



ANNUAL REPORT 2016

SCBC

— Covered Bonds of SBAB —

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

Financial calendar

Annual General Meeting (Solna)	24 April 2017
Interim report January–June 2016	19 July 2017
Year-end report 2016	9 February 2018



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THE YEAR IN BRIEF

SUMMARY SCBC

	Jan-Dec 2016	Jan-Dec 2015
Income-statement items		
Net interest income, SEK million	2,503	2 280
Operating profit excluding the net result of financial transactions SEK million	1,742	1 559
Operating profit, SEK million	1,563	1,543
Profit after tax, SEK million	1,221	1,203
Balance-sheet items		
Loans to the public, SEK billion	244.4	215.8
Key metrics		
Loan loss level, % ¹⁾	0.00	0.01
Capital adequacy without transitional rules		
CET1 capital ratio, %	82.4	86.1
Tier 1 capital ratio, %	82.4	86.1
Total capital ratio, %	82.4	86.1
Capital adequacy with transitional rules		
Total capital ratio, %	11.4	12.1
Rating, long-term funding		
Moody's ²⁾	Aaa	Aaa

¹⁾ Loan losses in relation to opening balance for lending to the public

²⁾ Moody's Investors Service Limited.

Operating profit:
excl. net result of financial transactions

SEK **1,742** million

2015: SEK 1,559 million

Operating profit:

SEK **1,563** million

2015: SEK 1,543 million

OPERATIONS

The primary operations of AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC) comprise the issue of covered bonds to fund the lending of the SBAB Group. SBAB Bank AB (publ), (SBAB), is the Parent Company of the SBAB Group and is wholly owned by the Swedish state.

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

SCBC is a credit market company and is regulated by the Swedish Banking and Financing Business Act (2004:297) and subject to supervision by Finansinspektionen (Sweden’s financial supervisory authority).

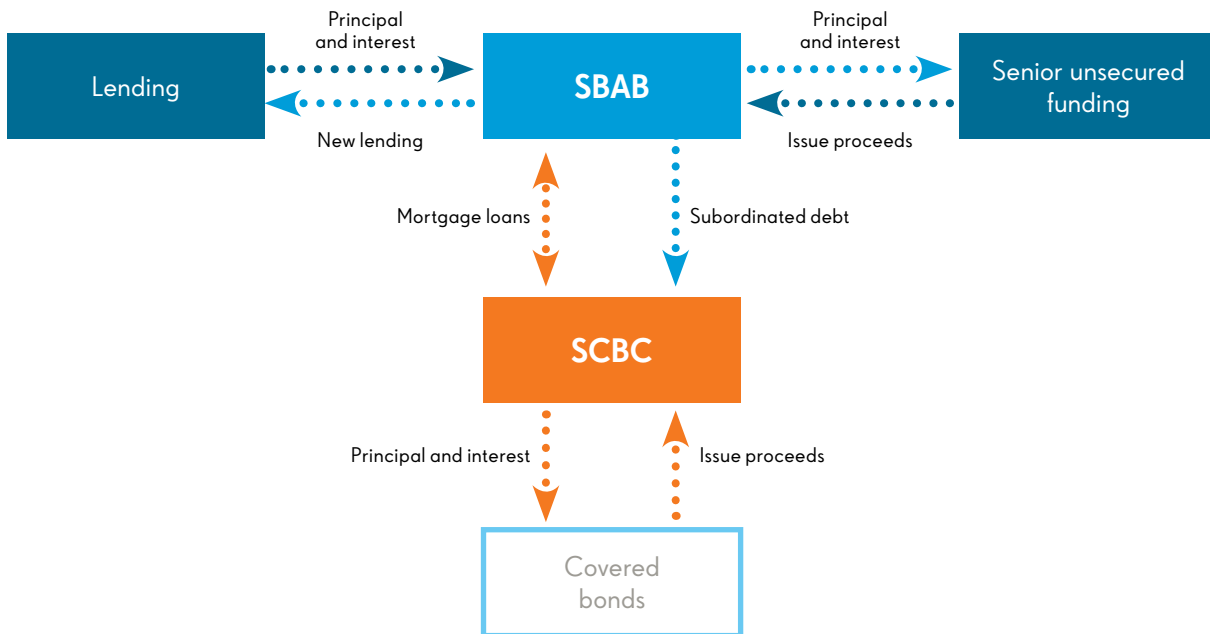
The primary operations within SCBC comprise the issue of covered bonds in accordance with the Swedish Covered Bonds (Issuance) Act (2003:1223) and Finansinspektionen’s regulation FFFS 2013:1. Issues are conducted in both Swedish and international capital markets.

SCBC complies with and reports to the European Covered Bond Council’s (ECBC) “Labelling Initiative,” and reports

on a monthly basis in line with “National templates” as published by the Association of Swedish Covered Bond issuers (ASCB).

SCBC is domiciled in Solna 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 itself, but instead acquires loans, primarily from SBAB, on an ongoing basis or as necessary. The aim of securing these loans is to include the loans, in part or in full, in the assets that comprise collateral for holders of SCBC's covered bonds and derivative counterparties.

Loan portfolio

At 31 December 2016, lending to the public amounted to SEK 244.4 billion (215.8). SCBC's portfolio mainly comprises loans for residential mortgages, with the retail market as the largest segment. The underlying collateral consists primarily of mortgage deeds in houses and multi-family dwellings, and of collateral in tenant-owners' rights. All provision of credit is conducted in the Swedish market and is geographically concentrated to the metropolitan areas, university cities and growth regions.

Cover pool

SCBC's total loan portfolio consists to around 98.2% (98.0) of assets that qualify for inclusion in the cover pool for the issuance of covered bonds. Of the loans in the cover pool, approximately 99.5% (99.4) consist of loans against collateral in mortgage deeds or tenant-owners' rights. In calculating the loan-to-value (LTV) ratio for these loans, the upper limit of the loans (or group of loans) LTV ratio in the collateral used – is known as the Max LTV¹⁾.

¹⁾ LTV = Loan to Value

KEY RATIOS, COVER POOL

	31 Dec 2016
Total cover pool, SEK billion	240,110
Loan portfolio, SEK billion	244,465
Weighted average max LTV, %	55.2
Average loan amount, SEK thousand	711
Weighted average seasoning, ears	6.2
Average remaining maturity, years ²⁾	1.2
Substitute collateral, SEK billion	–

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

LTV BREAKDOWN

LTV, %	31 Dec 2016	
	CREDIT VOLUME	
	SEK million	%
-10	50,244	22.0
10–20	46,289	19.9
20–30	41,425	17.5
30–40	35,726	14.7
40–50	28,888	11.6
50–60	21,070	8.3
60–70	12,078	4.7
70–75	3,300	1.3
75–	0	0.0
Total	239,021	100.0

FUNDING

In the markets in which SCBC is active, investor demand for SCBC's bonds was healthy during the year.

SCBC operates primarily in the Swedish and European covered bond markets. The issue of covered bonds through SCBC is one of the SBAB Group's key sources of funding. The annual funding requirement is influenced by both lending and deposit volumes. Over the year, deposits grew more than lending and, accordingly, funding from covered bonds decreased slightly in 2016. SCBC does not conduct any lending activities itself, but instead

acquires loans from SBAB, with the aim that these are included wholly or in part in the cover pool that serves as collateral for SCBC's covered bonds. In January 2016, SCBC acquired a larger volume of loans amounting to around SEK 30 billion from the Parent Company SBAB.

In the markets in which SCBC is active, investor demand for SCBC's bonds was healthy during the year. In January 2016, SCBC issued one five-year bond of EUR 1

billion and in October 2016, the company introduced a new Swedish covered bond, SCBC 143, with a tenor of about six years. These transactions were met by favourable demand from the investor community.

Funding programmes

SCBC's primary operations comprise the issue of covered bonds in the Swedish and international capital markets. To this end, the company makes use of funding programmes. A covered funding programme with no fixed limit is used in Sweden, while in the international market, a EUR 16 billion EMTCN programme (Euro Medium Term Covered Note Programme) is primarily used. SCBC also has an AUD 4 billion Australian covered bond issuance programme.

In 2016, SCBC introduced, inter alia, a new covered bond loan in the Swedish bond market.

At 31 December 2016, the total value of issued debt securities outstanding under SCBC's lending programme was SEK 175.9 billion (187.3), distributed as follows: Swedish covered bonds SEK 101.4 billion (109.9) and the Euro Medium Term Covered Note Programme SEK 74.5 billion (77.4).

During the year, securities amounting to SEK 36.7 billion were issued. At the same time, securities amounting to SEK 20.1 billion were repurchased, while securities amounting to SEK 28.5 billion matured. Alongside revaluations (both upward and downward) of liabilities due to changes in premiums/discounts, and changes in SEK exchange rates, this resulted in a decrease in issued securities of SEK 11.4 billion over the year.

Rating

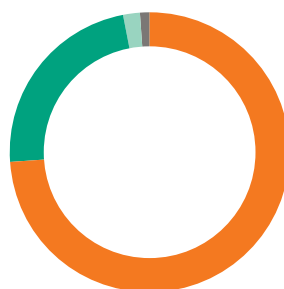
All of SCBC's funding programmes have received the highest possible credit rating of Aaa from the rating agency Moody's.

FUNDING – DEBT OUTSTANDING, 31 DECEMBER 2016: SEK 175.9 BILLION (187.3)



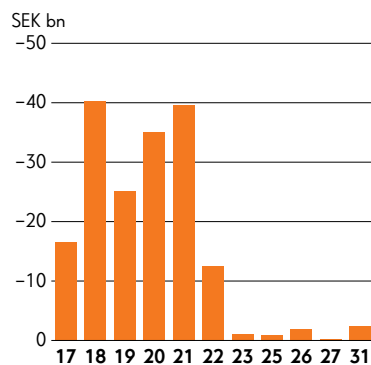
Swedish covered bonds 58%
EMTCN 42%
Repos 0%

FUNDING – CURRENCY BREAKDOWN, 31 DECEMBER 2016: SEK 175.9 BILLION (187.3)

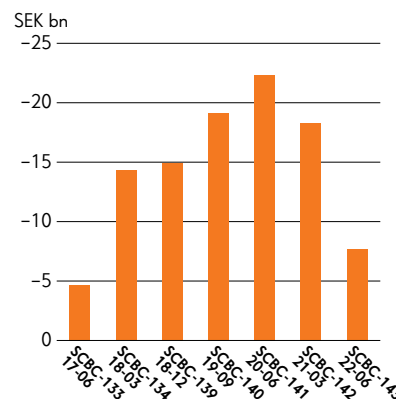


SEK 74%
EUR 24%
CHF 1%
NOK 1%
USD 0%

TOTAL FUNDING – MATURITY PROFILE



VOLUME OUTSTANDING FOR SCBC'S SWEDISH COVERED BONDS



RISK MANAGEMENT

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

Risks in SCBC's operations

Risk is defined as a potentially negative impact that may arise due to ongoing internal processes or future internal or external events. The definition of risk includes the probability that an event occurs as well as the impact the event could have on SCBC's profit, equity and capital.

Authority and responsibility

SCBC's Board of Directors bears the ultimate responsibility for the company's total risk exposure. It is the Board's responsibility to ensure that operations are conducted with good internal control to thereby ensure that SCBC's ability to meet its obligations is not compromised. As SCBC's operations are outsourced to the Parent Company, SBAB, SBAB's CRO also acts as the CRO of SCBC.

The CEO is responsible for day-to-day administration in accordance with the strategies, guidelines and policies adopted by the Board of Directors. The CEO also ensures, on an ongoing basis, that each unit, including the independent Risk Control function, reports in accordance with the relevant instructions to the Board.

The independent Risk Control function is responsible for the identification, quantification, analysis and reporting of all risks. The CRO, who reports directly to SCBC's CEO and Board, is responsible for independent risk control.

Risk	Description
Credit risk	The counterparty is unable to fulfil its payment obligation.
Market risk	The risk of losses or reduced future income due to market fluctuations.
Operational risk	The risk of losses due to inappropriate or unsuccessful processes, human error, faulty systems or external events, including legal risk.
Capital targets	The levels adopted by the Board of Directors for regulatory capital.
Liquidity risk	The risk of being unable to meet payment obligations on due dates without the cost of raising funds for that purpose increasing significantly.
Compliance	That SCBC does not comply with legislation, rules, ethical guidelines, good market practices or other relevant regulations for operations requiring licences and therefore is affected by statements or sanctions by Finansinspektionen, negative publicity in the media and/or reduced confidence from customers and other stakeholders.

Risk strategy

SCBC is tasked with identifying, measuring, governing, reporting internally and maintaining control of the risks to which SCBC is or may become exposed. Satisfactory internal control and a functioning and effective risk management system must be in place. SCBC must stay informed and be aware of the risks to which the company may be exposed. Moreover, SCBC should be able to esti-

mate the scope of the risks to which it is and may become exposed.

All SCBC employees, who are also employees of SBAB, bear responsibility for managing the company's risks, as part of their ongoing work. Within the framework of the operations outsourced to SBAB, SCBC regularly informs and provides training to its employees on the company's risk management framework.

SCBC has a documented process (NPAP) for the approval of new or signifi-

cantly altered products, services, markets, processes and IT systems as well as major operational and organisational changes.

Risk taking

SCBC is risk averse and applies low levels for risk taking. This is achieved by ensuring that the total risk level is kept compatible with short and long-term strategic plans, capital plans and financial plans.

A key component of SCBC's business model entails risks being relatively small and predictable, thus making it possible to maintain a large volume of business in relation to own funds. This does not mean that each individual credit exposure has very low risk, but rather that the total lending portfolio consists largely of low-risk exposures with an internal risk effect such that SCBC's total risk is limited. The basis for SCBC's appetite for various types of risk is that each risk should fit within a well-defined segment of SCBC's risk-bearing capacity. Risk-bearing capacity refers firstly to the capacity to cover unexpected and expected losses through own funds or ongoing earnings capacity and, secondly to the capacity to minimise undesired risks by means of appropriate functions, strategies, processes, procedures, internal rules, limits and controls. The total risk exposure may not exceed the total risk-bearing capacity. The scope of the acceptable risk must be clearly linked to how important the risk concerned is to SCBC's business model, in other words the positive effects anticipated to be achieved in the form of expected revenue, cost savings or the mitigation of other risks.



RESULTS OF THE OPERATIONS

Operating profit increased in 2016 and amounted to SEK 1,563 million (1,543). Net interest income rose to SEK 2,503 million (2,280).

Operating profit

The operating profit for 2016 increased to SEK 1,563 million (1,543). Net interest income rose to SEK 2,503 million (2,280). The rise in net interest income was mainly due to a decrease in SCBC's funding costs. At year end, SCBC's lending portfolio amounted to SEK 244.4 billion (215.8).

The net expense from financial transactions measured at fair value was SEK 179 million (expense: 16). The difference was primarily attributable to compensation for the transfer of credits to Swedbank and buyback expenses linked to the discontinuation of financing. On 7 October 2016, SBAB and SCBC transferred the remaining portion, SEK 12.7 billion, of the credits outstanding that were mediated by Sparbanken Öresund to Swedbank. In total, around SEK 20.5 billion was transferred over the year.

The net commission expense was SEK 39 million (expense: 106), including a fee of SEK 0 million (71) to the government stability fund. From the first quarter of 2016, the fee to the government stability fund was replaced by a resolution fee, which is reported in net interest income. The resolution fee amounted to SEK 65 million for the full year.

SCBC's total operating income increased compared with the preceding year and amounted to SEK 2,292 million (2,158). Expenses rose to SEK 720 million (627), and mainly comprised fees to SBAB for administrative services in line with the applicable outsourcing agreements. Net loan losses amounted to SEK 9 million (recoveries: 12).

Capital adequacy

SCBC's total capital ratio and CET1 capital ratio under Pillar 1, without the transitional rules, amounted to 82.4% at 31 December 2016, compared with 86.1% at the end of 2015. Net profit for the period is

included in own funds, while the expected dividend has reduced own funds. The internally assessed capital requirement amounted to SEK 4,129 million (3,897) on 31 December 2016. For more information on capital adequacy at SCBC; please 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 the provisions of the Companies Act and are resolved by the Annual General Meeting. For 2016, it is proposed that no dividend be paid. The proposed appropriation of profits can be found on page 8 and comprises 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 2016 is included in this Annual Report, see page 40. Information regarding the most important aspects of the company's system for internal governance and control can be found in the Corporate Governance Report.

Outlook, risks and uncertainties

The economic trend in Sweden is the primary risk factor for SCBC's future earnings capacity, and the quality of our assets is mainly exposed to credit risk in the Swedish housing market. The management of interest-rate and currency risks 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 susceptible to global economic developments and to conditions in the international financial

markets. The risks pertaining to these factors are expected to decrease in the forthcoming years but remain considerable. The strained housing market and high household indebtedness result in the economy being sensitive to changes in interest rates and housing prices. The risks associated with these factors are expected to increase as long as house prices and debt continue to outpace increases in income. For further information about SCBC's risks and risk management; please refer to the Risk Management section and Note 2.

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

Management and Board

Since 3 November 2014, Mikael Inglander has been the CEO of SCBC.

The Board comprises the following members: Bo Magnusson (Chairman), Jakob Grinbaum (Board member) and Klas Danielsson (Board member). Bo Magnusson is the Chairman and Jakob Grinbaum is the Deputy Chairman of SBAB's Board of Directors. Klas Danielsson is the CEO of SBAB.

PROPOSED APPROPRIATION OF PROFITS

SCBC posted a net profit for the year after tax of SEK 1,220,863,401. According to the balance sheet, SEK 15,670,623,630 is at the disposal of the Annual General Meeting.

Shareholder contribution	9,550,000,000
Fair value reserve	552,373,639
Retained earnings	4,347,386,590
Net profit for the year	1,220,863,401
Total	15,670,623,630

The Board proposes that the earnings be appropriated as follows:

Carried forward to next year	15,670,623,630
Total	15,670,623,630

FIVE-YEAR OVERVIEW

SEK million	2016	2015	2014	2013	2012
Interest income	3,825	4,197	5,739	6,211	7,902
Interest expense	-1,322	-1,917	-3,964	-4,560	-6,115
Net interest income	2,503	2,280	1,775	1,651	1,787
Other operating income ¹⁾	-211	-122	89	-275	-1,407
Total operating income	2,292	2,158	1,864	1,376	380
Operating expenses	-720	-627	-826	-656	-587
Total operating expenses	-720	-627	-826	-656	-587
Profit/loss before loan losses	1,572	1,531	1,038	720	-207
Net loan losses	-9	12	26	21	13
Operating profit/loss	1,563	1,543	1,064	741	-194
Lending portfolio	244,445	215,774	217,579	209,982	208,875
Deferred tax assets	-	0	17	-	-
Other assets	5,516	7,537	10,853	18,057	22,202
TOTAL ASSETS	249,961	223,311	228,449	228,039	231,077
Debt securities issued, etc.	175,933	187,280	174,986	152,656	152,874
Other liabilities	2,994	6,791	9,437	22,973	27,803
Deferred tax liabilities	190	131	-	388	7
Subordinated debt to the Parent Company	55,123	14,920	31,181	40,115	39,602
Equity	15,721	14,189	12,845	11,907	10,791
Total liabilities and equity	249,961	223,311	228,449	228,039	231,077
Key metrics, %	2016	2015	2014	2013	2012
Lending					
Net interest margin	1.06	1.01	0.78	0.72	0.77
Loan losses					
Loan loss ratio	0.00	0.01	0.01	0.01	0.01
Productivity					
C/I ratio	31	29	44	48	154
Return on assets	0.5	0.5	0.4	0.2	-0.1
Return on equity	8.2	8.9	6.8	5.0	-1.3
Capital structure					
CET1 capital ratio without transitional rules	82.4	86.1	72.3	58.8	33.6
Tier 1 capital ratio without transitional rules	82.4	86.1	72.3	58.8	33.6
Total capital ratio without transitional rules	82.4	86.1	72.3	58.8	33.6
Total capital ratio with transitional rules	11.4	12.1	11.2	10.6	10.3
Equity ratio	6.3	6.4	5.6	5.2	4.7
Consolidation ratio	6.4	6.4	5.6	5.4	4.7
Employees					
Number of employees	8	10	5	1	1

¹⁾ The item includes net commission, the net result of financial transactions and other operating income.

Definitions of key metrics

Net interest margin	Net interest income in relation to average total assets	Total capital ratio	Own funds in relation to risk-weighted assets
Loan loss ratio	The net effect of loan losses in relation to the closing balance for lending to the public	Tier 1 capital ratio	Tier 1 capital in relation to risk-weighted assets
C/I ratio	Total operating expenses in relation to total income	Equity ratio	Equity, in relation to total assets at year end
Return on assets	Operating profit/loss after actual tax in relation to average total assets	Consolidation ratio	Equity and deferred tax in relation to total assets at year end
Return on equity	Operating profit/loss after actual tax in relation to average equity	Number of employees	Permanent employees
CET1 capital ratio	Tier 1 capital less additional Tier 1 capital in relation to risk-weighted assets (RWA)		

FINANCIAL STATEMENTS AND NOTES

FINANCIAL STATEMENTS

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INCOME STATEMENT

SEK million	Note	2016	2015
Interest income	3	3,825	4,197
Interest expense	3	-1,322	-1,917
Net interest income		2,503	2,280
Commission income	4	10	10
Commission expense	4	-49	-116
Net expense from financial transactions	5	-179	-16
Other operating income		7	-
Total operating income		2,292	2,158
General administrative expenses	6	-718	-626
Other operating expenses		-2	-1
Total expenses before loan losses		-720	-627
Profit before loan losses		1,572	1,531
Net loan losses	7	-9	12
Operating profit		1,563	1,543
Tax	8	-342	-340
Net profit for the year		1,221	1,203

STATEMENT OF COMPREHENSIVE INCOME

SEK million	Note	2016	2015
Net profit for the year		1,221	1,203
<i>Components that will be reclassified to profit or loss</i>			
Changes related to cash-flow hedges, before tax	23	399	181
<i>Tax attributable to components that will be reclassified to profit or loss</i>		-88	-40
Other comprehensive income for the year, net of tax		311	141
Total comprehensive income for the year		1,532	1,344

BALANCE SHEET

SEK million	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Lending to credit institutions	9	102	1,219
Lending to the public	10	244,445	215,774
Value changes of interest-rate-risk hedged items in macro hedges		485	717
Derivatives	11	4,442	4,784
Deferred tax assets	21	-	0
Other assets	15	382	695
Prepaid expenses and accrued income	16	105	122
TOTAL ASSETS		249,961	223,311
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	17	498	2,143
Debt securities issued, etc.	18	175,933	187,280
Derivatives	11	871	2,437
Other liabilities	19	13	10
Accrued expenses and deferred income	20	1,612	2,201
Deferred tax liabilities	21	190	131
Subordinated debt to the Parent Company	22	55,123	14,920
Total liabilities		234,240	209,122
Equity			
Share capital		50	50
Shareholder contribution		9,550	9,550
Fair value reserve	23	552	241
Retained earnings		4,348	3,145
Net profit for the year		1,221	1,203
Total equity	23	15,721	14,189
Total liabilities and equity		249,961	223,311
Memorandum items			
Assets pledged for own liabilities	24	240,086	211,420

STATEMENT OF CHANGES IN EQUITY

SEK million	Note	RESTRICTED EQUITY	UNRESTRICTED EQUITY			Total equity
		Share capital	Fair value reserve	Shareholder contribution	Retained earnings	
OPENING BALANCE, 1 JANUARY 2015		50	100	9,550	3,145	12,845
Other comprehensive income, net of tax	23		141			141
Net profit for the year						1,203
Comprehensive income for the year			141			1,203
CLOSING BALANCE, 31 DECEMBER 2015		50	241	9,550	3,145	14,189
OPENING BALANCE, 1 JANUARY 2016		50	241	9,550	4,348	14,189
Other comprehensive income, net of tax	23		311			311
Net profit for the year						1,221
Comprehensive income for the year						1,221
CLOSING BALANCE, 31 DECEMBER 2016		50	552	9,550	4,348	15,721

The shareholder contributions that were paid were conditional and the Parent Company, SBAB Bank AB (publ), is entitled to reimbursement for these contributions from the Swedish Covered Bond Corporation's distributable earnings, with the proviso that the Annual General Meeting grants approval thereof.

CASH-FLOW STATEMENT

SEK million	2016	2015
Opening cash and cash equivalents	1,219	2,841
OPERATING ACTIVITIES		
Interest received	3,839	4,213
Commission received	9	11
Interest paid	-1,856	-2,947
Commission paid	-49	-116
Outflows to suppliers	-720	-627
Income tax paid	-352	-597
Change in lending to the public	-28,680	1,947
Change in liabilities to credit institutions	-1,645	-1,936
Change in debt securities issued, etc.	-10,896	15,139
Change in other assets and liabilities	-970	-448
Cash flow from operating activities	-41,320	14,639
INVESTING ACTIVITIES		
Cash flow from investing activities	-	-
FUNDING ACTIVITIES		
Subordinated debt issued	40,203	-
Redemption of subordinated debt	-	-16,261
Cash flow from funding activities	40,203	-16,261
Increase/decrease in cash and cash equivalents	-1,117	-1,622
Closing cash and cash equivalents	102	1,219

Cash and cash equivalents are defined as cash and lending to credit institutions.

NOTES

NOTE 1 Accounting policies

The Swedish Covered Bond Corporation (SCBC) (in Swedish: AB Sveriges Säkerställda Obligationer (publ)) 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 Finansinspektionen (Sweden's financial supervisory authority) to issue covered bonds. The Parent Company, SBAB Bank, is a Swedish public limited banking company domiciled in Solna. The address of the Head Office is SBAB Bank AB (publ), Box 4209, SE-171 04 Solna, Sweden.

SCBC prepares the Annual Report in accordance with IFRS as adopted by the EU and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities, the Swedish Financial Supervisory Authority's regulations and general guidelines on the annual accounts of credit institutions and securities companies (FFFS 2008:25) and the Annual Accounts Act for Credit Institutions and Securities Companies.

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

On 21 March 2017, the Board of Directors approved the financial statements for publication and these await final adoption by the Annual General Meeting on 24 April 2017.

Introduction of new accounting standards

IFRS 9 Financial instruments

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

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16 Leases

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

Change in IAS 34 Interim Financial Reporting

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

Amendments to the Annual Accounts Act

Amendments in 2016

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

Forthcoming amendments

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

General accounting policies

Recognition in and derecognition from the balance sheet

Issued securities and all derivatives are recognised on the trade date, meaning the date on which the significant risks and rights are transferred between the parties. Other financial instruments are recognised on the settlement date.

A financial asset is derecognised from the balance sheet when the contractual rights to receive cash flows from the financial asset expire and the 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 has expired.

Recognition of income and expense

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

Since transaction costs in the form of remuneration to business partners or issue expenses attributable to the acquisition of loans constitute part of the acquisition

Cont. NOTE 1 Accounting policies

cost of the loan, these costs are recognised in the balance sheet and recognised in profit or loss under net interest income over the expected tenor of the loan.

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

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

Financial instruments

Classification

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

- Financial assets measured at FVTPL
- Loans and accounts receivable
- Financial liabilities measured at FVTPL
- Other financial liabilities

SCBC has no assets under the classifications "Investments held to maturity" or Available-for-sale financial assets."

Offsetting

Financial assets and financial liabilities are to be offset and recognised at net amounts only where the recognised amounts may legally be offset and the intention is to settle the items with a net amount or to simultaneously realise the asset and settle the liability.

No financial instruments are recognised at net amounts in the balance sheet.

Fair value measurement

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

Fair value measurement of financial instruments measured at fair value and traded on an active market is based on quoted prices.

If the market for a financial instrument is not active, the fair value is established on the basis of generally accepted measurement methods. As far as possible, calculations conducted in connection with measurement are based on observable market information. The main tools used are models based on discounted cash flows. In individual cases, the calculations may also be based on assumptions or estimates.

Financial assets and liabilities measured at FVTPL

The categories "Financial assets measured at FVTPL" and "Financial liabilities measured at FVTPL" are divided into "held for trading" and "financial assets/liabilities that Executive Management 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 "Net result of financial transactions," while the effective interest rate is recognised in net interest income.

Loans and accounts receivable

Financial assets classified as loans and accounts receivable are initially recognised at fair value at the time the loan is disbursed plus transaction costs. Loans and accounts receivable are subsequently recognised at amortised cost using the effective-interest method. This category consists of assets with fixed or determinable payments that are not quoted in an active market. Loan receivables consist of lending to the public and credit institutions and include associated items.

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

Other financial liabilities

Financial liabilities that are not classified as "Financial liabilities measured at FVTPL" are initially recognised at fair value with an addition for transaction costs and are subsequently recognised at amortised cost using the effective-interest method. This category consists mainly of issued debt securities and liabilities to credit institutions.

Realised gains or losses from the repurchase of own liabilities affects profit or loss when incurred and is recognised under the "Net result of financial transactions."

Repos

Repos are agreements where the parties have reached agreement on the sale and repurchase of a particular security at a pre-determined price. Securities that have been provided or received under these repo agreements are not derecognised from or not recognised in the balance sheet, respectively.

Payments received are recognised in the balance sheet as liabilities to credit institutions and payments made are recognised as lending to credit institutions. The impact on profit or loss is attributable to the difference between sale and repurchase prices and is recognised as interest income or interest expense, respectively.

Derivatives and hedge accounting

Derivatives are used primarily to eliminate interest-rate and currency risk in the company's assets and liabilities. The 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 the hedging of interest-rate and currency risk. There are also other economic hedges for which hedge accounting is not applied. These derivatives outside hedge accounting are classified as assets or liabilities, respectively, measured at FVTPL.

Fair-value hedging

In the case of fair-value hedging, the derivative hedging instrument is measured at fair value at the same time as the hedged asset or liability is measured with an addition for accumulated changes in fair value attributable to the hedged risk associated with the hedged item. Changes in fair value are recognised directly in profit or loss under the "Net result of financial 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 in profit or loss, after adjustment of the carrying amount of the hedged item in the income statement in accordance with the effective-interest method. The accrual extends over the remaining maturity of the hedged item. The realised gain or loss arising from premature closing of a hedging instrument is recognised in profit or loss under "Net result of financial transactions."

Macro hedges

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

In fair-value hedging of portfolios of assets, the gain or loss attributable to the hedged risk is recognised under "Value changes of interest-rate-risk hedged items in macro hedges" in the balance sheet. The hedged item is a portfolio of lending transactions based on the next contractual renewal date. The hedging instrument used is a portfolio of interest-rate swaps grouped in accordance with renewal intervals based on conditions in the fixed leg of the swap.

Cash-flow hedges

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

Loan losses

Loans and receivables recognised at amortised cost

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

The amount of impairment is measured as the difference between the carrying amount of the receivable and the present value of estimated future cash flows discounted at the effective interest rate of the receivable in accordance with the most recent interest-rate adjustment date. The cash flows attributable to the borrower and any use of the collateral are taken into consideration when assessing the need for impairment. Any expenses associated with the realisation of the collateral are included in the cash-flow calculations. The measurement of probable loan losses 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 is recognised in profit or loss under the heading "Net loan losses."

Confirmed loan losses and provisions for probable losses, with deductions for guarantees expected to be utilised or that have been utilised plus any recoveries,

Cont. NOTE 1 Accounting policies

are recognised as loan losses. The term “Confirmed loan losses” refers to losses where the amounts are definite or established with a high level of probability and have thus been derecognised.

Individually measured loan receivables

Corporate market loans (loans to companies and tenant-owners’ associations) are individually measured for impairment. Retail market loans are individually measured for impairment if there are special reasons for doing so. Loan receivables not determined to have an individual impairment requirement are included in a group of financial assets with similar credit risk characteristics and are judged on a collective basis in terms of the impairment requirement.

Collectively measured loan receivables

The loan receivables assessed in this group are as follows:

- Retail market loans not individually measured. These consist of a large number of loans each of a limited amount and with similar credit risk characteristics.
- Individually measured loan receivables where no objective evidence of individual impairment has been determined in accordance with the above information on “Individually measured loan receivables.”

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

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

Measurement in relation to the assumption of receivables

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

Loans with renegotiated terms and conditions

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

Other

Functional currency

The 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 transaction date, and foreign currency receivables and liabilities are translated using the closing-date rate. Foreign exchange gains or losses resulting from settlements of foreign currency transactions and from the translation of monetary assets and liabilities in foreign currency are recognised in profit or loss under “Net result of financial transactions.”

Tax

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

Deferred tax assets and tax liabilities are measured according to the balance sheet method on the basis of temporary differences that arise between the carrying amount and the tax base of an asset or liability. Deferred tax assets are recognised for unutilised tax losses to the extent that it is probable that the carry-forwards can be used to offset future taxable profit. Deferred tax is calculated in accordance with the tax rate applicable at the time of taxation.

Cash and cash equivalents

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

Segment reporting

An operating segment is a part of a business for which independent financial information is available, that conducts business operations from which income can be generated and expenses incurred and whose operating profits are regularly assessed by the company’s chief operating decision maker as a basis for decisions regarding the allocation of resources to segments and an assessment of the segment’s profit or loss. SCBC’s operations consist primarily of investments in loan receivables with a risk level permitting the issue of covered bonds. Consequently, only a single segment is reported, SCBC as a whole.

Dividend

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 exposures, as well as income and expenses presented in the Annual Report. Subsequently, the actual outcome may differ to some extent from the estimates made.

The area that primarily entails a risk of causing an adjustment to recognised assets in the next financial year is the measurement of loan receivables. For collectively measured loan receivables, the estimates of future cash flows are based partly on assumptions concerning how observable data may result in loan losses. See also the “Loan losses” section above.

NOTE 2 Risk management and capital adequacy

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

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

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

NOTE 2a Risk management – Credit risk in lending operations

SCBC does not conduct its own lending operations – instead, all loans are acquired from the Parent Company. Moreover, the credit risk in lending operations is restricted by credit limits adopted for various customers or customer groups. The credit risk is also managed through a credit granting process that analyses the ability of potential borrowers to meet their interest payments and make capital repayments. The loans acquired have been granted to borrowers who are judged able to pay interest and make capital repayments when interest rates comfortably exceed the rate prevailing when the loan decision is taken. The Parent Company has a limitation rule for new loans that limits the size of a loan in relation to income. Furthermore, risk classification is based on the internal ratings-based approach (IRB approach) for the analysis of the credit risk for new and existing customers in the loan portfolios. If any loan remains unsettled after 27 days, it is reacquired by the Parent Company.

Cont. NOTE 2a Risk management – Credit risk in lending operations

SCBC applies the IRB approach for retail loans and lending to many tenant-owners' associations with turnover under EUR 50 million and the foundation IRB approach (FIRB approach) for corporate loans. The standardised approach is used for quantifying credit risk for other types of exposures. When external ratings are used, the lowest rating from either Moody's or Standard & Poor's is selected.

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

The IRB credit risk models assess the following parameters:

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

$$EL = PD * LGD * EAD$$

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

In the financial statements, the EL according to IRB models differs from the provision for probable loan losses. The calculation of EL according to Basel Pillar 1 is governed by the Capital Requirements Regulation (CRR)¹⁾. Under this regulation, the risk associated with each individual loan is to be estimated based on historic information, over a longer time horizon and using a statistical model. The management of the loss arising in the financial statements is regulated by IAS 39, according to which, assets are to be impaired when there are objective grounds for impairment due to the occurrence of one or more events that have a negative impact on future cash flows. The EL for loans calculated according to IRB models amounted to SEK 87

million (89). The net provision for corresponding loans in the financial statements was SEK 90 million (55). The capital adequacy calculations separate non-performing loans from other loans. Any positive difference reduces CET1 capital while negative differences are added to Tier 2 capital. Forthcoming rules in IFRS 9 will change the method used for credit risk provisions. At present, it is too early to comment on the effect on the size of the provision.

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

Collateral in the lending operations

For loans granted by SBAB, adequate collateral must normally be provided. Adequate collateral primarily refers to mortgage deeds in residential properties or shares in tenant-owners' associations within a maximum of 75–85% of the market value. The 85% level only applies if collateral can be obtained with a primary lien and the customer is included in a lower risk class. The lower risk classes for retail customers (Retail – R) comprise the levels R1–R4, while the lower risk classes for Corporate customers, (Corporate – C) comprise the levels C0–C3, and manually adjusted from C3 to C4²⁾. For other classes, the LTV ratio of 75% applies.

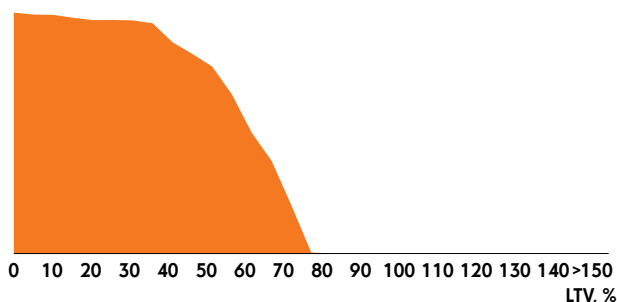
In addition to collateral in the form of mortgage deeds or tenant-owners' rights, it is possible to grant loans against, inter alia, collateral in the form of a government guarantee, municipal guarantee, securities, bank guarantees and deposits in a Swedish bank. SCBC does not hold any collateral that has been taken over in foreclosure to protect claims. Lending to the public accounts for 98% (97) of SCBC'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.

The financial effect of collateral received is illustrated in the diagram below, which shows loans in relation to the market value of underlying collateral for loans secured on collateral comprising mortgage deeds or shares in tenant-owners' associations. The area in the diagram corresponds to the lending volume and shows that SCBC's lending portfolio has favourable collateral, since the largest area in the diagram is for lower LTV ratios. The diagram encompasses 100% (98) of the company's total lending to the public. Since 99% (98) of total lending is secured with collateral in mortgage deeds or shares in tenant-owners' associations to within 75%, and 95% (94) of customers are in the risk classes 1–4, credit quality is assessed as highly favourable.

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

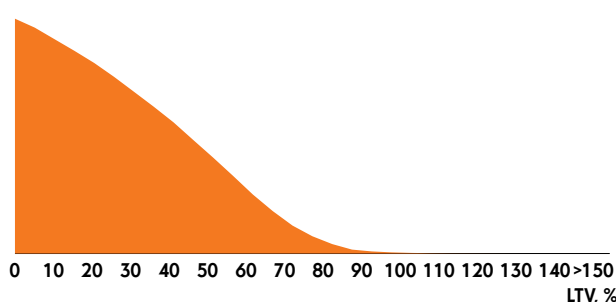
CORPORATE EXPOSURES

Lending volume



RETAIL EXPOSURES

Lending volume



Segment	Below 50%	Below 75%	Below 100%	Exposure-weighted average LTV
Corporate exposures, %	79.0	100.0	100.0	63.4
Retail exposures, %	84.2	98.4	99.9	56.0
Total, %	83.7	98.5	99.9	56.7

Loan portfolios in lending operations allocated by risk class

As per 31 December 2016, SCBC's lending to the public amounted to SEK 244 billion (216). Every customer is allocated to a risk class. Customers with individual loan provisions are always allocated the worst corporate risk class (C8) or the worst retail risk class (R8). For corporates, loans covered by collective provisions are assigned

risk classes from C6–C7, and collectively impaired retail loans are assigned risk classes R5–R8. The risk class C0 comprises loans to counterparties with a 0% risk weight (Swedish municipalities). Transaction costs of SEK 76 million (76), which were attributable to the loans, are distributed in the table on a pro rata basis.

¹⁾ CRR refers to the European Parliament and Council's recommendation on supervisory requirements for credit institutions and securities companies No. 575/2013.

²⁾ "Retail loans" refers to all lending to the public pertaining to single-family homes, holiday homes and tenant-owners' rights, as well as unsecured loans to consumers and loans to tenant-owners' associations, with a turnover of less than EUR 50 million. "Loans to corporates" refers to i) loans to other legal entities, and ii) other lending to consumers.

Cont. **NOTE 2a** Risk management – Credit risk in lending operations**LOAN PORTFOLIO BY RISK CLASS – RETAIL
(INCLUDING TENANT-OWNERS' ASSOCIATIONS)**

Risk class ¹⁾	2016		2015	
	Lending	Provisions in respective risk class	Lending	Provisions in respective risk class
R1/C1, %	37.2	–	31.1	0.0
R2/C2, %	30.5	–	32.0	0.0
R3/C3, %	16.6	–	19.8	0.0
R4/C4, %	10.2	–	10.6	0.0
R5/C5, %	4.3	0.5	4.9	0.2
R6/C6, %	0.8	1.1	1.1	0.8
R7/C7, %	0.4	4.1	0.5	2.7
R8/C8, %	0.0	4.7	0.0	5.5
	100%	0.0%	100%	0.0%

¹⁾ C= Corporate, R=Retail.

LOAN PORTFOLIO ALLOCATED BY RISK CLASS – CORPORATE

Risk class ¹⁾	2016		2015	
	Lending	Provisions in respective risk class	Lending	Provisions in respective risk class
C0, %	0.0	–	0.0	–
C1, %	67.3	–	61.0	–
C2, %	22.7	–	23.3	–
C3, %	9.0	–	13.7	–
C4, %	0.9	–	1.3	0.0
C5, %	0.0	–	0.6	0.3
C6, %	0.0	20.7	0.1	1.2
C7, %	0.1	3.1	0.0	0.0
C8, %	–	–	–	–
	100%	0.0%	100%	0.0%

¹⁾ C= Corporate.

Lending to the public and credit institutions

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

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

For loan receivables with individual provisions, an individual assessment of the loan's future cash flow is conducted in conjunction with an estimate of the market value of the underlying collateral, which constitutes the basis for the individual provision. For collective provisions, a change has occurred in the risk associated with a group of loans, but this change cannot be traced to an individual customer. The table provides a specification of provisions without taking guarantees into account, as well as a specification of the guaranteed amount for each group of provisions.

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

SEK million	2016		2015	
	Public	Credit institutions	Public	Credit institutions
1 Current loans without past-due unpaid amounts or provisions	244,534	102	215,835	1,219
2 Loans with unpaid amounts more than five days past due	9	–	7	–
3 Loans with individual provisions	–	–	–	–
Total loans outstanding	244,543	102	215,842	1,219
Individual provisions	–	–	–	–
Collective provisions, corporates	–1	–	–6	–
Collective provisions, retail	–98	–	–62	–
Total provisions	244,445	–	–68	–
Total lending after provisions			215,774	1,219
Guarantees for loans with individual provisions	–	–	–	–
Guarantees for loans with collective provisions, corporates	1	–	–	–
Guarantees for loans with collective provisions, retail	7	–	13	–
Total guarantees	8	–	13	–
Total lending after provisions and guarantees	244,453	102	215,787	1,219

1 Current loans without past-due unpaid amounts or provisions

The allocation of loans per risk class for the loans that had neither past-due unpaid amounts nor individual provisions showed that at 31 December 2016, 95% (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 76 million (76), which were allocated among individual loans without past-due unpaid amounts or loans with individual provisions. The costs derive mainly from single-family dwellings and tenant-owners' rights.

Cont. **NOTE 2a** Risk management – Credit risk in lending operations

LENDING TO THE PUBLIC BY SEGMENT – CURRENT LOANS WITHOUT PAST-DUE UNPAID AMOUNTS OR INDIVIDUAL PROVISIONS

2016							
Risk class, SEK million	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties ¹⁾	Total
C0	–	–	–	–	2	–	2
C/R1	35,646	23,165	23,572	15,661	93	–	98,137
C/R2	27,156	26,270	13,998	5,225	83	6	72,738
C/R3	14,290	20,151	2,226	2,104	–	–	38,771
C/R4	10,414	11,681	368	106	36	78	22,683
C/R5	4,185	5,284	86	0	–	1	9,556
C/R6	784	1,002	43	3	–	–	1,832
C/R7	402	367	14	11	–	–	794
C/R8	14	4	3	–	–	–	21
Total	92,891	87,924	40,310	23,110	214	85	244,534

2015							
Risk class, SEK million	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties ¹⁾	Total
C0	–	–	–	–	6	–	6
C/R1	28,403	15,675	17,227	11,317	146	–	72,768
C/R2	26,117	20,384	16,623	4,359	–	–	67,483
C/R3	16,460	18,924	3,689	2,369	194	–	41,636
C/R4	10,088	10,242	451	250	–	–	21,031
C/R5	4,497	4,969	284	107	3	–	9,860
C/R6	897	1,087	126	12	–	–	2,122
C/R7	487	378	36	0	–	–	901
C/R8	21	7	–	–	–	–	28
Total	86,970	71,666	38,436	18,414	349	–	215,835

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

2 Loans with unpaid amounts more than five days past due

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

At year-end 2016, SEK 9 million (7) of lending had past-due unpaid amounts or was assessed as doubtful. Of SCBC's loan portfolio of SEK 244.4 billion (215.8), 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 27 days.

LENDING TO THE PUBLIC BY SEGMENT – LOANS WITH UNPAID AMOUNTS MORE THAN FIVE DAYS PAST DUE¹⁾

2016							
SEK million	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties	Total
Past due 5–30 days ¹⁾	2	3	4	–	–	–	9
Past-due 31–60 days	–	–	–	–	–	–	–
Past-due 61–90 days	–	–	–	–	–	–	–
Past-due 91–180 days	–	–	–	–	–	–	–
Past-due 181–365 days	–	–	–	–	–	–	–
Past due > 365 days	–	–	–	–	–	–	–
Total	2	3	4	–	–	–	9

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

Cont. **NOTE 2a** Risk management – Credit risk in lending operations

SEK million	2015							Total
	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties		
Past due 5–30 days ¹⁾	6	1	–	–	–	–	7	
Past-due 31–60 days	–	–	–	–	–	–	–	
Past-due 61–90 days	–	–	–	–	–	–	–	
Past-due 91–180 days	–	–	–	–	–	–	–	
Past-due 181–365 days	–	–	–	–	–	–	–	
Past due > 365 days	–	–	–	–	–	–	–	
Total	6	1	–	–	–	–	7	

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

3 Loans with individual provisions

Loans with individual provisions refers to receivables where provisions have been made following individual risk assessment. At 31 December 2016, there were no loans with individual provisions, nor were there any such loans for the corresponding year-earlier period.

Loans with renegotiated terms and conditions

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

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

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

CARRYING AMOUNT OF RENEGOTIATED LOANS BY SEGMENT

SEK million	2016	2015
Single-family dwellings and holiday homes	4	3
Tenant-owner's rights	0	1
Tenant-owners' associations	–	–
Private multi-family dwellings	–	–
Municipal multi-family dwellings	–	–
Commercial properties	–	–
Total	4	4

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

NOTE 2b Risk management – Credit risk in treasury operations

Credit risk in treasury operations arises when the counterparty is unable to fulfil its payment obligations. In treasury operations, credit risk arises in the form of counter-

party risk for the derivative and repo contracts entered into by SCBC to manage its financial risks.

LIMIT UTILISATION

Rating category, SEK million	2016		2015	
	Limit	Utilised limit	Limit	Utilised limit
AAA	–	–	–	–
AA- to AA+	11,600	176	11,600	734
A- to A+	13,910	432	12,910	383
Lower than A-	4,310	–	4,320	–
Total	29,820	608	28,830	1,117

The "Limit utilisation" table shows the limits and the utilised limits, respectively, for SCBC's derivative counterparties. The limits for each derivative counterparty are proposed by SBAB's Treasury and adopted by the Board's Credit Committee within the confines of the framework adopted by the Board of Directors. The values in the table comprise an aggregate of individual derivative counterparty's total exposure and the limits for the respective rating category. The exposure in the summary includes external derivative and repo contracts entered into by SCBC and which are outstanding as of 31 December 2016. At Group level, limits for each counterparty are set for all investments, and derivative and repo contracts. The above table shows the limits for the SBAB Group.

As per the credit instruction, the limits are set by SBAB's Credit Committee within the confines of the framework adopted by the Board of Directors. The utilised limit is calculated as the market value of financial derivatives, repos and investments. For derivatives and repos, the effect of collateral pledged or received under CSAs or GMRA's is included in the total limit. Moreover, for derivatives, an add-on amount is also calculated for future risk-related changes. The limit is coordinated with the credit limit for counterparties who also are loan customers. Limits may be established for a period of not longer than one year, after which a new assessment must be conducted. The decisions of the Credit Committee are reported to the Board at the following Board meeting.

Counterparty risk

Counterparty risk at SCBC comprises exposures to major banks as well as the Parent Company and, for external counterparties, is hedged entirely through unilateral collateral agreements in which the counterparty pledges collateral by transferring funds or securities with the aim of reducing SCBC's exposure – known as a Credit Support Annex (CSA). Wherever applicable, 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 derivatives that are not cleared by clearing organisations approved by the competent authority (in accordance with Regulation (EU) No 648/2012), a framework agreement is to be entered into with the counterparty. Where appropriate, the framework agreement, an ISDA Master Agreement or similar agreement, has been supplemented with an associated collateral agreement, CSA. A CSA must always be established for counterparties entering into derivative contracts with SCBC. The framework agreements entitle the parties to offset receivables against debt in the event of a payment default.

Counterparty risk is reconciled on a daily basis for all counterparties. CSAs are reconciled on a daily basis or on a weekly basis. Derivative contracts entered into with external counterparties are mostly entered into within the Parent Company,

Cont. NOTE 2b Risk management – Credit risk in treasury operations

where the CSAs are reconciled with all counterparties on a daily basis, while the majority of SCBC's derivatives are entered into with the Parent Company as the counterparty. The effects of pledged and received collateral are shown in greater detail in Note 14 Offsetting disclosures. At 31 December 2016, SCBC had received collateral for a total value of SEK 0 billion (905).

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

MAXIMUM CREDIT-RISK EXPOSURE IN TREASURY OPERATIONS

SEK million	Without taking into account collateral received or other credit enhancements		Taking into account collateral received or other credit enhancements	
	2016	2015	2016	2015
Lending to credit institutions	102	1,219	102	1,219
Sovereign bonds eligible as collateral, etc.	-	-	-	-
Bonds and other interest-bearing securities	-	-	-	-
Derivatives	4,442	4,784	4,442	3,879
Maximum credit risk exposure as of 31 December	4,544	6,003	4,544	5,098

COLLATERAL POSTED AND RECEIVED UNDER COLLATERAL AGREEMENTS, 31 DECEMBER 2016

SEK million, Company	Collateral pledged	Collateral received
SCBC	0	0

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 more information; please refer to Note 2c in SBAB's

Annual Report. SCBC has an agreement regarding a liquidity facility with the Parent Company, SBAB. The aim of the agreement is to allow SCBC to borrow funds from the Parent Company in the event that SCBC is unable to pay bond holders when SCBC's bonds mature.

MATURITIES OF FINANCIAL ASSETS AND LIABILITIES (AMOUNTS REFER TO CONTRACTUAL, UNDISCOUNTED CASH FLOWS)

SEK million	2016							2015						
	No maturity	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total	No maturity	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total
ASSETS														
Lending to credit institutions	0	118	-	-	-	-	118	0	1,219	-	-	-	-	1,219
Lending to the public	-	36,276	47,838	86,392	75,793	4,017	250,316	-	29,114	42,831	72,073	74,291	4,204	222,513
Derivatives	-	12,743	917	676	31,690	6,870	52,896	-	3,276	15,802	1,926	24,518	16,453	61,975
Other assets	381	-	-	-	-	-	381	817	-	-	-	-	-	817
Total financial assets	381	49,137	48,755	87,068	107,483	10,887	303,711	817	33,609	58,633	73,999	98,809	20,657	286,524
LIABILITIES														
Liabilities to credit institutions	-	498	-	-	-	-	498	-	2,138	-	-	-	-	2,138
Debt securities issued, etc.	-	12,617	11,231	1,735	200,233	27,073	252,889	-	2,911	14,598	25,539	183,334	33,140	259,522
Derivatives	-	11,965	711	236	30,283	6,904	50,099	-	2,799	14,474	1,696	24,731	17,094	60,794
Other liabilities	14	-	-	-	-	-	14	2,211	-	-	-	-	-	2,211
Subordinated debt	55,123	-	-	-	-	-	55,123	14,920	-	-	-	-	-	14,920
Total financial liabilities	55,137	25,080	11,942	1,971	230,516	33,977	358,623	17,131	7,848	29,072	27,235	208,065	50,234	339,585

The fixed-interest periods for the capital repayments for amortised receivables and liabilities has been calculated as the period up to the date of maturity of the respective amortisation.

Foreign currency cash flows have been converted using the closing rate at 31 December 2016. Future interest-rate cash flows with floating interest rates are estimated using forward interest rates based on the actual interest base, usually the three-month STIBOR.

MATURITIES OF HEDGED CASH FLOWS IN CASH-FLOW HEDGES

SEK million	No maturity	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total
Interest-rate-hedged	0	24	44	96	614	114	892
Currency-hedged	0	0	0	0	-26,703	-5,823	-32,526
Net	0	24	44	96	-26,089	-5,709	-31,634

NOTE 2d Risk management – Market risk

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

The management of SCBC's risks is outsourced to the Parent Company, SBAB, where they are followed up and managed at company and Group levels.

The basic objective for SBAB's management of SCBC's market risk is to minimise risk in the cover pool, with the overriding aim of meeting the requirements for matching rules as expressed in the Covered Bonds Issuance Act (2003:1223).

The general principle governing SCBC's exposure to market risk is that the level of risk taking should be low. As a general principle, interest-rate risk is to be mitigated through direct funding or the use of derivatives. SCBC's interest-rate structure as of 31 December 2016 is shown in the table "Fixed-interest periods for financial assets and liabilities." Currency risks are mitigated as funding in international currency is hedged through currency swap contracts. As per 31 December 2016, total assets and liabilities in foreign currency amounted to a net liability of SEK 46.1 billion (liability: 49.8) in nominal terms.

The risk outstanding was reduced using derivatives where the nominal amount was equivalent to SEK 46.1 billion (49.8). The total effect per currency is reported in the table "Nominal amounts for assets, liabilities and derivatives in foreign currency."

Value at Risk

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

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

As per 31 December 2016, SBAB's total market risk exposure was SEK 1,118 million (1,154), compared with the limit of SEK 1,650 million (1,650). Exposure to market risks managed by Treasury was SEK 42 million (36) and the limit was SEK 55 million (55).

Supplementary risk metrics

In addition to the overall VaR limits determined by the Board, the CEO has set a number of supplementary risk metrics for different kinds of risks to which the SBAB Group is exposed. The limits are followed up at the Group level, and SCBC's positions are included as a component of the total exposure. For interest-rate risk, there are limits for parallel shifts, where the effect on the present value of a one percentage point shift in the yield curve is measured, and curve risk where the effect on the present value is measured in different scenarios, in which the short end of the yield curve is adjusted down (up) and the long end is adjusted up (down). Currency risk is controlled by measuring the effect on present value when currency exchange rates change compared to SEK. SCBC's positions are included in the follow up of limits set for income volatility for basis spreads.

Income volatility from basis spreads arises because the derivatives used to hedge funding are recognised at fair value while the underlying funding is reported at book value, in accordance with the accounting standards applied by the SBAB Group.

This causes effects to arise in operating profit that do not correspond to the actual risk to which the SBAB Group's portfolio is exposed to. The income volatility from basis spreads is expected to decrease in the future, as the SBAB Group has applied hedge accounting through cash-flow hedges since 2014, which means that income volatility will only be calculated for swap contracts that are not subject to cash-flow hedges.

Interest-rate risk in other operations

Interest-rate risk in other operations is measured and reported to Finansinspektionen in accordance with FFFS 2007:4. As per 31 December 2016, the effect on the present value was negative SEK 445 million (negative: 353) for a 2 percentage-point parallel upward shift and SEK 455 million (366) for a 2 percentage-point parallel downward shift. As SCBC's own funds amounted to SEK 15.2 billion (13.9) at 31 December 2016, the effect of the stress tests amounted to negative 2.9% (negative: 2.5) and 3.0% (2.6) of own funds, respectively.

NOMINAL AMOUNTS FOR ASSETS, LIABILITIES AND DERIVATIVES IN FOREIGN CURRENCY

SCBC, SEK million	Assets and liabilities	Derivatives
CHF	-1,337	1,337
EUR	-42,776	42,790
GBP	0	0
NOK	-1,640	1,640
USD	-363	363
Total	-46,115	46,130

FIXED-INTEREST PERIODS FOR FINANCIAL ASSETS AND LIABILITIES

Carrying amount, SEK million	2016							2015						
	Without fixed-in- terest period	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total	Without fixed-in- terest period	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total
ASSETS														
Lending to credit institutions	-	102	-	-	-	-	102	-	1,219	-	-	-	-	1,219
Lending to the public	-	161,471	8,686	12,301	58,133	3,854	244,445	-	127,194	11,411	12,742	60,447	3,979	215,773
Change in fair value of interest-rate-hedged loan receivables	-	5	11	55	329	85	485	-	6	23	50	587	50	716
Derivatives	-	23	31	6	2,842	1,540	4,442	-	-5,117	3,345	349	4,144	2,062	4,783
Other assets	487	-	-	-	-	-	487	817	-	-	-	-	-	817
Total financial assets	487	161,601	8,728	12,362	61,304	5,479	249,961	817	123,302	14,779	13,141	65,178	6,091	223,308
LIABILITIES														
Liabilities to credit institutions	-	498	-	-	-	-	498	-	2,144	-	-	-	-	2,144
Debt securities issued, etc.	-	28,192	11,176	-	117,540	19,025	175,933	-	18,793	18,964	16,057	107,131	26,335	187,280
Derivatives	-	2,004	-602	60	-332	-259	871	-	4,499	68	-917	-868	-346	2,436
Other liabilities	1,625	-	-	-	-	-	1,625	2,211	-	-	-	-	-	2,211
Subordinated debt	-	55,123	-	-	-	-	55,123	-557	15,477	-	-	-	-	14,920
Total financial liabilities	1,625	85,817	10,574	60	117,208	18,766	234,050	1,654	40,913	19,032	15,140	106,263	25,989	208,991
Difference assets and liabilities	-1,138	75,784	-1,846	12,302	-55,904	-13,287	15,911	-837	82,389	-4,253	-1,999	-41,085	-19,898	14,317

NOTE 2e Risk management – Operational risk

Operational risk means the risk of losses due to inappropriate or unsuccessful processes, human error, faulty systems or external events. The definition includes legal risk.

Risk management

Within SCBC, risk management consists of uniform measurement and reporting of operational risk. An analysis of risk levels in all operations is conducted on a regular basis and reported to the Board and the CEO. The Operational Risk & Security function within the Credit and Risk department has overall responsibility for the methods and procedures used for identifying, governance and control, monitoring and reporting on operational risk. The identification and management of operational risk is carried out based on SCBC's risk appetite. This entails constant efforts to improve the risk culture, processes, methods, tools and procedures to efficiently and proactively manage operational risk and incidents.

Self-evaluation

The self-evaluation process encompasses the identification of risks in all significant processes, the measurement of identified risks and the management of risks. The result of the self-evaluation is reported annually to the Board and the CEO. The entire business uses a shared method and system support for the self-evaluation of operational risk.

Incident management

SCBC has procedures and system support intended to facilitate the reporting and follow-up of incidents. The Operational Risk & Security function supports the operations with the analysis of reported incidents to ensure that root causes are identified and suitable measures are implemented. Even incidents that have not caused direct damage or financial loss are reported, to promote proactive risk management.

New product approval policy (NPAP)

SCBC has an NPAP in place for the implementation of new or significantly altered products, services, markets, processes and IT-systems as well as major operational and organisational changes at SCBC. The aim of the NPAP is the advance identification and management of risks related to changes.

Security and contingency management

At SCBC, security involves protecting customers, individuals, information and physical assets. Information must be kept confidential and be reliable and accurate, and it must be made available to the appropriate people as and when needed. SCBC's security efforts include technical, organisational and administrative measures, which are based on the international information security standard ISO/IEC 27000.

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

Risk and compliance coordinator

As part of strengthening its risk culture, SCBC has established a Risk and compliance coordinator (RCC) in the first line. The RCC supports the business managers with a focus on risk management, process mapping, internal controls, incident management, and regulatory compliance. RCC initiatives are coordinated by a regulatory manager.

Capital requirements for operational risks

SCBC uses the standardised approach to quantify capital requirements for operational risk. This approach calculates the capital requirement based on 12–18% of the business area's average operating income over the past three years. The capital requirements for operational risk are presented in the Capital requirements table (Note 2i).

NOTE 2f Risk management – Business risk

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

Business risk is included in the calculation of the capital requirement as part of SBAB's stress tests.

NOTE 2g Risk management – Concentration risk

Concentration risk arises when major exposures or exposures in the loan portfolio are concentrated to certain counterparties, regions or industries. The SBAB Group is primarily considered to be exposed to credit-risk related concentration risk in its lending operations. The concentration risk is calculated based on the size of the exposures, industry concentration and geographical concentration. The entire capital requirement for concentration risk is included in the economic capital for credit risk.

Upon calculation at 31 December 2016, the internally calculated capital requirement for concentration risk was SEK 669 million (562), of which SEK 619 million (521) pertained to credit risk in lending operations and SEK 50 million (41) to credit risk in funding operations.

NOTE 2h Risk management – Internal capital adequacy assessment

Internal capital adequacy assessment

Within the framework of Pillar 2, the Basel regulations impose the requirement that banks' management and assessment of risks must be satisfactory to ensure that the banks can fulfil their obligations. To meet this requirement, the banks must have methods that enable them to continuously evaluate and uphold capital in an amount, type and distribution sufficient to cover the risks to which they are or will become exposed. This is called the internal capital adequacy assessment process (ICAAP).

The ICAAP aims to identify, evaluate and manage the risks to which SBAB is exposed and ensure that the Group has sufficient own funds for its selected risk profile. The ICAAP is revised annually to identify changes in the operating environment and changed regulations and supervisory practices that continuously affect the bank's performance. The amount of own funds required to manage the combined risk in the operations is based primarily on the calculation of SBAB's economic capital. However, if the economic capital for risks included in Pillar 1 is less than the capital requirements under Pillar 1 for a given type of risk, the capital requirements under Pillar 1 are applied.

Finally, consideration is given to the risk associated with deteriorating macro-economic conditions, which is illustrated in conjunction with stress tests.

Taken together, the above comprise the capital that, in accordance with Basel 3, is required to meet all risks in the operations. The internally assessed capital requirement for SCBC amounted to SEK 4,129 million (3,897) on 31 December 2016. Additional information on the internal capital adequacy assessment can be found in the document "Capital Adequacy and Risk Management 2016," which is published on www.sbab.se

NOTE 2i Risk management – Capital adequacy analysis

New common regulations on supervisory requirements for credit institutions were adopted by the EU and have been applied since 1 January 2014. The purpose of the rules is in part to make institutions more resilient to new crises, and in part to raise confidence in the institutions' ability to manage new crises. The regulations include higher capital requirements, stricter demands on capital quality, the introduction of a non-risk-based metric (debt/equity ratio) and quantitative liquidity requirements. SCBC has taken this into account in its capital planning and meets the requirements under the new rules.

Within the framework of these regulations, Finansinspektionen has adopted a national risk-weight floor of 25% for residential mortgages to Swedish households within Pillar 2. Banks that are considered systemic will be subject to additional capital requirements. SCBC is not subject to these requirements.

In April 2016, Finansinspektionen announced that a capital repayment requirement would be introduced for new residential mortgages from 1 June. The requirement entails that not less than 2% of the original loan principal must be repaid each year on new residential mortgages with LTV ratios in excess of 70%. For loans with an LTV ratio of less than 70% but more than 50%, at least 1% of the original loan principal must be repaid each year.

Future rules in IFRS 9 will regulate a new method for credit-risk provisions. SCBC is working on preparing a model for this. It is still too early to express a view on the impact this will have on the size of the provision, and therefore also on own funds.

SCBC primarily recognises credit risk in accordance with the internal ratings-based (IRB) approach, and operational and market risk in accordance with the standardised approach. SCBC's own funds consist solely of Common Equity Tier 1 capital. Net profit/loss for the period is included in the calculation of own funds. The deduction that forms the basis of "Additional value adjustments" in the "Own funds" table emanate from the rules on a prudent valuation of assets. The figures do not

Cont. **NOTE 2i** Risk management – Capital adequacy analysis

include a dividend to shareholders, which is in line with the Board of Directors' proposal for the appropriation of profits. The surplus has been verified by the company's auditors, in accordance with Article 26, item 2, of the CRR.

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

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

OWN FUNDS, SEK million	Amount as per 31 December 2016	Amount as per 31 December 2015
CET1 capital: Instruments and reserves		
Capital instruments and the related share premium accounts	9,600	9,600
Retained earnings	4,347	3,145
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards))	552	241
Independently verified interim profits net of any foreseeable charge or dividend	1,221	1,203
CET1 capital before regulatory adjustments	15,720	14,189
CET1 capital: Regulatory adjustments		
Additional value adjustments (negative amount)	-5	-7
Fair value reserves related to gains or losses on cash-flow hedges	-552	-241
Negative amounts resulting from the calculation of expected loss amounts	0	-34
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-1	-1
Total regulatory adjustments to CET1 capital	-558	-283
CET1 capital	15,162	13,906
Additional Tier 1 capital: Instruments		
Additional Tier 1 capital before regulatory adjustments	-	-
Additional Tier 1 capital: Regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 capital	-	-
Additional Tier 1 capital	-	-
Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)	15,162	13,906
Tier 2 capital: Instruments and provisions		
Credit risk adjustments	3	-
Tier 2 capital before regulatory adjustments	3	-
Tier 2 capital: Regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	-	-
Tier 2 capital	3	-
Total capital (Total capital=Tier 1 capital + Tier 2 capital)	15,165	13,906
Total risk-weighted assets	18,402	16,151
Capital ratio and buffers		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	82.4	86.1
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	82.4	86.1
Total capital (as a percentage of total risk-weighted exposure amount), %	82.4	86.1
Institution-specific buffer requirements (CET1 capital requirement in accordance with Article 92(1)(a) plus the capital conservation buffer and countercyclical capital buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffers [G-SII buffer and O-SII buffer]) expressed as a percentage of the risk-weighted exposure amount), %	8.5	8.0
<i>of which: CET1 capital, minimum requirement, %</i>	4.5	4.5
<i>of which, capital conservation buffer requirement, %</i>	2.5	2.5
<i>of which, countercyclical buffer requirement, %</i>	1.5	1.0
<i>of which, systemic risk buffer requirement, %</i>	-	-
<i>of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffers, %</i>	-	-
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts), %	74.4	78.1
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)		
Current cap on AT1 instruments subject to phase-out arrangements	-	-
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
Current cap on T2 instruments subject to phase-out arrangements	-	-

Disclosure of own funds during a transitional period

Disclosures in accordance with Article 5 of Commission Implementing Regulation (EU) No 1423/2013.

No amounts are subject to the provisions preceding Regulation (EU) No 575/2013 ("CRR") or the prescribed residual amount according to Regulation (EU) No 575/2013.

Cont. **NOTE 2i** Risk management – Capital adequacy analysis

CAPITAL REQUIREMENT, SEK million	Risk exposure amount 31 Dec 2016	Capital requirement 31 Dec 2016	Risk exposure amount 31 Dec 2015	Capital requirement 31 Dec 2015
Credit risk recognised in accordance with IRB approach				
Exposures to corporates	5,632	451	4,743	379
Retail exposures	8,269	662	7,856	628
<i>of which: exposures to SMEs</i>	860	69	980	78
<i>of which: retail exposures secured by immovable property</i>	7,409	593	6,876	550
Total exposures recognised with IRB approach	13,901	1,112	12,599	1,007
Credit risk recognised with the standardised approach				
Exposure to governments and central banks	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0
Exposures to institutions ¹⁾	262	21	335	27
<i>of which, derivatives according to CRR, Appendix 2</i>	259	21	319	26
<i>of which, repos</i>	3	0	14	1
<i>of which, other</i>	0	0	2	0
Exposures to institutions and corporates with a short-term credit rating	0	0	0	0
Other items	565	45	798	64
Total exposures recognised with standardised approach	827	66	1,133	91
Market risk	377	30	361	29
<i>of which, currency risk</i>	377	30	361	29
Operational risk	3,008	241	1,874	150
Credit valuation adjustment risk	289	23	184	15
Total risk exposure amount and minimum capital requirements	18,402	1,472	16,151	1,292
Capital requirements for capital conservation buffer		460		404
Capital requirements for countercyclical buffer		276		162
Total capital requirements		2,208		1,858

¹⁾The risk-weighted amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 262 million (333).

CAPITAL ADEQUACY, SEK million	2016	2015
CET1 capital	15,162	13,906
Tier 1 capital	15,162	13,906
Total capital	15,165	13,906
Without transitional rules		
Risk exposure amount	18,402	16,151
CET1 capital ratio, %	82.4	86.1
Excess ¹⁾ of Tier 1 capital	14,334	13,179
Tier 1 capital ratio, %	82.4	86.1
Excess ¹⁾ of Tier 1 capital	14,058	12,937
Total capital ratio, %	82.4	86.1
Excess total capital	13,693	12,614
With transitional rules		
Own funds	15,162	13,940
Risk exposure amount	133,171	115,555
Total capital ratio, %	11.4	12.1

¹⁾ Excess capital has been calculated based on minimum capital requirements (without buffer requirements)

NOTE 3 Net interest income

SEK million	2016	2015
Interest income		
Lending to credit institutions	-8	-2
Lending to the public	4,190	4,665
Derivatives	-357	-466
Total	3,825	4,197
<i>of which, interest income from financial assets that is not measured at FVTPL</i>	4,182	4,663
Interest expense		
Liabilities to credit institutions	13	4
Issued debt securities	-2,586	-3,316
Subordinated debt ¹⁾	-524	-494
Derivatives	1,840	1,889
Resolution fee ²⁾	-65	-
Total	-1,322	-1,917
<i>of which, interest expense from financial liabilities that is not measured at FVTPL</i>	-3,162	-3,806
Net interest income	2,503	2,280

¹⁾ The subordinated debt is issued by the Parent Company.

²⁾ The resolution fee is a new fee payable to the Swedish National Debt Office and replaces the previous stability fund fee to the Swedish National Debt Office recognised under commission expense, refer to Note 4.

NOTE 4 Commission

SEK million	2016	2015
Commission income		
Commission on lending	10	10
Total	10	10
Commission expense		
Stability Fund fees ¹⁾	-	-71
Other commissions	-49	-45
Total	-49	-116
Net commission	59	-106

¹⁾ The Stability Fund fee to the Swedish National Debt Office was replaced by the resolution fee from 2016, which is recognised in net interest income, refer to Note 3.

NOTE 5 Net result of financial transactions

SEK million	2016	2015
Gains/losses on interest-bearing financial instruments		
Change in value of hedged items in hedge accounting	220	896
Realised gain/loss from financial liabilities	-459	-82
Derivatives in hedge accounting	-113	-948
Other derivatives	2	12
Loan receivables	171	106
Currency translation effects	0	0
Total	-179	-16

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 derivatives are to be recognised at fair value.

Major variations in fair value between reporting periods could result in significant changes in carrying amounts and hence also in capital adequacy. 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, as the unrealised interest-rate-related value changes that affect the performance of each derivative contract starts and ends at zero. Most of SCBC's basis swaps are held to maturity.

NOTE 6 General administrative expenses

SEK million	2016	2015
Outsourcing expenses	-716	-625
Other administrative expenses	-2	-1
Total	-718	-626

SCBC employs a CEO and eight employees who handle the on-going management in consultation with the management of the Parent Company. The CEO and the employees are employed by the Parent Company but they are also employed by SCBC. The Board of Directors consists of three Board members. No salary or other remuneration is paid by the company to the CEO, the Board of Directors or the employees.

Board Members who are not employed by the company receive a board fee.

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

FEES AND EXPENSES TO AUDITORS

SEK million	2016	2015
Audit assignment	-0.7	-0.4
of which, Deloitte	-0.5	-
of which, KPMG	-0.2	0.4
Audit tasks in addition to audit assignment	-0.3	-0.5
of which, Deloitte	-0.3	-
of which, KPMG	-	0.5
Other services	-	-
of which, Deloitte	-	-
of which, KPMG	-	-
Total	1.0	0.9

The audit assignment includes examination of the annual report, the accounting records and the administration by the Board and CEO. The audit assignment also includes consultancy or other assistance resulting from such examination.

Audit tasks in addition to the audit assignment pertain to the examination of interim reports/year-end report and such other duties that may only be performed by the signing-off auditor, such as the preparation of various types of certificates.

Other services pertain to consultancy services required at the initiative of SCBC.

NOTE 7 Net loan losses

SEK million	2016	2015
CORPORATE MARKET		
Collective provision for corporate market loans		
Allocations to/unwinding of collective provisions	9	5
Guarantees	-0	-1
Net income for the year for collective provisions for corporate market loans	9	4
RETAIL MARKET		
Individual provision for retail market loans		
Write-off of confirmed loan losses for the year	-	-
Reversals of previous provisions for probable loan losses recognised as confirmed loan losses in the end of year accounts	-	-
Provision for probable loan losses for the year	-	-
Net cost for the year for individual provisions for retail market loans	-	-
Collective provision for retail market loans		
Write-off of confirmed loan losses for the year	-0	-0
Allocation to collective provisions	-18	16
Guarantees	-0	-8
Net income/cost for the year for collective provisions for retail market loans	-18	8
Net income/cost for the year for collective provisions for retail market loans	-9	12

The write-off of confirmed loan losses for the year in accordance with the specification above pertain 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.

NOTE 8 Tax

SEK million	2016	2015
Current tax	-371	-232
Deferred tax on changes in temporary differences	29	-108
Total	-342	-340
The effective tax rate differs from the nominal tax rate in Sweden as below		
Profit before tax	1,563	1,543
Nominal tax rate in Sweden 22%	-344	-339
Tax for prior years and other	2	-1
Total tax	1,221	-340
Effective tax rate, %	21.9	22.0

NOTE 9 Lending to credit institutions

SEK million	2016	2015
Lending in SEK	102	1,219
Lending in foreign currency	0	0
Total	102	1,219
of which, repos	118	1,219

Interest-bearing securities that SCBC purchases with an obligation to sell at a pre-determined price are not recognised in the balance sheet, while the purchase price paid is recognised in the balance sheet under Lending to credit institutions. The securities are regarded as collateral received and can be pledged or sold by SCBC. In the event that the counterparty is unable to meet its repurchase obligation, SCBC is entitled to keep the security. The fair value of collateral received was SEK 118 million (1,219), of which - (-) was pledged or sold.

NOTE 10 Lending to the public

SEK million	2016	2015
Opening balance	215,774	217,579
Transferred from the Parent Company	54,073	22,089
Amortisation, write-offs, redemption, etc.	-25,372	-23,924
Change in provision for probable loan losses	-30	30
Closing balance	244,445	215,774
Distribution of lending by property type		
Single-family dwellings and holiday homes	92,895	86,975
Tenant-owners' rights	87,924	71,668
Tenant-owners' associations	40,316	38,436
Private multi-family dwellings	23,111	18,414
Municipal multi-family dwellings	213	349
Commercial properties ¹⁾	84	-
Provision for probable loan losses	-98	-68
Total	244,445	215,774
Percentage of lending with a governmental or municipal guarantee, %	1	1

¹⁾ Refers only to mixed-use commercial properties

In the event of early redemption during the fixed-interest period, SCBC has the right to receive interest compensation. In the case of retail loans, the amount of compensation is based on the interest rate for the loan compared to the interest rate for government bonds/treasury bills with comparable maturities up to the interest adjustment date, plus one percentage point. For other loans, the reinvestment interest rate for comparable government securities is, in most cases, the comparable interest rate. In other cases, the comparable interest rate is specified in the current terms of the loan. In addition to mortgage deeds in pledged property, 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 35,598 million (59,014) of SCBC's lending portfolio was mediated by business partners through the Parent Company.

Doubtful loan receivables and provisions, SEK million	2016	2015
a) Doubtful loan receivables	-	-
b) Specific provisions for individually measured loan receivables	-	-
c) Collective provision for corporate market loans	1	6
d) Collective provision for retail market loans	97	62
e) Total provisions (b+c+d)	98	68
f) Doubtful loan receivables after individual provisions (a-b)	-	-
g) Provision ratio for individual provisions (b/a)	-	-

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

Cont. NOTE 10 Lending to the public

Distribution of doubtful loan receivables and provisions by type of property, SEK	2016					2015				
	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Total	Single-family dwellings and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Total
Doubtful loan receivables, gross	-	-	-	-	-	-	-	-	-	-
Individual provisions for loan receivables	-	-	-	-	-	-	-	-	-	-
Collective provision for corporate market loans			0	1	1			5	1	6
Collective provision for retail market loans	37	60			97	32	30			32
Doubtful loan receivables after individual provisions					-					-

Change in provision for probable loan losses, SEK million	2016		2015	
	Individual provision for individually measured receivables	Collective provision	Individual provision for individually measured receivables	Collective provision
Provision at the beginning of the year	-	-68	-	-98
Individual provision for the year	-	-	-	-
Reversed from previous provisions	-	-	-	-
Individual provision utilised for confirmed loan losses	-	-	-	-
Allocations to/unwinding of collective provisions	-	-30	-	30
Provision at the end of the year	-	-98	-	-68

NOTE 11 Derivatives

SEK million	2016			2015		
	Fair value of assets	Fair value of liabilities	Nominal amount	Fair value of assets	Fair value of liabilities	Nominal amount
Derivatives in fair-value hedging						
Interest-rate-related						
- interest-rate swaps	2,284	591	54,118	2,971	758	118,659
Currency-related	454	235	14,430	1,453	1,197	29,861
Total	2,738	826	68,548	4,424	1,955	148,520
Derivatives in cash-flow hedges						
Interest-rate-related						
- interest-rate swaps	610	-	31,848	160	20	21,323
Currency-related	936	-	31,569	35	328	22,289
Total	1,546	-	63,417	195	348	43,612
Other derivatives						
Interest-rate-related						
- interest-rate swaps	125	44	63,998	150	83	3,690
Currency-related	33	1	603	15	51	3,179
Total	158	45	64,601	165	134	6,869

Derivatives allocated by remaining maturity, carrying amounts, SEK million	2016		2015	
	Fair value	Nominal amount	Fair value	Nominal amount
Maximum 3 months	466	28,090	-44	9,729
3-12 months	-80	13,230	914	41,746
1-5 years	2,684	129,451	1,262	105,594
Longer than five years	501	25,795	215	41,932
Total	3,571	196,566	2,347	199,001

NOTE 12 Classification of financial instruments

FINANCIAL ASSETS

2016				
SEK million	Assets measured at FVTPL (held for trading)	Loan receivables	Total	Total fair value
Lending to credit institutions		102	102	102
Lending to the public		244,445	244,445	245,366
Value changes of interest-rate-risk hedged items in macro hedges		485	485	-
Derivatives	4,442		4,442	4,442
Other assets		27	27	27
Prepaid expenses and accrued income		105	105	105
Total	4,442	245,164	249,606	250,042

2015				
SEK million	Assets measured at FVTPL (held for trading)	Loan receivables	Total	Total fair value
Lending to credit institutions		1,219	1,219	1,219
Lending to the public		215,774	215,774	216,887
Value changes of interest-rate-risk hedged items in macro hedges		717	717	-
Derivatives	4,784		4,784	4,784
Other assets		695	695	695
Prepaid expenses and accrued income		122	122	122
Total	4,784	218,527	223,311	223,707

Cont. **NOTE 12** Classification of financial instruments**FINANCIAL LIABILITIES**

2016				
SEK million	Liabilities measured at FVTPL (held for trading)	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions		498	498	498
Debt securities issued, etc.		175,933	175,933	177,674
Derivatives	871		871	871
Other liabilities		13	13	13
Accrued expenses and deferred income		1,612	1,612	1,612
Subordinated debt to the Parent Company		55,123	55,123	55,123
Total	871	233,179	234,050	235,791

2015				
SEK million	Liabilities measured at FVTPL (held for trading)	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions		2,143	2,143	2,143
Debt securities issued, etc.		187,280	187,280	188,108
Derivatives	2,437		2,437	2,437
Other liabilities		10	10	10
Accrued expenses and deferred income		2,201	2,201	2,201
Subordinated debt to the Parent Company		14,920	14,920	14,920
Total	2,437	206,554	208,991	209,819

Fair value measurement of financial instruments

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note 1 Accounting Policies. In the "Total fair value" column above, information is also provided on the fair value of financial instruments that are recognised at amortised cost in the balance sheet. The carrying amounts for current receivables and liabilities, including subordinated debt to the Parent

Company, have been assessed as equal to their fair values. For lending to the public, where no observable credit margin data is available at the time of measurement, the credit margin on the most recent stipulated date of expiry is applied, Level 3. Issued debt securities are measured at the company's current funding interest rate, Level 2.

NOTE 13 Fair value disclosures

2016					2015			
SEK million	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
Assets								
Derivatives	-	4,442	-	4,442	-	4,784	-	4,784
Total	-	4,442	-	4,442	-	4,784	-	4,784
Liabilities								
Derivatives	-	871	-	871	-	2,437	-	2,437
Total	-	871	-	871	-	2,437	-	2,437

In the table, financial assets and liabilities recognised at fair value in the balance sheet are divided on the basis of the measurement methods used.

No transfers were made between levels in 2015 and 2016.

Quoted market prices (Level 1)

Measurement at quoted prices in an active market for identical assets and liabilities. A market is deemed to be active if the price data is easily accessible and corresponds to actual regularly occurring transactions. This measurement method is currently not used on any asset or liability.

Measurement based on observable market data (Level 2)

Measurement aided by other external market information, such as quoted interest rates or prices for closely related instruments.

This group includes all non-quoted derivatives.

Measurement based in part on unobservable market data (Level 3)

Measurement whereby a material input in the model is based on estimates or assumptions that do not originate directly from the market. This method is currently not used on any asset or liability.

NOTE 14 Offsetting disclosures

FINANCIAL ASSETS AND LIABILITIES COVERED BY A LEGALLY BINDING AGREEMENT REGARDING NETTING OR A SIMILAR AGREEMENT BUT THAT ARE NOT OFFSET IN THE BALANCE SHEET.

SEK million	2016				
	Amounts reported in the balance sheet	Financial instruments	Provided (+)/ Received (-) collateral – securities	Provided (+)/ Received (-) cash collateral	Net amount
Assets					
Derivatives	4,442	-730	-	-	3,712
Repos	118	-118	-	-	-
Liabilities					
Derivatives	-871	730	-	-	-141
Repos	-498	118	380	-	-
Total	3,191	-	380	-	3,571

SEK million	2015				
	Amounts reported in the balance sheet	Financial instruments	Provided (+)/ Received (-) collateral – securities	Provided (+)/ Received (-) cash collateral	Net amount
Assets					
Derivatives	4,784	-2,023	-	-828	1,932
Repos	1,219	-1,219	-	-	-
Liabilities					
Derivatives	-2,437	2,023	-	-	-414
Repos	-1,233	1,219	14	-	-
Total	2,333	-	14	-828	1,518

To limit the potential counterparty credit risk associated with derivative transactions involving non-standardised derivatives that are not cleared by clearing organisations approved by Finansinspektionen (in accordance with FFFS 2007:1), a framework agreement is to be entered into with the counterparty. Where appropriate, such framework agreements, which are known as ISDA Master Agreements or similar agreements, have been supplemented with associated collateral agreements, known as a Credit Support Annex (CSA). A CSA must always be established for counterparties entering into derivative contracts with SCBC.

Counterparty risk is reconciled on a daily basis for all counterparties. CSAs are reconciled on a daily basis or on a weekly basis if a collateral agreement exists. 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. Repos are recognised in the balance sheet under the headings Lending and Liabilities to credit institutions, respectively.

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

NOTE 15 Other assets

SEK million	2016	2015
Tax assets	370	676
Other	12	19
Total	382	695
<i>Other assets distributed by remaining maturity, carrying amount</i>		
Maximum 1 year	382	695
Total	382	695

NOTE 16 Prepaid expenses and accrued income

SEK million	2016	2015
Accrued interest income	86	99
Other accrued income	19	23
Total	105	122
<i>Prepaid expenses and accrued income distributed by remaining maturity, carrying amount</i>		
Maximum 1 year	100	113
More than 1 year	5	9
Total	105	122

NOTE 17 Liabilities to credit institutions

SEK million	2016	2015
Liabilities in SEK	498	1,291
Liabilities in foreign currencies	0	853
Total	498	2,144
<i>of which, repos</i>	498	1,233

NOTE 18 Debt securities issued, etc.

SEK million	2016	2015
Bond loans		
Bond loans in SEK		
– at amortised cost	59,087	69,457
– in fair-value hedging	70,568	68,331
Bonds loans in foreign currency		
– at amortised cost	32,913	23,209
– in fair-value hedging	13,365	26,283
Total issued debt securities	175,933	187,280
<i>of which, covered bonds</i>	175,933	187,280

See also the “funding” section, page 4.

NOTE 19 Other liabilities

SEK million	2016	2015
Liabilities to employees	13	10
Total	13	10
<i>Liabilities outstanding allocated by remaining maturity, carrying amounts</i>		
Maximum 1 year	13	10
Total	13	10

NOTE 20 Accrued expenses and deferred income

SEK million	2016	2015
Accrued interest expense	1,568	2,102
Other accrued expenses	44	99
Total	1,612	2,201
<i>Accrued expenses and deferred income distributed by remaining maturity, carrying amounts</i>		
Maximum 1 year	1,612	2,201
Total	1,612	2,201

NOTE 21 Deferred tax

SEK million	2016	2015
<i>Deferred tax assets (+)/tax liabilities (–) for temporary differences in:</i>		
Stock of financial instruments	–34	–69
Issued debt securities	–	483
Derivatives	–156	–545
Total	–190	–131
<i>Change in deferred tax</i>		
Deferred tax in the income statement	29	–108
Deferred tax attributable to items recognised directly against other comprehensive income	–88	–40
Total	–59	–148
<i>Deferred tax distributed by expected maturity date, carrying amount</i>		
More than 1 year	–190	–131
Total	–190	–131

NOTE 22 Subordinated debt to the Parent Company

SEK million	2016	2015
Subordinated debt to the Parent Company	55,123	14,920
Total	55,123	14,920

Terms and conditions governing subordination

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

NOTE 23 Equity

The share capital amounted to SEK 50,000,000. At 31 December 2016, the number of shares was 500,000 (500,000), each with a quotient value of SEK 100, as in previous years. All shares are held by the Parent Company, SBAB Bank AB (publ), Corp. Reg. No. 556253-7513. Distributable equity in SCBC amounts to SEK 15,670 million (14,139).

Dividends are proposed by the Board in accordance with provisions in the Companies Act and are resolved by the Annual General Meeting, refer to Note 26 Proposed appropriation of profits.

Further information on changes in equity is provided on page 13.

STATEMENT OF CHANGES IN EQUITY

Fair value reserve, SEK million	2016	2015
Cash-flow hedges, opening balance	241	100
Unrealised change in value over the year	735	-160
Reclassified to profit or loss during the year	-336	341
Tax attributable to the change	-88	-40
Cash-flow hedges, closing balance	552	241
Total	552	241

NOTE 24 Assets pledged for own liabilities

SEK million	2016	2015
Loan receivables	240,086	211,420
Repos	-	-
Total	240,086	211,420

Of the total lending portfolio, see Note 10 and Note 9 "Lending to credit institutions," the values reported above represent the carrying amount for the cover pool for covered bonds, which amounted to SEK 175.9 billion (187.2).

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

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

NOTE 25 Related party disclosures

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

LOANS TO THE BOARD, CEO AND OTHER KEY SENIOR EXECUTIVES

SEK million	2016		2015	
	Lending	Interest income	Lending	Interest income
CEO	-	-	-	-
Board of Directors	-	-	3	-
Other key senior executives	6	0	5	-
Total	6	0	8	-

The CEO and the Board of Directors refer to SCBC. The members of the Parent Company's Board of Directors and Executive Management are included among other key senior executives. Lending to Board Members of AB Sveriges S akerst allda 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.

Related-party transactions in the SBAB Group

SBAB Bank AB (the Parent Company) is a Swedish public limited company that is wholly owned by the Swedish state.

Related-party transactions are conducted at market terms.

Cont. **NOTE 25** Related party disclosures

SEK million	SBAB BANK AB		TOTAL	
	2016			
	Assets/ Liabilities	Interest income/ Interest expense	Assets/ Liabilities	Interest income/ Interest expense
Derivatives	3,826	1,215	3,826	1,215
Other assets	-	-	-	-
Total	3,826	1,215	3,826	1,215
Liabilities to credit institutions	55,123	-524	55,123	-524
Debt securities issued, etc.	-	-	-	-
Derivatives	645	-434	645	-434
Other liabilities	2	-	2	-
Total	55,770	-958	55,770	-958

SEK million	SBAB BANK AB		TOTAL	
	2015			
	Assets/ Liabilities	Interest income/ Interest expense	Assets/ Liabilities	Interest income/ Interest expense
Derivatives	2,788	818	2,788	-818
Other assets	-	-	-	-
Total	2,788	818	2,788	-818
Liabilities to credit institutions	14,920	-493	14,920	493
Derivatives	1,233	-445	1,233	445
Other liabilities	2	-	2	-
Total	16,155	-938	16,155	938

Of SCBC's commission expense, SEK 26 million (32) pertained to the possibility for SCBC to utilise a liquidity facility at the Parent Company. Of the company's general administrative costs, SEK 716 million (625) represented compensation to the Parent Company for administrative services rendered in accordance with an outsourcing agreement.

NOTE 26 Proposed appropriation of profits

SCBC posted a net profit for the year after tax of SEK 1,220,863,401. According to the balance sheet, SEK 15,670,623,630 is at the disposal of the Annual General Meeting.

Shareholder contribution	9,550,000,000
Fair value reserve	552,373,639
Retained earnings	4,347,386,590
Net profit for the year	1,220,863,401
Total	15,670,623,630

The Board proposes that the earnings be appropriated as follows:

Carried forward to next year	15,670,623,630
Total	15,670,623,630

THE BOARD OF DIRECTORS' SIGNATURES

The Board and the CEO certify that the annual accounts were prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and in accordance with generally accepted accounting practices for credit market companies, and provide a true and fair view of the company's position and earnings. 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 sufficient in relation to the scope and risks of the operations.

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

Stockholm, 21 March 2017

Bo Magnusson
Chairman of the Board

Jakob Grinbaum
Board Member

Klas Danielsson
Board Member

Mikael Inglander
CEO

Our audit report was submitted on 21 March 2017

Deloitte AB
Patrick Honeth
Authorised Public Accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of Swedish Covered Bond Corporation (SCBC) corporate identity number 556645-9755

REPORT ON THE ANNUAL ACCOUNTS

Opinions

We have audited the annual accounts of Swedish Covered Bond Corporation (SCBC) for the year 2016 except for the corporate governance report on pages 40-43. The annual accounts of the company are included on pages 2-35 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the company.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Other information

The audit of the annual accounts for year 2015 was conducted by another auditor who issued an unmodified opinion dated March 11, 2016 in the Report on the annual accounts.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

Judgments and estimates with respect to valuation of loan receivables

Recognition and measurement of financial instruments as regulated in IAS 39 is a complex and significant area with large impact on SCBC's business and financial reporting. SCBC's management exercises significant judgment when determining both when and how much to record as loan loss provisions. Example of various assumptions and judgments includes the financial

condition of the counterparty, expected future cash flow, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. Furthermore, the associated disclosures are complex and dependent on high quality data.

At December 31, 2016, gross loans to the public amounted to SEK 244 445 million, with loan loss provisions of SEK 98 million. Given the significance of loans to the public (representing 98% of total assets) as well as the impact from the inherent uncertainty and subjectivity involved in assessing loan loss provisions, we consider this to be a key audit matter for our audit.

Refer to accounting principles regarding critical judgments and estimates in note 1 in the financial statement and related disclosures of credit risk in note 2a.

Our audit procedures included, but were not limited to:

- We assessed key controls over the approval, recording and monitoring of loans and receivables, and evaluating the methodologies, inputs and assumptions used in determining and calculating the loan loss provisions.
- For provisions calculated on an individual basis we examined a selection of individual loan exposure in detail, and evaluated management assessment of the recoverable amount. We tested the assumptions underlying the impairment, including forecast of future cash flows, valuation of underlying collateral and estimates of recovery on default. We examined a selection of loans that had been identified by management as potentially impaired.
- We examined the sufficiency of the underlying models, assumptions and data used to measure loan loss provisions for portfolios of loans with similar credit characteristics. Likewise we have examined the models, assumptions and data used for the collective impairment for incurred but not identified loss events.
- Finally, we assessed the completeness and accuracy of the disclosures relating to loan loss provision to assess compliance with disclosure requirements included in IFRS.

Application of hedge accounting

Several criteria's in IAS 39 has to be fulfilled to be able to qualify for hedge accounting, including documentation of the characteristics and purpose of the hedge and regular testing performed on the effectiveness of the hedge. Given the complexity of the regulation for hedge accounting this is an area with higher risks for banks.

SCBC has chosen to use hedge accounting for hedging of interest and currency risk and applies hedging of fair value, macro hedge and cash flow hedges.

At December 31, 2016, effects of hedge accounting in Net result of financial items measured at fair value amounted to SEK 107 million, and in Other comprehensive income of SEK 399 million.

Given the complexity in the regulation for hedge accounting and the subjectivity involved in the judgements made, we consider this to be a key audit matter for our audit.

Refer to accounting principles regarding critical judgments and estimates in note 1 in the financial statement and related disclosures of market risk in note 2d.

Our audit procedures included, but were not limited to:

- We assessed key controls over the documentation and overview of hedge relations and their initial and on-going effectiveness.
- We evaluated the hedge documentation and relations to assess if the hedges were appropriately designed in accordance with IFRS.
- We evaluated management's assessment of the effectiveness of the hedges, and assessment and accounting for ineffectiveness in hedges.
- Finally, we assessed the completeness and accuracy of the disclosures relating to hedge accounting to assess compliance with disclosure requirements included in IFRS.

IT-systems that support complete and accurate financial reporting

SCBC is dependent on their IT-systems to (1) serve customers, (2) support their business processes, (3) ensure complete and accurate processing of financial transactions and (4) support the overall internal control framework. Many of SCBC's internal controls over financial reporting are depending upon automated application controls and completeness and integrity of reports generated by the IT-systems. Given the high dependency on technology, we consider this to be a key audit matter for our audit.

SCBC categorises their key IT-risk and control domains relating to financial reporting in the following sections:

- Modifications to the IT-environment
- Operations and monitoring of the IT-environment
- Information security

Modifications to the IT-environment

Inappropriate modifications to the IT-environment may result in systems that do not function as expected and result in unreliable data processing with impact on financial reporting. Hence SCBC has implemented processes and controls to support that changes to the IT-environment are appropriately implemented and function consistently with management's intentions.

Our audit procedures included, but were not limited to:

- We assessed management principles and processes for modifications to the IT-environment.
- We assessed management monitoring of modifications in the IT-environment.
- We evaluated segregations of duties.

Operations and monitoring of the IT-environment

Inappropriate operation and monitoring of the IT-environment may result in the inability to prevent or detect incorrect data processing. Hence SCBC has implemented processes and controls to support that IT-environment is monitored continuously and that incorrect data processing is identified and corrected.

Our audit procedures included, but were not limited to:

- We evaluated the appropriateness of IT-System job scheduling and alarm configuration capabilities.
- We evaluated the process for monitoring IT-System.

Information security

If physical and logical security tools and controls are not implemented and configured appropriately, key control activities may be ineffective, desired segregation of duties may not be maintained, and information may be modified inappropriately, become unavailable or disclosed inappropriately. This is of particular importance considering the current cyber threat level. Hence SCBC has implemented processes and controls to support that information is safeguarded through access controls and that known vulnerabilities are managed timely.

Our audit procedures included, but were not limited to:

- We evaluated the process for identity and access management, including access granting, change and removal.
- We evaluated the appropriateness of processes and tools to ensure availability of data as per user requests and business requirements, including data back-up and restore procedures.
- We evaluated the appropriateness of controls for security governance to protect systems and data from unauthorised use, including logging of security events and procedures to identify known vulnerabilities.

Other information than the annual accounts

This document also contains other information than the annual accounts and is found on page 1. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

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

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Swedish Covered Bond Corporation (SCBC) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's Responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The Auditor's Examination of the Corporate Governance Statement

The Board of Directors is responsible for that the corporate governance statement on pages 40-43 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16. The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, March 21, 2017
Deloitte AB

Patrick Honeth
Authorised public accountant

CORPORATE GOVERNANCE REPORT

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

SCBC is domiciled in Solna. Owner governance of SCBC is exercised through general shareholder meetings, the Board of Directors and CEO in accordance with the Companies Act, the Articles of Association, and internal policies and instructions adopted by SCBC. SCBC was established with the aim of broadening the SBAB Group's funding opportunities and decreasing its funding costs following changes in Swedish legislation in 2004 that permitted the issuance of covered bonds.

SCBC's operations

SCBC's operations comprise the issuance of covered bonds and associated activities. In addition to the policies and instructions that have been developed especially for SCBC, the Board of SCBC annually adopts the appropriate parts of policies and instructions adopted by the Board of the Parent Company that also apply to SCBC. This approach is suitable since SCBC's business operations are conducted by the Parent Company on assignment from SCBC and SCBC's operations serve as an instrument for the Group's funding. SCBC's targets 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 govern items such as SCBC's business objectives. The Articles of Association do not include any provisions regulating the appointment or removal of Board Members, with the exception of the provision on 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.

Annual General Meeting

SCBC's Annual General Meeting was held on 24 April 2016 in Solna. The Meeting re-elected Board Members Bo Magnusson (who was also elected Chairman of the Board), Jakob Grinbaum and Klas Danielsson. The Annual General Meeting passed resolutions regarding the discharge from liability for the Board of Directors and the CEO, the appropriation of profits and the adoption of the annual accounts for 2015, and fees to the Board Members who are not employees of the Group. The Annual General Meeting elected Deloitte AB, with Patrick Honeth as the auditor-in-charge, as SCBC's auditor until the close of the 2017 Annual General Meeting.

The General Meeting did not authorise the Board of Directors to issue new shares or buy back the company's shares.

The Board of Directors and the Board's work

The Articles of Association stipulate that the Board of Directors is to comprise not fewer than three and not more than seven members, with no more than six alternates.

The members are normally elected at the Annual General Meeting for the period until the next Annual General Meeting. The CEO of SCBC is not a member of the Board. SCBC's Board of Directors comprises the Parent Company's CEO and members of the Board of Directors of the Parent Company.

The Board of Directors bears ultimate responsibility for the company's organisation and administration. The Board is

also responsible for continuously assessing SCBC's financial position and for ensuring that the organisation is structured in a manner that enables the accounting, asset management and the company's other financial circumstances to be controlled in a satisfactory manner. The work of the Board complies with the formal work plan adopted annually at the Board's statutory 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 and the CEO.

SCBC's Board makes decisions on matters relating to SCBC's strategic direction, financing, policies, and certain instructions. The Board addresses the company's year-end report, Annual Report and six-month reports, and determines their adoption and publication. The Board's measures to follow up internal control of financial reporting include the Board's regular follow-up of SCBC's performance and key performance indicators, but also include the Board's review and follow-up of the auditor's review reports. At least once annually, the Board receives reports from the independent inspector appointed by Finansinspektionen, independent risk control, internal audit and compliance regarding observations from performed reviews and assessments, as well as assessments of how well control and regulatory compliance are upheld within the company.

The names, ages, main qualifications, work experience and other assignments of the Board members and their attendance at Board meetings and its committees are detailed on page 41. None of the Board members or the CEO hold shares or financial instruments issued by SCBC.

Diversity and eligibility policies

The Board has adopted a policy pertaining to Board diversity and a policy for assessing the eligibility of Board members, the CEO and senior executives. The diversity policy includes a prohibition against discrimination based on gender, transgender identity or expression, ethnicity, religion or other beliefs, disabilities, sexual orientation or age. The eligibility policy states that the eligibility assessment of Board members, the CEO and senior executives should take into consideration the individual's skills, experience and reputation and judgment. It is also important that these individuals have great integrity.

The Board's committees

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 based on the applicable regulations, to examine the SBAB Group's governance, internal controls and financial information and to prepare issues in these areas for decision by the Board.

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

The Audit and Compliance Committee is also responsible for evaluating the external auditing work, informing the owner of the results of this work and assisting in the drafting of proposals for auditors. The Audit and Compliance Committee is also tasked with reviewing and monitoring the auditor's impartiality and independence. Annual plans and reports from internal audit and compliance are also addressed by the Audit and Compliance Committee in preparation for decisions or for presentation to the Board.

SCBC's operations are also addressed through the structure described above. Where there are separate issues that solely affect SCBC, these are also addressed by the Group's Audit and Compliance Committee. The Audit and Compliance Committee comprises Board Members from the Parent Company, and the Chairman of the Board of SCBC. Committee

meetings addressing financial statements are attended by SBAB's CFO, who is also the CEO 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. SBAB's CEO, who is also a Board Member of SCBC, also participates in the meetings of the Audit and Compliance Committee and is able to monitor issues concerning SCBC in the Audit and Compliance Committee and can report back to the Board of SCBC. SCBC's Board also receives minutes from the meetings of the Audit and Compliance Committee.

Credit Committee, Risk and Capital Committee and Remuneration Committee

The Group has a Credit Committee, a Risk and Capital Committee and a Remuneration Committee. The Risk and Capital Committee is the Risk Committee of the SBAB Group. The Group's committees also address issues concerning SCBC as part of 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 the approval of new IRB models or significant changes to existing models.

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

The principal task of the Remuneration Committee is to prepare issues regarding principles for remuneration and other employment terms and conditions for senior executives for resolution by the Board. The above committees include Members of the Board of Directors of the Parent Company. Since the CEO of the Parent

Company is also a member of SCBC's Board, he is responsible for ensuring that issues concerning SCBC are addressed by the committees and reported back to the other Board members of SCBC. With regard to the work of the Remuneration Committee, SCBC's Chairman, who is the Chairman of the Remuneration Committee, is responsible for ensuring that any issues regarding SCBC are addressed by the Committee and reported back to SCBC's other Board members.

The CEO

The Board has adopted an instruction governing the role and duties of the CEO. The CEO bears responsibility for the day-to-day administration of operations in accordance with the Board's issued guidelines, established policies and instructions and reports on an ongoing basis to the Board. The CEO is assisted by a number of senior executives and other employees, who are also employees of the Parent Company and SCBC, with regard to the operational management and governance of SCBC.

Remuneration of Board of Directors and senior executives

Information regarding the remuneration of the Board is presented in Note 6 in the Annual Report.

No remuneration was paid to Board members employed by the Parent Company or to the CEO of SCBC. Issues regarding the remuneration of SCBC's senior executives are addressed by the SBAB Group's Remuneration Committee. The Board of Directors has established a remuneration policy, under which if the Board determines that salary or other remuneration is to be paid to employees within SCBC, the remuneration policy is to be updated in accordance with the directives issued by Finansinspektionen and general rules regarding remuneration structures in credit institutions, securities companies and fund management companies. At the 2016 Annual General Meeting, it was resolved that on issues regarding remuneration and other terms of employment for senior executives, SCBC is to adhere to the government's guidelines for senior executives in state-owned companies as applicable at any given time.

Other control bodies and functions

Control and review functions such as compliance, risk and internal audit have

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

Risk Control

The SBAB Group has a central risk control department with overall responsibility for developing and ensuring that risk-taking strategies are conducted in accordance with the Board's intention, and that policies and processes facilitate relevant follow-up. Risk control is responsible for identifying, quantifying and reporting the SBAB Group's overall risks to the Parent Company's Board, its CEO and other senior executives, of whom some are also SCBC's Board members and CEO. Risk control also submits quarterly reports directly to SCBC's Board and CEO.

Compliance

The SBAB Group has a Group compliance function, which is responsible for compliance tasks within SCBC. The Group compliance function is independent from operations and is directly subordinate to the CEO. The compliance function's area of responsibility comprises rules on internal governance and control, customer protection, market conduct and the provision of advice and support to operations in compliance matters, analyses of compliance risks and monitoring of regulatory compliance in respect of operations requiring licences. Reporting is conducted on an on-going basis to the CEO and quarterly by means of a written report to the Board and CEO. The scope and focus of compliance work is established in an annual plan after approval by the Board.

Internal Audit

SCBC's internal audit is conducted by SBAB's internal audit unit. The internal audit's main task is to review and evaluate governance and internal control, and to review and evaluate the appropriateness and effectiveness of the company's organisation, control processes, IT systems, mod-

els and procedures, as well as to review and evaluate the reliability and quality of the work performed by the various other control functions at SCBC. Reporting to the Board of SCBC is conducted in accordance with a reporting and meeting plan.

Independent inspector

According to the Swedish Covered Bond Issuance Act, Finansinspektionen is to appoint an independent inspector for each issuing institution. The inspector's duties include overseeing that the register that issuing institutions are obliged to maintain listing the covered bonds, cover pool and derivatives contracts is properly maintained and in accordance with the provisions of the Act.

Finansinspektionen's regulation FFFS 2013:1 describes the independent inspector's role and tasks in greater detail. The independent inspector reports regularly to Finansinspektionen, and these reports are also addressed to SCBC's Board. Finansinspektionen has appointed Authorised Public Accountant Stefan Lundberg, who is an authorised public accountant at Ernst & Young, as the independent inspector for SCBC.

Auditors

The Annual General Meeting appoints the auditors for SCBC. For the period until the 2016 Annual General Meeting, KPMG AB was appointed auditor with Anders Tagde as the auditor-in-charge. The 2016 Annual General Meeting appointed Deloitte AB as the auditor with Patrick Honeth as the auditor-in-charge. A more detailed presentation of the auditor, the auditor-in-charge and the fees and expenses paid is provided in Note 9 of the Annual Report. The auditors are responsible for examining the Annual Report, consolidated financial statements and accounts and also the Board's and CEO's administration of the company. Moreover, the auditor reviews SCBC's six-month and year-end reports.

Internal control over financial reporting

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

Control environment

The starting point for internal control over financial reporting comprises SCBC's values, organisational structure, code of conduct, policies, instructions and guidelines for SCBC's operations.

Risk measurement

Each respective responsible function at SCBC identifies, measures, manages and assesses its own risks. An analysis of risk levels in all operations, including financial reporting, is conducted on a regular basis and reported to the Board, the CEO and the Executive Management.

Risk measurement is carried out each year through a self-assessment of material business processes, including financial reporting, and is managed and reported using a separate risk tool.

Control activities

Business processes that deliver data to the financial reports must be charted and include control activities in terms of operating procedures, reasonableness assessments, reconciliations, authorisations and the analysis of results. Internal regulations are in place that include accounting policies, and planning and reporting procedures to ensure the application of control activities.

SCBC's financial position and earnings, target attainment and analysis of operations are reported monthly to the company's management and Board. The Board of the Parent Company's Audit and Compliance Committee monitor the financial reporting and the efficiency of internal control and audit.

Information and communication

The accounting and financial unit ensure that instructions pertaining to accounting financial reporting are updated, communicated and available to those units that need this data for their operations.

Follow-up

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

THE BOARD OF DIRECTORS AND CEO

Board Member

Bachelor of Arts. Born 1949. Elected 2014.

Board assignments: Chairman of Oscar Properties Holding AB. Deputy Chairman of the Fourth AP fund and SBAB Bank AB (publ). Board member of the foundation of Östgöttagården Uppsala, IK Sirius, J Grinbaum Finanskonsult, Jernhusen AB, ATS Finans Holding AB and ATS Finans AB.

Other assignments: Advisory Board of Genesta Property Nordic.

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

Board attendance: 7 of 7.



JAKOB GRINBAUM



BO MAGNUSSON



Chairman

Advanced bank training (SEB).
Born 1962. Elected 2013.

Board assignments: Chairman of Carnegie Investment Bank and Carnegie Holding, Rikshem AB and Rikshem intressenter AB and SBAB Bank AB (publ). Board member of KBC Bank N.V., Bmag AB and the foundation of Vikborgsöns Parkintressenter with limited liability.

Other assignments: –

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

Board attendance: 7 of 7.

MIKAEL INGLANDER



CEO

MSc. in Business Administration and Economics
Born 1963. Employed 2014.

Board assignments: Board Member of Booli Search Technologies AB.

Other assignments: CFO of SBAB.

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

Board Member

Bsc in Business Administration.
Born 1963. Elected 2014.

Board assignments: Board member of DE Capital. Chairman of Booli Search Technologies AB. Deputy board member of the Swedish Bankers' Association.

Other assignments: CEO of SBAB.

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

Board attendance: 7 of 7.



KLAS DANIELSSON



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

AUDITORS



Patrick Honeth

Deloitte AB
Auditor in Charge at
SCBC since 2016.

AUDITORS' REPORT OF THE CORPORATE GOVERNANCE STATEMENT

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

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2016 on pages 40-43 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Statement has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the Corporate Governance Statement and assessed its statutory content based on our knowledge of the company. This means that our statutory examination of the Corporate Governance Statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted audit standards in Sweden.

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

Stockholm 21 March 2017
Deloitte AB

Patrick Honeth
Authorized Public Accountant

SCBC
— Covered Bonds of SBAB —