

# YEAR-END REPORT

1 January–31 December 2016  
The Swedish Covered Bond Corporation (SCBC)

**SCBC**

— Covered Bonds of SBAB —

# THE YEAR IN BRIEF

## January–December 2016 (January–December 2015)

- Operating profit increased to SEK 1,563 million (1,543), and to SEK 1,742 million (1,559) excluding the net result of financial transactions.
- Net interest income rose to SEK 2,503 million (2,280).
- Expenses amounted to SEK 720 million (627).
- Net loan losses totalled SEK 9 million (recoveries: 12).
- The return on equity was 8.2% (8.9).
- The Common Equity Tier 1 (CET1) capital ratio was 82.4% (86.1).
- All funding programmes continue to have the highest credit ratings from Moody's.

## July–December 2016 (July–December 2015)

- Operating profit increased to SEK 721 million (820), and to SEK 840 million (837) excluding the net result of financial transactions.
- Net interest income grew to SEK 1,241 million (1,187).
- Expenses amounted to SEK 376 million (308).
- Net loan losses totalled SEK 10 million (recoveries: 11).
- The return on equity was 7.2% (9.3).
- The CET1 capital ratio was 82.4% (86.1).

### Operating profit 2016

**SEK 1,563 million**

2015: 1,543 mnkr

### Net interest income 2016

**SEK 2,503 million**

2015: 2,280 mnkr

### CET1 capital ratio 2016

**82.4%**

2015: 86.1 %

### Lending to the public 2016

**SEK 244.4 billion**

2015: 215.8 mdkr

# OPERATIONS

The Swedish Covered Bond Corporation ("SCBC") (in Swedish: AB Sveriges Säkerställda Obligationer (publ)) is a wholly-owned subsidiary of SBAB Bank (publ) ("SBAB").

As a wholly-owned subsidiary of SBAB, SCBC has the mandate to issue covered bonds with mortgage credit as collateral, thereby providing the SBAB Group with long-term access to

competitive funding. The operation shall be conducted in such a manner as to comply with the requirements specified in the Covered Bonds Issuance Act (2003:1223) and Finansinspektionen's (Sweden's financial supervisory authority) regulation FFFS 2013:1.

# FINANCIAL PERFORMANCE

## OVERVIEW OF EARNINGS

SEK million	2016	2015
	Jan-Dec	Jan-Dec
Net interest income	2,503	2,280
Net commission expense	-39	-106
Net expense from financial transactions (Note 2)	-179	-16
<b>Total operating income</b>	<b>2,292</b>	<b>2,158</b>
Expenses	-720	-627
Net loan losses (Note 3)	-9	12
<b>Operating profit</b>	<b>1,563</b>	<b>1,543</b>
<b>Operating profit excl. net result of financial transactions</b>	<b>1,742</b>	<b>1,559</b>
Tax	-342	-340
<b>Net profit for the year</b>	<b>1,221</b>	<b>1,203</b>
<b>Balance-sheet items</b>		
Lending to the public, SEK billion, 31 December 2016	244.4	215.8
<b>Key metrics</b>		
CET1 capital ratio, %, 31 December 2016	82.4	86.1
<b>Rating, long-term funding</b>		
Moody's	Aaa	Aaa

Trend for January–December 2016 compared with January–December 2015

### Operating profit

SCBC's operating profit increased to SEK 1,563 million (1,543), mainly driven by lower funding costs for covered bonds. Excluding the net result of financial transactions, operating profit grew to SEK 1,742 million (1,559).

### Net interest and commissions

SCBC's net interest income rose to SEK 2,503 million (2,280). The rise in net interest income was mainly due to a reduction in SCBC's funding costs. The net commission expense was SEK 39 million (expense: 106), including a fee of SEK 0 million (71) to the government stability fund. From the first quarter of 2016, the fee to the government stability fund was replaced by a resolution fee, which is reported in net interest income. The resolution fee amounted to SEK 65 million for the full year.

### Expenses

SCBC's expenses rose to SEK 720 million (627), with the change mainly attributable to fees to SBAB for administrative services in line with the applicable outsourcing agreements, which amounted to SEK 716 million (624) in 2016.

### Loan losses

Loan losses remained low and totalled SEK 9 million (recoveries: 12) for the full-year 2016.

### Net result of financial transactions

The net expense from financial transactions measured at fair value was SEK 179 million (expense: 16). The difference was primarily attributable to compensation for the transfer of mortgages to Swedbank and buyback expenses linked to discontinuation of financing. On 7 October 2016, SBAB and SCBC transferred the remaining portion, SEK 12.7 billion, of the mortgages outstanding that were mediated by Sparbanken Öresund to Swedbank. In total, around SEK 20.5 billion was transferred over the year. For more information on the net result of financial transactions; please refer to Note 2.

### Lending

SCBC does not conduct any new lending itself, but instead acquires loans from SBAB, on an on-going basis or as necessary. The aim of securing these loans is to include the loans, in part or in full, in the assets that comprise collateral for holders of SCBC's covered bonds. SCBC's lending portfolio comprises loans for residential mortgages, with the retail market as the largest segment. At year end, SCBC's lending amounted to SEK 244.4 billion, compared with SEK 215.8 billion at the end of 2015. The increase was attributable to the acquisition by SCBC in January 2016 of loan receivables from the Parent Company corresponding to a nominal amount of around SEK 30 billion for the purpose of increasing the cover pool at SCBC. Information regarding SCBC's lending, the cover pool, is published monthly on [www.sbab.se](http://www.sbab.se).

### Funding

SCBC's funding is conducted through the issuance of covered

bonds, and to a certain extent through repo transactions.

SCBC uses three funding programmes: a Swedish covered bond programme without a preset limit, a EUR 16 billion Euro Medium Term Covered Note Programme (EMTCN programme), and an AUD 4 billion Australian Covered Bonds Issuance Programme. All funding programmes have received the highest possible credit rating of Aaa from the rating agency Moody's.

Covered bonds are the SBAB Group's principal source of funding, and at 31 December 2016, the total value of issued debt securities outstanding under SCBC's lending programme was SEK 175.9 billion (187.3), distributed as follows: Swedish covered bonds SEK 101.4 billion (109.9) and the Euro Medium Term Covered Note Programme SEK 74.5 billion (77.4).

During the year, securities amounting to SEK 36.7 billion were issued. At the same time, securities amounting to SEK 20.1 billion were repurchased, while securities amounting to SEK 28.5 billion matured. Alongside revaluations (both upward and downward) of liabilities due to changes in premiums/discounts, and changes in SEK exchange rates, this resulted in a decrease in issued securities of SEK 11.4 billion over the year.

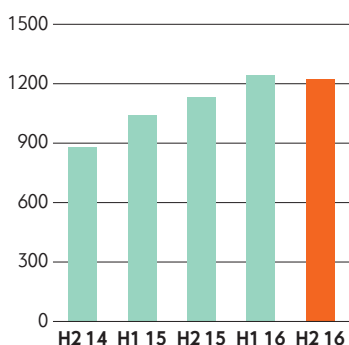
### Capital adequacy and liquidity risk

SCBC primarily recognises credit risk under the internal ratings-based approach (IRB approach) and operational and market risk using the standardised approach.

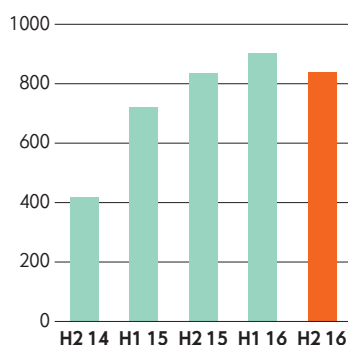
SCBC's total capital ratio and CET1 capital ratio under Pillar 1, without transitional rules, amounted to 82.4% at 31 December 2016, compared to 86.1% at the end of 2015. Net profit for the year is included in own funds, while the expected dividend has reduced own funds. For other capital ratios, refer to the tables starting on page 9. The internally assessed capital requirement amounted to SEK 4,129 million (3,897) on 31 December 2016.

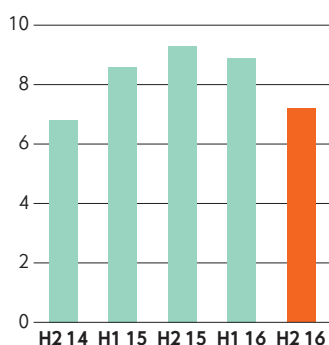
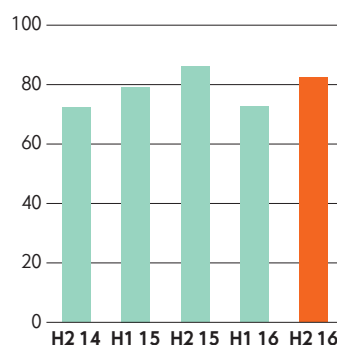
The management of liquidity risks for SCBC is integrated with SBAB. In addition, SCBC has a liquidity facility agreement with the Parent Company, SBAB, under which SCBC can borrow money for its operations from the Parent Company, when necessary.

**Operating income excl. net result of financial transactions (SEK million)**



**Operating profit excl. net result of financial transactions (SEK million)**



**Return on equity (%)****CET1 capital ratio without transitional rules (%)**

## OTHER SIGNIFICANT INFORMATION

### Risks and uncertainties

The economic trend in Sweden is the primary risk factor for SBAB's future earnings capacity, and the quality of our assets is mainly exposed to credit risks in the Swedish housing market. The management of interest-rate and currency risks entails some exposure to price risks. Household demand posted a stable trend, underpinned by low inflation, low interest rates and rising stock market and property prices. A housing market with soaring prices and rising household debt means the Swedish economy is sensitive to changes in interest rates and house prices. The risks associated with these factors are expected to increase as long as house prices and debt continue to outpace increases in income. Extensive regulation in the residential mortgage market is another uncertainty factor.

The Swedish economy is susceptible to global economic developments and to conditions in the international financial markets.

On 23 June 2016, a slim majority of British voters passed a referendum saying no to continued membership of the EU (Brexit). Thus far, the outcome of the Brexit referendum has had a marginal effect on SCBC. The effects are expected to remain marginal, even if it is not possible to exclude longer-term effects.

For further information about SCBC's risks and risk management; please refer to the Risk Management section and Note 2 in the 2015 Annual Report.

### Auditors' review report

This report has been reviewed by the company's auditor in accordance with the International Standard on Review Engagements (ISRE) 2410. The review report is on page 19.

## INCOME STATEMENT

SEK million	2016	2016	2015	2016	2015
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
Interest income	1,854	1,971	1,904	3,825	4,197
Interest expense	-613	-709	-717	-1,322	-1,917
<b>Net interest income</b>	<b>1,241</b>	<b>1,262</b>	<b>1,187</b>	<b>2,503</b>	<b>2,280</b>
Commission income	4	6	5	10	10
Commission expense	-26	-23	-58	-49	-116
Net expense from financial transactions (Note 2)	-119	-60	-17	-179	-16
Other operating income	7	-	-	7	-
<b>Total operating income</b>	<b>1,107</b>	<b>1,185</b>	<b>1,117</b>	<b>2,292</b>	<b>2,158</b>
General administrative expenses	-375	-343	-309	-718	-626
Other operating expenses	-1	-1	1	-2	-1
<b>Total expenses before loan losses</b>	<b>-376</b>	<b>-344</b>	<b>-308</b>	<b>-720</b>	<b>-627</b>
<b>Profit before loan losses</b>	<b>731</b>	<b>841</b>	<b>809</b>	<b>1,572</b>	<b>1,531</b>
Net loan losses (Note 3)	-10	1	11	-9	12
<b>Operating profit</b>	<b>721</b>	<b>842</b>	<b>820</b>	<b>1,563</b>	<b>1,543</b>
Tax	-157	-185	-180	-342	-340
<b>Net profit for the period</b>	<b>564</b>	<b>657</b>	<b>640</b>	<b>1,221</b>	<b>1,203</b>

## STATEMENT OF COMPREHENSIVE INCOME

SEK million	2016	2016	2015	2016	2015
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
<b>Net profit for the period</b>	<b>564</b>	<b>657</b>	<b>640</b>	<b>1,221</b>	<b>1,203</b>
<i>Components that will be reclassified to profit or loss</i>					
Changes related to cash-flow hedges, before tax	-420	819	253	399	181
<i>Tax attributable to components that will be reclassified to profit or loss</i>	92	-180	-56	-88	-40
<b>Other comprehensive income for the period, net of tax</b>	<b>-328</b>	<b>639</b>	<b>197</b>	<b>311</b>	<b>141</b>
<b>Total comprehensive income for the period</b>	<b>236</b>	<b>1,296</b>	<b>837</b>	<b>1,532</b>	<b>1,344</b>

# BALANCE SHEET

SEK million	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>		
Lending to credit institutions	102	1,219
Lending to the public (Note 4)	244,445	215,774
Value changes of interest-rate-risk hedged items in macro hedges	485	717
Derivatives (Note 5)	4,442	4,784
Other assets	382	695
Prepaid expenses and accrued income	105	122
<b>TOTAL ASSETS</b>	<b>249,961</b>	<b>223,311</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Liabilities to credit institutions	498	2,143
Debt securities issued, etc.	175,933	187,280
Derivatives (Note 5)	871	2,437
Other liabilities	13	10
Accrued expenses and deferred income	1,612	2,201
Deferred tax liabilities	190	131
Subordinated debt to the Parent Company (Note 8)	55,123	14,920
<b>Total liabilities</b>	<b>234,240</b>	<b>209,122</b>
<b>Equity</b>		
<b>Restricted equity</b>		
Share capital	50	50
Shareholder contribution	9,550	9,550
<b>Total restricted equity</b>	<b>9,600</b>	<b>9,600</b>
<b>Unrestricted equity</b>		
Fair value reserve	552	241
Retained earnings	4,348	3,145
Net profit for the year	1,221	1,203
<b>Total unrestricted equity</b>	<b>6,121</b>	<b>4,589</b>
<b>Total equity</b>	<b>15,721</b>	<b>14,189</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>249,961</b>	<b>223,311</b>
<b>MEMORANDUM ITEMS</b>		
Assets pledged for own liabilities	240,086	211,420

## STATEMENT OF CHANGES IN EQUITY

SEK million	Restricted equity		Unrestricted equity			Total equity
	Share capital	Fair value reserve	Shareholder contribution	Retained earnings	Net profit for the year	
<b>OPENING BALANCE, 1 JANUARY 2016</b>	50	241	9,550	4,348		14,189
Comprehensive income for the year		311			1,221	1,532
<b>CLOSING BALANCE, 31 DECEMBER 2016</b>	50	552	9,550	4,348	1,221	15,721
<b>OPENING BALANCE, 1 JANUARY 2015</b>	50	100	9,550	3,145		12,845
Comprehensive income for the year		141			1,203	1,344
<b>CLOSING BALANCE, 31 DECEMBER 2015</b>	50	241	9,550	3,145	1,203	14,189

The shareholder contributions that were paid were conditional and the Parent Company, SBAB Bank AB (publ), is entitled to reimbursement for these contributions from the Swedish Covered Bond Corporation's distributable earnings, with the proviso that the Annual General Meeting grants approval thereof.

## CASH-FLOW STATEMENT

SEK million	2016	2015
	Jan-Dec	Jan-Dec
<b>Opening cash and cash equivalents</b>	1,219	2,841
<b>OPERATING ACTIVITIES</b>		
Interest and commissions paid/received	1,943	1,161
Outflows to suppliers and employees	-720	-627
Taxes paid/refunded	-352	-597
Change in assets and liabilities of operating activities	-42,191	14,702
<b>Cash flow from operating activities</b>	<b>-41,320</b>	<b>14,639</b>
<b>INVESTING ACTIVITIES</b>		
<b>Cash flow from investing activities</b>	<b>-</b>	<b>-</b>
<b>FUNDING ACTIVITIES</b>		
Change in subordinated debt	40,203	-16,261
<b>Cash flow from funding activities</b>	<b>40,203</b>	<b>-16,261</b>
<b>Increase/decrease in cash and cash equivalents</b>	<b>-1,117</b>	<b>-1,622</b>
<b>Closing cash and cash equivalents</b>	<b>102</b>	<b>1,219</b>

Cash and cash equivalents are defined as cash and lending to credit institutions.



## OWN FUNDS

Disclosures in accordance with Article 5 of Commission Implementing Regulation (EU) No 1423/2013.

No amounts are subject to the provisions preceding Regulation (EU) No 575/2013 ("CRR") or the prescribed residual amount according to Regulation (EU) No 575/2013.

OWN FUNDS SCBC, SEK million	31 Dec 2016	31 Dec 2015
<b>CET1 capital instruments: Instruments and reserves</b>		
Capital instruments and the related share premium accounts	9,600	9,600
Retained earnings	4,347	3,145
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	552	241
Independently verified interim profits net of any foreseeable charge or dividend	1,221	1,203
<b>CET1 capital before regulatory adjustments</b>	<b>15,720</b>	<b>14,189</b>
<b>CET1 capital: regulatory adjustments</b>		
Additional value adjustments (negative amount)	-5	-7
Fair value reserves related to gains or losses on cash-flow hedges	-552	-241
Negative amounts resulting from the calculation of expected loss amounts	0	-34
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-1	-1
<b>Total regulatory adjustments to CET1 capital</b>	<b>-558</b>	<b>-283</b>
<b>CET1 capital</b>	<b>15,162</b>	<b>13,906</b>
<b>Additional Tier 1 capital: Instruments</b>		
<b>Additional Tier 1 capital before regulatory adjustments</b>	-	-
<b>Additional Tier 1 capital: regulatory adjustments</b>		
<b>Total regulatory adjustments to Additional Tier 1 capital</b>	-	-
<b>Additional Tier 1 capital</b>	-	-
<b>Tier 1 capital (Tier 1 capital = CET1 + Additional Tier 1 capital)</b>	<b>15,162</b>	<b>13,906</b>
<b>Tier 2 capital: instruments and provisions</b>		
Credit risk adjustments	3	-
<b>Tier 2 capital before regulatory adjustments</b>	<b>3</b>	-
<b>Tier 2 capital: regulatory adjustments</b>		
<b>Total regulatory adjustments to Tier 2 capital</b>	-	-
<b>Tier 2 capital</b>	<b>3</b>	-
<b>Total capital (Total capital = Tier 1 capital + Tier 2 capital)</b>	<b>15,165</b>	<b>13,906</b>
<b>Total risk-weighted assets</b>	<b>18,402</b>	<b>16,151</b>
<b>Capital ratio and buffers</b>		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	82.4	86.1
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	82.4	86.1
Total capital (as a percentage of total risk-weighted exposure amount), %	82.4	86.1
Institution-specific buffer requirements (CET1 capital requirement in accordance with Article 92(1)(a) plus the capital conservation buffer and countercyclical capital buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffers [G-SII buffer and O-SII buffer] expressed as a percentage of the risk-weighted exposure amount), %	8.5	8.0
Of which: CET1 capital, minimum requirement, %	4.5	4.5
Of which: capital conservation buffer requirement, %	2.5	2.5
Of which: countercyclical capital buffer requirement, %	1.5	1.0
Of which: systemic risk buffer requirement, %	-	-
Of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffers, %	-	-
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts, %)	74.4	78.1

## CAPITAL REQUIREMENT

CAPITAL REQUIREMENTS SCBC, SEK million	31 Dec 2016		31 Dec 2015	
	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
<b>Credit risk recognised in accordance with IRB approach</b>				
Exposures to corporates	5,632	451	4,743	379
Retail exposures	8,269	662	7,856	628
<i>Of which: exposures to SMEs</i>	860	69	980	78
<i>Of which: retail exposures secured by immovable property</i>	7,409	593	6,876	550
<b>Total exposures recognised with IRB approach</b>	<b>13,901</b>	<b>1,112</b>	<b>12,599</b>	<b>1,007</b>
<b>Credit risk recognised with the standardised approach</b>				
Exposure to governments and central banks	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0
Exposures to institutions <sup>1)</sup>	262	21	335	27
<i>Of which: derivatives according to CRR, Appendix 2</i>	259	21	319	26
<i>Of which repos</i>	3	0	14	1
<i>Of which other</i>	0	0	2	0
Other items	565	45	798	64
<b>Total exposures recognised with standardised approach</b>	<b>827</b>	<b>66</b>	<b>1,133</b>	<b>91</b>
<b>Market risk</b>	<b>377</b>	<b>30</b>	<b>361</b>	<b>29</b>
<i>Of which: position risk</i>	-	-	-	-
<i>Of which: currency risk</i>	377	30	361	29
<b>Operational risk</b>	<b>3,008</b>	<b>241</b>	<b>1,874</b>	<b>150</b>
<b>Credit valuation adjustment risk</b>	<b>289</b>	<b>23</b>	<b>184</b>	<b>15</b>
<b>Total risk exposure amount and minimum capital requirements</b>	<b>18,402</b>	<b>1,472</b>	<b>16,151</b>	<b>1,292</b>
<b>Capital requirements for capital conservation buffer</b>		<b>460</b>		<b>404</b>
<b>Capital requirements for countercyclical buffer</b>		<b>276</b>		<b>162</b>
<b>Total capital requirements</b>		<b>2,208</b>		<b>1,858</b>

<sup>1)</sup>The risk-weighted amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 262 million (333).

## CAPITAL ADEQUACY

### CAPITAL ADEQUACY SCBC, SEK million

	31 Dec 2016	31 Dec 2015
CET1 capital	15,162	13,906
Tier 1 capital	15,162	13,906
Total capital	15,165	13,906
<b>Without transitional rules</b>		
Risk exposure amount	18,402	16,151
CET1 capital ratio, %	82.4	86.1
Excess <sup>1)</sup> of CET1 capital	14,334	13,179
Tier 1 capital ratio, %	82.4	86.1
Excess <sup>1)</sup> of Tier 1 capital	14,058	12,937
Total capital ratio, %	82.4	86.1
Excess <sup>1)</sup> of total capital	13,693	12,614
<b>With transitional rules</b>		
Own funds	15,162	13,940
Risk exposure amount	133,171	115,555
Total capital ratio, %	11.4	12.1

<sup>1)</sup> Excess capital has been calculated based on minimum requirements (without buffer requirements)

## NOTE 1 Accounting policies

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

The accounting policies and calculation methods are unchanged in comparison with the 2015 Annual Report.

According to SBAB's preliminary assessment, new or changed international accounting standards that have been published but not yet applied will have a limited effect on the financial reports.

In 2014, the IASB published IFRS 9 Financial Instruments. IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement – with regard to classification and measurement, and impairment and hedge accounting. A separate project under the IASB is ongoing with regard to macro hedge accounting. The standard becomes effective as of 1 January 2018.

Under IFRS 9, classification is based on both the entity's business model and the contractual cash flow characteristics. This classification, in turn, determines the measurement. The impairment model under IFRS 9 is based on expected credit losses as opposed to the current model, which is instead based on the incurred credit loss events. The aim of the new model is to capture and recognise

expected credit losses at an earlier stage. The new standard also specifies more detailed disclosures in terms of credit losses and hedge accounting. SCBC has conducted a comprehensive study of how the new rules will impact SCBC. The new rules will have most impact on SCBC's reporting in terms of the recognition of expected credit losses. SCBC has initiated a model development and evaluated how systems and processes will be affected. The development of models and methods is characterised by a large number of choices and judgements, and since no final decision has been taken on these issues, it is not possible to state a figure with sufficient precision to represent the impact of the new rules.

In terms of classification and measurement, these could impact the recognition and measurement of securities in the liquidity portfolio. Analysis has not been completed, but the preliminary assessment is that the new rules will not have any material effect on the income statement and balance sheet. No decision has yet been taken as to whether the new hedge accounting rules should apply from 1 January or whether SCBC, pursuant to the permitted choices in IFRS 9, will begin implementing the new rules only when IFRS 9 has been supplemented with rules for macro hedge accounting.

In terms of any future possible impact of the new hedge accounting rules, a preliminary assessment has been made that the new rules will only affect the recognition of the unrealized effects of changes in cross-currency basis spreads and that the new rules will not have any material effect on the income statement and balance sheet.

## NOTE 2 Net result of financial transactions

SEK million	2016	2016	2015	2016	2015
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
<b>Gains/losses on interest-bearing financial instruments</b>					
- Change in value of hedged items in hedge accounting	909	-689	365	220	896
- Derivatives	-816	705	-388	-111	-936
- Loan receivables	129	42	58	171	106
- Realised gain/loss from financial liabilities	-340	-119	-52	-459	-82
Currency translation effects	-1	1	0	0	0
<b>Total</b>	<b>-119</b>	<b>-60</b>	<b>-17</b>	<b>-179</b>	<b>-16</b>

### Fair value recognition

The currency and interest-rate risk inherent in funding conducted in foreign currency is generally hedged throughout the maturity of the funding through currency interest-rate derivatives, known as basis swaps. According to IFRS, all derivative instruments are to be recognised at fair value.

Major variations in fair value between reporting periods could result in significant changes in carrying amounts and hence also in capital adequacy. 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, as the unrealised interest-rate-related value changes that affect the performance of each derivative contract starts and ends at zero.

Most of SCBC's basis swaps are held to maturity.

## NOTE 3 Net loan losses

SEK million	2016	2016	2015	2016	2015
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
<b>CORPORATE MARKET</b>					
<b>Collective provision for corporate market loans</b>					
Allocations to/unwinding of collective provisions	4	5	5	9	5
Guarantees	1	-1	1	-0	-1
<b>Net expense for the period for collective provisions for corporate market loans</b>	<b>5</b>	<b>4</b>	<b>6</b>	<b>9</b>	<b>4</b>
<b>RETAIL MARKET</b>					
<b>Individual provision for retail market loans</b>					
Write-off for the period for confirmed loan losses	-	-	-	-	-
Reversal of prior provisions for probable loan losses, recognised as confirmed losses in the financial statements for the period	-	-	-	-	-
Provision for probable loan losses for the period	-	-	-	-	-
<b>Net expense for the period for individual provisions for retail market loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Collective provision for retail market loans</b>					
Write-off for the period for confirmed loan losses	0	-0	-0	-0	-0
Recoveries of confirmed loan losses in prior years	-	-	-	-	-
Allocations to/unwinding of collective provisions	-16	-2	8	-18	16
Guarantees	1	-1	-3	-0	-8
<b>Net expense for the period for collective provisions for retail market loans</b>	<b>-15</b>	<b>-3</b>	<b>5</b>	<b>-18</b>	<b>8</b>
<b>Net income/expense for loan losses for the period</b>	<b>-10</b>	<b>1</b>	<b>11</b>	<b>-9</b>	<b>12</b>

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

## NOTE 4 Lending to the public

SEK million	31 Dec 2016		31 Dec 2015	
	Lending	Provision	Lending	Provision
Single-family dwellings and holiday homes	92,895	-37	86,975	-32
Tenant-owner's rights	87,924	-60	71,668	-30
Tenant-owners' associations	40,316	-0	38,436	-5
Private multi-family dwellings	23,111	-1	18,414	-1
Municipal multi-family dwellings	213	-	349	-
Commercial properties <sup>1)</sup>	84	-	-	-
Provision for probable losses	-98		-68	
<b>Total</b>	<b>244,445</b>	<b>-98</b>	<b>215,774</b>	<b>-68</b>

<sup>1)</sup> Refers only to mixed-use commercial properties

Doubtful and non-performing loan receivables	31 Dec 2016	31 Dec 2015
a) Doubtful loan receivables	-	-
b) Specific provisions for individually measured loan receivables	-	-
c) Collective provision for corporate market loans	1	6
d) Collective provision for retail market loans	97	62
e) Total provisions (b+c+d)	98	68
f) Doubtful loan receivables after individual provisions (a-b)	-	-
g) Provision ratio for individual provisions (b/a), %	-	-

## NOTE 5 Derivatives

SEK million	31 Dec 2016		
	Assets measured at fair value	Liabilities measured at fair value	Nominal amount
Interest-rate-related	3,019	635	151,436
Currency-related	1,423	236	45,130
<b>Total</b>	<b>4,442</b>	<b>871</b>	<b>196,566</b>

SEK million	31 Dec 2015		
	Assets measured at fair value	Liabilities measured at fair value	Nominal amount
Interest-rate-related	3,281	861	55,328
Currency-related	1,503	1,576	143,672
<b>Total</b>	<b>4,784</b>	<b>2,437</b>	<b>199,000</b>

Cross-currency interest-rate swaps are classified as currency-related derivatives.

## NOTE 6 Classification of financial instruments

### Financial assets

31 Dec 2016				
SEK million	Assets measured at FVTPL (held for trading)	Loan receivables	Total	Total fair value
Lending to credit institutions		102	102	102
Lending to the public		244,445	244,445	245,366
Value changes of interest-rate-risk hedged items in macro hedges		485	485	-
Derivatives	4,442		4,442	4,442
Other assets		27	27	27
Prepaid expenses and accrued income		105	105	105
<b>Total</b>	<b>4,442</b>	<b>245,164</b>	<b>249,606</b>	<b>250,042</b>

### Financial liabilities

31 Dec 2016				
SEK million	Liabilities measured at FVTPL	Other financial li- abilities	Total	Total fair value
Liabilities to credit institutions		498	498	498
Issued debt securities, etc.		175,933	175,933	177,674
Derivatives	871		871	871
Other liabilities		13	13	13
Accrued expenses and deferred income		1,612	1,612	1,612
Subordinated debt to the Parent Company		55,123	55,123	55,123
<b>Total</b>	<b>871</b>	<b>233,179</b>	<b>234,050</b>	<b>235,791</b>

## NOTE 6 continued

### Financial assets

SEK million	31 Dec 2015			
	Assets measured at FVTPL (held for trading)	Loan receivables	Total	Total fair value
Lending to credit institutions		1,219	1,219	1,219
Lending to the public		215,774	215,774	216,887
Value changes of interest-rate-risk hedged items in macro hedges		717	717	-
Derivatives	4,784		4,784	4,784
Other assets		695	695	695
Prepaid expenses and accrued income		122	122	122
<b>Total</b>	<b>4,784</b>	<b>218,527</b>	<b>223,311</b>	<b>223,707</b>

### Financial liabilities

SEK million	31 Dec 2015			
	Liabilities measured at FVTPL	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions		2,143	2,143	2,143
Issued debt securities, etc.		187,280	187,280	188,108
Derivatives	2,437		2,437	2,437
Other liabilities		10	10	10
Accrued expenses and deferred income		2,201	2,201	2,201
Subordinated debt to the Parent Company		14,920	14,920	14,920
<b>Total</b>	<b>2,437</b>	<b>206,554</b>	<b>208,991</b>	<b>209,819</b>

#### Fair value measurement of financial instruments

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note 1 Accounting Policies in the 2015 Annual Report. In the Total fair value column above, information is also provided on the fair value of financial instruments that are recognised at amortised cost in the balance sheet. The carrying amounts for current receivables and liabilities, including subordinated debt to the Parent Company, have been assessed as equal to their

fair values. For Lending to the public, where no observable credit margin data is available at the time of measurement, the credit margin on the most recent stipulated date of expiry is applied, Level 3. Issued debt securities are measured at the Group's current borrowing interest rate, Level 2.



## NOTE 7 Fair value disclosures

31 Dec 2016				
SEK million	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
<b>Assets</b>				
Derivatives	-	4,442	-	4,442
<b>Total</b>	-	4,442	-	4,442
<b>Liabilities</b>				
Derivatives	-	871	-	871
<b>Total</b>	-	871	-	871

31 Dec 2015				
SEK million	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
<b>Assets</b>				
Derivatives	-	4,784	-	4,784
<b>Total</b>	-	4,784	-	4,784
<b>Liabilities</b>				
Derivatives	-	2,437	-	2,437
<b>Total</b>	-	2,437	-	2,437

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note 1 Accounting Policies in the 2015 Annual Report. In the table, financial assets and liabilities recognised at fair value in the balance sheet are divided on the basis of the measurement levels used below. No transfers were made between levels in 2015 and 2016.

### Quoted market prices (Level 1)

Measurement at quoted prices in an active market for identical assets and liabilities. A market is deemed to be active if the price data is easily accessible and corresponds to actual regularly occurring transactions. This measurement method is currently not used on any asset or liability.

### Measurement based on observable market data (Level 2)

Measurement aided by external market information other than quoted prices included in Level 1, such as quoted interest rates or prices for closely related instruments. This group includes all non-quoted derivatives.

### Measurement based in part on market unobservable data (Level 3)

Measurement whereby a material component of the model is based on estimates or assumptions that do not originate directly from the market. This method is currently not used on any asset or liability.

## NOTE 7 Subordinated debt to the Parent Company

SEK million	31 Dec 2016	31 Dec 2015
Subordinated debt to the Parent Company	55,123	14,920
<b>Total</b>	<b>55,123</b>	<b>14,920</b>

### Terms and conditions governing subordination

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

## Financial calendar

Interim report January–June 2017	19 July 2017
Year-end report 2017	9 February 2018

SBAB's Annual General Meeting will be held on 24 April 2017 in Solna.

*The information in this report is such that the Swedish Covered Bond Corporation is obligated to disclose in accordance with the Swedish Financial Instruments Trading Act and the Swedish Securities Market Act. The information was submitted for publication on 8 February 2017 at 8:00 a.m. (CET).*

### Contact

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

Solna, 7 February 2017

Mikael Inglander  
CEO

# REVIEW REPORT

## Introduction

We have reviewed the year-end report for The Swedish Covered Bond Corporation (publ) for the period 1 January - 31 December 2016. The Board of Directors and the President are responsible for the preparation and presentation of this year-end report in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this year-end report based on our review.

## Scope of review

We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2410 Review of Interim Financial Information performed by the company's auditors. A review consists of making inquiries, primarily with persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the year-end report is not, in all material aspects, in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, 8 February 2017

Deloitte AB

Patrick Honeth  
Authorised Public Accountant