

# Interim Report

January–June 2021



# The period in brief

## January–June 2021

(January–June 2020)

- Operating profit amounted to SEK 1,038 million (821)
- Net interest income totalled SEK 1,725 million (1,501)
- Expenses amounted to SEK 616 million (553)
- Net credit losses resulted in a recovery of SEK 3 million (loss: 18).
- The Common Equity Tier 1 (CET1) capital ratio amounted to 15.8% (16.7)
- All funding programmes continue to have the highest credit ratings from Moody's



Net interest income, SEK million

**1,725**  
(1,501)

Lending, SEK billion

**417.2**  
(376.5)

Credit rating

**Aaa**  
(Aaa)





## Operations

**The primary operations of AB Sveriges S kerst llda 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 the Swedish FSA (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 the Swedish FSA’s regulation FFFS 2013:1. Issues are conducted both in 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.

# Business development



## Overview

SEK million	SCBC			
	2021 Jan-Jun	2020 Jul-Dec	2020 Jan-Jun	2020 Jan-Dec
Net interest income	1,725	1,653	1,501	3,154
Net commission	-17	-30	-43	-73
Net result of financial transactions (Note 3)	-57	-7	-66	-73
<b>Total operating income</b>	<b>1,651</b>	<b>1,616</b>	<b>1,392</b>	<b>3,008</b>
Expenses	-616	-637	-553	-1,190
<b>Profit before credit losses</b>	<b>1,035</b>	<b>979</b>	<b>839</b>	<b>1,818</b>
Net credit losses (Note 4)	3	-3	-18	-21
<b>Operating profit</b>	<b>1,038</b>	<b>976</b>	<b>821</b>	<b>1,797</b>
Tax	-214	-208	-176	-384
<b>Net profit for the period</b>	<b>824</b>	<b>768</b>	<b>645</b>	<b>1,413</b>
<b>BALANCE-SHEET ITEMS</b>				
Lending to the public, SEK million, at close of period (Note 5)	417,167	398,029	376,529	398,029
– Of which, Lending, Residential mortgages	316,620	306,344	295,327	306,344
– Of which, Lending, Corp. & ToA	100,547	91,685	81,202	91,685
Issued debt securities, etc. at close of period	291,827	263,863	263,758	263,863
<b>KEY METRICS</b>				
CET1 capital ratio, %	15.8	16.3	16.7	16.3
<b>CREDIT RATING (LONG-TERM FUNDING)</b>				
Moody's	Aaa	Aaa	Aaa	Aaa

### Trend for January–June 2021 compared with January–June 2020

Despite the prevailing circumstances due to the coronavirus pandemic, no material changes or risks have been noted with regard to SCBC's financial position. The operating profit amounted to SEK 1,038 million (821) for the period.

#### Net interest income

SCBC's net interest income grew to SEK 1,725 million (1,501), mainly due to higher lending volumes. Rising market interest rates and therefore higher interest expense for borrowing in the capital markets negatively affected net interest income.

#### Net commission expense

The net commissions increased to an expense of SEK 17 million (expense: 43), mainly attributable to lower costs linked to funding operations and higher commission income related to higher arrangement fees for corporate transactions.

#### Net result of financial transactions

The net result of financial transactions was an expense of SEK 57 million (expense: 66). The difference was primarily due to the revaluation of derivatives not covered by hedge accounting. For more information, please refer to [Note 3](#).

#### Expenses

SCBC's expenses rose to SEK 616 million (553), and mainly comprised fees to SBAB for administrative services in line with the applicable outsourcing agreements. At Group level, the increase in costs was mainly driven by an increased number of employees and thus higher personnel costs as well as development expenses. The cost trend is progressing according to plan and tracks the operations' development and investment strategy for long-term competitiveness.

#### Credit quality and credit losses

The overall credit quality in SCBC's credit portfolio is very good. SCBC only lends against pledged collateral and has no exposure to sectors that are particularly affected as a result of the coronavirus pandemic. SCBC is carefully monitoring developments and making ongoing assessments and analyses of credit risks. In previous economic crises in Sweden, banks' credit losses linked to residential mortgages and housing finance have been low. The Swedish FSA's annual mortgage market survey, with data from 2020, found that, overall, new residential mortgage customers continue to have healthy margins to cover repayment of their mortgages in a deteriorated economic climate. The healthy level of resilience indicates limited risk for mortgages leading to extensive credit losses for the banks. Total credit losses (net) for the period amounted to a recovery of SEK

3 million (loss: 18), of which the majority pertained to lower credit loss allowances in conjunction with the revision of the forward-looking information applied in the impairment model as a result of more positive macroeconomic scenarios. This was a result of a more rapid economic recovery from the pandemic than expected. Confirmed credit losses remained low and totalled SEK 2 million (loss: 1). During the period, provisions for credit stage 1 loans increased SEK 3 million (increase: 16), while provisions for credit stage 2 and 3 loans decreased SEK 7 million (increase: 5) and SEK 2 million (decrease: 2), respectively. Guarantees that could be utilised decreased SEK 1 million (increase: 2) over the period as a result of lower provisions. For more information on credit provisions and changes in the forward-looking information in the impairment model, please refer to [Note 4](#).

#### Lending

SCBC does not conduct any new lending itself but instead acquires loans from SBAB Bank, 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. SCBC's lending portfolio comprises loans for residential mortgages, with lending to consumers the largest segment. At the end of the period, SCBC's lending amounted to SEK 417.2 billion (376.5).

## Cover pool data

	SCBC
	30 Jun 2021
Credit portfolio, SEK million	417,167
Total cover pool, SEK million	384,435
LTV as per ASCB definition <sup>1)</sup> , %	54.8%
Nominal OC, %	26.9%

<sup>1)</sup> Association of Swedish Covered Bond Issuers

#### Cover pool

Information regarding SCBC's lending, the cover pool, is published monthly on the website [sbab.se](https://sbab.se).



## Funding

Mixed economic signals kicked off the first six months of 2021. Growth in most of the European economies will be burdened by further restrictions due to the increased spread of Covid-19, while at the same time the roll-out of large-scale vaccination programmes started, albeit with some hiccups. In the USA, the newly sworn-in President Joe Biden proposed additional financial support measures as part of the economic recovery plan. The recovery package, together with the relaxed monetary policies of the US and other central banks, contributed to some market anxiety concerning higher inflation in the future.

The recovery package, together with the relaxed monetary policies of the US and other central banks, contributed to some market anxiety concerning higher inflation in the future. The US economy recorded higher inflation in May than it had for a very long time, thereby giving rise to a period where stock markets and interest rates were subject to some volatility. However, the market was reassured by central banks referring to temporary base effects and by continuing to project retained stimulative monetary policies, characterised by continued bond purchases and low key interest rates.

Economic outlooks improved gradually over the period as the number of distributed vaccine doses gradually increased, primarily in the UK and the USA, but also in Europe. The latter part of the period was characterised by a generally healthy risk sentiment. Short interest

rates showed marginal movement during the period, while long interest rates rose in the USA, Germany and Sweden rose. Leading stock market indices rose, while credit spreads fell back slightly.

During the period, SCBC has maintained relatively high funding activity driven by maturing debt and healthy lending growth. Two new bonds were introduced in the Swedish covered bond market during the start of the year, with respective maturities of 6.5 and 11.5 years, and in June, for the first time since 2019, SCBC completed a public issue in the European covered bond market with a maturity of 8.75 years.

In general, SCBC has experienced healthy demand from investors. The Swedish covered bonds market has enjoyed support during the first six months from the Riksbank's bond purchase programme. During the period, the Swedish central bank purchased Swedish covered bonds for an amount equivalent to approximately SEK 130 billion, which was a strong underlying reason for borrowing levels remaining at historically low levels during the period. Toward the end of the period, spreads in the Swedish covered bond market rose slightly and credit curves steepened.

At 30 June 2021, the total value of issued debt securities outstanding under SCBC's lending programme was SEK 291.8 billion (263.8), distributed as follows: Swedish covered bonds SEK 189.6 billion (149.7) and the Euro Medium Term Covered Note Programme SEK 102.2 billion (114.0). During the period,

issued securities amounted to SEK 55.7 billion (38.9). At the same time, securities amounting to SEK 8.0 billion (10.1) were repurchased, while securities amounting to SEK 18.1 billion (12.4) matured. Alongside changes in premiums/discounts and changes in SEK exchange rates, this resulted in an increase in issued debt securities of SEK 28.0 billion (17.0) in the period.

## Liquidity

The management of liquidity risks for SCBC is integrated with the Parent Company, SBAB. In addition, SCBC has a liquidity facility agreement with SBAB, under which SCBC can borrow money for its operations from the Parent Company when necessary.

## Capital

SCBC primarily recognises credit risk under the internal ratings-based approach (IRB approach) and operational and market risk using the standardised approach.

SCBC's total capital ratio and CET1 capital ratio amounted to 15.8% (16.7) at 30 June 2021. The change was mainly driven by increased lending volumes (EAD). Net profit is included in own funds.

The internally assessed capital requirement amounted to SEK 11.2 billion (11.1) on 30 June 2021. The change was mainly due to changed market risk requirements in Pillar 2.

For more information on SCBC's capital, please refer to [Note 10](#).



# Other information



## SCBC's financial position

SCBC's earnings trend and lending growth remained healthy in the first six months of 2021. Despite the prevailing circumstances due to the coronavirus pandemic, no noteworthy changes or risks have been noted with regard to SCBC's financial position. The company's balance sheet is strong, and the capital and liquidity buffers are assessed as robust. The functionality of the financial markets is assessed as good and funding operations continue to work satisfactorily. No material changes have been noted in terms of credit risk in the lending portfolio.

## Amortisation relief

The Swedish FSA has announced that banks will have the possibility of offering all new and existing mortgages amortisation exemptions due to the considerable downturn in Sweden's economy in the wake of the coronavirus. It is up to the banks to decide whether an individual household may be granted an amortisation exemption based on an assessment of its specific situation and payment ability. The exemption applies for amortisation payments until 31 August 2021. SCBC's assessment is that the amortisation reliefs granted to date will not affect credit risk in the near future and, in consequence, not affect the need for provisions, but will instead mitigate the increased credit risk that has temporarily arisen for the customers. Customers that submitted an application for amortisation relief due to loss of income due to the coronavirus pandemic are managed by SBAB's insolvency department, who determine if the amortisation relief is to be classified as a forbearance measure ac-

cording to current accounting standards and the CRR. All customers granted amortisation relief according to the Swedish FSA's guidelines are still considered creditworthy.

## Risks and uncertainties

The Swedish economy is susceptible to global economic developments and to conditions in the international financial markets. 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. A housing market with soaring prices over an extended period, in parallel with rising household debt, has resulted in the Swedish economy becoming sensitive to rapid changes in interest rates and house prices. The risks linked to these factors could be amplified if many households have high levels of debt in relation to their disposable incomes. The extensive regulatory changes in the residential mortgage market comprise a further uncertainty factor. Moreover, political decisions, for example changed tax rules, could have major consequences on households' solvency and property values.

For further information about risks and risk management, please refer to SCBC's 2020 Annual Report.

## Annual General Meeting

SCBC held its Annual General Meeting on 28 April 2021. The AGM resolved to elect the following Board members: Jan Sinclair (Chairman), Jane Lundgren Ericsson, Synnöve Trygg and Klas Danielsson.

## Events after the end of the period

No significant events occurred after the end of the period.

## Auditors' review report

This report has been reviewed by the company's auditor in accordance with the International Standard on Review Engagements (ISRE) 2410. The review report can be found at the end of this report.

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# Condensed income statement

SEK million	SCBC			
	2021 Jan-Jun	2020 Jul-Dec	2020 Jan-Jun	2020 Jan-Dec
Interest income	2,757	2,791	2,759	5,550
Interest expense	-1,032	-1,138	-1,258	-2,396
<b>Net interest income</b>	<b>1,725</b>	<b>1,653</b>	<b>1,501</b>	<b>3,154</b>
Commission income	13	9	11	20
Commission expense	-30	-39	-54	-93
Net expense from financial transactions (Note 3)	-57	-7	-66	-73
Other operating income	0	0	0	0
<b>Total operating income</b>	<b>1,651</b>	<b>1,616</b>	<b>1,392</b>	<b>3,008</b>
General administrative expenses	-610	-631	-548	-1,179
Other operating expenses	-6	-6	-5	-11
<b>Total expenses before loan losses</b>	<b>-616</b>	<b>637</b>	<b>-553</b>	<b>-1,190</b>
<b>Profit before loan losses</b>	<b>1,035</b>	<b>979</b>	<b>839</b>	<b>1,818</b>
Net loan losses (Note 4)	3	-3	-18	-21
<b>Operating profit</b>	<b>1,038</b>	<b>976</b>	<b>821</b>	<b>1,797</b>
Tax on operating profit for the period/year	-214	-208	-176	-384
<b>Net profit for the period/year</b>	<b>824</b>	<b>768</b>	<b>645</b>	<b>1,413</b>

For the period, interest income on financial assets measured at amortised cost, calculated using the effective-interest method, amounted to SEK 2,841 million (2,832).

# Condensed statement of comprehensive income

SEK million	SCBC			
	2021 Jan-Jun	2020 Jul-Dec	2020 Jan-Jun	2020 Jan-Dec
<b>Net profit for the period</b>	<b>824</b>	<b>768</b>	<b>645</b>	<b>1,413</b>
<i>Components that will be reclassified to profit or loss</i>				
Changes related to cash-flow hedges	-1,034	-463	927	464
Tax attributable to components that will be reclassified to profit or loss	213	121	-198	-77
<b>Other comprehensive income/loss, net of tax</b>	<b>-821</b>	<b>-342</b>	<b>729</b>	<b>387</b>
<b>Total comprehensive income for the period</b>	<b>3</b>	<b>426</b>	<b>1,374</b>	<b>1,800</b>

# Condensed balance sheet

SEK million	SCBC		
	30 Jun 2021	31 Dec 2020	30 Jun 2020
<b>ASSETS</b>			
Lending to credit institutions	0	1	254
Lending to the public (Note 5)	417,167	398,029	376,529
Value changes of interest-rate-risk hedged items in macro hedges	-156	143	244
Derivatives (Note 6)	6,799	9,289	12,982
Other assets	341	248	280
Prepaid expenses and accrued income	191	113	184
<b>TOTAL ASSETS</b>	<b>424,342</b>	<b>407,823</b>	<b>390,473</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Liabilities to credit institutions	15,178	10,615	8,551
Debt securities issued, etc.	291,827	263,863	263,758
Derivatives (Note 6)	1,880	1,690	566
Other liabilities	41	743	75
Accrued expenses and deferred income	445	1,568	575
Deferred tax liabilities	368	586	706
Subordinated debt to the Parent Company (Note 9)	95,357	109,515	96,836
<b>Total liabilities</b>	<b>405,096</b>	<b>388,580</b>	<b>371,067</b>
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital	50	50	50
<b>Total restricted equity</b>	<b>50</b>	<b>50</b>	<b>50</b>
<b>Unrestricted equity</b>			
Shareholder contribution	9,550	9,550	9,550
Fair value reserve	1,396	2,217	2,559
Retained earnings	7,426	6,013	6,602
Net profit for the year	824	1,413	645
<b>Total unrestricted equity</b>	<b>19,196</b>	<b>19,193</b>	<b>19,356</b>
<b>Total equity</b>	<b>19,246</b>	<b>19,243</b>	<b>19,406</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>424,342</b>	<b>407,823</b>	<b>390,473</b>

# Condensed statement of changes in equity

SEK million	SCBC					
	Restricted equity	Unrestricted equity				Total equity
	Share capital	Fair value reserve	Shareholder contribution	Retained earnings	Net profit for the year	
<b>Opening balance 1 January 2021</b>	50	2,217	9,550	7,426	–	19,243
Other comprehensive income, net of tax	–	–821	–	–	–	–821
Net profit for the period	–	–	–	–	824	824
<b>Comprehensive income for the period</b>	–	–821	–	–	824	3
<b>Closing balance 30 June 2021</b>	50	1,396	9,550	7,426	824	19,246
<b>Opening balance 1 January 2020</b>	50	1,830	9,550	6,602	–	18,032
Other comprehensive income, net of tax	–	729	–	–	–	729
Net profit for the period	–	–	–	–	645	645
<b>Comprehensive income for the period</b>	–	729	–	–	645	1,374
<b>Closing balance 30 June 2020</b>	50	2,559	9,550	6,602	645	19,406
<b>Opening balance 1 January 2020</b>	50	1,830	9,550	6,602	–	18,032
Group contribution, after tax	–	–	–	–589	–	–589
Other comprehensive income, net of tax	–	387	–	–	–	387
Net profit for the year	–	–	–	–	1,413	1,413
<b>Comprehensive income for the year</b>	–	387	–	–	1,413	1,800
<b>Closing balance 31 December 2020</b>	50	2,217	9,550	6,013	1,413	19,243

# Condensed cash-flow statement

SEK million	SCBC		
	2021	2020	2020
	Jan-Jun	Jan-Jun	Jan-Dec
Opening cash and cash equivalents	1	0	0
<b>OPERATING ACTIVITIES</b>			
Interest and commissions paid/received	608	351	2,932
Outflows to suppliers and employees	-616	-553	-1,190
Taxes paid/refunded	-125	-248	-498
Change in assets and liabilities of operating activities	15,039	6,612	-8,014
<b>Cash flow from (used in) operating activities</b>	<b>14,906</b>	<b>6,162</b>	<b>-6,770</b>
<b>INVESTING ACTIVITIES</b>			
Cash flow from investing activities	-	-	-
<b>FINANCING ACTIVITIES</b>			
Group contribution paid	-749	-564	-564
Dividend paid	-	-	-
Change in subordinated debt	-14,158	-5,344	7,335
<b>Cash flow from financing activities</b>	<b>-14,907</b>	<b>-5,908</b>	<b>6,771</b>
<b>Increase/decrease in cash and cash equivalents</b>	<b>-1</b>	<b>254</b>	<b>1</b>
<b>Closing cash and cash equivalents</b>	<b>0</b>	<b>254</b>	<b>1</b>

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

## Change in liabilities attributable to financing activities

SEK million	SCBC									
	Non-cash items					Non-cash items				
	Opening balance 1 Jan 2021	Cash flow	Fair value	Other	Closing balance 30 Jun 2021	Opening balance 1 Jan 2020	Cash flow	Fair value	Other	Closing balance 30 Jun 2020
Long-term interest-bearing liabilities	109,515	-14,158	-	-	95,357	102,180	-5,344	-	-	96,836
<b>Total</b>	<b>109,515</b>	<b>-14,158</b>	<b>-</b>	<b>-</b>	<b>95,357</b>	<b>102,180</b>	<b>-5,344</b>	<b>-</b>	<b>-</b>	<b>96,836</b>



## Note 1 Accounting policies

SCBC applies statutory IFRS, which means that this interim report has been prepared in compliance with IFRS subject to the additions and exceptions that ensue from the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities, Finansinspektionen's regulations and general guidelines on annual accounts for credit institutions and securities companies (FFFS 2008:25) and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. SCBC prepares interim reports in accordance with IAS 34, taking into account the exceptions from and additions to IFRS as detailed in RFR 2.

### Introduction of new and changed accounting standards 2021

Accounting principles and calculation methods are unchanged compared with the annual report for 2020. The financial statements in summary are produced on the basis of an assumption about the company's survival. The financial reports in summary was approved by the board for publication on 16 July 2021.

## Note 2 Changes in risks

### Credit risk in lending operations

No increase in realised credit risk was noted in lending operations during the first half of 2021. Despite the prevailing circumstances with the coronavirus pandemic, neither an increase tendency of delayed payments nor turbulence in the housing market leading to falling housing prices has been observed. The forward-looking information in the impairment model have been revised twice during the period due to a more positive outlook on the economic development in Sweden compared to previous forecasts resulting in a decrease of credit loss allowances. Since the pandemic outbreak SCBC has granted applications for temporary amortisation exemptions, in accordance with Swedish FSA's guidelines, which thus far are assessed to solely manage the temporary increase in liquidity risk that has arisen for customers. Since the fourth quarter 2020, customers are obliged to state the reason behind the application for amortisation exemption. Customers who report loss of income are managed by SCBC's insolvency team for further assessment regarding increase in credit risk and a potential movement to credit stage 2 or stage 3 in accordance with the accounting standard. No deviations have been noted in terms of loan-to-value (LTV) or debt-to-income ratios for new lending. For more information regarding credit losses, credit risk and credit loss allowances, please see [Note 4](#).

### Counterparty credit risk in treasury operations

At 28 June 2021 a new method to calculate counterparty credit risk (SA-CCR, Standardised Approach for Counterparty Credit Risk) was introduced in accordance with CRR II. Limit utilisation for SCBC's derivative counterparties has increased to SEK 1,347 million at 30 June 2021, compared with SEK 232 million at 31 December 2020 where the increase is mainly due to the change of method.

### Liquidity risk

Liquidity risk in SCBC is managed in cooperation with SBAB. SCBC has an agreement with SBAB regarding a liquidity facility which can be used to finance SCBC's operations. At the end of Q2 OC amounted to 26.9% (33.1% as of 31 December 2020).

### Market risk

SCBC uses Value at Risk (VaR) to quantify market risk. VaR is a comprehensive portfolio measurement expressing the potential loss that could occur given a certain level of probability and holding period. SCBC's model is a historical model and applies percentiles in historical market data from the past two years. At 30 June 2021, SCBC's VaR amounted to SEK 76 million, compared with SEK

133 million at 31 December 2020. The limit for VaR is changed to SEK 400 million from the previous SEK 700 million. The reason for the reduction was that the margin to the limit has historically been large and is forecast to remain so in the coming years.

### Operational risk

The Covid-19 pandemic has resulted in a general increase in operational risk across the bank in connection with, inter alia, absenteeism and continuity for critical deliveries. Though the Corona threat has declined since the beginning of the year. It should be noted that the bank's business contingency plans were generally applicable during the Covid-19 period, which has reduced continuity risks. Two of SBAB's strategic projects are complex and have tight deadlines. Therefore they are exposed of operational risks.

### Business risk

During the first half of 2021, SCBC's business risk continued to be affected by macroeconomic conditions. The ongoing corona pandemic has impacted both financial markets and the real economy. In Sweden, as in other countries, a large number of measures have been taken to control the contagion and mitigate the effects on the economy. In addition, vaccinations are ongoing both in Sweden and abroad. Looking at the state of financial markets, the situation has currently stabilised. To date, the impact of the pandemic on the financial position of SCBC and the SBAB group has been very moderate. The long-term consequences are however still unknown. The longer the crisis lasts, the more it is likely to impact the economy. SCBC, and SBAB as a group, continue to be well positioned to manage a more prolonged financial crisis, in terms of both capital and liquidity. The overall business risk is therefore considered to be moderate. No material changes in the competitive landscape were observed during the year. Moreover, SCBC has not entered, or exited, any new markets or segments.

### Concentration risk

In the first half-year of 2021, the lending to the ten largest customer groups accounted for 6 percent of total lending volume. SCBC evaluates the capital requirement for concentration risk on a regular basis and quantifies the risk with economic capital for credit risk exposures. For more information please see [Note 11](#).

### Note 3 Net result of financial transactions

SEK million	SCBC			
	2021 Jan-Jun	2020 Jul-Dec	2020 Jan-Jun	2020 Jan-Dec
<b>Gains/losses on interest-bearing financial instruments</b>				
- Change in value of hedged items in hedge accounting	1,172	426	-1,225	-799
- Derivatives in hedge accounting	-1,197	-423	1,224	801
- Other derivatives	-10	12	-13	-1
- Realised gain/loss from financial liabilities at amortised cost	-34	-47	-66	-113
- Loan receivables at amortised cost	12	25	14	39
Currency translation effects	0	0	0	0
<b>Total</b>	<b>-57</b>	<b>-7</b>	<b>-66</b>	<b>-73</b>

SCBC uses derivatives to manage interest rate and currency risks in assets and liabilities. Derivatives are recognised at fair value in the balance sheet. SCBC's risk management and hedge accounting strategies entail that profit variations between periods may arise for individual items in the table above, as a result

of changes in market interest rates, but that they are in general offset by profit variations in other items. Profit variations not neutralised through risk management and hedge accounting are commented on in the income statement overview.

### Note 4 Net credit losses

SEK million	SCBC			
	2021 Jan-Jun	2020 Jul-Dec	2020 Jan-Jun	2020 Jan-Dec
<b>Lending to the public</b>				
Confirmed credit losses	-2	-1	-1	-2
Recoveries of previously confirmed credit losses	0	0	-	0
Change in provision for the period – credit stage 1	-3	1	-16	-15
Change in provision for the period – credit stage 2	7	5	-5	0
Change in provision for the period – credit stage 3	2	-5	2	-3
Guarantees	-1	-3	2	-1
<b>Net credit losses for the period – lending to the public</b>	<b>3</b>	<b>-3</b>	<b>-18</b>	<b>-21</b>

For further information about definitions and assumptions for judgements and calculations of credit risk and the various credit stages under IFRS 9, refer to SCBC's 2020 Annual Report, note G 1 (Accounting policies).

## Note 4 Net credit losses, Cont.

### Sensitivity analysis of forward-looking information

#### Lending to the public and loan commitments

	Scenario 1 (45%)			Scenario 2 (20%)			Scenario 3 (20%)			Scenario 4 (15%)		
Factors	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP <sup>1)</sup>	3.3%	3.2%	2.3%	3.5%	4.8%	3.5%	-6.2%	3.1%	3.8%	-2.1%	-1.9%	1.3%
Repo rate	0.1%	0.1%	0.4%	0.1%	0.2%	0.6%	0.3%	0.5%	0.4%	1.1%	1.2%	1.2%
Unemployment	8.8%	8.0%	7.5%	8.7%	7.4%	6.3%	11.2%	11.1%	9.8%	9.4%	10.0%	10.3%
House prices, Δ	+16.3%	-0.8%	-3.2%	+16.9%	-0.8%	-3.0%	-10.4%	-12.2%	-3.4%	-15.4%	-15.3%	-16.0%
Prices of tenant-owners' rights, Δ	+9.6%	+0.4%	-3.1%	+10.0%	+0.2%	-2.9%	-11.8%	-14.8%	-6.2%	-20.0%	-28.6%	-15.4%
Property prices, Δ	+2.4%	+4.8%	+4.2%	+2.8%	+4.5%	+4.4%	-6.4%	-11.1%	-4.8%	-11.3%	-23.6%	-17.2%
ECL	SEK 45 million			SEK 45 million			SEK 119 million			SEK 474 million		
Weighted ECL	SEK 125 million											

1) Not included in the ECL calculation

#### Impairment model and credit loss provisions

During the first half-year SCBC has, based on updated macroeconomic forecasts, revised the forward-looking information applied in the impairment model used to calculate expected credit losses (ECL). The macroeconomic factors were updated for scenario 1 (base scenario) and scenario 2. Additionally, an update of the weights for scenario 2 och scenario 3 was also made, where a heavier weight was assigned scenario 3. The updates in the forward-looking information resulted in a decrease in credit loss provisions of SEK 6 million during the period. The revision in the macroeconomic forecasts is based on a more positive outlook on the housing market and the economy in Sweden compared to previous forecasts applied during the pandemic, in light of the increased real estate prices observed in 2021. The revision of the weighting between scenario 2 and scenario 3, which reflect the probabilities to experience credit losses of respective magnitudes, was performed to account for the remaining uncertainty of the Swedish housing market and the economy in general. Thus, the revision aims to temporarily limit the positive effect of updated macroeconomic factors.

The above table shows the forward-looking information comprised of a weighting of four applied scenarios with projections of the relevant macroeconomic factors used to calculate ECL. During the first and second quarter SCBC has closely followed the credit risk exposure in the portfolio due to the development in the economy. The underlying credit risk models in the impairment model are largely based on customers' payment behaviour and market values of collateral and, as yet, show no increase in realised credit risk during the corona-pandemic.

SCBC is comfortable with the size of the credit loss provisions, totalling SEK 125 (131) million as per 30 June 2021.

#### Overall credit quality

Despite the prevailing coronavirus pandemic, the credit quality of SCBC's lending remains good and the risks entailed in retail lending are low. SBAB's granting of credit to customers is based on a sound credit approval process that determines whether customers have the financial capacity required to meet their commitments. The Swedish FSA's annual mortgage market survey, with data from 2020, found that overall, new residential mortgage customers continue to have healthy margins to cover repayment of their mortgages even in a worse economic climate. At the end of the first half-year, the average loan-to-value (LTV) ratio<sup>2)</sup> in the mortgage portfolio was 59 percent (58).

The credit quality of SCBC's lending to property companies, property developers and tenant-owners' associations is also assessed as good. The average LTV for property companies and tenant-owners' associations at the end of the half-year was 63 percent (64) and 37 percent (37), respectively. In this business area, the granting of credit is based on an assessment customers' ability to generate stable cash flows over time and on whether adequate collateral can be provided. Due to the pandemic, the bank is working proactively to identify customers who are or could become particularly financially affected. Since customers' underlying cash flows primarily derive from housing units, they are expected to be less affected, or affected at a later stage, if the pandemic per-

sists. Therefore, SCBC's assessment is that risks may be higher for construction and project development companies, and property companies that are more dependent on capital markets with refinancing needed in the near future. The same applies for tenant-owners' associations with significant revenue from rental premises. There is only a limited portion of the exposures in SCBC's lending subject to this potentially higher credit risk. No individual loss provision or further manual adjustment of counterparties' rating grades in the business area have proved necessary during the period.

#### Temporary amortisation exemptions

SCBC is offering its residential mortgage customers a temporary pause their mortgage amortisation in accordance with the guidelines of the Swedish FSA (FI Ref. 20-8061). According to the guidelines, SCBC's customers can apply for amortisation exemption until 31 August 2021. At 30 June 2021, SBAB plus SCBC had around 20,000 households (19,200) encompassed by the Swedish FSA's amortisation requirement had been granted amortisation exemption, corresponding to a volume of about SEK 47 billion (43). At the same date 8 tenant-owners' association customers (7) had been granted amortisation exemption, corresponding to a volume of SEK 316 million (300). No corporate clients with amortisation exemption have been present in the lending portfolio during the pandemic. SCBC's assessment is that the amortisation exemptions granted to date will not affect credit risk in the near future and, in consequence not affect the need for additional loan loss provisions, but will instead mitigate the increased liquidity risk that has temporarily arisen for the customers. Customers who declared that the application for amortisation exemption was a result of loss of income due to the coronavirus pandemic are managed by the SCBC's insolvency team to further assess if a significant increase in credit risk has occurred and a potential movement of the relevant loans to credit stage 2 is needed, or if the amortisation exemption is to be classified as forbearance measure triggering an identification of default and a movement to credit stage 3, in accordance with the current accounting standard and capital requirements regulations. All customers granted amortisation exemptions in accordance with the Swedish FSA's guidelines were still deemed creditworthy. However, amortisation exemptions on consumer loans are always regarded as an indication of increased credit risk.

Due to the coronavirus pandemic, a large amount of modifications of loans has been identified due to the amortisation exemptions. Granted amortisation exemptions will be classified as modifications in the event they result in changes of loans' terms and conditions. No amortisation exemptions have led to any significant modifications and consequently no write offs.

2) The loan-to-value (LTV) ratio is defined as the size of a loan in relation to the market value of pledged collateral. The reported average is the weighted average. Where applicable, the calculation takes into consideration contributory factors such as guarantees and the collateral's lien priority. SCBC verifies property values on a regular basis. For residential properties and tenant-owners' rights, the property value is verified at least every third year.

## Note 5 Lending to the public

SEK million	SCBC		
	30 Jun 2021	31 Dec 2020	30 Jun 2020
<b>Opening balance</b>	<b>398,029</b>	<b>358,936</b>	<b>358,936</b>
Transferred to/from Group entities	42,874	79,286	36,981
Amortisation, repayments, etc.	-23,740	-40,173	-19,368
Confirmed credit losses	-2	-2	-1
Change in provision for expected credit losses <sup>1)</sup>	6	-18	-19
<b>Closing balance</b>	<b>417,167</b>	<b>398,029</b>	<b>376,529</b>

1) For further information, please refer to [Note 4](#) ("Change in provision for the period – credit stage 1, 2 and 3").

### Distribution of lending, including provisions

SEK million	SCBC		
	30 Jun 2021	31 Dec 2020	30 Jun 2020
Lending, Residential mortgages	316,620	306,344	295,327
Lending, Corporate Clients & Tenant-Owners' Associations	100,547	91,685	81,202
<b>Total</b>	<b>417,167</b>	<b>398,029</b>	<b>376,529</b>

### Lending to the public by credit stage

SEK million	SCBC		
	30 Jun 2021	31 Dec 2020	30 Jun 2020
<b>Credit stage 1</b>			
Gross carrying amount	400,602	380,031	358,746
Provision for expected credit losses	-45	-42	-42
<b>Carrying amount</b>	<b>400,557</b>	<b>379,989</b>	<b>358,704</b>
<b>Credit stage 2</b>			
Gross carrying amount	16,476	17,911	17,732
Provision for expected credit losses	-58	-64	-69
<b>Carrying amount</b>	<b>16,418</b>	<b>17,847</b>	<b>17,663</b>
<b>Credit stage 3</b>			
Gross carrying amount	214	218	182
Provision for expected credit losses	-22	-25	-20
<b>Carrying amount</b>	<b>192</b>	<b>193</b>	<b>162</b>
<b>Gross carrying amount (credit stages 1, 2 and 3)</b>	<b>417,292</b>	<b>398,160</b>	<b>376,660</b>
<b>Provision for expected credit losses (credit stages 1, 2 and 3)</b>	<b>-125</b>	<b>-131</b>	<b>-131</b>
<b>Total</b>	<b>417,167</b>	<b>398,029</b>	<b>376,529</b>



## Note 6 Derivatives

SEK million	SCBC					
	30 Jun 2021			31 Dec 2020		
	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount	Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate-related	4,376	744	364,027	6,591	378	348,349
Currency-related	2,423	1,136	78,769	2,698	1,312	77,979
<b>Total</b>	<b>6,799</b>	<b>1,880</b>	<b>442,796</b>	<b>9,289</b>	<b>1,690</b>	<b>426,328</b>

Cross-currency interest-rate swaps are classified as currency-related derivatives.

## Note 7 Classification of financial instruments

### Financial assets

SEK million	SCBC				
	30 Jun 2021				
	Financial assets measured at FVTPL		Financial assets measured at amortised cost	Total	Total fair value
	Derivatives (held for trading)	Other (obligatory) classification			
Lending to credit institutions	-	-	-	-	-
Lending to the public	-	-	417,167	417,167	417,246
Value changes of interest-rate-risk hedged items in macro hedges	-	-	-156	-156	-
Derivatives	6,788	11	-	6,799	6,799
Other assets	-	-	78	78	78
Prepaid expenses and accrued income	-	-	120	120	120
<b>Total</b>	<b>6,788</b>	<b>11</b>	<b>417,209</b>	<b>424,008</b>	<b>424,243</b>

### Financial liabilities

SEK million	SCBC				
	30 Jun 2021				
	Financial liabilities measured at FVTPL		Financial liabilities measured at amortised cost	Total	Total fair value
	Derivatives (held for trading)	Held for trading			
Liabilities to credit institutions	-	-	15,178	15,178	15,178
Issued debt securities, etc.	-	-	291,827	291,827	295,222
Derivatives	543	23	-	1,880	1,880
Other liabilities	-	-	41	41	41
Accrued expenses and deferred income	-	-	445	445	445
Subordinated debt to the Parent Company	-	-	95,357	95,357	95,357
<b>Total</b>	<b>1,876</b>	<b>4</b>	<b>402,848</b>	<b>404,728</b>	<b>408,123</b>

## Not 7 Classification of financial instruments, Cont.

### Financial assets

SCBC					
31 Dec 2020					
SEK million	Financial assets measured at FVTPL		Financial assets measured at amortised cost	Total	Total fair value
	Derivatives (held for trading)	Other (obligatory) classification			
Lending to credit institutions	–	–	1	1	1
Lending to the public	–	–	398,029	398,029	398,492
Value changes of interest-rate-risk hedged items in macro hedges	–	–	143	143	–
Derivatives	9,264	25	–	9,289	9,289
Other assets	–	–	16	16	16
Prepaid expenses and accrued income	–	–	113	113	113
<b>Total</b>	<b>9,264</b>	<b>25</b>	<b>398,302</b>	<b>407,591</b>	<b>407,911</b>

### Financial liabilities

SCBC					
31 Dec 2020					
SEK million	Financial liabilities measured at FVTPL		Financial liabilities measured at amortised cost	Total	Total fair value
	Derivatives (held for trading)	Held for trading			
Liabilities to credit institutions	–	–	10,615	10,615	10,615
Issued debt securities, etc.	–	–	263,863	263,863	268,302
Derivatives	1,663	27	–	1,690	1,690
Other liabilities	–	–	744	744	744
Accrued expenses and deferred income	–	–	1,568	1,568	1,568
Subordinated debt to the Parent Company	–	–	109,515	109,515	109,515
<b>Total</b>	<b>1,663</b>	<b>27</b>	<b>386,305</b>	<b>387,995</b>	<b>392,434</b>

#### Fair value measurement of financial instruments

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note 1 (Accounting Policies) in SCBC's Annual Report 2020. 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 date for changes in terms is applied to set the discount rate, Level 3. Issued debt securities are measured at the company's current borrowing interest rate, Level 2.

## Note 8 Fair Value Disclosures

SEK million	SCBC							
	30 Jun 2021				31 Dec 2020			
	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
<b>Assets</b>								
Derivatives	–	6,799	–	6,799	–	9,289	–	9,289
<b>Total</b>	<b>–</b>	<b>6,799</b>	<b>–</b>	<b>6,799</b>	<b>–</b>	<b>9,289</b>	<b>–</b>	<b>9,289</b>
<b>Liabilities</b>								
Derivatives	–	1,880	–	1,880	–	1,690	–	1,690
<b>Total</b>	<b>–</b>	<b>1,880</b>	<b>–</b>	<b>1,880</b>	<b>–</b>	<b>1,690</b>	<b>–</b>	<b>1,690</b>

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided provided in Note G 1 (Accounting Policies) in SCBC's Annual Report 2020. In the table, financial assets and liabilities recognised at fair value in the balance sheet are divided on the basis of the measurement levels used below. No transfers were made between levels in 2020 or 2021.

### 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 external market information other than quoted prices included in Level 1, such as quoted interest rates or prices for closely related instruments. The main tools used are models based on discounted cash flows. This group includes all non-quoted derivatives.

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

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

## Note 9 Subordinated debt to the Parent Company

SEK million	SCBC		
	30 Jun 2021	31 Dec 2020	30 Jun 2020
Subordinated debt to the Parent Company	95,357	109,515	96,836
– Of which Internal Group MREL instrument	6,000	6,000	6,000
<b>Summa</b>	<b>95,357</b>	<b>109,515</b>	<b>96,836</b>

### 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.

### Internal Group MREL instrument

Of the subordinated debt to the Parent Company SBAB Bank AB (publ), SEK 6,000 million comprises an internal Group debt instrument (senior non-preferred notes) that was issued by SCBC to the Parent Company in December 2019 for the purpose of meeting the minimum requirement for own funds and eligible liabilities (MREL) announced by the Swedish National Debt Office in SCBC. The internal Group MREL instrument is subordinate to other subordinated debt to the Parent Company.

## Note 10 Capital adequacy, own funds and capital requirements

### Amendments to the Banking Package

The EU Official Journal has on 7 June 2019 published amendments to the Capital Requirements Regulation, the Capital Requirements Directive and the Bank Recovery & Resolution Directive (the 'Banking Package') which entered into force on 27 June 2019. The Banking Package includes changes to capital requirements and changes in the loss-absorbing and recapitalisation capacity of credit institutions. Most of the changes entered into force on 28 June 2021. Amendments in Swedish law due to the Capital Adequacy Directive entered into force on 29 December 2020.

Due to the corona pandemic, the EU made amendments to the CRR with effect from 27 June 2020. SCBC was affected by an earlier introduction of a reduction of the capital requirement for loans to small and medium-sized enterprises (SME factor). For SCBC the changes has a limited effect on the capital requirement.

### Buffer requirements

During the first quarter 2020 the Swedish FSA decided to lower the countercyclical capital buffer requirement for banks from 2.5 percent to 0 percent, due to the current corona pandemic. On 24 November 2020, the Swedish FSA decided to keep the countercyclical capital buffer requirement for banks unchanged at 0 percent.

## Capital adequacy

SEK million		SCBC
		30 Jun 2021
<b>Available own funds (amounts)</b>		
Common Equity Tier 1 (CET1) capital		17,476
Tier 1 capital		17,476
Total capital		17,476
<b>Risk-weighted exposure amounts</b>		
Total risk exposure amount		110,676
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>		
Common Equity Tier 1 ratio (%)		15.8
Tier 1 ratio (%)		15.8
Total capital ratio (%)		15.8
<b>Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)</b>		
Additional own funds requirements to address risks other than the risk of excessive leverage (%)		1.1
of which: to be made up of CET1 capital (percentage points)		0.6
of which: to be made up of Tier 1 capital (percentage points)		0.8
Total SREP own funds requirements (%)		9.1
<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>		
Capital conservation buffer (%)		2.5
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)		–
Institution specific countercyclical capital buffer (%)		–
Systemic risk buffer (%)		–
Global Systemically Important Institution buffer (%)		–
Other Systemically Important Institution buffer (%)		–
Combined buffer requirement (%)		2.5
Overall capital requirements (%)		11.6
CET1 available after meeting the total SREP own funds requirements (%)		10.7



**Note 10** Capital adequacy, own funds and capital requirements, Cont.

SEK million	SCBC 30 Jun 2021
<b>Leverage ratio</b>	
Total exposure measure	420,532
Leverage ratio (%)	4.2
<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>	
Additional own funds requirements to address the risk of excessive leverage (%)	–
of which: to be made up of CET1 capital (percentage points)	–
Total SREP leverage ratio requirements (%)	3.0
<b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)</b>	
Leverage ratio buffer requirement (%)	–
Overall leverage ratio requirement (%)	3.0
<b>Liquidity Coverage Ratio</b>	
Total high-quality liquid assets (HQLA) (Weighted value -average)	0
Cash outflows - Total weighted value	6,291
Cash inflows - Total weighted value	35,922
Total net cash outflows (adjusted value)	1,573
Liquidity coverage ratio (%)	0
<b>Net Stable Funding Ratio</b>	
Total available stable funding	395,341
Total required stable funding	334,136
NSFR ratio (%)	118.3

## Note 10 Capital adequacy, own funds and capital requirements, Cont.

Disclosures in accordance with Article 4 of Commission Implementing Regulation (EU) No 637/2021, Annex VII.

### Own funds

SEK million	SCBC		
	30 Jun 2021	31 Dec 2020	30 Jun 2020
<b>Common Equity Tier 1 (CET1) capital : Instruments and reserves</b>			
Capital instruments and the related share premium accounts	9,600	9,600	9,600
Retained earnings	7,425	6,013	6,601
Accumulated other comprehensive income (and other reserves)	1,396	2,217	2,559
Independently reviewed interim profits net of any foreseeable charge or dividend <sup>1)</sup>	495	1,413	387
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>18,916</b>	<b>19,243</b>	<b>19,147</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>			
Additional value adjustments (negative amount)	-9	-11	-14
Fair value reserves related to gains or losses on cash-flow hedges of financial instruments that are not valued at fair value	-1,396	-2,217	-2,559
Negative amounts resulting from the calculation of expected loss amounts	-17	-12	-9
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-18	0	0
Other regulatory adjustments <sup>2)</sup>	0	-	-
<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-1,440</b>	<b>-2,240</b>	<b>-2,582</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>17,476</b>	<b>17,003</b>	<b>16,565</b>
<b>Additional Tier 1 (AT1) capital: Instruments</b>			
<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 capital: regulatory adjustments</b>			
<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Tier 1 capital (T1 = CET1 + A1)</b>	<b>17,476</b>	<b>17,003</b>	<b>16,565</b>
<b>Tier 2 (T2) capital: Instruments</b>			
Credit risk adjustments	0	5	6
<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>0</b>	<b>5</b>	<b>6</b>
<b>Tier 2 (T2) capital: regulatory adjustments</b>			
<b>Total regulatory adjustments to Tier 2(T2) capital</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Tier 2 (T2) capital</b>	<b>0</b>	<b>5</b>	<b>6</b>
<b>Total capital (TC = T1 + T2)</b>	<b>17,476</b>	<b>17,008</b>	<b>16,571</b>
<b>Total risk-exposure amount</b>	<b>110,676</b>	<b>104,080</b>	<b>99,057</b>

**Note 10** Capital adequacy, own funds and capital requirements, Cont.

SEK million	SCBC		
	30 Jun 2021	31 Dec 2020	30 Jun 2020
<b>Capital ratio and requirements including buffers, %</b>			
Common Equity Tier 1 capital	15.8	16.3	16.7
Tier 1 capital	15.8	16.3	16.7
Total capital	15.8	16.3	16.7
Institution CET1 overall capital requirements	7.0	7.0	7.0
– of which, capital conservation buffer requirement	2.5	2.5	2.5
– of which, countercyclical buffer requirement	0.0	0.0	0.0
– of which, systemic risk buffer requirement	–	–	–
– of which, G-SII buffer and O-SII buffer	–	–	–
– of which, additional own funds requirements to address the risk other than the risk of excessive leverage	–	–	–
Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum requirements	7.8	8.3	8.7
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)</b>			
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	–	–	–

1) The results have been verified by Deloitte AB pursuant to Article 26, Point 2a of the Capital Requirements Regulation.

2) There are no results that generate a deduction of NPL backstop since entry into force.

## Note 10 Capital adequacy, own funds and capital requirements, Cont.

At the start of 2019, SBAB's Board decided to apply Article 3 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) for corporate exposures to small and medium-sized enterprises. The aim is to compensate for the current pro-cyclical effect that exists in the bank's internal models for credit risk, which has resulted in PD declining in line with the favourable economic climate. As a result, the bank introduced a REA surcharge under Pillar 1, which amounted to SEK 1,106 million per 30 June 2021.

In May 2020, SCBC started to apply a new definition of default according to guidelines submitted by European banking authority (EBA) aimed to harmonize calculations for credit risk between banks. At the transition to the new definition of default in May the share of defaulted exposures was reduced and the impact on REA was very limited which was in line with the bank's expectations.

### Risk exposure amounts and capital requirements

mnkr	SCBC					
	30 Jun 2021		31 Dec 2020		30 Jun 2020	
	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
<b>Credit risk recognised in accordance with IRB approach</b>						
Exposures to corporates	10,329	826	8,838	707	6,790	543
Retail exposures	11,395	912	11,240	899	11,433	915
– of which, exposures to SMEs	848	68	856	68	807	65
– of which, retail exposures secured by immovable property	10,547	844	10,384	831	10,626	850
<b>Total exposures recognised with IRB approach</b>	<b>21,724</b>	<b>1,738</b>	<b>20,078</b>	<b>1,606</b>	<b>18,223</b>	<b>1,458</b>
<b>Credit risk recognised with the standardised approach</b>						
Exposure to governments and central banks	0	0	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0	0	0
Exposures to institutions <sup>1)</sup>	661	53	123	10	147	12
– of which, derivatives according to CRR, Appendix 2	616	49	114	9	136	11
– of which, repos	45	4	9	1	11	1
– of which, other	0	0	–	–	0	0
Exposures to institutions and corporates with a short-term credit rating	24	2	0	0	0	0
Other items	100	8	169	14	336	27
<b>Total exposures recognised with standardised approach</b>	<b>785</b>	<b>63</b>	<b>292</b>	<b>24</b>	<b>483</b>	<b>39</b>
<b>Market risk</b>	<b>486</b>	<b>39</b>	<b>556</b>	<b>44</b>	<b>675</b>	<b>54</b>
– of which, position risk	–	–	–	–	–	–
– of which, currency risk	486	39	556	44	675	54
<b>Operational risk</b>	<b>4,617</b>	<b>369</b>	<b>4,441</b>	<b>355</b>	<b>4,441</b>	<b>355</b>
<b>Credit valuation adjustment risk</b>	<b>1,766</b>	<b>141</b>	<b>441</b>	<b>35</b>	<b>525</b>	<b>42</b>
<b>Additional requirements under Article 458 of the CRR</b>	<b>80,192</b>	<b>6,415</b>	<b>77,656</b>	<b>6,213</b>	<b>74,094</b>	<b>5,928</b>
<b>Additional requirements under Article 3 of the CRR</b>	<b>1,106</b>	<b>88</b>	<b>616</b>	<b>49</b>	<b>616</b>	<b>49</b>
<b>Total risk exposure amount and minimum capital requirement</b>	<b>110,676</b>	<b>8,854</b>	<b>104,080</b>	<b>8,326</b>	<b>99,057</b>	<b>7,925</b>
<b>Capital requirements for capital conservation buffer</b>		<b>2,767</b>		<b>2,602</b>		<b>2,476</b>
<b>Capital requirements for countercyclical buffer</b>		<b>0</b>		<b>0</b>		<b>0</b>
<b>Total capital requirement</b>		<b>11,621</b>		<b>10,928</b>		<b>10,401</b>

1) The risk exposure amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 661 million (123).



## Note 11 Internally assessed capital requirement

The internal capital adequacy assessment aims to ensure that SCBC has adequate capital to deal with any financial problems that arise. The internally assessed capital requirement for SCBC amounted to SEK 12,346 million (SEK 11,508 million on 31 December 2020). The internal capital requirement is assessed using SCBC's internal models for economic capital.

SCBC quantifies the capital requirement for its risks using a model for economic capital within the scope of the internal capital adequacy assessment process (ICAAP). Economic capital is defined as the amount of capital needed

to ensure solvency over a one year period. The internal capital requirement is defined as the higher of economic capital and the regulatory requirements for each type of risk.

		SCBC			
		30 Jun 2021		31 Dec 2020	
		Internally assessed capital requirement		Internally assessed capital requirement	
SEK million		Incl. risk-weight floor, SEK million	Incl. risk-weight floor, %	Incl. risk-weight floor, SEK million	Incl. risk-weight floor, %
Pillar 1	Credit risk & CVA risk	1,942	1.8	1,665	1.6
	Market risk	39	0.0	44	0.0
	Operational risk	369	0.3	355	0.4
	Risk-weight floor <sup>1)</sup>	6,415	5.8	6,213	6.0
	Surcharge, corporate exposures <sup>2)</sup>	89	0.1	49	0.0
	<b>Total Pillar 1</b>	<b>8,854</b>	<b>8.0</b>	<b>8,326</b>	<b>8.0</b>
Pillar 2	Credit risk	–	–	–	–
	Market risk	185	0.2	60	0.1
	Operational risk	–	–	–	–
	Concentration risk	540	0.5	520	0.5
	Sovereign risk	–	–	–	–
	Pension risk	–	–	–	–
	<b>Total Pillar 2</b>	<b>725</b>	<b>0.7</b>	<b>580</b>	<b>0.6</b>
Buffers	Capital conservation buffer	2,767	2.5	2,602	2.5
	Capital planning buffer	–	–	–	–
	Countercyclical buffer	0	0.0	0	0.0
	<b>Total Buffers</b>	<b>2,767</b>	<b>2.5</b>	<b>2,602</b>	<b>2.5</b>
<b>Total</b>		<b>12,346</b>	<b>11.2</b>	<b>11,508</b>	<b>11.1</b>
<b>Total own funds</b>		<b>17,476</b>		<b>17,008</b>	

1) Pillar 1 risk-weight floor under Article 458 of the CRR.

2) Purchase after decision by the Board pursuant to Article 3 of the CRR.

# Auditors' review report

## Introduction

We have reviewed the Interim report for The Swedish Covered Bond Corporation ("SCBC") (in Swedish: AB Sveriges Säkerställda Obligationer (publ)) for the period 1 January – 30 June 2021. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

## Scope of review

We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2410 Review of Interim Financial Information performed by the company's auditors. A review

consists of making inquiries, primarily with persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material aspects, in accordance with

IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm July 16, 2021

Deloitte AB

*Signature on Swedish original*

Patrick Honeth  
Authorised Public Accountant

The Board of Directors and the CEO affirm that this interim 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.

Solna July 16, 2021

*Signatures on the Swedish original*

Jan Sinclair  
*Chairman of the Board*

Klas Danielsson Ledamot  
*Board Member*

Jane Lundgren-Ericsson  
*Board Member*

Synnöve Trygg  
*Board Member*

Mikael Inglander  
*CEO*

## Financial calender

Year-end Report 2021

February 4, 2022

## Credit ratings

	Moody's	Standard & Poor's
Long-term funding, SBAB	A1	A
Long-term funding, SCBC	Aaa	–
Short-term funding, SBAB	P-1	A-1



## Contact

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This information was submitted  
for publication on July 16, 2021  
at 08:00 (CET).

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 and the CEO, is in Swedish.

