



Interim report

1 January – 30 September 2011

SBAB Bank AB (publ)

SBAB BANK



SBAB Bank's business operations are performing well. Deposits are growing steadily and loan losses remain very low. However, the wait-and-see approach of the housing market slowed the rate of new lending, causing lending to decline somewhat during the final quarter of the period.

SBAB Bank's strategy of early pre-funding of future bond maturities and extending the maturity of its funding has been positive as the cost of funding in the turbulent financial markets has increased. However, the effects of this turbulence on the market valuation of various financial instruments resulted in unrealised negative effects on operating profit.

Efforts to broaden SBAB Bank's operations continue and the aim is to offer the market additional bank products in 2012. Overall, SBAB Bank is well equipped to face continued uncertainties in the market.

Eva Cederbalk, CEO

January–September 2011

- Net interest income amounted to SEK 1,160 million (1,377).
- Operating profit totalled SEK 67 million (425).
- Operating profit excluding the net result of financial instruments amounted to SEK 606 million (859).
- Expenses amounted to SEK 490 million (444). The increase was according to plan and mainly due to the efforts to broaden the product offering.
- Loan losses remained very low and the net effect for the period was a positive SEK 20 million (neg: 39).
- Deposit volume amounted to SEK 7.1 billion (6.1).
- Lending volume totalled SEK 243.8 billion (249.1), and the market share was 9.1% (9.6).
- Without taking the transitional regulations into consideration, the Core Tier 1 capital ratio was 13.1% (14.1) and the Tier 1 capital ratio was 17.7% (19.1).
- The liquidity risk remained low and the maturity of funding was extended further.

Third quarter 2011

- Net interest income amounted to SEK 378 million (377).
- Operating profit rose SEK 163 million to SEK 197 million (34).
- New lending totalled SEK 7.0 billion (7.3).

All comparable figures in parentheses pertaining to income statement items and new lending refer to the year-earlier period, apart from quarter-specific figures for which the preceding quarter is the comparative period. For comparable figures pertaining to balance sheet items, capital adequacy and market share, the date of comparison is the preceding year-end.

Summary SBAB Bank Group	2011 Jan–Sep	2010 Jan–Sep	%	2010 Jan–Dec
Income statement				
Net interest income, SEK million	1,160	1,377	–16	1,762
Loan losses, net, SEK million	20	–39	n.a.	–40
Operating profit excl. net result of financial instruments, SEK million	606	859	–30	1,074
Operating profit/loss, SEK million	67	425	–84	785
Profit/loss after tax, SEK million	49	313	–84	577
Balance sheet				
Lending, SEK billion	243.8	247.8		249.1
Doubtful loan receivables after individual provisions, SEK million	32	33		31
Deposits, SEK billion	7.1	5.5		6.1
Key data				
Loan loss rate, % ¹⁾	neg	0.02		0.02
Return on equity, % ²⁾	0.8	5.5		7.5
Average number of employees	421	434		431
Capital adequacy				
Without transitional regulations				
Core Tier 1 capital ratio, %	13.1	13.6		14.1
Tier 1 capital ratio, %	17.7	18.6		19.1
Capital adequacy ratio, %	21.5	22.1		22.4
With transitional regulations				
Core Tier 1 capital ratio, %	6.4	6.2		6.4
Tier 1 capital ratio, %	8.6	8.5		8.7
Capital adequacy ratio, %	10.4	10.2		10.2
Rating				
SBAB Bank				
<i>Long-term funding</i>				
–Standard & Poor's	A+	A+		A+
–Moody's	A1	A1		A1
<i>Short-term funding</i>				
–Standard & Poor's	A-1	A-1		A-1
–Moody's	P-1	P-1		P-1
SCBC				
<i>Long-term funding</i>				
–Standard & Poor's	AAA	AAA		AAA
–Moody's	Aaa	Aaa		Aaa

¹⁾ Loan losses calculated on a full-year basis in relation to opening balance for lending to the public.

²⁾ Return on equity is calculated on a full-year basis.

This is a translation of the Swedish interim report. The auditor has not signed the translation for approval.

JANUARY–SEPTEMBER 2011

Operating results

SBAB Bank's operating profit amounted to SEK 67 million (425). The decline in operating profit was attributable to lower net interest income, a negative net result of financial instruments and increased expenses. The net result of financial instruments was primarily impacted by unrealised changes in the market value of various financial instruments¹⁾. Adjusted for the net result of financial instruments, operating profit amounted to SEK 606 million (859).

Loan losses remained very low and, due to recoveries, the net effect for the period was a positive SEK 20 million (neg: 39).

Net interest income and net commission income

SBAB Bank's net interest income for the interim reporting period amounted to SEK 1,160 million (1,377).

In the spring, SBAB Bank made a strategic decision to pre-fund a substantial share of the year's long-term funding requirements and to extend the maturity of its funding. This decision was made to reduce the company's liquidity risk. Accordingly, the interest expense for SBAB Bank's funding for the interim reporting period was significantly lower than it would have been otherwise since current funding costs are considerably higher.

Despite the positive effects of pre-funding, the decision also had an adverse impact on net interest income since the funding required short-term investments, which were made at a lower interest rate than the actual interest rate on funding.

Moreover, the increased share of covered bonds in the liquidity portfolio reduced interest income through its lower yield.

In total, SBAB Bank's decision regarding pre-funding had a negative impact of SEK 87 million on net interest income.

Although net interest income was impacted by lower lending volumes, this was offset by improved interest-rate margins.

Interest expenses during the period were impacted by the fact that hybrid loans and subordinated liabilities were SEK 22 million higher than in the year-earlier period.

The year-on-year change in net interest income was also explained by the year-earlier period's earnings from derivatives attributable to the repurchase of issued bonds being SEK 189 million higher.

Net commission income declined because, as of 2011, the full fee is being paid for the Government stability fund. The fee for the period was SEK 87 million (40).

Expenses

SBAB Bank's expenses amounted to SEK 490 million (444), of which personnel costs accounted for SEK 239 million (241) and depreciation/amortisation for SEK 20 million (19). Other expenses increased, primarily as a result of the focus on banking services. The expense to net interest income rate was 42 percent (32). The higher rate in the interim reporting period was partly attributable to increased expenses, but mainly to the higher net interest income in the year-earlier period.

Net result of financial instruments measured at fair value¹⁾

The net result of financial instruments for the interim period amounted to an expense of SEK 539 million (expense: 434).

The net result was impacted by changes in the market value of basis swaps. SBAB Bank's strategy of extending the maturity of its debt portfolio and diversifying its funding (refer to "Net interest income and net commission income" above) caused the company to become more sensitive to changes in the interest rates on basis swaps. In the third quarter, changes in basis

¹⁾ Fair-value recognition of derivatives

The currency and interest-rate risk involved in funding conducted in foreign currency is normally hedged throughout the maturity of the funding through currency interest-rate derivatives, known as basis swaps. According to the regulations, all derivatives are to be recognised at fair value (market value), with changes in fair value included in net income/expense from financial instruments measured at fair value. Major variations in the actual market value between the reporting periods could result in significant changes in the carrying amount and thus also in capital adequacy. However, changes in the form of losses/gains remain unrealised as long as the basis swap is not closed prematurely. Seen over the entire maturity of the funding in cases where the derivative is held to maturity, earnings are not affected by the accumulated changes since the market value of each derivative contract starts and ends at zero. The majority of SBAB Bank's basis swaps are held to maturity.

A corresponding accounting effect arises in the liquidity portfolio since the accounting policies that SBAB Bank applies entail that securities assets are measured at fair value (market value), while a large portion of SBAB Bank's liabilities are measured at amortised cost. Also in the case of securities assets, the market value will be recovered during the remaining maturity if the asset is held to maturity. The majority of SBAB Bank's securities are held to maturity.

Loan portfolio	30 Sep 2011		30 Sep 2010		31 Dec 2010	
SEK million	SBAB Bank Group*	Group incl. all of FriSpar	SBAB Bank Group*	Group incl. all of FriSpar	SBAB Bank Group*	Group incl. all of FriSpar
Retail lending	147,823	153,552	149,492	152,329	149,429	153,352
– new lending	14,878	17,311	25,297	27,537	31,333	34,631
Corporate lending (incl. tenant-owner associations)	96,007	96,062	98,282	98,364	99,674	99,732
– new lending	6,176	6,176	14,436	14,436	19,064	19,064
Total	243,830	249,614	247,774	250,693	249,103	253,084
– new lending	21,054	23,487	39,733	41,973	50,397	53,695

* In the SBAB Bank Group, 51% of the co-owned FriSpar Bolån AB (a partnership with Sparbanken Öresund AB (publ)) is consolidated in accordance with the proportional method.

swaps had a positive impact on earnings and reduced the accumulated negative effects during the period.

The net result of financial instruments was also adversely affected by the interest-rate differential between mortgage bonds and associated interest rate swaps. The sensitivity to these interest-rate differentials has increased as a result of the expansion of the liquidity portfolio.

The net result was also impacted by such items as accrual effects resulting from hedge accounting.

Loan losses

Loan losses remained very low. Loan losses for the first nine months of the year amounted to SEK 20 million (loss: 39), corresponding to a negative loan loss rate. Improved credit quality, primarily of corporate market loans, resulted in lower provisions to Group-wide reserves and reversals of prior reserves.

Lending

During the third quarter, SBAB Bank experienced weaker demand for residential mortgages and competition intensified further. At the end of the interim report period, lending declined to SEK 243.8 billion (249.1) and new lending totalled SEK 21.1 billion (39.7). SBAB Bank's total market share was 9.1 percent (9.6).

Lending to the retail market declined to SEK 147.8 billion (149.4). New lending totalled SEK 14.9 billion (25.3). The company's market share declined to 7.7 percent (8.1).

Lending to the corporate market and tenant-owner associations fell to SEK 96.0 billion (99.7). New lending amounted to SEK 6.2 billion (14.4). The market share for lending to tenant-owner associations was 17.6 percent (18.4).

Deposits

The number of deposit customers and opened savings accounts continued to rise. SBAB Bank's deposit products, which are characterised by competitive interest rates and straightforward product terms and conditions, continue to attract new customers. The aim is to offer the market additional bank products in 2012. SBAB Bank's deposit volume increased 16 percent during the period to SEK 7.1 billion (6.1).

Funding

SBAB Bank continued to follow its strategy of extending the maturity of its funding by issuing bonds with longer maturities and limiting the proportion of short-term debt. These activities are conducted to achieve a better balance between funding and lending and thus limit SBAB Bank's liquidity and financing risk.

The total value of debt securities in issue rose SEK 22.8 billion during the period to SEK 284.8 billion (262.0). The volume outstanding under the Government-guaranteed programme totalled SEK 11.5 billion (15.0) at the end of the period. Funding through the issuance of covered bonds takes place in SBAB Bank's wholly owned subsidiary The Swedish Covered Bond Corporation, SCBC. The total volume of covered bonds amounted to SEK 166.6 billion (155.3).

SBAB Bank attaches considerable importance to having a well-diversified funding portfolio. The table below shows SBAB Bank's utilisation of the funding programme in domestic and international capital markets.

Programme utilisation	30 Sep 2011
Swedish Commercial Paper Programme	SEK 12.4 billion
Swedish covered bonds	SEK 89.9 billion
European Commercial Paper Programme	USD 1,482 million
US Commercial Paper Programme	USD 1,131 million
Euro Medium Term Note Programme	EUR 8,153 million
Euro Medium Term Covered Note Programme	EUR 7,944 million
Guaranteed EMTN Programme	SEK 11.5 billion

Liquidity Reserve, SEK million	30 Sep 2011	Currency distribution			
		SEK	EUR	USD	Other
Securities issued or guaranteed by sovereigns, central or multinational development banks	7,927	2,368	4,950	333	276
Securities issued or guaranteed by municipalities or public sector entities	1,886	1,886	-	-	-
Covered bonds	20,360	10,500	9,303	-	557
Securities issued by financial corporations (excl. covered bonds)	9,585	-	8,102	614	869
Bank and loan facilities	2,485	2,485	-	-	-
Total	42,243	17,238	22,355	946	1,703
Currency distribution		41%	53%	2%	4%

SBAB Bank's liquidity portfolio comprises liquid, interest-bearing securities with a high rating and is an integrated part of the Group's liquidity risk management. Holdings in the portfolio are limited by asset class and by country, respectively, and must have the highest rating upon acquisition. In addition to these collective limits, limits for individual issuers may also be set.

Capital adequacy and risk

SBAB Bank reports credit risk mainly in accordance with the IRB approach, and reports operational and market risk in accordance with the standardised approach. The new Basel III framework imposes stricter requirements than before on the financial sector in respect of capital levels, the composition of the capital base and the size of the liquidity reserve. A decision regarding the proposed EU directive on Basel III, known as the "Capital Requirement Directive IV," is expected to be made in 2012 and implemented as of 1 January 2013. The proposal recommends that the transitional regulations in Basel II, which were intended to apply through 2011, should continue to apply through 2015. The adaptations will be implemented gradually until 2019, at which time the new regulations are to be fully implemented.

Without taking the transitional regulations into account, SBAB Bank's Capital adequacy ratio and Tier 1 capital ratio under Pillar 1 amounted to 21.5 percent (22.4) and 17.7 percent (19.1), respectively, at 30 September 2011. The Core Tier 1 capital ratio was 13.1 percent (14.1)

and the internally calculated capital requirement was SEK 6,614 million (6,463). The results for the period are included in the calculation of the capital ratios above. For information concerning capital ratios taking the transitional regulations into account, refer to the table on page 1.

The liquidity reserve increased during the period as a result of the higher share of pre-funding. At 30 September 2011, the liquidity reserve amounted to SEK 42.2 billion (40.9), corresponding to an MCO²⁾ of 151 days (63). The average number of MCO days during the period was 125 (79) and the lowest level was 48 days (36).

In parallel with the measurement and stress testing of MCO, SBAB Bank continuously develops stress tests and methods for monitoring and measuring the Group's liquidity risk. Part of this work involves continuously monitoring and adapting to new regulations for liquidity risk.

²⁾ Measurement of liquidity risk

SBAB Bank measures and stress tests liquidity risk by totalling the maximum conceivable need for liquidity for every day during the coming 365 days, known as the Maximum Cumulative Outflow (MCO). MCO calculations are based on a crisis scenario in which all loans are assumed to be extended on maturity, where no liquidity is added through loan redemption and where no funding is available. Accordingly, the maximum need for liquidity can be identified for every given future period, and the necessary liquidity reserve can be established.

PERFORMANCE IN THE THIRD QUARTER OF 2011 COMPARED WITH THE SECOND QUARTER OF 2011

Operating profit for the quarter rose to SEK 197 million (34). Net interest income was in line with the preceding quarter and amounted to SEK 378 million (377). Operating income totalled SEK 351 million (181). Net income from financial instruments measured at fair value amounted to SEK 5 million (expense: 172).

Expenses decreased between the quarters, primarily due to a decline in activity during the summer holiday period, and amounted to SEK 155 million (179).

The trend towards lower demand for residential mortgages and increased competition continued during the third quarter. In the third quarter, new lending declined to SEK 7.0 billion (7.3) and, despite a slight cumulative increase during the year, the overall portfolio decreased to SEK 243.8 billion (244.4).

New lending to the private market amounted to SEK 5.4 billion (5.3) and the market share was 7.7 percent (7.8).

New lending to the corporate market and tenant-owner associations declined to SEK 1.6 billion (2.0). SBAB Bank's market share for lending to tenant-owner associations decreased to 17.6 percent (17.8). Deposits

through SBAB Bank's savings products rose 14 percent to SEK 7.1 billion (6.2) at the end of the period.

The item "loan losses" was impacted positively by reversals of provisions and amounted SEK 1 million (32).

EVENTS AFTER THE BALANCE-SHEET DATE

Christer Löfdahl assumed the position of Chief Financial Officer of SBAB Bank on 3 October 2011.

Lena Smeby-Udesen resigned from her position as a member of the Board of SBAB Bank after accepting an executive position at Swedbank.

Stockholm, 28 October 2011

Eva Cederbalk
Chief Executive Office

Financial information

Year-end report

8 February 2012

Income statement

Group SEK million	2011 Q3	2011 Q2	2010 Q3	2011 Jan-Sep	2010 Jan-Sep	2010 Jan-Dec
Interest income	2,766	2,590	1,414	7,552	3,725	5,355
Interest expenses	-2,388	-2,213	-986	-6,392	-2,348	-3,593
Net interest income	378	377	428	1,160	1,377	1,762
Commission income	12	16	11	40	37	50
Commission expenses	-44	-40	-23	-124	-72	-94
Net income/expense from financial instruments measured at fair value	5	-172	-213	-539	-434	-289
Other operating income	0	0	0	0	0	0
Total operating income	351	181	203	537	908	1,429
Personnel costs	-72	-84	-73	-239	-241	-316
Other expenses	-76	-89	-54	-231	-184	-262
Depreciation of property, plant and equipment and amortisation of intangible fixed assets	-7	-6	-6	-20	-19	-26
Total expenses before loan losses	-155	-179	-133	-490	-444	-604
Profit before loan losses	196	2	70	47	464	825
Loan losses, net (Note 3)	1	32	5	20	-39	-40
Operating profit	197	34	75	67	425	785
Tax	-52	-9	-19	-18	-112	-208
Profit for the period	145	25	56	49	313	577

Statement of comprehensive income

Group SEK million	2011 Q3	2011 Q2	2010 Q3	2011 Jan-Sep	2010 Jan-Sep	2010 Jan-Dec
Profit/loss for the period	145	25	56	49	313	577
OTHER COMPREHENSIVE INCOME						
Change in reclassified financial assets, after tax	8	5	14	21	46	57
Change in instruments used in cash flow hedging, after tax	-0	-0	0	-0	0	3
Other comprehensive income, net after tax	8	5	14	21	46	60
Total comprehensive income for the period	153	30	70	70	359	637

Income statement, quarterly

Group SEK million	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3
Interest income	2,766	2,590	2,196	1,630	1,414
Interest expenses	-2,388	-2,213	-1,791	-1,245	-986
Net interest income	378	377	405	385	428
Commission income	12	16	12	13	11
Commission expenses	-44	-40	-40	-22	-23
Net income/expense from financial instruments measured at fair value	5	-172	-372	145	-213
Other operating income	0	0	0	-	0
Total operating income	351	181	5	521	203
Personnel costs	-72	-84	-83	-75	-73
Other costs	-76	-89	-66	-78	-54
Depreciation of property, plant and equipment and amortisation of intangible fixed assets	-7	-6	-7	-7	-6
Total expenses before loan losses	-155	-179	-156	-160	-133
Profit/loss before loan losses	196	2	-151	361	70
Loan losses, net	1	32	-13	-1	5
Operating profit/loss	197	34	-164	360	75
Tax	-52	-9	43	-96	-19
Profit/loss for the period	145	25	-121	264	56

Balance sheet

Group
SEK million

	30 Sep 2011	30 Sep 2010	31 Dec 2010
ASSETS			
Cash and balances at central banks	0	0	0
Chargeable treasury bills and other eligible bills	2,105	1,441	2,365
Lending to credit institutions	33,114	12,107	12,892
Lending to the public (Note 4)	243,830	247,774	249,103
Change in value of interest-rate-hedged items in portfolio hedges	1,680	1,667	500
Bonds and other interest-bearing securities	47,732	36,445	37,985
Derivative instruments (Note 5)	18,206	12,959	12,665
Deferred tax assets	93	-	-
Intangible fixed assets	30	34	34
Property, plant and equipment	29	25	28
Other assets	1,977	3,128	462
Prepaid expenses and accrued income	1,029	732	891
TOTAL ASSETS	349,825	316,312	316,925
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	27,186	16,532	18,257
Deposits from the public	7,055	5,493	6,083
Debt securities in issue	284,795	263,961	261,962
Derivative instruments (Note 5)	12,067	12,737	12,576
Other liabilities	458	660	338
Accrued expenses and prepaid income	3,850	3,394	4,033
Provisions	94	171	154
Subordinated liabilities	6,236	5,628	5,508
Total liabilities	341,741	308,576	308,911
Equity			
Share capital	1,958	1,958	1,958
Other reserves	-59	-94	-80
Retained earnings	6,136	5,559	5,559
Profit for the period	49	313	577
Total equity	8,084	7,736	8,014
TOTAL LIABILITIES AND EQUITY	349,825	316,312	316,925

Statement of changes in equity

Group
SEK million

	Share capital	Other reserves	Retained earnings	Profit for the period	Total equity
Opening balance 1 January 2011	1,958	-80	6,136		8,014
Total comprehensive income for the period		21		49	70
Closing balance 30 September 2011	1,958	-59	6,136	49	8,084

Opening balance 1 January 2010	1,958	-140	5,559		7,377
Total comprehensive income for the period		46		313	359
Closing balance 30 Sep 2010	1,958	-94	5,559	313	7,736

Opening balance 1 January 2010	1,958	-140	5,559		7,377
Total comprehensive income for the period		60		577	637
Closing balance 31 Dec 2010	1,958	-80	5,559	577	8,014

Cash flow statement

Group
SEK million

	2011 Jan-Sep	2010 Jan-Sep	2010 Jan-Dec
Cash and cash equivalents at the beginning of the period	8,959	4,862	4,862
Cash flow from operating activities	17,973	2,379	2,125
Cash flow from investing activities	-18	-18	-28
Cash flow from funding activities	501	2,000	2,000
Increase in cash and cash equivalents	18,456	4,361	4,097
Cash and cash equivalents at the end of the period	27,415	9,223	8,959

Cash and cash equivalents are defined as cash and balances and lending to credit institutions with a maturity not later than three months from the acquisition date.

Capital base

Group SEK million	30 Sep 2011	30 Sep 2010	31 Dec 2010
Core Tier 1 capital			
Equity	8,084	7,736	8,014
Unrealised value changes of loan and accounts receivable previously classified as assets available-for-sale	59	91	80
Value changes attributable to derivative instruments included in cash-flow hedges	1	3	1
Non-controlling interest	639	541	565
Intangible fixed assets	-31	-34	-34
Deferred tax assets	-93	-	-
Net reserves for IRB exposures	-120	-119	-109
Core Tier 1 capital	8,539	8,218	8,517
Tier 1 capital contribution			
Tier 1 capital contribution without redemption incentives *	2,000	2,000	2,000
Tier 1 capital contribution with redemption incentives *	994	994	994
Tier 1 capital	11,533	11,212	11,511
Supplementary capital			
Perpetual subordinated debentures	-	-	-
Time-limited subordinated debentures	2,608	2,260	2,108
Net reserves for IRB exposures	-120	-120	-109
Supplementary capital	2,488	2,140	1,999
Expanded part of capital base	-	-	-
Deduction from entire capital base	-	-	-
Amount for capital base net after deductible items and limit value	14,021	13,352	13,510

* Encompassed by the transitional regulations to FFFS 2007:1

Capital requirements

Group SEK million	30 Sep 2011	30 Sep 2010	31 Dec 2010
Credit risk recognised in accordance with IRB approach			
Corporate exposures	2,233	2,243	2,317
Retail exposures	860	869	838
Total exposures in accordance with IRB approach	3,093	3,112	3,155
Credit risk reported in accordance with standardised approach			
Exposures to governments and central banks	0	0	0
Exposures to municipalities and comparable associations	0	0	0
Institutional exposures	658	208	178
Corporate exposures	929	1,100	1,068
Retail exposures	37	18	17
Unregulated items	1	1	1
Other items	7	6	6
Total exposures in accordance with standardised approach	1,632	1,333	1,270
Risks in the commercial portfolio	277	204	214
Operational risk	217	183	183
Currency risk	-	-	-
Raw material risk	-	-	-
Total minimum capital requirement	5,219	4,832	4,822
Addition according to transitional regulations	5,518	5,686	5,769
Total capital requirement according to transitional regulations	10,737	10,518	10,591

Capital adequacy

Group SEK million	30 Sep 2011	30 Sep 2010	31 Dec 2010
Core Tier 1 capital	8,539	8,218	8,517
Tier 1 capital	11,533	11,212	11,511
Total capital	14,021	13,352	13,510
Without transitional regulations			
Risk-weighted assets	65,234	60,399	60,279
Core Tier 1 capital ratio	13.1%	13.6%	14.1%
Tier 1 capital ratio	17.7%	18.6%	19.1%
Capital adequacy ratio	21.5%	22.1%	22.4%
Capital quotient	2.69	2.76	2.80
With transitional regulations			
Risk-weighted assets	134,208	131,470	132,388
Core Tier 1 capital ratio	6.4%	6.2%	6.4%
Tier 1 capital ratio	8.6%	8.5%	8.7%
Capital adequacy ratio	10.4%	10.2%	10.2%
Capital quotient	1.31	1.27	1.28

Notes

Note 1 Accounting policies

The SBAB Bank Group applies the International Financial Reporting Standards (IFRS) as adopted by the EU. It also complies with the Swedish Financial Supervisory Authority's (SFSA) regulations and general guidelines on annual accounts for credit institutions and securities companies (FFFS 2008:25), the SFSA's regulations and general guidelines regarding public disclosure of information regarding capital adequacy and risk management (FFFS 2007:5), the Annual Accounts Act for Credit Institutions and Securities Companies and the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups. The Group's interim reports fulfil the requirements stipulated under IAS 34, Interim Financial Reporting.

For the Parent Company, statutory IFRS is applied, which means that the interim report has been prepared in compliance with IFRS subject to the additions and exceptions that ensue from the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities, the SFSA's regulations and general guidelines on the annual accounts of credit institutions and securities companies (FFFS 2008:25) and the Annual Accounts Act for Credit Institutions and Securities Companies.

As part of IASB's annual improvement project, IAS 34 has been amended. The amendment, which came into effect on 1 January 2011, pertains only to disclosure requirements, provides guidance concerning the application of disclosure principles under IAS 34 and adds further disclosure requirements concerning circumstances that will probably impact the fair value and classification of financial instruments, the transfer of financial instruments between various levels of the fair-value hierarchy and changes in the classification of financial assets. In other respects, the accounting policies and methods of calculation remain unchanged compared with the 2010 Annual Report.

Note 2 Risks and uncertainties

Although the financial crisis and deteriorating macroeconomic situation have impacted SBAB Bank's earnings, this has not had a significant impact on SBAB Bank's financial position. However, future macroeconomic trends remain uncertain.

The economic development in Sweden is the primary risk factor for SBAB Bank's future earnings capacity and the quality of its assets since the operation is mainly exposed to credit risks in the Swedish housing market. The management of interest-rate and currency risks entails certain exposure to price risks.

For further information on SBAB Bank's risks and risk management, refer to the 2010 Annual Report.

Note 3 Loan losses, net

Group SEK million	2011 Q3	2011 Q2	2010 Q3	2011 Jan-Sep	2010 Jan-Sep	2010 Jan-Dec
CORPORATE MARKET						
INDIVIDUAL PROVISION FOR CORPORATE MARKET LOANS						
Write-off of confirmed loan losses for the period	-	-0	-	-1	-5	-8
Reversal of prior year provisions for probable loan losses recognised as confirmed loan losses in the financial statements for the period	-	2	-	3	5	6
Provision for probable loan losses for the period	-0	-0	1	-0	-8	-9
Recoveries in respect of confirmed loan losses in prior years	-	-	-	0	0	0
Reversal of prior year provisions for probable loan losses no longer required	0	0	0	5	0	3
Guarantees	-0	-0	-0	-0	1	3
Net cost/income for the period for individual provisions for corporate market loans	-0	2	1	7	-7	-5
COLLECTIVE PROVISION FOR CORPORATE MARKET LOANS						
Allocation to/redemption of collective provision	2	5	6	15	-6	-1
Guarantees	-0	-0	-1	-1	-4	-6
Net cost/income for the period for collective provisions for corporate market loans	2	5	5	14	-10	-7
RETAIL MARKET						
INDIVIDUAL PROVISION FOR RETAIL MARKET LOANS						
Write-off of confirmed loan losses for the period	-	-3	-3	-3	-8	-13
Reversal of prior year provisions for probable loan losses recognised as confirmed loan losses in the financial statements for the period	-	4	1	4	4	8
Provision for probable loan losses for the period	-4	-0	1	-5	-7	-8
Reversal of prior year provisions for probable loan losses no longer required	0	0	0	0	0	1
Guarantees	-	-	-	-	0	0
Net cost/income for the period for individual provisions for retail market loans	-4	1	-1	-4	-11	-12
COLLECTIVE PROVISION FOR RETAIL MARKET LOANS						
Write-off of confirmed loan losses for the period	-2	-2	-3	-6	-13	-17
Recoveries in respect of confirmed loan losses in prior years	0	5	1	5	2	2
Allocation to/redemption of collective provision	4	23	2	2	-4	-8
Guarantees	1	-2	0	2	4	7
Net cost/income for the period for collective provisions for retail market loans	3	24	0	3	-11	-16
NET COST/INCOME FOR THE PERIOD FOR LOAN LOSSES	1	32	5	20	-39	-40

Both the write-off of confirmed loan losses for the period and reversal of prior year write-offs as specified above relate to receivables from the public.

Note 4 Lending to the public

Group SEK million	30 Sep 2011		30 Sep 2010		31 Dec 2010	
	Lending	Provision	Lending	Provision	Lending	Provision
Single-family dwellings and holiday homes	92,067	-147	93,643	-150	93,386	-148
Tenant-owner rights	55,673	-105	56,092	-104	56,231	-107
Tenant-owner associations	52,842	-42	54,565	-68	55,153	-60
Private multi-family dwellings	28,312	-32	27,212	-38	28,378	-37
Municipal multi-family dwellings	6,621	-	7,566	-	7,363	-
Commercial properties	8,306	-	9,045	-	8,877	-
Other	336	-1	11	-0	67	-0
Provision for probable loan losses	-327		-360		-352	
Total	243,830	-327	247,774	-360	249,103	-352

Doubtful and nonperforming loan receivables	30 Sep 2011	30 Sep 2010	31 Dec 2010
a) Doubtful loan receivables	97	113	104
b) Nonperforming loan receivables* included in doubtful loan receivables	20	18	17
c) Nonperforming loan receivables* not included in doubtful loan receivables	367	273	279
d) Individual provisions for loan receivables	65	80	73
e) Collective provisions for corporate market loans	23	44	38
f) Collective provisions for retail market loans	239	236	241
g) Total provisions (d+e+f)	327	360	352
h) Doubtful loan receivables after individual provisions (a-d)	32	33	31
i) Provision ratio for individual provisions (d/a)	67%	71%	70%

*where cash flows are > 60 days past due

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

Note 5 Derivative instruments

Group

30 Sep 2011, SEK million

	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate related	8,298	6,685	438,526
Currency related	9,908	5,382	181,118
Total	18,206	12,067	619,644

Currency interest-rate swaps are classified as interest-rate related derivative instruments.

Note 6 Operating segments

Risk-adjusted income statement

Group

SEK million

	Jan-Sep 2011				Jan-Sep 2010			
	Consumer	Corporate	Finance	Total	Consumer	Corporate	Finance	Total
Risk-adjusted income	828	216	-524	520	767	180	-73	874
Risk-adjusted expenses	-379	-90	-74	-543	-361	-101	-68	-530
Tax	-118	-33	157	6	-107	-21	37	-91
Risk-adjusted profit/loss after tax	331	93	-441	-17	299	58	-104	253
RAROC*, after tax	13.7%	8.7%	-118.5%	-0.4%	12.0%	5.2%	-25.6%	6.3%

* Risk Adjusted Return On (economic) Capital, meaning risk-adjusted return after tax.

Operating-segment disclosures are risk adjusted. In the risk-adjusted follow-up of profit and loss, recognised equity is replaced by "Economic capital." "Economic capital" comprises the capital that SBAB Bank deems to be required to cover unexpected losses during the coming year. At 30 September 2011, "Economic capital" was lower than recognised equity, thus making the return on equity in the risk-adjusted income statement lower. Recognised loan losses were replaced by "Expected losses," in risk-adjusted expenses. For further information on "Economic capital" and "Expected losses", refer to pages 25 and 39 of the 2010 Annual Report.

Reconciliation

The following is a reconciliation between SBAB Bank's risk-adjusted income statement (as above) and SBAB Bank's external result.

Group

SEK million

	2011 Jan-Sep	2010 Jan-Sep
Risk-adjusted income	520	874
Adjustment to return on recognised equity	17	34
Total net interest income and other operating income	537	908
Risk-adjusted expenses	-543	-530
Adjustment to recognised loan losses	73	47
Expenses and loan losses	-470	-483
Risk-adjusted profit/loss before tax	-23	344
Tax according to risk-adjusted income statement	6	-91
Risk-adjusted profit/loss after tax	-17	253
Risk-adjusted items		
Adjustment to return on recognised equity	17	34
Adjustment to recognised loan losses	73	47
Reversal of tax under risk-adjusted income statement	-6	91
Operating profit	67	425
Recognised tax	-18	-112
Profit for the period after tax	49	313

Note 7 Reclassified assets

As of 1 July 2008, the fair value of the reclassified portfolio amounted to SEK 21.7 billion. The average effective compound interest rate used in the reclassification was 6.3%. At the same date, the fair value reserve attributable to these assets had a negative value of SEK 200 million, net after tax. At 30 September 2011, the fair value of the assets would have amounted to SEK 10.3 billion had the assets continued to be recognised as "Available-for-sale financial assets." The carrying amount at 30 September 2011 was SEK 10.9 billion. At the same date, the fair value reserve attributable to the reclassified assets would have amounted to a negative SEK 0.5 billion, net after tax, had the assets continued to be recognised as "Available-for-sale financial assets." The reserve amounted to a negative SEK 59 million, net after tax, at 30 September 2011. After the reclassification date, SEK 194 million of the reserve before tax was reversed and exchange rate fluctuations had a negative impact of SEK 4 million before tax on the value of the reserve.

Income statement

Parent Company SEK million	2011 Q3	2011 Q2	2010 Q3	2011 Jan-Sep	2010 Jan-Sep	2010 Jan-Dec
Interest income	1,040	961	553	2,765	1,729	2,226
Interest expenses	-1,061	-989	-490	-2,868	-1,379	-1,922
Net interest income/expense	-21	-28	63	-103	350	304
Dividends received	-	13	-	13	14	114
Commission income	29	30	27	86	81	109
Commission expenses	-19	-18	-14	-57	-35	-44
Net income/expense from financial transactions	86	-100	-202	-57	-243	-201
Other operating income	109	107	114	324	319	431
Total operating income	184	4	-12	206	486	713
Personnel costs	-72	-85	-73	-240	-241	-317
Other expenses	-78	-89	-54	-235	-189	-270
Depreciation of property, plant and equipment and amortisation of intangible fixed assets	-3	-3	-3	-9	-9	-12
Total expenses before loan losses	-153	-177	-130	-484	-439	-599
Profit/loss before loan losses	31	-173	-142	-278	47	114
Loan losses, net	-6	11	2	21	-27	-30
Operating profit/loss	25	-162	-140	-257	20	84
Tax	-7	45	36	70	-2	7
Profit/loss for the period	18	-117	-104	-187	18	91

Statement of comprehensive income

Parent Company SEK million	2011 Q3	2011 Q2	2010 Q3	2011 Jan-Sep	2010 Jan-Sep	2010 Jan-Dec
Profit/loss for the period	18	-117	-104	-187	18	91
OTHER COMPREHENSIVE INCOME						
Change in reclassified financial assets, after tax	8	5	14	21	46	57
Change in instruments used in cash flow hedging, after tax	-0	-0	0	-0	0	3
Other comprehensive income, net after tax	8	5	14	21	46	60
Total comprehensive income/loss for the period	26	-112	-90	-166	64	151

Parent Company's performance January – September 2011

Lending to the public amounted to SEK 29.7 billion (35.3). The decline was due to credit being transferred to SCBC, as well as to weaker demand for residential mortgages and further intensified competition.

SBAB Bank posted an operating loss of SEK 257 million (profit: 20), mainly as a result of lower operating income, which amounted to SEK 206 million (486) during the period. The development was largely due to lower net interest expense of SEK 103 million (income: 350) and improved net income from financial instruments measured at fair value. However, net interest expense improved somewhat during the third quarter and the margin on the loan portfolio remained stable. The management of interest-rate risks between the Parent Company and subsidiaries was impacted by a sharp rise in market interest rates, which resulted in an adverse impact on net interest income, albeit with a certain amount of recovery in the third quarter.

Net income from financial transactions measured at fair value amounted to SEK 86 million (expense: 202) for the third quarter and to an accumulated expense of SEK 57 million (expense: 243) for the period. The net result for the quarter was mainly impacted by changes in the market value of basis swaps and interest-rate differentials between mortgage bonds and swaps.

Expenses of SEK 484 million (439) were somewhat higher than in the year-earlier period due to the continued development of SBAB Bank's product offering. Loan losses remained low and the net effect was a positive SEK 21 million (neg: 27), primarily as a result of lower provisions to Group-wide reserves.

The Parent Company has favourable capital adequacy. Without taking the transitional regulations into account, the Tier 1 capital ratio amounted to 34.2 percent (39.6) and the capital adequacy ratio to 42.5 percent (47.3).

Balance sheet

Parent Company
SEK million

	30 Sep 2011	30 Sep 2010	31 Dec 2010
ASSETS			
Cash and balances at central banks	0	0	0
Chargeable treasury bills and other eligible bills	2,105	1,441	2,365
Lending to credit institutions (Note 8)	59,604	55,574	50,265
Lending to the public	29,674	34,645	35,298
Value change of interest-rate-hedged items in portfolio	-9	-16	-14
Bonds and other interest-bearing securities	47,732	36,445	37,985
Derivative instruments	14,282	10,946	10,326
Shares and participations in joint ventures	663	561	587
Shares and participations in Group companies	9,600	9,600	9,600
Intangible fixed assets	6	4	5
Property, plant and equipment	29	25	28
Other assets	847	3,090	515
Prepaid expenses and accrued income	731	483	634
TOTAL ASSETS	165,264	152,798	147,594
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	13,217	7,852	9,975
Deposits from the public	7,055	5,493	6,083
Debt securities in issue	118,829	113,285	107,223
Derivative instruments	10,856	11,404	9,838
Other liabilities	440	587	242
Accrued expenses and prepaid income	925	692	790
Provisions	151	223	214
Subordinated liabilities	6,236	5,628	5,508
Total liabilities	157,709	145,164	139,873
Equity			
Share capital	1,958	1,958	1,958
Legal reserve	392	392	392
Fair value reserve	-59	-94	-80
Retained earnings	5,451	5,360	5,360
Profit/loss for the year	-187	18	91
Total equity	7,555	7,634	7,721
TOTAL LIABILITIES AND EQUITY	165,264	152,798	147,594

Capital adequacy

Parent Company
SEK million

	30 Sep 2011	30 Sep 2010	31 Dec 2010
Core Tier 1 capital	7,561	7,673	7,653
Tier 1 capital	10,555	10,667	10,647
Total capital	13,117	12,875	12,711
Without transitional regulations			
Risk-weighted assets	30,872	27,327	26,891
Core Tier 1 capital ratio	24.5%	28.1%	28.5%
Tier 1 capital ratio	34.2%	39.0%	39.6%
Capital adequacy ratio	42.5%	47.1%	47.3%
Capital quotient	5.31	5.89	5.91
With transitional regulations*			
Risk-weighted assets	30,872	29,377	28,876
Core Tier 1 capital ratio	24.5%	26.1%	26.5%
Tier 1 capital ratio	34.2%	36.3%	36.9%
Capital adequacy ratio	42.5%	43.8%	44.0%
Capital quotient	5.31	5.48	5.50

* Since the transitional regulations were not applicable on 30 September 2011, risk-weighted assets and ratios are stated without the transitional regulations.

Note 8 Lending to credit institutions

Of the Parent Company's lending to credit institutions, SEK 31,790 million (38,363) relates to a receivable from the wholly owned subsidiary The Swedish Covered Bond Corporation, SCBC (publ). This receivable is subordinated in the event of bankruptcy or liquidation, which means that payment is received only after other creditors of the subsidiary have been paid.

Review Report

The auditors' review report on the condensed interim financial information (interim report) was prepared in accordance IAS 34 and Chapter 9 of the Swedish Annual Accounts Act

Introduction

We have reviewed the interim report of SBAB Bank AB (publ), corp. reg. no. 556253-7513, for the period 1 January 2011 – 30 September 2011. The Board of Directors and the CEO are responsible for preparing and presenting this interim report in accordance with IAS 34 and the Annual Accounts (Credit Institutions and Securities Companies) Act. Our responsibility is to express an opinion on this interim report, based on our review.

The direction and extent of the review

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

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

Conclusion

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

Stockholm, 28 October 2011
Öhrlings PricewaterhouseCoopers

Catarina Ericsson
Authorised Public Accountant

SBAB BANK

SBAB Bank AB (publ)