

# SBAB!

Annual Report 2018

ONE OF SWEDEN'S  
BEST WORK-  
PLACES p.50

GREEN MORTGAGES  
FOR ENERGY-EFFICIENT  
CUSTOMERS p.40

WE CONTRIBUTE TO  
BETTER HOUSING AND  
HOUSEHOLD FINANCES p.2

TAX AVOIDANCE IN THE  
CONSTRUCTION INDUSTRY  
IS UNACCEPTABLE p.44

#METOO WAS AN  
EYE-OPENER p.56

A YEAR OF  
GROWTH AND  
PROFITABILITY p.8

MORE PEOPLE CHOOSING  
SBAB FOR THEIR  
MORTGAGES p.63





## We contribute to better housing and household finances.

Solving problems linked to housing is what motivates us. We know that we can do so much more than merely lend money. We have a responsibility for the people and areas of society affected by our business, both now and in the future.

We work to make the housing and residential mortgage market simpler and more transparent and to make it easier for the many people going through life's different housing phases – whether it be finding, buying, owning or selling a home. By working together with others who influence the housing market, we are able to make it more sustainable.

Put simply, we contribute to better housing and household finances.



## STATEMENT FROM THE CEO

**T**he past year was very successful for SBAB, despite the continued uncertainty from 2017 surrounding the housing market. We continue to grow with strong profitability and low credit losses. It is fantastic that so many new customers are choosing SBAB to realise their dreams of owning a home. Our strong performance enable us to continue investing in operations to further improve our customer offering and provide an even better customer experience within our ecosystem – housing and household finances.

We take our role in the housing and residential mortgage market seriously. Our mission – to contribute to better housing and household finances – makes our responsibility clear. We make no distinction between sustainability goals and business goals – instead we run our operations sustainably for long-term competitiveness. In our operations, we actively work with the Sustainable Development Goals in the 2030 Agenda. Our work is about, amongst other things, making the residential mortgage market more open, transparent and inclusive; collaborating to reduce tax fraud at construction sites; offering green loans and green bonds to support lower energy consumption in homes and properties. Sustainable enterprise that clearly and concretely contributes to both social benefits as well as long-term business benefits for us as a company.

I am also proud over the steps we have taken this year in our work for respect and equality. The #metoo movement in autumn 2017 showed that disrespectful

and inequitable norms and behaviour are all around us. Completely unacceptable. To make a tangible impact in terms of respect and gender equality issues, in 2018 we worked together with the Make Equal foundation to create Respekttrappan. Respekttrappan is a tool focused on creating the preconditions that, from differing perspectives and in various ways, enable us to learn more about, to reflect on and talk about respect and equality.

Everyone at SBAB needs to be inclusive and engaged for us to succeed in our work.

Everyone needs to feel that they are part of something, that they are contributing something. It is also what our value-driven working method at SBAB is built on, and what made us one of Sweden's best workplaces in 2018, according to Great Place to Work.

One of our values is about succeeding together. Sincere thanks to all employees at SBAB for succeeding together in 2018.

**// We take our role in the housing and residential mortgage market seriously.**

Klas Danielsson, CEO



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The Annual Report is submitted by the Board of Directors and applies a clear and integrated approach, which entails that information related to sustainability is integrated into financial information. The Annual Report has been prepared in accordance with the GRI Standards: Core option. It also constitutes SBAB's Communication on Progress (COP) to the UN Global Compact, sustainability report in accordance with the Swedish Annual Accounts Act and information on how SBAB contributes to the 2030 Agenda for Sustainable Development. For additional information about the Annual Report and the reporting principles, see page 161.

The table of contents has been colour-coded in orange to show which pages have been audited. The remaining pages, excluding the Corporate Governance Report, have been subject to a limited assurance engagement. The Corporate Governance Report has been subject to a statutory review by the company's auditor.

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



## Tax avoidance within construction requires mobilisation

Several investigations have presented a concerning trend in relation to irregularities within construction. Tax avoidance leads to Sweden losing major revenue that could go to increasing welfare. Tax avoidance also contributes to unhealthy competition among construction companies, a negative spiral that risks cutting out companies that do the right thing, says Carl Lindståhl, Sustainability Strategist at SBAB.

p. 44



## Poor grasp of terms used in the housing market

Many house buyers do not understand the terminology commonly used in the housing market — something that is crucial in terms of making well thought-out and considered purchases, says Claudia Wörmann, Housing Economist at SBAB.

p. 32





# THE NEXT STEP IN **SBAB'S** EFFORTS TO CREATE A MORE SUSTAINABLE WORLD

SUSTAINABLE  
DEVELOPMENT  
**GOALS**

In 2018 we integrated Agenda 2030 and the sustainable development goals into our operational governance.

**p. 24**

## "Boendeekonomi är jättekul!"

According to a SIFO survey commissioned by SBAB in early 2017, a full 70% of the Swedish population think that household finances are important, but dull. Even really dull. SBAB decided to do something about this, explains Patrik Söder, Head of Marketing at SBAB.

**p. 36**

## Banks, let's talk about integration

During the year, SBAB launched a survey looking at the attitude of foreign-born Swedish citizens to working in the banking sector, as well as their experiences of banking services. The results showed that the majority of them were interested in working at a bank, but that only 5% had applied for a job in the sector. Malin Pellborn, Head of Sustainability and Communication (HMK) at SBAB, considers it clear that the banking sector has failed in many ways to take advantage of these skills.

**p. 54**



## Many buildings in Sweden do not meet current energy consumption requirements

Statistics from the National Board of Housing, Building and Planning show that a large majority of properties that have a valid energy declaration do not fulfil energy requirements for new-build properties. Offering opportunities and incentives to make properties more energy efficient is important in terms of accelerating the transition to a more climate and energy-smart society, according to Axel Wallin, Sustainability Strategist at SBAB.

**p. 38**





# Our operations in brief

**SBAB was founded in 1985 and is wholly owned by the Swedish state. Our business idea is to be innovative and considerate in our offering of loans and savings products to private individuals, tenant-owner associations and property companies in Sweden.**

Total lending

SEK **364** billion

Total deposits

SEK **125** billion



**We are strengthening our customer offering with services relating to housing and household finances.**

**602**

We had a total of 602 employees at the end of 2018, spread over five offices in Solna, Stockholm, Karlstad, Malmö and Gothenburg.



**505,000**

Many people visit [www.sbab.se](http://www.sbab.se) to manage their mortgages and savings or to find inspiration about housing and household finances. The number of unique monthly visitors was 505,000 in 2018.

**79%**

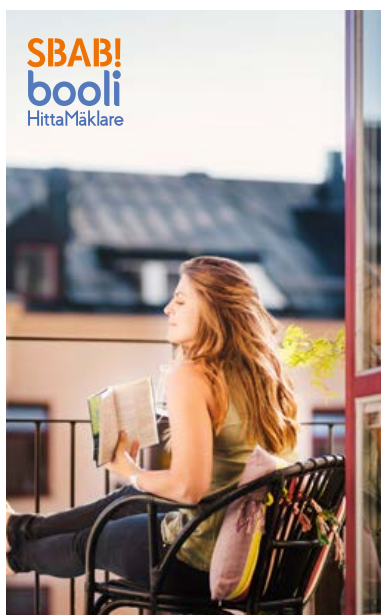
HittaMäklare's service for locating estate agents is used by about 79% of the registered estate agents in Sweden.

**930,000**

On [www.booli.se](http://www.booli.se) people can find information about housing such as the range, demand and price trends. The number of unique monthly visitors was 930,000 in 2018.



## Retail



## Residential mortgage customers

270,000

## Savings customers

329,000

## Customer satisfaction according to Swedish Quality Index



The Retail business area offers services within housing and household finances, such as savings and loan products, insurance mediation, and search-engine and real estate-agent services. The core product is residential mortgages. Activities are operated under the SBAB, Booli and HittaMäklare brands. We do not have any offices for physical customer meetings — we meet our customers and users digitally or by telephone. Our market share in terms of residential mortgages amounted to 8.41% at year-end, which makes us the fifth-largest residential mortgage bank in Sweden. Booli.se is Sweden's second-largest search engine for housing.

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## Corporate Clients &amp; Tenant-Owners' Associations



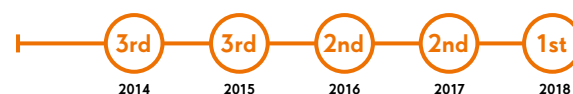
## Housing financing customers

2,200

## Savings customers

13,400

## Customer satisfaction according to Swedish Quality Index



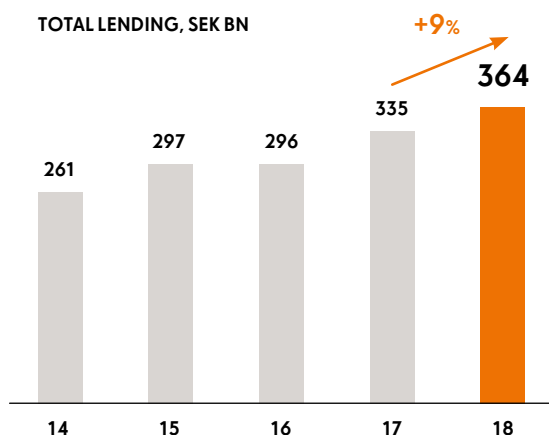
The Corporate Clients & Tenant-Owners' Associations business area offers savings and property financing to property companies and tenant-owners' associations. We finance multi-family dwellings, existing as well as new construction. Our lending to property companies and tenant-owners' associations corresponds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

p.66

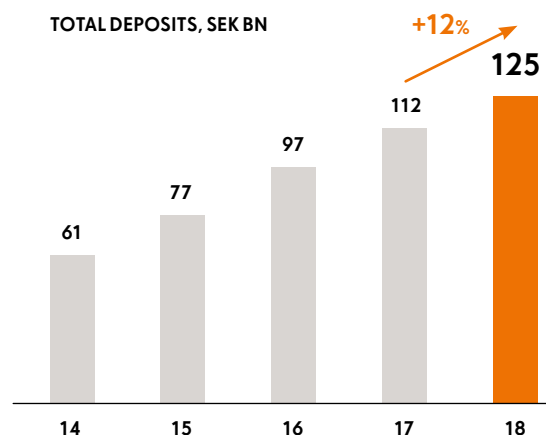


# A year of growth, profitability...

TOTAL LENDING, SEK BN



TOTAL DEPOSITS, SEK BN



Net interest income

SEK **3,362** million

2017: SEK 3,149 million

Return on equity

**12.1**%

2017: 12.5%

C/I ratio

**32.0**%

2017: 30.3%

## SELECTED KEYMETRICS

	GROUP	
	2018	2017
Total lending, SEK bn	364.2	335.1
Total deposits, SEK bn	124.9	111.9
Net interest income, SEK million	3,362	3,149
Net commissions, SEK million	-49	-5
Expenses, SEK million	-1,049	-959
Credit losses, SEK million	11	24
Operating profit, SEK million	2,241	2,228
Return on equity, %	12.1	12.5
C/I ratio, %	32.0	30.3
CET1 capital ratio, %	12.5 <sup>1)</sup>	32.2

<sup>1)</sup> From 31 December 2018, the method for applying the existing risk-weight floor for Swedish mortgages has been amended. For more information, please refer to page 72.



# ... and sustainable development



## Everything we do is transparent. Except our Green Mortgages — those are green.

Our credit granting enables us to influence the market through requirements and stimuli with the aim of reducing energy consumption in properties and homes. As part of our effort to combat climate change, during the year we launched our Green Mortgages — mortgages with an interest-rate discount for retail customers who live in houses or apartments with an energy rating of A, B or C.

**p.40**

## Match up for a better interest rate!

Transparency and attractive terms and conditions represent central components of our customer offering. We believe that many people pay an excessively high mortgage rate to their bank. Thanks to our “Räntematchen” digital comparison service, consumers can compare their current mortgage rate with SBAB’s offering. In 2018 over 40,000 matches were carried out.



**p.35**

## One of Sweden’s best workplaces

During the year we took yet another step forward in our efforts to be an attractive workplace and employer. SBAB finished in eighth place on Great Place To Work’s list of Sweden’s top workplaces for 2018 within the large organisations category.

**p.50**

## Sweden’s most satisfied customers

According to Swedish Quality Index (Swe: *Svenskt Kvalitetssindex*), SBAB had the most satisfied customers in Sweden in 2018 in terms of property loans to corporates and tenant-owners’ associations. With a customer satisfaction score of 74.0 out of 100, we rank well above the sector average of 69.1. Our results were particularly strong within the areas of image, expectations, product quality, service and value.



**p.31**

## Sustainability throughout our business and operations

At SBAB we do not distinguish between business objectives and sustainability objectives — our operations must be competitive in the long term, and therefore sustainable. We have established three target areas for our operations: Responsibility and transparency, An attractive workplace, and Sound finances.

**p.26**



# A customer experience within housing and household finances

**SBAB further reinforced its position in 2018, with growing market shares and strong financial results. Now the work to offer the best residential mortgages in Sweden by contributing to better housing and household finances continues, say Chairman of the Board Bo Magnusson and CEO Klas Danielsson.**

## **Attempt to sum up 2018. How was it?**

**Klas:** Things often go well when one is having fun at work, and in 2018, things went really well. We continued to capture market shares in a mortgage market where competition increased significantly both from other mortgage banks and from new competitors. Our share of the net growth in the residential mortgage market was 17% for the full year, which can be seen in relation to our market share of over 8.4% at the end of the year. Our growth is accompanied with strong profitability, low risk and very low credit losses – a very pleasing development. Never before has SBAB lent so much money to enable housing for so many. In parallel with growing our market shares we invest in our future competitiveness. This has led to an increased number of employees at SBAB. In 2018, we grew from 530 to 602 employees.

**Bo:** We are continuing to deliver on our strategy and 2018 was, all in all, a record year. We have satisfied customers and are fulfilling our financial targets with a comfortable margin, both in terms of profitability and capitalisation. The strong growth seen this year is a clear testament to our customers' appreciation of our offering – it is extremely gratifying that so many people are choosing to become customers with us. I am also pleased that the Board of Directors for the third consecutive year proposes a dividend of 40% to our owner, the Swedish state, corresponding to SEK 690 million.

## **In 2014, you decided to focus fully on residential mortgages and housing financing. Can you tell us about the development and what we can expect in the future?**

**Bo:** Four years ago we took a strategically important decision – to focus. We decided that our vision should be to offer the best residential mortgages in Sweden and that our mission should be to contribute to better housing and household finances. Thanks to our decision to focus fully on residential mortgages and property financing, we have secured our place in tomorrow's banking and financial market. This market requires focus and excellence to become the best and to win and earn customers' confidence. We will continue our strategic development towards housing, which includes an expanded product and service offering within the housing and household finances ecosystem. It is important for us to continue investing in the development of our offering and in our ability to deliver high-quality customer experiences.

## **You talk about an ecosystem – what does that mean?**

**Klas:** An ecosystem is a single entity with interrelated services that help customers solve their problems and fulfill their needs. Our customer offering is an ecosystem of services related to housing and household finances. Our services in Booli, HittaMäklare and SBAB solve many of our customers' problems and needs in life's housing journey. Residential mortgages

and property financing are our most important services and primary source of income, but we also want to build long-term customer relationships by offering valuable services to our customers to help with each phase of the housing journey. Booli is Sweden's second-largest search engine for housing, has Sweden's largest housing valuation service and offers Sweden's most comprehensive service for newly produced housing. HittaMäklare is Sweden's largest service for finding and recommending real estate agents. Our ambition is to create Sweden's best customer experience within the housing and household finances ecosystem.

## **The pace of investment in operations remains high, with increased expenses as a result. Why is this the case?**

**Klas:** The market, as well as the needs and behaviour of customers, changes rapidly. Perhaps now more than ever. New technology and digitalisation are driving developments. Powerful trends in the rest of the economy are shaping the competition. That is why we need to take care of and develop our existing operations and customer base, create growth and transform our operations by adapting and building for future competitiveness. This means that we need to invest, and we are currently in the middle of an investment cycle where we are replacing our technological infrastructure, developing the customer offering within our ecosystem and strengthening the organisation with technological and digital expertise.



**“ Never before has SBAB lent so much money to enable housing for so many.**

Klas Danielsson,  
CEO

Bo Magnusson,  
Chairman of the Board

**Was there anything you were less satisfied with in 2018?**

**Bo:** Yes, of course. There are always things that you can do better, and things that we lacked either the time or the ability to accomplish. It is important to be satisfied with what is going well and to celebrate success, but I also believe that it is important to be self-critical and to evaluate the goals that were not reached. If we become complacent, that risks slowing our pace and our rate of change. We would have liked, for example, to come even further with digitalising certain processes and developing our customer offering within the ecosystem, which is an important part of our effort to once again have Sweden's most satisfied customers. I also believe that we can do an even better job explaining and communicating our sustainability efforts to our customers and to the general public to further strengthen our reputation and brand.

**What is SBAB's view on sustainability?**

**Bo:** The business community, including SBAB, has a decisive role to play in ensuring long-term sustainable societal development. We are convinced that we, in collaboration with other players, can change the world for the better by running our business responsibly. In 2017, we reviewed our strategy linked to sustainable enterprise. This resulted in us no longer differentiating between business goals and sustainability goals. Our operations are driven and managed within three fully integrated target areas. Together, these comprise the basis for how to govern our business forward for long-term competitiveness while contributing to sustainable development. We have also identified and prioritised four of UN's 17 Sustainable Development Goals within the 2030 Agenda – goals 8, 11, 12, and 13 – which we consider particularly important and relevant for our operations. These are areas where we can have a clear, tangible impact.

**What steps have you taken within sustainability in 2018?**

**Klas:** So much has happened in the last year. It feels like we have really accelerated the pace of our work and also increased internal understanding of what sustainability and responsibility entail and can do for long-term competitiveness. During the year we launched our Green mortgages, where a high energy rating in a house or apartment is rewarded with a reduction to the mortgage rate. A reduction we automatically provide to our customers, which is another proof of transparency when it comes to our rates and terms. During the year, we also began a variety of industry-wide collaborative efforts to help solve different societal problems connected to the housing market and housing stock in Sweden. One such effort is combating unreported employment and tax fraud in the market for new construction. I am also proud of how we moved our internal positions on respect and equality during the



year, thanks to our work with Respekttrappan. All of this activities are concrete examples of how we reach our sustainable business goals and how we contribute to the four Sustainable Development Goals we assign priority to.

### Why is an attractive workplace one of the most important targets for SBAB?

**Klas:** Our eighth-place finish in Great Place To Work's list of Sweden's top workplaces in 2018 is proof that we have created a workplace

where we are engaged and motivated. In the ever-tougher competition in a quickly changing market, it is all the more important for our success that everyone who works at SBAB remains engaged and motivated. Our value-driven working

approach, which is based on inclusion and self-motivation, is absolutely essential for this. It is very pleasing that our brand has strengthened in the labour market, not least evident by the many strong candidates who are interested in our advertised positions. To be the CEO of one of Sweden's best workplaces is incredibly motivating and a pretty great feeling.

### What are SBAB's major challenges going forward?

**Bo:** Digitalisation and shifting customer needs and behaviour is a challenge. The change of pace is extreme. No one knows what kind of customer meeting and offering will be in demand in 2022. We can only make assumptions and try to create it, while at the same time keeping up with the rate of change, working agilely and revising our assumptions. Trust in banks in general, and in SBAB specifically, is essential for the future. Regulation and moni-

toring of the banking and financial sector continues to increase. The regulatory developments have entailed considerable work with adaptation for SBAB. We expect the high pace of regulatory development to continue and that this will increase complexity for banking operations, which increases the risks of making mistakes. This is also a major challenge, of course.

**Klas:** Competition in the residential mortgage market is increasing. Several

new competitors have emerged recently in the residential mortgage market and many established operators are working intensively to retain and defend their positions. At the same time, growth in the residential mortgage and housing financing market is expected to decline. An interesting and challenging combination. A

sharply differentiated customer experience will therefore be essential for long-term competitiveness, which we intend to create by contributing to better housing and household finances – that is our ecosystem, in which we will offer services that help solve our customers' every problem.

### Can you give some flavour around SBAB's lending to property companies and tenant-owners' associations?

**Klas:** We finished in an incredible first place in Swedish Quality Index's annual survey of customer satisfaction in the banking and finance industry when it comes to property loans to corporates and tenant-owners' associations. Fantastic results. A testament of how focus, exhaustive knowledge and investment in customer meetings pay off. We are experts in property loans, as reflected in our gratifyingly high levels of customer satisfaction. Our lending to property companies and

tenant-owners' associations in terms of volume was essentially unchanged in 2018. Our growth within this segment is limited by several factors. We want to contribute to the construction of new housing in Sweden, but given the uncertain market conditions, we have for some time been more cautious in our lending. We have chosen to focus our lending on established customer relationships and large, experienced property developers, and additionally to set higher demands regarding amortisation and sales rates prior to the start of production. Moreover, the demand for financing of new builds has somewhat slowed down during the year as a result of reduced housing construction and the choice by many larger property companies to replace bank financing with market financing. The competition in lending to tenant-owners' associations continues to be dominated by intense price competition, primarily from the major banks. This is an area where we have prioritised profitability over growth for quite a while.

### What are your thoughts on the market trend?

**Klas:** The markets in which we operate – the housing market and the credit market – are showing clear signs of slowing down. Especially due to new, restrictive credit regulations from the authorities. There is also a complex set of problems in the new construction market. Many new homes have been built, but perhaps not in line with demand in the market. Now new construction is slowing down, although there is still a need for many new homes throughout Sweden. Additionally, we believe that housing prices may decline further over the coming years in pace with the expected increase of the Riksbank's repo rate.

### What does this entail for SBAB?

**Bo:** The commercial consequences of a weakened credit and housing market will be increased competition between banks

**To be the CEO of one of Sweden's best workplaces is incredibly motivating and a pretty great feeling.**

for growth in residential mortgages and housing financing. That is why we are expecting a certain amount of intense price competition with lower lending margins and lower profitability. We are maintaining our growth ambitions and will work even harder to capture customers from our competitors, but we are realistic about how big of a challenge it is to grow as much as we want to in a weaker market.

#### How much can SBAB grow in the future?

**Klas:** The last few years, we have had significant growth. We believe that we have good opportunities for continued growth and for capturing market shares from our competitors in both lending and deposits. We will achieve this by continuing to develop our customer offering with a focus on innovation, digitalisation and sustain-

ability. Competitive terms for residential mortgages and housing financing will remain extremely important. We also have to focus on growing the number of users of our services and apps within our ecosystem, in order to build customer relationships that will eventually result in more residential mortgage customers.

#### And finally — why has SBAB chosen to work with “Boendeekonomi är jättekul” in its marketing communication?

**Klas:** Because it is important that people associate the subject with positive thoughts — no one wants to learn more about boring things. In reality, this could mean that many residential mortgage customers, because of a lack of interest, choose to remain with their existing bank and that they consequently pay higher interest rates on their

mortgage. Moreover, customer surveys and surveys with the general public reveal that SBAB's brand is associated with positive values such as security, trust, simplicity and transparency, which are all fantastic brand values for a bank. At the same time we know that factors such as experience and responsibility will be even more important for eligibility and customer loyalty in the future. With “Boendeekonomi är jättekul,” we want to create a fun experience that sparks interest in learning more about the subject.



Bo Magnusson  
Chairman of the Board



Klas Danielsson  
CEO



**// The business community, including SBAB, has a decisive role to play in ensuring long-term sustainable societal development.**



# What aspects affect our operations?

**All companies must continuously adapt and reinvent themselves in today's changing world. Technological, economic, social and political changes all have an impact on the conditions and opportunities linked to our operations.**

## Global trends

Growing populism and trade wars. Uncertainty surrounding issues like Brexit, the yellow vests movement and Trump. It is difficult to navigate in and assess the situation in the world at large. Digital developments are still in their infancy. Climate change and the challenges it poses have become increasingly apparent. A range of trends of varying natures are continuously altering conditions for people, societies and companies across the globe. This also applies to a small country like Sweden and certainly a company such as SBAB.

Climate change



Globalisation



Low interest rates



Demographics & urbanisation



Geopolitics & international relations



Digitalisation & new technology



Our operations are extremely dependent upon events in the wider world, but there are also trends of a more national, regional and local nature that affect our operations and the market in which we operate.

### Housing market trend

The Swedish housing and residential mortgage market has been expanding rapidly for a long time. The substantial increase in housing supply, new regulations and tighter credit terms from the banks likely contributed to falling housing prices in 2017. Following a minor upward correction in early 2018, housing prices essentially remained relatively still during the year, with some regional exceptions.

### A changing society

We live in a changing society. Many people have come to Sweden from other countries. We are ageing. More people are choosing to live in cities rather than in rural areas. Such changes can have major consequences for many important functions in society, including the housing market.

### Consistently high level of regulation

The financial sector is potentially one of the most regulated sectors of the economy. An operator that wants to offer loans and savings products has to contend with a multitude of regulations. These regulations have increased considerably over the past ten years and are likely to continue increasing in the future.

### Digitalisation and new competition

Technology is advancing rapidly, not least in respect of digitalisation of banking and financial services. Digitalisation enables new services and changes customers' behaviour and expectations. Many established operators are working intensively to retain and defend their positions. On the other hand, many new players are ready to compete for customers by offering new solutions and new business models.

### Major demand for housing

243 out of 290 municipalities currently state that they have a shortage of housing. Just as the supply of housing is reaching a record level, sales statistics show that many housing developers are having difficulty selling their newly produced apartments. Some believe that the need for housing, which has increased since the large wave of refugees in 2015, has incorrectly been equated with demand and has been exaggerated. Population growth does not only comprise people who have the financial capability to demand an own home at prevailing price levels.

### Sustainability an increasingly important issue

Sustainability has probably never been higher on the agenda than it is today. This development is being driven by regulatory requirements and international undertakings. The pressure from customers, politicians and other stakeholders is steadily increasing. New business models and innovative solutions are emerging as society and the climate change. Companies are expected not only to position themselves in relation to, but also to integrate, societal, economic and environmental issues into their operations.





# Static housing prices and declining construction

**Since the downturn in late 2017, housing prices largely remained still throughout 2018. The amount of completed new housing rose slightly during the year, while the amount of new housing construction fell.**

Developments in the Swedish housing market impact SBAB's lending and profitability. In turn, developments in the housing market are affected by the general state of the Swedish economy. Sweden is a small, heavily export-dependent economy that is highly influenced by international economic developments. Therefore, in addition to the housing and residential mortgage market, SBAB follows global and domestic macro-economic developments.

## Swedish economy boosted by the wider world

International economic developments remained strong during 2018. The USA's economy remained strong while economic developments in Europe found ever-

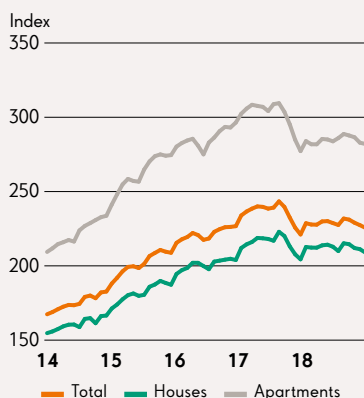
steadier ground, although the latter was held back somewhat by financial issues in Italy and uncertainty surrounding the Brexit agreement with the United Kingdom. A strong economic situation and low interest rates in many countries boosted private consumption and investment grew faster than normal.

GDP growth in Sweden has been falling for several years and was at roughly the same level in 2018 as in 2017, as well as being in line with both the EU and OECD average. Strong international developments and a weak SEK exchange rate contributed to high Swedish net exports in 2018. Domestic demand was helped up principally by investments in business. High levels of household savings held pri-

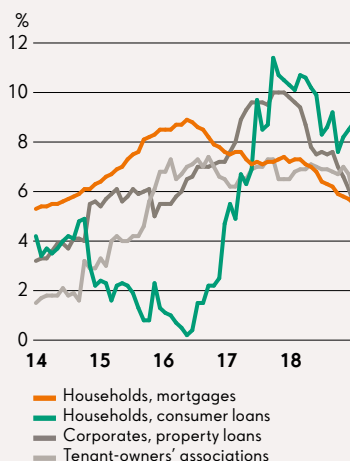
vate consumption back, however, despite strong salary growth and high disposable incomes.

The repo rate remained at -0.50% throughout 2018. Given both inflation and inflation expectations are around 2%, the Riksbank decided on 20 December 2018 to raise the repo rate to -0.25% on 9 January 2019. The Riksbank's forecast states that the repo rate will be raised further during the second half of 2019. As part of its expansionary monetary policy, the Riksbank has also invested in government bonds. Net purchases concluded in December 2017, but as a result of previous reinvestments of major maturities in 2019, its holdings increased in 2018 from SEK 310 billion to SEK 350 billion.

**HOUSING PRICE TREND**  
(HOX index 2005=100)



**LENDING GROWTH**  
(Percentage, 12-month change)



**DEPOSIT GROWTH**  
(Percentage, 12-month change)



Source: Valueguard, Statistics Sweden (SCB)



### Extensive supply of housing and static housing prices

After the downturn in housing prices at the end of 2017, prices remained relatively still in 2018 following a minor upward correction early in the year. Housing prices for the country as a whole rose 2.0% during 2018. House prices for the country as a whole increased 2.2%, with Stockholm and Gothenburg seeing a fall and Malmö and medium-sized towns seeing an increase. Prices of tenant-owner apartments increased 1.7% in the country as a whole, with increases of 0.1% and 2.8% in medium-sized and major cities, respectively.

Given that the previously prolonged trend of rising housing prices was largely explained by altered fundamental factors, it was understandable that prices did not fall more sharply in late 2017. An extensive supply of newly produced apartments combined with economical and cautious households could however provide an explanation for the price adjustment that occurred. The Riksbank's announced repo rate increase and the heightened repayment requirements introduced on 1 March 2018 can also be assumed to have contributed to the interrupted rise in housing prices.

The amount of completed new housing rose slightly in 2018, while the amount of new housing construction fell. As a result of taking longer to sell and more uncertain market conditions, some construction companies have chosen to change production from tenant-owner apartments to rental apartments. At the same time, a relatively strong economy with more people in work and interest rates remaining low should contribute to maintaining demand for housing, thus curbing further falls in prices, even if uncertainty still prevails regarding the market trend.

According to SBAB's forecasts, housing prices may decline further over the coming years in pace with the Riksbank's expected repo rate increases. Other forecasts from SBAB state that the amount of new housing construction will fall by 30% in 2019 compared with 2017 as a result of the dramatic increase in supply of new housing, falling housing prices and the decline in demand as a result of restricted credit granting in the wake of new credit regulations. This means that the overall pace of construction of new homes is expected to be far below the actual need.

### Households' mortgages continue to increase, though at a slower pace than before

During the year, households' mortgages grew 5.5% (7.2) to SEK 3,289 billion (3,117), while loans to tenant-owners' associations increased 5.5% (9.8) to SEK 482 billion (457). Consistently low interest rates, strong developments in household income and a large supply of newly produced housing are all behind this trend. Households' consumer loans increased 8.8% (10.3) during the year to SEK 225 billion (207).

At the end of 2018, households' deposits amounted to SEK 1,907 billion (1,776), corresponding to a growth rate of 7.4% (7.4). Rising incomes and a strong labour market have provided households greater opportunities to save, while an uncertain economic situation and housing market have contributed to the desire to save. Households' deposits therefore increased at a faster rate than their mortgages, despite the low interest rate. The market for deposits from non-financial corporates, including tenant-owners' associations, grew 5.6% (7.8) in 2018 to SEK 1,055 billion (999).



# How we create value



## SBAB's ecosystem

**Four years ago** we took a strategically important decision — to focus. We decided that our vision should be to offer the best residential mortgages in Sweden and that our mission should be to contribute to better housing and household finances. In 2016, we acquired the housing search engine Booli to create a platform for developing services within housing and household finances.

Services relating to housing and household finances form SBAB's ecosystem; an ecosystem in which consumers navigate to solve their problems, simplify their daily lives and identify opportunities that can realise their dreams of a better home and improved household finances. We create services within our ecosystem for homes during differing stages of life.



## ...we create value for our stakeholders...

**CUSTOMERS**

We create opportunities for people to reside, work and live. We want our operations to help enhance knowledge and transparency within the housing and residential mortgage market.

Read more on page **30**

**EMPLOYEES**

Our employees are SBAB's most important asset. We want to be a nurturing, fair and equal workplace with committed employees who succeed together.

Read more on page **48**

**INVESTORS & OWNER**

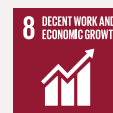
By running a stable, efficient and profitable business in the long term, we aim to grow responsibly and deliver a good return and dividend to investors and our owner.

Read more on page **58**

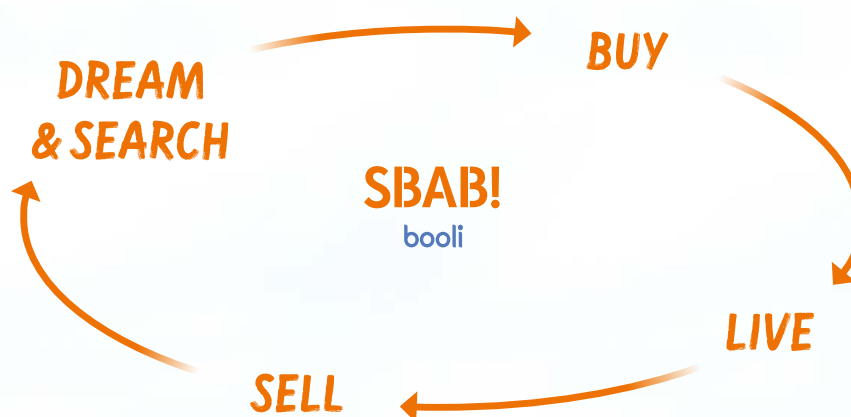
## ...and society as a whole

## WE CONTRIBUTE TO BETTER HOUSING AND HOUSEHOLD FINANCES

Sweden faces a series of challenges that are economically, socially and environmentally related to homes and properties. Through activities and initiatives that add value for both customers, the public and SBAB, we want to be part of the solution to many of the challenges facing society.



Read more on page **24**





# How we govern our business

SBAB's sustainable governance model clearly and simply describes why we exist and what purpose our operations serve, where we are going, what steps we will take to get there and how we will achieve it. Achieving a balance between what we will do and how we will do it is a prerequisite for realising our vision — to offer the best residential mortgages in Sweden.

## Where

**Vision:** To offer the best residential mortgages in Sweden



## What

An innovative approach focused on housing



## How

A value-driven working approach



## Why

**Mission:** To contribute to better housing and household finances

# Why

Why Where What How

## Mission

### To contribute to better housing and household finances.

Our mission explains why we exist and what purpose our operations serve. Our mission gives us energy and makes us committed. It is what makes us proud and the reason why we go to work each day — filled with energy to do good things for our customers, for SBAB and for society as a whole. Our mission explains that our business is responsible and sustainable and that we play an important part in the national economy. Everything we do should be contained within our mission — it governs our behaviour and sets out the actions that will lead us to achieve our vision.

# Where

Why Where What How

## Vision

### To offer the best residential mortgages in Sweden.

Our vision is our destination and what we want to offer our customers. Our vision encourages us to constantly improve. SBAB's focus and main product is residential mortgages. By residential mortgages, we mean residential mortgages to private individuals and housing financing for tenant-owners' associations and property companies. Offering the best residential mortgages in Sweden entails great demands for innovation and consideration. When we have achieved our goals within our three target areas — Responsibility and transparency, An attractive workplace and Sound finances — then we will have realised our vision, then we will offer the best residential mortgages in Sweden.

Responsibility  
and  
transparency

Read more 30

An  
attractive  
workplace

Read more 48

Sound  
finances

Read more 58



# What — An innovative approach focused on housing

Why Where **What** How

## Business idea

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

Innovative thinking means continuously developing and improving our customer offering. Consideration means consistently putting our customers first, whatever the situation. Loans are residential mortgages, housing financing and consumer loans. Savings products are deposit services.

Our largest customer group consists of private individuals who have residential mortgages or savings accounts with us. Other major customer and user groups include those who make use of our housing services on [www.booli.se](http://www.booli.se), [www.sbab.se](http://www.sbab.se) and through our apps.

Our lending to private individuals, tenant-owners' associations and property companies is concentrated in Stockholm, Gothenburg and Malmö as well as other university cities and growth regions where demand is strongest.

## Strategies

The development of digital banking and financial services is gaining momentum. New players are driving developments and new regulations are redrawing the playing field. Simply offering a comparable banking service is no longer a winning strategy for the future.

Services relating to housing and household finances represent SBAB's ecosystem. An ecosystem in which consumers navigate to solve their problems, to simplify their daily lives and to identify possibilities that can realise their dreams of a better home and improved household finances. Niche excellence within our ecosystem and driving development in our niche with services that customers love, use and value is a winning strategy for the future and that is what SBAB's strategy within housing and household finances is all about.

We have a number of operational strategies that aim to illustrate the way to offer the best residential mortgages in Sweden and clarify our position within our ecosystem. These include strategies for the customer offering and distribution within each business area, along with IT, risk, funding, HR and brand strategies.

## Regulatory framework

Efficient risk management, regulatory compliance and internal governance and control are a prerequisite for conducting banking operations. Our business builds on our stakeholders having confidence in SBAB and the values we represent. Confidence and reputation derive from compliance with laws and regulations — both external and internal — that govern and influence our work, and also from our actions as a company.

Regulation of the banking and financial sector has increased considerably over the past few years. Regulatory matters are often handled at EU level. Regulatory developments have had various effects on SBAB, including increased capital and liquidity requirements, and have also required adaptation to existing and forthcoming regulations, such as the Mortgage Credit Directive, the Payment Services Directive (PSD2), the General Data Protection Regulation (GDPR) and new repayment requirements. Our efforts to ensure good regulatory compliance include a large number of policies and instructions. We promote a corporate culture where every employee is personally responsible for acting ethically and complying with the applicable regulations.



### UN's Sustainable Development Goals

The business sector has an important role to play in achieving the UN's Sustainable Development Goals. We have identified and chosen four high-priority goals that represent an integrated part of our operations and guide us to making even more responsible and long-term sustainable decisions. | [Read more on page 24.](#)

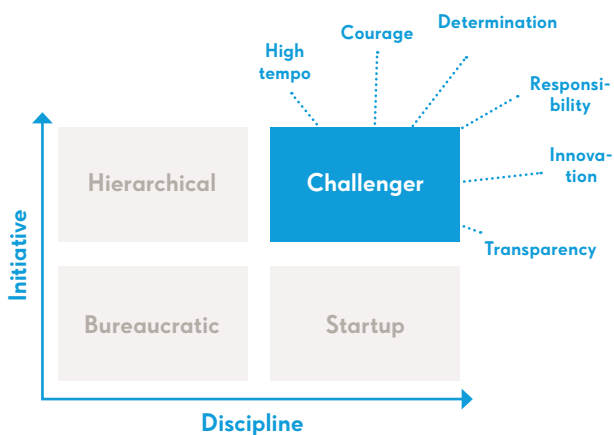


# How — A value-driven working approach

Why Where What **How**

## A value-driven working approach

Achieving success in a competitive market in which the wider world, customer needs and customer behaviour are changing at an increasingly rapid pace requires a value-driven working approach. Our value-driven approach involves inclusive leadership and self-driven employees making smart decisions in their daily work. The approach is based on clarity, transparency and trust, which promote and create determination, courage, tempo, fresh ideas, everyday innovation and continual learning. The result of this is growth and long-term competitiveness. A value-driven growth company is known to us as a Challenger. The opposite of a Challenger is a bureaucratic — and therefore slow — company with hierarchical decision-making paths.



We work actively to develop our value-driven working approach, with our independent and driven employees and inclusive leadership at its core. Our value-driven working approach involves ensuring that we work with our values in mind — practise, talk, discuss and give feedback. It involves always enabling everyone to take initiatives and make smart decisions.

The value-driven working approach places major demands on having bold managers with a holistic perspective. By serving as role models, they build the trust and commitment required to help employees act in an independent and driven manner. Inclusive leadership is about participation, trust, responsibility and clarity as well as equality and diversity. The manager serves as a role model, establishes targets and frameworks, is clear about expectations and demonstrates trust by refraining from micromanaging or delegating solutions. | [Read more on page 48.](#)



## Values

Our four values, combined with their sub-items, represent our attitude and the basis of our corporate culture.

We work fast and smart	We assume responsibility — from start to finish	We are proud professionals	Together — we succeed
<ul style="list-style-type: none"> <li>• I'm ready to challenge and think innovatively</li> <li>• I act promptly and deal with issues</li> <li>• We test and learn</li> <li>• We keep it simple</li> </ul>	<ul style="list-style-type: none"> <li>• I think one step ahead</li> <li>• We take decisions where issues can be solved</li> <li>• We are careful with money</li> <li>• We act sustainably</li> </ul>	<ul style="list-style-type: none"> <li>• I act professionally</li> <li>• We are all responsible for our customers</li> <li>• We foster long-term relationships</li> <li>• I continuously develop my skills</li> <li>• We love doing business</li> </ul>	<ul style="list-style-type: none"> <li>• We meet targets and celebrate successes</li> <li>• I am direct and clear</li> <li>• I share my expertise with everyone</li> <li>• I make a difference and focus on the bigger picture</li> <li>• I am unassuming and caring</li> </ul>



**S**olving problems linked to housing is an obvious part of our business and mission. It is an aspect that drives us forward, each and every day.

We know that SBAB, as a player in the Swedish housing market and part of Swedish society, can do so much more than merely lend money. By looking outwards and working together with other players in the housing market, we are able to make it more sustainable from both a societal and environmental perspective.

This is the situation we find ourselves in today.

To ensure that the full force of SBAB's business is exploited to contribute to a more sustainable housing market, we have identified and prioritised four of the UN's 17 SDGs within the 2030 Agenda; four SDGs that we consider particularly important and relevant for our operations. The goals are an integrated part of our governance model for sustainable development. We believe this to be a prerequisite for the success of the 2030 Agenda. To achieve the SDGs, we need to consistently consider them, discuss them and base our day-to-day work and decisions on them.

Malin Pellborn  
Head of Sustainability, Marketing and Communication at SBAB

# We want to be a part of changing the world



**On 25 September 2015, the UN's member states adopted the 2030 Agenda for Sustainable Development, a universal agenda that contains the 17 Sustainable Development Goals (SDGs). In turn, the SDGs have 169 targets and 230 indicators.**

The SDGs and the 2030 Agenda represent the most ambitious agreement on sustainable development ever adopted by global leaders. By signing up to the the 2030 Agenda, leaders have committed to achieving three things by 2030: end all forms of poverty, fight inequalities and tackle climate change.

The business sector, including SBAB, has an important role to play in achieving the SDGs within the 2030 Agenda. We have identified and chosen four of the 17 SDGs that we consider particularly important and relevant to our operations. The prioritised goals have been chosen based on extensive analysis in the form of internal workshops and ranking exercises within operations, the Executive Management and the Board, and thus currently comprise an integrated part of our governance model. They guide us in terms of making even more responsible and long-term sustainable decisions and represent an important basis for priorities within our operations. Naturally, we have a responsibility to contribute to the fulfilment of the other 13 goals too.





## Decent work and economic growth

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

### Together with targets:

- **8.1** Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries.
- **8.5** By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.
- **8.10** Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

### What does the goal entail for SBAB?

We want our operations to contribute to growth and jobs in Sweden. We want to ensure that international guidelines and principles are followed and that inclusive, equal and diverse workplaces are promoted. We want to work alongside our customers and suppliers to ensure acceptable and fair working conditions, with active standpoints taken against undeclared wages, bribes and corruption. It is also a question of enhancing our accessibility — we want SBAB's services to be inclusive and accessible to all residents in Sweden.



## Sustainable cities and communities

Make cities and human settlements inclusive, safe, resilient and sustainable.

### Together with targets:

- **11.1** By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.
- **11.3** By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries.

### What does the goal entail for SBAB?

By adding extra sustainability criteria to our credit processes, we want to continue contributing in different ways to the creation of more sustainable and inclusive cities and societies. We engage in a recurrent dialogue about sustainability topics with our customers and offer customised products and services for this purpose. Other important aspects include working to ensure healthy competition in the market, counteracting unreported employment at construction sites and promoting the construction of safe housing. In addition, we want to ensure by way of collaboration that all residents in Sweden have access to an own home.



## Responsible consumption and production

Ensure sustainable consumption and production patterns.

### Together with target:

- **12.8** By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature.

### What does the goal entail for SBAB?

We want to make the housing and residential mortgage markets more transparent and inclusive. To make objective and sound decisions, our customers need to understand relevant issues pertaining to housing and household finances. For this reason, we want to spread and increase awareness within this area — something we want to achieve in as accessible and simply a way as possible.



## Climate action

Take urgent action to combat climate change and its impacts.

### Together with target:

- No prioritised target.

### What does the goal entail for SBAB?

Our operations afford us many opportunities to influence our customers and the market through requirements, stimuli and dialogue with the aim of combat climate change. We want to promote sustainable societies with energy-friendly and climate-smart homes and properties, for example via green mortgages. By linking our funding with our lending, we want to offer investors the opportunity to get involved and have an influence. Of course, we also want to reduce our own carbon footprint within operating activities.

*Read more on page 173.*



# Sustainability permeates the entire business

**We do not make a distinction between business goals and sustainability goals — the basis of our entire business must be sustainable. With this in mind, we have established three business and sustainability-related target areas for the business. Together, these comprise the basis for how we will drive our operations forward and, in the long run, contribute to sustainable societal development.**

## In dialogue with our stakeholders

We always attempt to listen to developments in our operating environment and receive feedback offered to us by our stakeholders. The dialogue with stakeholders guides our strategic and business planning and helps us prioritise and focus on the right aspects. | [Read more on page 160.](#)

### CUSTOMERS

The confidence our customers have in SBAB determines our ability to develop in many respects, and therefore also our ability to take on a greater role in societal development. The skills, professionalism and consideration shown by our employees on a daily basis are apparent in surveys conducted by Swedish Quality Index and Sustainable Brand Index.

### INVESTORS

Investor confidence in SBAB is based on investors' interaction with our employees as well as on a belief in our business model and our ability to support positive and sustainable economic developments.

### EMPLOYEES

SBAB's employees are our most important asset. Motivated and committed employees are a prerequisite for our success and one of the most important resources in terms of achieving our vision. Our employees' motivation to create value through stakeholder relations depends on a number of factors, including leadership, skills development, development opportunities and our corporate culture.

### OWNER

SBAB is wholly owned by the Swedish government. The Swedish government's ambition for Swedish state-owned companies — to set good examples and serve as role models for sustainable development — has inspired us to clarify our role in the sustainable development of society.

### THE PUBLIC

Confidence from the general public and other stakeholders such as non-profit organisations, business partners, media, suppliers and interest organisations affects our opportunities to develop the operations in the desired direction. Confidence from the public is a prerequisite for attracting new customers, establishing long-term relationships and growing.

**SBAB!** ►

## Materiality assessment

We report the results of our sustainability efforts in line with the GRI, which entails identifying and prioritising material sustainability topics. In late 2016 and early 2017, we completed a stakeholder and materiality assessment. This work included interviews with Board members, the Executive Management, employees, the owner, corporate customers, business partners, stakeholder organisations and NGOs. A number of online surveys were also conducted among our retail customers.

By utilising input from the interviews and online surveys together with other sources, such as employee and brand surveys, an internal exercise was carried out, with representatives from the operations and from the Executive Management, in order to agree on a gross list of SBAB's material sustainability topics. These efforts identified a total of 18 sustainability topics. During a second exercise at the start of 2017, the Executive Management prioritised and validated the sustainability topics. | [Read more on page 162.](#)

Based on the stakeholder and materiality assessment, we have established three business and sustainability-related target areas for the business.

## SBAB's target areas

### Responsibility and transparency

We endeavour to offer financial products and services that are sustainable for both individuals, property companies or tenant-owners' associations as well as the society at large. We want to contribute to increasing awareness and transparency in the housing market. By being transparent and straightforward, we work to increase confidence in the banking and financial sectors in general and in SBAB in particular.

UN's Sustainable Development Goals



### An attractive workplace

Those of us who work at SBAB are the company's most important asset. Motivated and committed employees are a prerequisite for SBAB's success, competitiveness and long-term value creation. SBAB emphasises the value of different backgrounds, equality and diversity. At our company, it is self-evident that all employees have the same rights, obligations and opportunities in every aspect related to work.

UN's Sustainable Development Goals



### Sound finances

As a bank, we bear a particular responsibility. This involves both contributing to our customers' financial security and, as part of the financial system, contributing to the long-term sustainability of the country's economy. Sound finances are a prerequisite for customers' and the general public's confidence in SBAB as well as for our opportunity to grow and invest for long-term competitiveness. Profitable growth requires long-term and extensive cost efficiency with low marginal costs.

UN's Sustainable Development Goals



## Sustainability analysis to identify risks and opportunities

In 2018 we conducted a comprehensive structural analysis, known as a gap analysis, with the aim of identifying sustainability-related risks and opportunities within our three target areas. 50 prioritised

areas were identified as part of this analysis, which are now being addressed throughout SBAB. | [Read more on page 163.](#)

# Fulfilment of targets

Our vision — to offer the best residential mortgages in Sweden — is defined by our three target areas. Each target area contains a number of general short and long-term targets.

Target areas	Targets for 2018							
Responsibility and transparency	 <table> <tr> <td data-bbox="860 792 1257 846"><b>Responsibility:</b> SBAB's ranking in Sustainable Brand Index   <a href="#">Read more on page 31</a></td><td data-bbox="1386 804 1437 833"><b>Top 5</b></td></tr> <tr> <td data-bbox="860 902 1326 978"><b>Transparency:</b> Proportion of customers who believe that SBAB has an offering that is straightforward and easy to understand   <a href="#">Read more on page 31</a></td><td data-bbox="1386 925 1437 954"><b>84%</b></td></tr> <tr> <td data-bbox="860 1021 1209 1097" rowspan="2"><b>Customer satisfaction:</b> Sweden's most satisfied customers according to Swedish Quality Index   <a href="#">Read more on page 31</a></td><td data-bbox="1262 1010 1342 1039">Residential mortgages <b>1st</b></td></tr> <tr> <td data-bbox="1278 1070 1342 1099">Property loans <b>1st</b></td></tr> </table>	<b>Responsibility:</b> SBAB's ranking in Sustainable Brand Index   <a href="#">Read more on page 31</a>	<b>Top 5</b>	<b>Transparency:</b> Proportion of customers who believe that SBAB has an offering that is straightforward and easy to understand   <a href="#">Read more on page 31</a>	<b>84%</b>	<b>Customer satisfaction:</b> Sweden's most satisfied customers according to Swedish Quality Index   <a href="#">Read more on page 31</a>	Residential mortgages <b>1st</b>	Property loans <b>1st</b>
<b>Responsibility:</b> SBAB's ranking in Sustainable Brand Index   <a href="#">Read more on page 31</a>	<b>Top 5</b>							
<b>Transparency:</b> Proportion of customers who believe that SBAB has an offering that is straightforward and easy to understand   <a href="#">Read more on page 31</a>	<b>84%</b>							
<b>Customer satisfaction:</b> Sweden's most satisfied customers according to Swedish Quality Index   <a href="#">Read more on page 31</a>	Residential mortgages <b>1st</b>							
	Property loans <b>1st</b>							
An attractive workplace	 <table> <tr> <td data-bbox="860 1211 1289 1288"><b>Equality &amp; diversity:</b> Equality between women/men in management positions (within the range)   <a href="#">Read more on page 53</a></td><td data-bbox="1370 1234 1453 1263"><b>45–55%</b></td></tr> <tr> <td data-bbox="860 1330 1299 1406"><b>Employee satisfaction:</b> Percentage of employees who consider SBAB a very good workplace   <a href="#">Read more on page 49</a></td><td data-bbox="1386 1352 1437 1382"><b>82%</b></td></tr> <tr> <td data-bbox="860 1451 1238 1527"><b>Employee commitment:</b> Total Trust Index in Great Place to Work's annual employee survey   <a href="#">Read more on page 49</a></td><td data-bbox="1386 1473 1437 1503"><b>77%</b></td></tr> </table>	<b>Equality &amp; diversity:</b> Equality between women/men in management positions (within the range)   <a href="#">Read more on page 53</a>	<b>45–55%</b>	<b>Employee satisfaction:</b> Percentage of employees who consider SBAB a very good workplace   <a href="#">Read more on page 49</a>	<b>82%</b>	<b>Employee commitment:</b> Total Trust Index in Great Place to Work's annual employee survey   <a href="#">Read more on page 49</a>	<b>77%</b>	
<b>Equality &amp; diversity:</b> Equality between women/men in management positions (within the range)   <a href="#">Read more on page 53</a>	<b>45–55%</b>							
<b>Employee satisfaction:</b> Percentage of employees who consider SBAB a very good workplace   <a href="#">Read more on page 49</a>	<b>82%</b>							
<b>Employee commitment:</b> Total Trust Index in Great Place to Work's annual employee survey   <a href="#">Read more on page 49</a>	<b>77%</b>							
Sound finances	 <table> <tr> <td data-bbox="860 1653 1174 1706"><b>Profitability:</b> Return on equity over time   <a href="#">Read more on page 60</a></td><td data-bbox="1374 1664 1453 1693"><b>≥ 10.0%</b></td></tr> <tr> <td data-bbox="860 1762 1305 1839"><b>Dividend:</b> Ordinary dividend based on profit for the year after tax, taking the Group's capital structure into account   <a href="#">Read more on page 60</a></td><td data-bbox="1386 1785 1437 1814"><b>≥ 40%</b></td></tr> <tr> <td data-bbox="860 1870 1209 1968" rowspan="2"><b>Capitalisation:</b> CET1 capital ratio and total capital ratio above regulatory requirement communicated by the Swedish FSA   <a href="#">Read more on page 60</a></td><td data-bbox="1254 1870 1342 1910">CET1 capital ratio <b>≥ 0.6%<sup>1)</sup></b></td></tr> <tr> <td data-bbox="1254 1928 1342 1968">Total capital ratio <b>≥ 0.6%<sup>1)</sup></b></td></tr> </table>	<b>Profitability:</b> Return on equity over time   <a href="#">Read more on page 60</a>	<b>≥ 10.0%</b>	<b>Dividend:</b> Ordinary dividend based on profit for the year after tax, taking the Group's capital structure into account   <a href="#">Read more on page 60</a>	<b>≥ 40%</b>	<b>Capitalisation:</b> CET1 capital ratio and total capital ratio above regulatory requirement communicated by the Swedish FSA   <a href="#">Read more on page 60</a>	CET1 capital ratio <b>≥ 0.6%<sup>1)</sup></b>	Total capital ratio <b>≥ 0.6%<sup>1)</sup></b>
<b>Profitability:</b> Return on equity over time   <a href="#">Read more on page 60</a>	<b>≥ 10.0%</b>							
<b>Dividend:</b> Ordinary dividend based on profit for the year after tax, taking the Group's capital structure into account   <a href="#">Read more on page 60</a>	<b>≥ 40%</b>							
<b>Capitalisation:</b> CET1 capital ratio and total capital ratio above regulatory requirement communicated by the Swedish FSA   <a href="#">Read more on page 60</a>	CET1 capital ratio <b>≥ 0.6%<sup>1)</sup></b>							
	Total capital ratio <b>≥ 0.6%<sup>1)</sup></b>							

<sup>1)</sup> Adjusted for the Swedish FSA's new method for applying risk-weight floors for Swedish residential mortgages Previously 1.5 percentage points.



Description of targets	Earnings		
	2018	2017	2016
We make no distinction between sustainability and business. On the contrary – we believe that a sustainable approach to our business and operations allows us to be competitive in the long term. We want our customers to feel and think similarly. We monitor our responsibility via SBAB's ranking in Sustainable Brand Index, a consumer-based brand survey that focuses on sustainability.	<b>5 out of 13</b>	6 out of 12	6 out of 12
We strive to be as transparent as possible in our communication. All customers should be able to easily understand our terms and our communication relating to products and services. This way we enable our customers to make conscious choices.	<b>85%</b>	83%	82%
Satisfied customers are a prerequisite for strong results and an important testament of our progress in achieving our vision. Transparency, responsibility, simplicity, accessibility and good service combined with digitalisation and a sustainable customer offering are all crucial to success. Our target is to have Sweden's most satisfied customers.	<b>3rd</b>	3rd	1st
Residential mortgages	<b>1st</b>	2nd	2nd
Property loans			
Diversity and equality are two of the most important issues of our time. We also know that demographically diverse organisations perform better. For us, equality between the sexes is an important dimension within diversity and equality. We have set a target that at least 45% of management positions should be held by the underrepresented sex.	<b>44/56%</b>	45/55%	44/56%
Satisfied employees are a prerequisite for achieving our vision and an important indicator of success. We want a large majority of our employees to have an overwhelmingly positive experience of SBAB as a workplace.	<b>85%</b>	79%	79%
An employee can be satisfied with their workplace without actually feeling any kind of commitment and without it being possible to find a direct link between activity and profitability. This is why we also measure commitment – a balance between an employee's relationship to management, the workplace and their colleagues.	<b>81%</b>	74%	71%
Strong profitability is the ultimate testament of an efficient business. Satisfied customers who drive growth along with underlying cost efficiency shape the conditions for long-term profitability. Our target is to achieve a return on equity exceeding 10% over time.	<b>12.1%</b>	12.5%	12.3%
Part of our funding comes from our owner, the Swedish state, in the form of equity. In return for its contribution, the owner receives a return in the profit generated by operating activities. In accordance with the owner's dividend target, at least 40% of profit after tax is to be distributed, taking SBAB's capital structure into consideration.	<b>40%</b>	40%	40%
It is important for SBAB to be well capitalised, since this promotes confidence from our stakeholders, financial stability and the opportunity to grow. According to our capital targets, the CET1 capital ratio and the total capital ratio should, under normal conditions, be at least 0.6 percentage points higher than the requirement communicated by the Swedish FSA.	<b>2.5%</b>	6.4%	8.3%
CET1 capital ratio	<b>4.0%</b>	11.4%	17.6%
Total capital ratio			

# Responsibility and transparency

We are a supplier of services within housing and household finances. We are also a bank and thus fulfil an important function within the national economy. We are part of a financial infrastructure that enables consumers to purchase their own home and companies to finance residential properties. With this comes great responsibility.

## Did you know?

- 1 With us **you don't need to negotiate your mortgage rate**. It is based on loan-to-value ratio, the home's energy rating and the size of the mortgage
- 2 In 2018 we launched our **Green mortgages** for consumers
- 3 The latest episode in our film series about household finances has been viewed over **six million times** on YouTube and Facebook

## UN's Sustainable Development Goals



## Responsibility and transparency in six parts

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We endeavour to offer financial products and services that are sustainable for both individuals, property companies or tenant-owners' associations as well as the society at large.

A prerequisite for sustainable financial products is sound and responsible credit granting. For us, this involves being clear and transparent in respect of our terms, conditions and products, and that we responsibly conduct sales, marketing and credit approvals. It is important that our customers fully understand the terms and conditions when they buy a product or service from us — that they feel secure when they make important financial decisions. By being open and transparent, we aim to contribute to improving the way the banking and financial sector is viewed. Thanks to access to large amounts of data, including via Booli, we also want to proactively engage in dialogues with our customers in order to increase awareness and transparency in the housing and residential mortgage market.

As a bank, we regularly manage large amounts of sensitive data, including personal information about our customers. It is crucial that we act ethically and work to ensure a high level of security if we are to

win the confidence of our customers and the general public.

Sweden faces numerous societal challenges that are economically, socially and environmentally related to housing and the housing stock. SBAB has extensive experience and knowledge of housing financing, and matters related to homes and housing have long been deeply ingrained in the company's roots. In our daily work, we have a responsibility as well as considerable opportunities to contribute to positive developments in all the areas impacted by our operations. Through interaction and dialogue, we further enhance our ability to influence. This includes taking part and financing sustainable housing that reduces the environmental burden — to jointly contribute to achieving global and national environmental objectives by developing products and services that help our customers think and act more sustainably in everything that involves the home. It is also about financing sustainable housing that leads to improved, healthier and more inclusive neighbourhoods — ensuring that communities and homes are built based on the preconditions that apply today, and perhaps more importantly, tomorrow.

*Additional information about the target area can be found in the sustainability notes on page 166.*

# A considerate challenger



We do not think residential mortgage customers get the consideration they deserve. Issues include unclear terms and conditions, excessively high interest rates or lack of transparency in the market. We are working to make the housing and residential mortgage market more open and transparent with the aim of making it easier for our customers to take informed decisions — whether about finding, buying, owning or selling a home.

## SBAB's ecosystem

Services relating to housing and household finances represent SBAB's ecosystem. An ecosystem in which consumers navigate to solve their problems, to simplify their daily lives and to identify possibilities that can realise their dreams of a better home and improved household finances. We create services within our ecosystem for different phases of life. Our ecosystem includes mortgages, savings, housing financing, homes for sale, housing valuations, suggestions and recommendations for real estate agents, and much more.

## With us you don't need to negotiate your mortgage rate

We strive to be straightforward, clear and transparent in our offering. Our customers should always feel secure in having SBAB as their creditor. 85% (83) of our residential mortgage customers believe that SBAB has an offering that is straightforward and easy to understand<sup>1)</sup>. Transparent and straightforward pricing of residential mortgages is appreciated by our customers and we consider this a natural part of an open and

trustworthy customer relationship. As a customer with us, you don't need to negotiate your mortgage rate or buy extra services to obtain satisfactory conditions. We do not believe that the interest rate you get on your residential mortgages should depend on who you talk to at the bank, how you are dressed or how well-spoken you are. Our pricing of residential mortgages is based on current listed rates for each maturity, as published on [www.sbab.se](http://www.sbab.se). The customer's specific interest rate is presented as a deviation from the list rate. The deviation is based on the loan-to-value ratio, that is, the loans as a percentage of the market value of the property, the property's energy rating and the size of the loan. Our customers can work out for themselves the interest rate they would receive on our website, [www.sbab.se](http://www.sbab.se).

## Sweden's most satisfied property loan customers

In Swedish Quality Index's annual survey of customer satisfaction in the banking and finance industry, SBAB finished in first place for property loans to corporates and tenant-owners' associations and in third place with regard to residential mortgages to retail customers.

### Property loans

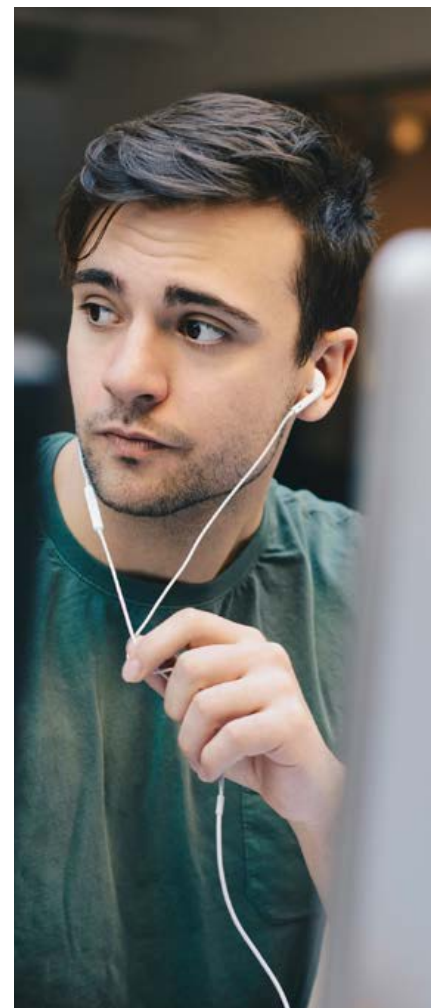
SBAB's customer satisfaction score relating to property loans to corporates and tenant-owners' associations increased in 2018 to 74.0 (72.3) out of 100, with the sector average at 69.1 (68.6). This means we have the most satisfied customers in Sweden. Our results were particularly strong within the areas of image, expectations, product quality, service and value.

### Residential mortgages

There has been a tentative recovery in the industry since 2016, when customer satisfaction fell among all players. Customer satisfaction for the industry as a whole increased in 2018 to 67.9 (66.7) out of 100. SBAB's customer satisfaction increased to 73.4 (72.3). We received particularly good results in the survey in the areas of value for money, service and product quality. In 2019, we will be working even harder to once again have the most satisfied customers in Sweden.

## Sustainable Brand Index

Sustainable Brand Index is the Nordic region's largest brand survey with a focus on sustainability. The survey aims to map and analyse brands in relation to sustainability, based on a consumer perspective. Over 40,000 consumer interviews form the basis of the survey. In the 2018 survey, SBAB ended up in fifth place out of a total of 13 institutions within the bank category. In the survey as a whole, SBAB ended up in 154<sup>th</sup> place out of the 326 companies covered.



<sup>1)</sup> Data from Nordic Brand Academy. Results for the fourth quarter of 2018.



## INSIGHT

# POOR GRASP OF TERMS USED IN THE HOUSING MARKET

Many house buyers do not understand the terminology commonly used in the housing market — something that is crucial in terms of making well thought-out and considered purchases, says Claudia Wörmann, Housing Economist at SBAB.





“People need to be able to scrutinise and be critical, but the industry does not exactly make it easy with its tricky terminology and complicated annual reports.”



**M**any house buyers do not understand the terminology commonly used in the housing market — something that is crucial in terms of making well thought-out and considered purchases, says Claudia Wörmann, Housing Economist at SBAB.

“People need to be able to scrutinise and be critical, but the industry does not exactly make it easy with its tricky terminology and complicated annual reports,” says Claudia.

“Several of our surveys have shown that relatively few people understand the meaning of the various concepts used in the housing market. I don’t have the entire solution but I do want us to talk in a more comprehensible manner to ensure that people can absorb the information and thus be better prepared ahead of the biggest business decision of their lives.”

One of SBAB’s surveys showed that a full 31% of people who had actually read their association’s annual report before a purchase did not understand what they were reading.

“We could repeat until we are hoarse that it is vital to scrutinise the association’s finances before purchasing a tenant-owned apartment. Our survey revealed what I suspected: that many people have realised they need to read the annual report, but they don’t know what to look for.”

### Many households prepared for rising housing costs, but far from all

Both floating and fixed mortgage rates are expected to remain at historically low levels over the coming years, although they will rise slightly when the Riksbank raises the repo rate and begins to phase out its holdings of government bonds. By 1 January 2022, according to SBAB’s forecasts, the three-month interest rate is expected to rise by around 1 percentage point and the five-year rate by 1.5 percentage points.

“Reporting on rising interest rates is general, but how it affects specific households is extremely individual. I would like to see everyone with a residential mortgage understand that they also have a responsibility — one that involves keeping a close eye on their rate and maturity as well as the level at which a raised rate would become painful for their household finances. No one can have missed the fact that interest rates are on the way up. Keeping an eye on the situation is the best way to keep any concerns in check.”

“I say again what I have always said, regardless of the market: ask yourself two questions when purchasing a home; will I be happy here and can I afford it”, concludes Claudia.

# Responsible credit granting

## Responsible credit granting

We want our credit granting and growth to be sustainable in the long term — for ourselves, our customers and for society as a whole. We do not want our customers to have problems paying interest and amortisations. This means we have a responsibility to finance homes for customers who are creditworthy. In turn, this requires extensive knowledge and understanding of our customers and their situations, whether it is a question of lending to consumers, property companies or tenant-owners' associations.

## How we grant a residential mortgage

We endeavour to have a streamlined, digital and fast credit approval process. In recent times, however, we have made some adjustments that aim to establish a credit process that better reflects today's society including in terms of constellations of borrowers, additional borrowers, forms of employment and language. | [Read more on page 166.](#)

## Amortisation and debt ratio

At SBAB we believe that amortisation help ensure sound household finances. In mid-2016, new amortisation rules were introduced in line with regulations issued by the Swedish FSA. These rules include a repayment rate of 2% per year for new residential mortgages with a loan-to-value (LTV) ratio of more than 70%, and 1% per

year down to an LTV ratio of 50%. In 2018, we introduced the increased amortisation requirement for households with high debt-to-income ratios, which entails that all new customers borrowing more than 4.5 times their gross income (their pre-tax income) must amortise an additional one percent of the mortgage per year. In addition, the requirement applies to already existing amortisation rules. We also give all of our customers individual amortisation recommendations.

In recent years, partially as a result of the stricter credit rules we have introduced, we have noticed a decrease in how much our customers borrow in relation to their gross income, referred to as their debt-to-income ratio. The ratio gives us a good indication of how sensitive our customers' repayment capacity is to changes in interest rate or income levels, as well as the customer's ability to amortise. We apply a mandatory debt-to-income ratio of 5.5 times gross income in our lending. | [Read more on page 65.](#)

## Customers with payment difficulties

We have a duty to help customers who encounter temporary payment difficulties. Our insolvency team has extensive experience and works actively to help customers who have run into difficulties. We usually say that we work on preventative insolvency management. This means that our

ambition is to initiate a dialogue as early as possible in cases where we discover customers are having difficulty to pay their mortgages. | [Read more on page 166.](#)

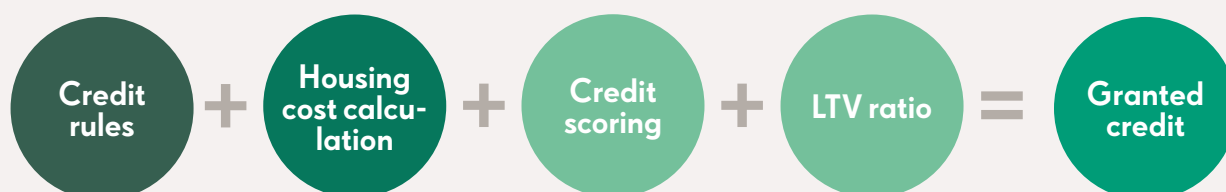
## How we grant loans to corporates and tenant-owners' associations

Our credit approval of corporates and tenant-owners' associations is primarily based on their repayment capacity. In addition to the ability to make repayments, which we assess by analysing income and cash-flow statements, we also assess the collateral for the customer's loan. When we lend money for construction of new properties, we conduct an analysis of the project and make a forecast of the final production costs. The value of the customers' properties is appraised by SBAB's valuation department. As part of this valuation, we also assess future maintenance requirements and the customer's ability to finance such requirements. Customers are managed individually by a team consisting of an account manager, analysts and loan administrators. In contrast to retail lending, we physically meet our corporate and tenant-owners' association customers usually via one-to-one meetings and also through regular seminars to share our expertise, gather necessary information and create a close customer relationship. | [Read more on page 166.](#)

## How we grant a residential mortgage

We endeavour to have a streamlined, digital and fast credit approval process. We always need to get better, and more efficient, at assessing creditworthiness so as to ensure that SBAB's risk-taking is always reasonable and that the customer, in accordance with their conditions, borrows the right amount at the right price. Our granting of credit to consumers is based on a credit approval process that determines whether a customer has the financial capacity required to meet their commitment. For SBAB's residential mortgages, collateral is provided in the form of a mortgage deed in immovable property or rights in a tenant-owners' association. The loan is permitted to correspond to a maximum of 85% of the value of the property. | [Read more on page 166.](#)

## Simplified credit approval process for consumers





# Transparency in the market



## Help in making good decisions

Household finances can feel complicated for many people — even a little boring. This is where we come in. It could even be said to be one of the most important parts of our offering. Explaining, supporting and sharing our expertise. Being there when our customers need us. We want to tear down the difficult and complicated barriers and make housing and household finance issues fun and accessible. Things are often easier to take in when they are fun.

Better informed people can make better decisions. At SBAB, we want to spread knowledge and increase transparency surrounding household finances, the housing market and the Swedish economy. With help from our Head Economist and Housing Economist, we contribute analyses and forecasts linked to the Swedish economy as a whole, the housing market, housing prices and mortgage rates. Thanks to Booli we are able to supply statistics about supply, demand and housing price trends.

## SBAB's spokespersons

SBAB's Head Economist, Robert Boije, and Housing Economist, Claudia Wörmann, are financial experts that conduct analyses on aspects of macroeconomics, savings, household finances and other issues related to private finances. They serve as SBAB's spokespeople and work to spread information and share their expertise and skills with customers, investors, the public and the media. The work is conducted in many ways and through multiple communication channels. | [Read more on page 33.](#)

## Marketing communication

Much of SBAB's marketing communication aims to increase understanding of financial issues. In 2018, we continued our communications and brand initiative launched in 2017 under the theme "Boendeekonomi är jättekul" (Eng. *Household finances are really fun*), with the aim of increase public interest in the subject. | [Read more on page 36.](#)

## Digital tools and services

Our sites, [www.sbab.se](http://www.sbab.se) and [www.booli.se](http://www.booli.se), provide tools, services and information pages that help and inform on issues regarding housing and household finances. Some examples include "Räntematchen", "Bytabostadsguiden" and "Värdeguiden". Our aim is to continue increasing the amount of relevant data, and to develop smart, innovative services that help our customers in various ways to make better decisions.

## booli

Booli works to achieve a better and more transparent housing market. [www.booli.se](http://www.booli.se) is one of Sweden's largest housing sites and, together with the [www.HittaMäklare.se](http://www.HittaMäklare.se) sister website, Sweden's largest digital estate agent service, provides the platform to an average of over 1 million unique visitors per month. In addition to housing units for sale and end prices, [www.booli.se](http://www.booli.se) also shows valuations of houses and apartments. | [Read more on page 63.](#)

## Dialogue and partnerships

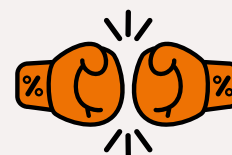
SBAB's Corporate Clients & Tenant-Owners' Associations business area regularly participates in trade shows and holds seminars that are primarily aimed at trustees and board representatives from tenant-owners' associations. In 2018, we participated in 12 trade shows to share expertise and experience, forge new contacts and learn about trends, while gathering the sector's thoughts about the future. We also arranged ten of our own seminars during the year, whereby experts from SBAB or our network are invited to address topics such as board liability, energy efficiency measures, new legislation affecting tenant-owners' associations and much more. During the Almedalen week, we joined various property companies in seminars and panel discussions on how various stakeholders, such as property companies, public housing companies and politicians, could cooperate to create a better social housing environment where people are satisfied and can feel safe and secure.

## SBAB's spokespersons



## Match up for a better interest rate

Transparency and attractive terms and conditions represent central components of our offering. There are still many customers who pay excessively high mortgage rates with other banks. Our digital interest-rate comparison service "Räntematchen" allows consumers, by identifying themselves using Bank-ID and an estimate of their home's value, to compare their existing mortgage interest rates at other banks with SBAB's offering. In 2018 over 40,000 matches were carried out. For customers with a 3-month variable mortgage rate, SBAB offered a better rate in 87% of the cases.





## INSIGHT

# “BOENDE- EKONOMI ÄR JÄTTE- KUL!”

### A summary of our work in 2018

- Task:** To convey simple, useful and important information about housing and household finances to as many people as possible: every last person out there — all ten million people in Sweden.
- Approach:** A film series about household finances starring Erik Haag and Björn Gustafsson.
- Target:** Ten million (equivalent to Sweden's entire population) views of the final episode.

### A film series in five parts

*Episode 1: 10 million?*

*Episode 2: Throwback?*

*Episode 3: When in Karlstad!*

*Episode 4: "Ombytta roller"*  
(eng. *Roles reversed*)

*Episode 5: "Komma hem (låda låda låda)"* (eng. *Coming home*) — Björn Gustafsson feat. Julia Frej





**“ The final episode in our film series about household finances currently has over six million views on YouTube and Facebook, which is absolutely fantastic.**



**A**ccording to a SIFO survey commissioned by SBAB in early 2017, a full 70% of the Swedish population think that household finances are important, but dull. Even really dull. SBAB decided to do something about it.

In 2017, SBAB began a major communication and brand initiative in the form of the film series and comedy show “Boendekonomi är jättekul” (eng. *Household finances are really fun*).

“In a campaign based on two YouTube series, one more entertaining and one more informative, the crescendo centered around whether the comedian and educational presenter Erik Haag would succeed in the task we gave him – to fill the Globe arena in Stockholm. The idea for the campaign was based on the fact that the majority of Swedes feel that household finances are important but dull,” explains Patrik Söder, Head of Marketing at SBAB.

“We are developing and complementing the brand experience with more attitude and feelings. We are an innovative company with the inclination and the attitude to make changes and to improve, which we want to be even clearer in our brand. To achieve this, we want to make household finances more fun and banking and mortgages more enjoyable,” says Patrik.

## | Reaching the entire nation

The efforts continued into 2018, although Patrik explains how SBAB had a slightly different approach this time around.

“This time we thought a little bigger. We wanted to reach out with our important message to more people, not just a sold-out Globe arena. So we decided to give Erik Haag and Björn Gustafsson the nigh-on impossible task of reaching out to all of Sweden.

If we did succeed? I really believe so. The final episode in our film series about household finances currently has over six million views on YouTube and Facebook, which is absolutely fantastic.”

## | Everyone should be able to come home

“We closed the season with a message that was very important to us – we want everyone to be able to come home. Solving problems linked to housing is what motivates us. The more people who feel secure about their home, the more people who have the opportunity to come home, the better our entire society will feel. And that is when household finances will seriously feel fun.”



## INSIGHT

# MANY BUILDINGS IN SWEDEN DO NOT MEET CUR- RENT ENERGY CONSUMPTION REQUIREMENTS

WE CONTRIBUTE  
TO ACHIEVING  
THE GOALS



The housing industry accounts for a significant share of Sweden's energy consumption and needs to enhance its efficiency.

Few of Sweden's homes meet current energy consumption requirements.

The transition to energy-efficient residential properties needs to be accelerated if we are to meet national and international climate targets.



**A** full 81% of all energy-rated residential properties in Sweden do not meet the energy requirements for new buildings, according to statistics from the National Board of Housing, Building and Planning reviewed by SBAB.

"In Sweden, the housing industry accounts for around 40% of the country's total energy consumption, with a large proportion of this consumption being used to heat and cool properties," explains Axel Wallin, Sustainability Strategist at SBAB.

Statistics from the National Board of Housing, Building and Planning show that few properties have a valid energy declaration and that only 19% of those with an energy declaration fulfil energy requirements for new-build properties.

"Among the country's two or so million single-family homes, only some 132,000 have an energy declaration with an energy rating, corresponding to barely 7% of the total number of single-family homes in Sweden. Among them, only 1% have the highest rating, energy rating "A". Around 11% have the worst rating, energy rating "G", which represents an energy consumption that is 235% above the requirements for new-builds."

The energy declaration is a great tool for assessing the energy efficiency of properties, and it also provides the property owner with knowledge about what measures can be taken to make further efficiency enhancements. This could be a matter of replacing windows, adding extra insulation or installing technical equipment that adapts energy consumption, for example.

"All new properties built today must be energy-efficient according to prevailing building regulations. That said, the overall property portfolio in Sweden consists largely of older properties, where energy requirements were totally or partially lacking when they were built. For this reason, it is important that the transition to greater energy efficiency is carried out for these properties too. Small measures can lead to great savings in terms of both energy and money," says Axel.

### Opportunities and incentives to make properties more energy-efficient

"Offering opportunities and incentives to make properties more energy-efficient is an important part of accelerating the transition. Green mortgages are a step in the right direction and something that banks, including SBAB, have begun to offer more regularly."

"There is still a lot that many property owners can do to reduce their energy consumption. If all single-family home owners improved by one energy rating, for example, we would save the equivalent of an entire year's production of energy from a nuclear reactor. The housing industry plays a significant role and it is important to act now if we are to achieve national and international climate and energy targets," concludes Axel.

# Together against climate change



Properties, business premises and homes account for a large proportion of the total energy consumption in Sweden. As a bank, our financing and credit granting gives us considerable scope to influence the market through requirements, stimuli and dialogue with the aim of reducing energy consumption.

## Green lending to promote change

In 2018 we launched our Green Mortgages to customers who live in single-family homes or apartments in multi-family dwellings that have a valid energy declaration with energy rating A, B or C, that is, in line with or above the energy consumption requirements placed on new builds in Sweden. The better the energy rating, the greater the reduction to the mortgage rate. At the end of 2018, 9,088 customers had a Green Mortgage with SBAB, corresponding to a volume of SEK 12.3 billion, or around 4% of SBAB's total residential mortgage portfolio.

We have been offering two other green lending products for a longer period. Our Green Loans, aimed at tenant-owners' associations and property companies, are loans with a particularly advantageous interest rate for customers intending to implement sustainable investments in their properties. To obtain a Green Loan, the loan must be able to be approved in a normal credit approval process, the customer must have existing loans with SBAB and the loan must fulfil SBAB's criteria for environmental improvement or energy-efficiency enhancements. These could include replacing win-

dows or investing in a new, fossil-free heating source, for example. At the end of the year, 45 corporate clients and tenant-owners' association had a Green Loan with SBAB, corresponding to a volume of SEK 141 million (88). We also offer a consumer loan with a similar structure, known as the Energy Loan. At the end of 2018, we had granted 164 Energy Loans, corresponding to a volume of SEK 11.7 million (8.1).

## How can we help corporate clients and tenant-owners' association to improve?

For our corporate clients, social and environmental sustainability have become areas of increased interest in recent years. Property companies are now also starting to be impacted by sustainability requirements from their suppliers, including municipalities who provide access to land. Tenant-owners' associations have yet to make as much progress in their management of sustainability matters, but they are responsive to the running costs that the careless use of energy could entail, for example.

We actively promote increased energy efficiency at our customers' properties. We intend to achieve this through a variety of initiatives, such as by providing information that helps our customers come to an understanding of their own energy consumption, relative to that of other property owners. Such a realisation could, for example, result in a re-prioritisation of maintenance plans and investments in energy optimisation. The information is

supplemented by a free consultation with SBAB's business partners in the technical equipment arena. We can also impact energy consumption through differing choices with our new lending, in which new build financing is a key component. For existing customers, we regularly arrange seminars on various sustainability themes. In these forums, we collaborate with a number of energy consultants who contribute to skills enhancement and guidance.

We have had an internal target since 2016 regarding the average energy consumption in properties financed by SBAB in the Corporate Clients & Tenant-Owners' Associations business area. This target is to reduce the average energy consumption from 135 kWh/sq.m. to 122 kWh/sq.m. per property by 2022. The result for 2018 was 130 kWh/sq.m. per property.

## Environmental impact of our own operations

We are a digital bank. We have no branch offices and are reached by our digital channels and over the telephone. This enables us to avoid transportation and the operation of branch offices around the country, which contributes to the relatively small size of our direct environmental impact. However, because we still want to reduce the impact that we have, we have measured our carbon dioxide emissions since 2009. A summary of SBAB's climate report is available further on in this report.

| Read more on page 167.



## A green ecosystem of money

Considerable interest exists in building a sustainable society with energy-friendly and climate-smart housing. Similarly, there is considerable demand from investors for green bonds to fund these developments. In mid-2016, we became the first bank in Sweden to issue a green bond. SBAB's green bonds function just as standard bonds, but are subject to the condition that the funds raised will be used exclusively to finance or refinance residential properties that meet a number of energy-efficiency criteria or hold environmental certification. So far we have issued two unsecured green bonds with a total outstanding volume of SEK 3.75 billion (3.75). The independent climate and environmental research institute, Center for International Climate and Environmental Research (CICERO) has reviewed our sustainability efforts and approved the investment categories that we highlight as green investments. Eligible projects within SBAB's existing green bonds are estimated to generate an annual avoidance of GHG emissions corresponding to 1,132 tonnes of CO<sub>2</sub>e. | Read more on page 167.



# Customer integrity, security and business ethics



We regularly manage large amounts of sensitive data, including personal information about our customers, which requires system support, procedures and follow-up processes. We also have a duty to protect the financial system from people and companies that want to exploit for malicious purposes. It is crucial that we act ethically and maintain a high level of security if SBAB is to win the confidence of its customers and the general public.

## Downsides of digitalisation?

There are many advantages linked to increasing digitalisation. It makes people's daily activities easier and improves efficiency within companies. There are downsides too, however. Structural changes — a fundamental consequence of digitalisation — enable new types of threat and criminal activity. Older structures and behaviours are negated. Identity theft, spyware, trojans and other forms of cyber-based threats are major current societal problems. Companies, banks, authorities and legislators are working intensively to tackle the changes and challenges posed by digitalisation and the connected society.

## Our view of cyber security

Data breaches can have major consequences for those affected, including power disruptions, increased costs, legal consequences, but perhaps more important than all — reduced customer confidence. SBAB has a dedicated security group tasked with ensuring and maintaining a high level of cyber security in our operations. The group works proactively on increasing risk and security awareness with our customers and our employees, as well as on improving security in our systems. Each year, all of SBAB's employees are obliged to take an obligatory course in this area and we work continuously to spread knowledge and inform our customers about what they should watch out for and what measures they should take to protect themselves and their computers. SBAB's security unit is also responsible for our Security Incident Response Team (SIRT), which is responsible for identifying, analysing and rectifying IT security incidents.

## Our efforts to counteract financial crime and corruption

Criminal activity within the banking industry has been increasingly uncovered in recent years. This area received particularly intense media attention in 2018, not least the issue of money laundering. Banks comprise central and vital societal functions. It is extremely important that the industry as a whole takes active steps to counteract and to manage financial crime. Our work within this area is controlled and driven by a separate unit, Anti-Financial Crime (AFC).

### *Money laundering and financing of terrorism*

We annually conduct a general risk assessment to identify and assess the risk that SBAB will be exploited for money laundering and the financing of terrorism, and we have a policy for this issue that has been resolved by the Board. Important aspects of our efforts include achieving a high level of customer awareness, having risk-based procedures and an adapted transaction-monitoring system in place, carrying out regular checks, following regulatory developments carefully and training employees, partly via classroom exercises and partly through annual e-learning courses that are obligatory for all employees.

### *Corruption*

It is of the utmost importance for us as a company to take a clear stand against corruption. There are many reasons for this. Corruption undermines democracy, renders financial growth more difficult, distorts competition and entails serious legal and reputational risks. SBAB has an internal policy regulating how our operations should work to counteract bribes and other forms of corruption. The policy is designed to reflect the Code on Gifts, Rewards and other Benefits in Business published by the Swedish Anti-Corruption Institute. We complete ongoing courses and risk evaluations in this area.

## Code of Conduct

Our Code of Conduct is resolved by the Board and provides guidance on how we should act and conduct ourselves in various situations and the inherent responsibilities of



being a SBAB employee. Employees, managers, consultants, members of the Executive Management and Board members are responsible for understanding and complying with our Code. | [Read more on page 164.](#)

## Whistle-blower function

We have a whistle-blower function in place, through which employees are able to report serious improprieties committed by senior executives and key personnel at the SBAB Group. Instructions regarding this function are available for all employees on our intranet.

## Responsible purchasing process

SBAB's supply chain includes suppliers of various services and materials. Examples of these are IT-systems, office materials, and consultancy and advisory services. SBAB's Supplier Code is an appendix to all new major agreements. It addresses SBAB's view and expectations of our suppliers' sustainability efforts and compliance with international guidelines. | [Read more on page 168.](#)



### Three questions for Klas Ljungkvist, CIO at SBAB

**You recently won the title of “CIO of the year” at the CIO Awards. How does that feel?**

– Naturally it feels absolutely fantastic. We are attempting to create a fast-moving and value-creating organisation with a clear focus on innovation and customer benefit. By combining cutting-edge technology, new working methods and transparent leadership, we want to improve both capacity and the quality of our deliveries.

**What is SBAB’s approach to cyber security?**

– In step with the digital development in society, cyber-related threats have become a major societal problem. We have a dedicated team working with these questions with the aim of maintaining the right level of security in our operations with regards to customers, systems and personnel.

**Are there any other issues you feel are important?**

– The large energy consumption from server halls is something that is perhaps sometimes forgotten. We are looking for collaborations with suppliers who want to minimise the impact on the environment. This may, for example, involve the use of green energy to run server halls or to reuse waste heat to heat housing.

## An inclusive housing market



### Housing market trends

The substantial increase in housing supply, new regulations and tighter credit terms from the banks likely contributed to falling housing prices in 2017. Following a minor upward correction in early 2018, housing prices essentially remained relatively still during the year, with some regional exceptions. According to SBAB’s forecasts, however, housing prices may decline further over the coming years in pace with the Riksbank’s expected repo rate increases. | [Read more on page 16.](#)

### Sustained major demand for housing

Despite an acute need and strong demand for new housing, in certain local markets there are signs that the supply of housing, both existing and newly produced, has been greater than the real demand. Some believe that the need for housing has incorrectly been equated with demand and has been exaggerated. Population growth does not only comprise people who have the financial capability to demand an own home at prevailing price levels. More new and cheaper homes are needed that people are demanding and able to afford.

243 out of 290 municipalities currently state that they have a shortage of housing. Groups that are already vulnerable in various ways are being hit particularly hard. It is vital that there are homes to suit all the different needs present in the housing market, whether that means newly arrived immigrants, students, recently separated

people or people who need to move to elderly care homes or away from home. Political measures are required along with collaboration between housing market players. In addition to spreading knowledge about the problems, SBAB holds discussions with other players about potential collaborations on new forms of housing.



### We are involved in financing new housing

SBAB's forecasts state that the amount of new housing construction will fall by 30% in 2019 compared with 2017 as a result of the dramatic increase in supply of new housing, falling housing prices and the decline in demand as a result of restricted credit granting in the wake of new credit regulations. This means that the overall pace of construction of new homes is expected to be far below the actual need.

We still aim to increase our financing of new builds, since we want to help reduce the structural deficit of housing in Sweden. In 2018, SBAB was involved in the financing of 1,791 new-build homes (2,608).

Although housing prices stabilised in Sweden in 2018, a certain level of uncertainty remains surrounding newly produced tenant-owned apartments, not least in the major cities. Given the uncertain market conditions, we have for some time been somewhat cautious in our lending to property companies. We focus our lending on established customer relationships and large, experienced property developers. | [Read more on page 66.](#)

### Ethics and human rights when building new housing

The rapid pace of building in Sweden has led to a worrying development concerning how homes and infrastructure are built. Several investigations have shown that building practices often involve unreported employment and salary dumping,

as well as a lack of respect for human rights along the supply chain. SBAB and representatives of some of Sweden's largest property developers launched joint efforts in 2018 to produce a range of changes that will be proposed with the aim of tackling the issues. This work is continuing in 2019. | [Read more on page 44.](#)

### Everyone has a right to a home and social security

At least 33,000 people are homeless in Sweden today. This is a failure on both a humanitarian and societal level. We want to spread awareness about this problem, but also help actively remedy it.

We support Stockholms Stadsmission in its aim to reduce homelessness in the City of Stockholm through the "Särskildnyttan" project. The project aims to enable property owners to contribute housing or finance housing support for those who are most cut off from the housing market. We have initiated several meetings between our customers in the property industry and Stockholms Stadsmission. In conjunction with other partners, our work has resulted in some 30 apartments being offered to Stockholms Stadsmission, to the joy and benefit of people who have not had their own home for a long time. SBAB has also helped build up Stockholms Stadsmission's administrative operations, "Bobyran", which manages rental activities for residents and property owners.

With the aim of helping create a better housing situation for homeless and socially vulnerable people, we also support Situation Sthlm and Faktum, societal and cultural magazines whose idea is to attract readers and thereby create work and a personal income for the magazine's sellers. The aim is to support these individuals in their return to a more orderly life — selling magazines is a job, not charity. | [Read more on page 168.](#)

### Lunch university

In 2018 we made efforts to enhance skills linked to sustainability topics at SBAB. Each month we either held a "lunch university", whereby an employee offered up their lunch hour to give an interesting presentation, or in-depth training courses in the form of longer presentations or study visits. Each occasion touched on different themes relating to the environment or ethics in the new-build market, sustainable city planning or social sustainability. The aim was to spark interest and ultimately commitment to sustainability topics within our operations by enhancing skills in that area.





## INSIGHT

# TAX AVOIDANCE WITHIN CONSTRUCTION REQUIRES MOBILISATION

The rapid pace of building in Sweden has led to a worrying development concerning how homes and infrastructure are built. Several investigations have shown that building practices often involve unreported employment and salary dumping, as well as a lack of respect for human rights along the supply chain.

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THE GOALS



**S**everal investigations have presented a concerning trend in relation to irregularities within construction.

"We are seeing increasing signs that tax avoidance is increasing within the construction industry. Tax avoidance leads to Sweden losing major revenue that could go to increasing welfare. Tax avoidance also contributes to unhealthy competition among construction companies, a negative spiral that risks cutting out companies that do the right thing," says Carl Lindstahl, Sustainability Strategist at SBAB.

### **Tax avoidance affects many people, not least those working in construction**

"Tax avoidance leads to a bad situation for many workers who come to Sweden from other countries. We have seen several examples from investigative journalism that workers live in poor conditions and receive salaries that are far below the Swedish minimum wage with non-existent insurance coverage. The avoidance does not typically occur among the major construction companies, rather further down the supply chain."

As a bank and financier of new builds, SBAB does not want to be part of letting money lent end up in criminal networks, Carl explains.



He points out that banks are already posing certain security questions to consumers who want to open savings accounts, with the aim of counteracting money laundering and other activities.

"By way of collaboration, the banking industry as a whole should be able to place requirements on construction companies to have control over their supply chains. No checks, no loans, no production. We opened up a dialogue with the construction industry about this issue in 2018 and received a positive response. A project is under way that involves both construction companies and worker and professional organisations, and aims to identify requirements that will have an effect on tax avoidance, but that banks can also monitor and follow up," concludes Carl.



**Lennart Weiss,  
Commercial Manager, Veidekke**

### **How serious is tax avoidance in the construction industry?**

"Very serious. It not only affects the commercial industry, it is also an acute problem for households. Our impression is that it has increased in recent years. The strong construction sector likely contributed to this trend. It exposed the shortage of labour, which has resulted in many players taking on subcontractors from other countries. The checks conducted on these subcontractors are often substandard, which in turn has led to a number of negative consequences, including increased tax avoidance."

"There is an overarching risk that this type of problem will remain even after the market has cooled off. Recruiting foreign subcontractors can lead to lower costs, which can be a tempting option for many profitability-minded play-

ers. Workers in Sweden, who work in line with Swedish regulations and collective bargaining agreements, are naturally at risk of being negatively affected by this kind of development. It is not competition on equal terms."

### **What is required to create a sound new build business?**

"It all starts with a discussion based on values. The industry as a whole needs to name and shame these kinds of structures and behaviours. The next stage is about expanding checks and collaborations. The construction companies cannot manage all of this themselves. Checks and regulations are needed for every part of the chain in order to truly tackle the problems. It should feel unpleasant for irresponsible players to work in the Swedish market."



## INSIGHT

# HOW DO PROPERTY COMPANIES WHO OWN MAJOR RESIDENTIAL AREAS IN OUR SUBURBS THINK AND ACT?

**S**ocial exclusion and integration are discussed within the general debate about our suburbs. A negative image is frequently conjured up by the media. The police, the public employment service, schools and social welfare offices are often commented on in these contexts. The police also conducted a geographical distribution of 61 areas deemed to be Particularly vulnerable, Vulnerable or Risk areas. What can a property owner do to help promote responsible ownership? And what approach does a bank that finances properties in these areas have?

Stena Fastigheter is a property company that owns many properties in the "million programme" areas built during the 1960s and 70s. Stena is also a customer with SBAB – a relationship that has grown stronger and stronger. We met Cecilia Fasth, CEO of Stena Fastigheter and Tim Pettersson, Business Manager for Corporate Clients & Tenant-Owners' Associations, to get a clearer picture of their approach to their own roles and the general view of housing, city districts and people in our suburbs.

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Image: Stena Fastigheter





**Cecilia Fasth,**  
CEO of Stena Fastigheter

**In what way do you want to create value for the city districts under your management?**

"We want to be part of developing the areas in which we own properties. Since we are a long-term owner, social stability and security always rank high up on our agenda. Another important part of our work is linked to the environment – when we build and manage our housing and premises, our goal is to do so with as little impact on the environment as possible."

**How do you approach your work?**

"We usually say that our work is about relationship management. That is our method of working on social sustainability. For example, we believe that good relationships form the very basis of a sustainable society. An important part of our work is thus about collaborating with those who live in our properties, but also with other players in the vicinity. Thanks to their expertise and by maintaining a strong dialogue, we are able to create good conditions for pleasant and secure residential areas. To ensure a long-term approach and progress, we have full-time employees at every subsidiary that works with relationship management."

In addition, it is obviously important for all the others who work with us to share our values, so that everyone can contribute to relationship management activities no matter their role."

**Can you give an example of your work?**

"We often collaborate with municipalities and schools in our areas to give children the right conditions for a great start in life. Full qualifications from compulsory education, their first summer job and meaningful leisure time all represent important building blocks. For example, we employ as many summer workers as we have employees each year. As of the summer recruitment campaign of 2018, we have now offered 1,500 summer jobs over five years."

**Do the media present a fair image of the suburbs?**

"We don't review the media. That said, we obviously want to add nuance to the stereotypical image of the suburbs that is sometimes presented, as it does not benefit anyone. We are extremely proud of the areas in which we own properties and believe that our tenants feel the same."



**Tim Pettersson,** Head of Corporate Clients & Tenant-Owners' Associations

**SBAB finances many properties in the suburbs of our major cities. Why is this the case?**

"SBAB has a broad mission that involves everyone in society, not just those who live in owned homes or in socially privileged areas. Suburbs are sometimes made up of "million programme" buildings. These properties are now beginning to need renovation. Major property portfolios with renovation requirements place great demands on financing over a long period. SBAB is able to manage major transactions and also has a specific interest in improving living conditions for people in less socially privileged areas."

**How important is the role of property owners and management when you decide to lend money?**

"The owner is very important. A serious owner sees the benefit of having a dialogue with residents and investing in a secure, pleasant and sustainable residential environment. As a financier with our task and mission, it is important that the property owner ensures responsible management. We like to collaborate around social projects, for example, where we can contribute our expertise and experience."



# An attractive workplace

We who work at SBAB are the company's most important asset by far. Motivated and committed employees are a prerequisite for SBAB's success, competitiveness and long-term value creation.

## Did you know?

- 1 SBAB finished in **eighth place in Great Place to Work's list** of Sweden's best workplaces in 2018, in the Large Companies category
- 2 **85 percent** of our employees consider SBAB a very good workplace
- 3 In 2018 we worked together with the Make Equal foundation to create **Respekttrappan**, a tool for learning more, reflecting, and discussing respect and equality

## UN's Sustainable Development Goals



We dedicate as much energy and focus to our employees' experience as we do to the customer experience. We are dependent upon people who are motivated, who can identify needs and opportunities and who can act on them. For us, it is vital that everyone at SBAB thrive at work, that we feel good, that we can be ourselves and that we feel that we can jointly make a contribution and develop every day.

We work actively to develop our value-driven working approach, with our self-driven employees and inclusive leadership at its core. A value-driven working approach involves always ensuring we work with our values in mind — using them as a basis to consistently practise, talk, discuss and give feedback. It is a matter of giving our employees the tools and courage they need to take initiatives, make their own decisions and implement and test new ideas. The value-driven working approach places demands on the holistic perspective. By serving as role models,

our leaders can build the trust and commitment required to help employees act in an independent and driven manner. A self-driven organisation, where everyone makes smart decisions in their daily work, gets a tempo that outperform traditional, hierarchical and bureaucratic companies.

SBAB emphasises the value of employees with different backgrounds. At our company, it is a given that all employees have the same rights, obligations and opportunities in every aspect related to the workplace. We want SBAB to be an equal workplace with a high level of integrity that encourages differences and diversity. We are convinced that a mixture of opinions, talents and backgrounds enriches and strengthens our company and our competitiveness.

*Additional information about the target area can be found in the sustainability notes on page 168.*



### Employee satisfaction

We measure the progress we have made in our perception of an attractive workplace through our annual employee survey in collaboration with the company Great Place to Work (GPTW) and through other quarterly surveys. The aims of such surveys are to deepen our understanding of our employee's satisfaction and how they experience the workplace, based on a number of fundamental needs in the areas of trust, pride and camaraderie. In so doing, we want to create a basis for analysis and a more involved dialogue at departmental and team level, while establishing a clearer understanding of the activities we should be focusing on to improve or maintain our employees' experiences of SBAB. In the most recent employee survey, 85 percent (79) of our employees considered SBAB a very good workplace<sup>1)</sup>. The level of employee engagement, the Total Trust Index, in GPTW's annual survey increased to 81 percent (74)<sup>2)</sup>.

### A value-driven working approach

We are a value-driven company that strives to enable all of our employees to be self-driven and to take own sensible decisions in the everyday work. Our corporate culture is described in our four values with their 18 sub-items. | [Read more on page 23.](#)

At SBAB, it is not the Executive Management that decides in detail how we reach our goals by delegating and issuing instructions. At our company, the focus is always on our employees. We operate in a changing world that requires us to quickly and flexibly adapt ourselves to new pre-conditions. Aided by agile working principles, we strive to further develop a working approach characterised by cooperation, continuous learning and full transparency. To optimise for value-generating activities, we deliver often and work dynamically to test and teach ourselves. We strive to create autonomous teams that, aided by goals and frameworks, decide themselves how to achieve targets. We want to enable

everyone to be self-driven. It is important for us that employees are able to affect their workplace situation.

We need considerable competence and talent when it comes to leading and living with change. Our aim is to make sure that change management becomes a part of our DNA. With full transparency regarding our sustainable governance model, we want to clarify how everyone's input contributes to our vision and our goals. Consequently, we want all employees to understand how their specific duties contribute to the whole and why they specifically are important for SBAB's success.

<sup>1)</sup> Data from the Nordic Brand Academy. Outcome for the fourth quarter of 2018. The results apply to the number of employees who answered 4–5 in the loyalty measurement NPS (Net Promoter Score).

<sup>2)</sup> Data from Great Place to Work (GPTW). The performance measure describes the proportion of employees who have a predominantly highly positive perception of SBAB as an employer and as a workplace within the commitment-driving areas of trust, pride and camaraderie.

### Our HR strategy

We attach great importance to our HR-strategy in which we have defined seven particularly important focus areas: Corporate culture, Leadership, Respect & Equality, Attracting & Recruiting, Learning & Development, Health and also Remuneration. By continuously and determinedly working in these areas, we want to achieve our long-term goal of being one of Sweden's best workplaces.



## INSIGHT

# ONE OF SWEDEN'S BEST WORKPLACES

Every year, Great Place to Work conducts a world-wide workplace study that evaluates the quality of thousands of workplaces from two perspectives: employee and employer. In Sweden, several hundred organisations participate, and the best have the chance to win a seal of approval. SBAB finished in eighth place in this year's list of Sweden's top workplaces in the Large Organisations category.

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**Carina Eriksson,**  
**Head of HR at SBAB**

**// This year's  
result in Great  
Place to Work is  
clear proof that our  
commitment to  
workplace issues is  
making a difference.**

**Why does SBAB work with  
Great Place to Work?**

"Great Place to Work's tools help us conduct a comprehensive, thorough analysis of how our workplace is perceived, and what the driving forces behind employee experiences are. The results also provide the chance to compare ourselves with the most ambitious companies in Sweden, which is especially valuable. In other words, it gives us a good picture of things as they stand, and a good understanding of which investments are needed for becoming an even better workplace."

**What is behind this year's strong results?**

"This year's results are a clear proof that our value-driven working method is the key for being an attractive workplace, which we see as absolutely central to our long-term success and competitiveness. To be one of Sweden's best workplaces requires a long-term, significant commitment from every employee. This means a shared responsibility in daily routines, where

trust, approachability, knowledge sharing and cooperation are essential for everyone to feel energised and thrive together."

**What will SBAB do to maintain and  
improve these strong results?**

"You can always be better. Thanks to the high response rate, we have an exhaustive foundation to work with. We hope that the teams with somewhat lower results can be inspired by the strong overall results. It shows that there are good conditions for everyone to have a really good experience at our workplace, which naturally is our long-term goal."



## Symbols to help and make it easier for us to apply a value-driven working approach

We have developed a number of symbols to breathe life into our values. They are practical tools for daily life and symbolise how we are to act in our day-to-day work.



### The glass of water

represents trust. The glass fills up slowly by our positive actions, whereas water spills out and trust is lost when we act incorrectly.



### The helicopter

represents our ability to see the bigger picture — lifting up to get an overview, like a helicopter.



### The lighthouse

represents the signals we send out — that we are all role models and ambassadors. We all affect each other.



### The door

represents courage — daring to open unknown doors, try out new pathways and think innovatively. Trust enables courage.



### The ladder

symbolises our ability to take own initiatives. Being high up the ladder means taking initiatives and taking action. Lower down on the ladder are people who complain and wait around.



### The egg

represents our approach to taking responsibility. This is constant, meaning we also take responsibility beyond our function. Our responsibilities overlap and create a stronger whole.

## Inclusive leadership

The value-driven working approach places major demands on having bold leaders with a holistic perspective. It is our goal for everyone to be a leader. We need to develop everyone's ability to lead and take responsibility to drive our business forward and to set a good example. Managers who are responsible for personnel have an especially important responsibility within our inclusive leadership, which means leading employees by encouraging and demonstrating participation, trust, responsibility, clarity and diversity. The leader serves as a role model, establishes targets and frameworks, is clear about expectations and demonstrates trust by refraining from micromanaging. This enables us to increase the pace and enhance decisiveness and daily innovation.

In 2018, we have trained new leaders in inclusive leadership, through activities including leadership development program for new managers. We have also worked with existing leaders through workshops in management groups and through our Ledarform (eng. *Leader forum*), which has been completed four times during the year.

## SBAB's talent management

In a world where conditions are constantly changing, we need to act with innovation and consideration to ensure that we attract and recruit the talent that can help

us achieve our vision. Innovation by challenging society, the industry and ourselves. Consideration by including and working for respect and equality. Everyone who works at SBAB shall accomplish this thanks to their unique expertise and abilities, but also shared values.

In recruitment, we focus on finding candidates who share our values. We need to attract individuals with potential for development who want to work with their colleagues to find new ways forward. We want to recruit talent that can contribute with individual differences, expertise and experiences to make SBAB a better and stronger company. Our goal is to increase diversity in our recruitment process by challenging and developing how we attract talent.

These days, employees choose companies to the same extent that companies choose them. This is why it is essential for everyone at SBAB to feel responsible for participating in the search for talent by interviewing candidates and meeting new hires. Because many are involved in recruitment efforts, it is important to have a clear process for how recruitment should proceed. This way, we ensure that all candidates are treated equally and that everyone has the same idea about what kind of talent we are looking for. In 2018, we implemented a new recruitment system to strengthen the candidate experience and collaboration between everyone involved in recruitment.

The initial time at a new workplace is vital for an employee to feel welcome and secure in his/her career choice. It is important to understand the big picture, regardless of the role in which an employee joins SBAB. Kundresan (eng. *Customer journey*) and Boost Camp, our one- and two-day courses, aim to introduce new employees in an energising, motivating and inclusive manner to our corporate culture, our value-driven working approach and to SBAB as a whole. In 2018, we completed eight Kundresan days for a total of 145 new employees and six Boost Camps for a total of 127 new employees.

## Developing and becoming a learning individual

Learning and skills development are becoming increasingly important in today's ever-changing world. We focus intently on developing a learning organisation. It is important to ensure that the work we conduct is relevant and contributes to the right business value and long-term skills development.

Skills are perishable in our changing world, which is why the opportunities for learning and continuous development are strategically important priorities. Our development efforts are based on the "70-20-10-model." Put simply, the model means that 70% of our learning should come from developing in our existing role,



20% from learning from others and 10% from traditional training or theory.

The greatest and most important part of this learning is the development that takes place on a day-to-day basis through exercising know-how and learning together with others. Reflection and feedback are prerequisites for learning and development, which explains why regular progress meetings between manager and employee form an obvious part of our ongoing work. Management by objectives is important for defining and clarifying the direction of, and the framework for, what has to be attained. This work is given substance through an individual annual plan, which is continuously followed up and adjusted.

In 2018, we continued our initiative to obtain mortgage licensing for everyone at SBAB. Under the EU Mortgage Credit Directive, the personnel at organisations that offer credit, credit brokering or advisory services in the field of mortgage credits to consumers are required to possess special knowledge and skills. SwedSec Licensing AB has developed a skills test for personnel who work with mortgages, which in turn leads to a licence to be able to work with mortgages. By year end, 442 SBAB employees had received mortgage licences.

We have also created conditions for more efficient learning by digitalising other regulatory requirements and other knowledge requirements from classroom courses to e-learning programmes. Today, the main intention of our classroom courses is to serve as in-depth discussions and to provide understanding of more complex issues.

### Sustainable employees

We want to enable everyone who works with us to have a sound balance in life through

a sustainable workload. Life consists of many different phases and challenges both at work and outside. Our health-related initiatives are designed to create a healthy working environment and to proactively support every employee. We believe in preventing illness by offering a variety of proactive health initiatives that contribute to the well-being and sustainability of our employees. Our focus on our psychosocial workplace environment is to feel relevant and considerate. Vardagsstödet (eng *The everyday support*), our professional counselling, provides knowledgeable and anonymous help in finding solutions as early as possible and offer ways ahead in both simple and difficult issues. Our managers are trained in health-promoting leadership and try, as much as possible, to adapt the workplace situation to every individual's needs and wishes.

Through our digital health and wellness portal, employees can choose between several types of healthcare offerings in all of the communities where we are represented. Additionally, we have several activities arranged by our wellness coaches, subsidised health insurance and expanded parental pay. We also strive to actively prevent long-term sick leave through partnerships with occupational health services. In 2018, we updated our rehabilitation process, performed a review of our discrimination process and initiated a partnership with Falck Healthcare regarding the management of harassment and discrimination.

### Remuneration

Our remuneration policy encompasses all SBAB employees, regardless of position. In accordance with the relevant policy, SBAB's remuneration is to be competitive, capped and appropriate, moderate,

reasonable, well considered and not salary-leading. It should also contribute to high ethical standards and a good corporate culture. The same applies to the benefits we offer — all employees are offered the same benefits, regardless of position. Since 2012, there have been no incentive programmes and no variable remuneration to our employees that could have any significant impact on the SBAB Group's risk profile. The total level of remuneration is determined based on responsibility, complexity and results within the respective employee's area, but also on how well the employee lives our values and our value-driven working approach. We apply individual salary-setting in accordance with our collective bargaining agreement, which means that remuneration and salary growth is individual and differentiated. Every employee in the Parent Company is covered by collective bargaining agreements. Salary reviews take place annually by way of individual salary interviews, whereby performance in the role and applicable salary criteria are taken into consideration.

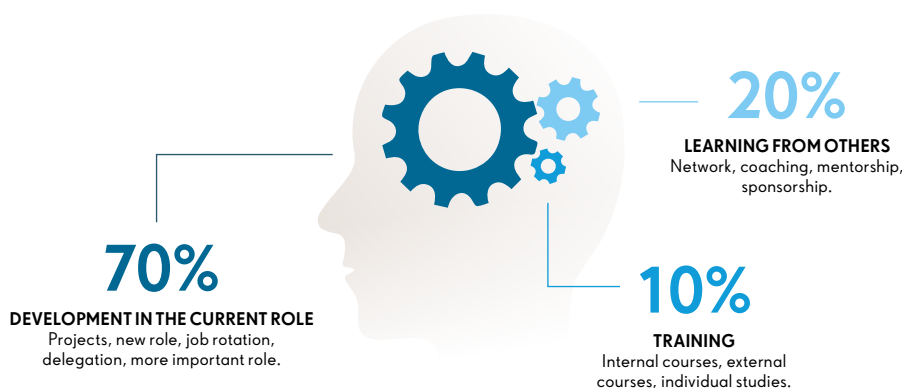
In 2018, we developed training in how salary at SBAB is determined to increase transparency and knowledge in these issues. We also conduct annual salary surveys to ensure the continuation of our successful work to prevent non-objective salary differences and salary discrimination. Should abusive special treatment occur, procedures are in place to launch investigations and take actions. Reports should be submitted to line managers or HR. If the employee belongs to a union, a representative from that organisation is brought into the investigation.

### Respect and equality

SBAB has a policy that emphasises the value of employees with different backgrounds. For us, it is a given that all employees have the same rights, obligations and opportunities in every aspect related to the workplace. One of our targets concerns equality between men and women in executive positions. At year end, 44% (45) were women and 56% (55) were men.

In 2018, we worked together with the Make Equal foundation to create Respekttrappan, a tool for learning, reflecting, and discussing more about respect and equality. | [Read more on page 56.](#)

## Learning in line with the 70-20-10 model



## INSIGHT

# BANKS, LET'S TALK ABOUT INTEGRATION!

The Swedish banking sector has a considerable need for expertise and several banks testify that it is difficult to recruit. At the same time, there are around 69,000 foreign-born academics in Sweden who are currently without work.

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Photograph: Abraham Engelmark





**D**uring the year, SBAB launched a survey looking at the attitude of foreign-born Swedish citizens to working in the banking sector, as well as their experiences of banking services. The results showed that the majority of them were interested in working at a bank, but that only 5% had applied for a job in the sector.

"We have a social responsibility to make the bank system more accessible, both in terms of the services we offer and in how we recruit. It's clear that the banking sector has failed in many ways to take advantage of this considerable amount of expertise," says Malin Pellborn, Head of Sustainability, Marketing and Communication at SBAB.

The survey showed that nearly 40 percent of the foreign-born Swedes surveyed were interested in working in the bank industry, but did not know what the industry was like or how to find a job in it. Even if they had previous experience working in the industry, they did not know how to get started. The research also showed that overall bank usage among foreign-born Swedes is rather low, including savings.

"When it comes to foreign-born Swedes as a customer group, as well, it's clear that we and other banks haven't succeeded in reaching out with accessible information about, for example, savings. Regardless of this is due to a lack of customer insight or a failure to prioritise resources for specific target groups, it still leads to foreign-born Swedes being left behind, even as a customer group," says Malin.

### How the industry together can create a more inclusive banking sector

In autumn 2018, SBAB and its partner Welcome! invited representatives from other banks to Norrskens premises in Stockholm to discuss how they can create a more inclusive banking sector together. Several foreign-born Swedes also participated in the discussion.

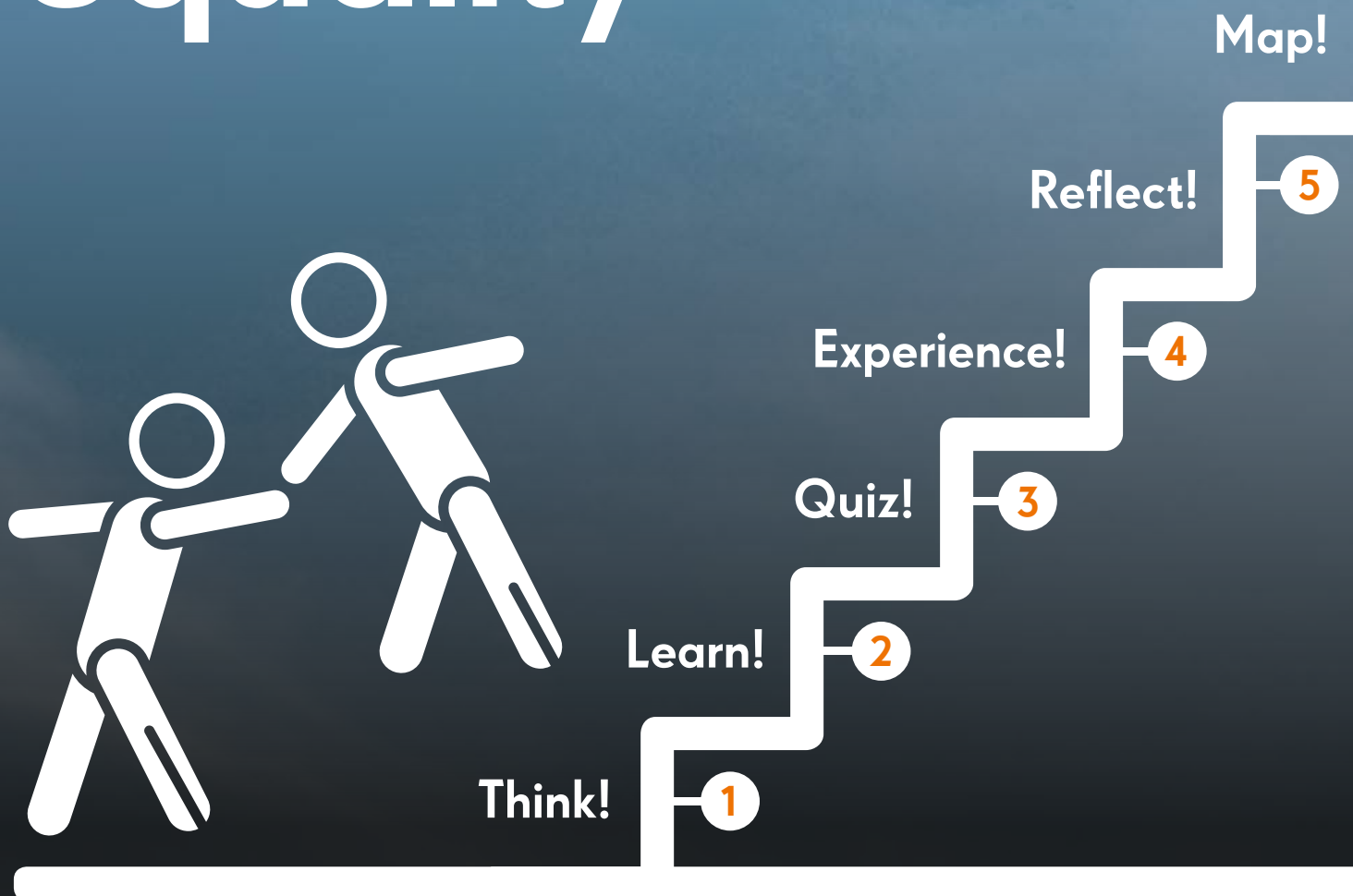
"As a first step in solving the problems, we started a discussion with the other banks about how we can collaborate, based on the survey from SBAB. Gaps in language was described as an obstacle in recruiting foreign-born Swedes, and Sweden's Public Employment Agency put forward the concrete suggestion of bank-wide education."

"In the education, we hope to challenge and develop the prevailing view on internships and hopefully replace them with more probationary hires. We also want to review remuneration levels to ensure that individuals feel included in the workplace as well as clarify how we as an industry can increase our visibility and our opportunities within this target group."

As a next step, in 2019 SBAB will invite parties to a follow-up meeting to discuss the education and other concrete solutions and activities.

"All the participants agreed that we need to do more as an industry. This initiative is an example that proves that there are significant advantages with jointly addressing parts of the integration issue as an entire sector, rather than as individual entities working independently."

# Respect and equality



## 1 THINK!

The participants approach the topic in an instructive and dialogue-oriented manner, for example watching a film clip or reading an article and then discussing it in a group.

## 2 LEARN!

Through e-learning, the participants are able to expand their knowledge alone or in groups.

## 3 QUIZ!

Quiz is a fun way for the participants to learn more, not necessarily to give "correct" answers.

## 4 EXPERIENCE!

The participants get to experience unfamiliar perspectives in different physical exercises and then talk about their reactions.



Do!

7

In 2018, 661 people, employees as well as consultants, began their journey towards increased understanding of the importance of respect and equality.

6

**SBAB is a value-driven company. This means that all of us at SBAB need to possess the same core attitude. We define our attitude through our values, which form the foundation of our corporate culture.**

Inclusion suffuses our values. By inclusion, we mean transparency, knowledge sharing, approachability, trust, diversity, respect and equality. Our value-driven approach generates courage, pace and a willingness to change, and has made us one of Sweden's best workplaces according to Great Place to Work.

A major and highly significant development took place in autumn 2017. A number of women stepped forward and spoke about the sexual harassment and abuses that they had endured at their workplaces. Their actions showcased the lack of respect and equality in our society. The #metoo movement showed that disrespectful and inequitable norms and behaviour are all around us.

For SBAB, respect and equality mean that harassment and abuse are completely unacceptable. This includes behaviour that we might not think about, norms and habits that we might not notice in our daily lives.

We do not want to treat each other in ways that could be perceived as master suppression techniques, we do not want anyone's work attire to affect that person's influence on the meeting, we do not want a younger, newly recruited woman's voice to be given less attention than the loud, confident voice of a young man and we do not want to refer to women as girls if we refer to boys as men. It is unprofessional to not be inclusive. We want to address all these issues we perhaps neither think about nor see, and we want to address them tangibly – now. For these reasons, SBAB's working group for equality and diversity, with representatives from different parts of the operations, worked together with the Make Equal foundation to create Respekttrappan (eng. *The journey towards respect and equality*)

Respekttrappan is a tool focused on a playful approach to create the preconditions that, from differing perspectives and in various ways, enable us to learn more about, to reflect on and talk about respect and equality.

Respekttrappan is based on a change perspective. Each step includes various exercises of differing character that address different subjects. Some exercises are individual, but most are group-based. These eye-opening exercises create trust within the group and can lead to strong emotional reactions and discussions.

We want to do what we can to change the world. In 2019, we intend to take the next step with Respekttrappan, together with Make Equal, and to make it available to other companies and organisations.

MAKE  
EQUAL SBAB!

## 5 REFLECT!

Similar to the first step, "Think!", but the discussions touch on the participants' and the group's own norms and behaviour.

## 6 MAP!

Through observation and description, the participants try to discover patterns that had previously gone unnoticed or been unclear.

## 7 DO!

The participants develop check lists, strategies and simple action plans to manage the situations, problems and pitfalls that were uncovered on the way up the stairs.

WE CONTRIBUTE  
TO GOAL



# Sound finances

Long-term profitability allows us to contribute to sustainable societal development.

## Did you know?

- 1 In 2018, **SBAB's lending increased nine percent** to a total of SEK 364 billion
- 2 SBAB has the **lowest C/I ratio** of all the banks in Sweden
- 3 The Board proposes a **dividend of 40% of profit after tax**, corresponding to SEK 690 million, for 2018

We create conditions that allow consumers to build up their financial security by saving and borrowing money at different life stages, and we enable companies to operate, grow and create value for many different kinds of stakeholders. As part of the financial system, we also have a responsibility to ensure a national economy that is sustainable over the long term. Well-functioning banks contribute to societal development and employment and constitute an important element of financial stability.

To ensure SBAB's long-term competitiveness, our operations need investments. This requires growth in the form of larger

business volumes to bear the increased expenses that the investments entail. We want to grow responsibly, with good profitability and always at an acceptable risk. Good profitability requires high long-term cost efficiency with low marginal costs. Sound finances are a prerequisite for our ability to achieve sustainable operations, and by extension to create value for ourselves, our stakeholders and society in general.

## UN's Sustainable Development Goals





## Cost efficiency

In recent years, banking operations have become increasingly complex and demanding due to regulatory developments, especially around issues concerning customer experiences, reporting, capital and liquidity. This increased complexity has led to an increased need for investments that increase fixed expenses for conducting banking operations.

Digitalisation and new customer behaviour fundamentally change the value of the customer offering, how it is offered and what the customer pays for each product and service. Digitalisation makes it significantly easier to compare products and prices, which increases the competition for goods and services. The expenses for distributing services digitally, including financial services, are basically non-existent. The marginal cost of offering one more component is close to zero. When necessary investments have been made, the banks' marginal costs are extremely low, which means that the price the customer pays for a digital banking service on a competitive market is also very low. One exception is the price on money borrowed — this is a finite resource. Borrowing money entails a risk, which is why borrowed money always has a price.

We are a digital bank, which means that we have no traditional bank offices and that most of our customer meetings take place in digital channels and over the phone. Cost efficiency is therefore very important for our long-term competitiveness.

In order to achieve long-term competitiveness we need to invest in our operations. Not only to improve our customer offering, but also to make ourselves more efficient and make it possible for us to grow with the lowest possible marginal costs. We want the marginal costs for growing with more customers and larger volumes to be so low that we will always be able to offer competitive terms on our credits and services. Responsible, according to us.

Our expenses increased 9% during the year to SEK 1,049 million (959). One way of measuring total cost efficiency is the C/I ratio. This is a metric that describes the relationship between our costs and our revenue — how much each krona earned actually costs SBAB. Our C/I ratio for 2018 totalled 32.0% (30.3), which is the lowest in the industry.

## Responsible growth

Growth is central for companies in competitive markets. If they do not grow, they shrink — there are always competitors who are interested in their customers. If they grow, it is proof that their customer offering is in demand.

Responsible growth involves pursuing responsible credit granting. Our credit granting must be sustainable over the long term. We do not want our customers to have problems paying interest and amortisations. We have a responsibility to finance homes for customers who are creditworthy. We always need to get better, and more efficient, at assessing creditworthiness so as to ensure that SBAB's risk taking is



always reasonable and that our customers, in accordance with their circumstances, borrow the right amount at the right price.

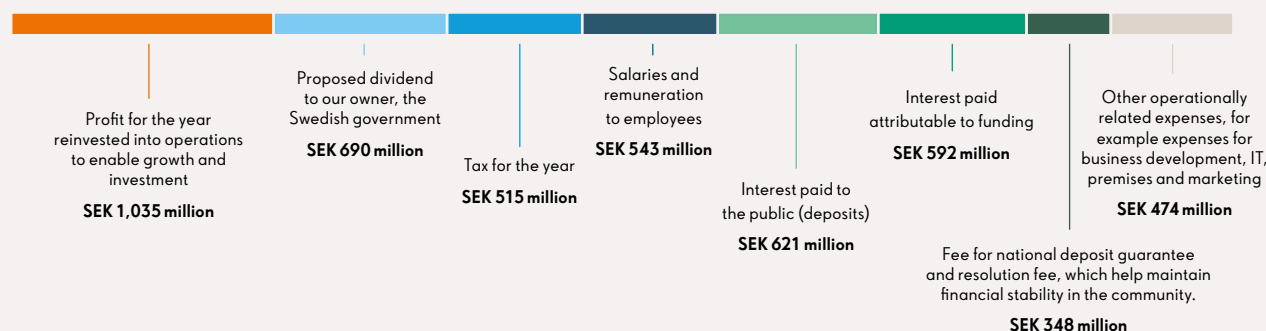
SBAB's total lending was SEK 364.2 billion (335.1) at the end of the year, equivalent to net growth of 9% (13) in 2018. The number of residential mortgage customers increased 6% (9) to 270,000 (255,000) in total. SBAB's total deposits amounted to SEK 124.9 billion (111.9) at the end of the year, equivalent to net growth of 12% (16) in 2018. The total number of savings accounts increased 10% (12) during the year to 373,000 (338,000). | [Read more on page 62.](#)

	GROUP		
	2018	2017	Change
Total lending, SEK bn	364.2	335.1	8.7%
Total deposits, SEK bn	124.9	111.9	11.6%
Net interest income, SEK million	3,362	3,149	6.8%
Net commission, SEK million	-49	-5	SEK -44 million
Expenses, SEK million	-1,049	-959	9.4%
Credit losses, SEK million	11	24	SEK 13 million
Operating profit, SEK million	2,241	2,228	0.6%
Return on equity, %	12.1	12.5	-0.4 p.p.
C/I ratio, %	32.0	30.3	1.7 p.p.
CET1 capital ratio, %	12.5 <sup>1)</sup>	32.2	-19.7 p.p.

<sup>1)</sup> From 31 December 2018, the method for applying the existing risk-weight floor for Swedish mortgages has been amended. For more information, please refer to page 72.

### Financial value creation

One way of measuring how we generate financial value for our stakeholders is by presenting information on how the financial value is distributed.



### Profitability

Profitability creates the prerequisites for growth and investments in our operations. Profitability also provides SBAB with the preconditions for building stable own funds, which is crucial for creating confidence among our stakeholders such as savings customers, bond investors, ratings institutes and government authorities.

We achieve profitability through developing and working with both revenue and cost streams. The revenue factors with the largest impact are growth in the form of more customers, growth in lending and interest margins on lending. As regards costs, low marginal costs is the most important factor for achieving long-term cost efficiency, both for conducting operations and for growth. SBAB's profitability target specifies a return on equity of no less than 10% over a business cycle. Return on equity in 2018 amounted to 12.1% (12.5).

### Dividend

Part of our funding comes from our owner, the Swedish state, in the form of equity. In return for its contribution, the owner receives a return in the profit generated by operating activities. In accordance with the owner's dividend target, at least 40% of profit after tax is to be distributed, taking SBAB's capital structure into consideration. The Board proposes a dividend of 40% (40) for 2018, corresponding to SEK 690 million (684). The rest of the profit is to be reinvested in operations. | [Read more on page 83.](#)

### Capitalisation

It is important for SBAB to be well capitalised, since this promotes increased confidence from our stakeholders, financial stability and the opportunity to grow. The Board resolved this year to adjust the buffer levels in SBAB's capital targets as a result of the amended method for applying

risk-weight floors for Swedish residential mortgages. According to the adjusted targets, under normal conditions, SBAB's CET1 capital ratio and total capital ratio should be at least 0.6 percentage points higher than the CET1 capital requirement communicated by the Swedish FSA. This requirement is expected to correspond at year-end, according to SBAB's internal assessment, to a CET1 capital ratio of not less than 10.0% and a total capital ratio of 14.1%. At the end of the year, the CET1 capital ratio amounted to 12.5% (32.2) and the total capital ratio to 18.1% (47.6). This provides a comfortable margin to both internal targets and external regulatory requirements. | [Read more on page 72.](#)





# **FINANCIAL STATEMENTS 2018**

# Operations

## Condensed income statement

### + SBAB'S income

SEK million	2018 (2017)
<b>Net interest income</b>	3,362 (3,149)
SBAB's largest and most important revenue item is net interest income, which comprises the difference between SBAB's interest income and interest expenses. Interest income is primarily from SBAB's residential mortgages and property loans, while interest expenses mainly comprise SBAB's costs for funding and deposits.	
<b>Net commission</b>	-49 (-5)
Net commission mainly comprises income from insurance broking and other credit-related fees and expenses related to funding and valuations.	
<b>Net result of financial transactions</b>	-65 (-12)
Net result of financial transactions arises through SBAB's application of financial instruments and as a result of accounting valuation effects.	
<b>Other operating income</b>	32 (31)
Other operating income primarily consists of income from the subsidiary Booli Search Technologies AB.	
<b>Total income</b>	<b>3,280</b> <b>(3,163)</b>

### - SBAB'S expenses

SEK million	2018 (2017)
<b>Expenses</b>	-1,049 (-959)
SBAB's expenses mainly comprise personnel, premises and marketing costs and costs for IT and business development.	
<b>Credit losses</b>	11 (24)
Credit losses arise when SBAB's customers are unable to pay interest and make loan repayments. We always work to minimise credit losses, based on our adopted risk tolerance levels. According to regulatory requirements, we also prepare for expected credit losses through provisions.	
<b>Tax</b>	-515 (-519)
Tax consists of income tax of 22% of net profit for the year with an addition for tax adjustments and any adjustments of tax for previous years.	
<b>Total expenses</b>	<b>-1,553</b> <b>(-1,454)</b>
<b>= Net profit/loss for the year</b>	<b>1,726</b> <b>(1,709)</b>

The net profit for the year comprises total income less total expenses. According to SBAB's dividend target, at least 40% of profit is distributed to owners, which in 2018 corresponded to SEK 690 million (684). The remaining portion of net profit is returned to **equity**.

## Condensed balance sheet

### SBAB'S assets

SEK billion	2018 (2017)
<b>Securities (liquidity portfolio)</b>	72 (73)
In order to maintain high liquidity, SBAB has various forms of securities, mainly in the form of a liquidity portfolio. The liquidity portfolio was set up to ensure access to finance at times when SBAB's normal funding sources are not operating satisfactorily.	
<b>Lending to the public</b>	364 (335)
SBAB's largest asset item in the balance sheet was lending to the public. This item comprises residential mortgages and consumer loans to consumers as well as property loans to businesses and tenant-owners' associations.	
<b>Lending to credit institutions</b>	3 (2)
For short-term liquidity management, SBAB utilises, inter alia, the repo market to invest or borrow money from other banks.	
<b>Derivatives</b>	8 (6)
SBAB utilises various forms of derivatives both on the asset and liability sides to protect the company against undesired changes in interest rates or exchange rates.	
<b>Total assets</b>	<b>448</b> <b>(417)</b>

### SBAB'S liabilities and equity

SEK billion	2018 (2017)
<b>Deposits</b>	125 (112)
SBAB's lending is financed, among other things, by retail deposits. Deposits refer to consumers, corporates or tenant-owners' associations saving money in SBAB's savings accounts, in return for interest on their savings.	
<b>Liabilities to credit institutions</b>	7 (6)
See the comment under the post "Lending to credit institutions" above.	
<b>Issued debt securities (funding)</b>	291 (275)
The largest part of SBAB's lending is financed through capital market funding, which is referred to in the balance sheet as issued debt securities.	
<b>Derivatives</b>	1 (2)
See the comment under the item "Derivatives" above.	
<b>Subordinated debt</b>	5 (5)
SBAB utilises subordinated debt to strengthen its capital position. The fact that the debt is subordinated means in the event of a bankruptcy, the debt will be realised only when other liabilities have been paid.	
<b>Equity</b>	17 (16)
<b>Total liabilities and equity</b>	<b>448</b> <b>(417)</b>



The Board of Directors and the CEO for SBAB Bank AB (publ) hereby issue the annual report and consolidated accounts for the 2018 financial year. Items within parentheses refer to the previous financial year. The statutory annual report, including this administration report, has been audited and includes pages 61–75, 83 and 88–160. The remaining part, excluding the Corporate Governance Report, constitutes the Sustainability Report. Deloitte submits an audit report for the Annual Report and the Corporate Governance Report, and a separate limited assurance report for the Sustainability Report.

### Organisation and operations

SBAB Bank AB (publ) has two business areas: Retail and Corporate Clients & Tenant-Owners' Associations. At 31 December 2018, SBAB had 602 (530) employees at five offices: 267 (234) in Solna, 28 (25) in Stockholm, 292 (256) in Karlstad, 7 (7) in Gothenburg and 8 (8) in Malmö. Our main IT unit and central functions are in Solna. Booli is located in Stockholm. Our Customer Centre and Operations are located in Karlstad. In Gothenburg and Malmö, there are local account managers serving the Corporate Clients & Tenant-Owners' Associations Business Area. | [Read more on page 77.](#)

### Financial targets | [Read more on page 28.](#)

Our owner, the Swedish government, has established the following overall financial targets for SBAB:

- **Profitability:** A return on equity of no less than 10% over a business cycle.
- **Capitalisation:** The CET1 capital ratio and total capital ratio should be at least 0.6 percentage points higher than the requirements communicated by the Swedish FSA. | [Read more on page 72.](#)
- **Dividend:** Ordinary dividend of at least 40% of profit for the year after tax, taking the Group's capital structure into account.

### Results and financial position

Operations continued to develop well in 2018. SBAB's operating profit for 2018 totalled SEK 2,241 million (2,228). Return on equity for 2018 amounted to 12.1% (12.5) and the C/I ratio was 32.0% (30.3). Further comments on the year's results and SBAB's financial position appear further on in this account. | [Read more on page 89.](#)

### Dividends and appropriation of profits

The Board proposes a dividend of 40% (40) for 2018, corresponding to SEK 690 million (684). | [Read more on page 83.](#)

### Events after the balance sheet date

SCBC, a wholly-owned subsidiary of SBAB, issued a green covered bond against collateral in the form of residential mortgages and property loans in January 2019.

At SCBC's EGM on 4 February 2019, a resolution was passed to make a retroactive distribution to the Parent Company.

In January 2019, SBAB's unsecured funding programme (EMTN) was updated, whereupon the applicable exchange was changed from the London Stock Exchange plc to the Irish Stock Exchange plc.

For more information, please refer to Note [G 5](#).

### Remuneration

There are no differences between the proposed guidelines for remuneration and other terms of employment for senior executives to be adopted at the next AGM compared to the guidelines that applied during the year. The most recently adopted guidelines are provided in Note [IC 5](#).

### Sustainability reporting in accordance with the Swedish Annual Accounts Act

From financial years starting after 31 December 2016, large undertakings must report sustainability in line with the new rules in the Swedish Annual Accounts Act pertaining to sustainability reporting. SBAB's Sustainability Report has been prepared in accordance with GRI Standards: Core option. | [Read more on page 161.](#)

## Retail business area

The Retail business area offers services within housing and household finances, such as savings and loan products, insurance mediation, and search-engine and real estate-agent services. The core product is residential mortgages. Activities are operated under the SBAB, Booli and HittaMäklare brands. SBAB's strategy is to offer a differentiated, value-creating customer offering within the housing and household finances ecosystem, with a clear focus on residential mortgages.

### Residential mortgages

During the year, the total volume of residential mortgages increased 12% to SEK 276.7 billion (248.1) driven by the continued strength of the customer offering, competitive interest rates and high levels of brand awareness. New lending amounted to SEK 63.2 billion (68.0) in 2018. At the end of 2018, we had 270,000 residential mortgage customers (255,000) allocated over 172,000 mortgage objects financed (161,000). The residential mortgage market share was 8.41% (7.96) at the end of the year, which puts SBAB in fifth place after the four major banks. Data from Statistics Sweden show that SBAB's share of net growth in the residential mortgage market totalled 17% in 2018.

SBAB's lending is concentrated to the Stockholm, Öresund and Gothenburg regions, which together represent about 86% of the residential mortgage stock. A large majority of SBAB's residential mortgage customers choose shorter maturities. The share of total lending with a three-month fixed-interest period amounted to 70.1% (68.7) at the end of 2018.

In mid-2016, SBAB introduced new loan repayment rules in line with regulations issued by the Swedish FSA. The rules include a repayment rate of 2% per year for new residential mortgages with an LTV ratio of more than 70%, and 1% per year down to an LTV ratio of 50%. The more stringent repayment requirements for households with high debt-to-income

ratios were implemented on 1 March 2018. The increased amortisation requirement entails all new mortgage holders borrowing more than 4.5 times their gross income (their pre-tax income) must amortise an additional one percent of the mortgage per year. The requirement applies to already existing amortisation rules.

At the end of 2018, the average LTV ratio<sup>1)</sup> in SBAB's mortgage portfolio was 61% (58). At the same date, the average residential mortgage to retail customers amounted to SEK 1.6 million (1.6).

#### CONDENSED INCOME STATEMENT, RETAIL

SEK million	2018	2017	2016
Operating income	2,568	2,457	2,260
Expenses	-848	-766	-705
Net credit losses	-10	7	-13
<b>Operating profit</b>	<b>1,710</b>	<b>1,698</b>	<b>1,542</b>
<b>Return on equity, %</b>	<b>12.6</b>	<b>14.4</b>	<b>14.7</b>

#### COMPOSITION OF COLLATERAL IN THE LOAN PORTFOLIO, RETAIL

SEK billion	2018	2017	2016
Mortgage deeds	140.0	126.5	107.0
Tenant-owners' rights	136.6	121.5	102.7
Municipal guarantees and direct loans to municipalities	0.1	0.1	0.3
Government guarantees	0	0	0
Bank guarantees	0	0	0
Other collateral	0.0	0	0
Consumer loans <sup>1)</sup>	2.2	2.0	2.0
<b>Total</b>	<b>278.9</b>	<b>250.1</b>	<b>212.0</b>

<sup>1)</sup> Unsecured loans to retail customers.

#### Partnerships

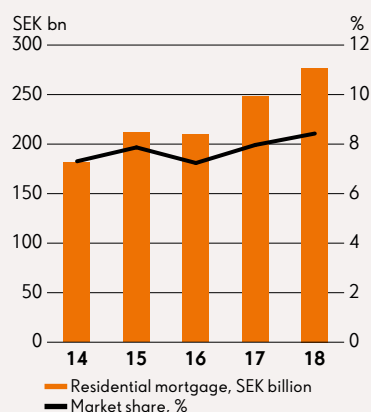
Part of SBAB's lending to consumers is carried out in partnership with other participants. At year end, the total volume of mediated residential mortgages amounted to around SEK 46 billion (46), which is equivalent to 16.5% (18.5) of SBAB's total lending to retail customers. Approximately SEK 18 billion (17) of residential mortgages

were mediated under SBAB's own brand. The remainder, about SEK 28 billion (29), were mediated residential mortgages using other brands, with SBAB as the underlying creditor. At year-end 2017, we chose to wind up our three remaining partnerships with Ikano Bank, Sparbanken Syd and ICA Banken, as a step in our long-term strategy to focus exclusively on brokering residential mortgages under our own brand. Our relationship with Ikano Bank concluded during the third quarter of 2018, according to the agreed notice period. As a result, all customer relations will transfer to SBAB. In the fourth quarter of 2019, the two remaining bank partnerships will be wound up. ICA Banken's mediated loan stock will remain in SBAB's balance sheet and customer relations will transfer to SBAB after the agreed notice periods. Sparbanken Syd has announced that the company intends to exercise its contractual right to acquire mediated loan stock of approximately SEK 9 billion. SBAB will also continue to broker residential mortgages under its own brand via selected partnerships where we see a clear added value. In the

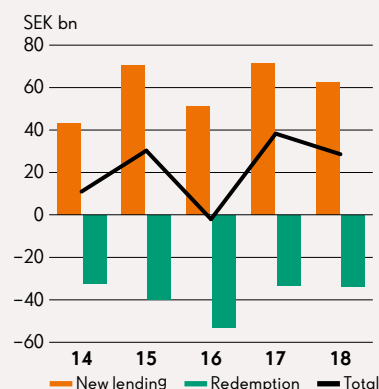
#### Increased market shares

During the year, the total volume of retail mortgages increased around 12% to SEK 276.7 billion (248.1) driven by the continued strength of the customer offering, competitive interest rates and successful communication. The residential mortgage market share increased to 8.41% (7.96)

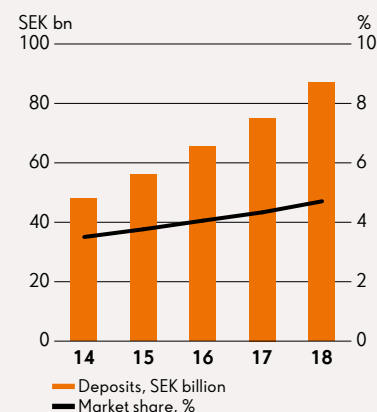
#### VOLUME AND MARKET SHARE, RESIDENTIAL MORTGAGES



#### NEW LENDING AND REDEMPTION, RESIDENTIAL MORTGAGES



#### VOLUME AND MARKET SHARE, DEPOSITS, RETAIL





future, we will primarily focus on partnerships with players using digital business models for increased accessibility and customer benefit.

### Consumer loans

A consumer loan is a loan without a requirement for collateral. Unlike residential mortgages, consumer loans are not connected to any specific purpose, although they are frequently used to supplement residential mortgages in relation to home finance. At the end of the year, the total consumer loan volume amounted to SEK 2.2 billion (2.0). At the same date, the market share was 0.87% (0.86). At 31 December 2018, about 32,000 (28,000) customers had consumer loans with SBAB.

### Savings accounts

Our savings accounts offer competitive interest rates, are free of charge, have free withdrawals and are covered by the national deposit guarantee. Retail deposits during the year amounted to SEK 87.1 billion (75.1). At the same date, the market share was 4.65% (4.33). The increase

was due to a high savings interest rate, increased marketing initiatives to position the savings product in the market as well as a continuing high level of deposits in savings accounts by households. At the end of 2018, approximately 329,000 (298,000) retail customers held savings accounts with SBAB.

### Insurance broking

We offer two insurance products that are related to residential mortgages and housing in different ways: mortgage insurance and home insurance. Mortgage insurance insures customers against unemployment or sick leave, by compensating the monthly cost of the loan. Mortgage insurance also means that the borrower's residential mortgage may be wholly or partially written off in the event of death. Home insurances pay compensation to the homeowner in case of damage to the home or house. These products protect our customers, but they also add value for SBAB, as good insurance protection reduces the risk of credit losses.

### User trends

Many people every month visit [www.sbab.se](http://www.sbab.se) to manage their mortgages and savings or to find inspiration about housing and household finances. The number of unique visitors per month to [www.sbab.se](http://www.sbab.se) increased to around 505,000 (470,000). During the year, the SBAB app had over 65,000 monthly users.

Many people are visiting and using [www.booli.se](http://www.booli.se) every month to find information about housing offers, demand and price trends. The number of unique visitors per month to [www.booli.se](http://www.booli.se) averaged around 930,000 (924,000). Booli's free-of-charge home valuation service generates accurate indicative values, which resulted in more than 300,000 subscribers for the monthly housing valuation email by the end of the year.

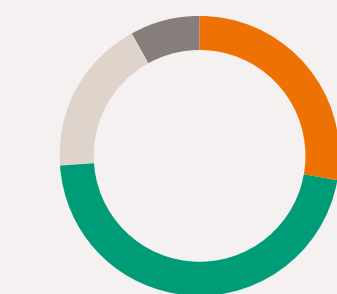
HittaMäklare's service for locating estate agents was used by about 79% of the registered estate agents in Sweden.

The number of users of the SBAB app and the Booli app are expected to increase due to the development of services within housing and household finances.

### Good credit quality in the lending portfolio

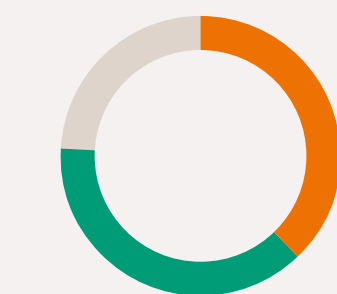
We work determinedly and continuously to ensure good credit quality in our lending portfolio. This has meant adapting operations to new amortisation regulations, developing existing credit regulations and implementing more risk-based pricing. In addition, we are working on distribution and customer communication customised for target groups.

#### LOAN-TO-VALUE (LTV) RATIO IN THE MORTGAGE PORTFOLIO



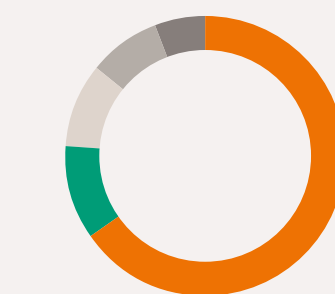
■ LTV 0-50% **28%** (34)  
 ■ LTV 50-75% **46%** (49)  
 ■ LTV 75-85% **18%** (14)  
 ■ LTV >85% **8%** (3)

#### AVERAGE DEBT-TO-INCOME (DTI) RATIO IN NEW LENDING IN 2018



■ DTI ≤ 3.5 **38%** (38)  
 ■ DTI <3.5 - ≤ 4.5 **38%** (32)  
 ■ DTI >4.5 **24%** (30)

#### GEOGRAPHIC DISTRIBUTION OF THE MORTGAGE PORTFOLIO



■ Stockholm region **65.3%** (65.4)  
 ■ Öresund region **10.9%** (11.2)  
 ■ Gothenburg region **9.7%** (9.5)  
 ■ University and growth areas **8.4%** (8.0)  
 ■ Other regions **5.7%** (5.9)

## Corporate Clients & Tenant-Owners' Associations business area

The Corporate Clients & Tenant-Owners' Associations business area offers savings and property financing to property companies (corporate clients) and tenant-owners' associations. We finance multi-family dwellings, existing as well as new construction. Our lending to property companies and tenant-owners' associations corresponds to around 23% of SBAB's total lending. Our credit granting is concentrated to expansive growth regions and near our three offices in Stockholm, Gothenburg and Malmö, where we can create the close relationships required to remain competitive and provide our customers with the best possible service.

### CONDENSED INCOME STATEMENT, CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS

SEK million	2018	2017	2016
Operating income	800	734	614
Expenses	-199	-193	-192
Credit losses/recoveries	21	17	-5
<b>Operating profit</b>	<b>622</b>	<b>558</b>	<b>417</b>
<b>Return on equity, %</b>	<b>11.7</b>	<b>8.8</b>	<b>8.1</b>

### COMPOSITION OF COLLATERAL IN THE LOAN PORTFOLIO, CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS

SEK billion	2018	2017	2016
Mortgage deeds	83.7	83.5	82.2
Tenant-owners' rights	0.0	0.0	0.0
Municipal guarantees and direct loans to municipalities	0.8	0.9	1.1
Government guarantees	0.1	0.1	0.2
Bank guarantees	0.0	0.0	0.0
Other collateral	0.8	0.5	0.7
<b>Total</b>	<b>85.3</b>	<b>85.0</b>	<b>84.2</b>

### Property financing

We finance multi-family dwellings, both privately owned and owned by tenant-owner associations. The properties may consist of existing buildings or new construction, where we mortgage the land with development rights, the construction, and offer final funding. In our credit process, we monitor developments in the property market on a regular basis, and conduct a review and risk evaluation of all customer relationships at least once a year.

SBAB's total lending to corporate clients and tenant-owners' associations amounted to SEK 85.3 billion (85.0) on 31 December 2018, equivalent to about 23% (25) of SBAB's total lending.

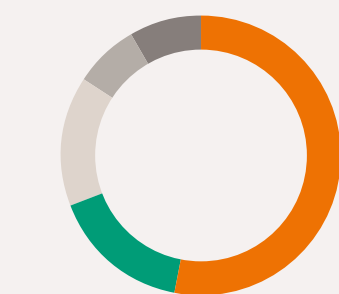
### Property companies

An active new production market, increased financing of managed properties and thereto stable demand from property and construction companies contributed to positive new lending trends in the beginning of 2018, which declined

### Static development of lending to property companies

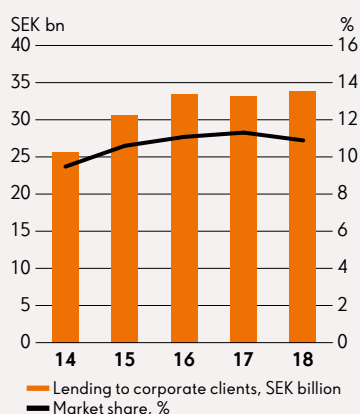
SBAB's lending to property companies amounted to SEK 33.8 billion (33.2) at the end of the year. At the same date, the market share was 10.88% (11.30).

#### GEOGRAPHIC DISTRIBUTION OF THE LOAN PORTFOLIO, CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS

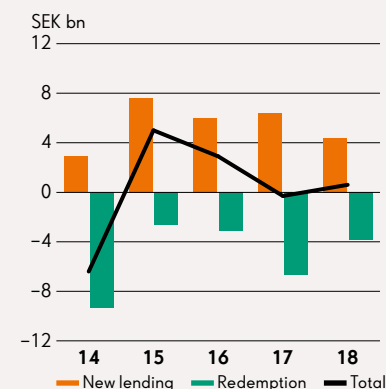


Stockholm region	53.1% (52.7)
Öresund region	16.0% (15.5)
University and growth areas	15.1% (15.2)
Other regions	7.4% (8.9)
Gothenburg region	8.3% (7.6)

#### VOLUME AND MARKET SHARE, CORPORATE CLIENTS



#### NEW LENDING AND REDEMPTION, CORPORATE CLIENTS





somewhat later in the year. New lending to property companies amounted to SEK 4.4 billion (6.4) in 2018. Total lending totalled SEK 33.8 billion (33.2) at the end of the year. The number of large customers decreased over the year to 70 (72). The main reason for the decrease was the acquisition and merger of companies. At year end, the market share for lending to property companies was 10.88% (11.30).

As a result of the changed market conditions in the new construction market and the decreased demand for new apartments, we have for some time applied a more restrained approach to our lending in this segment. Primarily in Stockholm, though also in other growth areas, new construction has been particularly high. This has led to actions such as setting higher pre-sales requirements on binding purchase agreements before the start of production and larger own investments when lending for new construction projects.

## CONSTRUCTION LOANS

	2018
Approved construction loans, SEK bn	14.1
Of which disbursed, %	69

At 31 December 2018, our lending to commercial properties amounted to SEK 3.2 billion (3.5). Our primary focus is on financing multi-family dwellings. We do not intend to grow our lending to commercial properties, but we can offer funding if required by the overall business or the customer relationship in individual cases.

### Tenant-owners' associations

At the end of 2018, our lending to tenant-owners' associations amounted to SEK 51.5 billion (51.8). New lending was lower than expected and totalled SEK 6.6 billion (7.1). At year end, the market share for lending to tenant-owners' associations was 9.53% (10.23). The decrease in market shares was a consequence of continued intense price competition at low margins

among Swedish banks regarding lending to tenant-owners' associations. In turn, this has contributed to us being unable to grow at the same pace as the market.

The number of customers continued to decline and amounted to 1,801 (1,979) at the end of 2018, which is in line with SBAB's strategy to focus on larger customers and customers in regions where SBAB has a physical presence and the possibility of establishing good customer relations, but also as a result of the intense price competition.

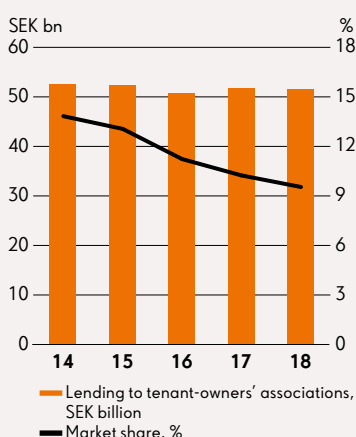
## Savings accounts

Deposits from corporates and tenant-owners' associations increased over the year, totalling SEK 37.9 billion (36.8), and the market share was 3.66% (3.75) at the end of 2018. At year end, 9,100 (9,300) corporate clients and 4,300 (4,300) tenant-owners' associations held savings accounts with SBAB.

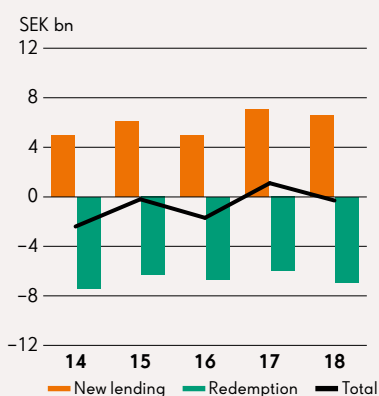
### Continued intense competition in lending to tenant-owners' associations

SBAB's market share within lending to tenant-owners' associations decreased in 2018 owing to continued intense competition at low margins. At year end, the market share was 9.53% (10.23).

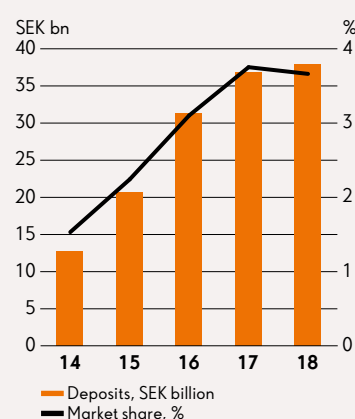
#### VOLUME AND MARKET SHARE, TENANT-OWNERS' ASSOCIATIONS



#### NEW LENDING AND REDEMPTION, TENANT-OWNERS' ASSOCIATIONS



#### VOLUME AND MARKET SHARE, DEPOSITS, CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS



# Funding and liquidity

## Funding operations

SBAB's operations are primarily funded through the capital market, but since 2007 also increasingly through deposits from the public. The SBAB Group is active in both the senior unsecured bond market through the Parent Company SBAB, as well as in the covered bond market through the wholly owned subsidiary SCBC.

### LONG-TERM FUNDING SOURCES

	Limit
Euro Medium Term Note Programme (EMTN), SBAB	EUR 13 billion
Euro Medium Term Covered Note Programme (EMTCN), SCBC	EUR 16 billion
Swedish covered bond programme, SCBC	[No fixed limit]
Australian Covered Bond Issuance Programme, SCBC	AUD 4 billion

	Limit
Swedish Commercial Paper Programme (SVCP)	SEK 25 billion
European Commercial Paper Programme (ECP)	EUR 3 billion

During 2018, the SBAB Group issued long-term bonds valued at SEK 73.7 billion (73.7). At year end, the Group's total volume of issued debt outstanding amounted to SEK 290.8 billion (274.5), of which SEK 234.8 billion (204.2) was secured debt and SEK 56.0 billion (70.3) unsecured debt.

### Funding Strategy

Through access to stable and competitive funding, we ensure that SBAB can offer lending at attractive terms.

We work actively to diversify our sources of funding through increased retail and corporate deposits. Growing deposit volumes have in recent years reduced our dependence on the capital markets as well as provided us with a better and more balanced funding mix.

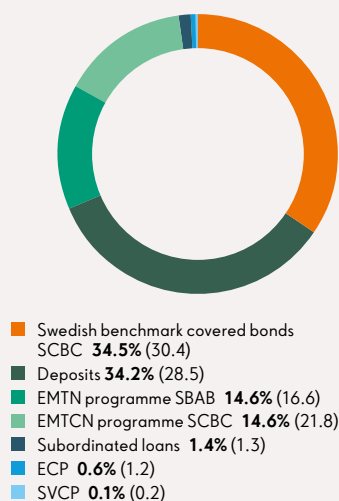
The cornerstones of our funding strategy are to ensure diversified funding and to be a regular issuer in both the Swedish and European markets. Active liability management, in part through repurchasing bonds with short remaining maturities, as well as a balanced maturity profile are other key elements. We also attach great importance to regularly meet and update investors in the markets where we operate, primarily in Sweden and Europe.

### SHORT-TERM FUNDING SOURCES

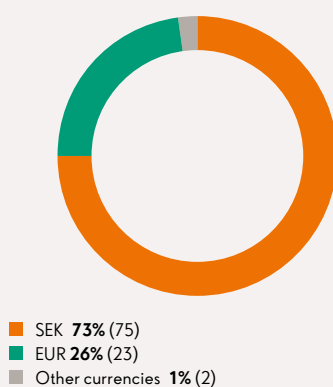
#### A more balanced financing mix

Growing deposit volumes have in recent years reduced our dependence on capital markets at the same time as these have provided us with a better and more balanced funding mix.

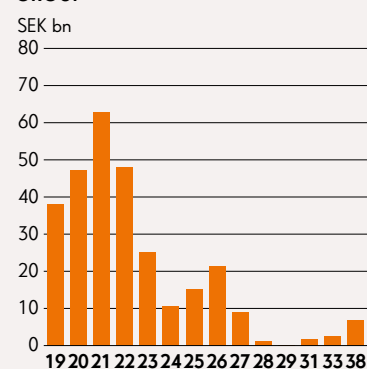
FUNDING SOURCES, GROUP



FUNDING SOURCES, DISTRIBUTION BY CURRENCY, GROUP



OUTSTANDING MATURITY PROFILE, GROUP





## Unsecured funding

### Long-term funding

SBAB's business involves mortgage lending, which in turn requires stable long-term funding. Continued strong deposit inflows and healthy liquidity also contributed to a slight reduction in the need for long-term unsecured funding in 2018. At the end of the year, long-term unsecured funding totalled SEK 53.2 billion (64.9).

### MREL

In December 2017, the Swedish National Debt Office decided on plans for how banks and other financial institutions are to be managed in a crisis situation. In conjunction with this, SBAB Bank AB (publ) was assessed as critical to the financial system, which means that in the event of a crisis, SBAB Bank AB (publ) would be managed via resolution. The Swedish National Debt Office has established a Group resolution plan and a minimum requirement for own funds and eligible liabilities (MREL) for SBAB Bank AB (publ) and AB Sveriges Säkertställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC). On 18 June 2018, the Swedish National Debt Office announced that the principle for subordinated debt should also apply for SBAB Bank AB (publ), which means that all eligible liabilities used by SBAB Bank AB (publ) to meet MREL are to be subordinated and thus should be possible to be written down before other liabilities and be converted into capital in a financial crisis.

On 21 November 2018, the Swedish parliament agreed to the government's suggestion for the implementation of a new rank of priority in the Swedish lien precedence regulation. The new rank of priority, which is recognised in credit instruments that can be used to fulfil MREL, makes it possible for Swedish banks and institutions to provide subordinated debt in accordance with the requirement. The new law entered force 29 December 2018.

SBAB Bank AB (publ) is permitted to gradually build up the volume of subordinated debt required to meet MREL in the period leading up to 1 January 2022.

### Short-term funding

Short-term funding continues to represent a limited part of our total funding. At the end of the year, short-term senior unsecured funding totalled SEK 2.8 billion (5.5). SBAB mainly uses short-term funding to manage and balance liquidity between different periods.

## Secured funding

Funding through the issue of covered bonds is carried out by the wholly-owned subsidiary, AB Sveriges Säkertställda Obligationer (publ) (SCBC). At the end of the year, covered debt outstanding totalled SEK 234.8 billion (204.2).

### SCBC in brief

SCBC's primary operations comprise the issuance of covered bonds in the Swedish and international capital markets. The company's funding programmes have the highest possible long-term rating, Aaa, from the rating agency Moody's. SCBC does not conduct any lending activities itself, but instead acquires loans from SBAB, with the aim that these are included wholly or in part in the cover pool that serves as collateral for SCBC's covered bonds. Information on SCBC's covered bonds and cover pool is published monthly on [www.sbab.se](http://www.sbab.se).

## Liquidity portfolio

The primary purpose of SBAB's liquidity portfolio is to act as a reserve for situations when the ability to obtain liquidity from other sources is limited or rendered materially more difficult. The size of the liquidity portfolio is equivalent to slightly more than a year of maturing debt. Both external regulations and internal limits dictate the size and composition of the liquidity portfolio.

At the end of 2018, the liquidity portfolio amounted to SEK 71.8 billion (72.7). Securities holdings are limited by asset class and by country, respectively, and must have a AAA rating on acquisition. The average maturity of the portfolio is 2.1 years (2.2), with a maximum of ten years for new investments. Investments are mainly in SEK, EUR and USD and we use derivatives to manage the portfolio's interest-rate and currency risks.

### KEY FIGURES FOR LIQUIDITY

	2018	2017
LCR, % <sup>1)</sup>	283	249
NSFR, % <sup>2)</sup>	122	117

<sup>1)</sup> According to the European Commission's Delegated Regulation with regard to liquidity coverage requirements. For all currencies combined.

<sup>2)</sup> As per SBAB's interpretation of the Basel regulatory framework.

### Green bonds in the liquidity portfolio

At the end of 2018, our holdings in green bonds amounted to about SEK 2.4 billion (2.3). It is our aim to increase these holdings within the scope of the current investment policy.

## Credit rating

The long- and short-term credit rating from SBAB from Moody's, A1 and P-1 (respectively), were unchanged during the year. The equivalent credit rating from S&P (Standard & Poor's), A and A-1 (respectively), were also unchanged during the year. Additional information is available on [www.sbab.se](http://www.sbab.se).

### RATING

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

# Risk and capital management

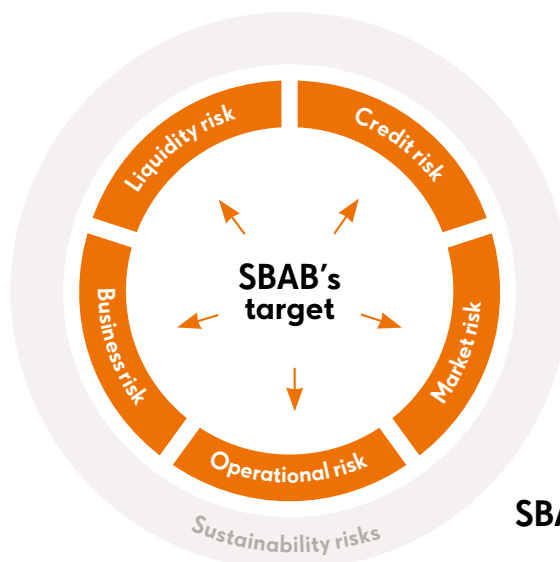
**Risk management involves ensuring that SBAB is resilient in all types of situation and that the company has capital that guarantees that even unexpected risks can be managed.**

SBAB's risk management function identifies, analyses and prevents various types of risks in our operations. The main risk is credit risk arising from lending and loan commitments, primarily to retail customers. In addition, SBAB is exposed to credit risk in treasury operations, above all the counterparty risk for the derivatives and repo contracts we enter into in order to manage financial risks. Other risks in SBAB's operations pertain to market risk, liquidity risk, business risk and operational risk. SBAB retains sufficient capital to cover these risks, even in stressed situations. SBAB is currently well capitalised and has own funds that comfortably exceed both the internally estimated need of own funds and the capital requirement calculated by the Swedish FSA. Liquidity risk is managed beyond capital by maintaining a liquidity reserve and through diversified funding.

## SBAB's risks and how we manage them

Risk is defined as a potentially negative impact that may arise due to ongoing or future events. The definition of risk includes

the probability that an event occurs as well as the impact the event could have on SBAB's profit, operations and capital. The risks have, in accordance with the risk policy, been classified using a framework known as "SBAB's risk appetite." This includes a definition of the risk we are willing to take to achieve our business objectives within the framework of our chosen long-term strategy. | [Read more on page 74.](#)



## SBAB's risk appetite

Read more on pages **73**

**74**

In SBAB's risk management, roles and responsibilities are divided in accordance with the three lines of defence: The Business that owns and manages risks in day-to-day operations; Risk Control & Compliance that monitors and follows up; and Internal Audit that assesses on assignment from the Board of Directors.

## Risk governance

All measurable risks are monitored and reported to the Board of Directors. The Board of Directors bears the ultimate responsibility for SBAB's total risk exposure. It is the Board's responsibility to ensure that operations are conducted with good internal control.

The CEO is responsible for ongoing operational management and monitors that each unit's, including the risk control units, reporting to the Board of Directors is conducted in accordance with the relevant instructions.

Independent risk control units within Risk are responsible for the identification, quantification, analysis and reporting of all risks. The Chief Risk Officer ("CRO") is responsible for the independent risk control units within Risk and reports directly to the CEO and the Board of Directors of SBAB.

## The three lines of defence



### Risk strategy

SBAB is tasked with identifying, measuring, governing, reporting internally and maintaining control of the risks to which SBAB is or may become exposed to. The Board adopts the strategic direction and the overarching risk level that SBAB is willing to accept, based on our business and how value is created for our customers. This means SBAB is to consciously expose itself only to risks that are directly connected to or are regarded as necessary for its operations.

SBAB's profitability is dependent on its ability to assess, manage and price risks. It is also about maintaining sufficient liquidity and capital to meet unforeseen events. Knowledge and awareness of any risks that SBAB may be exposed to, together with the right expertise to estimate the size of existing and potential risks, is absolutely necessary for our operations. There is an independent function for risk control at SBAB whose principle task is to monitor that risk awareness and acceptance are adequate for managing risks on a daily basis.

SBAB has a documented process (NPAP) for the approval of new or significantly altered products, services, markets, processes or IT-systems. The same process also covers major changes to the company's organisation and operations. The Board of Directors sets limits for all material risks, which should be commensurate with the pre-determined risk appetite.

### Risk taking

SBAB's risk taking is kept at a level consistent with our short-term and long-term plans for strategy, capital and financial stability.

An important part of SBAB's business model is that the risks we are exposed are low and predictable. In reality, this does not mean that each individual credit exposure has very low risk, rather that the total lending portfolio consists largely of low-risk loans and that every loan's internal risk effect is such that the total risk is limited. The basis for SBAB's appetite for various types of risk is that each risk should fit within a well-defined segment of our risk-bearing

capacity. Risk-bearing capacity primarily refers to the capacity to cover expected and unexpected losses by means of our ongoing earnings capacity and own funds.

The scope of acceptable risks is clearly linked to how important these are to our business mode, in other words the positive effects anticipated to be achieved in the form of expected revenue, cost savings or the mitigation of other risks. SBAB minimises undesired risks through appropriate functions, strategies, processes, procedures, internal rules, limits and controls.

## Credit risk trends in 2018

The total credit risk decreased over the year, despite increased lending volumes. The overall credit quality in SBAB's loan portfolio is assessed as good. During the year there was a positive trend in several key figures, for example probability of default among households as well as businesses and tenant-owners' associations.

In the end of 2017, a downturn was observed in the housing market, which has since shown weaker development than previously. The pace of new housing construction has also decreased. During the year, lending to tenant-owners' association has received particularly intense media attention, particularly regarding recently formed associations. SBAB still conducts a special test of securities in

high-lending associations, which is considered to positively affect the portfolio's quality.

The LTV ratio in the loan stock dropped somewhat in 2018, both as a result of higher LTV ratios in new lending and security revaluations carried out during the year. New repayment requirements went into force on 1 March, which resulted in a one percentage point higher extra capital repayment per year for borrowers with loan amounts more than 4.5 times their annual income. This has resulted in a decrease in the average debt ratio in new lending.

In the end of December, the Riksbank announced that the repo rate in January would be increased in January 2019, and

that further raises were planned for the year. The rate increase tolerance among SBAB's customers was assessed as good. We maintained our exposure to housing development projects during the year. We have therefore chosen to focus on large established companies with a certain amount of volume in their production, and finance above all property developers with strong balance sheets, liquidity and diverse income sources. We set requirements on capital investments and sales rights before construction and financing start, and monitor the ongoing property development thereafter.



### Sustainability risks

In 2018, SBAB began an internal project to define, measure and follow up sustainability risks in a more structured manner. The basic principle is that sustainability risks can not be separated from other risks. There are elements of sustainability risks throughout SBAB's operations. This work is continuing in 2019. This report defines sustainability risk as the risk that SBAB's operations have a direct or indirect negative effect on, or are directly or indirectly negatively affected by, climate and the environment, human rights and working conditions (including social conditions and personnel), anti-corruption efforts and other financial crime. SBAB's aim is to manage sustainability risks with a risk-based approach integrated into daily operations. In the event of a high sustainability risk, the aim is to conduct an in-depth sustainability review and, where necessary, set requirements to counteract the adverse impact. These efforts are inspired and guided by international legislation and guidelines. We conduct an ongoing dialogue on sustainability risks throughout operations. | [Read more on page 73.](#)

### Capital adequacy

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

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

#### *How the amendment impacts SBAB*

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

#### *Adjustment of buffer levels in capital target*

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

#### *Capital position 2018*

According to internal estimates by SBAB, the new capital targets are expected to correspond to a CET1 capital ratio of not less than 10.0% and a total capital ratio of not less than 14.1% at the end of 2018. At year end, the CET1 capital ratio amounted to 12.5% (32.2) and the total capital ratio was 18.1% (47.6). This provides a comfortable margin to both internal targets and external regulatory requirements. Net profit for the year is included in the calculation of own funds and Tier 1 capital. Dividends calculated according to SBAB's dividend policy have been deducted.

### Components of the capital target

SEK million	CONSOLIDATED SITUATION							
	Prior to the shift of the risk-weight floor				After the shift of the risk-weight floor			
	Total capital	%	CET1 capital	%	Total capital	%	CET1 capital	%
Pillar 1 minimum requirement	3,474	8	1,954	4.5	3,474	3.0	1,954	1.7
Pillar 1 risk-weight floor, Swedish mortgages	–	–	–	–	5,658	5.0	3,183	2.8
Pillar 2 core requirement	1,800	4.1	1,200	2.7	1,800	1.6	1,200	1.0
Pillar 2 risk-weight floor, Swedish mortgages	8,840	20.4	6,365	14.7	–	–	–	–
Capital conservation buffer	1,086	2.5	1,086	2.5	2,854	2.5	2,854	2.5
Countercyclical buffer	861	2.0	861	2.0	2,266	2.0	2,266	2.0
<b>Internally assessed capital requirement</b>	<b>16,061</b>	<b>37.0</b>	<b>11,466</b>	<b>26.4</b>	<b>16,052</b>	<b>14.1</b>	<b>11,457</b>	<b>10.0</b>
<b>SBAB's capital target</b>	<b>16,712</b>	<b>38.5</b>	<b>12,117</b>	<b>27.9</b>	<b>16,737</b>	<b>14.7</b>	<b>12,142</b>	<b>10.6</b>
<b>SBAB's actual capital</b>	<b>20,713</b>	<b>47.7</b>	<b>14,263</b>	<b>32.8</b>	<b>20,713</b>	<b>18.1</b>	<b>14,263</b>	<b>12.5</b>

## Sustainability risks



### Climate and the environment

#### Within the organisation

SBAB's direct impact on the environment from operating activities is relatively small. But we still want to reduce the impact we have.

**Risk management:** SBAB's governance documents do not contain any requirements or ambition levels concerning the climate impact of travel and procurement. In 2018, a working group has been set up to develop internal targets and an action plan to reduce the environmental impact of our operations. Our long-term ambition is to be climate neutral. *| Read more on page 167.*



### Human rights and labour practices

SBAB's employees are its most important asset. Motivated and committed employees are a prerequisite for our success and one of the most important resources in terms of achieving our goals. SBAB values a demographically diverse work force.

**Risk management:** SBAB has determined a long-term, focused and extended HR strategy. We have clear company-wide goals to support equality and diversity and to ensure employee satisfaction and commitment.

SBAB has an equality and diversity policy and an equality plan that emphasises the value of employees with different backgrounds.

Our Code of Conduct provides guidance on how we should act and conduct ourselves in various situations based on our values and the inherent responsibilities of being a SBAB employee. *| Read more on pages 41 and 48.*



### Anti-Corruption efforts and other action against financial crime

It is of the utmost importance for us as a company to take a clear stand against corruption. It is extremely important for the general public's trust in SBAB that we take active steps to counteract financial crime and manage it.

**Risk management:** SBAB has an internal policy regulating how our operations should work to counteract bribes and other forms of corruption. The policy is designed to reflect the Code on Gifts, Rewards and other Benefits in Business published by the Swedish Anti-Corruption Institute. To that end, we complete ongoing courses and risk evaluations in this area.

Our work to counter financial crime is controlled and driven by a separate unit, Anti-Financial Crime (AFC). *| Read more on page 41.*

#### Outside the organisation

Our exposure to climate and environmental risks arises in conjunction with our credit granting. Climate and environmental risks can arise when financing new production and redevelopment projects, but can also arise in existing holdings in coastal areas should water levels rise. Changes in the average annual temperature have consequences for the climate in the form of rising sea levels, more rain, earlier springs, lower ground water and levels and fresh water shortages. For buildings and securities it is thus important to understand the risks for flooding, collapse, landslides and erosion. Increased extremes in surface water levels can increase water penetration in basements and cause problems with dampness. For existing buildings, preventive and adaptive measures will be important. With new production of residents, conditions and placement are important, as well as construction and material choice.

**Risk management:** Mainly, we manage climate and environmental risks through the analysis of climate and environmental risks in decision data ahead of credit decisions and through training.

During the year we started efforts to perform stress tests on our lending portfolio based on climate-related risks according to recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD). Based on these efforts, we intend to develop a first version of metrics, targets and strategies in 2019.

We are exposed to risks linked to human rights, personnel and social conditions in conjunction with lending to new production projects and customers with a high proportion of subcontractors. The controls performed by the main contractor in areas such as working conditions are made more complex when production is outsourced. The import of prefabricated material from other countries also entails some risk, since SBAB does not know the conditions that apply for production.

**Risk management:** SBAB aims to manage risks linked to human rights, personnel and societal conditions in lending through in-depth customer dialogues and industry collaboration. SBAB has a Supplier Code that addresses SBAB's view and expectations of our suppliers' sustainability efforts and compliance with international guidelines and principles.

Because SBAB handles money both in lending and financing, we are exposed to corruption risk. The risk is largest in the beginning of a relationship, but is also present in all engagements. SBAB's main exposure to corruption risk arises in conjunction with our credit granting.

**Risk management:** We manage corruption risks through training, taking credit decisions in duality or by a committee, and through ongoing review of relevant processes.







#### Policies and governance documents

- Policy for Sustainable Business
- Credit Policy
- Credit instruction

- Policy for Sustainable Business
- Equality and Diversity Policy
- Ethics Policy
- Policy to Promote Board Diversity
- Remuneration Policy
- Work Environment Instruction
- Whistleblower Process Instruction
- Code of Conduct
- Supplier Code

- Policy and Instruction for Counteracting Money Laundering and Financing of Terrorism, and Compliance with Financial Sanctions
- Ethics Policy
- Policy for Sustainable Business
- Instruction to Combat Bribes and Other Forms of Corruption
- Whistleblower Process Instruction
- Code of Conduct
- Supplier Code

## Risks in SBAB's risk appetite

Risk type		Risk appetite	
		Classification	Level
	<b>Credit risk in lending operations</b> <p>The risk that the counterparty does not fulfil its payment obligations towards SBAB. Credit risk arises in conjunction with loans and loan commitments, as well as in connection with value changes in pledged assets entailing that these no longer cover the Group's receivables. The credit risk also includes concentration risk, which refers to the increase in credit risk that arises in large exposures to individual counterparties, regions or industries.</p> <p><a href="#">Read more in Note RC 1</a></p>	Wanted risk	Medium
	<b>Credit risk in treasury operations</b> <p>Defined as the total of investment risk and counterparty risk. Counterparty risk is defined as credit risk in financial derivatives that arises when the value of the instrument changes resulting from variations, for example, in interest rates or currency exchange rates, which means SBAB recognises a receivable against the counterparty. In addition, counterparty risk entails that SBAB's financial counterparties cannot meet their commitments under the contracted repos. Investment risk is defined as credit risk in financial investments and entails the risk that a debtor does not fulfil its payment obligations, meaning either completes payments late or not at all. Investment risk arises through investments in the liquidity portfolio and the investment of surplus liquidity.</p> <p><a href="#">Read more in Note RC 2</a></p>	Necessary risk	Low
	<b>Market risk</b> <p>The risk of loss or reduced future income due to market fluctuations. Market risk includes interest-rate risk, currency risk, basis risk and spread risk. Currency risk refers to the risk that changes in the exchange rate for SEK against other currencies result in losses or lower future income. Interest-rate risk is defined as the risk that variations in interest rates result in losses or lower future income as assets and liabilities have different fixed-interest periods and interest terms. Spread risk refers to an exposure to changing conditions between interest costs for different issuers. Basis risk refers to the risk associated with deposits and lending that are locked to different interest bases.</p> <p><a href="#">Read more in Note RC 4</a></p>	Necessary risk	Low
	<b>Operational risk</b> <p>The risk of losses due to inappropriate or unsuccessful processes, human error, faulty systems or external events, including legal risks. The forms of operational risk applicable to SBAB are shown in the categorisation of types of events. Examples of types of events that could be applicable are internal and external fraud, work conditions and environment, damage to tangible assets, disruptions to the business operations and systems, transaction management and process control. Legal risk includes the risk that agreements or other legal transactions cannot be completed in accordance with specific terms and conditions or that judicial proceedings are started that could have a negative impact on SBAB's operations. Operational risk includes compliance risk. Regulatory compliance is essential in maintaining confidence in SBAB's operations. Even rules that are not legally binding, but that reflect a market practice or ethical guidelines, affect SBAB's approach to employees and customers.</p> <p><a href="#">Read more in Note RC 5</a></p>	Necessary risk	Low
	<b>Business risk</b> <p>The risk of declining earnings due to harsher competition, inappropriate strategies or erroneous decisions. SBAB differentiates its business risk between strategic risk and the risk of weaker earnings. Strategic risk is defined as the risk of a loss arising due to unfavourable business decisions, erroneous implementation of strategic decisions or a lack of sensitivity to changes in the industry, the political environment or legal circumstances. The risk of weaker earnings encompasses the risk of, for example, reduced margins, which in turn may arise due to more expensive financing or more intense competition.</p> <p><a href="#">Read more in Note RC 6</a></p>	Necessary risk	Low
	<b>Liquidity risk</b> <p>The risk that the company will not be able to meet its payment obligations on the date of maturity without the related cost increasing significantly. Short-term liquidity risk measures the risk of being impacted in the short term by a lack of liquidity, while structural liquidity risk is a measure of the mismatch between assets and liabilities in terms of maturities, which risks leading to a lack of liquidity in the longer term.</p> <p><a href="#">Read more in Note RC 3</a></p>	Necessary risk	Low



Risk profile	Risk management
<p>SBAB's customer base is primarily consumers, tenant-owners' associations and landlords who finance residences secured through SBAB, the majority of which are concentrated to major metropolitan areas.</p>	<p>Credit risk is central to SBAB's business model and it is considered to be the dominant risk in operations. Credit granting in SBAB is characterised by responsible credit granting taking into account the customer's long-term repayment capacity and resilience as well as security. Credit rules and credit management are continuously analysed, processed and improved. Corporate clients are processed individually while retail customers are analysed using a structured process in conjunction with the credit approval process. Concentration risk and major exposures are carefully monitored.</p>
<p>SBAB's counterparty risks and investment risks are low and are not considered dominant risks.</p>	<p>Counterparty-risk exposure is primarily covered through collateral agreements in which the counterparty provides collateral in an effort to reduce exposure. Investment risk is mitigated as SBAB only invests in interest-bearing bonds with high credit ratings.</p>
<p>SBAB's market risk is low and is not considered a dominant risk.</p>	<p>Interest-rate risk is to be mitigated through direct funding or the use of derivatives. Currency risks are mitigated as funding in international currency is hedged through currency swaps or invested in matching currencies.</p>
<p>Operational risk is a natural part of all business. SBAB aims to optimise the relationship between costs for operational risk and operating activities. SBAB considers operational risk to be a prerequisite for implementing the business concept efficiently and competitively, taking into account operations, strategy, risk appetite and the macro environment.</p>	<p>Within SBAB, risk management consists of uniform valuation and reporting of operational risk. The analysis of risk levels in all operations is conducted on a regular basis and reported to the Board, the CEO and the Executive Management. Self-evaluation of processes that are considered significant is performed at least once per year. Within the framework of changes with potential effects on the bank's risk level, risks are identified in an early stage of the change process. Prior to implementation, the change process is quality assured by representatives from the second line of defence. Unexpected events that can negatively affect the bank are to be reported as incidents and managed according to pre-determined instructions.</p>
<p>SBAB's business risk is low and is not considered a dominant risk.</p>	<p>Risks related to strategy and earnings are evaluated on an ongoing basis over the year within the first line's strategy work. Strategically important decisions are managed within the framework for managing material changes. Furthermore, the Board receives an annual evaluation of the material risks that clearly addresses strategic business risk and the bank's overall earnings. Business risk is also included in the calculation of the Pillar 2 capital requirement as part of SBAB's stress tests, and where the effects of a scenario corresponding to a normal economic downturn are evaluated.</p>
<p>SBAB has a low liquidity risk and diversified funding. Securities that are part of the liquidity reserve have high credit ratings and are eligible as collateral with either the Riksbank or the European Central Bank, to guarantee liquidity.</p>	<p>SBAB's liquidity strategy includes proactive and continuous liquidity planning, active debt management and an adequate liquidity reserve. The funding strategy takes into consideration the expected maturity on the asset side. On this basis, SBAB limits its structural liquidity risk by maintaining diversified funding with sufficiently long maturities. SBAB has several liquidity metrics, for which limits apply, most of which are monitored and reported on a daily basis.</p>

# Corporate Governance Report

**SBAB is a Swedish public limited banking company that is wholly owned by the Swedish state. SBAB is domiciled in Solna. Owner governance of SBAB is exercised through general shareholder meetings, the Board of Directors and the CEO in accordance with the Companies Act, the Articles of Association, and the policies and instructions adopted by SBAB. The Corporate Governance Report has been prepared pursuant to the regulations covering corporate governance reports in the Swedish Corporate Governance Code (the Code) and the Annual Accounts Act.**

This Corporate Governance Report has been subject to a statutory review by the company's auditor.

## The foundation of SBAB's corporate governance

Well-functioning corporate governance, risk management and internal governance are essential for SBAB to reach set targets and gain the confidence of its stakeholders. In addition to corporate governance in the traditional sense, which describes the system by which a company is governed and controlled, SBAB's vision, mission, business idea and values are important elements in SBAB's governance model. As well as information transparency, corporate culture, leadership and the long-term sustainable conduct of operations. This, together with corporate governance, means that we can maintain a high level of confidence in SBAB's operations. Confidence forms the basis of all banking operations.

## Application

SBAB does not apply some of the rules of the Code that are specifically aimed at companies with more than one owner. This is because SBAB is wholly owned by the state and on these points it follows the state's ownership policy.

Based on this ownership structure, deviations have occurred from the following Code rules:

- Code rule 1.1 — publication of information regarding the shareholders' right to propose business for the Annual General Meeting (AGM). The purpose of this rule is to give shareholders the opportunity to prepare ahead of time for the AGM and have matters included in the agenda for the AGM. In companies entirely owned by the Swedish state, in accordance with the owner's guidelines, the public shall be invited to attend the AGM. As a notice is sent to the Central

Bureau of the Swedish Riksdag (parliament), members of parliament also have the opportunity to attend.

- Code rules 1.4 and 2 — the establishment of a nomination committee responsible for matters such as the appointment and remuneration of the Board of Directors and the auditor. The reason for the deviation is that nomination matters in state-owned companies are handled by the government in the manner described in the state's ownership policy.
- Code rules 2.6, 4.4, 4.5, 4.6 and 10.2 — information to be provided concerning the independence of Board members in relation to major shareholders. No such information is provided since the primary objective of the Code rules in question is to protect minority shareholders in companies with dispersed ownership. Consequently, there is no reason for such information concerning independence to be disclosed in entirely state-owned companies.

## Articles of Association

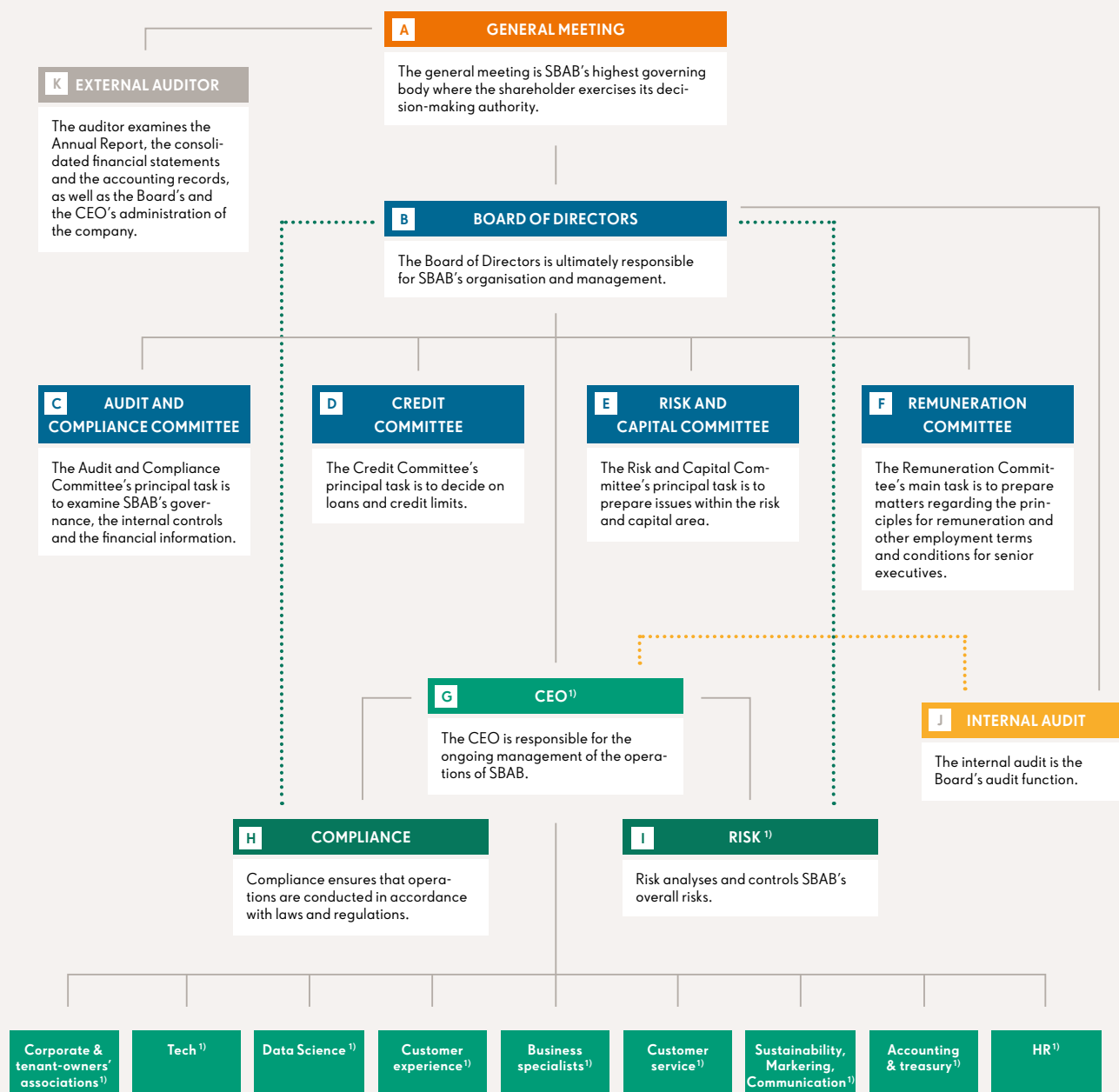
SBAB's Articles of Association regulate matters such as the company's business objectives. The Articles of Association do not include any stipulations regulating the appointment or dismissal of Board members, with the exception of stipulations stating that the AGM is to appoint the Chairman of the Board and determine the minimum and maximum number of Board members. It is further stated that if the Chairman of the Board resigns from his or her office during the mandate period, the Board is to appoint one of the Board members as the new Chairman until the end of the AGM, when a new Chairman will be elected by the AGM. For amendments to be made to the Articles of Association, the notice of the extraordinary general meeting that will address amendments to the

Articles of Association is to be issued not earlier than six weeks and not later than four weeks prior to the meeting.

## **G** General meeting of shareholders

SBAB's Annual General Meeting was held on 24 April 2018. The AGM was open and the members of parliament and the general public were invited to attend. The owner was represented by Ellinor Schrewelius, the Swedish Ministry of Enterprise and Innovation. Most of SBAB's Board members, the CEO and SBAB's auditor also attended the AGM. Bo Magnusson, Chairman of the Board of SBAB, served as the Chairman of the AGM. The AGM resolved to elect the following Board members: Bo Magnusson (Chairman), Carl-Henrik Borg, Lars Börjesson, Daniel Kristiansson, Jane Lundgren-Ericsson, Eva Gidlöf, Karin Moberg and Jan Sinclair. The local trade unions appointed Kristina Ljung and Margareta Naumburg as employee representatives on the Board of Directors, with Eva-Lotta Lindberg and David Larsson as alternates.

The AGM passed resolutions regarding the discharge from liability for the Board of Directors and the CEO, the appropriation of profits and the adoption of the annual accounts for 2017. The meeting elected Deloitte AB, with Patrick Honeth as the auditor-in-charge, as SBAB's auditor until the close of the 2019 AGM. The meeting reviewed the guidelines for remuneration to senior executives adopted by the 2016 AGM, see Note **IC 5** for details of the guidelines, and adopted new guidelines for remuneration to senior executives. The meeting also decided on the fees to be paid to the members of the Board. No fees will be paid to Board members who are either employed by the Government Offices of Sweden or are employee representatives. The CEO and Chairman reported on the operations of the bank and the work of the Board of Directors in 2017.



<sup>1)</sup> Included in Executive Management.

### Organisational changes in 2018

In 2018, SBAB decided to implement a number of organisational changes to be able to more rapidly meet new customer requirements, and to be able to adapt operations to the accelerating pace of market change. The changes included the closure of two units in the Executive Management (Retail Market and Partnerships & Business Development) as well as the creation of three new units in the form of Data Science,

Customer Experience and Customer Service. Following certain changes in responsibility, Operations was renamed Business Specialists. Credit & Risk was renamed Risk after certain reallocations of responsibility. Sustainability and Strategic Communication was renamed Sustainability, Marketing & Communication after the reallocation of full responsibility for communication and the brand to this unit. The organisational changes entered force on 1 May 2018.



## B The Board of Directors

### *Composition and nomination procedure*

In entirely state-owned companies, uniform and shared principles are applied to achieve a structured nomination process for the appointment of board members in state-owned companies. The objective is to ensure an adequate supply of competence for the boards of directors of these companies. The Board nomination process is coordinated by the Swedish Ministry of Enterprise and Innovation. For each company, competence needs are analysed on the basis of the company's business, circumstances and future challenges, as well as the composition of the Board of Directors and the Board assessments that have been conducted. Recruitment requirements are then established and work commences. Members are selected from a broad recruitment base in order to draw on the expertise of both women and men, as well as individuals with different backgrounds and experience.

### *Diversity and eligibility policies*

The Board has adopted a policy on diversity in the Board and an instruction for eligibility assessments for Board members, the CEO and senior executives. The diver-

sity policy includes statements to the effect that the composition of the Board should be such that a balance is achieved with regard to background, areas of competence, experience and gender. The eligibility instruction states that the eligibility assessment of the Board, the CEO and the senior executives should take into account the individual's skills, experience, reputation and judgement.

### *Chairman of the Board*

The Chairman of the Board is elected by the AGM. If the Chairman of the Board resigns during the mandate period, the Board is to appoint one of the Board members as the new Chairman until the end of the AGM, when a new Chairman will be elected by the AGM. The Chairman leads the Board's work, monitors to ensure that the Board is performing its duties, represents the Board in relation to the owner and maintains contact with the owner. The Chairman is also responsible for initiating the annual evaluation of the Board's and the CEO's work. The Chairman of the Board ensures that the Board receives adequate information and decision data for its work and the training necessary for the Board to function efficiently.

### *Board governance and activities*

SBAB's Board comprises eight members elected by the AGM and two members appointed by the employees' organisations, SACO and the Financial Sector Union of Sweden. The CEO is not a member of the Board. None of the board members or the CEO hold shares or financial instruments issued by SBAB. For information regarding lending to key personnel, please refer to Note [C 2](#).

The Board adopts business objectives and strategies for SBAB's operations. The Board ensures that an efficient system is in place for the follow-up and control of SBAB's operations. The Board is also tasked with appointing, evaluating and, if the need arises, dismissing the CEO. The work of the Board complies with the formal work plan adopted annually at the Board of Directors' statutory Board meeting immediately after the AGM.

The formal work plan regulates decision-making within SBAB, the arrangements for Board meetings and the division of work among the Board, the Chairman of the Board and the Board committees. The work of the Board complies with an annual plan that satisfies, inter alia, the Board's need for information. SBAB's

## Work of the Board of Directors in 2018

In 2018, the Board of Directors held nine scheduled board meetings.

### JANUARY

Performance in 2017 and adoption of the year-end report, quarterly accounts and reporting from control functions, evaluation of the CEO's work, resolution regarding the assumptions for the internal capital and liquidity adequacy assessment processes and training in capital and risk.

### FEBRUARY

### MARCH

The Annual Report, Sustainability Report and Pillar 3 Report for 2017, matters prior to SBAB's AGM, and resolutions on SBAB's internal capital and liquidity adequacy assessment.

### APRIL

Statutory board meeting, resolutions regarding governance documents and statutory matters, performance in the first quarter of 2017 and adoption of the interim report, quarterly reporting from control functions, follow up 2018 business plan as of the first quarter, progress in IT strategies and review of the sustainability analysis.

### MAY

### JUNE

Discussion of overall risks and input to the business planning process and structure for the 2019 business plan. Discussion of risks and succession in Booli. Evaluation and discussion of the long-term vision in the 2018 business plan. Review of results and activities from the sustainability analysis. Update of the HR strategy. Discussion of alternative mortgage financing.

Board makes decisions on matters relating to SBAB's strategic direction, for example by means of a business plan, and makes decisions regarding larger investments, funding, capitalisation (including capital and liquidity adequacy assessments), significant organisational issues, policies and certain guidelines.

The Board addresses and determines the company's interim reports. The Board also follows up SBAB's risks, compliance, and reports on the effectiveness of internal control within SBAB by means of reports provided by SBAB's independent Risk Control, Compliance and Internal Audit units. The Board also receives reports from

SBAB's auditor regarding the reporting of completed audits, and financial reporting assessments and internal control. The CEO attends the meetings of the Board of Directors, and other SBAB officers may participate in a reporting role if necessary.

#### ATTENDANCE OF THE BOARD OF DIRECTORS IN 2018

*The table presents the meeting attendance of the Board and its committees in 2018. Margareta Naumberg, Employee Representative, joined the Board of Directors during the year and Johan Eriksson, Employee Representative, stepped down from the Board during the year, which is why their attendance refers to part of the year.*

Board members	Board of Directors	Credit Committee	Risk and Capital Committee	Audit and Compliance Committee	Remuneration Committee
Bo Magnusson (Chairman of the Board)	9/9			5/5	4/4
Carl-Henrik Borg (Board member)	9/9				
Eva Gidlöf (Board member)	9/9		6/6		
Lars Börjesson (Board member)	8/9	18/18			
Daniel Kristiansson (Board member)	8/9			4/5	4/4
Jane Lundgren-Ericsson (Board member)	9/9	15/18	6/6		
Karin Moberg (Board member)	9/9			4/5	
Jan Sinclair (Board member)	9/9	17/18	6/6		
Kristina Ljung (Employee representative)	9/9				
Johan Eriksson (Employee representative)	2/9				
Margareta Naumberg (Employee representative)	7/9				

JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
Performance in the second quarter and adoption of the interim report, reporting from control functions and the auditor's review of the second quarter accounts.		Follow up on the 2018 business plan as of the third quarter and progress in IT strategy. Performance in the third quarter and adoption of the interim report. Quarterly reports from control functions. Review and discussion of communication and brand development. Continued discussion of the business planning process and the 2019 business plan structure. Continuity planning and crisis management.		Adoption of the 2019 business plan and budget as well as annual plans for the control functions. Follow up on progress in IT strategy. Review of employee survey results and customer satisfaction survey. Follow up on respect and equality efforts throughout the year. Discussion about customers, with a focus on the Retail Business Area. Direction decision regarding 2018 appropriation of profits. Evaluation of the Board's work in 2018. Recommendation for auditor prior to the 2019 AGM.	
Follow up on the 2018 business plan as of the second quarter and progress in IT strategy. Discussion about customers, with a focus on the Corporate Clients & Tenant-Owners' Associations Business Area. Review of IT and cyber risks. Discussion on integration of results from the sustainability analysis. Continued discussion of the business planning process and the 2019 business plan structure. Presentations from SBAB's Customer Centre and other operations in Karlstad, where the meeting was held.					

## The Board's committees

The Board has established the following committees to prepare matters ahead of the Board's decisions.

### C Audit and Compliance Committee



**Karin Moberg** (chairman)  
Daniel Kristiansson (member)  
Bo Magnusson (member)

The Audit and Compliance Committee is SBAB's Audit Committee and its main task is to examine the SBAB Group's governance, internal controls and financial information and to prepare issues in these areas for decision by the Board. This is done at the request of the owner and on the basis of the applicable regulations. The Committee is also responsible for monitoring financial statements and the efficiency of risk management and of the work carried out by Compliance and Internal Audit. Moreover, the Committee is responsible for evaluating external auditing work, informing the owner of the results of this work and assisting in the drafting of proposals for auditors. The Committee is also to review and monitor the auditor's impartiality and independence. Annual plans and reports from Internal Audit and Compliance are also addressed by the Audit and Compliance Committee in preparation for decision by or for presentation to the Board of Directors. The Audit and Compliance Committee comprises three Board members.

*The Audit and Compliance Committee held five meetings during the year.*

### D Credit Committee



**Jan Sinclair** (chairman)  
Jane Lundgren-Ericsson (member)  
Lars Börjesson (member)

The principal task of the Credit Committee is to decide on loans and credit limits in SBAB's lending and funding operations. The Credit Committee also has the task of preparing matters involving changes in the credit policy and credit instructions for decision by the Board, the assessment of portfolio strategies, the transparency of the loan portfolio, the evaluation of existing or proposed portfolio strategies, the evaluation of existing or new delegation rights and the Board's annual review of regulatory frameworks, models for granting credits and outcomes in terms of retail credit granting. The Committee prepares all matters relating to credit risk and approves new IRB models and significant changes to existing models.

*The Credit Committee held 18 meetings during the year.*

### E Risk and Capital Committee



**Jan Sinclair** (chairman<sup>1)</sup>)  
Eva Gidlöf (member)  
Jane Lundgren-Ericsson (member)

The Risk and Capital Committee prepares matters concerning SBAB's treasury operations, matters related to risk and capital and the use of new financial instruments. The Committee also prepares issues for resolution by the Board of Directors concerning objectives, strategies and control documents within the areas of risk and capital. The Committee consists of at least three members appointed by the Board. The Risk and Capital Committee is the statutory Risk Committee of the SBAB Group.

*The Risk and Capital Committee held six meetings during the year.*

<sup>1)</sup> Bo Magnusson was Chairperson until 14 February 2018.

### F Remuneration Committee



**Bo Magnusson** (Chairman)  
Daniel Kristiansson (member)

The principal task of the Remuneration Committee is to prepare issues regarding principles for remuneration and other employment terms and conditions for senior executives for resolution by the Board. The Committee also prepares matters pertaining to SBAB's remuneration system ahead of Board decisions. The Committee follows up remuneration structures and remuneration levels within SBAB.

*The Remuneration Committee held four meetings during the year.*



## G CEO and Executive Management

The Board has formulated instructions for the CEO's work. The CEO is responsible for the ongoing management of the operations in accordance with guidelines, established policies and instructions issued by the Board. The CEO reports to the Board. Executive Management provides the CEO with support in exercising operational management of SBAB. From 1 May 2018, the Executive Management comprises the following functions: Accounting & Treasury; Risk; Business Specialists; Tech; Data Science; HR; Customer Service; Customer Experience; Sustainability, Marketing & Communication; and Corporate Clients & Tenant-Owners' Associations.

### *The CEO's councils and committees*

The CEO has appointed a number of councils and committees within SBAB to support him in his work in the management of the operations. These are tasked with preparing issues for the CEO, either prior to his decisions or his recommendations on matters to be determined by the Board. These established councils and committees are the Price Council, ALCO (Asset and Liability Committee), and the Credit Council. The Price Council prepares matters related to the pricing of SBAB's products, ALCO prepares issues related to the Group's financial operations, balance-sheet risks and capital issues, and the Credit Council prepares and has a certain scope to make decisions on matters connected to SBAB's credit operations and limits for the financial operations.

## Governance of sustainable business

Within SBAB, the Board is ultimately responsible for ensuring that proactive, long-term efforts to achieve sustainable development are carried out within the company. The Board also adopts a strategy, objectives and a policy for sustainable business. Furthermore, the Board monitors and assesses SBAB's sustainability efforts. | Read more on page 164.

## Remuneration of the Board of Directors and senior executives

Information regarding the remuneration of the Board, the CEO and Executive Management is presented in Note [IC 5](#).

## Internal control and governance

Internal control is important for ensuring that SBAB's operations are conducted in accordance with prevailing regulations, as well as ensuring that SBAB identifies, measures and controls relevant risks and has an efficient organisation and operational management, and reliable financial reporting. The Board and the CEO are ultimately responsible for ensuring good internal control and governance. The Board and the CEO of SBAB are assisted in this work by several functions. Key control functions in this regard are the Compliance, Risk and Internal Audit functions, which are described in further detail below. Other functions, including Accounting, Credit and Legal, support the Board and the CEO with regard to good internal governance and control. All managers in each area of responsibility are responsible for the activities they oversee being conducted with good internal governance and control.

### H Compliance

SBAB has a central Compliance function. The Compliance function's area of responsibility comprises rules on internal governance and control, customer protection and market conduct. Compliance is independent of the business operations and is directly subordinate to the CEO. Compliance provides advice and support to the operations on compliance matters, analyses compliance risks and monitors regulatory compliance in respect of operations requiring licences. Reporting occurs on an ongoing basis to the CEO and quarterly by means of a written report to the Board and the CEO. The scope and focus of the work of Compliance is established in an annual plan adopted by the Board.

### I Risk

The SBAB Group has a central Risk department with overall responsibility for developing and ensuring that risk-taking strategies are conducted in accordance with the Board's intention, and that policies and processes facilitate relevant follow-up. Risk is responsible for the identification, quantification, analysis and reporting of all risks. The CRO is responsible for Risk. The CRO is directly subordinate to the CEO and reports to the Board and CEO of SBAB. Risk is to ensure that risk awareness and acceptance are sufficient to be able to manage risks on a daily basis. Risk also has a supportive role and works to ensure that the operations have the requisite procedures, systems and tools for daily management of risks, thereby ensuring that operations comply with the applicable laws and regulations in risk control's sphere of responsibility.

### J Internal Audit

SBAB's Internal Audit unit constitutes an internal independent audit function. Accordingly, the main function of the Internal Audit is to examine and evaluate governance and internal controls, to examine and evaluate that the company's organisation, control processes, IT systems, models and routines are appropriate and efficient, and to review and regularly assess the reliability and quality of the work conducted in other control functions in SBAB. All reporting to the Board and its Audit and Compliance Committee is conducted in accordance with a reporting and meeting plan.

**K External auditor**

The General Meeting appoints auditor. SBAB's Audit and Compliance Committee evaluates the contribution of the auditor and assists the owner in preparing motions for the auditor. Officials at the Government Offices of Sweden monitor all stages of the procurement process from tendering criteria to selection and evaluation. At the AGM, the owner appoints the auditor or the accounting firm that is commissioned to audit SBAB. Auditors must be authorised public accountants or an authorised

accounting firm with an auditor-in-charge. As of 2011, SBAB's auditor is appointed annually in accordance with the Companies Act and the Articles of Association. From the 2016 AGM, Deloitte AB is the appointed auditor, with Patrick Honeth as the auditor-in-charge. A more detailed presentation of the auditor, the auditor-in-charge and the fees and expenses paid to auditors is provided in Note **IC 6**. The auditor examines the Annual Report, the consolidated financial statements and the accounting records, as well as the

Board's and the CEO's administration of the company. In addition, the auditor reviews SBAB's half-year report and year-end reports and presents his findings to the Audit and Compliance Committee at regular meetings of the Committee, when the interim and year-end reports reviewed by the auditor are considered, and when the internal control review is reported to the Board. The auditor also reviews SBAB's Sustainability Report and the Communication on Progress (COP).

## Internal Control of Financial Reporting

At SBAB, the internal control of financial reporting is primarily aimed at ensuring that an effective and reliable procedure for SBAB's financial reporting is in place, and that both internal and external reporting is correct and accurate. Work with the internal control of financial reporting is based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, which comprises five internal control components.

### The control environment

The internal control of financial reporting uses SBAB's values, organisational structure, codes of conduct, policies, instructions and directions for SBAB's operations as its starting point.

### Risk assessment

Each unit within SBAB identifies, evaluates, manages and assesses its own risks. The analysis of risk levels in all operations, including financial reporting, is conducted on a regular basis and reported to the Executive Management, the CEO and the Board. Each year, a risk assessment is performed in the form of a self-evaluation of all business-support

processes, including financial reporting, and is managed and reported using separate risk tools.

SBAB has an NPAP in place for the implementation of new or significantly altered products, services, markets, processes and IT systems as well as major operational and organisational changes at SBAB. The aim of the process is to evaluate any potential risks related to the change and to draw attention to any impact the change may have on capital.

### Control activities

Business-support processes that provide data for the financial statements are charted and contain control activities in the form of descriptions of processes, reasonability assessments, reconciliations, attestations and performance analyses. An internal set of rules, including accounting policies, planning and reporting procedures, ensures the application of control activities.

SBAB's financial position and performance, target attainment and analysis of operations is reported on a monthly basis to both the Executive Management and the Board. The Board's Audit and Compliance Committee supervises the

financial reporting as well as the effectiveness of internal control.

### Information and communication

The Accounting & treasury unit ensures that the instructions on accounting and financial reporting are updated, communicated and made available for the units that need them for their work. The instructions are also available on SBAB's intranet.

### Follow-up

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

# Proposed appropriation of profits

SBAB posted a net profit for the year after tax of SEK 123,212,325. According to SBAB's balance sheet, SEK 6,446,542,179 is at the disposal of the Annual General Meeting.

Fair value reserve	221,659,220
Additional Tier 1 instruments	1,500,000,000
Retained earnings	4,601,670,634
Net profit for the year	123,212,325
<b>Total</b>	<b>6,446,542,179</b>

*The Board proposes that the earnings be appropriated as follows:*

A dividend distribution of SEK 35,245 per share, in total	690,202,835
Carried forward to next year	5,756,339,344
<b>Total</b>	<b>6,446,542,179</b>

The proposed dividend, which amounts to 8% of the company's equity, has been proposed with consideration for the rules on buffer capital, risk limitation and transparency under the Banking and Financing Business Act. The applicable regulations on capital adequacy and major exposures mean that the company's own funds at any given time are to correspond to not less than the total capital requirement for credit risk, market risk and operational risk, and the calculated capital requirement for additional identified

risks in the operations, in accordance with the company's internal capital adequacy assessment. After the proposed appropriation of profits, own funds amounted to SEK 12,845 million (13,574) and the final minimum capital requirement amounted to SEK 2,912 million (2,542). The items are specified in Note [RC 9](#).

In the Board's assessment, the proposed dividend is justified considering the requirements that the nature, scope and risks of the operations impose on the scale of equity in

the Parent Company and the Group, as well as on the needs of the Parent Company and the Group in terms of consolidation, liquidity and position. Furthermore, the Board assesses that the Parent Company and the Group's financial position do not give rise to any other assessment than that the Parent Company and the Group are expected to fulfil its obligations in the short and long term.





BO MAGNUSSON



CARL-HENRIK BORG



EVA GIDLÖF



DANIEL KRISTIANSSON



LARS BÖRJESSON

# Board of Directors

At 31 December 2018

## BO MAGNUSSON

### Chairman of the Board

Higher bank degree (SEB). Born in 1962. Elected in 2013.

**Board assignments:** Carnegie Investment Bank AB and Carnegie Holding AB, Rikshem AB and Rikshem intressenter AB, AB Sverige Säkerställda Obligationer (publ), Chairman of the Board in all of the above companies. Board member of KBC Bank N.V.

**Other assignments:** –

**Previous experience:** Deputy CEO at SEB and other senior positions within SEB.

## EVA GIDLÖF

### Member

Bachelor of Arts/Social Sciences Degree. Born in 1957. Elected in 2017.

**Board assignments:** Mercuri International Group AB, Metria AB (Chairman), Tera-com Group AB (Chairman), Poolia AB, Mondrago Consulting AB (Chairman).

**Other assignments:** SNS Confederation and Nomination Committee.

**Previous experience:** Includes; CEO Capgemini Sweden, CEO Bankgirocentralen, Deputy CEO Tieto, and previous experience from board assignments at more than 25 companies, government agencies and organisations.

## CARL-HENRIK BORG

### Member

LLM. Born in 1952. Elected in 2015.

**Board assignments:** CABO consulting AB.

**Other assignments:** Self employed and digital advisor.

**Previous experience:** CEO of Hemnet, founder/senior partner of iProspect AB.

## DANIEL KRISTIANSSON

### Member

Bachelor of Business Administration and Economics. Born in 1974. Elected in 2016.

**Board assignments:** Vasallen AB, Industrifonden.

**Other assignments:** Under-secretary at the Government Offices.

**Previous experience:** Vice President, Investment Banking Citigroup.

## LARS BÖRJESSON

### Member

Master of Engineering. Born in 1964. Elected in 2014.

**Board assignments:** Taggvampen AB, Dovana AB.

**Other assignments:** CEO of KGH Customs Services.

**Previous experience:** CEO of Stena Technoworld, Director of Strategy and Business Development Stena metall, Senior partner of Accenture, including Managing Director of Accenture Management Consulting Nordic.



**KARIN MOBERG****JAN SINCLAIR****KRISTINA LJUNG****JANE LUNDGREN-ERICSSON****MARGARETA NAUMBURG****KARIN MOBERG****Member**

Bachelor of Business Administration and Economics. Born in 1963. Elected in 2009.

**Board assignments:** Friends-OfAdam.

**Other assignments:** –

**Previous experience:** Board member Doro AB, AP7, Caretech AB, IAR AB, CEO Telia e-bolaget, Marketing Director and Acting Chief Communication Officer TeliaSonera, Management consultant.

**JANE LUNDGREN-ERICSSON****Member**

Master of Law, LL.M (London). Born in 1965. Elected in 2013.

**Board assignments:** Miskatonic Musik Aktiebolag (deputy), AB Sverige Säkerställda Obligationer (publ).

**Other assignments:** –

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

**JAN SINCLAIR****Member**

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

**Board assignments:** STS Alpresor, JML Sinclair AB, AB Victorhuset (chairman)

**Other assignments:** Industrial advisor, own operations.

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

**KRISTINA LJUNG****Board Member (Employee Representative)**

Born in 1966. Appointed in 2016 by the local club committee of the Financial Sector Union of Sweden.

**Board assignments:** –

**Other assignments:** Account manager, Retail business area SBAB, Chairman of the local club committee of the Financial Sector Union at SBAB.

**MARGARETA NAUMBURG****Board Member (Employee Representative)**

Master of Business Administration and Economics. Born in 1964. Appointed in 2018 by the local club committee of SACO.

**Board assignments:** –

**Other assignments:** Compliance Officer SBAB, member of the local club committee of the Confederation of Professional Associations (SACO) at SBAB.

**Previous experience:** Managerial and specialist roles within internal audit, compliance, risk and finance at SBAB and Matteus Bank. External auditor at Price Waterhouse.

**Deputies****David Larsson**

Board Member (Employee Representative, deputy)

**Born:** 1976

**Appointed:** 2018

**Other assignments:** Account manager Corporate Clients & Tenant-Owners' Associations Business Area SBAB.

**Lotta Lindberg**

Board Member (Employee Representative, deputy)

**Born:** 1987

**Appointed:** 2017

**Other assignments:** Account manager Retail SBAB, member of the local club committee of the Financial Sector Union of Sweden at SBAB.





ANDRAS VALKO

SARA DAVIDGÅRD

KLAS DANIELSSON

KLAS LJUNGKVIST

# Executive Management

At 28 March 2019

## ANDRAS VALKO

### Head of Data Science (CDSO)

PhD Computer Science, MSc Engineering, BSc Economics. Born in 1971. Year of employment: 2019.

#### Board assignments: –

**Previous experience:** Various leadership roles at Ericsson in product management, business development, research, and software development within big data analytics, data engineering, and data science.

## SARA DAVIDGÅRD

### Acting Head of Corporate Clients & Tenant-Owners' Associations & Head of Business Specialists

Master of Business Administration and Economics. Born in 1974. Year of employment: 2017.

#### Board assignments: –

**Previous experience:** Head of Risk Swedish Banking at Swedbank, Board member Sparia, Segment Manager at Swedbank, various management positions within Swedbank as well as other positions within Swedbank Robur.

## KLAS LJUNGKVIST

### CIO

Master of Engineering. Born in 1966. Year of employment: 2016.

#### Board assignments: –

**Previous experience:** CTO of Nordnet Bank AB, various managerial positions within Abaris.

## KLAS DANIELSSON

### CEO

Bachelor of Social Sciences Business Administration Born in 1963. Year of employment: 2014.

**Board assignments:** Board member AB Sveriges Sakerstallda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC) and DE Capital Nordic AB and Spiderweb Consulting AB. Chairman of the Board of Booli Search Technologies AB. Deputy Member of the Board of the Swedish Bankers' Association.

**Other assignments:** Chairman of the Nomination Committee for Stockholms Stadmission.

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

## MALIN PELLBORN

### Head of Sustainability and Communication

Master of Business Administration and Economics. Born in 1973. Year of employment: 2017.

**Board assignments:** Board member of Booli Search Technologies AB and Swedish Golf Association.

**Previous experience:** Head of Brand, Market, Customer Insights & Digital Sales, as well as other positions within Skandia. CEO of advertising agency HägerFredlund



MIKAEL INGLANDER

KRISTINA FRID

ROBIN SILFVERHIELM

CARINA ERIKSSON

MALIN PELLBORN

PETER SVENSÉN

**MIKAEL INGLANDER****CFO**

Master of Business Administration and Economics. Born in 1963. Year of employment: 2014.

**Board assignments:** Board member of Booli Search Technologies AB.

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

**CARINA ERIKSSON****Head of HR**

Master of Business Administration and Economics. Born in 1965. Year of employment: 2015.

**Board assignments:** –

**Previous experience:** Scandinavian HR Business Partner Lead, Trygg Hansa/Codan; Scandinavian HR Director Personal Lines, Trygg Hansa/Codan; HR Director, Microsoft Sweden; COO, Deutsche Bank Nordic Equities.

**PETER SVENSÉN****CRO**

Master of Engineering. Born in 1974. Year of employment: 2012.

**Board assignments:** –

**Previous experience:** Senior Job Manager at Oliver Wyman, Manager at KPMG Financial Services.

**KRISTINA FRID****Head of Customer Service**

Degree of Bachelor of Arts, Media and Communication Studies. Born in 1976. Year of employment: 2017.

**Board assignments:** –

**Previous experience:** Head of Branch Region Nordea, Chairman Chamber of Commerce Karlstad Section. Various management positions and other positions within Nordea.

**ROBIN SILFVERHIELM****Head of Customer Experience (CXO)**

Master of Engineering. Born in 1973. Year of employment: 2019.

**Board assignments:** Board member of Booli Search Technologies AB.

**Previous experience:** CDO Skandia, Management Consultant Accenture, Project Manager OMX.

**Auditor****Patrick Honeth**

Deloitte AB

Auditor-in-charge at SBAB since 2016.

## Income statement

SEK million	Note	GROUP		PARENT COMPANY	
		2018	2017	2018	2017
Interest income	IC 1	4,924	4,572	1,399	1,317
Interest expense	IC 1	-1,562	-1,423	-1,106	-1,023
<b>Net interest income</b>		<b>3,362</b>	<b>3,149</b>	<b>293</b>	<b>294</b>
Commission income	IC 2	90	73	100	79
Commission expense	IC 2	-139	-78	-25	-23
Net result of financial transactions	IC 3	-65	-12	-45	-7
Other operating income	IC 4	32	31	896	760
<b>Total operating income</b>		<b>3,280</b>	<b>3,163</b>	<b>1,219</b>	<b>1,103</b>
Personnel costs	IC 5	-543	-479	-533	-472
Other expenses	IC 6	-474	-449	-525	-479
Depreciation, amortisation and impairment of PPE and intangible assets	IC 7	-32	-31	-11	-12
<b>Total expenses before credit losses</b>		<b>-1,049</b>	<b>-959</b>	<b>-1,069</b>	<b>-963</b>
<b>Profit before credit losses</b>		<b>2,231</b>	<b>2,204</b>	<b>150</b>	<b>140</b>
Net credit losses	IC 8	11	24	37	13
Impairment of financial assets		-1	-	-1	-
Reversals of impairment of financial assets		0	-	0	-
<b>Operating profit</b>		<b>2,241</b>	<b>2,228</b>	<b>186</b>	<b>153</b>
Tax	TX 1	-515	-519	-63	-62
<b>Net profit for the year</b>		<b>1,726</b>	<b>1,709</b>	<b>123</b>	<b>91</b>

## Statement of comprehensive income

SEK million	Note	GROUP		PARENT COMPANY	
		2018	2017	2018	2017
<b>Net profit for the year</b>		<b>1,726</b>	<b>1,709</b>	<b>123</b>	<b>91</b>
<b>Other comprehensive income</b>					
<i>Components that will be reclassified to profit or loss</i>	EQ 1				
Financial assets measured at FVTOCI/Financial assets available-for-sale		-63	118	-63	118
Changes related to cash-flow hedges, before tax		634	-687	142	-68
Tax attributable to components that will be reclassified to profit or loss		-120	125	-15	-11
<i>Components that will not be reclassified to profit or loss</i>	EQ 1				
Revaluation effects of defined-benefit pension plans, before tax		-39	-38	-	-
Tax attributable to components that will not be reclassified to profit or loss		8	8	-	-
<b>Other comprehensive income, net of tax</b>		<b>420</b>	<b>-474</b>	<b>64</b>	<b>39</b>
<b>Total comprehensive income for the year</b>		<b>2,146</b>	<b>1,235</b>	<b>187</b>	<b>130</b>

Interest income on financial assets measured at amortised cost, calculated using the effective-interest method, amounted to SEK 5,191 million (5,818) for the Group and SEK 1,533 million (2,374) for the Parent Company.

## Comments to the consolidated income statement

### Operating profit and key metrics

During 2018, operating profit rose to SEK 2,241 million (2,228) as a result of higher net interest income. Lower net commission income and a lower net result of financial transactions together with higher expenses negatively affected earnings. Return on equity amounted to 12.1% (12.5) and the C/I ratio was 32.0% (30.3).

### Net interest income IC 1

Net interest income grew to SEK 3,362 million (3,149), mainly due to higher lending volumes, of which the majority pertained to residential mortgages. Lower margins and a higher resolution fee negatively impacted net interest income. Guarantee fees in the form of the resolution fee and fees to the national deposit guarantee, recognised in net interest income, totalled SEK 347 million (297) for the full year. The resolution fee was SEK 299 million (247) for the full-year 2018 and the fee payable to the national deposit guarantee was SEK 49 million (49).

### Net commission income IC 2

The net commission income decreased to an expense of SEK 49 million (expense: 5) and was mainly due to a non-recurring commission expense to a mortgage broker in conjunction with the termination of the partnership in Q3. The partnership was wound up in September, at the end of the agreed notice period, when all customer relationships were transferred to SBAB.

### Net result of financial transactions IC 3

The net result of financial transactions amounted to an expense of SEK 65 million (expense: 12) and pertained primarily to changes in market values of securities in the liquidity reserve as a consequence of changed credit spreads.

### Expenses IC 5 IC 6

Expenses grew to SEK 1,049 million (959), mainly driven by higher personnel costs but also due, inter alia, to maintaining high service levels and strengthening the business's development capacity. The cost trend is progressing according to plan and tracks the operation's development and investment strategy for long-term competitiveness.

### Credit losses IC 8

As of 1 January 2018, SBAB reports expected credit losses in accordance with IFRS 9. Opening balances include the impact of transition to the new standard. Net credit losses for the period amounted to recoveries of SEK 11 million (recoveries: 24) as a result of larger recoveries during the year of previous impairments of impaired corporate credits (within credit stage 3).

### Taxes TX 1

The year's tax expense declined to SEK 515 million (519) as a result of lower fiscal adjustments, primarily pertaining to interest on subordinated debt.

### Other comprehensive income EQ 1

Other comprehensive income increased to SEK 420 million (expense: 474), mainly due to the positive impact on the item of a downturn in long EUR interest rates.

### Parent Company

Operating profit totalled SEK 186 million (153) for the year. The increase was primarily due to higher other operating income and positive effects from credit losses. Increased expenses negatively impacted the item. Net interest income declined marginally to SEK 293 million (294), mainly driven by higher interest expenses. The net result of financial transactions amounted to an expense of SEK 45 million (expense: 7) and pertained primarily to changes in market values of securities in the liquidity reserve as a consequence of changed credit spreads. Other operating income rose to SEK 896 million (760), and mainly comprised fees from SCBC for administrative services in line with the applicable outsourcing agreements. Expenses grew to SEK 1,069 million (963), mainly driven by higher personnel costs. Credit losses amounted to recoveries of SEK 37 million (recoveries: 13), mainly as a result of the internal movement of credit impaired loans from SCBC due to the transition to IFRS 9 and recoveries of previous impairments.

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

SCBC is a wholly-owned subsidiary of SBAB whose primary operations comprise of the issuance of covered bonds to fund the lending of the SBAB Group. SCBC's operating profit for 2018 totalled SEK 1,979 million (1,982). Net interest income grew to SEK 3,069 million (2,855) and net commission income decreased to an expense of SEK 119 million (expense: 63). The net expense from financial transactions was SEK 43 million (expense: 61). SCBC's total expenses amounted to SEK 902 million (761) for 2018. The majority of the expenses are attributable to costs for operations outsourced to SBAB. Credit losses totalled SEK 26 million (recoveries: 12). SCBC's 2018 Annual Report is available at [www.sbab.se](http://www.sbab.se).



## Balance sheet

SEK million	Note	GROUP		PARENT COMPANY	
		2018	2017	2018	2017
ASSETS					
Cash and balances at central banks		0	0	0	0
Chargeable treasury bills, etc.	A 1	20,904	22,952	20,904	22,952
Lending to credit institutions	A 2	2,847	1,867	93,262	94,302
Lending to the public	A 3	364,215	335,111	24,845	22,912
Value changes of interest-rate-risk hedged items in macro hedges		99	191	–	–
Bonds and other interest-bearing securities	A 4	50,945	49,764	50,945	49,764
Derivatives	A 5	8,313	5,830	8,762	6,240
Shares and participations in Group companies	A 6	–	–	10,389	10,386
Intangible assets	A 7	234	179	26	26
Property, plant and equipment	A 8	16	12	15	12
Other assets	A 9	73	65	47	45
Prepaid expenses and accrued income	A 10	709	816	740	771
TOTAL ASSETS		448,355	416,787	209,935	207,410
LIABILITIES AND EQUITY					
Liabilities					
Liabilities to credit institutions	L 1	6,607	5,674	6,607	4,720
Deposits from the public	L 2	124,926	111,895	124,926	111,895
Debt securities issued, etc.	L 3	290,795	274,517	56,021	70,363
Derivatives	A 5	1,339	1,643	7,964	5,340
Other liabilities	L 4	384	429	303	376
Accrued expenses and deferred income	L 5	1,790	1,697	302	349
Deferred tax liabilities	TX 2	194	83	62	56
Provisions	L 6	138	97	7	–
Subordinated debt	L 7	4,946	4,942	4,946	4,942
Total liabilities		431,119	400,977	201,138	198,041
Equity					
Share capital	EQ 1	1,958	1,958	1,958	1,958
Statutory reserve		–	–	392	392
Reserves/Fair value reserve	EQ 1	609	188	222	157
Additional Tier 1 instruments	L 7	1,500	1,500	1,500	1,500
Retained earnings		11,443	10,455	4,602	5,271
Net profit for the year		1,726	1,709	123	91
Total equity		17,236	15,810	8,797	9,369
TOTAL LIABILITIES AND EQUITY		448,355	416,787	209,935	207,410

## Comments to the consolidated balance sheet

### ASSETS

#### Chargeable treasury bills A 1

Chargeable treasury bills decreased to SEK 20.9 billion (23.0) during the year. The change was within the scope of the normal management of the liquidity reserve to maintain the desired duration and credit risk profile.

#### Lending to credit institutions A 2

Lending to credit institutions increased to SEK 2.8 billion (1.9). The change was within the scope of the normal short-term liquidity management. | [Read more on page 94.](#)

#### Lending to the public A 3

Lending to the public increased 9% during the year to SEK 364.2 billion (335.1). New lending remained healthy and totalled SEK 74.3 billion (82.3). Of total lending at year end, SEK 276.7 billion (248.1) comprised residential mortgages, SEK 2.2 billion (2.0) consumer loans, SEK 33.8 billion (33.2) lending to property companies and SEK 51.5 billion (51.8) lending to tenant-owners' associations. | [Read more on page 62.](#)

#### Bonds and other interest-bearing securities A 4

Bonds and other interest-bearing securities amounted to SEK 50.9 billion (49.8). This change was also within the scope of the normal management of the liquidity reserve.

### LIABILITIES AND EQUITY

#### Liabilities to credit institutions L 1

Liabilities to credit institutions increased to SEK 6.6 billion (5.7), driven by increased collateral received as well as decreased repo volumes.

#### Deposits from the public L 2

SBAB offers customers a higher savings rate than many other market competitors. Deposits from the public increased 12% in 2018 to SEK 124.9 billion (111.9). Of total deposits at year end, SEK 87.1 billion (75.1) pertained to retail deposits and SEK 37.9 billion (36.8) deposits from corporate clients and tenant-owners' associations. In addition to savings accounts representing an important part of SBAB's customer offering, they also represent an important and growing share of SBAB's funding. | [Read more on page 62.](#)

#### Debt securities issued, etc. L 3

Total issued debt securities outstanding increased SEK 16.3 billion to SEK 290.8 billion (274.5). | [Read more on page 68.](#)

#### Equity EQ 1 L 7

Equity increased during the year to SEK 17.2 billion (15.8). The item was mainly affected by changes in other comprehensive income during the year, dividends to the owner, dividends on additional Tier 1 instruments and net profit for the year.

#### Parent Company

Lending to the public increased in the period to SEK 24.8 billion (22.9). Deposits from the public increased to SEK 124.9 billion (111.9).

#### AB Sveriges S kerst llda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC)

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 them, 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 339.4 billion (312.2). Information regarding SCBC's lending, the cover pool, is published monthly on the website [www.sbab.se](http://www.sbab.se). SCBC's 2018 Annual Report is available at [www.sbab.se](http://www.sbab.se).

## Statement of changes in equity

		GROUP				
		Restricted equity	Unrestricted equity			
SEK million	Note	Share capital	Reserves	Additional Tier 1 instruments	Retained earnings and net profit for the year <sup>1)</sup>	Total equity
<b>Closing balance, 31 December 2017</b>		<b>1,958</b>	<b>188</b>	<b>1,500</b>	<b>12,164</b>	<b>15,810</b>
Effect of changes in accounting policy, IFRS 9		–	1	–	35	36
<b>Opening balance 1 January 2018 <sup>2)</sup></b>		<b>1,958</b>	<b>189</b>	<b>1,500</b>	<b>12,199</b>	<b>15,846</b>
Additional Tier 1 instruments, dividend		–	–	–	–71	–71
Dividends paid		–	–	–	–684	–684
Other <sup>3)</sup>		–	–	–	–1	–1
Other comprehensive income, net of tax	EQ 1	–	420	–	–	420
Net profit for the year		–	–	–	1,726	1,726
<b>Comprehensive income for the year</b>		<b>–</b>	<b>420</b>	<b>–</b>	<b>1,726</b>	<b>2,146</b>
<b>Closing balance, 31 December 2018</b>		<b>1,958</b>	<b>609</b>	<b>1,500</b>	<b>13,169</b>	<b>17,236</b>
<b>Opening balance, 1 January 2017</b>		<b>1,958</b>	<b>662</b>	<b>1,500</b>	<b>11,162</b>	<b>15,282</b>
Additional Tier 1 instruments, dividend		–	–	–	–74	–74
Dividends paid		–	–	–	–628	–628
Other <sup>3)</sup>		–	–	–	–5	–5
Other comprehensive income, net of tax	EQ 1	–	–474	–	–	–474
Net profit for the year		–	–	–	1,709	1,709
<b>Comprehensive income for the year</b>		<b>–</b>	<b>–474</b>	<b>–</b>	<b>1,709</b>	<b>1,235</b>
<b>Closing balance, 31 December 2017</b>		<b>1,958</b>	<b>188</b>	<b>1,500</b>	<b>12,164</b>	<b>15,810</b>



PARENT COMPANY							
SEK million	Note	Restricted equity		Unrestricted equity			Total equity
		Share capital	Statutory reserve	Fair value reserve	Additional Tier 1 instruments	Retained earnings and net profit for the year	
<b>Closing balance, 31 December 2017</b>		<b>1,958</b>	<b>392</b>	<b>157</b>	<b>1,500</b>	<b>5,362</b>	<b>9,369</b>
Effect of changes in accounting policy, IFRS 9		–	–	1	–	–5	–4
<b>Opening balance 1 January 2018 <sup>2)</sup></b>		<b>1,958</b>	<b>392</b>	<b>158</b>	<b>1,500</b>	<b>5,357</b>	<b>9,365</b>
Additional Tier 1 instruments, dividend		–	–	–	–	–71	–71
Dividends paid		–	–	–	–	–684	–684
Other <sup>3)</sup>		–	–	–	–	0	0
Other comprehensive income, net of tax	EQ 1	–	–	64	–	–	64
Net profit for the year		–	–	–	–	123	123
<b>Comprehensive income for the year</b>		<b>1,958</b>	<b>392</b>	<b>64</b>	<b>1,500</b>	<b>123</b>	<b>187</b>
<b>Closing balance, 31 December 2018</b>		<b>1,958</b>	<b>392</b>	<b>222</b>	<b>1,500</b>	<b>4,725</b>	<b>8,797</b>
<b>Opening balance, 1 January 2017</b>		<b>1,958</b>	<b>392</b>	<b>118</b>	<b>1,500</b>	<b>5,980</b>	<b>9,948</b>
Additional Tier 1 instruments, dividend		–	–	–	–	–74	–74
Dividends paid		–	–	–	–	–628	–628
Other <sup>3)</sup>		–	–	–	–	–7	–7
Other comprehensive income, net of tax	EQ 1	–	–	39	–	–	39
Net profit for the year		–	–	–	–	91	91
<b>Comprehensive income for the year</b>		<b>–</b>	<b>–</b>	<b>39</b>	<b>–</b>	<b>91</b>	<b>130</b>
<b>Closing balance, 31 December 2017</b>		<b>1,958</b>	<b>392</b>	<b>157</b>	<b>1,500</b>	<b>5,362</b>	<b>9,369</b>

<sup>1)</sup> Retained earnings includes the Parent Company's statutory reserve, which is not distributable.

<sup>2)</sup> The opening balance has been restated pursuant to IFRS 9, see Note G:4.

<sup>3)</sup> Other pertains primarily to the revaluation of the liability to the owners of the remaining shares and warrants in the subsidiary Booli Search Technologies AB.

## Cash-flow statement

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Opening cash and cash equivalents</b>	<b>1,867</b>	<b>1,619</b>	<b>94,302</b>	<b>56,630</b>
<b>OPERATING ACTIVITIES</b>				
Interest received	5,021	4,647	1,427	1,314
Commission received	91	64	100	89
Interest paid	-1,475	-1,726	-1,170	-1,061
Commission paid	-143	-73	-29	-18
Outflows to suppliers and employees	-1,017	-929	-1,060	-951
Taxes paid/refunded	-531	17	-102	81
Change in lending to the public	-29,035	-39,065	-1,894	28,677
Change in chargeable treasury bills, etc.	1,978	-2,532	1,978	-2,532
Change in bonds and other interest-bearing securities and fund units	-1,273	-1,118	-1,273	-1,118
Change in liabilities to credit institutions	933	985	1,887	529
Change in deposits from the public	13,031	15,126	13,031	15,126
Change in debt securities issued, etc.	16,358	28,295	-14,174	-808
Change in other assets and liabilities	-2,147	-1,761	976	-24
<b>Cash flow from operating activities</b>	<b>1,791</b>	<b>1,930</b>	<b>-303</b>	<b>39,304</b>
<b>INVESTING ACTIVITIES</b>				
Sale of property plant and equipment	-	0	-	0
Investments in PPE	-10	-4	-9	-4
Investments in intangible assets	-81	-50	-5	-
Investments in subsidiaries	-36	-	-39	-
<b>Cash flow from investing activities</b>	<b>-127</b>	<b>-54</b>	<b>-53</b>	<b>-4</b>
<b>FINANCING ACTIVITIES</b>				
Dividends paid	-684	-628	-684	-628
Repayment of subordinated debentures	-	-1,000	-	-1,000
<b>Cash flow from financing activities</b>	<b>-684</b>	<b>-1,628</b>	<b>-684</b>	<b>-1,628</b>
<b>Increase/decrease in cash and cash equivalents</b>	<b>980</b>	<b>248</b>	<b>-1,040</b>	<b>37,672</b>
<b>Closing cash and cash equivalents</b>	<b>2,847</b>	<b>1,867</b>	<b>93,262</b>	<b>94,302</b>

### Comments to the cash-flow statement

The cash-flow statement is reported in accordance with IAS 7, and cash and cash equivalents are defined as cash and balances at central banks as well as lending to credit institutions, which does not correspond to the liquidity definition applied at Group level. Subordinated receivables (receivables from Group companies) are included in cash and cash equivalents for the Parent Company, and are recognised in the balance sheet under Lending to credit institutions.

Cont. **Cash-flow statement**

## CHANGE IN LIABILITIES ATTRIBUTABLE TO FINANCING ACTIVITIES

SEK million	GROUP									
	Opening balance 1 Jan. 2018	Cash flow	Non-cash items		Closing balance, 31 Dec. 2018	Opening balance, 1 Jan. 2017	Cash flow	Non-cash items		Closing balance, 31 Dec. 2017
			Fair value	Other				Fair value	Other	
Subordinated debt	4,942	–	–2	6	4,946	5,939	–1,000	–3	6	4,942
Additional Tier 1 instruments	1,500	–	–	–	1,500	1,500	1,500	–	–	1,500
<b>Total</b>	<b>6,442</b>	<b>–</b>	<b>–2</b>	<b>6</b>	<b>6,446</b>	<b>7,439</b>	<b>–1,000</b>	<b>–3</b>	<b>6</b>	<b>6,442</b>

SEK million	PARENT COMPANY									
	Opening balance 1 Jan. 2018	Cash flow	Non-cash items		Closing balance, 31 Dec. 2018	Opening balance, 1 Jan. 2017	Cash flow	Non-cash items		Closing balance, 31 Dec. 2017
			Fair value	Other				Fair value	Other	
Subordinated debt	4,942	–	–2	6	4,946	5,939	–1,000	–3	6	4,942
Additional Tier 1 instruments	1,500	–	–	–	1,500	1,500	–	–	–	1,500
<b>Total</b>	<b>6,442</b>	<b>–</b>	<b>–2</b>	<b>6</b>	<b>6,446</b>	<b>7,439</b>	<b>–1,000</b>	<b>–3</b>	<b>6</b>	<b>6,442</b>



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## G General information and overriding accounting policies

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### G:1 Accounting policies

SBAB Bank AB (publ), "SBAB," and its subsidiaries mainly conduct lending to consumers, tenant-owners' associations and companies in the Swedish residential mortgage market. SBAB's offering also includes savings products. SBAB is a Swedish public limited banking company domiciled in Solna. The address of the Head Office is SBAB Bank AB (publ), Box 4209, SE-171 04 Solna, Sweden.

The Annual Report for SBAB has been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. In addition to these accounting standards, Finansinspektionen's (the Swedish FSA) regulations and general guidelines on annual accounts for credit institutions and securities companies (FFFS 2008:25), the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups were taken into consideration.

The Annual Report has been prepared in accordance with the cost method, apart from the revaluation of derivatives, financial assets and liabilities measured at fair value through profit or loss (FVTPL), financial assets measured at fair value through other comprehensive income (FVTOCI) and hedge-accounted items. On 19 March 2019, the Board of Directors approved the financial statements for publication and these statements will be adopted by the Annual General Meeting on 29 April 2019.

#### Introduction of new accounting standards

##### IFRS 9 Financial instruments

IFRS 9 Financial Instruments has replaced IAS 39 Financial Instruments in its entirety and encompasses classification and measurement, and impairment and hedge accounting. SBAB has applied the mandatory sections pertaining to classification and measurement, and impairment from 1 January 2018. Refer also to the "Financial instruments" and "Credit losses and impairment of financial assets" sections. The rules have been applied through the adjustment of the balance sheets of the Group and the subsidiaries at that date, refer to Note G 4.

##### IFRS 15 Revenue from Contracts with Customers

The standard introduces a five-step model to determine when revenues within the scope of IFRS 15 will be recognised. Depending on when certain criteria are met, income is either recognised over time in a manner that shows the company's performance, or at a point in time when control over the goods or services is transferred. SBAB has chosen to apply the modified retrospective approach and no recalculations of comparative periods have been made. The introduction had no impact on the Group's financial position, earnings or cash flow. The Group's previously applied principles for recognition of income is in agreement with the requirements in IFRS 15. The introduction had no impact on SBAB's financial reports. The standard has been applied from 1 January 2018.

##### IFRS 16 Leases

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 apply. The impact on SBAB's reporting stems from the recognition of lease contracts for premises.

In 2018, SBAB completed extensive analysis of all of the Group's agreements. This work has been conducted in project form together with stakeholders from various units at SBAB. The project has brought in external accounting specialists to help with quality assurance and interpretations of IFRS 16. A decision was taken within the project that the property leases for premises, which were classified as operating leases under IAS 17, are subject to SBAB's application of IFRS 16. Short-term contracts of less than 12 months and low-value contracts of less than USD 5,000 are exempted from this application. Current property leases are measured pursuant to IFRS 16, where the lease cost, the lease duration and the discount rate form the most material parameters. SBAB uses the marginal interest rate on borrowing as a discount rate, and it applies for the entire duration of the contract, including any indexing.

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

#### Other changes

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

#### General accounting policies

##### Consolidated financial statements

The consolidated financial statements were prepared in accordance with the acquisition method and include the Parent Company SBAB and its subsidiaries. Entities qualify as subsidiaries if they are controlled by the Parent Company. A parent company is deemed to have control of a subsidiary when it not only controls the subsidiary and is exposed to, or is entitled to, variable returns from the subsidiary but when it can also affect the returns from the subsidiary by means of its influence. The companies are consolidated as of the date when the Parent Company assumes control of the subsidiary, and the consolidation ends when the Parent Company no longer exercises controlling influence over the subsidiary. Intra-Group transactions and receivables and liabilities between Group companies are eliminated.

The cost of an acquisition consists of the fair value of any assets provided by way of remuneration and any arisen or assumed liabilities. Any unsettled consideration for a put option is valued at the present value of the redemption amount. Identifiable acquired assets and assumed liabilities and contingent liabilities are valued at fair value on the acquisition date. Any consideration transferred for corporate acquisitions that exceeds the fair value of identifiable acquired net assets is recognised as goodwill. Goodwill is distributed over cash-generating units (CGUs) or groups of CGUs, which are expected to benefit from the acquisition through synergies. The CGUs to which goodwill is distributed correspond to the lowest level within the Group where goodwill is followed up in the internal governance.

Transaction costs, with the exception of transaction costs related to the issue of equity or debt instruments, that arise through the acquisition are recognised directly in profit/loss for the year. For acquisitions where a put option has been issued, the anticipated-acquisition method is applied, which means that the put option for the remaining shares is considered as acquired at the time of acquisition. Consequently, no minority holdings are recognised. The debt regarding the present value of the redemption price for a put option will thereby be included in the fair value of the total consideration.

#### Financial instruments

##### Recognition in and derecognition from the balance sheet

Financial instruments are recognised when the company is involved with the instrument's contractual terms. Issued and acquired securities, including all derivatives, are recognised on the trade date, meaning the date on which the significant risks and rights are transferred between the parties. Other financial instruments are recognised on the settlement date.

A financial asset is derecognised from the balance sheet when the contractual rights to receive cash flows from the financial asset expire and the Group has transferred essentially all of the risks and rewards of ownership of the asset. A financial liability is derecognised from the balance sheet when it is extinguished, meaning when the obligation specified in the contract is fulfilled, cancelled or has expired.

#### Offsetting

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

### Recognition of income and expense

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

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

Commission income and commission expense are included in profit or loss continuously in accordance with the contractual terms.

In the event of premature redemption of loans, the customer pays interest compensation intended to cover the cost that arises for SBAB. This compensation is recognised as income directly under the heading "Net result of financial transactions." Other items under this heading are described in the "Classification" section.

### Classification (accounting policies applied from 1 January 2018)

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

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

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

#### Financial assets measured at amortised cost

Assets in this category are recognised at cost, defined as fair value plus transaction costs, on the acquisition date and thereafter at amortised cost after application of the effective-interest method.

This category consists of assets that are held within the framework of a business model where the objective is to hold financial assets in order to collect contractual cash flows solely comprised of capital and interest. The assets in this category encompass lending, interest-bearing securities and other assets that meet the above terms.

The assets are subject to ongoing impairment testing. Refer also to the "Credit losses and impairment of financial assets" section.

Impairment losses are recognised in profit or loss under "Impairment of financial assets" for securities and under "Net credit losses" for other assets, while the effective interest rate is recognised as interest income.

Realised gains or losses from the sale of assets are recognised directly in profit or loss under "Net result of financial transactions."

#### Financial assets measured at FVTOCI

Assets in this category are recognised on the acquisition date at fair value plus transaction costs, and thereafter at fair value in the balance sheet, with unrealised changes in value recognised as a component of other comprehensive income and accumulated in a separate reserve (the fair-value reserve) in equity.

This category consists of assets that are held within the framework of a business model where the objective is to hold or sell these assets in order to collect contractual cash flows solely comprised of capital and interest. The category consists of interest-bearing securities.

The assets are subject to ongoing impairment testing. Refer also to the "Credit losses and impairment of financial assets" section. Impairments are recognised in profit or loss under "Net result of financial transactions" and as a change in the fair-value reserve in equity via other comprehensive income.

Changes in fair value are transferred from other comprehensive income to the net result of financial transactions in profit or loss when the asset has been realised or an impairment is recognised. Changes in value that are attributable to exchange rate changes are recognised in profit or loss.

#### Financial assets measured at FVTPL

On initial recognition, assets in this category are recognised at fair value, while related transaction costs are recognised in profit or loss.

Changes in fair value and realised gains or losses for these assets are recognised directly in profit or loss under the heading "Net expense from financial transactions," while the effective interest rate is recognised as interest income.

The category encompasses interest-bearing securities that, on initial recognition, were identified as measured at FVTPL to eliminate inconsistencies in valuation and recognition, the so-called fair value option.

Furthermore, this category includes assets that do not meet the definitions for other valuation categories and, accordingly, are measured at FVTPL. (For example, assets classed as held for trading and assets with cash flows other than capital and interest on capital). At SBAB, these assets consist exclusively of derivatives.

#### Financial liabilities measured at FVTPL

On initial recognition, liabilities in this category are recognised at fair value, while related transaction costs are recognised in profit or loss.

The category is divided into financial liabilities held for trading and financial liabilities that Executive Management has designated as such upon initial recognition.

All of SBAB's liabilities in this category consist of derivatives that are used to hedge financial risk and which have been defined as held for trading in the financial reporting.

Changes in fair value and realised gains or losses for these liabilities are recognised in profit or loss under "Net result of financial transactions," while the effective interest rate is recognised as interest expense.

#### Financial liabilities measured at amortised cost

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

Liabilities to the owners of as yet unsettled shares and warrants in subsidiaries, for which put options have been issued, are classified as other financial liabilities and recognised under other liabilities. The amounts recognised are based on the amounts expected to be disbursed under the option agreements outstanding. The revaluation of the liability is recognised against retained earnings. For ownership details, refer to Note 6.

### Classification (accounting policies applied to 31 December 2017)

All financial instruments covered by IAS 39 and which are not subject to hedge accounting are classified pursuant to this standard in the following categories:

- Financial assets measured at FVTPL
- Loans and accounts receivable
- Investments held to maturity
- Available-for-sale financial assets
- Financial liabilities measured at FVTPL
- Other financial liabilities

#### Financial assets measured at FVTPL

The category "Financial assets measured at FVTPL" is divided into "held for trading" and "financial assets that Executive Management designated as such upon initial recognition." All of SBAB's assets in this category are classified as held for trading and primarily encompass interest-bearing instruments. This category includes derivatives that are not subject to hedge accounting.

On initial recognition, assets in this category are recognised at fair value, while related transaction costs are recognised in profit or loss.

Changes in fair value and realised gains or losses for these assets are recognised directly in profit or loss under the heading "Net result of financial transactions", while the effective interest rate is recognised as interest income.



### Loans and accounts receivable

Financial assets classified as loans and accounts receivable are recognised at fair value at the time the loan is disbursed plus transaction costs.

Loans and accounts receivable are subsequently recognised at amortised cost using the effective-interest method. This category consists of assets with fixed or determinable payments that are not quoted in an active market. Loan receivables consist of lending to the public and credit institutions and include associated items. The majority of lending comprises retail loans for the funding of housing and loans to legal entities and consumers for multi-family dwellings and commercial properties.

Changes in value are recognised as "Net loan losses," while the effective interest rate is recognised as interest income. The assets are tested for impairment if there are indications, referred to as objective evidence, of impairment. Refer also to the "Loan losses and impairment of financial assets" section.

### Investments held to maturity

The "Investments held to maturity" category recognises interest-bearing assets that the Group has the intent and ability to hold to maturity. If any more than an insignificant amount in this category is sold or reclassified in the current financial year or in the two previous financial years, no assets can be classified as belonging to this category. The exception to this rule is sales or reclassifications made close to maturity, or if more or less the entire original nominal amount has been received, or if it depends on an isolated event over which the company had no control, that was non-recurrent, and that the company could not reasonably foresee.

"Investments held to maturity" are measured at amortised cost. The assets are tested for impairment if there are indications, referred to as objective evidence, of impairment. Impairment losses are recognised as "Impairment of financial assets," while the effective interest rate is recognised as interest income. Also refer to the "Loan losses and impairment of financial assets" section.

### Available-for-sale financial assets

In the "Available-for-sale financial assets" category, financial assets are recognised for which there is an active market, but where the assets are not held for trading and are not intended to be held until maturity. These are measured at fair value in the balance sheet, with the change in value recognised as a component of other comprehensive income and accumulated in a separate reserve (the fair-value reserve) in equity. Changes in fair value are not recognised in profit or loss until the asset has been realised or an impairment is recognised. Changes in value that are attributable to exchange rate changes are recognised in profit or loss.

When a fair value reduction for a financial asset that has been categorised as available for sale has been recognised in other comprehensive income and objective evidence of impairment exists, the accumulated loss reported in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment, even if the financial asset has not been removed from the statement of financial position. The impairment amount is recognised under the "Net result of financial transactions".

### Financial liabilities measured at FVTPL

The "Financial liabilities measured at FVTPL" category is divided into financial liabilities held for trading and financial liabilities that Executive Management has designated as such upon initial recognition. All of SBAB's liabilities in this category are classified as held for trading. This category includes derivatives that are not subject to hedge accounting. Liabilities in this category are initially recognised at fair value, while related transaction costs are recognised in profit or loss. Changes in fair value and realised gains or losses for these liabilities are recognised in profit or loss under the "Net result of financial transactions," while the effective interest rate is recognised as interest expense.

### Other financial liabilities

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

Liabilities to the owners of the remaining shares and warrants in subsidiaries, for which put options have been issued, are classified as other financial liabilities and recognised under other liabilities. The amounts recognised are based on the amounts expected to be disbursed under the option agreements outstanding. The revaluation of the liability is recognised against retained earnings. For ownership details, refer to Note 17 Shares and participations in Group companies.

### Repos

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

### Fair value measurement

Fair value is defined as the price that would be received on the valuation date on the sale of an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants.

Fair value measurement of financial instruments measured at fair value and traded on an active market is based on quoted prices.

If the market for a financial instrument is not active, the fair value is established on the basis of generally accepted measurement methods. As far as possible, calculations made in conjunction with measurement are based on observable market data. The main tools used are models based on discounted cash flows. In individual cases, the calculations may also be based on assumptions or estimates.

### Equity instruments

Issued debt securities with the financial nature of equity, as per the definitions in IAS 32, are recognised as additional Tier 1 capital under equity. Interest payments on these instruments are recognised as a deduction from equity at the time of payment.

### Derivatives and hedge accounting

Derivatives are used primarily to manage interest-rate and currency risk in the Group's assets and liabilities, and are recognised at fair value in the balance sheet.

For economic hedges where the risk of a significant fluctuation in profit or loss is the greatest and that meet the formal hedge accounting criteria, SBAB has chosen to apply hedge accounting for the hedging of interest-rate and currency risk. There are also other economic hedges for which hedge accounting is not applied. For hedge accounting, the carve-out version of IAS 39 is applied, as adopted by the EU.

### Fair-value hedging

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

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

### Macro hedges

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

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

### Cash-flow hedges

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

## Credit losses and impairment of financial assets

(accounting policies applied from 1 January 2018)

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

### Impairment — expected credit losses

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

- For financial assets measured at amortised cost, the loss allowance is recognised as a deductible item together with the asset.
- For financial assets measured at FVTOCI, the loss allowance is recognised in equity.
- For exposures that are not recognised in the balance sheet (for example, loan commitments and building credits), the loss allowance is recognised as a provision on the liability side of the balance sheet.

### Expected credit losses for financial assets in the balance sheet

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

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

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

#### Credit stage 1

Loans will, at a minimum, have a loss allowance that corresponds to 12-month ECL. Three main parameters are taken into consideration when measuring ECLs. Probability of default (PD), Loss given default (LGD) and exposure at default (EAD) where the product results in the expected credit loss (ECL). To calculate the 12-month ECL, SBAB uses its portfolio models for internal risk classification (IRB) that are intended for capital adequacy, but where appropriate adjustments have been made to ensure an accurate expected monetary value for the ECL that reflects the prevailing economic conditions and forward-looking information. The adjustments include the removal of safety margins and calibration against long-term estimates through an economic cycle as stipulated in the CRR<sup>1)</sup>. This way, estimates can reflect the actual risk that currently applies. Moreover, the effects of macroeconomic factors are applied to estimates to capture variations of conceivable future scenarios. The same procedure for adjusting the parameters from IRB is also applied in stages 2 and 3. For further information on IRB, see Note RC 1.

#### Credit stage 2

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

#### Credit stage 3

Credit-impaired loans should also be assigned a loss allowance that corresponds with lifetime ECL.

The internal default definition is applied to determine whether a loan has suffered credit impairment.

SBAB deems a default to have occurred if any of the following criteria are met:

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

The transition to IFRS 9 has not resulted in any changes to SBAB's definition of default.

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

### Off-balance-sheet ECLs

For off-balance-sheet items, initial recognition is defined as the moment the bank enters into the irrevocable undertaking. The loss allowance is calculated in the same manner as for financial assets in the balance sheet, but includes the application of a credit conversion factor (CCF). The CCF measures the proportion of the undertaking that is expected to be converted to the balance sheet. In common with other risk parameters, the CCF is also used in the IRB approach for capital adequacy. Furthermore, appropriate adjustments have been made to adapt the estimate to the ECL. For more information, please refer to Note RC 1.

### Liquidity portfolio ECLs

Under IFRS 9, loss allowances must also be calculated for securities in the liquidity portfolio. Since the entire liquidity portfolio has an investment grade rating, all securities are placed in stage 1, which entails a loss allowance that corresponds to the 12-month ECL. The ECL is calculated for liquidity portfolio positions as per the balance-sheet date. External ratings are used to ensure that the securities are of investment grade; thereafter, historic PDs and LGDs are allocated to the positions based on the external ratings. All cash flows for the respective positions are multiplied by their associated PDs, LGDs and corresponding discounting factors to obtain ECLs.

### Measuring significant increases in credit risk

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

### Forward-looking information

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

### Process for decisions on forward-looking information

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

### Time value of money

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

### Uncertainty in estimating ECL

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

### SENSITIVITY ANALYSIS OF FORWARD-LOOKING INFORMATION

Macro-economic factors and changes in ECL	Scenario			
	1	2	3	4
Δ Repo rate	-15 bp	+41 bp	+178 bp	+316 bp
Δ Unemployment rate	+102 bp	+7 bp	+157 bp	+232 bp
Δ PD	+21 %	+9 %	+50 %	+76 %
Δ Housing prices	+8 %	0 %	-25 %	-45 %
Δ LGD	-8 %	+0 %	+66 %	+258 %
Σ Δ ECL	+7 MSEK	+4 MSEK	+63 MSEK	+209 MSEK

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

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

### SCENARIO WEIGHTS IN THE FORWARD-LOOKING INFORMATION

Weights applied to the scenarios for ECL	Scenario			
	1	2	3	4
Weight	40 %	10 %	25 %	25 %

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

### SENSITIVITY ANALYSIS OF PD THRESHOLDS

Allocation of EAD over credit stage and change in ECL	Percentile		
	20	10	5
Credit stage 1	89.0 %	94.8 %	97.9 %
Credit stage 2	10.9 %	5.2 %	2.0 %
Credit stage 3	0.1 %	0.1 %	0.1 %
Δ ECL	+16.6 %	-	-15.8 %

### Modification of financial assets

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

### Input data in the ECL model

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



### Changes in the ECL model

No changes, either with regard to parameter estimates or forecasts of the macro-economic factors, have been made to the ECL model in 2018. The forward-looking information is regularly reviewed and revised as needed.

Due to the housing market trend in 2018, no revision of forward-looking information has been necessary.

### Credit losses and impairment of financial assets (accounting policies applied to 31 December 201)

#### Loans and receivables recognised at amortised cost

On the balance-sheet date, an assessment takes place of whether any objective evidence exist of impairment of an individual receivable or group of receivables. This takes place as a result of events that have occurred after the initial recognition of the asset and which have impacted the expected future cash flows for the loan receivable or group of receivables. Events that could lead to impairment of the loan being include, depending on the circumstances, receivership, suspension of payments, a composition, a court order to pay or a changed credit rating. The amount of impairment is measured as the difference between the carrying amount of the receivable and the present value of estimated future cash flows discounted at the effective interest rate of the receivable in accordance with the most recent interest-rate adjustment date. The cash flows attributable to the borrower or the issuer and any use of the collateral are taken into consideration when assessing the need for impairment. Any expenses associated with the realisation of the collateral are included in the cash-flow calculations. The measurement of probable loan losses or impairment of other financial assets is effected in gross amounts and, when there is a guarantee or the equivalent, this is recognised as a receivable against the counterparty. If the present value of future cash flows exceeds the carrying amount of the asset, no impairment takes place and the receivable is not regarded as doubtful. The impairment amount is recognised in profit or loss under "Net loan losses" or "Impairment of financial assets" depending on the type of receivable. See the "Loans and accounts receivable" and "Investments held to maturity" sections. If the impairment requirement has declined in a subsequent period and the decrease can objectively be attributed to an event that occurred after recognition of the impairment, a reversal of a previously recognised impairment can be recognised under the corresponding income statement item. Confirmed loan losses and provisions for probable losses, with deductions for guarantees expected to be utilised or that have been utilised plus any recoveries, are recognised as loan losses. The term "Confirmed loan losses" refers to losses where the amounts are definite or established with a high level of probability and have thus been derecognised.

#### Individually measured loan receivables

Corporate market loans (loans to companies and tenant-owners' associations) are individually measured for impairment. Retail market loans are individually measured for impairment if there are special reasons for doing so. Loan receivables not determined to have an individual impairment requirement are included in a group of financial assets with similar credit risk characteristics and are judged on a collective basis in terms of the impairment requirement.

#### Collectively measured loan receivables

The loan receivables assessed in this group are as follows:

- Retail market loans not subject to collective provisions. These consist of a large number of loans each of a limited amount and with similar credit risk characteristics
- Individually measured loan receivables where no objective evidence of individual impairment has been determined in accordance with the above information on "Individually measured loan receivables."

The impairment of collectively measured loans is identified in two different ways:

- Based on the internal risk classification and adjusted in accordance with the IFRS regulatory framework, groups of loans have been identified that have been subject to events that produced a measurable negative impact on the expected future cash flows
- In addition, groups of loans are identified for which future cash flows have undergone a measurable deterioration due to recent events but which have not yet had an impact on the risk classification system.

#### Loans with renegotiated terms and conditions

Loans with renegotiated terms and conditions are receivables where SBAB has granted some form of concession due to a deterioration in the borrower's financial position or because the borrower has encountered other financial problems. Concessions granted are considered to constitute confirmed loan losses, and are recognised in profit or loss under "Net loan losses." Additional information about loans with renegotiated terms and conditions is provided in Note 2a Risk management – Credit risk in lending operations.

#### Individually measured securities

Receivables included in this group are securities that have been classified as "Investments held to maturity." Each security is impairment tested individually.

### Other

#### Functional currency

Functional currency is the currency used in the primary economic environments in which the Group operates. The companies included in the Group are the Parent Company and subsidiaries. The Parent Company's functional currency and presentation currency is SEK. The Group's presentation currency is SEK.

#### Foreign currency translation of receivables and liabilities

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

#### Leases

Existing leases relate to normal leases for SBAB's operations. They mainly concern office premises and office equipment and are classified as operating leases under IAS 17. Changes will be made on the transition to IFRS 16. In operating leases, lease payments are recognised as expenses in profit or loss on a straight-line basis over the lease term. Agreed future lease payments are presented in Note **IC 6**.

#### Property, plant and equipment

Property, plant and equipment are recognised as assets in the balance sheet if it is probable that future financial benefits will flow to the entity and the cost of the item can be measured reliably. Property, plant and equipment are recognised at cost less any accumulated depreciation and impairment losses.

#### Depreciation of property, plant and equipment

The depreciable amount is calculated as the cost of the asset less its estimated residual value at the end of its useful life. The depreciable amount is allocated on a straight-line basis over the estimated useful life of the asset, and the depreciation charge for each period is recognised in profit or loss. This means that computer hardware is depreciated over four years and other equipment over five years. The residual value and useful life of an asset are assessed annually.

#### Intangible assets

Investments in acquired computer software or software developed by SBAB are recognised at cost after accumulated amortisation and impairment losses have been deducted. Costs for the maintenance of software are expensed as they arise. Development expenditure that is directly attributable to the development and testing of identifiable and unique software products controlled by the Group is recognised as an intangible asset when the following criteria are fulfilled:

- It is technically possible to complete the software so that it can be used.
- The company intends to complete the software product and use it.
- It can be demonstrated how the software will generate probable future financial benefits; and that adequate technical, financial and other resources for completing the development and for using the software are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditure that does not fulfil these criteria is expensed as it arises. Development expenditure that has previously been expensed may not be recognised as an asset in a later period.

Additional expenses for capitalised intangible assets are recognised as assets in the balance sheet only in cases where they increase the future financial benefits of the specific asset to which they are attributable. All other costs are expensed as they arise. Development expenditure is capitalised only in the consolidated financial statements.

On the acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are measured at fair value on the acquisition date. The portion of the acquisition cost that exceeds the fair value of the net identifiable assets is recognised as goodwill. Goodwill is allocated to the CGUs and tested not less than once each year for impairment.

#### Amortisation of intangible fixed assets

Amortisation is allocated on a straight-line basis over the useful life of the asset. The assets are assessed as having useful lives of four or five years. The amortisation period and amortisation method for intangible fixed assets are reviewed at each financial year-end.

### Impairment of non-financial assets

The recoverable amount of an asset is measured when there is any indication that an asset may be impaired. Development work not yet available for use is tested annually for impairment irrespective of whether there is any indication of impairment. An asset is impaired when its carrying amount exceeds its recoverable amount. The impairment loss for each period is charged against net profit/loss for the period.

Impairment of goodwill is recognised when a CGU (group of CGUs) carrying amount exceeds its recoverable amount. An impairment is recognised as an expense in the profit for the year. When a need for impairment is identified for a CGU (group of CGUs), the impairment amount is primarily allocated to goodwill. Thereafter, proportional impairment is applied to the other assets in the CGU (group of CGUs). Goodwill impairment is never reversed.

The impairment amount is the higher of fair value less costs to sell and value in use. When calculating the value in use, future cash flows are discounted using a discounting factor that takes into account risk-free interest and the risks associated with the asset in question.

### Tax

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

The tax effects of items recognised in other comprehensive income or directly in equity are recognised in other comprehensive income or directly in equity.

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

### Cash and cash equivalents

Cash and cash equivalents are defined as cash and balances at central banks, and lending to credit institutions.

### Pensions

The Group has both defined-contribution and defined-benefit pension plans. For the defined-contribution pension plans, fixed fees are paid to an independent unit, following which no additional obligations arise. Pension costs for defined-contribution plans are expensed on a continuous basis in pace with vesting by the individual employee.

The Group's net obligation with regard to defined-benefit plans is calculated separately for each plan by estimating the future benefit that employees have earned through their service in current and prior periods, with that benefit being discounted to its present value. The present value of the defined-benefit obligation is determined by discounting the estimated future cash flows applying the interest rate for mortgage bonds in SEK with maturities comparable to those of the pension obligation in question. Changes or reductions in a defined-benefit plan are recognised on the earliest of the following dates: a) when the change or reduction in the plan occurs or b) when the company reports related restructuring costs and severance benefits. The changes/reductions are recognised directly in profit for the year. The defined-benefit pension obligation is calculated annually by independent actuaries using the "projected unit credit method."

The provision recognised in the balance sheet for defined-benefit pension plans represents the present value of the defined-benefit obligation at the close of the reporting period less the fair value of the plan assets. The provision includes special employer's contributions. All of the components included in the period's cost for a defined-benefit plan are recognised in operating profit. This includes the return on plan assets, calculated applying the same discount rate used to calculate the present value of the obligation. Revaluation effects consist of actuarial gains and losses, including the difference between the actual return on plan assets and the total included in operating profit. All revaluation effects are recognised under "Reserves" in equity.

### Segment reporting

An operating segment is a part of a business for which independent financial information is available, that conducts business operations from which income can be generated and expenses incurred and whose operating profits are regularly assessed by the company's chief operating decision maker as a basis for decisions regarding the allocation of resources to segments and an assessment of the segment's profit or loss. At SBAB, the CEO is the function that is responsible for allocating resources and assessing the profit or loss of the operating segment.

### Parent Company accounting policies

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

### Differences compared with the Group

The main differences between the accounting policies of the Group and those of the Parent Company are shown below:

### Presentation of the income statement and balance sheet

The Parent Company complies with the presentation standards for income statements and balance sheets stipulated in the Annual Accounts Act for Credit Institutions and Securities Companies, which entail a different presentation of equity. The Parent Company's statutory reserve is recognised in the Group as retained earnings, while the Parent Company's Fair value reserve is included in the Group's Reserves.

### Intangible assets

Expenses attributable to proprietary software is recognised in the Parent Company as a cost in profit or loss.

### Leasing

Existing leases relate to normal leases for SBAB's operations. They mainly concern office premises and office equipment and are classified as operating leases under IAS 17. With the transition to IFRS 16 comes changes within the Group. 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. SBAB has chosen to apply IFRS 16 in the Group when there is no requirement to apply IFRS 16 to legal entities according to RFR 2.

### Pensions

The Swedish Pension Obligations Vesting Act and regulations issued by the Swedish FSA contain rules requiring a different method of recognising defined-benefit pension plans compared with that stipulated in IAS 19.

Application of the Swedish Pension Obligations Vesting Act is a prerequisite for tax deductibility of the pension payments. In view of this, RFR 2 states that the regulations of IAS 19 in terms of defined-benefit pension plans need not be applied by the legal entity.

### Measurement in relation to the assumption of receivables

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

### Subsidiaries

Participations in subsidiaries are recognised in the Parent Company in accordance with the cost method.

### Dividend

Dividends received from subsidiaries are recognised in profit or loss. Anticipated dividends from subsidiaries are recognised in cases where formal decisions have been taken in the subsidiary or where the Parent Company otherwise has full control over the decision-making process before it publishes its financial statements.

Dividends paid are recognised as a reduction of unrestricted equity following the passing of a resolution on dividends at the Annual General Meeting.

### Group contributions

Group contributions received from subsidiaries are recognised in profit or loss, while Group contributions paid to subsidiaries by the Parent Company are recognised as increased participations in Group companies.

## Critical accounting estimates and judgements

### Critical assumptions

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

### Measurement of loan receivables

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

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

### Financial instruments measured at fair value

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

### Recognition of defined-benefit pensions

Measurement of the Group's defined-benefit pension obligations is based on a number of actuarial and financial assumptions that have a material impact on carrying amounts.

SBAB uses the yield on mortgage bonds for discounting pension obligations, since a functioning market for mortgage bonds exists in Sweden. The assumptions upon which the measurement is based, as well as a sensitivity analysis, are presented in Note L 6.

### Recognition of deferred tax assets

The recognition of deferred tax assets pertaining to deductible temporary differences or loss carry-forwards is based on management's assessment of the future likelihood of the company generating taxable profits corresponding to the basis for deferred tax assets.

### Impairment testing of goodwill

The value of recognised goodwill is tested at least once a year with regard to a potential need for impairment. This testing requires an assessment of the value in use of the cash-generating unit to which the goodwill value is attributable. Furthermore, an assumption regarding expected future cash flows is required along with the establishment of a relevant discount rate for calculating the present cash flow value. The assessments conducted as of 31 December 2018 are described in Note A 7.

## G:2 | Related party disclosures

SBAB Bank AB (publ) is a Swedish public limited company that is wholly owned by the Swedish state.

### Group companies

AB Sveriges S  kerst  llda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC) and Booli Search Technologies AB are to be regarded as subsidiaries and recognised in accordance with the acquisition method, which entails the elimination of internal transactions at Group level. Transactions with related parties have taken place at market terms.

	SCBC			
	2018		2017	
SEK million	Assets/ Liabilities	Interest income/ Interest expense	Assets/ Liabilities	Interest income/ Interest expense
Lending to credit institutions	90,414	976	92,593	429
Derivatives	595	115	574	106
Other assets	138	–	89	–
<b>Total</b>	<b>91,147</b>	<b>1,091</b>	<b>93,256</b>	<b>535</b>
Derivatives	6,625	–1,476	3,697	–901
Other liabilities	–	–	–	–
<b>Total</b>	<b>6,625</b>	<b>–1,476</b>	<b>3,697</b>	<b>–901</b>

Of the Parent Company's other commission income, SEK 23 million (14) pertained to the possibility for SCBC to utilise a liquidity facility at the Parent Company, refer to Note IC 2. The Parent Company also conducted administrative services on behalf of Group companies for SEK 895 million (757), refer to Note IC 4. During the year, Booli invoiced SBAB for marketing expenses of SEK 0.4 million (0.8) and SBAB invoiced Booli SEK 0.4 million (0.5) for time invested by corporate management.



## LOANS TO KEY PERSONNEL

SEK million	GROUP			
	2018		2017	
	Lending	Interest income	Lending	Interest income
CEO	–	–	–	–
Board of Directors	6	0	7	0
Other key senior executives	8	0	6	0
<b>Total</b>	<b>14</b>	<b>0</b>	<b>13</b>	<b>0</b>

The CEO and the Board of Directors refer to the Parent Company. Wherever relevant, the managing directors and boards of other Group companies are included under "Other key senior executives."

Lending to Board Members of SBAB Bank AB (publ) or to employees holding key positions in the company may not occur on terms that are not available to other per-

sonnel. The ceiling for total capital debt on preferential terms is SEK 2,000,000 per household on the condition that the loan is within 85% of the property's LTV. On preferential loans of up to SEK 2,000,000, a 2 percentage point discount is given against SBAB's current list rate. The preferential loan is taxable. The interest rate received after the discount must not be less than 0.25%.

## DEPOSITS FROM KEY PERSONNEL

SEK million	GROUP			
	2018		2017	
	Deposits	Interest expense	Deposits	Interest expense
CEO and other key senior executives	5	0	4	0
Board of Directors	1	0	1	0
<b>Total</b>	<b>6</b>	<b>0</b>	<b>5</b>	<b>0</b>

The CEO and the Board of Directors refer to the Parent Company. Wherever relevant, the managing directors and boards of other Group companies are included under "Other key senior executives." Deposits from key personnel are made on the same terms and conditions as other deposits in the company.

## G:3 | Proposed appropriation of profits

SBAB posted a net profit for the year after tax of SEK 123,212,325. According to SBAB's balance sheet, SEK 6,446,542,179 is at the disposal of the Annual General Meeting.

Fair value reserve	221,659,220
Additional Tier 1 instruments	1,500,000,000
Retained earnings	4,601,670,634
Net profit for the year	123,212,325
<b>Total</b>	<b>6,446,542,179</b>

The Board proposes that the earnings be appropriated as follows:

A dividend payment of SEK 35,245 per share, in total	690,202,835
Carried forward to next year	5,756,339,344
<b>Total</b>	<b>6,446,542,179</b>

The proposed dividend, which amounts to 8% of the company's equity, has been proposed with consideration for the rules on buffer capital, risk limitation and transparency under the Banking and Financing Business Act. The applicable regulations on capital adequacy and major exposures mean that the company's own funds at any given time are to correspond to not less than the total capital requirement for credit risk, market risk and operational risk, and the calculated capital requirement for additional identified risks in the operations, in accordance with the company's internal capital adequacy assessment. After the proposed appropriation of profits, own funds amounted to SEK 12,845 million (13,574) and the final minimum capital

requirement amounted to SEK 2,912 million (2,542). The items are specified in Note RC 9. In the Board's assessment, the proposed dividend is justified considering the requirements that the nature, scope and risks of the operations impose on the scale of equity in the Parent Company and the Group, as well as on the needs of the Parent Company and the Group in terms of consolidation, liquidity and position. Furthermore, the Board the company's and the Group's economic position provide no cause for concern, and the company and the Group can be expected to fulfil their obligations in the short and long term.

## G:4 | Effect of changes in accounting policies

### IMPACTS OF INITIAL APPLICATION OF IFRS 9 AS OF JANUARY 1, 2018 IN THE BALANCE SHEET

SEK million	GROUP			PARENT COMPANY		
	Previous accounting policies	Impairment, expected credit losses	IFRS 9	Previous accounting policies	Impairment, expected credit losses	IFRS 9
<b>ASSETS</b>						
Cash and balances at central banks	0	–	0	0	–	0
Chargeable treasury bills, etc.	22,952	–	22,952	22,952	–	22,952
Lending to credit institutions	1,867	–	1,867	94,302	–	94,302
Lending to the public	335,111	57	335,168	22,912	2	22,914
Value changes of interest-rate-risk hedged items in macro hedges	191	–	191	49,764	0	49,764
Bonds and other interest-bearing securities	49,764	0	49,764	6,240	–	6,240
Derivatives	5,830	–	5,830	10,386	–	10,386
Intangible assets	179	–	179	26	–	26
Property, plant and equipment	12	–	12	12	–	12
Other assets	65	0	65	45	0	45
Prepaid expenses and accrued income	816	–4	812	771	0	771
<b>TOTAL ASSETS</b>	<b>416,787</b>	<b>53</b>	<b>416,840</b>	<b>207,410</b>	<b>2</b>	<b>207,412</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Liabilities</b>						
Liabilities to credit institutions	5,674	–	5,674	4,720	–	4,720
Deposits from the public	111,895	–	111,895	111,895	–	111,895
Debt securities issued, etc.	274,517	–	274,517	70,363	–	70,363
Derivatives	1,643	–	1,643	5,340	–	5,340
Other liabilities	429	–	429	376	–	376
Accrued expenses and deferred income	1,697	–	1,697	349	–	349
Deferred tax liabilities	83	10	93	56	–1	55
Provisions	97	7	104	–	7	7
Subordinated debt	4,942	–	4,942	4,942	–	4,942
<b>Total liabilities</b>	<b>400,977</b>	<b>17</b>	<b>400,994</b>	<b>198,041</b>	<b>6</b>	<b>198,047</b>
<b>Untaxed reserves</b>						
<b>Equity</b>						
Share capital	1,958	–	1,958	1,958	–	1,958
Reserves	188	1	189	392	–	392
Fair value reserve	–	–	–	157	1	158
Additional Tier 1 instruments	1,500	–	1,500	1,500	–	1,500
Retained earnings	10,455	35	10,490	5,271	–5	5,266
Net profit for the year	1,709	–	1,709	91	–	91
<b>Total equity</b>	<b>15,810</b>	<b>36</b>	<b>15,846</b>	<b>9,369</b>	<b>–4</b>	<b>9,365</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>416,787</b>	<b>53</b>	<b>416,840</b>	<b>207,410</b>	<b>2</b>	<b>207,412</b>

## TRANSITIONAL IMPACT ON CREDIT PROVISIONS FROM CHANGING ACCOUNTING POLICY TO IFRS 9

SEK million	GROUP							
	31 December 2017, IAS 39				1 January 2018, IFRS 9			
	Individual provisions	Collective provisions	Total	Effect of changes in accounting policies	Credit stage 1	Credit stage 2	Credit stage 3	Total
Lending to the public	-45	-164	-209	57	-27	-67	-58	-152

SEK million	PARENT COMPANY							
	31 December 2017, IAS 39				1 January 2018, IFRS 9			
	Individual provisions	Collective provisions	Total	Effect of changes in accounting policies	Credit stage 1	Credit stage 2	Credit stage 3	Total
Lending to the public	-45	-24	-69	2	-3	-9	-55	-67

The decrease in ECL provisions in connection to the transition to IFRS 9 is based on an adjustment that takes into consideration expected future credit losses. With the transition to IFRS 9, all parameter estimates have been adjusted more in line with expected values, which better match the prevailing economic conditions. With his-

torically low default rates and extremely few confirmed loan losses, an expected value model under IFRS 9 makes a relatively small provision for ECLs given the scope of the lending.

## CHANGES IN THE CLASSIFICATION OF FINANCIAL ASSETS AT 31 DECEMBER 2017 ON THE TRANSITION TO IFRS 9 ON 1 JANUARY 2018.

SEK million	GROUP					
	2018					
	Financial assets measured at FVTPL			Financial assets measured at FVTOCI	Financial assets measured at amortised cost	Total
	Fair value option	Derivatives in hedge accounting	Other (Obligatory) classification			
<b>Closing balance 31 December 2017</b>	-	-	-	-	-	<b>416,540</b>
<b>Reclassification</b>						
Reclassified from financial assets at FVTPL	12,931	5,551	279	-	-	18,761
Reclassified from available-for-sale financial assets	-	-	-	42,142	-	42,142
Reclassified from loan receivables	-	-	-	-	337,381	337,381
Reclassified from investments held to maturity	-	-	-	-	18,256	18,256
<b>Impairment, expected credit losses</b>						
Value change recognised directly in equity	-	-	-	-	53	53
<b>Opening balance 1 January 2018</b>	<b>12,931</b>	<b>5,551</b>	<b>279</b>	<b>42,142</b>	<b>355,690</b>	<b>416,593</b>



PARENT COMPANY						
2018						
SEK million	Financial assets measured at FVTPL			Financial assets measured at FVTOCI	Financial assets measured at amortised cost	Total
	Fair value option	Derivatives in hedge accounting	Other (Obligatory) classification			
<b>Closing balance 31 December 2017</b>	–	–	–	–	–	<b>196,933</b>
<b>Reclassification</b>						
Reclassified from financial assets at FVTPL	12,931	1,831	4,409	–	–	19,171
Reclassified from available-for-sale financial assets	–	–	–	42,142	–	42,142
Reclassified from loan receivables	–	–	–	–	117,364	117,364
Reclassified from investments held to maturity	–	–	–	–	18,256	18,256
<b>Impairment, expected credit losses</b>						
Value change recognised directly in equity	–	–	–	–	2	2
<b>Opening balance 1 January 2018</b>	<b>12,931</b>	<b>1,831</b>	<b>4,409</b>	<b>42,142</b>	<b>135,622</b>	<b>196,933</b>

Certain interest-bearing assets in the liquidity portfolio that were recognised as held for trading under IAS 39 are assessed under IFRS 9 as part of the business model hold to collect, which is measured at amortised cost. In order to handle the inconsis-

tencies that arise in recognition, which arise due to the interest-rate hedging made with derivatives, the fair value option is applied to these assets and are therefore reported at FVTPL.

## G:5 | Events after the balance-sheet date

### Extraordinary General Meeting of Shareholders in SCBC

At SCBC's EGM on 4 February 2019, a resolution was passed to make a retro-active distribution to the Parent Company, SBAB Bank AB, for a total of SEK 3 billion.

### Update of the EMTN programme

In January 2019, SBAB's unsecured funding programme (EMTN) was updated, whereupon the applicable exchange, on which bonds issued under the updated programme are listed, was changed from the London Stock Exchange plc to the Irish Stock Exchange plc.

### Green covered bond

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

## RC Risk management and capital adequacy

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### RC:1 | Credit risk in lending operations

Credit risk in lending operations is defined as the risk that the counterparty is unable to fulfil its payment obligations. Credit risk is measured, in part, based on the borrower's repayment capacity and, in part, through value changes in pledged collateral relative to the receivable. Credit risk also arises in treasury operations (Note RC2).

The first step in managing credit risk in lending operations is through a credit-granting process that analyses the ability of borrowers to meet their interest payments and make capital repayments. New loans are only granted to counterparties who are judged able to pay interest and make capital repayments when interest rates comfortably exceed the rate prevailing when the loan decision is taken. Moreover, the credit risk is restricted by credit limits adopted for various customers or customer groups. SBAB applies a debt ratio ceiling<sup>1)</sup> for new retail loans of 550% with the aim of keeping down customer debt levels. The internal loan regulations are supplemented with a quantitative model for the measurement of credit risk when granting credit. The model assesses the probability of default (PD) and ranks borrowers according to credit risk. Credit is only granted to borrowers representing a low credit risk. In conjunction with the measurement of credit risk when lending to companies and tenant-owners' association, in addition to quantitative assessments, systematic qualitative assessments are conducted through responses to a number of predetermined questions. As a result, the estimated PD will be a balanced mix of the two methods. This enables a more tailored credit risk assessment, since different companies and tenant-owners' associations can differ significantly.

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

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

The models in the IRB framework assess the following parameters:

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

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

In the financial statements, the ECL according to IRB models differs from the ECL provision. The calculation of EL according to Basel Pillar 1 is governed by the Regulation on Prudential Requirements for Credit Institutions and Investment Firms (CRR)<sup>2)</sup>. Under this regulation, credit risk is to be based on historic data, over a longer time horizon and include economic downturn periods. As of 2018, the treatment of the ECL in the financial reporting is regulated by IFRS 9. Under IFRS 9, the ECL must correspond with expected values, and unlike EL based on long-term credit losses, it must objectively forecast the negative impact on future cash flows. For information pertaining to the impairment of financial assets, refer to Note G:1.

Total EL for loans calculated according to IRB models amounted to SEK 159 million (205). The loss allowance under IFRS 9 for corresponding loans totalled SEK 112 million (176). For capital adequacy purposes, non-performing loans are separated from non-performing loans and other loans. Any positive difference, where the EL exceeds provisions, reduces CET1 capital while negative differences are added to Tier 2 capital.

#### Collateral in the lending operations

For loans granted by SBAB, adequate collateral must normally be provided. Adequate collateral primarily refers to mortgage deeds for real property or shares in tenant-owners' associations within a maximum of 75–85% of the market value. The 85% level only applies if collateral can be obtained with a primary lien and the borrower is included in a lower risk class. The lower risk classes for retail customers (Retail – R) consist of the levels R1–R4, while the lower risk classes for Corporate customers, (Corporate – C) consist of the levels C0–C3, and manually adjusted from C3 to C4<sup>3)</sup>. In other cases, a loan-to-value (LTV) ratio of 75% generally applies.

In addition to collateral in the form of mortgage deeds for real property or tenant-owners' rights, it is possible to grant loans against, inter alia, collateral in the form of a government guarantee, municipal guarantee, securities, bank guarantees and deposits in a Swedish bank. A very limited part of total lending is made without any collateral being obtained.

On the corporate side, building credits are normally secured through notes of lien and guarantor commitments. SBAB also normally requires a set percentage of sales to end customers before any disbursement is made. Disbursements continue in line with the progress of production.

SBAB does not hold any collateral that has been taken over to protect a receivable. Lending to the public accounts for 81% (79) of SBAB's overall assets.

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

- <sup>1)</sup> Gross income before tax in relation to loan.
- <sup>2)</sup> The CRR refers to Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.
- <sup>3)</sup> "Retail loans" refers to all lending to the public pertaining to houses, holiday homes and tenant-owners' rights, as well as unsecured loans to consumers and loans to tenant-owners' associations with a turnover of less than EUR 50 million. "Loans to corporates" refers to i) loans to other legal entities, and ii) other lending to consumers.

#### LOAN AMOUNTS BROKEN DOWN BY LTV INTERVAL

	GROUP			2017	
	2018				
SEK million	Residential mortgages	Corporate Clients & Tenant-Owners' Associations	Loans without formal collateral	Total	Total
<b>Lending to the public</b>					
LTV <50%	74,643	42,253	–	116,896	130,142
LTV 50–69%	97,442	29,118	–	126,560	131,447
LTV >69%	104,754	13,930	–	118,684	73,522
Unsecured	–	–	2,206	2,206	
<b>Total</b>	<b>276,839</b>	<b>85,301</b>	<b>2,206</b>	<b>364,346</b>	<b>335,111</b>
Off-balance-sheet items <sup>1)</sup>	33,159	4,376	–	37,535	43,758

<sup>1)</sup> Off-balance-sheet items include loan commitments and building credits.

**LENDING TO THE PUBLIC BROKEN DOWN BY RISK CLASS**

As per 31 December 2018, SBAB's lending to the public amounted to SEK 364 billion (335). Every customer is allocated to a risk class. Borrowers in default are allocated to the corporate and tenant-owners' association risk class (C8) or the retail risk class

(R8). The risk class C0 consists of loans to counterparties with a 0% risk weight (Swedish municipalities). Transaction costs of SEK 25 million (55), which were attributable to loans brokered by business partners, are distributed in the table on a pro rata basis.

TOTAL	GROUP								2017	
	2018								Total	
	Credit stage 1		Credit stage 2		Credit stage 3		Total		Total	
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision under IAS 39
SEK million										
R0/C0	2	0	–	–	–	–	2	0	78	–
R1/C1	160,402	–2	2,183	0	–	–	162,585	–2	135,484	–
R2/C2	105,698	–3	404	0	–	–	106,102	–3	98,676	–
R3/C3	48,416	–4	1,637	–1	–	–	50,053	–5	52,386	–
R4/C4	22,243	–9	7,089	–6	–	–	29,332	–15	30,575	–
R5/C5	4,315	–6	7,865	–18	–	–	12,180	–24	13,687	–61
R6/C6	292	–2	2,101	–13	–	–	2,393	–15	2,530	–27
R7/C7	22	0	1,410	–35	0	0	1,432	–35	1,457	–60
R8/C8	–	–	–	–	267	–32	267	–32	447	–61
<b>Total</b>	<b>341,390</b>	<b>–26</b>	<b>22,689</b>	<b>–73</b>	<b>267</b>	<b>–32</b>	<b>364,346</b>	<b>–131</b>	<b>335,320</b>	<b>–209</b>
Guarantees <sup>1)</sup>	–	5	–	8	–	1	–	14	–	19
<b>Total</b>	<b>341,390</b>	<b>–21</b>	<b>22,689</b>	<b>–65</b>	<b>267</b>	<b>–31</b>	<b>364,346</b>	<b>–117</b>	<b>335,320</b>	<b>–190</b>

RESIDENTIAL MORTGAGES	GROUP								2017	
	2018								Total	
	Credit stage 1		Credit stage 2		Credit stage 3		Total		Total	
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
SEK million										
R1	103,334	–1	–	–	–	–	103,334	–1	111,980	–
R2	84,242	–2	93	0	–	–	84,335	–2	86,014	–
R3	43,852	–3	1,017	0	–	–	44,869	–3	49,349	–
R4	21,711	–9	6,742	–5	–	–	28,453	–14	30,161	–
R5	4,183	–5	7,731	–17	–	–	11,914	–22	13,246	–58
R6	258	–1	2,052	–12	–	–	2,310	–13	2,462	–25
R7	22	0	1,365	–31	1	0	1,388	–31	1,410	–55
R8	–	–	–	–	236	–19	236	–19	389	–38
<b>Total</b>	<b>257,602</b>	<b>–21</b>	<b>19,000</b>	<b>–65</b>	<b>237</b>	<b>–19</b>	<b>276,839</b>	<b>–105</b>	<b>295,011</b>	<b>–176</b>
Guarantees <sup>1)</sup>	–	2	–	8	–	1	–	11	–	19
<b>Total</b>	<b>257,602</b>	<b>–19</b>	<b>19,000</b>	<b>–57</b>	<b>237</b>	<b>–18</b>	<b>276,839</b>	<b>–94</b>	<b>295,011</b>	<b>–157</b>



CORPORATE CLIENTS & TENANT-OWNERS' ASSOCIATIONS	GROUP									
	2018									
	2017									
	Credit stage 1		Credit stage 2		Credit stage 3		Total		Total	
SEK million	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
C0	2	0	–	–	–	–	2	0	78	–
C1	56,779	–1	2,183	–1	–	–	58,962	–2	23,308	–
C2	20,962	–1	311	0	–	–	21,273	–1	12,266	–
C3	3,778	0	614	0	–	–	4,392	–1	2,295	–
C4	258	0	297	0	–	–	555	0	53	–
C5	43	–1	23	0	–	–	66	–1	228	–
C6	20	–1	1	0	–	–	21	–1	1	0
C7	–	–	11	0	–	–	11	0	11	–1
C8	–	–	–	–	19	–9	19	–9	47	–18
<b>Total</b>	<b>81,842</b>	<b>–4</b>	<b>3,440</b>	<b>–1</b>	<b>19</b>	<b>–9</b>	<b>85,301</b>	<b>–14</b>	<b>38,287</b>	<b>–19</b>
Guarantees <sup>1)</sup>	–	2	–	0	–	–	–	2	–	–
<b>Total</b>	<b>81,842</b>	<b>–2</b>	<b>3,440</b>	<b>–1</b>	<b>19</b>	<b>–9</b>	<b>85,301</b>	<b>–12</b>	<b>38,287</b>	<b>–19</b>

CONSUMER LOANS	GROUP									
	2018									
	2017									
	Credit stage 1		Credit stage 2		Credit stage 3		Total		Total	
SEK million	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
R1	289	0	–	–	–	–	289	0	196	–
R2	494	0	1	0	–	–	495	0	396	–
R3	786	0	5	0	–	–	791	0	742	–
R4	274	0	50	0	–	–	324	0	361	–
R5	89	–1	111	–1	–	–	200	–2	212	–3
R6	14	0	48	–1	–	–	62	–1	67	–2
R7	0	0	34	–4	–	–	34	–4	36	–5
R8	–	–	–	–	11	–5	11	–5	11	–4
<b>Total</b>	<b>1,946</b>	<b>–1</b>	<b>249</b>	<b>–6</b>	<b>11</b>	<b>–5</b>	<b>2,206</b>	<b>–12</b>	<b>2,021</b>	<b>–14</b>
Guarantees <sup>1)</sup>	–	–	–	–	–	–	–	–	–	–
<b>Total</b>	<b>1,946</b>	<b>–1</b>	<b>249</b>	<b>–6</b>	<b>11</b>	<b>–5</b>	<b>2,206</b>	<b>–12</b>	<b>2,021</b>	<b>–14</b>

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

#### LENDING TO THE PUBLIC BY SEGMENT – LOANS WITH UNPAID AMOUNTS MORE THAN FIVE DAYS PAST DUE

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

At year-end 2018, 99.9% (99.9%) of lending had no past-due unpaid amounts and was not assessed as doubtful.

SEK million	GROUP							
	2018				2017			
	Corporate Clients & Tenant- Owners'				Corporate Clients & Tenant- Owners'			
	Residential mortgages	Associations	Consumer loans	Total	Residential mortgages	Associations	Consumer loans	Total
Past due 5–30 days <sup>1)</sup>	15	23	0	38	20	5	0	25
Past-due 31–60 days	59	–	2	61	259	3	7	269
Past-due 61–90 days	19	–	1	20	45	–	2	47
Past-due 91–180 days	23	–	2	25	45	26	3	74
Past due >180 days	53	–	5	58	64	–	3	67
<b>Total</b>	<b>169</b>	<b>23</b>	<b>10</b>	<b>202</b>	<b>433</b>	<b>34</b>	<b>15</b>	<b>482</b>

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

## LENDING TO THE PUBLIC

The following table presents changes in the lending and the provisions during the reporting period. In the comparative figures for 2017, provisions have been calculated in accordance with IAS 39. For more information, please refer to Note A 3. A brief description of the reporting items:

- Moved to credit stage – Movements between credit stages show the balance at the beginning of the period for those loans that have migrated throughout the period.
- Remeasurement of provision – Net changes of provisions for each credit stage. This includes net changes due to the movements between credit stages.

- New lending, net – New loans in the reporting period. A new loan that becomes credit impaired during the reporting period will consequently be presented under credit stage 3.
- Repayment and redemption – Terminated loans due to payoff at maturity or pre-payments in the reporting period.
- Write-offs due to confirmed credit losses – Write offs during the reporting period.
- Other – A residual item.

TOTAL	GROUP								2017	
	2018								Total	
	Credit stage 1		Credit stage 2		Credit stage 3		Total			
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision under IAS39
SEK million										
Opening balance	313,407	-27	21,466	-67	447	-58	335,320	-151	296,257	-235
Moved to credit stage 1	14,196	-59	-14,012	30	-184	29			-	-
Moved to credit stage 2	-11,010	2	11,083	-5	-73	3			-	-
Moved to credit stage 3	-42	0	-130	2	172	-2			-	-
Change in provision under IAS 39	-	-	-	-	-	-	-	-	-	26
Remeasurement of provision	-217	61	280	-24	-9	-9	54	28	-	-
New lending, net	58,560	-9	7,114	-16	7	-1	65,681	-26	82,282	-
Purchases	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-
Repayment and redemption	-33,476	6	-3,108	7	-84	2	-36,668	14	-43,209	-
Write-offs due to confirmed credit losses	0	0	-1	0	-9	4	-10	4	-10	-
Change in risk parameters during the period	-	-	-	-	-	-	-	-	-	-
Change in model/method	-	-	-	-	-	-	-	-	-	-
Other	-28	-	-3	-	0	0	-31	-	-	-
Closing balance	341,390	-26	22,689	-73	267	-32	364,346	-131	335,320	-209

RESIDENTIAL MORTGAGES	GROUP								2017	
	2018								Total	
	Credit stage 1		Credit stage 2		Credit stage 3		Total			
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
SEK million										
Opening balance	228,085	-20	19,906	-61	278	-22	248,270	-103		
Moved to credit stage 1	12,764	-34	-12,719	27	-45	7				
Moved to credit stage 2	-8,669	2	8,741	-4	-72	2				
Moved to credit stage 3	-38	0	-122	2	160	-2				
Remeasurement of provision	-3,273	36	-213	-22	-6	-8	-3,492	6		
New lending, net	48,720	-8	6,307	-14	6	0	55,033	-22		
Purchases	-	-	-	-	-	-	-	-		
Sales	-	-	-	-	-	-	-	-		
Repayment and redemption	-19,959	3	-2,897	7	-81	3	-22,938	13		
Write-offs due to confirmed credit losses	-	-	-	-	-3	1	-3	1		
Change in risk parameters during the period	-	-	-	-	-	-	-	-		
Change in model/method	-	-	-	-	-	-	-	-		
Other	-28	-	-3	-	-	-	-31	-		
Closing balance	257,602	-21	19,000	-65	237	-19	276,839	-105		

## GROUP

2018

## CORPORATE CLIENTS &amp; TENANT-OWNERS' ASSOCIATIONS

SEK million	Credit stage 1		Credit stage 2		Credit stage 3		Total	
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
Opening balance	83,558	-5	1,314	0	158	-31	85,030	-36
Moved to credit stage 1	1,292	-21	-1,154	0	-138	21		
Moved to credit stage 2	-2,228	0	2,228	0	-	-		
Moved to credit stage 3	-	-	-	-	-	-		
Remeasurement of provision	3,348	21	531	-1	-1	1	3,878	21
New lending, net <sup>1)</sup>	9,060	0	695	0	-	-	9,755	0
Purchases	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-
Repayment and redemption	-13,188	1	-174	0	-	-	-13,362	1
Write-offs due to confirmed credit losses	-	-	-	-	-	-	-	-
Change in risk parameters during the period	-	-	-	-	-	-	-	-
Change in model/method	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Closing balance	81,842	-4	3,440	-1	19	-9	85,301	-14

## GROUP

2018

## CONSUMER LOANS

SEK million	Credit stage 1		Credit stage 2		Credit stage 3		Total	
	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision	Gross lending	Provision
Opening balance	1,764	-2	246	-6	11	-5	2,021	-13
Moved to credit stage 1	140	-3	-139	2	-1	1		
Moved to credit stage 2	-113	0	114	-1	-1	1		
Moved to credit stage 3	-3	0	-8	1	11	-1		
Remeasurement of provision	-293	4	-38	-1	-1	-2	-332	1
New lending, net <sup>1)</sup>	780	-1	111	-1	1	-1	892	-3
Purchases	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-
Repayment and redemption	-329	1	-36	0	-2	-1	-367	0
Write-offs due to confirmed credit losses	0	0	-1	0	-7	3	-8	3
Change in risk parameters during the period	-	-	-	-	-	-	-	-
Change in model/method	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Closing balance	1,946	-1	249	-6	11	-5	2,206	-12

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



LOAN COMMITMENTS AND PROVISIONS	GROUP							
	2018							
	Credit stage 1		Credit stage 2		Credit stage 3		Total	
SEK million	Loan com- mitments	Provision	Loan com- mitments	Provision	Loan com- mitments	Provision	Loan com- mitments	Provision
Opening balance	42,677	4	1,080	3	0	0	43,758	7
Transfer to level 1	66	0	-66	0	-	-		
Transfer to level 2	-	-	-	-	-	-		
Transfer to level 3	-	-	-	-	-	-		
Remeasurement of provision	-2,078	1					-2,078	0
New lending, net	36,378	5	53	0	-	-	36,431	5
Write-offs, redemption, etc.	-39,561	-3	-1,014	-3	0	0	-40,576	-5
Change in risk parameters during the period	-	-	-	-	-	-	-	-
Change in model/method	-	-	-	-	-	-	-	-
Closing balance	37,482	7	53	0	0	0	37,535	7

#### Modified assets, loans with renegotiated terms and conditions

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

#### MODIFIED ASSETS, LOANS WITH RENEGOTIATED TERMS AND CONDITIONS (THAT HAVE NOT LED TO DERECOGNITION)

SEK million	GROUP			
	2018			
	Residential mortgages	Corporate Clients & Tenant-Owners' Associations	Consumer loans	Total
Amortised cost prior to modification	732	-	0	732
Modification gain/loss, net	0	-	0	0
Amortised cost after modification	732	-	0	732
Carrying amount prior to closing provision for assets transferred from credit stage 2 or 3 to credit stage 1.	331	-	0	331

## RC:2 | Credit risk in treasury operations

Credit risk in treasury operations arises when the counterparty is unable to fulfil its payment obligations. Credit risk arises, in part, in the form of counterparty risk for the derivative and repo contracts entered into by SBAB to manage financial risks and, in part, as a result of investments in the liquidity portfolio and of surplus liquidity.

The SBAB Group's counterparties are banks and credit institutions, and the underlying exposure in the table includes investments, derivatives and repos. The limits are set by the Board's Credit Committee within the confines of the framework adopted by the Board of Directors. The utilised limit is calculated as the market value of financial

derivatives, repos and investments. For derivatives and repos, the effect of collateral pledged or received under CSAs or GMRA's is included in the total limit. Moreover, for derivatives, an add-on amount is also calculated for future risk-related changes. The limit is coordinated with the credit limit for counterparties who also are loan customers. Counterparty limits may be established for a period of not longer than one year, after which a new assessment must be conducted. The decisions of the Credit Committee are reported to the Board at the following Board meeting. All of SBAB's counterparties have a rating from either Moody's or Standard & Poor's.

### LIMIT UTILISATION PER RATING CATEGORY

SEK million	GROUP				PARENT COMPANY			
	2018		2017		2018		2017	
	Limit	Utilised limit	Limit	Utilised limit	Limit	Utilised limit	Limit	Utilised limit
AAA	–	–	–	–	–	–	–	–
AA- to AA+	11,600	3,920	11,400	3,226	11,600	3,777	11,400	3,099
A- to A+	12,050	4,411	14,500	3,916	12,050	4,361	14,500	3,865
Lower than A-	3,900	213	4,800	330	3,900	213	4,800	311
Unrated	–	–	–	–	–	–	–	–
<b>Total</b>	<b>27,550</b>	<b>8,544</b>	<b>30,700</b>	<b>7 472</b>	<b>27,500</b>	<b>8,351</b>	<b>30,700</b>	<b>7,275</b>

The "Limit utilisation" table shows the limits and the utilised limits, respectively, for SBAB's derivative counterparties. The limits for each derivative counterparty are proposed by SBAB's Treasury and adopted by the Board's Credit Committee within

the confines of the framework adopted by the Board of Directors. The values in the table are an aggregate of individual derivative counterparty's total exposure and the limits for the respective rating category.

### DISTRIBUTION OF CHARGEABLE TREASURY BILLS, ETC., BONDS AND OTHER INTEREST-BEARING SECURITIES BY RATING CATEGORY

The table below shows an analysis of lending to credit institutions, chargeable treasury bills, bonds and other interest-bearing securities distributed in accordance with

the lowest rating as of 31 December 2018, based on Standard & Poor's rating or equivalent.

SEK million	GROUP					2017
	2018					
	Covered bonds	Government guaranteed securities	Sovereigns, supranationals and agencies	Non-governmental public sector entities	Total	
AAA	35,278	23,873	2,431	9,782	71,364	69,856
AA- to AA+	382	1,147	–	1,471	3,000	2,860
A- to A+	–	–	–	–	–	–
Lower than A-	–	–	–	–	–	–
Total	35,660	25,020	2,431	11,253	74,364	72,716
Provisions for expected credit losses	0	0	0	0	-1	–
Total after provisions	35,660	25,020	2,431	11,253	74,363	72,716

## GEOGRAPHICAL DISTRIBUTION OF CHARGEABLE TREASURY BILLS, BONDS AND OTHER INTEREST-BEARING SECURITIES

SEK million	GROUP			
	2018			
	Sweden	Other EU	Other	Total
Covered bonds	24,757	8,193	2,710	35,660
Government guaranteed securities	21,946	2,968	106	25,020
Sovereigns, supranationals and agencies	–	2,431	–	2,431
Non-governmental public sector entities	9,762	1,491	0	11,253
<b>Total as per 31 December 2018</b>	<b>56,465</b>	<b>15,083</b>	<b>2,816</b>	<b>74,364</b>
<b>Total as per 31 December 2017</b>	<b>59,085</b>	<b>3,423</b>	<b>10,208</b>	<b>72,716</b>

## Counterparty risk

Counterparty risk is the risk that SBAB's financial counterparties cannot meet their commitments pursuant to the completed derivatives and repo contracts, and such risk consists primarily of exposures to well-reputed and established banks. This exposure is predominantly covered by collateral agreements, where the counterparty posts collateral to reduce net exposure. In accordance with SBAB's credit instruction, the credit risk limits are established by SBAB's Credit Committee for all counterparties in treasury operations.

To limit the potential counterparty risk associated with derivative transactions involving non-standardised derivatives that are not cleared by qualified central counterparties approved by the competent authority (in accordance with Regulation (EU) No 648/2012), a framework agreement is to be entered into with the counterparty. In most cases, the framework agreement, an ISDA Master Agreement or similar agreements with terms for final settlement, have been supplemented with an associated collateral agreement, known as a Credit Support Annex (CSA). A CSA must always be established for counterparties entering into derivative contracts with SBAB and SCBC. The framework agreements entitle the parties to offset receivables against debt in the event of a payment default.

Counterparty risk is monitored on a daily basis for all counterparties. When entered into, CSAs are reconciled on a daily or weekly basis. Derivative transactions entered into with external counterparties are mostly entered into by the Parent Company, where the CSAs are reconciled with all counterparties on a daily basis. When CSAs are in place, collateral is pledged to reduce net exposures. Wherever applicable, the posted and received collateral takes the form of cash with a transfer of title, which entitles the party that receives the collateral to use the collateral in its operations. The effects of posted and received collateral are shown in greater detail in Note [Fi 3](#).

SBAB participates in the calculation of the STIBOR (Stockholm Interbank Offered Rate) reference rate for the Swedish market. STIBOR is a reference rate that shows an average of the interest rates at which a number of the banks active in the Swedish money market are prepared to lend to each other without collateral under different maturities.

In 2016, it became mandatory under the European Markets Infrastructure Regulation (EMIR) for SBAB to clear interest-rate derivatives via central counterparties, known as clearing houses. The aim is for clearing houses to act as counterparties for buyers and sellers, and to participate in ensuring payment obligations are discharged.

## MAXIMUM CREDIT RISK EXPOSURE IN TREASURY

SEK million	GROUP			
	Without taking into account collateral received or other credit enhancements		Taking into account collateral received or other credit enhancements	
	2018	2017	2018	2017
Lending to credit institutions	2,847	1,867	2,847	1,867
Chargeable treasury bills, etc.	20,904	22,952	20,904	22,952
Bonds and other interest-bearing securities	50,945	49,764	50,945	49,764
Derivatives	8,313	5,830	1,707	1,084
<b>Total</b>	<b>83,009</b>	<b>80,413</b>	<b>76,403</b>	<b>75,667</b>

## COLLATERAL POSTED AND RECEIVED UNDER COLLATERAL AGREEMENTS, BY COMPANY

SEK million	GROUP			
	2018		2017	
	Collateral pledged	Collateral received	Collateral pledged	Collateral received
SBAB	268	6,607	621	4,720
SCBC	0	0	0	25



## LENDING TO CREDIT INSTITUTIONS, CHARGEABLE TREASURY BILLS, BONDS AND OTHER INTEREST-BEARING SECURITIES

SEK million	GROUP					
	2018					
	Financial assets measured at amortised cost		Financial assets measured at FVTOCI	Assets measured at FVTPL	Total	
	Credit stage 1		Credit stage 1			
	Securities, gross	Provision	Securities, gross	Securities, gross	Securities, gross	Provision
<b>Opening balance</b>	<b>20,091</b>	<b>0</b>	<b>41,681</b>	<b>12,811</b>	<b>74,583</b>	<b>0</b>
Change in cash balances	-34	-	0	-	-34	-
Purchases	822,686	-1	30,940	-	853,626	-1
Sales	-1,146	0	-2,540	-	-3,686	0
Maturity	-815,707	0	-28,565	-5,004	-849,276	0
Write-offs, redemption, etc.	-	-	-	-	-	-
Change in risk parameters during the period	-	-	-	-	-	-
Change in model/method	-	-	-	-	-	-
Currency revaluation	20	-	298	-424	-106	-
Other <sup>1)</sup>	111	0	-376	-145	-41	0
<b>Closing balance</b>	<b>26,021</b>	<b>-1</b>	<b>41,438</b>	<b>7,238</b>	<b>74,697</b>	<b>-1</b>

<sup>1)</sup> Unrealized changes in fair value in addition to the exchange rate revaluation.

## RC:3 | Liquidity risk

Liquidity risk is defined as the risk that the company will not be able to meet its payment obligations on the date of maturity without the related cost increasing significantly. The SBAB Group has long identified the importance of well-functioning and proactive liquidity risk management. SBAB's liquidity risk management is described below.

### Broad and diversified funding

Because the SBAB Group has maintained an active presence in the international capital market since 1989, its brand is well established. The SBAB Group has access to the covered bond market, both in Sweden and internationally, through SCBC. In addition to issuing bonds, SBAB is funded by retail deposits.

### Liquidity reserve

SBAB has a liquidity portfolio in place to ensure liquidity in times when normal market funding does not function adequately or in the case of outflows of deposits. The portfolio acts as a buffer, as the securities in the portfolio can be sold to free up liquidity, either through repos or through the sales of parts of the portfolio. The liquidity portfolio

also comprises a business advantage in normal market conditions in the form of bridge financing for maturing debt and with ensuring intraday liquidity.

The portfolio holdings are long-term and mainly comprise liquid, interest-bearing securities with high ratings, where 100% of the portfolio's holdings can be used as collateral for repos with the Riksbank or the European Central Bank (ECB). The size of SBAB's holdings of individual securities as a percentage of the total volume outstanding is also limited with the aim of reducing concentration risk.

The liquidity reserve is defined as the reserve value of the securities in the liquidity portfolio and other liquid short-term investments. When calculating the reserve value of the securities included in the liquidity reserve, the SBAB Group applies the haircuts issued in accordance with the Riksbank's Guidelines for Collateral Management in the regulatory framework for RIX and monetary policy instruments.

Excluding pledged collateral, SBAB's liquidity reserve amounted to SEK 70.7 billion at 31 December 2018 (the reserve value at the Riksbank or the ECB). The market value amounted to SEK 73.6 billion with an average maturity of 2.07 years (2.17). Moreover, unutilised issuance capacity for covered bonds comprises an additional reserve that is not included in the calculation of the above liquidity metrics.

## LIQUIDITY RESERVE

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

## Continuous monitoring of liquidity risk

Proactive and continuous liquidity planning in the relevant currencies, active debt management and the scope, content and management of the liquidity reserve are key factors in SBAB's liquidity risk management. By viewing funding activities as a natural part of both operational work and the strategic planning of liquidity risk, concentrations of excessively large funding maturities are avoided. Another important part of the ongoing liquidity risk management is the continuous monitoring and testing of the practical liquidity value of the liquidity reserve in the secondary market.

## Liquidity risk measurements – short-term liquidity risk

At SBAB, the risk of being exposed to insufficient liquidity in the short term is known as short-term liquidity risk. SBAB regularly monitors a number of metrics for short-term liquidity risk. One of these is the liquidity coverage ratio as defined in the European Commission delegated regulation (EU) 2015/61. The liquidity coverage ratio is a metric of the degree to which the liquidity reserve covers a 30-day net cash outflow in a stressed scenario. Under the regulations, the metric must amount to not less than 100% for all currencies on a consolidated basis. At 31 December 2018, the metric was 283% (249) at the consolidated level, and 6,795% (16,288) and 319% (140), respectively, in EUR and USD. In 2018, the LCR never fell below 194% (220) at the consolidated level.

In addition to regulatory-controlled liquidity risk measurements, SBAB has a number of internal metrics. These include the measurement and stress testing of the liquidity risk by totalling the maximum conceivable need for liquidity for each coming day. This liquidity risk metric is referred to as the survival horizon. The calculations are based on a crisis scenario in which all loans are assumed to be extended on maturity, meaning that no liquidity is added through loan redemption, and where no funding is available. Retail deposits are treated with a conservative assumption, whereby withdrawals from the portfolio are distributed over time on the basis of historical changes. Accordingly, the maximum need for liquidity can be identified for every given future period, and the necessary liquidity reserve can be established. The survival horizon corresponds to the number of days for which the liquidity reserve covers the maximum outflow and it has been limited to a minimum of 180 days at the consolidated currency level at any given time.

At 31 December 2018, the survival horizon was 400 days (330) at the consolidated level, and 272 days (252) for SEK, 615 days (977) for EUR and 138 days (500) for USD respectively. In 2018, the survival horizon was never less than 272 days (312) at the consolidated level.

In addition to the above metrics, limits are applied to short-term liquidity risk through further internal metrics, for which limits apply.

## Liquidity risk measurements – structural liquidity risk

Structural liquidity risk is a measure of the differences in maturity structures between assets and liabilities in terms of loan-to-maturity, which risks leading to a lack of liquidity in the longer term. SBAB aims to have a diversified funding.

The SBAB Group has adopted a conservative approach to the management of funding. A larger share of future maturities is being pre-financed and the share of total funding attributable to short-term funding is being maintained at a low level. SBAB works actively to ensure an even distribution of maturities, while at the same time extending the maturity of the liabilities. Monitoring of upcoming maturities, repurchases, replacements and pre-financing constitute key elements of the practical management aimed at reducing the risk.

SBAB limits its dependence on market funding by applying a limit on the ratio between retail deposits and lending to the public. At 31 December 2018, the ratio was 34% (33) compared with a limit of 28%.

Moreover, access to funding from covered bonds is secured by monitoring that the overcollateralisation in the cover pool at each point in time, including in stressed circumstances, exceeds Moody's requirements for Aaa ratings.

SBAB also measures its structural liquidity risk through a metric for maturity matching that measures the relationship between the maturities of assets and liabilities from a liquidity perspective at various points in the future. This can be viewed as SBAB's internal version of the net stable funding ratio (NSFR), in which the maturity, in terms of liquidity, on deposits and lending is estimated by means of SBAB's own statistical models, which are based on historical data of the behaviour of SBAB's customers. The metric is subject to a one-year floor limit of not less than 90% at a consolidated level, 60% for USD and currencies for which the liability exceeds 5% of total liabilities. At 31 December 2018, maturity matching was 143% (128) at the consolidated level, 143% (124) in SEK, 139% (131) in EUR and 89% (106) in USD.

The NSFR according to SBAB's interpretation of the Basel Committee NSFR standard was 122% (117).

The tables "Maturities of hedged cash flows in cash-flow hedges" and "Maturities of financial assets and liabilities" show the status of SBAB's future cash flows at 31 December 2018 and 31 December 2017, respectively, from both a short-term and long-term perspective.

## MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

(amounts refer to contractual, undiscounted cash flows)

The maturity of the amortisation for amortised receivables and liabilities has been calculated as the period up to the date of maturity of the respective amortisation. Foreign currency cash flows have been converted using the closing rate at 31 December 2018. Future interest-rate cash flows with floating interest rates are estimated until the next fixing date using forward interest rates based on the actual interest base, usually the three-month STIBOR. The Parent Company, SBAB, is the creditor for the subsidiary SCBC's subordinated debt. If the maturity is not specified, current debt is rec-

ognised as having no maturity and without estimated interest-rate cash flows.

The item "Loan commitments and other credit-related commitments" for the Group, which totals SEK 37,535 million (43,758), amounted to SEK 13,042 million (14,615) after application of the internal model for calculating the CCF. The reduction has not been included in the table. The corresponding figures for the Parent Company amounted to SEK 63,285 million (83,451) and SEK 13,042 million (14,615) respectively.

SEK million	GROUP													
	2018							2017						
	No maturity	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total	No maturity	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total
<b>Financial assets</b>														
Cash and balances held at central banks	0	-	-	-	-	-	0	500	-	-	-	-	-	500
Chargeable treasury bills, etc.	-	13,968	2,078	685	4,036	417	21,184	-	11,821	606	229	10,129	409	23,194
Lending to credit institutions	82	2,770	-	-	-	-	2,851	-	1,956	-	-	-	-	1,956
Lending to the public	-	68,322	72,472	146,248	80,373	4,485	371,900	-	43,751	65,937	123,535	105,528	4,739	343,490
Bonds and other interest-bearing securities	-	1,315	3,995	3,379	40,898	2,266	51,853	-	928	2,784	4,688	36,912	5,413	50,725
<i>of which classified as loans and accounts receivable</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives	-	7,012	3,854	1,918	161,193	136,986	310,963	-	10,423	27,042	5,046	128,972	62,714	234,197
Other assets	68	-	-	-	-	-	68	60	-	-	-	-	-	60
<b>Total</b>	<b>149</b>	<b>93,387</b>	<b>82,399</b>	<b>152,230</b>	<b>286,500</b>	<b>144,154</b>	<b>758,819</b>	<b>560</b>	<b>68,879</b>	<b>96,369</b>	<b>133,498</b>	<b>281,541</b>	<b>73,275</b>	<b>654,122</b>
<b>Financial liabilities</b>														
Liabilities to credit institutions	-	6,607	-	-	-	-	6,607	-	5,877	-	-	-	-	5,877
Deposits from the public	123,310	309	273	860	173	1	124,926	110,024	248	1,087	252	284	-	111,895
Issued debt securities, etc.	-	4,504	6,566	37,483	260,757	90,959	400,269	-	15,363	18,420	38,032	242,176	54,961	368,952
Derivatives	-	6,836	3,388	1,768	157,349	137,111	306,452	-	10,404	26,309	4,354	127,002	63,233	231,302
Other liabilities	384	-	-	-	-	-	384	430	-	-	-	-	-	430
Subordinated debt	-	69	41	73	6,666	-	6,849	-	65	38	67	6,868	-	7,038
Loan commitments and other credit-related commitments	-	22,637	10,514	42	4,342	-	37,535	-	28,323	9,924	418	5,093	-	43,758
<b>Total</b>	<b>123,694</b>	<b>40,962</b>	<b>20,782</b>	<b>40,226</b>	<b>429,287</b>	<b>228,071</b>	<b>883,021</b>	<b>110,454</b>	<b>60,280</b>	<b>55,778</b>	<b>43,123</b>	<b>381,423</b>	<b>118,194</b>	<b>769,252</b>

## MATURITIES OF HEDGED CASH FLOWS IN CASH-FLOW HEDGES

SEK million	GROUP						
	No maturity	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total
Interest-rate-hedged	-	177	224	176	1,881	1,440	3,898
Currency-hedged	-	-	-1,535	-	-59,801	-40,496	-101,832
<b>Net 31 Dec 2018</b>	<b>-</b>	<b>177</b>	<b>-1,311</b>	<b>176</b>	<b>-57,920</b>	<b>-39,056</b>	<b>-97,934</b>
<b>Net 31 Dec 2017</b>	<b>-</b>	<b>137</b>	<b>-2,871</b>	<b>-496</b>	<b>-45,031</b>	<b>-17,804</b>	<b>-66,065</b>



**MATURITIES OF FINANCIAL ASSETS AND LIABILITIES**

(amounts refer to contractual, undiscounted cash flows)

SEK million	2018							2017						
	PARENT COMPANY													
	No maturity	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total	No maturity	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total
<b>Financial assets</b>														
Cash and balances held at central banks	0	–	–	–	–	–	0	500	–	–	–	–	–	500
Chargeable treasury bills, etc.	–	13,968	2,078	685	4,036	417	21,184	–	11,821	606	229	10,129	409	23,194
Lending to credit institutions	90,496	2,770	–	–	–	–	93,265	92,593	1,806	–	–	–	–	94,399
Lending to the public	–	2,513	3,008	4,216	15,616	1,122	26,475	–	3,738	2,564	3,845	13,167	969	24,283
Bonds and other interest-bearing securities	–	1,315	3,995	3,379	40,898	2,266	51,853	–	928	2,784	4,688	36,912	5,413	50,725
<i>of which classified as loans and accounts receivable</i>	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Derivatives	–	6,580	3,259	1,366	111,973	91,398	214,576	–	9,988	25,772	3,685	89,804	41,826	171,075
Other assets	47	–	–	–	–	–	47	45	–	–	–	–	–	45
<b>Total</b>	<b>90,543</b>	<b>27,146</b>	<b>12,340</b>	<b>9,646</b>	<b>172,523</b>	<b>95,203</b>	<b>407,400</b>	<b>93,138</b>	<b>28,281</b>	<b>31,726</b>	<b>12,447</b>	<b>150,012</b>	<b>48,617</b>	<b>364,221</b>
<b>Financial liabilities</b>														
Liabilities to credit institutions	–	6,607	–	–	–	–	6,607	–	4,923	–	–	–	–	4,923
Deposits from the public	123,310	309	273	860	173	1	124,926	110,024	248	1,087	252	284	–	111,895
Issued debt securities, etc.	–	3,560	4,538	5,913	43,009	–	57,020	–	8,831	15,480	6,786	40,316	–	71,413
Derivatives	–	6,698	3,238	1,391	111,318	91,398	214,043	–	10,244	25,327	3,514	89,450	41,814	170,349
Other liabilities	305	–	–	–	–	–	305	376	–	–	–	–	–	376
Subordinated debt	–	41	69	73	6,666	–	6,849	–	38	65	67	6,868	–	7,038
Loan commitments and other credit-related commitments	–	22,637	10,514	42	4,342	–	37,535	–	28,323	9,924	418	5,093	–	43,758
<b>Total</b>	<b>123,615</b>	<b>39,852</b>	<b>18,632</b>	<b>8,280</b>	<b>165,508</b>	<b>91,399</b>	<b>447,285</b>	<b>110,400</b>	<b>52,607</b>	<b>51,882</b>	<b>11,037</b>	<b>142,011</b>	<b>41,814</b>	<b>409,751</b>

**MATURITIES OF HEDGED CASH FLOWS IN CASH-FLOW HEDGES**

SEK million	PARENT COMPANY						
	No maturity	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total
Interest-rate-hedged	–	2	66	14	248	–	330
Currency-hedged	–	–	–1,535	–	–16,587	–	–18,122
<b>Net 31 Dec 2018</b>	<b>–</b>	<b>2</b>	<b>–1,469</b>	<b>14</b>	<b>–16,339</b>	<b>–</b>	<b>–17,792</b>
<b>Net 31 Dec 2017</b>	<b>–</b>	<b>2</b>	<b>–2,923</b>	<b>–280</b>	<b>–11,873</b>	<b>–</b>	<b>–15,074</b>

**Stress tests**

SBAB performs regular stress tests of liquidity risk aimed at internal requirements for analytical and contingency management of liquidity risk. The stress tests have been designed in line with the Swedish FSA's regulations on liquidity management, which impose general requirements on stress tests (FFFS 2010:7). The models analyse SBAB's capacity to meet the need for cash and cash equivalents in various market scenarios and to assess the effect of protracted stress on SBAB's ability to finance its operations. The scenarios are designed on the basis of SBAB's specific risk profile and cover both company-specific and market-related scenarios that may render the financing of the operations difficult. The scenarios are divided into different stages that illustrate increasing levels of stress intensity to reflect how a crisis can continuously deteriorate. The scenarios simulated by the stress tests include:

- The 2008/2009 financial crisis – stress in the funding operations, with funding programmes closing at various stages
- Rating-related stress, with gradually lower ratings for SBAB and SCBC
- Falling property market prices – various levels of falling prices, which increase LTV ratios, thus lowering the share of funding that can be conducted via covered bonds

- Stress of liquidity in the liquidity reserve
- Sizeable fluctuations in interest and currency exchange rates, leading to larger amounts having to be secured through CSAs, which could thus impair liquidity.

The stress tests are under continuous development and the assumptions on which the various scenarios are based are assessed regularly. The stress tests are conducted and reported quarterly, with results assessed against SBAB's established risk appetite and used to adapt strategies and guidelines.

**Developments in liquidity risk regulation**

The area of liquidity risk is subject to constant regulatory development. The following regulatory changes are on the agenda for the immediate future:

### New version of the Capital Requirements Regulation (CRR)

In November 2016, the European Commission published a proposal for an amended Capital Requirements Regulation (CRR II), which is intended to replace the current directive that entered force in 2014. The largest amendment to liquidity risk is the introduction of a mandatory requirement in terms of a net stable funding ratio (NSFR). Since 2014, SBAB has regularly calculated NSFR based on the Basel Committee's standard, despite the lack of any statutory quantitative requirement. According to the proposal in the CRR II, the mandatory NSFR requirement within the EU will commence two years after adoption of the regulation, which had yet to take place at the end of 2018.

### Other regulatory changes

#### Pillar 2 liquidity risk requirements

In April 2018, the Swedish FSA published a memorandum requiring the introduction, within the Pillar 2 framework, of a liquidity requirement for supervision category 1 and 2 banks (which include SBAB). The requirement means that the bank must maintain liquidity coverage ratio in EUR and USD of not less than 100%, assuming that liabilities in these currencies correspond to not less than 5% of total liabilities (significant currencies). The reason being the EU regulation, which sets minimum LCR requirements at consolidated currency level rather than for individual significant currencies. However, the Swedish FSA is of the opinion that the assessments on which the previous national LCR requirements for EUR and USD were based remain valid, which it deems motivates the new requirement. The procedure for establishing the requirement follows the process capital requirements in Pillar 2 and applies from 2018. For SBAB, the

requirement only applies for EUR at present, since USD is not a significant currency. However, the introduction has no practical significance since the bank's LCR in EUR is already at a level with a very healthy margin to the new requirement.

#### Harmonised rules for covered bonds

In March 2018, the European Commission published a proposal for a new directive on covered bonds. The aim is to introduce harmonised rules for covered bonds within the EU. The proposal is being circulated for comment and discussions are ongoing both within the EU and at the national level, including with the Association of Swedish Covered Bond issuers (ASCB) where SBAB is represented. Uncertainty still prevails regarding the final outcome in terms of the design of the regulatory framework. The Commission's proposal includes a few items related to liquidity risk, the most tangible being the requirement for issuers to hold a separate liquidity reserve to cover net liquidity outflows from covered bond programmes for a period of 180 days. No such liquidity reserve requirement exists under the currently applicable framework.

#### Changed LCR regulatory framework

In October 2018, Commission Delegated Regulation (EU) 2018/1620 was published, amending Delegated Regulation (EU) 2015/61 with regard to the liquidity coverage ratio. The changes impact the calculation of inflows and outflows linked to repos and collateral swaps. In addition, deposits reporting will become more granular, while other reporting items will disappear and some other clarifications will be introduced. The change has limited impact on SBAB's LCR but will entail some development and work with adjusting models and reporting routines.

## RC:4 | Market risk

Market risk is the risk of loss or reduced future income due to market fluctuations. SBAB is characterised by low risk taking, with the Board determining the overall risk appetite and setting the limit for the risk metric Value at Risk (VaR). In addition to VaR, a number of supplementary risk-based metrics set by the CEO of SBAB are also subject to limitation. Through daily reports, Risk Control checks compliance with current risk levels and limits. Market risk is followed up on the Group level as well as broken down to lower levels.

The general principle governing SBAB's exposure to market risk is that the level of risk taking should be low. As a general principle, interest-rate risk is to be mitigated through direct funding or the use of derivatives. SBAB's interest-rate structure as of 31 December 2018 is shown in the table "Fixed-interest periods for financial assets and liabilities." Currency risks are mitigated as funding in international currency is hedged through currency swaps or invested in matching currencies. As per 31 December 2018, total assets and liabilities in foreign currency amounted to a net liability of SEK 106.4 billion (liability: 85.5) in nominal terms. The risk outstanding was reduced using derivatives where the nominal amount was equivalent to SEK 107.7 billion (87.1). The total effect per currency is reported in the table "Nominal amounts for assets, liabilities and derivatives in foreign currency."

### Value at Risk

VaR is a comprehensive portfolio metric expressing the potential loss that could occur given a certain level of probability and holding period. SBAB's model is a historical model and applies percentiles in historical market data from the past two years. Since the VaR model is based on historical data to estimate potential market changes, the model could underestimate the risk in a rapidly changing market. Due to this, and that the VaR measure is based on several assumptions, the model is validated daily using back testing analysis.

Limits for the day-to-day follow up of VaR are set at two levels: SBAB's total market risk, and all market risks that Treasury is responsible for managing. The limit for SBAB's total market risk is based on the VaR metric included in the model for economic capital and applies a probability level of 99.97% and a holding period of one year, while the other metric applies a probability level of 99% and a holding period of one day.

As per 31 December 2018, SBAB's total market risk exposure was SEK 774 million (1,029), compared with the limit of SEK 1,950 million. Exposure to market risks managed by Treasury was SEK 27 million (38) and the limit was SEK 70 million.

### Supplementary risk metrics

In addition to the overall VaR limits determined by the Board, the CEO has set a number of supplementary risk metrics for different kinds of risks to which SBAB is exposed. For interest-rate risk, there are limits for parallel shifts, where the effect on the present value of a one percentage point shift in the yield curve is measured, and curve risk where the effect on the present value is measured in different scenarios, in which the short end of the yield curve is adjusted down (up) and the long end is adjusted up (down). Currency risk is controlled by measuring the effect on present value when currency exchange rates change compared to SEK, and in the liquidity portfolio by controlling the matching of the principal in each currency. There are also limits for basis risk, credit-spread risk and income volatility from basis spreads.

Income volatility from basis spreads arises because the derivatives used to hedge funding is recognised at fair value while the underlying funding is reported as book value, in accordance with the accounting standards applied by SBAB. This causes effects to arise in operating profit that do not correspond to the actual risk to which SBAB's portfolio is exposed. Income volatility has declined year-on-year. SBAB has applied hedge accounting through cash-flow hedges since 2014, which means that income volatility is only calculated for swap contracts already in place that are not subject to cash-flow hedges. Income volatility is expected to continue to decline in pace with the expiration of the swap contracts included in the hedge accounting.

In addition to the above-mentioned supplementary risk metrics, sensitivity analysis is performed with stressed interest rates, currency rates and credit spreads together with its effect on the company's Tier 1 capital requirement.

### Interest-rate risk in other operations

Interest-rate risk in other operations is measured and reported to the Swedish FSA in accordance with FFFS 2007:4. As per 31 December 2018, the effect on the present value was negative SEK 992.6 million (negative: 885.4) for a 2 percentage-point parallel upward shift and a positive SEK 1,017.6 million (909.3) for a 2 percentage-point parallel downward shift. As SBAB's own funds amounted to SEK 20.7 billion (19.9) at 31 December 2018, the effect of the stress tests amounted to negative 4.8% (negative: 4.5) and 4.9% (4.6) of own funds, respectively. The net interest income effect is measured to capture the impact of changes in interest rates on profit or loss. The metric reflects the differences in volume and fixed-interest periods between assets, liabilities and derivatives in other operations. The net interest income effect is based on an instantaneous parallel shift of one percentage point up and down over a 12-month time horizon with no changes to the balance sheet. At the end of the year, the net interest income effect was negative SEK 67 million (negative: 53).

### NOMINAL AMOUNTS FOR ASSETS, LIABILITIES AND DERIVATIVES IN FOREIGN CURRENCY

SEK million	GROUP		PARENT COMPANY	
	Assets and liabilities	Derivatives	Assets and liabilities	Derivatives
AUD	0	0	0	0
CHF	0	0	0	0
DKK	0	0	0	0
EUR	-105,430	105,419	-23,394	23,384
GBP	-2,643	2,644	-355	356
JPY	0	0	0	0
NOK	-514	514	0	0
USD	2,147	-863	2,147	-863
<b>Total</b>	<b>-106,440</b>	<b>107,714</b>	<b>-21,602</b>	<b>22,877</b>

## FIXED-INTEREST PERIODS FOR FINANCIAL ASSETS AND LIABILITIES

SEK million	GROUP													
	2018							2017						
	Without interest period	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total	Without interest period	< 3 months	3–6 months	6–12 months	1–5 years	> 5 years	Total
<b>ASSETS</b>														
Cash and balances held at central banks	–	0	–	–	–	–	0	–	0	–	–	–	–	0
Chargeable treasury bills, etc.	–	13,808	2,054	652	3,936	454	20,904	–	11,573	573	199	10,167	440	22,952
Lending to credit institutions	–	2,847	–	–	–	–	2,847	–	1,867	–	–	–	–	1,867
Lending to the public	–	265,864	12,751	29,704	53,133	2,763	364,215	–	222,922	10,849	17,566	80,546	3,228	335,111
Change in fair value of interest-rate-hedged loan receivables	–	0	–1	–2	85	17	99	–	0	4	13	156	18	191
Bonds and other interest-bearing securities	–	6,895	3,195	2,079	36,608	2,168	50,945	–	7,381	2,222	2,753	32,132	5,276	49,764
Derivatives	–	–1,512	6	76	2,894	6,849	8,313	–	–86	105	1,487	2,513	1,811	5,830
Other assets	781	–	–	–	–	–	781	881	–	–	–	–	–	881
<b>Total</b>	<b>781</b>	<b>287,902</b>	<b>18,005</b>	<b>32,509</b>	<b>96,656</b>	<b>12,251</b>	<b>448,104</b>	<b>881</b>	<b>243,657</b>	<b>13,753</b>	<b>22,018</b>	<b>125,514</b>	<b>10,773</b>	<b>416,596</b>
<b>LIABILITIES</b>														
Liabilities to credit institutions	–	6,607	–	–	–	–	6,607	–	5,674	–	–	–	–	5,674
Deposits from the public	123,310	308	273	861	174	–	124,926	–	110,272	1,087	252	284	–	111,895
Issued debt securities, etc.	–	29,788	8,086	19,610	164,643	68,668	290,795	–	56,128	15,583	17,547	145,867	39,392	274,517
Derivatives	–	–212	30	236	722	563	1,339	–	1,454	–296	280	741	–536	1,643
Other liabilities	2,174	–	–	–	–	–	2,174	2,126	–	–	–	–	–	2,126
Subordinated debt	–	3,947	–	–	999	–	4,946	–	3,943	–	–	999	–	4,942
<b>Total</b>	<b>125,484</b>	<b>40,438</b>	<b>8,389</b>	<b>20,707</b>	<b>166,538</b>	<b>69,231</b>	<b>430,787</b>	<b>2,126</b>	<b>177,471</b>	<b>16,374</b>	<b>18,079</b>	<b>147,891</b>	<b>38,856</b>	<b>400,797</b>
Difference assets and liabilities	–124,703	247,464	9,616	11,802	–69,882	–56,980	17,317	–1,245	66,186	–2,621	3,939	–22,377	–28,083	15,799

SEK million	PARENT COMPANY													
	2018							2017						
	Without interest period	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total	Without interest period	< 3 months	3-6 months	6-12 months	1-5 years	> 5 years	Total
<b>ASSETS</b>														
Cash and balances held at central banks	-	0	-	-	-	-	0	-	0	-	-	-	-	0
Chargeable treasury bills, etc.	-	13,808	2,054	652	3,936	454	20,904	-	11,573	573	199	10,167	440	22,952
Lending to credit institutions	-	93,262	-	-	-	-	93,262	-	94,302	-	-	-	-	94,302
Lending to the public	-	20,453	615	759	2,795	223	24,845	-	19,281	435	290	2,797	109	22,912
Change in fair value of interest-rate-hedged loan receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Bonds and other interest-bearing securities	-	6,895	3,195	2,079	36,608	2,168	50,945	-	7,381	2,222	2,753	32,132	5,276	49,764
Derivatives	-	-411	6	95	2,497	6,575	8,762	-	2,471	-414	1,451	2,085	647	6,240
Other assets	788	-	-	-	-	-	788	816	-	-	-	-	-	816
<b>Total</b>	<b>788</b>	<b>134,007</b>	<b>5,870</b>	<b>3,585</b>	<b>45,836</b>	<b>9,420</b>	<b>199,506</b>	<b>816</b>	<b>135,008</b>	<b>2,816</b>	<b>4,693</b>	<b>47,181</b>	<b>6,472</b>	<b>196,986</b>
<b>LIABILITIES</b>														
Liabilities to credit institutions	-	6,607	-	-	-	-	6,607	-	4,720	-	-	-	-	4,720
Deposits from the public	123,310	308	273	861	174	-	124,926	-	110,272	1,087	252	284	-	111,895
Issued debt securities, etc.	-	19,640	2,884	800	32,697	-	56,021	-	33,502	9,265	3,433	24,163	-	70,363
Derivatives	-	-1426	38	328	2,315	6,709	7,964	-	531	-263	441	2,344	2,287	5,340
Other liabilities	607	-	-	-	-	-	607	725	-	-	-	-	-	725
Subordinated debt	-	3,947	-	-	999	-	4,946	-	3,943	-	-	999	-	4,942
<b>Total</b>	<b>123,917</b>	<b>29,076</b>	<b>3,195</b>	<b>1,989</b>	<b>36,185</b>	<b>6,709</b>	<b>201,071</b>	<b>725</b>	<b>152,968</b>	<b>10,089</b>	<b>4,126</b>	<b>27,790</b>	<b>2,287</b>	<b>197,985</b>
Difference assets and liabilities	-123,129	104,931	2,675	1,596	9,651	2,711	-1,565	91	-17,960	-7,273	567	19,391	4,185	-999



## RC:5 | Operational risk

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

### Risk management

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

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

As part of strengthening SBAB's risk culture, in 2016 the bank implemented risk and compliance coordinators (RCC) in the first line. The RCCs support the business managers with a focus on risk management, process mapping, internal controls, incident management and regulatory compliance.

### Self-evaluation

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

### Incident management

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

### Management of material changes

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

### Continuity management

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

### Significant operational risks

SBAB has identified a number of risks that, were they to occur, are assessed as potentially having a larger impact on SBAB's operations than other risks. The development of these risk is monitored on an ongoing basis by the Executive Management and the Board, and is taken into consideration within the framework of SBAB's business planning. The significant operational risks are detailed below.

### Cyber risk

The cyber threat to the Swedish financial sector is extensive and persistent. Breaches that can crash important systems together with any accompanying black-mail attempts or leaks of sensitive data can lead to SBAB's undertakings as a bank not being possible to fulfil.

SBAB has a dedicated security team comprised of specialists tasked with attaining and maintaining a high level of cyber security for the bank. This is achieved through proactive efforts to ensure strong, digital perimeter protection and a high level of security within this protective shield. The team endeavours to increase risk and security awareness throughout SBAB with the aim of achieving the right level of security for our customers, systems and personnel.

### Technical liability

Market advances in technology have been rapid in recent years, which has led to parts of SBAB's infrastructure becoming obsolete and outdated. An extensive project to replace the system platform began in 2017 and has continued at full intensity and with high priority during 2018. This will continue in 2019. SBAB has identified risks indicating that despite the above, the change is not proceeding fast enough, that there are too many development-related disturbances in daily operations and that the lifecycle management of other system support is lagging behind.

Clearly defined objectives and priorities are in place for SBAB's IT strategy to ensure that the identified risks are managed effectively. The Executive Management and the Board closely monitor the development and outcome related to time plans and expenses. The shorter target and lead times entailed by the agile working method as well as shorter intervals between production increase flexibility and enable a more efficient working practices.

### Competence

SBAB aims to be an attractive workplace with dedicated and motivated employees who, on their own initiative, generate ideas, collaborate and identify solutions. Like many other companies, SBAB faces the risk of not succeeding in attracting and retaining the right skills.

SBAB uses a clearly defined and transparent HR strategy together with ambitious goals in this area to actively develop the value-driven work approach and to ensure inclusive leadership that can generate driven employees.

### Regulatory risk

Regulatory risk is increasingly becoming a significant risk. New external regulations impacting SBAB will be implemented and training will be conducted to secure a high level of competence and thus high regulatory compliance in all parts of SBAB. In spring 2018, the main focus was on the implementation of the General Data Protection Regulation (GDPR), which entailed changes in procedures, processes and system support, as well as the implementation of the Privacy Office to lead and coordinate activities related to personal data management and various training activities in different parts of the SBAB.

Operations continue to focus highly on compliance with anti-money laundering and terrorist financing regulations. SBAB has an Anti Financial Crime unit which, inter alia, monitors regulatory developments in the area and supports operations in this regard.

### Capital requirements for operational risks

SBAB uses the standardised approach to calculate capital requirements for operational risk within the Pillar 1 framework. The capital requirements for operational risk are presented in the Capital requirements table (Note RC 9).

## RC:6 | Business risk

SBAB differentiates its business risk between strategic risk and the risk of weaker earnings. Strategic risk is defined as the risk of a loss arising due to unfavourable business decisions, erroneous implementation of strategic decisions or a lack of sensitivity to changes in the industry, the political environment or legal circumstances. The risk of weaker earnings encompasses the risk of, for example, reduced margins, which in turn may arise due to more expensive financing or more intense competition.

New business is usually relatively similar to the business SBAB already has. Changes in the form of new products or new markets may only constitute a small part of SBAB's activities and must be implemented at such a pace that SBAB does

not substantially jeopardise its earnings level and with great probability avoids pressure on its own funds.

Risks related to strategy and earnings are evaluated on an ongoing basis over the year within the first line's strategy work. Strategically important decisions are managed within the framework for managing material changes. Furthermore, the Board receives an annual evaluation of the material risks that clearly addresses strategic business risk and the bank's overall earnings. Business risk is included in the calculation of the Pillar 2 capital requirement as part of SBAB's stress tests, and where the effects of a scenario corresponding to a normal economic downturn are evaluated.

## RC:7 | Concentration risk

Concentration risk arises when exposures are concentrated to certain counterparties, regions or types of businesses/industries. Through a direction decision as part of the business planning, SBAB's Board has established the concentration of risk based on the actual conditions for SBAB. The Board's risk appetite sets the framework for concentration risk, which is calculated based on the size of the exposures, industry and geographical concentration. SBAB is primarily considered to be exposed to credit risk related concentration risk in its lending operations. At 31 December 2018, lending with collateral in single-family dwellings and tenant-owners' rights amounted to 62% of total assets. SBAB's lending operations are concentrated to Sweden and primarily to major metropolitan areas. SBAB's business model has proven attractive to customers in the major cities. Moreover, SBAB has increased its market shares and this is driving increased concentration toward those areas with the largest housing stock and highest housing turnover rates. Given the

conditions in Sweden, this entails a concentration of lending to the Stockholm area. SBAB measures and actively follows the geographical concentration risk in terms of volume and profile. At 31 December 2018, lending for housing in the Stockholm area amounted to 51% of total assets. SBAB's main counterparties (name concentrations) are largely driven by SBAB's largest customer groups, which are also managed through the regulations governing large exposures. At 31 December 2018, the ten largest customer groups accounted for 4.5% of total assets. The capital requirement for concentration risk is quantified with the economic capital for credit risk. Upon calculation at 31 December 2018, the internally calculated capital requirement for concentration risk was SEK 968 million (898), of which SEK 898 million (842) pertained to credit risk in lending operations and SEK 70 million (57) to credit risk in funding operations.

For concentration risk in liquidity, please refer to Note RC 3.

## RC:8 | Internally assessed capital requirement

Within the framework of Pillar 2, the Basel regulations impose the requirement that banks' management and assessment of risks must be satisfactory to ensure that the banks can fulfil their obligations. To meet this requirement, the banks must have methods that enable them to continuously evaluate and uphold capital in an amount, type and distribution sufficient to cover the risks to which they are or will become exposed. This is known as the company's internal capital adequacy assessment process, which is part of SBAB's internal capital and liquidity adequacy assessment process (ICLAAP). At present, liquidity risk does not give rise to any actual capital requirement for SBAB. Refer to Note RC 3 for more information about liquidity risk.

The ICAAP aims to identify, evaluate and manage the risks to which SBAB is exposed and ensure that the consolidated situation has sufficient own funds for its selected risk profile. The ICAAP is revised annually to identify changes in the operating environment and changed regulations and supervisory practices that continuously affect the bank's performance. The amount of own funds required to manage the combined risk in the operations is based primarily on the calculation of SBAB's economic capital. However, if the economic capital for risks included in Pillar 1 is less than the capital requirements under Pillar 1 for a given type of risk, the capital requirements under Pillar 1 are applied.

Finally, consideration is given to the risk associated with deteriorating macro-economic conditions, which is illustrated in conjunction with stress tests.

Within the Pillar 2 framework, SBAB has previously taken into consideration the risk-weight floor for Swedish residential mortgages, which are now moved to Pillar 1 due to the activation of Article 458 of the Regulation on Prudential Requirements for Credit Institutions and Investment Firms (CRR). The internal capital requirements are reported below together with comparative figures and, accordingly, under Pillar 1 as well as Pillar 2. Moreover, the internally assessed capital requirement is reported both including and excluding the risk-weight floor. This is to illustrate the differences between actual risk, since the supplement for the capital planning buffer would have an impact through the internally assessed capital requirement where the risk-weight floor is included.

Taken together, the above comprise the capital that, in accordance with Basel 3, is required to meet all risks in the operations. Additional information on the internal capital requirement can be found in the document "Capital Adequacy and Risk Management 2018," which is published on [www.sbab.se](http://www.sbab.se).

For the Parent Company, the internally assessed capital requirement amounted to SEK 5,899 million (5,720).

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

<sup>1)</sup> Pillar 1 risk-weight floor under Article 458 of the CRR

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

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

## RC:9 | Capital adequacy analysis

### Regulatory framework

New common regulations on supervisory requirements for credit institutions have been adopted by the EU. The purpose of the rules is in part to make institutions more resilient to new crises, and in part to raise confidence in the institutions' ability to manage new crises. The regulations include capital requirements, requirements on capital quality, a non-risk-based metric (leverage ratio) and quantitative liquidity requirements.

The Swedish FSA has decided to move the risk-weight floor of 25% for residential mortgages to Swedish households from Pillar 2 to Pillar 1. This applies from 31 December 2018. For more information, please refer to the Capital adequacy table.

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

The introduction of IFRS 9 on 1 January 2018 had limited impact on SBAB's capital adequacy ratios and an application was submitted to disapply the transitional rules.

New rules for the classification of leases, IFRS 16, will be introduced 1 January 2019. These rules entail recognition of the right-of-use in a lease as a material asset. For the consolidated situation, the calculated opening balance for this asset is around SEK 88 million and is given a risk-weight of 100%.

The Swedish National Debt Office has set an individual minimum requirement for own funds and eligible liabilities (MREL) for SBAB as a complement to the capital requirements. The MREL metric measures the relationship between eligible liabilities and total liabilities and own funds. The aim of eligible liabilities is to ensure that the company can be recapitalised in the event of default. The MREL set by the Swedish National Debt Office for SBAB for 2019 amounts to 5.1%. SBAB follows up outcomes on a monthly basis and met the requirement with a healthy margin.

### SBAB's capital

SBAB is well capitalised, and to retain a strong capital position, SBAB's Board of Directors adopted a new capital policy. According to these new targets, under normal conditions, SBAB's CET1 capital ratio should be at least 0.6 percentage points higher than the CET1 capital requirement communicated by the Swedish FSA. In addition, under normal conditions, SBAB's total capital ratio should be at least 0.6 percentage points higher than the capital requirement communicated by the Swedish FSA. The bank is also tasked with meeting any other regulatory capital requirements. By means of a strong capital position and good risk management, SBAB meets the supervisory rules adopted by the EU.

SBAB primarily recognises credit risk in accordance with the internal ratings-based (IRB) approach, and other risk types in accordance with the standardised approach.

The SBAB Group has no securitised loans of its own and has not contributed to any other institution's securitisation.

Note RC 8 contains a summary of the method used to assess the internal capital requirement.

### Own funds

SBAB's own funds comprise equity as well as additional Tier 1 capital and Tier 2 capital consisting of subordinated loans. SBAB's own funds amounted to SEK 20,713 million (19,890) as per 31 December 2018. Over the year, the CET1 capital was affected by the fact that net profit/loss for the period was added and the estimated dividend was deducted. The surplus has been verified by the company's auditors, in accordance with Article 26, item 2, of the CRR.

According to Article 35 of the CRR, the institution shall, except in the case of the items referred to in Article 33, not make adjustments to remove from own funds unrealised gains or losses on assets or liabilities recognised at fair value. According to this Article, SEK 609 million (189) has been added to CET1 capital.

According to Article 33, item 1, of the CRR, part of the fair-value reserves related to gains or losses on cash-flow hedges of financial instruments that are not measured at fair value, including projected cash flows, is not to be included in own funds. The CET1 capital has been adjusted for cash-flow hedges amounting to negative SEK 488 million (9).

Changes in fair value that depend on the institution's own credit standing and that are related to derivatives had a negative impact on the CET1 capital of SEK 65 million (negative: 17), in accordance with Article 33, item 1b.

With reference to Articles 34 and 105 of the CRR, SEK 59 million (62) has been deducted due to the requirements for prudent valuation.

A deduction of SEK 126 million (83) for intangible assets and a deduction of SEK 50 million (29) for net provisions were made in accordance with Article 36. Positive net provisions amounted to SEK 3 million (0) in accordance with Article 62.

### The consolidated situation

The table below lists the companies that are included in the consolidated situation within the SBAB Group. At the end of 2018, SBAB increased its shareholding from 68% to 100%. There are no on-going or unforeseen material obstacles or legal barriers to a rapid transfer of funds from own funds other than what is stipulated in the terms and conditions governing subordinated loans (see Note L 7).

### COMPANIES INCLUDED IN THE CONSOLIDATED SITUATION

Company	Corporate Registration Number	Ownership share	Consolidation method used in the accounts	Consolidation method used for capital adequacy	Company description
SBAB Bank AB (publ)	556253-7513	Parent Company	–	–	Institution
AB Sveriges Säkerställda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC)	556645-9755	100%	Fully consolidated	Acquisition method	Institution

### COMPANIES NOT INCLUDED IN THE CONSOLIDATED SITUATION

Company	Corporate Registration Number	Ownership share	Consolidation method used in the accounts	Consolidation method used for capital adequacy	Company description
Booli Search Technologies AB	556733-0567	100%	Fully consolidated	Not consolidated	IT company

### Subordinated loans

Subordinated debt may be included in the calculation of Tier 1 capital if certain conditions are present according to the transitional regulations of the CRR and if the Swedish FSA has given its consent. SBAB received such consent for four subordinated loans with a nominal value of SEK 3,000 million. These have been included in own funds as Tier 1 capital. Tier 2 capital amounted to SEK 3,447 million. No new subordinated loans have been taken that are recognised as Tier 2 capital.

Subordinated loans are subordinate to the Parent Company's other liabilities, and subordinated loans that are included in Tier 1 capital are subordinate to other subordinated loans. Please refer to the link under "Capital adequacy and risk management" at [www.sbab.se](http://www.sbab.se) for a specification of own funds and the complete terms and conditions for subordinated loans in accordance with Commission Implementing Regulation (EU) No 1423/2013. The complete terms and conditions for each subordinated loan are specified in the same place. For further information on subordinated loans, also refer to Note L 7.



**CAPITAL ADEQUACY <sup>1)</sup>**

SEK million	CONSOLIDATED SITUATION		PARENT COMPANY		SCBC	
	2018	2017	2018	2017	2018	2017
CET1 capital	14,263	13,443	6,398	7,127	15,250	16,710
Tier 1 capital	17,263	16,443	9,398	10,127	15,250	16,710
Total capital	20,713	19,890	12,845	13,574	15,253	16,710
Risk exposure amount	114,141	41,797	36,404	31,776	89,188	21,422
CET1 capital ratio, %	12.5	32.2	17.6	22.4	17.1	78.0
Excess <sup>2)</sup> of CET1 capital	9,127	11,563	4,760	5,697	11,237	15,746
Tier 1 capital ratio, %	15.1	39.3	25.8	31.9	17.1	78.0
Excess <sup>2)</sup> of Tier 1 capital	10,415	13,936	7,214	8,221	9,899	15,424
Total capital ratio, %	18.1	47.6	35.3	42.7	17.1	78.0
Excess <sup>2)</sup> of total capital	11,582	16,547	9,933	11,032	8,118	14,996

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

<sup>2)</sup> Excess capital has been calculated based on minimum requirements (without buffer requirements)

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

In August 2018, the Swedish FSA decided to apply the existing risk-weight floor for mortgages applied in Pillar 2 as a requirement within the framework of Article 458 of the Capital Requirements Regulation. The amendment entered force from 31 December 2018 and applies for two years. Under Article 458 of the CRR, the mea-

sure can be extended for one year at a time. The change means the capital requirement is set as a requirement in Pillar 1. The credit institutions encompassed by the measure are those authorised to use the IRB approach and which have exposures to Swedish residential mortgages. The branches of foreign credit institutions in Sweden that are exposed to Swedish residential mortgages and which apply the IRB approach for these may also be affected.

**OUTCOME PRIOR TO THE MOVE OF THE RISK-WEIGHT FLOOR FOR MORTGAGES <sup>1)</sup>**

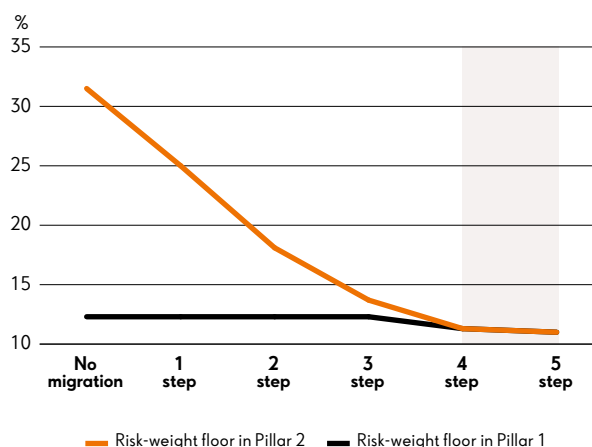
SEK million	CONSOLIDATED SITUATION	PARENT COMPANY	SCBC
	2018	2018	2018
Risk exposure amount, SEK million	43,422	33,360	21,513
CET1 capital ratio, %	32.8	19.2	70.9
Tier 1 capital ratio, %	39.8	28.2	70.9
Total capital ratio, %	47.7	38.5	70.9

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

**Impact on SBAB**

The risk-weight floor's previous inclusion in Pillar 2 means that it has not had any impact on SBAB's capital ratios. This is because it was not included in the calculation of the risk exposure amount, which it will be in the case of a transfer to Pillar 1. Due to the above, SBAB's capital requirement has been lowered from 37.0% to 14.1%, as calculated per the 31 December 2018. In addition to the difference in levels, another factor is that moving forward, SBAB's capital ratios will be highly insensitive to changes in underlying portfolios. The following diagram illustrates the CET1 capital ratio in the case of a downgrade in the PD risk class for the entire mortgage portfolio given a risk-weight floor in Pillar 2 and Pillar 1.

The risk sensitivity of the capital ratio is maintained with the current risk-weight floor in Pillar 2. Accordingly, deterioration of PD risk class contributes naturally to declines in capital ratios. With a risk-weight floor in Pillar 1, an insensitive and essentially static capital ratio is obtained, which requires the entire mortgage portfolio to decline by at least four migration stages to obtain a response from the capital ratio. The effect will be standardized, this means that SBAB's capital ratios will at an early stage be phased in to the effects from the completion of Basel III (also known as "Basel IV"). Therefore, it is very important to emphasize that SBAB's actual risk or requirements in real terms are not affected by the change. Capital ratios are affected by a fall in levels but, after the change, will no longer represent the actual risks in the portfolio and would mostly stay at more static levels.



## OWN FUNDS

SEK million	CONSOLIDATED SITUATION	
	2018	2017
<b>CET1 capital instruments: Instruments and reserves</b>		
Capital instruments and the related share premium accounts	1,958	1,958
Retained earnings	11,443	10,452
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	609	189
Additional Tier 1 instruments	1,500	1,500
Independently verified net profit for the year net of any foreseeable charge or dividend <sup>1)</sup>	1,041	1,026
<b>CET1 capital before regulatory adjustments</b>	<b>16,551</b>	<b>15,125</b>
<b>CET1 capital: Regulatory adjustments</b>		
Additional value adjustments (negative amount)	-59	-62
Intangible assets (net of related tax liability) (negative amount)	-126	-83
Fair value reserves related to gains or losses on cash-flow hedges	-488	9
Negative amounts resulting from the calculation of expected loss amounts	-50	-29
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-65	-17
Additional Tier 1 instruments in equity	-1,500	-1,500
<b>Total regulatory adjustments to CET1 capital</b>	<b>-2,288</b>	<b>-1,682</b>
<b>CET1 capital</b>	<b>14,263</b>	<b>13,443</b>
<b>Additional Tier 1 capital: Instruments</b>		
Capital instruments and the related share premium accounts	3,000	3,000
<i>of which: classified as equity under applicable accounting standards</i>	1,500	1,500
<i>of which, classified as liabilities under applicable accounting standards</i>	1,500	1,500
Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from Additional Tier 1 capital	-	-
<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>3,000</b>	<b>3,000</b>
<b>Additional Tier 1 capital: Regulatory adjustments</b>		
<b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 capital</b>	<b>3,000</b>	<b>3,000</b>
<b>Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)</b>	<b>17,263</b>	<b>16,443</b>
<b>Tier 2 capital: Instruments and provisions</b>		
Capital instruments and the related share premium accounts	3,447	3,447
Credit risk adjustments	3	-
<b>Tier 2 capital before regulatory adjustments</b>	<b>3,450</b>	<b>3,447</b>
<b>Tier 2 capital: Regulatory adjustments</b>		
<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Tier 2 capital</b>	<b>3,450</b>	<b>3,447</b>
<b>Total capital (Total capital=Tier 1 capital + Tier 2 capital)</b>	<b>20,713</b>	<b>19,890</b>
<b>Total risk exposure amount</b>	<b>114,141</b>	<b>41,797</b>

## Cont. Own funds

SEK million	CONSOLIDATED SITUATION	
	2018	2017
<b>Capital ratio and buffers</b>		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	12.5	32.2
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	15.1	39.3
Total capital (as a percentage of total risk-weighted exposure amount), %	18.1	47.6
Institution-specific buffer requirements (CET1 capital requirement in accordance with Article 92(1)(a) plus the capital conservation buffer and countercyclical capital buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffers [G-SII buffer and O-SII buffer] expressed as a percentage of the risk-weighted exposure amount), %	9.0	9.0
<i>of which, CET1 capital, minimum requirement, %</i>	4.5	4.5
<i>of which, capital conservation buffer requirement, %</i>	2.5	2.5
<i>of which, countercyclical buffer requirement, %</i>	2.0	2.0
<i>of which, systemic risk buffer requirement, %</i>	–	–
<i>of which, G-SII buffer and O-SII buffer, %</i>	–	–
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts, %)	8.0	27.7
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)</b>		
Current cap on AT1 instruments subject to phase-out arrangements	–	–
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–	–
Current cap on T2 instruments subject to phase-out arrangements	–	–

<sup>1)</sup> Net profit for the year was reduced by the expected dividend of SEK 690 million. The results have been verified by Deloitte AB pursuant to Article 26, Point 2a of the Capital Requirements Regulation.

## RISK EXPOSURE AMOUNTS AND CAPITAL REQUIREMENTS

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

<sup>1)</sup> The risk exposure amount for counterparty risk according to the CRR, Article 92(3)(f), amounts to SEK 3,776 million (2,592).



## AVERAGE RISK WEIGHT FOR CREDIT RISK RECOGNISED USING THE IRB APPROACH

SEK million	CONSOLIDATED SITUATION									
	2018					2017				
	Exposure before credit-risk hedge	Exposure after CCF	Risk exposure amount	Capital requirement	Average risk weight, %	Exposure before credit-risk hedge	Exposure after CCF	Risk exposure amount	Capital requirement	Average risk weight, %
<b>Credit risk in lending portfolio recognised under the IRB approach</b>										
Exposures to corporates	44,096	42,430	12,128	970	28.6	43,551	42,133	12,258	981	29.1
Retail exposures	354,124	331,258	12,096	968	3.7	331,840	303,942	12,469	997	4.1
<i>of which, single-family dwellings and holiday homes</i>	153,020	143,573	4,978	398	3.5	141,440	130,472	5,183	414	4.0
<i>of which, tenant-owners' rights</i>	154,523	141,829	6,289	503	4.4	143,335	127,288	6,126	490	4.8
<i>of which, tenant-owners' associations</i>	46,580	45,856	829	67	1.8	47,065	46,182	1,160	93	2.5
<b>Total credit risk under the IRB approach</b>	<b>398,220</b>	<b>373,688</b>	<b>24,224</b>	<b>1,938</b>	<b>6.5</b>	<b>375,391</b>	<b>346,075</b>	<b>24,727</b>	<b>1,978</b>	<b>7.1</b>

## OWN FUNDS

SEK million	PARENT COMPANY	
	2018	2017
<b>CET1 capital instruments: Instruments and reserves</b>		
Capital instruments and the related share premium accounts	1,958	1,958
Retained earnings	4,993	5,663
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	222	157
Additional Tier 1 instruments	1,500	1,500
Independently verified net profit for the year net of any foreseeable charge or dividend <sup>1)</sup>	-567	-593
<b>CET1 capital before regulatory adjustments</b>	<b>8,106</b>	<b>8,685</b>
<b>CET1 capital: Regulatory adjustments</b>		
Additional value adjustments (negative amount)	- 76	-66
Intangible assets (net of related tax liability) (negative amount)	- 25	-26
Fair value reserves related to gains or losses on cash-flow hedges	- 31	79
Negative amounts resulting from the calculation of expected loss amounts	- 11	-28
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	- 65	-17
Additional Tier 1 instruments in equity	- 1,500	-1,500
<b>Total regulatory adjustments to CET1 capital</b>	<b>-1,708</b>	<b>-1,558</b>
<b>CET1 capital</b>	<b>6,398</b>	<b>7,127</b>
<b>Additional Tier 1 capital: Instruments</b>		
Capital instruments and the related share premium accounts	3,000	3,000
<i>of which: classified as equity under applicable accounting standards</i>	1,500	1,500
<i>of which, classified as liabilities under applicable accounting standards</i>	1,500	1,500
Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from Additional Tier 1 capital	-	-
<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>3,000</b>	<b>3,000</b>
<b>Additional Tier 1 capital: Regulatory adjustments</b>		
<b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>-</b>	<b>-</b>
<b>Additional Tier 1 capital</b>	<b>3,000</b>	<b>3,000</b>
<b>Tier 1 capital (Tier 1 capital=CET1 + Additional Tier 1 capital)</b>	<b>9,398</b>	<b>10,127</b>
<b>Tier 2 capital: Instruments and provisions</b>		
Capital instruments and the related share premium accounts	3,447	3,447
Credit risk adjustments	-	-
<b>Tier 2 capital before regulatory adjustments</b>	<b>3,447</b>	<b>3,447</b>
<b>Tier 2 capital: Regulatory adjustments</b>		
<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Tier 2 capital</b>	<b>3,447</b>	<b>3,447</b>
<b>Total capital (Total capital=Tier 1 capital + Tier 2 capital)</b>	<b>12,845</b>	<b>13,574</b>
<b>Total risk exposure amount</b>	<b>36,404</b>	<b>31,776</b>

## Cont. Own funds

SEK million	PARENT COMPANY	
	2018	2017
<b>Capital ratio and buffers</b>		
CET1 capital (as a percentage of total risk-weighted exposure amount), %	17.6	22.4
Tier 1 capital (as a percentage of total risk-weighted exposure amount), %	25.8	31.9
Total capital (as a percentage of total risk-weighted exposure amount), %	35.3	42.7
Institution-specific buffer requirements (CET1 capital requirement in accordance with Article 92(1)(a) plus the capital conservation buffer and countercyclical capital buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffers [G-SII buffer and O-SII buffer] expressed as a percentage of the risk-weighted exposure amount), %	9.0	9.0
<i>of which, CET1 capital, minimum requirement, %</i>	4.5	4.5
<i>of which, capital conservation buffer requirement, %</i>	2.5	2.5
<i>of which, countercyclical buffer requirement, %</i>	2.0	2.0
<i>of which, systemic risk buffer requirement, %</i>	–	–
<i>of which, G-SII buffer and O-SII buffer, %</i>	–	–
CET1 capital available to meet buffers (as a share of risk-weighted exposure amounts, %)	13.1	17.9
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)</b>		
Current cap on AT1 instruments subject to phase-out arrangements		–
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		–
Current cap on T2 instruments subject to phase-out arrangements		–

<sup>1)</sup> Net profit for the year was reduced by the expected dividend of SEK 690 million. The results have been verified by Deloitte AB pursuant to Article 26, Point 2a of the Capital Requirements Regulation.

## RISK EXPOSURE AMOUNTS AND CAPITAL REQUIREMENTS

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

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



## AVERAGE RISK WEIGHT FOR CREDIT RISK RECOGNISED USING THE IRB APPROACH

SEK million	PARENT COMPANY									
	2018					2017				
	Expo- sure before credit- risk hedge	Expo- sure after CCF	Risk expo- sure amount	Capital require- ment	Average risk weight, %	Expo- sure before credit- risk hedge	Expo- sure after CCF	Risk expo- sure amount	Capital require- ment	Average risk weight, %
<b>Credit risk in lending portfolio recognised under the IRB approach</b>										
Exposures to corporates	21,332	19,765	7,087	567	35.9	19,988	18,688	6,800	544	36.4
Retail exposures	37,317	15,147	743	59	4.9	42,998	15,949	1,125	90	7.1
<i>of which, single-family dwellings and holiday homes</i>	14,659	5,214	253	20	4.9	16,777	5,810	357	29	6.2
<i>of which, tenant-owners' rights</i>	20,248	7,554	430	34	5.7	24,278	8,230	524	42	6.4
<i>of which, tenant-owners' associations</i>	2,410	2,379	59	5	2.5	1,943	1,909	244	19	12.4
<b>Total credit risk under the IRB approach</b>	<b>58,649</b>	<b>34,912</b>	<b>7,830</b>	<b>626</b>	<b>22.4</b>	<b>62,986</b>	<b>34,637</b>	<b>7,925</b>	<b>634</b>	<b>22.9</b>

## IC Income and expenses

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### IC:1 Net interest income

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Interest income</b>				
Lending to credit institutions	-12	-31	981	411
Lending to the public <sup>1)</sup>	5,192	4,951	496	1,017
Interest-bearing securities	373	398	373	398
Derivatives	-629	-746	-451	-509
<b>Total interest income</b>	<b>4,924</b>	<b>4,572</b>	<b>1,399</b>	<b>1,317</b>
<i>of which, interest income from financial assets that is not measured at FVTPL</i>	<i>5,450</i>	<i>6,010</i>	<i>1,747</i>	<i>2,518</i>
<b>Interest expense</b>				
Liabilities to credit institutions	33	45	20	33
Deposits from the public	-621	-559	-621	-559
Issued debt securities	-2,477	-2,380	-591	-590
Subordinated debt	-102	-122	-102	-122
Derivatives	1,954	1,891	344	364
Other	-50	-51	-50	-51
Resolution fee	-299	-247	-106	-98
<b>Total interest expense</b>	<b>-1,562</b>	<b>-1,423</b>	<b>-1,106</b>	<b>-1,023</b>
<i>of which, interest expense from financial liabilities that is not measured at FVTPL</i>	<i>-3,517</i>	<i>-3,067</i>	<i>-1,387</i>	<i>-1,289</i>
<b>Net interest income</b>	<b>3,362</b>	<b>3,149</b>	<b>293</b>	<b>294</b>

<sup>1)</sup> Includes interest income from doubtful receivables of SEK 3 million (2).

### IC:2 Commission

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Commission income</b>				
Commission on lending	38	33	25	25
Other commissions	52	40	75	54
<b>Total</b>	<b>90</b>	<b>73</b>	<b>100</b>	<b>79</b>
<b>Commission expense</b>				
Commission on securities	-56	-58	-22	-18
Other commissions <sup>1)</sup>	-83	-20	-3	-5
<b>Total</b>	<b>-139</b>	<b>-78</b>	<b>-25</b>	<b>-23</b>
<b>Net commission</b>	<b>-49</b>	<b>-5</b>	<b>75</b>	<b>56</b>

<sup>1)</sup> A partnership with a mortgage broker was terminated in Q3 2018 and a non-recurring commission expense was incurred.

### IC:3 Net result of financial transactions

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Gains/losses on interest-bearing financial instruments</b>				
Interest-bearing securities				
Change in interest-bearing value of hedged items in hedge accounting	-134	-109	-134	-109
Change in value of hedged items in hedge accounting	53	795	235	118
Realised gain/loss from financial liabilities	-162	-318	-15	-70
Derivatives in hedge accounting	-39	-764	-231	-101
Other derivatives	165	320	95	152
Loan receivables	62	73	15	12
Currency translation effects	-10	-9	-10	-9
<b>Total</b>	<b>-65</b>	<b>-12</b>	<b>-45</b>	<b>-7</b>

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

### IC:4 Other operating income

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Administrative services on behalf of subsidiary	-	-	895	757
Other operating income <sup>1)</sup>	32	31	1	3
<b>Total</b>	<b>32</b>	<b>31</b>	<b>896</b>	<b>760</b>

<sup>1)</sup> Other operating income primarily includes revenue from Booli.

### IC:5 Personnel costs

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Salaries and other remuneration	-328	-292	-319	-283
Pension costs	-53	-47	-57	-51
Social security expenses	-119	-105	-116	-103
Other personnel costs	-43	-35	-42	-35
<b>Total</b>	<b>-543</b>	<b>-479</b>	<b>-534</b>	<b>-472</b>

## SALARIES AND OTHER REMUNERATION

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
CEO	-5	-5	-5	-5
Senior executives who report directly to the CEO	-20	-20	-20	-20
Other employees	-303	-267	-294	-258
<b>Total salaries and other remuneration</b>	<b>-328</b>	<b>-292</b>	<b>-319</b>	<b>-283</b>

Salaries and other remuneration for employees of the subsidiary Booli Search Technologies are included in the Group's expenses in the Other employees item, furthermore, variable remuneration is payable to a few employees of the subsidiary but only in smaller amounts. Other employees of the Group do not receive variable remuneration. Board Members who are employed by the Parent Company receive remuneration and pension benefits as a result of their employment. No additional remuneration or pension benefits are paid for Board assignments. No remuneration was paid to the CEO of the subsidiary Swedish Covered Bond Corporation (SCBC). The number of senior executives who reported directly to the CEO as per the end of the year was 8 (8).

## AVERAGE NUMBER OF EMPLOYEES

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Women	305	267	293	257
Men	272	242	256	226
<b>Average number of employees</b>	<b>577</b>	<b>509</b>	<b>549</b>	<b>483</b>

## SICKNESS ABSENCE, %

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Total sickness absence</b>	<b>4.9</b>	<b>3.6</b>	<b>3.5</b>	<b>3.7</b>
Women	3.3	2.3	2.4	2.4
Men	1.7	1.3	1.2	1.3
29 or younger	4.4	2.9	3.1	3.0
30-49	4.9	3.9	3.6	3.9
50 or older	3.8	4.0	3.8	4.0
Proportion of long-term sickness absence compared to total sickness (absence that exceeded 60 days)	26.9	34.6	37.3	46.6

## GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Board of Directors</b>				
Women	7	5	5	4
Men	12	12	5	5
<b>Total</b>	<b>19</b>	<b>17</b>	<b>10</b>	<b>9</b>
<b>Executive Management</b>				
Women	5	4	5	4
Men	4	6	4	6
<b>Total</b>	<b>9</b>	<b>10</b>	<b>9</b>	<b>10</b>

The Group includes the Board Members of the subsidiaries: Swedish Covered Bond Corporation (SCBC) and Booli Technologies AB.

## FORM OF EMPLOYMENT

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Total number of employees at year end</b>	<b>602</b>	<b>530</b>	<b>574</b>	<b>506</b>
<i>of whom, women, %</i>	52.0	53.4	52.0	54.0
<i>of whom, managers, %</i>	12.5	12.3	12.0	12.6
<i>of managers, women, %</i>	44.0	5.3	44.0	5.7
<i>of whom, temporary employees, %</i>	0.8	1.9	1.0	1.6
<i>of whom, part-time employees, %</i>	0.9	1.3	0.9	1.4

## PERSONNEL TURNOVER

	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Number of permanent employees who terminated employment during the year</b>	<b>62</b>	<b>80</b>	<b>61</b>	<b>74</b>
<i>of whom, women, %</i>	48.4	51.3	49.2	54.1
<i>of whom, 29 or younger, %</i>	32.3	26.3	32.8	23.0
<i>of whom, 30-49, %</i>	59.7	57.5	60.7	59.5
<i>of whom, 50 or older, %</i>	6.5	16.3	6.6	17.6

## Salary, remuneration and pension costs for the CEO

No company car or non-cash benefits were provided to the CEO. The company pays for a defined-contribution pension insurance plan corresponding to 30% of the CEO's pensionable salary, although not longer than until age 65.

## Salaries and other remuneration

Fringe benefits (subsidised interest rate, company car and sickness benefit) to senior executives who report directly to the CEO amounted to SEK 0.1 million (0.1). Refer to the following table for details of the salary and other remuneration paid to senior executives.

## SALARIES AND OTHER REMUNERATION AND PENSIONS TO THE CEO AND OTHER SENIOR EXECUTIVES WHO REPORT DIRECTLY TO THE CEO

SEK million	PARENT COMPANY							
	2018				2017			
	Period	Salary and other remuneration	Pension cost	Severance pay	Period	Salary and other remuneration	Pension cost	Severance pay
Klas Danielsson, CEO	1 January–31 December 2018	5.1	1.5	–	1 January–31 December 2017	4.8	1.4	–
Christine Ehnström, COO	1 January–31 December 2018	–	–	–	1 January–30 April 2017	0.8	0.2	–
Sara Davidgård, acting Head of Corporate Clients & Tenant-Owners' Associations <sup>1)</sup>	1 January–31 December 2018	2.1	0.4	–	18 Oktober–31 December 2017	0.4	0.1	–
Ulrika Wilbourn acting COO	1 January–30 April 2018	0.5	0.1	–	1 May–17 October 2017	0.7	0.1	–
Mikael Inglander, CFO	1 January–31 December 2018	2.8	0.7	–	1 January–31 December 2017	2.8	0.8	–
Peter Svensén, CRO	1 January–31 December 2018	2.1	0.6	–	1 January–31 December 2017	2.1	0.5	–
Elizabet Jönsson, Head of Retail Market	1 January–31 December 2018	–	–	–	1 January–22 December 2017	2.0	0.5	3.4
Tim Pettersson, Head of Corporate Clients & Tenant-Owners' Associations	1 January–18 November 2018	1.5	0.4	–	1 January–31 December 2017	1.6	0.5	–
Daniel Ljungel, Head of Partnerships & Business Development	1 January–30 April 2018	0.5	0.2	–	1 January–31 December 2017	1.5	0.4	–
Carina Eriksson, Head of HR	1 January–31 December 2018	1.9	0.6	–	1 January–31 December 2017	1.7	0.5	–
Klas Ljungkvist, CIO and acting Head of Data Science	1 January–31 December 2018	2.3	0.4	–	1 January–31 December 2017	2.2	0.5	–
Malin Pellborn, Head of Sustainability and Communication	1 January–31 December 2018	1.9	0.4	–	18 April–31 December 2017	1.3	0.3	–
Kristina Frid, Head of Customer Service	1 May–31 December 2018	1.1	0.2	–	–	–	–	–
Marie Ljungholm, Chief Compliance Officer	1 January–31 December 2018	–	–	–	1 January–30 April 2017	0.5	0.1	–
Irene Axelsson, Chief Compliance Officer	1 January–31 April 2018	0.3	0.1	–	1 May–31 December 2017	0.8	0.2	–
Sofia Blomgren, Chief Compliance Officer	9 April–31 December 2018	0.9	0.2	–	–	–	–	–
Charlotta Selin, acting Head of Customer Experience	1 May–31 December 2018	1.0	0.2	–	–	–	–	–
Michael Sparreskog, Head of Internal Audit	1 January–31 December 2018	1.4	0.3	–	1 January–31 December 2017	1.3	0.3	–
		<b>25.4</b>	<b>6.3</b>	<b>–</b>		<b>24.5</b>	<b>6.4</b>	<b>3.4</b>

<sup>1)</sup> During the year, Sara Davidgård held three different positions within management.

On 1 May 2018, SBAB implemented a reorganisation that included changes in the Executive Management. The changes entail the addition of three units in the Executive Management: Data Science, Customer Experience and Customer Service. It also entailed the removal of two units: Retail Market, and Partnerships & Business Development.

Each year, the Board decides on SBAB's remuneration policy and the identification of specially regulated personnel, in accordance with the Swedish FSA's regulations regarding remuneration structures in credit institutions, investment firms and fund management companies licensed to conduct discretionary portfolio management (FFFS 2011:1). Risk analyses for SBAB's remuneration system and remunera-

tion policy are published on [www.sbab.se](http://www.sbab.se). The composition and mandates of the Remuneration Committee are described on page 80.

Identifying employees with a risk profile is based on the EBA's technical standards. Salaries and other remuneration to specially regulated personnel, 26 employees (23), excluding senior executives who report directly to the CEO, amounted to SEK 24.5 million (20).



## REMUNERATION TO THE BOARD

PARENT COMPANY						
2018						
SEK thousand	Period	Board of Directors	Credit Committee	Risk and Capital Committee	Audit and Compliance Committee	Remuneration committee
Bo Magnusson, Chairman of the Board <sup>1)</sup>	1 Jan–31 Dec 2018	458	–	4	40	30
Carl-Henrik Borg, Board Member	1 Jan–31 Dec 2018	218	–	–	–	–
Eva Gidlöf, Board Member	1 Jan–31 Dec 2018	218	–	32	–	–
Jane Lundgren-Ericsson, Board Member <sup>2)</sup>	1 Jan–31 Dec 2018	218	36	32	–	–
Jan Sinclair, Board Member	15 Feb–31 Dec 2018	191	31	32	–	–
Karin Moberg, Board Member	1 Jan–31 Dec 2018	218	–	–	50	–
Lars Börjesson, Board Member	1 Jan–31 Dec 2018	218	32	–	–	–
Daniel Kristiansson, Board Member <sup>3)</sup>	1 Jan–31 Dec 2018	–	–	–	–	–
Kristina Ljung, Employee Representative <sup>3)</sup>	1 Jan–31 Dec 2018	–	–	–	–	–
Johan Eriksson, Employee Representative <sup>3)</sup>	1 Jan–21 Mar 2018	–	–	–	–	–
Margareta Naumberg, Employee Representative <sup>3)</sup>	1 Jan–31 Dec 2018	–	–	–	–	–
<b>Total Fees &amp; Remuneration 2018</b>		<b>1,739</b>	<b>99</b>	<b>100</b>	<b>90</b>	<b>30</b>

PARENT COMPANY						
2017						
SEK thousand	Period	Board of Directors	Credit Committee	Risk and Capital Committee	Audit and Compliance Committee	Remuneration committee
Bo Magnusson, Chairman of the Board	1 Jan–31 Dec 2017	444	–	7	34	38
Carl-Henrik Borg, Board Member	1 Jan–31 Dec 2017	215	–	–	–	–
Daniel Kristiansson, Board Member	1 Jan–31 Dec 2017	–	–	–	–	–
Ebba Lindsö, Board Member	1 Jan–24 Apr 2017	72	–	7	–	–
Eva Gidlöf, Board Member	24 Apr–31 Dec 2017	143	–	22	–	–
Jacob Grinbaum	1 Jan–9 Oct 2017	161	38	24	–	–
Jane Lundgren-Ericsson, Board Member	1 Jan–31 Dec 2017	215	28	29	–	–
Karin Moberg, Board Member	1 Jan–31 Dec 2017	215	–	–	41	–
Lars Börjesson, Board Member	1 Jan–31 Dec 2017	215	36	–	–	–
Johan Ericsson, Employee Representative	1 Jan–31 Dec 2017	–	–	–	–	–
Kristina Ljung, Employee Representative	1 Jan–31 Dec 2017	–	–	–	–	–
<b>Total Fees &amp; Remuneration 2017</b>		<b>1,680</b>	<b>102</b>	<b>89</b>	<b>75</b>	<b>38</b>

<sup>1)</sup> Bo Magnusson also receives Board fees from SCBC of SEK 180 thousand (180).

<sup>2)</sup> Jane Ericsson-Lundgren also receives Board fees from SCBC of SEK 130 thousand (33).

<sup>3)</sup> No Board fees are payable to Board members employed at the Government Offices of Sweden or who are employee representatives. No Board fees are payable to the Board members of SBAB's subsidiary Booli.

No fees are paid to SBAB's Board members who are either employed by the Government Offices of Sweden or are employee representatives. For subsidiaries, fees are only payable to the two external Board members of SCBC.

#### Pensions

Employees recruited to SBAB from 1 February 2013 are covered by the new collective pension plan BTP1, which is a defined-contribution plan. The plan encompasses disability and survivors' pensions, as well as provisions for retirement pensions. In BTP1, employees have a high degree of self-determination in how premiums are invested.

Employees recruited to SBAB before 1 February 2013 are covered by the BTP2 collective pension plan, which is a defined-benefit plan. BTP2 entails that the employee is guaranteed a lifelong pension corresponding to a specified percentage of the employee's final salary and mainly comprises retirement pension, disability pension, survivors' pension, supplementary pension (BTPK) and, where applicable,

family pension. The levels of remuneration vary for salaries within different income base amounts. For salaries over 30 income base amounts, no pension is payable under BTP2. Employees who earn more than ten income base amounts are provided the possibility of selecting an alternative investment for part of the premium.

BTP2 is a collective defined-benefit employer plan secured through insurance with the insurance company SPP and comprise several employers. SPP is responsible for investing the pension capital of the BTP2 plan. The aim of the investment strategy is to obtain a high and consistent return while ensuring the investors' guaranteed increase in value.

SBAB's costs for its defined-benefit pensions amounted to SEK 22.1 million (21.8), excluding payroll tax. SBAB's costs for its defined-contribution pensions amounted to SEK 28.4 million (23.1), excluding payroll tax. In 2019, pension contributions for defined-benefit plans are expected to total SEK 21.6 million. Further information is provided in Note L 6.

### Guidelines adopted by the AGM for remuneration and other employment terms and conditions for senior executives

The AGM's principles for remuneration and other employment terms and conditions for senior executives, which were adopted by the 2018 AGM, state that remuneration and terms and conditions are to be reasonable and well-considered. With regard to remuneration and other terms and conditions of employment, SBAB will continue to apply the principles set out in "The state's ownership policy and guidelines for state-owned enterprises 2017."

This remuneration should be competitive, with a set ceiling and appropriate for its purpose, as well as contributing to high ethical standards and a good corporate culture. Remuneration should not correspond to a leading salary level in relation to comparable companies but be characterised by moderation. This is also to provide guidance for the total amount of remuneration to other employees. Variable salary is not paid to senior executives. These guidelines were not amended in 2018.

### Other terms and conditions for the CEO and senior executives

As regards pension conditions, notice periods and severance pay for senior executives, SBAB observes the principles stated in the state's ownership policy and guidelines for state-owned enterprises 2017.

The company pays for a defined-contribution pension insurance corresponding to 30% of the CEO's pensionable salary, although not longer than until age 65.

For other managers who report directly to the CEO, the company pays a defined-contribution pension premium corresponding to 30% of pensionable salary.

There are no other pension agreements that deviate from the general rules of collective agreements in the banking area.

### Agreements on severance pay

The CEO and SBAB are subject to a mutual notice period of six months. If the company gives notice, the company must, in addition to salary and pension during the notice period, pay severance pay corresponding to 18 months' salary. Deductions will be made from the remuneration should new employment or income from another activity be received during the two-year period.

For other members of Executive Management, agreements have been concluded regarding severance pay in case of termination by the company. In addition to salary and pension during the notice period, the company will pay severance pay corresponding to 12 months' salary. Deductions will be made from the remuneration should new employment or income from another activity be received during the 12-month period.

### Loans to senior executives

Loans to senior executives are presented in Note G 2.

### Incentive programme

SBAB has no incentive programme.

### FEES AND EXPENSES TO THE ELECTED AUDITORS

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Audit assignment	-3.0	-3.6	-2.3	-2.8
Audit activities other than audit assignment	-2.0	-1.7	-1.0	-1.0
<b>Total</b>	<b>-5.0</b>	<b>-5.3</b>	<b>-3.3</b>	<b>-3.8</b>

The AGM on 24 April 2018 appointed Deloitte as SBAB's auditors. The audit assignment includes examination of the annual report, the accounting records and the administration by the Board and CEO. The audit assignment also includes other assistance resulting from such examination.

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

### AGREED FUTURE RENTS <sup>1)</sup>

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Due for payment</b>				
Within 1 year	-36	-28	-30	-27
Between one and five years	-177	-99	-159	-98
After five years	-179	-33	-179	-33
<b>Total</b>	<b>-392</b>	<b>-160</b>	<b>-368</b>	<b>-158</b>

<sup>1)</sup> Rents = operating leases.

In 2018, new rental agreements for Booli in Stockholm and SBAB in Karlstad were signed, with planned occupancy in the end of 2020.

## IC:6 | Other expenses

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
IT expenses	-245	-228	-309	-270
Rent	-33	-29	-30	-28
Other costs for premises	-7	-6	-7	-6
Other administrative expenses	-98	-100	-95	-95
Marketing	-67	-68	-65	-65
Other operating expenses	-24	-18	-19	-15
<b>Total</b>	<b>-474</b>	<b>-449</b>	<b>-525</b>	<b>-479</b>

Development expenditure amounted to SEK 185 million (153), of which SEK 75 million (49) pertained to internally produced intangible Group assets. Most of the development work is pursued in project form and includes the budgets of entire projects, including such expenses as planning, analysis, specification of requirements, programming, implementation and quality testing, etc.

## IC:7 | Depreciation, amortisation and impairment of PPE and intangible assets

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Property, plant and equipment</b>				
Depreciation, computer hardware	-4	-4	-4	-4
Depreciation, other equipment	-2	-4	-2	-4
Disposals/divestments	0	0	0	0
<b>Intangible assets</b>				
Amortisation, acquired software	-5	-5	-5	-4
Amortisation, internally developed part of software	-20	-14	-	-
Amortisation of trademarks	-1	-1	-	-
Impairment, internally developed part of software	-	-3	-	-
<b>Total</b>	<b>-32</b>	<b>-31</b>	<b>-11</b>	<b>-12</b>

## IC:8 | Net credit losses

SEK million	GROUP		PARENT COMPANY	
	2018	2017 <sup>1)</sup>	2018	2017 <sup>1)</sup>
<b>Lending to the public</b>				
Confirmed credit losses	-11	-11	-10	-10
Recoveries of previously confirmed credit losses	2	3	3	3
Preceding year's provision under IAS 39 <sup>1)</sup>	-	26	-	20
Change in provision for the year – credit stage 1	1	-	0	-
Change in provision for the year – credit stage 2	-5	-	0	-
Change in provision for the year – credit stage 3	25	-	44	-
Guarantees <sup>2)</sup>	-1	6	0	0
<b>Total</b>	<b>11</b>	<b>24</b>	<b>37</b>	<b>13</b>
<b>Loan commitments <sup>3)</sup></b>				
Change in provision for the year – credit stage 1	-2	-	-2	-
Change in provision for the year – credit stage 2	2	-	2	-
Change in provision for the year – credit stage 3	0	-	0	-
<b>Total</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>
<b>Total</b>	<b>11</b>	<b>24</b>	<b>37</b>	<b>13</b>

<sup>1)</sup> The comparative figures for 2017 have been calculated in accordance with IAS 39. For further information about the effect of changes in accounting policies, refer to Note G 4.

<sup>2)</sup> The item includes guarantees for loan commitments.

<sup>3)</sup> Credit provisions for loan commitments are included in the "Provisions" item in the balance sheet.

The positive net change in credit stage 3 for the Group was attributable to reversals of previous individually assessed loss allowances for non-performing loans. For the Parent Company, the positive net change in credit stage 3, in addition to the reversals of individually assessed loss allowances, comprised the transfer of loan assets to

the mortgage company SCBC on the transition to IFRS 9. The guarantees pertain to received or expected receivables from the National Board of Housing, Building and Planning, insurance companies and banks. For additional analyses and information on credit losses, refer to Note RC 1.

## IC:9 | Operating segments

Operating segments are reported in accordance with IFRS 8 Operating Segments, which means that the segment information is presented in a manner that corresponds to that applied internally for monitoring and control purposes. The Group has identified the CEO as the chief operating decision maker and the internal reporting used by the CEO to monitor and make decisions regarding the allocation of resources as the basis for the information to be presented.

The Retail Market includes loans for single-family homes, holiday homes and tenant-owned apartments, as well as all retail deposits. Corporate Clients & Tenant-Owners' Associations mainly include lending to multifamily dwellings as well as commercial properties. The item Net result of financial transactions measured at fair value, which derives from treasury operations, has not been distributed and is included in Other. The expenses are allocated to the business areas using distribution quotas.

### INCOME STATEMENT BY SEGMENT

SEK million	GROUP							
	2018				2017			
	Retail	Corporate Clients & Tenant-Owners' Associations	Other	Total	Retail	Corporate Clients & Tenant-Owners' Associations	Other	Total
Net interest income	2,594	768	–	3,362	2,431	718	–	3,149
Commission income	64	26	–	90	52	21	–	73
Commission expense	–122	–17	–	–139	–57	–21	–	–78
Net result of financial transactions	0	23	–88	–65	0	16	–28	–12
Other operating income	32	0	0	32	31	0	0	31
<b>Total operating income</b>	<b>2,568</b>	<b>800</b>	<b>–88</b>	<b>3,280</b>	<b>2,457</b>	<b>734</b>	<b>–28</b>	<b>3,163</b>
Salaries and remuneration	–261	–68	–	–329	–230	–62	0	–292
Other personnel costs	–185	–51	–	–236	–167	–47	0	–214
Other expenses	–373	–76	–3	–452	–345	–77	0	–422
Depreciation, amortisation and impairment of PPE and intangible assets	–28	–4	–	–32	–24	–7	–	–31
Net credit losses	–10	21	–	11	7	17	–	24
Impairment of financial assets, net	–1	–	–	–1	–	–	–	–
<b>Operating profit/loss</b>	<b>1,710</b>	<b>622</b>	<b>–91</b>	<b>2,241</b>	<b>1,698</b>	<b>558</b>	<b>–28</b>	<b>2,228</b>
Tax	–393	–143	21	–515	–394	–131	6	–519
<b>Profit/loss after standardised tax</b>	<b>1,317</b>	<b>479</b>	<b>–70</b>	<b>1,726</b>	<b>1,304</b>	<b>427</b>	<b>–22</b>	<b>1,709</b>
Return on equity, %	12.6	11.7		12.1	14.4	8.8		12.5

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

The return on equity is calculated as earnings after tax in relation to average equity, after adjustment for additional Tier 1 instruments and value changes in financial assets recognised in equity.

The Group has no single customer that accounts for more than 10% of its total income.



## TX Tax

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## TX:1 Tax

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Current tax	-517	-484	-73	-32
Deferred tax on changes in temporary differences	2	-35	10	-30
<b>Total</b>	<b>-515</b>	<b>-519</b>	<b>-63</b>	<b>-62</b>
<i>The effective tax rate differs from the nominal tax rate in Sweden as below</i>				
Profit before tax	2,241	2,228	187	152
Nominal tax rate in Sweden 22%	-493	-490	-41	-33
Recalculation of deferred tax regarding changed tax rate	2	-	0	-
Tax pertaining to non-taxable income and non-deductible costs	-24	-29	-22	-29
<b>Total tax</b>	<b>-515</b>	<b>-519</b>	<b>-63</b>	<b>-62</b>
Effective tax rate, %	23.0	23.3	33.8	40.5

## TX:2 Deferred tax

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<i>Deferred tax assets (+)/tax liabilities (-) for temporary differences in:</i>				
Stock of financial instruments	-64	-93	-55	-80
Hedging instruments	-133	3	-9	22
Intangible assets	-28	-16	-	-
Pension provision	28	21	-	-
Loss carry-forwards	1	-	-	-
Other	2	2	2	2
<b>Total</b>	<b>-194</b>	<b>-83</b>	<b>-62</b>	<b>-56</b>
<i>Change in deferred tax</i>				
Deferred tax in the income statement	2	-35	10	-30
Deferred tax attributable to items recognised directly against other comprehensive income	-113	159	-16	15
<b>Total</b>	<b>-111</b>	<b>124</b>	<b>-6</b>	<b>-15</b>
<i>Deferred tax distributed by expected maturity date, carrying amount</i>				
More than 1 year	-194	-83	-62	-56
<b>Total</b>	<b>-194</b>	<b>-83</b>	<b>-62</b>	<b>-56</b>

Temporary differences are expected to be reported in taxation within the coming two years, where the decided tax rate is 21.4%. Deferred tax has been recalculated at 21.4%, which has lowered the deferred tax liability in the group by SEK 6 million and in the Parent Company by SEK 2 million.

## A Assets

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## A:1 Chargeable treasury bills, etc.

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Swedish state	19,430	21,122	19,430	21,122
Foreign states	1,474	1,830	1,474	1,830
<b>Total</b>	<b>20,904</b>	<b>22,952</b>	<b>20,904</b>	<b>22,952</b>

## A:2 Lending to credit institutions

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Lending in SEK	3,037	1,134	93,451	93,568
Lending in foreign currency	-190	733	-189	734
<b>Total</b>	<b>2,847</b>	<b>1,867</b>	<b>93,262</b>	<b>94,302</b>
<i>of which, repos</i>	-	150	-	-

Of the Parent Company's lending to credit institutions, SEK 90,414 million (92,593) relates to a receivable from the wholly owned subsidiary, the Swedish Covered Bond Corporation (SCBC). These receivables are subordinated, which means that payment is received only after other creditors of the subsidiary have been paid.

Interest-bearing securities that SBAB purchases with an obligation to sell at a pre-determined price are not recognised in the balance sheet, while the purchase price paid is recognised in the balance sheet under Lending to credit institutions. The securities are regarded as collateral received and can be pledged or sold by SBAB. In the event that the counterparty is unable to meet its repurchase obligation, SBAB is entitled to keep the security. The fair value of collateral received in the Group was SEK – million (150), of which no collateral was pledged or sold.

### A:3 Lending to the public

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Opening balance</b>	<b>335,168</b>	<b>296,022</b>	<b>22,914</b>	<b>51,577</b>
New lending for the year	74,264	82,282	74,264	82,282
Transferred to/from Group companies	–	–	–58,992	–85,800
Amortisation, write-offs, redemption, etc.	–45,238	–43,219	–13,386	–25,215
Change in provision for expected credit losses <sup>1)</sup>	21	26	45	68
<b>Closing balance</b>	<b>364,215</b>	<b>335,111</b>	<b>24,845</b>	<b>22,912</b>

<sup>1)</sup> For further information, refer to Note IC 8.

#### DISTRIBUTION OF LENDING, INCLUDING PROVISIONS

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Lending, Residential mortgages	276,734	248,103	4,191	4,490
Lending, Corporate Clients & Tenant-Owners' Associations	82,287	85,001	18,460	16,415
Lending, Consumer loans	2,194	2,007	2,194	2,007
<b>Total</b>	<b>364,215</b>	<b>335,111</b>	<b>24,845</b>	<b>22,912</b>

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

SEK million	GROUP		PARENT COMPANY	
	31 Dec 2018	1 Jan 2018	31 Dec 2018	1 Jan 2018
<b>Credit stage 1</b>				
Gross lending	341,390	313,407	21,556	21,554
Provision	–26	–27	–2	–3
<b>Total</b>	<b>341,364</b>	<b>313,380</b>	<b>21,554</b>	<b>21,551</b>
<b>Credit stage 2</b>				
Gross lending	22,689	21,466	3,264	1,055
Provision	–73	–67	–9	–9
<b>Total</b>	<b>22,616</b>	<b>21,399</b>	<b>3,255</b>	<b>1,046</b>
<b>Credit stage 3</b>				
Gross lending	267	447	47	372
Provision	–32	–58	–11	–55
<b>Total</b>	<b>235</b>	<b>389</b>	<b>36</b>	<b>317</b>
<b>Total gross lending</b>	<b>364,346</b>	<b>335,320</b>	<b>24,867</b>	<b>22,981</b>
<b>Total provisions</b>	<b>–131</b>	<b>–152</b>	<b>–22</b>	<b>–67</b>
<b>Total</b>	<b>364,215</b>	<b>335,168</b>	<b>24,845</b>	<b>22,914</b>

### A:4 Bonds and other interest-bearing securities

#### DISTRIBUTION OF HOLDINGS BY ISSUER, ETC.

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Listed securities</b>				
<i>Issued by public bodies</i>				
Sovereigns, supranationals and agencies	2,431	2,495	2,431	2,495
Other public issuers	11,253	9,201	11,253	9,201
<i>Issued by other borrowers</i>				
Swedish mortgage institutions	31,339	30,360	31,339	30,360
Other foreign issuers	4,321	5,397	4,321	5,397
Other foreign issuers (with government guarantee)	1,601	2,311	1,601	2,311
<b>Total listed securities</b>	<b>50,945</b>	<b>49,764</b>	<b>50,945</b>	<b>49,764</b>
<b>Total</b>	<b>50,945</b>	<b>49,764</b>	<b>50,945</b>	<b>49,764</b>

## A:5 | Derivatives

SEK million	GROUP						PARENT COMPANY					
	2018			2017			2018			2017		
	Assets measured at fair value	Liabilities measured at fair value	Nominal value	Assets measured at fair value	Liabilities measured at fair value	Nominal value	Assets measured at fair value	Liabilities measured at fair value	Nominal value	Assets measured at fair value	Liabilities measured at fair value	Nominal value
<b>Derivatives in fair-value hedging</b>												
Interest-rate-related	1,816	574	228,361	1,921	667	205,918	424	313	66,364	658	255	63,167
Currency-related	11	–	547	511	57	9,873	–	–	–	474	–	8,174
<b>Total</b>	<b>1,827</b>	<b>574</b>	<b>228,908</b>	<b>2,432</b>	<b>724</b>	<b>215,791</b>	<b>424</b>	<b>313</b>	<b>66,364</b>	<b>1,132</b>	<b>255</b>	<b>71,341</b>
<b>Derivatives in cash-flow hedges</b>												
Interest-rate-related	990	8	96,941	388	182	59,737	75	8	15,858	–	96	9,833
Currency-related	5,340	345	96,267	2,731	3	64,959	1,017	22	17,068	699	–	14,498
<b>Total</b>	<b>6,330</b>	<b>353</b>	<b>193,208</b>	<b>3,119</b>	<b>185</b>	<b>124,696</b>	<b>1,092</b>	<b>30</b>	<b>32,926</b>	<b>699</b>	<b>96</b>	<b>24,331</b>
<b>Other derivatives</b>												
Interest-rate-related	84	276	11,711	116	410	29,829	2,534	2,775	497,286	2,156	2,528	432,064
Currency-related	72	136	7,572	163	324	16,093	4,712	4,846	166,321	2,253	2,461	118,537
<b>Total</b>	<b>156</b>	<b>412</b>	<b>19,283</b>	<b>279</b>	<b>734</b>	<b>45,922</b>	<b>7,246</b>	<b>7,621</b>	<b>663,607</b>	<b>4,409</b>	<b>4,989</b>	<b>550,601</b>

Currency interest-rate swaps are classified as currency-related.

### DERIVATIVES ALLOCATED BY REMAINING MATURITY, CARRYING AMOUNTS

SEK million	GROUP				PARENT COMPANY			
	2018		2017		2018		2017	
	Fair value	Nominal amount	Fair value	Nominal amount	Fair value	Nominal amount	Fair value	Nominal amount
Maximum 3 months	–1	26,424	–118	22,062	–34	40,724	–139	34,012
3–12 months	74	39,390	804	70,986	11	69,365	699	109,786
1–5 years	4,766	261,763	2,859	230,928	884	433,290	394	385,192
Longer than five years	2,135	113,822	642	62,433	–63	219,518	–54	117,283
<b>Total</b>	<b>6,974</b>	<b>441,399</b>	<b>4,187</b>	<b>386,409</b>	<b>798</b>	<b>762,897</b>	<b>900</b>	<b>646,273</b>

## A:6 | Shares and participations in Group companies

	PARENT COMPANY					
	2018					
SEK million	Corporate Registration Number	Cost	Group contributions paid/shareholder's contributions	Number of shares	Share of equity, %	Carrying amount
Swedish credit institutions						
AB Sveriges S�kerst�llda Obligationer (publ), Solna	556645-9755	10,300	–	500,000	100	10,300
Other companies						
Booli SearchTechnologies AB, Stockholm	556733-0567	86	3	329,540	100	89
	2017					
SEK million	Corporate Registration Number	Cost	Number of shares	Share of equity, %	Carrying amount	
Swedish credit institutions						
AB Sveriges S�kerst�llda Obligationer (publ), Solna	556645-9755	10,300	500,000	100	10,300	
Other companies						
Booli SearchTechnologies AB, Stockholm	556733-0567	86	222,796	68	86	

On 14 January 2016, SBAB acquired 70.92% of the shares in Booli Search Technologies AB. On 29 November 2018, SBAB acquired the remaining shares outstanding in Booli, and now owns 100%. The carrying amount for the shares in subsidiaries is unaffected, for more information refer to Note G 1, Consolidated financial statements.

## A:7 | Intangible assets

GROUP								
2018					2017			
SEK million	Goodwill	Trademarks	Software	Total	Goodwill	Trademarks	Software	Total
Opening balance, cost	75	3	174	252	75	3	124	202
Acquisition of subsidiaries	–	–	–	–	–	–	–	–
Acquisitions during the year	–	–	81	81	–	–	50	50
Divestments and disposals during the year	–	–	–	–	–	–	–	–
<b>Closing balance, cost</b>	<b>75</b>	<b>3</b>	<b>255</b>	<b>333</b>	<b>75</b>	<b>3</b>	<b>174</b>	<b>252</b>
Opening balance, amortisation	–	–1	–69	–70	–	0	–50	–50
Amortisation for the year according to plan	–	–1	–25	–26	–	–1	–19	–20
Divestments and disposals during the year	–	–	–	–	–	–	–	–
<b>Closing balance, accumulated amortisation</b>	<b>–</b>	<b>–2</b>	<b>–94</b>	<b>–96</b>	<b>–</b>	<b>–1</b>	<b>–69</b>	<b>–70</b>
Opening balance, impairment	–	–	–3	–3	–	–	–	–
Impairment for the year	–	–	–	–	–	–	–3	–3
Divestments and disposals during the year	–	–	–	–	–	–	–	–
<b>Closing balance, accumulated impairment</b>	<b>–</b>	<b>–</b>	<b>–3</b>	<b>–3</b>	<b>–</b>	<b>–</b>	<b>–3</b>	<b>–3</b>
<b>Net carrying amount</b>	<b>75</b>	<b>1</b>	<b>158</b>	<b>234</b>	<b>75</b>	<b>2</b>	<b>102</b>	<b>179</b>



SEK million	PARENT COMPANY							
	2018				2017			
	Goodwill	Trademarks	Software	Total	Goodwill	Trademarks	Software	Total
Opening balance, cost	–	–	53	53	–	–	54	54
Acquisitions during the year	–	–	5	5	–	–	–	–
Divestments and disposals during the year	–	–	–	–	–	–	–1	–1
<b>Closing balance, cost</b>	<b>–</b>	<b>–</b>	<b>58</b>	<b>58</b>	<b>–</b>	<b>–</b>	<b>53</b>	<b>53</b>
Opening balance, amortisation	–	–	–27	–27	–	–	–23	–23
Amortisation for the year according to plan	–	–	–5	–5	–	–	–4	–4
Divestments and disposals during the year	–	–	–	–	–	–	–	–
<b>Closing balance, accumulated amortisation</b>	<b>–</b>	<b>–</b>	<b>–32</b>	<b>–32</b>	<b>–</b>	<b>–</b>	<b>–27</b>	<b>–27</b>
<b>Net carrying amount</b>	<b>–</b>	<b>–</b>	<b>26</b>	<b>26</b>	<b>–</b>	<b>–</b>	<b>26</b>	<b>26</b>

Goodwill, trademarks and software from the acquisition of the subsidiary Booli Search Technologies AB. Other software pertains to internally produced intangible assets, which are reported in the consolidated financial statements. Intangible assets are subject to impairment testing on an annual basis. When impairment testing, the value in use is calculated by discounting estimated future cash flows with a discounting factor that takes into account risk-free interest and the risks associated with the specific asset.

The year's impairment testing of goodwill is based on expected future synergies in the form of increased lending volumes and cost savings as well as a discount rate of

12% (12) after tax, corresponding to a rate of 14% (14) before tax. The first five years for estimated future cash flows are based on forecasts of increased volumes and cost savings. Thereafter, the assumption is zero growth or cost savings. In the year's impairment testing, there was a comfortable margin between the value in use and the carrying amount for goodwill. The most significant variables for the calculation comprised the assumption of increased future lending volumes as well as the discount rate. No reasonable change in these assumptions would impact the carrying amount for goodwill.

## A:8 | Property, plant and equipment

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Opening balance, cost	47	44	47	44
Acquisitions during the year	10	4	9	4
Divestments during the year	0	0	0	0
Disposals during the year	–	–1	–	–1
<b>Closing balance, cost</b>	<b>57</b>	<b>47</b>	<b>56</b>	<b>47</b>
Opening balance, depreciation	–35	–28	–35	–28
Depreciation for the year according to plan	–6	–8	–6	–8
Divestments during the year	0	0	0	0
Disposals during the year	–	1	–	1
<b>Accumulated depreciation according to plan</b>	<b>–41</b>	<b>–35</b>	<b>–41</b>	<b>–35</b>
<b>Net carrying amount</b>	<b>16</b>	<b>12</b>	<b>15</b>	<b>12</b>

## A:9 | Other assets

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Tax assets	–	–	13	–
Interest receivables	49	47	14	16
Other	24	18	20	29
<b>Total</b>	<b>73</b>	<b>65</b>	<b>47</b>	<b>45</b>
<i>Other assets distributed by remaining maturity, carrying amount</i>				
Maximum 1 year	73	65	47	45
<b>Total</b>	<b>73</b>	<b>65</b>	<b>47</b>	<b>45</b>

## A:10 | Prepaid expenses and accrued income

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Prepaid expenses	54	61	48	53
Accrued interest income	615	712	676	704
Accrued guarantees	14	19	14	2
Other accrued income	26	24	2	12
<b>Total</b>	<b>709</b>	<b>816</b>	<b>740</b>	<b>771</b>
<i>Prepaid expenses and accrued income distributed by remaining maturity, carrying amount</i>				
Maximum 1 year	700	803	731	770
More than 1 year	9	13	9	1
<b>Total</b>	<b>709</b>	<b>816</b>	<b>740</b>	<b>771</b>

## L Liabilities

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### L:1 Liabilities to credit institutions

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Liabilities in SEK	–	954	–	–
Liabilities in foreign currencies	6,607	4,720	6,607	4,720
<b>Total</b>	<b>6,607</b>	<b>5,674</b>	<b>6,607</b>	<b>4,720</b>
of which, repos	–	929	–	–

### L:2 Deposits from the public

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Consumers	87,060	75,122	87,060	75,122
Tenant-owners' associations	8,227	7,960	8,227	7,960
Corporates	29,639	28,813	29,639	28,813
<b>Total</b>	<b>124,926</b>	<b>111,895</b>	<b>124,926</b>	<b>111,895</b>

### L:3 Issued debt securities, etc.

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Commercial paper</b>				
Commercial paper in SEK				
– at amortised cost	500	700	500	700
Commercial paper in foreign currency				
– at amortised cost	2,317	4,788	2,317	4,788
<b>Total</b>	<b>2,817</b>	<b>5,488</b>	<b>2,817</b>	<b>5,488</b>
<b>Bond loans</b>				
Bond loans in SEK				
– at amortised cost	57,343	76,789	14,876	18,437
– in fair value hedging	117,502	98,786	9,614	7,797
Bonds loans in foreign currency				
– at amortised cost	104,791	75,516	20,927	22,380
– in fair value hedging	8,342	17,938	7,787	16,261
<b>Total</b>	<b>287,978</b>	<b>269,029</b>	<b>53,204</b>	<b>64,875</b>
<b>Total debt securities issued, etc.</b>	<b>290,795</b>	<b>274,517</b>	<b>56,021</b>	<b>70,363</b>
of which, covered bonds	234,774	204,153	–	–

The bond loan conditions in SBAB's long-term funding programme include a possibility for the bondholder to demand premature redemption of the holder's bonds issued in such loan programmes if the Swedish state ceases to own the majority of the shares in SBAB and the Swedish state, before such change in ownership, has not taken steps to guarantee SBAB's commitments ensuing from the bond loan or the bondholders have accepted this in such a way as is described in the current terms and conditions. However, subordinated loans and additional Tier 1 capital issued under the long-term funding programme do not include the aforesaid conditions. Total funding under these programmes with the right to demand redemption amounted to SEK 52.9 billion (64.5) at 31 December 2018.

### L:4 Other liabilities

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Trade payables	35	36	34	36
Employee withholding taxes	11	9	11	9
Liabilities to employees	181	234	165	221
Other	157	150	93	110
<b>Total</b>	<b>384</b>	<b>429</b>	<b>303</b>	<b>376</b>
<i>Other liabilities distributed by remaining maturity, carrying amount</i>				
Maximum 1 year	384	429	303	376
<b>Total</b>	<b>384</b>	<b>429</b>	<b>303</b>	<b>376</b>

### L:5 Accrued expenses and deferred income

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Accrued interest expense	1,627	1,539	173	236
Other accrued expenses	163	158	129	113
<b>Total</b>	<b>1,790</b>	<b>1,697</b>	<b>302</b>	<b>349</b>
<i>Accrued expenses and deferred income distributed by remaining maturity, carrying amount</i>				
Maximum 1 year	1,790	1,697	302	349
<b>Total</b>	<b>1,790</b>	<b>1,697</b>	<b>302</b>	<b>349</b>

## L:6 Provisions

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Pension provisions	105	78	–	–
Provision for special employer's contribution on pensions	26	19	–	–
Provision for expected credit losses, loan commitments	7	–	7	–
<b>Total</b>	<b>138</b>	<b>97</b>	<b>7</b>	<b>–</b>

### PENSION PROVISIONS (EXCL. SPECIAL EMPLOYER'S CONTRIBUTIONS)

#### Summary of defined-benefit pension plan

SEK million	GROUP	
	2018	2017
Present value of the obligation, closing balance	473	433
Fair value of plan assets	–367	–355
<b>Total</b>	<b>106</b>	<b>78</b>

### RECONCILIATION OF CHANGE IN PRESENT VALUE OF OBLIGATION

SEK million	GROUP	
	2018	2017
<b>Present value of the obligation, opening balance</b>	<b>433</b>	<b>390</b>
Service costs during the current year	7	7
Interest expense	11	11
Gain/loss arising from changed financial assumptions	19	34
Experience-based gains/losses	3	–1
Pension disbursements from plan	–11	–11
Gain/loss due to demographic assumptions	11	3
<b>Present value of the obligation, closing balance</b>	<b>473</b>	<b>433</b>

The weighted average maturity of the defined-benefit obligation is 20.2 years (20.05).

### RECONCILIATION OF CHANGE IN PLAN ASSETS

SEK million	GROUP	
	2018	2017
<b>Opening balance</b>	<b>355</b>	<b>338</b>
Interest income	9	10
Return on plan assets, excluding amounts included in interest expense/interest income	0	4
Premiums paid by employer	14	14
Pension disbursements from plan	–11	–11
<b>Closing balance</b>	<b>367</b>	<b>355</b>

### DISTRIBUTION OF PLAN ASSETS

%	GROUP	
	2018	2017
Swedish shares	2	2
Foreign shares	7	7
Government bonds	25	28
Mortgage bonds	15	18
Corporate bonds	28	34
Properties	12	11
Other	11	–
<b>Total</b>	<b>100</b>	<b>100</b>

The defined-benefit pension plan is secured through insurance with SPP Pension och Forsäkring AB. Through investments in shares, interest-bearing instruments and property, the insurance capital will track the performance of the financial markets. The aim of the management is to achieve a high and consistent return while ensuring a guaranteed increase in value.

### FINANCIAL AND DEMOGRAPHIC ASSUMPTIONS

%	GROUP	
	2018	2017
<i>Financial assumptions</i>		
Discount rate	2.30	2.50
Annual salary increase	3.00	3.00
Annual inflation	2.00	2.00
Annual increase in income base amount	3.00	3.00
Annual increase in pension disbursements	2.00	2.00
<i>Demographic assumptions</i>		
Personnel turnover	5.00	8.00
Mortality table	DUS14	DUS14

### SENSITIVITY ANALYSIS OF DISCOUNT RATE

SEK million	GROUP	
	2018	2017
<i>Assumption, %</i>	<i>3.30</i>	<i>3.50</i>
Present value of the obligation	387	355
Service costs during the current period	7	6
Interest expense	13	12
<i>Assumption, %</i>	<i>1.30</i>	<i>1.50</i>
Present value of the obligation	588	539
Service costs during the current period	12	10
Interest expense	8	8

The sensitivity analysis above is based on a change in one assumption while all other assumptions are kept constant. In the calculation of sensitivity in the defined-benefit obligation, the same method is applied as in the calculation of the reported pension provision.

For further information on pensions, see Note G 1 and Note IC 5.

## L:7 Subordinated debt and capital instruments

PARENT COMPANY AND GROUP								
Loan designation	Cur- rency	Nominal amount	Nominal amount outstanding	First possible redemption right for SBAB	Interest rate, % 31 December 2018	Maturity date	Carrying amount, SEK million	
							2018	2017
SUBORDINATED DEBT								
Subordinated loan SEK 1 <sup>1)</sup>	SEK	400,000,000	400,000,000	2020	3.825	Perpetual	399	398
Subordinated loan SEK 2	SEK	1,100,000,000	1,100,000,000	2020	3M STIBOR + 3.250	Perpetual	1,097	1,095
Subordinated loan SEK 3	SEK	1,000,000,000	1,000,000,000	2020	3M STIBOR + 1.300	11 June 2025	999	998
Subordinated loan SEK 4 <sup>2)</sup>	SEK	600,000,000	600,000,000	2020	2.250	10 Nov 2025	601	601
Subordinated loan SEK 5	SEK	1,850,000,000	1,850,000,000	2020	3M STIBOR + 1.900	10 Nov 2025	1,850	1,850
TOTAL							4,946	4,942
ADDITIONAL TIER 1 CAPITAL (equity)								
Subordinated loan SEK 6	SEK	725,000,000	725,000,000	2021	3M STIBOR + 4.750	Perpetual	725	725
Subordinated loan SEK 7 <sup>3)</sup>	SEK	775,000,000	775,000,000	2021	5.052	Perpetual	775	775
TOTAL							1,500	1,500

<sup>1)</sup> Interest rate: For the period 16 March 2015 to 16 March 2020: 3.825%. For the subsequent period: Floating interest corresponding to 3 month STIBOR plus 3.250%.

<sup>2)</sup> Interest rate: For the period 10 November 2015 to 10 November 2020: 2.250%. For the subsequent period: Floating interest corresponding to 3 month STIBOR plus 1.900%.

<sup>3)</sup> Interest rate: For the period 17 May 2015 to 17 June 2021: 5.052%. For the subsequent period: Floating interest corresponding to 3 month STIBOR plus 4.750%.

Subordinated loans are subordinate to the Parent Company's other liabilities, which means that they carry entitlement to payment only after other unsubordinated creditors have received payment. The subordinated loans SEK 1, SEK 2, SEK 6 and SEK 7 are subordinate to other subordinated loans, known as additional Tier 1 capital. The capital instruments issued in accordance with the more recent regulatory framework and which are included in own funds as additional Tier 1 capital comprised SEK 1 and SEK 2 (recognised as subordinated debt), and SEK 6 and SEK 7 (recognised as equity). The crucial difference between subordinated loans recognised respectively as subordinated debt or equity, is that subordinated loans recognised as subordi-

nated debt include conditions that entail an obligation to make interest payments in the event that the regulatory authority no longer permits their inclusion in own funds as AT1 instruments under certain conditions.

Subordinated loans (capital instruments) that have not been redeemed are included in own funds when calculating the capital adequacy of the Parent Company and the Group.

For further information on the terms and conditions of SBAB's subordinated loans, see [www.sbab.se](http://www.sbab.se) and Note [RC 9](#).



## EQ Equity

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## EQ:1 Equity

The share capital amounted to SEK 1,958,300,000. At 31 December 2018, the number of shares was 19,583 (19,583), each with a quotient value of SEK 100,000. All shares are owned by the Swedish state. Dividends are proposed by the Board in accordance with the provisions of the Companies Act and are resolved by the Annual General Meeting. The Board proposes a dividend of SEK 690,202,835 for 2018, see Note G 5. Further information on equity is provided in the "Statement of Changes in Equity" on page 92.

## STATEMENT OF CHANGES IN RESERVES

SEK million	GROUP	
	2018	2017
<b>Financial assets measured at FVTOCI/Available-for-sale financial assets, opening balance <sup>1)</sup></b>	<b>238</b>	<b>145</b>
Unrealised change in value over the year	-57	146
Reclassified to profit or loss during the year	-6	-28
Tax attributable to the change	15	-26
<b>Financial assets measured at FVTOCI/Available-for-sale financial assets, closing balance</b>	<b>190</b>	<b>237</b>
<b>Cash-flow hedges, opening balance</b>	<b>-10</b>	<b>526</b>
Unrealised change in value over the year	3,929	1,424
Reclassified to profit or loss during the year	-3,295	-2,111
Tax attributable to the change	-135	151
<b>Cash-flow hedges, closing balance</b>	<b>489</b>	<b>-10</b>
<b>Defined-benefit pension plans, opening balance</b>	<b>-39</b>	<b>-9</b>
Revaluation effects of defined-benefit pension plans	-39	-38
Tax attributable to the change	8	8
<b>Defined-benefit pension plans, closing balance</b>	<b>-70</b>	<b>-39</b>
<b>Total</b>	<b>609</b>	<b>188</b>

<sup>1)</sup> The opening balance has been restated pursuant to IFRS 9. For further information about the effect of changes in accounting policies, refer to Note G 1.

## SPECIFICATION OF CHANGES IN THE FAIR VALUE RESERVE

SEK million	PARENT COMPANY	
	2018	2017
<b>Financial assets measured at FVTOCI/Available-for-sale financial assets, opening balance</b>	<b>238</b>	<b>145</b>
Unrealised change in value over the year	-57	146
Reclassified to profit or loss during the year	-6	-28
Tax attributable to the change	15	-26
<b>Financial assets measured at FVTOCI/Available-for-sale financial assets, closing balance</b>	<b>190</b>	<b>237</b>
<b>Cash-flow hedges, opening balance</b>	<b>-80</b>	<b>-27</b>
Unrealised change in value over the year	866	353
Realised change in value, reclassified to profit or loss	-724	-421
Tax attributable to the change	-30	15
<b>Cash-flow hedges, closing balance</b>	<b>32</b>	<b>-80</b>
<b>Total</b>	<b>222</b>	<b>157</b>

Further information on Reserves and the Fair value reserve is provided in Note G 1, in the sections "Financial assets measured at FVTOCI," "Cash-flow hedges" and "Pensions."

## AC Assets pledged for own liabilities

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## AC:1 Assets pledged for own liabilities

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Loan receivables	301,956	282,026	–	–
Other receivables	–	482	–	482
Securities	1,842	1,913	1,842	1,913
<b>Total</b>	<b>303,798</b>	<b>284,421</b>	<b>1,842</b>	<b>2,395</b>

Of the assets pledged, SEK 302.0 billion (282.0) comprise the cover pool for covered bonds totalling SEK 234.8 billion (204.2).

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

## AC:2 Contingent liabilities

SEK million	GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Contingent liabilities concerning future payments</b>				
<b>Other contingent liabilities</b>				
Loan commitments and other credit-related contingent liabilities	37,535	43,758	37,535	43,758
Other contingent liabilities	–	–	25,749	28,331
<b>Total</b>	<b>37,535</b>	<b>43,758</b>	<b>63,284</b>	<b>72,089</b>
<i>Contingent liabilities distributed by remaining maturity</i>				
Within 1 year	33,193	43,758	58,942	66,935
1–5 years	4,342	–	4,342	5,154
<b>Total</b>	<b>37,535</b>	<b>43,758</b>	<b>63,284</b>	<b>72,089</b>

Excluding building credits of SEK 4,376 million (5,154), loan commitments and other credit-related contingent liabilities in the Group totalling SEK 33,159 million (38,604) were reduced to SEK 9,759 million (10,749) after taking into account the credit conversion factor, meaning the statistically calculated probability that the exposure will lead to disbursement of the loan.

Excluding building credits of SEK 4,376 million (5,154), the corresponding figures for the Parent Company were SEK 33,159 million (38,604) and SEK 9,759 million (10,749), respectively. The Parent Company's other commitments include an agreement concerning a liquidity facility with the subsidiary, SCBC, through which SCBC may borrow funds from the Parent Company for its operations if the need arises.

## FI Financial instruments

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## FI:1 | Classification of financial instruments

## FINANCIAL ASSETS

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

## FINANCIAL LIABILITIES

SEK million	GROUP				
	31 Dec 2018				
	Financial liabilities measured at FVTPL		Financial liabilities measured at amor- tised cost	Total	Total fair value
	Derivatives in hedge accounting	Held for trading			
Liabilities to credit institutions	–	–	6,607	6,607	6,607
Deposits from the public	–	–	124,926	124,926	124,926
Issued debt securities, etc.	–	–	290,795	290,795	292,997
Derivatives	927	412	–	1,339	1,339
Other liabilities	–	–	174	174	174
Accrued expenses and deferred income	–	–	1,757	1,757	1,757
Subordinated debt	–	–	4,946	4,946	4,956
<b>Total financial liabilities</b>	<b>927</b>	<b>412</b>	<b>429,205</b>	<b>430,544</b>	<b>432,756</b>

## FINANCIAL ASSETS

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

## FINANCIAL LIABILITIES

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



## FINANCIAL ASSETS

PARENT COMPANY							
31 Dec 2018							
SEK million	Financial assets measured at FVTPL			Financial assets measured at FVTOCI	Financial assets measured at amortised cost	Total	Total fair value
	Fair value option	Derivatives in hedge accounting	Other (Obligatory) classification				
Cash and balances at central banks	–	–	–	–	0	0	0
Chargeable treasury bills, etc.	3,371	–	–	6,180	11,353	20,904	20,900
Lending to credit institutions	–	–	–	–	93,262	93,262	93,262
Lending to the public	–	–	–	–	24,845	24,845	24,914
Value changes of interest-rate-risk hedged items in macro hedges	–	–	–	–	0	0	0
Bonds and other interest-bearing securities	3,866	–	–	35,258	11,821	50,945	50,969
Derivatives	–	1,516	7,246	–	–	8,762	8,762
Other assets	–	–	–	–	34	34	34
Prepaid expenses and accrued income	76	–	–	406	210	692	692
<b>Total financial assets</b>	<b>7,313</b>	<b>1,516</b>	<b>7,246</b>	<b>35,664</b>	<b>12,065</b>	<b>199,444</b>	<b>199,533</b>

## FINANCIAL LIABILITIES

PARENT COMPANY						
31 Dec 2018						
SEK million	Financial liabilities measured at FVTPL		Financial liabilities measured at amortised cost	Total	Total fair value	
	Derivatives in hedge accounting	Held for trading				
Liabilities to credit institutions	–	–	6,607	6,607	6,607	
Deposits from the public	–	–	124,926	124,926	124,926	
Issued debt securities, etc.	–	–	56,021	56,021	56,244	
Derivatives	343	7,621	–	7,964	7,964	
Other liabilities	–	–	155	155	155	
Accrued expenses and deferred income	–	–	271	271	271	
Subordinated debt	–	–	4,946	4,946	4,956	
<b>Total financial liabilities</b>	<b>343</b>	<b>7,621</b>	<b>192,926</b>	<b>200,890</b>	<b>201,123</b>	

## FINANCIAL ASSETS

PARENT COMPANY						
31 Dec 2017						
SEK million	Assets measured at FVTPL (held for trading)	Available-for-sale financial assets	Loan receivables	Investments held to maturity	Total	Total fair value
Cash and balances at central banks	–	–	0	–	0	0
Chargeable treasury bills, etc.	5,386	7,966	–	9,600	22,952	22,953
Lending to credit institutions	–	–	94,302	–	94,302	94,302
Lending to the public	–	–	22,912	–	22,912	23,010
Value changes of interest-rate-risk hedged items in macro hedges	–	–	–	–	–	–
Bonds and other interest-bearing securities	7,425	33,715	–	8,624	49,764	49,822
Derivatives	6,240	–	–	–	6,240	6,240
Other assets	–	–	45	–	45	45
Prepaid expenses and accrued income	120	461	105	32	718	718
<b>Total financial assets</b>	<b>19,171</b>	<b>42,142</b>	<b>117,364</b>	<b>18,256</b>	<b>196,933</b>	<b>197,090</b>

## FINANCIAL LIABILITIES

PARENT COMPANY				
31 Dec 2017				
SEK million	Liabilities measured at FVTPL	Other financial liabilities	Total	Total fair value
Liabilities to credit institutions	–	4,720	4,720	4,720
Deposits from the public	–	111,895	111,895	111,895
Issued debt securities, etc.	–	70,363	70,363	70,506
Derivatives	5,340	–	5,340	5,340
Other liabilities	–	228	228	228
Accrued expenses and deferred income	–	323	323	323
Subordinated debt	–	4,942	4,942	4 942
<b>Total financial liabilities</b>	<b>5,340</b>	<b>192,471</b>	<b>197,811</b>	<b>197,954</b>

## Fair value measurement of financial instruments

The measurement policies for financial instruments recognised at fair value in the balance sheet are provided in Note G 1. In the "total fair value" column above, information is also provided on the fair value of financial instruments that are recognised at amortised cost in the balance sheet.

The carrying amounts for current receivables and liabilities have been assessed as equal to their fair values. Investments held to maturity were measured at quoted prices, Level 1.

For Lending to the public, Issued debt securities and Subordinated debt, fair value is established based on generally accepted valuation techniques. As far as possible, calculations made in conjunction with measurement are based on observable market data. Mainly, the models used are based on discounted cash flows.

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

For lending to the public, where no observable credit margin data is available at the time of measurement, the credit margin on the most recent stipulated date of expiry is applied to set the discount rate, Level 3.

## FI:2 | Fair value disclosures

GROUP								
2018					2017			
SEK million	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
<b>Assets</b>								
Chargeable treasury bills, etc.	9,551	–	–	9,551	13,352	–	–	13,352
Bonds and other interest-bearing securities	39,124	–	–	39,124	41,140	–	–	41,140
Derivatives	–	8,313	–	8,313	–	5,830	–	5,830
Prepaid expenses and accrued income	482	–	–	482	581	–	–	581
<b>Total</b>	<b>49,157</b>	<b>8,313</b>	<b>–</b>	<b>57,470</b>	<b>55,073</b>	<b>5,830</b>	<b>–</b>	<b>60,903</b>
<b>Liabilities</b>								
Derivatives	–	1,339	–	1,339	–	1,643	–	1,643
<b>Total</b>	<b>–</b>	<b>1,339</b>	<b>–</b>	<b>1,339</b>	<b>–</b>	<b>1,643</b>	<b>–</b>	<b>1,643</b>

PARENT COMPANY								
2018					2017			
SEK million	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total	Quoted market prices (Level 1)	Other observable market data (Level 2)	Unobservable market data (Level 3)	Total
<b>Assets</b>								
Chargeable treasury bills, etc.	9,551	–	–	9,551	13,352	–	–	13,352
Bonds and other interest-bearing securities	39,124	–	–	39,124	41,140	–	–	41,140
Derivatives	–	8,762	–	8,762	–	6,240	–	6,240
Prepaid expenses and accrued income	482	–	–	482	581	–	–	581
<b>Total</b>	<b>49,157</b>	<b>8,762</b>	<b>–</b>	<b>57,919</b>	<b>55,073</b>	<b>6,240</b>	<b>–</b>	<b>61,313</b>
<b>Liabilities</b>								
Derivatives	–	7,964	–	7,964	–	5,340	–	5,340
<b>Total</b>	<b>–</b>	<b>7,964</b>	<b>–</b>	<b>7,964</b>	<b>–</b>	<b>5,340</b>	<b>–</b>	<b>5,340</b>

### Parent Company and Group

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

No transfers were made between levels in 2017 or 2018.

#### Quoted market prices (Level 1)

Measurement at quoted prices in an active market for identical assets and liabilities. A market is deemed to be active if the price data is easily accessible and corresponds to actual regularly occurring transactions. The measurement method is used for holdings of quoted interest-bearing securities and for publicly quoted derivatives, primarily interest-rate futures.

#### Measurement based on observable market data (Level 2)

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

#### Measurement based in part on unobservable market 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.

## FI:3 | Offsetting disclosures

Financial assets and liabilities covered by a legally binding agreement regarding netting or a similar agreement but that are not offset in the balance sheet.

### RELATED AMOUNTS NOT OFFSET IN THE BALANCE SHEET

GROUP					
2018					
SEK million	Amounts reported in the balance sheet	Financial instruments	Provided (+)/ Received (-) collateral – securities	Provided (+)/ Received (-) cash collateral	Net amount
<b>Assets</b>					
Derivatives	8,313	-1,014	-581	-7,122	-404
Repos	–	–	–	–	–
<b>Liabilities</b>					
Derivatives	-1,339	1,014	–	-262	-587
Repos	–	–	–	–	–
<b>Total</b>	<b>6,974</b>	<b>0</b>	<b>-581</b>	<b>-7,384</b>	<b>-991</b>
2017					
SEK million	Amounts reported in the balance sheet	Financial instruments	Provided (+)/ Received (-) collateral – securities	Provided (+)/ Received (-) cash collateral	Net amount
<b>Assets</b>					
Derivatives	5,830	-916	-122	-4,726	66
Repos	150	-150	–	–	–
<b>Liabilities</b>					
Derivatives	-1,643	916	–	715	-12
Repos	-929	150	774	–	-5
<b>Total</b>	<b>3,408</b>	<b>–</b>	<b>652</b>	<b>-4,011</b>	<b>49</b>

Repos are recognised in the balance sheet under the headings Lending and Liabilities to credit institutions, respectively. For further information on offsetting, see Note RC 2, the section on Counterparty risk.



Financial assets and liabilities covered by a legally binding agreement regarding netting or a similar agreement but that are not offset in the balance sheet.

#### RELATED AMOUNTS NOT OFFSET IN THE BALANCE SHEET

PARENT COMPANY					
2018					
SEK million	Amounts reported in the balance sheet	Financial instruments	Provided (+)/ Received (-) collateral – securities	Provided (+)/ Received (-) cash collateral	Net amount
<b>Assets</b>					
Derivatives	8,762	-1,609	-581	-7,122	-550
Repos	-	-	-	-	-
<b>Liabilities</b>					
Derivatives	-7,964	1,609	-	-262	-6,617
Repos	-	-	-	-	-
<b>Total</b>	<b>798</b>	<b>0</b>	<b>-581</b>	<b>-7,384</b>	<b>-7,167</b>
2017					
SEK million	Amounts reported in the balance sheet	Financial instruments	Provided (+)/ Received (-) collateral – securities	Provided (+)/ Received (-) cash collateral	Net amount
<b>Assets</b>					
Derivatives	6,240	-1,490	-122	-4,704	76
Repos	-	-	-	-	-
<b>Liabilities</b>					
Derivatives	-5,340	1,490	-	715	-3,135
Repos	-	-	-	-	-
<b>Total</b>	<b>900</b>	<b>-</b>	<b>-122</b>	<b>-3,989</b>	<b>-3,211</b>

## S:1 | General information

Sustainability is reported as an integrated part of our Annual Report. SBAB's Annual Report has been prepared in accordance with the GRI Standards: Core option. It also constitutes SBAB's Communication on Progress (COP) to the UN Global Compact, sustainability report in accordance with the Swedish Annual Accounts Act as well as information on how SBAB contributes to the Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development.

### Report defined by the Board of Directors

The Board of Directors have signed, and thereby submitted, the Annual Report in its entirety. The formal Annual Report is to be found in specially marked sections, which are also apparent from the table of contents. The Sustainability Report, excluding the Corporate Governance Report, constitutes the remaining part of this Annual Report.

### Sustainability reporting under the Global Reporting Initiative (GRI)

SBAB's Annual Report pertains to the 2018 calendar year. SBAB's Sustainability Report has been prepared in line with GRI Standards: Core option. The separate GRI/COP index sets out which parts of the report constitute SBAB's Sustainability Report pursuant to the GRI. | [Read more on page 170.](#)

### UN Global Compact & the 2030 Agenda for Sustainable Development

The state's ownership policy stipulates that state-owned enterprises should serve as role models in the area of sustainable business and otherwise act in a manner that generates public confidence. Acting as a role model includes working strategically and transparently with a focus on a collaborative approach. These efforts are inspired and guided by international guidelines including the ten principles of the UN Global Compact as well as the SDGs of the 2030 Agenda for Sustainable Development. | [Read more on pages 170 and 173.](#)

### Sustainability reporting in accordance with the Swedish Annual Accounts Act

From financial years starting after 31 December 2016, large undertakings must report sustainability in line with the new rules in the Swedish Annual Accounts Act pertaining to sustainability reporting. | [Read more on page 172.](#)

### The report's scope and boundaries

The Annual Report encompasses the Parent Company, SBAB Bank AB (publ). The subsidiaries AB Sveriges Sakerstallda Obligationer (publ) (Swedish Covered Bond Corporation – SCBC) and Booli Search Technology AB issue their own annual reports. The Sustainability Report encompasses the Parent Company, SBAB Bank AB (publ), AB Sveriges Sakerstallda Obligationer (publ) and, unless otherwise stated, Booli Search Technologies AB. SBAB's material impact occurs within the organisation and in connection with SBAB's lending.

### Audit and limited assurance report

The report defined by the Board of Directors clarifies which parts of SBAB's Annual Report constitute the formal Annual Report, and therefore have been subject to audit. The sections that do not constitute the Annual Report constitute SBAB's Sustainability Report according to GRI and have been subject to a limited assurance review. The Corporate Governance Report is subject to a statutory review, which is less comprehensive than an audit or auditor's review. Deloitte submits an audit report for the Annual Report and the Corporate Governance Report, and a separate limited assurance report for the Sustainability Report. | [Read more on pages 175 and 178.](#)



## S:2 | Definition of the reporting content

SBAB's Sustainability Report has been prepared pursuant to the GRI's principles for defining report content and quality. Stakeholder dialogues and materiality assessments form the basis for SBAB's prioritised sustainability topics.

### S:2.1 Stakeholder dialogue

SBAB has identified a number of particularly important stakeholder groups that all affect and are affected by our operations in various ways. From a business perspective, the most important stakeholders in the short, medium and long-term are the customers, the employees, the owner and investors. This priority has grown out of a recurring internal dialogue regarding the bank's business logic in the Board of

Directors, the Executive Management and in operations. We maintain ongoing communication, primarily with the most important stakeholders, to set the right priorities in our business development and sustainability work. Communication is conducted through means including customer surveys and meetings, dialogue with owner representatives, question forums on [www.sbab.se](http://www.sbab.se), physical meetings in various formats, dialogues regarding accounting, and other formats for stakeholder engagement.

#### FORMATS FOR STAKEHOLDER ENGAGEMENT

Customers	Employees	Owner & investors	The public
The confidence our customers have in SBAB determines our ability to develop in many respects, and therefore also our ability to take on a greater role in societal development. The skills, professionalism and consideration shown by our employees on a daily basis are apparent in surveys conducted by Svenskt Kvalitetsindex (Swedish Quality Index, SKI).	SBAB's employees are its most important asset. Motivated and committed employees are a prerequisite for our success and one of the most important resources in terms of achieving our vision. Our employees' motivation to create value through stakeholder relations depends on a number of factors, including leadership, skills development, development opportunities and our corporate culture.	Owner: SBAB is wholly owned by the Swedish government. The Swedish government's ambition for Swedish state-owned companies — to set good examples and serve as role models for sustainable development — has inspired us to clarify our role in the sustainable development of society.  Investors: Investor confidence in SBAB is based on investors' interaction with our employees as well as on a belief in our business model and our ability to support positive and sustainable economic developments.	Confidence from the general public and other stakeholders such as non-profit organisations, business partners, media, suppliers and interest organisations affects our opportunities to develop the operations in the desired direction. Confidence from the public is a prerequisite for attracting new customers, establishing long-term relationships and growing.
<b>In dialogues through:</b> The internet ( <a href="http://www.sbab.se">www.sbab.se</a> ), telephone, customer surveys (SKI, brand surveys, customer panels, focus groups, etc.), social media, customer and support forum, blogs, personal meetings, customer meetings, seminars and conferences, the AGM, marketing communication, etc.	<b>In dialogues through:</b> Performance evaluations, meetings, employee surveys, workplace dialogues with trade unions, monthly and departmental meetings, the intranet, AGMs, CEO blogs, etc.	<b>In dialogues through:</b> Owner: Ownership policy, owner instructions, continuous ministerial contacts, board representation, AGMs, network meetings, etc.  Investors: Personal meetings, group presentations, financial statements, <a href="http://www.sbab.se">www.sbab.se</a> , etc.	<b>In dialogues through:</b> Personal meetings, network meetings, seminars and conferences, media, blogs, social media, AGMs, marketing communication, etc.
<b>Material topics in order of priority:</b> 1 Transparency 2 Anti-corruption 3 Customer experience 4 Financial stability 5 Responsible mortgage provider 6 Risk and compliance 7 Corporate culture and values 8 Innovative product and service development	<b>Material topics in order of priority:</b> 1 Risk and compliance 2 Financial stability 3 Customer experience 4 Responsible mortgage provider 5 Brand 6 Corporate culture and values 7 Attractive workplace 8 Profitability and growth	<b>Material topics in order of priority:</b> 1 Financial stability 2 Risk and compliance 3 Anti-corruption 4 Customer experience 5 Attractive workplace 6 Sustainable IT platform 7 Transparency 8 Responsible mortgage provider	<b>Material topics in order of priority:</b> 1 Anti-corruption 2 Financial stability 3 Sustainable IT platform 4 Transparency 5 Innovative product and service development 6 Attractive workplace 7 Risk and compliance 8 Customer experience

## S:2.2 Material topics

We report the results of our sustainability efforts in line with the GRI, which includes identifying and prioritising material sustainability topics. In autumn 2016, we completed a stakeholder and materiality assessment. This work included 15 interviews with Board members, the Executive Management, employees, the owner, corporate customers, business partners, stakeholder organisations and NGOs, which were conducted as face-to-face meetings and by telephone. Moreover, an online survey was conducted of SBAB's retail customers, around 600 customers in total. Listening to our stakeholders is important for identifying the financial, societal and environmental sustainability topics that are material for our operations.

By utilising input from the interviews and online surveys together with secondary sources, such as employee and brand surveys, an internal exercise was carried out, with representatives from the operations and from the Executive Management, in order to agree on a gross list of SBAB's material sustainability topics. These efforts identified a total of 18 sustainability topics, which are presented below.

### IDENTIFICATION OF MATERIAL SUSTAINABILITY TOPICS

#	Sustainability topic
1	Financial stability
2	Profitability and growth
3	Customer experience
4	Risk and compliance
5	Anti-corruption
6	Innovation and product and service development
7	Sustainable IT platform
8	Transparency
9	Brand
10	Responsible mortgage provider
11	An attractive workplace
12	Corporate culture and values
13	Social requirements for corporate customers and suppliers
14	Community engagement
15	Popular education
16	Offering of green products and services
17	Climate impact and use of resources
18	Environmental and climate requirements for customers and suppliers

During a second exercise at the start of 2017, the Executive Management prioritised and identified the sustainability topics. All subjects interviewed were given the opportunity for such prioritising as part of the process. The results from the exercise are presented in the following diagram.



### Three target areas

Based on the stakeholder and materiality assessment, we have established three overall commercial and sustainable development target areas for the operations: Responsibility and transparency; Attractive workplace; and Sound finances. | Read more on page 26.

### How the material sustainability topics have been reported

For each target area, we have adopted fixed strategies and activities, overall targets and metrics, and determined how the results should be reported. Activities, targets and metrics are reviewed each year in conjunction with the business planning process. Since 2017, SBAB's business plan has been fully integrated, which means that SBAB does not differentiate between business targets and sustainability targets. SBAB's targets are presented earlier in this report. | Read more on page 28.

14 of the 18 sustainability topics identified through stakeholder and materiality assessments are reported as material in SBAB's sustainability report. These are reported in our three target areas as follows:

#### Responsibility and transparency

- Customer experience
- Sustainable IT platform
- Transparency
- Brand
- Community engagement
- Innovation and product and service development
- Responsible mortgage provider
- Offering of green products and services
- Risk and compliance
- Anti-corruption

#### An attractive workplace

- An attractive workplace
- Corporate culture and values

#### Sound finances

- Financial stability
- Profitability and growth

The above responsibility issues have been delimited in the report to include SBAB's direct efforts and are reported using at least one GRI indicator per material aspect. | Read more on page 170.

SBAB's material impact occurs within the organisation and in connection with our lending.

### Sustainability analysis to identify risks and possibilities

In 2018, extensive sustainability analysis, known as a gap analysis, was conducted for SBAB's entire operations. The analysis was conducted in five parts linked to SBAB's three target areas. The analysis identified the current status and the ambition level. The analysis identified 50 areas within which SBAB faced challenges or possibilities of varying scope.

The current status and objectives were established based on SBAB's materiality analysis, business plan, model for governance and follow-up, prioritised SDGs and other guidelines such as the UN Global Compact. The internal basis was complemented with an analysis of factors in the operating environment and industry practice in the area of sustainability. This functioned as the basis for a number of workshops, where representatives from the entire operations participated with the aim of calibrating the current status and the objectives. A total of nine workshops were conducted with around 50 participants. All of the workshops resulted in a full gap analysis including the current status, objective and ambition level for the respective area, together with an action plan. The action plans include activities aimed at reaching the objective. The results of the gap analyses were discussed and prepared by the Executive Management for decision by the Board.



## S:3 | Guidelines, obligations, governance and follow-up

### S:3.1 Guidelines

#### State's ownership policy

SBAB follows the state's ownership policy and guidelines for state-owned enterprises 2017, which also encompasses the Guidelines for external reporting in state-owned enterprises and Guidelines for remuneration and other terms of employment for senior executives in state-owned enterprises.

#### Policies, instructions and directions

Each year, SBAB's Board of Directors adopts a number of policies and instructions at the statutory Board meeting. These are an important part of the internal governance and help the company to promote sustainable business and to create a consensus on company-wide issues and areas.

For example, the Board of SBAB has adopted policies and instructions covering Sustainable Business, Ethics, Equality and Diversity, Remuneration, Complaints Handling, Risk, Credit, Capital, Compliance, Independent Risk Control, Internal Audit, Measures to Preventing Money Laundering and the Financing of Terrorism, as well as Compliance with Financial Sanctions and Recovery Plans.

In addition to policies and instructions decided by the Board, there are a number of instructions decided by the CEO or by persons with authority delegated by the CEO. Examples of such instructions include Policies, Outsourcing, Authorisation Instruction, Communication, Working Environment, Against Bribes and other Corruption, Bank Confidentiality, Whistleblower Process, IT Governance and Security.

#### Code of Conduct

We let our values and Code of Conduct act as a moral compass in terms of defining our behaviour and what we stand for as a company. Our Code of Conduct is decided by the Board of Directors and is available for all employees on our intranet. It provides guidance on how we should act and conduct ourselves in various situations and the inherent responsibilities of being a SBAB employee. Employees, managers, consultants, members of the Executive Management and Board members are responsible for understanding and complying with our Code of Conduct.

#### Supplier Code

SBAB's Supplier Code addresses SBAB's view and expectations of our suppliers' sustainability efforts and compliance with international guidelines and principles.

### S:3.2 Obligations

The state's ownership policy stipulates that state-owned enterprises should serve as role models in the area of sustainable business and otherwise act in a manner that generates public confidence. Acting as a role model includes working strategically and transparently with a focus on a collaborative approach. These efforts are inspired and guided by international guidelines including the ten principles of the UN Global Compact and the SDGs of the 2030 Agenda for Sustainable Development.

#### UN Global Compact, Communication on Progress (COP)

SBAB joined the UN Global Compact in 2009. SBAB's commitment to the Global Compact means that SBAB reports its work on implementing the Ten Principles of the Global Compact in the areas of human rights, labour, environment and anti-corruption in an annual Communication on Progress (COP). The separate GRI/COP index states which parts of the report constitute SBAB's Communication on Progress, which is based on the BASIC GUIDE Communication on Progress, GC Active Level, developed by the Global Compact. The UN Global Compact includes a precaution principle. SBAB is implementing a number of precautionary measures in daily operations, including employee training. We have also started efforts to identify, manage and integrate sustainability risks in all central processes.

#### UN's Sustainable Development Goals

The state's ownership policy states that, within the framework of their operations, state-owned enterprises must analyse the SDGs contained in the 2030 Agenda for Sustainable Development to identify which goals the company can influence and contribute to through its activities. Companies are also expected to identify business opportunities that contribute to achieving the goals. SBAB has identified and chosen four of the 17 SDGs that we consider particularly important and relevant for our operations. The goals have been chosen based on extensive analysis in the form of internal workshops and ranking exercises within operations, the Executive Management and the Board, and thus comprise an integrated part of SBAB's governance model and daily operations. SBAB's contribution to the respective goals is presented in a separate table and in the freestanding GRI/COP index. [Read more on pages 170 and 173.](#)

#### Sweden's environmental objectives

The environmental objective system contains one generation goal, 16 environmental quality goals and 17 intermediate goals in the areas of waste, biodiversity, hazardous substances and climate. Sweden's environmental objectives are the national implementation of the ecological dimension of the SDGs. SBAB supports these objectives and actively contributes to the overall objective for environmental policy, the generation goal, which is to be able to hand over a society to the next generation in which the major environmental problems have been solved, without causing more environmental and health problems beyond Sweden's borders. One of the environmental quality goals, goal 15, refers to a healthy built-up environment and has synergies with two of SBAB's four prioritised SDGs, namely 11 and 12. SBAB is a leading player in the housing financing sector and has a responsibility to drive development in this area.

#### Other memberships of associations

Since 2012, SBAB has been a member of the Swedish Financial Coalition against child pornography. The Financial Coalition collaborates with ECPAT with the aim of preventing and rendering it more difficult to trade in pictures featuring sexual abuse of children through financial systems on the internet. SBAB is also a member of diverse branch-related organisations.

### S:3.3 Overarching governance

SBAB has a number of functions for the governance and follow-up of sustainability efforts.

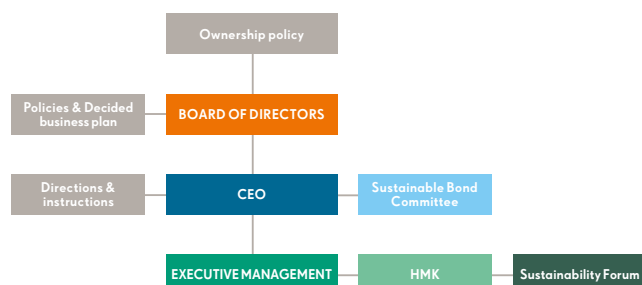
Within SBAB, the Board is ultimately responsible for ensuring that active, long-term efforts to achieve sustainable development are carried out within the bank. The Board also adopts a strategy, objectives and a policy for sustainable business. Furthermore, the Board monitors and assesses SBAB's sustainability efforts.

The Executive Management presents the bank's strategic business plan, including its aims, direction and objectives for sustainability efforts, in conjunction with deciding the business plan and budget. SBAB's sustainability efforts are fully integrated in SBAB's business plan. The Executive Management are to control and take decisions on priorities and strategic direction for sustainability in accordance with the decided business strategy. In order to optimise the integration of sustainability efforts into operations, each member of the Executive Management has the ultimate responsibility for their unit, including when it comes to sustainability topics.

The Sustainability, Marketing and Communication unit (HMK) is led by the Head of HMK, who is a member of the Executive Management and reports to the CEO. HMK is tasked with coordinating sustainability efforts at SBAB at an overall and total level, as well as in relation to the overriding target areas and their measurable goals, together with the individuals with operational responsibility in the business. The Head of HMK is tasked with driving SBAB's strategic sustainability efforts together with the CEO and the Board, and is responsible for internal and external communication issues pertaining to sustainability efforts. The Head of HMK also participates in and represents SBAB with regard to sustainability topics towards the owner and in other external contexts. Within HMK there are three strategists/project leaders who work full-time with sustainability topics and who assist the Head of HMK with coordinating and leading sustainability efforts in the operations.

SBAB has a Sustainability Forum with representatives from different parts of the operation who meet around five times per year. The Sustainability Forum highlights, discusses, addresses and drives issues related to sustainable enterprise in the operations. Members register their interest themselves and are appointed by the Head of HMK.

SBAB has a Sustainable Bond Committee (SBC) that regularly meets four times a year, or more often if needed. The aim of the SBC is to secure a process whereby green and sustainable bonds can be issued, managed and discontinued. The SBC is comprised of seven individuals from different parts of the operations.



### S:3.4 Follow-up

#### Follow-up

SBAB has decided on a number of overriding, measurable and quantifiable goals for the respective target areas. These are presented earlier in this report. A number of specific metrics (KPIs) exist for the respective target areas, which are measured and reported to the CEO and Board each month. In addition to the overriding business plan and its contents, operational goals and activities are in place at a departmental and functional level.

Some 15 areas were identified in the sustainability analysis. Responsibility has been allocated to a representative of Executive Management and to an individual with operational responsibility for each area. Moreover, each area has been allocated a sustainability strategist from HMK. The intent is to specify measurable goals and activities for all areas identified. In 2019, a governance model for integration and reporting and follow-up will be decided.

#### Responsibility and transparency

The ongoing governance and follow-up of goals linked to this area are allocated between Accounting & Treasury, Business Specialists, Customer Experience, Data Science, Customer Service, Corporate Clients & Tenant-Owners' Associations, HMK, Tech and Risk.

#### An attractive workplace

SBAB's HR department is responsible for the ongoing governance and follow-up of the goals linked to this area.

#### Sound finances

The ongoing governance and follow-up of the goals linked to this area are mainly the responsibility of SBAB's Accounting & Treasury department as well as SBAB's Tech department, for which sustainable technical development comprises a key element. The goals in Sound finances include the financial goals set by SBAB's owner, the Swedish state.

### S:3.4 Overarching objectives 2019

<b>Responsibility:</b> SBAB's ranking in the Sustainable Brand Index		<b>Top 4</b>
<b>Transparency:</b> Proportion of customers who believe that SBAB has an offering that is straightforward and easy to understand		<b>85%</b>
<b>Customer satisfaction:</b> Sweden's most satisfied residential and property mortgage customers according to the Swedish Quality Index	Mortgages	<b>1st</b>
	Residential mortgages	<b>1st</b>
<b>Respect and equality:</b> Equality between women/men in management positions (within the range)		<b>45–55%</b>
<b>Employee satisfaction:</b> Percentage of employees who consider SBAB a great place to work		<b>85%</b>
<b>Employee commitment:</b> Total Trust Index in Great Place to Work's annual employee survey		<b>81%</b>
<b>Profitability:</b> A return on equity over time		<b>≥ 10.0%</b>
<b>Dividend:</b> Ordinary dividend based on profit for the year after tax, taking the Group's capital structure into account		<b>≥ 40%</b>
<b>Capitalisation:</b> The CET1 capital ratio and total capital ratio exceed the regulatory requirement communicated by the Swedish FSA <sup>1)</sup>	CET1 capital ratio	<b>≥ 0.6%</b>
	Total capital ratio	<b>≥ 0.6%</b>

## S:4 | Supplementary information per target area

### S:4.1 Responsibility and transparency

#### Our responsibility as a creditor

##### SBAB's credit approval process for consumers

We endeavour to have a streamlined, digital and fast credit approval process. We carry out continuous random follow-ups along with other types of reviews to ensure that all of our credit approvals are managed in a sound manner that complies with our credit regulations. Our granting of credit to consumers is based on a credit approval process that determines whether customers have the financial capacity required to meet their commitments. We base our credit approval process on existing credit rules, such as rules governing debt ratios and LTV ratios, information received from credit rating agencies, such as UC, and the Land Registry as well as information provided by the customers themselves. The expertise and professionalism of our mortgage administrators are important parts of the process.

First and foremost, we assess the customer's repayment ability, but also the collateral provided for the loan. Loans are not approved if the ability to make repayments cannot be guaranteed. The credit approval process centres around a calculation of household costs, which is based on the income of the customers and their mortgage and housing expenses. If a customer applies for a mortgage for a tenant-owner apartment, we also assess the customer's calculation in relation to the risk of the monthly fee to the tenant-owners' association being raised. This is carried out by calculating the debt for tenant-owners' association per square metre. We also use various costing parameters in the calculation of household costs to work out whether the calculation truly adds up, even if, for example, the interest rate or other costs should rise. If the calculation indicates a sufficient surplus, a loan is normally granted provided that the customer satisfies other formal requirements and credit regulations. If the calculation indicates a deficit, the loan is not granted.

#### HOUSING COST CALCULATION

+	Borrower's income <sup>1)</sup>
-	Housing expenses <sup>2)</sup>
-	Living expenses <sup>3)</sup>
=	Surplus (or deficit)

<sup>1)</sup> The stated income is checked using the credit information service UC, among others.

<sup>2)</sup> Repayments, running costs, monthly fees and stressed interest rates.

<sup>3)</sup> In accordance with the Swedish Consumer Agency's guidelines, taking the number of minors and adults in the household into account.

#### Changes in the credit process

We have made some adjustments to our credit process over the year to better reflect contemporary society, including in terms of constellations of borrowers, additional borrowers, forms of employment and language. In 2017, we introduced a special function that handles cases of an infrequent nature, including the those described above, but also other cases that require special skills and attention. This may include, for example, transfers in the event of a divorce or death, or cases where a customer cannot understand English or Swedish and is in need of an interpreter. It is important that SBAB investigates cases in a correct, factual and transparent manner to thereby avoid discrimination against different societal groups. We want our products and services to be accessible to everyone.

During the year we decided to accept additional borrower constellations. "People who live together" is a wider definition than just "people who live together as a couple." We have therefore decided to make it possible for people who use and own a home together to also borrow together.

We also reviewed our stance on additional borrowers during the year. If a credit assessment calculation shows a deficit or high risk class in connection with a mortgage application, we are able to re-examine the case with an additional borrower. In such a case, we place particular emphasis on informing the additional borrower about the ramifications of such a commitment.

During the year we started efforts to adapt the language for the loan process. This work is continuing in 2019.

In 2017, we expanded the number of approved forms of employment. In addition to permanent employment, we accept contract- or project-based employment or other forms of employment. A number of assessment criteria are available to our mortgage administrators to help assess whether the employment and income can be considered to be habitual and thus form the basis for a credit decision.

In accordance with the Mortgage Credit Directive, in 2017, we added an individual assessment of customers who could be expected to experience a decrease in income when they retire.

#### Preventative insolvency management

We work with preventative insolvency management. This entails early contact by SBAB in cases where we find that our customers are having difficulties in making their interest payments and capital repayments. Sickness, unemployment, divorce and split-ups are the most common causes of payment difficulties for our customers. We create solutions, including tailored payment plans, to allow our customers opportunity to get things under control. Normally, the process starts with creating a household budget to then progress to a discussion with the customer on how we will continue to manage the case. SBAB owns the entire insolvency management process. This means that throughout the process it is SBAB that helps our customers, not another party. Establishing a healthy dialogue at an early stage often leads to a favourable outcome for our customers and for SBAB.

#### Sustainability criteria in the credit granting process for corporates and tenant-owners' associations

We promote sound environmental risk management in issued loans. This means any negative impact on the climate or environment should be avoided wherever possible, or at least minimised, mitigated or compensated for. In our credit granting process for property companies and tenant-owners' associations, we consider certain sustainability criteria as a part of the overall assessment, including environmental risks, energy consumption and environment classification of the properties used as collateral. The property companies' environmental policies are also relevant. When viewing and valuing properties, in addition to the property's location, condition, standard and other factors, special attention is paid to any occurrence of environmentally disturbing factors, such as polluted land, substandard ventilation and harmful building materials. SBAB also engages in a recurrent dialogue about sustainability topics with existing customers and offers customised products for this purpose.

#### Market transparency

##### Marketing communication

Communication is a broad term that includes both financial reporting and customer dialogue. Regardless of the occasion or target group, it is critical to how SBAB's brand is perceived in the market. For brand management to be effective in the long-term, all communication must be coordinated and adhere to a number of overarching guidelines. SBAB's Communication instruction regulates SBAB's external and internal communication and information disclosure. This instruction also aims to ensure that SBAB's information disclosure to the market is correct, relevant and complies with applicable laws and regulations. We have three underlying instructions: Instruction for strategic communication; Instruction for financial communication; and Instruction for marketing. SBAB's Direction for the marketing process aims to describe the work process SBAB is to follow in its marketing activities. It is a tool aimed at ensuring compliance with applicable regulations. The direction is aimed at the personnel working with marketing and communication at SBAB. SBAB had no incidents of non-compliance with regulations and voluntary codes concerning marketing communication during the year.

## Climate and the environment

### SBAB's climate impact

We are a digital bank. We have no branch offices and are mainly reached by our digital channels and over the telephone. This enables us to avoid unnecessary transportation and the operation of a number of branch offices around the country, which contributes to the relatively small size of our direct environmental impact. However we still want to reduce any impact we have and have therefore measured our carbon dioxide emissions since 2008.

As employees, we contribute to the company's ambitions by taking personal responsibility and, for example, utilise the office's waste sorting facilities, turn off lights and computers when we leave, use paper and printing frugally, and travel by rail instead of air whenever possible. Each employee is also responsible for noticing, driving and developing resource and energy-saving work methods that contribute to reducing environmental impact. In recent years, we have implemented a series of measures and activities to reduce our environmental impact. We buy green electricity from renewable energy sources to all of our offices. The property we rent in Solna is BREEAM certified as Good.

We actively strive to limit our postal mailings to our customers in order to reduce our carbon footprint. The above is achieved by distributing our loan documents digitally and through our collaboration with KIVRA, where we are able to show substantial improvements over our 3-year collaboration. Today, we use Kivra to send payment notifications, terms and conditions, and annual statements to our retail customers as well as to send our employees' pay slips. In 2019, we will include the climate impact of our postal mailings in our climate report.

As a result of the analysis carried out in 2018, a working group has been set up to develop internal targets and an action plan to reduce the environmental impact of our operations, with the long-term ambition of becoming climate neutral. This work is continuing in 2019.

The table data below shows greenhouse gas emissions expressed in carbon dioxide equivalents, CO<sub>2</sub>e. Unless otherwise stated, we report in tonnes of CO<sub>2</sub>e. SBAB's climate report for 2018 was conducted in collaboration with the company U&We using the Our Impacts computer tool and is available in full at [www.sbab.se](http://www.sbab.se). Raised quantities of CO<sub>2</sub>e emissions in 2018 were primarily attributable to the expansion of the components in the report, more flights and other unusual weather conditions that impacted the heating and cooling for our premises.

### EMISSIONS DIVIDED BY SCOPE <sup>1)</sup>

CO <sub>2</sub> e emissions, tonnes	2018	2017	2016	2015	2014
Scope 1	12.4	17.0	16.9	13.7	12.6
Scope 2	23.5	22.9	26.1	54.5	86.0
Scope 3	157.4	144.0	142.5	90.4	72.2
<b>Total</b>	<b>193.3</b>	<b>183.9</b>	<b>185.5</b>	<b>158.6</b>	<b>170.9</b>

### EMISSIONS DIVIDED BY SOURCE <sup>1)</sup>

Emissions tCO <sub>2</sub> e	2018	2017	2016	2015	2014
District heating	24.7	23.9	25.0	45.4	69.7
Electricity	12.1	10.8	14.1	15.0	16.6
Water consumption <sup>2)</sup>	0.4	–	–	–	–
Waste for incineration	0.1	0.4	2.5	0.2	0.1
Vehicles	15.5	21.4	20.4	15.0	13.3
Air travel	130.3	115.9	108.2	65.7	59.3
Rail travel	0.4	0.4	1.5	1.3	1.1
Copying paper <sup>2)</sup>	0.5	–	–	–	–
Vehicles used by employees	5.6	7.3	11.3	16.0	10.8
Taxi <sup>3)</sup>	3.6	3.7	2.4	–	–
District cooling <sup>3)</sup>	0.1	0.1	0.1	–	–
<b>Total</b>	<b>193.3</b>	<b>183.9</b>	<b>185.5</b>	<b>158.6</b>	<b>170.9</b>

<sup>1)</sup> Data excluding the subsidiary Booli Search Technologies AB.

<sup>2)</sup> New values for 2018.

<sup>3)</sup> New values for 2016.

### Feedback on green bonds

The funds SBAB raises through our green bond issues are used exclusively to finance or refinance residential properties that meet a number of energy-efficiency criteria or hold certain environmental certification. A framework (the "SBAB Green Bond Framework 2016") based on the International Capital Market Association's (ICMA) "Green Bond Principles" has been developed, which sets out the conditions for issuing our green bonds and our onward lending of these funds. The framework has been reviewed by the independent climate and environmental research institute, Center for International Climate and Environmental Research – Oslo (CICERO), and SBAB's green bonds are classified as Medium Green. The framework, the statement from CICERO and SBAB's Green Bonds Impact Report 2018 are available at [www.sbab.se](http://www.sbab.se).

At year-end 2018, Eligible projects within the Green Bonds Framework totalled SEK 5.0 billion (in the form of construction loans and mortgage loans), distributed between 31 objects. Eligible projects within SBAB's Green Bond Framework 2016 are estimated to generate an annual avoidance in GHG emissions corresponding to 1,132 tonnes CO<sub>2</sub>e. SBAB's share of the financing is estimated to correspond to an annual avoidance of 764 tonnes CO<sub>2</sub>e. That in turn corresponds to an avoidance of 0.15 tonnes CO<sub>2</sub>e per disbursed SEK million and year.

The expected avoidance of GHG emissions has been calculated based on how much less energy the respective eligible project's actual or expected energy consumption is compared with the allowed consumption as stated in the National Board of Housing, Building and Planning's building codes. Thereafter, reductions in CO<sub>2</sub>e emissions have been estimated for the respective objects based on the average emissions per kWh.<sup>1)</sup>

<sup>1)</sup> Source: Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting, January 2019.

### Updated framework for issuing covered green bonds

At the start of 2019, we published an updated framework for the issue of green bonds (the "SBAB Group Green Bond Framework 2019"). This was for reasons including encompassing a new and broader green customer offering as well as to enabling further future issues of green bonds. The updated framework enables: (i) SBAB to issue notes in the form of green bonds under SBAB's Euro Medium Term Note Programme; and (ii) SCBC to issue covered bonds in the form of green bonds under SCBC's Euro Medium Term Covered Note Programme. The updated framework has been reviewed by the independent climate and environmental research institute CICERO and is classified as Medium Green. Additional information is available on [www.sbab.se](http://www.sbab.se).

## Customer integrity, security and business ethics

### Banking security

We work proactively with compliance and security issues to ensure that we comply with the regulations and requirements that apply to operations. Banking confidentiality is a key point of departure for our security efforts. Living up to the expectations and requirements placed on us as a company is of vital importance to the confidence that our customers, owner, employees and other stakeholders have in SBAB. Our security measures involve both prevention and control. We take actions to detect and counteract threats in advance and we regularly check that our protective measures are effective. Security is always an important element in the management and development of our products and services.

### GDPR

At SBAB, we safeguard privacy and personal integrity. The confidence our customers have in terms of how we gather and handle data is critical to us. And accordingly, this is why we have welcomed the new General Data Protection Regulation (GDPR) that entered force on 25 May 2018, since it reinforces the position of our customers and their rights to their own personal data. In 2017 and 2018, we conducted systematic and exhaustive efforts to adapt operations to the new requirements of the GDPR. In May 2018, we established a new function, Privacy Office, where our data protection officer and data security specialists work. The team ensures our compliance with the applicable data protection legislation and proactively spreads know-how among our staff about data protection security.



### Complaints handling

At times, customers who are dissatisfied with SBAB's handling of a case contact SBAB with a complaint. It is critical that we take the time needed to address these matters in a professional manner. The primary aims of our complaints procedure is to ensure continued customer satisfaction and to pre-empt future complaints.

SBAB has policies in place to govern the conduct of our complaint handling. Our instructions for complaint handling are decided by the Board. Our consumer complaints guidelines explain how employees should manage customer complaints. Moreover, there are external requirements that we must address, such as the Swedish FSA's General guidelines regarding complaints management concerning financial services for consumers (FFFS 2002:23), Regulations for insurance distribution (FFFS 2018:10) and the Payment Services Act (2010:751).

SBAB's complaints officer, or customer ombudsman, is registered with the Swedish FSA, and information guiding customers in how to make a complaint is available on our website, [www.sbab.se](http://www.sbab.se)

### Responsible sourcing and the Supplier Code

SBAB's supply chain includes suppliers of various services and materials. Examples of these are IT-systems, office materials, and consultancy and advisory services.

In 2016–2017, we initiated a systematic project to continuously consolidate the number of suppliers and to review existing agreements to evaluate potential savings. These efforts continued in 2018. This work was led by SBAB's purchasing function, together with representatives from operations to ensure that our purchasing needs are coordinated.

In 2018, SBAB's Supplier Code has been attached to all material agreements. The code addresses SBAB's view and expectations of our suppliers' sustainability efforts and compliance with international guidelines and principles. The code is published on our website: [www.sbab.se](http://www.sbab.se). All new, material agreements entered into by SBAB in 2018 include the Supplier Code. We intend to continue the ongoing development of our Supplier Code to ensure increased focus on responsibility and sustainability across the entire supply chain.

In 2018, SBAB appointed a working group to conduct a risk analysis of SBAB's suppliers. The risk analysis will be followed by a screening of the 50 largest suppliers that SBAB currently has agreements with to ensure they fulfil the requirements of the code. The risk analysis and screening will be conducted in 2019. Our aim over time, is to only enter into contracts with suppliers that comply with SBAB's adopted sustainability criteria and to follow up compliance on an ongoing basis. Moving forward, our aim is also to conduct internal training on the code for all management at SBAB and to ensure that all business-critical agreements are supplemented with the Supplier Code or a deviation form.

### Tax

SBAB is wholly owned by the Swedish government. We only conduct operations in Sweden, which means that we only pay tax in Sweden. We are a relatively small employer with a staff of around 604 people. The employers' contributions we pay on behalf of our employees help strengthen security in society. We also pay guarantee fees, mainly in the form of the resolution fee and fees to the national deposit guarantee, which help maintain financial stability in the community. Our tax expense amounted to SEK 515 million for 2018. Guarantee fees in the form of the resolution fee and fees to the national deposit guarantee totalled SEK 348 million.

### An inclusive housing market ■■■■■■

#### Societal initiatives

Our societal responsibility is a core and clear part of our mission. This involves social responsibility in the framework of our core operations, where we contribute to better housing quality and household finances in various different ways. Partnering with other organisations that support our mission is a prerequisite for accelerating our impact.

#### Stockholms Stadsmission

We also contribute in other ways to Stockholms Stadsmission's operations. For example, we have contributed to beneficial financing of a property in which it conducts its activities. We are also a regular customer in Stockholms Stadsmission's conference activities, where a number of customer seminars for tenant-owners' associations are conducted every year.

#### Situation Sthlm and Faktum

To improve the housing situation for at-risk individuals and the homeless, we also support Situation Stockholm and Faktum. These are societal and cultural magazines whose idea is to attract readers and thereby create work and a personal income for the magazine's sellers. The aim is to support these individuals in their return to a more structured life — selling magazines is a job, not charity. We also support Situation Sthlm's operations, with a particular focus on "motivational dialogue." The homeless are provided with one-on-one coaching dialogues to help motivate them to improve their situations. These provide increased self-confidence to people who often feel paralysed by exclusion.

#### Boost by FC Rosengård

We want to contribute to better social housing environments in the areas where we finance properties. For this reason, we collaborate with the football club FC Rosengård, which runs the labour market project Boost in the Malmö region that aims to help long-term unemployed youth find work or begin studying. Employees at SBAB contribute to the content of the project by giving lectures several times a year that provide inspiration in everyday personal finances. Every year, about 150 adolescents receive training.

## S:4.2 An attractive workplace

### Initiative to promote skills development, diversity and integration

#### Hello World!

To ensure sustainable societal development and to maintain competitiveness, competent employees will also be needed in the future, not least in the digital area. We contribute to lighting the stars of the future already today by backing the non-profit organisation Hello World!, which works to support digital creation. On two occasions in 2018, Hello World! invited some 100 young people aged 8–18 to meet-ups at SBAB's premises in Solna. We contribute premises, networks, refreshments and service through a number of employees working on a voluntary basis.

#### Welcome!

Since 2016, the Welcome platform and app have brought some 10,000 new arrivals together with private individuals in Sweden. According to Welcome, many new arrivals have questions about how the housing market works in Sweden and the city where they are located. Many of those who have been living in Sweden for a number of years also perceive it as difficult to make contact with companies. For these reasons, at the end of 2017, Welcome launched its business concept "Welcome App på jobbet" which aims to connect new arrivals with people in the workplace. SBAB was first to allow its staff to chat with new arrivals. The employees' participation is entirely voluntary. Despite this, interest has been considerable, with some 100 committed employees.

#### New start and entry positions for new arrivals

Since early 2016, an initiative has been in place at SBAB that aims to contribute to diversity by working together with Sweden's Public Employment Agency to offer new start and entry positions to newly arrived immigrants. In 2017, we also initiated collaboration with the Tekniksprånget and Jobbsprånget labour programmes. These initiatives are pursued on a cross-functional basis throughout the organisation. In 2018, we welcomed two applicants from Jobbsprånget.

### Volunteering

Since spring 2016, SBAB employees have had an opportunity to undertake two days of voluntary work per year at organisations that reflect our mission. Examples of such organisations are Refugees Welcome in Karlstad and Stockholms Stadsmission. The volunteer work is performed during ordinary working hours, following which the volunteers share their experiences by relating them on our intranet, in an article in social media, in a brief presentation for their work team or at a monthly meeting to which the entire organisation is invited. With this initiative, we want to make it possible for our employees to become involved and to contribute to making our society a better place.

### VOLUNTEER DAYS

	2018	2017
Whole days	51	48
Half days	36	21
Number of hours	502	503

**KEY EMPLOYEE FIGURES<sup>1)</sup>**

Key figures	2018	2017	2016	2015	2014
Total number of employees at the end of the year <sup>2)</sup>	574	506	485	429	397
of whom, women <sup>2)</sup> , %	52	54	53	52	56
Temporary employees <sup>3)</sup> , %	1.0	1.6	1.6	1.3	0.5
Part-time employees <sup>3)</sup> , %	0.9	1.4	2.5	1.7	2.1
Average age, years	41	41	41	41	43
People who left the company over the year	61	74	62	58	78
People who joined the company over the year	133	100	113	100	39
Personnel turnover, %	10	14	12	13	18
<b>Equality</b>					
Share of women on the Board of Directors <sup>4)</sup> , %	50	44	36	50	50
Share of women in the Executive Management, %	56	40	33	30	43
Share of female managers, %	44	45	45	44	41
Proportion of male employees, receiving parental leave allowance, %	37	47	41	24	28
<b>Sick leave and wellness</b>					
Short-term sick leave, %	2.2	2.0	2.1	1.9	1.9
Long-term sick leave, %	1.3	1.7	1.7	2.0	0.9
Total sick leave, %	3.5	3.7	3.8	3.9	2.8
Use of health-promotion contribution by all employees, %	79	79	74	69	75

<sup>1)</sup> Employee data excluding the subsidiary Booli Search Technologies AB.

<sup>2)</sup> Number of employees expressed as full-time equivalents (FTEs), adjusted for sick leave and leave of absence.

<sup>3)</sup> Total number of employees at the end of the year.

<sup>4)</sup> Pertains to the Board of the Parent Company SBAB Bank AB (publ).

**AGE DISTRIBUTION WOMEN/MEN**

Age distribution at 31 December 2018	Percentage distribution (%)		
	Women	Men	Total
20–29	8	10	19
30–39	14	18	32
40–49	15	10	25
50–59	13	9	21
60–69	2	1	3
<b>Total</b>	<b>52</b>	<b>48</b>	<b>100</b>

**LENGTH OF EMPLOYMENT WOMEN/MEN**

Length of employment at 31 December 2018	Percentage distribution (%)		
	Women	Men	Total
<3 years	28	26	54
4–6 years	5	6	11
7–9 years	3	3	6
10–12 years	2	2	4
13–15 years	1	1	2
>16 years	13	7	20
<b>Total</b>	<b>52</b>	<b>48</b>	<b>100</b>

## S:5 | GRI/COP INDEX

General disclosures (Core option)

GRI Standard	Description	Page reference	Comment/Omission	UNGC principle	SDG
<b>Organisational profile</b>					
102-1	Name of the organisation		SBAB Bank AB (publ)		
102-2	Activities, brands, products and services	6-7, 62-67			
102-3	Location of headquarters		Solna, Sweden		
102-4	Location of operations		SBAB only has operations in Sweden		
102-5	Ownership and legal form		Limited company. SBAB is wholly owned by the Swedish government.		
102-6	Markets served	6-7, 62-67			
102-7	Scale of the organisation	6-7, 62-67			
102-8	Information on employees and other workers	48-57, 137-141, 169			8
102-9	Supply chain	41, 168		4, 5	
102-10	Significant changes to the organization and its supply chain		No significant changes during the reporting period		
102-11	Precautionary principle	164			
102-12	External initiatives	46, 54, 164			
102-13	Memberships of associations	164			
<b>Strategy</b>					
102-14	Statement from senior decision-maker	3, 10-13	Statements from the CEO and the Chairman		
<b>Ethics and integrity</b>					
102-16	Values, principles, standards, and norms of behaviour	23, 41, 52-53, 164		10	
<b>Governance</b>					
102-18	Governance structure	164-165			
<b>Stakeholder engagement</b>					
102-40	List of stakeholder groups	162			
102-41	Collective bargaining agreements	53		3	
102-42	Identifying and selecting stakeholders	26, 162		3	
102-43	Approach to stakeholder engagement	26, 162			
102-44	Key topics and concerns raised	27, 163			
<b>Reporting practice</b>					
102-45	Entities included in the consolidated financial statements	159			
102-46	Defining report content and topic Boundaries	161-163			
102-47	List of material topics	163			
102-48	Restatements of information		No material changes		
102-49	Changes in reporting		No material changes		
102-50	Reporting period		1 January–31 December 2018		
102-51	Date of most recent report		28 March 2018		
102-52	Reporting cycle		Updated annually as at 31 December		
102-53	Contact point for questions regarding the report	181			
102-54	Claims of reporting in accordance with the GRI Standards	4, 161			
102-55	GRI content index	170			
102-56	External assurance	161, 178			

## TOPIC-SPECIFIC DISCLOSURES

GRI Standard	Description	Page reference	Comment/Omission	UNGC principle	SDG	Sustainability topic in SBAB's materiality assessment
Economic Performance						
201: Economic performance – boundaries: within SBAB						
103-1 – 103-3	Management approach	164-165				Financial stability
201-1	Direct economic value generated and distributed	60			8	Profitability and growth
205: Anti-corruption – boundaries: within SBAB						
103-1 – 103-3	Management approach	164-165				Anti-corruption
205-2	Communication and training about anti-corruption policies and procedures	41		10		
205-3	Confirmed incidents of corruption and actions taken		No incidents of corruption were reported during the year	10		
ENVIRONMENTAL						
305: Emissions – boundaries: within SBAB						
103-1 – 103-3	Management approach	164-165				Climate impact and use of resources
305-1	Direct (Scope 1) GHG emissions	167		7, 8	12, 13	
305-2	Energy indirect (Scope 2) GHG emissions	167		7, 8	12, 13	
305-3	Other indirect (Scope 3) GHG emissions	167		7, 8	12, 13	
SOCIAL						
403: Occupational health and safety – boundaries: within SBAB						
103-1 – 103-3	Management approach	164-165				An attractive workplace
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	169	It is only relevant for SBAB to report sick leave. Divergencies: statistics not broken down by gender or region		8	
404: Training and education – boundaries: within SBAB						
103-1 – 103-3	Management approach	164-165				An attractive workplace
404-3	Percentage of employees receiving regular performance and career development reviews	52-53	Divergencies: statistics not broken down by gender or employment category		8	
405: Diversity and equal opportunity – boundaries: within SBAB						
103-1 – 103-3	Management approach	164-165				An attractive workplace Corporate culture and values
405-1	Diversity of governance bodies and employees	138-140, 169	Divergencies: statistics not broken down by minority group membership	6	8	
406: Non-discrimination – boundaries: within SBAB						
103-1 – 103-3	Management approach	164-165		1, 2		An attractive workplace Corporate culture and values
406-1	Incidents of discrimination and corrective actions taken		No significant cases were reported during the year	6	8	
413: Local communities – boundaries: within SBAB						
103-1 – 103-3	Management approach	164-165				Responsible mortgage provider Community engagement
413-1	Operations with local community engagement, impact assessments, and development programs	43, 168				
417: Marketing and labeling – boundaries: within SBAB						
103-1 – 103-3	Management approach	164-165				Customer experience Transparency Trademarks Responsible mortgage provider
417-2	Incidents of non-compliance concerning product and service information and labeling		No significant cases were reported during the year			
417-3	Incidents of non-compliance concerning marketing communications		No significant cases were reported during the year			
418: Customer privacy – boundaries: within SBAB						
103-1 – 103-3	Management approach	164-165				Risk and compliance Sustainable IT platform
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		No significant cases were reported during the year			
419: Socioeconomic compliance – boundaries: within SBAB						
103-1 – 103-3	Management approach	164-165				Risk and compliance
419-1	Non-compliance with laws and regulations in the social and economic area		Significant fines or sanctions imposed on the organisation for non-compliance with laws and regulations			
FINANCIAL SERVICES SECTOR DISCLOSURES (GRI G4)						
Product Portfolio						
G4-DMA	Management approach	164-165		1-10		Offering of green products and services Innovation and product and service development
G4-FS8	Products and services designed to deliver a specific environmental benefit	40		1-10	8, 11, 13	




## S:6 | Sustainability reporting in accordance with the Swedish Annual Accounts Act

From financial years starting after 31 December 2016, large undertakings must report sustainability in line with the new rules in the Swedish Annual Accounts Act pertaining to sustainability reporting. The provisions are based on an amendment to the EU Accounting Rules Directive (Directive 2014/95/EU of the European Parliament and the Council amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups). Under the new rules, a sustainability report is a report containing the requisite sustainability information to enable gaining an understanding of the company's development, position and performance as well as the consequences for the operations. This information should encompass questions pertaining to the environment, social conditions, personnel, respect for human rights and anti-corruption efforts. The following table, with references to the relevant pages of the report, to clarify how SBAB meets the rules in the Swedish Annual Accounts Act pertaining to sustainability reporting.

	Climate and the environment	Personnel	Societal conditions & respect for human rights	Anti-Corruption efforts
<b>Business model</b>	Pages 18–19	Pages 18–19	Pages 18–19	Pages 18–19
<b>Policies and governance documents</b>	<ul style="list-style-type: none"> <li>• Policy for Sustainable Business</li> <li>• Credit Policy</li> </ul>	<ul style="list-style-type: none"> <li>• Policy for Sustainable Business</li> <li>• Work Environment Instruction</li> </ul>	<ul style="list-style-type: none"> <li>• Policy for Sustainable Business</li> <li>• Equality and Diversity Policy</li> <li>• Policy to Promote Board Diversity</li> <li>• Ethics Policy</li> <li>• Remuneration Policy</li> <li>• Work Environment Instruction</li> <li>• Whistleblower Process Instruction</li> <li>• Code of Conduct</li> <li>• Supplier Code</li> </ul>	<ul style="list-style-type: none"> <li>• Policy for Sustainable Business</li> <li>• Policy and Instruction for Counteracting Money Laundering and Financing of Terrorism, and Compliance with Financial Sanctions</li> <li>• Instruction to Combat Bribes and Other Forms of Corruption</li> <li>• Whistleblower Process Instruction</li> <li>• Code of Conduct</li> <li>• Supplier Code</li> </ul>
<b>Results and reference to the GRI</b>	<b>Results:</b> <ul style="list-style-type: none"> <li>• Pages 40, 167</li> </ul> <b>GRI reference:</b> <ul style="list-style-type: none"> <li>• 305: Emissions</li> <li>• G4-FS8: Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose</li> </ul>	<b>Results:</b> <ul style="list-style-type: none"> <li>• Pages 48–53, 168–169</li> </ul> <b>GRI reference:</b> <ul style="list-style-type: none"> <li>• 403: Occupational Health and Safety</li> <li>• 404: Training and education</li> <li>• 405: Diversity and Equal Opportunity</li> <li>• 406: Non-Discrimination</li> </ul>	<b>Results:</b> <ul style="list-style-type: none"> <li>• Pages 41–43, 48–53, 168–169</li> </ul> <b>GRI reference:</b> <ul style="list-style-type: none"> <li>• 403: Occupational Health and Safety</li> <li>• 404: Training and education</li> <li>• 405: Diversity and Equal Opportunity</li> <li>• 406: Non-Discrimination</li> <li>• 413: Local Communities</li> </ul>	<b>Results:</b> <ul style="list-style-type: none"> <li>• Pages 41, 167–168</li> </ul> <b>GRI reference:</b> <ul style="list-style-type: none"> <li>• 205: Anti-corruption</li> </ul>
<b>Risk management</b>	Pages 72–73	Pages 72–73	Pages 72–73	Pages 72–73

## S:7 | UN's Sustainable Development Goals

UN's Sustainable Development Goals	UN's associated targets	Examples of SBAB's activities and initiatives	Page reference	UN's associated targets
 <b>SDG 8: Decent work and economic growth</b>  Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	8.1 Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries  8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value  8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all	Contribute to GDP growth and jobs in Sweden  Promote transparency to strengthen the position of consumers in the housing and residential mortgage market  Equality plan (including diversity) and goals  Tools, Respekttrappan, to promote respect and equality in the workplace  Annual salary surveys to prevent non-objective salary differences and salary discrimination  Entry-level jobs for new arrivals  Collaboration with Welcome! to increase integration  Volunteering opportunities for all employees  Collaboration with Boost by FC Rosengård to increase employment among young people  Industry collaboration to reduce tax avoidance in the construction industry and to ensure acceptable and just labour conditions for those working on the new construction projects that SBAB is part of financing  Set ethical requirements for suppliers through the Supplier Code	62  35  53  56  53  168  168  168  168  43  41	8.1  8.10  8.5  8.5  8.5   8.5 & 8.10  8.5  8.5
 <b>SDG 11: Sustainable cities and communities</b>  Make cities and human settlements inclusive, safe, resilient and sustainable.	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums  11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries	Green loans to property companies and tenant-owners' associations for green environmental and energy measures in properties  Green consumer loans for sustainability investments in homes  Green mortgages for energy-efficient housing  Financing new housing production to increase access to housing in Sweden  Green bonds to finance energy-friendly and climate-smart housing  Industry collaboration to reduce tax avoidance in the construction industry (see above)  Collaboration with Stockholms Stadsmission, Faktum and Situation Stockholm to reduce homelessness and exclusion	40  40  40  42  40  43  43, 168	11.1    11.1
 <b>SDG 12: Responsible consumption and production</b>  Ensure sustainable consumption and production patterns	12.8 By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature	To provide know-how and education to our customers and the public to enable everyone to take informed decisions about housing and the residential mortgage market  Tools, services and information pages that help and inform our consumers on issues regarding housing and housing finances  Collaboration with Boost by FC Rosengård to increase financial awareness among young people	35  35  168	12.8  12.8
 <b>SDG 13: Climate action</b>  Take urgent action to combat climate change and its impacts		Green loans (see above) Green consumer loans (see above) Green residential mortgages (see above) Monitoring the environmental impact of our own operations Consultations for corporate clients and tenant-owners' associations regarding how to improve property energy-efficiency Financing new housing production that is more energy-efficient than the older housing stock Take sustainability criteria into consideration in the credit granting process for property customers Green bonds (See above) Green bonds in the liquidity portfolio	40 40 40 167 40 42 163 40, 167 69	

## The Board of Directors' signatures

The Board of Directors of SBAB hereby submit SBAB's Annual Report, which includes both the Annual Report and the Sustainability Report. The formal Annual Report is to be found in specially marked sections, which are apparent from the table of contents. The Sustainability Report, excluding the Corporate Governance Report, constitutes the remaining part of this year's Annual Report. The report has been prepared in accordance with the Global Reporting Initiative's (GRI) guidelines; GRI Standards: Core option. It also constitutes SBAB's Communication on Progress (COP) to the UN Global Compact.

The Board and the CEO certify that the sections pertaining to the formal annual accounts and the consolidated financial statements were prepared in accordance with the international accounting standards (IFRS) as adopted by the EU and provide a true and fair view of the Group's position and earnings. The formal annual

accounts were otherwise prepared in accordance with generally accepted accounting policies and provide a true and fair view of the Parent Company's position and earnings. The Administration Report, which is provided on pages that have been marked specially, provides a true and fair view of the development of the operations, position and earnings, and describes the significant risks and uncertainties faced by the Parent Company and the companies included in the Group.

In accordance with Chapter 6, Section 2, Item 2 of the Annual Accounts Act for Credit Institutions and Securities Companies, the Board considers the Group's equity to be sufficiently large in relation to the scope and risks of the operations.

The information provided gives a true and fair view of the circumstances of the company and nothing of material significance has been omitted which might affect the view of the company created by the Annual Report.

Stockholm, 19 March 2019

Bo Magnusson  
*Chairman of the Board*

Eva Gidlöf  
*Board Member*

Jan Sinclair  
*Board Member*

Lars Börjesson  
*Board Member*

Daniel Kristiansson  
*Board Member*

Carl-Henrik Borg  
*Board Member*

Jane Lundgren-Ericsson  
*Board Member*

Karin Moberg  
*Board Member*

Margareta Naumburg  
*Employee Representative*

Kristina Ljung  
*Employee Representative*

Klas Danielsson  
*CEO*

Our audit report was submitted on 19 March 2019  
Deloitte AB

Patrick Honeth  
*Authorised Public Accountant*

# Auditor's report

To the general meeting of the shareholders of SBAB Bank AB (publ) corporate identity number 556253-7513

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of SBAB Bank AB (publ) for the financial year 2018-01-01 – 2018-12-31 except for the corporate governance statement on pages 76–82. The annual accounts and consolidated accounts of the company are included on pages 61–75, 83–160 and 174 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 76–82. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

### Basis for Opinions

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

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

### Key Audit Matters

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

### Judgments and estimates with respect to valuation of loan receivables

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

Key areas of judgment include:

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

At December 31, 2018, loans to the public amounted to 364,215 million, with loan loss provisions of 131 million. Given the significance of loans to the public (representing 81% of total assets), the impact from the inherent uncertainty and subjectivity involved in assessing loan loss provisions, as well as the extensive disclosures required under IFRS 9, we consider this to be a key audit matter for our audit.

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

Our audit procedures included, but were not limited to:

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

### Application of hedge accounting

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

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

At December 31, 2018, effects of hedge accounting in Net result of financial items measured at fair value amounted to SEK 53 million, and in Other comprehensive income of SEK 634 million.

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

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

Our audit procedures included, but were not limited to:

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



### IT-systems that support complete and accurate financial reporting

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

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

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

### Changes to the IT-environment

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

Our audit procedures included, but were not limited to:

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

### Operations and monitoring of the IT-environment

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

Our audit procedures included, but were not limited to:

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

### Information security

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

Our audit procedures included, but were not limited to:

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

### Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–60 and 161–173. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

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

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

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

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

A further description of our responsibilities for the audit of the annual accounts and consolidated accounts is located at the Swedish Inspectorate of Auditors website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description forms part of the auditor's report.

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

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of SBAB Bank AB (publ) for the financial year 2018-01-01 – 2018-12-31 and the proposed appropriations of the company's profit or loss.

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

### Basis for Opinions

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

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

### Responsibilities of the Board of Directors and the Managing Director

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

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

### Auditor's responsibility

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

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

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

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

A further description of our responsibilities for the audit of the annual accounts and consolidated accounts is located at the Swedish Inspectorate of Auditors website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description forms part of the auditor's report.

### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 76-82 has been prepared in accordance with the Annual Accounts Act.

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

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

Deloitte was appointed auditor of SBAB Bank AB by the general meeting of the shareholders on the 24th of April 2018 and has been the company's auditor since 28th of April 2016.

Stockholm March 19, 2019

Deloitte AB

*Signature on Swedish original*

Patrick Honeth

*Authorised Public Accountant*

# Auditor's Limited Assurance Report on SBAB Bank AB's Sustainability Report and statement regarding the Statutory Sustainability Report

This is the translation of the auditor's report in Swedish.

To the general meeting of the shareholders in SBAB Bank AB (publ), corporate identity number 556253-7513

## Introduction

We have been engaged by the Board of Directors and the Managing Director of SBAB Bank AB to undertake a limited assurance engagement of the SBAB Bank AB's Sustainability Report for the year 2018. The Company has defined the scope of the Sustainability Report on page 1 - 60 and 159 - 170 and the Statutory Sustainability Report on page 169.

## Responsibilities of the Board of Directors and the Executive Management

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report including the Statutory Sustainability Report in accordance with the applicable criteria and the Annual Accounts Act respectively. The criteria are defined on page 169 in the Sustainability Report, and are part of the Sustainability Reporting Guidelines published by GRI (The Global Reporting Initiative), which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

## Responsibilities of the auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed and to express an opinion regarding the Statutory Sustainability Report.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. Our examination regarding the Statutory Sustainability Report has been conducted in accordance with FAR's accounting standard RevR 12 The auditor's opinion regarding the Statutory Sustainability Report.

A limited assurance engagement and an examination according to RevR 12 is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are indepen-

dent of SBAB Bank AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed and the examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion based on a limited assurance engagement and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

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

## Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report, is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

A Statutory Sustainability Report has been prepared.

Stockholm 19 March 2019  
Deloitte AB

*Signature on Swedish original*

Patrick Honeth  
Authorized Public Accountant

# Five-year Summary

## INCOME-STATEMENT ITEMS

SEK million	GROUP				
	2018	2017	2016	2015	2014
Interest income	4,924	4,572	4,601	5,123	7,261
Interest expense	-1,562	-1,423	-1,772	-2,681	-5,150
<b>Net interest income</b>	<b>3,362</b>	<b>3,149</b>	<b>2,829</b>	<b>2,442</b>	<b>2,111</b>
Other operating income <sup>1)</sup>	-82	14	89	-101	510
<b>Total operating income</b>	<b>3,280</b>	<b>3,163</b>	<b>2,918</b>	<b>2,341</b>	<b>2,621</b>
Depreciation, amortisation and impairment of PPE and intangible assets	-32	-31	-27	-31	-160
Other operating expenses	-1,017	-928	-862	-778	-848
<b>Total operating expenses</b>	<b>-1,049</b>	<b>-959</b>	<b>-889</b>	<b>-809</b>	<b>-1,008</b>
Profit before credit losses	2,231	2,204	2,029	1,532	1,613
Credit losses/recoveries	11	24	-18	-40	30
Impairment of financial assets, net	-1	-	-	-	-
Participations in joint ventures	-	-	-	-	1
Operating profit	2,241	2,228	2,011	1,492	1,644

## BALANCE-SHEET ITEMS

SEK million	2018	2017	2016	2015	2014
Lending portfolio	364,215	335,111	296,022	296,981	261,445
Other assets	84,140	81,676	79,134	77,571	77,540
<b>Total assets</b>	<b>448,355</b>	<b>416,787</b>	<b>375,156</b>	<b>374,552</b>	<b>338,985</b>
Deposits	124,926	111,895	96,769	76,639	60,610
Issued debt securities, etc.	290,795	274,517	247,407	264,205	243,168
Other liabilities	10,258	9,540	9,552	13,870	18,260
Deferred tax liabilities	194	83	207	47	-
Subordinated debt	4,946	4,942	5,939	7,943	5,946
Equity	17,236	15,810	15,282	11,848	11,001
<b>Total liabilities and equity</b>	<b>448,345</b>	<b>416,787</b>	<b>375,156</b>	<b>374,552</b>	<b>338,985</b>

## KEY PERFORMANCE INDICATORS

%	2018	2017	2016	2015	2014
New lending, SEK million	74,264	82,282	59,648	80,470	48,297
Net interest margin	0.78	0.80	0.75	0.68	0.63
Credit loss ratio	0.00	0.01	-0.01	-0.01	0.01
C/I ratio	32	30	30	35	38
Return on equity <sup>2)</sup>	12.1	12.5	12.3	10.2	12.1
Return on assets	0.4	0.4	0.4	0.3	0.4
Number of employees at year-end, FTEs <sup>3)</sup>	602	530	510	429	397
CET1 capital ratio	12.5	32.2	32.2	28.6	29.8
Tier 1 capital ratio	15.1	39.3	40.1	35.1	36.8
Total capital ratio	18.1	47.6	51.6	49.3	44.7

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

<sup>2)</sup> From 2017, SBAB has used a new definition to calculate the return on equity. The comparative figures for previous years have not been restated.

<sup>3)</sup> Number of employees expressed as full-time equivalents (FTEs), adjusted for sick leave and leave of absence.



## Alternative performance measures

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

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

### New lending

**Definition:** Gross lending for the period.

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

### Credit loss ratio

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

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

SEK million	GROUP	
	2018	2017
Credit losses	11	24
Lending to the public	364,215	335,111
<b>Credit loss ratio, %</b>	<b>0.00</b>	<b>0.01</b>

### Return on equity

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

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

SEK million	GROUP	
	2018	2017
Profit after tax	1,726	1,709
Average equity	14,283 <sup>1)</sup>	13,621
<b>Return on equity, %</b>	<b>12.1</b>	<b>12.5</b>

<sup>1)</sup> Average equity has been adjusted for the dividend of SEK 684 million for 2017.

### Net interest margin

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

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

SEK million	GROUP	
	2018	2017
Net interest income	3,362	3,419
Average total assets	432,571	395,972
<b>Net interest margin, %</b>	<b>0.78</b>	<b>0.80</b>

### C/I ratio

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

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

SEK million	GROUP	
	2018	2017
Total operating expenses	1,049	959
Total operating income	3,280	3,163
<b>C/I ratio, %</b>	<b>32.0</b>	<b>30.3</b>

### Definitions of other key performance indicators

<b>Number of employees (FTEs)</b>	Number of employees expressed as full-time equivalents (FTEs), adjusted for sick leave and leave of absence
<b>Return on assets</b>	Profit after tax, in relation to average total assets
<b>CET1 capital ratio</b>	CET1 capital in relation to risk-weighted assets
<b>Total capital ratio</b>	Own funds in relation to risk-weighted assets
<b>Tier 1 capital ratio</b>	Tier 1 capital in relation to risk-weighted assets
<b>Leverage ratio</b>	Tier 1 capital in relation to total assets and off-balance sheet exposures restated with the application of credit conversion factors
<b>Liquidity coverage ratio (LCR)</b>	Liquid assets in relation to net cash outflows over a 30-day stress scenario in accordance with the European Commission's Delegated Regulation EU (2015/61) with regard to liquidity coverage requirements.
<b>Survival horizon</b>	The number of days that the need for liquidity can be met in a stress scenario before new liquidity is needed
<b>Net stable funding ratio, NSFR</b>	A liquidity risk metric of a structural nature that demonstrates the stability of the Group's funding in relation to its assets

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## Financial calendar

Year-end report 2018	15 February 2019
Interim Report January–March 2019	30 April 2019
Interim Report January–June 2019	17 July 2019
Interim report January–September 2019	25 October 2019
Year-end report 2019	14 February 2020

## Credit rating

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

SBAB's Annual General Meeting will be held on 29 April 2019 in Solna.

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**SBAB!**