



# Year-end report 2010

## The Swedish Covered Bond Corporation, SCBC

Summary	Jan-Dec 2010	Jan-Dec 2009
Net interest income, SEK million	1,440	813
Operating profit/loss, SEK million	1,147	-295
Net profit/loss for the period, SEK million	846	-217
Lending, SEK billion	209.7	173.3
Capital adequacy ratio, %	10.3	11.1
Tier 1 capital ratio, %	10.3	11.1
Core Tier 1 capital ratio, %	10.3	11.1
<i>Rating, long-term funding</i>		
Standard & Poor's	AAA	AAA
Moody's	Aaa	Aaa

All profit and loss figures in parentheses pertain to the year-earlier period.

### Organisation

The Swedish Covered Bond Corporation, SCBC, is a wholly owned subsidiary of The Swedish Housing Finance Corporation, SBAB. SCBC conducts its operations in accordance with the requirements specified in the Covered Bonds Act (2003:1223) and the Swedish Financial Supervisory Authority's regulations FFFS 2004:11.

### Operating profit

SCBC's operating profit in 2010 amounted to SEK 1,147 million (loss: 295). Net interest income was significantly higher than in 2009 at SEK 1,440 million (813). Net income from financial instruments measured at fair value also improved. During the year, hedge-accounted items and loan receivables were the primary contributors to the favourable trend. During the year, SCBC developed and during the second half of the year introduced a method that better reflects the hedging relationship of the underlying hedged item. This method had a favourable impact of SEK 115 million before tax. SCBC's total operating income increased year-on-year to SEK 1,621 million (175). The stability fee totalled SEK 31 million (28). Expenses for the year amounted to SEK 464 million (445). Net loan losses amounted to SEK 10 million (loss: 25).

### Lending

SCBC does not conduct any new lending activities itself, but acquires loans from SBAB on an ongoing basis or as required. The aim

of securing these loans is that they be included in full or in part in the cover pool that serves as collateral for SCBC's covered bond investors. SCBC's portfolio mainly comprises loans for residential mortgages, with the retail market as the largest segment. The portfolio contains no loans for purely commercial properties. Information regarding SCBC's cover pool is published monthly at the website [www.scbc.se](http://www.scbc.se).

### Funding

SCBC's operations are primarily focused on issuing covered bonds in the Swedish and international capital markets. For this purpose, the company uses two funding programmes: the Swedish mortgage bond programme for the issuance of covered bonds and SCBC's EUR 10 billion Euro Medium Term Covered Note Programme. Both programmes have received the highest possible long-term ratings of Aaa and AAA from the rating agencies Moody's and Standard & Poor's.

SCBC's funding is conducted through the issuance of covered bonds, and to a certain extent through repo transactions. In addition, SCBC receives funding in the form of a subordinated loan from SBAB. The value of debt securities in issue totalled SEK 155.3 billion (140.0). Programme utilisation at 31 December 2010 was as follows: Swedish covered bonds SEK 95.4 billion (83.9) and the Euro Medium Term Covered Note Programme EUR 6.7 billion (5.2).

The Swedish and international markets continued to stabilise in 2010. The average maturity of the debt portfolio has been extended through continuous issuances and repurchases in the international and Swedish covered bond markets. Covered bonds are still the SBAB Group's principal source of funding.

### Capital adequacy

SCBC primarily reports credit risk pursuant to the internal ratings-based approach (IRB approach) and operational and market risk in accordance with the standardised approach. Without taking the transitional regulations into account, the capital quotient was 3.83 (4.14), while the capital adequacy ratio and Tier 1 capital ratio amounted to 30.6% (33.1). Taking into account the transitional regulations, the capital quotient was 1.29 (1.39) and the capital adequacy ratio and Tier 1 capital ratio amounted to 10.3% (11.1). The calculation of Tier 1 capital and total capital includes profit for the year and the proposed dividend.

### **Accounting policies**

SCBC applies statutory IFRS, which means that the year-end 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 annual reports in credit institutions and securities companies undertakings (FFFS 2008:25) and the Annual Accounts (Credit Institutions and Securities Companies) Act.

This year-end report complies with the requirements specified in IAS 34 Interim Financial Reporting and IAS 1 Presentation of Financial Statements. The accounting policies and calculation methods remain unchanged compared with the 2009 Annual Report.

### **Dividend**

Distributable equity in SCBC amounted to SEK 10,411 million. Dividends are proposed by the Board under the provisions of the Companies Act and are resolved on by the Annual General Meeting. All shares are held by the Parent Company, the Swedish Housing Finance Corporation, SBAB (publ), Corporate Registration Number 556253-7513. The proposed, as yet unpaid, dividend for 2010 amounts to SEK 100 million.

### **Significant events after the balance-sheet date**

- ➡ No events of material importance to assessments of the company's financial position have occurred after the close of the reporting period.

### **Financial information**

The next financial report scheduled for publication is the Annual Report for 2010.

*Stockholm, 2 February 2010*

**Johanna Clason**

Managing Director

## Income statement

SEK million	Note	Jan-Dec 2010	Jan-Dec 2009	Jul-Dec 2010	Jul-Dec 2009
Interest income		3,667	3,445	2,354	1,172
Interest expense		-2,227	-2,632	-1,562	-562
<b>Net interest income</b>		<b>1,440</b>	<b>813</b>	<b>792</b>	<b>610</b>
Commission income		10	9	5	3
Commission expense		-79	-68	-37	-52
Net income from financial items measured at fair value	1	249	-580	179	-198
Other operating income		1	1	1	0
<b>Total net interest income and operating income</b>		<b>1,621</b>	<b>175</b>	<b>940</b>	<b>363</b>
General administration expenses		-463	-444	-243	-224
Other operating expenses		-1	-1	0	0
<b>Total expenses before loan losses</b>		<b>-464</b>	<b>-445</b>	<b>-243</b>	<b>-224</b>
<b>Profit/loss before loan losses</b>		<b>1,157</b>	<b>-270</b>	<b>697</b>	<b>139</b>
Loan losses, net	2	-10	-25	5	-29
<b>Operating profit/loss</b>		<b>1,147</b>	<b>-295</b>	<b>702</b>	<b>110</b>
Tax		-301	78	-185	-29
<b>Profit/loss for the period</b>		<b>846</b>	<b>-217</b>	<b>517</b>	<b>81</b>

## Statement of comprehensive income

SEK million	Jan-Dec 2010	Jan-Dec 2009	Jul-Dec 2010	Jul-Dec 2009
<b>Profit/loss for the year</b>				
Income/expense recognised directly in equity	846	-217	517	81
Other comprehensive income/loss for the year, after tax	-	-	-	-
<b>Total comprehensive income/loss for the year</b>	<b>846</b>	<b>-217</b>	<b>517</b>	<b>81</b>

## Balance sheet

SEK million	Note	31 Dec 2010	31 Dec 2009
<b>ASSETS</b>			
Loans and advances to credit institutions		7,629	9,972
Loans and advances to the public	3	209,661	173,371
Change in value of interest-hedged items in portfolio hedge		1,122	2,961
Derivative instruments		5,146	10,901
Deferred tax assets		-	55
Other assets		55	638
Prepaid expenses and accrued income		256	214
<b>Total assets</b>		<b>223,869</b>	<b>198,112</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Liabilities to credit institutions		10,818	14,625
Debt securities in issue		155,319	139,963
Derivative instruments	5	5,546	4,059
Other liabilities		95	18
Accrued expenses and prepaid income		3,250	3,206
Deferred tax liabilities		17	-
Subordinated debt to Parent Company	6	38,363	26,626
<b>Total liabilities</b>		<b>213,408</b>	<b>188,497</b>
<b>Equity</b>			
Share capital		50	50
Shareholder contribution		9,550	9,550
Retained earnings		15	232
Profit/loss for the year		846	-217
<b>Total equity</b>		<b>10,461</b>	<b>9,615</b>
<b>Total liabilities and equity</b>		<b>223,869</b>	<b>198,112</b>

## Statement of changes in equity

SEK million

	Share capital	Shareholder contribution	Retained earnings	Profit for the period	Total equity
Opening balance, 1 Jan 2010	50	9,550	15		9,615
Profit for the year				846	846
Closing balance, 30 Dec 2010	50	9,550	15	846	10,461

	Share capital	Shareholder contribution	Retained earnings	Profit for the period	Total equity
Opening balance, 1 Jan 2009	50	9,550	-218		9,382
Group contribution received from the Parent Company, after tax			450		450
Profit for the year				-217	-217
Closing balance, 30 Dec 2009	50	9,550	232	-217	9,615

The shareholder contributions that have been paid are conditional and the Parent Company, SBAB, 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

	Jan-Dec 2010	Jan-Dec 2009
Cash and cash equivalents at the beginning of the year	9,972	5,535
Cash flow from operating activities	-2,953	4,837
Cash flow from investing activities	-	-
Cash flow from funding activities	610	-400
Increase in cash equivalents	-2,343	4,437
Cash and cash equivalents at the end of the year	7,629	9,972

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

## Notes

### Note 1 - Net income from financial items measured at fair value

SEK million	Jan-Dec 2010	Jan-Dec 2009
<b>Gains/losses on interest-bearing financial instruments</b>		
- Hedged items	1,008	70
- Derivative instruments	-319	38
- Loan receivables	91	140
- Other financial liabilities	-533	-827
Currency translation effects	2	-1
<b>Total</b>	<b>249</b>	<b>-580</b>

### Note 2 - Loan losses, net

SEK million	Jan-Dec 2010	Jan-Dec 2009
<b>CORPORATE MARKET</b>		
<b>Collective provision, corporate market loans</b>		
Allocation/reversal to collective provision	2	-6
Guarantees	-4	2
<b>Net cost for the year for collective provisions for corporate market loans</b>	<b>-2</b>	<b>-4</b>
<b>RETAIL MARKET</b>		
<b>Individual provision, retail market loans</b>		
Write-off of confirmed loan losses for the year	-2	0
Reversal of previously made provisions for probable loan losses recognized as confirmed losses in the year-end accounts	1	-
Provision for probable loan losses for the year	-	-1
Guarantees	-	-
<b>Net cost for the year for individual provisions for retail market loans</b>	<b>-1</b>	<b>-1</b>
<b>Collective provision, retail market loans</b>		
Write-off of confirmed loan losses for the year	-1	-
Allocation of collective provision	-6	-19
Guarantees	-0	-1
<b>Net cost for the year for collective provisions for retail market loans</b>	<b>-7</b>	<b>-20</b>
<b>Net cost for the year for loan losses</b>	<b>-10</b>	<b>-25</b>

Guarantees pertain to received or anticipated receivables from the Swedish National Housing Credit Guarantee Board, insurance companies and banks.

### Note 3 - Loans and advances to the public

31 Dec 2010

31 Dec 2009

SEK million	Lending	Provision	Lending	Provision
Single-family dwellings and holiday homes	82,005	-71	68,674	-59
Tenant-owner rights	48,060	-37	38,570	-28
Tenant-owner associations	48,280	-7	39,859	-7
Private multi-family dwellings	24,040	-11	19,133	-8
Municipal multi-family dwellings	7,231	-	7,229	-
Commercial properties	171	-	8	-
Provision for probable loan losses	-126	-	-102	-
<b>Total</b>	<b>209,661</b>	<b>-126</b>	<b>173,371</b>	<b>-102</b>

Doubtful loan receivables and provisions	31 Dec 2010	31 Dec 2009
a) Doubtful loan receivables	-	2
b) Specific provisions for loan receivables	-	2
c) Collective provisions, corporate market loans	18	14
d) Collective provisions, retail market loans	108	86
e) Total provisions (b+c+d)	126	102
f) Doubtful loan receivables after individual provisions (a-b)	-	0
g) Provision ratio for individual provisions (b/a)	-	93%

### Note 4 - Classification of financial instruments

SEK million

31 Dec 2010

Financial assets	Assets measured at fair value through profit and loss	Hedge-accounted derivative instruments	Loan receivables	Total
Loans and advances to credit institutions			7,629	7,629
Loans and advances to the public			209,661	209,661
Change in value of interest-hedged items in portfolio hedges			1,122	1,122
Derivative instruments	243	4,903		5,146
Other assets			55	55
Prepaid expenses and accrued income			256	256
<b>Total</b>	<b>243</b>	<b>4,903</b>	<b>218,723</b>	<b>223,869</b>

Financial liabilities	Liabilities measured at fair value through profit and loss	Hedge-accounted derivative instruments	Other financial liabilities	Total
Liabilities to credit institutions			10,818	10,818
Debt securities in issue			155,319	155,319
Derivative instruments	996	4,550		5,546
Other liabilities			95	95
Accrued expenses and prepaid income			3,250	3,250
Subordinated debt to Parent Company			38,363	38,363
<b>Total</b>	<b>996</b>	<b>4,550</b>	<b>207,845</b>	<b>213,391</b>

**Note 5 - Derivative instruments**  
SEK million

31 Dec 2010	Assets measured at fair value	Liabilities measured at fair value	Nominal amount
Interest-rate related	2,644	1,966	383,644
Currency related	2,502	3,580	66,311
<b>Total derivative instruments</b>	<b>5,146</b>	<b>5,546</b>	<b>449,955</b>

**Note 6 - Subordinated debt to Parent Company**  
SEK million

	31 Dec 2010	31 Dec 2009
Subordinated debt to Parent Company	38,363	26,626
<b>Total</b>	<b>38,363</b>	<b>26,626</b>

**Conditions concerning 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.

**Capital base**  
SEK million

	31 Dec 2010	31 Dec 2009
<b>Tier 1 capital</b>		
Equity	10,461	9,615
Proposed dividend/Group contribution	-100	-450
<b>Total Tier 1 capital, gross</b>	<b>10,361</b>	<b>9,165</b>
Less deferred tax assets	-	-55
Difference between provisions and the expected loss amount for exposures recognised in accordance with IRB	-121	-117
<b>Total Tier 1 capital, net</b>	<b>10,240</b>	<b>8,993</b>
<b>Tier 2 capital</b>		
Perpetual subordinated debentures (Upper Tier 2)	-	-
Time-limited subordinated debentures (Lower Tier 2)	-	-
<b>Total Tier 2 capital</b>	<b>-</b>	<b>-</b>
Expanded part of capital base	-	-
Deduction from entire capital base	-	-
<b>Amount for capital base net after deductible items and limit value</b>	<b>10,240</b>	<b>8,993</b>

## Capital requirement

SEK million

	31 Dec 2010	31 Dec 2009
<b>Credit risk reported in accordance with IRB approach</b>		
- Corporate exposures	1,927	1,478
- Retail exposures	536	461
<b>Total credit risk in accordance with IRB approach</b>	<b>2,463</b>	<b>1,939</b>
<b>Credit risk reported in accordance with standardised approach</b>		
- Exposures to governments and central banks	0	0
- Exposures to local governments and comparable associations	0	0
- Exposures to institutions	77	92
- Exposures to corporates	20	3
- Retail exposures	1	2
- Past due items	-	0
- Other items	2	1
<b>Total credit risk in accordance with standardised method</b>	<b>100</b>	<b>98</b>
<b>Risks in the trading book</b>		
Operational risk	111	137
Currency risk	-	-
Commodity risk	-	-
<b>Total capital requirement</b>	<b>2,674</b>	<b>2,174</b>
Addition during transitional period	5,274	4,287
<b>Capital requirement including addition</b>	<b>7,948</b>	<b>6,461</b>

## Capital adequacy

SEK million

	31 Dec 2010	31 Dec 2009
Core tier 1 capital	10,240	8,993
Tier 1 capital	10,240	8,993
<b>Total capital</b>	<b>10,240</b>	<b>8,993</b>
<b>Without transitional regulations</b>		
Risk-weighted assets	33,425	27,172
Core tier 1 capital ratio	30.6%	33.1%
Tier 1 capital ratio	30.6%	33.1%
Capital adequacy ratio	30.6%	33.1%
Capital quotient	3.83	4.14
<b>With transitional regulations</b>		
Risk-weighted assets	99,355	80,760
Core tier 1 capital ratio	10.3%	11.1%
Tier 1 capital ratio	10.3%	11.1%
Capital adequacy ratio	10.3%	11.1%
Capital quotient	1.29	1.39



## Review report

*To the Board of The Swedish Covered Bond Corporation (SCBC) ▪ Corporate registration number 556645-9755*

### Introduction

We have reviewed the enclosed year-end report of the Swedish Covered Bond Corporation, SCBC, Corp. Reg. No. 556645-9755 for the period 1 January 2010 – 31 December 2010. The Board of Directors and the Managing Director are responsible for preparing and presenting this interim financial information in accordance with the Annual Accounts (Credit Institutions and Securities Companies) Act. Our responsibility is to express an opinion on this interim report, based on our review.

### The direction and extent of the review

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

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

### Conclusion

On the basis of our review, nothing has come to our attention which gives us cause to believe that the enclosed year-end financial information has not been prepared, in all essentials, in accordance with the Annual Accounts (Credit Institutions and Securities Companies) Act.

Stockholm, 3 february 2011  
Öhrlings PricewaterhouseCoopers AB

Ulf Westerberg  
*Authorised Public Accountant*

*The Swedish Covered Bond Corporation, SCBC, is a wholly owned subsidiary of The Swedish Housing Finance Corporation, SBAB.*

---

Visiting address: Löjtnantsgatan 21 ▪ Box 27308, SE-102 54 Stockholm ▪ Tel: +46-(0)8-614 43 00 ▪ Fax: +46-(0)8-614 38 60  
E-mail: investor@sbab.se ▪ www.scbc.se ▪ Corporate registration number SCBC: 556645-9755