



# ATTRACTIVE MORTGAGE IN PRIME LOCATION.

Integrated Annual Report 2016

**SBAB!**

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While every care has been taken in the translation of this report, readers are reminded that the original report, signed by the Board of Directors, is in Swedish.

This is SBAB's second integrated Annual Report. The Annual Report is submitted by the Board of Directors and applies a clear and integrated approach, integrating sustainability and financial information. The Annual Report has been prepared in accordance with the Global Reporting Initiative's (GRI) guidelines, G4 – Core option. It also constitutes SBAB's Communication on Progress (COP) to the UN Global Compact. For additional information about the Annual Report and the reporting principles, see page 127.

The table of contents has been colour-coded to show which pages have been audited and which pages have been subject to a review by the auditors. The Corporate Governance Report has been subject to a statutory review by the company's auditor.

 ANNUAL REPORT THAT HAS BEEN AUDITED.

 SUSTAINABILITY REPORT THAT HAS BEEN SUBJECT TO A LIMITED ASSURANCE ENGAGEMENT.



Operating profit:

SEK **2,011** million

2015: SEK 1,492 million  READ MORE ON PAGE 40.

Net interest income:

SEK **2,829** million

2015: SEK 2,442 million  READ MORE ON PAGE 40.

Return on equity:

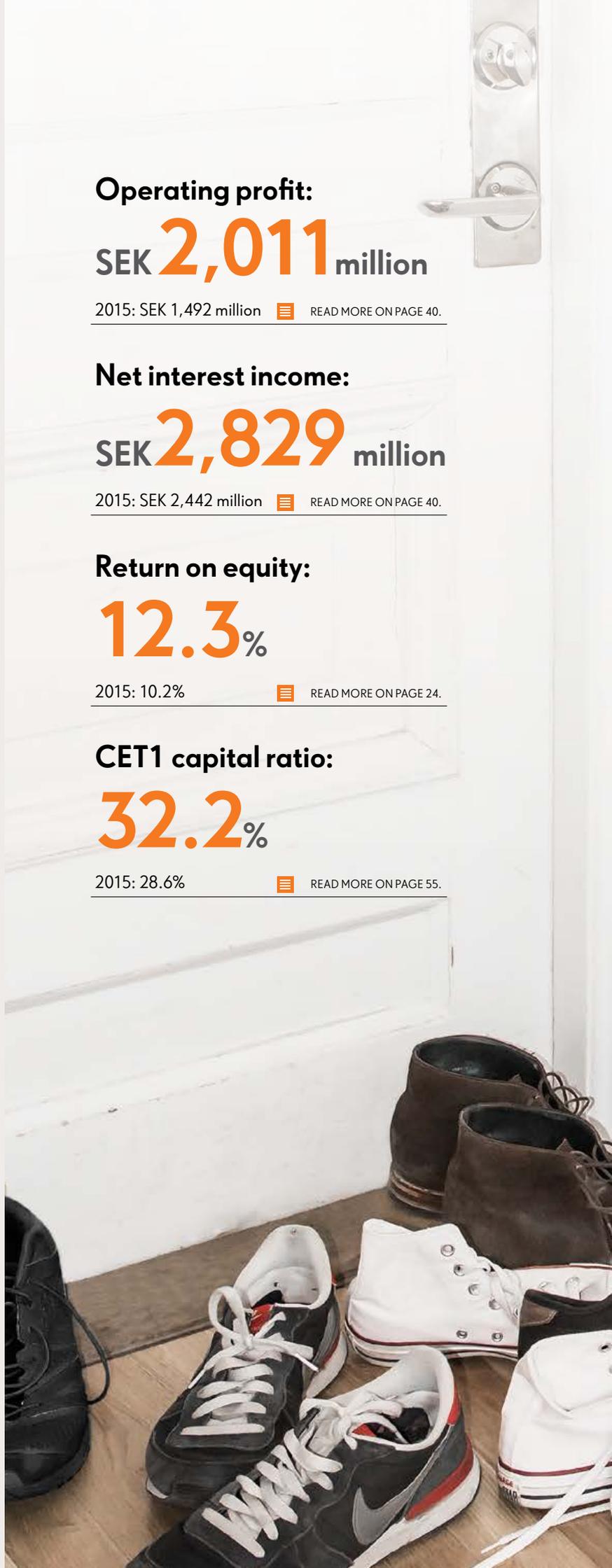
**12.3%**

2015: 10.2%  READ MORE ON PAGE 24.

CET1 capital ratio:

**32.2%**

2015: 28.6%  READ MORE ON PAGE 55.



# ABOUT US

Our business, SBAB Bank AB (publ), (SBAB), was founded in 1985 and is wholly owned by the Swedish state. Our business idea is to be mindful and innovative in our offering of loan and savings products to consumers, tenant-owners' associations and property companies in Sweden.

**The Retail business area** offers savings and loan products, and digital home and housing services to consumers. The core product – residential mortgages – is supplemented by personal loans and insurance broking. Our retail customers are primarily located in areas around Stockholm, Gothenburg, Malmö, and other university cities and growth markets.

No. of residential mortgage customers:

Around 233,000

No. of savings customers:

Around 270,000

## The Corporate Clients & Tenant-Owners' Associations business area

offers savings and housing financing primarily to property companies and tenant-owners' associations. In this business area, our primary focus is on customers located south of the Dal River, with property holdings mainly concentrated in major cities and in growth regions.

No. of corporate clients and tenant-owners' associations:

Around 2,600

No. of savings customers:

Around 13,000



Our vision is to offer the best residential mortgages in Sweden.

SBAB has 510 employees<sup>1)</sup> based at five offices in Stockholm (2), Karlstad, Malmö and Gothenburg. Stockholm is the main location of our IT unit and central functions. Our Customer Centre and Operations are located in Karlstad. In Gothenburg and Malmö, there are local account managers serving the Corporate Clients & Tenant-Owners' Associations Business Area.



<sup>1)</sup> Number of employees expressed as full-time equivalents (FTEs), adjusted for sick leave and leave of absence, including 25 employees of the subsidiary Booli Search Technologies AB, (Booli). One of the two Stockholm offices belongs to Booli.



# THE YEAR IN BRIEF

Q1

- Completes acquisition of Booli

Q2

- Introduces repayment requirement in line with Finansinspektionen's (Sweden's financial supervisory authority) regulations
- Becomes the first bank in Sweden to issue a green bond

Q3

- Participates in the calculation of STIBOR for the first time
- Becomes the fifth largest participant in the Swedish market for deposits
- Agrees upon and starts project to replace IT base system
- Begins mortgage licensing for employees

Q4

- Sweden's most satisfied residential mortgage customers according to Swedish Quality Index (Svenskt Kvalitetsindex, SKI), for the third consecutive year
- Credit rating outlook raised by Moody's
- Reports record strong financial results



## Sweden's most satisfied residential mortgage customers – for the third consecutive year

We once again have Sweden's most satisfied residential mortgage customers according to Swedish Quality Index (Svenskt Kvalitetsindex, SKI). SBAB received the highest score in the sector, both in terms of value and recommendation rate.

[READ MORE ON PAGE 11.](#)

## The first to issue a green bond

In mid-2016, we became the first bank in Sweden to issue a green bond.

[READ MORE ON PAGE 39.](#)

## SBAB becomes a STIBOR bank

In 2016, we became the seventh bank to participate in the calculation of the STIBOR reference rate.

[READ MORE ON PAGE 43.](#)

## Booli acquisition completed

In January 2016, we completed the acquisition of Booli Search Technologies AB, (Booli). This is a step in our transition towards a more extensive customer offering within housing and household finances.

[READ MORE ON PAGE 46.](#)



**WELL-  
PLANNED  
MORTGAGE  
IN MINT  
CONDITION.**

**Move to us and become  
one of Sweden's most  
satisfied residential  
mortgage customers.**

**SBAB!**

# MAKING HOUSEHOLD FINANCES FUN

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## STATEMENT BY THE CEO

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**2016 proved to be a very good year for SBAB, delivering Sweden's most satisfied residential mortgage customers and record earnings. The trend towards digitalisation is increasing transparency and intensifying competition, resulting in customers expecting nothing but the best. Through a focus on customers' housing and household finances, we intend to offer the best customer experience.**

Margins on residential mortgages were at a historically low level in 2016. Increased capital requirements have driven up the margins on residential mortgages and expectations of further capital requirement increases in the future have created an underlying upward pressure on these margins. Healthy margins combined with robust new lending during the year resulted in a strong net interest income trend, which rose 16% to SEK 2,829 million – our highest ever. Return on equity was 12.3 percent, which exceeded our return target of 10 percent. Our cost/income ratio for the year was low at 30.5% while the Common Equity Tier 1 capital ratio ended up at a strong 32.2%. Sound finances represent one of our sustainability areas. We present a fantastic result for the year and are heading into the future on a strong footing in anticipation of the investments required to continue building a long-term competitive and sustainable SBAB.

2016 continued to be characterised by special market conditions. Strong economic growth with high demand combined with extremely low interest rates comprises anything but normal conditions. We have high population growth in Sweden, which combined with continued urbanisation is creating intense demand for housing – in a housing market where there unfortunately already is a housing shortage. Structural measures aiming to stimulate and increase housing market mobility along with measures to increase housing construction are still lacking, although it is pleasing to note that new housing construction did increase in 2016. Altogether, market conditions are driving household debt levels and housing prices. With its focus on residential mortgages and housing financing, SBAB finds itself right in the middle of these developments.

High demand for residential mortgages and an increase in new construction bene-

fit our business, both in terms of consumers and corporates. Sustainable housing is one of our sustainability areas, and we focus on financing new construction of residential properties that consume energy more efficiently than older properties in the housing stock. During the year, we became the first Swedish bank to issue a green bond, using the funds generated to finance residential properties with lower energy consumption.

Increased indebtedness and rising housing prices illustrate the importance of responsible credit granting and sustainable business in general. Our mission, to help improve housing quality and household finances, is clearly sustainable and ensures that focus remains on responsibility throughout our organisation. It gives me great pleasure to note that our loan losses for 2016 were extremely low and that the credit quality in our lending portfolio strengthened during the year,



due to a lower debt ratio in the new influx of customers as well as lower loan-to-value ratios for both our existing loan portfolio and our new influx of customers. This strong credit quality is a result of increased creditworthiness among customers, tightened credit regulations and targeted work on our brand, distribution and customer communication. On 1 June 2016, the new mandatory repayment requirement for consumers' residential mortgages was introduced. Greater repayments lower the risk for both SBAB and its customers. Further mandatory regulations from the authorities, such as the introduction of a ceiling for debt-to-income ratios, cannot be ruled out. More regulations that affect and control the ability of individuals to borrow and buy a property as opposed to structural measures that increase the housing supply and housing market mobility sadly create more difficulties and lead to lock-in effects. They result in fewer

people switching banks, which in turn reduces competitiveness in the residential mortgage market.

#### **Sweden's most satisfied customers**

One of our most important aims is to have the most satisfied residential mortgage customers. We are there for our customers, and if they are extremely satisfied then this will lead to many more customers. In our value proposition, we describe three aspects that our residential mortgage customers greatly appreciate about us: accessibility, transparency and consideration. Responsibility and transparency form another of our sustainability areas. For the third consecutive year, we had Sweden's most satisfied residential mortgage customers according to Swedish Quality Index (Svenskt Kvalitetsindex, SKI). Our value proposition recurs as central themes in the results of SKI's survey, with SBAB scoring highly in terms of service,

**For the third consecutive year, we had Sweden's most satisfied residential mortgage customers according to Swedish Quality Index (SKI). Our value proposition recurs as central themes in the results of SKI's survey, with SBAB scoring highly in terms of service, reliability, conditions, accessibility and value.**





reliability, conditions, accessibility and value. It is also very pleasing to note that taking second place in SKI's survey of corporates shows that our corporate customers are also highly satisfied.

Through "white label" partnerships, we have given other financial players the opportunity in the past to offer residential mortgages under their own brand, with SBAB as the lender. In line with our decision to focus on our own brand and the customer relationship, we decided during the year to terminate a few such partnerships. One such terminated partnership was divested during the year and entailed approximately SEK 20.5 billion in residential mortgages being transferred from SBAB, which meant that our total lending during the year did not increase and our market share declined, despite strong levels of new lending. No further transfers of residential mortgage stocks are under way. Lending amounted to SEK 296 billion at year end.

Our deposits continued to record strong growth in 2016. We offer consum-

ers and corporates a significantly higher savings interest rate than the zero interest rate offered by the major banks. Deposits increased during the year by nearly SEK 20 billion, amounting to SEK 97 billion at the end of the year. In addition to our savings accounts representing an important part of our customer offering, deposits also represent an important and growing share of our lending financing, together with the issuance of housing bonds and non-covered bonds. The share of deposits in relation to lending amounted to 32.7% at year end. Demand from investors for our bonds remained strong during the year, resulting in favourable funding conditions for SBAB. Our rating from international credit rating agencies is important for our funding conditions, so it is pleasing to see that the credit rating agency Moody's set a positive outlook for SBAB in November regarding a raised credit rating.

It is becoming increasingly important to have strong customer relationships, since digital developments are enabling new players to establish relationships with our

customers via new services and innovative solutions. We work actively to improve and develop our customer offering in terms of housing and household finances. Residential mortgages represent an infrequent purchase, with the customer relationship at its strongest when the application for a residential mortgage is made, a new home is purchased and the mortgage is disbursed. Ensuring our customer relationships last as long as possible is important to us. We therefore seek to create customer value throughout the entire period in which the customer's home requires financing. For this reason, we are strengthening our customer offering by way of content and services relating to housing and household finances. Our acquisition of the housing service Booli forms part of this strategy. In addition to business development, Booli also brings value in areas such as market and valuation data as well as communication and marketing. Booli is one of Sweden's largest housing sites and also offers the HittaMäklare service, which is Sweden's largest digital estate agent service.



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The banking and financial market is in the early stages of a major transformation in terms of digitalisation and customer behaviour. We do not know what the market will look like several years from now. Accordingly, to guarantee long-term competitiveness, it is strategically important and sustainable in the long term to ensure favourable conditions to be able to change, improve and efficiently develop the customer offering and increase efficiency. We therefore initiated the replacement of our entire IT system structure with a modern and flexible version during the year, which is a project that will take several years to complete.

#### **Our people at SBAB**

To transform problems and challenges into opportunities and competitive advantages, ability and the right attitude are both required. We secure ability through the fantastic people that work at SBAB. It is crucial that SBAB is an attractive company to work for, in part to ensure existing employees are able to develop and in

part, to attract the best talent. In our most recent quarterly survey, a large majority of all employees replied that overall, SBAB is a very good workplace.

Providing a strong, value-driven corporate culture with an inclusive leadership and self-driven employees is our way of creating a fun and sustainable workplace at which employees can develop. Sharing values and being driven by those values leads to everyone essentially adopting the same attitude. However, having the same attitude does not mean that everyone acts and thinks in the same way. Diversity, equality, expertise and differing approaches promote creativity, innovation and problem-solving. We work daily in line with our four values and their significance in many ways. These efforts result in SBAB being more enjoyable and developing at a faster pace, with more innovation, people exercising their own influence and strengthened competitiveness. Put simply — an attractive workplace.

To conclude, I would like to say that I am impressed by our performance over the past few years and the credit for this is due to all of my colleagues. Many thanks for your fantastic efforts and for coming together to make SBAB a really great workplace and a competitive and sustainable bank in the long term.

Solna, March 2017

**Klas Danielsson**  
CEO

*P.S. Don't miss our show in November at Globen in Stockholm featuring Erik Haag, "Making household finances fun."*

# HOW WE OPEN DOORS TO HOUSING

## STRATEGIC DIRECTION

Our business is to raise and lend capital for residential purposes. We are part of a financial infrastructure that enables consumers to purchase their own home and companies to finance residential properties. Our day-to-day work opens opportunities for our customers to realise their dreams – dreams of a home.



INVESTORS  
SAVERS  
OWNER



# SBAB!

Total funding:

SEK **247** billion

Total deposits:

SEK **97** billion

Equity:

SEK **15** billion

Total lending:

SEK **296** billion

## FUNDING

When consumers, property companies and tenant-owners' associations come to SBAB to borrow money, we first need to raise capital. A major part of a new residential mortgage is financed by funds we borrow from other participants, mainly major investors and the public.

The majority of our funding, approximately 70%, consists of funds borrowed in the capital markets. To achieve this, SBAB and its subsidiary, SCBC, issue bonds that are purchased by investors. In return, we pay interest that is determined by the general interest rate level and by how safe investments in the SBAB Group are considered to be. Investor risk is reduced by the fact that we often use residential mortgages as collateral for the bonds.

The next largest share of our funding, around 26%, consists of deposits. Deposits involve consumers, companies or tenant-owners' associations saving money in SBAB's savings accounts, in return for interest on their savings. The share of our funding provided by deposits has increased considerably in recent years, which has reduced our dependence on capital market financing.

We receive the remaining share, around 4 percent, from our owner, the Swedish state, in the form of equity. In return for its contribution, the owner receives a return in the form of profit generated by SBAB. In accordance with the owner's dividend target, at least 40% of profit after tax is to be distributed. The rest of the profit is to be reinvested in SBAB.

## LENDING

SBAB offers residential mortgages and housing financing to consumers, property companies and tenant-owners' associations in Sweden. We supplement our offering with personal loans, insurance brokering and digital home and housing-related services. Our vision is simple – to offer the best residential mortgages in Sweden.

In this era of digitalisation, at SBAB we have chosen to not only adapt – we ensure that digitalisation and innovation permeate every part of our operations. And we do it in a way that is valued by our customers. This has been demonstrated by the fact that we, for the third consecutive year, had Sweden's most satisfied residential mortgage customers in 2016 accord-

### Vision

To offer the best residential mortgages in Sweden

### Mission

To help improve housing quality and household finances

Residential mortgages & housing financing

## LENDING

Interest income



CONSUMERS  
PROPERTY COMPANIES  
TENANT-OWNERS' ASSOCIATIONS

# SBAB

currently open doors to housing for over **half a million** people across Sweden.

To consumers:

SEK **212** billion

To property companies:

SEK **33** billion

To tenant-owners' associations:

SEK **51** billion

ing to Svenskt Kvalitetsindex (SKI). We continuously strive to refine our offering, including by strengthening business models and processes, training our employees and developing and improving our products and services further.

As a bank, we also fulfil an important societal function. We are part of a financial infrastructure that enables consumers to purchase their own home and companies to finance residential properties. With

this comes great responsibility. Sweden faces numerous societal challenges that are economically, socially and environmentally related to housing and the housing stock. We endeavour to offer financial products and services that are sustainable for individuals as well as property companies, tenant-owners' associations and society at large.

## HOUSING

Our operations are structured around housing. Through innovation, SBAB's core product, the residential mortgage, along with our supplementary products and other services should all lead to improved housing quality and household finances.

SBAB currently open doors to housing for over half a million people across Sweden.

## How we achieve our results

Our total lending to consumers, property companies and tenant-owners' associations amounted to SEK 296 billion at year end. We receive interest as compensation for these loans. The difference between the interest expense on funding and the total sum paid by our borrowers in the form of interest is referred to as net interest income. Put simply, our final earnings consist of the net interest income less expenses for running our operations and loan losses.

# WHAT WE OFFER OUR CUSTOMERS

## STRATEGIC DIRECTION

**Our value proposition — or customer promise — is based on an understanding of and insight into the values we offer our customers, why they have chosen us and why they will continue to choose us in the future. It represents the core of our operations, our DNA.**



## ACCESSIBILITY

**Mortgages online and over the phone, seven days a week, covering all circumstances.**

SBAB's focus and main product is residential mortgages. It's what we do. It's what we know. There are no queries relating to residential mortgages that we cannot answer, and our answers are based on the customers' circumstances and previous knowledge. Our customers are able to reach us by telephone from 8 am to 9 pm, seven days a week, or around the clock online or on mobile devices.

## TRANSPARENCY

**Fair prices and appropriate terms and conditions from the start.**

We want to offer our customers straightforward, high-quality, simple products. We do not believe that the interest rate you get on your residential mortgages should depend on who you talk to at the bank, how you are dressed or how well-spoken you are. Our customers do not need to put on an act or adopt a negotiation strategy — we always offer fair prices and appropriate terms and conditions from the start.



## CONSIDERATION

**Housing specialists who care.**

Whereas expertise and skills often go hand in hand with a businesslike or cold approach, our housing specialists are considerate and generous with their knowledge. Consequently, a dialogue with us rarely involves money alone; it often involves support with major decisions as well. We feel it is natural to offer our customers a personal contact to assist them, bring things to their attention and send them reminders during the entire process.



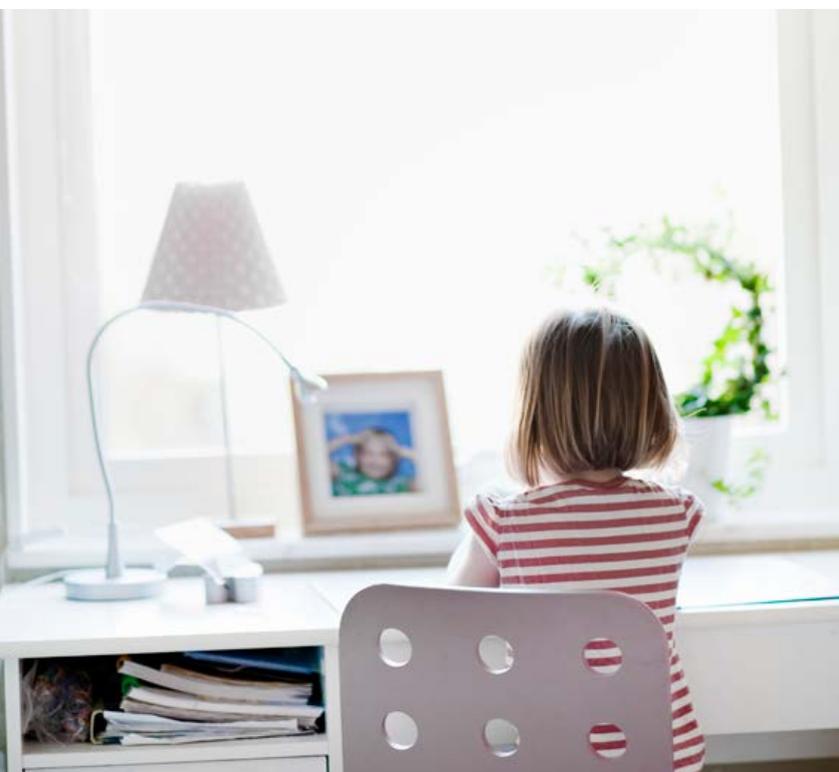
FOR THE THIRD CONSECUTIVE YEAR

## SWEDEN'S MOST SATISFIED RESIDENTIAL MORTGAGE CUSTOMERS

For the third consecutive year, we had Sweden's most satisfied residential mortgage customers according to Swedish Quality Index (Svenskt Kvalitetsindex, SKI) With a customer satisfaction score of 75.2 out of 100, we rank well above the sector average of 65.7.

Responsibility and transparency recur as central themes in SKI's survey, with high scores awarded to SBAB in terms of service, reliability, conditions, accessibility and value.

We took second place in terms of corporate customers, just 0.2 points behind first place. SBAB received a customer satisfaction score of 71.2 out of 100, with the sector average at 67.3



### About Swedish Quality Index

Swedish Quality Index (Svenskt Kvalitetsindex) is an independent research company that conducts customer and employee studies.

### About the survey

The interviews upon which the survey is based were carried out by telephone during the period October–November 2016. The target group consisted of people aged 18–79 who are resident in Sweden. The studies were based on 1,608 interviews and the results were presented in the form of a score on a scale from 0 to 100. The higher the score, the better customers deemed the products and suppliers to meet their requirements and expectations. Read more about the survey at [www.kvalitetsindex.se](http://www.kvalitetsindex.se) (in Swedish).

# WHERE, WHAT AND HOW

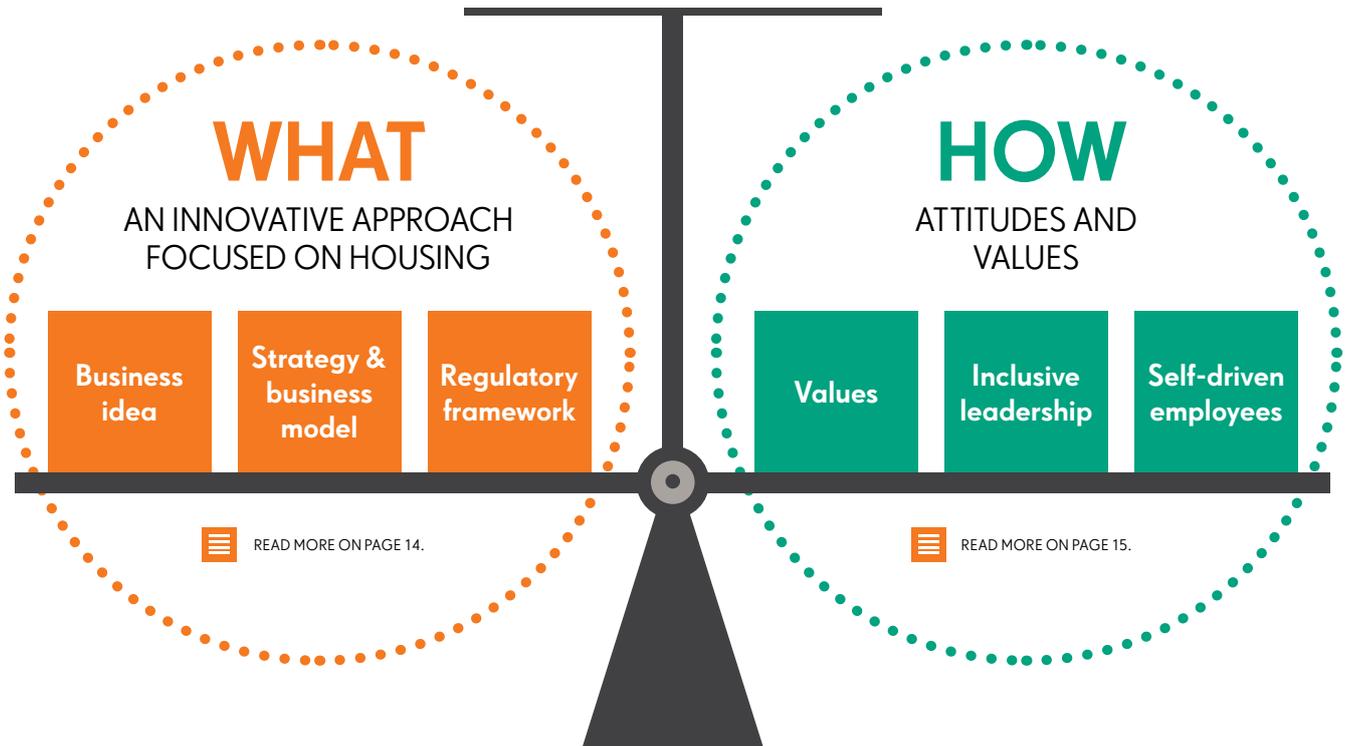
## STRATEGIC DIRECTION

SBAB's governance model clearly and simply describes where we are going, what steps we will take to get there and how we will achieve it. Achieving a balance between "what" and "how" is a prerequisite for achieving our vision – to offer the best residential mortgages in Sweden.

## WHERE

TO OFFER THE BEST RESIDENTIAL MORTGAGE IN SWEDEN  
TO HELP IMPROVE HOUSING QUALITY AND HOUSEHOLD FINANCES

 READ MORE ON PAGE 13.



# WHERE WE ARE GOING

## Vision

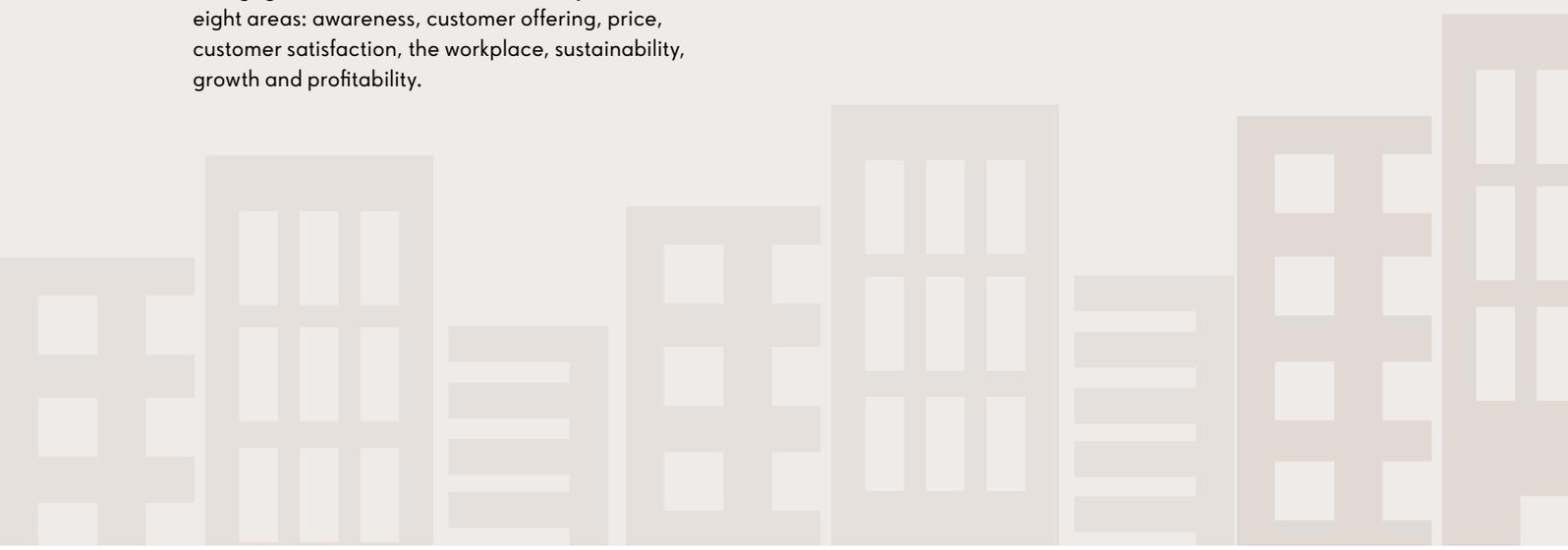
**To offer the best residential mortgages in Sweden**

At SBAB, our vision is the guiding principle in everything we do. It constantly encourages us to improve. Offering the best residential mortgages in Sweden entails great demands for innovation and mindfulness. Our view is that we will offer Sweden's best residential mortgages if we achieve a number of objectives in eight areas: awareness, customer offering, price, customer satisfaction, the workplace, sustainability, growth and profitability.

## Mission

**To help improve housing quality and household finances**

We have a broad mission that comprises many different dimensions. It governs our conduct and our offering to customers — everything we do as part of our operations should directly or indirectly lead to improved housing quality and household finances. Our mission clarifies that sustainability is an integrated part of our business.



# WHAT STEPS WE WILL TAKE TO GET THERE

## Business idea

**Our business idea is to be mindful and innovative in our offering of loan and savings products to consumers, tenant-owners' associations and property companies in Sweden.**

Innovative thinking means continuously developing our customer offering. Mindfulness means consistently putting our customers first: fair prices, appropriate terms and conditions and personal service — every day, in every situation.

## Business model

In recent years, banking operations have become increasingly complex and demanding due to regulatory developments, not least in terms of issues concerning capital and liquidity. This means that the fixed costs of our operations have increased, which places increasingly strict demands on efficiency and expanding volumes for long-term profitability. Our business model is based on high efficiency, low marginal costs, a low level of risk, competitive market funding and sustainable growth in customer volumes.

## Strategy

**An innovative approach focused on housing.**

The development of digital banking and financial services is gaining momentum. New players are driving developments and new regulations are redrawing the playing field. Simply offering a comparable banking service is no longer a winning strategy for the future. Niche excellence and driving development in your niche with services that customers love, use and value is a winning strategy and that is what SBAB's strategy within housing and household finances is all about.

We have formulated a number of supporting strategies with the aim of illustrating the way to offer the best residential mortgages in Sweden and clarify our position in the area of housing and household finances. These include IT, HR, sustainability and brand strategies, among others.

All of our strategies have a clear bearing on our vision. This does not mean that they simply contain lofty wording. They contain tangible measures and activities and, perhaps even more importantly, encourage innovative approaches and change.

## Regulatory framework

Our business builds on our stakeholders having confidence in SBAB and the values we represent. Confidence is a result of compliance with the laws and regulations — both external and internal — that govern and influence our work, but it is also a result of our actions as a company.

Regulation and monitoring of the banking and financial sector have both increased considerably over the past few years. Regulatory matters are often handled at EU level. Regulatory developments have had various effects on SBAB, including increased capital and liquidity requirements. They have also required adaptation to existing and forthcoming regulations, such as the Mortgage Credit Directive, the Payment Services Directive (PSD2), the repayment requirement, the Anti-Money Laundering Act and the Personal Data Act (PUL).

As part of our efforts to ensure regulatory compliance, we have ourselves produced a number of governance documents to cover the issues we consider to be so essential to our operations that they need to be determined, formalised and regulated. These include SBAB's Code of Conduct, policies, directions and instructions. We promote a healthy and open corporate culture where every employee is personally responsible for complying with the applicable regulations and acting ethically.

We also comply with the Global Compact's ten principles on corporate social responsibility and report these efforts in our Communication on Progress (COP).



# HOW WE WILL ACHIEVE IT

## Attitudes and values

To achieve our vision, we must supplement the efficiency, discipline and good procedures of our operations with creativity, determination and speed. Such an approach requires actions that aim to bring about change and innovation.

We work actively to develop our value-driven working approach, with our self-driven employees and inclusive leadership at its core. A value-driven working approach involves always ensuring we work with our values in mind – using them as a basis to consistently practise, talk, discuss and give feedback. It is a matter of giving our employees the tools and courage they need to take initiatives, make their own decisions and implement and test new ideas.



## SBAB's corporate culture is described in terms of four values:

### We work fast and smart

- I'm ready to challenge and think innovatively
- I act promptly and deal with issues
- We test and learn
- We keep it simple

### We assume responsibility – from start to finish

- I think one step ahead
- We take decisions where issues can be solved
- We are careful with money
- We act sustainably

### We are proud professionals

- I act professionally
- We are all responsible for our clients
- We foster long-term relationships
- I continuously develop my skills
- We love doing business

### Together – we succeed

- We meet targets and celebrate successes
- I am direct and clear
- I share my expertise with everyone
- I make a difference and focus on the bigger picture
- I am unassuming and caring

At SBAB, we want all employees to keep our values in mind in their daily lives and work. For this reason, we have introduced the "Value Driver" award. This award is based on nominations from colleagues and is open to anyone who works for us. A value driver is an employee who sets them-

selves apart by incorporating our values into their life and work. This could involve a specific behaviour, an improvement, a saving, an achievement – in principle, anything at all. Receiving this award is extra special. The nominated value driver(s) receive(s), in addition to the honour,

a monetary "Value boost". So far, a total of 13 employees have received the award and a place on our "Wall of Fame".



READ MORE ABOUT SBAB AS A WORKPLACE ON PAGES 30–34.

# TRENDS AND THE WIDER WORLD

## THE WIDER WORLD

**All companies must continuously adapt and reinvent themselves in today's changing world. This applies equally to smaller players in the financial sector and housing market. Technological, economic, social and political changes all have an impact on the conditions and opportunities linked to our operations.**

There are long-term risks linked to wider geopolitical developments. Since the beginning of the 1990s, there has been a global trend toward military disarmament and increasing exchanges of products, services, capital and people, as many countries have undergone deregulation and opened up markets. The result has been increased foreign trade and growing prosperity, not least in parts of the world that had previously trailed behind. Sweden has also benefited from this. However, there are signs that the trend towards increased integration and cross-border exchange may start to be reversed. More

obstacles to trade and less internationalisation could hold the development of the Swedish economy back in the future.

### **Digitalisation a challenge to old business models**

On the technology front, major steps are being taken in terms of digitalisation of the entire financial sector. New innovations are appearing constantly. Technological developments are challenging old business models and intense efforts are under way at many companies to retain and defend their existing positions. At the same time, many new players offering new solu-

tions and new business models are ready to compete for customers. Those who create the best customer relationships and customer experiences will be the winners in tomorrow's financial market. The right technology is also required to maintain positive relationships, create unique experiences and exceed expectations.

### **Consistently high level of regulation**

The financial sector is potentially the most regulated sector of the economy. Participants who want to offer simple loan and savings products have to contend with and adhere to an incredible volume of regu-



lations. Regulations have increased considerably over the past ten years and are likely to continue increasing in the future. The regulations essentially aim to reduce the risk of future financial crises, limit costs to society if a crisis were to occur and maintain a strong level of consumer protection. These aims are achieved at a cost, however, and new, more extensive regulation is expected on an international, European and national level, which will render banking operations even more complex.

#### Problems in the housing market remain

For a long time, the Swedish housing and residential mortgage market has had a

considerable imbalance between housing supply and demand, with rising house prices and a rapid accumulation of household debt. It is difficult to specify exactly how major and serious these imbalances are, but with each year that prices and debt levels rise, so does the sensitivity of households and the economy to major fluctuations in house prices and interest rates. It is pleasing, therefore, to see that the increase in both prices and debt levels slowed in 2016 as new housing construction gathered pace. Politically speaking, measures have mainly focused on the residential mortgage market, most recently with the expanded mortgage repayment

requirements that came into force at the beginning of June 2016. However, achieving a balance in the long term requires measures that improve the function of the housing market, such as tax and regulatory amendments that both facilitate the construction of new housing and stimulate turnover in the existing housing stock.

## A new agenda for sustainable development



#### UN's Sustainable Development Goals

At the UN summit of 25 September 2015, heads of state from around the globe adopted the Agenda 2030 for Sustainable Development. This is a new development agenda comprising 17 Sustainable Development Goals (SDGs) that are to replace the previous Millennium Development Goals (MDGs). An important part of the agenda concerns the sharing of responsibility among all players in society. Every player in society is considered important in terms of implementing the agenda, and the business community plays a key role.

The Swedish Government's updated ownership policy, which will take effect as of 2017, states that companies in which the Government is an owner must analyse the SDGs contained in Agenda 2030 within the framework of their operations to identify which goals the company can influence and contribute to through its activities. Companies are also expected to identify business opportunities that contribute to the achievement of the goals.

In 2017, we intend to analyse and map out the SDGs in relation to our strategies, focus areas and targets regarding sustainable business, in order to ultimately integrate relevant parts into our operations.

#### The generational goal

The Swedish environmental objective system contains a generational goal, 16 environmental quality objectives and 24 milestone targets. The overall goal of Swedish environmental policy, the generational goal, is to hand over to the next generation a society in which the major environmental problems in Sweden have been solved, without increasing environmental and health problems outside Sweden's borders. A government proposal clarified that the generational goal is to be fulfilled by 2020. One of the environmental quality objectives, objective 15, refers to a good built environment. This sector accounts for nearly 40% of Sweden's energy consumption and is key to the country achieving its established targets. SBAB is a leading player in the housing financing sector and thus has a great responsibility to drive developments in this area.



# THE HOUSING AND RESIDENTIAL MORTGAGE MARKET

## THE WIDER WORLD

**The Swedish economy is continuing to develop strongly, despite uncertainty in the wider world and rising long-term interest rates. Swedish households have strong finances and savings account deposits are at record levels. The rise in household indebtedness slowed somewhat during the year, even though debts are continuing to increase at a faster rate than incomes. The authorities have announced that further macroprudential measures could become necessary in the future.**

For most of 2016, both short and long-term market interest rates in the wider world were below the levels seen in 2015. However, long-term interest rates rose towards the end of the year. The wider world is still wrestling with problems in the form of unexpectedly weak economic growth, high unemployment and prolonged low inflation. Many countries' public finances are under strain. The differences in development between different regions and countries became more pronounced in 2016. Growth forecasts for the US economy have brightened while the European economy is showing weak growth. The economic situation in China remains uncertain, with a number of question marks hovering over its property market. Initially, the results of the UK's referendum on EU membership along with the US presidential election had relatively minor impacts on the financial markets, but have definitely raised doubts

and uncertainties as to how political and economic conditions in the wider world will progress moving forward.

### High growth in the Swedish economy

Despite growth slowing marginally compared with 2015, the Swedish economy had one of the highest growth rates in the western world in 2016. Growth in domestic demand was supported by both consumption and investment. Housing construction and public consumption accelerated, representing a particularly important contribution to the stable growth. Foreign trade held growth back, however, with exports of goods developing particularly weakly. The public finances have continued to strengthen as employment levels have increased. Households benefited from low interest rates, rising house prices and higher real incomes, and were thus able to increase their consumption at roughly the

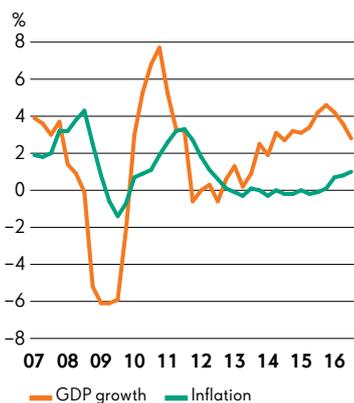
same rate as last year, while maintaining the high rate of saving.

Inflation rose gradually during the year, though it continued to fall below the Riksbank's inflation target of 2% and the increase is mainly attributable to rising energy prices rather than a more general increase in inflationary pressure. The Riksbank therefore lowered its key interest rate further and increased purchases of government bonds in 2016. Short-term market interest rates gradually declined slightly during the year and long-term market interest rates also closed lower, despite a fairly notable increase in the latter part of the year.

### Increased housing construction

Housing construction in 2016 was in line with demographic developments for the first time in many years. However, the imbalance between supply and demand

GROWTH AND INFLATION



HOUSING PRICES



INTEREST RATES





created in previous years is continuing to drive up housing prices while mobility in the housing market is limited by various regulations and tax rules. The unchanged mortgage rates and tightening of repayment requirements did however contribute to rate of increase in housing prices falling somewhat in 2016.

In 2016, the value of households' mortgages grew 7.6% to SEK 2,902 billion, while loans to tenant-owners' associations increased by 7.2% to SEK 416 billion. The market for financing multi-family dwellings

is also deemed to have expanded rapidly. Low interest rates, the stable development of household incomes, increased housing construction and beneficial conditions for property transactions have all contributed to this expansion.

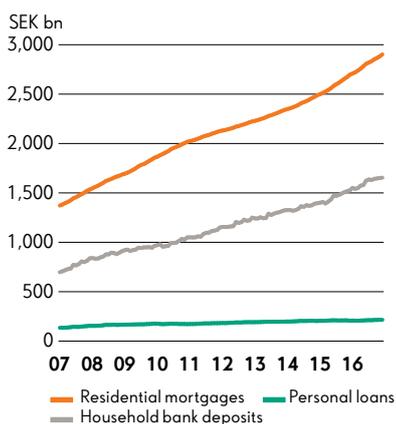
The rise in household indebtedness slowed during the year, but debts are continuing to increase at a faster rate than incomes. Following a number of legal rounds, Finansinspektionen's repayment requirement took effect on 1 June. Most banks also tightened their lending condi-

tions further in 2016, with more tightening likely to come in 2017. It is also probable that capital adequacy regulations will be tightened further in the future. A debt-to-income ratio – a limit on the size of a loan compared to income – may also become a reality if the increase in debt does not ease off. Other measures that may curb this development, such as the abolition of interest-rate deductions or moving-related taxes, the reintroduction of property taxes, amended rent controls and construction subsidies, will likely also be discussed in the coming period.

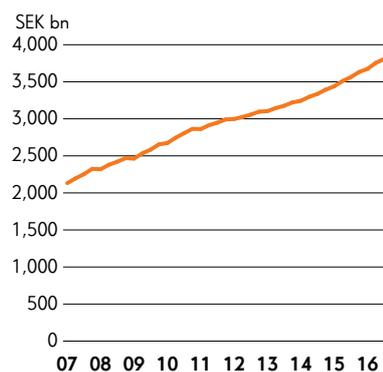
### Continued high rate of saving

At the end of 2016, the financial sector held SEK 3,094 billion in deposits from Swedish households, companies and organisations. The share of retail deposits was SEK 1,654 billion. Households deposited SEK 1,619 billion with banks, which are subject to the national deposit guarantee. Household savings increased at a faster rate than household debt, despite the low interest rates. In 2016, retail deposits in banks increased 8.6% and corporate deposits rose 9.8%.

#### MARKET DEVELOPMENT



#### HOUSEHOLD DEBT



# OUR VIEW OF SUSTAINABILITY

## THE WIDER WORLD

**Our operations depend and have an impact on many different types of stakeholder. The ability to contribute to sustainable societal development requires our stakeholders to have confidence in us and the values we represent.**

### Customers

The confidence our customers have in SBAB determines our ability to develop in many respects, and therefore also our ability to take on a greater role in societal development. The skills, professionalism and consideration shown by our employees on a daily basis are apparent in surveys conducted by Svenskt Kvalitetsindex (Swedish Quality Index, SKI) and Nordic Brand Academy (NBA).

### Investors

Investor confidence in SBAB is based on investors' interaction with our employees as well as on a belief in our business model and our ability to support positive and sustainable economic developments. We note with great pleasure the growing interest in our sustainability efforts as a growing number of investors integrate sustainability aspects into their analyses and investment decisions.

### Employees

SBAB's employees are its most important asset. Motivated and committed employees are a prerequisite for our success and one of the most important resources in terms of achieving our vision. Our employees' motivation to create value through stakeholder relations depends on a number of factors, including leadership, skills development, development opportunities and our corporate culture.

### Owner

SBAB is wholly owned by the Swedish government. Corporate governance is exercised through the general shareholder meeting, the Board of Directors appointed by that meeting, the Articles of Association, the Swedish government's ownership policy and continuous ministerial contacts with the Chairman of the Board and the CEO. The Swedish government's ambition for Swedish state-owned companies — to set good examples and serve as role models for sustainable development — has inspired us to clarify our role in the sustainable development of society.

Suppliers

Partners

Stakeholder organisations

Media



**SBAB!**



•••• **Material aspects**

- 1 **Financial performance**
- 2 **Sustainable products**
- 3 **Ethics**

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- 4 **Customer relationships**
- 5 **Communication**
- 6 **Employees**
- 7 **Social responsibility**
- 8 **Business relationships**
- 9 **Environmental responsibility**

Being attentive to the requirements, needs and wishes of our stakeholders is a prerequisite for developing SBAB's business in the desired direction and thereby creating long-term value.

It emerged from our stakeholder and materiality analysis – whereby we conducted qualitative telephone interviews with representatives from important stakeholder groups such as customers, the owner, employees and investors, asking questions about the sustainability areas they considered to be most important for SBAB to focus on – that our stakeholders would mainly like us to prioritise our contribution to financial performance, our ability to create sustainable products and our responsibility to act ethically.

### Three focus areas within sustainable business

Based on the results of the stakeholder and materiality analysis, SBAB's Board of Directors has established three particularly important focus areas within sustainable business. Together, these focus areas form the basis of a common approach to SBAB's contribution to sustainable societal development.

<b>Sound finances</b>	<p>•••</p> <p>As a bank, SBAB bears a particular responsibility. This involves both contributing to our customers' financial security and, as part of the financial system, ensuring the long-term sustainability of the country's economy. Sound finances are a prerequisite for our ability to achieve this and to conduct business operations that are sustainable in the long term.</p>
<b>Responsibility and transparency</b>	<p>•••</p> <p>For SBAB, responsibility and transparency involve promoting responsible lending, marketing and sales. Through openness and transparency, we aim to improve the reputation of the banking and financial sectors. Our responsibility as an employer is another important element of the focus area.</p>
<b>Sustainable housing</b>	<p>•••</p> <p>SBAB has extensive experience and knowledge within property financing, and matters related to homes and housing are deeply ingrained in the company's roots. Sweden faces numerous societal challenges that are economically, socially or environmentally related to housing. As we are highly committed to sustainable housing, we seek to contribute to positive societal developments.</p>

For every focus area, we have adopted a fixed strategy, overall targets and measurable targets, and determined how the results should be reported. Targets and metrics are reviewed each year in conjunction with the business planning process. Our policy for sustainable business is available on our website, [www.sbab.se](http://www.sbab.se).

READ MORE IN THE SUSTAINABILITY NOTES ON PAGE 127.

### Sustainability strategy review

Much has happened in our macro-environment, which is why we initiated a new stakeholder and materiality analysis at the end of 2016. The analysis aims to ensure that through our sustainability efforts, we drive and work on those issues and areas of primary importance to our stakeholders and ourselves, and where we have

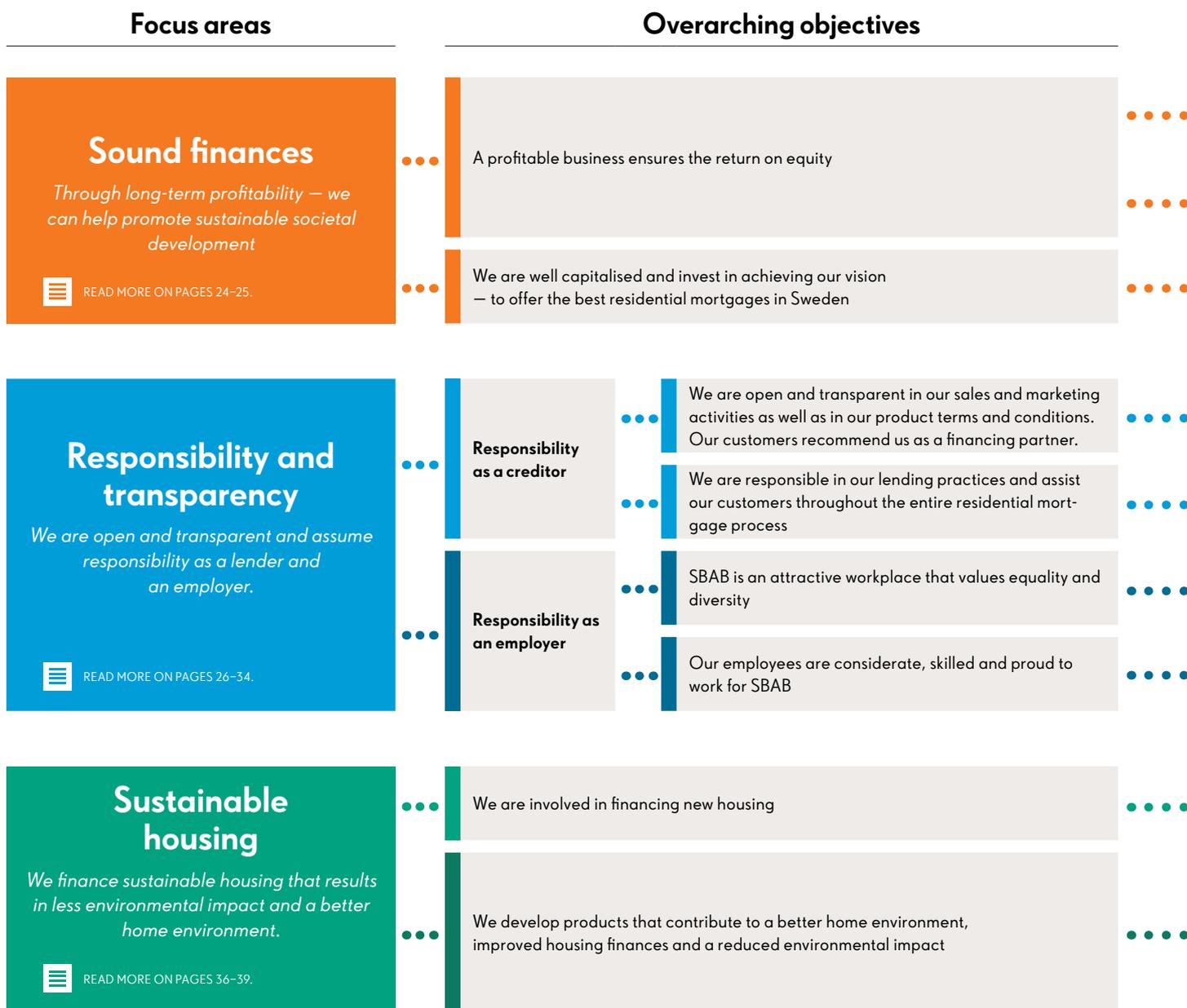
the greatest opportunity to influence. This work is expected to be completed in spring 2017 and may result in changed objectives and new targets for our sustainability agenda.

READ MORE IN THE SUSTAINABILITY NOTES ON PAGE 127.

# OBJECTIVES, TARGETS AND RESULTS

## FOCUS AREAS: OBJECTIVES, TARGETS AND RESULTS

SBAB's objectives are based on our three focus areas within sustainable business: Sound finances, Responsibility and transparency and Sustainable housing. In addition to these objectives, each business area, department and function has a large number of internal business targets, which are regularly followed up and evaluated.



1) The Board of Directors adopted new capital targets for SBAB in 2016. According to these new targets, under normal conditions, SBAB's Common Equity Tier 1 (CET1) capital ratio should be at least 1.5 percentage points higher than the CET1 capital requirement communicated by Finansinspektionen. This target is estimated, according to SBAB's internal assessment, to correspond to a CET1 capital ratio of at least 25.4% as of 31 December 2016.

2) The target refers to the number of employees stating an NPS of 9–10 in response to the query "Would you consider recommending SBAB as an employer?"

3) Refers to the number of retail customers who consume a sustainable product or service provided by SBAB. At year-end 2016, 44 retail customers had an Energy loan with SBAB. At the same time, SBAB's mobile app, Energy guide, had 1,013 users.

4) SBAB issued a green bond on 16 June 2016.

5) Target set ahead of 2015 or 2016, thus explaining why there is no outcome for the year.

		2016 target	Result		
			2016	2015	2014
•••••	<b>Profitability:</b> Return on equity over time	>10.0%	12.3%	10.2%	12.1%
•••••	<b>Dividend:</b> Ordinary dividend based on profit for the year after tax, taking the Group's capital structure into account	>40%	40%	0%	40%
•••••	<b>Capitalisation:</b> Common Equity Tier 1 capital ratio <sup>1)</sup>	25.4%	32.2%	28.6%	29.8%
•••••	<b>Transparency:</b> The percentage of customers who think that SBAB states its terms and conditions in an open and straightforward manner	>85%	89%	88%	88%
•••••	<b>Customer ambassadors:</b> Sweden's most satisfied residential mortgage customers according to Swedish Quality Index (Svenskt Kvalitetsindex, SKI)	1st	1st	1st	1st
•••••	<b>Equality:</b> Equality between women/men in management positions (within the range)	45–55%	45/55%	44/56%	41/59%
•••••	<b>An attractive workplace:</b> The percentage of employees recommending SBAB as an employer (9–10 in the Net Promoter Score, NPS) <sup>2)</sup>	40%	43%	37%	n/a <sup>5)</sup>
•••••	<b>Financing of new housing:</b> Contribute to the construction of new housing (number)	1,750	2,966	n/a <sup>5)</sup>	n/a <sup>5)</sup>
•••••	<b>Product development</b>	<b>Retail:</b> Sustainable customer offering (no. of customers)	5,000	1,057 <sup>3)</sup>	n/a <sup>5)</sup>
•••••		<b>Corporate Clients &amp; Tenant-Owners' Associations:</b> Develop a sustainable offering in 2016	1	1 <sup>4)</sup>	n/a <sup>5)</sup>

# SOUND FINANCES

## FOCUS AREAS: SOUND FINANCES

### Long-term profitability allows us to contribute to sustainable societal development.

As a bank, we are part of society’s basic infrastructure. Well-functioning banks contribute to societal development and employment. We create conditions that allow consumers to build up their financial security by saving and borrowing money at different life stages, and we enable companies to operate, grow and create value for many different kinds of stakeholders.

Our day-to-day work opens opportunities for our customers to realise their dreams – dreams of a home.

Sound finances based on long-term profitability are a prerequisite for our ability to invest in and conduct our operations in a sustainable manner and thereby make a positive contribution to society.

#### Profitability

SBAB’s profitability target specifies a return on equity amounting to at least 10%. It is important for SBAB to be profitable since this, along with economic stability, creates the conditions for us to develop our operations while also helping us create long-term value for the owner. Return on equity amounted to 12.3% in 2016 (10.2).

2016 target		Result		
		2016	2015	2014
<b>Profitability:</b> Return on equity over time	>10.0%	12.3%	10.2%	12.1%
<b>Dividend:</b> Ordinary dividend based on profit for the year after tax, taking the Group's capital structure into account	>40%	40%	0%	40%
<b>Capitalisation:</b> Common Equity Tier 1 capital ratio	25.4%	32.2%	28.6%	29.8%

## STOCKHOLMS STADSMISSION

# HOUSING FOR ALL

We support Stockholms Stadsmission in its aim to reduce the acute issue of homelessness in Stockholm County by 2018 by offering housing to 250 people through the “Särskildnyttan” project. The project aims to enable property owners, housing developers and financiers to contribute housing or finance housing support for those people who are most cut off from the ordinary housing market.

“Homelessness risks affecting new groups in our society; families with children, the elderly and new arrivals. It causes

a lot of suffering, not least for children, and it often takes many years to escape from. All housing market participants need to work together to tackle the major challenge posed by the housing shortage,” says Marika Markovits, Director of Stockholms Stadsmission.

Within the framework of this project, we arranged for one of our employees to work at Stockholms Stadsmission in 2016. We also helped develop an administrative function, Bobyrån, which currently serves as the control centre for the practical parts

of the project. We also arranged a number of meetings with representatives from the City of Stockholm and our property company customers to discuss what we can do together and to identify solutions to reduce homelessness. The meetings resulted in several agreements being drawn up between Stockholms Stadsmission and various property companies, aiming to make apartments available to Stadsmission to rent to homeless people as vacancies arise in property portfolios.

### Dividend

Part of our funding comes from our owner, the Swedish state, in the form of equity. In return for its contribution, the owner receives a return in the form of profit generated by SBAB. In accordance with the owner's dividend target, at least 40% of profit after tax is to be distributed, taking SBAB's capital structure into consideration. As our owner is the Swedish state, this profit goes back into the Treasury and helps to finance state expenditure. The Board proposes a dividend of 40% (0) for

2016, corresponding to SEK 628 million. The rest of the profit is to be reinvested into operations.

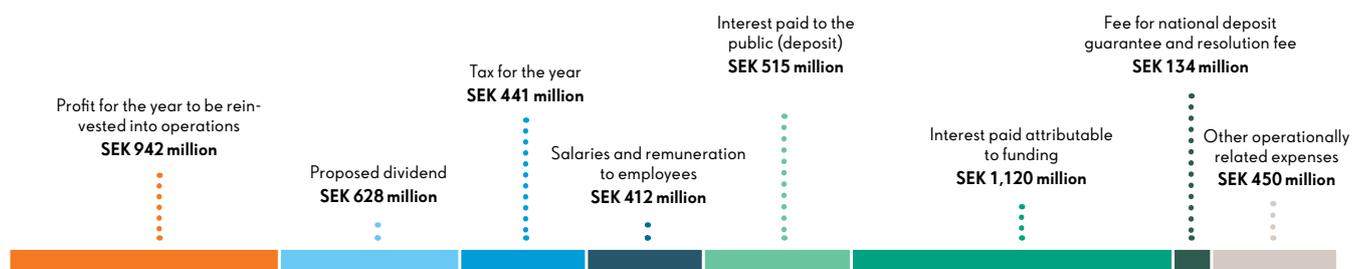
### Capitalisation

It is important for SBAB to be well capitalised, since it contributes to the financial stability of the company as well as its ability to grow. In 2016, the Board of Directors adopted new capital targets for SBAB. According to these new targets, under normal conditions, SBAB's CET1 capital ratio should be at least 1.5 percentage

points higher than the CET1 capital requirement communicated by Finansinspektionen. At the end of the year, this target was expected, according to internal estimates by SBAB, to correspond to a CET1 capital ratio of not less than 25.4%.

The CET1 capital ratio amounted to 32.2% (28.6) at the end of the year, which is 6.8% above our target.

 READ MORE IN THE ADMINISTRATION REPORT BEGINNING ON PAGE 40.



### Financial value creation

One way of measuring how we generate financial value for our stakeholders is by presenting information on how the financial value is distributed.

“Our collaboration with SBAB has been decisive in terms of the project’s development. It is invaluable to have partners who offer a plan and a purpose for their support.”

**STOCKHOLMS  
STADSMISSION**

Read more about Stockholms Stadsmission and the organisation’s work at [www.stadsmissionen.se](http://www.stadsmissionen.se).

“ Homelessness risks affecting new groups in our society. Every player in the housing market needs to work together to tackle the major challenge posed by the housing shortage.

– Marika Markovits,  
Director, Stockholms Stadsmission



# OUR RESPONSIBILITY AS A CREDITOR

## FOCUS AREAS: RESPONSIBILITY AND TRANSPARENCY

Through openness and transparency, we aim to improve the reputation of the banking and financial sector.



### Responsibility...

We strive to offer financial products that are sustainable for individuals, companies, tenant-owners' associations and society at large. A prerequisite for sustainable financial products is sound credit granting. This involves being clear and transparent with terms, conditions and products. As a company, we must also ensure that we conduct sales, marketing and credit approvals responsibly.

It is important that our customers fully understand the terms and conditions when they purchase a product or service from us and that they feel secure when they make important financial decisions. We strive to be straightforward, clear and transparent throughout our credit process. Our customers should always feel confident in their financial commitment and in having SBAB as their creditor. A full 89% of our customers feel that we present our terms and conditions in a simple and open manner.

### ... and transparency leads to satisfied customers

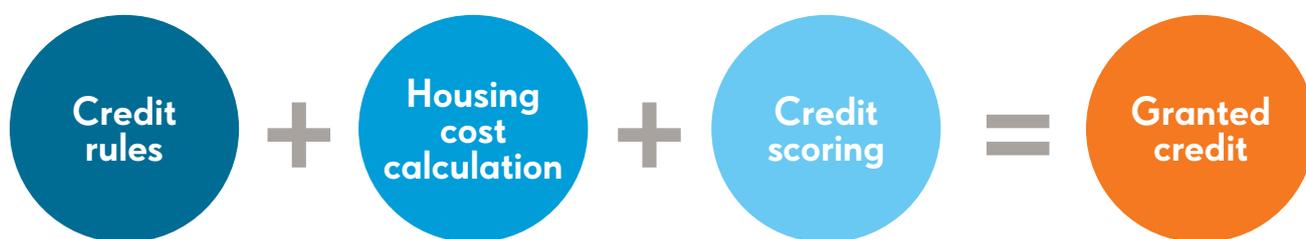
Our customers appreciate transparent and straightforward pricing of residential mortgages and we believe this is a natural part of an open and trustworthy customer relationship. Our pricing of residential mortgages is based on the current listed rates for each maturity, as published on [www.sbab.se](http://www.sbab.se).

The customer's specific interest rate is presented as a deviation from the list rate, and this deviation is based on the size of the loan and the loan-to-value (LTV) ratio of the property. The LTV ratio can be described as the proportion of the loan in relation to the market value of the property. Our customers can make their own calculations to see which interest rate they would receive on different loan amounts and LTV ratios directly on our website, [www.sbab.se](http://www.sbab.se). As a supplement to our basic pricing, we occasionally apply temporary offers with clearly stated terms.

We believe that responsible and transparent credit granting is a prerequisite for having satisfied customers, particularly nowadays where confidence in the brokering of residential mortgages is perhaps more important than ever before. We are therefore extremely proud of the fact that we had Sweden's most satisfied residential mortgage customers 2016 according to SKI for the third consecutive year.

2016 target		Result		
		2016	2015	2014
<b>Transparency:</b> The percentage of customers who think that SBAB states its terms and conditions in an open and straightforward manner	>85%	89%	88%	88%
<b>Customer ambassadors:</b> Sweden's most satisfied residential mortgage customers according to Swedish Quality Index (Svenskt Kvalitetsindex, SKI)	1st	1st	1st	1st

Simplified credit approval process for consumers



**A responsible credit approval process**

We continuously monitor developments in terms of the property market, macroeconomic conditions and household finances. Together with analyses of SBAB’s lending portfolio, this knowledge forms the basis of changes and adjustments made to our credit approval process. We continuously review our credit rules for consumers, companies and tenant-owners’ associations alike.

*Consumers*

We strive to ensure a streamlined credit approval process, which means that we do not offer loans in every kind of situation. As an online bank, SBAB does not grant credit to customers who require major manual analysis work or for properties that are difficult to re-evaluate without a site visit.

We place the same requirements on our partners as we do on ourselves. This means that our credit regulations remain the same, regardless of whether a customer comes to SBAB directly or to one of our partners. We carry out continuous random follow-ups along with other types of reviews to ensure that all of our credit approvals are managed in a sound manner that complies with SBAB’s regulations.

Our granting of credit to consumers is based on an extensive credit approval process that determines whether customers have the required financial capacity to meet their commitments.

We base our credit approval process on existing credit rules, such as rules governing debt ratios and LTV ratios, information received from credit rating agencies, such as UC, and the Land Registry as well as information provided by the customers themselves. The expertise and professionalism of our mortgage administrators are an important part of the process. First, we assess the customer’s ability to make repayments, but also any collateral posted for the loan. Loans are not approved if

the ability to make repayments cannot be guaranteed. The credit approval process centres around a calculation of housing costs. If the calculation indicates there is a sufficient surplus, a loan is normally granted provided that the customer satisfies other formal requirements and credit regulations. If the calculation indicates a deficit, the loan is not granted.

For SBAB’s residential mortgages, collateral is posted in the form of a mortgage deed on a property or a participation in a tenant-owners’ association. The loan is permitted to correspond to a maximum of 85% of the value of the property. This limit, or mortgage ceiling, was introduced in 2010. In total, 5% (7) of our loan portfolio consists of loans with an LTV ratio of more than 85% — a proportion that is decreasing over time.

*Corporates and tenant-owners’ associations*

Our credit approval of corporates and tenant-owners’ associations is also primarily based on the ability to make repayments. In addition to the ability to make repayments, which we assess by analysing income and cash-flow statements, we also assess the collateral for the customer’s

loan. The customer’s properties are valued by SBAB’s valuation department. As part of this valuation, we also assess future maintenance requirements and the customer’s ability to finance such requirements. Customers are managed individually by a team consisting of an account manager, analyst and loan administrator. In contrast to retail lending, we physically meet our corporate and tenant-owners’ association customers via individual meetings and frequent seminars to share our expertise, gather necessary information and to create a close customer relationship.

SBAB aims to ensure that the loans we finance reflect sound environmental risk management. Any negative impact on the climate or environment should be avoided wherever possible, or at least minimised, mitigated or compensated for. As part of our credit granting to property companies and tenant-owners’ associations, we consider certain sustainability criteria as a part of the overall assessment, including environmental risks, energy consumption and environment classification of the properties used as collateral. The property companies’ environmental policies are also relevant.

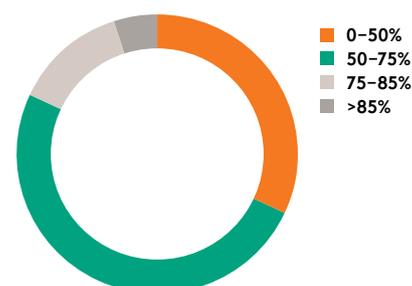


**HOUSING COST CALCULATION**

+	Borrower’s income <sup>1)</sup>
–	Housing expenses <sup>2)</sup>
–	Living expenses <sup>3)</sup>
=	<b>Surplus (or deficit)</b>

<sup>1)</sup> The stated income is checked using the credit information service UC, among others.  
<sup>2)</sup> Repayments, running costs, monthly fees and stressed interest rates.  
<sup>3)</sup> In accordance with the Swedish Consumer Agency’s guidelines — taking the number of minors and adults in the household into account.

**LTV RATIO IN THE LOAN PORTFOLIO**





When viewing and valuing properties, in addition to the property's location, condition, standard and other factors, special attention should be paid to any occurrence of environmentally disturbing factors, such as polluted land, substandard ventilation and harmful building materials.

#### Loan repayments

SBAB believes that repayments help ensure sound household finances. Approximately two thirds of our residential mortgage customers amortise at least one of their loans. On 1 June 2016, we introduced new loan repayment rules in line with Finansinspektionen's regulations. These rules include a repayment rate of 2% per year for new residential mort-

gages with an LTV ratio of more than 70%, and 1% per year down to an LTV ratio of 50%. Loans taken out before 1 June 2016 are not covered by the new repayment requirements. In addition to the minimum level of repayments, we offer our customers individual repayment recommendations. More information about the new repayment requirement rules and the rules SBAB applies is available on our website, [www.sbab.se](http://www.sbab.se).

#### Debt ratio

In recent years, we have noticed an increase in how much our customers borrow in relation to their gross income, referred to as their debt ratio. This increase is partly a result of soaring hous-

ing prices. The debt ratio gives us a good indication of how sensitive our customer's ability to make repayments is to changes in the interest rate or income levels, as well as of the customer's scope for making repayments. SBAB has a credit rule that limits to the debt ratio to six.

#### Customers with payment difficulties

We have a responsibility and a duty to help customers who encounter temporary payment difficulties. Our insolvency team in Karlstad has extensive experience and works actively to help customers who have run into difficulties, while always working in a way to minimise our loan losses. We usually say that we work on preventative insolvency management. This means that our ambition is to initiate a dialogue at an early stage in cases where we discover that a customer is having payment difficulties.

#### Security

Our preventative work within banking security and banking confidentiality is of major importance in terms of the confidence our customers have in us. Our security measures involve both prevention and control. We take measures to detect and counteract threats in advance and we regularly check that our protective measures are effective. Security is always an important element in the management and development of our products and services.

## SBAB'S HOUSING ECONOMISTS

# COMMUNICATING SO EVERYONE CAN UNDERSTAND

To make a well thought-out and considered purchase in the housing market, it is important to do your homework and understand exactly what it is you are buying. This is made more difficult by tricky terminology and complicated annual reports, SBAB's housing economists Emma Persson and Claudia Wörmann think.

"In autumn 2016, we conducted a survey which showed that few people understood the meaning of the various concepts linked to the housing market," says Claudia Wörmann.

SBAB's housing economists believe the fact that more than half of those surveyed often do not understand frequently occurring concepts such as "debt-to-income ratio" and "deferred capital gains tax rules" can lead to problems.

"Those of us who regularly use these concepts in various social channels have a responsibility to ensure that as many people as

possible understand them. This entails not simply talking to the financial press that is already up to speed with them, but attempting to reach out by using a different tone in other channels," Claudia continues.

The fact our brains think in a visual way and want to have as much fun as possible doesn't help when it comes to a buyer of a tenant-owners' right attempting to understand a fairly inaccessible annual report produced by a tenant-owners' association. Many apartment buyers have trouble sufficiently understanding what they are buying as many lack the experience of interpreting an annual report.

"My experience is that many people are not sufficiently aware of the fact that a tenant-owners' right is a share in an association and that they therefore also become owners of a share of the association's debt," says Emma Persson.

2016 was dedicated to refining our security checks to ensure that they are relevant in terms of the threats to banks in Sweden. The focus was on IT security, information security, risk and continuity management and process development. In addition, SBAB's risk reporting includes Key Security Indicators (KSI) within security, which increases the Board's ability to monitor and govern SBAB's level of security.

Identity theft, spyware, trojans and other forms of IT-based threats are current societal problems that affect our responsibility as a creditor and a bank. We inform our customers about what they should watch out for and what measures they should take to protect themselves and their computers.

### Counteracting financial crime

#### *Money laundering and financing of terrorism*

Our operations are to be conducted in a manner that minimises the risk of the bank being exploited for money laundering purposes or financing of terrorism. An overall risk assessment is carried out at least once a year aimed at identifying and assessing the risks to our operations in these areas. The assessment forms the basis of measures taken to control risks. We need to pose questions and make the necessary checks in an effective manner to ensure our services are not at risk of abuse. We

therefore have a programme to ensure that we:

- Have a good level of customer awareness
- Have risk-based procedures
- Have an adapted transaction monitoring system in place
- Undertake regular checks
- Train employees; all employees at SBAB have been trained in SBAB's efforts to counteract money laundering and financing of terrorism
- Continuously follow up on how our AML programme is working
- Closely monitor regulatory developments

#### *Counteract corruption*

It is of the utmost importance for us as a company to take a clear stand against corruption. There are many reasons for this. Corruption undermines democracy, renders financial growth more difficult, distorts competition and entails serious legal and reputational risks.

SBAB has an internal policy detailing how our operations deal with benefits. During the year, the policy was updated to reflect changes in the Code on Gifts, Rewards and other Benefits in Business published by the Swedish Anti-Corruption Institute.

We have carried out training programmes and risk evaluations in this area as part of our operations. All management teams have participated in an anti-corruption course — and no incidents of corruption were reported during the year.

### Code of Conduct

We let our values and Code of Conduct act as a moral compass in terms of defining our behaviour and what we stand for as a company. Our Code of Conduct is resolved by the Board of Directors and is available for all employees on our intranet. It provides guidance on how we should act and conduct ourselves in various situations and the inherent responsibilities of being a SBAB employee. Employees, managers, consultants, members of the Executive Management and Board members are responsible for understanding and complying with our Code of Conduct.

### Whistleblower function

We have a whistleblower function in place, through which employees are able to report potential internal improprieties. Instructions regarding this function are available for all employees on our intranet.

Some associations strive to keep the monthly service charge down to make the apartments more attractive to buyers. In this case, it is important to know that, despite this, the financial plan can support sufficient provisions for savings and future renovations.

"If the association is forced to raise the service charge then you as an apartment owner are hit on two fronts. Firstly, the market value can fall and secondly, you may end up with an increased housing expense," Emma explains.



### Poor grasp of terminology

- **65%** of all Swedes do not know the meaning of "debt-to-income ratio"
- **52%** are unsure what "deferred capital gains tax rules" entail
- **49%** state that they do not know what the term "moving-related taxes" entail
- In contrast, only **15%** do not know what the "interest-rate deduction" entails



# OUR RESPONSIBILITY AS AN EMPLOYER

## FOCUS AREAS: RESPONSIBILITY AND TRANSPARENCY

**We consider it important to dedicate as much energy and focus to our employees' experience as we do to the customer experience. We are convinced that we are dependent now more than ever upon people who are motivated, who can identify needs and opportunities and who can act on them. For us, freedom is the key. The freedom to generate ideas, freedom to collaborate, freedom to find solutions – all of which is summarised in the term "self-driven employees."**

### Corporate culture

At SBAB, we strive to enable all of our employees to be independent and driven and to take their own sensible decisions. Our corporate culture is described in our four values, which are presented on page 15.

At SBAB, it is not the Executive Management that decides which initiatives are to be implemented by issuing instructions. At our company, the focus is always on our employees. We make decisions where the issue can be resolved and find a unique way to achieve our targets. Everyone is expected to put forward their own initiatives. We refer to "climbing up the initiative ladder" as one of the symbols of having independent drive. The ladder symbolises our ability to take our own initiatives. Being high up this ladder means taking initiatives and taking action. Being a long way down the ladder means falling victim to circumstances, complaining and waiting for others to solve problems. Our managers have a great responsibility in terms of creating the necessary conditions for our employees to work in this independent and driven way.



### HR strategy

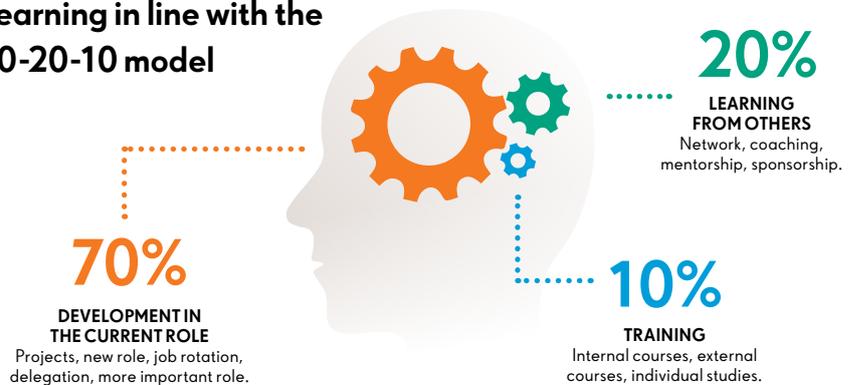
A business-related HR strategy is the key to achieving our vision and our business objectives. In our new strategy, we have defined eight key areas, within which we are to be at the forefront in order for our operations to evolve in the desired direction.

	2016 target	Result		
		2016	2015	2014
<b>Equality:</b> Equality between women/men in management positions (within the range)	45–55%	45/55%	44/56%	41/59%
<b>An attractive workplace:</b> The percentage of employees recommending SBAB as an employer (9–10 in the NPS)	40%	43%	37%	n/a

### Inclusive leadership

Our value-driven working approach places major demands on managers to be bold and to have a holistic perspective. By serving as role models, our leads can build the trust and commitment required to help employees act in an independent and driven manner. We use a lighthouse to symbolise our managers' responsibility. A lighthouse leads the way by setting a good example. Through our behaviour, we send signals to others about how we want to act and work. To support our managers and increase leadership skills, we trained all of them in the value-driven working approach and inclusive leadership skills during the year. Inclusive leadership is about participation, trust, responsibility and clarity as well as equality and diversity. The manager serves as a role model, establishes targets and frameworks, is clear about expectations but demonstrates trust by refraining from micromanaging his or her employees. This enables us to increase the pace and enhance decisiveness and daily innovation, which in turn enables us to achieve our vision more quickly. During the year, we worked on initiatives such as Leadership Forum and Leadership Development Programme.

### Learning in line with the 70-20-10 model



### Training and skills development

Learning and development are absolutely necessary if we are to achieve our ambitious established targets and attract and retain the best talent. Our HR strategy focuses strongly on developing a learning organisation. It is important to ensure that our training programmes are relevant and contribute to business value and the long-term skills development of all employees. Skills are perishable in our changing world, which is why the opportunities for

learning and continuous development are strategically important priorities. Our development efforts are based on the "70-20-10-model." Put simply, the model means that 70% of an employee's learning should come from developing in their existing role, 20% from learning from others and 10% from traditional training. The greatest and most important part of this learning is the development that takes place on a day-to-day basis and together with others.

### Symbols that inspire and give strength

We have developed a number of symbols to breathe life into SBAB's values. They are practical tools for daily life and symbolise how we are to act in our day-to-day work.



**The glass of water** represents trust. The glass fills up slowly by our positive actions, whereas water spills out when we act incorrectly.



**The helicopter** represents our ability to see the bigger picture — lifting up to get an overview, like a helicopter.



**The lighthouse** represents the signals we send out — that we are all role models and ambassadors.



**The door** represents courage — daring to open unknown doors, try out new pathways and think innovatively.



**The ladder** symbolises our ability to take our own initiatives. Being high up this ladder means taking initiatives and taking action. Lower down on the ladder are victims, people who complain and wait around.



**The egg** represents our approach to taking responsibility. This is constant, meaning we also take responsibility beyond our function.



We worked throughout the year to create awareness about what a learning organisation actually entails. In 2016, we held training sessions to explain what it means to work in line with the 70-20-10 model and why it is important for us. By the end of 2016, around 85% of all employees had taken part in the training.

Reflection and feedback are prerequisites for learning and development, which explains why regular progress meetings between manager and employee form an obvious part of our ongoing work. As part of the value-driven working approach, target-setting is important for defining and finalising the direction of, and framework for, future work. For this reason, all employees produce an individual annual plan together with their line manager each year. The plan is followed up and adjusted at a minimum of two major progress meetings per year. Furthermore, issues are discussed on a continuous basis by way of regular individual meetings, referred

to as 1:1 meetings. These meetings focus on coaching regarding our values, the fulfilment of targets and personal development.

We have also developed a concept that will allow us to introduce new employees to our value-driven work method quickly and efficiently. We have named the concept "SBAB Boost Camp" – a two-day intensive induction programme together with Executive Management and a number of dedicated employees. We carried out seven Boost Camps during the year, with plenty of positive feedback from the participants.

#### Results of employee surveys

One of our aims is for SBAB to be an attractive workplace. We have chosen to define this aim based on a measurement of each individual employee's inclination to recommend SBAB as an employer, which we measure on a quarterly basis. In the most recent survey conducted at the end

of 2016, 43% of SBAB's employees were strongly inclined to recommend SBAB as an employer<sup>1)</sup>, which exceeds our target of 40%. The results of the employee survey are discussed and analysed throughout the entire organisation – from Executive Management to individual departments and teams.

In addition to our quarterly employee survey, we conduct a supplementary annual Group-wide employee survey in collaboration with the company Great Place to Work. The survey aims to deepen our understanding of our employee's satisfaction and how they experience the workplace, based on a number of fundamental needs in the areas of trust, pride and camaraderie. We want to use the survey to create a basis for analysis and a more involved dialogue at departmental and team-level, as well as to establish a clearer understanding of the measures we should be focusing on to improve or maintain our employees' experiences of SBAB. Engagement with these issues is generally extensive, which is visible in the high response rate in this year's survey – over 96% of all employees participated in the survey and a full 77% agreed with the statement: "All in all, I would say that I have a very good workplace."

**The management's commitment, demonstrated by their participation in presentations, activities and the banquet, is a clear signal of how important we are as employees and individuals.**

– quote from a participant in the SBAB Boost Camp, our introductory programme for new employees.

 FOR MORE EMPLOYEE DATA, SEE NOTE 8 AND THE SUSTAINABILITY NOTES.

<sup>1)</sup> The number of employees stating 9–10 in the NPS loyalty measurement in response to the query "Would you consider recommending SBAB as an employer?"

### How we approach equality and diversity

SBAB has an equality and diversity policy that emphasises the value of employees with different backgrounds. At our company, all employees naturally must have the same rights, obligations and opportunities in every aspect related to the workplace. We want SBAB to be an equal workplace with a high level of integrity that encourages difference. We are convinced that a mixture of opinions, talent and backgrounds enriches our company. These matters are also an important part of the human rights principles that we have undertaken to support within the scope of the UN Global Compact's ten principles on corporate social responsibility. You can read more about our equality and diversity policy on our website, [www.sbab.se](http://www.sbab.se).

One of our targets concerns equality between men and women in executive positions. At year-end, 45% (44) were women and 55% (56) were men, which falls within our range of 45–55%. We work continuously to achieve our target in this area, including by collaborating with the "Nykeltalinstitutet" to obtain an external assessment of our equality initiatives, requesting equal candidate lists from our external recruitment partners when recruiting for managerial positions and key specialist roles, and by ensuring that we have clear guidelines in place that help our employees combine their work with parenthood.

As of 2016, we have chosen to include diversity in our equality plan with the aim of demonstrating that diversity is a highly important priority for SBAB. The term "diversity" entails the targets and activities implemented with the aim of promoting equal rights and opportunities at the workplace, and is thus important in terms of combatting discrimination.

Efforts concerning equality and diversity are pursued across every part of SBAB. The HR department is responsible for producing, developing, driving and raising awareness of the equality and diversity plan at a company-wide level. Managers are responsible for driving equality and diversity efforts within their respective areas. Each individual employee has a personal responsibility to get involved in and adhere to the plan and to adopt an equality-driven approach that combats discrimination in day-to-day work.

## VOLUNTEERING

# GIVING VULNERABLE CHILDREN A HAPPY SUMMER

**Since spring 2016, all SBAB employees have been offered the chance to undertake two days of voluntary work per year at organisations that reflect our mission – to help improve housing quality and household finances. One example is Stockholms Stadsmision.**

Together with a number of colleagues from the Stockholm office, Pernilla, a project manager at SBAB, decided last spring to help Stockholms Stadsmision implement the seasonal opening of its summer holiday camp, where vulnerable children and families get the chance to come and enjoy the summer.

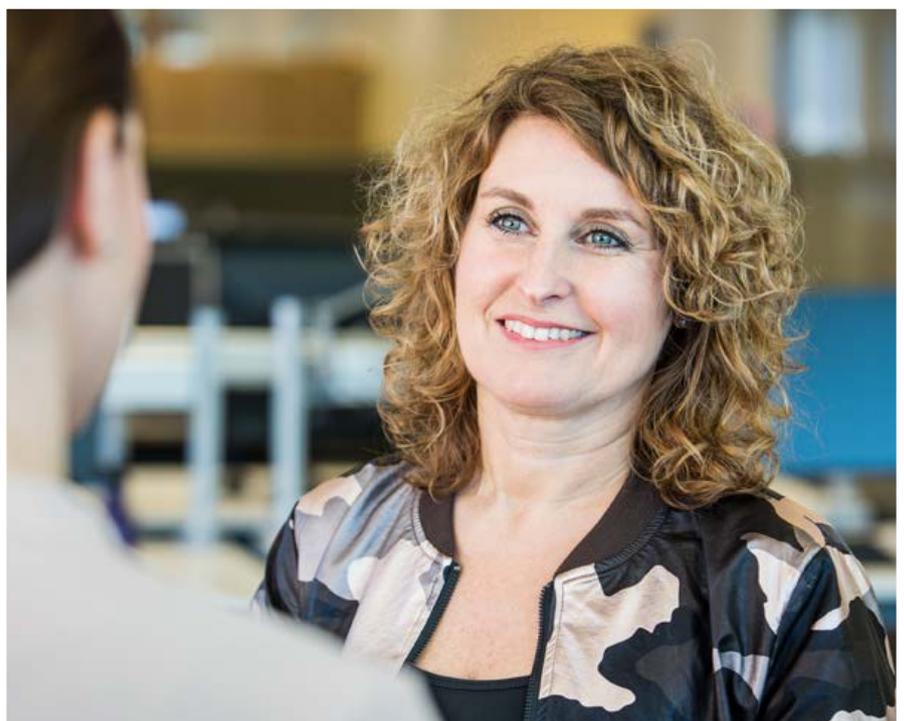
"Having the ability to dedicate two full working days per year to something completely different to what we usually do is enriching, both for a person individually and for the organisation you work together with," says Pernilla.

Stockholms Stadsmision's holiday camp is located in a natural beauty spot by Lake Mälaren, just outside Strängnäs. Families and children come to the camp for a much-needed break

from their day-to-day routine. For some of the camp participants, it is the first time they have ever come out into the countryside. Many apply for a place at the camp, with Stockholms Stadsmision having to turn down over 100 families this year alone.

For some time now, Pernilla has dedicated around half of her working hours to issues affecting SBAB's sustainability initiatives.

"Imagine if we as a company can make the world a little better and more humane through our commitment and some money. That is the kind of thing that inspires me. When I was given the privilege of working to promote our social commitment, I was naturally thrilled."





### **New and introductory work for new arrivals**

Since the beginning of 2016, an initiative has been in place at SBAB that aims to contribute to diversity by working together with Arbetsförmedlingen (Sweden's Public Employment Agency) to offer new and introductory work to newly arrived immigrants. We are spurred on by the ambition to employ more new arrivals to give them the chance to gain an introduction to Sweden's workplace culture, language and relevant employment. This effort is driven by a cross-functional group of employees and managers who work actively to find relevant employment within the company. During the year, we recruited several introductory workers in both Karlstad and Stockholm.

### **Health and fitness at SBAB**

Health is one of the eight pillars of our HR strategy. We work actively to create an inspiring work environment that is adapted to both operational needs and the needs of our employees. We want our efforts in this area to lead to a healthy workload, a high level of satisfaction and a good balance in life. In short – we want our work environment to actively contribute to the

well-being of our employees. To achieve a good work environment, we offer all employees a wellness allowance, health-care hours, free gym access and subsidised health insurance and medical care. Flexible working hours, reinforced parental pay and the active prevention of long-term sick leave in cooperation with occupational health services are other building blocks of our health-related initiatives.

### **Remuneration and equal opportunities**

Our remuneration policy is decided by the Board and covers all SBAB employees, regardless of position. In accordance with the relevant policy, SBAB's remuneration is to be competitive, capped and appropriate, moderate, reasonable, well considered and not salary-leading. It should also contribute to high ethical standards and a good corporate culture. The same applies to the benefits we offer – all employees are offered the same benefits, regardless of position.

Since 2012, there have been no incentive programmes and no variable remuneration to our employees that could have any significant impact on the SBAB Group's risk profile.

The total level of remuneration is determined based on responsibility, complexity and results within the respective employee's area, but also on how well the employee is conforming to our values and our value-driven working approach. We apply individual salary-setting in accordance with our collective bargaining agreement, which means that remuneration and salary growth is individual and differentiated. Salary reviews take place annually by way of individual salary interviews, whereby performance in the role and applicable salary criteria are taken into consideration. In addition, we conduct annual salary surveys to ensure the continuation of our successful work to prevent non-objective salary differences and salary discrimination.

Should abusive special treatment occur, procedures are in place to launch investigations and take measures. Reports should be submitted to line managers or HR. If the employee belongs to a union, a representative from that organisation is brought into the investigation. No known cases of workplace discrimination occurred at SBAB in 2016.

### **Volunteering opportunities**

Since spring 2016, all SBAB employees have been offered the chance to undertake two days of voluntary work per year at organisations that reflect our mission and operations. Examples of such organisations include Refugees Welcome, Hello World! and Stockholms Stadsmission. As a company, we contribute through our employees' working hours, while employees contribute through their commitment.

\* The number of employees stating 9–10 in the NPS loyalty measurement in response to the query "Would you consider recommending SBAB as an employer?"

**INVITING,  
CONTEMPORARY  
MORTGAGE  
THAT REACH  
NEW HEIGHTS.**

**Move to us and become  
one of Sweden's most  
satisfied residential  
mortgage customers.**

**SBAB!**

# SUSTAINABLE HOUSING

## FOCUS AREAS: SUSTAINABLE HOUSING

**We have extensive experience and knowledge of housing financing. Issues affecting homes and housing are part of SBAB's DNA.**

Sweden faces numerous societal challenges that are economically, socially and environmentally related to housing and the housing stock. Within the framework of our operations, we can contribute by offering financing, developing sustainable products and services, distributing knowledge, offering financial advice relating to housing and household finances and actively cooperating in a development dialogue.

### Financing of new housing – good for society and the environment

Not enough new housing is being built in Sweden. In many major urban areas, demand vastly exceeds the supply of housing, which is an important contributing factor to rising housing prices. A low level of residential construction combined with low interest rates has caused rising levels of household indebtedness. It also prevents young people from entering the property market, and those who are not already on the housing ladder find it increasingly difficult to purchase their own homes.

Sweden needs more housing, which gives us the opportunity to contribute an important societal benefit – financing properties, whereby we work with our

customers to stimulate new housing production. Newly built properties are often also more energy-efficient than older properties. In 2016, SBAB was involved in the financing of 2,966 new-build homes.

### The development of sustainable products and services

Properties, business premises and homes account for a major proportion of total energy consumption and CO2 emissions, both in Sweden and around the world. By developing products that give our customers the opportunity and incentive to invest and implement measures that improve energy performance and the environment in their homes and properties, we can be a part of helping create more sustainable societal development. We want sustainable products and services to help improve our customers' household finances, but most importantly – we contribute together to a better and more sustainable housing environment.

In 2015, we launched a green loan aimed at tenant-owners' associations and property companies – a loan with a particularly advantageous interest rate for customers intending to implement measures that improve energy performance

and the environment in their properties. In 2016, we launched a green personal loan, the Energy loan. The Energy loan is a personal loan with an interest rate discount available to customers intending to make sustainable investments in their homes.

At the end of the year, 19 corporate and tenant-owners' association customers had a green loan with SBAB, corresponding to a volume of SEK 55 million. At the same point in time, 44 retail customers had an Energy loan with SBAB, corresponding to a volume of SEK 4.2 million.

In mid-2016, we became the first bank in Sweden to issue a green bond. A green bond means that the funds SBAB receives from investors are used exclusively to finance residential properties that, under a specific framework, meet a number of energy-efficiency criteria or hold environmental certification. SBAB's green bond is unsecured, amounts to SEK 2 billion and has a original maturity of 5 years.

 READ MORE ABOUT GREEN BONDS ON PAGE 39.

		2016 target	Result		
			2016	2015	2014
Product development	Financing of new housing: Contribute to the construction of new housing (number)	1,750	2,966	n/a	n/a
	Retail: Sustainable customer offering (no. of customers)	5,000	1,057	n/a	n/a
	Corporate Clients & Tenant-Owners' Associations: Develop a sustainable offering in 2016	1	1	1	n/a



### Knowledge sharing and advice

We have extensive experience and knowledge of housing financing. Issues affecting homes and housing are part of SBAB's DNA. To make objective and sound decisions, our customers need to understand the relevant financial issues. In addition to contact with our customers via the internet or telephone, we attend trade shows, arrange seminars and regularly publish relevant analyses, surveys and reports that contribute to sharing knowledge and raising awareness of issues related to housing and household finances.

### Mortgage licencing

Under the EU Mortgage Credit Directive that will be implemented in Sweden in early 2017, the personnel at organisations that offer credit, credit brokering or advisory services in the field of consumer mortgage credits to consumers are required to possess special knowledge and skills. As part of the work with the Mortgage Credit Directive and together with Swedish industry body SwedSec Licensing AB, the Swedish Bankers' Association has developed a separate competence test for personnel who work with mortgages, which in turns leads to a license to be able to work with mortgages. We consider improved consumer protection in the residential mortgage market to be important, and

an industry-wide standard for companies whose work involves residential mortgages to be a positive idea. In total, around 370 of SBAB's 510 employees are to be licenced, with 116 of those employees receiving their licences in 2016.

### Our Chief economist and Housing economists

SBAB's Chief economist, Tor Borg, and our two Housing economists, Emma Persson and Claudia Wörmann, are financial

experts that conduct analyses on aspects of macroeconomics, savings, household finances and other issues related to private finances. They serve as SBAB's spokespeople and work to disseminate information to and share their expertise and skills with customers, investors, the public and the media. This work is conducted in many ways and through multiple communication channels, and all reports and analyses are available free of charge at [www.sbab.se](http://www.sbab.se).



Our economists are happy to respond to questions and can be followed on Twitter and on [www.sbab.se/bloggen](http://www.sbab.se/bloggen).

#### *Seminars and trade shows*

SBAB's Corporate Clients & Tenant-Owners' Associations business area regularly visits trade shows and holds seminars that are primarily aimed at trustees and board representatives from tenant-owners' associations.

In 2016, we participated in 13 trade shows to share expertise and experience, forge new contacts and learn about trends, as well as gather the sector's thoughts about the future.

We also arranged nine of our own seminars during the year, whereby experts from SBAB or our network are invited to address topics such as board liability, efficiency measures or new legislation affecting tenant-owners' associations.

#### *The Almedalen week — a great platform for dialogues*

During the Almedalen week forum, we joined various property companies in seminars and panel discussions. We discussed how various stakeholders — property companies, public housing companies, politicians, etc. — can cooperate to create a better social housing environment, where residents are satisfied and feel safe.

#### **Collaboration and a development dialogue**

Our social responsibility is a clear part of our mission. This involves taking social responsibility by clearly helping improve housing quality and household finances in various different ways.

#### *Stockholms Stadsmission*

SBAB supports Stockholms Stadsmission in its aim to reduce the acute issue of homelessness by half in the City of Stockholm by 2018.

#### *Boost by FC Rosengård*

We want to contribute to better social housing environments in deprived areas. For this reason, we have been collaborating with the football club FC Rosengård since 2015, which runs the labour market project Boost in the Malmö region that aims to help unemployed youth find work or begin studying. Employees at SBAB contribute to the content of the project by teaching and giving lectures on a number of occasions each year, to increase the understanding of everyday personal finances.

#### *Situation Stockholm and Faktum*

SBAB supports Situation Stockholm with the aim of contributing to an improvement in the housing situation for homeless people in Stockholm. The magazine, which is sold by the homeless, is a societal and cultural magazine whose idea is to attract readers and thereby create work and a personal income for the magazine's sellers.

We also entered into a collaboration in 2016 with Faktum, a similar organisation active in southern Sweden.

#### *Hello World!*

In 2016, we entered into a collaboration with the non-profit organisation Hello World!, whose purpose is to promote children's and young people's interest in IT-related education in order to reduce Sweden's future skills shortage in this area. We arranged a "Hello World! Meetup" during the year, which is an occasion on which children and young people got the chance to start up or proceed further with various types of digital development projects, with the support of coaches from KTH and SBAB's IT department. There was a great deal of interest, with over one hundred future stars of the digital world spending a Sunday morning at SBAB's Stockholm office developing different technical solutions together.



## SUSTAINABLE FINANCING

# FIRST SWEDISH BANK TO ISSUE A GREEN BOND



In 2007, the World Bank issued the world's first green bond. Since then, the global market for green bonds has seen an explosion in growth. The market doubled in size during 2016 alone. A green bond actually works just like a normal bond, the exception being that the bond's liquidity is earmarked for environmentally friendly projects. By purchasing green bonds, investors can thus both directly and indirectly invest in projects that are sustainable. These efforts ultimately aim to finance a climate-smart transformation of both the economy and wider society.

## How SBAB's green bond works

The funds we raise through our green bond are used exclusively to finance or refinance residential properties that, under a specific framework, meet a number of energy-efficiency criteria or hold environmental certification. A framework based on the International Capital Market Association's (ICMA) "Green Bond Principles" has been developed, which sets out the conditions for issuing our green bonds and our onward lending of these funds. This

framework has been reviewed by the independent climate and environmental research institute, Center for International Climate and Environmental Research – Oslo (CICERO). SBAB's green bond framework can be found on our website, [www.sbab.se](http://www.sbab.se), along with CICERO's statement.

## Green bonds in SBAB's liquidity portfolio

SBAB also invests in green bonds. Our liquidity portfolio currently contains bonds issued by the European Investment Bank (EIB), Nordic Investment Bank (NIB), KfW and Kommuninvest. These bonds finance projects linked to energy efficiency enhancements, for example district heating and additional insulation, as well as projects linked to the development of renewable energy such as wind power, hydro power and solar energy. The financing of such projects contributes to a sustainable, secure and competitive development of Europe's energy supply, which in turn contributes to the EU's ability to achieve the established climate targets for 2020.

**“It is very pleasing to see a Swedish bank finally getting down to issuing a green bond. SBAB's green bond is perfectly suited to our exposure in the SPP Grön Obligationsfond (Green Bond Fund). We now hope that more Swedish banks will follow SBAB's example and conduct more green lending financed by green bonds.”**

Helena Lindahl, SPP Storebrand.

At the end of 2016, our holdings of green bonds amounted to around SEK 1.4 billion (0.6) and it is our ambition to increase these holdings within the framework of the applicable investment policy.

# CONDENSED INCOME STATEMENT AND BALANCE SHEET

## ADMINISTRATION REPORT

### CONDENSED INCOME STATEMENT

#### + SBAB'S INCOME

SEK million	2016 (2015)
<b>Net interest income</b>	2,829 (2,442)
SBAB's largest and most important revenue item is net interest income, which comprises the difference between SBAB's interest income and interest expenses. Interest income is primarily from SBAB's residential mortgages and housing loans, while interest expenses mainly comprise SBAB's funding costs.	
<b>Net commission</b>	7 (-102)
Net commission mainly comprises income from insurance broking and other credit-related fees and funding-related expenses.	
<b>Net result of financial items</b>	48 (1)
The net result of financial items arises through SBAB's application of financial instruments and as a result of accounting valuation effects.	
<b>Other income</b>	34 (0)
Other income primarily consists of income from the subsidiary Booli Search Technologies AB.	
<b>Total income</b>	<b>2,918</b> (2,341)

#### – SBAB'S EXPENSES

SEK million	2016 (2015)
<b>Expenses</b>	889 (809)
SBAB's expenses mainly comprise personnel, premises and marketing costs and costs for IT and business development.	
<b>Loan losses</b>	18 (40)
Loan losses arise when SBAB's customers are unable to pay interest and make loan repayments. We always work to minimise loan losses, based on our adopted risk tolerance levels. By way of precaution, we also prepare for estimated future loan losses through provisions.	
<b>Tax</b>	441 (330)
Tax consists of income tax of 22% of net profit for the year with an addition for tax adjustments and any adjustments of tax for previous years.	
<b>Total expenses</b>	<b>1,348</b> (1,179)

#### = NET PROFIT FOR THE YEAR

1,570  
(1,162)

The net profit for the year comprises total income less total expenses. According to SBAB's dividend target, at least 40% of profit is distributed to owners, which in 2016 corresponded to SEK 628 million. The remaining portion of net profit is returned to equity.

### CONDENSED BALANCE SHEET

#### SBAB'S ASSETS

SEK billion	2016 (2015)
<b>Securities (liquidity portfolio)</b>	69 (64)
In order to maintain high liquidity, SBAB has various forms of securities, mainly in the form of a liquidity portfolio. The liquidity portfolio was set up to ensure access to finance at times when SBAB's normal funding sources are not operating satisfactorily.	
<b>Lending to the public</b>	296 (297)
SBAB's largest asset item in the balance sheet was Lending to the public. This item comprises residential mortgages and personal loans to consumers as well as housing loans to businesses and tenant-owners' associations.	
<b>Lending to credit institutions</b>	2 (4)
For short-term liquidity management, SBAB utilises, inter alia, the repo market to invest or borrow money from other banks.	
<b>Derivatives</b>	6 (7)
SBAB utilises various forms of derivatives both on the asset and liability sides to protect the company against undesired changes in interest rates or exchange rates.	
<b>Total assets</b>	<b>375</b> (375)

#### SBAB'S LIABILITIES AND EQUITY

SEK billion	2016 (2015)
<b>Deposits</b>	97 (77)
SBAB's lending is financed, among other things, by deposits. Deposits refer to consumers, companies or tenant-owners' associations saving money in SBAB's savings accounts, in return for interest on their savings.	
<b>Liabilities to credit institutions</b>	5 (5)
See the comment under the post "Lending to credit institutions" above.	
<b>Issued debt securities (funding)</b>	247 (264)
The largest part of SBAB's lending is funded through borrowing in the capital market, which is referred to in the balance sheet as issued debt securities.	
<b>Derivatives</b>	3 (5)
See the comment under the item "Derivatives" above.	
<b>Subordinated debt</b>	6 (8)
SBAB utilises subordinated debt to strengthen its capital position. The fact that the debt is subordinated means in the event of a bankruptcy, the debt will be realised only when other liabilities have been paid.	
<b>Equity</b>	15 (12)
<b>Total liabilities and equity</b>	<b>375</b> (375)

# CONSOLIDATED PROFIT

## ADMINISTRATION REPORT

**SBAB's business has continued to perform highly favourably. 2016 enters the record books as one of SBAB's best years ever.**

### Earnings

In 2016, SBAB's operating profit amounted to a record SEK 2,011 million (1,492), primarily attributable to improved net interest income. The return on equity was 12.3% (10.2), which exceeded our profitability target of 10% by a healthy margin.

### Income

SBAB's operating income increased to SEK 2,918 million (2,341) and net interest income grew to SEK 2,829 million (2,442), mainly due to lower funding costs for borrowing in the capital market and for deposits. Net commission income for the period was SEK 7 million (expense: 102) attributable to the fee to the government stability fund, which was recognised under net commissions, being replaced during the year by a resolution fee, which is recognised in net interest income. The resolution fee was SEK 102 million in 2016. The net result of financial items measured at fair value was SEK 48 million (1). The difference between the years was primarily attributable to unrealised market value

changes as a result of changed credit spreads for securities held in the trading book, compensation for the transfer of mortgages from the previous partnership with Sparbanken Öresund and buyback expenses linked to the discontinuation of financing. Other comprehensive income totalled SEK 398 million (187) for the year. The increase was due to the positive impact on the item of a downturn in long EUR interest rates.

### Expenses

SBAB's expenses grew to SEK 889 million (809). The increase in expenses was due to increased investments in personnel, regulatory compliance, IT, business development and marketing. Personnel costs amounted to SEK 412 million (376). Other expenses exclusive of depreciation, amortisation and impairment amounted to SEK 450 million (402). Depreciation, amortisation and impairment of PPE and intangible assets amounted to SEK 27 million (31). The C/I ratio was 30% (35).

### Loan losses

For the full-year 2016, loan losses were SEK 18 million (40), which corresponds to a loan loss ratio of 0.01% (0.01). For a more detailed account of the Group's loan losses, please refer to Note 10.

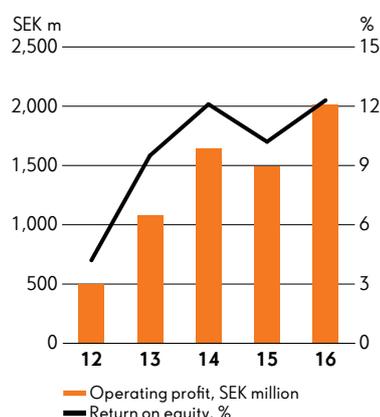
### Dividend policy and appropriation of profits

The principle established by the owner is that ordinary dividends should be at least 40% of profit for the year after tax, taking the Group's capital structure into account. The Board proposes a dividend of 40% (0), corresponding to SEK 628 million for 2016. The proposed appropriation of profits can be found on page 70.

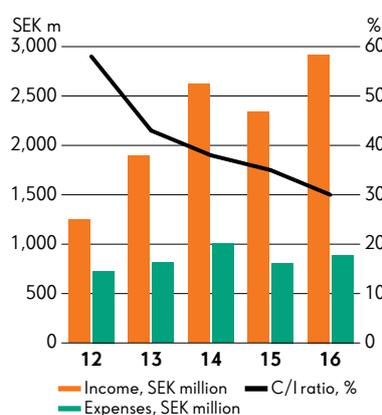
### Remuneration

There are no differences between the proposed guidelines for remuneration and other terms of employment for senior executives to be adopted at the 2017 Annual General Meeting compared to the guidelines that applied in 2016. The most recently adopted guidelines are provided in Note 7.

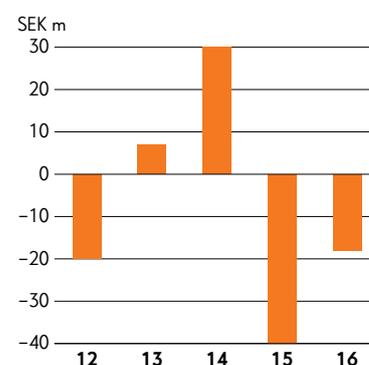
**OPERATING PROFIT AND RETURN ON EQUITY**



**INCOME, EXPENSES AND C/I RATIO**



**LOAN LOSSES**





**Return on equity:**

**12.3%**

2015: 10.2%

**C/I ratio:**

**30%**

2015: 35%

**Risks and uncertainties**

We hold an established position in the Swedish residential mortgage market and in recent years, we have also strengthened our status in the deposits market. The economic trend in Sweden is the primary risk factor for SBAB's future earnings capacity, and the quality of our assets is mainly exposed to credit risk in the Swedish housing market. The management of interest-rate and currency risks also involves some exposure to price risks. Retail demand is expected to show stable growth over the next few years, underpinned by low inflation, low interest rates and rising stock market and property prices. The Swedish economy is susceptible to global economic developments and conditions in the international financial markets. The strained housing market and high house-

hold indebtedness result in the economy being sensitive to changes in interest rates and housing prices. The risks associated with these factors are expected to increase as long as house prices and debt continue to outpace increases in income. The many regulatory changes relating to the residential mortgage market constitute another uncertainty factor.

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

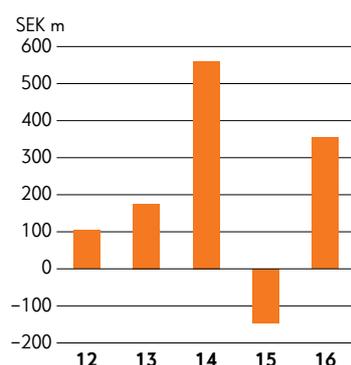
### Parent Company

The operating profit amounted to SEK 355 million (loss: 148) for the period. The change in operating profit was mainly attributable to an improved net result from financial transactions and higher net interest income. Net interest income amounted to SEK 326 million (161), driven by lower funding costs. Net income from financial transactions amounted to SEK 143 million (expense: 76). The increase was mainly attributable to unrealised market value changes as a result of changed credit spreads for securities held in the trading book. Expenses increased to SEK 872 million (810), and were attributable to higher personnel, IT, business development and marketing costs. Loan losses dropped to SEK 9 million (51).

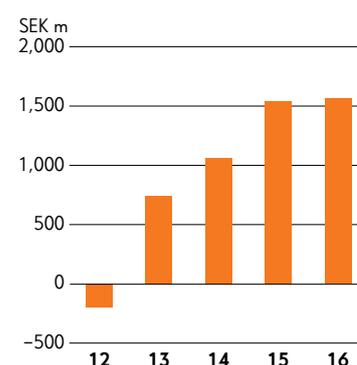
### AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC)

SCBC is a wholly-owned subsidiary of SBAB whose primary operations comprise of the issuance of covered bonds to fund

### THE PARENT COMPANY'S OPERATING PROFIT



### SCBC'S OPERATING PROFIT



the lending of the SBAB Group. At year-end, SCBC's lending portfolio amounted to SEK 244.4 billion (215.8). SCBC's operating profit for 2016 totalled SEK 1,563 million (1,543). Total operating income rose to SEK 2,292 million (2,158). Net interest income rose to SEK 2,503 million (2,280) and the net result from financial transactions decreased to an expense of SEK 179 million (expense: 16). Net com-

missions amounted to an expense of SEK 39 million (expense: 106). The majority of the expenses are attributable to costs for operations outsourced to SBAB. SCBC's total expenses increased during the year to SEK 720 million (627). Net loan losses amounted to SEK 9 million (recoveries: 12). SCBC's Annual Report is published on our website: [www.sbab.se](http://www.sbab.se).

STIBOR

## SBAB PARTICIPATES IN THE CALCULATION OF STIBOR

On 26 September 2016, SBAB became the seventh Swedish bank to participate in the calculation of the STIBOR reference rate.

STIBOR, the Stockholm Interbank Offered Rate, is a reference rate that shows an average of the interest rates at which a number of the banks active in the Swedish money market, the

STIBOR banks, are prepared to lend to each other without collateral at different maturities.

**STIBOR is probably the most important reference rate in the Swedish financial market and impacts many business agreements. We are pleased and proud to contribute towards a stable and transparent calculation system.**

– Klas Danielsson, CEO SBAB



# THE RETAIL BUSINESS AREA

## ADMINISTRATION REPORT

The Retail business area offers savings and loan products, and digital home and housing services to consumers. The core product – residential mortgages – is supplemented with personal loans, savings accounts and insurance broking.

Since 2014, we have prioritised and focused on housing and household finances. In 2015, we prepared a new brand platform and objectives for SBAB, a platform that visualises the way forward toward offering the best residential mortgages in Sweden and clarifies our position within housing and housing finances. In 2016, we took additional steps on our journey, including the launch of new, exciting products and services, the acquisition of Booli and increased the focus on lending under our own brand.

### Market development

#### Residential mortgages

Stagnant interest rates and more stringent repayment requirements from 1 June resulted in a slower year-on-year growth in the residential mortgage market in 2016. Price increases on the housing market also slowed.

The residential mortgage market in Sweden amounted to SEK 2,902 billion at year end, which is 7.6% higher than the previous year end.

#### Personal loans

As in the previous year, growth in the personal loans market was weak in 2016.

At year end, the personal loans market amounted to SEK 215 billion, up 4.4% year-on-year.

#### Deposits

Rising incomes and a strong labour market have provided households increased opportunities to save. At the same time as demand for basic buffer saving remains strong. Retail deposits in savings accounts also continued to increase rapidly in 2016. At year end, bank retail deposits amounted to SEK 1,619 billion, up 8.6% year-on-year.

### Organisation

At the end of 2016, the Retail business area comprised the units Retail, Partnerships & Business Development unit and Booli. The Retail unit consists in turn of the departments: Customer Centre (sales), Market & Digital, PR & Media, Product and Customer Development. The business area has 238 employees and is located in Karlstad and Stockholm.

### Residential mortgages

SBAB's total lending related to retail mortgages decreased by SEK 2.1 billion to 209.9 billion (212.0) during the year. At the end of 2016, we had 233,000 residential mortgage customers (254,000) distributed over 149,000 mortgage objects (168,000). The market share was 7.23% (7.86) at the end of the year, which puts SBAB in fifth place after the four major banks.

The decrease in total lending, the number of customers and market shares was attributable to the transfer, according to plan, from SBAB to Swedbank of the remaining mortgages amounting to approximately SEK 20.5 billion from the previous partnership with Sparbanken Öresund in 2016. Excluding the partnerships under discontinuation, the growth rate for residential mortgages remained healthy. New lending amounted to SEK 47.8 billion (65.4) in 2016.

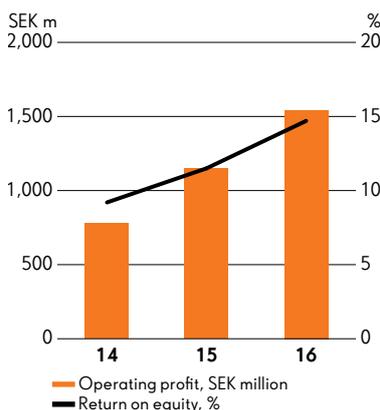
SBAB's residential mortgage stock is concentrated to the Stockholm and Öresund regions, which together account for nearly 77% (80). The majority of SBAB's residential mortgage customers choose shorter maturities. The share of total

AN ORGANISATIONAL CHANGE TOOK PLACE DURING THE YEAR. READ MORE IN NOTE 7.

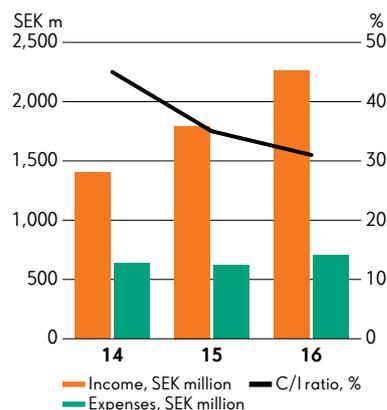
### CONDENSED INCOME STATEMENT, RETAIL

SEK million	2016	2015
Operating income	2,260	1,793
Expenses	-705	-622
Net loan losses	-13	-23
<b>Operating profit</b>	<b>1,542</b>	<b>1,148</b>
<b>Return on equity, %</b>	<b>14.7</b>	<b>11.5</b>

### OPERATING PROFIT AND RETURN ON EQUITY



### INCOME, EXPENSES AND C/I RATIO



lending with a three-month fixed-interest period amounted to 72.4% (71.8) at the end of 2016.

### Personal loans

A personal loan is a loan without a requirement for collateral. Unlike residential mortgages, personal loans are not connected to any specific purpose, although they are frequently used to supplement residential mortgages in relation to home finance. At the end of the year, the total personal loan volume amounted to SEK 2.0 billion (2.0). At the same date, the market share was 0.93% (1.00). The reduced volume was attributable to a slightly weaker housing market in 2016 compared with 2015, which has given rise to a drop in demand for personal loans to finance home purchases during the year. At 31 December 2016, about 18,000 (17,000) customers had personal loans with SBAB.

### Savings accounts

Our savings accounts offer competitive interest rates, are free of charge, have free withdrawals and are covered by the national deposit guarantee. Retail deposits during the year amounted to SEK 65.5 billion (56.1). At the same date, the market share was 4.05% (3.76). The increase was due to increased marketing initiatives to position savings products in the market as well as a continuing high level of deposits in savings accounts by households. At the end of 2016, approximately 270,000 (265,000) retail customers held a savings account with SBAB.

### Insurance broking

We offer two insurance products that are related to residential mortgages and housing in different ways: mortgage insurance

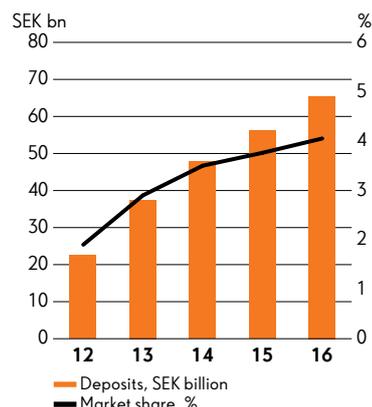


and home insurance. Mortgage insurance insures customers against unemployment or sick leave, by compensating the monthly cost of the loan. Mortgage insurance also means that the borrower's residential mortgage may be wholly or partially written off in the event of death. Home insurances pay compensation to the homeowner in case of damage to the home or house. These products protect our customers, but they also add value for SBAB, as good insurance protection reduces the risk of loan losses.

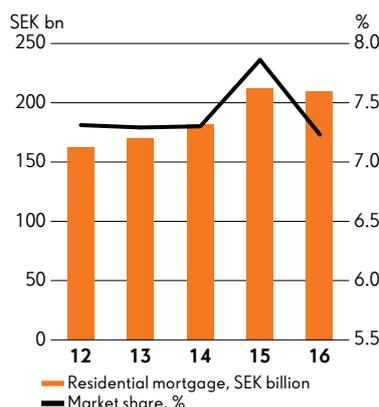
### Partnerships

Part of SBAB's lending to consumers is carried out in partnership with other participants. At year end, the total volume of mediated residential mortgages amounted to SEK 41 billion (82), which is equivalent to 20% of SBAB's total lending to consumers. Approximately SEK 10 billion of mediated residential mortgages were under the SBAB brand. The remainder, about SEK 31 billion, were mediated residential mortgages using other brands, with SBAB as underlying creditor.

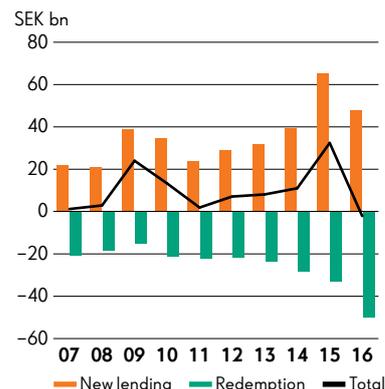
VOLUME AND MARKET SHARE, DEPOSITS



VOLUME AND MARKET SHARE, MORTGAGES



NEW LENDING AND REDEMPTION, RESIDENTIAL MORTGAGES





For some time, we have prioritised new lending under the SBAB brand, where we believe we can deliver the greatest customer benefit and build the strongest customer relationships. As part of this work, we discontinued certain partnerships during the year. In the future, we will primarily focus on partnerships with players using digital business models, where we still see the potential for major economies of scale. During the year, we initiated two such new partnerships.

**Business Development – continued focus on housing and household finances**

Our strategy involves producing and offering digital services and products that help and inform our customers on issues of housing and household finances. Since 2015, we have offered digital legal services via a business partner and a digital notice service via Kivra, a letterbox where our customers can receive, manage and archive post online. The Värdeguiden app

(the value guide) is a quick, easy and free indicator of house and apartment values throughout Sweden and is available on App Store/Google Play and [www.sbab.se](http://www.sbab.se).

In 2016, we launched our first green lending product for consumers in the form of a green personal loan, Energilånet.

Work creating greater digital customer and user benefits on issues related to housing and housing finances will continue in 2017. Through increased digitalisation, we can also offer better services, become more cost-efficient and grow at lower marginal costs.

*Booli*

In January 2016, we completed the acquisition of Booli. This is a further step in SBAB’s broadening of its housing services – to strengthen our offering to our residential mortgage customers through innovative thinking and smart housing services. Following the acquisition, Booli became a subsidiary of SBAB and operationally is part of the Retail business area. Booli will continue to be run as an independent development unit with a focus on initiating the integration of housing data services in 2017 on [www.sbab.se](http://www.sbab.se).

**Loan losses**

SBAB’s low risk appetite and active management of insolvencies has resulted in low loan losses in recent years. Rising property prices and low interest rates have contributed favourably to low loan losses. Loan losses amounted to SEK 13 million (23) in 2016.

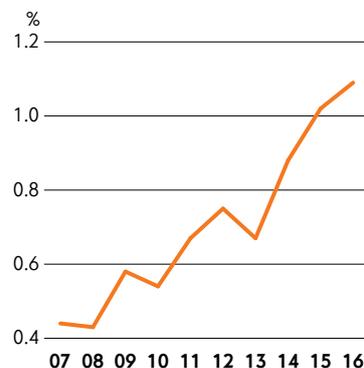


**COMPOSITION OF COLLATERAL IN THE LOAN PORTFOLIO, RETAIL**

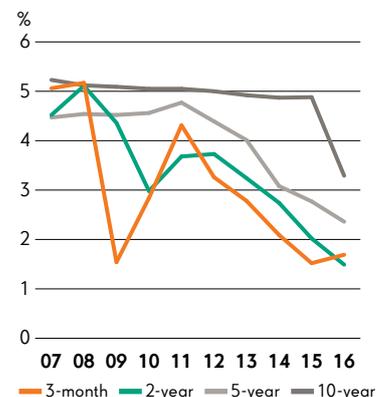
SEK billion	2016	2015	2014
Mortgage deeds	107.0	115.4	106.9
Tenant-owners’ rights	102.7	96.2	74.3
Municipal guarantees and direct loans to municipalities	0.3	0.4	0.4
Government guarantees	0	0.0	0.0
Bank guarantees	0	0.0	0.0
Other collateral	0	0.0	0.0
Personal loans <sup>1)</sup>	2.0	2.0	1.7
<b>Total</b>	<b>212.0</b>	<b>214.0</b>	<b>183.4</b>

<sup>1)</sup> Unsecured loans to retail customers.

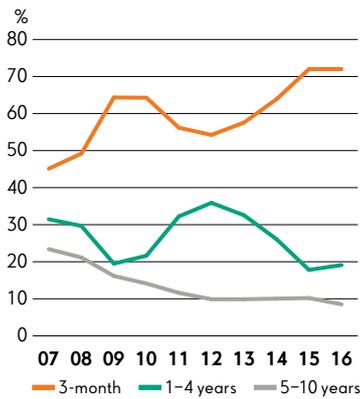
**MARGIN DEVELOPMENT, RESIDENTIAL MORTGAGES**



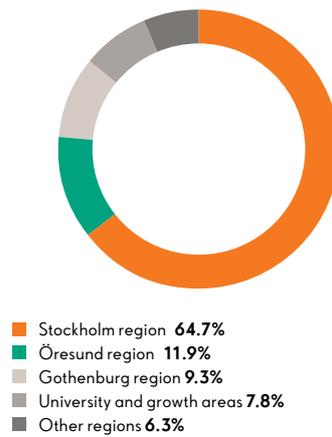
**AVERAGE MORTGAGE RATES**



CHOSEN FIXED-INTEREST PERIOD, RESIDENTIAL MORTGAGES



GEOGRAPHIC DISTRIBUTION OF THE LOAN PORTFOLIO



OUR CUSTOMERS' STORIES

# QUICK AND CONVENIENT

Stefan Jönsson lives and works in Bromma near Stockholm. He has been a customer with SBAB for some time.

“We bought a new flat just a few years ago, and opted for SBAB for the mortgage. But when the second child moved out it simply became too big, whereupon we decided to move to a slightly smaller flat in the same area.”

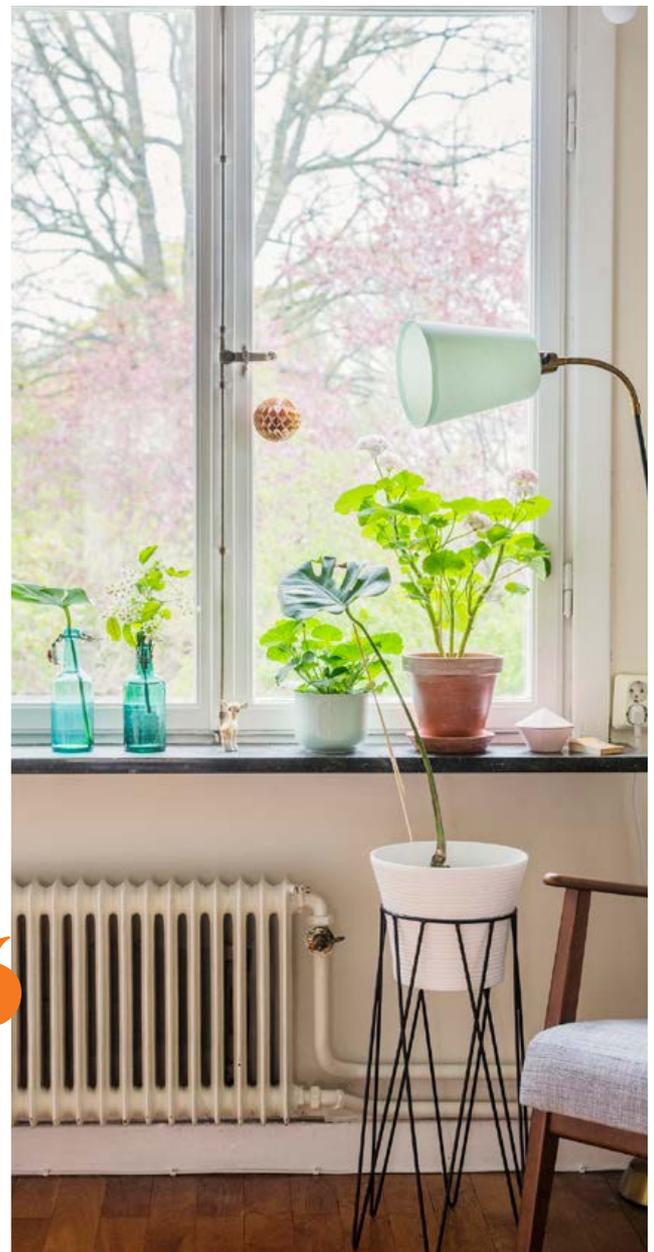
Stefan says he never considered contacting another bank.

“My earlier experiences with banks have not been particularly good. An acquaintance suggested I contact SBAB and have been highly satisfied ever since. I like the fact that my dealings with SBAB are based on available facts rather than arbitrary valuations, which can be the case with other banks.”

“I also like that I can manage my banking transactions at times that suit me, which is usually after office hours. And that I do not need to be tied to a specific bank branch or banker.”

**I like that I can manage my banking transactions at times that suit me, which is usually after office hours.**

– Stefan Jönsson, residential mortgage customer



# MORTGAGE WITH FANTASTIC LOCATION. A REAL GEM.

Move to us and become  
one of Sweden's most  
satisfied residential  
mortgage customers.

**SBAB!**

# THE CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS BUSINESS AREA

## ADMINISTRATION REPORT

The Corporate Clients & Tenant-Owners' Associations business area funds multi-family dwellings. With a flexible organisation and the capacity to manage major projects, we offer services that are characterised by expertise and professionalism.

We primarily target major property owners, tenant-owners' associations and construction companies, where our skills and extensive experience of credit granting and properties make us highly competitive. Our credit granting in the Corporate Clients & Tenant-Owners' Associations business area is concentrated to expansive growth regions and near our three offices in Stockholm, Gothenburg and Malmö, where we can create the close relationships required to remain competitive and provide our customers with the best possible service.

### Market development

#### Corporates

In 2016, the transaction volume in the Swedish property market was approximately SEK 200 billion (151), according to information from Fastighetsnytt (a leading Swedish property magazine). Swedish participants were overrepresented and about one third of the transaction volume pertained to the housing segment. The new construction of multi-family dwellings continued to increase in 2016. It is estimated that the construction of approximately

51,000 (42,000) apartments began during the year, evenly distributed between rented properties and tenant-owned apartments, but with regional differences.

#### Tenant-owners' associations

The market for lending to tenant-owners' associations grew 7.2% to SEK 416 billion during the year. In addition to new construction and renovations, the growth rate in lending to tenant-owner associations is due to reorganisations from rented to tenant-owned apartments. The number of reorganisations declined somewhat in 2016 compared with 2015.

#### Deposits

The market for deposits from corporate clients and tenant-owners' associations grew 9.8% in 2016, to SEK 904 billion. The rate of growth was therefore slightly higher than the previous year, despite falling interest rates.

### Organisation

The Corporate Clients & Tenant-owners' Associations business area has 37 (40)

employees. We have offices in Stockholm, Gothenburg and Malmö. The Stockholm office accounts for more than half of our lending. From these offices, we actively develop the property markets in growth areas south of the Dal River.

### Property financing

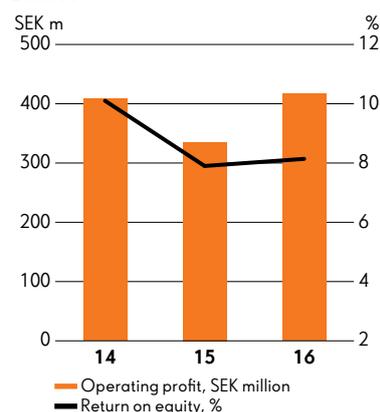
Corporate Clients & Tenant-Owners' Associations finances multi-family dwellings, both privately owned and owned by tenant-owner associations. The properties may consist of existing buildings or new construction, where we mortgage the land and the construction, and offer final funding. SBAB's total lending to corporate clients and tenant-owners' associations amounted to SEK 84.2 billion (83.0) on 31 December 2016, equivalent to about 28% of SBAB's total lending.

We offer funding of up to 75% of a property's value. In our credit process, we monitor developments in the property market on a regular basis, and conduct a review and risk evaluation of all customer relationships at least once a year.

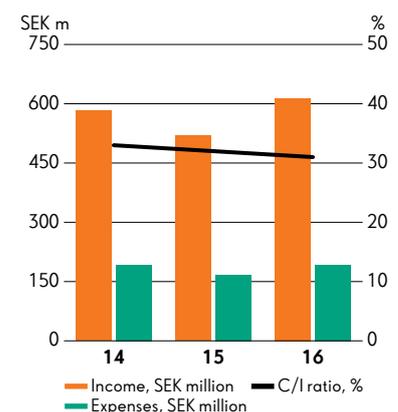
### CONDENSED INCOME STATEMENT, CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS

SEK million	2016	2015
Operating income	614	519
Expenses	-192	-167
Loan losses	-5	-17
<b>Operating profit</b>	<b>417</b>	<b>335</b>
<b>Return on equity, %</b>	<b>8.1</b>	<b>7.9</b>

### OPERATING PROFIT AND RETURN ON EQUITY



### INCOME, EXPENSES AND C/I RATIO





**COMPOSITION OF COLLATERAL IN THE LOAN PORTFOLIO, CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS**

SEK billion	2016	2015	2014
Mortgage deeds	82.2	80.1	75.5
Tenant-owners' rights	0.0	0.0	0.0
Municipal guarantees and direct loans to municipalities	1.1	1.7	2.2
Government guarantees	0.2	0.2	0.3
Bank guarantees	0.0	0.0	0.0
Other collateral	0.7	1.0	0.3
Personal loans	0.0	0.0	0.0
<b>Total</b>	<b>84.2</b>	<b>83.0</b>	<b>78.2</b>

**Corporates**

At the end of 2016, our lending to property companies amounted to SEK 33.5 billion (30.6) and new lending for the period amounted to SEK 6.0 billion (7.6). The number of property company customers increased over the year and amounted to 76 (66) at year-end 2016. At the same date, the market share for lending to property companies was 11.07% (10.59). The increase was due to high demand for new housing production.

At 31 December 2016, our lending to commercial properties amounted to SEK 4.8 billion (4.3). Our primary focus is on financing of multi-family dwellings. We do not intend to grow our lending to commercial properties, but we can offer funding if required by the overall business or the customer relationship in individual cases.

**Tenant-owners' associations**

At the end of 2016, our lending to tenant-owners' associations amounted to SEK 50.7 billion (52.4) and new lending for the period amounted to SEK 5.0 billion (6.1). The number of tenant-owners' association company customers decreased over the year and amounted to 2,162 (2,468) at year-end 2016. At the same date, the market share for lending to tenant-owners' associations was 11.22% (13.05).

The decrease in lending and market share during the year was a consequence of continued intense competition at low margins among Swedish banks regarding lending to tenant-owners' associations. The decline in customer numbers was primarily attributable to a reduction in the number of customers in non-prioritised locations, in line with SBAB's strategy of focused and qualitative credit granting.

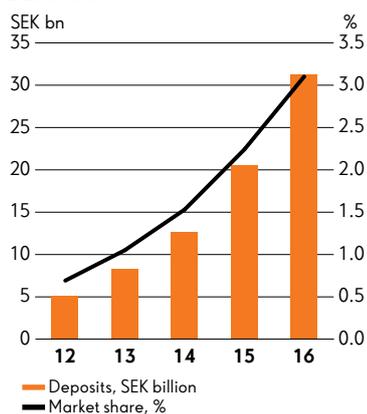
**Savings accounts**

SBAB also offers competitive terms for deposit accounts for companies and tenant-owners' associations. Deposits from non-financial institutions increased over the year, totalling SEK 31.3 billion (20.6), and the market share was 3.10% (2.24) at the end of 2016. At year end, 9,000 corporate clients (8,000) and 4,000 tenant-owners' associations (2,000) held savings accounts with SBAB.

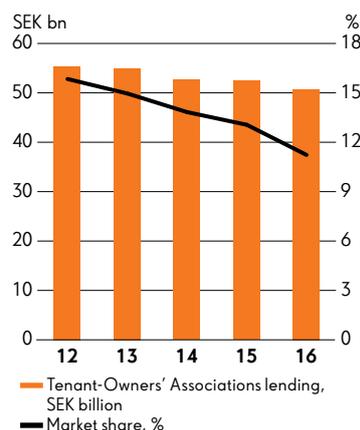
**Loan losses**

SBAB's low risk appetite and active management of insolvencies has resulted in low loan losses in recent years. Rising property prices and low interest rates have contributed favourably to low loan losses. Loan losses amounted to SEK 5 million (17) in 2016.

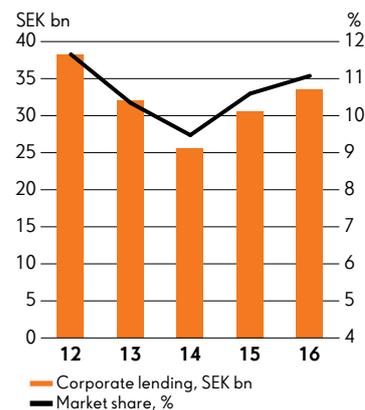
**VOLUME AND MARKET SHARE, DEPOSITS**



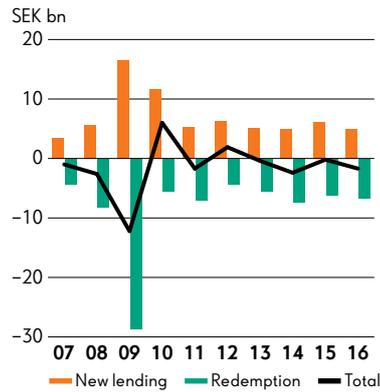
**VOLUME AND MARKET SHARE, TENANT-OWNERS' ASSOCIATIONS**



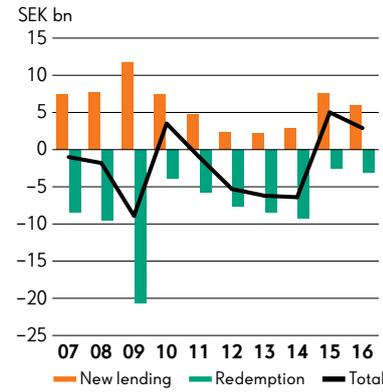
**VOLUME AND MARKET SHARE, CORPORATES**



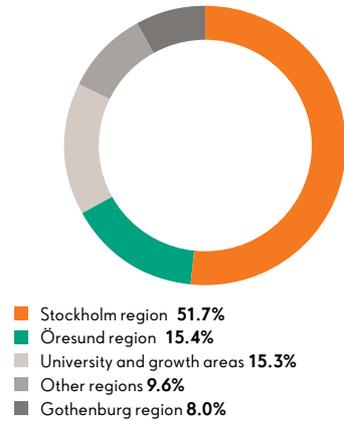
**NEW LENDING AND REDEMPTION, TENANT-OWNERS' ASSOCIATIONS**



**NEW LENDING AND REDEMPTION, CORPORATES**



**GEOGRAPHIC DISTRIBUTION OF THE LOAN PORTFOLIO**



OUR CUSTOMERS' STORIES

# INNOVATIVE SOLUTIONS

The Vita Örn property company owns, manages and develops rental apartment buildings in the Malmö area.

“As a property company we have a long-term business, which is why it is important with a business partner that does not focus on short-term transactions in its own business. SBAB has both the commitment and the ability to understand what we want to achieve. Proximity is also something we appreciate,” says Joakim Feldt, CEO of Vita Örn.

Joakim says he has a background as a doctor and that this is something that has influenced his view on how to develop and manage properties.

“There is value in operating in a more sustainable way. For example, lower energy use improves economy over time. Greater satisfaction in residential areas leads to fewer people choosing to move. There is a clear business case surrounding these issues, at the same time as it feels right in your heart, which is also important.”

Vita Örn wants to serve as a good example with its properties in terms of sustainable property management and

eco-friendly construction. Joakim says that Vita Örn’s new build “Klyvaren” at Västra Hamnen in Malmö is Europe’s first climate-compensated residential property with CO2-smart construction, where the total burden from construction and operation is essentially carbon neutral. The property has been financed by SBAB.

“We need a source of financing that accepts and understands the way we operate, and that is not afraid of innovative solutions. SBAB understands and supports our way of working, as they are willing to finance assets with a long-term perspective.”

“Promoting sustainable development is also about influencing others. We want our tenants to contribute themselves to reducing the carbon burden worldwide. And there is plenty of new technology that can do just this. Our tenants can, for example, reduce their own rent through lower consumption using an individual metering and charging technology called IMD. I usually say that it is friendly for both your wallet and the environment.”



# FUNDING AND LIQUIDITY

## ADMINISTRATION REPORT

**SBAB's operations are primarily financed through funding in the capital market, but since 2007, funding is also increasingly raised through deposits from the public.**

### Funding operations

The SBAB Group is active in both the senior unsecured bond market through the Parent Company SBAB, as well as in the covered bond market through the wholly owned subsidiary SCBC.

During the year, the SBAB Group issued long-term bonds valued at SEK 47.6 billion (77.4). SBAB also launched a SEK 1.5 billion Tier 1 capital transaction to meet the growth in lending and to retain a strong buffer against internal and external capital requirements. At year end, the Group's total volume of issued debt outstanding amounted to SEK 247.4 billion (264.2), of which SEK 175.9 billion (187.3) was secured debt and SEK 71.5 billion (76.9) unsecured debt.

### Funding Strategy

Through access to stable and competitive funding, we ensure that SBAB can offer lending at attractive terms.

We actively work to diversify our sources of funding through increased retail and corporate deposits. Growing deposit volumes have in recent years reduced our dependence on capital markets at the same time as these have provided us with a better and more balanced funding mix.

The cornerstones of our funding strategy are to promote diversified borrowing and to be a regular issuer in both the Swedish and European markets. Active debt management, in part through repurchasing bonds with short remaining maturities, as well as a balanced maturity profile are other key elements, whose main aim is

to reduce SBAB's liquidity and refinancing risk. We also attach great importance to regularly meeting and updating investors in the markets where we operate, primarily in Sweden and Europe.

### Senior unsecured funding

#### Long-term funding

SBAB's business involves financing housing, which in turn requires stable long-term financing. Continued strong deposit inflows and healthy liquidity contributed to a slight reduction in the need for long-term senior unsecured funding in 2016. At the end of the year, long-term senior unsecured funding totalled SEK 71.5 billion (76.9).

### SHORT-TERM FUNDING SOURCES

	<b>Limit</b>
Swedish Commercial Paper Programme (SVCP)	SEK 25 billion
European Commercial Paper Programme (ECP)	EUR 3 billion

### LONG-TERM FUNDING SOURCES

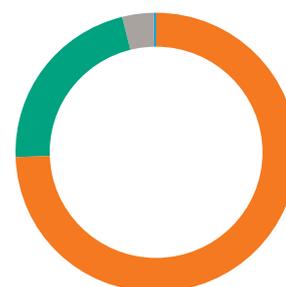
	<b>Limit</b>
Euro Medium Term Note Programme (EMTN), SBAB	EUR 13 billion
Euro Medium Term Covered Note Programme (EMTCN), SCBC	EUR 16 billion
Swedish covered bond programme, SCBC	[No fixed limit]
Australian Covered Bond Issuance Programme, SCBC	AUD 4 billion

### FUNDING SOURCES, GROUP



- Swedish benchmark covered bonds SCBC **29.0%** (31.5)
- Deposits **27.6%** (22.0)
- EMTCN programme SCBC **21.3%** (22.2)
- EMTN programme SBAB **17.9%** (18.9)
- ECP **2.5%** (2.0)
- Subordinated loans **1.7%** (2.3)
- Issues on the Japanese market, Samurai bonds **0.0%** (1.1)
- SVCP **0.0%** (0.1)
- USCP **0.0%** (0.0)

### FUNDING SOURCES, DISTRIBUTION BY CURRENCY, GROUP



- SEK **74.6%** (74.0)
- EUR **21.5%** (20.0)
- Other currencies **3.7%** (5.0)
- JPY **0.1%** (1.0)



**Short-term funding**

Short-term funding continues to represent a limited part of our total funding. At the end of the year, short-term senior unsecured funding totalled SEK 8.8 billion (7.2). SBAB mainly uses short-term funding to manage and balance liquidity between different periods.

**Secured funding**

Funding through the issue of covered bonds is carried out by the wholly-owned subsidiary, SCBC. At the end of the year, covered debt outstanding totalled SEK 175.9 billion (187.3).

**SCBC in brief**

SCBC's primary operations comprise the issue of covered bonds in the Swedish and international capital markets. The company's funding programmes have received the highest possible long-term rating of Aaa from the rating agency Moody's. SCBC does not conduct any lending activities itself, but instead acquires loans from SBAB, with the aim that these are included wholly or in part in the cover pool that serves as collateral for SCBC's covered bonds. Information on SCBC's covered bonds and cover pool is published monthly on our website, [www.sbab.se](http://www.sbab.se).

**Liquidity portfolio**

SBAB's liquidity portfolio has the primary purpose of acting as a provision for situations when the ability to obtain liquidity

from other sources is limited or rendered materially more difficult. The size of the liquidity portfolio is equivalent to slightly more than a year's debt maturities. Both external regulations and internal limits dictate the size and composition of the liquidity portfolio.

At the end of 2016, the liquidity portfolio amounted to SEK 69.3 billion (64.0). Securities holdings are limited by asset class and by country, respectively, and must have a AAA rating on acquisition. The average maturity of the portfolio is 2.27 years (2.71), with a maximum of ten years for new investments. Investments are mainly in SEK, EUR and USD and we use derivatives to manage the portfolio's interest-rate and currency risks.

**Green bonds in the liquidity portfolio**

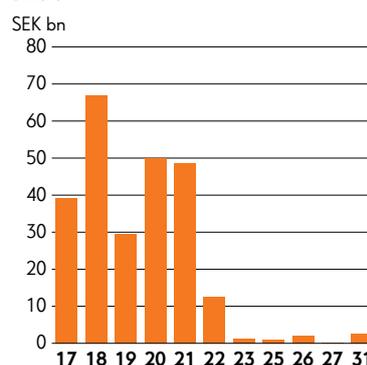
At the end of 2016, our holdings in green bonds amounted to about SEK 1.4 billion (0.6). It is our aim to increase these holdings within the scope of the current investment policy.

**Credit rating**

During the fourth quarter 2016, the credit rating agency Moody's confirmed SBAB's long-term credit rating of A2 and, concurrently, raised the outlook from stable to positive, for reasons including the improvements in SBAB's profitability and financing structure. For more information, visit our website, [www.sbab.se](http://www.sbab.se). Other credit ratings were unchanged during the year.



**OUTSTANDING MATURITY PROFILE, GROUP**



**RATING**

	Moody's	Standard & Poor's
Long-term funding, SBAB	A2 <sup>1)</sup>	A <sup>2)</sup>
Long-term funding, SCBC	Aaa	-
Short-term funding, SBAB	P-1	A-1

<sup>1)</sup> Positive outlook  
<sup>2)</sup> Negative outlook

# RISK AND CAPITAL MANAGEMENT

## ADMINISTRATION REPORT

**Risk management involves ensuring that SBAB is resilient in all types of situation and that the company has capital that guarantees that even unexpected risks can be managed.**

SBAB's risk management function identifies, analyses and prevents various types of risks in our operations. The main risk is credit risk arising from lending and loan commitments, primarily to household customers. In addition, SBAB is exposed to credit risk in treasury operations, above all the counterparty risk for the derivatives and repo contracts we enter into in order to manage financial risks. Other risks in SBAB's operations mainly pertain to market risk, liquidity risk, business risk and operational risk. SBAB retains sufficient capital to cover these risks, even in stressed situations. SBAB is currently well capitalised and has own funds that comfortably exceed both the internally estimated need of own funds and the capital requirement calculated by the Finansinspektionen. Liquidity risk is not managed by capital provisions but by maintaining a liquidity reserve.

### SBAB's risks and how we manage them

Risk is defined as a potentially negative impact that may arise due to ongoing or future events. The definition of risk includes the probability that an event

occurs as well as the impact the event could have on SBAB's profit, operations and capital. The risks have, in accordance with the risk policy, been classified using a framework known as "SBAB's risk appetite". This includes a definition of the risk we are willing to take to achieve our business objectives within the framework of our chosen long-term strategy.

In SBAB's risk management, roles and responsibilities is divided in accordance with the three lines of defence: The Business that owns and manages risks in day-to-day operations; Credit & Risk/Compliance that governs, monitors and follows up; and Internal Audit that assesses on assignment from the Board of Directors.

 READ MORE ABOUT OUR SIGNIFICANT RISKS ON PAGE 57.

### Risk governance

All measurable risks are monitored and reported to the Board of Directors. The Board of Directors bears the ultimate responsibility for SBAB's total risk exposure. It is the Board's responsibility to ensure that operations are conducted with good internal control.

The CEO is responsible for ongoing operational management and monitors that each unit's, including the risk control units, reporting to the Board of Directors is conducted in accordance with the relevant instructions.

The risk control units within Credit & Risk are responsible for the identification, quantification, analysis and reporting of all risks. The Chief Risk Officer ("CRO") is responsible for the independent risk control units within Credit & Risk and reports directly to the CEO and the Board of Directors of SBAB.

### Risk strategy and risk tolerance

SBAB is tasked with identifying, measuring, governing, reporting internally and maintaining control of the risks to which we are or may become exposed to. The Board adopts the strategic direction and the overarching risk level that SBAB is willing to accept, based on our business and how value is created for our customers. This means SBAB is to consciously expose itself only to risks that are directly connected to or are regarded as necessary for its operations.

SBAB's profitability is dependent on its ability to assess, manage and price risks. It is also about maintaining sufficient liquidity and capital to meet unforeseen events. Knowledge and awareness of any risks that SBAB may be exposed to, together with the right expertise to estimate the size of existing and potential risks, is absolutely necessary for our operations. There is an independent function for risk control at SBAB whose principle task is to monitor that risk awareness and acceptance are adequate for managing risks on a daily basis.

SBAB has a documented process (NPAP) for the approval of new or significantly altered products, services, markets, processes and IT-systems. The same process also covers major changes to the

## The three lines of defence



company's organisation and operations. The Board of Directors sets limits for all material risks, which should be commensurate with the pre-determined risk appetite.

### Risk taking

SBAB's risk taking is kept at a level consistent with our short-term and long-term plans for strategy, capital and financial stability.

An important part of SBAB's business model is that the risks we are exposed are low and predictable. In reality, this does not mean that each individual credit exposure has very low risk, rather that the total lending portfolio consists largely of low-risk loans. And each loans' internal risk effect is such that the total risk is limited.

The basis for SBAB's appetite for various types of risk is that each risk should fit within a well-defined segment of our risk-bearing capacity. Risk-bearing capacity primarily refers to the capacity to cover expected and unexpected losses by means of our ongoing earnings capacity and own funds.

The scope of acceptable risks is clearly linked to how important these are to our business mode, in other words the positive effects anticipated to be achieved in the form of expected revenue, cost savings or the mitigation of other risks. SBAB minimises undesired risks through appropriate functions, strategies, processes, procedures, internal rules, limits and controls.

### Capital adequacy

In 2016, the Board of Directors adopted new capital targets for SBAB. According to these new targets, under normal conditions, SBAB's CET1 capital ratio should be at least 1.5 percentage points higher than the CET1 capital requirement communicated by Finansinspektionen. In addition, under normal conditions, SBAB's total capital ratio should be at least 1.5 percentage points higher than the capital requirement communicated by Finansinspektionen. The bank is also tasked with meeting any other regulatory capital requirements. According to internal estimates by SBAB, the new capital targets



are expected to correspond to a CET1 capital ratio of not less than 25.4% and a total capital ratio of not less than 35.5% at the end of 2016.

The CET1 capital ratio was 32.2% (28.6) at year end. At the same date, the total capital ratio was 51.6% (46.8). This

provides a comfortable margin to both internal targets and external regulatory requirements. Net profit for the year is included in the calculation of own funds and Tier 1 capital. Dividends calculated according to SBAB's dividend policy have been deducted.

### SBAB's capital target

SEK million	Total capital	%	CET1 capital	%
<i>Pillar 1 minimum requirement</i>	3,073	8.0	1,729	4.5
<i>Pillar 2 core requirement</i>	1,937	5.0	1,292	3.4
<i>Pillar 2 risk-weight floor, Swedish mortgages</i>	6,531	17.0	4,626	12.0
<i>Capital conservation buffer</i>	960	2.5	960	2.5
<i>Countercyclical buffer</i>	571	1.5	571	1.5
<b>Internally assessed capital requirement</b>	<b>13,073</b>	<b>34.0</b>	<b>9,178</b>	<b>23.9</b>
<b>SBAB's capital target</b>	<b>13,649</b>	<b>35.5</b>	<b>9,754</b>	<b>25.4</b>
<b>SBAB's actual capital</b>	<b>19,833</b>	<b>51.6</b>	<b>12,385</b>	<b>32.2</b>

## Change in material risks in 2016

### *Credit risk*

Credit risk declined slightly during the year as the lending portfolio at the end of 2016 was slightly smaller than the previous year end, due to the discontinuation of the partnership with Sparbanken Öresund. During the year, we have also witnessed a positive trend for our new lending in the form of both lower average LTV ratios and debt ratios. The quality of the loan portfolio has also developed positively in other areas, with a reduction in the number of customers in payment arrears, an increased repayment rate and rising property prices.

Household debt levels are still an important element in public debate and engage authorities, banks and politicians. To avoid strengthening the trend toward increasing household debt, SBAB has over the past two years made credit rules successively more stringent for new lending. These measures include a limitation on the debt ratio, i.e. income in relation to loan, to six times the gross income for new loans. During the year, we have also revised our housing cost calculation upward, introduced detailed income controls and

adapted loan repayment rules in line with Finansinspektionen's guidelines.

### *Other risk classes*

At the end of 2016, it became mandatory under the European Markets Infrastructure Regulation (EMIR) for credit risk in treasury operations, above all the counterparty risk, for SBAB to clear interest-rate derivatives via central counterparties, known as clearing houses.

Over the year, market risk declined due to the liquidity portfolio largely being transferred from reported as the trading book to the banking book.

### **Other material events in 2016**

As part of strengthening SBAB's risk culture during the year, the bank has established risk and compliance coordinators (RCCs) in the first line to support the business with its task of owning and managing its risks. These support the business managers with a focus on risk management, internal controls and regulatory compliance.

During the year, SBAB has created instructions and guidelines on product oversight and governance (POG)

arrangements for retail banking products, which is intended to be implemented from 2017. The process is based on guidelines from the European Banking Authority (EBA), published in March 2016. The process aims to ensure that the interests, objectives and characteristics of consumers are taken into account when new products are developed or existing products are significantly modified.

The pace of regulatory change has remained high and during the year, European authorities and the Basel Committee presented additional proposals for changes, aimed at increasing transparency and making credit institutions more resilient to disruptions in the market. Comprehensive reforms are being drawn up in the regulatory framework. However, there remains an uncertainty about capital controls and their impact on banks, which is why it is still too early to express a view on their impact on SBAB. In order to maintain a high degree of risk awareness related to regulatory changes linked to capital adequacy, the SBAB Board is being trained in the risk areas on an ongoing basis.



## SBAB's significant risks

Risk type	Risk appetite		Risk profile	Risk management
	Classification	Level		
<p><b>Credit risk in lending operations</b></p> <p>The risk that the counterparty does not fulfil its payment obligations towards SBAB. Credit risk is defined as the risk of loss due to the customer's inability to make interest and loan repayments or otherwise fulfil the loan agreement. Credit risk arises in conjunction with loans and loan commitments, as well as in connection with value changes in pledged collateral. The credit risk also includes concentration risk, which refers to the increase in credit risk that arises in large exposures to individual counterparties, regions or industries.</p> <p> <a href="#">READ MORE – NOTE 2a.</a></p>	Wanted risk	Medium	SBAB's customer base is primarily consumers and tenant-owners' associations, the majority of which are concentrated to major metropolitan areas. To a limited extent, lending takes place for commercial properties.	Credit risk is central to SBAB's business model and it is considered to be the dominant risk in operations. Credit granting in SBAB is characterised by responsible credit granting taking into account the customer's long-term repayment capacity and resilience. Credit rules and credit management is continuously analysed, processed and improved. Corporate clients are processed individually while retail customers are analysed using a structured process in conjunction with the credit approval process.
<p><b>Credit risk in treasury operations</b></p> <p>Defined as the total of investment risk and counterparty risk. Counterparty credit risk is defined as credit risk in financial derivatives that arises when the value of the instrument changes resulting from variations, for example, in interest rates or currency exchange rates, which means SBAB recognises a receivable against the counterparty. In addition, counterparty credit risk entails that SBAB's financial counterparties cannot meet their commitments under the contracted repos. Investment risk is defined as credit risk in financial investments and entails the risk that a debtor does not fulfil its payment obligations, meaning either completes payments late or not at all. Investment risk arises through investments in the liquidity portfolio and the investment of surplus liquidity.</p> <p> <a href="#">READ MORE – NOTE 2b.</a></p>	Necessary risk	Low	SBAB's counterparty credit risks and investment risks are low and are not considered dominant risks.	Counterparty-risk exposure is primarily covered through collateral agreements in which the counterparty provides collateral in an effort to reduce exposure. Investment risk is mitigated as SBAB only invests in interest-bearing bonds with AAA credit ratings.
<p><b>Market risk</b></p> <p>The risk of loss or reduced future income due to market fluctuations. Market risk includes interest-rate risk, currency risk, basis risk and spread risk. Currency risk refers to the risk that changes in the exchange rate for SEK against other currencies result in losses or lower future income. Interest-rate risk is defined as the risk that variations in interest rates result in losses or lower future income as assets and liabilities have different fixed-interest periods and interest terms. Spread risk refers to an exposure to changing conditions between interest costs for different issuers. Basis risk refers to the risk associated with deposits and lending that are locked to different interest bases.</p> <p> <a href="#">READ MORE – NOTE 2d.</a></p>	Necessary risk	Low	SBAB's market risk is low and is not considered a dominant risk.	Interest-rate risk is to be mitigated through direct funding or the use of derivatives. Currency risks are mitigated as funding in international currency is hedged through currency swaps or invested in matching currencies.
<p><b>Operational risk</b></p> <p>The risk of losses due to inappropriate or unsuccessful processes, human error, faulty systems or external events, including legal risk. The forms of operational risk applicable to SBAB are shown in the categorisation of types of events. Examples of types of events that could be applicable are internal and external fraud, work conditions and environment, damage to tangible assets, disruptions to the business operations and systems, transaction management and process control. Legal risk includes the risk that agreements or other legal transactions cannot be completed in accordance with specific terms and conditions or that judicial proceedings are started that could have a negative impact on SBAB's operations.</p> <p> <a href="#">READ MORE – NOTE 2e.</a></p>	Necessary risk	Low	Operational risk is a natural part of all business. SBAB aims to optimise the relationship between costs for operational risk and operating activities. SBAB considers operational risk to be a prerequisite for implementing the business concept efficiently and competitively, taking into account operations, strategy, risk appetite and the macro environment.	<p>Within SBAB, risk management consists of uniform valuation and reporting of operational risk. The analysis of risk levels in all operations is conducted on a regular basis and reported to the Board, the CEO and the Executive Management.</p> <p>Self-evaluation and incident management are central features in monitoring processes.</p> <p>In order to identify risks that may arise from changed or new processes, a new product approval policy (NPAP) is carried out before implementation.</p>
<p><b>Business risk</b></p> <p>The risk of declining earnings due to harsher competition, inappropriate strategies or erroneous decisions. As the accounting standards used by SBAB require that certain components of the portfolio are measured at market value while other components are recognised at their carrying amount, this has impacts on earnings, and consequently also on funds, that do not correspond to the actual risk to which the portfolio is exposed. To limit such effects, income volatility is to be measured and limited.</p> <p> <a href="#">READ MORE – NOTE 2f.</a></p>	Necessary risk	Low	SBAB's business risk is low and is not considered a dominant risk.	New business is usually relatively similar to the business SBAB already has. Changes in the form of new products or new markets may only constitute a small part of SBAB's activities and must be implemented at such a pace that SBAB does not substantially jeopardise its profit level and with great probability avoids pressure on its own funds. The effect on the operating profit/loss arising from applied accounting standards is mitigated through limit setting and the greater use of hedge accounting.
<p><b>Liquidity risk</b></p> <p>The risk that the company will not be able to meet its payment obligations on the date of maturity without the related cost increasing significantly. Short-term liquidity risk measures the risk of being impacted in the short term by a lack of liquidity, while structural liquidity risk is a measure of the mismatch between assets and liabilities in terms of maturities, which risks leading to a lack of liquidity in the longer term.</p> <p> <a href="#">READ MORE – NOTE 2g.</a></p>	Necessary risk	Low	SBAB has a low liquidity risk and diversified funding. Securities that are part of the liquidity reserve have high credit ratings and are eligible as collateral with either the Riksbank or the European Central Bank, to guarantee liquidity.	SBAB's liquidity strategy includes a proactive and continuous liquidity planning, active debt management and an adequate liquidity reserve. The funding strategy takes into consideration the expected maturity on the asset side. On this basis, SBAB limits its structural liquidity risk by maintaining diversified funding with sufficiently long maturities. SBAB has several liquidity metrics, for which limits apply, most of which are monitored and reported on a daily basis.

# THE NEXT GENERATION OF RESIDENTIAL MORTGAGES

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## STATEMENT BY THE CHAIRMAN OF THE BOARD

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**Customers' expectations of banking services have changed in line with rapid digital developments. Banks no longer only compete with each other, but increasingly with other, often smaller and rapidly expanding niche players.**

The banking and financial sector is currently facing major challenges, which represent enormous opportunities if they are met and managed in the right way. We live in an era where customers are placing ever-greater demands on transparency and accessibility, while also expecting a high-quality customer experience and interaction. Digitalisation, new regulations and new players are speeding up developments. Simply offering a good-value banking service will no longer be sufficient. Instead, it is a matter of establishing loyal customers who choose SBAB's products and services because the user-friendliness and customer experience are better than other market options. At the same time, the regulations controlling and influencing our operations are becoming more numerous and extensive in their formulation.

### **We have a firm strategy**

We are able to report very strong earnings for the full-year 2016. For the third consecutive year, we have Sweden's most satisfied residential mortgage customers

and are fulfilling our financial targets with a comfortable margin, both in terms of profitability and capitalisation. It also gives me pleasure to note that the Board of Directors for 2016 proposes a dividend of 40%, corresponding to SEK 628 million, to our owner, the Swedish state.

Thanks to its decision taken in 2014 to focus fully on residential mortgages and housing financing, SBAB has claimed its place in tomorrow's banking and financial market. This market requires focus and precision to become the best and gain customers' confidence. During the year, we continued our strategic transition towards housing, which includes an expanded product and service offering linked to housing and household finances. One initiative related to this is the acquisition of Booli. It is important for us to continue investing in the development of our offering and in our ability to deliver high-quality customer experiences. In line with our plan, we wound up certain residential mortgage brokering partnerships during the year with the aim of focusing

on new lending under our own brand and on ensuring that it is SBAB, and not any other supplier, who will own the customer relationship in the future. The Board of Directors and I are of the firm opinion that SBAB is well-equipped to work towards our goal and our vision — to offer the best residential mortgages in Sweden.

### **Charting the right course in a changeable world**

Much of 2016 focused on the US presidential election, refugee policy, the war in Syria and the UK's decision to leave the European Union, but also on negative interest rates, the repayment requirement, households' growing indebtedness and a continued notable rise in housing prices.

Good corporate governance is key to ensuring that SBAB is managed in a qualitative and effective manner. This is perhaps even more important in the changeable world in which we live today. SBAB's corporate governance structure supports the Board of Directors in obtaining necessary information, governing and con-



trolling operations and in taking necessary decisions on important strategic issues.

The Board's work during the year was characterised by a greater focus on governance, internal control and compliance, which are all fundamental if we are to achieve our ambitious targets and ensure that our owner, public authorities, investors, customers and the general public all have confidence in SBAB. In 2016, the Board decided new capital targets for SBAB, which entail that under normal conditions, SBAB's Common Equity Tier 1 (CET1) capital ratio should be at least 1.5 percentage points higher than the CET1 capital requirement communicated by Finansinspektionen.

To tackle households' growing indebtedness and rising property prices, Finansinspektionen introduced a mandatory repayment requirement during the year. There are currently intense discussions under way about further regulation. The importance of responsible credit granting is becoming increasingly apparent and led to us tightening our credit granting further

during the year, resulting in minor loan losses and good credit quality.

The Board took the decision during the year to begin work on replacing SBAB's entire IT base system structure over a three-year period. If SBAB is to offer the best residential mortgages in Sweden, we need to be quick-footed and innovative in our work and in our processes, which requires modern and flexible system support.

#### **Continued focus on sustainability**

As part of our efforts to create a sustainable society, the business community, including SBAB, has a decisive role to play. SBAB's Board of Directors has adopted a policy for sustainable business that forms the basis of a common approach to our contribution to sustainable developments in society. The Board and I share the ambition to continue the implementation of sustainability aspects in all parts of SBAB's operations. For us, sustainability is a matter of sound finances, responsibility and transparency as well as sustainable housing. The Board of Directors has adopted

overall targets that can be followed up directly, and it follows up and evaluates SBAB's sustainability work on an annual basis. In late 2016, a new stakeholder and materiality analysis was initiated that aims to ensure SBAB focuses on the right strategic issues in relation to sustainability – for us, our stakeholders and for society at large.

#### **A heartfelt thank you**

On behalf of the Board of Directors, I would like to take this opportunity to express our deep appreciation to SBAB's employees and managers, and it is with confidence that I look forward to an exciting and challenging 2017.

Solna, March 2017

**Bo Magnusson**  
Chairman of the Board

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE REPORT

**SBAB is a Swedish public limited banking company that is wholly owned by the Swedish state. SBAB is domiciled in Solna. Owner governance of SBAB is exercised through general shareholder meetings, the Board of Directors and the CEO in accordance with the Companies Act, the Articles of Association, and the policies and instructions adopted by SBAB. The Corporate Governance Report has been prepared pursuant to the regulations covering corporate governance reports in the Swedish Corporate Governance Code (the Code) and the Annual Accounts Act.**

This Corporate Governance Report has been subject to a statutory review by the company's auditor.

### The foundation of SBAB's corporate governance

Well-functioning corporate governance, risk management and internal governance are essential for SBAB to reach set targets and gain the confidence of its stakeholders. In addition to corporate governance in the traditional sense, which describes the system by which a company is governed and controlled, SBAB's vision, mission, business idea and values are important elements in SBAB's governance model. As well as information transparency, corporate culture, leadership and the long-term sustainable conduct of operations. This, together with corporate governance, means that we can maintain a high level of confidence in SBAB's operations. Confidence forms the basis of all banking operations.

### Application

SBAB does not apply some of the rules of the Code that are specifically aimed at companies with more than one owner. This is because SBAB is wholly owned by the state and on these points it follows the state's ownership policy.

Based on this ownership structure, deviations have occurred from the following Code rules:

- Code rule 1.1 — publication of information regarding the shareholders' right to propose business for the Annual General Meeting (AGM). The purpose of this rule is to give shareholders the opportunity to prepare ahead of time for the AGM and have matters included in the agenda for the AGM. In companies entirely owned by the Swedish state, in accordance with the owner's guidelines,

the public shall be invited to attend the AGM. As a summons is sent to the Central Bureau of the Swedish Riksdag (parliament), members of parliament also have the opportunity to attend.

- Code rules 1.4 and 2 — the establishment of a nomination committee responsible for matters such as the appointment and remuneration of the Board of Directors and the auditor. The reason for the deviation is that nomination matters in state-owned companies are handled by the government in the manner described in the state's ownership policy.
- Code rules 2.6, 4.4, 4.5, 4.6 and 10.2 — information to be provided concerning the independence of Board members in relation to major shareholders. No such information is provided since the primary objective of the Code rules in question is to protect minority shareholders in companies with dispersed ownership. Consequently, there is no reason for such information concerning independence to be disclosed in entirely state-owned companies.

### Articles of Association

SBAB's Articles of Association regulate matters such as the company's business objectives. The Articles of Association do not include any stipulations regulating the appointment or dismissal of Board members, with the exception of stipulations stating that the AGM is to appoint the Chairman of the Board and determine the minimum and maximum number of Board members. It is further stated that if the Chairman of the Board resigns from his or her office during the mandate period, the Board is to appoint one of the Board members as the new Chairman until the end of the AGM, when a new Chairman will be elected by the AGM. For amendments to be made to the Articles of Association, the

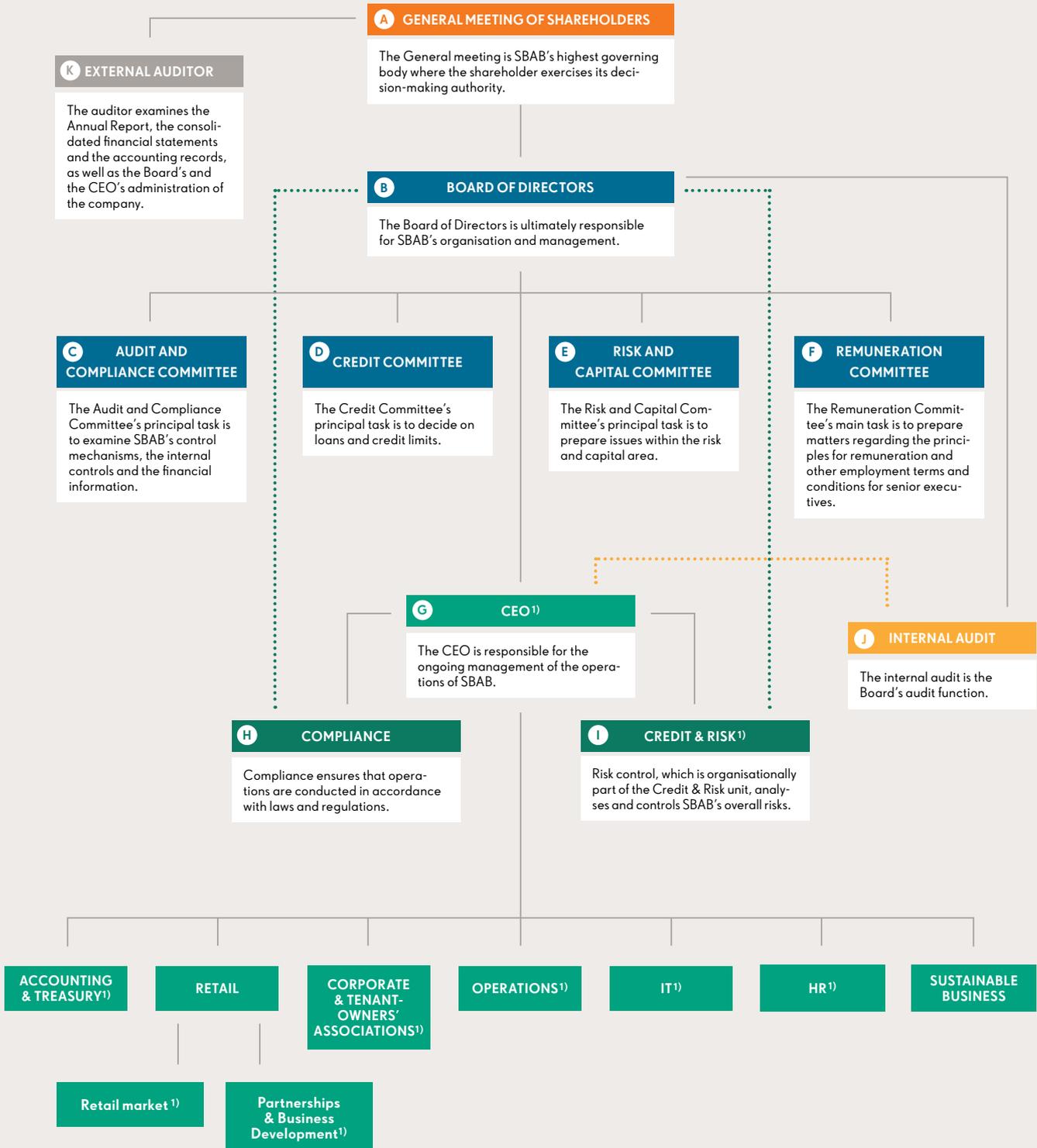
notice of the extraordinary general meeting that will address amendments to the Articles of Association is to be issued not earlier than six weeks and not later than four weeks prior to the meeting.

### A General meeting of shareholders

SBAB's Annual General Meeting was held on 28 April 2016. The AGM was open and the members of parliament and the general public were invited to attend. The owner was represented by Linda Sundberg from the Swedish Ministry of Enterprise and Innovation. Most of SBAB's Board members, the CEO and SBAB's auditor also attended the AGM. Bo Magnusson, Chairman of the Board of SBAB, served as the Chairman of the AGM. The AGM re-elected Board members Bo Magnusson (who was also elected Chairman), Jakob Grinbaum (who was also elected Vice Chairman), Carl-Henrik Borg, Lars Borjesson, Ebba Lindsö, Jane Lundgren-Ericsson and Karin Moberg. Daniel Kristiansson was elected as a new Board Member.

The AGM passed resolutions regarding the discharge from liability for the Board of Directors and the CEO, the appropriation of profits and the adoption of the annual accounts for 2015. The meeting elected Deloitte AB, with Patrick Honeth as the auditor-in-charge, as SBAB's auditor until the close of the 2017 AGM. The meeting reviewed the guidelines for remuneration to senior executives adopted by the 2015 AGM, see Note 7 for details of the guidelines, and adopted new guidelines for remuneration to senior executives. The meeting also decided on the fees to be paid to the members of the Board. No fees will be paid to Board members who are either employed by the Government Offices of Sweden or are employee representatives. The CEO and Chairman reported on the operations of the bank and the work of the Board of Directors in 2015.

OVERVIEW, 31 DECEMBER 2016



<sup>1)</sup> Included in Executive Management.

## B The Board of Directors

**Composition and nomination procedure**  
In entirely state-owned companies, uniform and shared principles are applied to achieve a structured nomination process for the appointment of board members in state-owned companies. The objective is to ensure an adequate supply of competence for the boards of directors of these companies. The Board nomination process is coordinated by the Swedish Ministry of Enterprise and Innovation. For each company, competence needs are analysed on the basis of the company's business, circumstances and future challenges, as well as the composition of the Board of Directors and the Board assessments that have been conducted. Recruitment requirements are then established and work commences. Members are selected from a broad recruitment base in order to draw on the expertise of both women and men, as well as individuals with different backgrounds and experience.

### Diversity and eligibility policies

The Board has adopted a policy on diversity in the Board and a policy on eligibility assessments for Board members, the CEO and senior executives. The diversity policy includes statements to the effect that the composition of the Board should be such that a balance is achieved with regard to background, areas of competence, experience and gender. The eligibility policy states that the eligibility assessment of the Board, the CEO and

the senior executives should take into account the individual's skills, experience, reputation and judgment.

### Chairman of the Board

The Chairman of the Board is elected by the AGM. If the Chairman of the Board resigns during the mandate period, the Board is to appoint one of the Board members as the new Chairman until the end of the AGM, when a new Chairman will be elected by the AGM. The Chairman leads the Board's work, monitors to ensure that the Board is performing its duties, represents the Board in relation to the owner and maintains contact with the owner. The Chairman is also responsible for initiating the annual evaluation of the Board's and the CEO's work. The Chairman of the Board ensures that the Board receives adequate information and decision data for its work and the training necessary for the Board to function efficiently.

### Board governance and activities

SBAB's Board comprises eight members elected by the AGM and two members appointed by the employees' organisations, SACO and the Financial Sector Union of Sweden. The CEO is not a member of the Board. None of the board members or the CEO hold shares or financial instruments issued by SBAB.

The Board adopts business objectives and strategies for SBAB's operations. The Board ensures that an efficient system is in place for the follow-up and control

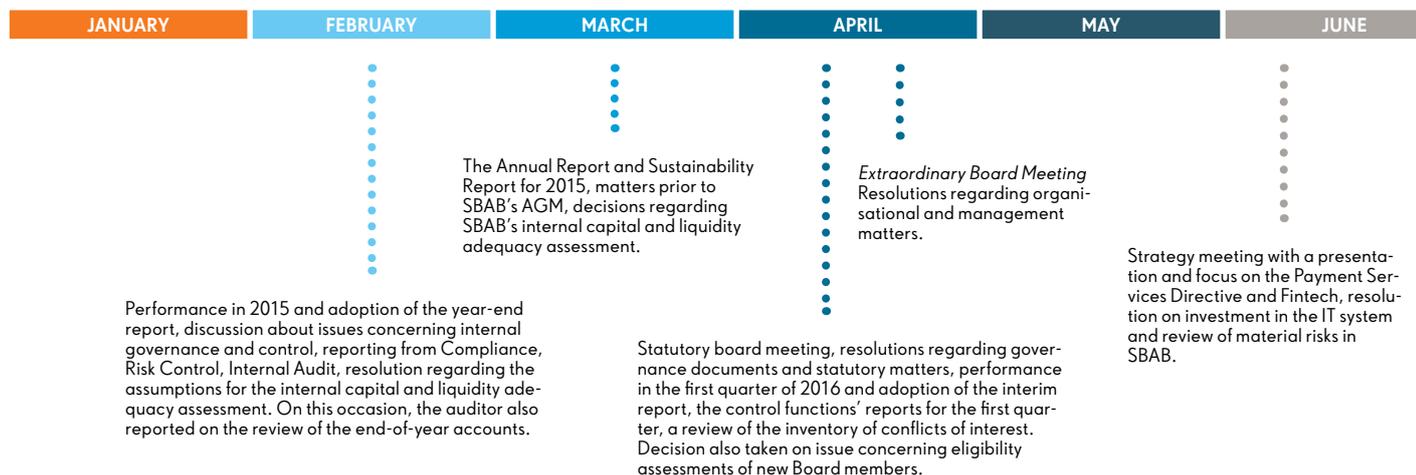
of SBAB's operations. The Board is also assigned with appointing, evaluating and, if the need arises, dismissing the CEO. The work of the Board complies with the formal work plan adopted annually at the Board of Directors' statutory Board meeting immediately after the AGM.

The formal work plan regulates decision-making within SBAB, the arrangements for Board meetings and the division of work among the Board, the Chairman of the Board and the Board committees. The work of the Board complies with an annual plan that satisfies, inter alia, the Board's need for information. SBAB's Board makes decisions on matters relating to SBAB's strategic direction, for example by means of a business plan, and makes decisions regarding larger investments, funding, capitalisation (including capital and liquidity adequacy assessments), significant organisational issues, policies and certain guidelines.

The Board addresses and determines the company's interim reports. The Board also follows up SBAB's risks, compliance, and reports on the effectiveness of internal control within SBAB by means of reports provided by SBAB's independent Risk Control, Compliance and Internal Audit units. The Board also receives reports from SBAB's auditor regarding the reporting of completed audits, and financial reporting assessments and internal control. The CEO attends the meetings of the Board of Directors, and other SBAB officers may participate in a reporting role if necessary.

## Work of the Board of Directors in 2016

In 2016, the Board of Directors held nine board meetings, of which eight were scheduled board meetings and one was an extraordinary board meeting.



## The Board's committees

The Board has established the following committees to prepare matters ahead of the Board's decisions.

### C Audit and Compliance Committee

The Audit and Compliance Committee is SBAB's Audit Committee and its main task is to examine the SBAB Group's governance, internal controls and financial information and to prepare issues in these areas for decision by the Board. This is done at the request of the owner and on the basis of the applicable regulations. The Committee is also responsible for monitoring financial statements and the efficiency of risk management and of the work carried out by Compliance and Internal Audit. Moreover, the Committee is responsible for evaluating external auditing work, informing the owner of the results of this work and assisting in the drafting of proposals for auditors. The Committee is also to review

and monitor the auditor's impartiality and independence. Annual plans and reports from Internal Audit and Compliance are also addressed by the Audit and Compliance Committee in preparation for decision by or for presentation to the Board of Directors. The Audit and Compliance Committee comprises three Board members. The Committee's assignment has been adapted over the years to new rules concerning the Audit Committee's assignment, which came into force during the year as a result of the EU's audit package.

Following the statutory Board meeting in 2016, the members of the Audit and Compliance Committee are:

- Karin Moberg (Chairperson)
- Daniel Kristiansson
- Bo Magnusson

The Audit and Compliance Committee held five meetings during the year.

### D Credit Committee

The principal task of the Credit Committee is to decide on loans and credit limits in SBAB's lending and funding operations. The Credit Committee also has the task of preparing matters involving changes in the credit policy and credit instructions for decision by the Board, the assessment of portfolio strategies, the transparency of the loan portfolio, the evaluation of existing or proposed portfolio strategies, the evaluation of existing or new delegation rights and the Board's annual review of regulatory frameworks, models for granting credits and outcomes in terms of retail credit granting. The Committee prepares all matters relating to credit risk and approves new IRB models and significant changes to existing models.

The Committee consists of at least three Board members.

## ATTENDANCE OF THE BOARD OF DIRECTORS IN 2016

The table presents the meeting attendance of the Board and its committees in 2016 by those who were members of the Board as of 31 December 2016. Three members, Daniel Kristiansson, Johan Eriksson and Kristina Ljung, joined the Board of Directors during the year, so their attendance refers to part of the year. Attendance of the Credit Committee for Bo Magnusson and Lars Börjesson refers to part of the year. Kristina Ekengren has been a member of the Remuneration Committee in addition to Bo Magnusson. However, she stepped down from the Board in conjunction with the 2016 AGM.

Board members	Board of Directors	Credit Committee	Risk and Capital Committee	Audit and Compliance Committee	Remuneration Committee
Bo Magnusson	9/9	13/17*	-	5/5	4/4
Jakob Grinbaum	8/9	15/17*	5/5	-	-
Carl- Henrik Borg	9/9	-	-	-	-
Lars Börjesson	9/9	3/17	-	-	-
Daniel Kristiansson	6/9*	-	-	3/5*	-
Johan Eriksson	6/9*	-	-	-	-
Ebba Lindsö	9/9	-	5/5	-	-
Jane Lundgren-Ericsson	9/9	17/17	3/5	-	-
Karin Moberg	8/9	-	-	5/5	-
Kristina Ljung	6/9*	-	-	-	-

\* Pertains to part of the year

## JULY



Performance in the second quarter and adoption of the interim report, reporting from Compliance and Internal Audit. The auditor's review of the second quarter accounts.

## AUGUST



Presentation of blockchain technology, review of the overriding conditions for the 2016 business plan as well as a presentation from SBAB's Customer Centre and other operations in Karlstad, where the meeting was held.

## SEPTEMBER



## OCTOBER



Performance in the third quarter, adoption of the interim report, reporting from Compliance, Risk Control and Internal Audit.

## NOVEMBER

## DECEMBER



Adoption of the 2017 business plan and budget, adoption of annual plans for the control functions review and discussion regarding an evaluation of the Board's work. The evaluation was conducted with the assistance of an external party by way of a questionnaire that was then compiled, the result of which was discussed by the Board at the board meetings. On the same occasion, the Board of Directors resolved on measures arising from the evaluation.

Following a change in the composition of the Committee on 1 October 2016, the members of the Committee are:

- Jane Lundgren-Ericsson (Chairperson)
- Lars Börjesson
- Jakob Grinbaum

Bo Magnusson was a member and Chairman of the committee until 30 September 2016, when he was replaced by Lars Börjesson. The Credit Committee held 17 meetings during the year.

#### **E** Risk and Capital Committee

The Risk and Capital Committee prepares matters concerning SBAB's treasury operations, matters related to risk and capital and the use of new financial instruments. The Committee also prepares issues for resolution by the Board of Directors concerning objectives, strategies and control documents within the areas of risk and capital. The Committee consists of at least three members appointed by the Board. The Risk and Capital Committee is the statutory Risk Committee of the SBAB Group.

The members of the Committee following the statutory meeting in 2016 are:

- Jakob Grinbaum (Chairman)
- Ebba Lindsö
- Jane Lundgren-Ericsson

The Risk and Capital Committee held five meetings during the year.

#### **F** Remuneration Committee

The principal task of the Remuneration Committee is to prepare issues regarding principles for remuneration and other employment terms and conditions for senior executives for resolution by the Board. The Committee also prepares matters pertaining to SBAB's remuneration system ahead of Board decisions. The Committee follows up remuneration structures and remuneration levels within SBAB.

Following the statutory Board meeting in 2016, the members of the Remuneration Committee are:

- Bo Magnusson (Chairman)
- Daniel Kristiansson

The Remuneration Committee held four meetings during the year.

#### **G** CEO and Executive Management

The Board has formulated instructions for the CEO's work. The CEO is responsible for the ongoing management of the operations in accordance with guidelines, established policies and instructions issued by the Board. The CEO reports to the Board. Executive Management provides the CEO with support in exercising operational management of SBAB.

In addition to the CEO, the following positions are included in SBAB's Executive Management: CFO, COO, CIO, CRO, Head of HR, Head of Retail Market, Head of Partnerships & Business Development, Head of Corporate Clients & Tenant-Owners' Associations.

#### *The CEO's councils and committees*

The CEO has appointed a number of councils and committees within SBAB to support him in his work in the management of the operations. These are tasked with preparing issues for the CEO, either prior to his decisions or his recommendations on matters to be determined by the Board. These established councils and committees are the Marketing Council, the Price Council, the Sustainability Council, ALCO (Asset and Liability Committee), the Credit Council and the Forum for Matters of Principle. The Marketing Council prepares marketing-related matters, the Price Council prepares matters related to the pricing of SBAB's products, the Sustainability Council prepares and coordinates issues related to sustainability, ALCO prepares issues related to the Group's financial operations, balance-sheet risks and capital issues, the Credit Council prepares and has a certain scope to make decisions on matters connected to SBAB's credit operations and limits for the financial operations, and the Forum for Matters of Principle coordinates and makes proposals on the Group's more important standpoints.

#### *Governance of sustainable business*

Within SBAB, the Board is ultimately responsible for ensuring that proactive, long-term efforts to achieve sustainable development are carried out within the company. The Board also adopts a strategy, objectives and a policy for sustainable business. Furthermore, the Board monitors and assesses SBAB's sustainability efforts.

The Sustainable Business function is responsible for developing a company-wide business plan for SBAB's sustainability agenda, including a strategy, objectives

and activities. The Executive Management presents the company's strategic business plan, including its aims, direction and objectives for sustainability efforts, in conjunction with deciding the business plan and budget.

SBAB has a Sustainability Council and a Sustainability Forum that meet regularly to thereby optimise the integration and focus of sustainability efforts. The Sustainability Council comprises the Executive Management and the Head of Sustainability (who convenes the meetings), and has been tasked with guiding SBAB's sustainability efforts. The Sustainability Council takes decisions on priorities and strategic direction in accordance with the decided business strategy.

The Sustainability Forum is a working group tasked primarily with evaluating and prioritising larger and more significant ideas pertaining to sustainability. The group is cross-functional. The efforts of the Sustainability Forum and the Sustainability Council at SBAB are supported by SBAB's overriding business plan, current materiality analysis and the prioritised sustainability aspects.

The objectives within sustainable business are measured and reported to the CEO and the Board quarterly. The actual work takes place within the organisation, where the operation-specific expertise exists. Based on the company-wide objectives, operational objectives and activities are identified and integrated into the business plans of each unit, thereby contributing to meeting the overarching objectives for sustainable business.

#### **Remuneration of the Board of Directors and senior executives**

Information regarding the remuneration of the Board, the CEO and Executive Management is presented in Note 7 to the annual accounts.

#### **Internal control and governance**

Internal control is important for ensuring that SBAB's operations are conducted in accordance with prevailing regulations, as well as ensuring that SBAB identifies, measures and controls relevant risks and has an efficient organisation and operational management, and reliable financial reporting. The Board and the CEO are ultimately responsible for ensuring good internal control and governance. The Board and the CEO of SBAB are assisted in this work by several functions. Key control functions in this regard are the Compliance, Risk Control and Internal Audit functions, which

are described in further detail below. Other functions, including Accounting, Credit and Legal, support the Board and the CEO with regard to good internal governance and control. All managers in each area of responsibility are responsible for the activities they oversee being conducted with good internal governance and control.

#### **H** Compliance

SBAB has a central Compliance function. The Compliance function's area of responsibility comprises rules on internal governance and control, customer protection and market conduct. Compliance is independent of the business operations and is directly subordinate to the CEO. Compliance provides advice and support to the operations on compliance matters, analyses compliance risks and monitors regulatory compliance in respect of operations requiring licences. Reporting occurs on an ongoing basis to the CEO and quarterly by means of a written report to the Board and the CEO. The scope and focus of the work of Compliance is established in an annual plan adopted by the Board.

#### **I** Risk Control

The SBAB Group has a central Risk Control department with overall responsibility for developing and ensuring that risk-taking strategies are conducted in accordance with the Board's intention, and that policies and processes facilitate relevant follow-up. Risk Control is responsible for the identification, quantification, analysis and reporting of all risks. The CRO is responsible for Risk Control. The CRO is directly subordinate to the CEO and reports to the Board and CEO of SBAB. Risk Control is to ensure that risk awareness and acceptance are sufficient to be able to manage risks on a daily basis. Risk Control also has a supportive role and works to ensure that the operations have the requisite procedures, systems and tools for daily management of risks, thereby ensuring that operations comply with the applicable laws and regulations in risk control's sphere of responsibility.

#### **J** Internal audit

SBAB's Internal Audit unit constitutes an internal independent audit function. Accordingly, the main function of the Internal Audit is to examine and evaluate governance and internal controls, to examine and evaluate that the company's organisation, control processes, IT systems, models and routines are appropriate and efficient, and

to review and regularly assess the reliability and quality of the work conducted in other control functions in SBAB. All reporting is conducted in accordance with a reporting and meeting plan.

#### **K** External auditor

The AGM appoints auditors. SBAB's Audit and Compliance Committee evaluates the contribution of the auditor and assists the owner in preparing motions for the auditor. Officials at the Government Offices of Sweden monitor all stages of the procurement process from tendering criteria to selection and evaluation. At the AGM, the owner appoints the auditor or the accounting firm that is commissioned to audit SBAB. Auditors must be authorised public accountants or an authorised accounting firm with an auditor-in-charge. As of 2011, SBAB's auditor is appointed annually in accordance with the Companies Act and the Articles of Association. For the period until the 2016 AGM, KPMG AB was auditor with Anders Tagde as auditor-in-charge. The 2016 AGM elected Deloitte AB as auditor, with Patrick Honeth as the auditor-in-charge. A more detailed presentation of the auditor, the auditor-in-charge and the fees and expenses paid to auditors is provided in Note 8 of the Annual Report. The auditor examines the Annual Report, the consolidated financial statements and the accounting records, as well as the Board's and the CEO's administration of the company. In addition, the auditor reviews SBAB's interim reports and year-end reports and presents his findings to the Audit and Compliance Committee at regular meetings of the Committee, when the interim and year-end reports reviewed by the auditor are considered, and when the internal control review is reported to the Board. The auditor also reviews the Sustainability Report and the Communication on Progress (COP).

#### **Internal Control of Financial Reporting**

At SBAB, the internal control of financial reporting is primarily aimed at ensuring that an effective and reliable procedure for SBAB's financial reporting is in place, and that both internal and external reporting is correct and accurate. Work with the internal control of financial reporting is based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, which comprises five internal control components.

#### *The control environment*

The internal control of financial reporting uses SBAB's values, organisational structure, codes of conduct, policies, instructions and directions for SBAB's operations as its starting point.

#### *Risk assessment*

Each unit within SBAB identifies, evaluates, manages and assesses its own risks. The analysis of risk levels in all operations, including financial reporting, is conducted on a regular basis and reported to the Executive Management, the CEO and the Board.

Each year, a risk assessment is performed in the form of a self-evaluation of all business-support processes, including financial reporting, and is managed and reported using separate risk tools. In relation to changes related to financial reporting, a new product approval policy (NPAP) is also carried out.

#### *Control activities*

Business-support processes that provide data for the financial statements are charted and contain control activities in the form of descriptions of processes, reasonability assessments, reconciliations, attestations and performance analyses. An internal set of rules, including accounting policies, planning and reporting procedures, ensures the application of control activities.

SBAB's financial position and performance, target attainment and analysis of operations is reported on a monthly basis to both the Executive Management and the Board. The Board's Audit and Compliance Committee supervises the financial reporting as well as the effectiveness of internal control.

#### *Information and communication*

The Economy and Finance unit ensures that the instructions on accounting and financial reporting are updated, communicated and made available for the units that need them for their work. The instructions are also available on SBAB's intranet.

#### *Follow-up*

The Board's measures to follow up on the internal control of financial reporting include the Board's regular follow-up of SBAB's financial position and performance, etc., but also include the Board's review and follow-up on the auditor's review reports.

# BOARD OF DIRECTORS

## Chairman of the Board

Higher bank degree (SEB).  
Born in 1962. Elected in 2013.

**Board assignments:** Carnegie Investment Bank AB and Carnegie Holding AB, Rikshem AB and Rikshem intressenter AB, AB Sverige Säkerställda Obligationer (publ), Chairman of the Board in all of the above companies. Board member of KBC Bank N.V., Bmag AB, Föreningen Vikborgsöns Parkintressenter with limited liability.

**Other assignments:** –

**Previous experience:** Deputy CEO at SEB and other senior positions within SEB.



BO MAGNUSSON



## Deputy Chairman of the Board

Bachelor of Arts. Born in 1949. Elected in 2010.

**Board assignments:** Oscar Properties Holding AB (Chairman), Fourth AP fund (Deputy Chairman), AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC), the foundation Stiftelsen Ostgotagården Uppsala, the sport club IK Sirius, J Grinbaum Finanskonsult, Jernhusen AB, ATS Finans Holding AB and ATS Finans AB.

**Other assignments:** Advisory Board of Genesta Property Nordic AB.

**Previous experience:** Executive Vice President, Group Treasury and Group Corporate Development at Nordea.



JAKOB GRINBAUM



CARL-HENRIK BORG



## Board member

LLM. Born in 1952. Elected in 2015.

**Board assignments:** Lägenhetsbyte Sverige AB (Chairman), Chiffer Media Aktiebolag (Chairman) and CABO consulting AB.

**Other assignments:** Self employed and digital advisor.

**Previous experience:** CEO of Hemnet, founder/senior partner of Webanalys Sitesfaction AB.



## Board member

Bachelor of Business Administration and Economics, Born 1974. Elected in 2016.

**Board assignments:** Vasallen AB, Vilekulla (cooperative association).

**Other assignments:** Under-secretary at the Government Offices.

**Previous experience:** Vice President, Investment Banking Citigroup



DANIEL KRISTIANSSON



LARS BÖRJESSON



## Board member

Master of Engineering. Born in 1964. Elected in 2014.

**Board assignments:** Taggsvampen AB, Dovana AB.

**Other assignments:** CEO of KGH Customs Services.

**Previous experience:** CEO of Stena Technoworld, Director of Strategy and Business Development Stena metall, Senior partner of Accenture, including Managing Director of Accenture Management Consulting Nordic.

**Board member**

Bachelor of Business Administration and Economics. Born in 1963. Elected in 2009.

**Board assignments:** FriendsOfAdam, DORO AB, Doro Care AB.

**Other assignments:** CEO Friends of Adam.

**Previous experience:** CEO Telia e-bolaget, Marketing Director and Acting Chief Communication Officer TeliaSonera, Management consultant.



KARIN MOBERG



JANE LUNDGREN-ERICSSON

**Board member**

Master of Law, LL.M (London). Born in 1965. Elected in 2013.

**Board assignments:** Miskatonic Musik Aktieföretag (deputy).

**Other assignments:** Executive Director & Head of Lending at Svensk Exportkredit.

**Previous experience:** CEO of SEK Securities and other senior positions at Svensk Exportkredit AB.

**Board member**

Bachelor of Business Administration and Economics, M.Sc., M.Phil. Born in 1955. Elected in 2012.

**Board assignments:** Sixth AP fund (Chairman), Burenstam & Partners.

**Other assignments:** –

**Previous experience:** CEO Respect Europe, CEO Confederation of Swedish Enterprise, CEO and editor in chief TT, editor in chief Affärsvärlden, CEO Transferator Fondkommission.



EBBA LINDSÖ



KRISTINA LJUNG

**Board Member (Employee Representative)**

Born in 1966. Appointed in 2016 by the local club committee of the Financial Sector Union of Sweden.

**Board assignments:** –

**Other assignments:** Key Account Manager Köp och Byt, Retail Market SBAB, Chairman of the local club committee of the Financial Sector Union of Sweden at SBAB.

**Board Member (Employee Representative)**

Born in 1982. Appointed in 2016 by the local club committee of SACO.

**Board assignments:** BRF Trekanten Liljeholmen

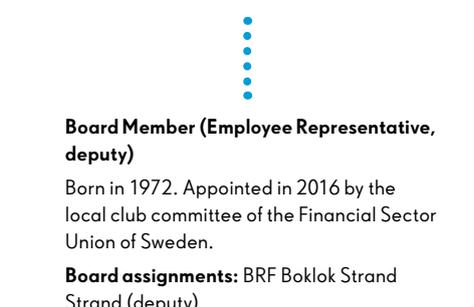
**Other assignments:** Project manager IT, SBAB, Chairman of the local club committee of the Confederation of Professional Associations (SACO) at SBAB.



JOHAN ERIKSSON



JOHAN GRUDE

**Board Member (Employee Representative, deputy)**

Born in 1972. Appointed in 2016 by the local club committee of the Financial Sector Union of Sweden.

**Board assignments:** BRF Boklok Strand Strand (deputy)

**Other assignments:** Employee within Credit Management at SBAB, member of the local club committee of the Financial Sector Union of Sweden at SBAB.



# EXECUTIVE MANAGEMENT

## CEO

Bachelor of Social Sciences Business Administration  
Born in 1963. Year of employment: 2014

**Board assignments:** Board member AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC)) and DE Capital Chairman of the Board of Booli Search Technologies AB. Deputy Member of the Board of the Swedish Bankers’ Association.

**Previous experience:** Founder and CEO of Nordnet AB (publ) and Nordnet Bank AB, Head of Trading at SBC Warburg AB, Chairman of SwedSec Licensiering AB, Board Member of Ikano Bank AB, East Capital AB, the Swedish Consumers’ Banking and Finance Bureau, Alternativa Aktiemarknaden AB, the Swedish Securities Dealers Association, and others.



KLAS DANIELSSON



## COO

Master of Law. Born in 1973. Year of employment: 1999.

**Board assignments:** Board Member of Maricon Marinconsult AB’s Pension Fund, Deputy Board Member of Maricon Marinconsult AB.

**Previous experience:** Legal Counsel at Volvo Treasury AB (publ), Chief Legal Counsel at SBAB



CHRISTINE EHNSTRÖM



ELIZABET JÖNSSON



## Head of Retail Market

Master of Business Administration and Economics. Born in 1976.  
Year of employment: 2015.

**Board assignments:** Board member Miljonlotteriet and Booli Search Technologies AB.

**Previous experience:** Head of Digital Consumer Market, Tele2 Sverige, Head of Customer Loyalty and Market Analysis, Head of Sales Online and other positions within Svenska Spel.

## CIO

Master of Engineering, Born in 1966. Year of employment: 2016.

**Board assignments:**

**Previous experience:** CTO of Nordnet Bank AB, various managerial positions within Abaris.



KLAS LJUNGKVIST



CARINA ERIKSSON



## HR Manager

Master of Business Administration and Economics.  
Born in 1965. Year of employment: 2015.

**Board assignments:** –

**Previous experience:** Scandinavian HR Business Partner Lead, Trygg Hansa/Codan; Scandinavian HR Director Personal Lines, Trygg Hansa/Codan; HR Director, Microsoft Sweden; COO, Deutsche Bank Nordic Equities.

**CFO**

Master of Business Administration and Economics. Born in 1963. Year of employment: 2014

**Board assignments:** Board member of Booli Search Technologies AB.

**Previous experience:** CEO of Lindorff Sverige AB, Executive Vice President and CFO of Swedbank AB, Regional Manager and Executive Vice President of ForeningsSparbanken AB, Board member of ICA Banken, OK-Q8 Bank AB, HansaBank Group AS, and others.



MIKAEL INGLANDER

**Head of Partnerships & Business Development**

Master of Business Administration and Economics. Born in 1975. Year of employment: 2015.

**Board assignments:** Board member of Booli Search Technologies AB.

**Previous experience:** Sales Manager at East Capital, Head of Funds at Nordnet.



DANIEL LJUNGEL



TIM PETERSSON

**Head of Corporate Clients & Tenant-Owners' Associations**

Post-secondary school education — economics. Born in 1960. Year of employment: 2002.

**Board assignments:** –

**Previous experience:** Office and Area Manager, Swedbank, Head of Sales, Corporate Clients & Tenant-Owners' Associations, SBAB.

**CRO**

Master of Engineering. Born in 1974. Year of employment: 2012.

**Board assignments:** –

**Previous experience:** Senior Job Manager at Oliver Wyman, Manager at KPMG Financial Services.



PETER SVENSÉN

**Patrick Honeth**

Deloitte AB  
Auditor-in-charge at  
SBAB since 2016.

**AUDITOR**

The 2016 AGM appointed Deloitte AB as auditor, with Patrick Honeth as the auditor-in-charge. For the period until the 2016 AGM, KPMG AB was auditor with Anders Tagde as auditor-in-charge.

## PROPOSED APPROPRIATION OF PROFITS

SBAB posted a net profit for the year after tax of SEK 277,206,792. According to SBAB's balance sheet, SEK 7,598,300,831 is at the disposal of the Annual General Meeting.

Tier 1 capital instruments	1,500,000,000
Reserves/Fair value reserve	118,304,814
Retained earnings	5,702,789,225
Net profit for the year	277,206,792
<b>Total</b>	<b>7,598,300,831</b>

*The Board proposes that the earnings be appropriated as follows:*

A dividend payment of SEK 32,074 per share, in total	628,105,142
Carried forward to next year	6,970,195,689
<b>Total</b>	<b>7,598,300,831</b>

The proposed dividend, which amounts to 6% of the Company's equity, has been proposed with consideration for the rules on buffer capital, risk limitation and transparency according to the Banking and Financing Business Act. The applicable regulations on capital adequacy and major exposures mean that the Company's own funds at any given time shall correspond to at least the total capital requirements for credit risk, market risk and operational risk and the calculated capital requirements for additional identified risks in the operations, in accordance with the Company's internal capital adequacy assessment. After the proposed appropriation of profits, own capital amounts to SEK 15,157 million (15,400) and the final minimum capital requirement amounts to SEK 2,519 million (2,664). The specification of the items is set out in Note 2i.

In the Board's assessment, the proposed dividend is justified considering the requirements that the nature, scope and risks of the operations impose on the scale of equity in the Parent Company and the Group, as well as on the needs of the Parent Company and the Group in terms of consolidation, liquidity and position.

## FIVE-YEAR OVERVIEW

Group, SEK million	2016	2015	2014	2013	2012
Interest income	4,601	5,123	7,261	8,147	10,485
Interest expense	-1,772	-2,681	-5,150	-6,184	-8,544
<b>Net interest income</b>	<b>2,829</b>	<b>2,442</b>	<b>2,111</b>	<b>1,963</b>	<b>1,941</b>
Other operating income <sup>1)</sup>	89	-101	510	-70	-693
<b>Total operating income</b>	<b>2,918</b>	<b>2,341</b>	<b>2,621</b>	<b>1,893</b>	<b>1,248</b>
Depreciation, amortisation and impairment of PPE and intangible assets	-27	-31	-160	-69	-24
Other operating expenses	-862	-778	-848	-746	-704
<b>Total operating expenses</b>	<b>-889</b>	<b>-809</b>	<b>-1,008</b>	<b>-815</b>	<b>-728</b>
Profit before loan losses	2,029	1,532	1,613	1,078	520
Loan losses	-18	-40	30	7	-20
Participations in joint ventures	-	-	1	-	-
<b>Operating profit</b>	<b>2,011</b>	<b>1,492</b>	<b>1,644</b>	<b>1,085</b>	<b>500</b>
Lending portfolio	296,022	296,981	261,445	258,739	255,946
Other assets	79,134	77,571	77,540	76,319	78,482
<b>TOTAL ASSETS</b>	<b>375,156</b>	<b>374,552</b>	<b>338,985</b>	<b>335,058</b>	<b>334,428</b>
Deposits	96,769	76,639	60,610	45,869	27,654
Debt securities issued, etc.	247,407	264,205	243,168	243,870	253,897
Other liabilities	9,552	13,870	18,260	29,388	37,057
Deferred tax liabilities	207	47	-	459	0
Subordinated debt	5,939	7,943	5,946	5,791	7,052
Equity	15,282	11,848	11,001	9,681	8,768
<b>Total liabilities and equity</b>	<b>375,156</b>	<b>374,552</b>	<b>338,985</b>	<b>335,058</b>	<b>334,428</b>
<b>Selected key performance indicators</b>					
New lending, SEK million	59,648	80,470	48,297	37,367	34,878
Net interest margin, %	0.75	0.68	0.63	0.59	0.58
Loan loss ratio, %	-0.01	-0.01	0.01	0.00	-0.01
C/l ratio, %	30	35	38	43	58
Return on equity, %	12.3	10.2	12.1	9.5	4.2
Return on assets, %	0.4	0.3	0.4	0.3	0.1
Number of employees at year-end, FTEs <sup>2)</sup>	510	429	397	436	380
<b>Capital structure</b>					
CET1 capital ratio, %	32.2	28.6	29.8	23.3	16.4
Tier 1 capital ratio, %	40.1	35.1	36.8	30.6	21.7
Total capital ratio, %	51.6	49.3	44.7	35.6	27.4
Total capital ratio with transitional rules, %	11.7	11.4	10.8	10.5	11.5

<sup>1)</sup> The item includes net commission, the net result of financial items and other operating income.

<sup>2)</sup> Number of employees expressed as full-time equivalents (FTEs), adjusted for sick leave and leave of absence.

# FINANCIAL STATEMENTS AND NOTES

## FINANCIAL STATEMENTS

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## INCOME STATEMENT

SEK million	Note	GROUP		PARENT COMPANY	
		2016	2015	2016	2015
Interest income	3	4,601	5,123	1,300	1,419
Interest expense	3	-1,772	-2,681	-974	-1,258
<b>Net interest income</b>		<b>2,829</b>	<b>2,442</b>	<b>326</b>	<b>161</b>
Commission income	4	69	61	85	82
Commission expense	4	-62	-163	-39	-79
Net result of financial items measured at fair value/ Net income from financial transactions	5	48	1	143	-76
Other operating income	6	34	0	721	625
<b>Total operating income</b>		<b>2,918</b>	<b>2,341</b>	<b>1,236</b>	<b>713</b>
Personnel costs	7	-412	-376	-408	-379
Other expenses	8	-450	-402	-449	-409
Depreciation, amortisation and impairment of PPE and intangible assets	9	-27	-31	-15	-22
<b>Total expenses before loan losses</b>		<b>-889</b>	<b>-809</b>	<b>-872</b>	<b>-810</b>
<b>Profit/loss before loan losses</b>		<b>2,029</b>	<b>1,532</b>	<b>364</b>	<b>-97</b>
Net loan losses	10	-18	-40	-9	-51
<b>Operating profit/loss</b>		<b>2,011</b>	<b>1,492</b>	<b>355</b>	<b>-148</b>
Tax	11	-441	-330	-78	31
<b>Net profit/loss for the year</b>		<b>1,570</b>	<b>1,162</b>	<b>277</b>	<b>-117</b>

## STATEMENT OF COMPREHENSIVE INCOME

SEK million	Note	GROUP		PARENT COMPANY	
		2016	2015	2016	2015
<b>Net profit/loss for the year</b>		<b>1,570</b>	<b>1,162</b>	<b>277</b>	<b>-117</b>
<b>Other comprehensive income:</b>					
<i>Components that will be reclassified to profit or loss</i>	30				
Change in reclassified financial assets, before tax		-	-	-	-
Changes related to available-for-sale financial assets, before tax		198	-7	198	-7
Changes related to cash-flow hedges, before tax		370	175	-28	-6
Tax attributable to components that will be reclassified to profit or loss		-125	-37	-37	3
<i>Components that will not be reclassified to profit or loss</i>	30				
Revaluation effects of defined-benefit pension plans, before tax		-58	72	-	-
Tax attributable to components that will not be reclassified to profit or loss		13	-16	-	-
<b>Other comprehensive income, net of tax</b>		<b>398</b>	<b>187</b>	<b>133</b>	<b>-10</b>
<b>Total comprehensive income for the year</b>		<b>1,968</b>	<b>1,349</b>	<b>410</b>	<b>-127</b>

## BALANCE SHEET

SEK million	Note	GROUP		PARENT COMPANY	
		2016	2015	2016	2015
<b>ASSETS</b>					
Cash and balances at central banks		0	0	0	0
Sovereign bonds eligible as collateral, etc.	12	20,492	14,312	20,492	14,312
Lending to credit institutions	13	1,619	3,456	56,630	17,162
Lending to the public	14	296,022	296,981	51,577	81,207
Value changes of interest-rate-risk hedged items in macro hedges		396	549	0	5
Bonds and other interest-bearing securities	15	48,851	49,714	48,851	49,714
Derivatives	16	6,192	7,192	6,221	6,430
Shares and participations in Group companies	17	-	-	10,386	10,300
Deferred tax assets	27	-	-	-	52
Intangible assets	18	152	56	31	13
Property, plant and equipment	19	16	20	16	20
Other assets	20	550	1,246	179	554
Prepaid expenses and accrued income	21	866	1,026	761	904
<b>TOTAL ASSETS</b>		<b>375,156</b>	<b>374,552</b>	<b>195,144</b>	<b>180,673</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Liabilities to credit institutions	22	4,689	5,111	4,191	2,973
Deposits from the public	23	96,769	76,639	96,769	76,639
Debt securities issued, etc.	24	247,407	264,205	71,474	76,925
Derivatives	16	2,475	5,194	6,075	6,778
Other liabilities	25	347	783	334	773
Accrued expenses and deferred income	26	1,976	2,767	373	569
Deferred tax liabilities	27	207	47	41	-
Provisions	28	65	15	0	-
Subordinated debt	29	5,939	7,943	5,939	7,943
<b>Total liabilities</b>		<b>359,874</b>	<b>362,704</b>	<b>185,196</b>	<b>172,600</b>
<b>Untaxed reserves</b>					
<b>Equity</b>					
Share capital	30	1,958	1,958	1,958	1,958
Statutory reserve		-	-	392	392
Tier 1 capital instruments	29	1,500	-	1,500	-
Reserves/Fair value reserve	30	662	264	118	-14
Retained earnings		9,592	8,464	5,703	5,854
Net profit/loss for the year		1,570	1,162	277	-117
<b>Total equity</b>		<b>15,282</b>	<b>11,848</b>	<b>9,948</b>	<b>8,073</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>375,156</b>	<b>374,552</b>	<b>195,144</b>	<b>180,673</b>

## STATEMENT OF CHANGES IN EQUITY

GROUP	SEK million	Note	RESTRICTED EQUITY		UNRESTRICTED EQUITY			Total equity
			Share capital		Reserves	Tier 1 capital instruments	Retained earnings and net profit for the year	
<b>OPENING BALANCE, 1 JANUARY 2015</b>			<b>1,958</b>		<b>77</b>	<b>-</b>	<b>8,966</b>	<b>11,001</b>
Dividends paid							-502	-502
Other comprehensive income, net of tax		30			187			187
Net profit/loss for the year							1,162	1,162
<b>Comprehensive income for the year</b>					<b>187</b>		<b>1,162</b>	<b>1,349</b>
<b>CLOSING BALANCE, 31 DECEMBER 2015</b>			<b>1,958</b>		<b>264</b>	<b>-</b>	<b>9,626</b>	<b>11,848</b>
<b>OPENING BALANCE, 1 JANUARY 2016</b>			<b>1,958</b>		<b>264</b>	<b>-</b>	<b>9,626</b>	<b>11,848</b>
Tier 1 capital instruments						1,500	-34	1,466
Other							0	0
Other comprehensive income, net of tax		30			398			398
Net profit for the year							1,570	1,570
<b>Comprehensive income for the year</b>					<b>398</b>		<b>1,570</b>	<b>1,968</b>
<b>CLOSING BALANCE, 31 DECEMBER 2016</b>			<b>1,958</b>		<b>662</b>	<b>1,500</b>	<b>11,162</b>	<b>15,282</b>

PARENT COMPANY	SEK million	Note	RESTRICTED EQUITY		UNRESTRICTED EQUITY			Total equity
			Share capital	Statutory reserve	Fair value reserve	Tier 1 capital instruments	Retained earnings and net profit for the year	
<b>OPENING BALANCE, 1 JANUARY 2015</b>			<b>1,958</b>	<b>392</b>	<b>-4</b>	<b>-</b>	<b>6,356</b>	<b>8,702</b>
Dividends paid							-502	-502
Other comprehensive income, net of tax		30			-10			-10
Net loss for the year							-117	-117
<b>Comprehensive income for the year</b>					<b>-10</b>		<b>-117</b>	<b>-127</b>
<b>CLOSING BALANCE, 31 DECEMBER 2015</b>			<b>1,958</b>	<b>392</b>	<b>-14</b>	<b>-</b>	<b>5,737</b>	<b>8,073</b>
<b>OPENING BALANCE, 1 JANUARY 2016</b>			<b>1,958</b>	<b>392</b>	<b>-14</b>	<b>-</b>	<b>5,737</b>	<b>8,073</b>
Tier 1 capital instruments						1,500	-34	1,466
Other							0	0
Other comprehensive income, net of tax		30			132			132
Net profit for the year							277	277
<b>Comprehensive income for the year</b>					<b>132</b>		<b>277</b>	<b>409</b>
<b>CLOSING BALANCE, 31 DECEMBER 2016</b>			<b>1,958</b>	<b>392</b>	<b>118</b>	<b>1,500</b>	<b>5,980</b>	<b>9,948</b>

## CASH-FLOW STATEMENT

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Opening cash and cash equivalents</b>	<b>3,456</b>	<b>7,437</b>	<b>17,162</b>	<b>35,823</b>
<b>OPERATING ACTIVITIES</b>				
Interest received	4,745	4,600	1,430	880
Commission received	69	58	86	79
Interest paid	-2,407	-3,065	-1,075	-611
Commission paid	-91	-99	-68	-19
Outflows to suppliers and employees	-863	-813	-858	-823
Taxes paid/refunded	-394	-601	-41	-4
Change in lending to the public	941	-35,421	29,622	-37,368
Sovereign bonds eligible as collateral, etc.	-6,287	1,177	-6,287	1,177
Change in bonds and other interest-bearing securities and fund units	1,092	-7,898	1,092	-7,898
Change in liabilities to credit institutions	-422	-2,149	1,218	-254
Change in deposits from the public	20,130	16,029	20,130	16,029
Change in debt securities issued, etc.	-16,226	23,972	-5,331	8,833
Change in other assets and liabilities	-1,535	-1,428	138	-352
<b>Cash flow from operating activities</b>	<b>-1,248</b>	<b>-5,638</b>	<b>40,056</b>	<b>-20,331</b>
<b>INVESTING ACTIVITIES</b>				
Sale of property plant and equipment	0	1	0	1
Investments in property plant and equipment and intangible fixed assets	-30	-29	-29	-16
Investments in subsidiaries	-59	-	-59	-
<b>Cash flow from investing activities</b>	<b>-89</b>	<b>-28</b>	<b>-88</b>	<b>-15</b>
<b>FUNDING ACTIVITIES</b>				
Dividends paid	-	-502	-	-502
Subordinated debentures issued	-	4,947	-	4,947
Repayment of subordinated debentures	-2,000	-2,760	-2,000	-2,760
Tier 1 capital instruments issued	1,500	-	1,500	-
<b>Cash flow from funding activities</b>	<b>-500</b>	<b>1,685</b>	<b>-500</b>	<b>1,685</b>
<b>Increase/decrease in cash and cash equivalents</b>	<b>-1,837</b>	<b>-3,981</b>	<b>39,468</b>	<b>-18,661</b>
<b>Closing cash and cash equivalents</b>	<b>1,619</b>	<b>3,456</b>	<b>56,630</b>	<b>17,162</b>

Cash and cash equivalents are defined as cash and lending to credit institutions. Subordinated receivables (receivables from Group companies) are included in cash and cash equivalents for the Parent Company, and are recognised in the balance sheet under Lending to credit institutions.

# FINANCIAL NOTES

## NOTE 1 Accounting policies

SBAB Bank AB (publ), "SBAB," and its subsidiaries mainly conduct lending to consumers, tenant-owners' associations and companies in the Swedish residential mortgage market. SBAB's offering also includes savings products. SBAB is a Swedish public limited banking company domiciled in Solna. The address of the Head Office is SBAB Bank AB (publ), Box 4209, SE-171 04 Solna, Sweden.

The Annual Report for SBAB has been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. In addition to these accounting standards, Finansinspektionen's (Sweden's financial supervisory authority) regulations and general guidelines on annual accounts for credit institutions and securities companies (FFFS 2008:25), the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups were taken into consideration.

The Annual Report has been prepared in accordance with the acquisition method, apart from the revaluation of derivatives, and financial assets and liabilities measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, and hedge-accounted items. On 21 March 2017, the Board of Directors approved the financial statements for publication and await final adoption by the Annual General Meeting on 24 April 2017.

### Introduction of new accounting standards

#### IFRS 9 Financial instruments

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

Under IFRS 9, classification is based on both the entity's business model and the contractual cash flow characteristics. This classification, in turn, determines the measurement. The impairment model under IFRS 9 is based on expected credit losses as opposed to the current model, which is instead based on incurred credit loss events. The aim of the new model is to capture and recognise expected credit losses at an earlier stage. The new standard also specifies more detailed disclosures. The new hedge accounting rules have a clearer ambition to reflect risk management and entail a number of new disclosures. SBAB has conducted a comprehensive study of how the new rules will impact SBAB. The new rules will have most impact on SBAB's reporting in terms of the recognition of expected credit losses. SBAB has initiated a model development and evaluated how systems and processes will be affected. The development of models and methods is characterised by a large number of choices and judgements, and since no final decision has been taken on these issues, it is not possible to state a figure with sufficient precision to represent the impact of the new rules. In terms of classification and measurement, these could impact the recognition and measurement of securities in the liquidity portfolio. Analysis has not been completed, but the preliminary assessment is that the new rules will not have any material effect on the income statement and balance sheet. No decision has yet been taken as to whether the new hedge accounting rules should apply from 1 January or whether SBAB, pursuant to the permitted choices in IFRS 9, will begin implementing the new rules only when IFRS 9 has been supplemented with rules for macro hedge accounting. In terms of any future possible impact of the new hedge accounting rules, a preliminary assessment has been made that it is the new rules for recognition of the unrealised effects of changes in cross-currency basis spreads that could have any material effect on financial reporting.

#### IFRS 15 Revenue from Contracts with Customers

The standard introduces a five-step model to determine when revenues within the scope of IFRS 15 will be recognised. Depending on when certain criteria are met, income is either recognised over time in a manner that shows the company's performance, or at a point in time when control over the goods or services is transferred. The standard will have limited impact on SBAB's financial statements, and becomes effective as of 1 January 2018.

#### IFRS 16 Leases

The new IFRS 16 has changed the lease classification criteria. Assuming that the EU adopts IFRS 16 and that the date proposed by the IASB for it to enter force does not change, the standard will apply from the 2019 financial year. As yet, SBAB has not conducted an analysis of how the new standard will affect SBAB's financial statements.

#### Change in IAS 34 Interim Financial Reporting

The amendment means interim reports are required to include a section containing financial statements, including notes, similar to the annual reports. Disclosures provided in accordance with IAS 34.16A are either to be included in the section for financial statements, including notes, or a reference must be included from the notes to a different section in the interim report, where such disclosures are made. This will be applied effective from 1 January 2016.

### Amendments to the Annual Accounts Act

#### Amendments in 2016

Due to the new EU accounting directive, amendments to the Annual Accounts Act (1995:1554) and the Annual Accounts for Credit Institutions and Securities Companies Act (1995:1559) were adopted. For SBAB, this means the introduction of a Development expenditure reserve. This means that when expenses for proprietary software are capitalised, a corresponding amount in equity is transferred from unrestricted equity to a restricted reserve, the Development expenditure reserve. All intangible assets are amortised in the same way as fixed assets in general, i.e. over their useful life. Only in cases where the useful life of development expenditure cannot be determined with a reasonable degree of certainty, is a useful life of five years applied. The balance-sheet section that currently contains information about memorandum items will be removed, and this information will instead be provided in a note. Moreover, the Swedish term *ansvarsförbindelse* (contingent liabilities) will be replaced by the term *eventualförpliktelse* (contingent liabilities). Other examples of situations where information under this proposal is provided in a different place in the annual accounts pertains to the disclosure about events after the balance-sheet date, which will now be provided in a note instead of in the administration report. Disclosures regarding the appropriation of profits are provided both in the administration report and in a note. Other changes in the new annual accounts acts will have no material practical impact on SBAB's financial statements. These legislative changes will apply for the first time on 1 January 2016.

#### Forthcoming amendments

Moreover, the accounting act inquiry has fulfilled its assignment by presenting a final report. It proposes that the provisions on the preparation of interim reports be removed from the annual accounts acts and instead be compiled under a separate new act, the Interim Report Act. However, the contents of the provisions will remain unchanged. It also proposes changes to how the accounts are signed. The provisions requiring annual and consolidated reports to be signed by all board members and the CEO are supplemented by the possibility to finalise the accounts through a resolution recorded in the minutes of a board meeting where all board members and the CEO are present, instead of the current signing. It also proposes to allow the certificate of adoption be signed by someone other than a Board Member or the CEO, to be appointed by the Board of Directors. Moreover, the inquiry proposes that credit institutions and securities companies, when preparing consolidated accounts, should not be required to break down equity in the way otherwise required in the preparation of annual accounts. Therefore, equity should not be required to be broken down into restricted and unrestricted equity in the consolidated accounts. It is also proposed that all credit institutions and securities companies should require Finansinspektionen's consent to write up fixed assets. Other changes in the new annual accounts acts pertaining to the contents of the final report have no practical material impact on SBAB's financial statements. The amendments to the Annual Accounts Act will be applied from 1 January 2017.

### General accounting policies

#### Consolidated financial statements

The consolidated financial statements were prepared in accordance with the acquisition method and include the Parent Company SBAB and its subsidiaries. Entities qualify as subsidiaries if they are controlled by the Parent Company. A parent company is deemed to have control of a subsidiary when it not only controls the subsidiary and is exposed to, or is entitled to, variable returns from the subsidiary but when it can also affect the returns from the subsidiary by means of its influence. The companies are consolidated as of the date when the Parent Company assumes control of the subsidiary, and the consolidation ends when the Parent Company no longer exercises controlling influence over the subsidiary. Intra-Group transactions and receivables and liabilities between Group companies are eliminated.

## Cont. NOTE 1 Accounting policies

The cost of an acquisition comprises the fair value of any assets provided by way of remuneration and any arisen or assumed liabilities. Any unsettled consideration for a put option is valued at the present value of the redemption amount. Identifiable acquired assets, and assumed liabilities and contingent liabilities are valued at fair value on the acquisition date. Any consideration transferred for corporate acquisitions that exceeds the fair value of identifiable acquired net assets is recognised as goodwill. Goodwill is distributed over cash-generating units (CGUs) or groups of CGUs, which are expected to benefit from the acquisition through synergies. The CGUs to which goodwill is distributed correspond to the lowest level within the Group where goodwill is followed up in the internal governance.

Transaction costs, with the exception of transaction costs related to the issue of equity or debt instruments, that arise through the acquisition are recognised directly in profit/loss for the year. For acquisitions where a put option has been issued, the anticipated-acquisition method is applied, which means that the put option for the remaining shares is considered as acquired at the time of acquisition. Consequently, no minority holdings are recognised. The debt regarding the present value of the redemption price for a put option will thereby be included in the fair value of the total consideration.

### Recognition in and derecognition from the balance sheet

Issued and acquired securities, including all derivatives, are recognised on the trade date, meaning the date on which the significant risks and rights are transferred between the parties.

Other financial instruments are recognised on the settlement date.

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

### Recognition of income and expense

Interest income and interest expense (including interest income from impaired receivables) are recognised using the effective-interest method. The calculation of the effective interest rate includes all fees paid or received between the parties to the contract, including transaction costs.

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

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

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

## Financial instruments

### Classification

All financial instruments covered by IAS 39 and which are not subject to hedge accounting are classified pursuant to this standard in the following categories:

- Financial assets measured at fair value through profit or loss (FVTPL)
- Loans and accounts receivable
- Investments held to maturity
- Available-for-sale financial assets
- Financial liabilities measured at FVTPL
- Other financial liabilities

### Offsetting

Financial assets and financial liabilities are to be offset and recognised at net amounts only where the recognised amounts may legally be offset and the intention is to settle the items with a net amount or to simultaneously realise the asset and settle the liability. No financial instruments are recognised at net amounts in the balance sheet.

### Fair value measurement

Fair value is defined as the price that would be received on the valuation date on the sale of an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants.

Fair value measurement of financial instruments measured at fair value and traded 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 measurement methods. As far as possible, calculations conducted in connection with measurement are based on observable market information. The main tools used are models based on discounted cash flows. In individual cases, the calculations may also be based on assumptions or estimates.

### Financial assets at fair value through profit or loss

The category "Financial assets measured at fair value through profit or loss" is divided into "held for trading" and "financial assets that Executive Management designated as such upon initial recognition." All of SBAB's assets in this category are classified as held for trading and primarily encompass interest-bearing instruments. This category includes derivatives that are not subject to hedge accounting.

On the first accounting occasion, assets in this category are recognised at fair value, while related transaction costs are recognised in profit or loss.

Changes in fair value and realised gains or losses for these assets are recognised directly in profit or loss under the heading "Net result of financial items measured at fair value," while the effective interest rate is recognised as interest income.

### Loans and accounts receivable

Financial assets classified as loans and accounts receivable are recognised at fair value at the time the loan is disbursed plus transaction costs.

Loans and accounts receivable are subsequently recognised at amortised cost using the effective-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 the public and credit institutions and include associated items. The majority of lending comprises retail loans for the funding of housing and loans to legal entities and consumers for multi-family dwellings and commercial properties.

Changes in value are recognised as "Net loan losses," while the effective interest rate is recognised as interest income. The assets are tested for impairment if there are indications, referred to as objective evidence, of impairment. Also refer to the Loan losses and impairment of financial assets section.

### Investments held to maturity

The "Investments held to maturity" category recognises interest-bearing assets that the Group has the intent and ability to hold to maturity. If any more than an insignificant amount in this category is sold or reclassified in the current financial year or in the two previous financial years, no assets can be classified as belonging to this category. The exception to this rule is sales or reclassifications made close to maturity, or if more or less the entire original nominal amount has been received, or if it depends on an isolated event over which the company had no control, that was non-recurrent, and that the company could not reasonably foresee.

"Investments held to maturity" are measured at amortised cost. The assets are tested for impairment if there are indications, referred to as objective evidence, of impairment. Impairment losses are recognised as "Impairment of financial assets," while the effective interest rate is recognised as interest income. Also refer to the "Loan losses and impairment of financial assets" section.

### Available-for-sale financial assets

In the "Available-for-sale financial assets" category, financial assets are recognised for which there is an active market, but where the assets are not held for trading and are not intended to be held until maturity. These are measured at fair value in the balance sheet, with the change in value recognised as a component of other comprehensive income and accumulated in a separate reserve (the fair-value reserve) in equity. Changes in fair value are not recognised in profit or loss until the asset has been realised or an impairment is recognised. Changes in value that are attributable to exchange rate changes are recognised in profit or loss.

When a fair value reduction for a financial asset that has been categorised as available for sale has been recognised in other comprehensive income and objective evidence of impairment exists, the accumulated loss reported in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment, even if the financial asset has not been removed from the statement of financial position. The impairment amount is recognised under the "Net result of financial items measured at fair value."

### Financial liabilities measured at fair value through profit or loss

The "Financial liabilities measured at FVTPL" category is divided into financial liabilities held for trading and financial liabilities that Executive Management has designated as such upon initial recognition. All of SBAB's liabilities in this category are classified as held for trading. This category includes derivatives that are not subject to hedge accounting. Liabilities in this category are initially recognised at fair value, while related transaction costs are recognised in profit or loss. Changes in fair value and realised gains or losses for these liabilities are recognised in profit or loss under the "Net result of financial items measured at fair value," while the effective interest rate is recognised as interest expense.

### Other financial liabilities

Financial liabilities that are not classified as "Financial liabilities measured at FVTPL" are initially recognised at fair value with an addition for transaction costs and are subsequently recognised at amortised cost using the effective-interest method. This category consists mainly of issued debt securities, deposits from the public and liabilities to credit institutions. Realised gains or losses from the repurchase of own liabilities affects profit or loss when incurred and is recognised under the "Net result of financial items measured at fair value," while the effective interest rate is recognised as interest expense.

Liabilities to the owners of the remaining shares and warrants in subsidiaries, for which put options have been issued, are classified as other financial liabilities and recognised under other liabilities. The amounts recognised are based on the amounts expected to be disbursed under the option agreements outstanding. The revaluation of the liability is recognised against retained earnings. For ownership details, refer to Note 17 Shares and participations in Group companies.

#### Repos

Repos are agreements where the parties have reached agreement on the sale and repurchase of a particular security at a pre-determined price. Securities that have been provided or received under these repo agreements are not derecognised from or 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 lending to credit institutions. The impact on profit or loss is attributable to the difference between sale and repurchase prices and is recognised as interest income or interest expense, respectively.

#### Equity instruments

Issued debt securities with the financial nature of equity, as per the definitions in IAS 32, are recognised as additional Tier 1 capital under equity. Interest payments on these instruments are recognised as a deduction from equity at the time of payment.

#### Derivatives and hedge accounting

Derivatives are used primarily to manage interest-rate and currency risk in the Group's assets and liabilities, and are recognised at fair value in the balance sheet.

For economic hedges where the risk of a significant fluctuation in profit or loss is the greatest and that meet the formal hedge accounting criteria, SBAB has chosen to apply hedge accounting for the hedging of interest-rate and currency risk. There are also other economic hedges for which hedge accounting is not applied. These derivatives outside hedge accounting are classified as assets or liabilities, respectively, measured at FVTPL.

#### Fair-value hedging

In the case of fair-value hedging, the derivative hedging instrument is measured at fair value at the same time as the hedged asset or liability is measured 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 or loss under the "Net result of financial items measured at fair value." The effective interest rate of the hedge is recognised in net interest income.

When hedging relationships are terminated, the cumulative gains or losses are accrued in profit or loss, after adjustment of the carrying amount of the hedged item in the income statement in accordance with the effective-interest method. The accrual extends over the remaining maturity of the hedged item. The realised gain or loss arising from premature closing of a hedging instrument is recognised in profit or loss under "Net result of financial items measured at fair value."

#### Macro hedges

In this type of hedging, derivatives 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 financial statements, derivative instruments designated as macro hedges are treated in the same way as other fair-value hedging instruments.

In fair value hedging of portfolios of assets, the gain or loss attributable to the hedged risk is recognised under "Value changes of interest-rate-risk hedged items in macro hedges" in the balance sheet. The hedged item is a portfolio of lending transactions 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.

#### Cash-flow hedges

In the case of cash-flow hedges, the hedging instrument (the derivative) is valued at fair value. The effective part of the total change in value is reported as a component in other comprehensive income and accumulated in a separate reserve (hedge reserve) in equity. The accumulated amount is reversed in the income statement in periods where the hedged item affects the profit or loss. The ineffective part of the derivative's change in value is transferred to the income statement under "Net result of financial items measured at fair value," where the realised gain or loss arising at the end of the hedge relationship is recognised. The effective interest-rate of the derivative is recognised in net interest income.

#### Loan losses and impairment of financial assets

##### Loans and receivables recognised at amortised cost

On the balance-sheet date, an assessment takes place of whether any objective evidence exist of impairment of an individual receivable or group of receivables. This takes place as a result of events that have occurred after the initial recognition of the asset and which have impacted the expected future cash flows for the loan receivable or group of receivables. Events that could lead to impairment of the loan being include, depending on the circumstances, receivership, suspension of payments, a composition, a court order to pay or a changed credit rating.

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 effective interest rate of the receivable in accordance with the most recent interest-rate adjustment date. The cash flows attributable to the borrower or the issuer and any use of the collateral are taken into consideration when assessing the need for impairment. Any expenses associated with the realisation of the collateral are included in the cash-flow calculations. The measurement of probable loan losses or impairment of other financial assets is effected in gross amounts and, when there is a guarantee or the equivalent, 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 doubtful. The impairment amount is recognised in profit or loss under "Net loan losses" or "Impairment of financial assets" depending on the type of receivable. See the "Loans and accounts receivable" and "Investments held to maturity" sections. If the impairment requirement has declined in a subsequent period and the decrease can objectively be attributed to an event that occurred after recognition of the impairment, a reversal of a previously recognised impairment can be recognised under the corresponding income statement item.

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 and have thus been derecognised.

##### Individually measured loan receivables

Corporate market loans (loans to companies and tenant-owners' associations) 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 have an individual impairment requirement are included in a group of financial assets with similar credit risk characteristics and are judged on a collective basis in terms of the impairment requirement.

##### 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 a limited amount and with similar credit risk characteristics
- Individually measured loan receivables where no objective evidence of individual impairment has been determined in accordance with the above information on "Individually measured loan receivables."

The impairment of collectively measured loans is identified in two different ways:

- Based on the internal risk classification and adjusted in accordance with the IFRS regulatory framework, groups of loans have been identified that have been subject to events that produced a measurable negative impact on the expected future cash flows
- In addition, groups of loans are identified for which future cash flows have undergone a measurable deterioration due to recent events but which have not yet had an impact on the risk classification system.

##### Loans with renegotiated terms and conditions

Loans with renegotiated terms and conditions are receivables where SBAB has granted some form of concession due to a deterioration in the borrower's financial position or because the borrower has encountered other financial problems. Concessions granted are considered to constitute confirmed loan losses, and are recognised in profit or loss under "Net loan losses." Additional information about loans with renegotiated terms and conditions is provided in Note 2a Risk management – Credit risk in lending operations.

##### Individually measured securities

Receivables included in this group are securities that have been classified as "Investments held to maturity." Each security is impairment tested individually.

#### Other

##### Functional currency

Functional currency is the currency used in the primary economic environments in which the Group operates. The companies included in the Group are the Parent Company and subsidiaries. The Parent Company's functional currency and presentation currency is SEK. The Group's presentation currency is SEK.

##### Foreign currency translation of receivables and liabilities

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

## Cont. NOTE 1 Accounting policies

### Leases

Existing leases relate to normal leases for SBAB's operations. They mainly concern office premises and office equipment and are classified as operating leases. In operating leases, lease payments are recognised as expenses in profit or loss on a straight-line basis over the lease term. Agreed future lease payments are presented in Note 9.

### Property, plant and equipment

Property, plant and equipment are recognised as assets in the balance sheet if it is probable that future financial benefits will flow to the entity and the cost of the item can be measured reliably. Property, plant and equipment are recognised at cost less any accumulated depreciation and impairment losses.

### Depreciation of property, plant and equipment

The depreciable amount is calculated as the cost of the asset less its estimated residual value at the end of its useful life. The depreciable amount is allocated on a straight-line basis over the estimated useful life of the asset, and the depreciation charge for each period is recognised in profit or loss. This means that computer hardware is depreciated over four years and other equipment over five years. The residual value and useful life of an asset are assessed annually.

### Intangible assets

Investments in acquired computer software and/or software developed by SBAB are recognised at cost after accumulated amortisation and impairment losses have been deducted. Costs for the maintenance of software are expensed as they arise. Development expenditure that is directly attributable to the development and testing of identifiable and unique software products controlled by the Group is recognised as an intangible asset when the following criteria are fulfilled:

- It is technically possible to complete the software so that it can be used.
- The company intends to complete the software product and use it.
- It can be demonstrated how the software will generate probable future financial benefits; and that adequate technical, financial and other resources for completing the development and for using the software are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditure that does not fulfil these criteria is expensed as it arises. Development expenditure that has previously been expensed may not be recognised as an asset in a later period.

Additional expenses for capitalised intangible fixed assets are recognised as assets in the balance sheet only in cases where they increase the future financial benefits of the specific asset to which they are attributable. All other costs are expensed as they arise. Development expenditure is capitalised only in the consolidated financial statements.

On the acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are measured at fair value on the acquisition date. The portion of the acquisition cost that exceeds the fair value of the net identifiable assets is recognised as goodwill. Goodwill is allocated to the CGUs and tested not less than once each year for impairment.

### Amortisation of intangible fixed assets

Amortisation is allocated on a straight-line basis over the useful life of the asset. This entails amortisation periods of four or five years. The amortisation period and amortisation method for intangible fixed assets are reviewed at each financial year-end.

### Impairment of non-financial items

The recoverable amount of an asset is measured when there is any indication that an asset may be impaired. Development work not yet available for use is tested annually for impairment irrespective of whether there is any indication of impairment. An asset is impaired when its carrying amount exceeds its recoverable amount. The impairment loss for each period is charged against net profit/loss for the period.

Impairment of goodwill is recognised when a CGU (group of CGUs) carrying amount exceeds its recoverable amount. An impairment is recognised as an expense in the profit for the year. When a need for impairment is identified for a CGU (group of CGUs), the impairment amount is primarily allocated to goodwill. Thereafter, proportional impairment is applied to the other assets in the CGU (group of CGUs). Goodwill impairment is never reversed.

The impairment amount is the higher of fair value less costs to sell and value in use. When calculating the value in use, future cash flows are discounted using a discounting factor that takes into account risk-free interest and the risks associated with the asset in question.

### Tax

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

Tax effects of items recognised in other comprehensive income or equity are recognised in other comprehensive income or equity.

Deferred tax assets and tax liabilities are measured 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 carry-forwards can be used to offset future taxable profit. Deferred tax is calculated in accordance with the tax rate applicable at the time of taxation.

### Cash and cash equivalents

Cash and cash equivalents are defined as cash and lending to credit institutions with maturities of not later than three months from the acquisition date.

### Pensions

The Group has both defined-contribution and defined-benefit pension plans. For the defined-contribution pension plans, fixed fees are paid to an independent unit, following which no additional obligations arise. Pension costs for defined-contribution plans are expensed on a continuous basis in pace with vesting by the individual employee.

The Group's net obligation with regard to defined-benefit plans is calculated separately for each plan by estimating the future benefit that employees have earned through their service in current and prior periods, with that benefit being discounted to its present value. The present value of the defined-benefit obligation is determined by discounting the estimated future cash flows applying the interest rate for mortgage bonds in SEK with maturities comparable to those of the pension obligation in question. Changes or reductions in a defined-benefit plan are recognised on the earliest of the following dates: a, when the change or reduction in the plan occurs or b, when the Company reports related restructuring costs and severance benefits. The changes/reductions are recognised directly in profit for the year. The defined-benefit pension obligation is calculated annually by independent actuaries using the "projected unit credit method."

The provision recognised in the balance sheet for defined-benefit pension plans represents the present value of the defined-benefit obligation at the close of the reporting period less the fair value of the plan assets. The provision includes special employer's contributions. All of the components included in the period's cost for a defined-benefit plan are recognised in operating profit. This includes the return on plan assets, calculated applying the same discount rate used to calculate the present value of the obligation. Revaluation effects comprise actuarial gains and losses, including the difference between the actual return on plan assets and the total included in operating profit. All revaluation effects are recognised under "Reserves" in equity.

### Segment reporting

A segment is a part of a business for which independent financial information is available, that conducts business operations from which income can be generated and expenses incurred and whose operating profits are regularly assessed by the company's chief operating decision maker as a basis for decisions regarding the allocation of resources to segments and an assessment of the segment's profit or loss. At SBAB, the CEO is the function that is responsible for allocating resources and assessing the profit or loss of the operating segment.

### Parent Company accounting policies

The Parent Company, SBAB AB (publ), 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 Board's recommendation RFR 2 Accounting for Legal Entities, the Annual Accounts Act for Credit Institutions and Securities Companies and Finansinspektionen's regulations and general guidelines on annual accounts for credit institutions and securities companies (FFFS 2008:25).

#### *Differences compared with the Group*

The main differences between the accounting policies of the Group and those of the Parent Company are shown below:

#### *Presentation of the income statement and balance sheet*

The Parent Company complies with the presentation standards for income statements and balance sheets stipulated in the Annual Accounts Act for Credit Institutions and Securities Companies, which entail a different presentation of equity. The Parent Company's statutory reserve is recognised in the Group as retained earnings, while the Parent Company's Fair value reserve is included in the Group's Reserves.

#### *Pensions*

The Swedish Pension Obligations Vesting Act and regulations issued by Finansinspektionen contain rules requiring a different method of recognising defined-benefit pension plans compared with that stipulated in IAS 19. Application of the Swedish Pension Obligations Vesting Act is a prerequisite for tax deductibility of the pension payments. In view of this, RFR 2 states that the regulations of IAS 19 in terms of defined-benefit pension plans need not be applied by the legal entity.

#### *Measurement in relation to the assumption of receivables*

Intra-group loan receivables between the Parent Company and the subsidiary, SCBC, are recognised at fair value. When a reserved receivable is transferred between the companies, it is assumed at the net carrying amount after provisions. The selling company recognises the loss as a confirmed loss, while the purchasing company recognises the receivable at the net carrying amount, without provisions. The loan will be recognised as a doubtful receivable in the purchasing company, albeit at the net carrying amount. If it is later established that the receivable can be measured at its original value (after amortisation), the income will be recognised in profit or loss under "Net income from financial transactions."

#### *Subsidiaries*

Participations in subsidiaries are recognised in the Parent Company in accordance with the cost method.

#### *Dividend*

Dividends received from subsidiaries are recognised in profit or loss. Anticipated dividends from subsidiaries are recognised in cases where formal decisions have been taken in the subsidiary or where the Parent Company otherwise has full control over the decision-making process before it publishes its financial statements. Dividends paid are recognised as a reduction of unrestricted equity following the passing of a resolution on dividends at the Annual General Meeting.

#### *Group contributions*

Group contributions received from subsidiaries are recognised as financial income, while Group contributions paid to subsidiaries by the Parent Company are recognised as increased participations in Group companies.

### Critical accounting estimates and judgements

#### *Critical assumptions*

To prepare the annual accounts in compliance with statutory 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 of assets, liabilities and off-balance sheet exposures, as well as income and expenses presented in the Annual Report. Subsequently, the actual outcome may differ to some extent from the estimates made.

#### *Measurement of loan receivables*

The area that primarily entails a risk of causing an adjustment to recognised assets in the next financial year is the measurement of loan receivables. In the case of individually measured loan receivables, the most critical assessment, which also contains the most uncertainty, is the estimate of the future cash flow that the customer will generate. 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 "Loan losses and impairment of financial assets" section above.

#### *Recognition of pensions*

Measurement of the Group's pension obligations is based on a number of actuarial and financial assumptions that have a material impact on carrying amounts. SBAB uses the yield on mortgage bonds for discounting pension obligations, since a functioning market for mortgage bonds exists in Sweden. The assumptions upon which the measurement is based, as well as a sensitivity analysis, are presented in Note 28.

#### *Recognition of deferred tax assets*

The recognition of deferred tax assets pertaining to deductible temporary differences or loss carry-forwards is based on management's assessment of the future likelihood of the company generating taxable profits corresponding to the basis for deferred tax assets.

#### *Impairment testing of goodwill*

The value of recognised goodwill is tested at least once a year with regard to a potential need for impairment. This testing requires an assessment to be made of the value in use of the cash-generating unit to which the goodwill value is attributable. Furthermore, an assumption regarding expected future cash flows is required along with the establishment of a relevant discount rate for calculating the present cash flow value. The assessments conducted as of 31 December 2016 are described in Note 18.

## NOTE 2 Risk management and capital adequacy

Note 2, Risk management and capital adequacy is divided into the following segments:

- a) Credit risk in lending operations
- b) Credit risk in treasury operations
- c) Liquidity risk
- d) Market risk
- e) Operational risk
- f) Business risk
- g) Concentration risk
- h) Internal capital adequacy assessment
- i) Capital adequacy analysis

### NOTE 2a Risk management – Credit risk in lending operations

Credit risk in lending operations is defined as the risk that the counterparty is unable to fulfil its payment obligations. Credit risk arises in conjunction with loans and loan commitments, as well as in connection with value changes in pledged assets entailing that these no longer cover the Group’s receivables. Credit risk also arises in treasury operations (Note 2b).

The credit risk in lending operations is managed through a credit granting process that analyses the ability of potential borrowers to meet their interest payments and make capital repayments. New loans are only granted to borrowers who are judged able to pay interest and make capital repayments when interest rates comfortably exceed the rate prevailing when the loan decision is taken. Moreover, the credit risk is restricted by credit limits adopted for various customers or customer groups. SBAB applies a debt ratio<sup>1)</sup> ceiling for new retail loans of 600% with the aim of ensuring that the good credit quality of the lending portfolio is maintained. Furthermore, risk classification is based on the internal ratings-based approach (IRB approach) for the analysis of the credit risk for new and existing customers in the loan portfolios. SBAB applies the IRB approach for retail loans and lending to many tenant-owners’ associations and the foundation IRB approach (FIRB approach) for corporate loans and lending to tenant-owners’ associations with turnover exceeding EUR 50 million. Finansinspektionen has reviewed the bank’s IRB approach and found it reliable. The standardised approach is used for quantifying credit risk for unsecured loans. When external ratings are used, the lowest rating from either Moody’s or Standard & Poor’s is selected.

The IRB approach has been used since 2007 for assessing credit risk where a mortgage deed or a tenant-owners’ right is used as collateral. In 2015, SBAB also received permission to use the IRB approach for excess exposures that are not fully covered by mortgage deeds, property financing using other collateral than directly pledged mortgage deeds and letters of credit. Previously, the standardised approach was used for these exposures.

The IRB credit risk models assess the following parameters:

- Probability of default by the customer – PD (Probability of Default)
- Loss amount in the event of default – LGD (Loss Given Default)
- The part of the off-balance sheet exposure that is utilised in the event of default – Credit conversion factor (CCF)
- The expected exposure in the event of default – EAD (Exposure at default)
- The expected loan loss (EL) is measured using the formula  
 $EL = PD * LGD * EAD$

Customers are ranked according to risk based on these parameters, and expected and unexpected losses can be estimated. After assessment, the exposure is allocated to one of eight risk classes for retail and corporate exposures, of which the eighth class comprises customers in default. Trends for customers in high-risk classes are monitored thoroughly and, when necessary, exposures are managed actively by credit monitoring personnel in the credit division. The developed models are validated annually and calibrated as the need arises. Validations conducted in 2016 did not result in any changes to the models.

In the financial statements, the EL according to IRB models differs from the provision for probable loan losses. The calculation of EL according to Basel Pillar 1 is governed by the Capital Requirements Regulation (“CRR”)<sup>2)</sup>. Under this regulation, the risk associated with each individual loan is to be estimated based on historic information, over a longer time horizon and using a statistical model. The management of the loss arising in the financial statements is still regulated by IAS 39, according to which, 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 future cash flows. Total EL for loans calculated according to IRB models amounts to SEK 208 million (281). The net provision for corresponding loans in the financial statements is SEK 206 million (198). The capital adequacy calculations separate non-performing loans from other loans. Any positive difference reduces CET1 capital while negative differences are added to Tier 2 capital. New forthcoming rules in IFRS 9 will change the method used for credit risk provisions from 2018, refer to Note 1.

In connection with quantitative assessments in lending to companies, systematic qualitative assessments are conducted based on the internal loan regulations through responses to a number of questions. This enables a more uniform risk assessment based on more substantial data.

#### Collateral in the lending operations

For loans granted by SBAB, adequate collateral must normally be provided. Adequate collateral primarily refers to mortgage deeds in residential properties or shares in tenant-owners’ associations within a maximum of 75–85% of the market value. The 85% level only applies if collateral can be obtained with a primary lien and the customer is included in a lower risk class. The lower risk classes for retail customers (Retail – R) comprise the levels R1–R4, while the lower risk classes for Corporate customers, (Corporate – C) comprise the levels C0–C3, and manually adjusted from C3 to C4<sup>3)</sup>. In other cases, a loan-to-value (LTV) ratio of 75% generally applies.

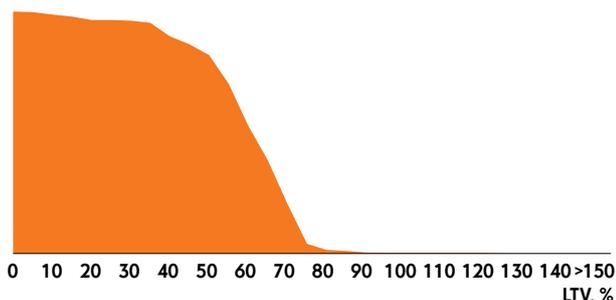
In addition to collateral in the form of mortgage deeds or tenant-owners’ rights, it is possible to grant loans against, inter alia, collateral in the form of a government guarantee, municipal guarantee, securities, bank guarantees and deposits in a Swedish bank. A very limited part of total lending has been made without any collateral being obtained. SBAB does not hold any collateral that has been taken over to protect a receivable. Lending to the public accounts for 79% (79) of SBAB’s overall assets.

The financial effect of collateral received is illustrated in the diagram below, which shows loans in relation to the market value of underlying collateral for loans secured on collateral comprising mortgage deeds or shares in tenant-owners’ associations. The area in the diagram corresponds to the lending volume and shows that SBAB’s lending portfolio has favourable collateral, since the largest area in the diagram is for lower LTV ratios. The diagram encompasses 98% (97) of the company’s total lending to the public. Since 98% (97) of total lending is secured with collateral in mortgage deeds or shares in tenant-owners’ associations to within 75%, credit quality is assessed as highly favourable.

#### LOANS IN RELATION TO THE MARKET VALUE OF UNDERLYING COLLATERAL (LTV) FOR LOANS SECURED ON COLLATERAL COMPRISING MORTGAGE DEEDS OR TENANT-OWNERS’ RIGHTS

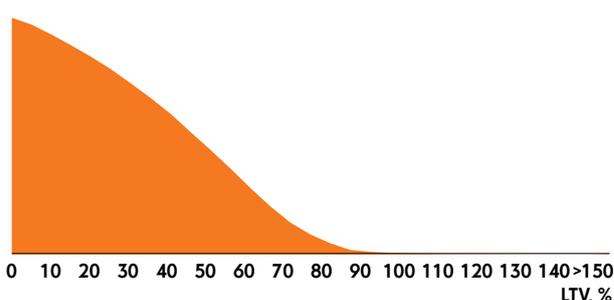
##### CORPORATE EXPOSURES

Lending volume



##### RETAIL EXPOSURES

Lending volume



<sup>1)</sup> Gross income before tax in relation to loan.

<sup>2)</sup> CRR refers to the European Parliament and Council’s recommendation on supervisory requirements for credit institutions and securities companies No. 575/2013.

<sup>3)</sup> “Retail loans” refers to all lending to the public pertaining to single-family homes, holiday homes and tenant-owners’ rights, as well as unsecured loans to consumers and loans to tenant-owners’ associations, with a turnover of less than EUR 50 million. “Loans to corporates” refers to i) loans to other legal entities, and ii) other lending to consumers.

Segment, %	Below 50%	Below 75%	Below 100%	Exposure-weighted average LTV
Corporate exposures	77.8	99.3	99.9	64.5
Retail exposures	83.2	98.1	99.8	56.8
<b>Total</b>	<b>82.6</b>	<b>98.2</b>	<b>99.8</b>	<b>57.7</b>

#### Loan portfolios in lending operations allocated by risk class

As per 31 December 2016, SBAB's lending to the public amounted to SEK 296 billion (297). Every customer is allocated to a risk class. Customers with individual loan provisions are always allocated to the corporate risk class (C8) or the retail risk class (R8). For corporates, loans covered by collective provisions are assigned risk classes from C6–C7, and collectively impaired retail loans comprise loans assigned risk classes R5–R8. The risk class C0 comprises loans to counterparties with a 0% risk weight (Swedish municipalities). Transaction costs of SEK 89 million (104), which were attributable to the loans, are distributed in the table on a pro rata basis.

#### LOAN PORTFOLIO BY RISK CLASS – RETAIL (INCLUDING TENANT-OWNERS' ASSOCIATIONS)

Risk class <sup>1)</sup>	2016		2015	
	Lending	Provisions in respective risk class	Lending	Provisions in respective risk class
R1/C1, %	35.8	–	28.8	0.0
R2/C2, %	30.1	–	31.1	0.0
R3/C3, %	17.2	–	20.4	0.0
R4/C4, %	10.6	–	11.6	0.0
R5/C5, %	4.7	0.5	5.7	0.3
R6/C6, %	1.0	1.2	1.4	0.8
R7/C7, %	0.5	4.8	0.8	3.4
R8/C8, %	0.1	15.5	0.2	18.0
	<b>100%</b>	<b>0.1%</b>	<b>100%</b>	<b>0.1%</b>

<sup>1)</sup> R=Retail, C=Corporate.

#### LOAN PORTFOLIO ALLOCATED BY RISK CLASS – CORPORATE

Risk class <sup>1)</sup>	2016		2015	
	Lending	Provisions in respective risk class	Lending	Provisions in respective risk class
C0, %	0.0	–	0.0	–
C1, %	58.7	–	56.5	–
C2, %	26.4	–	23.1	–
C3, %	13.1	–	15.8	–
C4, %	1.4	–	3.4	0.0
C5, %	0.3	–	1.0	0.1
C6, %	0.0	19.8	0.0	10.4
C7, %	0.0	4.0	0.0	27.3
C8, %	0.1	37.2	0.2	36.3
	<b>100%</b>	<b>0.1%</b>	<b>100%</b>	<b>0.1%</b>

<sup>1)</sup> C=Corporate

#### Lending to the public and credit institutions

The table below shows loans to the public and credit institutions in three categories based on the status of the borrower's payments:

- Without past-due unpaid amounts or provisions – the borrower has fulfilled its payment obligations in accordance with the loan terms and conditions
- With unpaid amounts more than five days past-due – the borrower has not fulfilled its payment obligations
- With individual provisions, doubtful loan receivables

For loan receivables with individual provisions, an individual assessment of the loan's future cash flow is conducted in conjunction with an estimate of the market value of the underlying collateral, which constitutes the basis for the individual provision. For collective provisions, a change has occurred in the risk associated with a group of loans, but this change cannot be traced to an individual customer. The table provides a specification of provisions without taking guarantees into account, as well as a specification of the guaranteed amount for each group of provisions. The value of collateral and guarantees largely refers to the value of mortgage deeds or tenant-owners' rights and to a lesser extent to the value of loan guarantees from the Swedish National Housing Credit Guarantee Board (currently part of the National Board of Housing, Building and Planning), insurance companies and banks that have been recognised at the assessed value of what is expected to be received in the event of insolvency.

At 31 December 2016, total provisions (individual and collective) amounted to SEK 221 million (214) after a deduction for guarantees, which corresponds to 0.07% (0.07) of the loan portfolio, of which the provision for individually assessed loans accounted for SEK 59 million (81). At year-end 2016, individual provisions after deduction for guarantees decreased by SEK 22 million (increased: 45) compared with the preceding year, and accounted for 44% (48) of loans with individual provisions, which amounted to SEK 134 million (170). No need for provisions arose for lending to credit institutions.

#### LENDING TO THE PUBLIC AND CREDIT INSTITUTIONS BASED ON THE STATUS OF THE BORROWER'S PAYMENTS

SEK million	2016		2015	
	Public	Credit institutions	Public	Credit institutions
<b>1</b> Current loans without past-due unpaid amounts or provisions	295,744	1,619	296,577	3,456
<b>2</b> Loans with unpaid amounts more than five days past due	379	–	487	–
<b>3</b> Loans with individual provisions	134	–	170	–
<b>Total loans outstanding</b>	<b>296,257</b>	<b>1,619</b>	<b>297,234</b>	<b>3,456</b>
Individual provisions	–59	–	–81	–
Collective provisions, corporates	–1	–	–11	–
Collective provisions, retail	–175	–	–161	–
<b>Total provisions</b>	<b>–235</b>	<b>–</b>	<b>–253</b>	<b>–</b>
<b>Total lending after provisions</b>	<b>296,022</b>	<b>1,619</b>	<b>296,981</b>	<b>3,456</b>
Guarantees for loans with individual provisions	–	–	0	–
Guarantees for loans with collective provisions, corporates	1	–	3	–
Guarantees for loans with collective provisions, retail	13	–	36	–
<b>Total guarantees</b>	<b>14</b>	<b>–</b>	<b>39</b>	<b>–</b>
<b>Total lending after provisions and guarantees</b>	<b>296,036</b>	<b>1,619</b>	<b>297,020</b>	<b>3,456</b>

#### **1** Current loans without past-due unpaid amounts or provisions

The allocation of loans per risk class for the loans that had neither past-due unpaid amounts nor individual provisions shows that 94% (93) are in the risk classes C0/C1–C4/R4. The allocation includes total transaction costs of SEK 89 million (104), which were allocated on a pro rata basis. The costs derive mainly from single-family dwellings and tenant-owners' rights.

Cont. **NOTE 2a** Risk management – Credit risk in lending operations**LENDING TO THE PUBLIC BY SEGMENT – CURRENT LOANS WITHOUT PAST-DUE UNPAID AMOUNTS OR INDIVIDUAL PROVISIONS**

2016								
Risk class SEK million	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties	Loans without formal collateral	Total
C0	–	–	–	–	2	–	–	2
C/R1	39,145	26,158	28,691	18,205	112	2,053	166	114,530
C/R2	31,384	29,849	17,748	7,075	82	1,229	367	87,734
C/R3	17,164	23,851	3,555	3,056	–	1,057	748	49,431
C/R4	12,417	14,161	393	139	43	328	370	27,851
C/R5	5,272	6,509	97	4	1	112	234	12,229
C/R6	1,037	1,325	43	3	–	–	71	2,479
C/R7	697	591	14	11	–	–	32	1,345
C/R8	33	14	75	21	–	–	0	143
<b>Total</b>	<b>107,149</b>	<b>102,458</b>	<b>50,616</b>	<b>28,514</b>	<b>240</b>	<b>4,779</b>	<b>1,988</b>	<b>295,744</b>

2015								
Risk class SEK million	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties	Loans without formal collateral	Total
C0	–	–	–	–	8	–	–	8
C/R1	35,047	18,669	23,201	15,314	202	2,102	116	94,651
C/R2	34,282	25,520	23,067	5,799	41	720	332	89,761
C/R3	22,214	26,232	4,771	3,876	217	911	768	58,989
C/R4	14,347	15,283	688	687	0	395	431	31,831
C/R5	6,867	7,588	327	140	2	185	255	15,364
C/R6	1,560	1,891	168	16	–	–	88	3,723
C/R7	1,152	828	50	0	–	–	40	2,070
C/R8	44	26	73	21	–	–	1	165
Not assigned a risk class	–	–	–	–	–	–	15	15
<b>Total</b>	<b>115,513</b>	<b>96,037</b>	<b>52,345</b>	<b>25,853</b>	<b>470</b>	<b>4,313</b>	<b>2,046</b>	<b>296,577</b>

**2 Loans with unpaid amounts more than five days past due**

The table describes loans with a past-due principal. All amounts are distributed by segment. Loans with past-due amounts in several time intervals are shown in full in the oldest time interval.

At year-end 2016, 99.8% (99.8) of lending had no past-due unpaid amounts and was not assessed as doubtful. Of SBAB's loan portfolio totalling SEK 296 billion (297), SEK 379 million (487) of the principal has past-due unpaid amounts.

**LENDING TO THE PUBLIC BY SEGMENT – LOANS WITH UNPAID AMOUNTS MORE THAN FIVE DAYS PAST DUE**

2016								
SEK million	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties	Loans without formal collateral	Total
Past due 5–30 days <sup>1)</sup>	5	8	4	–	–	–	0	17
Past due 31–60 days	110	108	–	–	–	–	6	224
Past due 61–90 days	14	26	–	–	–	–	2	42
Past due 91–180 days	17	18	–	–	–	–	3	38
Past due 181–365 days	19	15	–	–	–	–	2	36
Past due > 365 days	13	7	–	–	–	–	2	22
<b>Total</b>	<b>178</b>	<b>182</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>15</b>	<b>379</b>

2015								
SEK million	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties	Loans without formal collateral	Total
Past due 5–30 days <sup>1)</sup>	12	13	17	–	–	–	0	42
Past due 31–60 days	160	105	2	–	–	–	8	275
Past due 61–90 days	32	13	–	–	–	–	1	46
Past due 91–180 days	29	11	–	–	–	–	1	41
Past due 181–365 days	24	10	–	–	–	–	1	35
Past due > 365 days	42	5	–	–	–	–	1	48
<b>Total</b>	<b>299</b>	<b>157</b>	<b>19</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>12</b>	<b>487</b>

<sup>1)</sup> For the first time interval, amounts past-due by five days or less are not taken into consideration to ensure that the analysis is not distorted by payments delayed because the payment date is a holiday.

### 3 Loans with individual provisions

Loans with individual provisions refers to receivables where provisions have been made following individual risk assessment. These loans account for no more than 0.05% (0.06) of SBAB's total lending.

#### LENDING TO THE PUBLIC BY SEGMENT – LOANS WITH INDIVIDUAL PROVISIONS

SEK million	2016							Total
	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties	Unsecured loans	
Loans with individual provisions	15	64	23	28	-	-	4	134
Individual provision, Corporate Market	-	-	-21	-18	-	-	-	-39
Individual provision, Retail Market	-4	-12	-	-	-	-	-4	-20
<b>Loans with individual provisions, net</b>	<b>11</b>	<b>52</b>	<b>2</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>75</b>
Estimated value of guarantees	-	-	-	-	-	-	-	-
<b>Loans with individual provisions with pledged guarantees taken into consideration</b>	<b>11</b>	<b>52</b>	<b>2</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>75</b>

SEK million	2015							Total
	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties	Unsecured loans	
Loans with individual provisions	19	90	27	29	-	-	5	170
Individual provision, Corporate Market	-	-	-25	-18	-	-	-	-43
Individual provision, Retail Market	-6	-27	-	-	-	-	-5	-38
<b>Loans with individual provisions, net</b>	<b>13</b>	<b>63</b>	<b>2</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>89</b>
Estimated value of guarantees	-	-	-	-	-	-	-	-
<b>Loans with individual provisions with pledged guarantees taken into consideration</b>	<b>13</b>	<b>63</b>	<b>2</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>89</b>

#### Loans with renegotiated terms and conditions

In exceptional cases, loans may be renegotiated due to a deterioration of the borrower's financial position or because the borrower has encountered other financial problems. Such receivables are monitored carefully.

Loans that have been renegotiated due to the borrower's inability to fulfil the loan agreement may entail that:

- The terms of the loan are modified by terms that are not normal market terms
- The borrower partly repays the loan through the surrender of various assets
- The borrower agrees to convert part of the loan receivable into an ownership share
- The borrower is replaced or supplemented by a new borrower

#### CARRYING AMOUNT OF RENEGOTIATED LOANS BY SEGMENT

SEK million	2016	2015
Single-family dwellings and holiday homes	7	8
Tenant-owners' rights	0	1
Tenant-owners' associations	38	60
Private multi-family dwellings	-	-
Municipal properties	-	-
Commercial properties	-	-
Unsecured loans	-	-
<b>Total</b>	<b>45</b>	<b>69</b>

The carrying amount of financial assets that would otherwise have been recognised as past-due or impaired and whose terms have been renegotiated, by segment.

## NOTE 2b Risk management – Credit risk in treasury operations

Credit risk in treasury operations arises when the counterparty is unable to fulfil its payment obligations. Credit risk arises, in part, in the form of counterparty risk for the derivative and repo contracts entered into by SBAB to manage financial risks and, in part, as a result of investments in the liquidity portfolio and of surplus liquidity.

The SBAB Group's counterparties are banks and credit institutions, and the underlying exposure in the table includes investments, derivatives and repos. The limits are set by the Board's Credit Committee within the confines of the framework adopted by the Board of Directors. The utilised limit is calculated as the market value of financial derivatives, repos and investments. For derivatives and repos, the

effect of collateral pledged or received under CSAs or GMRAs is included in the total limit. Moreover, for derivatives, an add-on amount is also calculated for future risk-related changes. The limit is coordinated with the credit limit for counterparties who also are loan customers. Counterparty limits may be established for a period of not longer than one year, after which a new assessment must be conducted. The decisions of the Credit Committee are reported to the Board at the following Board meeting. All of SBAB's counterparties have a rating from either Moody's or Standard & Poor's.

### LIMIT UTILISATION

Rating category, SEK million	GROUP				PARENT COMPANY			
	2016		2015		2016		2015	
	Limit	Utilised limit	Limit	Utilised limit	Limit	Utilised limit	Limit	Utilised limit
AAA	-	-	-	-	-	-	-	-
AA- to AA+	11,600	3,092	11,600	3,546	11,600	2,917	11,600	2,812
A- to A+	13,910	3,957	12,910	3,851	13,910	3,526	12,910	3,468
Lower than A-	4,310	542	4,320	597	4,310	542	4,320	597
Unrated	-	-	-	-	-	-	-	-
<b>Total</b>	<b>29,820</b>	<b>7,592</b>	<b>28,830</b>	<b>7,994</b>	<b>29,820</b>	<b>6,984</b>	<b>28,830</b>	<b>6,877</b>

The "Limit utilisation" table shows the limits and the utilised limits, respectively, for SBAB's derivative counterparties. The limits for each derivative counterparty are proposed by SBAB's Treasury and adopted by the Board's Credit Committee within

the confines of the framework adopted by the Board of Directors. The values in the table comprise an aggregate of individual derivative counterparty's total exposure and the limits for the respective rating category.

### DISTRIBUTION OF ELIGIBLE TREASURY BILLS, BONDS AND OTHER INTEREST-BEARING SECURITIES BY RATING CATEGORY

The table below shows an analysis of eligible treasury bills, bonds and other interest-bearing securities distributed in accordance with the lowest rating as at 31 December 2016, based on Standard & Poor's rating or equivalent.

Rating category, SEK million	2016				Total
	Covered bonds	Government guaranteed securities	Sovereigns, supranationals and agencies	Non-governmental public sector entities	
AAA	37,255	21,297	1,753	6,323	66,628
AA- to AA+	-	1,882	-	834	2,716
A- to A+	-	-	-	-	-
Lower than A-	-	-	-	-	-
<b>Total</b>	<b>37,255</b>	<b>23,179</b>	<b>1,753</b>	<b>7,157</b>	<b>69,343</b>

Rating category, SEK million	2015				Total
	Covered bonds	Government guaranteed securities	Sovereigns, supranationals and agencies	Non-governmental public sector entities	
AAA	38,004	15,170	1,962	5,779	60,915
AA- to AA+	-	1,988	-	1,124	3,112
A- to A+	-	-	-	-	-
Lower than A-	-	-	-	-	-
<b>Total</b>	<b>38,004</b>	<b>17,158</b>	<b>1,962</b>	<b>6,903</b>	<b>64,027</b>

## GEOGRAPHICAL DISTRIBUTION OF ELIGIBLE TREASURY BILLS, BONDS AND OTHER INTEREST-BEARING SECURITIES

Securities, SEK million	2016			Total
	Sweden	Other EU	Other	
Covered bonds	31,598	2,187	3,470	37,255
Government guaranteed securities	17,746	5,326	107	23,179
Sovereigns, supranationals and agencies	-	1,753	-	1,753
Non-governmental public sector entities	6,323	834	0	7,157
<b>Total as per 31 December 2016</b>	<b>55,667</b>	<b>10,100</b>	<b>3,577</b>	<b>69,343</b>
<b>Total as per 31 December 2015</b>	<b>47,979</b>	<b>11,354</b>	<b>4,694</b>	<b>64,027</b>

## Counterparty risk

Counterparty credit risk is the risk that SBAB's financial counterparties cannot meet their commitments pursuant to the completed derivatives and repo contracts, and such risk consists primarily of exposures to major banks. This exposure is predominantly covered by collateral agreements, where the counterparty posts collateral to reduce SBAB's exposure. In accordance with SBAB's credit instruction, the credit-risk limits are established by SBAB's Credit Committee for all counterparties in Treasury, with the exception of the Swedish government and companies included in the SBAB Group, for which no credit limits are established.

To limit the potential counterparty credit risk associated with derivative transactions involving non-standardised derivatives that are not cleared by clearing organisations approved by the competent authority (in accordance with Regulation (EU) No 648/2012), a framework agreement is to be entered into with the counterparty. In most cases such framework agreements, which are known as ISDA Master Agreements or similar agreements, have been supplemented with associated collateral agreements, known as a Credit Support Annex (CSA). A CSA must always be established for counterparties entering into derivative contracts with SCBC. The framework agreements entitle the parties to offset receivables against debt in the event of a payment default.

Counterparty risk is reconciled on a daily basis for all counterparties. CSAs are reconciled on a daily basis or on a weekly basis if a collateral agreement exists.

Derivative contracts entered into with external counterparties are mostly entered into within the Parent Company, where the CSAs are reconciled with all counterparties on a daily basis. When collateral agreements exist, collateral is transferred to reduce the exposure. Wherever applicable, the posted and received collateral takes the form of cash with a transfer of title, which entitles the party that receives the collateral to use the collateral in its operations. The effects of pledged and received collateral are shown in greater detail in Note 38 Offsetting disclosures.

In 2016, SBAB started to participate in the calculation of the STIBOR (Stockholm Interbank Offered Rate) reference rate for the Swedish market. The number of banks providing STIBOR data thereby increased from six to seven banks. STIBOR is a reference rate that shows an average of the interest rates at which a number of the banks active in the Swedish money market are prepared to lend to each other without collateral under different maturities.

In 2016, it became mandatory under the European Markets Infrastructure Regulation (EMIR) for SBAB to clear interest-rate derivatives via central counterparties, known as clearing houses. The interest-rate derivatives that SBAB enters into with financial counterparties will thus be sent to a clearing house, whose purpose is to act as a central counterparty for buyers and sellers. The clearing house is responsible for fulfillment of the payment obligations. Cleared derivatives will give rise to a considerably lower capital requirement.

## MAXIMUM CREDIT-RISK EXPOSURE IN TREASURY, GROUP

SEK million	Without taking into account collateral received or other credit enhancements		Taking into account collateral received or other credit enhancements	
	2016	2015	2016	2015
Lending to credit institutions	1,619	1,739	1,619	1,739
Sovereign bonds eligible as collateral, etc.	20,492	14,312	20,492	14,312
Bonds and other interest-bearing securities	48,851	49,714	48,851	49,714
Derivatives	6,192	7,192	2,001	3,314
<b>Maximum credit risk exposure as of 31 December</b>	<b>77,154</b>	<b>72,957</b>	<b>72,963</b>	<b>69,079</b>

## COLLATERAL POSTED AND RECEIVED UNDER COLLATERAL AGREEMENTS

Company, SEK million	2016		2015	
	Collateral pledged	Collateral received	Collateral pledged	Collateral received
SBAB	792	4,191	1,717	2,973
SCBC	0	0	0	905

## NOTE 2c Risk management — Liquidity risk

Liquidity risk is defined as the risk that the company will not be able to meet its payment obligations on the date of maturity without the related cost increasing significantly. The SBAB Group has long identified the importance of well-functioning and proactive liquidity risk management. SBAB's liquidity risk management is described below.

### Broad and diversified funding

Because the SBAB Group has maintained an active presence in the international capital market since 1989, its brand is well established. The SBAB Group has access to the covered bond market, both in Sweden and internationally, through SCBC. In addition to issuing bonds, SBAB is funded by deposits from the public.

### Liquidity reserve

The liquidity reserve is defined as the reserve value of the securities in the liquidity portfolio and other liquid short-term investments. When calculating the reserve value of the securities included in the liquidity reserve, the SBAB Group applies the haircuts issued in accordance with the Riksbank's Guidelines for Collateral Management in the regulatory framework for RIX and monetary policy instruments.

The liquidity portfolio acts as a buffer, as the securities in the portfolio can be sold to free up liquidity in stressed conditions. The portfolio holdings are long-term and mainly comprise liquid, interest-bearing securities with high ratings, where 100% of the portfolio's value can be used as collateral for repos with the Riksbank or the European Central Bank (ECB).

Holdings in the liquidity portfolio are limited by asset class and by country, and must have the highest rating upon acquisition. In addition to these collective limits, limits for individual issuers are also set. Securities holdings constitute an integrated part of the total credit risk utilisation for each issuer/counterparty. At 31 December 2016, 96% (95) of the portfolio had a rating of Aaa from Moody's or AAA from Standard & Poor's.

Excluding pledged collateral, SBAB's liquidity reserve amounted to SEK 66.3 billion (62.1) at year end (the reserve value at Riksbanken or the ECB). The market value amounted to SEK 69.5 billion (65.3) with an average maturity of 2.2 years (2.7). Moreover, unutilised issuance capacity for covered bonds comprises an additional reserve that is not included in the calculation of the below liquidity metrics.

The liquidity reserve's market value is distributed over the following asset classes:

- Securities issued by central governments: SEK 20.7 billion (14.5)
- Securities guaranteed by central governments: SEK 2.7 billion (2.9)
- Securities issued by sovereigns, supranationals and agencies (SSAs), SEK 1.7 billion (2.0)
- Securities issued by public sector entities, SEK 6.6 billion (7.0)
- European covered bonds, SEK 37.1 billion (38.5)
- Deposits at central banks SEK 0.6 billion (0.5)

### Continuous monitoring of liquidity risk

Active debt management, the liquidity of the balance sheet and the size of SBAB's liquidity reserve are key factors in SBAB's liquidity risk management. By viewing funding activities as a natural part of both operational work and the strategic planning of liquidity risk, concentrations of excessively large funding maturities are avoided. Another important part of the ongoing liquidity risk management is the continuous monitoring and testing of the practical liquidity value of the liquidity portfolio in the secondary market. Liquidity risk at SBAB is classified as short-term or structural liquidity risk.

### Liquidity risk measurements — short-term liquidity risk

Since 1 January 2013, SBAB is subject to Finansinspektionen's liquidity coverage ratio (LCR) requirements as defined in FFFS 2012:6. The LCR measures the amount of assets that can be converted to cash in relation to a stressed liquidity need for a 30-day period. The regulations stipulate that the institutions covered by them must, at every point in time, have an LCR amounting to at least 100%, both at the total level and for EUR and USD isolated.

On 31 December 2016, the LCR, in accordance with the definition in FFFS 2012:6, was 243% (232) at the consolidated level, and 182,704% (1,544,051) and 258% (233), respectively, in EUR and USD. In 2016, SBAB's LCR never fell below 131% (171).

At 31 December 2016, the LCR, in accordance with the EU's Delegated Regulation (EU) 2015/61, was 277% (251) at the consolidated level, and 7,315% (1,419,484) and 262% (188), respectively, in EUR and USD. In 2016, SBAB's LCR never fell below 178% (211). According to the EU's Delegated Regulation, all credit institutions must meet a total LCR of at least 70%. The requirement will be raised to 80% on 1 January 2017 and 100% on 1 January 2018. Since SBAB is already required to comply with Finansinspektionen's requirement of an LCR of 100%, the introduction will not have any material effect on SBAB.

Internally within the SBAB Group, the liquidity risk is measured and stress tested by totalling the maximum conceivable need for liquidity for each coming day. This liquidity risk measure is referred to as the survival horizon. The calculations are based on a crisis scenario in which all loans are assumed to be extended on maturity, meaning that no liquidity is added through loan redemption, and where no funding is available. Deposits from the public are treated with a conservative assumption, whereby withdrawals from the portfolio are distributed over time on the basis of historical balance volatility. Accordingly, the maximum need for liquidity can be identified for every given future period, and the necessary liquidity reserve can be established. The survival horizon corresponds to the number of days for which the liquidity reserve covers the maximum outflow and it has been limited to a minimum of 180 days at any given time. On 31 December 2016, the Group's survival horizon amounted to 444 days (265). In 2016, the survival horizon was never less than 244 days (189).

Group, SEK million	31 Dec 2016					31 Dec 2015				
	Total	Distribution by currency				Total	Distribution by currency			
		SEK	EUR	USD	Other		SEK	EUR	USD	Other
Cash and balances at central banks	632	632	-	-	-	461	461	-	-	-
Balances at other banks	-	-	-	-	-	-	-	-	-	-
Securities issued or guaranteed by governments, central banks or multinational development banks	25,166	14,343	7,602	3,221	-	19,345	10,435	7,715	1,195	-
Securities issued or guaranteed by municipalities or public sector entities	6,596	5,311	-	1,285	-	6,972	5,674	-	1,298	-
Covered bonds issued by other institutions	37,070	31,364	4,739	967	-	38,504	31,575	5,292	1,447	190
Covered bonds issued by SBAB	-	-	-	-	-	-	-	-	-	-
Securities issued by non-financial corporates	-	-	-	-	-	-	-	-	-	-
Securities issued by financial corporates (excl. covered bonds)	-	-	-	-	-	-	-	-	-	-
Other securities	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>69,464</b>	<b>51,650</b>	<b>12,341</b>	<b>5,473</b>	<b>-</b>	<b>65,282</b>	<b>48,145</b>	<b>13,007</b>	<b>3,940</b>	<b>190</b>
Bank and loan facilities	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>69,464</b>	<b>51,650</b>	<b>12,341</b>	<b>5,473</b>	<b>-</b>	<b>65,282</b>	<b>48,145</b>	<b>13,007</b>	<b>3,940</b>	<b>190</b>
Distribution by currency, %		74.4	17.8	7.9	-		73.7	20.0	6.0	0.3

**Liquidity risk measurements – structural liquidity risk**

Structural liquidity risk is a measure of the mismatch between assets and liabilities in terms of maturities, which risks leading to a lack of liquidity in the longer term. SBAB aims to have a diversified funding. The SBAB Group has adopted a conservative approach to the management of funding. A larger share of future maturities is being pre-financed and the share of total funding attributable to short-term funding is being maintained at a low level. SBAB works actively to ensure an even distribution of maturities, while at the same time extending the maturity of the liabilities. Monitoring of upcoming maturities, repurchases, replacements and pre-financing constitute key elements of the practical management aimed at reducing the risk.

SBAB limits its dependence on market funding by applying a limit on the ratio between deposits from the public and lending to the public. On 31 December 2016, the ratio was 33% (26) compared to a limit of 24% (18). Access to funding from covered bonds is further secured by monitoring, at each point in time, including in stressed circumstances, that the over collateralisation in the cover pool exceeds Moody's requirements for Aaa ratings.

SBAB also measures its structural liquidity risk through a metric for maturity matching that measures the relationship between the term to maturity of assets and liabilities from a liquidity perspective at various points in the future. This can be viewed as SBAB's internal version of the net stable funding ratio (NSFR), in which the maturity, in terms of liquidity, on deposits and lending is estimated by means of SBAB's own statistical models, which are based on historical data of the behaviour of SBAB's customers. At 31 December 2016, the ratio was 116% (112) at the one-year point, compared with the limit of 90%. NSFR according to the Basel Committee definition was 122% (115).

The tables "Maturities of hedged cash flows in cash flow hedges" and "Maturities of financial assets and liabilities" show the status of SBAB's future cash flows at 31 December 2016 and 31 December 2015, respectively, from both a short-term and long-term perspective.

**Stress tests**

SBAB has a model for stress testing liquidity risk aimed at internal requirements for analytical and contingency management of liquidity risk. The stress tests have been designed in line with Finansinspektionen's regulations on liquidity management, which impose general requirements on stress tests (FFFS 2010:7). The models analyse SBAB's capacity to meet the need for cash and cash equivalents in various market scenarios and to assess the effect of protracted stress SBAB's ability to finance its operations. The scenarios are designed on the basis of SBAB's specific risk profile and cover both company-specific and market-related scenarios that may render the financing of the operations difficult. The scenarios are divided into different stages that illustrate increasing levels of stress intensity to reflect how a crisis can continuously deteriorate.

The scenarios simulated by the stress tests include:

- The 2008/2009 financial crisis – stress in the funding operations, with funding programmes closing at various stages
- Rating-related stress, with gradually lower ratings for SBAB and SCBC
- Falling property market prices – various levels of falling prices, which increase LTV ratios, thus lowering the share of funding that can be conducted via covered bonds
- Stress of liquidity in the liquidity reserve
- Sizeable fluctuations in interest and currency exchange rates, leading to larger amounts having to be secured through CSAs, which could thus impair liquidity

The stress tests are under continuous development and the assumptions on which the various scenarios are based are assessed regularly. The stress tests are conducted and reported quarterly, with results assessed against SBAB's established risk appetite and used to adapt strategies and guidelines.

**GROUP****Maturities of financial assets and liabilities (amounts refer to contractual, undiscounted cash flows)**

SEK million	2016							2015						
	No maturity	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total	No maturity	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total
<b>ASSETS</b>														
Cash and balances held at central banks	632	–	–	–	–	–	632	0	–	–	–	–	–	0
Sovereign bonds eligible as collateral, etc.	–	6,841	64	2,919	10,295	601	20,720	–	526	27	1,710	11,653	586	14,502
Lending to credit institutions	0	1,861	–	–	–	–	1,861	0	3,593	–	–	–	–	3,593
Lending to the public	–	42,965	59,147	105,103	91,041	5,264	303,520	–	40,954	60,232	110,059	89,214	5,441	305,900
Bonds and other interest-bearing securities	–	672	1,103	3,684	42,899	1,265	49,623	–	1,093	1,333	3,642	43,163	1,953	51,184
<i>of which classified as loans and accounts receivable</i>	–	–	–	–	–	–	0	–	–	–	–	–	–	0
Derivatives	–	26,950	2,544	5,107	122,182	20,043	176,826	–	20,369	35,707	3,457	77,222	48,262	185,017
Other assets	550	–	–	–	–	–	550	2,273	–	–	–	–	–	2,273
<b>Total financial assets</b>	<b>1,182</b>	<b>79,289</b>	<b>62,858</b>	<b>116,813</b>	<b>266,417</b>	<b>27,173</b>	<b>553,732</b>	<b>2,273</b>	<b>66,535</b>	<b>97,299</b>	<b>118,868</b>	<b>221,252</b>	<b>56,242</b>	<b>562,469</b>
<b>LIABILITIES</b>														
Liabilities to credit institutions	–	4,896	–	–	–	–	4,896	–	5,307	–	–	–	–	5,307
Deposits from the public	95,494	83	20	1,129	62	0	96,788	76,450	94	20	22	54	0	76,640
Debt securities issued, etc.	–	24,792	14,416	8,604	250,537	27,073	325,422	–	13,402	21,184	33,162	236,475	33,651	337,874
Derivatives	–	26,314	2,439	4,652	120,527	20,094	174,026	–	19,908	35,088	3,360	77,009	48,919	184,284
Other liabilities	348	–	–	–	–	–	348	3,550	–	–	–	–	–	3,550
Subordinated debt	–	72	42	1,082	7,058	0	8,254	–	2,123	38	71	6,521	0	8,753
Loan commitments and other credit-related commitments	–	32,560	0	80	4,189	0	36,829	–	44,572	11	–	3,366	–	47,949
<b>Total financial liabilities</b>	<b>95,842</b>	<b>88,717</b>	<b>16,917</b>	<b>15,547</b>	<b>382,373</b>	<b>47,167</b>	<b>646,563</b>	<b>80,000</b>	<b>85,406</b>	<b>56,341</b>	<b>36,615</b>	<b>323,425</b>	<b>82,570</b>	<b>664,357</b>

**Maturities of hedged cash flows in cash flow hedges**

SEK million	No maturity	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total
Interest-rate-hedged	0	27	72	103	726	114	1,042
Currency-hedged	0	0	0	–2,634	–36,769	–5,823	–45,226
<b>Net</b>	<b>0</b>	<b>27</b>	<b>72</b>	<b>–2,531</b>	<b>–36,043</b>	<b>–5,709</b>	<b>–44,184</b>

Cont. **NOTE 2c** Risk management – Liquidity risk**PARENT COMPANY****Maturities of financial assets and liabilities (amounts refer to contractual, undiscounted cash flows)**

SEK million	2016							2015						
	No maturity	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total	No maturity	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total
<b>ASSETS</b>														
Cash and balances held at central banks	632	–	–	–	–	–	632	0	–	–	–	–	–	0
Sovereign bonds eligible as collateral, etc.	–	6,841	64	2,919	10,295	601	20,720	–	526	27	1,710	11,653	586	14,502
Lending to credit institutions	55,123	1,743	0	0	0	0	56,866	14,920	2,374	0	0	0	0	17,294
Lending to the public	–	6,689	11,308	18,711	15,248	1,247	53,203	–	11,840	17,401	37,987	14,923	1,237	83,388
Bonds and other interest-bearing securities	–	672	1,103	3,684	42,899	1,265	49,623	–	1,093	1,333	3,642	43,163	1,953	51,184
<i>of which classified as loans and accounts receivable</i>	–	–	–	–	–	–	–	–	–	–	–	–	–	0
Derivatives	–	14,207	1,627	4,431	90,492	13,173	123,930	–	17,093	19,905	1,532	52,703	31,809	123,042
Other assets	179	–	–	–	–	–	179	1,459	–	–	–	–	–	1,459
<b>Total financial assets</b>	<b>55,934</b>	<b>30,152</b>	<b>14,102</b>	<b>29,745</b>	<b>158,934</b>	<b>16,286</b>	<b>305,153</b>	<b>16,379</b>	<b>32,926</b>	<b>38,666</b>	<b>44,871</b>	<b>122,442</b>	<b>35,585</b>	<b>290,869</b>
<b>LIABILITIES</b>														
Liabilities to credit institutions	–	4,398	–	–	–	–	4,398	–	3,169	–	–	–	–	3,169
Deposits from the public	95,494	83	20	1,129	62	0	96,788	76,450	94	20	22	54	0	76,640
Debt securities issued, etc.	–	12,175	3,186	6,869	50,304	0	72,534	–	10,491	6,587	7,623	53,142	511	78,354
Derivatives	–	14,349	1,729	4,416	90,244	13,190	123,928	–	17,109	20,614	1,663	52,278	31,826	123,490
Other liabilities	334	–	–	–	–	–	334	1,342	–	–	–	–	–	1,342
Subordinated debt	–	42	72	1,082	7,058	0	8,254	–	38	2,123	71	6,521	0	8,753
Loan commitments and other credit-related commitments	–	32,560	0	80	4,189	0	36,829	–	44,572	11	–	3,366	–	47,949
<b>Total financial liabilities</b>	<b>95,828</b>	<b>63,607</b>	<b>5,007</b>	<b>13,577</b>	<b>151,857</b>	<b>13,190</b>	<b>343,066</b>	<b>77,792</b>	<b>75,473</b>	<b>29,355</b>	<b>9,379</b>	<b>115,361</b>	<b>32,337</b>	<b>339,697</b>

**Maturities of hedged cash flows in cash flow hedges**

SEK million	No maturity	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total
Interest-rate-hedged	0	3	28	7	112	0	150
Currency-hedged	0	0	0	-2,634	-10,066	0	-12,700
<b>Net</b>	<b>0</b>	<b>3</b>	<b>28</b>	<b>-2,627</b>	<b>-9,954</b>	<b>0</b>	<b>-12,550</b>

The maturity of the amortisation for amortised receivables and liabilities has been calculated as the period up to the date of maturity of the respective amortisation. Foreign currency cash flows have been converted using the closing rate at 31 December 2016. Future interest-rate cash flows with floating interest rates are estimated until the next fixing date using forward interest rates based on the actual interest base, usually the three-month STIBOR. The Parent Company, SBAB, is the creditor for the subsidiary SCBC's subordinated debt. If the maturity is not specified, current debt is recognised as having no maturity and without estimated interest-rate cash flows.

The item "Loan commitments and other credit-related commitments" for the Group, which totals SEK 36,829 million (47,949), amounted to SEK 11,861 million (13,242) after application of the internal model for calculating the CCF. The reduction has not been included in the table. The corresponding figures for the Parent Company amounted to SEK 36,829 million (47,949) and SEK 11,861 million (13,242), respectively.

**New regulations for liquidity risk**

In the wake of the financial crisis and its implications, a major international review was carried out and extensive efforts launched to review the regulations for the management of liquidity risk in banks and credit institutions. The aim of the new regulations, which are still being formulated, is to increase the resilience of banks to serious disruptions in the capital market and to achieve a more harmonised and transparent approach to liquidity risk at the international level.

In order to set minimum levels for the liquidity of banks, the new regulations focus on two key ratios or standard metrics called the net stable funding ratio (NSFR) and the LCR, as described in more detail above. The aim of the NSFR is to indicate how stable the Group's funding is by comparing the maturities of assets and liabilities.

In the EU, both metrics are included in the new capital adequacy regulations that came into effect on 1 January 2014 and are reported to the EBA. The NSFR is not currently subject to a quantitative requirement. It is expected that the Basel Committee's definition of the NSFR will be implemented in the EU, potentially with some deviations, and it is expected that the quantitative requirements will enter into force in 2019.

The EBA has developed five more metrics for liquidity risk that are intended for comparison and supervisory purposes. No quantitative requirements have been set for these metrics. Reporting to the EBA started in spring 2016 for four of the metrics. Reporting of the fifth metric – a maturity ladder showing maturities of assets and liabilities up to ten years into the future – has not yet been initiated. The other four metrics are:

- Concentration of counterbalancing capacity per issuer/counterparty, showing the bank's holdings of liquid assets or liquidity facilities to meet temporary declines in access to liquidity in the market
- Concentration of financing counterparties and products, showing the counterparties or financing products representing such a large percentage that losing them would affect the bank's liquidity risk
- Prices for various financing maturities
- Extension of maturing financing during the reporting period.

## NOTE 2d Risk management — Market risk

Market risk is the risk of loss or reduced future income due to market fluctuations. SBAB is characterised by low risk taking, with the Board determining the overall risk appetite and setting the limit for the risk metric Value at Risk (VaR). In addition to VaR, a number of supplementary risk based metrics set by the CEO of SBAB are also subject to limitation. Through daily reports, Risk Control checks compliance with current risk levels and limits. Market risk is followed up on the Group level as well as broken down to lower levels.

The general principle governing SBAB's exposure to market risk is that the level of risk taking should be low. As a general principle, interest-rate risk is to be mitigated through direct funding or the use of derivatives. SBAB's interest-rate structure as of 31 December 2016 is shown in the table "Fixed-interest periods for financial assets and liabilities." Currency risks are mitigated as funding in international currency is hedged through currency swap contracts or invested in matching currencies. As per 31 December 2016, total assets and liabilities in foreign currency amounted to a net liability of SEK 74.2 billion (liability: 75.0) in nominal terms. The risk outstanding was reduced using derivatives where the nominal amount was equivalent to SEK 74.3 billion (74.7). The total effect per currency is reported in the table "Nominal amounts for assets, liabilities and derivatives in foreign currency."

### Value at Risk

VaR is a comprehensive portfolio measurement expressing the potential loss that could occur given a certain level of probability and holding period. SBAB's model is a historical model and applies percentiles in historical market data from the past two years.

Limits for the day to day follow up of VaR are set at three levels: SBAB's total market risk, all market risks which Treasury is responsible for managing and the trading portfolio. The limit for SBAB's total market risk is based on the VaR metric included in the model for economic capital and applies a probability level of 99.97% and a holding period of one year, while the other two metrics apply a probability level of 99% and a holding period of one day.

As per 31 December 2016, SBAB's total market risk exposure was SEK 1,118 million (1,154), compared with the limit of SEK 1,650 million (1,650). Exposure to market risks managed by Treasury was SEK 42 million (36) and the limit was SEK 55 million (55). Exposure in the trading portfolio was SEK 1.5 million (1.6) and the limit was SEK 12 million (12).

### Supplementary risk metrics

In addition to the overall VaR limits determined by the Board, the CEO has set a number of supplementary risk metrics for different kinds of risks to which SBAB is exposed. For interest-rate risk, there are limits for parallel shifts, where the effect on the present value of a one percentage point shift in the yield curve is measured, and curve risk where the effect on the present value is measured in different scenarios, in which the short end of the yield curve is adjusted down (up) and the long end is adjusted up (down). Currency risk is controlled by measuring the effect on present value when currency exchange rates change compared to SEK, and in the liquidity portfolio by controlling the matching of the principal in each currency. There are also limits for basis risk, credit-spread risk and income volatility from basis spreads.

Income volatility from basis spreads arises because the derivatives used to hedge funding is recognised at fair value while the underlying funding is reported as book value, in accordance with the accounting standards applied by SBAB. This causes effects to arise in operating profit that do not correspond to the actual risk to which SBAB's portfolio is exposed to. The income volatility from basis spreads is expected to decrease in the future, as SBAB has applied hedge accounting through cash-flow hedges since 2014, which means that income volatility will only be calculated for swap contracts that are not subject to cash flow hedges.

### Interest-rate risk in other operations

Interest-rate risk in other operations is measured and reported to Finansinspektionen in accordance with FFFS 2007:4. As per 31 December 2016, the effect on the present value was negative SEK 818.2 million (negative: 785.3) for a 2 percentage-point parallel upward shift and SEK 834.6 million (809.5) for a 2 percentage-point parallel downward shift. As SBAB's own funds amounted to SEK 19.8 billion (18.9) at 31 December 2016, the effect of the stress tests amounted to negative 4.1% (negative: 4.2) and 4.2% (4.3) of own funds, respectively.

The net interest income effect is measured to capture the impact of changes in interest rates on profit or loss. The metric reflects the differences in volume and fixed-interest periods between assets, liabilities and derivatives in other operations. The net interest income effect is based on an instantaneous parallel shift of one per-

centage point up and down over a 12-month time horizon with no changes to the balance sheet. At the end of the year, the net interest income effect was negative SEK 97 million.

### Risks in the trading book

The trading book consists of investments in SBAB's trading portfolio and the part of the liquidity portfolio that is classified as "financial assets measured at FVTPL." The liquidity portfolio is subject to a limited interest-rate risk. The risk in the liquidity portfolio primarily derives from credit risk. The trading portfolio gives SBAB a limited mandate to accept market risk by taking its own positions in the market. All market risks in the trading book are managed within SBAB as an integrated part of the balance sheet together with other operations.

### NOMINAL AMOUNTS FOR ASSETS, LIABILITIES AND DERIVATIVES IN FOREIGN CURRENCY

GROUP, SEK million	Assets and liabilities	Derivatives
AUD	0	0
CAD	0	0
CHF	-2,673	2,673
DKK	0	0
EUR	-66,326	66,465
GBP	-1,439	1,439
JPY	-339	339
NOK	-1,640	1,640
USD	-1,758	1,746
ZAR	0	0
<b>Total</b>	<b>-74,174</b>	<b>74,302</b>

### NOMINAL AMOUNTS FOR ASSETS, LIABILITIES AND DERIVATIVES IN FOREIGN CURRENCY

PARENT COMPANY SEK million	Assets and liabilities	Derivatives
AUD	0	0
CAD	0	0
CHF	-1,337	1,337
DKK	0	0
EUR	-23,550	23,674
GBP	-1,439	1,439
JPY	-339	339
NOK	0	0
USD	-1,395	1,384
ZAR	0	0
<b>Total</b>	<b>-28,059</b>	<b>28,172</b>

## Cont. NOTE 2d Risk management – Market risk

## FIXED-INTEREST PERIODS FOR FINANCIAL ASSETS AND LIABILITIES

Group SEK million	2016							2015						
	Without interest period	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total	Without interest period	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total
<b>ASSETS</b>														
Cash and balances held at central banks	-	0	-	-	-	-	0	-	0	-	-	-	-	0
Sovereign bonds eligible as collateral, etc.	-	6,696	33	2,856	10,254	653	20,492	-	435	0	1,504	11,765	609	14,313
Lending to credit institutions	-	1,619	-	-	-	-	1,619	-	3,456	-	-	-	-	3,456
Lending to the public	-	206,929	9,440	13,493	62,008	4,152	296,022	15	200,788	12,727	15,414	63,853	4,184	296,981
Change in fair value of interest-rate-hedged loan receivables	-	91	49	8	122	126	396	-	18	39	73	392	26	548
Bonds and other interest-bearing securities	-	8,040	448	2,713	36,363	1,287	48,851	-	6,024	640	3,101	38,021	1,928	49,714
Derivatives	-	-716	34	14	5,342	1,518	6,192	-	-5,622	3,466	427	6,820	2,102	7,193
Other assets	1,416	-	-	-	-	-	1,416	2,273	-	-	-	-	-	2,273
<b>Total financial assets</b>	<b>1,416</b>	<b>222,659</b>	<b>10,004</b>	<b>19,084</b>	<b>114,089</b>	<b>7,736</b>	<b>374,988</b>	<b>2,288</b>	<b>205,099</b>	<b>16,872</b>	<b>20,519</b>	<b>120,851</b>	<b>8,849</b>	<b>374,478</b>
<b>LIABILITIES</b>														
Liabilities to credit institutions	-	4,689	-	-	-	-	4,689	-	5,111	-	-	-	-	5,111
Deposits from the public	-	95,513	51	1,143	62	-	96,769	-	76,544	20	22	54	0	76,640
Debt securities issued, etc.	-	65,761	15,113	2,602	144,906	19,025	247,407	-	56,987	30,708	18,074	131,776	26,659	264,204
Derivatives	-	622	-735	277	2,424	-113	2,475	-	7,222	-3,576	-489	2,084	-47	5,194
Other liabilities	2,323	-	-	-	-	-	2,323	3,550	-	-	-	-	-	3,550
Subordinated debt	-	4,741	0	200	998	0	5,939	-	5,038	1,726	0	1,180	0	7,944
<b>Total financial liabilities</b>	<b>2,323</b>	<b>171,326</b>	<b>14,429</b>	<b>4,222</b>	<b>148,390</b>	<b>18,912</b>	<b>359,602</b>	<b>3,550</b>	<b>150,902</b>	<b>28,878</b>	<b>17,607</b>	<b>135,094</b>	<b>26,612</b>	<b>362,643</b>
Difference assets and liabilities	-907	51,333	-4,425	14,862	-34,301	-11,176	15,386	-1,262	54,197	-12,006	2,912	-14,243	-17,763	11,835

PARENT COMPANY SEK million	2016							2015						
	Without interest period	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total	Without interest period	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total
<b>ASSETS</b>														
Cash and balances held at central banks	-	0	-	-	-	-	0	-	0	-	-	-	-	0
Sovereign bonds eligible as collateral, etc.	-	6,696	33	2,856	10,254	653	20,492	-	435	0	1,504	11,765	609	14,313
Lending to credit institutions	-	56,630	-	-	-	-	56,630	-557	17,720	-	-	-	-	17,163
Lending to the public	-	45,458	754	1,192	3,875	298	51,577	15	73,594	1,315	2,672	3,406	205	81,207
Change in fair value of interest-rate-hedged loan receivables	-	-	-	-	-	-	0	-	-	5	-	-	-	5
Bonds and other interest-bearing securities	-	8,040	448	2,713	36,363	1,287	48,851	-	6,024	640	3,101	38,021	1,928	49,714
Derivatives	-	972	31	74	4,316	828	6,221	-	-1,722	1,708	185	5,497	762	6,430
Other assets	940	-	-	-	-	-	940	1,459	-	-	-	-	-	1,459
<b>Total financial assets</b>	<b>940</b>	<b>117,796</b>	<b>1,266</b>	<b>6,835</b>	<b>54,808</b>	<b>3,066</b>	<b>184,711</b>	<b>917</b>	<b>96,051</b>	<b>3,668</b>	<b>7,462</b>	<b>58,689</b>	<b>3,504</b>	<b>170,290</b>
<b>LIABILITIES</b>														
Liabilities to credit institutions	-	4,191	-	-	-	-	4,191	-	2,973	-	-	-	-	2,973
Deposits from the public	-	95,513	51	1,143	62	-	96,769	-	76,544	20	22	54	0	76,639
Debt securities issued, etc.	-	37,569	3,937	2,602	27,366	0	71,474	-	38,194	11,744	2,018	24,646	324	76,925
Derivatives	-	347	-113	285	4,571	985	6,075	-	1,506	-2,057	535	5,773	1,021	6,778
Other liabilities	707	-	-	-	-	-	707	1,342	-	-	-	-	-	1,342
Subordinated debt	-	4,741	-	200	998	-	5,939	-	5,038	1,726	-	1,180	-	7,943
<b>Total financial liabilities</b>	<b>707</b>	<b>142,361</b>	<b>3,875</b>	<b>4,230</b>	<b>32,997</b>	<b>985</b>	<b>185,155</b>	<b>1,342</b>	<b>124,255</b>	<b>11,433</b>	<b>2,575</b>	<b>31,653</b>	<b>1,345</b>	<b>172,600</b>
Difference assets and liabilities	233	-24,565	-2,609	2,605	21,811	2,081	-444	-425	-28,204	-7,765	4,887	27,036	2,159	-2,310

## NOTE 2e Risk management – Operational risk

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

### Risk management

Within SBAB, risk management consists of uniform measurement and reporting of operational risk. An analysis of risk levels in all operations is conducted on a regular basis and reported to the Board, the CEO and the Executive Management. The Operational Risk function within the Credit and Risk department has overall responsibility for the methods and procedures used for identifying, measuring, monitoring and reporting on operational risk. The management of operational risk is carried out based on SBAB's risk appetite and the significant processes for the business. This entails constant efforts to improve the risk culture, and processes and procedures as well as to provide the right tools to efficiently manage day to day operational risk.

### Self-evaluation

The self-evaluation process encompasses the identification and evaluation of operational risks in all significant processes. Self-evaluation is carried out using a shared method that includes system support. The result of the self-evaluation is reported annually to the Board, the CEO and the Executive Management.

### Incident management

SBAB has procedures and system support intended to facilitate the reporting and follow-up of incidents. The Operational Risk function supports the operations with the analysis of reported incidents to ensure that root causes are identified and suitable measures are implemented. Even incidents that have not caused direct damage or financial loss are reported, to promote proactive risk management.

### New product approval policy (NPAP)

SBAB has an NPAP in place for the implementation of new or significantly altered products, services, markets, processes and IT-systems as well as major operational and organisational changes at SBAB. The aim of the NPAP is the advance identification and management of risks related to changes.

### Security and contingency management

At SBAB, security involves protecting customers, individuals, information and physical assets. Information must be kept confidential and be reliable and accurate, and it must be made available to the appropriate people as and when needed. SBAB's security efforts include technical, organisational and administrative measures, which are based on the international information security standard ISO/IEC 27000.

SBAB works in a pre-emptive manner to prevent security incidents that may affect the company's ability to operate. The bank has an established contingency organisation that is responsible for crisis and catastrophe management, and communication in case of serious incidents, crises or disasters.

In 2016, responsibility for security and continuity management was moved from operational risk to the operations unit.

### Risk and compliance coordinator

As part of strengthening SBAB's risk culture the bank has established a risk and compliance coordinator (RCC) in the first line. The RCC supports the business managers with a focus on risk management, process mapping, internal controls, incident management, and regulatory compliance. RCC initiatives are coordinated by a Regulatory Manager.

### Capital requirements for operational risks

SBAB uses the standardised approach to quantify capital requirements for measuring and managing operational risk. This approach calculates the capital requirement based on 12–18% of the business area's average operating income over the past three years. The capital requirements for operational risk are presented in the Capital requirements table (Note 2i).

## NOTE 2f Risk management – Business risk

By business risk, SBAB means the risk of declining earnings due to harsher competition, inappropriate strategies or erroneous decisions. Business risk includes strategic risk, reputational risk and margin risk, which arise when the interest margins on lending and borrowing have different maturities.

New business is usually relatively similar to the business SBAB already has.

Changes in the form of new products or new markets may only constitute a small part of SBAB's activities and must be implemented at such a pace that SBAB does not substantially jeopardise its profit level and with great probability avoids pressure on its own funds.

As the accounting standards used by SBAB require that certain components of the portfolio are measured at market value while other components are recognised at their carrying amount, this has effects on the operating profit/loss, and consequently also on own funds, that do not correspond to the actual risk to which the portfolio is exposed. To limit such effects, income volatility is measured and limited, and mitigated through the use of hedge accounting.

Business risk is included in the calculation of the Pillar 2 capital requirement as part of SBAB's stress tests.

## NOTE 2g Risk management – Concentration risk

Concentration risk arises when major exposures or exposures in the loan portfolio are concentrated to certain counterparties, regions or industries. SBAB is primarily considered to be exposed to credit-risk related concentration risk in its lending operations. The concentration risk is calculated based on the size of the exposures, industry concentration and geographical concentration. The entire capital requirement for concentration risk is included in the economic capital for credit risk. Upon calculation at 31 December 2016, the internally calculated capital requirement for concentration risk was SEK 669 million (562), of which SEK 619 million (521) pertained to credit risk in lending operations and SEK 50 million (41) to credit risk in funding operations. For additional information regarding SBAB's concentration risk, please refer to the Capital Adequacy and Risk Management (Pillar 3) Report 2016.

## NOTE 2h Risk management – Internal capital adequacy assessment

### Internal capital adequacy assessment

Within the framework of Pillar 2, the Basel regulations impose the requirement that banks' management and assessment of risks must be satisfactory to ensure that the banks can fulfil their obligations. To meet this requirement, the banks must have methods that enable them to continuously evaluate and uphold capital in an amount, type and distribution sufficient to cover the risks to which they are or will become exposed. This is called the internal capital adequacy assessment process (ICAAP).

The ICAAP aims to identify, evaluate and manage the risks to which SBAB is exposed and ensure that the Group has sufficient own funds for its selected risk profile. The ICAAP is revised annually to identify changes in the operating environment and changed regulations and supervisory practices that continuously affect the bank's performance. The amount of own funds required to manage the combined risk in the operations is based primarily on the calculation of SBAB's economic capi-

tal. However, if the economic capital for risks included in Pillar 1 is less than the capital requirements under Pillar 1 for a given type of risk, the capital requirements under Pillar 1 are applied.

Finally, consideration is given to the risk associated with deteriorating macro-economic conditions, which is illustrated in conjunction with stress tests.

Within the Pillar 2 framework, the risk-weight floor applied to Swedish residential mortgages by Finansinspektionen in its supervisory practices is considered. Since September 2014, the risk-weight floor has been 25%. The internal capital requirement is reported both including and excluding the risk-weight floor.

Taken together, the above comprise the capital that, in accordance with Basel 3, is required to meet all risks in the operations. Additional information on the internal capital adequacy assessment can be found in the document "Capital Adequacy and Risk Management 2016," which is published on [www.sbab.se](http://www.sbab.se)

For the Parent Company, the internally assessed capital requirement amounted to SEK 5,132 million (5,525).

		Pillar 1	EXCLUDING RISK-WEIGHT FLOOR Internally assessed capital requirement	INCLUDING RISK-WEIGHT FLOOR Internally assessed capital requirement
Pillar 1	Credit risk	2,656	2,656	2,656
	Market risk	126	126	126
	Operational risk	291	291	291
Pillar 2	Credit risk <sup>1)</sup>		1,019	
	Market risk		1,118	1,118
	Operational risk		91	91
	Risk-weight floor		0	6,532
	Concentration risk		669	669
	Sovereign risk		59	59
Buffers	Pension risk		0	0
	Capital conservation buffer	960	960	960
	Capital planning buffer <sup>2)</sup>		1,000	
	Countercyclical buffer	571	571	571
<b>Total</b>	<b>4,604</b>	<b>8,560</b>	<b>13,073</b>	

<sup>1)</sup> In the internal capital requirement without taking the risk-weight floor into account, additional credit risks in Pillar 2 consist of SBAB's estimated capital requirement in economic capital. Since the additional capital requirement for the risk-weight floor is larger than the additional capital requirement according to economic capital, only the risk-weight floor is included in the internal capital requirement with consideration for the risk-weight floor.

<sup>2)</sup> The higher of the stress test buffer and the capital planning buffer is included in the internally assessed capital requirement. After taking into account the risk-weight floor, the stress test buffer is calculated without consideration for risk migration in the residential mortgage portfolios and, accordingly, the required buffer is smaller.

## NOTE 2i Risk management – Capital adequacy analysis

### Regulatory framework

New common regulations on supervisory requirements for credit institutions were adopted by the EU and have been applied since 1 January 2014. The purpose of the rules is in part to make institutions more resilient to new crises, and in part to raise confidence in the institutions' ability to manage new crises. The regulations include proposals for higher capital requirements, stricter demands on capital quality, the introduction of a non-risk-based metric (debt/equity ratio) and quantitative liquidity requirements.

Within the framework of these regulations, Finansinspektionen has adopted a national risk-weight floor of 25% for residential mortgages to Swedish households within Pillar 2. Banks that are considered systemic will be subject to additional capital requirements. SBAB is not subject to these requirements.

In April 2016, Finansinspektionen announced that a capital repayment requirement would be introduced for new residential mortgages from 1 June. The requirement entails that not less than 2% of the original loan principal must be repaid each year on new residential mortgages with LTV ratios in excess of 70%. For loans with an LTV ratio of less than 70% but more than 50%, at least 1% of the original loan principal must be repaid each year. SBAB complies with the new loan amortisation regulations (FFFS 2016:16).

Moreover, the rate of change in the regulatory frameworks has remained high. Over the year, the EBA and the Basel Committee presented additional proposals for changes aimed at increasing transparency and making institutions more resilient to disruptions in the market. Proposals have, inter alia, been submitted regarding changes in the Capital Requirements Regulation and new common reporting rules.

Future rules in IFRS 9 will regulate a new method for credit-risk provisions, refer to Note 1.

### SBAB's capital

SBAB is well capitalised, and to retain a strong capital position, SBAB's Board of Directors adopted a new capital policy in 2016. According to these new targets, under normal conditions, SBAB's CET1 capital ratio should be at least 1.5 percentage points higher than the CET1 capital requirement communicated by Finansinspektionen. In addition, under normal conditions, SBAB's total capital ratio should be at least 1.5 percentage points higher than the capital requirement communicated by Finansinspektionen. The bank is also tasked with meeting any other regulatory capital requirements. By means of a strong capital position and good risk management, SBAB meets the supervisory rules adopted by the EU.

During the year, SBAB acquired 69% of Booli Search Technologies AB. The aim of the acquisition is to strengthen SBAB's position as an institution focused on housing, thereby increasing competitiveness within residential mortgages and housing financing. The acquisition had only a marginal impact on SBAB's capital.

SBAB primarily recognises credit risk in accordance with the internal ratings-based (IRB) approach, and operational and market risk in accordance with the standardised approach. Net profit/loss for the period is included in the calculation of own funds and Tier 1 capital. Dividends calculated according to SBAB's dividend policy have been deducted. However, considering future capital requirements and the uncertainty regarding these, the Board of Directors proposes that no dividends be paid.

The SBAB Group has no securitised loans of its own and has not contributed to any other institution's securitisation.

Section 2h contains a summary of the method used to assess the internal capital requirement.

### Own funds

SBAB's own funds comprise equity as well as additional Tier 1 capital and Tier 2 capital consisting of subordinated loans. SBAB's own funds amounted to SEK 19,833 million (18,867) as per 31 December 2016.

Over the year, the CET1 capital was affected by the fact that net profit/loss for the period was added and the estimated dividend was deducted. The surplus has been verified by the company's auditors, in accordance with Article 26, item 2, of the CRR.

According to Article 35 of the CRR, the institution shall, except in the case of the items referred to in Article 33, not make adjustments to remove from own funds unrealised gains or losses on assets or liabilities recognised at fair value. According to this Article, SEK 662 million (264) has been added to CET1 capital.

According to Article 33, item 1, of the CRR, part of the fair-value reserves related to gains or losses on cash-flow hedges of financial instruments that are not measured at fair value, including projected cash flows, is not to be included in own funds. The CET1 capital has been adjusted for SEK 526 million (236) in cash-flow hedges.

Changes in fair value that depend on the institution's own credit standing and that are related to derivatives had an impact of SEK 31 million (25) on the CET1 capital, in accordance with Article 33, item 1b.

With reference to Articles 34 and 105 of the CRR, SEK 67 million (67) has been deducted due to the requirements for prudent valuation.

A deduction of SEK 142 million (46) for intangible assets and a deduction of SEK 3 million (83) for net provisions were made in accordance with Article 36. Positive net provision of SEK 1 million (-) were added to Tier 2 capital in accordance with Article 62.

### The consolidated situation

The table below lists the companies that are included in the consolidated situation within the SBAB Group. There are no on-going or unforeseen material obstacles or legal barriers to a rapid transfer of funds from own funds other than what is stipulated in the terms and conditions governing subordinated loans (see Note 32) or what is generally stipulated by the Companies Act.

### COMPANIES INCLUDED IN THE CONSOLIDATED SITUATION

Company	Corporate Registration Number	Ownership share	Consolidation method used in the accounts	Consolidation method used for capital adequacy	Company description
SBAB Bank AB (publ)	556253-7513	Parent Company	-	-	Institution
AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC)	56645-9755	100%	Fully consolidated	Acquisition method	Institution
Booli Search Technologies AB	556733-0567	69%	Fully consolidated	Acquisition method	IT company (associated company)

### Subordinated loans

Subordinated debt may be included in the calculation of Tier 1 capital if certain conditions are present according to the transitional regulations of the CRR and if Finansinspektionen has given its consent. SBAB received such consent for four subordinated loans with a nominal value of SEK 2,000 million (see Note 32), of which two loans totalling SEK 1,500 million were concluded during the year and included in own funds as Tier 1 capital. Tier 2 capital amounted to SEK 4,447 million. No new loans recognised as Tier 2 capital were included in 2016. Three previously concluded subordinated loans of SEK 2,000 million and were redeemed during the year.

Subordinated loans are subordinate to the Parent Company's other liabilities, and subordinated loans that are included in Tier 1 capital are subordinate to other subordinated loans. Please refer to the link under "Capital adequacy and risk management" at [www.sbab.se](http://www.sbab.se) for a specification of own funds and the complete terms

and conditions for subordinated loans in accordance with Commission Implementing Regulation (EU) No 1423/2013. The complete terms and conditions for each subordinated loan are specified in the same place. For further information on subordinated loans, also refer to Note 32.

### The consolidated situation

#### Disclosure of own funds during a transitional period

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

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

Cont. **NOTE 2i** Risk management – Capital adequacy analysis

OWN FUNDS GROUP, SEK million	31 Dec 2016	31 Dec 2015
<b>CET1 capital instruments: Instruments and reserves</b>		
Capital instruments and the related share premium accounts	1,958	1,958
Retained earnings	9,592	8,464
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	662	264
Tier 1 capital instruments	1,500	–
Independently verified interim profits net of any foreseeable charge or dividend	942	697
<b>CET1 capital before regulatory adjustments</b>	<b>14,654</b>	<b>11,383</b>
<b>CET1 capital: Legislative changes</b>		
Additional value adjustments (negative amount)	–67	–67
Intangible assets (net of related tax liability) (negative amount)	–142	–46
Fair value reserves related to gains or losses on cash-flow hedges	–526	–236
Negative amounts resulting from the calculation of expected loss amounts	–3	–83
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–31	–25
Tier 1 capital instruments in equity	–1,500	–
<b>Total regulatory adjustments to CET1 capital</b>	<b>–2,269</b>	<b>–457</b>
<b>CET1 capital</b>	<b>12,385</b>	<b>10,926</b>
<b>Additional Tier 1 capital: Instruments</b>		
Capital instruments and the related share premium accounts	3,000	1,500
<i>of which classified as equity under applicable accounting standards</i>	1,500	–
<i>of which classified as liabilities under applicable accounting standards</i>	1,500	1,500
Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from Additional Tier 1 capital	–	994
<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>3,000</b>	<b>2,494</b>
<b>Additional Tier 1 capital: Regulatory adjustments</b>		
<b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>–</b>	<b>–</b>
<b>Additional Tier 1 capital</b>	<b>3,000</b>	<b>2,494</b>
<b>Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)</b>	<b>15,385</b>	<b>13,420</b>
<b>Tier 2 capital: Instruments and provisions</b>		
Capital instruments and the related share premium accounts	4,447	5,447
Credit risk adjustments	1	–
<b>Tier 2 capital before regulatory adjustments</b>	<b>4,448</b>	<b>5,447</b>
<b>Tier 2 capital: Regulatory adjustments</b>		
<b>Total regulatory adjustments to Tier 2 capital</b>	<b>–</b>	<b>–</b>
<b>Tier 2 capital</b>	<b>4,448</b>	<b>5,447</b>
<b>Total capital (Total capital=Tier 1 capital + Tier 2 capital)</b>	<b>19,833</b>	<b>18,867</b>
<b>Total risk-weighted assets</b>	<b>38,413</b>	<b>38,244</b>
<b>Capital ratio and buffers</b>		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	32.2	28.6
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	40.1	35.1
Total capital (as a percentage of total risk-weighted exposure amount), %	51.6	49.3
Institution-specific buffer requirements (CET1 capital requirement in accordance with Article 92(1)(a) plus the capital conservation buffer and countercyclical capital buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffers [G-SII buffer and O-SII buffer]) expressed as a percentage of the risk-weighted exposure amount), %	8.5	8.0
<i>of which: CET1 capital, minimum requirement, %</i>	4.5	4.5
<i>of which, capital conservation buffer requirement, %</i>	2.5	2.5
<i>of which, countercyclical buffer requirement, %</i>	1.5	1.0
<i>of which, systemic risk buffer requirement, %</i>	–	–
<i>of which, G-SII buffer and O-SII buffer, %</i>	–	–
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts), %	27.7	24.1
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)</b>		
Current cap on AT1 instruments subject to phase-out arrangements	–	2,096
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–	–
Current cap on T2 instruments subject to phase-out arrangements	–	910

CAPITAL REQUIREMENTS GROUP, SEK million	Risk exposure amount 31 Dec 2016	Capital requirements 31 Dec 2016	Risk exposure amount 31 Dec 2015	Capital requirements 31 Dec 2015
<b>Credit risk recognised in accordance with IRB approach</b>				
Exposures to corporates	12,106	969	10,795	864
Retail exposures	11,440	915	14,103	1,128
<i>of which: exposures to SMEs</i>	1,211	97	1,628	130
<i>of which: retail exposures secured by immovable property</i>	10,229	818	12,475	998
<b>Total exposures recognised with the IRB approach</b>	<b>23,546</b>	<b>1,884</b>	<b>24,898</b>	<b>1,992</b>
<b>Credit risk recognised with the standardised approach</b>				
Exposure to governments and central banks	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0
Exposures to multilateral development banks	0	0	0	0
Exposures to institutions <sup>1)</sup>	1,907	152	1,526	122
<i>of which, derivatives according to CRR, Appendix 2</i>	1,903	152	1,505	120
<i>of which, repos</i>	3	0	14	1
<i>of which, other</i>	1	0	7	1
Exposures to corporates	-	-	15	1
Retail exposures	1,933	155	2,106	168
Exposures in default	12	1	7	1
Exposures in the form of covered bonds	3,384	271	2,957	237
Exposures to institutions and corporates with a short-term credit rating	19	1	15	1
Other items	561	44	730	58
<b>Total exposures recognised with standardised approach</b>	<b>7,816</b>	<b>624</b>	<b>7,356</b>	<b>588</b>
<b>Market risk</b>	<b>1,571</b>	<b>126</b>	<b>1,856</b>	<b>149</b>
<i>of which, position risk</i>	886	71	1,314	105
<i>of which, currency risk</i>	685	55	542	44
<b>Operational risk</b>	<b>3,634</b>	<b>291</b>	<b>2,989</b>	<b>239</b>
<b>Credit valuation adjustment risk</b>	<b>1,846</b>	<b>148</b>	<b>1,145</b>	<b>92</b>
<b>Total risk exposure amount and minimum capital requirements</b>	<b>38,413</b>	<b>3,073</b>	<b>38,244</b>	<b>3,060</b>
<b>Capital requirements for capital conservation buffer</b>		<b>960</b>		<b>956</b>
<b>Capital requirements for countercyclical buffer</b>		<b>571</b>		<b>379</b>
<b>Total capital requirements</b>		<b>4,604</b>		<b>4,395</b>

<sup>1)</sup> The risk-weighted exposure amount for counterparty risk according to CRR, Article 92, item 3(f), amounts to SEK 1,907 million (1,519).

AVERAGE RISK WEIGHT FOR CREDIT RISK RECOGNISED USING THE IRB APPROACH, GROUP SEK million	2016					2015				
	Exposure before credit- risk hedge	Exposure after CCF	Risk expo- sure amount (REA)	Capital require- ment	Average risk weight, %	Exposure before credit- risk hedge	Exposure after CCF	Risk expo- sure amount (REA)	Capital require- ment	Average risk weight, %
<b>Credit risk in lending portfolio recognised under the IRB approach</b>										
Exposures to corporates	42,574	40,801	12,106	969	29.7	36,029	34,836	10,795	864	31.0
Retail exposures	287,316	263,459	11,440	915	4.3	305,509	271,213	14,103	1,128	5.2
<i>of which, single-family dwellings and holiday homes</i>	118,792	110,205	4,939	395	4.5	131,829	119,421	6,643	531	5.6
<i>of which, tenant-owners' rights</i>	121,663	107,472	5,290	423	4.9	122,698	102,133	5,832	467	5.7
<i>of which, tenant-owners' associations</i>	46,861	45,782	1,211	97	2.6	50,982	49,659	1,628	130	3.3
<b>Total credit risk under the IRB approach</b>	<b>329,890</b>	<b>304,259</b>	<b>23,546</b>	<b>1,884</b>	<b>7.7</b>	<b>341,538</b>	<b>306,049</b>	<b>24,898</b>	<b>1,992</b>	<b>8.1</b>

Disclosure of own funds during a transitional period.

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

No amounts are subject to the provisions preceding Regulation (EU) No 575/2013 (CRR)

or the prescribed residual amount according to Regulation (EU) No 575/2013.

## Cont. NOTE 2i Risk management – Capital adequacy analysis

OWN FUNDS PARENT COMPANY, SEK million	31 Dec 2016	31 Dec 2015
<b>CET1 capital instruments: Instruments and reserves</b>		
Capital instruments and the related share premium accounts	1,958	1,958
Retained earnings	6,094	5,781
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards))	118	-14
Tier 1 capital instruments	1,500	-
Independently verified interim profits net of any foreseeable charge or dividend	-350	-117
<b>CET1 capital before regulatory adjustments</b>	<b>9,320</b>	<b>7,608</b>
<b>CET1 capital: Regulatory adjustments</b>		
Additional value adjustments (negative amount)	-70	-68
Intangible assets (net of related tax liability) (negative amount)	-31	-13
Fair value reserves related to gains or losses on cash-flow hedges	27	5
Negative amounts resulting from the calculation of expected loss amounts	-7	-49
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-31	-24
Tier 1 capital instruments in equity	-1500	-
<b>Total regulatory adjustments to CET1 capital</b>	<b>-1,612</b>	<b>-149</b>
<b>CET1 capital</b>	<b>7,708</b>	<b>7,459</b>
<b>Additional Tier 1 capital: Instruments</b>		
Capital instruments and the related share premium accounts	3,000	1,500
<i>of which classified as equity under applicable accounting standards</i>	1,500	-
<i>of which classified as liabilities under applicable accounting standards</i>	1,500	1,500
Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from Additional Tier 1 capital	-	994
<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>3,000</b>	<b>2,494</b>
<b>Additional Tier 1 capital: Regulatory adjustments</b>		
<b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 capital</b>	<b>3,000</b>	<b>2,494</b>
<b>Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)</b>	<b>10,708</b>	<b>9,953</b>
<b>Tier 2 capital: Instruments and provisions</b>		
Capital instruments and the related share premium accounts	4,447	5,447
Credit risk adjustments	2	-
<b>Tier 2 capital before regulatory adjustments</b>	<b>4,449</b>	<b>5,447</b>
<b>Tier 2 capital: Regulatory adjustments</b>		
<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Tier 2 capital</b>	<b>4,449</b>	<b>5,447</b>
<b>Total capital (Total capital=Tier 1 capital + Tier 2 capital)</b>	<b>15,157</b>	<b>15,400</b>
<b>Total risk-weighted assets</b>	<b>31,484</b>	<b>33,295</b>
<b>Capital ratio and buffers</b>		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	24.5	22.4
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	34.0	29.9
Total capital (as a percentage of total risk-weighted exposure amount), %	48.1	46.3
Institution-specific buffer requirements (CET1 capital requirement in accordance with Article 92(1)(a) plus the capital conservation buffer and countercyclical capital buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffers [G-SII buffer and O-SII buffer]) expressed as a percentage of the risk-weighted exposure amount), %	8.5	8.0
<i>of which, CET1 capital, minimum requirement, %</i>	4.5	4.5
<i>of which, capital conservation buffer requirement, %</i>	2.5	2.5
<i>of which, countercyclical buffer requirement, %</i>	1.5	1.0
<i>of which, systemic risk buffer requirement, %</i>	-	-
<i>of which, G-SII buffer and O-SII buffer, %</i>	-	-
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts), %	20.0	17.9
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)</b>		
Current cap on AT1 instruments subject to phase-out arrangements	-	2,096
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
Current cap on T2 instruments subject to phase-out arrangements	-	910

<b>CAPITAL REQUIREMENT PARENT COMPANY, SEK million</b>	<b>Risk exposure amount 31 Dec 2016</b>	<b>Capital requirements 31 Dec 2016</b>	<b>Risk exposure amount 31 Dec 2015</b>	<b>Capital requirements 31 Dec 2015</b>
<b>Credit risk recognised in accordance with IRB approach</b>				
Exposures to corporates	6,474	518	6,052	484
Retail exposures	3,172	254	6,247	500
<i>of which: exposures to SMEs</i>	351	28	648	52
<i>of which: retail exposures secured by immovable property</i>	2,821	226	5,599	448
<b>Total exposures recognised with the IRB approach</b>	<b>9,646</b>	<b>772</b>	<b>12,299</b>	<b>984</b>
<b>Credit risk recognised with the standardised approach</b>				
Exposure to governments and central banks	0	0	129	10
Exposures to regional governments or local authorities or agencies	0	0	0	0
Exposures to multilateral development banks	0	0	0	0
Exposures to institutions <sup>1)</sup>	1,645	132	1,190	95
<i>of which, derivatives according to CRR, Appendix 2</i>	1,645	132	1,186	95
<i>of which, repos</i>	-	-	-	-
<i>of which, other</i>	0	0	4	0
Exposures to corporates	-	-	15	1
Retail exposures	1,933	155	2,106	168
Exposures in default	12	1	7	1
Exposures in the form of covered bonds	3,384	271	2,957	237
Exposures to institutions and corporates with a short-term credit rating	16	1	19	2
Equity exposures	10,386	831	10,300	824
Other items	85	6	105	8
<b>Total exposures recognised with standardised approach</b>	<b>17,461</b>	<b>1,397</b>	<b>16,828</b>	<b>1,346</b>
<b>Market risk</b>	<b>1,195</b>	<b>96</b>	<b>1,498</b>	<b>120</b>
<i>of which, position risk</i>	887	71	1,314	105
<i>of which, currency risk</i>	308	25	184	15
<b>Operational risk</b>	<b>1,478</b>	<b>118</b>	<b>1,709</b>	<b>137</b>
<b>Credit valuation adjustment risk</b>	<b>1,704</b>	<b>136</b>	<b>961</b>	<b>77</b>
<b>Total minimum capital requirements and risk exposure amount</b>	<b>31,484</b>	<b>2,519</b>	<b>33,295</b>	<b>2,664</b>
<b>Capital requirements for capital conservation buffer</b>		<b>787</b>		<b>832</b>
<b>Capital requirements for countercyclical buffer</b>		<b>467</b>		<b>330</b>
<b>Total capital requirements</b>		<b>3,773</b>		<b>3,826</b>

<sup>1)</sup>The risk-weighted amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 1,645 million (1,186).

<b>AVERAGE RISK WEIGHT FOR CREDIT RISK RECOGNISED USING THE IRB APPROACH, PARENT COMPANY SEK million</b>	<b>2016</b>					<b>2015</b>				
	<b>Expo- sure before credit- risk hedge</b>	<b>Expo- sure after CCF</b>	<b>Risk expo- sure amount (REA)</b>	<b>Capital require- ment</b>	<b>Average risk weight, %</b>	<b>Exposure before credit- risk hedge</b>	<b>Expo- sure after CCF</b>	<b>Risk expo- sure amount (REA)</b>	<b>Capital require- ment</b>	<b>Average risk weight, %</b>
<b>Credit risk in lending portfolio recognised under the IRB approach</b>										
Exposures to corporates	18,990	17,360	6,474	518	37.3	17,189	16,137	6,052	484	37.5
Retail exposures	66,316	43,406	3,172	254	7.3	108,458	75,285	6,247	500	8.3
<i>of which, single-family dwellings and holiday homes</i>	25,929	17,344	1,450	116	8.4	44,882	32,593	3,105	248	9.5
<i>of which, tenant-owners' rights</i>	33,766	19,575	1,371	110	7.0	51,055	30,490	2,495	200	8.2
<i>of which, tenant-owners' associations</i>	6,621	6,487	351	28	5.4	12,521	12,202	648	52	5.3
<b>Total credit risk under the IRB approach</b>	<b>85,307</b>	<b>60,766</b>	<b>9645</b>	<b>772</b>	<b>15.9</b>	<b>125,647</b>	<b>91,422</b>	<b>12,299</b>	<b>984</b>	<b>13.5</b>

Cont. **NOTE 2i** Risk management – Capital adequacy analysis

CAPITAL ADEQUACY SEK million	GROUP		PARENT COMPANY		SCBC	
	2016	2015	2016	2015	2016	2015
CET1 capital	12,385	10,926	7,708	7,459	15,162	13,906
Tier 1 capital	15,385	13,420	10,708	9,953	15,162	13,906
Total capital	19,833	18,867	15,157	15,400	15,165	13,906
<b>Without transitional rules</b>						
Risk exposure amount	38,413	38,244	31,484	33,295	18,401	16,151
CET1 capital ratio, %	32.2	28.6	24.5	22.4	82.4	86.1
Excess CET1 capital	10,656	9,205	6,292	5,961	14,334	13,179
Tier 1 capital ratio, %	40.1	35.1	34.0	29.9	82.4	86.1
Excess Tier 1 capital	13,080	11,125	8,819	7,955	14,058	12,937
Total capital ratio, %	51.6	49.3	48.1	46.3	82.4	86.1
Excess total capital	16,760	15,807	12,639	12,737	13,693	12,614
<b>With transitional rules</b>						
Own funds	19,835	18,950	15,162	15,449	15,162	13,940
Risk exposure amount	168,936	165,830	35,833	50,414	133,171	115,555
Total capital ratio, %	11.7	11.4	42.3	30.6	11.4	12.1

## NOTE 3 Net interest income

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Interest income</b>				
Lending to credit institutions	-24	-23	508	472
Lending to the public <sup>1)</sup>	5,117	5,643	926	978
Interest-bearing securities	500	796	500	796
Derivatives	-992	-1,293	-634	-827
<b>Total interest income</b>	<b>4,601</b>	<b>5,123</b>	<b>1,300</b>	<b>1,419</b>
<i>of which, interest income from financial assets that is not measured at FVTPL</i>	<i>5,308</i>	<i>5,698</i>	<i>1,649</i>	<i>1,528</i>
<b>Interest expense</b>				
Liabilities to credit institutions	47	28	34	24
Deposits from the public	-515	-572	-515	-572
Issued debt securities	-3,262	-4,302	-676	-985
Subordinated debt	-166	-279	-166	-279
Derivatives	2,261	2,474	420	585
Other	-35	-30	-34	-31
Resolution fee <sup>2)</sup>	-102	-	-37	-
<b>Total interest expense</b>	<b>-1,772</b>	<b>-2,681</b>	<b>-974</b>	<b>-1,258</b>
<i>of which, interest expense from financial liabilities that is not measured at FVTPL</i>	<i>-3,931</i>	<i>-5,155</i>	<i>1,357</i>	<i>-1,843</i>
<b>Net interest income</b>	<b>2,829</b>	<b>2,442</b>	<b>326</b>	<b>161</b>

<sup>1)</sup> Includes interest income from doubtful receivables of SEK 3 million (2).

<sup>2)</sup> The resolution fee is a new fee payable to the Swedish National Debt Office and replaces the previous stability fund fee to the Swedish National Debt Office recognised under commission expense.

## NOTE 4 Commission

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Commission income</b>				
Commission on lending	27	25	17	15
Other commissions	42	36	68	67
<b>Total</b>	<b>69</b>	<b>61</b>	<b>85</b>	<b>82</b>
<b>Commission expense</b>				
Commission on securities	-62	-34	-39	-21
Stability Fund fees <sup>1)</sup>	-	-129	-	-58
<b>Total</b>	<b>-62</b>	<b>-163</b>	<b>-39</b>	<b>-79</b>
<b>Net commission</b>	<b>7</b>	<b>-102</b>	<b>46</b>	<b>3</b>

<sup>1)</sup> The Stability Fund fee to the Swedish National Debt Office was replaced by the resolution fee from 2016, which is recognised in net interest income, refer to Note 3.

## NOTE 5 Net result of financial items measured at fair value/Net result of financial transactions

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Gains/losses on interest-bearing financial instruments</b>				
Securities measured at FVTPL	-43	-411	-43	-411
Change in value of hedged items in hedge accounting	691	1,505	387	516
Realised gain/loss from financial liabilities	-489	-113	-30	-31
Derivatives in hedge accounting	-464	-1,406	-351	-458
Other derivatives	112	307	110	295
Loan receivables	240	113	69	7
<b>Currency translation effects</b>	<b>1</b>	<b>-2</b>	<b>1</b>	<b>-2</b>
<b>Gains/losses on shares and participations measured at FVTPL</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>8</b>
<b>Total</b>	<b>48</b>	<b>1</b>	<b>143</b>	<b>-76</b>

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

Major variations in fair value between reporting periods could result in significant changes in carrying amounts and hence also in capital adequacy. Changes in the form of losses/gains remain unrealised as long as the basis swap is not closed prematurely.

In cases where the derivative is held to maturity, earnings are not affected by the accumulated changes, as the unrealised interest-rate-related value changes that affect the performance of each derivative contract starts and ends at zero.

Most of SBAB's basis swaps are held to maturity. An accounting effect also arises in SBAB's securities holding, since the accounting policies that SBAB applies entail that parts of the securities' assets are measured at fair value, while a large portion of SBAB's liabilities are measured at amortised cost.

Also in the case of securities assets, the unrealised interest rate-related value changes that affect the result will be recovered over the remaining tenor, if the asset is held to maturity and the issuer is able to make its payments.

Most of SBAB's securities are held to maturity.

## NOTE 6 Other operating income

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Administrative services on behalf of subsidiary	-	-	716	625
Other operating income <sup>1)</sup>	34	0	5	0
<b>Total</b>	<b>34</b>	<b>0</b>	<b>721</b>	<b>625</b>

<sup>1)</sup> Other operating income primarily includes revenue from Booli.

## NOTE 7 Personnel costs

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Salaries and other remuneration	-254	-225	-247	-226
Pension costs	-39	-44	-45	-45
Other social security expenses	-91	-82	-90	-83
Other personnel costs	-28	-25	-26	-25
<b>Total</b>	<b>-412</b>	<b>-376</b>	<b>-408</b>	<b>-379</b>

Restructuring costs amounted to SEK – million (1).

Salaries and other remuneration, SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
CEO	-5	-5	-5	-5
Senior executives who report directly to the CEO	-18	-16	-18	-16
Other employees	-231	-205	-224	-205
<b>Total salaries and other remuneration</b>	<b>-254</b>	<b>-225</b>	<b>-247</b>	<b>-226</b>

Salaries and other remuneration for employees of Booli Search Technologies AB is included in the Group's expenses. Board Members who are employed by the Parent Company receive remuneration and pension benefits as a result of their employment. No additional remuneration or pension benefits are paid for Board assignments. No remuneration was paid to the CEO of the subsidiary Swedish Covered Bond Corporation (SCBC). The number of senior executives who reported directly to the CEO as per the end of the year was 8 (9).

Average number of employees	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Women	263	235	257	235
Men	239	208	227	208
<b>Average number of employees</b>	<b>502</b>	<b>443</b>	<b>484</b>	<b>443</b>

Sickness absence, %	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Total sickness absence</b>	<b>4.6</b>	<b>3.9</b>	<b>3.8</b>	<b>3.9</b>
Women	3.3	2.3	2.3	2.3
Men	2.2	1.6	1.5	1.6
29 or younger	4.6	3.1	3.7	3.1
30-49	4.4	4.1	3.6	4.1
50 or older	4.3	4.1	4.3	4.1
Proportion of long-term sickness absence compared to total sickness absence that exceeded 60 days	36.7	52.4	44.1	52.4

## GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES

Board of Directors	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Women, %	26	38	40	50
Men, %	74	62	60	50

The Group includes the Board Members of the subsidiaries: Swedish Covered Bond Corporation (SCBC) and Booli Search Technologies AB.

Executive Management	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Women	3	3	3	3
Men	6	7	6	7
<b>Total number of employees in Executive Management</b>	<b>9</b>	<b>10</b>	<b>9</b>	<b>10</b>

Form of employment	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Total number of employees at year end</b>	<b>510</b>	<b>471</b>	<b>485</b>	<b>471</b>
<i>of whom, women, %</i>	51.8	53.5	52.6	53.5
<i>of whom, managers, %</i>	13.5	11.5	13.2	11.5
<i>of managers, women, %</i>	5.7	5.4	6.0	5.4
<i>of whom, temporary employees, %</i>	2.0	1.3	1.6	1.3
<i>of whom, part-time employees, %</i>	2.5	1.7	2.5	1.7

Personnel turnover	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Number of permanent employees who terminated employment during the year</b>	<b>65</b>	<b>58</b>	<b>62</b>	<b>58</b>
<i>of whom, women, %</i>	41.5	53.4	41.9	53.4
<i>of whom, 29 or younger, %</i>	26.2	19.0	24.2	19.0
<i>of whom, 30-49, %</i>	46.2	69.0	46.8	69.0
<i>of whom, 50 or older, %</i>	27.7	12.1	29.0	12.1

### Salary, remuneration and pension costs for the CEO

No company car or non-cash benefits were provided to the CEO. The company pays for a defined-contribution pension insurance plan corresponding to 30% of the CEO's pensionable salary, although not longer than until age 65.

### Salaries and other remuneration

Fringe benefits (subsidised interest rate, company car and sickness benefit) to senior executives who report directly to the CEO amounted to SEK 0.1 million (0.1). Salary and other remuneration were paid in the following amounts:

## SALARIES AND OTHER REMUNERATION AND PENSIONS TO THE CEO AND OTHER SENIOR EXECUTIVES WHO REPORT DIRECTLY TO THE CEO

2016				
Title, SEK million	Period	Salary and other remuneration	Severance pay	Pension cost
Klas Danielsson, CEO	1 January–31 December 2016	4.7		1.4
Christine Ehnström, Chief Legal Counsel	1 January–31 May 2016	0.6		0.2
Christine Ehnström, COO	2 May–31 December 2016	1.6		0.3
Mikael Inglander, CFO	1 January–31 December 2016	2.6		0.8
Peter Svensén, CRO	1 January–31 December 2016	1.9		0.3
Elizabet Jönsson, Chief Retail Officer	1 January–31 December 2016	1.7		0.5
Tim Pettersson, Head of Corporate Clients & Tenant-Owners' Associations	1 January–31 December 2016	1.6		0.4
Daniel Ljungel, Head of Partnerships & Business Development	1 January–31 December 2016	1.5		0.3
Carina Eriksson, Head of HR	1 January–31 December 2016	1.7		0.5
Klas Ljungkvist, CIO	1 January–31 December 2016	2.0		0.4
Bror-Göran Pettersson, COO	1 January–1 May 2016	0.4		0.1
Marie Ljungholm, Chief Compliance Officer	1 January–31 December 2016	1.3		0.3
Michael Sparreskog, Head of Internal Audit	1 January–31 December 2016	1.3		0.3
		<b>22.9</b>		<b>5.8</b>

SBAB completed a reorganisation on 2 May. The new organisation has two business areas: Corporate Clients & Tenant-Owners' Associations and Retail. The Retail business area includes the Retail Market, Booli and the new Partnerships & Business Development unit. The former Partner Market unit was included in the Retail Market

unit after the reorganisation. All responsibility for risk and credit granting to retail customers is included under the Retail Market. Operations became one unit with much greater and broader responsibility and, accordingly, a new manager, Chief Operating Officer Christine Ehnström.

2015				
Title, SEK million	Period	Salary and other remuneration	Severance pay	Pension cost
Klas Danielsson, CEO	1 January–31 December 2015	4.6		1.4
Christine Ehnström, Chief Legal Counsel	1 January–31 December 2015	1.9		0.5
Mikael Inglander, CFO	1 January–31 December 2015	2.5		0.7
Peter Svensén, CRO	1 January–31 December 2015	1.6		0.4
Elizabet Jönsson, Head of Retail Market	8 June–31 December 2015	0.8		0.1
Håkan Höijer, Head of Retail Market	1 January–7 June 2015	0.6		0.2
Elizabet Jönsson, Head of Communication & Business Development Officer	1 March–7 June 2015	0.4		0.3
Bror-Göran Pettersson, COO	1 January–31 December 2015	1.2		0.4
Daniel Ljungel, Head of Partner Market	1 March–31 December 2015	1.0		0.2
Carina Eriksson, Head of HR	15 June–31 December 2015	0.9		0.3
Catharina Kandel, Head of HR	1 January–29 May 2015	0.2	1.1	0.1
Per O Dahlstedt, Head of Corporate Clients & Tenant-Owners' Associations	1 January–30 September 2015	1.7		0.3
Tim Pettersson, Head of Corporate Clients & Tenant-Owners' Associations	1 October–31 December 2015	0.4		0.1
Marie Ljungholm, Chief Compliance Officer	1 January–31 December 2015	1.3		0.3
Michael Sparreskog, Head of Internal Audit	1 January–31 December 2015	1.2		0.3
		<b>20.3</b>	<b>1.1</b>	<b>5.6</b>

After preparation by SBAB's Remuneration Committee and based on the risk analysis for SBAB's remuneration system, the Board decided on an updated remuneration policy and the identification of specially regulated personnel, in accordance with Finansinspektionen's regulations regarding remuneration structures in credit institutions, investment firms and fund management companies licensed to conduct discretionary portfolio management (FFFS 2011:1). Risk analyses for SBAB's remuneration system and remuneration policy are published on sbab.se. The composition and mandates of the Remuneration Committee are described on page 64.

Salaries and other remuneration to specially regulated personnel, 14 employees (14), excluding senior executives who report directly to the CEO, amounted to SEK 10.4 million (9.4).

#### Remuneration to the Board

The remuneration paid to Board Members is resolved by the Annual General Meeting. Fees paid to Board Members in the Parent Company amounted to SEK 2.0 million (1.8) for Board work and SEK 0.3 million (0.3) for work on committees.

Board Members who served on a committee received SEK 3,500 per committee meeting attended. The fees paid to the Chairman of the Board amounted to SEK 0.6 million (0.4).

Two of the six Board Members elected by the Annual General Meeting received fees amounting to SEK 0.6 million (0.3) each, and the remaining Board Members elected by the General meeting received fees of SEK 0.2 million (0.2). No fees were paid to Board Members employed by the Parent Company or the Government Offices or to the employee representatives who are members of the Board.

Cont. **NOTE 7** Personnel costs**Pensions**

Employees recruited to SBAB from 1 February 2013 are covered by the new collective pension plan BTP1, which is a defined-contribution plan. The plan encompasses disability and survivor pensions, as well as provisions for retirement pensions. In BTP1, employees have a high degree of self-determination in how premiums are invested.

Employees recruited to SBAB before 1 February 2013 are covered by the BTP2 collective pension plan, which is a defined-benefit plan. BTP2 entails that the employee is guaranteed a lifelong pension corresponding to a specified percentage of the employee's final salary and mainly comprises retirement pension, disability pension, survivors' pension, supplementary pension (BTPK) and, where applicable, family pension. The levels of remuneration vary for salaries within different income base amounts. Or salaries over 30 income base amounts, no pension is payable under BTP2. Employees who earn more than ten income base amounts are provided the possibility of selecting an alternative investment for part of the premium.

BTP2 is a collective defined-benefit employer plan secured through insurance with the insurance company SPP and comprise several employers. SPP is responsible for investing the pension capital of the BTP2 plan. The aim of the investment strategy is to obtain a high and consistent return while ensuring the investors' guaranteed increase in value.

SBAB's costs for its defined-benefit pensions amounted to SEK 22.0 million (33.8), excluding payroll tax. SBAB's costs for its defined-contribution pensions amounted to SEK 16.7 million (9.9), excluding payroll tax. In 2016, pension contributions for defined-benefit plans are expected to total SEK 21.0 million. Further information is provided in Note 28 Provisions.

**Guidelines adopted by the AGM for remuneration and other employment terms and conditions for senior executives**

The AGM's principles for remuneration and other employment terms and conditions for senior executives, which were adopted by the 2016 AGM, state that remuneration and terms and conditions are to be reasonable and well-considered. With regard to remuneration and other terms and conditions of employment, SBAB will continue to apply the "Guidelines for Terms of Employment for Senior Executives in State-owned Companies" as adopted by the Swedish government on 20 April 2009.

This remuneration should be competitive, with a set ceiling and appropriate for its purpose, as well as contributing to high ethical standards and a good corporate culture. Remuneration should not correspond to a leading salary level in relation to comparable companies but be characterised by moderation. This is also to provide guidance for the total amount of remuneration to other employees. Variable salary is not paid to senior executives. These guidelines were not amended in 2016.

**Other terms and conditions for the CEO and senior executives**

As regards pension conditions, notice periods and severance pay for senior executives, SBAB observes the principles stated in the government's Guidelines for Terms of Employment for Senior Executives in State-owned Companies (April 2009).

The company pays for a defined-contribution pension insurance corresponding to 30% of the CEO's pensionable salary, although not longer than until age 65.

During the year, an agreement was reached with the other managers who report directly to the CEO regarding a defined-contribution pension premium corresponding to 30% of pensionable salary.

There are no other pension agreements that deviate from the general rules of collective agreements in the banking area.

**Agreements on severance pay**

The CEO and SBAB are subject to a mutual notice period of six months. With respect to severance pay, the agreement stipulates that if the company gives notice terminating the agreement and thereby the CEO's employment, the company must – in addition to salary and pension during the notice period – pay severance pay corresponding to 18 monthly salaries, all subject to deduction of any new salary. Should the employment be terminated by the company, remuneration of up to two years' salary is paid, including the period of notice. Deductions will be made from the remuneration should new employment or income from another activity be received during the two-year period.

Five members of Executive Management have concluded severance pay agreements in case of termination by the company. In addition to salary and pension during the notice period, the company will pay severance pay corresponding to 12 months' salary. Three members of Executive Management have concluded agreements on severance pay in case of termination by the company. In addition to salary and pension during the notice period, the company will pay severance pay corresponding to six months' salary. Deductions will be made from the remuneration should new employment or income from another activity be received during the six and 12 month periods, respectively.

In 2016, SEK 2.2 million was also carried as an expense, of which SEK 0.9 million was paid to a former senior executive who reported directly to the CEO.

**Loans to senior executives**

Loans to senior executives are presented in Note 36 Related party disclosures.

**Incentive programme**

SBAB has no incentive programme.

**NOTE 8** Other expenses

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
IT expenses	-214	-180	-220	-192
Rent <sup>1)</sup>	-26	-26	-26	-26
Other costs for premises	-11	-26	-9	-26
Other administrative expenses	-119	-115	-115	-113
Marketing	-63	-40	-62	-40
Other operating expenses	-17	-15	-17	-12
<b>Total</b>	<b>-450</b>	<b>-402</b>	<b>-449</b>	<b>-409</b>

Development expenditure amounted to SEK 97 million (84), of which SEK 9 million (14) pertained to internally produced intangible Group assets. Most of the development work is pursued in project form and includes the budgets of entire projects, including such expenses as planning, analysis, specification of requirements, programming, implementation and quality testing, etc.

Restructuring costs amounted to SEK - million (19).

Fees and expenses to auditors	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Audit assignment</b>	<b>-2.8</b>	<b>-2.1</b>	<b>-2.1</b>	<b>-1.7</b>
<i>of which, Deloitte</i>	-2.2	-	-1.5	-
<i>of which, KPMG</i>	-0.6	2.1	-0.6	1.7
<b>Audit tasks in addition to audit assignment</b>	<b>-1.8</b>	<b>-1.6</b>	<b>-1.5</b>	<b>-1.1</b>
<i>of which, Deloitte</i>	-1.6	-	-1.3	-
<i>of which, KPMG</i>	-0.2	1.6	-0.2	1.1
<b>Other services</b>	<b>-0.0</b>	<b>-0.4</b>	<b>-0.0</b>	<b>-0.4</b>
<i>of which, Deloitte</i>	-0.0	-	-0.0	-
<i>of which, KPMG</i>	-	0.4	-	0.4
<b>Total</b>	<b>-4.6</b>	<b>-4.1</b>	<b>-3.6</b>	<b>-3.2</b>

The AGM on 28 April 2016 appointed Deloitte as SBAB's auditors. The audit assignment includes examination of the annual report, the accounting records and the administration by the Board and CEO. The audit assignment also includes consultancy and other assistance resulting from such examination.

Audit tasks in addition to the audit assignment pertain to the examination of interim reports/year-end report and such other duties that may only be performed by the signing-off auditor, such as the preparation of various types of certificates.

Other services pertain to consultancy services required at the initiative of SBAB.

Future rents <sup>1)</sup> , SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Agreed future rents due for payment</b>				
Within one year	-24	-23	-24	-23
Between one and five years	-95	-102	-95	-102
After five years	-32	-47	-32	-47
<b>Total</b>	<b>-151</b>	<b>-172</b>	<b>-151</b>	<b>-172</b>

<sup>1)</sup> Rents = operating leases.

All of SBAB's leases are in accordance with the Swedish Property Federation's standard agreement 12B.2 prepared in 2008 in consultation with the Swedish Association of Public Housing Companies, the Swedish Trade Federation and Visita. Revised in 2012 and 2014. This agreement regulates lease costs through an index clause covering rent and property taxes. The total sum of future rents pertains to fixed-term contracts.

## NOTE 9 Depreciation, amortisation and impairment of PPE and intangible assets

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Property, plant and equipment</b>				
Depreciation, computer hardware	-5	-6	-5	-6
Depreciation, other equipment	-4	-6	-4	-6
Disposals/divestments	0	-3	0	-3
<b>Intangible assets</b>				
Amortisation, acquired software	-7	-7	-6	-7
Amortisation, internally developed part of software	-11	-9	-	-
Amortisation of trademarks	0	-	-	-
<b>Total</b>	<b>-27</b>	<b>-31</b>	<b>-15</b>	<b>-22</b>

## NOTE 10 Net loan losses

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>CORPORATE MARKET</b>				
<b>Individual provision for corporate market loans</b>				
Write-off of confirmed loan losses for the year	-	-1	-	-1
Reversals of previous provisions for probable loan losses recognised as confirmed loan losses in the end of year accounts	-	-	-	-
Provision for probable loan losses for the year	-0	-22	-	-22
Recoveries of confirmed loan losses in prior years	0	0	0	0
Reversal of prior provisions no longer necessary for probable loan losses	4	0	4	0
Guarantees	-	-	-	-
<b>Net cost for the year for individual provisions for corporate market loans</b>	<b>4</b>	<b>-23</b>	<b>4</b>	<b>-23</b>
<b>Collective provision for corporate market loans</b>				
Allocations to/unwinding of collective provisions	9	7	-0	3
Guarantees	-3	-2	-3	-1
<b>Net cost for the year for collective provisions for corporate market loans</b>	<b>6</b>	<b>5</b>	<b>-3</b>	<b>2</b>
<b>RETAIL MARKET</b>				
<b>Individual provision for retail market loans</b>				
Write-off of confirmed loan losses for the year	-2	-3	-2	-3
Reversals of previous provisions for probable loan losses recognised as confirmed loan losses in the end of year accounts	2	-	2	-
Provision for probable loan losses for the year	-0	-24	-0	-24
Reversal of prior provisions no longer necessary for probable loan losses	16	1	16	1
Guarantees	-0	-	-0	-
<b>Net cost for the year for individual provisions for retail market loans</b>	<b>16</b>	<b>-26</b>	<b>16</b>	<b>-26</b>
<b>Collective provision for retail market loans</b>				
Write-off of confirmed loan losses for the year	-11	-12	-10	-12
Recoveries of confirmed loan losses in prior years	2	2	2	2
Allocations to/unwinding of collective provisions	-13	26	4	10
Guarantees	-22	-12	-22	-4
<b>Net cost for the year for collective provisions for retail market loans</b>	<b>-44</b>	<b>4</b>	<b>-26</b>	<b>-4</b>
<b>Net cost for the year for loan losses</b>	<b>-18</b>	<b>-40</b>	<b>-9</b>	<b>-51</b>

Both write-offs of confirmed loan losses and reversals of write-offs for the year in accordance with the specification above pertain to receivables from the public. The net change in loans with individual provisions was primarily affected by the provisions for a tenant-owners' association with its inherent consumer commitment having been reversed from loans with individual provisions and by several separate commitments with individual provisions having been settled by customers with no losses for SBAB. The net change in the collective provision was impacted by a change in the underlying approach for collective provisions, where two of the parameters included were adjusted in the third and fourth quarters. The guarantees pertain to received or expected receivables from the National Board of Housing, Building and Planning, insurance companies and banks. For additional analyses and information on loan losses, refer to Note 2a Risk management – Credit risk in lending operations.

## NOTE 11 Tax

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Current tax	-352	-232	19	-
Deferred tax on changes in temporary differences	-89	-98	-97	31
<b>Total</b>	<b>-441</b>	<b>-330</b>	<b>-78</b>	<b>31</b>
<i>The effective tax rate differs from the nominal tax rate in Sweden as below</i>				
Profit/loss before tax	2,011	1,492	355	-148
Nominal tax rate in Sweden 22%	-442	-328	-78	33
Tax for prior years and other	1	-2	0	-2
<b>Total tax</b>	<b>-441</b>	<b>-330</b>	<b>-78</b>	<b>31</b>
Effective tax rate, %	21.9	22.1	22.0	21.0

## NOTE 12 Sovereign bonds eligible as collateral, etc.

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Current assets</b>				
Swedish state	17,746	11,141	17,746	11,141
Foreign states	2,746	3,171	2,746	3,171
<b>Total sovereign bonds eligible as collateral, etc.</b>	<b>20,492</b>	<b>14,312</b>	<b>20,492</b>	<b>14,312</b>

## NOTE 13 Lending to credit institutions

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Lending in SEK	852	1,726	55,863	15,427
Lending in foreign currency	767	1,730	767	1,735
<b>Total</b>	<b>1,619</b>	<b>3,456</b>	<b>56,630</b>	<b>17,162</b>
<i>of which, repos</i>	<i>118</i>	<i>1,219</i>	<i>-</i>	<i>-</i>

Of the Parent Company's lending to credit institutions, SEK 55,123 million (14,920) relates to a receivable from the wholly owned subsidiary, the Swedish Covered Bond Corporation (SCBC). These receivables are subordinated, which means that payment is received only after other creditors of the subsidiary have been paid.

Interest-bearing securities that SBAB purchases with an obligation to sell at a pre-determined price are not recognised in the balance sheet, while the purchase price paid is recognised in the balance sheet under Lending to credit institutions. The securities are regarded as collateral received and can be pledged or sold by SBAB. In the event that the counterparty is unable to meet its repurchase obligation, SBAB is entitled to keep the security. The fair value of collateral received in the Group was SEK 118 million (1,219), of which - (-) was pledged or sold, and in the Parent Company, it was - (-), of which - (-) was pledged or sold.

## NOTE 14 Lending to the public

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Opening balance	296,981	261,445	81,207	43,866
Lending for the year	59,648	80,470	59,648	80,470
Transferred to/from Group companies	–	–	–48,695	–17,017
Amortisation, write-offs, redemption, etc.	–60,625	–44,923	–40,631	–26,047
Change in provision for probable loan losses	18	–11	48	–65
<b>Closing balance</b>	<b>296,022</b>	<b>296,981</b>	<b>51,577</b>	<b>81,207</b>

### GROUP

Distribution of lending by property type, including provisions, SEK million	2016			2015		
	AB Sveriges S�akerst�allda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC)	SBAB Bank AB (publ)	Total	AB Sveriges S�akerst�allda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC)	SBAB Bank AB (publ)	Total
Single-family dwellings and holiday homes	92,858	14,414	107,272	86,943	28,790	115,733
Tenant-owners' rights	87,864	14,732	102,596	71,638	24,560	96,198
Tenant-owners' associations	40,316	10,306	50,622	38,431	13,926	52,357
Private multi-family dwellings	23,110	5,413	28,523	18,413	7,449	25,862
Municipal multi-family dwellings	213	27	240	349	121	470
Commercial properties	84	4,695	4,779	–	4,313	4,313
Other	–	1,990	1,990	–	2,048	2,048
<b>Total</b>	<b>244,445</b>	<b>51,577</b>	<b>296,022</b>	<b>215,774</b>	<b>81,207</b>	<b>296,981</b>
Percentage of lending with a governmental or municipal guarantee, %	1	1	1	1	1	1
Average fixed-interest period, years	0.8	0.4	0.7	1.0	0.3	0.8

In the event of early redemption during the fixed-interest period, SBAB has the right to receive interest compensation. In the case of retail loans, the amount of compensation is based on the interest rate for the loan compared to the interest rate for mortgage bonds with a maturity that corresponds to the remaining fixed-interest period for the loan, plus one percentage point. For other loans, the reinvestment interest rate for comparable government securities is, in most cases, the comparable interest rate. In other cases, the comparable interest rate is specified in the current terms of the loan. In addition to mortgage deeds in pledged property, SBAB 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.

A total of SEK 41,431 million (82,309) of SBAB's lending portfolio, of which SEK 5,833 million (23,294) in the Parent Company, was mediated by business partners. Loan commitments and other credit-related commitments are shown in Note 32.

Doubtful loan receivables and provisions, SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
a) Doubtful loan receivables	134	170	134	170
b) Individual provisions for loan receivables	59	81	59	57
c) Collective provision for corporate market loans	1	11	0	5
d) Collective provision for retail market loans	175	161	78	99
e) Total provisions (b+c+d)	235	253	137	161
f) Doubtful loan receivables after individual provisions (a-b)	75	89	75	113
g) Provision ratio for individual provisions (b/a), %	44	48	44	34

For further information on doubtful and non-performing loan receivables, refer to Note 2a Risk management – Credit risk in lending operations.

Cont. **NOTE 14** Lending to the public**GROUP**

Distribution of doubtful loan receivables and provisions by type of property, SEK	2016						2015					
	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' association	Private multi-family dwellings	Other	Total	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' association	Private multi-family dwellings	Other	Total
Doubtful loan receivables, gross	15	64	23	28	4	134	19	90	27	29	5	170
Individual provisions for loan receivables	-4	-12	-21	-18	-4	-59	-6	-27	-25	-18	-5	-81
Collective provision for corporate market loans			-0	-1	-	-1			-9	-2		-11
Collective provision for retail market loans	-69	-93			-12	-175	-93	-58			-10	-161
<b>Doubtful loan receivables after individual provisions</b>						<b>75</b>						<b>89</b>

Change in provision for probable loan losses, SEK million	2016			2015			
	Individual provision for individually measured receivables	Individual provision for collectively measured receivables	Collective provision	Individual provision for individually measured receivables	Individual provision for collectively measured receivables	Collective provision	
Provision at the beginning of the year		-43	-38	-172	-21	-15	-206
Individual provision for the year		-	-		-22	-24	
Reversed from previous provisions		4	16		-	-	
Individual provision utilised for confirmed loan losses		-	2		-	1	
Allocations to/unwinding of collective provisions				-4			34
<b>Provision at the end of the year</b>		<b>-39</b>	<b>-20</b>	<b>-176</b>	<b>-43</b>	<b>-38</b>	<b>-172</b>

**NOTE 15** Bonds and other interest-bearing securities

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<i>Distribution of holdings by issuer, etc.</i>				
<b>CURRENT ASSETS</b>				
<b>Listed securities</b>				
<i>Issued by public bodies</i>				
Intergovernmental issuers	1,753	1,962	1,753	1,962
Other public issuers	7,157	6,903	7,157	6,903
<i>Issued by other borrowers</i>				
Swedish mortgage institutions	31,598	31,109	31,598	31,109
Other foreign issuers	5,657	6,895	5,657	6,895
Other foreign issuers (with government guarantee)	2,686	2,845	2,686	2,845
<b>Total listed securities</b>	<b>48,851</b>	<b>49,714</b>	<b>48,851</b>	<b>49,714</b>
<b>Total</b>	<b>48,851</b>	<b>49,714</b>	<b>48,851</b>	<b>49,714</b>

## NOTE 16 Derivatives

SEK million	GROUP						PARENT COMPANY					
	2016			2015			2016			2015		
	Fair value of assets	Fair value of liabilities	Nominal amount	Fair value of assets	Fair value of liabilities	Nominal amount	Fair value of assets	Fair value of liabilities	Nominal amount	Fair value of assets	Fair value of liabilities	Nominal amount
<b>Derivatives in fair-value hedging</b>												
Interest-rate-related												
– interest-rate swaps	3,171	1,014	169,217	4,051	929	170,181	887	422	53,291	1,081	171	51,522
Currency-related	827	273	22,981	2,595	2,070	44,046	372	38	8,551	1,142	873	14,184
<b>Total</b>	<b>3,998</b>	<b>1,287</b>	<b>192,198</b>	<b>6,646</b>	<b>2,999</b>	<b>214,227</b>	<b>1,259</b>	<b>460</b>	<b>61,842</b>	<b>2,223</b>	<b>1,044</b>	<b>65,706</b>
<b>Derivatives in cash-flow hedges</b>												
Interest-rate-related												
– interest-rate swaps	610	17	36,637	160	20	21,323	–	17	4,789	–	–	–
Currency-related	1,305	1	43,865	35	393	27,901	369	1	12,296	–	65	5,613
<b>Total</b>	<b>1,915</b>	<b>18</b>	<b>80,502</b>	<b>195</b>	<b>413</b>	<b>49,224</b>	<b>369</b>	<b>18</b>	<b>17,085</b>	<b>–</b>	<b>65</b>	<b>5,613</b>
<b>Other derivatives</b>												
Interest-rate-related												
– interest-rate swaps	162	669	16,566	271	1,252	40,358	3,139	3,727	287,372	2,820	3,869	262,728
Currency-related	117	501	15,667	80	530	18,237	1,454	1,870	83,061	1,387	1,800	79,698
<b>Total</b>	<b>279</b>	<b>1,170</b>	<b>32,233</b>	<b>351</b>	<b>1,782</b>	<b>58,595</b>	<b>4,593</b>	<b>5,597</b>	<b>370,433</b>	<b>4,207</b>	<b>5,669</b>	<b>342,426</b>

Currency interest-rate swaps are classified as currency-related.

Derivatives allocated by remaining maturity, carrying amounts, SEK million	GROUP				PARENT COMPANY			
	2016		2015		2016		2015	
	Fair value	Nominal amount	Fair value	Nominal amount	Fair value	Nominal amount	Fair value	Nominal amount
Maximum 3 months	460	40,864	58	30,345	–6	28,269	103	40,074
3–12 months	–144	22,023	170	64,498	–64	32,794	–745	59,492
1–5 years	3,020	214,434	1,715	182,516	336	336,891	453	230,654
Longer than five years	381	27,611	55	44,687	–120	51,406	–159	83,525
<b>Total</b>	<b>3,717</b>	<b>304,932</b>	<b>1,998</b>	<b>322,046</b>	<b>146</b>	<b>449,360</b>	<b>–348</b>	<b>413,745</b>

## NOTE 17 Shares and participations in Group companies

### PARENT COMPANY

SEK million	Corporate Registration Number	2016				
		Cost	Group contributions paid	Number of shares	Share of equity, %	Carrying amount
<b>Swedish credit institutions</b>						
AB Sveriges Säkerställda Obligationer (publ), Solna	556645-9755	10,300	–	500,000	100	10,300
<b>Other companies</b>						
Booli SearchTechnologies AB, Stockholm	556733-0567	86	–	222,796	69	86

SEK million	Corporate Registration Number	2015				
		Cost	Group contributions paid	Number of shares	Share of equity, %	Carrying amount
<b>Swedish credit institutions</b>						
AB Sveriges Säkerställda Obligationer (publ), Solna	556645-9755	10,300	–	500,000	100	10,300

On 14 January 2016, SBAB acquired 70.92% of the shares in Booli Search Technologies AB. In Q4 2016, the existing option program in Booli was exercised, upon which SBAB's shareholding fell from 70.92% to 69.34%.

## NOTE 18 Intangible assets

SEK million	GROUP							
	2016				2015			
	Goodwill	Trademarks	Software	Total	Goodwill	Trademarks	Software	Total
Opening balance, cost	-	-	423	423	-	-	403	403
Acquisition of subsidiaries	75	3	3	81	-	-	-	-
Acquisitions during the year	-	-	33	33	-	-	20	20
Divestments and disposals during the year	-	-	-335	-335	-	-	-	-
<b>Closing balance, cost</b>	<b>75</b>	<b>3</b>	<b>124</b>	<b>202</b>	<b>-</b>	<b>-</b>	<b>423</b>	<b>423</b>
Opening balance, amortisation	-	-	-204	-204	-	-	-188	-188
Amortisation for the year according to plan	-	-0	-18	-18	-	-	-16	-16
Divestments and disposals during the year	-	-	172	172	-	-	-	-
<b>Closing balance, accumulated amortisation</b>	<b>-</b>	<b>-0</b>	<b>-50</b>	<b>-50</b>	<b>-</b>	<b>-</b>	<b>-204</b>	<b>-204</b>
Opening balance, impairment	-	-	-163	-163	-	-	-163	-163
Divestments and disposals during the year	-	-	163	163	-	-	-	-
<b>Closing balance, accumulated impairment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-163</b>	<b>-163</b>
<b>Net carrying amount</b>	<b>75</b>	<b>3</b>	<b>74</b>	<b>152</b>	<b>-</b>	<b>-</b>	<b>56</b>	<b>56</b>

SEK million	PARENT COMPANY							
	2016				2015			
	Goodwill	Trademarks	Software	Total	Goodwill	Trademarks	Software	Total
Opening balance, cost	-	-	81	81	-	-	74	74
Acquisitions during the year	-	-	24	24	-	-	7	7
Divestments and disposals during the year	-	-	-51	-51	-	-	-	-
<b>Closing balance, cost</b>	<b>-</b>	<b>-</b>	<b>54</b>	<b>54</b>	<b>-</b>	<b>-</b>	<b>81</b>	<b>81</b>
Opening balance, amortisation	-	-	-68	-68	-	-	-61	-61
Amortisation for the year according to plan	-	-	-6	-6	-	-	-7	-7
Divestments and disposals during the year	-	-	51	51	-	-	-	-
<b>Closing balance, accumulated amortisation</b>	<b>-</b>	<b>-</b>	<b>-23</b>	<b>-23</b>	<b>-</b>	<b>-</b>	<b>-68</b>	<b>-68</b>
<b>Net carrying amount</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>31</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>13</b>

Refer to Note 39 Business combinations for information about goodwill, trademarks and software from the acquisition of the subsidiary Booli Search Technologies AB. Other software pertains to internally produced intangible assets, which are reported in the consolidated financial statements. Intangible assets are subject to impairment testing on an annual basis. When impairment testing, the value in use is calculated by discounting estimated future cash flows with a discounting factor that takes into account risk-free interest and the risks associated with the specific asset.

The year's impairment testing of goodwill is based on the company's assessment of future revenue and expense trends over the next nine years and on the assumption of a long-term growth rate of 1.5%. The discount rate for the year's impairment testing was 12% after tax, corresponding to a rate of 14% before tax. In the year's impairment testing, there was a comfortable margin between the value in use and the carrying amount for goodwill. The most significant variables for the calculation comprised the assumption of future revenue and expenses as well as the discount rate. No reasonable change in these assumptions would impact the carrying amount for goodwill.

## NOT 19 Property, plant and equipment

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Opening balance, cost	183	187	183	187
Acquisitions during the year	5	9	5	9
Divestments during the year	-1	-1	-1	-1
Disposals during the year	-143	-12	-143	-12
<b>Closing balance, cost</b>	<b>44</b>	<b>183</b>	<b>44</b>	<b>183</b>
Opening balance, depreciation	-163	-160	-163	-160
Depreciation for the year according to plan	-9	-12	-9	-12
Divestments during the year	1	0	1	0
Disposals during the year	143	9	143	9
<b>Accumulated depreciation according to plan</b>	<b>-28</b>	<b>-163</b>	<b>-28</b>	<b>-163</b>
<b>Net carrying amount</b>	<b>16</b>	<b>20</b>	<b>16</b>	<b>20</b>

## NOTE 20 Other assets

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Tax assets	497	796	143	120
Other	53	450	36	434
<b>Total</b>	<b>550</b>	<b>1,246</b>	<b>179</b>	<b>554</b>
<i>Other assets distributed by remaining maturity, carrying amount</i>				
Maximum 1 year	550	1,246	179	554
<b>Total</b>	<b>550</b>	<b>1,246</b>	<b>179</b>	<b>554</b>

## NOTE 21 Prepaid expenses and accrued income

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Prepaid expenses	49	41	47	39
Accrued interest income	786	930	700	831
Accrued guarantees	14	39	6	26
Other accrued income	17	16	8	8
<b>Total</b>	<b>866</b>	<b>1,026</b>	<b>761</b>	<b>904</b>
<i>Prepaid expenses and accrued income distributed by remaining maturity, carrying amount</i>				
Maximum 1 year	862	1,000	752	887
More than 1 year	4	26	9	17
<b>Total</b>	<b>866</b>	<b>1,026</b>	<b>761</b>	<b>904</b>

## NOTE 22 Liabilities to credit institutions

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Liabilities in SEK	498	1,565	-	275
Liabilities in foreign currencies	4,191	3,545	4,191	2,698
<b>Total</b>	<b>4,689</b>	<b>5,111</b>	<b>4,191</b>	<b>2,973</b>
<i>of which, repos</i>	498	1,233	-	-

## NOTE 23 Deposits from the public

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Consumers	65,501	56,061	65,501	56,061
Tenant-owners' associations	7,548	3,677	7,548	3,677
Corporates	23,720	16,901	23,720	16,901
<b>Total</b>	<b>96,769</b>	<b>76,639</b>	<b>96,769</b>	<b>76,639</b>

## NOTE 24 Debt securities issued, etc.

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Commercial paper</b>				
Commercial paper in SEK				
– at amortised cost	301	320	301	320
Commercial paper in foreign currency				
– at amortised cost	8,526	6,897	8,526	6,897
<b>Total</b>	<b>8,827</b>	<b>7,217</b>	<b>8,827</b>	<b>7,217</b>
<b>Bond loans</b>				
Bond loans in SEK				
– at amortised cost	81,752	99,423	22,664	29,966
– in fair value hedging	76,579	73,601	6,011	5,270
Bonds loans in foreign currency				
– at amortised cost	50,416	35,793	17,504	12,584
– in fair value hedging	29,833	48,171	16,468	21,888
<b>Total</b>	<b>238,580</b>	<b>256,988</b>	<b>62,647</b>	<b>69,708</b>
<b>Total debt securities issued, etc.</b>	<b>247,407</b>	<b>264,205</b>	<b>71,474</b>	<b>76,925</b>
<i>of which, covered bonds</i>	175,933	187,280	-	-

The bond loan conditions in SBAB's long-term funding programme include a possibility for the bondholder to demand premature redemption of the holder's bonds issued in such loan programmes if the Swedish state ceases to own the majority of the shares in SBAB and the Swedish state, before such change in ownership, has not taken steps to guarantee SBAB's commitments ensuing from the bond loan or the bondholders have accepted this in such a way as is described in the current terms and conditions. However, subordinated debentures and additional Tier 1 capital issued under the long-term funding programme do not include the aforesaid conditions. Total funding under these programmes with the right to demand redemption amounted to SEK 61.9 billion (68.9) at 31 December 2016.

## NOTE 25 Other liabilities

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Trade payables	40	3	40	3
Employee withholding taxes	9	8	9	8
Liabilities to employees	202	298	189	288
Other	96	474	96	474
<b>Total</b>	<b>347</b>	<b>783</b>	<b>334</b>	<b>773</b>
<i>Other liabilities distributed by remaining maturity, carrying amount</i>				
Maximum 1 year	347	783	334	773
<b>Total</b>	<b>347</b>	<b>783</b>	<b>334</b>	<b>773</b>

## NOTE 26 Accrued expenses and deferred income

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Accrued interest expense	1,842	2,477	274	375
Other accrued expenses	133	290	99	194
<b>Total</b>	<b>1,975</b>	<b>2,767</b>	<b>373</b>	<b>569</b>
<i>Accrued expenses and deferred income distributed by remaining maturity, carrying amount</i>				
Maximum 1 year	1,975	2,767	373	569
<b>Total</b>	<b>1,975</b>	<b>2,767</b>	<b>373</b>	<b>569</b>

## NOTE 27 Deferred tax

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<i>Deferred tax assets (+)/tax liabilities (-) for temporary differences in:</i>				
Stock of financial instruments	-65	-25	-50	6
Issued debt securities	-	673	-	190
Derivatives	-148	-729	7	-184
Intangible assets	-10	-9	-	-
Pension provision	14	3	-	-
Loss carry-forwards	-	38	-	38
Other	2	2	2	2
<b>Total</b>	<b>-207</b>	<b>-47</b>	<b>-41</b>	<b>52</b>
<i>Change in deferred tax</i>				
Deferred tax in the income statement	-89	-98	-97	31
Deferred tax attributable to items recognised directly against other comprehensive income	-71	-53	4	3
<b>Total</b>	<b>-160</b>	<b>-151</b>	<b>-93</b>	<b>34</b>
<i>Deferred tax distributed by expected maturity date, carrying amount</i>				
Maximum 1 year	-	-	-	-
More than 1 year	-207	-47	-41	52
<b>Total</b>	<b>-207</b>	<b>-47</b>	<b>-41</b>	<b>52</b>

## NOTE 28 Provisions

SEK million	GROUP	
	2016	2015
Pension provisions	-52	-12
Provision for special employer's contribution on pensions	-13	-3
<b>Total</b>	<b>-65</b>	<b>-15</b>

### PENSION PROVISIONS

Summary of defined-benefit pension plan, SEK million	GROUP	
	2016	2015
Present value of the obligation, closing balance	-390	326
Fair value of plan assets	-338	-314
<b>Pension provisions (excl. special employer's contributions)</b>	<b>52</b>	<b>12</b>

### RECONCILIATION OF CHANGE IN PRESENT VALUE OF OBLIGATION

SEK million	GROUP	
	2016	2015
<b>Present value of the obligation, opening balance</b>	<b>326</b>	<b>372</b>
Service costs during the current year	7	11
Interest expense	12	11
Gain/loss arising from changed financial assumptions	57	-50
Experience-based gains/losses	-3	-3
Pension disbursements from plan	-9	-6
Gain/loss due to demographic assumptions	-	-9
<b>Present value of the obligation, closing balance</b>	<b>390</b>	<b>326</b>

The weighted average maturity of the defined-benefit obligation is 19.77 years.

### RECONCILIATION OF CHANGE IN PLAN ASSETS

SEK million	GROUP	
	2016	2015
<b>Fair value of plan assets, opening balance</b>	<b>314</b>	<b>301</b>
Interest income	11	9
Return on plan assets, excluding amounts included in interest expense/interest income	8	-4
Premiums paid by employer	14	14
Pension disbursements from plan	-9	-6
<b>Fair value of plan assets, closing balance</b>	<b>338</b>	<b>314</b>

### DISTRIBUTION OF PLAN ASSETS

%	GROUP	
	2016	2015
Swedish shares	2	4
Foreign shares	2	4
Government and government-guaranteed bonds	32	31
Mortgage institutions	24	24
Corporate bonds	32	31
Real estate and infrastructure	8	6
<b>Total</b>	<b>100</b>	<b>100</b>

The defined-benefit pension plan is secured through insurance with SPP Pension och Forsäkring AB. Through investments in shares, interest-bearing instruments and property, the insurance capital will track the performance of the financial markets. The aim of the management is to achieve a high and consistent return while ensuring a guaranteed increase in value.

### FINANCIAL AND DEMOGRAPHIC ASSUMPTIONS

%	GROUP	
	2016	2015
<i>Financial assumptions</i>		
Discount rate	2.90	3.70
Annual salary increase	3.00	3.00
Annual inflation	2.00	2.00
Annual increase in income base amount	3.00	3.00
Annual increase in pension disbursements	2.00	2.00
<i>Demographic assumptions</i>		
Personnel turnover	9.00	9.00
Mortality table	DUS14	DUS14

### SENSITIVITY ANALYSIS OF ASSUMPTIONS

Discount rate, SEK million	GROUP	
	2016	
<i>Assumption, %</i>	3.90	
Present value of the obligation	321	
Service costs during the current period	6	
Interest expense	12	
<i>Assumption, %</i>	1.90	
Present value of the obligation	484	
Service costs during the current period	10	
Interest expense	9	

The sensitivity analysis above is based on a change in one assumption while all other assumptions are kept constant. In the calculation of sensitivity in the defined-benefit obligation, the same method is applied as in the calculation of the reported pension provision.

For further information on pensions, see Note 1 Accounting policies and Note 7 Personnel costs.

## NOTE 29 Subordinated debt and capital instruments

### PARENT COMPANY AND GROUP

Loan designation	Currency	Nominal amount	Nominal amount outstanding	First possible redemption right for SBAB	Interest rate, % 31 December 2016	Maturity date	CARRYING AMOUNT, SEK million	
							2016	2015
<b>SUBORDINATED DEBT</b>								
Subordinated loan SEK 1 <sup>1)</sup>	SEK	700,000,000	–	2016	5.220	Perpetual	–	714
Subordinated loan SEK 2 <sup>1)</sup>	SEK	300,000,000	–	2016	3 M STIBOR + 0.930	Perpetual	–	300
Subordinated loan SEK 3 <sup>2)</sup>	SEK	1,000,000,000	–	2016	6.123	20 May 2021	–	1,011
Subordinated loan SEK 4	SEK	800,000,000	800,000,000	2017	3 M STIBOR + 2.650	16 Nov 2022	800	800
Subordinated loan SEK 5 <sup>3)</sup>	SEK	200,000,000	200,000,000	2017	4.180	16 Nov 2022	200	200
Subordinated loan SEK 6 <sup>4)</sup>	SEK	400,000,000	400,000,000	2020	3.825	Perpetual	397	397
Subordinated loan SEK 7	SEK	1,100,000,000	1,100,000,000	2020	3 M STIBOR + 3.250	Perpetual	1,093	1,091
Subordinated loan SEK 8	SEK	1,000,000,000	1,000,000,000	2020	3 M STIBOR + 1.300	11 June 2025	998	997
Subordinated loan SEK 9 <sup>5)</sup>	SEK	600,000,000	600,000,000	2020	2.250	10 Nov 2025	601	583
Subordinated loan SEK 10	SEK	1,850,000,000	1,850,000,000	2020	3 M STIBOR + 1.900	10 Nov 2025	1,850	1,850
<b>TOTAL</b>							<b>5,939</b>	<b>7,943</b>
<b>ADDITIONAL TIER 1 CAPITAL (equity)</b>								
Subordinated loan SEK 11	SEK	725,000,000	725,000,000	2021	3 M STIBOR + 4.75	Perpetual	725	–
Subordinated loan SEK 12 <sup>6)</sup>	SEK	775,000,000	775,000,000	2021	5.05	Perpetual	775	–
<b>TOTAL</b>							<b>1,500</b>	<b>–</b>

<sup>1)</sup> The loan was repaid in full as soon as redemption was allowed, by 30 June 2016.

<sup>2)</sup> The loan was repaid in full as soon as redemption was allowed, by 20 April 2016.

<sup>3)</sup> Interest rate: For the period 16 November 2012 to 16 November 2017: 4.18% For the subsequent period: Floating interest corresponding to three-month STIBOR plus 2.65%.

<sup>4)</sup> Interest rate: For the period 16 March 2015 to 16 March 2020: 3.8245%. For the subsequent period: Floating interest corresponding to three-month STIBOR plus 3.25%.

<sup>5)</sup> Interest rate: For the period 10 November 2015 to 10 November 2020: 2.25%. For the subsequent period: Floating interest corresponding to three-month STIBOR plus 1.90%.

<sup>6)</sup> Interest rate: For the period 17 May 2015 to 17 June 2021: 5.052%. For the subsequent period: Floating interest corresponding to three-month STIBOR plus 4.75%.

Subordinated loans are subordinate to the Parent Company's other liabilities, which means that they carry entitlement to payment only after other unsubordinated creditors have received payment. The subordinated loans SEK 1, SEK 2, SEK 6, SEK 7, SEK 11 and SEK 12 are subordinate to other subordinated loans, known as additional Tier 1 capital. Under the applicable transitional rules, SEK 1 and SEK 2 comprised Tier 1 capital, but have been redeemed in full. The capital instruments issued in accordance with the more recent regulatory framework and which are included in own funds as additional Tier 1 capital comprised SEK 6 and SEK 7 (recognised as subordinated debt), and SEK 11 and SEK 12 (recognised as equity).

Subordinated loans (capital instruments) that have not been redeemed are included in own funds when calculating the capital adequacy of the Parent Company and the Group.

For further information on the terms and conditions of SBAB's subordinated loans, see [www.sbab.se](http://www.sbab.se) and Note 2i Risk management – Capital adequacy analysis.

## NOTE 30 Equity

The share capital amounted to SEK 1,958,300,000. At 31 December 2016, the number of shares was 19,583 (19,583), each with a quotient value of SEK 100,000. All shares are owned by the Swedish state. Dividends are proposed by the Board in accordance with the provisions of the Companies Act and are resolved by the Annual General Meeting. The Board proposes a dividend of SEK 628,105,142 for 2016, see Note 40. Further information on equity is provided in the "Statement of Changes in Equity" on page 75.

### STATEMENT OF CHANGES IN EQUITY

Reserves, SEK million	GROUP	
	2016	2015
<b>Available-for-sale financial assets, opening balance</b>	-9	-4
Unrealised change in value over the year	216	-7
Reclassified to profit or loss during the year	-18	0
Tax attributable to the change	-44	2
<b>Available-for-sale financial assets, closing balance</b>	<b>145</b>	<b>-9</b>
<b>Cash-flow hedges, opening balance</b>	<b>236</b>	<b>100</b>
Unrealised change in value over the year	793	-297
Reclassified to profit or loss during the year	-422	472
Tax attributable to the change	-81	-39
<b>Cash-flow hedges, closing balance</b>	<b>526</b>	<b>236</b>
<b>Defined-benefit pension plans, opening balance</b>	<b>37</b>	<b>-19</b>
Revaluation effects of defined-benefit pension plans	-58	72
Tax attributable to the change	12	-16
<b>Defined-benefit pension plans, closing balance</b>	<b>-9</b>	<b>37</b>
<b>Total</b>	<b>662</b>	<b>264</b>
Fair value reserve, SEK million	PARENT COMPANY	
	2016	2015
<b>Available-for-sale financial assets, opening balance</b>	-9	-4
Unrealised change in value over the year	216	-7
Reclassified to profit or loss during the year	-18	-
Tax attributable to the change	-44	2
<b>Available-for-sale financial assets, closing balance</b>	<b>145</b>	<b>-9</b>
<b>Cash-flow hedges, opening balance</b>	<b>-5</b>	<b>-</b>
Unrealised change in value over the year	58	-137
Realised change in value, reclassified to profit or loss	-86	131
Tax attributable to the change	6	1
<b>Cash-flow hedges, closing balance</b>	<b>-27</b>	<b>-5</b>
<b>Total</b>	<b>118</b>	<b>-14</b>

Further information on Reserves and the Fair value reserve is provided in Note 1 Accounting policies, in the sections "Available-for-sale financial assets," "Cash-flow hedges" and "Pensions."

## NOTE 31 Assets pledged for own liabilities

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Loan receivables	240,086	211,420	-	-
Other receivables	113	15	113	15
Securities	1,249	-	1,249	-
<b>Total</b>	<b>241,448</b>	<b>211,435</b>	<b>1,362</b>	<b>15</b>

Of the assets pledged, SEK 240.0 billion (211.4) comprise the cover pool for covered bonds totalling SEK 175.9 billion (187.3).

Loan receivables pledged as collateral mainly consist of the registered cover pool benefiting holders of covered bonds issued by SCBC and SCBC's covered derivative counterparties. In the event that the company becomes insolvent, the holders of the covered bonds and the covered derivatives counterparties have priority rights to the pledged assets under the Covered Bonds Issuance Act and the Rights of Priority Act.

## NOTE 32 Contingent liabilities

SEK million	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
<b>Contingent liabilities concerning future payments</b>				
<b>Other contingent liabilities</b>				
Loan commitments and other credit-related contingent liabilities	36,829	47,949	36,829	47,949
Other contingent liabilities	-	-	17,322	32,823
<b>Total</b>	<b>36,829</b>	<b>47,949</b>	<b>54,151</b>	<b>80,772</b>
<i>Contingent liabilities distributed by remaining maturity</i>				
Within 1 year	32,640	44,583	49,962	77,406
1-5 years	4,189	3,366	4,189	3,366
<b>Total</b>	<b>36,829</b>	<b>47,949</b>	<b>54,151</b>	<b>80,772</b>

Excluding building credits of SEK 4,275 million (3,432), loan commitments and other credit-related contingent liabilities in the Group totalling SEK 32,554 million (44,516) were reduced to SEK 8,659 million (10,667) after taking into account the credit conversion factor, meaning the statistically calculated probability that the exposure will lead to disbursement of the loan.

Excluding building credits of SEK 4,275 million (3,432), the corresponding figures for the Parent Company were SEK 32,554 million (44,516) and SEK 8,659 million (10,667), respectively. The Parent Company's other commitments include an agreement concerning a liquidity facility with the subsidiary, SCBC, through which SCBC may borrow funds from the Parent Company for its operations if the need arises.

## NOTE 33 Classification of financial instruments

### GROUP

#### Financial assets

2016						
SEK million	Assets measured at FVTPL (held for trading)	Available-for-sale financial assets	Loan receivables	Investments held to maturity	Total	Total fair value
Cash and balances at central banks			0		0	0
Sovereign bonds eligible as collateral, etc.	7,135	13,357			20,492	20,492
Lending to credit institutions			1,619		1,619	1,619
Lending to the public			296,022		296,022	297,118
Value changes of interest-rate-risk hedged items in macro hedges			396		396	-
Bonds and other interest-bearing securities	9,101	28,554		11,196	48,851	48,913
Derivatives	6,192				6,192	6,192
Shares and participations						
Other assets			52		52	52
Prepaid expenses and accrued income	157	453	144	67	821	821
<b>Total</b>	<b>22,585</b>	<b>42,364</b>	<b>298,233</b>	<b>11,263</b>	<b>374,445</b>	<b>375,207</b>
2015						
SEK million	Assets measured at FVTPL (held for trading)	Available-for-sale financial assets	Loan receivables	Investments held to maturity	Total	Total fair value
Cash and balances at central banks			0		0	0
Sovereign bonds eligible as collateral, etc.	10,185	4,127			14,312	14,312
Lending to credit institutions			3,456		3,456	3,456
Lending to the public			296,981		296,981	298,353
Value changes of interest-rate-risk hedged items in macro hedges			549		549	-
Bonds and other interest-bearing securities	16,275	24,115		9,324	49,714	49,708
Derivatives	7,192				7,192	7,192
Shares and participations	-				-	-
Other assets			1,246		1,246	1,246
Prepaid expenses and accrued income	255	455	224	92	1,026	1,026
<b>Total</b>	<b>33,907</b>	<b>28,697</b>	<b>302,456</b>	<b>9,416</b>	<b>374,476</b>	<b>375,293</b>

## GROUP

## Financial liabilities

2016				
SEK million	Assets measured at FVTPL (held for trading)	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions		4,689	4,689	4,689
Deposits from the public		96,769	96,769	96,769
Debt securities issued, etc.		247,407	247,407	249,331
Derivatives	2,475		2,475	2,475
Other liabilities		219	219	219
Accrued expenses and deferred income		1,952	1,952	1,952
Subordinated debt		5,939	5,939	5,967
<b>Total</b>	<b>2,475</b>	<b>356,975</b>	<b>359,450</b>	<b>361,402</b>

2015				
SEK million	Assets measured at FVTPL (held for trading)	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions		5,111	5,111	5,111
Deposits from the public		76,639	76,639	76,639
Debt securities issued, etc.		264,205	264,205	265,160
Derivatives	5,194		5,194	5,194
Other liabilities		783	783	783
Accrued expenses and deferred income		2,767	2,767	2,767
Subordinated debt		7,943	7,943	7,974
<b>Total</b>	<b>5,194</b>	<b>357,448</b>	<b>362,642</b>	<b>363,628</b>

Cont. **NOTE 33** Classification of financial instruments**PARENT COMPANY****Financial assets**

2016

SEK million	Assets measured at FVTPL (held for trading)	Available-for-sale financial assets	Loan receivables	Investments held to maturity	Total	Total fair value
Cash and balances at central banks			0	0	0	0
Sovereign bonds eligible as collateral, etc.	7,135	13,357			20,492	20,492
Lending to credit institutions			1,507		1,507	1,507
Lending to the public			51,577		51,577	51,752
Value changes of interest-rate-risk hedged items in macro hedges						
Bonds and other interest-bearing securities	9,101	28,554		11,196	48,851	48,913
Derivatives	6,221				6,221	6,221
Shares and participations						
Other assets			36		36	36
Prepaid expenses and accrued income	157	453	39	67	715	715
<b>Total</b>	<b>22,614</b>	<b>42,364</b>	<b>53,159</b>	<b>11,263</b>	<b>129,399</b>	<b>129,636</b>

2015

SEK million	Assets measured at FVTPL (held for trading)	Available-for-sale financial assets	Loan receivables	Investments held to maturity	Total	Total fair value
Cash and balances at central banks			0		0	0
Sovereign bonds eligible as collateral, etc.	10,185				14,312	14,312
Lending to credit institutions			17,162		17,162	17,162
Lending to the public			81,207		81,207	81,465
Value changes of interest-rate-risk hedged items in macro hedges			5		5	-
Bonds and other interest-bearing securities	16,275			9,324	49,714	49,708
Derivatives	6,430				6,430	6,430
Shares and participations					-	-
Other assets			554		554	554
Prepaid expenses and accrued income	255		103	92	904	904
<b>Total</b>	<b>33,145</b>		<b>99,031</b>	<b>9,416</b>	<b>170,288</b>	<b>170,535</b>

## PARENT COMPANY

## Financial liabilities

2016				
SEK million	Liabilities measured at FVTPL (held for trading)	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions		4,191	4,191	4,191
Deposits from the public		96,769	96,769	96,769
Debt securities issued, etc.		71,474	71,474	71,657
Derivatives	6,075		6,075	6,075
Other liabilities		206	206	206
Accrued expenses and deferred income		349	349	349
Subordinated debt		5,939	5,939	5,967
<b>Total</b>	<b>6,075</b>	<b>178,928</b>	<b>185,003</b>	<b>185,214</b>

2015				
SEK million	Liabilities measured at FVTPL (held for trading)	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions		2,973	2,973	2,973
Deposits from the public		76,639	76,639	76,639
Debt securities issued, etc.		76,925	76,925	77,052
Derivatives	6,778		6,778	6,778
Other liabilities		773	773	773
Accrued expenses and deferred income		569	569	569
Subordinated debt		7,943	7,943	7,974
<b>Total</b>	<b>6,778</b>	<b>165,822</b>	<b>172,600</b>	<b>172,758</b>

**Fair value measurement of financial instruments**

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note 1 Accounting Policies. In the "Total fair value" column above, information is also provided on the fair value of financial instruments that are recognised at amortised cost in the balance sheet. The carrying amounts for current receivables and liabilities have been assessed as equal to their fair values. Investments held to maturity were measured at quoted prices, Level 1. For Lending to the public, issued debt securities and subordinated debt, fair value is established based on generally accepted valuation techniques. As far as possible,

calculations conducted in connection with measurement are based on observable market information. The main tools used are models based on discounted cash flows. Issued debt securities and subordinated debt are measured at the Group's current borrowing rate, Level 2. For "Lending to the public," where no observable credit margin data is available at the time of measurement, the credit margin on the most recent stipulated date of expiry is applied to set the discount rate, Level 3.

## NOTE 34 Fair value disclosures

### GROUP

SEK million	2016				2015			
	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
<b>Assets</b>								
Sovereign bonds eligible as collateral, etc.	20,492	-	-	20,492	14,312	-	-	55,412
Bonds and other interest-bearing securities	37,655	-	-	37,655	40,390	-	-	-
Derivatives	-	6,192	-	6,192	-	7,192	-	351
Prepaid expenses and accrued income	609	-	-	609	710	-	-	710
<b>Total</b>	<b>58,756</b>	<b>6,192</b>	<b>-</b>	<b>64,948</b>	<b>55,412</b>	<b>7,192</b>	<b>-</b>	<b>62,604</b>
<b>Liabilities</b>								
Derivatives	-	2,475	-	2,475	-	5,194	-	5,194
<b>Total</b>	<b>-</b>	<b>2,475</b>	<b>-</b>	<b>2,475</b>	<b>-</b>	<b>5,194</b>	<b>-</b>	<b>5,194</b>

### PARENT COMPANY

SEK million	2016				2015			
	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
<b>Assets</b>								
Sovereign bonds eligible as collateral, etc.	20,492	-	-	20,492	14,312	-	-	14,312
Bonds and other interest-bearing securities	37,655	-	-	37,655	40,390	-	-	40,390
Derivatives	-	6,220	-	6,220	-	6,430	-	6,430
Prepaid expenses and accrued income	609	-	-	609	710	-	-	710
<b>Total</b>	<b>58,756</b>	<b>6,220</b>	<b>-</b>	<b>64,976</b>	<b>55,412</b>	<b>6,430</b>	<b>-</b>	<b>61,842</b>
<b>Liabilities</b>								
Derivatives	-	6,075	-	6,075	-	6,778	-	6,778
<b>Total</b>	<b>-</b>	<b>6,075</b>	<b>-</b>	<b>6,075</b>	<b>-</b>	<b>6,778</b>	<b>-</b>	<b>6,778</b>

#### Parent Company and Group

In the table, financial assets and liabilities recognised at fair value in the balance sheet are divided on the basis of the measurement methods used.

No transfers were made between levels in 2015 or 2016.

#### Quoted market prices (Level 1)

Measurement at quoted prices in an active market for identical assets and liabilities. A market is deemed to be active if the price data is easily accessible and corresponds to actual regularly occurring transactions. The measurement method is used for holdings of quoted interest-bearing securities and for publicly quoted derivatives, primarily interest-rate futures.

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

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

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

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

## NOTE 35 Offsetting disclosures

### GROUP

Financial assets and liabilities covered by a legally binding agreement regarding netting or a similar agreement but that are not offset in the balance sheet.

RELATED AMOUNTS NOT OFFSET IN THE BALANCE SHEET					
2016					
SEK million	Amounts reported in the balance sheet	Financial instruments	Provided (+)/Received (-) collateral – securities	Provided (+)/Received (-) cash collateral	Net amount
<b>Assets</b>					
Derivatives	6,192	-1,518	-	-4,015	659
Repos	118	-118	-	-	-
<b>Liabilities</b>					
Derivatives	-2,475	1,518	-	784	-173
Repos	-498	118	380	-	-
<b>Total</b>	<b>3,337</b>	<b>0</b>	<b>380</b>	<b>-3,231</b>	<b>486</b>

RELATED AMOUNTS NOT OFFSET IN THE BALANCE SHEET					
2015					
SEK million	Amounts reported in the balance sheet	Financial instruments	Provided (+)/Received (-) collateral – securities	Provided (+)/Received (-) cash collateral	Net amount
<b>Assets</b>					
Derivatives	7,192	-3,115	-	-3,602	475
Repos	1,219	-1,219	-	-	-
<b>Liabilities</b>					
Derivatives	-5,194	3,115	-	1,530	-549
Repos	-1,233	1,219	14	-	0
<b>Total</b>	<b>1,984</b>	<b>0</b>	<b>14</b>	<b>-2,072</b>	<b>-74</b>

Repos are recognised in the balance sheet under the headings Lending and Liabilities to credit institutions, respectively. For further information on offsetting, see Note 2b Risk management – Credit risk in treasury operations, the section on Counterparty risk.

Cont. **NOTE 35** Offsetting disclosures**PARENT COMPANY**

Financial assets and liabilities covered by a legally binding agreement regarding netting or a similar agreement but that are not offset in the balance sheet.

RELATED AMOUNTS NOT OFFSET IN THE BALANCE SHEET					
2016					
SEK million	Amounts reported in the balance sheet	Financial instruments	Provided (+)/Received (-) collateral - securities	Provided (+)/ Received (-) cash collateral	Net amount
<b>Assets</b>					
Derivatives	6,221	-2,078	-	-4,015	128
Repos	-	-	-	-	-
<b>Liabilities</b>					
Derivatives	-6,075	2,078	-	784	-3,213
Repos	-	-	-	-	-
<b>Total</b>	<b>146</b>	<b>-</b>	<b>-</b>	<b>-3,231</b>	<b>-3,085</b>

RELATED AMOUNTS NOT OFFSET IN THE BALANCE SHEET					
2015					
SEK million	Amounts reported in the balance sheet	Financial instruments	Provided (+)/Received (-) collateral - securities	Provided (+)/ Received (-) cash collateral	Net amount
<b>Assets</b>					
Derivatives	6,430	-3,558	-	-2,774	98
Repos	-	-	-	-	-
<b>Liabilities</b>					
Derivatives	-6,778	3,558	-	1,530	-1,690
Repos	-	-	-	-	-
<b>Total</b>	<b>-348</b>	<b>-</b>	<b>-</b>	<b>-1,244</b>	<b>-1,592</b>

**NOTE 36** Related party disclosures

SBAB Bank AB (publ) is a Swedish public limited company that is wholly owned by the Swedish state.

**Group companies**

The Swedish Covered Bond Corporation (SCBC) and Booli Search Technologies AB are to be regarded as subsidiaries and recognised in accordance with the acquisition method, which entails the elimination of internal transactions at Group level. Transactions with related parties have taken place at market terms.

**PARENT COMPANY**

SEK million	GROUP COMPANIES		TOTAL	
	Assets/ Liabilities	Interest income/ Interest expense	Assets/ Liabilities	Interest income/ Interest expense
	2016			
Lending to credit institutions	55,123	524	55,123	524
Derivatives	645	434	645	434
Other assets	2	-	2	-
<b>Total</b>	<b>55,770</b>	<b>958</b>	<b>55,770</b>	<b>958</b>
Derivatives	3,826	-1,215	3,826	-1,215
Other liabilities	1	-	1	-
<b>Total</b>	<b>3,827</b>	<b>-1,215</b>	<b>3,827</b>	<b>-1,215</b>

SEK million	GROUP COMPANIES		TOTAL	
	2015			
	Assets/ Liabilities	Interest income/ Interest expense	Assets/ Liabilities	Interest income/ Interest expense
Lending to credit institutions	14,920	493	14,920	493
Derivatives	1,233	445	1,233	445
Other assets	2	-	2	-
<b>Total</b>	<b>16,155</b>	<b>938</b>	<b>16,155</b>	<b>938</b>
Derivatives	2,788	-818	2,788	-818
Other liabilities	-	-	-	-
<b>Total</b>	<b>2,788</b>	<b>-818</b>	<b>2,788</b>	<b>-818</b>

Of the Parent Company's other commission income, SEK 26 million (32) pertained to the possibility for SCBC to utilise a liquidity facility at the Parent Company, refer to Note 4.

The Parent Company also conducted administrative services on behalf of Group companies for SEK 716 million (625), refer to Note 6. Under marketing, expenses of SEK 2 million pertained to the advertising spend, etc. in Booli.

#### LOANS TO THE BOARD, CEO AND OTHER KEY SENIOR EXECUTIVES

SEK million	2016		2015	
	Lending	Interest income	Lending	Interest income
<b>Loans to key personnel</b>				
CEO	-	-	-	-
Board of Directors	5	0	3	0
Other key senior executives	5	0	5	0
<b>Total</b>	<b>10</b>	<b>0</b>	<b>8</b>	<b>0</b>

The CEO and the Board of Directors refer to the Parent Company. Wherever relevant, the managing directors and boards of other Group companies are included under "Other key senior executives."

Lending to Board Members of SBAB Bank AB (publ) or to employees holding key positions in the company may not occur on terms that are not available to other per-

sonnel. The ceiling for total capital debt on preferential terms is SEK 2,000,000 per household on the condition that the loan is within 85% of the property's LTV. On preferential loans of up to SEK 2,000,000, a 2 percentage point discount is given against SBAB's current list rate. The preferential loan is taxable. The interest rate received after the discount must not be less than 0.25%.

SEK million	2016		2015	
	Deposits	Interest expense	Deposits	Interest expense
<b>Deposits from key personnel</b>				
CEO and other key senior executives	4	0	3	0
Board of Directors	2	0	0	0
<b>Total</b>	<b>6</b>	<b>0</b>	<b>3</b>	<b>0</b>

The CEO and the Board of Directors refer to the Parent Company. Wherever relevant, the managing directors and boards of other Group companies are included under "Other key senior executives." Deposits from key personnel are made on the same terms and conditions as other deposits in the company.

## NOTE 37 Operating segments

Operating segments are reported in accordance with IFRS 8 Operating Segments, which means that the segment information is presented in a manner that corresponds to that applied internally for monitoring and control purposes. The Group has identified the CEO as the chief operating decision maker and the internal reporting used by the CEO to monitor and make decisions regarding the allocation of resources as the basis for the information to be presented.

The comparative figures for 2015 have been recalculated to reflect the organisational change that took effect in Q2 2016. The Retail operating segment includes the Retail Market and the Partner Market, which were previously reported as separate operating segments, and Booli, which was acquired in Q1 2016. The Partner

Market ceased to exist as a profit centre in conjunction with the organisational change in 2016. The Retail Market includes loans for single-family homes, holiday homes and tenant-owned apartments, as well as all retail deposits. Corporate Clients and Tenant-owners' Associations mainly include lending to multifamily dwellings as well as commercial properties. The item Net result of financial items measured at fair value, which derives from the finance operations, has not been distributed and is included in Other. The expenses are allocated to the business areas, using distribution quotas.

### GROUP

Income statement by segment, SEK million	2016				2015			
	Retail	Corporate & Tenant-Owners' Associations	Other	Total	Retail	Corporate & Tenant-Owners' Associations	Other	Total
Net interest income	2,221	608	-	2,829	1,859	555	28	2,442
Net commissions	39	2	-	41	-66	-36	-	-102
Net result of financial items measured at fair value	-	4	44	48	-	-	1	1
Other operating income	0	0	0	0	-	-	0	0
<b>Total operating income</b>	<b>2,260</b>	<b>614</b>	<b>44</b>	<b>2,918</b>	<b>1,793</b>	<b>519</b>	<b>29</b>	<b>2,341</b>
Salaries and remuneration	-198	-59	3	-254	-173	-52	-	-225
Other personnel costs	-152	-44	1	-195	-143	-41	-1	-185
Other expenses	-333	-84	4	-413	-279	-70	-19	-368
Depreciation of PPE and amortisation of intangible assets	-22	-5	-	-27	-27	-4	-	-31
Net loan losses	-13	-5	-	-18	-23	-17	-	-40
<b>Operating profit</b>	<b>1,542</b>	<b>417</b>	<b>52</b>	<b>2,011</b>	<b>1,148</b>	<b>335</b>	<b>9</b>	<b>1,492</b>
Standardised tax (22%)	-339	-92	-11	-442	-252	-74	-2	-328
<b>Profit after standardised tax</b>	<b>1,203</b>	<b>325</b>	<b>41</b>	<b>1,569</b>	<b>896</b>	<b>261</b>	<b>7</b>	<b>1,164</b>
Adjustment for actual tax	1	0	0	1	-2	0	0	-2
<b>Profit after tax</b>	<b>1,204</b>	<b>325</b>	<b>41</b>	<b>1,570</b>	<b>894</b>	<b>261</b>	<b>7</b>	<b>1,162</b>
Return on equity, %	14.7	8.1		12.3	11.4	7.9		10.2

In relation to the statutory income statement, an expense of SEK 37 million (expense: 34) was transferred between the rows "Other personnel costs" and "Other expenses." The cost refers to administrative consultants, which pertain to "Other personnel costs" in the internal monitoring.

The return on equity is calculated based on the earnings of each business area after standardised tax (22%) and internally distributed capital.

## NOTE 38 Five-year overview

### PARENT COMPANY

SEK million	2016	2015	2014	2013	2012
Interest income	1,300	1,419	2,758	3,243	4,162
Interest expense	-974	-1,258	-2,423	-2,960	-4,032
<b>Net interest income</b>	<b>326</b>	<b>161</b>	<b>335</b>	<b>283</b>	<b>130</b>
Other operating income	910	552	1,124	778	811
<b>Total operating income</b>	<b>1,236</b>	<b>713</b>	<b>1,459</b>	<b>1,061</b>	<b>941</b>
Depreciation of PPE and amortisation of intangible assets	-15	-22	-22	-20	-15
Other operating expenses	-857	-788	-878	-851	-788
<b>Total operating expenses</b>	<b>-872</b>	<b>-810</b>	<b>-900</b>	<b>-871</b>	<b>-803</b>
<b>Profit/loss before loan losses</b>	<b>364</b>	<b>-97</b>	<b>559</b>	<b>190</b>	<b>138</b>
Net loan losses	-9	-51	1	-14	-34
<b>Operating profit/loss</b>	<b>355</b>	<b>-148</b>	<b>560</b>	<b>176</b>	<b>104</b>
Lending portfolio <sup>1)</sup>	51,577	81,207	43,866	48,758	46,360
Other assets	143,567	99,466	113,069	112,937	115,668
<b>TOTAL ASSETS</b>	<b>195,144</b>	<b>180,673</b>	<b>156,935</b>	<b>161,695</b>	<b>162,028</b>
Deposits from the public	96,769	76,639	60,610	45,869	27,654
Debt securities issued, etc.	71,474	76,925	68,182	91,316	101,782
Other liabilities	10,973	11,093	13,495	10,310	17,543
Deferred tax liabilities	41	-	-	133	65
Subordinated debt	5,939	7,943	5,946	5,791	7,052
Equity	9,948	8,073	8,702	8,276	7,932
<b>Total liabilities and equity</b>	<b>195,144</b>	<b>180,673</b>	<b>156,935</b>	<b>161,695</b>	<b>162,028</b>
CET1 capital ratio, %	24.5	22.4	28.4	35.3	29.7

<sup>1)</sup> The Parent Company continuously transfers loans to the subsidiary, Swedish Covered Bond Corporation (SCBC).

## NOTE 39 Business combinations

### Acquisitions in 2016

In December 2015, SBAB agreed to acquire 71% of the shares in Booli Search Technologies AB with affiliates (Booli). The day of taking possession was the 14 January 2016, which is the date on which control was obtained. For the remaining shares and issued warrants, both put and call options exist. The put option liability is calculated at the present value of the exercise price based on the option clauses in the contract and, as a consequence, the acquisition of Booli is recognised without any non-controlling interest at the day of taking possession.

Booli develops products and services focusing on the housing market. The company's services include www.booli.se, which is one of Sweden's largest real-estate search services with approximately 270,000 unique users per week. SBAB believes the acquisition will strengthen the company's competitiveness, its position in the residential mortgage market and the customer offering. Booli Search Technologies AB is a subsidiary of SBAB and will be a part of the Retail business area. Booli is operated as a separate business unit under the Booli trademark.

Net assets acquired at the acquisition date:	Fair value recognized on acquisition
Property, plant and equipment	0
Intangible assets, of which	80
– Databases/software	3
– Trademarks	3
– Deferred tax	-1
– Goodwill	75
Accounts and other receivables	3
Cash and cash equivalents	7
Trade and other payables	-4
<b>Net assets and consideration</b>	<b>86</b>

The consideration consists of:	Fair value recognized on acquisition
Cash	59
Liability to the owners of the remaining shares and warrants	27

At the time of acquisition, intangible assets have been identified and consist mainly of trademarks/domain names and software/databases. The acquisition also led to the creation of goodwill, which is attributable to synergy effects. The transaction costs related to the acquisition were charged to profit or loss under Other expenses.

Analysis of the acquisition's impact on consolidated cash flows:	Fair value recognized on acquisition
Consideration	59
Settled:	
Cash and cash equivalents (acquired)	7
<b>Net cash outflows</b>	<b>52</b>

## NOTE 40 Proposed appropriation of profits

SBAB posted a net profit for the year after tax of SEK 277,206,792. According to SBAB's balance sheet, SEK 7,598,300,831 is at the disposal of the Annual General Meeting.

Tier 1 capital instruments	1,500,000,000
Reserves/Fair value reserve	118,304,814
Retained earnings	5,702,789,225
Net profit for the year	277,206,792
<b>Total</b>	<b>7,598,300,831</b>

The Board proposes that the earnings be appropriated as follows:

A dividend payment of SEK 32,074 per share, in total	628,105,142
Carried forward to next year	6,970,195,689
<b>Total</b>	<b>7,598,300,831</b>

# SUSTAINABILITY NOTES

Sustainability is reported as an integrated part of our Annual Report. Our sustainability reporting follows the Global Reporting Initiative's (GRI) guidelines, G4 – Core option, and has been reviewed by the auditing firm Deloitte in accordance with the Assurance Report on page 137.

## NOTE 1 Information about the report

SBAB complies with the Swedish Government Offices' special Guidelines for external reporting by state-owned companies, adopted by the Swedish Government on 29 November 2007.

### Report profile

In the 2016, we take a further step toward integrating sustainability-related information with the financial information in our second endeavour to provide an Integrated Annual Report. This report has been prepared in accordance with the Global Reporting Initiative's (GRI) guidelines, G4 – Core option.

### Report defined by the Board of Directors

The Board of Directors have signed, and thereby submitted, the Integrated Annual Report in its entirety. The formal Annual Report is to be found in specially marked sections, which are also apparent from the table of contents. The Sustainability Report, excluding the Corporate Governance Report, constitutes the remaining part of this year's Integrated Annual Report.

### The Global Reporting Initiative's (GRI) reporting framework

We apply the Global Reporting Initiative's framework for sustainability reporting, G4 – Core option, including GRI G4 Sector Disclosures, Financial Services. The separate GRI/COP index on page 131 sets out which parts of the Integrated Annual Report constitute SBAB's Sustainability Report according to GRI.

### UN Global Compact, Communication on Progress (COP)

SBAB joined the UN Global Compact in 2009. SBAB's commitment to the Global Compact means that SBAB reports its work on implementing the Ten Principles of the Global Compact in an annual Communication on Progress (COP). The separate GRI/COP index states which parts of the Integrated Annual Report constitute SBAB's Communication on Progress, which is based on the BASIC GUIDE Communication on Progress, GC Active Level, developed by the Global Compact.

### Audit and limited assurance report

The report defined by the Board of Directors clarifies which parts of SBAB's Integrated Report constitute the formal Annual Report, and therefore have been subject to audit. The sections that do not constitute the Annual Report constitute SBAB's Sustainability Report according to GRI and Communication on Progress and have been subject to a limited assurance review by the auditors in their entirety, except in the sections made available through links. The Corporate Governance Report is subject to a statutory review, which is less comprehensive than an audit or auditor's review. Deloitte submits an audit report for the Annual Report and the Corporate Governance Report, and a separate limited assurance report for the Sustainability Report/COP.

### The report's scope and boundaries

The Annual Report comprises the Parent Company, SBAB Bank AB (publ). The wholly owned subsidiary AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC) and the majority-owned subsidiary Booli Search Technologies AB issue their own annual reports. The Sustainability Report comprises of the Parent Company, SBAB Bank AB (publ), and the wholly-owned subsidiary, AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC).

## NOTE 2 Stakeholder dialogue

Since the bank was founded, SBAB has identified eight important stakeholder groups that affect and are affected by the bank's operations: customers, the owner, employees, investors, partners, suppliers, stakeholder organisations and the media.

From a business perspective, the most important stakeholders in the short, medium and long-term are the customers, the owner, the employees and investors. This priority has grown out of a recurring internal dialogue regarding the bank's business logic in the Board of Directors and the Executive Management.

We maintain ongoing communication, primarily with the most important stakeholders, to set the right priorities in our business development and sustainability work.

### Clients

Dialogue with our customers is at the core of SBAB's operations and all customer feedback comprises valuable information. Our primary communication channels are the internet and telephone. Our customer centre in Karlstad answers questions regarding products and services, it also receives comments and suggestions. Irrespective of the communication channel, we always strive to give our customers professional, fast and polite service that exceeds the customer's expectations. We conduct various types of customer surveys on an ongoing basis to obtain a clear understanding of customers' perception of the company. These include customer panels, focus groups and measurements of the customer loyalty metric, Net Promoter Score (NPS).

We also measure customer satisfaction with the Reputation Index from Nordic Brand Academy and Svenskt Kvalitetsindex (SKI (Swedish Quality Index)).

One channel that is becoming increasingly important for communication with the company's customers is social media. We maintain active dialogue with customers via Facebook, Twitter, our own blogs and [www.sbab.kundo.se](http://www.sbab.kundo.se).

Customer dialogues are also conducted through personal meetings, customer meetings, information from SBAB's Head Economist and housing economists in the form of analyses and reports, the AGM, [cr@sbab](mailto:cr@sbab) and [www.sbab.se](http://www.sbab.se).

### CUSTOMER SATISFACTION – RESULTS FROM CONFIDENCE SURVEYS

Customer satisfaction	2016	2015	2014
SKI Retail market	75.2	77.5	76.7
NBA Reputation Index <sup>1)</sup>	64	65	62

<sup>1)</sup> Index figure in the Reputation Index from Nordic Brand Academy (NBA). The index measures the popularity, societal responsibility and ethics of Swedish banks, as well as their trustworthiness and expertise.

### Employees

Motivated and committed employees are a prerequisite for our success and one of the most important drivers in meeting our adopted goals. We are a relatively small organisation with short decision paths, and where all employees are well informed about the company's vision, objectives and results. We hold regular monthly and departmental meetings to inform and conduct dialogues with employees regarding the performance trend, goals and other relevant and current issues that pertain to the company. The employees' opinions are leveraged through employee surveys and employee dialogues. The CEO has a regular blog on SBAB's intranet that addresses current issues and the blog has an open comment function.

### Investors

Investors' relationships to SBAB are largely based on confidence in our employees, the company's business model and sustainable economic development. Our strategy for sustainable business has also become increasingly relevant in pace with a growing number of investors integrating their sustainability aspects in their analyses and investment decisions. We have regular face-to-face meetings with Swedish and international investors. The aim is to keep investors well informed about the company's financial performance, its bonds and strategies, and to give our vision of the economic trend for Sweden. For SBAB, investor dialogues mean greater understanding of the issues they deem important.

### Owner

SBAB is wholly owned by the Swedish government. Owner governance of SBAB is exercised through general shareholder meetings, the elected Board of Directors in accordance with the Companies Act, the Articles of Association, and internal policies. SBAB applies the state's ownership policy, whereby the government details its assignments and objectives, the applicable frameworks and its position on key policy issues pertaining to corporate governance at all state-owned companies. The ownership policy also means that SBAB applies the Swedish Corporate Governance Code. Since November 2014, the government department responsible has been the Swedish Ministry of Enterprise and Innovation (formerly, the Ministry of Finance). SBAB's Chairman and CEO meet with the Swedish Ministry of Enterprise and Innovation semiannually to report SBAB's performance, which also includes developments in sustainable business.

## NOTE 3 Materiality analysis, material aspects and how they are reported

In 2013, an externally conducted materiality analysis identified the most relevant sustainability issues, risks and opportunities linked to business development within the area of sustainability. 38 stakeholder representatives were invited to participate in interviews. 11 interviews were conducted with customer representatives, the bank's Board of Directors, employees, investors (including a representative of Socially Responsible Investors), banks, the bank sector and one stakeholder organisation.

All of the responsibility issues listed by SBAB's stakeholders in the materiality analysis are reported as material aspects. The issues are reported in three focus areas, according to the following:

- Sound finances (financial development and ethics)
- Responsibility and transparency (customer relations, communication, employees and business relationships)
- Sustainable housing (sustainable products and social responsibility).

The above responsibility issues have been delimited in the report to include SBAB's direct efforts and are reported using at least one GRI indicator per material aspect (see the GRI/COP index, page 131).

Environmental responsibility refers to the work on SBAB's internal environmental impact. It is therefore delimited to SBAB and reported in the notes. Three indicators are reported, divided according to GHG scopes 1, 2 and 3.

### Sustainability strategy review in 2017

Much has happened in our macro-environment since 2013, we therefore initiated a new stakeholder and materiality analysis at the end of 2016. The analysis aims to ensure that through our sustainability efforts, we drive and work on those issues and areas of primary importance to our stakeholders and ourselves, and where we have the greatest opportunity to influence. This work is expected to be completed in spring 2017 and may result in changed objectives and new targets for our sustainability agenda. In 2017, based on the completed stakeholder and materiality analysis, we will coordinate the vision, strategy, goals and activities, to ensure that the prioritised sustainability aspects more clearly support the business and our strategic direction, and are integrated into our business goals. For this reason, no sustainability goals are presented in this report for 2017.

## NOTE 4 Responsibility and governance

Within SBAB, the Board of Directors is ultimately responsible for ensuring that proactive, long-term efforts to achieve sustainable development are carried out within the company. The Board also adopts a strategy, objectives and a policy for sustainable business. Furthermore, the Board monitors and assesses SBAB's sustainability efforts.

The Sustainable Business function is responsible for developing a company-wide business plan for SBAB's sustainability agenda, including a strategy, objectives and activities. The Executive Management presents the company's strategic business plan, including its aims, direction and objectives for sustainability efforts, in conjunction with deciding the business plan and budget.

SBAB has a Sustainability Council and a Sustainability Forum that meet regularly to thereby optimise the integration and focus of sustainability efforts. The Sustainability Council comprises the Executive Management and the Head of Sustainability (who convenes the meetings), and has been tasked with guiding SBAB's sustainability efforts. The Sustainability Council takes decisions on priorities and strategic direction in accordance with the decided business strategy.

The Sustainability Forum is a cross-functional working group tasked primarily with evaluating and prioritising larger and more significant ideas pertaining to sustainability. The efforts of the Sustainability Forum and the Sustainability Council at SBAB are supported by SBAB's overriding business plan, current materiality analysis and the prioritised sustainability aspects.

### Governance, follow-up and responsibility by focus area

The goals for the respective focus areas are measured and reported to the CEO and the Board each quarter. These goals are formulated within the framework of the annual business planning and responsibility for the relevance and measurability of these goals rests ultimately with the CEO. Based on the company-wide goals, operational goals and activities are identified and integrated into the business plans of each unit, thereby contributing to meeting the overarching goals for sustainable business.

### Sound finances

As a bank, SBAB bears a particular responsibility. This involves both contributing to our customers' financial security and, as part of the financial system, ensuring the long-term sustainability of the country's economy. Sound finances are a prerequisite for our ability to achieve this and to conduct business operations that are sustainable in the long term.

In the Sound finances focus area, the goals are mainly financial. SBAB's accounting and treasury department are responsible for the ongoing governance and follow-up of these goals.

Read more under the Sound finances section on page 24.

### Responsibility and transparency

For SBAB, responsibility and transparency involve the promotion of responsible lending, marketing and sales. Through openness and transparency, we aim to improve the reputation of the banking and financial sectors. Our responsibility as an employer is another important element of the focus area.

The goals within the Responsibility and transparency focus area primarily reflect our responsibility as an employer and creditor. SBAB's HR department is responsible for the ongoing governance and follow-up of the goals linked to SBAB's responsibility as an employer. SBAB's Retail Market and Corporate Clients & Tenant-Owners' Associations business areas are responsible for the goals linked to SBAB's responsibility as a creditor.

Read more under the sections: Our responsibility as a creditor on page 26; and Our responsibility as an employer on page 30.

### Sustainable housing

SBAB has extensive experience and knowledge within property financing, and matters related to homes and housing are deeply ingrained in the company's roots. Sweden faces numerous societal challenges that are economically, socially or environmentally related to housing. As we are highly committed to sustainable housing, we seek to contribute to positive societal development.

The goals for the Sustainable housing focus area pertain primarily to SBAB's product development and its financing of new builds. SBAB's Retail Market and Corporate Clients & Tenant-Owners' Associations business areas are responsible for the goals linked to this area.

Read more under the Sustainable housing section on page 36.

The strategy, overarching goals and measurable goals for each focus area are established in the company's business plan. Goals and metrics are reviewed each year in conjunction with the business planning process. Our policy for sustainable business is available at [www.sbab.se](http://www.sbab.se).

## NOTE 5 Environmental efforts

We are a digital bank. We have no branch offices and are mainly reached by our digital channels and over the telephone. This enables us to avoid unnecessary transportation and the operation of a number of branch offices around the country, which contributes to the relatively small size of our direct environmental impact. But we still want to reduce the impact we have. Since 2008, we have therefore measured the company's carbon dioxide emissions.

As employees, we contribute to the company's ambitions by taking personal responsibility and, for example, utilise the office's waste sorting facilities, turn off lights and computers when we leave, use paper and printing frugally, and travel by rail instead of air whenever possible. Each employee is also responsible for noticing, driving and developing resource and energy-saving work methods that contribute to reducing the environmental impact. The property we rent in Solna holds silver certification under the GreenBuilding standard.

The table data shows greenhouse gas emissions expressed in carbon dioxide equivalents, CO<sub>2</sub>e. Unless otherwise stated, we report in tonnes of CO<sub>2</sub>e. SBAB's Greenhouse Gas Protocol Assessment is available in its entirety at sbab.se.

### EMISSIONS DIVIDED BY SCOPE

Emissions tCO <sub>2</sub> e	2016	2015	2014	2013	2012
<b>Total</b>	<b>185.5</b>	<b>158.6</b>	<b>170.9</b>	<b>200.2</b>	<b>161.7</b>
Scope 1	16.9	13.7	12.6	10.0	11.5
Scope 2	26.1	54.5	86.0	89.4	71.7
Scope 3	142.5	90.4	72.2	100.8	78.6

### EMISSIONS DIVIDED BY SOURCE

Emissions tCO <sub>2</sub> e	2016	2015	2014	2013	2012
District heating	25.0	45.4	69.7	71.6	54.9
Electricity	14.1	15.0	16.6	18.1	16.8
Waste for incineration	2.5	0.2	0.1	0.1	0.1
Vehicles	20.4	15.0	13.3	11.1	12.3
Air travel	108.2	65.7	59.3	85.9	65.8
Rail travel	1.5	1.3	1.1	1.2	1.1
Vehicles used by employees	11.3	16.0	10.8	12.4	10.8
Taxi <sup>1)</sup>	2.4	n/a	n/a	n/a	n/a
District cooling <sup>1)</sup>	0.1	n/a	n/a	n/a	n/a
<b>Total</b>	<b>185.5</b>	<b>158.6</b>	<b>170.9</b>	<b>200.2</b>	<b>161.7</b>

<sup>1)</sup>New measurement for 2016

## NOTE 6 Suppliers

Our supply chain also includes suppliers of various services and materials. Examples of these are IT-systems, office materials and consultancy services.

In 2016, we initiated a systematic project to continuously consolidate the number of suppliers and to review existing agreements to evaluate potential savings. This work was led by SBAB's purchasing function, together with representatives of all SBAB's business areas to ensure that our purchasing needs are coordinated.

We developed a supplier code in 2016, which addresses SBAB's view and expectations of our suppliers' sustainability efforts and compliance with international guidelines and principles. This supplier code was established with SBAB's suppliers in 2016. Around 20% of SBAB's suppliers have accepted the code.

We intend to continue developing our supplier code, which aims to secure increased focus on responsibility and sustainability across SBAB's supply chain. Our aim over time, is to only enter into contracts with suppliers that comply with SBAB's adopted sustainability criteria and to follow up compliance on an ongoing basis. Moving forward, our aim is to conduct internal training on the code for all management at SBAB and to ensure that all business-critical agreements are supplemented with the supplier code and/or a deviation form.

## NOTE 7 Marketing Communication

Communication is a broad term that includes both financial reporting and customer dialogue. Regardless of the occasion or target group, it is critical to how SBAB's brand is perceived in the market. For brand management to be effective in the long-term, all communication must be coordinated and adhere to a number of overarching guidelines.

SBAB's Communication instruction regulates SBAB's external and internal communication and information disclosure. This instruction also aims to ensure that SBAB's information disclosure to the market is correct, relevant and complies with applicable laws and regulations.

SBAB's Direction for the marketing process aims to describe the work process SBAB is to follow in its marketing activities. It is a tool aimed at ensuring compliance with applicable regulations. The direction is aimed at the personnel working with marketing and communication at SBAB.

SBAB had no incidents of non-compliance with regulations and voluntary codes concerning marketing communication during the year.

## NOTE 8 Organisations

SBAB has been a signatory of the UN Global Compact since 2009. Each year a COP, Communication on Progress, is reported and published via Global Compact's website.

Since 2012, SBAB has been a member of the Swedish Financial Coalition against child pornography. The Financial Coalition collaborates with ECPAT with the aim of preventing and rendering it more difficult to trade in pictures featuring sexual abuse of children through financial systems on the internet.

## NOTE 9 Policies and instructions

Each year, SBAB's Board of Directors adopts a number of policies at the statutory Board meeting. These are an important part of the internal governance and help the company to create a consensus on company-wide issues and areas.

For example, SBAB has policies on sustainable business, ethics, equality and diversity (which are available at [www.sbab.se](http://www.sbab.se)) as well as a policy aimed at preventing money laundering and the financing of terrorism.

In addition to these policies, a number of guidelines adopted by the Executive Management and the CEO also contribute to sustainable business. Examples of these are guidelines for the management of complaints, communication, work environment, bribery, bank secrecy, compliance and security.

## NOTE 10 Employee data <sup>1)</sup>

### AGE DISTRIBUTION WOMEN/MEN

Age distribution at 31 December 2016	PERCENTAGE DISTRIBUTION (%)		
	Women	Men	Total
20–29	8.5	10.4	18.9
30–39	14.0	13.4	27.4
40–49	15.8	11.3	27.2
50–59	13.8	8.7	22.5
60–69	2.6	1.5	4.2
<b>Total</b>	<b>54.7</b>	<b>45.3</b>	<b>100.0</b>

### LENGTH OF EMPLOYMENT WOMEN/MEN

Length of employment at 31 December 2016	PERCENTAGE DISTRIBUTION (%)		
	Women	Men	Total
<3 years	25.7	26.0	51.7
4–6 years	4.0	4.7	8.7
7–9 years	5.1	4.5	9.6
10–12 years	2.1	2.1	4.2
13–15 years	2.5	0.6	4.2
>16 years	15.5	7.4	22.8
<b>Total</b>	<b>54.7</b>	<b>45.3</b>	<b>100.0</b>

### KEY EMPLOYEE FIGURES

Key figures	2016	2015	2014	2013	2012
Total number of employees at the end of the year <sup>2)</sup>	485	429	397	436	380
of whom, women <sup>2)</sup> , %	52.6	51.7	55.6	55.0	55.3
Temporary employees <sup>3)</sup> , %	1.6	1.3	0.5	1.3	2.1
Part-time employees <sup>3)</sup> , %	2.5	1.7	2.1	2.1	2.1
Average age, years	41	41	43	42	42
People who left the company over the year	62	58	78	31	36
People who joined the company over the year	113	100	39	82	48
Personnel turnover, %	12	13	18	7	9
<b>Equality</b>					
Share of women on the Board of Directors <sup>4)</sup> , %	36	50	50	50	50
Share of women in the Executive Management, %	33	30	43	33	40
Share of female managers, %	45	44	41	41	44
Proportion of male employees, receiving parental leave allowance, %	41	24	28	28	41
<b>Sick leave and wellness</b>					
Short-term sick leave, %	2.1	1.9	1.9	2	1.9
Long-term sick leave, %	1.7	2.0	0.9	0.7	0.2
<b>Total sick leave, %</b>	<b>3.8</b>	<b>3.9</b>	<b>2.8</b>	<b>2.7</b>	<b>2.1</b>
Use of health-promotion contribution by all employees, %	74	69	75	76	78

<sup>1)</sup> Employee data excluding the subsidiary Booli Search Technologies AB.

<sup>2)</sup> Number of employees expressed as full-time equivalents (FTEs), adjusted for sick leave and leave of absence.

<sup>3)</sup> Total number of employees at the end of the year.

<sup>4)</sup> Pertains to the Board of the Parent Company SBAB Bank AB (publ)

# GRI/COP INDEX

## STANDARD DISCLOSURES

Description	Page reference	Comment/Omission	UNGC principle	
<b>Strategy and Analysis</b>				
G4-1	Statements from the CEO and the Chairman	4, 58		
<b>Organisational profile</b>				
G4-3	Name of the organisation	1		
G4-4	Primary brands, products, and services	1, 44-51		
G4-5	Location of the organisation's headquarters	77		
G4-6	Countries where the organisation operates	1		
G4-7	Nature of ownership and legal form	60-61		
G4-8	Markets served	42-51, 77		
G4-9	Scale of the organisation	40-53		
G4-10	Total number of employees	1, 102, 130	These statistics are not broken down per region, as SBAB only conducts operations in Sweden, which can be considered a single region	6
G4-11	Percentage of total employees covered by collective bargaining agreements		All employees, except the CEO, are covered by collective bargaining agreements	3
G4-12	The organisation's supply chain	8, 129		4, 5
G4-13	Significant changes during the reporting period		In Q4 2015, SBAB entered into an agreement to acquire Booli Search Technologies AB with subsidiaries (Booli). The day of taking possession was the 14 January 2016.	
G4-14	Application of the precautionary approach or principle	26-29, 127, 129		
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives	127		
G4-16	Memberships of associations	127, 129		
<b>Identified Material Aspects and Boundaries</b>				
G4-17	Entities included or not covered by the report	127		
G4-18	Process for defining the report content	1, 20-21, 127-128		
G4-19	Material aspects identified in the process for defining report content	20-21, 127-128		
G4-20	Aspect boundary within the organisation	128		
G4-21	Aspect boundary outside the organisation	128		
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements		There have been no significant restatements of information in comparison to previous reports	
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries		There have been no significant changes in the scope and aspect boundaries in comparison to previous reporting periods	
<b>Stakeholder Engagement</b>				
G4-24	Stakeholder groups	20-21, 127-128		
G4-25	Identification and selection of stakeholders	20-21, 127-128		
G4-26	The organisation's approach to stakeholder engagement	20-21, 127-128		
G4-27	Key topics and concerns raised through stakeholder engagement, and how the organization responded to those key topics and concerns	20-21, 127-128		
<b>Report Profile</b>				
G4-28	Reporting period		1 January–31 December 2016	
G4-29	Date of most recent previous report		31 March 2016	
G4-30	Reporting cycle		Updated annually as at 31 December	
G4-31	Contact point for questions regarding the report or its contents	139		
G4-32	The "in accordance" option the organisation has chosen, the GRI Content Index and the reference to the External Assurance Report	127, 131		
G4-33	Policy and current practice regarding external assurance	65, 127, 137		
<b>Governance</b>				
G4-34	Governance structure	60-65		
<b>Ethics and integrity</b>				
G4-56	Values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	15, 29, 129		10

## SPECIFIC STANDARD DISCLOSURES

Aspects	DMA* and indicators	Description	Page reference	Comment/Omission	UNGC principle	Issue in SBAB's materiality analysis
<b>Economy</b>						
Economic Performance	G4-DMA	Disclosures on management approach	128			Financial performance Social responsibility
	G4-EC1	Direct economic value generated and distributed	25			
<b>Environmental</b>						
Emissions	G4-DMA	Disclosures on management approach	128			Environmental responsibility
	G4-EN15	Direct greenhouse gas (GHG) emissions	129		7.8	
	G4-EN16	Energy indirect greenhouse gas (GHG) emissions	129		7.8	
	G4-EN17	Other indirect greenhouse gas (GHG) emissions	129		7.8	
<b>Social</b>						
<i>Labour Practices and Decent Work</i>						
Employment	G4-DMA	Disclosures on management approach	128		4.5	Employees
	G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	102, 130	Deviation: statistics not broken down per region, as SBAB only conducts operations in Sweden, which can be considered a single region	6	
Occupational Health and Safety	G4-DMA	Disclosures on management approach	128			Employees
	G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	102, 130	It is only relevant for SBAB to report sick leave. Deviation: statistics not broken down per gender or region		
Training and Education	G4-DMA	Disclosures on management approach	128			Employees
	G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	31-32	Deviation: statistics not broken down per gender or employment category	6	
Diversity and Equal Opportunity	G4-DMA	Disclosures on management approach	128			Employees
	G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	102, 130	Deviation: statistics not broken down per minority group membership	6	
<i>Human Rights</i>						
Non-Discrimination	G4-DMA	Disclosures on management approach	128		1.2	Employees
	G4-HR3	Total number of incidents of discrimination and corrective actions taken	34	No incidents of discrimination were reported during the year	6	
<i>Community</i>						
Anti-Corruption	G4-DMA	Disclosures on management approach	128			Ethics Business relationships
	G4-SO4	Communication and training on anti-corruption policies and procedures	29		10	
	G4-SO5	Confirmed incidents of corruption and actions taken	29	No incidents of corruption were reported during the year	10	
Compliance	G4-DMA	Disclosures on management approach	128			Ethics
	G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		No significant fines or sanctions were imposed on the organisation for non-compliance with laws and regulations		
<i>Product Responsibility</i>						
Product and Service Labelling	G4-DMA	Disclosures on management approach	128			Customer relationships
	G4-PR5	Results of surveys measuring customer satisfaction	11, 127			
Marketing Communication	G4-DMA	Disclosures on management approach	128			Communication
	G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communication, including advertising, promotion, and sponsorship, by type of outcomes	129	SBAB had no incidents of non-compliance with regulations and voluntary codes concerning marketing communication during the year		
Compliance	G4-DMA	Disclosures on management approach	128			Ethics
	G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services		No fines of this nature were incurred during the year		
Product Portfolio	G4-DMA	Disclosures on management approach	128		9	Sustainable products
	FS8	Monetary value of products and services designed to deliver a specific environmental benefit	36, 53		9	

\* DMA=Disclosure on Management Approach

## SIGNATURES OF THE BOARD OF DIRECTORS

The Board of Directors of SBAB hereby submit SBAB's Integrated Annual Report, which includes both the Annual Report and the Sustainability Report. The formal Annual Report is to be found in specially marked sections, which are apparent from the table of contents. The Sustainability Report, excluding the Corporate Governance Report, constitutes the remaining part of the year's Integrated Annual Report.

The Board and the CEO certify that the sections containing to the formal annual accounts and the consolidated financial statements were prepared in accordance with the international accounting standard (IFRS) as adopted by the EU and provide a true and fair view of the Group's position and earnings. The formal annual accounts were otherwise prepared in accordance with generally accepted accounting policies and provides a true and fair view of the Parent Company's position and earnings. The Administration Report, which is provided on pages that have been

marked specially, provides a true and fair view of the development of the operations, position and earnings, and describes the significant risks and uncertainties faced by the Parent Company and the companies included in the Group.

In accordance with Chapter 6, Section 2, Item 2 of the Annual Accounts Act for Credit Institutions and Securities Companies, the Board considers the Company's equity to be sufficiently large in relation to the scope and risks of the operations.

The information provided gives a true and fair view of the circumstances of the Company and nothing of material significance has been omitted which might affect the view of the Company created by the Annual Report.

SBAB's Integrated Annual Report has been prepared in accordance with the Global Reporting Initiative's (GRI) G4 Core guidelines. It also constitutes SBAB's Communication on Progress (COP) to the UN Global Compact.

Stockholm, 21 March 2017

Bo Magnusson  
*Chairman*

Jakob Grinbaum  
*Vice Chairman*

Carl-Henrik Borg  
*Board Member*

Lars Börjesson  
*Board Member*

Daniel Kristiansson  
*Board Member*

Ebba Lindsö  
*Board Member*

Jane Lundgren-Ericsson  
*Board Member*

Karin Moberg  
*Board Member*

Johan Eriksson  
*Employee representative*

Kristina Ljung  
*Employee representative*

Klas Danielsson  
*CEO*

Our audit report was submitted on 21 March 2016

Deloitte AB

Patrick Honeth  
*Authorised Public Accountant*

# AUDITOR'S REPORT

To the general meeting of the shareholders of SBAB Bank AB (publ) corporate identity number 556253-7513

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of SBAB Bank AB (publ) for the year 2016 except for the corporate governance statement on pages 60–69. The annual accounts and consolidated accounts of the company are included on pages 40–59 and 70–126 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 60–69. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Other information

The audit of the annual accounts for year 2015 was conducted by another auditor who issued an unmodified opinion dated March 11, 2016 in the Report on the annual accounts.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

### Judgments and estimates with respect to valuation of loan receivables

Recognition and measurement of financial instruments as regulated in IAS 39 is a complex and significant area with large impact on SBAB's business and financial reporting. SBAB's management exercises significant judgment when determining both when and how much to record as loan loss provisions. Example of various assumptions and judgments includes the financial condition of the counterparty, expected future cash flow, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. Furthermore, the associated disclosures are complex and dependent on high quality data.

At December 31, 2016, gross loans to the public amounted to SEK 296 022 million, with loan loss provisions of SEK 235 million. Given the significance of loans to the public (representing 78% of total assets) as well as the impact from the inherent uncertainty and subjectivity involved in assessing loan loss provisions, we consider this to be a key audit matter for our audit.

Refer to accounting principles regarding critical judgments and estimates in note 1 in the financial statement and related disclosures of credit risk in note 2a.

Our audit procedures included, but were not limited to:

- We assessed key controls over the approval, recording and monitoring of loans and receivables, and evaluating the methodologies, inputs and assumptions used in determining and calculating the loan loss provisions.

- For provisions calculated on an individual basis we examined a selection of individual loan exposure in detail, and evaluated management assessment of the recoverable amount. We tested the assumptions underlying the impairment, including forecast of future cash flows, valuation of underlying collateral and estimates of recovery on default. We examined a selection of loans that had been identified by management as potentially impaired.
- We examined the sufficiency of the underlying models, assumptions and data used to measure loan loss provisions for portfolios of loans with similar credit characteristics. Likewise we have examined the models, assumptions and data used for the collective impairment for incurred but not identified loss events.
- Finally, we assessed the completeness and accuracy of the disclosures relating to loan loss provision to assess compliance with disclosure requirements included in IFRS.

### Application of hedge accounting

Several criteria's in IAS 39 has to be fulfilled to be able to qualify for hedge accounting, including documentation of the characteristics and purpose of the hedge and regular testing performed on the effectiveness of the hedge. Given the complexity of the regulation for hedge accounting this is an area with higher risks for banks.

SBAB has chosen to use hedge accounting for hedging of interest and currency risk and applies hedging of fair value, macro hedge and cash flow hedges.

At December 31, 2016, effects of hedge accounting in Net result of financial items measured at fair value amounted to SEK 691 million, and in Other comprehensive income of SEK 370 million.

Given the complexity in the regulation for hedge accounting and the subjectivity involved in the judgements made, we consider this to be a key audit matter for our audit.

Refer to accounting principles regarding critical judgments and estimates in note 1 in the financial statement and related disclosures of market risk in note 2d.

Our audit procedures included, but were not limited to:

- We assessed key controls over the documentation and overview of hedge relations and their initial and on-going effectiveness.
- We evaluated the hedge documentation and relations to assess if the hedges were appropriately designed in accordance with IFRS.
- We evaluated management's assessment of the effectiveness of the hedges, and assessment and accounting for ineffectiveness in hedges.
- Finally, we assessed the completeness and accuracy of the disclosures relating to hedge accounting to assess compliance with disclosure requirements included in IFRS.

### IT-systems that support complete and accurate financial reporting

SBAB is dependent on their IT-systems to (1) serve customers, (2) support their business processes, (3) ensure complete and accurate processing of financial transactions and (4) support the overall internal control framework. Many of SBAB's internal controls over financial reporting are depending upon automated application controls and completeness and integrity of reports generated by the IT-systems. Given the high dependency on technology, we consider this to be a key audit matter for our audit.

SBAB categorises their key IT-risk and control domains relating to financial reporting in the following sections:

- Modifications to the IT-environment
- Operations and monitoring of the IT-environment
- Information security

### Modifications to the IT-environment

Inappropriate modifications to the IT-environment may result in systems that do not function as expected and result in unreliable data processing with impact on financial reporting. Hence SBAB has implemented processes and controls to support that changes to the IT-environment are appropriately implemented and function consistently with management's intentions.

Our audit procedures included, but were not limited to:

- We assessed management principles and processes for modifications to the IT-environment.
- We assessed management monitoring of modifications in the IT-environment.
- We evaluated segregations of duties.

### Operations and monitoring of the IT-environment

Inappropriate operation and monitoring of the IT-environment may result in the inability to prevent or detect incorrect data processing. Hence SBAB has implemented processes and controls to support that IT-environment is monitored continuously and that incorrect data processing is identified and corrected.

Our audit procedures included, but were not limited to:

- We evaluated the appropriateness of IT-System job scheduling and alarm configuration capabilities.
- We evaluated the process for monitoring IT-System.

### Information security

If physical and logical security tools and controls are not implemented and configured appropriately, key control activities may be ineffective, desired segregation of duties may not be maintained, and information may be modified inappropriately, become unavailable or disclosed inappropriately. This is of particular importance considering the current cyber threat level. Hence SBAB has implemented processes and controls to support that information is safeguarded through access controls and that known vulnerabilities are managed timely.

Our audit procedures included, but were not limited to:

- We evaluated the process for identity and access management, including access granting, change and removal.
- We evaluated the appropriateness of processes and tools to ensure availability of data as per user requests and business requirements, including data back-up and restore procedures.
- We evaluated the appropriateness of controls for security governance to protect systems and data from unauthorised use, including logging of security events and procedures to identify known vulnerabilities.

### Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-39 and 127-132. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of SBAB Bank AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's Responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the

accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

### The Auditor's Examination of the Corporate Governance Statement

The Board of Directors is responsible for that the corporate governance statement on pages 60–69 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, March 21, 2017

Deloitte AB

Patrick Honeth  
Authorised public accountant

# AUDITOR'S LIMITED ASSURANCE REPORT ON THE SUSTAINABILITY REPORT

*This is the translation of the auditor's report in Swedish.*

To SBAB Bank AB (publ), corporate identity number 556253-7513

## Introduction

We have been engaged by the Board of Directors of SBAB Bank AB (publ) to undertake a limited assurance engagement of the SBAB Bank AB Sustainability Report for the year 2016. The Company has defined the scope of the Sustainability Report on the inside of the cover page and on page 127.

## Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on page 127 in the Sustainability Report, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative (GRI)) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

## Responsibilities of the auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden. The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

## Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report, is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Stockholm, March 21, 2017  
Deloitte AB

*Signatures on Swedish original*

Patrick Honeth  
Authorised Public Accountant

Didrik Roos  
Authorised Public Accountant

## KEY PERFORMANCE INDICATORS, DEFINITIONS

Alternative performance measures (APMs) are financial metrics of historical or future performance, financial position or cash flows that are not defined in the applicable rules for financial reporting (for example, IFRS or the Swedish Annual Accounts Act). SBAB uses APMs when these are relevant for the presentation and follow-up of the bank's financial position and when these metrics are deemed to provide additional valuable information to readers of the financial reports. APMs can be calculated with various approaches and, accordingly, SBAB's metrics are not directly comparable with similar metrics presented by other companies.

<b>New lending</b>	Gross lending
<b>Deposits/lending</b>	Ratio of total deposits to total lending
<b>Net interest margin</b>	Net interest income in relation to average total assets
<b>Loan loss ratio</b>	Loan losses in relation to closing balance for lending to the public
<b>C/I ratio</b>	Total operating expenses/total income
<b>Return on equity</b>	Earnings after actual tax in relation to average equity, adjusted for Tier 1 capital loans
<b>Return on assets</b>	Operating profit/loss after actual tax, in relation to average total assets
<b>Number of employees (FTEs)</b>	Number of employees expressed as full-time equivalents (FTEs), adjusted for sick leave and leave of absence
<hr/>	
<b>CET1 capital ratio</b>	CET1 capital in relation to risk-weighted assets
<b>Total capital ratio</b>	Own funds in relation to risk-weighted assets
<b>Tier 1 capital ratio</b>	Tier 1 capital in relation to risk-weighted assets
<b>Liquidity coverage ratio, LCR</b>	Liquid assets in relation to net outgoing cash flows over a 30-day stress scenario
<b>Survival horizon</b>	The number of days that the need for liquidity can be met in a stress scenario before new liquidity is needed
<b>Net Stable Funding Ratio, NSFR</b>	A liquidity risk metric of a structural nature that demonstrates the stability of the Group's funding in relation to its assets

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 For more information and contacts,  
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### Financial calendar

Year-end report 2016	8 February 2017
Annual General Meeting (Solna)	24 April 2017
Interim Report January–March 2017	25 April 2017
Interim report January–June 2017	19 July 2017
Interim report January–September 2017	26 October 2017
Year-end report 2017	9 February 2018

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**SBAB!**