SBAB Bank AB (publ)

INTERIM REPORT

January–June 2019

1 2 3 4

SBAB!

The quarter in brief

In financial terms, the second quarter was a good quarter and operating profit for the first half of 2019 is our best ever.

KLAS DANIELSSON, CEO OF SBAB

Q2 2019 (Q1 2019)

- Lending growth for residential mortgages was once again healthy after a weaker start at the beginning of the year. Total lending increased 1.6% to SEK 372.3 billion (366.3). | *Read more on page 7*
- Once again, a strong financial performance and strong key metrics. The return on equity amounted to 11.9% (12.5) and the C/I ratio was 33.0% (32.8). Credit losses remained low and totalled SEK 7 million (loss: 9) for the quarter. | *Read more on page 10*
- In June, SBAB issued a green senior non-preferred bond. The issue is part of SBAB's ambition to be a recurring issuer in the market for green bonds. Furthermore, the issuance is a step towards fulfilling the Swedish National Debt Office's MREL requirement until the end of 2021. | *Read more on pages 4 and 13*
- SBAB finished twentieth in the big companies category in Great Place to Work's ranking and list of Europe's top workplaces. | *Read more on pages 4*
- At the Almedalen week, Respekttrappan was launched externally at www.respekttrappan.se for companies and organisations to use, free of charge, as part of their efforts to promote increased respect and equality at work. | *Read more on page 4*
- During the quarter, Bo Magnusson stepped down from his role as Chairman of SBAB and the subsidiary SCBC. He was replaced by Jan Sinclair. | *Read more on page 14*

SELECTED KEY METRICS

	GROUP					
	2019	2019		2019	2018	
	Q2	Q1	Change	Jan–Jun	Jan–Jun	Change
Total lending, SEK bn	372.3	366.3	+1.6%	372.3	351.5	+5.9%
Total deposits, SEK bn	127.3	126.1	+1.0%	127.3	117.0	+8.8%
Net interest income, SEK million	852	883	–3.5%	1,735	1,681	+3.2%
Expenses, SEK million	–288	–292	–1.4%	–580	–506	+14.6%
Credit losses, SEK million	–7	–9	–SEK 2 mn	–16	18	+SEK 34 mn
Operating profit, SEK million	577	590	–2.2%	1,167	1,151	+1.4%
Return on equity, %	11.9	12.5	–0.6 pp[2]	12.2	12.8	–0.6 pp
C/I ratio, %	33.0	32.8	+0.2 pp	32.9	30.8	+2.1 pp
CET1 capital ratio, % [1]	12.2	12.4	–0.2 pp	12.2	30.3	–18.1 pp

[1] 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 13 and Note 10.

[2] pp = percentage points

This is SBAB

SBAB's business idea is to be innovative and considerate in our offering of loans and savings products to private individuals, tenant-owner associations and property companies in Sweden.

Vision
To offer the best residential mortgages in Sweden

Mission
To contribute to better housing and household finances

Retail business area

Retail
The Retail business area offers services within housing and household finances, such as savings and loan products, insurance mediation, housing search engine services and real estate-agent services. The core product is residential mortgages. Activities are operated under the SBAB, Booli and HittaMäklare brands. We do not have any offices for physical customer meetings – we meet our customers and users digitally or by telephone. Our market share in terms of residential mortgages amounted to 8.39% at 31 May 2019, which makes us the fifth-largest residential mortgage bank in Sweden. Booli.se is Sweden's second-largest search engine for housing.

Corporate Clients & Tenant. own.

Corporates and tenant-owners' associations
The Corporate Clients & Tenant-Owners' Associations business area offers savings and property financing to property companies and tenant-owners' associations. We finance multi-family dwellings, existing as well as new construction. Our lending to property companies and tenant-owners' associations corresponds to around a quarter of SBAB's total lending. We offer personal service to our customers, who are concentrated in growth regions surrounding our offices in Stockholm, Gothenburg and Malmö. The market share of lending to companies was 10.90% at 31 May 2019 and the market share for lending to tenant-owners' associations was 9.57%.

SBAB assigns priority to four Sustainable Development Goals

Read more in SBAB's Annual Report 2018

Statement from the CEO

Clear signs emerged in the first quarter that competition had changed in the residential mortgage market. Several of the major banks announced their intent to make defending residential mortgage market shares their top priority. The smaller mortgage banks strengthened their offerings with campaign interest rates and bundled offers, while new market participants started to elbow for space. As a consequence, we saw our growth declining. We strengthened our offering, thereby returning to healthy growth in the second quarter.

A changed market

Residential mortgages are no longer growing at the same pace. A few years ago, market growth was at around 10% and it is now down at about 5%. This roughly corresponds to an annual reduction in mortgage growth of SEK 150 billion. A volume change of that scope affects mortgage banks' behaviour. It is less painful to lose market shares in a vigorously growing market when total volumes continue to grow nicely, than losing market shares in a market that is growing more slowly. The result of lower market growth has seen the mortgage banks polish their offerings to retain customer volumes and to grow. In other words — competition has intensified. In addition, we have the new mortgage funds that captured significant market shares in the first quarter but loss ground in the second quarter due to the intensified competition for mortgage customers. The mortgage rate naturally plays a pivotal role in the customer offering and in this regard, we always aim to be extremely competitive.

We have also noted that customers' awareness of the various options has increased. Just as with deposits, where many move their savings to the banks offering the best interest rate, we are now seeing "mortgage rate hunters" who are more prepared to change mortgage bank and to do so more frequently. Digitalisation, which has driven simplicity and increased transparency, also makes it significantly easier to have multiple bank relationships.

We are meeting the changed residential mortgage market with a simple, honest and transparent customer offering with highly competitive terms, and with a continued investment in the digitalisation of the customer interface and with services in our housing and household finances ecosystem. Our aim is to offer the best customer experience.

Our position in the residential mortgage market is strong. In Sweden's three largest cities, SBAB is the most or the second most recognised brand in residential mortgages. Our strengthening of the customer offering in February, with lowered rates and improved terms for lower loan-to-value ratios, in combination with a more vibrant housing market resulted in a record number of mortgage applications, which caused capacity problems with application administration. In May, we therefore temporarily paused the possibility of moving mortgagers to us before reopening this service just before midsummer.

In the first two quarters of the year, expectations in the fixed-income market have shifted from rising interest rates to unchanged or decreasing rates. This has resulted in lower funding costs for SBAB and rising mortgage margins, which have enabled us to strengthen our customer offering further in June by lowering mortgage rates for longer fixed-interest periods. At the end of 2018, our residential mortgage customers were increasingly choosing to fix mortgage rates, whereas in the second quarter, they have returned to primarily choosing the three-month interest rate. Our assessment is that the mortgage rate trend has played a decisive role in stabilising housing prices, which have even risen slightly in the first six months.

It is gratifying to report that we also recorded healthy growth in lending to property companies and tenant-owners' associations in the second quarter. Transaction intensity is high in the Swedish property market and we compare favourably in the competition for customers due to our high level of service and very good customer relationships. Sweden's property market is regional and the decline in new construction is most noticeable in the Stockholm area, whereas the Malmö region, for example, remains relatively strong with good business opportunities. The Malmö region also demonstrates a relatively strong price trend for private homes.

Positive financial performance

In financial terms, the second quarter was a good quarter and operating profit for the first half of 2019 is our best ever. Expenses are rising as planned as a result of increased investment to maintain competitiveness moving forward. The increasing expenses pertain mainly to the change of core systems and digitalisation, customer service to strengthen service levels and capacity for growth as well as within organisational development and the strengthening of competence that is required to manage an increasingly complex regulatory and technology-driven operation. Our key financial metrics are robust, even if they have weakened slightly as a result of lower margins and lower growth in lending and deposits. The return on equity was 11.9% and the CET1 capital ratio was 12.2% for the quarter, which exceeded our financial targets by a comfortable margin. Credit losses remained low and totalled SEK 7 million for the quarter.

Better housing and household finances

Our mission is to contribute to better housing and household finances. By contributing to more sustainable housing and a better functioning housing market, we help improve the national economy, thereby creating a better market for us to operate in. Our efforts also contribute to reaching the Sustainable Development Goals (SDGs) in Agenda 2030. We finance a considerable share of new housing construction in Sweden, and thereby impact the development of the housing shortage and the national economy. In the second quarter, we continued efforts as part of our initiative to create an industry-wide agreement between construction companies and banks aimed at combating unreported employment and tax fraud at construction sites in Sweden. Our aim is for the banks, including ourselves, to set new financing requirements that will help reduce the problem. We are hopeful of reaching an agreement.

At the start of the year, we completed an extensive study of Swedish attitudes to homes and the housing market. The study resulted in a report, Komma Hem-rapporten (the Come Home Report), which was published in the second quarter at www.sbab.se. In the report, we investigate aspects such as how people feel about their homes — for example, what makes a home a home and fosters well-being. The report showcases today's challenges and identifies possibilities for creating a more sustainable housing market. The report provides solid decision data for driving debate and for creating collaboration around many issues involving housing and household finances. The work on the report has been an eye-opener and provided us with many insights for our work to contribute to better housing and household finances.

In the second quarter we issued our fourth green bond, this time under the new classification for eligible liabilities, namely, senior non-preferred, as the first bank in Sweden. The issuance is a step towards fulfilling the Swedish National Debt Office's MREL requirement until the end of 2021 as well as being a recurring issuer in the market for green bonds. Our ambition is to shift the housing market and the capital market in a more sustainable direction. It is therefore gratifying that our green bonds enjoy such great interest and enable us to realise the green cycle of money through green funding and green lending. We look forward to investors paying a higher premium for green bonds in the future, thereby enabling us to transfer more value to our customers in the form of lower lending rates.

Inclusion and commitment

SBAB's working approach is based on our values. Inclusion with respect and equality is at the core of our values. Inclusion creates commitment and makes us an attractive employer, which makes us more efficient and stronger in our business. The #MeToo movement in autumn 2017 clearly showcased the lack of respect and equality at workplaces in Sweden. Together with the Make Equal foundation, in 2018 we created the Respekttrappan (Respect Ladder) tool, which is a practical tool with seven steps of exercises. Everyone at SBAB completes the exercises on work time together with their groups.

Our value-driven working approach with a focus on inclusion has made us Sweden's fourth best workplace according to Great Place to Work, and in June, we were also recognised as one of Europe's top 20 workplaces. We also recently accepted an award from the "Nyckeltalinstitutet" for the best equality index (JÄMIX) among finance and insurance companies in Sweden.

A few weeks ago, at the Almedalen week, we launched Respekttrappan externally at www.respekttrappan.se for companies and organisations to use, free of charge, as part of their efforts to promote increased respect and equality at work. By promoting increased respect and equality in workplaces in Sweden, we contribute to the world changing in order for us to reach the SDGs together.

Lastly, I would like to thank our former Chairman, Bo Magnusson, for the successes SBAB has had under his stewardship and the five exciting years we have had together. I would also like to take the opportunity to give Jan Sinclair a warm welcome as our new Chairman.

I wish everyone a great summer,

Klas Danielsson
CEO of SBAB

Market developments

Swedish economy
The Swedish economy has entered a slowdown even if the trend through the beginning of 2019 has been relatively good. In the first quarter of 2019, Sweden's GDP grew 2.1% compared with the same period 2018. It was mainly investments by industry that contributed to the trend with the support of demand from the wider world and low interest rates. However, as a result of declining investments in housing, GDP growth for the full year 2019 is expected to decrease to 1.3%. The industry's confidence indicator has shown a general decline over the past year and the level in the first quarter was on a par for normal economic conditions.

The slowdown in the economy together with slower growth in household disposable income was followed by higher savings. Consumer confidence has fallen significantly since its peak at the end of 2017 and is currently negative.

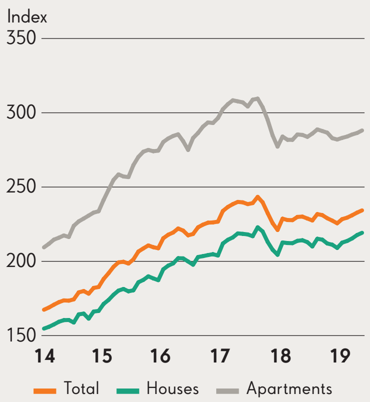
Housing market remains uncertain
Housing prices, which have largely remained still since the downturn in late 2017, started to climb gently in spring 2019. SBAB's housing indicator points to a slight predominance of households believing that prices will rise rather than fall over the next year, even if the Erik Olsson housing index points toward stagnant prices. During the latter part of the spring, conditions in the housing markets were less concerning than was the case the last year. The number of published advertisements and the advertisement periods for existing homes have remained stable over the past few months. However, for new production, uncertainty remains considerable as a result of the large supply generally and increasingly long advertisement periods in some municipalities.

According to preliminary statistics, in the first quarter of 2019, construction was started for about 13,400 housing units, which is as many as in the first quarter of 2018, but down 20% compared to 2017. Housing developers have given a very negative one-year outlook in the National Institute of Economic Research's Economic Tendency Survey. The housing starts forecast for 2019 is 34% lower compared with the full year 2017, due to, inter alia, uncertainty regarding the economy, housing prices and the effects of more stringent credit terms.

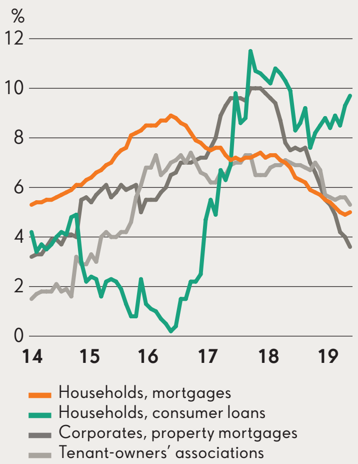
Declining lending growth
Annualised lending growth to households (mortgage loans) was 5.0% in May 2019. Compared with the year-earlier period, this represented a decline of almost two percentage points. The decline was attributable to a slowdown in the economy and weaker expectations for the future. Consistently low interest rates and a large supply of newly produced housing are factors that help maintain credit growth.

Rising incomes and a strong labour market have provided households greater opportunities to save, while an uncertain economy and housing market have contributed to the desire to save. Households' deposits increased at a faster rate than their mortgages, despite the low interest rates. Moreover, deposits from non-financial corporates, including tenant-owners' associations, continued to grow at a healthy rate during the quarter.

HOUSING PRICE TREND
(HOX index 2005=100)



LENDING GROWTH
(Percentage, 12-month change)



DEPOSIT GROWTH
(Percentage, 12-month change)

Source: Valueguard, Statistics Sweden (SCB). Data until and including 31 May 2019.

Business development

Volume trends

	GROUP				
	2019 Q2	2019 Q1	2018 Q2	2019 Jan–Jun	2018 Jan–Jun
New lending, SEK bn	20.5	16.3	18.5	36.7	37.7
Net change in lending, SEK bn	6.0	2.1	7.5	8.1	16.4
Total lending, SEK bn	**372.3**	**366.3**	**351.5**	**372.3**	**351.5**
No. of deposit accounts, thousand	391	383	352	391	352
Net change in deposits, SEK bn	1.2	1.2	1.7	2.4	5.1
Total deposits, SEK bn	**127.3**	**126.1**	**117.0**	**127.3**	**117.0**
Deposits/lending, %	34.2	34.4	33.3	34.2	33.3
Retail business area					
No. of mortgage customers, thousand	274	270	262	274	262
No. of mortgage objects financed, thousand	174	172	167	174	167
New lending, SEK bn	16.1	12.4	15.0	28.4	31.3
Net change in lending, SEK bn	5.6	0.6	6.5	6.1	14.7
Total lending, Retail, SEK bn	**285.1**	**279.5**	**264.8**	**285.1**	**264.8**
Residential mortgages, SEK bn	282.8	277.3	262.7	282.8	262.7
Consumer loans, SEK bn	2.3	2.2	2.1	2.3	2.1
Market share, Residential mortgages, % [1]	8.39	8.35	8.16	8.39	8.16
Market share, Consumer loans, % [1]	0.86	0.87	0.86	0.86	0.86
Total deposits, Retail, SEK bn	**89.1**	**87.6**	**81.0**	**89.1**	**81.0**
No. of retail customers with savings accounts, thousand	345	337	311	345	311
Market share deposits, Retail, % [1]	4.65	4.60	4.51	4.65	4.51
Corporate Clients & Tenant-Owners' Associations business area					
No. of corporate clients and tenant-owners' associations	2,126	2,162	2,278	2,126	2,278
New lending, SEK bn	4.4	3.9	3.5	8.3	6.4
Net change in lending, SEK bn	0.5	1.5	1.0	1.9	1.6
Total lending, Corporate Clients & Tenant-Own. Asso., SEK bn	**87.2**	**86.8**	**86.7**	**87.2**	**86.7**
Lending, Corporate clients, SEK bn	35.9	36.1	34.4	35.9	34.4
Lending, Tenant-owners' associations, SEK bn	51.3	50.7	52.3	51.3	52.3
Market share, Corporate clients, % [1]	10.90	10.77	11.30	10.90	11.30
Market share, Tenant-owners' associations, % [1]	9.57	9.41	10.00	9.57	10.00
Total deposits, Corporate Clients & Tenant-Own. Asso., SEK bn	**38.3**	**38.5**	**36.0**	**38.3**	**36.0**
No. of corporate clients and tenant-owners' associations	12,900	13,100	13,700	12,900	13,700
Market share deposits, Corporate Clients & Tenant-Own. Asso, % [1]	3.12	3.20	3.22	3.12	3.22

[1] Source: Statistics Sweden. The figures in the columns for Q2 2018 and Jan–Jun 2018 correspond with the market shares as of 31 May 2018. The figures in the columns for Q2 2019 and Jan–Jun 2019 correspond with the market shares as of 31 May 2019. The figures in the columns for Q1 2019 correspond with the market share as of 28 February 2019. The definition of "Market share deposits, Corporate Clients & Tenant-Owners' Associations" was revised as of 31 March 2019. The comparative figures have been restated.

Retail business area

Residential mortgage customers
274,000

Savings customers
345,000

The Retail business area offers services within housing and household finances, such as savings and loan products, insurance mediation, housing search engine services and real estate-agent services. The core product is residential mortgages. Activities are operated under the SBAB, Booli and HittaMäklare brands. We do not have any offices for physical customer meetings – we meet our customers and users digitally or by telephone. Our market share in terms of residential mortgages amounted to 8.39% at 31 May 2019, which makes us the fifth-largest residential mortgage bank in Sweden. Booli.se is Sweden's second-largest search engine for housing.

Trend for Q2 2019 compared with Q1 2019

Retail business area

Lending

Competition in the residential mortgage market has increased. Many established players are working intensively to retain and defend their positions, and several new competitors have emerged as serious contenders for residential mortgage customers. In parallel, growth in the residential mortgage market has slowed.

SBAB's ambition is to continue to grow and capture market shares. In mid-February, SBAB lowered its mortgage rates for all tenors and concurrently adjusted its pricing model. These changes significantly improved SBAB's competitiveness and contributed to increased customer activity and customer inflows. At the end of Q2, SBAB further lowered the listed rates for residential mortgages with fixed-interest periods of two to ten years.

Total retail lending increased during the quarter to SEK 285.1 billion (279.5), of which SEK 282.8 billion (277.3) comprised residential mortgages and SEK 2.3 billion (2.2) consumer loans. New lending increased during the quarter to SEK 16.1 billion (12.4). The number of residential mortgage customers amounted to 274,000 (270,000) distributed over 174,000 (172,000) mortgage objects. At 31 May 2019, the market share of residential mortgages was 8.39% (8.35% at 28 February 2019). At the same date, the market share for consumer loans was 0.86% (0.87% at 28 February 2019).

The majority of SBAB's residential mortgage customers choose shorter maturities. The share of total lending with a 3M interest rate period amounted to 73.9% (73.2) at the end of the quarter.

For more information about credit quality, please refer to page 11.

Savings accounts (deposit)

SBAB's retail savings accounts, which are characterised by competitive savings rates and simple product terms and conditions, continue to attract new customers. Retail deposits increased and totalled SEK 89.1 billion (87.6) during the quarter. At the end of the quarter, approximately 345,000 (337,000) retail customers held savings accounts with SBAB. At 31 May 2019, the market share for retail deposits was 4.65% (4.60% at 28 February 2019).

User trends

Every month, many people visit SBAB's website to manage mortgages and savings or to find inspiration about housing and household finances. The number of unique visitors per month to www.sbab.se averaged around 435,000 (467,000) during the quarter. The average number of unique users of the SBAB app totalled around 76,000 (71,000) for the same period. Booli.se is a popular platform for finding information about housing supply, demand and price trends. The number of unique visitors per month to www.booli.se averaged around 891,000 (887,000) during the quarter. Booli's monthly property valuation email had more than 345,000 subscribers in June 2019. HittaMäklare's service for estate agents has been used by about 82% of the registered estate agents in Sweden.

SBAB's ecosystem

Services relating to housing and household finances represent SBAB's ecosystem – an ecosystem in which consumers navigate to solve their problems, simplify their daily lives and identify possibilities to realise their dreams of a better home and improved 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, we acquired the housing search engine Booli to create a platform for developing services.

Corporate Clients & Tenant. own.

Property financing customers

2,100

Savings customers

12,900

The Corporate Clients & Tenant-Owners' Associations business area offers savings and property financing to property companies and tenant-owners' associations. We finance multi-family dwellings, existing as well as new construction. Our lending to property companies and tenant-owners' associations corresponds to around a quarter of SBAB's total lending. We offer personal service to our customers, who are concentrated in growth regions surrounding our offices in Stockholm, Gothenburg and Malmö. The market share of lending to companies was 10.90% at 31 May 2019 and the market share for lending to tenant-owners' associations was 9.57%.

Trend for Q2 2019 compared with Q1 2019

Corporate Clients & Tenant-Owners' Associations business area

Property financing (lending)

During the quarter, new lending to corporate clients and tenant-owners' associations increased to SEK 4.4 billion (3.9). Activity levels were high in the corporate market in the first six months of the year, which was confirmed by SBAB's positive sales trend. This was despite uncertainty regarding the terms relating to the development of future housing policy. The assessment is that SBAB's market position provides the preconditions for a continued healthy sales trend. However, the market for lending to tenant-owners' associations continues to be dominated by intense price competition, primarily in the major metropolitan areas.

Total lending increased to SEK 87.2 billion (86.8) during the quarter, which was mainly due to a number of large transactions with existing property company customers and new tenant-owners' associations. Of total lending, SEK 35.9 billion (36.1) comprised lending to corporate clients and SEK 51.3 billion (50.7) lending to tenant-owners' associations. The market share of lending to property companies was 10.90% at 31 May 2019 (10.77% at 28 February 2019). At the same date, the market share for lending to tenant-owners' associations was 9.57% (9.41% at 28 February 2019).

The number of loan customers continued to decline and amounted to 2,126 (2,162) at the end of the quarter, which is in line with SBAB's existing strategy to focus on customers in regions where SBAB has a physical presence and the possibility of establishing good customer relations.

The market for new housing production has slowed, primarily in Stockholm, but also in other growth regions where the pace of new construction was previously particularly high. SBAB focuses on lending to established customer relationships and large, experienced property developers, and additionally sets higher pre-sales requirements on binding purchase agreements before the start of production and larger own investments when lending for new construction projects. As a result of the changed market conditions with decreased demand for new apartments, SBAB has applied a more restrained approach to lending in this segment. Moreover, property development projects comprise a limited share of SBAB's total loan portfolio.

For more information, please refer to page 11.

Savings accounts (deposit)

Deposits from corporate clients and tenant-owners' associations decreased marginally during the quarter and totalled SEK 38.3 billion (38.5). At the end of the quarter, approximately 12,900 (13,100) corporate clients and tenant-owners' associations held savings accounts with SBAB. The market share for deposits from corporate clients and tenant-owners' associations was 3.12% at 31 May 2019 (3.20% at 28 February 2019).

Financial performance

Income statement overview

	GROUP						
	2019	2019	2018	2018	2018	2019	2018
SEK million	Q2	Q1	Q4	Q3	Q2	Jan–Jun	Jan–Jun
Net interest income	852	883	848	833	850	1,735	1,681
Net commissions	–5	–12	18	–63	1	–17	–4
Net result of financial transactions (Note 2)	15	13	8	–19	–28	28	–54
Other operating income	9	8	7	9	8	17	16
Total operating income	**871**	**892**	**881**	**760**	**831**	**1,763**	**1,639**
Expenses	–288	–292	–297	–246	–264	–580	–506
Profit before credit losses and impairments	**583**	**600**	**584**	**514**	**567**	**1,184**	**1,133**
Net credit losses (Note 3)	–7	–9	–7	0	8	–16	18
Impairment of financial assets	–1	–1	–1	0	0	–2	0
Reversals of impairment of financial assets	2	0	0	0	0	2	0
Operating profit	**577**	**590**	**576**	**514**	**575**	**1,167**	**1,151**
Tax	–130	–132	–131	–120	–131	–262	–264
Net profit for the period/year	**447**	**458**	**445**	**394**	**444**	**905**	**887**
Return on equity, % [1]	11.9	12.5	11.9	10.9	12.6	12.2	12.8
C/I ratio, %	33.0	32.8	33.7	32.5	31.6	32.9	30.8
Credit loss ratio, %	–0.01	–0.01	–0.01	0.00	0.01	–0.01	0.01
Net interest margin, %	0.71	0.77	0.75	0.72	0.75	0.74	0.76
Number of employees (FTEs)	653	614	602	597	568	653	568

[1] When calculating the return on equity for Q2 2018 and Jan–Jun 2018, average equity has been adjusted for the dividend of SEK 684 million for 2017. When calculating the return on equity for Q1 2019, Q2 2019 and Jan–Jun 2019, average equity has been adjusted for the dividend of SEK 690 million for 2018. For more information about the calculation of alternative performance measures, please refer to page 43.

Trend for Q2 2019 compared with Q1 2019

Operating profit grew to SEK 577 million (590) in Q2, primarily due to lower net interest income. The return on equity amounted to 11.9% (12.5) and the C/I ratio was 33.0% (32.8).

Net interest and commissions

Net interest income decreased to SEK 852 million (883), mainly due to lower mortgage lending margins as a result of interest income from lending rising more slowly than interest expense. The increase in interest expense was mainly due to a rise in market rates, which led to higher expenses for market funding. Guarantee fees in the form of the resolution fee and fees to the national deposit guarantee, recognised in net interest income, totalled SEK 76 million (79) for the quarter. The resolution fee was SEK 59 million (62) and the fee payable to the national deposit guarantee was SEK 17 million (17). The fees are estimated at SEK 310 million for the full-year 2019, slightly below the estimate of SEK 315 million communicated in the last interim report. The corresponding fees in 2018 were SEK 348 million.

Net commissions increased during the quarter to an expense of SEK 5 million (expense: 12), primarily due to increased commission income from insurance mediation.

Net result of financial transactions

The net result of financial transactions increased marginally to SEK 15 million (13), primarily as a result of an increase in interest compensation received from customers. For more information; please refer to Note 2.

Expenses

Expenses amounted to SEK 288 million (292) in the quarter. The decrease was mainly due to lower marketing and administrative expenses, even though personnel costs increased during the quarter as a result of an increased number of employees.

Credit quality and credit losses

Net credit losses remained low and totalled SEK 7 million (9) for the second quarter. Confirmed credit losses totalled SEK 4 million (2).

Provisions for credit stages 1 remained unchanged in the quarter. Provisions for credit stage 2 decreased SEK 6 million and provisions for credit stage 3 rose SEK 3 million. The total decrease in provisions of SEK 3 million and mainly pertained to a marginal improvement in credit risk in the portfolio. Provisions for loan commitments increased SEK 6 million, mainly due to building loans. For more information on credit losses, please refer to notes 3 and 4.

The credit quality of SBAB's lending is good and the risks entailed in retail lending are low. SBAB's granting of credit to consumers is based on a sound credit approval process that determines whether customers have the financial capacity required to meet their commitment. Primarily, it is the customer's repayment capacity that is assessed. Loans are not approved if the ability to make repayments cannot be guaranteed.

At the end of the quarter, the average LTV ratio[1)] in SBAB's mortgage portfolio was 61% (61). At the same date, the average residential mortgage to retail customers amounted to SEK 1.6 million (1.6). During the quarter, the LTV ratio for new lending was 68% (70) and the debt-to-income ratio was 3.5 (3.6).

Other comprehensive income

Other comprehensive income increased to SEK 1,013 million (828), mainly as a result of an average decline in euro interest rates over the quarter of 5 basis points, which gave rise to a positive earnings impact of around SEK 240 million.

[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.

Trend for Jan–Jun 2019 compared with Jan–Jun 2018

Operating profit rose to SEK 1,167 million (1,151) as a result of higher net interest income and a higher net result of financial transactions. Higher expenses negatively impacted operating profit. Net interest income grew to SEK 1,735 million (1,681), mainly due to higher lending volumes, of which the majority pertained to residential mortgages, and a lower resolution fee. A rise in market rates and therefore higher funding costs negatively affected 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 155 million (190). The resolution fee was SEK 122 million (162) and the fee payable to the national deposit guarantee was SEK 33 million (29). The net commission expense was SEK 17 million (expense: 4), and was mainly due to increased expenses linked to funding operations. The net result of financial transactions increased to SEK 28 million (expense: 54), primarily as a result of an increase in interest compensation received from customers and value changes in hedging instruments and hedged items. Other comprehensive income increased to SEK 1,841 million (73), due to the substantial positive impact on the item of a downturn in long euro interest rates. For more information, please refer to page 16. Expenses grew to SEK 580 million (506), mainly driven by an increased number of employees and thus higher personnel costs as well as increased IT expenses. The cost trend is progressing according to plan and tracks the operations' development and investment strategy for long-term competitiveness. Net credit losses totalled SEK 16 million (recoveries: 18). The difference between the periods was partly attributable to the large reversal in the first quarter of 2018 of previously impaired credit stage 3 loans and partly due to the review of the macroeconomic projections applied in the impairment model ahead of 2019. The new projections entailed a slightly more negative outlook for the housing market and the review entailed a non-recurring effect at year end of around SEK 10 million in increased provisions. Moreover, provisions increased SEK 9 million due to a changed risk classes for larger individual exposures. Aside from the above effects, the loan portfolio has developed positively in terms of credit risk. Confirmed credit losses totalled SEK 6 million (4) for the first six months of 2019. For more information on credit losses, please refer to notes 3 and 4.

Balance sheet overview

SEK million	GROUP 30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Jun 2018
ASSETS				
Chargeable treasury bills, etc.	37,590	29,478	20,904	34,421
Lending to credit institutions	2,618	7,278	2,847	12,735
Lending to the public	372,281	366,254	364,215	351,496
Bonds and other interest-bearing securities	55,712	52,605	50,945	53,418
Total other assets in the balance sheet	17,146	14,289	9,444	12,406
TOTAL ASSETS	**485,347**	**469,904**	**448,355**	**464,476**
LIABILITIES AND EQUITY				
Liabilities				
Liabilities to credit institutions	12,258	12,432	6,607	20,477
Deposits from the public	127,319	126,112	124,926	116,998
Issued debt securities, etc. (funding)	317,017	302,366	290,795	301,800
Subordinated debt	4,948	4,946	4,946	4,945
Total other liabilities in the balance sheet	4,570	5,535	3,845	4,189
Total liabilities	**466,112**	**451,391**	**431,119**	**448,409**
Total equity	**19,235**	**18,513**	**17,236**	**16,067**
Of which, Tier 1 capital instruments	*1,500*	*1,500*	*1,500*	*1,500*
TOTAL LIABILITIES AND EQUITY	**485,347**	**469,904**	**448,355**	**464,476**
CET1 capital ratio, % [1]	12.2	12.4	12.5	30.3
Tier 1 capital ratio, % [1]	14.8	15.0	15.1	36.9
Total capital ratio, % [1]	17.6	18.0	18.1	44.4
Leverage ratio, % [2]	3.55	3.66	3.77	3.56
Liquidity coverage ratio (LCR), % [3]	274	303	283	301
Net Stable Funding Ratio (NSFR), % [4]	123	120	122	122

[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 scope of Article 458 of the CRR. The change means the capital requirement is set as a requirement in Pillar 1. The change entered force from 31 December 2018. For more information, please refer to page 13 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 Q2 2019 compared with Q1 2019

Balance sheet comments
Chargeable treasury bills increased during the quarter to SEK 37.6 billion (29.5). The change between the quarters was mainly attributable to an increased cash position as a result of pre-financing. Bonds and other interest-bearing securities amounted to SEK 55.7 billion (52.6). The increase was within the scope of the normal management of the liquidity reserve. Lending to credit institutions decreased to SEK 2.6 billion (7.3), attributable to lower repo volumes within the scope of normal short-term liquidity management. Lending to the public increased 1.6% to a total of SEK 372.3 billion (366.3). For more information on Lending to the public, please refer to pages 7-9 and Note 4.

Liabilities to credit institutions decreased marginally to SEK 12.3 billion (12.4) during the quarter and were driven by lower repo volumes and an increase in collateral received within the scope of the normal short-term liquidity management. Deposits from the public increased 1.0% to SEK 127.3 billion (126.1), 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 pages 7–9. For information about issued debt securities, please refer to the "Funding" section below. Subordinated debt totalled SEK 4.9 billion (4.9). Total equity increased during the quarter to SEK 19.2 billion (18.5). The item was affected by changes in other comprehensive income during the quarter and the dividend to the owner.

Funding
Funding activity in Q2 was up slightly on Q1. In total, the SBAB Group issued bonds for around SEK 38 billion in 2019, of which SEK 24 billion in Q2, compared with bonds maturing during the year of about SEK 37 billion.

During the quarter, issues included an SEK 6 billion 5Y covered bond in the Swedish market and an EUR 500 million 10Y covered bond in the European market. On 13 June, SBAB issued a SEK 3 billion 5Y green senior non-preferred bond. The issuance is a part of SBAB's ambition to be a recurring issuer in the market for green bonds. Furthermore, the issuance is a step towards fulfilling the Swedish National Debt Office's MREL requirement until the end of 2021.

The quarter was characterised by a general decrease in credit spreads, largely driven by softer tones from the US and EU central banks, which have also signalled their readiness to implement further measures, when needed, to support the economy and inflation expectations. This has contributed to market rates declining to historically low levels.

During the quarter, securities were issued for a total of SEK 25.3 billion (19.8). In parallel, securities were repurchased for SEK 7.5 billion (7.6) and securities amounting to SEK 6.2 billion (3.9) matured. Alongside changes in premiums/discounts and changes in SEK exchange rates, this resulted in an increase in issued debt securities outstanding of SEK 14.6 billion to a total of SEK 317.0 billion (302.4). At the end of the quarter, commercial paper borrowing amounted to SEK 3.3 billion (5.8) and senior unsecured funding amounted to SEK 56.5 billion (54.1). Funding through the issue of covered bonds is carried out by the wholly-owned subsidiary, SCBC. Secured debt outstanding totalled SEK 257.2 billion (242.5) at the end of the quarter, of which SEK 164.7 billion was in SEK and SEK 92.5 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 94.6 billion[1] (85.9). Taking the Riksbank's and the ECB's haircuts into account, the liquidity value of the assets was SEK 90.8 billion (82.2).

SBAB measures and stress-tests liquidity risk, for example, by calculating the survival horizon. The survival horizon totalled 421 days (443), which the company deems satisfactory.

According to the European Commission's Delegated Regulation with regard to liquidity coverage requirements, at 30 June 2019, the LCR was 274% (303) in all currencies combined, which exceeds the minimum requirement of 100%. Measured in SEK, the LCR was 182% (187). The net stable funding ratio (NSFR), which measures the difference in tenors between commitments and funding, amounted to 123% (120) according to SBAB's interpretation of the Basel rules.
For more information on SBAB's liquidity, please refer to Note 9.

Capital position
SBAB's capital targets[2] are expected to correspond to a CET1 capital ratio of not less than 10.5% and a total capital ratio of not less than 14.5% at 30 June 2019. At the end of the quarter, CET1 capital amounted to SEK 14.7 billion (14.5) and total capital was SEK 21.1 billion (21.0). The risk exposure amount (REA) totalled SEK 119.7 billion (116.9). This corresponded to a CET1 capital ratio of 12.2% (12.4) and a total capital ratio of 17.6% (18.0), which provided a comfortable margin to both internal targets and external requirements from government agencies. Net profit/loss for the period was included in own funds while expected dividends reduced own funds.

The decrease in the capital ratios was primarily attributable to an increase in REA pertaining to derivatives and credit valuation adjustment risk (CVA). The average risk weight for Swedish mortgage exposures was lower at 30 June, which resulted in an increase in the REA supplement for the risk-weight floor to reach the floor level of 25%. For more information on SBAB's capital position, please refer to Note 10 and Note 11.

The leverage ratio amounted to SEK 3.55% (3.66) at 30 June 2019. The decrease was due to an increase in the exposure metric as a result of increased lending volumes and higher central bank exposures.

For information about the EU's reforms to the Capital Requirements Regulation, the Capital Requirements Directive and the Crisis Management Directive (the banking package) that entered force on 27 June 2019, refer to Note 10.

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[1] Also includes assets not yet HQLA-classified which are pledgeable with Riksbanken or ECB.

[2] On 23 August 2018, the Swedish FSA decided to amend the method for applying the risk-weight floor for Swedish mortgages, which was previously applied in Pillar 2, by replacing it with the corresponding requirement within the scope of Article 458 of the CRR. 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. Given the above amendment, 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, which is published in the Swedish FSA's quarterly report on Swedish banks' capital requirements. In nominal terms, this corresponds to a buffer level of 1.5 percentage points before moving the risk-weight floor, in line with the previous capital targets. For more information, please refer to Note 10.

Other information

SBAB's financial targets from 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 higher than 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.

Effects of IFRS 16 at 1 January 2019

The new IFRS 16 standard has changed the lease classification criteria and entails the recognition of leases as assets with corresponding liabilities in the lessee's balance sheet. On transition on 1 January 2019, SBAB recognised, in its consolidated accounts, a tangible asset with respect to lease contracts identified pursuant to IFRS 16 of SEK 104 million. The asset is based on the sum of the lease liability, which is in turn based on the discounted remaining lease fees. For more information, please refer to Note 12.

Termination of partnerships

SBAB's partnership with ICA Banken and Sparbanken Syd regarding origination of residential mortgages are terminated as of 30 November 2019 and the cooperation agreements are thus being phased out. ICA Banken's mediated loan portfolio (SEK 18.9 billion as of 30 June 2019) will remain in SBAB's balance sheet and customer relations will transfer to SBAB. Great focus will be given to managing the customers with information to ensure a good customer experience during the transition to using SBAB's services. Sparbanken Syd has announced that the company intends to exercise its contractual right to acquire the mediated loan portfolio (SEK 9.5 billion as of 30 June 2019).

Dividend

The AGM resolved to distribute a dividend of 40% of net profit for the year, corresponding to SEK 690 million, for 2018. Full details of the proposed appropriation of earnings is available from SBAB's 2018 Annual Report, on page 83. The dividend was distributed on 8 May 2019.

Board changes

During the quarter, Bo Magnusson stepped down from his role as Chairman of SBAB Bank AB (publ) ("SBAB") and the subsidiary AB Sveriges Säkerstallda Obligationer (publ) (Swedish Covered Bond Corporation – "SCBC"), as a result of being nominated to the Board of Swedbank AB (publ).

At a Board meeting on 17 May 2019, Board member Jan Sinclair was appointed as the new Chairman of SBAB. At the same date he was elected to the Board of SCBC at an EGM and was concurrently appointed Chairman of SCBC.

Changes in Executive Management

In May, Mikael Inglander took over the role of acting Head of Corporate Clients & Tenant-Owners' Associations, alongside his role as CFO of SBAB and CEO of SCBC. In conjunction with the above, Sara Davidgård resumed her role as Head of Business Specialists. During the quarter, Peter Svensén informed of his intent to step down from his role as CRO in autumn 2019. Recruitment is ongoing for a new CRO and a new Head of Corporate Clients & Tenant-Owners' Associations.

Rating change

On 22 May 2019, S&P revised SBAB's junior subordinated rating from BB+ to BB.

Events after the end of the period

No significant events occurred after the end of the period.

Auditors' review report

This report has been reviewed by the company's auditor in accordance with the International Standard on Review Engagements (ISRE) 2410. The review report is on page 44.

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. For more information on market developments, please refer to page 6. 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, in its turn, expected to act as a damper on the price trend for housing. The risks linked to these factors could be amplified if many households have high levels of debt in relation to their disposable incomes. The extensive regulatory changes in the residential mortgage market comprise a further uncertainty factor. Moreover, political decisions, for example changed tax rules, could have major consequences on households' solvency and property values. 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. Such regulatory differences risk creating unfair competition in the market.

Read more about risks and risk management in SBAB's 2018 Annual Report on page 70

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Condensed income statement

SEK million	GROUP 2019 Q2	2019 Q1	2018 Q2	2019 Jan–Jun	2018 Jan–Jun	2018 Jan–Dec
Interest income	1,480	1,404	1,246	2,884	2,435	4,924
Interest expense	–628	–521	–396	–1 149	–754	–1,562
Net interest income	**852**	**883**	**850**	**1,735**	**1,681**	**3,362**
Commission income	22	15	26	37	42	90
Commission expense	–27	–27	–25	–54	–46	–139
Net result of financial transactions (Note 2)	15	13	–28	28	–54	–65
Other operating income	9	8	8	17	16	32
Total operating income	**871**	**892**	**831**	**1,763**	**1,639**	**3,280**
Personnel costs	–156	–152	–139	–308	–266	–543
Other expenses	–116	–123	–118	–239	–227	–474
Depreciation, amortisation and impairment of PPE and intangible assets	–16	–17	–7	–33	–13	–32
Total expenses before credit losses	**–288**	**–292**	**–264**	**–580**	**–506**	**–1,049**
Profit before credit losses	**583**	**600**	**567**	**1,184**	**1,133**	**2,231**
Net credit losses (Note 3)	–7	–9	8	–16	18	11
Impairment of financial assets	–1	–1	0	–2	0	–1
Reversals of impairment of financial assets	2	0	0	2	0	0
Operating profit	**577**	**590**	**575**	**1,167**	**1,151**	**2,241**
Tax	–130	–132	–131	–262	–264	–515
Net profit for the period	**447**	**458**	**444**	**905**	**887**	**1,726**

Condensed statement of comprehensive income

SEK million	GROUP 2019 Q2	2019 Q1	2018 Q2	2019 Jan–Jun	2018 Jan–Jun	2018 Jan–Dec
Net profit for the period	**447**	**458**	**444**	**905**	**887**	**1,726**
Other comprehensive income						
Components that will be reclassified to profit or loss						
Financial assets measured at FVTOCI	–12	36	27	24	51	–63
Changes related to cash-flow hedges, before tax	1,353	1,077	190	2,430	100	634
Tax attributable to components that will be reclassified to profit or loss	–287	–238	–47	–525	–33	–120
Components that will not be reclassified to profit or loss						
Revaluation effects of defined-benefit pension plans, before tax	–52	–60	–23	–112	–58	–39
Tax attributable to components that will not be reclassified to profit or loss	11	13	5	24	13	8
Other comprehensive income, net of tax	**1,013**	**828**	**152**	**1,841**	**73**	**420**
Total comprehensive income for the period	**1,460**	**1,286**	**596**	**2,746**	**960**	**2,146**

In Q2 2019, interest income on financial assets measured at amortised cost, calculated using the effective-interest method, amounted to SEK 1,475 million (1,426) for the Group.

Condensed balance sheet

SEK million	GROUP 30 Jun 2019	31 Dec 2018	30 Jun 2018
ASSETS			
Cash and balances at central banks	0	0	0
Chargeable treasury bills, etc.	37,590	20,904	34,421
Lending to credit institutions	2,618	2,847	12,735
Lending to the public (Note 4)	372,281	364,215	351,496
Value changes of interest-rate-risk hedged items in macro hedges	245	99	204
Bonds and other interest-bearing securities	55,712	50,945	53,418
Derivatives (Note 5)	15,373	8,313	10,553
Intangible assets	268	234	209
Property, plant and equipment	132	16	13
Other assets	394	73	666
Prepaid expenses and accrued income	734	709	761
TOTAL ASSETS	**485,347**	**448,355**	**464,476**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	12,258	6,607	20,477
Deposits from the public	127,319	124,926	116,998
Issued debt securities, etc.	317,017	290,795	301,800
Derivatives (Note 5)	1,668	1,339	1,430
Other liabilities	417	384	428
Accrued expenses and deferred income	1,526	1,790	2,069
Deferred tax liabilities	705	194	103
Provisions	254	138	159
Subordinated debt	4,948	4,946	4,945
Total liabilities	**466,112**	**431,119**	**448 409**
Equity			
Share capital	1,958	1,958	1,958
Reserves/Fair value reserve	2,450	609	262
Additional Tier 1 instruments	1,500	1,500	1,500
Retained earnings	12,422	11,443	11,460
Net profit for the period	905	1,726	887
Total equity	**19,235**	**17,236**	**16,067**
TOTAL LIABILITIES AND EQUITY	**485,347**	**448,355**	**464,476**

Condensed statement of changes in equity

	GROUP				
SEK million	Share capital	Reserves	Additional Tier 1 instruments	Retained earnings and net profit for the year[1]	Total equity
Opening balance, 1 January 2019	**1,958**	**609**	**1,500**	**13,169**	**17,236**
Additional Tier 1 instruments, dividend	–	–	–	–57	–57
Dividends paid	–	–	–	–690	–690
Other comprehensive income, net of tax	–	1,841	–	–	1,841
Net profit for the period	–	–	–	905	905
Comprehensive income for the period	**–**	**1,841**	**–**	**905**	**2,746**
Closing balance, 30 Jun 2019	**1,958**	**2,450**	**1,500**	**13,327**	**19,235**

Closing balance, 31 Dec 2017	**1,958**	**188**	**1,500**	**12,164**	**15,810**
Effect of changes in accounting policy, IFRS 9	–	1	–	35	36
Opening balance 1 Jan 2018	**1,958**	**189**	**1,500**	**12,199**	**15,846**
Additional Tier 1 instruments, dividend	–	–	–	–55	–55
Dividends paid	–	–	–	–684	–684
Other comprehensive income, net of tax	–	73	–	–	960
Net profit for the period	–	–	–	887	887
Comprehensive income for the period	**–**	**73**	**–**	**148**	**221**
Closing balance 30 Jun 2018	**1,958**	**262**	**1,500**	**12,347**	**16,067**

Closing balance, 31 Dec 2017	**1,958**	**188**	**1,500**	**12,164**	**15,810**
Effect of changes in accounting policy, IFRS 9	–	1	–	35	36
Opening balance 1 Jan 2018	**1,958**	**189**	**1,500**	**12,199**	**15,846**
Additional Tier 1 instruments, dividend	–	–	–	–71	–71
Dividends paid	–	–	–	–684	–684
Other[2]	–	–	–	–1	–1
Other comprehensive income, net of tax	–	420	–	–	420
Net profit for the year	–	–	–	1,726	1,726
Comprehensive income for the year	**–**	**420**	**–**	**1,726**	**2,146**
Closing balance, 31 Dec 2018	**1,958**	**609**	**1,500**	**13,169**	**17,236**

[1] Retained earnings includes the Parent Company's statutory reserve, which is not distributable.

[2] Other pertains primarily to the revaluation of the liability to the owners of the remaining shares and warrants in the subsidiary Booli Search Technologies AB.

Condensed cash-flow statement

SEK million	GROUP 2019 Jan–Jun	2018 Jan–Jun	2018 Jan–Dec
Opening cash and cash equivalents	**2,847**	**1,867**	**1,867**
OPERATING ACTIVITIES			
Interest and commissions paid/received	1,519	2,216	3,494
Outflows to suppliers and employees	–547	–493	–1,017
Taxes paid/refunded	–292	–286	–531
Change in assets and liabilities of operating activities	–132	10,158	–155
Cash flow from operating activities	**548**	**11,595**	**1,791**
INVESTING ACTIVITIES			
Change in property, plant and equipment	–23	–4	–10
Change in intangible assets	–51	–39	–81
Acquisition of subsidiaries	–	–	–36
Cash flow from investing activities	**–74**	**–43**	**–127**
FINANCING ACTIVITIES			
Dividends paid	–690	–684	–684
Repayment of lease liabilities	–13	–	–
Cash flow from financing activities	**–703**	**–684**	**–684**
Increase/decrease in cash and cash equivalents	**–229**	**10,868**	**980**
Closing cash and cash equivalents	**2,618**	**12,735**	**2,847**

CHANGE IN LIABILITIES ATTRIBUTABLE TO FINANCING ACTIVITIES

SEK million	GROUP Opening balance, 1 Jan 2019	Cash flow	Non-cash items Fair value	Non-cash items Other	Closing balance, 30 Jun 2019	Opening balance 1 Jan 2018	Cash flow	Non-cash items Fair value	Non-cash items Other	Closing balance, 31 Dec 2018
Subordinated debt	4,496	–	–1	3	4,948	4,942	–	–2	6	4,946
Additional Tier 1 instruments	1,500	–	–	–	1,500	1,500	–	–	–	1,500
Total	**6,446**	**–**	**–1**	**3**	**6,448**	**6,442**	**–**	**–2**	**6**	**6,446**

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, Finansinspektionen's (the Swedish FSA) 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 were 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.

Introduction of new accounting standards

IFRS 16 Leases

The new IFRS 16 standard has changed the lease classification criteria. IFRS 16 is 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. SBAB has chosen to apply IFRS 16 in the Group when there is no requirement to apply IFRS 16 to legal entities according to RFR 2.

Current property leases have been measured pursuant to IFRS 16, where the lease cost, the lease duration and the discount rate form the most material parameters. SBAB has used the marginal interest rate on borrowing as a discount rate, and it applies for the entire duration of the contract, including any indexing.

On transition on 1 January 2019, SBAB recognised, 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.

Other

All other accounting policies and calculation methods are unchanged in comparison with the 2018 Annual Report. These consolidated condensed financial statements have been prepared on a going concern basis. On 16 July 2019, the Board of Directors approved the consolidated condensed financial statements for publication.

Note 2 | Net result of financial transactions

	GROUP					
	2019	2019	2018	2019	2018	2018
SEK million	Q2	Q1	Q2	Jan–Jun	Jan–Jun	Jan–Dec
Gains/losses on interest-bearing financial instruments						
– Interest-bearing securities	–3	–12	–31	–15	–78	–134
– Change in value of hedged items in hedge accounting	–766	–517	–208	–1,283	–206	53
– Realised gain/loss from financial liabilities	–28	–45	–48	–73	–84	–162
– Derivatives in hedge accounting	771	534	205	1,305	220	–39
– Other derivatives	3	34	47	37	80	165
– Loan receivables	38	18	11	56	24	62
Currency translation effects	0	1	–4	1	–10	–10
Total	**15**	**13**	**–28**	**28**	**–54**	**–65**

SBAB uses derivatives to manage interest-rate and currency risk 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 administration report.

Note 3 | Net credit losses

	GROUP					
	2019	2019	2018	2019	2018	2018
SEK million	Q2	Q1	Q2	Jan–Jun	Jan–Jun	Jan–Dec
Lending to the public						
Confirmed credit losses	–4	–2	–2	–6	–4	–11
Recoveries of previously confirmed credit losses	0	1	0	1	1	2
Change in provision for the period – credit stage 1	0	–5	–1	–5	–2	1
Change in provision for the period – credit stage 2	6	–4	–4	2	–2	–5
Change in provision for the period – credit stage 3	–3	1	13	–2	22	25
Guarantees[1]	0	0	2	0	1	–1
Net credit losses for the period – lending to the public	**–1**	**–9**	**8**	**–10**	**16**	**11**
Loan commitments [2]						
Change in provision for the period – credit stage 1	2	2	–1	4	0	–2
Change in provision for the period – credit stage 2	–8	–2	1	–10	2	2
Change in provision for the period – credit stage 3	0	0	0	0	0	0
Net credit losses for the period – loan commitment	**–6**	**0**	**0**	**–6**	**2**	**0**
Total	**–7**	**–9**	**8**	**–16**	**18**	**11**

[1] The item includes guarantees for loan commitments.

[2] Credit provisions for loan commitments are included in the "Provisions" item in the balance sheet.

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 2018 Annual Report, Note G 1.

Note 4 | Lending to the public

SEK million	GROUP 30 Jun 2019	31 Dec 2018	30 Jun 2018
Opening balance	**364,215**	**335,168**	**335,168**
New lending for the year	36,744	74,264	37,741
Amortisation, write-offs, repayments, etc.	–28,674	–45,238	–21,431
Change in provision for expected credit losses[1]	–5	21	18
Closing balance	**372,281**	**364,215**	**351,496**

[1] For further information, refer to Note 3 Change in provision for the period — credit stages 1, 2 and 3.

DISTRIBUTION OF LENDING, INCLUDING PROVISIONS

SEK million	GROUP 30 Jun 2019	31 Dec 2018	30 Jun 2018
Lending, Residential mortgages	282,799	276,734	262,679
Lending, Corporate Clients & Tenant-Owners' Associations	87,224	85,287	86,709
Lending, Consumer loans	2,258	2,194	2,109
Total	**372,281**	**364,215**	**351,496**

LENDING TO THE PUBLIC BY CREDIT STAGE

SEK million	GROUP 30 Jun 2019	31 Dec 2018	30 Jun 2018
Credit stage 1			
Gross lending	353,399	341,390	332,399
Provision	–31	–26	–29
Total	**353,368**	**341,364**	**332,370**
Credit stage 2			
Gross lending	18,702	22,689	18,878
Provision	–71	–73	–69
Total	**18,631**	**22,616**	**18,809**
Credit stage 3			
Gross lending	316	267	353
Provision	–34	–32	–36
Total	**282**	**235**	**317**
Total gross lending	**372,417**	**364,346**	**351,630**
Total provisions	**–136**	**–131**	**–134**
Total	**372,281**	**364,215**	**351,496**

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 2018 Annual Report, Note G 1.

Note 5 | Derivatives

	GROUP					
	30 Jun 2019			31 Dec 2018		
SEK million	Assets measured at fair value	Liabilities measured at fair value	Total nominal value	Assets measured at fair value	Liabilities measured at fair value	Total nominal value
Interest-rate-related	7,015	1,534	381,621	2,890	858	337,013
Currency-related	8,358	134	113,025	5,423	481	104,386
Total	**15,373**	**1,668**	**494,646**	**8,313**	**1,339**	**441,399**

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

Note 6 | Operating segments

	GROUP						
	Jan–Jun 2019						
	Follow-up of operations				Reconciliation against the statutory income statement		
SEK million	Retail	Corporate Clients & Tenant-Owners' Associations	Other	Total	Administrative consultants	IFRS 16 Leases	Statutory profit
Net interest income	1,336	399	–	1,735	–	–	1,735
Commission income	26	11	–	37	–	–	37
Commission expense	–43	–11	–	–54	–	–	–54
Net result of financial transactions	–	20	8	28	–	–	28
Other operating income	17	–	–	17	–	–	17
Total operating income	**1,336**	**419**	**8**	**1,763**	**–**	**–**	**1,763**
Salaries and remuneration	–148	–36	–	–184	–	–	–184
Other personnel costs	–106	–28	–	–134	10	–	–124
Other expenses	–199	–42	–1	–242	–10	13	–239
Depreciation, amortisation and impairment of PPE and intangible assets	–17	–3	–	–20	–	–13	–33
Net credit losses	–8	–8	–	–16	–	–	–16
Impairment of financial assets, net	0	–	–	0	–	–	0
Operating profit	**858**	**302**	**7**	**1,167**	**0**	**0**	**1,167**
Tax	–193	–68	–1	–262	–	–	–262
Profit after standardised tax	**665**	**234**	**6**	**905**	**0**	**0**	**905**
Return on equity, %	12.2	12.0	–	12.2	–	–	12.2

Cont. **NOTE 6** Operating segments

	GROUP					
	Jan–Jun 2018					
	Follow-up of operations				Reconciliation against the statutory income statement	
SEK million	Retail	Corporate Clients & Tenant-Owners' Associations	Other	Total	Administrative consultants	Statutory profit
Net interest income	1,302	379	–	1,681	–	1,681
Commission income	28	14	–	42	–	42
Commission expense	–36	–10	–	–46	–	–46
Net result of financial transactions	0	4	–58	–54	–	–54
Other operating income	16	0	–	16	–	16
Total operating income	**1,310**	**387**	**–58**	**1,639**	**–**	**1,639**
Salaries and remuneration	–127	–32	–	–159	–	–159
Other personnel costs	–91	–26	–	–117	10	–107
Other expenses	–180	–37	–	–217	–10	–227
Depreciation, amortisation and impairment of PPE and intangible assets	–12	–1	–	–13	–	–13
Net credit losses	–3	21	–	18	–	18
Impairment of financial assets, net	0	0	–	0	–	0
Operating profit	**897**	**312**	**–58**	**1,151**	**0**	**1,151**
Tax	–205	–72	13	–264	–	–264
Profit after standardised tax	**692**	**240**	**–45**	**887**	**0**	**887**
Return on equity, %	13.7	11.8	–	12.8	–	12.8

In relation to the statutory income statement, an expense of SEK 10 million (expense: 10) 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. IFRS 16 is not taken into account in the follow-up of operations. All expenses identified in IFRS 16, with the exception of the interest component, are to be considered as costs for premises. The effect of IFRS 16 on the Group is recognised in the reconciliation against the statutory income statement. For more information on IFRS 16, please refer to Note 1 and Note 12.

Note 7 | Classification of financial instruments

FINANCIAL ASSETS

SEK million	Financial assets measured at FVTPL: Fair value option	Financial assets measured at FVTPL: Derivatives in hedge accounting	Financial assets measured at FVTPL: Other (Obligatory) classification	Financial assets measured at FVTOCI	Financial assets measured at amortised cost	Total	Total fair value
	GROUP 30 Jun 2019						
Cash and balances at central banks	–	–	–	–	0	0	0
Chargeable treasury bills, etc.	1,352	–	–	3,061	33,176	37,590	37,582
Lending to credit institutions	–	–	–	–	2,618	2,618	2,618
Lending to the public	–	–	–	–	372,281	372,281	373,708
Value changes of interest-rate-risk hedged items in macro hedges	–	–	–	–	245	245	–
Bonds and other interest-bearing securities	2,589	–	–	34,989	18,134	55,712	55,764
Derivatives	–	15,033	340	–	–	15,373	15,373
Other assets	–	–	–	–	394	394	394
Prepaid expenses and accrued income	41	–	–	273	243	560	560
Total financial assets	**3,983**	**15,033**	**340**	**38,326**	**427,091**	**484,773**	**485,999**

FINANCIAL LIABILITIES

SEK million	Financial liabilities measured at FVTPL: Derivatives in hedge accounting	Financial liabilities measured at FVTPL: Held for trading	Financial liabilities measured at amortised cost	Total	Total fair value
	GROUP 30 Jun 2019				
Liabilities to credit institutions	–	–	12,258	12,258	12,258
Deposits from the public	–	–	127,319	127,319	127,319
Issued debt securities, etc.	–	–	317,017	317,017	321,962
Derivatives	1,226	442	–	1,668	1,668
Other liabilities	–	–	389	389	389
Accrued expenses and deferred income	–	–	1,498	1,498	1,498
Subordinated debt	–	–	4,948	4,948	4,955
Total financial liabilities	**1,226**	**442**	**463,429**	**465,097**	**470,049**

Cont. NOTE 7 Classification of financial instruments

FINANCIAL ASSETS

SEK million	GROUP 31 Dec 2018 – Financial assets measured at FVTPL: Fair value option	Derivatives in hedge accounting	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**

FINANCIAL LIABILITIES

SEK million	GROUP 31 Dec 2018 – Financial liabilities measured at FVTPL: Derivatives in hedge accounting	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**

Fair value measurement of financial instruments
The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note G 1 (Accounting Policies) in SBAB's 2018 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 at amortised cost 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. Mainly, the models used are 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 stipulated date of expiry is applied to set the discount rate, Level 3.

Note 8 | Fair value disclosures

	GROUP							
	30 Jun 2019				31 Dec 2018			
SEK million	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
Assets								
Chargeable treasury bills, etc.	4,414	–	–	4,414	9,551	–	–	9,551
Bonds and other interest-bearing securities	37,578	–	–	37,578	39,124	–	–	39,124
Derivatives	–	15,373	–	15,373	–	8,313	–	8,313
Prepaid expenses and accrued income	317	–	–	317	482	–	–	482
Total	**42,309**	**15,373**	**–**	**57,682**	**49,157**	**8,313**	**–**	**57,470**
Liabilities								
Derivatives	–	1,668	–	1,668	–	1,339	–	1,339
Total	**–**	**1,688**	**–**	**1,668**	**–**	**1,339**	**–**	**1,339**

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note G 1 (Accounting Policies) in SBAB's 2018 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 2018 or 2019.

Quoted market prices (Level 1)
Measurement at quoted prices in an active market for identical assets and liabilities. A market is deemed to be active if the price data is easily accessible and corresponds to actual regularly occurring transactions. 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 an 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 has been limited to a minimum of 180 days at the consolidated level at any given time.

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 SEK 421 days at 30 June 2019 (443 days at 31 March 2019).

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 30 June 2019, the LCR was 274% (303) in all currencies at the consolidated level, and 1,513% (2,334) and 187% (3,335), respectively, in EUR and USD. Measured in SEK, the LCR was 182% (187). For further information on the liquidity coverage ratio, refer to SBAB's report "Capital, liquidity and leverage disclosures, June 2019."

LIQUIDITY RESERVE

		GROUP									
		30 Jun 2019					31 Dec 2018				
			Distribution by currency					Distribution by currency			
SEK million		**Total**	**SEK**	**EUR**	**USD**	**Other**	**Total**	**SEK**	**EUR**	**USD**	**Other**
	Level 1 assets	**89.7**	**72.5**	**11.7**	**5.5**	**–**	**70.3**	**54.5**	**11.7**	**4.1**	**–**
	Cash and balances with central banks [1]	3.3	3.3	–	–	–	3.7	3,7	–	–	–
Level 1	Securities issued or guaranteed by sovereigns, central banks, MDBs and international organisations	41.6	34.2	4.4	3.0	–	25.0	16.8	5.8	2.4	–
	Securities issued by municipalites and PSEs	13.3	7.3	4.1	1.9	–	10.8	7.1	2.6	1.1	–
	Extremely high quality covered bonds	31.5	27.7	3.2	0.6	–	30.8	26.9	3.3	0.6	–
	Other assets	–	–	–	–	–	–	–	–	–	–
	Level 2 assets	**4.4**	**3.9**	**0.5**	**–**	**–**	**4.0**	**3.4**	**0.6**	**–**	**–**
	Level 2A assets	***4.4***	***3.9***	***0.5***	**–**	**–**	***4.0***	***3.4***	***0.6***	**–**	**–**
	Securities issued or guaranteed by sovereigns, central banks, municipalities and PSEs	–	–	–	–	–	–	–	–	–	–
	High quality covered bonds	4.4	3.9	0.5	–	–	4.0	3.4	0.6	–	–
	Corporate debt securities (lowest rating AA-)	–	–	–	–	–	–	–	–	–	–
Level 2	Other assets	–	–	–	–	–	–	–	–	–	–
	Level 2B assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	Asset-backed securities	–	–	–	–	–	–	–	–	–	–
	High quality covered bonds	–	–	–	–	–	–	–	–	–	–
	Corporate debt securities (rated A+ to BBB-)	–	–	–	–	–	–	–	–	–	–
	Shares (major stock index)	–	–	–	–	–	–	–	–	–	–
	Other assets [1]	–	–	–	–	–	–	–	–	–	–
Liquidity reserve		**94.1**	**76.4**	**12.2**	**5.5**	**–**	**74.3**	**57.9**	**12.3**	**4.1**	**–**

[1] Includes central bank facilities

Note 10 | Capital adequacy, own funds and capital requirements

The EU Official Journal has on June 7 published amendments to the Capital Requirements Regulation, the Capital Requirements Directive and the Bank Recovery & Resolution Directive (the 'Banking Package') which entered info force on June 27, 2019. The Banking Package includes changes to capital requirements and changes in the loss-absorbing and recapitalisation capacity of credit institutions. Most of the changes will apply from June 28, 2021.

In addition, changes to the Capital Requirements Regulation have been adopted on April 26, 2019 which relate to a deduction in own funds for new loans that have become non-performing. The deduction should act as a backstop for non-performing loans.

CAPITAL ADEQUACY[1)]

	CONSOLIDATED SITUATION		
SEK million	**30 Jun 2019**	**31 Dec 2018**	**30 Jun 2018**
CET1 capital	14,661	14,263	13,857
Tier 1 capital	17,661	17,263	16,857
Total capital	21,112	20,713	20,304
Risk exposure amount	119,728	114,141	45,712
CET1 capital ratio, %	12,2	12.5	30.3
Excess [2)] of CET1 capital	9,273	9,127	11,799
Tier 1 capital ratio, %	14,8	15.1	36.9
Excess [2)] of Tier 1 capital	10,477	10,415	14,114
Total capital ratio, %	17,6	18.1	44.4
Excess [2)] of total capital	11,533	11,582	16,647

[1)] From the end of 2018, the risk-weight floor for residential mortgages has affected risk exposure amount, excess capital and capital ratios.

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

The Swedish FSA's decision regarding the shift of the risk-weight floor for residential mortgages

In August 2018, the Swedish FSA decided to apply the existing risk-weight floor for mortgages applied in Pillar 2 as a requirement within the framework of Article 458 of the Regulation on Prudential Requirements for Credit Institutions and Investment Firms. The amendment entered into force from 31 December 2018 and applies for two years.

The change means the capital requirement is set as a requirement in Pillar 1. The credit institutions 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 shows what the actual outcome would have been if the risk-weight floor had not been moved to Pillar 1.

OUTCOME PRIOR TO THE MOVE OF THE RISK-WEIGHT FLOOR FOR MORTGAGES

	CONSOLIDATED SITUATION		
SEK million	**30 Jun 2019**	**31 Dec 2018**	**30 Jun 2018**
Risk exposure amount, SEK million	48,037	43,422	45,712
CET1 capital ratio, %	30.5	32.8	30.2
Tier 1 capital ratio, %	36.8	39.8	36.9
Total capital ratio, %	43.9	47.7	44.4

[1)] The table illustrates what the capital situation would have been if the risk-weight floor had not been moved. This information is solely for comparative purposes.

Cont. NOTE 10 Capital adequacy, own funds and capital

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

OWN FUNDS

	CONSOLIDATED SITUATION		
SEK million	**30 Jun 2019**	**31 Dec 2018**	**30 Jun 2018**
CET1 capital instruments: Instruments and reserves			
Capital instruments and the related share premium accounts	1,958	1,958	1,958
Retained earnings	12,426	11,443	11,460
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	2,450	609	262
Additional Tier 1 instruments	1,500	1,500	1,500
Independently verified interim profits net of any foreseeable charge or dividend [1)]	549	1,041	534
CET1 capital before regulatory adjustments	**18,883**	**16,551**	**15,714**
CET1 capital: Regulatory adjustments			
Additional value adjustments (negative amount)	–68	–59	–66
Intangible assets (net of related tax liability) (negative amount)	–153	–126	–122
Fair value reserves related to gains or losses on cash-flow hedges	–2,398	–488	–68
Negative amounts resulting from the calculation of expected loss amounts	–80	–50	–70
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–23	–65	–31
Additional Tier 1 instruments in equity	–1,500	–1,500	–1,500
Total regulatory adjustments to CET1 capital	**4,222**	**–2,288**	**–1,857**
CET1 capital	**14,661**	**14,263**	**13,857**
Additional Tier 1 capital: Instrument			
Capital instruments and the related share premium accounts	3,000	3,000	3,000
of which, classified as equity under applicable accounting standards	*1,500*	*1,500*	*1,500*
of which, classified as liabilities under applicable accounting standards	*1,500*	*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**	**3,000**
Additional Tier 1 capital: Regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 capital	–	–	–
Additional Tier 1 capital	**3,000**	**3,000**	**3,000**
Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)	**17,661**	**17,263**	**16,857**
Tier 2 capital: Instruments and provisions			
Capital instruments and the related share premium accounts	3,447	3,447	3,447
Credit risk adjustments	4	3	–
Tier 2 capital before regulatory adjustments	**3,451**	**3,450**	**3,447**
Tier 2 capital: Regulatory adjustments			
Total regulatory adjustments to Tier 2 capital	–	–	–
Tier 2 capital	**3,451**	**3,450**	**3,447**
Total capital (Total capital=Tier 1 capital + Tier 2 capital)	**21,112**	**20,713**	**20,304**
Total risk-weighted assets	**119,728**	**114,141**	**45,712**

Cont. **NOTE 10** Capital adequacy, own funds and capital

SEK million	CONSOLIDATED SITUATION 30 Jun 2019	31 Dec 2018	30 Jun 2018
Capital ratio and buffers			
CET1 capital (as a percentage of total risk-weighted exposure amount), %	12.2	12.5	30.3
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	14.8	15.1	36.9
Total capital (as a percentage of total risk-weighted exposure amount), %	17.6	18.1	44.4
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	9.0
of which, CET1 capital, minimum requirement, %	*4.5*	*4.5*	*4.5*
of which, capital conservation buffer requirement, %	*2.5*	*2.5*	*2.5*
of which, countercyclical buffer requirement, %	*2.0*	*2.0*	*2.0*
of which, systemic risk buffer requirement, %	–	–	–
of which, G-SII buffer and O-SII buffer, %	–	–	–
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts, %)	7.7	8.0	25.8
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 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 interim period was reduced by the expected dividend of SEK 362 million based on Q2 2019. The results have been verified by Deloitte AB pursuant to Article 26, Point 2a of the Capital Requirements Regulation.

Cont. NOTE 10 Capital adequacy, own funds and capital

At the start of 2019, SBAB's Board decided to apply Article 3 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) for corporate exposures to small and medium-sized enterprises. The aim is to compensate for the current pro-cyclical effect that exists in the bank's internal models for credit risk, which has resulted in PD declining in line with the favourable economic climate. As a result, the bank has introduced a capital surcharge of SEK 63 million under Pillar 1, since 31 March 2019.

New rules on lease (IFRS 16) apply to consolidated situation from 1 January 2019 and impact the other items exposure class in an amount of SEK 7 million in capital requirements. The implementation has had a limited effect on SBAB's capital ratios.

RISK EXPOSURE AMOUNTS AND CAPITAL REQUIREMENTS

	CONSOLIDATED SITUATION					
	30 Jun 2019		31 Dec 2018		30 Jun 2018	
SEK million	**REA**	**Capital requirement**	**REA**	**Capital requirement**	**REA**	**Capital requirement**
Credit risk recognised in accordance with IRB approach						
Exposures to corporates	12,594	1,007	12,128	970	12,505	1,000
Retail exposures	12,144	972	12,096	968	12,955	1,037
of which, exposures to SMEs	*826*	*66*	*829*	*67*	*881*	*71*
of which, retail exposures secured by immovable property	*11,318*	*906*	*11,267*	*901*	*12,074*	*966*
Total exposures recognised with the IRB approach	**24,738**	**1,979**	**24,224**	**1,938**	**25,460**	**2,037**
Credit risk recognised with the standardised approach						
Exposures to governments and central banks	0	0	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0	0	0
Exposures to multilateral development banks	0	0	0	0	0	0
Exposures to institutions [1]	4,452	356	3,777	302	3,710	297
of which, derivatives according to CRR, Appendix 2	*4,375*	*350*	*3,776*	*302*	*3,544*	*284*
of which, repos	*77*	*6*	*0*	*0*	*166*	*13*
of which, other	*0*	*0*	*1*	*0*	*0*	0
Retail exposures	2,322	186	2,236	179	2,254	180
Exposures in default	9	1	10	1	10	1
Exposures in the form of covered bonds	3,823	306	3,593	287	3,832	307
Exposures to institutions and corporates with a short-term credit rating	34	3	16	1	165	13
Equity exposures	1,241	99	1,116	89	1,078	86
Other items	586	47	227	18	471	38
Total exposures recognised with standardised approach	**12,467**	**998**	**10,975**	**877**	**11,520**	**922**
Market risk	**525**	**42**	**999**	**80**	**1,067**	**85**
Of which, position risk	–	–	–	–	–	–
Of which, currency risk	*525*	42	*999*	*80*	*1,067*	85
Operational risk	**4,854**	**388**	**4,339**	**347**	**4,339**	**347**
Of which, standardised approach	*4,854*	*388*	*4,339*	*347*	*4,339*	*347*
Credit valuation adjustment risk (CVA risk)	**3,039**	**243**	**2,885**	**231**	**3,326**	**266**
Additional requirements under Article 458 of the CRR	**73,313**	**5,865**	**70,719**	**5,658**	**–**	**–**
Additional requirements under Article 3 of the CRR	**792**	**63**	–	–	–	–
Total risk exposure amount and minimum capital requirements	**119,728**	**9,578**	**114,141**	**9,131**	**45,712**	**3,657**
Capital requirements for capital conservation buffer		**2,993**		**2,854**		**1,143**
Capital requirements for countercyclical buffer		**2,383**		**2,266**		**903**
Total capital requirements		**14,954**		**14,251**		**5,703**

[1] The risk-weighted amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 4,452 million (3,776).

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 16,658 million (SEK 16,052 million at 31 December 2018). The internal capital requirement is assessed using SBAB's internal models for economic capital and is not fully comparable to the estimated capital published by the SFSA due to differences in assumtions and methodologies, mainly within market risk approach. Pillar 2 capital requirement according to SFSA publication (Kapitalkrav för svenska banker) amounts to SEK 2,200 million, which results in a total capital requirement of SEK 17,154 million. 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.

		GROUP			
		30 Jun 2019		31 Dec 2018	
		Internally assessed capital requirement		Internally assessed capital requirement	
SEK million		**Incl. risk-weight floor, SEK million**	**Incl. risk-weight floor, %**	**Incl. risk-weight floor, SEK million**	**Incl. risk-weight floor, %**
Pillar 1	Credit risk & CVA risk	3,220	2.7	3,046	2.6
	Market risk	42	0.0	80	0.1
	Operational risk	388	0.3	347	0.3
	Risk-weight floor[1]	5,865	4.9	5,658	5.0
	Surcharge, corporate exposures[2]	63	0.1	–	–
	Total Pillar 1	**9,578**	**8.0**	**9,131**	**8.0**
Pillar 2	Credit risk[3]	–	–	–	–
	Market risk	769	0.6	781	0.7
	Operational risk	–	–	–	–
	Concentration risk	872	0.7	968	0.8
	Sovereign risk	63	0.1	52	0.1
	Pension risk	–	–	–	–
	Total Pillar 2	**1,704**	**1.4**	**1,801**	**1.6**
Buffers	Capital conservation buffer	2,993	2.5	2,854	2.5
	Capital planning buffer	–	–	–	–
	Countercyclical buffer	2,383	2.0	2,266	2.0
	Total Buffers	**5,376**	**4.5**	**5,120**	**4.5**
Total		**16,658**	**13.9**	**16,052**	**14.1**
Total own funds		**21,112**	**–**	**20,713**	**–**

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

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

3) 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.

Note 12 | Effect of changes in accounting policies

TRANSITION EFFECT OF INITIAL APPLICATION OF IFRS 16 IN THE BALANCE SHEET, 1 JANUARY 2019

	GROUP		
SEK million	**Previous accounting policies, IAS 17**	**Transition effect, IFRS 16**	**IFRS 16**
ASSETS			
Cash and balances at central banks	0	–	0
Chargeable treasury bills, etc.	20,904	–	20,904
Lending to credit institutions	2,847	–	2,847
Lending to the public	364,215	–	364,215
Value changes of interest-rate-risk hedged items in macro hedges	99	–	99
Bonds and other interest-bearing securities	50,945	–	50,945
Derivatives	8,313	–	8,313
Intangible assets	234	–	234
Property, plant and equipment	16	104	120
Other assets	73	–	73
Prepaid expenses and accrued income	709	–7	702
TOTAL ASSETS	**448,355**	**97**	**448,452**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	6,607	–	6,607
Deposits from the public	124,926	–	124,926
Issued debt securities, etc.	290,795	–	290,795
Derivatives	1,339	–	1,339
Other liabilities	384	97	481
Accrued expenses and deferred income	1,790	–	1,790
Deferred tax liabilities	194	–	194
Provisions	138	–	138
Subordinated debt	4,946	–	4,946
Total liabilities	**431,119**	**97**	**431,216**
Untaxed reserves			
Equity			
Share capital	1,958	–	1,958
Reserves/Fair value reserve	609	–	609
Additional Tier 1 instruments	1,500	–	1,500
Retained earnings	11,443	–	11,443
Net profit for the year	1,726	–	1,726
Total equity	**17,236**	**–**	**17,236**
TOTAL LIABILITIES AND EQUITY	**448,355**	**97**	**448,452**

In the Annual Report 2018, SBAB disclosed future contractual rent payments of SEK 330 million in accordance with IAS 17. The transition to IFRS 16 has entailed the recognition of a material asset of SEK 104 million in the balance sheet. The difference between IAS 17 and IFRS 16 primarily pertains to a longer rental agreement with planned occupancy at the end of 2020 and variable rental expenses.

Parent Company

Trend for January–June 2019 compared with January–June 2018

The operating profit for the period was SEK 3,227 million (42) as a result of the retroactive dividend of SEK 3 billion from the subsidiary SCBC during the beginning of 2019 and a higher net interest income. Net interest income rose to SEK 297 million (94). The increase was primarily attributable to an upswing in market rates, which boosted interest income from the subsidiary for intra-Group receivables and lowered the cost for over liquidity. As a result of the Parent Company's funding mix, including deposits from the public, interest expense did not increase at the same rate as interest income. Net income from financial transactions increased to SEK 2 million (expense: 46) and was mainly attributable to the revaluation of credit risk in derivatives. Other operating income rose to SEK 510 million (432), and mainly comprised fees from SCBC for administrative services in line with the applicable outsourcing agreements. Expenses grew to SEK 595 million (516), mainly due to higher personnel and IT costs. Credit losses totalled SEK 10 million (recoveries: 44), mainly as a result of the internal movement of credit impaired loans from SBAB to SCBC due to the transition to IFRS 9 and recoveries of previous impairments during the comparative period. Lending to the public increased in the period to SEK 25.9 billion (24.3). Deposits from the public increased to SEK 127.3 billion (117.0). The CET1 capital ratio amounted to 23.2% (19.8) and the total capital ratio was 39.6% (38.8). The internally assessed capital requirement was SEK 6,291 million (5,481).

Condensed income statement

	PARENT COMPANY					
	2019	2019	2018	2019	2018	2018
SEK million	Q2	Q1	Q2	Jan–Jun	Jan–Jun	Jan–Dec
Interest income	481	467	336	948	640	1,399
Interest expense	–339	–312	–271	–651	–546	–1,106
Net interest income	**142**	**155**	**65**	**297**	**94**	**293**
Dividends received	–	3,000	–	3,000	–	–
Commission income	23	18	27	41	46	100
Commission expense	–10	–8	–5	–18	–12	–25
Net result of financial transactions	3	5	–19	2	–46	–45
Other operating income	262	248	223	510	432	896
Total operating income	**414**	**3,418**	**291**	**3,832**	**514**	**1,219**
Personnel costs	–154	–149	–136	–303	–260	–533
Other expenses	–138	–148	–129	–286	–251	–525
Depreciation, amortisation and impairment of PPE and intangible assets	–3	–3	–3	–6	–5	–11
Total expenses before credit losses	**–295**	**–300**	**–268**	**–595**	**–516**	**–1,069**
Profit/loss before credit losses	**119**	**3,118**	**23**	**3,237**	**–2**	**150**
Net credit losses	–9	–1	16	–10	44	37
Impairment of financial assets	–2	0	0	–2	0	–1
Reversals of impairment of financial assets	2	0	0	2	0	0
Operating profit	**110**	**3,117**	**39**	**3,227**	**42**	**186**
Tax	–30	–33	–14	–63	–21	–63
Net profit for the period	**80**	**3,084**	**25**	**3,164**	**21**	**123**

Condensed statement of comprehensive income

	PARENT COMPANY					
	2019	2019	2018	2019	2018	2018
SEK million	Q2	Q1	Q2	Jan–Jun	Jan–Jun	Jan–Dec
Net profit/loss for the period	**80**	**3,084**	**25**	**3,164**	**21**	**123**
Other comprehensive income						
Components that will be reclassified to profit or loss						
Financial assets measured at FVTOCI	–11	35	27	24	51	–63
Changes related to cash-flow hedges	111	64	62	175	75	142
Tax attributable to components that will be reclassified to profit or loss	–22	–21	–20	–43	–28	–15
Other comprehensive income, net of tax	**78**	**78**	**69**	**156**	**98**	**64**
Total comprehensive income for the period	**158**	**3,162**	**94**	**3,320**	**119**	**187**

In Q2 2019, interest income on financial assets measured at amortised cost, calculated using the effective-interest method, amounted to SEK 458 million (452) for the Parent Company.

Condensed balance sheet

SEK million	PARENT COMPANY 30 Jun 2019	31 Dec 2018	30 Jun 2018
ASSETS			
Cash and balances at central banks	0	0	0
Chargeable treasury bills, etc.	37,590	20,904	34,421
Lending to credit institutions (Note 13)	85,131	93,262	89,699
Lending to the public	25,922	24,845	24,303
Bonds and other interest-bearing securities	55,712	50,945	53,418
Derivatives	15,528	8,762	10,758
Shares and participations in Group companies	10,339	10,389	10,386
Intangible assets	22	26	29
Property, plant and equipment	34	15	13
Other assets	50	47	67
Prepaid expenses and accrued income	712	740	698
TOTAL ASSETS	**231,100**	**209,935**	**223,792**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	12,085	6,607	20,363
Deposits from the public	127,319	124,926	116,998
Issued debt securities, etc.	59,767	56,021	62,308
Derivatives	14,472	7,964	9,277
Other liabilities	303	303	359
Accrued expenses and deferred income	717	302	713
Deferred tax liabilities	105	62	78
Provisions	13	7	5
Subordinated debt	4,948	4,946	4,945
Total liabilities	**219,729**	**201,138**	**215,046**
Equity			
Restricted equity			
Share capital	1,958	1,958	1,958
Statutory reserve	392	392	392
Total restricted equity	**2,350**	**2,350**	**2,350**
Unrestricted equity			
Fair value reserve	378	222	256
Additional Tier 1 instruments	1,500	1,500	1,500
Retained earnings	3,979	4,602	4,619
Net profit for the period	3,164	123	21
Total unrestricted equity	**9,021**	**6,447**	**6,396**
Total equity	**11,371**	**8,797**	**8,746**
TOTAL LIABILITIES AND EQUITY	**231,100**	**209,935**	**223,792**

Note 13 | Lending to credit institutions

Of the Parent Company's lending to credit institutions at 30 June 2019, SEK 82,648 million relates to a receivable from the wholly owned subsidiary AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation, SCBC), compared with SEK 90,414 million at the end of 2018. 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)]

SEK million	PARENT COMPANY 30 Jun 2019	31 Dec 2018	30 Jun 2018
CET1 capital	9,152	6,398	6,751
Tier 1 capital	12,152	9,398	9,751
Total capital	15,599	12,845	13,198
Risk exposure amount	39,415	36,404	34,038
CET1 capital ratio, %	23.2	17.6	19.8
Excess [2)] of CET1 capital	7,378	4,760	5,219
Tier 1 capital ratio, %	30.8	25.8	28.6
Excess[2)] of Tier 1 capital	9,787	7,214	7,709
Total capital ratio, %	39.6	35.3	38.8
Excess[2)] of total capital	12,446	9,933	10,475

1) The risk-weight floor for residential mortgages has affected the risk exposure amount, excess capital and capital ratios.
2) Excess capital has been calculated based on minimum requirements (without buffer requirements)

The Swedish FSA's decision regarding the shift of the risk-weight floor for residential mortgages
In August 2018, the Swedish FSA decided to apply the existing risk-weight floor for mortgages applied in Pillar 2 as a requirement within the framework of Article 458 of the Regulation on Prudential Requirements for Credit Institutions and Investment Firms. The amendment entered into force from 31 December 2018 and applies for two years.

The change means the capital requirement is set as a requirement in Pillar 1. The credit institutions 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 shows what the actual outcome would have been if the risk-weight floor had not been moved to Pillar 1.

OUTCOME PRIOR TO THE MOVE OF THE RISK-WEIGHT FLOOR FOR MORTGAGES [1)]

SEK million	PARENT COMPANY 30 Jun 2019	31 Dec 2018	30 Jun 2018
REA, SEK million	35,603	33,360	34,038
CET1 capital ratio, %	25.7	19.2	19.8
Tier 1 capital ratio, %	34.1	28.2	28.6
Total capital ratio, %	43.8	38.5	38.8

1) The table illustrates what the capital situation would have been if the risk-weight floor had not been moved. This information is solely for comparative purposes.

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

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

OWN FUNDS

	PARENT COMPANY		
SEK million	**30 Jun 2019**	**31 Dec 2018**	**30 Jun 2018**
CET1 capital instruments: Instruments and reserves			
Capital instruments and the related share premium accounts	1,958	1,958	1,958
Retained earnings	4,370	4,993	5,012
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	378	222	256
Additional Tier 1 instruments	1,500	1,500	1,500
Independently verified interim profits net of any foreseeable charge or dividend [1]	2,802	–567	–334
CET1 capital before regulatory adjustments	**11,008**	**8,106**	**8,392**
CET1 capital: Regulatory adjustments			
Additional value adjustments (negative amount)	–91	–76	–74
Intangible assets (net of related tax liability) (negative amount)	–22	–25	–29
Fair value reserves related to gains or losses on cash-flow hedges	–169	–31	21
Negative amounts resulting from the calculation of expected loss amounts	–50	–11	–29
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–24	–65	–30
Additional Tier 1 instruments in equity	–1,500	–1,500	–1,500
Total regulatory adjustments to CET1 capital	**–1,856**	**–1,708**	**–1,641**
CET1 capital	**9,152**	**6,398**	**6,751**
Additional Tier 1 capital: Instruments			
Capital instruments and the related share premium accounts	3,000	3,000	3,000
of which, classified as equity under applicable accounting standards	*1,500*	*1,500*	*1,500*
of which, classified as liabilities under applicable accounting standards	*1,500*	*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**	**3,000**
Additional Tier 1 capital: Regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 capital	–	–	–
Additional Tier 1 capital	**3,000**	**3,000**	**3,000**
Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)	**12,152**	**9,398**	**9,751**
Tier 2 capital: Instruments and provisions			
Capital instruments and the related share premium accounts	3,447	3,447	3,447
Credit risk adjustments	–	–	–
Tier 2 capital before regulatory adjustments	**3,447**	**3,447**	**3,447**
Tier 2 capital: Regulatory adjustments			
Total regulatory adjustments to Tier 2 capital	–	–	–
Tier 2 capital	**3,447**	**3,447**	**3,447**
Total capital (Total capital=Tier 1 capital + Tier 2 capital)	**15,599**	**12,845**	**13,198**
Total risk-weighted assets	**39,415**	**36,404**	**34,038**

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

SEK million	PARENT COMPANY 30 Jun 2019	31 Dec 2018	30 Jun 2018
Capital ratio and buffers			
CET1 capital (as a percentage of total risk-weighted exposure amount), %	23.2	17.6	19.8
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	30.8	25.8	28.6
Total capital (as a percentage of total risk-weighted exposure amount), %	39.6	35.3	38.8
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	9.0
of which, CET1 capital, minimum requirement, %	*4.5*	*4.5*	*4.5*
of which, capital conservation buffer requirement, %	*2.5*	*2.5*	*2.5*
of which, countercyclical buffer requirement, %	*2.0*	*2.0*	*2.0*
of which, systemic risk buffer requirement, %	–	–	–
of which, G-SII buffer and O-SII buffer, %	–	–	–
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts, %)	18.7	13.1	15.3
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 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) Earnings for the interim period were reduced by the expected dividend of SEK 362 million based on Q2 2019. The interim results have been verified by Deloitte AB pursuant to Article 26, Point 2a of the Capital Requirements Regulation. Furthermore, the interim results have been affected by an extra dividend of SEK 3,000 million been paid by SCBC to the Parent Company pursuant to the resolution by the EGM.

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

RISK EXPOSURE AMOUNTS AND CAPITAL REQUIREMENTS

	PARENT COMPANY					
	30 Jun 2019		31 Dec 2018		30 Jun 2018	
SEK million	REA	Capital requirement	REA	Capital requirement	REA	Capital requirement
Credit risk recognised in accordance with IRB approach						
Exposures to corporates	7,334	587	7,087	567	7,085	567
Retail exposures	865	69	743	59	868	69
of which, exposures to SMEs	*73*	*6*	*59*	*5*	*70*	*5*
of which, retail exposures secured by immovable property	*792*	*63*	*684*	*54*	*799*	*64*
Total exposures recognised with the IRB approach	**8,199**	**656**	**7,830**	**626**	**7,953**	**636**
Credit risk recognised with the standardised approach						
Exposures to governments and central banks	0	0	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0	0	0
Exposures to multilateral development banks	0	0	0	0	0	0
Exposures to institutions [1)]	4,321	346	3,751	300	3,533	283
of which, derivatives according to CRR, Appendix 2	*4,284*	*343*	*3,723*	*298*	*3,447*	*276*
of which, repos	–	–	–	–	55	5
of which, other	*37*	*3*	*28*	*2*	*30*	*2*
Retail exposures	2,322	186	2,236	179	2,254	180
Exposures in default	9	1	10	1	10	1
Exposures in the form of covered bonds	3,823	306	3,593	287	3,832	307
Exposures to institutions and corporates with a short-term credit rating	34	3	16	1	16	1
Equity exposures	11,541	923	11,416	913	11,378	910
Other items	135	10	83	7	118	9
Total exposures recognised with standardised approach	**22,185**	**1,775**	**21,105**	**1,688**	**21,141**	**1,691**
Market risk	**106**	**8**	**248**	**20**	**356**	**29**
Of which, position risk	–	–	–	–	–	–
Of which, currency risk	*106*	*8*	*248*	*20*	*356*	*29*
Operational risk	**1,813**	**145**	**1,412**	**113**	**1,412**	**113**
Of which, standardised approach	*1,813*	*145*	*1,412*	*113*	*1,412*	*113*
Credit valuation adjustment risk (CVA risk)	**2,832**	**227**	**2,765**	**221**	**3,176**	**254**
Additional requirements under Article 458 of the CRR	**4,104**	**328**	**3,044**	**244**	**–**	**–**
Additional requirements under Article 3 of the CRR	**176**	**14**	**–**	**–**	**–**	**–**
Total minimum capital requirements and risk exposure amount	**39,415**	**3,153**	**36,404**	**2,912**	**34,038**	**2,723**
Capital requirements for capital conservation buffer		**985**		**910**		**851**
Capital requirements for countercyclical buffer		**784**		**722**		**670**
Total capital requirements		**4,922**		**4,544**		**4,244**

1) The risk-weighted amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 4,284 million (3,723).

The Board of Directors and the CEO affirm that this interim report provides an accurate overview of the operations, financial position and performance of the Parent Company and the Group, and describes the significant risks and uncertainties faced by the Parent Company and the companies in the Group.

Solna, 16 July 2019

Jan Sinclair
Chairman of the Board

Synnöve Trygg Board Member	Lars Börjesson Board Member	Inga-Lill Carlberg Board Member
Karin Moberg Board Member	Jane Lundgren-Ericsson Board Member	Daniel Kristiansson Board Member
Anders Heder Board Member (Employee Representative)	Klas Danielsson CEO	Margareta Naumburg Board Member (Employee Representative)

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While every care has been taken in the translation of this report, readers are reminded that the original report, signed by the Board of Directors and the CEO, is in Swedish. The information was submitted for publication on 17 July 2019 at 8:00 a.m. (CET).

Financial calendar

Interim report Jan–Sep 2019	25 October 2019
Year-end report 2019	14 February 2020

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

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 (such as 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	
SEK billion	**Jan–Jun 2019**	**Jan–Dec 2018**
Deposits from the public	127.3	124.9
Lending to the public	372.3	364.2
Deposits/lending, %	**34.2**	**34.3**

Credit loss ratio

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

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

	GROUP	
SEK million	**Jan–Jun 2019**	**Jan–Dec 2018**
Credit losses/recoveries	–7	11
Lending to the public	372,281	364,215
Credit loss ratio, %	**–0.01**	**0.00**

Return on equity

Definition: Profit 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	
SEK million	**Jan–Jun 2019**	**Jan–Dec 2018**
Operating profit after tax	905	1,726
Average equity	14,861 [1]	14,283 [2]
Return on equity, %	**12.2**	**12.1**

[1] Average equity has been adjusted for the dividend of SEK 690 million for 2018.

[2] Average equity has been adjusted for the dividend of SEK 684 million for 2017.

Net interest margin

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

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

	GROUP	
SEK million	**Jan–Jun 2019**	**Jan–Dec 2018**
Net interest income	1,735	3,362
Average balance sheet total	466,851	432,571
Net interest margin, %	**0.74**	**0.78**

C/I ratio

Definition: Total expenses before credit lossesin relation to total operating income.

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

	GROUP	
SEK million	**Jan–Jun 2019**	**Jan–Dec 2018**
Total expenses before credit losses	580	1,049
Total operating income	1,763	3,280
C/I ratio, %	**32.9**	**32.0**

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

Auditors' review report

Introduction

We have reviewed the interim report for SBAB Bank AB (publ) for the period 1 January – 30 June 2019. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report for the Group is not prepared, 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, July 16 2019

Deloitte AB

Patrick Honeth
Authorised Public Accountant