

Year-end report

1 January – 31 December 2012

The Swedish Covered Bond Corporation, SCBC

Full-year 2012 compared with 2011

- Operating profit excluding net income/expense from financial transactions totalled SEK 1,128 million (1,019).
- Net interest income amounted to SEK 1,787 million (1,689).
- The operating result was a loss of SEK 194 million (profit: 1,287).
- The loss after tax was SEK 142 million (profit: 948).
- Core Tier 1 capital ratio without taking transitional regulations into account was 33.6% (31.2) and Core Tier 1 capital ratio taking transitional regulations into account was 10.3% (10.7).
- In March, SCBC issued a new five-year covered mortgage bond, loan 133.

Summary	2012 Jan-Dec	2011 Jan-Dec	Change, %
Income statement items			
Net interest income, SEK million	1,787	1,689	6
Total operating income, SEK million	380	1,861	-80
Expenses, SEK million	-587	-563	4
Loan losses, net, SEK million	13	-11	-218
Operating profit excluding net income/loss from financial transactions, SEK million	1,128	1,019	11
Operating profit/expense, SEK million	-194	1,287	-115
Balance sheet items			
Lending ¹⁾ , SEK billion	208.9	210.5	-1
Key data			
Core Tier 1 capital ratio ²⁾ , %	33.6	31.2	
Rating, long-term funding			
Standard & Poor's	AAA	AAA	
Moody's	Aaa	Aaa	

¹⁾ Lending to the public (including corporate customers and tenant-owner associations), "lending."

²⁾ Without taking transitional regulations into account.

For balance sheet items and information concerning capital adequacy, all comparative figures in parentheses throughout the report refer to the figures at the preceding year-end. This is a translation of the Swedish Year-end Report. The translation has not been signed for approval by the auditor.

Operations

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

SCBC's operations focus primarily on the issuance of covered bonds in Swedish and international capital markets. The operations are to 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 with the Swedish Financial Supervisory Authority's regulation, FFFS 2004:11.

Operating profit

Operating profit excluding net income/expense from financial transactions totalled SEK 1,128 million (1,019) for full-year 2012. The improvement in profit derived mainly from stronger net interest income. SCBC's operating result amounted to a loss of SEK 194 million (profit: 1,287).

Net interest income amounted to SEK 1,787 million (1,689). The increase in relation to 2011 was due to improved earnings in lending operations.

Net provision income developed positively during the year, primarily due to lower costs for credit facilities. The stability fee for the government stability fund amounted to SEK 63 million (66).

The deterioration in the operating result was primarily due to the weaker net income/expense from financial transactions. This item amounted to a loss of SEK 1,322 million (profit: 268). In 2012, components of the company's hedge accounting were adapted to enable more uniform management within the SBAB Group. 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 SEK 634 million. Net income/expense from financial transactions was also adversely impacted by market-value changes on basis swaps¹⁾.

Operating profit was charged with expenses of SEK 587 million (563), with the increase primarily due to higher costs for loan-administration services performed by SBAB.

The net effect of loan losses was a gain of SEK 13 million (loss: 11), corresponding to a loan loss rate of minus 0.01 percent (plus 0.01).

Lending

SCBC does not conduct any new lending activities itself, but acquires loans from SBAB on an ongoing basis or when the need arises. The aim 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. SCBC's lending portfolio mainly comprises loans for residential mortgages, with the retail market forming the largest segment. The portfolio contains no loans for purely commercial properties. Information regarding SCBC's lending, referred to as the cover pool, is published monthly on the website, sbab.se.

Funding

SCBC's funding is conducted through the issuance of covered bonds and, to a certain extent, through repo transactions.

The company uses three funding programmes: a Swedish covered programme without fixed limits, a EUR 10 billion Medium Term Covered Note Programme (EMTCN programme) and an AUD 4 billion Australian Covered Bonds Issuance Programme. All of these programmes have received the highest possible long-term credit ratings, Aaa/AAA, from the rating agencies Moody's and Standard & Poor's.

In March, SCBC issued a new five-year secured mortgage bond, loan 133.

In addition to these funding programmes, SCBC is funded through a subordinated loan from SBAB.

The average maturity of the debt portfolio has been extended through continuous issuances and repurchases in the international and Swedish covered bond markets.

Covered bonds remain the SBAB Group's principal source of funding and, at 31 December 2012, the total value of outstanding securities issued through SCBC's loan programme was SEK 152.9 billion (160.7), distributed as follows: Swedish covered bonds, SEK 92.5 billion (92.7) and Euro Medium Term Covered Note Programme, SEK 60.4 billion (68.0).

¹⁾Fair-value recognition of derivatives

The currency and interest-rate risk inherent in funding conducted in foreign currency is mainly hedged throughout the maturity of the funding through currency interest-rate derivatives, known as basis swaps. According to IFRS regulations, all derivatives 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's basis swaps are held to maturity.

Capital adequacy and risk

SCBC reports credit risk mainly in accordance with the IRB approach and reports operational and market risk in accordance with the standardised approach.

SCBC's capital adequacy ratio and Tier 1 capital ratio under Pillar 1, with consideration for transitional regulations, both amounted to 10.3 percent (10.7) at 31 December 2012. For information concerning other capital ratios, refer to the table on page 8.

Management of SCBC's liquidity risks is integrated with SBAB. SCBC has an agreement concerning its liquidity facility with Parent Company SBAB, through which SCBC may borrow funds from the Parent Company for its operations if the need arises.

OTHER SIGNIFICANT EVENTS DURING THE YEAR

A number of changes to SCBC's management and its Board of Directors were implemented during the year. Lennart Krän has been SCBC's Chief Executive Officer since 1 November 2012. The Board of Directors comprises Carl-Viggo Östlund (Chairman), Per O. Dahlstedt and Sarah Bucknell.

FURTHER INFORMATION

For further information, refer to SBAB's Year-end Report.

Stockholm, 4 February 2013



Lennart Krän
CEO

Financial calendar

Annual Report 2012	27 March 2013
Annual General Meeting	17 April 2013
Interim report January-June 2013	19 July 2013
Year-end report	February 2014

Income statement

SEK million	Note	2012 Jul-Dec	2012 Jan-Jun	2011 Jul-Dec	2012 Jan-Dec	2011 Jan-Dec
Interest income		3,666	4,236	4,142	7,902	7,735
Interest expense		-2,922	-3,193	-3,310	-6,115	-6,046
Net interest income		744	1,043	832	1,787	1,689
Commission income		5	5	5	10	10
Commission expense		-48	-48	-50	-96	-106
Net income/expense from financial transactions	3	-329	-993	611	-1,322	268
Other operating income		1	-	-	1	-
Total operating income		373	7	1,398	380	1,861
General administration expenses		-286	-300	-328	-586	-562
Other operating expenses		0	-1	0	-1	-1
Total expenses before loan losses		-286	-301	-328	-587	-563
Profit before loan losses		87	-294	1,070	-207	1,298
Loan losses, net	4	9	4	-3	13	-11
Operating results		96	-290	1,067	-194	1,287
Tax		-24	76	-281	52	-339
Profit/loss for the period		72	-214	786	-142	948

Statement of comprehensive income

SEK million	2012 Jul-Dec	2012 Jan-Jun	2011 Jul-Dec	2012 Jan-Dec	2011 Jan-Dec
Profit/loss for the period	72	-214	786	-142	948
Other comprehensive income/loss for the period, after tax	-	-	-	-	-
Total comprehensive income/loss for the period	72	-214	786	-142	948

Balance sheet

SEK million	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Lending to credit institutions		10,054	11,562
Lending to the public	5	208,875	210,478
Change in value of interest-rate-hedged items in portfolio hedges		2,129	2,589
Derivative instruments	6	9,578	8,172
Other assets		197	113
Prepaid expenses and accrued income		244	303
TOTAL ASSETS		231,077	233,217
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions		15,084	15,053
Debt securities in issue		152,874	160,671
Derivative instruments	6	9,806	6,440
Other liabilities		17	550
Accrued expenses and prepaid income		2,896	3,164
Deferred tax liabilities		7	106
Subordinated debt to Parent Company	7	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/loss for the year		-142	948
Total equity		10,791	10,933
TOTAL LIABILITIES AND EQUITY		231,077	233,217

Statement of changes in equity

SEK million	Share capital	Shareholder contribution	Retained earnings	Profit for the year	Total equity
Opening balance, 1 January 2012	50	9,550	1,333		10,933
Total comprehensive income for the year				-142	-142
Closing balance, 31 Dec 2012	50	9,550	1,333	-142	10,791
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 Dec 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	2012	2011
Cash and cash equivalents at the beginning of the year	11,562	7,629
Cash flow from operating activities	-998	4,033
Cash flow from investing activities	-	-
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.

Capital base

SEK million	31 Dec 2012	31 Dec 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

Capital requirements

SEK million	31 dec 2012	31 Dec 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 reported 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 IRB 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

SEK million	31 Dec 2012	31 Dec 2011
Core Tier 1 capital	10,724	10,813
Tier 1 capital	10,724	10,813
Total capital	10,724	10,813
Without transitional rules		
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 rules		
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

Notes

Note 1 Accounting policies

For the Parent Company, statutory IFRS is applied, 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 the annual accounts of credit institutions and securities companies and the Annual Accounts Act for Credit Institutions and Securities Companies.

The accounting policies remain unchanged compared with the 2011 Annual Report.

Note 2 Risks and uncertainties

Although the uncertain European macroeconomic situation has affected SCBC's earnings, it has had no significant impact on SCBC's financial position. The introduction of remedial measures by the ECB has had a positive impact on the market functionality of the capital market. However, future macroeconomic development in Europe remains uncertain.

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

For further information on SCBC's risks and risk management, refer to the 2011 Annual Report.

Note 3 Net income/expense from financial transactions

SEK million	2012 Jul-Dec	2012 Jan-Jun	2011 Jul-Dec	2012 Jan-Dec	2011 Jan-Dec
Gains/losses on interest-bearing financial instruments					
- Change in value of hedged items in hedge accounting	-308	-879	-2,045	-1,187	-2,069
- Derivative instruments	17	-55	2,690	-38	2,380
- Loan receivables	39	36	34	75	57
- Realised expense from financial liabilities	-77	-94	-65	-171	-96
Currency translation effects	0	-1	-3	-1	-4
Total	-329	-993	611	-1,322	268

Changes in the market value of basis swaps are attributable to "Derivative instruments." In terms of 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	2012 Jul-Dec	2012 Jan-Jun	2011 Jul-Dec	2012 Jan-Dec	2011 Jan-Dec
CORPORATE MARKET					
COLLECTIVE PROVISION FOR CORPORATE MARKET LOANS					
Allocation to/redemption of collective provisions	5	-6	-8	-1	-0
Guarantees	-1	-6	9	-7	8
Net income/cost for the period/year for collective provisions for corporate market loans	4	-12	1	-8	8
RETAIL MARKET					
INDIVIDUAL PROVISION FOR RETAIL MARKET LOANS					
Write-off of confirmed loan losses for the period/year	-	-3	-	-3	-
Reversal of prior year provisions for probable loan losses recognised as confirmed loan losses in the financial statements for the year	-	3	-	3	-
Provision for probable loan losses for the period	-	-	-3	-	-3
Net cost for the period/year for individual provisions for retail market loans	-	0	-3	0	-3
COLLECTIVE PROVISION FOR RETAIL MARKET LOANS					
Write-off of confirmed loan losses for the period/year	-1	-1	-0	-2	-0
Recoveries in respect of confirmed loan losses in prior years	-	-	-	-	-
Allocation to/redemption of collective provisions	12	21	2	33	-11
Guarantees	-6	-4	-3	-10	-5
Net income/cost for the period/year for collective provisions for corporate market loans	5	16	-1	21	-16
Net cost for the period/year for loan losses	9	4	-3	13	-11

The guarantees refer to received or anticipated receivables from the Swedish National Board of Housing, Building and Planning ("Boverket"); insurance companies and banks.

Note 5 Lending to the public

SEK million	31 Dec 2012		31 Dec 2011	
	Lending	Provision	Lending	Provision
Single-family dwellings and holiday homes	84,471	-68	82,730	-84
Tenant-owner rights	51,650	-39	48,699	-52
Tenant-owner associations	46,668	-6	47,920	-4
Private multi-family dwellings	21,688	-8	25,202	-20
Municipal multi-family dwellings	4,439	-	5,904	-
Commercial properties	80	-	183	-
Provision for probable loan losses	-121	-	-160	-
Total	208,875	-121	210,478	-160

SEK million	31 Dec 2012		31 Dec 2011	
Doubtful receivables and provisions				
a. Doubtful loan receivables	-		3	
b. Specific provisions for individually measured loan receivables	-		3	
c. Collective provisions for corporate market loans	14		24	
d. Collective provisions for 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%	

Note 6 Derivative instruments

31 Dec 2012, SEK million	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate related	7,254	4,539	253,747
Currency related	2,324	5,267	59,714
Total	9,578	9,806	313,461

Note 7 Subordinated debt to Parent Company

SEK million	31 Dec 2012	31 Dec 2011
Subordinated debt to Parent Company	39,602	36,300
Total	39,602	36,300

Conditions concerning subordination

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

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 2012 – 31 December 2012. 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 financial year-end information, based on our review.

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 practice otherwise. The measures undertaken in a review do not permit us to be certain that we have become aware of all significant matters that might have been identified in an audit. 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 year-end report has not been prepared, in all essentials, in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, 4 February 2013
Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant

The Swedish Covered Bond Corporation, SCBC

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