Annual Report 2009

The Swedish Covered Bond Corporation (SCBC)

Contents

Financial information 2010

SCBC's interim reports, annual reports and other financial information are available at scbc.se

Year-End Report 2009	5 February
Annual Report 2009	31 March
Annual General Meeting	20 April
Interim Report January-June	23 July

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

The Swedish Covered Bond Corporation (SCBC)
Corp. Reg. No. 556645-9755

The Year in Brief 2009

- Operating loss amounted to SEK 295 million (profit: 1,012).
- Despite the uncertainty that marked capital markets during the first half of the year, SCBC had good access to funds throughout the year.
- A public bond of CHF 350 million was issued.
- A new benchmark bond was launched in the Swedish market.
- Continued extension of the average remaining maturity of the debt portfolio.
- The rating agency Standard & Poor's changed its rating methodology for covered bonds during the year.

Summary	2009	2008
Net interest income, SEK million	813	797
Operating profit/loss, SEK million	(295)	1,012
Net profit/loss for the year, SEK million	(217)	720
Loan loss rate, %[1]	(0.02)	(0.01)
Lending, SEK million	173,371	157,792
Average remaining maturity in loan portfolio, years	1.4	1.5
Capital ratio, %	11.1	10.0
Primary capital ratio, %	11.1	10.0
Rating, long-term funding		
Standard & Poor's	AAA[2]	AAA
Moody's	Aaa	Aaa

[1] *Loan losses in relation to opening balance for lending to the public.*

[2] *On 16 December 2009, Standard & Poor's placed SCBC and 97 other issuers of covered bonds on CreditWatch.*

The MD's Review

"It is gratifying to note that SCBC's covered bonds continued to be an attractive investment alternative for institutional investors throughout the year."

The covered bond market

The global financial crisis continued to impact the market during most of the first half of 2009. The covered bond market also faced strong competition from large volumes of government-guaranteed bank debt. Gratifyingly, the market recovered during the second half of the year. Compared with the international covered bond market, the Swedish mortgage bond market functioned relatively well throughout the year. Funding levels remained relatively high, however, with a gradual improvement during the second half of 2009. Despite the uncertainty characterising the capital market during most of 2009, SCBC had favourable access to funds throughout the year.

Participation in the Swedish Government's guarantee programme

At the end of June, SCBC joined the Swedish Government's guarantee programme for medium-term funding. During autumn 2009, SCBC chose not to extend its participation in the guarantee programme. SCBC did not exercise its option to use the programme.

Rating agencies

All of SCBC's covered bonds have the highest possible credit rating. As a result of the financial crisis, the rating agencies changed certain aspects of their rating analysis for covered bonds during the year. The changes range from introducing more conservative assumptions in existing methodology to modifying parts of the actual methodology. This has resulted in issuers having to comply with stricter requirements to retain their credit ratings.

Investors

One result of the global financial crisis is that investors are increasingly requesting detailed information regarding the underlying collateral from issuers of covered bonds. The scbc.se website was created as early as 2006, the year when the company was formed. The website provides detailed information on the assets in the cover pool that constitutes collateral for SCBC's covered bonds. This information is available to all and updated on a monthly basis. SCBC strives to be transparent and clear in its communication with investors and other participants in the capital market. A sound dialogue and long-term relations with investors are important. Through regular contacts and personal meetings between investors and representatives of SCBC, confidence and understanding of the company's operations are created. SCBC intends to maintain this sound dialogue with investors and business partners.

Stockholm, March 2010

Per Tunestam
Managing Director

Business Operations and Organisation

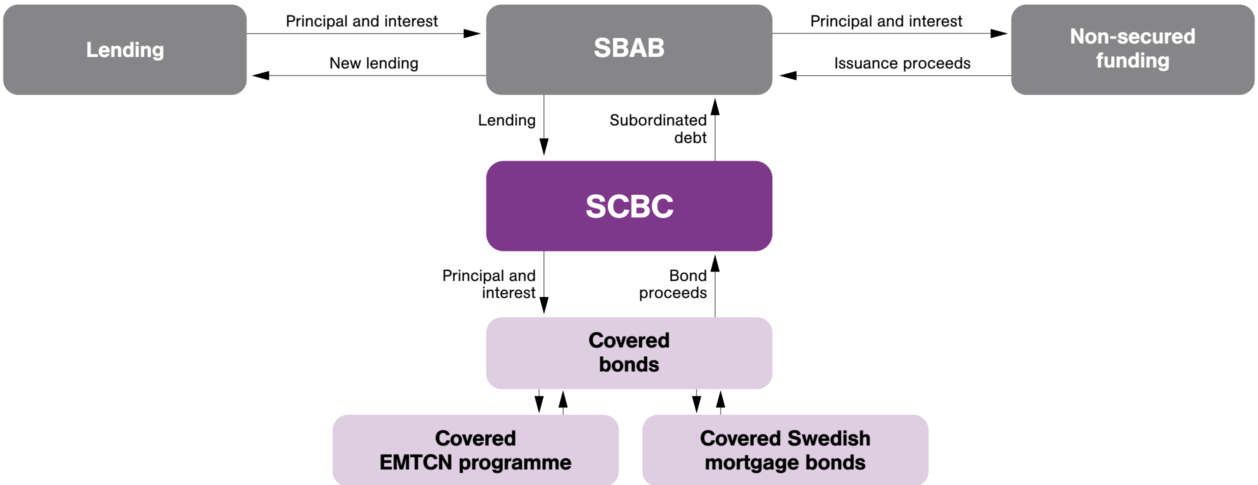
The operations of SCBC are conducted in a manner that complies with the requirements specified in the Covered Bonds Act (2003:1223) and the Swedish Financial Supervisory Authority's regulations FFFS 2004:11.

The Swedish Covered Bond Corporation, ("SCBC"), is a wholly owned subsidiary of The Swedish Housing Finance Corporation, ("SBAB"). Its operations began in 2006 when the company received a licence from the Swedish Financial Supervisory Authority to issue covered bonds. In the same year, SCBC also became the first Swedish issuer of covered bonds.

SCBC's operations are primarily focused on issuing covered bonds in the Swedish and international capital markets. For this purpose, the company uses two funding programmes, the mortgage bond programme in Sweden and the EMTCN (Euro Medium Term Covered Note Programme) primarily in the international market.

SCBC's operations are conducted by personnel employed by the Parent Company SBAB, as stipulated in an outsourcing agreement between the parties under which SBAB receives outsourcing revenues for services performed. SCBC does not engage in any new lending operations itself; instead it acquires loans from SBAB continuously or as required. The purpose of these acquisitions is that the loans, in full or in part, will be included in the cover pool that constitutes collateral for investors in SCBC's covered bonds.

The loans that are not funded through the issuance of covered bonds are financed by a subordinated loan from the Parent Company, SBAB. The subordinated loan and SBAB's claims on SCBC under the outsourcing agreement are subordinated to all unsubordinated creditors in the event of SCBC's bankruptcy or liquidation. SCBC has thus minimised the risk of conflicts of interests between secured and non-secured creditors. To hedge currency and interest rate risks that arise as a natural part of operations, SCBC regularly enters into derivative transactions with SBAB and external counterparties.



Business Environment

Massive stimulus programmes worldwide and in Sweden curtailed the negative impact of the financial crisis and contributed to reversing the economic downturn during the second half of 2009. As a result of the Riksbank's sharp cuts in its key interest rate and a normalisation in the fixed income market, Swedish residential property prices recovered rapidly from the previous decline.

Economic conditions and interest rates

The Swedish economy continued downwards in early 2009, following its fall in the last quater of 2008 as the financial crisis peaked. However, after the trough in the first quarter of the 2009, a recovery commenced and continued through the second half of the year. Major monetary and fiscal stimulus programmes internationally and in Sweden contributed to reversing the economic downturn. Conditions in the Swedish labour market continued to deteriorate, but showed signs of stabilisation towards the end of the year.

The rate of inflation declined sharply throughout most of the year as a result of falling interest rates. The underlying inflation rate – which excludes the interest rate effect – was more stable and moved in line with the Riksbank's inflation target of 2%. The precarious situation in the financial markets, the economic downturn and low inflation prompted the Riksbank decision to cut its key rate from 2% at the beginning of the year to a record low of 0.25% in July, where it stayed for the remainder of the year. The Riksbank also provided substantial amounts to the fixed income market in an effort to bolster liquidity and boost the effect of its low key rate.

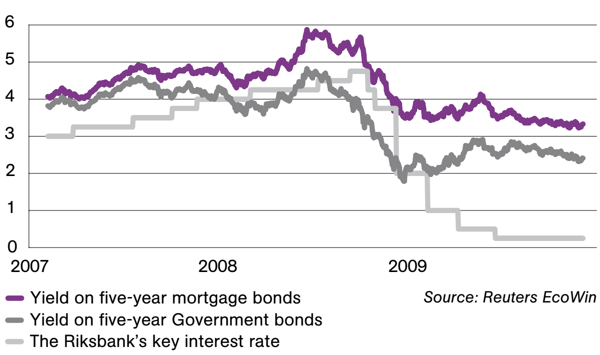
Bond yields started the year at a low level following their sharp fall during the second half of 2008. During the spring, yields increased in line with the easing of fears of a deep recession. However, the rise in yields reversed during the second half of the year into a slowly declining trend. Improved conditions in international and Swedish financial markets were also reflected in a fall in risk premiums in the fixed income market, which began to approach normal levels. The spread between yields on mortgage bonds and treasury bonds narrowed considerably during the course of the year.

The Swedish housing market coped with the financial crisis in a much better manner than housing markets in many other countries. The dip in housing prices at the end of 2008 and early 2009 was reversed into a rapid upswing. Low mortgage rates and a favourable income trend weighed heavier than the rise in unemployment. Towards the end of 2009, housing prices had returned to the peak levels that prevailed prior to the financial crisis.

Residential mortgage market

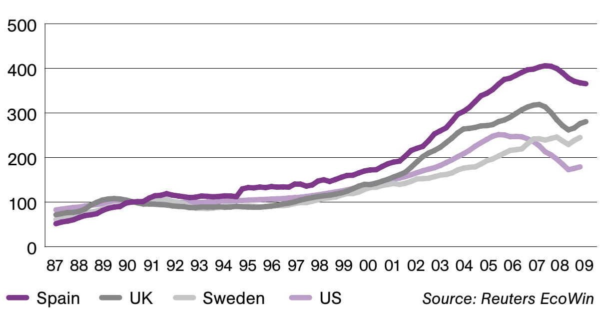
The overall residential mortgage market grew sharply in 2009. At year-end, property loans to companies and individuals totalled SEK 2,402 billion, an increase of approximately 12%. Although the outlook for 2009 was not very bright following the sluggish trend in autumn 2008, lending during the year increased sharply due to the low interest rates, with rising prices for single-family dwellings and tenant-owner rights alike.

The Riksbank's key interest rate and the yield on Government and mortgage bonds



Source: Reuters EcoWin

Housing prices in Spain, UK, Sweden and USA



Source: Reuters EcoWin

Retail market

The retail market for residential mortgages rose steeply during the year. One underlying factor was low interest rates, which boosted the willingness of individuals to take loans and, thus, also impacted positively on prices of single-family dwellings and tenant-owner rights. Other factors affecting the lending volume include tax deductions resulting in an increase in renovation and extensions. A large number of conversions from rental apartments to tenant-owner rights also helped to boost lending volumes.

One of the key factors underlying the trend in the retail market is the property market for single-family dwellings and tenant-owner rights. Despite worsening economic conditions during the first half of the year, prices of single-family dwellings and tenant-owner rights increased sharply due to record low interest rates. During the year, prices of tenant-owner rights rose about 20% and single-family dwellings by 5%.

Corporate market

The year was marked by low interest rates and uncertainty regarding the future trend in the commercial rental market, but with continuing relative stability for residential property. Many banks tightened their terms and conditions in conjunction with the financial crisis. This factor, combined with economic uncertainty, had an adverse impact on transaction volumes, which plunged 80% during the first six months of the year. Non-Nordic players were considerably less active than in previous years. Activity was also low in the case of residential property, which generally entails a lower risk.

Lending by mortgage institutions to the corporate market increased at a higher pace in 2009. This was in part because property lending using mortgage deeds as collateral rose in the wake of the financial crisis. Other financing forms decreased as investors sought more secure collateral. It is difficult to assess the change in total credit volume, since a large share of the loans are off the balance sheets of the mortgage institutions and are thus not included in statistics. These loans are provided by Swedish banks and foreign lenders, among others.

Lending to tenant-owner associations increased sharply, with conversion from rental apartments to tenant-owner rights acting as a major driving force. New construction of tenant-owner rights slowed during the year, but is expected to recover in connection with higher demand.

The Swedish covered bond market

Between 2006 and 2008, all of Sweden's leading residential mortgage institutions conducted their conversion to covered bonds. Accordingly, the Swedish residential bond market could not be regarded as a homogeneous covered bond market until 2008.

The Swedish covered bond market is the fourth largest in Europe, after Germany, Denmark and Spain, with an outstanding volume of SEK 1,035 billion in December 2009. The turmoil and uncertainty that continued to characterise the covered bond market, particularly during the first half of the year, had a negative impact on liquidity and funding levels. The higher risk aversion during early 2009 resulted in considerable demand for government bonds and government-guaranteed bank debt, which in turn reduced demand for covered bonds. In an international comparison, however, the Swedish covered bond market functioned relatively well and showed inherent strength throughout the year.

The issuing techniques in the Swedish market are somewhat different from those of the public international covered bond market. After the initial launch, outstanding volumes are gradually built up in each bond during its maturity period through on-tap issuing. To ensure favourable liquidity in the market, each issuer also provides a repo facility.

ASCB, the Association of Swedish Covered Bond issuers, an organisation for all Swedish issuers of covered bonds, was formed during the year. Additional information on ASCB is available on ascb.se

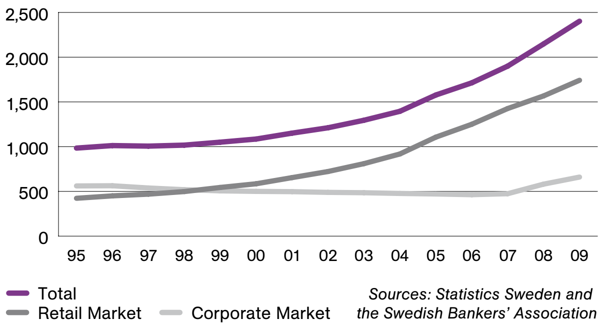
Retail market	2009 SEK billion	2008 SEK billion	Change SEK billion	Change %
Single-family dwellings and holiday homes	1,316.4	1,208.2	108.2	9.0
Tenant-owner rights	425.7	358.5	67.2	18.7
Total	**1,742.1**	**1,566.7**	**175.4**	**11.2**

Corporate market	2009 SEK billion	2008 SEK billion	Change SEK billion	Change %
Multi-family dwellings	519.6	463.6	56.0	12.1
Commercial properties	51.9	34.8	17.1	49.1
Other	88.5	82.5	6.0	7.3
Total	**660.0**	**580.9**	**79.1**	**13.6**

Source: The Swedish Bankers' Association

Trends in the housing market

SEK billion



Sources: Statistics Sweden and the Swedish Bankers' Association

Regulatory framework for covered bonds in brief

In 2004, it became possible for Swedish banks and credit-market companies to issue covered bonds according to the Covered Bonds Act (2003:1223).

In the same year, the Swedish Financial Supervisory Authority ("SFSA") issued regulations and general guidelines (FFFS 2004:11) regarding covered bonds. Issuance of covered bonds under Swedish legislation took place for the first time in 2006. The following section regarding the regulations for covered bonds is by no means exhaustive and should therefore not be relied upon as a complete presentation or description of all aspects relating to the regulations for covered bonds.

Covered bonds and the cover pool

Covered bonds refer to bonds and other comparable debentures that are linked to preferential rights in the issuer's cover pool. The cover pool primarily consists of loans secured by collateral in a certain type of real property or site-leasehold rights, collateral in tenant-owner rights or so-called public loans granted to the Swedish government or municipalities, for example. The cover pool may also include certain qualified substitute collateral, which normally may amount to at most 20% of the cover pool.

In addition to the holders of covered bonds, the issuer's counterparties in derivative contracts are also entitled to preferential rights to the cover pool.

An issuer must continuously monitor the development of property prices in the locations or regions in which the institution grants loans. In cases of declining price levels, the institution must check whether a property that constitutes collateral for loans granted maintains the same value as the original or most recent valuation. If the market conditions in the location or region deteriorate significantly, the valuation must be reassessed.

Licence and independent monitor

To be entitled to issue covered bonds, a licence is required from the SFSA, which is also the supervisory authority for the issuer's operations. SFSA will also appoint an independent monitor for each issuer. The monitor must verify that the register that each issuer is obligated to maintain for the covered bonds, cover pool and derivative contracts is maintained correctly. The independent monitor reports regularly to SFSA.

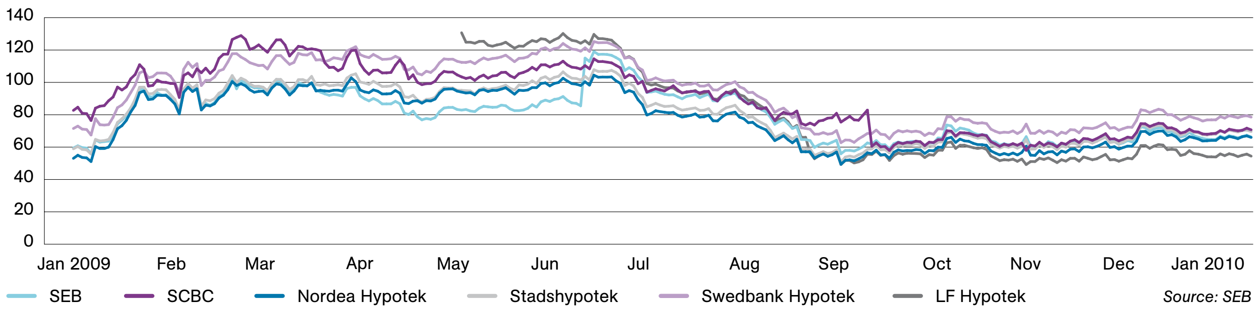
Matching rules

The nominal value of the cover pool must at all times exceed the nominal value of claims against the issuer on the basis of the covered bonds. In calculating the nominal value of the cover pool and the covered bonds, consideration must be taken to any exchange-rate differences and derivative contracts. The issuer must also ensure that cash flows with respect to the cover pool, derivative contracts and covered bonds are such that the issuer at all times is able to meet its payment obligations to holders of covered bonds and counterparties in derivative contracts.

The present value of assets in the cover pool must, upon a daily calculation, exceed the present value of the liabilities that relate to the covered bonds. The requirement to calculate the present value of the cover pool's assets must also be fulfilled after an assumed interest rate change that would result in a sudden and sustained parallel shift of the relevant interest rate curve by one percentage point up or down. If the issuer's assets in the cover pool include assets denominated in a currency other than the covered bonds, the present value of the issuer's cover pool must, upon a daily calculation, exceed the present value of the liabilities that relate to the covered bonds in the event of a 10% sudden and sustained change of the ratio between the currency of the bonds and the currency of the assets. In these calculations, the present value of derivative contracts must also be taken into account.

Asset swap spreads in the Swedish mortgage bond market – maturity 2014

Basis points against Stibor



Source: SEB

Administration Report

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Proposed appropriation of profits **page 46**

Lending

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

Lending to the public amounted to SEK 173,371 million at 31 December 2010 (157,792). In order to enable additional funding via covered bonds, SCBC's loan portfolio was increased during the year. The portfolio in SCBC primarily consists of loans for residential purposes, with the private market as the largest segment. The underlying collateral consists primarily of mortgage deeds on single- and multi-family dwellings and pledges of tenant-owner rights. The portfolio does not contain any lending for purely commercial objects. All loans granted relate to the Swedish market and are geographically concentrated to the metropolitan areas, as well as university and growth regions.

SBAB buys back loans that are in arrears by 30 days or more.

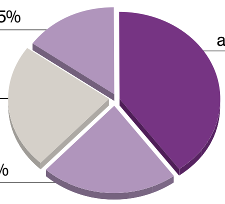
Cover pool

Of SCBC's total loan portfolio, about 95% consists of qualified assets. This means that they constitute formal collateral for the covered bonds issued by the company.

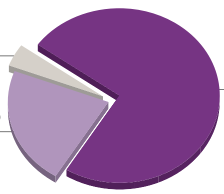
Of the loans in the cover pool, lending against mortgage deeds or pledged tenant-owner rights account for approximately 96%. In calculating LTV[1] for these loans, the upper limit of the loan's (or group of loans) LTV ratio in the pledge is used. The properties that constitute collateral in the loan portfolio were revalued during the first quarter of 2009. The revaluation, in combination with the method used for calculating LTV, entails a conservative assessment of the upper limit of the loan's LTV. Information regarding SCBC's cover pool is published monthly on scbc.se.

[1] *LTV = Loan to Value.*

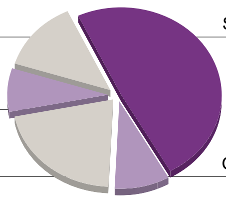
Distribution by owner categories
31 December 2009



Distribution by type of collateral
31 December 2009



Geographic distribution
31 December 2009



Key figures for the cover pool

	31 Dec 2009
Total cover pool, SEK billion	173.2
Loan portfolio, SEK billion	165.6
Average weighted Max-LTV, %	58
Average loan amount, SEK thousands	527
Average weighted seasoning, years	4.8
Average weighted remaining period, years	1.4
Substitute collateral, SEK billion	7.6

Max-LTV for the cover pool

Mortgage deeds and tenant-owner rights

	31 Dec 2009		
Max-LTV, %	Number [1]	Loan amount, SEK million	Loan amount, %
0-20	25,570	8,136	5
20-40	35,911	23,303	15
40-50	17,988	16,547	10
50-60	18,949	26,171	17
60-70	21,465	22,672	14
70-75	72,381	61,630	39
Total	**192,264**	**158,459**	**100**

[1] *Refers to number of blocks of mortgage deeds for mortgages and number of loans for tenant-owner rights.*

Funding

Despite the turmoil that characterised financial markets during the first half of 2009, the Swedish covered bond market functioned well throughout the year. Covered bonds are still the SBAB Group's principal source of funding.

SCBC's funding is conducted predominantly through the issuance of covered bonds, and to a certain extent through repo transactions. In addition, SCBC receives funding in the form of a subordinated loan from SBAB.

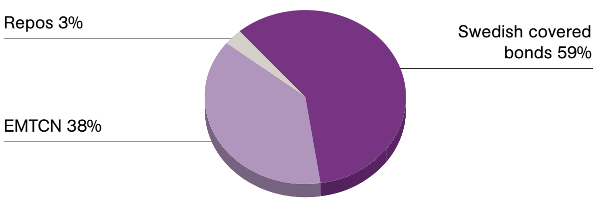
The turmoil that marked financial markets in 2008 continued during the first part of 2009. The covered bond market faced strong competition from large volumes of government-guaranteed bank debt. From having been essentially closed during most of the first half year, the international covered bond market started functioning again during the summer. The Swedish covered bond market remained a reliable source of funding throughout the year. During the year, the average outstanding maturity of the debt portfolio was extended by means of ongoing issuances and repurchases, primarily in the Swedish covered bond market. Covered bonds are still the SBAB Group's principal source of funding. At 31 December 2009, outstanding covered debt, excluding repos, totalled SEK 140 billion (carrying amount including market-value changes). This corresponded to an increase of about SEK 13 billion, compared with 31 December 2008.

Funding programmes

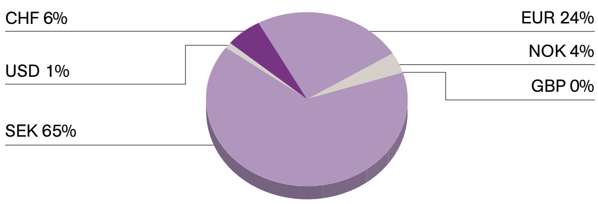
SCBC has two programmes for long-term funding, an EMTCN (Euro Medium Term Covered Note) programme and a Swedish covered bond programme. Outstanding funding volume (carrying amount excluding market value changes) on 31 December 2009 amounted to:

- EMTCN programme: Equivalent value of SEK 53 billion in several foreign currencies.
- The Swedish covered bond programme: SEK 88 billion (including SEK 4 billion in repos).

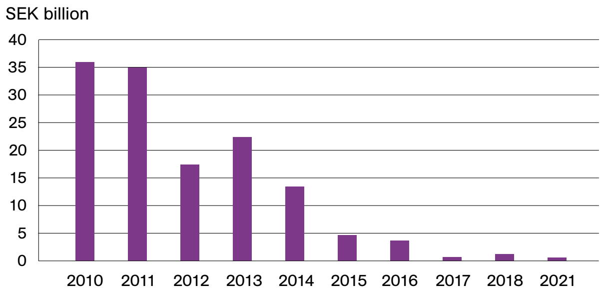
Funding
31 December 2009



Funding – currency distribution
31 December 2009

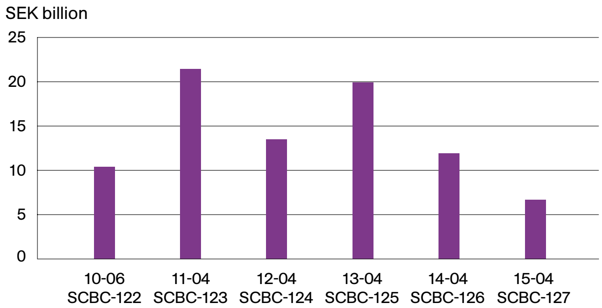


Total funding[1] – maturity profile
31 December 2009



[1] *Excluding repos.*

Outstanding volume of SCBC's Swedish covered bonds
31 December 2009



Transactions during the year

Notable issuances implemented by SCBC included the following transactions:

- Launch of a five-year covered benchmark bond in the Swedish market.
- Issuance of CHF 350 million in the public Swiss market.

A number of private placements were also issued under the EMTCN programme.

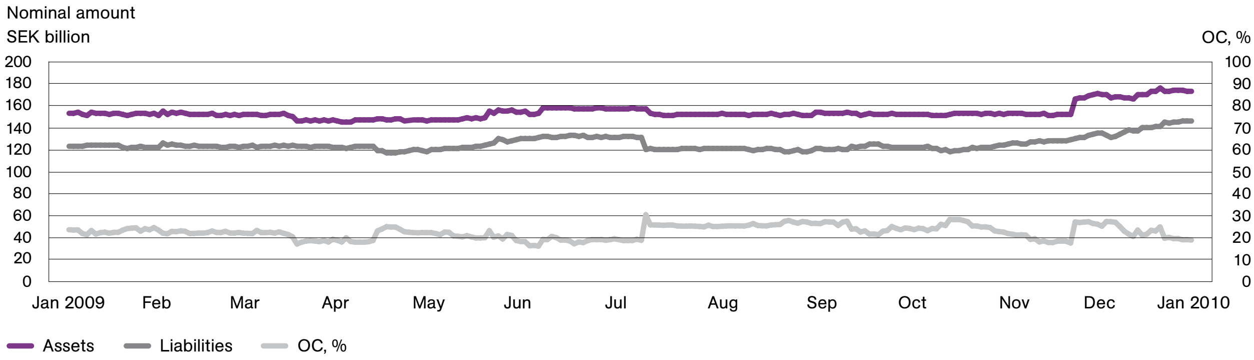
Rating

The rating agencies Moody's and Standard & Poor's have assigned SCBC's bond programmes the highest possible long-term ratings Aaa and AAA, respectively. SCBC engages in an ongoing dialogue with both rating agencies and regularly reports a large volume of information regarding SCBC's assets, outstanding debt and derivatives. Since SCBC's primary objective is to supply the SBAB Group with the best possible long-term funding, retaining the highest possible credit rating is of great importance.

SCBC's solid credit structure, combined with the high quality of underlying assets in the cover pool and the Swedish legislation regarding covered bonds, have contributed to SCBC obtaining the highest possible rating. Another important parameter on which the rating agencies credit assessment is based is the level of nominal over-collateralisation in relation to the outstanding covered debt, the so called OC level. The historical development in relation to the cover pool on each date during the year and the actual OC level (as a percentage) are presented below.

As a result of the financial crisis, rating agencies modified certain aspects of their rating analysis for covered bonds during the year. The modifications ranged from introducing more conservative assumptions in their existing methodology to changing certain aspects of the actual methodology. This entailed that issuers had to meet more stringent requirements in order to retain their credit ratings. SCBC retained the highest possible long-term rating from both Standard & Poor's and Moody's. Early in the year, Standard & Poor's declared its intention to change the rating methodology for covered bonds, and subsequently published its revised methodology on 16 December. At the same time, SCBC's rating was placed on CreditWatch along with 97 other issuers of covered bonds.

Cover pool – historical development



Earnings

Operating profit

SCBC reported an operating loss for 2009 of SEK 295 million (profit: 1,012). The decline was primarily due to net income from financial instruments measured at fair value. This derived mainly from unrealised fair value changes on derivative instruments and hedged items, as well as expenses incurred in connection with bond repurchases. As of 31 of december, SCBC had received SEK 610 million before tax in Group contributions from the Parent Company SBAB. For 2009, return on equity was a negative 2.3% (positive 9.5).

Net interest income

Net interest income increased slightly from the preceding year and totalled SEK 813 million (797). The increase in net interest income derived mainly from the larger loan portfolio, although declining interest rates had a dampening effect. The significant change in interest income and interest expense compared with 2008 was due to interest attributable to hedge-accounted interest rate derivatives.

Return on equity fell compared with the preceding year, due to a lower average interest rate during the year. The average lending interest rate was 3.46% (4.94). The loan portfolio increased compared with 2008 to SEK 173.4 billion, which together with an increase in equity maintained the net interest level.

The investment margin (net interest income in relation to average total assets) declined to 0.43% (0.49). This decline primarily reflected the effects of the turbulent financial market.

Other income and expenses

Net commission income, net income from financial instruments measured at fair value and other revenues amounted to an expense of SEK 638 million (income: 631). The decrease was due to net income from financial instruments measured at fair value, which had a negative impact of SEK 580 million on earnings. This resulted mainly from unrealised fair value changes on derivative instruments and hedged items, as well as expenses incurred in connection with bond repurchases.

Expenses

Expenses amounted to SEK 445 million, up 10% on the preceding year. The increase was primarily due to the cost of the services that SBAB provides to SCBC under the outsourcing agreement. The higher outsourcing costs were primarily due to the increase in the loan portfolio since the preceding year.

Loan losses

Loan losses increased and amounted to a net of SEK 25 million (loss: 17), corresponding to a loan loss rate of 0.02%. The increase was primarily due to a rise in collective provisions. Collective provisions totalled SEK 86 million (78) for retail market loans and SEK 14 million (7) for corporate market loans.

Dividend policy and appropriation of profits

SCBC has no established dividend policy. Dividends are proposed by the Board of Directors in accordance with the Swedish Companies Act and thereafter approved by the Annual General Meeting. For the 2009 fiscal year, the Board of Directors propose that the loss for the year be carried forward and that no dividend be paid.

Significant events after the balance sheet date

- No events of material importance to assessments of the company's financial position have occurred after the close of the report period.

Four-year overview

SEK million	2009	2008	2007	2006 [1]
Interest income	3,445	8,006	4,786	1,775
Interest expense	(2,632)	(7,209)	(3,946)	(1,472)
Net interest income	**813**	**797**	**840**	**303**
Other operating income	(638)	631	34	152
Total operating income	**175**	**1,428**	**874**	**455**
Other operating expenses	(445)	(399)	(309)	(157)
Total operating expenses	**(445)**	**(399)**	**(309)**	**(157)**
Net profit/loss before loan losses	**(270)**	**1,029**	**565**	**298**
Loan losses, net	(25)	(17)	1	–
Operating profit/loss	**(295)**	**1,012**	**566**	**298**
Loan portfolio	173,371	157,792	128,205	88,654
Deferred tax assets	55	135	–	–
Other assets	24,686	26,519	9,848	772
Total assets	**198,112**	**184,446**	**138,053**	**89,426**
Debt securities in issue	139,963	126,578	105,361	68,741
Other liabilities	21,908	29,059	11,409	6,574
Deferred income tax liabilities	–	–	21	–
Subordinated debt to Parent company	26,626	19,426	15,439	9,896
Equity	9,615	9,383	5,823	4,215
Total liabilities and equity	**198,112**	**184,446**	**138,053**	**89,426**
Lending				
Investment margin, %	0.43	0.49	0.74	0.68
Loan losses				
Loan loss rate, %	(0.02)	(0.01)	0.00	–
Productivity				
Expenditure/Income ratio, excl. loan losses	254	28	35	35
Expenditure/Income ratio, incl. loan losses	269	29	35	35
Capital structure				
Return on equity, %	(2.3)	9.5	8.1	10.2
Capital adequacy % [1]	11.1	10.0	8.5	8.8
Primary capital ratio, % [1]	11.1	10.0	8.5	8.8
Equity ratio, %	4.9	5.1	4.2	4.7
Consolidation ratio, %	4.8	5.0	4.2	4.7
Employees				
Number of employees	1	1	1	1

[1] *The comparative figures for 2006 have not been restated according to statutory IFRS.*

SCBC only reports a four-year summary because the company was not active prior to 2006.

Definitions of key ratios

Investment margin • Net interest income in relation to average total assets
Loan loss rate • Loan losses in relation to opening balance for lending to the public.
Expenditure/Income ratio excl. loan losses • Total operating expenses/total income
Expenditure/Income ratio incl. loan losses • Total operating expenses plus loan losses/total income
Return on equity • Operating profit after actual tax in relation to average equity
Capital adequacy • Capital base/risk-weighted amount
Primary capital ratio • Primary capital/risk-weighted amount
Equity ratio • Equity in relation to total assets at year-end
Consolidation ratio • Equity, incl. deferred tax, in relation to total assets at year-end
Number of employees • Permanent employees

Financial Reports

Risk Management

In a business risk is a natural element that has to be managed. The crisis of confidence in the financial sector of recent times exemplifies the importance of efficient management of liquidity risks. Information concerning capital adequacy and risk management for the SBAB Group in accordance with Basel II is available at sbab.se.

Risk appetite within the SBAB Group

Risk appetite can be defined as "the impact on earnings that a company can accept to support a particular strategy." SCBC's risk appetite is expressed as follows:

- That the SBAB Group will generate a return on equity that is five percentage points higher than the return on five-year government bonds after tax, viewed over a business cycle.
- The capital ratio for the SBAB Group shall exceed 1.13 (corresponds to capital adequacy of 9%).
- SBAB's primary capital ratio, according to Basel II, Pillar I, including transitional regulations, shall not be less than 7%.

All of the objectives were achieved. The return on equity exceeded the target by 0.4 percentage points. The capital ratio and primary capital ratio are presented on page 26.

Process for calculating risk and capital requirement

SCBC's definition of capital and capital requirement comply with external requirements. Internal follow-up and reporting are based on Pillar 1 of the Basel rules.

In general terms, the SBAB Group's risk process can be described as follows:

1. Identify risk

The SBAB Group conducts its operations in three different business areas. Corporate and Retail handle loans, while Finance handles funding and financial risk management. The first two business areas primarily generate credit risk, while the funding operations generate several financial risks, of which the management of the interest rate risk can give rise to some earnings.

2. Measure risk and capital requirements

Identified risks are measured in various models. For business and operational risks, standards based on the business areas' operating expenses and operating income are used. For credit risk, several statistical rating models have been developed depending on the type of counterparty for which a credit rating is required (PD – probability of default) and the existing collateral (LGD – loss given default). The SBAB Group uses an advanced method to establish internal and external capital requirements. Depending on the purpose of the assessment, market risk is measured with a Value at Risk (VaR) model or through a parallel shift of the yield curve.

3. Analyse, control and report

Based on the information provided by the models, the SBAB Group conducts an analysis of how the risks affect and can be expected to affect the operations. These efforts include follow-up and analysis of historical outcomes as well as future-oriented stress tests and scenario analyses. The results of the analysis, together with a qualitative assessment of other risks, are reported to ALCO (Asset and Liability Management Committee), which is a preparatory body for risk and capital planning issues. SBAB's Board of Directors and management are continuously provided with adequate reporting of the SBAB Group's risk profile. These efforts comprise the supporting documentation for SBAB's strategic planning and form the foundation for the establishment of capital goals.

Overall objectives for risk management within the SBAB Group

- Risk management shall support the business operations and rating targets. Risk-taking shall be balanced, which is to be achieved by ensuring that total risk is kept at a level compatible with the long-term financial objectives for return, the size of risk capital and the target rating.
- Relevant risks shall be identified, measured, controlled and monitored.
- Within the Group's different business areas, allocation of capital shall be based on the desired risk level and earnings capacity.
- Risk management shall be transparent and thus easily presented for and understood by external parties.

Organisation and responsibility

Board of Directors

At the statutory meeting of the SCBC Board of Directors, decisions were made concerning the establishment, in applicable areas, of governing documents in the form of policies and instructions that the Parent Company's Board of Directors has decided to apply for the Parent Company's operations. It was also decided that the decisions that the Parent Company has taken or will take in the future concerning these governing documents will similarly, in applicable areas, apply to SCBC, including amendments, and that these decisions will take effect on the date decided by the Parent Company for each particular governing document.

Decisions made by the Parent Company's Board of Directors concerning governing documents are reported at meetings of the SCBC Board.

Asset and Liability Management Committee (ALCO)

ALCO is a body within the SBAB Group that handles matters relating to risk and capital planning that are to be addressed by Parent Company's executive management. The Parent Company's Chief Financial Officer is the chairman of the ALCO. Other committee members are the managers of each of the business areas, the Chief Credit Officer and the Head of the Risk Department.

Risk Department

The risk manager is appointed by the CEO and has overall responsibility for developing and ensuring that SBAB's risk strategies comply with the original intentions and that policies and processes support relevant follow-ups.

The Risk Department is a unit within the SBAB Group's credit division that is responsible for analysing, assessing and reporting on the overall risks of the SBAB Group. In particular, credit risk, the most significant risk for SBAB, is monitored and analysed. The Risk Department is also responsible for the design, implementation, reliability and monitoring of SBAB's risk-classification systems and for the development of SBAB's risk-classification systems and of economic capital and for SBAB's internal capital evaluation. The individual risks are dealt with by each of the SBAB Group's business areas.

A monthly report on the overall risk scenario and the trend in economic capital is delivered by the Risk Department to the Parent Company's managing director, executive management and the Board, together with the controller unit's assessment of risk-adjusted return. The Risk Department also reports capital adequacy to SCBC's MD and the Board on a monthly basis. A detailed description of risks is reported on a quarterly basis.

Review by the Swedish Financial Supervisory Authority (SFSA) of risk assessment methods

SFSA has granted SCBC permission to base capital requirements for credit risk on internal rating based methods (IRB methods). SFSA has examined the company's internal methods and concluded that they are reliable. SCBC has been granted the right to apply the standardised method for credit risk for exposure amounts to the Swedish Government, the Riksbank and Swedish municipalities, portfolios of insignificant size (time-limited permission) and all central government and institutional exposures.

The standardised method is used by SCBC to measure and handle operational risk. The method complies with the provisions of SFSA's directives. SFSA has reviewed the method and assesses it to be reliable.

Credit risk

Credit risk is defined as the risk of loss due to the customer or counterparty's inability to make interest payments and amortisation or otherwise fulfil the loan agreement. Credit risk arises in conjunction with loans and loan promises, and also in connection with changes in the value of pledged assets entailing that these no longer cover the company's receivables, and also in finance activities.

Credit risk in the lending operations

Credit risk in lending operations is restricted by limits decided upon by the SBAB Group for the customer or customer group. The credit risk is also managed in the SBAB Group credit granting process, where potential borrowers' ability to make their interest payments is analysed. New retail loans are granted only to borrowers who are expected to be able to pay interest and amortisation in an interest rate situation that comfortably exceeds the rate prevailing when the loan decision is taken. Furthermore, risk classification is based on the analysis of the credit risk for new and existing customers in the loan portfolios. The Parent Company repurchases from SCBC loans that remain past due for 30 days.

To measure and monitor credit risk, the standardised method can be applied, as can the foundation or advanced internal risk based method (IRB method). SCBC applies the advanced IRB method for retail credit and the fundamental IRB method for corporate credit.

The IRB method is used for every part of individual exposures to corporate or retail customers that have a mortgage deed or a tenant owner right as collateral. For other types of exposures, the standardised method is used for measurement of credit risk. For the cases in which external ratings are used, the lowest rating from either Moody's or Standard & Poor's is selected. In credit risk models, an assessment is made of the probability of default (PD), loss given default LGD and the part of the off-balance sheet commitment that is utilised in the event of default, credit conversion factor (CCF). On the basis of these parameters, together with exposure at default (EAD), customers can be ranked according to risk and the expected and unexpected loss can be estimated. After assessment, the exposure is referred to one of eight risk classes for corporate and retail loans respectively, where the eighth class comprises customers in default. Customers in high risk classes are monitored thoroughly and, when necessary, the exposure is managed actively by credit monitoring personnel in the credit division. The developed models are validated annually and calibrated as the need arises. During the year, such calibration occurred for models designed for corporate customers. The calibrated models will be implemented in early 2010.

Following the quantitative assessment, a system-oriented qualitative assessment is performed for Corporate clients[1] on the basis of the rules and regulations for loans. This enables greater uniformity in risk assessments based on extensive supporting data.

The expected loss (EL) assessed in the models can be compared with the assessed probable loss in the reporting seen over a longer period of time. The management of the latter is regulated by IAS 39. According to these regulations, assets are to be impaired when there are objective grounds for impairment due to the occurrence of one or more events that have a negative impact on the future cash flow. This differs from the expected loss produced by the models, where the risk in each individual loan is estimated based on outcomes over a longer period of time in a statistical model. The way EL is computed is regulated by the Capital Adequacy and Large Exposures Act (2006:1371) and by SFSA's capital adequacy directives (FFFS 2007:1), where the risk in every single loan shall be measured on the basis of a protracted period of time using a statistical model.

Collateral in the lending operations

In order to grant credit, the SBAB Group requires adequate collateral, which can be provided in the form of real estate or a tenant owner right. Adequate collateral usually means mortgage deeds in a property or a tenant owner right up to 75%-85% of the market value. The 85% ratio applies provided that collateral can be obtained with priority right and that the customer has risk class R1-R4 for retail customers and C1-C4 for corporate customers. In other cases, a loan-to-value ratio of 75% applies. If collateral was complemented with credit insurance, it was previously possible to provide loans to private customers at up to 95% of market value. This remained possible at the start of 2009, but the credit insurance requirement has been replaced by a requirement for "Låneskydd Trygg"[2] which is taken out by the borrower, and the loan amount exceeding 85% of market value must be amortised over a maximum of 10 years (previously 15 years). In addition to the above collateral, it is possible to grant credit for, inter alia, collateral in the form of a state credit guarantee, a municipal guarantee, securities, bank guarantees and deposits in a Swedish bank. SCBC does not hold any collateral which has been taken over to protect a receivable.

[1] *Retail refers to all lending to consumers pertaining to single-family dwellings, holiday homes and tenant-owner rights. Corporate refers to all other lending to the public. This entails, inter alia, that loans to private individuals pertaining to multi-family dwellings are considered corporate customers.*

[2] *Unemployment and illness insurance with no life insurance component.*

Maximum credit risk exposure before collateral held or other credit enhancements

	Maximum exposure	
SEK million	**2009**	2008
Credit risk exposure for on-balance sheet items		
Loans and advances to credit institutions	9,972	5,535
Loans and advances to the public:		
Loans to consumers		
- Single-family dwellings and holiday homes	68,615	72,820
- Tenant-owner rights	38,542	32,920
Loans to companies/legal entities		
- Tenant-owner associations	39,852	30,663
- Private multi–family dwellings	19,125	16,269
- Municipal multi–family dwellings	7,229	4,996
- Commercial properties	8	124
Change in fair value of hedged loan receivables	2,961	4,568
Derivative instruments	10,901	14,745
Other assets	693	1,382
Prepaid expenses and accrued income	214	289
Credit risk exposure for off-balance sheet items		
Financial guarantees	–	–
Loan promises and other credit-related commitments	–	–
Maximum credit exposure per 31 December	**198,112**	**184,311**

The table describes the maximum credit risk exposure for SCBC at the end of 2009 and 2008 without taking pledged assets into consideration. The carrying amount is used for assets on the balance sheet. A total of 94% (91) of the total credit risk exposure derives from lending to credit institutions and the public (taking into consideration the change in fair value for hedge-accounted loan receivables and credit-related commitments).

Expected loss (EL) is calculated using the formula
EL = PD*LGD*EAD, where

- PD (probability of default) is the probability of default for a customer,
- LGD (loss given default) states the extent of the loss in the event of default and
- EAD (exposure at default) measures the expected exposure in the event of default.

Loan portfolio allocated by risk class

Corporate Market 2009	2009		2008	
Risk class	Lending	Provision/lending in respective risk class	Lending	Provision/lending in respective risk class
C0	0.9%	0.0%	1.3%	–
C1	70.1%	0.0%	63.8%	0.0%
C2	17.5%	0.0%	18.2%	0.0%
C3	6.5%	0.0%	8.6%	0.0%
C4	2.0%	0.1%	4.9%	0.0%
C5	1.7%	0.2%	2.2%	0.1%
C6	1.0%	1.2%	0.7%	0.9%
C7	0.2%	1.9%	0.1%	3.6%
C8	0.1%	0.8%	0.2%	–
	100.0%	0.0%	100.0%	0.0%

C = *Corporate*

Loan portfolio allocated by risk class

Retail Market 2009	2009		2008	
Risk class	Lending	Provision/lending in respective risk class	Lending	Provision/lending in respective risk class
R1	36.8%	0.0%	38.2%	0.0%
R2	20.0%	0.0%	20.2%	0.0%
R3	26.4%	0.0%	25.0%	0.0%
R4	12.6%	0.0%	11.7%	0.0%
R5	2.5%	0.8%	2.8%	0.5%
R6	1.1%	2.1%	1.4%	1.4%
R7	0.6%	5.4%	0.6%	3.7%
R8	0.0%	7.9%	0.1%	5.1%
	100.0%	0.1%	100.0%	0.1%

R = *Retail*

Loan portfolios in lending operations

Loan portfolios by risk class

SCBC's lending to the public amounted to SEK 173 billion (158) at 31 December 2009. Every customer is allocated to a risk class. Individually reserved corporate market loans are always allocated to the worst corporate market risk class, C8, and worst retail market risk class, R8. Loans covered by collective provisions are obtained for the corporate market from risk classes C6-C8, and collectively impaired retail market loans comprise loans in risk classes R5-R8. Risk class C0 comprises loans to Swedish municipalities, whereby the customers are not classified according to this model. During the year, models for corporate market loans were adjusted. During 2010, as new risk assessments occur, the change will result in a greater spread between the risk classes and reduce the concentration in risk class C1.

Loans and advances to the public and credit institutions

The loan portfolio has been allocated among loans where the borrower has fulfilled his obligations in accordance with the terms of the loan, loans where the borrower has not done so and loans with individual provisions. An individual provision for a loan receivable is based on an individual assessment of the future cash flow together with an estimate of the market value of the underlying collateral, which serves as the basis for the individual provision. In the case of collective provisions, the risk in a group of loans has changed, but this change cannot be attributed to any particular customer. The table specifies the provision without taking into consideration guarantees and the amount guaranteed for each group of provisions.

Loans and advances to the public without past due unpaid amounts or individual provisions

The allocation of loans per risk class for the loans that had neither past due unpaid amounts nor individual provisions shows that 96% in 2009 (95%) were in the risk classes C1/R1-C4/R4. Loans for commercial properties are covered by municipal guarantees or mortgages in residential properties. The allocation includes total transaction costs of SEK 15 million (12) that were allocated to individual loans without past due unpaid amounts and to loans with individual provisions. The transaction costs derive mainly from the segment single-family dwellings and holiday homes.

Loans to the public and credit institutions

	2009		2008	
SEK million	Public	Credit institutions	Public	Credit institutions
Current loans without past due unpaid amounts or provisions	173,329	9,972	157,464	5,535
Loans with unpaid amounts > 5 days past due	142	–	413	–
Loans with individual provisions	2	–	–	–
Total outstanding loans	**173,473**	**9,972**	**157,877**	**5,535**
Individual provisions	(2)	–	–	–
Collective provisions, corporate market	(14)	–	(7)	–
Collective provisions, retail market	(86)	–	(78)	–
Total provisions	**(102)**	**–**	**(85)**	**–**
Total lending after provisions	**173,371**	**9,972**	**157,792**	**5,535**
Guarantees for loans with individual provisions	1	–	–	–
Guarantees for loans with collective provisions, corporate market	6	–	4	–
Guarantees for loans with collective provisions, retail market	22	–	23	–
Total guarantees	**29**	**–**	**27**	**–**
Total lending after provisions and guarantees	**173,400**	**9,972**	**157,819**	**5,535**

At 31 December 2009, individual and collective provisions totalled SEK 73 million (58), after a deduction for guarantees. No provisions were posted for loans to credit institutions.

Loans and advances to the public at 31 December 2009 by segment without loans with past due unpaid amounts or loans with individual provisions, including transaction costs

	2009					
Risk class SEK million	Single-family dwellings and holiday homes	Tenant-owner rights	Tenant-owner associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties [1]
C0/R0	–	–	–	–	585	–
C1/R1	30,700	8,797	28,400	12,385	5,649	–
C2/R2	12,696	8,719	7,265	3,785	549	8
C3/R3	15,946	12,358	2,232	1,943	139	–
C4/R4	6,520	7,018	568	502	208	–
C5/R5	1,466	1,163	611	416	96	–
C6/R6	799	318	560	81	3	–
C7/R7	435	142	145	18	–	–
C8/R8	26	10	68	–	–	–
Total	**68,588**	**38,525**	**39,849**	**19,130**	**7,229**	**8**

Loans and advances to the public at 31 December 2008 by segment without loans with past due unpaid amounts or loans with individual provisions, including transaction costs

	2008					
Risk class SEK million	Single-family dwellings and holiday homes	Tenant-owner rights	Tenant-owner associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties [1]
C0/R0	–	–	–	–	681	–
C1/R1	31,428	8,954	20,752	10,105	2,266	–
C2/R2	13,613	7,718	5,608	2,638	1,108	119
C3/R3	16,975	9,490	2,360	1,486	606	–
C4/R4	7,352	5,000	827	1,480	233	–
C5/R5	1,827	1,072	631	426	101	–
C6/R6	980	433	255	115	–	–
C7/R7	472	155	45	16	–	5
C8/R8	40	16	75	–	–	–
Total	**72,687**	**32,838**	**30,553**	**16,266**	**4,995**	**124**

[1] *Commitments disclosed in this category are complemented by municipal sureties or collateral in residential properties.*

Loans and advances to the public with past due unpaid amounts but without individual provisions

	2009					
	Retail market		Corporate market			
SEK 000s	Single-family dwellings and holiday homes	Tenant-owner rights	Tenant-owner associations	Private multi-family dwellings	Municipal multi-family dwellings	Commer-cial properties
5-30 days past due [1]						
Past due amortisation	383	97	1,660	4	–	–
Past due accrued interest	419	109	2	17	–	–
Terminated past due principal excl. past due amortisation	–	–	–	–	–	–
Principal not past due	95,917	33,179	8,043	2,805	–	–
Accrued interest not past due	53	12	15	6	–	–
31-60 days past due						
Past due amortisation	–	–	–	–	–	–
Past due accrued interest	–	–	–	–	–	–
Terminated past due principal excl. past due amortisation	–	–	–	–	–	–
Principal not past due	–	–	–	–	–	–
Accrued interest not past due	–	–	–	–	–	–
61-90 days past due						
Past due amortisation	–	–	–	–	–	–
Past due accrued interest	–	–	–	–	–	–
Terminated past due principal excl. past due amortisation	–	–	–	–	–	–
Principal not past due	–	–	–	–	–	–
Accrued interest not past due	–	–	–	–	–	–
>90 days past due						
Past due amortisation	–	–	–	–	–	–
Past due accrued interest	–	–	–	–	–	–
Terminated past due principal excl. past due amortisation	–	–	–	–	–	–
Principal not past due	–	–	–	–	–	–
Accrued interest not past due	–	–	–	–	–	–
Total past due						
Total past due amortisation	383	97	1,660	4	–	–
Total past due accrued interest	419	109	2	17	–	–
Total terminated past due principal excl. past due amortisation	–	–	–	–	–	–
Total principal not past due	95,917	33,179	8,043	2,805	–	–
Total accrued interest not past due	53	12	15	6	–	–
Total lending for loans with past due receivable without provision	96,300	33,276	9,703	2,809	–	–
Value of collateral and guarantees	96,271	33,276	9,703	2,809	–	–

[1] *For the time interval, amounts past due by five days or less are not taken into consideration to ensure that the analysis is not be distorted by payments delayed because the payment date is a holiday.*

Loans and advances to the public with past due unpaid amounts but without individual provisions

SEK 000s	2008 Retail market: Single-family dwellings and holiday homes	Retail market: Tenant-owner rights	Corporate market: Tenant-owner associations	Corporate market: Private multi-family dwellings	Corporate market: Municipal multi-family dwellings	Corporate market: Commercial properties
5-30 days past due [1]						
Past due amortisation	1,036	1,031	15,445	16	–	–
Past due accrued interest	1,149	574	372	140	–	–
Terminated past due principal excl. past due amortisation	–	–	–	–	–	–
Principal not past due	189,610	101,725	95,509	8,626	–	–
Accrued interest not past due	130	54	353	42	–	–
31-60 days past due						
Past due amortisation	–	–	–	–	–	–
Past due accrued interest	–	–	–	–	–	–
Terminated past due principal excl. past due amortisation	–	–	–	–	–	–
Principal not past due	–	–	–	–	–	–
Accrued interest not past due	–	–	–	–	–	–
61-90 days past due						
Past due amortisation	–	–	–	–	–	–
Past due accrued interest	–	–	–	–	–	–
Terminated past due principal excl. past due amortisation	–	–	–	–	–	–
Principal not past due	–	–	–	–	–	–
Accrued interest not past due	–	–	–	–	–	–
>90 days past due						
Past due amortisation	–	–	–	–	–	–
Past due accrued interest	–	–	–	–	–	–
Terminated past due principal excl. past due amortisation	–	–	–	–	–	–
Principal not past due	–	–	–	–	–	–
Accrued interest not past due	–	–	–	–	–	–
Total past due						
Total past due amortisation	1,036	1,031	15,445	16	–	–
Total past due accrued interest	1,149	574	372	140	–	–
Total terminated past due principal excl. past due amortisation	–	–	–	–	–	–
Total principal not past due	189,610	101,725	95,509	8,626	–	–
Total accrued interest not past due	130	54	353	42	–	–
Total lending for loans with past due receivable without provision	190,646	102,756	110,954	8,642	–	–
Value of collateral and guarantees	190,614	102,756	110,877	8,642	–	–

[1] *For the time interval, amounts past due by five days or less are not taken into consideration to ensure that the analysis is not be distorted by payments delayed because the payment date is a holiday.*

Doubtful loan receivables

SEK million	2009 Single-family dwellings and holiday homes	Tenant-owner rights	Tenant-owner associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties
Doubtful loan receivables	–	1	–	1	–	–
Individual provision, corporate market	–	–	–	(1)	–	–
Individual provision, retail market	–	(1)	–	–	–	–
Doubtful loan receivables, net	–	0	–	0	–	–
Estimated value of guarantees	–	–	–	1	–	–
Doubtful loan receivables taking into consideration pledged guarantees	–	–	–	1	–	–
Value of collateral and guarantees	–	0	–	1	–	–

There were no doubtful loan receivables at 31 December 2008

Loans with past due unpaid amounts but without individual provisions

The table describes loans with past due unpaid amounts without individual provisions distributed by past due amortisation, past due accrued interest and principal for which notice of termination was given. Furthermore, for the sake of completeness, principal and accrued interest not yet past due are also stated for these loans. All amounts are allocated to lending segments. For loans with past due amounts in several time intervals, the part not past due is, where relevant, shown in the oldest time interval. In the case of the first time interval, SCBC has decided not to take into consideration amounts past due by five days or less so that the analysis is not distorted by payments delayed because the payment date is a holiday.

At the end of 2009, 99.9% (99.7) of lending had no past due unpaid amounts and was not assessed as doubtful. As in 2008, SCBC's loan portfolio of SEK 173 billion (158) included no past due capital receivables for which notice of termination has been given, excluding past due amounts from 2009, which was because the Parent Company buys back loans that are more than 30 days past due.

Loans with individual provisions

Doubtful loan receivables are those for which a provision has been made on the basis of an individual risk assessment. Doubtful loan receivables amounted to SEK 2 million (0), of which loans for tenant-owner rights accounted for SEK 1 million and loans for private multi-family dwellings for SEK 1 million.

Renegotiated loans

Restructured receivables entail that the borrower has been granted some form of concession due to deterioration of his/her financial position or because he/she has encountered other financial problems. After the loans have been restructured, they are considered satisfactory on the basis of the new terms.

Recognised value of renegotiated loans by borrower category

Recognised value of financial assets which would otherwise have been reported as past due or impaired and whose terms have been renegotiated.

SEK million	2009	2008
Single-family dwellings and holiday homes	5	9
Tenant-owner rights	1	1
Tenant-owner associations	2	–
Private properties	–	–
Municipal properties	–	–
Commercial properties	–	–
Total	**8**	**10**

Restructuring of a loan receivable may entail

a) that the terms of the loan are modified by terms which are not commercial,

b) that the borrower partly repays the loan by handing over various assets

c) that the borrower agrees to convert part of the loan receivable into an ownership share, or

d) that the borrower is replaced or supplemented by a new borrower.

Credit risk in the finance operations

In the finance operations, credit risk arises in the form of counterparty risks for the derivative contracts entered into by SCBC to handle the company's risks.

Counterparty risks

Counterparty risks comprise exposures to leading banks and the Parent Company and are covered exclusively by unilateral collateral agreements for which the counterparty provides collateral to reduce the exposure, known as Credit Support Annexes "CSAs".

In accordance with the finance instructions, the credit-risk limit is established by the SBAB Group's Finance

Counterparty risks

SEK million	2009		2008	
Rating category	Limit	Utilised limit	Limit	Utilised limit
AAA	–	–	–	–
AA– till AA+	2,690	558	3,647	1,102
A– till A+	1,762	823	3,290	2,334
Below A–	–	–	–	–
Unrated	–	–	–	–
Total	**4,452**	**1,381**	**6,937**	**3,436**

The table shows the utilised limit and the limit respectively, at an aggregated level per rating category for SCBC's counterparties, with each counterparty placed in relation to its lowest rating, and serves as a summary of the external derivative instruments that SCBC had entered into at 31 December 2009. At Group level, limits are set for all investments (excluding the liquidity portfolio), derivative financial instruments and repo contracts. In accordance with the financial instructions, limits are set by SBAB's Finance Committee within the scope of the rating-related framework established by the Parent Company's Board. Utilised limits are calculated as the market value of derivative financial instruments, repo contracts and investments. For counterparties who are also loan customers, the limit is to be coordinated with the credit limit. The limit can be established for a period of time of at most a year before a new consideration must be made. The decisions of the Finance Committee are to be reported to the Board at the following Board meeting. For all of SCBC's counterparties, unilateral collateral agreements are formulated.

Fixed-rate interest terms for financial assets and liabilities

Carrying amount	2009							2008						
SEK million	Without fixed-rate interest term	< 3 months	3-6 months	6-12 months	1-5 years	>5 years	Total	Without fixed-rate-interest term	< 3 months	3-6 months	6-12 months	1-5 years	>5 years	Total
ASSETS														
Loans and advances to credit institutions	53	9,919	–	–	–	–	9,972	96	5,439	–	–	–	–	5,535
Loans and advances to the public	–	99,196	11,794	8,203	47,911	6,267	173,371	–	71,825	7,118	13,780	57,483	7,586	157,792
Changes in fair value of hedged loan receivables	–	851	670	1,133	1,216	(909)	2,961	–	1,415	876	1,406	1,886	(1,015)	4,568
Derivative instruments	–	(144,161)	28,243	13,364	102,291	11,165	10,901	–	(118,690)	–	21,034	109,151	3,250	14,745
Other assets	852	–	–	–	–	–	852	1,671	–	–	–	–	–	1,671
Total financial assets	**905**	**(34,195)**	**40,708**	**22,699**	**151,417**	**16,523**	**198,057**	**1,767**	**(40,011)**	**7,994**	**36,220**	**168,520**	**9,821**	**184,311**
LIABILITIES														
Liabilities to credit institutions	–	14,625	–	–	–	–	14,625	–	15,284	5,345	–	–	–	20,629
Debt securities in issue	–	17,660	10,491	13,043	85,790	12,979	139,963	–	3,035	–	20,713	99,139	3,691	126,578
Derivative instruments	–	(107,558)	33,955	9,369	64,647	3,646	4,059	–	(95,544)	9,755	15,211	67,439	7,159	4,020
Other liabilities	3,224	–	–	–	–	–	3,224	4,410	–	–	–	–	–	4,410
Subordinated liabilities	(551)	27,177	–	–	–	–	26,626	(668)	20,094	–	–	–	–	19,426
Total financial liabilities	**2,673**	**(48,097)**	**44,446**	**22,412**	**150,437**	**16,625**	**188,497**	**3,742**	**(57,131)**	**15,100**	**35,924**	**166,578**	**10,850**	**175,063**
Difference between assets and liabilities	(1,768)	13,902	(3,739)	287	980	(101)	9,560	(1,975)	17,120	(7,106)	296	1,942	(1,029)	9,248

Committee for all counterparties to finance operations, with the exception of the Government of Sweden and companies included in the SBAB Group, for which no limits are placed on exposure. The exposure amount for the counterparty risk is calculated in accordance with the "market valuation method" and "agreements on netting of derivative contracts". The credit-risk limit may be established for a period of no longer than one year, following which a new assessment must be conducted.

Market risk

Market risk is the risk that unfavourable market fluctuations may negatively affect the company's earnings. SCBC shall be characterised by low risk-taking, and the SBAB Group's Board decides ultimately on methods for risk measurement and limits. Market risk is monitored at the Group level and, through daily reporting, the Risk Department monitors current risk levels and compliance with limits.

Interest rate risk

Interest rate risk arises primarily when the interest rate structure between the company's funding and lending, Asset and Liability Management Risk (ALM risk) is not fully matched. SCBC's interest rate structure as at 31 December 2009 is shown in the table Fixed-interest terms for financial assets and liabilities. The main principle is that all interest rate risk in SCBC be hedged directly. Accordingly, at SCBC, interest rate risk arises only to a limited extent. SCBC does not conduct trading operations.

The interest rate risk limits set by the Parent Company's Board for the Group also include SCBC and are allocated to an operational and a strategic component, both of which are managed at Group level. As at 31 December 2009, the operational interest rate risk exposure of the SBAB Group was a negative SEK 43 million (negative: 77), compared with the limit set by the Parent Company's Board of +/– SEK 109 million. At the same date, the strategic interest rate risk exposure was a positive SEK 12 million (11), which was within the confines of the approved target value set by the Parent Company's Board of +/– SEK 20 million.

The interest rate risk is quantified continuously through sensitivity analysis of the portfolio's change in value in the event of a parallel shift of the yield curve upward by one percentage point and through measurements of Value at Risk (VaR). The VaR model used is a parametric model with risk measures based on an assumption of normally distributed standard deviations, calculated by variance/co-variance matrices for the risk factors included. A unilateral 99.97% confidence interval and a risk settlement period of one year are applied. The change in the value of the portfolio resulting from a parallel shift in the yield curve is used for setting and following up limits, while the VaR result is included in the model for economic capital. The calculation takes into account all contracted transaction flows affecting lending, the liability book and derivatives.

Currency risk

Currency risk means the risk of changes in the Swedish krona's exchange rate in relation to other currencies leading to deterioration in profitability.

All of SCBC's funding in foreign currency is translated to and hedged in Swedish krona through the derivative market.

Liquidity risk

Liquidity risk is defined as the risk of not being able to meet payment obligations in connection with due dates without the related cost increasing significantly.

Since the credit turbulence broke out in 2007, there has been a strong focus throughout the financial sector on liquidity risk management, which for SCBC's part is managed at Group level. The Group has long understood the importance of advanced liquidity risk management.

SCBC has entered into an agreement with the Parent Company SBAB concerning a liquidity facility. The purpose of this agreement is to enable SCBC to borrow funds from SBAB in the event that SCBC is not able to pay its own bond holders when SCBC's bonds mature.

During 2009, liquidity in money and capital markets improved steadily. Liquidity risk is a high-priority issue within the SBAB Group and a conservative approach continues to be applied to its management.

Funding risk

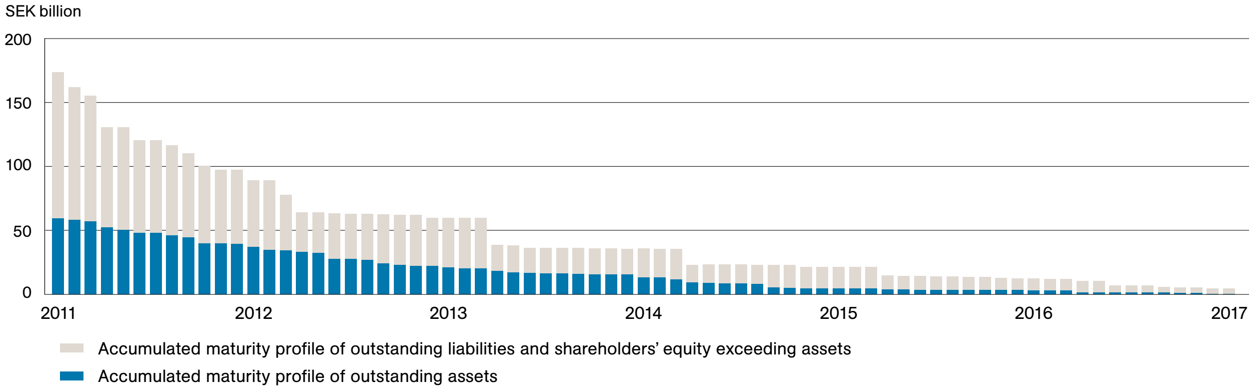
The SBAB Group generally endeavours to achieve maturity periods for funding that are at least as long as the maturity of capital tied up in assets. Funding risk is an expression of deviations from complete matching. SCBC's funding risk is managed at Group level and is calculated on the basis of a possible future liquidity deficit and as the cost for achieving risk neutrality in the form of a completely maturity-matched balance sheet.

The Group's calculation of funding risk is based on all contracted capital amounts with a remaining maturity exceeding one year. This calculation supplements the Group's use of the liquidity risk model, which covers the interval up to one year. In the funding risk model, equity is calculated as having the same maturity as the Group's longest lending assets.

Since the start of the financial crisis, SBAB has adopted a more conservative approach to management of the funding risk than in the past, whereby coming maturities have been prefinanced, the portion of short-term funding reduced and the liability extended. Average maturities for funding are now longer than those for assets.

The tables "Maturities for financial assets and liabilities" and "Derivative Cash Flow Statement" show how SCBC's future cash flows appeared as at 31 December 2009 and 31 December 2008 respectively, both in the short- and long-term perspective.

Future surplus liquidity, one year and onward, the Group



Assets and liabilities plus equity from one year and onward, as at 31 December 2009. The graph shows that SCBC has longer liabilities and equity than assets and therefore does not lack future funding for existing assets.

Maturities for financial assets and liabilities

Amounts refer to contracted, undiscounted cash flows.

	2009							2008						
SEK million	Without maturity	< 3 months	3-6 months	6-12 months	1-5 years	>5 years	Total	Without maturity	< 3 months	3-6 months	6-12 months	1-5 years	>5 years	Total
ASSETS														
Lending to credit institutions	56	9,917	–	–	–	–	9,973	100	5,437	–	–	–	–	5,537
Lending to the public	–	21,450	36,365	59,466	57,713	7,044	182,038	–	20,484	24,697	52,256	63,076	8,262	168,775
Derivative instruments	–	109,127	19,724	23,359	83,285	16,754	252,249	–	69,517	12,234	33,219	119,538	13,776	248,284
Other assets	852	–	–	–	–	–	852	1,671	–	–	–	–	–	1,671
Total financial assets	**908**	**140,494**	**56,089**	**82,825**	**140,998**	**23,798**	**445,112**	**1,771**	**95,438**	**36,931**	**85,475**	**182,614**	**22,038**	**424,267**
LIABILITIES														
Liabilities to credit institutions	–	14,625	–	–	–	–	14,625	9,090	6,196	5,474	–	–	–	20,760
Debt securities in issue	–	13,171	13,880	14,111	96,995	13,792	151,949	–	497	2,353	24,446	105,125	4,578	136,999
Derivative instruments	–	108,210	17,780	22,466	80,068	16,988	245,512	–	71,190	11,136	30,255	110,512	14,146	237,239
Other liabilities	3,224	–	–	–	–	–	3,224	4,410	–	–	–	–	–	4,410
Subordinated debt	26,626	–	–	–	–	–	26,626	19,426	–	–	–	–	–	19,426
Total financial liabilities	**29,850**	**136,006**	**31,660**	**36,577**	**177,063**	**30,780**	**441,936**	**32,926**	**77,883**	**18,963**	**54,701**	**215,637**	**18,724**	**418,834**

For receivables and liabilities that are amortised, the fixed-interest term for amortisations was calculated as the period from the due date for the respective amortisation.

Operational risk

Operational risk means the risk of losses due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events. The definition includes legal risk.

SCBC uses the standardised method to assess capital requirements for operational risk. This method entails that the capital requirement is based on 12-18% of the average operating income of the business areas for the past three years. To be permitted to use the standardised method, SBAB must fulfil the requirements for documentation, processes and structures stipulated in the regulations, such as:

- established control documents
- process for managing operational risks
- contingency plans and continuity plans
- internal reporting structure
- method for allocating operating income among business areas.

SBAB uses the Opera model to manage operational risk. The model is based on self-evaluation of operational risks for established processes and on incident reporting. The results of the self-evaluation are reported annually and any incidents that occur are reported periodically to the Board of Directors and senior executives.

During the year, a mapping of significant processes and risks associated with the financial reporting system was implemented in order to assure their quality.

Business risk

Business risk means the risk of declining earnings due to more difficult competitive conditions.

Business risk is allocated to two main groups: new business and existing business. Business risk is included in the calculation of the capital requirement on the

The SBAB Group's economic capital allocated by risk type

	2009	2008
Economic capital, SEK M	5,763	4,896
Of which		
Credit risk	73%	71%
Market risk	20%	25%
Business risk	3%	3%
Operational risk	4%	1%

Derivative Cash Flow Statement

Amounts refer to contracted, undiscounted cash flows.

	2009						2008					
SEK million	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total	Up to 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
DERIVATIVES SETTLED ON A NET BASIS												
Currency-related derivatives	–	–	–	–	–	–	–	–	–	–	–	–
Interest rate-related derivatives	(293)	(587)	1,590	961	(642)	1,029	(1,119)	(906)	1,197	1,195	(646)	(279)
Total derivatives settled on a net basis	**(293)**	**(587)**	**1,590**	**961**	**(642)**	**1,029**	**(1,119)**	**(906)**	**1,197**	**1,195**	**(646)**	**(279)**
DERIVATIVES SETTLED ON A GROSS BASIS												
Currency-related derivatives												
– Inflows of cash	2,011	12,142	13,794	23,470	9,498	60,915	356	594	17,024	50,227	4,285	72,486
– Outflows of cash	(1,843)	(10,513)	(12,548)	(21,214)	(9,090)	(55,208)	(260)	(340)	(14,158)	(42,396)	(4,009)	(61,163)
Interest rate-related derivatives												
– Inflows of cash	–	–	–	–	–	–	–	–	–	–	–	–
– Outflows of cash	–	–	–	–	–	–	–	–	–	–	–	–
Inflows total	**2,011**	**12,142**	**13,794**	**23,470**	**9,498**	**60,915**	**356**	**594**	**17,024**	**50,227**	**4,285**	**72,486**
Outflows total	**(1,843)**	**(10,513)**	**(12,548)**	**(21,214)**	**(9,090)**	**(55,208)**	**(260)**	**(340)**	**(14,158)**	**(42,396)**	**(4,009)**	**(61,163)**

Foreign currency flows were converted at the closing rate as at 31 December 2009. Future interest rate flows for assets and liabilities with floating interest rates were estimated up to the stipulated term of expiry with the aid of forward/forward interest rates based on the actual interest base, usually the three-month STIBOR.

basis of economic capital with the aid of a standardised method, which is based on the business areas' operating expenses.

Concentration risk

SBAB defines concentration risk as "if the same underlying factor realises the risk" in combination with the fact that the concentration must be regarded as risky. In 2009, the SBAB Group developed a model designed to manage concentration risks. Requisite capital has been allocated to counter the concentration risks that arise from the business operations.

SBAB's operations primarily concentrate on the Swedish property market, which gives rise to a slight concentration risk from a sector perspective and from a geographical perspective.

Large exposures, meaning borrower concentrations, are dealt with on the basis of the SBAB Group's credit directives. The loans concerned are identified, checked and monitored to ensure that they fall within the statutory framework for large exposures.

Internal capital evaluation, Basel Committee's Pillar II

The purpose of the internal capital evaluation process is to ensure that the SBAB Group identifies, values, secures and handles the risks to which it is exposed and that the SBAB Group has risk capital that is compatible with the selected risk profile. The process is revised annually to capture changes in the operating environment that continuously affect the SBAB Group performance.

The risk capital required to counter the combined risk in the SBAB Group's operations is calculated at Group level. This calculation is mainly based on the calculation of the Group's economic capital. A qualitative assessment is also made of the risks that are not included in the calculation of economic capital. In ad-

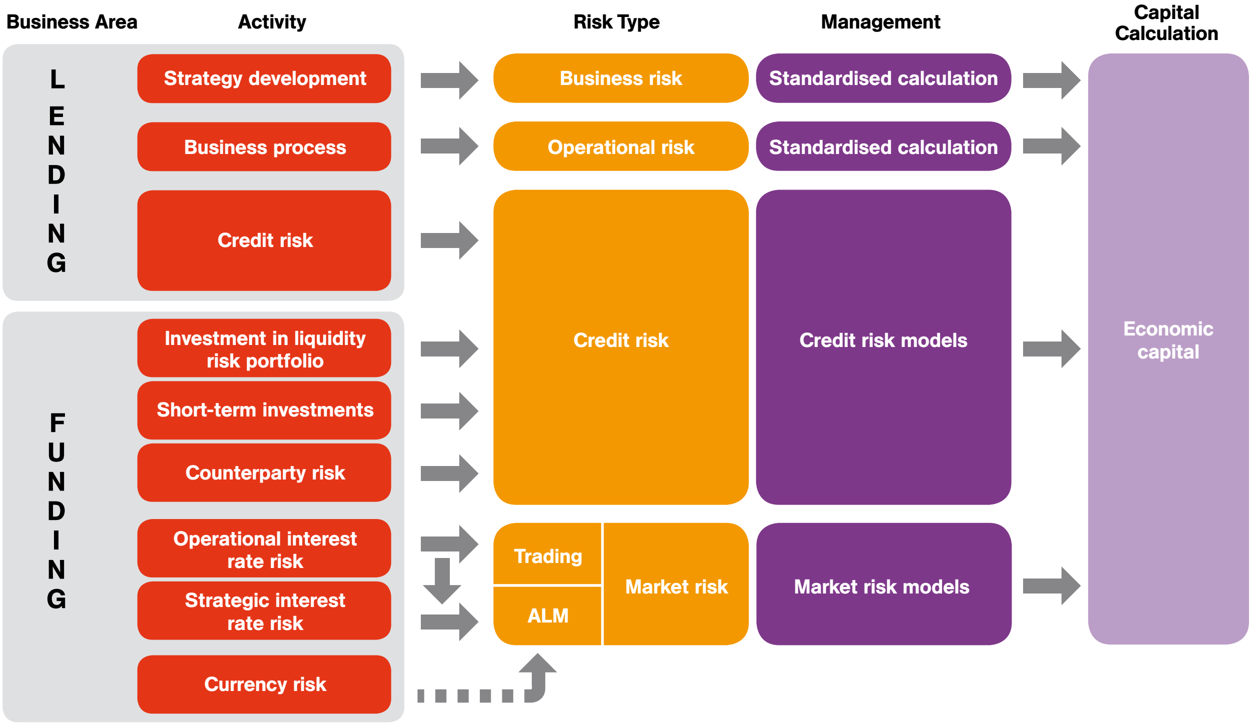
Capital base

SEK million	2009	2008
Primary capital		
Equity	50	50
Profit/loss for the year	(218)	(938)
Primary capital contribution	(217)	720
Minority interest	9,550	8,350
Total primary capital gross	**9,165**	**8,182**
Less other intangible assets		-
Less deferred tax assets	(55)	(135)
Deductions in accordance with Chapter 3, Section 8 of the Capital Adequacy Act	(117)	(676)
Total primary capital net	**8,993**	**7,371**
Supplementary capital		
Perpetual subordinated debentures	–	–
Time-limited subordinated debentures	–	–
Deductions in accordance with Chapter 3, Section 8 of the Capital Adequacy Act	–	–
Total supplementary capital	**8,993**	**7,371**
Expanded part of capital base	–	–
Deduction from entire capital base	–	–
Amount for capital base net after deductible items and limit value	**8,993**	**7,371**

Capital requirements

SEK million	2009	2008
Credit risk reported in accordance with IRB method		
– Corporate exposures	1,478	1,201
– Retail exposures	461	419
Total credit risk in accordance with IRB method	**1,939**	**1,620**
Credit risk reported in accordance with standardised method		
– Exposures to governments and central banks	0	0
– Exposures to municipalities and comparable associations	0	0
– Institutional exposures	92	931
– Corporate exposures	3	50
– Retail exposures	2	3
– Unregulated items	0	0
– Other items	1	2
Total credit risk in accordance with standardised method	**98**	**986**
Risks in the commercial portfolio	**–**	**–**
Operational risk	**137**	**97**
Currency risk	**–**	**–**
Commodity risk	**–**	**–**
Total minimum capital requirement	**2,174**	**2,703**
Addition during transitional period	4,287	3,180
Capital requirement including addition	**6,461**	**5,883**

Comprehensive process for calculation of economic capital



dition, the risk linked to extraordinary events, which is illustrated in conjunction with stress tests, is taken into account. Finally, the risk capital is supplemented with an extra buffer capital.

Taken together, the calculated risk capital comprises the capital that is desirable to meet all risks in the SBAB Group's operations. At 31 December 2009, internally calculated capital requirements amounted to SEK 6,939 million (5,986). The comparative figure at 31 December 2008 has been reduced by SEK 34 million due to an adjustment of the size of the buffer capital. The increase resulted predominantly from the increase in the loan portfolio.

Economic capital

Economic capital comprises the capital that, according to assessment, is required to cover unexpected losses during the coming year. Expected losses shall be covered by earnings from operating activities. The assessment of economic capital takes into account credit risk, market risk, operational risk and business risk. Credit risk is the dominant risk in the SBAB Group's operations. The levels reflect diversification effects, meaning that the risk has been reduced by taking into account the probability that several risks will be realised simultaneously.

To a substantial extent, the economic capital model is based on the result of the Group's IRB models for quantification of credit risk. In addition to comprising an assessment of the combined capital requirement to counter the risks in the company's operations, the economic capital model is also used to monitor profitability in the company's operations, for economic control and for strategic considerations.

Stress tests

To ensure that the economic capital can also cover unexpected losses in economic conditions that are worse than today's, stress tests and scenario analyses are conducted on the basis of a number of selected variables at Group level. Particular weight is placed on the interest rate trend and market price changes pertaining to properties. Stress tests are based on two main scenarios. The first, a downturn scenario, is based on the trends seen in 1992–1994, while the second is based on the current time period and is a flexible scenario. The latter illustrates the effects of the SBAB Group's future outlook. Although the essential purpose of the tests is to indicate the need for the supply of capital, the effects on the Group's earnings trend are also illustrated.

Implemented stress tests show that, in the event of a significant economic decline, the greatest changes take place among risk classes in the superior segments, while the poorest segments are not affected to the same extent. This is explained by the fact that more borrowers have ended up representing an increasingly lower credit risk viewed over a ten-year period, due in part to a gradual reduction in interest rates. In a recessionary scenario, a corresponding shift between the risk classes occurs but in the opposite direction, meaning towards the inferior risk classes.

Capital adequacy

SCBC reports credit risk mainly in accordance with the internal rating based (IRB) method, and reports operational and market risk in accordance with the standardised method. Taking into account the transitional regulations, the capital ratio at 31 December 2009 was 1.39 (1.25), while capital adequacy and the primary capital ratio amounted to 11.1% (10.0). After full implementation of Basel II, without taking the transitional regulations into account, capital adequacy and the primary capital ratio amounted to 33.1% (21.8) at 31 December 2009. In accordance with the original plan, the transitional regulations were to cease during 2010. According to new rules issued by the Swedish Financial Supervisory Authority, Basel II will not be fully implemented until after the close of 2011, which has a major impact on SCBC's reported capital adequacy and the primary capital ratio. Earnings for the year are included in the calculation of the capital base and primary capital. The figures for 31 December 2009 do not include the dividend paid to shareholders, which is in line with the Board of Directors' proposal for the appropriation of profits.

There are no ongoing or anticipated material obstacles or legal barriers to a rapid transfer of funds from the capital base other than those that ensue from the terms for the subordinated debentures (see Note 19) or what generally arises from the Companies Act.

Capital adequacy

SEK million	2009	2008
Primary capital	8,993	7,371
Total capital	8,993	7,371
With transitional regulations		
Risk-weighted assets	80,760	73,535
Primary capital ratio	11.1%	10.0%
Capital adequacy	11.1%	10.0%
Capital ratio	1.39	1.25
Without transitional regulations		
Risk-weighted assets	27,172	33,783
Primary capital ratio	33.1%	21.8%
Capital adequacy	33.1%	21.8%
Capital ratio	4.14	2.73

Income Statement

SEK million	Note	2009	2008
Interest income	1	3,445	8,006
Interest expense	1	(2,632)	(7,209)
Net interest income		**813**	**797**
Commission income	2	9	11
Commission expense	2	(68)	(16)
Net income/expense from financial instruments measured at fair value	3	(580)	636
Other operating income		1	0
Total operating income		**175**	**1 428**
General administrative expenses	4	(444)	(398)
Other operating expenses		(1)	(1)
Total expenses before loan losses		**(445)**	**(399)**
Profit/loss before loan losses		**(270)**	**1,029**
Loan losses, net	5	(25)	(17)
Operating profit/loss		**(295)**	**1,012**
Income tax	6	78	(292)
Profit/loss for the year		**(217)**	**720**

Statement of Comprehensive Income

SEK million	2009	2008
Profit/loss for the year	**(217)**	**720**
Revenues/expenses recognised directly in equity	–	–
Other comprehensive income during the year, after tax	**–**	**–**
Total comprehensive income during the year	**(217)**	**720**

In accordance with FFFS 2008:25, recognition of other comprehensive income is not mandatory for 2009. SCBC has elected to recognise comprehensive income in advance in two statements, as above.

Balance Sheet

SEK million	Note	2009	2008
ASSETS			
Loans and advances to credit institutions	7	9,972	5,535
Loans and advances to the public	8	173,371	157,792
Change in fair value of hedged loan receivables		2,961	4,568
Derivative financial instruments	9	10,901	14,745
Deferred tax assets	18	55	135
Other assets	12	638	1,382
Prepaid expenses and accrued income	13	214	289
TOTAL ASSETS		**198,112**	**184,446**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	14	14,625	20,629
Debt securities in issue	15	139,963	126,578
Derivative instruments	9	4,059	4,020
Other liabilities	16	18	1,629
Accrued expenses and prepaid income	17	3,206	2,782
Deferred tax liabilities	18	–	–
Subordinated debt to Parent Company	19	26,626	19,426
Total liabilities		**188,497**	**175,064**
Equity			
Share capital		50	50
Shareholder contribution		9,550	9,550
Retained earnings		232	(938)
Profit/loss for the year		(217)	720
Total equity	20	9,615	**9,382**
TOTAL LIABILITIES AND EQUITY		**198,112**	**184,446**
OFF-BALANCE SHEET ITEMS			
Assets pledged for own liabilities	21	173,215	153,105
Other assets pledged		None	None
Contingent liabilities		None	None
Commitments		None	None

Statement of Changes in Equity

SEK million	Restricted equity Share capital	Non-restricted equity Shareholder contribution	Retained earnings	Total equity
OPENING BALANCE, 1 JAN 2009	**50**	**9,550**	**(218)**	**9,382**
Group contribution received from the Parent Company, after tax			450	450
Profit/loss for the year			(217)	(217)
CLOSING BALANCE, 31 DEC 2009	**50**	**9,550**	**15**	**9,615**

SEK million	Restricted equity Share capital	Non-restricted equity Shareholder contribution	Retained earnings	Total equity
OPENING BALANCE, 1 JAN 2008	**50**	**5,150**	**622**	**5,822**
Shareholder contribution		4,400		4,400
Dividend to Parent Company			(408)	(408)
Group contribution provided to the Parent Company, after tax			(1,152)	(1,152)
Profit/loss for the year			720	720
CLOSING BALANCE, 31 DEC 2008	**50**	**9,550**	**(218)**	**9,382**

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

Cash Flow Statement

SEK million	2009	2008
Cash and cash equivalents at the beginning of the year	**5,535**	**7,015**
OPERATING ACTIVITIES		
Interest received	3,541	8,077
Commission received	36	12
Interest paid	(3,025)	(6,469)
Commission paid	(39)	(11)
Realised changes in value	(173)	131
Payments to suppliers	(480)	(323)
Income taxes paid	101	(164)
Change in subordinated debt	7,208	3,928
Change in loans and advances to the public	(15,602)	(29,600)
Changes in loans and advances to credit institutions	(6,004)	12,194
Issue of long-term debt securities	69,899	45,886
Repayment of long-term debt securities	(50,470)	(38,835)
Change in other assets and liabilities	(155)	902
Cash flow from operating activities	**4,837**	**(4,272)**
INVESTING ACTIVITIES		
Cash flow from investing activities	**–**	**–**
FUNDING ACTIVITIES		
Dividend paid	–	(408)
Shareholder contribution provided	(1,600)	–
Shareholder contribution received from Parent Company	1,200	3,200
Cash flow from funding activities	**(400)**	**2,792**
Increase/decrease in cash and cash equivalents	**4,437**	**(1,480)**
Cash and cash equivalents at year-end	**9,972**	**5,535**

Cash and cash equivalents are defined as loans and advances to credit institutions with a maturity not later than three months from the acquisition date.

Accounting Policies

The Swedish Covered Bond Corporation, SCBC, is a wholly owned subsidiary of The Swedish Housing Finance Corporation, SBAB. SCBC is a credit market company whose operations focus on the issuance of covered bonds. Its operations began in 2006 when the company received a licence from the Swedish Financial Supervisory Authority to issue covered bonds. The Parent Company, SBAB is a limited liability company that is registered in Stockholm County, Stockholm Municipality, which is also where the Board of Directors has its registered office. The address of the Head Office is the Swedish Housing Finance Corporation (SBAB), Box 27 308, SE-102 54 Stockholm.

This annual report has been prepared in accordance with the Act concerning Credit Institutions and Securities Companies (ÅRKL). SCBC applies statutory IFRS, which means that the annual report has been prepared in compliance with IFRS subject to the additions and exceptions that ensue from the Swedish Financial Reporting Council's recommendation RFR 2.2, Accounting for Legal Entities, and SFSA's regulations and general guidelines on annual reports in credit institutions and securities companies undertakings (FFFS 2008:25). The annual report has been prepared in accordance with the acquisition method, apart from derivative instruments and financial assets and liabilities at fair value through profit or loss.

On 15 March 2010, the Board of Directors approved the financial statements for publication. They will receive final approval from the Annual General Meeting of Shareholders on 20 April 2010.

Changed and new accounting policies in 2009

- IFRS 7 Financial Instruments: Disclosures
  Applicable as of 1 January 2009. For SCBC, the amendment requires expanded information about fair value measurement and liquidity risk. The amendment primarily requires measurement at fair value to be provided per tier in the following measurement hierarchy: prices quoted on active markets, other observable market data and non-observable market data.
- IFRS 8 Operating Segments
  The standard addresses the division of a company's operations into different segments. According to IFRS 8, an operating segment is a part of a company that generates income and expenses. It must have independent financial information available and operating results must be examined regularly and followed up by the company's senior executive decision-maker. SCBC's operations are followed up at an overall level, since they mainly comprise loan receivables with a risk level that enables the issuance of covered bonds. As a result of this, the operations are reported as a single operating segment, SCBC as a whole, which complies with the previous application of IAS 14.
- IAS 1 Presentation of Financial Statements
  In accordance with IAS 1, income and expenses items are to be reported in two financial statements: an income statement and a statement of comprehensive income. The statement of comprehensive income includes comprehensive income plus other comprehensive income, which comprises income and expenses from transactions which, up to the 2008 final accounts, had been recognised directly in shareholders' equity. SCBC only engages in transactions with the company's shareholders, which are recognised in the statement of changes in shareholders' equity.

Implementation of new accounting standards

IFRS 9 Financial Instruments

This standard presents new requirements concerning classification and measurement of financial assets and liabilities. The aim is that IFRS 9 will replace IAS 39 in its entirety. Although the standard is not mandatory until 1 January 2013, premature application is permissible. However, IFRS 9 has not yet been adopted by the EU. SCBC has yet to evaluate how the amendment will affect the presentation of the company's financial statements. SCBC is awaiting decisions on other features of IFRS 9 prior to making such an evaluation.

General accounting policies

Recognition and derecognition in the balance sheet

Issued and purchased securities, including all derivative financial instruments, are recognised on the trade date, meaning the date on which the significant risks and contractual rights are transferred between the parties. Other financial instruments are recognised on the settlement date.

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire and the company has transferred essentially all of the risks and rewards of ownership of the financial asset. A financial liability is derecognised when it is extinguished, meaning when the obligation specified in the contract is discharged, cancelled or expires.

Recognition of income and expense

Interest income and interest expense (including interest income from impaired receivables) are recognised in accordance with the compounded interest method. The calculation of the compounded interest rate includes all fees paid or received between parties to the contract, including transaction expenses.

Since transaction costs in the form of sales commissions to business partners or issue expenses attributable to acquisition of loans constitute part of the acquisition cost of the loan, these costs are recognised in the balance sheet and included in profit and loss via net interest income over the expected life of the loan.

Commission income and commission expense are included in profit and loss continuously in accordance with the terms of the contract.

In the event of premature redemption of loans, the customer pays an early redemption fee intended to cover the cost that arises for SCBC. This fee is recognised as income directly under the heading Net income from financial instruments measured at fair value. Other items under this heading are described in the section Financial instruments.

Financial instruments

Classification

All financial instruments that are covered by IAS are classified in accordance with this standard in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Financial liabilities at fair value through profit or loss
- Other financial liabilities

SCBC has not classified any assets as "Held-to-maturity investments" or as "Available-for-sale financial assets".

Measurement of fair value

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Measurement of the fair value of financial instruments measured at fair value and quoted on an active market is based on quoted prices. If the market for a financial instrument is not active, the fair value is established on the basis of generally accepted valuation techniques. Calculations conducted in connection with measurement are based to the greatest extent possible on observable market information. In individual cases, the calculations may also be based on assumptions or estimates.

Financial assets/financial liabilities at fair value through profit or loss

The categories "Financial assets/liabilities at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss" are divided into available-for-sale holdings and into financial assets/liabilities that executive management designated as such upon initial recognition. All of SCBC's assets and liabilities in these categories are classified as held for trading. Each of these categories includes derivatives that are not subject to hedge accounting. Assets in this category are initially recognised at fair value, while related transaction expenses are recognised in profit and loss.

Changes in fair value and realised gains or losses for these assets are recognised directly in profit and loss under the heading "Net income from financial instruments measured at fair value", while interest accrued and received is recognised as interest income.

Loans and receivables

Financial assets classified as loan receivables and accounts receivable are recognised at acquisition value at the date of transfer. Loans and receivables are subsequently measured at amortised cost using the compounded interest method. This category consists of assets with fixed or determinable payments that are not quoted in an active market. Loan receivables consist of lending to customers and credit institutions and include associated items.

Changes in fair value and impairment losses are recognised as "Loan losses, net", while interest accrued and received is recognised as interest income. Also refer to the paragraph "Loan losses" on page 35.

Other financial liabilities

Financial liabilities that are not classified as "Liabilities at fair value through profit or loss" are initially recognised at fair value with an addition for transaction expenses and are subsequently measured at amortised cost using the compounded interest method. This category consists mainly of debt securities in issue and liabilities to credit institutions.

Realised profit or loss from repurchase of own liabilities affects profit or loss when incurred and is recognised under the heading "Net income from financial instruments measured at fair value".

Repurchase agreements

Repurchase agreements, referred to as repos, are agreements where the parties have simultaneously reached agreement on sale and repurchase of a particular security at a pre-determined price. Securities that have been provided or received according to a repo agreement are retained or are not recognised in the balance sheet, respectively.

Payments received are recognised in the balance sheet as liabilities to credit institutions and payments made are recognised as loans and advances to credit institutions. The impact on profit or loss is attributable to the difference between sale and repurchase prices and is recognised in net interest income.

Derivative instruments and hedge accounting

Derivative instruments are used primarily to eliminate interest rate and currency risk in the company's assets and liabilities. Derivative financial instruments are recognised at fair value in the balance sheet.

For hedging relationships where the risks for significant fluctuation in gain or loss are greatest and that meet the formal hedge accounting criteria, SCBC has chosen to apply hedge accounting for hedging of the interest rate and currency risk. The method applied by SCBC is fair value hedging; see below.

There are also other economic hedges for which hedge accounting is not applied. These derivative instruments that are not subject to hedge accounting are classified as assets or liabilities, respectively, at fair value through profit or loss.

Fair value hedge

In the case of a fair value hedge, the derivative hedging instrument is measured at fair value at the same time as the hedged asset or liability is valued with an addition for accumulated changes in fair value attributable to the hedged risk associated with the hedged item. Changes in fair value are recognised directly in profit and loss under the heading "Net income from financial instruments measured at fair value". Interest paid and accrued is recognised in net interest income.

When hedging relationships are discontinued, the cumulative gains or losses are accrued adjusting the carrying amount of the hedged item in profit and loss in accordance with the compounded interest method. The accrual extends over the remaining life of the hedged item. The realised gain or loss that is attributable to premature closing of a hedging instrument is recognised in profit or loss under the heading "Net income from financial instruments measured at fair value".

Macro hedge

In this type of hedge, derivative financial instruments are used at an aggregated level to hedge structured interest rate risks. When reporting these transactions, the "carve-out" version of IAS 39 is applied, as adopted by the EU. In the accounts, derivative instruments designated as macro hedges are treated in the same way as other hedging instruments recognised at fair value.

In fair value hedging of portfolios of assets, the gain or loss attributable to the hedged risk is recognised under the heading "Fair value adjustment of interest rate hedged loan receivables" in the balance sheet. The hedged item is a portfolio of loans and receivables based on the next contractual renewal date. The hedging instrument used is a portfolio of interest rate swaps grouped in accordance with renewal intervals based on conditions in the fixed leg of the swap.

Loan losses

On the balance-sheet date, an assessment takes place of whether there is any objective evidence that an individual loan or group of loans requires impairment. This takes place as a result of events that have occurred after the initial recognition of the asset and which have had an impact on the estimated future cash flows for the loan receivable or group of loan receivables in question. Events that can lead to the loan being impaired include bankruptcy, suspension of payments, a composition or a court order to pay.

The amount of impairment is measured as the difference between the carrying amount of the receivable and the present value of estimated future cash flows discounted at the compounded interest rate of the receivable. The cash flows attributable to the borrower or issuer and any use of the collateral are taken into consideration when assessing the need for impairment. Any expenses associated with selling the collateral are included in the cash flow calculations. Calculation of probable loan losses is effected in gross amounts and, when there is a guarantee, this is recognised as a receivable against the counterparty. If the present value of future cash flows exceeds the carrying amount of the asset, no impairment takes place and the receivable is not regarded as uncertain. The impairment amount is recognised in profit and loss under the heading "Loan losses, net".

Confirmed loan losses and provisions for probable losses, with deductions for guarantees expected to be utilised or that have been utilised plus any recoveries, are recognised as loan losses.

The term "Confirmed loan losses" refers to losses where the amounts are definite or established with a high level of probability.

Individually measured loan receivables

Corporate loans are individually measured for impairment. Retail market loans are individually measured for impairment if there are special reasons for doing so. Loan receivables not determined to be impaired individually are included in the selection of loans collectively measured for impairment.

Collectively measured loan receivables

The loan receivables assessed in this group are as follows:

- Retail market loans not individually measured. These consist of a large number of loans each of an insignificant amount and with similar credit risk characteristics.
- Individually measured loan receivables where no objective evidence of individual impairment requirements has been determined as above, "Individually measured loan receivables".

Impairment of collectively measured loans is identified in two different ways:

- As part of the work on Basel II, statistical models have been produced for use in the internal ratings-based system. Adjusted in accordance with the IFRS regulatory framework, groups of loans, which have been subject to events that produce a measurable negative impact on the expected future cash flows, have been identified.

- In addition, groups of loans are identified for which future cash flows have undergone a measurable deterioration due to events that have recently taken place but which have not yet had an impact in the risk classification system.

Restructured loan receivables

A restructured loan receivable is a receivable on which SCBC has made some form of concession due to a deterioration in the borrower's financial position or because the borrower has become subject to other financial problems. Concessions granted are regarded as a confirmed loan loss. A loan that has been restructured is no longer regarded as doubtful but as a receivable with new conditions.

Miscellaneous

Functional currency

Functional currency is the currency used in the primary economic environments in which SCBC operates. SCBC's functional currency, also its presentation currency, is Swedish kronor.

Foreign currency translation of receivables and liabilities

Foreign currency transactions are recorded by applying the exchange rate on the date of transaction, and foreign currency receivables and liabilities are translated using the closing day rate. Foreign exchange gains or losses resulting from settlements of foreign currency transactions and from translation of monetary assets and liabilities in foreign currency are recognised in profit and loss under "Net income from financial instruments measured at fair value".

Taxes

Total tax consists of current tax and deferred tax. Current tax comprises tax which is to be paid or received for taxable earnings during the current year and adjustments of current taxes for previous years. Accordingly, for items recognised in profit and loss, the related tax effects are also recognised in profit and loss. Tax effects of items recognised in other comprehensive income or in equity are recognised in other comprehensive income or equity.

Deferred tax assets and tax liabilities are calculated according to the balance sheet method on the basis of temporary differences that arise between the carrying amount and the tax base of an asset or liability. Deferred tax assets are recognised for unutilised tax losses to the extent that it is probable that the carryforwards can be used to offset future taxable profit. Deferred taxes are calculated in accordance with the tax rate applicable at the time of taxation.

Cash and cash equivalents

Cash and cash equivalents are defined as loans and advances to credit institutions with a maturity of at most three months from the acquisition date.

Segment reporting

A segment is a line of business or geographical area that is distinguishable for accounting purposes and is subject to risks and opportunities that differ from those of other lines of business and areas.

Since SCBC's operations consist mainly of investments in loan receivables with a risk level that enables the issuance of covered bonds, only one segment is reported, SCBC as a whole.

Dividends

Dividends to the Parent Company are recognised in the balance sheet when they have been approved by the Annual General Meeting.

Group contributions

Group contributions are provided or received in order to minimise the Group's taxes and are recognised as a decrease/increase in unrestricted shareholders' equity after adjustments for estimated tax.

Critical accounting estimates and judgements

Critical estimates

To prepare the annual accounts in compliance with IFRS, it is required that executive management use estimates and judgements based on historical experience and assumptions that are considered to be reasonable and fair. These estimates affect the carrying amounts for assets, liabilities and off-balance sheet commitments as well as revenue and expenses presented in the Annual Report. Subsequently, the actual outcome may differ to some extent from the estimates made.

The area that primarily entails a risk of causing an adjustment to the carrying amounts of assets and liabilities in the next financial year is described below:

- For collectively measured loan receivables, the estimates of future cash flows are based partly on assumptions concerning how observable data may result in loan losses. See also the section Loan losses above.

Significant events after the balance-sheet date

See the earnings section of the administration report on page 11.

Notes

Note 1 Net interest income

SEK million	2009	2008
Interest income		
Loans and advances to credit institutions	37	192
Loans and advances to the public [1]	5,378	7,224
Interest-bearing securities	(1,970)	590
Total	**3,445**	**8,006**
Interest expense		
Liabilities to credit institutions	209	350
Debt securities in issue	2,202	5,712
Subordinated debt	219	1,137
Other	2	10
Total	**2,632**	**7,209**
Net interest income	**813**	**797**

The subordinated debt has been issued by the Parent Company.

[1] *Includes SEK 0.03 million in interest income on uncertain receivables.*

Note 2 Commissions

SEK million	2009	2008
Commission income		
Commission on lending	9	11
Total	**9**	**11**
Commission expense		
Stability fee	28	–
Other commissions	40	16
Total	**68**	**16**
Commissions, net	**(59)**	**(5)**

Note 3 Net income from financial instruments measured at fair value

SEK million	2009	2008
Gains/losses on interest-bearing financial instruments		
– Change in hedged items in hedge accounting	70	(692)
– Realised profit/loss from other financial liabilities included in hedge accounting	(827)	103
– Derivative instruments in hedge accounting	219	918
– Other derivative instruments	(181)	277
– Loan receivables	140	28
Currency translation effects	**(1)**	**2**
Total	**(580)**	**636**

Note 4 General administrative expenses

SEK million	2009	2008
Outsourcing costs	410	375
Management fee	33	22
Other administrative expenses	1	1
Total	**444**	**398**

SCBC has a Managing Director who is in charge of day-to-day management of the company, in consultation with the Parent Company's management. The MD's employment is in the Parent Company but he is also employed by SCBC. The company also has a CFO, who is employed by the Parent Company. The Board consists of the MD and four Board members. No salary or other remuneration is paid to the MD, the CFO or the Board.

SBAB is responsible for the day-to-day administrative services in accordance with the outsourcing agreement between SBAB and SCBC.

Fees and compensation for expenses to auditors
Fees and compensation for expenses to Öhrlings PricewaterhouseCoopers amounted to SEK 0.8 million (1.2), of which the audit cost accounted for SEK 0.5 million.

The audit assignment includes examination of the annual report and accounting records, and the administration by the Board and MD, other tasks devolving upon the company's auditors and advice or other assistance ensuing from observations in the course of such examination or implementation of other such tasks.

Note 5 Loan losses, net

Corporate Market

SEK million	2009	2008
Individual provision, corporate market loans		
This year's write-off for confirmed loan losses	–	0
Reversal of prior year provisions for probable loan losses reported as confirmed loan losses in this year's financial statements	–	–
This year's provision for probable loan losses	–	–
Recoveries in respect of confirmed loan losses in prior years	–	–
Reversal of prior year provisions for probable loan losses no longer required	–	–
Guarantees	–	–
Net cost for the year for individual provisions for corporate market loans	**–**	**0**
Collective provision, corporate market loans		
Allocation/reversal of collective provision	6	(14)
Guarantees	(2)	3
Net cost for the year for collective provisions for corporate market loans	**4**	**(11)**

Retail market

SEK million	2009	2008
Individual provision, retail market loans		
This year's write-off for confirmed loan losses	0	0
Reversal of prior year provisions for probable loan losses reported as confirmed loan losses in this year's financial statements	–	–
This year's provision for probable loan losses	1	–
Recoveries in respect of confirmed loan losses in prior years	–	–
Reversal of prior year provisions for probable loan losses no longer required	–	–
Guarantees	–	–
Net cost for the year for individual provisions for retail market loans	**1**	**0**
Collective provision, retail market loans		
This year's write-off for confirmed loan losses	–	–
Recoveries in respect of confirmed loan losses in prior years	–	–
Allocation/reversal of collective provision	19	22
Guarantees	1	6
Net cost for the year for collective provisions for retail market loans	20	28
This year's net cost/net income for loan losses	25	17

The write-offs for the year regarding confirmed loan losses as specified above relate to receivables from the public.
Refer also to the Risk management section on page 14.

Note 6 Income tax

SEK million	2009	2008
Current tax	(262)	–
Deferred income tax	340	(292)
Total	**78**	**(292)**
The effective tax rate differs from the nominal tax rate in Sweden as below:		
Profit/loss before tax	(295)	1,012
Nominal tax rate in Sweden 26,3% (28)	78	(283)
Recalculation of deferred tax to 26.3%	–	(9)
Tax for previous years and others	0	0
Total tax	**78**	**(292)**
Effective tax rate	26%	29%

Note 7 Loans and advances to credit institutions

SEK million	2009	2008
Lending in Swedish kronor	9,969	5,531
Lending in foreign currency	3	4
Total	**9,972**	**5,535**
of which repos	*9,916*	*5,435*
Receivables outstanding by remaining term, net carrying amount		
Payable on demand	56	100
At most 3 months	9,916	5,435
Longer than 3 months but at most 1 year	–	–
Longer than 1 year but at most 5 years	–	–
Longer than 5 years	–	–
Total credit institutions	**9,972**	**5,535**
Average remaining term, years	0,0	0,0
Total	**9,972**	**5,535**

Of SCBC's loans and advances to credit institutions, SEK 53 million (96) pertains to a receivable from FriSpar Bolån AB (a joint venture in the SBAB Group).

Note 8 Loans and advances to the public

SEK million	2009	2008
Opening balance	157,877	128,276
Transferred from Parent Company	30,409	49,852
Amortisation, write-offs, redemption	(14,813)	(20,251)
Closing balance	173,473	157,877
Provision for probable loan losses	(102)	(85)
Closing balance	173,371	157,792
Receivables outstanding by remaining term, net carrying amount		
Payable on demand	–	–
At most 3 months	20,313	18,659
Longer than 3 months but at most 1 year	93,374	73,698
Longer than 1 year but at most 5 years	53,230	57,849
Longer than 5 years	6,454	7,586
Total	**173,371**	**157,792**
Average remaining term, years	1.4	1.5

Note 8, continued

Distribution of lending by type of property

SEK million	2009	2008
Single-family dwellings and holiday homes	68,674	72,878
Tenant-owner rights	38,570	32,940
Tenant-owner associations	39,859	30,664
Private multi-family dwellings	19,133	16,275
Municipal multi-family dwellings	7,229	4,996
Commercial properties	8	124
Provision for probable loan losses	(102)	(85)
Total	**173,371**	**157,792**
Proportion of lending with a state or municipal guarantee, %	4	5
Average fixed-interest term, years	1.0	1.3

In case of early redemption between interest rate adjustment dates, SCBC has the right to receive interest rate compensation. The size of the compensation in the case of retail market loans is based on the interest rate on the loan compared with the interest rate on government bonds/treasury bills with a comparable remaining term up to the interest adjustment date +1 percentage point. For other loans, the reinvestment interest rate for comparable government securities is, in most cases, the applicable interest rate. In other cases, the comparable interest rate is specified in the current loan conditions.

In addition to mortgage deeds in pledged property, SCBC has, in certain cases, received government or municipal guarantees as collateral for the borrower's commitments. The proportion of loans covered by this type of guarantee is shown in the table above.

Doubtful loan receivables and provisions

SEK million	2009	2008
a) Doubtful loan receivables	2	–
b) Specific provisions for individually assesed loan receivables	2	–
c) Collective provisions, corporate market loans	14	7
d) Collective provisions, retail market loans	86	78
e) Total provisions (b+c+d)	102	85
f) Doubtful loan receivables after individual provisions (a–b)	0	–
g) Provision ratio for individual provisions (b/a)	93%	–

Also refer to the Credit risk section on page 15.

Distribution of doubtful loan receivables and provisions by type of property

SEK million	2009					2008				
	Tenant-owner associ-iations	Private multi-family dwellings	Single family dwellings and holiday homes	Tenant-owner rights	Total	Tenant-owner associ-ations	Private multi-family dwellings	Single family dwellings and holiday homes	Tenant-owner rights	Total
Doubtful loan receivables, gross		1	1		2					–
Individual provisions, loan receivables		1	1		2					–
Collective provisions, corporate market loans	7	7			14	1	6			7
Collective provisions, retail market loans			58	28	86			58	20	78
Doubtful loan receivables after individual provisions		0	0		0					–

Note 9 Derivative instruments

SEK million	2009			2008		
	Fair value, assets	Fair value, liabilities	Nominal amount	Fair value, assets	Fair value, liabilities	Nominal amount
Derivatives in fair value hedges						
Interest rate related						
- interest rate swaps	4,371	218	303,565	4,193	3,951	273,021
Currency related	5,448	3,063	48,602	9,821	29	54,152
Total	**9,819**	**3,281**	**352,167**	**14,014**	**3,980**	**327,173**
Other derivatives						
Interest rate related						
- interest rate swaps	925	727	44,964	–	–	–
Currency related	157	51	5,985	423	40	5,452
Credit related	–	–	–	308	–	18,042
Total	**1,082**	**778**	**50,949**	**731**	**40**	**23,494**

Derivative instruments by remaining term, carrying amount	2009 Fair value	2009 Nominal amount	2008 Fair value	2008 Nominal amount
At most 3 months	1,774	16,504	(40)	1,909
3-12 months	1,733	69,151	2,793	33,931
1-5 years	5,836	125,949	11,474	152,785
Longer than 5 years	(2,501)	191,512	(3,502)	162,042
Total	**6,842**	**403,116**	**10,725**	**350,667**

Hedge accounting

Hedge accounting is only applied for the hedge relationships where the risk of substantial fluctuation in terms of gain or loss is considered greatest.

Fair value hedges

SCBC mainly uses fair value hedges to protect itself against changes in the fair value of lending and funding at fixed interest rates and to hedge currency exposure of funding in foreign currency. The hedge instruments primarily used are interest rate swaps and currency swaps. In individual cases, hedge accounting is also applied for changes in fair value of credit-risk exposures. In such cases, credit derivatives are used as the hedge instrument.

As at 31 December 2009, the nominal amount of derivatives held for fair value hedging was SEK 352 billion (327). The fair value of these derivatives was SEK 6,538 million (10,034). The year's change in value of these derivatives amounted to SEK 219 million (918). The change in fair value of the hedged items with respect to hedged risk amounted to income of SEK 70 million (expense: 692) and the realised result from hedged items amounted to an expense of SEK 827 million (income: 103). Accordingly, SCBC's hedge accounting for fair value affected the year's earnings negatively by SEK 538 million (positive: 329).

Note 10 Classification of financial instruments

Financial assets

SEK million	2009						2008					
	Hedge-accounted derivative instruments	Loan receivables in hedge accounting	Other derivative instruments measured at fair value through profit and loss	Other loan receivables	Total	Total fair value	Hedge-accounted derivative instruments	Loan receivables in hedge accounting	Other derivative instruments measured at fair value through profit and loss	Other loan receivables	Total	Total fair value
Loans and advances to credit institutions				9,972	9,972	9,972				5,535	5,535	5,535
Loans and advances to the public		173,371			173,371	175,693		157,792			157,792	159,631
Change in fair value of hedged loan receivables		2,961			2,961	–		4,568			4,568	–
Derivative instruments	9,819		1,082		10,901	10,901	14,014		731		14,745	14,745
Other assets				638	638	638				1,382	1,382	1,382
Prepaid expenses and accrued income		212		2	214	214				289	289	289
Total	**9,819**	**176,544**	**1,082**	**10,612**	**198,057**	**197,418**	**14,014**	**162,360**	**731**	**7,206**	**184,311**	**181,582**

Note 10, continued

Financial liabilities

SEK million	2009						2008					
	Hedge-accounted derivative instruments	Other financial liabilities covered by hedge accounting	Other derivative instruments and liabilities measured at fair value through profit and loss	Other financial liabilities	Total	Total fair value	Hedge-accounted derivative instruments	Other financial liabilities covered by hedge accounting	Other derivative instruments and liabilities measured at fair value through profit and loss	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions				14,625	14,625	14,625				20,629	20,629	20,629
Debt securities in issue		139,963			139,963	140,185		126,578			126,578	125,654
Derivative instruments	3,281		778		4,059	4,059	3,980		40		4,020	4,020
Other liabilities				18	18	18				1,629	1,629	1,629
Accrued expenses and prepaid income		3,135		71	3,206	3,206		2,628		153	2,781	2,781
Subordinated debt to Parent Company				26,626	26,626	26,626				19,426	19,426	19,426
Total	**3,281**	**143,098**	**778**	**41,340**	**188,497**	**188,719**	**3,980**	**129,206**	**40**	**41,837**	**175,063**	**174,139**

Note 11 Calculation of fair value

	2009			
SEK million	Quoted market prices (Tier 1)	Other observable data (Tier 2)	Non-observable data (Tier 3)	Total
Assets				
Securities in the category trade	–	1,082	–	1,082
Other derivative instruments	–	9,819	–	9,819
Total	**–**	**10,901**	**–**	**10,901**
Liabilities				
Securities in the category trade	–	778	–	778
Other derivative instruments	–	3,281	–	3,281
Total	**–**	**4,059**	**–**	**4,059**

In the table, financial assets and liabilities measured at fair value in the balance sheet are divided on the basis of the following three measurement methods:

Quoted market prices (Tier 1)
Measurement at quoted prices in an active market. An active market is a market in which there are easily available prices with satisfactory regularity. The measurement method is currently not used for any assets or liabilities.

Measurement based on other observable market data (Tier 2)
Measurement aided by other external market information, such as quoted interest rates or prices for closely related instruments. This group includes all non-quoted derivative instruments.

Measurement based in part on non-observable market data (Tier 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 for any assets or liabilities.

Note 12 Other assets

SEK million	2009	2008
Past due interest receivables	28	81
Securities settlement receivables	–	–
Receivables according to outsourcing agreement	–	–
Tax assets	0	101
Receivable from Parent Company	610	1,200
Total	**638**	**1,382**
Other assets by remaining term, carrying amount		
At most 1 year	638	1,382
Longer than 1 year	–	–
Total	**638**	**1,382**

Note 13 Prepaid expenses and accrued income

SEK million	2009	2008
Prepaid expenses	2	2
Accrued interest income	174	253
Other accrued income	38	34
Total	**214**	**289**
Prepaid expenses and accrued income by remaining maturity, carrying amount		
At most 1 year	195	271
Longer than 1 year	19	18
Total	**214**	**289**

Note 14 Liabilities to credit institutions

SEK million	2009	2008
Lending in Swedish kronor	11,942	18,760
Lending in foreign currency	2,683	1,869
Total	**14,625**	**20,629**
of which repos	*6,183*	*11,539*
Liabilities to credit institutions by remaining maturity, carrying amount		
Payable on demand	8,442	9,090
At most 3 months	6,183	6,194
Longer than 3 months but at most 1 year	–	5,345
Total	**14.625**	**20,629**
Average remaining term, years	0.0	0.1

Note 15 Debt securities in issue

SEK million	2009	2008
Financial liabilities in hedge accounting		
Bonds in Swedish kronor	89,690	60,799
Bonds in foreign currency	50,273	65,779
Total debt securities in issue	**139,963**	**126,578**
of which covered bonds	*139,963*	*126,578*
Debt securities in issue by remaining term, carrying amount		
At most 1 year	36,006	22,454
Longer than 1 year but at most 5 years	90,978	100,233
Longer than 5 years but at most 10 years	12,979	2,641
Longer than 10 years	–	1,250
Total	**139,963**	**126,578**
Average remaining term, years	2.5	2.2
Average remaining fixed-interest term, years	2.3	2.3

Also refer to the Funding section on page 9.

Note 16 Other liabilities

SEK million	2009	2008
Tax liabilities	1	–
Liabilities to borrowers	17	29
Liabilities to Parent Company	–	1,600
Other	–	–
Total	**18**	**1,629**
Other liabilities by remaining term, carrying amount		
At most 1 year	18	1,629
Longer than 1 year	–	–
Total	**18**	**1,629**

Note 17 Accrued expenses and prepaid income

SEK million	2009	2008
Accrued interest expense	3,163	2,738
Other accrued expenses	43	44
Total	**3,206**	**2,782**
Accrued expenses and prepaid income by remaining term, carrying amount		
At most 1 year	3,206	2,782
Longer than 1 year	–	–
Total	**3,206**	**2,782**

Note 18 Deferred taxes

SEK million	2009	2008
Deferred tax assets (+)/tax liabilities (–) for temporary differences in:		
– Debt securities in issue	811	1,252
– Derivative instruments	(756)	(1,122)
– Loss carry-forward	–	5
Total	**55**	**135**
Change in deferred income taxes:		
Deferred tax recognised in profit and loss	340	(292)
Deferred income tax attributable to items recognised directly in equity	(420)	448
Total	**(80)**	**156**
Deferred tax allocated by expected maturity date, carrying amount		
At most 1 year	–	–
Longer than 1 year	55	135
Total	**55**	**135**

Note 19 Subordinated debt to Parent Company

SEK million	2009	2008
Subordinated debt to Parent Company	26,626	19,426
Total	**26,626**	**19,426**

Terms and conditions for subordination
The subordinated debt was issued by the parent company. The subordinated debt is subordinated to the company's other debts in bankruptcy, liquidation or undergoing reconstruction, which means that they carry an entitlement to payment only after other claimants have received payment.

Note 20 Equity

The share capital amounts to SEK 50,000,000. The number of shares was 500,000, with a quotient value of SEK 100 each, as in previous years. All shares are owned by the Parent Company, The Swedish Housing Finance Corporation, SBAB, Corp. Reg. No. 556253-7513. Distributable equity in SCBC amounts to SEK 9,565 million. Dividends are proposed by the Board in accordance with the provisions of the Companies Act and are resolved by the Annual General Meeting. It is proposed that no dividend be paid for 2009. A specification of changes in equity is presented on page 31.

Note 21 Assets pledged for own liabilities

SEK million	2009	2008
Loan receivables	165,569	149,745
Repos	7,646	3,360
Total	**173,215**	**153,105**

Of the total loan portfolio (see Note 8), and "Loans and advances to credit institutions" (see Note 7), the values reported above constitute the cover asset pool for covered bonds amounting to SEK 139,963 million (126,578).

Note 22 Information about related parties

SCBC is a wholly owned subsidiary of the Swedish Housing Finance Corporation, SBAB with corp. reg. no. 556253-7513.

SEK million	2009		2008	
	Lending	Interest income	Lending	Interest income
Loans to key personnel				
MD	1	0	1	0
Board of Directors	3	0	2	0
Other key senior executives	9	0	3	0
Total	**13**	**0**	**6**	**0**

The MD and the Board refer to SCBC. The Board members of the Parent Company are included among Other key executives. Lending to members of the Board of the Swedish Covered Bond Corporation (SCBC) or to employees holding key positions in the company may not occur on terms that are not normally available to other personnel.

Proposed Appropriation of Profits

SCBC's non-restricted equity, according to the balance sheet, amounts to SEK 9,564,948,313, from which the net loss for the year of SEK 216,914,756 has been deducted.

The Board and the MD certify that the financial statements and the annual accounts were prepared in accordance with the Act concerning Credit Institutions and Securities Companies (ÅRKL) and with generally accepted accounting policies for credit market companies, and provide a true and fair view of the company's business activities, position and earnings.

The administration report provides a true and fair view of the company's development, position and earnings, and describes the significant risks and uncertainty factors faced by the company.

On condition that the motion is approved by the Annual General Meeting, Group contributions of SEK 610,000,000 will have been received, which resulted in non-restricted equity on the balance-sheet date, taking the tax effect into account, being increased by SEK 449,570,000.

In accordance with Chapter 6, Section 2, second subsection of ÅRKL, the Board considers that the company's equity is sufficiently large in relation to the extent and risks of the operations. The Board and the MD propose that the funds at the disposal of the Annual General Meeting, as shown in SCBC's balance sheet, namely SEK 9,564,948,313, be carried forward.

Stockholm, 15 March 2010

Per Balazsi
Chairman of the Board

Bo Andersson
Board Member

Johan Brodin
Board Member

Johanna Clason
Board Member

Per Tunestam
MD

Our audit report was submitted on 16 March 2010

Öhrlings PricewaterhouseCoopers AB

Ulf Westerberg
Authorised Public Accountant

Audit Report

To the Annual General Meeting of The Swedish Covered Bond Corporation, corp. reg. no. 556645-9755

We have audited the annual accounts, the accounting records and the administration of the Board of Directors and the MD of The Swedish Covered Bond Corporation, corp. reg. no. 556495-9755 for the year 2009. The Annual Report and the consolidated accounts are included in the printed version of the report on pages 7-46. These accounts and the administration of the Company are the responsibility of the Board of Directors and the MD. They are also responsible for ensuring compliance with the Annual Accounts Act for Credit Institutions and Securities Companies when preparing this report. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the MD, as well as evaluating the important estimations made by the Board and the MD when drawing up the annual accounts and evaluating the overall presentation of information in the annual accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any Board Member or the MD. We also examined whether any Board Member or the MD has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and, thereby, give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory Administration Report is in accordance with other parts of the annual accounts.

We recommend to the Annual General Meeting of Shareholders that the income statement and balance sheet of the Company be adopted, that the profit for the Company be dealt with in accordance with the proposal in the Administration Report and that the members of the Board of Directors and the MD be discharged from liability for the financial year.

Stockholm, 16 March 2010

Öhrlings PricewaterhouseCoopers AB

Ulf Westerberg
Authorised Public Accountant

MD, Board of Director's and Auditor

Per Tunestam

MD SCBC
Head of Covered Bonds at SBAB
Bachelor of Arts
Born 1964
Employed by SBAB since 1997, similarly employed by SCBC since 2006.
Past experience: Export financing and syndicated currency loans at Handelsbanken, head of securitisation, product development and special financing at SBAB.

Bo Andersson

Board member SCBC
Head of Business Support
Graduate engineer
Born 1966
Year of employment 2004
Elected to the Board 2008
Past experience: Project manager Sydkraft, Senior project manager Honeywell, head of project development – CPMO Icon Medialab.

Per Balazsi

Chairman of the Board SCBC
Chief Financial Controller
Degree in Business Administration, Executive MBA
Born 1966
Year of employment 2002
Elected to the Board 2006
Past experience: Risk analyst Swedish National Debt Office, deputy assistant undersecretary at the Ministry of Finance.

Johanna Clason

Board member SCBC
Chief Financial Officer
Degree in Business Administration
Born 1965
Year of employment 2005
Elected to the Board 2006
Other Board assignments: Board member of FriSpar Bolån AB, Board member of the Medical Products Agency.
Past experience: IR Brummer & Partners, CFO AB Svensk Exportkredit, trader ABB Treasury Center (Sweden) AB.

Johan Brodin

Board member SCBC
Chief Credit Officer
Bachelor of Business Administration and Economics
Born 1968
Year of employment 2005
Elected to the Board 2009
Board assignments: Board Member of The Swedish Covered Bond Corporation
Past experience: Various positions at Handelsbanken, Senior Manager at KPMG, Senior Manager Oliver Wyman

Changes in the Board during 2009

Bengt-Olof Nilsson-Lalér resigned as Chief Credit Officer of SBAB and as a Board member in SCBC. He was succeeded by Johan Brodin.

Auditor

The 2007 Annual General Meeting resolved to elect the auditing firm Öhrlings PricewaterhouseCoopers AB as auditor for the period until the end of the Annual General Meeting held in 2011. The auditing firm appointed Ulf Westerberg as auditor-in-charge.

Ulf Westerberg
Öhrlings PricewaterhouseCoopers AB

Auditor-in-charge at SCBC since 2007
Born 1959
Other assignments: NCC, Brio, Home Properties, Proventus, Stronghold.

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