YEAR-END REPORT

1 January–31 December 2018 | SBAB Bank AB (publ)

1 2 3 4

SBAB!

2018 ended with a fourth quarter in which we continued to capture market shares in an increasingly competitive residential mortgage market. For the full-year 2018, SBAB's share of the net growth in the residential mortgage market amounted to a full 17%, which is more than double our total market share. An outstanding performance.

Klas Danielsson, CEO of SBAB

Q4 2018 (Q3 2018)

- Continued healthy growth. Lending to the public increased 1.7% in the quarter to SEK 364.2 billion (358.0). Total deposits from the public increased 3.7% in the quarter to SEK 124.9 billion (120.5)
- The CET1 capital ratio declined to 12.5% (31.5), as a result of the Swedish FSA's decision to amend the method for applying the risk-weight floor for Swedish residential mortgages from 31 December 2018. Read more on page 11 and under Note 10
- SBAB finished 2018 in first place for property loans to corporates and tenant-owners' associations and in fourth place with regard to residential mortgages to retail customers in Svenskt Kvalitetsindex's (SKI) annual survey of customer satisfaction in the banking and finance industry
- SBAB's Green mortgage launched for owners of tenant-owner rights in buildings with an energy rating of A, B or C, previously only available to house owners
- Launch of the final episode of SBAB's film series "Boendeekonomi är jättekul". At 15 February 2019, the episode had been viewed more than 6 million times on YouTube and Facebook

Jan–Dec 2018 (Jan–Dec 2017)

SBAB
SVERIGES NÖJDASTE FÖRETAGSKUNDER
FASTIGHETSLÅN
2018
SKI
SVENSKT KVALITETSINDEX

- Lending to the public increased 8.7% (13.2) during the year to SEK 364.2 billion (335.1). Data from Statistics Sweden show that SBAB's share of the net growth in the residential mortgage market totalled 17% in 2018
- Deposits from the public increased 11.6% (15.6) to SEK 124.9 billion (111.9)
- Net interest income rose to SEK 3,362 million (3,149)
- Expenses rose to SEK 1,049 million (959)
- Credit losses resulted in a recovery of SEK 11 million (recovery: 24)
- Operating profit rose to SEK 2,241 million (2,228)
- The return on equity amounted to 12.1% (12.5)
- The C/I ratio increased to 32.0% (30.3)
- The CET1 capital ratio amounted to 12.5% (32.2). Read more on page 11 and under Note 10
- The Board proposes a dividend of 40% of net profit for the year, corresponding to SEK 690 million

SUMMARY

Group	2018 Q4	2018 Q3	Change	2018 Jan–Dec	2017 Jan–Dec	Change
Total lending, SEK bn	364.2	358.0	1.7%	364.2	335.1	8.7%
Total deposits, SEK bn	124.9	120.5	3.7%	124.9	111.9	11.6%
Net interest income, SEK million	848	833	1.8%	3,362	3,149	6.8%
Expenses, SEK million	–297	–246	20.7%	–1,049	–959	9.4%
Loan losses, SEK million	–7	0	SEK 7 mn	11	24	SEK 13 mn
Operating profit, SEK million	576	514	12.1%	2,241	2,228	0.6%
Return on equity, % [1]	11.9	10.9	1.0 pp [3]	12.1	12.5	–0.4 pp
C/I ratio, %	33.7	32.5	1.2 pp	32.0	30.3	1.7 pp
CET1 capital ratio, %	12.5 [2]	31.5	–19.0 pp	12.5 [2]	32.2	–19.7 pp

1) When calculating the return on equity for Q3 2018 and Jan–Dec 2018, average equity has been adjusted for the dividend of SEK 684 million for 2017.

2) From 31 December 2018, the method for applying the existing risk-weight floor for Swedish mortgages has been amended. For more information, please refer to page 11 and Note 10.

3) p.p. = percentage points

THIS IS SBAB

Our business idea is to be innovative and considerate in our offering of loan and savings products to consumers, tenant-owners' associations and property companies in Sweden

Vision

To offer the best residential mortgages in Sweden

Mission

To contribute to better housing and household finances

Our operations

SBAB Bank AB (publ) has two business areas: Retail and Corporate Clients & Tenant-Owners' Associations.

Retail

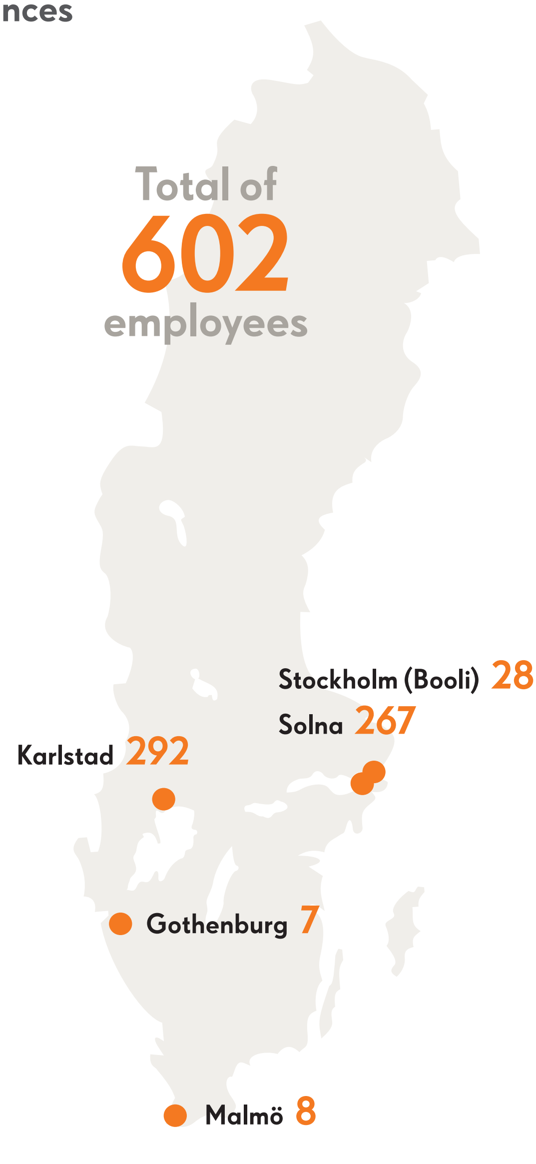
The Retail business area offers services within housing and household finances, such as savings and loan products, insurance, and home locator and estate-agent services. Activities are operated under the SBAB, Booli and HittaMäklare brands. We have no traditional bank branches, which means that our products and services are offered online or by telephone. Our retail customers are primarily located in areas around Stockholm, Gothenburg, Malmö, and other university cities and growth regions.

Corporate Clients & Tenant-Owners' Associations

The Corporate Clients & Tenant-Owners' Associations business area offers savings and housing financing to property companies and tenant-owners' associations. Our credit granting in the Corporate Clients & Tenant-Owners' Associations business area is concentrated to growth regions surrounding our three offices in Stockholm, Gothenburg and Malmö.

Our owner

We started our operations in 1985 and are wholly owned by the Swedish state.



STATEMENT FROM THE CEO

2018 ended with a fourth quarter in which we continued to capture market shares in an increasingly competitive residential mortgage market. For the full-year 2018, SBAB's share of the net growth in the residential mortgage market amounted to a full 17%, which is more than double our total market share. An outstanding performance. Concurrently, the market was characterised by increasing concerns in terms of an economic downturn, a more uncertain housing market with a substantial reduction in new construction and of interest rate hikes by the Riksbank.

Despite 2018 ending with increased uncertainty regarding the market trend, our fourth quarter performance contributed to what can be summed up as an extremely strong and successful full year for SBAB. Accordingly, 2018 was another year where we succeeded in growing vigorously with good profitability while keeping credit losses extremely low. Our strong performance enables us to continue investing to enhance our customer offering and provide an even better customer experience. This means investments for future competitiveness in areas including IT, digitalisation, organisation and brand. These investments are designed to result in continued growth in terms of customers and users, and in rising market shares.

Credit and housing markets soften

The markets in which we operate are showing clear signs of slowing down. The combination of excessively rapid increases in overly expensive newly built housing with new complex, contractionary and mandatory credit rules from government agencies resulted in notable cooling of the housing market in 2018. In turn, this impacted the start of new-build projects, which could result in housing starts declining at least 30% in 2019 compared with 2017, despite the considerable need for new housing. Altogether, this impacts credit growth for residential mortgages and housing finance, which is expected to decline in 2019 compared with previous years. House prices for the country as a whole recovered slightly in the beginning of 2018 and have since, with some regional differences, remained relatively still during the year. We predict that house prices may decline further over the forthcoming years in pace with the Riksbank's expected repo rate increases.

The commercial consequences of a weakened credit and housing market will be increased competition between banks for growth in residential mortgages and housing finance, resulting in better terms for customers and weakened margins and lower profitability for the banks.

A sustainable and responsible business

In 2018, we launched Green mortgages. We offer Green mortgages to customers who live in energy-efficient housing, which we define as housing with an energy rating of A, B or C under the National Board of Housing, Building and Planning's energy rating system. We apply an interest rate discount of 0.10, 0.10 or 0.05 percentage points for the respective energy rating. We continuously update our register with the Board's energy ratings for all properties. We then automatically match customers' homes with the register and change their residential mortgages to Green mortgages with the rate discount. In other words, our customers do not need to do anything themselves to obtain the Green mortgage. We consider this both transparent and responsible. We are the only bank in Sweden to act in this manner. At year end, our Green mortgages totalled slightly more than SEK 12 billion.

After the end of the fourth quarter, in January 2019, we issued Sweden's first green covered bond backed by residential mortgages. The issue amounted to SEK 6 billion, which made it Sweden's largest green bond issue to date. The issue was heavily oversubscribed and was priced with a "greenium", a green discount, of 3 basis point. Through our Green mortgages and our green bonds, we have achieved our goal of creating a green ecosystem of money. Accordingly, we thereby contribute toward achieving the Sustainable Development Goal (SDG) – **No. 13: Climate Action** – by 2030.

An attractive workplace is the key to success

Success in a competitive market requires a value-driven working approach. Our value-driven working approach is about inclusive leadership and self-driven employees, where everybody is able to make smart decisions in their daily work. The working approach is built on clarity, transparency and trust, which create strong commitment and make us an attractive employer.

In 2018, we finished in eighth place in "Great Place to Work's" list of Sweden's best workplaces, in the category larger companies. Being an attractive workplace is an absolute necessity to create, develop and strengthen commitment among those working at SBAB and if we are to be successful in attracting ambitious, highly committed individuals with high capacities. Over the year, our brand has strengthened in the labour market, which we have noticed in the high calibre of the many candidates applying for our open positions.

SBAB assigns priority to four Sustainable Development Goals (SDGs)

Our customer offering is an ecosystem of services

We distinguish ourselves through our focus on our customer offering with attendant services in the housing and household finances ecosystem. Our services in Booli, HittaMäklare and SBAB solve many of our customers' issues in life's housing journey. Financing is our most important service, but we also want to build long-term customer relationships by offering valuable services to our customers to help with each phase of the housing journey. Booli is Sweden's second-largest search engine for housing units for sale, has Sweden's largest housing valuation service and offers Sweden's most comprehensive service for newly produced housing. HittaMäklare is Sweden's largest service for finding and recommending real estate agents. Together, we will create Sweden's best customer experience within housing and household finances.

In Svenskt Kvalitetsindex's (SKI) annual survey of customer satisfaction, we finished in first place for property loans to corporates and in fourth place for residential mortgages to retail customers. This is a strong performance, although our goal of also having the most satisfied residential mortgage customers in Sweden remains. In 2019, we will work hard to realise this goal.

"Boendeekonomi är jättekul!"

In December, we ended the quarter and the year with the release of our advertising commercial in the form of the music video "Komma hem," (Eng. *Coming home*) with comedian Björn Gustafsson rapping together with the singer Julia Frej. The music video "Komma hem" wound up our communication program for the year – "Boendeekonomi är jättekul" (Eng. *Household finances are really fun*) – which we have worked with since 2017. The program for 2017 concluded with a packed comedy show "Boendeekonomi är jättekul" at Globen in Stockholm. 2018's finale, the "Komma hem" music video, had a target of 10 million views on YouTube and Facebook. At the time of writing, the music video had been viewed 6 million times and, the other day, YouTube declared it the strongest commercial in 2018. Very exciting.

But "Komma hem" is more than a fun commercial and music video. "Komma hem" is also serious and responsible. It spreads the message that household finances are not fun for everyone. In Sweden, there are societal groups that have no home or who are unable to enter the housing market, and there are other major socio-economic problems in the housing market. We want to use the significant role we play in the housing market to take responsibility, influence and contribute to better housing and household finances for society as a whole. One example of societal responsibility is our work together with other industry participants to help the societally disadvantaged and the homeless to get a home. Another example is our efforts to reduce and counteract the major problem of undeclared labour under unacceptable working conditions on construction sites, which withholds tax revenue from the state and distorts competition in the construction industry. Together with industry participants, we are endeavouring to create a framework to enable banks to set requirements covering how the financing of new housing construction is used. The framework aims to help eliminate undeclared labour. This is part of our contribution toward the realisation of the SDGs – **No. 8: Decent Work and Economic Growth** and **No. 11: Sustainable Cities and Communities** – by 2030.

A really high commitment

I would like to thank my fantastic colleagues for another successful year. With our high level of commitment, we will drive SBAB forward to new successes. Of this, I am convinced 😊

Klas Danielsson,
CEO of SBAB

BUSINESS DEVELOPMENT

VOLUME TRENDS

Group	2018 Q4	2018 Q3	2017 Q4	2018 Jan–Dec	2017 Jan–Dec
New lending, SEK bn	19.7	16.8	24.1	74.3	82.3
Net change in lending, SEK bn	6.2	6.5	10.7	29.1	39.1
Total lending, SEK bn	**364.2**	**358.0**	**335.1**	**364.2**	**335.1**
No. of deposit accounts, thousand	373	363	338	373	338
Net change in deposits, SEK bn	4.4	3.5	4.9	13.0	15.1
Total deposits, SEK bn	**124.9**	**120.5**	**111.9**	**124.9**	**111.9**
Deposits/lending, %	34.3	33.7	33.4	34.3	33.4
Retail business area					
No. of mortgage customers, thousand	270	266	255	270	255
No. of mortgage objects financed, thousand	172	169	161	172	161
New lending, SEK bn	16.9	14.9	19.8	63.2	68.8
Net change in lending, SEK bn	7.3	6.9	11.2	28.8	38.2
Total retail lending, SEK bn	**278.9**	**271.6**	**250.1**	**278.9**	**250.1**
Residential mortgages, SEK bn	276.7	269.4	248.1	276.7	248.1
Consumer loans, SEK bn	2.2	2.2	2.0	2.2	2.0
Market share residential mortgages, % [1)]	8.41	8.27	7.96	8.41	7.96
Market share consumer loans, % [1)]	0.87	0.88	0.86	0.87	0.86
Total retail deposits, SEK bn	**87.1**	**83.4**	**75.1**	**87.1**	**75.1**
Market share Retail deposits, % [1)]	4.65	4.55	4.33	4.65	4.33
Corporate Clients & Tenant-Owners' Associations business area					
No. of corporate clients and tenant-owners' associations	2,184	2,244	2,384	2,184	2,384
New lending, SEK bn	2.8	1.8	4.3	11.0	13.5
Net change in lending, SEK bn	–1.1	–0.3	–0.5	0.3	0.8
Total lending, corporate clients & tenant-owners' associations, SEK bn	**85.3**	**86.4**	**85.0**	**85.3**	**85.0**
Lending to corporate clients, SEK bn	33.8	34.6	33.2	33.8	33.2
Lending to tenant-owners' associations, SEK bn	51.5	51.8	51.8	51.5	51.8
Market share, corporate clients, % [1)]	10.88	11.23	11.30	10.88	11.30
Market share, tenant-owners' associations, % [1)]	9.53	9.64	10.23	9.53	10.23
Total deposits, corporate clients & tenant-owners' associations, SEK bn	**37.9**	**37.1**	**36.8**	**37.9**	**36.8**
Market share deposits, corporate clients & tenant-owners' associations, % [1)]	3.66	3.68	3.75	3.66	3.75

[1)] Source: Statistics Sweden. The figures in the columns for Q3 2018 and Jan–Sep 2018 correspond with the market share as of 31 August 2018.

Trend for Q4 2018 compared with Q3 2018

Market comments

The Swedish economy was relatively strong in Q4 with high utilisation rates for much of the industrial capacity. Similar to the preceding quarter, the prices of houses and tenant-owner apartments have stayed essentially unchanged. The trend for lending growth to households softened slightly over the year but remained strong and amounted to an annual rate of 5.5% in the middle of Q4.

On the other hand, the growth rate for lending to non-financial corporates and tenant-owners' associations increased slightly during the year and, in Q4, was around 7%. High levels of housing construction have helped boost the high growth rate, as have low interest-rates in combination with a strong labour market. The low interest-rate conditions may have reached a floor. Rising short-term interest rates pre-empted the Riksbank's decision at the end of December to raise the key interest rate to −0.25%, which in turn led many banks to raise their lending rates.

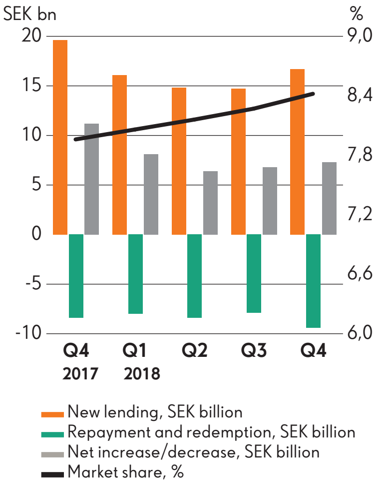
Better housing and household finances

A changing market requires focus to be really good. Our mission is to contribute to better housing and household finances, and our vision is to offer the best residential mortgages in Sweden. SBAB aims to have the best customer offering in housing and household finances.

Services in housing and household finances are one ecosystem — SBAB's ecosystem. An ecosystem in which consumers navigate to solve their problems, to simplify their daily lives and to identify possibilities that can realise their dreams of better housing and household finances.

We create services within our ecosystem for every phase of home-owner life – be it finding, buying, owning, improving or selling a home. In January 2016, SBAB acquired the housing search engine Booli to create a platform for developing services. Our ecosystem includes mortgages, savings, homes for sale, valuations, suggestions and recommendations for real estate agents, and much more.

Lending and market shares, Residential mortgages (Retail)



Group

Total lending increased 1.7% to SEK 364.2 billion (358.0) during the quarter. New lending remained healthy and totalled SEK 19.7 billion (16.8). Deposits from the public increased 3.7% to SEK 124.9 billion (120.5)

Retail business area

The Retail business area offers services within housing and household finances, such as savings and loan products, insurance, and housing search engine and estate-agent services. Activities are operated under the SBAB, Booli and HittaMäklare brands.

SBAB's strategy is to offer a differentiated, value-creating customer offering within the housing and household finances ecosystem with a clear focus on residential mortgages.

The number of unique visitors per month to www.sbab.se averaged around 463,000 (463,000). The corresponding figure for www.booli.se was around 822,000 (969,000), attributable to a calmer housing market as well as decreased marketing activities. HittaMäklare's service for locating estate agents is used by about 79% of the registered estate agents in Sweden. The number of users of the SBAB app and the Booli app are expected to increase due to the development of services within housing and household finances. Booli's free-of-charge home valuation service generates accurate indicative values, which has resulted in more than 300,000 subscribers for the monthly housing valuation email.

In Q4, new retail lending increased to SEK 16.9 billion (14.9). During the second quarter, SBAB lowered mortgage rates for the most popular fixed-interest periods, which boosted new lending in the second half of the year. At the end of Q4, SBAB and many other market participants raised mortgage rates as a result of the Riksbank's decision to increase the repo rate. Total lending increased to SEK 278.9 billion (271.6) during the quarter, of which SEK 276.7 billion (269.4) comprised residential mortgages and SEK 2.2 billion (2.2) consumer loans. The number of residential mortgage customers increased to 270,000 (266,000) distributed over 172,000 (169,000) mortgage objects. The majority of SBAB's residential mortgage customers choose shorter maturities. The share of total lending with a 3M variable mortgage rate amounted to 70.1% (70.7) at the end of the quarter. At 31 December 2018, the market share of residential mortgages was 8.41% (8.27% at 31 August 2018). Data from Statistics Sweden show that SBAB's share of the net growth in the residential mortgage market totalled 17% in 2018. At 31 December 2018, the market share for consumer loans was 0.87% (0.88% at 31 August 2018).

SBAB's savings accounts continue to offer high interest rates compared with the company's competitors, which contributed to deposit inflows continuing to grow during the quarter. Retail deposits increased and totalled SEK 87.1 billion (83.4). At 31 December 2018, the market share of retail deposits was 4.65% (4.55% at 31 August 2018).

Corporate Clients & Tenant-Owners' Associations business area

The Corporate Clients & Tenant-Owners' Associations business area offers savings and housing financing to property companies (corporate clients) and tenant-owners' associations.

During the quarter, new lending to corporate clients and tenant-owners' associations increased to SEK 2.8 billion (1.8) despite a quieter transaction market and deferred production starts for the construction of new housing. The market for lending to tenant-owners' associations continues to be dominated by intense price competition, primarily from the major banks. Property market trends in 2019 are difficult to assess given the uncertainty regarding developments in the macroeconomic environment and the domestic parliamentary situation. However, the assessment is that SBAB's market position is adequate to generate a continued healthy sales trend.

During the quarter, total lending declined to SEK 85.3 billion (86.4), mainly due to larger corporate loan repayments, whereby bank financing was replaced with capital raised in the bond markets. Of total lending, SEK 33.8 billion (34.6) comprised lending to corporate clients and SEK 51.5 billion (51.8) lending to tenant-owners' associations. The market share of lending to corporate clients was 10.88% at 31 December 2018 (11.23% at 31 August 2018). At the same date, the market share for lending to tenant-owners' associations was 9.53% (9.64). The number of loan customers continued to decline and amounted to 2,184 (2,244) at the end of the quarter, which is in line with SBAB's existing strategy to focus on larger customers and customers in regions where SBAB has a physical presence and the possibility of establishing good customer relations.

Deposits from corporate clients and tenant-owners' associations increased and totalled SEK 37.9 billion (37.1). At 31 December 2018, the market share of deposits from corporate clients and tenant-owners' associations (non-financial corporates) was 3.66% (3.68% at 31 August 2018).

FINANCIAL PERFORMANCE

INCOME STATEMENT OVERVIEW

Group, SEK million	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2018 Jan–Dec	2017 Jan–Dec
Net interest income	848	833	850	831	801	3,362	3,149
Net commissions	18	–63	1	–5	2	–49	–5
Net result of financial transactions (Note 2)	8	–19	–28	–26	30	–65	–12
Other operating income	7	9	8	8	9	32	31
Total operating income	**881**	**760**	**831**	**808**	**842**	**3,280**	**3,163**
Expenses	–297	–246	–264	–242	–259	–1,049	–959
Profit before loan losses and impairments	**584**	**514**	**567**	**566**	**583**	**2,231**	**2,204**
Net loan losses (Note 3)	–7	0	8	10	20	11	24
Impairment of financial assets, net	–1	0	0	0	–	–1	–
Operating profit	**576**	**514**	**575**	**576**	**603**	**2,241**	**2,228**
Tax	–131	–120	–131	–133	–141	–515	–519
Net profit for the period/year	**445**	**394**	**444**	**443**	**462**	**1,726**	**1,709**
Return on equity, % [1]	11.9	10.9	12.6	13.0	13.3	12.1	12.5
C/I ratio, %	33.7	32.5	31.6	30.0	30.7	32.0	30.3
Loan loss ratio, %	–0.01	0.00	0.01	0.01	0.02	0.00	0.01
Net interest margin, %	0.75	0.72	0.75	0.77	0.77	0.78	0.80

[1] When calculating the return on equity for Q1 2018, Q2 2018 and Jan–Dec 2018, average equity has been adjusted for the dividend of SEK 684 million for 2017.

Trend for Q4 2018 compared with Q3 2018

Operating profit increased to SEK 576 million (514) as a result of higher net interest income and net commission income. Higher expenses negatively impacted operating profit. After tax, the operating profit was SEK 445 million (394). Return on equity amounted to 11.9% (10.9) and the C/I ratio was 33.7% (32.5)

Net interest and commissions

Net interest income grew to SEK 848 million (833), which was attributable to reasons including a decline in the volume of liquid reserves in the quarter. Net interest income was also positively impacted by increased lending volumes and reduced financing costs. Guarantee fees in the form of the resolution fee and fees to the national deposit guarantee, recognised in net interest income, totalled SEK 81 million (77) for the quarter. The resolution fee was SEK 68 million (68) for the quarter and the fee payable to the national deposit guarantee was SEK 12 million (8).

Net commission income increased during the quarter to SEK 18 million (expense: 63), due mainly to increased provisions for negotiation of mortgage insurance and other insurances. A non-recurring commission expense to a mortgage broker was charged to the comparative figure for Q3, in conjunction with winding up the partnership.

Net result of financial transactions

The net income from financial transactions was SEK 8 million (expense: 19). The remeasurement of credit risk in derivatives (CVA/DVA) was the factor with the largest earnings impact in the quarter.

Expenses

Expenses grew to SEK 297 million (246), mainly driven by higher personnel costs as a result of more employees, higher marketing costs linked to ongoing brand campaigns, and increased IT and development expenses. Moreover, Q3 cost levels were seasonally lower. The cost trend is progressing according to plan and tracks the operations' development and investment strategy for long-term competitiveness.

Credit quality and credit losses

From 1 January 2018, SBAB reports expected credit losses in accordance with IFRS 9, which means that the opening balances for 2018 have been restated. For more information, please refer to notes 12 and 15.

Net credit losses totalled SEK 7 million (0) in Q4. Confirmed credit losses totalled SEK 4 million, and primarily pertained to consumer loans. Provisions for credit stages 1 and 2 remained unchanged in the quarter. Provisions for credit stage 3 increase SEK 1 million and provisions for loan commitments rose SEK 2 million. For more information, please refer to notes 3 and 4.

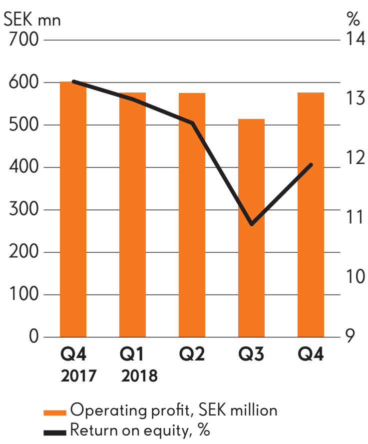
At the end of the quarter, the average LTV ratio[1)] in SBAB's residential mortgage portfolio was 61% (61). At the same date, the average residential mortgage amounted to SEK 1.6 million (1.6).

Other comprehensive income

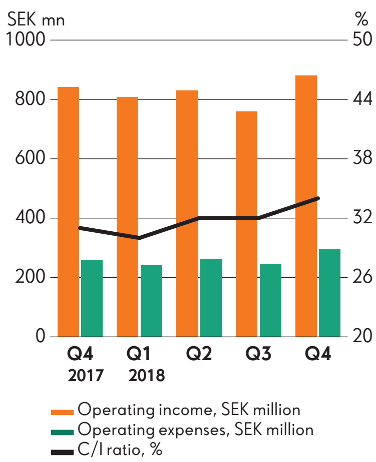
Other comprehensive income amounted to SEK 857 million (loss: 510). The increase was mainly due to the downturn in long EUR interest rates, which positively impacted the market value of interest-rate derivatives on cash-flow hedges.

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

Operating profit and return on equity, Group



Income, expenses and C/I ratio, Group



Trend for January–December 2018 compared with January–December 2017

During 2018, operating profit rose to SEK 2,241 million (2,228) as a result of higher net interest income. Lower net commission income, lower net result of financial transactions and higher expenses negatively affected earnings. Net interest income grew to SEK 3,362 million (3,149), mainly due to higher lending volumes, of which the majority pertained to residential mortgages. Lower margins and a higher resolution fee negatively impacted net interest income. Guarantee fees in the form of the resolution fee and fees to the national deposit guarantee, recognised in net interest income, totalled SEK 348 million (296) for the full year. The resolution fee was SEK 299 million (247) and the fee payable to the national deposit guarantee was SEK 49 million (49). The net commission expense amounted to SEK 49 million (expense: 5) and was mainly due to a non-recurring commission expense to a mortgage broker in conjunction with winding up the partnership in Q3. The net result of financial transactions decreased to an expense of SEK 65 million (expense: 12) and pertained primarily to changes in market values in the liquidity reserve as a consequence of changed credit spreads. Other comprehensive income increased to SEK 420 million (expense: 474), due to the positive impact on the item of a downturn in long EUR interest rates. Expenses grew to SEK 1,049 million (959), mainly driven by higher personnel costs in order to, inter alia, maintaining high service levels and strengthening the business's development capacity. For the year, net credit losses amounted to a recovery of SEK 11 million (recoveries: 24) as a result of larger recoveries of previous impairments for expected credit losses on corporate loans in credit stage 3. Confirmed credit losses amounted to SEK 11 million. For more information on credit losses, please refer to notes 3 and 4.

BALANCE SHEET OVERVIEW

Group, SEK million	31 Dec 2018	30 Sep 2018	31 Dec 2017
ASSETS			
Chargeable treasury bills, etc.	20,904	31,189	22,952
Lending to credit institutions	2,847	6,190	1,867
Lending to the public	364,215	357,989	335,111
Bonds and other interest-bearing securities	50,945	50,572	49,764
Total other assets in the balance sheet	9,444	10,028	7,093
TOTAL ASSETS	**448,355**	**455,968**	**416,787**
LIABILITIES AND EQUITY			
Liabilities to credit institutions	6,607	11,253	5,674
Deposits from the public	124,926	120,483	111,895
Issued debt securities, etc. (funding)	290,795	299,205	274,517
Subordinated debt	4,946	4,945	4,942
Total other liabilities in the balance sheet	3,845	4,139	3,949
Total liabilities	**431,119**	**440,025**	**400,977**
Total equity	**17,236**	**15,943**	**15,810**
Of which, Tier 1 capital instruments	*1,500*	*1,500*	*1,500*
TOTAL LIABILITIES AND EQUITY	**448,355**	**455,968**	**416,787**
CET1 capital ratio, % [1]	12.5	31.5	32.2
Tier 1 capital ratio, % [1]	15.1	38.3	39.3
Total capital ratio, % [1]	18.1	46.1	47.6
Leverage ratio, % [2]	3.77	3.63	3.86
Liquidity coverage ratio (LCR), % [3]	283	277	249
Net Stable Funding Ratio (NSFR), % [4]	122	118	117

[1] On 23 August 2018, the Swedish FSA decided to amend the method for applying the existing risk-weight floor for Swedish mortgages, which was previously applied in Pillar 2, by replacing it with the corresponding requirement within the framework of Article 458 of the Regulation on Prudential Requirements for Credit Institutions and Investment Firms. The change means the capital requirement is set as a requirement in Pillar 1. The change enters force from 31 December 2018 and entails an increase in the risk exposure amount (REA) at the same time as the capital ratio, expressed as a percentage of the REA, decreases. For more information, please refer to page 11 and Note 10.

[2] Calculated pursuant to Article 429 in Regulation (EU) No. 575/2013 of the European Parliament and of the Council.

[3] According to the European Commission's Delegated Regulation with regard to liquidity coverage requirements. For all currencies combined.

[4] As per SBAB's interpretation of the Basel regulatory framework.

Trend for Q4 2018 compared with Q3 2018

Balance sheet comments

Chargeable treasury bills fell during the quarter to SEK 20.9 billion (31.2) while bonds and other interest-bearing securities increased marginally to SEK 50.9 billion (50.6). The change was within the scope of the normal management of the liquidity reserve. Lending to credit institutions decreased to SEK 2.8 billion (6.2), attributable to lower repo volumes. The change was within the scope of the normal short-term liquidity management. For information regarding lending to the public, please refer to page 6.

Liabilities to credit institutions decreased to SEK 6.6 billion (11.3) during the quarter and were also driven by lower repo volumes within the scope of the normal short-term liquidity management. Deposits from the public increased to SEK 124.9 billion (120.5), of which 82% comprised retail deposits and the remainder non-operational deposits pursuant to the liquidity coverage regulations and the EU-LCR. For more information on deposits from the public, please refer to page 6. Subordinated debt totalled SEK 4.9 billion (4.9). Equity increased during the quarter to SEK 17.2 billion (15.9). The item was affected by changes in other comprehensive income during the quarter, dividends on additional Tier 1 instruments and net profit for the year. For more information on the effects of IFRS 9 on equity, please refer to notes 12 and 15. For information about issued debt securities, please refer to the "Funding" section below.

Funding

Actions in the fourth quarter included the issue of an EUR 650 million seven-year covered bond in the European market at the same time as a further tranche of EUR 175 million was issued of an existing bond with an original tenor of 15 years. Otherwise, the pace of funding was lower during the year's last three months as a result of the normalising of the balance sheet ahead of the end of the year and relatively high issue rate during the year. The quarter noted a general upswing in funding costs due, inter alia, to a reduction in bond purchases by the European central bank, uncertainty with regard to the Brexit negotiations and volatile exchanges given the increase in economic unrest.

During the quarter, securities were issued for a total of SEK 16.2 billion (13.7). In parallel, securities were repurchased for SEK 5.8 billion (2.0) and securities amounting to SEK 18.8 billion (11.7) matured. Alongside changes in premiums/discounts and changes in SEK exchange rates, this resulted in a decrease in issued debt securities outstanding of SEK 8.4 billion to a total of SEK 290.8 billion (299.2). At the end of the quarter, commercial paper borrowing amounted to SEK 2.8 billion (5.8) and senior unsecured funding amounted to SEK 53.2 billion (57.6). Funding through the issue of covered bonds is carried out by the wholly-owned subsidiary, SCBC. Secured debt outstanding totalled SEK 234.8 billion (235.7), of which SEK 150.4 billion was in SEK and SEK 84.4 billion was in foreign currencies.

Liquidity position

SBAB's liquidity reserve primarily comprises liquid, interest-bearing securities with high ratings. At the end of the quarter, the market value of the assets in the liquidity reserve amounted to SEK 73.7 billion (81.4). Taking the Riksbank's and the ECB's haircuts into account, the liquidity value of the assets was SEK 70.7 billion (78.3).

SBAB measures and stress-tests liquidity risk, for example, by calculating the survival horizon. The survival horizon totalled 400 days (354), which the company deems satisfactory.

According to the European Commission's Delegated Regulation with regard to liquidity coverage requirements, at 31 December 2018, the LCR was 283% (277) in all currencies combined, which exceeds the minimum requirement of 100%. Measured in SEK, the LCR was 192% (190). The net stable funding ratio (NSFR), which measures the difference in tenors between commitments and funding, amounted to 122% (118) according to SBAB's interpretation of the Basel rules.

For more information on SBAB's liquidity position, please refer to Note 9.

Capital position

Amended method for applying risk-weight floors for Swedish residential mortgages

On 23 August 2018, the Swedish FSA decided to amend the method for applying the existing risk-weight floor for Swedish mortgages, which was previously applied in Pillar 2, by replacing it with the corresponding requirement within the framework of Article 458 of the Regulation on Prudential Requirements for Credit Institutions and Investment Firms. The change means the capital requirement is set as a requirement in Pillar 1. The amendment entered force from 31 December 2018 and applies for two years.

How the amendment impacts SBAB

In nominal terms, SBAB's total capital requirement is not significantly affected by the amendment. The minimum requirement rises, as does the buffer requirement. At the same time, the Pillar 2 capital requirement decreases by a corresponding amount since the existing Pillar 2 requirement of 25% for residential mortgages is removed. However, this does entail an increase in the risk exposure amount of around SEK 71 billion. The consequence is that the capital ratios and the capital requirement expressed as a percentage of the risk exposure amount decreases, while the difference in absolute terms is negligible. SBAB's capacity to meet the total capital requirement is unaffected.

Given the above, SBAB's Board has decided to translate the buffer levels, expressed in percentage points, in SBAB's capital targets. After the adjustments, which entered force in parallel with the change on 31 December 2018, SBAB's CET1 capital ratio and total capital ratio must, under normal conditions, amount to not less than 0.6 percentage points above the requirement communicated by the Swedish FSA. In nominal terms, this corresponds to a buffer level of 1.5 percentage points before the move of the risk-weight floor, in line with the previous capital targets.

Capital position at 31 December 2018

SBAB's capital targets are expected to correspond to a CET1 capital ratio of not less than 10.6% and a total capital ratio of not less than 14.7% at 31 December 2018. At the end of the year, SBAB's CET1 capital amounted to SEK 14.2 billion (13.9) and total capital to SEK 20.7 billion (20.4). The risk exposure amount (REA) totalled SEK 114.1 billion (44.2). This corresponds to a CET1 capital ratio of 12.5% (31.5) and a total capital ratio of 18.1% (46.1), which provides a comfortable margin to both internal and external requirements. Net profit for the period is included in own funds, while the expected dividend has reduced own funds. For more information on SBAB's capital position, please refer to notes 10–11.

The leverage ratio amounted to SEK 3.77% (3.63) at 31 December 2018.

OTHER INFORMATION

SBAB's financial targets at 31 December 2018

- **Profitability:** A return on equity of no less than 10% over a business cycle.
- **Capitalisation:** The CET1 capital ratio and total capital ratio should be at least 0.6 percentage points above the requirements communicated by the Swedish FSA.
- **Dividend:** Ordinary dividend of at least 40% of profit for the year after tax, taking the Group's capital structure into account.

Risks and uncertainties

The Swedish economy is susceptible to global economic developments and to conditions in the international financial markets. The economic trend in Sweden is the primary risk factor for SBAB's future earnings capacity, and the quality of our assets is mainly exposed to credit risks in the Swedish housing market. The management of interest-rate and currency risks entails some exposure to price risks. Household demand for housing posted a stable trend, underpinned by low interest rates and healthy income levels, despite turbulent housing prices since the end of 2017 and difficulties experienced by certain housing developers in 2018 with selling their newly produced units. In Q4, consumer confidence was weakly negative.

A housing market with soaring prices over an extended period, in parallel with rising household debt, has resulted in the Swedish economy becoming sensitive to rapid changes in interest rates and house prices. The outlook indicates rising interest rates, albeit at a slow rate. This is expected to slow down price rises for property and even trigger a weak negative trend for a few years. The risks linked to these factors could be amplified if many households have high levels of debt in relation to their disposable incomes. The extensive regulatory changes in the residential mortgage market, an increased offering of new builds and extended sales processes comprise further uncertainty factors. Moreover, political decisions, for example changed tax rules, could have major consequences on households' solvency and property values.

Recently, new competitors have appeared in the residential mortgage market. In time, increasing competition in the mortgage market could affect the market and mortgage margins. Increased competition arises, inter alia, from the Mortgage Business Act (2016:1024), which allows residential mortgages to be provided by companies other than banks and which are thus not encompassed by the rules for capital requirements that apply to banks. This regulatory difference comprises another uncertainty that risks creating unfair competition in the market.

Effects of IFRS 9 at 1 January 2018

Upon the transition to IFRS 9, the net of reserves and provisions for expected credit losses in the Group decreased SEK 46 million. The overall effect increased equity (before tax) by a corresponding amount at 1 January 2018. For more information, please refer to notes 12 and 15.

Acquisition of the remaining shares outstanding in Booli

At the start of 2016, SBAB acquired 71% of the shares in Booli Search Technologies AB (Booli). At 29 November 2018, SBAB acquired the remaining shares outstanding in Booli, which from that date became a wholly-owned subsidiary of SBAB.

Dividend

SBAB's dividend policy entails the payment of an ordinary dividend of not less than 40% of the net profit for the year after taking into account the Group's capital structure. The Board proposes a dividend of 40%, corresponding to SEK 690 million, for 2018.

Changes in Executive Management

In the fourth quarter, Tim Pettersson stepped down as Head of Corporate Clients & Tenant-Owners' Associations and as a member of the Executive Management to take up a position as Business Manager for Corporate Clients & Tenant-Owners' Associations. In parallel, Sara Davidgård, Head of Business Specialists and a member of the Executive Management, took over as acting Head of Corporate Clients & Tenant-Owners' Associations. After the end of the period, on 14 January (as announced previously) Robin Silfverhjelm joined as CXO (Chief Experience Officer) and member of the Executive Management, as did Andras Valko as CDSO (Chief Data Science Officer) and member of the Executive Management.

Events after the end of the period

Green covered bond
On 23 January 2019, the Swedish Covered Bond Corporation (SCBC), a wholly-owned subsidiary of SBAB, was the first in Sweden to issue a green covered bond backed by residential mortgages and property loans. Additional information is available on SBAB's website.

Extraordinary General Meeting of Shareholders in SCBC
At SCBC's EGM on 4 February 2019, a resolution was passed to make a retroactive distribution to the Parent Company, SBAB Bank AB, for a total of SEK 3 billion.

Update of the EMTN programme
In January 2019, SBAB updated its euro midterm programme for unsecured funding (EMTN) whereby, amongst other, the listing venue was changed from the London Stock Exchange plc to the Irish Stock Exchange plc.

Auditors' review report

This report has been reviewed by the company's auditor in accordance with the International Standard on Review Engagements (ISRE) 2410. The review report is available on page 41.

FINANCIAL STATEMENTS AND NOTES

CONDENSED FINANCIAL STATEMENTS

Condensed income statement		14
Condensed statement of comprehensive income		14
Condensed balance sheet		15
Condensed statement of changes in equity		16
Condensed cash-flow statement		17

NOTES

Note 1	Accounting policies	18
Note 2	Net result of financial transactions	18
Note 3	Net loan losses	19
Note 4	Lending to the public	20
Note 5	Derivatives	21
Note 6	Operating segments	21
Note 7	Classification of financial instruments	22
Note 8	Fair value disclosures	24
Note 9	Liquidity reserve and liquidity risk	25
Note 10	Capital adequacy, own funds and capital requirements	26
Note 11	Internally assessed capital requirement	29
Note 12	Effect of changes in accounting policies for the Group	30

PARENT COMPANY

Condensed income statement		32
Condensed statement of comprehensive income		33
Condensed balance sheet		34
Note 13	Lending to credit institutions	35
Note 14	Capital adequacy, own funds and capital requirements – Parent Company	35
Note 15	Effect of changes in accounting policies for the Parent Company	38

CONDENSED INCOME STATEMENT

Group, SEK million	2018 Q4	2018 Q3	2017 Q4	2018 Jan–Dec	2017 Jan–Dec
Interest income	1,249	1,240	1,175	4,924	4,572
Interest expense	–401	–407	–374	–1,562	–1,423
Net interest income	**848**	**833**	**801**	**3,362**	**3,149**
Commission income	36	12	20	90	73
Commission expense	–18	–75	–18	–139	–78
Net result of financial transactions (Note 2)	8	–19	30	–65	–12
Other operating income	7	9	9	32	31
Total operating income	**881**	**760**	**842**	**3,280**	**3,163**
Personnel costs	–144	–133	–130	–543	–479
Other expenses	–142	–105	–122	–474	–449
Depreciation, amortisation and impairment of PPE and intangible assets	–11	–8	–7	–32	–31
Total expenses before loan losses	**–297**	**–246**	**–259**	**–1,049**	**–959**
Profit before loan losses and impairments	**584**	**514**	**583**	**2,231**	**2,204**
Net loan losses (Note 3)	–7	0	20	11	24
Impairment of financial assets	–1	0	–	–1	–
Reversals of impairment of financial assets	0	0	–	0	–
Operating profit	**576**	**514**	**603**	**2,241**	**2,228**
Tax on operating profit for the period/year	–131	–120	–141	–515	–519
Net profit for the period/year	**445**	**394**	**462**	**1,726**	**1,709**

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

Group, SEK million	2018 Q4	2018 Q3	2017 Q4	2018 Jan–Dec	2017 Jan–Dec
Net profit for the period/year	**445**	**394**	**462**	**1,726**	**1,709**
Other comprehensive income					
Components that will be reclassified to profit or loss					
Financial assets measured at FVTOCI/Financial assets available-for-sale	135	–249	21	–63	118
Changes related to cash-flow hedges	939	–405	–89	634	–687
Tax attributable to components that will be reclassified to profit or loss	–231	144	15	–120	125
Components that will not be reclassified to profit or loss					
Revaluation effects of defined-benefit pension plans	19	0	–4	–39	–38
Tax attributable to components that will not be reclassified to profit or loss	–5	0	0	8	8
Other comprehensive income, net of tax	**857**	**–510**	**–57**	**420**	**–474**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR	**1,302**	**–116**	**405**	**2,146**	**1,235**

CONDENSED BALANCE SHEET

Group, SEK million	31 Dec 2018	31 Dec 2017
ASSETS		
Cash and balances at central banks	0	0
Chargeable treasury bills, etc.	20,904	22,952
Lending to credit institutions	2,847	1,867
Lending to the public (Note 4)	364,215	335,111
Value changes of interest-rate-risk hedged items in macro hedges	99	191
Bonds and other interest-bearing securities	50,945	49,764
Derivatives (Note 5)	8,313	5,830
Intangible assets	234	179
Property, plant and equipment	16	12
Other assets	73	65
Prepaid expenses and accrued income	709	816
TOTAL ASSETS	**448,355**	**416,787**
LIABILITIES AND EQUITY		
Liabilities		
Liabilities to credit institutions	6,607	5,674
Deposits from the public	124,926	111,895
Debt securities issued, etc.	290,795	274,517
Derivatives (Note 5)	1,339	1,643
Other liabilities	384	429
Accrued expenses and deferred income	1,790	1,697
Deferred tax liabilities	194	83
Provisions	138	97
Subordinated debt	4,946	4,942
Total liabilities	**431,119**	**400,977**
Equity		
Share capital	1,958	1,958
Reserves/Fair value reserve	609	188
Additional Tier 1 instruments	1,500	1,500
Retained earnings	11,443	10,455
Net profit for the period	1,726	1,709
Total equity	**17,236**	**15,810**
TOTAL LIABILITIES AND EQUITY	**448,355**	**416,787**

CONDENSED STATEMENT OF CHANGES IN EQUITY

	RESTRICTED EQUITY	UNRESTRICTED EQUITY			
Group, SEK million	**Share capital**	**Reserves**	**Additional Tier 1 instruments**	**Retained earnings and net profit for the period**	**Total equity**
OPENING BALANCE, 1 JANUARY 2018[1]	**1,958**	**189**	**1,500**	**12,199**	**15,846**
Additional Tier 1 instruments, dividend	–	–	–	−71	−71
Dividends paid	–	–	–	−684	−684
Other	–	–	–	−1	−1
Comprehensive income for the period	–	420	–	1,726	2,146
CLOSING BALANCE, 30 SEPTEMBER 2018	**1,958**	**609**	**1,500**	**13,169**	**17,236**
OPENING BALANCE, 1 JANUARY 2017	**1,958**	**662**	**1,500**	**11,162**	**15,282**
Additional Tier 1 instruments, dividend	–	–	–	−74	−74
Dividends paid	–	–	–	−628	−628
Other	–	–	–	−5	−5
Comprehensive income for the year	–	−474	–	1,709	1,235
CLOSING BALANCE, 31 DECEMBER 2017	**1,958**	**188**	**1,500**	**12,164**	**15,810**

[1] Opening balance has been restated in accordance with IFRS 9, refer to Note 12.

CONDENSED CASH-FLOW STATEMENT

Group, SEK million	2018 Jan–Dec	2017 Jan–Dec
Opening cash and cash equivalents	**1,867**	**1,619**
OPERATING ACTIVITIES		
Interest and commissions paid/received	3,494	2,912
Outflows to suppliers and employees	–1,017	–929
Taxes paid/refunded	–531	17
Change in assets and liabilities of operating activities	–155	–70
Cash flow from operating activities	**1,791**	**1,930**
INVESTING ACTIVITIES		
Change in property, plant and equipment	–10	–4
Change in intangible assets	–81	–50
Acquisitions of subsidiaries	–36	–
Cash flow from investing activities	**–127**	**–54**
FINANCING ACTIVITIES		
Dividends paid	–684	–628
Change in subordinated loans	–	–1,000
Cash flow from financing activities	**–684**	**–1,628**
Increase/decrease in cash and cash equivalents	**980**	**248**
Closing cash and cash equivalents	**2,847**	**1,867**

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

CHANGE IN LIABILITIES ATTRIBUTABLE TO FINANCING ACTIVITIES

			NON-CASH ITEMS					NON-CASH ITEMS		
SEK million	**Opening balance 1 Jan 2018**	**Cash flow**	**Fair value**	**Other**	**Closing balance 31 Dec 2018**	**Opening balance, 1 Jan 2017**	**Cash flow**	**Fair value**	**Other**	**Closing balance, 31 Dec 2017**
Long-term interest-bearing liabilities	6, 442	–	–2	6	6,446	7,439	–1,000	–3	6	6,442
Total	**6 ,442**	**–**	**–2**	**6**	**6,446**	**7,439**	**–1,000**	**–3**	**6**	**6,442**

NOTE 1 Accounting policies

The SBAB Group applies the International Financial Reporting Standards (IFRS) as adopted by the EU. In addition to these accounting standards, the Swedish FSA's regulations and general guidelines on annual accounts for credit institutions and securities companies (FFFS 2008:25), the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups have been taken into consideration. The Group's interim report fulfils the requirements stipulated under IAS 34, Interim Financial Reporting.

Statutory IFRS is applied for the Parent Company, which means that this interim report has been prepared in compliance with IFRS subject to the additions and exceptions that ensue from the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities, the Swedish FSA's regulations and general guidelines on annual accounts for credit institutions and securities companies (FFFS 2008:25) and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies.

IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments in its entirety and encompasses classification and measurement, and impairment and hedge accounting. A separate project under the IASB is ongoing with regard to macro hedge accounting. SBAB applies the mandatory sections pertaining to classification and measurement and impairment from 1 January 2018. Under IFRS 9, classification is based on both the entity's business model and the contractual cash flow characteristics. This classification, in turn, determines the measurement. The impairment model under IFRS 9 is based on expected credit losses as opposed to the previous model, which is instead based on incurred credit loss events. The aim of the new model is to capture and recognise expected credit losses at an earlier stage. For hedge accounting, the carve-out version of IAS 39 is applied, as adopted by the EU. For further information regarding the company's accounting policies regarding IFRS 9, please refer to Note 1, page 84-85, of the 2017 Annual Report. The rules have been applied through the adjustment of the balance sheets of the Group and the subsidiaries at the date of initial application of the standard, January 1, 2018, refer to Note 12 and 15. The comparative figures have not been restated. No requirements apply for restatement of comparative periods.

IFRS 15 — Revenue from Contracts with Customers

The standard introduces a five-step model to determine when revenues within the scope of IFRS 15 will be recognised. Depending on when certain criteria are met, income is either recognised over time in a manner that shows the company's performance, or at a point in time when control over the goods or services is transferred. The introduction had no impact on SBAB's financial reports. The standard becomes effective as of 1 January 2018.

Other

All other accounting policies and calculation methods are unchanged in comparison with the Annual Report 2017. These consolidated condensed financial statements have been prepared on a going concern basis. On 15 February 2019, the Board of Directors approved the consolidated condensed financial statements for publication.

Introduction of new accounting standards

IFRS 16 – Leasing

The new IFRS 16 standard has changed the lease classification criteria. IFRS 16 will be applied from 1 January 2019. The new standard entails that all leases (with the exception of short-term and smaller leases) are to be recognised as right-of-use assets with corresponding liabilities in the lessee's balance sheet. The lease payments are recognised in profit or loss as depreciation of the leased asset and as an interest expense on the lease liability. Moreover, disclosure requirements will apply. The impact on SBAB's reporting stems from the recognition of lease contracts for premises.

In 2018, SBAB completed an analysis of all of the Group's agreements. This work has been conducted in project form together with stakeholders from various units at SBAB. The project has brought in external accounting specialists to help with quality assurance and interpretations of IFRS 16. A decision was taken within the project the property leases for premises, which were classified as operating leases under IAS 17, are subject to SBAB's application of IFRS 16. Short-term contracts of less than 12 months and low-value contracts of less than USD 5,000 are exempted from this application.

Current property leases are measured pursuant to IFRS 16, where the lease cost, the lease duration and the discount rate form the most material parameters. On transition on 1 January 2019, SBAB will recognise, in its consolidated accounts, a tangible asset with respect to lease contracts identified pursuant to IFRS 16 of SEK 104 million according to the simplified approach, which means that the figures for last year have not been restated. The asset is based on the sum of the lease liability, which is in turn based on the discounted remaining lease fees – in other words, no retrospective application.

NOTE 2 Net result of financial transactions

	2018	2018	2017	2018	2017
Group, SEK million	**Q4**	**Q3**	**Q4**	**Jan–Dec**	**Jan–Dec**
Gains/losses on interest-bearing financial instruments					
– Interest-bearing securities	–21	–35	–30	–134	–109
– Change in value of hedged items in hedge accounting	–246	507	56	53	795
– Realised gain/loss from financial liabilities	–50	–28	–73	–162	–318
– Derivatives in hedge accounting	254	–514	–38	–39	–764
– Other derivatives	47	38	88	165	320
– Loan receivables	24	14	31	62	73
Currency translation effects	0	–1	–4	–10	–9
Total	**8**	**–19**	**30**	**–65**	**–12**

SBAB uses derivatives to manage interest rate and currency risks in the Group's assets and liabilities. Derivatives are recognised at fair value in the balance sheet. SBAB's risk management and hedge accounting strategies entail that profit variations between periods may arise for individual items in the table above, as a result of changes in market interest rates, but that they are in general offset by profit variations in other items. Profit variations not neutralised through risk management and hedge accounting are commented on in the income statement overview.

NOTE 3 Net loan losses

Group, SEK million	2018 Q4	2018 Q3	2017 [1] Q4	2018 Jan–Dec	2017 [1] Jan–Dec
Lending to the public					
Confirmed credit losses	–4	–3	–3	–11	–11
Recoveries of previously confirmed credit losses	1	0	1	2	3
Preceding year's provision under IAS39	–	–	17	–	26
Change in provision for the period — credit stage 1	3	0	–	1	–
Change in provision for the period — credit stage 2	–3	0	–	–5	–
Change in provision for the period — credit stage 3	–1	4	–	25	–
Guarantees [2]	–1	–1	5	–1	6
Net credit losses for the year/period — lending to the public	**–5**	**0**	**20**	**11**	**24**
Loan commitments [3]					
Change in provision for the period — credit stage 1	–3	1	–	–2	–
Change in provision for the period — credit stage 2	1	–1	–	2	–
Change in provision for the period — credit stage 3	0	0	–	0	–
Net credit losses for the year/period — loan commitment	**–2**	**0**	**–**	**0**	**–**
Total	**–7**	**0**	**20**	**11**	**24**

[1] Comparative figures for 2017 reported in accordance with IAS 39.
[2] The item includes guarantees for loan commitments.
[3] Credit provisions for loan commitments are included in the "Provisions" item in the balance sheet.

The positive change in credit stage 3 is explained by recoveries of previous impairments of defaulted loans. For further information about definitions and assumptions for judgements and calculations of credit risk and the various credit stages under IFRS 9, refer to SBAB's 2017 Annual Report, Note 1, pages 84–85.

NOTE 4 Lending to the public

Group, SEK million	31 Dec 2018	31 Dec 2017
Opening balance [1]	335,168	296,022
New lending for the year	74,264	82,282
Amortisation, write-offs, redemption, etc.	–45,238	–43,219
Change in provision for expected credit losses [2]	21	26
Closing balance	**364,215**	**335,111**

[1] For further information about the effects of transition to IFRS 9, please refer to Note 12.
[2] For further information, please refer to Note 3, "Change in provision for the period – credit stage 1, 2 and 3".

Distribution of lending, including provisions, SEK million	31 Dec 2018	31 Dec 2017
Lending, Residential mortgages	276,734	248,103
Lending, Corporate Clients & Tenant-Owners' Associations	85,287	85,001
Lending, Consumer loans	2,194	2,007
Total	**364,215**	**335,111**

Lending to the public by credit stage — compared with opening balance	31 Dec 2018	1 Jan 2018
Credit stage 1		
Gross carrying amount	341,390	313,407
Provision for expected credit losses	–26	–27
Carrying amount	**341,364**	**313,380**
Credit stage 2		
Gross carrying amount	22,689	21,466
Provision for expected credit losses	–73	–67
Carrying amount	**22,616**	**21,399**
Credit stage 3		
Gross carrying amount	267	447
Provision for expected credit losses	–32	–58
Carrying amount	**235**	**389**
Gross carrying amount (credit stages 1, 2 and 3)	**364,346**	**335,320**
Provision for expected credit losses (credit stages 1, 2 and 3)	**–131**	**–152**
Total	**364,215**	**335,168**

For further information about definitions and assumptions for judgements and calculations of credit risk and the various credit stages under IFRS 9, refer to SBAB's 2017 Annual Report, Note 1, pages 84–85.

NOTE 5 Derivatives

Group, SEK million	31 Dec 2018 Assets measured at fair value	31 Dec 2018 Liabilities measured at fair value	31 Dec 2018 Total nominal value	31 Dec 2017 Assets measured at fair value	31 Dec 2017 Liabilities measured at fair value	31 Dec 2017 Total nominal value
Interest-rate-related	2,890	858	337,013	2,425	1,259	295,484
Currency-related	5,423	481	104,386	3,405	384	90,925
Total	**8,313**	**1,339**	**441,399**	**5,830**	**1,643**	**386,409**

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

NOTE 6 Operating segments

Group, SEK million	Jan–Dec 2018 Retail	Jan–Dec 2018 Corporate clients & Tentant-owners' assoc.	Jan–Dec 2018 Other	Jan–Dec 2018 Total	Jan–Dec 2017 Retail	Jan–Dec 2017 Corporate clients & Tentant-owners' assoc.	Jan–Dec 2017 Other	Jan–Dec 2017 Total
Net interest income	2,594	768	–	3,362	2,431	718	–	3,149
Commission income	64	26	–	90	52	21	–	73
Commission expense	–122	–17	–	–139	–57	–21	–	–78
Net result of financial items measured at fair value	0	23	–88	–65	0	16	–28	–12
Other operating income	32	0	0	32	31	0	0	31
Total operating income	**2,568**	**800**	**–88**	**3,280**	**2,457**	**734**	**–28**	**3,163**
Salaries and remuneration	–261	–68	–	–329	–230	–62	0	–292
Other personnel costs	–185	–51	–	–236	–167	–47	0	–214
Other expenses	–373	–76	–3	–452	–345	–77	0	–422
Depreciation, amortisation and impairment of PPE and intangible assets	–28	–4	–	–32	–24	–7	–	–31
Net loan losses	–10	21	–	11	7	17	–	24
Impairment of financial assets, net	–1	0	–	–1	–	–	–	–
Operating profit	**1,710**	**622**	**–91**	**2,241**	**1,698**	**558**	**–28**	**2,228**
Tax	–393	–143	21	–515	–394	–131	6	–519
Net profit/loss for the year/period	**1,317**	**479**	**–70**	**1,726**	**1,304**	**427**	**–22**	**1,709**
Return on equity, %	12,6	11,7		12,1	14,4	8,8		12,5

In relation to the statutory income statement, an expense of SEK 22 million (expense: 27) was transferred between the rows "Other expenses" and "Other personnel costs." The cost refers to administrative consultants, which pertain to "Other personnel costs" in the internal monitoring.

NOTE 7 Classification of financial instruments

GROUP

Financial assets

	31 Dec 2018						
	Financial assets measured at FVTPL						
SEK million	Fair value option	Derivatives (held for trading)	Other (obligatory) classification	Financial assets measured at FVTOCI	Financial assets measured at amortised cost	Total	Total fair value
Cash and balances at central banks	–	–	–	–	0	0	0
Chargeable treasury bills, etc.	3,371	–	–	6,180	11,353	20,904	20,900
Lending to credit institutions	–	–	–	–	2,847	2,847	2,847
Lending to the public	–	–	–	–	364,215	364,215	364,857
Value changes of interest-rate-risk hedged items in macro hedges	–	–	–	–	99	99	–
Bonds and other interest-bearing securities	3,866	–	–	35,258	11,821	50,945	50,969
Derivatives	–	8,157	156	–	–	8,313	8,313
Other assets	–	–	–	–	73	73	73
Prepaid expenses and accrued income	76	–	–	406	175	657	657
Total financial assets	**7,313**	**8,157**	**156**	**41,844**	**390,583**	**448,053**	**448,616**

GROUP

Financial liabilities

	2018-12-31				
	Financial liabilities measured at FVTPL				
SEK million	Derivatives (held for trading)	Held for trading	Financial liabilities measured at amortised cost	Total	Total fair value
Liabilities to credit institutions	–	–	6,607	6,607	6,607
Deposits from the public	–	–	124,926	124,926	124,926
Issued debt securities, etc.	–	–	290,795	290,795	292,997
Derivatives	927	412	–	1,339	1,339
Other liabilities	–	–	174	174	174
Accrued expenses and deferred income	–	–	1,757	1,757	1,757
Subordinated debt	–	–	4,946	4,946	4,956
Total financial liabilities	**927**	**412**	**429,205**	**430,544**	**432,756**

Cont. **NOTE 7** Classification of financial instruments

GROUP

Financial assets

	31 Dec 2017					
SEK million	**Assets measured at FVTPL (held for trading)**	**Available-for-sale financial assets**	**Loan receivables**	**Investments held to maturity**	**Total**	**Total fair value**
Cash and balances at central banks	–	–	0	–	0	0
Chargeable treasury bills, etc.	5,386	7,966	–	9,600	22,952	22,953
Lending to credit institutions	–	–	1,867	–	1,867	1,867
Lending to the public	–	–	335,111	–	335,111	335,800
Value changes of interest-rate-risk hedged items in macro hedges	–	–	191	–	191	–
Bonds and other interest-bearing securities	7,425	33,715	–	8,624	49,764	49,822
Derivatives	5,830	–	–	–	5,830	5,830
Other assets	–	–	65	–	65	65
Prepaid expenses and accrued income	120	461	147	32	760	760
Total financial assets	**18,761**	**42,142**	**337,381**	**18,256**	**416,540**	**417,097**

GROUP

Financial liabilities

	31 Dec 2017			
SEK million	**Liabilities measured at FVTPL**	**Other financial liabilities**	**Total**	**Total fair value**
Liabilities to credit institutions	–	5,674	5,674	5,674
Deposits from the public	–	111,895	111,895	111,895
Issued debt securities, etc.	–	274,517	274,517	275,352
Derivatives	1,643	–	1,643	1,643
Other liabilities	–	249	249	249
Accrued expenses and deferred income	–	1,671	1,671	1,671
Subordinated debt	–	4,942	4,942	4,960
Total financial liabilities	**1,643**	**398,948**	**400,591**	**401,444**

Fair value measurement of financial instruments

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note 1 Accounting Policies in the 2017 Annual Report. 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 have been assessed as equal to their fair values. Investments held to maturity were measured at quoted prices, Level 1.

For Lending to the public, Issued debt securities and Subordinated debt, fair value is established based on generally accepted valuation techniques. 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.

Issued debt securities and subordinated debt are measured at the Group's current borrowing rate, Level 2.

For Lending to the public, where no observable credit margin data is available at the time of measurement, the credit margin on the most recent date for changes in terms is applied to set the discount rate, Level 3.

NOTE 8 Fair value disclosures

GROUP

SEK million	31 Dec 2018 Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
Assets				
Chargeable treasury bills, etc.	9,551	–	–	9,551
Bonds and other interest-bearing securities	39,124	–	–	39,124
Derivatives	–	8,313	–	8,313
Prepaid expenses and accrued income	482	–	–	482
Total	**49,157**	**8,313**	**–**	**57,470**
Liabilities				
Derivatives	–	1,339	–	1,339
Total	**–**	**1,339**	**–**	**1,339**

SEK million	31 Dec 2017 Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
Assets				
Chargeable treasury bills, etc.	13,352	–	–	13,352
Bonds and other interest-bearing securities	41,140	–	–	41,140
Derivatives	–	5,830	–	5,830
Prepaid expenses and accrued income	581	–	–	581
Total	**55,073**	**5,830**	**–**	**60,903**
Liabilities				
Derivatives	–	1,643	–	1,643
Total	**–**	**1,643**	**–**	**1,643**

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note 1 Accounting Policies in the 2017 Annual Report. In the table, financial assets and liabilities recognised at fair value in the balance sheet are divided on the basis of the measurement levels used below.
No transfers were made between levels in 2017 or 2018.

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. The measurement method is used for holdings of quoted interest-bearing securities and for publicly quoted derivatives, primarily interest-rate futures.

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 data (Level 3)
Measurement whereby a material component of the model is based on estimates or assumptions that do not originate directly from the market. This method is currently not used on any asset or liability.

NOTE 9 Liquidity reserve and liquidity risk

The assets in SBAB's liquidity reserve comprises liquid, interest-bearing securities with high ratings and form an integrated part of the Group's liquidity risk management. Securities holdings are limited by asset class and by country, respectively, and must have at least AA rating on acquisition. In addition to these collective limits, limits for individual issuers may also be set. The following table is reported according to the Swedish Bankers' Association's template for liquidity reserve disclosures.

Calculation of survival horizon

SBAB measures and stress tests liquidity risk by calculating the survival horizon, which is an internal metric used to identify how long SBAB will be able to meet its payment obligations without access to capital market funding, and includes outflows from deposits under a stressed scenario. The survival horizon is limited to a minimum of 180 days at the consolidated level.

The survival horizon is calculated by totalling the maximum need of liquidity for each coming day and comparing this to the size of the liquidity portfolio after applicable haircuts. The calculations are based on a crisis scenario in which all loans are assumed to be extended on maturity, meaning that no liquidity is added through loan redemption, and where no funding is available and deposits decline. Accordingly, the maximum need for liquidity can be identified for every given future period, and the necessary liquidity reserve can be established. SBAB's survival horizon amounted to 400 days at 31 December 2018 (354 days at 30 September 2018).

Liquidity coverage ratio

The liquidity coverage ratio (LCR) is defined in accordance with the European Commission Delegated Regulation with regard to liquidity coverage requirements and calculates the degree to which a bank's liquid assets cover its net cash flows for the coming 30 days in a stressed scenario. Net cash flows comprise contractual inflows and outflows, and theoretical flows based on historical data, for example, withdrawals of the bank's deposits. At 31 December 2018, the LCR was 283% (277) in all currencies consolidated, and 6,795% (27,357) and 319% (977), respectively, in EUR and USD. Measured in SEK, the LCR was 192% (190). For further information on the liquidity coverage ratio, refer to SBAB's report "Capital adequacy and risk management 2018."

LIQUIDITY RESERVE Group, SEK million	31 Dec 2018				31 Dec 2017			
		DISTRIBUTION BY CURRENCY				DISTRIBUTION BY CURRENCY		
	Total	**SEK**	**EUR**	**USD**	**Total**	**SEK**	**EUR**	**USD**
Cash and balances at central banks	2,515	2,515	–	–	500	500	–	–
Balances at other banks	–	–	–	–	–	–	–	–
Securities issued or guaranteed by governments, central banks or multinational development banks	25,144	15,577	7,187	2,380	28,033	17,926	7,714	2,393
Securities issued or guaranteed by municipalities or non-public sector entities	10,681	8,391	1,145	1,145	8,621	7,003	176	1,442
Covered bonds issued by other institutions	35,339	30,840	3,905	594	35,501	30,146	4,564	791
Covered bonds issued by SBAB	–	–	–	–	–	–	–	–
Securities issued by non-financial corporates	–	–	–	–	–	–	–	–
Securities issued by financial corporates (excl. covered bonds)	–	–	–	–	–	–	–	–
Other securities	–	–	–	–	–	–	–	–
Total	**73,679**	**57,323**	**12,237**	**4,119**	**72,655**	**55,575**	**12,454**	**4,626**
Bank and loan facilities					–	–	–	–
Total	**73,679**	**57,323**	**12,237**	**4,119**	**72,655**	**55,575**	**12,454**	**4,626**
Distribution by currency, %		77.8	16.6	5.6		76.5	17.1	6.4

NOTE 10 Capital adequacy, own funds and capital requirements requirements

CAPITAL ADEQUACY[1] Consolidated situation, SEK million	31 Dec 2018	31 Dec 2017
CET1 capital	14,263	13,443
Tier 1 capital	17,263	16,443
Total capital	20,713	19,890
Risk exposure amount	114,141	41,797
CET1 capital ratio, %	12.5	32.2
Excess [2] of CET1 capital	9,127	11,563
Tier 1 capital ratio, %	15.1	39.3
Excess [2] of Tier 1 capital	10,415	13,936
Total capital ratio, %	18.1	47.6
Excess [2] of total capital	11,582	16,547

[1] The risk-weight floor has effected risk exposure amount, excess capital and capital ratios.

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

Decided movement of the risk-weight floor for residential mortgages
The Swedish FSA has introduced the existing risk-weight floor for mortgages applied in Pillar 2 as a requirement within the framework of Article 458 of the Capital Requirements Regulation. The change entered in to force from 31 December 2018 and is valid for two years. The change means the capital requirement is set as a requirement in Pillar 1. The credit institutions to be encompassed by the measure are those authorised to use the IRB approach and which have exposures to Swedish residential mortgages. The branches of foreign credit institutions in Sweden that are exposed to Swedish residential mortgages and which apply the IRB approach for these may also be affected.

The following calculation is made as if the risk-weight floor still would be applicable in Pillar 2.

Pillar 1 if the risk-weight floor for residential mortgages remaines in Pillar 2[1]	31 Dec 2018
Risk exposure amount, SEK million	43,422
CET1 capital ratio, %	32.8
Tier 1 capital ratio, %	39.8
Total capital ratio, %	47.7

[1] The table above shows the capital ratio before the shift of risk-weight floor from Pillar 2 to Pillar 1. The information given in the table is just for comparison.

Cont. NOTE 10 Capital adequacy, own funds and capital

Disclosure in accordance with Article 4 of Commission Implementing Regulation (EU) No 1423/2013, Annex V.

OWN FUNDS **Consolidated situation, SEK million**	**31 Dec 2018**	**31 Dec 2017**
CET1 capital instruments: Instruments and reserves		
Capital instruments and the related share premium accounts	1,958	1,958
Retained earnings	11,443	10,452
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	609	189
Additional Tier 1 instruments	1,500	1,500
Independently verified net profit for the year net of any foreseeable charge or dividend [1]	1,041	1,026
CET1 capital before regulatory adjustments	**16,551**	**15,125**
CET1 capital: Regulatory adjustments		
Additional value adjustments (negative amount)	–59	–62
Intangible assets (net of related tax liability) (negative amount)	–126	–83
Fair value reserves related to gains or losses on cash-flow hedges	–488	9
Negative amounts resulting from the calculation of expected loss amounts	–50	–29
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–65	–17
Additional Tier 1 instruments in equity	–1,500	–1,500
Total regulatory adjustments to CET1 capital	**–2,288**	**–1,682**
CET1 capital	**14,263**	**13,443**
Additional Tier 1 capital: Instruments		
Capital instruments and the related share premium accounts	3,000	3,000
Of which: classified as equity under applicable accounting standards	*1,500*	*1,500*
Of which: classified as liabilities under applicable accounting standards	*1,500*	*1,500*
Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from Additional Tier 1 capital	–	–
Additional Tier 1 capital before regulatory adjustments	**3,000**	**3,000**
Additional Tier 1 capital: Regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 capital	**–**	**–**
Additional Tier 1 capital	**3,000**	**3,000**
Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)	**17,263**	**16,443**
Tier 2 capital: Instruments and provisions		
Capital instruments and the related share premium accounts	3,447	3,447
Credit risk adjustments	3	–
Tier 2 capital before regulatory adjustments	**3,450**	**3,447**
Tier 2 capital: Regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	**–**	**–**
Tier 2 capital	**3,450**	**3,447**
Total capital (Total capital=Tier 1 capital + Tier 2 capital)	**20,713**	**19,890**
Total risk-weighted assets	**114,141**	**41,797**
Capital ratio and buffers		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	12.5	32.2
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	15.1	39.3
Total capital (as a percentage of total risk-weighted exposure amount), %	18.1	47.6
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), %	9.0	9.0
Of which: CET1 capital, minimum requirement, %	*4.5*	*4.5*
Of which: capital conservation buffer requirement, %	*2.5*	*2.5*
Of which: countercyclical capital buffer requirement, %	*2.0*	*2.0*
Of which: systemic risk buffer requirement, %	–	–
Of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffers, %	–	–
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts, %)	8.0	27.7

Cont. NOTE 10 Capital adequacy, own funds and capital

OWN FUNDS Consolidated situation, SEK million	31 Dec 2018	31 Dec 2017
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) Net profit for the year is reduced by foreseeable dividend of SEK 690 million.

RISK EXPOSURE AMOUNTS AND CAPITAL REQUIREMENTS Consolidated situation, SEK million	31 Dec 2018 Risk exposure amount	31 Dec 2018 Capital requirement	31 Dec 2017 Risk exposure amount	31 Dec 2017 Capital requirement
Credit risk recognised in accordance with IRB approach				
Exposures to corporates	12,128	970	12,258	981
Retail exposures	12,096	968	12,469	997
Of which: exposures to SMEs	*829*	*67*	*1,160*	*93*
Of which: retail exposures secured by immovable property	*11,267*	*901*	*11,309*	*904*
Total exposures recognised with the IRB approach	**24,224**	**1,938**	**24,727**	**1,978**
Credit risk recognised with the standardised approach				
Exposures to governments and central banks	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0
Exposures to multilateral development banks	0	0	0	0
Exposures to institutions [2]	*3,777*	302	2,593	207
Of which: derivatives according to CRR, Appendix 2	*3,776*	*302*	*2,583*	*206*
Of which repos	*0*	*0*	*9*	*1*
Of which other	*1*	*0*	*1*	*0*
Retail exposures	2,236	179	2,193	175
Exposures in default	10	1	11	1
Exposures in the form of covered bonds	3,593	287	3,282	263
Exposures to institutions and corporates with a short-term credit rating	16	1	21	2
Equity exposures	1,116	89	1,078	86
Other items	227	18	331	27
Total exposures recognised with standardised approach	**10,975**	**877**	**9,509**	**761**
Market risk	**999**	**80**	**1,159**	**93**
Of which: position risk	–	–	*413*	*33*
Of which: currency risk	*999*	*80*	*746*	*60*
Operational risk	**4,339**	**347**	**4,144**	**331**
Credit valuation adjustment risk	**2,885**	**231**	**2,258**	**181**
Additional stricter prudential requirements based on CRR art. 458	**70,719**	**5,658**	–	–
Total risk exposure amount and minimum capital requirements	**114,141**	**9,131**	**41,797**	**3,344**
Capital requirements for capital conservation buffer		**2,854**		**1,045**
Capital requirements for countercyclical buffer		**2,266**		**829**
Total capital requirements		**14,251**		**5,218**

2) The risk-weighted amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 3,776 million (2,592).

NOTE 11 Internally assessed capital requirement

The internal capital adequacy assessment aims to ensure that SBAB has adequate capital to deal with any financial problems that arise. The internally assessed capital requirement for the Group amounted to SEK 16,051 million (SEK 15,115 million at 31 December 2017). SBAB quantifies the capital requirement for its risks using a model for economic capital within the scope of the internal capital adequacy assessment process (ICAAP). Economic capital is defined as the amount of capital needed to ensure solvency over a one-year period, given a predetermined level of confidence. In SBAB's case, the level of confidence is 99.97%, which corresponds to SBAB's long-term AA– target rating (according to Standard & Poor's ratings scale). The internal capital requirement is defined as the higher of economic capital and the regulatory requirements for each type of risk. The table below sets out the internal capital requirement for the consolidated situation, with and without taking into account the Swedish FSA's supervisory practices with regard to the risk-weight floor for Swedish residential mortgages.

		31 Dec 2018			31 Dec 2017		
			EXCL. RISK-WEIGHT FLOOR	INCL. RISK-WEIGHT FLOOR		EXCL. RISK-WEIGHT FLOOR	INCL. RISK-WEIGHT FLOOR
SEK million		**Pillar 1**	**Internally assessed capital requirement**	**Internally assessed capital requirement**	**Pillar 1**	**Internally assessed capital requirement**	**Internally assessed capital requirement**
Pillar 1	Credit risk & CVA risk	3,046	3,046	3,046	2,920	2,920	2,920
	Market risk	80	80	80	93	93	93
	Operational risk	347	347	347	331	331	331
	Risk-weight floor[1)]	5,658	–	5,658	–	–	–
Pillar 2	Credit risk[2)]	–	1,164	0	–	1,119	0
	Market risk	–	781	781	–	1,002	1,002
	Operational risk	–	0	0	–	0	0
	Risk-weight floor	–	–	–	–	–	7,940
	Concentration risk	–	968	968	–	898	898
	Sovereign risk	–	52	52	–	57	57
	Pension risk	–	0	0	–	0	0
Buffers	Capital conservation buffer	2,854	2,854	2,854	1,045	1,045	1,045
	Capital planning buffer[3)]	–	–	–	–	1,125	0
	Countercyclical buffer	2,266	2,266	2,266	829	829	829
Total		**14,251**	**11,558**	**16,052**	**5,218**	**9,419**	**15,115**

1) Risk weight floor according to CRR art.458.

2) In the internal capital requirement without taking the risk-weight floor into account, additional credit risks in Pillar 2 consist of SBAB's estimated capital requirement in economic capital. Since the additional capital requirement for the risk-weight floor exceeds the additional capital requirement according to economic capital, only the risk-weight floor is included in the internal capital requirement with consideration for the risk-weight floor.

3) The higher of the stress test buffer and the capital planning buffer is included in the internally assessed capital requirement. After taking into account the risk-weight floor, the stress test buffer is calculated without consideration for risk migration in the residential mortgage portfolios and, accordingly, the required buffer is smaller.

NOTE 12 Effect of changes in accounting policies for the Group

Restatement of the balance sheet as of 31 December 2017 on transition to IFRS 9 as of 1 January 2018.

SEK million	Previous accounting policies	Impairment expected credit losses	IFRS 9
ASSETS			
Cash and balances at central banks	0	–	0
Chargeable treasury bills, etc.	22,952	–	22,952
Lending to credit institutions	1,867	–	1,867
Lending to the public	335,111	57	335,168
Value changes of interest-rate-risk hedged items in macro hedges	191	–	191
Bonds and other interest-bearing securities	49,764	0	49,764
Derivatives	5,830	–	5,830
Intangible assets	179	–	179
Property, plant and equipment	12	–	12
Other assets	65	0	65
Prepaid expenses and accrued income	816	–4	812
TOTAL ASSETS	**416,787**	**53**	**416,840**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	5,674	–	5,674
Deposits from the public	111,895	–	111,895
Debt securities issued, etc.	274,517	–	274,517
Derivatives	1,643	–	1,643
Other liabilities	429	–	429
Accrued expenses and deferred income	1,697	–	1,697
Deferred tax liabilities	83	10	93
Provisions	97	7	104
Subordinated debt	4,942	–	4,942
Total liabilities	**400,977**	**17**	**400,994**
Untaxed reserves			
Equity			
Share capital	1,958	–	1,958
Reserves	188	1	189
Additional Tier 1 instruments	1,500	–	1,500
Retained earnings	10,455	35	10,490
Net profit for the year	1,709	–	1,709
Total equity	**15,810**	**36**	**15,846**
TOTAL LIABILITIES AND EQUITY	**416,787**	**53**	**416,840**

Cont. NOTE 12 Effect of changes in accounting policies for the Group

Changes in the classification of financial assets at 31 December 2017 on the transition to IFRS 9 on 1 January 2018.

	2018				
SEK million	**Financial assets measured at FVTPL**		**Financial assets measured at FVTOCI**	**Financial assets measured at amortised cost**	**Total**
	Fair value option	Other (mandatory) classification			
Closing balance 31 December 2017	**–**	**–**	**–**	**–**	**416,540**
Reclassification					
Reclassified from financial assets at FVTPL	12,931	5,830	–	–	18,761
Reclassified from available-for-sale financial assets	–	–	42,142	–	42,142
Reclassified from loan receivables	–	–	–	337,381	337,381
Reclassified from investments held to maturity	–	–	–	18,256	18,256
Impairment, expected credit losses					
Value change recognised directly in equity	–	–	–	53	53
Opening balance, 1 January 2018	**12,931**	**5,830**	**42,142**	**355,690**	**416,593**

Certain interest-bearing assets in the liquidity portfolio that were reported as held for trading under IAS 39 are assessed under IFRS 9 as part of the business model hold to collect, which will be measured at amortised cost. In order to handle the inconsistencies that arise in recognition, which arise due to the interest-rate hedging made with derivatives, the fair value option is applied to these assets and are therefore reported at FVTPL.

PARENT COMPANY

Trend for January–December 2018 compared with January–December 2017

The operating profit totalled SEK 186 million (153). The change was mainly attributable to increased other operating income and positive effects from credit losses. During the period, net interest income decreased marginally to SEK 293 million (294), mainly driven by higher interest expense. The net expense from financial transactions was SEK 45 million (expense: 7). The differences were largely attributable to changes in market value for securities in the liquidity reserve in conjunction with changed credit spreads. Other operating income totalled SEK 896 million (760) and mainly comprised fees from SCBC for administrative services in line with the applicable outsourcing agreements. Expenses grew to SEK 1,069 million (963), mainly due to higher personnel costs. Net credit losses amounted to recoveries of SEK 37 million (recoveries: 13), attributable to an intra-group transfer to SCBC due to transition to IFRS 9 as well as recoveries of previous impairments. Lending to the public amounted to SEK 24.8 billion (22.9). Deposits from the public increased to SEK 124.9 billion (111.9). The CET1 capital ratio was 17.6% (22.4) and the internally assessed capital requirement was SEK 5,9 billion (5,1).

CONDENSED INCOME STATEMENT

	2018	2018	2017	2018	2017
Parent Company, SEK million	Q4	Q3	Q4	Jan–Dec	Jan–Dec
Interest income	382	377	364	1,399	1,317
Interest expense	–288	–272	–274	–1,106	–1,023
Net interest income	**94**	**105**	**90**	**293**	**294**
Commission income	39	15	24	100	79
Commission expense	–6	–7	–7	–25	–23
Net result of financial transactions	1	0	25	–45	–7
Other operating income	250	214	219	896	760
Total operating income	**378**	**327**	**351**	**1,219**	**1,103**
Personnel costs	–143	–130	–128	–533	–472
Other expenses	–153	–121	–132	–525	–479
Depreciation, amortisation and impairment of PPE and intangible assets	–4	–2	–3	–11	–12
Total expenses before loan losses	**–300**	**–253**	**–263**	**–1,069**	**–963**
Profit/loss before loan losses and impairments	**78**	**74**	**88**	**150**	**140**
Net loan losses	–7	0	20	37	13
Impairment of financial assets	–1	0	–	–1	–
Reversals of impairment of financial assets	0	0	–	0	–
Operating profit/loss	**70**	**74**		**186**	**153**
Tax	–20	–22	–31	–63	–62
Net profit/loss for the year/period	**50**	**52**	**77**	**123**	**91**

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

Parent Company, SEK million	2018 Q4	2018 Q3	2017 Q4	2018 Jan–Dec	2017 Jan–Dec
Net profit/loss for the period	**50**	**52**	**77**	**123**	**91**
Other comprehensive income					
Components that will be reclassified to profit or loss					
Financial assets measured at FVTOCI/Finanacial assets available-for-sale	136	–249	21	–63	118
Changes related to cash-flow hedges	117	–51	–11	142	–68
Tax attributable to components that will be reclassified to profit or loss	–53	66	–2	–15	–11
Other comprehensive income, net of tax	**200**	**–234**	**8**	**64**	**39**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	**250**	**–182**	**85**	**187**	**130**

CONDENSED BALANCE SHEET

Parent Company, SEK million	31 Dec 2018	31 Dec 2017
ASSETS		
Cash and balances at central banks	0	0
Chargeable treasury bills, etc.	20,904	22,952
Lending to credit institutions (Note 13)	93,262	94,302
Lending to the public	24,845	22,912
Bonds and other interest-bearing securities	50,945	49,764
Derivatives	8,762	6,240
Shares and participations in Group companies	10,389	10,386
Intangible assets	26	26
Property, plant and equipment	15	12
Other assets	47	45
Prepaid expenses and accrued income	740	771
TOTAL ASSETS	**209,935**	**207,410**
LIABILITIES AND EQUITY		
Liabilities		
Liabilities to credit institutions	6,607	4,720
Deposits from the public	124,926	111,895
Debt securities issued, etc.	56,021	70,363
Derivatives	7,964	5,340
Other liabilities	303	376
Accrued expenses and deferred income	302	349
Deferred tax liabilities	62	56
Provisions	7	–
Subordinated debt	4,946	4,942
Total liabilities	**201,138**	**198,041**
Equity		
Restricted equity		
Share capital	1,958	1,958
Statutory reserve	392	392
Total restricted equity	**2,350**	**2,350**
Unrestricted equity		
Fair value reserve	222	157
Additional Tier 1 instruments	1,500	1,500
Retained earnings	4,602	5,271
Net profit for the period	123	91
Total unrestricted equity	**6,447**	**7,019**
Total equity	**8,797**	**9,369**
TOTAL LIABILITIES AND EQUITY	**209,935**	**207,410**

NOTE 13 Lending to credit institutions

Of the Parent Company's lending to credit institutions per 31 December 2018, SEK 90,414 million relates to a receivable from the wholly owned subsidiary AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation, SCBC), compared with SEK 92,593 million at the end of 2017. This receivable is subordinated in the event of receivership or liquidation, which means that payment is received only after other creditors of the subsidiary have been paid.

NOTE 14 Capital adequacy, own funds and capital requirements — Parent Company

CAPITAL ADEQUACY[1)] Parent Company, SEK million	31 Dec 2018	31 Dec 2017
CET1 capital	6,398	7,127
Tier 1 capital	9,398	10,127
Total capital	12,845	13,574
Risk exposure amount	36,404	31,776
CET1 capital ratio, %	17.6	22.4
Excess [2)] of CET1 capital	4,760	5,697
Tier 1 capital ratio, %	25.8	31.9
Excess [2)] of Tier 1 capital	7 214	8,221
Total capital ratio, %	35.3	42.7
Excess [2)] of total capital	9,933	11,032

[1)] The risk-weight floor has effected risk exposure amount, excess capital and capital ratios.

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

Decided movement of the risk-weight floor for residential mortgages
The Swedish FSA has introduced the existing risk-weight floor for mortgages applied in Pillar 2 as a requirement within the framework of Article 458 of the Capital Requirements Regulation. The change entered in to force from 31 December 2018 and is valid for two years. The change means the capital requirement is set as a requirement in Pillar 1. The credit institutions to be encompassed by the measure are those authorised to use the IRB approach and which have exposures to Swedish residential mortgages. The branches of foreign credit institutions in Sweden that are exposed to Swedish residential mortgages and which apply the IRB approach for these may also be affected.

The following calculation is made as if the risk-weight floor still would be applicable in Pillar 2.

Pillar 1 if the risk-weight floor for residential mortgages remaines in Pillar 2[1)]	31 Dec 2018
Risk exposure amount, SEK million	33,360
CET1 capital ratio, %	19.2
Tier 1 capital ratio, %	28.2
Total capital ratio, %	38.5

[1)] The table above shows the capital ratio before the shift of risk-weight floor from Pillar 2 to Pillar 1. The information given in the table is just for comparison.

Cont. NOTE 14 Capital adequacy, own funds and capital requirements — Parent Company

Disclosure in accordance with Article 4 of Commission Implementing Regulation (EU) No 1423/2013, Annex V.

OWN FUNDS **Parent Company, SEK million**	**31 Dec 2018**	**31 Dec 2017**
CET1 capital instruments: Instruments and reserves		
Capital instruments and the related share premium accounts1	1,958	1,958
Retained earnings	4,993	5,663
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	222	157
Additional Tier 1 instruments	1,500	1,500
Independently verified net profit for the year net of any foreseeable charge or dividend [1)]	–567	–593
CET1 capital before regulatory adjustments	**8,106**	**8,685**
CET1 capital: Regulatory adjustments		
Additional value adjustments (negative amount)	–76	–66
Intangible assets (net of related tax liability) (negative amount)	–25	–26
Fair value reserves related to gains or losses on cash-flow hedges	–31	79
Negative amounts resulting from the calculation of expected loss amounts	–11	–28
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–65	–17
Additional Tier 1 instruments in equity	–1,500	–1,500
Total regulatory adjustments to CET1 capital	**–1,708**	**–1,558**
CET1 capital	**6,398**	**7,127**
Additional Tier 1 capital: Instruments		
Capital instruments and the related share premium accounts	3,000	3,000
Of which: classified as equity under applicable accounting standards	*1,500*	*1,500*
Of which: classified as liabilities under applicable accounting standards	*1,500*	*1,500*
Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from Additional Tier 1 capital	–	–
Additional Tier 1 capital before regulatory adjustments	**3,000**	**3,000**
Additional Tier 1 capital: Regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 capital	**–**	**–**
Additional Tier 1 capital	**3,000**	**3,000**
Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)	**9,398**	**10,127**
Tier 2 capital: Instruments and provisions		
Capital instruments and the related share premium accounts	3,447	3,447
Credit risk adjustments	–	–
Tier 2 capital before regulatory adjustments	**3,447**	**3,447**
Tier 2 capital: Regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	**–**	**–**
Tier 2 capital	**3,447**	**3,447**
Total capital (Total capital=Tier 1 capital + Tier 2 capital)	**12,845**	**13,574**
Total risk-weighted assets	**36,404**	**31,776**
Capital ratio and buffers		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	17,6	22.4
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	25,8	31.9
Total capital (as a percentage of total risk-weighted exposure amount), %	35.3	42.7
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), %	9.0	9.0
Of which: CET1 capital, minimum requirement, %	*4.5*	*4.5*
Of which: capital conservation buffer requirement, %	*2.5*	*2.5*
Of which: countercyclical capital buffer requirement, %	*2.0*	*2.0*
Of which: systemic risk buffer requirement, %	–	–
Of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffers, %	–	–
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts, %)	13.1	17.9

Cont. NOTE 14 Capital adequacy, own funds and capital requirements — Parent Company

OWN FUNDS Parent Company, SEK million	31 Dec 2018	31 Dec 2017
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)] Net profit for the year is reduced by foreseeable dividend of SEK 690 million.

	31 Dec 2018		31 Dec 2017	
RISK EXPOSURE AMOUNTS AND CAPITAL REQUIREMENTS Parent Company, SEK million	**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**	**Capital requirement**
Credit risk recognised in accordance with IRB approach				
Exposures to corporates	7,087	567	6,800	544
Retail exposures	743	59	1,125	90
Of which: exposures to SMEs	*59*	*5*	*244*	*20*
Of which: retail exposures secured by immovable property	*684*	*54*	*881*	*70*
Total exposures recognised with the IRB approach	**7,830**	**626**	**7,925**	**634**
Credit risk recognised with the standardised approach				
Exposures to governments and central banks	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0
Exposures to multilateral development banks	0	0	0	0
Exposures to institutions [1)]	3,751	300	2,524	202
Of which: derivatives according to CRR, Appendix 2	*3,723*	*298*	*2,523*	*202*
Of which repos	–	–	–	–
Of which other	*28*	2	*1*	0
Exposures to corporates	–	–	–	–
Retail exposures	2,236	179	2,193	175
Exposures in default	10	1	11	1
Exposures in the form of covered bonds	3,593	287	3,282	263
Exposures to institutions and corporates with a short-term credit rating	16	1	21	2
Equity exposures	11,416	913	11,378	910
Other items	83	7	77	6
Total exposures recognised with standardised approach	**21,105**	**1,688**	**19,486**	**1,559**
Market risk	**248**	**20**	**648**	**52**
Of which: position risk	–	–	*414*	*33*
Of which: currency risk	*248*	*248*	*234*	*19*
Operational risk	**1,412**	**113**	**1,570**	**126**
Credit valuation adjustment risk	**2,765**	**221**	**2,147**	**171**
Additional stricter prudential requirements based on CRR art. 458	**3,044**	**244**	–	–
Total risk exposure amount and minimum capital requirements	**36,404**	**2,912**	**31,776**	**2,542**
Capital requirements for capital conservation buffer		**910**		**794**
Capital requirements for countercyclical buffer		**722**		**629**
Total capital requirements		**4,544**		**3,965**

[1)] The risk-weighted amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 3,723 million (2,523).

NOTE 15 Effect of changes in accounting policies for the Parent Company

Restatement of the balance sheet as of 31 December 2017 on transition to IFRS 9 as of 1 January 2018.

SEK million	Previous accounting policies	Impairment, expected credit losses	IFRS 9
ASSETS			
Cash and balances at central banks	0	–	0
Chargeable treasury bills, etc.	22,952	–	22,952
Lending to credit institutions	94,302	–	94,302
Lending to the public	22,912	2	22,914
Bonds and other interest-bearing securities	49,764	0	49,764
Derivatives	6,240	–	6,240
Shares and participations in Group companies	10,386	–	10,386
Intangible assets	26	–	26
Property, plant and equipment	12	–	12
Other assets	45	0	45
Prepaid expenses and accrued income	771	0	771
TOTAL ASSETS	**207,410**	**2**	**207,412**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	4,720	–	4,720
Deposits from the public	111,895	–	111,895
Debt securities issued, etc.	70,363	–	70,363
Derivatives	5,340	–	5,340
Other liabilities	376	–	376
Accrued expenses and deferred income	349	–	349
Deferred tax liabilities	56	–1	55
Provisions	–	7	7
Subordinated debt	4,942	–	4,942
Total liabilities	**198,041**	**6**	**198,047**
Untaxed reserves			
Equity			
Share capital	1,958	–	1,958
Statutory reserve	392	–	392
Fair value reserve	157	1	158
Additional Tier 1 instruments	1,500	–	1,500
Retained earnings	5,271	–5	5,266
Net profit for the year	91	–	91
Total equity	**9,369**	**–4**	**9,365**
TOTAL LIABILITIES AND EQUITY	**207,410**	**2**	**207,412**

Cont. NOTE 15 Effect of changes in accounting policies for the Parent Company

Changes in the classification of financial assets at 31 December 2017 on the transition to IFRS 9 on 1 January 2018.

	2018				
SEK million	**Financial assets measured at FVTPL**		**Financial assets measured at FVTOCI**	**Financial assets measured at amortised cost**	**Total**
	Fair value option	Other (mandatory) classification			
Closing balance 31 December 2017	**–**	**–**	**–**	**–**	**196,933**
Reclassification					
Reclassified from financial assets at FVTPL	12,931	6,240	–	–	19,171
Reclassified from available-for-sale financial assets	–	–	42,142	–	42,142
Reclassified from loan receivables	–	–	–	117,364	117,364
Reclassified from investments held to maturity	–	–	–	18,256	18,256
Impairment, expected credit losses					
Value change recognised directly in equity	–	–	–	2	2
Opening balance, 1 January 2018	**12,931**	**6,240**	**42,142**	**135,622**	**196,935**

Certain interest-bearing assets in the liquidity portfolio that were reported as held for trading under IAS 39 are assessed under IFRS 9 as part of the business model hold to collect, which will be measured at amortised cost. In order to handle the inconsistencies that arise in recognition, which arise due to the interest-rate hedging made with derivatives, the fair value option is applied to these assets and are therefore reported at FVTPL.

The CEO affirms that this year-end report provides an accurate overview of the operations, financial position and performance of the Parent Company and the Group, and describes the significant risks and uncertainties faced by the Parent Company and the companies in the Group.

Solna, February 15 2019

Signature on Swedish original

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While every care has been taken in the translation of this report, readers are reminded that the original report, signed by the CEO, is in Swedish. This information was submitted for publication on February 15, 2019 at 12:00 p.m. (CET)

Financial calender

Interim report January–March 2019	30 Apr 2019
Interim report January–June 2019	17 Jul 2019
Interim report January–September 2019	25 Oct 2019
Year-end report 2019	14 Feb 2020

The Annual General Meeting will be held 29 April 2019 in Solna.

Credit rating

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

AUDITORS' REVIEW REPORT

Introduction

We have reviewed the year-end report for SBAB Bank AB (publ) for the period 1 January – 31 December 2018. The Board of Directors and the CEO are responsible for the preparation and presentation of this year-end report in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this year-end report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2410 Review of Interim Financial Information performed by the company's auditors. A review consists of making inquiries, primarily with persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the year-end report for the Group is not, in all material aspects, in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies and as regards the parent company in accordance the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 15 February, 2019
Deloitte AB

Signature on Swedish original

Patrick Honeth
Authorised Public Accountant

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).

SBAB 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. SBAB 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, SBAB's metrics are not directly comparable with similar metrics presented by other companies.

New lending

Definition: Gross lending for the period.

The APM aims to provide the reader with an image of the inflow of new business during the reporting period.

Deposits/lending

Definition: Ratio of total deposits to total lending (closing balances).

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

Group	2018	2017
Deposits from the public, SEK billion	124.9	111.9
Lending to the public, SEK billion	364.2	335.1
Deposits/lending, %	**34.3**	**33.4**

Loan loss ratio

Definition: Loan losses for the period in relation to total lending (closing balance).

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

Group	2018	2017
Loan losses, SEK million	11	24
Lending to the public, SEK million	364,215	335,111
Loan loss ratio, %	**0.00**	**0.01**

Return on equity

Definition: Earnings after tax in relation to average (calculated using the opening and closing balances) equity, after adjustment for additional Tier 1 instruments and value changes in financial assets recognised in equity.

The APM aims to provide the reader with further information regarding the Group's profitability in relation to unrestricted equity.

Group	2018	2017
Operating profit after tax, SEK million	1,726	1,709
Average equity, SEK million	14,283 [1]	13,621
Return on equity, %	**12.1**	**12.5**

[1] Average equity adjusted for dividend for 2017 of SEK 684 million.

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 the Group's profitability.

Group	2018	2017
Net interest income, SEK million	3,362	3,419
Average total assets, SEK million	432,571	395,972
Net interest margin, %	**0.78**	**0.80**

C/I ratio

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

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

Group	2018	2017
Total operating expenses, SEK million	1,049	–959
Total operating income, SEK million	3.280	3,163
C/I ratio, %	**32.0**	**30.3**

Definitions of other key performance indicators

Number of employees (FTEs)	Number of employees expressed as full-time equivalents (FTEs), adjusted for sick leave and leave of absence
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
Leverage ratio	Tier 1 capital in relation to total assets and off-balance sheet exposures restated with the application of credit conversion factors
Liquidity coverage ratio (LCR)	Liquid assets in relation to net cash outflows over a 30-day stress scenario in accordance with the European Commission's Delegated Regulation EU (2015/61) with regard to liquidity coverage requirements
Survival horizon	The number of days that the need for liquidity can be met in a stress scenario before new liquidity is needed
Net stable funding ratio (NSFR)	A liquidity risk metric of a structural nature that demonstrates the stability of the Group's funding in relation to its assets