply during the first quarter and then fell back. On the other hand, long-term absence due to illness amounted to slightly more than 2 per cent on average during the year. SBAB works intensively to prevent ill-health, for instance by increased participation and good leadership. Other steps can be mentioned, such as a vaccination programme, co-operation with occupational health services, lectures concerning ill-health and stress, in addition to individual rehabilitation plans. During the year a network for long-term absence due to illness, "Recycling", was established, whose task is to help and give support, as well as to pay attention to the preventative aspect.

During 2002 the "keep-fit hour" was introduced. This means that each member of the staff has the possibility of utilising one hour of working time a week for a keep-fit activity. Furthermore, a person has been appointed to be responsible for keep-fit activities and to work with a group of 10 health enthusiasts given the task of inspiring people to pursue an active healthy and keep-fit attitude.

In co-operation with the company "Livskraft" in Karlstad and with 15 volunteers from the staff in Karlstad office, a "Transformation Group" project has been started. These persons will have the help of a personal trainer in changing their life styles by altering their diet and exercise habits. They have been given a page of their own on SBAB's Intranet, launched in September, where it is possible for instance to follow the group's work, read of their activities, reports, suggestions and advice on diet and exercise, in addition to participating in a forum for discussions. Several offices have a keep-fit corner with books and newspapers about health. Several offices also have a keep-fit room of their own with body-building equipment, running bands, cycle exercisers, etc. while in other offices staff have the possibility to train in adjacent establishments.

### ■ Training

An important part of the offer procedure is that each person plans for his or her competence development. Each leader also has the annual responsibility of judging what measures are needed to improve qualifications in the group in order to achieve the operational goals set.

During the first six months of the year some 30 members of the staff within the property company market participated in training in analysis and property valuation in co-operation with KTH, the Royal Institute of Technology. The course corresponded to five points at university level.

All SBAB leaders participated in training, altogether 65



*Josefin Johansson, house mortgage loan adviser in Karlstad.*

training days, and were certified in working-environment questions.

During the autumn of 2002, 30 employees in the retail market participated in an extended period of training and were examined in sales methods, property law, analysis of the business-environment and insolvency questions.

At two occasions, for three days which represented altogether 1,095 training days, all employees in SBAB joined in a course aimed at greater customer and service commitment under the slogan "I want to help".

Other training, such as general competence development and coaching training, is estimated at around 200 days.

Totally, the number of training days has been 4.5 days per employee for 2002. The goal for the year was set at a minimum of 4 days.

#### ■ Equal Opportunity and Ethnic Multiplicity

All staff members should have the same obligations, rights and possibilities within everything that concerns the work place. By an active equal opportunity effort, SBAB should therefore level out and prevent differences in, for instance, salaries, employment conditions and development possibilities that depend on sex, age or ethnic background. For this work an annual equal opportunity plan is set up. A special equal opportunity committee, headed by the Managing Director, supports this effort by working out proposals for goals and activities for the company.

#### ■ Bonus

SBAB's bonus system was introduced in 2000 and covers all employees except the Managing Director, who does not participate in any bonus system. All employees receive an equal amount in kronor, which at the most may amount to SEK 40,000. Bonus is then distributed in relation to time worked. Bonus for the year is based on the financial result and improved productivity. As both goals were exceeded the maximum bonus of SEK 40,000 was paid, which totalled SEK 17.1 million including social costs.

#### ■ Pensions

The new process-oriented organisation introduced at the turn of the years 2002-2003 will render the organisation more effective and thereby bring about a reduced number of employees. Certain staff members will therefore be offered negotiated pensions. A sum of SEK 32 million has been allocated for this purpose.

#### ■ "I want to help!"

In a major project "I want to help", the ground is laid for SBAB remaining a genuinely service-oriented company. During the year, all employees have participated in a programme that has led to greater knowledge and understanding of SBAB's overall goals and values. The project stresses the responsibility each employee bears in seeing to it that SBAB is able to reach the level required to be a service-oriented company of master class, having the housing markets most satisfied customers.

## SBAB Won the "Narren" Award 2002

In November SBAB was awarded the Swedish Event Academy's NARREN-prize at Nalen in Stockholm. The prize was awarded for the year's best pursued event, "I want to help", a project aimed at explaining and discussing SBAB's values and developing the company culture.

The NARREN-prize is awarded to companies "which have successful communication events that strengthen and create a distinctive message image".



*The Narren winner Annelise Jansson, Head of Information.*



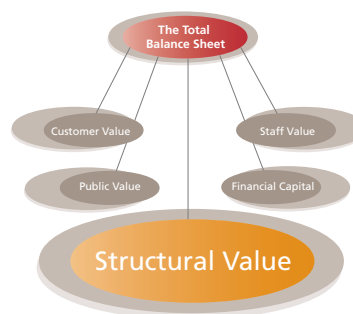


SBAB has combined all servers into a joint production establishment in Stockholm to lower costs and increase accessibility.



# Structural Value

SBAB's assembled structural value is its infrastructure, IT-systems, models for process development, project steering and management of IT-systems. Processes describe how the work is carried out. The organisation is a further component. The ability to co-operate together within the company in forming a unified entity has decisive importance for competitive strength.



Ulf Tingström, Head of Business Support, is responsible for the structural value.

- **Goal**  
The relationship between income and costs or in other words, the Income/Expenditure ratio excluding loan losses, should have been at least 2.4 by 31 December 2002.
- **Goal Achievement**  
The 2002 outcome was 2.5.

## ■ Process Oriented Organisation

During 2002 SBAB developed a new, cost-efficient and service-oriented organisation that was introduced at the turn of 2002/2003. The change in the organisation constituted the most extensive internal activity to strengthen the structural value during 2002.

As a result of the overhaul of the organisation, it is estimated that within two years the annual running expenses will be reduced by SEK 25 million. Substantial resources can thereby be directed towards new and energetic efforts within marketing, development of services and IT.

The organisation change aims at increasing efficiency by the development of processes in common for the whole lending organisation. The retail and property company business areas have now been merged to form a new combined business area for lending. In order to improve the steering of the lending operations and to facilitate future development, five business lines have been established focusing on tenant-owner co-operatives, conversions of loans, multi-family housing, new sales and co-operations.

With the introduction of the new organisation, the former business areas have been redefined to form:

- Business area Lending
- Business area Funding.

In addition, a new Business Support department has been set up to service the business areas. All former supporting functions have now been brought together into this department.

The steering functions: Credit Management, Managing Director's Support Staff and Communication & Corporate Identity will each have distinct roles and function as policy makers for the whole organisation. Parts of the operative activities, earlier carried out in these functions, have now been transferred to the business areas.

By establishing distinct and measurable processes SBAB has improved conditions for an efficient, process-oriented organisation.



### ■ New International Accounting Regulations, IAS39, and a New Funding System

Extensive work was undertaken in 2002 in preparation for changing the present IT-system supporting funding operations. A new IT-support system is needed if SBAB is to guarantee quality and reduce risk in its extensive funding operations. A number of different systems have been evaluated against the existing needs of the organisation. An agreement was signed at the beginning of 2003 with the systems supplier chosen and now an intensive phase of implementation work is taking place. At the same time, the system is being adapted to accommodate the requirements stemming from the new international accounting regulations IAS39 (concerning the accounting of financial instruments).

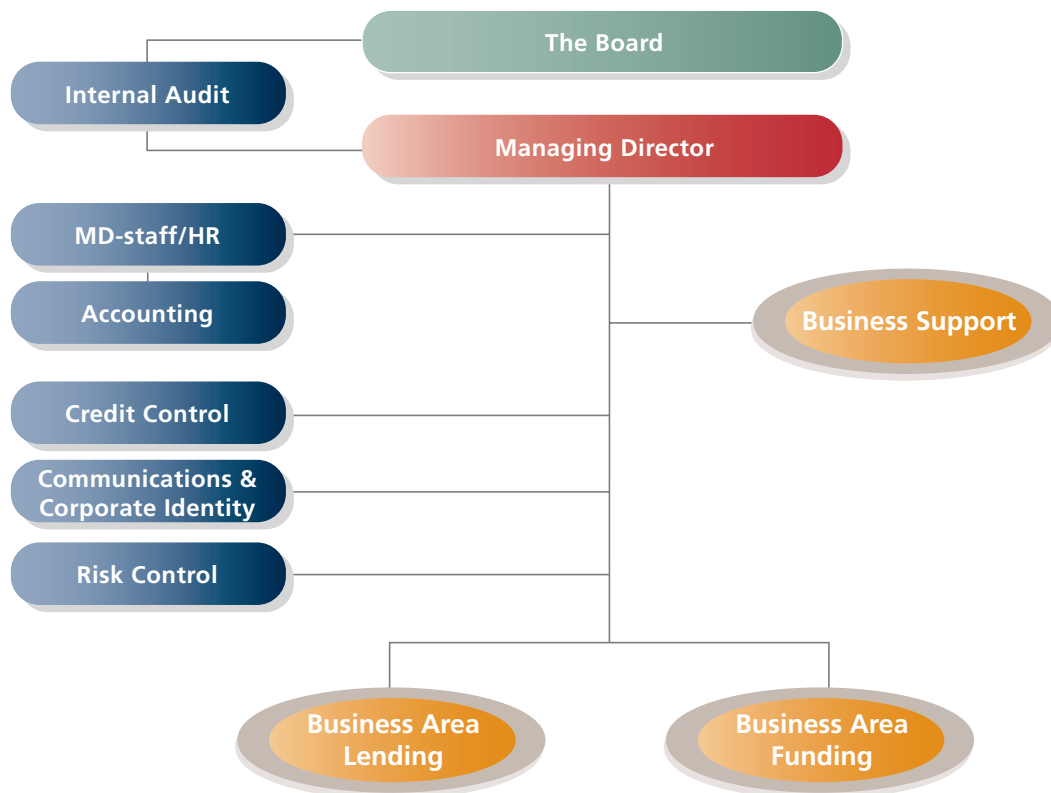
### ■ Development of Internet

During 2002 SBAB launched an improved web site with new layout and a new navigation and information structure. The web site offers customers both a user-friendly work place and custom-built information. SBAB strives to give customers access to information about their loans in addition to the possibility of applying for new loans almost around the clock.

A completely new platform has been built, allowing customers to communicate with SBAB's base systems. Furthermore a new publishing tool was introduced with quicker updating and better assurance of quality in SBAB's web site. SBAB can thereby offer customers and visitors an improved range of working products and increased services.

As a part of the drive towards rationalisation in SBAB's operations, an automated loan application exists where the customer, when inputting the loan application, can be given a preliminary indication as to whether the application will be approved.

## SBAB Group



■ **Other Technique Development during 2002**

During 2002, SBAB took advantage of the investments made in a broadband net, by putting together nearly all servers into a joint production establishment in Stockholm. This leads to a lower cost for IT-production and higher accessibility.

■ **Prioritised Projects**

Prioritised projects affecting the structural value carried out during 2002:

- A method for process development has been introduced that has been used in the project for the organisational changes
- A new systems administration model has been produced and implementation has started
- A method for assessing operative risk in processes has been introduced
- Work has started on a risk weighted credit assessment model designed to accommodate the rules and regulations evaluated in the Basel II work (see page 32)
- Preparations have been made for IAS39 and for a new funding system.

■ **Fusion of Certain Subsidiaries in the SBAB Group**

During the autumn of 2002 decisions were taken regarding a fusion of the parent company Statens Bostadsfinansieringsaktiebolag, SBAB with the subsidiaries SBAB, Statens Bostadslåneaktiebolag, and SBAB, Sveriges Bostadsfinansieringsaktiebolag.

The structure comprising two subsidiaries was introduced 1 January 1995 and was motivated by the desire to be able to keep separate the top loans which had been granted by government authorities without market-standard credit analysis.

Higher risk loans granted by the government authorities were housed in the subsidiary SBAB, Statens Bostadslåneaktiebolag. At the same time, the Swedish National Debt Office guaranteed that the capital adequacy of that company would at all times exceed the legal minimum level. The company has mainly performed an administrative role. New lending has occurred only to a limited extent and then only for the purpose of reducing the existing risk by improving upon the collateral. This, together with development in values and redemptions since 1995 have led to the risks in the portfolio being greatly reduced and at the same time the size of the portfolio

had reduced from SEK 72.8 billion to SEK 30.3 billion by end 2002.

Mortgage loans granted by SBAB after market-standard credit analysis were housed in the subsidiary, SBAB, Sveriges Bostadsfinansieringsaktiebolag and virtually all lending thereafter has taken place in that company.

The parent company, Statens Bostadsfinansieringsaktiebolag, SBAB is responsible for raising funds for the Group which are secured against the collateral pledged to the subsidiaries on their lending.

The division of the loan portfolio between the two subsidiaries no longer serves any useful purpose, either from a formal aspect or from the point of view of risk. According to the established plan, the fusion is designed to take place on 1 October 2003.

The fusion will not affect the co-operation company FriSpar Bolån owned jointly by SBAB, Sveriges Bostadsfinansieringsaktiebolag and Sparbanken Finn and Sparbanken Gripen. After the fusion, this company will be a subsidiary of the consolidated company.



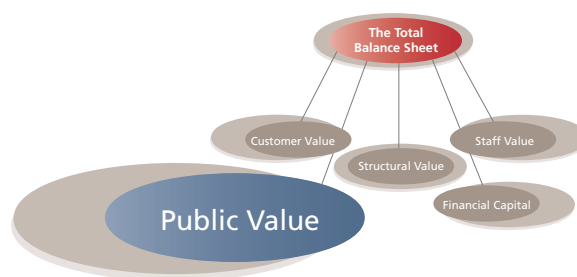
*SBAB has combined all servers into a joint production establishment in Stockholm to lower costs and increase accessibility.*

# Public Value

The fundamental prerequisite for SBAB's legitimacy and long-term success is that the general public have genuine faith in the company. The public value in the "Total Balance Sheet" measures the company's value and confidence capital from the public's perspective. SBAB's lending and funding operations should live up to the highest demands for quality and efficiency and contribute to the development of society and customers alike. SBAB should represent good ethics and morality and the concerned target groups, customers, owner, journalists and the public at large, should regard SBAB as a "good citizen". SBAB should therefore uphold this high confidence capital and work in the long-term in building up a responsibility-filled brand. SBAB's confidence capital is measured by Research International, SIFO.



Annelise Jansson is Head of Information and responsible for the public value.



- **Goal**  
For the public value, the goal is expressed as the confidence capital SBAB has in relation to its most important competitors.
- **Goal Achievement**  
Compared to its competitors, taken on average, SBAB's value is considerably higher. SBAB: 595. Competitors' average: 375. Total index 1-1000.

SBAB has taken on the role of price-setter in the retail housing loan market and has developed an environmentally friendly concept of its own for housing loans via Internet. SBAB has also chosen to adopt a pioneer role on both the domestic and international capital markets, for instance in developing the securitisation technique's potential.

SBAB is thus a competitive factor and constitutes, as such, a positive difference in society and in the market. Through modern-style leadership, new approaches to steering processes and fully engaged staff, the meaning of "good citizenship" is moulded and the company is able to make its positive contribution to society and its development.

SBAB's market share of the multi-family housing segment amounted to 19.5 per cent (21 per cent) at the end of the year and to 7.5 per cent (7.5 per cent) of the retail market segment. Total market share amounted to 12.5 per cent (13.4 per cent). SBAB's share of new loans to retail customers in Stockholm came to around 15 per cent.

## ■ Activities to Strengthen the Public Value

- SBAB's environmental work is based on the ecocycle idea and should contribute to a sustainable development of society with respect to future generations. An environment policy has been established and a mode of action worked out, now partly fulfilled. Information activities regarding SBAB's effects on the environment are a part of this.
- Around 55 per cent of SBAB's retail customers resort only to the Internet-based services offered, which results in savings in paper and transports.
- SBAB has consciously created on-line possibilities for customers and the public to make comparisons between the different suppliers of housing loans. Through its high-profile mass media presence and via Internet, SBAB has informed the public of the interest rate level and provided other useful financial information.
- SBAB has introduced an integrated communication process, the basis for all communication in the company, with the public very much in mind.

## A Christmas Gift of Consideration and Human Kindness

At Christmas time 2002 SBAB chose to give a money-gift to different relief organisations instead of the traditional Christmas gift to the staff.

This year SBAB's gift was given to some of those in need around the world: SOS-Childrens' Villages, The Foundation for Orphaned Children, Karlstad's and Stockholm's Missions for the Homeless. In addition, SBAB contributed to Plan International, sponsor of performances in TV4. Hopefully this can contribute to making the New Year a little bit easier and brighter for those facing difficulties in different ways.



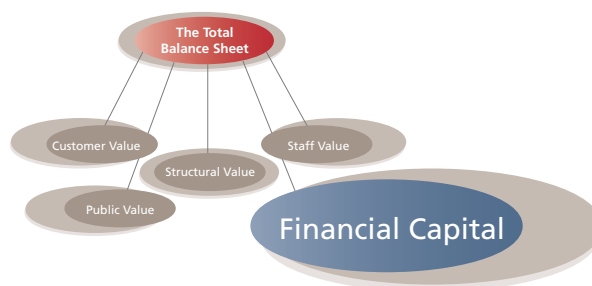
*Sture Nordh, Chairman, Foundation for Orphaned Children, Elisabet Andersson, General Secretary, SOS-Childrens' Villages, Mattias Spångare, staff representative SBAB, Staffan Hellgren, Director, Stockholm's Mission for the Homeless.*

*Photo: Magnus Svensson.*



# Financial Capital

The financial capital measures the changes in the company's income statement and balance sheet, thereby showing how the company's financial strength is developing. For a company where operations consist of lending and borrowing in very large monetary volumes, the development in the company's profitability coupled with risks is of central importance. The subjects of profitability development and the assets and liabilities are addressed in the administration report. This section concentrates on risk level and risk management.



Krister Orrell, Deputy Managing Director and responsible for the financial capital.

## ■ Goal

Return on equity should amount at the lowest to 9.8 per cent after tax at 31 December 2002, that is to say an operating result of SEK 600 million before tax.

## ■ Goal Achievement

SBAB's operating result before tax amounted to SEK 618 million and the return on equity to 10.2 per cent at 31 December 2002.

## ■ Overall Principles for SBAB's Risk Management

The basis for SBAB's risk management is that it should support the company's business operations and the company's rating goals. Risk taking is balanced by the total risk level in the company being kept on such a level that it is consistent with SBAB's long-term financial profitability goals, earning capacity, stability, the size of the risk capital and the desired rating.

The distribution of capital should be based on different risk levels within operations. Obtained yield should be set against the required risk taking.

SBAB's risk management should be transparent and thereby possible to be presented for, and followed up by, external interested parties.

The assembled business risks within operations are divided into credit risks, market and liquidity risks in addition to operational risks. The basis for risk management is that relevant risks should be identified, measured, managed, and monitored. Credit, market and liquidity risks should be

managed in the credit and finance policy. Operational risks are identified and managed within the respective processes.

The building up of SBAB's overall company-wide risk management function has continued during the year. At the beginning of 2003 a special risk control group, reporting directly to the Managing Director, has been appointed to further focus on the management of SBAB's assembled risks.

## ■ Credit Risks

SBAB is continuously working on improving the conditions for correct risk assessments by gathering detailed and reliable information regarding all of the borrower's business activities, capacity to pay and the mortgaged properties. This is a prerequisite for correct allocation of capital and thereby a differentiated pricing according to the risk the respective loan contains.

SBAB's work within this area is in line with the proposals made by the Basel Committee (Basel II) which give the lender, depending on the company's internal

measuring methods, possibilities to use internal rating models for calculating the capital requirement with regard to credit risk.

According to the company's calculations, the new Basel regulations recognise the value of a combination of a good lender and good collateral in a better way than today's standard model, this favours SBAB and other specialist housing mortgage companies.

SBAB's goal is, from 2006 onwards, to be able to apply the new rules and regulations resulting from the Basel Committee's proposals for new capital adequacy requirements. Work is going on within SBAB based on the "advanced" model.

## ■ Financial Risk

Different types of financial risks arise in the course of a housing mortgage institution's operations. Apart from the credit risk associated with lending, these are mainly interest, currency, option, liquidity, refinancing and counterpart risks.

SBAB's operations are characterised by keeping risk taking at a low level. Limits are determined for the different risk categories and the way in which risks should be identified, measured and reported. Reporting of the company's financial risks is done on a monthly basis at which time the result generated by applying the stipulated risk limits is also reported.

SBAB has successively strengthened the organisation surrounding the continual management of the financial risks arising in the operations and the ability to independently monitor and report these risks. A support system for a systematic and profitable management of financial risks is being introduced during 2003.

### Risk mandate & utilised limits per 31 December 2002

	Limit	Utilised limit
<b>Interest rate risk SEK million</b>		
Operative interest rate risk	42	26.5
Spread risk	50	0.0
Offsetting spread risk	20	0.0
Strategic interest rate risk	210	97.1
Currency risk	10	3.7
Option risk	2	0.1
<b>Liquidity &amp; refinancing risk SEK billion</b>		
Pre-arranged financing	5.0	0.0
Non-financed swaps	9.0	7.9
Investment portfolioj	14.7	1.0
Offsetting spread risk	5.0	0.0
Credit facilities	3.7	0.0

## ■ Interest Rate Risks

Interest rate risks arise when the interest rate adjustment periods related to financial assets and liabilities and off-balance sheet items do not coincide, thereby affecting the flows. These flows might have different sensitivity to changes in the interest rate level that could result in a decrease in the company's profitability if the interest rate risks are not continually managed (see table below).

Fundamental to SBAB's interest rate risk management is the concept of matching, by which is meant that interest rate adjustment periods on the funding side should coincide with loan maturities offered by SBAB on the lending side. The interest rate risk<sup>1)</sup> is measured on a daily basis by a so-called GAP-analysis.

The operative interest rate risk shows the company's

1) The interest rate risk is calculated as the effect on the present value at a parallel shift in the yield curve of +/- one percentage point. For the operating risk the interest rate risk is calculated based on the market value and the strategic interest rate risk based on all contracted liquid flows.

### Interest rate risk of a parallel shift in the yield curve

- with +1 percentage point taking into consideration all contracted flows at 31 December 2002

SEK million	0-3 months	3-6 months	6-12 months	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5 yrs	Total
Assets	-69	-30	-247	-249	-328	-366	-570	-105	-1,963
Liabilities	85	17	234	36	181	192	278	14	1,036
Off-balance sheet	-12	5	-30	196	153	149	251	90	803
<b>Total interest rate risk</b>	<b>5</b>	<b>-7</b>	<b>-43</b>	<b>-17</b>	<b>6</b>	<b>-25</b>	<b>-40</b>	<b>-1</b>	<b>-124</b>

## Basel II

The Basel Committee for the supervision of banks has taken the initiative of developing the regulations for capital adequacy requirements within the financial sector.

The present Swedish regulations for capital adequacy requirements are based on the so called Basel regulations, but compared to the new proposal they are relatively static. As things stand today, lending normally requires full capital cover (8 per cent) with few exceptions, among these being lending against collateral in housing properties which requires half capital cover (4 per cent) and lending to government or municipalities which requires no capital cover.

The purpose of Basel II is mainly to increase the risk sensitivity in the international financial system. The thinking is not to reduce the total capital requirements within the financial markets. The risk sensitivity increases through the new capital requirements being coupled to a more individual assessment, partly of the customer's strength, partly of the collateral. A high-risk customer and poor collateral produces high capital requirements while a low-risk customer and good collateral results in low capital requirements. There is, at the same time, a desire to introduce a more complete treatment of the different categories of risk.

Three different types of models for risk assessment have been proposed: the standard method, a fundamental internal rating model and an advanced internal rating model. These make different demands as regards what the company is required to do, to be able to use them and the thought is that the more individual and refined the handling, the more differentiated the minimum capital requirements.

SBAB aims at the most possible business benefit with the proposed capital adequacy requirement rules which means that the company's development work is aimed at the advanced internal rating model.

exposure in connection with day-to-day funding and lending operations.

SBAB employs derivative instruments to manage interest rate risks effectively. Interest rate swaps and interest rate futures allow flexible handling of interest rate risks whereby a desired profile of the company's maturity structure can be achieved.

The spread risk<sup>1)</sup> is the risk of a change in the relative spread between the interest rates quoted by two issuers. Spread risk may occur in connection with bond maturities where pre-arranged funding, aiming at reducing liquidity risks, is temporarily invested in liquid interest-bearing securities until the redemption date of the bonds in question. Reverse spread risk<sup>1)</sup> arises in those cases when interest rate cover is initially done through sales of government bond futures.

### ■ Equity Capital

SBAB's equity capital is employed in lending and investing in interest-bearing securities. The capitalised float arising from the operations is handled correspondingly. The exposure arising from the employment of the equity capital and the float constitutes SBAB's strategic interest rate risk.

It should be the aim that the average period for which the equity capital and the float are invested should correspond to the average period for the company's lending, which was 1.5 years (1.6 years) at the end of the year. The strategic interest rate risk should not exceed 5 per cent of equity capital at the start of the year. A maximum of 25 per cent of this amount may be distributed to the nearest twelve month period.

### ■ Currency Risks

Currency risks arise when for instance assets and liabilities or the flows that these generate are not of equivalent size in one and the same currency.

All of SBAB's lending is disbursed in Swedish kronor and funded correspondingly. This means that all funding raised internationally is converted into Swedish kronor before the funds are used for lending.

The currency risk limit aims at creating some latitude in the management of flows in different currencies and at facilitating repurchases of prior issued bonds in foreign currencies where surpluses have arisen.

1) The interest rate risk is calculated as the cost for a change in the spread of +/- 0.25 of a percentage point.

### ■ Option Risks

What is meant by option risk is the risk of loss attaching to an open contract containing an element of option where the counter-availing contract is lacking. At the borrower's request certain lending is conditioned by means of option structures. For example, for the cost of a premium, a borrower can guard against the interest rate exceeding a certain agreed level at the next interest rate adjustment. As a principal rule, however, a corresponding contract on the funding side will be entered into, thus eliminating the option risk so created.

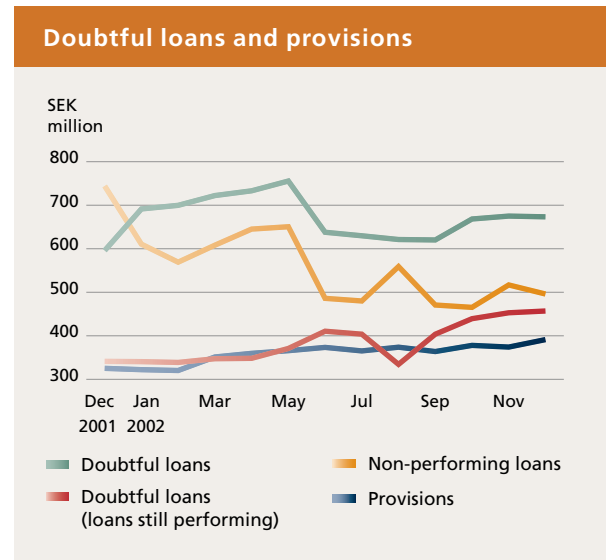
### ■ Liquidity and Refinancing Risks

Liquidity risks arise if the company is not able to fulfil its obligations, for instance in the redemption of bonds when due or in meeting contracted payments to swap counterparties. Liquidity risks can arise when assets, liabilities and items not included in the balance sheet have different maturities.

Refinancing risk arises when assets mature later than the corresponding liabilities. In those cases the assets have to be refinanced once or perhaps several times to maturity. The risk then arises that the necessary new funding can only be at a higher price than was earlier the case.

Different techniques are used in order to regulate and limit the appearance of these risks. The matching principle is mainly applied, which means that assets and liabilities are accorded the same fixed interest rate periods, governed by the date of maturity for the funding. SBAB, however, regularly finances up to 50 per cent of the short-term lending with funding having a longer capital tied period. However, the respective interest rate adjustment dates for the assets and liabilities coincide, which means that the interest rate risk can be kept within given limits. Another possibility used is to currently pre-arrange funding to meet future maturities. The funds so arranged are invested in interest-bearing securities with high liquidity, making them easier to sell when the need arises. Other techniques used are either limiting the volume of funding having shorter capital tied periods than the corresponding lending or borrowing and investing up to 10 per cent of the balance sheet or putting limits on sales of government bond futures.

In order to further strengthen access to liquid funds SBAB has entered into stand-by credit agreements, which give SBAB the right to take up loans when necessary.



An essential prerequisite for SBAB, in ensuring that these kinds of risks are minimised, is that SBAB continually has access to the whole global capital market at all times. Liquidity and refinancing possibilities may then be secured, even if one or more of the markets periodically functions less well. Such an assurance is obtained by SBAB showing a high market presence, securing good investor relations and having programmes to distribute its securities easily.

### ■ Counterparty Risks

Counterparty risk is the risk of a counterparty to a derivative contract not being able to fulfil his payment obligations. If this should occur SBAB would need to replace the contract with a corresponding new contract in the market. If the derivative contract were to have a positive value, i.e. if SBAB has a claim on the counterparty, a loss might occur when the contract is replaced. Financial credit risk might also arise as a consequence of liquidity investments.

SBAB uses derivative instruments in the day-to-day operations as a means of eliminating risks that arise. SBAB is a frequent market participant, mainly in the swap market, primarily entering into currency and interest rate swaps but also swap contracts with equity and interest rate structures so as to neutralise the risk in the underlying financing. When the company's borrowers ask for products with derivative features, SBAB in its turn eliminates risk arising by means of derivative instruments.



# Administration Report

## ■ The Result – SBAB Group

The Group reported a profit before taxes and allocations of SEK 618 million (541 million), corresponding to a return on equity of 10.2 per cent (9.6 per cent), behind which lay sharply increased net interest income, continued low loan losses and a limited increase in expenses.

## ■ The Development in SBAB's Result

For three years in a row now, SBAB's result has shown a continuous improvement which translates into a 56 per cent increase over the last three years.

The return on equity expressed as an average over the five-year period 1998-2002 amounts to 9.4 per cent. The Government-set rate of return expected of SBAB means that its operations over a business cycle should yield a return on equity corresponding to the rate of interest on five-year Government bonds plus five percentage points after tax. For the period 1998-2002 this meant around 9.8 per cent.

Consequently, the result level for 2002 exceeded the owner's profitability expectations for an individual year.

## ■ Net Interest Income

A successive improvement in net interest income has been seen, due to somewhat better lending margins and risk-related pricing.

Net interest income amounted to SEK 1,175 million (1,069 million). Net interest income has had to bear the SEK 25 million cost for the new guarantee from the Swedish National Debt Office. The improvement can be attributed to an increased lending volume to retail customers and improved margins resulting from adjusted prices commensurate with lending risks associated with property company customers. Furthermore there was a shift in the portfolio from property company customers to retail customers where a higher profitability level obtained. The shift can be seen in table 1. Larger profits derived from flows also contributed to the improvement.

The investment margin – net interest income in relation to average balance sheet total – increased from 0.72 per cent in 2001 to 0.83 per cent in 2002.

## ■ Other Income

Other income (total income less commission to co-operation partners) came to SEK -12 million (-11 million).

Both commission income and commission costs increased. Income increased by SEK 10 million as a result of increased income for the administration of the securitised portfolio. Costs increased by SEK 11 million, mainly attributable to increased commission to co-operation partners.

## ■ SBAB's Lending and Loan Portfolios

The subsidiary SBAB, Sveriges Bostadsfinansieringsaktiebolag grants loans in respect of residential properties and tenant-owner apartments and, to a lesser extent, business and commercial properties in connection with lending to housing.

The SBAB, Statens Bostadslåneaktiebolag administers a portfolio of loans approved by the former länsbostadsnämnderna (county housing authorities) but funded by SBAB. New loans may be granted to a limited extent also in this company with the condition that a better loan-to-value in the collateral is obtained, compared to the terms of the existing loans.

Loans may be granted provided the collateral is deemed satisfactory and after an analysis of capacity to pay, etc. shows that the borrower is able to fulfil the terms of the loan. When a mortgage provides the collateral, the collateral is regarded as satisfactory if the loan amount does not exceed 70 per cent of the market value of the underlying property as assessed by SBAB. Loans covered by municipal or government guarantees are granted up to the amount guaranteed.

The new lending is increasingly concentrated to larger cities and growth areas. How this affects the loan portfolio is evident from table 3. To a large extent this is due to the demographic change. The population increase in the large city areas creates increased demand for housing, which in its turn leads to high turnover in the property market with attendant borrowing needs.

Table 1: New lending, SEK billion

	2002	2001	Change
<b>Property company market</b>			
Tenant-owner co-operatives	1.8	2.9	- 1.1
Private multi-family housing	2.0	4.5	- 2.5
Municipal housing companies	0.0	0.0	0.0
Commercial properties	0.2	0.6	- 0.4
<b>Total</b>	<b>4.0</b>	<b>8.0</b>	<b>- 4.0</b>
<b>Retail market</b>			
Owner-occupied homes	8.1	11.6	- 3.5
Tenant-owner apartments	3.0	4.1	- 1.1
<b>Total</b>	<b>11.1</b>	<b>15.7</b>	<b>- 4.6</b>



Table 2: Loan portfolio and securitised loans, SEK billion

	2002			2001		
	Loans in own portfolio	Securitised loans	Total	Loans in own portfolio	Securitised loans	Total
Retail market	36.8	17.0	53.8	31.9	17.5	49.4
Property company market	97.0	1.0	98.0	105.5	1.0	106.5
<b>Total</b>	<b>133.8</b>	<b>18.0</b>	<b>151.8</b>	<b>137.4</b>	<b>18.5</b>	<b>155.9</b>

In addition to loans on own balance sheet, SBAB administers retail market loans amounting to SEK 17.0 billion, of which SEK 12.6 billion refers to owner-occupied homes and SEK 4.4 billion to tenant-owner apartments. To this should be added securitised loans within the property company market amounting to SEK 1.0 billion.

Table 3: Loan portfolio, geographical distribution, SEK billion

	2002	2001	Change
Stockholm	39.5	37.4	+ 2.1
Göteborg	9.9	11.7	- 1.8
Malmö	12.6	11.8	+ 0.8
University and growth areas	25.4	25.4	0.0
Others	46.4	51.1	- 4.7
<b>Total</b>	<b>133.8</b>	<b>137.4</b>	<b>- 3.6</b>

Table 4: Loan portfolio by category of owner, SEK billion

	2002	2001	Change
Tenant-owner co-operatives	38.2	40.0	- 1.8
Municipal housing companies	25.3	29.9	- 4.6
Private rental housing	28.8	29.7	- 0.9
Owner-occupied homes	31.6	28.2	+ 3.4
Tenant-owner apartments	5.2	3.7	+ 1.5
Commercial properties	4.7	5.9	- 1.2
<b>Total</b>	<b>133.8</b>	<b>137.4</b>	<b>- 3.6</b>

The number of loans in respect of owner-occupied homes and tenant-owner apartments has increased at the same time as loans to tenant-owner co-operatives, municipalities and municipal property companies as well as to private rental properties have decreased. Lending to commercial properties has also decreased which is completely in line with planned strategy (table 4).

Table 5: Development of SBAB's loan portfolio

Excluding securitised loans					
	2002	2001	2000	1999	1998
Loan portfolio (SEK billion)	134	137	140	146	145
Average lending period (years)	1.6	1.8	2.0	2.4	2.5
Average interest rate (per cent)	5.50	5.50	5.74	6.08	7.63
Number of loans (thousand)	192	186	198	213	205
Loans with municipal or government guarantee (per cent)	25	28	31	34	42

The average remaining term in SBAB's portfolio has continued to shorten, from 1.8 years to 1.6 years 2002. (Table 5 on previous page).

Table 6: Security structure of loan portfolio, SEK billion

	2002	2001	Change
Municipal guarantee	30.4	32.5	- 2.1
Government guarantee	4.9	5.5	- 0.6
Mortgages	93.2	95.7	- 2.5
Tenant-owner co-operatives	5.3	3.7	+ 1.6
<b>Total</b>	<b>133.8</b>	<b>137.4</b>	<b>- 3.6</b>

The percentage of loans covered by municipal or other guarantees has fallen during the year from 28 per cent to 25 per cent. (Table 5 and 6). This is because most new loans are granted against mortgages for 70 per cent or less of the market value of the underlying property.

At the beginning of 2002 SBAB's former government guarantees were cancelled, being replaced by a new credit facility on market terms. The background to this is as follows: In 1989, when SBAB took over responsibility for the housing loans earlier financed over the state budget, the parent company received a guarantee of SEK 1,500 million issued by the Swedish National Debt Office to cover the company's general indebtedness. In connection with the restructuring in 1995, when the present company structure was established, the government issued a guarantee to the subsidiary SBAB, Statens Bostadslåneaktiebolag, with whom the government-approved loans were placed. The restructuring of the loan portfolio involving several years' successful work has resulted in these guarantees being cancelled and, as mentioned, replaced by the facility described below.

The new 10-year facility is issued to the parent company and gives SBAB at any one time, the right to take up loans at the Swedish National Debt Office within a limit of SEK 10,000 million. The facility, for which SBAB pays a fee, will be reduced by a tenth a year.

### ■ Problem Loans and Loan Losses

Problem loans, that is to say doubtful claims and loans with the interest rate reduced, have steadily decreased since June/July 1997. At end 2001/2002 they totalled SEK 277 million after loan loss provisions. By the end of 2002, however, they had increased somewhat to SEK 283 million.

Loan losses (net) remained at a low level, amounting to SEK 74 million (55 million). The slight increase should be

set against the fact that the credit loss situation was unusually favourable for a number of years. It could now be said that the underlying causes have developed towards more normal circumstances. (An overview of the development of loan losses, problem loans and provisions during the years 2000-2002 is shown in table 7.)

During the year new regulations made it possible to make a provision of SEK 90 million to a general reserve against loan losses in respect of property company customers, the net costs for loan losses being affected to that extent.

The setting up of this general reserve is associated with the work towards developing a model to be used in introducing the regulatory system associated with Basel II. The causes for bankruptcies, failures, etc. and losses made during the years 1997-2000 are registered in the model. Based on this model, the risk of bankruptcies, etc. and the size of anticipated losses are calculated. This information has provided the basis for establishing the need to make provision to general reserve.

In the beginning of 2002 the company sold a loan portfolio of around SEK 164 million, consisting of internally written-off outstanding personal liabilities to pay following executive auction. The sale proceeds received amounted to SEK 25 million, resulting in recovery for an equivalent amount of loan losses taken earlier. The main part of this recovery has been applied in building up the general reserve.

Table 7: Problem loans and provisions

	2002	2001	2000
Problem loans (doubtful loans, loans with interest remissions), SEK million	674	602	897
Provisions (anticipated losses on doubtful loans), SEK million	391	325	355
Problem loans after provisions, SEK million	283	277	542
Problem loans where borrowers continue to meet their obligations, per cent	43	57	69
Provision ratio, per cent	58	54	42
Loan losses, net, SEK million	74	55	14

The main reason for the stable level of problem loans is the relatively low interest rate level, which has contributed to a reduction in the number of borrowers having difficulty in meeting their loan obligations as well as to a reduced vacancy grade. Most of the problem loans, 74 per cent, are to tenant-owner co-operatives.

Problem loans have nevertheless increased as a result of individual provisions affecting a higher loan capital than in 2001. At the same time the provision ratio has increased due to the building up of the general reserve.

There is reason, however, for adopting a cautious attitude in assessing the future position concerning problem loans in the light of the uncertain development in the economic situation. The dampening in economic activity, higher unemployment, falling prices in areas with receding housing markets and the possibility of higher interest rates may, in a somewhat longer perspective, influence the development negatively.

### ■ Expenses

Expenses (total costs excluding loan losses) amounted to SEK 471 million (462 million) and contains an extraordinary provision of SEK 32 million for negotiated pensions, in preparation for making reductions in staff.

### ■ Risks and Risk Management

Risks and risk management are described on pages 30-33.

### ■ Capital Adequacy

In contrast to 2001, the company has undertaken no MBS transactions during 2002. The capital and primary capital ratios have still been held at a high level as a result of the increase in equity capital achieved through improved and retained profit and because of the share holder contribution made by Sparbanken Finn and Sparbanken Gripen to Fri-Spar Bolån. In addition, the decrease in the loan portfolio has somewhat reduced the risk weighted amount of the company's loan portfolio.

At year-end the capital and primary capital ratios were 10.0 per cent and 7.8 per cent respectively. The total effect of all securitisation transactions was 1.3 percentage points for the capital ratio and 1.2 percentage points for the primary capital ratio.

### ■ Five Year Overview

The five year overview can be found on page 61.

### ■ Rating

SBAB's rating is a prerequisite of the utmost importance for obtaining good borrowing conditions for the company's funding. The rating is steered to a large extent by how the company's profitability is developing, the competitive

## SBAB's Funding Obligations

- Total outstanding debt SEK 130.7 billion (139.9 billion).
- Foreign funding totalled an amount corresponding to SEK 62.7 billion (65.1 billion), 47.9 per cent (46.6 per cent of SBAB's total outstanding debt).
- Long-term funding was SEK 39.9 billion (57.5 billion), corresponding to 30.5 per cent (41.1 per cent).
- Foreign funded long-term debt was equivalent to SEK 23.8 billion (13.7 billion), 59.8 per cent (23.9 per cent) of the total long-term funding.
- SBAB's outstanding debt in the Swedish commercial paper market was SEK 18.4 billion (8.3 billion). The maximum outstanding nominal amount of SBAB's Swedish commercial paper programme is SEK 25 billion.
- SBAB's outstanding debt on the ECP-market was USD 737.6 million (USD 333 million). The maximum outstanding nominal amount of SBAB's Euro Commercial Paper Programme is US 1,000 million.
- SBAB's outstanding debt on the USCP-market was USD 1,030 million (USD 1,575 million). The maximum outstanding nominal amount of the US commercial paper program is USD 2,000 million.
- SBAB's outstanding debt in Swedish benchmark bonds amounted to SEK 43.0 billion (60.6 billion) at the end of the year.
- Outstanding debt under the EMTN-programme (Euro Medium-Term Note Programme) at the end of the year was USD 4.0 billion (USD 4.1 billion). The maximum outstanding nominal amount of the programme is USD 8.0 billion.
- The average remaining maturity of the total funding has decreased during 2002 to 1.3 years (1.6 years).



conditions and the company's risk level. SBAB's long-term rating by Standard & Poor's and Moody's are AA- and A1 respectively. Moody's assessment is that SBAB has a stable outlook. During 2002, Standard & Poor's took away SBAB's negative outlook assessment and changed it to stable, which reflects SBAB's continued positive result development.

#### ■ Statens Bostadsfinansieringsaktiebolag, SBAB (parent company)

The parent company reported an operating profit – result before tax and allocations – of SEK 36 million (26 million).

Risk-bearing capital – the sum of subordinated debts, untaxed reserves and equity capital – amounted to SEK 4,153 million (5,210 million) at the year-end. Subordinated debt decreased by SEK 936 million compared to the previous year. During 2002, SEK 120 million (103 million) was distributed to the owner.

The capital ratio was 89.4 per cent (229 per cent) at the year-end.

The high capital ratio in the parent company is due to the fact that the capital base in that company is high in relation to the risk weighted amount of the assets contained in that company. This means at the same time that relatively small changes in the risk weighted assets have a large effect on the capital adequacy. In comparison to 2001, a sharp reduction has occurred in the market values of the company's derivative instruments and other investments, which is the background to the big change.

#### ■ The Subsidiaries

In 1995 the portfolio of government agency-approved loans was transferred to one of the subsidiaries, SBAB, Statens Bostadslåneaktiebolag and the portfolio of SBAB-approved loans on market conditions was transferred to the other subsidiary, SBAB, Sveriges Bostadsfinansieringsaktiebolag. During 2001 a co-operation was initiated with the independent savings banks Finn and Gripen respectively in the jointly owned company FriSpar Bolån AB.

#### ■ SBAB, Statens Bostadslåneaktiebolag

The company reported an operating profit before tax and allocations of SEK 136 million (106 million).

The company's loan portfolio totalled SEK 30,316 million (34,636 million) at the end of the year.

At the end of the year the capital ratio was 20.3 per cent (19.0 per cent).

#### ■ SBAB, Sveriges Bostadsfinansieringsaktiebolag

The company reported an operating profit before tax and allocations of SEK 442 million (406 million).

The company's loan portfolio totalled SEK 97,382 million (98,307 million) at the end of the year.

At the end of the year the capital ratio was 10.0 per cent (9.1 per cent).

#### ■ FriSpar Bolån

FriSpar Bolån is owned as to 51 per cent by SBAB, Sveriges Bostadsfinansieringsaktiebolag and to the remainder by the savings banks Finn and Gripen. The operating profit before tax and allocations amounted to SEK 3 million (2 million).

The company's loan portfolio at the end of 2002 amounted to SEK 6,142 million (4,486 million) and the capital ratio was 9.1 per cent (8.4 per cent).

#### ■ Principles for Dividend

A third of the net result after taxes in the legal entity should be distributed to the owner.

#### ■ Proposed Appropriation of Profit

The Board proposes in accordance with the owner's guidelines that SEK 137 million is distributed to the owner.

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# SBAB's Final Accounts

# Income Statement

SEK million	Note	GROUP		PARENT COMPANY	
		2002	2001	2002	2001
Interest income		<b>7,675</b>	8,078	<b>6,570</b>	7,044
Interest expenses		<b>(6,500)</b>	(7,009)	<b>(6,488)</b>	(6,975)
<b>Net interest income</b>	1	<b>1,175</b>	1,069	<b>82</b>	69
Dividends received		<b>0</b>	0	<b>0</b>	0
Commission income	2	<b>44</b>	33	<b>-</b>	-
Commission expenses	3	<b>(59)</b>	(48)	<b>(16)</b>	(16)
Other operating income	4	<b>3</b>	4	<b>14</b>	18
<b>Total net interest income and operating income</b>		<b>1,163</b>	1,058	<b>80</b>	71
General administration expenses	5	<b>(415)</b>	(404)	<b>(29)</b>	(27)
Depreciation of tangible fixed assets	6	<b>(12)</b>	(15)	<b>(12)</b>	(15)
Other operating expenses	7	<b>(44)</b>	(43)	<b>(3)</b>	(3)
<b>Total operating expenses excluding loan losses</b>		<b>(471)</b>	(462)	<b>(44)</b>	(45)
<b>Operating income before loan losses</b>		<b>692</b>	596	<b>36</b>	26
Loan losses, net	8	<b>(74)</b>	(55)	<b>-</b>	-
<b>Operating income</b>		<b>618</b>	541	<b>36</b>	26
Allocations	9	<b>-</b>	-	<b>97</b>	90
Minority share in the year's result		<b>(1)</b>	(1)	<b>-</b>	-
Tax on profit for the period	10	<b>(173)</b>	(152)	<b>(37)</b>	(32)
<b>Net profit for year</b>		<b>444</b>	388	<b>96</b>	84

# Balance Sheet

SEK million	Note	GROUP		PARENT COMPANY	
		31 Dec 2002	31 Dec 2001	31 Dec 2002	31 Dec 2001
<b>ASSETS</b>					
Cash in hand and balance at central banks		0	0	0	0
Eligible Treasury Bills, etc.	11	1,169	2,641	1,169	2,641
Lending to credit institutions	12	581	5,141	130,642	139,369
Lending to the public	13	133,840	137,430	–	–
Bonds and other interest-bearing instruments	14	–	108	–	108
Shares		0	0	0	0
Shares and participations in group companies	15	–	–	2,722	2,722
Tangible assets	16	25	28	25	28
Other assets	17	1,483	563	1,010	60
Pre-paid costs and accrued income	18	720	814	51	34
<b>Total assets</b>		<b>137,818</b>	146,725	<b>135,619</b>	144,962
<b>LIABILITIES AND EQUITY CAPITAL</b>					
<b>LIABILITIES</b>					
Debt to credit institutions	19	6,300	4,942	6,289	4,929
Bonds issued, etc.	20	122,970	132,498	123,270	132,698
Other liabilities	21	286	263	56	55
Accrued costs and pre-paid income	22	1,875	2,086	1,851	2,070
Allocations	23	212	199	–	–
Subordinated debt	24	1,482	2,418	1,482	2,418
<b>Total liabilities</b>		<b>133,125</b>	142,406	<b>132,948</b>	142,170
<b>Untaxed reserves</b>	25	–	–	<b>166</b>	263
<b>Minority share holding</b>		<b>149</b>	99	–	–
<b>EQUITY CAPITAL</b>					
<i>Tied equity capital</i>					
Share capital		1,958	1,958	1,958	1,958
Legal reserve		392	392	392	392
Share of untaxed reserves included in equity capital		545	511	–	–
<i>Unrestricted equity</i>					
Profit brought forward		1,205	971	59	95
Net profit for the year		444	388	96	84
<b>Total equity capital</b>		<b>4,544</b>	4,220	<b>2,505</b>	2,529
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>137,818</b>	146,725	<b>135,619</b>	144,962
<b>MEMORANDUM ITEMS</b>					
Security pledged for own debt	27				
Other security pledged	N/A				
Contingent liabilities	N/A				
Commitments	28				



# Cash Flow Analysis

SEK million	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
<b>Liquid funds at the beginning of the period</b>	<b>548</b>	825	<b>544</b>	773
<b>CURRENT OPERATIONS</b>				
Interest and commission received	<b>7,884</b>	8,280	<b>6,594</b>	7,112
Interest and commission paid	<b>(7,062)</b>	(8,035)	<b>(7,006)</b>	(7,967)
Dividends received on shares and similar securities	<b>0</b>	0	<b>0</b>	0
Receipts in respect of earlier written down loans	<b>37</b>	20	–	–
Payments to suppliers and employees	<b>(425)</b>	(452)	<b>(6)</b>	(35)
Paid income tax	<b>(148)</b>	(149)	<b>(31)</b>	(30)
Decrease in lending to the public	<b>3,524</b>	2,332	–	–
Decrease in securities, current assets	<b>6,161</b>	1,752	<b>6,161</b>	1,750
Increase/Decrease in debt to credit institutions	<b>1,358</b>	(6,914)	<b>1,360</b>	(6,926)
Change in other assets and liabilities	<b>(62)</b>	(191)	<b>4,138</b>	2,612
<b>Cash flow from current operations</b>	<b>11,267</b>	(3,357)	<b>11,210</b>	(3,484)
<b>INVESTMENT OPERATIONS</b>				
Sales of tangible fixed assets	<b>1</b>	1	<b>1</b>	1
Acquisition of tangible fixed assets	<b>(14)</b>	(13)	<b>(14)</b>	(13)
<b>Cash flow from investment operations</b>	<b>(13)</b>	(12)	<b>(13)</b>	(12)
<b>FINANCING OPERATIONS</b>				
Interest bearing bonds issued	<b>41,290</b>	45,277	<b>41,390</b>	45,477
Repayment of interest bearing bonds	<b>(57,992)</b>	(49,967)	<b>(57,992)</b>	(49,967)
Increase in other borrowing, short-term	<b>5,552</b>	7,860	<b>5,552</b>	7,860
Dividend paid	<b>(120)</b>	(103)	<b>(120)</b>	(103)
Minority share holder's contribution received	<b>49</b>	25	–	–
<b>Cash flow from financing operations</b>	<b>(11,221)</b>	3,092	<b>(11,170)</b>	3,267
<b>Decrease/Increase in liquid funds</b>	<b>33</b>	(277)	<b>27</b>	(229)
<b>Liquid funds at the end of the period</b>	<b>581</b>	548	<b>571</b>	544

Liquid funds are defined as cash in hand and balance at banks and assets payable on demand – see note 12.

# SBAB's Capital Adequacy

SEK million	GROUP		PARENT COMPANY		
	31 Dec 2002	31 Dec 2001	31 Dec 2002	31 Dec 2001	
<b>CAPITAL BASE</b>					
Taxed capital	<b>3,861</b>	3,589	<b>2,368</b>	2,409	
Untaxed reserves, adjusted for tax	<b>545</b>	511	<b>120</b>	189	
Minority share holding	<b>149</b>	99	–	–	
<b>Total primary capital</b>	<b>4,555</b> <sup>2</sup>	4,199	<b>2,488</b> <sup>2</sup>	2,598	
Subordinated loans, fixed term	<b>760</b>	760	<b>760</b>	760	
Perpetual subordinated loans	<b>722</b>	852	<b>722</b>	852	
<b>Total secondary capital</b>	<b>1,482</b>	1,612	<b>1,482</b>	1,612	
Claims on securitisation company	<b>(180)</b>	(138)	–	–	
<b>Total capital base</b>	<b>5,857</b>	5,673	<b>3,970</b>	4,210	
<b>RISK WEIGHTED AMOUNT</b>					
GROUP SEK million					
Risk group	Balance sheet items	Off-balance sheet items	Total investments	Risk-weighted amount <b>31 Dec 2002</b>	Risk-weighted amount 31 Dec 2001
A = 0 per cent	35,766	61	35,827	<b>0</b>	0
B = 20 per cent	741	1,257	1,998	<b>400</b>	1,851
C = 50 per cent	88,155	1,604	89,759	<b>44,879</b>	44,191
D = 100 per cent	13,149	234	13,383	<b>13,383</b>	13,681
<b>Total risk weighted amount</b>				<b>58,662</b>	59,723
PARENT COMPANY SEK million					
Risk group	Balance sheet items	Off-balance sheet items	Total investments	Risk-weighted amount <b>31 Dec 2002</b>	Risk-weighted amount 31 Dec 2001
A = 0 per cent	134,975 <sup>1</sup>	–	134,975	<b>0</b>	0
B = 20 per cent	577	1,257	1,834	<b>367</b>	1,807
C = 50 per cent	–	35	35	<b>17</b>	–
D = 100 per cent	60	–	60	<b>60</b>	29
<b>Total risk weighted amount</b>				<b>444</b>	1,836
<b>CALCULATION OF CAPITAL ADEQUACY RATIO</b>					
	GROUP		PARENT COMPANY		
	<b>31 Dec 2002</b>	31 Dec 2001	<b>31 Dec 2002</b>	31 Dec 2001	
Primary capital	<b>4,555</b>	4,199	<b>2,488</b>	2,598	
Capital base	<b>5,857</b>	5,673	<b>3,970</b>	4,210	
Risk weighted amount	<b>58,662</b>	59,723	<b>444</b>	1,836	
Primary capital ratio, per cent	<b>7.8</b>	7.0	<b>559.8</b>	141.5	
Capital ratio, per cent	<b>10.0</b>	9.5	<b>893.5</b>	229.3	

<sup>1)</sup> The parent company raises all funds required by the group and only lends to subsidiaries against promissory notes supported by the subsidiaries' lending. Claims on or guaranteed by a company which is a member of the same group as the lending institution, the parent company, and which are covered by the consolidated capital requirement do not require any risk capital, i.e. the risk-weighting is 0 per cent.

<sup>2)</sup> Proposed dividend of SEK 137 million has not been included in the primary capital.

# Accounting Principles

The Swedish National Housing Finance Corporation, SBAB's financial statements have been prepared in accordance with the terms of the Annual Accounts Act concerning credit institutions and securities companies (ÅRKL), the recommendations of the Swedish Financial Accounting Standards Council and the directives issued by the Swedish Financial Supervisory Authority (FFFS 2001:19).

All figures are shown in million Swedish kronor (SEK million) unless otherwise stated.

## Consolidated group financial statements

The Group consists of the parent company and two subsidiaries, with the parent company owning 100 per cent of the shares in the subsidiaries. SBAB, Sveriges Bostadsfinansieringsaktiebolag owns in its turn 51 per cent in FriSpar Bolån AB, which is consolidated into the Group. The consolidated group financial statements have been prepared according to the recommendation of the Swedish Financial Accounting Standards Council (RR1:00), which means that the subsidiaries have been eliminated according to the purchase method.

The securitisation companies are not consolidated into the SBAB Group, as a prerequisite for a subsidiary state to exist according to the Swedish Financial Supervisory Authority and the Annual Accounts Act is that the parent company directly or indirectly owns a participation in the legal entity. As SBAB does not own such a participation, there is no consolidation.

## Assessment of loan claims

Lending to the public is classified under fixed assets and is reported in the Balance Sheet at acquisition value on settlement date. Claims are assessed individually, except for owner-occupied homes, where a standardised provision of 5 per cent of doubtful claims is made in the case of SBAB, Sveriges Bostadsfinansieringsaktiebolag and 15 per cent in the case of SBAB, Statens Bostadslåneaktiebolag.

Claims for which an individual assessment has been made have been written down by the difference between the amount outstanding under the loan and the amount which the company can expect to recover. The reserve for anticipated loan losses has reduced the outstanding total of loans reported under the heading "Lending to the public" in the balance sheet.

Reported loan losses, see note 8, consist of actual losses incurred during the year (directly written down), provisions for anticipated loan losses and reversals of interest payments, etc., reported in the previous year's financial statement and accounts.

Actual losses are losses where the amounts involved have been finally established or are more than likely to occur.

## Problem loans

Information on problem loans is presented in note 13. These refer to lending where principal or interest payments are more than 60 days in arrears or where other circumstances lead to uncertainty about repayment of the loan. Furthermore, the value of collateral for these loans does not cover both outstanding principal and accrued interest by a safe margin. Problem loans also include loans that have been granted interest remissions.

In cases where there is a loss risk in connection with these loans, provision has been made for probable loan losses. Claims are reported net of this provision. At present, it is expected that the remaining amount outstanding will be recovered. Accrued interest payments on doubtful loans are taken up on a cash basis.

When assessing the general provisions, a model has been used based on the estimated risk of default and the size of anticipated loss.

## Property repossessed to protect claims

Property taken-over in order to protect claims is treated as a current asset and valued at the lower of acquisition cost and market value.

The outcome of the property management is reported net of rental income and operating costs, maintenance and property tax under the heading "Other operating income" or under the heading "Other operating expenses".

## Prepayment of loans

Borrowers who prepay loans pay interest rate differential compensation intended to cover the cost that may be incurred if the company cannot realise the same interest rate return on the prepaid amount as was earned on the prepaid loan. Interest rate differential compensation is spread over the average remaining term of the matching bonds.

## Equipment

Equipment is valued at acquisition cost less accumulated depreciation.

## Depreciation of equipment

**Depreciation is over the estimated economic life.** Computer equipment is depreciated at the rate of 25 per cent of the acquisition cost; for other equipment depreciation is at 20 per cent.

## Reporting of financial instruments

The company's holdings of Swedish Treasury bills and Riksbank certificates and other interest-bearing instruments acquired in order to cover interest rate risks in borrowing at fixed-interest rates are reported according to the hedging accounting principles. The unrealised positive values of these holdings have not been included in the calculation of the total market value of the portfolio; corresponding negative values exist in SBAB's long-term borrowing in SEK. The result of these transactions is distributed over the period for which interest rates on the protected borrowing are fixed.

The company's holdings of Swedish Treasury bills and Riksbank certificates and other interest-bearing instruments not acquired for hedging interest rate risks are recorded at the lower of acquisition cost and market price - principle of lowest value. Realised capital gains and losses on these instruments and unrealised changes in their value are reported in the Income Statement under "Financial transactions, net".

By acquisition cost is meant the accrued acquisition cost, the value of which corresponds to the present value of future payments discounted by the effective interest rate at the time of the acquisition. This method takes account of acquisitions above and below par by spreading them over the remaining term of the instrument. Payments received plus the change in the accrued acquisition cost during the year are reported as interest income.

Spot and derivative transactions in the money, bond and currency markets are reported in the Balance Sheet per transaction date, i.e. at the point in time when the essential risks and rights were exchanged between the parties.

## Premiums and discounts on bond loans and repurchases

Premiums and discounts at the time when bonds are issued are spread over the term of the bond to obtain an effective annual interest rate. The part attributable to the present year has affected net interest income. Accrued price differences affect the bond debt reported in the Balance Sheet, as for the accrued acquisition value. When repurchase of SBAB bonds should be regarded as a debt swap, the premium/discount is spread over the term of the repurchased bond. A debt swap occurs when the repurchased bond is replaced by a new issue with the same maturity date in principle as the repurchased bond. When repurchases are made to correct mismatching in the portfolio, which may be due to prepayment or actual loan losses, this price difference is also spread over the outstanding term of the repurchased bond.

The result of futures transactions entered into to avoid interest rate risks in borrowing is spread over the period for which the interest rate on the borrowing protected in this manner is fixed.

Bond issues with connected repurchase agreements, so-called repos, are regarded as short-term borrowing, and the price difference constitutes the interest cost for the period.

Subordinated debt is treated similarly.

## Securitisation transactions

Securitised loan claims are not reported in SBAB's Balance Sheet. A prerequisite for this is that securitisation transactions undertaken are of the type true-sale. This means that the transfer is definite and without recourse to SBAB. SBAB's income concerning these loan claims is entered over the term of the transactions. SBAB may, however, have certain remaining claims on the company to which SBAB has transferred loans. If it is a question of claims which could be considered as credit enhancement, a reduction in value of the credit enhancement will be deducted from the sum of the primary and secondary capital in the calculation of capital adequacy requirements.

## Valuation of assets and liabilities in foreign currencies

Bonds issued in foreign currencies have been protected from exchange rate variations through a combination of currency and interest rate swaps and equity-linked derivative contracts which act as hedges against the currency exposure. These bonds have been recorded at the exchange rate at the time of their currency hedge conversion. Subordinated debt is treated in the same way. Other assets and liabilities in foreign currencies are recorded at the prevailing rates on the balance sheet date.

## Pensions

The pensions of SBAB employees under the government social security pension plan are supplemented by an additional pension programme negotiated between the parties on the labour market. SBAB's commitments under this programme have been covered through insurance.

# Notes to the Income Statement and Balance Sheet

## Note 1 Net Interest Income

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
<i>Interest income</i>				
Lending to credit institutions	92	86	6,504	6,833
Lending to the public	7,517	7,781	–	–
Interest-bearing securities	66	211	66	211
<b>Total</b>	<b>7,675</b>	<b>8,078</b>	<b>6,570</b>	<b>7,044</b>
<i>Interest expenses</i>				
Debt to credit institutions	199	170	199	170
Borrowing from the public	16	1	16	1
Interest-bearing securities	6,106	6,569	6,122	6,567
Subordinated debt	126	231	126	231
Other	53	38	25	6
<b>Total</b>	<b>6,500</b>	<b>7,009</b>	<b>6,488</b>	<b>6,975</b>
Net interest income	1,175	1,069	82	69

The average interest rate on lending to the public during the year was 5.50 per cent (5.50 per cent 2001).  
Of the parent company's interest income SEK 6,408 million (6,748 million) relates to group companies.

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
AVERAGE BALANCES FOR THE ITEMS ABOVE				
Lending to credit institutions	2,329	2,225	133,346	138,360
Lending to the public	136,733	141,446	–	–
Interest-bearing securities	1,560	5,066	1,560	5,066
Debt to credit institutions	4,800	4,208	4,800	4,208
Borrowing from the public	380	36	380	36
Interest-bearing securities	115,573	128,363	115,828	128,363

## Note 2 Commission income

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Commissions on lending	21	21	–	–
Administration of securitisation companies	23	12	–	–
<b>Total</b>	<b>44</b>	<b>33</b>	<b>–</b>	<b>–</b>

## Note 3 Commission expenses

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Commissions on securities	16	16	16	16
Other commissions	43	32	–	–
<b>Total</b>	<b>59</b>	<b>48</b>	<b>16</b>	<b>16</b>

## Note 4 Other operating income

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Capital gains from sale of tangible assets	0	1	0	1
Other	3	3	14	17
<b>Total</b>	<b>3</b>	<b>4</b>	<b>14</b>	<b>18</b>



## Note 5

## General administration expenses

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Staff costs				
– salaries and fees	134	125	9	9
– costs for pension premiums	47	15	3	1
– other social costs	58	50	4	3
IT costs	78	98	5	7
Rents and other costs for premises	25	23	2	1
Other administration expenses	73	93	6	6
<b>Total</b>	<b>415</b>	<b>404</b>	<b>29</b>	<b>27</b>

Other administration expenses have decreased by SEK 11 million for 2002 on account of a VAT refund attributable to year 1995.

Premiums for negotiated pensions amounting to SEK 27 million have been set against the result as well as related employer's contribution to social security costs for SEK 6 million.

#### The group

The average number of employees during 2002 was 388 (368), of whom 233 (220) were women and 155 (148) men.

On 31 December 2002 there were 393 employees.

Salaries and other remuneration totalled SEK 134 million (125 million), of which SEK 5 million (5 million) in respect of the Board, the Managing Director and the Deputy Managing Directors.

Pension premiums and tax thereon amounted to SEK 58 million, of which SEK 6.2 million in respect of the Managing Director and the Deputy Managing Directors.

- Salary and other remuneration paid to the Managing Director amounted to SEK 2,137,041 (1,955,267).
- No car is provided and no fringe benefits have been paid.
- Salary and other remuneration paid to the Managing Director of the subsidiary SBAB, Statens Bostadslåneaktiebolag amounted to SEK 1,225,802 (1,092,710).
- No car is provided and no fringe benefits have been paid.
- Salary and other remuneration paid to the Managing Director of the subsidiary SBAB, Sveriges Bostadsfinansieringsaktiebolag amounted to SEK 1,301,437 (1,227,462).
- Car and benefits in kind amounted to SEK 70,596 (56,833).
- Remuneration to the Chairman of the Board amounted to SEK 130,000 (120,000).
- Board Members who serve on the main Board, on committees tied to the Board, on advisory committees and other committees have been paid fees totalling SEK 558,750 (523,000). Members of the Boards of the Group and subsidiaries have received no interest rate benefits since 1998.
- Fees and reimbursement of costs to KPMG's accountants amounted to SEK 4,377,000, of which SEK 1,144,000 related to the audit.
- Fees and reimbursement of costs to Hans Lindén amounted to SEK 148,000, of which SEK 148,000 related to the audit.

#### The parent company

Practically all staff in the SBAB group are employed by the parent company, the Swedish National Housing Finance Corporation, SBAB and by its subsidiaries, SBAB, Statens Bostadslåneaktiebolag and SBAB, Sveriges Bostadsfinansieringsaktiebolag under a joint responsibility, but with the parent company as their main employer. Seven persons are solely employed by the parent company, the Swedish National Housing Finance Corporation, SBAB.

Staff costs are distributed between the companies in the group in relation to resources consumed in each company. For the parent company this share amounted to 6.8 per cent (6.8 per cent) of group costs.

#### Bonus scheme

In year 2002 a general bonus scheme covering all permanent employees with the exception of the Managing Director has been in place. Temporary employees who have been employed for a certain period and who are still employed at the end of the year are also covered by the scheme. The system is the same for all and bonus amounting to maximum SEK 40 000 is paid to the employee who has worked full time throughout the year. The bonus model is partly based on the improvement in the result in relation to the profitability goal set by the Board for the operating year, partly on a productivity factor, determined by the staff costs in relation to income.

If the profitability goal can be met, notwithstanding payment of bonus at the minimum level of SEK 10,000, then bonus is payable for that amount.

The amount then increases linearly in relation to further improvement in the result and productivity development respectively up to a maximum amount of SEK 40,000. The bonus will be reduced in relation to time actually worked where a person works part-time or for only part of the year.

The profit level for 2002 means that the amount for bonus was SEK 40 000. The total amount for the bonus was SEK 17.1 million including social costs.

#### Agreement on severance payments, pensions, etc. for SBAB's management

The Managing Director has an employment contract in accordance with the government's guidelines for persons in management fulfilling comparable roles in state-owned companies. The period of notice for termination of the contract by the company is twelve months. If the company terminates the contract and thereby severs him from his employment in the company, the company shall make a severance payment corresponding to one year's salary, in addition to salary during the period of notice.

An agreement has also been reached with the Managing Director on a mutual right to request retirement, at the earliest from the month after the Managing Director's sixtieth birthday. Pension commitment is covered by pension insurance based on a pension of 70 per cent of salary at retirement date up to age 65 and 70 per cent of salary from age 65 onwards up to the amount of 20

cont'd Note 5

times the "basic amount" for social security purposes. A pension of 50 per cent is payable on that part of salary exceeding the 20 times "basic amount" figure.

An agreement has also been reached with the Deputy Managing Directors on a mutual right to request retirement at the age of 60. In one case pension amounting to 65 per cent and the other case to 60 per cent of the final salary is then payable up to the regular pension age. In both cases the pension commitments are covered by insurance.

There are no other pension agreements which differ from collective agreements in the banking area. In those cases where individual agreements exist the guidelines for state-owned companies are followed. On termination of contract by the company compensation is payable for at most two years including the period of notice. In case of new employment or income from another activity during the two-year period, the compensation will be reduced.

**Future rental fees**

Agreed future rental fees fall due:

– within one year	SEK 8.8 million
– between one and five years	SEK 11.3 million
– after five years	–

**Note 6****Depreciation of tangible fixed assets**

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
<i>Depreciation according to plan</i>				
– equipment	12	15	12	15
of which: computer equipment	6	8	6	8
<b>Total</b>	<b>12</b>	<b>15</b>	<b>12</b>	<b>15</b>

**Note 7****Other operating expenses**

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Marketing	35	35	2	2
Running costs of repossessed property, net	0	0	–	–
Other	9	8	1	1
<b>Total</b>	<b>44</b>	<b>43</b>	<b>3</b>	<b>3</b>

**Note 8****Loan losses, net**

	GROUP	
	2002	2001
SPECIFIC PROVISION FOR LOAN CLAIMS ASSESSED INDIVIDUALLY		
The year's write-offs for actual loan losses	50	105
Reversal of previous provisions for probable losses reported as actual losses in the financial statements for 2002	(50)	(91)
The year's provision for probable loan losses	61	101
Recoveries in respect of actual loan losses in previous years	(7)	(8)
Reversal of previous provisions for probable losses no longer required	(43)	(48)
<b>Net cost for the year</b>	<b>11</b>	<b>59</b>
COLLECTIVE PROVISION FOR LOAN CLAIMS ASSESSED INDIVIDUALLY		
Allocation to/withdrawal from collective provision	90	–
COLLECTIVELY VALUED HOMOGENEOUS GROUPS OF LOAN CLAIMS		
The year's write-offs for actual loan losses	4	7
Recoveries in respect of actual loan losses in previous years *	(30)	(12)
Allocation to/withdrawal from provision for loan losses	(1)	1
<b>Net cost for the year of collectively valued homogeneous loan claims</b>	<b>(27)</b>	<b>(4)</b>
<b>Net cost of loan losses for the year</b>	<b>74</b>	<b>55</b>

\* The main part of the amount relates to the sale of a portfolio of claims, earlier fully written down as an actual loss.

Both the provision for actual loan losses for the year and the reversal of previous years' reserves as specified above related to claims on the public.

## Note 9

## Allocations

	PARENT COMPANY	
	2002	2001
Depreciation over plan	(2)	–
Provision for allocation reserve	(44)	(39)
Reversal of allocation reserve	143	129
<b>Total</b>	<b>97</b>	<b>90</b>

## Note 10

## Tax on the year's result

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Result before tax	618	541	133	116
Non-deductible expenses	1	2	0	0
Non-taxable income	(2)	(0)	(0)	(0)
Taxable income	617	543	133	116
Current tax rate	28%	28%	28%	28%
Tax on the year's result	173	152	37	32
– of which current tax cost	160	141	37	32
– of which deferred tax cost related to change in untaxed reserves	13	11	–	–

## Note 11

## Eligible Treasury Bills, etc.

	GROUP						PARENT COMPANY					
	2002			2001			2002			2001		
	Acqu. value	Actual value	Book value	Acqu. value	Actual value	Book value	Acqu. value	Actual value	Book value	Acqu. value	Actual value	Book value
Current assets:												
Swedish Treasury Bills	1,077	1,077	1,077	2,549	2,548	2,549	1,077	1,077	1,077	2,549	2,548	2,549
Swedish Government bonds	92	106	92	92	99	92	92	106	92	92	99	92
Fixed assets:												
Swedish Government bonds	–	–	–	–	–	–	–	–	–	–	–	–
<b>Total eligible Treasury Bills, etc.</b>	<b>1,169</b>	<b>1,183</b>	<b>1,169</b>	<b>2,641</b>	<b>2,647</b>	<b>2,641</b>	<b>1,169</b>	<b>1,183</b>	<b>1,169</b>	<b>2,641</b>	<b>2,647</b>	<b>2,641</b>
Positive difference as a result of book values exceeding nominal values (acquisition at a premium)			–			–			–			–
Negative difference as a result of nominal values exceeding book values (acquisition at a discount)			(3)			(21)			(3)			(21)
<i>Holding of Eligible Treasury Bills, etc., distributed by remaining term, book value</i>												
Up to 1 year			1,077			2,549			1,077			2,549
More than 1 year but 5 years at most			92			92			92			92
More than 5 years but 10 years at most												
More than 10 years												
<b>Total</b>			<b>1,169</b>			<b>2,641</b>			<b>1,169</b>			<b>2,641</b>
Average remaining term, years			0.2			0.3			0.2			0.3
Average remaining fixed-interest term, years			0.1			0.2			0.1			0.2

The securities portfolio reported in this note and in notes 12 and 14 contains instruments acquired in order to cover interest rate risks in fixed-interest borrowing as well as investments of liquid funds in short-term interest-bearing instruments.

The unrealised excess value of the instruments intended to cover interest-rate risks for matching borrowing in these holdings, which amounted to SEK 14 million (37 million) on 31 December 2002, has not therefore been included in the calculation of the actual value of the portfolio.

A corresponding undervalue exists in SBAB's long-term borrowing in Swedish kronor.

**Note 12** Lending to credit institutions

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
<i>Outstanding claims distributed by remaining term, net book value</i>				
Payable on demand	581	548	571	544
3 months at most	–	4,593	–	4,593
More than 3 months but 1 year at most	–	–	–	–
More than 1 year but 5 years at most	–	–	–	–
More than 5 years	–	–	–	–
<b>Total credit institutions</b>	<b>581</b>	<b>5,141</b>	<b>571</b>	<b>5,137</b>
Average remaining term, years	<b>0.0</b>	0.0	<b>0.0</b>	0.0
Group companies	–	–	<b>130,071</b>	134,232
<b>Total</b>	<b>581</b>	<b>5,141</b>	<b>130,642</b>	<b>139,369</b>

Subordinated debenture loans issued by the subsidiaries, SBAB, Sveriges Bostadsfinansieringsaktiebolag and SBAB, Statens Bostadslåneaktiebolag to the parent company amounted to SEK 1,600 million and SEK 1,032 million respectively.

**Note 13** Lending to the public

	GROUP	
	2002	2001
Opening balance	137,755	140,087
Lending for the year	15,144	23,638
Securitisation, net	555	(9,282)
Amortisation, writing down, redemption, etc.	(19,223)	(16,688)
Closing balance	134,231	137,755
Reserve for probable credit losses	(391)	(325)
Closing balance	133,840	137,430
of which:		
Subordinated assets	–	–
<i>Claims outstanding distributed by remaining term, net book value</i>		
Payable on demand	–	–
3 months at most	16,888	20,429
More than 3 months but 1 year at most	64,584	53,100
More than 1 year but 5 years at most	41,872	52,923
More than 5 years	10,496	10,978
<b>Total</b>	<b>133,840</b>	<b>137,430</b>
Average remaining term, years	<b>1.6</b>	1.8

	GROUP	
	2002	2001
<b>NON-PERFORMING LOANS AND PROBLEM LOANS</b>		
a) Non-performing loans, not categorised as problem loans, on which interest is taken up as income	294	502
b) Doubtful loans on which interest will not be taken up before payment	282	276
c) Loans for which the interest rate has been reduced below the prevailing market interest rates	1	1
d) Total problem loans (b+c)	283	277
e) Reserve for probable loan losses on doubtful loans	391	325
f) Estimated value of problem loans before write-offs for probable loan losses	674	602
g) Income during the accounting period on problem loans under d)	20	23
h) Income during the accounting period as a percentage of the average book value of problem loans under d)	6.2%	5.3%
i) Annual percentage return on loans that are not problem loans	5.5%	5.5%



cont'd Note 13

Group	2002				2001			
	FriSpar Bolån AB	SBAB, Statens Bostadslåne-aktiebolag	SBAB, Sveriges Bostadsfinansierings-aktiebolag	Total	FriSpar Bolån AB	SBAB, Statens Bostadslåne-aktiebolag	SBAB, Sveriges Bostadsfinansierings-aktiebolag	Total
DISTRIBUTION OF LENDING BY CATEGORY OF BORROWER								
Municipal housing companies	–	3,799	21,527	25,326	–	4,631	25,237	29,868
Tenant-owner co-operatives	–	13,716	24,764	38,480	–	14,960	25,289	40,249
Private rental housing	–	6,471	22,374	28,845	–	7,458	22,329	29,787
Single-family homes	5,675	6,474	19,457	31,606	4,184	7,723	16,321	28,228
Tenant-owner apartments	467	5	4,802	5,274	302	5	3,413	3,720
Commercial properties	–	1	4,699	4,700	–	1	5,902	5,903
Reserve for probable losses	–	(150)	(241)	(391)	–	(142)	(183)	(325)
<b>Total</b>	<b>6,142</b>	<b>30,316</b>	<b>97,382</b>	<b>133,840</b>	<b>4,486</b>	<b>34,636</b>	<b>98,308</b>	<b>137,430</b>
Proportion of lending covered by government or municipal guarantees, per cent	0	21	27	25	0	22	31	28

Loans held by SBAB, Statens Bostadslåneaktiebolag have an average fixed-interest term of 1.7 years (1.8 years).

Loans held by SBAB, Sveriges Bostadsfinansieringsaktiebolag have an average fixed-interest term of 1.4 years (1.6 years).

Loans held by FriSpar Bolån AB have an average fixed-interest term of 1.3 years (1.4 years).

The average fixed interest term for the Group is 1.5 years (1.6 years).

If prepayment takes place between the dates for interest rate adjustment, SBAB has the right to receive compensation for the interest rate difference. The size of the compensation in the case of owner-occupied homes is based on the interest rate on the loan compared with the interest rate on government bonds/treasury bills with a comparable remaining term up to the interest adjustment date + 1 %. For other loans the reinvestment interest rate for comparable government certificates is the applicable interest rate.

In addition to mortgage security in pledged property, SBAB has received a municipal or government guarantee as collateral for the borrower's commitments in certain cases. The proportion of loans covered by this type of guarantee is shown in the table above.

Loans granted but not yet advanced amounted to SEK 3 715 million (4 085 million).

At the end of the year the group's loans to Board Members amounted to SEK 1.7 million and to leading officials to SEK 1.0 million. These loans are covered by bank-standard security.

NON-PERFORMING LOANS AND PROBLEM LOANS DISTRIBUTED BY CATEGORY OF BORROWER	2002					2001				
	Tenant-owner cooperatives	Private rental housing	Single-family homes	Tenant-owner apartments	Total	Tenant-owner cooperatives	Private rental housing	Single-family homes	Tenant-owner apartments	Total
Non-performing loans	127	119	43	5	294	181	262	46	13	502
Problem loans, gross	498	176			674	482	120			602
Specific provisions for individually assessed loans	(228)	(66)			(294)	(249)	(68)			(317)
Collectively made provisions for individually assessed loans	(66)	(24)			(90)					
Provisions for collectively assessed homogenous groups of loans			(7)	(0)	(7)			(7)	(1)	(8)
<b>Problem loans, net</b>					<b>283</b>					<b>277</b>

RESTRUCTURED LOAN CLAIMS	GROUP	
	2002	2001
Booked value of restructured loans during the financial year		
– before restructuring	318	227
– after restructuring	321	227
Booked value of doubtful loans which reverted to normal during the year	30	12

**Note 14** Bonds and other interest-bearing securities

	GROUP						PARENT COMPANY					
	2002			2001			2002			2001		
	Acqu. value	Actual value	Book value	Acqu. value	Actual value	Book value	Acqu. value	Actual value	Book value	Acqu. value	Actual value	Book value
<i>Current assets:</i>												
Swedish housing mortgage institutions	-	-	-	108	139	108	-	-	-	108	139	108
Other financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Total bonds and other interest bearing securities	-	-	-	108	139	108	-	-	-	108	139	108
of which:												
Securities listed on stock exchange	-	-	-	108	139	108	-	-	-	108	139	108
Positive difference between book value and nominal value (acquisition at a premium)	-	-	-	-	-	3	-	-	-	-	-	3

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
<i>Holdings of interest-bearing securities distributed by remaining term, book value</i>				
Up to 1 year	-	108	-	108
More than 1 year but 5 years at most	-	-	-	-
More than 5 years but 10 years at most	-	-	-	-
More than 10 years	-	-	-	-
<b>Total</b>	-	108	-	108
Average remaining term, years	-	0.4	-	0.4
Average remaining fixed-interest term, years	-	0.2	-	0.2

**Note 15** Shares and participations in group companies

	PARENT COMPANY	
	2002	2001
Group companies, credit institutions, unlisted	2,722	2,722
Other, listed	0	0
<b>Total</b>	<b>2,722</b>	<b>2,722</b>

GROUP COMPANIES	Result	Equity Capital	Share, %	Number	Book value	
SBAB, Sveriges Bostadsfinansieringsaktiebolag						
556430-2767 Stockholm	2001	219	2,298	100%	45,850	1,600
	2002	242	2,540	100%	45,850	1,600
SBAB, Statens Bostadslåneaktiebolag						
556478-9641 Stockholm	2001	57	1,603	100%	86,000	1,122
	2002	73	1,676	100%	86,000	1,122
Total 2001			3,901			2,722
<b>Total 2002</b>			<b>4,216</b>			<b>2,722</b>

SBAB, Sveriges Bostadsfinansieringsaktiebolag	Result	Equity Capital	Share, %	Number	Book value	
FriSpar Bolån AB						
556248-3338, Stockholm	2001	1	201	51%	6,120	102
	2002	2	303	51%	6,120	153

**Note 16** Tangible assets

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
<b>EQUIPMENT AND OTHER INVENTORY</b>				
Acquisition value at the beginning of the year	118	112	118	112
– Purchases during the year	10	13	10	13
– Sales and disposals during the year	(2)	(7)	(2)	(7)
Acquisition value at the end of the year	126	118	126	118
Depreciation at the beginning of the year	(90)	(80)	(90)	(80)
– Depreciation for the year according to plan	(12)	(15)	(12)	(15)
– Sales and disposals during the year	1	5	1	5
Accumulated depreciation according to plan	(101)	(90)	(101)	(90)
<b>Net book value</b>	<b>25</b>	<b>28</b>	<b>25</b>	<b>28</b>
<b>PROPERTY BOUGHT TO PROTECT CLAIMS</b>				
Opening balance	0	0	–	–
Bought property	–	–	–	–
Sold property	–	–	–	–
Closing balance	0	0	–	–
<b>Total tangible assets</b>	<b>25</b>	<b>28</b>	<b>25</b>	<b>28</b>
<b>SPECIFICATION OF PROPERTIES BOUGHT-IN TO PROTECT CLAIMS</b>				
	2002	2001		
Number of properties	1	1		
Book value	0	0		
Actual value	0	0		

**Note 17** Other assets

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Clearing reserve	1,000	51	1,000	51
Past-due interest	147	192	–	–
Tax receivable	–	37	–	–
Receivable-securitisation company	319	273	–	–
Other receivable	17	10	10	9
<b>Total</b>	<b>1,483</b>	<b>563</b>	<b>1,010</b>	<b>60</b>

Of the securitisation company receivable, SEK 180 million (138 million) is subordinated.

**Note 18** Pre-paid costs and accrued income

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Pre-paid costs	38	22	38	22
Accrued interest income	672	774	13	12
Other accrued income	10	18	–	–
<b>Total</b>	<b>720</b>	<b>814</b>	<b>51</b>	<b>34</b>

**Note 19** Debt to credit institutions

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
<i>Outstanding debts distributed by remaining term, book value</i>				
Payable on demand	–	–	–	–
3 months at most	6,300	4,942	6,289	4,929
More than 3 months but 1 year at most	–	–	–	–
More than 1 year but 5 years at most	–	–	–	–
More than 5 years	–	–	–	–
<b>Total</b>	<b>6,300</b>	<b>4,942</b>	<b>6,289</b>	<b>4,929</b>
of which:				
Credit institutions	6,300	4,942	6,289	4,929
Average remaining term, years	0.0	0.0	0.0	0.0

**Note 20** Bonds issued, etc.

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Swedish certificates	18,377	8,259	18,377	8,259
Foreign certificates	16,015	19,622	16,015	19,622
<b>Total</b>	<b>34,392</b>	<b>27,881</b>	<b>34,392</b>	<b>27,881</b>
Swedish bonds	43,079	60,983	43,379	61,183
Accrued premiums and discounts on issue of Swedish bonds	340	561	340	561
<b>Total</b>	<b>43,419</b>	<b>61,544</b>	<b>43,719</b>	<b>61,744</b>
Foreign bonds	45,151	43,064	45,151	43,064
Accrued premiums and discounts on issue of foreign bonds	8	9	8	9
<b>Total</b>	<b>45,159</b>	<b>43,073</b>	<b>45,159</b>	<b>43,073</b>
<b>Total bonds issued, etc.</b>	<b>122,970</b>	<b>132,498</b>	<b>123,270</b>	<b>132,698</b>
of which:				
Group companies	–	–	300	200
<i>Bonds issued, etc. distributed by remaining term, book value</i>				
Up to 1 year	84,575	76,650	84,825	76,650
More than 1 year but 5 years at most	30,401	47,167	30,451	47,367
More than 5 years but 10 years at most	7,206	7,625	7,206	7,625
More than 10 years	788	1,056	788	1,056
<b>Total</b>	<b>122,970</b>	<b>132,498</b>	<b>123,270</b>	<b>132,698</b>
Average remaining term, years	1.3	1.6	1.3	1.6
Average remaining fixed-interest term, years	1.6	1.7	1.6	1.7

**Note 21** Other liabilities

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Creditors	47	26	47	26
Employees' income tax	4	4	0	0
Tax liabilities	6	29	8	5
Liabilities to borrowers	204	174	–	–
Other	25	30	1	24
<b>Total</b>	<b>286</b>	<b>263</b>	<b>56</b>	<b>55</b>



**Note 22** Accrued costs and pre-paid income

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Accrued interest costs	1,781	2,026	1,784	2,028
Other accrued costs	94	60	67	42
Pre-paid income	–	–	–	–
<b>Total</b>	<b>1,875</b>	<b>2,086</b>	<b>1,851</b>	<b>2,070</b>

**Note 23** Allocations

	GROUP	
	2002	2001
Provisions for deferred tax in the group		
– Tax allocation reserve	211	199
– Depreciation according to plan	1	–
<b>Total</b>	<b>212</b>	<b>199</b>

**Note 24** Subordinated debt

LOAN CODE <i>Subordinated debenture loan</i>	Nominal amount 31 Dec 2002	Outstanding Nominal amount 31 Dec 2002	Entitlement to redeem for SBAB	Interest rate 31 Dec 2002	Due date	Book value	
						2002	2001
USD 1	–	–				–	807
JPY 2	10,000,000,000	10,000,000,000		6.00	15-11-16	760	760
NLG 1	–	–				–	51
JPY 1	10,000,000,000	10,000,000,000	2008	6.20	Perpetual	722	722
USD 3	–	–				–	78
<b>Total</b>						<b>1,482</b>	<b>2,418</b>
Year's share of discounts and premiums on issue of own subordinated debt						–	–
<b>Total</b>						<b>1,482</b>	<b>2,418</b>
of which:							
Group companies						–	–

All funding for the group is raised by the parent company. Subordinated debenture loans are subordinate to the company's other debts, which means that they carry an entitlement to payment only when other creditors have received payment.

All subordinated debenture loans have been taken on conditions approved by the Swedish Financial Supervisory Authority. Permission has been obtained to include these in the company's capital base for the purpose of calculating the company's capital cover.

USD 1 became due 7 October 2002. NLG was redeemed 11 September 2002. USD 3 was redeemed 19 September 2002.

**Subordinated debt is distributed on the two following loans****JPY 1**

The loan is undated.

Interest rate: For the period 30 September 1992 to 29 March 2008, 6.20%. For the period 30 March 2008 to 29 March 2013 the higher of 8.20% and the long-term prime rate for JPY plus a margin of 2%. For the period 30 March 2013 and thereafter the higher of the interest rate fixed for the period 30 March 2008 to 29 March 2013 and the long-term prime rate for JPY for the period plus a margin of 3%.

**JPY 2**

Term: 16 November 1995–16 November 2015.

Interest rate: SBAB can choose to pay interest in DEM, AUD or USD with an interest rate of 6.00, 6.10 and 6.80% respectively.

**Circumstances which can lead to early redemption of the subordinated debenture loans**

SBAB may call the above loans for early redemption if SBAB for instance is required to withhold tax on interest payment as a result of amendments to tax legislation. SBAB also has the right to call JPY 1 for early redemption as of 30 March 2008 and thereafter every fifth year on the interest payment date that falls in March.

The loans can be called for early redemption by the lenders as a result of events of default such as non-payment of interest due to the commencement of bankruptcy or debt readjustment proceedings in respect of SBAB. Undated subordinated debenture loans, such as JPY 1, or subordinated debenture loans with fixed maturity issued after 1 January 1996 (at other date than when the issuer has the right to early redemption) may only be repaid with the permission of the Swedish Financial Supervisory Authority. Early redemption of subordinated debenture loans with fixed maturity issued before 1 January 1996, such as JPY2, should be advised to the Swedish Financial Supervisory Authority.

cont'd Note 24

**Conditions concerning subordination**

In the event of the company going into bankruptcy or liquidation, lenders holding subordinated notes have the right to payment from the company's assets after other creditors. Lenders holding subordinated notes of fixed maturity have right to payment before holders of undated subordinated loans but have equal right to other holders of fixed maturity subordinated notes.

Holders of undated subordinated loans have equal right to receive payment. Subordinated loans which are undated can be converted to equity capital. This may be done to meet losses in order to avoid bankruptcy or liquidation.

**Note 25** Untaxed reserves

	PARENT COMPANY	
	2002	2001
Tax allocation reserve year of taxation 1997	–	143
Tax allocation reserve year of taxation 1998	17	17
Tax allocation reserve year of taxation 1999	15	15
Tax allocation reserve year of taxation 2000	25	25
Tax allocation reserve year of taxation 2001	24	24
Tax allocation reserve year of taxation 2002	39	39
Tax allocation reserve year of taxation 2003	44	–
Depreciation according to plan	2	–
<b>Total</b>	<b>166</b>	<b>263</b>

**Note 26** Equity capital

The share capital amounts to SEK 1,958,300 thousand divided into 19,583 shares each with a nominal value of SEK 100 thousands. All of the shares are owned by the Swedish State.

GROUP	Share capital	Legal reserve	Share of untaxed reserves in equity capital	Profits brought forward	Result for the year	Total equity capital
Opening balance	1,958	392	511	971	388	4,220
Profit from 2001 brought forward	–	–	–	388	(388)	0
Dividend	–	–	–	(120)	–	(120)
Change in share of untaxed reserves in equity capital	–	–	34	(34)	–	0
Profit for the year	–	–	–	–	444	444
<b>Closing balance</b>	<b>1,958</b>	<b>392</b>	<b>545</b>	<b>1,205</b>	<b>444</b>	<b>4,544</b>

PARENT COMPANY	Share capital	Legal reserve	Share of untaxed reserves in equity capital	Profits brought forward	Result for the year	Total equity capital
Opening balance	1,958	392	–	95	84	2,529
Profit from 2001 brought forward	–	–	–	84	(84)	0
Dividend	–	–	–	(120)	–	(120)
Profit for the year	–	–	–	–	96	96
<b>Closing balance</b>	<b>1,958</b>	<b>392</b>	<b>–</b>	<b>59</b>	<b>96</b>	<b>2,505</b>

**Note 27** Assets pledged for own liabilities

	GROUP				PARENT COMPANY			
	2002		2001		2002		2001	
	Nominal amount	Book amount	Nominal amount	Book amount	Nominal amount	Book amount	Nominal amount	Book amount
Mortgages	–	–	–	–	–	–	–	–
Securities	80	79	70	69	80	79	70	69
Other collateral	–	–	–	–	–	–	–	–
<b>Total</b>	<b>80</b>	<b>79</b>	<b>70</b>	<b>69</b>	<b>80</b>	<b>79</b>	<b>70</b>	<b>69</b>

## Note 28

## Off-balance sheet commitments

	GROUP		PARENT COMPANY	
	2002 Nominal amount	2001 Nominal amount	2002 Nominal amount	2001 Nominal amount
<i>Future commitments</i>				
– Agreements on the purchase and sale of forward securities contracts	–	–	–	–
– Other commitments to future payments	–	–	–	–
<i>Interest rate- and currency-related contracts</i>				
– Interest rate futures	–	–	–	–
– Currency futures	17,051	23,610	17,051	23,610
– Interest and currency swaps	164,181	180,750	164,181	180,750
<i>Other commitments</i>				
– Loan commitments	3,715	4,085	–	–
– Unutilised credit facility	–	–	–	–
– Other commitments	–	–	–	–
<b>Total</b>	<b>184,947</b>	<b>208,445</b>	<b>181,232</b>	<b>204,360</b>

To limit the potential counterparty risk in derivative transactions, SBAB has entered into a number of so called security agreements which means that the parties have agreed beforehand on providing acceptable securities for exposures exceeding a certain so called threshold amount.

## Note 29

## Book values and actual values of items both on and off the Balance Sheet

	GROUP				PARENT COMPANY			
	Current assets		Fixed assets		Current assets		Fixed assets	
ASSETS	Book value	Actual value	Book value	Actual value	Book value	Actual value	Book value	Actual value
Cash in hand and balance								
in central banks	0	0	–	–	0	0	–	–
Eligible Treasury Bills, etc.	1,169	1,183	–	–	1,169	1,183	–	–
Lending to credit institutions	581	581	–	–	571	571	130,071	132,477
Lending to the public	–	–	133,840	136,316	–	–	–	–
Shares and participations, etc.	–	–	0	0	–	–	0	0
Shares and participations								
in group companies	–	–	–	–	–	–	2,722	2,722
Tangible assets	–	–	25	25	–	–	25	25
Other assets	1,483	1,483	–	–	1,010	1,010	–	–
Pre-paid costs and accrued income	720	720	–	–	51	51	–	–
<b>Total assets</b>	<b>3,953</b>	<b>3,967</b>	<b>133,865</b>	<b>136,341</b>	<b>2,801</b>	<b>2,815</b>	<b>132,818</b>	<b>135,224</b>
LIABILITIES	Book value	Actual value			Book value	Actual value		
Liabilities to credit institutions	6,300	6,288			6,289	6,277		
Borrowing from the public	–	–			–	–		
Bonds issued, etc.	122,970	123,827			123,270	124,129		
Other liabilities	286	286			56	56		
Accrued costs and pre-paid income	1,875	1,875			1,851	1,851		
Allocations	212	212			–	–		
Subordinated debt	1,482	1,466			1,482	1,466		
<b>Total liabilities</b>	<b>133,125</b>	<b>133,954</b>			<b>132,948</b>	<b>133,779</b>		
POSITIONS NOT REPORTED ON THE BALANCE SHEET		Actual value				Actual value		
Positive positions		870				870		
Negative positions		2,604				2,604		
DURATION		År				År		
Assets		1.4				1.4		
Liabilities		1.5				1.5		

In order to arrive at the actual value of borrowing and lending at fixed interest rates, the future cash flows from the year-end up to first interest rate adjustment date have been discounted to give a present value. In arriving at the present value of SBAB's lending, the interest rates on SBAB's borrowing at year-end have been used as the discount rate, adding a margin for administration costs. To calculate the present value of SBAB's borrowing, interest rates on SBAB's borrowing at year-end have been used as the discount rate. It should be noted that reported information of actual value does not constitute an evaluation of SBAB as a company.

**Note 30** Booked, actual and nominal values of derivatives

GROUP DERIVATIVES WITH POSITIVE OR ZERO VALUES	2002		2001	
	Nominal value	Actual value	Nominal value	Actual value
<i>– not reported in the Balance Sheet</i>				
< 1 year interest swaps	19,975	297	15,580	466
> 1 year interest swaps	11,888	564	34,331	675
< 1 year interest and currency swaps	10,673	589	46,244	1,811
> 1 year interest and currency swaps	14,122	926	10,440	2,375
< 1 year equity-linked derivative contracts	125	10	17	2
> 1 year equity-linked derivative contracts	0	0	281	53
<b>Total</b>	<b>56,783</b>	<b>2,386</b>	106,893	5,382

GROUP DERIVATIVES WITH NEGATIVE VALUES	2002		2001	
	Nominal value	Actual value	Nominal value	Actual value
<i>– not reported in the Balance Sheet</i>				
< 1 year interest swaps	18,094	288	16,864	574
> 1 year interest swaps	59,428	2,255	54,312	1,621
< 1 year interest and currency swaps	34,205	2,418	16,662	727
> 1 year interest and currency swaps	12,065	957	9,014	1,115
< 1 year equity-linked derivative contracts	52	0	48	2
> 1 year equity-linked derivative contracts	605	65	566	68
<b>Total</b>	<b>124,449</b>	<b>5,983</b>	97,466	4,107

Derivatives for hedging accounting – see Accounting principles – “Reporting of financial instruments”.

**Note 31** Fixed-interest terms for financial assets and liabilities

	<3 months	3–6 months	6–12 months	1–5 years	>5 years	TOTAL
<b>ASSETS</b>						
Cash in hand and balance in central banks	0	–	–	–	–	0
Eligible Treasury Bills	1,090	79	–	–	–	1,169
Lending to credit institutions	581	–	–	–	–	581
Lending to the public	47,140	6,596	28,792	40,823	10,489	133,840
Other assets	2,175 *	28	22	3	–	2,228
<b>Total financial assets</b>	50,986	6,703	28,814	40,826	10,489	137,818
<b>LIABILITIES</b>						
Liabilities to credit institutions	6,300	–	–	–	–	6,300
Bonds issued, etc.	66,498	4,987	29,480	16,001	6,004	122,970
Other liabilities	1,343 **	572	458	–	–	2,373
Subordinated debt	1,482	–	–	–	–	1,482
<b>Total financial liabilities</b>	75,623	5,559	29,938	16,001	6,004	133,125
<b>POSITIONS NOT REPORTED ON THE BALANCE SHEET</b>						
Long positions	59,825	1,205	19,035	8,051	3,302	91,418
Short positions	(32,013)	(2,539)	(14,819)	(33,909)	(8,138)	(91,418)
Difference between assets and liabilities including positions off the Balance Sheet	3,175	(190)	3,092	(1,033)	(351)	4,693
Cumulative interest rate sensitivity	3,175	2,985	6,077	5,044	4,693	

\* in the amount are not included non-interest-bearing assets amounting to SEK 1,579 million

\*\* in the amount are not included non-interest-bearing liabilities amounting to SEK 590 million

The interest period for assets and liabilities which are amortised is calculated as the period up to the date the respective amortisation is due.



**Note 32** Distribution of security for balance sheet and off balance sheet items

DISTRIBUTION OF SECURITY	Municipal guarantee	Municipal responsibility for losses	Government credit guarantee	Bank guarantee	Mortgage	Other	Total	Of which off balance sheet
Investments						2,181	2,181	
Derivative contracts						1,257	1,257	1,257
Credit institutions						587	587	
Other companies								
– Tenant-owner cooperatives	5,979	82	2,957		29,555		38,573	148
– Private multi-family housing	1,001	38	1,493	150	26,894		29,576	640
– Office properties	98				4,796		4,894	165
– Other companies						431	431	35
Households								
– Single-family homes	9	1,958	451		31,720		34,138	2,363
– Owner-occupied apartments						5,603	5,603	298
Public sector								
– Municipal housing companies	22,600	1			2,984		25,585	101
<b>Total</b>	<b>29,687</b>	<b>2,079</b>	<b>4,901</b>	<b>150</b>	<b>95,949</b>	<b>10,059</b>	<b>142,825</b>	<b>5,007</b>

**Note 33** Genuine repurchase transactions

	GROUP		PARENT COMPANY	
	2002	2001	2002	2001
Amount borrowed by the sale of securities with the subsequent repurchase of corresponding assets included in the following items in the Balance Sheet:				
– Debt to credit institutions	6,289	4,929	6,289	4,929
– Borrowing from the public	–	–	–	–
Amount lent by the purchase of securities with the subsequent sale of corresponding assets included in the following items in the Balance Sheet:				
– Lending to credit institutions	–	4,593	–	4,593
– Lending to the public	–	–	–	–

# Proposed Appropriation of Profit

The group's free equity capital according to the group balance sheet amounts to SEK 1,649 million, of which the year's result amounts to SEK 444 million. No allocation to restricted reserves is necessary.

The Board of Directors and the Managing Director propose that the funds which according to the Balance Sheet of the parent company are at the disposal of the Annual General Meeting, namely, profits brought forward SEK 59 million and the year's result, SEK 96 million are appropriated as follows:

To the share holder, a dividend of SEK 6,995 per share	SEK 137 million
And carried forward	SEK 18 million
<hr/>	<hr/>
Total disposed	SEK 155 million

Stockholm, 20 February 2003

Ingemar Eliasson  
*Chairman*

Bo Marking

Jan Berg

Per Erik Granström

Kerstin Grönwall

Lars Linder-Aronson

Christina Ragsten Pettersson

Christer Malm  
*Managing Director*

Our audit report has been given on 21 February 2003

KPMG  
Per Bergman  
*Authorised Public Accountant*

Hans Lindén  
*Authorised Public Accountant*  
*Appointed by the Financial Supervisory Authority*

# Audit Report

To the General Meeting of the Shareholders of the Swedish National Housing Finance Corporation, SBAB (publ) Organisation number 556253-7513

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the Managing Director of the Swedish National Housing Finance Corporation, SBAB (publ) for the year 2002. These accounts and the administration of the Company are the responsibility of the Board of Directors and the Managing Director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any Board Member or the Managing Director. We also examined whether any Board Member or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Financial Operations Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and, thereby, give a true and fair view of the Company's and the Group's financial position and results of operations in accordance with generally accepted principles in Sweden.

We recommend to the General Meeting of Shareholders that the income statements and balance sheets of the Parent company and the Group be adopted, that the profit for the Parent company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, 21 February 2003

KPMG  
Per Bergman  
*Authorised Public Accountant*

Hans Lindén  
*Authorised Public Accountant*  
*Appointed by the Financial Supervisory Authority*

# Five Year Overview

SEK million	2002	2001	2000	1999	1998
Interest income	7,675	8,078	8,398	8,807	10,801
Interest expenses	6,500	7,009	7,500	8,023	9,958
<b>Net interest income</b>	<b>1,175</b>	1,069	898	784	843
Other operating income	(12)	(11)	(8)	(2)	9
<b>Total operating income</b>	<b>1,163</b>	1,058	890	782	852
Depreciation of tangible assets	12	15	16	15	18
Other operating expenses	459	447	393	382	337
<b>Total operating expenses before loan losses</b>	<b>471</b>	462	409	397	355
<b>Operating income before loan losses</b>	<b>692</b>	596	481	385	497
Loan losses including change in value of repossessed property	74	55	12	(12)	1
<b>Net operating income</b>	<b>618</b>	541	469	397	496
Loan portfolio	133,840	137,430	139,734	145,543	144,660
Other assets	3,978	9,295	11,359	5,439	10,644
<b>Total assets</b>	<b>137,818</b>	146,725	151,093	150,982	155,304
Bonds issued, etc.	122,970	132,498	129,206	138,552	138,854
Other liabilities	8,461	7,291	15,470	6,453	10,670
Provision for deferred tax	212	199	188	177	170
Subordinated debt	1,482	2,418	2,221	2,114	2,113
Equity capital incl. minority shareholding	4,693	4,319	4,008	3,686	3,497
<b>Total liabilities and equity capital</b>	<b>137,818</b>	146,725	151,093	150,982	155,304
Number of employees (annual average)	388	368	365	374	312
New lending (SEK million)	15,144	23,638	21,930	22,523	22,723
Loan losses (per cent of lending)	0.06%	0.04%	0.01%	-0.01%	0.00%
Problem loans, after provisions (SEK million)	283	277	542	668	863
Equity ratio (unadjusted)	3.6%	3.1%	2.8%	2.6%	2.4%
Equity ratio	3.4%	2.9%	2.7%	2.4%	2.3%
Capital ratio	10.0%	9.5%	9.7%	9.5%	10.6%
Primary capital ratio	7.8%	7.0%	6.8%	6.5%	6.9%
Return on equity capital, tax at standard rate	10.2%	9.6%	8.9%	8.0%	10.5%
Return on equity capital, actual tax	10.1%	9.5%	8.8%	7.9%	10.5%
I/E ratio, excluding loan losses	2.5	2.3	2.2	2.0	2.4
I/E ratio, including loan losses	2.1	2.0	2.1	2.0	2.4
Investment margin	0.83%	0.72%	0.59%	0.51%	0.57%

## Definitions of key ratios

**Number of employees** · permanent and temporary employees (annual average).

**New lending** · paid-out term loans.

**Loan losses as a percentage of lending** · loan losses in relation to lending at the year-end.

**Problem loans after provisions** · doubtful claims and claims on which the interest rate has been reduced in relation to the market interest rate.

**Equity ratio (unadjusted)** · equity capital, minority share holding and deferred tax liability in relation to total assets at year-end.

**Equity ratio** · equity capital incl. minority share holding in relation to total assets at year-end.

**Capital ratio** · Capital base/risk-weighted assets.

**Primary capital ratio** · primary capital/risk-weighted assets.

**Rate of return on equity capital** · operating income after tax at the standard and actual rate respectively in relation to average equity capital.

**I/E ratio excl. loan losses** · total income/ (total operating expenses - loan losses).

**I/E ratio incl. loan losses** · total income/ total operating expenses.

**Investment margin** · net interest income in relation to average assets.



# Outstanding Bond Issues

## DOMESTIC BOND ISSUES

Bond No.	Interest rate %	Issue date		Original amount	Interest payment dates	Repayment period	Next interest adjustment	Outstanding bond debt
		Year	Day	SEK million		Year	Year	31 Dec 2002
								SEK million
117	5.50	1997	15/10	40,424	15/10	2003	–	27,170
118	5.50	1997	17/12	8,885	17/12	2008	–	5,278
119	5.50	1998	15/3	8,769	15/3	2006	–	5,809
120	5.00	2002	15/6	4,902	15/6	2005	–	4,752
<b>Bond loans total</b>				<b>62,980</b>				<b>43,009</b>
Other loans						2003		70
Other loans, total								70
<b>Total domestic loans</b>								<b>43,079</b>

## CERTIFICATES

Swedish Certificates	Limit approved	25,000
	Outstanding	18,377
ECP	Limit approved (USD)	1,000
	Outstanding	738
UCP	Limit approved (USD)	2,000
	Outstanding	1,030

## INTERNATIONAL BOND ISSUES

Bond No.	Interest rate %	Issue date		Original amount	Interest payment dates	Maturity-period/Year
		Year	Day			Year
DKK bond 1-6	4.0	1997	2/7	900	31/10	2003
Private Placement, Yen				11,200		2003–2004
EMTN USD, London		Limit approved		8,000		
		Outstanding		3,994		
<b>Total, SEK million</b>						<b>45,151</b>

All debt in foreign currencies has been swapped into SEK without any currency or interest rate risk for SBAB.

# Board of Directors, Auditors, Company Management and Boards of Subsidiaries

## Board of Directors

### Ordinary Members

**Ingemar Eliasson** (1939)  
Chairman,  
Former County Governor,  
County Administrative Board, Värmland

**Bo Marking** (1937)  
Deputy Chairman  
Financial Consultant

**Jan Berg** (1953)  
Master of Science and Engineering

**Per Erik Granström** (1942)  
Member of Parliament

**Kerstin Grönwall** (1948)  
Managing Director  
KPA Fonder AB

**Lars Linder-Aronson** (1953)  
Managing Director  
Ventshare Management AB

**Christer Malm** (1943)  
Managing Director,  
SBAB

**Christina Ragsten Petterson** (1958)  
Under-Secretary  
Ministry of Industry

## Auditors

**Per Bergman** (1946)  
Authorised Public Accountant  
KPMG

**Hans Lindén** (1948)  
Authorised Public Accountant,  
Öhrlings PriceWaterhouseCoopers,  
appointed by the Financial Supervisory Authority

## Executive Management

**Christer Malm**, Managing Director and  
Chief Executive Officer

**Peter Gertman**, Deputy Managing Director  
and Head of Lending

**Krister Orrell**, Deputy Managing Director,  
Head of MD-Staff

**Per Balazzi**, Deputy Head of MD Staff/HR

**Ricard Grundwall**, Head of Accounting

**Lena Hedlund**, Deputy Head of Lending,  
Local Manager, Karlstad

**Annelise Jansson**, Head of Information

**Christine Johansson**, Chief Legal Officer

**Göran Laurén**, Chief Financial Officer

**Bengt-Olof Nilsson Lalér**, Head of Credit  
Control

**Ulf Tingström**, Head of Business Support

## Boards of Subsidiaries

### SBAB, Statens Bostadslåneaktiebolag

**Christer Malm**, Chairman  
**Peter Gertman**  
**Lena Hedlund**  
**Göran Laurén**  
**Bengt-Olof Nilsson Lalér**  
**Krister Orrell**, Managing Director

### SBAB, Sveriges Bostadsfinansierings- aktiebolag

**Christer Malm**, Chairman  
**Peter Gertman**, Managing Director  
**Lena Hedlund**  
**Göran Laurén**  
**Bengt-Olof Nilsson Lalér**  
**Krister Orrell**

### FriSpar Bolån

**Lars-Olof Svensson**, Chairman  
**Thomas Bredgard**  
**Peter Gertman**  
**Samuel Hermelin**  
**Bengt Johansson**  
**Christer Malm**  
**Mats Nilsson**  
**Krister Orrell**

# Board of Directors



**Upper row from the left:**

**Lars Linder-Aronson**, Managing Director, Ventshare Management AB

**Per Erik Granström**, Member of Parliament

**Christer Malm**, Managing Director, SBAB

**Bo Marking**, Deputy Chairman, Financial Consultant

**Jan Berg**, Master of Science and Engineering

**In the sofa from the left:**

**Kerstin Grönwall**, Managing Director, KPA fonder AB

**Ingemar Eliasson**, Chairman, Former County Governor,  
County Administrative Board, Värmland

**Christina Ragsten Pettersson**, Under-Secretary, Ministry of Industry

# Executive Management



**Christer Malm**  
Managing Director and  
Chief Executive Officer

**Lena Hedlund**  
Deputy Head of Lending,  
Local Manager, Karlstad

**Peter Gertman**  
Deputy Managing Director  
and Head of Lending

**Annelise Jansson**  
Head of Information

**Göran Laurén**  
Chief Financial Officer

**Bengt-Olof Nilsson Lalér**  
Head of Credit Control

**Christine Johansson**  
Chief Legal Officer

**Krister Orrell**  
Deputy Managing Director,  
Head of MD-Staff

**Ulf Tingström**  
Head of Business Support

**Per Balazi**  
Deputy Head of MD Staff/HR

**Ricard Grundwall**  
Head of Accounting

# Addresses

## Head Office

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# Glossary

**Benchmark bond** – An actively traded, so called liquid bond. This bond's interest rate acts as a reference point in comparison with other current interest rates.

**Capital adequacy** – The ratio of equity capital to risk weighed assets of credit institutions that should conform to certain legal requirements.

**Counterparty risk** – The risk that the counterparty to a derivative contract is not able to fulfil his payment obligations.

**Credit facility** – Agreement giving a borrower the right to borrow for a certain amount and period on pre-agreed conditions.

**Credit spread** – Pricing difference between two different loans.

**Currency swap** – Agreement to exchange payment flows in one currency in exchange for another currency.

**Currency risk** – The risk arises when assets and liabilities of the flows that these generate are not of equivalent size in one and the same currency.

**Demography** – The science of population composition and population changes.

**Derivatives** – A financial contract, whose value depends on price movements in the underlying instrument, for instance bond, currency or share.

**EUR** – Abbreviation for the European currency Euro.

**Fixed interest term** – The period during which the interest rate on a loan is fixed and is not subject to change.

**Forward agreements** – Obligation to enter into a business transaction in the future.

**Future rate agreement** – Agreement regarding the sales and purchases of interest rate bearing securities (treasury bills, government or mortgage bonds) in the future.

**GAP-analysis** – An analysis of mismatched conditions between assets and liabilities in order to find time gaps in the maturities.

**Guarantee** – An undertaking, as regards the lender, to accept responsibility for the borrower's payment obligations, if the borrower should fail to fulfil his/her obligations.

**Interest rate risk** – The risk arises when the fixed interest terms related to assets and liabilities and off-balance sheet items do not coincide, thereby affecting the cash flow.

**Interest swap** – Agreement to exchange interest rate flows with another in order to have the interest rate changed from fixed to floating or vice versa.

**Internal rating model** – Calculation model showing the rate of interest that corresponds to the future estimated return of an investment converted into present value.

**Issuer** – Issuer of shares or other securities.

**JPY** – Abbreviation of the Japanese currency Yen.

**Liquidity risk** – The risk which arises if the company is not able to fulfil its payment obligations.

**Matching** – Assets and liabilities are accorded the same fixed interest rate periods.

**Maturity structure** – Distribution of remaining maturity.

**Mortgage (Pantbrev)** – Physical proof of a mortgage in a property. In Sweden, an official document registering 1st, 2nd lien etc. on a property.

**Option** – The right to enter into a transaction in the future.

**Option risk** – The risk of loss attached to an open contract containing an option element where the corresponding counter-availing contract is lacking.

**Primary capital ratio** – Expresses how large equity capital is in relation to the size of the loan portfolio and its distribution of risk.

**Priority of registered claim (lien)** – A mortgage's position in relation to other mortgages in a property regarding precedence of payment. Since it is possible to take out several mortgages over a property it is necessary to know which mortgage has the best right at a possible compulsory sale. In order to know in which order the mortgages have been taken out, its priority of registered claim is stated.

**Rating** – Assessment carried out by an independent rating institution of an issuer's credit-worthiness.

**Refinancing risk** – The risk arises when assets mature later than the corresponding liabilities. Should this situation arise, the assets have to be refinanced once or perhaps several times to maturity. The risk then arises that the necessary new funding can only be obtained to a higher price than was earlier the case.

**Registration** – Registration in a register of a certain amount in fixed or moveable property.

**Remaining maturity** – The remaining term left to the maturity date.

**Reverse spread risk** – The risk arises in those cases when interest rate cover is initially achieved through sales of government futures.

**Securitisation** – Financing technique which in principle means that a well defined portfolio of assets is converted into a tradable security.

**SEK** – Abbreviation of the Swedish currency kronor.

**Spread risk** – The risk of a change in the spread between the interest rates quoted by two issuers.

**Swap** – Agreement between two companies to exchange borrowings.

**Transparent** – Clear.

**USD** – Abbreviation of the American/US currency dollar.

**Vacancy rate** – Unlet area of a property estimated in per cent.

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