



Year-end report

1 January – 31 December 2011

The Swedish Covered Bond Corporation (SCBC)

SCBC
Covered Bonds of
SBAB BANK

The Swedish Covered Bond Corporation, SCBC

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

All comparable figures in parentheses pertaining to income statement items refer to the preceding year. For comparable figures pertaining to balance sheet items, the date of comparison is the preceding year-end.

Operations

The Swedish Covered Bond Corporation, "SCBC", is a wholly owned subsidiary of SBAB Bank AB (publ). In this report, "SBAB Bank" refers to the SBAB Bank Group.

SCBC's operations focus primarily on the issuance of covered bonds in Swedish and international capital markets. The operation shall be conducted in such a manner as to comply with the requirements specified in the Covered Bonds Act (2003:1223) pertaining to the issuance of covered bonds and the Swedish Financial Supervisory Authority's regulation FFFS 2004:11.

Operating results

SCBC's income increased 15 percent to SEK 1,861 million (1,621), while operating profit rose 12 percent to SEK 1,287 million (1,147).

The increase in income was mainly attributable to higher net interest income due to a larger average volume in the lending portfolio compared with 2010. However, income was adversely impacted by higher commission expense.

The improved operating profit was charged with increased expenses of SEK 563 million (464), primarily due to higher costs for services performed by SBAB Bank pursuant to the outsourcing agreement. The stability fee for the Government stability fund doubled to SEK 66 million (31) since the full fee is now being paid as of 2011.

Loan losses amounted to SEK 11 million (losses:10).

Lending

SCBC does not conduct any new lending activities itself, but acquires loans from SBAB Bank on an ongoing basis or as required. The intention of the acquisitions is for these loans to be included in full or in part in the cover pool that serves as collateral for SCBC's covered bonds. SCBC's lending portfolio mainly comprises loans for residential mortgages, with the retail market as the largest segment. The portfolio contains no loans for purely commercial properties. Information regarding SCBC's lending, the cover pool, is published monthly on the website sbab.se.

Funding

SCBC's funding is conducted by issuing covered bonds, and to a certain extent by repo transactions.

The company uses two funding programmes for the issuance of bonds: the Swedish mortgage bond programme for the issuance of covered bonds and SCBC's EUR 10 billion Euro Medium Term Covered Note Programme. Both programmes have received the highest possible long-term ratings Aaa/AAA from the rating agencies Moody's and Standard & Poor's.

In 2011, an Australian funding programme for covered bonds was established to continue broadening the investor base and diversify the company's funding.

In addition to these funding programmes, SCBC is funded through a subordinated loan from SBAB Bank. The average maturity of the debt portfolio has been extended through continuous issuances and repurchases in the international and Swedish covered bond markets. The debt portfolio's volume has increased through prefunding.

Covered bonds are still SBAB Bank's principal source of funding, and at 31 December, the total value of debt securities in issue was SEK 160.7 billion (155.3), distributed as follows: Swedish covered bonds SEK 92.7 billion (94.7), Euro Medium Term Covered Note Programme SEK 68.0 billion (60.6).

Capital adequacy and risk

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

With taking the transitional regulations into account, SCBC's capital adequacy ratio, Tier 1 capital ratio and core Tier 1 capital ratio under Pillar 1 amounted to 10.7 percent (10.3) at 31 December 2011.

In December 2011, SCBC was authorised by the Swedish Financial Supervisory Authority to use the IRB approach for lending against collateral comprising mortgage deeds in properties other than residential properties.

Management of liquidity risks for SCBC is integrated with SBAB Bank. SCBC has a liquidity facility agreement with the Parent Company, SBAB Bank, for the purpose of enabling SCBC to borrow money from the Parent Company if SCBC is unable to make payments to bond holders on maturity of SCBC's bonds.

Significant events during the year

SCBC appointed a new Board of Directors during the year. Christine Ehnström initially joined the Board on

9 May 2011 and later succeeded Eva Cederbalk as Chairman of the Board on 21 December. Per Olov Dahlstedt and Fredrik Bergström became new Board members on 22 November and 21 December, respectively, after Johan Brodin and Bo Andersson stepped down.

Christer Löfdahl succeeded Per Balazsi as Managing Director on 1 November.

Events after the balance-sheet date

Carl-Viggo Östlund will assume the position of CEO of the Parent Company, SBAB Bank AB (publ), on 1 March 2012. Former CEO Eva Cederbalk stepped down from her position on 20 December 2011. The company's Chief Legal Counsel, Christine Ehnström, will serve as Acting CEO during the interim period.

Stockholm, 6 February 2012

Christer Löfdahl
Managing Director

Financial calendar

Annual Report 2011	30 March
Annual General Meeting	17 April
Interim report January-June	20 July

Income statement

SEK million	Note	2011 Jan-Dec	2010 Jan-Dec	2011 Jul-Dec	2010 Jul-Dec
Interest income		7,735	3,667	4,142	2,354
Interest expense		-6,046	-2,227	-3,310	-1,562
Net interest income		1,689	1,440	832	792
Commission income		10	10	5	5
Commission expense		-106	-79	-50	-37
Net income from financial transactions	3	268	249	611	179
Other operating income		-	1	-	1
Total operating income		1,861	1,621	1,398	940
General administration expenses		-562	-463	-328	-243
Other operating expenses		-1	-1	0	0
Total expenses before loan losses		-563	-464	-328	-243
Profit before loan losses		1,298	1,157	1,070	697
Loan losses, net	4	-11	-10	-3	5
Operating profit		1,287	1,147	1,067	702
Tax		-339	-301	-281	-185
Profit for the period		948	846	786	517

Statement of comprehensive income

SEK million	2011 Jan-Dec	2010 Jan-Dec	2011 Jul-Dec	2010 Jul-Dec
Profit for the period	948	846	786	517
Other comprehensive income for the period, after tax	-	-	-	-
Total comprehensive income for the period	948	846	786	517

Balance sheet

SEK million	Note	31 Dec 2011	31 Dec 2010
ASSETS			
Lending to credit institutions		11,562	7,629
Lending to the public	5	210,478	209,661
Change in value of interest-rate-hedged items in portfolio hedges		2,589	1,122
Derivative instruments	6	8,172	5,146
Deferred tax assets		-	-
Other assets		113	55
Prepaid expenses and accrued income		303	256
TOTAL ASSETS		233,217	223,869
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions		15,053	10,818
Debt securities in issue		160,671	155,319
Derivative instruments	6	6,440	5,546
Other liabilities		550	95
Accrued expenses and prepaid income		3,164	3,250
Deferred tax liabilities		106	17
Subordinated debt to Parent Company	7	36,300	38,363
Total liabilities		222,284	213,408
Equity			
Share capital		50	50
Shareholder contribution		9,550	9,550
Retained earnings		385	15
Profit for the year		948	846
Total equity		10,933	10,461
TOTAL LIABILITIES AND EQUITY		233,217	223,869

Statement of changes in equity

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

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

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

Cash flow statement

SEK million	2011 Jan-Dec	2010 Jan-Dec
Cash and cash equivalents at the beginning of the year	7,629	9,972
Cash flow from operating activities	4,033	-2,953
Cash flow from investing activities	-	-
Cash flow from funding activities	-100	610
Increase/decrease in cash and cash equivalents	3,933	-2,343
Cash and cash equivalents at the end of the year	11,562	7,629

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

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

As part of IASB's annual improvement project, IAS 34 has been amended. The amendment, which came into effect on 1 January 2011, pertains only to disclosure requirements, provides guidance concerning the application of disclosure principles under IAS 34 and adds further disclosure requirements concerning, for example, circumstances that will probably impact the fair value and classification of financial instruments, the transfer of financial instruments between various levels of the fair-value hierarchy and changes in the classification of financial assets. The amendment to IAS 34 had no impact on SCBC's year-end report for the period from 1 January to 31 December 2011.

In other respects, the accounting policies and methods of calculation remain unchanged compared with the 2010 Annual Report.

Note 2 Risks and uncertainties

Although the deteriorating European macroeconomic situation has affected SCBC's earnings, it had no significant impact on SCBC's financial position. However, future macroeconomic trends remain uncertain.

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

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

Note 3 Net income/expense from financial transactions

SEK million	2011 Jan-Dec	2010 Jan-Dec
Gains/losses on interest-bearing financial instruments		
- Hedged items	-2,069	1,008
- Derivative instruments	2,380	-319
- Loan receivables	57	91
- Other financial liabilities	-96	-533
Currency translation effects	-4	2
Total	268	249

With respect to risk management, derivative instruments are related to and have their counter items in all other categories of interest-bearing financial instruments.

Note 4 Loan losses, net

SEK million	2011 Jan-Dec	2010 Jan-Dec
CORPORATE MARKET		
COLLECTIVE PROVISION FOR CORPORATE MARKET LOANS		
Allocation to/redemption of collective provisions	-0	2
Guarantees	8	-4
Net income/cost for the year for collective provisions for corporate market loans	8	-2
RETAIL MARKET		
INDIVIDUAL PROVISION FOR RETAIL MARKET LOANS		
Write-off of confirmed loan losses for the year	-	-2
Reversal of prior year provisions for probable loan losses recognised as confirmed loan losses in the financial statements for the year	-	1
Provision for probable loan losses for the year	-3	-
Net cost for the year for individual provisions for retail market loans	-3	-1
COLLECTIVE PROVISION FOR RETAIL MARKET LOANS		
Write-off of confirmed loan losses for the year	-0	-1
Recoveries in respect of confirmed loan losses in prior years	-	-
Allocation to collective provisions	-11	-6
Guarantees	-5	-0
Net cost for the year for collective provisions for retail market loans	-16	-7
Net cost for the year for loan losses	-11	-10

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

Note 5 Lending to the public

SEK million	31 Dec 2011		31 Dec 2010	
	Lending	Provision	Lending	Provision
Single-family dwellings and holiday homes	82,730	-84	82,005	-71
Tenant-owner rights	48,699	-52	48,060	-37
Tenant-owner associations	47,920	-4	48,280	-7
Private multi-family dwellings	25,202	-20	24,040	-11
Municipal multi-family dwellings	5,904	-	7,231	-
Commercial properties	183	-	171	-
Provision for probable loan losses	-160		-126	
Total	210,478	-160	209,661	-126

	31 Dec 2011	31 Dec 2010
Doubtful loan receivables and provisions		
a) Doubtful loan receivables	3	-
b) Individual provisions for loan receivables	3	-
c) Collective provisions for corporate market loans	24	18
d) Collective provisions for retail market loans	133	108
e) Total provisions (b+c+d)	160	126
f) Doubtful loan receivables after individual provisions (a-b)	0	-
g) Provision ratio for individual provisions (b/a)	100%	-

Note 6 Derivative instruments

31 Dec 2011, SEK million	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate related	5,293	2,906	370,466
Currency related	2,879	3,534	65,790
Total	8,172	6,440	436,256

Note 7 Subordinated debt to Parent Company

	31 Dec 2011	31 Dec 2010
Subordinated debt to Parent Company	36,300	38,363
Total	36,300	38,363

Terms and conditions governing subordination

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

Capital base

SEK million	31 Dec 2011	31 Dec 2010
Core Tier 1 capital		
Equity	10,933	10,461
Proposed dividend	-	-100
Net provisions for IRB exposures	-120	-121
Core Tier 1 capital	10,813	10,240
Tier 1 capital	10,813	10,240
Tier 2 capital	-	-
Expanded part of capital base	-	-
Deduction from entire capital base	-	-
Amount for capital base net after deductible items and limit value	10,813	10,240

Capital requirement

SEK million	31 Dec 2011	31 Dec 2010
Credit risk recognised in accordance with IRB approach		
- Exposures to corporates	1,917	1,927
- Retail exposures	552	536
Total exposures in accordance with IRB approach	2,469	2,463
Credit risk recognised in accordance with standardised approach		
- Exposures to governments and central banks	0	0
- Exposures to municipalities and comparable associations	0	0
- Exposures to institutions	151	77
- Exposures to corporates	6	20
- Retail exposures	1	1
- Past-due items	0	-
- Other items	2	2
Total exposures in accordance with standardised approach	160	100
Risks in the trading book	-	-
Operational risk	143	111
Currency risk	-	-
Commodity risk	-	-
Total minimum capital requirement	2,772	2,674
Addition according to transitional regulations	5,327	5,274
Total capital requirement according to transitional regulations	8,099	7,948

Capital adequacy

SEK million	31 Dec 2011	31 Dec 2010
Core Tier 1 capital	10,813	10,240
Tier 1 capital	10,813	10,240
Total capital	10,813	10,240
Without transitional regulations:		
Risk-weighted assets	34,654	33,425
Core Tier 1 capital ratio	31.2%	30.6%
Tier 1 capital ratio	31.2%	30.6%
Capital adequacy ratio	31.2%	30.6%
Capital quotient	3.90	3.83
With transitional regulations:		
Risk-weighted assets	101,241	99,355
Core Tier 1 capital ratio	10.7%	10.3%
Tier 1 capital ratio	10.7%	10.3%
Capital adequacy ratio	10.7%	10.3%
Capital quotient	1.34	1.29

Review report

The auditors' review report on the condensed interim financial information (interim report) was prepared in accordance Chapter 9 of the Annual Accounts Act for Credit Institutions and Securities Companies

Introduction

We have reviewed the report of the Swedish Covered Bond Corporation, SCBC, Corp. Reg. No. 556645-9755 for the period 1 January 2011 – 31 December 2011. The Board of Directors and the Managing Director are responsible for preparing and presenting this interim financial information in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express an opinion on this year-end report, based on our review.

The direction and extent of the review

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

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

Opinion

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

Stockholm, 7 February 2012
Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant

AB Sveriges Säkerställda Obligationer (publ)

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