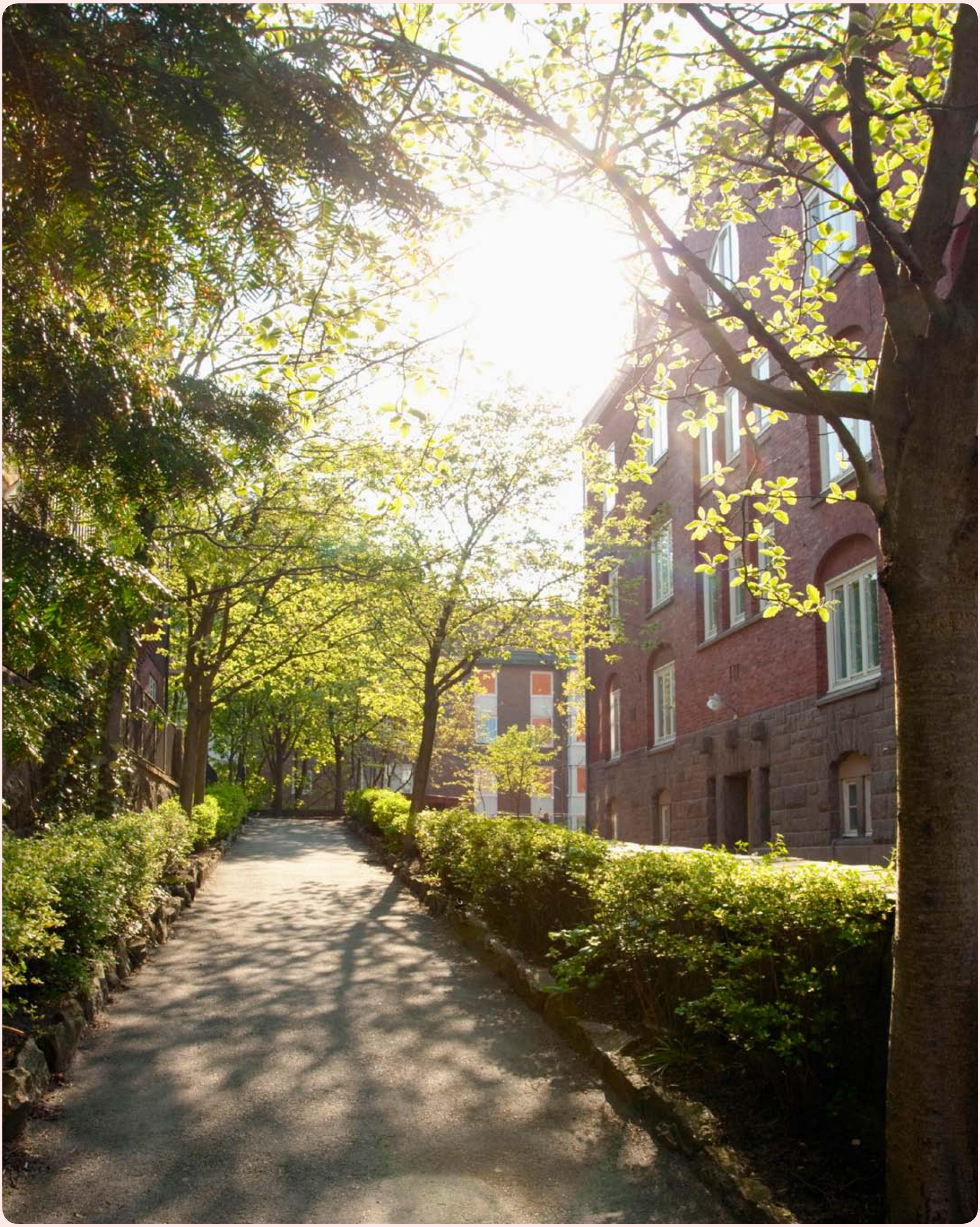


Annual Report 2011

The Swedish Covered Bond Corporation

SCBC
Covered Bonds of
SBAB BANK

Contents

Financial calendar 2012

The interim reports, annual reports and other financial information of The Swedish Covered Bond Corporation are available at sbab.se

Annual General Meeting	17 April
Interim Report January–June	20 July

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

2011 in brief

- Operating profit amounted to SEK 1,287 million (1,147).
- Despite the uncertainty that continued to characterise the capital markets, The Swedish Covered Bond Corporation, "SCBC", maintained favourable access to funding throughout the year.
- SCBC successfully continued broadening its investor base and diversifying its funding. Among other activities, an Australian funding programme for covered bonds was established during the year.

Summary SCBC

	2011	2010	%
Income statement items			
Net interest income, SEK million	1,689	1,440	17
Operating profit, SEK million	1,287	1,147	12
Net profit for the year, SEK million	948	846	12
Loan loss rate, % [1]	0.01	0.01	
Balance sheet items			
Lending, SEK billion	210.5	209.7	0
Average remaining maturity in loan portfolio, years	1.3	1.3	
Capital adequacy with transitional regulations			
Capital adequacy ratio, %	10.7	10.3	
Tier 1 capital ratio, %	10.7	10.3	
Core Tier 1 capital ratio, %	10.7	10.3	
Capital adequacy without transitional regulations			
Capital adequacy ratio, %	31.2	30.6	
Tier 1 capital ratio, %	31.2	30.6	
Core Tier 1 capital ratio, %	31.2	30.6	
Rating			
Long-term funding			
Standard & Poor's [2]	AAA	AAA	
Moody's [3]	Aaa	Aaa	

[1] Loan losses in relation to opening balance for lending to the public.
[2] Standard & Poor's Credit Market Services Europe Limited.
[3] Moody's Investors Service Limited.

Organisation

SCBC's primary operations comprise the issuance of covered bonds to fund the operations of the SBAB Bank Group.

SBAB Bank AB (publ) is the Parent Company of the SBAB Bank Group and is wholly owned by the Kingdom of Sweden.

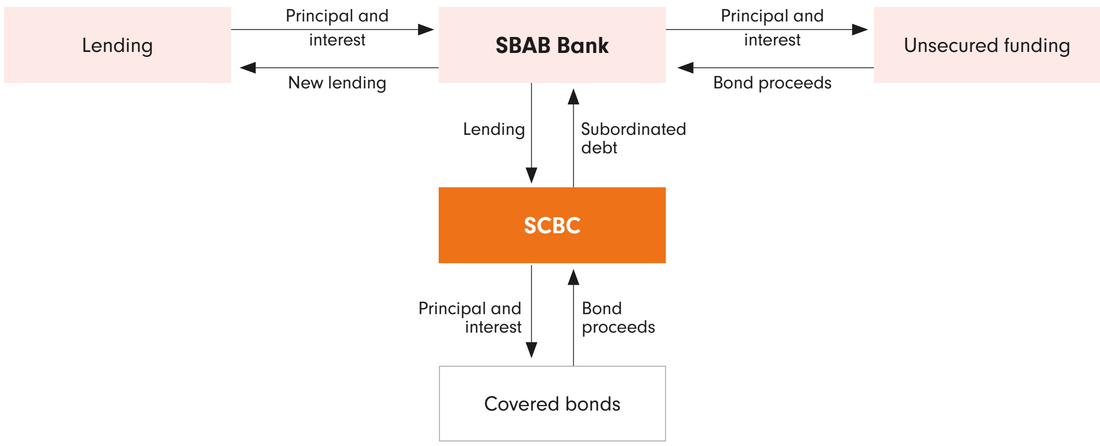
SCBC, Corporate Registration Number 556645-9755, with the Swedish trade name AB Sveriges Säkerställda Obligationer (publ), is a wholly owned subsidiary of SBAB Bank AB (publ), "SBAB Bank," Corporate Registration Number 556253-7513.

SCBC is a credit market company that is governed by the Swedish Act on Banking and Financing Activities (2004:297) and is under the supervision of the Swedish Financial Supervisory Authority.

SCBC's primary operations comprise the issuance of covered bonds in accordance with the Swedish Covered Bonds Issuance Act (2003:1223) and the Swedish Financial Supervisory Authority's regulation FFFS 2004:11. Covered bonds are issued in both Swedish and international capital markets.

SCBC is domiciled in Stockholm and the main part of its operations is outsourced to the Parent Company.

SCBC's role in the SBAB Bank Group



Lending

SCBC does not conduct any new lending activities itself, but acquires loans from SBAB Bank on an ongoing basis or as required. The intention of the acquisitions is for these loans to be included in full or in part in the cover pool that serves as collateral for SCBC's covered bonds and derivative counterparties.

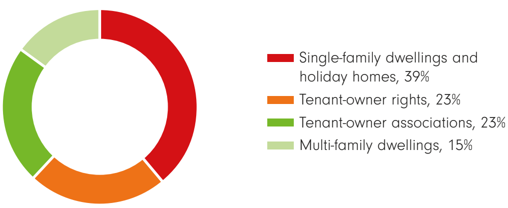
Loan portfolio

Lending to the public amounted to SEK 210.5 billion (209.7) at 31 December 2011. SCBC's loan portfolio mainly comprises loans for residential mortgages, with the retail market as the largest segment. The underlying collateral consists primarily of mortgage deeds on single-family dwellings and multi-family dwellings, as well as pledges of tenant-owner rights. The portfolio contains no loans for purely commercial properties. All loans granted relate to the Swedish market and are geographically concentrated to metropolitan areas, as well as university and growth regions. SBAB Bank buys back loans from SCBC that are past due by 30 days or more.

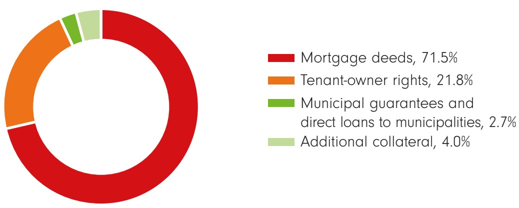
Cover pool

Of SCBC's total loan portfolio, approximately 96.0% consists of assets that qualify and are included in SCBC's cover pool, which serves as collateral for the issuance of covered bonds. Lending against mortgage deeds or tenant-owner rights accounts for about 93.3% of the loans in the cover pool. In calculating the loan-to-value ratio for these loans, the upper limit of the loans' (or group of loans) loan-to-value ratio in the pledge – known as the Max LTV – is used. Information regarding SCBC's cover pool is published every month on sbab.se.

Distribution by segment for cover pool



Distribution by type of collateral for cover pool



Key figures for cover pool

	31 Dec 2011
Lending SCBC, SEK billion	210.6
Share of loans that qualify for inclusion, %	96.0
Share secured against mortgage deeds and rights of use, %	93.3
Total cover pool, SEK billion	210.1
Loan portfolio, SEK billion	201.8
Weighted average max LTV, %	59.4
Average loan amount, SEK thousand	580
Weighted average seasoning, years	4.6
Average remaining maturity, years[1]	1.4
Substitute collateral, SEK billion	8.4

[1] Period until next change of condition date.

Max LTV for cover pool

Mortgage deeds and tenant-owner rights	31 Dec 2011		
		LOAN AMOUNT	
Max LTV, %	Number[1]	SEK million	%
0–20	22,896	8,195	4.2
20–40	33,217	24,991	12.7
40–50	18,092	18,375	9.4
50–60	22,712	32,460	16.5
60–70	25,302	29,172	14.9
70–75	85,791	82,971	42.3
Total	**208,010**	**196,164**	

[1] "Mortgage deeds" refers to the number of blocks of mortgage deeds. "Tenant-owner rights" refers to the number of loans.

Funding

Although the European debt crisis continued to mark the world's financial markets in 2011, the market for Swedish covered bonds was stable and market functionality and liquidity were maintained throughout the year. SCBC continued to experience favourable demand from investors in all marketplaces where SCBC operates.

SCBC aims to maintain a diversified investor base and made a number of transactions in several markets during the year. In April, a Euro benchmark bond was successfully issued in the European covered bond market. The bond had a maturity of five years and was oversubscribed, resulting in highly competitive funding. The issuance of covered bonds through SCBC is the SBAB Bank Group's most inportant source of funding.

Funding programmes

SCBC has three funding programmes: a EUR 10 billion Euro Medium Term Covered Note Programme (EMTCN), a Swedish funding programme for covered bonds without a fixed upper limit and an AUD 4 billion Australian Covered Bond Issuance Programme, which was established in November 2011.

During the year, SCBC issued new bonds amounting to SEK 34.9 billion. Outstanding covered debt, excluding repos, totalled SEK 160.7 billion (carrying amount including market value changes) at 31 December 2011. This corresponds to an increase of approximately SEK 6 billion compared with 31 December 2010.

Transactions during the year

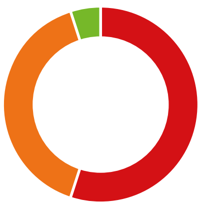
Notable bond issuances by SCBC during the year included:

- A five-year public covered bond amounting to EUR 1 billion
- The launch of a five-year covered benchmark bond in the Swedish market
- A 20-year private placement amounting to SEK 1 billion
- A three-year public covered bond amounting to CHF 150 million in the Swiss market

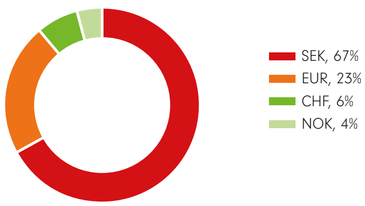
Rating

All of SCBC's funding programmes have the highest possible ratings, Aaa/AAA, from the rating agencies Moody's and Standard & Poor's.

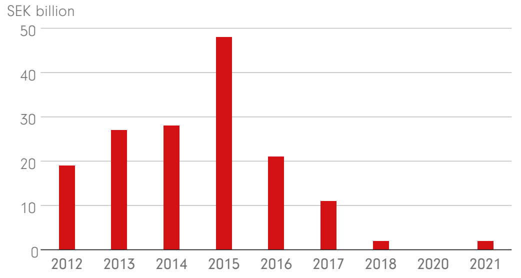
Funding
Outstanding liabilities at 31 December 2011: SEK 166 billion



Funding – currency distribution
Outstanding liabilities at 31 December 2011: SEK 166 billion

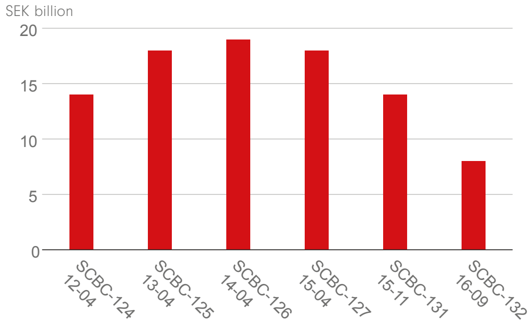


Total funding volume[1] – maturity profile
at 31 December 2011



[1] Excluding repos.

Outstanding volume of SCBC's Swedish covered bonds
at 31 December 2011



Operating Results

Operating profit for 2011 rose 12% to SEK 1,287 million (1,147) and net interest income improved significantly compared with the preceding year.

Operating results

Operating profit for 2011 amounted to SEK 1,287 million (1,147). Net interest income improved significantly compared with the preceding year and totalled SEK 1,689 million (1,440). The result of interest-rate risk management between the subsidiary and the Parent Company was impacted by sharply increasing interest rates, which had a positive effect on SCBC's net interest income during the year. An improved interest-rate margin also contributed to this positive development. At year-end, the lending portfolio amounted to SEK 210.5 billion (209.7). Net income from financial transactions amounted to SEK 268 million (249). Hedge accounting items, loan receivables and changes in the market value of basis swaps[1)] contributed to this positive development.

SCBC reported a net commission expense of SEK 96 million (expense: 69). The decline was due to the full fee being paid for the Government stability fund as of 2011. The stability fee for 2011 was SEK 66 million (31). SCBC's total operating income increased year-on-year to SEK 1,861 million (1,621). Expenses for the year amounted to SEK 563 million (464). The increase was attributable to higher costs for services performed by SBAB Bank on behalf of SCBC pursuant to an outsourcing agreement between the parties.

Net loan losses amounted to SEK 11 million (losses: 10), corresponding to a loan loss rate of 0.01% (0.01).

[1)] **Fair-value recognition of derivatives**
The currency and interest-rate risk inherent 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 expense from financial transactions. 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. 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 SCBC's basis swaps are held to maturity.

Dividend policy and appropriation of profits

SCBC has no established dividend policy. Dividends are proposed by the Board of Directors in accordance with the provisions of the Swedish Companies Act and thereafter approved by the Annual General Meeting. The Board has proposed that no dividend be paid for 2011.

All shares are owned by the Parent Company SBAB Bank.

Corporate Governance Report

SCBC's Corporate Governance Report 2011 is presented on page 38 of this Annual Report.

Significant events during the year

SCBC appointed a new Board of Directors during the year and Christer Löfdahl assumed the position of Managing Director on 1 November 2011.

Significant events after the balance-sheet date

Carl-Viggo Östlund assumed the position of Chairman of the Board on 1 March 2012 in conjunction with becoming CEO of SCBC's Parent Company, SBAB Bank.

The Board of Directors subsequently comprises Carl-Viggo Östlund, Christine Ehnström, Fredrik Bergström and Per Olov Dahlstedt, all of whom are employees of the Parent Company.

On 5 March 2012, the Managing Director Christer Löfdahl gave notice of termination of his employment as Chief Financial Officer of SBAB Bank AB (publ). Christer Löfdahl is required to serve six months' notice of employment termination. In connection with leaving SBAB Bank AB (publ), Christer Löfdahl will also be vacating his position as Managing Director of SCBC.

Risk Management

Risk is a natural component of all businesses and all risks that arise must be managed. While SCBC is mainly exposed to credit risk in its lending operations, other areas of the operations also face risks. More information about the SBAB Bank Group's capital adequacy and risk management is available at sbab.se.

Overall risk management objectives

The Board of Directors of SCBC has adopted the risk management objectives established by the Board of Directors of SBAB Bank:

- Risk management shall support the Group's business operations and rating targets.
- The level of risk-taking shall be low. This is to be achieved by ensuring that total risk is kept at a level compatible with the long-term financial objectives for return, the size of risk capital and the target rating.
- Relevant risks shall be identified, measured, managed and controlled.
- Within the bank's various business areas, allocation of capital shall be based on the desired earnings capacity and risk level.
- Risk management shall be transparent and thus easily presented to and understood by the company's external stakeholders.
- The SBAB Bank Group must maintain an appropriate risk-management organisation with a well-defined division of responsibilities.

Risk tolerance

SCBC defines risk tolerance as the risk that the company is willing to take to achieve the established business objectives within the framework of the selected long-term strategy. SCBC has established the following objectives in order to measure its risk tolerance:

Measurement	Objective	2011 Outcome	Difference
Core Tier 1 capital ratio	>6%	10.7%	+4.7
Tier 1 capital ratio[1]	>7%	10.7%	+3.7
Capital adequacy ratio[1] [2]	>10%	10.7%	+0.7

[1] In accordance with Basel II, Pillar 1, including transitional regulations.
[2] Periodic deviation from the capital adequacy objective is permissible provided that it does not exceed 0.5 percentage points.

Risks

The main risks in SCBC's operations comprise:

- Credit risk – the risk that the counterparty is unable to fulfil its payment obligations.
- Liquidity risk – the risk that the company is unable to meet its payment obligations on the date of maturity without the related cost increasing significantly.
- Refinancing risk – the risk of an increased cost for funding or insufficient funding opportunities as a result of differences in structure and maturity between lending and funding.
- Market risk – the risk of a decline in profitability due to unfavourable market fluctuations.
- Operational risk – the risk of losses due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events, including legal risk.
- Business risk – the risk of declining income due to deteriorating competitive conditions or an incorrect strategy or decision. Business risk also includes margin risk, which arises when the fixed-interest periods applying to the interest-rate margins for lending and funding differ.
- Concentration risk – arises when either major exposures or exposures in the loan portfolio are concentrated to certain types of borrowers, regions or industries.

For a more detailed description of SCBC's risk management and capital adequacy, refer to Note 2.

Organisation and responsibility

At the 2011 statutory meeting of SCBC's Board of Directors, decisions were made concerning the establishment, in applicable areas, of governing documents in the form of policies and instructions that the Parent Company's Board of Directors has decided to apply for the Parent Company's operations. It was also decided that the decisions that the Parent Company has taken or will take in the future concerning these governing documents, including amendments, will similarly apply to SCBC in applicable areas and that these decisions will take effect on the date decided by the Parent Company for each particular governing document. Decisions made by the Parent Company's Board concerning governing documents are reported and decided on at the meetings of SCBC's Board of Directors.

The Asset and Liability Committee (ALCO) is a body within the SBAB Bank Group that handles risk and capital-planning matters that are to be addressed by the Parent Company's executive management and Board. The CEO of SBAB Bank, who is also the Chairman of the Board of SCBC, is the Chairman of the ALCO. Other committee members include the managers of each of SBAB Bank's business areas, the CRO, the CFO, the Head of the Risk Unit and the Head of the Market and Liquidity Risk Group.

The Head of the Risk Unit is appointed by the CEO of the Parent Company and has overall responsibility for developing and ensuring that SBAB Bank's risk strategies are implemented in the intended manner and that policies and processes facilitate relevant follow-up.

The Risk Unit is a unit within the SBAB Bank Group's credit and risk division that is responsible for analysing, assessing and reporting on the overall risks of the SBAB Bank Group. The Market and Liquidity Risk Group is a unit within the Risk Unit that is responsible for identifying, quantifying and analysing risks in the treasury operations. The group monitors current risk levels on a daily basis and ensures that the limits for the finance operations are not exceeded.

The Risk Unit is also responsible for the design, implementation, reliability and monitoring of SBAB's risk-classification systems and for the economic capital model. The individual risks are managed by lending and funding operations.

The Group's overall risk scenario and capital adequacy are reported by the Risk Unit to SCBC's Managing Director and Board of Directors on a monthly basis. A detailed description of the risk trend is reported on a quarterly basis.

Review of risk assessment methods by the Swedish Financial Supervisory Authority

The Swedish Financial Supervisory Authority has granted the SBAB Bank Group permission to base its capital requirement for credit risk on the internal ratings-based approach (IRB approach). The SBAB Bank Group has been granted the right to apply the standardised credit-risk approach for exposures to the Kingdom of Sweden, the Riksbank, Swedish municipalities, all central governments and institutions exposures, as well as time-limited permission for portfolios of insignificant size.

SCBC uses the standardised approach to measure and manage operational risk.

Five-year Overview

SEK million	2011	2010	2009	2008	2007
Interest income	7,735	3,667	3,445	8,006	4,786
Interest expense	–6,046	–2,227	–2,632	–7,209	–3,946
Net interest income	**1,689**	**1,440**	**813**	**797**	**840**
Other operating income	172	181	–638	631	34
Total operating income	**1,861**	**1,621**	**175**	**1,428**	**874**
Other operating expenses	–563	–464	–445	–399	–309
Total operating expenses	**–563**	**–464**	**–445**	**–399**	**–309**
Profit before loan losses	**1,298**	**1,157**	**–270**	**1,029**	**565**
Loan losses, net	–11	–10	–25	–17	1
Operating profit	**1,287**	**1,147**	**–295**	**1,012**	**566**
Lending portfolio	210,478	209,661	173,371	157,792	128,205
Deferred tax assets	–	–	55	135	–
Other assets	22,739	14,208	24,686	26,519	9,848
Total assets	**233,217**	**223,869**	**198,112**	**184,446**	**138,053**
Debt securities in issue	160,671	155,319	139,963	126,578	105,361
Other liabilities	25,207	19,709	21,908	29,059	11,409
Deferred tax liabilities	106	17	–	–	21
Subordinated debt to Parent Company	36,300	38,363	26,626	19,426	15,439
Equity	10,933	10,461	9,615	9,383	5,823
Total liabilities and equity	**233,217**	**223,869**	**198,112**	**184,446**	**138,053**

Key ratios					
Lending					
Investment margin, %	0.74	0.68	0.43	0.49	0.74
Loan losses					
Loan loss rate, %	0.01	0.01	0.02	0.01	–0.00
Productivity					
Expenditure/Income ratio, excl. loan losses, %	30	29	254	28	35
Expenditure/Income ratio, incl. loan losses, %	31	29	269	29	35
Capital structure					
Return on equity, %	15.2	8.4	–2.3	9.5	8.1
Capital adequacy without transitional regulations					
Core Tier 1 capital ratio, %	31.2	30.6	33.1	21.8	
Tier 1 capital ratio, %	31.2	30.6	33.1	21.8	–
Capital adequacy ratio, %	31.2	30.6	33.1	21.8	–
Capital adequacy with transitional regulations					
Core Tier 1 capital ratio, %	10.7	10.3	11.1	10.0	
Tier 1 capital ratio, %	10.7	10.3	11.1	10.0	8.5
Capital adequacy ratio, %	10.7	10.3	11.1	10.0	8.5
Equity ratio, %	4.7	4.7	4.9	5.1	4.2
Consolidation ratio, %	4.7	4.7	4.8	5.0	4.2
Employees					
Number of employees	1	1	1	1	1

Definitions of key ratios

Investment margin	Net interest income in relation to average total assets
Loan loss rate	Loan losses in relation to opening balance for lending to the public
Expenditure/Income ratio, excl. loan losses	Total operating expenses/total income
Expenditure/Income ratio, incl. loan losses	(Total operating expenses plus loan losses) / total income
Return on equity	Operating profit after actual tax in relation to average equity
Core Tier 1 capital ratio	Tier 1 capital less Tier 1 capital contribution in relation to risk-weighted assets (RWA)
Tier 1 capital ratio	Tier 1 capital / risk-weighted assets
Capital adequacy ratio	Capital base / risk-weighted assets
Equity ratio	Equity in relation to total assets at year-end
Consolidation ratio	Equity and deferred tax in relation to total assets at year-end
Number of employees	Permanent employees

Contents

Income Statement

SEK million	Note	2011	2010
Interest income	3	7,735	3,667
Interest expense	3	–6,046	–2,227
Net interest income		**1,689**	**1,440**
Commission income	4	10	10
Commission expense	4	–106	–79
Net expense from financial transactions	5	268	249
Other operating income		–	1
Total operating income		**1,861**	**1,621**
General administration expenses	6	–562	–463
Other operating expenses		–1	–1
Total expenses before loan losses		**–563**	**–464**
Profit before loan losses		**1,298**	**1,157**
Loan losses, net	7	–11	–10
Operating profit		**1,287**	**1,147**
Tax	8	–339	–301
Profit for the year		**948**	**846**

Statement of Comprehensive Income

SEK million	2011	2010
Profit for the year	**948**	**846**
Other comprehensive income for the year, after tax	–	–
Total comprehensive income for the year	**948**	**846**

Balance Sheet

SEK million	Note	31 Dec 2011	31 Dec 2010
ASSETS			
Lending to credit institutions	9	11,562	7,629
Lending to the public	10	210,478	209,661
Change in value of interest-rate-hedged items in portfolio hedges		2,589	1,122
Derivative instruments	11	8,172	5,146
Deferred tax assets	20	–	–
Other assets	14	113	55
Prepaid expenses and accrued income	15	303	256
TOTAL ASSETS		**233,217**	**223,869**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	16	15,053	10,818
Debt securities in issue	17	160,671	155,319
Derivative instruments	11	6,440	5,546
Other liabilities	18	550	95
Accrued expenses and prepaid income	19	3,164	3,250
Deferred tax liabilities	20	106	17
Subordinated debt to Parent Company	21	36,300	38,363
Total liabilities		**222,284**	**213,408**
Equity			
Share capital		50	50
Shareholder contribution		9,550	9,550
Retained earnings		385	15
Profit for the year		948	846
Total equity	22	**10,933**	**10,461**
TOTAL LIABILITIES AND EQUITY		**233,217**	**223,869**
Memorandum items			
Assets pledged for own liabilities	23	209,954	205,087
Other assets pledged		None	None
Contingent liabilities		None	None
Commitments		None	None

Statement of Changes in Equity

SEK million	Share capital	Shareholder contribution[1]	Retained earnings	Profit for the year	Total equity
Opening balance, 1 January 2010	**50**	**9,550**	**15**		**9,615**
Total comprehensive income for the year				**846**	**846**
Closing balance, 31 December 2010	**50**	**9,550**	**15**	**846**	**10,461**

SEK million	Share capital	Shareholder contribution	Retained earnings	Profit for the year	Total equity
Opening balance, 1 January 2011	**50**	**9,550**	**861**		**10,461**
Total comprehensive income for the year				**948**	**948**
Transactions with shareholders:					
Dividend to Parent Company			–100		**–100**
Group contribution provided to Parent Company, after tax			–376		**–376**
Closing balance, 31 December 2011	**50**	**9,550**	**385**	**948**	**10,933**

[1] The shareholder contributions that have been paid are conditional and the Parent Company, SBAB Bank AB (publ), is entitled to demand repayment of the contributions from SCBC's disposable earnings, provided that the Annual General Meeting approves such a course of action.

Cash Flow Statement

SEK million	2011	2010
Cash and cash equivalents at the beginning of the year	**7,629**	**9,972**
OPERATING ACTIVITIES		
Interest received	7,700	3,590
Commission received	–17	12
Interest paid	–6,112	–3,177
Commission paid	–72	–76
Realised changes in value	36	173
Payments to suppliers	–586	–463
Income tax paid	–246	–169
Change in subordinated debt	–2,011	11,737
Change in lending to the public	–827	–36,295
Change in liabilities to credit institutions	4,235	–3,806
Issuance of long-term funding	34,913	69,993
Repayment of long-term funding	–33,070	–44,708
Change in other assets and liabilities	90	236
Cash flow from operating activities	**4,033**	**–2,953**
INVESTING ACTIVITIES		
Cash flow from investing activities	**–**	**–**
FUNDING ACTIVITIES		
Dividend paid	–100	–
Group contribution provided/received	–	610
Shareholder contribution received from Parent Company	–	–
Cash flow from funding activities	**–100**	**610**
Increase / decrease in cash and cash equivalents	**3,933**	**–2,343**
Cash and cash equivalents [1] at the end of the year	**11,562**	**7,629**

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

Notes

Note 1 Accounting policies

The Swedish Covered Bond Corporation ("SCBC") is a wholly owned subsidiary of SBAB Bank AB (publ) ("SBAB Bank"). SCBC is a credit market company whose operations focus on the issuance of covered bonds. Its operations began in 2006 when the company received a licence from the Swedish Financial Supervisory Authority to issue covered bonds. The Parent Company, SBAB Bank, is a limited liability company that is domiciled in Stockholm County, Stockholm Municipality. The address of the Head Office is SBAB Bank AB (publ), Box 27 308, SE-102 54 Stockholm.

This Annual Report has been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. SCBC applies statutory IFRS, which means that the Annual 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 and the Swedish Financial Supervisory Authority's regulations and general guidelines on annual accounts for credit institutions and securities companies (FFFS 2008:25). The Annual Report has been prepared in accordance with the acquisition method, apart from derivatives and financial assets and liabilities measured at fair value through profit or loss, as well as hedge-accounted items.

On 14 March 2012, the Board of Directors approved the financial statements for publication. They will receive final approval from the Annual General Meeting on 17 April 2012.

Amended and new accounting policies in 2011

IAS 24 Related Party Disclosures (revised)

A clarification was made to the effect that the standard is also to apply to a company's individual statements, meaning that companies that do not have any subsidiaries, associated companies and/or joint ventures also have to apply the standard. The amendments pertaining to application area and disclosure requirements had an impact on SCBC's financial statements. The amendments are applied as of January 2011.

IFRS 7 – Financial Instruments: Disclosures (amendment)

This amendment is part of IASB's annual improvement project and clarifies the information regarding the disclosure of maximum credit risk, as well as the disclosure of financial effects of collateral received and other forms of credit enhancement. The standard has been adopted by the EU and is to be applied as of 1 January 2012 (financial years beginning on or after 1 July 2011).

Introduction of new accounting standards

IFRS 7 Financial Instruments: Disclosures (amendment)

New disclosure requirements were introduced for financial assets transferred to a third party, including the remaining risk exposure. The objective is to facilitate an assessment of the risk exposure arising from the transfer of financial assets, as well as an assessment of the company's financial position. The standard has been adopted by the EU and is to be applied from 1 January 2012 (financial years beginning on or after 1 July 2011).

IFRS 9 – Financial Instruments

IFRS 9 Classification and Measurement, is the first part of a larger project aimed at replacing IAS 39. IFRS 9 contains two primary measurement categories for financial assets: amortised cost and fair value. Classification occurs on the basis of the company's business model and the characteristic properties of its contractual cash flows. For financial liabilities, most of the current rules contained in IAS 39 will be retained. Guidance in IAS 39 pertaining to impairment testing of financial assets and hedge accounting will continue to apply until IASB has completed those aspects of IFRS 9.

Introduction of the standard has been postponed and it is not expected to become mandatory until 1 January 2015 at the earliest, although advance application is permissible. However, IFRS 9 has not yet been approved by the EU and is not expected to be approved until the sections on hedge accounting and impairment have been finalised, thus resulting in a complete standard. SCBC's preliminary assessment is that introduction of the standard concerning classification and measurement of financial assets and liabilities will have a limited impact on its financial statements.

IFRS 13 Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The new standard does not stipulate that any new items be measured at fair value. With regard to the items that SCBC measures at fair value, the new definition could potentially have an impact on the financial statements. SCBC is currently evaluating the effects. The standard is to be applied as of 1 January 2013.

Other amendments, interpretations and annual improvements are deemed to have had no significant impact on SCBC's financial statements.

General accounting policies

Recognition and derecognition in the balance sheet

Issued securities and all derivative instruments are recognised on the trade date, meaning the date on which the significant risks and rights are transferred between the parties. Other financial instruments are recognised on the settlement date.

A financial asset is derecognised from the balance sheet when the contractual rights to receive the cash flows from the financial asset expire and the company has transferred essentially all of the risks and rewards of ownership of the asset. A financial liability is derecognised from the balance sheet when it is extinguished, meaning when the obligation specified in the contract is fulfilled, cancelled or expires.

Recognition of income and expense

Interest income and interest expense (including interest income from impaired receivables) are recognised in accordance with the effective interest method. The calculation of the effective interest rate includes all fees paid or received between the parties to the contract, including transaction costs.

Since transaction costs in the form of remuneration to business partners or issue expenses attributable to the acquisition of loans constitute part of the acquisition cost of the loan, these costs are recognised in the balance sheet and included in profit or loss via net interest income over the expected maturity of the loan.

Commission income and commission expense are included in profit or loss continuously in accordance with the terms of the contract.

In the event of premature redemption of loans, the customer pays interest compensation intended to cover the cost that arises for SCBC. This compensation is recognised as income directly under the heading "Net expense from financial transactions." Other items under this heading are described in the section "Financial instruments."

Financial instruments

Classification

All financial instruments that are covered by IAS are classified in accordance with this standard in the following categories:

- Financial assets measured at fair value through profit or loss
- Loans and receivables
- Financial liabilities measured at fair value through profit or loss
- Other financial liabilities

SCBC has not classified any assets as "Held-to-maturity investments" or as "Available-for-sale financial assets."

Fair value measurement

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Measurement of the fair value of financial instruments measured at fair value and traded on an active market is based on quoted prices.

If the market for a financial instrument is not active, the fair value is established on the basis of generally accepted measurement method. Calculations conducted in connection with measurement are based to the greatest extent possible on observable market information. The main tools used are models based on discounted cash flows. In individual cases, the calculations may also be based on assumptions or estimates.

Financial assets/financial liabilities measured at fair value through profit or loss

The categories "Financial assets measured at fair value through profit or loss" and "Financial liabilities measured at fair value through profit or loss" are divided into holdings held for trading and financial assets/liabilities that executive management designated as such upon initial recognition. All of SCBC's assets and liabilities in these categories are derivatives and classified as held for trading. Each of these categories includes derivatives that are not subject to hedge accounting. Assets and liabilities in this category are initially recognised at fair value, while related transaction costs are recognised in profit or loss.

Changes in fair value and realised gains or losses for these assets and liabilities are recognised directly in profit or loss under the heading "Net expense from financial transactions," while the effective interest rate is recognised in net interest income.

Loans receivables and accounts receivables

Financial assets classified as loan receivables and accounts receivable are recognised at cost on the date of transfer. Loans and receivables are subsequently recognised at amortised cost using the effective interest method. This category consists of assets with fixed or determinable payments that are not quoted in an active market. Loan receivables consist of lending to the public and credit institutions and include associated items.

Changes in fair value and impairment losses are recognised as "Loan losses, net," while the effective interest rate is recognised as interest income. Also refer to the paragraph "Loan losses".

Other financial liabilities

Financial liabilities that are not classified as "Financial liabilities measured at fair value through profit or loss" are initially recognised at fair value with an addition for transaction costs and are subsequently recognised at amortised cost using the effective interest method. This category consists mainly of debt securities in issue and liabilities to credit institutions.

Realised profit or loss from the repurchase of own liabilities affects profit or loss when incurred and is recognised under the heading "Net expense from financial transactions.".

Repos

Repos are agreements where the parties have simultaneously reached agreement on the sale and repurchase of a particular security at a pre-determined price. Securities that have been provided or received according to a repo agreement are not derecognised from or not recognised in the balance sheet, respectively.

Payments received are recognised in the balance sheet as liabilities to credit institutions and payments made are recognised as lending to credit institutions. The impact on profit or loss is attributable to the difference between sale and repurchase prices and is recognised as interest income or interest expense, respectively.

Derivatives and hedge accounting

Derivative instruments are used primarily to eliminate interest-rate and currency risk in the company's assets and liabilities. Derivatives are recognised at fair value in the balance sheet.

For economic hedges where the risk of a significant fluctuation in profit or loss is the greatest and that meet the formal hedge accounting criteria, SCBC has chosen to apply hedge accounting for hedging of the interest-rate and currency risk. The method applied by SCBC is fair value hedging (see below). There are also other economic hedges for which hedge accounting is not applied and such derivatives are classified as assets or liabilities, respectively, measured at fair value through profit or loss.

Fair value hedging

In the case of fair value hedging, the derivative hedging instrument is measured at fair value at the same time as the hedged asset or liability is measured with an addition for accumulated changes in fair value attributable to the hedged risk associated with the hedged item. Changes in fair value are recognised directly in profit or loss under the heading "Net expense from financial transactions." The effective interest rate of the hedge is recognised in net interest income.

When hedging relationships are terminated, the cumulative gains or losses are accrued adjusting the carrying amount of the hedged item in profit or loss in accordance with the effective interest method. The accrual extends over the remaining maturity of the hedged item. The realised gain or loss arising from premature closing of a hedging instrument is recognised in profit or loss under the heading "Net expense from financial transactions."

Macro hedging

In this type of hedging, derivative instruments are used at an aggregated level to hedge structured interest-rate risks. When reporting these transactions, the "carve-out" version of IAS 39 is applied, as adopted by the EU. In the financial statements, derivative instruments designated as macro hedges are treated in the same way as other hedging instruments recognised at fair value.

In fair value hedging of portfolios of assets, the gain or loss attributable to the hedged risk is recognised under the heading "Change in value of interest-rate-hedged items in portfolio hedges" in the balance sheet. The hedged item is a portfolio of loans and receivables based on the next contractual renewal date. The hedging instrument used is a portfolio of interest-rate swaps grouped in accordance with renewal intervals based on conditions in the fixed leg of the swap.

Loan losses

On the balance-sheet date, an assessment takes place of whether there is any objective evidence that an individual loan or group of loans requires impairment. This takes place as a result of events that have occurred after the initial recognition of the asset and which have had an impact on the estimated future cash flows for the loan receivable or group of loan receivables in question. Events that could lead to the loan being impaired include bankruptcy, suspension of payments, a composition or a court order to pay.

The amount of impairment is measured as the difference between the carrying amount of the receivable and the present value of estimated future cash flows discounted at the effective interest rate of the receivable in accordance with the most recent interest-rate adjustment date. The cash flows attributable to the borrower and any use of the collateral are taken into consideration when assessing the need for impairment. Any expenses associated with the realisation of the pledge are included in the cash flow calculations. Measurement of probable loan losses is effected in gross amounts and, when there is a guarantee, this is recognised as a receivable against the counterparty. If the present value of future cash flows exceeds the carrying amount of the asset, no impairment takes place and the receivable is not regarded as doubtful.

The impairment amount is recognised in profit or loss under the heading "Loan losses, net."

Confirmed loan losses and provisions for probable losses, with deductions for guarantees expected to be utilised or that have been utilised plus any recoveries, are recognised as loan losses.

The term "Confirmed loan losses" refers to losses where the amounts are definite or established with a high level of probability.

Individually measured loan receivables

Corporate market loans are individually measured for impairment. Retail market loans are individually measured for impairment if there are special reasons for doing so. Loan receivables not determined to have an individual impairment requirement are included in a group of financial assets with similar credit risk characteristics and are judged on a collective basis in terms of the impairment requirement.

Collectively measured loan receivables
The loan receivables assessed in this group are as follows:
- Retail market loans not individually measured. These consist of a large number of loans each of a limited amount and with similar credit risk characteristics.
- Individually measured loan receivables where no objective evidence of individual impairment requirements has been determined in accordance with the above information on "Individually measured loan receivables."

Impairment of collectively measured loans is identified in two different ways:
- As part of the work on Basel II, statistical models have been produced for use in the internal ratings-based system. Adjusted in accordance with the IFRS regulatory framework, groups of loans, which have been subject to events that produce a measurable negative impact on the expected future cash flows, have been identified.
- In addition, groups of loans are identified for which future cash flows have undergone a measurable deterioration due to events that have recently taken place but which have not yet had an impact on the risk classification system.

Restructured loan receivables
A restructured loan receivable is a receivable on which SCBC has made some form of concession, such as an amortisation exemption, due to a deterioration in the borrower's financial position or because the borrower has become subject to other financial problems. Concessions granted are regarded as a confirmed loan loss. A loan that has been restructured is no longer regarded as doubtful but as a receivable with new conditions.

Miscellaneous
Functional currency
Functional currency is the currency used in the primary economic environments in which SCBC operates. SCBC's functional currency, also its presentation currency, is Swedish kronor.

Foreign currency translation of receivables and liabilities
Foreign currency transactions are recognised by applying the exchange rate on the date of transaction, and foreign currency receivables and liabilities are translated using the closing day rate. Foreign exchange gains or losses resulting from settlements of foreign currency transactions and from the translation of monetary assets and liabilities in foreign currency are recognised in profit or loss under "Net expense from financial transactions."

Tax
Total tax consists of current tax and deferred tax. Current tax comprises tax which is to be paid or received for taxable earnings during the current year and adjustments of current tax for previous years. Accordingly, for items recognised in profit or loss, the related tax effects are also recognised in profit or loss. Tax effects of items recognised in other comprehensive income or equity are recognised in other comprehensive income or equity.

Deferred tax assets and tax liabilities are measured according to the balance sheet method on the basis of temporary differences that arise between the carrying amount and the tax base of an asset or liability. Deferred tax assets are recognised for unutilised tax losses to the extent that it is probable that the carryforwards can be used to offset future taxable profit. Deferred tax is calculated in accordance with the tax rate applicable at the time of taxation.

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

Segment reporting
A segment is a part of a business for which independent financial information is available, that conducts business operations from which income can be generated and expenses incurred and whose operations are regularly assessed by the company's chief operating decision maker as a basis for decisions regarding the allocation of resources to segments and an assessment of the segment's results. Since SCBC's operations consist mainly of investments in loan receivables with a risk level that enables the issuance of covered bonds, only one segment is reported, SCBC as a whole.

Dividends
Dividends to the Parent Company are recognised in the balance sheet when they have been approved by the Annual General Meeting.

Group contributions
Group contributions are provided or received in order to minimise the Group's tax and are recognised as a decrease/increase in unrestricted shareholders' equity after adjustments for estimated tax.

Critical accounting estimates and judgements
Critical assumptions
To prepare the annual accounts in compliance with statutory IFRS, it is required that executive management use estimates and judgements based on historical experience and assumptions that are considered to be reasonable and fair. These estimates affect the carrying amounts of assets, liabilities and off-balance sheet commitments, as well as incomes and expenses presented in the Annual Report. Subsequently, the actual outcome may differ to some extent from the estimates made. The area that primarily entails a risk of causing an adjustment to the carrying amounts of assets and liabilities in the next financial year is described below: For collectively measured loan receivables, the estimates of future cash flows are based partly on assumptions concerning how observable data may result in loan losses. See also the section "Loan losses" above.

Significant events after the balance-sheet date
See the section of the administration report entitled "Operating results" on page 5.

Note 2 Risk management and capital adequacy

Risk is a natural component of all businesses and all risks that arise must be managed. While SCBC is mainly exposed to credit risk in its lending operations, other areas of the operations also face risks.
a) Credit risk in lending operations – risk that the counterparty is unable to fulfil its payment obligations.
b) Credit risk in finance operations – risk that the counterparty is unable to fulfil its payment obligations.
c) Liquidity risk – the risk that the company is unable to meet its payment obligations on the date of maturity without the related cost increasing significantly.
d) Refinancing risk – the risk of an increased cost for funding opportunities or insufficient funding opportunities as a result of differences in structure and maturity between lending and funding.
e) Market risk – the risk of a decline in profitability due to unfavourable market fluctuations.
f) Operational risk – the risk of losses due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events, including legal risk.
g) Business risk – the risk of declining income due to deteriorating competitive conditions or an incorrect strategy or decision. Business risk also includes margin risk, which arises when the fixed-interest periods applying to the interest-rate margins for lending and funding differ.
h) Concentration risk – arises when either major exposures or exposures in the loan portfolio are concentrated to certain types of borrowers, regions or industries.
i) Internal capital adequacy assessment – compliance with Basel II, Pillar 2.
j) Capital adequacy.

For more information about SCBC and the SBAB Bank Group's risk management and capital adequacy, visit sbab.se.

Note 2a Risk management – Credit risk in lending operations

Credit risk in lending operations

SCBC does not conduct any lending operations of its own; instead it acquires all loans from the Parent Company. The credit risk in the lending operations is restricted by limits decided on for various customers or customer groups. The credit risk is also managed through a credit-granting process, whereby the ability of potential borrowers to make their interest payments and pay amortisation is analysed. The loans that have been acquired have been granted to borrowers who are judged to be able to pay interest and amortisation in an interest-rate situation that comfortably exceeds the rate prevailing when the loan decision is taken. Furthermore, risk classification is based on the internal ratings-based approach (IRB approach) for the analysis of the credit risk for new and existing customers in the loan portfolios. Should any loan remain in default for 30 days, the Parent Company repurchases the loan.

SCBC applies the IRB approach for retail loans and the foundation IRB approach (FIRB approach) for corporate loans. The Swedish Financial Supervisory Authority has examined the company's use of the IRB approaches and judged them to be reliable. The IRB approach is used for assessing the credit risk associated with each part of the company's individual exposures to retail or corporate customers that have a mortgage deed or a tenant-owner right as collateral. For other types of exposures, the standardised approach is used for measurement of credit risk. For cases in which external ratings are used, the lowest rating from either Moody's or Standard & Poor's is selected. The credit risk models assess the following parameters:

- Probability of default by the customer – Probability of default (PD)
- Loss amount in the event of default – Loss given default (LGD)
- Credit conversion factor (CCF) – The part of the off-balance sheet commitment that is utilised in the event of default
- The expected exposure in the event of default – Exposure at default (EAD)
- The expected loan loss (EL) is measured using the formula EL = PD*LGD*EAD

On the basis of these parameters, customers can be ranked according to risk, and the expected and unexpected loss can be estimated. After assessment, the exposure is allocated to one of eight risk classes for corporate and retail loans, wherein the eighth class comprises customers in default. The development of customers in high risk classes is monitored thoroughly and, when necessary, the exposure is managed actively by credit monitoring personnel in the credit division. The developed models are validated annually and calibrated as the need arises. In 2010 and 2011, all PD models and CCF models for retail loans were reviewed. In the opinion of the Swedish Financial Supervisory Authority, the scope of the changes to the PD models for tenant-owner associations and property companies and the CCF model for retail loans was such that a new permit was required. The Swedish Financial Supervisory Authority reviewed the models in 2011 and granted permission for them to be used in December. The new models will be implemented in early 2012. In December 2011, SCBC was also authorised to use the foundation IRB approach for lending against collateral comprising mortgage deeds in properties other than residential properties.

In connection with the quantitative assessment in the corporate market, a systematic qualitative assessment is conducted based on the internal loan regulations by responding to a number of questions. This enables a more uniform risk assessment founded on a larger amount of data.

The expected loss (EL) assessed in the models can be compared with the assessed probable loss in the reporting seen over a longer period of time. The management of the loss in the reporting is regulated by IAS 39. According to these regulations, assets are to be impaired when there are objective grounds for impairment due to the occurrence of one or more events that have a negative impact on the future cash flows. This differs from the expected loss produced by the models, where the scope of amount of the EL is regulated by the Capital Adequacy and Large Exposures Act (2006:1371) and by the Swedish Financial Supervisory Authority's regulations and general guidelines governing capital adequacy and large exposures (FFFS 2007:1). According to these regulations, the risk associated with each individual loan is to be estimated based on the outcome over a longer period of time using a statistical model.

Collateral in the lending operations

For loans granted by the SBAB Bank Group, adequate collateral must normally be provided. Adequate collateral primarily refers to mortgage deeds in residential properties or shares in tenant-owner associations within a maximum of 75–85% of the market value. The 85% level applies only provided that collateral can be obtained with priority right and that the customer is included in a lower risk class. The lower risk classes for retail customers ("Retail-R") comprise the levels R1–R4, while the lower risk classes for corporate customers ("Corporate-C") comprise the levels C1–C4. In other cases, a loan-to-value ratio of 75% applies.

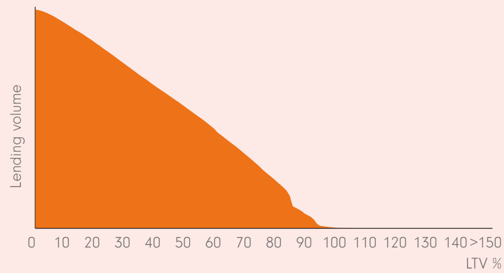
In addition to collateral in the form of mortgage deeds in residential properties or shares in tenant-owner associations, it is possible to grant loans against, inter alia, collateral in the form of a government guarantee, municipal guarantee, securities, bank guarantee and deposits in a Swedish bank. SCBC does not hold any collateral which has been taken over to protect a receivable.

Lending to the public accounts for 90% (94) of SCBC's overall assets. Without taking collateral received or any other forms of credit enhancement into account, the maximum credit risk exposure for the lending operations corresponds with the carrying amount and amounts to SEK 211 million.

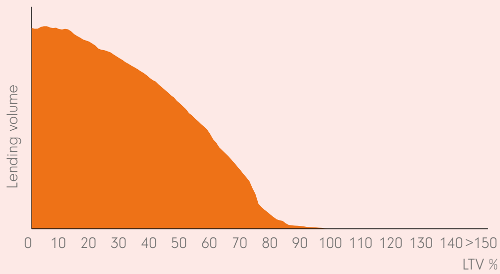
The financial effect of collateral received is illustrated in the diagram on page 17, which shows loans in relation to the market value of underlying collateral for loans secured on collateral comprising mortgage deeds or shares in tenant-owner associations. The table encompasses 97% of the company's total lending to the public. Since 93% (93) of the company's lending is secured on collateral in mortgage deeds or shares in tenant-owner associations within 70% and 93% (97) of borrowers are included in risk class 1–4, the quality is judged to be highly favourable.

Loans in relation to the market value of underlying collateral (LTV) for loans secured on collateral comprising mortgage deeds or tenant-owner right

Retail [1]



Corporate market [1]



[1] Retail refers to all lending to the public comprising single-family dwellings, holiday homes and tenant-owner rights. Corporate market refers to all other lending to the public. Accordingly, the corporate market also includes loans to tenant-owner associations, as well as loans to private individuals who own multi-family dwellings.

Loan portfolios in lending operations allocated by risk class

SCBC's lending to the public amounted to SEK 210.5 billion (209.7) at 31 December 2011. Every customer is allocated to a risk class. Customers with individually reserved loans are always allocated to the worst corporate market risk class (C8) or the worst retail market risk class (R8). Loans covered by collective provisions are obtained for the corporate market from risk classes C6–C8, and collectively impaired retail market loans comprise loans in risk classes R5–R8. Risk class C0 comprises loans to counterparties with a 0% risk weight (Swedish municipalities). Transaction costs of SEK 24 million (23), which were attributable to the loans, are distributed in the table on a pro rata basis.

Loan portfolio allocated by risk class – Retail

	2011		2010	
Risk class R [1]	**Lending**	**Provisions/lending in respective risk class**	**Lending**	**Provisions/lending in respective risk class**
R1	26.0%	0.0%	40.4%	0.0%
R2	27.6%	0.0%	20.7%	0.0%
R3	27.0%	0.0%	24.8%	0.0%
R4	9.6%	0.0%	10.6%	0.0%
R5	4.9%	0.4%	2.1%	1.1%
R6	3.5%	1.1%	0.9%	2.8%
R7	1.3%	3.2%	0.5%	5.6%
R8	0.1%	10.3%	0.0%	6.8%
	100.0%	**0.1%**	**100.0%**	**0.1%**

[1] R = Retail market. The allocation of risk class for retail loans was changed in 2011 to achieve a more appropriate distribution. Accordingly, the values for 2011 cannot be compared with the values for 2010.

Loan portfolio allocated by risk class – Corporate market, including tenant-owner associations

	2011		2010	
Risk class C [1]	**Lending**	**Provisions/lending in respective risk class**	**Lending**	**Provisions/lending in respective risk class**
C0	0.5%	0.0%	0.9%	0.0%
C1	67.1%	0.0%	64.6%	0.0%
C2	21.1%	0.0%	21.8%	0.0%
C3	6.9%	0.0%	8.8%	0.0%
C4	1.7%	0.0%	1.6%	0.1%
C5	1.7%	0.0%	1.3%	0.1%
C6	0.7%	3.3%	0.8%	1.3%
C7	0.1%	12.5%	0.1%	5.8%
C8	0.2%	0.0%	0.1%	0.0%
	100.0%	**0.0%**	**100.0%**	**0.0%**

[1] C = Corporate market.

Lending to the public and credit institutions

The table on the following page shows loans to the public and credit institutions in three categories based on the status of the borrower's payments:

- Without past due unpaid amounts or provisions – the borrower has fulfilled its payment obligations in accordance with the terms of the loans
- With unpaid amounts more than five days past due – the borrower has not fulfilled its payment obligations
- With individual provisions, doubtful receivables

For individually reserved loan receivables, an individual assessment of the loan's future cash flow is conducted in conjunction with an estimate of the market value of the underlying collateral, which constitutes the basis for the individual provision. For collective provisions, a change has occurred in the risk associated with a group of loans, but this change cannot be traced to an individual customer. The table provides a specification of provisions without taking guarantees into account, as well as a specification of the guaranteed amount for each group of provisions.

Note 2a Risk management – Credit risk in lending operations contd.

Lending to the public and credit institutions based on the status of the borrower's payments

SEK million	2011 Public	2011 Credit institutions	2010 Public	2010 Credit institutions
❶ Current loans without past due unpaid amounts or provisions	210,253	11,562	209,576	7,629
❷ Loans with unpaid amounts > 5 days past due	382	–	211	–
❸ Loans with individual provisions	3	–	–	–
Total outstanding loans	**210,638**	**11,562**	**209,787**	**7,629**
Individual provisions	–3	–	–	–
Collective provisions corporate market	–24	–	–18	–
Collective provisions retail market	–133	–	–108	–
Total provisions	**–160**	**–**	**–126**	**–**
Total lending after provisions	**210,478**	**11,562**	**209,661**	**7,629**
Guarantees for loans with individual provisions	–	–	–	–
Guarantees for loans with collective provisions, corporate market	10	–	2	–
Guarantees for loans with collective provisions, retail market	27	–	26	–
Total guarantees	**37**	**–**	**28**	**–**
Total lending after provisions and guarantees	**210,515**	**11,562**	**209,689**	**7,629**

At 31 December 2012, total provisions (individual and collective) amounted to SEK 123 million (98) after a deduction for guarantees.
No provisions were posted for loans to credit institutions.

❶ Current loans without past due unpaid amounts or provisions
The allocation of loans per risk class for the loans that had neither past due unpaid amounts nor individual provisions shows that 93% (97) were in the risk classes C0/R1–C4/R4 at 31 December 2011.

Loans for commercial properties are also covered by municipal guarantees or mortgage deeds in residential properties. The allocation includes total transaction costs of SEK 24 million (21), which were allocated to individual loans without past due unpaid amounts or to loans with individual provisions. The transaction costs derive mainly from single-family dwellings and tenant-owner rights.

Lending to the public by segment – current loans without past due unpaid amounts or provisions

2011

Risk class SEK million	Single-family dwellings and holiday homes	Tenant-owner rights	Tenant-owner associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties[1]	Total
C0	–	–	–	–	408	–	408
C/R1	24,268	9,946	28,523	19,949	4,604	68	87,358
C/R2	22,301	13,982	13,369	2,779	503	90	53,024
C/R3	20,908	14,546	3,790	1,341	275	20	40,880
C/R4	7,449	5,196	971	274	30	5	13,925
C/R5	3,816	2,565	847	416	71	–	7,715
C/R6	2,750	1,829	225	320	13	–	5,137
C/R7	1,028	559	28	16	–	–	1,631
C/R8	42	6	127	0	–	–	175
Total	**82,562**	**48,629**	**47,880**	**25,095**	**5,904**	**183**	**210,253**

2010

Risk class SEK million	Single-family dwellings and holiday homes	Tenant-owner rights	Tenant-owner associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties[1]	Total
C0	–	–	–	–	732	–	732
C/R1	37,905	14,541	27,512	18,372	5,617	10	103,957
C/R2	16,040	10,875	13,796	2,849	680	77	44,317
C/R3	18,113	14,119	4,900	1,832	160	84	39,208
C/R4	7,016	6,766	868	380	23	–	15,053
C/R5	1,603	1,138	664	352	13	–	3,770
C/R6	710	374	385	214	6	–	1,689
C/R7	479	162	61	35	–	–	737
C/R8	26	8	79	–	–	–	113
Total	**81,892**	**47,983**	**48,265**	**24,034**	**7,231**	**171**	**209,576**

[1] Commitments disclosed in this category are complemented by municipal guarantees or collateral in residential properties.

❷ Loans with unpaid amounts more than five days past due
The table below shows loans with past due receivables without individual provisions distributed by past due amortisation, past due accrued interest and past due principal for which notice of termination has been given. Furthermore, for the sake of completeness, "principal and accrued interest not yet past due" are also stated for these loans. All amounts are distributed by segment. For loans with past due amounts in several time intervals, the part that is not past due is shown, where relevant, in the oldest time interval.

In the case of the first time interval, SCBC has decided not to take into consideration amounts that are past due by five days or less so that the analysis is not distorted by payments delayed because the payment date is a holiday. The value of collateral and guarantees primarily represents the value of mortgages in fixed property and tenant-owner rights and, to a lesser extent, credit guarantees from the National Housing Credit Guarantee Board, insurance companies and banks, which are entered at the estimated amount expected to be received in the event of insolvency.

At year-end 2011, 99.8% (99.9) of lending had no past due unpaid amounts and was not assessed as doubtful.

As in 2010, SCBC's loan portfolio of SEK 210.5 billion (209.7) included no past due principal for which notice of termination has been given, excluding past due amortisation from 2011, which was because the Parent Company acquires loans from SCBC that are more than 30 days past due.

Lending to the public by segment – Loans with unpaid amounts more than five days past due

	2011						
SEK million	**Single-family dwellings and holiday homes**	**Tenant-owner rights**	**Tenant-owner associations**	**Private multi-family dwellings**	**Municipal multi-family dwellings**	**Commercial properties**	**Total**
5–30 days past due[1)]							
Past due amortisation	1.8	0.7	1.5	0.0	–	–	4.0
Past due accrued interest	0.8	0.3	0.3	0.4	–	–	1.8
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Principal not past due	166.5	67.5	36.6	107.1	–	–	377.7
Accrued interest not past due	0.1	0.0	0.1	0.3	–	–	0.5
31–60 days past due							
Past due amortisation	–	–	–	–	–	–	–
Past due accrued interest	–	–	–	–	–	–	–
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Principal not past due	–	–	–	–	–	–	–
Accrued interest not past due	–	–	–	–	–	–	–
>60 days past due							
Past due amortisation	–	–	–	–	–	–	–
Past due accrued interest	–	–	–	–	–	–	–
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Principal not past due	–	–	–	–	–	–	–
Accrued interest not past due	–	–	–	–	–	–	–
Total past due							
Total past due amortisation	1.8	0.7	1.5	0.0	–	–	4.0
Total past due accrued interest	0.8	0.3	0.3	0.4	–	–	1.8
Total terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Total principal not past due	166.5	67.5	36.6	107.1	–	–	377.7
Total accrued interest not past due	0.1	0.0	0.1	0.3	–	–	0.5
Total lending for loans with past due receivables without provisions	**168.3**	**68.2**	**38.1**	**107.1**	**–**	**–**	**381.7**

1) For the time interval, amounts past due by five days or less are not taken into consideration to ensure that the analysis is not distorted by payments delayed because the payment date is a holiday.

Note 2a Risk management – Credit risk in lending operations, contd.

Lending to the public by segment – Loans with unpaid amounts more than five days past due

	2010						
SEK million	**Single-family dwellings and holiday homes**	**Tenant-owner rights**	**Tenant-owner associations**	**Private multi-family dwellings**	**Municipal multi-family dwellings**	**Commercial properties**	**Total**
5–30 days past due[1)]							
Past due amortisation	0.3	0.4	0.0	0.0	–	–	0.7
Past due accrued interest	0.4	0.2	0.1	0.0	–	–	0.7
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Principal not past due	112.8	75.6	14.5	6.6	–	–	209.5
Accrued interest not past due	0.0	0.0	0.0	0.0	–	–	0.0
31–60 days past due							
Past due amortisation	–	0.2	–	–	–	–	0.2
Past due accrued interest	–	–	–	–	–	–	–
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Principal not past due	–	0.4	–	–	–	–	0.4
Accrued interest not past due	–	–	–	–	–	–	–
>60 days past due							
Past due amortisation	–	–	–	–	–	–	–
Past due accrued interest	–	–	–	–	–	–	–
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Principal not past due	–	–	–	–	–	–	–
Accrued interest not past due	–	–	–	–	–	–	–
Total past due							
Total past due amortisation	0.3	0.6	0.0	0.0	–	–	0.9
Total past due accrued interest	0.4	0.2	0.1	0.0	–	–	0.7
Total terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Total principal not past due	112.8	76.0	14.5	6.6	–	–	209.9
Total accrued interest not past due	0.0	0.0	0.0	0.0	–	–	0.0
Total lending for loans with past due receivables without provisions	**113.1**	**76.6**	**14.5**	**6.6**	**–**	**–**	**210.8**

1) For the time interval, amounts past due by five days or less are not taken into consideration to ensure that the analysis is not distorted by payments delayed because the payment date is a holiday.

❸ **Loans with individual provisions (doubtful receivables)**
Doubtful loan receivables are those for which a provision has been made on the basis of an individual risk assessment. Doubtful loan receivables amounted to SEK 3 million (0) and pertained to lending for tenant-owner rights.

Lending to the public by segment – loans with individual provisions (doubtful receivables)[1)]

	2011						
SEK million	**Single-family dwellings and holiday homes**	**Tenant-owner rights**	**Tenant-owner associations**	**Private multi-family dwellings**	**Municipal multi-family dwellings**	**Commercial properties**	**Total**
Doubtful receivables	–	3	–	–	–	–	3
Individual provision, corporate market	–	–	–	–	–	–	–
Individual provision, retail market	–	–3	–	–	–	–	–3
Doubtful receivables, net	**–**	**0**	**–**	**–**	**–**	**–**	**0**
Calculated value of guarantees	–	–	–	–	–	–	0
Doubtful receivables with pledged guarantees taken into consideration	**–**	**0**	**–**	**–**	**–**	**–**	**0**

1) There were no doubtful receivables to report for 2010.

Restructured receivables

Restructured receivables entail that the borrower has been granted some form of concession due to a deterioration of his/her financial position or because he/she has encountered other financial problems. After the loans have been restructured, they are considered satisfactory on the basis of the new terms.

Restructuring of a loan receivable may entail that:

a) the terms of the loan are modified by terms that are not normal market terms,
b) the borrower partly repays the loan by handing over various assets,
c) the borrower agrees to convert part of the loan receivable into an ownership share, or
d) the borrower is replaced or supplemented by a new borrower.

Carrying amount of renegotiated loans by segment

The following table shows the carrying amount of financial assets that would otherwise have been recognised as past due or impaired and whose terms have been renegotiated.

SEK million	2011	2010
Single-family dwellings and holiday homes	3	4
Tenant-owner rights	0	1
Tenant-owner associations	32	–
Private multi-family dwellings	–	1
Municipal multi-family dwellings	–	–
Commercial properties	–	–
Total	**35**	**6**

Note 2b Credit risk in finance operations

In the finance operations, credit risk arises in the form of counterparty risk associated with the derivative contracts entered into by SCBC to manage the company's risks.

Limit utilisation

SEK million	2011		2010	
Rating category	**Limit**	**Utilised limit**	**Limit**	**Utilised limit**
AAA	0	0	500	0
AA– to AA+	6,500	781	8,830	212
A– to A+	12,885	1,627	10,725	341
Below A–	–	–	–	–
Total	**19,385**	**2,408**	**20,055**	**553**

The table above shows the utilised limit and the limit at an aggregate level, respectively, for SCBC's counterparties per rating category, with the various counterparties placed in relation to their lowest rating and serves as a summary of the external derivative contracts that SCBC had entered into at 31 December 2011. At the Group level, limits per counterparty are set for all investments, derivative contracts and repo contracts. The table above shows the limits for the Group. In accordance with the finance directives, limits are set by SBAB Bank's Finance Committee within the scope of the rating-related framework established by the Parent Company's Board of Directors. Utilised limits are calculated as the market value of financial derivative instruments, repo contracts and investments. For counterparties who are also loan customers, the limit is to be coordinated with the credit limit. The limit can be established for a maximum period of one year before a new assessment must be made. The decisions of the Finance Committee are to be reported to the Board at the following Board meeting. Unilateral collateral agreements are established for all of SCBC's derivative counterparties.

Counterparty risk

Counterparty risk comprises exposures to leading banks and to the Parent Company and, in the case of external counterparties, is covered exclusively by unilateral collateral agreements for which the counterparty pledges collateral by transferring funds or securities to reduce the exposure, known as Credit Support Annexes (CSA). Wherever applicable, the collateral received is in the form of cash, with transfer of title, which entitles the receving party to use the collateral in its operations. At 31 December 2011, SCBC had received collateral with a total value of SEK 3.1 billion.

SBAB Bank's Finance Committee establishes credit limits for all counterparties in the finance operations, with the exception of the Kingdom of Sweden and companies included in the SBAB Bank Group, for which no credit limits are established.

The table "Maximum credit risk exposure in the finance operations" shows the maximum credit risk exposure, both taking into account and without taking into account, collateral received or other credit enhancements.

Maximum credit risk exposure in the finance operations	Without taking into account collateral received or other credit enhancements		Taking into account collateral received or other credit enhancements	
	2011	**2010**	**2011**	**2010**
Lending to credit institutions	11,474	7,557	11,475	7,557
Chargeable treasury bills and other eligible bills	–	–	–	–
Bonds and other interest-bearing securities	–	–	–	–
Derivative instruments	8,172	5,146	5,021	2,611
Maximum credit risk exposure at 31 December	**19,646**	**12,703**	**16,496**	**10,168**

The table above shows the maximum credit risk exposure in the finance operations at an aggregate level per exposure category. The amounts pertain to the carrying amount, excluding intra-Group exposures.

Note 2c Risk management – Liquidity risk

Liquidity risk is defined as the risk of the company being unable to meet its payment obligations on the date of maturity without the related cost increasing significantly.

At SCBC, liquidity risk is managed as part of the Group's overall risk management. SCBC has entered into an agreement with the Parent Company, SBAB Bank, concerning a substantial liquidity facility. The purpose of this agreement is to enable SCBC to borrow funds from the Parent Company should SCBC not be able to pay its own bond holders when SCBC's bonds mature.

Maturities for financial assets and liabilities

Amounts refer to contractual, undiscounted cash flows.

	2011							2010						
SEK million	Without maturity	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total	Without maturity	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total
ASSETS														
Lending to credit institutions	133	11,439	–	–	–	–	11,572	158	7,475	–	–	–	–	7,633
Lending to the public	–	30,879	37,761	60,117	88,624	4,473	221,854	–	34,580	43,428	64,669	70,293	7,241	220,211
Derivative instruments	–	110,710	17,014	19,491	134,239	19,068	300,522	–	129,790	15,979	23,290	105,678	28,657	303,394
Other assets	416	–	–	–	–	–	416	311	–	–	–	–	–	311
Total financial assets	**549**	**153,028**	**54,775**	**79,608**	**222,863**	**23,541**	**534,364**	**469**	**171,845**	**59,407**	**87,959**	**175,971**	**35,898**	**531,549**
LIABILITIES														
Liabilities to credit institutions	–	15,057	–	–	–	–	15,057	–	10,822	–	–	–	–	10,822
Debt securities in issue	–	759	17,470	6,479	135,248	15,094	175,050	–	2,208	21,769	11,817	119,669	17,988	173,451
Derivative instruments	–	111,611	15,616	19,866	134,101	20,030	301,224	–	130,273	14,376	24,479	108,072	29,892	307,092
Other liabilities	3,714	–	–	–	–	–	3,714	3,345	–	–	–	–	–	3,345
Subordinated debt	36,300	–	–	–	–	–	36,300	38,363	–	–	–	–	–	38,363
Total financial liabilities	**40,014**	**127,427**	**33,086**	**26,345**	**269,349**	**35,124**	**531,345**	**41,708**	**143,303**	**36,145**	**36,296**	**227,741**	**47,880**	**533,073**

For receivables and liabilities that have been recalculated, the fixed-interest period for the amortisation has been calculated as the period up to the date of maturity for the particular amortisation. Foreign currency cash flows have been recalculated at the closing rate at 31 December 2011. Future interest-rate cash flows with floating interest rates have been estimated until the stipulated date of expiry using forward/forward interest rates based on the actual interest base, usually the three-month STIBOR.

Note 2d Risk management – Refinancing risk

Refinancing risk is the risk of an increased cost for funding or insufficient funding opportunities as a result of differences in structure and maturity between lending and funding.

The SBAB Bank Group's calculation of refinancing risk is based on all contractual principals with a remaining maturity exceeding one year. This calculation thus supplements the SBAB Bank Group's liquidity risk model, which covers the interval up to one year. In the refinancing risk model, equity is assigned a maturity that corresponds to the SBAB Bank Group's longest lending assets.

The SBAB Bank Group has adopted a conservative approach to the management of funding. A greater share of future maturities is being pre-funded and the share of total funding attributable to short-term funding is being maintained at a low level. The SBAB Bank Group has actively worked to ensure an even distribution of maturity dates, while at the same time extending the maturity of the liability. Covered bonds in particular have been used to extend the maturity of the funding portfolio.

The tables "Derivative cash flow statement" and "Maturities for financial assets and liabilities" show SCBC's future cash flows at 31 December 2011 and 31 December 2010, respectively, from both a short and long-term perspective.

Note 2e Risk management – Market risk

Market risk is the risk of a decline in profitability due to unfavourable market fluctuations. SCBC is characterised by low risk-taking, and the company's Board ultimately decides on methods for risk measurement and limits. The management of SCBC's risks is outsourced to the Parent Company, SBAB Bank, where it is followed up and managed at both the company and Group level. The basis for SBAB Bank's management of SCBC's market risk is that it must be minimised, subject to the overall objective of satisfying the matching regulations expressed in the Covered Bonds Act (2003:1223). The Risk Unit monitors current risk levels and compliance with limits using a daily reporting system.

Interest-rate risk

Interest-rate risk arises primarily when the interest rate structure between funding and lending is not fully matched. SCBC's interest rate structure at 31 December 2011 is shown in the table "Fixed-interest period for financial assets and liabilities."

The main principle for SCBC's interest-rate risk management is to limit interest-rate risk through direct funding and the use of derivatives. Accordingly, interest-rate risk arises in SCBC to only a limited extent. SCBC takes no active positions.

The interest-rate risk limits set for the Group by the Board of the Parent Company, SBAB Bank, also apply for SCBC. The SBAB Bank Group's interest-rate risk is quantified through a parallel shift of the yield curve, a model that simulates a large number of non-parallel shifts of the yield curve (known as curve risk) and through Value at Risk (VaR). The calculation takes into account all contractual cash flows affecting lending, funding and derivatives. The parallel shift measurement and curve risk are used for setting and following up limits, while the VaR is included in the model for economic capital. The interest-rate risk limits established by the Board of Directors are divided into two categories – operational and strategic.

Operational interest-rate risk is subject to a limit of 1% of the SBAB Bank Group's capital base in the event of a parallel shift of the yield curve of 1 percentage point. At 31 December 2011, the operational interest-rate risk exposure amounted to a negative SEK 28.3 million (neg: 28), compared with the limit of +/– SEK 139 million set by the Board of Directors.

Curve risk is quantified through a model in which the short-term portion of the yield curve is adjusted upward (downward) by 0.5 percentage points and the long-term portion is adjusted downward (upward) by 0.5 percentage points. A large number of breakpoints are tested for both the short and long-term portion. The curve risk is defined as the least favourable of the tested scenarios. The limit for the operational curve risk is 1% of SBAB Bank's capital base. At 31 December 2011, the curve risk amounted to SEK 70.1 million (89.9), compared with the limit of SEK 139 million.

Strategic interest-rate risk is the interest-rate risk that arises when SBAB Bank's equity and flow are invested in fixed-interest lending. The flow arises because the frequency of interest payments from lending and funding varies. SBAB Bank's equity and flow is to be used primarily to fund lending operations. The benchmark for the investment of equity is set by the Board and defined as a maturity ladder with even annual maturities over a period of one to six years. The interest-rate risk associated with equity is defined as the deviation from this benchmark. The flow is invested at an average maturity corresponding to the average maturity of the lending portfolio. At 31 December 2011, the strategic interest-rate risk amounted to SEK 2.0 million (14). Accordingly, the risk was within the approved interval of +/– SEK 20 million established for deviation from the benchmark.

Interest-rate risk is also quantified through measurements of Value at Risk (VaR). The VaR model used is a parametric model with risk factors based on an assumption of normally distributed yields, calculated by variance/covariance matrices for the risk factors included. A unilateral confidence interval of 99.97% and a holding period of one year are applied.

Basis risk

Basis risk primarily arises when funding in a foreign currency is swapped to SEK with a maturity that deviates from the maturity of the underlying funding.

All funding in foreign currency in SCBC is swapped to SEK with matching maturities. Accordingly, SCBC is not exposed to basis risk.

Currency risk

Currency risk refers to the risk that changes in the SEK's exchange rate in relation to other currencies will result in deteriorating profitability.

All of SCBC's funding in foreign currency is translated to and hedged in SEK through derivative contracts.

Derivative cash flow statement

Amounts refer to contractual, undiscounted cash flows.

	2011						2010					
SEK million	**Up to 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**> 5 years**	**Total**	**Up to 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**> 5 years**	**Total**
DERIVATIVES SETTLED ON A NET BASIS												
Currency-related derivatives	–	–	–	–	–	–	–	–	–	–	–	–
Interest-rate related derivatives	–382	–307	555	2,386	–323	1,929	–223	–157	850	152	–553	69
Total derivatives settled on a net basis	**–382**	**–307**	**555**	**2,386**	**–323**	**1,929**	**–223**	**–157**	**850**	**152**	**–553**	**69**
DERIVATIVES SETTLED ON A GROSS BASIS												
Currency-related derivatives												
– Inflows of cash	1,728	236	6,113	46,671	13,699	68,447	2,120	1,462	11,929	34,401	20,965	70,877
– Outflows of cash	–1,786	–390	–5,644	–48,919	–14,338	–71,077	–2,113	–1,574	–12,365	–36,947	–21,647	–74,646
Interest-rate related derivatives												
– Inflows of cash	–	–	–	–	–	–	–	–	–	–	–	–
– Outflows of cash	–	–	–	–	–	–	–	–	–	–	–	–
Total												
– Inflows	**1,728**	**236**	**6,113**	**46,671**	**13,699**	**68,447**	**2,120**	**1,462**	**11,929**	**34,401**	**20,965**	**70,877**
– Outflows	**–1,786**	**–390**	**–5,644**	**–48,919**	**–14,338**	**–71,077**	**–2,113**	**–1,574**	**–12,365**	**–36,947**	**–21,647**	**–74,646**

Foreign currency cash flows have been recalculated at the closing rate at 31 December 2011. Future interest-rate cash flows for asset and liability derivatives with floating interest rates have been estimated until the stipulated date of expiry using forward/forward interest rates based on the actual interest base, usually the three-month STIBOR.

Note 2e Risk management – Market risk, contd.

Fixed-interest period for financial assets and liabilities

	2011							2010						
Carrying amount SEK million	**Without fixed-interest period**	**< 3 months**	**3–6 months**	**6–12 months**	**1–5 years**	**> 5 years**	**Total**	**Without fixed-interest period**	**< 3 months**	**3–6 months**	**6–12 months**	**1–5 years**	**> 5 years**	**Total**
ASSETS														
Lending to credit institutions	87	11,475	–	–	–	–	11,562	72	7,557	–	–	–	–	7,629
Lending to the public	–	111,005	9,903	13,150	72,249	4,171	210,478	–	128,378	8,667	9,842	56,184	6,590	209,661
Change in fair value of hedge-accounted loan receivables	–	1,316	725	1,188	-181	-459	2,589	–	1,003	588	993	-386	-1,076	1,122
Derivative instruments	–	-149,014	16,707	3,252	121,783	15,444	8,172	–	-127,134	24,392	9,635	81,175	17,078	5,146
Other assets	416	–	–	–	–	–	416	311	–	–	–	–	–	311
Total financial assets	**503**	**–25,218**	**27,335**	**17,590**	**193,851**	**19,156**	**233,217**	**383**	**9,804**	**33,647**	**20,470**	**136,973**	**22,592**	**223,869**
LIABILITIES														
Liabilities to credit institutions	–	15,053	–	–	–	–	15,053	–	10,818	–	–	–	–	10,818
Debt securities in issue	–	23,432	13,633	3,414	105,593	14,599	160,671	–	18,498	18,230	9,551	92,745	16,295	155,319
Derivative instruments	–	-116,656	15,120	14,540	89,479	3,957	6,440	–	-75,475	19,769	10,913	44,659	5,680	5,546
Other liabilities	3,714						3,714	3,345	–	–	–	–	–	3,345
Subordinated debt	-99	36,399	–	–	–	–	36,300	-608	38,971	–	–	–	–	38,363
Total financial liabilities	**3,615**	**–41,772**	**28,753**	**17,954**	**195,072**	**18,556**	**222,178**	**2,737**	**–7,188**	**37,999**	**20,464**	**137,404**	**21,975**	**213,391**
Difference assets and liabilities	**–3,112**	**16,554**	**–1,418**	**–364**	**–1,221**	**600**	**11,039**	**–2,354**	**16,992**	**–4,352**	**6**	**–431**	**617**	**10,478**

Note 2f Risk management – Operational risk

Operational risk refers to the risk of losses due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events, including legal risk.

SCBC uses the standardised approach to measure operational risk and assess capital requirements. This approach entails that the capital requirement is based on 12-18% of the average operating income of the business areas for the past three years. To be permitted to use the standardised approach, the company must fulfil the requirements for documentation, processes and structures stipulated in the regulations, such as:

- Established control documents
- Documented risk management
- Internal reporting structure
- Processes for managing operational risks
- Contingency plans and continuity plans
- Method for allocating operating income among business areas

The SBAB Bank Group uses the Opera model to manage operational risk. The model is based on self-evaluation of operational risks and risks associated with financial reporting in existing processes, as well as the registration of incidents that have occurred. The results of the self-evaluation are reported annually and any incidents that occur are reported on a monthly basis to the Board of Directors and Managing Director.

Note 2g Risk management – Business risk

Business risk refers to the risk that deteriorating competitive conditions or an incorrect strategy or decision will result in declining income. Business risk also includes margin risk, which arises when the fixed-interest periods applying to the interest-rate margins for lending and funding differ.

Business risk is divided into two main groups: new business and existing business. New business is to be relatively similar to business already existing in the SBAB Bank Group. Changes in the form of new products or new markets should account for only a minor share of the SBAB Bank Group's operations and should be implemented at a pace that ensures they do not significantly jeopardise the level of earnings or capital base. Business risk is included in the calculation of the capital requirement based on economic capital using a standardised approach that reflects the business areas' operating expenses.

Note 2h Risk management – Concentration risk

Concentration risk arises when either major exposures or exposures in the loan portfolio are concentrated to certain types of borrowers, regions or industries.

All companies in the SBAB Bank Group are primarily considered to be exposed to credit-risk related concentration risk in their lending operations. The concentration risk is calculated based on the size of the exposures, industry concentration and geographical concentration. The full capital requirement for concentration risk is included in the economic capital for credit risk.

Upon calculation at 31 December 2011, the internally calculated capital requirement for credit-related concentration risk in the SBAB Bank Group amounted to SEK 878 million (943), of which SEK 822 million (900) pertained to credit risk in the lending operations and SEK 56 million (43) to credit risk in the funding operations.

Note 2i Risk management – Internal capital adequacy assessment

Internal capital adequacy assessment process

The purpose of the Internal Capital Adequacy Assessment Process (ICAAP) is to identify, evaluate, secure and manage the risks to which the SBAB Bank Group is exposed and ensure that the Group has sufficient risk capital for its selected risk profile. The ICAAP is revised annually to identify changes in the operating environment that continuously affect the Group's performance.

The amount of risk capital required to manage the combined risk in the operations is calculated at Group level. This calculation is mainly based on the calculation of the SBAB Bank Group's economic capital. A qualitative assessment is also made of the risks that are not included in the calculation of economic capital. In addition, consideration is given to the risk associated with extraordinary events, which is illustrated in conjunction with stress tests. Based on the qualitative assessment and results of the stress tests, the calculated economic capital is supplemented with an extra buffer capital. Taken together, the economic capital and buffer capital comprise the risk capital required to meet all risks in the SBAB Bank Group's operations in accordance with Basel II. At 31 December 2011, the Group's risk capital amounted to SEK 8,883 million (6,463).

Economic capital

Economic capital comprises the capital that the SBAB Bank Group deems to be required to cover unexpected losses during the coming year. It is presumed that expected losses can be covered by earnings from operating activities. The assessment of economic capital takes into account credit risk, market risk, operational risk and business risk. Credit risk is the dominant risk in the SBAB Bank Group's operations. The levels take into account diversification effects, meaning that the risk has been reduced by considering the lower probability that several risks will be realised simultaneously.

To a large extent, the economic capital model is based on the result of the Group's IRB approach for quantification of credit risk. In addition to comprising an assessment of the combined capital requirement for managing the risks in the company's operations, the economic capital model is also used for monitoring purposes, economic control and strategic considerations.

Stress tests

Capital planning is founded on a basic scenario that reflects the most probable operational development in accordance with internal forecasts. Complementing this, stress tests and scenario analyses are performed, whereby the development of the credit portfolio and capital requirements during a serious economic downturn is evaluated.

In the stress scenario, the Swedish economy is subjected to several major disturbances simultaneously. A combination of external and internal factors further exacerbates the situation and leads to a recession, inflation and problems in the bank sector. The scenario is of the nature that might be expected to occur every 20 to 25 years.

The stress tests are conducted in such a way that the macroeconomic scenario that forms the foundation for the stress in the system is translated to reflect the effects it has on the SBAB Bank Group's risk models. A change in the credit-worthiness of individual loans is simulated through changes in the majority of the parameters in the SBAB Bank Group's IRB approach. A negative stress on probability of default (PD) variables simulates the deterioration in the payment capacity of customers due to factors including higher interest rates, while declining market values for underlying collateral lead to an increase in the loss given default (LGD).

To evaluate the effect of the stress test, measurements are made of the change in the SBAB Bank Group's economic capital and expected losses for the loan portfolio due to the changes in composition and credit quality. In the stress scenario characterised by a severe recession, both the economic capital and expected losses increase significantly, although from very low levels. During the first year of the stress scenario, economic capital in the SBAB Bank Group increased SEK 978 million (600) and loan losses rose SEK 36 million (40), only to increase additionally during the second year before recovering somewhat in the final year. The increase in economic capital and expected losses derives largely from the simulation of declining market values, since these have an impact on both the PD and the LGD dimension.

On the basis of the results of the stress tests, a capital buffer of SEK 978 million (600) has been allocated to offset the increase in economic capital during the first year of the stress scenario. The increase in economic capital during the remaining years is covered by the Group's equity and earnings, which significantly exceed the lowest level corresponding to the minimum capital requirement under the regulatory framework.

SBAB Bank Group's economic capital by risk type

SEK million	2011	2010
Risk type	Economic capital	Economic capital
Credit risk	4,858	4,760
of which, concentration risk	*878*	*943*
Market risk	151	170
Business risk	200	179
Operational risk	134	162
Total economic capital	**5,343**	**5,271**

Note 2j Risk management – Capital adequacy

The regulations for capital adequacy and large exposures introduced in 2007 through Basel II stipulate that the risk associated with the company's operations is to be reflected in the minimum capital requirement. The changes to the regulations have had a limited impact to date, since the transitional regulations, which were originally intended to remain in effect until year-end 2009, have been extended. The transitional regulations will probably apply until year-end 2015.

Many of the changes discussed prior to Basel II were never included in the regulations, but rather were deferred until a later time. Since then, the financial and debt crises have led to additional demand for stricter capital adequacy regulations, resulting in the proposal of a new regulatory standard – Basel III.

Basel III proposes higher capital requirements, stricter demands on capital quality, the introduction of a non-risk-based measurement (leverage ratio) and quantitative liquidity requirements. The new regulations, which will be implemented gradually, are stricter than the current regulations. The aim is for all of the changes to be introduced by 2019. Implementation of Basel III will take place at the EU level through CRDIV/CRRIV.

SCBC primarily recognises credit risk in accordance with the IRB approach, and operational and market risk in accordance with the standardised approach. Profit for the year is included in the calculation of the capital base and Tier 1 capital. The figures for 31 December 2011 include a Group contribution to the Parent Company of SEK 376 million (0), after tax. No dividend has been included, which is in line with the Board of Directors' proposal for the appropriation of profits.

There are no ongoing or unforeseen material obstacles or legal barriers to a rapid transfer of funds from the capital base other than what is generally stipulated by the Companies Act.

Capital base

SEK million	2011	2010
Core Tier 1 capital		
Equity	10,933	10,461
Proposed dividend	–	–100
Net provisions for IRB exposures	–120	–121
Core Tier 1 capital	**10,813**	**10,240**
Tier 1 capital	**10,813**	**10,240**
Tier 2 capital	**–**	**–**
Expanded part of capital base	–	–
Deduction from entire capital base	–	–
Amount for capital base net after deductible items and limit value	**10,813**	**10,240**

Capital adequacy [1]

SEK million	2011	2010
Core Tier 1 capital	10,813	10,240
Tier 1 capital	10,813	10,240
Total capital	10,813	10,240
Without transitional regulations		
Risk-weighted assets	34,654	33,425
Core Tier 1 capital ratio, %	31.2	30.6
Tier 1 capital ratio, %	31.2	30.6
Capital adequacy ratio, %	31.2	30.6
Capital quotient	3.90	3.83
With transitional regulations		
Risk-weighted assets	101,241	99,355
Core Tier 1 capital ratio, %	10.7	10.3
Tier 1 capital ratio, %	10.7	10.3
Capital adequacy ratio, %	10.7	10.3
Capital quotient	1.34	1.29

[1] According to Basel II regulations.

Capital requirement

SEK million	2011	2010
Credit risk recognised in accordance with IRB approach		
– Exposures to corporates	1,917	1,927
– Retail exposures	552	536
Total exposures in accordance with IRB approach	**2,469**	**2,463**
Credit risk recognised in accordance with standardised approach		
– Exposures to governments and central banks	0	0
– Exposures to municipalities and comparable associations	0	0
– Exposures to institutions	151	77
– Exposures to corporates	6	20
– Retail exposures	1	1
– Past-due items	0	–
– Other items	2	2
Total exposures in accordance with standardised approach	**160**	**100**
Risks in the trading book	**–**	**–**
Operational risk	**143**	**111**
Currency risk	**–**	**–**
Commodity risk	**–**	**–**
Total minimum capital requirement	**2,772**	**2,674**
Addition according to transitional period	5,327	5,274
Total capital requirement according to transitional regulations	**8,099**	**7,948**

Note 3 Net interest income

SEK million	2011	2010
Interest income		
Lending to credit institutions	211	68
Lending to the public[1]	7,854	5,414
Interest-bearing securities	–330	–1,815
Total	**7,735**	**3,667**
Interest expense		
Liabilities to credit institutions	–252	–61
Debt securities in issue	–4,726	–1,661
Subordinated debt	–1,068	–505
Other	–	–
Total	**–6,046**	**–2,227**
Net interest income	**1,689**	**1,440**

The subordinated debt was issued by the Parent Company.

1) Including interest income of SEK 0 million on doubtful receivables

Note 4 Commission

SEK million	2011	2010
Commission income		
Commission on lending	10	10
Total	**10**	**10**
Commission expense		
Stability fee	–66	–31
Other commission	–40	–48
Total	**–106**	**–79**
Commission, net	**–96**	**–69**

Note 5 Net income from financial transactions

SEK million	2011	2010
Gains/losses on interest-bearing financial instruments:		
– Change in value of hedged items in hedge accounting	–2,069	1,009
– Realised expense from financial liabilities	–96	–534
– Derivative instruments in hedge accounting	2,380	–319
– Other derivative instruments	0	0
– Loan receivables	57	91
Currency translation effects	**–4**	**2**
Total	**268**	**249**

The change in the market value of basis swaps is attributable to "Derivative instruments in hedge accounting" and "Other derivative instruments." With respect to risk management, derivative instruments are related to and have their counter-items in all other categories of interest-bearing financial instruments.

Note 6 General administration expenses

SEK million	2011	2010
Outsourcing costs	–521	–431
Management fee	–41	–31
Other administration expenses	–0	–1
Total	**–562**	**–463**

SCBC has a Managing Director who is in charge of day-to-day management of the company, in consultation with the Parent Company's management. The Managing Director is employed by the Parent Company but is also employed by SCBC. The Board comprises four Members. No salary or other remuneration is paid to the Managing Director or the Board.

SBAB Bank is responsible for the day-to-day administrative services in accordance with the outsourcing agreement between SBAB Bank and SCBC.

Fees and compensation for expenses to auditor

Fees and compensation for expenses to PwC amounted to SEK 0.9 million (0.7), of which the audit cost accounted for SEK 0.4 million.

Of the SEK 0.5 million (0.4) for audit tasks in addition to the audit of the annual financial statements, tax consultancy accounted for SEK 0 million and other services for SEK 0 million.

The audit assignment includes examination of the annual report, the accounting records and the administration by the Board and Managing Director. The audit assignment also includes consultancy and other assistance resulting from such examination. Audit tasks in addition to the audit of the annual financial statements pertain to the examination of the interim reports/year-end report and such other duties that may only be performed by the signing-off auditor, such as the preparation of various types of certificates. Other services pertain to consultancy services required at the initiative SCBC.

Note 7 Loan losses, net

SEK million	2011	2010
Corporate market		
Collective provision for corporate market loans		
Allocation to/redemption of collective provisions	–0	2
Guarantees	8	–4
Net income/cost for the year for collective provisions for corporate market loans	**8**	**–2**
Retail market		
Individual provision for retail market loans		
Write-off of confirmed loan losses for the year	–	–2
Reversal of prior year provisions for probable loan losses recognised as confirmed loan losses in the financial statements for the year	–	1
Provision for probable loan losses for the year	–3	–
Guarantees	–	–
Net cost for the year for individual provisions for retail market loans	**–3**	**–1**
Collective provision for retail market loans		
Write-off of confirmed loan losses for the year	–0	–1
Allocation to collective provisions	–11	–6
Guarantees	–5	–0
Net cost for the year for collective provisions for retail market loans	**–16**	**–7**
Net cost for the year for loan losses	**–11**	**–10**

The write-offs regarding confirmed losses as specified above relate to receivables from the public. The guarantees pertain to received or anticipated receivables from the National Housing Credit Guarantee Board, insurance companies and banks. Refer also to the paragraph concerning credit risk in the section "Risk management" on page 16.

Note 8 Tax

SEK million	2011	2010
Current tax	-250	-229
Deferred tax	-89	-72
Total	**-339**	**-301**

The effective tax rate differs from the nominal tax rate in Sweden as below

Profit before tax	1,287	1,147
Nominal tax rate in Sweden 26.3%	-339	-302
Tax for previous years and other	–	1
Total tax	**-339**	**-301**
Effective tax rate	26.3%	26.2%

Note 9 Lending to credit institutions

SEK million	2011	2010
Lending in SEK	11,515	7,543
Lending in foreign currency	47	86
Total	**11,562**	**7,629**
of which repos	*11,428*	*7,470*

Receivables outstanding distributed by remaining maturity, net carrying amount

Payable on demand	134	159
At most 3 months	11,428	7,470
Longer than 3 months but at most 1 year	–	–
Longer than 1 year but at most 5 years	–	–
Longer than 5 years	–	–
Total credit institutions	**11,562**	**7,629**
Average remaining maturity, years	0.0	0.0
Total	**11,562**	**7,629**

Of SCBC's Lending to credit institutions, SEK 87 million (72) pertains to a receivable from FriSpar Bolån AB (a joint venture in the SBAB Bank Group).

Note 10 Lending to the public

SEK million	2011	2010
Opening balance	209,661	173,473
Transferred from Parent Company	21,657	54,643
Amortisation, write-offs, redemption	-20,680	-18,329
Closing balance	**210,638**	**209,787**
Provision for probable loan losses	-160	-126
Closing balance	**210,478**	**209,661**

Receivables outstanding distributed by remaining maturity, net carrying amount

Payable on demand	–	–
At most 3 months	28,737	32,905
Longer than 3 months but at most 1 year	94,057	104,649
Longer than 1 year but at most 5 years	83,511	65,330
Longer than 5 years	4,173	6,777
Total	**210,478**	**209,661**
Average remaining maturity, years	1.3	1.3

SEK million	2011	2010
Distribution of lending by property type		
Single-family dwellings and holiday homes	82,730	82,005
Tenant-owner rights	48,699	48,060
Tenant-owner associations	47,920	48,280
Private multi-family dwellings	25,202	24,040
Municipal multi-family dwellings	5,904	7,231
Commercial properties	183	171
Provision for probable loan losses	-160	-126
Total	**210,478**	**209,661**
Percentage of lending with a government or municipal guarantee	3	4
Average fixed-interest period, years	1.1	1.0

In the event of early redemption during the fixed-interest period, SCBC has the right to receive so-called interest compensation. The amount of compensation in the case of retail market loans is based on the interest rate on the loan compared with the interest rate on government bonds/treasury bills with a comparable remaining maturity up to the interest adjustment date +1%. For other loans, the reinvestment interest rate for comparable government securities is, in most cases, the applicable interest rate. In other cases, the comparable interest rate is specified in the current terms of the loan.

In addition to mortgage deeds in pledged property, SCBC has, in certain cases, received government or municipal guarantees as collateral for the borrower's commitments. The proportion of loans covered by this type of guarantee is shown in the table above. A total of SEK 43,965 million (41,908) of SCBC's lending portfolio was provided by business partners through the Parent Company and it is possible for certain partners, in the event of a change of ownership of the Parent Company, to acquire brokered loans.

Doubtful loan receivables and provisions

SEK million	2011	2010
a) Doubtful loan receivables	3	–
b) Individual provisions for loan receivables	3	–
c) Collective provisions for corporate market loans	24	18
d) Collective provisions for retail market loans	133	108
e) Total provisions (b+c+d)	160	126
f) Doubtful loan receivables after individual provisions (a-b)	0	–
g) Provision ratio for individual provisions (b/a)	100%	–

Refer also to the paragraph concerning credit risk in the section "Risk management", on page 16.

Distribution of doubtful loan receivables and provisions by property type

SEK million	2011 Single-family dwellings and holiday homes	Tenant-owner rights	Tenant-owner associa-tions	Private multi-family dwellings	Total	2010 Single-family dwellings and holiday homes	Tenant-owner rights	Tenant-owner associa-tions	Private multi-family dwellings	Total
Doubtful loan receivables, gross		3			3					–
Individual provisions, loan receivables		3			3					–
Collective provisions, corporate market loans			4	20	24			7	11	18
Collective provisions, retail market loans	83	50			133	71	37			108
Doubtful loan receivables after individual provisions					**0**					**–**

Note 11 Derivative instruments

SEK million	2011 Fair value, assets	Fair value, liabilities	Nominal amount	2010 Fair value, assets	Fair value, liabilities	Nominal amount
Derivatives in fair value hedges						
Interest-rate related						
–interest-rate swaps	5,293	2,906	368,684	2,428	1,868	367,828
Currency related	2,849	2,525	49,226	2,475	2,682	52,734
Total	**8,142**	**5,431**	**417,910**	**4,903**	**4,550**	**420,562**
Other derivatives						
Interest-rate related						
–interest-rate swaps	0	0	1,782	216	98	15,816
Currency related	30	1,009	16,564	27	898	13,578
Total	**30**	**1,009**	**18,346**	**243**	**996**	**29,394**

Derivative instruments distributed by remaining maturity, carrying amount	2011 Fair value	Nominal amount	2010 Fair value	Nominal amount
At most 3 months	–8	1,673	0	3,356
3–12 months	986	25,523	502	52,429
1–5 years	2,805	172,391	145	152,978
Longer than 5 years	–2,051	236,669	–1,047	241,193
Total	**1,732**	**436,256**	**–400**	**449,956**

Hedge accounting

Hedge accounting is only applied for hedging relationships where the risk of a significant fluctuation in profit or loss is considered the greatest.

Fair value hedges

SCBC mainly uses fair value hedges to protect against changes in the fair value of lending and funding at fixed interest rates and to hedge currency exposure of funding in foreign currency. The hedge instruments primarily used are interest-rate and currency swaps. Currency interest-rate swaps are defined as currency-related derivatives. SCBC applies hedge accounting solely for currency and interest-rate risk.

At 31 December 2011, the nominal amount of derivatives held for fair value hedging was SEK 418 billion (421). The fair value of these derivatives was SEK 2,711 million (354). The year's change in value of these derivatives amounted to SEK 2,380 million (neg: 319). The change in fair value of the hedged items with respect to hedged risk amounted to a negative SEK 2,069 million (pos: 1,009) and the realised loss on the repurchased debt was SEK 96 million (loss: 534). Accordingly, SCBC's hedge accounting for fair value and completed repurchases had a positive impact of SEK 215 million (156) on profit for the year.

Note 12 Classification of financial instruments

Financial assets

SEK million	2011 Hedge-accounted derivative instruments	Loan receivables in hedge accounting	Other derivatives measures at fair value through profit or loss	Other loan receivables	Total	Total fair value
Lending to credit institutions				11,562	11,562	11,562
Lending to the public		210,478			210,478	211,994
Change in value of interest-rate-hedged items in portfolio hedges		2,589			2,589	–
Derivative instruments	8,142		30		8,172	8,172
Other assets				113	113	113
Prepaid expenses and accrued income		256		47	303	303
Total	**8,142**	**213,323**	**30**	**11,722**	**233,217**	**232,144**

Financial liabilities

SEK million	2011 Hedge-accounted derivative instruments	Other financial liabilities covered by hedge accounting	Other derivatives and liabilities measured at fair value through profit or loss	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions				15,053	15,053	15,053
Debt securities in issue		136,638		24,033	160,671	161,511
Derivative instruments	5,431		1,009		6,440	6,440
Other liabilities				550	550	550
Accrued expenses and prepaid income		2,618		546	3,164	3,164
Subordinated debt to Parent Company				36,300	36,300	36,300
Total	**5,431**	**139,256**	**1,009**	**76,482**	**222,178**	**223,018**

Financial assets

SEK million	2010 Hedge-accounted derivative instruments	Loan receivables in hedge accounting	Other derivatives measures at fair value through profit or loss	Other loan receivables	Total	Total fair value
Lending to credit institutions				7,629	7,629	7,629
Lending to the public		209,661			209,661	210,089
Change in value of interest-rate-hedged items in portfolio hedges		1,122			1,122	–
Derivative instruments	4,903		243		5,146	5,146
Other assets				55	55	55
Prepaid expenses and accrued income		217		39	256	256
Total	**4,903**	**211,000**	**243**	**7,723**	**223,869**	**223,175**

Financial liabilities

SEK million	2010 Hedge-accounted derivative instruments	Other financial liabilities covered by hedge accounting	Other derivatives and liabilities measured at fair value through profit or loss	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions				10,818	10,818	10,818
Debt securities in issue		136,820		18,499	155,319	155,937
Derivative instruments	4,550		996		5,546	5,546
Other liabilities				95	95	95
Accrued expenses and prepaid income		3,200		50	3,250	3,250
Subordinated debt to Parent Company				38,363	38,363	38,363
Total	**4,550**	**140,020**	**996**	**67,825**	**213,391**	**214,009**

Note 13 Fair value measurement

SEK million	2011 Quoted market prices (Level 1)	Other observable data (Level 2)	Unobservable data (Level 3)	Total	2010 Quoted market prices (Level 1)	Other observable data (Level 2)	Unobservable data (Level 3)	Total
Assets								
Derivatives in the category trade	–	30	–	30	–	243	–	243
Other derivatives	–	8,142	–	8,142	–	4,903	–	4,903
Total	**–**	**8,172**	**–**	**8,172**	**–**	**5,146**	**–**	**5,146**
Liabilities								
Derivatives in the category trade	–	1,009	–	1,009	–	996	–	996
Other derivatives	–	5,431	–	5,431	–	4,550	–	4,550
Total	**–**	**6,440**	**–**	**6,440**	**–**	**5,546**	**–**	**5,546**

In the above table, financial assets and liabilities recognised at fair value in the balance sheet are divided on the basis of the measurement methods used:

Quoted market prices (Level 1)
Measurement at quoted prices in an active market. An active market is a market in which there are easily available prices with satisfactory regularity. The measurement method is currently not used for any assets or liabilities.

Measurement based on observable data (Level 2)
Measurement aided by external market information other than quoted prices, such as quoted interest rates or prices for closely related instruments. This group includes all non-quoted derivative instruments.

Measurement based in part on unobservable data (Level 3)
Measurement whereby a material component of the model is based on estimates or assumptions that do not originate directly from the market. This method is currently not used for any assets or liabilities.

Note 14 Other assets

SEK million	2011	2010
Past due interest-rate receivables	42	55
Securities settlement receivables	3	–
Tax assets	68	–
Receivable from Parent Company	–	–
Total	**113**	**55**

	2011	2010
Other assets distributed by remaining maturity, carrying amount		
At most 1 year	113	55
Longer than 1 year	–	–
Total	**113**	**55**

Note 15 Prepaid expenses and accrued income

SEK million	2011	2010
Prepaid expenses	2	2
Accrued interest income	259	217
Other accrued income	42	37
Total	**303**	**256**

	2011	2010
Prepaid expenses and accrued income distributed by remaining maturity, carrying amount		
At most 1 year	278	237
Longer than 1 year	25	19
Total	**303**	**256**

Note 16 Liabilities to credit institutions

SEK million	2011	2010
Lending in SEK	13,353	8,664
Lending in foreign currency	1,700	2,154
Total	**15,053**	**10,818**
of which repos	*11,901*	*8,283*
Outstanding liabilities distributed by remaining maturity, carrying amount		
Payable on demand	3,152	2,535
At most 3 months	11,901	8,283
Longer than 3 months but at most 1 year	–	–
Total	**15,053**	**10,818**
Average remaining maturity, years	0.0	0.0

Note 17 Debt securities in issue

SEK million	2011	2010
Bond loans		
Bond loans in SEK		
– at amortised cost	9,400	6,409
– in fair value hedging	94,188	94,734
Bond loans in foreign currency		
– at amortised cost	14,633	13,211
– in fair value hedging	42,450	40,965
Total debt securities in issue	**160,671**	**155,319**
of which covered bonds	*160,671*	*155,319*
Debt securities in issue distributed by remaining maturity, carrying amount		
At most 1 year	19,319	30,590
Longer than 1 year but at most 5 years	126,663	107,670
Longer than 5 years but at most 10 years	13,076	15,879
Longer than 10 years	1,613	1,180
Total	**160,671**	**155,319**
Average remaining maturity, years	3.0	3.1
Average remaining fixed-interest period, years	2.7	2.7

Refer also to the section "Funding" on page 4.

Note 18 Other liabilities

SEK million	2011	2010
Tax liabilities	–	62
Liabilities to borrowers	40	33
Liabilities to Parent Company[1)]	510	–
Other	–	–
Total	**550**	**95**
Outstanding liabilities distributed by remaining maturity, carrying amount		
At most 1 year	550	95
Longer than 1 year	–	–
Total	**550**	**95**

[1)] Group contribution of SEK 510 million paid to the Parent Company

Note 19 Accrued expenses and prepaid income

SEK million	2011	2010
Accrued interest expense	3,089	3,203
Other accrued expenses	75	47
Total	**3,164**	**3,250**
Accrued expenses and prepaid income distributed by remaining maturity, carrying amount		
At most 1 year	3,164	3,250
Longer than 1 year	–	–
Total	**3,164**	**3,250**

Note 20 Deferred tax

SEK million	2011	2010
Deferred tax assets (+)/tax liabilities (–) for temporary differences in:		
Debt securities in issue	989	59
Derivative instruments	–1,095	–76
Total	**–106**	**–17**
Change in deferred tax:		
Deferred tax in profit or loss	–89	–72
Total	**–89**	**–72**
Deferred tax distributed by expected maturity date, carrying amount		
At most 1 year	–	–
Longer than 1 year	–106	–17
Total	**–106**	**–17**

Note 21 Subordinated debt to Parent Company

SEK million	2011	2010
Subordinated debt to Parent Company	36,300	38,363
Total	**36,300**	**38,363**

Terms and conditions governing subordination

The subordinated debt was issued by the Parent Company. The subordinated debt is subordinate to the company's other liabilities in the event of bankruptcy or liquidation, which means that it carries an entitlement to payment only after other claimants have received payment.

Note 22 Equity

The share capital amounts to SEK 50,000,000. The number of shares is 500,000, each with a quotient value of SEK 100, as in previous years.

All shares are owned by the Parent Company, SBAB Bank AB (publ), Corp. Reg. No. 556253-7513. Distributable equity in SCBC amounts to SEK 10,883 million. Dividends are proposed by the Board in accordance with the provisions of the Companies Act and are resolved by the Annual General Meeting. A Group contribution of SEK 510 million has been paid to the Parent Company and reduced equity by SEK 376 million after tax.

A specification of changes in equity is presented on page 11.

Note 23 Assets pledged for own liabilities

SEK million	2011	2010
Loan receivables	201,596	199,073
Repos	8,358	6,014
Total	**209,954**	**205,087**

Of the total lending portfolio (see Note 10) and "Lending to credit institutions" (see Note 9), the values recognised above constitute the cover pool for covered bonds amounting to SEK 160.7 billion (155.3).

Note 24 Information about related parties

SCBC is a wholly owned subsidiary of SBAB Bank (publ), Corp. Reg. No. 556253-7513.

SEK million	2011		2010	
Loans to key personnel	**Lending**	**Interest income**	**Lending**	**Interest income**
Managing Director	0	0	0	0
Board of Directors	2	0	3	0
Other key senior executives	5	0	4	0
Total	**7**	**0**	**7**	**0**

The Managing Director and Board of Directors refer to SCBC. The Board Members of the Parent Company are included among "Other key senior executives." Lending to Members of the Board of the Swedish Covered Bond Corporation (SCBC) or to employees holding key positions in the Parent Company may not occur on terms that are not normally available to other personnel.

Transactions with related parties in the SBAB Bank Group
SBAB Bank (the Parent Company) is a Swedish public limited liability company wholly owned by the Kingdom of Sweden.
FriSpar Bolån AB is a joint venture in SBAB Bank.
Related-party transactions occur on market terms.

	2011					
SCBC	**SBAB BANK**		**FRISPAR BOLÅN AB**		**TOTAL**	
SEK million	**Assets/ Liabilities**	**Interest rates**	**Assets/ Liabilities**	**Interest rates**	**Assets/ Liabilities**	**Interest rates**
Lending to credit institutions	3,520	77	87	–	3,607	77
Derivative instruments	1,528	158			1,528	158
Other assets	2				2	
Total	**5,050**	**235**	**87**	**–**	**5,137**	**235**
Liabilities to credit institutions	36,300	1,068			36,300	1,068
Debt securities in issue					0	0
Derivative instruments	2,968	272			2,968	272
Other liabilities	512				512	
Total	**39,780**	**1,340**	**–**	**–**	**39,780**	**1,340**

	2010					
SCBC	**SBAB BANK**		**FRISPAR BOLÅN AB**		**TOTAL**	
SEK million	**Assets/ Liabilities**	**Interest rates**	**Assets/ Liabilities**	**Interest rates**	**Assets/ Liabilities**	**Interest rates**
Lending to credit institutions	2,478	34	72	–	2,550	34
Derivative instruments	1,208	480			1,208	480
Other assets					0	
Total	**3,686**	**514**	**72**	**–**	**3,758**	**514**
Liabilities to credit institutions	38,363	505			38,363	505
Debt securities in issue					0	0
Derivative instruments	1,599	1,382			1,599	1,382
Other liabilities	177				177	
Total	**40,139**	**1,887**	**–**	**–**	**40,139**	**1,887**

Of SCBC's commission expense, SEK 25 million (29) pertains to SCBC's ability to exercise a liquidity facility at the Parent Company. Of the company's general administration expenses, SEK 521 million (431) pertains to compensation to the Parent Company for administrative services performed in accordance with an outsourcing agreement.

Proposed appropriation of profits

SCBC's non-restricted equity, according to the balance sheet, amounts to SEK 10,883,049,509, of which profit for the year accounted for SEK 948,267,575.

In accordance with Chapter 6, Section 2, Item 2 of the Annual Accounts Act for Credit Institutions and Securities Companies, the Board considers the company's equity to be sufficiently large in relation to the scope and risks of the operations.

Group contributions totalling SEK 510,000,000 have been granted, subject to the approval of the Annual General Meeting, which has reduced the company's non-restricted equity on the balance-sheet date by SEK 375,870,000, taking the tax effect into consideration. The Board of Directors and Managing Director consider that the proposed value transfer, in the form of Group contributions, complies with Chapter 17, Section 3 of the Companies Act. The value transfer is motivated taking into account the requirements that the nature, scope and risks of the operations impose in terms of the amount of equity and the company's liquidity and position in general.

The Board and the Managing Director certify that the financial statements and the annual accounts were prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and with generally accepted accounting policies for credit market companies, and provide a true and fair view of the company's position and earnings.

The Administration Report provides a true and fair view of the company's development, position and earnings, and describes the significant risks and uncertainties faced by the company.

Stockholm, 14 March 2012

Carl-Viggo Östlund
Chairman of the Board

Fredrik Bergström
Board Member

Per Olov Dahlstedt
Board Member

Christine Ehnström
Board Member

Christer Löfdahl
Managing Director

Our Audit Report was submitted on 14 March 2012

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant

Audit Report

To the Annual General Meeting of The Swedish Covered Bond Corporation, Corporate Registration Number 556645-9755

Report on the annual accounts

We have audited the annual accounts of The Swedish Covered Bond Corporation for the year 2011. The company's annual accounts are included in the printed version of this document on pages 1–35.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and for the internal control deemed necessary by the Board of Directors and the Managing Director for the preparation of annual accounts that are free from material misstatement, whether such misstatement is due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The auditor chooses such procedures based on such assessments as the risk of material misstatement in the annual accounts, whether such misstatement is due to fraud or error. In making these risk assessments, the auditor considers internal control measures relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate taking the circumstances into account, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of The Swedish Covered Bond Corporation as of 31 December 2011 and its financial performance and cash flows for the year in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory Administration Report and Corporate Governance Report are consistent with the other parts of the annual accounts.

We therefore recommend that the Annual General Meeting adopt the income statement and balance sheet.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts, we have examined the proposed appropriation of the company's profit or loss and the administration of the Board of Directors and the Managing Director of The Swedish Covered Bond Corporation for the year 2011.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal concerning the appropriation of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriation of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriation of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal complies with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any Member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any Member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions

We recommend to the Annual General Meeting that the profit be appropriated in accordance with the proposal in the statutory Administration Report and that the Members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, 14 March 2012
Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant

Corporate Governance Report

The Swedish Covered Bond Corporation ("SCBC") is a Swedish public limited liability company and a wholly owned subsidiary of SBAB Bank AB (publ) ("SBAB Bank"), which is wholly owned by the Kingdom of Sweden. SCBC is domiciled in Stockholm. The owner governs SCBC through general shareholder meetings, the Board of Directors and the Managing Director in accordance with the Companies Act, the Articles of Association, and policies and instructions adopted by SCBC.

SCBC was formed in order to broaden the SBAB Bank Group's funding opportunities following a change in Swedish legislation in 2004 permitting the issuance of covered bonds. Through the formation of a separate company, in which loans and supplementary collateral acquired from the SBAB Bank Group constitute an AAA-rated cover pool, opportunities are provided for reducing the cost of the SBAB Bank Group's funding. SCBC's operations comprise the issuance of covered bonds and related operations. On an annual basis, SCBC's Board of Directors resolves that the policies and instructions that SBAB Bank's Board of Directors has adopted for SBAB Bank will also apply, where applicable, to SCBC. This method of working is appropriate because SCBC's operational activities are conducted by SBAB Bank on assignment from SCBC. The company has a few non-preferential creditors, of which SBAB Bank is the largest. SBAB Bank's non-preferential claim on SCBC is subordinated.

SCBC's operations function as an instrument for the Group's funding activities. SBAB Bank's CFO is also Managing Director of SCBC. SCBC's objectives and strategies are part of the Parent Company's funding strategy. These objectives and strategies are presented in SBAB Bank's business plan. SCBC's funding operations are controlled by SBAB Bank's finance policy and the underlying finance directives. The relationship described above entails that SCBC does not fully comply with the Swedish Code of Corporate Governance ("the Code"). The Parent Company, SBAB Bank, complies with the Code in the manner applied by the Government Offices, as described in the Ministry of Finance's report "Government ownership policy and guidelines for state-owned companies 2011."

Articles of Association

SCBC's Articles of Association regulate matters such as SCBC's business objective. The Articles of Association do not include any provisions regulating the appointment or dismissal of Board Members, with the exception of stipulations stating that the Annual General Meeting is to appoint the Chairman of the Board and determine the minimum and maximum number of Board Members. Amendments to the Articles of Association require that notification of an extraordinary general meeting convened to address amendments to the Articles of Association be issued not earlier than six weeks and not later than four weeks prior to the meeting.

SCBC's Articles of Association do not assign any limitations as to the number of votes each shareholder is entitled to exercise at a general meeting.

Annual General Meeting

SCBC's Annual General Meeting was held on 13 April 2011 in Stockholm. At the Meeting, Board Members Bo Andersson, Per Balazsi and Johan Brodin were re-elected. Eva Cederbalk was newly elected and was also elected Chairman of the Board.

The Annual General Meeting resolved to discharge the Board of Directors and the Managing Director from personal liability, to approve the appropriation of profits, to adopt the annual financial statements for 2010, and that no director remuneration was to be paid to the Members of the Board.

The Annual General Meeting elected Öhrlings PricewaterhouseCoopers AB as SCBC's auditor until the end of the 2012 Annual General Meeting, with Catarina Ericsson elected as auditor-in-charge. The Annual General Meeting also resolved to amend SCBC's Articles of Association so that the time limit for notifications of extraordinary general meetings at which matters pertaining to amendments to the Articles of Association are not addressed, be extended to three weeks and the procedure for issuing notifications be changed to the effect that the complete notification no longer needs to be published in a nationwide daily newspaper.

Extraordinary general meetings

SCBC held an extraordinary general meeting on 9 May 2011, during which Board Member Christine Ehnström was newly elected.

On 22 November 2011, SCBC held another extraordinary general meeting to elect Per Olov Dahlstedt as a new Board Member after Johan Brodin, who had announced his decision to leave the SBAB Bank Group, stepped down from the Board of Directors in October 2011. In conjunction with the extraordinary general meeting, Bo Andersson stepped down from the Board of Directors. Per Balazsi had previously stepped down from the Board when he assumed the position of Managing Director on 5 May 2011.

On 21 December 2011, SCBC held an additional extraordinary general meeting to elect Fredrik Bergström as a new Board Member and Christine Ehnström as Chairman of the Board following the then-Chairman Eva Cederbalk's decision to step down from the Board upon leaving the SBAB Bank Group.

The Board of Directors has not been authorised by a general meeting to decide that the company is to issue new shares or acquire treasury shares.

The Board of Directors and its methods of work

In accordance with the Articles of Association, the Board of Directors shall comprise not fewer than three and not more than seven Members plus not more than six deputies. The Articles of Association contain no clauses concerning the appointment and dismissal of Board Members. The Members are normally elected at the Annual General Meeting for the period up to the following Annual General Meeting. The Managing Director is not a Member of the Board.

SCBC's Board of Directors is an employee board, to which is appointed members of SBAB Bank's Executive Management who are also responsible for those aspects of SBAB Bank's operation that relate to SCBC's outsourced activities. The CEO of SBAB Bank is appointed Chairman of SCBC's Board. As of 21 December 2011, SCBC's Board of Directors comprised the head of SBAB Bank's corporate business area, Per Olov Dahlstedt, the Head of SBAB Bank's retail business area, Fredrik Bergström, and SBAB Bank's Chief Legal Counsel, Christine Ehnström. As of 21 December 2011, Christine Ehnström also became the Acting CEO of SBAB Bank and Chairman of the Board of SCBC until newly recruited Carl-Viggo Östlund assumed his position at SBAB Bank on 1 March 2012.

The Board of Directors is ultimately responsible for the company's organisation and management. The Board of Directors is responsible for continuously assessing SCBC's financial situation and ensuring that the organisation is structured in a manner that enables the company's accounting, management of assets and the bank's other financial circumstances to be controlled in a satisfactory manner. The work of the Board complies with the working procedures adopted annually at the Board of Directors' statutory Board meeting immediately after the Annual General Meeting. The working procedures govern official notifications, the agenda and the quoracy of Board meetings, as well as the division of work between the Board of Directors and the Managing Director.

During 2011, the Board of Directors held six scheduled Board meetings and four extraordinary Board meetings. The work of the Board complies with an annual plan whose aims include satisfying the Board's need for information. SCBC's Board makes decisions on matters concerning SCBC's strategic orientation, funding, policies and certain instructions. The Board reviews the company's year-end report, annual report and semi-annual report, and decides on their adoption and publication. The control issues that are the responsibility of the Board are dealt with by the Board in its entirety. Each year, the Board also receives reports from the independent accountant appointed by the Swedish Financial Supervisory Authority, as well as SCBC's Risk Unit, internal audit function and compliance function, regarding observations from completed examinations and assessments of how control activities and regulatory compliance is maintained within the company.

The Board's committees

Audit and Compliance Committee

With respect to the statutory Audit Committee, this duty is handled by the Audit and Compliance Committee of the Parent Company, SBAB Bank, which conducts these duties integrated with the committee's monitoring of this area on behalf of SBAB Bank in other respects.

The Audit and Compliance Committee's principal duty, on the basis of the assignment from the owner and the applicable regulatory framework, is to examine the SBAB Bank Group's control mechanisms, the internal controls and the financial information, as well as preparing matters in these areas ahead of Board decisions.

The Audit and Compliance Committee is also responsible for the quality assurance of the company's financial reporting prior to Board decisions, holds regular meetings with the SBAB Bank Group's auditor, acquires information concerning the focus and scope of the audit, and discusses the coordination between the external and internal audits and the opinions on the Group's risks.

The Audit and Compliance Committee is responsible for evaluating external auditing work, informing the owner's administrator of the results of this work and assisting in the drafting of proposals for auditors. The internal audit function's auditing schedule and status reports concerning the function's work are also addressed in the Audit and Compliance Committee ahead of decisions or presentations to the Board. In addition, the Audit and Compliance Committee is responsible for risk management for the lending and funding operations. In so doing, SCBC's operations are dealt with indirectly. If separate issues arise that affect SCBC as a legal entity, these are also addressed in the Group-wide Audit and Compliance Committee.

The Audit and Compliance Committee currently comprises two of the Board Members appointed by the Parent Company's Board of Directors, of whom one is the Committee Chairman. Following the Parent Company's statutory Board meeting in 2011, the members of the Audit and Compliance Committee are: Karin Moberg (Chairman) and Per Anders Fasth. Lena Smeby-Udesen stepped down from the Parent Company's Board of Directors, and thus also the Audit and Compliance Committee, in late September 2011. Prior to that date, the Audit and Compliance Committee comprised three Board Members appointed by the Parent Company's Board of Directors. The Head of the Internal Audit is the convenor of and secretary at the Committee's meetings. SBAB Bank's CFO, who is also the Managing Director of SCBC, attends all Committee meetings pertaining to financial reports and, in this role, is responsible for ensuring that matters involving SCBC are addressed by the Committee and reported back to other Members of the SCBC Board. The SCBC Board is also provided with extracts from minutes of meetings of the Audit and Compliance Committee. Debriefing from Board committees is a standing item on the agenda of SCBC's Board meetings.

The Audit and Compliance Committee held six meetings during the year.

Credit Committee

In respect of matters to be addressed by a credit committee, these are handled through the Credit Committee of the Parent Company, SBAB Bank, which conducts these duties integrated with the committee's monitoring of this area on behalf of SBAB Bank in other respects.

The principal task of the Credit Committee is to decide on credit limits and loans in accordance with established credit instructions. The Credit Committee also has the task of preparing matters involving changes in the credit policy and credit instructions for decision by the Board, the assessment of portfolio strategies, the transparency of the loan portfolio, evaluation of assessment, decision and risk models, evaluation of existing or new delegation rights and the Board's annual review of regulatory frameworks, models for granting credits and outcomes in terms of consumer credit granting.

The Credit Committee comprises at least three Board Members appointed by the Parent Company's Board, one of whom is the Committee Chairman, as well as SBAB Bank's CEO. The Chief Credit Officer, the head of the corporate business area or another specially appointed officer acts as reporter. SBAB Bank's CEO, who is also a Member of the SCBC Board, attends meetings of the Credit Committee, and, in this role, is responsible for ensuring that matters involving SCBC are addressed by the Committee and reported back to other Members of the SCBC Board.

The Credit Committee held 18 meetings during the year.

Finance Committee

In respect of matters to be addressed by a finance committee, these are handled through the Finance Committee of the Parent Company, SBAB Bank, which conducts these duties integrated with the committee's monitoring of this area on behalf of SBAB Bank in other respects.

The principal tasks of the Finance Committee are to take decisions in accordance with the finance directives adopted by the Board for credit risk limits for finance operations and to implement the Board of Directors' decisions regarding issues involving SBAB Bank's finance operations. In addition, the Finance Committee is responsible for monitoring risks in the finance operations. Another duty of the Finance Committee is to prepare changes in the financial policy and finance directives for Board decisions.

The Finance Committee currently comprises two Board Members appointed by the Parent Company's Board of Directors, of whom one is the Committee Chairman, as well as SBAB Bank's CEO. SBAB Bank's CFO or another specially appointed officer acts as reporter for the issue concerned, as do SBAB Bank's CRO and/or the head of SBAB Bank's Risk Unit, when relevant. SBAB's CFO, who is also the Managing Director of SCBC, attends the Finance Committee's meetings and, in this role, is responsible for ensuring that matters involving SCBC are addressed by the Committee and reported back to other Members of the SCBC Board.

Following the Parent Company's statutory Board meeting in 2011, the members of the Finance Committee are: Jakob Grinbaum (Chairman), Hanna Lagercrantz and SBAB Bank's CEO.

The Finance Committee held seven meetings during the year.

Managing Director

The Board has formulated instructions for the Managing Director's role and duties. The Managing Director is responsible for the ongoing management of the operations in accordance with guidelines, established policies and instructions issued by the Board. The Managing Director reports to the Board.

Board Member Per Balazsi stepped down from the Board to assume the position of Managing Director on 5 May 2011 following Johanna Clason's announcement that she would be leaving the SBAB Bank Group. Christer Löfdahl assumed the position of Managing Director on 1 November after former Managing Director Per Balazsi announced that he would also be leaving the SBAB Bank Group.

On 5 March 2012, Christer Löfdahl gave notice of termination of his employment as Chief Financial Officer of SBAB Bank AB (publ). Christer Löfdahl is required to serve six months' notice of employment termination. In connection with leaving SBAB Bank AB (publ), Christer Löfdahl will also be vacating his position as Managing Director of SCBC.

Remuneration of Board of Directors and senior executives

The Members of the Board are not remunerated.

There is no need for a Remuneration Committee for SCBC because, in terms of remuneration, the employment terms and conditions for the only employee, SCBC's Managing Director, are governed by the terms and conditions for employment at SBAB Bank. The agreement governing the position of SCBC's Managing Director, which is a supplementary agreement to the employment contract at SBAB Bank, is required to regulate a couple of points specific to the position of Managing Director of SCBC.

However, the Board has established a remuneration policy and should the Board decide that salary and other remuneration is to be paid to SCBC employees, the remuneration policy will be updated in accordance with the Swedish Financial Supervisory Authority's regulations and general guidelines for remuneration systems in credit institutions, securities companies and fund companies.

In matters pertaining to remuneration and other employment terms and conditions for senior executives, it was resolved by the Annual General Meeting that SCBC is to apply the Government guidelines for employment terms and conditions for senior executives in state-owned companies prevailing at any given time.

Other control bodies and functions

For control and audit functions such as compliance, risk and internal audit, the Swedish Financial Supervisory Authority, as stated in FFFS 2005:1, permits such functions to be positioned at the central level within a group of companies. This is also how they are positioned in the SBAB Bank Group.

SCBC has outsourced its operational activities to the Parent Company, SBAB Bank. In addition, SBAB Bank is responsible for financial reporting, legal matters involving SCBC and formalities concerning SCBC's corporate governance.

Accordingly, the examination and controls implemented by the internal audit, compliance and risk functions in respect of SCBC are integrated with the examination activities pertaining to SBAB Bank.

Risk

The SBAB Group has a central Risk Unit that analyses and controls the Group's overall risks. The Risk Unit performs its work on the basis of an established annual plan. The Unit reports continuously to the Board of Directors, Managing Director and SBAB Bank's Executive Management, which includes members who are also Members of the SCBC Board and the Managing Director of SCBC, concerning the Group's total risks on the basis of available risk information. The Department's duties are to monitor and ensure, on an overall level, that the SBAB Group identifies, measures, governs and has control over all risks.

Compliance

The SBAB Bank Group has a centrally located Compliance Officer, whose role is to monitor, on an overall level, that SCBC's operations are conducted in compliance with the laws and regulations governing financial operations that require permits. The Compliance Officer is also responsible for controlling and organising the structure required to ensure that the control and governance functions at the SBAB Bank Group follow up their own instruction areas in accordance with a shared model. In addition to continuous reporting regarding the SBAB Bank Group to SBAB Bank's Chief Legal Counsel, reporting occurs biannually to the Managing Director and SBAB Bank's Executive Management, which includes members who are also Members of the SCBC Board, and annually to the SCBC Board as regards SCBC. Each year, an oral report is also made to SBAB Bank's Audit and Compliance Committee. The annual plan for the compliance function is established by the SCBC Board.

Internal audit

The internal audit of SCBC is performed by the SBAB Bank Group's internal audit unit, which constitutes an internal independent examination function in accordance with the Swedish Financial Supervisory Authority's regulations (FFFS 2005:1, Chapter 6). Accordingly, the main function of the internal audit is to examine and evaluate the internal control of companies in the SBAB Bank Group. A summary of the findings from the internal audit is reported, in writing and orally, directly to the Board and the Audit and Compliance Committee in accordance with the adopted reporting and meeting plan. The internal audit's examination activities are performed in accordance with an audit plan that is prepared annually by the Audit and Compliance Committee and decided by the Board. In connection with this, the Head of the Internal Audit presents both the proposed audit plan for the coming year and the overall risk assessment that forms the foundation for the plan to both the Audit and Compliance Committee and to the Board.

At least once annually, the Head of the Internal Audit makes a written and an oral report in respect of SCBC to the Audit and Compliance Committee and the Board, as well as a written report to SCBC's Board of Directors on the result of the internal audit function's work in accordance with the plan. The internal audit's activities must also be coordinated with the external independent examination conducted in accordance with the Swedish Covered Bonds Issuance Act (2003:1223).

Independent auditor

In accordance with the Swedish Covered Bonds Issuance Act (2003:1223), the Swedish Financial Supervisory Authority must appoint an independent auditor for each issuing institution. The duties of this auditor include monitoring that the register that an issuing institution is obligated to maintain over the covered bonds, covered pool and derivative contracts is maintained correctly and in the manner stated in the Covered Bonds Act. In the Swedish Financial Supervisory Authority's regulations (FFFS 2004:11), the role and duties of the independent auditor are described in greater detail. The independent auditor is to report regularly to the Swedish Financial Supervisory Authority. These reports are also issued to the SCBC Board. The Swedish Financial Supervisory Authority has appointed the Authorised Public Accountant, Jan Palmqvist as SCBC's independent auditor.

Auditor

The Annual General Meeting appoints the auditor or the accounting firm that is commissioned to audit SCBC. Auditors must be authorised public accountants or an authorised accounting firm with an auditor-in-charge. The 2011 Annual General Meeting appointed Öhrlings PricewaterhouseCoopers AB as auditor. The auditor-in-charge is Catarina Ericsson. A more detailed presentation of the auditor and the fees and expenses paid to auditors is provided on page 43 and in Note 6, respectively, of the Annual Report.

The auditor examines the Annual Report, the financial statements and the accounting records, as well as the Board's and the Managing Director's administration of the company. The auditor reports the results of this examination to the owner through the Audit Report, which is presented to the Annual General Meeting. In addition, the auditor reviews SCBC's semi-annual report and provides detailed accounts to the Audit and Compliance Committee at scheduled meetings of the Audit and Compliance Committee, when the interim report is decided.

Internal control of financial reporting

Control environment

The basis for the internal control process with regard to financial reporting is the control environment, meaning the organisational structure and division of responsibilities, as well as the guidelines and steering documents described earlier. The process owner for financial reporting risk is responsible for analysing, checking and evaluating SCBC's financial reporting risk. In organisational terms, the process owner for financial risk reporting is included in the Credit and Risk Unit of SBAB Bank.

Risk assessment and control activities

Business-support processes that provide data for the financial statements are evaluated and documented in the internal control process for financial reporting. The processes are charted and contain control activities in the form of descriptions of processes, reasonability assessment, reconciliations, attestations and results analyses.

Each year, a risk assessment is performed in the form of a self-evaluation of all business-support processes that provide data for the financial statements. The self-evaluation is intended to identify and assess the principal risks that could lead to faults in the financial statements. The risks are identified, evaluated and documented at a process and department level, and in the places they occur in SBAB Bank's financial statements. The self-evaluation forms the starting point for improvement measures. Significant risks that are identified must be addressed and rectified. When an event occurs that could generate faults in the financial statements, the operations must send incident reports to the process owner for financial reporting risk. The process owner is to report to the Parent Company's Board, the Audit and Compliance Committee and the Managing Director annually concerning the Group's financial reporting risk on the basis of available risk information. This reporting is to be coordinated with the Group's other risks.

Information and communication

The SBAB Bank Group's process concerning the internal control of financial reporting and the relating control documents is available on SBAB Bank's intranet. The charted business-support processes that provide data for the financial statements are documented on SBAB Bank's intranet. The control documents are updated and approved annually.

Follow-up

SCBC's Board receives monthly financial reports and SCBC's financial situation is addressed at each Board meeting. In addition, the various committees of the Group's Board of Directors fulfil important functions in the Board's follow-up activities. The work of the committees is described under the heading "The Board's committees" on pages 39–40.

Board of Directors and Managing Director

As of 14 March 2012





Name	Carl-Viggo Östlund Chairman of the Board	Fredrik Bergström Board Member	Per O. Dahlstedt Board Member	Christine Ehnström Board Member	Christer Löfdahl Managing Director
Position	CEO, SBAB Bank	Head of retail business area, SBAB Bank	Head of corporate business area, SBAB Bank	Chief Legal Counsel, SBAB Bank	CFO, SBAB Bank
SBAB Bank employee since	2012	2007	2005	1999	2011
Education	Bachelor of Business Administration and Economics	Bachelor of Business Administration and Economics	Bachelor of Business Administration and Economics	Master of Laws	Bachelor of Business Administration and Economics
Year/ period of election	1 March 2012	21 December 2011	22 November 2011	9 May 2011 (21 December 2011–29 February 2012, Chairman)	1 November 2011
Born	1955	1970	1953	1973	1959
Nationality	Swedish	Swedish	Swedish	Swedish	Swedish
Other assignments	Deputy Board Member of Peyron Rekrytering AB, Board Member Burgundy AB	Board Member of FriSpar Bolån AB		Board Member of Maricon Marinconsult AB's pension fund, Deputy Board Member Maricon Marinconsult AB	Board Member of Kurbitsen AB, Deputy Board Member of Brukshusen i Tällberg AB
Background	CEO of Nordnet Bank AB, CEO of SalusAnsvar AB, CEO of TNT Scandinavia and several positions within the Tetra Pak Group, including CEO of Tetra Pak Saudi Arabia, CEO of Tetra Pak Canada, CEO of Tetra Pak Brazil and CEO of Tetra Pak Turkey	Distribution Manager at If Private Business in Sweden and other positions at If Skadeförsäkring AB and Dial Försäkrings AB	Senior Advisor Strategic and Operational Development at Askus Consulting, Business Area Manager and Regional Area Manager positions within SEB	Legal Counsel Volvo Treasury AB (publ)	Various managerial positions at Volvo Group Finance Sweden AB and Europé BV, CFO Nordisk Renting AB, CEO of Max Matthiessen Liv och Finansmäklare AB, CEO and CFO at Catella AB
Board meetings participated in during 2011	0	1	3	7	1

Note: The above table does not include the individuals who stepped down from the Board of Directors or the position of Managing Director during the year.

Changes in the Board of Directors and Managing Director during 2011 / 2012

Christine Ehnström became a Board Member on 9 May 2011 and later succeeded Eva Cederbalk as Chairman of the Board from 21 December 2011 until 29 February 2012, after which she continued to serve as a Board Member. Carl-Viggo Östlund assumed the role of Chairman of the Board on 1 March 2012. Per Olov Dahlstedt joined the Board on 22 November 2011 and Fredrik Bergström on 21 December 2011. Johan Brodin and Bo Andersson stepped down from the Board on 24 October and 22 November, respectively.

Johanna Clason left the position of Managing Director on 4 May and was succeeded by Per Balazsi, who stepped down from the Board in conjunction with assuming the role of Managing Director on 5 May. Per Balazsi later left the position of Managing Director on 31 October and was succeeded by Christer Löfdahl on 1 November.

On 5 March 2012, the Managing Director Christer Löfdahl gave notice of termination of his employment as Chief Financial Officer of SBAB Bank AB (publ). Christer Löfdahl is required to serve six months' notice of employment termination. In connection with leaving SBAB Bank AB (publ), Christer Löfdahl will also be vacating his position as Managing Director of SCBC.

Auditor

The 2011 Annual General Meeting resolved to elect the auditing firm Öhrlings PricewaterhouseCoopers AB as auditor for the period until the end of the 2012 Annual General Meeting. The auditing firm appointed Catarina Ericsson as auditor-in-charge.

Catarina Ericsson
Öhrlings PricewaterhouseCoopers AB

Auditor-in-charge at SCBC since 2011
Born 1966
Other assignments: Alecta, Avanza, Praktikertjänst and Svolder

Auditor's Report on the Corporate Governance Report

To the Annual General Meeting of the Swedish Covered Bond Corporation, Corp. Reg. No. 556645-9755

The Board of Directors is responsible for the 2011 Corporate Governance Report on pages 38–43 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance Report and, based on this reading and our knowledge of the company and the Group, we believe that we have a sufficient basis for our opinion. This entails that our statutory review of the Corporate Governance Report has another direction and is substantially more limited in scope than an audit conducted in accordance with the International Standards on Auditing and generally accepted auditing practices in Sweden.

In our opinion, a Corporate Governance Report has been prepared and its statutory content is consistent with the other parts of the annual accounts.

Stockholm, 14 March 2012
Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant

Address

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