



YEAR-END REPORT

1 January–31 December 2017
The Swedish Covered Bond Corporation (SCBC)

SCBC

— Covered Bonds of SBAB —

THE YEAR IN BRIEF

January–December 2017 (January–December 2016)

- Net interest income rose to SEK 2,855 million (2,503)
- Expenses amounted to SEK 761 million (720)
- Net loan losses amounted to a recovery of SEK 12 million (loss: 9)
- Operating profit increased to SEK 1,982 million (1,563)
- The Common Equity Tier 1 (CET1) capital ratio was 78.0% (82.4)
- All funding programmes continue to have the highest credit ratings from Moody's



Operating profit,
SEK 1,982 million

(SEK 1,563 million)

Net interest income
SEK 2,855 million

(SEK 2,503 million)

Common Equity Tier 1 capital ratio
78.0%

(82.4%)

Lending to the public
SEK 312.2 billion

(SEK 244.4 billion)



OPERATIONS

The Swedish Covered Bond Corporation ("SCBC") (in Swedish: AB Sveriges Säkerställda Obligationer (publ)) is a wholly-owned subsidiary of SBAB Bank AB (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. Operations are to be conducted in compliance with the requirements specified in the Covered Bonds Issuance Act (2003:1223) and Finansinspektionen's (the Swedish FSA) regulation FFFS 2013:1.

FINANCIAL PERFORMANCE

OVERVIEW OF EARNINGS

Summary, SEK million	2017	2016
	Jan-Dec	Jan-Dec
Net interest income	2,855	2,503
Net commission expense	-63	-39
Net expense from financial transactions (Note 2)	-61	-179
Other operating income	0	7
Total operating income	2,731	2,292
Expenses	-761	-720
Profit before loan losses	1,970	1,572
Net loan losses (Note 3)	12	-9
Operating profit	1,982	1,563
Tax	-436	-342
Net profit for the year	1,546	1,221
Balance-sheet items		
Lending to the public, SEK billion, at close of period	312.2	244.4
Key metrics		
CET1 capital ratio, %, at close of period	78.0	82.4
Rating, long-term funding		
Moody's	Aaa	Aaa

Trend for January–December 2017 compared with January–December 2016

Net interest and commissions

SCBC's net interest income rose to SEK 2,855 million (2,503). The rise in net interest income was mainly due to a reduction in SCBC's funding costs. The resolution fee, which is recognised in net interest income, totalled SEK 149 million for the period. The net commission expense was SEK 63 million (expense: 39) as a result of higher expenses in conjunction with lending and issuance of securities.

Net result of financial transactions

The net expense from financial transactions measured at fair value was SEK 61 million (expense: 179). The difference between the periods was primarily attributable to compensation for the transfer of mortgages and buyback expenses linked to the discontinuation of financing in conjunction with the termination of the partnership with Sparbanken Öresund in 2016.

Expenses

SCBC's expenses rose to SEK 761 million (720), and mainly comprised fees to SBAB for administrative services in line with the applicable outsourcing agreements.

Loan losses

Loan losses amounted to a recovery of SEK 12 million (loss: 9) for the period. For more information on loan losses; please refer to Note 3.

Operating profit

SCBC's operating profit increased to SEK 1,982 million (1,563). The increase was primarily due to higher net interest income.

Lending

SCBC does not conduct any new lending itself, but instead acquires loans from SBAB Bank, 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 lending to consumers the largest segment. At the end of 2017, SCBC's lending amounted to SEK 312.2 billion (244.4).

Information regarding SCBC's lending, the cover pool, is published monthly on the website 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 2017, the total value of issued debt securities outstanding under SCBC's lending programme was SEK 204.2 billion (175.9), distributed as follows: Swedish covered bonds SEK 118.9 billion (101.4); and the Euro Medium Term Covered Note Programme SEK 85.3 billion (74.5). During the year, securities amounting to SEK 57.6 billion (36.7) were issued. At the same time, securities amounting to SEK 14 billion (20.1) were repurchased, while securities amounting to SEK 14.9 billion (28.5) matured. Alongside revaluations (both upward and downward) of liabilities due to changes in premiums/discounts, and changes in SEK exchange rates, this resulted in an increase in issued securities of SEK 8.1 billion over the year.

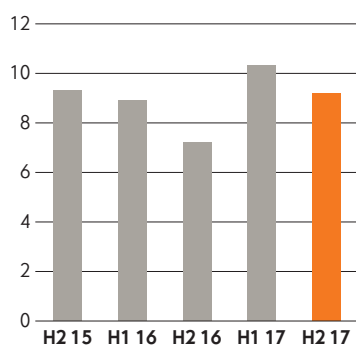
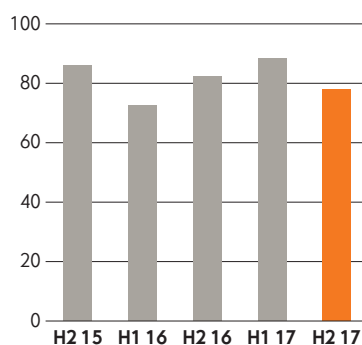
Subordinated debt to the Parent Company rose SEK 37.5 billion during the period and totalled SEK 92.6 billion. The increase was attributable to the acquisition by SCBC of loan receivables from the Parent Company for the purpose of increasing the cover pool at SCBC.

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 the transitional rules, amounted to 78.0% (82.4) at 31 December 2017. 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 18. The internally assessed capital requirement amounted to SEK 4,637 million (4,129) on 31 December 2017.

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

Return on equity (%) ¹⁾**CET1 capital ratio without transitional rules (%)**

¹⁾ From 2017, SCBC has used a new definition to calculate the return on equity. The return on equity is calculated as earnings after tax in relation to average equity, after adjustment for Tier 1 capital loans and value changes in financial assets recognised in equity. The comparative figures prior to 2017 have not been restated.

OTHER INFORMATION

Risks and uncertainties

The economic trend in Sweden is the primary risk factor for SCBC's future earnings capacity, and the quality of our assets is mainly exposed to credit risk 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 certain softening of real estate prices was perceived in the market towards the end of 2017; at the time of writing, it cannot be determined whether this is temporary or the beginning of a trend. A housing market with soaring prices and rising household debt has meant 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.

MREL

The Swedish National Debt Office (SNDO) has established resolution plan on consolidated basis as well as minimum requirements for own funds and eligible liabilities (MREL) for SBAB Bank AB (publ) and The Swedish Covered Bond Corporation. Accordingly, SNDO has deemed that the SBAB Group's activities are critical to the Swedish financial system.

Effects of IFRS 9 at 1 January 2018

Upon the transition to IFRS 9, the net of reserves and provisions for expected credit losses decreased SEK 51 million. The overall effect increased equity (before tax) by a corresponding amount at 1 January 2018. For more information, please refer to Note 1.

Events after the end of the period

No significant events occurred after the end of the period.

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 20.

CONDENSED INCOME STATEMENT

SEK million	2017	2017	2016	2017	2016
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
Interest income	1,831	1,853	1,854	3,684	3,825
Interest expense	-408	-421	-613	-829	-1,322
Net interest income	1,423	1,432	1,241	2,855	2,503
Commission income	0	7	4	7	10
Commission expense	-34	-36	-26	-70	-49
Net expense from financial transactions (Note 2)	-46	-15	-119	-61	-179
Other operating income	0	0	7	0	7
Total operating income	1,343	1,388	1,107	2,731	2,292
General administrative expenses	-387	-374	-375	-761	-718
Other operating expenses	1	-1	-1	0	-2
Total expenses before loan losses	-386	-375	-376	-761	-720
Profit before loan losses	957	1,013	731	1,970	1,572
Net loan losses (Note 3)	2	10	-10	12	-9
Operating profit	959	1,023	721	1,982	1,563
Tax	-211	-225	-157	-436	-342
Net profit for the period/year	748	798	564	1,546	1,221

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

SEK million	2017	2017	2016	2017	2016
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
Net profit for the period/year	748	798	564	1,546	1,221
<i>Components that will be reclassified to profit or loss</i>					
Changes related to cash-flow hedges, before tax	4	-622	-420	-618	399
Tax attributable to components that will be reclassified to profit or loss	-1	137	92	136	-88
Other comprehensive income, net of tax	3	-485	-328	-482	311
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	751	313	236	1,064	1,532

CONDENSED BALANCE SHEET

SEK million	31 Dec 2017	31 Dec 2016
ASSETS		
Lending to credit institutions	150	102
Lending to the public (Note 4)	312,199	244,445
Value changes of interest-rate-risk hedged items in macro hedges	224	485
Derivatives (Note 5)	3,862	4,442
Other assets	30	382
Prepaid expenses and accrued income	119	105
TOTAL ASSETS	316,584	249,961
LIABILITIES AND EQUITY		
Liabilities		
Liabilities to credit institutions	955	498
Debt securities issued, etc.	204,153	175,933
Derivatives (Note 5)	574	871
Other liabilities	55	13
Accrued expenses and deferred income	1,430	1,612
Deferred tax liabilities	39	190
Subordinated debt to the Parent Company (Note 8)	92,593	55,123
Total liabilities	299,799	234,240
Equity		
Restricted equity		
Share capital	50	50
Total restricted equity	50	50
Unrestricted equity		
Shareholder contribution	9,550	9,550
Fair value reserve	70	552
Retained earnings	5,569	4,348
Net profit for the year	1,546	1,221
Total unrestricted equity	16,735	15,671
Total equity	16,785	15,721
TOTAL LIABILITIES AND EQUITY	316,584	249,961

CONDENSED 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	
OPENING BALANCE, 1 JANUARY 2017	50	552	9,550	5,569		15,721
Other comprehensive income, net of tax		-482				-482
Net profit for the year					1,546	1,546
Comprehensive income for the year		-482			1,546	1,064
CLOSING BALANCE, 31 DECEMBER 2017	50	70	9,550	5,569	1,546	16,785
OPENING BALANCE, 1 JANUARY 2016	50	241	9,550	4,348		14,189
Other comprehensive income, net of tax		311				311
Net profit for the year					1,221	1,221
Comprehensive income for the year					1,221	1,532
CLOSING BALANCE, 31 DECEMBER 2016	50	552	9,550	4,348	1,221	15,721

CONDENSED CASH-FLOW STATEMENT

SEK million	2017	2016
	Jan-Dec	Jan-Dec
Opening cash and cash equivalents	102	1,219
OPERATING ACTIVITIES		
Interest and commissions paid/received	2,600	1,943
Outflows to suppliers and employees	-761	-720
Taxes paid/refunded	-64	-352
Change in assets and liabilities of operating activities	-39,198	-42,191
Cash flow from operating activities	-37,423	-41,320
INVESTING ACTIVITIES		
Cash flow from investing activities	-	-
FUNDING ACTIVITIES		
Change in subordinated debt	37,471	40,203
Cash flow from funding activities	37,471	40,203
Increase/decrease in cash and cash equivalents	48	-1,117
Closing cash and cash equivalents	150	102

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

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 2016 Annual Report. These consolidated condensed financial statements have been prepared on a going concern basis. On 15 February 2018, the Board of Directors approved the consolidated condensed financial statements for publication.

Introduction of new accounting standards

IFRS 9 Financial instruments

IFRS 9 Financial Instruments (IFRS 9) replaces IAS 39 Financial Instruments in its entirety and encompasses 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 (ECLs) 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 ECLs at an earlier stage. The new standard also specifies more detailed disclosures. The new hedge accounting rules have a clearer ambition to reflect risk management and entail a number of new disclosures.

SCBC will apply the mandatory sections pertaining to classification and measurement and impairment from 1 January 2018. The rules will be applied through the adjustment of the balance sheets of the Group and the subsidiaries at that date. No requirements apply for restatement of comparative periods. Upon the transition to IFRS 9, the credit loss reserves decreased SEK 51 million (2.6% of profit before tax). The overall effect increased equity (before tax) by a corresponding amount at 1 January 2018. The decrease in the credit loss reserve is based on an adjustment to take into consideration expected credit losses that are estimated to be lower than the incurred losses under current accounting estimate methodology according to IAS 39. With the transition to IFRS 9, all parameter estimates have been adjusted more in line with expected values, which better match the prevailing economic conditions. With current historically low default rates and extremely few confirmed loan losses, an expected value model according to IFRS 9 makes a relatively small provision for expected credit losses (ECLs) given the scope of the lending. The changes in the regulations for provisions had a limited impact on the capital adequacy ratios. SCBC has decided not to apply the transitional rules nor additional relief in conjunction with the introduction of IFRS 9.

Classification and measurement

SCBC's analysis of the contractual cash flows on holdings of financial instruments, excluding derivatives, finds that these pertain solely to principal amounts and the interest on such principal amounts. The business models that exist under IFRS 9 are as follows:

- Where the objective is to hold assets in order to collect contractual cash flows. Measurement and recognition is performed at amortised cost.
- Where the objective is achieved by both collecting contractual cash flows and selling financial assets. Measurement and recognition is performed at fair value through other comprehensive income.
- Where the objective is to "hold" or to both "hold and sell." Measurement and recognition is performed at fair value through profit or loss.

Under IFRS 9, a company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The company's business model is not dependent on the Executive Management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined at a higher level of aggregation. However, an entity may have more than one business model for managing its financial assets.

SCBC has evaluated the business model for portfolios of financial assets based on how they are managed and valued. SCBC's assessment is that the portfolios are managed in accordance with the first-mentioned business model, which entails measurement and recognition at amortised cost. Measurement and classification of derivatives and other financial liabilities will not be changed due to IFRS 9.

Compared with previous accounting policies, the measurement and classification of financial assets under IFRS 9 has not impacted values in the balance sheet or

equity as of 1 January 2018.

Impairment – expected credit losses

Where in the balance sheet a provision (loss allowance) is recognised depends on the classification of the exposure under IFRS 9 and the cash flow characteristics:

- For financial assets measured at amortised cost, the loss allowance is recognised as a deductible item together with the asset.
- For financial assets measured at FVTOCI, the loss allowance is recognised in equity.
- For exposures that are not recognised in the balance sheet (for example, loan commitments and construction loans), the loss allowance is recognised as a provision on the liability side of the balance sheet

Expected credit losses for financial assets in the balance sheet:

Under IFRS 9, following initial recognition, financial assets are divided in three stages according to their relative credit risk:

	←-----Change in credit risk-----→		
	Stage 1	Stage 2	Stage 3
Timing	From initial recognition	On a significant increase in credit risk following initial recognition	On default
Loss allowance	12-month ECL	Lifetime ECL	Lifetime ECL
Interest income	Based on gross carrying amount	Based on gross carrying amount	Based on net carrying amount

Depending on the credit stage, the loss allowance is determined by calculating the ECLs for the next 12-month period or the remaining expected lifetime. Assets can migrate between stages from one balance-sheet date to another. This is decided based on changes in credit risk compared with initial recognition. Interest income from assets in stage 3 are based on the net carrying amount after deduction of the loss allowance, in other words, the amortised cost, while interest income for the other stages is based on the gross carrying amount.

Credit stage 1

All financial assets will, at a minimum, have a loss allowance that corresponds to 12-month ECL. Three main parameters are taken into consideration when measuring ECLs. Probability of default (PD), loss given default (LGD) and exposure at default (EAD) where the product results in the expected credit loss (ECL). The calculation of 12-month ECL uses SCBC's portfolio models for internal risk classification (IRB) that are intended for capital adequacy, but where adjustments for the economic conditions and conservatism are excluded from the estimated parameters. The same procedure for adjusting the parameters from IRB are also applied in stages 2 and 3. For further information on IRB, see Note 2a Risk management – Credit risk in lending operations in SCBC's annual report 2016.

Credit stage 2

For financial assets where the credit risk has increased significantly since initial recognition, the loss allowance will correspond with lifetime ECL. Assessments of whether a significant increase in credit risk since initial recognition has occurred is made on an individual and a collective basis for homogenous credit risk groups, known as risk classes. In addition to PD from IRB, the determination of whether a significant increase has occurred also uses empirical default data for the respective risk classes and forward-looking information in the form of macro-economic factors. SCBC assesses whether credit risk has increased significantly since initial recognition by measuring the deviations from an expected PD trend given the original risk class. SCBC also applies presumptions in line with maturities of over 30 days as an indicator of a significant increase in credit risk.

Credit stage 3

Credit deteriorated assets should also be assigned a loss allowance that corresponds with lifetime ECL. The internal default definition is applied to determine whether a financial asset has suffered credit deterioration. SCBC deems a default to have occurred if any of the following criteria are met:

- The borrower has entered into liquidation, officially suspended payments or applied for a composition
- The credit is overdue by more than 60 days
- The credit has been restructured and the borrower been granted concessions
- The credit is categorised as insolvent based on a separate expert assessment.

Cont. NOTE 1 Accounting policies

Expected credit losses for exposures not recognised in the balance sheet.

For loan commitments, initial recognition is defined as the moment the bank enters into the irrevocable undertaking. The loss allowance is calculated in the same manner as for financial assets in the balance sheet, but includes the application of a credit conversion factor (CCF). The CCF measures the likelihood of a loan commitment being converted into a financial asset. In common with other parameters, the CCF is also used in the IRB approach for capital adequacy.

Forward-looking information

So as not to solely base the estimate of ECL on empirical information, forward-looking information in the form of housing market forecasts is used. The reason is to not solely rely on the past when calculating the loss allowance, but to also take into consideration immediate prospects to thereby enable objective and accurate expected values. Forecasts are prepared for macro-economic factors that have been shown to strongly correlate with default frequencies and actual credit losses in SCBC's lending. The forward-looking information should be viewed as an adjustment to the two risk dimensions PD and LGD, which impact both the allocation of credit stages and the level of the loss allowance.

Modification of financial assets

If the cash flows from a financial asset are renegotiated or otherwise modified, SCBC assesses whether the change is so significant that the modification will lead to derecognition from the balance sheet or whether the change will result in a modification gain or loss. In the event of derecognition from the balance sheet, the financial asset is assigned a new issue date and, thus a new initial risk class.

IFRS 15 – Revenue from Contracts with Customers

The standard introduces a five-step model to determine when revenues within the scope of IFRS 15 will be recognised. Depending on when certain criteria are met, income is either recognised over time in a manner that shows the company's performance, or at a point in time when control over the goods or services is transferred. The introduction will not have any material effect on SCBC's financial reporting. The standard becomes effective as of 1 January 2018.

Other forthcoming amendments

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

NOTE 2 Net result of financial transactions

SEK million	2017	2017	2016	2017	2016
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
Gains/losses on interest-bearing financial instruments					
– Change in value of hedged items in hedge accounting	74	547	909	621	220
– Realised gain/loss from financial liabilities	-93	-155	-340	-248	-459
– Derivatives	-64	-431	-816	-495	-111
– Loan receivables	37	24	129	61	171
Currency translation effects	0	0	-1	0	0
Total	-46	-15	-119	-61	-179

NOTE 3 Net loan losses

SEK million	2017	2017	2016	2017	2016
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Dec	Jan-Dec
CORPORATE MARKET					
Collective provision for corporate market loans					
Allocations to/unwinding of collective provisions	0	0	4	0	9
Guarantees ¹⁾	0	0	1	0	-0
Net expense for the year/period for collective provisions for corporate market loans	0	0	5	0	9
RETAIL MARKET					
Collective provision for retail market loans					
Write-off for the year/period for confirmed loan losses	-1	0	0	-1	-0
Recoveries of confirmed loan losses in prior years	-	-	-	-	-
Allocations to/unwinding of collective provisions ²⁾	-4	11	-16	7	-18
Guarantees ¹⁾	7	-1	1	6	-0
Net expense for the year/period for collective provisions for retail	2	10	-15	12	-18
Net income/expense for loan losses for the year/period	2	10	-10	12	-9

¹⁾ The guarantees pertain to received or expected receivables from the National Board of Housing, Building and Planning, insurance companies and banks.

²⁾ The unwinding of the collective provisions for retail market loans in 2017 was mainly due to reclassification to better risk classes within the lending portfolio in H1 2017.

NOTE 4 Lending to the public

SEK million	31 Dec 2017		31 Dec 2016	
	Lending	Provision	Lending	Provision
Single-family dwellings and holiday homes	124,682	-53	92,895	-37
Tenant-owners' rights	119,071	-87	87,924	-60
Tenant-owners' associations	45,143	-0	40,316	-0
Private multi-family dwellings	23,103	-0	23,111	-1
Municipal multi-family dwellings	218	-	213	-
Commercial properties ¹⁾	122	-	84	-
Provision for probable losses	-140		-98	
Total	312,199	-140	244,445	-98

¹⁾ Refers only to mixed-use commercial properties. Mixed-use commercial properties comprise office spaces, business premises and housing.

Doubtful and non-performing loan receivables	31 Dec 2017	31 Dec 2016
a) Doubtful loan receivables	-	-
b) Specific provisions for individually measured loan receivables	-	-
c) Collective provision for corporate market loans	0	1
d) Collective provision for retail market loans	140	97
e) Total provisions (b+c+d)	140	98
f) Doubtful loan receivables after individual provisions (a-b)	-	-
g) Provision ratio for individual provisions (b/a), %	-	-

NOTE 5 Derivatives

SEK million	31 Dec 2017			31 Dec 2016		
	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate-related	1,746	514	212,170	3,019	635	151,436
Currency-related	2,116	60	52,703	1,423	236	45,130
Total	3,862	574	264,873	4,442	871	196,566

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

NOTE 6 Classification of financial instruments

Financial assets

31 Dec 2017

SEK million	Assets measured at FVTPL (held for trading)	Loan receivables	Total	Total fair value
Lending to credit institutions		150	150	150
Lending to the public		312,199	312,199	312,789
Value changes of interest-rate-risk hedged items in macro hedges		224	224	–
Derivatives	3,862		3,862	3,862
Other assets		30	30	30
Prepaid expenses and accrued income		116	116	116
Total	3,862	312,719	316,581	316,947

Financial liabilities

31 Dec 2017

SEK million	Liabilities measured at FVTPL	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions		955	955	955
Issued debt securities, etc.		204,153	204,153	204,846
Derivatives	574		574	574
Other liabilities		21	21	21
Accrued expenses and deferred income		1,430	1,430	1,430
Subordinated debt to the Parent Company		92,593	92,593	92,593
Total	574	299,152	299,726	300,419

Cont. **NOTE 6** Classification of financial instruments**Financial assets**

SEK million	31 Dec 2016			
	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
Total	4,442	245,164	249,606	250,042

Financial liabilities

SEK million	31 Dec 2016			
	Liabilities measured at FVTPL	Other financial liabilities	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
Total	871	233,179	234,050	235,791

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 2016 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 val-

ues. 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 date for changes in terms is applied to set the discount rate, Level 3. Issued debt securities are measured at the company's current borrowing interest rate, Level 2.

NOTE 7 Fair Value Disclosures

SEK million	31 Dec 2017			Total
	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	
Assets				
Derivatives	–	3,862	–	3,862
Total	–	3,862	–	3,862
Liabilities				
Derivatives	–	574	–	574
Total	–	574	–	574

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

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note 1 of the Accounting Policies in the 2016 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 2016 and 2017.

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. The main tools used are models based on discounted cash flows. 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 8 Subordinated debt to the Parent Company

SEK million	31 Dec 2017	31 Dec 2016
Subordinated debt to the Parent Company	92,593	55,123
Total	92,593	55,123

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.

NOTE 9 Capital adequacy, own funds and capital requirements

CAPITAL ADEQUACY SCBC, SEK million

	31 Dec 2017	31 Dec 2016
CET1 capital	16,710	15,162
Tier 1 capital	16,710	15,162
Total capital	16,710	15,165
Without transitional rules		
Risk exposure amount	21,422	18,402
CET1 capital ratio, %	78.0	82.4
Excess ¹⁾ of CET1 capital	15,746	14,334
Tier 1 capital ratio, %	78.0	82.4
Excess ¹⁾ of Tier 1 capital	15,424	14,058
Total capital ratio, %	78.0	82.4
Excess ¹⁾ of total capital	14,996	13,693
With transitional rules		
Own funds	16,711	15,162
Risk exposure amount	172,527	133,171
Total capital ratio, %	9.7	11.4

¹⁾ Excess capital has been calculated based on minimum requirements (without buffer requirements)

Cont. **NOTE 9** Capital adequacy, own funds and capital require-

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 2017	31 Dec 2016
CET1 capital instruments: Instruments and reserves		
Capital instruments and the related share premium accounts	9,600	9,600
Retained earnings	5,569	4,347
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	70	552
Independently verified net profit for the year net of any foreseeable charge or dividend	1,546	1,221
CET1 capital before regulatory adjustments	16,785	15,720
CET1 capital: regulatory adjustments		
Additional value adjustments (negative amount)	-4	-5
Fair value reserves related to gains or losses on cash-flow hedges	-70	-552
Negative amounts resulting from the calculation of expected loss amounts	-1	0
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-1
Total regulatory adjustments to CET1 capital	-75	-558
CET1 capital	16,710	15,162
Additional Tier 1 capital: Instruments		
Additional Tier 1 capital before regulatory adjustments	-	-
Additional Tier 1 capital: Regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 capital	-	-
Additional Tier 1 capital	-	-
Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)	16,710	15,162
Tier 2 capital: Instruments and provisions		
Credit risk adjustments	-	3
Tier 2 capital before regulatory adjustments	-	3
Tier 2 capital: Regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	-	-
Tier 2 capital	-	3
Total capital (Total capital=Tier 1 capital + Tier 2 capital)	16,710	15,165
Total risk-weighted assets	21,422	18,402
Capital ratio and buffers		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	78.0	82.4
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	78.0	82.4
Total capital (as a percentage of total risk-weighted exposure amount), %	78.0	82.4
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, %	9.0	8.5
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, %	2.0	1.5
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, %)	70.0	74.4

Cont. **NOTE 9** Capital adequacy, own funds and capital require-

RISK EXPOSURE AMOUNT & CAPITAL REQUIREMENTS, SCBC SEK million	31 Dec 2017		31 Dec 2016	
	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
Credit risk recognised in accordance with IRB approach				
Exposures to corporates	5,458	437	5,632	451
Retail exposures	11,343	907	8,269	662
<i>Of which: exposures to SMEs</i>	916	73	860	69
<i>Of which: retail exposures secured by immovable property</i>	10,427	834	7,409	593
Total exposures recognised with IRB approach	16,801	1,344	13,901	1,112
Credit risk recognised with the standardised approach				
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 ¹⁾	69	6	262	21
<i>Of which: derivatives according to CRR, Appendix 2</i>	60	5	259	21
<i>Of which, repos</i>	9	1	3	0
<i>Of which other</i>	0	0	0	0
Exposures to corporates	-	-	-	-
Retail exposures	-	-	-	-
Exposures in default	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Exposures to institutions and corporates with a short-term credit rating	0	0	0	0
Other items	288	23	565	45
Total exposures recognised with standardised approach	357	29	827	66
Market risk	512	41	377	30
<i>Of which: position risk</i>	-	-	-	-
<i>Of which: currency risk</i>	512	41	377	30
Operational risk	3,486	279	3,008	241
Credit valuation adjustment risk	266	21	289	23
Total risk exposure amount and minimum capital requirement	21,422	1,714	18,402	1,472
Capital requirements for capital conservation buffer		536		460
Capital requirements for countercyclical buffer		428		276
Total capital requirement		2,678		2,208

¹⁾ The risk exposure amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 69 million (262).

Financial calendar

Interim report January–June 2018	18 July 2018
Year-end report 2018	15 February 2019

SBAB's Annual General Meeting will be held on 24 April 2018 in Solna.

The information in this report is such that AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC) is legally obligated to disclose in accordance with the Swedish Financial Instruments Trading Act and/or the Swedish Securities Market Act.

The information was submitted for publication on 15 February 2018 at 12:00 p.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, 15 February 2018

Mikael Inglander
CEO

AUDITORS' REVIEW REPORT

Introduction

We have reviewed the year-end report for The Swedish Covered Bond Corporation (publ) for the period 1 January – 31 December 2017. 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 of 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 respects, in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 15 February, 2018

Deloitte AB

Patrick Honeth

Authorised Public Accountant

APMS

Alternative performance measures (APMs) are financial metrics of historical or future performance, financial position or cash flows that are not defined in the applicable rules for financial reporting (for example, IFRS and the Swedish Annual Accounts Act) or in the EU's Capital Requirements Directive (CRD IV)/Capital Requirements Regulation (CRR).

SCBC uses APMs when these are relevant for the presentation and follow-up of the Group's financial position and when these metrics are deemed to provide additional valuable information to readers of the financial reports. SCBC has also chosen to present the APMs as they are in common use within the industry. APMs can be calculated with various approaches and, accordingly, SCBC's metrics are not directly comparable with similar metrics presented by other companies.

Return on equity

Definition as of 31 March 2017: Earnings after tax in relation to average (calculated using the opening and closing balances) equity, after adjustment for additional Tier 1 instruments and value changes in financial assets recognised in equity.

Definition prior to 31 March 2017: Earnings after tax in relation to average (calculated using the opening and closing balances) equity, after adjustment for additional Tier 1 instruments.

Previously recognised figures have not been restated as per the definition from 31 March 2017.

The APM aims to provide the reader with further information regarding profitability. The revised definition follows established industry practice.

	2017	2016
Operating profit after tax, SEK million	1,547	1,221
Average equity, SEK million	15,942	14,955
Return on equity, %	9.7	8.2

Definitions of other key performance indicators

CET1 capital ratio	CET1 capital in relation to risk-weighted assets
Total capital ratio	Own funds in relation to risk-weighted assets
Tier 1 capital ratio	Tier 1 capital in relation to risk-weighted assets