The Swedish Covered Bond Corporation (SCBC)

INTERIM REPORT

January–June 2019

1 2

SCBC

Covered Bonds of SBAB

The period in brief

January–June 2019 (January–June 2018)

- Operating profit amounted to SEK 905 million (1,072)
- Net interest income totalled SEK 1,439 million (1,587)
- Expenses amounted to SEK 513 million (434)
- Credit losses totalled SEK 6 million (26)
- The Common Equity Tier 1 (CET1) capital ratio decreased to 17.0% (75.7) For more information, please refer to page 4
- All funding programmes continue to have the highest credit ratings from Moody's

Operating profit,

SEK 905 million

(SEK 1,072 million)

Net interest income

SEK 1,439 million

(SEK 1,587 million)

CET1 capital ratio

17.0%

(75.7%)

Lending to the public

SEK 346.4 billion

(SEK 327.2 billion)

Operations

The Swedish Covered Bond Corporation ("SCBC") (in Swedish: AB Sveriges Säkerställda Obligationer (publ)) is a wholly-owned subsidiary of SBAB Bank (publ) ("SBAB").

As a wholly-owned subsidiary of SBAB, SCBC has the mandate to issue covered bonds with mortgage credit as collateral, thereby providing the SBAB Group with long-term access to competitive funding.

Operations are to be conducted in compliance with the requirements specified in the Covered Bonds Issuance Act (2003:1223) and Finansinspektionen's (the Swedish FSA) regulation FFFS 2013:1.

Financial performance

Overview of earnings

	SCBC			
	2019	2018	2018	2018
SEK million	Jan–Jun	Jul–Dec	Jan–Jun	Jan–Dec
Net interest income	1,439	1,482	1,587	3,069
Net commission expense	−38	−83	−36	−119
Net result of financial transactions (Note 2)	23	−24	−19	−43
Other operating income	0	0	0	0
Total operating income	**1,424**	**1,375**	**1,532**	**2,907**
Expenses	−513	−468	−434	−902
Profit before credit losses	**911**	**907**	**1,098**	**2,005**
Net credit losses (Note 3)	−6	0	−26	−26
Operating profit	**905**	**907**	**1,072**	**1,979**
Tax	−192	−202	−236	−438
Net profit for the period	**713**	**705**	**836**	**1,541**
Balance-sheet items				
Lending to the public, SEK billion, at close of period	346.4	339.4	327.2	339.4
Key metrics				
CET1 capital ratio, %, at close of period	17.0	17.1	75.7	17.1
Rating, long-term funding				
Moody's	Aaa	Aaa	Aaa	Aaa

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

SCBC's operating profit declined to SEK 905 million (1,072), primarily due to lower net interest income and higher expenses.

Net interest and commissions

SCBC's net interest income decreased to SEK 1,439 million (1,587), mainly due to lower mortgage lending margins, with interest income from lending rising more slowly than interest expense. Interest expense increased mainly due to a rise in market rates, which led to higher expenses for market funding. The resolution fee, which is recognised in net interest income, totalled SEK 87 million (104) for the period. The net commission expense was SEK 38 million (expense: 36), and was mainly due to increased expenses linked to funding operations.

Net result of financial transactions

The net income from financial transactions was SEK 23 million (expense: 19). The difference between the periods was mainly attributable to an increase in interest compensation received from customers.

Expenses

SCBC's expenses rose to SEK 513 million (434), and mainly comprised fees to SBAB for administrative services in line with the applicable outsourcing agreements. At Group level, the increase in costs was mainly driven by an increased number of employees and thus higher personnel costs and an increase in IT expenses. The cost trend is progressing according to plan and tracks the operations' development and investment strategy for long-term competitiveness.

Credit losses

Net credit losses for the period totalled SEK 6 million (26). The difference between the periods was attributable to the internal movement of credit impaired loans from SBAB to SCBC in the comparative period due to the transition to IFRS 9. The credit impaired loans are not included in the assets that qualify for inclusion in the cover pool for the issuance of covered bonds. Confirmed credit losses totalled SEK 1 million (0). For more information, please refer to notes 3 and 4.

Lending

SCBC does not conduct any new lending itself but instead acquires loans from SBAB Bank, on an on-going basis or as necessary. The aim of securing these loans is to include the loans, in part or in full, in the assets that comprise collateral for holders of SCBC's covered bonds. SCBC's lending portfolio comprises loans for residential mortgages, with lending to consumers the largest segment. At the end of the period, SCBC's lending amounted to SEK 346.4 billion (327.2).

Information regarding SCBC's lending, the cover pool, is published monthly on the website www.sbab.se.

Funding

SCBC's funding is conducted through the issuance of covered bonds and, to a certain extent, through repo transactions. SCBC uses three funding programmes: a Swedish covered bond programme without a preset limit; a EUR 16 billion Euro Medium Term Covered Note Programme (EMTCN programme); and an AUD 4 billion Australian Covered Bonds Issuance Programme. All funding programmes have received the highest possible credit rating of Aaa from the rating agency Moody's.

Covered bonds are the SBAB Group's principal source of funding, and at 30 June 2019, the total value of issued debt securities outstanding under SCBC's lending programme was SEK 257.2 billion (239.5), distributed as follows: Swedish covered bonds SEK 134.5 billion (130.8); and the Euro Medium Term Covered Note Programme SEK 122.7 billion (108.7). During the period, SEK 29.9 billion (41.6) in securities was issued. At the same time, securities amounting to SEK 12.4 billion (6.2) were repurchased, while securities amounting to SEK 0.6 billion (4.5) matured. Alongside changes in premiums/discounts and changes in SEK exchange rates, this resulted in an increase in issued debt securities of SEK 22.5 billion (35.3) in the period.

Capital adequacy and liquidity risk

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

SCBC's total capital ratio and CET1 capital ratio amounted to 17.0% (75.7) at 30 June 2019. The difference between the periods is attributable to the decision by the Swedish FSA to amend the method for applying the existing risk-weight floor for Swedish mortgages, which was previously applied in Pillar 2, by replacing it with the corresponding requirement within the framework of Article 458 of the CRR, which means that the requirement applies in the same way as a requirement in Pillar 1. The change entailed, from 31 December 2018, a simultaneous increase in the risk exposure amount (REA) of around SEK 68 billion and a decrease in the capital ratio, expressed as a percentage of the REA. The amendment entered force from 31 December 2018 and applies for two years. For more information, please refer to Note 9. Net profit is included in own funds, while the expected dividend has reduced own funds.

The internally assessed capital requirement amounted to SEK 12.3 billion (5.7) on 30 June 2019. The increase in the internally assessed capital requirement was attributable to a change in the method for calculating the capital requirement compared with previous periods. Previously, the risk-weight floor in Pillar 2 had not been included for SCBC, since the company had not undergone an SREP[1]. Accordingly, the increase stems from the harmonisation of the calculation of capital requirement and the method now reflects the consolidated situation. As of 31 December 2018, SCBC's internally assessed capital requirement also includes the risk-weight floor for Swedish residential mortgages.

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

[1] The supervisory authority's review and evaluation process (SREP), pursuant to the EBA's guidelines

Other information

Extraordinary General Meeting of Shareholders in SCBC

At SCBC's EGM on 4 February 2019, a resolution was passed to make a retroactive distribution to the Parent Company, SBAB Bank AB, for a total of SEK 3 billion. For more information, refer to the proposed appropriation of profits in SCBC's 2018 Annual Report on page 15.

Green covered bond

On 23 January 2019, SCBC was the first institution in Sweden to issue a green covered bond against collateral in the form or residential mortgages and property loans. Additional information is available on SBAB's website.

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.

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 20.

Risks and uncertainties

The Swedish economy is susceptible to global economic developments and to conditions in the international financial markets. The economic trend in Sweden is the primary risk factor for SCBC's future earnings capacity, and the quality of our assets is mainly exposed to credit risk in the Swedish housing market. The management of interest-rate and currency risks entails some exposure to price risks. 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 being experienced by certain housing developers in 2018 with selling their newly produced units. 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 SCBC's 2018 Annual Report on page 8

Condensed income statement

SEK million	2019 Jan-Jun	2018 Jul-Dec	2018 Jan-Jun	2018 Jan–Dec
Interest income	2,528	2,255	2,240	4,495
Interest expense	–1,089	–773	–653	–1,426
Net interest income	**1,439**	**1,482**	**1,587**	**3,069**
Commission income	6	6	7	13
Commission expense	–44	–89	–43	–132
Net expense from financial transactions (Note 2)	23	–24	–19	–43
Other operating income	0	0	0	0
Total operating income	**1,424**	**1,375**	**1,532**	**2,907**
General administrative expenses	–511	–465	–433	–898
Other operating expenses	–2	–3	–1	–4
Total expenses before loan losses	**–513**	**–468**	**–434**	**–902**
Profit before loan losses	**911**	**907**	**1,098**	**2,005**
Net loan losses (Note 3)	–6	0	–26	–26
Operating profit	**905**	**907**	**1,072**	**1,979**
Tax on operating profit for the period/year	–192	–202	–236	–438
Net profit for the period/year	**713**	**705**	**836**	**1,541**

Condensed statement of comprehensive income

SEK million	2019 Jan-Jun	2018 Jul-Dec	2018 Jan-Jun	2018 Jan–Dec
Net profit for the period	**713**	**705**	**836**	**1,541**
Components that will be reclassified to profit or loss				
Changes related to cash-flow hedges	2,253	467	26	493
Tax attributable to components that will be reclassified to profit or loss	–482	–99	–6	–105
Other comprehensive income, net of tax	**1,771**	**368**	**20**	**388**
Total comprehensive income for the period	**2,484**	**1,073**	**856**	**1,929**

Interest income on financial assets measured at amortised cost, calculated using the effective-interest method, amounted to SEK 2,583 million (2,340) for the period.

Condensed balance sheet

SEK million	30 Jun 2019	31 Dec 2018	30 Jun 2018
ASSETS			
Lending to credit institutions	135	0	8,660
Lending to the public (Note 4)	346,358	339,370	327,193
Value changes of interest-rate-risk hedged items in macro hedges	252	108	225
Derivatives (Note 5)	13,077	6,771	8,109
Other assets	351	35	618
Prepaid expenses and accrued income	207	103	210
TOTAL ASSETS	**360,380**	**346,387**	**345 ,015**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	175	1	4,442
Debt securities issued, etc.	257,250	234,774	239,492
Derivatives (Note 5)	429	595	468
Other liabilities	30	91	89
Accrued expenses and deferred income	991	1,622	1, 500
Deferred tax liabilities	619	136	42
Subordinated debt to the Parent Company (Note 8)	82,648	90,414	81,301
Total liabilities	**342,142**	**327,633**	**327,334**
Equity			
Restricted equity			
Share capital	50	50	50
Total restricted equity	**50**	**50**	**50**
Unrestricted equity			
Shareholder contribution	9,550	9,550	9,550
Fair value reserve	2,229	458	90
Retained earnings	5,696	7,155	7,155
Net profit for the year	713	1,541	836
Total unrestricted equity	**18,188**	**18,704**	**17,631**
Total equity	**18,238**	**18,754**	**17,681**
TOTAL LIABILITIES AND EQUITY	**360,380**	**346,387**	**345,015**

Condensed statement of changes in equity

mnkr	Restricted equity: Share capital	Unrestricted equity: Fair value reserve	Unrestricted equity: Shareholder contribution	Unrestricted equity: Retained earnings	Unrestricted equity: Net profit for the year	Total equity
Opening balance 1 January 2019	**50**	**458**	**9,550**	**8,696**	**–**	**18,754**
Dividend paid	–	–	–	–3,000	–	–3,000
Other comprehensive income, net of tax	–	1,771	–	–	–	1,771
Net profit for the period	–	–	–	–	713	713
Comprehensive income för the period	**–**	**1,771**	**–**	**–**	**713**	**2,484**
Closing balance 30 June 2019	**50**	**2,229**	**9,550**	**5,696**	**713**	**18,238**

Closing balance, 31 Dec 2017	**50**	**70**	**9 ,550**	**7,115**	**–**	**16,785**
Effect of changes in accounting policy, IFRS 9	–	–	–	40	–	40
Opening balance 1 Jan 2018	**50**	**70**	**9,550**	**7,155**	**–**	**16,825**
Other comprehensive income, net of tax	_	20	–	–	–	20
Net profit for the period	–	–	–	–	836	836
Comprehensive income for the period	**–**	**20**	**–**	**–**	**836**	**856**
Closing balance 30 Jun 2018	**50**	**90**	**9,550**	**7,155**	**836**	**17,681**

Closing balance, 31 Dec 2017	**50**	**70**	**9,550**	**7,115**	**–**	**16 ,785**
Effect of changes in accounting policy, IFRS 9	–	–	–	40	–	40
Opening balance 1 Jan 2018	**50**	**70**	**9,550**	**7 ,155**	**–**	**16,825**
Other comprehensive income, net of tax	–	388	–	–	–	388
Net profit for the year	–	–	–	–	1,541	1,541
Comprehensive income for the year	**–**	**388**	**–**	**–**	**1,541**	**1,929**
Closing balance, 31 Dec 2018	**50**	**458**	**9,550**	**7,155**	**1,541**	**18,754**

Condensed cash-flow statement

SEK million	2019 Jan–Jun	2018 Jan-Jun	2018 Jan–Dec
Opening cash and cash equivalents	**0**	**150**	**150**
OPERATING ACTIVITIES			
Interest and commissions paid/received	746	1,642	3,174
Outflows to suppliers and employees	–513	–433	–902
Taxes paid/refunded	–250	–214	–429
Change in assets and liabilities of operating activities	10,918	18,807	187
Cash flow from operating activities	**10,901**	**19,802**	**2,030**
INVESTING ACTIVITIES			
Cash flow from investing activities	**–**	**–**	**–**
FINANCING ACTIVITIES			
Dividend paid	–3,000	–	–
Change in subordinated debt	–7,766	–11, 292	–2,180
Cash flow from financing activities	**–10,766**	**–11,292**	**–2,180**
Increase/decrease in cash and cash equivalents	**135**	**8,510**	**–150**
Closing cash and cash equivalents	**135**	**8,660**	**0**

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

CHANGE IN LIABILITIES ATTRIBUTABLE TO FINANCING ACTIVITIES

SEK million	Opening balance 1 Jan 2019	Cash flow	Non-cash items		Closing balance 30 Jun 2019	Opening balance 1 Jan 2018	Cash flow	Non-cash items		Closing balance, 31 Dec 2018
			Fair value	Other				Fair value	Other	
Long-term interest-bearing liabilities	90,413	–7,765	–	–	82,648	92,593	–2,180	–	–	90,413
Summa	**90,413**	**–7,765**	**–**	**–**	**82,648**	**92,593**	**–2,180**	**–**	**–**	**90,413**

Note 1 | Accounting policies

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

IFRS 16 – Leasing
The new IFRS 16 standard has changed the lease classification criteria. IFRS 16 will be applied from 1 January 2019. The new standard entails that all leases (with the exception of short-term and smaller leases) are to be recognised as right-of-use assets with corresponding liabilities in the lessee's balance sheet. The lease payments are recognised in profit or loss as depreciation of the leased asset and as an interest expense on the lease liability. Moreover, disclosure requirements will apply. The introduction will not have any impact on SCBC's financial reports.

All other accounting policies and calculation methods are unchanged in comparison with the Annual Report 2018. 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.

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

Note 2 | Net result of financial transactions

SEK million	2019 Jan-Jun	2018 Jul-Dec	2018 Jan-Jun	2018 Jan–Dec
Gains/losses on interest-bearing financial instruments				
– Change in value of hedged items in hedge accounting	–1,784	191	–396	–205
– Realised gain/loss from financial liabilities	–71	–78	–69	–147
– Derivatives in hedge accounting	1,795	–198	391	193
– Other derivatives	28	34	36	70
– Loan receivables	55	27	19	46
Currency translation effects	0	0	0	0
Total	**23**	**–24**	**–19**	**–43**

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

Note 3 | Net loan losses

SEK million	2019 Jan-Jun	2018 Jul-Dec	2018 Jan-Jun	2018 Jan–Dec
Lending to the public				
Confirmed credit losses	–1	–1	0	–1
Recoveries of previously confirmed credit losses	0	–	–	–
Change in provision for the period — credit stage 1	–4	3	–3	0
Change in provision for the period — credit stage 2	1	–2	–3	–5
Change in provision for the period — credit stage 3	–2	3	–22	–19
Guarantees	–0	–3	2	–1
Net credit losses for the year/period — lending to the public	**–6**	**0**	**–26**	**–26**

For further information about definitions and assumptions for judgements and calculations of credit risk and the various credit stages under IFRS 9, refer to SCBC's 2018 Annual Report, note G 1.

Note 4 | Lending to the public

SEK million	30 Jun 2019	31 Dec 2018	30 Jun 2018
Opening balance	**339,370**	**312,254**	**312,254**
Transferred to/from Group entities	28,325	58,992	32,235
Amortisation, write-offs, repayments, etc.	–21,331	–31,852	–17,268
Change in provision for expected credit losses [1]	–6	–24	–28
Closing balance	**346,358**	**339,370**	**327,193**

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

DISTRIBUTION OF LENDING, INCLUDING PROVISIONS

SEK million	30 Jun 2019	31 Dec 2018	30 Jun 2018
Lending, Residential mortgages	278,362	272,543	258,076
Lending, Corporate Clients & Tenant-Owners' Associations	67,996	66,827	69,117
Total	**346,358**	**339,370**	**327,193**

LENDING TO THE PUBLIC BY CREDIT STAGE

SEK million	30 Jun 2019	31 Dec 2018	30 Jun 2018
Credit stage 1			
Gross carrying amount	329,103	319,834	308,955
Provision for expected credit losses	–28	–24	–26
Carrying amount	**329,075**	**319,810**	**308,929**
Credit stage 2			
Gross carrying amount	17,089	19,425	18,124
Provision for expected credit losses	–63	–64	–62
Carrying amount	**17,026**	**19,361**	**18,062**
Credit stage 3			
Gross carrying amount	281	220	227
Provision for expected credit losses	–24	–21	–25
Carrying amount	**257**	**199**	**202**
Gross carrying amount (credit stages 1, 2 and 3)	**346,473**	**339,479**	**327,305**
Provision for expected credit losses (credit stages 1, 2 and 3)	**–115**	**–109**	**–113**
Total	**346,358**	**339,370**	**327,193**

For further information about definitions and assumptions for judgements and calculations of credit risk and the various credit stages under IFRS 9, refer to SCBC's 2018 Annual Report, note G 1.

Note 5 | Derivatives

SEK million	30 Jun 2019 Assets measured at fair value	30 Jun 2019 Liabilities measured at fair value	30 Jun 2019 Total nominal amount	31 Dec 2018 Assets measured at fair value	31 Dec 2018 Liabilities measured at fair value	31 Dec 2018 Total nominal amount
Interest-rate-related	6,147	351	286,592	2,367	272	244,495
Currency-related	6,930	78	85,627	4,404	323	80,288
Total	**13,077**	**429**	**372,219**	**6,771**	**595**	**324,783**

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

Note 6 | Classification of financial instruments

FINANCIAL ASSETS

	30 Jun 2019				
	Financial assets measured at FVTPL				
SEK million	Derivatives (held for trading)	Other (obligatory) classification	Financial assets measured at amortised cost	Total	Total fair value
Lending to credit institutions	–	–	135	135	135
Lending to the public	–	–	346,358	346,358	347,670
Value changes of interest-rate-risk hedged items in macro hedges	–	–	252	252	–
Derivatives	12,944	133	13,077	13,077	13,077
Other assets	–	–	351	351	351
Prepaid expenses and accrued income	–	–	117	117	117
Total	**12,944**	**133**	**360,290**	**360,290**	**361,350**

FINANCIAL LIABILITIES

	30 Jun 2019				
	Financial liabilities measured at FVTPL				
SEK million	Derivatives (held for trading)	Held for trading	Financial liabilities measured at amortised cost	Total	Total fair value
Liabilities to credit institutions	–	–	175	175	175
Issued debt securities, etc.	–	–	257,250	257,250	261,819
Derivatives	415	14	429	429	429
Other liabilities	–	–	30	30	30
Accrued expenses and deferred income	–	–	991	991	991
Subordinated debt to the Parent Company	–	–	82,648	82,648	82,648
Total	**415**	**14**	**341,523**	**341,523**	**346,092**

Cont. NOTE 6 Classification of financial instruments

FINANCIAL ASSETS

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

FINANCIAL LIABILITIES

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

Fair value measurement of financial instruments
The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note G 1 (Accounting Policies) in SCBC's Annual Report 2018. In the Total fair value column above, information is also provided on the fair value of financial instruments that are recognised at amortised cost in the balance sheet. The carrying amounts for current receivables and liabilities, including subordinated debt to the Parent Company, have been assessed as equal to their fair values. For Lending to the public, where no observable credit margin data is available at the time of measurement, the credit margin on the most recent date for changes in terms is applied to set the discount rate, Level 3. Issued debt securities are measured at the company's current borrowing interest rate, Level 2.

Note 7 | Fair Value Disclosures

SEK million	30 Jun 2019 Quoted market prices (Level 1)	30 Jun 2019 Other observable market data (Level 2)	30 Jun 2019 Unobservable market data (Level 3)	30 Jun 2019 Total	31 Dec 2018 Quoted market prices (Level 1)	31 Dec 2018 Other observable market data (Level 2)	31 Dec 2018 Unobservable market data (Level 3)	31 Dec 2018 Total
Assets								
Derivatives	–	13,077	–	13,077	–	6,771	–	6,771
Total	**–**	**13,077**	**–**	**13,077**	**–**	**6,771**	**–**	**6,771**
Liabilities								
Derivatives	–	429	–	429	–	595	–	595
Total	**–**	**429**	**–**	**429**	**–**	**595**	**–**	**595**

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

Quoted market prices (Level 1)
Measurement at quoted prices in an active market for identical assets and liabilities. A market is deemed to be active if the price data is easily accessible and corresponds to actual regularly occurring transactions. This measurement method is currently not used on any asset or liability.

Measurement based on observable market data (Level 2)
Measurement aided by external market information other than quoted prices included in Level 1, such as quoted interest rates or prices for closely related instruments. The main tools used are models based on discounted cash flows. This group includes all non-quoted derivatives.

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

Note 8 | Subordinated debt to the Parent Company

SEK million	30 Jun 2019	31 Dec 2018	30 Jun 2018
Subordinated debt to the Parent Company	82,648	90,414	81,301
Total	**82,648**	**90,414**	**81,301**

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

Note 9 | Capital adequacy, own funds and capital requirements

CAPITAL ADEQUACY[1)]

SEK million	30 Jun 2019	31 Dec 2018	30 Jun 2018
CET1 capital	15,681	15,250	17,538
Tier 1 capital	15,681	15,250	17,538
Total capital	15,685	15,253	17,541
Risk exposure amount	92,375	89,188	23,163
CET1 capital ratio, %	17.0	17.1	75.7
Excess [2)] of CET1 capital	11,524	11,237	16,496
Tier 1 capital ratio, %	17.0	17.1	75.7
Excess [2)] of Tier 1 capital	10,139	9,899	16,148
Total capital ratio, %	17.0	17.1	75.7
Excess [2)] of total capital	8,295	8,118	15,688

[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).

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

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

	30 Jun 2019	31 Dec 2018	30 Jun 2018
Risk exposure amount, SEK million	24,495	21,513	23,163
CET1 capital ratio, %	64.0	70.9	75.7
Tier 1 capital ratio, %	64.0	70.9	75.7
Total capital ratio, %	64.0	70.9	75.7

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

Definitions

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

Cont. NOTE 9 Capital adequacy, own funds and capital requirements

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

OWN FUNDS

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	9,600	9,600	9,600
Retained earnings	5,696	7,155	7,155
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	2,229	458	90
Independently verified net profit for the year net of any foreseeable charge or dividend [1]	428	–1,459	836
CET1 capital before regulatory adjustments	**17,953**	**15,754**	**17,681**
CET1 capital: regulatory adjustments			
Additional value adjustments (negative amount)	–14	–7	–9
Fair value reserves related to gains or losses on cash-flow hedges	–2,229	–458	–90
Negative amounts resulting from the calculation of expected loss amounts	–29	–39	–44
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	0	0
Total regulatory adjustments to CET1 capital	**–2,272**	**–504**	**–143**
CET1 capital	**15,681**	**15,250**	**17,538**
Additional Tier 1 capital: Instruments			
Additional Tier 1 capital before regulatory adjustments	**–**	**–**	**–**
Additional Tier 1 capital: Regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 capital	**–**	**–**	**–**
Additional Tier 1 capital	**–**	**–**	**–**
Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)	**15,681**	**15,250**	**17,538**
Tier 2 capital: Instruments and provisions			
Credit risk adjustments	4	3	3
Tier 2 capital before regulatory adjustments	**4**	**3**	**3**
Tier 2 capital: Regulatory adjustments			
Total regulatory adjustments to Tier 2 capital	**–**	**–**	**–**
Tier 2 capital	**4**	**3**	**3**
Total capital (Total capital=Tier 1 capital + Tier 2 capital)	**15,685**	**15,253**	**17,541**
Total risk-weighted assets	**92,375**	**89,188**	**23,163**
Capital ratio and buffers			
CET1 capital (as a percentage of total risk-weighted exposure amount), %	17.0	17.1	75.7
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	17.0	17.1	75.7
Total capital (as a percentage of total risk-weighted exposure amount), %	17.0	17.1	75.7
Institution-specific buffer requirements (CET1 capital requirement in accordance with Article 92(1)(a) plus the capital conservation buffer and countercyclical capital buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffers [G-SII buffer and O-SII buffer]) expressed as a percentage of the risk-weighted exposure amount, %	9.0	9.0	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 capital buffer requirement, %	*2.0*	*2.0*	*2.0*
Of which: systemic risk buffer requirement, %	–	–	–
Of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffers, %	–	–	–
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts, %)	12.5	12.6	67.7

[1] Net profit for the interim period was reduced by the expected dividend of SEK 285 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 9 Capital adequacy, own funds and capital requirements

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 49 million under Pillar 1 since 31 March 2019.

RISK EXPOSURE AMOUNT & CAPITAL REQUIREMENTS

	30 Jun 2019		31 Dec 2018		30 Jun 2018	
SEK million	**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**	**Capital requirement**
Credit risk recognised in accordance with IRB approach						
Exposures to corporates	5,259	421	5,041	403	5,420	434
Retail exposures	11,279	902	11,353	908	12,087	967
Of which: exposures to SMEs	*753*	*60*	*770*	*61*	*811*	*65*
Of which: retail exposures secured by immovable property	*10,526*	*842*	*10,583*	*847*	*11,276*	*902*
Total exposures recognised with IRB approach	**16,538**	**1,323**	**16,394**	**1,311**	**17,507**	**1,401**
Credit risk recognised with the standardised approach						
Exposure to governments and central banks	0	0	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0	0	0
Exposures to institutions [1]	167	13	53	4	207	16
Of which: derivatives according to CRR, Appendix 2	*90*	*7*	*53*	*4*	*96*	*7*
Of which, repos	*77*	*6*	*0*	*0*	*111*	*9*
Of which other	*0*	*0*	*0*	*0*	–	–
Exposures to institutions and corporates with a short-term credit rating	0	0	0	0	150	12
Other items	381	30	153	12	374	30
Total exposures recognised with standardised approach	**548**	**43**	**206**	**16**	**731**	**58**
Market risk	**827**	**66**	**752**	**60**	**711**	**57**
Of which: position risk	–	–	–	–	–	–
Of which: currency risk	*827*	*66*	*752*	*60*	*711*	*57*
Operational risk	**4,186**	**335**	**3,876**	**310**	**3,876**	**310**
Credit valuation adjustment risk	**450**	**36**	**285**	**23**	**338**	**27**
Additional requirements under Article 458 of the CRR	**69,210**	**5,538**	**67,675**	**5,414**	**–**	**–**
Additional requirements under Article 3 of the CRR	**616**	**49**	**–**	**–**	**–**	**–**
Total risk exposure amount and minimum capital requirement	**92,375**	**7,390**	**89,188**	**7,134**	**23,163**	**1,853**
Capital requirements for capital conservation buffer		**2,309**		**2,230**		**579**
Capital requirements for countercyclical buffer		**1,848**		**1,784**		**463**
Total capital requirement		**11,547**		**11,148**		**2,895**

[1] The risk exposure amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 167 million (53).

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

Solna, 16 July 2019

Jan Sinclair
Chairman of the Board

Jane Lundgren-Ericsson
Board Member

Klas Danielsson
Board Member

Mikael Inglander
CEO

Contact

For further information, please contact:

CEO Mikael Inglander, +46 8 614 43 28, mikael.inglander@sbab.se

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 08:00 a.m. (CET).

Financial calender

Year-end report 2019	14 February 2020

Auditors' review report

Introduction
We have reviewed the interim report for The Swedish Covered Bond Corporation (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.

Stockholm July 16, 2019

Deloitte AB

Patrick Honeth
Authorised Public Accountant