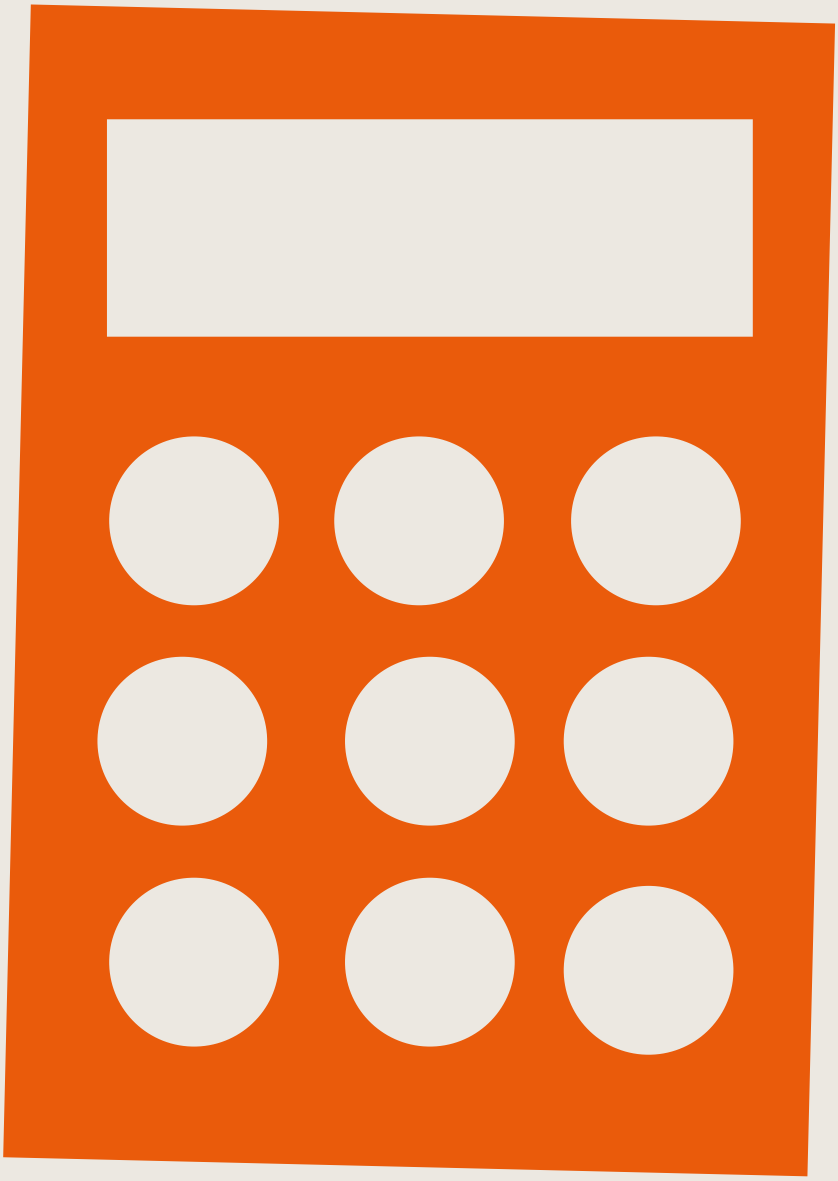
Capital adequacy and risk management 2020

Pillar 3 of the Basel regulations



SCBC!
Covered bonds of SBAB

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Glossary

CHAPTER 4 **RISK MANAGEMENT AND RISK ORGANISATION**

Asset and Liability Committee (ALCO)
The committee that handles matters relating to risk and capital planning, which are then addressed by Executive Management and the Board.

Minimum requirement for own funds and eligible liabilities – (MREL)
The Swedish National Debt Office (SNDO) has finalized the model for calculation of the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), which determines how much own funds and eligible liabilities each bank must have, what proportion should be debt and what type of liabilities may be used to meet the requirement. Banks that are not systemically important will always meet the SNDO's minimum requirement provided that they comply with existing capital requirements. In a crisis, these banks will be declared bankrupt or placed in liquidation rather than resolution.

MREL — coefficient
Own funds and eligible liabilities as a percentage of total liabilities and own funds.

CHAPTER 5 **CAPITAL ADEQUACY**

Additional requirements under Article 3 of the CRR
According to Article 3 of the CRR the Board of Directors of SBAB has decided to activate a surcharge for corporate exposures to small and medium-sized enterprises. The aim is to compensate for the current procyclical effect that exists in the bank's internal models for credit risk, which has resulted in PD declining in line with the favorable economic climate.

Additional Tier 1 capital
Additional Tier 1 capital generally comprises perpetual subordinated loans that meet the requirements in Article 52 of the CRR. According to the transitional regulations, older additional Tier 1 capital may also be included in Tier 1 capital.

Capital requirements under Pillar 1
Refers to the minimum amount of capital required in accordance with the CRR and CRD IV, the Special Supervision of Credit Institutions and Investment Firms Act (2014:968), the Capital Buffers Act (2014:966) and the Swedish FSA's regulations regarding prudential requirements and capital buffers (FFFS 2014:12).

Common Equity Tier 1 (CET1) capital
Common Equity Tier 1 capital is one of the components of own funds and primarily consists of equity. Deductions are made for dividends generated, intangible assets as well as the difference between expected losses and provisions made for probable loan losses.

Credit valuation adjustment risk (CVA risk)
CVA is defined as the risk of a downgrade in the credit quality of SBAB's OTC derivative counterparties, higher exposure and/or longer average duration of derivatives. Transactions with a central counterparty (CCP) should be excluded from the capital requirement for CVA risk.

Directive 2013/36/EU — CRD IV of the European Parliament and of the Council on authority to conduct operations in credit institutions and on the supervision of credit institutions and securities companies
Common European regulations on risk management and capital adequacy.

Internal ratings-based approach (IRB approach)
The IRB approach is used to calculate the regulatory capital requirement for credit risk. The foundation IRB (FIRB) approach entails that the institution is only to estimate the PD parameter. In the advanced IRB (AIRB) approach, the institution is to estimate, in addition to PD, one or several of the parameters CCF, LGD and M (maturity).

Minimum capital requirement
The lowest amount that the company is permitted to have as own funds.

MDA level (Maximum distributable amount level)
The sum of Pillar 1, Pillar 2 and buffer requirements.

Own funds
Own funds consist primarily of equity and subordinated loans and act as a buffer against unexpected losses.

Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR)
Common European regulations on risk management and capital adequacy.

Risk exposure amount (REA) under Basel 3
The Basel 3 regulations permit the use of the IRB approach, within the Pillar 1 framework, to establish REAs for balance-sheet and off-balance sheet exposures based on SBAB's own models for credit risk, market risk and operational risk. The risk weightings of other exposures are determined on a standardised basis, in appropriate cases based on the counterparty's rating.

Risk-weight floor, Residential mortgages, Pillar 1
The addition of a risk exposure amount (REA) calculated based on Swedish residential mortgage exposures, which entail a risk weight for these exposures of at least 25%. The supplement only applies for credit institutions that apply the IRB approach. The requirement of a risk-weight floor for Swedish residential mortgages has been moved from Pillar 2 to Pillar 1 and entered into force on 31 December 2018.

Tier 1 capital
Tier 1 capital mainly comprises equity and additional Tier 1 capital.

Tier 2 instruments
Subordinated loans that meet the requirements in Article 63 of the CRR may be included in own funds. According to the transitional regulations, older Tier 2 instruments may also be included in own funds. If the remaining maturity is less than five years, a deduction will be made based on the remaining number of days.

Total capital ratio
Own funds divided by the risk exposure amount.

CHAPTER 6 Internally assessed capital requirement

Capital requirements under Pillar 2
The assessment is based on economic capital which, in combination with capital based on stress tests and capital for further risk, comprises the company's own assessment of the appropriate scope of risk capital. Under Pillar 2, the capital requirement may not be less than the capital metric under Pillar 1 for each risk type.

Economic capital
Economic capital is based on models in which SBAB assesses quantifiable risks. This constitutes an important component in, for example, pricing, financial control and in assessment of the requisite scope of risk capital.

Exposure at default (EAD)
Exposure at the time of default. Calculating the EAD for off-balance-sheet items entails multiplying the unutilised amount by a credit conversion factor (CCF).

Internal capital adequacy assessment process (ICAAP)
Process according to Article 73 of CRD IV for continuously calculating and maintaining capital in an amount, type and distribution that is sufficient to cover the risks to which the bank is or will become exposed.

Value at Risk (VaR)
A statistical metric of the maximum expected loss at a given level of security and over a defined time period.

CHAPTER 9 Credit risk in lending operations

Credit conversion factor (CCF)
The percentage of an off-balance sheet item that is expected to be utilised at the time of a possible future default.

Expected loss (EL)
The calculated EL must be covered by earnings from operating activities, while unexpected losses must be covered by the company's equity. EL is arrived at by calculating the risk associated with each individual loan using a statistical model based on a longer time horizon. EL is measured through the formula EL = PD*LGD*EAD.

Loan-to-value (LTV)
The loan-to-value ratio expresses the extent of a loan in relation to the value of pledged collateral.

Loss given default (LGD)
Loss amount in the event of default.

Moratorium
Due to EBA Guidelines (EBA/GL/2020/02) customers have been able to apply for exemptions from mortgage payments during a limited period. The guidelines were introduced in April 2020 due to the Corona pandemic.

Non performing loans (NPL)/
Non performing exposures (NPE)
Non performing loans/exposures are defined as defaulted exposures plus forborne exposures. A default shall be considered to have occurred when the obligor is unlikely to pay its credit obligation to the institution or the obligor is past due more than 90 days on any material credit obligation.

NPL ratio
The computation of the NPL ratio is defined by the EBA and consists of gross carrying amount of non-performing loans and advances divided by the gross carrying amount of total loans and advances subject to the NPL/NPE definition.

Off-balance-sheet items
A commitment, pledged collateral or similar item that is not recognised in the balance sheet because it is unlikely that it will be necessary to realise or utilise it, or because, due to its extent, it cannot be calculated with sufficient reliability. Contingent liabilities may also comprise possible commitments, meaning it is uncertain whether or not the commitment exists.

Probability of default (PD)
Probability of default of a customer or counterparty within one year.

CHAPTER 10 Funding

Credit Support Annexe (CSA)
Supplement to the ISDA Master Agreement that regulates the provision of collateral in connection with a derivative transaction.

Euro Medium Term Covered Note Programme (EMTCN)
International funding programme for issuing covered bonds.

Global Master Repurchase Agreement (GMRA)
International standardised agreement for repurchases.

CHAPTER 11 Credit risk in treasury operations

International Swap and Derivatives Association (ISDA) Master Agreement
Framework agreement that regulates the rights and obligations between the parties to a derivative transaction, primarily the netting of debt in the event of insolvency.

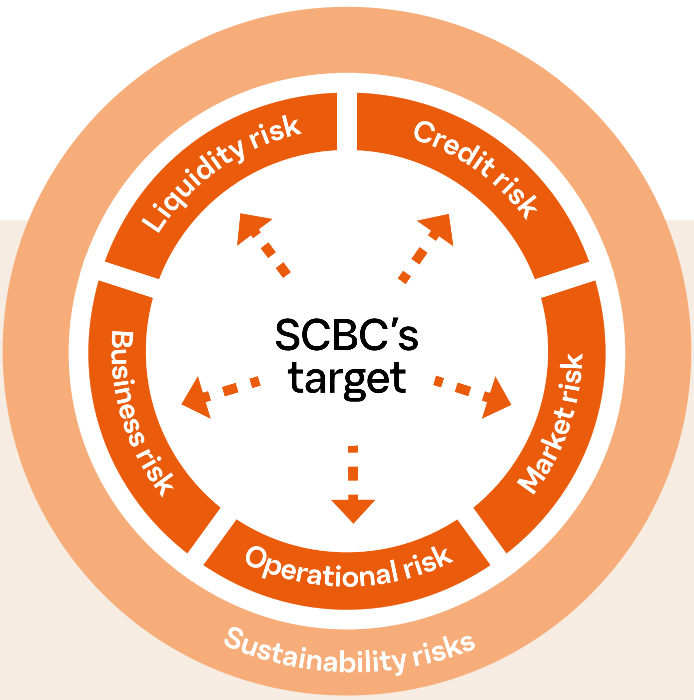
Repo transaction
A repo transaction comprises a reverse purchase agreement whereby one party undertakes to sell a security to a counterparty in exchange for cash. In parallel, a futures contract is entered into to repurchase the security at a specific price at a specified future date.

1 Introduction

In this report, AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC) discloses information in compliance with Part Eight of Regulation (EU) No 575/2013 (CRR) and the Swedish Financial Supervisory Authority's (SFSA's) regulations (FFFS 2014:12) regarding prudential requirements and capital buffers.

REGULATORY FRAMEWORK FOR PILLAR 3
The quantitative information is provided according to the European Banking Authority's (EBA's) Guidelines on disclosure requirements (EBA/GL/2016/11 and EBA/GL/2018/10). This report refers to the conditions prevailing on 31 December 2020. For periodic information, please refer to the quarterly reports "Disclosure of own funds and leverage ratio" at www.SBAB.se.

SCBC's Pillar 3 report is prepared in accordance with the CRR, Part Eight, the EBA's implementing technical standards (ITS) with regards to disclosures of own funds (EU regulation No 1423/2013), EBA Guidelines on disclosure requirements under Part Eight of CRR (EBA/GL/2016/11), Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) and the SFSA regulation (FFFS 2014:12). In the aftermath of the financial crisis the European Parliament and the Council adopted in June 2019 the amending regulation (EU) no 575/2013 regarding the leverage ratio, the net stable funding ratio, requirements for own funds and eligable liabilities, counterparty credit risk, market risk, reporting and disclosure requirements. In December 2018, the EBA published new guidelines pertaining to disclosure requirements for non-performing and forborne exposures that apply from December 2019.



The EBA also proposed a new comprehensive ITS for Pillar 3 disclosures. This proposal aims to increase consistency and comparability of institutions' public disclosures by uniformed disclosure formats. The application of the disclosure requirements will be in June 2021. Changes in the SFSA's regulation FFFS 2014:12 has been considered in this report.

This report shows the significant operational risks for SCBC broken down by risk type as per the table on the next page

ABOUT SCBC
AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC) is a wholly-owned subsidiary of SBAB Bank AB (publ) (SBAB). SBAB is the Parent Company of the SBAB Group and is owned by the Swedish state. 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 in both Swedish and international capital markets.

SCBC is well capitalised. The CET1 capital ratio declined to 16.3% due to increased lending volumes. The credit loss ratio remained low. The continued strength of its capital position and good risk management means that SCBC meets the supervisory rules adopted by the EU.

Total credit risk has increased over the year, mainly due to lending volumes and including the effect from risk-weight floor. Market risk, which in SCBC only comprises currency risk, declined slightly due to exposures in EUR.

SCBC's risk appetite

Read more on page 14.

For information about sustainability risks, refer to SBAB's 2020 Annual Report.

Table 1. **Significant risks**

Risk type	Risk appetite: Classification	Risk appetite: Level
Credit risk in lending operations The risk that the counterparty does not fulfil its payment obligations towards SCBC. Credit risk arises in conjunction with loans and loan commitments, as well as in connection with value changes in pledged assets entailing that these no longer cover the Group's receivables. The credit risk also includes concentration risk, which refers to the increase in credit risk that arises in large exposures to individual counterparties, or in the case of concentrations toward specific regions or industries. *Read more in chapter* 9	Wanted risk	Medium
Credit risk in treasury operations Defined as the total of investment risk and counterparty credit risk. Counterparty credit risk is defined as credit risk in financial derivatives that arises when the value of the instrument changes resulting from variations, for example, in interest rate levels and/or currency exchange rates, which means SCBC recognises a receivable against the counterparty. In addition, counterparty risk entails that SCBC's financial counterparties cannot meet their commitments under repo contracts. Investment risk is defined as credit risk in financial investments and entails the risk that a debtor does not fulfil its payment obligations, meaning either completes payments late or not at all. Financial investments are incorporated in liquidity management, which aims to reduce liquidity risk and utilise surplus capital to contribute to increased profitability. *Read more in chapter* 11	Necessary risk	Low
Market risk The risk of loss or reduced future income due to market fluctuations, which in SCBC's operations comprises interest rate risk, currency risk, credit spread risk, basis risk and pension risk. Interest rate risk is defined as the risk that variations in general interest rate levels result in losses or lower future income as assets and liabilities have different fixed interest periods and/or interest terms. Currency risk refers to the risk that changes in the exchange rate for SEK against other currencies result in losses or lower future income. Credit spread risk refers to an exposure to changing conditions between an issuer's interest expense in comparison with a reference rate such as STIBOR. Basis risk refers to the risk associated with deposits and lending that are fixed to different interest rate bases. Pension risk pertains to the risk arising from value changes in the portfolio intended to cover the bank's pension commitments. *Read more in chapter* 12	Necessary risk	Low
Operational risk The risk of losses due to inadequate or failed internal processes, human error, faulty systems or from external events. The forms of operational risk relevant to SCBC are categorized into event types. Examples of relevant event types are internal and external fraud; employment practices and workplace safety; clients, products and business practice; damage to physical assets; business disruption and system failures; and execution, delivery and process management. Legal risk includes the risk that agreements or other legal transactions cannot be completed in accordance with specific terms and conditions or that judicial proceedings are started that could have a negative impact on SCBC's operations. Operational risk includes compliance risk. Regulatory compliance is essential in maintaining confidence in SCBC's operations. Even rules that are not legally binding, but that reflect a market practice or ethical guidelines, affect SCBC's approach to employees and customers. *Read more in chapter* 14	Necessary risk	Low
Business risk The risk of declining earnings due to harsher competition, inappropriate strategies or erroneous decisions. SCBC differentiates its business risk between strategic risk and the risk of weaker earnings. Strategic risk is defined as the risk of a loss arising due to unfavourable business decisions, erroneous implementation of strategic decisions or a lack of sensitivity to changes in the industry, the political environment or legal circumstances. The risk of weaker earnings encompasses the risk of, for example, reduced margins, which in turn may arise due to more expensive financing or more intense competition. *Read more in chapter* 15	Necessary risk	Low
Liquidity risk Liquidity risk is defined as the risk that SCBC will not be able to meet its payment obligations without the related cost of obtaining funds increasing significantly. Short-term liquidity risk measures the risk of being impacted in the short term by a lack of liquidity, while structural liquidity risk arises from the mismatch between assets and liabilities in terms of maturities, which can lead to a lack of liquidity in the longer term. *Read more in chapter* 13	Necessary risk	Low

Risk profile	Risk management
SCBC primarily offers housing mortgages to consumers, tenant-owners' associations and property companies where collateral comprises mortgage deeds in immovable property or rights-of-use. The majority of SBAB's customer base is concentrated to major metropolitan areas.	Credit risk is central to SCBC's business model and it is considered to be the dominant risk in operations. Credit granting in SCBC is characterised by responsible credit granting taking into account the customer's long-term repayment capacity and resilience as well as the value of posted collateral. Credit rules and credit management are continuously analysed, processed and improved. Corporate clients are processed individually while retail customers are analysed using a structured process in conjunction with the credit approval process. Concentration risk and major exposures are carefully monitored and followed up.
SCBC's counterparty risks and investment risks are low and are not considered dominant risks.	Counterparty-risk exposure is primarily covered through collateral agreements in which the counterparty provides collateral in an effort to reduce exposure. Investment risk is mitigated as SCBC only invests in interest-bearing bonds with high credit ratings.
SCBC's market risk is low and is not considered a dominant risk.	Interest-rate risk is to be mitigated through direct funding in matched currencies and tenors or the use of derivatives. Currency risks are mitigated as funding in international currency is hedged through currency swaps or matched against assets in the liquidity portfolio in the same currency.
Operational risk is a natural part of all business. SCBC aims to optimise the relationship between costs for reducing risk and any of its potential outcomes. SCBC considers operational risk to be a prerequisite for implementing the business concept efficiently and competitively, taking into account operations, strategy, risk appetite and the macro environment.	Within SCBC, operational risk is managed through uniform valuation and reporting. The analysis of risk levels in all operations is conducted on a regular basis and reported to the Board, the CEO and the Executive Management. Self-evaluation of processes that are considered significant is performed at least once per year. Within the framework of changes with potential effects on the bank's risk level, risks are identified in an early stage of the change process. Prior to implementation, the change process is quality assured by representatives from the second line of defence. Unexpected events that can negatively affect the bank are to be reported as incidents and managed according to pre-determined instructions.
SCBC's business risk is low and is not considered a dominant risk.	Risks related to strategy and earnings are evaluated on an ongoing basis over the year within the first line's strategy work. Strategically important decisions are managed within the framework for material changes. Furthermore, the Board receives an annual evaluation of the material risks that clearly addresses strategic business risk and the bank's overall earnings. Business risk is also included in the calculation of the Pillar 2 capital requirement as part of SCBC's stress tests, and where the effects of a scenario corresponding to a normal economic downturn are evaluated.
SCBC has a low liquidity risk and diversified funding. Securities that are part of the liquidity reserve have high credit ratings and are eligible as collateral with either the Riksbank or the European Central Bank, to guarantee liquidity.	SCBC's liquidity strategy includes proactive and continuous liquidity planning, active debt management and an adequate liquidity reserve. The funding strategy takes into consideration the expected maturity on the asset side. On this basis, SCBC limits its structural liquidity risk by maintaining diversified funding with sufficiently long maturities. SCBC has several liquidity metrics, for which limits apply, most of which are monitored and reported on a daily basis.

2 The Board's statement on risk management and a brief risk declaration

The Board of Directors of the Swedish Covered Bond Corporation (SCBC) supports the risk management described in this document and considers that it meets the requirements it in relation to SCBC's risk profile and adopted short and long-term strategic, apital and financial plans.

Table 2. **Risk appetite and risk profile**

	RISK APPETITE		RISK PROFILE	
Risk type	**Classification**	**Level**	**Limit utilisation**	**Proportion of economic capital, %**
Credit risk in lending operations	Wanted risk	Medium	Medium	94
Credit risk in treasury operations	Necessary risk	Low	Low	–
Market risk	Necessary risk	Low	Low	2
Operational risk	Necessary risk	Low	Low	4
Business risk	Necessary risk	Low	Low	–
Liquidity risk	Necessary risk	Low	Low	–

SCBC CLASSIFIES RISKS AS WANTED AND NECESSARY:
- Wanted risks comprise those directly related to the business concept.
- Necessary risks are those arising from activities that are regarded as a direct prerequisite for being able to implement the business concept efficiently and competitively, whereby a certain level of risk is accepted.

Credit risk is central to SCBC's business model and is considered to be the dominant risk in SCBC's operations. Credit risk directly related to SCBC's business operations qualifies as a wanted risk, while credit risk related to liquidity investments or in the form of counterparty credit risk is classified as necessary risk that is acceptable, but where the level of risk should be limited.

Market risk and its components are primarily considered a necessary risk. Market risk should be kept at a low level and not be a predominant risk.

Operational risk is defined as a necessary risk, which means that both expected and unexpected losses must be optimised based on the expected positive effects to be achieved in the form of anticipated revenues, cost savings or reductions in other risk.

Business risk is defined as a necessary risk. Business risk means the risk of declining earnings due to harsher competition, inappropriate strategies or erroneous decisions. The quantifiable portion of business risk is included in the evaluation of the capital situation in a normal economic downturn.

Liquidity risk is defined as a necessary risk and must be maintained at such a level that SCBC can manage a period of acute liquidity crisis without depending on the capital market. Liquidity risk is not managed by capital provisions but by maintaining a liquidity reserve. Liquidity risk management for SCBC is performed as an integral part of the Group's overarching management.

3 Operations

The regulatory consolidated situation includes SBAB Bank AB (publ) and AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC). SCBC issues covered bonds in the Swedish and international capital markets.

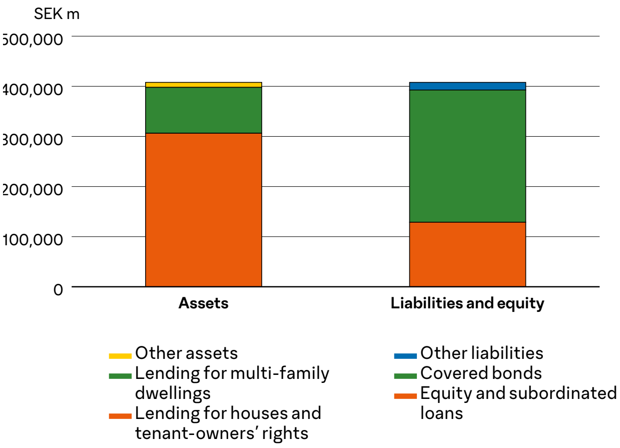
SCBC's principal activity is to provide mortgage loans for residential properties and tenant-owners' rights located in Sweden against collateral in the form of mortgage deeds and shares in tenant-owners' associations and, to a limited extent, to finance commercial properties and provide unsecured loans. The Parent Company also offers savings accounts.

Information about the Board of Directors, the recruitment policy, the diversity policy and the risk committee are included in the Corporate Governance Report in SCBC's Annual Report. For information about related parties, please refer to Note G:2 of SCBC's Annual Report.

The Swedish Covered Bond Corporation (hereinafter referred to as SCBC) does not conduct any proprietary new lending operations. Instead, it acquires loans from the Parent Company on a regular basis. The purpose of securing credits is for them to be able to be included, in full or in part, in the cover pool that comprises collateral for holders of covered bonds issued by SCBC in Swedish and international capital markets.

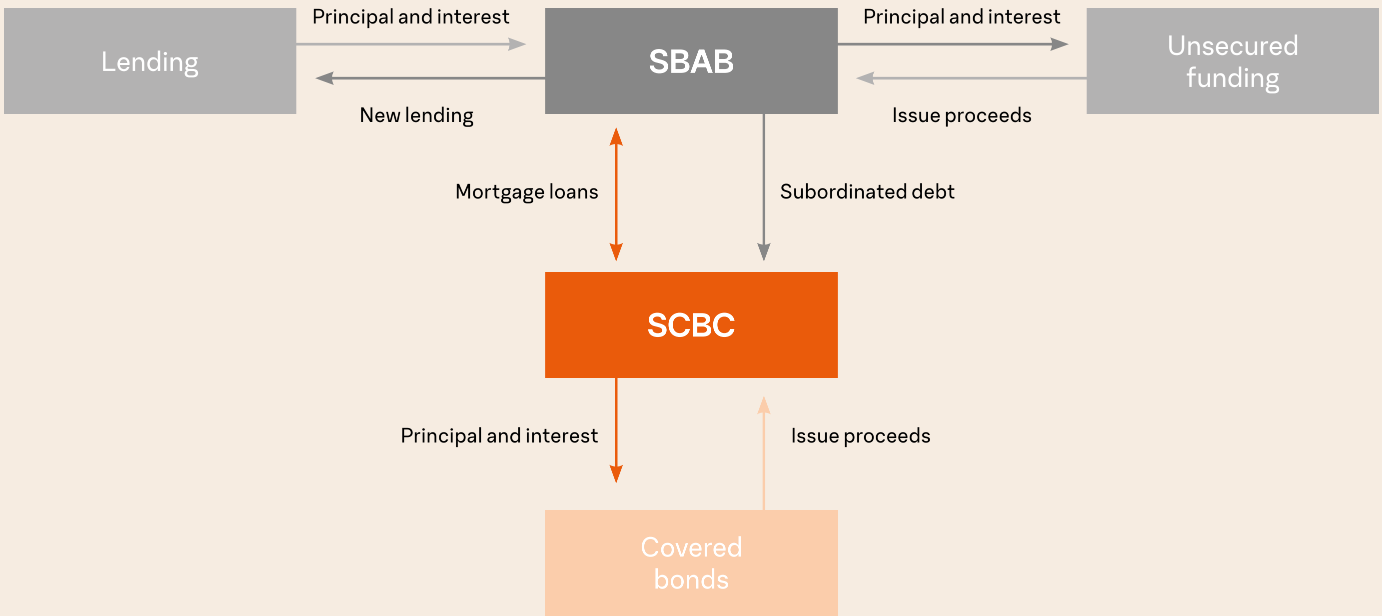
SCBC's sales activities are conducted through two channels: Retail and Corporate Clients & Tenant-Owners' Associations. Retail focuses on lending to consumers and deposits from consumers and companies. Corporate Clients & Tenant-Owners' Associations is active in the property market through lending to property companies, property funds and tenant-owners' associations. SCBC's funding is managed by Treasury, within the Accounting & Treasury department.

Figure 1. **Condensed balance sheet**



The consolidated situation

Figure 2. **SCBC's role in the SBAB Group**



The primary operations of AB Sveriges Säkerstallda 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 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.

4 Risk management and risk organisation

SCBC's risk taking is low and is kept at a level compatible with financial targets for return and the scope of risk capital. SCBC's risks consist mainly of credit risk through its lending operations.

4.1 GENERAL RULES FOR RISK MANAGEMENT

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 earnings, equity or value.

Risk management involves ensuring that SCBC is resilient in all types of situations and that the company has capital that guarantees that even unexpected risks can be managed.

- Risk management must support operations, maintain a high level of quality to ensure control of all risks, ensure
- SCBC's survival, keep in line with rating targets and limit volatility in SCBC's financial position.
- The ability to assess, manage and price risks while simultaneously maintaining sufficient liquidity and capital to meet unforeseen events is of fundamental significance for long-term profitability and stability. The aim of the strategy adopted for the operations is to consider the risks that arise in the operations and the capital needed to cover these risks. This entails that an ongoing discussion should be maintained regarding the risks that arise in the operations and the capital required to counter those risks.
- SCBC is required to have an independent risk control function to identify, measure, govern, report and maintain control of the risks that SCBC is or may become exposed to. The independent risk control function must have the requisite competence and mandate. There must be an effective risk management system and satisfactory internal control.
- SCBC is required to have knowledge and awareness of any risks to which the bank may be exposed. SCBC needs to be able to estimate the size of the risks to which the bank is and may become exposed. All SCBC employees are responsible for managing the company's risks as part of their regular work. SCBC is to continuously inform and educate its employees on the company's risk management framework. A soundrisk culture is to be realised through a value-based work approach.

4.2 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. The Board adopts the strategic direction and the overarching risk level that SCBC is willing to accept, based on our business and how value is created for our customers. This means SCBC is to consciously expose itself only to risks that are directly connected to or are regarded as necessary for its operations. It is also about maintaining sufficient liquidity and capital to meet unforeseen events. Knowledge and awareness of any risks that SCBC may be exposed to, together with the right expertise to estimate the size of existing and potential risks, is absolutely necessary for our operations. There is an independent function for risk control at SCBC whose principle task is to ensure adequate risk awareness and acceptance for managing risks on a daily basis. SCBC has a documented process (NPAP) for the approval of new or significantly altered products, services, markets, processes or IT-systems. The same process also covers major changes to the company's organisation and operations. The Board of Directors sets limits for all material risks, which should be commensurate with the predetermined risk appetite.

SCBC's operations are to be conducted such that risks are adapted to SCBC's risk-bearing capacity. Risk-bearing capacity primarily refers to the capacity to manage expected and unexpected losses by means of own funds or ongoing earnings capacity and, secondly, the capacity to minimise unwanted risks by means of appropriate functions, strategies, processes, procedures, internal rules, limits and controls. Certain risks cannot be quantified and compared with the risk-bearing capacity. In such cases, the cost of mitigating the risk should be weighed up against the desired level of risk and the change in the level of risk achieved through a particular measure.

SCBC should only deliberately expose itself to risks directly attributable or necessary to SCBC's business operations. Such risks primarily encompass credit risk, liquidity risk, market risk, business risk and operational risk.

In addition to limiting the exposure to different types of risk, the risks to SCBC from using different types of financial instruments must also be limited. In its treasury operations, SCBC should mainly use derivatives for hedging purposes. Since the risk profile of a derivative transaction may differ from that of the hedged exposure, an analysis must always be performed to ensure that the total risk is understood. This is especially important in the use of new financial instruments that must be approved in SCBC's process for new financial instruments prior to the transaction.

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

SCBC's risk strategy involves managing and evaluating risks that the operations are or may be exposed to, through:

- Clear and documented internal procedures and control systems.
- An appropriate and transparent organisational structure with clearly defined and documented powers.
- Current and documented decision-making procedures that clearly state the reporting structure.
- Risk evaluation methods and system support that are adapted to the operations' requirements, complexity and size.
- Sufficient resources and competence to achieve the desirable quality in both business and control activities.
- Regular incident reporting by the operations according to a documented process.
- Documented and communicated contingency and continuity plans.
- Clear instructions on internal capital adequacy assessments, credit risk, operational risk, liquidity risk and market risk, which are updated annually and adopted by the CEO or, if required, by the Board of Directors.
- All significant risks for SCBC are limited by the Board and are commensurate with the pre-determined risk appetite.

4.3 RISK APPETITE

SCBC's risk taking is kept at a level consistent with our short-term and long-term plans for strategy, capital and financial stability. An important part of SCBC's business model is that the risks to which we are exposed are low and predictable. In reality, this does not mean that each individual credit exposure has very low risk; rather, SCBC's total lending portfolio consists largely of low-risk loans and every loan's internal risk effect is such that the 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 our risk-bearing capacity. The total exposure to risk may not exceed the total risk-bearing capacity. Risk-bearing capacity primarily refers to the capacity to cover expected and unexpected losses by means of our ongoing earnings capacity and own funds. The scope of acceptable risks is clearly linked to how important these are 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.

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

An important part of SCBC's business model entails risks being relatively low and predictable, making it possible to maintain a large volume of business in relation to own funds. This does not mean that each individual credit exposure has low risk, but rather that the total lending portfolio consists largely of low-risk exposures and that their internal risk effect is 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 seg- ment of SCBC's risk-bearing capacity. The total risk exposure may not exceed the total risk-bearing capacity. The scope of the risk that is accepted must be clearly linked to how important the relevant risk is to SCBC's business model and the positive effects expected to be achieved in the form of anticipated income, cost savings or reduction of other risks.

As a rule, each business decision changes SCBC's exposure to various risk types. Accordingly, SCBC's risk control models are designed to reflect the determined risk appetite and such that each business decision is based on a healthy balance between the estimated impact on earnings and changes in risk exposure. Based on the chosen strategy, ongoing earnings and the size of own funds, the Board of the Parent Company establishes the risk that SCBC is prepared to take and makes decisions regarding risk appetite targets. These targets are based on two main categories: solvency and liquidity risk. The solvency category encompasses the risks for which SCBC must retain capital, while liquidity risk encompasses the risks impacting SCBC's prerequisites for successful financing and liquidity management. Each category is broken down into subgroups with established limits for which outcomes are followed up on and reported monthly to the CEO and Board.

SCBC's targets for the two risk appetite categories:

- In the first category, solvency, risks are monitored to ensure that SCBC maintains sufficient capital to operate its business activities in accordance with the strategy determined by the Board and that credit risk, market risk and operational risk are kept within the levels approved by the Board. In addition, minimum levels are maintained with regard to capital ratios.
- In the second category, liquidity risk, risk is monitored to ensure that liquidity meets the determined minimum levels so that SCBC is able to cope with periods of strained market liquidity. It also includes ensuring that the SCBC's cover poolhas a sufficient level of collateral to maintain a AAA rating in a stressed scenario.

SCBC is tasked with continuously reassessing the balance between risks and risk-bearing capacity or the costs to minimise risk. The reassessment includes limits and calibration levels and should be performed prior to the start of business planning, the internal capital adequacy assessment processes (ICAAP) and capital planning. The processes for business planning, ICAAP and capital planning should then include a clear and documented link to risk appetite.

4.4 LIMITS FOR CAPITAL RATIOS AND TARGETS FOR CAPITAL

Each year, the Board considers capital requirements in relation to the risks to which SCBC is exposed. This is performed through a decision on limits for capital ratios.
Based on the chosen business strategy, rating targets and capital planning, the Board decided to adopt the following capital targets effective from 31 December 2020:

- The CET1 capital ratio should under normal conditions be at least 0.6 percentage higher than the CET1 capital requirement communicated by the Swedish FSA.
- The total capital ratio should under normal conditions be at least 0.6 percentage higher than the capital requirement communicated by the Swedish FSA.
- Under normal conditions, the leverage ratio should be at least 0.2 percentage above whichever is higher between the capital requirement communicated by the Swedish FSA, or 3%.
- The MREL coefficient must be at least 5.26% in accordance with the decision of the Swedish National Debt Office (SNDO)

Table 3. **Decided targets for returns and capital ratios**

	TARGETS		OUTCOME		DIFFERENCES	
	2020	2019	2020	2019	2020	2019
Return on equity (owner's return requirement) [1], %	10.0 +/-4.0	10.0 +/-4.0	8.5	7.8	2.5	1.8
CET1 capital ratio, %	8,2%	10.9	16.3	17.0	6.1	6.1
Total capital ratio, %	12,2%	14.8	16.3	17.0	2.2	2.2

[1] Net profit for the year divided by average equity.

- for 2020. For 2021 the SNDO has deciced MREL coefficient to at least 4.74%.

At any given time, the capital requirement as communicated by the SFSA and which applies to CET1 capital, own funds requirements, the leverage ratio and the MREL must be met. Outcomes for the capital ratios are reported to the CEO and the Board on a monthly basis. More detailed reporting of the current capital position in relation to established targets is performed quarterly. The CRO is responsible for this reporting.

4.5 THREE LINES OF DEFENCE

To define the division of responsibilities between the business operations, risk control and compliance, as well as internal audit, SCBC applies the division of roles and responsibilities resulting from the three lines of defence principle:

- The first line of defence refers to the day-to-day management of risks performed by the business operations that incur and own the risks.
- The second line of defence refers to the risk control (comprising the units for market and liquidity risk, credit risk modelling, credit risk analysis, capital and operational risk) and compliance functions. The risk control units are to ensure that risk awareness and acceptance are sufficient to be able to manage risks on a daily basis. They also have a supportive role and work to ensure that the business operations have the procedures, systems and tools required to maintain the daily management of risks, thereby ensuring that the business operations comply with applicable laws and regulations in risk control's sphere of responsibility. Compliance is responsible to verify that the business operations adhere to laws and regulations and support the business operations within its area of responsibility.
- The third line of defence refers to the internal audit, which reviews and regularly assesses whether the company's organisation, governance processes, IT systems, models and procedures are appropriate and effective, and whether the company's internal controls are appropriate and effective. The internal audit is also tasked with reviewing and regularly assessing the company's risk management based on its adopted risk strategy and risk appetite.

4.6 RISK ORGANISATION

SCBC's Board of Directors has the ultimate responsibility for the company's total risk exposure. The Board's responsibility is to ensure that operations are conducted with good internal control so that SCBC's ability to meet its obligations is not compromised. As SCBC's operations are outsourced to the Parent Company SBAB Bank AB (publ), 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 relevantinstructions 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.

When the Board determines the business strategy, it takes into account the risks that SCBC is and may be exposed to as well as the capital required to cover SCBC's risks.

Figure 3. **The three lines of defence**

The three lines of defence

Risk management and risk organisation

The Board or its committees are to approve all significant methods, models and processes used in risk management. For more information regarding the Board's committees, see the Corporate Governance Report in SCBC's Annual Report. The Board and CEO should have a sound overall comprehen- sion of these and a detailed understanding of the content of the risk reports submitted to them. The CRO is responsible for the Board and CEO receiving ongoing training in risk-related issues and for ensuring that new members are trained within two months of commencing their appointments.

The CEO is responsible for ongoing administration in accordance with the strategies, guidelines and governance documents adopted by the Board. The CEO is to ensure that the methods, models and processes forming part of the internal measurement and control of identified risks function as intended and are approved by the Board. In ALCO (Asset & Liability Committee), issues concerning capital management, liquidity preperedness, overall strategy regarding market risk and limit issues are discussed. Above that issues related to finance strat- egy, balance sheet plan and internal price are discussed in front of CEO.

The CEO also ensures, on an ongoing basis, that reporting to the Board by each unit, including the Risk Control function, is conducted in accordance with the relevant instructions. The CRO is responsible for the independent Risk Control function, which comprises identification, quantification, analysis, follow-up and reporting of all risks. The CRO is directly subordinate to the CEO and reports directly to the CEO and Board of Directors of SCBC.

Among other matters, the CRO is responsible for:

- At an overall level, developing risk-taking strategies and ensuring that SCBC's risk-taking strategies are implemented in accordance with the Board's intentions, and that policies, instructions and processes facilitate relevant follow-up; Identifying, measuring, analysing and reporting risk exposure to the Board of Directors and CEO;
- Providing the Board of Directors and the CEO with a tangible and comprehensive overview of all risks in the institution; Designing proposals for the risk strategy and participating in all material risk management decisions;
- Having sufficient authority to influence strategic risk management decisions and being able to contact the Board of Directors directly; and
- Designing, implementing, ensuring reliability and following up SCBC's risk classification system and its economic capital model.

A monthly report on the overall risk situation and capital adequacy ratios is presented by risk control to the Board, the CEO and Executive Management. The Board and the CEO are also provided with a more in-depth description of risks on a quarterly basis. In addition, a daily report on current risk levels in relation to granted limits is presented to the CEO, CFO and CRO. SCBC's Board and Executive Management are thereby provided with a relevant overview of the risk exposure on a continuous basis.

Those who own the risks, i.e. the business operations, must, without delay, inform risk control of occurrences of significant events that could entail a increased risk.

Clear ownership of risk and compliance applies in the first line of defence at SCBC. This is secured through an organisation comprised of risk and compliance coordinators in the first line of defence, who support the respective business managers with a focus on risk management, process mapping, internal controls, incident management and regulatory compliance.

5 Capital adequacy

The rules for capital adequacy are stated in the CRR and CRD IV. In part, the rules serve to make institutions more resilient to new crises and, in part, to raise confidence in the institutions' ability to manage new crises. The institutions must prove to rating agencies and the investors who purchase the institutions' securities, as well as new and existing customers, that they have an adequate capital situation.

5.1 CAPITAL REQUIREMENTS

The size of SCBC's capital requirement depends on laws and regulations, the company's internal assessment based on approved strategies, the assessments of investors and rating agencies, and the evaluations made by the owner, the Board and Executive Management. SCBC continuously evaluates and adjust its capital targets when necessary. Due to the Corona pandemic impact on the economy and the upcoming amended EU regulations SBAB ensure that all requirements are fulfilled.

Capital in accordance with Pillar 1, refers to the minimum amount of capital that the company is required to have in accordance with the CRR and CRD, the EU's technical standards and delegated acts, the Special Supervision of Credit Institutions and Investment Firms Act (2014:968), the Capital Buffers Act (2014:966) and the Swedish FSA's regulations regarding prudential requirements and capital buffers (FFFS 2014:12). The total capital ratio including the additional amount under Pillar 2 amounted to 11.6% on 31 December 2020, and the CET1 capital requirement was 7.6%. The total capital ratio and the CET1 capital ratio was 16.3% on 31 December 2020.

5.2 CAPITAL REQUIREMENTS AND BUFFERS

The rules in the CRR and CRD IV entail, among other things, requirements in the Pillar 1 for a minimum level of own funds and regulations regarding capital requirements. According to the requirements, the bank must have a CET1 capital ratio of at least 4.5%, a Tier 1 capital ratio of at least 6% and a total capital ratio at least equal to 8% of the total risk exposure amount for credit risk, market risk and operational risk.

5.2.1 Buffers

In addition to a total capital ratio of 8%, the bank must maintain CET1 capital to meet the combined buffer requirement, which in Sweden is the sum of a capital conservation buffer of 2.5% of the risk exposure amount, a countercyclical buffer of up to 2.5% and buffers for systemic risk of up to 4%.

The SFSA has decided that, in addition to a capital conservation buffer of 2.5%, a countercyclical buffer will also apply for Swedish exposures. The countercyclical buffer for Swedish exposures has decreased from 2.5% to 0.0% effective from 16 March 2020 due to the current corona pandemic. On November 24, 2020, the Swedish FSA decided to keep the countercyclical capital buffer requirement for banks unchanged at 0.0%.

The SFSA has also decided to recognise countercyclical buffer values of up to 2.5% set by a competent authority in another EEA country. Due to the corona pandemic the countercyclical buffer value for Norwegian exposures decreased from 2.5% to 1.0% following a decision by the Norwegian Ministry of Finance in March 2020. At the same time the countercyclical buffer for Danish exposures decreased from 1.0% to 0.0%, following by a decision by the Danish Ministry of Finance. United Kingdom exposures are also subject to a countercyclical buffer of 0.0%. Furthermore, banks considered systemically important are subject to an additional capital requirement of 4% to be covered by CET1 capital. The banks in Sweden that are currently considered systemically important are: Handelsbanken, SEB, Swedbank and Nordea Hypotek. The buffer values are presented in Table 9, Risk exposure amounts and capital requirements.

5.2.2 Risk-weight floor for Swedish mortgages

In August 2018, the Board of Directors of the Swedish FSA decided to change the method for applying risk-weight floors for Swedish residential mortgages. The requirement that until 2018 applied in Pillar 2 has, from 31 December 2018, been replaced with a corresponding requirement in Pillar 1 through activation of Article 458 of the CRR. The change applies for a period of two years, or alternatively, until the macroprudential risk ceases to exist. Under Article 458, the measure can be extended for one year at a time. The measure applies to credit institutions with Swedish mortgage exposures and to institutions with permission to apply an IRB approach for these exposures. SCBC is subject to this measure.

The Swedish FSA notified in September 2020 the European Parliament, the Council of Ministers, the European Commission, the European Systemic Risk Board (ESRB) and the European Banking Authority (EBA) of their intentions to extend the period with one year. The European Commission approved, and the Swedish FSA decided to extend the risk weight floor by one year, to 30 December 2021.

5.3 REGULATORY CHANGES

The rate of changes in the regulatory frameworks has remained high.

5.3.1 Regulatory changes in 2020

The EU Official Journal has as of June 7, 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 June 27, 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 in the Capital Requirements Regulation (CRR) will apply from June 28, 2021. Amendments in Swedish law due to the Capital Adequacy Directive entered into force on 29 December 2020.

In order to adapt the Banking Package the Swedish FSA proposed amendments to regulations and changes in the application of capital requirements for Swedish banks. The amendments entered into force on 29 December 2020.

Due to the corona pandemic, the EU made amendments to the CRR II with effect from June 27, 2020. SBAB 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 have a limited effect on the capital requirements.

In May 2020, SCBC started to apply a new definition of default according to guidelines submitted by the European banking authority (EBA) aimed to harmonize calculations for credit risk between banks and to clarify the definition of default and the thresholds for materiality pursuant to Article 178(1) of the CRR. 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 accordance with the bank´s expectations.

5.3.2 Forthcoming regulations

Identified, forthcoming regulatory changes are presented below:

The Banking package was adopted In May 2019 by the Council. This package contains a comprehensive legislative package containing amendments to the capital requirement legislation (CRR II and CRD V) which reinforces the capital and liquidity positions of banks and strengthens the framework for the recovery and resolution of banks in difficulty (directive 2014/59/EU and regulation 806/2014). The purpose of these regulations is to increase financial stability, strengthen the resilience of the EU Banking system and improve banks' lending capacity within the EU.

- A binding leverage ratio requirement of 3% has been introduced in CRR to complement the current system for the reporting and disclosure of the leverage ratio. The requirement will be effective from June 2021.
- Minimum requirements for the net stable funding ratio (NSFR) – the structural liquidity measure comprising the ratio between available stable funding and the stable funding required – will be introduced in the EU in June 2021.

In April 2020, EBA submitted a final report specifying uniform disclosure formats to increase comparability of information required by CRR Part Eight. The application of the disclosure requirements will be effective from June 2021.

The EBA has initiated an extensive effort aimed at harmonising the banks' internal ratings-based (IRB) systems used to cover capital requirements for credit risk. It concerns the parameter estimates of PD and LGD, and their respective calibration against long-run average default rates and long-run average LGD after taking into account economic downturn periods. Work is ongoing and new IRB models is expected to be implemented by 2022. Through clarification of the regulatory requirements in these areas, the EBA hopes to achieve a consensus among the banks, whereby the same underlying credit risks are covered to an equal extent. The new regulatory requirements will be effective from 1 January 2022 and will affect all SCBC's entire rating system.The SFSA has on 28 January 2020 introduced an additional Pillar 2 requirement regarding exposures in lending to the commercial real estate sector. The requirement will be calculated as risk-weight floors, with established risk-weigths of 35% for corporate exposures collateralised by commerical real estate and 25% for corporate exposures collateralised by commercial residential properties. The additional capital requirement will be applied in 2021 during SFSA´s assessment of the banks' capital requirements as part of SFSA 's annual supervisory review and evaluation process (SREP). The decision will have a limited effect on SCBC´s risk weighted exposures.

The European Banking Authority (EBA) published in November 2020 a Discussion Paper on Environmental, Social and Governance (ESG) risks management and supervision. The Discussion Paper provides a comprehensive proposal on how ESG factors and ESG risks could be included in the regulatory and supervisory framework for credit institutions and investment firms. EBA will also develop a technical standard implementing the ESG risks Pillar 3 disclosure requirements that will enter into force in June 2022.

In December 2017, the Basel Committee finalised the Basel III framework. The final proposal complements the initial phase of Basel III reforms previously finalised by the Committee. The main changes to current approach include changes in credit risk, a revised standardised approach will be introduced with a larger component of risk sensitivity. In addition, restrictions will be introduced on how methods based on internal models may be used. For measuring operational risk banks must use a new, uniform standardised approach based on a combination of the bank's earnings and historical operational losses. An overall risk-weight floor of 72.5% of the exposure amount is being introduced according to the standardised approach for all banks that use internal models. Due to the corona pandemic the implementation date has been postponed one year. The new rules will be applied from 2023 with a transitional period for the output floor up until 2028.

In June SFSA presented a consultation memorandum (FI no. 19-4434) with a proposal and later in December a decision on a new Pillar 2 method for market risks in the banking book, which replaces the previous method described in memorandum FI dnr 14-14414. The new method includes interest rate risk, credit spread risk and basis spread risk. The requirement will be effective from January 2021.

Table 4. **Geographic distribution of exposures relevant for the calculation of the countercyclical buffer**

	GENERAL CREDIT EXPOSURES		TRADING BOOK EXPOSURES		SECURITISATION EXPOSURES		CAPITAL REQUIREMENTS					
Countercyclical buffer by country, SEK million	**Exposure value for SA**	**Exposure value for IRB**	**Sum of long and short positions of trading book exposures for SA**	**Value of trading book exposures for internal models**	**Exposure value for SA**	**Exposure value for IRB**	**Of which: General credit exposures**	**Of which: Trading book exposures**	**Of which: Securitisation exposures**	**Total**	**Own funds requirements weights**	**Countercyclical capital buffer rate**
Sweden	169	398,380	–	–	–	–	1,620	–	–	1,620	100.00%	0.00%
Norway	–	–	–	–	–	–	–	–	–	–	0.00%	1.00%
Other	–	–	–	–	–	–	–	–	–	–	0.00%	–
Total	**169**	**398,380**	**–**	**–**	**–**	**–**	**1,620**	–	**–**	**1,620**	**100.00%**	

Table 5. **Amount of institution-specific countercyclical capital buffer**

SEK million	
Total risk exposure amount	104,080
Institution-specific countercyclical capital buffer rate, %	0.00
Institution-specific countercyclical buffer requirement	0

Pillar 2 is split into a Pillar 2 Requirement (P2R) and a Pillar 2 Guidance (P2G). The P2R is to be implemented as a strict requirement, impacting MDA levels. Furthermore, the P2R is allowed to be covered with a higher share of hybrid capital instruments compared to what has been included in Pillar 2 previously. The P2G is to be covered by CET1 capital. The SFSA has published indicative figures for the P2G but no bank-specific levels have been communicated so far. The levels indicated for the Swedish banking sector as a whole are 1-1.5% for the risk-weighted requirement and 0.2-0.5% for the Leverage ratio - however some banks may end up higher or lower than these levels. The P2G level for each bank is proposed to be set through a sensitivity-based stress test that the SFSA performs, combined with other quantitative and qualitative grounds of assessment.

5.3.3 Regulatory changes due to the corona pandemic

Due to the corona pandemic several changes in the regulatory reporting have been recognised.

Some parts of the CRR II have been effective from June 2020 instead of June 2021.

In April 2020 EBA introduced moratorium guidelines aimed to give institutions the possibility to give individual customers a credit relief concerning loan payments during a limited period. The guidelines were supposed to be phased out but due to the development of the corona pandemic, they were reintroduced in December 2020. The guidelines have been adjusted with some restrictions to reduce a large balance with not correctly identified problem loans in each institution.

5.4 OWN FUNDS

SCBC's own funds comprise Common Equity Tier 1 Capital, no additional Tier 1 capital nor Tier 2 capital. SCBC's own funds amounted to SEK 17,008 million on 31 December 2020. Over the year, CET1 capital was affected by the fact that net profit/loss for the period was added. The surplus has been verified by the company's auditors, in accordance with Article 26, item 2, of the CRR.

According to Article 35 of the CRR, the institution shall, except in the case of the items referred to in Article 33, not make adjustments to remove from own funds unrealised gains or losses on assets or liabilities recognised at fair value. According to this Article, SEK 2,217 million have been added to CET1 capital.

According to Article 33, item 1, of the CRR, the part of the fair-value reserves related to gains or losses on cash-flow

hedges of financial instruments that are not valued at fair value,

including projected cash flows, is not to be included in own funds. The CET1 capital has been adjusted for cash-flow hedges amounting to SEK 2,217 million.

Changes in fair value that depend on the institution's own credit standing and that are related to derivatives had a limited impact on CET1 capital, in accordance with Article 33, item 1b.

With reference to Articles 34 and 105 of the CRR, SEK 11 million has been deducted from CET1 capital due to the requirements for prudent valuation.

A deduction of SEK 12 million for net provisions were made in accordance with Article 36 of the CRR. An addition for an IRB surplus, under Article 62, item d of the CRR, had an impact of SEK 5 million on own funds in December 2020.

No risk exposures have been deducted from own funds.

DISCLOSURE OF OWN FUNDS

"Disclosures in accordance with Article 4 of Commission Implementing Regulation (EU) No 1423/2013, Annex IV.

Table 6. **Own funds**

Consolidated situation, SEK million	31 Dec 2020	31 Dec 2019
CET1 capital instruments: Instruments and reserves		
Capital instruments and related share premium accont s	9,600	9,600
Retained earnings	6,013	5,253
"Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)"	2,217	1,830
Independently verified net profit for the year net of any foreseeable charge or dividend [1]	1,413	1,349
CET1 capital before regulatory adjustments	**19,243**	**18,032**
CET1 capital: Regulatory adjustments		
Additional value adjustments (negative amount)	–11	–12
Fair value reserves related to gains or losses on cash-flow hedges	–2,217	–1,830
Negative amounts resulting from the calculation of expected loss amounts	–12	–22
Gains or losses on liabilities valued at fair value resulting form changes in own credit standing	0	0
Total regulatory adjustments to CET1 capital	**–2,240**	**–1,864**
CET1 capital	**17,003**	**16,168**
Additional Tier 1 capital: Instruments		
Addtional Tier 1 before regulatory adjustments	**–**	**–**
Additional Tier 1 capital: Regulatory adjustments		
Total regulatory adjustments to Additonal Tier 1 capital	–	–
Additional Tier 1 capital	**–**	**–**
Tier 1 capital (Tier 1 capital= CET1 +Additonal Tier 1 capital)	**17,003**	**16,168**
Tier 2 capital : Instruments and provisions		
Credit risk adjustmetns	5	5
Tier 2 capital before regulatory adjustments	**5**	**5**
Tier 2 capital: Regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	–	–
Tier 2 capital	**5**	**5**
Total capital (Total capital= Tier 1 capital +Tier 2 capital)	**17,008**	**16,173**
Total risk exposure amount	**104,080**	**94,966**
Capital ratios and buffers		
CET 1 capital (as a percentage of total risk-weighted exposure amount), %	16.3	17.0
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	16.3	17.0
Total capital (as a percentage of total risk-weighted exposure amount), %	16.3	17.0
Institut-specific buffer requirements (CET1 capital requirement in accordance with Article 92(1)(a) plus the capital conservation buffer and countercyclical capital buffer requriements, 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, %	7.0	9.5
of which, CET1 capital, minimum requirement, %	*4.5*	*4.5*
of which, capital conservation buffer requirement, %	*2.5*	*2.5*
of which, countercyclical buffer requirement, %	*0.0*	*2.5*
of which, systematic risk buffer requirement, %	–	–
of which, G-SII buffer and O-SII buffer, %	–	–
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts, %)	8.3	9.0
Capital instruments subjects to phase-out arrangements (only applicable between 1 January 2014 to 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	–	–

1) Year-end profit and loss have been verified by Deloitte AB pursuant to Article 26, Point 2a of the Capital Requirements Regulation.

There are no ongoing or foreseen material obstacles or other legal barriers to a rapid transfer of funds from own funds other than what generally applies under the Companies Act (2005:551).

The starting capital required for the Parent Company in accordance with the Act on Banking and Financing Activities (2004:297) totalled SEK 45.9 million. The corresponding capital requirement for SCBC amounted to SEK 47.0 million.

Table 7. **Capital adequacy**[1)]

SEK million	SCBC 2020	2019
CET1 capital	17,003	16,168
Tier 1 capital	17,003	16,168
Total capital	17,008	16,173
Risk exposure amount	104,080	94,966
CET1 capital ratio, %	16.3	17.0
Excess [2)] of CET1 capital	12,319	11,894
Tier 1 capital ratio, %	16.3	17.0
Excess [2)] of Tier 1 capital	10,758	10,470
Total capital ratio, %	16.3	17.0
Excess [2)] of total capital	8,681	8,575

[1)] From year-end 2018, the risk-weight floor for residential mortgages has affected risk exposure amount, excess capital and capital ratios.
[2)] Excess capital has been calculated based on minimum requriements (without buffer requirements)

5.5 REGULATORY CAPITAL REQUIREMENTS

When calculating capital requirements, each exposure is allocated to an exposure class, either using the standardised or the IRB approach. Table 9 shows the individual risk exposure amounts distributed by exposure class.

Total credit risk at SCBC increased over the year mainly due to increased volumes within corporate exposures. Market risk, which in SCBC only comprises currency risk, declined slightly due to exposures in EUR.

Table 8. **Overview of risk exposure amount** *(EU OV1 table)*

SEK million	Risk exposure amount 2020	2019	Minimum capital requirement 2020	2019
Credit risk (excluding CCR)	**20,247**	**17,246**	**1,620**	**1,381**
of which the standardised approach	169	32	14	4
of which the foundation IRB (FIRB) approach	8,838	5,940	707	475
of which, the advanced IRB (AIRB) approach	11,240	11,274	899	902
CCR	**564**	**453**	**45**	**36**
of which Mark-to-Market Method	123	85	10	7
of which CVA	441	368	35	29
Market risk	**556**	**729**	**44**	**58**
of which the standardised approach	556	729	44	58
Operational risk	**4,441**	**4,186**	**355**	**335**
of which the standardised approach	4,441	4,186	355	335
Addtional stricter prudential requriements based on CRR art.458	**77,656**	**71,736**	**6,213**	**5,739**
Addtional stricter prudential requriements based on CRR art.3	**616**	**616**	**49**	**49**
Total	**104,080**	**94,966**	**8,326**	**7,598**

Table 9. **Risk exposure amounts and capital requirements**

SEK million	Risk exposure amount 31 Dec 2020	Capital requirement 31 Dec 2020	Risk exposure amount 31 Dec 2019	Capital requirement 31 Dec 2019
Credit risk in accordance with IRB approach				
Exposures to corporates	8,838	707	5,940	475
Retail exposures	11,240	899	11,274	902
- of which, exposures to SMEs	*856*	*68*	*764*	*61*
- of which, retail exposures secured by immovable property	*10,384*	*831*	*10,510*	*841*
Total exposures recognised with the IRB approach	**20,078**	**1,606**	**17,214**	**1,377**
Credit risk recognised with the standardised approach				
Exposures to governments and central banks	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0
Exposures to multilateral development banks	0	0	0	0
Exposures to institutions[1]	123	10	85	7
- of which, derivatives according to CRR, Appendix 2	*114*	*9*	*64*	*5*
- of which, repos	9	1	*21*	*2*
- of which, other	*0*	*0*	*0*	*0*
Exposures to institutions and corporates with a short-term credit rating	0	0	0	0
Other items	169	14	32	4
Total exposures recognised with standardised approach	**292**	**24**	**117**	**11**
Market risk	**556**	**44**	**729**	**58**
- of which, position risk				
- of which, currency risk	*556*	*44*	*729*	*58*
Operational risk	**4,441**	**355**	**4,186**	**335**
Credit valuation adjustment risk	**441**	**35**	**368**	**29**
Additional requirements under Article 458 of the CRR	**77,656**	**6,213**	**71,736**	**5,739**
Additional requirements under Article 3 of the CRR	**616**	**49**	**616**	**49**
Total risk exposure amount and minimum capital requirements	**104,080**	**8,326**	**94,966**	**7,598**
Capital requirements for capital conservation buffer		**2,602**		**2,374**
Capital requirements for countercyclical buffer		**0**		**2,374**
Total capital requirements		**10,928**		**12,346**

[1] The risk-weighted amount for counterparty credit risk according to the CRR, Article 92(3)(f), amounts to SEK 123 million (85).

Table 10. **Standardised approach** *(EU CR5 table)*

Exposure class, SEK million	0%	10%	20%	50%	75%	100%	150%	1,250%	Deducted[2]	Total	Of which, unrated
Central governments or central banks	233	–	–	–	–	–	–	–	–	233	–
Regional governments or local authorities	459	–	–	–	–	–	–	–	–	459	–
Multilateral development banks	–	–	–	–	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–	–	–	–	–
Institutions[1]	12,460	–	–	247	–	–	–	–	–	12,707	–
Corporates	–	–	–	–	–	–	–	–	–	–	–
Retail	–	–	–	–	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–	–	–	–	–	–
Institutions and corporates with a short-term credit assessment	–	–	0	–	–	–	–	–	–	0	–
Equity	–	–	–	–	–	–	–	–	–	–	–
Other items[2]	–	–	–	–	–	169	–	–	–	169	169
Total	**13,152**	**–**	**–**	**247**	**0**	**169**	**–**	**–**	–	**13,568**	**169**

[1] The calculation includes counterparty credit risk.
[2] The exposure class, "other items" includes those items deducted from own funds. Capital adequacy for these is calculated with a risk weight of 0%.

5.6 CREDIT RISK MITIGATION TECHNIQUES

Credit risk mitigation used for IRB exposures consists of government and municipal guarantees. These are recognised using the standardised approach for credit risk. Table 22 shows more details.

Table 11. **Standardised approach – Credit risk exposure and credit risk mitigation (CRM) effects** *(EU CR4 table)*

	Original exposure amount before credit risk conversion factors and mitigation methods		Original exposure amount after credit risk conversion factors and mitigation methods		Risk exposure amounts and risk exposure density	
Exposure classes, SEK million	**Carrying amount**	**Contingent liabilities**	**Carrying amount**	**Contingent liabilities**	**Risk exposure amount**	**Density (%)**
Central governments or central banks	232	–	233	–	–	–
Regional governments or local authorities	1	–	459	–	–	–
Multilateral development banks	–	–	–	–	–	–
International organisations	–	–	–	–	–	–
Institutions[1]	0	–	0	–	0	0
Corporates	–	–	–	–	–	–
Retail	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–
Institutions and corporates with a short-term credit assessment	0	–	0	–	0	0
Equity	–	–	–	–	–	–
Other items	169	–	169	–	169	100
Total	**402**	**–**	**861**	**–**	**169**	**20**

[1] The institution exposure class excludes counterparty risk.

Table 12. **Exposure amounts before and after credit risk mitigation by credit quality step**

Credit quality step, SEK million	**Exposure amount before credit risk mitigation measures**	**Exposure amount after credit risk mitigation measures**
1	13,153	13,153
2	247	247
3	–	–
4	–	–
5	–	–
6	–	–
Total	**13,399**	**13,399**

Table 13. **Credit risk mitigation techniques - overview** *(EU CR3 table)*

SEK million	**Exposures unsecured – carrying amount**	**Exposures secured – carrying amount**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
Total loans	68	398,187	397,727	460	–
Total debt securities	–	–	–	–	–
Total exposures	**68**	**352,012**	**351,257**	**755**	–
Of which defaulted	1	177	177	–	–

5.7 SECURITISED ASSETS

SCBC has no securitised loans of its own and has not contributed to any other institution's securitisation.

5.8 RATING

SCBC uses ratings from all three approved rating agencies: Moody's, Standard & Poor, and Fitch.

When external ratings are used, the two lowest ratings from Moody's, Fitch or Standard & Poor's are selected in accordance with Article 138 of the CRR. External ratings are used for exposures to governments and central banks, regional governments or local authorities and agencies, multilateral development banks, institutions or corporates with a short-term credit rating, and exposures in the form of covered bonds. The association of the external rating provided by credit rating agencies with the credit quality steps prescribed in the CRR complies with the standard association published by the EBA (refer to Table 21, The mapping between internal and external rating).

6 Internally assessed capital requirement

The internal capital adequacy assessment aims to ensure that SCBC has adequate capital under normal circumstances and in the event of financial problems. The Board of Directors and Executive Management are responsible for the internal capital adequacy assessment. Within the framework of the internal capital and liquidity adequacy assessment processes (ICAAP), SCBC applies an economic capital model for its internally assessed capital requirement. Liquidity risk does not directly lead to capital requirement instead it entails needs in form of liquidity reserve and active debt management. The ICAAP is designed to ensure an equal balance between risks and capital. Refer to Chapter 13 for more information on liquidity risk.

6.1 INTERNAL CAPITAL ADEQUACY ASSESSMENT ACCORDING TO PILLAR 2 OF THE BASEL REGULATIONS

As of 22 October2019, the Swedish FSA has enforced Pillar 2 requirement for SCBC also. Pillar 2 of the Basel 3 regulations imposes the requirement that the 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 maintain a capital amount. This capital amount's type and distribution should be enough to cover all type of risks to which they are exposed to or could be exposed in the future. This is called the internal capital and adequacy assessment process (ICAAP).

The operations conducted by SCBC affect the size of the risk taken by the company, which in turn impacts the size and nature of the capital required to manage unforeseen losses. The size of the capital in turn affects the price of individual transactions for customers. The better SCBC can manage and assess the risk, the more accurately the scope of the capital utilised in the individual transaction can be assessed, thereby enabling the risk-adjusted return for the transaction to be calculated.

SCBC's internally assessed capital requirement comprises the minimum capital requirement under Pillar 1, the capital requirement under Pillar 2 and buffer requirements. The Pillar 2 capital requirement assesses the additional capital required, over and above Pillar 1, for the risks where a capital requirement has been identified in Pillar 2. This assessment is based on SCBC's economic capital model. If the economic capital for each risk class exceeds the capital requirement in Pillar 1, an additional amount applies under Pillar 2. The capital requirement under Pillar 2 also assesses risk classes not covered by Pillar 1. Moreover, a number of buffer requirements also apply. In addition to the buffer requirement under Pillar 1, SCBC calculates a capital planning buffer to cover any deterioration of the capital adequacy in the event of severe but not improbable financial stress.

When determining the size of the capital target, assessments of investors and rating agencies regarding the company's capital target compared with the capital held by the company, are also considered. The views of rating agencies are reflected in SCBC's rating, which directly impacts the company's funding cost.

The quality and utilisation of risk information are essential to SCBC's long term competitiveness in the market. The purpose of the internal capital adequacy assessment process (ICAAP) is to ensure that the company identifies, measures, secures and manages the risks to which SCBC is exposed and has own funds that are compatible with the selected risk appetite. The process is revised annually to capture changes in the operating environment, that continuously affect the company's performance.

6.2 PROCESS FOR INTERNAL CALCULATION OF CAPITAL REQUIREMENTS

As a part of SCBC's process for establishing internally calculated capital requirements, the risks generated in the operations are identified initially. Risk Control is responsible for the quantification of all risks. Various models are used depending on the risk to be measured. The economic capital model is used to calculate capital requirements for quantifiable risks.

SCBC uses stress tests to assess the impact on the capital requirement during a normal economic downturn in the event of severe but not improbable financial stress.

In addition to economic capital, capital buffers are reserved for capital requirements caused by stress tests and for pension risk, which are all included in the internal capital requirement. The combined results are followed up and analysed, for both short and long term effects, in terms of capital planning and forecasts. The compiled results of the internal capital adequacy assessment are reported to the Board and CEO. Finally, the Board adopt the process and the results of the company's internal capital adequacy assessment.

Figure 4. **Internal capital adequacy assessment process**

1 QUANTIFICATION OF RISKS	2 QUANTIFICATION AND ASSESSMENT OF OTHER RISKS	3 ASSESSMENT OF COMBINED INTERNAL CAPITAL REQUIREMENTS	4 OWN FUNDS (COMPARED WITH CAPITAL POLICY AND PLAN)	6 REPORTING
• Credit risk • Concentration risk • Market risk • Sovereign risk • Operational risk • CVA risk	• Stress • Other risks	• Comparison of economic capital and minimum capital requirements under Pillar 1 • Aggregation of capital requirements for the various risks	• CET1 capital • Additional Tier 1 capital • Tier 2 capital	• Fulfilment of capital targets and combined internal capital requirements • Internal reporting • External reporting

6.3 INTERNAL CAPITAL ADEQUACY ASSESSMENT COMPONENTS

SCBC's internal assessment of the capital requirement include the minimum requirements under Pillar 1, the Pillar 2 core requirement, the risk-weight floor for Swedish residential mortgages, buffer requirements, stress tests and the capital planning buffer. It is used to control and monitor profitability in both the company's operations and for strategic considerations.

The capital requirements for credit risk, including concentration risk and sovereign risk, market risk, operational risk and CVA risk are quantified in SCBC's economic capital model.

Economic capital for credit risk and market risk is defined as the amount of capital needed to ensure solvency over a one year period, given a confidence level of a worst case scenario. The confidence level is chosen to reflect the company's target rating. In addition to the capital requirement that is quantified with SCBC's economic capital model, an additional capital requirement arises from the risk-weight floor for Swedish residential mortgages, pension risk, and potential additions in the form of business risk and the capital planning buffer. Refer to Table 16 for the internally calculated capital requirements per risk type.

6.3.1 Credit risk

Credit risk in lending operations is the predominant risk in SCBC's operations. Credit risk in lending operations is defined as the risk of loss due to the customer's or the counterparty's inability to make interest and loan repayments or otherwise incapability to fulfill the loan agreement. Lending is conducted to consumers, tenant owners' associations and companies. Aside from lending and loan commitments, credit risk also arises in treasury operations through derivative counterparties and through investment risk for investments in the liquidity portfolio.

6.3.1.1 Credit risk in lending operations

In the economic capital model, credit risk is calculated by using the Basel framework's formulas for capital requirements for credit risk. However, these have been modified by adding further safety margins to the required correlation assumptions applied. Moreover, the capital requirement is calculated to a confidence level of 99.97%, rather than to 99.9% as given in the original formula. Furthermore, in the economic capital calculation, which is the base for SCBC's risk-adjusted follow up, the prescribed LGD floors of 10% and 15%, respectively, are not applied. This is because economic capital, in contrast to the IRB approach applied in the regulatory framework, should be sensitive to the LTV ratio for all exposures.

The formula applied by the Basel framework for calculating capital requirements under Pillar 1 does not take into account any concentration effects in the loan portfolio. In this model, the capital requirement for a single exposure is independent of the loan's portfolio and is based solely on PD, LGD and EAD for the specific exposure. Therefore, an addition for concentration risk must be made to quantify SCBC's compiled credit risk, including concentration risk.

6.3.1.2 Risk-weight floor for Swedish mortgages

In August 2018, the Swedish FSA decided to apply the existing risk weight floor of 25 percent for mortgages applied in Pillar 2 as a requirement within the framework of Article 458 of the CRR. The amendment entered in to force from 31 December 2018 and applies for two years. This has resulted in a change,as now the capital requirement for the existing risk weight floor for mortgages in Sweden is set as a requirement in Pillar 1 instead of Pillar 2. The credit institutions encompassed by the measure are those authorized to use the IRB approach and which have exposures to Swedish residential mortgages. The branches of foreign credit institutions in Sweden that are exposed to Swedish residential mortgages and which apply the IRB approach for these exposures, have also been affected. The Swedish FSA decided to extend the application of the floor within Pillar 1 until 30 December 2021, after an approval from the European Commission.

6.3.1.3 Credit risk in treasury operations

Credit risk arises in treasury operations, partly in the form of counterparty credit risks for the derivative contracts entered by SCBC to manage its financial risks and partly in the form of investment risk as a result of investments in the liquidity portfolio and the investment of excess liquidity. Calculation of the exposure value for counterparty credit risk is based on the mark-to-market approach and the majority of the exposure is covered through collateral agreements.

The assessment of credit risk in treasury operations is based on the same principles as for lending operations. The main difference to lending operations is that the PD is set on the base of the counterparty's external rating and the LGD is set on the base of the type of instrument (derivative, covered bond, etc.).

6.3.1.4 Sovereign risk

SCBC has central government exposures in its treasury operations and lending operations, which are allocated a risk weight of 0% under Pillar 1. SCBC uses sovereign risk as a risk class in its economic capital model and quantifies the internally assessed capital requirement from sovereign risk. Sovereign risk is calculated on foreign exposures with the risk weight formula for institutions using a LGD of 45%, and where the PD is set on the base of the counterparty's external rating.

6.3.1.5 Credit-related concentration risk

Concentration risk arises when exposures are concentrated to certain counterparties, regions or industries. SCBC is exposed to credit risk related concentration risk in its lending and treasury operations. The entire capital requirement for concentration risk is included in the economic capital for credit risk.

SCBC calculates the concentration risk divided into single name concentration, industry concentration and sector concentration (geographic concentration). SCBC's method for calculating single name concentration is based on a method developed by Gordy & Lutkebohmert (2007) while calculation of industry and sector concentration is based on a method based on the Herfindahl index.

Upon calculation on 31 December 2020, the internally calculated capital requirement for concentration risk was SEK 520 million and the whole amount pertained to credit risk in lending operations.

6.3.2 Credit valuation adjustment risk (CVA)

CVA is defined as the risk of a downgrade in the credit quality of SCBC's OTC derivative counterparties, higher exposure and/or longer average duration of derivatives. Calculation of the exposure amount for counterparty credit risk is based on the mark-to-market approach. SCBC quantifies CVA each month in accordance with the standardised approach in the CRR. SCBC does not identify any additional amount under Pillar 2 for CVA.

6.3.3 Operational risk

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

SCBC applies the standardised approach for capital adequacy for operational risk under Pillar 1. This approach calculates the capital requirement based on the beta factors 12%, 15% and 18%, respectively of the business area's average operating income over the past three years.

SCBC does not identify any additional amount under Pillar 2 for operational risk.

6.3.4 Market risk

Market risk means the risk of experiencing losses due to market fluctuations. SCBC's market risk mainly comprises of interest rate risk, currency risk and basis risk. Market risk is quantified by using SCBC's Value at Risk models (VaR) and it is managed by limiting exposure within limits set by the Board and by centralising the management of these risks to the treasury department. VaR is used to quantify internal assessed capital requirement for credit spread risk, currency risk and basis spread risk while interest rate risk is based on the SFSA's method described in (FI dnr 14-14414).

6.3.4.1 Interest rate risk

Interest-rate risk refers to the risk of variations in general interest rate levels leading to a negative impact on earnings due to future income and expenses having different fixed interest periods or interest terms. The general principle governing SCBC's exposure to interest-rate risk is to limit it through direct borrowing and the use of derivatives. As far as possible, fixed interest liabilities are matched with fixed interest assets, but since SCBC's residential mortgage customers generally choose floating interest (three month fixed interest period) while a large portion of the liability is fixed to longer maturities, a large portion of the debt must be swapped down to a three-month fixed-interest period. As a general principle, the interest rate risk associated with mortgage lending and the liquidity portfolio, including the debt allocated to the respective portfolios, should be matched. SCBC's equity is invested using a guide value determined by SCBC's Board and therefore includes a strategic long term interest rate risk.

6.3.4.2 Credit spread risk

Credit spread risk is defined as the potential value changes in SCBC's bond holdings, since the credit rating of the issuers can change.

6.3.4.3 Currency risk

CCurrency risk refers to the risk that changes in the exchange rate for SEK against other currencies result in losses or negative impact on earnings. Generally, SCBC swaps its borrowing in foreign currencies into SEK or matches it against assets in the liquidity portfolio in the same currency.

6.3.4.4 Basis risk

Basis risk mainly arises when borrowing in foreign currency is swapped to SEK using mismatched maturities.

6.3.5 Pension risk

Pension risk arises from the obligation under SCBC's defined benefit pension plans to provide agreed compensation to existing and former employees of the company. Even though SCBC makes ongoing payments to secure this obligation, a risk exists in the form of a negative outcome in terms of the return on the capital provision. The present value of the pension obligation could also increase depending on actuarial assumptions in terms of mortality and as a result of a lower discount rate. From 1 February 2013, no new employees have joined the defined benefit pension plans.

SCBC quantifies pension risks in accordance with the Swedish FSA's methods for assessing individual types of risk within Pillar 2.

6.3.6 Business risk

Business risk means the risk of weaker earnings due to severe competition, inappropriate strategies or inaccurate decisions. Weaker earnings arising, for example, from reduced margins because of increased funding costs or tougher competition, can to some extent be met by reducing SCBC's costs. However, since the cost is largely comprised of fixed expenses so it cannot be reduced over a oneyear period. Hence, business risk can be described as the loss arising due to the fall of earnings to such an extent that they no longer cover the fixed expenses in a stressed economic scenario. Similar, to the definition in the Swedish FSA's consultation memorandum "Capital requirements for Swedish banks" from September 2014, SCBC defines a normal economic recession as a scenario that occurs around every seven years. The capital requirement for business risk is quantified by evaluating the effects of a stressed scenario that corresponds to a normal economic recession. SCBC's stress tests are described in more detail in section 6.5.

6.4 COMPILATION OF INTERNAL CAPITAL ADEQUACY ASSESSMENT

According to the SFSA's supervisory practices, it is expected that SBAB will cover a certain part of its capital requirement for risks in Pillar 2 with CET1 capital. These are as a general rule to be covered according to the same capital distribution as the Pillar 1 capital requirement, including static buffer requirements (capital conservation buffer, systemic risk buffer and O-SII buffers). For SBAB, this means that 67% of the capital requirement for risks in Pillar 2 are covered with CET1 capital, with exception of concentration risk, interest rate risk in the banking book and pension risk which are covered at 56.25% of CET1 capital as of December 2020.

SCBC's internally calculated capital requirements with consideration for the risk weight floor for Swedish residential mortgages are stated in Table 16. The internally assessed capital requirement corresponds to a CET1 capital ratio of 7.3 % and a total capital ratio of 11.0[3] %. According to the targets set

Table 14. **Internally assessed capital requirements**

		31 Dec 2020		31 Dec 2019	
		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	1,665	1.6	1,417	1.5
	Market risk	44	0.0	58	0.1
	Operational risk	355	0.4	335	0.4
	Risk-weight floor[1]	6,213	6.0	5,739	6
	Surcharge, corporate exposures [2]	49	0.0	49	0.0
	Total Pillar 1	**8,326**	**8.0**	**7,598**	**8.0**
Pillar 2	Credit risk	–	–	–	–
	Market risk	14[3]	0.0[3]	65	0.1
	Operational risk	–	–	-	–
	Concentration risk	520	0.5	428	0.4
	Sovereign risk	–	–	–	–
	Pension risk	–	–	–	–
	Total Pillar 2	**534**	**0.5**	**493**	**0.5**
Buffers	Capital conservation buffer	2,602	2.5	2,374	2.5
	Capital planning buffer	–	–	-	–
	Countercyclical buffer	0	0.0	2,374	2.5
	Total Buffers	**2,602**	**2.5**	**4,748**	**5.0**
Total		**11,462[3]**	**11.0[3]**	**12,839**	**13.5**
Total own funds		**17,008**		**16,173**	

[1] Pillar 1 risk-weight floor under Article 458 of the CRR.
[2] Surcharge after decision by the Board pursuant to Article 3 of the CRR.
[3] The amount has been adjusted in compared to the amount in the table published in the year end report.

Figure 5. **Schematic process for conducting the bottom-up stress test**

out in SCBC's capital policy, these levels should, under normal conditions, be exceeded by at least 0.6% of the risk exposure amount. Accordingly, the CET1 capital ratio should amount to at least 7.9% and the total capital ratio to at least 11.6[3]% as per 31 December 2020. The internal capital requirement is assessed with the help of SCBC's internal models for economic capital and is not fully compatible with the capital requirements published by the SFSA. According to the SFSA's report "Own funds requirements for Swedish banks Q4 2020", SCBC's total capital requirement amounted to SEK 12,107 million on 31 December 2020.

6.5 STRESS TESTS

Capital planning is founded on a base scenario that reflects the most probable operational development based on internal forecasts. Complementing this, stress tests and scenario analyses are performed, whereby the development of the loan portfolio and capital requirements during severe but not improbable financial stress is evaluated. When performing the tests, events and economic conditions that could give rise to an unfavorable impact on the institution's loan-portfolio exposures and that are not reflected in the anticipated scenario are also considered.

6.5.1 Stress test methods

SCBC uses a number of statistical models to forecast credit risk. The common factor for the models is that they are built around one or more explanatory variables that are specifically adapted to the kind of exposure and risk dimension (PD or LGD) for which the model is intended to be used. A change in one or more of these explanatory variables results in a change in the forecast credit risk. This in turn affects the risk class to which an exposure is allocated. In the stress tests, this relationship is utilised by simulating changes in the underlying model variables. The starting point for this simulation is an assumed macroeconomic scenario.

In the stress test, a scenario that expresses an unfavourable economic trend will result in a migration towards inferior risk classes, which in turn entails higher economic capital, higher risk exposure amounts and larger expected losses. A scenario that reflects an economic recovery will consequently result in the opposite effect. A simplified illustration of the process is provided in Figure 5. The stress test is conducted for the portfolio at that particular date.

This portfolio is then subjected to stress over a three-year time horizon, taking the planned volume development within different portfolio segments into account. The macroeconomic scenario that forms the basis of the stress test is also assumed to have a direct effect in SCBC's risk models. This means that the model variables are expected to change without any time shift.

Table 15. **Parameters subjected to stress in the current and next three years**

Demand	Prices	Interest rates
GDP growth (real)	House prices	Residential mortgages, 3 month
Disposable household income (nominal)	Prices of tenant-owners' rights	STIBOR, 3 month
Employment	Residential property prices	Government bond rate, 10-year
Unemployment		STIBOR Treasury bills
		Housing bonds – Government bonds, 5-year
		Government bonds Sweden – Germany, 10-year

The components included in SCBC's model for stress tests comprises of:

- Determination of a macroeconomic scenario for the stress test.
- Translation of the macroeconomic scenario to model
- Assumptions regarding new sales and loan redemption.
- Calculation of expected losses and capital requirements
- Calculation of profit and own funds.

In addition to credit losses and capital requirements related to credit risk, the stress tests also simulate the effect of a deterioration in SCBC's credit rating and the effect of a decline in property prices on SCBC's scope for funding by means of covered bonds. These are expected to lead to increased funding costs, resulting in fall in net interest income, lower earnings and consequently also to reduced own funds. Finally, realised losses related to operational risks are also brought out by applying a fraud scenario independent of the macro scenarios, thus leading to further deterioration in earnings and decreased own funds.

6.5.2 MACROECONOMIC SCENARIO

The stress tests can be used in a number of conceivable approaches and methods. In general, these involve an assumption regarding a future scenario, either hypothetical or based on a historical outcome. The stress tests presented in SBAB's current ICLAAP are based on a hypothetical scenario whereby the development of the parameters is based on a subjective interpretation of economic theory and empirical analysis. The scenario describes a sharp economic decline.

For a number of variables in the models, there is a natural connection between the value the variable is expected to take on and the development of one or more of the macroeconomic parameters. In these cases, the variable value could consequently be recalculated directly based on the change in the underlying macro parameters.

In general, all model variables are expected to be affected to some extent, except the variables that are not deemed to be correlated to economic conditions.

Since a macroeconomic scenario cannot be directly translated to the effect that it has on certain PD variables, historical correlations are used instead. Examples of such model variables are the number of reminders and claims. For these variables, the effect has instead been estimated based on the historical correlation to the residential mortgage rate.

Since SBAB's LGD models are built around the loan to value ratio, changes in the market values of properties have a direct impact on LGD.

Finally, the macro scenario is combined with a simulated deterioration in SBAB's credit rating by two rating levels.

Scenario

In this scenario, a set of external shocks, in combination with internal vulnerabilities, leads to a rapid recession and problems in the Swedish banking system. Historically, this type of scenario has occurred approximately every twentyfive years.

- Major stock market declines, declining global growth as well as with national protectionism and trade barriers, as well as political unrest around the world have led to a sharp fall in commodity prices such as oil and investment in international financial markets directing investments towards safe assets.
- Global demand is falling, and Swedish households are tightening their belts. The fall in GDP in Sweden, together with the decline that has already taken place, will be around 10 percent. Employment and household disposable income also fell sharply during the first years of the financial crisis. The economy will not stabilise until 2023.
- The Swedish krona weakened further, which contributes to keeping inflation just above 0 percent over the next few years.
- Foreign confidence in the banks' financial strength is eroding because of underlying imbalances in the housing and mortgage markets. Central government finances deteriorate because of stabilisation measures and confidence in economic policy is eroded, leading to rising interest rates and risk premiums. The banking system is coming under pressure. The Riksbank tries but fails in stimulating the economy because of the low initial interest rate situation and the rise in risk premiums.
- The development of housing prices cannot be fully explained by the development of household income and mortgage rates but is also pushed down by difficulties in taking out mortgages and a negative picture of expectations in the housing market. In total, housing prices will fall by 25–30 percent before stabilising in 2023.

7 Leverage ratio

The CRR introduced a non-risk-sensitive measure to avoid excessive leverage. This measure is calculated as Tier 1 capital in relation to total assets and off-balance sheet exposures restated with the application of credit conversion factors (CCF).

The leverage ratio is a measure of solvency. Compared with the capital adequacy requirement, assets are not risk weighted but rather the same amount of capital is required, regardless of what risk is associated with the assets. According to the European Commission's delegated regulation ((EU) 2015/62), the leverage ratio is calculated as Tier 1 capital divided by the total exposure amount, where off-balance sheet exposures are assigned CCFs. The leverage ratio amounted to 4.26% (4.48%) as per December 2020.

DESCRIPTION OF MEASURES TAKEN TO MANAGE THE RISK OF INADEQUATE LEVERAGE RATIO

The leverage ratio is included in SCBC's future capital planning to proactively manage the risk of the leverage ratio being too low. The target for the measure is set in SCBC's capital policy, and therefore its outcome and development is followed up and reported monthly to the CEO and Board. In a situation with excessive debt and an inadequate leverage ratio which needs to be addressed, the requisite measures can include a lower dividend, additional capital from the owner or alternatively an issue of additional Tier 1 capital. Moreover, balance sheet measures may also apply to reduce SCBC's exposure whenever the need arises.

DESCRIPTION OF FACTORS INFLUENCING LEVERAGE RATIO IN THE PERIOD TO WHICH THE PUBLISHED LEVERAGE RATIO PERTAINS

The change in the leverage ratio compared to the previous year is explained by:

- Tier 1 capital increased due to accrued earnings, which had a positive impact on the leverage ratio by 0.23%.
- The effect of the exposure measure attributable to derivatives decreased slightly, which had a positive impact on leverage ratio by 0.06%.
- The effect of the exposure measure attributable to SFTs decreased slightly, which had a positive impact on leverage ratio by 0.02%.
- An increase mainly in mortgage exposures entailed a negative impact of 0. 48%.
- The exempted amount of intra group exposures has decreased, which had a negative impact on leverage ratio by 0.05%.

Table 16. **Leverage ratio**

SEK million	2020	2019
Tier 1 capital	17,003	16,168
Exposure metric	399,180	360,999
Leverage ratio, %	4.26	4.48

Table 17. **Summary reconciliation of accounting assets and leverage ratio exposures (LR SUM)**

SEK million	APPLICABLE AMOUNT 2020
Total assets as per published financial statements	407,823
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	–
Adjustments for derivative financial instruments	–9,061
Adjustment for securities financing transactions (SFTs)	296
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	–
(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	–12,460
(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	–
Other adjustments	12,582
Leverage ratio total exposure measure	**399,180**

Table 18. **Split-up of on balance sheet exposures (excluding derivatives and SFTS) (LRSPL)**

SEK million	CRR LEVERAGE RATIO EXPOSURES 2020
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	398,656
Trading book exposures	–
Banking book exposures, of which:	398,656
Covered bonds	*–*
Exposures treated as sovereigns	*693*
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	*–*
Institutions	*0*
Secured by mortgages of immovable properties	*397,616*
Retail exposures	*–*
Corporates	*–*
Exposures in default	*178*
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	*169*

Leverage ratio

Table 19. **Leverage ratio common disclosure (LRCOM)**

SEK million	CRR LEVERAGE RATIO EXPOSURES 2020
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	398,656
(Asset amounts deducted in determining Tier 1 capital)	0
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)(sum of rows 1 and 2)	**398,656**
Derivative Exposures	
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	7,648
Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	5,040
Exposure determined under Original Exposure Method	
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	–
(Exempted CCP leg of client-cleared trade exposures)	
Adjusted effective notional amount of written credit derivat	
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–
Total derivative exposures (sum of lines 4 to 10)	**12,688**
SFT Exposures	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	296
Netted amounts of cash payables and cash receivables of gross SFT assets	–
Counterparty credit risk exposure for SFT assets	–
Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	–
Agent transaction exposures	
(Exempted CCP leg of client-cleared SFT exposure)	
Total securities financing transaction exposures (sum of lines 12 to 15a)	**296**
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	–
(Adjustments for conversion to credit equivalent amounts)	–
Other off-balance sheet exposures (sum of lines 17 to 18)	**–**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)	
(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	–12,460
(Exposures exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on and off balance sheet))	–
Capital and total exposures	
Tier 1 capital	17,003
Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	**399,180**
Leverage ratio	
Leverage ratio	4.26%
Choice on transitional arrangements and amount of derecognised fiduciary items	–
Choice on transitional arrangements for the definition of the capital measure	Fully Phased in
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	–

8 Risk in remuneration systems

SCBC is to have a remuneration system that is both compatible with and promotes effective risk management and does not encourage undue risk-taking. Remuneration should promote SCBC's long-term interests. Further information on remuneration systems is available in Note IC:5 of SBAB's (parent company) annual report and on the website www.sbab.se.

The General Meeting of SCBC parent company SBAB decides on the overall guidelines for remuneration and other employment terms for senior executives (members of SBAB's and SCBC's Executive Management). The Board of Directors decides on:

- Remuneration policy, risk analysis regarding remuneration systems and other policy documents for remuneration issues
- Remuneration and other employment benefits for Executive Management and the heads of the control functions (the CRO and the heads of Internal Audit and Compliance)
- Follow-up on the application of SBAB's and SCBC's control documents regarding remuneration issues.

The Board of the parent company SBAB has appointed a Remuneration Committee. Information on the members of the Remuneration Committee and the number of meetings can be found in the Corporate Governance Report in SBAB's Annual Report at www.sbab.se.

The Remuneration Committee is tasked with preparing remuneration issues for decision by the Board and for conducting an independent assessment of policy documents pertaining to remuneration issues and remuneration systems. The Board is to ensure that the appropriate control functions participate in the independent assessments.

The Board decides the mission description for the Remuneration Committee. The meetings of the Remuneration Committee are reported back to the Board through the minutes prepared of the Remuneration Committee's meetings. The Board annually evaluates and follows up how SBAB and SCBC has complied with the principles for the remuneration of senior executives that have been adopted by the Annual General Meeting and the remuneration structures and remuneration levels, including bonuses.

At present, SCBC has no variable remuneration to senior management or members of staff whose actions could have an impact on the institution's risk profile.

9 Credit risk in lending operations

SCBC conducts customer-centric credit operations based on professionalism, simplicity and quality, which creates the conditions for profitability and long-term customer relations. This means that the credit operations are denoted by high credit quality, efficient decision-making processes, and understanding of the customer's situation. This also entails customer-oriented procedures and balanced risk taking in the lending portfolio.

9.1 CREDIT RISK MANAGEMENT

SCBC is required to have documented management of credit risk with a clear division of responsibilities. Credit risk management must support the business operations, ensure SCBC's survival and be in line with rating targets. SCBC's credit operations are characterised by low risk taking and business-related risks are viewed in relation to arisen earnings. Credit risk is considered in all business decisions and constitutes a component in the pricing of products and services.

SCBC's Board and Executive Management are to be actively involved in the design of the institution's risk management system and the follow-up of credit risks. The Board of Directors or its committees approve all significant methods, internal models and processes related to credit risk.

The reporting structure is designed so that the Board of the Parent Company and the Executive Management receive reports on the development and current levels of the credit risk. Procedures are in place for managing and acting, based on the information provided in the reports.

9.2 CREDIT RISK IN THE LENDING PORTFOLIO

Credit risk is the single largest risk in SCBC and accounts for 81% of the risk exposure amount according to Pillar 1, excluding the risk-weight floor for Swedish household exposures with collateral in immovable property. Credit risk is defined as the risk of loss due to the borrower's inability to make interest and loan repayments or otherwise fulfil the loan agreement. Aside from lending and loan commitments, credit risk also arises in connection with changes in the value of pledged collateral, resulting in this no longer covering the receivables.

In the credit-granting process, the credit risk is initially managed by the relevant business area and, in some cases, analysed by the credit department in the first line of defense (within the Group Specialists), prior to credit decisions. Each business area deals with the operational management of credit risk during the lifecycle of the loan whereas the Risk control unit in the second line of defense is responsible for monitoring, controlling and measuring credit risk on a regular basis.

In the credit-granting process the credit risk is specifically assessed where the ability of potential borrowers to make their interest payments and capital repayments is analysed. For example, new retail loans are granted only to borrowers who are expected to be able to pay interest and make capital repayments when interest rates comfortably exceed the prevailing market rates. Furthermore, internal rating models are used in the analysis of the credit risk for new and existing customers in the loan portfolios.

Credit risk in lending operations is also restricted by limits determined for the customer or the group of customers. Large exposures, meaning those amounting to 10% or more of eligible capital, are managed based on the credit instructions and external regulations. All exposures exceeding 2% of own funds are identified and analysed for the purpose of deciding whether they fall within the framework of large exposures in relation to a group of connected customers and clients.

The granting of a new loan requires the provision of adequate collateral, usually provided in the form of an immovable property or a share in a tenant-owners' association where the loan amount to the market value (LTV) does not 75–85%. SCBC grants loans provided that collateral can be obtained with first lien and that the customer has an internal PD rating grade of R1–R4 for retail customers and C1–C4 for corporate customers (for mapping between internal and external rating, refer to Table 21). SCBC also grants small unsecured loans to borrowers in the retail segment, which comprise 5% of the risk exposure assets (REA) under Pillar 1, excluding the risk-weight floor. Furthermore, SCBC applies a maximum debt ratio of 5.5 (gross income in relation to the loan) for new retail customers.

When lending to retail customers, the market value of the collaterals are generally determined by credit managers, using approved valuation models. If the market value cannot be computed, it is determined by the credit manager in charge of valuation or an approved external property appraiser.

When lending to corporate customers such as tenant-owners' associations and real estate companies, the market value of the collaterals are determined by internal property appraisers.

External valuations can form the basis of decisions upon approval by the credit manager in charge of valuations. If an external valuation is carried out by an approved external appraiser, the valuation does not require approval by internal appraisers.

SCBC verifies the market value of the collateral on a regular basis. For residential properties and tenant-owners' rights, the market values are verified at least every third year. For other properties, the market values are verified at least annually. If there are major changes in economic factors that affect the Swedish property market, the market value should be verified more often.

In addition to collateral in immovable property 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.

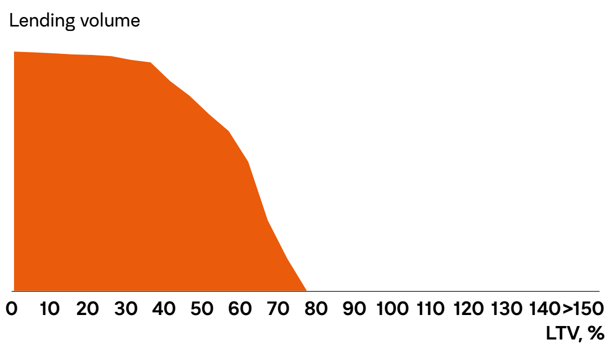
To a limited extent, equities corresponding up to 85% of the market value of the properties can be approved as collateral in conjunction with a property purchase through a company transaction. SCBC does not hold any collateral that has been repossessed.

Figures 6 and 7 describe LTV for customers for which collateral consists of immovable property or tenant-owners' rights. The figures are based on a split for the secured part of the loan into LTV-buckets of 1%. For instance, a loan with an amount of SEK 1.7 million and LTV of 85% would be split into 85 pieces a' SEK 20 thousand. Figure 6 shows corporate exposures and Figure 7 shows retail exposures. The areas in the figures correspond to the lending volume and cover 99.9% of total lending to the public.

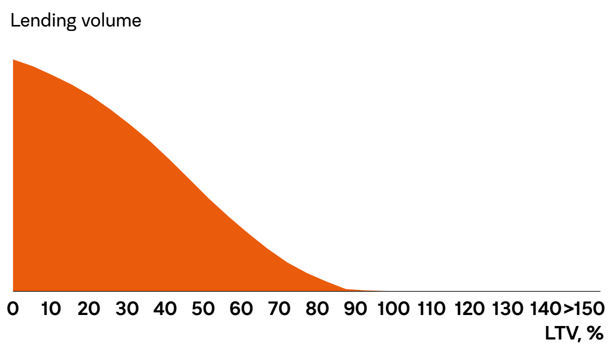
Since 84% of the lending is secured with collateral in immovable property or tenant-owners' rights to within 50% LTV and 99% within 75% LTV, the credit quality is assessed to be very high (see the table under figures 6 and 7).

Figures 6 and 7. **"Loan To Value" (LTV) for corporate and retail exposures**

CORPORATE EXPOSURES



RETAIL EXPOSURES



Segment, %	Below 50%	Below 75%	Below 85%	Below 100%	Exposure-weighted average LTV
Corporate exposures	80.1	100.0	100.0	100.0	62.3
Retail exposures	84.6	98.5	99.8	100.0	55.7
Total	**84.2**	**98.7**	**99.8**	**100.0**	**56.4**

9.3 INTERNAL RATING-BASED APPROACH (IRB)

In order to calculate own funds requirements SCBC applies an advanced internal rating based (A-IRB) approach for retail exposures and a foundation IRB approach (F-IRB) for corporate exposures. IRB approaches cover 99% of total lending to the public. For other types of exposures, including unsecured loans, the standardised approach is used for own funds requirements.

The A-IRB approach has been used since 2007 for measuring credit risk where a mortgage deed for immovable property or a tenant-owners' right is used as collateral. In 2013, permission was received to include tenant-owners' associations with a turn-over of less than EUR 50 million in the retail exposure class. In 2015, SCBC furthermore received permission to use the IRB approach for excess exposures that are not fully covered by mortgage deeds, property financing using collateral other than directly pledged mortgage deeds and building credits. Previously, the standardised approach was used for these exposures.

In the credit risk models subject to the IRB approach, a quantification is made of the probability of default[1)] (PD), the loss given default (LGD) and the proportion of off-balance to be converted to the balance sheet, i.e. the credit conversion factor (CCF). On the basis of these parameters and the exposure amount, expected and unexpected loss can be estimated. The exposure is ranked by PD to one of eight rating grades for corporate and retail exposures respectively, of which the eighth grade comprices customers in default. Customers in higher rating grades are monitored diligently and, when necessary, exposure is managed actively by credit managers as part of the insolvency process.

The credit risk models In the IRB framework are used in SCBC's lending operations for activities such as credit granting, pricing, portfolio analysis and performance monitoring per business area. The credit risk models are validated annually and, whenever required, they are recalibrated. The validations carried out for 2020 did not result in any changes to models under IRB. A major challenge in the model validation lately has been the very low number of defaults and the extremely low levels of credit losses.

For corporate customers the quantification provided by the scoring model for PD is supplemented with a systematic qualitative assessment of the customer based on a number of predefined questions. Additionally, credit analysts could override the rating grade in cases where the credit risk is not fully captured by the credit risk model. In Figure 8 the internal rating process for corporate customers is illustrated. For customers within retail exposures, which are not tenant-owners´ associations, no qualitative assessment is made to the PD.

9.4 INTERNAL RATING METHODS

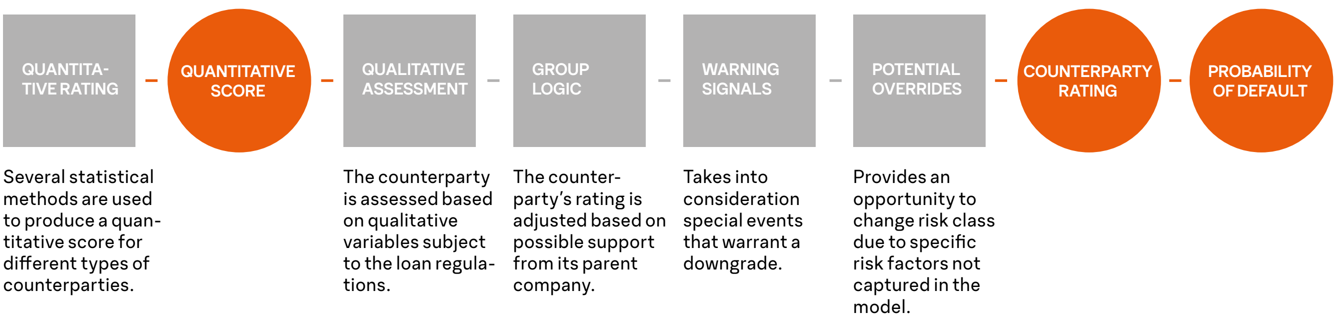
In conjunction with own funds requirements and the application of the IRB approach, exposures are categorised into exposure classes. Retail loans and loans to tenant-owners' associations with a turnover of less than EUR 50 million and collateral in residential property are assigned to the retail exposure class. The A-IRB approach is applied for all collateralised retail exposures. Other exposures secured by collateral are assigned to the corporate exposure class where the F-IRB approach is used. Table 20 shows the distinction between retail exposures, corporate exposures and their respective IRB approach. The standardised approach is applied for unsecured retail exposures and guarantees issued by central government or municipalities.

For internal rating according to the IRB framework SCBC uses statistical scoring models for each of the risk dimensions; PD, LGD and CCF.

For PD there are several scoring models depending on the type of customer. The models are based on logistic regression with a target to predict the probability of default over a time horizon of one year. Both internal and external data sources are used to identify appropriate risk factors for the models. Internal data consists of customer information, loan information, default outcomes and internal payment behaviour. Data obtained externally includes income data, financial statements, external payment behavior, market value of the property and macroeconomic factors. The scoring models for PD are

[1)] A loan is regarded as in default if the customer is more than 90 days past due (for outstanding amount exceeding 1% of total debt and SEK 1 000 for retail exposures respectively SEK 5 000 for corporate exposures) or if an assessment of unlikeliness to pay has been made of the customer.

Figure 8. **Internal rating process for corporates**



based on empirical data from the end of the 1990s and to the present day. In order to calibrate PD value towards conservative through-the-cycle estimates external data from the housing crisis on the Swedish mortgage market during the middle of 1990s is also included.

The scoring models for LGD which are applied to retail exposures comprising both retail loans and loans to tenant-owners' associations are largely based on the LTV ratio of the loan. A rise in the LTV implies an increase in the probability of a write off and thus the level of credit losses. The LGD models are primarily based on internal data consisting of default outcomes, credit losses in terms of write offs and succeeding recoveries, and LTV ratios of the loans. As for PD, external loss data from the 1990s housing crisis on the Swedish mortgage market is also included to calibrate the LGD value towards downturn periods with the aim of ensuring conservative estimates.

The scoring model for CCF is applied to loan commitments in the retail exposure class. The CCF measures the probability of the loan commitment resulting in a conversion to an actual loan and hence an on-balance exposure. The model is mainly based on the loan commitment's progress in the credit granting process and the time elapsed since application. The CCF model is solely based on internal data consisting of application information and disbursement rates..

Table 20. **Loan portfolios and exposure classes for which the IRB approach is applied**

Portfolio	Property	Exposure class	Method	PD model
Corporates	Private properties	Corporate exposures	Foundation IRB approach	"Corporate"
	Tenant-owner associations (turnover greater than or equal to EUR 50 million)			
	Commercial properties			
Retail	Houses and holiday homes	Retail exposures	Advanced IRB approach	"Retail"
	Tenant-owners' rights			
	Tenant-owner associations (turnover less than EUR 50 million)			

9.5 THE MAPPING BETWEEN EXTERNAL AND INTERNAL RATINGS

SCBC's PD rating grades for corporate customers are not directly comparable to the ratings used by external credit rating agencies.

The credit rating agencies' ratings do not correspond to a direct classification of the counterparties' probability of default in the same way that the bank's internal rating does. The credit rating agencies also consider, to a varying degree, the severity of the losses that may be caused by default, while SCBC captures this in the LGD dimension. The time horizon on which the credit rating is based is not always the same for credit rating agencies as for banks applying the IRB approach. Accordingly, it is difficult to translate internal PD rating grades to external ratings explicitly. However, by analysing the proportion of default outcomes in SCBC's rating grades compared with the proportion of default outcomes in Standard & Poor's rating grades, it is possible to obtain a reasonable comparison. Table 21 presents the external rating grades that match SCBC's PD rating grades for corporates.

Table 21. **The mapping between internal and external rating for corporates**

Rating grade	Standard & Poor's rating
C1	AAA–A
C2	A
C3	A–BBB
C4	BBB–BB
C5	BB
C6	BB–B
C7	B–C

Rating grade	Standard & Poor's rating
R1	AAA–AA
R2	AA–A
R3	A
R4	A–BBB
R5	BBB–BB
R6	BB
R7	BB–C

9.6 EXPOSURE AMOUNTS AND OWN FUNDS REQUIREMENTS

Table 22 presents all credit risk exposures, including both on- and off-balance exposures. The total amount for all credit risk exposures was SEK 411 billion per 31 December 2020.

Credit risk protection used for exposure in the IRB framework consists of government and municipal guarantees. Credit risk protection is only used to a very limited extent and exposures subject to guarantees are reported in accordance with the standardised approach.

The Parent Company SBAB and SCBC have jointly taken up credit insurance with Genworth Financial Mortgage Insurance Limited (Genworth).The insurance policy was cancelled on 1 January 2009 and hence cannot be utilised for loans granted afterwards. When analysing the insured stock in the beginning of 2020 it was obvious that the insured objects' market values, after the possibility of taking out the insurances has ceased, have developed in such a way that it is no longer appropriate (from a financial and risk perspective) to maintain this insurance. Considering this, all insurances were terminated in June/July 2020.

Corporate exposures comprise only 11% of the total lending portfolio for which the IRB approach is used, but due to the F-IRB approach without own estimates of LGD, the exposures account for 44% of the total capital requirement according to Pillar 1.

The average REA for exposures recognised in accordance with the IRB approach was 5.0% (risk-weight floor excluded), while the average REA for exposures recognised with the standardised approach was 2.2%. Exposure-weighted average PD estimates for IRB exposures amounted to 0.15% for corporate exposures and to 0.30% for retail exposures. Exposure-weighted average LGD estimate for corporate exposures was 35.1% and exposure-weighted LGD estimate for retail exposures was 10.0%. For clarification, the exposure-weighted amount for the LGD estimate for retail exposures is restricted by the limitation rule, which requires a lowest average LGD estimate of 10% for retail exposures covered by collateral in residential properties in accordance with Article 164 item 4 of the CRR.

Table 22. **Exposure amounts by exposure class for credit risk exposures**

SEK million	Original exposure before credit risk protection	Value adjust-ments	Net exposure after value adjustments and reserves	Collateral that reduces capital requirements in the form of guaran-tees and financial securities	Inflows	Off-balance-sheet exposures before CCF	Exposure after CCF[1]	Off-balance-sheet expo-sures after CCF
Credit risk in lending portfolio recognised under the IRB approach								
Corporate exposures	42,397	–	42,397	–64	–	–	42,334	–
Retail exposures	355,983	–	355,983	–396	–	–	355,586	–
of which, houses and holiday homes	*154,450*	–	154,450	–2	–	–	*154,448*	–
of which, tenant-owners' rights	*152,040*	–	152,040	0	–	–	*152,040*	–
of which, tenant-owners' associations	*49,492*	–	49,492	–394	–	–	*49,098*	–
Total credit risk under the IRB approach	**398,380**	**–**	**398,380**	**–460**	**–**	–	**397,920**	–
Credit risk in the lending portfolio recognised under the standardised approach								
Exposures to governments and central banks	232	–	232	–	1	–	233	–
Exposures to regional governments or local authorities or agencies	1	–	1	–	459	–	459	–
Exposures to multilateral development banks	0	–	0	–	–	–	0	–
Exposures to institutions	12,707	–	12,707	–	–	–	12,707	–
Exposures to corporates	–	–	–	–	–	–	–	–
Retail exposures	–	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–	–
Exposures in the form of covered bonds	–	–	–	–	–	–	–	–
Exposures to institutions and corporates with a short-term credit rating	0	–	0	–	–	–	0	–
Equity exposures	0	–	0		–	–	0	–
Other items	169	–	169	–	–	–	169	–
Total credit risk under the standardised approach	**13,109**	–	**13,109**	–	**460**	–	**13,568**	–
Total	**411,489**	–	**411,489**	**–460**	**460**	–	**411,487**	–

[1] In exposures after inflows and outflows, adjustments have been made of amounts to be recognised and covered by capital in an exposure class other than the original one.
[2] Off-balance sheet exposures have been excluded.

The following tables in this section correspond with the COREP reporting with regard to exposure amounts and REA.

The figures related to the lending portfolio In the subsequent tables differ from the information presented in SCBC's 2020 Annual Report since total exposure amounts include accrued interest and transaction costs relating to commissions to business partners are excluded.

Exposure amounts covered by credit risk protection in the form of properties	Average exposure amounts for lending portfolio exposures [2)]	Risk exposure amounts before SME discount	Risk exposure amounts after SME discount	Capital requirement	Average risk weight, %	Specific credit risk adjustment	Expected loss	Exposure-weighted average PD, %	Exposure-weighted average LGD, %
42,334	33,861	10,284	8,838	707	20.9	2	22	0.15	35.1
355,517	343,054	11,503	11,240	899	3.2	124	111	0.30	9.9
154,401	*148,799*	*4,440*	*4,440*	*355*	*2.9*	*38*	*44*	*0.28*	*9.6*
152,018	*147,804*	*5,944*	*5,944*	*475*	*3.9*	*77*	*60*	*0.36*	*10.9*
49,098	*46,451*	*1,119*	*856*	*68*	*1.7*	*9*	*8*	*0.17*	*7.2*
397,851	**376,914**	**21,787**	**20,078**	**1,606**	**5.0**	**126**	**133**		
–	17	0	0	0	0.0	–	–	–	–
–	489	0	0	0	0.0	0	0	–	–
–	–	0	0	0	0.0	–	–	–	–
–	–	123	123	10	1.0	–	–	–	–
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
–	–	0	0	0	20.0	–	–	–	–
	–	–	–	–	–	–	–	–	–
–	–	169	169	14	100.0	–	–	–	
–	**506**	**292**	**292**	**24**	**2.2**	**0**	**–**	–	–
397,851	**377,420**	**22,079**	**20,370**	**1,630**	**5.0**	**126**	**133**	**–**	**–**

Table 23. **IRB approach – Credit risk exposures by exposure class and PD range** *(EU CR6 table)*

SEK million		PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF, %	EAD post CRM and post CCF	Average PD, %	Number of obligors	Average LGD, %	Average maturity	REAs	REA density, %	Expected loss	Value adjustments and provisions
Exposure class														
Corporates (foundation approach)	Of which, Corporate SME	0.00 to <0.15	18,437	–	–	18,428	0.09	100	35.1	2.5	2,679	15	5	–
		0.15 to <0.25	4,869	–	–	4,869	0.21	55	35.0	2.5	1,141	23	4	–
		0.25 to <0.50	2,578	–	–	2,578	0.45	59	35.1	2.5	881	34	4	–
		0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	–
		0.75 to <2.50	137	–	–	137	1.16	16	35.0	2.5	65	48	1	–
		2.50 to <10.00	155	–	–	152	3.05	6	35.0	2.5	93	62	2	–
		10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
		100.00 (Default)	0	–	–	0	100	1	35.0	3	0	0	0	–
		Portfolio sub-total	**26,176**	**–**	**–**	**26,164**	**0.17**	**237**	**35.1**	**2.5**	**4,859**	**19**	**16**	**2**
	Of which, Corporate Other	0.00 to <0.15	14,882	–	–	14,855	0.09	84	35.1	2.5	3,456	23	5	–
		0.15 to <0.25	1,128	–	–	1,128	0.21	9	35.1	2.5	420	37	1	–
		0.25 to <0.50	210	–	–	186	0.45	5	35.3	2.5	102	55	0	–
		0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	–
		0.75 to <2.50	–	–	–	–	–	–	–	–	–	–	–	–
		2.50 to <10.00	–	–	–	–	–	–	–	–	–	–	–	–
		10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
		100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
		Portfolio sub-total	**16,220**	**–**	**–**	**16,169**	**0.10**	**98**	**35.1**	**2.5**	**3,978**	**25**	**6**	**0**
Retail (advanced approach)	Of which, Retail SME	0.00 to <0.15	35,903	–	–	35,638	0.09	1,179	7.0	–	451	1	2	–
		0.15 to <0.25	11,464	–	–	11,355	0.21	512	7.6	–	291	3	2	–
		0.25 to <0.50	2,022	–	–	2,019	0.45	111	7.9	–	92	5	1	–
		0.50 till <0.75	–	–	–	–	–	–	–	–	–	–	–	–
		0.75 to <2.50	68	–	–	68	1.16	14	10.4	–	8	12	0	–
		2.50 to <10.00	17	–	–	0	3.05	2	0.0	–	0	0	0	–
		10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
		100.00 (Default)	18	–	–	18	100.00	2	14.9	–	14	82	3	–
		Portfolio sub-total	**49,492**	**–**	**–**	**49,098**	**0.17**	**1,820**	**7.2**	**–**	**856**	**2**	**8**	**9**
	Of which, Retail Other	0.00 to <0.15	221,104	–	–	221,103	0.04	129,705	10.0	–	2,721	1	9	–
		0.15 to <0.25	44,623	–	–	44,622	0.16	25,630	10.8	–	1,751	4	8	–
		0.25 to <0.50	26,614	–	–	26,614	0.42	14,033	11.0	–	2,138	8	12	–
		0.50 till <0.75	0	–	–	0	0	0	0.0	–	0	0	0	–
		0.75 to <2.50	10,996	–	–	10,996	1.55	6,187	11.4	–	2,206	20	19	–
		2.50 to <10.00	1,848	–	–	1,847	4.17	1,077	11.2	–	656	36	9	–
		10.00 to <100.00	1,123	–	–	1,123	24.67	750	10.8	–	747	67	30	–
		100.00 (Default)	184	–	–	184	100.00	147	13.6	–	166	90	16	–
		Portfolio sub-total	**306,492**	**–**	**–**	**306,489**	**0.32**	**177,529**	**10.2**	**–**	**10,385**	**3**	**103**	**115**
Total (all portfolios)			**398,380**	**–**	**–**	**397,920**	**0.28**	**179,684**	**12.5**	**–**	**20,078**	**5**	**133**	**126**

Table 24. **REA flow statements of credit risk exposures under IRB**
(EU CR8 table)

SEK million	REA amounts	Capital requirements
REA at the end of the previous reporting period	**17,214**	**1,377**
Asset size	4,495	359
Asset quality	–1,633	–130
Model updates	–	–
Methodology and policy	–	–
Acquisitions and disposals	–	–
Foreign exchange movements	–	–
Other	2	0
REA at the end of the reporting period	**20,078**	**1,606**

9.7 EXPOSURE AMOUNTS BY GEOGRAPHICAL REGION

SCBC's credit exposure is concentrated in Sweden. There is some exposure to other countries in Western Europe, Canada and the US due to the funding of the Swedish lending operations.

SCBC's lending portfolio is mainly secured by properties for housing in the Stockholm area (59%). Only 1% of the underlying collaterals are in economically weak regions in Sweden. The geographical distribution of the exposures in the lending portfolio is as follows:

- Greater Stockholm: Stockholm's labour market region according to Statistics Sweden (SCB) (2004);
- Greater Gothenburg: Gothenburg's labour market region according to SCB (2004);
- The Öresund region: Labour market regions in Malmö and Helsingborg according to SCB (2004);
- University and growth regions: Municipalities with universities and municipalities with especially buoyant growth according to analyses carried out by SCBC;
- Weak regions1): Municipalities with very weak or negative growth according to analyses carried out by SCBC; and
- Other regions[1)]: Municipalities that are not allocated to any other category.

[1)] The analysis is based in part on statistics from SCB, such as short and long-term population growth, the proportion of the population older than 64 years, average income and the vacancy rate in public utility housing, and in part on the local knowledge of SBAB's analysts.

Table 25. **Total and average net amount of exposures**
(EU CRB-B table)

SEK million	Net value of exposures at the end of the period[2)]	Average net exposures over the period[3)]
Exposures to corporates	42,395	35,791
of which, Specialised lending	–	–
of which, SMEs	26,175	23,601
Retail exposures	355,859	345,398
Exposures to households secured by immovable property	355,859	345,398
of which, SMEs	49,483	47,275
of which, non SMEs	306,375	298,123
Total exposure with IRB approach	**398,254**	**381,189**
Exposures to governments and central banks	232	249
Exposures to regional governments or local authorities or agencies	1	1
Exposures to public sector entities	–	–
Exposures to multilateral development banks	–	–
Exposures to international organisations	–	–
Exposures to institutions[1)]	12,706	18,547
Exposures to corporates	–	–
of which, SMEs	–	–
Retail exposures	–	–
of which, SMEs	–	–
Exposures to households secured by immovable property	–	–
of which, SMEs	–	–
Exposures in default	–	–
Exposures associated with particularly high risk	–	–
Exposures in the form of covered bonds	–	–
Exposures to institutions and corporates with a short-term credit rating	0	177
Exposures in the form of collective investment undertakings	–	–
Equity exposures	–	–
Other items	169	225
Total exposure with standardised approach	**13,108**	**19,199**
Total	**411,362**	**400,388**

[1)] The institution exposure class includes counterparty risk.
[2)] Average net exposures after provisions pertain to both the IRB and the standardised approach.
[3)] Average net exposures over the period are based on observed amounts over four quarters.

Credit risk in lending operations

Table 26. **Geographical breakdown of exposures**[1] *(EU CRB-C table)*

SEK million	Sweden	Denmark	Finland	Norway	Canada	USA	France	Germany	United Kingdom	Other countries	Total
Exposures to corporates	42,395	–	–	–	–	–	–	–	–	–	42,395
Retail exposures	355,859	–	–	–	–	–	–	–	–	–	355,859
Total exposure with IRB approach	**398,254**	–	–	–	–	–	–	–	–	–	**398,254**
Exposures to governments and central banks	232	–	–	–	–	–	–	–	–	–	232
Exposures to regional governments or local authorities or agencies	1	–	–	–	–	–	–	–	–	–	1
Exposures to multitlateral development banks	–	–	–	–	–	–	–	–	–	–	–
Exposures to international organisations	–	–	–	–	–	–	–	–	–	–	–
Exposures to institutions	12,704	2	0	–	–	–	–	–	–	–	12,706
Exposures to corporates	–	–	–	–	–	–	–	–	–	–	–
Retail exposures	–	–	–	–	–	–	–	–	–	–	–
Exposures to households secured by immovable property	–	–	–	–	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–	–	–	–	–
Exposures in the form of covered bonds	–	–	–	–	–	–	–	–	–	–	–
Exposures to instutions and corporates with a short-term credit rating	0	–	–	–	–	–	–	–	–	–	–
Equity exposures	–	–	–	–	–	–	–	–	–	–	–
Other items	169	–	–	–	–	–	–	–	–	–	169
Total exposure with standardised approach	**13,106**	**2**	–	–	–	–	–	–	–	–	**13,108**
Total	**411,360**	–	–	–	–	–	–	–	–	–	**411,362**

[1] The table does not include off-balance-sheet exposures.

Table 27. **Net exposure amount by geographical area for credit risk exposures in lending operations**[1]

SEK million	Greater Stockholm	Greater Gothenburg	Öresund region	University and growth regions	Other regions	Weak regions	Total
Exposures to corporates	14,909	3,465	9,435	9,702	4,783	101	42,395
Retail exposures	220,523	36,527	40,240	37,643	17,796	3,130	355,859
Total exposures with IRB approach	**235,432**	**39,992**	**49,675**	**47,345**	**22,579**	**3,231**	**398,254**
Exposures to governments and central banks	–	–	–	–	–	–	–
Exposures to regional governments or local authorities or agencies	–	–	–	–	1	–	1
Exposures to multilateral development banks	–	–	–	–	–	–	–
Exposures to international organisations	–	–	–	–	–	–	–
Exposures to institutions	–	–	–	–	–	–	–
Exposures to corporates	–	–	–	–	–	–	–
Retail exposures	–	–	–	–	–	–	–
Exposures to households secured agains immovable property	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–
Exposures in the form of covered bonds	–	–	–	–	–	–	–
Exposures to instiutions and corporates with a short term credit rating	–	–	–	–	–	–	–
Equity exposures	–	–	–	–	–	–	–
Other items	–	–	–	–	–	–	–
Tota expsoures with the standardised approach	–	–	–	–	**1**	–	**1**
Total	**235,432**	**39,992**	**49,675**	**47,345**	**22,580**	**3,231**	**398,255**

[1] The table does not include off-balance-sheet exposures

9.8 ON-BALANCE EXPOSURES AND REMAINING MATURITY OF THE CREDIT TERMS

Table 28 presents on-balance sheet exposures, net of provisions, grouped into time buckets depending on the remaining maturity of the loans' credit terms. A large proportion (66%) of the exposures have less than one year remaining until maturity[1]. The proportion of loans with a remaining credit term of up to five years accounts for 95% of the outstanding exposures.

Table 28. **Maturity of exposures** *(EU CRB-E table)*

SEK million	On demand	<=1 year	>1 year <=5 years	> 5 years	No stated maturity	Total
Exposures to corporates	–	8,280	19,570	14,545	–	42,395
Retail exposures	–	262,255	89,613	3,958	33	355,859
Total exposure with IRB approach	–	**270,535**	**109,183**	**18,503**	**33**	**398,254**
Exposures to governments and central banks	–	232	–	–	–	232
Exposures to regional governments or local authorities or agencies	–	1	–	–	–	1
Exposures to mulitlateral development banks	–	–	–	–	–	–
Exposures to institutions	–	20	12,460	226	–	12,706
Exposures to corporates	–	–	–	–	–	–
Retail exposures	–	–	–	–	–	–
Exposures to households secured by immovable property	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–
Exposures in the form of covered bonds	–	–	–	–	–	–
Exposures to instutions and corporates with a short-term credit rating	–	–	–	–	–	–
Equity exposures	–	–	–	–	–	–
Other items	–	–	–	–	169	169
Total exposure with standardised approach	–	**253**	**12,460**	**226**	**169**	**13,108**
Total	–	**270,788**	**121,643**	**18,729**	**202**	**411,362**

[1] For credit risk exposures in the lending portfolio, the next stipulated date of expiry has been used. The stipulated date of expiry is defined as the day for establishing the conditions that are to apply for loans during the forthcoming contractual period. The terms must be supported by the stipulations of the original loan agreement.

9.9 EXPOSURE AMOUNTS BY SECTOR AND TYPE OF PROPERTY

Tables 29 and 30 contain on- and off-balance-sheet exposures, net after provisions, by exposure classes and counterparty type. Table 29 provides information about the SCBC's total credit risk exposure unlike Table 30 which shows credit risk exposures only in the lending operations and type of property.

In the distribution of the lending portfolio by type of property, the proportion of lending for houses, holiday homes, tenant-owners' rights and tenant-owners' associations accounts for 97%.

Table 29. **Concentration of exposures by industry or counterparty types** *(EU CRB-D table)*

SEK million	Construction	Real estate activities	Other services	Financial services*	Total
Exposures to corporates	240	42,155	–	–	42,395
of which, Specialised lending	–	–	–	–	–
of which, SMEs	–	26,175	–	–	26,175
Retail exposures	–	355,859	–	–	355,859
Exposures to households secured against immovable property	–	355,859	–	–	355,859
of which, SMEs	–	49,483	–	–	49,483
of which, non-SMEs	–	306,375	–	–	306,375
Total exposure with IRB approach	**240**	**398,014**	–	–	**398,254**
Exposures to governments and central banks	–	–	232	–	232
Exposures to regional governments or local authorities or agencies	–	–	1	–	1
Exposures to public sector entities	–	–	–	–	–
Exposures to multilateral development banks	–	–	–	–	–
Exposures to international organisations	–	–	–	–	–
Exposures to institutions	–	–	–	12,706	12,706
Exposures to corporates	–	–	–	–	–
of which, SMEs	–	–	–	–	–
Retail exposures	–	–	–	–	–
of which, SMEs	–	–	–	–	–
Exposures to households secured against immovable property	–	–	–	–	–
of which, SMEs	–	–	–	–	–
Exposures in default	–	–	–	–	–
Exposures associated with particularly high risk	–	–	–	–	–
Exposures in the form of covered bonds	–	–	–	–	–
Exposures to institutions and corporates with a short-term credit rating	–	–	–	0	0
Exposures in the form of collective investment undertakings	–	–	–	–	
Equity exposures	–	–	–	–	–
Other items	–	–	169	–	169
Total exposure with standardised approach	–	–	**402**	**12,706**	**13,108**
Total	**240**	**398,014**	**402**	**12,706**	**411,362**

Table 30. **Net exposure amounts by type of property for credit risk exposures in lending operations**

SEK million	Houses and holiday homes	Tenant-owners' rights	Tenant-owners' associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties	Unse-cured	Off-balance-sheet items	Total
Exposures to corporates	16	–	91	42,068	101	119	–	–	42,395
Retail exposures	154,412	151,964	49,483	–	–	–	–	–	355,859
Total exposure with IRB approach	**154,428**	**151,964**	**49,574**	**42,068**	**101**	**119**	**–**	**–**	**398,254**
Exposures to governments and central banks	–	–	–	–	–	–	–	–	–
Exposures to regional governments or local authorities or agencies	–	–	–	–	1	–	–	–	1
Exposures to multilateral development banks	–	–	–	–	–	–	–	–	–
Exposures to international organisations	–	–	–	–	–	–	–	–	–
Exposures to institutions	–	–	–	–	–	–	–	–	–
Exposures to corporates	–	–	–	–	–	–	–	–	–
Retail exposures	–	–	–	–	–	–	–	–	–
Exposures to households secured by immovable property	–	–	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–	–	–
Exposures in the form of covered bonds	–	–	–	–	–	–	–	–	–
Exposures to institutions and corporates with a short-term credit rating	–	–	–	–	–	–	–	–	–
Equity exposures	–	–	–	–	–	–	–	–	–
Other exposures	–	–	–	–	–	–	–	–	–
Total exposure with standardised approach	**–**	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**1**
Total	**154,428**	**151,964**	**49,574**	**42,068**	**102**	**119**	**–**	**–**	**398,255**

9.10 PAST DUE EXPOSURES AND EXPOSURES SUBJECT TO IMPAIRMENT REQUIREMENTS

A loan is regarded as in default if the costumer is more than 90 days past due (for outstanding amount exceeding 1% of total debt and SEK 1 000 for retail exposures respectively SEK 5 000 for corporate exposures) or if an assessment of unlikeliness to pay has been made of the customer. Loans subject to impairment requirements refer to exposures whereby individual provisions have been posted, meaning that in SCBC's assessment, future payments are subject to increased credit risk and the collateral does not cover the amount of the claim. The size of the individual provisions is assessed by comparing the cash flow according to the credit terms and conditions with the expected future payment capacity in combination with a valuation of the underlying collateral.

For all other loans a collective provision is made based on the model for Expected Credit Loss (ECL) and is therefore intended to cover future credit losses for events that have occurred but that have not yet had effect on individual levels. The ECL model rank the loans and divide them according to their relative credit risk following initial recognition into three stages. Credit impaired loans are allocated to stage 3.

SCBC applies the internal default definition to determine whether a loan has suffered credit deterioration. Loans with a significant increase in credit risk but which have yet to be credit impaired are allocated to stage 2. Other loans are allocated to stage 1.

Individual and collective provisions are carried out pursuant to the current accounting standard IFRS 9. On 31 December 2020, the total provisions, with deductions for guarantees, amounted to 62% of the total exposure for defaulted loans. All provisions have been assessed to constitute specific credit risk adjustments based on Article 1, item 5, of the EBA's RTS on specific and general risk regarding Article 110, item 4 of the CRR.

EBA's GL on disclosures of non-performing exposures includes a set of common templates applicable to all banks and additional templates applicable only to significant credit institutions with gross NPL ratio of 5 percent or above. SCBC has a gross NPL ratio below 5% and discloses consequently NPL1, NPL3 and NPL4 which are presented in Table 34, Table 35 and Table 36 respectively.

Credit risk in lending operations

Table 31. **Credit quality of exposures by exposure class and instruments** *(EU CR1-A table)*

	Gross carrying amount of						
SEK million	**Exposures in default**	**Non-defaulted exposures**	**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges for the period**	**Net values (or net exposures)**
Exposures to corporates	–	42,397	2	–	–	1.5	42,395
– of which, Specialised lending	–	–	–	–	–	–	–
of which, SMEs	–	26,177	1,658	–	–	1.2	26,175
Retail exposures	202	355,781	124	–	4	18	355,859
Exposures to households secured against immovable property	202	355,781	124	–	4	18	355,859
of which, SMEs	18	49,475	9	–		0	49,483
of which, non-SMEs	184	306,306	115	–	4	18	306,375
Total exposure with IRB approach	**202**	**398,178**	**126**	–	**4**	**19**	**398,254**
Exposures to governments and central banks	–	232	–	–	–	–	232
Exposures to regional governments or local authorities or agencies	–	1	–	–	–	–	1
Exposures to public sector entities	–	–	–	–	–	–	–
Exposures to multilateral development banks	–	–	–	–	–	–	–
Exposures to international organisations	–	–	–	–	–	–	–
Exposures to institutions	–	12,706	–	–	–	–	12,706
Exposures to corporates	–	–	–	–	–	–	–
of which, SMEs	–	–	–	–	–	–	–
Retail exposures	–	–	–	–	–	–	–
of which, SMEs	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–
Exposures in the form of covered bonds	–	–	–	–	–	–	–
Exposures to institutions and corporates with a short-term credit rating	–	0	–	–	–	–	–
Equity exposures	–	–	–	–	–	–	–
Other exposures	–	169	–	–	–	–	169
Deduction for retail exposures in default*	–	–	–	–	–	–	–
Total exposure with standardised approach	–	**13,108**	–	–	–	–	**13,108**
Total	**202**	**411,286**	**126**	–	**4**	**19**	**411,362**
– Of which, loans	202	398,179	126	–	–	19	398,255
– Of which, debt securities	0	12,706	–	–	–	–	12,706
– Of which, off-balance-sheet exposures	–	–	–	–	–	–	–

Table 32. **Credit quality of exposures by industry or counterparty types** *(EU CR1-B table)*

	Gross carrying values of						
SEK million	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges**	**Net values**
Construction	–	240	0	–	–	0	240
Real estate activities	202	397,938	126	–	4	19	398,014
Other services	–	171	–	–	–	0	171
Financial services*	–	12,937	–	–	–	–	12,937
Total	**202**	**411,286**	**126**	–	**4**	**19**	**411,362**

*Credit institutions

Table 33. **Credit quality of exposures by geography** *(EU CR1-C table)*

	Gross carrying values of						
SEK million	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges**	**Net values**
Sweden	202	411,284	126	–	4	19	411,360
Denmark	–	2	–	–	–	–	2
Finland	–	–	–	–	–	–	–
Norway	–	–	–	–	–	–	–
Canada	–	–	–	–	–	–	–
USA	–	–	–	–	–	–	–
France	–	–	–	–	–	–	–
Germany	–	–	–	–	–	–	–
UK	–	–	–	–	–	–	–
Switzerland	–	–	–	–	–	–	–
Austria	–	–	–	–	–	–	–
Netherlands	–	–	–	–	–	–	–
Spain	–	–	–	–	–	–	–
Other countries*	–	–	–	–	–	–	–
Total	**202**	**411,286**	**126**	–	**4**	**19**	**411,362**

* Pertains to investments in securities issued by the European Investment Bank (EIB) and the Nordic Investment Bank (NIB)

Table 34. **Credit quality of forborne exposures** *(EU NPL1 table)*[1]

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
SEK million	**Performing forborne**		**Of which defaulted**	**Of which impaired**	**On performing forborne exposures**	**On non performing forborne exposures**		**Of which collateral and financial guarantees received on non-performing exposures with forbearance measures**
Loans and advances	6	49	49	49	0	–2	53	–
Central banks	–	–	–	–	–	–	–	–
General governments	–	–	–	–	–	–	–	
Credit institutions	–	–	–	–	–	–	–	–
Other financial corporations	–	–	–	–	–	–	–	–
Non-financial corporations	–	–	–	–	–	–	–	–
Household	*6*	*49*	*49*	*49*	*0*	*–2*	*53*	–
Debt securities	–	–	–	–	–	–	–	–
Loan commitments given	–	–	–	–	–	–	–	–
Total	**6**	**49**	**49**	**49**	**0**	**–2**	**53**	–

1) Template 1 in Final report on Guidelines on disclosure of non-performing and forborne exposures EBA/GL/2018/10.

Credit risk in lending operations

Table 35. **Credit quality of performing and non-performing exposures by past due days** *(EU NPL3 table)*[1]

	Gross carrying amount/nominal amount											
	Performing exposures			Non- performing exposures								
SEK million		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past ude or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 years ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	397,942	397,871	71,425	219	147	27	23	14	9	–	–	218
Central banks	–	–	–	–	–	–	–	–	–	–	–	–
General governments	–	–	–	–	–	–	–	–	–	–	–	–
Credit institutions	*1*	*1*	–	–	–	–	–	–	–	–	–	–
Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	*91,680*	*91,680*	–	*18*	*18*	–	–	–	–	–	–	*18*
Of which SMEs	*72,992*	*72,992*	–	*18*	*18*	–	–	–	–	–		*18*
Household	*306,262*	*306,191*	*71,425*	*201*	*129*	*27*	*23*	*14*	*9*	–	–	*200*
Debt securities	–	–	–	–	–	–	–	–	–	–	–	–
Central banks	–	–	–	–	–	–	–	–	–	–	–	–
General governments	–	–	–	–	–	–	–	–	–	–	–	–
Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–
Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
Off balance sheet exposures	–	–	–	–	–	–	–	–	–	–	–	–
Central banks	–		–									
General governments	–		–									–
Credit institutions	–		–									–
Other financial corporations	–		–									–
Non-financial corporations	–		–									–
Household	–		–									–
Total	**397,942**	**397,871**	**71,425,**	**219**	**147**	**27**	**23**	**14**	**9**	–	–	**218**

1) Template 3 in Final report on Guidelines on disclosure of non-performing and forborne exposures EBA/GL/2018/10.

Table 36. **Performing and non-performing exposures and related provisions** *(EU NPL4 table)*[1]

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral received and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provision			Non-performing exposures accumulated impairment, accumulated negative changes in fair value due ot credit risk and provisions					
SEK million		Of which stage 1	of which stage 2		Of which stage 2	of which stage 3		Of which stage 1	of which stage 2		Of which stage 2	of which stage 3	Accumulated partial write-off	On performing exposures	On non-performing exposures
Loans and advances	397,942	380,032	17,911	219	0	218	–106	–42	–64	–25	0	–25	0	–	–
Central banks	–	–	–	–		–	–	–	–	–	–	–	–	–	–
General governments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Credit institutions	*1*	*1*	–	–	–	–	–	–	–	–	–	–	–	–	–
Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	*91,680*	*90,671*	*1,009*	*18*	–	*18*	*–4*	*–4*	*0*	*–8*	–	*–8*	–	–	–
Of which SMEs	*72,992*	*72,039*	*953*	*18*	–	*18*	*–3*	*–3*	*0*	*–8*	–	*–8*	–	–	–
Household	*306,262*	*289,360*	*16,902*	*201*	*0*	*200*	*–102*	*–38*	*–64*	*–17*	*0*	*–17*	*0*	–	–
Debt securities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
General governments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Off balance sheet exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Central banks	–														
General governments	–			–											
Credit institutions	–			–											
Other financial corporations	–			–											
Non-financial corporations	–			–											
Household	–			–											
Total	**397,942**	**380,032**	**17,911**	**219**	**0**	**218**	**–106**	**–42**	**–64**	**–25**	**0**	**–25**	**0**	**0**	**0**

1) Template 4 in Final report on Guidelines on disclosure of non-performing and forborne exposures EBA/GL/2018/10.

Table 37. **Net exposure amounts for defaulted and non-defaulted exposures by property type**

SEK million	Total exposure amount in the lending portfolio	Of which, exposures in default	Of which non-defaulted exposures	Specific credit risk adjustment[1]	Total exposure amount in the lending portfolio after deduction for provisions
Houses and holiday homes	154,466	75	154,392	38	154,428
Tenant-owners' rights	152,040	109	151,931	77	151,964
Tenant-owners' associations	49,584	18	49,566	9	49,575
Private multi-family dwellings	42,070	–	42,069	2	42,068
Municipal multi-family dwellings	102	–	102	–	102
Commercial properties	119	–	119	–	119
Unsecured	–	–	–	–	–
Other	–	–	–	–	–
Total	**398,381**	**202**	**398,179**	**126**	**398,255**

Table 38. **Net exposure amounts for defaulted and non-defaulted exposures by region**

SEK million	Total exposure amount in the lending portfolio	Of which, exposures in default	Of which non-defaulted exposures	Specific credit risk adjustment[1]	Total exposure amount in the lending portfolio after deduction for provisions
Greater Stockholm	235,512	115	235,397	80	235,432
Greater Gothenburg	40,002	13	39,989	9	39,993
Öresund region	49,687	17	49,670	12	49,675
University and growth regions	47,356	19	47,337	11	47,345
Weak regions	3,240	21	3,219	10	3,231
Other regions	22,584	17	22,567	4	22,580
Total	**398,381**	**202**	**398,179**	**126**	**398,255**

[1] Received guarantees are included.

9.11 RECONCILIATION OF CHANGE IN SPECIFIC CREDIT RISK ADJUSTMENTS FOR LOANS WITH PROVISIONS

SCBC only has specific credit risk adjustments and no general credit risk adjustments.

Table 39. **Changes in the stock of general and specific credit risk adjustments** *(EU CR2-A table)*

SEK million	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance (Closing 31 Dec 2019)	**107**	**–**
Increases due to amounts set aside for estimated loans losses during the period	82	–
Decreases due to amounts reversed for estimated loan losses during the period	–60	–
Decreases due to amounts taken against accumulated credit risk adjustments	–3	–
Transfer between credit risk adjustments	–	–
Impact of exchange rate differences	–	–
Business combinations, including acquisations and disposals of subsidiaries	–	–
Other adjustments	–	–
Closing balance	**126**	**–**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	0	–
Specific credit risk adjustments directly recorded to the statement of profit or loss	–2	–

Table 40. **Changes in stock of defaulted and impaired loans and debt securities** *(EU CR2-B table)*

SEK million	Gross carrying value for defaulted exposures
Opening balance (Closing 31 Dec 2019)	**253**
Loans and debt securities that have defaulted or impaired since the last reporting period	98
Returned to non-defaulted status	–82
Amounts written off	–2
Other changes	–65
Closing balance	**202**

9.12 EXPOSURES PER RATING GRADE FOR PD

The credit quality of the lending portfolio is deemed to be favorable. A total of 99.6% of the corporate exposures and 95.4% of the retail exposures are assigned to the best rating grades (up to C4 for corporate exposures and up to R4 for retail exposures).

Figure 11. **IRB Retail – Tenant-owners' rights – Exposure by risk class**

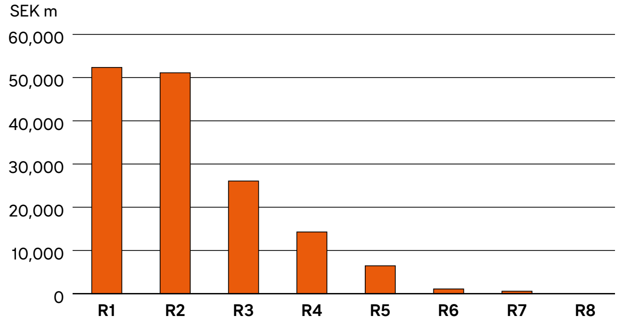


Figure 9. **IRB Corporates – Exposure by risk class**

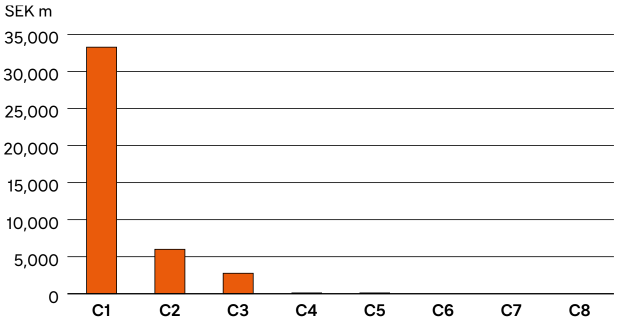


Figure 12. **IRB Retail – House/holiday home – Exposure by risk class**

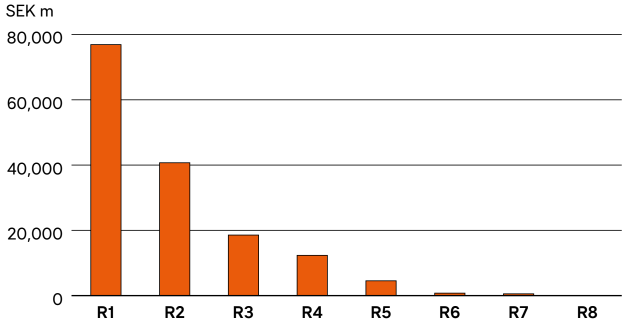


Figure 10. **IRB Retail – Exposure by risk class**

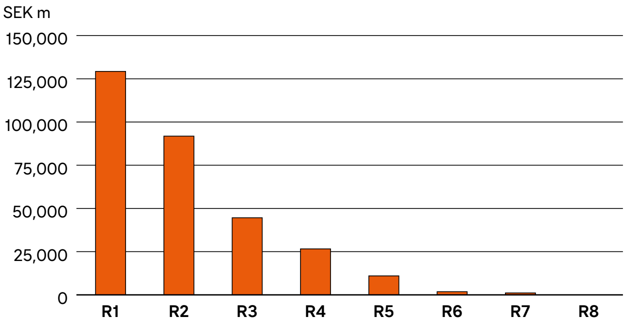
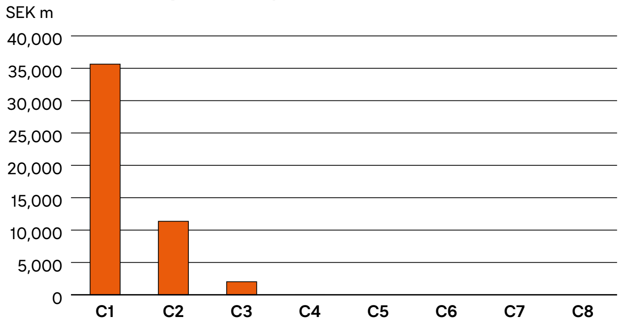


Figure 13. **IRB Retail – Tenant-owners' association – Exposure by risk class**



9.13 REALISED OUTCOME IN THE PD AND LGD DIMENSIONS

Table 41 shows the exposure-weighted PD and LGD estimates as per 31 December 2019 and the realised outcomes for 2020. Default rates for 2020 are historically low and the PD estimates exceed realised outcomes for both retail and corporate exposures. Credit losses during 2020 was very low with LGD estimates clearly exceeding realised outcomes. The LGD estimates for retail exposures are limited by the LGD-floor for mortgages, which entails a minimum average exposure-weighted LGD of 10% on the basis of the consolidated situation.

Table 42 shows more details about average PD estimates and observered default rates.

Table 41. **Realised outcome in the PD and LGD dimensions**

Exposure class	PD estimates, %	Realised outcome[1], %	LGD estimate, %	Realised outcome[2], %
Corporate exposures	0.2	0.0	38.0	0.0
Retail exposures	0.4	0.1	10,0[3]	0.8[3]

[1] An exposure is regarded as in default if the receivable is more than 90 days past due or if an assessment has been made that the customer will probably not be able to pay agreed interest amounts or cover repayments of the principal.

[2] Realised outcome has been calculated on loans in default where the default was concluded during the year.

[3] The results are exposure-weighted.

Table 42. **IRB approach – backtesting of PD per exposure class** *(EU CR9 table)*

Exposure class		PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	No. of obligors end of previous year	No. of obligors end of this year	Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
Corporates	Corporates – Other	0–100%	–	0.10%	0.12%	93	98	–	–	0.00%
	Corporates – SMEs	0–100%	–	0.18%	0.64%	201	237	1	–	0.11%
Retail	Retail – SMEs	0–100%	–	0.15%	0.24%	1 652	1 820	1	–	0.03%
	Retail – Other	0–100%	–	0.30%	0.33%	172 500	177 529	359	–	0.16%

9.14 COMPARISON OF EXPECTED LOSS AND OUTCOME

During the comparison period expected loss (EL) has slightly increased for corporate exposure but decreased for retail exposures. The increase in corporate exposures is attributable to a larger volume in the lending portfolio for SCBC.

Overall the credit quality is good with very low amounts of credit losses during the year. In 2020, credit losses for exposures recognised under IRB amounted to SEK 5 million.

Table 43. **Comparison of expected loss between outcome and model, and provision for loans reported according to IRB approach** [1]

Exposure class, SEK million	EL, IRB/F-IRB 31 Dec 2019	EL, IRB/F-IRB 31 Dec 2018	EL, IRB/A-IRB 31 Dec 2019	EL, IRB/A-IRB 31 Dec 2018	Realised outcome 2020	Realised outcome 2019	Total provisions, including guarantees 31 Dec 2020	Total provisions, including guarantees 31 Dec 2019
Exposures to corporates	13	12	–	–	–		2	1
Retail exposures		-	111	119	5	3	124	106
of which, houses and holiday homes		-	*46*	*51*	*2*	*2*	*38*	*35*
of which, tenant-owners' rights		-	*57*	*60*	*3*	*1*	*77*	*62*
of which, tenant-owners' associations		-	*8*	*9*	–	–	*9*	*9*
Total	**13**	**12**	**111**	**119**	**5**	**3**	**126**	**107**

[1] Expected loss (EL) has been calculated for the loan receivables that existed at the end of 2018 and 2019, respectively. The expected loss is compared with the actual outcome for confirmed loan losses during the outcome years of 2019 and 2020, respectively.

9.15 MORATORIUM

In February 2020 EBA published guidelines (EBA/GL/2020/02) which has given institutions the opportunity to give households or firms the possibility of temporarily suspend amortisation payments to avoid an increase in borrowers who end up in payment difficulties. The Swedish FSA intends to follow EBA's guidelines. Furthermore, SFSA's general guidelines (FFFS 2020:3) clarifies exemptions from amortisation requirements due to special reasons when an institution may grant time-limited exemptions from the amortisation requirements stated in SFSA's regulations (FFFS 2016:16) regarding amortisation of loans collateralised by residential property. According to SFSA, amortisation relief may be granted until 31 August 2021. The Corona pandemic continues to be a special reason for granting amortisation excemption, but from 30 September 2020, the usual regulations apply to mortgages that are only covered by SFSA's general guidelines. In these cases, the bank must assess in each individual case whether the measure meets the definition of forbearance measures and whether there has been a significant increase in credit risk.

In December 2020, the EBA reintroduced the moratorium rules as it believes that there is a continuing need to be able to provide relief, considering the development of the pandemic. However, the EBA has adjusted the original rules and supplemented them with some restrictions. Reliefs according to these regulations may cover a period of a total of 9 months and refers to new reliefs given after 30 September 2020. If reliefs are given for a period exceeding 9 months, the usual regulations shall be applied just as for mortgages that are only covered by the general guidelines.

Table 44. **Information on loans and advances subject to legislative and non-legislative moratoria**

	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non performing				Performing			Non performing			
SEK million			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
Loans and advances subject to moratorium	46 228	46 216	–	3 512	12	–	3	28	27	–	17	1	–	0	9
of which: Households	46 228	46 216	–	3 512	12	–	3	28	27	–	17	1	–	0	9
of which: Collateralised by residential immovable property	46 228	46 216	–	3 512	12	–	3	28	27	–	17	1	–	0	9
of which: Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
of which: Small and Medium-sized Enterprises	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
of which: Collateralised by commercial immovable property	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

Table 45. **Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria**

		Gross carrying amount							
					Residual maturity of moratoria				
SEK million	Number of obligors		Of which: legislative moratoria	Of which: expired	<= 3 months	"> 3 months <= 6 months"	"> 6 months <= 9 months"	"> 9 months <= 12 months"	> 1 year
Loans and advances for which moratorium was offered	21,020	46,253	–	–	–	–	–	–	–
Loans and advances subject to moratorium (granted)	21,003	46,228	46,228	10,539	17,372	1,898	26,958	–	–
of which: Households	–	46,228	46,228	10,539	17,372	1,898	26,958	–	–
of which: Collateralised by residential immovable property	–	46,228	46,228	10,539	17,372	1,898	26,958	–	–
of which: Non-financial corporations	–	–	–	–	–	–	–	–	–
of which: Small and Medium-sized Enterprises	–	–	–	–	–	–	–	–	–
of which: Collateralised by commercial immovable property	–	–	–	–	–	–	–	–	–

10 Funding

Funding is conducted, in part, through the Parent Company SBAB Bank AB (publ) and, in part, through SCBC where funding is carried out through the issuing of covered bonds. Swedish and international programmes are utilised for funding and are pre-dominantly conducted through public issues which are complemented by private placements. Funding is mainly targeted at major institutional investors. International funding is primarily aimed at European investors, but SCBC also attracts investors in the US, Japan and other parts of Asia.

10.1 FUNDING

10.1.1 Secured funding

The subsidiary SCBC has three funding programmes for issuing covered bonds: a Swedish covered bond programme with no fixed limit, an international Euro Medium Term Covered Note Programme (EMTCN programme) with a limit of EUR 16 billion and a dormant Australian Covered Bond Issuance Programme with a limit of AUD 4 billion. The terms of these programmes for issuing covered bonds follow market practice for similar programmes and entail, for example, that investors have limited right to early redemption of the bonds. The terms also stipulate that SCBC can choose between various types of interest-rate structures, including floating and fixed rates, and issue bonds through these three programmes in several currencies and denominations.

The EMTCN programme also allows SCBC to issue bonds with a soft-bullet structure, which entitles the issuer, in certain cases, to extend the maturity of the bond according to the issuer's terms.

10.1.2 Intragroup funding and liquidity

The management of liquidity risk and funding is for SCBC an integrated part with SBAB and the group. The part of SCBC s lending that is not funded by covered bonds is funded through SBAB. Between the parent company of SBAB and SCBC there are liquidity facility agreements in place under which SCBC can borrow money for its operations from the parent company when necessary.

More specifically SCBC receives the liquidity necessary from a subordinated loan and a revolving credit facility. The facility covers the maturing outstanding covered bonds within the next twelve months.

10.2 ENCUMBERED AND UNENCUMBERED ASSETS

As a part of SCBC's operations, residential mortgages are transferred to the subsidiary SCBC. These residential mortgages can include credits pledged against mortgages in realestate intended for residential purposes, against tenant-owners' rights or credits that otherwise qualify for inclusion in the cover pool for covered bonds. SCBC's receivables relating to the residential mortgages transferred to SCBC are repaid (wholly or in part) to SCBC at the same time as covered bonds are issued by SCBC. SCBC's receivables relating to these transfers and other receivables (unless they have arisen as a result of a derivative contract connected to the cover pool) are subordinated receivables without priority, in the event SCBC were to enter receivership or be liquidated.

Derivative contracts may be used to ensure a good balance regarding currencies, interest rates and fixed-interest periods in the cover pool. By entering into interest-rate swap contracts with SCBC or external counterparties regarding the assets registered in the cover pool, SCBC is able to convert interest payments received by SCBC in SEK for certain assets that are registered in the cover pool into variable payments linked to 3-month STIBOR.

In the same manner, SCBC may enter into currency swaps to hedge currency risks arising from funding in foreign currencies or potential assets in foreign currencies that are registered in the cover pool.

The companies in the SCBC Group are also able to enter into derivative transactions that do not need to be recorded in the cover pool. Derivative contracts may be entered into between the companies in the SCBC Group or with external counterparties.

For all counterparties documentation exists in the form of ISDA Master Agreements. In most cases, an agreement is supplemented by a credit support annex (CSA). The Parent Company and SCBC may also enter into repo transactions with certain counterparties. These transactions are governed through Global Master Repurchase Agreements (GMRA). In all instances, the collateral transferred between counterparties under CSAs and GMRAs is in the form of cash.

The cover pool assets consist mainly of loans to the public in the form of loans against mortgages of immovable property intended for residential use or against pledged tenant-owners' rights. The cover pool may also include substitute collateral, and it is consequently possible to include derivatives or securities in the cover pool. The volume pertaining to encumbered assets in the last five-year period is described in Figure 14, Assets encumbered.

According to the Covered Bonds (Issuance) Act (2003:1223), the value of the assets in the cover pool must always exceed the value of the bonds issued with the encumbered assets as collateral (referred to as overcollateralisation, "OC"). The unutilised scope in the last four-year period is described in Figure 15, Unutilised scope. On 31 December 2020, SCBC had set 2.0% as a minimum requirement for the OC level, which is the level required by the matching rules set out in Chapter 3, sections 8 and 9 of the Covered Bonds (Issuance) Act (2003:1223). On 31 December 2020, this level was equal to a volume of SEK 5.3 billion.

On 31 December 2020, SCBC had assets (reserves) corresponding to SEK 16.2 billion that can constitute covered assets.

Of the assets included in Table 46, Assets encumbered disclosures below, under the heading Unencumbered assets, carrying amount with the amount recognised in the item Other assets, SCBC has reported any items that are not available for mortgaging or other collateral arrangements in the regular operations.

Such assets include deferred tax assets, property, plant and equipment, intangible assets and certain other assets that are not mortgaged, pledged as collateral or used as security in the regular operations.

Figure 14. **Assets encumbered**

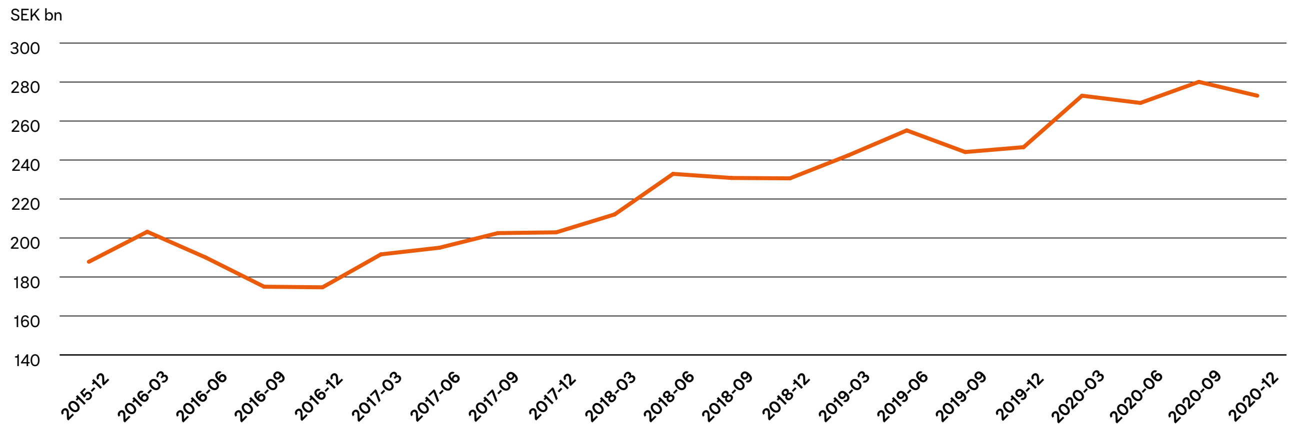


Figure 15. **Unutilised scope**

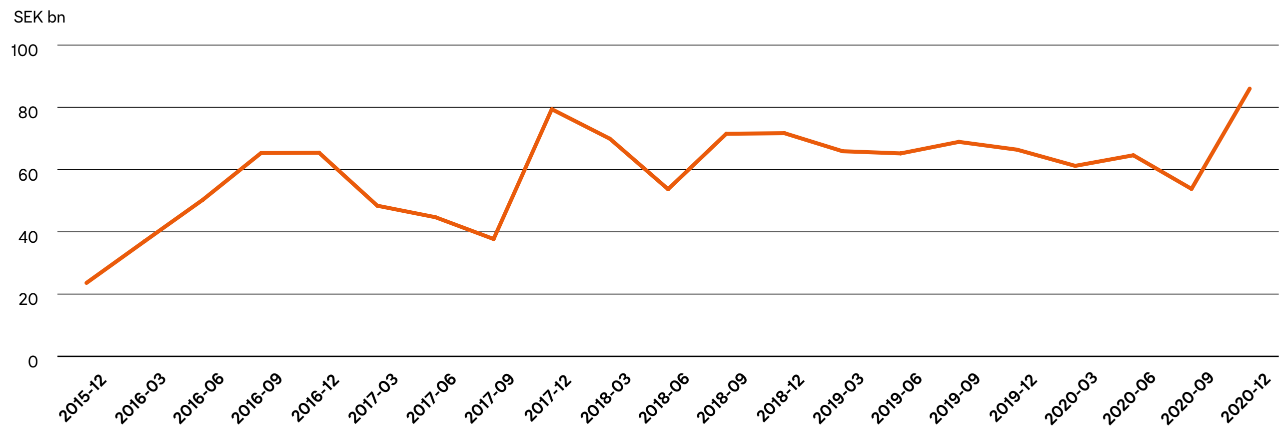


Table 46. **Assets encumbered disclosures**

Assets, SEK million	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		*of which notionally eligible EHQLA and HQLA*		*of which EHQLA and HQLA*		*of which EHQLA and HQLA*
Assets of the reporting institution	271,844	–			135,979	–		
Equity instruments	–	–			–	–		
Debt securities	–	–	–	–	–	–	–	–
of which: covered bonds	–	–	–	–	–	–	–	–
of which: asset-backed securities	–	–	–	–	–	–	–	–
of which: issued by general governments	–	–	–	–	–	–	–	–
of which: issued by financial corporations	–	–	–	–	–	–	–	–
of which: issued by non-financial corporations	–	–	–	–	–	–	–	–
Other assets	271,844	–			135,979	–		

Table 47. **Collateral received**

SEK million	Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		*of which notionally eligible EHQLA and HQLA*
Collateral received by the reporting institution	–	–	–	–
Equity instruments	–	–	–	–
Debt securities	–	–	–	–
Other collateral received	–	–	–	–

Table 48. **Encumbered assets/collateral received and resulting liabilities**

SEK million	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	271,844	271,844

10.3 FUNDING STRATEGY

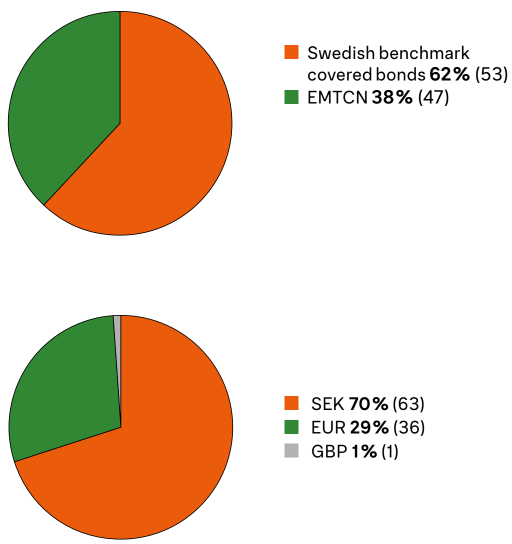
The funding strategy of SCBC is an integrated part of the funding strategy of the SCBC group. The size of the funding portfolio is a function of the volume of the loans outstanding, and on the composition of the assets after taking into consideration such factors as liquidity risk and the company's risk appetite.

Funding is also continuously adjusted to meet new liquidity rules and the requirements imposed by rating agencies and investors. The funding should be diversified.

The portfolio must have an effective distribution strive for an even distribution of debt maturity dates, i.e. avoiding periods with large concentrations of maturities. The funding portfolio should also include funding in several currencies with a balanced and diversified investor base. As a consequence of the company's lending being conducted exclusively in SEK, the majority of the funding is allocated to SEK. The second largest currency for funding is EUR and SCBC has been a regular issuer in the EUR market for many years. Funding should be conducted using several lead banks and through public offers and private placements. Interest-rate risk and currency risk associated with funding are managed using derivatives, primarily interest-rate and currency swaps.

SCBC must maintain an active market presence, with favourable and frequent relations with investors in different geographical regions and different investor segment.

Figure 16. **Funding sources and distribution by currency for deposits and funding**



11 Credit risk in treasury operations

Credit risk arises in treasury operations in the form of counterparty credit risks for the derivative and repo transactions entered into by SCBC to manage its financial risks.

In accordance with the credit instruction adopted by the Board, credit risk limits are established by SCBC's Credit Committee for all counterparties in the treasury operations. The utilised limit is calculated as the market value of financial derivatives and repos. For derivative and repo contracts, the effect of collateral pledged or received under CSAs and GMRAs is included in the total net exposure. Moreover, for derivatives, an add-on amount is also calculated for future risk-related changes. The credit risk limit may be established for a period of no longer than one year, following which a new assessment must be conducted. The decisions of the Credit Committee are reported to the Board at the following Board meeting.

11.1 COUNTERPARTY CREDIT RISK

Counterparty credit risk is the risk that SCBC's financial counterparties cannot meet their commitments pursuant to the completed derivatives and repo contracts, and such risk consists primarily of exposures to well-reputed and established banks.

Table 49 provides a breakdown of CCR exposures by risk weight on 31 December 2020. This exposure is predominantly covered by collateral agreements, where the counterparty posts collateral to reduce net exposure.

Table 49. **Standardised approach – CCR exposures by regulatory portfolio and risk** *(EU CCR3 table)*

SEK million Exposure class	0%	10%	20%	50%	Total
Institutions	12,460	–	–	246	12,706
Total	**12,460**	**–**	**–**	**246**	**12,706**

To limit the potential counterparty credit risk associated with derivative transactions involving non-standardised derivatives that are not cleared through a central clearing counterparty (CCP) approved by the competent authority (in accordance with Regulation (EU) No 648/2012), a framework agreement must have been concluded with the counterparty. In most cases, the framework agreement, an ISDA Master Agreement or similar agreements with terms for final settlement, have been supplemented with a credit support annex (CSA).

The ISDA Master Agreement entails, inter alia, that netting is regulated in the event of bankruptcy. A CSA means that the parties have agreed in advance to transfer collateral if the exposure exceeds a specified threshold amount. The threshold amount and the minimum amount to be transferred to or from the counterparty can vary depending on the parties' ratings. Tables 53 and 54 provide an overview of the distribution of the market value of individual derivative transactions by rating and maturity.

GMRAs are used to limit the counterparty credit risk associated with repo transactions. These agreements control aspects such as the transfer of collateral to or from the counterparty.

When entered into, CSAs are reconciled on a daily basis or on a weekly basis. When CSAs are in place, collateral is pledged to reduce net exposures. 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. In certain cases, under the agreements concluded by the Parent Company and SCBC, threshold and minimum transfer amounts are regulated by the parties' rating. The poorer the party's rating, the lower these amounts are. On 31 December 2020, a decline in SCBC's rating would not result in the need for SCBC to provide extra collateral to any external counterparty.

Table 50. **Analysis of the counterparty credit risk (CCR) exposure by approach** *(EU CCR1 table)*

SEK million Exposure class	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	REA
Mark to market	7,648	5,040	12,688	114
Financial collateral comprehensive method (for SFTs)	–	–	18	9
Total	**7,648**	**5,040**	**12,706**	**123**

Table 51. **Impact of netting and collateral held on exposure values** *(EU CCR5-A table)*

SEK million	Gross positive fair value or net carrying	Netting benefits	Netted current credit	Collateral held	Net credit exposure
Derivatives	9,289	–1,641	7,648	0	7,648
SFTs	296	0	296	–288	8
Total	**9,585**	**–1,641**	**7,944**	**–288**	**7,656**

Credit risk in treasury operations

Table 52. **Composition of collateral for exposures to counterparty credit risk** *(EU CCR5-B table)*

	Collateral used in derivative transaction				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
SEK million	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
Total	**–**	**–**	**–**	**–**	**288**	**10,543**

11.2 LIQUIDITY PORTFOLIO

SBAB and SCBC are managed collectively as one consolidated liquidity group with regard to liquidity management and control in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council. This allows free disposition of liquid funds in the liquidity group. The Group has a central liquidity management function whereby SCBC is not managing a liquidity portfolio on its own.

Table 53. **Derivatives specified by rating**

SEK million	Net market value*	Positive market values	Negative market values
AA	0	0	0
AA–	211	211	0
A+	7,388	9,078	–1,690
A	0	0	0
BBB+	0	0	0
BBB	0	0	0
BBB–	0	0	0
Total	**7,599**	**9,289**	**–1,690**

*Netted by rating

Table 54. **Derivatives**

SEK million	Total nominal values	Positive market values	Negative market values
< 1 year, Interest-rate-related	90,067	163	–64
> 1 year, Interest-rate-related	258,281	6,428	–314
< 1 year, Interest-rate-related	19,030	1,542	–49
> 1 year, Interest-rate-related	58,949	1,156	–1,263
Total	**426,327**	**9,289**	**–1,690**

Table 55. **Net credit exposure for derivatives**

SEK million	
Gross positive fair value of contracts	9,289
– Netting benefits	–1,641
= netted current credit exposure	7,648
– Collateral held	0
= net credit exposure for derivatives	**7,648**

12 Market risk

Market risk is the risk of loss or reduced future income due to market fluctuations.

SCBC is characterised by low risk taking, with the Board determining the overall risk appetite and setting the limits for the risk metric Value at Risk (VaR). In addition to VaR, a number of supplementary risk-based metrics set by the CEO of SCBC are also subject to limitation. Risk Control checks compliance with current risk levels and limits on a daily basis.

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. Funding in international currencies are hedged through currency swaps or invested in matching currencies to mitigate currency risk.

12.1 VALUE AT RISK

VaR is a comprehensive portfolio metric expressing the potential loss that could occur given a certain level of probability and holding period. SCBC is using VaR to quantify internal assessed capital requirements for credit spread, basis spread and currency risk.

SCBC's model is a historical model and applies percentiles in historical market data from the past two years. This means that the model does not make any assumption about a certain probability distribution in advance, but the empirical distribution is used. To quantify internal assessed capital requirements a probability level of 99% and a holding period of one year are used.

The limit for SCBC's total market risk is based on the VaR metric and applies a probability level of 99% and a holding period of one year.

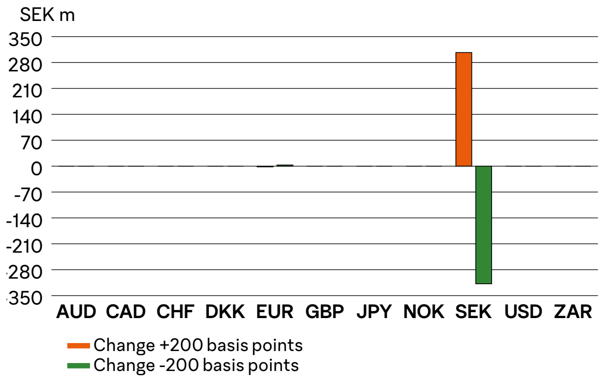
As per 31 December 2020, SCBC's total market risk exposure was SEK 133.3 million, compared with the limit of SEK 700 million.

12.2 INTEREST RATE RISK IN OTHER OPERATIONS

Interest rate risk in other operations is measured and reported quarterly to the Swedish FSA in accordance with FFFS 2007:4. For the calculation of interest rate risk in other operations, a maturity of one day is assumed for deposits that are not time-limited. As per 31 December 2020, the effect on the present value was positive SEK 304.5 million (positive: 248.4) for a 2 percentage-point parallel upward shift and a negative SEK 314.8 million (negative: 253.3) for a 2 percentage-point parallel downward shift. The exposure distributed by currency is presented in Figure 17.

SCBC is quantifying capital requirements for interest rate risk in the banking book according to FI's method described in the reference memorandum (FI dnr 14-14414). As per 31 December 2020, the scenario generating the biggest effect on the banking book is "parallel shift of interest rates down", which would give a change in economic value of negative SEK 14 million. During 2021 (FI dnr 14-14414) will be replaced by a new method described in (FI dnr 19-4434).

Figure 17. **Interest rate risk in other operations in the event of a parallel shift in the yield curve of +/- 2 percentage points**

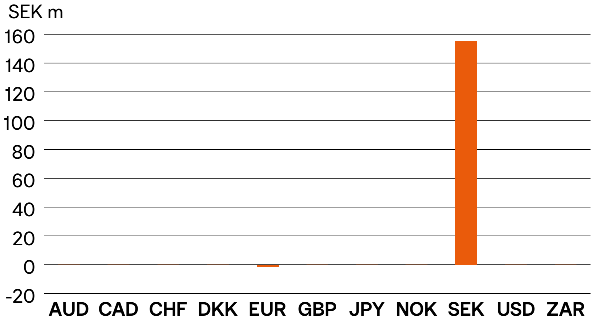


The net interest income effect is measured to capture the impact of changes in interest rates on profit or loss. The metric reflects the differences in volume and fixed-interest periods between assets, liabilities and derivatives in other operations. The net interest income effect is calculated accordingly to EBA Guidelines (EBA/GL/2018/02) and is based on an instantaneous parallel shift of one percentage point up and down over a 12-month time horizon. At the end of the year, the net interest income effect was negative SEK 1,319 million (negative: 1,210).

12.3 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 market risks to which SCBC is exposed. For interest rate risk, limits exist for parallel shifts and curve risk. For parallel risk, the effect on the present value of a one percentage-point shift in the yield curve is measured. Curve risk is measured as the effect on the present value in different scenarios, where 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.

Figure 18. **Interest rate risk broken down by currency in the event of a parallel shift in the yield curve of +1 percentage point**



The interest-rate risk totalled SEK 153.6 million on 31 December 2020.

12.4. REGULATORY CAPITAL REQUIREMENT FOR MARKET RISK

SCBC uses the standardised approach to quantify capital requirements for market risk in Pillar 1. The regulatory capital requirement for market risk is shown in Table 56.

Table 56. **Market risk under standardised approach** *(EU MR1 table)*

Outright products	REA	Capital requirements
Interest rate risk (general and specific)	–	–
Foreign exchange risk	556	44
Total	**556**	**44**

13 Liquidity risk

Liquidity risk is the risk that SCBC is unable to meet its payment obligations at due date without incurring significant additional funding costs.

13.1 LIQUIDITY STRATEGY AND LIQUIDITY RISK MANAGEMENT

Liquidity risk is recognized by SCBC as a necessary risk and shall be maintained at such a level that SCBC can manage a period of acute liquidity crisis without relying on the capital market. SBAB and SCBC are managed collectively as a single liquidity group according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council, which among others requires free movement of funds within the liquidity group. The Group has a central liquidity management function through which the Group's entire liquidity in all currencies is forecasted and managed in a shared Group account structure.

The overall aim of the Group's liquidity strategy is to ensure the Group's survival in terms of liquidity and that the company can effectively meet its payment obligations. Key features of the strategy are proactive and continuous liquidity planning, active debt management and the scope, content and management of the Group's liquidity reserve. SCBC has an agreement about liquidity facility with SBAB. According to the agreement SCBC can borrow funds from SBAB if SCBC is unable to pay bond holders when SCBC's bonds mature.

Derivative transactions are used to manage financial risks that arise in conjunction with borrowing and lending. The majority of the interest rate derivatives transactions with external financial counterparties are cleared through clearing houses.

SBAB is the primary counterparty for SCBC's swap transactions made by SCBC to hedge risks related to borrowing and lending.

13.2 LIQUIDITY RISK – STRUCTURAL LIQUIDITY RISK

Structural liquidity risk can arise from the differences in maturity structures between assets and liabilities, which potentially leads to a lack of liquidity in the longer term. SCBC aims to maintain a diversified funding. SCBC has adopted a conservative approach to the management of funding. A large share of future maturities is being pre-financed and the share of total funding attributable to short-term funding is being maintained at a low level. SCBC works actively to ensure an even distribution of maturities, while at the same time extending the maturity of the liabilities. Monitoring of upcoming maturities, repurchases, replacements and pre-financing constitute key elements of the practical management aimed at reducing the risk.

SCBC continuously measures the Over Collateralization (OC) in the cover pool in both normal and stressed market conditions and ensures that the OC always exceeds regulatory requirement, internal management requirement and rating agency's requirement (for example Moody's requirements for Aaa ratings which is 1.5% in 2020). Table 57 shows the level of OC and OC after 20% decrease in house prices as per 31 December 2020. They exceed the level of Moody's requirement, shown as "Limit" in the Table.

Table 57. **Over Collateralisation (OC)**

	31 Dec 2020	Limit
OC	33.1%	1.5%
OC after 20% drop in house prices (excl qualified reserves)	25.4%	1.5%
OC after 20% drop in house prices (incl qualified reserves)	31.4%	1.5%

13.3 DEVELOPMENTS IN LIQUIDITY RISK REGULATION

The area of liquidity risk is subject to constant regulatory development. One regulatory change on the agenda for the immediate future and of importance to SCBC is the harmonized regulatory framework for covered bonds. In November 2019, Directive (EU) 2019/2162 of the European Parliament and of the Council on the issue of covered bonds was published. The Directive introduces harmonized rules for covered bonds within the EU.

One of the most tangible changes introduced by the rules is the requirement for covered bond issuers to hold liquid assets in the cover pool to cover net liquidity outflows from covered bonds for a period of 180 days. This requirement entails an overlapping of the existing liquidity reserve requirement in the LCR regulations. Efforts are ongoing at EU level to change the LCR regulation to avoid institutions having to hold double liquidity reserves. Different proposals have been discussed at the Swedish Bankers' Association, where SBAB is represented. One proposal suggests allowing the liquidity requirement during the first 30 days out of the total 180 to also be used for the purpose of fulfilling LCR. Another regulatory change is that the OC (over collateralization) is changed from 2% to 5%. A higher OC requirement indicates that a higher volume of the cover pool is needed to issue a given volume of covered bond. This change in OC requirement, however, has limited impact on SBAB since the OC level is held normally above 20%.

The work of implementing the Directive to the Swedish Covered bonds (Issuance) Act is ongoing and must be completed no later than 8 July 2021. The updated Swedish law must enter into force no later than one year afterwards. SBAB continues to monitor developments in the area.

14 Operational risk

Operational risk is defined as the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risks but excludes reputational risk and is embedded in all banking products and activities.

14.1 RISK MANAGEMENT

The process for managing operational risks is based on a continuous identification, analysis and assessment, management and monitoring of risks. An analysis of the overall risk level is regularly reported to the Board of Directors, the CEO and the management body. The second line of defense has an overall responsibility for the methods and procedures used to manage operational risks. The management of operational risks is conducted based on SCBC's risk appetite and the business essential processes. This involves continuous work on developing employees' risk awareness and the bank's risk culture, improving processes and routines and providing tools for efficient and proactive management in daily work. As part of strengthening SCBC's risk culture Risk and Regulatory Coordinators (RRS) was established in the first line of defense in 2016. The role of the RRS is to act as support to the business managers, focusing on risk management, process mapping, internal controls, incident management and compliance.

14.2 RISK SELF ASSESSMENT (RSA)

The RSA-process includes the identification and evaluation of operational risks in all essential processes. The self assessment is carried out using a common method and is documented in the joint GRC-system. The results of the RSA are reported annually to the Board, the CEO and the management body.

14.3 INCIDENT MANAGEMENT

SCBC has routines for reporting and following up incidents. The Risk department supports the business with analysis of reported incidents to ensure that root causes are identified and that appropriate measures are taken. Incidents that have not caused any direct damage or financial loss are also reported to promote proactive risk management.

14.4 MANAGEMENT OF NEW PRODUCTS AND SIGNIFICANT CHANGES

SCBS's process for managing new products and significant changes addresses the development of new products, markets and services, and significant changes to existing ones. The process also encompass material changes to processes, systems and organization. The purpose of the process is to ensure that changes are consistent with the risk strategy and risk appetite.

14.5 BUSINESS CONTINUITY MANAGEMENT

SCBC works to prevent incidents that may affect the company's ability to conduct operations. A crisis organization responsible for crisis and disaster management as well as communication is established and tested regularly in collaboration with external crisis management experts.

14.6 CAPITAL REQUIREMENTS FOR OPERATIONAL RISKS

SCBC applies the standardized approach to calculate the capital requirement for operational risk within Pillar 1.

15 Business risk

By business risk, SCBC means the risk of declining earnings due to harsher competition, inappropriate strategies or erroneous decisions.

Business risk also includes strategic risk, reputational risk and margin risk, which arise when the interest margins on lending and borrowing have different maturities. SCBC defines business risk as a necessary risk. New business is usually relatively similar to the business SCBC already has. Changes in the form of new products or new markets may only constitute a small part of SCBC's activities and must be implemented at such a pace that SCBC does not substantially jeopardise its earnings level and with great probability avoids pressure on its own funds.

As the accounting standards used by SCBC require that certain components of the portfolio are measured at market value while other components are recognised at their carrying amount, this has effects on the operating profit, and consequently also on own funds, that do not correspond to the actual risk to which the portfolio is exposed. To limit such effects, income volatility must be measured and limited. Business risk is included in the calculation of the Pillar 2 capital requirement as part of SCBC's stress tests. See also the section 6.3.6 Business risk.

Production: SBAB in collaboration with Öhrberg Design.

SCBC!

Covered bonds of SBAB