



# YEAR-END REPORT 2009

## The Swedish Covered Bond Corporation (SCBC)

1 January – 31 December 2009

Summary	December 2009	December 2008
Net interest income, SEK million	813	797
Operating profit/loss, SEK million	(295)	1,012
Net profit/loss for the period, SEK million	(217)	720
Lending, SEK million	173,371	157,792
Capital adequacy ratio, %	11.1	10.0
Primary capital ratio, %	11.1	10.0
Volume of international funding, SEK million	54,102	66,779
<i>Rating, long-term funding</i>		
Standard & Poor's	AAA*	AAA
Moody's	Aaa	Aaa

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

All comparative figures in parentheses pertain to the year-earlier period.

### Organisation

The Swedish Covered Bond Corporation, SCBC, is a wholly owned subsidiary of The Swedish Housing Finance Corporation, SBAB. SCBC conducts its operations in such a manner that they comply with the requirements specified in the Covered Bonds Act (2003:1223) and the Swedish Financial Supervisory Authority's regulations FFFS 2004:11.

SCBC's operations comprise the issue of covered bonds in Swedish and international capital markets. For this purpose, the company uses two funding programmes, the mortgage bond programme in Sweden and the EMTCN programme, primarily in the international market. The operations are conducted by personnel employed by the Parent Company SBAB, which performs services on behalf of SCBC that are governed by an outsourcing agreement.

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

### Operating results

SCBC reported an operating loss of SEK 295 million (profit: 1,012) for 2009. The loss was primarily due to net income/expense from financial instruments measured at fair value. It resulted mainly from unrealised changes in the market value of derivative instruments and hedged items and costs connected to the repurchase of bonds.

SCBC's total operating income declined compared with 2008 to SEK 175 million (1,428). Net interest income amounted to SEK 813 million (797). The increase in net interest income was primarily attributable to a larger loan portfolio. However, declining market interest rates had a dampening impact on the increase in net interest income.

Expenses for the year totalled SEK 445 million (399), pertaining primarily to costs resulting from the outsourcing agreement between SCBC and SBAB.

Net loan losses increased compared with 2008 and amounted to SEK 25 million (loss: 17).

### Lending

SCBC does not conduct any new lending activities itself; instead it continuously, or when needed, acquires loans from SBAB. The intention of the acquisitions is for these loans to be wholly or partly included in the cover pool that serves as collateral for SCBC's covered bond investors.

SCBC's portfolio mainly comprises loans for residential mortgages, with the retail market as the largest segment. The portfolio contains no loans for purely commercial properties. Information regarding SCBC's cover pool, updated on a monthly basis, is presented on the company's website, [www.scbc.se](http://www.scbc.se).

Lending to the public totalled SEK 173,371 million (157,792). The table below shows the distribution of the loan portfolio between the retail and corporate markets.

Loan portfolio, SEK million	Dec 2009	Dec 2008
Retail market	107,157	105,740
Corporate market	66,214	52,052
<b>Total</b>	<b>173,371</b>	<b>157,792</b>

According to an agreement between SBAB and SCBC, SBAB undertakes to repurchase loans that are more than 30 days in arrears.

## Funding

SCBC's operations focus primarily on the issue of covered bonds in Swedish and international capital markets. For this purpose, the company uses two funding programmes: the mortgage bond programme in Sweden for the issue of covered bonds and SCBC's EUR 10 billion Euro Medium Term Covered Note Programme. Both programmes received the highest possible long-term ratings of Aaa and AAA from the rating agencies Moody's and Standard & Poor's. Early during the year, Standard & Poor's announced its intention to change its rating methodology for covered bonds. On 16 December 2009, Standard & Poor's placed SCBC and 97 other issuers of covered bonds on CreditWatch.

SCBC's funding takes place predominantly by issuing 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 value of outstanding covered debt securities in issue totalled SEK 139,963 million\* (126,578). Programme utilisation on 31 December 2009 was as follows: Swedish covered bonds SEK 83.9 billion (61.9) and Euro Medium Term Covered Note Programme EUR 5,175 million (5,818).

The turmoil that marked financial markets in 2008 continued during the initial part of 2009, when the market for covered bonds encountered fierce competition from substantial issuance volumes of government-guaranteed bank debt. From having been practically closed during most of the first half of 2009, the international market for covered bonds started to function again during the summer. The Swedish covered bond market functioned as a reliable source of funding throughout the year. During the year, the average maturity of the debt portfolio was extended through continuous issuances and repurchases, primarily in the Swedish covered bond market. SCBC joined the Swedish Government's guarantee scheme for medium-term borrowing on 29 June 2009. The company did not utilise this programme, and decided not to extend its participation after 31 October 2009.

\*Carrying amount including changes in market value.

## Capital adequacy and risk

SCBC reports credit risk mainly in accordance with the Internal Risk-Based (IRB) approach, and reports operational risk and market risk in accordance with the standardised approach. SCBC's capital ratio, taking the transitional regulations into account, amounted to 1.39 (1.25) on 31 December 2009 and both the capital adequacy ratio and the primary capital ratio amounted to 11.1% (10.0). After full implementation of Basel II, without taking into account the transitional regulations, the capital adequacy ratio and primary capital ratio under Pillar 1 amounted to 33.1% (21.8). The figures include earnings for the financial year.

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 applying for the subordinated debentures (see Note 6) or from what generally applies pursuant to the Companies Act (2005:551).

Since an increase in lending volume naturally entails a greater overall exposure to credit risk, the anticipated loss in the credit risk model has been increased.

## Interest-rate risk

Interest-rate risk arises as a natural feature of SCBC's activities, primarily when the interest-rate structure between the company's deposits and lending (ALM risk) is not fully matched.

The main rule is that SCBC's interest-rate risk is hedged directly. Accordingly, SCBC is subject to only a limited interest-rate risk. SCBC does not conduct trading operations.

## Current events

- No events of material importance to the assessment of the company's financial position have occurred after the end of the reporting period.

## Accounting policies

SCBC applies statutory IFRS, which means that the year-end report has been prepared in compliance with IFRS subject to the additions and exceptions that ensue from the Swedish Financial Reporting Board's recommendation RFR 2.2, Accounting for Legal Entities, Finansinspektionen's (The Swedish Financial Supervisory Authority's) regulations and general guidelines on annual reports in credit institutions and securities companies undertakings (FFFS 2008:25) and the Annual Accounts (Credit Institutions and Securities Companies) Act.

This year-end report has been prepared in accordance with IAS 34 Interim Financial Reporting and the new amendment to IAS 1 Presentation of Financial Statements. In compliance with the amendment to IAS 1, income and expenses are recognised in two statements, an income statement and a statement of comprehensive income. The statement of comprehensive income includes "Other comprehensive income" which comprises income and expenses from transactions recognised directly under shareholders' equity until the closing of the 2008 accounts. SCBC's transactions are solely with the company's shareholders, which are reported in the statement of changes in equity. The accounting policies and calculation methods remain unchanged compared with the 2008 Annual Report, with the exception that SCBC now applies the new standard IFRS 8 Operating Segments, instead of IAS 14 Segment Reporting.

According to IFRS 8, a segment is a component of a company that can earn revenues and incur expenses. Discrete financial information must be available and operating profit/loss must be regularly reviewed and monitored by the company's chief operating executive. SCBC's operations are monitored at the comprehensive level, since the company primarily comprises loan receivables subject to a risk level that enables the issuance of covered bonds. As a result, only one operating segment is recognised, comprehensive SCBC, which complies with the previous application of IAS 14.

All amounts are stated in millions of Swedish kronor (SEK million).

Financial information	2010
SCBC's interim report, annual reports and other financial information is available at <a href="http://scbc.se">scbc.se</a>	
Annual Report	31 March
Annual General Meeting	20 April
Interim report January-June	23 July

Stockholm den 3 February 2010

Per Tunestam  
Managing Director

## Income statement

SEK million

	Note	Jan - Dec 2009	Jan - Dec 2008	Jul - Dec 2009	Jul - Dec 2008
Interest income		3,445	8,006	1,172	4,171
Interest expense		(2,632)	(7,209)	(562)	(3,828)
<b>Net interest income</b>		<b>813</b>	<b>797</b>	<b>610</b>	<b>343</b>
Commission income		9	11	3	5
Commission expense		(68)	(16)	(52)	(7)
Net income/expense from financial items measured at fair value	1	(580)	636	(198)	673
Other operating income		1	0	0	0
<b>Total net interest income and operating income</b>		<b>175</b>	<b>1,428</b>	<b>363</b>	<b>1,014</b>
General administrative expenses		(444)	(398)	(224)	(211)
Other operating expenses		(1)	(1)	0	0
<b>Total expenses before loan losses</b>		<b>(445)</b>	<b>(399)</b>	<b>(224)</b>	<b>(211)</b>
<b>Profit/loss before loan losses</b>		<b>(270)</b>	<b>1,029</b>	<b>139</b>	<b>803</b>
Loan losses, net	2	(25)	(17)	(29)	(2)
<b>Operating profit/loss</b>		<b>(295)</b>	<b>1,012</b>	<b>110</b>	<b>801</b>
Tax		78	(292)	(29)	(233)
<b>Net profit/loss for the period</b>		<b>(217)</b>	<b>720</b>	<b>81</b>	<b>568</b>

## Statement of comprehensive income

SEK million

<b>Net profit/loss for the year</b>					
Income/expense recognised directly in equity		(217)	720	81	568
Other comprehensive income for the year, after tax		-	-	-	-
<b>Total comprehensive income/expense for the year</b>		<b>(217)</b>	<b>720</b>	<b>81</b>	<b>568</b>

## Balance sheet

SEK million

	Note	31 Dec 2009	31 Dec 2008
<b>ASSETS</b>			
Loans and advances to credit institutions		9,972	5,535
Loans and advances to the public	3	173,371	157,792
Fair value adjustment of hedge-accounted loan receivables		2,961	4,568
Derivative financial instruments	5	10,901	14,745
Deferred income tax assets		55	135
Other assets		638	1,382
Prepaid expenses and accrued income		214	289
<b>Total assets</b>		<b>198,112</b>	<b>184,446</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Liabilities to credit institutions		14,625	20,629
Debt securities in issue		139,963	126,578
Derivative financial instruments	5	4,059	4,020
Other liabilities		18	1,629
Accrued expenses and prepaid income		3,206	2,782
Deferred income tax liabilities		-	-
Subordinated liability to Parent Company	6	26,626	19,426
<b>Total liabilities</b>		<b>188,497</b>	<b>175,064</b>
<b>Equity</b>			
Share capital		50	50
Shareholder contribution		9,550	9,550
Retained earnings		232	(938)
Net profit/loss for the period		(217)	720
<b>Total equity</b>		<b>9,615</b>	<b>9,382</b>
<b>Total liabilities and equity</b>		<b>198,112</b>	<b>184,446</b>

## Statement of changes in equity

SEK million

	Restricted equity		Non-restricted equity	
	Share capital	Shareholder contribution	Retained earnings	Total equity
<b>Opening balance 1 January 2009</b>	<b>50</b>	<b>9,550</b>	<b>(218)</b>	<b>9,382</b>
Shareholder contribution				0
Dividend to Parent Company				0
Group contribution received from Parent Company, after tax			450	450
Net loss for the year			(217)	(217)
<b>Closing balance 31 December 2009</b>	<b>50</b>	<b>9,550</b>	<b>15</b>	<b>9,615</b>

	Restricted equity		Non-restricted equity	
	Share capital	Shareholder contribution	Retained earnings	Total equity
<b>Opening balance 1 January 2008</b>	<b>50</b>	<b>5,150</b>	<b>622</b>	<b>5,822</b>
Shareholder contribution		4,400		4,400
Dividend to Parent Company			(408)	(408)
Group contribution provided to Parent Company, after tax			(1,152)	(1,152)
Net profit for the year			720	720
<b>Closing balance 31 December 2008</b>	<b>50</b>	<b>9,550</b>	<b>(218)</b>	<b>9,382</b>

The shareholder contributions provided are conditional and the Parent Company, the Swedish Housing Finance Corporation (SBAB), is entitled to receive repayment of the contributions from the Swedish Covered Bond Corporation's unappropriated earnings, provided that the Annual General Meeting grants its approval.

## Cash flow statement

SEK million

	Jan - Dec 2009	Jan - Dec 2008
<b>Cash and cash equivalents at the beginning of the year</b>	<b>5,535</b>	<b>7,015</b>
Cash flow from operating activities	4,837	(4,272)
Cash flow from investing activities	-	-
Cash flow from financing activities	(400)	2,792
<b>Increase / decrease in cash and cash equivalents</b>	<b>4,437</b>	<b>(1,480)</b>
<b>Cash and cash equivalents at year-end</b>	<b>9,972</b>	<b>5,535</b>

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.

## Notes

### Note 1 - Net income/expense from financial items measured at fair value, SEK million

	Jan - Dec 2009	Jan - Dec 2008
<b>Gains/losses on interest-bearing financial instruments</b>		
- Hedged items	70	(692)
- Derivative financial instruments	38	1,195
- Loan receivables	140	28
- Other financial liabilities	(827)	103
<b>Currency translation effects</b>	<b>(1)</b>	<b>2</b>
<b>Total</b>	<b>(580)</b>	<b>636</b>

### Note 2 - Loan losses/recoverables, net, SEK million

	Jan - Dec 2009	Jan - Dec 2008
<b>CORPORATE MARKET</b>		
<b>Individual provision, corporate market loans</b>		
Write-off for confirmed loan losses for the year	-	-
Reversal of prior year provisions for probable loan losses reported as confirmed loan losses in the financial statements for the year	-	-
Provision for probable loan losses for the year	-	-
Recovered in respect of confirmed loan losses in prior years	-	-
Guarantees	-	-
<b>Net expense for the year for individual provisions for corporate market loan</b>	<b>-</b>	<b>-</b>
<b>Collective provision, corporate market loans</b>		
Allocation/reversal of collective provision	6	(14)
Guarantees	(2)	3
<b>Net expense for the year for collective provisions for corporate market loan</b>	<b>4</b>	<b>(11)</b>
<b>RETAIL MARKET</b>		
<b>Individual provision, retail market loans</b>		
Write-off for confirmed loan losses for the year	0	-
Reversal of prior year provisions for probable loan losses reported as confirmed loan losses in the financial statements for the year	-	-
Provision for probable loan losses for the year	1	-
Recovered in respect of confirmed loan losses in prior years	-	-
Reversal of prior year provisions for probable loan losses no longer required	-	-
Guarantees	-	-
<b>Net expense for the year for individual provisions for retail market loans</b>	<b>1</b>	<b>-</b>
<b>Collective provision, retail market loans</b>		
Write-off for confirmed loan losses for the year	-	-
Recovered in respect of confirmed loan losses in prior years	-	-
Allocation/reversal of collective provision	19	22
Guarantees	1	6
<b>Net expense for the year for collective provisions for retail market loans</b>	<b>20</b>	<b>28</b>
<b>Net expense for loan losses during the year</b>	<b>25</b>	<b>17</b>



**Note 3 - Loans and advances to the public, SEK million**

31 Dec 2009

31 Dec 2008

	Lending	Provision	Lending	Provision
Single-family dwellings and holiday homes	68,674	(59)	72,878	(58)
Tenant-owned apartment	38,570	(28)	32,940	(20)
Tenant-owner associations	39,859	(7)	30,664	(1)
Private multi-family dwellings	19,133	(8)	16,275	(6)
Municipal multi-family dwellings	7,229	-	4,996	-
Commercial properties	8	-	124	-
Provision for probable loan losses	(102)	-	(85)	-
<b>Total</b>	<b>173,371</b>	<b>(102)</b>	<b>157,792</b>	<b>(85)</b>

	31 Dec 2009	31 Dec 2008	
<b>Doubtful loan receivables and provisions</b>			
a) Doubtful loan receivables	2	-	<i>For loans that SCBC acquired from SBAB and that were brokered by business partners, it is possible, in certain cases, for the partners to acquire the brokered loans. Unless it has approval from FriSpar Bolån AB, SCBC is not entitled to sell on to a third party the loans that SCBC acquired from SBAB through FriSpar Bolån AB.</i>
b) Individual provisions, 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)	-	-	
g) Provision ratio for individual provisions (b/a)	-	-	

**Note 4 - Classification of financial instruments, SEK million**

31 Dec 2009

	Assets measured at fair value through profit and loss	Hedge-accounted derivative financial instruments	Loan receivables	Total
<b>Financial assets</b>				
Loans and advances to credit institutions			9,972	9,972
Loans and advances to the public			173,371	173,371
Fair value adjustment of hedge-accounted loan receivables			2,961	2,961
Derivative financial instruments	1,081	9,820		10,901
Other assets			638	638
Prepaid expenses and accrued			214	214
<b>Total</b>	<b>1,081</b>	<b>9,820</b>	<b>187,156</b>	<b>198,057</b>

	Assets measured at fair value through profit and loss	Hedge-accounted derivative financial instruments	Loan receivables	Total
<b>Financial liabilities</b>				
Liabilities to credit institutions			14,625	14,625
Debt securities in issue			139,963	139,963
Derivative financial instruments	778	3,281		4,059
Other liabilities			18	18
Accrued expenses and prepaid income			3,206	3,206
Subordinated liabilities to Parent Company			26,626	26,626
<b>Total</b>	<b>778</b>	<b>3,281</b>	<b>184,438</b>	<b>188,497</b>

**Note 5 - Derivative financial instruments, SEK million**

31 Dec 2009

	Assets measured at fair value	Liabilities measured at fair value	Nominal amount
Interest-rate-related	5,296	3,790	348,529
Currency-related	5,605	269	54,588
<b>Total derivative financial instruments</b>	<b>10,901</b>	<b>4,059</b>	<b>403,117</b>

**Note 6 - Subordinated liability to Parent Company, SEK million**

	31 Dec 2009	31 Dec 2008
Subordinated liability to Parent Company	26,626	19,426
<b>Total</b>	<b>26,626</b>	<b>19,426</b>

**Conditions concerning subordination**

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

**Capital base  
SEK million**

	31 Dec 2009	31 Dec 2008
<b>Primary capital</b>		
Share capital	50	50
Retained earnings	(218)	(938)
Net profit/loss for the year	(217)	720
Shareholder contribution	9,550	8,350
<b>Total primary capital gross</b>	<b>9,165</b>	<b>8,182</b>
Less other intangible assets	-	-
Less deferred income tax receivables	(55)	(135)
Deductions in accordance with Chapter 3, Section 8 of the Capital Adequacy Act	(117)	(676)
<b>Total primary capital net</b>	<b>8,993</b>	<b>7,371</b>
<b>Supplementary capital</b>		
Perpetual subordinated debentures	-	-
Time-limited subordinated debentures	-	-
Deductions in accordance with Chapter 3, Section 8 of the Capital Adequacy Act	-	-
<b>Total supplementary capital</b>	<b>8,993</b>	<b>7,371</b>
Expanded part of capital base	-	-
Deduction from entire capital base	-	-
<b>Amount for capital base net after deductible items and limit value</b>	<b>8,993</b>	<b>7,371</b>

## Capital requirement

SEK million

	31 Dec 2009	31 Dec 2008
<b>Credit risk reported in accordance with IRB Approach</b>		
- Corporate exposures	1,478	1,201
- Retail exposures	461	419
<b>Total credit risk in accordance with IRB Approach</b>	<b>1,939</b>	<b>1,620</b>
<b>Credit risk reported in accordance with Standardised Approach</b>		
- Exposures to states 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
<b>Total credit risk in accordance with Standardised Approach</b>	<b>98</b>	<b>986</b>
<b>Risks in the commercial portfolio</b>		
<b>Operational risk</b>	<b>137</b>	<b>97</b>
<b>Currency risk</b>	-	-
<b>Commodity risk</b>	-	-
<b>Total minimum capital requirement</b>	<b>2,174</b>	<b>2,703</b>
Addition during transitional period	4,287	3,180
<b>Capital requirement including addition</b>	<b>6,461</b>	<b>5,883</b>

## Capital adequacy

SEK million

	31 Dec 2009	31 Dec 2008
Primary capital	8,993	7,371
Total capital	8,993	7,371
<b>With transition regulations:</b>		
Risk-weighted assets	80,760	73,535
Primary capital ratio	11.1%	10.0%
Capital adequacy ratio	11.1%	10.0%
Capital ratio	1,39	1,25
<b>Without transition regulations:</b>		
Risk-weighted assets	27,172	33,783
Primary capital ratio	33.1%	21.8%
Capital adequacy ratio	33.1%	21.8%
Capital ratio	4,14	2,73



## Review report

*To the Board of The Swedish Covered Bond Corporation (SCBC) ▪ Corporate registration number 556645-9755*

### Introduction

We have reviewed the year-end report of the Swedish Covered Bond Corporation, SCBC, Corp. Reg. No. 556645-9755 for the period 1 January 2009 – 31 December 2009. The Board of Directors and the Managing Director are responsible for preparing and presenting this year-end financial information in accordance with the Annual Accounts (Credit Institutions and Securities Companies) Act. Our responsibility is to express an opinion on this interim report, based on our review.

### The direction and extent of the review

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

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

### Conclusion

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

Stockholm den 3 Februari 2010  
Öhrlings PricewaterhouseCoopers AB

Ulf Westerberg  
*Authorised Public Accountant*

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

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Visiting address: Löjtnantsgatan 21 ▪ Box 27308, SE-102 54 Stockholm ▪ Tel: +46-(0)8-614 43 00 ▪ Fax: +46-(0)8-614 38 60  
E-mail: investor@sbab.se ▪ www.scbc.se ▪ Corporate registration number, SCBC: 556645-9755