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

# Annual report 2014

SCBC
Covered Bonds of SBAB

# Contents






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## Financial calendar

| | |
|---|---|
| Annual General Meeting (Stockholm) | 22 April 2015 |
| Interim report January–June | 17 July 2015 |
| Year-end Report 2015 | 5 February 2016 |

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

# 2014 in brief

- **Operating profit, excluding net income/expense from financial transactions, amounted to SEK 883 million (933).**
- **Operating profit totalled SEK 1,064 million (741).**
- **Highly favourable demand for the company's bonds.**
- **All funding programmes have the highest credit rating from Moody's.**

**SCBC in brief**

| | 2014 Jan–Dec | 2013 Jan–Dec |
|---|---|---|
| **Income statement items** | | |
| Net interest income, SEK million | 1,775 | 1,651 |
| Operating profit excluding net income/expense from financial transactions, SEK million | 883 | 933 |
| Operating profit/loss, SEK million | 1,064 | 741 |
| Net profit/loss for the year, SEK million | 838 | 570 |
| **Balance sheet items** | | |
| Lending to the public, SEK billion | 217.6 | 210.0 |
| **Key figures** | | |
| Level of loan losses, %[1] | 0.01 | 0.01 |
| **Capital adequacy without transitional regulations** | | |
| Common Equity Tier 1 capital ratio, % | 72.3 | 58.8 |
| Tier 1 capital ratio, % | 72.3 | 58.8 |
| Total capital ratio, % | 72.3 | 58.8 |
| **Capital adequacy with transitional regulations** | | |
| Total capital ratio, % | 11.2 | 10.6 |
| **Rating, long-term funding** | | |
| Moody's[2] | Aaa | Aaa |

[1] Loan losses in relation to opening balance for lending to the public.
[2] Moody's Investors Service Limited.

# Operations

**The principal operations within the Swedish Covered Bond Corporation ("SCBC") entail issuing covered bonds to finance the SBAB Group's lending operations. SBAB Bank AB (publ), "SBAB", is the Parent Company in the SBAB Group and is wholly owned by the Swedish state.**

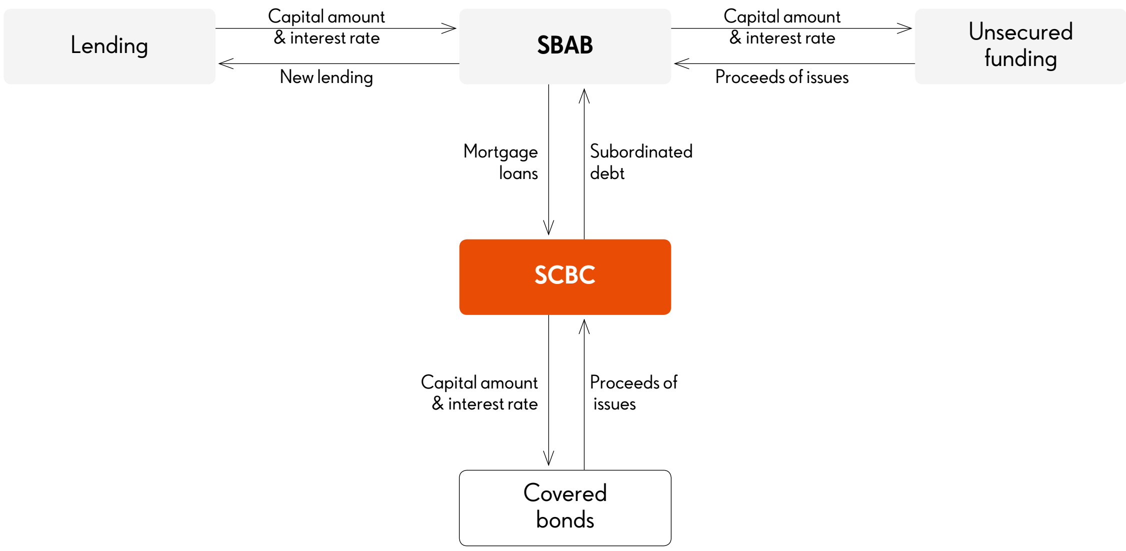
The Swedish Covered Bond Corporation (SCBC), Corp. ID. No. 556645-9755, is a wholly owned subsidiary of SBAB Bank AB, Corp. ID. No. 556253-7513.

SCBC is a credit market company and is regulated by the Swedish Act on Banking and Financing Activities (2004:297) and is subject to supervision by the Swedish Financial Supervisory Authority.

The primary operations within SCBC comprise the issuance of covered bonds in accordance with the Swedish Covered Bonds Issuance Act (2003:1223) and the Swedish Financial Supervisory Authority's regulation FFFS 2013:1. Issues are conducted in both Swedish and international capital markets.

SCBC is domiciled in Stockholm and its operating activities are mainly outsourced to the Parent Company.

**SCBC'S ROLE IN THE SBAB GROUP**



# Lending

**SCBC does not conduct any new lending activities itself, but instead acquires loans, primarily from SBAB Bank, on an on-going basis or as necessary. The aim of these acquisitions is for the loans to be included either entirely or in part in the asset pool that serves as collateral for holders of SCBC's covered bonds and for derivative counterparties.**

## Lending portfolio

As per 31 December 2014, lending to the public amounted to SEK 217.6 billion (210.0). The portfolio within SCBC mainly comprises loans for residential mortgages, with the retail market as the largest segment. The underlying collateral consists primarily of mortgage deeds in single and multi-family dwellings and of collateral in tenant-owner rights. All provision of credit is conducted in the Swedish market and is geographically concentrated in the metropolitan areas and university and growth regions.

## Cover pool

SCBC's total loan portfolio consists of 97% (97) of assets that qualify for inclusion in the cover pool in the issuance of covered bonds. Of the loans in the cover pool, about 99% (98) consist of loans against collateral in mortgage deeds or tenant-owner rights. In calculating the loan to value ratio for these loans, the upper limit of the loans' (or group of loans) loan to value ratio in the pledge is used – known as the Max LTV[1].

1) LTV = Loan to Value

**Key figures for cover pool**

| | 2014-12-31 |
|---|---|
| Total cover pool, SEK billion | 211.4 |
| Loan portfolio, SEK billion | 217.6 |
| Weighted average max LTV, % | 58.3 |
| Average loan amount, SEK thousand | 589 |
| Weighted average seasoning, years | 5.0 |
| Average remaining maturity, years[2] | 1.4 |
| Substitute collateral, SEK billion | 0 |

2) Regarding maturity until the next date for changes in terms for all borrower categories.

**Max LTV for cover pool**

| | 2014-12-31 | | |
|---|---|---|---|
| **Mortgage deeds and tenant-owner rights** | | **LOAN AMOUNT** | |
| **Max LTV, %** | **Number[3]** | **SEK million** | **%** |
| 0–20 | 24,615 | 9,633 | 4.6 |
| 20–40 | 38,212 | 30,050 | 14.4 |
| 40–50 | 24,969 | 24,100 | 11.5 |
| 50–60 | 29,431 | 33,335 | 15.9 |
| 60–70 | 30,999 | 35,154 | 16.8 |
| 70–75 | 71,897 | 76,983 | 36.8 |
| **Total** | **220,123** | **209,256** | **100.0** |

3) "Mortgage deeds" refers to the number of blocks of mortgage deeds. "Tenant-owner rights" refers to the number of loans.

# Funding

**Over the year, the capital markets continued the recovery and normalisation that began in 2012. Expansive monetary policy and austere fiscal policies in countries with large deficits were among the factors that helped reduce uncertainty in the financial system. Over the year, SCBC encountered favourable demand for its bonds among investors in the markets in which the company is active.**

SCBC operates primarily in the Swedish and European covered bond markets. The issuance of covered bonds through SCBC is one of the SBAB Group's key sources of funding. The annual funding requirement is affected by both lending and deposit volumes. Over the year, deposits grew more than lending; accordingly, funding from covered bonds was somewhat lower than previously forecasted. The company does not conduct any lending activities itself, but instead acquires loans from SBAB that are included wholly or in part in the cover pool that serves as collateral for SCBC's covered bonds.

Over the year, SCBC encountered favourable demand for its bonds among investors in the markets in which the company is active. At the end of September, SCBC emitted a 7-year EUR transaction on EUR 1 billion, in which over 75 different investors participated.

## Funding programmes

SCBC's primary operations comprise the issuance of covered bonds in the Swedish and international capital markets. To this end, the company makes use of funding programmes. In Sweden, a covered funding programme with no fixed framework amount is used, while in the international market, a EUR 10 billion EMTCN programme (Euro Medium Term Covered Note Programme) is primarily used. SCBC also has an Australian special funding programme for AUD 4 billion.

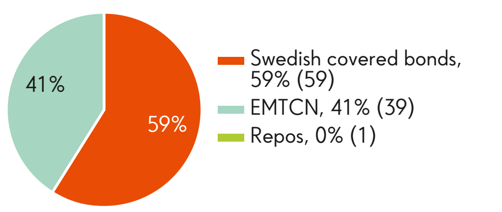
In 2014, SCBC introduced, among other things, two new covered bond loans in the Swedish bond market.

As per 31 December 2014, the total value of covered debt securities in issue under SCBC's lending programme was SEK 175.0 billion (152.7), distributed as follows: Swedish covered bonds SEK 102.2 billion (91.4) and the Euro Medium Term Covered Note Programme SEK 72.8 billion (61.3). During the year bonds valued at SEK 47.2 billion were issued. At the same time, bonds valued at SEK 11.2 billion were repurchased, while bonds for SEK 17.4 billion matured. Alongside revaluations (both up and down) of liabilities due to changes in premiums/discounts, and changes in exchange rates for the SEK, this has caused issued securities to increase in value by SEK 22.3 billion.

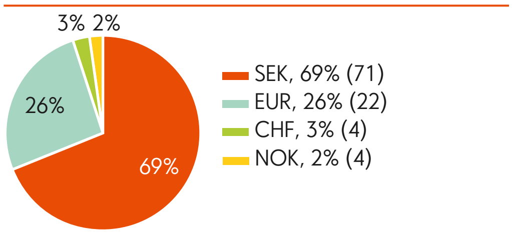
## Rating

All of SCBC's funding programmes have received the highest possible long-term rating of Aaa from the rating agency Moody's. In June, S&P's rating of SCBC was discontinued following the confirmation of SCBC's AAA rating.

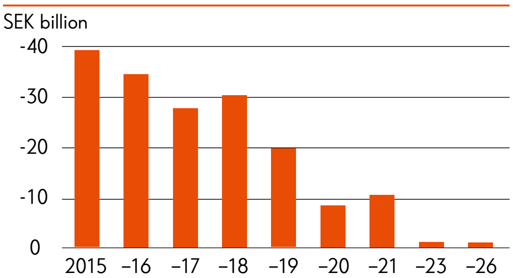
**Funding. Debt outstanding at 31 december 2014: SEK 175 billion (152,7)**




**Funding – currency distribution Debt outstanding at 31 december 2014: 175 billion (152,7)**

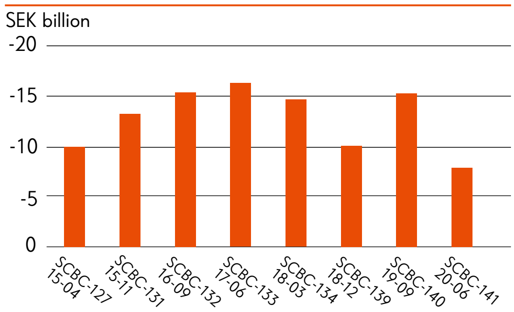



**Total funding volume[1] – maturity profile**




[1] Excluding repos.

**Outstanding volymes, SCBC's Swedish covered bonds**



# Risk management

**SCBC's risk taking is low and is kept at a level commensurate with financial targets for return and scope of risk capital. SCBC's risks consist mainly of credit risk through its lending operations. For further information about SCBC's risk management and capital adequacy, refer to Note 2 or visit SBAB's website: www.sbab.se.**

## Risks in SCBC's operations

Risk is defined as a potentially negative impact that may arise due to on-going internal processes or future internal or external events. The definition of risk includes the probability that an event may occur, as well as the impact that event might have on SCBC's profit, equity or value.

## Authority and responsibility

SCBC's Board of Directors bears the overarching responsibility for the company's total risk exposure. The Board of Directors are responsible for ensuring that the operations can be conducted with generally accepted internal control, so that SCBC's ability to meet its obligations is not jeopardised. As SCBC's operations are outsourced to the Parent Company, SBAB, SBAB also acts as the CRO of SCBC.

| Risk | Description |
|---|---|
| CREDIT RISK | The counterparty is unable to fulfil its payment obligations. |
| LIQUIDITY RISK | Being unable to meet payment obligations on the date of maturity without the cost of obtaining payment funds increasing significantly. |
| MARKET RISK | A decline in profitability due to unfavourable market fluctuations. |
| OPERATIONAL RISK | Losses due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events, including legal risk. |
| BUSINESS RISK | Declining income due to deteriorating competitive conditions or an incorrect strategy or decision. |
| CONCENTRATION RISK | Exposures concentrated to certain counterparties, borrowers, regions or industries. |

The Managing Director is responsible for on-going administration in accordance with the strategies, guidelines and governance documents adopted by the Board of Directors. The Managing Director also ensures, on an on-going basis, that the reporting to the Board of Directors by each unit, including the independent risk control function, is conducted in accordance with the relevant instructions to the Board.

The independent risk control function is responsible for the identification, quantification, analysis and reporting of all risks. The CRO, who reports directly to the Managing Director and Board of SCBC, is responsible for independent risk control.

## Risk strategy

SCBC shall identify, measure, govern, report internally and maintain control of the risks that SCBC is or may become exposed to. There shall be satisfactory internal control and a functioning and effective risk management system. SCBC shall have knowledge and awareness of any risks to which the company may be exposed. SCBC shall be able to estimate the size of the risks to which the company is and may become exposed. There shall be an independent function for risk control, which shall have the skills and authority required.

All SCBC and SBAB employees who carry out tasks for SCBC within the framework of the outsourced operations are responsible for managing the company's risk, as part of their on-going work. Within the framework of the outsourced operations, SCBC regularly informs and provides training to its employees on the company's risk management framework.

SCBC has a documented process for the approval of new or significantly altered products, services, markets, processes and IT-systems as well as major operational and organisational changes.

## Risk taking

The level of risk taking within SCBC shall be low. This is achieved by ensuring that total risk level is kept at a level compatible with short- and long-term strategic plans, capital plans and financial plans.

An important part of SCBC's business model entails risks being relatively small and predictable, making it possible to maintain a large volume of business in relation to own funds. This does not mean that each individual credit exposure has very low risk, but rather that the total lending portfolio consists largely of low-risk exposures such that SCBC's total risk is limited. The basis for SCBC's appetite for various types of risk is that each risk should fit within a well-defined area of SCBC's risk-bearing capacity. Risk-bearing capacity primarily refers to the capacity to manage unexpected and expected losses by means of own funds or on-going earnings capacity and, secondly, the capacity to minimise unwanted risks by means of appropriate functions, strategies, processes, procedures, internal rules, limits and controls. The total risk exposure may not exceed the total risk-bearing capacity. The scope of the acceptable risk must be clearly linked to how important the prevailing risk is to SCBC's business model and the positive effects anticipated to be achieved in the form of expected revenues, cost savings or reductions in other risk.

# Results of the operations

**Operating profit, excluding net income/expense from financial transactions for 2014 decreased to SEK 883 million (933). Net interest income increased to SEK 1,775 million (1,651).**

## Operating profit/loss

Operating profit for 2014 amounted to SEK 1,064 million (741). Net interest income rose compared with the preceding year to SEK 1,775 million (1,651). The higher net interest income is mainly due to lower funding costs. At year-end, the lending portfolio amounted to SEK 217.6 billion (210.0).

Net result from financial transactions amounted to SEK 181 million (expense 192). The single largest factor impacting earnings was unrealised market-value changes on derivative instruments[1].

Net commission amounted to an expense of SEK 92 million (expense: 83), including a fee of SEK 66 million (62) for the government stability fund.

SCBC's total operating income increased in comparison with the preceding year to SEK 1,864 million (1,376). Expenses for the year increased to SEK 826 million (656). The principal cause was higher costs totalling SEK 822 million (579) for payment to SBAB for administrative services provided in accordance with an outsourcing agreement. Net loan losses amounted to a positive SEK 26 million (positive: 21).

## Capital adequacy

Basel III was implemented on 1 January 2014 and the new regulations entail, among other things, requirements for increased own funds and higher capital requirements compared with earlier regulations.

SCBC has taken this into account in its capital planning and meets the requirements in the new rules. According to a preliminary assessment, capital requirements, own funds and major exposures will not be materially affected by changes in IFRS that have been published but that have yet to take effect. For more information on SCBC's capital adequacy, refer to Note 2.

## Dividend policy and appropriation of profits

SCBC has no established dividend policy. Dividends are proposed by the Board in accordance with provisions in the Companies Act and are subsequently resolved by the Annual General Meeting. For 2014, it is proposed that no dividend is to be paid. The complete proposed appropriation of profits is given on page 34 as an integrated part of the Administration Report. All shares are owned by the Parent Company SBAB.

## Corporate Governance Report

SCBC's Corporate Governance Report for 2014 is appended to this Annual Report on page 36. The information it provides regarding the most important aspects of the company's system of internal governance and control is given on page 38.

## Future prospects, risks and uncertainties

The economic trend 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 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 sensitive to global economic developments and to conditions on the international financial markets. The risks regarding these factors are expected to decrease over the upcoming years but are nonetheless significant. A strained housing market and high household indebtedness among retail customers result in the economy also being sensitive to changes in interest rates and house prices. The risks associated with these factors are expected to increase as long as housing prices and indebtedness continue to rise faster than incomes. For further information on SCBC's risks and risk management, please refer to the Risk Management section and Note 2.

## Changes in the Executive Management and Board of Directors

On 3 November 2014, Mikael Inglander was appointed new Managing Director of SCBC. He replaced Christine Ehnström who resigned from her position as the Managing Director on the same date. Mikael Inglander holds the position of Chief Financial Officer in SBAB. On 3 November 2014, Bo Magnusson was appointed as the Chairman of the Board of the company. On the same date, Per O. Dahlstedt resigned from his appointment as a Board Member of SCBC and since 3 November 2014, the Board of Directors comprise the following Board Members; Bo Magnusson (Chairman), Jakob Grinbaum (Board Member) and Klas Danielsson (Board Member). Bo Magnusson is the Chairman and Jakob Grinbaum the deputy Chairman of SBAB's Board of Directors. Klas Danielsson is the CEO of SBAB.

[1] See Note 5.

# Five-year overview

| SEK million | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Interest income | 5,739 | 6,211 | 7,902 | 7,735 | 3,667 |
| Interest expenses | –3,964 | –4,560 | –6,115 | –6,046 | –2,227 |
| **Net interest income** | **1,775** | **1,651** | **1,787** | **1,689** | **1,440** |
| Other operating income[1] | 89 | –275 | –1,407 | 172 | 181 |
| **Total operating income** | **1,864** | **1,376** | **380** | **1,861** | **1,621** |
| Operating expenses | –826 | –656 | –587 | –563 | –464 |
| **Total operating expenses** | **–826** | **–656** | **–587** | **–563** | **–464** |
| **Profit/loss before loan losses** | **1,038** | **720** | **–207** | **1,298** | **1,157** |
| Loan losses, net | 26 | 21 | 13 | –11 | –10 |
| **Operating profit/loss** | **1,064** | **741** | **–194** | **1,287** | **1,147** |
| Lending portfolio | 217,579 | 209,982 | 208,875 | 210,478 | 209,661 |
| Deferred tax assets | 17 | – | – | – | – |
| Other assets | 10,853 | 18,057 | 22,202 | 22,739 | 14,208 |
| **Total assets** | **228,449** | **228,039** | **231,077** | **233,217** | **223,869** |
| Debt securities in issue, etc. | 174,986 | 152,656 | 152,874 | 160,671 | 155,319 |
| Other liabilities | 9,437 | 22,973 | 27,803 | 25,207 | 19,709 |
| Deferred tax liabilities | | 388 | 7 | 106 | 17 |
| Subordinated debt to Parent Company | 31,181 | 40,115 | 39,602 | 36,300 | 38,363 |
| Equity | 12,845 | 11,907 | 10,791 | 10,933 | 10,461 |
| **Total liabilities and equity** | **228,449** | **228,039** | **231,077** | **233,217** | **223,869** |

[1] The item includes net commission, net income/expense from financial transactions and other operating income.

| **Key figures** | | | | | |
|---|---|---|---|---|---|
| **Lending** | | | | | |
| Investment margin, % | 0.78 | 0.72 | 0.77 | 0.74 | 0.68 |
| **Loan losses** | | | | | |
| Loan loss rate, % | 0.01 | 0.01 | 0.01 | –0.01 | –0.01 |
| **Productivity** | | | | | |
| Expenditure/Income ratio, % | 44 | 48 | 154 | 30 | 29 |
| Return on assets, % | 0.4 | 0.2 | –0.1 | 0.4 | 0.4 |
| Return on equity, % | 6.8 | 5.0 | –1.3 | 8.9 | 8.4 |
| **Capital structure** | | | | | |
| Common Equity Tier 1 capital ratio without transitional regulations, % | 72.3 | 58.8 | 33.6 | 31.2 | 30.6 |
| Tier 1 capital ratio without transitional regulations, % | 72.3 | 58.8 | 33.6 | 31.2 | 30.6 |
| Total capital ratio without transitional regulations, % | 72.3 | 58.8 | 33.6 | 31.2 | 30.6 |
| Total capital ratio with transitional regulations, % | 11.2 | 10.6 | 10.3 | 10.7 | 10.3 |
| Equity ratio, % | 5.6 | 5.2 | 4.7 | 4.7 | 4.7 |
| Consolidation ratio, % | 5.6 | 5.4 | 4.7 | 4.7 | 4.7 |
| **Employees** | | | | | |
| Number of employees | 5 | 1 | 1 | 1 | 1 |

## Definitions of key figures

**Investment margin** Net interest income in relation to average total assets.

**Loan loss rate** Loan losses in relation to opening balance for lending to the public.

**Expenditure/Income ratio** Total operating expenses/total income.

**Return on assets** Operating profit/loss after actual tax, in relation to average total assets.

**Return on equity** Operating profit/loss after actual tax in relation to average equity.

**Common Equity Tier 1 capital ratio** Tier 1 capital less additional Tier 1. instruments in relation to risk-weighted assets (RWA).

**Total capital ratio** Own funds/risk-weighted assets.

**Tier 1 capital ratio** Tier 1 capital/risk-weighted assets.

**Equity ratio** Equity in relation to total assets at year-end.

**Consolidation ratio** Equity and deferred tax in relation to total assets at year-end.

**Number of employees** Permanent employees.

# Financial statements and notes

## Financial statements



## Notes

# Income statement

| SEK million | Note | 2014 | 2013 |
|---|---|---|---|
| Interest income | 3 | 5,739 | 6,211 |
| Interest expenses | 3 | -3,964 | -4,560 |
| **Net interest income** | | **1,775** | **1,651** |
| | | | |
| Commission income | 4 | 9 | 8 |
| Commission expense | 4 | -101 | -91 |
| Net income/expense from financial transactions | 5 | 181 | -192 |
| **Total operating income** | | **1,864** | **1,376** |
| | | | |
| General administration expenses | 6 | -824 | -655 |
| Other operating expenses | | -2 | -1 |
| **Total expenses before loan losses** | | **-826** | **-656** |
| **Profit/loss before loan losses** | | **1,038** | **720** |
| | | | |
| Loan losses net | 7 | 26 | 21 |
| **Operating profit/loss** | | **1,064** | **741** |
| | | | |
| Taxes | 8 | -226 | -171 |
| **Profit/loss for the year** | | **838** | **570** |

# Statement of comprehensive income

| SEK million | Note | 2014 | 2013 |
|---|---|---|---|
| **Profit for the year** | | **838** | **570** |
| Changes related to cash flow hedges, before tax | 23 | 128 | – |
| Tax attributable to cash flow hedges | | -28 | – |
| Other comprehensive income for the year, net after tax | | 100 | – |
| **Total comprehensive income for the year** | | **938** | **570** |

# Balance sheet

| SEK million | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Lending to credit institutions | 9 | 2,841 | 11,179 |
| Lending to the public | 10 | 217,579 | 209,982 |
| Change in value of interest-rate-hedged items in portfolio hedges | | 1,193 | 1,164 |
| Derivative instruments | 11 | 6,315 | 4,631 |
| Deferred tax assets | 21 | 17 | – |
| Other assets | 15 | 329 | 866 |
| Prepaid expenses and accrued income | 16 | 175 | 217 |
| **Total assets** | | **228,449** | **228,039** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Liabilities to credit institutions | 17 | 4,080 | 14,644 |
| Debt securities in issue, etc. | 18 | 174,986 | 152,656 |
| Derivative instruments | 11 | 2,866 | 5,617 |
| Other liabilities | 19 | 19 | 10 |
| Accrued expenses and prepaid income | 20 | 2,472 | 2,702 |
| Deferred tax liabilities | 21 | – | 388 |
| Subordinated debt to Parent Company | 22 | 31,181 | 40,115 |
| **Total liabilities** | | **215,604** | **216,132** |
| | | | |
| **Equity** | | | |
| Share capital | | 50 | 50 |
| Shareholder contribution | | 9,550 | 9,550 |
| Fair value reserve | 23 | 100 | – |
| Retained earnings | | 2,307 | 1,737 |
| Profit/loss for the year | | 838 | 570 |
| **Total equity** | 23 | **12,845** | **11,907** |
| **Total liabilities and equity** | | **228,449** | **228,039** |
| | | | |
| **Memorandum items** | | | |
| Assets pledged for own liabilities | 24 | 211,651 | 204,189 |

# Statement of changes in equity

| SEK million | Note | Restricted equity: Share capital | Non-restricted equity: Fair value reserve | Non-restricted equity: Shareholder contribution | Non-restricted equity: Retained earnings | Non-restricted equity: Profit for the year | Total Equity |
|---|---|---|---|---|---|---|---|
| **OPENING BALANCE, 1 JAN 2013** | | 50 | – | 9,550 | 1,191 | | 10,791 |
| Transactions with shareholders: | | | | | | | |
| Group contributions received after tax | | | | | 546 | | 546 |
| Profit for the year | | | | | | 570 | 570 |
| **CLOSING BALANCE, 31 DEC 2013** | | **50** | **–** | **9,550** | **1,737** | **570** | **11,907** |
| **OPENING BALANCE, 1 JAN 2014** | | 50 | – | 9,550 | 2,307 | | 11,907 |
| Other comprehensive income, net after tax | 23 | | 100 | | | | 100 |
| Profit for the year | | | | | | 838 | 838 |
| **Total comprehensive income for the year** | | | **100** | | | **838** | **938** |
| **CLOSING BALANCE, 31 DEC 2014** | | **50** | **100** | **9,550** | **2,307** | **838** | **12,845** |

The shareholder's contribution that was paid is conditional and the Parent Company SBAB Bank AB (publ) is entitled to reimbursement for the contribution from the Swedish Covered Bond Corporation's disposable earnings, provided that the Annual General Meeting grants approval thereof.

# Cash flow statement

| SEK million | 2014 | 2013 |
|---|---|---|
| **Cash and cash equivalents at the beginning of the year** | **11,179** | **10,054** |
| **OPERATING ACTIVITIES** | | |
| Interest received | 5,792 | 6,315 |
| Commission received | 3 | 11 |
| Interest paid | -4,820 | -5,164 |
| Commission paid | -83 | -98 |
| Realised changes in value | 110 | -147 |
| Payments to suppliers | -872 | -589 |
| Income tax paid | -848 | -23 |
| Change in subordinated debt | -8,934 | 513 |
| Change in lending to the public | -7,554 | -1,073 |
| Change in liabilities to credit institutions | -10,565 | -439 |
| Issuance of long-term funding | 47,239 | 29,830 |
| Repayment of long-term funding | -28,708 | -28,000 |
| Change in other assets and liabilities | 202 | -11 |
| **Cash flow from operating activities** | **-9,038** | **1,125** |
| **INVESTING ACTIVITIES** | | |
| **Cash flow from investing activities** | **–** | **–** |
| **FUNDING ACTIVITIES** | | |
| Dividend paid | – | – |
| Group contribution provided | 700 | – |
| **Cash flow from funding activities** | **700** | **–** |
| **Increase/decrease in cash and cash equivalents** | **-8,838** | **1,125** |
| **Cash and cash equivalents at the end of the year**[1] | **2,841** | **11,179** |

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

# Notes

## Note 1 Accounting policies

The Swedish Covered Bond Corporation, "SCBC", is a wholly owned subsidiary of SBAB Bank (publ), "SBAB". SCBC is a credit market company whose operations focus on the issuance of covered bonds. Operations commenced in 2006, when the company was granted a licence by the Swedish Financial Supervisory Authority to issue covered bonds. The Parent Company, SBAB Bank, is a Swedish public limited liability company that is domiciled in Stockholm County, City of Stockholm. The address of the Head Office is SBAB Bank AB (publ), Box 27 308, SE-102 54 Stockholm.

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

The Annual Report has been prepared in accordance with the acquisition method, apart from derivatives and financial assets and liabilities at fair value through profit or loss, as well as hedge-accounted items.

On 12 March 2015, the Board of Directors approved the financial statements for publication. They will receive final approval from the Annual General Meeting on 22 April 2015.

**Amended and new accounting policies in 2014**

*IAS 39 – Financial Instruments: Recognition and Measurement*

- In 2013, an amendment to IAS 39 (and IFRS 9) was published concerning the novation of derivatives and continuation of hedge accounting. The amendment makes it possible for an existing hedge relationship to continue if a novation, even if it was not intended at the outset of the hedging relationship, meets specific criteria. The addition has not had any significant impact on SCBC's financial statements. The standard is applied effective from 1 January 2014.

*Other*

- The clarification of IAS 32 regarding set-off rules has not had any impact on SCBC's financial statements.

**Accounting policies that were first applied in 2014**

In the third quarter, SBAB started to report transactions according to the cash flow hedging method. In case of cash flow hedging, the hedging instrument is measured 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 special 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 change in value is transferred to the income statement under the item "Net income/expense from financial transactions" where the realised gain or loss arising at the end of the hedge relationship is recognised.

**Introduction of new accounting standards**

*IFRS 9 – Financial Instruments*

In 2014, the IASB published IFRS 9 Financial Instruments.
IFRS 9 Financial Instruments shall replace IAS 39 Financial Instruments: Classification and measurement regarding classification and measurement, impairment and hedge accounting. Accounting for macro hedges is the subject of an on-going separate project within the IASB.

Classification occurs on the basis of the company's business model and the characteristic properties of its contractual cash flows. In turn, the classification determines the measurement. The impairment model according to IFRS 9 is based on expected losses rather than loss events that have occurred as in the current model. The purpose of the new model is that expected credit losses should be captured and reported at an earlier stage. The new standard also requires enhanced disclosures. The new stipulations on hedge accounting have a clearer ambition to reflect risk management and include new disclosures. SCBC has not yet conducted a complete analysis of how the new standard will affect SCBC's financial statements. The standard will be applied from 1 January 2018.

*IFRS 15 Revenue from contracts with clients*

The standard introduces a five-step model for determining when revenues within the scope of IFRS 15 shall 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 certain point in time when the control over goods or services is transferred. The standard will have limited impact on SCBC's financial statements. The standard will be applied from 1 January 2017.

*Other*

Other amendments, such as IFRIC 21 Levies, will not have any significant impact on SCBC's financial statements.

**General accounting policies**

*Recognition in and derecognition from the balance sheet*

Securities in issue and all derivative instruments 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 the cash flows from the financial asset expire and the company 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 expires.

*Recognition of income and expense*

Interest income and interest expense (including interest income from impaired receivables) are recognised in accordance with 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 via net interest income over the expected maturity of the loan.

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

In the event of premature redemption of loans, the customer pays interest compensation intended to cover the cost that arises for SCBC. This compensation is recognised as income directly under the heading "Net income/expense from financial transactions." Other items under this heading are described in the section "Financial instruments."

**Financial instruments**

*Classification*

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

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

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

*Offsetting*

A financial asset and a financial liability shall be offset and recognised at the net amount 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 at the sale of an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants.

Measurement of the fair value 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.

## Note 1 Accounting Policies, Continued

Calculations conducted in connection with measurement are based to the greatest extent possible 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 and liabilities respectively at fair value through profit or loss*
The categories "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss" are divided into holdings held for trading and financial assets/liabilities that Executive Management has designated as such upon initial recognition. All of SCBC's assets and liabilities in these categories are derivatives and have been classified as held for trading. Both categories include derivatives that are not subject to hedge accounting. Assets and liabilities in these categories are initially recognised at fair value, while related transaction costs are recognised in the income statement.

Changes in fair value and realised gains or losses for these assets and liabilities are recognised in the income statement under the heading "Net income/expense from financial transactions," while the effective interest rate is recognised in net interest income.

*Loans and receivables*
On initial recognition, financial assets classified as loans and receivables are recognised at cost. Loans and receivables 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.

Changes in value and impairments are recognised as "Loan losses, net," while the effective interest rate is recognised as interest income. Refer also to the section "Loan losses".

*Other financial liabilities*
Financial liabilities that are not classified as "Financial liabilities at fair value through profit or loss" 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 debt securities in issue and liabilities to credit institutions.

Realised profit or loss from the repurchase of own liabilities affects profit or loss when incurred and is recognised under the heading "Net income/expense from financial transactions."

*Repos*
Repos are agreements where the parties have simultaneously reached agreement on the sale and repurchase of a particular security at a pre-determined price. Securities that have been provided or received according to a repo agreement are 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.

**Derivatives and hedge accounting**
Derivative instruments are used primarily to eliminate interest-rate and currency risks in the company's assets and liabilities. Derivatives 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, SCBC has chosen to apply hedge accounting for hedging of the 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, at fair value through profit or loss.

*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 the income statement under the heading "Net income/expense from financial transactions." 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 adjusting 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 the income statement under the heading "Net income/expense from financial transactions."

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

In fair value hedging of portfolios of assets, the gain or loss attributable to the hedged risk is recognised under the heading "Change in value of interest-rate-hedged items in portfolio 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 hedging*
In case of cash flow hedging, the hedging instrument (the derivative contract) is measured 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 special 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 change in value is transferred to the income statement under the item "Net income/expense from financial transactions," 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**
*Loans and receivables recognised at amortised cost*
On the balance-sheet date, an assessment takes place of whether there is any objective evidence that an individual loan or group of loans requires impairment. This takes place as a result of events that have occurred after the initial recognition of the asset and which have had an impact on the estimated future cash flows for the loan receivable or group of loan receivables in question. Events that could lead to the loan being impaired include, depending on the circumstances, bankruptcy, 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 and any use of the collateral are taken into consideration when assessing the need for impairment. Any expenses associated with the realisation of the pledge are included in the cash flow calculations. Measurement of probable loan losses is effected in gross amounts and, when there is a guarantee, this is recognised as a receivable against the counterparty. If the present value of future cash flows exceeds the carrying amount of the asset, no impairment takes place and the loan receivable is not regarded as doubtful. The impairment amount is recognised in the income statement under the heading "Loan losses, net."

Confirmed loan losses and provisions for probable 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-owner 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 for which no individual provisions are made. These consist of a large number of loans each of a limited amount and with similar credit risk characteristics.

## Note 1 Accounting Policies, continued

- Individually measured loan receivables where no objective evidence of individual impairment requirements has been determined in accordance with the above information on "Individually measured loan receivables."

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 produce 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 events that have recently taken place but which have not yet had an impact on the risk classification system.

*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 the income statement under the item "Net income/expense from financial transactions."

*Restructured receivables*
A restructured loan receivable is a receivable on which SBAB has made some form of concession, such as exemption from amortisation, due to a deterioration of the borrower's financial position or because the borrower has encountered other financial problems. Concessions granted are regarded as a confirmed loan loss. A loan that has been restructured is no longer regarded as doubtful but as a receivable with new conditions.

**Other**
*Functional currency*
Functional currency is the currency used in the primary economic environments in which SCBC operates. SCBC's functional currency and presentation currency is SEK.

*Foreign currency translation of receivables and liabilities*
Foreign currency transactions are recognised by applying the exchange rate on the date of transaction, and foreign currency receivables and liabilities are translated using the closing day rate. Foreign exchange gains or losses resulting from settlements of foreign currency transactions and from the translation of monetary assets and liabilities in foreign currency are recognised in the income statement under "Net income/expense from financial transactions."

*Tax*
Total tax consists of current tax and deferred tax. Current tax comprises tax which is to be paid or received for taxable earnings during the current year and adjustments of current tax for previous years. Accordingly, for items recognised in the income statement, the related tax effects are also recognised in the income statement. 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 carryforwards 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 lending to credit institutions with a maturity not later than three months from the acquisition date.

*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 operations 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 results. SCBC's operations consist primarily of investments in loan receivables with a risk level permitting the issuance of covered bonds. Consequently, only a single segment is reported, SCBC as a whole.

*Dividends*
Dividends to the Parent Company are recognised in the balance sheet when the dividend has been approved by the Annual General Meeting.

*Group contributions*
Group contributions paid or received are recognised as a decrease or increase in unrestricted equity after adjustments for estimated tax, in accordance with the principal rule in RFR 2 IAS 27, p2.

**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 commitments, as well as income and expenses presented in the Annual Report. Subsequently, the actual outcome may differ to some extent from the estimates made. The area that primarily entails a risk of causing an adjustment to recognised assets in the next financial year is the measurement of loan receivables. For collectively measured loan receivables, the estimates of future cash flows are based partly on assumptions concerning how observable data may result in loan losses. See also the section "Loan losses" above.

## Note 2 Risk management and capital adequacy

Risk is a natural component of all businesses and all risks that arise must be managed. SCBC primarily assumes credit risk in its lending operations, although there are also risks in other parts of the operations.

Note 2, Risk management and capital adequacy is divided into the following segments:
2a) Credit risk in lending operations
2b) Credit risk in treasury operations
2c) Liquidity risk
2d) Market risk
2e) Operational risk
2f) Business risk
2g) Concentration risk
2h) Internal capital adequacy assessment
2i) Capital adequacy analysis

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

**Credit risk in lending operations**
SCBC does not conduct its own lending operations – instead, all loans have been acquired from the Parent Company. The credit risk in the lending operations is restricted by credit limits decided on for various customers or customer groups. The credit risk is also managed through a credit granting process, whereby the ability of potential borrowers to make their interest payments and pay amortisation is analysed. The loans that have been acquired have been granted to borrowers who are judged to be able to pay interest and amortisation in an interest-rate situation that comfortably exceeds the rate prevailing when the loan decision is taken. Furthermore, risk classification is based on the internal ratings-based approach (IRB approach) for the analysis of the credit risk for new and existing customers in the loan portfolios. If any loan remains unsettled after 30 days, it is reacquired by the Parent Company.

SCBC applies the IRB approach for retail loans and loans to tenant-owner associations with a turnover of less than EUR 50 million and the foundation IRB approach (FIRB approach) for corporate loans. The IRB approach is used for assessing the credit risk associated with each part of the company's individual exposures to retail or corporate customers that have a mortgage deed or a tenant-owner right as collateral. For other types of exposures, the standardised approach is used for measurement of credit risk.

## Note 2a Risk management – Credit risk, lending, continued

For cases in which external ratings are used, the lowest rating from either Moody's or Standard & Poor's is selected.

In 2014, SCBC has applied for permission to use the existing IRB method for certain minor exposures for which the standardised approach is currently used, as well as a permanent permit to apply the standardised approach to exposures that, with regard to their risk profile and size, are of less significance, and which in 2014 are subject to a time-limited permit. In 2014, SBAB was granted a permanent permit to use the standardised approach to exposures of less significance, while the application to apply the IRB method to minor exposures was still being processed on 31 December 2014.

The 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)
- Conversion factor (KF) – The part of the off-balance sheet commitment that is utilised in the event of default
- 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

On the basis of these, customers are ranked according to risk, and the expected and unexpected loss can be estimated. After assessment, the exposure is allocated to one of eight risk classes for retail and corporate loans, of which the eighth class comprises customers in default. The development of customers in high risk classes is monitored thoroughly and, when necessary, the exposure is managed actively by credit monitoring personnel in the credit division. The developed models are validated annually and calibrated as the need arises. The validations in 2014 did not result in any changes to models.

In the financial statements, the calculated loan loss (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[2] ("CRR"). According to the regulation, the risk associated with each individual loan is to be estimated based on historic information, over a longer period of time, using a statistical model. The management of the loss arising in the financial statements is 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 the future cash flows. EL for loans calculated according to IRB models amounts to SEK 106 million (127). The provision for corresponding loans according to the financial statements is SEK 70 million (84). In the capital adequacy calculation, the difference is subtracted in the calculation of the own funds.

In connection with the quantitative assessment in lending to corporates[1], a systematic qualitative assessment is conducted based on the internal loan regulations by responding to a number of questions. This enables a more uniform risk assessment founded on a larger amount of data.

**Collateral in the lending operations**

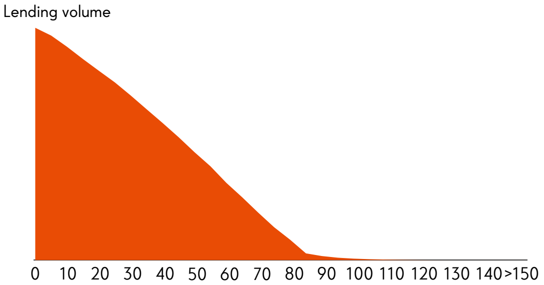
For loans granted by SBAB, adequate collateral must normally be provided. Adequate collateral primarily refers to mortgage deeds in residential properties or shares in tenant-owner associations within a maximum of 75–85% of the market value. The 85% level applies only provided that collateral can be obtained with priority right and that 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 C1–C4. For other cases, the loan to value ratio of 75% applies.

In addition to collateral in the form of mortgage deeds in residential property or shares in tenant-owner associations, it is possible to grant loans against, inter alia, collateral in the form of a government guarantee, municipal guarantee, securities, bank guarantee and deposits in a Swedish bank. SCBC does not hold any collateral that has been taken over to protect a receivable. Lending to the public accounts for 95% (92) of CSBC's overall assets. Without taking collateral received or any other forms of credit enhancement into account, the maximum credit risk exposure for the lending operations matches the carrying amount and amounts to SEK 218 billion (210). [Note: Last year, this was in millions?]

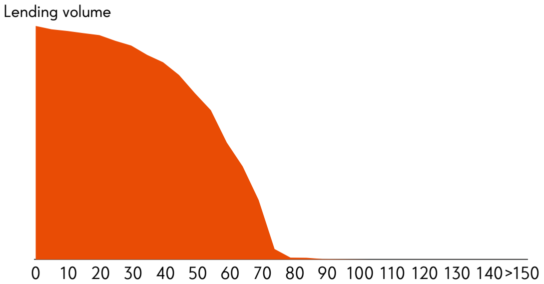
The financial effect of collateral received is illustrated in the diagrams below of loans in relation to the market value of underlying collateral for loans secured on collateral comprising mortgage deeds or shares in tenant-owner associations. The floor area in the diagrams corresponds to the lending volume and shows that SCBC's lending portfolio has favourable collateral, since the floor area is greatest in connection with lower loan to value ratios. The table encompasses 99% (99) of the company's total lending to the public. Since 97% (97) of lending is secured through mortgage deeds in residential properties or shares in tenant-owner associations, between 75% and 94% (93) of the borrowers are in risk classes 1-4, in which credit quality is judged to be highly favourable.

**Loans in relation to the market value of underlying collateral (LTV) for loans secured on collateral comprising mortgage deeds or tenant-owner rights.**

**Retail exposures**




**Exposures to corporates**




| Segment | Below 50% | Below 75% | Below 100% | Exposure-weighted average LTV |
|---|---|---|---|---|
| Exposures to corporates | 78.3% | 99.5% | 100.0% | 63.8% |
| Retail exposures | 79.8% | 96.9% | 99.9% | 60.7% |
| **Total** | **79.7%** | **97.1%** | **99.9%** | **60.7%** |

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

As per 31 December 2014, SCBC's lending to the public amounted to SEK 217.6 billion (210.0), Every customer is allocated to a risk class. Customers with individually reserved loans are always allocated the worst Corporate Market risk class (C8) or the worst Retail Market risk class (R8). Loans covered by collective provisions are obtained for the Corporate Market from risk classes C6–C7, and collectively impaired Retail Market loans comprise loans in risk classes R5–R8. Risk class C0 comprises loans to counterparties with a 0% risk weight (Swedish municipalities). Transaction costs of SEK 51 million (38), which were attributable to the loans, are distributed in the table on a pro rata basis.

[1] Retail loans refer to all lending to the public pertaining to single-family homes, holiday homes and tenant-owner rights, as well as loans to tenant-owner associations, with a turnover of less than EUR 50 million. Loans to corporates refers to i) loans to legal entities, and ii) other loans to private individuals with property as collateral.

[2] CRR refers to the European Parliament and Council's recommendation on supervisory requirements for credit institutions and securities companies No. 575/2013

## Note 2a Risk management – Credit risk, lending, continued

### Loan portfolio by risk class – Retail (including tenant-owner associations)

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Risk class [1)] | Lending | Provisions/lending in respective risk class | Lending | Provisions/lending in respective risk class |
| R1/C1 | 26.4% | – | 21.3% | 0.0% |
| R2/C2 | 35.1% | – | 33.9% | 0.0% |
| R3/C3 | 21.9% | – | 25.7% | 0.0% |
| R4/C4 | 10.0% | 0.0% | 11.1% | 0.0% |
| R5/C5 | 4.7% | 0.3% | 5.4% | 0.3% |
| R6/C6 | 1.3% | 0.9% | 1.6% | 0.9% |
| R7/C7 | 0.6% | 3.2% | 0.9% | 2.7% |
| R8/C8 | 0.0% | 2.9% | 0.1% | 4.0% |
| | **100%** | 0.0% | **100.0%** | 0.1% |

1) C = Corporate, R = Retail

### Loan portfolio allocated by risk class – Corporate Market

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Risk class [1)] | Lending | Provisions/lending in respective risk class | Lending | Provisions/lending in respective risk class |
| C0 | 0.1% | – | 0.1% | – |
| C1 | 66.7% | – | 72.9% | – |
| C2 | 20.7% | – | 11.9% | – |
| C3 | 9.7% | – | 10.7% | – |
| C4 | 1.2% | – | 2.8% | – |
| C5 | 1.3% | 0.9% | 1.0% | 0.1% |
| C6 | 0.3% | 4.2% | 0.5% | 2.5% |
| C7 | 0.0% | 1.1% | 0.1% | 3.2% |
| C8 | – | – | – | – |
| | **100%** | 0.0% | **100.0%** | 0.0% |

1) 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 terms of the loans
- With unpaid amounts more than five days past-due – the borrower has not fulfilled its payment obligations
- With individual provisions, doubtful receivables.

For individually reserved loan receivables, 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.

### Lending to the public and credit institutions based on the status of the borrower's payments

| | 2014 | | 2013 | |
|---|---|---|---|---|
| **SEK million** | **Public** | **Credit institutions** | **Public** | **Credit institutions** |
| ❶ Current loans without past-due unpaid amounts or provisions | 217,671 | 7,437 | 209,793 | 11,079 |
| ❷ Loans with unpaid amounts more than five days past due | 6 | – | 298 | – |
| ❸ Loans with individual provisions | – | – | 3 | – |
| **Total outstanding loans** | **217,677** | **7,437** | **210,094** | **11,079** |
| Individual provisions | – | – | -3 | – |
| Collective provisions, corporates | -13 | – | -10 | – |
| Collective provisions, retail | -85 | – | -99 | – |
| **Total provisions** | **-98** | **–** | **-112** | **–** |
| **Total lending after provisions** | **217,579** | **7,437** | **209,982** | **11,079** |
| Guarantees for loans with individual provisions | – | – | – | – |
| Guarantees for loans with collective provisions, corporates | 5 | – | 2 | – |
| Guarantees for loans in collective provisions, corporates | 23 | – | 26 | – |
| **Total guarantees** | **28** | **–** | **28** | **–** |
| **Total lending after provisions and guarantees** | **217,607** | **7,437** | **210,010** | **11,079** |

As per 31 December 2014, total provisions (individual and collective) amounted to SEK 70 million (84) after deductions for guarantees. No provisions were made for loans to credit institutions.

## Note 2a Risk management – Credit risk, lending, continued

**❶ 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 on 31 December 2014, 94% (93) were in the risk classes C0/R1–C4/R4. Loans for commercial properties are also secured through municipal guarantees or mortgage deeds in residential properties. The allocation includes total transaction costs of SEK 51 million (38), which were allocated among individual loans without past-due unpaid amounts or loans with individual provisions. The transaction costs derive mainly from single-family dwellings and tenant-owner rights.

### Lending to the public by segment – current loans without past-due unpaid amounts or provision

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| Risk class | Single-family dwellings and holiday homes | Tenant-owner rights | Tenant-owner associations | Private multi-family dwellings | Municipal multi-family dwellings | Commercial properties[1)] | Total |
| C0 | – | – | – | – | 21 | – | 21 |
| C/R1 | 25,701 | 12,395 | 14,543 | 12,013 | 310 | – | 64,962 |
| C/R2 | 29,330 | 18,022 | 22,588 | 3,746 | 64 | – | 73,750 |
| C/R3 | 19,937 | 18,416 | 5,330 | 1,735 | 13 | 12 | 45,443 |
| C/R4 | 10,350 | 8,853 | 635 | 220 | 6 | – | 20,064 |
| C/R5 | 4,777 | 4,115 | 541 | 203 | 20 | 2 | 9,658 |
| C/R6 | 1,287 | 1,015 | 187 | 62 | – | – | 2,551 |
| C/R7 | 171 | 385 | 51 | 7 | – | – | 1,160 |
| C/R8 | 17 | 9 | 36 | – | – | – | 62 |
| **Total** | **92,116** | **63,210** | **43,911** | **17,986** | **434** | **14** | **217,671** |

1) Exposures recognised in this category are complemented with municipal guarantees or collateral in residential properties.

### Lending to the public by segment – current loans without past-due unpaid amounts or provision

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Risk class | Single-family dwellings and holiday homes | Tenant-owner rights | Tenant-owner associations | Private multi-family dwellings | Municipal multi-family dwellings | Commercial properties[1)] | Total |
| C0 | – | – | – | – | 25 | – | 25 |
| C/R1 | 18,354 | 7,517 | 14,188 | 13,055 | 3,385 | – | 56,499 |
| C/R2 | 26,409 | 14,460 | 22,875 | 2,525 | 61 | – | 66,330 |
| C/R3 | 22,357 | 19,302 | 6,540 | 2,322 | 25 | 12 | 50,558 |
| C/R4 | 10,496 | 9,187 | 1,050 | 520 | 99 | – | 21,352 |
| C/R5 | 4,978 | 4,651 | 543 | 183 | 24 | 2 | 10,381 |
| C/R6 | 1,530 | 1,191 | 189 | 81 | – | – | 2,991 |
| C/R7 | 1,039 | 527 | 14 | 13 | – | – | 1,593 |
| C/R8 | 22 | 6 | 36 | – | – | – | 64 |
| **Total** | **85,185** | **56,841** | **45,435** | **18,699** | **3,619** | **14** | **209,793** |

1) Exposures recognised in this category are complemented with municipal guarantees or collateral in residential properties.

## Note 2a Risk management – Credit risk, lending, continued

**❷ 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. For loans with past-due amounts in several time intervals are shown in full in the oldest time interval.

Only SEK 6 million of lending had unpaid amounts that were past due or was assessed as doubtful at year-end. Of SCBC's loan portfolio of SEK 217.6 billion (210.0), there is no unsettled principal. This is due to the fact that the Parent Company acquires credits from SCBC that have been unsettled for more than 30 days. A new method of calculation based on the exact number of days instead of grouping the receivables by maturity has affected the comparative figures for 2013. Due to the change of methods, SEK 291 million in receivables that were placed in the group 5–30 days in the previous year, ended up in the group 31–60 days this year. These receivables have been past due for 31–32 days according to the new method of calculation.

**Lending to the public by segment – loans with unpaid amounts more than five days past due[1)]**

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| SEK million | Single-family dwellings and holiday homes | Tenant-owner rights | Tenant-owner associations | Private multi-family dwellings | Municipal multi-family dwellings | Commercial properties | Total |
| Past-due 5–30 days[1)] | 3 | 3 | – | – | – | – | 6 |
| Past-due 31–60 days | – | – | – | – | – | – | – |
| Past due 61–90 days | – | – | – | – | – | – | – |
| Past due 91–180 days | – | – | – | – | – | – | – |
| Past due 181–365 days | – | – | – | – | – | – | – |
| Past-due > 365 days | – | – | – | – | – | – | – |
| **Total** | **3** | **3** | **–** | **–** | **–** | **–** | **6** |

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| SEK million | Single-family dwellings and holiday homes | Tenant-owner rights | Tenant-owner associations | Private multi-family dwellings | Municipal multi-family dwellings | Commercial properties | Total |
| Past-due 5–30 days[1)] | 2 | 3 | 2 | – | – | – | 7 |
| Past-due 31–60 days | 159 | 84 | 48 | – | – | – | 291 |
| Past due 61–90 days | – | – | – | – | – | – | – |
| Past due 91–180 days | – | – | – | – | – | – | – |
| Past due 181–365 days | – | – | – | – | – | – | – |
| Past-due > 365 days | – | – | – | – | – | – | – |
| **Total** | **161** | **87** | **50** | **–** | **–** | **–** | **298** |

[1)] 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.

## Note 2a Risk management – Credit risk, lending, continued

**❸ Loans with individual provisions (doubtful receivables)**
"Doubtful receivables" refers to receivables where provisions have been made following individual risk assessment. As of 31 December 2014, there were no doubtful receivables. In the previous year, doubtful receivables related to lending to tenant-owner rights amounted to SEK 3 million.

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

Restructuring of a loan receivable may entail that:
- the terms of the loan are modified by terms that are not normal market terms,
- the borrower partly repays the loan by handing over various assets,
- the borrower agrees to convert part of the loan receivable into an ownership share, or
- the borrower is replaced or supplemented by a new borrower.

### Carrying amount of renegotiated loans by segment

| SEK million | 2014 | 2013 |
|---|---|---|
| Single-family dwellings and holiday homes | 1 | 2 |
| Tenant-owner rights | 1 | 1 |
| Tenant-owner associations | 10 | 10 |
| Private multi-family dwellings | – | – |
| Municipal multi-family dwellings | – | – |
| Commercial properties | – | – |
| **Total** | **12** | **13** |

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

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

In the treasury operations, credit risk arises in the form of counterparty credit risk associated with the derivative and repo contracts entered into by SCBC to manage its financial risk.

### Limit utilisation

| SEK million | 2014 | | 2013 | |
|---|---|---|---|---|
| **Rating category** | **Limit** | **Utilised limit** | **Limit** | **Utilised limit** |
| AAA | 0 | 0 | 0 | 0 |
| AA- to AA+ | 8,110 | 1,472 | 5,600 | 473 |
| A- to A+ | 13,610 | 656 | 8,825 | 187 |
| Lower than A- | 2,110 | 0 | 910 | 197 |
| **Total** | **23,830** | **2,128** | **15,335** | **857** |

The table shows limits and utilised limits, respectively, at an aggregate level per credit rating category, with each counterparty placed in relation to its lowest credit rating, for SCBC's counterparties. The exposure in the summary includes external derivative and repo contracts entered into by SCBC and which are outstanding as per 31 December 2014. At the Group level, limits for each counterparty are set for all investments, derivative contracts and repo contracts. The table above shows the limits for the SBAB Group.

In accordance with the credit directive, the limits are set by SBAB's Credit Committee within the framework adopted by the Board of the Parent Company. The utilised limit is viewed as the market value of financial derivative instruments, repo contracts and investments. For derivative and repo contracts, the effect of collateral pledged or received according to CSAs or GMRAs is included in the total limit. For derivative contracts, a surplus amount is also calculated for potential future exposure. For counterparties who are also loan customers, the limit is coordinated with the credit limit. The limits can be set for a maximum period of one year before a new assessment must be made. The decisions of the Credit Committee are to be reported to the Board of Directors at the following Board meeting. Unilateral collateral agreements have been set up for all of SCBC's derivatives counterparties. The reason why limits and utilised limits are higher compared to 2013 is primarily due to the fact that the SBAB Group introduced a new methodology in 2014 for following up limits, as a surplus amount for potential future exposure is now included in the exposure for derivatives.

**Counterparty credit risk**
Within SCBC, counterparty credit risk consists of exposures to leading banks and the Parent Company and, to external counterparties, is secured entirely through unilateral collateral agreements in which the counterparty pledges collateral by transferring funds or securities with the purpose of reducing the exposure – this is referred to as a Credit Support Annex (CSA). Wherever applicable, the received collateral takes the form of cash with a transfer of title that entitles the party that receives the collateral to use the collateral in its operations.

To minimise the potential counterparty credit risk associated with derivative transactions involving non-standardised derivative instruments 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. Where appropriate, ISDA Master Agreements or similar agreements are supplemented with associated collateral agreements – CSAs. When SCBC enters into derivative agreements, an associated CSA must always be in place. The framework agreements entitle the parties to net receivables against debt in the event of a payment default.

Counterparty credit risk is reconciled on a daily basis for all counterparties. Reconciliation for CSAs takes place daily or weekly. Derivative contracts entered into with external counterparties are predominantly entered into within the Parent Company, where the CSAs are reconciled with all counterparties on a daily basis, while the majority of SCBC's derivatives are entered into with the Parent Company as the counterparty. The effects of pledged and received collateral are shown in greater detail in Note 14 Information about offsetting. As per 31 December 2014, SCBC had received collateral for a total value of SEK 1.27 billion.

Credit risk limits are set by SBAB's Credit Committee for all counterparties in the treasury operations, with the exception of the Swedish government and companies included in the SBAB Group, for which no limits are set. In the table "Maximum credit risk exposure in the treasury operations," the maximum credit risk exposure is shown with and without taking collateral received or other credit reinforcement into account.

## Note 2b Risk management – Credit risk in treasury operations, continued

### Maximum credit risk exposure in the treasury operations

| SEK million | Without taking into account collateral received or other credit enhancements 2014 | 2013 | Taking into account collateral received or other credit enhancements 2014 | 2013 |
|---|---|---|---|---|
| Lending to credit institutions | 2,836 | 11,072 | 2,841 | 11,079 |
| Chargeable treasury bills and other eligible bills | – | – | – | – |
| Bonds and other interest-bearing securities | – | – | – | – |
| Derivative instruments | 6,315 | 4,631 | 5,048 | 3,244 |
| **Maximum credit risk exposure at 31 December** | **9,151** | **15,703** | **7,889** | **14,323** |

### Collateral posted and received under collateral agreements, 31 December 2014

SEK million

| Company | Collateral pledged | Collateral received |
|---|---|---|
| SCBC | 5 | 1,267 |

## 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.

Liquidity risk management for SCBC is performed as an integral part of the Group's overarching management and no specific follow-up of liquidity risk takes place at the SCBC level. For further information please see Note 2c in SBAB's Annual Report. SCBC has an agreement regarding a liquidity facility with the Parent Company, SBAB. The purpose of the agreement is that SCBC should be able to borrow money from the Parent Company in the event that SCBC is unable to pay bond holders when SCBC's bonds mature.

### Maturities for financial assets and liabilities (Amounts refer to contractual, undiscounted cash flows)

| SEK million | 2014 Without maturity | < 3 months | 3–6 months | 6–12 months | 1–5 years | > 5 years | Total | 2013 Without maturity | < 3 months | 3–6 months | 6–12 months | 1–5 years | > 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | | | | |
| Lending to credit institutions | 57 | 2,785 | – | – | – | – | 2,842 | 100 | 11,133 | – | – | – | – | 11,233 |
| Loans to the public | – | 31,907 | 42,340 | 74,102 | 73,292 | 4,032 | 225,673 | – | 30,141 | 34,478 | 70,239 | 80,788 | 4,030 | 219,676 |
| Derivative instruments | – | 12,982 | 4,015 | 2,910 | 34,304 | 11,636 | 65,847 | – | 4,315 | 1,462 | 4,962 | 49,846 | 1,866 | 62,451 |
| Other assets | 504 | – | – | – | – | – | 504 | 1,083 | – | – | – | – | – | 1,083 |
| **Total financial assets** | **561** | **47,674** | **46,355** | **77,012** | **107,596** | **15,668** | **294,866** | **1,183** | **45,589** | **35,940** | **75,201** | **130,634** | **5,896** | **294,443** |
| **LIABILITIES** | | | | | | | | | | | | | | |
| Liabilities to credit institutions | – | 4,065 | – | – | – | – | 4,065 | – | 14,700 | – | – | – | – | 14,700 |
| Debt securities in issue, etc. | – | 12,018 | 14,524 | 17,592 | 116,412 | 22,263 | 182,809 | – | 2,232 | 14,241 | 9,256 | 134,218 | 3,126 | 163,073 |
| Derivative instruments | – | 13,102 | 3,772 | 2,635 | 31,783 | 11,606 | 62,898 | – | 4,164 | 964 | 5,681 | 51,477 | 2,044 | 64,330 |
| Other liabilities | 2,491 | – | – | – | – | – | 2,491 | 2,712 | – | – | – | – | – | 2,712 |
| Subordinated debt | 31,181 | – | – | – | – | – | 31,181 | 40,115 | – | – | – | – | – | 40,115 |
| **Total financial liabilities** | **33,672** | **29,185** | **18,296** | **20,227** | **148,195** | **33,869** | **283,444** | **42,827** | **21,096** | **15,205** | **14,937** | **185,695** | **5,170** | **284,930** |

For receivables and liabilities that have been amortised, the period of fixed interest for the amortisation has been calculated as the period up to the date of maturity for the particular amortisation.

Foreign currency cash flows have been recalculated at the closing rate at 31 December 2014. Future interest-rate cash flows with floating interest rates have been estimated using forward-forward interest rates based on the actual interest base, usually the three-month STIBOR.

## Note 2d Risk management – Market risk

Market risk is the risk of loss or reduced future income due to market volatility. SCBC is characterised by a low level of risk taking that is handled within the framework of the SBAB Group's overall risk appetite and limits for Value at Risk (VaR), which are determined by the Board of Directors. In addition to VaR, a number of supplementary risk-based measures set by the CEO of SBAB are also subject to limitation. Through daily reports, Risk Control controls that current risk levels and limits are adhered to.

The management of SCBC's risks is outsourced to the Parent Company, SBAB, where they are followed up and managed at both the company and Group levels. The basic objective for SBAB's management of SCBC's market risk is to minimise the risk in the cover pool, with the overriding objective of meeting the requirements for matching rules as expressed in the Act (2003:1223) on the issuance of covered bonds. The general principle governing SCBC's exposure to market risk is that the level of risk taking should be low. Interest-rate risk shall as a general principle be minimised through direct funding or the use of derivatives. SCBC's interest-rate structure at 31 December 2014 is shown in the table "Fixed-interest periods for financial assets and liabilities." Foreign exchange risks are minimised through the hedging of funding in foreign currencies by cross currency swaps. As per 31 December 2014, total assets and liabilities in foreign currency amounted to a negative SEK 53.92 billion in nominal terms. The outstanding risk was reduced using derivatives where the nominal amount was equivalent to SEK 53.93 billion. The total effect per currency is reported in the table "Nominal amounts, assets, liabilities and derivatives in foreign currency."

### Value at Risk

VaR is a comprehensive portfolio measure expressing the potential loss that could occur given a certain level of probability and holding period. The SBAB Group's model is a so-called historical model and applies percentiles in historic market data from the past two years.

Limits for the day-to-day follow-up of risk have been set at three levels: for the market risk of the entire SBAB Group portfolio, for all market risks that Treasury is responsible for managing, and for the trading portfolio, where the exposure within SCBC is included as part of the two first-mentioned levels. The limit for the market risk of the whole SBAB Group portfolio is based on the VaR measure included in the model for economic capital and applies a probability level of 99.97% and a holding period of one year, while, for the market risks that Treasury is responsible for managing, a probability level of 99% is applied and holding period of one day.

As per 31 December 2014, the exposure to the market risk of the whole SBAB Group portfolio amounted to SEK 608 million (661), compared with the SEK 1,350 million limit. Exposure to market risks managed by Treasury amounted to SEK 7 million (11) and the limit was SEK 30 million.

### Supplementary risk measures

In addition to the VaR limits determined by the Board of Directors, the CEO has set a number of supplementary risk measures for different kinds of risks to which the SBAB Group is exposed. The limits are followed-up at the Group level, and SCBC's positions are included as a component of the total exposure. For interest-rate risk, there are limits for parallel shifts, where the effect on the present value at 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). Foreign exchange risk is tested by measuring the effect on the present value when the SEK's exchange rate change in relation to other currencies. SCBC's positions are included in the follow-up of limits set for earnings volatility for basis spreads. Earnings volatility for basis spreads arise because the derivatives used to hedge funding are recognised at fair value while the underlying funding is reported at the carrying amount, in accordance with the accounting standards applied by the SBAB Group. This causes effects to arise in operating profit/loss that do not correspond to the actual risk that the SBAB Group portfolio is exposed to. The earnings volatility for basis spreads is expected to decrease going forward, as the SBAB Group has applied hedge accounting through cash flow hedges since 2014, which means that earnings volatility will only be calculated for swap contracts that are not subject to cash flow hedges.

Interest-rate risk in the banking book is measured and reported to the Swedish Financial Supervisory Authority in accordance with FFFS 2007:4. As per 31 December 2014, the effect on the present value was SEK -402 million at a parallel shift upward by 2 percentage points and SEK 416 million at a parallel shift downward by 2 percentage points. As the SCBC's own funds amounted to SEK 12.7 billion as per 31 December 2014, the effect of the stress amounted to -3.2% and 3.3% of the own funds, respectively.

### Nominal amounts, assets, liabilities and derivatives in foreign currency

| SCBC<br>SEK million | Assets and liabilities | Derivatives |
|---|---|---|
| CHF | -5,292 | 5,292 |
| EUR | -45,546 | 45,559 |
| GBP | 0 | 0 |
| NOK | -3,080 | 3,080 |
| USD | 0 | 0 |
| **Total** | **-53,919** | **53,931** |

### Fixed-interest periods for financial assets and liabilities

| Carrying amounts, SEK million | 2014 | | | | | | | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Without fixed-interest period | < 3 months | 3–6 months | 6–12 months | 1–5 years | > 5 years | Total | Without fixed-interest period | < 3 months | 3–6 months | 6–12 months | 1–5 years | > 5 years | Total |
| **ASSETS** | | | | | | | | | | | | | | |
| Lending to credit institutions | – | 2,841 | – | – | – | – | 2,841 | 100 | 11,079 | – | – | – | – | 11,179 |
| Loans to the public | – | 121,361 | 13,706 | 17,569 | 62,069 | 2,874 | 217,579 | – | 106,066 | 12,798 | 19,734 | 68,668 | 2,716 | 209,982 |
| Change in fair value of interest-rate-hedged loan receivables | – | 35 | 44 | 103 | 864 | 148 | 1,193 | – | 5 | 31 | 84 | 1,046 | -2 | 1,164 |
| Derivative instruments | – | -6,272 | 0 | 405 | 9,919 | 2,264 | 6,315 | – | -9,349 | 242 | -9 | 13,356 | 391 | 4,631 |
| Other assets | 504 | | | | | | 504 | 1,083 | – | – | – | – | – | 1,083 |
| **Total financial assets** | **504** | **117,965** | **13,749** | **18,077** | **72,851** | **5,285** | **228,432** | **1,183** | **107,801** | **13,071** | **19,809** | **83,070** | **3,105** | **228,039** |
| **LIABILITIES** | | | | | | | | | | | | | | |
| Liabilities to credit institutions | – | 4,080 | – | – | – | – | 4,080 | – | 14,644 | – | – | – | – | 14,644 |
| Debt securities in issue, etc. | – | 27,479 | 14,529 | 13,253 | 98,356 | 21,369 | 174,986 | – | 22,992 | 12,398 | 177 | 115,120 | 1,969 | 152,656 |
| Derivative instruments | – | 2,482 | 82 | 138 | -149 | 315 | 2,866 | – | 4,226 | 329 | 407 | 924 | -269 | 5,617 |
| Other liabilities | 2,491 | – | – | – | – | – | 2,491 | 2,712 | – | – | – | – | – | 2,712 |
| Subordinated debt | 45 | 31,136 | – | – | – | – | 31,181 | -632 | 40,747 | – | – | – | – | 40,115 |
| **Total financial liabilities** | **2,536** | **65,177** | **14,611** | **13,391** | **98,206** | **21,683** | **215,604** | **2,080** | **82,609** | **12,727** | **584** | **116,044** | **1,700** | **215,744** |
| **Difference assets and liabilities** | **-2,032** | **52,788** | **-861** | **4,686** | **-25,355** | **-16,398** | **12,828** | **-897** | **25,192** | **344** | **19,225** | **-32,974** | **1,405** | **12,295** |

## 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 SCBC, 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 of Directors and the Managing Director. The Operational Risk & Security function within SBAB has overall responsibility for the methods and procedures used for identifying, governing, controlling and reporting on operational risk, including follow-up. The work on identifying and managing operational risk is conducted against a backdrop of the SBAB Group's strict view of risk and focus on cost efficiencies. SBAB, and accordingly also SCBC, strive for developing and improving the methods used for identifying and managing operational risk. This entails constant efforts to improve the bank's risk culture and procedures to manage operational risk and incidents effectively and proactively.

**Self assessment**
The self assessment process encompasses identification of risks in all units, measurement of identified risks and management of significant risks. The result of the self assessment is reported annually to the Board of Directors and the Managing Director. The entire business uses a common method for self assessment of operational risk, and the method is further used to cover all key processes within the bank.

**Incident management and reporting**
Supported by SBAB, SCBC has procedures and systems support intended to facilitate the reporting and follow-up of incidents The Operational Risk & Security function within SBAB supports the operations in the reporting and analysis, 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.

**Process for approving changes (GFF)**
SCBC has a process for the approval of new or significantly altered products, services, markets, processes and IT-systems as well as major operational and organisational changes. The purpose of GFF is the advance identification and management of risk related to change.

**Security and contingency management**
In the SBAB Group, 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. SCBC's security efforts include technical, organisational and administrative measures, and they are based on the international information security standard ISO/IEC 27002:5.

SCBC works in a pre-emptive manner to prevent security incidents that may affect the company's ability to operate. A crisis management organisation is responsible for crisis management and for management and communication in case of serious incidents, crises or disasters.

**IT governance**
SBAB's Operative Risk & Security function within IT governance principles at SCBC in accordance with FFFS 2014:5. The overall goal is to create operative processes for measuring, evaluating and adapting IT in order to optimise resources. The purpose is to create value for the SBAB Group, manage IT-related risk and create information to support decision-making and transparency for the Executive Management and the Board of Directors regarding IT.

**Capital requirements for operative risks**
SCBC uses the standardised approach to assess capital requirements for operational risk. This approach entails that the capital requirement is based on 12–18% of the average operating income of the business areas for the past three years. Capital requirements for operational risk are presented in the Table Capital requirements on page 25.

## Note 2f Risk management – Business risk

Business risk refers to the risk of declining earnings due to harsher competition, inappropriate strategies or erroneous decisions. Business risk includes strategic risk, reputation risk and margin risk, which arise when the interest margins on lending and borrowing have different maturities.

Business risk is included in the calculation of the capital requirement based on economic capital using a standardised approach that reflects the business areas' operating expenses.

## 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. The SBAB Group 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 2014, the internally calculated capital requirement for concentration risk amounted to SEK 346 million (422), of which SEK 322 million (404) pertained to credit risk in the lending operations and SEK 25 million (18) to credit risk in the funding operations.

## Note 2h Risk management – Internal capital adequacy assessment

**Internal capital adequacy assessment**
The internal capital adequacy assessment process is conducted for the consolidate situation in the SBAB Group, in which SCBC forms a significant part.

Within the framework of Pillar 2, the Basel regulations impose the requirement that the banks' management and assessment of risks must be satisfactory to ensure that the banks can fulfil their obligations. In order to fulfil 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 purpose of the ICAAP is to identify, evaluate, secure and manage the risks to which SBAB is exposed and ensure that the Group has sufficient risk capital for its selected risk profile. The ICAAP is revised annually to identify changes in the operating environment that continuously affect the Group'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 capital. If economic capital is less than the capital requirements under Pillar 1 for a given type of risk, the capital requirements under Pillar 1 are applied. A qualitative assessment is also made of the risks that are not included in the calculation of economic capital. In addition, consideration is given to the risk associated with deteriorating market conditions, which is illustrated in conjunction with stress tests. What is finally taken into account is the impact on profit or loss caused by a valuation effect on primarily basis swap spreads as well as spreads on residential bonds and government paper that arise due to accounting regulations. The valuation effect is not estimated to affect risk in the operations, apart from the impact on own funds. Based on the qualitative assessment and results of the stress tests, as well as the calculation of earnings volatility, the calculated economic capital is supplemented with extra buffer capital.

Within the Pillar 2 framework, the risk weight floor implemented by the Swedish Financial Supervisory Authority for Swedish residential mortgages is considered as an extra add-on. In September 2014, the Swedish Financial Supervisory Authority decided to raise the risk weight floor from 15% to 25%.

Taken together, the above comprise the capital that, in accordance with Basel II, 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 2014," which is published on www.sbab.se

## Note 2i Risk management – Capital adequacy analysis

As of 2014, new rules on capital adequacy apply. The purpose of the new rules is in part to make institutions more resilient to new crises, in part to raise confidence in the institutions' ability to manage new crises. The rules include higher capital requirements, stricter demands on capital quality, the introduction of a non-risk-based measure (leverage ratio) and quantitative liquidity requirements. SCBC has taken this into account in its capital planning and meets the requirements in the new rules.

The Swedish Financial Supervisory Authority has decided to increase the nationally determined risk weight floor from 15 to 25% for residential mortgages to Swedish households. Banks that are considered systemic will be subject to additional capital requirements. SCBC is not subject to these requirements. In November 2014, the Swedish Financial Supervisory Authority announced that an amortisation requirement will be introduced for new residential mortgages. According to this requirement, new residential mortgages must be amortised by 2% of the initial loan until a loan to value ratio of 70% is been reached, and thereafter by 1% down to a loan to value ratio of 50%.

SCBC primarily recognises credit risk in accordance with the IRB approach, and operational and market risk in accordance with the standardised approach.

SCBC's own funds solely consist of Common Equity Tier 1 capital. The net profit/loss for the period is included in the calculation of own funds. The deduction that forms the basis of "Additional value adjustments" in the "Own funds" table emanate from the rules on a prudent valuation of assets. The figures do not include a dividend to shareholders, which is in line with the Board of Directors' proposal for the appropriation of profits. The profits have been verified by the Company's auditors, in accordance with Article 16, item 2, of the CRR.

Section 2h contains a summary of the method used to assess the internal capital requirement.

There are no on-going or unforeseen material obstacles or legal barriers to a rapid transfer of funds from own funds other than those generally stipulated by the Companies Act.

Disclosure of own funds during a transitional period
Disclosures in accordance with Article 5 of Commission Implementing Regulation (EU) No 1423/2013

### Own funds

| SEK million | Amount as per 31 December 2014 | Amount as per 31 December 2014[1)] |
|---|---|---|
| **Common Equity Tier 1 capital: Instruments and reserves** | | |
| Capital instruments and associated share premium accounts | 9,600 | 9,600 |
| Retained earnings | 2,307 | 1,191 |
| Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses according to applicable accounting standards) | 100 | n/a |
| Interim profit/loss after deduction of foreseeable costs and dividends, verified by persons in an independent position | 838 | 570 |
| **Common Equity Tier 1 capital before regulatory adjustments** | **12,845** | **11,361** |
| **Common Equity Tier 1 capital: regulatory adjustments** | | |
| Additional value adjustments (negative amount) | -9 | – |
| Reserves in fair value related to profit or loss on cash flow hedging | -100 | – |
| Negative amounts following the calculation of expected loss amounts | -36 | -43 |
| Gains or losses on liabilities valued at fair value that result from changes in the own credit standing of the institution | 0 | n/a |
| **Total regulatory adjustments to the Common Equity Tier 1 capital** | **-145** | **-43** |
| **Common Equity Tier 1 capital** | **12,700** | **11,318** |
| **Additional Tier 1 instruments: Instruments** | | |
| **Additional Tier 1 instruments before regulatory adjustments** | **–** | **–** |
| **Additional Tier 1 instruments: Regulatory adjustments** | | |
| **Total regulatory adjustments of additional Tier 1 instruments** | **–** | **n/a** |
| **Additional Tier 1 instruments** | **–** | **–** |
| **Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + additional Tier 1 instruments)** | **12,700** | **11,318** |
| **Tier 2 capital: Instruments and provisions** | | |
| **Tier 2 capital before regulatory adjustments** | **–** | **–** |
| **Tier 2 capital. Regulatory adjustments** | | |
| **Total regulatory adjustments of Tier 2 capital** | **–** | **n/a** |
| **Tier 2 capital** | **–** | **–** |
| **Total capital (total capital = Tier 1 capital + Tier 2 capital)** | **12,700** | **11,318** |
| **Total risk-weighted assets** | **17,565** | **19,263** |
| **Capital ratios and buffers** | | |
| Common Equity Tier 1 capital (as a percentage of the risk-weighted exposure amount), % | 72.3 | 58.8 |
| Tier 1 capital (as a percentage of the risk-weighted exposure amount), % | 72.3 | 58.8 |
| Total capital (as a percentage of the risk-weighted exposure amount), % | 72.3 | 58.8 |
| Institution-specific buffer requirements (common equity Tier 1 capital requirement according to Article 92(1)(a) plus capital conservation buffer requirement and countercyclical capital buffer, plus systemic risk buffer, plus buffer for systemic institutions (G-SII buffer and O-SII buffer) expressed as a percentage of the risk-weighted exposure amount, % | 2.5 | n/a |
| – of which, capital conservation buffer requirement, % | 2.5 | N/A |
| – of which, countercyclical buffer requirement | – | N/A |
| – of which, systemic risk buffer requirement, % | – | N/A |
| – of which, G-SII buffer and O-SII buffer | – | N/A |
| Common Equity Tier 1 capital, available for use as a buffer (as a percentage of the risk-weighted exposure amount) | – | n/a |
| **Capital instruments that are subject to phase-out arrangements (only applicable between 1 January 2013 and 01 January 2022)** | | |
| Current ceiling for additional Tier 1 instruments that are subject to phase-out arrangements | – | n/a |
| Amount excluded from additional Tier 1 instruments due to the ceiling (amounts that exceed the ceiling after redemption and maturity) | – | n/a |
| Current ceiling for Tier 2 instruments that are subject to phase-out arrangements | – | n/a |

1) According to the earlier regulations (Basel II)

## Note 2i Risk management – Capital adequacy analysis, continued

### Capital requirements

| SEK million | Capital requirements 31 December 2014 | Risk exposure amount 31 December 2014 | Capital requirements 31 December 2013[1] | Risk exposure amount 31 December 2013[1] |
|---|---|---|---|---|
| **Credit risk recognised in accordance with IRB approach** | | | | |
| Exposure to corporates | 371 | 4,633 | 439 | 5,483 |
| Retail exposure | 684 | 8,560 | 713 | 8,916 |
| *– of which, exposures to small and medium-sized companies* | *104* | *1,301* | *136* | *1,699* |
| *– of which, exposures to tenant-owner rights, single-family dwellings and holiday homes* | *580* | *7,259* | *577* | *7,217* |
| **Total exposure recognised in accordance with IRB approach** | **1,055** | **13,193** | **1,152** | **14,399** |
| **Credit risk recognised in accordance with standardised approach** | | | | |
| Exposures to central governments and central banks | 0 | 0 | 0 | 0 |
| Exposures to regional governments or local authorities | 0 | 0 | 0 | 0 |
| Exposures to institutions[2] | 37 | 463 | 212 | 2,653 |
| *– of which, derivatives listed in CRR, Annex II* | *4* | *54* | *42* | *531* |
| *– of which, repos* | *32* | *405* | *169* | *2,117* |
| Exposure to corporates | 1 | 12 | 2 | 25 |
| Retail exposures | 1 | 12 | 1 | 12 |
| Defaulted exposures | – | – | 0 | 0 |
| Exposures to institutions and corporates with a short-term credit assessment | 1 | 11 | – | – |
| Other items | 100 | 1,246 | 3 | 38 |
| **Total exposure in accordance with the standardised approach** | **140** | **1,744** | **218** | **2,728** |
| **Market risk** | **31** | **392** | **–** | **–** |
| *– of which, currency risk* | *31* | *392* | – | – |
| **Operational risk** | **147** | **1,836** | **171** | **2,136** |
| **Credit rating risk** | **32** | **400** | **–** | **–** |
| **Total minimum capital requirement and risk exposure amount** | **1,405** | **17,565** | **1,541** | **19,263** |
| **Applicable capital buffer (capital conservation buffer)** | **439** | **–** | **–** | **–** |
| **Total capital requirement (including capital conservation buffer)** | **1,844** | | | |

[1] According to the previous regulations (Basel II)
[2] The risk weighted exposure amount for counterparty risk according to Article 92, item 3f, of CRR amounts to SEK 459 million

### Capital adequacy

| SEK million | 2014 | 2013[1] |
|---|---|---|
| Common Equity Tier 1 capital | 12,700 | 11,318 |
| Tier 1 capital | 12,700 | 11,318 |
| Total capital | 12,700 | 11,318 |
| **Without transitional regulations** | | |
| Risk exposure amount | 17,565 | 19,263 |
| Common Equity Tier 1 capital ratio | 72.3% | 58.8% |
| Excess Common Equity Tier 1 capital | 11,909 | 10,451 |
| Tier 1 capital ratio | 72.3% | 58.8% |
| Excess Tier 1 capital | 11,646 | 10,162 |
| Total capital ratio | 72.3% | 58.8% |
| Excess total capital | 11,295 | 9,777 |
| **With transitional rules** | | |
| Own funds | 12,736 | 11,318 |
| Risk exposure amount | 113,258 | 107,089 |
| Total capital ratio | 11.2% | 10.6% |

[1] According to the earlier regulations (Basel II)

## Note 3 Net interest income/expense

| SEK million | 2014 | 2013 |
|---|---|---|
| **Interest income** | | |
| Lending to credit institutions | 46 | 130 |
| Lending to the public[1] | 6,163 | 6,860 |
| Derivatives | -470 | -779 |
| **Total** | **5,739** | **6,211** |
| *of which, interest income from financial assets that is not measured at fair value through profit or loss* | *6,209* | *6,990* |
| **Interest expenses** | | |
| Liabilities to credit institutions | -56 | -156 |
| Debt securities in issue | -3,966 | -4,172 |
| Subordinated debt[2] | -1,237 | -1,308 |
| Derivatives | 1,295 | 1,076 |
| **Total** | **-3,964** | **-4,560** |
| *of which, interest expense from financial liabilities that is not measured at fair value through the income statement* | *-5,259* | *-5,636* |
| **Net interest income/expense** | **1,775** | **1,651** |

[1] Includes interest income from doubtful receivables of SEK 0 million (0).
[2] The subordinated debt was issued by the Parent Company.

## Note 4 Commission

| SEK million | 2014 | 2013 |
|---|---|---|
| **Commission income** | | |
| Commission on lending | 9 | 8 |
| **Total** | **9** | **8** |
| **Commission expense** | | |
| Stability fee | -66 | -62 |
| Other commission | -35 | -28 |
| **Total** | **-101** | **-91** |
| **Commission, net** | **-92** | **-83** |

## Note 5 Net income/expense from financial transactions

| SEK million | 2014 | 2013 |
|---|---|---|
| **Gains/losses on interest-bearing financial instruments:** | | |
| – Change in value of hedged items in hedge accounting | -961 | 954 |
| – Realised income/expense from financial liabilities | -110 | -126 |
| – Derivative instruments in hedge accounting | 1,074 | -926 |
| – Other derivative instruments | 102 | -166 |
| – Loan receivables | 75 | 71 |
| **Currency translation effects** | 1 | 1 |
| **Total** | **181** | **-192** |

**Fair value recognition**
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 (market value).

Major variations in the actual market value between 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. Most of SCBC's basis swaps are held to maturity.

## Note 6 General administration expenses

| SEK million | 2014 | 2013 |
|---|---|---|
| Outsourcing expenses | -822 | -579 |
| Management fee | – | -75 |
| Other administration expenses | -2 | -1 |
| **Total** | **-824** | **-655** |

SCBC employs a Managing Director and four employees who handle the on-going management in consultation with the management of the Parent Company. The Managing Director and the employees are employed by the Parent Company but they are also employed by SCBC. The Board of Directors consists of three Board Members. No salary or other remuneration is paid by the company to the Managing Director or the employees. Board Members who are not employed by the Company receive a board fee.

SBAB Bank AB is responsible for the on-going administrative services in accordance with the outsourcing agreement signed between SBAB and SCBC.

**Fees and compensation for expenses to auditors:**
Fees and compensation to KPMG amounted to SEK 0.9 million (0.6), of which, SEK 0.3 million (0.3) comprises the auditing cost. Audit tasks beyond the audit assignment cost SEK 0.6 million (0.3).

Audit assignments include examination of the annual report, the accounting records and the administration by the Board and the Managing Director.

The audit assignment also includes consultancy or other assistance resulting from such examination. Audit tasks in addition to the audit of the annual financial statements 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 SCBC.

## Note 7 Loan losses net

| SEK million | 2014 | 2013 |
|---|---|---|
| **CORPORATE MARKET** | | |
| **Collective provision for Corporate Market loans** | | |
| Allocation to/redemption of collective provisions | 1 | 4 |
| Guarantees | 2 | 2 |
| **Net cost for the year for collective provisions Corporate Market loans** | **3** | **6** |
| **RETAIL MARKET** | | |
| **Individual provision for Retail Market loans** | | |
| Write-off of confirmed loan losses for the year | -3 | – |
| Reversals of previously implemented provision for probable loan losses that are recognised as confirmed losses in the closing accounts for 2014 | 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 | -0 | -2 |
| Allocation to collective provisions | 30 | 26 |
| Guarantees | -7 | -6 |
| **Net cost for the year for collective provisions for Retail Market loans** | **23** | **18** |
| **Net cost for the year for loan losses** | **26** | **21** |

The write-off of confirmed loan losses for the year as specified above relate to receivables from the public. The guarantees pertain to received or expected receivables from the National Board of Housing, Building and Planning, insurance companies and banks. See also Note 2a Risk management – Credit risk in lending operations, page 15.

## Note 8 Tax

| SEK million | 2014 | 2013 |
|---|---|---|
| Current tax | -178 | -8 |
| Deferred tax | -48 | -163 |
| **Total** | **-226** | **-171** |
| **The effective tax rate differs from the nominal tax rate in Sweden as below** | | |
| Profit before tax | 1,064 | 740 |
| Nominal tax rate in Sweden 22% | -234 | -163 |
| Tax for prior years and other | 8 | -8 |
| **Total tax** | **-226** | **-171** |
| Effective tax rate | 21.3% | 23.1% |

## Note 9 Lending to credit institutions

| SEK million | 2014 | 2013 |
|---|---|---|
| Lending in SEK | 2,841 | 11,172 |
| Lending in foreign currency | 0 | 7 |
| **Total** | **2,841** | **11,179** |
| *of which, repos* | *2,779* | *11,072* |

Interest-bearing securities that SCBC purchases with an obligation to sell at a price determined in advance are not recognised in the balance sheet, while the purchase price paid is recognised in the balance sheet in the item Lending to credit institutions. The assets held can be pledged or sold by SCBC. In the event that the counterparty is unable to meet its repurchase obligation, SCBC is entitled to keep the security.

## Note 10 Lending to the public

| SEK million | 2014 | 2013 |
|---|---|---|
| Opening balance | 209,982 | 208,875 |
| Transferred from the Parent Company | 29,606 | 18,602 |
| Amortisation, write-offs, redemption | -21,911 | -17,383 |
| **Closing balance** | **217,677** | **210,094** |
| Provision for probable loan losses | -98 | -112 |
| **Closing balance** | **217,579** | **209,982** |
| **Distribution of lending by property type** | | |
| Single-family dwellings and holiday homes | 92,119 | 85,346 |
| Tenant-owner rights | 63,213 | 56,931 |
| Tenant-owner associations | 43,911 | 45,485 |
| Private multi-family dwellings | 17,986 | 18,699 |
| Municipal multi-family dwellings | 434 | 3,619 |
| Commercial properties[1] | 14 | 14 |
| Provision for probable loan losses | -98 | -112 |
| **Total** | **217,579** | **209,982** |
| Percentage of lending with a governmental or municipal guarantee % | 1 | 1 |

[1] Refers solely to properties that are not entirely commercial

In the event of early redemption during the fixed-interest period, SCBC has the right to receive so-called interest compensation. The amount of compensation in the case of Retail Market loans is based on the interest rate on government bonds/treasury bills with a comparable remaining maturity up to the interest adjustment date +1%. 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, SCBC has, in certain cases, received government or municipal guarantees as collateral for the borrower's commitments. The proportion of loans covered by this type of guarantee is shown in the table above.

A total of SEK 63,788 million (57,509) of SCBC's lending portfolio was mediated by business partners through the Parent Company and it is possible for certain partners, in the event of a change of ownership of in the Parent Company, to acquire brokered loans.

### Doubtful loan receivables and provisions

| SEK million | 2014 | 2013 |
|---|---|---|
| a) Doubtful loan receivables | – | 3 |
| b) Specific provisions for individually measured receivables | – | 3 |
| c) Collective provisions, Corporate Market loans | 13 | 9 |
| d) Collective provisions, Retail Market loans | 85 | 100 |
| e) Total provisions (b+c+d) | 98 | 112 |
| f) Doubtful loan receivables after individual provisions (a-b) | – | 0 |
| g) Provision ratio for individual provisions (b/a) | – | 100% |

See also Note 2a Risk management – Credit risk in lending operations.

### Distribution of doubtful loan receivables and provisions by type of property

| | 2014 | | | | | 2013 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| SEK million | Single-family dwellings and holiday homes | Tenant-owner rights | Tenant-owner associations | Private multi-family dwellings | Total | Single-family dwellings and holiday homes | Tenant-owner rights | Tenant-owner associations | Private multi-family dwellings | Total |
| Doubtful loan receivables, gross | | | | | | | 3 | | | 3 |
| Individual provisions, loan receivables | | | | | | | 3 | | | 3 |
| Collective provisions, Corporate Market loans | | | 8 | 5 | 13 | | | 6 | 3 | 9 |
| Collective provisions, Retail Market loans | 54 | 31 | | | 85 | 66 | 34 | | | 100 |
| **Doubtful loan receivables after individual provisions** | | | | | **–** | | | | | **0** |

## Note 10 Lending to the public, continued

### Change in provision for probable loan losses

| SEK million | 2014 Individual provision for individually measured receivables | 2014 Individual provision for collectively measured receivables | 2014 Collective provision | 2013 Individual provision for individually measured receivables | 2013 Individual provision for collectively measured receivables | 2013 Collective provision |
|---|---|---|---|---|---|---|
| Provision at the beginning of the year | – | – | -109 | – | – | -121 |
| Individual provision for the year | – | – | | – | -3 | |
| Reversed from previous provisions | – | – | | – | – | |
| Individual provision utilised for confirmed losses | – | – | | – | – | |
| Allocation to/redemption of collective provisions | – | – | 11 | – | – | 12 |
| **Provision at the end of the year** | **–** | **–** | **-98** | **–** | **-3** | **-109** |

## Note 11 Derivative instruments

| SEK million | 2014 Fair value assets | 2014 Fair value liabilities | 2014 Nominal amount | 2013 Fair value assets | 2013 Fair value liabilities | 2013 Nominal amount |
|---|---|---|---|---|---|---|
| **Derivative instruments in fair value hedges** | | | | | | |
| Interest-rate related | | | | | | |
| – interest-rate swaps | 4,163 | 1,007 | 125,283 | 3,368 | 1,267 | 144,057 |
| Currency-related | 1,677 | 1,536 | 41,004 | 1,088 | 3,245 | 42,422 |
| **Total** | **5,840** | **2,543** | **166,287** | **4,456** | **4,512** | **186,479** |
| **Derivative instruments in cash flow hedges** | | | | | | |
| Interest-rate related | | | | | | |
| – interest-rate swaps | 54 | – | 9,425 | – | – | – |
| Currency-related | 197 | – | 9,203 | – | – | – |
| **Total** | **251** | **–** | **18,628** | **–** | **–** | **–** |
| **Other derivatives** | | | | | | |
| Interest-rate related | | | | | | |
| – interest-rate swaps | 196 | 118 | 6,375 | 175 | 180 | 13,136 |
| Currency-related | 28 | 205 | 7,867 | – | 925 | 12,207 |
| **Total** | **224** | **323** | **14,242** | **175** | **1,105** | **25,343** |

| SEK million | 2014 Fair value | 2014 Nominal amount | 2013 Fair value | 2013 Nominal amount |
|---|---|---|---|---|
| **Derivative instruments distributed by remaining maturity, carrying amount** | | | | |
| At most 3 months | -510 | 30,801 | -328 | 11,890 |
| 3–12 months | -139 | 27,999 | -540 | 44,309 |
| 1-5 years | 3,568 | 110,650 | -8 | 149,990 |
| More than 5 years | 530 | 29,707 | -110 | 5,633 |
| **Total** | **3,449** | **199,157** | **-986** | **211,822** |

## Note 12 Classification of financial instruments

**Financial assets — 2014**

| SEK million | Assets at fair value through profit or loss | Hedge-accounted derivative instruments | Loans and receivables | Total | Total fair value |
|---|---|---|---|---|---|
| Lending to credit institutions | | | 2,841 | 2,841 | 2,841 |
| Lending to the public | | | 217,579 | 217,579 | 219,838 |
| Change in value of interest-rate-hedged items in portfolio hedges | | | 1,193 | 1,193 | – |
| Derivative instruments | 224 | 6,091 | | 6,315 | 6,315 |
| Other assets | | | 329 | 329 | 329 |
| Prepaid expenses and accrued income | | | 175 | 175 | 175 |
| **Total** | **224** | **6,091** | **222,117** | **228,432** | **229,498** |

**Financial assets — 2013**

| SEK million | Assets at fair value through profit or loss | Hedge-accounted derivative instruments | Loans and receivables | Total | Total fair value |
|---|---|---|---|---|---|
| Lending to credit institutions | | | 11,179 | 11,179 | 11,179 |
| Lending to the public | | | 209,982 | 209,982 | 211,841 |
| Change in value of interest-rate-hedged items in portfolio hedges | | | 1,164 | 1,164 | – |
| Derivative instruments | 175 | 4,456 | | 4,631 | 4,631 |
| Other assets | | | 866 | 866 | 866 |
| Prepaid expenses and accrued income | | | 217 | 217 | 217 |
| **Total** | **175** | **4,456** | **223,408** | **228,039** | **228,734** |

**Financial liabilities — 2014**

| SEK million | Liabilities at fair value through profit or loss | Hedge-accounted derivative instruments | Other financial liabilities | Total | Total fair value |
|---|---|---|---|---|---|
| Liabilities to credit institutions | | | 4,080 | 4,080 | 4,080 |
| Debt securities in issue, etc. | | | 174,986 | 174,986 | 176,783 |
| Derivative instruments | 323 | 2,543 | | 2,866 | 2,866 |
| Other liabilities | | | 19 | 19 | 19 |
| Accrued expenses and prepaid income | | | 2,472 | 2,472 | 2,472 |
| Subordinated debt to Parent Company | | | 31,181 | 31,181 | 31,181 |
| **Total** | **323** | **2,543** | **212,738** | **215,604** | **217,401** |

**Financial liabilities — 2013**

| SEK million | Liabilities at fair value through profit or loss | Hedge-accounted derivative instruments | Other financial liabilities | Total | Total fair value |
|---|---|---|---|---|---|
| Liabilities to credit institutions | | | 14,644 | 14,644 | 14,644 |
| Debt securities in issue, etc. | | | 152,656 | 152,656 | 152,930 |
| Derivative instruments | 1,105 | 4,512 | | 5,617 | 5,617 |
| Other liabilities | | | 10 | 10 | 10 |
| Accrued expenses and prepaid income | | | 2,702 | 2,702 | 2,702 |
| Subordinated debt to Parent Company | | | 40,115 | 40,115 | 40,115 |
| **Total** | **1,105** | **4,512** | **210,127** | **215,744** | **216,018** |

**Fair value measurement of financial instruments**
The principles for the measurement of financial instruments recognised at fair value in the balance sheet are given in Note 1 Accounting policies. In the column "total fair value" above, information is also provided on the fair value of financial instruments that are recognised at amortised cost in the balance sheet. The carrying amount for current receivables and liabilities has been assessed to be equal to the fair value, Level 3. For "Lending to the public", where there are no observable credit margin data at the time of measurement, the credit margin on the most recent stipulated date of expiry is applied, Level 3.

## Note 13 Information about fair value

| SEK million | 2014 Quoted market prices (Level 1) | 2014 Other observable market data (Level 2) | 2014 Non-observable market data (Level 3) | 2014 Total | 2013 Quoted market prices (Level 1) | 2013 Other observable market data (Level 2) | 2013 Non-observable market data (Level 3) | 2013 Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Derivatives in the category trade | – | 224 | – | 224 | – | 175 | – | 175 |
| Other derivatives | – | 6,091 | – | 6,091 | – | 4,456 | – | 4,456 |
| **Total** | **–** | **6,315** | **–** | **6,315** | **–** | **4,631** | **–** | **4,631** |
| **Liabilities** | | | | | | | | |
| Derivatives in the category trade | – | 323 | – | 323 | – | 1,105 | – | 1,105 |
| Other derivatives | – | 2,543 | – | 2,543 | – | 4,512 | – | 4,512 |
| **Total** | **–** | **2,866** | **–** | **2,866** | **–** | **5,617** | **–** | **5,617** |

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. There were no transfers between the levels in 2013 or 2014.

**Quoted market prices (Level 1)**
Measurement at quoted prices in an active market for identical assets and liabilities. A market is deemed to be active if the price data is easily accessible and corresponds to actual regularly occurring transactions. This valuation method is currently not used for any assets or liabilities.

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

**Measurement based in part on unobservable data (Level 3)**
Measurement whereby a material component of the model is based on estimates or assumptions that do not originate directly from the market. This method is currently not used for any assets or liabilities.

## Note 14 Information about offsetting

**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**

| SEK million | 2014 Amounts reported in the balance sheet | Related amounts that are not offset in the balance sheet: Financial instruments | Provided (+)/ Received (-) collateral – securities | Provided (+)/ Received (-) cash collateral | Net amount |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Derivatives | 6,315 | -2,821 | 0 | -1,116 | 2,378 |
| Repos | 2,779 | -2,779 | 0 | 0 | 0 |
| **Liabilities** | | | | | |
| Derivatives | -2,866 | 2,821 | – | 0 | -45 |
| Repos | -2,798 | 2,779 | 18 | 1 | 0 |
| **Total** | **3,430** | **0** | **18** | **-1,115** | **2,333** |

| SEK million | 2013 Amounts reported in the balance sheet | Related amounts that are not offset in the balance sheet: Financial instruments | Provided (+)/ Received (-) collateral – securities | Provided (+)/ Received (-) cash collateral | Net amount |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Derivatives | 4,631 | -3,040 | | -951 | 640 |
| Repos | 11,072 | -11,072 | 0 | | 0 |
| **Liabilities** | | | | | |
| Derivatives | -5,617 | 3,040 | | | -2,577 |
| Repos | -13,242 | 11,072 | 2,169 | 1 | 0 |
| **Total** | **-3,156** | **0** | **2,169** | **-950** | **-1,937** |

To limit the potential counterparty credit risk associated with derivative transactions involving non-standardised derivative instruments that are not cleared by clearing organisations approved by the Swedish Financial Supervisory Authority (in accordance with FFFS 2007:1), a framework agreement is to be entered into with the counterparty. Where appropriate, such framework agreements, known as ISDA Master Agreements, or similar agreements have been supplemented with associated collateral agreements, known as Credit Support Annexes (CSAs).

A CSA must always be established for counterparties entering into derivative contracts with SCBC. Counterparty credit 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.

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. 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.

For further information on offsetting, see Note 2b Risk management – Credit risk in treasury operations, the section on Counterparty risk.

## Note 15 Other assets

| SEK million | 2014 | 2013 |
|---|---|---|
| Tax asset | 312 | 123 |
| Other | 17 | 43 |
| Receivable from Parent Company[1] | – | 700 |
| **Total** | **329** | **866** |
| *Other assets distributed by remaining maturity, carrying amount* | | |
| At most 1 year | 329 | 866 |
| More than 1 years | – | – |
| **Total** | **329** | **866** |

[1] Receivable from Parent Company for 2013 refers to Group contributions received before tax.

## Note 16 Prepaid expenses and accrued income

| SEK million | 2014 | 2013 |
|---|---|---|
| Accrued interest income | 136 | 184 |
| Other accrued income | 39 | 33 |
| **Total** | **175** | **217** |
| *Prepaid expenses and accrued income distributed by remaining maturity, carrying amount* | | |
| At most 1 year | 156 | 198 |
| More than 1 years | 19 | 19 |
| **Total** | **175** | **217** |

## Note 17 Liabilities to credit institutions

| SEK million | 2014 | 2013 |
|---|---|---|
| Liabilities in SEK | 2,868 | 13,242 |
| Liabilities in foreign currencies | 1,212 | 1,402 |
| **Total** | **4,080** | **14,644** |
| *of which, repos* | *2,798* | *13,242* |

## Note 18 Debt securities in issue, etc.

| SEK million | 2014 | 2013 |
|---|---|---|
| **Bond loans** | | |
| Bond loans in SEK | | |
| – at amortised cost: | 15,582 | 13,243 |
| – in fair value hedging | 105,346 | 92,766 |
| Bonds loans in foreign currency | | |
| – at amortised cost: | 15,872 | 9,383 |
| – in fair value hedging | 38,186 | 37,264 |
| **Total securities in issue** | **174,986** | **152,656** |
| *– of which, covered bonds* | *174,986* | *152,656* |

See also the section Funding on page 4.

## Note 19 Other liabilities

| SEK million | 2014 | 2013 |
|---|---|---|
| Tax liabilities | – | – |
| Liabilities to employees | 19 | 10 |
| Liability to Parent Company | – | – |
| Other | – | – |
| **Total** | **19** | **10** |
| *Outstanding liabilities distributed by remaining maturity, carrying amount* | | |
| At most 1 year | 19 | 10 |
| More than 1 years | – | – |
| **Total** | **19** | **10** |

## Note 20 Accrued expenses and prepaid income

| SEK million | 2014 | 2013 |
|---|---|---|
| Accrued interest expenses | 2,385 | 2,587 |
| Other accrued expenses | 87 | 115 |
| **Total** | **2,472** | **2,702** |
| *Accrued expenses and prepaid income distributed by remaining maturity, carrying amount* | | |
| At most 1 year | 2,472 | 2,702 |
| More than 1 years | – | – |
| **Total** | **2,472** | **2,702** |

## Note 21 Deferred tax

| SEK million | 2014 | 2013 |
|---|---|---|
| **Deferred tax assets (+) /tax liabilities (-) for temporary differences in:** | | |
| – Debt securities in issue | 785 | – |
| – Derivative instruments | -768 | -473 |
| – Tax loss carryforwards | – | 85 |
| **Total** | **17** | **-388** |
| **Change in deferred tax:** | | |
| Recalculation of opening temporary differences | 482 | -64 |
| Deferred tax in the income statement | -48 | -163 |
| Deferred tax attributable to items recognised directly against other comprehensive income | -28 | -154 |
| **Total** | **406** | **-381** |
| *Deferred tax distributed by expected maturity date, carrying amount* | | |
| At most 1 year | – | – |
| More than 1 years | 17 | -388 |
| **Total** | **17** | **-388** |

## Note 22 Subordinated debt to Parent Company

| SEK million | 2014 | 2013 |
|---|---|---|
| Subordinated debt to Parent Company | 31,181 | 40,115 |
| **Total** | **31,181** | **40,115** |

**Terms and conditions governing subordination**
The subordinated debt was issued by the Parent Company. The subordinated debt is the subordinate to the company's other liabilities on bankruptcy or liquidation, which means that it carries an entitlement to payment after other claimants have received payment.

## Note 23 Equity

The share capital amounts to SEK 50,000,000. The number of shares is 500,000, each with a quotient value of SEK 100, as in previous years.

All shares are held by the Parent Company, SBAB Bank AB (publ), Corp. Id. No. 556253-7513. Distributable equity in SCBC amounts to SEK 12,795 million. Dividends are proposed by the Board in accordance with provisions in the Companies Act and are resolved by the Annual General Meeting. Further information on changes in equity is provided on page 12.

### Statement of changes in equity

| SEK million | 2014 | 2013 |
|---|---|---|
| **Cash flow hedges at the beginning of the year** | – | – |
| Unrealised changes over the year | 128 | – |
| Realised change in value, reclassified to profit or loss | – | – |
| Tax attributable to the change | -28 | – |
| **Cash flow hedges at the end of the year** | **100** | **–** |
| **Total** | **100** | **–** |

For further information on cash flow hedges, see Note 1 Accounting policies, the section on Cash flow hedges.

## Note 24 Assets pledged for own liabilities

| SEK million | 2014 | 2013 |
|---|---|---|
| Loan receivables | 211,651 | 203,702 |
| Repos | – | 487 |
| **Total** | **211,651** | **204,189** |

Of the total lending portfolio (see Note 10) and "Lending to credit institutions" (see Note 9), the values reported above represent the cover pool for covered bonds, which amounts to SEK 175.0 billion (152.7).

Loan receivables and repos pledged as collateral 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 Priority Rights Act.

Further information on loan receivables and repos is given in Note 1 Accounting policies.

## Note 25 Information about related parties

SCBC is a wholly-owned subsidiary of SBAB Bank AB (publ) with Corp. Id. No. 556253-7513.

| SEK million | 2014 | | 2013 | |
|---|---|---|---|---|
| **Loans to key personnel** | **Lending** | **Interest income** | **Lending** | **Interest income** |
| Managing Director | – | – | – | – |
| Board of Directors | 3 | 0 | 2 | 0 |
| Other key senior executives | 11 | 0 | 15 | 0 |
| **Total** | **14** | **0** | **17** | **0** |

Managing Director and Board refer to SCBC.

The Parent Company's Board Members are included among other key senior executives. Lending to Board Members of AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation, SCBC) or to employees holding key positions in the Parent Company may not occur on terms that are not normally available to other personnel.

**Transactions with closely-related parties in the SBAB Group.**
SBAB Bank AB (the Parent Company) is a Swedish public limited company that is wholly owned by the Swedish state. FriSpar Kreditkonsult AB was liquidated on 19 December 2014. Transactions with closely-related parties take place on market terms.

## Note 25 Information about related parties, continued

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| **SCBC** | **SBAB BANK AB** | | **FRISPAR KREDITKONSULT AB** | | **TOTAL** | |
| **SEK million** | **Assets/ Liabilities** | **Interest income/ expense** | **Assets/ Liabilities** | **Interest income/ expense** | **Assets/ Liabilities** | **Interest income/ expense** |
| Derivative instruments | 3,189 | 572 | – | – | 3,189 | 572 |
| Other assets | 4 | – | – | – | 4 | – |
| **Total** | **3,193** | **572** | **–** | **–** | **3,193** | **572** |
| Liabilities to credit institutions | 31,181 | -1,237 | – | – | 31,181 | -1,237 |
| Derivative instruments | 1,518 | -598 | – | – | 1,518 | -598 |
| Other liabilities | 2 | – | – | – | 2 | – |
| **Total** | **32,701** | **-1,835** | **–** | **–** | **32,701** | **-1,835** |

| **SCBC** | **SBAB BANK AB** | | **FRISPAR KREDITKONSULT AB[1)]** | | **TOTAL** | |
|---|---|---|---|---|---|---|
| **SEK million** | **Assets/ Liabilities** | **Interest income/ expense** | **Assets/ Liabilities** | **Interest income/ expense** | **Assets/ Liabilities** | **Interest income/ expense** |
| Lending to credit institutions | – | 2 | 100 | – | 100 | 2 |
| Derivative instruments | 1,145 | 609 | – | – | 1,145 | 609 |
| Other assets | 700 | – | – | – | 700 | – |
| **Total** | **1,845** | **611** | **100** | | **1,945** | **611** |
| Liabilities to credit institutions | 40,115 | -1,308 | – | – | 40,115 | -1,308 |
| Derivative instruments | 2,018 | 981 | – | – | 2,018 | 981 |
| Other liabilities | 48 | – | – | – | 48 | – |
| **Total** | **42,181** | **-327** | **–** | **–** | **42,181** | **-327** |

[1)] FriSpar Kreditkonsult AB, formerly FriSpar Bolån AB, was liquidated on19 December 2014.

Of SCBC's commission income, SEK 18 million (17) pertained to the possibility for SCBC to utilise a liquidity facility at the Parent Company. Of the company's general administrative costs, SEK 822 million (579) represents compensation to the Parent Company for administrative services rendered in accordance with an outsourcing agreement.

## Note 26 Events after the balance sheet date

No significant events that are assessed to have significant impact on the company's financial statements have occurred after the balance sheet date.

# Proposed appropriation of profits

According to the balance sheet, SCBC's unrestricted equity amounts to SEK 12,794,644,750, of which profit for the year accounted for SEK 838,138,009.

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 Board and the Managing Director propose that the funds which, according to the balance sheet of SCBC, are at the disposal of the Annual General Meeting, namely SEK 12,794,644,750, be carried forward.

The Board and the CEO certify that the financial statements were prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and in accordance with generally accepted accounting practices for credit market companies, and provide a true and fair view of the Group's position and earnings.

The statutory administration report provides an accurate overview of the company's operations, financial position and performance and describes significant risks and uncertainties faced by the company.

Stockholm, 12 March 2015

Bo Magnusson
*Chairman of the Board*

Jakob Grinbaum
*Board Member*

Klas Danielsson
*Board member*

Mikael Inglander
*CEO*

Our audit report was submitted on 13 March 2015

KPMG AB

Hans Åkervall
*Authorised Public Accountant*

# Auditor's report

**Translation from the Swedish original.**

**To the Annual General Meeting of AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation), Corp. Id. No. 556645-9755**

**Report on the annual accounts**

We have audited the annual accounts of AB Sveriges Säkerställda Obligationer (publ) for the year 2014. The annual accounts of the company are included in the printed version of this document on pages 1–34.

*Responsibilities of the Board of Directors and the Managing Director for the annual accounts*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Opinions*

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 AB Sveriges Säkerställda Obligationer (publ) as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet.

**Report on other legal and regulatory requirements**

In addition to our audit of the annual accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of AB Sveriges Säkerställda Obligationer (publ) for the year 2014.

*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, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

*Auditor's responsibility*

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

*Opinions*

We recommend to the annual meeting of shareholders that the profit 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.

Stockholm, 13 March 2015
KPMG AB

Hans Åkervall
*Authorised Public Accountant*

# Corporate Governance Report 2014

**The Swedish Covered Bond Corporation, "SCBC" (in Swedish: AB Sveriges Säkerställda Obligationer (publ)), is a Swedish public liability company and a wholly owned subsidiary of SBAB Bank AB (publ), "SBAB", which is, in turn owned 100% by the Swedish state. The Corporate Governance Report has been prepared in accordance with the Annual Accounts Act.**

SCBC is domiciled in Stockholm. Governance of SCBC occurs through general shareholder meetings, the Board of Directors and the Managing Director in accordance with the Companies Act, the Articles of Association, and policies and instructions adopted by SCBC. SCBC was established with the purpose of broadening the SBAB Group's financing opportunities and decreasing its funding costs following changes in Swedish legislation in 2004 that permitted the issuance of covered bonds.

## SCBC's operations

SCBC's operations comprise the issuance of covered bonds and associated activities. In addition to the policies and instructions that have been developed especially for SCBC, the Board of SCBC annually adopts the appropriate parts of policies and instructions adopted by the Board of the Parent Company that also apply to SCBC. This approach is suitable since SCBC's business operations are conducted by the Parent Company on assignment from SCBC and SCBC's operations serve as an instrument for the Group's funding. SCBC's target and strategies form part of the Parent Company's funding strategy and are included in the Parent Company's business plan.

## Articles of Association

SCBC's Articles of Association regulate matters such as SCBC's business objectives. The Articles of Association do not include any stipulations regulating the appointment or dismissal of Board Members, with the exception of a stipulation regarding the minimum and maximum number of Board Members. The Articles of Association require that notification of an Extraordinary General Meeting convened to address amendments to the Articles of Association must be issued not earlier than six weeks and not later than four weeks prior to the meeting. SCBC's Articles of Association do not assign any limitations as to the number of votes each shareholder is entitled to exercise at a General Meeting.

## Annual General Meeting

SCBC's Annual General Meeting was held on 22 April 2014 in Stockholm. The Meeting re-elected Board Members Per Anders Fasth, Christine Ehnström, Per O. Dahlstedt and Jakob Grinbaum who was also elected Chairman of the Board. Former Board Member Sarah Bucknell declined to be re-elected and resigned from the Board. The Annual General Meeting made decisions regarding the discharge from liability for the Board of Directors and the Managing Director, the appropriation of profits, the adoption of the annual accounts for 2013 and that no fees would be paid to the Board Members, except for the Chairman of the Board. The Annual General Meeting elected KPMG AB, with Hans Åkervall as the auditor-in-charge as SCBC's auditor until the close of the 2015 Annual General Meeting.

The Annual General Meeting of SCBC did not authorise the Board of Directors to decide that the company would issue new shares or acquire treasury shares.

## Extraordinary General Meetings and changes in the Board of Directors

On 13 January 2014, an Extraordinary General Meeting of SCBC was held due to the change of CEO in SBAB and a new Board of Directors was elected, consisting of Jakob Grinbaum, who was also appointed Chairman (new appointment), Per Anders Fasth (new appointment), Christine

Ehnström, Per O. Dahlstedt and Sarah Bucknell, all three of whom were re-elected. The Extraordinary General Meeting also decided that remuneration is to be paid to the Chairman.

On 8 May 2014, Christine Ehnström resigned as a Board Member in connection with her appointment as the new Managing Director of SCBC, following the resignation of the existing Managing Director, Lennart Krän, from his positions within the SBAB Group.

In the light of Klas Danielsson's appointment as CEO of SBAB and Per Anders Fasth's resignation as a Board Member of SCBC, an Extraordinary General Meeting in SCBC was held on 14 August 2014. It was resolved that the Board shall comprise three Board Members, and Klas Danielsson was appointed as a new Board Member. Thereafter, the Board consisted of Jakob Grinbaum (Chairman), Per O Dahlstedt and Klas Danielsson.

An additional Extraordinary General Meeting in SCBC was held on 3 November 2014, when Bo Magnusson was appointed as a new Board Member and Chairman of the Board. Thereafter, the Board comprised Bo Magnusson (Chairman), Klas Danielsson and Jakob Grinbaum. It was further resolved that remuneration is to be paid to the Chairman and to the Board Member Jakob Grinbaum.

## The Board of Directors and its methods of work

In accordance with the Articles of Association, the Board of Directors is to comprise not fewer than three and not more than six members.

The members are normally elected at the Annual General Meeting for the period up until the following Annual General Meeting. The Managing Director of SCBC is not a member of the Board.

SCBC's Board of Directors consists of individuals from the Executive Management and Board of Directors of the Parent Company.

The Board of Directors is ultimately responsible for the company's organisation and management. The Board is also responsible for continuously assessing SCBC's financial situation and shall ensure that the organisation is structured in a manner that enables accounting, management of assets and the company's other financial circumstances to be controlled in a satisfactory manner. The work of the Board complies with the working procedures adopted annually at the Board of Directors' statutory Board meeting immediately after the Annual General Meeting. The working procedures address summonses, agendas and quorums for Board meetings, as well as the division of duties between the Board of Directors and the Managing Director.

SCBC's Board makes decisions on matters relating to SCBC's strategic direction, financing, policies, and certain instructions. The Board addresses the company's year-end report, annual report and six-month reports and determines their adoption and publication. The control issues for which the Board of Directors is responsible are addressed by the full Board. At least once annually, the Board of Directors receives reports from the independent inspector appointed by the Swedish Financial Supervisory Authority, the company's Risk unit, Internal Audit and Compliance regarding observations from reviews and assessments that have been conducted, as well as assessments of how well control and regulatory compliance are upheld within the company.

A specification of name, age, principal education, occupational experience and the other assignments held by the Board Members, as well as their attendance at this year's Board Meetings, is presented on page 41. None of the Board Members or the Managing Director holds shares or financial instruments issued by SCBC.

### Diversity and suitability policies

The Board has adopted a policy on diversity in the Board and a policy on suitability assessments for Board Members, the Managing Director and senior executives. Both policies are available on the Parent Company SBAB's website. The diversity policy includes a prohibition against discrimination based on gender, transgender identity or expression, ethnicity, religion or other beliefs, disabilities, sexual orientation or age. The suitability policy states that the suitability of the board, the Managing Director and the senior executives shall be assessed with consideration for the person's skills, experience, reputation and judgment. It is also important that these individuals have great integrity.

## The Board's committees

### The Audit and Compliance Committee

The function of the legally required Audit Committee is managed through the Audit and Compliance Committee of the Parent Company, which performs these duties integrated with its supervision of this area for the Group as a whole. The main task of the Audit and Compliance Committee is, at the behest of the owner, and on the basis of the applicable regulations, to examine the SBAB Group's governance, internal controls and financial information and to prepare issues in these areas for decisions by the Board.

The Audit and Compliance Committee is also responsible for monitoring financial statements and the efficiency of risk management and of the work carried out by Internal Audit and Compliance.

The Audit and Compliance Committee is also responsible for evaluating the external auditing work, informing the owner of the results of this work and assisting in the drafting of proposals for auditors. The Audit and Compliance 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 decisions or for presentation to the Board.

SCBC's operations are also addressed through the structure described above. Where there are separate issues that solely affect SCBC, these are also addressed by the Group's Audit and Compliance Committee. The Audit and Compliance Committee consists of Board Members of the Parent Company. Committee meetings involving financial statements are attended by SBAB's CFO, who is also the Managing Director of SCBC and who, in that role, is responsible for issues concerning SCBC being addressed by the Committee and reported back to the Board Members of SCBC. The CEO of SBAB, who is also a Board Member in SCBC, also participates in the meetings of the Audit and Compliance Committee and is able to monitor issues concerning SCBC in the Audit and Compliance Committee and can report back to the Board of SCBC. The Board of Directors of SCBC also receives minutes from the meetings of the Audit and Compliance Committee.

**Credit Committee, Risk and Capital Committee and Remuneration Committee**

The Group has a Credit Committee and a Risk and Capital Committee. The Risk and Capital Committee is the Risk Committee of the SBAB Group. The Group's committees also integrate issues concerning SCBC into their work. The principal task of the Credit Committee is to decide on credits and limits in the Group's lending and funding operations. The Credit Committee also has the task of preparing matters involving changes in the credit policy and credit instructions, 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 Credit Committee is the Board entity for all matters relating to credit risk, including approval of new IRB models or significant changes to existing models.

The Risk and Capital Committee prepares matters regarding the Group's finance operations and matters involving risk and capital, including the use of new financial instruments. The Risk and Capital Committee also prepares issues concerning objectives, strategies and control documents within the areas of risk and capital.

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 above committees include Members of the Board of Directors of the Parent Company. Since the CEO of the Parent Company is also a Member of the Board of Directors of SCBC, he is responsible for ensuring that issues concerning SCBC are addressed by the committees and reported back to the other Members of the Board of SCBC. With regard to the work of the Remuneration Committee, SCBC's Chairman, who is the chairman of the Remuneration Committee, is responsible for ensuring that issues regarding SCBC are addressed by the Committee and reported back to the other members of the Board of SCBC.

## Managing Director

The Board has formulated instructions for the Managing Director's role and duties. The Managing Director is responsible for the on-going management of the operations in accordance with guidelines, established policies and instructions issued by the Board and for reporting back to the Board. Lennart Krän was the Managing Director until 8 May 2014, when he was replaced by Christine Ehnström as the Managing Director, in connection with his leaving his employment with the SBAB Group. On 3 November 2014, Christine Ehnström resigned from her position as the Managing Director and was replaced by Mikael Inglander, who is also the CFO of the Parent Company.

## Remuneration of Board of Directors and senior executives

Information regarding the remuneration of the Board is presented in Note 6 to the annual accounts.

No remuneration was paid to Board Members who are employed by the Parent Company or to the Managing Director of SCBC. Issues regarding the remuneration of senior officers shall be addressed by the Remuneration Committee of the SBAB Group. The Board of Directors has established a remuneration policy, according to which if the Board of Directors determines that salary or other remuneration is to be paid to employees within SCBC, the remuneration policy shall be updated in accordance with the directives issued by the Swedish Financial Supervisory Authority and general rules regarding remuneration structures in credit institutions, securities companies and fund management companies. At the 2014 Annual General Meeting, it was resolved that on issues regarding remuneration and other terms of employment for senior executives, SCBC shall adhere to the government's guidelines for senior executives in state-owned companies as applicable at any given time.

## Other control bodies and functions

Control and review functions such as Compliance, Risk and Internal Audit have been outsourced to the Parent Company according to an outsourcing agreement. Furthermore, SCBC has outsourced its operational activities to the Parent Company. Furthermore, the Parent Company manages financial reporting and legal matters concerning SCBC, as well as matters of corporate law affecting SCBC. The review and control carried out by the Internal Audit, Compliance and Risk functions regarding SCBC take place integrated with that for the Parent Company, both at the Group level and for SCBC as an independent legal entity.

## 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. The Risk Control department is responsible for identifying, quantifying and reporting the SBAB Group's overall risks to the Parent Company's Board of Directors, its CEO and other senior executives, of whom some are also Board Members in SCBC. Risk Control also submits quarterly reports directly to the Board and Managing Director of SCBC.

## Compliance

The SBAB Group has a Group Compliance function, which is responsible for compliance tasks within SCBC. The Group Compliance function consists of five employees, is independent from the business operations and is directly subordinate to the Managing Director.

The Compliance function's area of responsibility comprises rules on internal governance and control, customer protection, market conduct and measures preventing money laundering and the financing of terrorism. Compliance provides advice and support to the operations in compliance matters, analyses compliance risks and monitors regulatory compliance in respect of operations that require licences. Reporting occurs on an ongoing basis to the Managing Director and quarterly by means of a written report to the Board and the Managing Director. The scope and focus of the work of Compliance is established in an annual plan after approval by the Board.

## Internal audit

The internal audit for SCBC is conducted by SBAB's Internal Audit unit, which is an internal independent examination function in accordance with Chapter 9 of the Swedish Financial Supervisory Authority's regulation FFFS 2014:1. Internal Audit's main task is to review and evaluate the governance and internal control of Group companies. Internal Audit reports in summary, in writing and orally, directly to the Board of Directors and the Audit and Compliance Committee in accordance with a reporting and meeting plan. Internal Audit's examination activities are performed in accordance with an audit plan that is prepared annually by the Audit and Compliance Committee and adopted by the Board. In connection with this, the Head of Internal Audit presents both the proposed audit plan for the coming year and the overall risk assessment that forms the foundation for the plan to both the Audit and Compliance Committee and to the Board.

At least once a year, the Head of Internal Audit provides written and oral reports regarding SCBC to the Audit and Compliance Committee and the Board, as well as in writing to the Board of SCBC regarding the results of the planned work of Internal Audit. The efforts of Internal Audit are also to be coordinated with the external independent review conducted in accordance with the Swedish Covered Bond Issuance Act.

## Independent inspector

According to the Swedish Covered Bond Issuance Act, the Swedish Financial Supervisory Authority shall appoint an independent inspector for each issuing institution. The inspector's duties include overseeing that the register that issuing institutions are obliged to maintain listing the covered bonds, collateral and derivatives contracts is properly maintained and in accordance with the provisions of the Act. The Swedish Financial Supervisory Authority's regulation FFFS 2013:1 describes the independent inspector's role and tasks in greater detail. The independent inspector reports regularly to the Swedish Financial Supervisory Authority, and these reports are also addressed to the Board of SCBC. The Swedish Financial Supervisory Authority has appointed Authorised Public Accountant Jan Palmqvist as the independent inspector for SCBC.

## Auditor

The Annual General Meeting appoints the auditor or the accounting firm that is commissioned to audit SCBC. Auditors must be authorised public accountants or an authorised accounting firm with an auditor-in-charge. The 2014 Annual General Meeting appointed KPMG as auditor, with Hans Åkervall as the auditor-in-charge. A more detailed presentation of the auditor and the fees and expenses paid is provided on page 41 and in Note 6 of the Annual Report. The auditor examines the Annual Report, the financial statements and the accounting records, as well as the Board's and the Managing Director's administration of the company. The auditor reports the results of these examinations to the shareholder through the Audit Report, which is presented to the Annual General Meeting. Additionally, in 2014, the auditor reviewed the SCBC's six-month report and year-end report and reported to the Audit and Compliance Committee of SBAB, as well as to the Chairman and Managing Director of SCBC.

## Internal control of financial reporting

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.

Each year, a risk assessment is performed in the form of a self assessment of all business-support processes that provide data for the financial statements. The self assessment includes assessments of the principal risks that could lead to faults in the financial statements and the related controls. The risks and controls are identified, evaluated and documented at the process level. Controls that are assessed to not function satisfactory are improved without delay. When an event occurs that has generated faults in the financial statements, the operations must submit an incident report on this through the Parent Company's intranet.

# Board of Directors and Managing Director

## As per March 13 2015

**Auditor**

The 2014 Annual General Meeting resolved to elect the auditing firm KPMG AB as auditor for the period until the end of the 2015 Annual General Meeting, with Hans Åkervall as auditor-in-charge.

**Hans Åkervall**
KPMG

Auditor-in-charge at SCBC since 2013
Born: 1953

**Bo Magnusson**
Chairman of the Board

Advanced bank training (SEB)
Born: 1962
Elected: 2013
**Board assignments:** Carnegie Investment Bank and Carnegie Holding, 4T Sverige, Fastighetsaktiebolaget Norrporten and NS Holding. Chairman of the Board in all companies listed above.
**Other appointments:** –
**Past experience:** Deputy CEO and CEO at SEB and other senior positions within SEB.
**Attendance at Board Meetings:** 1 out of 10[1)]

**Jakob Grinbaum**
Board Member

Bachelor of Arts
Born: 1949
Elected: 2014
**Board assignments:** Oscar Properties (Chairman), the Fourth AP Fund (Deputy Chairman), Östgötagården Foundation in Uppsala and sport club IK Sirius, J Grinbaum Finanskonsult and Jernhusen.
**Other appointments:** Advisory Board of Genesta Property Nordic AB.
**Past experience:** Executive Vice President, Group Treasury and Group Corporate Development at Nordea.
**Attendance at Board Meetings:** 10 out of 10

**Klas Danielsson**
Board Member

Bachelor of Social Sciences Business Administration
Born: 1963
Employed: 2014
**Position in the Group:** Managing Director
**Board assignments:** Swedsec Licensiering AB (Chairman), Spiderweb Consulting AB and DE Capital.
**Past experience:** Founder of and the former CEO of Nordnet and Nordnet Bank. Head of Trading of UBS in Stockholm. Board Member of East Capital, Ikano Bank, the Swedish Securities Dealers Association, the Swedish Consumers' Banking and Finance Bureau, Svensk Information, et al.
**Attendance at Board Meetings:** 3 out of 10[2)]

**Mikael Inglander**
Managing Director

Bachelor of Business Administration and Economics
Born: 1963
Employed: 2014
**Position in the Group:** CFO
**Board assignments:** –
**Past experience:** CEO of Lindorff Sverige, Executive Vice President, CFO and other positions at Swedbank, Regional Manager and Executive Vice President of Förenings-Sparbanken, Board member of ICA Banken, OK-Q8 Bank, HansaBank Group, Jordbrukskredit.

[1)] Bo Magnusson was appointed to the Board of Directors on 3 November and participated in all meetings held thereafter.
[2)] Klas Danielsson was appointed to the Board of Directors on 14 August and participated in all meetings held thereafter.

# Auditors’ report of the Corporate Governance Statement

**Translation from the Swedish original.**

## To the annual meeting of the shareholders in AB Sveriges Säkerställda Obligationer (publ), Corporate identity number 556645-9755

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2014 on pages 36–41 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Statement has been prepared and is consistent with the annual accounts, we have read the Corporate Governance Statement and assessed its statutory content based on our knowledge of the company. This means that our statutory 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 audit standards in Sweden.

In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts.

Stockholm 13 March 2015
KPMG AB

Hans Åkervall
Authorised Public Accountant

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

**Visiting address: Löjtnantsgatan 21, SE-115 50 Stockholm, Sweden**
**Address: Box 27308, SE-102 54 Stockholm, Sweden**
**Phone: +46 8 614 43 00**
**Fax: +46 8 611 46 00**
**Internet: sbab.se**
**E-mail: investor@sbab.se**
**Corp. ID No. 556645-9755**