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

Annual Report 2013

SCBC

— Covered Bonds of SBAB —

Contents

Read more at sbab.se

Financial calendar 2014

Interim reports, annual reports and other financial information for SCBC are available at www.sbab.se.

Annual General Meeting	22 April
Interim report January–June	18 July
Year-end Report	February 2015

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.

2013 in brief

- Operating profit, excluding net result from financial transactions, amounted to SEK 933 million (1,128)
- Operating profit amounted to SEK 741 million (loss 194)
- Highly favourable demand for the company's bonds
- All funding programmes have the highest credit rating from both Moody's and Standard & Poor's

SCBC in brief

	2013	2012	%
Income statement items			
Net interest income, SEK million	1,651	1,787	–8%
Operating profit excluding net result from financial transactions, SEK million	933	1,128	–17%
Operating result, SEK million	741	–194	–
Net profit/loss for the year, SEK million	570	–142	–
Balance sheet items			
Lending, SEK billion	210.0	208.9	1%
Key figures			
Level of loan losses, %[1]	–0.01	–0.01	
Capital adequacy without transitional regulations			
Total capital ratio, %	58.8	33.6	
Tier 1 capital ratio, %	58.8	33.6	
Common Equity Tier 1 capital ratio %	58.8	33.6	
Capital adequacy with transitional regulations			
Total capital ratio, %	10.6	10.7	
Tier 1 capital ratio, %	10.6	10.7	
Common Equity Tier 1 capital ratio, %	10.6	10.7	
Rating, long-term funding			
Standard & Poor's[2]	AAA	AAA	
Moody's[3]	Aaa	Aaa	

[1] Loan losses in relation to opening balance for lending to the public
[2] Standard & Poor's Credit Market Services Europe Limited
[3] 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.

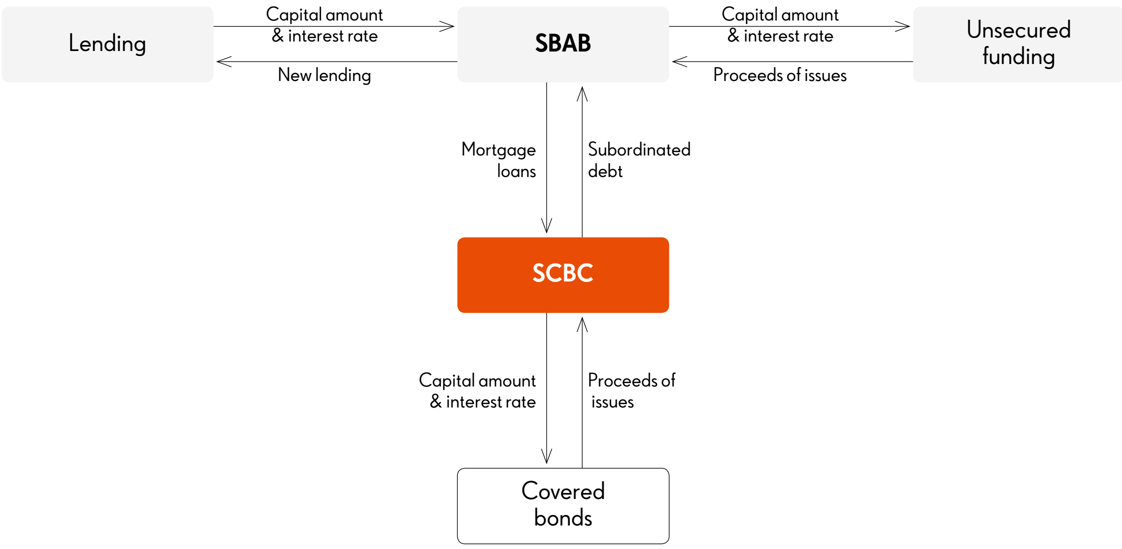
The Swedish Covered Bond Corporation, Reg. 556645-9755, is a wholly owned subsidiary of SBAB Bank AB, Reg. 556253-7513.

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, 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 2013, lending to the public amounted to SEK 210.0 billion (208.9), 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. The portfolio contains no loans for purely commercial properties. 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% of assets that qualify for inclusion in the cover pool in the issuance of covered bonds. Of the loans in the cover pool, about 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]. Information regarding SCBC's cover pool is published every month on sbab.se.

[1] LTV = Loan to Value

Key figures for cover pool

	31 December 2013
Total cover pool, SEK billion	204.2
Loan portfolio, SEK billion	203.7
Weighted average max LTV, %	58.4
Average loan amount, SEK thousand	580
Weighted average seasoning, years	5.1
Average remaining maturity, years	1.3
Substitute collateral, SEK billion	0.5

Max LTV for cover pool

Mortgage deeds and tenant-owner rights	31 December 2013		
	LOAN AMOUNT		
Max LTV, %	**Number[2]**	**SEK million**	**%**
0–20	23,375	8,703	4.3
20–40	34,974	26,940	13.4
40–50	21,945	21,654	10.8
50–60	26,185	32,208	16.0
60–70	27,628	32,343	16.1
70–75	78,822	78,958	39.3
Total	212,292	200,807	100.0

[2] "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 highly 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 considerable growth in deposits to SBAB contributed to a somewhat lower funding requirement than expected. The issuance of covered bonds through SCBC is one of the SBAB Group's key sources of funding. The company does not conduct any lending activities itself, but acquires loans, primarily from SBAB. The intention of the acquisitions is for these loans to be included in full or in part in the cover pool that serves as collateral for SCBC's covered bonds.

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 three 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 used. SCBC also has an AUD 4 billion Australian special funding programme.

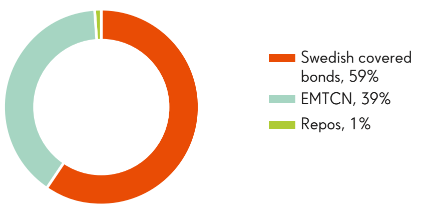
In 2013, SCBC introduced, among other things, two new covered bond loans in the Swedish covered bond market.

As per 31 December 2013, the total value of outstanding debt securities in issue under SCBC's lending programme was SEK 152.7 billion (152.9), distributed as follows: Swedish covered bonds SEK 91.4 billion (92.5) and the Euro Medium Term Covered Note Programme SEK 61.3 billion (60.4). During the year securities valued at SEK 29.8 billion were issued. At the same time, securities valued at SEK 16.6 billion were repurchased, while securities for SEK 11 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 decline in value by SEK 0.2 billion.

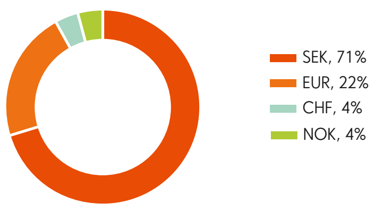
Rating

All of SCBC's funding programmes have received the highest possible long-term ratings of Aaa and AAA from the rating agencies Moody's and Standard and Poor's.

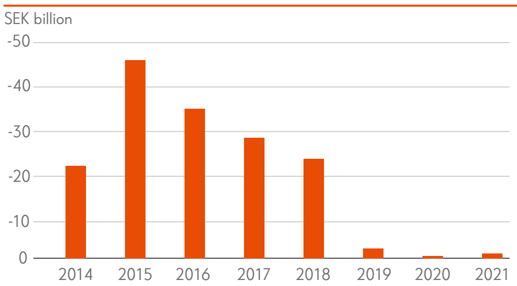
Funding
Debt outstanding at 31 December 2013: SEK 152.7 billion



Funding – currency distribution
Debt outstanding at 31 December 2013: SEK 152.7 billion

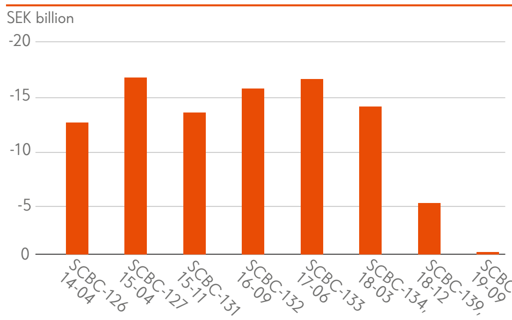


Total funding volume[1] – maturity profile



[1] Excluding repos

Outstanding volumes, 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, scope of risk capital and target rating. 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.

Risk tolerance

SCBC defines risk tolerance as the risk SCBC is willing to take to achieve the established business objectives within the framework of the chosen long-term strategy. Since the practical risk management is conducted within the Parent Company, the operational guidelines for each risk category are included in the instructions established for the SBAB Group.

The SBAB Group has established three principal risk categories, which also apply to SCBC. Within each category, there are a number of sub-categories for which specific risk tolerance measures have been formulated. The solvency category encompasses the risks for which SCBC retains capital and includes credit risk, market risk, operational risk, capital targets and earnings volatility. The liquidity risk category encompasses the risks that affect SCBC's opportunities for successful funding and liquidity management. The third main category comprises compliance and encompasses the regulations and ethical standards with which SCBC must comply to be able to pursue its operations.

SCBC shall continuously, and at least annually, reassess the balance between risks and risk-bearing capacity or the costs to minimise risk. The reassessment encompasses all limits and calibration levels.

The risks that arise in the operations within SCBC primarily comprise:

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.

Authority and responsibility

SCBC's Board of Directors bears the overarching responsibility for the company's total risk exposure. The Board of Directors approves all significant methods, models and processes.

The CEO is responsible for on-going administration in accordance with the strategies, guidelines and governance documents set out by the Board of Directors. The CEO ensures that the methods, models and processes forming part of the internal measurement and control of identified risks functions as intended and are approved by the Board of Directors. The CEO also ensures, on an on-going basis, that the reporting to the Board of Directors by each unit, including the risk control function, is conducted in accordance with the relevant instructions.

In SCBC's risk management, roles and responsibilities are divided in accordance with the three lines of defence:

- The first line of defence refers to all risk management activities performed by the business operations. The operations that incur the risk also own that risk, meaning that the day-to-day management of risks is to be performed by those responsible for the operations.
- The second line of defence refers to the risk control and compliance functions. The Risk Control unit is responsible for the identification, quantification, analysis and reporting of all of SCBC's risks. Compliance shall verify that operations adhere to laws and regulations and shall support the operations within its area of responsibility.
- The third line of defence refers to the internal audit, which performs regular independent reviews of the management and systems of internal controls.

The Risk Control unit sends written reports to the Managing Director and the Board of Directors quarterly and as necessary. The reporting structure is designed so that the Board of Directors and management receives reports regarding all material risks, as well as regarding the company's risk profile in relation to the approved risk tolerance.

A more detailed description of SCBC's risk management and capital adequacy is presented in Note 2.

Results of the operations

Operating profit, excluding net result from financial transactions for 2013 decreased to SEK 933 million (1,128). Net interest income decreased by 8% compared with the preceding year.

Operating profit

Operating profit for 2013 amounted to SEK 741 million (loss 194). Net interest income weakened compared with the preceding year to SEK 1,651 million (1,787). The lower net interest income, compared with 2012, is mainly due to SCBC's funding costs for non-covered funding having risen. At year-end, the lending portfolio amounted to SEK 210.0 billion (208.9).

Net result from financial transactions amounted to an expense of SEK -192 million (expense -1,322). The single largest factor impacting earnings was unrealised market-value changes on basis swaps[1].

Net commission amounted to an expense of SEK 83 million (86), including a fee of SEK 62 million (63) for the government stability fund.

SCBC's total operating income increased in comparison with the preceding year to SEK 1,376 million (380). Expenses for the year increased to SEK 656 million (587). The principal cause was higher costs totalling SEK 579 million (514) for payment to SBAB for administrative services provided in accordance with an outsourcing agreement, along with payment of SEK 75 million (70) to SBAB for the management of loans granted by FriSpar Bolån AB that were transferred from SBAB to SCBC. Net loan losses amounted to a positive SEK 21 million (13).

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 accordance with the new regulations. According to a preliminary assessment, capital requirements, own funds and major exposures will not be 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 2013, it is proposed that no dividend is to be paid. The complete proposed appropriation of profits is given on page 35 and 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 2013 is appended to this Annual Report on page 37. The information it provides regarding the most important aspects of the company's system of internal governance and control is given on page 40. Following the end of 2013, a new Board of SCBC was elected by an Extraordinary General Meeting. The new Board of Directors consists of Jakob Grinbaum (Chairman), Per Anders Fasth, Christine Ehnström, Per O. Dahlstedt and Sarah Bucknell.

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 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.

[1] Fair-value recognition of derivative instruments

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), with changes in fair value included in net result from financial transactions. 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.

Five-year overview

SEK million	2013	2012	2011	2010	2009
Interest income	6,211	7,902	7,735	3,667	3,445
Interest expenses	–4,560	–6,115	–6,046	–2,227	–2,632
Net interest income	**1,651**	**1,787**	**1,689**	**1,440**	**813**
Other operating income[1]	–275	–1,407	172	181	–638
Total operating income	**1,376**	**380**	**1,861**	**1,621**	**175**
Operating expenses	–656	–587	–563	–464	–445
Total operating expenses	**–656**	**–587**	**–563**	**–464**	**–445**
Profit/loss before loan losses	**720**	**–207**	**1,298**	**1,157**	**–270**
Loan losses, net	21	13	–11	–10	–25
Operating result	**741**	**–194**	**1,287**	**1,147**	**–295**
Lending portfolio	209,982	208,875	210,478	209,661	173,371
Deferred tax assets	–	–	–	–	55
Other assets	18,057	22,202	22,739	14,208	24,686
Total assets	**228,039**	**231,077**	**233,217**	**223,869**	**198,112**
Debt securities in issue, etc.	152,656	152,874	160,671	155,319	139,963
Other liabilities	22,973	27,803	25,207	19,709	21,908
Deferred tax liabilities	388	7	106	17	–
Subordinated debt to Parent Company	40,115	39,602	36,300	38,363	26,626
Equity	11,907	10,791	10,933	10,461	9,615
Total liabilities and equity	**228,039**	**231,077**	**233,217**	**223,869**	**198,112**

1) The item includes net commission, net result from financial transactions and other operating income

Key figures	2013	2012	2011	2010	2009
Lending					
Investment margin, %	0.72	0.77	0.74	0.68	0.43
Loan losses					
Loan loss rate, %	–0.01	–0.01	0.01	0.01	0.02
Productivity					
Expenditure/Income ratio, excl. loan losses	48	154	30	29	254
Expenditure/Income ratio, incl. loan losses,	46	151	31	29	269
Capital structure					
Return on equity, %	5.0	-1.3	8.9	8.4	-2.3
Common Equity Tier 1 capital ratio without transitional regulations, %	58.8	33.6	31.2	30.6	33.1
Tier 1 capital ratio without transitional regulations, %	58.8	33.6	31.2	30.6	33.1
Total capital ratio without transitional regulations, %	58.8	33.6	31.2	30.6	33.1
Common Equity Tier 1 capital ratio with transitional regulations, %	10.6	10.3	10.7	10.3	11.1
Tier 1 capital ratio with transitional regulations, %	10.6	10.3	10.7	10.3	11.1
Total capital ratio with transitional regulations, %	10.6	10.3	10.7	10.3	11.1
Equity ratio, %	5.2	4.7	4.7	4.7	4.9
Consolidation ratio, %	5.4	4.7	4.7	4.7	4.8
Employees					
Number of employees	1	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, excl. loan losses	Total operating expenses/total income
Expenditure/Income ratio, incl. loan losses	(Total operating expenses plus loan losses)/total income
Return on equity	Operating result 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

Contents

Income statement

SEK million	Note	2013	2012
Interest income	3	6,211	7,902
Interest expenses	3	−4,560	−6,115
Net interest income		**1,651**	**1,787**
Commission income	4	8	10
Commission expense	4	−91	−96
Net result from financial transactions	5	−192	−1,322
Other operating income		0	1
Total operating income		**1,376**	**380**
General administration expenses	6	−655	−586
Other operating expenses		−1	−1
Total expenses before loan losses		**−656**	**−587**
Profit/loss before loan losses		**720**	**−207**
Loan losses net	7	21	13
Operating result		**741**	**−194**
Tax	8	−171	52
Profit for the year		**570**	**−142**

Statement of comprehensive income

SEK million	2013	2012
Profit for the year	**570**	**−142**
Other comprehensive income for the year, net after tax	–	–
Total comprehensive income for the year	**570**	**−142**

Balance sheet

SEK million	Note	31 December 2013	31 December 2012
ASSETS			
Lending to credit institutions	9	11,179	10,054
Lending to the public	10	209,982	208,875
Change in value of interest-rate-hedged items in portfolio hedges		1,164	2,129
Derivative instruments	11	4,631	9,578
Other assets	15	866	197
Prepaid expenses and accrued income	16	217	244
TOTAL ASSETS		**228,039**	**231,077**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	17	14,644	15,084
Debt securities in issue, etc.	18	152,656	152,874
Derivative instruments	11	5,617	9,806
Other liabilities	19	10	17
Accrued expenses and prepaid income	20	2,702	2,896
Deferred tax liabilities	21	388	7
Subordinated debt to Parent Company	22	40,115	39,602
Total liabilities		**216,132**	**220,286**
Equity			
Share capital		50	50
Shareholder contribution		9,550	9,550
Retained earnings		1,737	1,333
Profit for the year		570	-142
Total equity	23	**11,907**	**10,791**
TOTAL LIABILITIES AND EQUITY		**228,039**	**231,077**
Memorandum items			
Assets pledged for own liabilities	24	204,189	203,010

Statement of changes in equity

	Restricted equity	Non-restricted equity			
SEK million	Share capital	Shareholder contribution	Retained earnings	Profit for the year	Total equity
OPENING BALANCE, 1 JAN 2012	**50**	**9,550**	**1,333**		**10,933**
Total comprehensive income for the year[1)]				–142	–142
CLOSING BALANCE, 31 DEC 2012	**50**	**9,550**	**1,333**	**–142**	**10,791**
OPENING BALANCE, 1 JAN 2013	**50**	**9,550**	**1,191**		**10,791**
Transactions with shareholders:					
Group contributions received after tax			546		546
Total comprehensive income for the year[1]				570	570
CLOSING BALANCE, 31 DEC 2013	**50**	**9,550**	**1,737**	**570**	**11,907**

1) Total comprehensive income for the year coincides with profit for the year.

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	2013	2012
Cash and cash equivalents at the beginning of the year	**10,054**	**11,562**
OPERATING ACTIVITIES		
Interest received	6,315	7,857
Commission received	11	6
Interest paid	–5,164	-6,495
Commission paid	–98	–94
Realised changes in value	–147	–81
Payments to suppliers	–589	–610
Income tax paid	–23	–21
Change in subordinated debt	513	3,301
Change in lending to the public	–1,073	1,639
Change in liabilities to credit institutions	–439	30
Issuance of long-term funding	29,830	21,011
Repayment of long-term funding	–28,000	-27,219
Change in other assets and liabilities	–11	-322
Cash flow from operating activities	**1,125**	**–998**
INVESTING ACTIVITIES		
Cash flow from investing activities	**–**	**–**
FUNDING ACTIVITIES		
Dividend paid	–	–
Group contribution provided	–	–510
Cash flow from funding activities	**–**	**–510**
Increase/decrease in cash and cash equivalents	**1,125**	**–1,508**
Cash and cash equivalents at the end of the year	**11,179**	**10,054**

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, is a Swedish public limited banking company domiciled in 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).

SCBC also applies Chapter 5, Section 4 of the updated FFFS 2008:25 (FFFS 2013:24) prematurely for this report.

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

On 12 March 2014, the Board of Directors approved the financial statements for publication. They will receive final approval from the Annual General Meeting on 22 April 2014.

Amended and new accounting policies in 2013

IFRS 7 – Financial Instruments: Disclosures (amendment)

- In IFRS 7, Financial Instruments: Disclosures have been added regarding the offsetting of financial assets and liabilities. The disclosure requirements apply to all recognised financial instruments that are offset in accordance with item 42 in IAS 32, but also to recognised financial instruments covered by a legally binding framework agreement on offsetting or any similar agreement, regardless of whether or not they are offset in accordance with item 42 in IAS 32. The disclosures are provided in Note 14.

IFRS 13 Fair Value Measurement

- Fair value is defined as the price received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also includes extensive disclosure requirements. The new standard does not mean that any new items were measured at fair value. With regard to the items that SCBC has measured at fair value, the new definition has not had an impact on the financial statements. The standard is being applied as of 1 January 2013. Other amendments, interpretations and annual improvements have not had a significant impact on SCBC's financial statements.

Introduction of new accounting standards

IFRS 9 – Financial Instruments

Since 2008, the IASB has been working to develop a new standard, IFRS 9 Financial Instruments, which will replace IAS 39 Financial Instruments: Recognition and Measurement. The work is divided into three phases:

- Classification and measurement
- Impairment
- Hedge accounting

For the first phase, Classification and measurement, an exposure draft (ED) was released in 2012 and the IASB plans a final standard for this phase in mid-2014.

Classification occurs on the basis of the company's business model and the characteristic properties of its contractual cash flows. For the second phase, Impairment, a new exposure draft (ED) was issued in March 2013. The impairment model is based on expected losses rather than loss events that have occurred as in the current model. The final standard for this phase is planned for mid-2014.

The third phase, Hedge accounting, has been divided into normal hedge accounting and hedge accounting for macro hedges. A new standard was issued in November 2013 covering normal hedge accounting, and the IASB is working to issue a discussion paper (DP) on hedge accounting for macro hedged in early 2014.

The implementation of the standard has been postponed and the date for the compulsory application of the new standard will be 1 January 2018 at the earliest, when premature application is expected to be permitted. However, IFRS 9 has not yet been approved by the EU, which is a requirement for application. SCBC's assessment is that introduction of the standard concerning classification and measurement of financial assets and liabilities will have a limited impact on its financial statements. SCBC has yet to make a preliminary assessment of how the normal hedge accounting will affect the financial statements.

IAS 39 Financial Instruments: Recognition and Measurement

- In July 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 that was not intended at the outset of the hedging relationship meets specific criteria. The addition is not expected to have 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 and IFRIC 21 Levies, is not expected to have any significant impact on SBAB's financial statements.
  Other amendments, interpretations and annual improvements are deemed to have had no significant impact on SCBC's financial statements.

General accounting policies

Recognition in and de-recognition from the balance sheet

Issued securities 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 following the effective interest method 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 result 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 measured at fair value through profit or loss
- Loans and receivables
- Financial liabilities measured at fair value through profit or loss
- Other financial liabilities

Note 1 Accounting policies, continued

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 to sell 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. 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 measured at fair value through profit or loss
The categories "Financial assets measured at fair value through profit or loss" and "Financial liabilities measured 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 profit or loss.

Changes in fair value and realised gains or losses for these assets and liabilities are recognised in profit or loss under the heading "Net result 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 measured 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 result 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. The method applied by SCBC is fair value hedging – see below. There are also other economic hedges for which hedge accounting is not applied These derivatives outside hedge accounting are classified as assets or liabilities, respectively, measured 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 profit or loss under the heading "Net result 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 profit or loss in accordance with the effective interest method. The accrual extends over the remaining maturity of the hedged item. The realised gain or loss arising from premature closing of a hedging instrument is recognised in profit or loss under the heading "Net result 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.

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

The amount of impairment is measured as the difference between the carrying amount of the receivable and the present value of estimated future cash flows discounted at the 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 profit or loss 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 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.

Note 1 Accounting policies, continued

Collectively measured loan receivables
The loan receivables assessed in this group are as follows:
- Retail Market loans not individually measured. These consist of a large number of loans each of a limited amount and with similar credit risk characteristics.
- Individually measured loan receivables where no objective evidence of individual impairment 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 adjustments 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.

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 profit or loss under "Net result 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 profit or loss, the related tax effects are also recognised in profit or loss. Tax effects of items recognised in other comprehensive income or equity are recognised in other comprehensive income or equity.

Deferred tax assets and tax liabilities are measured according to the balance sheet method on the basis of temporary differences that arise between the carrying amount and the tax base of an asset or liability. Deferred tax assets are recognised for unutilised tax losses to the extent that it is probable that the 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 entails a risk of causing an adjustment to recognised assets in the next financial year is described below: For collectively measured loan receivables, the estimates of future cash flows are based partly on assumptions concerning how observable data may result in loan losses. See also the section "Loan losses".

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 – the counterpart is unable to fulfil its payment obligations.
2a) Credit risk in treasury operations – the counterpart is unable to fulfil its payment obligations.
2c) Liquidity risk – not be able to meet payment obligations on the date of maturity without the related cost increasing significantly.
2d) Market risk – impaired profitability due to unfavourable market fluctuations.
2e) Operational risk – losses due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events, including legal risk.
2f) Business risk – declining income due to deteriorating competitive conditions or an incorrect strategy or decision. Business risk also includes margin risk, which arises when the fixed-interest periods applying to the interest-rate margins for lending and funding differ.
2g) Concentration risk – arises either as a result of large-scale exposures or exposures in the loan portfolio concentrated to certain types of borrowers, regions or industries.
2h) Internal capital adequacy assessment – fulfilment of Basel II, Pillar 2.
2i) Capital adequacy

Additional information regarding SCBC's and SBAB's risk management and capital adequacy can be found on sbab.se.

Note 2a Risk management – Credit risk, lending

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 what is known as 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 the foundation IRB approach (FIRB approach) for Corporate loans. The Swedish Financial Supervisory Authority has reviewed the company's IRB approach and found it to be reliable. 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. For cases in which external ratings are used, the lowest rating from either Moody's or Standard & Poor's is selected.

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

The credit risk models assess the following parameters:

- Probability of default by the customer – (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 – Exposure at default (EAD)
- The expected loan loss (EL) is measured using the formula EL = PD*LGD*EAD

On the basis of these, customers can be 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 2013 did not result in any changes to models.

In 2013, SCBC received permission to change its definition of retail exposures and to change the method for calculating LGD for tenant-owner association so that exposures to tenant-owner associations with a turnover of less than EUR 50 million and full collateral in residential property are reported in the retail exposure category for which SBAB holds an IRB permit.

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 regulated by the Capital Adequacy and Large Exposures Act (2006:1371) and by the Swedish Financial Supervisory Authority's regulations and general guidelines governing capital adequacy and large exposures (FFFS 2007:1). According to these regulations, the risk associated with each individual loan is to be estimated 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 127 million. The provision for corresponding loans according to the financial statements is SEK 84 million. In the capital adequacy calculation, difference is subtracted in the calculation of own funds.

In connection with the quantitative assessment in lending to companies[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

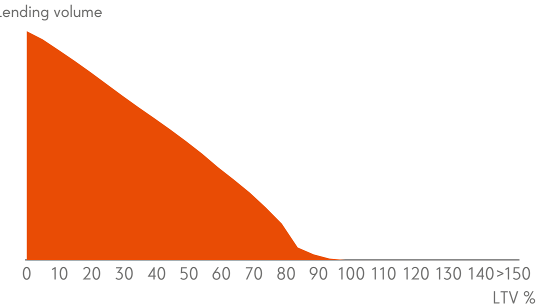
For loans granted by SBAB, adequate collateral must normally be provided. Adequate collateral primarily refers to mortgage deeds in residential properties or shares in tenant-owner associations within a maximum of 75–85% of the market value. The 85% level applies only provided that collateral can be 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 92% (90) of SBAB'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 210 million (209).

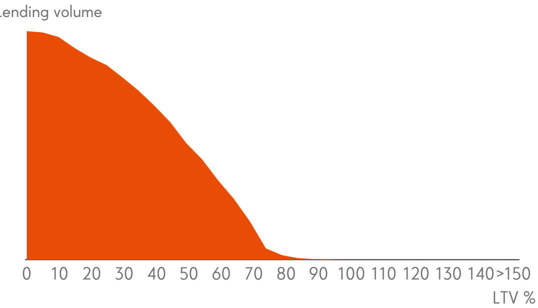
The financial effect of collateral received is illustrated in the diagrams below of loans in relation to the market value of underlying collateral for loans secured on collateral comprising mortgage deeds or shares in tenant-owner associations. The floor area in the diagrams corresponds to the lending 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% (98) 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 association, between 75% and 93% (94) 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	80.2%	99.7%	100.0%	62.4%
Retail exposures	78.7%	96.7%	100.0%	61.6%

Loan portfolios in lending operations allocated by risk class

As per 31 December 2013, SCBC's lending to the public amounted to SEK 210.0 billion (208.9), 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 38 million (30), 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 homes, 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.

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

Loan portfolio by risk class – Corporate Market, including tenant-owner associations

	2013		2012	
Risk class C[1)]	**Lending**	**Provisions/lending in respective risk class**	**Lending**	**Provisions/lending in respective risk class**
C0	0.1%	–	0.2%	–
C1	72.9%	–	64.9%	–
C2	11.9%	–	23.0%	0.0%
C3	10.7%	–	7.9%	0.0%
C4	2.8%	–	2.3%	0.1%
C5	1.0%	0.1%	1.1%	0.0%
C6	0.5%	2.5%	0.4%	2.2%
C7	0.1%	3.2%	0.2%	5.1%
C8	–	–	0.0%	0.0%
	100.0%	0	**100.0%**	0.0%

[1)] C=Corporate Market

Loan portfolio allocated by risk class – Retail

	2013		2012	
Risk class R[1)]	**Lending**	**Provisions/lending in respective risk class**	**Lending**	**Provisions/lending in respective risk class**
R1/C1	21.3%	0.0%	15.5%	0.0%
R2/C2	33.9%	0.0%	25.6%	0.0%
R3/C3	25.7%	0.0%	39.8%	0.0%
R4/C4	11.1%	0.0%	10.1%	0.0%
R5/C5	5.4%	0.3%	5.6%	0.4%
R6/C6	1.6%	0.9%	2.4%	1.0%
R7/C7	0.9%	2.7%	1.0%	3.0%
R8/C8	0.1%	4.0%	0.0%	4.3%
	100.0%	0.1%	**100.0%**	0.1%

[1)] R = Retail Market

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

	2013		2012	
SEK million	**Public**	**Credit institutions**	**Public**	**Credit institutions**
❶ Current loans without past due unpaid amounts or provisions	209,793	11,079	208,712	10,054
❷ Loans with unpaid amounts more than five days past due	298	–	284	–
❸ Loans with individual provisions	3	–	–	–
Total outstanding loans	**210,094**	**11,079**	**208,996**	**10,054**
Individual provision	–3	–	–	
Collective provisions, corporates	–10	–	–14	–
Collective provisions, retail	–99	–	–107	–
Total provisions	**–112**	**–**	**–121**	**–**
Total lending after provisions	**209,982**	**11,079**	**208,875**	**10,054**
Guarantees for loans with individual provisions	–	–	–	–
Guarantees for loans with collective provisions, corporates	2	–	1	–
Guarantees for loans in collective provisions, corporates	26	–	27	–
Total guarantees	**28**	**–**	**28**	**–**
Total lending after provisions and guarantees	**210,010**	**11,079**	**208,903**	**10,054**

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 2013, 93% (94) 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 38 million (30), 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

	2013						
Risk class	**Single-family dwellings and holiday homes**	**Tenant-owner**	**Tenant-owner associations**	**Private multi-family dwellings**	**Municipal multi-family dwellings**	**Commercial properties[1]**	**Total**
C0	0	0	0	0	25	0	25
C/R1	18,354	7,517	14,188	13,055	3,385	0	56,499
C/R2	26,409	14,460	22,875	2,525	61	0	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	0	21,352
C/R5	4,978	4,651	543	183	24	2	10,381
C/R6	1,530	1,191	189	81	0	0	2,991
C/R7	1,039	527	14	13	0	0	1,593
C/R8	22	6	36	0	0	0	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.

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

	2012						
Risk class	**Single-family dwellings and holiday homes**	**Tenant-owner**	**Tenant-owner associations**	**Private multi-family dwellings**	**Municipal multi-family dwellings**	**Commercial properties[1]**	**Total**
C0	–	–	–	–	189	–	189
C/R1	15,568	5,485	27,029	16,603	3,640	–	68,325
C/R2	22,732	12,056	14,018	2,432	245	59	51,542
C/R3	31,041	23,168	3,669	1,929	139	21	59,967
C/R4	7,803	5,976	1,069	423	199	–	15,470
C/R5	4,440	3,141	641	121	27	–	8,370
C/R6	1,825	1,336	173	89	–	–	3,423
C/R7	854	409	35	91	–	–	1,389
C/R8	21	13	3	–	–	–	37
Total	**84,284**	**51,584**	**46,637**	**21,688**	**4,439**	**80**	**208,712**

[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 below shows loans with past due receivables without individual provisions distributed by past due amortisation, past due accrued interest and past due principal for which notice of termination has been given. Furthermore, for the sake of completeness, "principal and accrued interest not yet past due" are also stated for these loans. All amounts are distributed by segment. For loans with past due amounts in several time intervals, the part that is not past due is shown, where relevant, in the oldest time interval.

For the first time interval, the choice has been made not to take past due receivables into account up to five days prior to the latest maturity date to prevent the analysis from being distorted by payments delayed due to holidays. The value of collateral and guarantees largely refers to the value of mortgage deeds or tenant-owner rights and to a lesser extent to the value of loan guarantees from the Swedish National Housing Credit Guarantee Board (currently part of the National Board of Housing, Building and Planning), insurance companies and banks that have been recognised at the assessed value of what is expected to be received in the event of insolvency. At year-end 2013, 99.9% (99.9) of lending had no past due unpaid amounts and was not assessed as doubtful. As in the previous year, of SCBC's loan portfolio of SEK 210.0 billion (208.9), there is no terminated, past due principal excluding past due amortisation, which is due to the fact that the Parent Company acquires credits from SCBC that remain unsettled for more than 30 days.

Lending to the public by segment – loans with unpaid amounts more than five days past due

	2013						
SEK million	**Single-family dwellings and holiday homes**	**Tenant-owner**	**Tenant-owner associations**	**Private multi-family dwellings**	**Municipal multi-family dwellings**	**Commercial properties**	**Total**
Past due 5–30 days[1]							
Past due amortisation	0.2	0.7	0.2	–	–	–	1.1
Past due accrued interest	0.6	0.3	0.5	–	–	–	1.4
Terminated past due principal, excl. past due amortisation	–	0.0	0.0	–	–	–	0.0
Principal not past due	161.0	86.4	49.5	–	–	–	296.9
Accrued interest not past due	0.1	0.0	0.2	–	–	–	0.3
Past due 31–60 days							
Past due amortisation	–	–	–	–	–	–	0.0
Past due accrued interest	–	–	–	–	–	–	0.0
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	0.0
Principal not past due	–	–	–	–	–	–	0.0
Accrued interest not past due	–	–	–	–	–	–	0.0
Past due > 60 days							
Past due amortisation	–	–	–	–	–	–	0.0
Past due accrued interest	–	–	–	–	–	–	0.0
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	0.0
Principal not past due	–	–	–	–	–	–	0.0
Accrued interest not past due	–	–	–	–	–	–	0.0
Total past due							
Total past due amortisation	0.2	0.7	0.2	–	–	–	1.1
Total past due accrued interest	0.6	0.3	0.5	–	–	–	1.4
Total terminated past due principal, excl. past due amortisation	–	0.0	0.0	–	–	–	0.0
Total principal not past due	161.0	86.4	49.5	–	–	–	296.9
Total accrued interest not past due	0.1	0.0	0.2	–	–	–	0.3
Total lending for loans with past due receivables without provisions	**161.2**	**87.1**	**49.7**	**–**	**–**	**–**	**298.0**
Value of collateral and guarantees (MV)	161.2	87.1	49.7	–	–	–	298.0

[1] For the first time interval, the choice has been made not to take past due receivables into account up to five days prior to the date on which the analysis is made to prevent the analysis from being distorted by payments delayed due to holidays.

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

Lending to the public by segment – loans with unpaid amounts more than five days past due

	2012						
SEK million	Single-family dwellings and holiday homes	Tenant-owner	Tenant-owner associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties	Total
Past due 5–30 days[1]							
Past due amortisation	1.8	0.7	0.1	0.0	–	–	2.6
Past due accrued interest	0.7	0.3	0.3	0.0	–	–	1.3
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Principal not past due	184.2	65.4	30.9	0.8	–	–	281.3
Accrued interest not past due	0.1	0.0	0.1	0.0	–	–	0.2
Past due 31–60 days							
Past due amortisation	–	–	–	–	–	–	–
Past due accrued interest	0.0	–	–	–	–	–	0.0
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Principal not past due	0.4	–	–	–	–	–	0.4
Accrued interest not past due	0.0	–	–	–	–	–	0.0
Past due > 60 days							
Past due amortisation	–	–	–	–	–	–	–
Past due accrued interest	–	–	–	–	–	–	–
Terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Principal not past due	–	–	–	–	–	–	–
Accrued interest not past due	–	–	–	–	–	–	–
Total past due							
Total past due amortisation	1.8	0.7	0.1	0.0	–	–	2.6
Total past due accrued interest	0.7	0.3	0.3	0.0	–	–	1.3
Total terminated past due principal, excl. past due amortisation	–	–	–	–	–	–	–
Total principal not past due	184.6	65.4	30.9	0.8	–	–	281.7
Total accrued interest not past due	0.1	0.0	0.1	0.0	–	–	0.2
Total lending for loans with past due receivables without provisions	**186.4**	**66.1**	**31.0**	**0.8**	**–**	**–**	**284.3**
Value of collateral and guarantees (MV)	186.4	66.1	31.0	0.8	–	–	284.3

[1] For the first time interval, the choice has been made not to take past due receivables into account up to five days prior to the date on which the analysis is made to prevent the analysis from being distorted by payments delayed due to holidays.

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. Doubtful receivables amounted to SEK 3 million (0).

Lending to the public by segment – loans with individual provisions (doubtful receivables)

	2013						
SEK million	Single-family dwellings and holiday homes	Tenant-owner	Tenant-owner associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties	Total
Doubtful receivables	–	3		–	–	–	3
Individual provision, Corporate Market	–	–	–	–	–	–	–
Individual provision, Retail Market	–	–3	–	–	–	–	–3
Doubtful receivables, net	**–**	**0**	**–**	**–**	**–**	**–**	**0**
Calculated value of guarantees	–	–	–	-	–	–	
Doubtful receivables with pledged guarantees taken into consideration	**–**	**0**	**–**	**–**	**–**	**–**	**0**

	2012						
SEK million	Single-family dwellings and holiday homes	Tenant-owner	Tenant-owner associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties	Total
Doubtful receivables	–	–	–	–	–	–	–
Individual provision, Corporate Market	–	–	–	–	–	–	–
Individual provision, Retail Market	–	–	–	–	–	–	–
Doubtful receivables, net	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Calculated value of guarantees	–	–	–	–	–	–	–
Doubtful receivables with pledged guarantees taken into consideration	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Restructured 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	2013	2012
Single-family dwellings and holiday homes	2	1
Tenant-owner rights	1	0
Tenant-owner associations	10	–
Private multi-family dwellings	–	–
Municipal multi-family dwellings	–	–
Commercial properties	–	–
Total	**13**	**1**

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 preperty.

Note 2b Credit risk in treasury operations

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

Limit utilisation

SEK million	2013		2012	
Rating category	Limit	Utilised limit	Limit	Utilised limit
AAA	0	0	0	0
AA– to AA+	5,600	473	5,450	971
A– to A+	8,825	187	10,885	550
Lower than A–	910	197	2,400	148
Total	**15,335**	**857**	**18,735**	**1,669**

The table shows the utilised limit and the limit, respectively, at an aggregate level per rating category, for SCBC's counterparties, with each counterparty placed in relation to its lowest rating. The table also provides a summary of the external derivative contracts entered into by SCBC as per 31 December 2013. 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 Group. In accordance with the credit directive, the limits of SBAB's Credit Committee are set within the rating-related 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 counterparties who are also loan customers, the limit is to be coordinated with the credit limit. The limit can be established 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 at the following Board meeting. Unilateral collateral agreements have been set up for all of SCBC's counterparties.

Note 2b Credit risk in treasury operations, continued

Counterparty credit risk
Counterparty credit risk consists of exposures to leading banks and the Parent Company and, to external counterparties, is hedged entirely through unilateral collateral agreements in which the counterparty posts 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 which entitles the party that receives the collateral to use the collateral in its operations.

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, ISDA Master Agreements, or similar agreements are supplemented with associated collateral agreements – CSAs. A CSA must always be established for counterparties entering into derivative contracts with SCBC. The framework agreements entitle the parties to net receivables against debt in the event of a serious payment default.

Counterparty credit risk is reconciled on a daily basis for all counterparties. Reconciliation for CSAs takes place daily or weekly. The effects of pledged assets and received collateral are shown in greater detail in Note 14 Information about offsetting.

As per 31 December 2013, SCBC had received collateral for a total value of SEK 1.3 billion. Credit-risk limits are set by SBAB's Credit Committee for all counterparties in the treasury operations, with the exception of the Kingdom of Sweden and companies included in the SBAB Group, for which no limits to the exposure are applied. In the table "Maximum credit risk exposure in the treasury operations", the maximum credit risk exposure to each is shown without taking collateral received or other credit reinforcement into account.

Maximum credit risk exposure in the treasury operations

	Without taking into account collateral received or other credit enhancements		Taking into account collateral received or other credit enhancements	
	2013	2012	2013	2012
Lending to credit institutions	11,072	9,952	11,079	9,952
Chargeable treasury bills and other eligible bills	–	–	–	–
Bonds and other interest-bearing securities	–	–	–	–
Derivative instruments	4,631	9,578	3,244	6,641
Maximum credit risk exposure at 31 December	**15,703**	**19,531**	**14,323**	**16,593**

Collateral posted and received under collateral agreements, 31 December 2013

Company	Collateral pledged	Collateral received
SCBC	6,738	1,334,565

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	2013							2012						
GROUP	Without maturity	< 3 months	3-6 months	6-12 months	1–5 years	> 5 years	Total	Without maturity	< 3 months	3-6 months	6-12 months	1–5 years	> 5 years	Total
ASSETS														
Lending to credit institutions	100	11,133	–	–	–	–	11,233	148	9,951	–	–	–	–	10,099
Loans to the public	–	30,141	34,478	70,239	80,788	4,030	219,676	–	26,877	31,215	63,840	93,883	3,026	218,841
Derivative instruments	–	4,315	1,462	4,962	49,846	1,866	62,451	–	4,713	6,639	2,252	59,739	3,382	76,725
Other assets	1,083	–	–	–	–	–	1,083	441	–	–	–	–	–	441
Total financial assets	**1,183**	**45,589**	**35,940**	**75,201**	**130,634**	**5,896**	**294,443**	**589**	**41,541**	**37,854**	**66,092**	**153,622**	**6,408**	**306,106**
LIABILITIES														
Liabilities to credit institutions	–	14,700	–	–	-	–	14,700	–	15,085	–	–	–	–	15,085
Debt securities in issue, etc.	–	2,232	14,241	9,256	134,218	3,126	163,073	–	1,241	21,903	2,274	133,649	3,954	163,021
Derivative instruments	–	4,164	964	5,681	51,477	2,044	64,330	–	5,420	4,874	2,895	61,728	3,828	78,745
Other liabilities	2,712	–	–	–	–	–	2,712	2,913	–	–	–	–	–	2,913
Subordinated debt	40,115	–	–	–	–	–	40,115	39,602	–	–	–	–	–	39,602
Total financial liabilities	**42,827**	**21,096**	**15,205**	**14,937**	**185,695**	**5,170**	**284,930**	**42,515**	**21,746**	**26,777**	**5,169**	**195,377**	**7,782**	**299,366**

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 2013. 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 2c Risk management – Liquidity risk, continued

Cash flow statement derivatives (amounts are contractual, undiscounted cash flows)

	2013						2012					
GROUP SEK million	**Up to 1 month**	**1-3 months**	**3-12 months**	**1–5 years**	**> 5 years**	**Total**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1–5 years**	**> 5 years**	**Total**
DERIVATIVES SETTLED ON A NET BASIS												
Currency-related derivatives						0						0
Interest rate-related derivatives	–81	419	250	1,540	–149	1,979	–116	–277	845	2,355	–492	2,315
Total derivatives settled on a net basis	**–81**	**419**	**250**	**1,540**	**–149**	**1,979**	**–116**	**–277**	**845**	**2,355**	**–492**	**2,315**
DERIVATIVES SETTLED ON A GROSS BASIS												
Currency-related derivatives												
– Inflows of cash	1,429	1,871	4,265	44,114	1,161	52,840	2,332	1,288	4,040	48,282	1,920	57,862
- Closing cash flows	–1,493	–1,993	–4,737	-47,285	–1,189	-56,697	–2,393	–1,540	-3,761	–52,626	–1,874	–62,194
Interest rate-related derivatives												
– Inflows of cash						0						0
- Closing cash flows						0						0
Total												
– Inflows	**1,429**	**1,871**	**4,265**	**44,114**	**1,161**	**52,840**	**2,332**	**1,288**	**4,040**	**48,282**	**1,920**	**57,862**
– Outflows	**–1,493**	**–1,993**	**–4,737**	**–47,285**	**–1,189**	**–56,697**	**–2,393**	**-1,540**	**–3,761**	**–52,626**	**–1,874**	**–62,194**

Foreign currency cashflows have been recalculated at the closing rate as per 31 December 2013. Future interest-rate cash flows for asset and liability derivative instruments with high floating interest rates have been estimated until the change of condition date using forwardinterest rates based on the current interest base, usually the three-month STIBOR.

Note 2d Risk management – Market risk

Market risk is the risk of a decline in profitability due to unfavourable market fluctuations. SCBC is characterised by a low level of risk taking and is handled within the framework of the SBAB Group's limits, which are determined by the Board of Directors of SBAB. The management of SCBC's risks is outsourced to the Parent Company, where they are followed up and managed at both the company and Group level. The basic objective for SBAB's management of SCBC's market risk is to limit risk in the covered 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. Through daily reports, Risk Control checks that current risk levels and limits are adhered to. Exposures and limits for the limit measures relevant to SCBC are stated in the table "Market risk limits and exposures".

Value at Risk

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

In the day-to-day follow-up of risk, a probability level of 99% and a holding period of one day are applied. Limits for the day-to-day follow-up of risk have been set at two levels: 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 former limit. SBAB has also set a VaR limit for the entire SBAB Group's market risk, including the strategic portfolio, which consists of the SBAB Group's equity. This limit 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.

Interest-rate risk

Interest-rate risk arises primarily when the interest rate structure between funding and lending is not fully matched. SBAB's interest rate structure as per 31 December 2013 is presented in the table "Fixed-interest period for financial assets and liabilities."

The main principle for SCBC's interest-rate risk management is to limit the risk through direct funding and the use of derivative instruments. Consequently interest-rate risk exists in SCBC only to a limited extent. SCBC does not actively take on investment positions.

Interest rate risk is quantified i) by a parallel shift in the yield curve and ii) by applying a model that simulates a large number of non-parallel shifts in the yield curve, so-called curve risk. Calculation takes into account all contractual cash flows affecting lending, liabilities and derivative instruments.

In the parallel shift approach, the effect on the portfolio's value is calculated at a one-percentage point shift in the yield curve. In setting limits, the SBAB Group's portfolio has been divided into three parts: operational, strategic and trading. SCBC's investments positions exist as component amounts within the operational and strategic parts.

Operational interest rate risk arises in the risk management of the mortgage and liquidity portfolios. The strategic interest rate risk is the risk that arises when the SBAB Group's equity is invested in fixed-interest funding. The SBAB Group's equity is to be used primarily to fund lending operations. The benchmark for the investment of equity is set by the Board and defined as a maturity ladder with even annual maturities over a period of one to six years. The interest-rate risk associated with equity is defined as the deviation from this benchmark.

Curve risk is quantified through a model in which the short-term portion of the yield curve is adjusted upward (downward) by 1 percentage point and the long-term portion is adjusted downward (upward) by 1 percentage point. A large number of breakpoints are tested for both the short and long-term portion. The curve risk is defined as the least favourable of the tested scenarios. Limits for curve risk are set for two parts of the SBAB Group's portfolio: operational and trading, where SCBC's investment positions are within the operational part.

Basis risk

Basis risk primarily arises when funding in a foreign currency is swapped to SEK with a maturity that deviates from the maturity of the underlying funding. All funding in foreign currency within SCBC is swapped to SEK at matching maturities – consequently, no basis risk is assumed within SCBC. Due to the accounting policies applied, however, the use of basis swaps gives rise to earnings volatility.

Currency risk

Currency risk refers to the risk that changes in the SEK's exchange rate in relation to other currencies will result in deteriorating profitability. All of SCBC's funding in foreign currency is converted into, and hedged in SEK, by means of derivative agreements. As per 31 December 2013, total assets and liabilities in foreign currency amounted to the equivalent of SEK -46.2 billion. The outstanding risk has been reduced by means of derivatives where the nominal amount was equivalent to SEK 46.3 billion.

Note 2d Risk management – Market risk, continued

Nominal amounts, assets, liabilities and derivatives in foreign currency

SCBC SEK million	Assets and liabilities	Derivatives
CHF	–5,961	5,961
EUR	–34,234	34,297
GBP	0	0
NOK	–6,094	6,094
USD	0	0
Total	**–46,289**	**46,352**

Credit spread risk
Credit spread risk is the risk of changes in different issuers' interest expenses and affects SBAB in those cases where SBAB invests in other issuers' securities. Within SCBC, no investments are made in other issuers' securities and SCBC is consequently not exposed to credit spread risk.

Earnings volatility
Since the derivatives used to hedge funding are recognised at fair value and the underlying funding is reported at the carrying amount in accordance with the accounting standards applied by the SBAB Group, effects arise in the operating result that do not correspond to the actual risk to which the portfolio is exposed. To mitigate this effect, SBAB has chosen to set a limit for earnings volatility for basis spreads. The limit is expressed as a sensitivity measure in which the change in earnings for the total portfolio may not exceed SEK 30 million at a shift of one basis point in the underlying basis spreads. Investment positions within SCBC are included as a component amount in the investment positions measured against this limit.

Market risk limits and exposures

Limit measures relevant to SCBC, exposures and limits for the SBAB Group

SEK million	Exposure	Limit	Utilisation
VaR Treasury[1]	11	30	36%
Total VaR[2]	661	1,350	49%
Operational interest rate risk (excluding trading portfolio)	24	±120	20%
Strategic interest rate risk	-2	±20	10%
Curve risk (excluding trading portfolio)	125	240	52%
Currency risk (excluding liquidity portfolio)	6	±10	60%
Earnings volatility basis swaps	14	30	47%

[1] 1)Limits for the day-to-day follow up of risk have been set at two levels: 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 former limit.
[2] SBAB has set a VaR limit for its entire market risk, including the strategic portfolio, which consists of SBAB's equity.

Fixed-interest periods for financial assets and liabilities

Carrying amounts, SEK million	2013							2012						
GROUP	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	100	11,079	–	–	–	–	11,179	102	9,952	–	–	–	–	10,054
Loans to the public	–	106,066	12,798	19,734	68,668	2,716	209,982	–	95,947	9,065	23,802	77,314	2,747	208,875
Change in fair value of hedged loan receivables	–	5	31	84	1,046	–2	1,164	–	43	47	116	1,750	173	2,129
Derivative instruments	–	–9,349	242	–9	13,356	391	4,631	–	–137,015	23,480	1,068	112,248	9,797	9,578
Other assets	1,083	–	–	–	–	–	1,083	441	–	–	–	–	–	441
Total financial assets	**1,183**	**107,801**	**13,071**	**19,809**	**83,070**	**3,105**	**228,039**	**543**	**–31,073**	**32,592**	**24,986**	**191,312**	**12,717**	**231,077**
LIABILITIES														
Liabilities to credit institutions	–	14,644	–	–	–	–	14,644	–	15,084	–	–	–	–	15,084
Debt securities in issue, etc.	–	22,992	12,398	177	115,120	1,969	152,656	–	19,585	18,201	172	111,434	3,482	152,874
Derivative instruments	–	4,226	329	407	924	–269	5,617	–	–106,698	13,289	23,979	70,363	8,873	9,806
Other liabilities	2,712	–	–	–	–	–	2,712	2,913	–	–	–	–	–	2,913
Subordinated debt	–632	40,747	–	–	–	–	40,115	–124	39,726	–	–	–	–	39,602
Total financial liabilities	**2,080**	**82,609**	**12,727**	**584**	**116,044**	**1,700**	**215,744**	**2,789**	**–32,303**	**31,490**	**24,151**	**181,797**	**12,355**	**220,279**
Difference assets and liabilities	**–897**	**25,192**	**344**	**19,225**	**-32,974**	**1,405**	**12,295**	**–2,246**	**1,230**	**1,102**	**835**	**9,515**	**362**	**10,798**

Note 2e Risk management – Operational risk

Operational risk refers to the risk of losses due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events, including legal risk.

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

- Established control documents
- Documented risk management
- Internal reporting structure
- Processes for managing operational risks
- Contingency plans and continuity plans
- Method for allocating operating income among business areas

SBAB uses a model to manage operational risk, which is based on self-evaluation of operational risks and risks associated with financial reporting in existing processes, as well as the registration of incidents that have occurred. The self-evaluation process encompasses the identification of risks in all units, measurement of identified risks and management of material risks. The results of the self-evaluation are reported annually and any incidents that occur are reported on a monthly basis to the Board, the CEO and senior executives. For further details concerning the management of risks associated with financial reporting, refer to the Corporate Governance Report, in the section Internal control concerning financial reporting.

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. SBAB is primarily considered to be exposed to credit-risk related concentration risk in its lending operations. The concentration risk is calculated based on the size of the exposures, industry concentration and geographical concentration. The full capital requirement for concentration risk is included in the economic capital for credit risk.

Upon calculation at 31 December 2013, the internally calculated capital requirement for concentration risk amounted to SEK 422 million (575), of which SEK 404 million (504) pertained to credit risk in the lending operations and SEK 18 million (71) 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 internal capital adequacy assessment process 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. Calculation of the amount of risk capital required to manage the combined risk in the operations occurs at Group level and 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 extraordinary events, 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.

Taken together, economic capital and buffer capital comprise the capital that, in accordance with Basel II, is required to meet all risks in SBAB's operations. At 31 December 2013, the Group's capital requirement amounted to SEK 8,722 million (9,239).

Economic capital

Economic capital comprises the capital that SBAB deems to be required to cover unexpected losses during the coming year. It is presumed that expected losses can be covered by earnings from operating activities. The assessment of economic capital takes into account credit risk, concentration risk, market risk, operational risk and business risk. Credit risk is the dominant risk in SBAB's operations. To a large extent, the economic capital model is based on the result of the Group's IRB approach for quantification of credit risk. In addition to comprising an assessment of the combined capital requirement for managing the risks in the company's operations, the economic capital model is also used for monitoring purposes, economic control and strategic considerations.

Stress tests

Capital planning is founded on a basic scenario that reflects the most probable operational development in accordance with internal forecasts. Complementing this, stress tests and scenario analyses are performed, whereby the development of the loan portfolio and capital requirements during a serious economic downturn is evaluated. In the stress scenario, the Swedish economy is subjected to several major disturbances simultaneously. A combination of external and internal factors further exacerbates the situation and leads to a recession, inflation and problems in the bank sector. The scenario is of the nature that might be expected to occur every 20 to 25 years. The stress tests are conducted in such a way that the macroeconomic scenario that forms the foundation for the stress in the system is translated to reflect the effects it has on SBAB's risk models. A change in the credit-worthiness of individual loans is simulated through changes in the majority of the parameters in SBAB's IRB approach. A negative stress on PD variables simulates the deterioration in the payment capacity of customers due to factors including higher interest rates, while declining market values for underlying collateral lead to an increase in the LGD.
To evaluate the effect of the stress test, the change in SBAB's risk-weighted assets and expected losses due to deteriorating credit quality are calculated. In the stress scenario characterised by a severe recession, risk-weighted assets and expected losses increase significantly, albeit from very low levels. At the same time, earnings deteriorate as a result of a weaker net interest.

Note 2h Risk management – Internal capital adequacy assessment, continued

Based on the results of the stress tests, a capital buffer of SEK 1,193 million (996) has been allocated to meet the increased capital requirements, higher loan losses and the weakened earnings over the three-year period covered by the stress test. The buffer is deemed sufficient to meet the increased losses, increased capital requirements and weaker earnings to which a recession corresponding to the stress test scenario leads.

Note 2i Risk management – Capital adequacy

Many of the changes discussed prior to Basel II were never included in the regulations, but rather were deferred until a later time. Since then, the financial and debt crises have led to additional demand for stricter capital adequacy regulations. The result is a new body of joint European capital adequacy regulations, CRR/CRD IV, which came into effect on 1 January 2014. The regulations include proposals for higher capital requirements, stricter demands on capital quality, the introduction of a non-risk-based measurement (leverage ratio) and quantitative liquidity requirements. In addition to the new regulations, Swedish authorities have determined a national risk-weight floor of 15% for Swedish residential mortgages for Swedish households. Banks that are important to the Swedish system, which include the four major Swedish, are subject to more stringent demands than other banks. The requirement for additional capital at a later stage could encompass more banks.

The regulations for capital adequacy and large exposures introduced in 2007 through Basel II stipulate that the risk associated with the company's operations is to be reflected in the minimum capital requirement. To date, the effects of the changed regulations have been limited. The reason is that the transition rule, which is linked to older regulations, acts as a floor for minimum capital requirements. The rule, which was intended to apply until the end of 2009, has been extended and now applies until the end of 2017 in accordance with the new CRR regulations, unless national authorities decide not to apply this rule. The Commission will submit a report to the European Parliament and the Council on the suitability of further extending this rule.

SCBC primarily recognises credit risk in accordance with the IRB approach, and operational and market risk in accordance with the standardised approach. Profit for the year is included in the calculation of own funds and Tier 1 capital. The figures do not include a dividend to shareholders, which is in line with the Board of Directors' proposal for the appropriation of profits.

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.

Own funds

SEK million	2013	2012
Common Equity Tier 1 capital		
Equity	11,907	10,791
Group contributions not received	–546	–
Net provisions for IRB exposures	–43	–67
Common Equity Tier 1 capital	**11,318**	**10,724**
Tier 1 capital	**11,318**	**10,724**
Tier 2 capital	–	–
Unutilised portion of own funds	–	–
Deductions from entire own funds	–	–
Amount for own funds net after deductible items and limit value	**11,318**	**10,724**

SBAB's economic capital distributed between risk categories

Risk category	2013	2012
Credit risk	4,416	5,070
– of which, concentration risk	*422*	*575*
Market risk	661	156
Business risk	280	123
Operational risk	190	243
Total economic capital	**5,547**	**5,598**
Earnings volatility	1,702	2,080
Other risks and adjustments for Pillar 1	280	565
Stress test	1,193	996
Total capital requirements	**8,722**	**9,239**

Capital requirements

SEK million	2013	2012
Credit recognised in accordance with the IRB approach		
Exposures to corporates	439	1,597
Retail exposures	713	555
Total exposures recognised in accordance with the IRB approach	**1,152**	**2,152**
Credit risk recognised in accordance with standardised approach		
Exposures to governments and central banks	0	0
Exposures to municipalities and comparable associations	0	0
Exposures to institutions	212	226
Exposures to corporates	2	4
Retail exposures	1	1
Past-due items	–	–
Other items	3	2
Total exposures recognised in accordance with standardised approach	**218**	**233**
Risks in the trading book	–	–
Operational risk	**171**	**167**
Currency risk	–	–
Commodity risk	–	–
Total minimum capital requirement	**1,541**	**2,552**
Addition according to transitional regulations	7,026	5,745
Total capital requirement according to transitional regulations	**8,567**	**8,297**

Capital adequacy

SEK million	2013	2012
Common Equity Tier 1 capital	11,318	10,724
Tier 1 capital	11,318	10,724
Total capital	11,318	10,724
Without transitional regulations		
Risk-weighted assets	19,263	31,903
Common Equity Tier 1 capital ratio	58.8%	33.6%
Tier 1 capital ratio	58.8%	33.6%
Total capital ratio	58.8%	33.6%
Capital quotient	7.34	4.20
With transitional regulations		
Risk-weighted assets	107,089	103,714
Common Equity Tier 1 capital ratio	10.6%	10.3%
Tier 1 capital ratio	10.6%	10.3%
Total capital ratio	10.6%	10.3%
Capital quotient	1.32	1.29

Note 3 Net interest income/expense

SEK million	2013	2012
Interest income		
Lending to credit institutions	130	225
Lending to the public[1]	6,860	8,017
Derivatives	–779	–340
Total	**6,211**	**7,902**
of which, interest income from financial assets that is not measured at fair value through profit or loss	*6,990*	*8,242*
Interest expenses		
Liabilities to credit institutions	–156	–216
Debt securities in issue	–4,172	–4,633
Subordinated debt[2]	–1,308	–1,513
Derivatives	1,076	247
Total	**–4,560**	**–6,115**
of which, interest expense from financial liabilities that is not measured at fair value through profit or loss	*–5,636*	*–6,362*
Net interest income/expense	**1,651**	**1,787**

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

Note 4 Commission

SEK million	2013	2012
Commission income		
Commission on lending	8	10
Total	**8**	**10**
Commission expense		
Stability fee	–62	–63
Other commission	–28	–33
Total	**–91**	**–96**
Commission, net	**–83**	**–86**

Note 5 Net result from financial transactions

SEK million	2013	2012
Gains/losses on interest-bearing financial instruments:		
– Change in value of hedged items in hedge accounting	954	–1,187
– Realised income/expense from financial liabilities	–126	–171
– Derivative instruments in hedge accounting	–926	790
– Other derivative instruments	–166	–828
– Loan receivables	71	75
Currency translation effects	1	–1
Total	**–192**	**–1,322**

In the table above, changes in the market value of basis swaps affected the items "Derivative instruments in hedge accounting" and "Other derivative instruments". Discontinued hedges affected the item "Change in value of hedged items in hedge accounting". With respect to risk management, derivative instruments are related to and have their counter items in all other categories of interest-bearing instruments.

With respect to risk management, derivative instruments are related to and have their counter items in all other categories of interest-bearing financial instruments.

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), with changes in fair value included in net result from financial transactions.

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	2013	2012
Outsourcing expenses	–579	–514
Management fee	–75	–72
Other administration expenses	–1	–1
Total	**–655**	**–587**

Within SCBC, there is a Managing Director who is responsible for the on-going management in consultation with the management of the Parent Company. The Managing Director is employed by the Parent Company but is, at the same time an employee of SCBC. The Board of Directors consists of five Board Members. No salary or other remuneration is paid by the company to the Managing Director or the Board of Directors. SBAB 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 0.6 million (PWC 2.2), of which, SEK 0.3 million (PWC 0.8) comprises the auditing cost. Audit tasks beyond the audit assignment cost SEK 0.3 million (PWC 0.6). Over the year, an earlier provision of a negative SEK 0.3 million for PWC was redeemed.

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	2013	2012
Corporate Market		
Collective provision for Corporate Market loans		
Allocation to/redemption of collective provisions	4	–1
Guarantees	2	–7
Net cost for the year for collective provisions Corporate Market loans	**6**	**–8**
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 2013	–	3
Provision for probable loan losses for the year	–3	–
Net cost for the year for individual provisions for Retail Market loans	**–3**	**0**
Collective provision for Retail Market loans		
Write-off of confirmed loan losses for the year	–2	–2
Allocation to collective provisions	26	33
Guarantees	–6	–10
Net cost for the year for collective provisions for Retail Market loans	**18**	**21**
Net cost for the year for loan losses	**21**	**13**

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, pages 15-21.

Note 8 Tax

SEK million	2013	2012
Current tax	–8	–47
Deferred tax	–163	99
Total	**–171**	**52**
The effective tax rate differs from the nominal tax rate in Sweden as below		
Profit before tax	740	–194
Nominal tax rate in Sweden 22% (26.3)	–163	51
Restatement of deferred tax to 22%	–	1
Tax for prior years and other	–8	–
Total tax	**–171**	**52**
Effective tax rate	23.1%	26.8%

Note 9 Lending to credit institutions

SEK million	2013	2012
Lending in SEK	11,172	10,051
Lending in foreign currency	7	3
Total	**11,179**	**10,054**
of which, repos	*11,072*	*9,949*

Of the SCBC's lending to credit institutions, SEK 100 million (102) relates to a receivable from FriSpar Bolån AB (a joint venture in the SBAB Group).

Note 10 Lending to the public

SEK million	2013	2012
Opening balance	208,875	210,478
Transferred from the Parent Company	18,602	17,098
Amortisation, write-offs, redemption	–17,383	–18,580
Closing balance	**210,094**	**208,996**
Provision for probable loan losses	**–112**	**–121**
Closing balance	**209,982**	**208,875**
Distribution of lending by property type		
Single-family dwellings and holiday homes	85,346	84,471
Tenant-owner rights	56,931	51,650
Tenant-owner associations	45,485	46,668
Private multi-family dwellings	18,699	21,688
Municipal multi-family dwellings	3,619	4,439
Commercial properties*	14	80
Provision for probable loan losses	–112	–121
Total	**209,982**	**208,875**
Percentage of lending with a government or municipal guarantee %	1	2

*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 57,509 million (52,451) of SCBC's lending portfolio was mediated by business partners 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	2013	2012
a) Doubtful loan receivables	3	–
b) Specific provisions for individually measured receivables	3	–
c) Collective provisions, Corporate Market loans	9	14
d) Collective provisions, Retail Market loans	100	107
e) Total provisions (b+c+d)	112	121
f) Doubtful loan receivables after individual provisions (a-b)	0	–
Provisions (b/a)	100%	–

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

Note 10 Lending to the public, continued

Distribution of doubtful loan receivables and provisions by type of property

SEK million	2013 Single-family dwellings and holiday homes	2013 Tenant-owner	2013 Tenant-owner associations	2013 Private multi-family dwellings	2013 Total	2012 Single-family dwellings and holiday homes	2012 Tenant-owner	2012 Tenant-owner associations	2012 Private multi-family dwellings	2012 Total
Doubtful loan receivables, gross		3			3					–
Individual provisions, loan receivables		3			3					–
Collective provisions, Corporate Market loans			6	3	9			6	8	14
Collective provisions, Retail Market loans	66	34			100	68	39			107
Doubtful loan receivables after individual provisions					**0**					**–**

Change in provision for probable loan losses

SEK million	2013 Individual provision for individually measured receivables	2013 Individual provision for collectively measured receivables	2013 Collective provision	2012 Individual provision for individually measured receivables	2012 Individual provision for collectively measured receivables	2012 Collective provision
Provision at the beginning of the year	–	–	-121	–	–3	–157
Individual provision for the year	–	–3		–	–	
Reversed from previous provisions	–	–		–	–	
Individual provision utilised for confirmed losses	–	–		–	3	
Allocation to/redemption of collective provisions	–		12	–		36
Provision at the end of the year	**–**	**–3**	**–109**	**–**	**–**	**–121**

Note 11 Derivative instruments

SEK million	2013 Fair value assets	2013 Fair value liabilities	2013 Nominal amount	2012 Fair value assets	2012 Fair value liabilities	2012 Nominal amount
Derivative instruments in fair value hedges						
Interest-related						
interest-rate swaps	3,368	1,267	144,057	7,253	4,537	251,996
Currency-related	1,088	3,245	42,422	2,264	4,170	45,214
Total	**4,456**	**4,512**	**186,479**	**9,517**	**8,707**	**297,210**
Other derivatives						
Interest-rate related						
-interest-rate swaps	175	180	13,136	1	2	1,751
Currency related		925	12,207	60	1,097	14,500
Total	**175**	**1,105**	**25,343**	**61**	**1,099**	**16,251**
Derivative instruments allocated by remaining maturity, carrying amount		**Fair value**	**Nominal amount**		**Fair value**	**Nominal amount**
At most 3 months		-328	11,890		-390	13,109
3–12 months		-540	44,309		337	61,207
1–5 years		-8	149,990		-192	222,169
More than 5 years		-110	5,633		17	16,976
Total		**-986**	**211,822**		**-228**	**313,461**

Note 11 Derivative instruments, continued

Hedge accounting
Hedge accounting is only applied for hedging relationships where the risk of a significant fluctuation in profit or loss is considered the greatest.

Fair-value hedges
SCBC mainly uses fair-value hedges to protect against changes in the fair value of lending and funding at fixed interest rates and to hedge currency exposure of funding in foreign currency. The hedge instruments primarily used are interest-rate currency interest-rate swaps. Currency interest-rate swaps are classified as currency-related derivative instruments. SCBC only applies hedge accounting to currency and interest-rate risk.

At 31 December 2013, the nominal amount of derivatives held for fair-value hedging was SEK 186 billion (297). The fair value of these derivatives was a negative SEK 56 million (pos: 810) and the year's change in value amounted to a negative SEK 926 million (neg: 790). The change in fair value of the hedged items with respect to hedged risk amounted to SEK 954 million (neg: 1,187) and the realised loss on the repurchased debt was SEK 126 million (loss 171). Accordingly, the SCBC's hedge accounting for fair value and debt repurchases had a negative impact of SEK 98 million (neg: 568) on profit for the year.

Note 12 Classification of financial instruments

Financial assets	2013				
SEK million	**Assets measured at fair value through profit or loss**	**Hedge-accounted derivative instruments**	**Loan 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	2013				
SEK million	**Liabilities measured 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**

Financial assets	2012				
SEK million	**Assets measured at fair value through profit or loss**	**Hedge-accounted derivative instruments**	**Loan receivables**	**Total**	**Total fair value**
Lending to credit institutions			10,054	10,054	10,054
Lending to the public			208,875	208,875	211,174
Change in value of interest-rate-hedged items in portfolio hedges			2,129	2,129	–
Derivative instruments	61	9,517		9,578	9,578
Other assets			197	197	197
Prepaid expenses and accrued income			244	244	244
Total	**61**	**9,517**	**221,499**	**231,077**	**231,247**

Note 12 Classification of financial instruments, continued

Financial liabilities — **2012**

SEK million	Liabilities measured at fair value through profit or loss	Hedge-accounted derivative instruments	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions			15,084	15,084	15,084
Debt securities in issue, etc.			152,874	152,874	152,614
Derivative instruments	1,099	8,707		9,806	9,806
Other liabilities			17	17	17
Accrued expenses and prepaid income			2,896	2,896	2,896
Subordinated debt to Parent Company			39,602	39,602	39,602
Total	**1,099**	**8,707**	**210,473**	**220,279**	**220,019**

Fair value measurement of financial instruments.

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.

Note 13 Fair value measurement

	2013				2012			
SEK million	Quoted market prices (Level 1)	Other observable market data (Level 2)	Non-observable market data (Level 3)	Total	Quoted market prices (Level 1)	Other observable market data (Level 2)	Non-observable market data (Level 3)	Total
Assets								
Derivatives in the category trade	–	175	–	175	–	61	–	61
Other derivatives	–	4,456	–	4,456	–	9,517	–	9,517
Total	**–**	**4,631**	**–**	**4,631**	**–**	**9,578**	**–**	**9,578**
Liabilities								
Derivatives in the category trade	–	1,105	–	1,105	–	1,099	–	1,099
Other derivatives	–	4,512	–	4,512	–	8,707	–	8,707
Total	**–**	**5,617**	**–**	**5,617**	**–**	**9,806**	**–**	**9,806**

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 2012 or 2013.

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

	2013				
		Related amounts that are not offset in the balance sheet			
SEK million	Amounts reported in the balance sheet	Financial instruments	Posted (+)/ Received (-) collateral – securities	Posted (+)/ 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	-1
Total	**–3,156**	**0**	**2,169**	**–950**	**–1,937**

Note 14 Information about offsetting, continued

SEK million	2012				
		Related amounts that are not offset in the balance sheet			
	Amounts reported in the balance sheet	Financial instruments	Posted (+)/ Received (-) collateral – securities	Posted (+)/ Received (-) cash collateral	Net amount
Assets					
Derivatives	9,578	–6,062		–2,423	1,093
Repos	9,949	–9,076	–873		0
Liabilities					
Derivatives	–9,806	6,062			–3,744
Repos	**–12,146**	9,076	3,070		
Total	**–2,425**	**0**	**2,197**	**–2,423**	**–2,651**

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

Note 15 Other assets

SEK million	2013	2012
Past due interest receivables	43	132
Liquid mutual fund assets	–	–
Tax asset	123	43
Receivable from Parent Company[1]	700	22
Total	**866**	**197**
Other assets distributed by remaining maturity, carrying amount		
At most 1 year	866	197
More than 1 year	–	–
Total	**866**	**197**

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

Note 16 Prepaid expenses and accrued income

SEK million	2013	2012
Prepaid expenses	–	–
Accrued interest income	184	208
Other accrued income	33	36
Total	**217**	**244**
Prepaid expenses and accrued income distributed by remaining maturity, carrying amount		
At most 1 year	198	225
More than 1 year	19	19
Total	**217**	**244**

Note 17 Liabilities to credit institutions

SEK million	2013	2012
Liabilities in SEK	13,242	12,781
Liabilities in foreign currencies	1,402	2,303
Total	**14,644**	**15,084**
of which, repos	*13,242*	*12,146*

Note 18 Debt securities in issue, etc.

SEK million	2013	2012
Bond loans		
Bond loans in SEK		
– at amortised cost:	*13,243*	*8,646*
– in fair value hedging	*92,766*	*94,039*
Bonds loans in foreign currency		
– at amortised cost:	*9,383*	*11,417*
– in fair value hedging	*37,264*	*38,772*
Total securities in issue	**152,656**	**152,874**
- of which, covered bonds	*152,656*	*152,874*

See also the section Funding on page 4.

Note 19 Other liabilities

SEK million	2013	2012
Tax liabilities	–	–
Liabilities to employees	10	17
Liability to Parent Company	–	–
Other	–	–
Total	**10**	**17**
Outstanding liabilities distributed by remaining maturity, carrying amount		
At most 1 year	10	17
More than 1 year	–	–
Total	**10**	**17**

Note 20 Accrued expenses and prepaid income

SEK million	2013	2012
Accrued interest expenses	2,587	2,821
Other accrued expenses	115	75
Total	**2,702**	**2,896**
Accrued expenses and prepaid income distributed by remaining maturity, carrying amount		
At most 1 year	2,702	2,896
More than 1 year	–	–
Total	**2,702**	**2,896**

Note 21 Deferred tax

SEK million	2013	2012
Deferred tax assets (+) /tax liabilities (-) for temporary differences in:		
- Debt securities in issue	–	988
- Derivative instruments	–473	–995
- Tax loss carryforwards	85	–
Total	**–388**	**-7**
Change in deferred tax:		
Recalculation of opening temporary differences	–64	–
Deferred tax in profit or loss	–163	99
Deferred tax attributable to items recognised directly against equity	–154	–
Total	**-381**	**99**
Deferred tax distributed by expected maturity date, carrying amount		
At most 1 year	–	–
More than 1 year	–388	–7
Total	**–388**	**–7**

Note 22 Subordinated debt to Parent Company

SEK million	2013	2012
Subordinated debt to Parent Company	40,115	39,602
Total	**40,115**	**39,602**

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), Reg. 556253-7513. Distributable equity in SCBC amounts to SEK 11,857 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.

Note 24 Assets pledged for own liabilities

SEK million	2013	2012
Loan receivables	203,702	201,776
Repos	487	1,234
Total	**204,189**	**203,010**

Of the total lending portfolio (see Note 10 "Lending to the public" and Note 9 "Lending to credit institutions", the values reported above represent the cover pool for covered bonds, which amounts to SEK 152.7 billion (152.9).

Loan receivables and repos pledged as collateral mainly consist of the registered cover pool benefiting holders of covered bonds issued by SCBC and SCBC's covered derivative counterparties. In the event that the company becomes insolvent, the holders of the covered bonds and the covered derivatives counterparties have priority rights to the pledged assets under the Covered Bonds Issuance Act and the 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 Reg. 556253-7513.

SEK million	2013		2012	
Loans to key personnel	**Lending**	**Interest income**	**Lending**	**Interest income**
Managing Director	–	–	–	–
Board of Directors	2	0	–	–
Other key senior executives	15	0	6	0
Total	**17**	**0**	**6**	**0**

Managing Director and Board refer to SCBC.
The Parent Company's Board Members and Executive Management 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 Bolån AB is a joint venture of SBAB Bank AB's.
Transactions with closely-related parties take place on market terms.

	2013					
SCBC	**SBAB BANK AB**		**FRISPAR BOLÅN AB**		**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**

	2012					
SCBC	**SBAB BANK AB**		**FRISPAR BOLÅN AB**		**TOTAL**	
SEK million	**Assets/ Liabilities**	**Interest income/ expense**	**Assets/ Liabilities**	**Interest income/ expense**	**Assets/ Liabilities**	**Interest income/ expense**
Lending to credit institutions	–	62	102	–	102	62
Derivative instruments	3,100	43	–	–	3,100	43
Other assets	22	–	–	–	22	–
Total	**3,122**	**105**	**102**	**–**	**3,224**	**105**
Liabilities to credit institutions	39,602	–1,514	–	–	39,602	–1,514
Debt securities in issue, etc.	–	–	–	–	–	–
Derivative instruments	5,232	–107	–	–	5,232	–107
Other liabilities	–	–	–	–	–	–
Total	**44,834**	**–1,621**	**–**	**–**	**44,834**	**–1,621**

Of SCBC's commission income, SEK 17 million (16) pertained to the possibility for SCBC to utilise a liquidity facility at the Parent Company.
Of the company's general administrative costs, SEK 579 million (514) represents compensation to the Parent Company for administrative services rendered in accordance with an outsourcing agreement and SEK 75 million (70) represents compensation to the Parent Company for the management of credits transferred from the Parent Company to SCBC and that originated from FriSpar Bolån AB.

Note 26 Events after the balance sheet date

Extraordinary General Meeting for election of new Board of Directors
On 13 January 2014, it was announced that Carl-Viggo Östlund, who has been CEO of SBAB and Chairman of SCBC since 2012, is leaving the bank. Since that date, former Board Member of SBAB Per Anders Fasth has been acting CEO of SBAB. Due to the change of SBAB's CEO, SCBC held an Extraordinary General Meeting on 13 January 2014 to elect a new Board of Directors. Jakob Grinbaum (Chairman of the Board), Per Anders Fasth, Christine Ehnström, Per O. Dahlstedt and Sarah Bucknell were elected to the new Board of Directors.

Proposed appropriation of profits

According to the balance sheet, SCBC's unrestricted equity amounts to SEK 11,856,717,470, of which profit for the year accounted for SEK 569,592,233.

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 11,856,717,470, 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 from 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 2014

Jakob Grinbaum
Chairman of the Board

Sarah Bucknell
Board Member

Per O. Dahlstedt
Board Member

Christine Ehnström
Board Member

Per Anders Fasth
Board Member

Lennart Krän
CEO

Our audit report was submitted on 12 March, 2014
KPMG AB

Hans Åkervall
Authorized Public Accountant

Audit report

To the Annual General Meeting of AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation), Reg. 556645-9755

Report on the annual accounts
We have audited the annual accounts of AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation) for the year 2013. The annual accounts of the company are included in the printed version of this document on pages 1-35.

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 the 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 the 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 and consolidated accounts. The procedures selected depend on the auditor's judgement, 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 opinion.

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 (Swedish Covered Bond Corporation, SCBC) as of 31 December 2013 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.

Other information
The audit of the annual accounts for 2012 was performed by another auditor, who submitted an audit report dated 12 March 2013 with unmodified opinions in the Report on the annual accounts.

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 (Swedish Covered Bond Corporation, SCBC) for the year 2013.

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 a 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 a 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 audit opinion.

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, 12 March 2014
KPMG AB

Hans Åkervall
Authorized Public Accountant

Corporate Governance Report

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 CEO 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. SCBC's Board of Directors adopts annually the appropriate parts of policies and instructions set by 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 stipulations stating that the Annual General Meeting is to appoint the Chairman of the Board and determine 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 17 April 2013 in Stockholm. The Meeting re-elected Board Member Sarah Bucknell, Per O. Dahlstedt and Carl-Viggo Östlund, who was also elected as Chairman of the Board. Christine Ehnström was newly elected to the Board of Directors. 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 2012 and that no fees would be paid to the Board Members. The Annual General Meeting elected KPMG AB, with Hans Åkervall as the auditor-in-charge as SCBC's auditor until the close of the 2014 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 Meeting following the close of the reporting period

On 13 January 2014, and Extraordinary General Meeting of SCBC was held due to the change of CEO in SBAB and a new Board of Directors was elected. The new Board of Directors consists of Jakob Grinbaum (Chairman), Per Anders Fasth, Christine Ehnström, Per O. Dahlstedt and Sarah Bucknell. The Extraordinary General Meeting also decided that remuneration is to be paid to the Chairman.

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 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 shall continuously assess 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.

The work of the Board complies with an annual plan, which includes aims such as satisfying the Board's need for information. SCBC's Board makes decisions on matters relating 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 reviewer appointed by the Swedish Financial Supervisory Authority, the company's Risk unit, the 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.

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 internal control, internal audit, compliance and risk management with respect to financial statements.

The Audit and Compliance Committee is also responsible for evaluating the external auditing work, informing the owner's administrator 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 the Internal Audit and Compliance units 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 SBCB, 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 SBCB. The Board of Directors of SBCB also receives minutes from the meetings of the Audit and Compliance Committee.

Credit Committee and Risk and Capital Committee

The Group has a Credit Committee and a Risk and Capital Committee. The Group's committees also integrate issues concerning SBCB 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, 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 above committees include Members of the Board of Directors of the Parent Company and the CEO of the Parent Company attends their meetings. Since the CEO of the Parent Company is also a Member of the Board of Directors of SCBC, he is responsible for issues concerning SCBC being address by the committees and reported back to 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, the Managing Director of SCBC, is also the CFO of the Parent Company.

Remuneration of Board of Directors and senior executives

No remuneration was paid to Board Members in 2013. It is not relevant for SCBC to have a Remuneration Committee, since remuneration to the sole employee, the Managing Director of SCBC is regulated by the terms of employment in the Parent Company. However, the Board of Directors has established a remuneration policy, according to which if the Board of Directors determines whether 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 systems in credit institutions, securities companies and mutual fund companies. At the 2013 Annual General Meeting, it was decided 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

With regard to control and review functions, such as Compliance, Risk and the Internal Audit, the Swedish Financial Supervisory Authority permits these to be located centrally within groups as is stated in FFFS 2005:1. This is the case in the SBAB Group and, 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 units regarding SCBC takes place integrated with that for the Parent Company, both at the Group level and for SCBC as an independent legal entity.

Risk

The SBAB Group's Risk Control unit has overall responsibility for developing risk-taking strategies and for ensuring that risk-taking is conducted in accordance with the Board's intention, and that policies and processes facilitate relevant follow-up. The Risk Control unit is responsible for analysing, assessing and reporting the SBAB Group's overall risks on an on-going basis to the Parent Company's Board of Directors, its CEO and other senior executives, of whom some are Board Members in SCBC. The Risk unit also submits quarterly reports directly to the Board and CEO.

Compliance

The SBAB Group has a Group Compliance function, which is responsible for compliance tasks within SCBC.

The Group Compliance function consists of four employees and is independent from the business operations. The Compliance function fulfils its assignment by providing advice and support in compliance matters to the operations, analysing regulatory compliance in respect of the operations that require licences, administration and reporting in the compliance area, as well as function responsibility for money-laundering matters. Reports are submitted to the Managing Director on an on-going basis, primarily at Board meetings, as well quarterly through written reports to the Managing Director and the Board of Directors. The scope and focus of the work of the compliance function is established in an annual plan by the Managing Director 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 the Swedish Financial Supervisory Authority's regulation FFFS 2005:1. The main function of the Internal Audit is to examine and evaluate the internal controls of companies in the SBAB Group. The 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. The Internal Audit's examination activities are performed in accordance with an audit plan that is prepared annually by the Audit and Compliance Committee and decided on by the Board. In connection with this, the Head of the 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 the 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 the Internal Audit. The efforts of the Internal Audit are also to be coordinated with the external independent review conducted in accordance with the legislation surrounding the issuance of covered bonds.

Independent reviewer

Under the Act on the issuance of covered bonds, the Swedish Financial Supervisory Authority shall appoint an independent reviewer for each issuing institution. The reviewer'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 reviewer's role and tasks in greater detail. The independent auditor 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 reviewer 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 2013 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 CEO'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 2013, 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

The function manager for financial reporting risk is responsible for following up, analysing and evaluating SCBC's financial reporting risk and for working for a generally acceptable control structure. In organisational terms, the function manager for financial risk reporting is included in the Credit and Risk unit within the Parent Company.

Business-support processes that provide data for the financial statements are charted and contain control activities in the form of descriptions of processes, reasonability assessment, reconciliations, attestations and results analyses.

Each year, a risk assessment is performed in the form of a self-evaluation of all business-support processes that provide data for the financial statements. The self-evaluation 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 reports on this through the Parent Company's intranet.

Those responsible for the various functions shall report annually to the Managing Director and Board of SCBC, as well as to SBAB's Audit and Compliance Committee regarding SCBC's financial reporting risk. This reporting is coordinated with the Group's other risks.

The Group has in place governing documents and established processes regarding the internal control of financial reporting.

Board of Directors and Managing Director

On 12 March 2014

Jakob Grinbaum
Chairman of the Board

Bachelor of Arts
Born: 1949
Elected: 2014
Other appointments: Board member SBAB, Chairman of the Board of Oscar Properties AB, Deputy Chairman of the Board of the Fourth Swedish National Pension Fund, Board Member of the Östgötagården Foundation in Uppsala, Board Member of IK Sirius, Member of the Advisory Board of Genesta Property Nordic AB
Background: Executive Vice President, Group Treasury and Group Corporate Development at Nordea

Per Anders Fasth
Board Member

Bachelor of Business Administration and Economics
Born: 1960
Elected: 2014
Position in the Group: CEO
Background: Partner at Quartz+Co, CEO of European Resolution Capital, Senior Vice President of SEB, McKinsey & Company, Statoil AS

Christine Ehnström
Board Member

Master of Laws
Born: 1973
Elected: 2014
Position in the Group: Deputy CEO & Chief Legal Counsel
Other appointments: Board Member of FriSpar Bolån AB, Board Member of Maricon Marinconsult AB's Pension Fund, Deputy Board Member of Maricon Marinconsult AB
Background: Legal Counsel at Volvo Treasury AB (publ)

Per O. Dahlstedt
Board Member

Bachelor of Business Administration and Economics
Born: 1953
Elected: 2011
Employed at SBAB since: 2005
Position in the Group: Head of Corporate Market, SBAB
Background: Strategy and business development at Askus Consulting, business area and regional management positions within SEB

Sarah Bucknell
Board Member

Bachelor of Business Administration and Economics
Born: 1971
Elected: 2012
Employed at SBAB since: 2011
Position in the Group: Head of Business Development, SBAB
Background: Head of Collaboration Market at SBAB Bank, Chief Administration Officer and other positions at Nordnet Bank AB, Svenska Handelsbanken

Lennart Krän
Managing Director

Bachelor of Business Administration and Economics
Born: 1965
Elected: 2012
Employed at SBAB since: 2012
Position in the Group: CFO (Chief Financial Officer) SBAB
Other appointments: Chairman of the Board of Söderberg & Partners Placeringsrådgivning AB, Board member FriSpar Bolån AB
Background: CEO and CFO of SalusAnsvar, COO of HSBC Investment Bank Stockholm, Treasury at Duni, various controlling positions within treasury and asset management at TryggHansa, auditor at PricewaterhouseCoopers AB

Auditor

The 2013 Annual General Meeting resolved to elect the auditing firm KPMG AB as auditor for the period until the end of the 2014 Annual General Meeting. The auditing firm has appointed Hans Åkervall as the auditor-in-charge.

Hans Åkervall
KPMG

Auditor-in-charge at SCBC since 2013
Born 1953

Auditor's report on the corporate governance report

To the Annual General Meeting of AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation), Reg. 556645-9755

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2013 on pages 37-41 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance statement and based on that reading and our knowledge of the company we believe that we have a sufficient basis for our opinions. 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 auditing standards in Sweden.

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

Stockholm, 12 March 2014
KPMG AB

Hans Åkervall
Authorized Public Accountant

NARVA

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

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