

# SCBC Year-end Report

1 Jan–31 Dec 2014 | The Swedish Covered Bond Corporation, SCBC

## July–December 2014 (January–June 2014)

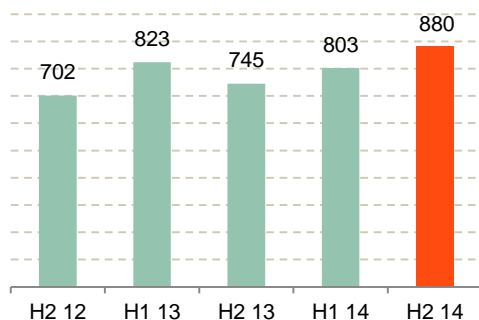
- Operating profit totalled SEK 551 million (513)
- Operating profit, excluding net result from financial transactions, amounted to SEK 417 million (466)
- Net interest income amounted to SEK 928 million (847)
- Expenses totalled SEK 478 million (348)
- The net effect of loan losses amounted to a gain of SEK 15 million (gain 11)
- The Common Equity Tier 1 capital ratio, without transitional rules, amounted to 72.3% (57.0)

## January–December 2014 (Jan–Dec 2013)

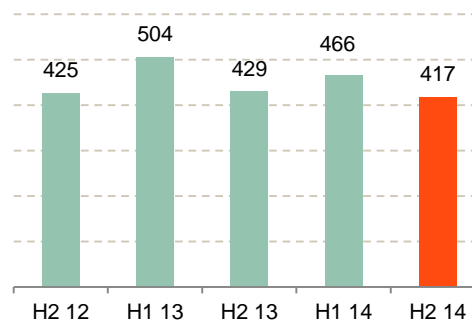
- Operating profit totalled SEK 1,064 million (741)
- Operating profit, excluding net result from financial transactions, amounted to SEK 883 million (933)
- Net interest income amounted to SEK 1,775 million (1,651)
- Expenses totalled SEK 826 million (656)
- The net effect of loan losses amounted to a gain of SEK 26 million (gain 21)
- The Common Equity Tier 1 capital ratio, without transitional rules, amounted to 72.3% (58.8)

- All funding programmes continue to have the highest credit rating from Moody's.

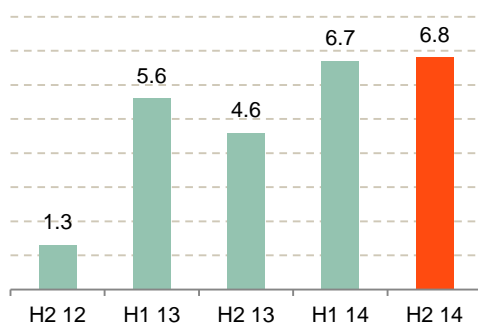
### Operating income excluding net result from financial transactions (SEK million)



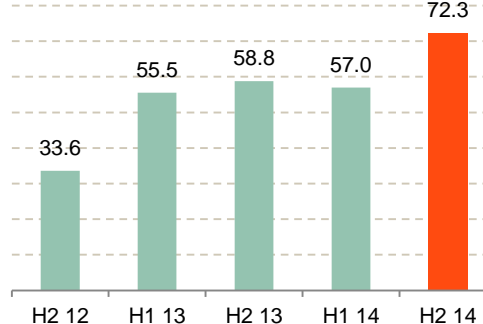
### Operating profit excluding net result from financial transactions (SEK million)



### Return on equity (%)



### Common Equity Tier 1 capital ratio without transitional rules (%)



## Operations

The Swedish Covered Bond Corporation, "SCBC", is a wholly owned subsidiary of SBAB Bank AB (publ), "SBAB".

As a wholly-owned subsidiary of SBAB, SCBC has been tasked with issuing mortgage-backed covered bonds, thereby providing SBAB with long-term access to competitive financing. The operation shall be conducted in such a manner as to comply with the requirements specified in the Covered Bonds Act (2003:1223) pertaining to the issuance of covered bonds and the Swedish Financial Supervisory Authority's regulation FFFS 2013:1.

## Financial performance

### Performance for January–December 2014 compared with January–December 2013

Summary SEK million	2014 Jan-Dec	2013 Jan-Dec
Net interest income	1,775	1,651
Net commission income	-92	-83
Net result from financial transactions (Note 2)	181	-192
<b>Total operating income</b>	<b>1,864</b>	<b>1,376</b>
Costs	-826	-656
Loan losses, net (Note 3)	26	21
<b>Operating profit/loss</b>	<b>1,064</b>	<b>741</b>
<b>Operating profit excl. net result from financial transactions</b>	<b>883</b>	<b>933</b>
Tax	-226	-171
<b>Profit/loss for the period</b>	<b>838</b>	<b>570</b>
<b>Balance sheet items</b>		
Lending to the public, SEK billion	217.6	210.0
<b>Key figures</b>		
Common Equity Tier 1 capital ratio <sup>1)</sup>	72.3%	58.8%
<b>Rating, long-term funding</b>		
Moody's	Aaa	Aaa

<sup>1)</sup> Without transition rules

### Operating profit

SCBC's operating profit excluding net result from financial transactions decreased by approximately 5 percent to SEK 883 million (933). The decline in profit mainly derived from higher costs. SCBC's operating profit amounted to SEK 1,064 million (741). The increase is primarily attributable to the change in net result from financial transactions.

### Net interest income and commission expense

SCBC's net interest income amounted to SEK 1,775 million (1,651). The higher net interest income was mainly due to lower funding expenses. Net commission amounted to an expense of SEK -92 million (-83), including a fee of SEK -66 million (-62) for the government stability fund.

### Expenses

SCBC's total expenses amounted to SEK 826 million (656). Out of the total expenses, SEK 822 million (579) were related to higher expenses for operations that have been outsourced to SBAB, for which SCBC pays an agreed portion of SBAB's costs.

### Loan losses

The net effect of loan losses was a gain of SEK 26 million (gain 21). The outcome is due to the reduction of collective provisions.

### Net result from financial transactions

Net result from financial transactions amounted to an income of SEK 181 million (expense -192). The single largest factor impacting earnings was unrealised market value changes on basis swaps. Basis swaps are used to minimise interest-rate and currency risks that arise in conjunction with funding in foreign currency. For further information on fair value recognition of derivative instruments, see Note 2.

### Lending

SCBC does not conduct any new lending activities itself, and instead acquires loans, primarily from SBAB on an on-going basis or as required. These loans are secured as collateral for investors who are holders of SCBC's covered bonds. SCBC's lending portfolio comprises loans for residential mortgages, with the retail market as the largest segment. At the end of the period, SCBC's credit portfolio amounted to SEK 217.6 billion (210.0).

Information regarding SCBC's lending, the cover pool, is published on the website [www.sbab.se](http://www.sbab.se) on a monthly basis.

### Funding

SCBC's funding is conducted through the issuance of covered bonds, and to a certain extent through repo transactions. In the fourth quarter, SCBC issued a new covered bond: loan 141.

The company has three funding programmes: a Swedish mortgage bond programme for the issuance of covered bonds without a preset limit, a EUR 10 billion Euro Medium Term Covered Note Programme (EMTCN programme) and an AUD 4 billion Australian Covered Bonds Issuance Programme. All programmes have received the highest possible long-term rating of Aaa from the rating agency Moody's.

Covered bonds are the SBAB Group's principal source of funding. At 31 December 2014, the total value of covered debt securities in issue under SCBC's lending programme was SEK 175.0 billion (152.7), distributed as follows: Swedish covered bonds SEK 102.2 billion (91.4) and the Euro Medium Term Covered Note Programme SEK 72.8 billion (61.3). During the year securities valued at SEK 47.2 billion were issued. At the same time, securities valued at SEK 11.2 billion were repurchased, while securities for SEK 17.4 billion matured. Alongside revaluations (both up and down) of liabilities due to changes in premiums/discounts and changes in exchange rates for the SEK, this has caused issued securities to increase in value by SEK 22.3 billion.

### Capital adequacy and risk

SCBC primarily recognises credit risk pursuant to the internal ratings-based approach (IRB approach) and operational and market risk in accordance with the standardised approach.

SCBC's capital adequacy ratio and Common Equity Tier 1 capital ratio under Pillar 1, without consideration for transitional rules, amounted to 72.3 percent (58.8). For other capital ratios, please refer to the table on page 9.

Due to the low risk in SCBC's operations the company is assessed to be well capitalised.

Management of liquidity risks for SCBC is integrated with SBAB. In addition, SCBC has a liquidity facility agreement with SBAB, under which SCBC can borrow money for its operations from the Parent Company, when necessary.

## Other significant information

### Risks and uncertainties

The economic trend in Sweden is the primary risk factor for SCBC's future earnings capacity and the quality of its assets since the operation is mainly exposed to credit risks in the Swedish housing market. The management of interest-rate and currency risks entails some exposure to price risks. Household demand is showing a stable trend, underpinned by low inflation, low interest-rates and rising stock market and property prices. The Swedish economy is sensitive to global economic developments and to conditions on the international financial markets. The risks associated with these

factors have decreased during recent years. A strained housing market and high household indebtedness among retail customers result in the economy also being sensitive to changes in interest-rates and house prices. The risks associated with these factors are expected to increase as long as housing prices and indebtedness continue to rise faster than incomes. For further information on SCBC's risks and risk management, please refer to the Risk Management section and Note 2 in the 2013 Annual Report.

### **Change in the management team**

On 3 November 2014, Michael Inglander was appointed Chief Executive Officer of SCBC. He replaced Christine Ehnström, who left the position of Chief Executive Officer on the same date. Mikael Inglander holds the position of Chief Financial Officer of SBAB. On 3 November 2014, Bo Magnusson was appointed Chairman of the Board of the Company. On the same date, Per O. Dahlstedt resigned from the Board of Directors of SCBC, and as of 3 November 2014, the Board of Directors consists of the following members: Bo Magnusson (Chairman), Jakob Grinbaum (Board Member) and Klas Danielsson (Board Member). Bo Magnusson is Chairman of the Board of SBAB, and Jacob Grinbaum is Deputy Chairman of the Board of SBAB. Klas Danielsson is CEO of SBAB.

### **Financial calendar**

The Annual Report for 2014 will be published on the company's website at the end of March 2015.

Interim report January–June	17 July 2015
Year-end report 2015	5 February 2016

SCBC's Annual General Meeting will be held on 22 April 2015 in Stockholm.

The CEO affirms that this interim report provides an accurate overview of the operations, financial position and performance of the company and describes the significant risks and uncertainties faced by the company.

Stockholm 5 February 2015

Mikael Ingländer  
Chief Executive Officer

This report has been reviewed by the company's auditor. The review report is given on page 14.

For further information, contact CEO Mikael Ingländer, +46 8 614 43 28, [mikael.inglander@sbab.se](mailto:mikael.inglander@sbab.se).

*The information in this report is such that the Swedish Covered Bond Corporation is required to disclose in accordance with the Swedish Financial Instruments Trading Act and/or the Swedish Securities Market Act. The information was submitted for publication on 6 February 2015 at 8.00 a.m. (CET).*

*While every care has been taken in the translation of this report, readers are reminded that the original report, signed by the CEO, is in Swedish.*

## Income statement

SEK million	2014 Jan-Dec	2014 Jul-Dec	2013 Jul-Dec	2014 Jan-Jun	2013 Jan-Dec
Interest income	5,739	2,745	3,079	2,994	6,211
Interest expense	-3,964	-1,817	-2,292	-2,147	-4,560
<b>Net interest income</b>	<b>1,775</b>	<b>928</b>	<b>787</b>	<b>847</b>	<b>1,651</b>
Commission income	9	5	4	4	8
Commission expense	-101	-53	-46	-48	-91
Net result from financial transactions (Note 2)	181	134	-93	47	-192
Other operating income	-	-	-	-	-
<b>Total operating income</b>	<b>1,864</b>	<b>1,014</b>	<b>652</b>	<b>850</b>	<b>1,376</b>
General administrative expenses	-824	-477	-313	-347	-655
Other expenses	-2	-1	-1	-1	-1
<b>Total expenses before loan losses</b>	<b>-826</b>	<b>-478</b>	<b>-314</b>	<b>-348</b>	<b>-656</b>
<b>Profit/loss before loan losses</b>	<b>1,038</b>	<b>536</b>	<b>338</b>	<b>502</b>	<b>720</b>
Loan losses, net (Note 3)	26	15	-2	11	21
<b>Operating profit/loss</b>	<b>1,064</b>	<b>551</b>	<b>336</b>	<b>513</b>	<b>741</b>
Tax	-226	-121	-74	-105	-171
<b>Profit/loss for the period</b>	<b>838</b>	<b>430</b>	<b>262</b>	<b>408</b>	<b>570</b>

## Statement of comprehensive income

SEK million	2014 Jan-Dec	2014 Jul-Dec	2013 Jul-Dec	2014 Jan-Jun	2013 Jan-Dec
<b>Profit/loss for the period</b>	<b>838</b>	<b>430</b>	<b>262</b>	<b>408</b>	<b>570</b>
Changes related to cash flow hedges, before tax	128	128	-	-	-
Tax attributable to cash flow hedges	-28	-28	-	-	-
Other comprehensive income, net after tax	100	100	-	-	-
<b>Total comprehensive income for the period</b>	<b>938</b>	<b>530</b>	<b>262</b>	<b>408</b>	<b>570</b>

## Balance sheet

SEK million	31/12/2014	31/12/2013
<b>ASSETS</b>		
Lending to credit institutions	2,841	11,179
Lending to the public (Note 4)	217,579	209,982
Change in value of interest-rate-hedged items in portfolio hedges	1,193	1,164
Derivative instruments (Note 5)	6,315	4,631
Deferred tax assets	17	-
Other assets	329	866
Prepaid expenses and accrued income	175	217
<b>TOTAL ASSETS</b>	<b>228,449</b>	<b>228,039</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Liabilities to credit institutions	4,080	14,644
Debt securities in issue	174,986	152,656
Derivative instruments (Note 5)	2,866	5,617
Other liabilities	19	10
Accrued expenses and prepaid income	2,472	2,702
Deferred tax liabilities	-	388
Subordinated debt to the Parent Company (Note 9)	31,181	40,115
<b>Total liabilities</b>	<b>215,604</b>	<b>216,132</b>
<b>Equity</b>		
Share capital	50	50
Shareholder contribution	9,550	9,550
Fair value reserve	100	-
Retained earnings	2,307	1,737
Profit/loss for the period	838	570
<b>Total equity</b>	<b>12,845</b>	<b>11,907</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>228,449</b>	<b>228,039</b>
<b>Memorandum items</b>		
Assets pledged for own liabilities	211,651	204,189

## Statement of changes in equity

SEK million	Restricted equity		Unrestricted equity			Total equity
	Share capital	Fair value reserve	Shareholder Contribution	Retained earnings	P/L for the period	
Opening balance, 1 January 2014	50	-	9,550	2,307		11,907
Other comprehensive income, net after tax		100				100
Profit/loss for the year					838	838
<b>Total comprehensive income for the year</b>		100			838	838
<b>Closing balance, 31 December 2014</b>	<b>50</b>	<b>100</b>	<b>9,550</b>	<b>2,307</b>	<b>838</b>	<b>12,845</b>

mnkr	Restricted equity		Unrestricted equity			Total equity
	Share capital	Fair value reserve	Shareholder Contribution	Retained earnings	P/L for the period	
Opening balance, 1 January 2013	50	-	9,550	1,191		10,791
<b>Transactions with shareholders:</b>						
Group contribution received, after tax				546		546
Profit/loss for the year					570	570
<b>Closing balance, 31 December 2013</b>	<b>50</b>	<b>-</b>	<b>9,550</b>	<b>1,737</b>	<b>570</b>	<b>11,907</b>

The shareholder's contribution that was paid is conditional and the Parent Company SBAB Bank AB (publ) is entitled to reimbursement for the contribution from the Swedish Covered Bond Corporation's disposable earnings, provided that the AGM grants approval thereof.

## Cash-flow statement

SEK million	2014 Jan-Dec	2013 Jan-Jun
<b>Cash and cash equivalents at the beginning of the period</b>	11,179	10,054
Cash flow from operating activities	-9,038	1,125
Cash flow from investing activities	-	-
Cash flow from funding activities	700	-
<b>Increase/Decrease in cash and cash equivalents</b>	<b>-8,338</b>	<b>1,125</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>2,841</b>	<b>11,179</b>

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

## Own funds

SEK million	31/12/2014	31/12/2013*
<b>Common Equity Tier 1 capital</b>		
Equity with deducted profit for the period	12,845	11,907
Not received group contribution	-	-546
Cash flow hedges	-100	-
Changes in fair value that depend on the institution's own credit-worthiness and are related to derivative instruments	0	-
Price adjustments	-9	-
Net reserves for IRB exposures	-36	-43
<b>Common Equity Tier 1 capital</b>	<b>12,700</b>	<b>11,318</b>
<b>Tier 1 capital</b>	<b>12,700</b>	<b>11,318</b>
<b>Tier 2 capital</b>	<b>12,700</b>	<b>11,318</b>
<b>Total own funds</b>	<b>12,700</b>	<b>11,318</b>

\* According to earlier rules (Basel II)



## Capital requirement

SEK million	31/12/2014		31/12/2013*	
	Capital requirement	Risk exposure	Capital requirement	Risk exposure
<b>Credit risk recognised in accordance with IRB approach</b>				
Exposures to corporates	371	4,633	439	5,483
Retail exposures	684	8,560	713	8,916
- of which exposures to SME	104	1,301	136	1,699
- of which retail exposures secured by immovable property	580	7,259	577	7,217
<b>Total exposures in accordance with IRB approach</b>	<b>1,055</b>	<b>13,193</b>	<b>1,152</b>	<b>14,399</b>
<b>Credit risk reported in accordance with standardised approach</b>				
Exposures to governments and central banks	0	0	0	0
Exposures to regional governments or local authorities	0	0	0	0
Exposures to institutions **	37	463	212	2,653
- of which, derivatives according to CRR, Appendix 2	4	54	42	531
- of which, repos	32	405	169	2,117
Exposures to corporates	1	12	2	25
Retail exposures	1	12	1	12
Exposures in default	-	-	0	0
Exposures in the form of covered bonds	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	1	11	-	-
Other items	100	1,246	3	38
<b>Total exposures in accordance with standardised approach</b>	<b>140</b>	<b>1,744</b>	<b>218</b>	<b>2,728</b>
<b>Market risk</b>	<b>31</b>	<b>392</b>	-	-
- of which, currency risk	31	392	-	-
<b>Operational risk</b>	<b>147</b>	<b>1,836</b>	171	2,136
<b>CVA risk</b>	<b>32</b>	<b>400</b>	-	-
<b>Total capital requirements</b>	<b>1,405</b>	<b>17,565</b>	<b>1,541</b>	<b>19,263</b>
Applicable capital buffer (capital conservation buffer)	439	-	-	-
<b>Total capital requirement (including capital conservation buffer)</b>	<b>1,844</b>			

\* According to earlier rules (Basel II)

\*\* The risk-weighted exposure amount for counterparty risk according to CRR, Article 92, item 3(f), amounts to SEK 459 million

## Capital adequacy

SEK million	31/12/2014	31/12/2013*
Common Equity Tier 1 capital	12,700	11,318
Tier 1 capital	12,700	11,318
Total own funds	12,700	11,318
<b>Without transition rules</b>		
Risk exposure amount	17,565	19,263
Common Equity Tier 1 capital ratio	72.3%	58.8%
Excess Common Equity Tier 1 capital	11,909	10,451
Tier 1 capital ratio	72.3%	58.8%
Excess Tier 1 capital	11,646	10,162
Total capital ratio	72.3%	58.8%
Excess total capital	11,295	9,777
<b>With transition rules</b>		
Own funds	12,736	11,318
Risk exposure amount	113,258	107,089
Total capital ratio	11.2%	10.6%

\* According to earlier rules (Basel II)

## Notes

### Note 1 Accounting policies

SCBC applies statutory IFRS, which means that the interim report has been prepared in compliance with IFRS subject to the additions and exceptions that ensue from the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities, the Swedish Financial Supervisory Authority's regulations and general guidelines on the annual accounts of credit institutions and securities companies (FFFS 2008:25) and the Annual Accounts Act for Credit Institutions and Securities Companies. SCBC prepares interim reports in accordance with IAS 34, taking into account the exceptions from and additions to IFRS as detailed in RFR 2.

In the third quarter, SCBC started to report transactions according to the cash flow hedging method. In case of cash flow hedging, the hedging instrument is valued at fair value. The effective part of the total change in value is reported as a component in other comprehensive income and accumulated in a special reserve in equity. The accumulated amount is reversed in the income statement in periods where the hedged item affects the profit or loss. The ineffective part of the change in value is transferred to the income statement under the item "Net result of financial transactions," where the realised gain or loss arising at the end of the hedge relationship is recognised.

In other regards, the accounting policies and calculation methods are unchanged compared with the 2013 Annual Report.

According to SCBC's preliminary assessment, new or changed international accounting standards that have been published but not yet applied will have a limited effect on the financial reports. As regards IFRS 9, which will become mandatory on 1 January 2018, no complete assessment has as yet been made.

### Note 2 Net result from financial transactions

SEK million	2014 Jan-Dec	2014 Jul-Dec	2014 Jan-Jun	2013 Jan-Dec
<b>Gains/losses on interest-bearing financial instruments</b>				
- Change in value of hedged items in hedge accounting	-961	-325	-636	954
- Derivative instruments	1,176	504	672	-1,092
- Loan receivables	75	44	31	71
- Realised expense from financial liabilities	-110	-90	-20	-126
<b>Currency translation effects</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>
<b>Total</b>	<b>181</b>	<b>134</b>	<b>47</b>	<b>-192</b>

#### Fair value recognition

The currency and interest-rate risk inherent in funding conducted in foreign currency is generally hedged throughout the maturity of the funding through currency interest-rate derivatives, known as basis swaps. According to IFRS, all derivative instruments are to be recognised at fair value (market value). Major variations in the actual market value between 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. Most of SCBC's basis swaps are held to maturity.

**Note 3 Loan losses, net**

SEK million	2014	2014	2014	2013
	Jan-Dec	Jul-Dec	Jan-Jun	Jan-Dec
<b>CORPORATE MARKET</b>				
<b>INDIVIDUAL PROVISION FOR CORPORATE MARKET LOANS</b>				
Provision for probable loan losses for the period	1	0	1	4
Guarantees	2	2	0	2
<b>Net cost for the period for individual provisions for corporate market loans</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>6</b>
<b>RETAIL MARKET</b>				
<b>INDIVIDUAL PROVISION FOR RETAIL MARKET LOANS</b>				
Write-off of confirmed loan losses for the period	-3	-3	-	-
Reversal of prior year provisions for probable loan losses recognised as confirmed loan losses in the financial statements for the period	3	3	0	-
Provision for probable loan losses for the period	-	-	-	-3
<b>Net cost for the period for individual provisions for retail market loans</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-3</b>
<b>COLLECTIVE PROVISION FOR RETAIL MARKET LOANS</b>				
Write-off of confirmed loan losses for the period	-0	0	-0	-2
Recoveries in respect of confirmed loan losses in prior years	-	-	-	-
Allocation to/redemption of collective provisions	30	14	16	26
Guarantees	-7	-1	-6	-6
<b>Net income/cost for the period for collective provisions for retail market loans</b>	<b>23</b>	<b>13</b>	<b>10</b>	<b>18</b>
<b>NET INCOME/COST FOR THE PERIOD FOR LOAN LOSSES</b>	<b>26</b>	<b>15</b>	<b>11</b>	<b>21</b>

The guarantees pertain to received or expected receivables from the National Board of Housing, Building and Planning, insurance companies and banks.

**Note 4 Lending to the public**

SEK million	31/12/2014		31/12/2013	
	Lending	Provision	Lending	Provision
Single-family dwellings and holiday homes	92,119	-54	85,346	-66
Tenant-owner rights	63,213	-31	56,931	-37
Tenant-owner associations	43,911	-8	45,485	-6
Private multi-family dwellings	17,986	-5	18,699	-3
Municipal multi-family dwellings	434	-	3,619	-
Commercial properties*	14	-	14	-
Provision for probable loan losses	-98	-	-112	-
<b>Total</b>	<b>217,579</b>	<b>-98</b>	<b>209,982</b>	<b>-112</b>

\*Refers only to non-pure commercial properties

	31/12/2014	31/12/2013
<b>Doubtful and non-performing loan receivables</b>		
a) Doubtful loan receivables	-	3
b) Specific provisions for individually measured loan receivables	-	3
c) Collective provisions for corporate market loans	13	9
d) Collective provisions for retail market loans	85	100
e) Total provisions (b+c+d)	98	112
f) Doubtful loan receivables after individual provisions (a-b)	-	0
g) Provision ratio for individual provisions (b/a)	-	100%

**Note 5 Derivative instruments**

SEK million	12/31/2014		
	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate related	4,412	1,125	141,083
Currency related	1,903	1,741	58,074
<b>Total</b>	<b>6,315</b>	<b>2,866</b>	<b>199,157</b>

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

**Note 6 Classification of financial instruments**

Financial assets SEK million	31/12/2014				Total fair value
	Assets measured at fair value through P/L	Hedge- accounted derivative instru- ments	Loan receivables	Total	
Lending to credit institutions			2,841	2,841	2,841
Lending to the public			217,579	217,579	219,838
Change in value of interest-rate-hedged items in portfolio			1,193	1,193	-
Derivative instruments	224	6,091		6,315	6,315
Other assets			329	329	329
Prepaid expenses and accrued income			175	175	175
<b>Total</b>	<b>224</b>	<b>6,091</b>	<b>222,117</b>	<b>228,432</b>	<b>229,498</b>

Financial liabilities SEK million	31/12/2014				Total fair value
	Liabilities measured at fair value through P/L	Hedge- accounted derivative instru- ments	Other financial liabilities	Total	
Liabilities to credit institutions			4,080	4,080	4,080
Debt securities in issue			174,986	174,986	176,783
Derivative instruments	323	2,543		2,866	2,866
Other liabilities			19	19	19
Accrued expenses and prepaid income			2,472	2,472	2,472
Subordinated debt to the Parent Company			31,181	31,181	31,181
<b>Total</b>	<b>323</b>	<b>2,543</b>	<b>212,738</b>	<b>215,604</b>	<b>217,401</b>

**Fair value measurement of financial instruments**

The principles for the measurement of financial instruments recognised at fair value in the balance sheet are given in the accounting policies in Note 1 of the 2013 Annual Report.

In the column "total fair value" above, information is also provided on the fair value of financial instruments that are recognised at amortised cost in the balance sheet. The carrying amount for current receivables and liabilities has been assessed to be equal to the fair value, Level 3. For "Lending to the public", where there are no observable credit margin data at the time of measurement, the credit margin on the most recent stipulated date of expiry is applied, Level 2. Debt securities in issue are measured at the Group's current borrowing rate, Level 2.

**Note 7 Information about fair value**

SEK million	12/31/2014			Total
	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	
<b>Assets</b>				
Derivatives in the category trade	-	224	-	224
Other derivatives	-	6,091	-	6,091
<b>Total</b>	-	<b>6,315</b>	-	<b>6,315</b>
<b>Liabilities</b>				
Derivatives in the category trade	-	323	-	323
Other derivatives	-	2,543	-	2,543
<b>Total</b>	-	<b>2,866</b>	-	<b>2,866</b>

The principles for the measurement of financial instruments recognised at fair value in the balance sheet are given in the accounting policies in Note 1 of the 2013 Annual Report.

In the table, financial assets and liabilities recognised at fair value in the balance sheet are divided on the basis of the measurement methods used. There have been no transfers between the levels in 2014.

**Quoted market prices (Level 1)**

Measurement at quoted prices in an active market for identical assets and liabilities. A market is deemed to be active if the price data is easily accessible and corresponds to actual regularly occurring transactions. This valuation 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 included in Level 1, such as quoted interest-rates or prices for closely related instruments. Level 2 is used for financial instruments that are not traded in an active market. 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 8 Subordinated debt to Parent Company**

SEK million	12/31/2014	12/31/2013
Subordinated debt to the Parent Company	31,181	40,115
<b>Total</b>	<b>31,181</b>	<b>40,115</b>

**Terms and conditions governing subordination**

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

## Review Report

To the Board of Directors of the Swedish Covered Bond Corporation – SCBC

Corp. ID No. 556645-9755

### Introduction

We have reviewed the summary financial information (interim report) of the Swedish Covered Bond Corporation – SCBC as of 31 December 2014 and for the twelve-month period then ended. The Board of directors and the CEO are responsible for the preparation and fair presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

### The direction and extent of the review

We have performed this review in accordance with the International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review consists of making enquiries, primarily to persons responsible for financial and accounting matters, performing an analytical review and undertaking other review measures. A review has another direction and is substantially more limited in scope than an audit conducted in accordance with the International Standards on Auditing and generally accepted auditing practice otherwise. The measures undertaken in a review do not permit us to be certain that we have become aware of all significant matters that might have been identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

### Opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Annual Accounts Act of Credit Institutions and Securities Companies.

Stockholm 5 February 2015

KPMG AB

Hans Åkervall  
Authorised Public Accountant