

Interim report

1 January – 30 June 2012

The Swedish Covered Bond Corporation, SCBC

The interim period January–June 2012 compared with January–June 2011

- Net interest income amounted to SEK 1,043 million (857).
- The operating loss totalled SEK 290 million (profit: 220).
- The net loss amounted to SEK 214 million (profit: 162).
- The core Tier 1 capital ratio amounted to 30.7 percent (31.2) without taking the transitional regulations into account and 10.3 percent (10.7) taking the transitional regulations into account.
- In March 2012, SCBC launched a new five-year benchmark loan, bond 133.

Summary	2012 Jan-June	2011 Jan-June	Change, %	2011 Jan-Dec
Income statement items				
Net interest income, SEK million	1,043	857	22	1,689
Total operating income, SEK million	7	463	-98	1,861
Expenses, SEK million	-301	-235	28	-563
Loan losses, net, SEK million	4	-8	n.a.	-11
Operating profit, excl. net result of financial instruments, SEK million	703	563	25	1,019
Operating profit/loss, SEK million	-290	220	n.a.	1,287
Balance sheet items				
Lending ¹⁾ , SEK billion	209.6	208.5	1	210.5
Key data				
Core Tier 1 capital ratio ²⁾ , %	30.7	29.9		31.2
Rating				
<i>Long-term funding</i>				
Standard & Poor's	AAA	AAA		AAA
Moody's	Aaa	Aaa		Aaa

¹⁾ Lending to the public (including corporate customers and tenant-owner associations), "lending."

²⁾ Without taking the transitional regulations into account.

For balance sheet items and information concerning capital adequacy, all comparative figures in parentheses throughout the report refer to the figures at the preceding year-end.

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

Operations

The Swedish Covered Bond Corporation, SCBC, is a wholly owned subsidiary of SBAB Bank AB (publ). In this report, "SBAB Bank" refers to the SBAB Bank Group.

SCBC's operations focus primarily on the issuance of covered bonds in Swedish and international capital markets. The operation shall be conducted in such a manner as to comply with the requirements specified in the Covered Bonds Act (2003:1223) pertaining to the issuance of covered bonds and the Swedish Financial Supervisory Authority's regulation FFFS 2004:11.

PERFORMANCE IN JANUARY-JUNE 2012 COMPARED WITH JANUARY-JUNE 2011

Operating results

SCBC's net interest income rose to SEK 1,043 million (857) and the operating result declined to a loss of SEK 290 million (profit: 220).

The decline was mainly due to a deterioration in the net result from financial transactions, which amounted to an expense of SEK 993 million (expense: 343).

During the period, part of the company's hedge accounting were adapted to achieve more uniform management in SBAB Bank. The adaptation entails terminated hedging relations and a decline in hedge-accounted volumes during the period, which impacted the net result from financial transactions negatively in the amount of SEK 554 million. The impact for the full-year is expected to amount to an expense of approximately SEK 640 million. The main part of these amounts is related to terminated hedge-accounting of lending with a three-month fixed-interest period. The full impact will be eliminated in the financial statements for SBAB Bank and thus not have an impact on the Group's earning.

The net result from financial transactions was adversely impacted by market-value changes on basis swaps¹⁾, which are used to manage the interest-rate and currency risks that arise in conjunction with foreign funding and are thus a key part of the company's funding and risk strategy.

Operating income was positively impacted by higher net interest income. The increase in net interest income compared with 2011 is the result of improved earnings in the lending operation.

Operating profit was charged with increased expenses of SEK 301 million (235), primarily due to higher costs for services performed by SBAB Bank pursuant to the outsourcing agreement. The stability fee for the Government stability fund was SEK 33 million (33).

Loan losses amounted to a positive SEK 4 million (losses: 8). The trend was attributable to lower provisions for collective provisions through a positive shift to improved risk categories during the period. During the year-earlier period, collective provisions were impacted by changes in the underlying risk-classification models.

Lending

SCBC does not conduct any new lending activities itself, but acquires loans from SBAB Bank on an ongoing basis or as required. The aim of securing these loans is to increase the collateral for investors who are holders of SCBC's covered bonds. SCBC's lending portfolio mainly comprises loans for residential mortgages, with the retail market as the largest segment. The portfolio contains no loans for purely commercial properties. Information regarding SCBC's lending, the cover pool, is published monthly on the website www.sbab.se.

Funding

SCBC's funding is conducted through the issuance of covered bonds, and to a certain extent through repo transactions.

The company uses three funding programmes: a EUR 10 billion Euro Medium Term Covered Note Program (EMTCN program), the Swedish mortgage bond programme for the issuance of covered bonds without a preset limit and an AUD 4 billion Australian Covered Bonds Issuance Programme. All programmes have received the highest possible long-term ratings of Aaa and AAA from the rating agencies Moody's and Standard & Poor's.

¹⁾ Fair-value recognition of derivatives

The currency and interest-rate risk inherent in funding conducted in foreign currency is normally hedged throughout the maturity of the funding through currency interest-rate derivatives, known as basis swaps. According to the regulations, all derivatives are to be recognised at fair value (market value), with changes in fair value included in net income/expense from financial transactions.

Major variations in the actual market value between the reporting periods could result in significant changes in the carrying amount and thus also in capital adequacy. However, 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 since the market value of each derivative contract starts and ends at zero. The majority of SCBC's basis swaps are held to maturity.

During the period, the company launched a new five-year benchmark loan, bond 133.

In addition to these funding programmes, SCBC is funded through a subordinated loan from SBAB Bank.

The average maturity of the debt portfolio has been extended through continuous issuances and repurchases in the international and Swedish covered bond markets.

Covered bonds are still SBAB Bank's principal source of funding, and at 30 June, the total value of debt securities in issue under SCBC's lending programme was SEK 150.0 billion (160.7), distributed as follows: Swedish covered bonds SEK 83.1 billion (92.7) and the Euro Medium Term Covered Note Programme SEK 66.9 billion (68.0).

Capital adequacy and risk

SCBC primarily recognises credit risk pursuant to the internal ratings-based approach (IRB approach) and operational and market risk in accordance with the standardised approach.

Taking the transitional regulations into account, SCBC's capital adequacy ratio, Tier 1 capital ratio and core Tier 1 capital ratio under Pillar 1 amounted to 10.3 percent (10.7) at 30 June 2011.

Management of liquidity risks for SCBC is integrated with SBAB Bank. In addition, SCBC has a liquidity facility

agreement with SBAB Bank, under which SCBC can borrow money for its operations from the Parent Company SBAB Bank, when necessary.

OTHER SIGNIFICANT EVENTS DURING THE PERIOD

In conjunction with Carl-Viggo Östlund assuming the position as CEO for SBAB Bank on 1 March, Christine Ehnström stepped down as Chair of SCBC and assumed a position as a Board Member, while Carl-Viggo Östlund succeeded her as Chair.

Christer Löfdahl stepped down as CEO on 21 June and was succeeded by Christine Ehnström, who stepped down as a Board Member in conjunction with her appointment as CEO. No new Board Member has been appointed.

MORE INFORMATION

For more information about the Group, refer to SBAB Bank's interim report.

Financial calendar

Year-end report 2012

7 February 2013

The Board of Directors and CEO provide their assurance that this interim report provides a fair and accurate view of the company's operations, position and earnings, and describes the significant risks and uncertainties to which the company is exposed.

Stockholm, 18 July 2012

Carl-Viggo Östlund
Chairman

Fredrik Bergström
Board Member

Per O. Dahlstedt
Board Member

Christine Ehnström
CEO

Income statement

SEK million	Note	2012 Jan-June	2011 Jan-June	2011 Jan-Dec
Interest income		4,236	3,593	7,735
Interest expense		-3,193	-2,736	-6,046
Net interest income		1,043	857	1,689
Commission income		5	5	10
Commission expense		-48	-56	-106
Net income/expense from financial transactions	3	-993	-343	268
Total operating income		7	463	1,861
General administration expenses		-300	-234	-562
Other operating expenses		-1	-1	-1
Total expenses before loan losses		-301	-235	-563
Profit/loss before loan losses		-294	228	1,298
Loan losses, net	4	4	-8	-11
Operating profit/loss		-290	220	1,287
Tax		76	-58	-339
Profit/loss for the period		-214	162	948

Statement of comprehensive income

SEK million	2012 Jan-June	2011 Jan-June	2011 Jan-Dec
Profit/loss for the period	-214	162	948
Other comprehensive income for the period, after tax	-	-	-
Total comprehensive income/loss for the period	-214	162	948

Balance sheet

SEK million	Note	30 June 2012	30 June 2011	31 Dec 2011
ASSETS				
Lending to credit institutions		12,640	15,908	11,562
Lending to the public	5	209,558	208,503	210,478
Change in value of interest-rate-hedged items in portfolio hedges		1,625	799	2,589
Derivative instruments	6	8,240	4,329	8,172
Deferred tax assets		-	26	-
Other assets		740	68	113
Prepaid expenses and accrued income		280	269	303
TOTAL ASSETS		233,083	229,902	233,217
LIABILITIES AND EQUITY				
Liabilities				
Liabilities to credit institutions		14,549	18,959	15,053
Debt securities in issue		149,977	160,413	160,671
Derivative instruments	6	8,317	4,773	6,440
Other liabilities		12	35	550
Accrued expenses and prepaid income		1,687	1,922	3,164
Deferred tax liabilities		30	-	106
Subordinated debt to Parent Company	7	47,792	33,277	36,300
Total liabilities		222,364	219,379	222,284
Equity				
Share capital		50	50	50
Shareholder contribution		9,550	9,550	9,550
Retained earnings		1,333	761	385
Profit/loss for the year		-214	162	948
Total equity		10,719	10,523	10,933
TOTAL LIABILITIES AND EQUITY		233,083	229,902	233,217

Statement of changes in equity

SEK million	Share capital	Shareholder contribution	Retained earnings	Profit/loss for the year	Total equity
Opening balance, 1 January 2012	50	9,550	1,333		10,933
Total comprehensive income for the period				-214	
Closing balance, 30 June 2012	50	9,550	1,333	-214	10,719
Opening balance, 1 January 2011	50	9,550	861		10,461
Total comprehensive income for the period				162	162
Transactions with shareholders:					
Dividend to Parent Company			-100		-100
Closing balance, 30 June 2012	50	9,550	761	162	10,523
Opening balance, 1 January 2011	50	9,550	861		10,461
Total comprehensive income for the year				948	948
Transactions with shareholders:					
Dividend to Parent Company			-100		-100
Group contribution paid to Parent Company, after tax			-376		-376
Closing balance, 31 December 2011	50	9,550	385	948	10,933

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

Cash-flow statement

SEK million	30 June 2012	30 June 2011	31 Dec 2011
Cash and cash equivalents at the beginning of the year	11,562	7,629	7,629
Cash flow from operating activities	1,588	8,379	4,033
Cash flow from investing activities	-	-	-
Cash flow from funding activities	-510	-100	-100
Increase/decrease in cash and cash equivalents	1,078	8,279	3,933
Cash and cash equivalents at the end of the year	12,640	15,908	11,562

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

Capital base

SEK million	30 June 2012	30 June 2011	31 Dec 2011
Core Tier 1 capital			
Equity	10,720	10,523	10,933
Proposed dividend	-	-26	-
Net provisions for IRB exposures	-101	-141	-120
Core Tier 1 capital	10,619	10,356	10,813
Tier 1 capital	10,619	10,356	10,813
Tier 2 capital	-	-	-
Expanded part of capital base	-	-	-
Deduction from entire capital base	-	-	-
Amount for capital base net after deductible items and limit value	10,619	10,356	10,813

Capital requirement

SEK million	30 June 2012	30 June 2011	31 Dec 2011
Credit risk recognised in accordance with IRB approach			
- Exposures to corporates	1,794	1,925	1,917
- Retail exposures	511	564	552
Total exposures in accordance with IRB approach	2,305	2,489	2,469
Credit risk recognised in accordance with standardised approach			
- Exposures to governments and central banks	0	0	0
- Exposures to municipalities and comparable associations	0	0	0
- Exposures to institutions	295	115	151
- Exposures to corporates	4	25	6
- Retail exposures	5	1	1
- Past-due items	-	0	0
- Other items	2	2	2
Total exposures in accordance with standardised approach	306	143	160
Risks in the trading book	-	-	-
Operational risk	153	143	143
Currency risk	-	-	-
Commodity risk	-	-	-
Total minimum capital requirement	2,764	2,775	2,772
Addition according to transitional regulations	5,453	5,207	5,327
Total capital requirement according to transitional regulations	8,217	7,982	8,099

Capital adequacy

SEK million	30 June 2012	30 June 2011	31 Dec 2011
Core Tier 1 capital	10,619	10,356	10,813
Tier 1 capital	10,619	10,356	10,813
Total capital	10,619	10,356	10,813
Without transitional regulations:			
Risk-weighted assets	34,551	34,677	34,654
Core Tier 1 capital ratio	30.7%	29.9%	31.2%
Tier 1 capital ratio	30.7%	29.9%	31.2%
Capital adequacy ratio	30.7%	29.9%	31.2%
Capital quotient	3.84	3.73	3.90
With transitional regulations:			
Risk-weighted assets	102,712	99,770	101,241
Core Tier 1 capital ratio	10.3%	10.4%	10.7%
Tier 1 capital ratio	10.3%	10.4%	10.7%
Capital adequacy ratio	10.3%	10.4%	10.7%
Capital quotient	1.29	1.30	1.34

Notes

Note 1 Accounting policies

SCBC applies statutory IFRS, which means that the year-end report has been prepared in compliance with IFRS subject to the additions and exceptions that ensue from the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities, the Swedish Financial Supervisory Authority's regulations and general guidelines on annual accounts for credit institutions and securities companies (FFFS 2008:25) and the Annual Accounts Act for Credit Institutions and Securities Companies.

The accounting policies remain unchanged compared with the 2011 Annual Report.

Note 2 Risks and uncertainties

Although the deteriorating European macroeconomic situation affected SCBC's earnings, it had no a significant impact on the company's financial position. While the introduction of the ECB's three-year repo facility had a positive effect on market functionality in the capital markets, the initial positive effects are beginning to wane. However, future European macroeconomic development remains uncertain. The way the economy develops in Sweden is the primary risk factor for SCBC's future earnings capacity and the quality of its assets since the operation is mainly exposed to credit risks in the Swedish housing market.

The management of interest-rate and currency risks entails exposure to price risks.

For further information on SCBC's risks and risk management, refer to the 2011 Annual Report.

Note 3 Net income/expense from financial transactions

SEK million	2012 Jan-June	2011 Jan-June	2011 Jan-Dec
Gains/losses on interest-bearing financial instruments			
- Value changes in hedged items in the hedge accounting	-879	-24	-2,069
- Derivative instruments	-55	-310	2,380
- Loan receivables	36	23	57
- Other financial liabilities	-94	-31	-96
Currency translation effects	-1	-1	-4
Total	-993	-343	268

Changed market values on basis swaps are attributable to "Derivative instruments." With respect to risk management, derivative instruments are related to and have their counter items in all other categories of interest-bearing financial instruments.

Note 4 Loan losses, net

SEK million	2012 Jan-June	2011 Jan-June	2011 Jan-Dec
CORPORATE MARKET			
COLLECTIVE PROVISION FOR CORPORATE MARKET LOANS			
Allocation to/redemption of collective provisions	-6	8	-0
Guarantees	-6	-1	8
Net income/cost for the year for collective provisions for corporate market loans	-12	7	8
RETAIL MARKET			
INDIVIDUAL PROVISION FOR RETAIL MARKET LOANS			
Write-off of confirmed loan losses for the year	-3	-	-
Reversal of prior year provisions for probable loan losses recognised as confirmed loan losses in the financial statements for the year	3	-	-
Provision for probable loan losses for the year	-	-	-3
Net cost for the year for individual provisions for retail market loans	0	-	-3
COLLECTIVE PROVISION FOR RETAIL MARKET LOANS			
Write-off of confirmed loan losses for the year	-1	-0	-0
Recoveries in respect of confirmed loan losses in prior years	-	-	-
Allocation to collective provisions	21	-13	-11
Guarantees	-4	-2	-5
Net cost for the year for collective provisions for retail market loans	16	-15	-16
Net cost for the year for loan losses	4	-8	-11

Guarantees pertain to received or anticipated receivables from the Swedish National Housing Credit Guarantee Board, insurance companies and banks.

Note 5 Lending to the public

SEK million	30 June 2012		30 June 2011		31 Dec 2011	
	Lending	Provision	Lending	Provision	Lending	Provision
Single-family dwellings and holiday homes	83,374	-73	80,588	-77	82,730	-84
Tenant-owner rights	50,253	-44	48,728	-52	48,699	-52
Tenant-owner associations	46,577	-15	47,805	-0	47,920	-4
Private multi-family dwellings	24,412	-14	24,694	-11	25,202	-20
Municipal multi-family dwellings	4,998	-	6,551	-	5,904	-
Commercial properties	90	-	277	-	183	-
Provision for probable loan losses	-146	-	-140	-	-160	-
Total	209,558	-146	208,503	-140	210,478	-160

	30 June 2012	30 June 2011	31 Dec 2011
Doubtful loan receivables and provisions			
a) Doubtful loan receivables	-	-	3
b) Individual provisions for loan receivables	-	-	3
c) Collective provisions for corporate market loans	29	11	24
d) Collective provisions for retail market loans	117	129	133
e) Total provisions (b+c+d)	146	140	160
f) Doubtful loan receivables after individual provisions (a-b)	-	-	0
g) Provision ratio for individual provisions (b/a)	-	-	100%

Note 6 Derivative instruments

30 June 2012, SEK million	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate related	5,287	3,618	285,923
Currency related	2,953	4,699	66,158
Total	8,240	8,317	352,081

Note 7 Subordinated debt to Parent Company

SEK million	30 June 2012	30 June 2011	31 Dec 2011
Subordinated debt to Parent Company	47,792	33,277	36,300
Total	47,792	33,277	36,300

Terms and conditions governing subordination

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

Review report

The auditors' review report on the condensed interim financial information (interim report) was prepared in accordance Chapter 9 of the Annual Accounts Act for Credit Institutions and Securities Companies

Introduction

We have reviewed the report of the Swedish Covered Bond Corporation, SCBC, for the period 1 January 2012–30 June 2012. The Board of Directors and the Managing Director are responsible for preparing and presenting this interim financial information in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express an opinion on this year-end report, based on our review.

The direction and extent of the review

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

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

Opinion

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

Stockholm, 18 July 2012
Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant

AB Sveriges Säkerställda Obligationer (publ)

The Swedish Covered Bond Corporation, SCBC, is a wholly owned subsidiary of SBAB Bank AB (publ).