The Swedish Covered Bond Corporation

Annual Report 2012

SCBC

Covered Bonds of SBAB

Contents

Read more at sbab.se

Financial calendar 2013

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

Annual General Meeting 17 April

Interim report January June 19 July

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

2012 in brief

- Operating profit, excluding net income/ expense from financial transactions totalled SEK 1,128 million (1,019).
- The operating result was a loss of SEK 194 million (profit: 1,287).
- Excellent demand for the company's bonds
- In March 2012, SCBC issued a new five-year covered bond, loan 133.
- Following changes made to the Board and management in 2012, the Board of Directors currently comprises Carl-Viggo Östlund (Chairman of the Board), Sarah Bucknell and Per O. Dahlstedt. Lennart Krän is the Managing Director of SCBC.

Summary SCBC

	2012	2011	%
Income statement items			
Net interest income, SEK million	1,787	1,689	6%
Operating profit excluding net income/expense from financial transactions, SEK million	1,128	1,019	11%
Operating profit, SEK million	–194	1,287	–115%
Net profit for the year, SEK million	–142	948	–115%
Balance sheet items			
Lending, SEK billion	208.9	210.5	–1%
Key figures			
Loan loss rate, % [1]	-0.01	0.01	
Capital adequacy without transitional regulations			
Capital adequacy ratio, %	33.6	31.2	
Tier 1 capital ratio, %	33.6	31.2	
Core Tier 1 capital ratio, %	33.6	31.2	
Capital adequacy with transitional regulations			
Capital adequacy ratio, %	10.3	10.7	
Tier 1 capital ratio, %	10.3	10.7	
Core Tier 1 capital ratio, %	10.3	10.7	
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.

Operations

The primary operations of The Swedish Covered Bond Corporation, "SCBC", comprise the issuance of covered bonds to fund the SBAB Group's operations. SBAB Bank AB (publ), "SBAB", is the Parent Company of the SBAB Group and is 100% owned by the Swedish state.

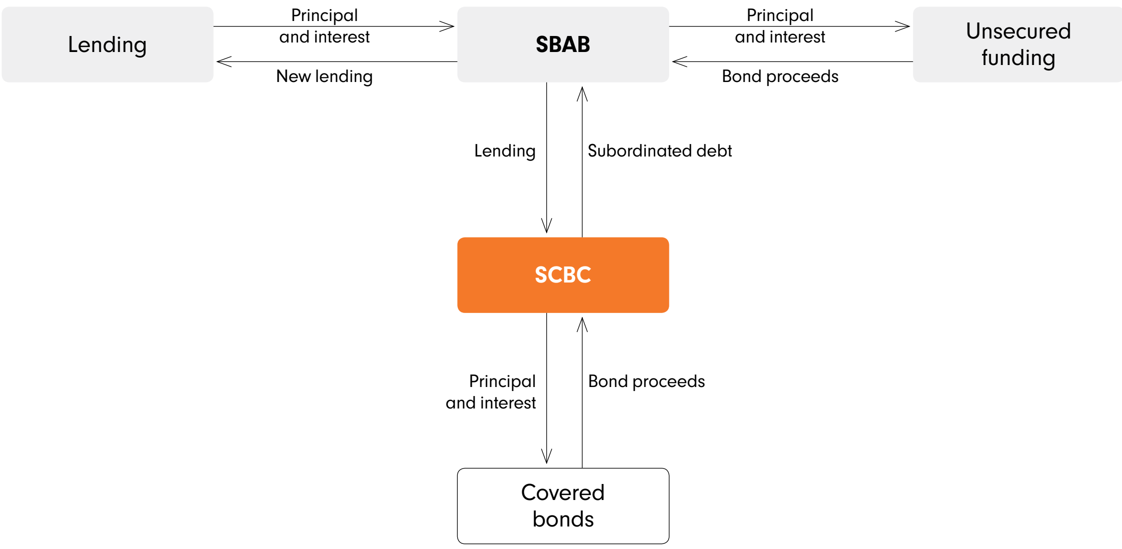
SCBC, Corporate Registration Number 556645-9755, with the Swedish trade name AB Sveriges Säkerställda Obligationer (publ), is a wholly owned subsidiary of SBAB, Corporate Registration Number 556253-7513.

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 GROUP



Lending

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

Loan portfolio

At 31 December 2012, lending to the public amounted to SEK 208.9 billion (210.5). SCBC's lending portfolio mainly comprises loans for residential mortgages, with the retail market forming 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.

Cover pool

Of SCBC's total loan portfolio, approximately 97% consists of assets that qualify for inclusion in the cover pool, which serves as collateral for the issuance of covered bonds. Lending against mortgage deeds or tenant-owner rights accounts for about 97% 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 is used known as the Max LTV[1]. Information regarding SCBC's cover pool is published every month on www.sbab.se.

1) LTV = Loan to Value

Key figures for cover pool

	31 Dec. 2012
Total cover pool, SEK billion	203.0
Loan portfolio, SEK billion	201.8
Average weighted Max LTV, %	58.7
Average loan amount, SEK 000s	574
Average weighted seasoning, years	4.7
Average remaining maturity, years	1.4
Substitute collateral, SEK billion	1.2

Max LTV for cover pool

Mortgage deeds and tenant-owner rights	31 Dec. 2012 LOAN AMOUNT		
Max LTV, %	**Number[1]**	**SEK million**	**%**
0–20	23,558	8,504	4.3
20–40	34,746	26,238	13.3
40–50	20,335	20,220	10.2
50–60	10,786	31,947	16.1
60–70	25,913	30,187	15.3
70–75	80,907	80,821	40.8
Total	196,245	197,918	100

1) For mortgage deeds, it refers to the number of mortgage deed blocks and for tenant-owner rights it refers to the number of loans.

Funding

Early 2012 was marked by the European debt crisis, which resulted in high funding costs. Strong stimuli and clear signals from the EU in support of the financial system stabilised the situation and also gradually contributed to lower capital costs. The market for Swedish covered bonds performed well throughout the year and SCBC was met with excellent investor demand for the company's bonds.

SCBC is primarily active in Swedish and European covered bond markets. SBAB's robust growth in deposits, combined with earlier-implemented prefinancing, contributed to lower issuance activities and smaller funding volumes in comparison with previous years. Throughout 2012, SCBC was met with excellent investor demand in the markets where the company is active. The SBAB Group's most important source of funding is the issuance of covered bonds through SCBC.

Funding programmes

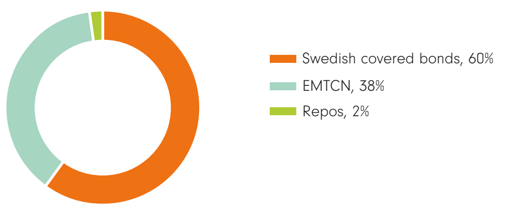
SCBC has three funding programmes: a EUR 10 billion Euro Medium-Term Covered Note Programme (EMTCN), a Swedish funding programme for covered bonds without a fixed upper limit and an AUD 4 billion Australian Covered Bond Issuance Programme. During the year, SCBC issued new bonds amounting to SEK 21.0 billion. Outstanding covered debt, excluding repos, totalled SEK 152.9 billion (carrying amount including market-value changes) at 31 December 2012. This corresponds to a reduction of approximately SEK 7.8 billion compared with 31 December 2011.

In 2012, a new five-year bond was launched in the Swedish market. At 31 December 2012, the bond issuance had an outstanding volume of SEK 14.1 billion.

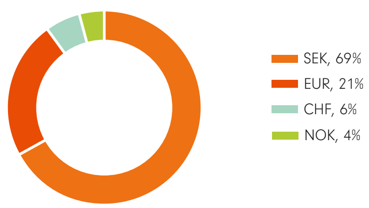
Rating

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

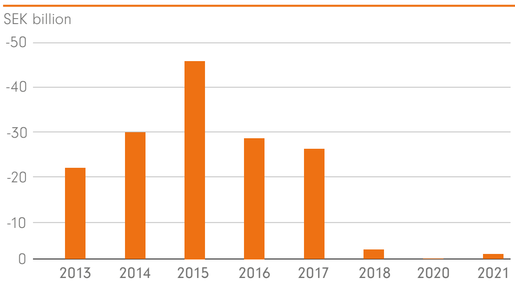
Funding
Outstanding liabilities at 31 December 2012: SEK 166 billion



Funding currency distribution
Outstanding liabilities at 31 December 2012: SEK 166 billion

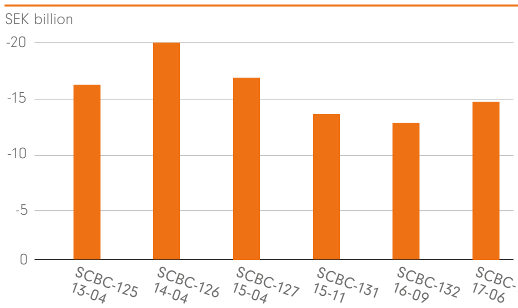


Total funding volume[1] – maturity profile



1) Excluding repos.

Outstanding volume of SCBC's Swedish covered bonds



Risk management

Risk is a natural component of all businesses and all risks that arise must be managed. The recent financial and debt crises exemplify the importance of effective liquidity and counterparty risk management. SCBC is mainly exposed to credit risk in its lending operations. For further information about SCBC's risk management and capital adequacy, refer to Note 2 or visit SBAB's website: www.sbab.se.

Overall risk management objectives

The Board of Directors of SCBC has established the following risk management objectives:

- Risk management is to support the Group's business operations and rating goals.
- The level of risk-taking shall be low. This is to be achieved by ensuring that total risk is maintained at a level compatible with the financial objectives for return, the size of risk capital and the target rating.
- Collective risk management is to be pursued at a level that at a least fulfils the requirements of the authorities.
- Relevant risks are to be identified, measured, managed and controlled.
- Risk management is to be transparent and easily presented to and understood by the company's external stakeholders.
- The capital assessed to cover unforeseeable losses in the coming years is to be measured in the form of economic capital. The assessment of economic capital must take into account the most fundamental and quantifiable risks, such as credit risk, market risk, operational risk and business risk.
- SCBC is to maintain an appropriate risk-management organisation with a well-defined division of responsibilities.

The risks that arise in SCBC's operations primarily comprise:

Risks	Description
CREDIT RISK	The counterparty is unable to fulfil its payment obligations.
LIQUIDITY RISK	Being unable to meet payment obligations on the date of maturity without the cost of obtaining payment funds increasing significantly.
MARKET RISK	A decline in profitability due to unfavourable market fluctuations.
OPERATIONAL RISK	Losses due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events, including legal risk.
BUSINESS RISK	Declining income due to deteriorating competitive conditions or an incorrect strategy or decision. Margin risk, which arises when the fixed-interest periods applying to the interest-rate margins for lending and funding differ.
CONCENTRATION RISK	Exposures concentrated to certain types of borrowers, regions or industries.

A more detailed description of SBAB's risk management and capital adequacy is presented in Note 2.

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 long-term strategy." SCBC has established the following measurable objectives for risk tolerance:

Risk-tolerance objectives

	Objective		Outcome		Difference	
	2012	2011	2012	2011	2012	2011
Core Tier 1 capital ratio [1]	≥ 6%	≥ 6%	10.3%	10.7%	+4.3	+4.7
Tier 1 capital ratio [2]	≥ 7%	≥ 7%	10.3%	10.7%	+3.3	+3.7
Capital adequacy ratio [1] [2]	≥ 10%	≥ 10%	10.3%	10.7%	+0.3	+0.7

1) Calculated in accordance with transitional regulations
2) Periodic deviation from the capital adequacy objective is permissible provided that it does not exceed 0.5 percentage points.

Organisation and responsibility

At the 2012 statutory meeting of SCBC's Board of Directors, a decision was made to establish, where applicable, control documents in the form of policies and instructions that the Board of Directors of the Parent Company, SBAB, 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's Board 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 Risk and Capital Committee that was established in 2012 is the SBAB Board of Directors' body for preparing matters prior to resolution by the Board in respect of SBAB's financing operations, as well as risks and capital issues. The committee comprises three Board Members and the CEO of SBAB.

The Asset and Liability Committee, "ALCO", was reorganized in 2012 and is to prepare risk and capital planning matters prior to being addressed by SBAB's Executive Management. The CFO is the Chairman of the ALCO. Other committee members include senior executives from the Credit and Risk Department, and the Finance and Treasury department. The CRO is responsible for SBAB's risk management. The Head of the Risk Department is appointed by the CEO of SBAB. The Risk Department has the overall responsibility for developing and ensuring that the SBAB Group's risk strategies are implemented in the intended manner and that policies and processes enable relevant follow-up.

The Risk Department is a unit within SBAB's credit and risk division, which is responsible for analysing, assessing and reporting SBAB's overall risks. The Market and Liquidity Risk Group is a unit of the Risk Control Department, which is responsible for identifying, quantifying and analysing risks in finance 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 Control Department is also responsible for the design, implementation, reliability and monitoring of risk-classification systems and for the economic capital model. The individual risks are managed by lending and funding operations. The Risk Control Department reports SCBC's overall risk profile to SCBC's Managing Director and Board of Directors on a quarterly basis.

Review of risk assessment methods by the Swedish Financial Supervisory Authority

The Swedish Financial Supervisory Authority has granted the group of financial companies, which includes SCBC, permission to base its capital requirement for credit risk on the internal ratings-based approach (IRB approach). The Group has been granted the right to apply the standardised credit-risk approach for exposures to the Swedish state, the Riksbank, Swedish municipalities, all central government and institution exposures, as well as time-limited permission for portfolios of insignificant size. SCBC uses the standardised approach to measure and manage market and operational risk. In 2012, SBAB applied for permission to manage tenant-owner associations with sales of less than EUR 50 million in the retail exposure class, for which SBAB has an IRB permit. In February 2013, permission was obtained to change the definition of retail exposures and the method for calculating LGD for exposure to tenant-owner associations.

Operating result

Operating profit excluding net income/expense from financial transactions for 2012 totalled SEK 1,128 million (1,019). Net interest income improved by 6% compared with the preceding year.

Operating result

Operating profit/loss for 2012 amounted to a loss of SEK 194 million (profit: 1,287). Net interest income improved compared with the preceding year to SEK 1,787 million (1,689). The increase in relation to 2011 was due to improved earnings in lending operations. At year-end, the lending portfolio amounted to SEK 208.9 billion (210.5). Net income/expense from financial transactions amounted to an expense of SEK 1,322 million (income: 268). In 2012, components of the company's hedge accounting were adapted to enable more uniform management within SBAB. The adaptation led to the termination of hedging relationships and a reduction in hedge-accounting volumes during the year, which adversely impacted net income/expense from financial transactions by an expense of SEK 634 million.

Net income/expense from financial transactions was also adversely impacted by market-value changes on basis swaps[1]. Net commission income/expense amounted to an expense of SEK 86 million (expense: 96). The improvement was mainly attributable to a change in the limits for liquidity facilities between SCBC and SBAB.

The stability fee for 2012 amounted to an expense of SEK 63 million (expense: 66). SCBC's total operating income decreased year-on- year to SEK 380 million (1,861). Expenses for the year increased to SEK 587 million (563), primarily due to higher costs for loan-administration services performed by SBAB. Net loan losses amounted to SEK 13 million (loss: 11), corresponding to a loan-loss rate of minus 0.01% (plus: 0.01).

Dividend policy and appropriation of profits

SCBC does not have an established policy on dividends. Dividends are proposed by the Board in accordance with the provisions of the Companies Act and subsequently resolved by the Annual General Meeting. No dividend is proposed for 2012. All shares are owned by the Parent Company, SBAB.

Corporate Governance Report

SCBC's Corporate Governance Report for 2012 is appended to this Annual Report on page 38. A number of changes to SCBC's management and its Board of Directors were implemented during the year. Lennart Krän has been SCBC's Managing Director since 1 November 2012. The Board of Directors comprises Carl-Viggo Östlund (Chairman), Per O. Dahlstedt and Sarah Bucknell since 10 December 2012.

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 IFRS regulations, all derivative instruments are to be recognised at fair value (market value), with changes in fair value included under net income/expense from financial transactions. 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 SBAB Bank's basis swaps are held to maturity

Five-year overview

SEK million	2012	2011	2010	2009	2008
Interest income	7,902	7,735	3,667	3,445	8,006
Interest expense	-6,115	-6,046	-2,227	-2,632	-7,209
Net interest income	**1,787**	**1,689**	**1,440**	**813**	**797**
Other operating income	-1,407	172	181	-638	631
Total operating income	**380**	**1,861**	**1,621**	**175**	**1,428**
Operating expenses	-587	-563	-464	-445	-399
Total operating expenses	**-587**	**-563**	**-464**	**-445**	**-399**
Loss before loan losses	**-207**	**1,298**	**1,157**	**-270**	**1,029**
Loan losses, net	13	-11	-10	-25	-17
Operating loss	**-194**	**1,287**	**1,147**	**-295**	**1,012**
Lending portfolio	208,875	210,478	209,661	173,371	157,792
Deferred tax assets	–	–	–	55	135
Other assets	22 202	22 739	14,208	24,686	26,519
Total assets	**231 077**	**233 217**	**223,869**	**198,112**	**184,446**
Debt securities in issue	152,874	160,671	155,319	139,963	126,578
Other liabilities	27,803	25,207	19,709	21,908	29,059
Deferred tax liabilities	7	106	17	–	–
Subordinated debt to the Parent Company	39,602	36,300	38,363	26,626	19,426
Equity	10,791	10,933	10,461	9,615	9,383
Total liabilities and equity	**231,077**	**233,217**	**223,869**	**198,112**	**184,446**

Key figures					
Lending					
Investment margin, %	0.77%	0.74%	0.68%	0.43%	0.49%
Loan losses					
Loan loss rate, %	-0.01%	0.01%	0.01%	0.02%	0.01%
Productivity					
Expenditure/Income ratio, excl. loan losses, %	154	30	29	254	28
Expenditure/Income ratio, incl. loan losses, %	151	31	29	269	29
Capital structure					
Return on equity, %	-1.3%	8.9%	8.4%	-2.3%	9.5%
Core Tier 1 capital ratio without transitional regulations, %	33.6%	31.2%	30.6%	33.1%	21.8%
Tier 1 capital ratio without transitional regulations, %	33.6%	31.2%	30.6%	33.1%	21.8%
Capital adequacy ratio without transitional regulations, %	33.6%	31.2%	30.6%	33.1%	21.8%
Core Tier 1 capital ratio with transitional regulations, %	10.3%	10.7%	10.3%	11.1%	10.0%
Tier 1 capital ratio with transitional regulations, %	10.3%	10.7%	10.3%	11.1%	10.0%
Capital adequacy ratio with transitional regulations, %	10.3%	10.7%	10.3%	11.1%	10.0%
Equity ratio, %	4.7%	4.7%	4.7%	4.9%	5.1%
Consolidation ratio, %	4.7%	4.7%	4.7%	4.8%	5.0%
Employees					
Number of employees	1	1	1	1	1

Definitions of key figures

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)

Capital adequacy ratio Capital base/risk-weighted assets

Tier 1 capital ratio Tier 1 capital/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	2012	2011
Interest income	3	7,902	7,735
Interest expense	3	–6,115	–6,046
Net interest income		**1,787**	**1,689**
Commission income	4	10	10
Commission expense	4	–96	–106
Net income/expense from financial transactions	5	–1,322	268
Other operating income		1	–
Total operating income		**380**	**1,861**
General administration expenses	6	–586	–562
Other operating expenses		–1	–1
Total expenses before loan losses		**–587**	**–563**
Profit/loss before loan losses		**–207**	**1,298**
Loan losses, net	7	13	–11
Operating profit/loss		**–194**	**1,287**
Tax	8	52	–339
Profit/loss for the year		**–142**	**948**

Statement of comprehensive income

SEK million	Note	2012	2011
Profit/loss for the year		**–142**	**948**
Other comprehensive income for the year, after tax		–	–
Total comprehensive income/loss for the year		**–142**	**948**

Balance sheet

SEK million	Note	31 Dec. 2012	31 Dec. 2011
ASSETS			
Lending to credit institutions	9	10,054	11,562
Lending to the public	10	208,875	210,478
Change in value of interest-rate-hedged items in portfolio hedges		2,129	2,589
Derivative instruments	11	9,578	8,172
Other assets	14	197	113
Prepaid expenses and accrued income	15	244	303
TOTAL ASSETS		**231,077**	**233,217**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	16	15,084	15,053
Debt securities in issue	17	152,874	160,671
Derivative instruments	11	9,806	6,440
Other liabilities	18	17	550
Accrued expenses and prepaid income	19	2,896	3,164
Deferred tax liabilities	20	7	106
Subordinated debt to Parent Company	21	39,602	36,300
Total liabilities		**220,286**	**222,284**
Equity			
Share capital		50	50
Shareholder contribution		9,550	9,550
Retained earnings		1,333	385
Profit for the year		–142	948
Total equity	22	**10,791**	**10,933**
TOTAL LIABILITIES AND EQUITY		**231,077**	**233,217**
Memorandum items			
Assets pledged for own liabilities	23	203,010	209,954
Other assets pledged		None	None
Contingent liabilities		None	None
Commitments		None	None

Statement of changes in equity

SEK million	Share capital	Shareholder contribution	Retained earnings	Profit/loss 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 paid to Parent Company, after tax			–376		–376
CLOSING BALANCE, 31 DECEMBER 2011	**50**	**9,550**	**385**	**948**	**10,933**
OPENING BALANCE, 1 JANUARY 2012	**50**	**9,550**	**1,333**		**10,933**
Total comprehensive income for the year				**–142**	**–142**
CLOSING BALANCE, 31 DECEMBER 2012	**50**	**9,550**	**1,333**	**–142**	**10,791**

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	2012	2011
Cash and cash equivalents at the beginning of the year	**11,562**	**7,629**
OPERATING ACTIVITIES		
Interest received	7,857	7,700
Commission received	6	–17
Interest paid	–6,495	–6,112
Commission paid	–94	–72
Realised changes in value	–81	36
Payments to suppliers	–610	–586
Income tax paid	–21	–246
Change in subordinated debt	3,301	–2,011
Change in lending to the public	1,639	–827
Change in liabilities to credit institutions	30	4,235
Issuance of long-term funding	21,011	34,913
Repayment of long-term funding	–27,219	–33,070
Change in other assets and liabilities	-322	90
Cash flow from operating activities	**–998**	**4,033**
INVESTING ACTIVITIES		
Cash flow from investing activities	**–**	**–**
FUNDING ACTIVITIES		
Dividend paid	–	–100
Group contribution paid	–510	–
Cash flow from funding activities	**–510**	**–100**
Increase/decrease in cash and cash equivalents	**–1,508**	**3,933**
Cash and cash equivalents at the end of the year	**10,054**	**11,562**

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"). 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 derivative instruments and financial assets and liabilities measured at fair value through profit or loss, as well as hedge-accounted items.

On 12 March 2013, the Board of Directors approved the financial statements for publication. They will receive final approval from the Annual General Meeting on 17 April 2013.

Amended and new accounting policies in 2012

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 amendment is not expected to have a material impact on SCBC's financial statements. The standard has been adopted by the EU and is to be applied from 1 January.

Introduction of new accounting standards

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, 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 is not expected to have an impact on the financial statements. 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 income/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 methods. 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 and 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 derivative instruments and classified as held for trading. Each of these categories includes derivative instruments 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 income/expense from financial transactions," while the effective interest rate is recognised in net interest income.

Loans and receivables

Financial assets classified as loan receivables and accounts receivable are recognised at cost on the initial accounting occasion. 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 value are recognised as "Loan losses, net," while the effective interest rate is recognised as interest income. Also refer to the paragraph "Loan losses" further down on this page.

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 income/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.

Derivative instruments and hedge accounting

Derivative instruments are used primarily to manage interest-rate and currency risk in the company's assets and liabilities. Derivative instruments 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 derivative instruments 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 income/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 income/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 income/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 paid 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 income 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.

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. Note 2, Risk management and capital adequacy is divided into the following segments:

2a) Credit risk in lending operations – the counterparty is unable to fulfil its payment obligations.
2b) Credit risk in finance operations – the counterparty is unable to fulfil its payment obligations.
2c) Liquidity risk – being unable to meet payment obligations on the date of maturity without the cost of obtaining payment funds increasing significantly.
2d) Market risk – a decline in profitability due to unfavourable market fluctuations.
2e) Operational risk – losses due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events, including legal risk.
2f) Business risk – declining income due to deteriorating competitive conditions or an incorrect strategy or decision. Margin risk, which arises when the fixed-interest periods applying to the interest-rate margins for lending and funding differ.
2g) Concentration risk – arises when either major exposures or exposures in the loan portfolio are concentrated to certain types of borrowers, regions or industries.
2h) Internal capital adequacy assessment – compliance with Basel II, Pillar 2.
2i) Capital adequacy.

For more information about SCBC'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 lending operations; instead all loans have been acquired from the Parent Company. The credit risk in the lending operations is restricted by credit 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 only 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. Loan that remain in default for 30 days, the Parent Company has repurchased 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)
- The part of the off-balance sheet commitment that is utilised in the event of default – Credit conversion factor (CCF)
- 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 retail and corporate loans, of which 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

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

arises. The validation conducted in 2012 resulted in minor adjustments to SBAB's CCF model for retail exposures, as well as to the PD model, with property as collateral.

In the financial statements, the calculated loan loss (EL) according to IRB models differs from the provision for probable loan losses. The calculation of EL according to Basel Pillar 1 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 over a longer period of time using a statistical model. The management of the loss arising in the financial statements is regulated by IAS 39, according to which, 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. EL for loans calculated according to IRB models amounts to SEK 161 million. The provision for corresponding loans according to the financial statements is SEK 94 million. Since EL exceeds the provision posted in the financial statements, the difference is deducted when calculating the capital base in the capital adequacy calculation.

In connection with the quantitative assessment in the corporate market1), 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.

Collateral in the lending operations

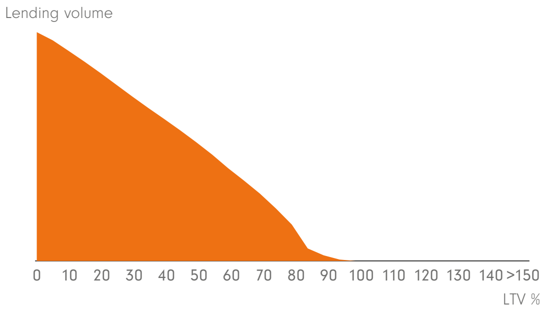
For loans granted by SBAB, adequate collateral must normally be provided. Adequate collateral primarily refers to mortgage deeds in residential properties or shares in tenant-owner associations within a maximum of 75–85% of the market value. The 85% level applies only provided that collateral can be 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, the loan-to-value ratio of 75% applies.

In addition to collateral in the form of mortgage deeds in residential property 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% (90) 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 matches the carrying amount and amounts to SEK 209 million (211).

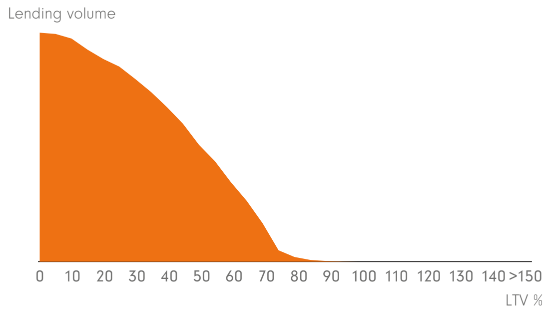
The financial effect of collateral received is illustrated in the diagram below, which shows loans in relation to the market value of underlying collateral for loans secured on collateral comprising mortgage deeds or shares in tenant-owner associations. The floor area in the diagram corresponds to the lending volume and shows that SCBC has favourable collateral, since the floor area is greatest in connection with lower loan-to-value ratios. The data encompasses 98% (97) of the company's total lending to the public. Since 97% (96) of lending is secured on collateral in mortgage deeds or shares in tenant-owner associations within 75% to 94% (93) of the borrowers in risk classes 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 rights

Retail 1)



Corporate market 1)



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

Segment	Under 50%	Under 75%	Under 100%	Exposure-weighted average LTV
Corporate	82%	99%	100%	57%
Retail	76%	95%	100%	65%

Loan portfolios in lending operations allocated by risk class

SCBC's lending to the public amounted to SEK 208.9 billion (210.5) at 31 December 2012. 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 30 million (24), which were attributable to the loans, are distributed in the table on a pro rata basis.

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

Loan portfolio allocated by risk class – Retail

	2012		2011	
Risk class R[1]	**Lending**	**Provisions/lending in respective risk class**	**Lending**	**Provisions/lending in respective risk class**
R0				
R1	15.5%	0.0%	26.0%	–
R2	25.6%	0.0%	27.6%	–
R3	39.8%	0.0%	27.0%	–
R4	10.1%	0.0%	9.6%	–
R5	5.6%	0.4%	4.9%	0.4%
R6	2.4%	1.0%	3.5%	1.1%
R7	1.0%	3.0%	1.3%	3.2%
R8	0.0%	4.3%	0.1%	10.3%
	100.0%	0.1%	**100.0%**	**0.1%**

[1] R=Retail market

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

	2012		2011	
Risk class C[1]	**Lending**	**Provisions/lending in respective risk class**	**Lending**	**Provisions/lending in respective risk class**
C0	0.2%	–	0.5%	–
C1	64.9%	–	67.1%	–
C2	23.0%	0.0%	21.1%	–
C3	7.9%	0.0%	6.9%	–
C4	2.3%	0.1%	1.7%	–
C5	1.1%	0.0%	1.7%	–
C6	0.4%	2.2%	0.7%	3.3%
C7	0.2%	5.1%	0.1%	12.5%
C8	0.0%	0.0%	0.2%	–
	100.0%	0.0%	**100.0%**	**0.0%**

[1] C=Corporate (Företagsmarknad)

Lending to the public and credit institutions

The table below 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.

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

	2012		2011	
SEK million	**Public**	**Credit institutions**	**Public**	**Credit institutions**
❶ Current loans without past due unpaid amounts or provisions	208,712	10,054	210,253	11,562
❷ Loans with unpaid amounts > 5 days past due	284	–	382	–
❸ Loans with individual provisions	–	–	3	–
Total outstanding loans	**208,996**	**10,054**	**210,638**	**11,562**
Individual provisions	–		–3	–
Collective provisions corporate market	–14	–	–24	–
Collective provisions retail market	–107	–	–133	–
Total provisions	**–121**	**–**	**–160**	**–**
Total lending after provisions	**208,875**	**10,054**	**210,478**	**11,562**
Guarantees for loans with individual provisions	–	–	–	–
Guarantees for loans with collective provisions, corporate market	1	–	10	–
Guarantees for loans with collective provisions, retail market	27	–	27	–
Total guarantees	**28**	**–**	**37**	**–**
Total lending after provisions and guarantees	**208,903**	**10,054**	**210,515**	**11,562**

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

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 94% (93) of these were in the risk classes C0/R1–C4/R4 at 31 December 2012. Loans for commercial properties are also covered by municipal guarantees or mortgage deeds in residential properties. The allocation includes total transaction costs of SEK 30 million (24), 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 per segment – current loans without past due unpaid amounts or provisions

	2012						
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
C/R0	–	–	–	–	189	–	189
C/R1	15,568	5,485	27,029	16,603	3,640	–	68,325
C/R2	22,732	12,056	14,018	2,432	245	59	51,542
C/R3	31,041	23,168	3,669	1,929	139	21	59,967
C/R4	7,803	5,976	1,069	423	199	–	15,470
C/R5	4,440	3,141	641	121	27	–	8,370
C/R6	1,825	1,336	173	89	–	–	3,423
C/R7	854	409	35	91	–	–	1,389
C/R8	21	13	3	–	–	–	37
Total	**84,284**	**51,584**	**46,637**	**21,688**	**4,439**	**80**	**208,712**

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

Lending to the public per 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
C/R0	–	–	–	–	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	13,926
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**

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

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

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 prior to the most recent due date 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 (currently part of the National Board of Housing, Building and Planning), insurance companies and banks, which are entered at the estimated amount expected to be received in the event of insolvency. At year-end 2012, 99.9% (99.8) of lending had no past due unpaid amounts and was not assessed as doubtful. As in 2011, SCBC's loan portfolio of SEK 208.9 billion (210.5) included no past due principal for which notice of termination has been given, excluding past due amortisation from 2012, which was because the Parent Company has acquired 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

	2012						
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	0.1	0.0	–	–	2.6
Past due accrued interest	0.7	0.3	0.3	0.0	–	–	1.3
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Principal not past due	184.2	65.4	30.9	0.8	–	–	281.3
Accrued interest not past due	0.1	0.0	0.1	0.0	–	–	0.2
31–60 days past due							
Past due amortisation	–	–	–	–	–	–	–
Past due accrued interest	0.0	–	–	–	–	–	0.0
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Principal not past due	0.4	–	–	–	–	–	0.4
Accrued interest not past due	0.0	–	–	–	–	–	0.0
>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	0.1	0.0	–	–	2.6
Total past due accrued interest	0.7	0.3	0.3	0.0	–	–	1.3
Total terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Total principal not past due	184.6	65.4	30.9	0.8	–	–	281.7
Total accrued interest not past due	0.1	0.0	0.1	0.0	–	–	0.2
Total lending for loans with past due receivables without provisions	**186.4**	**66.1**	**31.0**	**0.8**	**–**	**–**	**284.3**
Value of collateral and guarantees	186.4	66.1	31.0	0.8	–	–	284.3

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, continued

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**
Value of collateral and guarantees	168.2	68.2	38.1	107.1	–	–	381.6

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, continued

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. At year-end 2012, there were no doubtful loan receivables. In the preceding year, there were doubtful loan receivables of SEK 3 million that pertained to lending for tenant-owner rights.

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.

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.

Carrying amount of renegotiated loans by segment

SEK million	2012	2011
Single-family dwellings and holiday homes	1	3
Tenant-owner rights	0	0
Tenant-owner associations	–	32
Private multi-family dwellings	–	–
Municipal multi-family dwellings	–	–
Commercial properties	–	–
Total	**1**	**35**

Carrying amount of financial assets that would otherwise have been recognised as past due or impaired and whose terms have been renegotiated.

Note 2b Credit risk in treasury operations

In the treasury operations, credit risk arises in the form of counterparty credit risk associated with the derivative contracts entered into by SCBC to manage its financial risks.

Limit utilisation

SEK million	2012		2011	
Rating category	**Limit**	**Utilised limit**	**Limit**	**Utilised limit**
AAA	0	0	0	0
AA– to AA+	5,450	971	6,500	781
A– to A+	10,885	550	12,885	1,627
Below A–	2,400	148	–	–
Total	**18,735**	**1,669**	**19,385**	**2,408**

The table shows the utilised limit and the limit at an aggregate level, respectively, per rating category, with the various counterparties placed in relation to their lowest rating. It also serves as a summary of the external derivative contracts that SCBC had entered into at 31 December 2012. 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. Limits are set by the Parent Company's Credit Committee within the scope of the rating-related framework established by the Parent Company's Board of Directors. 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 consideration must be made. The decisions of the Credit 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 credit 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 posts collateral by transferring funds or securities to reduce the exposure, known as credit support annexes (CSA). Wherever applicable, the received collateral takes the form of cash with a transfer of title which entitles the party that receives the collateral to use it in its operations. On 31 December 2012, SCBC had received collateral with a total value of SEK 2.9 billion. The credit risk limits are established by SBAB's Credit Committee for all counterparties in the treasury operations, with the exception of the Swedish state and companies included in the SBAB Group, for which no credit limits are established. The table "Maximum credit risk exposure in the treasury 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 treasury operations

	Without taking into account collateral received or other credit enhancements		Taking into account collateral received or other credit enhancements	
SEK million	**2012**	**2011**	**2012**	**2011**
Lending to credit institutions	9,952	11,474	9,952	11,475
Chargeable treasury bills and other eligible bills	–	–	–	–
Bonds and other interest-bearing securities	–	–	–	–
Derivative instruments	9,578	8,172	6,641	5,021
Maximum credit risk exposure at 31 December	**19,531**	**19,646**	**16,593**	**16,496**

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, 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)

SEK million	2012							2011						
GROUP	**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	148	9,951	–	–	–	–	10,099	133	11,439	–	–	–	–	11,572
Lending to the public	–	26,877	31,215	63,840	93,883	3,026	218,841	–	30,879	37,761	60,117	88,624	4,473	221,854
Derivative instruments	–	4,713	6,639	2,252	59,739	3,382	76,725	–	110,710	17,014	19,491	134,239	19,068	300,522
Other assets	441	–	–	–	–	–	441	416	–	–	–	–	–	416
Total financial assets	**589**	**41,541**	**37,854**	**66,092**	**153,622**	**6,408**	**306,106**	**549**	**153,028**	**54,775**	**79,608**	**222,863**	**23,541**	**534,364**
LIABILITIES														
Liabilities to credit institutions	–	15,085	–	–	–	–	15,085	–	15,057	–	–	–	–	15,057
Debt securities in issue	–	1,241	21,903	2,274	133,649	3,954	163,021	–	759	17,470	6,479	135,248	15,094	175,050
Derivative instruments	–	5,420	4,874	2,895	61,728	3,828	78,745	–	111,611	15,616	19,866	134,101	20,030	301,224
Other liabilities	2,913	–	–	–	–	–	2,913	3,714	–	–	–	–	–	3,714
Subordinated debt	39,602	–	–	–	–	–	39,602	36,300	–	–	–	–	–	36,300
Total financial liabilities	**42,515**	**21,746**	**26,777**	**5,169**	**195,377**	**7,782**	**299,366**	**40,014**	**127,427**	**33,086**	**26,345**	**269,349**	**35,124**	**531,345**

For receivables and liabilities that have been amortised, the fixed-interest period for 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 2012. Future interest-rate cash flows with floating interest rates have been estimated using forward interest rates based on the current interest base, usually the three-month STIBOR.

Note 2d 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 SBAB's Board ultimately decides on methods for risk measurement and limits. The management of SCBC's risks is outsourced to the Parent Company, SBAB, where risks are followed up and managed at both the company and Group level. The basis for SBAB's management of SCBC's market risk is that it is the market risk of the cover pool that must be minimised, subject to the overall objective of satisfying the matching regulations expressed in the Covered Bonds Act (2003:1223). Risk Control monitors current risk levels and compliance with limits on a daily basis.

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 2012 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 derivative instruments. 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, also apply for SCBC. SBAB'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 contracted cash flows affecting lending, liabilities and derivative instruments. The parallel shift measurement and curve risk are used for limiting, 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 Group's capital base in the event of a parallel shift of the yield curve of 1 percentage point. At 31 December 2012, the operational interest-rate risk exposure amounted to a negative SEK 39.8 million (neg: 28.3), 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's capital base. At 31 December 2012, the curve risk amounted to SEK 38.9 million (70.1), compared with the limit of SEK 139 million.

Strategic interest-rate risk is the interest-rate risk that arises when SBAB'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'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 2012, the strategic interest-rate risk was a negative SEK 15.5 million (pos: 2.0). 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 based on the assumption of normally distributed yields, calculated by variance/covariance matrices for the risk factors included. A one-sided 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 converted to SEK through derivative contracts.

Note 2d Risk management – Market risk, continued

Derivative cash flow statement (fixed-interest periods for financial assets and liabilities)

SEK million	2012						2011					
	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	–116	–277	845	2,355	–492	2,315	–382	–307	555	2,386	–323	1,929
Total derivatives settled on a net basis	**–116**	**–277**	**845**	**2,355**	**–492**	**2,315**	**–382**	**–307**	**555**	**2,386**	**–323**	**1,929**
DERIVATIVES SETTLED ON A GROSS BASIS												
Currency-related derivatives												
– Inflows of cash	2,332	1,288	4,040	48,282	1,920	57,862	1,728	236	6,113	46,671	13,699	68,447
– Outflows of cash	–2,393	–1,540	–3,761	–52,626	–1,874	–62,194	–1,786	–390	–5,644	–48,919	–14,338	–71,077
Interest-rate related derivatives												
– Inflows of cash	–	–	–	–	–	–		–	–	–	–	–
– Outflows of cash	–	–	–	–	–	–		–	–	–	–	–
Total												
– Inflows	**2,332**	**1,288**	**4,040**	**48,282**	**1,920**	**57,862**	**1,728**	**236**	**6,113**	**46,671**	**13,699**	**68,447**
– Outflows	**–2,393**	**–1,540**	**–3,761**	**–52,626**	**–1,874**	**–62,194**	**–1,786**	**–390**	**–5,644**	**–48,919**	**–14,338**	**–71,077**

Foreign currency cash flows have been translated at the closing rate at 31 December 2012. Future interest-rate cash flows for asset and liability derivative instruments with floating interest rates have been estimated until the change of condition date using forward interest rates based on the current interest base, normally the three-month STIBOR.

Fixed-interest period for financial assets and liabilities

Carrying amount, SEK million	2012							2011						
GROUP	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	102	9,952	–	–	–	–	10,054	87	11,475	–	–	–	–	11,562
Lending to the public	–	95,947	9,065	23,802	77,314	2,747	208,875	–	111,005	9,903	13,150	72,249	4,171	210,478
Change in fair value of hedge-accounted loan receivables	–	43	47	116	1,750	173	2,129	–	1,316	725	1,188	–181	–459	2,589
Derivative instruments	–	–137,015	23,480	1,068	112,248	9,797	9,578	–	–149,014	16,707	3,252	121,783	15,444	8,172
Other assets	441	–	–	–	–	–	441	416	–	–	–	–	–	416
Total financial assets	**543**	**–31,073**	**32,592**	**24,986**	**191,312**	**12,717**	**231,077**	**503**	**–25,218**	**27,335**	**17,590**	**193,851**	**19,156**	**233,217**
LIABILITIES														
Liabilities to credit institutions	–	15,084	–	–	–	–	15,084	–	15,053	–	–	–	–	15,053
Debt securities in issue	–	19,585	18,201	172	111,434	3,482	152,874	–	23,432	13,633	3,414	105,593	14,599	160,671
Derivative instruments	–	–106,698	13,289	23,979	70,363	8,873	9,806	–	–116,656	15,120	14,540	89,479	3,957	6,440
Other liabilities	2,913	–	–	–	–	–	2,913	3,714	–	–	–	–	–	3,714
Subordinated debt	–124	39,726	–	–	–	–	39,602	–99	36,399	–	–	–	–	36,300
Total financial liabilities	**2,789**	**–32,303**	**31,490**	**24,151**	**181,797**	**12,355**	**220,279**	**3,615**	**–41,772**	**28,753**	**17,954**	**195,072**	**18,556**	**222,178**
Difference assets and liabilities	**–2,246**	**1,230**	**1,102**	**835**	**9,515**	**362**	**10,798**	**–3,112**	**16,554**	**–1,418**	**–364**	**–1,221**	**600**	**11,039**

Note 2e 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

SBAB uses a model to manage operational risk based on self-evaluation of operational risks and risks associated with financial reporting, as well as the registration of incidents that have occurred. The self-evaluation process encompasses the identification of risks in all units, the measurement of identified risks and the management of material risks. The results of the self-evaluation are reported annually and any incidents that occur are reported to the Board, the Managing Director and senior executives. For further details on the management of risks connected to financial reporting, see the Corporate Governance Report, the section on Internal control of financial reporting.

Note 2f 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 SBAB. Changes in the form of new products or new markets should account for only a minor share of SBAB's operations and should be implemented at a pace that ensures they do not significantly jeopardise the level of earnings or the 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 2g Risk management – Concentration risk

Concentration risk follows from exposures concentrated to certain types of borrowers, regions or industries.

All companies in SBAB 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 2012, the internally calculated capital requirement for credit-related concentration risk in SBAB amounted to SEK 575 million (878), of which SEK 504 million (822) pertained to credit risk in the lending operations and SEK 71 million (56) to credit risk in the funding operations. The decrease in the concentration risk in lending operations is due to SBAB currently measuring concentration as a part of the total lending portfolio, in contrast to the past when it was measured as a part of the portfolio of corporate exposures.

Note 2h Risk management – Internal capital adequacy assessment

ICAAP

The purpose of the internal capital adequacy assessment process (ICAAP) is performed for the corporate group, SBAB, in which SCBC is a significant part.

Pillar 2 of the Basel II regulations imposes the requirement that the banks' management and assessment of risks must be satisfactory to ensure that the banks can fulfil their obligations. In order to fulfil this requirement, the banks must have methods that enable them to continuously evaluate and uphold capital in an amount, type and distribution sufficient to cover the risks to which they are or will become exposed. This is called the internal capital adequacy assessment process.

The purpose of the internal capital adequacy assessment process is to identify, evaluate, secure and manage the risks to which SBAB 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.

Calculation of the amount of risk capital required to manage the combined risk in the operations occurs at Group level and is based primarily on the calculation of SBAB'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. What is finally taken into account is the impact on profit or loss caused by a valuation effect on primarily basis swap spreads as well as spreads on residential bonds and government paper that arise due to accounting regulations. The valuation effect is not estimated to affect risk in the operations, apart from the impact on the capital base. Based on the qualitative assessment and results of the stress tests, as well as the calculation of earnings volatility, the calculated economic capital is supplemented with extra buffer capital. Taken together, economic capital and buffer capital comprise the capital that, in accordance with Basel II, is required to meet all risks in SBAB's operations. At 31 December 2012, the Group's capital requirement amounted to SEK 9,239 million (8,883).

Economic capital

Economic capital comprises the capital that SBAB 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 SBAB's operations. The levels take into consideration diversification effects that reduce risk by taking into account 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 loan 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 SBAB's risk models. A change in the credit-worthiness of individual loans is simulated through changes in the majority of the parameters in the 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 SBAB'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

Note 2h Risk management – Internal capital adequacy assessment, continued

very low levels. During the first year of the stress scenario, economic capital in SBAB increased by SEK 996 million (978) and loan losses by SEK 41 million (36), 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 996 million (978) 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 Group's economic capital by risk type
SEK million

Risk type	2012	2011
Credit risk	5,070	4,858
of which, concentration risk	575	*878*
Market risk	156	151
Business risk	129	200
Operational risk	243	134
Total economic capital	**5,598**	**5,343**

Note 2i 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 apply until year-end 2013, unless decided otherwise by CRR.

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 includes proposals for 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. In addition to the forthcoming Basel III regulations, Swedish authorities have proposed a national risk-weight floor for residential mortgages to Swedish retail customers. Banks that are important to the Swedish system, which include the four Swedish super-banks, are subject to more stringent demands than other banks. The requirement for additional capital at a later stage could encompass more banks.

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. 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	2012	2011
Core Tier 1 capital		
Equity	10,791	10,933
Net provisions for IRB exposures	–67	–120
Core Tier 1 capital	**10,724**	**10,813**
Tier 1 capital	**10,724**	**10,813**
Tier 2 capital	–	–
Expanded part of capital base	–	–
Deduction from entire capital base	–	–
Amount for capital base net after deductible items and limit value	**10,724**	**10,813**

* Encompassed by the transitional rules to FFFS 2007:1

Capital requirements

SEK million	2012	2011
Credit risk recognised in accordance with IRB approach		
Exposures to corporates	1,597	1,917
Retail exposures	555	552
Total exposures, recognised in accordance with IRB approach	**2,152**	**2,469**
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	226	151
Exposures to corporates	4	6
Retail exposures	1	1
Past-due items	–	0
Other items	2	2
Total exposures, recognised in accordance with standardised approach	**233**	**160**
Risks in the trading book	**–**	**–**
Operational risk	**167**	**143**
Currency risk	**–**	**–**
Commodity risk	**–**	**–**
Total minimum capital requirement	**2,552**	**2,772**
Addition according to transitional regulations	5,745	5,327
Total capital requirement according to transitional regulations	**8,297**	**8,099**

Capital adequacy[1)]

SEK million	2012	2011
Core Tier 1 capital	10,724	10,813
Tier 1 capital	10,724	10,813
Total capital	10,724	10,813
Without transitional regulations		
Risk-weighted assets	31,903	34,654
Core Tier 1 capital ratio	33.6%	31.2%
Tier 1 capital ratio	33.6%	31.2%
Capital adequacy ratio	33.6%	31.2%
Capital quotient	4.20	3.90
With transitional regulations		
Risk-weighted assets	103,714	101,241
Core Tier 1 capital ratio	10.3%	10.7%
Tier 1 capital ratio	10.3%	10.7%
Capital adequacy ratio	10.3%	10.7%
Capital quotient	1.29	1.34

1) According to Basel II regulations.

Note 3 Net interest income

SEK million	2012	2011
Interest income		
Lending to credit institutions	225	211
Lending to the public[1)]	8,017	7,854
Interest-bearing securities	-340	-330
Total	**7,902**	**7,735**
Interest expense		
Liabilities to credit institutions	-216	-252
Debt securities in issue	-4,386	-4,726
Subordinated debt	-1,513	-1,068
Other	–	–
Total	**-6,115**	**-6,046**
Net interest income	**1,787**	**1,689**

The subordinated debt was issued by the Parent Company.
[1)] Includes interest income of SEK 0 million on doubtful receivables.

Note 4 Commission

SEK million	2012	2011
Commission income		
Commission on lending	10	10
Total	**10**	**10**
Commission expense		
Stability fee	-63	-66
Other commission	-33	-40
Total	**-96**	**-106**
Commission, net	**-86**	**-96**

Note 5 Net income/expense from financial transactions

SEK million	2012	2011
Gains/losses on interest-bearing financial instruments:		
– Change in value of hedged items in hedge accounting	-1,187	-2,069
– Realised expense from financial liabilities	-171	-96
– Derivative instruments in hedge accounting	790	2,380
– Other derivative instruments	-828	0
– Loan receivables	75	57
Currency translation effects	-1	-4
Total	**-1,322**	**268**

In the table above, changes in the market value of basis swaps affected the "Derivative instruments in hedge accounting" and "Other derivative instruments" items. The effect of discontinued hedges has affected "Change in value of hedged items in hedge accounting" item. With respect to risk management, derivative instruments are related to and have their counter items in all other categories of interest-bearing instruments.

Note 6 General administration expenses

SEK million	2012	2011
Outsourcing costs	-514	-521
Management fee	-72	-41
Other administration expenses	-1	-0
Total	**-587**	**-562**

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 three Members. The company does not pay a salary or any other remuneration to the Managing Director or the Board.

SBAB Bank AB 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 auditors

Fees and compensation for expenses to PWC amounted to SEK 2.2 million (0.9), of which the audit cost accounted for SEK 0.8 million. Of the SEK 0.6 million (0.5) 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 0.8 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 of SCBC.

Note 7 Loan losses, net

SEK million	2012	2011
Corporate market		
Collective provision for corporate market loans		
Allocation to/redemption of collective provisions	-1	-0
Guarantees	-7	8
Net income/cost for the year for collective provisions for corporate market loans	**-8**	**8**
Retail market		
Individual provision for retail market loans		
Write-off of confirmed loan losses for the year	-3	–
Reversal of prior year provisions for probable loan losses recognised as confirmed loan losses in the financial statements for the year	3	–
Provision for probable loan losses for the year	–	-3
Net cost for the year for individual provisions for retail market loans	**0**	**-3**
Collective provision for retail market loans		
Write-off of confirmed loan losses for the year	-2	-0
Allocation to/redemption of collective provisions	33	-11
Guarantees	-10	-5
Net cost for the year for collective provisions for retail market loans	**21**	**-16**
Net cost for the year for loan losses	**13**	**-11**

The write-off of confirmed loan losses for the year as specified above relates to receivables from the public.

The guarantees pertain to received or anticipated receivables from The Swedish National Board of Housing, Building and Planning, insurance companies and banks. Refer also to Note 2a Risk management - credit risk in lending operations on page 15.

Note 8 Tax

SEK million	2012	2011
Current tax	–47	–250
Deferred tax	99	–89
Total	**52**	**–339**

The effective tax rate differs from the nominal tax rate in Sweden as below		
Profit before tax	–194	1,287
Nominal tax rate in Sweden 26.3%	51	–339
Restatement of deferred tax to 22%	1	–
Tax for previous years and other	–	–
Total tax	**52**	**–339**
Effective tax rate	26.8%	26.3%

Note 9 Lending to credit institutions

SEK million	2012	2011
Lending in SEK	10,051	11,515
Lending in foreign currency	3	47
Total	**10,054**	**11,562**
of which repos	*9,949*	*11,428*

Receivables outstanding distributed by remaining maturity, net carrying amount		
Payable on demand	105	134
At most 3 months	9,949	11,428
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	**10,054**	**11,562**
Average remaining maturity	0.0	0.0
Total	**10,054**	**11,562**

Of SCBC's lending to credit institutions, SEK 102 million (87) pertains to a receivable from FriSpar Bolån AB (a joint venture in the SBAB Group).

Note 10 Lending to the public

SEK million	2012	2011
Opening balance	210,478	209,661
Transferred from Parent Company	17,098	21,657
Amortisation, write-offs, redemption	–18,580	–20,680
Closing balance	**208,996**	**210,638**
Provision for probable loan losses	**–121**	**–160**
Closing balance	**208,875**	**210,478**

Distribution of lending by property type		
Single-family dwellings and holiday homes	84,471	82,730
Tenant-owner rights	51,650	48,699
Tenant-owner associations	46,668	47,920
Private multi-family dwellings	21,688	25,202
Municipal multi-family dwellings	4,439	5,904
Commercial properties	80	183
Provision for probable loan losses	–121	–160
Total	**208,875**	**210,478**

Receivables outstanding distributed by remaining maturity, net carrying amount		
Payable on demand		
At most 3 months	25,057	28,737
Longer than 3 months but at most 1 year	91,658	94,057
Longer than 1 year but at most 5 years	89,413	83,511
Longer than 5 years	2,747	4,173
Total	**208,875**	**210,478**
Average remaining maturity, years	1.4	1.3
Percentage of lending with a government or municipal guarantee	2	3
Average fixed-interest period, years	1.1	1.1

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 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 52,451 million (43,965) of SCBC's lending portfolio was provided by business partners via 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	2012	2011
a) Doubtful loan receivables	–	3
b) Specific provisions for individually measured loan receivables	–	3
c) Collective provisions, corporate market loans	14	24
d) Collective provisions, retail market loans	107	133
e) Total provisions (b+c+d)	121	160
f) Doubtful loan receivables after individual provisions (a-b)	–	0
g) Provision ratio for individual provisions (b/a)	–	100%

Refer also to Note 2a Risk management – credit risk in lending operations on page 15.

Note 10 Lending to the public, continued

Distribution of doubtful loan receivables and provisions by type of property

	2012					2011				
SEK million	**Single-family dwellings and holiday homes**	**Tenant-owner rights**	**Tenant-owner associa-tions**	**Private multi-family dwellings**	**Total**	**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 for loan receivables					–		3			3
Collective provisions for corporate market loans			6	8	14			4	20	24
Collective provisions for retail market loans	68	39			107	83	50			133
Doubtful loan receivables after individual provisions					**–**					**0**

Note 11 Derivative instruments

	2012			2011		
SEK million	**Fair value, assets**	**Fair value, liabilities**	**Nominal amount**	**Fair value, assets**	**Fair value, liabilities**	**Nominal amount**
Derivative instruments in fair value hedges						
Interest-rate related						
-interest rate swaps	7,253	4,537	251,996	5,293	2,906	368,684
Currency related	2,264	4,170	45,214	2,849	2,525	49,226
Total	**9,517**	**8,707**	**297,210**	**8,142**	**5,431**	**417,910**
Other derivative instruments						
Interest-rate related						
-interest rate swaps	1	2	1,751	0	0	1,782
Currency related	60	1,097	14,500	30	1,009	16,564
Total	**61**	**1,099**	**16,251**	**30**	**1,009**	**18,346**
Derivative instruments distributed by remaining maturity, carrying amount		**Fair value**	**Nominal amount**		**Fair value**	**Nominal amount**
At most 3 months		–390	13,109		–8	1,673
3–12 months		337	61,207		986	25,523
1–5 years		–192	222,169		2,805	172,391
Longer than 5 years		17	16,976		–2,051	236,669
Total		**–228**	**313,461**		**1,732**	**436,256**

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 interest-rate swaps. Currency interest-rate swaps are defined as currency-related derivative instruments. SBAB applies hedge accounting solely for currency and interest-rate risk.

At 31 December 2012, the nominal amount of derivative instruments held for fair value hedging was SEK 297 billion (418). The fair value of these derivative instruments was SEK 810 million (2,711) and the year's change in value amounted to SEK 790 million (2,380). The change in fair value of the hedged items with respect to hedged risk amounted to a loss of SEK 1,187 million (loss 2,069) and the realised loss on the repurchased debt was SEK 171 million (loss: 96). Accordingly, SCBC's hedge accounting for fair value and repurchased debt had a negative impact of SEK 568 million (neg: 215) on profit for the year. The results were negatively impacted by value changes on basis swaps and discontinued hedging relationships.

Note 12 Classification of financial instruments

Financial assets	2012					
SEK million	**Hedge-accounted derivative instruments**	**Loan receivables in hedge accounting**	**Other derivative instruments measured at fair value through profit or loss**	**Other loan receivables**	**Total**	**Total fair value**
Lending to credit institutions				10,054	10,054	10,054
Lending to the public		96,070		112,805	208,875	211,174
Change in value of interest-rate-hedged items in portfolio hedges		2,129			2,129	
Derivative instruments	9,517		61		9,578	9,578
Other assets				197	197	197
Prepaid expenses and accrued income		95		149	244	244
Total	**9,517**	**98,294**	**61**	**123,205**	**231,077**	**231,247**

Financial liabilities	2012					
SEK million	**Hedge-accounted derivative instruments**	**Other financial liabilities covered by hedge accounting**	**Other derivative instruments and liabilities measured at fair value through profit or loss**	**Other financial liabilities**	**Total**	**Total fair value**
Liabilities to credit institutions				15,084	15,084	15,084
Debt securities in issue		132,811		20,063	152,874	152,614
Derivative instruments	8,707		1,099		9,806	9,806
Other liabilities				17	17	17
Accrued expenses and deferred income		2,448		448	2,896	2,896
Subordinated debt to Parent Company				39,602	39,602	39,602
Total	**8,707**	**135,259**	**1,099**	**75,214**	**220,279**	**220,019**

Financial assets	2011					
SEK million	**Hedge-accounted derivative instruments**	**Loan receivables in hedge accounting**	**Other derivative instruments measured 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	2011					
SEK million	**Hedge-accounted derivative instruments**	**Other financial liabilities covered by hedge accounting**	**Other derivative instruments 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 deferred 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**

Note 13 Fair value measurement

SEK million	2012				2011			
	Quoted market prices (Level 1)	Other observable data (Level 2)	Unobservable data (Level 3)	Total	Quoted market prices (Level 1)	Other observable data (Level 2)	Unobservable data (Level 3)	Total
Assets								
Derivative instruments in the category trade	–	61	–	61	–	30	–	30
Derivative instruments in hedge accounting	–	9,517	–	9,517	–	8,142	–	8,142
Total	**–**	**9,578**	**–**	**9,578**	**–**	**8,172**	**–**	**8,172**
Liabilities								
Derivative instruments in the category trade	–	1,099	–	1,099	–	1,009	–	1,009
Derivative instruments in hedge accounting	–	8,707	–	8,707	–	5,431	–	5,431
Total	**–**	**9,806**	**–**	**9,806**	**–**	**6,440**	**–**	**6,440**

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. This measurement method is currently not used for any assets or liabilities.

Measurement based on observable data (Level 2)
Measurement aided by other external market information, 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 material input in 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	2012	2011
Past due interest receivables	132	42
Securities settlement receivables	–	3
Tax assets	43	68
Receivable from Parent Company	22	–
Total	**197**	**113**
Other assets distributed by remaining maturity, carrying amount		
At most 1 year	197	113
Longer than 1 year	–	–
Total	**197**	**113**

Note 15 Prepaid expenses and accrued income

SEK million	2012	2011
Prepaid expenses	–	2
Accrued interest income	208	259
Other accrued income	36	42
Total	**244**	**303**
Prepaid expenses and accrued income distributed by remaining maturity, carrying amount		
At most 1 year	225	278
Longer than 1 year	19	25
Total	**244**	**303**

Note 16 Liabilities to credit institutions

SEK million	2012	2011
Liabilities in SEK	12,781	13,353
Liabilities in foreign currency	2,303	1,700
Total	**15,084**	**15,053**
of which repos	*12,146*	*11,901*
Outstanding liabilities distributed by remaining maturity, carrying amount		
Payable on demand	2,938	3,152
At most 3 months	12,146	11,901
Longer than 3 months but at most 1 year	–	–
Total	**15,084**	**15,053**
Average remaining maturity, years	0.0	0.0

Note 17 Debt securities in issue

SEK million	2012	2011
Bond loans		
Bond loans in SEK		
– at amortised cost:	8,646	9,400
– in fair value hedging	94,039	94,188
Bond loans in foreign currency		
– at amortised cost:	11,417	14,633
– in fair value hedging	38,772	42,450
Total debt securities in issue	**152,874**	**160,671**
– of which covered bonds	*152,874*	*160,671*
Debt securities in issue distributed by remaining maturity, carrying amount		
At most 1 year	20,499	19,319
Longer than 1 year but at most 5 years	128,808	126,663
Longer than 5 years but at most 10 years	2 563	13,076
Longer than 10 years	1 004	1,613
Total	**152,874**	**160,671**
Average remaining maturity, years	2.7	3.0
Average remaining fixed-interest period, years	2.4	2.7

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

Note 18 Other liabilities

SEK million	2012	2011
Tax liabilities	–	–
Liabilities to borrowers	17	40
Liabilities to Parent Company	–	510
Other	–	–
Total	**17**	**550**
Outstanding liabilities distributed by remaining maturity, carrying amount		
At most 1 year	17	550
Longer than 1 year	–	–
Total	**17**	**550**

Note 19 Accrued expenses and deferred income

SEK million	2012	2011
Accrued interest expense	2,821	3,089
Other accrued expenses	75	75
Total	**2,896**	**3,164**
Accrued expenses and prepaid income distributed by remaining maturity, carrying amount		
At most 1 year	2,896	3,164
Longer than 1 year	–	–
Total	**2,896**	**3,164**

Note 20 Deferred tax

SEK million	2012	2011
Deferred tax assets (+)/tax liabilities (-) for temporary differences in:		
– Debt securities in issue	988	989
– Derivative instruments	–995	–1,095
Total	**–7**	**–106**
Change in deferred tax:		
Deferred tax in profit or loss	99	–89
Total	**99**	**–89**
Deferred tax distributed by expected maturity date, carrying amount		
At most 1 year	–	–
Longer than 1 year	–7	–106
Total	**–7**	**–106**

Note 21 Subordinated debt to Parent Company

SEK million	2012	2011
Subordinated debt to Parent Company	39,602	36,300
Total	**39,602**	**36,300**

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. There are 500,000 shares, 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 10,741 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 specification of changes in equity is presented on page 12.

Note 23 Assets pledged for own liabilities

SEK million	2012	2011
Loan receivables	201,776	201,596
Repos	1,234	8,358
Total	**203,010**	**209,954**

Of the total lending portfolio (see Note 10) and "Lending to credit institutions" (see Note 9), the values recognized above constitute the cover pool for covered bonds, which amounted to SEK 152.9 billion (160.7).

Note 24 Information about related parties

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

SEK million	2012		2011	
Loans to key personnel	**Lending**	**Interest income**	**Lending**	**Interest income**
Managing Director	0	0	0	0
Board of Directors	0	0	2	0
Other key senior executives	6	0	5	0
Total	**6**	**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 Group
SBAB Bank AB (the Parent Company) is a Swedish public limited company that is wholly owned by the Swedish state.
FriSpar Bolån AB is a joint venture in SBAB Bank AB.
Related-party transactions occur on market terms.

	2012					
SCBC	**SBAB BANK AB**		**FRISPAR BOLÅN AB**		**TOTAL**	
SEK million	**Assets/ Liabilities**	**Interest income/ Interest expense**	**Assets/ Liabilities**	**Interest income/ Interest expense**	**Assets/ Liabilities**	**Interest income/ Interest expense**
Lending to credit institutions		62	102		102	62
Derivative instruments	3,100	43			3,100	43
Other assets	22				22	
Total	**3,122**	**105**	**102**		**3,224**	**105**
Liabilities to credit institutions	39,602	–1,514			39,602	–1,514
Debt securities in issue						
Derivative instruments	5,232	–107			5,232	–107
Other liabilities						
Total	**44,834**	**–1 621**			**44,834**	**–1,621**

	2011					
SCBC	**SBAB BANK AB**		**FRISPAR BOLÅN AB**		**TOTAL**	
SEK million	**Assets/ Liabilities**	**Interest income/ Interest expense**	**Assets/ Liabilities**	**Interest income/ Interest expense**	**Assets/ Liabilities**	**Interest income/ Interest expense**
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						
Derivative instruments	2,968	–272			2,968	–272
Other liabilities	512				512	
Total	**39,780**	**–1,340**			**39,780**	**–1,340**

Of SCBC's commission expense, SEK 16 million (25) pertains to SCBC's ability to exercise a liquidity facility at the Parent Company.
Of the company's general administration expenses, SEK 514 million (521) pertains to compensation to the Parent Company for administrative services performed in accordance with an outsourcing agreement and SEK 70 million (39) pertains to compensation to the Parent Company for administration of loans transferred from the Parent Company to SCBC originating from FriSpar Bolån AB.

Proposed appropriation of profits

According to the balance sheet, SCBC's unrestricted equity totals SEK 10,741,125,237, of which profit for the year accounted for a loss of SEK 141,924,271.

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. The Board and the Managing Director propose that the funds totalling SEK 10,741,125,237, which, according to SCBC's balance sheet, are at the disposal of the Annual General Meeting, be carried forward.

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, 12 March 2013

Carl-Viggo Östlund
Chairman of the Board

Sarah Bucknell
Board Member

Per O. Dahlstedt
Board Member

Lennart Krän
Managing Director

Our audit report was submitted on 12 mars 2013

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant

Audit report

To the annual meeting of the shareholders of AB Sveriges Säkerställda Obligationer (publ), corporate identity number 556645-9755

Report on the annual accounts

We have audited the annual accounts of AB Sveriges Säkerställda Obligationer (publ) for the year 2012. The annual accounts of the company are included in the printed version of this document on pages 1-33.

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 and the Annual Accounts Act for Credit Institutions and Securities Companies, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether 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 procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, 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 and the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of AB Sveriges Säkerställda Obligationer (publ) as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders 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 also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of AB Sveriges Säkerställda Obligationer (publ) for the year 2012.

Responsibilities of the Board of Directors and the Managing Director

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

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations 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 appropriations of the company's profit or loss, we examined whether the proposal is in accordance 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 Banking and Financing Business 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 opinions.

Opinions

We recommend to the annual meeting of shareholders 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 12 March 2013
Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorized Public Accountant

Corporate governance report

The Swedish Covered Bond Corporation, SCBC, with the Swedish trade name AB Sveriges Säkerställda Obligationer (publ), is a Swedish public limited company and wholly owned subsidiary of SBAB Bank AB (publ), "SBAB," which is in turn wholly owned by the Swedish state. This Corporate Governance Report was prepared in accordance with the Annual Accounts Act.

SCBC is domiciled in Stockholm. Governance of SCBC occurs 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 Group's funding opportunities and lower funding costs, following a change in Swedish legislation in 2004 permitting the issuance of covered bonds.

SCBC's operations

SCBC's operations comprise the issuance of covered bonds and related operations. On an annual basis, SCBC's Board of Directors determines that the policies and instructions adopted by the Parent Company's Board of Directors will also apply, where applicable, to SCBC. This method of working is appropriate because SCBC's operational activities are conducted by its Parent Company on assignment from SCBC, and SCBC's operations function as an instrument for the Group's funding. SCBC's objectives and strategies are part of the Parent Company's funding strategy and are presented in the Parent Company's business plan. SCBC's funding operations are controlled by the Parent Company's finance policy and the underlying financial instructions that have been adopted by SCBC, where appropriate.

The relationship described above entails that SCBC does not fully comply with the Swedish Code of Corporate Governance, "the Code". However, the Parent Company 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 2012."

Articles of Association

SCBC's Articles of Association regulate matters such as SCBC's business objective. The Articles of Association do not include any stipulations 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 the amendments of 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 of shareholders.

Annual General Meeting

SCBC's Annual General Meeting (AGM) was held on 17 April 2012 in Stockholm. At the Meeting, Board Members Fredrik Bergström, Per O. Dahlstedt, Christine Ehnström and Carl-Viggo Östlund, who was also elected Chairman of the Board, were re-elected. The AGM resolved to discharge the Board of Directors and the Managing Director from personal liability, to approve Group contributions to the Parent Company and the appropriation of profits, to adopt the annual financial statements for 2011, and that no director fees be paid to the members of the Board. The AGM elected Öhrlings PricewaterhouseCoopers AB as SCBC's auditor until the end of the 2013 AGM, with Catarina Ericsson elected as auditor-in-charge.

The AGM has not authorised the Board to make any decisions on the company's issuance of new shares or the purchase of shares to be held in treasury.

Extraordinary General Meetings

SCBC held an EGM (EGM) of shareholders on 8 February 2012, during which Board Member Carl-Viggo Östlund was newly elected and appointed Chairman of the Board. In conjunction with election of Carl-Viggo Östlund, which came into effect as of 1 March 2012, Christine Ehnström stepped down as the Chairman of the Board, but remained as a Board Member until 21 June 2012, when she assumed the position of Managing Director and thereby stepped down from the Board. On 10 December 2012, SCBC held an additional EGM of shareholders to elect Sarah Bucknell as a new Board Member, following Fredrik Bergström's resignation from the Board in conjunction with his announcement that he would be leaving SBAB.

The Board of Directors and its methods of work

In accordance with the Articles of Association, the Board of Directors is to comprise not fewer than three and not more than seven members plus not more than six deputies. The members are normally elected at the AGM for the period up to the following AGM. The Managing Director is not a member of the Board. SCBC's Board of Directors comprises members of the Parent Company's Executive Management. The CEO of the Parent Company is appointed Chairman of SCBC's Board.

The Board is ultimately responsible for the company's organisation and administration. The Board 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 company'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 AGM. The working procedures govern official notifications, the agenda and the decision-making procedures at Board meetings, as well as the division of work between the Board and the Managing Director.

The work of the Board complies with an annual plan, which includes aims such as 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 six-month 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 Department, 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, which conducts these duties integrated with the committee's monitoring of this area on behalf of the Group 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 Group's control mechanisms, internal controls and financial information, as well as preparing matters in these areas ahead of Board decisions.

The Audit and Compliance Committee is also responsible for monitoring financial statements and the efficiency of internal control, internal audit and risk management with respect to financial statements. The Audit and Compliance Committee is also 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 Audit and Compliance Committee is also to examine and monitor the auditor's impartiality and independence. The internal audit and compliance function's annual plans and reports are also addressed in the Audit and Compliance Committee prior to decision by or presentation to the Board.

SCBC's operations are also governed through the above-described structure. In the event that separate issues arise that solely affect SCBC, these are also addressed in the Group-wide Audit and Compliance Committee, which comprises Board Members of the Parent Company. SBAB's CFO, who is also the Managing Director of SCBC, attends all of the Committee's 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 CEO of SBAB, who is also SCBC's Chairman of the Board, also attends Audit and Compliance Committee meetings and may monitor issues concerning SCBC in the Audit and Compliance Committee and report back to SCBC's Board. SCBC's Board is also provided minutes from Audit and Compliance Committee meetings.

The Credit Committee, Risk and Capital Committee, and the Finance Committee

The Group has a Credit Committee, a Risk and Capital Committee and previously had a Finance Committee. The Group's committees also integrate the addressing of issues related to SCBC. The principal task of the Credit Committee is to decide on loans and credit limits in the Group's lending and funding operations. 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, the evaluation of existing or proposed portfolio strategies, the 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 retail credit granting.

Following a decision by the Parent Company's Board, a new committee was established on 24 October 2012: the Risk and Capital Committee. The Risk and Capital Committee prepares issues concerning the Group's finance operations as well as risk and capital matters. The Risk and Capital Committee also makes decisions regarding new IRB models or significant changes to existing models and is responsible for decisions regarding the usage of new financial instruments. The committee also prepares issues concerning objectives, strategies and control documents within the areas of risk and capital.

The Finance Committee, which mainly prepared matters involving the Group's finance operations, existed until 24 October 2012. Most of the Committee's duties are now included in the Risk and Capital Committee, which was formed during the year.

Members of the above committees include Board Members from the Parent Company and the Parent Company's CEO. Since the Parent Company CEO is also Chairman of the SCBC Board, he is responsible for ensuring that matters involving SCBC are addressed by the committee and are reported back to other SCBC Board Members.

Managing Director

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

Christine Ehnström stepped down from the Board of Directors on 21 June 2012 to take up the position as Managing Director, succeeding Christer Löfdahl who had announced that he was to leave SBAB. On 1 November 2012, Christine Ehnström resigned from the position as MD and was succeeded by Lennart Krän, who is also Chief Financial Officer of the Parent Company.

Remuneration of Board of Directors and senior executives

No remuneration is payable to Board Members. There is no need for a Remuneration Committee for SCBC because remuneration of the only employee, SCBC's MD, is governed by the terms and conditions of employment by the Parent Company. However, the Board has established a remuneration policy that stipulates that should the Board decide that salary and other remuneration is to be paid to SCBC employees, the remuneration policy is to 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 AGM 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 Group, where SCBC has outsourced its operational activities to the Parent Company. The Parent Company also accounts for financial reporting, legal matters involving SCBC and formalities concerning SCBC's corporate governance. The examination and controls implemented by the internal audit, compliance and risk functions in respect of SCBC are integrated with corresponding examinations concerning the Parent Company, both at a Group-wide level and for SCBC as a separate legal entity.

Risk

The SBAB Group has a central Risk Department that has overall responsibility for developing risk-taking strategies and for ensuring that the Group's strategies for assuming risk are implemented in accordance with the Board's intention and that policies and processes facilitate relevant follow-up. The Risk Control Department is responsible for analysing, assessing and reporting the SBAB Group's overall risks to the Parent Company's Board, its CEO and other senior executives, certain of whom are also Board Members and the MD of SCBC. The Unit also reports directly to the Board and the MD on a quarterly basis

Compliance

The SBAB Group has a Group-wide compliance function, which ensures fulfilment of compliance duties at SCBC. The Group's compliance function comprises four employees and is independent of the business operations. In SCBC, the Head of Compliance fulfils these duties by providing advice and support in compliance matters to the operations, analysing compliance risks, following up on regulatory compliance in respect of the operations that require licences, administration and reporting in the compliance area and function responsibility for money-laundering matters. Reporting occurs on an ongoing basis to the MD and annually by means of a written report to the Board. The scope and focus of the work of the compliance function is established in an annual plan by the MD after approval by the Board.

Internal audit

The internal audit of SCBC is performed by the SBAB 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). The main function of the internal audit is to examine and evaluate the internal controls of Group companies. The internal audit function reports, on a summary basis, in writing and orally directly to the Board and to the Audit and Compliance Committee, in accordance with an established 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 on 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 to 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 Covered Bonds Act (2003:1223).

Independent auditor

In accordance with the Covered Bonds 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. The role and duties of the independent auditor are described in greater detail in the Swedish Financial Supervisory Authority's regulations (FFFS 2004:11). 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 Jan Palmqvist as SCBC's independent auditor.

Auditor

The AGM appoints the auditor or the accounting firm that is commissioned to audit SCBC. The auditor must be an authorised public accountant or an authorised accounting firm with an auditor-in-charge. The 2012 AGM appointed Öhrlings PricewaterhouseCoopers AB as auditor, with Catarina Ericsson as auditor-in-charge. A more detailed presentation of the auditor and the fees and expenses paid to auditors is provided on page 39 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 MD's administration of the company. The auditor reports the results of these examinations to the shareholders through the Audit Report, which is presented to the AGM. The auditor also reviews SCBC's semi-annual report and year-end report and reports on these to the Audit and Compliance Committee at SBAB and to the Chairman of the Board and the MD of SCBC.

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 Function Manager for Financial Reporting Risk is responsible for following up, analysing and evaluating SCBC's financial reporting risk and for working for a generally acceptable control structure. In organisational terms, the Function Manager for Financial Reporting Risk is included in the Credit and Risk Department of the Parent Company.

Risk assessment and control activities

Business-support processes that provide data for the financial statements 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 assess the principal risks that could lead to faults in the financial statements and the related controls. The risks and controls are identified, evaluated and documented at a process and department level. The self-evaluation forms the starting point for improvement measures. Controls that are assessed to not function satisfactory have to be improved. When an event occurs that has generated faults in the financial statements, the operations must send incident reports on this via the Parent Company's intranet.

The function manager is to report annually to the MD and Board of SCBC and to SBAB's Audit and Compliance Committee concerning SCBC's financial reporting risk on the basis of available risk and control information. This reporting is to be coordinated with SCBC's other risks.

Information and communication

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

Board of Directors and Managing Director

Carl-Viggo Östlund
Chairman of the Board

Master of Science in Business Economics
Born 1955
Elected 2012
SBAB employee since: 2012
Position within the Group: CEO of SBAB
Other Board appointments: Deputy Board Member of Peyron Rekrytering AB, Board Member Burgundy 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

Per O. Dahlstedt
Board Member

Master of Science in Business Economics
Born 1953
Elected 2011
SBAB employee since: 2005
Position within the Group: Head of Corporate Business Area SBAB
Background: Senior Advisor Strategic and Operational Development at Askus Consulting, Business Area Manager and Regional area Manager positions within SEB

Sarah Bucknell
Board Member

Master of Science in Business Economics
Born 1971
Elected 2012
SBAB employee since: 2011
Position within the Group: Head of Business Development SBAB
Other Board appointments: Board Member of FriSpar Bolån AB
Background: Head of Collaboration Market SBAB Bank, Chief Administration Officer and other positions at Nordnet Bank AB, Svenska Handelsbanken

Lennart Krän
Managing Director

Master of Science in Business Economics
Born 1965
Elected 2012
SBAB employee since: 2012
Position within the Group: CFO Chief Financial Officer SBAB
Other Board appointments: Chairman of the Board of Söderberg & Partners Placeringsrådgivning AB
Background: CEO and CFO of SalusAnsvar, COO of HSBC Investment Bank Stockholm, Treasury at Duni, various controlling positions within treasury and asset management at TryggHansa, auditor at PricewaterhouseCoopers AB

Changes in the Board of Directors and Managing Director during 2012

Christine Ehnström left the position as Chairman of the Board on 29 February 2012 and continued as a Board Member until 21 June 2012 when she took office as Managing Director. Carl-Viggo Östlund took office as Chairman of the Board on 1 March 2012. Christine Ehnström left the position of Managing Director on 1 November 2012 when Lennart Krän assumed the position. Fredrik Bergström resigned from the Board on 10 December 2012 in conjunction with his announcement that he would be leaving SBAB. He was succeeded by Sarah Bucknell.

Auditor

The 2012 Annual General Meeting resolved to elect the auditing firm Öhrlings PricewaterhouseCoopers AB as auditor for the period until the end of the 2013 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 meeting of the shareholders of AB Sveriges Säkerställda Obligationer (publ), corporate identity number 556645-9755

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2012 on pages 35-39 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance statement and based on that reading and our knowledge of the company we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts.

Stockholm 12 March 2013

Öhrlings PricewaterhouseCoopers AB
Catarina Ericsson
Authorized Public Accountant

The Swedish Covered Bond Corporation

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