

A woman with blonde hair is shown in profile, looking towards the right. She is wearing a dark top and a silver watch. In the background, there is a dark surface with several colorful sticky notes (yellow, pink, green) attached to it.

SCBC

— Covered Bonds of SBAB —

**ANNUAL
REPORT
2019**

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FINANCIAL CALENDAR

Year-end report 2019	14 February 2020
Annual General Meeting	28 April 2020
Interim report Jan–Jun 2020	17 July 2020
Year-end report 2020	11 February 2021



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Sustainability information for The Swedish Covered Bond Corporation (SCBC) is included in the 2019 Annual Report for the Parent Company, SBAB Bank AB (publ).

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

The year in brief

Summary SCBC

	2019	2018
Income-statement items		
Net interest income, SEK million	2,835	3,069
Operating profit, SEK million	1,713	1,979
Profit after tax, SEK million	1,349	1,541
Balance-sheet items		
Lending to the public, SEK billion	358.9	339.4
Key metrics		
Credit loss ratio, %	0.00	-0.01
Capital adequacy		
CET1 capital ratio, %	17.0	17.1
Tier 1 capital ratio, %	17.0	17.1
Total capital ratio, %	17.0	17.1
Rating, long-term funding		
Moody's	Aaa	Aaa

Net interest income, SEK million

2,835	3,069
2019	2018

Operating profit, SEK million

1,713	1,979
2019	2018

Operations

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

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

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

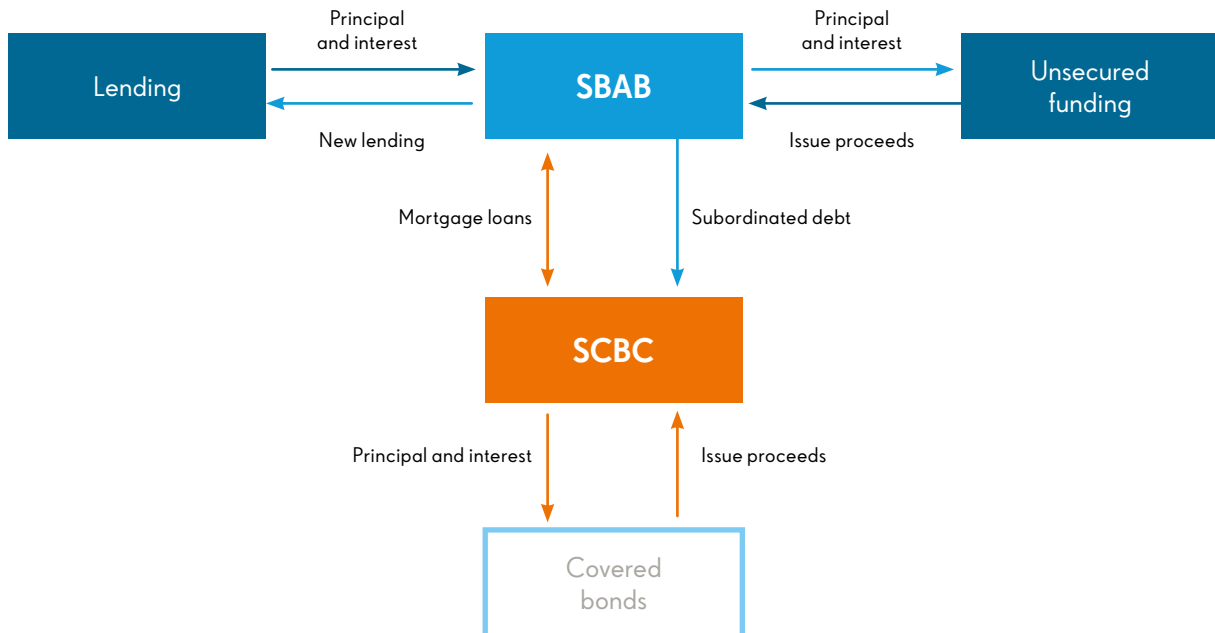
The primary operations within SCBC comprise the issue of covered bonds in

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 template” as published by the Association of Swedish Covered Bond issuers (ASCB).

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

SCBC’S ROLE IN THE SBAB GROUP



Lending

SCBC does not conduct any new lending itself, but instead acquires loans from SBAB on an ongoing basis. The aim of securing these loans is to include the loans, in part or in full, in the assets that comprise collateral for holders of SCBC's covered bonds and derivative counterparties.

Credit portfolio

At 31 December 2019, lending to the public amounted to SEK 358.9 billion (339.4). SCBC's portfolio mainly comprises loans for residential mortgages, with the retail market as the largest segment. The underlying collateral consists primarily of mortgage deeds in houses and multi-family dwellings, and of collateral in tenant-owners' rights. All provision of credit is conducted in the Swedish market and is geographically concentrated to the metropolitan areas, university cities and growth regions.

Cover pool

SCBC's total credit portfolio consists to around 95.7% (95.4) of assets that qualify for inclusion in the cover pool for the issuance of covered bonds. Of SCBC's credit portfolio, 87.2% is included in the cover pool. Of the loans in the cover pool, approximately 99.8% (99.7) consist of loans against collateral in mortgage deeds or tenant-owners' rights. In calculating the loan-to-value (LTV) ratio for these loans, the upper limit of the loans' (or group of loans) LTV ratio in the collateral used – is known as the Max LTV.

Credit quality

The overall credit quality in SCBC's credit portfolio is assessed as good. In 2019, credit risk in the portfolio has decreased slightly, despite the increase in total lending. This was largely due to the continued positive development of the probability of default (PD) risk metric. PD has decreased for private individuals, who account for the majority of lending. In terms of the total residential mortgage stock, LTV ratios declined somewhat over the year due to a gradually rising housing market, among other reasons.

KEY METRICS, COVER POOL

	31 Dec 2019	31 Dec 2018
Total cover pool, SEK million	313,044	301,956
Credit portfolio, SEK million	358,936	339,370
Weighted average max LTV, %	55.4	55.5
Average loan amount, SEK thousand	766	738
Weighted average seasoning, years	6.0	6.8
Average remaining maturity, years ¹⁾	1.2	0.9
Substitute collateral, SEK million	–	–

¹⁾ Regarding maturity until the next date for changes in terms for all borrower categories.

LTV BREAKDOWN

LTV, %	Credit volume			
	31 Dec 2019		31 Dec 2018	
	SEK million	%	SEK million	%
–10	66,536	21.3	64,089	21.3
10–20	61,147	19.6	58,647	19.5
20–30	54,591	17.5	52,544	17.4
30–40	46,532	14.9	45,026	15.0
40–50	36,952	11.8	35,605	11.8
50–60	26,239	8.4	25,139	8.3
60–70	15,845	5.1	15,550	5.2
70–75	4,557	1.5	4,512	1.5
75–	0	0.0	0	0.0
Total	312,398	100.0%	301,113	100.0

Financial performance

Operations continue to develop favourably. Operating profit for 2019 totalled SEK 1,713 million (1,979) and net interest income amounted to SEK 2,835 million (3,069).

Development of operations

SCBC's operating profit declined to SEK 1,713 million (1,979), primarily due to lower net interest income and higher expenses.

Net interest income

SCBC's net interest income decreased to SEK 2,835 million (3,069), mainly driven by increased costs for market funding as a result of rising market interest rates. Higher lending volumes positively impacted the item. The resolution fee, which is recognised in net interest income, totalled SEK 175 million (192) for the period.

Net commission expense

The net commission expense was SEK 63 million (expense: 119). The change was mainly attributable to a non-recurring commission expense in the comparative period to a former business partner for mediating mortgages in conjunction with winding up the partnership.

Net result of financial transactions

The net result of financial transactions increased to SEK 8 million (expense: 43), primarily as a result of the difference in value changes in hedging instruments and hedged items.

Expenses

SCBC's expenses rose to SEK 1,055 million (902), and mainly comprised fees to SBAB for administrative services in line with the applicable outsourcing agreements. At Group level, the increase in costs was mainly driven by an increased number of employees and thus higher personnel costs and an increase in IT expenses. The cost trend is progressing according to plan and tracks the operations' development and investment strategy for long-term competitiveness.

Credit losses

Net credit losses fell to SEK 12 million (loss: 26). The difference between the periods was mainly attributable to the

internal movement of credit impaired loans from SBAB to SCBC in the comparative period due to the transition to IFRS 9. The credit impaired loans are not included in the assets that qualify for inclusion in the cover pool for the issuance of covered bonds. Confirmed credit losses totalled SEK 1 million (loss: 1).

For more information on credit losses; please refer to Note [1C](#) 5.

Capital adequacy and liquidity risk

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

SCBC's total capital ratio and CET1 capital ratio amounted to 17.0% (17.1) at 31 December 2019. Net profit for the year is included in own funds. A Group contribution of SEK 539 million was distributed to the Parent Company SBAB Bank AB (publ) (SBAB), which had an impact after tax of SEK 424 million on retained earnings for SCBC.

The internally assessed capital requirement amounted to SEK 12,839 million (11,963) at 31 December 2019.

For more information on capital adequacy; please refer to Note [1C](#) 8.

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

Dividend policy and appropriation of profits

SCBC has no established dividend policy. Dividends are proposed by the Board in accordance with the provisions of the Companies Act and are resolved by the Annual General Meeting. All shares are owned by the Parent Company, SBAB. The full proposed appropriation of profits can be found on page 15.

Other information

Extraordinary dividend 2019

At a SCBC Extraordinary General Meeting on 4 February 2019, a resolution was passed to make a retroactive distribution to the Parent Company SBAB Bank AB (publ) (SBAB), for a total of SEK 3 billion.

Group contributions

During December 2019, a decision was taken to distribute a Group contribution of SEK 539 million from SCBC to the Parent Company SBAB, which corresponded to 40% of net profit for the year. At the same time, a decision was taken to distribute a Group contribution of SEK 25 million to Booli Search Technologies AB.

Updates pertaining to the MREL

With the aim of meeting the minimum requirement for own funds and eligible liabilities (MREL) announced by the Swedish National Debt Office, in December 2019, SCBC issued an internal Group debt instrument (senior non-preferred notes) of SEK 6,000 million to the Parent Company SBAB.

Corporate Governance Report

SCBC's Corporate Governance Report is included in this Annual Report, see page 10. Information regarding the most important aspects of the company's system for internal governance and control can be found in the aforementioned report.

Events after the balance sheet date

Information about events after the balance sheet date is available in note [G](#) 4.

Funding

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

SCBC operates primarily in the Swedish and European covered bond markets. The issue of covered bonds through SCBC is one of the SBAB Group's key sources of funding. The annual funding requirement is influenced by both lending and deposit volumes. SCBC does not conduct any lending activities itself, but instead acquires loans from SBAB, with the aim that these are included wholly or in part in the cover pool that serves as collateral for SCBC's covered bonds.

In the markets in which SCBC is active, investor demand for SCBC's bonds was healthy during the year. On 23 January 2019, SCBC was the first institution in Sweden to issue a green covered bond backed by residential mortgages and property loans. Additional information is available on SBAB's website.

Funding programmes

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

At 31 December 2019, the total value of issued debt securities outstanding under SCBC's lending programme was SEK 246.8 billion (234.8), distributed as follows: Swedish covered

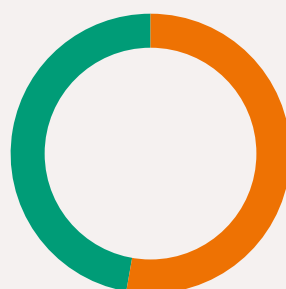
bonds SEK 129.8 billion (126.1) and the Euro Medium Term Covered Note Programme SEK 117 billion (108.7). During the period, securities amounting to SEK 44.7 billion (60.6) were issued. At the same time, securities amounting to SEK 22.9 billion (13.8) were repurchased, while securities amounting to SEK 14.0 billion (19.2) matured. Alongside changes in premiums/discounts and changes in SEK exchange rates, this resulted in an increase in issued debt

securities of SEK 12.0 billion (30.6) in the period.

Rating

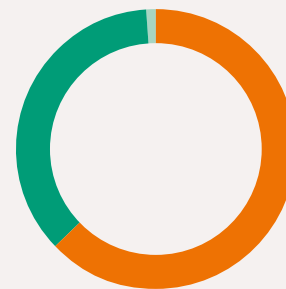
All of SCBC's funding programmes have received the highest possible credit rating of Aaa from the rating agency Moody's.

FUNDING – DEBT OUTSTANDING, 31 DECEMBER 2019: SEK 246.8 BILLION (234.8)



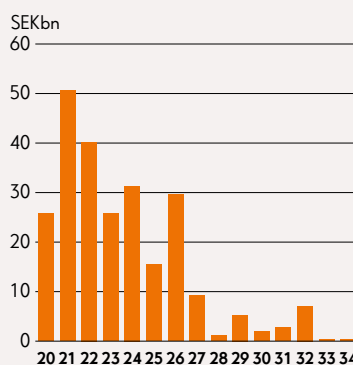
Swedish covered bonds 53% (54)
EMTCN 47% (46)

FUNDING – CURRENCY BREAKDOWN, 31 DECEMBER 2019: SEK 246.8 BILLION (234.8)

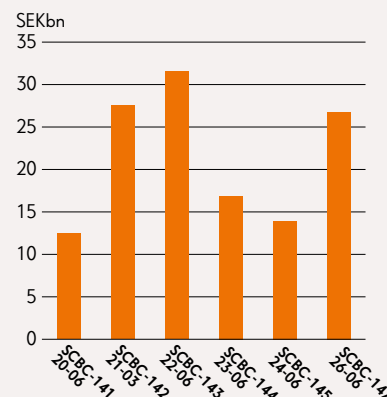


SEK 63% (64)
EUR 36% (35)
GBP 1% (1)

TOTAL FUNDING – MATURITY PROFILE



VOLUME OUTSTANDING FOR SCBC'S SWEDISH COVERED BONDS



Risk management

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

Risks in SCBC's operations

Risk is defined as a potentially negative impact that may arise due to ongoing 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, capital, liquidity or value.

Authority and responsibility

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

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

Risk strategy

SCBC is tasked with identifying, measuring, governing, reporting internally and maintaining control of the risks to

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

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 the company's 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.

Risk taking

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 SCBC is 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. Risk-bearing

ing 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. SCBC minimises undesired risks through appropriate functions, strategies, processes, procedures, internal rules, limits and controls.



RISKS AND UNCERTAINTIES

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

The management of interest-rate and currency risks entails some exposure to price risks. Over the last few years, household demand for housing has posted a stable trend, underpinned by healthy income levels and low interest rates, despite some turbulence in housing prices and a large offering of newly produced units.

The combination of substantial historic price increases in the housing market and many highly indebted households means that the Swedish economy could be sensitive to rapidly rising interest rates and falling housing prices. Interest rates are expected to rise slightly for a couple of years before accelerating somewhat, albeit at a gentle pace. This is expected to slow the price trend for housing to such an extent that it will remain essentially unchanged for the next few years. Risks linked to the weak

price trend for housing pertain to the degree to which it could lead to behaviour that triggers a larger price downturn, and how price uncertainty impacts possibilities for building and selling new housing units. However, over the last two years, new production has shown its capacity to withstand a limited price downturn and a downshift in volume without giving rise to larger credit losses. A risk also exists that indebted households experience difficulty coping with ongoing loan payments as a result of rising interest rates, even if various analyses indicate that this risk is low.

The total effect of the extensive regulatory changes in the residential mortgage market comprise a further uncertainty factor. Moreover, political decisions, for example changed tax rules, could have major consequences on households' solvency and property values.

Corporate Governance Report

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

SCBC's operations

SCBC's operations comprise the issuance of covered bonds and associated activities. In addition to the policies and instructions that have been developed especially for SCBC, the Board of SCBC annually adopts the appropriate parts of policies and instructions adopted by the Board of the Parent Company that also apply to SCBC.

This approach is suitable since SCBC's business operations are conducted by the Parent Company on assignment from SCBC and SCBC's operations serve as an instrument for the Group's funding. SCBC's targets and strategies form part of the Parent Company's funding strategy and are included in the Parent Company's business plan.

Articles of Association

SCBC's Articles of Association govern items such as SCBC's business objectives. The Articles of Association do not include any provisions regulating the appointment or removal of Board Members, with the exception of the provision on the minimum and maximum number of Board Members. The Articles of Association require that notification of an Extraordinary General Meeting convened to address amendments to the Articles of Association must be issued not earlier than six weeks and not later than four weeks prior to the meeting.

Annual General Meeting

SCBC's Annual General Meeting was held on 29 April 2019 in Solna. The Meeting re-elected Board Members Bo Magnusson (who was also elected Chairman of the Board), Jane Lundgren-Ericsson and Klas Danielsson. The Annual General Meeting passed resolutions regarding the discharge from liability for the Board of Directors and the CEO, the appropriation of profits and the adoption of the annual accounts for

2018, and fees to the Board Members who are not employees of the Group. The Annual General Meeting elected Deloitte AB, with Patrick Honeth as the auditor-in-charge, as SCBC's auditor until the close of the 2020 Annual General Meeting.

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

Extraordinary General Meeting of Shareholders

Following notification from Bo Magnusson on 13 May 2019 of his intent to step down from the Board, Jan Sinclair was elected as a new Board member and as Chairman of the Board at an extraordinary general meeting on 17 May 2019.

The Board of Directors and the Board's work

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

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

The Board of Directors bears ultimate responsibility for the company's organisation and administration. The Board is also responsible for continuously assessing SCBC's financial position and for ensuring that the organisation is structured in a manner that enables the accounting, asset management and the company's other financial circumstances to be controlled in a satisfactory manner.

The work of the Board complies with the formal work plan adopted annually at the Board's statutory meeting imme-

diately after the Annual General Meeting. The working procedures address summonses, agendas and quorums for Board meetings, as well as the division of duties between the Board and the CEO.

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

The names, ages, main qualifications, work experience and other assignments of the Board members and their attendance at Board meetings and its committees are detailed on page 14. None of the Board members or the CEO hold shares or financial instruments issued by SCBC.

Diversity and eligibility policies

The Board has adopted a policy pertaining to Board diversity and an instruction for assessing the eligibility of Board members, the CEO and senior executives. The diversity policy includes a prohibition against discrimination based on gender, transgender identity or expression, ethnicity, religion or other beliefs, disabilities, sexual orientation or age. The eligibility instruction states that the eligibility assessment of the

Board, the CEO and the senior executives should take into account the individual's skills, experience, reputation and judgement.

The Board's committees

Audit and Compliance Committee

SCBC's Board has established an Audit and Compliance Committee. The Committee is SCBC's Audit Committee and its main task is, based on the assignment and the applicable regulations, to examine the company's governance, internal controls and financial information and to prepare issues in these areas for decision by the Board. The Audit and Compliance Committee is also responsible for monitoring financial statements and the efficiency of risk management and of the work carried out by internal audit and compliance. The Audit and Compliance Committee is also responsible for evaluating the external auditing work, informing the owner of the results of this work and assisting in the drafting of proposals for auditors. The Audit and Compliance Committee is also tasked with reviewing and monitoring the auditor's impartiality and independence. Annual plans and reports from internal audit and compliance are also addressed by the Audit and Compliance Committee in preparation for decisions or for presentation to the Board. The Committee includes Board members from SCBC's Board of Directors.

Credit Committee, Risk and Capital Committee and Remuneration Committee

SCBC has not established an own Credit Committee, an own Risk and Capital Committee or an own Remuneration Committee. The Group's committees also address issues concerning SCBC as part of their work.

The principal task of the Credit Committee is to decide on credits and limits in the Group's lending and fund-

ing operations. The Credit Committee also has the task of preparing matters involving changes in the credit policy and credit instructions, the assessment of portfolio strategies, the transparency of the credit portfolio, the evaluation of existing or proposed portfolio strategies, the evaluation of existing or new delegation rights and the Board's annual review of regulatory frameworks, models for granting credits and outcomes in terms of retail credit granting.

The Credit Committee is the Board entity for all matters relating to credit risk, including the approval of new IRB models or significant changes to existing models.

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

The principal task of the Remuneration Committee is to prepare issues regarding principles for remuneration and other employment terms and conditions for senior executives for resolution by the Board.

The above committees include members of the Board of Directors of the Parent Company. Each committee has at least one member who is a Board member for SCBC. This member is responsible for ensuring that any issues regarding SCBC are addressed by the committee and reported back to SCBC's other Board members.

CEO

The Board has adopted an instruction governing the role and duties of the CEO. The CEO bears responsibility for the day-to-day administration of operations in accordance with the Board's issued guidelines, established

policies and instructions and reports on an ongoing basis to the Board. The CEO is assisted by a number of senior executives and other employees in the operational management and governance of SCBC.

Remuneration of Board of Directors and senior executives

Information regarding the remuneration of the Board is presented in Note **IC 4** in the Annual Report.

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

Control functions

SCBC has three independent control functions:

- a Risk Function;
- a Compliance Function (Compliance); and
- an Internal Audit Function.

The Risk and Internal Audit functions have been outsourced to the Parent Company in accordance with the outsourcing agreement. Compliance is executed by SCBC through one employee. The operations requiring licences to issue covered bonds under the Covered Bonds (Issuance) Act (2003:1223) are conducted by SCBC through its employees, mainly those in the Legal, Accounting and Treasury functions. Furthermore, SCBC has outsourced parts of its operations to the Parent Company in accordance with the outsourcing agreement; these parts include the administration of credits and collateral as well as IT services.

Risk

SCBC has engaged the Parent Company to discharge SCBC's Risk function and to conduct the requisite tasks for ensuring independent risk control in the company. Risk is responsible for maintaining SCBC's risk management framework and for monitoring and checking risk management. The function is also responsible for checking that the risk management framework is efficient and for identifying, measuring, checking, analysing and reporting all of SCBC's risks and risk developments. It is also responsible for identifying new risks that could arise as a result of changed circumstances. Risk reports directly to SCBC's CEO and Board.

Compliance

SCBC's Compliance function is executed through one employee. The function is independent of the business operations and is directly subordinate to the CEO. The Compliance function is tasked with, inter alia, identifying which risks exist that would prevent SCBC from discharging its duties in accordance

with laws, regulations and other provisions that govern operations requiring licences, and checking that these risks are managed by the affected functions. Compliance is primarily active in the areas of internal governance and control, customer protection and market conduct. The function is also tasked with providing advice and support on compliance matters. Compliance reports on an ongoing basis to the CEO and through a quarterly written report to the CEO and Board. The scope and focus of compliance work is established in an annual plan after approval by the CEO and decision by the Board.

Internal Audit

The Parent Company conducts SCBC's Internal Audit function in accordance with the outsourcing agreement. The Internal Audit's main task is to review and evaluate governance and internal control, and to review and evaluate the appropriateness and effectiveness of the company's organisation, control processes, IT systems, models and procedures. The Internal Audit is also tasked with the review and evaluation of the reliability and quality of the work performed by the various other control functions at SCBC. The Internal Audit prepares an audit plan for each financial year. The audit plan must be approved by the Audit and Compliance Committee and is adopted by SCBC's Board. The plan specifies which areas or operations will be reviewed during the year. The scope and focus of the planned review is determined after taking into consideration the Internal Audit's assessment of the risks and how these should be managed. Internal Audit also submits quarterly reports directly to SCBC's Board.

Independent inspector

According to the Swedish Covered Bond Issuance Act, the Swedish FSA is to appoint an independent inspector for each issuing institution. The inspector's duties include overseeing that the register that issuing institutions are obliged to maintain listing the covered bonds,

cover pool and derivatives contracts is properly maintained and in accordance with the provisions of the Act.

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

Auditors

From the 2016 AGM, Deloitte AB has been appointed as auditor, with Patrick Honeth as the auditor-in-charge. A more detailed presentation of the auditor, the auditor-in-charge and the fees and expenses paid is provided in Note **IC 4** of this Annual Report. The auditors are responsible for examining the Annual Report, consolidated financial statements and accounts and also the Board's and CEO's administration of the company. Moreover, the auditor reviews SCBC's six-month and year-end reports.

Internal control over financial reporting

Internal control over financial reporting at SCBC is primarily aimed at ensuring an effective and reliable process is in place for SCBC's financial reporting, and that both internal and external reporting are correct and accurate. Internal control over financial reporting primarily comprises the following internal control components.

Control environment

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

Risk measurement

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

Board, the CEO and the Executive Management.

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

Control activities

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

SCBC's financial position and earnings, target attainment and analysis of operations are reported monthly to the company's management and Board. The company's Audit and Compliance Committee monitor the financial

reporting and the efficiency of internal control and audit.

Information and communication

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

Follow-up

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

The Board of Directors and CEO



JAN SINCLAIR

Chairman of the Board

Master of Business Administration and Economics. Born in 1959. Elected in 2018.

Board assignments: Board member of FCG Financial Compliance Group, CSTS Alpresor and JML Sinclair AB. Chairman of SBAB Bank AB (publ) and AB Victorhuset.

Other assignments: Industrial advisor, own operations.

Previous experience: CEO of SEB A.G, Group Treasurer as well as other senior positions within SEB.

Board attendance: 4 of 7.

Joined the Board of Directors during the year, so attendance refers to part of the year.



JANE LUNDGREN-ERICSSON

Board Member

Master of laws, LL.M (London). Born in 1965. Elected in 2017.

Board assignments: Board member of SBAB Bank AB (publ) and Visma Finance AB, deputy member for Miskatonic Musik Aktieföretag.

Other assignments: –

Previous experience: Executive Director & Head of Lending at Svensk Exportkredit, CEO of SEK Securities and other senior positions at Svensk Exportkredit AB.

Board attendance: 7 of 7.



KLAS DANIELSSON

Board Member

Bachelor of Social Sciences Business Administration. Born in 1963. Elected in 2014.

Board assignments: Board member of DE Capital Nordic AB and Spiderweb Consulting AB. Chairman of the Board of Booli Search Technologies AB. Deputy Member of the Board of the Swedish Bankers' Association.

Other assignments: CEO of SBAB Bank AB (publ), Chairman of the Nomination Committee for Stockholms Stadsmission.

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

Board attendance: 7 of 7.



MIKAEL INGLÄNDER

CEO

Master of Business Administration and Economics. Born in 1963.

Employed: 2014

Board assignments: Board Member of Booli Search Technologies AB.

Other assignments: CFO of SBAB Bank AB (publ).

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

AUDITORS

PATRICK HONETH

Deloitte AB

Auditor in Charge at SCBC since 2016.

Proposed appropriation of profits

SCBC posted a net profit for the year after tax of SEK 1,348,660,602. Pursuant to approval by the AGM, Group contributions have been distributed of SEK 539,000,000 to the Parent Company SBAB and SEK 25,000,000 to Booli Search Technologies AB. According to the balance sheet, SEK 17,981,921,716 is at the disposal of the Annual General Meeting.

Shareholder contribution	9,550,000,000
Fair value reserve	1,830,494,649
Retained earnings	5,252,766,465
Net profit for the year	1,348,660,602
Total earnings according to the balance sheet as per 31 December 2019	17,981,921,716

The Board proposes that the earnings be appropriated as follows:

Carried forward to next year	17,981,921,716
Total	17,981,921,716

The consolidated situation, SCBC and SBAB, must always comply with the applicable regulations for capital adequacy and major exposures. This means that sufficiently large Own funds and acceptable capital must always be accessible in each legal entity. The Group's dividends are distributed by the

Parent Company, while overwhelming majority of earnings are within SCBC, which holds the majority of the assets and accordingly, is where interest income arises. The year's dividend of SEK 539,000,000 can therefore be considered a balance of the capitalisation between the legal entities.

The assessment of the Board of Directors is that the financial position of the company does not give rise to any other assessment than that the company can be expected to meet its obligations in both the short and the long term.

Income statement

SEK million	Note	2019	2018
Interest income	IC 1	5,141	4,495
Interest expense	IC 1	-2,306	-1,426
Net interest income		2,835	3,069
Commission income	IC 2	16	13
Commission expense	IC 2	-79	-132
Net result of financial transactions	IC 3	8	-43
Other operating income		0	0
Total operating income		2,780	2,907
General administrative expenses	IC 4	-1,045	-898
Other operating expenses		-10	-4
Total expenses before credit losses		-1,055	-902
Profit before credit losses		1,725	2,005
Net credit losses	IC 5	-12	-26
Operating profit		1,713	1,979
Tax	TX 1	-364	-438
Net profit for the year		1,349	1,541

Interest income on financial assets measured at amortised cost calculated using the effective-interest method amounted to SEK 5,226 million (4,673).

Statement of comprehensive income

SEK million	Note	2019	2018
Net profit for the year		1,349	1,541
<i>Components that will be reclassified to profit or loss</i>			
Changes related to cash-flow hedges, before tax	EQ 1	1,746	493
<i>Tax attributable to components that will be reclassified to profit or loss</i>		-374	-105
Other comprehensive income for the year, net of tax		1,372	388
Total comprehensive income for the year		2,721	1,929

Balance sheet

SEK million	Note	31 Dec. 2019	31 Dec. 2018
ASSETS			
Lending to credit institutions	A 1	0	0
Lending to the public	A 2	358,936	339,370
Value changes of interest-rate-risk hedged items in macro hedges		-178	108
Derivatives	A 3	11,137	6,771
Other assets	A 4	218	35
Prepaid expenses and accrued income	A 5	106	103
Total assets		370,219	346,387
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	L 1	3	1
Issued debt securities, etc.	L 2	246,774	234,774
Derivatives	A 3	472	595
Other liabilities	L 3	564	91
Accrued expenses and deferred income	L 4	1,680	1,622
Deferred tax liabilities	TX 2	514	136
Subordinated debt to the Parent Company	L 5	102,180	90,414
Total liabilities		352,187	327,633
Equity			
Share capital		50	50
Shareholder contribution		9,550	9,550
Fair value reserve	EQ 1	1,830	458
Retained earnings		5,253	7,155
Net profit for the year		1,349	1,541
Total equity	EQ 1	18,032	18,754
Total liabilities and equity		370,219	346,387

Statement of changes in equity

SEK million	Note	Restricted equity	Unrestricted equity				Total equity
		Share capital	Fair value reserve	Shareholder contribution	Retained earnings	Net profit for the year	
Opening balance, 1 Jan. 2019		50	458	9,550	8,696	–	18,754
Dividends paid		–	–	–	–3,000	–	–3,000
Group contribution paid ¹⁾		–	–	–	–443	–	–443
Other comprehensive income, net of tax	EQ 1	–	1,372	–	–	–	1,372
Net profit for the year		–	–	–	–	1,349	1,349
Comprehensive income for the year		–	1,372	–	–	1,349	2,721
Closing balance, 31 Dec. 2019		50	1,830	9,550	5,253	1,349	18,032
Opening balance 1 Jan. 2018		50	70	9,550	7,115	–	16,785
Effect of changes in accounting policy, IFRS 9		–	–	–	40	–	40
Adjusted opening balance, 1 Jan. 2018		50	70	9,550	7,155	–	16,825
Other comprehensive income, net of tax	EQ 1	–	388	–	–	–	388
Net profit for the year		–	–	–	–	1,541	1,541
Comprehensive income for the year		–	388	–	–	1,541	1,929
Closing balance, 31 Dec. 2018		50	458	9,550	7,155	1,541	18,754

¹⁾ SCBC paid a Group contribution of SEK 539 million to the Parent Company SBAB Bank and a Group contribution of SEK 25 million to fellow Group company Booli Search Technologies AB.

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

Cash-flow statement

SEK million	2019	2018
Opening cash and cash equivalents	0	150
OPERATING ACTIVITIES		
Interest received	5,132	4,501
Commission received	14	18
Interest paid	-2,281	-1,213
Commission paid	-79	-132
Outflows to suppliers	-1,055	-902
Income tax paid	-486	-429
Change in lending to the public	-19,578	-27,142
Change in liabilities to credit institutions	2	-953
Change in debt securities issued, etc.	11,440	30,532
Change in other assets and liabilities	-1,876	-2,250
Cash flow from operating activities	-8,767	2,030
INVESTING ACTIVITIES		
Cash flow from investing activities	-	-
FINANCING ACTIVITIES		
Dividends paid	-3,000	-
Subordinated debt issued	11,767	-2,180
Cash flow from financing activities	8,767	-2,180
Increase/decrease in cash and cash equivalents	0	-150
Closing cash and cash equivalents	0	0

Comments to the cash-flow statement

The cash-flow statement is reported in accordance with IAS 7 and cash and cash equivalents are defined as lending to credit institutions.

CHANGE IN LIABILITIES ATTRIBUTABLE TO FINANCING ACTIVITIES

SEK million	Opening balance, 1 Jan. 2019	Cash flow	NON-CASH ITEMS		Closing balance, 31 Dec. 2019	Opening balance 1 Jan. 2018	Cash flow	NON-CASH ITEMS		Closing balance, 31 Dec. 2018
			Fair value	Other				Fair value	Other	
Subordinated debt	90,413	11,767	-	-	102,180	92,593	-2,180	-	-	90,413
Total	90,413	11,767	-	-	102,180	92,593	-2,180	-	-	90,413

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G:1 | Accounting policies

The Swedish Covered Bond Corporation (SCBC) (in Swedish: AB Sveriges Säkerställda Obligationer (publ)) is a wholly-owned subsidiary of SBAB Bank (publ) ("SBAB"). SCBC is a credit market company whose operations focus on the issuance of covered bonds.

Operations commenced in 2006, when the company was granted a licence by Finansinspektionen (Sweden's financial supervisory authority) to issue covered bonds. The Parent Company, SBAB Bank, is a Swedish public limited banking company domiciled in Solna. The address of the Head Office is SBAB Bank AB (publ), Box 4209, SE-171 04 Solna, Sweden.

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

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

On 23 March 2020, the Board of Directors approved the financial statements for publication and these statements were adopted by the Annual General Meeting on 28 April 2020.

Introduction of new accounting standards

IFRS 16 Leases

The new IFRS 16 has changed the lease classification criteria.

IFRS 16 has been adopted by the EU and will apply from the 2019 financial year. The new standard entails that all leases (with the exception of short-term and low-value leases) are to be recognised as right-of-use assets with corresponding liabilities in the lessee's balance sheet.

The lease payments are recognised as depreciation and interest expenses. Furthermore, disclosure requirements apply. The introduction had no impact on SCBC's financial reports.

Amendments in IFRS 9, IAS 39 and IFRS 7

In January 2020, the EU adopted the amendments in IFRS 9, IAS 39 and IFRS 7. The amendments entail certain reliefs in hedge accounting in conjunction with the change in reference interest rates and SCBC has chosen early application of these amendments in the 2019 Annual Report. This change is not expected to have any impact on the financial statements.

Other amendments

According to SCBC's preliminary assessment, other new or changed international accounting standards that have been published but not yet applied will have a limited effect on the company's accounting and financial reports.

Financial instruments

Recognition in and derecognition from the balance sheet

Financial instruments are recognised when the company is involved with the instrument's contractual terms. Issued securities, including all derivatives, are recognised on the trade date, meaning the date on which the significant risks and rights are transferred between the parties. Other financial instruments are recognised on the settlement date. A financial asset is derecognised from the balance sheet when the contractual rights to receive cash flows from the financial asset expire and the Group has transferred essentially all of the risks and rewards of ownership of the asset. A financial liability is derecognised from the balance sheet when it is extinguished, meaning when the obligation specified in the contract is fulfilled, cancelled or has expired.

Offsetting

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

Recognition of income and expense

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

Since transaction costs in the form of remuneration to business partners or issue expenses attributable to the acquisition of loans constitute part of the acquisition cost of the loan, these costs are recognised in the balance sheet and recognised in profit or loss under net interest income over the expected tenor of the loan.

IFRS 15 – Revenue from Contracts with Customers is applied for various types of services that are mainly recognised in profit or loss as Commission income.

Commission income from lending is primarily recognised when the service is provided, in other words at a specific date. Commission expenses are included in profit or loss continuously in accordance with the contractual terms. In the event of premature redemption of loans, the customer pays interest compensation intended to cover the cost that arises for SCBC. This compensation is recognised as income directly under the "Net result of financial transactions." Other items under this heading are described in the "Classification" section.

Classification

All financial instruments covered by IFRS 9 are classified pursuant to this standard in the following categories:

- Financial assets measured at amortised cost
- Financial assets measured at FVTPL
- Financial liabilities measured at FVTPL
- Financial Liabilities measured at amortised cost

SCBC has no assets under the classifications "Investments measured at FVTOCI."

The instruments in the respective categories are valued in the following reporting, and where applicable, together with the required adjustments under the hedge accounting rules.

Financial assets measured at amortised cost

Assets in this category are recognised at cost, defined as fair value plus transaction costs, on the acquisition date and thereafter at amortised cost after application of the effective-interest method. This category consists of assets that are held within the framework of a business model where the objective is to hold financial assets in order to collect contractual cash flows solely comprised of capital and interest. The assets in this category encompass lending and other assets that meet the above terms. The assets are subject to ongoing impairment testing. Refer also to the "Credit losses and impairment of financial assets" section. Impairment losses are recognised in profit or loss under "Net credit losses," while the effective interest rate is recognised as interest income. Realised gains or losses from the sale of assets are recognised directly in profit or loss under "Net result of financial transactions."

Financial assets measured at FVTPL

On initial recognition, assets in this category are recognised at fair value, while related transaction costs are recognised in profit or loss. Changes in fair value and realised gains or losses for these assets are recognised directly in profit or loss under the heading "Net result of financial transactions," while the effective interest rate is recognised as interest income. This category includes assets that do not meet the definitions for other valuation categories and, accordingly, are measured at FVTPL. (For example, assets with cash flows other than capital and interest on capital). At SCBC, these assets consist exclusively of derivatives.

Financial liabilities measured at FVTPL

On initial recognition, liabilities in this category are recognised at fair value, while related transaction costs are recognised in profit or loss. The category is divided into financial liabilities held for trading and financial liabilities that Executive Management has designated as such upon initial recognition. All of the company's liabilities in this category consist of derivatives that are used to hedge financial risk and which have been defined as held for trading in the financial reporting. Changes in fair value and realised gains or losses for these liabilities are recognised in profit or loss under "Net result of financial transactions," while the effective interest rate is recognised as interest expense.

FINANCIAL NOTES

Financial liabilities measured at amortised cost

Financial liabilities that are not classified as "Financial liabilities measured at FVTPL" are initially recognised at fair value with an addition for transaction costs and are subsequently recognised at amortised cost using the effective-interest method. This category consists mainly of issued securities and liabilities to credit institutions. Realised gains or losses from the repurchase of own liabilities affects profit or loss when incurred and are recognised under the heading "Net result of financial transactions," while the effective interest rate is recognised as interest expense.

Repos

Repos are agreements where the parties have reached agreement on the sale and repurchase of a particular security at a pre-determined price. Securities that have been provided or received under these repo agreements are not derecognised from or not recognised in the balance sheet, respectively. Payments received are recognised in the balance sheet as liabilities to credit institutions and payments made are recognised as lending to credit institutions. The impact on profit or loss is attributable to the difference between sale and repurchase prices and is recognised as interest income or interest expense, respectively.

Fair value measurement

Fair value is defined as the price that would be received on the valuation date on the sale of an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants. Fair value measurement of financial instruments measured at fair value and traded on an active market is based on quoted prices (Level 1). If the market for a financial instrument is not active, the fair value is established on the basis of generally accepted measurement methods (Level 2). As far as possible, calculations made in conjunction with measurement are based on observable market data. The main tools used are models based on discounted cash flows. In individual cases, the calculations may also be based on assumptions or estimates (Level 3).

Derivatives and hedge accounting

Derivatives are used primarily to manage interest-rate and currency risk in the company's assets and liabilities. The derivatives are recognised at fair value in the balance sheet. For economic hedges where the risk of a significant fluctuation in profit or loss is the greatest and that meet the formal hedge accounting criteria, SCBC has chosen to apply hedge accounting for the hedging of interest-rate and currency risk. There are also other economic hedges for which hedge accounting is not applied. For hedge accounting, the carve-out version of IAS 39 is applied, as adopted by the EU.

Fair-value hedging

In the case of fair-value hedging, the derivative hedging instrument is measured at fair value at the same time as the hedged asset or liability is measured with an addition for accumulated changes in fair value attributable to the hedged risk associated with the hedged item. Changes in fair value are recognised directly in profit or loss under the "Net result of financial transactions." The effective interest rate of the hedge is recognised in net interest income.

If hedging relationships are terminated, the cumulative gains or losses are accrued in profit or loss, after adjustment of the carrying amount of the hedged item. The accrual extends over the remaining maturity of the hedged item. Both the accrual and the realised gain or loss arising from premature closure of a hedging instrument are recognised in profit or loss under "Net result of financial transactions."

Macro hedges

In this type of hedging, derivatives are used at an aggregated level to hedge structured interest-rate risks. In the financial statements, derivatives designated as macro hedges are treated in the same way as other fair-value hedging instruments.

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

Cash-flow hedges

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

Credit losses and impairment of financial assets

Expected credit losses during the year, together with deductions for guarantees expected to be utilised or that have been utilised plus any recoveries, are recognised as credit losses. The term "confirmed credit losses" refers to losses where the amounts are definite or established with a high level of probability and have thus been derecognised from the balance sheet.

Impairment — expected credit losses

Where a provision (loss allowance) is recognised in the balance sheet depends on the classification of the exposure under IFRS 9 and the cash flow characteristics:

- For financial assets measured at amortised cost, the loss allowance is recognised as a deductible item together with the asset.

Expected credit losses for financial assets in the balance sheet

Under IFRS 9, following initial recognition, financial assets in lending to the public are divided into three stages according to their relative credit risk:

	←----- Change in credit risk ----->		
	Stage 1	Stage 2	Stage 3
Timing	From initial recognition	On a significant increase in credit risk following initial recognition	On default
Loss allowance	12-month ECL	Lifetime ECL	Lifetime ECL
Interest income	Based on gross carrying amount	Based on gross carrying amount	Based on net carrying amount

Depending on the credit stage, the loss allowance is determined by calculating the ECL for the next 12-month period or the remaining expected lifetime. Assets can migrate between stages from one balance-sheet date to another. This is decided based on changes in credit risk compared with initial recognition. Interest income from assets in stage 3 are based on the net carrying amount after deduction of the loss allowance, while interest income for the other stages is based on the gross carrying amount.

Credit stage 1

Loan receivables will, at a minimum, have a loss allowance that corresponds to 12-month ECL. Three main parameters are taken into consideration when measuring ECLs. Probability of default (PD), Loss given default (LGD) and exposure at default (EAD) where the product results in the expected credit loss (ECL). To calculate the 12-month ECL, SCBC uses its portfolio models for internal risk classification (IRB) that are intended for capital adequacy, but where appropriate adjustments have been made to ensure an accurate expected monetary value for the ECL that reflects the prevailing economic conditions and forward-looking information. The adjustments include the removal of safety margins and calibration against long-term estimates through an economic cycle as stipulated in the CRR (Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms). This way, estimates can reflect the actual risk that currently applies. Moreover, the effects of macroeconomic factors are applied to estimates to capture variations of conceivable future scenarios. The same procedure for adjusting the parameters from IRB is also applied in stages 2 and 3. For more information on IRB; please refer to Note RC 1.

Credit stage 2

For loan receivables where the credit risk has increased significantly since initial recognition, the loss allowance will correspond with lifetime ECL. Assessments of whether a significant increase in credit risk has occurred is made on an individual and a collective basis for homogeneous credit risk groups, known as risk classes. Determination of the above uses historical default data for the respective risk classes and forward-looking information in the form of forecasts for macroeconomic factors that show a clear connection to default. SCBC assesses whether credit risk has increased significantly since initial recognition by measuring the deviations from an expected PD trend for the original risk class. In addition to measurement of the change in PD, an assumption of a significant increase in credit risk in payments more than 30 days overdue is also applied. No further qualitative indicators exist for the assessment of a material increase in credit risk; instead, qualitative factors are taken into account when estimating PD.

Credit stage 3

Credit impaired loan receivables should also be assigned a loss allowance that corresponds with lifetime ECL. The internal default definition is applied to determine whether a loan receivable has suffered credit deterioration. SCBC deems a default to have occurred if any of the following criteria are met:

- The borrower has entered into liquidation, officially suspended payments or applied for a composition
- The credit is overdue by more than 60 days
- The credit has been restructured and the borrower been granted concessions
- The credit is categorised as insolvent based on a separate expert assessment.

Measuring significant increases in credit risk

To measure any significant increase in credit risk, historical default data has been analysed in terms of the PD trend over time given the risk classes on initial recognition. Thereafter, the thresholds are determined through analysis of the percentage deviations from expected PDs given the initial risk classes. The threshold level assessed as representing a significant increase in credit risk encompasses PD deviations that constitute the tenth percentile of a historic population extending from the start of year 2000 and forward. A significant increase in credit risk is considered to have taken place if the PD for a loan receivable in a given month exceeds the threshold value. The loan receivable then migrates to stage 2 and remains there for as long as its PD is above the threshold. The thresholds values are calibrated with a statistical test using a correlation coefficient, the Matthews correlation coefficient, where the PD levels are based on the maximised identification of future credit losses for performing loan receivables, while the identified proportion that does not lead to a loss is minimised. Migration from stage 2 to stage 1 is controlled exclusively by the PD threshold together with the qualitative indicator for payments more than 30 days past due, as prescribed in IFRS 9. No qualification period is applied for migrations back to stage 1. This has not been deemed necessary since PD is largely based on the borrower's payment history, which intrinsically entails a certain time delay.

Forward-looking information

So as not to solely base the estimate of ECL on empirical information, forward-looking information is used to obtain objective and accurate expected monetary values. The forward-looking information comprises forecasts of macroeconomic factors that are highly significant for housing market development and that strongly correlate with default frequencies and credit losses in SCBC's lending. The forward-looking information extends 36 months forward and is aligned with the forecast period applied in the internal capital and liquidity adequacy assessment process (ICLAAP). Moreover, 36 months is considered to encompass the effective period of an economic downturn or upturn. Afterwards, an assumption has been made suggesting the economy to swing back to the baseline as per the reporting date, which will last during the remaining time until maturity. The assumption has been assessed as reasonable since loan receivables have relatively short expected maturities – less than ten years for most products – and the occurrence of several consecutive major economic fluctuations over the remaining maturity is deemed unlikely. The repo rate and unemployment are both factors with clear correlations to PD and default in the Swedish housing market. Changes in the repo rate will indirectly affect borrowers' interest expenses, while changes in the unemployment rate will directly affect obligors' ability to make payments. To measure the effect on PD, a linear regression has been used, where the changes in the two macroeconomic factors explain the changes in default frequency. For LGD, housing prices have been used as macroeconomic factors to explain the changes in loss given default rates. As losses on secured lending are largely attributable to the LTV ratio and indirectly to housing prices, a perfect correlation with the LGD ratio is deemed to exist here. Therefore, a simple scaling of the LGD ratio is carried out to reflect the effect of this factor. The forward-looking information should be viewed as an adjustment to the two risk dimensions, PD and LGD, which impact both the allocation of credit stages and the level of the ECL. In the identification of the macroeconomic factors, separate correlations between these factors were analysed to secure reasonable scenarios. With regards to EAD, cash flows are projected by the amortisation schedule. An early redemption factor has also been applied to take into account the expected remaining duration of the credit. The same macroeconomic factors and their effects are applied consistently for the entire lending portfolio. Currently, four scenarios are modelled, in which positive and negative forecasts for the above macroeconomic factors are evaluated. These scenarios are deemed to be sufficient to capture the range of possible ECL outcomes based on prevailing economic conditions. The final ECLs are then weighted according to the likelihood that SCBC will experience credit losses of the scale envisaged in the respective scenarios. Empirical data, together with forward-looking information that is analysed for most scenarios, ensures that an objective and probability-weighted ECL pursuant to IFRS 9 is obtained.

Process for decisions on forward-looking information

The Chief Risk Officer, supported by the Economic Secretariat and Credit risk experts, submits proposals for the forward-looking information. The proposals are presented to the Assets and Liabilities Committee (ALCO), which then takes decisions regarding the forecasts for macroeconomic factors and the weighting of the respective scenarios. In the event of larger shocks to the housing or financial markets, manual adjustment of ECLs may be necessary. As for the forward-looking information, proposals are submitted to ALCO, which thereafter takes a decision. Adjustments can pertain to PD and LGD margins and are managed in the same manner as the forward-looking information. Where this pertains to geographical areas or product types that are particularly affected by the shocks, manual allocation is carried out for the affected loan receivables.

Time value of money

Under IFRS 9, ECLs for floating rate loan receivables are discounted with the effective interest rate. All receivables in SCBC's lending portfolio are deemed to have floating interest rates with different maturities. The nominal interest rate pursuant to the actual interest terms has been used as an approximation of the effective interest rate. Since no arrangement fees are charged and invoicing charges only arise to a limited extent, SCBC assesses this as a good approximation.

Uncertainty in estimating ECL

The forward-looking information comprises the largest source of uncertainty. SCBC simulates ECL in several scenarios that are positive and negative in nature. The following table presents how changes in the respective macroeconomic factors impact the PD and LGD risk dimensions and finally ECL in nominal terms according to the actual scenarios applied at the end of the reporting period. The variation in the change to ECL for the various scenarios demonstrates the sensitivity of the forward-looking information.

SENSITIVITY ANALYSIS OF FORWARD-LOOKING INFORMATION

Macroeconomic factors and changes in ECL	Scenario			
	1	2	3	4
Δ Repo rate	+62 bp	+12 bp	+140 bp	+315 bp
Δ Unemployment	+15 bp	+94 bp	+184 bp	+217 bp
Δ PD	+29%	+22%	+79%	+145%
Δ House prices	-6%	-11%	-30%	-48%
Δ Tenant-owner apartment prices	-9%	-15%	-38%	-66%
Δ Property prices	+3%	-5%	-27%	-51%
Δ LGD	+14%	+31%	+170%	+506%
Σ Δ ECL	+11 MSEK	+14 MSEK	+86 MSEK	+321 MSEK

The deltas for the repo rate and the unemployment rate show the absolute changes expressed in basis points, while the delta for housing prices shows the relative change expressed as a percentage. PD and LGD both refer to the exposure-weighted mean and their deltas show the relative change expressed as a percentage.

The weighting that is then applied for the ECL scenarios is based on best estimates by operations with the help of credit risk experts. The balanced ECL will differ, depending on the weighting selected. The following table presents the applicable weights for each of the four scenarios as per the end of the reporting period.

SCENARIO WEIGHTS IN THE FORWARD-LOOKING INFORMATION

Weights applied to the ECL scenarios	Scenario			
	1	2	3	4
Weight	50%	20%	15%	15%

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Another source of uncertainty is the PD threshold level, which is assessed as representing a significant increase in credit risk. The threshold decided has direct consequences on the size of the ECL. The following table presents how the lending portfolio is allocated over the credit stages for various PD thresholds and how large the percentage change in ECL will be based on the current threshold, which is determined to the tenth percentile. For more information; please refer to the Measuring significant increases in credit risk section.

SENSITIVITY ANALYSIS OF PD THRESHOLDS

Allocation of EAD over credit stage and change in ECL	Percentile		
	20	10	5
Credit stage 1	88.1%	94.3%	97.7%
Credit stage 2	11.9%	5.6%	2.2%
Credit stage 3	0.1%	0.1%	0.1%
∑ Δ ECL	20.1%	-	-18.2%

Modification of financial assets

If the cash flows from a loan receivable are renegotiated or otherwise modified, SCBC assesses whether the change is so significant that the modification will lead to derecognition from the balance sheet or whether the change will result in a modification gain or loss. The change is deemed material when the renegotiated terms entail that the discounted present value of cash flows differ by more than 10% from the present value under the original loan agreement. The 10% threshold for materiality is decided based on a qualitative assessment of what is considered a reasonable level. Moreover, this level corresponds to the materiality threshold in terms of the modification of debt instruments. A significant modification that leads to derecognition will lead to the credit receiving a new date of initial recognition and, accordingly, a new original risk class.

Input data in the ECL model

The majority of the input data used in the ECL calculation with regard to PD and LGD comes from SBAB's base system that contains information about borrowers and their collateral. Since the lending operations focus on housing finance with a very similar product offering, all loan receivables are processed by SCBC in the same system. In addition to the information in the base system, external data is also collected from credit rating agencies. Data from Statistics Sweden and the Riksbank is used to prepare forecasts of macroeconomic factors.

Changes in the ECL model

At the start of 2019, new projections were decided for the macroeconomic factors that comprise forward-looking information. The new projections entailed a more negative outlook for the housing market and resulted in a non-recurring effect of around SEK 11 million in increased ECL levels. The change is detailed in the tables for lending to the public, which can be found in RC 1. The forward-looking information is regularly reviewed and revised as needed. Except the changes to the forward-looking information, no other parameter estimates have been adjusted in the ECL model during the year.

Other

Functional currency

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

Foreign currency translation of receivables and liabilities

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

Tax

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

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

Cash and cash equivalents

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

Segment reporting

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

Measurement in relation to the assumption of receivables

SBAB is the initial lender for all residential mortgages provided by the SBAB Group. Loan receivables, which meet the regulatory requirements for inclusion in the cover pool that provides security for the covered bonds issued by SCBC, are transferred on a daily basis from the Parent Company SBAB to the subsidiary, SCBC. The transfers are conducted at fair value.

Dividend

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

Group contributions

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

Critical accounting estimates and judgements

Critical assumptions

To prepare the annual accounts in compliance with statutory IFRS, it is required that Executive Management use estimates and judgements based on historical experience and assumptions that are considered to be reasonable and fair. These estimates affect the carrying amounts of assets, liabilities and off-balance sheet exposures, as well as income and expenses presented in the Annual Report. Subsequently, the actual outcome may differ to some extent from the estimates made.

Measurement of loan receivables

The transition to IFRS 9 entails basing the valuation of all loan receivables on the ECL. The ECL must either relate to a 12-month period or the remaining maturity of the receivable if a significant increase in credit risk has occurred. When estimating credit losses, previously observable data is used together with assumptions pertaining to macroeconomic trends. As with all estimates of future outcomes, ECL assessment is uncertain, not least in terms of loan receivables that show a significant increase in credit risk, which may lead to asset adjustments. Moreover, an individual expert assessment for credit impaired loan receivables is carried out where the risk of loss is imminent, which in itself gives rise to considerable uncertainty. Transfers of loan receivables within the Group are conducted at fair value.

For more information, see also the "Credit losses and impairment of financial assets" section.

Financial instruments measured at fair value

The valuation is made based on observable market data, in part through the direct application of market prices, and in part through generally accepted measurement methods. Critical estimates and judgements in conjunction with fair value measurement are made in the choice of which valuation technique and market data to use. In both cases, judgements are made with regard to how the valuation techniques and market data used comprise a good estimate of the fair value.

G:2 | Related party disclosures

SCBC is a wholly-owned subsidiary of SBAB Bank AB (publ) with the Corp. Reg. No. 556253-7513. Related-party transactions are conducted at market terms.

SEK million	SBAB BANK AB			
	2019		2018	
	Assets/ Liabilities	Interest income/ Interest expense	Assets/ Liabilities	Interest income/ Interest expense
Derivatives	10,933	1,098	6,625	1,476
Other assets	-	-	-	-
Total	10,933	1,098	6,625	1,476
Liabilities to credit institutions	102,180	-1,235	90,414	-976
Derivatives	472	-142	595	-115
Group contribution paid	3,539	-	-	-
Other liabilities	200	-	138	-
Total	106,391	-1,377	91,147	-1,091

Of SCBC's commission expense, SEK 21 million (23) pertained to the possibility for SCBC to utilise a liquidity facility at the Parent Company. Of the company's general administrative costs, SEK 1,042 million (895) represented compensation to the Parent Company for administrative services rendered in accordance with an outsourcing agreement.

SCBC distributed a retroactive dividend of SEK 3 billion and a Group contribution of SEK 539 million (-) to the Parent Company, which were recognised against equity in SCBC and as financial income in the Parent Company. SCBC distributed a Group contribution of SEK 25 million (-) to Booli Search Technologies AB, which was recognised against equity in SCBC and as an appropriation in Booli.

LOANS TO KEY PERSONNEL

SEK million	SBAB BANK AB			
	2019		2018	
	Lending	Interest income	Lending	Interest income
CEO	-	-	-	-
Board of Directors	-	-	-	-
Other key senior executives	12	0	6	0
Total	12	0	6	0

The Parent Company SBAB has lending to key personnel at SCBC via SCBC. Lending to key personnel at SCBC is not permitted on terms that are not available to other personnel. The ceiling for total capital debt on preferential terms is SEK 2,000,000 per household on the condition that the loan is within 85% of the property's LTV. On

preferential loans of up to SEK 2,000,000, a 2 percentage point discount is given against SBAB's current list rate. The preferential loan is a taxable benefit. The interest rate received after the discount must not be less than 0.25%.

DEPOSITS FROM KEY PERSONNEL

SEK million	SBAB BANK AB			
	2019		2018	
	Deposits	Interest expense	Deposits	Interest expense
CEO and other key senior executives	0	0	-	-
Board of Directors	3	0	3	0
Total	3	0	3	0

The Parent Company SBAB has deposits from key personnel at SCBC. Deposits from key personnel are made on the same terms and conditions as other deposits at SBAB.

FINANCIAL NOTES

G:3 | Proposed appropriation of profits

SCBC posted a net profit for the year after tax of SEK 1,348,660,602. Pursuant to approval by the AGM, Group contributions have been distributed of SEK 539,000,000 to the Parent Company SBAB and SEK 25,000,000 to Booli Search Technologies AB. According to the balance sheet, SEK 17,981,921,716 is at the disposal of the Annual General Meeting.

Shareholder contribution	9,550,000,000
Fair value reserve	1,830,494,649
Retained earnings	5,252,766,465
Net profit for the year	1,348,660,602
Total earnings according to the balance sheet as per 31 December 2019	17,981,921,716

The Board proposes that the earnings be appropriated as follows:

Carried forward to next year	17,981,921,716
Total	17,981,921,716

The consolidated situation, SCBC and SBAB, must always comply with the applicable regulations for capital adequacy and major exposures. This means that sufficient own funds and adequate capital must always be available in each legal entity. The Group's dividends are distributed by the Parent Company, while overwhelming majority of earnings are within SCBC, which holds the majority of the assets and accordingly, is where interest income arises. The year's dividend of SEK 539,000,000 can therefore be considered a balance of the capitalisation between the legal entities.

The assessment of the Board of Directors is that the financial position of the company does not give rise to any other assessment than that the company can be expected to meet its obligations in both the short and the long term.

A:4 | Events after the balance sheet day

Impact of the Coronavirus (COVID-19)

The spread of the Coronavirus is having an increasingly large impact on the world's and Sweden's economies. Considerable uncertainty abounds as to where this will lead and as to how extensive the economic impact will be.

Latter developments have entailed substantial movements in the financial markets in the form of heavily falling interest rates, rising credit spreads and volatile and falling stock markets. This has affected the financial environment of SCBC and others in the financial sector.

The Riksbank, the ECB and central banks around the world have announced support measures to maintain the functionality of the markets.

SCBC's capital and liquidity positions are assessed as strong. SCBC is monitoring ongoing developments and implementing measures in accordance with the applicable recommendations of the Public Health Agency of Sweden.

Lowering of the countercyclical capital buffer requirement

On 3 March 2020, Finansinspektionen (the Swedish FSA) decided to lower the countercyclical capital buffer requirement for banks from 2.5% to 0%. This was a pre-emptive move by the Swedish FSA to safeguard a well-functioning credit system that facilitates for businesses and households to maintain production, consumption and investment. Through lowering the countercyclical buffer requirement, capital requirements for Swedish banks will be decreased, thereby creating scope for banks to maintain or increase lending.

RC:1 | Credit risk in lending operations

Credit risk in lending operations is defined as the risk that the counterparty is unable to fulfil its payment obligations. SCBC does not conduct its own lending operations – instead, all loans are acquired from the Parent Company SBAB. Credit risk is measured, in part, based on the borrower's repayment capacity and, in part, through value changes in pledged collateral relative to the receivable. The loans acquired from the Parent Company have only been approved for counterparties who are expected to be able to pay interest and make capital repayments when interest rates comfortably exceed the rate prevailing when the loan decision was taken. Moreover, the credit risk is restricted by credit limits adopted for various customers or customer groups.

The credit risk is primarily managed using an internal ratings-based approach (IRB). The IRB approach is used for capital adequacy as well as for the control and follow-up of the credit risk for new and existing customers in the loan portfolios. SCBC applies the IRB approach for retail loans and most lending to tenant-owners' associations. The foundation IRB approach (FIRB) is applied for loans to corporates as well as to larger tenant-owners' associations with a turnover in excess of EUR 50 million. The standardised approach is used for measuring credit risk from a capital adequacy perspective for unsecured loans.

The IRB approach has been used since 2007 for assessing credit risk where a mortgage deed or a tenant-owners' right is used as collateral. In 2015, SCBC also received permission to use the IRB approach for excess exposures that are not fully covered by mortgage deeds, property financing using other collateral than directly pledged mortgage deeds and letters of credit. The Swedish FSA has reviewed the bank's IRB system and found it reliable. The developed models are validated annually and calibrated as the need arises. Validations conducted in 2018 did not result in any changes to the models.

The models in the IRB framework assess the following parameters:

- Probability of default by the counterparty – PD (Probability of Default)
- Share of loss in the event of default – LGD (Loss Given Default)
- The part of the off-balance sheet exposure that is expected to be converted to the balance sheet – Credit conversion factor (CCF)
- The expected exposure in the event of default – EAD (Exposure at Default)
- The expected loss – EL, where EL is the product of PD multiplied by LGD and EAD.

Borrowers are classified according to credit risk based on these parameters, and expected and unexpected losses can be estimated. For the purpose of assessing the repayment capacity, the borrower is assigned one of eight risk classes for retail and corporate exposures, of which the eighth class comprises customers in default. Trends for exposures in high-risk classes are monitored thoroughly and managed actively, when necessary, by credit monitoring personnel in the credit division.

In the financial statements, the EL according to IRB models differs from the ECL provision. The calculation of EL according to Basel Pillar 1 is governed by the Regula-

tion on Prudential Requirements for Credit Institutions and Investment Firms (CRR)¹⁾. Under this regulation, credit risk is to be based on historic data over a longer time horizon and include economic downturn periods. As of 2018, the treatment of the ECL in the financial reporting is regulated by IFRS 9. Under IFRS 9, the ECL must correspond with expected values, and unlike EL based on long-term credit losses, it must objectively forecast the negative impact on future cash flows. For information pertaining to the impairment of financial assets, refer to Note G 1.

Total EL for loans calculated according to IRB models amounted to SEK 131 million (123). The loss allowance under IFRS 9 for corresponding loans totalled SEK 96 million (122). For capital adequacy purposes, non-performing loans are separated from other loans. Any positive difference, where the EL exceeds provisions, reduces CET1 capital while negative differences are added to Tier 2 capital.

Collateral in the lending operations

For loans granted by SBAB, adequate collateral must normally be provided. Adequate collateral primarily refers to mortgage deeds for real property or shares in tenant-owners' associations within a maximum of 75–85% of the market value. The 85% level only applies if collateral can be obtained with a primary lien and the customer is included in a lower risk class. The lower risk classes for retail customers (Retail – R) comprise the levels R1–R4, while the lower risk classes for Corporate customers, (Corporate – C) comprise the levels C0–C3, and manually adjusted from C3 to C4²⁾. In other cases, a loan-to-value (LTV) ratio of 75% generally applies. In addition to collateral in the form of mortgage deeds for real 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. SCBC does not hold any collateral that has been taken over in foreclosure to protect claims. Lending to the public accounts for 98% (99) of SCBC's overall assets. Without taking collateral received or any other forms of credit enhancement into account, the maximum credit-risk exposure for the lending operations matches the carrying amount.

The financial effect of collateral received is illustrated in the diagram below, which shows loans in relation to the market value of underlying collateral. As the majority of total lending has an LTV ratio under 70%, the portfolio is deemed to be well-covered and its credit quality as very healthy.

¹⁾CRR refers to Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

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

LOAN AMOUNTS BROKEN DOWN BY LTV INTERVAL

SEK million	2019			2018		
	Residential mortgages	Corporate Clients & Tenant-Owners' Associations	Total	Residential mortgages	Corporate Clients & Tenant-Owners' Associations	Total
Lending to the public						
LTV <50%	79,812	37,574	117,386	73,617	33,248	106,865
LTV 50–69%	103,106	22,156	125,262	95,978	23,376	119,354
LTV >69%	104,802	11,599	116,401	103,044	10,216	113,260
Total	287,720	71,329	359,049	272,639	66,840	339,479

LENDING TO THE PUBLIC BROKEN DOWN BY RISK CLASS

As per 31 December 2019, SCBC's lending to the public amounted to SEK 359 billion (339). Every customer is allocated to a risk class. Borrowers in default are allocated to the corporate and tenant-owners' association risk class (C8) or the retail risk class (R8). The risk class C0 consists of loans to counterparties with a 0% risk weight (Swedish municipalities). Transaction costs of SEK 16 million (24), which were attributable to loans brokered by business partners, are distributed in the table on a pro rata basis.

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2019

LENDING TO THE PUBLIC	Credit stage 1		Credit stage 2		Credit stage 3		Total	
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
	SEK million							
R0/C0	1	0	0	0	0	0	1	0
R1/C1	168,570	-2	0	0	0	0	168,570	-2
R2/C2	101,198	-3	102	0	0	0	101,300	-3
R3/C3	44,590	-4	1,533	0	0	0	46,123	-4
R4/C4	20,842	-10	7,003	-6	0	0	27,845	-16
R5/C5	3,826	-6	7,912	-19	0	0	11,738	-25
R6/C6	217	-2	1,871	-12	0	0	2,088	-14
R7/C7	14	0	1,118	-27	0	0	1,132	-27
R8/C8	0	0	0	0	252	-22	252	-22
Total	339,258	-27	19,539	-64	252	-22	359,049	-113
Guarantees ¹⁾	-	2	-	3	-	0	-	5
Total lending after provisions and guarantees	339,258	-25	19,539	-61	252	-22	359,049	-108

2018

LENDING TO THE PUBLIC	Credit stage 1		Credit stage 2		Credit stage 3		Total	
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
	SEK million							
R0/C0	2	0	-	-	-	-	2	0
R1/C1	149,816	-2	468	0	-	-	150,284	-2
R2/C2	98,556	-3	119	0	-	-	98,675	-3
R3/C3	45,648	-3	1,070	0	-	-	46,718	-3
R4/C4	21,415	-8	6,750	-5	-	-	28,165	-13
R5/C5	4,104	-6	7,655	-17	-	-	11,759	-23
R6/C6	272	-2	2,021	-12	-	-	2,293	-14
R7/C7	21	0	1,342	-30	1	0	1,364	-30
R8/C8	-	-	-	-	219	-21	219	-21
Total	319,834	-24	19,425	-64	220	-21	339,479	-109
Guarantees ¹⁾	-	5	-	8	-	0	-	13
Total lending after provisions and guarantees	319,834	-19	19,425	-56	220	-21	339,477	-96

2019

RESIDENTIAL MORTGAGES	Credit stage 1		Credit stage 2		Credit stage 3		Total	
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
	SEK million							
R1	115,400	-2	0	0	0	0	115,400	-2
R2	86,667	-2	81	0	0	0	86,748	-2
R3	41,922	-4	981	0	0	0	42,903	-4
R4	20,742	-9	6,878	-6	0	0	27,620	-15
R5	3,816	-6	7,798	-19	0	0	11,614	-25
R6	199	-1	1,871	-12	0	0	2,070	-13
R7	14	0	1,118	-27	0	0	1,132	-27
R8	0	0	0	0	232	-13	232	-13
Total	268,760	-24	18,727	-64	232	-13	287,719	-101
Guarantees ¹⁾	-	0	-	3	-	0	-	3
Total lending after provisions and guarantees	268,760	24	18,727	-61	232	-13	287,719	-98

		2018							
RESIDENTIAL MORTGAGES		Credit stage 1		Credit stage 2		Credit stage 3		Total	
SEK million		Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
R1		102,134	-1	-	-	-	-	102,134	-1
R2		83,029	-2	89	0	-	-	83,119	-2
R3		42,955	-3	980	0	-	-	43,935	-3
R4		21,293	-8	6,637	-5	-	-	27,930	-13
R5		4,061	-5	7,634	-17	-	-	11,695	-22
R6		252	-1	2,021	-12	-	-	2,273	-13
R7		21	0	1,332	-30	1	0	1,354	-30
R8		-	-	-	-	200	-12	200	-12
Total		253,745	-20	18,693	-64	201	-12	272,639	-96
Guarantees ¹⁾		-	2	-	8	-	1	-	11
Total lending after provisions and guarantees		253,745	-18	18,693	-56	201	-11	272,639	-85

		2019							
CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS		Credit stage 1		Credit stage 2		Credit stage 3		Total	
SEK million		Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
C0		1	0	0	0	0	0	1	0
C1		53,170	-1	0	0	0	0	53,170	-1
C2		14,531	-1	21	0	0	0	14,552	-1
C3		2,668	0	552	0	0	0	3,220	0
C4		101	0	125	0	0	0	226	0
C5		9	0	114	0	0	0	123	0
C6		18	-1	0	0	0	0	18	-1
C7		0	0	0	0	0	0	0	0
C8		0	0	0	0	18	-9	18	-9
Total		70,498	-3	812	0	18	-9	71,328	-12
Guarantees ¹⁾		-	2	-	0	-	0	-	2
Total lending after provisions and guarantees		70,498	-1	812	0	18	-9	71,328	-10

		2018							
CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS		Credit stage 1		Credit stage 2		Credit stage 3		Total	
SEK million		Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
C0		2	0	-	-	-	-	2	0
C1		47,682	-1	468	0	-	-	48,150	-1
C2		15,527	-1	30	0	-	-	15,557	-1
C3		2,693	0	90	0	-	-	2,783	0
C4		122	0	113	0	-	-	235	0
C5		43	-1	21	0	-	-	64	-1
C6		20	-1	-	-	-	-	20	-1
C7		-	-	10	0	-	-	10	0
C8		-	-	-	-	19	-9	19	-9
Total		66,089	-4	732	0	19	-9	66,840	-13
Guarantees ¹⁾		-	2	-	0	-	-	-	2
Total lending after provisions and guarantees		66,089	-2	732	0	19	-9	66,840	-11

¹⁾ Guarantees are included in the balance-sheet item "Prepaid expenses and accrued income."

FINANCIAL NOTES

LENDING TO THE PUBLIC BY SEGMENT

– LOANS WITH UNPAID AMOUNTS MORE THAN FIVE DAYS PAST DUE ¹⁾

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

the oldest time interval. At year-end 2019, 99.9% (99.9) of lending had no past-due unpaid amounts and was not assessed as doubtful. Of SCBC's loan portfolio totalling SEK 359 billion (339), SEK 163 million (140) of the principal has past-due unpaid amounts.

SEK million	2019			2018		
	Residential mortgages	Corporate Clients & Tenant-Owners' Associations	Total	Residential mortgages	Corporate Clients & Tenant-Owners' Associations	Total
Past due 5–30 days ¹⁾	14	0	14	8	8	16
Past due 31–60 days	54	–	54	59	–	59
Past due 61–90 days	22	–	22	19	–	19
Past due 91–180 days	22	–	22	22	–	22
Past due >180 days	51	–	51	24	–	24
Total	163	0	163	132	8	140

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

LENDING TO THE PUBLIC

The following table presents changes in gross lending and the provisions during the period for the respective segment. For more information; please refer to Note A 2.

A brief description of the reported items:

- Moved to credit stage – Movements between credit stages show opening balances for the period for migrated loans.
- Remeasurement of provision – Net changes of provisions for each credit stage. This includes changes due to movements between credit stages.

- Repayment and redemption – Loans that have been derecognised from the balance sheet during the period and which have not been written off, for example, confirmed credit losses.
- Write-offs due to confirmed credit losses – Confirmed credit losses during the reporting period.
- Other – Residual items.

TOTAL	2019							
	Credit stage 1		Credit stage 2		Credit stage 3		Total	
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
SEK million								
Opening balance	319,834	-24	19,425	-64	220	-21	339,479	-109
Migrated to credit stage 1	11,855	-25	-11,850	25	-5	0	0	0
Migrated to credit stage 2	-8,817	1	8,866	-3	-49	2	0	0
Migrated to credit stage 3	-54	0	-122	3	176	-3	0	0
Remeasurement of provision	2,153	30	-140	-14	-3	-2	2,010	14
Transferred to/from Group companies, net ¹⁾	50,983	-9	6,441	-13	7	0	57,431	-22
Repayment and redemption	-36,689	4	-3,080	8	-94	3	-39,863	15
Write-offs due to confirmed credit losses	0	0	0	0	0	0	0	0
Change in risk parameters during the period ²⁾	–	-4	–	-6	–	-1	–	-11
Other	-7	0	-1	0	0	0	0	0
Closing balance	339,258	-27	19,539	-64	252	-22	359,049	-113

TOTAL	2018							
	Credit stage 1		Credit stage 2		Credit stage 3		Total	
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
SEK million								
Opening balance	291,854	-24	20,411	-59	74	-2	312,339	-85
Migrated to credit stage 1	13,346	-27	-13,334	27	-12	0	0	0
Migrated to credit stage 2	-8,691	1	8,724	-3	-33	2	0	0
Migrated to credit stage 3	-36	0	-110	1	146	-1	0	0
Remeasurement of provision	-1,409	37	158	-21	-3	-4	-1,254	12
Transferred to/from Group companies, net ¹⁾	50,755	-15	6,424	-16	86	-18	57,265	-49
Repayment and redemption	-25,958	4	-2,845	7	-37	2	-28,840	13
Write-offs due to confirmed credit losses	0	0	0	0	-1	0	-1	0
Other	-27	–	-3	–	0	0	-30	–
Closing balance	319,834	-24	19,425	-64	220	-21	339,479	-109

¹⁾ Net amount is the loan's total amount less any internal transfers from other loans.

²⁾ The change in risk parameters during the period also includes changes in forward-looking information.

2019

RESIDENTIAL MORTGAGES	Credit stage 1		Credit stage 2		Credit stage 3		Total	
	Gross lend- ing	Provision	Gross lend- ing	Provision	Gross lend- ing	Provision	Gross lend- ing	Provision
	SEK million							
Opening balance	253,745	-20	18,693	-64	201	-12	272,639	-96
Migrated to credit stage 1	11,227	-25	-11,222	25	-5	0	0	0
Migrated to credit stage 2	-8,377	1	8,426	-3	-49	2	0	0
Migrated to credit stage 3	-54	0	-122	3	176	-3	0	0
Remeasurement of provision	-3,712	30	-211	-14	-2	-2	-3,925	14
Transferred to/from Group companies, net ¹⁾	44,690	-9	6,187	-13	6	0	50,883	-22
Repayment and redemption	-28,752	4	-3,023	8	-94	3	-31,869	15
Write-offs due to confirmed credit losses	0	0	0	0	-1	-1	-1	-1
Change in risk parameters during the period ²⁾	-	-5	-	-6	-	-1	-	-12
Other	-7	0	-1	0	0	0	-8	0
Closing balance	268,760	-24	18,727	-64	232	-14	287,719	-102

2018

RESIDENTIAL MORTGAGES	Credit stage 1		Credit stage 2		Credit stage 3		Total	
	Gross lend- ing	Provision	Gross lend- ing	Provision	Gross lend- ing	Provision	Gross lend- ing	Provision
	SEK million							
Opening balance	224,144	-19	19,537	-58	71	-3	243,752	-80
Migrated to credit stage 1	12,495	-27	-12,486	27	-9	0	0	0
Migrated to credit stage 2	-8,444	1	8,477	-3	-33	2	0	0
Migrated to credit stage 3	-36	0	-110	1	146	-1	0	0
Remeasurement of provision	-3,198	36	-204	-21	-2	-4	-3,404	11
Transferred to/from Group companies, net ¹⁾	47,502	-14	6,220	-16	66	8	53,788	-38
Repayment and redemption	-18,691	3	-2,738	6	-37	2	-21,466	11
Write-offs due to confirmed credit losses	0	0	0	0	-1	0	-1	0
Other	-27	-	-3	-	-	-	-30	-
Closing balance	253,745	-20	18,693	-64	201	-12	272,639	-96

¹⁾ Net amount is the loan's total amount less any internal transfers from other loans.

²⁾ The change in risk parameters during the period also includes changes in forward-looking information.

2019

CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS	Credit stage 1		Credit stage 2		Credit stage 3		Total	
	Gross lend- ing	Provision	Gross lend- ing	Provision	Gross lend- ing	Provision	Gross lend- ing	Provision
	SEK million							
Opening balance	66,089	-4	732	0	19	-9	66,840	-13
Migrated to credit stage 1	628	0	-628	0	0	0	0	0
Migrated to credit stage 2	-440	0	440	0	0	0	0	0
Migrated to credit stage 3	0	0	0	0	0	0	0	0
Remeasurement of provision	5,865	1	71	0	-1	1	5,935	2
Transferred to/from Group companies, net ¹⁾	6,294	0	254	0	0	0	6,548	0
Repayment and redemption	-7,937	0	-57	0	0	0	-7,994	0
Write-offs due to confirmed credit losses	-	-	-	-	-	-	-	-
Change in risk parameters during the period ²⁾	-	0	-	0	-	0	-	0
Other	-	-	-	-	-	-	-	-
Closing balance	70,499	-3	812	0	18	-8	71,329	-11

FINANCIAL NOTES

2018

CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS

SEK million	Credit stage 1		Credit stage 2		Credit stage 3		Total	
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
Opening balance	67,710	-5	874	-1	3	1	68,587	-5
Migrated to credit stage 1	851	0	-848	0	-3	0	0	0
Migrated to credit stage 2	-247	0	247	0	-	-	0	0
Migrated to credit stage 3	-	-	-	-	-	-	0	0
Remeasurement of provision	1,789	1	362	0	-1	0	2,150	1
Transferred to/from Group companies, net ¹⁾	3,253	-1	204	0	20	-10	3,477	-11
Repayment and redemption	-7,267	1	-107	1	-	-	-7,374	2
Write-offs due to confirmed credit losses	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Closing balance	66,089	-4	732	0	19	-9	66,840	-13

¹⁾ Net amount is the loan's total amount less any internal transfers from other loans.

²⁾ The change in risk parameters during the period also includes changes in forward-looking information.

Modified assets, loans with renegotiated terms and conditions

In exceptional cases, loans may be renegotiated outside of the loan agreement due to a deterioration of the borrower's financial position or because the borrower has encountered other financial problems. Such receivables are monitored carefully and are known as modified assets.

LENDING TO THE PUBLIC, MODIFIED ASSETS IN CREDIT STAGES 2 AND 3 (THAT HAVE NOT LED TO DERECOGNITION)

SEK million	2019			2018		
	Residential mortgages	Corporate Clients & Tenant-Owners' Associations	Total	Residential mortgages	Corporate Clients & Tenant-Owners' Associations	Total
Amortised cost prior to modification	287	13	300	730	-	730
Modification gain/loss, net	-32	0	0	0	-	0
Amortised cost after modification	287	13	300	730	-	730
<i>Of which, carrying amount prior to provision for assets migrated from credit stage 2 or 3 to credit stage 1.</i>	<i>129</i>	<i>7</i>	<i>136</i>	<i>331</i>	<i>-</i>	<i>331</i>

RC:2 | Credit risk in treasury operations

Credit risk in treasury operations arises when the counterparty is unable to fulfil its payment obligations. In treasury operations, credit risk arises in the form of counterparty risk for the derivative and repo contracts entered into by SCBC to manage its financial risks.

LIMIT UTILISATION PER RATING CATEGORY

SEK million	2019		2018	
	Limit	Utilised limit	Limit	Utilised limit
AAA	-	-	-	-
AA- to AA+	12,100	227	11,600	143
A- to A+	12,300	47	12,050	50
Lower than A-	3,800	0	3,900	0
Total	28,200	274	27,550	193

The "Limit utilisation per rating category" table shows the limits and the utilised limits, respectively, for SCBC's derivative counterparties. The limits for each derivative counterparty are proposed by SBAB's Treasury and adopted by the Board's Credit Committee within the confines of the framework adopted by the Board of Directors. The values in the table comprise an aggregate of individual derivative counterparty's total exposure and the limits for the respective rating category. The exposure in the summary includes external derivative and repo contracts entered into by SCBC and

which are outstanding as of 31 December 2019. At Group level, limits for each counterparty are set for all investments, and derivative and repo contracts. The above table shows the limits for the SBAB Group.

As per the credit instruction, the limits are set by SBAB's Credit Committee within the confines of the framework adopted by the Parent Company's Board of Directors. The utilised limit is calculated as the market value of financial derivatives, repos and investments. For derivatives and repos, the effect of collateral pledged or received

under CSAs or GMRA is included in the total limit. Moreover, for derivatives, an add-on amount is also calculated for future risk-related changes. The limit is coordinated with the credit limit for counterparties who also are loan customers. Limits may be established for a period of not longer than one year, after which a new assessment must be conducted. The decisions of the Credit Committee are reported to the Board at the following Board meeting.

Counterparty risk

Counterparty risk at SCBC comprises exposures to well-reputed, major banks as well as the Parent Company as counterparties, which is hedged entirely through unilateral collateral agreements in which the counterparty pledges collateral by transferring funds or securities with the aim of reducing net exposure – known as a Credit Support Annex (CSA). Wherever applicable, the collateral received takes the form of cash with a transfer of title, which entitles the party that receives the collateral to use the collateral in its operations.

To limit the potential counterparty credit risk associated with derivative transactions involving non-standardised derivatives that are not cleared by clearing organi-

sations approved by the competent authority (in accordance with Regulation (EU) No 648/2012), a framework agreement is to be entered into with the counterparty. Where appropriate, the framework agreement, an ISDA Master Agreement or equivalent agreement, has been supplemented with an associated collateral agreement, CSA. A CSA must always be established for counterparties entering into derivative contracts with SCBC. The framework agreements entitle the parties to offset receivables against debt in the event of a payment default.

Counterparty risk is reconciled on a daily basis for all counterparties. When entered into, CSAs are reconciled on a daily basis or on a weekly basis. Derivative contracts entered into with external counterparties are mostly entered into with the Parent Company as the counterparty. The effects of posted and received collateral are shown in greater detail in Note 5. Offsetting disclosures

Credit-risk limits are established by SBAB's Credit Committee for all counterparties in treasury operations. In the table "Maximum credit-risk exposure in treasury operations," the maximum credit-risk exposure is shown with and without taking collateral received or other credit enhancements into account.

MAXIMUM CREDIT-RISK EXPOSURE IN TREASURY OPERATIONS

SEK million	Without taking into account collateral received or other credit enhancements		Taking into account collateral received or other credit enhancements	
	2019	2018	2019	2018
Lending to credit institutions	0	0	0	0
Chargeable treasury bills, etc.	-	-	-	-
Bonds and other interest-bearing securities	-	-	-	-
Derivatives	11,137	6,771	11,137	6,771
Total	11,137	6,771	11,137	6,771

COLLATERAL POSTED AND RECEIVED UNDER COLLATERAL AGREEMENTS, 31 DECEMBER 2019

SEK million, Company	Collateral pledged	Collateral received
SCBC	0	0

LENDING TO CREDIT INSTITUTIONS

SEK million	2019		2018	
	Financial assets measured at amortised cost		Financial assets measured at amortised cost	
	Credit stage 1		Credit stage 1	
	Securities, gross	Provision	Securities, gross	Provision
Opening balance	0	-	150	-
Change in cash balances	0	-	0	-
Purchases	8,594	-	191,019	-
Sales	-	-	-	-
Maturity	-8,594	-	-191,169	-
Write-offs, redemption, etc.	-	-	-	-
Change in risk parameters during the period	-	-	-	-
Change in model/method	-	-	-	-
Currency revaluation	-	-	-	-
Other	-	-	-	-
Closing balance	0	-	-	-

FINANCIAL NOTES

RC:3 | Liquidity risk

Liquidity risk is defined as the risk that the company will not be able to meet its payment obligations on the date of maturity without the related cost increasing significantly. Liquidity risk management for SCBC is performed as an integral part of the Group's overarching management. Regular follow-up and internal reporting of liquidity risk takes place at the SCBC level by measuring the overcollateralisation in the

cover pool, both under normal conditions and under various stressed scenarios. SCBC has an agreement regarding a liquidity facility with the Parent Company, SBAB. The aim of the agreement is to allow SCBC to borrow funds from the Parent Company in the event that SCBC is unable to pay bond holders when SCBC's bonds mature. For more information; please refer to Note RC 3 in the SBAB Group's Annual Report.

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

SEK million	2019							2018						
	No maturity	<3 months	3-6 months	6-12 months	1-5 years	>5 years	Total	No maturity	<3 months	3-6 months	6-12 months	1-5 years	>5 years	Total
ASSETS														
Lending to credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lending to the public	-	1,623	1,598	5,182	29,203	321,205	358,811	-	1,358	1,400	2,386	29,840	304,294	339,278
Derivatives	-	239	422	868	5,764	1,938	9,231	-	327	472	283	3,966	587	5,635
Other assets	322	-	-	-	-	-	322	136	-	-	-	-	-	136
Total financial assets	322	1,862	2,020	6,050	34,967	323,143	368,364	136	1,685	1,872	2,669	33,806	304,881	345,049
LIABILITIES														
Liabilities to credit institutions	2	1	-	-	-	-	3	1	-	-	-	-	-	1
Debt securities issued, etc.	-	4,366	14,034	9,935	153,356	74,323	256,014	-	896	1,643	24,660	146,067	72,010	245,276
Derivatives	-	55	24	90	570	635	1,374	-	33	27	108	777	712	1,657
Other liabilities	2,244	-	-	-	-	-	2,244	1,714	-	-	-	-	-	1,714
Subordinated debt	96,491	12	18	28	6,208	-	102,757	90,663	-	-	-	-	-	90,663
Total financial liabilities	98,737	4,434	14,076	10,053	160,134	74,958	362,392	92,378	929	1,670	24,768	146,844	72,722	339,311

The fixed-interest periods for the capital repayments for amortised receivables and liabilities has been calculated as the period up to the date of maturity of the respective amortisation. Foreign currency cash flows have been converted using the closing rate at 31 December 2019. Future interest-rate cash flows with floating interest rates are estimated using forward interest rates based on the actual interest base, usually the three-month STIBOR.

MATURITIES OF HEDGED CASH FLOWS IN CASH-FLOW HEDGES

SEK million	No maturity	<3 months	3-6 months	6-12 months	1-5 years	>5 years	Total
Interest-rate-hedged	-	182	182	161	1,515	1,278	3,318
Currency-hedged	-	-	-	-7,843	-46,906	-36,162	-90,911
Net, 31 Dec. 2019	-	182	182	-7,682	-45,391	-34,884	-87,593
Net, 31 Dec. 2018	-	175	158	162	-41,581	-39,056	-80,710

RC:4 | Market risk

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

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

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

The general principle governing SCBC's exposure to market risk is that the level of risk taking should be low. As a general principle, interest-rate risk is to be mitigated through direct funding or the use of derivatives. SCBC's interest-rate structure as of 31 December 2019 is shown in the table "Fixed-interest periods for financial assets and liabilities." Currency risks are mitigated as funding in international currency is hedged through currency swap contracts. As per 31 December 2019, total assets and liabilities in foreign currency amounted to a net liability of SEK 92.1 billion (liability: 84.4) in nominal terms. The risk outstanding was reduced using derivatives where the nominal amount was equivalent to SEK 92.1 billion (84.8). The total effect per currency is reported in the table "Nominal amounts for assets, liabilities and derivatives in foreign currency."

Value at Risk

VaR is a comprehensive portfolio measurement expressing the potential loss that could occur given a certain level of probability and holding period. The model is a historical model and applies percentiles in historical market data from the past two years. Since the model is based on historical data there is a degree of inherent inertia and the model could underestimate the risk in a rapidly changing market. Due to the above and that the model is based on several assumptions, the model is validated daily using back testing analysis, in other words a check of VaR against actual outcomes.

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

As per 31 December 2019, SCBC's market risk exposure was SEK 70 million, compared with the limit of SEK 700 million.

Supplementary risk metrics

In addition to the overall VaR limits determined by the Board, the CEO has set a number of supplementary risk metrics for different kinds of risks to which the SBAB Group and SCBC are exposed. For interest-rate risk, there are limits for parallel shifts, where

the effect on the present value of a one percentage point shift in the yield curve is measured, and curve risk where the effect on the present value is measured in different scenarios, in which the short end of the yield curve is adjusted down (up) and the long end is adjusted up (down). Currency risk is controlled by measuring the effect on present value when currency exchange rates change compared to SEK. Basis spread income volatility is followed up at the Group level, which includes SCBC's positions.

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

This causes effects to arise in operating profit that do not correspond to the actual risk to which the SBAB Group's portfolio is exposed to. Income volatility has declined year-on-year. SBAB has applied hedge accounting through cash-flow hedges since 2014, which means that income volatility is only calculated for swap contracts already in place that are not subject to cash-flow hedges. Income volatility is expected to continue to decline in pace with the expiration of the swap contracts included in the hedge accounting.

In addition to the above-mentioned supplementary risk metrics, a number of sensitivity analyses are performed using stressed interest rates, currency rates and credit spreads together with their effect on the company's Tier 1 capital requirement.

Interest-rate risk in other operations

Interest-rate risk in other operations is measured and reported to the Swedish FSA in accordance with FFFS 2007:4. As per 31 December 2019, the effect on the present value was SEK 248.4 million (negative: 629.6) for a 2 percentage-point parallel upward shift and negative SEK 253.3 million (648.6) for a 2 percentage-point parallel downward shift. As SCBC's own funds amounted to SEK 16.2 billion (15.3) at 31 December 2019, the effect of the stress tests amounted to 1.54% (negative: 4.13) and negative 1.57% (4.25) of own funds, respectively.

NOMINAL AMOUNTS FOR ASSETS, LIABILITIES AND DERIVATIVES IN FOREIGN CURRENCY

SEK million	Assets and liabilities	Derivatives
EUR	-89,082	89,081
GBP	-2,461	2,461
NOK	-532	531
USD	0	0
Total	-92,075	92,073

FIXED-INTEREST PERIODS FOR FINANCIAL ASSETS AND LIABILITIES, CARRYING AMOUNTS

SEK million	2019						2018							
	Without interest period	<3 months	3-6 months	6-12 months	1-5 years	>5 years	Total	Without interest period	<3 months	3-6 months	6-12 months	1-5 years	>5 years	Total
ASSETS														
Lending to credit institutions	-	0	-	-	-	-	0	-	-	-	-	-	-	-
Lending to the public	-	251,920	11,035	15,451	77,231	3,299	358,936	-	245,411	12,136	28,945	50,338	2,540	339,370
Change in fair value of interest-rate-hedged loan receivables	-	-1	-19	-1	-172	15	-178	-	-1	-1	1	89	20	108
Derivatives	-	2,774	70	25	1,983	6,285	11,137	-	-2,006	8	92	2,147	6,530	6,771
Other assets	324	-	-	-	-	-	324	138	-1	-	-	-	-	137
Total financial assets	324	254,693	11,086	15,475	79,042	9,599	370,219	138	243,403	12,143	29,038	52,574	9,090	346,386
LIABILITIES														
Liabilities to credit institutions	-	3	-	-	-	-	3	-	1	-	-	-	-	1
Debt securities issued, etc.	-	9,941	12,459	7,834	143,439	73,101	246,774	-	10,148	5,202	18,810	131,946	68,668	234,774
Derivatives	-	407	2	8	30	25	472	-	309	-	19	157	110	595
Other liabilities	2,244	-	-	-	-	-	2,244	1,714	-	-	-	-	-	1,714
Subordinated debt	-	102,180	-	-	-	-	102,180	-	90,414	-	-	-	-	90,414
Total financial liabilities	2,244	112,531	12,461	7,842	143,469	73,126	351,673	1,714	100,872	5,202	18,829	132,103	68,778	327,498
Difference assets and liabilities	-1,920	142,162	-1,375	7,633	-64,427	-63,527	18,546	-1,576	142,531	6,941	10,209	-79,529	-59,688	18,888

RC:5 | Operational risk

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

Risk management

The process for managing operational risk is based on the continuous identification, analysis and assessment of risks as well as their management and follow-up. An analysis of risk levels is reported to the Board, the CEO and the Executive Management.

The Risk department has overall responsibility for the methods and procedures used in the management of operational risk. The work with managing operational risk is conducted based on SCBC's risk appetite and the significant processes for the business. This entails constant efforts to develop employees' risk awareness and the bank's risk culture, to improve processes and procedures as well as to provide tools to efficiently and proactively manage day-to-day operational risk.

Self-evaluation

The self-evaluation process encompasses the identification and evaluation of operational risks in all significant processes. Self-evaluation is carried out using a shared method and documented in the shared system support. The result of the self-evaluation is reported annually to the Board, the CEO and the Executive Management.

Incident management

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

Management of material changes

SCBC's process for the management of material changes is applied for new or significantly altered products, services, markets, processes and IT systems as well as in the event of major operational and organisational changes at SCBC. The aim of the process is to evaluate any potential risks related to the change and to draw attention to any impact the change may have on capital.

Continuity management

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

Capital requirements for operational risks

SCBC uses the standardised approach to calculate capital requirements for operational risk within the Pillar 1 framework. The capital requirements for operational risk are presented in the Risk Exposure Amounts and Capital requirements table (Note RC 8).

RC:6 | Business risk

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

Business risk is included in the calculation of the capital requirement as part of SBAB's stress tests, where the effects of a stressed scenario corresponding to a normal economic downturn are evaluated.

RC:7 | Concentration risk

Concentration risk arises when exposures are concentrated to certain counterparties, regions or types of businesses/industries. Through a direction decision as part of the business planning, SCBC's Board has established the concentration of risk based on the actual conditions for SCBC. The Board's risk appetite sets the framework for concentration risk, which is calculated based on the size of the exposures, industry and geographical concentration. SCBC is primarily considered to be exposed to credit-risk related concentration risk in its lending operations. At 31 December 2019, lending with collateral in single-family dwellings, holiday homes and tenant-owners' rights amounted to 78% of total assets. SCBC's lending operations are concentrated to Sweden and primarily to major metropolitan areas. SCBC's business model has proven attractive to customers in the major cities. Moreover, SCBC has increased its market shares and this is driving increased concentration toward those areas with the largest housing stock and highest housing turnover rates. Given the conditions in Sweden, this entails a concentration of lending to the Stockholm area. SCBC measures and actively follows the geographical concentration risk in terms of volume and profile. At 31 December 2019, lending for housing in the Stockholm area amounted to 56% of total assets.

SBAB's main counterparties (name concentrations) are largely driven by SBAB's largest customer groups, which are also managed through the regulations governing large exposures. The capital requirement for concentration risk is quantified with the economic capital for credit risk. Upon calculation at 31 December 2019, the internally calculated capital requirement for concentration risk amounted to SEK 428 million, all of which pertained to credit risk in lending operations. For concentration risk in liquidity, please refer to Note RC 5.

RC:8 | Capital adequacy analysis

Regulatory framework

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

From 31 December 2018, a national risk-weight floor of 25% for residential mortgages to Swedish households within Pillar 1 is included following a decision by the Swedish FSA. The decision applies for two years for those credit institutions authorised to use the IRB approach and which have exposures to Swedish residential mortgages. Refer to the "Risk exposure amounts and capital requirements" table for the outcomes.

Banks that are considered systemic will be subject to additional capital requirements. SCBC is not subject to these requirements.

The Swedish FSA decided in 2018 to raise the countercyclical buffer for Swedish exposures from 2.0% to 2.5% from September 2019. Refer to the "Risk exposure amounts and capital requirements" table for the outcomes.

SCBC primarily recognises credit risk in accordance with the internal ratings-based (IRB) approach, and operational and market risk in accordance with the standardised approaches. SCBC's own funds consist solely of CET1 capital. Net profit/loss for the period is included in the calculation of own funds after deduction of the foreseeable dividend. The surplus has been verified by the company's auditors, in accordance with Article 26, item 2, of the CRR. The deduction that forms the basis of "Additional value adjustments" in the "Own funds" table emanate from the rules on a prudent valuation of assets.

Note RC 9 contains a summary of the method used to assess the internal capital requirement.

The Swedish National Debt Office has set an individual minimum requirement for own funds and eligible liabilities (MREL) for SCBC as a complement to the capital requirements.

The MREL metric measures the relationship between eligible liabilities and total liabilities and own funds. The aim of eligible liabilities is to ensure that the company can be recapitalised in the event of default. The MREL set by the Swedish National Debt Office for SCBC for 2020 amounts to 5.26%. SCBC follows up outcomes on a monthly basis and met the requirement with a healthy margin.

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

CAPITAL ADEQUACY ¹⁾

SEK million	2019	2018
CET1 capital	16,168	15,250
Tier 1 capital	16,168	15,250
Total capital	16,173	15,253
Risk exposure amount	94,966	89,188
CET1 capital ratio, %	17.0	17.1
Excess ²⁾ of Tier 1 capital	11,894	11,237
Tier 1 capital ratio, %	17.0	17.1
Excess ²⁾ of Tier 1 capital	10,470	9,899
Total capital ratio, %	17.0	17.1
Excess total capital	8,575	8,118

¹⁾ The risk exposure amount, the excess and capital ratios have been impacted by the risk-weight floor for residential mortgages.

²⁾ Excess capital has been calculated based on minimum capital requirements (without buffer requirements).

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OWN FUNDS

SEK million	2019	2018
CET1 capital: Instruments and reserves		
Capital instruments and the related share premium accounts	9,600	9,600
Retained earnings	5,253	7,155
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	1,830	458
Independently verified net profit for the year net of any foreseeable charge or dividend ¹⁾	1,349	-1,459
CET1 capital before regulatory adjustments	18,032	15,754
CET1 capital: Regulatory adjustments		
Additional value adjustments (negative amount)	-12	-7
Fair value reserves related to gains or losses on cash-flow hedges	-1,830	-458
Negative amounts resulting from the calculation of expected loss amounts	-22	-39
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	0
Total regulatory adjustments to CET1 capital	-1,864	-504
CET1 capital	16,168	15,250
Additional Tier 1 capital: Instruments		
Additional Tier 1 capital before regulatory adjustments	-	-
Additional Tier 1 capital: Regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 capital	-	-
Additional Tier 1 capital	-	-
Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)	16,168	15,250
Tier 2 capital: Instruments and provisions		
Credit risk adjustments	5	3
Tier 2 capital before regulatory adjustments	5	3
Tier 2 capital: Regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	-	-
Tier 2 capital	5	3
Total capital (Total capital=Tier 1 capital + Tier 2 capital)	16,173	15,253
Total risk-weighted exposure amount	94,966	89,188
Capital ratio and buffers		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	17.0	17.1
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	17.0	17.1
Total capital (as a percentage of total risk-weighted exposure amount), %	17.0	17.1
Institution-specific buffer requirements (CET1 capital requirement in accordance with Article 92(1)(a) plus the capital conservation buffer and countercyclical capital buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffers [G-SII buffer and O-SII buffer]) expressed as a percentage of the risk-weighted exposure amount, %	9.5	9.0
<i>of which, CET1 capital, minimum requirement</i>	4.5	4.5
<i>of which, capital conservation buffer requirement, %</i>	2.5	2.5
<i>of which, countercyclical buffer requirement, %</i>	2.5	2.0
<i>of which, systemic risk buffer requirement, %</i>	-	-
<i>of which, Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffers, %</i>	-	-
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts), %	9.0	9.1
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)		
Current cap on AT1 instruments subject to phase-out arrangements	-	-
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
Current cap on T2 instruments subject to phase-out arrangements	-	-

¹⁾ The results have been verified by Deloitte AB pursuant to Article 26, Point 2a of the Capital Requirements Regulation. Net profit was affected by any foreseeable dividend at the end of the year. A Group contribution of SEK 539 million was distributed to the Parent Company (SBAB), which had an impact after tax of SEK 424 million on retained earnings for SCBC.

RISK EXPOSURE AMOUNTS AND CAPITAL REQUIREMENTS

SEK million	2019		2018	
	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
Credit risk recognised in accordance with IRB approach				
Exposures to corporates	5,940	475	5,041	403
Retail exposures	11,274	902	11,353	908
<i>of which, exposures to SMEs</i>	764	61	770	61
<i>of which, retail exposures secured by immovable property</i>	10,510	841	10,583	847
Total exposures recognised with IRB approach	17,214	1,377	16,394	1,311
Credit risk recognised with the standardised approach				
Exposure to governments and central banks	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0
Exposures to institutions ¹⁾	85	7	53	4
<i>of which, derivatives according to CRR, Appendix 2</i>	64	5	53	4
<i>of which, repos</i>	21	2	0	0
<i>of which, other</i>	0	0	0	0
Exposures to institutions and corporates with a short-term credit rating	0	0	0	0
Other items	32	4	153	12
Total exposures recognised with standardised approach	117	11	206	16
Market risk	729	58	752	60
<i>Of which, currency risk</i>	729	58	752	60
Operational risk	4,186	335	3,876	310
Credit valuation adjustment risk	368	29	285	23
Additional requirements under Article 458 of the CRR	71,736	5,739	67,675	5,414
Additional requirements under Article 3 of the CRR	616	49	-	-
Total risk exposure amount and minimum capital requirements	94,966	7,598	89,188	7,134
Capital requirements for capital conservation buffer		2,374		2,230
Capital requirements for countercyclical buffer		2,374		1,784
Total capital requirement		12,346		11,148

¹⁾ The risk exposure amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 85 million (53).

AVERAGE RISK WEIGHT FOR CREDIT RISK RECOGNISED USING THE IRB APPROACH

SEK million	2019					2018				
	Exposure before credit risk hedge	Exposure after CCF	Risk exposure amount	Capital requirement	Average risk weight, %	Exposure before credit risk hedge	Exposure after CCF	Risk exposure amount	Capital requirement	Average risk weight, %
Credit risk in lending portfolio recognised under the IRB approach										
Exposures to corporates	26,565	26,486	5,940	475	22.4	22,764	22,665	5,041	403	22.2
Retail exposures	332,580	332,040	11,274	902	3.4	316,806	316,111	11,353	908	3.6
<i>of which, single-family dwellings and holiday homes</i>	144,524	144,522	4,612	369	3.2	138,361	138,359	4,724	378	3.4
<i>of which, tenant-owners' rights</i>	143,199	143,199	5,898	472	4.1	134,275	134,275	5,859	469	4.4
<i>of which, tenant-owners' associations</i>	44,857	44,319	764	61	1.7	44,170	43,477	769	61	1.8
Total credit risk under the IRB approach	359,145	358,526	17,214	1,377	4.8	339,570	338,776	16,394	1,311	4.8

RC:9 | Internally assessed capital requirement

From October 2019, the Swedish FSA imposes the requirement, within the framework of Pillar 2, that SCBC's management and assessment of risks must be satisfactory to ensure that SCBC can fulfil its obligations. To meet this requirement, SCBC must have methods that enables it to continuously evaluate and uphold capital in an amount, type and distribution sufficient to cover the risks to which it is or will become exposed. This is known as the company's internal capital adequacy assessment process (ICAAP), which is part of SCBC's internal capital and liquidity adequacy assessment process. At present, liquidity risk does not give rise to any actual capital requirement for SCBC. Refer to Note RC:5 for more information about liquidity risk. The ICAAP aims to ensure that SCBC has adequate capital to deal with any financial

problems that arise. The internally assessed capital requirement for SCBC amounted to SEK 12,839 million (SEK 11,963 million) at 31 December 2019.

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 Swedish FSA. According to the Swedish FSA's report "Own funds requirements for Swedish banks Q4 2019", SCBC's total capital requirement amounted to SEK 13,525 million at 31 December 2019. Additional information on the internal capital requirement can be found in the document "Capital Adequacy and Risk Management 2019," which is published on www.sbab.se.

SEK million		31 Dec 2019		31 Dec 2018	
		Internally assessed capital requirement		Internally assessed capital requirement	
		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	1,417	1.5	1,350	1.5
	Market risk	58	0.1	60	0.1
	Operational risk	335	0.4	310	0.3
	Risk-weight floor ¹⁾	5,739	6.0	5,414	6.1
	Surcharge, corporate exposures ²⁾	49	0.0	–	–
	Total Pillar 1	7,598	8.0	7,134	8.0
Pillar 2	Credit risk	–	–	–	–
	Market risk	65	0.1	384	0.4
	Operational risk	–	–	–	–
	Concentration risk	428	0.4	431	0.5
	Sovereign risk	–	–	–	–
	Pension risk	–	–	–	–
Total Pillar 2	493	0.5	815	0.9	
Buffers	Capital conservation buffer	2,374	2.5	2,230	2.5
	Capital planning buffer	–	–	–	–
	Countercyclical buffer	2,374	2.5	1,784	2.0
	Total Buffers	4,748	5.0	4,014	4.5
Total	12,839	13.5	11,963	13.4	
Total own funds	16,173	–	15,253	–	

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.

IC Income and expenses

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IC:1 | Net interest income

SEK million	2019	2018
Interest income		
Lending to credit institutions	–0	–23
Lending to the public	5,226	4,696
Derivatives	–85	–178
Total	5,141	4,495
<i>of which, interest income from financial assets that is not measured at FVTPL</i>	5,226	4,673
Interest expense		
Liabilities to credit institutions	0	19
Issued debt securities	–1,986	–1,887
Subordinated debt ¹⁾	–1,235	–976
Derivatives	1,089	1,610
Resolution fee	–174	–192
Total	–2,306	–1,426
<i>of which, interest expense from financial liabilities that is not measured at FVTPL</i>	–3,395	–3,036
Net interest income	2,835	3,069

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

IC:2 | Commission

SEK million	2019	2018
Commission income		
Commission on lending	16	13
Total	16	13
Commission expense		
Commission on securities	–59	–58
Other commissions	–20	–74
Total	–79	–132
Net commission	–63	–119

IC:3 | Net result of financial transactions

SEK million	2019	2018
Gains/losses on interest-bearing financial instruments		
Change in value of hedged items in hedge accounting	–847	–205
Realised gain/loss from financial liabilities	–129	–147
Derivatives in hedge accounting	865	193
Other derivatives	50	70
Loan receivables	69	46
Currency translation effects	0	0
Total	8	–43

SCBC mainly uses derivatives to manage interest-rate and currency risk in the company's assets and liabilities. The derivatives are recognised at fair value in the balance sheet. SCBC's policies for risk management and hedge accounting entail variations in results as a consequence of changed market interest rates, which can arise between periods for individual items in the above presentation. These are generally offset by variations in the results in other items. Variations in results that are not neutralised through risk management and hedge accounting are commented in the administration report.

IC:4 | General administrative expenses

SEK million	2019	2018
Outsourcing expenses ¹⁾	–1,042	–895
Other administrative expenses ²⁾	–3	–3
Total	–1,045	–898

¹⁾ SCBC employs a CEO and 32 employees (37) who handle the ongoing administration in consultation with the management of the Parent Company. No salary or other remuneration is paid by the company to the CEO or the employees, since the Parent Company is responsible for the ongoing administrative services in accordance with the outsourcing agreement signed between SBAB and SCBC.

²⁾ Fees and remuneration to the Board have been paid by SBAB and the expense then invoiced for to SCBC. The Board of Directors consists of three Board members. For remuneration to Board members, refer to page 42.

FEES AND EXPENSES TO THE ELECTED AUDITORS

SEK million	2019	2018
Audit assignment	1.2	–0.7
Audit tasks in addition to audit assignment	0.7	–0.8
Total	1.9	–1.5

The AGM on 28 April 2019 appointed Deloitte as SCBC's auditors. The audit assignment includes examination of the annual report, the accounting records and the administration by the Board and CEO. The audit assignment also includes other assistance resulting from such examination.

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

FINANCIAL NOTES

REMUNERATION TO THE BOARD

2019			
SEK thousand	Period	Board of Directors	Audit and Compliance Committee
Bo Magnusson, Chairman of the Board ¹⁾	1 January–16 May 2019	68	–
Jan Sinclair, Chairman of the Board ²⁾	17 May–31 December 2019	112	–
Jane Lundgren-Ericsson, Board Member ³⁾	1 January–31 December 2019	130	–
Klas Danielsson, Board Member	1 January–31 December 2019	–	–
Total Fees & Remuneration 2019		310	–
2018			
SEK thousand	Period	Board of Directors	Audit and Compliance Committee
Bo Magnusson, Chairman of the Board ¹⁾	1 January–31 December 2018	180	–
Jane Lundgren-Ericsson, Board Member ³⁾	1 January–31 December 2018	130	–
Klas Danielsson, Board Member	1 January–31 December 2018	–	–
Total Fees & Remuneration 2018		310	–

¹⁾ Bo Magnusson also receives Board fees and fees for work on committees from SBAB of SEK 175 thousand (458) and SEK 26 thousand (74) respectively.

²⁾ Jan Sinclair also receives Board fees and fees for work on committees from SBAB of SEK 379 thousand (191) and SEK 87 thousand (63) respectively.

³⁾ Jane Lundgren-Ericsson also receives Board fees and fees for work on committees from SBAB of SEK 226 thousand (218) and SEK 111 thousand (68) respectively.

No Board fees are payable to Board members employed at the Government Offices of Sweden or who are employee representatives. No Board fees are payable to the Board members of SBAB's subsidiary Booli.

IC:5 | Net credit losses

SEK million	2019	2018
Lending to the public		
Confirmed credit losses	0	–1
Recoveries of previously confirmed credit losses	0	–
Preceding year's provision under IAS39	–	–
Change in provision for the year – credit stage 1	–3	0
Change in provision for the year – credit stage 2	0	–5
Change in provision for the year – credit stage 3	–1	–19
Guarantees	–8	–1
Total	–12	–26

TX Tax

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TX:1 Tax

SEK million	2019	2018
Current tax	-359	-446
Deferred tax on changes in temporary differences	-5	8
Total	-364	-438
The effective tax rate differs from the nominal tax rate in Sweden as below		
Profit before income tax	1,713	1,979
Nominal tax rate in Sweden 21.4% (22)	-367	-435
Recalculation of deferred tax regarding changed tax rate	0	0
Tax for prior years and other	3	-3
Total tax	-364	-438
Effective tax rate, %	21.2	22.2

TX:2 Deferred tax

SEK million	2019	2018
<i>Deferred tax assets (+)/tax liabilities (-) for temporary differences in:</i>		
Stock of financial instruments	-16	-12
Hedging instruments	-498	-124
Total	-514	-136
<i>Change in deferred tax</i>		
Deferred tax in the income statement	-5	8
Deferred tax attributable to items recognised directly against other comprehensive income	-374	-105
Total	-379	-97
<i>Deferred tax distributed by expected maturity date, carrying amount</i>		
More than 1 year	-514	-136
Total	-514	-136

Temporary differences are expected to be reported in taxation within the coming year, where the decided tax rate is 21.4%

A Assets

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A:1 Lending to credit institutions

SEK million	2019	2018
Lending in SEK	-	-
Lending in foreign currency	0	0
Total	0	0
<i>of which, repos</i>	0	-

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

A:2 Lending to the public

SEK million	2019	2018
Opening balance	339,370	312,254
Transferred to/from Group companies	60,702	58,992
Amortisation, redemption	-41,133	-31,851
Confirmed losses	0	-1
Change in provision for expected credit losses ¹⁾	-3	-24
Closing balance	358,936	339,370

¹⁾ For more information, please refer to Note IC 5.

Distribution of lending, including provisions, SEK million	2019	2018
Lending, Residential mortgages	287,618	272,543
Lending, Corporate Clients & Tenant-Owners' Associations	71,318	66,827
Total	358,936	339,370

FINANCIAL NOTES

LENDING TO THE PUBLIC BY CREDIT STAGE
– COMPARED WITH OPENING BALANCE

SEK million	31 Dec 2019	1 Jan 2018
Credit stage 1		
Gross lending	339,258	319,834
Provision	-27	-24
Total	339,232	319,810
Credit stage 2		
Gross lending	19,539	19,425
Provision	-64	-64
Total	19,475	19,361
Credit stage 3		
Gross lending	252	220
Provision	-22	-21
Total	230	199
Total gross lending	359,049	339,479
Total provisions	-113	-109
Total	358,936	339,370

A:3 | Derivatives

SEK million	2019			2018		
	Assets measured at fair value	Liabilities measured at fair value	Nominal amount	Assets measured at fair value	Liabilities measured at fair value	Nominal amount
Derivatives in fair-value hedging						
Interest-rate-related	2,314	301	211,625	1,392	260	161,997
Currency-related	11	-	547	11	-	547
Total	2,325	301	212,172	1,403	260	162,544
Derivatives in cash-flow hedges						
Interest-rate-related	2,741	-	88,108	914	-	81,083
Currency-related	5,942	163	84,538	4,323	323	79,199
Total	8,683	163	172,646	5,237	323	160,282
Other derivatives						
Interest-rate-related	45	8	17,090	60	12	1,415
Currency-related	84	-	542	71	-	542
Total	129	8	17,632	131	12	1,957

DERIVATIVES ALLOCATED BY REMAINING MATURITY, CARRYING AMOUNTS

SEK million	2019		2018	
	Fair value	Nominal amount	Fair value	Nominal amount
Maximum 3 months	-3	9,550	33	14,300
3-12 months	909	51,492	62	29,975
1-5 years	5,280	234,488	3,883	172,812
Longer than five years	4,479	106,920	2,198	107,696
Total	10,665	402,450	6,176	324,783

A:4 | Other assets

SEK million	2019	2018
Tax assets	–	–
Interest receivables	218	35
Total	218	35
<i>Other assets distributed by remaining maturity, carrying amount</i>		
Maximum 1 year	218	35
Total	218	35

A:5 | Prepaid expenses and accrued income

SEK million	2019	2018
Accrued interest income	85	76
Other accrued income	21	27
Total	106	103
<i>Prepaid expenses and accrued income distributed by remaining maturity, carrying amount</i>		
Maximum 1 year	102	94
More than 1 year	4	9
Total	106	103

L | Liabilities

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L:1 | Liabilities to credit institutions

SEK million	2019	2018
Liabilities in SEK	1	–
Liabilities in foreign currencies	2	1
Total	3	1
<i>of which, repos</i>	1	–

L:3 | Other liabilities

SEK million	2019	2018
Liabilities to employees	12	17
Group contribution paid ¹⁾	539	–
Other	13	74
Total	564	91
<i>Other liabilities outstanding allocated by remaining maturity, carrying amounts</i>		
Maximum 1 year	564	91
Total	564	91

¹⁾ SCBC paid a Group contribution of SEK 539 million to the Parent Company SBAB and a Group contribution of SEK 25 million to fellow Group company Booli.

L:2 | Issued debt securities, etc.

SEK million	2019	2018
Bond loans		
Bond loans in SEK		
– at amortised cost	26,840	42,467
– in fair-value hedging	128,265	107,889
Bonds loans in foreign currency		
– at amortised cost	91,114	83,864
– in fair-value hedging	555	554
Total issued debt securities	246,774	234,774
<i>of which, covered bonds</i>	246,774	234,774

See also the Funding section, page 7.

L:4 | Accrued expenses and deferred income

SEK million	2019	2018
Accrued interest expense	1,615	1,590
Other accrued expenses	65	32
Total	1,680	1,622
<i>Accrued expenses and deferred income distributed by remaining maturity, carrying amounts</i>		
Maximum 1 year	1,680	1,622
Total	1,680	1,622

FINANCIAL NOTES

L:5 | Subordinated debt to the Parent Company

SEK million	2019	2018
Subordinated debt to the Parent Company	102,180	90,414
– Of which, internal Group MREL instruments	6,000	–
Total	102,180	90,414

Terms and conditions governing subordination

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

Internal Group MREL instruments

Of the subordinated debt to the Parent Company SBAB Bank AB (publ), which amounts to SEK 102,180 million, SEK 6,000 million comprises an internal Group debt instrument (senior non-preferred notes) that was issued by SCBC to the Parent Company in December 2019 for the purpose of meeting the minimum requirement for own funds and eligible liabilities (MREL) announced by the Swedish National Debt Office in SCBC. The internal Group MREL instrument is subordinate to other subordinated debt to the Parent Company.

EQ | Equity

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EQ:1 | Equity

The share capital amounted to SEK 50,000,000. At 31 December 2019, the number of shares was 500,000 (500,000), each with a quotient value of SEK 100. All shares are held by the Parent Company, SBAB Bank AB (publ), Corp. Reg. No. 556253-7513. Unrestricted equity in SCBC amounts to SEK 17,982 million (15,704).

Dividends are proposed by the Board in accordance with the provisions of the Companies Act and are resolved by the Annual General Meeting, refer to Note G 3.

Further information on changes in equity is provided on page 18.

STATEMENT OF CHANGES IN THE FAIR VALUE RESERVE

SEK million	2019	2018
Cash-flow hedges, opening balance	458	70
Unrealised change in value over the year	3,928	3,063
Reclassified to profit or loss during the year	-2,182	-2,570
Tax attributable to the change	-374	-105
Cash-flow hedges, closing balance	1,830	458
Total	1,830	458

AC | Assets pledged for own liabilities

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AC:1 | Assets pledged for own liabilities

SEK million	2019	2018
Loan receivables	313,044	301,956
Total	313,044	301,956

Of the total lending portfolio, see Note A 1 and Note A 2 "Lending to credit institutions," the values reported above represent the carrying amount for the cover pool for covered bonds, which amounted to SEK 246.8 billion (234.8).

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

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

FI Financial instruments

pp. 47–49

FI:1 | Classification of financial instruments

FINANCIAL ASSETS

SEK million	31 Dec 2019				
	Financial assets measured at FVTPL		Financial assets measured at amortised cost	Total	Total fair value
	Derivatives in hedge accounting	Other (Obligatory) classification			
Lending to credit institutions	-	-	0	0	0
Lending to the public	-	-	358,936	358,936	359,478
Value changes of interest-rate-risk hedged items in macro hedges	-	-	-178	-178	-
Derivatives	11,008	129	-	11,137	11,137
Other assets	-	-	22	22	22
Prepaid expenses and accrued income	-	-	104	104	104
Total	11,008	129	358,884	370,021	370,741

FINANCIAL LIABILITIES

SEK million	31 Dec 2019				
	Financial liabilities measured at FVTPL		Financial liabilities measured at amortised cost	Total	Total fair value
	Derivatives in hedge accounting	Held for trading			
Liabilities to credit institutions	-	-	3	3	3
Issued debt securities, etc.	-	-	246,774	246,774	250,416
Derivatives	464	8	-	472	472
Other liabilities	-	-	565	565	565
Accrued expenses and deferred income	-	-	1,680	1,680	1,680
Subordinated debt to the Parent Company	-	-	102,180	102,180	102,180
Total	464	8	351,202	351,674	355,316

FINANCIAL ASSETS

SEK million	31 Dec 2018				
	Financial assets measured at FVTPL		Financial assets measured at amortised cost	Total	Total fair value
	Derivatives in hedge accounting	Other (Obligatory) classification			
Lending to credit institutions	-	-	0	0	0
Lending to the public	-	-	339,370	339,370	340,019
Value changes of interest-rate-risk hedged items in macro hedges	-	-	108	108	-
Derivatives	6,640	131	6,771	6,771	6,771
Other assets	-	-	35	35	35
Prepaid expenses and accrued income	-	-	101	101	101
Total	6,640	131	346,385	346,385	346,926

FINANCIAL NOTES

FINANCIAL LIABILITIES

31 Dec 2018					
SEK million	Financial liabilities measured at FVTPL		Financial liabilities measured at amortised cost	Total	Total fair value
	Derivatives in hedge accounting	Held for trading			
Liabilities to credit institutions	-	-	1	1	1
Issued debt securities, etc.	-	-	234,774	234,774	236,753
Derivatives	583	12	595	595	595
Other liabilities	-	-	31	31	31
Accrued expenses and deferred income	-	-	1,622	1,622	1,622
Subordinated debt to the Parent Company	-	-	90,414	90,414	90,414
Total	583	12	327,437	327,437	329,416

Fair value measurement of financial instruments

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note G 1. In the Total fair value column above, information is also provided on the fair value of financial instruments that are recognised at amortised cost in the balance sheet. The carrying amounts for current receivables and liabilities, including subordinated debt to the Parent Company, have been assessed as equal to their fair values. For Lending to the public and Issued debt securities, fair value is established based on generally accepted valuation tech-

niques. Calculations made in conjunction with measurement are based on observable market data with the exception of the credit margin when valuing lending to the public. The models are based on discounted cash flows. Issued debt securities are measured at the the current borrowing rate, level 2. For the lending to the public, where no observable credit margin data is available at the time of measurement, the credit margin on the most recent stipulated date of expiry is applied to set the discount rate, level 3.

FI:2 | Fair value disclosures

SEK million	2019				2018			
	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
Assets								
Derivatives	-	11,137	-	11,137	-	6,771	-	6,771
Total	-	11,137	-	11,137	-	6,771	-	6,771
Liabilities								
Derivatives	-	472	-	472	-	595	-	595
Total	-	472	-	472	-	595	-	595

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

No transfers were made between levels in 2018 and 2019.

Quoted market prices (Level 1)

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

Measurement based on observable market data (Level 2)

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

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

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

FI:3 | Offsetting disclosures

OFFSETTING OF FINANCIAL INSTRUMENTS

SEK million	2019						
	Amounts reported in the balance sheet			Related amounts not offset in the balance sheet			Net amount
	Amounts subject to offsetting	Amounts not offset in the balance sheet	Amounts reported in the balance sheet	Financial instruments	Provided (+)/ Received (-) collateral – securities	Provided (+)/ Received (-) cash collateral	
Assets							
Derivatives	11,137	–	11,137	-472	–	–	10,665
Repos	1,486	-1,486	0	–	0	–	0
Liabilities							
Derivatives	-472	–	-472	472	–	–	0
Repos	-1,487	1,486	-1	–	0	–	-1
Total	10,664	0	10,664	0	0	–	10,664
SEK million	2018						
	Amounts reported in the balance sheet			Related amounts not offset in the balance sheet			Net amount
	Amounts subject to offsetting	Amounts not offset in the balance sheet	Amounts reported in the balance sheet	Financial instruments	Provided (+)/ Received (-) collateral – securities	Provided (+)/ Received (-) cash collateral	
Assets							
Derivatives	6,771	–	6,771	-595	–	–	6,176
Repos	–	–	–	–	–	–	–
Liabilities							
Derivatives	-595	–	-595	595	–	–	0
Repos	–	–	–	–	–	–	–
Total	6,176	–	6,176	0	–	–	6,176

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

Counterparty risk is reconciled on a daily basis for all counterparties. Reconciliation is performed on a daily basis or on a weekly basis if a CSA has been entered into. 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. Repos are recognised in the balance sheet under the headings Lending and Liabilities to credit institutions, respectively.

For further information on offsetting, see Note RC 2, in the section on Counterparty risk.

The Board of Directors' signatures

The Board and the CEO certify that the annual accounts were prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and in accordance with generally accepted accounting practices for credit market companies, and provide a true and fair view of the company's position and earnings. In accordance with Chapter 6, Section 2, Item 2 of the Annual Accounts Act for Credit Institutions and Securities Companies, the Board considers the company's equity to be sufficient in relation to the scope and risks of the operations.

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

Solna, 23 March 2020

Jan Sinclair
Chairman of the Board

Jane Lundgren-Ericsson
Board Member

Klas Danielsson
Board Member

Mikael Inglander
CEO

Our audit report was submitted on 23 March 2020

Deloitte AB
Patrick Honeth
Authorised Public Accountant

Auditor's Report

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

Report on the annual accounts

Opinions

We have audited the annual accounts of Swedish Covered Bond Corporation (publ) (SCBC) for the year 2019 except for the corporate governance statement on pages 10-14. The annual accounts of the company are included on pages 2-9 and 15-53 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 10-14. The statutory administration report is consistent with the other parts of the annual accounts.

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

Our opinions in this report on the annual accounts are consistent with the content of the additional report that has been submitted to the company's Board of Directors in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

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

Judgments and estimates with respect to valuation of loan receivables

Recognition and measurement of financial instruments as regulated in IFRS 9 is a complex area with significant impact on SCBC's business and financial reporting. IFRS 9 is a new and complex accounting standard which requires significant judgment to determine the loan loss provision.

Key areas of judgment include:

- The interpretation of the requirements to determine loan loss provisions under application of IFRS 9, which is reflected in the Bank's expected credit loss model.
- The identification of exposures with a significant deterioration in credit quality.
- Assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices).

At December 31, 2019, loans to the public amounted to 358 936 million, with loan loss provisions of 113 million. Given the significance of loans to the public (representing 97% of total assets), the impact from the inherent uncertainty and subjectivity involved in assessing loan loss provisions, as well as the extensive disclosures required under IFRS 9, we consider this to be a key audit matter for our audit.

Refer to critical judgments and estimates in note **G 1** in the financial statements and related disclosures of credit risk in note **RC 1**.

Our audit procedures included, but were not limited to:

- We evaluated relevant controls within the loan loss provision process to verify if they are appropriately designed and implemented during the year. We also obtained an understanding of the process for key decisions from management and committee meetings that form part of the approval process for loan loss provisions.
- We obtained an understanding of system-based and manual controls over the recognition and measurement of loan loss provisions and for key controls designed tests to verify if the controls were implemented during the year.
- We assessed, supported by our credit risk modelling specialists, the modelling techniques and model methodologies against the requirements of IFRS 9. We assessed the sufficiency of a selection of the underlying models developed for loan loss provisions.
- Finally, we assessed the completeness and accuracy of the disclosures relating to loan loss provision to assess compliance with disclosure requirements included in IFRS.

Application of hedge accounting

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

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

At December 31, 2019, effects of hedge accounting in Net result of financial items measured at fair value amounted to SEK 865 million, and in Other comprehensive income of SEK 1 746 million.

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

Refer to accounting principles regarding critical judgments and estimates in note **G 1** in the financial statement and related disclosures of market risk in note **RC 4**.

Our audit procedures included, but were not limited to:

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

IT-systems that support complete and accurate financial reporting

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

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

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

Changes to the IT-environment

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

Our audit procedures included, but were not limited to:

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

Operations and monitoring of the IT-environment

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

Our audit procedures included, but were not limited to:

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

Information security

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

Our audit procedures included, but were not limited to:

- We evaluated the process for identity and access management, including access granting, change and removal.
- We evaluated the process and tools that management use for the purpose of ensuring availability of data as per user request and business requirements.
- We evaluated the appropriateness of controls for security governance to protect systems and data from unauthorised use.

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

A further description of our responsibilities for the audit of the annual accounts is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisorsansvar. This description forms part of the auditor's report.

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Swedish Covered Bond Corporation (publ) for the financial year 2019 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

A further description of our responsibilities for the audit of the annual accounts is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisorsansvar. This description forms part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 10-14 has been prepared in accordance with the Annual Accounts Act.

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

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

Deloitte AB was appointed auditor of Swedish Covered Bond Corporation (publ) by the general meeting of the shareholders on the 29th of April 2019 and has been the company's auditor since 28th of April 2016.

Stockholm March 23, 2019

Deloitte AB

Signature on Swedish original

Patrick Honeth

Authorised Public Accountant

Five-year overview

INCOME-STATEMENT ITEMS

SEK million	2019	2018	2017	2016	2015
Interest income	5,141	4,495	3,684	3,825	4,197
Interest expense	-2,306	-1,426	-829	-1,322	-1,917
Net interest income	2,835	3,069	2,855	2,503	2,280
Other operating income ¹⁾	-55	-162	-124	-211	-122
Total operating income	2,780	2,907	2,731	2,292	2,158
Operating expenses	-1,055	-902	-761	-720	-627
Total operating expenses	-1,055	-902	-761	-720	-627
Profit before credit losses	1,725	2,005	1,970	1,572	1,531
Net credit losses	-12	-26	12	-9	12
Operating profit	1,713	1,979	1,982	1,563	1,543

BALANCE-SHEET ITEMS

SEK million	2019	2018	2017	2016	2015
Lending portfolio	358,936	339,370	312,199	244,445	215,774
Deferred tax assets	0	0	0	-	0
Other assets	11,283	7,017	4,385	5,516	7,537
Total assets	370,219	346,387	316,584	249,961	223,311
Issued debt securities, etc.	246,774	234,774	204,153	175,933	187,280
Other liabilities	2,719	2,309	3,014	2,994	6,791
Deferred tax liabilities	514	136	39	190	131
Subordinated debt to the Parent Company	102,180	90,414	92,593	55,123	14,920
Equity	18,032	18,754	16,785	15,721	14,189
Total liabilities and equity	370,219	346,387	316,584	249,961	223,311

KEY METRICS

%	2019	2018	2017	2016	2015
Net interest margin	0.79	0.93	1.01	1.06	1.01
Credit loss ratio	0.00	-0.01	0.00	0.00	0.01
C/I ratio	38	31	28	31	29
Return on assets	0.4	0.5	0.5	0.5	0.5
Return on equity	7.8	8.8	9.7	8.2	8.9
CET1 capital ratio without transitional rules	17.0	17.1	78.0	82.4	86.1
Tier 1 capital ratio without transitional rules	17.0	17.1	78.0	82.4	86.1
Total capital ratio without transitional rules	17.0	17.1	78.0	82.4	86.1
Total capital ratio with transitional rules	17.0	17.1	9.7	11.4	12.1
Equity ratio	4.9	5.4	5.3	6.3	6.4
Consolidation ratio	5.0	5.5	5.3	6.4	6.4
Number of employees	33	38	26	9	10

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

Alternative performance measures

Alternative performance measures (APMs) are financial metrics of historical or future performance, financial position or cash flows that are not defined in the applicable rules for financial reporting (for example, IFRS and the Swedish Annual Accounts Act) or in the EU's Capital Requirements Directive (CRD IV)/Capital Requirements Regulation (CRR).

SCBC uses APMs when these are relevant for the presentation and follow-up of the Group's financial position and when these metrics are deemed to provide additional valuable information to readers of the financial reports. SCBC has also chosen to present the APMs as they are in common use within the industry. APMs can be calculated with various approaches and, accordingly, SCBC's metrics are not directly comparable with similar metrics presented by other companies.

Credit loss ratio

Definition: Credit losses in relation to total lending (closing balances).

The APM aims to provide the reader with further information regarding the relative ratio of credit losses to total lending.

SEK million	2019	2018
Credit losses	-12	-26
Lending to the public	358,936	339,370
Credit loss ratio, %	0.00	-0.01

Return on equity

Definition: Profit after tax in relation to average (calculated using the opening and closing balances) equity, after adjustment for value changes in financial assets recognised in equity.

The APM aims to provide the reader with further information regarding SCBC's profitability.

SEK million	2019	2018
Profit after tax	1,349	1,541
Average equity	17,249	17,506
Return on equity, %	7.8	8.8

Net interest margin

Definition: Net interest income in relation to average (calculated using the opening and closing balances for the reporting period) total assets.

The APM aims to provide the reader with further information regarding SCBC's profitability.

SEK million	2019	2018
Net interest income	2,835	3,069
Average total assets	358,303	331,486
Net interest margin, %	0.79	0.93

C/I ratio

Definition: Total operating expenses, before credit losses, in relation to total operating income.

The APM aims to provide the reader with further information regarding SCBC's cost/efficiency.

SEK million	2019	2018
Total operating expenses, excluding credit losses, SEK million	-1,055	-898
Total operating income	2,780	2,907
C/I ratio, %	38	31

Definitions of other key performance indicators

Number of employees	Number of employees
Return on assets	Net profit for the period after tax in relation to average total assets
CET1 capital ratio	CET1 capital in relation to risk-weighted assets
Total capital ratio	Own funds in relation to risk-weighted assets
Tier 1 capital ratio	Tier 1 capital in relation to risk-weighted assets
Equity ratio	Equity in relation to total assets at year end
Consolidation ratio	Equity and deferred tax in relation to total assets at year end

