Year-end report

January–December 2022

AB Sveriges Säkerställda Obligationer (publ)
(The Swedish Covered Bond Corporation – SCBC)

SCBC
Covered bonds of SBAB

The year in brief

January–December 2022

(January–December 2021)

- Operating profit amounted to SEK 1,978 million (2,119)
- Net interest income totalled SEK 3,787 million (3,522)
- Expenses amounted to SEK 1,344 million (1,305)
- Net credit losses amounted to SEK 39 million (recoveries: 7).
- The Common Equity Tier 1 (CET1) capital ratio amounted to 15.9% (16.3)
- All funding programmes continue to have the highest credit ratings from Moody's

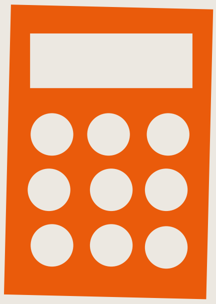
Net interest income, SEK million	Lending, SEK billion	Credit rating (Moody's)
3,787	**483.7**	**Aaa**
(3,522)	(442.1)	(Aaa)

Operations

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

The Swedish Covered Bond Corporation (SCBC), Corp. Reg. No. 556645-9755, is a wholly-owned subsidiary of SBAB, Corp. Reg. No. 556253-7513. SCBC is a credit market company and is regulated by the Swedish Banking and Financing Business Act (2004:297) and subject to supervision by the Swedish FSA (Sweden's financial supervisory authority). The primary operations within SCBC comprise the issue of covered bonds in accordance with the Swedish Covered Bonds (Issuance) Act (2003:1223) and the Swedish FSA's regulation FFFS 2013:1. Issues are conducted both in Swedish and in international capital markets. SCBC complies with and reports to the European Covered Bond Council's (ECBC) "Labelling Initiative," and reports on a monthly basis in line with "National templates" as published by the Association of Swedish Covered Bond issuers (ASCB). SCBC is domiciled in Solna and its operating activities are mainly outsourced to the Parent Company.

Business development



Overview

	SCBC				
	2022	2022	2021	2022	2021
SEK million	Jul–Dec	Jan–Jun	Jul–Dec	Jan–Dec	Jan–Dec
Net interest income	1,909	1,878	1,797	3,787	3,522
Net commission expense	–19	–15	–18	–34	–35
Net result of financial transactions (Note 3)	–65	–27	–13	–92	–70
Total operating income	**1,825**	**1,836**	**1,766**	**3,661**	**3,417**
Expenses	–703	–641	–689	–1,344	–1,305
Profit before credit losses and imposed fees	**1,122**	**1,195**	**1,077**	**2,317**	**2,112**
Net credit losses (Note 4)	–30	–9	4	–39	7
Imposed fees: Risk tax and resolution fee	–151	–149	–	–300	–
Operating profit	**941**	**1,037**	**1,081**	**1,978**	**2,119**
Tax	–193	–214	–223	–407	–437
Net profit for the period	**748**	**823**	**858**	**1,571**	**1,682**
BALANCE-SHEET ITEMS					
Lending to the public, SEK billion, at close of period (Note 5)	483,738	462,023	442,067	483,738	442,067
– Of which, Lending, Residential mortgages	*345,540*	*340,182*	*330,094*	*345,540*	*330,094*
– Of which, Lending, Corp. & ToA	*138,198*	*121,841*	*111,973*	*138,198*	*111,973*
Issued debt securities, etc. at close of period	328,881	319,906	300,913	328,881	300,913
KEY METRICS					
CET1 capital ratio, %	15.9	15.9	16.3	15.9	16.3
CREDIT RATING (LONG-TERM FUNDING)					
Moody's	Aaa	Aaa	Aaa	Aaa	Aaa

January–December 2022 compared with January–December 2021

Operating profit amounted to SEK 1,978 million (2,119) for the period.

Net interest income
SCBC's net interest income grew to SEK 3,787 million (3,522), mainly due to an increased share of financing from deposits and higher deposit margins. Increased lending volumes had a positive impact on the item, while decreased lending margins for mortgages had a negative impact. After adjustment for the resolution fee, which amounted to SEK 148 million (139) for the period, net interest income increased SEK 126 million.

Net commission expense
Net commissions decreased marginally to an expense of SEK 34 million (expense: 35), mainly driven by updated calculation models for amortised cost. Starting in the third quarter of 2022, corporate lending arrangement fees are now accrued over the maturity of the loan in net interest income.

Net result of financial transactions
The net expense from financial transactions was SEK 92 million (expense: 70). The difference between the periods was mainly attributable to value changes in hedge accounting. For more information, please refer to Note 3.

Expenses
Expenses rose to SEK 1,344 million (1,305), 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, as well as by higher costs for amortisation, depreciation and impairment in projects. The cost trend is progressing according to plan and tracks the operations' development and investment strategy for long-term competitiveness.

Credit quality and credit losses
Net credit losses for the full-year 2022 totalled SEK 39 million (recoveries: 7). Confirmed credit losses totalled SEK 2 million (3). Total credit loss allowances increased SEK 37 million (decrease: 12) during the year. Provisions increased SEK 13 million (decrease: 1) for credit stage 1 loans and SEK 24 million (decrease: 10) for credit stage 2 loans. Changes in credit loss allowances during the year for loans in credit stages 1 and 2 were primarily due to a combination of updated forward-looking information in the impairment model, indexing of market values for collateral and risk migrations within the Retail business area, which drove net inflows to credit stage 2. Provisions for credit stages 3 remained unchanged for the year (decrease 1). Guarantees that can be utilised remained unchanged for the year (decrease: 2). For more information on credit loss allowances and changes in the forward-looking information in the impairment model, please refer to Note 4.

The quality of the credit in SCBC's lending was assessed as good and the credit risk in each business area (Retail and Corporate Clients & Tenant-Owners' Associations) as low. The granting of credit to retail customers, tenant-owners' associations and property companies is based on a sound credit approval process that determines whether customers have the financial capacity required to meet their commitments. Due to growing uncertainty in the capital market, the Group increased the rate of follow up with customers in Corporate Clients & Tenant-Owners' Associations business area who have a high share of market financing and who require refinancing over the short and long term.

Imposed fees
During the first half of 2022, a new line item was added in the income statement, imposed fees, placed after the item Net credit losses. Imposed fees include Sweden's new risk tax, implemented during 2022, as well as the resolution fee that was previously reported in net interest income This impacts the comparability of net interest income with previous years. Imposed fees totalled SEK 300 million (–) for 2022, of which the risk tax amounted to SEK 152 million (–) and the resolution fee to SEK 148 million (139).

Lending
SCBC does not conduct any new lending itself, but instead acquires loans from SBAB Bank on an ongoing basis. The aim of securing these loans is to include the loans, in part or in full, in the assets that comprise collateral for holders of SCBC's covered bonds. SCBC's lending portfolio comprises loans for residential mortgages, with lending to consumers the largest segment. At the end of the year, SCBC's lending amounted to SEK 483.7 billion (442.1).

Other comprehensive income
Other comprehensive income amounted to a loss of SEK 7,366 million (loss: 1,374) for the period. The difference pertained mainly to interest-rate related value changes in derivatives due to rising EUR interest rates, which had a significant negative impact on the item. For more information, please refer to page 9.

Cover pool data

	SCBC	
	31 Dec 2022	31 Dec 2021
Credit portfolio, SEK billion	483.7	442.1
Total cover pool, SEK billion	432.3	407.8
– Of which, substitute collateral, SEK billion	*1.0*	–
LTV as per ASCB definition[1], %	54.7	52.0
Nominal OC, %	25.4	29.9

1) Association of Swedish Covered Bond Issuers

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

Funding

High volatility and a material deterioration in risk sentiment dominated the full-year 2022. The geopolitical situation changed dramatically in the first quarter of the year due to Russia's invasion of Ukraine, and in the following months it became increasingly clear that the world's economies would have to fight ever-higher inflation during the year. The combination of an increased risk profile and higher inflation resulted in rising market interest rates. The movement in interest rates was relatively unique since it arose directly after a period of monetary and fiscal support programmes related to the pandemic outbreak. Central banks were forced to hastily abandon expansionary monetary policies and instead adopt a more contractionary policy, with a strong focus on interest rate hikes.

Interest rate conditions at the beginning of 2022 were considerably different from those at the end of the year. The Fed in the US has raised the key interest rate from 0.25% to 4.50%. The ECB started the year with a key interest rate of minus 0.50% but had increased it to 2% by the end of the year. In Sweden we also experienced rapidly rising interest rates – the Riksbank raised the key interest rate four times in 2022 to a total of 2.5%. Furthermore, the Riksbank decided during the year to cut back on the pandemic-related support purchase programme that was launched in 2020 and continued in 2021. The lack of any clear signals from central banks on future interest rate developments contributed to high market volatility during the year.

Altogether, the above contributed to credit spreads in the Swedish covered bond market gradually increasing in 2022, though they declined slightly toward the year end. In the longer term, the market believes that central banks will be forced to lower interest rates to avoid a prolonged recession. In the markets above, all yield curves were inverted at the end of 2022.

SCBC maintained particularly high issue activity in the beginning of 2022. The majority of funding was conducted using the Swedish benchmark programme. In the second quarter, SCBC issued an EUR 1.25 billion ten-year covered bond in the international market.

On 31 December 2022, the total value of issued debt securities outstanding under SCBC's lending programme was SEK 328.9 billion (300.9), distributed as follows: Swedish covered bonds SEK 224.8 billion (207.1) and the Euro Medium Term Covered Note Programme SEK 104.1 billion (93.8).

During the period, issued securities amounted to SEK 67.7 billion (82.2). At the same time, securities amounting to SEK 10.4 billion (12.7) were repurchased, while securities amounting to SEK 21.3 billion (29.0) matured. Alongside changes in premiums/discounts and changes in SEK exchange rates, this resulted in an increase in issued debt securities of SEK 28.0 billion (37.1) in the period.

Liquidity position

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

Capital position

SCBC primarily recognises credit risk under the internal ratings-based approach (IRB approach) and operational and market risk using the standardised approach. The Swedish FSA has previously announced that it expects Swedish banks to analyse and update their current risk classification systems to be able to meet the new EBA guidelines. SCBC has therefore, over an extended period, worked on preparing new internal risk classification models, which are expected to be implemented after the decision from the Swedish FSA. In November 2022, SCBC's application to use a new PD model for household exposure was approved, and in January 2023, a corresponding approval was received for new PD models for corporate exposures. The new models will start being applied during 2023. SCBC has not yet received feedback on its applications to implement new LGD models for household exposures or corporate exposures.

SCBC's total capital ratio and CET1 capital ratio amounted to 15.9% (16.3) on 31 December 2022. The change was mainly driven by increased lending volumes (REA). Net profit is included in own funds.

The internally assessed capital requirement amounted to SEK 16.2 billion (12.8) at the end of the year. The change was mainly due to raised requirements in Pillar 1 pertaining to credit risk as a result of increased lending and its impact on the risk-weight floor.

For more information on SCBC's capital, please refer to Note 10.

Other information

Risks and uncertainties
SCBC is continuously evaluating the macroeconomic situation, now with particular focus on inflation, energy prices and the war in Ukraine, and continuously assessing the credit quality in lending by evaluating models of various economic scenarios. Despite the prevailing circumstances, no noteworthy changes have been noted with regard to SCBC's financial position, even if risk levels rose generally during the year. The company's balance sheet is assessed as strong, and its capital and liquidity buffers are robust.SCBC has no direct exposure to Russia or Ukraine.

The Swedish economy is susceptible to global economic developments and to conditions in the international financial markets. SCBC could be adversely affected by a sustained downturn in the Swedish economy, including in terms of demand for some of the company's lending, increased funding costs, increased volatility in the fair value of financial instruments, reduced interest income and increased credit provisions.

Rising inflation has triggered long-term market interest rates to rise quickly, which in turn has driven up mortgage rates. This has increased housing costs for households in a short period of time. Significantly higher energy prices for heating homes and rising prices for food and fuel also weakened household finances. Market interest rates and mortgage rates are both expected to rise further throughout 2023. Since the majority of Swedish households own their own home, and since many mortgages are subject to floating interest, the Swedish economy is sensitive to rapidly rising interest rates. A risk exists that indebted households experience difficulty coping with ongoing loan payments on their mortgages as a result of rising interest rates.

Rising mortgage interest rates have meant that housing prices decreased significantly in 2022 and are expected to fuel a continued price fall in the first half of 2023. When the difficulties with inflation are over and interest rates normalise in 2024, housing prices are expected to go up again. Risks linked to high interest rates could be increased by falling housing prices and rapidly rising unemployment. The risk largely pertains to the degree to which a downturn in prices leads to behaviour that triggers a larger price downturn, and how price uncertainty impacts housing turnover and possibilities for building new housing units.

For a more detailed description of risks and uncertainties for the Group, refer to SBAB's Year-end Report 2022.

For further information about risks and risk management, please refer to SCBC's 2021 Annual Report.

Group contributions
In December, a decision was taken to distribute a Group contribution of SEK 30 million to Booli Search Technologies AB.

Events after the end of the period

Approval from the Swedish FSA to use new PD models in IRB approaches
In November 2022, SCBC received approval from the Swedish FSA to use a new PD model for retail exposures and, in January 2023, a corresponding approval was received for new PD models for corporate exposures. The approvals from the Swedish FSA to apply the new PD models means a major step forward can be taken in the process to implement an upgraded IRB system. Developing SCBC's IRB models is part of adjusting to the effort initiated by the EBA aimed at harmonising the banks' IRB systems used to cover capital requirements for credit risk. The overall target is to have clearer requirements in place with robust capital requirements that are consistent and comparable between different banks.

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 can be found at the end of this report.

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Condensed financial statements

Notes

Condensed income statement

	SCBC				
	2022	2022	2021	2022	2021
SEK million	Jul–Dec	Jan–Jun	Jul–Dec	Jan–Dec	Jan–Dec
Interest income [1]	5,442	2,934	2,760	8,376	5,517
Interest expense	–3,533	–1,056	–963	–4,589	–1,995
Net interest income	**1,909**	**1,878**	**1,797**	**3,787**	**3,522**
Commission income	5	14	11	19	24
Commission expense	–24	–29	–29	–53	–59
Net expense from financial transactions (Note 3)	–65	–27	–13	–92	–70
Other operating income	0	0	0	0	0
Total operating income	**1,825**	**1,836**	**1,766**	**3,661**	**3,417**
General administrative expenses	–696	–634	–684	–1,330	–1,294
Other operating expenses	–7	–7	–5	–14	–11
Total expenses before loan losses and imposed fees	**–703**	**–641**	**–689**	**–1,344**	**–1,305**
Profit before loan losses and imposed fees	**1,122**	**1,195**	**1,077**	**2,317**	**2,112**
Net credit losses (Note 4)	–30	–9	4	–39	7
Imposed fees: Risk tax and resolution fee [2]	–151	–149	–	-300	–
Operating profit	**941**	**1,037**	**1,081**	**1,978**	**2,119**
Tax on operating profit for the period/year	–193	–214	–223	–407	–437
Net profit for the period/year	**748**	**823**	**858**	**1,571**	**1,682**

[1] From January 2022, the resolution fee will be booked on the same legal line as the recently introduced risk tax. The resolution fee has in previous years been booked within net interest income. The resolution fee 2022 for the period amounts to SEK 74,0 million, and for the corresponding period the previous year to SEK 69,6 million.

2) For the period, interest income on financial assets measured at amortised cost, calculated using the effective-interest method, amounted to SEK 4,764 million (2,813).

Condensed statement of comprehensive income

	SCBC				
	2022	2022	2021	2022	2021
SEK million	Jul–Dec	Jan–Jun	Jul–Dec	Jan–Dec	Jan–Dec
Net profit for the period	**748**	**823**	**858**	**1,571**	**1,682**
Components that will be reclassified to profit or loss					
Changes related to cash-flow hedges	–3,540	–5,699	–697	–9,239	–1,731
Tax attributable to components that will be reclassified to profit or loss	729	1,174	144	1,903	357
Other comprehensive income/loss, net of tax	**–2,811**	**–4,525**	**–553**	**–7,366**	**–1,374**
Total comprehensive income for the period	**–2,063**	**–3,702**	**305**	**–5,765**	**308**

SCBC's financial position and development is reflected in the income statement and balance sheet. Moreover, the applied accounting policies give certain revaluation effects, among other effects, that are recognised in other comprehensive income.

Other comprehensive income includes changes in cash-flow hedges that consist of unrealised value changes from derivatives used for hedging cash flows in the company's funding in foreign currencies. Underlying funding is measured at amortised cost, where value changes are not recognised while derivatives that hedge borrowing are marked to market. This means that changes in rates, primarily in euro, can lead to volatility during the term, even if the longterm result is zero. The line item is normally affected positively by a decline in interest rates and negatively by a rise in interest rates.

For further comments on the outcome of the period, please see the section Business Development earlier in this report.

Condensed balance sheet

SEK million	SCBC 31 Dec 2022	31 Dec 2021
ASSETS		
Lending to credit institutions	983	1
Lending to the public (Note 5)	483,738	442,067
Value changes of interest-rate-risk hedged items in macro hedges	–4,944	–563
Derivatives (Note 6)	12,556	5,902
Deffered tax assets	1,690	–
Other assets	63	49
Prepaid expenses and accrued income	227	118
TOTAL ASSETS	**494,313**	**447,574**
LIABILITIES AND EQUITY		
Liabilities		
Liabilities to credit institutions	1	15,414
Debt securities issued, etc.	328,881	300,913
Derivatives (Note 6)	21,828	2,120
Other liabilities	167	43
Accrued expenses and deferred income	2,192	1,614
Deferred tax liabilities	–	225
Subordinated debt to the Parent Company (Note 9)	127,506	107,718
Total liabilities	**480,575**	**428,047**
Equity		
Restricted equity		
Share capital	50	50
Total restricted equity	**50**	**50**
Unrestricted equity		
Shareholder contribution	9,550	9,550
Fair value reserve	–6,493	843
Retained earnings	9,060	7,402
Net profit for the year	1,571	1,682
Total unrestricted equity	**13,688**	**19,477**
Total equity	**13,738**	**19,527**
TOTAL LIABILITIES AND EQUITY	**494,313**	**447,574**

Condensed statement of changes in equity

	SCBC					
	Restricted equity	Unrestricted equity				
SEK million	Share capital	Fair value reserve	Shareholder contribution	Retained earnings	Net profit for the year	Total equity
Opening balance 1 January 2022	**50**	**843**	**9,550**	**9,084**	**–**	**19,527**
Other comprehensive income, net of tax	–	–7,336	–	–	–	–7,336
Group contribution paid, after tax	–	–	–	–24	–	–24
Net profit for the period	–	–	–	–	1,571	1,571
Comprehensive income for the period	**–**	**–7,336**	**–**	**–**	**1,571**	**-5,765**
Closing balance 31 December 2022	**50**	**–6,493**	**9,550**	**9,060**	**1,571**	**13,738**
Opening balance 1 January 2021	**50**	**2,217**	**9,550**	**7,426**	**–**	**19,243**
Other comprehensive income, net of tax	–	–1,374	–	–	–	–1,374
Group contribution paid, after tax	–	–	–	–24	–	–24
Net profit for the period	–	–	–	–	1,682	1,682
Comprehensive income for the period	**–**	**–1,374**	**–**	**–**	**1,682**	**308**
Closing balance 31 December 2021	**50**	**843**	**9,550**	**7,402**	**1,682**	**19,527**

Condensed cash-flow statement

SEK million	SCBC 2022 Jan–Dec	2021 Jan–Dec
Opening cash and cash equivalents	**1**	**1**
OPERATING ACTIVITIES		
Interest and commissions paid/received	4,217	3,541
Outflows to suppliers and employees	–1,644	–1,306
Taxes paid/refunded	–500	–500
Change in assets and liabilities of operating activities	–20,879	811
Cash flow from (used in) operating activities	**–18,806**	**2,546**
INVESTING ACTIVITIES		
Cash flow from investing activities	**–**	**–**
FINANCING ACTIVITIES		
Group contribution paid	–	–749
Dividend paid	–	–
Change in subordinated debt	19,788	–1,797
Cash flow from financing activities	**19,788**	**–2,546**
Increase/decrease in cash and cash equivalents	**982**	**0**
Closing cash and cash equivalents	**983**	**1**

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

Change in liabilities attributable to financing activities

	SCBC									
			Non-cash items					Non-cash items		
SEK million	Opening balance 1 Jan 2022	Cash flow	Fair value	Other	Closing balance 31 Dec 2022	Opening balance 1 Jan 2021	Cash flow	Fair value	Other	Closing balance 31 Dec 2021
Long-term interest-bearing liabilities	107,718	19,788	–	–	127,506	109,515	–1,797	–	–	107,718
Total	**107,718**	**19,788**	**–**	**–**	**127,506**	**109,515**	**–1,797**	**–**	**–**	**107,718**

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.

Introduction of new and changed accounting standards 2022
Accounting principles and calculation methods are unchanged compared with the annual report for 2021. The resolution fee has previously been reported under Net interest. Since 1 January 2022, the Resolution Fee is reported under the item Imposed fees, where the Risk Tax is also reported. The item Imposed fees is above tax in the Income Statement. SBAB uses an approximate calculation model for amortized acquisition value for Lending to the public. The approximate calculation model has been refined during quarter 3 2022, which means that set-up fees are periodized over an estimated duration time for the loans. The set-up fee has previously been reported under Net commissions.

The financial statements in summary are produced on the basis of an assumption about the company´s survival. The financial reports in summary was approved by the board for puplication on 6 February 2023.

Note 2 Changes in risks

Credit risk in lending operations
No increase in realised credit risk was noted in lending operations during the second half of 2022. Despite the prevailing circumstances with the war in Ukraine, a negative economic outlook and falling housing and real estate prices in the Swedish housing market, there has been no significant increase in tendency of delayed payments within either of SCBC's business areas; Retail and Corporate Clients & Tenant-Owners' Associations.

The forward-looking information in the impairment model have has been revised ahead of each quarter during the year, as a consequence of the persisting negative global economic development driven by high inflation and rising interest rates. The revisions have resulted in an increase in credit loss provisions due to the forward lookingforward-looking information taking into account a more negative economic outlook. In addition to this, negative risk class migrations have been observed during the Retail business area as a result of rising interest rate costs and updated credit bureau information which has led to an increase in exposure in credit stage 2. Overall, this has resulted in increased credit loss provisions during year. Total credit loss allowances amount to SEK 156 million per 31 of December 2022, compared to SEK 127 million per 30 of June 2022.

The loan-to-value (LTV) for private individuals, property companies and tenant-owners' associations amount to 59%, 62% and 33% respectively per 31 of December 2022, compared to 55%, 63% and 35% respectively per 30 of June 2022. For more information regarding credit losses, credit loss allowances, credit risk and quality, please see Note 4.

Counterparty credit risk in treasury operations
SCBC models counterparty credit risk according to CRR II Standardised Approach (SA-CCR). Total usage of SCBC's limits to transactional counterparties increased to SEK 630 million as of December 31th, 2022, compared to SEK 335 million as of December 31, 2021. The change is explained by increase in derivative exposures.

Liquidity risk
Liquidity risk in SCBC is managed in cooperation with SBAB. SCBC has an agreement with SBAB regarding a liquidity facility which can be used to finance SCBC´s operations. At the end of Q4 OC [1] amounted to 25.4% (30.1% as of 31 December 2021).

Market risk
SCBC uses Value at Risk (VaR) to quantify market risk. VaR is a comprehensive portfolio measurement expressing the potential loss that could occur given a certain level of probability and holding period. SCBC's model is a historical model and applies percentiles in historical market data from the past two years. At December 31th 2022, SCBC's VaR amounted to SEK 421 million, compared to SEK 46 million at 31 December 2021. The change is due to higher volatility.

Operational risk
The change of SBAB's core IKT-system is ongoing and complex. Therefore, the project is still a source to exposure for operational risks.

Business risk
Looking at the state of financial markets, and for SCBC, uncertainty related to the corona pandemic has decreased significantly since 2021. Financial markets have however been impacted by the current geopolitical situation and Russia's attack on Ukraine and its repercussions through, for example, rising inflation. The impact on SCBC's financial position is nevertheless moderate. Business risk is therefore considered to be at a low level. No material changes in the competitive landscape were observed during the year and SCBC has not entered any new, or exited any existing, markets or segments.

Concentration risk
SCBC is mainly exposed to credit risk-related concentration risk in the lending business. The risk department continuously monitors and analyzes the lending portfolio's concentration based on, among other things, geography, collateral, segments and product type. In addition, large exposures to individual counterparties are monitored on an ongoing basis. SCBC evaluates the capital requirement for concentration risk on a regular basis and quantifies the risk with economic capital for credit risk exposures. For more information, please see Note 11.

1) OC (Over-Collateralization) measures the OC-level in the cover pool. Regulated by "lagen om utgivning av säkerställda obligationer" (SFS 2003:1223) and regulations and general guidelines regarding covered bonds from Swedish FSA (FFFS 2013:1).

Note 3 Net result of financial transactions

	SCBC				
	2022	2022	2021	2022	2021
SEK million	Jul–Dec	Jan–Jun	Jul–Dec	Jan–Dec	Jan–Dec
Gains/losses on interest-bearing financial instruments					
– Change in value of hedged items in hedge accounting	1,522	7,510	1,211	9,032	2,383
– Derivatives in hedge accounting	–1,521	–7,565	–1,204	–9,086	–2,401
– Other derivatives	–96	38	–6	–58	–16
– Realised gain/loss from financial liabilities at amortised cost	26	–15	–30	11	–64
– Loan receivables at amortised cost	3	4	16	7	28
Currency translation effects	1	1	0	2	0
Total	**–65**	**–27**	**–13**	**–92**	**–70**

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 4 Net credit losses

	SCBC				
	2022	2022	2021	2022	2021
SEK million	Jul–Dec	Jan–Jun	Jul–Dec	Jan–Dec	Jan–Dec
Lending to the public					
Confirmed credit losses	–1	–1	–1	–2	–3
Recoveries of previously confirmed credit losses	–	–	–	–	–
Change in provision for the period — credit stage 1	–8	–5	4	–13	1
Change in provision for the period — credit stage 2	–20	–4	3	–24	10
Change in provision for the period — credit stage 3	–1	1	–1	0	1
Guarantees	0	0	–1	0	–2
Net credit losses for the period — lending to the public	**–30**	**–9**	**4**	**–39**	**7**

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 2021 Annual Report, note G 1 (Accounting policies).

During the second half of 2022 total credit loss provisions increased by SEK 30 million. Loss provisions for loans allocated to credit stage 1 decreased by SEK 8 million (increased by 5) and increased by SEK 20 million (increased by 4) for loans allocated to stage 2. Loss provisions for loans allocated to credit stage 3 increased by SEK 1 million (decreased by 1). The changes in loss provisions subject to loans in credit stage 1 and 2 are attributed to a combination of negative rating grade migrations for retail exposures driven by higher interest costs, updated credit bureau information, an indexation of market values for houses and tenant-owners' rights as well as updated forward-looking information. Guarantee amounts that can be utilised to cover credit losses were unchanged (unchanged) during the period.

Note 4 Net credit losses, Cont.

Sensitivity analysis of forward-looking information

Lending to the public and loan commitments

	Scenario 1 (40%)			Scenario 2 (20%)			Scenario 3 (20%)			Scenario 4 (20%)		
Factors	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**
GDP[1], Δ	+1.2%	+2.2%	+2.8%	-0.4%	+0.8%	+2.6%	-3%	+4.4%	+3.6%	-4.0%	+0.0%	+2.8%
Repo rate	3.0%	2.4%	2.3%	3.0%	2.3%	2.1%	3.3%	2.8%	2.6%	3.9%	3.5%	3.2%
Unemployment	7.9%	8%	7.8%	8.3%	9.1%	8.9%	10.8%	10.8%	9.8%	8.7%	10.2%	10.6%
House prices, Δ	-3.9%	+1.8%	+4.2%	-5.2%	+1.7%	+5.1%	-13.3%	-3.9%	+4.2%	-19.1%	-15.2%	+0.3%
Prices of tenant-owners' rights, Δ	-3.2%	+3.7%	+5.7%	-4.4%	+3.9%	+6.7%	-12.2%	-3.9%	+5.7%	-19.3%	-12.4%	+1.3%
Property prices, Δ	0.0%	-1.7%	-2.5%	-0.9%	-2.2%	-1.8%	-6%	-9.8%	-4.9%	-9.9%	-18.7%	-11%
ECL	**SEK 98 million**			**SEK 102 million**			**SEK 157 million**			**SEK 321 million**		
Weighted ECL	**SEK 156 million**											

1) Not included in the ECL calculation

Impairment model and credit loss provisions
During the second half of 2022 SCBC has continuously evaluated the macroeconomic outlook due to the ongoing war in Ukraine and the high inflation, which among other things, is driven by increased energy prices. During the second half-year the forward-looking information has been revised twice, during the third and fourth quarter, correspondingly with updated macroeconomic forecasts. The forward-looking information is applied in the impairment model and thus used to calculate expected credit losses (ECL). The updates in macroeconomic forecasts are still based on a negative outlook on the economy in general. Although the Swedish economy in particular is expected to experience limited direct impacts from the war in Ukraine it is sensitive to rising interest rates and the uncertainty in the global economy. All scenarios take into account increasing interest rates and an expected cooling of the Swedish housing market with falling housing and real estate prices.

The revision of the forward-looking information during the period together with the indexing of the valuations of houses and tenant-owners' rights maintained the level of credit loss provisions. In the revision of the forward-looking information, the scenario weights were also adjusted, where 5 percent of the weight was moved from scenario 3 to scenario 4 because of the continued uncertainty in the Swedish housing market. The updated macroeconomic forecasts together with the re-weighting of scenarios during the half-year led to a decrease of SEK 24 million. As per 31 of December credit loss provisions amount to SEK 156 million, compared to SEK 127 million per 30 of June 2022. Despite a neutral effect of the abovementioned updates to the forward-looking information and the indexation of market values, the loss provisions have increased during the period. The increase is foremost attributed to negative rating grade migrations for retail exposures due to higher interest costs and updated credit bureau information resulting in a net exposure inflow to credit stage 2.

Throughout 2022, SCBC has continuously tracked credit risk in lending portfolio given the macroeconomic developments. In the table above the macroeconomic scenarios applied in the forward-looking information are shown. The underlying credit risk models in the impairment model, which are largely based on customers' payment behaviour along with market values of collateral, show still no sign of significant deterioration in credit risk despite the falling housing and real estate prices and rising interest rates which have been observed recently. SCBC is comfortable with the size of the credit loss provisions, totalling SEK 156 million as per 31 of December 2022.

Overall credit quality
The credit quality of SCBC's lending portfolio remains good and the risks entailed in the lending to private individuals within the business area Retail are low despite the prevailing circumstances. The granting of loans is based on a sound credit approval process that determines whether customers have the financial capacity required to meet their obligations. The Swedish FSA's annual mortgage market survey, based on data from 2021, found that overall, new residential mortgage customers continue to have healthy margins to manage repayment of their mortgages even in a worse economic climate. At the end of 2022, the average loan-to-value (LTV) ratio[2] in the mortgage portfolio was 59% (55).

The credit quality of SCBC's lending to property companies, property developers and tenant-owners' associations is also considered good. The average LTV for property companies and tenant-owners' associations at the end of 2022 was 62% (63) and 33% (35) respectively. In the business area Corporate Clients & Tenant-Owners' Associations, the granting of loans is based on an assessment of customers' ability to generate stable cash flows over time and on whether adequate collateral can be provided. Due to the global economic development with high inflation resulting in rising interest rates, the bank has and is working proactively to identify customers who are or could become particularly financially affected. The bank is continuously identifying risks and need for measures for individual customers. Changed market situation can lead to increased credit risk. The bank has increased the frequency of follow-up of customers which are more dependent on market funding as well as customers with building credits, which can be particularly affected by increased interest rates and raised costs for building materials. Furthermore, there is a more frequent evaluation of exposures' rating grades by expert judgement. During the period only a few overrides of the rating grades have been made. No individual credit loss provisions within the business area have been deemed necessary during the period.

2) The loan-to-value (LTV) 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. SCBC verifies property values on a regular basis. For residential properties and tenant-owners' rights, the property value is verified at least every third year.

Note 5 Lending to the public

	SCBC	
SEK million	**31 Dec 2022**	**31 Dec 2021**
Opening balance	**442,067**	**398,029**
Transferred to/from Group entities	83,440	90,073
Amortisation, repayments, etc.	–41,730	–46,044
Confirmed credit losses	–2	–3
Change in provision for expected credit losses[1]	–37	12
Closing balance	**483,738**	**442,067**

1) For further information, please refer to Note 4 ("Change in provision for the period – credit stage 1, 2 and 3").

Distribution of lending, including provisions

	SCBC	
SEK million	**31 Dec 2022**	**31 Dec 2021**
Lending, Residential mortgages	345,540	330,094
Lending, Corporate Clients & Tenant-Owners' Associations	138,198	111,973
Total	**483,738**	**442,067**

Note 5 Lending to the public, Cont.

Lending to the public by credit stage

SEK million	SCBC 31 Dec 2022	31 Dec 2021
Credit stage 1		
Gross carrying amount	455,239	422,471
Provision for expected credit losses	–53	–40
Carrying amount	**455,186**	**422,431**
Credit stage 2		
Gross carrying amount	28,309	19,500
Provision for expected credit losses	–79	–55
Carrying amount	**28,230**	**19,445**
Credit stage 3		
Gross carrying amount	346	215
Provision for expected credit losses	–24	–24
Carrying amount	**322**	**191**
Gross carrying amount (credit stages 1, 2 and 3)	**483,894**	**442,186**
Provision for expected credit losses (credit stages 1, 2 and 3)	**–156**	**–119**
Total	**483,738**	**442,067**

Lending to the public and provisions

SEK miilion	SCBC							
Capital	Credit stage 1 Capital	Provision	Credit stage 2 Capital	Provision	Credit stage 3 Capital	Provision	Capital	Provision
Opening balance 1 January 2022	**422,471**	**–40**	**19,500**	**–55**	**215**	**–24**	**442,186**	**–119**
Moved to credit stage 1	11,643	–25	–11,607	24	–36	1	0	0
Moved to credit stage 2	–13,616	3	13,645	–4	–29	1	0	0
Moved to credit stage 3	–86	0	–190	3	276	–3	0	0
Volume change*	35,723	–19	6,761	–19	–73	4	42,411	–34
Revaluation**	–896	28	200	–28	–5	–5	–701	–5
Confirmed credit losses	–	–	–	–	–2	2	–2	2
Closing balance 31 December 2022	**455,239**	**–53**	**28,309**	**–79**	**346**	**–24**	**483,894**	**–156**

* Refers to new lending, amortisations, redemptions and loan tranfers between SBAB and SCBC.
** Refers to revaluation of ECL as well as changes in transaction and modification costs.

SEK miilion	SCBC							
Capital	Credit stage 1 Capital	Provision	Credit stage 2 Capital	Provision	Credit stage 3 Capital	Provision	Capital	Provision
Opening balance 1 January 2021	**380,031**	**–42**	**17,911**	**–64**	**218**	**–25**	**398,160**	**–131**
Moved to credit stage 1	10,683	–27	–10,659	26	–24	1	0	0
Moved to credit stage 1	–8,598	2	8,626	–3	–28	1	0	0
Moved to credit stage 3	–48	0	–82	2	130	–2	0	0
Volume change*	38,706	–11	3,723	–5	–75	5	42,354	–11
Revaluation**	1,697	38	–19	11	–3	–5	1,675	22
Confirmed credit losses	0	0	0	0	–3	1	–3	1
Closing balance 31 December 2021	**422,471**	**–40**	**19,500**	**–55**	**215**	**–24**	**442,186**	**–119**

*Refers to new lending, amortizations, redemptions and loan transfers between SBAB and SCBC.
**Refers to revaluation of ECL as well as changes in transaction and modification costs.

Note 6 Derivatives

SEK million	SCBC 31 Dec 2022 Assets measured at fair value	Liabilities measured at fair value	Total nominal amount	31 Dec 2021 Assets measured at fair value	Liabilities measured at fair value	Total nominal amount
Interest-rate-related	4,877	21,828	420,064	3,474	1,536	380,597
Currency-related	7,679	0	75,202	2,428	584	69,019
Total	**12,556**	**21,828**	**495,266**	**5,902**	**2,120**	**449,616**

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

Note 7 Classification of financial instruments

Financial assets

	SCBC				
	31 Dec 2022				
	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	–	–	983	983	983
Lending to the public	–	–	483,738	483,738	472,528
Value changes of interest-rate-risk hedged items in macro hedges	–	–	–4,944	–4,944	–
Derivatives	12,556	0	–	12,556	12,556
Other assets	–	–	63	63	63
Prepaid expenses and accrued income	–	–	225	225	225
Total	**12,556**	**0**	**480,065**	**492,621**	**486,355**

Financial liabilities

	SCBC				
	31 Dec 2022				
	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.	–	–	328,881	328,881	315,438
Derivatives	21,828	0	–	21,828	21,828
Other liabilities	–	–	214	214	214
Accrued expenses and deferred income	–	–	2,192	2,192	2,192
Subordinated debt to the Parent Company	–	–	127,506	127,506	127,506
Total	**21,828**	**01**	**458,794**	**480,622**	**467,179**

Not 7 Classification of financial instruments, Cont.

Financial assets

	SCBC				
	31 Dec 2021				
	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	–	–	1	1	1
Lending to the public	–	–	442,067	442,067	440,636
Value changes of interest-rate-risk hedged items in macro hedges	–	–	–563	–563	–
Derivatives	5,890	12	–	5,902	5,902
Other assets	–	–	23	23	23
Prepaid expenses and accrued income	–	–	118	118	118
Total	**5,890**	**12**	**441,646**	**447,548**	**446,680**

Financial liabilities

	SCBC				
	31 Dec 2021				
	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	–	–	15,414	15,414	15,414
Issued debt securities, etc.	–	–	300,913	300,913	303,221
Derivatives	2,119	1	–	2,120	2,120
Other liabilities	–	–	43	43	43
Accrued expenses and deferred income	–	–	1,614	1,614	1,614
Subordinated debt to the Parent Company	–	–	107,718	107,718	107,718
Total	**2,119**	**1**	**425,702**	**427,822**	**430,130**

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 2021. 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 8 Fair Value Disclosures

	SCBC							
	31 Dec 2022				31 Dec 2021			
SEK million	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobser-vable market data (Level 3)	Total	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobser-vable market data (Level 3)	Total
Assets								
Derivatives	–	12,556	–	12,556	–	5,902	–	5,902
Total	–	**12,556**	–	**12,556**	–	**5,902**	–	**5,902**
Liabilities								
Derivatives	–	21,828	–	21,828	–	2,120	–	2,120
Total	–	**21,828**	–	**21,828**	–	**2,120**	–	**2,120**

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided provided in Note G 1 (Accounting Policies) in SCBC's Annual Report 2021 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 2021 or 2022.

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 9 Subordinated debt to the Parent Company

	SCBC	
SEK million	31 Dec 2022	31 Dec 2021
Subordinated debt to the Parent Company	127,506	107,718
– Of which Internal Group MREL instrument	17,000	11,000
Total	**127,506**	**107,718**

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

Internal Group MREL instrument
Of the subordinated debt to the Parent Company SBAB Bank AB (publ), SEK 17,000 million comprises an internal Group debt instrument (senior non-preferred notes) that was issued by SCBC to the Parent Company in December 2019 for the purpose of meeting the minimum requirement for own funds and eligible liabilities (MREL) announced by the Swedish National Debt Office in SCBC. The internal Group MREL instrument is subordinate to other subordinated debt to the Parent Company.

Note 10 Capital adequacy, own funds and capital requirements

Amendments to the Banking Package
The capital adequacy is based on the consolidated version of the Capital Requirements Regulation and the Capital Requirements Directive which have been adapted to the Banking Package adopted on 7 June 2019.
Information in this note refers to the minimum capital requirements according to Pillar 1 and corresponds to the disclosure requirements in the Capital Requirements Regulation, part eight and the Swedish FSA regulation FFFS 2014:12. During the fourth quarter 2021 the EU Commission published the finalization of Basel 3 regulation. The proposal contains amendments that improve the comparability of risk-based capital measures between the banks in the EU banking sector. This will reduce the scope for unjustified differences. The proposal includes changes to the standardized approaches and the internal models used to calculate capital requirements for credit risk. For the internal models a capital requirement floor is introduced, where risk weighted exposure amounts must not be less than 72.5 percent of what the standardized approach measures.

The EU Commission's proposal is to be introduced with a transitional period during 2025 -2030. Ongoing negotiations on the proposal are taking place in the European Council and the European Parliament.

Buffer requirements
The countercyclical buffer requirement for Swedish exposures has been increased from 0% to 1%, with application from 29 September 2022. The Swedish FSA has informed that the countercyclical buffer value will increase to 2% with application from 22 June 2023. The Government of Denmark has decided to increase the countercyclical buffer requirement from 1% to 2% with application from 31 December 2022. In addition, Bank of Norway decided to raise the countercyclical capital buffer from 1.5% to 2%, effective from 31 December 2022 and thereafter an increase to 2.5% from 31 March 2023.

Capital adequacy

	SCBC				
SEK million	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
Available own funds (amounts)					
Common Equity Tier 1 (CET1) capital	20,166	19,358	19,112	18,873	18,651
Tier 1 capital	20,166	19,358	19,112	18,873	18,651
Total capital	20,166	19,358	19,112	18,873	18,651
Risk-weighted exposure amounts					
Total risk exposure amount	126,730	122,130	120,143	117,150	114,600
Capital ratios (as a percentage of risk-weighted exposure amount)					
Common Equity Tier 1 ratio (%)	15.9	15.9	15.9	16.1	16.3
Tier 1 ratio (%)	15.9	15.9	15.9	16.1	16.3
Total capital ratio (%)	15.9	15.9	15.9	16.1	16.3
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.5	2.5	2.5	2.5	2.5
of which: to be made up of CET1 capital (percentage points)	1.7	1.7	1.7	1.7	1.7
of which: to be made up of Tier 1 capital (percentage points)	1.9	1.9	1.9	1.9	1.9
Total SREP own funds requirements (%)	10.5	10.5	10.5	10.5	10.5
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
Capital conservation buffer (%)	2.5	2.5	2.5	2.5	2.5
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	–	–	–	–	–
Institution specific countercyclical capital buffer (%)	1.0	1.0	0.0	0.0	0.0
Systemic risk buffer (%)	–	–	–	–	–
Global Systemically Important Institution buffer (%)	–	–	–	–	–
Other Systemically Important Institution buffer (%)	–	–	–	–	–
Combined buffer requirement (%)	3.5	3.5	2.5	2.5	2.5
Overall capital requirements (%)	14.0	14.0	13.0	13.0	13.0
CET1 available after meeting the total SREP own funds requirements (%)	5.4	5.4	5.4	5.6	5.8

Note 10 Capital adequacy, own funds and capital requirements, Cont.

	SCBC				
SEK million	**31 Dec 2022**	**30 Sep 2022**	**30 Jun 2022**	**31 Mar 2022**	**31 Dec 2021**
Leverage ratio					
Total exposure measure	486,973	471,569	464,420	451,928	442,983
Leverage ratio (%)	4.1	4.1	4.1	4.2	4,2
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
Additional own funds requirements to address the risk of excessive leverage (%)	–	–	–	–	–
of which: to be made up of CET1 capital (percentage points)	–	–	–	–	–
Total SREP leverage ratio requirements (%)	3.0	3.0	3.0	3.0	3.0
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
Leverage ratio buffer requirement (%)	–	–	–	–	–
Overall leverage ratio requirement (%)	3.0	3.0	3.0	3.0	3.0
Liquidity Coverage Ratio[1]					
Total high-quality liquid assets (HQLA) (Weighted value -average)					
Cash outflows - Total weighted value					
Cash inflows - Total weighted value					
Total net cash outflows (adjusted value)					
Liquidity coverage ratio (%)					
Net Stable Funding Ratio[1]					
Total available stable funding					
Total required stable funding					
NSFR ratio (%)					

1) AB Sveriges Säkerställda Obligationer (publ) is treated as a single liquidity sub-group, together with SBAB Bank AB(publ), according to Article 8 (CRR) and a decision by Swedish FSA. Therefore, Liquidity information is only regarded material on a consolidated basis.

Note 10 Capital adequacy, own funds and capital requirements, Cont.

Disclosures in accordance with Article 4 of Commission Implementing Regulation (EU) No 637/2021, Annex VII.

Own funds

	SCBC	
SEK million	**31 Dec 2022**	**31 Dec 2021**
Common Equity Tier 1 (CET1) capital : Instruments and reserves		
Capital instruments and the related share premium accounts[1]	50	9,600
Retained earnings[1]	18,610	7,401
Accumulated other comprehensive income (and other reserves)	−6,493	843
Independently reviewed interim profits net of any foreseeable charge or dividend[2]	1,571	1,683
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**13,738**	**19,527**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments (negative amount)	−39	−9
Intangible assets(net of related tax liability (negative amount)	–	–
Fair value reserves related to gains or losses on cash-flow hedges of financial instruments that are not valued at fair value	6,493	−843
Negative amounts resulting from the calculation of expected loss amounts	−25	−24
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	−1	0
Other regulatory adjustments[3]	–	–
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**6,428**	**−876**
Common Equity Tier 1 (CET1) capital	**20,166**	**18,651**
Additional Tier 1 (AT1) capital: Instruments		
Additional Tier 1 (AT1) capital before regulatory adjustments	**–**	–
Additional Tier 1 capital: regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 (AT1) capital	**–**	–
Additional Tier 1 (AT1) capital	**–**	–
Tier 1 capital (T1 =CET1+A1)	**20,166**	**18,651**
Tier 2 (T2) capital: Instruments		
Credit risk adjustments	–	–
Tier 2 (T2) capital before regulatory adjustments	–	**–**
Tier 2 (T2) capital: regulatory adjustments		
Total regulatory adjustments to Tier 2(T2) capital	**–**	–
Tier 2 (T2) capital	**–**	**–**
Total capital (TC=T1+T2)	**20,166**	18,651
Total risk-exposure amount	**126,730**	**114,600**

Note 10 Capital adequacy, own funds and capital requirements, Cont.

SEK million	SCBC 31 Dec 2022	31 Dec 2021
Capital ratio and requirements including buffers, %		
Common Equity Tier 1 capital	15.9	16.3
Tier 1 capital	15.9	16.3
Total capital	15.9	16.3
Institution CET1 overall capital requirements	9.7	8.7
– of which, capital conservation buffer requirement	*2.5*	*2.5*
– of which, countercyclical buffer requirement	*1.0*	*0.0*
– of which, systemic risk buffer requirement	–	–
– of which, G-SII buffer and O-SII buffer	–	–
– of which, additional own funds requirements to address the risk other than the risk of excessive leverage [4]	*2.5*	*1.7*
Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum requirements	5.4	5.8

1) Reclassification of shareholders contribution pursuant to Article 28, Point 1 of the Capital Requirements Regulation.
2) The results have been verified by Deloitte AB pursuant to Article 26, Point 2a of the Capital Requirements Regulation.
3) There are no results that generate a deduction of NPL backstop since entry into force.
4) Outcome according to the Supervisory Review and Evaluation Process from the Swedish FSA, communicated and applied from September 2021.

Note 10 Capital adequacy, own funds and capital requirements, Cont.

SCBC has previously identified faults with the internal models used to cover capital requirements for credit risk and SCBC has therefore, voluntarily applied an Article 3 surcharge on capital adequacy and in its reports, and has also completed efforts to update teh internal rating-based models. SBAB´s assessment is that the implementation of the updated models, following approval from the Swedish FSA, should rectify the identified faults and therefore lead to a decreased Pillar 2 requirement. In October 2021 the board of SBAB decided to remove the Article 3 surcharge, as a result of the Swedish FSA communicated Pillar 2 requirements.

Risk exposure amounts and capital requirements

	SCBC			
	31 Dec 2022		31 Dec 2021	
mnkr	Risk exposure amount	Capital require-ment	Risk exposure amount	Capital require-ment
Credit risk recognised in accordance with IRB approach				
Exposures to corporates	19,010	1,521	11,965	957
Retail exposures	14,178	1,134	11,828	946
– of which, exposures to SMEs	*975*	*78*	*988*	*79*
– of which, retail exposures secured by immovable property	*13 203*	*1 056*	*10,840*	*867*
Total exposures recognised with IRB approach	**33,188**	**2,655**	**23,793**	**1,903**
Credit risk recognised with the standardised approach				
Exposure to governments and central banks[1)]	14	1	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0
Exposures to institutions[2)]	134	11	475	38
– of which, derivatives according to CRR, Appendix 2	*121*	*10*	*311*	*25*
– of which, repos	*13*	*1*	*164*	*13*
– of which, other	*0*	*0*	*0*	*0*
Exposures to institutions and corporates with a short-term credit rating	6	0	0	0
Other items	55	5	25	2
Total exposures recognised with standardised approach	**209**	**17**	**500**	**40**
Market risk	**611**	**49**	**560**	**45**
– of which, position risk	–	–	–	–
– of which, currency risk	*611*	*49*	*560*	*45*
Operational risk	**4,928**	**394**	**4,617**	**369**
Credit valuation adjustment risk	**879**	**70**	**1,123**	**90**
Additional requirements under Article 458 of the CRR	**86,915**	**6,953**	**84,007**	**6,721**
Additional requirements under Article 3 of the CRR	–	–	–	–
Total risk exposure amount and minimum capital requirement	126,730	10,138	114,600	9,168
Capital requirements for capital conservation buffer		3,168		2,865
Capital requirements for countercyclical buffer		1,268		0
Total capital requirement		14,574		12,033

1) Risk-weighted amount for governments and central banks amounts to SEK 14 million due to deferred tax according to CRR Article 48(4).
2) The risk exposure amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 134 million (475).

Note 11 Internally assessed capital requirement

The internal capital adequacy assessment aims to ensure that SCBC has adequate capital to deal with any financial problems that arise. The internally assessed capital requirement for SCBC amounted to SEK 16,227 million (SEK 12,774 million on 31 December 2021). The internal capital requirement is assessed using SCBC's internal models for economic capital.

SCBC 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. The internal capital requirement is defined as the higher of economic capital and the regulatory requirements for each type of risk.

		SCBC			
		31 Dec 2022		31 Dec 2021	
		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, %
	Credit risk & CVA risk	2,742	2.2	2,033	1.8
	Market risk	49	0.0	45	0.0
Pillar 1	Operational risk	394	0.3	369	0.3
	Risk-weight floor[1]	6,953	5.5	6,721	5.9
	Total Pillar 1	**10,138**	**8.0**	**9,168**	**8.0**
	Credit risk	654	0.5	517	0,5
	Market risk	999	0.8	223	0.2
Pillar 2	Operational risk	–	–	–	–
	Pension risk	–	–	–	–
	Total Pillar 2	**1,653**	**1.3**	**741**	**0.6**
	Capital conservation buffer	3,168	2.5	2,865	2.5
Buffers	Countercyclical buffer	1,268	1.0	0	0.0
	Total Buffers	**4,436**	**3.5**	**2,865**	**2.5**
	Total	**16,227**	**12.8**	**12,774**	**11.1**
	Total own funds	**20,166**		**18,651**	

1) In 2018, the Swedish FSA decided to amend the method for applying the risk weight floor under Pillar 2 and replace it with a Pillar 1 requirement in accordance with Article 458 of the CRR. The amendment entered into force in 2018 and applied for two years. The Swedish FSA has extended the capital requirement, and it is currently in force until 30 December 2023.

Auditors’ review report

Introduction
We have reviewed the year-end report for The Swedish Covered Bond Corporation (“SCBC”) (in Swedish: AB Sveriges Säkerställda Obligationer (publ)) for the period 1 January – 31 December 2022. 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 is not prepared, in all material aspects, in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 6 February, 2023

Deloitte AB

Signature on Swedish original

Patrick Honeth
Authorised Public Accountant

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, 6 February 2023

Fredrik Jönsson
CEO

Financial calender

Interim Report Jan-Jun 2023	July 19, 2023
Year-end Report 2023	February 2, 2024

Credit ratings

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

Contact

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This information was submitted for publication on February 7, 2023 at 08:00 (CET).

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